

14.6: Sales Promotion and Its Role in the Promotion Mix

Learning Objectives

By the end of this section, you will be able to

- Define sales promotion.
- Discuss the importance of sales promotion in the promotion mix.

Sales Promotion

Sales promotion is a promotional strategy focused on inducing sales in the short term. Of all the promotional activities, sales promotion is solely focused on a direct call to action to buy something. Sales promotion can be targeted to intermediaries through a push strategy or directly to consumers through a pull strategy. Marketers often use sales promotion in tandem with other promotional strategies. When McDonald's advertises, for example, "Free fries on Friday when you purchase a menu item through the app," it is using advertising along with sales promotion to induce consumers to use the app and increase sales on Fridays.

When products are at the introductory stage of the product life cycle, sales promotion can effectively induce a product's trial. The greater the competition, the more a sales promotion strategy becomes important for getting consumers to switch or try a new or different product. Product manufacturers often use in-store sales promotions to set apart the brand or product at the time of purchase. Walking past the cheese aisle at the grocery store, you might see Sargento offering a buy-one-get-one (BOGO) deal. This sales promotion is geared toward getting the customer to buy more of Sargento or possibly try Sargento for the first time.

Importance of Sales Promotion in the Promotion Mix

Many of the strategies in the promotion mix are informative in nature. However, when other strategies are combined with sales promotion, there is a direct and immediate call to action to purchase the product. Companies needing to create sales in the short term will benefit from sales promotion. Utilizing sales promotion is a very effective strategy for generating trial of a product in the introductory stages of the product life cycle (PLC).

Spreading of Information

Sales promotion is very effective at spreading information about new products and product modifications. Creating awareness of the brand to new markets and customers is another effective use of sales promotion.

When MyPillow has an advertorial during Fox News and provides a code for a reduced price of its renowned pillows, the advertorial serves to tell new customers about the products as well as provide an incentive to purchase the product immediately.

Stimulation of Demand

A key element to good sales promotion is that it stimulates sales in the short term. Sales promotion gives customers an immediate incentive to purchase a product.

Sonic Drive-In (see Figure 14.3) offers half-price drinks and slushes every day from 2:00 to 4:00 as a "happy hour" special. This sales promotion tactic does two things: first, it incentivizes consumers to buy drinks, and second, it provides sales during the slow times of the day.



Figure 14.3 Sonic Drive-In uses a half-price sales promotion to stimulate sales during slow times of the day. (credit: “Sonic Drive In and Eat In Restaurant, Bristol CT 5/2014” by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Customer Satisfaction

Today’s customer is presented with thousands of messages. Companies are driven to get noticed, increase sales, and satisfy their customers. Sales promotions are one method a company may use to increase customer satisfaction. A survey from RetailMeNot “showed that coupons can affect brain chemistry and make customers happier.” The research concluded that an online shopper who received a \$10 coupon was 11% happier and had 38% higher oxytocin levels than those who didn’t get a discount (Dooley, 2012). Providing the occasional discount can chemically make a customer happier, resulting in a more satisfied customer, who may spend more in the future and become a loyal shopper (Hwang, 2017).

Stabilization of Sales Volume

Sales promotion can also be used to help stabilize sales volume. Because sales promotion incentivizes product purchases in the short term, companies often use this promotional tactic to drive sales and meet targets. Typical sales promotion tactics used to increase sales include buy-one-get-one-half-off and other specific discounts available when used by a certain time. The time element gives the company the target for the sale, and the customer is given an incentive to purchase by a certain time.

Marketing Dashboard: Cost of Customer Acquisition

We often think about profitability based on the difference between what we spend to create a product or service and the amount a customer pays for that product or service. However, we have to remember that there are costs to acquiring customers. In this chapter, you learned about two promotional activities that create costs to reach customers: sales and sales promotion.

Within the sales process, an organization pays a salesperson a salary and/or commission to make sales. This is an example of a cost to acquire a customer. As you can imagine, we want our cost to acquire to stay low. For example, if we sold multimillion-dollar airplanes, it would be reasonable to spend thousands of dollars on a salesperson to make that sale. However, if we were selling several-hundred-dollar televisions, our cost to acquire a customer must be much lower.

Sales promotion is another promotional expense. For example, if a pizza brand provides samples at Costco, this might encourage a customer to purchase pizza. And if that customer keeps buying pizza, the cost of the pizza sample was worth it for the value that the customer will bring over the life of the relationship. Other categories of promotional costs include advertising, public relations, social media, search, and direct marketing.

The formula for cost of acquisition is the total cost of marketing activities divided by number of customers acquired.

$$\text{Cost of Acquisition} = \frac{\text{Total Cost of Marketing Activities}}{\text{Customers Acquired}}$$

In this formula, you will see an assumption that all customers are worth the same amount, but as savvy marketers, we know that this is untrue. This is why we must use a variety of marketing metrics when evaluating campaigns.

Give the cost of acquisition calculation a try for yourself. What is the cost of acquisition in the example provided below?

Type of Promotion	Expense	Yield

Type of Promotion	Expense	Yield
Television Advertising	\$1,250,000	400,000 customers
Catalog Mailing	\$750,000	250,000 customers
Search Engine Marketing	\$550,000	90,000 customers
Outdoor Activation	\$1,500,000	70,000 customers
Ad Agency Fees	\$600,000	0 customers
TOTAL	\$4,650,000	810,000 customers

Table 14.1

Answer

Solution

\$5.74 per customer

Formula:

$\$4,650,000 / 810,000$

What additional information do you need to determine whether the cost of acquisition is appropriate for the product or service?

Answer

Solution

The price of the product/service, total sales, expenses, and margins associated with the product or service

Let's suppose that this example is for a national bookseller. The bookseller has an average profit per customer of \$90 over the customer's lifetime. Would the cost per acquisition that you calculated provide a good value for the bookseller? Why or why not?

Answer

Solution

Yes. It is worth it to spend \$5.74 to acquire a customer worth \$90 on average over the lifespan of the relationship;

$\$90 > \5.74

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The retail store Ann Taylor is offering 75% off if you order online today and sign up to receive the newsletter. This is an example of what promotional mix strategy?

- Advertising
- Personal selling
- Public relations
- Sales promotion

2.

When Starbucks has a happy hour special from 2:00 to 4:00 and drinks are half-price, what is the purpose of the sales promotion?

- a. Lose money
- b. Stimulate demand
- c. Spread information
- d. Increase customer satisfaction

3.

Rolex calls itself the “Official Timekeeper” of the Wimbledon and Australian Open tennis championships by virtue of its sponsorships of the marquee events. What is the most likely objective for Rolex’s sponsorship deal with these events?

- a. Lose money
- b. Stimulate demand
- c. Spread information
- d. Increase customer satisfaction

4.

Sales promotion consists of a collection of incentive tools designed to do what for the product?

- a. Stimulate demand
- b. Create brand awareness
- c. Provide free publicity
- d. Inform

5.

Sally loves to receive her coupons from American Eagle. She typically looks in her email every day to see what promotions the company will be sending. The American Eagle sales promotions are helping to accomplish which important task?

- a. Increased customer satisfaction
- b. Providing information
- c. Increasing brand awareness
- d. Developing junk mail

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