The Impact of Brand Equity and Innovation on the Long-Term Effectiveness of Promotions

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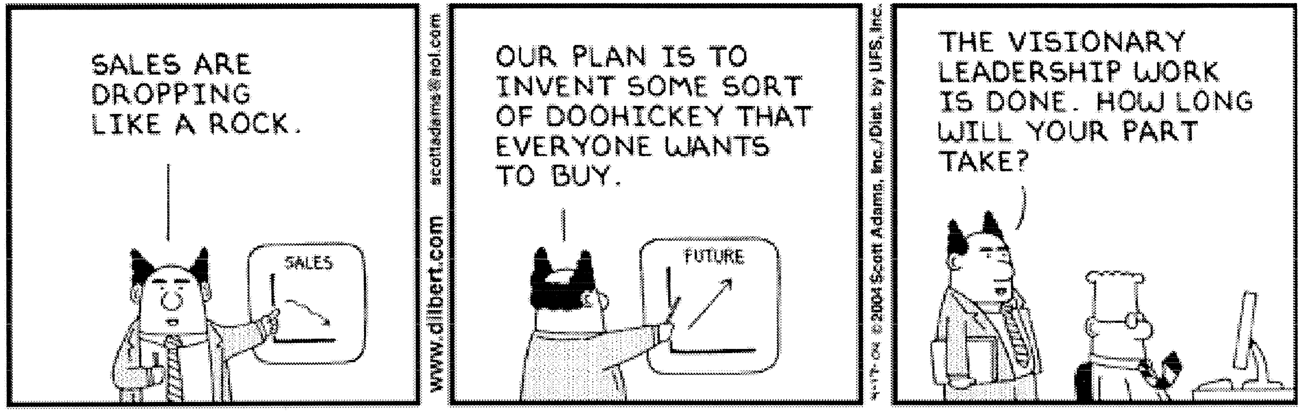
Key Takeaways

This article challenges the common assumption of little or zero long-term effects of temporary marketing actions like price promotions or feature advertising:

- especially smaller brands experience sales growth resulting from promotional activities
- high equity brands which innovate a lot enjoy more promotional benefits
- among low equity brands the payoff of promotions is higher for those that innovate.



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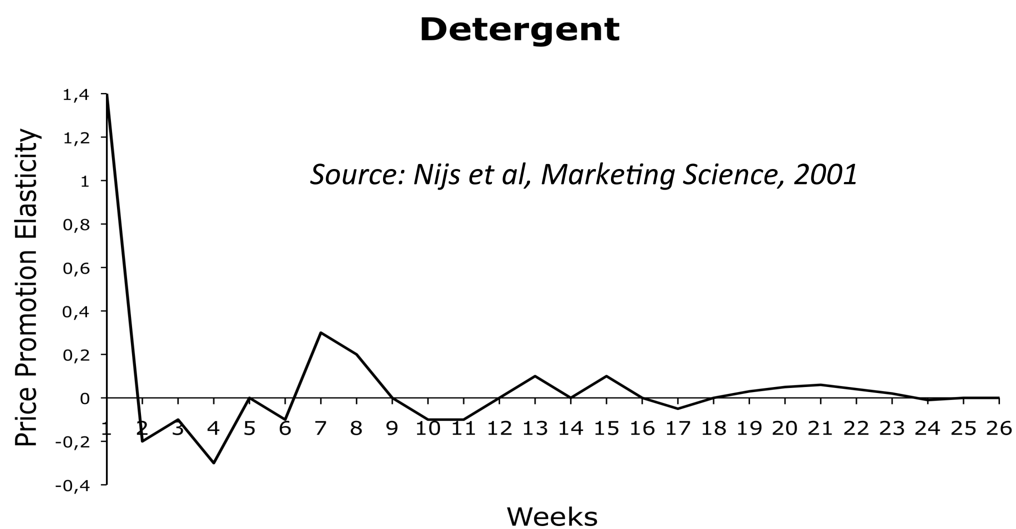
Background

- Most research agrees that permanent sales effects from temporary marketing actions, such as price promotions, feature advertising, and displays, are rare.

- Therefore much of advertising and promotion is considered as a means to disrupt short-term behaviors and drive short term volume, but in the long run does nothing more than preserve the status quo.

The typical promotion sales pattern



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The Aim of this Study

- Most prior studies focused on the top brands per category and therefore are not suited to pick up the impact of promotional activities for brands with different market positions.

- Most prior studies paid little attention to the impact of ***brand equity*** and ***brand innovation*** on the effectiveness of promotions.

Do promotions exhibit little impact on long-term sales irrespective of the brand's market share?

Does promotional impact differ for brands that enjoy high equity and that launch many new products?

Why would Equity and Innovation Matter?

- High equity* brands have been successful in creating specific resources, for example, **higher** consumer **awareness** and **recognition**, more **positive** and more **differentiated associations** and more **favorable** consumer **attitudes**. These resources should result in stronger consumer reactions to promotional activities by such brands in comparison to low equity brands.

- Innovations, which signal something new to the marketplace, are also more likely to attract consumer attention. For example, in TV advertising, **innovations** are much more likely to **drive consumer response** than comparable advertising for established products. A price promotion for a new product should also **reduce the inherent risk** of buying an unknown product by reducing its financial cost.

** Note: These are not necessarily large and premium brands. A small brand may enjoy high equity (e.g. Bombay Sapphire Gin) as may a low-price brand (e.g. Bic).*
What characterizes a high equity brand is that consumers react more positively to signals from such a brand than from a low-equity one.

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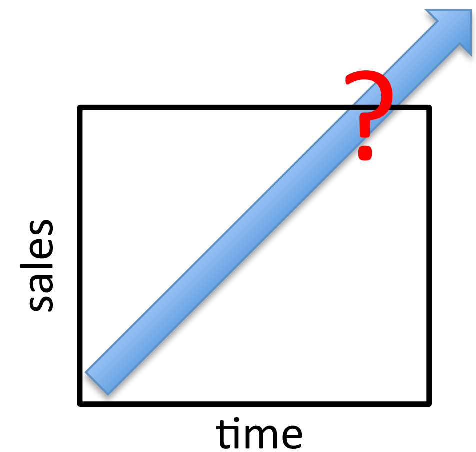
Why Would Innovation Help Low Equity Brands More?

- Innovations for high equity brands may result in **higher levels of cannibalization**.
  Because these brands have high equity, current users will be drawn to new products sold under that brand name.

- High equity brands' innovation efforts may suffer from **ceiling effects**.
  Typically there is a limit to a specific brand's sales, determined by the size of the consumer group that favours that brand's promise. For high equity brands a majority of that group may already be buying the brand.



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Summary of Hypotheses

- H1: Brands with **higher equity** generate higher long-term sales elasticity from (a) display, (b) feature advertising, and (c) price promotion than brands with lower equity.
- H2: Brands with **more product introductions** generate higher long-term sales elasticity from (a) display, (b) feature advertising, and (c) price promotion efforts.
- H3: For long-term sales elasticity from promotions, a **negative interaction** exists between brand equity and new product introductions:
  - Lower-equity brands with new product introductions generate a higher long-term sales elasticity from (a) display, (b) feature advertising, and (c) price promotion efforts than higher-equity brands with new product introductions.

The Study

- Promotional and innovation activities of more than 100 brands in seven product categories (Bottled juice, Toothpaste, Laundry detergent, Cheese, Soft drinks, Paper towel, Toilet tissue) available at a retail chain in the US

- Panel data to derive sales, display and promo activities, innovation intensity, and prices

- Equity is operationalized using the brand's revenue premium, which is the excess revenue from being able to charge a higher price and/or selling bigger volumes than each category's private label products (Ailawadi et al 2003)

- New product introductions (NPI) refer to the total number of new SKUs the brand introduced

Finding 1: Small Brands are More Likely to Grow Sales

In line with previous research focusing on large brands only, such brands are unlikely to experience positive sales evolution. In fact, no brand with more than 3.1% market share showed positive sales evolution over the full study period.

However, 14% of all brands and more than 20% of very small brands did grow.

	Number of Brands	*Average Market Share*	*Positive Sales Evolution?*
Large brands (MS ≥ 8%)	25	20%	0 (0%)
Medium-size brands (3% ≤ MS < 8%)	25	5%	1 (4%)
Small brands (1.25% ≤ MS < 3%)	25	2%	7 (28%)
Very small brands (MS < 1.25%)	25	.5%	6 (24%)
All brands	100	7%	14 (14%)

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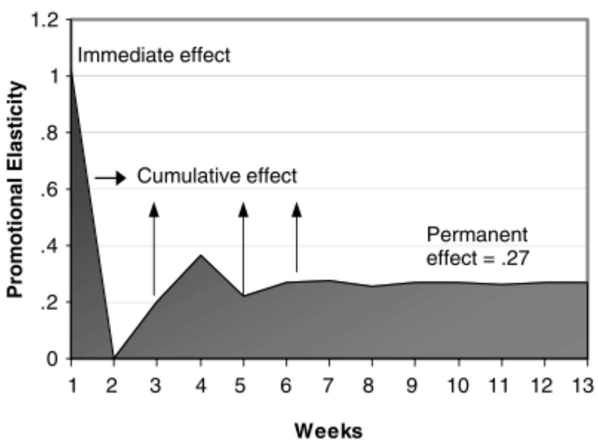
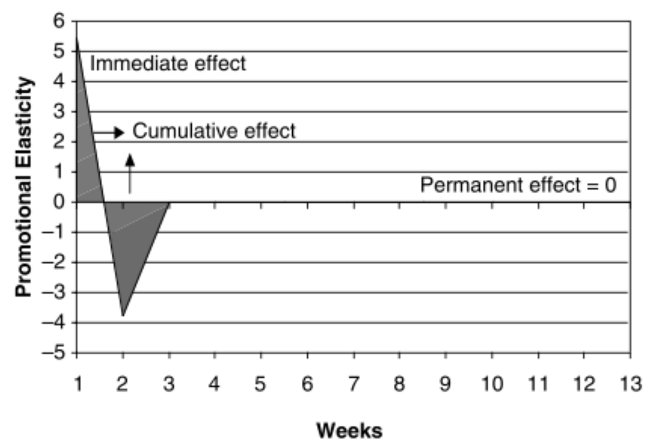
Finding 2: High Equity Increases Promotional Impact

High equity is a source of promotional effectiveness, whether it is display, feature advertising, or price promotion.

For example, Ocean Spray and V8 command strong brand equity and their promotional efforts yield greater long-term effects than those of the lower-equity brands, Gatorade and Hawaiian Punch.



Bottled Juice brand V8 (High Equity) : Price promotion had a strong immediate impact, a drop-back to pre-promotion levels the week after, but created a permanent sales uplift.



Bottled Juice brand Gatorade: Price promotion had a strong immediate impact, a comparable compensation effect the week after, and created no permanent sales uplift.

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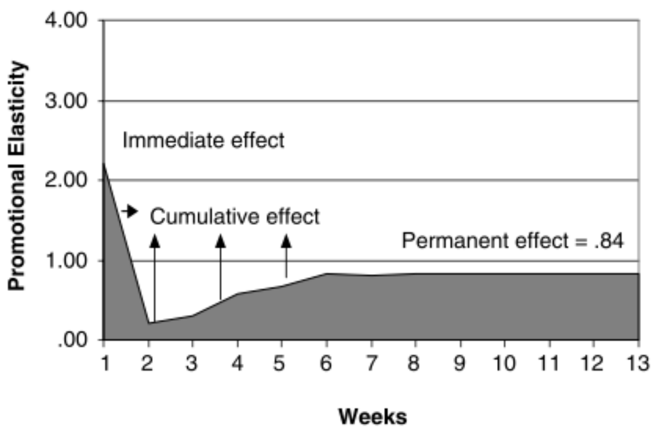
Finding 3: More Innovations Increase Promotional Impact

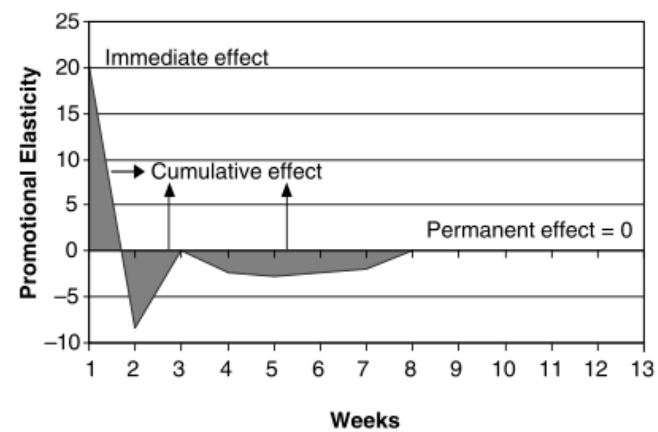
Frequent innovations are a source of promotional effectiveness, whether it is display, feature advertising, or price promotion.

In the toothpaste category, Rembrandt introduced three times more new products than other players and the long-term effects of all promotional actions was much higher.

This is especially important for low-equity brands because they enjoy even higher benefits from new product introductions than high-equity brands.



Toothpaste brand Rembrandt (Many Innovations): Price promotion had a strong immediate impact, a drop-back to almost pre-promotion levels the weeks after, but created a permanent sales uplift.



Toothpaste brand Close-Up Price promotion had a strong immediate impact, but a sales drop the weeks after resulting in a negative cumulative value and did not cause a permanent sales uplift.

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Some Take-Aways

- High equity brands benefit from higher return on marketing investments, as shown by the higher sales elasticity of promotional efforts. In addition, the study showed that such brands also experience lower consumer sensitivity to price increases. This asymmetry in long-term sales effects for price increases versus decreases is an important benefit of brand equity.

- However, ceiling effects associated with strong brand equity exist. Therefore, low-equity brands obtain higher relative long-term benefits from new product introductions than high-equity brands.

- The fact that a shallow product line increases the relative impact of promotional activities, is a relief for small brands. Such brands are hurt by “triple jeopardy” (fewer buyers, lower frequency, less loyalty) and less pass-through of manufacturer promotions to consumers by retailers. These results provide arguments for them that promotions may be a source of permanent growth.