

# Promotion Strategies of Korean Firms

Current Issues and Future Direction

**Donghoon Kim**

School of Business

Yonsei University

Seoul, Korea

## I Introduction

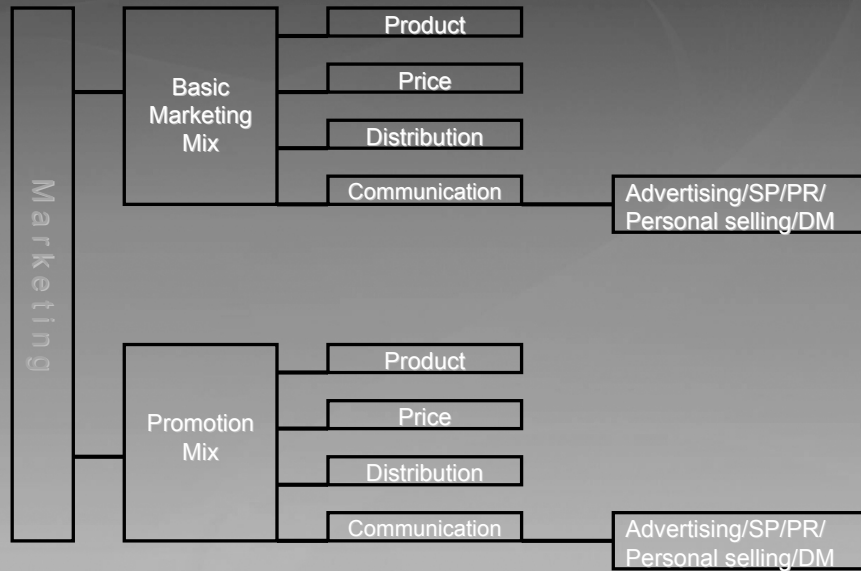
### Increase in Sales Promotion

- Sales promotion accounts for 74% of all marketing expenditures in the average consumer packaged-goods company (U.S.A. 2006)
- 76% of total appliance sales occurs during promotion, 90%+ for apparel (Korea)

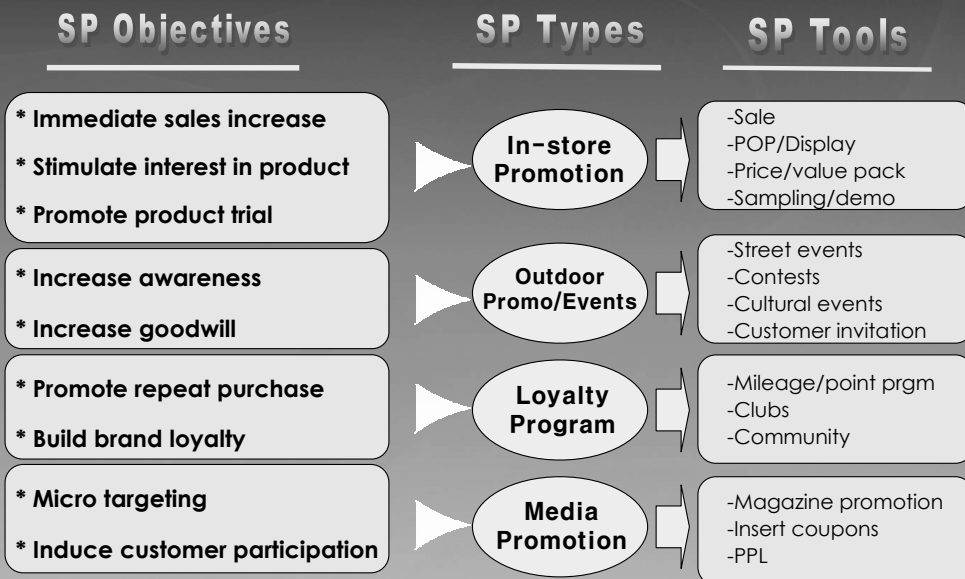
### Why Sales Promotion?

- Low involvement purchase → Behavior before Attitude
- Mature, undifferentiated products → increasing price sensitivity
- Brand proliferation
- Myopic managers → Market share-driven management
- Increasing advertising clutter
- Bargaining power of retailers
- Prisoner's Dilemma

## Expanding Scope of Sales Promotion



## Sales Promotion Types



## I Survey of Korean Firms

- No publicly available data on promotional spending!
- Most companies decline to disclose their information on SP
- Conducted a small scale survey
- More like a case study
  - 17 firms from 6 industries

## I Analysis

### Sales Promotion Expenditure as % of Sales & AD Spending

Industry	N	SP expenditure to Sales (%)	SP expenditure to AD (%)
Cosmetics	4	12	109
Confectionery	3	4	41
Electronics	2	8	65
Retail Business	3	3	275
Mobile Communication	1	2	18
Fashion	4	14	18
AVG	17	8.6	83.1

## Analysis

### Sales Promotion Spending Growth (%)

Industry	N	2004 → 2005	2005 → 2006	2006 → 2007
Cosmetics	4	8	6	8
Confectionery	3	1	9	3
Electronics	2	10	13	5
Retail Business	3	20	3	4
Mobile Communication	1	-30	22	1
Fashion	4	17	16	13
AVG	17	8.2	10.6	7.1

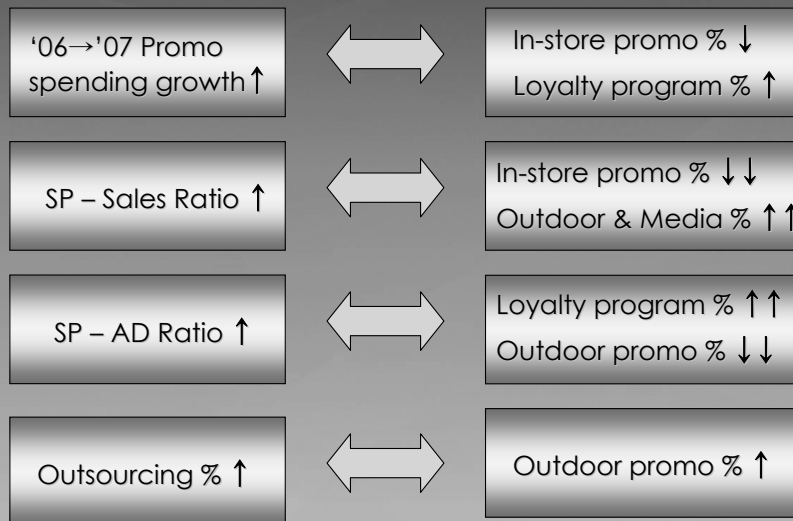
## Analysis

### Proportion of Expenditures Allocated to Each SP Type

Promotion Type	In-Store Promotion	Outdoor Events	Loyalty Programs	Media Promotions
SP Objective Industry	<ul style="list-style-type: none"> <li>• Immediate sales increase</li> <li>• Stimulate interest</li> </ul>	<ul style="list-style-type: none"> <li>• Stimulate awareness</li> <li>• Increase goodwill</li> </ul>	<ul style="list-style-type: none"> <li>• Promote repeat purchase</li> <li>• Build brand loyalty</li> </ul>	<ul style="list-style-type: none"> <li>• Micro targeting</li> <li>• Customer participation</li> </ul>
Cosmetics	48	10	10	33
Confectionery	48	27	8	15
Electronics	60	18	13	10
Retail Business	49	7	11	20
Mobile Communication	60	30	0	10
Fashion	46	25	3	19
AVG	49.9	18.7	7.6	19.9

## Analysis

### Some correlations



## Issues Facing SP Managers

- Overemphasis on using SP for immediate sales increase
- Lack of coordination with other marketing efforts (IMC)
- Lack of agencies specializing in SP
- Difficulty in developing creative, new SP programs
- But most of all...
  - The need for, but difficulty in analyzing the impact (ROI) of SP

## I Directions for the Future

### • Tactical vs. Strategic SP

- SP is often seen as a tactical tool
- Tactical aspect:
  - Direct & immediate impact on sales
  - Flexible response to fast-changing market conditions
  - Just-in-time
- Strategic aspect:
  - Develop/reinforce unique capabilities of the firm
  - Develop/reinforce firm's competitive advantage
  - Develop/manage long-term relationship with customers

## I Directions for the Future

### Sales Promotion as a Strategic Tool

- Each SP program must build on previous efforts
- Maintain continuity of communication
- Communicate long term concept and value of the product
- Consistency & synergy with other marketing mix elements

## I Directions for the Future

### Need to Quantify the Impact of Promotion on Sales

- Develop models to capture the effects of SP
  - *Gain better understanding of HOW promotion works*
  - *Decomposition of SP impact on sales*
  - *Matching SP tools with*
    - *Objectives*
    - *Target customers*
- Derive optimal or normative promotion strategy
  - *Timing*
  - *Depth*
  - *Allocation of resources*
- Utilize marketing database