

Sales Promotion as A Leverage Strategy for Improving Sales and Profitability in Alcohol Beverage Industry (A study of Nigeria Breweries Plc.)



Vincent N. O. Aghara^a
Ireneus C. Nwaizugbo^b
Promise C. Oparah^c
Chioma D. Ifeanyichukwu^d

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Abstract

This paper considered the huge amount of money being expended on sales promotion in recent times and sought to know whether organizations that use such strategy have justification for such investment. It sought to know whether the increase in sales promotion expenses resulted to increase in the organizations' sales volume as well as profitability. Nigerian Breweries Plc was used for the study because of its high-level involvement in sales promotion. Personal interview was used to collect relevant information from the key staff of the organization while the published annual report was used to collect relevant information from the key staff of the organization while the published annual report was used to source information on the organization's performance in terms of sales of sales turnover, marketing expenditure, and profitability. Findings showed that sales promotion was used because the strategy was very effective in developing and sustaining patronage and loyalty among channel members. It was further found that there was a strong positive correlation between sales promotion expenses and sales volume and between sales promotion expenses and profit. It was therefore recommended that organizations should use sales promotion as a strategy for leveraging sales and profit, provided that such organizations manage the sales promotion programmed effectively to generate desired results.

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Author correspondence:

Vincent N. O. Aghara,

Department of Marketing, Nnamdi Azikiwe University, Awka, Nigeria,

Email address: vinoaghara@yahoo.com / vn.aghara@unizik.edu.ng

^a Department of Marketing, Nnamdi Azikiwe University, Awka, Nigeria

^b Department of Marketing, Nnamdi Azikiwe University, Awka, Nigeria

^c Department of Marketing, Nnamdi Azikiwe University, Awka, Nigeria

^d Department of Marketing, Nnamdi Azikiwe University, Awka, Nigeria

1. Introduction

Sales promotion is one part of the promotional mix that is becoming an important tool in the integrated marketing communications (IMC) strategy. This, IMC mix tool helps to boost sales. According to [Cuizon \(2009\)](#), it provides several distinct benefits in the achievements of company objectives that may account for it, becoming one of the fastest growing IMC tools. Traditionally, sales promotion is one of the four parts of the promotional mix, while advertising, personal selling; and publicity/public relations are the other three. However, [Belch and Belch \(2001\)](#) view direct marketing as well as internet/interactive media as other major promotional mix elements that modern-day marketers use to communicate with their target markets. Each element of the promotional mix is also viewed as an integrated marketing communications (IMC) tool that plays a distinctive role in an IMC programme. According to [Anyanwu \(2003\)](#), when sales promotion is used in an integrated fashion with the other elements of the promotional mix like advertising, public relations etc, the effectiveness of the whole marketing effort is improved in both short term and long term. This perhaps accounts for the attention sales promotion has received in recent times. [Ifeanyichukwu \(2016\)](#) noted that companies are spending billions of naira per year in endorsing celebrities and repositioning their products in the minds of consumers by creating positive and good awareness of the products and brands, thus, firms are undergoing re-orientation in their belief. They now believe that the power of a brand lies in the minds of the consumers.

The increased importance of sales promotion as a strategic tool in mature consumer markets has generated strong interest among practitioners in understanding the mechanisms, effectiveness, and efficiencies of different sales promotion approach, ([Huff and Alden, 1998](#)). They also said that sales promotion in the most important component of marketing budgets, in terms of magnitude and growth rate. [Belch and Belch \(2004:514\)](#), quoting the U.S., [Promotion Industry Report \(2002\)](#), said that, while sales promotion has been part of the marketing process for a long time, its role and importance, in a company's integrated marketing communications programme have increased dramatically over the past decade. Consumer sales promotion related spending, increased from USD\$56 billion in 1991 to nearly USD\$100 billion in 2001. Marketers also spend an estimated USD150 billion each year on promotions, targeted at retailers and wholesalers. This scenario is gradually being replicated in Nigeria. NB Plc alone spends several billions of naira on its various sales promotion programmes in a year. In the communication industry where there exist brand proliferation which [Belch, et al \(2004\)](#), argue is one of the reasons for using sales promotion, the intense competition among the major providers perhaps, can explain or justify the huge amount the industry spends on sales promotion. The banks, hotels and several other organizations are spending so much on sales promotion, not just on the prizes to be awarded, but also on the promotion and implementation of the sales promotion programmes. [Ifeanyichukwu and Peter \(2018\)](#) also opined that the advent of the internet has changed how businesses and customers do things which has led to the drive /urge by firms to want to outperform the other in product communication by daring to be different in pursuing strategies designed to attract attention to their communication and differentiating their product from that of competitors while influencing purchase decision.

The above notwithstanding, critics of the effectiveness of sales promotion in improving sales abound, and as such, the extensive use of sales promotion has led to considerable debates concerning whether or not it is effective. The argument is whether the rising budget of sales promotions does not create unnecessary stress on the shareholder's fund and of course, marketing expenses, especially as there is no clear signal that the element makes a significant contribution to sales and profitability in the short and long run. The objective of this paper, therefore, is to determine whether marketers have justification for putting sales promotion ahead of other marketing communications elements in their budget. It will also determine whether high sales promotion expenditure leads to increase in organizations' turnover (sales) and profitability.

Review of Related Literature

Tracing the origin of sales promotion, [Peattie, and Peattie \(1997\)](#), quoting from [download-it.org \(2007\)](#), said that in 1697, Jonathan Holder, a London haberdasher, decided to offer customers spending over a guinea in his shop, a free stock, and price list. This, his pioneering decision to offer his customers, something extra was not universally welcomed. [Dakin \(1980:10\)](#), condemned this sales promotion as a dangerous innovation and one which would be destructive to trade if shopkeepers lavish so much of their capital on printing useless bills. Over 300 years later, and to date, the trade still flourishes and so does sales promotion, which now accounts for more capital, than any other element of Marketing Communication, except selling. In the study and practice of Marketing, sales promotion has always been overshadowed by the more glamorous world of advertising. This situation is, however, now changing, with sales

promotion beginning to attract the academic study and practitioner scrutiny that its cost and increasingly strategic role surely demands.

Belch et al (2001), defined sales promotion as those marketing activities that provide extra value or incentives to the sales force, distributors, or the ultimate consumers and can stimulate immediate sales. Kotler and Kelly (2007), on their part, said that sales promotion is a key ingredient in marketing campaigns, consisting of a collection of incentives tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade. The term 'sales promotion' has also been used to represent at least three different concepts: (i) The entire marketing mix; (ii) Marketing communications (Anderson,1982) and (iii) A catch-all for all communication instruments that do not fit in the advertising, personal selling and public relations sub-categories (Van Waterschoot and Van den Bulte, 1992). Berkowitz, Kerin, Hartley, and Rudelius (2000), regarding sales promotion as a supplemental ingredient of the promotional mix and is not as visible as advertising. However, there has been a major shift of money spent from media advertising to trade and consumer promotions, and about 75% of these expenditures are not for trade and consumer promotion. The shift indicates a trend towards integrated promotion programmes and the importance of traditional trade promotion.

Selection and integration of the many promotion techniques require a good understanding of the advantages and disadvantages of each kind of promotion. Peattie et al (1997) mentioned three key elements of sales promotion:

- a) Non-Standardized: Sales promotions are usually temporary and may be limited to certain customer groups (such as airline frequent flier schemes), or specific to a particular distribution channel (as in tailor-made promotion involving a producer and a single retailer).
- b) Response Oriented: Sales promotions, seek a direct response from customers, or those who deal with customers on the producer's behalf. The direct response sought may not necessarily be a sale. Promotion may encourage consumers to send for a brochure, visit a dealer or consume a sample. The ultimate aim is always sales, though this is true of marketing generally.
- c) Benefit-oriented: Sales promotions offer their targets additional benefits beyond the 'standard' marketing mix. The enhance mix could include extra product, a reduced price or an added item, service or opportunity.

When marketers implement sales promotion programmes without considering their long-term cumulative effect on the brand's image and position in the marketplace, they often do little more than create short-term spikes in the sales curve, (Belch et al, 2000). So invariably, not all sales promotion activities are designed to achieve the same set of objectives. Agbonifoh, et. al. (2007), opined that though the broad objective of all sales promotion is to secure an improved quantity of sales, there is, however, a need to state the objectives to be achieved in more specific terms, so as to make an evaluation of performance easier. They stated the major objectives of sales promotion to include, but not limited to: (i) Motivate people to buy or try a product; (ii) Induce people who are currently using the product to buy and use it more and (iii) Strengthen the image or the competitive position of a product.

There are generally three types of sales promotion, classified as consumer-oriented or directed; trade-oriented or directed and the sales force or business oriented. Consumer-oriented sales promotions include sampling, price deals, event sponsorships and frequency programmes. Trade oriented sales promotion is targeted at resellers-wholesalers and retailers who distribute manufacturers' products to the ultimate consumers. Some goals and objectives of trade oriented sales promotion include: (i) Develop in-store merchandizing support, as strong support at the retail store level is the key to closing the loop between the customer and sale; (ii) Obtain distribution for new products by encouraging retailers to give shelf space to new products and also provide them with financial incentives to stock the new products; (iii) Build retail inventories, since wholesalers and retailers are more likely to push a product, when they have high inventory levels rather than storing it in their warehouses or back stores; (iv) Maintain distribution and trade support for established brands, since such brands in the mature phase of their product life cycle are vulnerable to losing wholesale and/or retail distribution; (v) The accompanying trade deals, also induce wholesalers and retailers to continue to carry weaker products because the discounts increase their profit margins and (5)Generate excitement about the product among those responsible for selling it.

Contests and Incentives: Manufactures often develop contests or special incentive programmes to stimulate greater selling effort and support from reseller management or sales personnel. Contests or incentive programmes can be directed towards managers who work for a wholesaler or distributor as well as towards a store or department manager at the retail level. Manufacturers also sponsor contests for resellers and use prizes such as trips or valuable merchandise as rewards for meeting sales quotas or other goals. Contests or special incentives are often targeted at the sales personnel of the marketing intermediaries but recently, contests are mostly targeted at the consumer or the final target market.

2. Research Methods

The Nigeria Breweries Plc was chosen for this study because of its high involvement in sales promotion. So far it has established some sales promotion programs to become annual events. Some of such programs include Guilder Ultimate search, Maltina family Dance, Star Trek, Star Talent Hunt and so on. In the course of the study, both primary and secondary data were explored. The primary data were gotten mainly from the staff and distributors of NB Plc. Personal interview was used to obtain information from sales personnel, sales representatives, and sales promotion managers. Distributors interviewed include key, super key, bulk breakers and a demand center operator. The secondary data for the paper were obtained from the review of relevant textbooks and journals on sales promotions and marketing communications in general. Relevant data were also obtained from the annual reports and accounts of Nigeria Breweries Plc, the company's website and other relevant web pages of interest to the paper. All these data provided invaluable information that helped to give the paper a very robust outlook. Correlation coefficient and regression were used for the analysis.

3. Results and Analysis

The result of the interview with the key personnel of the NB Plc disclosed that the organization utilizes a number of sales promotion packages to maintain relationships and consolidate the loyalty of their distributors. Some of the packages include incentives to the distributors, credit facility, deal loader promotion, root to success and fortune promotion, the point of purchase displays and in-store promotion. The NB Plc has some promotional programs that are directed to the consumer which include: Star Trek, Reading Competition for Secondary Schools, Maltina Cycling Competition, Maltina Family Dance Competition, Star Mega Jam, Street Dancing Competition, Amateur Golf Competition and many others. On why the organization embarks on sales promotion, the Sales Promotion Manager of NB Plc said that before embarking on any sales promotion, the company will take a lot of factors into consideration. Among these factors is the price-value ratio of the brand; the perception of the brand in the eyes of the consumer; among others. The company also looks at motivational segmentation, which is the market segment that the promotion is targeting, like which brand do you want to use for this market segment. For instance, the malting family dance competition is targeted at families consisting of both adult and children. Accordingly, sales promotion helps the organization to achieve the following: increase sales by recruiting new users, penetrate a new market segment, fight competition so as to attract brand switchers or deal prone customers and defend the target market stronghold especially when the company is under attack from the competition.

Further, a secondary source disclosed the annual financial report of the organization for the period between 2005 and 2009 as presented in table 1 below.

Table 1
Profit and Loss Account of NB Plc for the Period 2005-2009

| S/No | Items Description | 2009 (N'000) | 2008 (N'000) | 2007 (N'000) | 2006 (N'000) | 2005 (N'000) |
|------|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1 | Turnover | 164,206,848 | 145,461,762 | 111,748,297 | 86,322,075 | 80,130,968 |
| 2 | Cost of Sales | (88,734,440) | (74,561,945) | (52,558,213) | (41,990,004) | (40,293,428) |
| 3 | Gross Profit | 75,472,408 | 70,899,817 | 59,190,084 | 44,332,071 | 39,837,540 |
| 4 | Selling & Distribution Expenses | (20,795,333) | (21,542,383) | (17,820,500) | (15,010,210) | (12,765,140) |
| 5 | Admin. Expenses | (13,159,637) | (12,771,831) | (14,128,657) | (12,496,390) | (11,722,898) |
| 6 | Other Income | 144,896 | 192,257 | 116,113 | 122,962 | 104,393 |
| 7 | Operating Profit | 41,662,334 | 36,777,860 | 27,357,040 | 16,948,433 | 15,453,895 |

Source: Nigeria Breweries Annual Report and Accounts (2005- 2009), Year Ending- 31st December

A casual observation of the figures shows that increasing the sales promotion expenses which is a component of the selling and distribution expenses did not reduce the operating profit, instead, the profits increased. For instance, while selling and distribution expenses of N12.8b in 2005 increased to N15.0b in 2006, operating profits increased from N15.5b in 2005 to N16.9b in 2006. The figures for subsequent years were more impressive as small increases in selling and distribution expenses were able to generate higher increases in operating profits. This implies that investment in

sales promotion was capable of generating exponential growth in the organization's profitability. To further analyze the figures, the selling and distribution expenses was calculated as a ratio of turnover for 2005, 2007 and 2009. The obtained ratios were 15.93%, 15.94%, and 12.66% respectively. This indicates that the high level of expenditure on sales promotions did not increase the cost to sales ratio, instead it reduced in the long run. This shows that the expenditure is healthy and contributes to organizational growth. Also the ratios of operating profit to selling and distribution expenses were calculated for the same years and the results were 1.21, 1.54 and 2.0 respectively implying that each naira invested in selling and distribution (which includes sales promotion) attracted additional 21kobo in 2005, 54kobo in 2007 and N1.00 in 2009 indicating the leveraging strength of sales promotion. Further, the turnover values and the selling and distribution were analyzed using correlation coefficient and the result ($r=0.945$) was significant indicating that there was a positive correlation between the two variables. Similarly, the correlation coefficient between selling expenses and operating profit was ($r=0.900$) also significant at 5%.

4. Conclusion

Sales promotion, no doubt is now a permanent feature of our marketing mix programme and environment. In fact almost all organizations no matter how small, these days engage in one form of sales promotion or the other, and even subtly believe that their continued existence and profitability in the marketplace largely depend on the depth and breadth of their sales promotion programme and incentives. Clearly, the Nigerian Breweries Plc has benefited greatly from its sales promotion programmes but this may not be the experience of all the organizations that use sales promotions strategy. The NB Plc management expends quality managerial efforts in developing and designing sales promotion programme. Critical decision areas include the conditions for participation, size of incentives, a vehicle for promotion, duration and timing of promotion, and so on. They even take time to pretest the programme before full implementation. As a result of this planning and implementation, their effort is rewarded with high sales and profit volumes.

It is therefore recommended that since sales promotion in the new trend claims a significant percent of the marketing budget, marketing managers should endeavor to develop and implement sales promotion programmes that are likely to attract higher and sustained sales volume and profitability for the organization. Again due to its short-term focus, sales promotion may also appeal to deal prone consumers, who may just be attracted, by the sheer size of the incentives on offer. This class of consumers may revert to their original brand immediately after promotion. Therefore, as consumers become more sophisticated, marketers should refine their sales promotions to, not only attract new users, but also ensure that these new users become loyal brand users, and not just deal prone brand users. Lastly, the result of this research has shown that sales promotion is capable of leveraging organization's sales volume and profitability in a sustained manner. Organizations should, therefore, use it to their advantage.

Conflict of interest statement and funding sources

The author(s) declared that (s)he/they have no competing interest. The study was financed by personal funding.

Statement of authorship

The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.

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Biography of Authors

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|---|--|
|  | <p>Vincent Aghara is a Senior Lecturer in the Department of Marketing, Nnamdi Azikiwe University Awka, Nigeria. He is a Doctor of Philosophy in Marketing. His research interests are in the areas of services marketing and marketing communication. He is also an Associate member of the National Institute of Marketing of Nigeria (NIMN) and other professional bodies. He has published in several journals in times past. Email address: vn.aghara@unizik.edu.ng</p> |
|  | <p>Ireneus Nwaizugbo is a Professor in the Department of Marketing, Nnamdi Azikiwe University Awka, Nigeria. He is also a full member of the National Institute of Marketing of Nigeria (NIMN). His research interests are in Marketing Research and consumer research. Email address: ic.nwaizugbo@unizik.edu.ng</p> |
|  | <p>Promise Oparah is a Lecturer in the Department of Marketing, Nnamdi Azikiwe University Awka, Nigeria. He is an Associate member of the National Institute of Marketing of Nigeria (NIMN) and has published with several journals. His research interests are in International marketing and consumer behavior. Email address: pcoparah@yahoo.com</p> |
|  | <p>Chioma Dili Ifeanyichukwu is a Lecturer with the Department of Marketing, Nnamdi Azikiwe University Awka, Nigeria. She is an Associate member of the Institute of Strategic Management of Nigeria (ISMN) and National Institute of Marketing of Nigeria (NIMN). She has many awards to her credit and has several other publications. Her research interests are in internet marketing, consumer behavior and marketing communications. Email address: chiomadili@gmail.com</p> |