The sales impact of regional and environmental in-store promotions

By Dr Armando Corsi, Dr Simone Mueller Loose and Professor Larry Lockshin
Ehrenberg-Bass Institute of Marketing Science, University of South Australia

Price promotions negatively impact on wine brands, and generate enormous pressure on retail pricing. Research was recently conducted at a key Australian wine retailer across 62 stores in three states. Although price promotions are difficult to replace, the researchers advise producers and retailers to introduce different types of campaigns to stimulate sales without the typical drawbacks of the promotions mentioned in this article.

Price discounts in the retail sector are the norm rather than an exception. Although figures vary between markets and retail outlets, much of the wine sold off-premise is sold under different forms of price promotion (e.g. percentage discount, buy-one-get-one-free, etc). However, the problem with price promotions is that they have a negative impact on brands:

- do not usually expand category demand (Huang and Dawes 2007)
- do not tend to have positive long-term effects (Huang and Dawes 2007)
- erode reference prices (Kumar *et al.* 1998)
- can hurt profits (Jedidi *et al.* 1999).

However, it is hard to convince retailers to stop price promotions, thus generating enormous pressure on wine retail prices. The latest figures from Euromonitor International (2012) show that, despite the efforts to encourage the 'premiumisation' of the Australian wine industry, unit prices for wine in Australia declined by 1 per cent from 2011 to 2012. In addition, retailers also offer private labels to their clients, with Coles and Woolworths shelving more than 100 wines produced under their umbrella. This situation is not easy to handle for wine brands, especially given the fact that private label brands are forecast to increase by 50% compared with their current values (IBIS WORLD 2012).

One way brands can get out of the corner of price promotions is by placing greater emphasis on regionality and environmental friendliness, so that consumers might choose wines for what they are and are able to convey, rather than their price. Australia has been promoting the concept of regionality for the last three years, with 'regional heroes' wines being a distinct category in the strategic marketing strategy by Wine Australia. Less emphasis has been put so far on wine environmental friendliness, but the recent launch of programs such as EntWine Australia, could lead towards an increase in awareness and appreciation of environmentally friendly wines.

A third interesting thought is the possibility of conducting market tests independently of retailers, which might not always be willing to put their stores at researchers' disposal. Online choice experiments can be used for this purpose, as they can predict what consumers would do in stores, thus making Australian wine producers better able to understand the performance of their products before a wine is actually launched in a market. This opportunity appears to be particularly interesting for foreign markets (e.g. China), where access to retailers is even more difficult than in Australia.

Research carried out by the authors recently with an important Australian wine retailer across 62 stores located in New South Wales, Queensland and Victoria shed light on these three considerations, showing that although price promotions are difficult to replace, producers and retailers might (or should) plan the introduction of different types of promotions, which are able to stimulate sales without the typical drawbacks of the promotions mentioned.

METHOD AND RESULTS

The study comprised three main stages.

First, the researchers worked in conjunction with the Winemakers' Federation of Australia (WFA) and Wine Australia to develop possible communication campaigns for the promotion of wine regionality and environmental friendliness. The process led to the selection of six logos (three per type of communication) and 26 slogans (13 per type), which were then evaluated by 822 respondents who were socio-demographically representative of the population of Australian red wine drinkers (RoyMorgan 2006). The researchers analysed the results and selected the logo and the slogan consumers liked the most for each type of communication.

In the second stage of the research, the authors combined the slogans and the logos to test whether combinations of these could stimulate sales in wine stores. The combinations were:

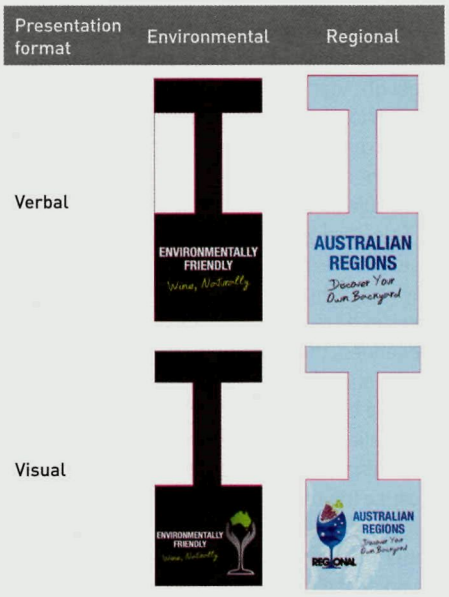

Figure 1. Shelf talkers included in the experiments.

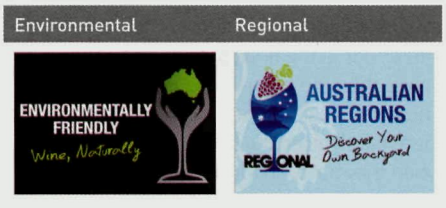

Figure 2. Banners included in the experiments.

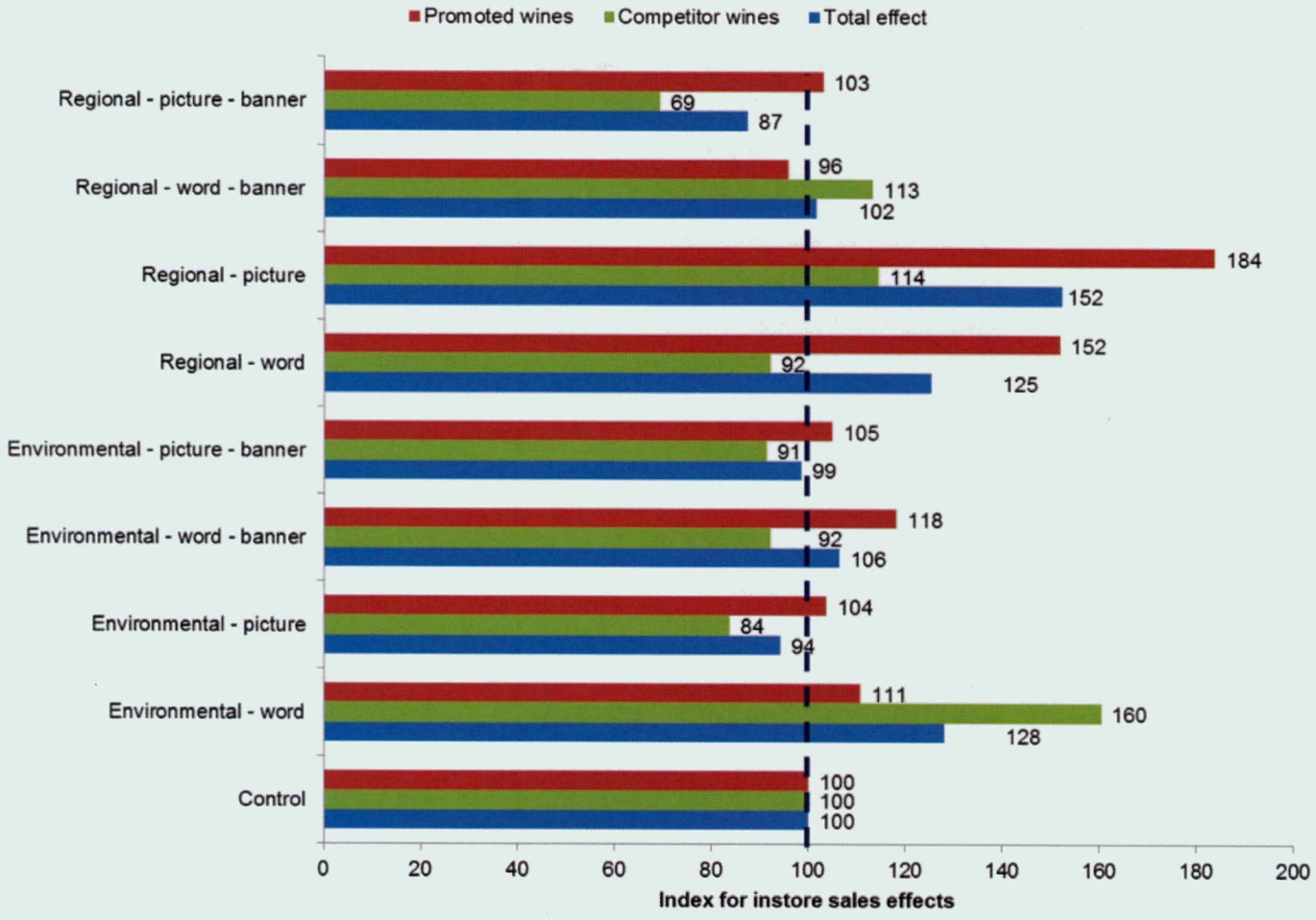

Figure 3. In-store effect of promotional treatments on promoted wines, competitor wines and total number of bottles sold. Note: all values are standardised indexes relative to control condition = 100, also represented by the vertical line.

Table 1. Experimental treatments design.

Treatment	Message	Shelf Talker Format	In store banner	Stores
1	Regional	Visual	Yes	5
2	Regional	Verbal	Yes	5
3	Regional	Visual	No	5
4	Regional	Verbal	No	5
5	Environmental	Visual	Yes	5
6	Environmental	Verbal	Yes	5
7	Environmental	Visual	No	5
8	Environmental	Verbal	No	5
9	Reference stores (no treatment)			22

- type of message: regional or environmental
- shelf-talker presentation format: visual (logo + slogan) or verbal (slogan only)
- banner at the front of store: present or absent.

Thanks to the help of the retailer's graphic designers, shelf talkers and banners were developed and used in both the in-store and online experiment (see Figure 1 and Figure 2).

In order to test the main effects and possible interactions between the above mentioned factors, a full factorial experimental design was developed. This generated a total of eight possible treatments and the reference treatment (no shelf talker or banner) to be tested, as shown in Table 1. ▸

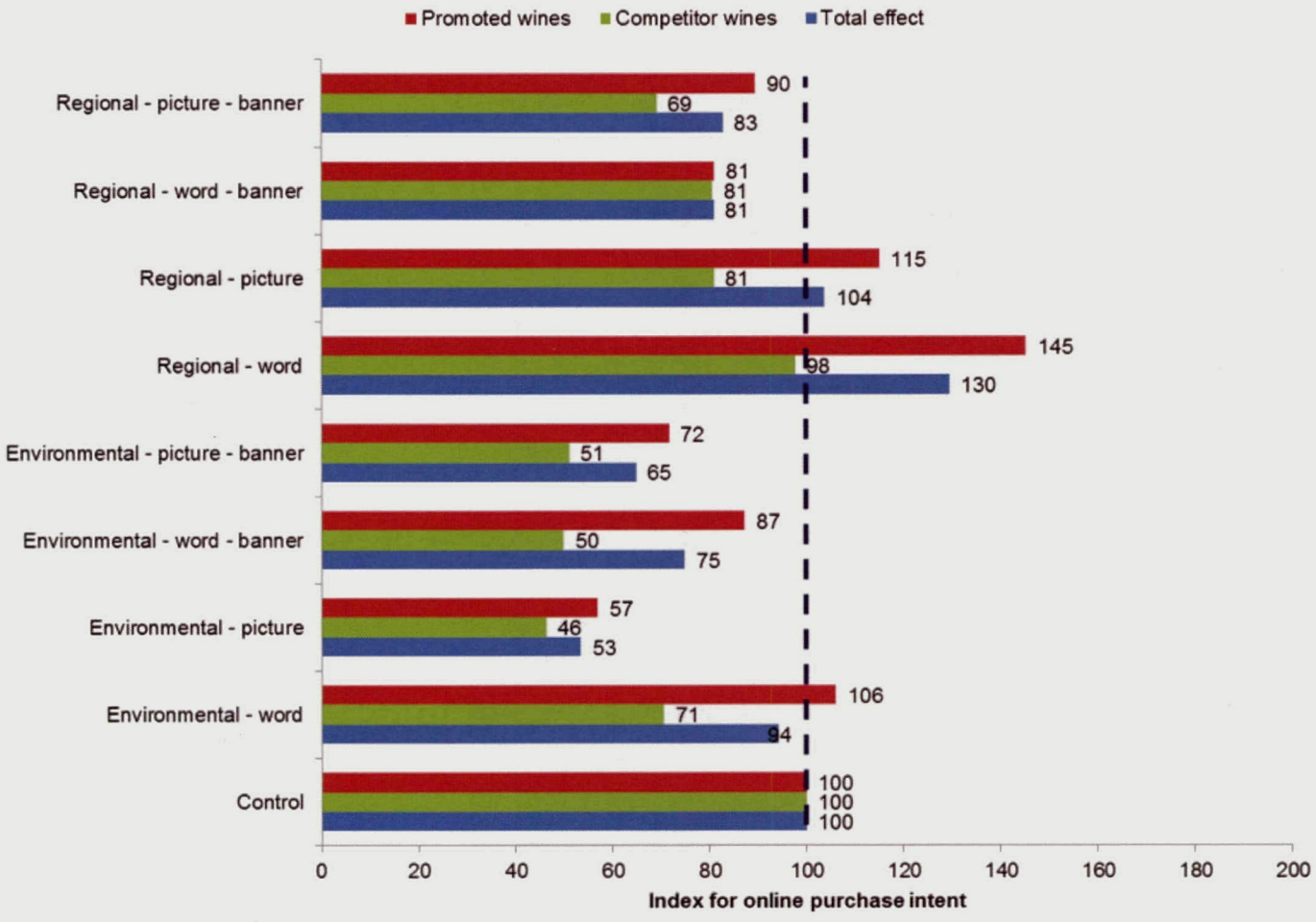

Figure 5. Effect of promotional treatments on promoted wines, competitor wines and total number of bottles sold. Note: all values are standardised indexes relative to control condition = 100, also represented by vertical line.

Figure 4. Online wine shelf simulation with shelf talkers.

When assigning stores to treatment conditions we aimed for minimal differences between the treatments, meaning that we tried to find the best possible balance in terms of store characteristics and the socio-demographic variables relative to the suburb in which the store was located. After this, the 40 stores in the eight treatment conditions were informed about the purpose of the experiment via a three-page brief. A team of four research assistants visited the 40 stores the weekend prior to the beginning of the experiment to ensure all the material was correctly displayed, and the weekend immediately following the end of the experiment to ensure the material was completely removed. During the entire duration of the experiment, the research assistants called the stores every week to establish if there were any problems and that everything was running smoothly.

Twenty-five wines were selected for this experiment. Sixteen of them displayed a shelf talker, while the other nine did not, representing our control group. These wines come from the retailer's core range of labels available across all stores in Australia, making the best possible balance between price points, regions of origin, grape varieties, sales index data,

and environmental friendliness index.

The results for promoted wines (see red bars in Figure 3, (see page 73) showed that the use of the promotional material (banners and shelf talkers) had a positive effect and increased sales of treated wines in treated stores compared with control stores for seven out of eight treatments. In particular, the use of regional shelf talkers without a banner generated the highest sales increase for treated wines in treated stores compared with control stores. Also, a positive promotion effect was recorded for the treated wines promoted with a verbal environmental shelf talker together with or without a banner, compared with the same wines located in control stores.

The green bars represent sales of competitor (not promoted) wines. We would generally expect that their sales would be reduced relative to control wines, as consumers are likely to substitute them for promoted wines. In five out of the eight treatments this expectation is confirmed and control wine sales decreased in treated stores versus control stores (green bars less than 100%).

The total effect (blue bar) looks at the impact of non-price promotions over promoted and non-promoted wines. A positive total effect can only be observed if the promotion attracts sufficient new sales that do not come by substituting for not promoted wines. Overall, we can only observe five treatments, where overall more wines were sold in treatment stores compared with control stores. The largest effects were observed for the visual and verbal regional shelf talkers, and for verbal environmental shelf talkers. The verbal regional and environmental shelf talkers with banner only had small effects on total sales. The other three non-price promotion conditions resulted in overall negative sales. The third stage of the experiment consisted in an online experiment to test the effects of the same regional and environmental store banners and shelf talkers as used in the in-store experiment on consumers' simulated purchases. The researchers recruited 198 red wine drinkers from an Australian online panel provider.

Respondents were presented with a series of choice sets with nine bottles of red wine. Photo realistic images of the wines were shown as they would appear in store, and the in-store price was shown below each bottle. Whenever one of the 16 treatment wines appeared in a shelf of treatments 1-8, the appropriate shelf talker (regional or sustainable, verbal or visual) was shown below the wine. Respondents were asked to click through each of the nine wines on a shelf to indicate the most and least preferred wine, and the number of bottles they were willing to buy from each of the nine wines. The wine in question was enlarged at the right-hand side of the shelf (see Figure 4).

An index with the reference condition (no promotion) as base value of 100 was created to compare the number of bottles respondents said they would buy across the nine treatment conditions. Accordingly, an index value of above 100 indicates a higher number of bottles respondents were willing to buy, while values below 100 signal lower purchase intent.

Figure 5 shows the relative effect of the eight promotion conditions relative to the control condition. For almost all treatments, promoted wines sold more units than non-promoted wines, indicating that promotions had an effect. But when comparing the purchase intent to the control condition without any promotion, then only three promotion conditions resulted in an absolute positive increase in purchase intent (regional shelf talkers with word and picture without banner, and environmental shelf talker without banner). The largest effect can be observed for the regional verbal shelf

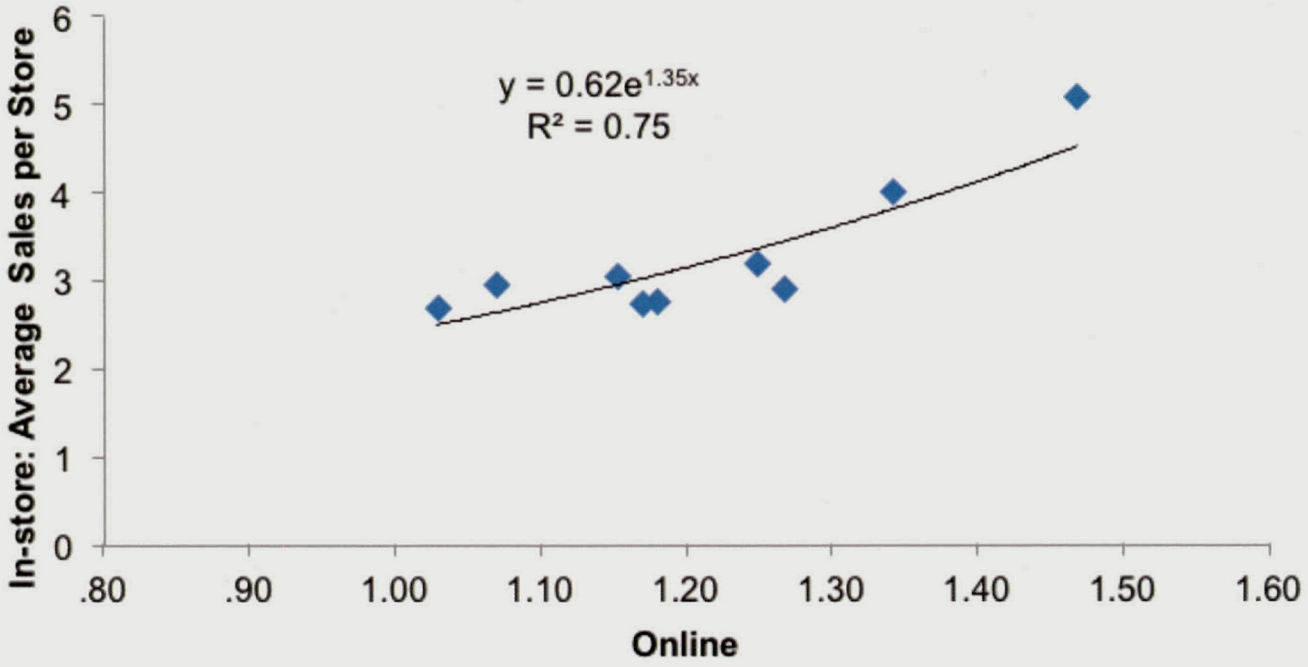

Figure 6. Correlation between online choice ratio and in-store results.

talker (increase of purchase intent by +45%).

Unexpectedly, the banners did not increase the effectiveness of shelf talkers.

Promotions are only worthwhile if they lead to additional sales and do not (only) cannibalise the sales of non-promoted wines. The shelf simulation suggests that only the verbal regional shelf talker created sufficient sales to over-compensate the substitution effect away from non-promoted wines (i.e., total sales effect +30%).

Considering the high overall predictive validity of the online experiment for in-store sales, the high agreement between the treatment effects measured in store (see Figure 3) and measured in the online experiment (Figure 5) is not surprising. As observed in store, regional verbal shelf talkers had the largest promotional effect (+45%) in the online experiment and also resulted in a clear increase in the total number of bottles sold (+30%) compared with the control condition.

In parallel to the in-store experiment, we could not observe a positive effect of banners. Because respondent allocation in the online experiment was truly random, this finding strengthened the validity of the in-store observations.

The conclusion from the online survey agrees with that of the in-store experiment, that wineries should focus on regional non-price promotions to increase sales.

The ability to predict in-store effects of non-price promotion was judged by the number of times each wine bottle was chosen as most and least preferred in a choice set. These choices are able to predict the average number of bottles bought in-store in each of the nine treatment conditions. The number of bottles bought in-store and the choice measure correlate at $r=0.86$ ($p<0.001$) and choices can explain 75% of the in-store promotion variance.

CONCLUSIONS

In-store analysis confirmed that the closer an advertising message is to a product, the higher the impact on consumers' choices. In particular, our study found that regional messages had a larger effect compared with environmental messages. Secondly, verbal shelf talkers tended to have a slightly bigger effect than non-verbal ones, although visual logos were not prior known to consumers and are likely to become more effective if widely promoted. Third, we observed that front-of-store banners slightly increased the effect of shelf talkers on wine sales. Finally, when assessing the effect of non-price promotions, the negative substitution effect on non-promoted wines has to be taken into account. Only regional shelf talkers showed an overall positive sales effect where the positive promotion effect over-compensated the negative substitution effect for non-promoted wines.

The largest impact of non-price promotion we observed in store (+52% of total sales, +84% sales promoted wines) was lower than comparable price-promotion effects. Therefore, these effects will not cause retailers to completely change the strategic approach they have towards promotional activities.

Given the very low cost associated with the design and printing of promotional material similar to the one adopted in this research, it is suggested that producers or associations of producers discuss the opportunity to conduct non-price promotions during the year. This will not just have the benefit of increasing producers' and retailers' margins compared with selling a product at a discounted price, but will also help reduce the negative effects of price promotions.

Finally, our research confirmed that online choice experiments are a powerful tool for marketing research. Results from choice experiments simulating wine choice in virtual shelves were strongly related to promotional effects observed in-store. Contrary to in-store tests, choice experiments require considerably less cost, time and retailer collaboration than in-store tests. Future research should employ online choice experiments to test the effectiveness of promotion campaigns.

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