



What is Promotion?

Promotion is the positive communication a business has with its customers. Promotion can be used to communicate messages about the store's merchandise or to heighten the store's image. Promotion of a store's merchandise is known as product promotion. Promotion meant to heighten a store's image is known as institutional promotion. There are several types of promotion that can be employed.

Types of Promotion

There are four types of promotion that are commonly used by stores. These are personal selling, sales promotion, advertising, and public relations. Each of these types of promotion has qualities that help promote the store.

Personal Selling

Personal selling involves the use of paid sales associates to interact with the store's customers. Personal selling is a form of personal promotion since it relies on person-to-person interaction. Effective personal selling requires that sales associates be friendly, knowledgeable, and helpful so that customers leave with a positive impression of the business. Personal selling is also a form of paid promotion since sales associates are paid for their work.

Main Idea

Promotion is the term that describes the ways in which stores actively communicate with their customers. In this unit we are going to study promotion, its goals, and the types of promotion. We are also going to learn about promotional mix. We will look at promotional budgets, evaluating promotions, and some of the legal aspects of promotion. Lastly, we will review some of the mathematics used in conjunction with promotion.

After completing this lesson you will be able to:

- Compare different promotional strategies and the benefits of a promotional mix
- Discuss the advantages of publicity and public relations
- Calculate a promotional budget based on net sales
- Evaluate promotion results and adjust future promotions
- Explain promotions impact on revenue, margin, and profit
- Analyze financial statements to determine the success or failure of a promotion

Key Terms

- Promotion
- Product Promotion
- Institutional Promotion
- Personal Selling
- Sales Promotion
- Advertising
- Public Relations
- Publicity
- Promotional Mix
- Federal Trade Commission (FTC)
- Cease and Desist Order
- Bait and Switch

Sales Promotion

Sales promotion involves the use of activities that encourage customers to make purchases, such as issuing coupons or product samples, putting up point-of-purchase displays, running contests or sales events, or sending out e-mails. Sales promotions are often used to introduce new products and to encourage customers to try them. The general goal of sales promotions is to increase sales.

Advertising

Advertising is a communication to customers paid for by a business. Advertising is a form of non-personal promotion and is a one-way message. The business creates and sends a message, which is read or viewed by the customer. There is no direct interaction between the business and the customer. Advertising is all around us and it comes in many forms, most often in print and on television.

Public Relations

Public relations involves the use of unpaid references to a business to further a positive impression. The goal of public relations is to showcase the business in a positive manner. Publicity is a form of public relations. Publicity involves calling attention to a newsworthy aspect of the business, such as charitable donations. Publicity is not paid for by the business, and businesses make every effort to generate publicity that is positive and to avoid negative publicity.

The Promotional Mix

The combination of the types of promotion a business uses is called the promotional mix. A business will select the combination of promotional activities that will best help it achieve the goal of a particular promotion. The promotional mix can and often will change from promotion to promotion. The most successful promotions normally include several activities in the promotional mix.

The Goal of Promotion

Before a store decides to begin a promotional campaign, a decision should be made regarding the goals for that promotion. The goal of the promotion or promotional campaign should be specific and clearly stated. Clearly stated goals make it easier to select promotional activities that will help achieve those goals. By stating specific goals, the storeowner will be better able to determine if the promotion was successful in meeting those goals. The steps in planning a promotional campaign are vital for its success: state the goals, outline the details of the planned campaign, determine the costs, implement the promotion, and finally, evaluate the campaign.

The Promotional Budget

Promotional activities are a necessary business expense. Promotional activities should be budgeted for right along with other business expenses. Promotional budgets are normally determined using a percentage of the business's net sales. The percentage is often based on the budget from

the previous year's net sales or on competitive ratios in the category. While businesses often increase their promotional budgets as sales go up, it is important for businesses to remember to invest in promotion during slow sales periods as well.

Evaluating Promotions

Once a promotional activity is complete, it is time to evaluate its success. If promotional goals have been stated, it will be easy to determine whether the activity was successful in meeting its goals. For example, a promotional activity for a product had a goal of a three percent sales increase over a two-week time period. Compare the sales records for that product at the beginning of the two weeks to the product's sales records at the end of the two weeks to determine the sales increase. If a promotional activity does not meet its goals, it is necessary to determine why it was not successful. The components of the promotional mix should be examined and the promotional goals should be investigated to determine if they were realistic.

Advertising Laws

Advertising laws are enacted and enforced by the federal government's Federal Trade Commission (FTC). One of the purposes of the FTC is to protect consumers from advertising that is deceptive or false. False advertising happens when a business knowingly makes claims about a product that are not supported by fact. In these cases, the FTC has the legal authority to issue a cease and desist order. A cease and desist order legally forces this business to discontinue the advertising that makes untrue claims. The FTC can also issue a cease and desist order to a business for using bait-and-switch advertising. Bait and switch is the illegal practice of advertising a product at a low price and then stocking little to none of that product, with the intention of selling customers a more expensive item.

Summary

In this unit we have reviewed promotion, types of promotion, and promotional mix. We learned about the goals of promotion, allocating a promotional budget, and evaluating promotions. Lastly, we discussed some of the legal aspects of advertising and some mathematics used in promotion.

Key Math Concepts

COMPUTE NET SALES

To compute net sales, use this formula:

$$\text{Net Sales} = \text{Total Sales} - (\text{Returns} + \text{Discounts})$$

COMPUTE A PROMOTIONAL BUDGET

To compute a promotional budget based on a percentage of net sales use this formula:

$$\text{Promotional Budget} = \text{Percentage of Net Sales} \times \text{Net Sales}$$

Key Terms

Promotion

The positive communication a business has with its customers.

Product Promotion

Promotion of a store's merchandise.

Institutional Promotion

Promotion meant to heighten a store's image.

Personal Selling

A type of promotion that involves the use of paid sales associates to interact with the store's customers.

Sales Promotion

A type of promotion that involves the use of activities meant to encourage customers to make purchases.

Advertising

Communication to customers paid for by a business.

Public Relations

The use of unpaid references to a business to further a positive impression.

Publicity

A form of public relations that involves calling attention to a newsworthy aspect of the business.

Promotional Mix

The combination of the types of promotion a business uses.

Federal Trade Commission (FTC)

An agency of the federal government that enacts and enforces advertising laws that protect consumers.

Cease and Desist Order

An order issued by the FTC that forces advertisers to discontinue false or bait-and-switch advertising.

Bait and Switch

The illegal practice of advertising a product at a low price and then stocking little to none of that product, with the intention of selling customers a more expensive item.

Promotion

1. A drugstore is promoting candy sales for one month. A budget of \$300 was allocated to this promotion based on 5% of net candy sales during the same period last year. State the mathematical formula that was used to determine the budget and what the net sales were that led to the \$300 budget.

2. Last year, your store's total revenue was \$400,000. The store's total discounts were \$10,000 and returns totaled \$5,000. What were your store's net sales?

3. Your promotional budget for this year is \$200 for personal selling, \$400 for sales promotion, \$1000 for advertising, and \$700 for image promotion. What is your total product promotion budget for this year?

4. You have a \$1000 public relations budget for the current year. You would like to generate publicity by publishing an article in the local township newspaper about your store's sponsorship of community activities. Calculate how much of the \$1000 you would need to place the article in the newspaper.

Promotion

1. Give an example of both a product promotion and an institutional promotion that could be used by your local convenience store and describe how the components of the promotions differ.
2. As manager of a gourmet coffee shop, you are trying to promote additional sales by developing more positive and friendlier customer service. You want to implement the promotion by utilizing your front line sales associates. Outline what you consider to be the key components of this customer service promotional campaign.
3. At your gift shop, you want to develop a sales promotion that offers bubble bath at “buy one get one half price.” Outline and explain the planning steps of this promotion and how your promotion will address each step.
4. You have just completed a 30-day promotion for fountain drinks at your family restaurant and sales remain lower than they were during the same period last year. Outline and explain how you would evaluate this promotion.

Promotion

GOAL: Your goal is to get the maximum marketing benefit from billboard advertising. You will then try to get the maximum benefit from radio advertising. Finally, you will see which method of advertising was more effective in this particular case.

YOUR SITUATION: In this lesson, you control Radio Advertising and Billboard Advertising. All other actions are controlled for you.

Part A: No Promotion

- 1) Run the **Billboards**, **Financials**, **Run To**, and **Radio Advertising** sections of the **Tutorial**.
- 2) Open the **Promotion** lesson.
- 3) Using **Options->Run To**, run the simulation forward to January 22. Click the **Financials** button and record your revenue, gross margin, promotional spending, and profit for the most recent week on **Worksheet 1**.

Part B: Billboard Promotion

- 1) Reopen the **Promotion** lesson.
- 2) Using **Billboard Advertising** under **Promotion** on the **Actions** menu browse around the city noticing that different potential billboard sites have different reach. There are ten billboard locations in the city that have an estimated reach per week of 10,000 or above. Put a billboard on one of these locations.
- 3) Using **Options->Run To** run the simulation to January 22. Click the **Financials** button and note your revenue, gross margin, promotional spending, and profit for the most recent week.
- 4) Repeat steps 1-3 trying all ten of these locations for your billboard. Once you find the most profitable location for your billboard record your revenue, gross margin, promotional spending, and profit for the most recent week on **Worksheet 1**.
- 5) Use **Print** on the **File** menu to print the **City** view showing the best billboard location you could find.

QUESTION B1: Looking at your **Financials**, what was the weekly cost for your most profitable billboard? Compared to **Part A** did your revenue increase? Did your profit increase? Was the advertising worth it?

Part C: Radio Promotion

1. Reopen the **Promotion** lesson. Now you will test radio advertising on three different radio stations.

2. Using **Radio Advertising** under **Promotion** on the **Actions** menu, select and book all four rotations on KEZL. Using **Options->Run To** run the simulation to January 22. Click the **Financials** button and note your revenue, gross margin, promotional spending, and profit for the most recent week.
3. Re-open the lesson and repeat this process for WPOP and KLRK. Once you find the radio station that creates the most profit, click the **Financials** button and record your revenue, gross margin, promotional spending, and profit for the most recent week on **Worksheet 1**.

QUESTION C1: Which radio station created the highest profit? KEZL, WPOP, or KLRK?

QUESTION C2: Looking at your **Financials**, what was the weekly cost for your radio advertising? Compared to **Part A**, did your revenue increase? Did your profit increase? Was the advertising worth it?

QUESTION C3: Compare your profit in **Part B** and **Part C**. Were billboards or radio advertisements more effective in this case?

WORKSHEET 1

	Revenue	Gross Margin	Promotional Spending	Profit
Part A				
Part B				
Part C				