



Promotional Activities

In the Promotion unit we learned that sales promotion consists of activities that encourage customers to make purchases. The goal of any sales promotion activity is to increase sales. A merchandise promotion is designed around a store's merchandise. The goal of a merchandise promotion is to increase the sales of a specific product or merchandise category. Many sales promotions are also tied to merchandise promotions.

There are many sales and merchandise promotion activities that a storeowner or manager can use to attain the stated goals of a sales promotion. Those promotional activities include the following:

- Sales Events—these involve price reductions on certain products for a limited time.
- Contests—contests and drawings offer prizes for customers who come to the store to enter for a chance to win.
- Coupons—usually printed in newspapers and flyers, these allow customers to obtain a cash discount on a product.
- Premiums—items that are offered for free or for a reduced price as an inducement to buy another specific item.
- Product Samples—a store may give away a portion of a product to customers, such as a sample-sized product.

Main Idea

This unit will build on the concepts we studied in the Promotion unit. We will review some sales promotion activities and advertising basics. We will also address storefront advertising and loss leaders as promotional tools. Then we will look at the importance of adjusting inventory to cover promotions. We will cover some of the laws that deal with promotion and promotional pricing, and we will discuss how to analyze the results of a promotion. Lastly, we will turn to some of the mathematics used in promotion.

After completing this lesson you will be able to:

- Give examples of different kinds of promotional activities
- Compare and contrast the four main types of advertising media
- Design an effective storefront advertising display
- Analyze financial statements to determine promotion results, in terms of original goals and impact on sales
- Explain the benefits of using loss leader product, and calculate the margin lost on that product

Key Terms

- Sales Promotion
- Merchandise Promotion
- Advertising
- Advertising Media
- Print Media
- Broadcast Media
- Online Media
- Specialty Media
- Storefront Advertising

Advertising

In the Promotion unit we learned that advertising is a paid communication by a business to the public. The advertiser prepares and transmits the message and the customer reads or views the message.

There are many types of advertising at various costs. Some types of advertising are priced quite reasonably, while others are costly to develop and present to customers. When planning to advertise it is important to select the advertising medium that will best help you achieve the goals of your promotion.

Types of Advertising Media

Advertising media are the methods used to deliver the advertising message. There are four main advertising media categories we will discuss—print media, broadcast media, online media, and specialty media.

Print Media

Print media include newspapers, magazines, and direct mail. Some newspapers and magazines, such as national publications, can have a huge audience while others, like local market publications, tend to have a small audience. Advertising rates depend on readership or the number of people who will see the advertising. Direct mail is sent directly to a targeted group of customers. Direct mail is normally priced on a cost per thousand.

Broadcast Media

Broadcast media include television and radio. Advertising for both can be targeted at particular customer groups. Radio and television advertising rates vary depending on the time of day the ad runs, the length of the ad, and the size of the audience. These media are usually quite expensive for a small business.

Online Media

Online media include any portal that appears on the Internet. Online advertising can take the form of an e-mail, a banner on a web page, or a pop-up ad. E-mail advertising can be targeted to a store's customer e-mail list or to a purchased list of e-mail addresses. E-mails can often be created and sent for little cost. Retailers must be aware of and comply with the guidelines of the CAN-SPAM Act of 2003, which regulates unsolicited e-mail. Banner and pop-up ads can be placed on Web pages of other companies or on the home pages of Internet providers. The cost of these advertisements depends on the development costs, complexity of the advertisement, and viewership.

Specialty Media

Specialty media include giveaway items, such as pads of paper or pens. The giveaway item is imprinted with your business's name, logo, and/or other message. The cost of specialty advertising depends on the cost of the giveaway item, the length of the message, and the number of units purchased.

Storefront Advertising

Another form of advertising is storefront advertising. Storefront advertising is advertising that is placed in the exterior area of a store. This includes the store identification sign, perimeter signs and those placed

between the street and parking lot, and banners or signs placed on the building or in a store window. Advertisements placed in the exterior area should be large enough to be visible from the street or as the customer approaches the store. The message should be kept short and simple so that it can be read quickly. Storefront advertisements can be very effective since customers see it as they enter the store. The design of this type of advertising needs to be compatible with the exterior image of the store and should be neat and attractive in appearance.

Loss Leaders

A loss leader is a product that is priced either at or below cost. A loss leader is a type of sales promotion that encourages customers to come into a store. The theory behind using a loss leader is that once customers are in the store, they will hopefully buy other products. The other products the store sells are priced to make a profit for the store.

Loss leaders should be selected wisely and used sparingly. When using loss leaders, there are four things to remember:

- Choose a product that customers buy often
- Choose a product that is normally stocked in very limited quantities
- Display the product at the back of the store so that customers will have to walk through the store and will be exposed to many other products that they might purchase
- Set limits on the quantity of the product that can be purchased; for instance, limit three items or limit one with a \$20 purchase

Adjusting Inventory for Promotions

Planning a promotion and its objective will include defining the goal of the desired increase in sales of the item or items being promoted. For the promotion to be successful the store must have enough inventory of the item or items to cover the projected increase in sales. Once you estimate the amount of extra inventory that will be required, it is important to arrange to have it available for sale. The extra inventory should be in stock, or arrangements should be made for prompt delivery during the promotion as sales dictate. Once the promotion is over, remaining inventory of the promotional item or items that are over and above the quantities indicated by the merchandise plan should be returned to the vendor or supplier. Arrangements for this situation should be made with the vendor in advance and at the time of purchase.

Laws Governing Promotional Pricing

The use of promotion is subject to federal and state laws. The Federal Trade Commission (FTC) was established for the purpose of protecting consumers from advertising that is deceptive or false. Its guidelines state that advertising must be truthful and not deceptive. FTC guidelines apply to information that appears in advertisements, as well as information that does not appear. In addition, if an advertiser makes a claim about a product being advertised, they must have proof to support that claim. These guidelines

cover print and broadcast promotion as well as Internet and telephone promotion. The FTC has the legal authority to stop advertisers from making false or deceptive claims through the use of cease and desist orders. For more information about false or deceptive advertising visit the FTC's Web site at www.ftc.gov.

Bait and switch is an illegal practice that involves the advertising of a product for sale at a bargain price. The purpose of this type of advertisement is to lure customers into the store with the supposed bargain (bait) and, once they are in the store, encourage them to purchase a more expensive model (switch). Often the store does not have the advertised product in stock. The advertiser's intention is not to sell the advertised item, but to get customers into the store and convince them to buy a more expensive item. This practice is illegal because the retailer does not plan to sell the product that was advertised.

The CAN-SPAM Act of 2003 (Controlling the Assault of Non-Solicited Pornography and Marketing Act) establishes requirements for commercial e-mail. It gives consumers the right to ask e-mailers to stop spamming them. Commercial e-mail messages must include a notice that the message is an advertisement or solicitation, an opt-out notice, and a valid postal address of the sender. Violators of this act are subject to fines and penalties.

Analyzing Promotion Results

Once the promotion is over, it is critical to assess the success or failure of the activity. In the world of retail, learning from experience is one of the most valuable tools of a promotional activity. What worked and what did not work are the key things to think about. Start by reviewing the main objective of the promotion in light of the results. Then turn to the sales data and margin implications. Sometimes a single promotion may be individually marginal but the impact it may have had on store traffic and other store sales might offset what might otherwise be considered a failure. New customers coming through the store's front door have great potential. If you obtained a sales increase during the promotion, you should note how long the increase lasted after the promotion, ended.

Summary

In this unit we have reviewed promotional activities, advertising, and the types of advertising media. We have studied loss leaders and their uses to storeowners. We have also reviewed the adjusting of inventory levels to meet promotional goals. We then looked at some of the regulations and laws regarding promotion. Lastly, we addressed some of the mathematics used in promotion.

Key Math Concepts

COMPUTE THE PRICE OF A NEWSPAPER ADVERTISEMENT

Newspaper advertising is sold by the column inch. A column inch is a space that is one column wide and one inch long. To compute the price of a newspaper advertisement, use this formula:

Price per Column Inch x Number of Inches x Number of Columns

COMPUTE THE MARGIN FOR AN ITEM

Loss leaders are priced at or below cost. The margin lost on loss leaders must be computed. To compute the margin for an item, use this formula: $\text{Margin} = \text{Retail Price} - \text{Cost}$

COMPUTE THE NUMBER OF PROMOTIONAL ITEMS TO BE PURCHASED

To compute the number of additional items to be purchased in order to meet promotional goals, use this formula: $\text{Number of Items to be Purchased} = \text{Percent Increase} \times \text{Number of Items on Hand}$

Key Terms

Sales Promotion

Activities that encourage customers to make purchases.

Merchandise Promotion

A promotion designed around a store's merchandise.

Advertising

A paid communication by a business to the public.

Advertising Media

The methods used to deliver the advertising message.

Print Media

Newspapers, magazines, billboards, and direct mail.

Broadcast Media

Television and radio.

Online Media

Any portal that appears on the Internet.

Specialty Media

Giveaway items, such as pads of paper or pens.

Storefront Advertising

Advertising that is placed in the exterior area of a store.

Loss Leader

A product that is priced either at or below cost.

Advanced Promotion

1. You are planning to place an ad in a local newspaper. The size of the ad is 5 inches long by 4 columns wide. The newspaper's rate per column inch is \$18. How much will the ad cost?

2. You are planning a promotion that will feature a lunch special. The lunch special will feature a loss leader of a small order of French fries for \$0.50 when the customer purchases a hamburger and soda at the same time. The normal retail price of the small French fries is \$ 0.99. Your cost for the fries is \$0.50. How much margin is being lost if you sell 35 of the lunch specials?

3. You are planning a promotion that will feature breakfast sandwiches. Your store normally sells 75 breakfast sandwiches per week. The promotion is scheduled to last for one week. The stated goal is a sales increase of 20%. How many additional breakfast sandwiches must be sold in order to meet the sales increase goal? How many additional sandwiches must be sold if the promotion is extended to one month?

4. You have selected to place a direct mail piece with a local vendor that will include your message insert along with others. The vendor's mailing will reach 100,000 homes but only 50,000 are in your immediate marketing area. You would like to target only the 50,000 homes closest to your store, but would consider the full 100,000 home reach if it is cost effective. The cost for the production of the insert and mailing is \$75 per 10,000 for the 50,000. There is also a \$50 charge for using the 50,000 home reach. The cost for production of the insert and mailing is \$55 per 10,000 for the 100,000. Calculate the total investment for this direct mail promotion for each option.

Advanced Promotion

1. As the manager of a restaurant, you have observed that your fast food sales need a lift at lunchtime. You have decided to promote this category with a combo offer. Develop a combo offer and outline the promotional tools you will use to tell customers about your offer. Then list the critical checkpoints you will need to address prior to the start of the promotion. Be prepared to explain each checkpoint.

2. You are planning your monthly promotions and are trying to select the key promotional products you will display in the store window. The storefront will only accommodate three signs. What major factors will you consider before selecting products to promote in the window?

3. After observing the competition in your market area, you realize that you need to promote your coffee offering more aggressively. Outline a promotional offer and calculate the margin, promotional costs, and projected profit based on the assumption that your promotion will be successful. Be creative!

4. In this unit we discussed several key terms, three of which were broadcast media, online media, and storefront advertising. We discussed some key characteristics of each term that should guide the selection and use of each one. Identify and be prepared to discuss the key issues associated with each of these types of media.

Advanced Promotion

GOAL: Your goal is to use storefront advertising combined with “loss leaders” to dramatically increase the revenue of your store.

YOUR SITUATION: In this simulation, you control only Storefront Ads. All other actions are controlled for you.

1. Run the **Storefront Ads, Financials, Pricing,** and **Run To** sections of the **Tutorial.**
2. Open the **Advanced Promotion** lesson.
3. Using **Options->Run To,** run the simulation to January 22nd. Click **Financials** and record the revenue for the most recent week on **Worksheet 1** in the row marked “No Ad.”
4. You have been put in charge of Advertising for your store. You have now been challenged by your boss to increase weekly sales to \$35,000 by adding a single sign to your storefront.
5. Create an ad for your storefront window. To do this, mouse over the windows by the doorway to your store. Click on one of the windows to open the **Ad Designer** window.
 - a. In the **Ad Designer,** pick a product that you think many people need. Click the **Change Price** button and reduce the margin on the advertised item to 5 Margin Points. This effectively creates a “loss leader”.
 - b. Close the **Ad Designer** window. Your ad will appear in the storefront window. Run the simulation for 3 simulated weeks. Click **Financials** and record your revenue for the last week on the “First Ad” line of **Worksheet 1.**
 - c. Use Print on the File menu to print-out the storefront of your store. Click your storefront ad and choose **Delete Ad** to delete the ad.
6. Repeat Step 5 several times trying different ads for different products at 5 Margin Points. Each time, enter your weekly revenue on a new line. If it is higher than your previous high, print-out a copy of your storefront ad.
7. Hand in the worksheet and the print-out of your best performing ad.

QUESTION 1: What products did you put on special? Which was the best “loss leader” for drawing in customers and increasing sales?

WORKSHEET 1

Product Advertised	Revenue (After 3 wks.)
No Ad	
First Ad	