

TIME PROMOTIONAL TOOLS

Trade Promotions

Chapter Objectives

Recognize the important relationship between trade promotions programs and the other parts of the promotions mix.

Understand the difference between trade promotions and consumer promotions.

Utilize trade promotions tools to build strong ties with members of the marketing channel.

Know when and how to use each trade promotions tool.

Overcome the barriers and obstacles to effective use of trade promotions.

SEALY: MADE FOR SLEEP

Mattress-shopping can be stressful. You might even lose some sleep over it. One company that works hard to make the mattress-buying process a little less daunting is Sealy. CEO David McIlquham notes that finding the right mattress can be confusing and difficult. The wide variety of mattress choices (regular, pillow top, standard, queen-size, king-size, air mattress, water beds, and adjustable frames) means there is a great deal to consider before even going to the store. Then, bedding materials are sold by numerous types of retailers, including furniture stores, mattress specialty shops, department stores, and mass merchandisers. Price, quality, delivery, and warranty comparisons can all drive the purchase decision, and the market is bombarded with messages sent out by more than 700 mattress manufacturers.

The approach taken by Sealy is to remain the largest bedding manufacturer in North America by building quality products with excellent warranties and marketing them by featuring a strong brand presence. In the United States, the three main product lines offered by the company are Sealy, Sealy Posturepedic, and Sealy Posturepedic Luxury Collection.

The Sealy name and the Posturepedic brand are among the most well-known in the domestic market. The name Posturepedic was first used in 1950, with the idea that a Sealy mattress offered the best possible back support while you sleep. This powerful image helps pull the line into numerous retail stores, where conventional bedding still represents 85 percent of all purchases made.

To maintain this strong presence in the bedding marketplace requires quality relationships with retailers. Sealy makes product information widely available to both consumers and those in the market channel. A great deal of advice and facts about mattresses can be found not only on the company's Web site but also in marketing materials used by retail outlets. Sealy also makes it easy for consumers to find the company's products. A prime feature of the Sealy Web site is a Store Locator page.

The Sealy company relies on a variety of advertising techniques. The firm builds on an innovative base, which includes running the first national prime-time television commercials in the 1960s. Cooperative advertising programs with retailers help Sealy maintain positive contacts with various types of stores. Many innovative programs revolve around Sealy's tagline: "It's Made for Sleep. It's a Sealy."

Two additional strong markets for Sealy products are the hospitality industry and institutional buyers. Sealy has strong marketing programs aimed at hotel and resort customers. The company also customizes products to be purchased by hospitals.

The new millennium has led to a great deal of change for Sealy. After being purchased in a leveraged buyout in 1989, the company operated as a privately held corporation for several years. More recently, the Kohlberg, Kravis Roberts Company acquired Sealy. All the while, the company continued to expand by creating manufacturing facilities and individual national brands in a variety of countries. Sealy's world brand names include Crown Jewel, Correct Comfort, BackSaver, Posture Premier, Stearns & Foster, Carrington-Chase, reflexion, BedTime, and Meyer. Manufacturing operations are carried out in the United States, Canada, Mexico, Puerto Rico, Brazil, Argentina, France, and Italy.

Sealy strengthens relationships with customers and members of the market channel by emphasizing four concepts: (1) first, (2) best, (3) most, and (4) improving. The company's vision statement states that Sealy should be first in product and quality service, best in meeting customer needs, most in every facet of business relationships, and driven to improve by continually examining the company's operations.

In the future, Sealy's plans are to continue to expand by looking at new international opportunities including greater use of licensing arrangements. At the same time, the company's roots remain. Most beds are purchased one-at-a-time by individual consumers in retail stores that have names other than "Sealy." Maintaining a strong brand presence is the key to Sealy's goal of providing the world with "a good night's sleep."¹



overview

Marketing goods and services can, at times, seem fairly glamorous. Creating television commercials and radio spots, developing Web sites, and being involved in other advertising activities is an enticing prospect for someone interested in a highly visible marketing career. Remember, however, that effective integrated advertising and marketing communications programs include both highly visible and somewhat more subtle ingredients. Sometimes a subtle element of a marketing program can actually end up being the key factor in a purchase decision.

This section of the textbook explores the less visible elements of an IMC program. These critical components add significantly to the impact of any marketing effort, especially when they are executed correctly. As shown in Figure 9.1, a successful IMC program is built on the foundation that was described in Chapter 1 of this textbook. Consumer markets are defined, business-to-business customers are identified, and various buyer behaviors are studied. Next, advertising campaigns are formulated to reach all key customers. Then, trade promotions and the others parts of the promotions mix can be structured to support and enhance the IMC message. When the marketing team fails to incorporate the other parts of the promotions mix into the IMC plan, it is incomplete and the odds of success are diminished.

In this chapter, trade promotions are described. Other promotional programs, including consumer promotions, direct marketing programs, and Internet marketing are described in Chapters 10, 11, and 12. The goal is to create a truly integrated promotions mix. When this occurs, the company's internal and external publics all speak with the same voice. Employees know what the organization is trying to achieve with the marketing program. The advertising agency can design messages that portray the company speaking with one clear voice. As a result, both individual customers and business buyers are keenly aware of the company's goods and services. This, in turn, bodes well for the future of the firm.

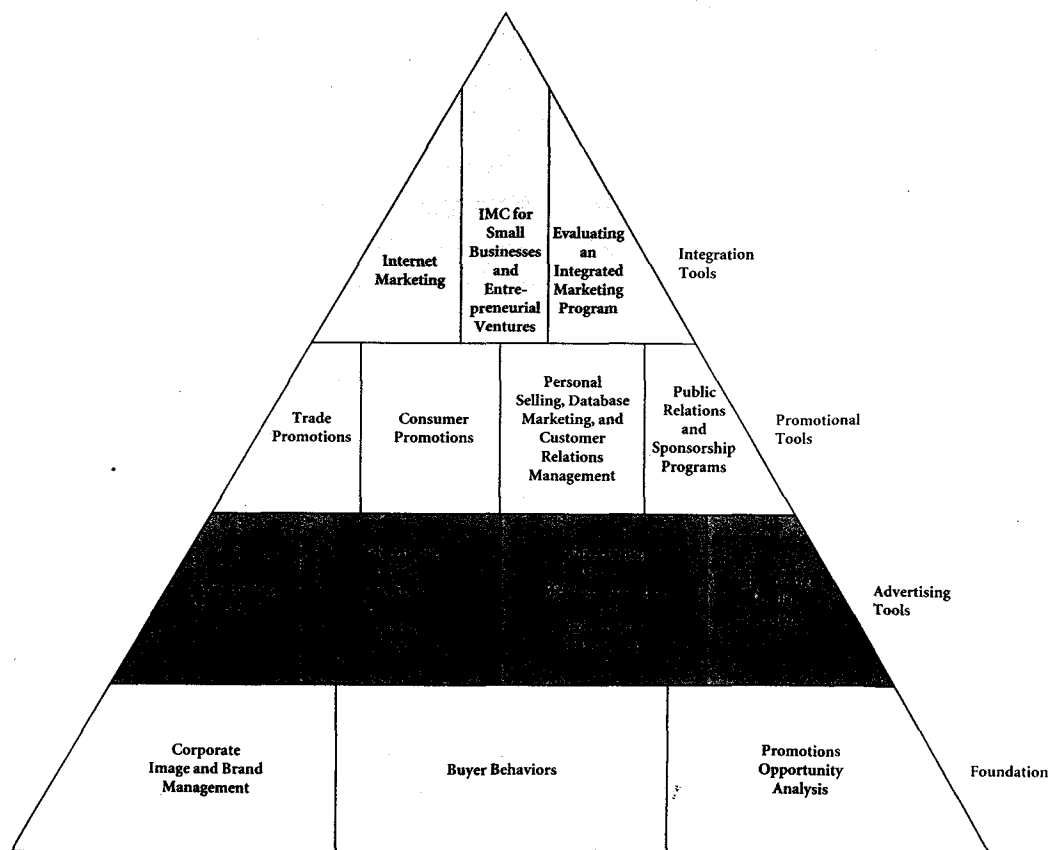


FIGURE 9.1
An IMC Plan

THE NATURE OF TRADE PROMOTIONS

More than 80 percent of all marketing dollars are spent on marketing activities other than consumer advertising. As shown in Figure 9.2, only 18 percent of a typical promotions budget is spent on consumer advertising. Fifty-four percent is spent on trade promotions. **Trade promotions** are the expenditures or incentives used by manufacturers and other members of the marketing channel to help push products through to retailers.

The best way to understand trade promotions is to note that they are incentives members of the trade channel use to entice another member to *purchase goods for eventual resale*. In other words, trade promotions are aimed at retailers, distributors, wholesalers, brokers, or agents. A manufacturer can use trade promotions to convince another member of the trade channel to carry its goods. Wholesalers, distributors, brokers, and agents use trade promotions to entice retailers to purchase products for eventual resale.

The difference between trade promotions and consumer or sales promotions is that the latter involves a sale to an *end user or customer*. When a manufacturer sells products to another business for end use, the enticements involved are business or sales promotions tools. On the other hand, when a manufacturer sells to another business for the purpose of having the goods resold, then trade promotions tools are being used.

The primary role played by trade promotions is building stronger relations with members of the market channel. When a retailer stocks the merchandise a manufacturer promotes, consumers have the opportunity to buy the product. The same is true for distributors, wholesalers, brokers, or agents. When these members of the channel decide to carry a product, they help push it on to retailers.

Trade promotions incentives account for a significant percentage of a supplier's or retailer's gross revenues. In 2004, manufacturers gave nearly \$16 billion in incentives aimed at moving items on to retailers.² The amount spent on trade promotions grew from 38 percent of total promotional expenditures in the 1980s to approximately 54 percent today.

Currently, many manufacturers devote more money to trade promotions than to any other promotional tool. Some company leaders would like to reduce these expenditures or cut them entirely. What they find, however, is that they can do neither. Resistance from retailers, directions from sales managers, and pressures from competitors that still offer trade promotions mean that any cutback in trade promotions is likely to have a negative impact on profits.

Consequently, trade promotions should be an integral part of an IMC program. Unfortunately, in some companies, the individual handling trade promotions is not involved in the IMC planning process. Leaders in these firms often view trade promotions as being merely a means for getting products onto retail shelves or satisfying some channel member's request. As a result, little consideration is given to the other components of the IMC program when trade promotions programs are developed.

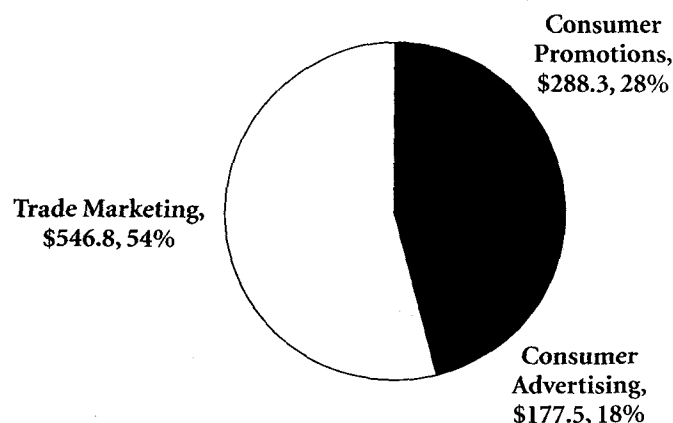


FIGURE 9.2
Breakdown of Marketing
Expenditures (in Billions of
Dollars)

Source: "Upward Bound Annual Report," *Promo 2004 Industry Trends Report*
(www.promomagazine.com, April 2004), pp. AR 3-5.

- ▶ Trade allowances
- ▶ Trade contests
- ▶ Trade incentives
- ▶ Training programs
- ▶ Vendor support programs
- ▶ Trade shows
- ▶ Specialty advertising
- ▶ Point-of-purchase advertising

FIGURE 9.3
Trade Promotions Tools

To solve this problem, the marketing executive must explain the benefits of a systematic approach to all parts of the marketing mix to company executives. Tie-ins between ad campaigns and trade promotions programs can help companies achieve more “bang” for their marketing bucks. The account executive also has a vested interest in bringing the trade promotions program in line with the other parts of the IMC plan, because the goal is to generate tangible sales and other measurable outcomes.

A variety of trade promotions tools exist. These items are used by manufacturers as well as other members of the trade channel. Figure 9.3 lists the most common trade promotions tools.

TYPES OF TRADE PROMOTIONS

Individual companies select trade promotions techniques based on several factors. These factors include the nature of the business (manufacturer versus distributor), the type of customer to be influenced (e.g., selling to a retailer versus selling to a wholesaler), company preferences, and the objectives of the IMC plan. Each type of trade promotion offers various benefits. A review of the major categories follows.

Trade Allowances

The first major type of trade promotion manufacturers and others use in the channel is a trade allowance. The purpose of **trade allowances** is to offer financial incentives to other channel members in order to motivate them to make purchases. Trade allowances can be packaged into a variety of forms, including the four described in Figure 9.4. Each one makes it possible for the channel member to offer discounts or other deals to customers.

Off-invoice allowances are financial discounts given for each item, case, or pallet ordered. They are designed to encourage channel members to place orders. Approximately 33 percent of all trade dollars are spent on off-invoice allowances. This makes them the largest single type of expenditure among trade promotions tools.³

Companies often use off-invoice allowances during holiday seasons. This encourages retailers to purchase large quantities of various items. Orders must be placed by a

- ▶ **Off-invoice allowance:** A per-case rebate paid to retailers for an order
- ▶ **Drop-ship allowance:** Money paid to retailers who bypass wholesalers or brokers for preplanned orders
- ▶ **Slotting fees:** Money paid to retailers to stock a new product
- ▶ **Exit fees:** Money paid to retailers to remove an item from their SKU inventory

FIGURE 9.4
Trade Allowances

specific date to receive a holiday off-invoice allowance. Manufacturers also can place a minimum order size as a further condition.

A second type of trade allowance is called a drop-ship allowance. A **drop-ship allowance** is money paid to a retailer who is willing to bypass wholesalers, brokers, agents, or distributors when making preplanned orders. Passing the middle members of the channel benefits both the manufacturer and retailer, because this can increase profit margins for both organizations. The retailer can pass along the savings to consumers by lowering prices instead of just keeping the discount.

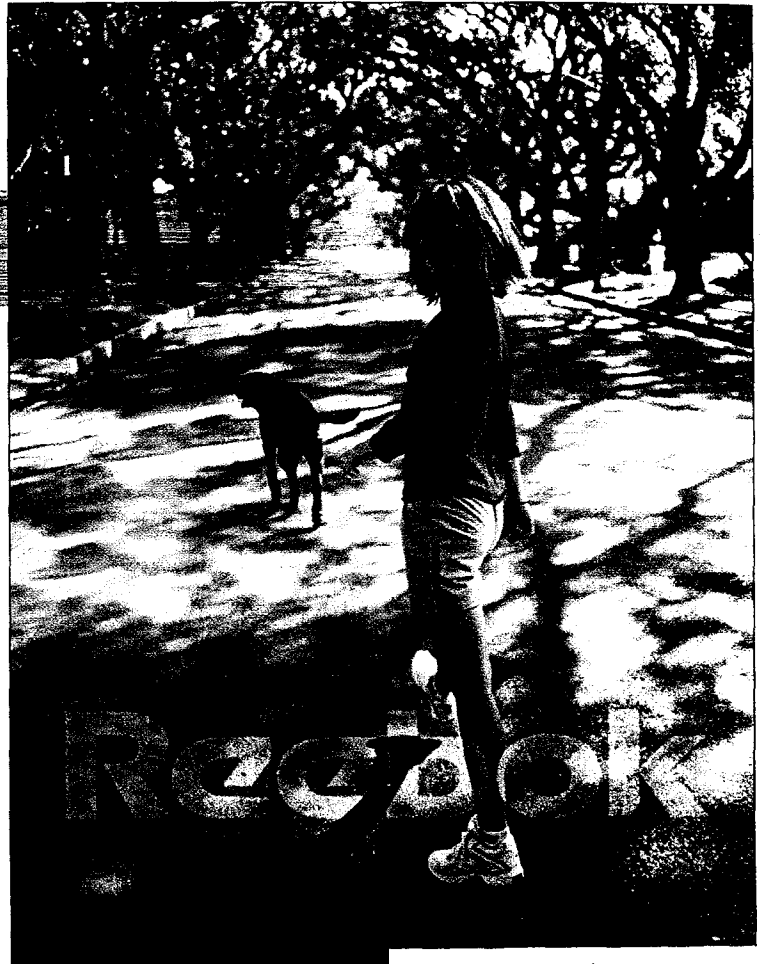
Drop-ship allowances have several advantages. Shipping merchandise directly to the retailer can create a stronger relationship with the manufacturer. The manufacturer does not have to rely on an intermediary agency to handle a transaction. Remember that when wholesalers represent several manufacturers, they either push every manufacturer equally or, more likely, push the brand that makes them the most money. A drop-ship allowance means that the manufacturer is not forced to try to make sure the intermediary company will push its brand.

The primary disadvantage of bypassing a wholesaler or distributor is that a wholesaler who handles other products for the manufacturer may retaliate by either dropping the manufacturer or not emphasizing its other products. Manufacturers must seek to avoid damaging relationships with wholesalers when using drop-ship allowances.

The most controversial form of trade allowance is a slotting fee. **Slotting fees** are funds charged by retailers to stock new products. Eighty-two percent of retailers charge slotting fees. These companies justify charging the fees in several ways.⁴ First, retailers spend money to add new products to inventories and to stock merchandise. A product that is not successful means the retailer's investment in inventory represents a loss, especially when the retailer has stocked the product in a large number of stores.

Second, adding a new product in the retail store means giving it shelf space. Most shelves are already filled with products. Adding a new product means either deleting a brand or product or reducing the amount of shelf space allocated to those products. In both cases the retailer spends both time and money on making space available for a new product.

Third, slotting fees make it easier for retailers to finalize decisions about new products. A typical supermarket carries 40,000 SKUs (stockkeeping units). The supermarket's managers must evaluate at least 10,000 new products per year. Seventy percent of new products fail. Consequently, retailers believe charging slotting fees force manufacturers to weed out poor product introductions. The average total cost in slotting fees for a nationally introduced product ranges from \$1.5 million to \$2 million.⁵ Consequently, retailers contend that slotting fees force manufacturers to conduct careful test marketing on products before introducing them. Such testing reduces the number of new products offered each year. This, in turn, drastically reduces the number of new product failures.



Trade allowances are an important component of Reebok's integrated marketing plan.

Source: Courtesy of Reebok.

New products, such as a new salad dressing (even from an existing line such as that offered by Ott's), are charged slotting fees.

Source: Used with permission of The Joplin Globe, Joplin, Missouri.

Get Carried Away...
with **Ott's**

Fourth, and finally, slotting fees add to the bottom line. Many products have low margins or markups. Slotting fees provide additional monies to support retail operations. It has been estimated that between 14 and 27 percent of trade promotion monies given to retailers go directly to the retailer's bottom line.⁶

The other side of the argument comes from manufacturers, who claim slotting fees are practically a form of extortion. Many manufacturers believe slotting fees are too costly and are unfair in the first place. These fees compel manufacturers to pay millions of dollars to retailers that could be used for advertising, sales promotions, or other marketing efforts.

Slotting fees can prevent small manufacturers from getting products onto store shelves simply because they cannot afford them. Some large retail operations have small vendor policies; however, getting merchandise on the shelves is still extremely challenging. For example, one small manufacturer experienced a drop in sales from \$500 per day to only \$50 per day when its shelf space was reduced. A large national manufacturer paid the store a large slotting fee, which took space away from the smaller firm.⁷

In addition to keeping small manufacturers out of the market, slotting fees favor incumbent suppliers. New entrants into the market face tremendous investment of up-front money already, and then must add on slotting fees. Unless company leaders are absolutely certain the new brand can compete, the firm may not enter a market simply because of slotting fees.

A fourth approach to granting a trade allowance is called an exit fee. **Exit fees** are monies paid to remove an item from a retailer's inventory. This approach is often used when a manufacturer introduces a new size of a product or a new version, such as a 3-liter bottle of Pepsi or Pepsi Diet Vanilla. PepsiCo already has products on the retailer's shelves. Adding a new-sized container or new variety of the product involves lower risk and is not the same as adding a new product. Rather than charging an up-front fee such as a slotting allowance, retailers ask for exit fees if the new version of the product fails or if one of the current versions must be removed from the inventory. Only 4 percent of retailers use exit fees, compared to the 82 percent that use slotting fees.⁸

Disadvantages of Trade Allowances

Although trade allowances are key incentives used to build relationships with retailers, there are some disadvantages. These include:

1. Failing to pass along allowances to retail customers
2. Forward buying
3. Diversion

First, in extending trade allowances to retailers, manufacturers assume that a portion of the price reduction will be passed on to consumers. This occurs only about 52 percent of the time. In 48 percent of the cases, retailers charge consumers the same price and pocket the allowance.⁹ When a portion of the price allowance is passed on to consumers, retailers often schedule competing brands, so they can have at least one special offer going at all times. It is not an accident that one week Pepsi offers a reduced price and the next Coke offers a discount. The two products are rarely promoted **on-deal** (passing along trade allowance discounts) at the same time. By offering only one on-deal at a time, the retailer always has a reduced price competitor for the price-sensitive consumer. The retailer also can charge the brand-loyal consumer full price 50 percent of the time. While accomplishing these goals, the retailer receives special trade allowances from both Pepsi and Coke.

Another problem trade allowances create is the practice of forward buying. **Forward buying** occurs when a retailer purchases extra amounts of a product while it is on-deal. The retailer then sells the on-deal merchandise after the deal period ends, saving the cost of purchasing the product at the manufacturer's full price. Forward buying provides two options to the retailer. First the retailer can choose to extend price savings to customers by selling the product cheaper than its competitors. The second option is to charge full price for the product. This increases the retailer's margin of profit on the product, because the company purchased the merchandise at a reduced price.

ETHICAL ISSUES

What Is Fair in Trade Promotions?

When creating trade promotions programs, the marketing professional encounters numerous ethical concerns. Slotting fees are a controversial form of trade allowance. These fees, which are paid to entice retailers to stock new products, may be viewed as a standard and acceptable business practice or as almost a form of extortion.

At the same time, forward buying and diverting are used by retailers to enhance their profit margins. Both practices defeat the purpose of trade allowances provided by manufacturers. In addition, most trade allowances given to retailers are never passed onto consumers. Instead, they are pocketed by the retailer. As long as the retailer holds the balance of power in the distribution channel, these types of questionable behavior will continue unless manufacturers band together. That type of action, however, is considered collusion and is illegal.

In the 1950s and 1960s, manufacturers controlled the distribution channel. They controlled what retailers sold, how they sold it, and what price they sold it for. Retailers who dared violate a manufacturer's policy were removed from the manufacturer's list of customers. For a large manufacturer, this could spell doom for the small retailer.

The intense competition in the distribution channel means some may view ethical behavior as being dictated by the need to earn a profit and for some, the need to survive. It may be that these fees are legal, however, debate still remains as to whether or not they are ethical.

The disadvantage of forward buying to retailers is the additional costs of holding inventory, which are known as the *carrying charges* associated with the merchandise. The decision to forward buy and the amount to forward buy depend on the potential additional profit that can be earned compared to the additional costs and carrying charges for inventory.

Another practice retailers engage in is diversion. **Diversion** occurs when a retailer purchases a product on-deal in one location and ships it to another location where it is off-deal. For example, a manufacturer may offer an off-invoice allowance of \$5 per case for the product in Texas. Diversion tactics mean the retailer purchases an excess quantity in Texas and has it shipped to stores in other states. To do so, retailers first examine the potential profits to be earned, less the cost of shipping the product to other locations. Shipping costs tend to be relatively high compared to trade allowances offered. Consequently, retailers do not use diversion nearly as much as forward buying.

Although these three disadvantages are important considerations, many manufacturers still conclude that they must grant trade allowances in order to succeed. As a result, they remain a major part of the retail distribution process.

Trade Contests

To achieve sales targets and other objectives, manufacturers sometimes use trade contests. Rewards are given as contest prizes to brokers, retail salespeople, retail stores, wholesalers, or agents. These funds are also known as **spiff money**. The prizes offered in a trade contest can be items such as luggage, a stereo, a television, or a trip to an exotic place such as Hawaii. Contests can be held at various levels, such as:

1. Agents versus agents
2. Wholesalers versus wholesalers
3. Retail stores within a chain versus one another
4. Retail store chains versus other retail chains
5. Individual salespersons within retail stores versus one another

In other words, the contest can be between brokers or agents who handle the manufacturer's goods. It can be for wholesalers, or it can be a sales volume contest among



Trade promotions can be used to increase cruise ship bookings.

individual retail stores. Although contests can be designed between retail organizations (e.g., Target versus Wal-Mart), they are seldom used because of conflict of interest policies in many large organizations. Buyers in large organizations are often prohibited from participating in vendor contests because they create conflicts of interest and unfairly influence their buying decisions. Although this is exactly what a contest is designed to accomplish, many large retail organizations do not want buyers participating, because these buyers make purchase decisions for as many as 500 to 2,500 stores. This places undue pressure on the buyer.

Demand for cruise ship vacations has steadily increased in the past few years. There is intense competition among the cruise lines. Cruise ship companies use a combination of advertising, consumer promotions, and trade promotions to attract patrons. For example, Royal Caribbean International offered travel agents cooperative advertising programs featuring TV commercials, newspaper ads, as well as an e-mail template to contact potential travelers. Norwegian Cruise Lines enrolled 5,500 agents in a "Sale of All Sails" promotional contest. Prizes were based on bookings. Each agent that set up a Holland America cruise was enrolled in the trade contest. The prizes offered included a free cruise with five veranda staterooms.

The Princess Cruise line offered booking agents the chance to win a West Coast sailing cruise with a minisuite.

One cruise was awarded each day during a 90-day period. This combination of advertising, consumer promotions, and trade promotions led to a year in which advanced bookings for summer cruises reached an all-time high. It is not surprising that offering travel agents the chance to win prizes and cruises for themselves causes them to be highly motivated to book cruises for the lines holding the contests.¹⁰

When conducting a contest at the individual store level, most channel members agree that these contests work best when restricted to a specific region. Many times, they are also limited to exclusive dealerships, such as auto, truck, or boat dealers that sell a particular brand. For example B.F. Goodrich may run a contest among its retail operations within a specific region for highest sales within a given time period.

The final type of trade contest is among salespeople in various retail outlets. The goal of this type of trade contest is to encourage salespeople to push the manufacturer's brand instead of competing brands. These types of contests are quite popular among salespeople and are common in many industries such as those producing durable goods (refrigerators, boats, dishwashers, etc.).

Trade Incentives

Trade incentives are similar to trade allowances. The difference is that **trade incentives** involve the retailer performing a function in order to receive the allowance. Figure 9.5 lists various trade incentives with definitions. The goals of trade incentives vary. The primary purpose for most plans is to encourage retailers either to push the manufacturer's brand or to increase retailer purchases of that brand.

The most comprehensive trade incentive is a **cooperative merchandising agreement (CMA)**, which is a formal agreement between the retailer and manufacturer to undertake a two-way marketing effort. The CMA can be for a wide variety of marketing tasks.

For instance, a CMA can feature the manufacturer's brand as a price leader in an advertisement. A cooperative agreement can be made to emphasize the manufacturer's

- ▶ **Cooperative merchandising agreement (CMA):** An annual incentive contract to pay retailers for advertisements, special displays, or price features for the manufacturer's brand over a period of time
- ▶ **Corporate sales program (CSP):** A promotion across a manufacturer's total brand portfolio with products usually shipped directly from the factory in ready-to-display pallets
- ▶ **Producing plant allowance (PPA):** An incentive to a retailer to purchase full or half truckloads directly from the factory
- ▶ **Back haul allowance (BHA):** Monies paid to retailers that send their own trucks to the manufacturer to pick up merchandise
- ▶ **Cross-dock or pedal run allowance:** Monies paid to retailers for placing full truck orders for multiple stores that can be distributed by a single truck from the manufacturer
- ▶ **Premium or bonus pack:** Free cases of merchandise for placing an order within a specified time period or for ordering a specific quantity

FIGURE 9.5
Trade Incentives

brand as part of an in-house offer made by the retail store or a by using a special shelf display featuring a price incentive. The advantage of creating a CMA agreement that features a price break is that the manufacturer is assured that the retailer will pass along the price allowance to the customer.

Another form of CMA is a special in-store display that the retailer agrees to use on certain dates or for a specific time period. For example, when Coors beer features a display featuring supermodel Heidi Klum at Halloween, a special cooperative merchandising agreement may be reached with individual liquor stores to get them to set up the displays.

CMAs are popular with manufacturers because the retailer performs a function in order to receive the allowance or incentive. The manufacturer retains control of the functions performed. Also, if price allowances are made as part of the CMA, the manufacturer knows that the retailer passes a certain percentage of the price discount on to the consumer. CMAs allow manufacturers to create annual contracts with retailers. These longer-term commitments reduce the need for last-minute trade incentives or trade allowances.

Possibly the most important benefit of a CMA from the manufacturer's perspective is that it can be used to create trade incentives that support the specific marketing objectives that are part of an IMC program. Cooperative merchandising agreements allow the manufacturer to plan the long-term, trade promotional component of the marketing communications program rather than relying heavily on trade promotions to accomplish short-term, last-minute goals.

CMAs also benefit retailers. The primary benefit of a CMA from the retailer's perspective is that it allows them to develop calendar promotions. **Calendar promotions** are promotional campaigns the retailer plans for customers through manufacturer trade incentives. By signing a CMA, a retailer can schedule the weeks a particular brand will be on sale and offset the other weeks with other brands. By using calendar promotions, the retailer will always have one brand on sale while the others are off-deal. Calendar promotions allow the retailer to rotate the brands on sale. This arrangement is attractive for price-sensitive customers, because one brand is always on sale. For the brand-loyal consumer, the retailer carries the preferred brand at the regular price sometimes and on sale at others. By arranging sales through trade incentives, the margins for the retailer are approximately the same for all brands, both on-deal and off-deal, because they rotate. Retailers can effectively move price reductions given to the customer to the manufacturer rather than absorbing it themselves. A store may feature Budweiser on-deal one week and Heineken the next. Loyal beer drinkers stay with their preferred brand, while price-sensitive consumers can choose the on-deal brand, and the liquor store retains a reasonable markup on all beers sold.

Although CMAs benefit retailers, it is easy to see that given a choice, a retailer would choose trade allowances, especially if the same type of discount or financial

incentive exists. With the trade allowance, the retailer does not have to do anything or perform any marketing function, as they would for the CMA or another form of trade incentive. Although manufacturers would prefer CMAs and trade incentives and push for some type of trade incentives, it is much more difficult to achieve than offering trade allowances.

A **corporate sales program (CSP)** is another form of trade incentive. CSPs are offered primarily by highly specialized manufacturers. The CSP is a promotion across a manufacturer's total brand portfolio. The manufacturer ships individual products to the retailer in ready-to-display pallets. The retailer does not have to prepare the merchandise for display, because it is already on a pallet. These display pallets work well for warehouse stores or retailers such as automobile parts stores in which decor is not a critical issue. By offering the incentive on all of the manufacturer's brands, the manufacturer encourages the retailer to carry all of its products and not just some of them.

When a manufacturer offers a retailer an incentive called a **producing plant allowance (PPA)**, the retailer purchases a full or half truckload of merchandise in order to receive a major discount. The high cost of shipping means manufacturers always look for ways to reduce these costs. Making stops at a dozen retail stores costs more than stopping at only one or two. Smaller manufacturers or highly specialized manufacturers that typically sell through a distributor or some other type of an intermediary company can use PPAs. For these manufacturers, in addition to saving money on transportation, the retailer and manufacturer can save money that would normally have gone to the distributor. The only time a large manufacturer such as Procter & Gamble uses PPAs is for small retailers that typically purchase small quantities. Grocery stores, furniture outlets, and sporting goods stores may hold "truckload clearance" events occasionally to raise sales volume and increase interest in the retail outlet.

Another form of trade incentive is called a **back haul allowance (BHA)**. A BHA is granted when the retailer pays the cost of shipping for a truckload of goods with a highly discounted price. The primary difference between a PPA and a BHA is that the retailer, instead of the manufacturer, furnishes delivery trucks or pays the shipping costs. With the back haul allowance, the retailer gets a much greater incentive allowance but also absorbs the cost of shipping.

For small retailers with multiple stores, a **cross-dock or pedal run allowance** can be obtained. These allowances are paid to retailers for placing a full truck order, which is then divided among several stores within the same geographic region. For example, if a small grocery chain has eight stores within a 50-mile radius, the company can order a full truckload of merchandise from a manufacturer and divide the groceries among the stores. One of the keys to the cross-dock allowance is that each store accepts a full pallet. No pallets have to be broken, making it faster to load and unload goods.

The final type of trade incentive is a **premium or bonus pack**. Instead of offering the retailer a discount on the price, the manufacturer offers free merchandise. A manufacturer can offer a bonus pack of one carton for each 20 purchased within the next 60 days. The bonus packs are free to the retailer and are awarded either for placing the order by a certain date or for agreeing to a minimum-size order. Often, to receive the free merchandise the retailer must meet both conditions: a specified date, and a minimum order size.

Trade incentives are often tied in with consumer sales promotions. For example, to generate interest in the Chrome VISA card developed by Harley-Davidson motorcycles, Harley-Davidson launched the Harley Dream Sweepstakes for consumers and a trade incentive program for retailers. At the consumer level, a new Big Twin motorcycle was awarded each week for 52 weeks. Chrome VISA cardholders received one entry into the sweepstake for each dollar spent, and Harley-Davidson raised the amount to two entries per dollar spent in participating Harley retail stores. To encourage Harley retailers to push the Chrome VISA credit card and place the display on their counters, Harley-Davidson created a trade incentive. For each customer who filled out the Chrome VISA card application and was subsequently approved, the retailer received a \$20 credit toward Harley-Davidson merchandise for the store.¹¹

Training Programs

Another type of trade promotions program involves providing training. Manufacturers often offer training programs to the members of the sales staff at a retailer location or to wholesalers. Manufacturers are willing to train these salespeople, because they will learn more about the manufacturer's brand. This improves the chances that the retail or wholesale salesperson will push the manufacturer's brand instead of a competitor's product. Having more knowledge about one brand than about other brands biases salespeople toward that brand.

To compete in the highly competitive software market, Microsoft launched a training program aimed at value-added resellers. The 3-day training program, called "Helping Clients Succeed," was designed to help resellers better understand Microsoft software. Traditionally, Microsoft's field representatives concentrated on technology. Resellers tended to focus on providing solutions to customer problems. The primary goal of the training program was to encourage resellers to utilize Microsoft's factory representatives in consultative selling.¹²

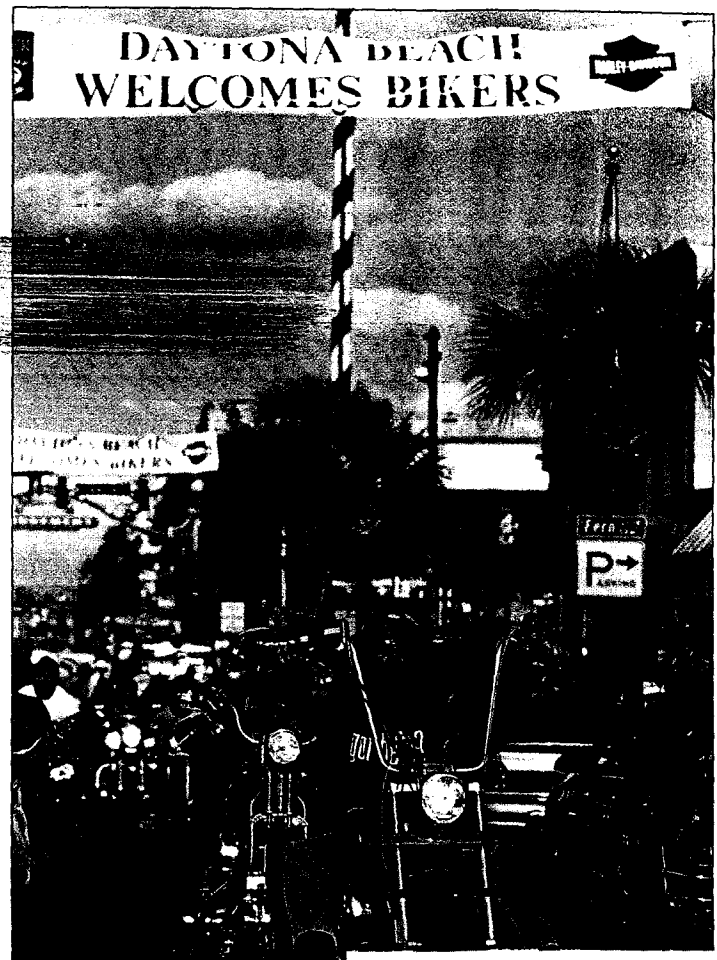
Vendor Support Programs

Vendor support programs are trade promotions manufacturers offer to support a retailer, wholesaler, or agent's programs. Naturally, vendor support programs are designed to support the vendor's activities that most favor the manufacturer. The two most frequently used vendor support programs are billbacks and co-op advertising.

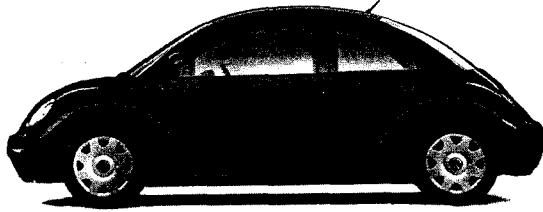
In a **billback** program, the manufacturer pays the retailer for special product displays, advertisements, or price cuts. The retailer or wholesaler initially pays for the display, advertisement, or price cut. Then the retailer or wholesaler bills the manufacturer for the activity, thus the term *billback*. The primary advantage of the billback to the manufacturer is that the retailer is willing to perform a function on behalf of the manufacturer in order to receive the trade incentive. The second advantage is that the retailer or wholesaler pays full price for the merchandise sold and bills the manufacturer only for the support program.

The more common vendor support program is co-op advertising. In a **cooperative advertising program**, the manufacturer agrees to reimburse the retailer a certain percentage of the advertising costs associated with advertising the manufacturer's products in the retailer's ad. To receive the reimbursement, the retailer follows specific guidelines concerning the placement of the ad and its content. In almost all cases, no competing products can be advertised. Normally the manufacturer's product must be displayed prominently. There may be other restrictions on how the product is advertised as well as specific photos or copy that must be used.

In most cooperative advertising programs, retailers accrue co-op monies based on purchases. This is normally a certain percentage of sales. For example, B.F. Goodrich, a manufacturer of automobile tires, offers a 4.5 percent co-op advertising fund on all purchases. This money can be accrued for a year, and then it starts over again. B.F. Goodrich pays 70 percent of the cost of an approved advertisement. Any of the media can be used for the advertisement, including radio, newspaper, magazines, television, and outdoor advertising. This unlimited media choice does not hold true for all manufacturers. For example, Dayton, another tire manufacturer, does not allow magazine advertising to be used for co-op dollars. B.F. Goodrich allows group ads for co-op monies; Dayton does not. Further, Dayton requires preapproval for some of the media



Harley-Davidson launched the Harley Dream Sweepstakes using both trade and consumer promotions.



Volkswagain.

Remember everything you heard about the new Volkswagen Beetle in the '50's?

This time it's even better. See for yourself at Southern States Volkswagen. 2421 Wake Forest Road. (919)828-0901.

Remember everything you heard about the new Volkswagen Beetle in the '60's?

This time it's even better. See for yourself at Southern States Volkswagen. 2421 Wake Forest Road. (919)828-0901.

Remember everything you heard about the new Volkswagen Beetle in the '70's?

This time it's even better. See for yourself at Southern States Volkswagen. 2421 Wake Forest Road. (919)828-0901.



Cooperative advertising programs are used heavily by automobile manufacturers such as Volkswagen.

Source: Courtesy of West & Vaughan, Inc.

buys and advertisements; B. F. Goodrich does not require any preapprovals. Thus, each manufacturer has a unique set of restrictions that must be followed by retailers seeking to qualify for co-op monies.¹³

Each year manufacturers offer an estimated \$24 billion in co-op money to retailers, of which only about two-thirds is claimed.¹⁴ Why does almost \$8 billion go unclaimed? Some of the more common reasons include:

1. The manufacturer rejects co-op claims because of errors in filing.
2. Purchase accruals are tracked inaccurately.
3. Retailers are unaware of a co-op program.
4. Restrictions placed by the manufacturer are not followed correctly.¹⁵

Although errors do occur in the filing of claims, the more common reasons for not collecting are that purchase accrual records were not kept accurately or that retailers simply were not aware that a cooperative program was in place. Figure 9.6 provides examples of common co-op types of situations.

Many cooperative advertising programs allow accrual of co-op monies for a year; however, some manufacturers restrict the times when co-op dollars can be spent. For example, a firm that produces snowblowers probably would provide co-op dollars only during the fall and winter. People rarely buy snowblowers during the rest of the year so funds spent on co-op advertising would not be spent wisely.

Keeping track of co-op dollars is difficult. One firm, Archer-Malmö Advertising, uses the Internet to track co-op dollars for companies such as Samsung Electronics, Pennzoil Corporation, General Electric, and RCA. Each firm reports co-op expenditures online. Retailers can then access these statements and view how much money is available in co-op funds along with the deadline by which the remainder must be spent. To make the program more user friendly, the firm now makes it possible for retailers to submit claims online. Retailers can also download manufacturer's graphics and logos for various ads. This use of the Internet is likely to increase in the future. The Internet simplifies the co-op process for both the retailer and the manufacturer.¹⁶

Co-op advertising is widely used in the automobile industry. Mazda's program is set up so that the parent company contributes 2.5 percent of each vehicle's invoice for co-op

- ▶ Best Buy and Hewlett-Packard
- ▶ Goody's and Dockers
- ▶ Ace Hardware and Tru-Test Products
- ▶ Intel and IBM
- ▶ Motorola and Skytel
- ▶ JCPenney and Reebok
- ▶ Sprint and Radio Shack
- ▶ Radisson Hotels and TGI Fridays

FIGURE 9.6
Cooperative Advertising

advertising while the dealer contributes 1 percent. In 2004, this meant that \$161 million in co-op advertising dollars were made available to dealers. When the local Mazda dealer uses the company's national advertising agency, Doner, the corporate level of Mazda pays for all of the ad's production costs. This allows the local dealer to have more money to spend on media buys and gives the dealer a better quality ad. The dealer must, however, submit all ads regardless of the agency that produced it to Mazda for approval.¹⁷

Co-op advertising programs allow retailers to use the manufacturer's dollars to expand advertising programs. In a co-op ad, the retailer gains additional advertising coverage at minimal cost. Retailers also benefit from the image of a national brand, which can attract new or additional customers to the store. From the retailer's perspective, there is little to lose in co-op programs. The only negative side is that the retailer is reimbursed following the placement of the ad, which could lead to a cash flow problem for a smaller company.

Manufacturers also benefit from co-op ads. By sharing advertising costs with retailers, the manufacturer gains additional exposure at a reduced cost. More importantly, almost all co-op advertising programs are tied to sales. The retailer accrues co-op advertising dollars based on a certain percentage of sales. Thus, to get the co-op money, the retailer must not only promote the brand prominently but also purchase the product for resale. As a result, it is not surprising to see the wide variety of cooperative advertisements appearing regularly in every medium, for both consumer and business-to-business products.

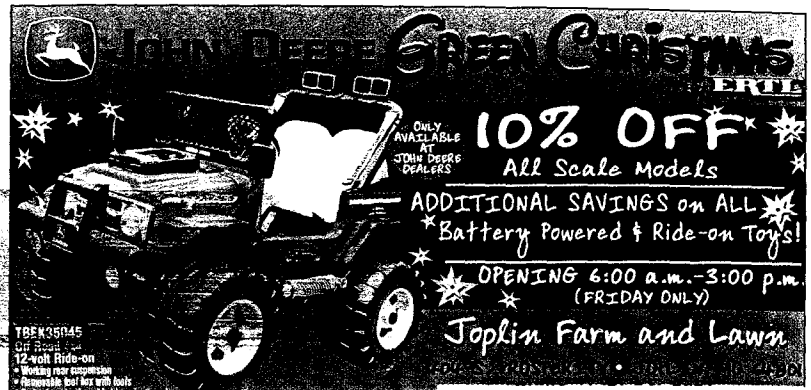
Trade Shows

Trade shows normally are the third highest expenditure for business-to-business marketing programs. Only advertising and sales promotions typically receive greater amounts of funding. Participants spend over \$12 billion on trade shows each year. Manufacturers will pay between \$70,000 and \$100,000 for a display at a major show. This includes funds for airline tickets, hotels, entertainment costs, booth fees, and equipment. Retailers pay about \$600 per person for those who attend trade shows.¹⁸

From a manufacturer's standpoint, a trade show offers the opportunity to discover potential customers and sell new products. Also, relationships with current customers can be strengthened at a show. A trade show often provides the chance to find out what the competition is doing. Many times, trade shows present a situation in which the manufacturer's sales team can meet directly with decision makers and buyers from business-to-business clients. A trade show can be used to strengthen the brand name of a product as well as the company's image.

From the retailer's perspective, a trade show allows buyers to compare merchandise and to make contacts with several prospective vendors in a short period of time. In some cases the retailer can negotiate special deals. Trade shows are an ideal place for buyers and sellers to meet in an informal, low-pressure setting to discuss how to work together effectively.

Some national and international trade shows are attended by thousands of buyers. To be sure the trade show will be successful, manufacturers seek out key buyers and try to avoid spending too



A co-op ad by Joplin Farm and Lawn featuring the John Deere brand.

Source: Used with permission of The Joplin Globe, Joplin, Missouri.

Over \$12 billion is spent on trade shows each year.



- ▶ **Education seekers:** Buyers who want to browse, look, and learn but are not in the buying mode
- ▶ **Reinforcement seekers:** Buyers who want reassurance they made the right decision in past purchases
- ▶ **Solution seekers:** Buyers seeking solutions to specific problems and are in the buying mode
- ▶ **Buying teams:** A team of buyers seeking vendors for their business; usually are in the buying mode
- ▶ **Power buyers:** Members of upper management or key purchasing agents with the authority to buy

FIGURE 9.7
Five Categories of Buyers
Attending Trade Shows

much time with nonbuyers. Narrowing down the large number of contacts to those most promising is called *prospecting*. Figure 9.7 identifies five categories of buyers who attend trade shows. It is important to weed out the education seekers who are not interested in buying. Manufacturers concentrate efforts on three groups: solution seekers, buying teams, and power buyers. Asking the right questions identifies solution seekers and buying teams. The power buyers are more difficult to find because they don't want to be identified. They often do not wear badges at trade shows, which means vendors are not sure who they are. The Communication Action box in this section provides more information about how to make the most of a trade show.

A trade show is an excellent place to locate perspective buyers.

Source: Courtesy of American Business Media.

THIS COMPANY PRESIDENT SPENDS MORE TIME
ATTENDING B-TO-B TRADE SHOWS
THAN HE DOES
CALLING HIS POOR SICK MOTHER



Terrible son. Terrible opportunity. Wide-eyed to new products and services, busy decision makers attend an average of 3 trade shows a year*. Which makes trade shows a great place to be seen. And advertisers who integrate their b-to-b media generate even more sales—565 more**. Let American Business Media show you how the power of b-to-b media can work for you. For a free copy of the new Yankelevich/Harris research report about the impact of b-to-b advertising, please call Debbie Humphreys at (212) 661-6340 or visit www.americanbusinessmedia.com. Then, call your mother.

Business-to-Business Media. The place to reach decision makers.

**AMERICAN
BUSINESS MEDIA**
The Subdivision of Business Media Company

In the United States, few deals are finalized during trade shows. Buyers and sellers meet, discuss, and maybe even negotiate, but seldom are buys completed. Instead, manufacturers collect business cards as leads to be followed up later; however, the procedure varies for international customers.

Several differences exist when international companies attend trade shows.¹⁹ The first major difference is that international attendees tend to be senior executives with the authority to make purchases. They fit into the power buyer category listed in Figure 9.7. American manufacturers must understand that the international attendee often wishes to conduct business during the trade show, not afterward. The second contrast is that international attendees spend more time at each manufacturer's booth. They stay longer in order to gather and study information in greater detail. The international guest, who pays more for travel expenses, wants more in-depth information than an American counterpart usually needs. The number of international trade show visitors has increased dramatically in the past decade. The increase in international participants has caused trade show centers to set up more meeting spaces, conference centers, and even places to eat where buyers and sellers can meet.²⁰

Trade shows have changed in other ways. Large national and international shows are being replaced by niche shows and regional shows. For example, in the 1990s, many megasports trade shows were attended by everybody in the sporting goods business. The National Sporting Goods

COMMUNICATION ACTION

Making the Most of a Trade Show

Trade shows require a substantial investment of time, money, and personnel. To make sure these funds are spent wisely, a company should consider the following recommendations.

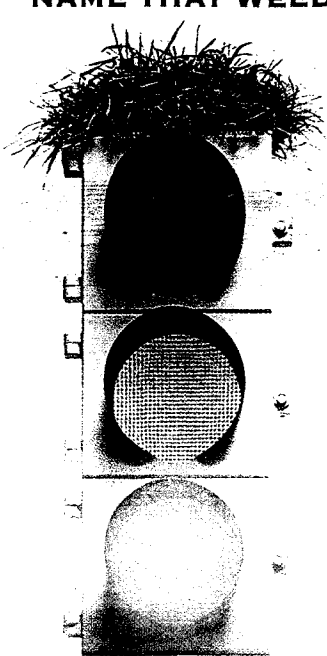
1. *Ask the right questions.* Among other things, this means asking open-ended questions to help you find out if the buyer is serious or browsing. Avoid pat questions such as "May I help you?" That question usually draws a response of "No, just looking."
2. *Spend time with the right attendees.* The MAN profile works best, whereby money, authority, and need (in the budget) direct the booth worker to viable prospects. Know the difference between a person who is an actual prospect and someone who is just a "name" on a business card. Instead of spending too much time "pitching" the product, invest your energy in finding out what customers are looking for and what they need.
3. *Be a careful listener.* Keep notes. Most sales do not take place at the actual show, but rather months later. Identify the customer's needs and special circumstances to effectively close the deal in a later follow-up contact.
4. *Use customer service personnel at a booth rather than salespeople.* Salespeople are used to making sales and will want to sell merchandise, not listen to attendees. Customer service personnel are used to meeting strangers, asking questions, and listening. They also tend to see staying at a hotel and attending a trade show as a perk.
5. *Do not bombard potential clients with literature.* They will probably throw it away anyway. Instead, give a small fact sheet, and send major mailings to their offices later, where they are much more likely to actually review the materials you send, especially if they contain a well-written cover letter.
6. *Avoid overcrowding a booth with materials.* In one small appliance trade show, a company displaying only seven products sold more merchandise than the company in the next booth, which offered more than 50 items. Keep it simple, so the potential customer can handle the goods and become more interested as a result.
7. *Pay attention to matters such as "booth etiquette" and body language.* Do not stand with your arms folded, and do not eat, drink, or make phone calls while on duty. Keep the booth area clean and not crowded with briefcases and empty coffee cups. Dress appropriately for the show.
8. *Follow up leads when the trade show ends.* Tragically, only about 30 percent of the leads generated at trade shows are contacted. Not only are sales dollars lost, but it also leaves a bad impression of the company.

Effective booth management also should tie in with the firm's image and IMC program. The goal is to build sales and long-term relationships as various companies spend the time and energy needed to attend trade shows.

Sources: Ruth Prickett, "The Key to the Show," *Marketing Week* 25, no. 37 (September 12, 2002), pp. 49-51; Dale English, "On Displays," *Business First, Western New York* 16, no. 9 (November 29, 1999), p. 31.

Association World Sports Expo in Chicago attracted in excess of 90,000 attendees during the mid-1900s. The number has dwindled to fewer than 40,000 today. Now manufacturers and retailers attend specialty trade shows that focus on only one sport or regional shows that focus on one section of the country. Smaller shows are cheaper to set up. Many company leaders believe they provide higher-quality prospects, better opportunities to bond with customers, and provide more quality one-to-one time with customers and potential customers. In contrast, it is relatively easy to get lost in the crowd at a bigger show.²¹

NAME THAT WEED



**Signalgrass is just one of many weeds that Pennant® prevents.
So now you can choke out your worst weeds without beating up on
ornamentals and warm-season turf.**

P E N N A N T

©1992 CIBA-GEIGY Corporation. Always read and follow label directions.

Many pesticides are featured in agricultural trade shows

Source: Courtesy of Howard, Merrill & Partners; Syngenta International AG; Buck Holzemer Productions.

The decision on whether to attend a general national show or a specialty show depends on the objective to be accomplished. When the goal is to enhance the firm's brand or corporate name, generally large national shows are the best. When the goal is to expand a market base beyond regional or current customers, a national show works well. On the other hand, specialty or regional shows are better in three situations, most notably when the goal is to:

1. Create a client base quickly
2. Establish a new brand
3. Promote a new product

Manufacturers should look beyond the number of attendees when choosing trade shows. Large trade shows may have a greater number of attendees, but if the attendees do not fit the profile of a manufacturer's customers the show will not be as useful. One easy method of finding out if the attendees match a manufacturer's customer profile is to talk to customers and competitors to discover which trade shows they attend. Before spending thousands of dollars on a show, a manufacturer should find out who attends and how well the show fits with the firm's goals and target market. Trade shows should match with the objectives of the overall IMC program as well as the other marketing tools that are being used.

Specialty Advertising

Specialty advertising, also known as *giveaways*, is an additional feature that can be integrated into an IMC

program to make an impression on customers. Specialty gifts such as pens, coffee mugs, calendars, key chains, and others will have the firm's name imprinted on them. The items may include messages, logos, or a tagline that is tied in with the overall IMC theme.

A promotional gift provides the customer with a constant reminder of the company. No other IMC tool remains with a customer for such a potentially long period of time. A coffee mug with the firm's name and logo might be used every day. A shirt imprinted with the company's logo will be seen by dozens of people. Figure 9.8 displays the top five types of gifts given to customers.

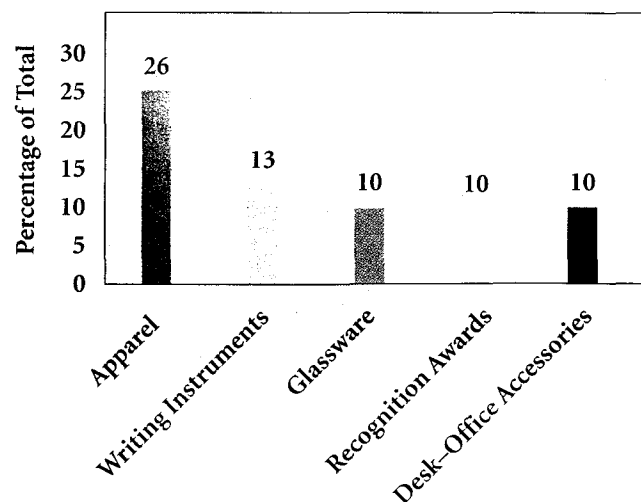


FIGURE 9.8
Top Categories in Specialties Advertising

Specialty advertising gifts are often distributed by people working at trade shows. Some are sent as part of a direct-mail campaign. Companies spend almost \$12 billion annually on these promotional items.²² The concept behind specialty gifts is **reciprocation**. Whenever someone receives a gift, the tendency is to want to return the gift or favor. In business, this psychological advantage can be used in a number of ways. At a trade show, promotional gifts create a positive impression of the business. Care must be taken, however, to make sure the gift conveys the intended message. If, for example, one vendor hands out plastic mugs to trade show attendees and the next vendor gives porcelain mugs, attendees develop different impressions of the two vendors. The tendency would be to view the business giving the plastic cup more negatively or less positively. This means the gift actually worked against the company that gave it.

One of the best strategies in selecting advertising specialties is to make sure the item is unique and conveys the company's message. For example, one company mailed to business prospects a small horn similar to one you might keep on a boat to coincide with their direct-mail theme of "We're making some Big Noise in the valve market." Customers had a great time calling up the company's reps and blasting them through the phone with the horns. An oilfield company gave away a diver's watch as part of its promotion of its subsea control system that could operate at the bottom of the ocean without human intervention for up to 20 years.²³

Specialty gifts can help reinforce buying decisions because they can make a customer feel that he or she made a good choice. Gifts can strengthen business relationships and also help stimulate interest from a new potential prospect. In general, specialty gifts can be an important means of strengthening communications with all types of customers.

Point-of-Purchase Advertising

Point-of-purchase (POP) advertising is any form of special display that advertises merchandise. POP displays are often located near cash registers in retail stores, at the end of an aisle, in a store's entryway, or other places where they will be noticed. Point-of-purchase advertising includes displays, signs, structures, and devices used to identify, advertise, or merchandise an outlet, service, or product. POP displays should serve as an important aid to retail selling.

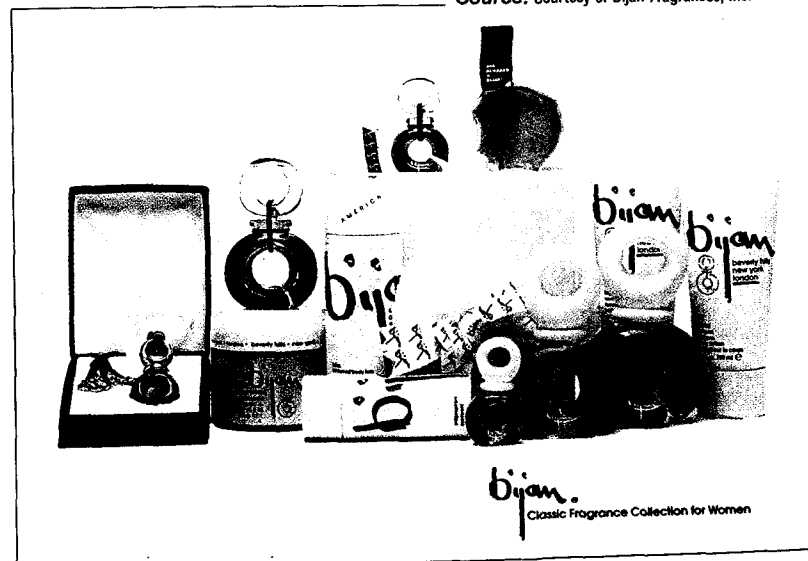
The store shelf and point-of-purchase display represent the last chance for the manufacturer to reach the consumer. They can be used to make an impression just before a purchase is made or to leave an impression when the buyer exits the store. More than 55 percent of mass merchandisers and 60 percent of supermarket shoppers remember seeing a point-of-purchase display immediately following a trip to a retail outlet.²⁴

POP displays are highly effective tools for increasing sales. About 50 percent of the money spent at mass merchandisers and supermarkets is unplanned. Many of these purchases are *impulse buys*. When consumers make purchases, they often do not decide on the particular brand until the last minute. For food purchases, 88 percent of the decisions about brands are made in the store at the time of the purchase. For all products, 70 percent of brand choices are made in the store. In many instances, point-of-purchase materials influenced the decision.²⁵

Coca-Cola reports that only 50 percent of soft-drink sales are made from the regular store shelf. The other 50 percent result from product displays in other parts of the store. American Express found that 30 percent of purchases charged on the American Express card came from impulse decisions by customers seeing the "American Express Cards Welcome" sign. Other research indicates that an average increase in sales of 9.2 percent

POP displays are very helpful when selling products such as cosmetics, perfume, or cologne.

Source: Courtesy of Bijan Fragrances, Inc.



occurs when a POP display is used. Only about half of POP displays create an impact on sales. For the half that does make an impact, however, the average increase in purchases is 20.8 percent. Consequently, POP advertising is very attractive to manufacturers.²⁶

Currently, manufacturers spend more than \$17 billion each year on point-of-purchase advertising materials. The largest users of POP advertising are restaurants, food services, apparel stores, and footwear retailers. The fastest-growing categories are fresh, frozen, or refrigerated foods, and professional services.²⁷

Manufacturers view POP displays as an attractive method of getting a brand more prominently displayed before customers. Many retailers have a different perspective. Retailers believe POP materials should either boost sales for the store or draw customers into the store. Retailers are not interested in the sales of one particular brand, but instead want to improve overall sales and store profits. Retailers prefer displays that educate consumers and provide information. As a result, retailers are most inclined to set up POP displays to match the retailer's marketing objectives. Several factors cause retailers to leave POP materials unused. Some of these problems are shown in Figure 9.9.

The most common reason retailers do not use displays furnished by manufacturers is that they are inappropriate for the channel. In other words, a display that works well in a discount store may not be appropriate for a supermarket or a specialty store. Various retailers and channel members have different needs in terms of what they want in a POP display design. Manufacturers should consult with each type of channel member to ensure the display meets these needs.

The size of a display is important to retailers. Store space is limited. Customers do not respond well when freestanding displays at the ends of aisles block traffic through the store. Consequently, individual retailers normally will use POP displays that fit only the space that is allocated. Retailers prefer easy-to-assemble, easy-to-stock, and adaptable displays. A manufacturer's marketing team should remember that if a retailer does not like a display, it won't be used, no matter how great it looks.

Retailers want displays to be durable. Corrugated cardboard (which is often used) tends to wear out and tear. Poorly built displays are often thrown away. Retailers do not have time to repair displays. They also take down worn, shabby-looking exhibits. Retailers give preference to manufacturers offering customized displays for individual stores.

To be effective, POP displays must clearly communicate the product's attributes. Pricing and other promotional information is also helpful. The display should encourage the customer to stop and look, pick up the product, and examine it. A customer who stops to examine a product on display is more likely to buy that product. The best

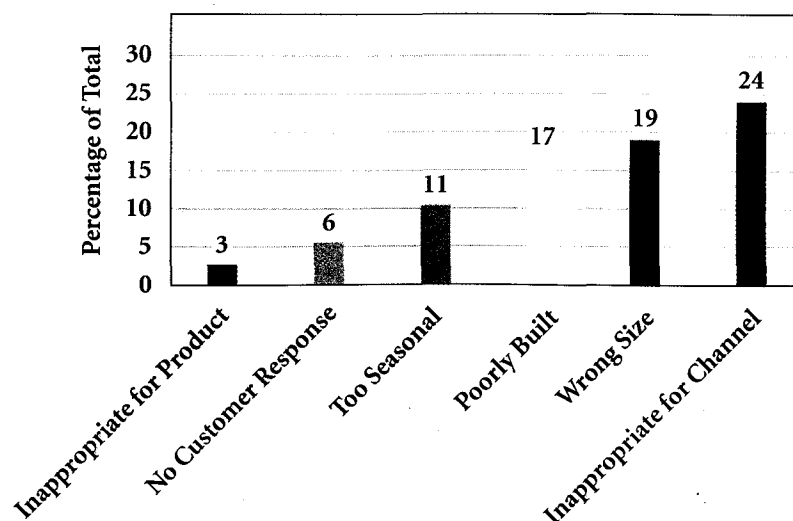


FIGURE 9.9
Top Weaknesses of Manufacturer-Supplied POP Displays

POP displays are those integrated with other marketing messages. Logos and message themes used in advertisements should appear on the POP. The POP display should reflect any form of special sales promotion. Customers more quickly recognize tie-ins with current advertising and promotional themes as they view displays. Recent research indicates that POP displays increase sales when they have the following elements:

- ▶ Brand signs
- ▶ Base wrap under the display
- ▶ Standee (base of support)
- ▶ An inflatable component or mobile above the POP display
- ▶ A tie-in to a sport, movie, or charity shown on the display

Of these, a tie-in adds most significantly to sales.²⁸

The POP display should make a clear, succinct offer that customers immediately understand. Many times the POP display only has three-tenths of a second to capture the customer's attention. If it fails, the customer simply moves on to other merchandise. Colors, designs, merchandise arrangements, and tie-ins with other marketing messages are critical elements of effective POP displays.²⁹ Figure 9.10 lists some additional pointers for point-of-purchase advertising. Three new trends are present in the use of POP displays:

1. Integration with Web site programs
2. Displays that routinely change messages
3. Better tracking of POP results

Each of these items represents key changes in POP programs. A review of these issues follows.

The first new trend is integrating POP displays with the Internet site and Web address of the company. For example, Tucker Federal Bank distributed POP materials to its 14 branch banks, encouraging people to sign up for a free checking service. The display encouraged people to go to the bank's Web site. The URL, www.justrightbank.com, was integrated with the advertising tagline, "Not too big. Not too small. Just right." Customers who visited the bank's Web site could complete and submit the application for free online checking. Effective integration of e-messages involves more than just printing a Web address on the POP display. The company should encourage customers to go there for a specific reason, such as was the case with Tucker Federal.³⁰

The second trend in POP advertising is developing displays with the capability of changing the message. Messages are changed daily, weekly, or, in some extreme cases, several times per day. One method manufacturers use to accomplish these changes is by featuring LED electronic signs, which can be changed via computer. This allows the manufacturer or retailer to frequently present new messages to keep the POP fresh to consumers. To the retailer, the major advantage is that messages can be localized and designed to meet changing local needs. To the manufacturer, it offers an opportunity to partner with retailers looking for ways to maximize sales.

- ▶ Integrate the brand's image into the display
- ▶ Integrate the display with current advertising and promotions
- ▶ Make the display dramatic to get attention
- ▶ Keep the color of the display down so the product and signage stand out
- ▶ Make the display versatile so it can be easily adapted by retailers
- ▶ Make the display reusable and easy to assemble
- ▶ Make the display easy to stock
- ▶ Customize the display to fit the retailer's store.

FIGURE 9.10
Effective POP Displays

The third issue is accountability. Both retailers and manufacturers look for methods to measure the effectiveness of POP displays. Retailers have limited space and can set up only a fraction of the displays sent to them. They want to use the most effective displays. Manufacturers invest money into building, shipping, and promoting POP displays. The manufacturer wants its display to be utilized and not set in a storeroom or simply thrown away. Thus, it is in the best interests of both parties to develop methods for measuring effectiveness.

One method to measure results is tying the POP display into a point-of-sale (POS) cash register. Items on the display are coded so that the POS system picks them up. Then individual stores measure sales before, during, and after a POP display program by using cash register data. The data also help the retailer decide that it is time to withdraw or change a POP display because sales have begun to decline. This technology allows retailers to identify the POP displays with the largest impact on sales. A retailer even could use this method to test-market different types of POP displays in various stores. The most effective displays can then be used nationally.

From the manufacturer's viewpoint, using POS data can help improve POP displays. The data can also be used to strengthen partnerships with retailers. These bonds help the manufacturer weather poor POP showings. Retailers are more willing to stay with a manufacturer that tries to develop displays that benefit both parties.

Internet trading may have reduced some retail store traffic. Still, many customers shop and window-shop frequently. A POP advertising program remains an important ingredient in selling to the end user and in strengthening bonds with retailers as part of a larger trade promotions effort.

OBJECTIVES OF TRADE PROMOTIONS

The trade promotions manager should be included in the planning stages of the IMC program. This increases the chances that trade promotions and incentives will be effectively coordinated with the other components of the IMC process. Regrettably, the process is more difficult than it appears, because manufacturers and retailers have objectives that differ from each other and from those of distributors.

For manufacturing operations, the primary goal is to increase sales of company brands. Retailers, on the other hand, try to increase the market shares of individual stores. Retailers are not concerned with which brand sells the most. Instead, they promote the brand that has the highest sales or contributes the most to profits. Often retailers play one manufacturer against another to see which one will offer the best deal. The manufacturer's marketing team must decide which trade promotions to use and offer them to the right retailers. The decision becomes more complicated when a wholesaler or distributor is involved. These organizations also have goals that are different from those of both retailers and manufacturers.

Figure 9.11 lists the major objectives of trade promotions from the manufacturer's perspective. At times one takes precedence instead of another. Each one may be a key goal for a given trade promotions effort. These objectives are described next.

- ▶ Obtain initial distribution
- ▶ Obtain prime retail shelf space or location
- ▶ Support established brands
- ▶ Counter competitive actions
- ▶ Increase order size
- ▶ Build retail inventories
- ▶ Reduce excess manufacturer inventories
- ▶ Enhance channel relationships
- ▶ Enhance the IMC program

FIGURE 9.11
Objectives of Trade Promotions

members. Unfortunately, this can lead to a vicious spiral in which manufacturers pump more and more dollars into trade promotions just to keep up with each other.

On the other hand, failing to fend off competitive threats can have even greater consequences. There are other competitive responses beyond simply raising the funds spent on trade promotions. A firm helps its own cause by taking care of other parts of the business relationship. This includes meeting delivery deadlines, providing support services to retailers, accepting returns without problems in crediting retailer accounts, entering into cooperative advertising agreements, and finding other ways build stronger ties between the two organizations. Then, when the competition acts, the manufacturer can choose either to offer the same trade promotions tactic or take a different approach in order to counteract the competition's efforts.

Increasing Order Sizes

Another goal of trade promotions programs is to push an individual brand through the channel of distribution in such a way that order sizes increase. Manufacturers primarily use trade allowances and sales contests to increase order sizes. The objective may be to increase the order size from either the retailer or the distributor. Occasionally, a POP will induce a larger order from the retailer, if the display features a major advertising campaign or is offered during a key season for the product, such as starter fluid for barbecue grills featured in the summer.

Building Retail Inventories

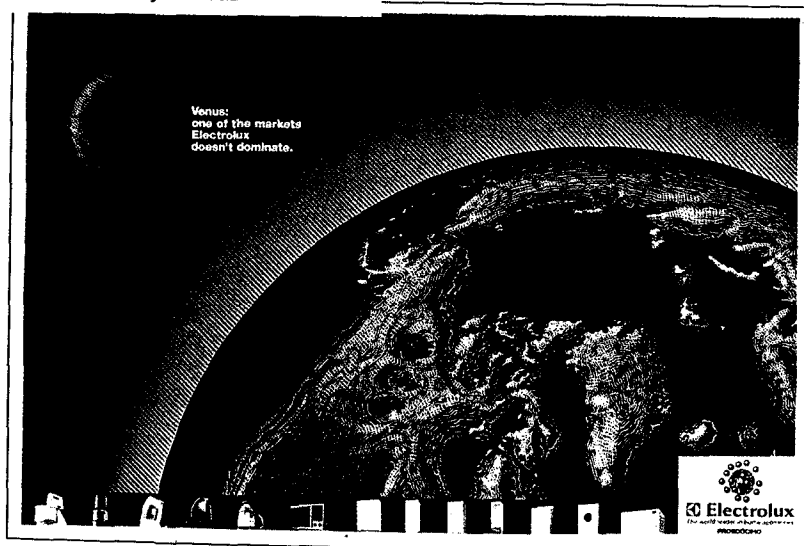
Another marketing goal can be to build retail inventories, thus preempting the competition. A large retail inventory of a particular brand should result in the retailer pushing that particular brand instead of competing brands. Trade allowances that lead to forward buying or diversions may actually help reach the goal of larger retail inventories. Other parts of the IMC plan, such as advertising and consumer sales promotions, also drive the retailer to hold larger inventories in anticipation of increased retail sales.

Reducing Excess Manufacturer Inventories

Trade promotions help manufacturers reduce inventory levels. This often occurs near the end of a fiscal year or near the end of an evaluation period when sales have not met forecasts. To ensure a quota is met, a manufacturer offers retailers an especially attractive trade promotions deal. This in turn helps reduce excess manufacturer inventories.

Trade promotions are important in developing international markets.

Source: Courtesy of Electrolux.



Enhancing Channel Relationships

Manufacturers utilize trade promotions to enhance relationships with other channel members. Contests, allowances, incentives, giveaways, and training all make the relationship between the manufacturer's sales rep and the company's buyers more personal and intimate. Maintaining positive relationships is especially important if the competition also is heavily involved in granting trade promotions.

Enhancing the IMC Program

Finally, trade promotions should be used to enhance other IMC efforts. If a manufacturer plans a massive consumer promotion campaign, it makes sense to support the consumer sales promotion effort with

trade promotions. The same is true for a major advertising campaign. Manufacturers spending large amounts of money on advertising campaigns want to be sure products are available in stores. A manufacturer's marketing team should try to entice retailers to promote the product with desirable shelf space or an end-of-aisle display. Obtaining these more desirable locations normally requires a more concerted trade promotions effort. It is important to remember that the company's image and theme should be enhanced not only through clever advertisements but also through the other elements of the promotions mix, including trade promotions incentives.

CONCERNS IN USING TRADE PROMOTIONS

Every member of the marketing channel should find ways to incorporate trade promotions into an overall IMC effort. This occurs only when top management buys into the integrated marketing communications concept and insists on including the trade promotions manager on the marketing team. The manager must also make sure all the team members work together with a common marketing agenda.

In most organizations, employee pay structures encourage the use of trade promotions irrespective of the IMC plan. Sales managers face quotas, and if sales fall behind, the easiest way to boost them is to offer retailers a trade deal. Further, companies often evaluate brand managers based on the sales growth of a brand. The easiest way to ensure continuing sales growth is to offer trade deals. The pattern of using trade deals to reach short-term quotas rather than long-term image and theme-building will not change until top management adopts a new approach. The IMC model only succeeds when a long-term horizon is considered and compensation structures change to accommodate this view of success.

To illustrate why a change in management philosophy is necessary, consider the following situation: A sales manager or brand manager has about a month left in the fiscal year and is 12 percent behind on a sales quota. To ensure the quota is reached, the sales manager requests a trade deal to encourage retailers to buy excess merchandise. In the short term, the goal has been achieved. In the long run, however, the brand's image may have eroded. It takes a long-term perspective for management to say that increasing trade promotions to meet the quota is not part of the IMC plan and should not be done. Eroding brand image to meet short-term goals is not in the company's best long-term interest. A strong brand image will cause retailers to stock the product even when fewer trade deals are offered. This is because a strong brand by itself can help pull customers into retail stores. For example, if a customer believes Sony is a strong brand name in the stereo marketplace, an electronics retailer stocking Sony has an advantage, even when no current trade promotions are on the table.

Meanwhile, as company leaders consider ways to include trade promotions into the IMC plan, they should be aware of other potential problems associated with trade promotions programs. These include costs, the potential impact on small manufacturers, and the tendency to rely too much on trade promotions to move merchandise.

The first of these concerns is the cost of trade promotions. Manufacturers spend billions of dollars each year on trade promotions. These costs are often passed on to consumers in the form of higher prices. It is estimated that 11 cents out of every dollar spent for a consumer product goes directly for the cost of trade promotions.³¹ The goal should be to keep trade promotions cost at a reasonable level. Money should be spent wisely, rather than simply getting into "bidding wars" with competitors. Trade promotions dollars are best used when they build relationships and help achieve other key IMC goals.

The second major concern with trade promotions is the potential impact on small manufacturers. When the cost to get a new item stocked in retail stores ranges from \$1.5 million to \$2 million, the large manufacturer has a major advantage. Larger companies can afford to invest more heavily in trade allowances. Only 8 of the top 15 retailers in the United States have programs that allow small vendors opportunities to stock merchandise. Figure 9.12 displays both types of retailers. Although these retailers have special programs for small manufacturers, there is no guarantee they will get shelf space when a large manufacturer such as General Mills offers millions of dollars in trade incentives

FIGURE 9.12
Retailers and Small
Vendor Programs

**Retailers with Small
Vendor Programs**

- ▶ Wal-Mart
- ▶ Sears
- ▶ Sam's Warehouse
- ▶ Price Costco
- ▶ Target
- ▶ Home Depot
- ▶ Toys "R" Us

**Retailers with No Small
Vendor Programs**

- ▶ Circuit City
- ▶ Consumer-Electronic
- ▶ Office Depot
- ▶ Service Merchandise
- ▶ Wal-Mart Supercenter

such as slotting fees and cooperative advertising programs (including coupon redemption programs).³² Small-scale manufacturers must discover creative ways to gain shelf space, both in major retail chains and through smaller vendors. It is clearly a challenging part of the process, but one that must be addressed in order to achieve long-term success.

The third major concern is that the use of trade promotions has led to a situation in which merchandise does not move until a trade promotions incentive is offered. In the grocery industry, an estimated 70 percent to 90 percent of all purchases made by retailers are on-deal with some type of trade incentive in place. The constant use of deals has trimmed manufacturer margins on products and created competitive pressures to conform. If a manufacturer tries to quit or cut back on trade promotions, retailers replace the manufacturer's products with other brands or trim shelf space to allow more room for manufacturers offering better deals. Recently, Procter & Gamble cut back on trade promotions in an effort to sell more products off-deal in order to boost profit margins. In a retaliatory action, Safeway cut some of the less popular P&G sizes and brands from its stores. Curbing trade promotional expenditures is extremely difficult because trade promotions are a critical part of moving goods from manufacturers to retailers.³³

The best way to correct these problems is to spend more on advertising focused on building or rebuilding a brand's image. Also, it is important to be certain promotions fit the brand's image. "If it doesn't fit," writes Brian Sullivan in *Marketing News*, "don't use it."³⁴ Unfortunately, to spend more on advertising means cutting trade promotions incentives. The risk becomes that other competitors will move in by offering trade promotions to retailers, and shelf space will be lost as a result. Then, the vicious cycle begins again.

The management of trade promotions programs is a challenging part of the marketing planning process because such a large percentage of the marketing budget is spent on trade promotions. Effective IMC programs achieve a balance between all elements of the promotions mix and identify clear goals and targets for trade promotions programs. Only then is the company able to compete on all levels and not just through a cycle of trade promotions bidding wars.

SUMMARY

The marketing mix consists of four basic components: (1) advertising, (2) trade promotions, (3) consumer promotions, and (4) personal selling. Trade promotions are the primary tools that members of the marketing channel use to push products onto retailer shelves. Any time a product is being promoted for resale, a trade promotions program is being utilized.

A wide variety of trade promotions programs exist, including trade allowances, trade contests, trade incentives, training programs, vendor support programs, trade shows, specialty advertising, and

point-of-purchase displays. Several major factors affect the choice of promotional tool, most notably:

- ▶ Standard practice in the industry
- ▶ Competitive pressures
- ▶ Company preferences
- ▶ Marketing goals and objectives

Common objectives for trade promotions programs include obtaining distribution for new products, gaining prime retail space, supporting established brands, countering the competition, increasing order sizes, enlarging retailer inventories or reducing manufacturer inventories, enhancing channel relationships, and building on other parts of the IMC program. Various trade promotions tools match with these goals.

The major issue facing marketers who work with promotional programs is making sure the promotions match overall IMC goals. They should be coordinated with advertising expenditures and campaigns and balanced with other parts of the promotions mix. Trade promotions are costly and place enormous pressures on small manufacturers. Many wholesale and retail firms simply will not place orders for merchandise until a trade promotions incentive is offered. Company

leaders must work diligently to build and maintain brand image and not fall into the trap of simply engaging in competitive trade promotions bargaining to retain retail space. Instead, brand image and strong relationships with various vendors can counterbalance competitor attempts to steal space merely by offering a short-term price discount.

As with all of the other ingredients of an IMC plan, the primary task is to develop a coordinated and balanced plan of attack to reach the marketplace with one clear message. Trade promotions must be included in the process and not dominate marketing expenditures to the point that other aspects of the marketing mix are neglected. When this balance is achieved, the company can compete in the long term for better position with other members of the channel as well as retail customers. Maintaining the vision to seek long-range goals is one key element in managing trade promotions.

REVIEW QUESTIONS

1. What is a trade promotions program? How is it related to other elements of the marketing mix?
2. What is the difference between trade promotions and consumer sales promotions?
3. Describe the four main types of trade allowances and the goals they are mostly likely to achieve. Which is the most controversial? Why?
4. What is forward buying? Why is it a problem for manufacturers?
5. What is a diversion tactic? Why are diversions used less frequently than forward buying?
6. What is spiff money?
7. Name and briefly describe the various forms of trade contests. Which is the least likely to be used?
8. Name and briefly describe the major forms of trade incentives. Which ones involve retailers paying some of the costs first, before receiving compensation?
9. Why are training programs considered to be a form of trade promotion? What objectives will a quality training program be most likely to achieve?
10. What is a billback program?
11. What advantages do cooperative advertising programs hold for manufacturers? For retailers?
12. Why have smaller specialty trade shows begun to replace larger, more general shows?
13. How are international attendees different from local attendees at a trade show? What should a manufacturer do to meet these differences?
14. What are the five top giveaways associated with specialty advertising? How are they related to the concept of reciprocity?
15. What are the characteristics of a high-quality, effective POP display?
16. What are the major objectives manufacturers try to achieve with trade promotions programs? Are these objectives different from those of wholesalers or distributors? Why or why not?
17. What problems are associated with trade promotions programs? How can manufacturers overcome these problems?
18. How should a retailer respond to trade promotions incentives? Should retailers try to get manufacturers involved in bidding wars? Why or why not?
19. What role should trade promotions play in the overall IMC plan?

KEY TERMS

trade promotions The expenditures or incentives used by manufacturers and other members of the marketing channel to help push products through to retailers.

trade allowances Financial incentives offered to other channel member to motivate them to make purchases.

off-invoice allowance Financial discounts given for each item, case, or pallet ordered.

drop-ship allowance Money paid to a retailer that is willing to bypass wholesalers, brokers, agents, or distributors when making preplanned orders.

slotting fees Funds charged by retailers to stock new products.

exit fees Monies paid to remove an item from a retailer's inventory.

on-deal When a price allowance is being given as part of a trade promotions program.

forward buying When a retailer purchases excess inventory of a product while it is on-deal to sell later when it is off-deal.

diversion When a retailer purchases a product on-deal in one location and ships it to another location where it is off-deal.

spiff money Rewards given as contest prizes to brokers, retail salespeople, retail stores, wholesalers, or agents.

trade incentives Enticements given when the retailer performs a function in order to receive the discount or allowance.

cooperative merchandising agreement (CMA) A formal agreement between the retailer and manufacturer to undertake a two-way marketing effort.

calendar promotions Promotional campaigns the retailer plans for customers through manufacturer trade incentives.

corporate sales program (CSP) A form of trade incentive offered by highly specialized manufacturers.

producing plant allowance (PPA) A trade incentive in which the retailer purchases a full or half truckload of merchandise in order to receive a major discount.

back haul allowance (BHA) A trade incentive in which the retailer pays the cost of shipping and furnishes the delivery truck for a truckload of discounted merchandise offered by a manufacturer.

cross-dock or pedal run allowance Monies paid to retailers for placing a full truck order that is then divided among several stores within the same geographic region.

premium or bonus pack Given by offering the retailer free merchandise rather than a discount on the price.

billback The manufacturer pays the retailer for special product displays, advertisements, or price cuts.

cooperative advertising program The manufacturer agrees to reimburse the retailer a certain percentage of the advertising costs associated with advertising the manufacturer's products in the retailer's ad.

reciprocation A psychological concept that whenever someone receives a gift, the human desire is to return a gift or favor.

point of purchase (POP) Any form of special display that advertises merchandise.

CRITICAL THINKING EXERCISES

Discussion Questions

- One type of trade show that has received considerable publicity recently is a gun show. Although some gun trade shows are restricted to only retailers, others allow anyone to attend. What is your evaluation of gun shows? Should they all be restricted to only retailers?
- Three common problems with trade allowances are that retailers fail to pass along allowances to retail customers, forward buying, and diversion. From the perspective of the retailer, defend these practices and explain why they are not unethical.
- Debate has continued for many years about the use of slotting fees by retailers. Recently, the U.S. Congress examined the practice when it considered them to potentially restrict free trade. Using an academic search engine, locate recent articles about slotting fees. Should they be permitted, or should laws be passed restricting or even eliminating them?
- Study a recent Sunday or Wednesday newspaper. How many cooperative advertisements are present? What brands does the retailer's advertisement promote? Are these advertisements effective from the viewpoint of the manufacturer? How effective are they for the retailer?
- Go to a nearby retail store. How many POP displays are present? Which ones are the most impressive? Why? Which ones did not succeed in gaining your interest? Why? Return to the same store a week later. How many new POP displays are there? Which ones are still up?
- Interview a retail store manager about trade promotions used at his or her store. Especially discuss POP displays and trade allowances. Find out what percentage of the POP displays received are not used. Why are others not used? What criteria does the store manager use in deciding?
- From the list of stores in Figure 9.12, pick one that is close by. Interview the manager about the store's small vendor program or lack of a small vendor program. Report the findings to your class.

INTEGRATED LEARNING EXERCISES

- AgrEvo Environmental Health held a trade contest to launch a new line of DeltaGard low-dose formulations. DeltaGard is an insecticide sold to pest control companies and retailers. To encourage pest control companies to purchase DeltaGard, AgrEvo teamed up with Harley-Davidson and developed the DeltaGard Win-a-Harley Sweepstakes. Entry forms were available only to licensed pest control companies and were featured at the annual National Pest Control Association trade show, at official AgrEvo DeltaGard distributors, on the AgrEvo Web site, and in a series of advertisements that ran during the trade contest. First place was a Harley-Davidson motorcycle valued at over \$12,000. Second place was a Harley-Davidson leather jacket. Third place was a Harley-Davidson wristwatch.³⁵ Was this trade contest a good idea? Would every pest control company be motivated by the prizes offered? Could this trade contest be improved to create greater participation?
- The Trade Promotion Management Association (TPMA) is a national organization that focuses on the development and administration of program allowances provided by manufacturers and suppliers to retail and wholesale customers. Access the Web site at www.tradepromo.org. What type of services does TPMA offer? How can the association benefit manufacturers? Would the association be beneficial to retailers? Why or why not?
- Point-of-purchase displays should be an important component of a firm's IMC program. Research indicates that effective

POP displays have a positive impact on sales. Access the following firms that produce POP displays. Which firm's site is the most attractive? Which firm would be the best from the standpoint of developing displays for a manufacturer? Why?

- a. Acrylic Designs, Inc. (www.acrylicdesigns.com)
 - b. Vulcan Industries (www.vulcanind.com)
 - c. Display Design & Sales (www.displays4pop.com)
4. Many firms turn to specialty agencies or full-service agencies to handle trade promotions programs. The same agency often handles the consumer promotion component as well in order to ensure the two mesh. Examine the following companies by accessing their Web sites. What appears to be the strengths of each agency? Which company would you feel the most comfortable with to handle trade promotions? Why?
- a. Little & King Co. LLC (www.littleandking.com)
 - b. CCI (www.coopcom.com)
 - c. TradeOne Marketing (www.tradeonemktg.com)
 - d. Sable Advertising (www.sableadvertising.com)
5. Access the Trade Show News Network at www.tsnn.com. Pick one trade show from each of the following categories:
- a. Apparel
 - b. Boating and yachting

- c. Gender specific
- d. Photography
- e. Physical fitness and health

Find out the following information about each trade show. Evaluate it as being potentially successful or a waste of time for the exhibitor and the attendee.

- a. Type of show
 - b. Location of show
 - c. Show date
 - d. Number of exhibitors
 - e. Number of attendees
 - f. Names of exhibitors
 - g. Names of the attendees
6. Access the Trade Show News Network at www.tsnn.com. Pick one category of trade shows from the list in Exercise 5. Assume you are a small manufacturer in that industry. Locate five trade shows that would be feasible to attend as an exhibitor. Evaluate each one. If you could afford to attend only one, which show would you choose? Why?

STUDENT PROJECT

IMC Plan Pro

Individual customers are only part of the target when an IMC campaign is being designed. Your IMC plan is not complete until a program for reaching members of the distribution channel is in place. The IMC Plan Pro disk and booklet available from Prentice

Hall are designed to make sure you examine the ways to reach channel members that will push the company's products through to retailers and end users. An effective trade promotions program means being in the right places, such as trade shows, and offering the right enticements to other firms in the marketing channel.

HOT ROD MARKETING

CASE 1

Terry Walsh knew the time was right to move from being a small, "garage-based" company to a much larger enterprise. After spending years as a research chemist, Terry had launched out on his own. His goal was to develop a top-of-the-line fuel injector cleaner for both domestic and foreign automobiles. For 2 years, he worked with various formulas until the right one emerged. The product was named Hot Fire Fuel Injector Cleaner, and the company's name was Hot Fire. Terry was positive Hot Fire would perform well against any competitive product.

The market for fuel injector cleaners is diverse. Numerous backyard mechanics sell limited amounts of their concoctions to local merchants and over the Internet. Several formulas are even available on eBay. There is no guarantee of quality for these products, some of which may actually harm engine performance. At the other extreme, major companies such as STP, Gumout, and Dupont offer various grades of cleaners, from low-end products selling for around \$3 per unit up to high-end versions priced as high as \$30. The primary price determinant is the degree to which the product reduces congestion in a fuel injector. The higher priced entries are more powerful and remove more "gunk."

Terry's Hot Fire Fuel Injector Cleaner was at the high end. The price would be \$17 wholesale, per can. He hoped that dealers would charge no more than \$25 as a retail price. Hot Fire sold in single containers as well as in multipacks of 6 and 12 cans. Each can held two treatments or applications.

Several potential markets are available for fuel injector cleaners. The first is auto repair shops, including simple "lube and oil" change stores and more traditional repair shops. Many times the proprietors of these stores welcome the idea of a small display of an auto repair or maintenance product, as long as the owner believes the product actually works.

The second type of outlet consists of all of the retailers that sell replacement parts and auto supplies, such as Napa Auto Parts, Dallas Auto Parts, and O'Reilly Auto Parts. Most of these retailers only sell nationally-based products from major manufacturers. Getting them to stock Hot Fire would be a major victory.

A third potential customer base is convenience stores. Again, the primary challenge would be convincing a chain, such as 7-Eleven or Circle K, to carry Hot Fire along with other, cheaper products such as STP's and Gumout's low-end products.

Terry knew that buyers in all of these outlets are extremely price sensitive. At the same time, the buyers want to be sure the product works and will not harm other engine parts. Once these objectives have been reached, the goal is to convince them to order larger quantities and continually stock the product. To encourage sales, seasonal discounts, such as for the summer driving season, may move more product to the shelves.

Hot Fire currently employs 20 workers in the production department and has a sales force of 5 people to cover the entire country. The company's Web site is designed to attract people who are willing to buy auto products online and to provide information to business customers.

Terry had a large enough budget to do some advertising. He mostly bought ads in magazines that featured high-performance cars and trade journals for auto body shop managers. One major advantage that had emerged was that Hot Fire sold well locally and was emerging as a product known by local and regional race-car drivers. Hot Fire decals were placed on cars at races across the region.

With some additional funding, it was now time to try to move Hot Fire to national prominence. Winning over each type of retailer was the key to success.

1. What should be the main trade promotions objectives for Hot Fire Fuel Injector Cleaner? What challenges or obstacles might keep the company from reaching those objectives?
2. Design a trade promotions program for Hot Fire Fuel Injector Cleaner.
3. Create a magazine advertisement and tagline for Hot Fire that ties in with the trade promotions program.

THE CHRISTMAS RUSH

CASE 2

Musa Pinar, the promotions trade manager for Galactic Toys, knows his firm is in for a new experience. Galactic Toys is a highly successful company in its home country, Turkey. In that region, the toy business is not as strongly dictated by the successes and failures of films and is not quite as dominated by the Christmas season. In an effort to build sales and "test the waters," Musa has been asked to study the U.S. toy market to see if the firm's biggest-selling line, Galaxy Conquest toys, could compete effectively.

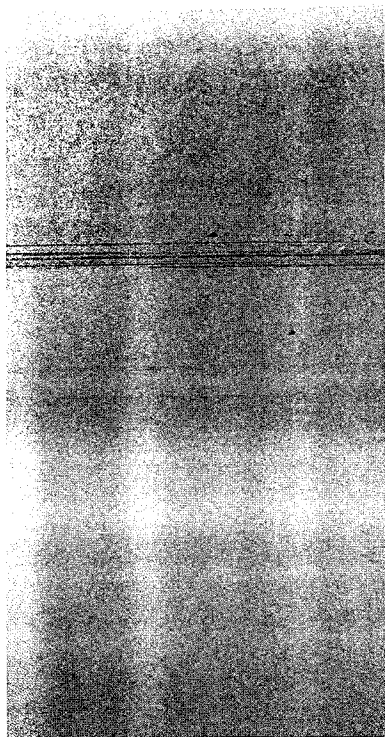
In the United States, each year more than half of all toy purchases are made at the retail level during November and December. The summer movie schedule provides some clues as to which "fad" toys are most likely to succeed. Any new *Star Wars* film boosts sales of its figures, and the same is true for *Shrek*, *Toy Story*, and many others. A second set of toys has a more annual and traditional base, including Barbie, GI Joe, and standard board games and more generic products such as Lincoln Logs and Legos. These products are updated to keep them more current and are staples for several manufacturers in the industry.

Seasonal toys are featured in major trade shows every summer. Major companies set up booths and hold extravagant release campaigns for new products and other innovations. The media are invited and a feature story can become the lifeblood of a new fad product. Cabbage Patch Dolls, Teenage Mutant Ninja Turtles, Tickle Me Elmo, and Furby toys have created near riotous conditions in various retail outlets following successful media campaigns in the pre-Christmas publicity season. Toys tied to movies enjoy the additional benefits of the Halloween costume season ahead of actual toy sales.

Toy buyers can be distributed roughly into four categories. First, those who buy for small children tend to rely on major name brands, such as Fisher-Price and Playskool. At a slightly older age, Tonka toys are big sellers. Second, grade-school-age children constitute the primary market for fad and trendy toys. Parents view many of these products as "status symbols" as much as they are playthings for kids. Thus, owning a Furby represents not only a fun toy, but a major one-upmanship factor for parents who want their kids to have everything, as well. The third set of buyers tends to purchase more staple toys. These shoppers are often lower-income families who cannot afford the more extravagant prices paid for the season's hottest item or parents who simply withdraw from the "keeping up with the Joneses" mentality associated with high-status toys. Fourth, junior-high-age kids now buy more sophisticated technology-based toys, especially Nintendo products.

Galactic Toys would normally be placed in the GI Joe-*Star Wars* section of toy store shelves. Individual products are high quality, but reasonably priced for more staple buyers who are less driven by trends and more

(continued)



inclined to seek out items that do not break easily. The problems Musa believes the company will experience are:

- ▶ Gaining attractive booths at major trade shows
- ▶ Breaking through the publicity campaigns of major fad toys to build interest by various stores
- ▶ Convincing retailers that Galactic Toys are more year-round, and less seasonal, products (e.g., toys for birthday gifts and other minor celebrations or occasions)

To succeed, Musa thinks he should start with the trade shows themselves. He attended a few shows and noticed glamorous women dressed in attractive fashions showing off dominos and checkerboards. He watched the video presentations, saw giveaways, and examined other attention-seeking devices. Next, Musa subscribed to all key trade journals and solicited information about prices, locations in magazines, and other information about ads. Third, Musa has been looking for tie-ins with other products, such as breakfast cereals, T-shirts, and others. Still, in his report to company leaders, Musa wrote that making headway in such a tough marketplace is going to be a challenge, even with the company's best efforts.

1. Assess Musa's report.
2. Design a trade promotions campaign and integrate it with a larger IMC program and theme for Galaxy products.
3. Besides trade shows, are there any other trade promotions tools Galactic Toys can use to increase sales?
4. Are there any other special challenges that a Turkish toy company will encounter when trying to compete in the United States? What are they?

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