

# INVESTIGATING THE IMPACT OF 'ON SALE' PROMOTIONAL SCHEMES (OSPS) ON CUSTOMER LOYALTY

\*Khaola Shahid<sup>1</sup>, Naveed Ramzan<sup>2</sup>, M. Shoaib<sup>1</sup> and Adam Mohyuddin<sup>1</sup>

<sup>1</sup>Institute of Business and Management, University of Engineering and Technology, Lahore, Pakistan

<sup>2</sup>Department of Chemical Engineering, University of Engineering and Technology, Faisalabad, Pakistan

\*Corresponding Author's email: khaolashahid@gmail.com

**ABSTRACT:** *The study attempts to investigate the individual impact of 'on sale' promotional schemes on customer loyalty and subsequently the combined impact of various factors of 'on sale' promotional schemes on customer loyalty. Formal interviews were conducted from a sample of promotional schemes users. The strong positive relationship between 'on sale' promotional schemes i.e. buy-1-get-1-free, price discounts, free sampling and scratch and win and customer loyalty was established. The study concluded the effect of OSPS tools such as buy-1-get-1-free, free sampling and scratch and win on customer loyalty is higher than price discounts. The study suggests the firms seeking to use promotional schemes to create customer loyalty should consider the price range for price discounts and develop proper market insights which can affect the brand image to enhance customer loyalty by identifying the type of customer.*

**Keywords-** 'on sale' Promotional Schemes, Buy-1-Get-1-Free, Free Sampling, Price Discounts, Scratch and win, Customer Loyalty

## INTRODUCTION

Competition among the brands is getting fierce due to globalization in today's world. Availability of multiple brands provides its customers the option of switching from one brand to the other. In the past, marketing was done through advertisements only but now businesses are moving towards the marketing techniques due to high cost of advertisement, intangibility of advertisement and the reliability [1,2]. Over the past few decades, promotional schemes have become one of the most important tools used by business managers. By offering value added benefits, promotional schemes are designed to increase the loyalty of customers with the brand. These promotional schemes can be classified into OSPS and after sale discounts. A discount induces customer's buying behavior and it can increase the sales only for short period of time [3]. Authors in [4,5,6] have shown positive response to the fact that providing a free sample as a promotional tool might have a substantial impact on the buying behavior of customers. Researches on buy-one-get-one-free suggest that tendency to purchase the product increases with such offers [7]. There has been no significant research done which shows the behavior or attitude of consumers towards the scratch and win offer. Customer loyalty cannot be achieved by simply displaying the products to satisfy the needs of the customers but it requires long term and beneficial relationship with the customers [8]. Customer loyalty is defined as "the inclination of the customer towards a particular brand or product/service in order to maintain their relation" [9]. In order to retain a positive relation with a firm, there is a need for firm to satisfy their customers as it is considered amongst the important factors in creating loyalty [10]. Unsatisfied customers are not expected to have a long run relation with the firm [11]. OSPS includes price discounts, free sampling/ trial, buy-one-get-one-free, scratch and win. But it's of concern for researchers or marketers that whether these promotional tools are successful in creating loyalty.

Previously researches have been done to investigate the direct impact of promotional schemes on the buying behavior of the consumers. However, there is a research gap to investigate the impact of direct 'on sale' promotional schemes on

customer loyalty. Therefore main objective of this paper is to examine the impact of OSPS on customer loyalty.

## MATERIALS AND METHODS

There are four constructs to measure customer loyalty i.e. customer satisfaction with the offered product/ service, repeat purchase, spreading positive word of mouth and immunity to competitors offerings. Figure 1 shows the theoretical framework of OSPS that influence customer loyalty. Usage of the product by consumers can be increased by offering price off promotion [12]. Others [4,5,6] have shown positive response to the fact that providing a free sample as a promotional tool could have a substantial impact on the buying behavior of customers. Consumers perceive price discounts and extra free product promotions differently because of the commensurability of the units of the promotion with the product's price [13,14,3]. Based on insights from the literature, following hypotheses are deduced:

**H1.** There is strong positive relationship between OSPS and customer loyalty

**H1a.** There is no significant impact of price discounts on customer loyalty

**H1b.** There is a significant impact of free sampling on customer loyalty

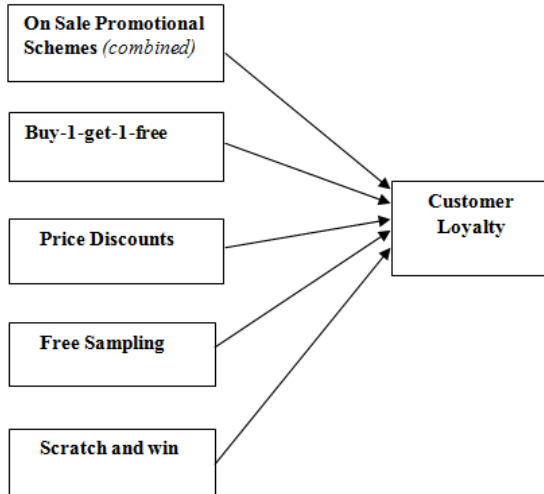
**H1c.** There is a significant impact of buy 1 get 1 free on customer loyalty

**H1d.** There is no significant impact of scratch and win on customer loyalty

Insights from literature review are used to design the questionnaire which is used as a quantitative tool of data gathering. The sample frame constituting responses from three hundred respondents randomly is drawn from the population who are the users of promotional schemes or at least aware of OSPS.

The operational definition and measurement of the studied variables for the validation of the research hypotheses are provided in Table 1. There is one major independent variable, 'on sale' promotional schemes. Other independent variables include categories of OSPS i.e. buy-1-get-1-free, free

Figure. 1 Theoretical Framework



sampling, free discounts and scratch and win. The dependent variable of the study is customer loyalty composed of four constructs.

**RESULTS AND DISCUSSION**

In this study factor analysis, descriptive analysis, reliability, correlation, and regression analysis is used for data analysis. In order to identify and remove the outliers, factor analysis was used. To check reliability of the scale, cronbach alpha approach was employed. After checking the reliability, descriptive statistics of the demographics is computed. Subsequently to check the relation between the dependent and independent variable, bivariate correlation is used. Finally simple linear regression analysis was being done to test the relational hypothesis.

After applying factor analysis on the data of 300 respondents, 271 questionnaires came out to be normal while 29 are removed as they are the outliers. From the descriptive results, it can be observed that in the sample, there are more male respondents (53.9 percent) than females (46.1 percent). About 62.4 percent of the respondents belong to the age group of 21-30 years. Users of the promotional schemes are mostly the professionals (38.4 percent) and students (31.7 percent) with the income level less than 25,000 (24 percent) and 40,001-60,000 (22.5 percent). This may partly be because people with less income level and middle age are more prone towards the promotional schemes. The profile details are shown in table 2.

Reliability of questionnaire design is validated through Cronbach Alpha based on a value of 0.791 (Table 3).

Table 4 represents that 45.3% of the customer loyalty is achieved through OSPS schemes' which means that 55% customer loyalty cannot be explained just by 'on sale' promotional schemes. There might be different factors which help in creating loyalty. Depending upon the type of customer i.e. brand loyal, opportunist and switchers, factors in creating customer loyalty vary. After sale promotional schemes might also be accountable in creating loyalty

Table no 1: Operational definitions & Measurement of variables

Variable	Operational Definition	Constructs
Customer loyalty		Satisfaction
		Repurchase
		Positive word of mouth
		Immunity to competitors offerings
'on sale' Promotional Schemes	Promotional schemes that are offered at the time of purchase/ sale	Satisfaction
		Repurchase
		Positive word of mouth
		Immunity to competitors offerings
Buy-1-get-1free	Offering 2 products at the price of one product i.e. buying one and getting another free	Satisfaction
		Repurchase
		Positive word of mouth
		Immunity to competitors offerings
Price Discounts	Method in which there is a cut off in the price of a product	Satisfaction
		Repurchase
		Positive word of mouth
		Immunity to competitors offerings
Free Sampling	Giving small quantity of product for trial purpose so that it can be purchased afterwards	Satisfaction
		Repurchase
		Positive word of mouth
		Immunity to competitors offerings
Scratch and win	A token on which information about the prize is hidden and can be revealed only by scratching it	Satisfaction
		Repurchase
		Positive word of mouth
		Immunity to competitors offerings

example, buy-1-get-1-free is positively related to customer loyalty (r= .415, p <0.01), free sampling related to customer loyalty (r= .598, p <0.01), price discounts related to customer loyalty (r= .289, p <0.01), scratch and win related to customer loyalty (r= .548, p <0.01) and overall 'on sale' promotional schemes are highly related to customer loyalty i.e. (r= .673, p <0.01). The impact of promotional schemes on customer loyalty is measured using simple linear regression analysis. OSPS shows positive effect on customer loyalty i.e. R2 for 'on sale' promotional schemes is 0.453. This shows that customer loyalty can be achieved through 'on sale' promotional schemes. A positive relationship between the two suggests that increase in 'on sale's promotional schemes expenditure will eventually increase the customer loyalty. From the results deduced, it is concluded that:

**Table no 2: Descriptive Statistics of Sample**

Demographics	Items	No. of Respondents	Percentage
Gender	Males	146	53.9
	Females	125	46.1
Age	Upto 20	15	5.5
	21-30	169	62.4
	31-40	59	21.8
	41-50	17	6.3
	Above 50	11	4.1
Occupation	Student	86	31.7
	Teacher	44	16.2
	Govt. Employee	9	3.3
	Professor	12	4.4
	Business man/woman	4	1.5
	Housewife	12	4.4
	Professional	104	38.4
Income	<25,000	65	24
	25,000-40,000	44	16.2
	40,001-60,000	61	22.5
	60,001-1,00,000	46	17
	Above 1,00,000	43	15.9
	Not Applicable	12	4.4

**Table no 3: Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.793	.791	16

**Table no 4.Regression Analysis**

Predictors	Customer Loyalty	
	R Square	β
OSPS	0.453	0.737
Buy-1-get-1-free	0.173	0.340
Free Samples	0.358	0.394
Price Discounts	0.083	0.274
Scratch and win	0.300	0.408

Table 5 represents the correlation of ‘‘on sale’ promotional schemes’ with customer loyalty. It is observed from the results that there is 67% correlation between the two.

Correlation among different ‘on sale’ promotional schemes can be seen from the table.

From the results it can be concluded that promotional schemes are highly positively correlated with customer loyalty. For

**H1** is accepted because there is a strong positive relationship between OSPS and customer loyalty i.e. there is 67% correlation between these two variables

**H1a** is rejected because there is a positive impact of price discounts on customer loyalty. Although the two are not highly correlated (29%) but this promotional schemes is useful for short term.

**H1b** is accepted because there is a significant impact of free sampling on customer loyalty i.e. there is 60% correlation between the two.

**H1c** is accepted as there is 42% correlation between buy-1-get-1-free and customer loyalty.

**H1d** is rejected because there is a highly positive correlation (55%) between the two variables i.e. scratch and win and customer loyalty

**Table no 5: Correlation Analysis**

	OSPS	B1G1F	Free Sampling	Discounts	Scratch and win	CL
<b>OSPS</b>	<b>1</b>					
<b>B1G1F</b>	.676**	<b>1</b>				
<b>Free Sampling</b>	.789**	.321**	<b>1</b>			
<b>Discounts</b>	.578**	.276**	.278**	<b>1</b>		
<b>Scratch and win</b>	.758**	.347**	.504**	.221**	<b>1</b>	
<b>CL</b>	.673**	.415**	.598**	.289**	.548**	<b>1</b>

**CONCLUSION**

The crux of the research is to investigate the impact of ‘on sale’ promotional schemes on customer loyalty. The use of this particular promotional scheme in comparison to other marketing techniques is that in this competitive era, companies are allocating most of their budget to win new and retain current customers by offering them promotional schemes which will create loyalty. As discussed earlier, in this fierce market competition the most challenging task for marketers is to create loyalty among the customers. Customer loyalty with the brand means to make repeat visit and spreading positive word of mouth due to their satisfied experience, without being attracted towards the competitors regardless of their tempting activities. Increased global competition has made it difficult to retain customers. For the survival of corporations, it is important to develop network of loyal and satisfied customers (Gould, 1995). From the results deduced, it is concluded that OSPS plays a vital role in creating loyalty. Marketers and retailers seeking to create customer loyalty should offer such promotional schemes that will help in retaining current customers and attracting new ones. In order to be irreplaceable, there is a need to be different.

**REFERENCES:**

- [1] Dickson PR, and Sawyer AG, The price knowledge and search of supermarket shoppers, *The Journal of Marketing*, **54**( 3), 42-53 ,1990.
- [2] Quelch JA, It's time to make trade promotion more productive, *Harvard Business Review*, **61** (3),130-6, 1983.
- [3] Sinha I, Smith MF, Consumer perceptions of promotional framing of price, *Psychology and Marketing*, **17** (3), 257-75, 2000.
- [4] Pramataris KC, Vrechopoulos AP, Doukidis, GI,The transformation of the promotion mix in the virtual retail environment: an initial framework and comparative study, 2001. available at: [www.eltrun.aueb.gr/papers/iec.htm](http://www.eltrun.aueb.gr/papers/iec.htm) (accessed 28 November 2014)
- [5] Fill C, Marketing Communications: Contexts, Strategies and Applications, 3rd ed. *Pearson Education Limited, Italy*, 2002.
- [6] Shimp TA, Advertising Promotion and Supplemental Aspects of Integrated Marketing Communications, 6th ed., *Thomson South- Western, Boston, MA*,2003.
- [7] Percy L, Rossiter JR, Elliott R, Promotion Tactics. Strategic Advertising Management, Oxford: *Oxford University Press*,2001.
- [8] Athanasopoulou P, Relationship quality: a critical literature review and research agenda, *European Journal of Marketing*, **43** (5/6),583-610, 2009.
- [9] Kim HS, Yoon CH, Determinants of subscriber churn and customer loyalty in the Korean mobile telephony market Determinants of subscriber churn and customer loyalty in the Korean mobile telephony market,*Telecommunications policy*, **28**, 751- 765, 2004.
- [10] Hoq MZ, Amin M, The role of customer satisfaction to enhance customer loyalty, *Afr.*, **4**(12): 2385-2392 (2010)
- [11] Lin JSC, Wu CY, The role of expected future use in relationship-based service retention,*Managing Service Quality*, **21**(5), 535-551 (2011).
- [12] Ndubisi NO, Chiew TM, Awareness, Usage of Promotional Tools by Malaysian Consumers: The Case of Low Involvement Products, *Management Research News*, **29**(1/2),28-40 ,2006.
- [13] Cotton BC, Babb EM, Consumer response to promotional deals, *Journal of Marketing*, **42** (3),109-13, 1978.
- [14] Diamond WD, Campbell L, The framing of sales promotions: effects on reference price change, in Srull, T.K. (Ed.), *Advances in Consumer Research*, 1989.
- [15] Gould G, Why it is customer loyalty that counts (and how to measure it), **16**, *Association for Consumer Research, Provo, UT*, 241-7,1989.