

SALES PROMOTIONAL STRATEGIES OF E-TAILORS AND CUSTOMER RETENTION

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ABSTRACT

As India's untapped opportunities for online retailers have been stark-naked in the last decades, the competition for online market share becomes stiff in both domestic and international levels. As the competition coarsens, one of the biggest challenges of the marketers is to retain the customer base. Sales promotions have become one of the most preferred methods of marketing communication and is also a vital tool of strategic customer retention management. This study is about the impact of various sales promotional strategies on customer retention. Various sales promotional strategies were reviewed, deal proneness, functional benefits, monetary benefits and hedonic benefits focused sales promotional strategies were selected and its impacts on customer retention have been analysed through. The findings are that all factors have significant impact on customer retention.

Keywords: Sales promotion, Customer Retention, Online Retailing, Customer Retention management

1. Introduction

Online retailing become the most attractive mode of retailing as most of traditional retailers either open particular windows for online shopping or completely switch into the mode. Clever online retailers have varieties of arrows in the quiver, whether it is personalization of shopping experience, differentiation of the online store atmosphere, or optimization of the structure of their website. In India, it is the trend in the online industry that most online retailers are investing a lot on customer acquisition rather than concentrating on customer retention. The major portion of the online retailer's investment goes to social media marketing to grab more watches and other internet advertising models used to create traffic to websites. But when it comes to retention, the online retailers fail to develop suitable strategies for retaining customers after acquiring them as a result online retailers have to strive in the market without an end as the probability of selling to an existing customer is much higher than the probability of selling to a new prospect and the cost of acquiring a new

customer is seven times more than retaining an existing customer.

Many research studies on sales promotions have focused on the impacts of marketing communication on sales and profits and the impact of promotions on customer behaviour. According to (Oliver, 1999) promotional activities have indirect effects on brand loyalty through customer satisfaction, which in turn has direct effects on brand loyalty. Among the fundamental variables on the brand choice process like price, reference price, losses and gains, loyalty, and promotions, the sales promotions has high influence on this process (Alvarez-Alvarez, 2005) (Delgado-Ballester, 2005). (Oliver, 1999) Confirmed a positive relationship between sales promotions and brand loyalty. This study focuses on the variables of sales promotion which can be taken as part of overall communication for online retailers for developing strategies for retaining customers by analysing the impact of variables on customer retention directly.

2. Online promotional Strategies and Consumer Behaviour

Consumers' online shopping behaviour is influenced by several factors like online product recommendations and systems offering personalized services were preferred more than 'human experts' (Senecal, 2004) cost effectiveness (Vijayasathy, 2002), consumers' Internet expertise, expertise and comfort with the internet, website features, perceived usefulness and trust towards online retailer (Martínez, 2006). Interactive customer service, website features and ease-of-use dimensions have been widely researched.

2.1 Deal proneness focused promotions

Many studies indicates that deal proneness can be understood as consumers' behaviour to respond to promotions. Bagozzi (1988) applied theory of reasoned action to study coupon usage and action orientation construct. Action-oriented users relied on their past coupon usage. According to Lichtenstein (1990) the deal proneness is a psychological construct that affects coupon responsiveness and value conscious behaviour because of the perception that the coupon increases the value of the product. Value consciousness and deal proneness can be differentiated on the basis of acquisition and transaction utilities. Acquisition utility refers to value gained from the transaction. It refers to the price paid as compared with the perceived utility of the product. However, transaction utility is the psychological satisfaction a consumer derives from the purchase. Value-conscious consumers perceive acquisition utility as a major reinforce, whereas coupon-prone consumers would give importance to transaction utility (Lichtenstein, 1990). Martínez and Montaner (2006) suggest that psychographic traits affect consumers' deal-proneness behaviour. Deal proneness is associated with price consciousness and is also affected by other consumer traits such as innovativeness, impulsiveness and shopping enjoyment.

2.2 Functional benefits focused promotions

Functional benefits are the most common basis for promotions, based on a product attribute that provides functional utility to the customer and relate directly to the functions performed by the product for the customers. Functional benefits are tied to the product's attributes; they provide the customer with functional information and refer to tangible or intangible aspects product-related. Jillian C. Sweeney and David A. Webb (2007) reveal that functional benefits enhance firm-level commitment to the relationship. Promotions provide a saving and quality feeling and reduce the pain of paying (Ailawadi, 2001).

2.3 Monetary Benefits focused promotions

Many studies indicate that Communications on monetary benefits also attract the customers. According to Liao (2006), monetary promotions rewards can be perceived as savings or loss reduction. These promotions are then framed as gains. Promotions framed as gains have the benefit of being segregated from the reference price, whereas promotions framed as reduced loss are seen as merely reducing the purchase price. In addition, if non-monetary promotions do not affect reference prices, they may not be seen as lowering the perception of quality or image for the brand (Sinha, 2000).

Most of analytical and econometric models of sales promotions simply assume that monetary savings are the only benefits of motivating consumers to respond to sales promotions (Blattberg, 1993). According to Mittal (1994), Income is one of the most important demographic variables that considered as influential to consumer responses to sales promotions.

2.4 Hedonic benefits focused promotions

Hedonic benefits refer to experiential and affective aspects and they are not based on the objective aspects of the product or the promotion. Hedonic benefits are non-instrumental, experiential, and affective; they are appreciated for their own sake, without further regards to their practical purposes (Hirschman, 1982).

When buying a promoted good, the consumer may obtain hedonic benefits such as entertainment, exploration and self-expression as some consumers may feel embarrassed to buy a promoted brand (Simonson, 1994). The entertainment benefits are important for people who enjoy shopping. People who enjoy shopping equally enjoy searching for information on available promotions, obtain an additional utility tied to low-price buying, Over all they present a higher proneness to use both in-store and out-of-store promotions (Ailawadi, 2001). According to Palazón-Vidal, (2005) the nonmonetary promotions are more customer franchise building (brand loyalty) as far as they enhance a greater number and more favourable associations than monetary promotions.

3. Customer Retention

There are mainly four theories regarding the factors influencing customer retention. They are Sharma and Patterson's (2000) relationship commitment model, Ranaweera and Prabhu's (2003) holistic approach, Richard's (1996) conversion model as well as Ranaweera and Neely's (2003) holistic approach.

In Communication and technical quality are the dominant factors of customer retention in Relationship Commitment Model (Sharma, 2000). The model consists of three factors such as communication effectiveness, technical quality and functional quality, all affected by trust in the relationship which in turns affect relationship commitment. As per the theory of holistic approach to Satisfaction (Ranaweera C. &, 2003), Trust and Switching barriers have combined effects on satisfaction. The conversion model (Richards, 1996) is based on the fact that customer commitment is more crucial than customer satisfaction as the satisfied customer may or may not stay with a brand for long term. So, the model identifies three factors as drivers of commitment. They are *Level of involvement* in the brand and the category, *Attraction of alternatives*, and *the extent of ambivalence which means* the insecurity caused by the range of choices. The theory of A holistic approach to Quality, Price, Indifference and Inertia

(Ranaweera C. &, 2003) is all about a holistic approach to customer retention incorporating service quality perceptions, price perceptions, customer indifference, and inertia.

Based on the vast literature review on both conceptual and empirical studies sales promotion strategies of retailer and various models and theories on customer retention, it has been hypothesised as follows:

H1: Deal proneness focused promotions have significant effect on customer retention

H2: Functional benefits focused promotions have significant effect on customer retention

H3: monetary benefits focused promotions have significant effect on customer loyalty

H4: Hedonic benefits focused promotions have significant effect on customer loyalty.

4. Research Methodology

The objectives of the study are to analyse various online promotional strategies and to find out the effective promotional strategies for retaining the customers. Keeping the objectives in mind, various secondary data sources have been scrutinized and variables and dimensions of online promotion have been illustrated and a questionnaire was developed and reliability and validity has been checked before the administration of the study. The primary data has been collected from the customers who made at least one online shopping from January 2015 to December 2015. A total of 500 questionnaires were sent to respondents by mail and only 227 responded. Among them, 184 questionnaires were complete and used for further analysis. The respondent should be able to rethink their latest online purchase and capable of responding their purchase experience. The regression analysis was used for hypothesis testing and the details are explained through a model (Figure.1).

4.1 Data Analysis

The significance of the hypothesis was checked with three basic criterions. They are internal consistency, average variance explained (AVE), and regression analysis. The composite reliability

and Cronbach's alpha show the internal consistency and the standard value should be greater than 0.7. The reliability and Cronbach's alpha results with high consistency of Deal proneness focused promotions strategy (.84), Functional benefits focused promotions strategy (.82), Monetary Benefits focused promotions strategy (.79), Hedonic benefits focused promotions strategy (.71) and customer retention (.84) show the consistency and reliability of the measurement. Average Variance Explained results (AVE) are as follows Deal proneness focused promotions strategy (.0557), Functional benefits focused promotions strategy (.612), Monetary Benefits focused promotions strategy (.628), and Hedonic benefits focused promotions strategy (.583) and customer retention (0663). An analysis of standard residuals was carried out, which showed that the data contained no outliers (Std. Residual Min = -2.46, Std. Residual Max = 1.85). Tests to see if the data met the assumption of collinearity indicated that multicollinearity was not a concern (Deal Proneness Focused Sales Promotions, Tolerance = .82, VIF = 1.22; Functional Benefits Focused Sales Promotions, Tolerance = .85, VIF = 1.19; Monetary Benefits Focused Sales Promotions, Tolerance = .77, VIF = 1.32; Hedonic Benefits Focused Sales Promotions, Tolerance = .84, VIF = 1.20.). The data met the assumption of independent errors (Durbin-Watson value = 2.06). The histogram of standardised residuals indicated that the data contained approximately normally distributed errors, as did the normal P-P plot of standardised residuals, which showed points that were not completely on the line, but close.

To meet the objective of the study, for determining the ability of four factors of sales promotion strategies to predict customer retention in online retail situation was explored by performing multiple regression analysis. Using the enter method it was found that selected sales promotional strategies explain a significant amount of the variance in the level of customer retention ($F(4, 95) = 35.24, p < .05, R^2 = .60, R^2_{Adjusted} = .59$) (Table. 01 & 02). The analysis to know whether each of the predictor

variables is contributing to the result or not, shows that deal proneness (Beta = .49, $t(99) = 6.46, p < .05$), functional benefits (Beta = .09, $t(99) = 0.84, p < .05$), monetary benefits focused sales promotions (Beta = .36, $t(99) = 4.88, p < .05$) hedonic benefits focused sales promotion (Beta = .09, $t(99) = .09, p < .05$) did significantly predict customer retention (Table. 03).

5. Model Validation:

The conceptual model developed through the study shows the significant influence of all independent items on customer retention in the online marketing situation while deal proneness and monetary benefits focused sales promotion strategies have highly significantly influence customer retention in online retail situation while functional benefits and hedonic benefits focused sales promotion strategies have least significant influence on customer retention. The model is relevant in the online marketing business as these online promotional strategies are to be considered by strategy makers and marketing team while developing promotional strategies for online retailing. This model is not a holistic but adaptable. The influences of various independent variables would be changing depending on the culture.

6. Discussion

This research investigates the relationship and effect of select sales promotion strategies and customer retention. This was confirmed that there are positive relationships between the select sales promotion strategies and customer retention. From the summary of the result it can be concluded that as select four sales promotion strategies are being applied so does the customer retention. All four Hypotheses were confirmed from the data of this study. The study finds out that deal proneness focused promotions, functional benefits focused promotions, monetary benefits focused promotions and hedonic benefits focused promotions have significant effect on customer loyalty. Compared to the functional benefits and hedonic focused

promotional strategies, the deal proneness focused and monetary benefits focused promotional strategies contribute profoundly to the process of retaining customers. This is one of the most significant findings to emerge from this study, is that deal proneness focused and monetary benefits focused sales promotion strategies have a stronger effect on brand retention of Indian customers. The present study confirms previous findings and contributes additional evidence suggesting that deal proneness focused and monetary benefits focused sales promotion strategies can be a critical antecedent of customer retention. This suggests that a higher level of deal proneness focused and monetary benefits focused sales promotion strategies leads to higher level of customer retention.

Even though customer retention is not completely dependent on sales promotional activities, as the previous researchers concluded on effect of sales promotions on customer retention in bricks and mortar retailing situation, the present study finds out the significant role of sales promotional strategies in retaining and making customers loyal to the organization in the online retail marketing situation also. Indifferent to the findings of Syed Md Faisal Ali Khan and Dr. Divya Ranab (2012) and Rajesh Rajaguru and Margaret J Matanda (2006) on customer loyalty in Indian organized retail sector which propose that product variety and product attributes as the major factors of loyalty in mortar and bricks retail situation, the present study observes that Indian online customers are highly sensitive on prices and value aspects and are more appealed towards the customized coupons and offers and supportive communications in online retail situation. Monetary beneficial communications and customized deal communications are the most favoured and effective promotional strategies in Indian online retail industry. Along with some studies which submit that consumers

with high hedonic shopping values tend to avoid online shopping as they cannot touch the product or interact with the salespeople directly while shopping online and customer with high hedonic shopping values tends to prefer direct interaction with the product or salespeople, which become stimuli in creating the hedonic arousal (Sarkar, 2011), the present study also outlines that even though hedonic benefits focused promotions have significant influence in retaining the online customers, it looks less important in comparison with other factors of sales promotional strategies. The results of the study are useful in understanding the major factors of promotional strategies that lead for creating loyalty in the minds of online customers. The four factors identified from the literature are significant in Indian online retail context.

7. Conclusion

As the online retail market advances to mainstream market in India, the market becomes more rushed with competitors and attractive for new entrants. The fact is that although there are still big gaps to be explored and untapped opportunities, even major shareholders of the industry can't retain the customers and few of the online retailers strain hard to sustain because of the marketing and promotional strategies which are not focused on customer retention and loyalty. Continuous researches on changing patterns of online customer value propositions should be carried out and trends should be keenly forecasted while developing sales promotional communications to make a competitive advantage in the market by permanently holding a loyal customer base. It's suggested that further studies can be done the impact of the factors in different cultures and marketing situations.

Figure 2 Sales Promotion Strategies and Online Customer Retention Model

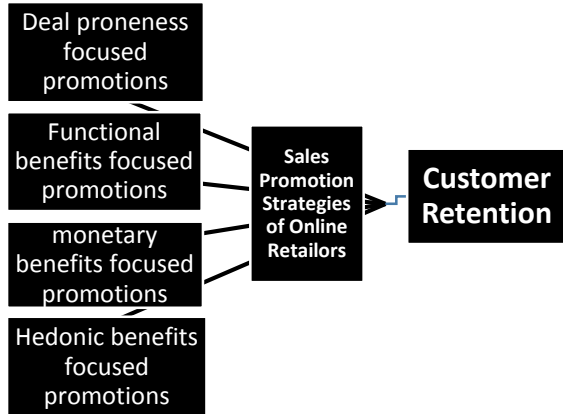


Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773 ^a	.597	.580	.64777709

a. Predictors: (Constant), Hedonic, Monetary, DealProneness, Functional

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59.137	4	14.784	35.233	.000 ^b
	Residual	39.863	95	.420		
	Total	99.000	99			

a. Dependent Variable: R

b. Predictors: (Constant), Hedonic, Monetary, DealProneness, Functional

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.460E-017	.065		.000	1.000
	DealProneness	.484	.075	.484	6.453	.000
	Functional	.070	.084	.070	.839	.404
	Monetary	.356	.073	.356	4.879	.000
	Hedonic	.083	.085	.083	.983	.328

a. Dependent Variable: R

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