



# UNIT-10

## Personal Selling and Sales Promotion

### Learning Outcomes

**By the end of this unit the learner will be able to:**

- ✓ Explain the nature and importance of personal selling
- ✓ Discuss the importance of sales promotion
- ✓ Identify major tools used in sales promotion.

## Unit 10

### Personal Selling and Sales Promotion

As already mentioned, the promotion mix consists of four parts: personal selling, sales promotion, advertising, and publicity. This unit will discuss personal selling and sales promotions in greater detail. Here we will outline the importance and nature of personal selling, theories of personal selling, major steps in personal selling, and the qualities that make a good salesperson. The unit also discusses why sales promotions are important and some of the tools used in sales promotions.

#### What is Personal Selling?

Personal Selling is explained as the “individual-to-individual conversation between a buyer and a seller.” Its purpose is to convince the buyer to accept the seller’s point of view or to convince the buyer to take a particular action. Personal Selling can be classified as a promotional tool that consists of human contact and communication that is personal and oral instead of communication through the mass media. The job of the sales person may be to persuade, sell, or simply inform.

Generally speaking, the responsibility of the sales person is to keep the customer informed about the product or service or to convey a message in a convincing manner to the potential customer. Sales people communicate the company’s offer and let potential customers know how the product or the service offered may help to solve an unsolved need or problem. Personal Selling is fairly costly. The sales person has to be trained in developing and conveying the message in a manner that suits the needs of the individual customer.

Time may also be spent travelling from customer – to - customer or waiting for an opportunity to deliver the message. Personal Selling is generally the most flexible way to deliver a promotional message. The sales person can tailor his/her presentation to suit the needs of the customers, unlike advertising messages delivered via newspapers, radio, or television. Additionally, Personal Selling also allows direct feedback from the potential customer.

#### How Personal Selling Differs from Sales Promotion?

These two terms often cause significant confusion as they are mistaken for each other. To begin to understand how these terms are different we first look at how sales promotion is defined. Sales promotion is defined as any promotional effort, apart from personal selling, advertising, and publicity, intended to get the buyer’s to make purchases or test a dealer’s effectiveness in a given period of time. Sales promotion then, is any activity which offers an incentive for a limited time period and is intended to induce a desired outcome or response from target customers or dealers. Sales promotions can be in the form of contests (both for customers or dealers) with prizes for the winners of those contests, gift coupons, and free samples discounts, etc. Sales promotion involves an impersonal one way communication e.g., announcements in newspapers, magazines, or at points of purchase (shops). Now, let us go over how Personal Selling is different from sales promotion.

Table 10.1 Difference between Personal selling and sales

Factor	Personal Selling	Sales Promotion
1) Mode of Communication	Direct and face-to-face (one-to-one contact)	Indirect and non-personal
2) Regularity	Regular and on-going activity (continuous)	Short-term stimulation -- limited time period
3) Message flexibility	Personalised and designed to meet specific customer needs	Uniform message. No variation
4) Control over the message	Fairly High	High
5) Feedback	The salesperson gets a direct feedback from the customer	Has no provision for direct feedback

Table. 10.1

## The Importance of Personal Selling

Due to several reasons, Personal Selling gained quite a lot of significance after World War 2, some of these reasons for that are:

1. Technological advancement, which led to a greater production capacity and innovative products;
2. Financial institutions grew larger, which, in turn, led to more companies being born; and
3. Development of communication technology and the availability of better means of transport led to a reversal of the seller's market.

As a result of these reasons, personal selling emerged as a very important factor in the growth and success of a business. Today, nearly all organisations make personal contacts with their clients. As a result, the various forms of personal selling are the most commonly used promotional tools. Even the accountants, stock brokers, dentists, lawyers, management consultants, and other professionals are also considered as salespersons because they negotiate with clients and sell services. The process and operations of personal selling account for a major part of marketing costs and present the management with a number of challenging issues in decision - making, such as, managing the sales operation, building, retaining, and developing motivated sales force.

Personal Selling is an important selling tool and a major part of an organisation's operations in terms of the number of people involved in this activity. Personal Selling includes a number of activities related to marketing, which are carried out by specialists. This implies that personal selling relates to each part of

the marketing mix, i.e., the product, price, place, and promotion. A corporation's advertising is intended to assist salespeople in making a sale. Advertising draws attention from people who might become targets for sales calls. The type of effort required and the amount of selling needed depends on the product. Complicated, technical products require greater selling effort than consumer goods. Even for consumer goods, the amount of selling activity required varies from one product another. Expensive products, such as, computers and automobiles, etc., call for more involvement of the prospect and therefore, a greater selling effort. The distribution channels used for the product also have an impact on the level of services provided to customers. It is, therefore, important that a salesperson fully understand his company's distribution system. Additionally, Personal Selling is important for the company as well for a number of reasons, these reasons are outlined below:

- 1) Personal Selling helps to reduce marketing costs: As salespeople operate in the field, they are aware where the products should be made available. This means that goods do not have to be dumped where there is little or no demand.
- 2) Personal Selling reduces the cost of Production: Personal selling leads to increased sales, which, in turn, leads to higher production. This allows fixed cost to be spread over a large number of units, leading to a lower cost per unit.
- 3) Personal Selling helps to introduce new products and innovations to the market: Without salespeople, this process would be cumbersome and slow, the reason being that people neither have the time nor the willingness to look for new developments.
- 4) Personal Selling facilitates consumption: If goods and services are not purchased in sufficient volume, then, people manufacturing them lose their employment. Selling helps people overcome their initial hesitation in buying, which leads to increased consumption. Consumption creates employment.

## Selling Theories

There is a disagreement over whether selling is a science made up of basic concepts which are easily taught or an art learned from experience. Due to this controversy, there are two different approaches to the theory of selling. The first approach is based on the collective experience of salespeople in the field, as opposed to a systematic body of knowledge.

This approach is made up of two theories:

- 1) the AIDA Theory of Selling and
- 2) the right set of the Circumstances Theory. The later approach is based on research findings from behavioural sciences and psychology and is further subdivided into two theories: 1) the buying formula theory, and 2) the behavioural equation theory. Thus, on the whole there are four selling theories. Let us go over them one by one

## The AIDA Theory

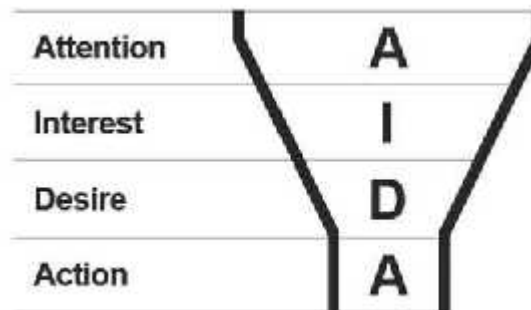


Fig. 10.1

According to this theory, during a successful sales presentation (interview) by the salesperson to the client (the would be customer), the mind of the client goes through four stages - Attention, Interest, Desire, and Action, given by the acronym AIDA. The sales person's presentation must take the mind of the client during these four stages.

**Attention:** The primary goal of the salesperson is to get the future customer in a receptive frame of mind. A good first impression can be created with a neat dress and a friendly approach. For example, a salesperson selling a skin lotion may gain attention with an opening line such as "this new skin lotion will protect you from dry skin."

**Interest:** The second task of the salesperson is to turn the future customer's attention into a strong interest. To achieve this, the salesperson himself/herself must be enthusiastic about the product. Another method is to hand over the product to the client and let him/her use it. Brochures and other forms of visual aids serve the same purpose. Sticking to the skin lotion example just mentioned - a question that may arouse interest could be "are you aware that dry skin is one of the main things that cause wrinkles as you grow older?"

**Desire:** The third task is to convert interest into desire to point where the prospect is ready-to-buy. Objections from the prospect need to be handled carefully at this stage. Again taking the example of the skin lotion, the salesperson could make a statement, such as "here's a photograph of a (celebrity) who has benefited from our skin lotion," to arouse desire for the product. The prospect would also like to have wrinkle-free face as she/he grows older.

**Action:** This is the final stage, at this point the future customer should now be ready to act i.e. be prepared to make the purchase. Quite often there may be some hesitation on the part of the prospect at this stage. Statements such as "we are offering an introductory discount on this skin lotion" or "this

lotion is available at all leading stores in your locality" may help overcome this hesitation. However after the sale has been made, the salesperson should ensure that the customer is satisfied with the product.

## Right Set of Circumstances Theory

The underlying principle of this theory is best described by the statement, "everything was right for the sale to take place." Simply put, this means that, if a salesperson (after gaining the interest and attention of the prospect), presents the right appeals in the right situation, then, the desired response (i.e., a sale) will result. That is why this theory is sometimes known as the situation response theory.

The salesperson should attempt to control the client's external and internal factors. For example, during the interview if the salesperson offers the client a cup of tea and the client accepts the invitation, the salesperson might feel that a sale will eventually result. In this situation however, the salesperson's focus is mainly on the external factors, whereas the more important internal factors have been ignored.

These may be the client's desire to or not to:



Fig. 10.2

- i) have a cup of tea,
- ii) have it now,
- iii) go out of the office,
- iv) go out with the salesperson.

The main drawback of this theory is that it is seller-oriented and puts emphasis on the fact that the seller controls the situation.

## Buying Formula Theory

The basic premise of this theory is that the buyer's needs and problems receive a lot of attention, and the salesperson's role is seen as aiding the buyer to look for solutions. Whenever the future customer (or individual) feels a need or recognises a problem, he feels that he is being deprived of satisfaction. In the buying and selling world, the solution (or satisfaction) will come in the form of a product or service or both.

When we talk about buying, the word 'solution' is made up of two parts:

- 1) The product itself and
- 2) The brand - or company's - name.

Therefore, in the buying process the buyer goes through five stages shown below:  
According to these stages, a salesperson should follow the following guidelines:

- 1) If the client does not feel the need, then, the need should be emphasised;
- 2) If the client does not think of the product at the time of need, an association between the product and the need must be created;
- 3) When thinking about the product, if the client does not think of the brand or company name, the relationship between product and brand or company should be emphasised;
- 4) If the need, product, and brand name are well - associated, then, the salesperson should emphasise how easy it is to use and purchase the product; and
- 5) When selling to new customers, all elements of the formula should be presented.

## The Personal Selling Process

As already discussed, the basic objectives of Personal Selling are:

- 1) To seek out potential customers
- 2) To convert them into customers
- 3) To keep them (retain them) as satisfied customers.

The importance of every one of these objectives to an organisation will depend upon the role that Personal Selling plays in the overall promotion mix. The process of Personal Selling, also known as the creative selling process or selling dynamics or salesmanship, outlines how salespeople find potential customers, convert them to customers and retain them as customers.

This process involves a series of steps as follows:

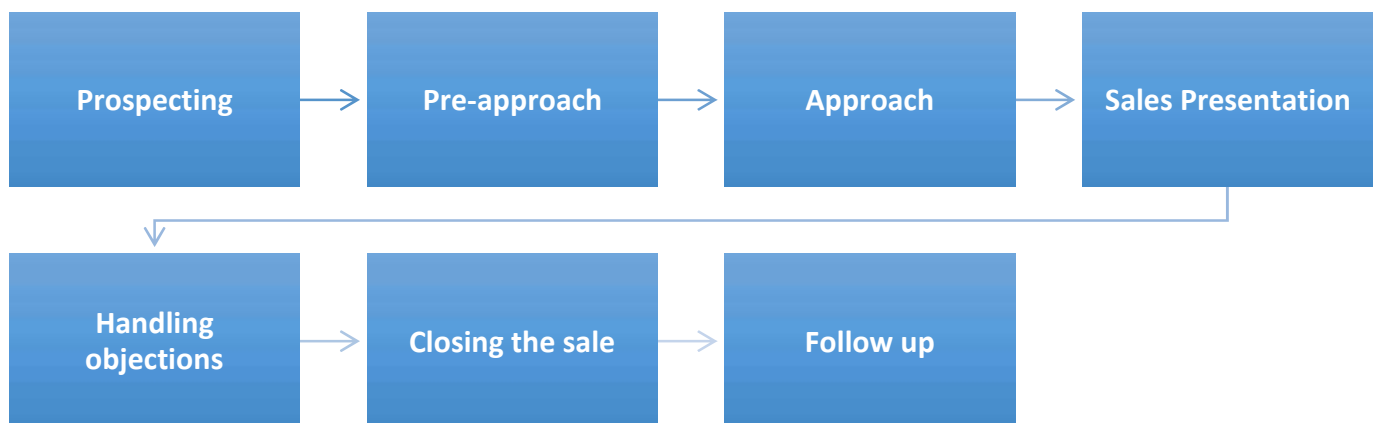


Fig. 10.3

Let us study these steps in detail -

## Prospecting

The process of searching (locating), identifying, and qualifying target customers is known as prospecting. Sales calls, by salespersons to regular customers, are only one part of the sales job. In fact new customers should also be sought for the growth of the business. The first step for this is to generate leads. Sales leads are the identities of people or organisations that may be interested in purchasing the product. The leads may be sourced from trade journals and trade directories, advertising inquiries (such as coupons returned to the organisation in response to an advertisement), business sections of newspapers, trade shows and even present customers. Chambers of commerce and government publications may also prove to be a useful source. These names (leads) are not yet prospects. To be called prospects they must first be qualified. To qualify as a prospect, the company or individual must have a need for the product, should be able to purchase it (i.e. the ability to pay for the product), and should be authorised to make the purchase. Another aspect of qualifying the prospect is to assess the size of the potential purchase. Only individuals or companies that meet these requirements will be classified as prospects (or prospective customers).

## The Pre- Approach

The Pre- Approach is the homework done by the salesperson before approaching a prospective client. This involves gathering specific information regarding the background, product needs, and personal characteristics, etc., of the prospect. This information can potentially cover a wide range of areas.

For example, for individuals, the information may include the prospect's age, marital status, hobbies, interests, amount of people in the business, and education, etc. For companies, the information may include background of the company, types of products, present suppliers, actual demand, the prospect's decision-making authority, and people who can influence decisions, etc. This information about the prospects will help the salesperson in the following ways:

- 1) It will help the salesperson avoid any significant tactical errors. For example, during a conversation with the prospect, a salesperson might criticise or express views which might be the exact opposite of the prospect's views. This would quite obviously end the presentation;
- 2) It allows the salesperson to tailor the presentation to the needs and requirements of the specific client;
- 3) During the pre-approach the salesperson might come across areas of common interest, e.g., they are both very keenly interested in swimming or cricket. This would allow the salesperson to carry on a better conversation and help build repertoire. It is often stated that "knowing something about your prospect is-as important (if not more), as knowing everything about your product."

## The Approach

The Approach is what occurs when an initial contact is made with the prospect. It includes the method or manner in which the prospect is approached and the prospects' interests are ascertained. The quality of the first impression will determine whether the salesperson will be able to develop an ongoing relationship with the prospect. The information gained during pre-approach will be very useful at this stage. For example, during pre-approach the salesperson might have come across the fact that the prospect is paying a very high transportation cost on goods delivered to his customers or dealers. The salesperson can offer a different system that allows for cutting costs for the prospect. There can be no better way to gain attention than making an offer that will save the prospect money. Another method of approaching the prospect could be to get a reference for the prospect from one of the existing, satisfied clients. Salesperson's dress, speech, gestures, and level of confidence also play an important role at this stage.

## The Presentation

This is the most important part of the sale. It is an attempt by the salesperson to convey the product's benefits and explain appropriate courses of action to the prospective buyer. Miniature models of the product, along with slides, pictures, video tapes, booklets, flip charts, etc., help to communicate the product's message to the prospect.

Various methods for presentation are used. Some of more the popular ones are:

- 1) The AIDA format, which had already been discussed earlier, is when the sales person takes the prospect through the different stages of readiness, to buy from Attention to Interest to Desire to Action.
- 2) In the second format, canned presentation is used. In this method the salesperson delivers a memorised sales talk which includes a number of key words (stimuli) to elicit a favourable response from the prospect. That is why this approach is also called the stimulus-response approach. From a stimulus-response presentation the salesperson has to list all the possible buying motives (reasons for buying) of the prospect. Then the product's features are translated into selling points to show what each will mean to the prospect. For example, to say that a ball pen has a "platinum tip" will not mean much to a prospect.
- 3) It must be translated into selling points, such as, "will not skip" and "will not leak" to influence the purchase behaviour of the prospect. Essentially in a presentation, some claims about the product are made aiming at the prospect's likely buying motives. By the use of various methods, the truth of these claims is proved.

## Objection Handling

If the prospect says 'no', he is interested. Even if the prospect is amicable and interested in the product, he may have reservations regarding the purchase. Questions or objections are likely to come up. Since objections explain the reason for resisting or delaying the purchase, the salesperson should pay attention and learn from them. When the prospect does not fully comprehend a point, the salesperson should remove any uncertainty. For example, a prospect for a washing machine might inquire if an ordinary detergent can be used for machine washing. The salesperson should then clarify the advantages/disadvantages of using an ordinary detergent. Good salespeople encourage prospects to ask questions. These questions or objections can be turned into counter arguments.

For example, a stock broker might say, "you are right, Mr. David, the price of this stock has dropped 50% in the last 6 months. That is exactly why I am recommending it to you. At this price, in the opinion of our experts, it is an excellent buy."

The salesperson should avoid getting into an argument to prove a point, because he can may win the argument, only to end up losing the sale. Notice how, in the above example, the salesperson initially agreed and then, he counter-argued to make his point. This is the correct way to do it. The prospect's questions or objections show how close the prospect is to making a purchase decision.

## Closing the Sale

It has been stated that "if a salesperson does not ask for the order and get it, he is not only wasting his time but is working for the competition". Every presentation must be drawn to its logical conclusion at some time i.e., close the sale which means ask for the order.

At times, a prospect might help with a question such as "when can you make this delivery?" The salesperson can give a prompt reply to the question and ask for the prospect's signature on the order.

A Trial Close is a technique in personal selling used to ascertain whether a prospect is willing to buy the product or not. If the prospect gives positive answers to questions, such as, "which colour would you prefer?", "Which model do you like?", "When would you like it delivered?" and "Would you like to pay in-cash or by cheque?" This signals that the prospect is willing to purchase.

## Follow - Up

Getting an order does not signal the end of the selling process. It is in fact only the beginning. The salesperson must follow-up to ensure that everything is taken care of as promised and that the order is shipped on time and received on time by the prospect. A good follow-up is essential to building up loyal customers and increasing business. The customer should be reassured that he has made the correct buying decision, and the salesperson will always be ready to help in case of any future problem.

## The



## Qualities of a Good Salesperson

No two selling jobs are exactly the same. The types of selling jobs will determine the personality trait and characteristics required in salespeople to achieve the sales objectives. If an over qualified individual is assigned to a job which can be successfully completed by a less qualified individual, it will be a waste of talent and resources. On the other hand, placing a salesperson in a position where his/her skills are not appropriate will be unfair to him.

## Types of Personal Selling

There are three basic categories of selling positions:

- 1) Order taking;
- 2) Order getting;
- 3) Sales support positions.

Each of these three positions requires different skills. Let us examine them one by one.

### Order Taking

A lot of people in sales perform duties of a routine nature. These people do very little creative selling and are known as order takers. Their role is to note orders and ensure their timely processing. In most of these scenarios, the customer decides the products required and the quantity of products ordered.

There are three types of order takers:

- 1) Driver salesman;
  - 2) Inside order taker; and
  - 3) Outside order taker.
- 
- 1) **The Driver Salesman:** Examples of this type include soft drinks, milk, and petroleum. The sales individuals that fall in this category do not have many selling responsibilities. They just deliver the products which the customer asked for. A good relationship with the customer might result in a little extra sale.
  - 2) **The Inside Order Taker:** A retail clerk behind the counter in a shop is called inside order taker. When the customer comes into the shop, he/she has already made up his/her mind regarding what to buy. The salesperson only serves them. At the maximum, the salesperson may recommend a new product. There is hardly any creative selling involved in this type of sales job.

- 3) **The Outside Order Taker:** A person who goes to the customer in the field and takes orders is known as the outside order taker. Examples are salesmen who sell soaps, toothpastes and other household necessities to general merchants and provision stores. They are generally seen going around in tempos or three wheeler vans to stores for replenishing sold stocks. They fill up invoices for products and quantities required by the shopkeeper and process/deliver the requirements either immediately or at a later time.

## Order Getting

This job is not routine. These salespeople must meet customers, promote the advantages of the product/service, and persuade the buyer to purchase the right quantity and volume of the product or service. It must be noted that an order taker's role is to continue the sale, whereas an order getter's job is to get the sale. In these situations a very high degree of creative selling is called for. The various types of order getters are: 1) creative sellers of tangible products, and 2) creative sellers of intangibles (including services).

- 1) **Creative Sellers of Tangible Products:** People selling encyclopaedias, vacuum cleaners, computers, etc., fall into this category. When the product is of a complicated nature, the services of a sales engineer may be utilised. A high amount of creative selling is required because the customers may not even be aware of their needs for the products, or they may not realise how the new products can satisfy their wants better.
- 2) **Creative Sellers of Intangibles:** People, who sell services, such as, insurance, travel, advertising, and consultancy, etc., fall into this category. This is even more difficult than selling tangible products as services cannot be shown or demonstrated.

## Sales Support Positions

In this case, the salesperson is neither expected nor permitted to seek an order. Their role is to build goodwill, perform promotional activities and provide services for customers. Hotel PRO and other executives call on large companies to make them aware of the services available in the hotel without asking for any bookings, or they might handle customer complaints, or promote new schemes launched by the hotel. In pharmaceutical selling, the medical representatives provide the doctors with the most up to date information on the company's drugs and medicines. They do not take orders, and in fact the sale occurs when the doctor writes a prescription.

## How Salespersons are Different from Others?

Before we talk about the characteristics of a good salesperson, we should first know how salespeople differ from other employees. Salespeople differ from other persons in the following ways:

- 1) Salespeople are frontline workers and interact with the customers, the image or impression that the general public have about the company comes from the sales people and does not come from the factory workers or back office admin workers, for example.

- 2) An office or factory employee is closely supervised, whereas, a salesperson is not. Once salesperson is assigned a territory and targets to achieve, he operates-quite independently.
- 3) A salesperson has to put in a lot of hard work and effort and is required to exert both mental and physical effort. Hence a great deal of motivation is required.
- 4) A salesperson needs more social and communication skills than other office employees. Many sales jobs require salespeople to mix socially with customers, who may be senior ranking officers. Therefore, a salesperson is expected to show a high degree of socialising and restraint.
- 5) Salespeople have some autonomy in spending company funds. The way the salesperson handles this responsibility can affect marketing costs.
- 6) Sales jobs often require a lot of travelling which demands time away from home and family. Apart from physical hardships, this also may cause a lot of mental stress and disappointment. A sales job, therefore, requires a greater degree of mental toughness and physical stamina.

## The Qualities of a Good Salesperson

Different sales jobs require different qualities in the person handling that job. However, there are some sales qualities which all sales people must possess. These are as follows -

- 1) **Physical Qualities:** This relates to the person's health and appearance. As we have seen that most sales jobs involve a lot of travelling, sometimes, under adverse conditions, good health is very important. Good health also has an indirect effect on the person's mental make-up and general attitude towards work. Physical illness might lead to a state of mental depression and frustration. A good physical appearance is also necessary. This means a neat, clean and impressive dress. A sales person should look well groomed.
- 2) **Communication Ability:** Communication is a two way process, requiring input from both the seller and the buyer. The success of a sales presentation depends on the quality of the presentation. This means that the salesperson should have a controlled voice (no speech defects), good language skills, makes a good impression, and must be willing to listen. A salesperson should be not only a good talker, but also, a good listener.
- 3) **Mental Qualities:** Characteristics, such as, analytical ability, intelligence, and conceptual skills, etc., are also essential for a good salesperson. A salesperson should be able to solve all problems the customer may have.
- 4) **Education and Experience:** The Salesperson should have the minimum educational qualifications needed for the job. In most situations, he has to be at least a graduate, except in cases, where sales engineers are required. In some cases relevant experience may also be required.
- 5) **Enthusiasm:** A sales person must be enthusiastic about the product or service being sold. A salesman should be excited and proud about his product and his company. This requires good

understanding of both the product and the company and even the competitors. Enthusiasm and sincerity can help in gaining the prospect's attention.

- 6) **Courtesy:** Sales people should have good manners, they must have listening skills, be courteous and polite and handle counter questions and differences of opinions respectfully.
- 7) **Initiative:** Initiative is very crucial in selling. Since most salespeople are very much on their own, they have to be self-starters. They have to seek out new customers, and find new ways to sell to old customers. For all this, salesperson should have initiative
- 8) **Empathy:** Empathy is the ability to understand the other person's point of view and situation. A salesperson should see the sales problem from the buyer's point of view.
- 9) **Dependability:** The sales person should be reliable and must be able to handle problems that are not routine.
- 10) **Integrity and Honesty:** Since the salesperson has access to the company's funds, he needs to be totally honest in handling this responsibility. He should never hide facts or mislead the company in anyway, even, if he loses sales.

## Sales Promotion

Sales Promotions are tools, which help the company increase the sales volume. Promotions are generally used as a short - term measures only and help increase sales. Sales promotion is mainly intended to make advertising and personal selling more effective. They are complementary and supplementary activities. Sales promotion has gained importance in recent times, because of its ability in promoting sales and preparing the ground for future expansion. Occasionally the continuous use of sales promotions may be carried out, this is often the case where the competition is quite high.

## Importance of Sales Promotion

For many of the companies, sales promotion budgets are far outweigh advertising budgets.

Factors which have accounted for this rapid growth are:

- 1) Sales promotion is more accepted by top management of companies as an effective sales tool;
- 2) More product-level managers are qualified to use sales promotion tools;
- 3) Product managers are under greater pressure to increase their sales;
- 4) The number of brands has increased and there is very little difference between competing brands;
- 5) Competitors use sales promotion frequently;
- 6) Both final consumers and intermediaries have become more deal-oriented, i.e., they are demanding better deals from the producers; and

- 7) Advertising efficiency has declined because of rising costs and clutter (too many advertisements appearing together create noise).

Some of the other important reasons for the growing importance of sales promotion are discussed below:

- 1) Lowers the unit cost: Sales promotion is always the outcome of large scale production, which in turn lowers the cost. This is accomplished with the help of large scale production.
- 2) Provides sales support: A well - planned promotion campaign helps make the salespersons' efforts more productive.
- 3) Faster product acceptance: Most sales promotion devices, such as, contests, premiums, and coupons, etc., can be used quicker than other promotions, such as, advertising.
- 4) Better control: Management has effective control over the methods used. It also gives financial control e.g., the cost of sales promotion could be compared with the profit per unit.

## Limitations of Sales Promotion

Along with the above benefits there are some drawbacks of sales promotion, as well:

- 1) It is felt that sales promotion is utilised to sell a sub-optimal product;
- 2) The discounts are not genuine, since the price of the product has already been raised;
- 3) Since it is a short-term measure, the result is also short-term. When concessions are taken back, the demand falls; and
- 4) If it is used too often, consumers will tend to get put off.

## Major Sales Promotion Tools

Sales promotion tools fall into three basic categories:

- 1) Consumer promotion;
- 2) Trade premium; and
- 3) Conditional premium.

## Consumer Promotion

Sales promotion at a consumer's level includes two types of premiums:

- 1) Direct Premium,
- 2) Conditional Premium.

- 1) **Direct Premium:** A consumer premium is an incentive offered to a consumer for purchasing a product or service. Under the Direct Premium scheme, the buyer gets the advantage of the premium offer right away when they purchase a product. Gift articles given to purchasers along with purchases of products are known as "Over the Counter" or "Pack Off" premiums. The product and the gift may be from the same company or different companies. For example, "one free Colgate toothbrush with a family size toothpaste" or it could be "Lux soap with Sunsilk Shampoo."

There are two types of direct premiums -

- a) Price deals and
  - b) Quantity deals.
- a) Price Deals or Price Off-offers: These are also direct premiums which offer reduction in prices for a short period. This method is normally employed in situations where either the sales are declining or a new product is offered.
  - b) Quantity Deals: This is when consumers are offered additional quantity of the product but not additional price. This may be in the shape of big packaging size.

- 2) **Conditional Premiums:** Here the buyer has to perform certain additional function, e.g., collecting coupons or wrappers. There are a number of methods in this category.

- I. **Coupon Premium Plan:** The purpose of this method is to increase repeat purchase and build brand loyalty, in return for three foils from tins of Cadbury Chocolate, a recipe book was offered. Similarly, a *Jungle Book* was offered by Maggie Noodles in return for coupons in a given sequence.
- II. **User – to - User Scheme:** Here the objective is that the users of a product endorse to the products to other people. For example, *Reader's Digest* magazine offers diaries to its regular subscribers if they introduce new subscribers to the magazine.
- III. **Consumer Contests:** Contests are launched to get consumers to buy the product and boost the sales.
- IV. **Refill Packs:** For example, Nescafe offers refill packs in boxes, the savings in packaging are then passed on to the consumer thus lowering the price of the product.
- V. **Deferred Payment Plan:** Many airlines in the early 1980s had the slogan that said, "Fly now, Pay later" to overcome stiff competition. Here, the incentive to the customers was in the form of deferred payment.
- VI. **Money Refund Offer:** This method offers to refund the purchase price of the product if the customer is not satisfied after using it.
- VII. **Self-Liquidating Premium:** The cost of running the premium is recovered from the buyer. It means giving an additional product at a concessional price. For example, a washing soap company may offer a plastic bucket at concessional price for a specific number of soaps bought by the customer. Even though the buyer pays, he pays a very low price for the premium. Essentially, this works by passing on the savings on bulk production to consumers who purchase in bulk, as well.

## Trade Promotion

These incentives are aimed at obtaining maximum cooperation from dealers (wholesalers and retailers). The major types of dealer or trade incentives are discussed below:

1. **Merchandise Deals:** Sometimes, the producer offers extra quantities of the product for bulk purchase by the dealer. These deals may be used to increase market exposure of the product;
2. **Price Deals:** Special price discounts are offered to the dealers, which are usually significantly above the regular discount. This is a temporary measure and leads to quick profits for wholesalers and retailers;
3. **Gifts to Dealers:** Sometimes, a company may give bulk items, such as, watches, clock, and transistors, etc., to dealers according to the volume of orders placed by them.
4. **Merchandise Allowance:** This is a short-term contract through which a producer compensates wholesalers or retailers for advertising or in short display of the company products;
5. **Cooperative Advertising:** Here the manufacturer makes a long-term contract to pay an allowance to retailers in relation to the quantity of products purchased by them or the retailers share the advertising expenditure with the manufacturer on an agreed formula; and
6. **Dealer Contests:** This is an indirect way of promoting sales. These contests take the form of window displays, internal store displays, and sales contests (large sales volume), etc. The winners are given cash or other attractive prizes.

## Sales - Force Promotions

A large proportion of the companies' sales promotional effort is aimed at the company's own sales-force. The idea is to make the salespeople's efforts more efficient. The methods might include sales contests, bonuses, or premiums, etc. Even sales meetings are sometimes used as incentives. Sales contests stimulate and motivate salespeople, as prizes are awarded to them on the basis of achievement of targets set for them.

### Further Reading:

- ✓ *Entrepreneurship, (2009), By KP Sharma*
- ✓ *Advertising and Sales Management, (2009-10), By Mukesh Trehan and Ranju Trehan*
- ✓ *Marketing, (2010), By William Pride, Ferrell*