

Modeling Promotions in African Marketing Channels

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In this paper, the authors develop two 2-period models to investigate the impact on channel decisions of manufacturer-controlled and retailer-controlled promotions targeted at consumers. Some of the salient findings are as follows: (1) Regardless of whether the long-term effects of promotions are positive or negative, retailers always invest in retailer promotions, while manufacturers may find it optimal to not invest in consumer promotions if their long-term effects become very damaging to post-promotion sales. (2) Manufacturer-controlled promotions lead to lower wholesale prices than retailer-controlled promotions, while retail prices may be identical under manufacturer-controlled and retailer-controlled promotions if they do not affect long-term sales. (3) Manufacturers should invest more (less) heavily in brand-image advertising under manufacturer-controlled promotions than under retailer-controlled promotions if the long-term effects of promotions are negative (positive). Implications for African managers are discussed and future research directions.

INTRODUCTION

Manufacturers and retailers now consider sales promotion to be a critical element of their marketing strategies (see Blattberg and Neslin 1990; Narasimhan et al. 1996; Bell and Drèze 2002). Consequently, manufacturers allocate large proportions of their marketing communication budgets for promotion to regularly boost the sales of their brands, often at the expense of brand-building advertising (e.g., Jedidi et al. 1999; Pauwels et al. 2002). On the other hand, retailers also spend heavily on sales promotion, either to match manufacturers' trade promotions or to reach their own local strategic goals (Chevalier and Curhan 1976; Kim and Staelin 1999). The growing use of sales promotion within marketing channels, however, generates at least two fundamental sources of conflict. The first is based on the fact that promotions within a channel are sometimes considered to be zero-sum games in which each channel partner is suspicious about others' moves and believes others are taking advantage of promotional activities at their expense (Chevalier and Curhan 1976; Bell and Drèze 2002). Academic literature has echoed some of these beliefs by claiming that the extensive use of trade and consumer promotions by manufacturers may mostly benefit retailers (Ailawadi 2001).

DESCRIPTION OF THE MODELS

In this article, we define brand-image advertising as all advertising activities aimed mainly at building up the manufacturer's brand goodwill. We consider that the manufacturer undertakes consumer promotions by means of various promotional tools that target final consumers, such as coupons, rebates, contests, and premiums, while the retailer uses various retailer promotions such as features, displays, and price cuts.

the real world, manufacturer-controlled and retailer-controlled promotions may be combined or retailer promotions may be motivated or supported by trade promotions, for simplicity the study consider especial cases where channel member promotions are perfect substitutes and each channel has full control over its own promotional activities. The following conclusions are drawn.

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