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## **Brand Managers' Perceptions of the Marketing Communications Budget Allocation Process**

*George S. Low  
Jakki J. Mohr*

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# Brand Managers' Perceptions of the Marketing Communications Budget Allocation Process

*George S. Low and Jakki J. Mohr*

Marketing managers face a considerable challenge as they wrestle with the task of how to allocate their advertising and sales promotion budgets in order to improve sales, market share, profits, and consumer attitudes. In making their allocation decisions, they consider a wide range of product factors and market conditions, such as the degree of differentiation a brand has in a product category and the competitive intensity in a market. Managers are also subject to the organizational realities of political influence, the nature of the reward system, and historical inertia. How do these factors relate to relative allocations between advertising and sales promotion? How do these allocations relate to outcomes?

In this study, professors Low and Mohr address these questions by identifying the product, market, and organizational factors that are related to advertising and sales promotion budget allocations. They also investigate the nature of the relationship between budget allocations and sales, market share, consumer attitudes, and profits.

## **Study and Findings**

Based on data collected from 165 managers of packaged good firms in the U.S., they found that:

- ❑ As brands move to the more mature phase of the product life cycle, managers allocate less to advertising and more to promotions.
- ❑ When a brand is well-differentiated from the competition, managers allocate more to advertising relative to promotions.
- ❑ When formal rewards are focused on short-term results, managers allocate less of their budgets to advertising relative to promotions.
- ❑ As retailers have more influence, managers allocate less of their budgets to advertising relative to promotions.
- ❑ As managers have greater experience with the company, they tend to allocate proportionately more of their budgets to advertising relative to consumer and trade promotions.

In addition, there appears to be a significant amount of historical inertia in budget allocation decisions: managers rely heavily on the previous year's budget allocation

in planning for the subsequent year. In fact, the influence of historical inertia overwhelms all the other variables included in the regression models.

Finally, they found that the effects of different allocations to advertising, consumer promotion, and trade promotion are complex and interactive. A “best” allocation to one tool cannot be determined without considering the allocation to the other two.

### **Implications for Marketing Practitioners**

Marketing practitioners might use these findings to evaluate how their budget allocation decisions fit into their company’s strategic direction for a product or division. By explicitly considering such issues in budgeting decisions, managers may be able to avoid allowing such factors—particularly the influence of retailers and the sales force—to unwittingly influence their budget allocations. In addition, senior management should make sure that reward systems encourage appropriate behavior (i.e., long-, medium-, or short-term results).

Similarly, these results suggest that managers may be subject to strong historical inertia in budget allocation decisions. If the rate of change in the company’s environment is slow, these historical allocations, when based on careful strategic analysis, may be a valuable decision heuristic. However, when environmental change is rapid, managers would do well to disregard historical precedent as much as possible and try to implement zero-based budget allocations.

Finally, given the complex interplay of consumer and trade promotions and advertising, managers should not measure the impact of any *one* marketing communications tool on sales, share, and profits. Managers should avoid drawing conclusions about one tool without considering the combined effects and synergy of all three. This is particularly important in light of today’s trend toward flat budgets in which an increase in allocations to one communications tool typically comes at the expense of another.

*George S. Low is Assistant Professor of Marketing, M. J. Neeley School of Business, Texas Christian University. Jakki J. Mohr is Associate Professor of Marketing, School of Business Administration, University of Montana.*

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# Introduction

In the chaotic and competitive environment of the consumer packaged goods industry, managers continue to search for ways to enhance the effectiveness and efficiency of their marketing expenditures. For example, the move toward simplification in product lines, improved logistics and efficient consumer response systems, and more stable industry pricing are tools being used to squeeze inefficiencies out of the industry and to make marketing expenditures more effective.

Marketers continue to be concerned about an emphasis on sales promotion relative to advertising: managers feel they are buying current market share at the expense of long-term brand equity. Indeed, manufacturers spent a staggering \$489 billion, or 11 percent of sales, on trade promotions in 1994, up from \$15 billion or only 4 percent in 1978 (Schiller 1996). Further, the traditionally large marketing communications budgets of packaged goods manufacturers are being subjected to closer scrutiny—managers are attempting to maximize the productivity of each dollar they spend by trying to allocate promotional budgets more effectively.

For managers who wrestle with the allocation decision, prior research suggests that product/market characteristics, such as market growth rates and brand differentiation, can be used as guides in allocating budgets (e.g., Ailawadi, Farris, and Parry 1994; Balasubramanian and Kumar 1990; Fader and Lodish 1990). While it may be helpful to use such characteristics to guide and establish the allocation between advertising and sales promotion, the focus on product/market factors in existing research overlooks the potential impact of organizational factors, such as a firm's short- versus long-term focus or the degree of risk encouraged or tolerated.

As managers turn their attention to streamlining organizational practices and processes, it makes sense to examine the impact of such organizational variables on budget allocation decisions. Indeed, the realities of organizational life may have a stronger influence on managers' budget allocation decisions than external product/market factors (Low and Mohr 1991, 1992; Mohr and Low 1993). In establishing budget allocations, managers must juggle personal career needs, the political influence of others, and organizational procedures; these internal considerations, and the exigencies of organizational life, may be paramount in their allocation decisions. In addition, because marketing managers are under increasing pressure from senior management to be more productive with marketing funds, an understanding of how the allocation decision is related to outcomes, such as consumer attitudes, market share, and profitability, is also essential.

Hence, we undertook a wide-ranging, inter-industry, exploratory study of marketing communications budget allocation decisions in order to better understand: (1) the perceptions of brand managers concerning the relative impact of internal (organizational/managerial) and external (product/market) factors on their budget allocation decisions, and (2) the perceived impact of the allocation on outcomes (such as market share and profit). This study is exploratory in that an explicit objective is

to cull through the large set of predictor variables to arrive at a smaller set that deserves further study. This paper is organized as follows. First, we review the literature on marketing communications budget allocations (in terms of both antecedents and outcomes). Second, we develop a conceptual model, developing hypotheses for the relationships between product/market and organizational factors and the budget allocation, as well as relationships between the allocation and outcomes of the budget allocation based on the brand manager's perspective. We then detail our data collection method and measures, and we present our results. We conclude by discussing the implications of our study for managers and researchers.



# Literature Review

## **Factors Associated with Advertising and Promotion Spending**

Traditional studies of advertising spending levels have examined the associations between product/market characteristics and advertising/sales ratios (Farris 1977, 1978; Lancaster 1986), promotions/sales ratios (e.g., Quelch, Marshall, and Chang 1984), and advertising-and-promotion/sales ratios (Balasubramanian and Kumar 1990; Fader and Lodish 1990; Farris and Albion 1980; Farris and Buzzell 1979). The findings from this research indicate that a variety of product/market factors (such as market growth rates, market share, competitive activity, and product's relative price) are significantly related to advertising and/or promotion spending levels. Only one study examined the impact of organizational factors on the advertising/sales ratio. Piercy (1987) found that advertising/sales ratios were positively associated with the power of the marketing department and the politicization of the budgeting process, and negatively associated with top management intervention in the budgeting process.

While the amount budgeted to advertising and promotion relative to sales is an important decision, none of these studies examined a firm's relative allocation to advertising versus sales promotion (consumer and trade promotion).<sup>1</sup> In addition, recent research in this area indicates that "research efforts would be better spent searching for other variables [besides market share and market growth rates] that can do a better job of explaining advertising-and-promotion/sales ratios" (Ailawadi, Farris, and Parry 1994, p. 97).

Two studies examined the impact of both product/market and organizational factors (such as short-term orientation and degree of risk encouraged) on budget allocations to advertising and sales promotion. Strang (1980) found that a firm's failure to meet its profit objectives and the relative emphasis on short-term objectives were associated with proportionately heavier spending on sales promotion relative to advertising. Robinson and Luck (1964) found that the firm's short-term focus and the power of its sales force were associated with proportionately heavier spending on sales promotion than advertising, while the degree of risk encouraged and advertising agency influence were associated with proportionately heavier spending on advertising than sales promotion.

Interestingly, several factors that affect budget allocation decisions in today's competitive environment are absent from this set of research. Qualitative research by Low and Mohr (1992) suggests that the quality of trade relationships and the sales force are both important influences on budget allocation decisions. In addition, given the explosion in marketing information (such as scanner data and other point-of-sale information), the influence of marketing information on the budget allocation is also an important issue to address. Hence, we included these variables in our model as well.

Also lacking in this important research area is the perspective of the brand manager, who is at the heart of the allocation controversy. By focusing on brand managers, and their real-world perspective, we attempt to better understand the “mental models” they use to make decisions in a dynamic organizational environment.

### **Outcomes of Advertising and Promotion Spending**

The budget allocation decision is of interest primarily because of its impact on outcomes such as profits, consumer attitudes, sales, etc. The majority of research on the effects of advertising and promotion on outcomes has typically examined the effects of each tool when used individually. For example, Abraham and Lodish (1990) and Jones (1990) argue that spending on advertising results in higher profitability for the firm than spending on either consumer or trade promotions. By building a strong position in the market, advertising allows a firm to command higher prices for its products, and thus higher profitability. This rationale is borne out by studies on the effects of advertising on consumer attitudes. Aaker (1991) and Shimp (1997) propose that higher relative spending on advertising can generate favorable consumer attitudes towards the advertised product.

With respect to consumer promotions, the most consistent finding in the marketing literature is that the use of consumer promotion increases unit sales and market share (Frazier and Stewart 1989; Gupta 1988; Tellis 1988). The effect of consumer promotions on attitudes is ambiguous. Some researchers suggest a negative relationship between the two (cf. Blattberg and Neslin 1990), while others have found no significant relationship (Davis, Inman, and McAlister 1992).

The findings for trade promotion indicate that increases in trade promotion spending are positively associated with unit sales and market share (Hardy 1984; Honnold 1992; Quelch 1983). In addition, there is concern that the use of trade promotions can negatively affect consumer attitudes (Jacobson and Obermiller 1990; Mela, Gupta, and Lehmann 1997).

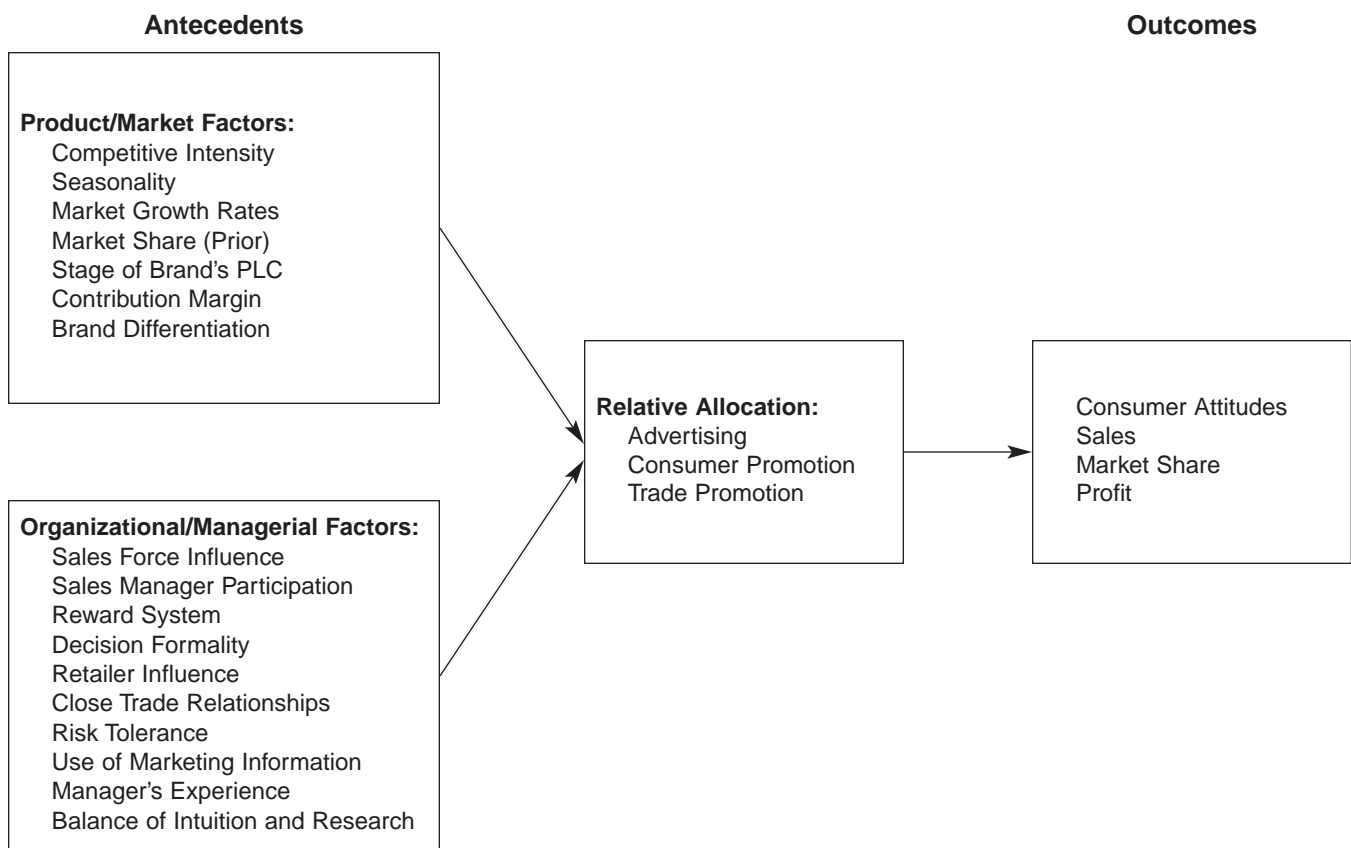
Because marketing communications tools are used in an integrated way to create synergy, in our model we address the combined effects of advertising, consumer promotion, and trade promotion on perceived firm outcomes of consumer attitudes, sales, profit, and market share.

We now turn our attention to the development of our model, detailing first the antecedents/predictors of the budget allocation decision, and second the impact of the budget allocation on perceived firm outcomes.

# Model and Hypotheses

Based on an extensive literature review and preliminary interviews with managers at packaged goods firms (Low and Mohr 1992), we developed the model in Figure 1. Because of the large number of variables included, our discussion of each is condensed.

**Figure 1. Model of Marketing Communications Budget Allocations**



## Product/Market Factors

*Competitive Intensity.* Defined as the degree to which competition in the brand's category is fierce, intense competition in a product category can lead to sales promotion wars, provoking managers to decrease the relative allocation to advertising (Strang 1980; Quelch et al. 1984).

H<sub>1</sub>: Managers' belief that intensity of competition in a product category is high is negatively related to advertising allocations relative to consumer and trade promotion allocations.

*Seasonality.* Defined as the degree to which the brand's sales volume was cyclical in nature, strong seasonal patterns in a product's sales have been associated with a greater emphasis on consumer and trade promotion spending, relative to advertising (Strang 1980). Because seasonality implies a shorter time frame for sales, the use of more short-term tools, such as consumer and trade promotion, are typical.

- H<sub>2</sub>: Managers' belief that a product category's sales are seasonal is negatively related to advertising allocations relative to consumer and trade promotion allocations.

*Market Growth Rates.* Rather than stealing share away from competitors (via allocations to promotions), higher market growth rates allow a firm to concentrate on capturing a share of an expanding pie. Therefore, higher market growth rates are likely to be associated with a greater emphasis on advertising relative to promotion (Farris 1978; Farris and Buzzell 1979; Strang 1980).

- H<sub>3</sub>: When market growth rates are high, managers tend to allocate more resources to advertising relative to consumer and trade promotion.

*Market Share.*<sup>2</sup> Prior research suggests that managers of products or SBUs with high relative market shares tend to spend a greater proportion of their marketing communications budget on advertising relative to consumer and trade promotion spending (Farris 1977; Lancaster 1986; Strang 1980). Products with a high relative market share are less likely to need short-term share-building incentives such as consumer and trade promotion because their share positions are already strong. Hence, long-term market share maintenance tends to be best served by relatively higher proportions of communications budgets allocated to advertising, which is an effective tool for establishing an image of leadership or dominance in a market (Aaker 1991).

- H<sub>4</sub>: Managers' belief that market share is high is positively related to advertising allocations relative to consumer and trade promotion allocations.

*Stage of the Brand's PLC.* Prior research suggests that in the introductory and growth stages of the product life cycle, a firm needs heavy advertising to create awareness, and heavy consumer and trade promotions to stimulate trial behavior as well as shelf space and retail support. During the mature phase of the product life cycle, intense competition leads to increased spending on promotions relative to advertising (Anderson and Zeithaml 1984; Farris 1977; Sethuraman and Tellis 1991; Strang 1980).

- H<sub>5</sub>: In the later stages of the product life cycle (maturity) compared to the earlier stages of the product life cycle (introduction and growth), firms show a lesser emphasis on advertising relative to consumer and trade promotion.

*Contribution Margin.* When a product has a high margin relative to other brands in the company, it is likely to receive a greater allocation to advertising; on the other hand, when a product has a lower margin, it tends to receive a greater allocation to promotional tools. Consumers need to be continuously reminded of a high-contribution product's superior image, quality, or prestige, a task ideally achieved by spending proportionately more resources on advertising (Farris 1977; Quelch et al. 1984;

Strang 1980). (Because contribution margin is likely to covary with profit objective [Strang 1980; Zeltner 1986] we use only contribution margin in our model.)

H<sub>6</sub>: Managers' belief that a product's contribution margin is high is positively related to advertising allocations relative to consumer and trade promotion allocations.

*Brand Differentiation.* We define this variable as the degree to which the brand has a unique position relative to other brands in the market. When a product has a powerful point of distinction from competitors, spending on advertising tends to be higher relative to consumer and trade promotions (Farris 1977; Quelch et al. 1984; Stewart and Furse 1986; Strang 1980). Such a point of distinction provides a unique message for the advertisements to communicate, and lessens the need for focusing on more deal-oriented promotions.

H<sub>7</sub>: Managers' belief that brand differentiation is strong is positively related to advertising allocations relative to consumer and trade promotion allocations.

### Organizational Factors

*Sales Force Influence and Participation.* As an important liaison between a packaged goods manufacturer and its channel of distribution, the sales force is an important voice in the firm. We examine both the *influence of the sales force* on the budget allocation, as well as the *formal participation* of the sales manager in the brand planning/budget allocation process.

Trade promotion deals can be an important source of leverage for the salesperson in dealing with his or her retail customers. Because of this, the sales force has a vested interest in the amount of promotion spending. We defined the *influence of the sales force* as the degree to which the sales force attempted to influence the brand manager's allocation decision. Low and Mohr (1992) found anecdotal evidence that when the sales force exerts influence in the budget allocation process, the resulting allocation tends to be skewed towards promotion, and away from advertising (see also Robinson and Luck 1964). When the sales force exerts its influence—possibly in an informal, behind-the-scenes manner—the sales force's vested interest in promotions may result in heavier promotional spending.

H<sub>8</sub>: Managers' belief that the sales force has a strong influence on the budget allocation is negatively related to advertising relative to consumer and trade promotion allocations.

The potential impact of the sales force on a firm's promotional budget allocation may be a function of the nature of its involvement in the brand planning process. Research on interfunctional coordination suggests that when formal interaction between functional units occurs (i.e., between sales and marketing), both groups may have greater satisfaction with resulting decisions (Ruekert and Walker 1987). When the *sales force formally participates* with brand managers in the budget allocation process (meaning that the firm, as a matter of policy, included sales managers in the brand planning process and in spending decisions), their influence may have a tendency to be dampened.<sup>3</sup> For example, research by Pfeffer and Salancik (1977)

on organizational power suggests that one way to control organizational decisions is to co-opt other players. To the extent that formal participation of the sales force in the budget allocation process is a way to co-opt, or preempt, their vested interest in trade promotion, their effect on the allocation can be mitigated. (Conversely, one might argue that by giving them a formal voice, the sales force may actually gain influence by participating formally in the budget allocation process.)

H<sub>9</sub>: Brand managers' perception that the sales manager is involved as a formal member of the budget allocation team has no impact on the resulting allocation.

*Reward System.* As an important device for creating incentives for behavior, reward systems have been linked to the decisions that managers make (Anderson and Chambers 1985; Kerr 1995; Roth and Ricks 1994). With respect to budget allocation decisions, a reward system that is oriented towards short-term performance or annual results (compared to one that focuses on multiple-year measures or longer-term results) may elicit decisions to stimulate short-term sales. Hence, because promotions spending can provide an immediate stimulus for sales, consumer and trade promotions are likely to be emphasized, relative to advertising, in such a situation. (A related variable is the short-term focus of management. We believe that the short-versus long-term focus of management would be reflected in the reward system.)

H<sub>10</sub>: Managers' belief that the reward system emphasizes near-term results is negatively related to advertising allocations relative to consumer and trade promotion allocations.

*Decision Formality.* Decision formality refers to the extent to which the procedures used to make a decision are well-defined and structured. Formalized decisions are those for which a consistent, predictable process is used (Perkins and Rao 1990). A formalized process may have a tendency to give less easily quantified tools more of an advantage. By providing a venue to explicitly consider the pros and cons of advertising spending, managers may be more comfortable allocating budgets towards tools with longer-term benefits. On the other hand, less formalized procedures may have a tendency to emphasize easily quantifiable tools, such as consumer and trade promotion. When the decision process is more ad hoc, managers may have a tendency to go for the easy, predictable "hit" available from promotions spending.

H<sub>11</sub>: Managers' belief that the decision process is formal is positively related to advertising relative to consumer and trade promotion allocations.

*Retailer Influence and Trade Relationships.* Like the sales force, channel members have a vested interest in the amount of trade promotions allocated by a firm in its budgeting process. Retailers can use trade promotions to their own advantage, adding the savings generated to their firms' bottom lines. Retailers "strong-arm" the manufacturers, attempting to extract greater amounts of trade spending from them. In the past, manufacturers have complied, knowing that the battle for shelf space and merchandising activities is fierce. Defining retail influence as the degree to which retailers attempt to use their power to influence the allocation decision, we posit that retailer power is negatively related to advertising spending, relative to promotion spending.



H<sub>12</sub>: Managers' belief that retailer influence is high is negatively related to advertising allocations relative to consumer and trade promotion allocations.

Changes in the nature of trade relationships to closer partnerships may mitigate the use of coercive tactics by retailers (Anderson and Narus 1990). Closer trade relationships, where retailers and manufacturers cooperate in implementing win-win solutions, may change the nature of the budget allocation. Presumably, a retailer who recognizes that improved brand equity (achieved via greater expenditures on advertising) can help him or her to command a higher margin may be willing to work with a manufacturer in shifting budget allocations from sales promotions to advertising. Closer relationships may work in a similar fashion to the formal involvement of the sales force in budget allocation decisions. Trade members who are involved in a partnership with a manufacturer may be more willing to accept changes in budget allocations, including reductions in trade spending, if they feel that it is mutually beneficial to do so.<sup>4</sup>

H<sub>13</sub>: Managers' belief that trade relationships are close are positively related to advertising relative to consumer and trade promotion allocations.

*Risk Tolerance.* Risk tolerance is defined as the degree to which top management in the respondent's firm preferred to "play it safe" and to rely on decisions for which outcomes are more certain (Singh 1986; Staw, Sandelands, and Dutton 1981; Wally and Baum 1994). When a firm encourages or tolerates decision making that has an element of "riskiness" to it, managers may be more likely to allocate proportionately more of their budget to advertising. Advertising can be viewed as a relatively higher risk/higher return strategy than promotions, which are viewed by managers as more certain with more predictable results (Robinson and Luck 1964).

H<sub>14</sub>: Managers' belief that their organization is willing to tolerate risk is positively related to advertising allocations relative to consumer and trade promotion allocations.

*Use of Marketing Information.* With the advent of increasingly sophisticated information technology (Glazer 1991), brand managers are able to use more types of information to help them make budget allocation decisions. We defined the use of marketing information in terms of the amount of marketing research information (number and types) used to assist in the allocation decision.

While prior research has examined the factors that are associated with a greater tendency to use marketing research (Deshpandé and Zaltman 1982; Menon and Varadarajan 1992; Moorman, Zaltman, and Deshpandé 1992), the potential impact of the use of such information in guiding the promotional budget allocation decision has not been investigated. The use of such information could lead to greater advertising, consumer promotion, or trade promotion, depending on any given firm's particular situation.

Marketing information could be beneficial in the budget allocation process in terms of quantifying the effects of the various marketing communications tools on outcomes. In this sense, then, tools that are more easily quantified, such as consumer and trade promotions, may receive increased emphasis from the use of mar-

keting information. We argue, however, that the real advantage in using marketing information may be to lessen the ambiguity that arises from using difficult-to-quantify tools, such as advertising. The use of information can serve to lessen the uncertainty about advertising's contributions to outcomes, and hence, may benefit the most from such use. (This prediction implicitly assumes that the information used would show that advertising is beneficial in affecting outcomes.)

- H<sub>15</sub>: Managers' belief that their use of marketing information is high is positively related to advertising relative to consumer and trade promotion allocations.

*Decision Maker's Experience and Balance of Use of Intuition and Information.* While managers often rely on a large amount of information and sophisticated models to guide their decisions, they also rely on insights from personal experience and intuition (Bazerman 1994; Blattberg and Hoch 1990; Fraser and Hite 1988; Keen 1996).

Perkins and Rao (1990) determined that experienced managers were more likely to use "soft," qualitative information than inexperienced managers. Interestingly, brand managers are typically young, quantitatively trained MBAs, who have been described as "**Murderers of Brand Assets**" (Landler, Schiller, and Therrien 1991). These inexperienced managers may rely more on promotional tools such as consumer and trade promotion whose outcomes are more easily quantifiable, whereas experienced managers may be more comfortable relying on advertising. Since advertising spending is more difficult to justify on a quantitative basis (Danaher and Rust 1994), experienced managers may be likely to allocate relatively more of the marketing budget to advertising activities than are less-experienced managers.

Simon (1987) proposed that experienced managers make decisions by relying on their judgment or intuition, whereas inexperienced managers rely on careful analysis and methodical decision making. A manager's "distilled experience" can be the basis for intuition (Behling and Eckel 1991). Blattberg and Hoch (1990) show that decision outcomes are improved when managers rely on an explicit combination of objective information and intuition. By complementing intuition based on experience with marketing research information, managers are likely to find the "best of both worlds."

- H<sub>16</sub>: Managers' experience level is positively related to advertising relative to consumer and trade promotion allocations.

- H<sub>17</sub>: Managers' balancing of intuition and marketing research information is positively related to advertising relative to consumer and trade promotion allocations.

### **Other Important Variables**

The marketing communications budget allocation process is necessarily complex. Our study would be incomplete if we did not consider the impact of other variables that may have an important influence on the allocation decision. For example, the price of the product may be associated with the relative allocation to advertising or promotions. Higher priced products, relative to competitors, may



support larger allocations to advertising (Farris and Buzzell 1979). Similarly, the unit of analysis used by the firm in planning advertising and promotion may affect budget allocations (Low 1992). Family brands (i.e., Dole fruit juices, Popsicles, etc.) may be more efficient to advertise than single product brands (i.e., Crest toothpaste). Spreading advertising dollars over the family brand name (which identifies a group of products, perhaps some in very different product categories) may require a proportionately smaller allocation to advertising than a single product brand, which may require more advertising to support its unique brand message, image, and identity. We do not state formal propositions for these related variables; we merely note their potential relationships with the allocation decision and include these variables, as appropriate, as covariates in our models.

## Outcomes

We now turn our attention to the outcomes of a firm's budget allocation decision. As noted earlier, because the various promotional tools are used in an integrated fashion to create synergies from joint use, we explore the potential interactive relationships of advertising, consumer promotion, and trade promotion allocations with managers' perceptions of profit, sales, market share, and consumer attitudes. Because of the complexity inherent in explaining and predicting three-way interactions, we simplify the discussion by looking at a series of two-way interactions.

We note that the relationship between marketing communication allocations and outcomes is complicated greatly, not only by the many variables that can affect a firm's outcomes, but also by the lag time that may occur between the strategy and the outcomes. For example, the effects of a current advertising campaign may not be apparent in the immediate period. Hence, in our model, we assess the relationship between last year's allocations and this year's outcomes, and we also control for several covariates.

*Advertising and Consumer Promotion.* We expect that under lower allocations to advertising, higher allocations to consumer promotion are negatively associated with consumer attitudes and profit, and positively associated with sales and market share. Because consumer promotions typically take the form of price reductions, consumers may become more price sensitive with their increasing use, and as a result, consumer attitudes may decline (Blattberg and Neslin 1990; Sawyer and Dickson 1984). Profit may also decline because, when using consumer promotions, sales are typically made at a lower margin (with a promotional deal). If promotions result in consumers who are price sensitive/deal prone, the profitability of such spending is questionable. However, because the purpose of consumer promotions is to provide an immediate incentive to buy, sales and market share will likely increase (Blattberg and Neslin 1990).

On the other hand, if higher allocations to consumer promotion are combined with higher allocations to advertising, consumer attitudes may actually increase, and we predict that sales and market share will also increase. Advertising can establish and maintain favorable attitudes. Bemmaor and Mouchoux (1991) found that the combined effect of higher levels of advertising and consumer promotion increased sales.

However, unlike the situation above (where we predicted a decline in profits from selling on deal), we predict that the combination of higher allocations to both advertising and consumer promotion may offset a decline in profits. While advertising spending is costly, prior studies have shown that advertising may be more profitable than either consumer or trade promotion (Abraham and Lodish 1990; Jones 1990).

H<sub>18</sub>: (a) When the advertising allocation is low, higher allocations to consumer promotions are negatively associated with managers' perceptions of (i) consumer attitudes and (ii) profit, and positively associated with managers' perceptions of (iii) sales and (iv) market share.

(b) When the advertising allocation is high, higher allocations to consumer promotions are positively associated with managers' perceptions of (i) consumer attitudes, (ii) profits, (iii) sales, and (iv) market share.

*Consumer Promotion and Trade Promotion.* Under higher allocations to consumer promotion, high allocations to trade promotion are likely to be associated with decreasing favorability of consumer attitudes, increased sales and market share, and decreasing profitability. If consumers repeatedly are given incentives to purchase on the basis of price deals, such incentives are likely to erode the image of the product. However, the combined use of trade and consumer promotions may be a powerful boost to sales and market share (at least in the short run). Furthermore, if promotional activity results in smaller margins, such promotions may not be associated with incremental profits.

Under lower allocations to consumer promotion, higher allocations to trade promotion are likely to show a similar pattern of association as higher allocations to consumer promotion; however, we expect the nature of the interaction to be reflected in the lesser magnitude of the relationship (slope), rather than in its direction.

H<sub>19</sub>: (a) When the allocation to consumer promotion is high, higher allocations to trade promotion have a strong negative association with managers' perceptions of (i) consumer attitudes and (ii) profit, and a strong positive association with managers' perceptions of (iii) sales and (iv) market share.

(b) When the allocation to consumer promotion is low, higher allocations to trade promotion have a weak negative association with managers' perceptions of (i) consumer attitudes and (ii) profits, and a weak positive association with managers' perceptions of (iii) sales and (iv) market share.

*Advertising and Trade Promotion.* We expect that under lower allocations to advertising, higher trade promotion allocations are negatively associated with consumer attitudes and profit, and positively related to sales and market share. The rationale for these relationships are similar to those provided for the advertising and consumer promotion interaction.

H<sub>20</sub>: (a) When the allocation to advertising is low, higher allocations to trade promotion have a negative association with managers' perceptions of (i) consumer attitudes and (ii) profit, and a positive association with managers' perceptions of (iii) sales and (iv) market share.

(b) When the allocation to advertising is high, higher allocations to trade promotion have a positive association with managers' perceptions of (i) consumer attitudes, (ii) profits, (iii) sales, and (iv) market share.



# Method

## Context and Sample

We developed a national sampling frame of product/brand managers and group product/brand managers of packaged goods firms in the U.S. using three sources. First, we screened all the names in the directory for the American Marketing Association; 50 names were identified as brand managers of consumer products firms. Second, packaged goods member companies of the Marketing Science Institute were invited to participate in the study; 20 brand managers were identified from this source. Third, a list of 538 brand, product, group, and category managers in U.S. packaged goods firms was purchased from a trade marketing magazine. Names that appeared on more than one list were deleted. In total, 608 product/brand managers or group product/brand managers were included on our initial mailing list.

In order to enhance response rates, the techniques advocated by Dillman (1978) were followed. Personalized letters accompanied the questionnaire. The letter explained the purpose and importance of the study, emphasized that responses would be anonymous, and offered a summary of the results to those who requested (under separate cover so as to maintain anonymity). In addition, a one-dollar bill was included with each questionnaire as an incentive. A follow-up mailing was sent three weeks after the first. The follow-up included a simple reminder and another copy of the survey. Of the 608 questionnaires sent, 120 were returned as undeliverable to the addressee, reducing the original sample to 488. Of these, 165 completed surveys were returned for a response rate of 33.8 percent. An assessment of nonresponse bias indicated no significant differences between early and late respondents on several key variables, including firm size, total marketing spending, current market share, and years of career experience.

In order to assess the knowledgeability of our key informants, we asked the respondents to report their level of responsibility for making marketing budget allocations for the brand identified. On a 7-point scale, the mean was 5.5 (standard deviation = 1.1). Hence, it appears that our respondents were knowledgeable about the domain of interest and able to provide the managerial perspective we set out to understand in this study. A profile of respondents appears in Table 1.

**Table 1. Summary of n=165 Respondent Characteristics**

<b>Industry</b>		<b>Percentage</b>	
Grocery Foods <sup>a</sup>		64.2	
Grocery Nonfoods <sup>b</sup>		12.1	
Alcoholic Beverages		8.5	
Other <sup>c</sup>		15.2	
<b>Stage of Product Life Cycle</b>			
Introductory		5.6	
Growth		49.7	
Maturity		38.5	
Decline		6.2	
<b>Company's Organizational Structure</b>			
Brand/Product Management		53.4	
Functional Departments		42.9	
Other		3.7	
<b>Job Title</b>			
Assistant Brand/Product Manager		6.1	
Brand/Product Manager		51.8	
Group/Category Manager		17.1	
Vice-President of Marketing		12.2	
Other <sup>d</sup>		12.8	
<b>Company Size</b>		<b>Mean</b>	<b>Std. Dev.</b>
(relative to other competitors in your industry; 1=Small; 7=Large)		4.53	2.02
<b>Years of Career Experience</b>		13.26	7.32

<sup>a</sup> Includes frozen foods, nonalcoholic beverages, dairy products, canned foods, pet foods, fresh meats, processed meats, fresh fruits and vegetables, cookies, crackers, snack foods, candy, cereals, bakery products, natural foods, pasta and rice products, prepared/packaged foods, flours, sugar, staples and baking goods, condiments.

<sup>b</sup> Includes detergents, household cleaning products, personal hygiene products, over-the-counter drugs, and paper products.

<sup>c</sup> Frequently mentioned were pharmaceuticals, apparel, furniture, and wallcoverings.

<sup>d</sup> Includes Director of Marketing, Marketing Manager, Director of Marketing and Sales, General Manager, Marketing & Sales, and Director of Marketing Services.

### Questionnaire Development

The development of a questionnaire involved several complicating factors, including the nature of our inter-industry sample, and the seasonality of budgeting decisions in most firms. Hence, issues of generalizability and timing came into play. We comment here on these and other general issues that affected the development of the questionnaire as a whole. Appendix A provides a complete listing of the items, while Appendix B provides information on scale purification, means, standard deviations, and correlations.

We used pretests and solicited input from outside experts (senior advertising agency executive and a screening committee from the Marketing Science Institute) in developing our questionnaire. Pretests were conducted in an iterative fashion in personal interviews with 20 brand managers until no further changes to the draft survey were suggested.

Special attention was given to the potential sensitivity of our key dependent variables—budget allocations to advertising, consumer promotion, and trade promotion—and sales and profit information. For the budget allocation question, respondents were asked to provide their budget allocation in terms of percentages, rather than dollar amounts, for the specific categories of promotional tools (see Appendix A). For the performance data (brand sales volume and brand profit), respondents were asked to base their responses on an index of 100 for last year's plan (as a reference point for last year's actual results). While these measures are not as direct as they might be, our outside experts suggested that it might be the only way to collect such data—and, importantly, by using a common base, it allowed us to use information across disparate industries, and large and small companies.

We made an explicit trade-off in the questionnaire between brevity and the use of multi-item scales for the variables, with the result that some of the product/market variables such as market growth, stage of the product life cycle, and seasonality were measured with a single item. However, due to their complexity and importance to our study, most of the organizational variables were measured with seven-point, multi-item Likert scales. In some cases, due to the nature of the questions, a “don't know” response was offered. If a respondent used a “don't know” response to a particular item, that case was eliminated prior to analyses that included that item. Because some managers have responsibility for multiple brands or family brands, we guided the respondent through a series of questions to focus their responses to a particular brand in one category (i.e., Crest toothpaste, Dole fruit juices).





# Results and Discussion

## Antecedents—Results

The variable of interest in our antecedent hypotheses ( $H_1$  to  $H_{17}$ ) was the ratio of the percentage advertising allocation, divided by the sum of the consumer-plus-trade promotion percentage allocation:

$$\frac{\text{Advertising \%}}{\text{Consumer Promotion \%} + \text{Trade Promotion \%}}$$

For this dependent variable, we used the respondents' planned allocation to these marketing communications tools from their brand plan for the coming year.

Due to the large number of independent variables, we conducted two sets of regression analyses, the first on the product/market factors, and the second on the organizational factors. We included as covariates the unit of analysis for brand planning (family brand vs. single product brand) and the price of the product relative to competitors.

*Product/Market Factors.*  $H_1$ - $H_7$  predicted the managers' perceived relationship between product/market factors and the planned allocation to the marketing communications tools. The regression results are presented in Table 2. The variance explained by this set of variables is  $R^2=.16$  ( $p<.01$ ), with the change in  $R^2$  due to the main effects (hypothesized) variables at .14 ( $F=2.49$ ,  $p<.05$ ).

**Table 2. Beta Coefficients from Regression Analysis for Antecedent Hypotheses:**  
**Dependent Variable = Advertising % / (Consumer % + Trade %)**

Product/Market	Main model	Model including prior year's allocation‡	Organizational/ Managerial	Main model	Model including prior year's allocation‡
<b>Covariates:</b>					
Relative Price	.11	.10**	Relative Price	.15*	.05
Family vs. Single Brand	.27***	.14***	Family vs. Single Brand	.24***	.06
<b>Main Effects:</b>					
Competitive Intensity	.05	.14***	Sales Force Influence	.08	.07
Seasonality	.12	.01	Sales Manager Partic.	-.10	.06
Category Growth Rates	.02	.03	Short-term Rewards	-.17*	-.05
Relative Market Share	-.06	.02	Decision Formality	.02	-.02
Mature Stage of PLC	-.20**	-.10**	Retailer Influence	-.19**	-.09*
Contribution Margin	-.13	-.09**	Close Trade Relationships	.06	.00
Brand Differentiation	.29***	.04	Risk Tolerance	-.09	-.03
			Use of Marketing Info.	.04	.08*
			Manager's Experience	.18***	.07
			Intuition + Research	-.07	.02
Adjusted R <sup>2</sup>	.16***	.85***		.14***	.76***
F-value	3.30	62.75		2.74	31.68
degrees of freedom	9, 97	10, 96		12, 115	13, 114
Change in R <sup>2</sup> —main effects (after covariates)	.14**	.03***		.12*	.03
Change in F-statistic	2.49	3.10		1.80	1.65

‡Beta coefficient for prior year's allocation covariate = .88\*\*\* (product/market)  
.83\*\*\* (organizational/managerial)

\*\*\* p < .01, \*\* p < .05, \*p < .10

As the results show, only two of the seven hypothesized factors are significantly related to the relative allocation of advertising to sales promotion. In support of H<sub>5</sub>, as firms move to the later phases of the product life cycle, managers say they will allocate less to advertising and more to promotions (b=-.20, p<.05). In support of H<sub>7</sub>, our results show that as the brand is well-differentiated from the competition, managers plan to allocate more to advertising relative to promotions (b=.29, p<.01). The other hypotheses for the product/market variables were not supported. Possible reasons for these nonsignificant findings are explored in the discussion section.

*Organizational/Managerial Factors.* H<sub>8</sub>-H<sub>17</sub> predicted the relationship between organizational and managerial factors and managers' allocation of marketing communications budgets to advertising relative to consumer and trade promotion. Table 2 also presents the regression results for this set of hypotheses. The variance explained by this set of variables is R<sup>2</sup> = .14 (p<.01), with the change in R<sup>2</sup> due to the main effects (hypothesized) variables at .12 (change in F=1.80, p<.10).

Of the 10 hypothesized relationships, 3 are supported by the data. When formal rewards are focused on short-term results (H<sub>10</sub>), managers plan to allocate less of their budgets to advertising relative to promotions (b=-.17, p<.10). As retailers have more influence (H<sub>12</sub>), managers allocate proportionately less of their budgets

to advertising relative to consumer and trade promotion ( $b = -.19$ ,  $p < .05$ ). As managers have greater experience with the company ( $H_{16}$ ), they tend to allocate proportionately more of their budgets to advertising relative to consumer and trade promotions ( $b = .18$ ,  $p < .01$ ). The remaining 7 hypotheses were not supported.

### **Antecedents—Discussion**

We found support for two of the seven hypothesized product/market factors on the budget allocation decision. Consistent with findings by Farris (1977), Sethuraman and Tellis (1991), and Strang (1980), as brands progress through the product life cycle, managers plan to allocate proportionately less of their marketing communications budget to advertising, and more to consumer and trade promotions. This finding makes sense in that earlier in the product life cycle, heavy allocations to advertising can be used to create awareness; during the mature phase of the product life cycle, proportionately more dollars are spent on promotions as firms vie for shelf space and try to steal share from one another.

Furthermore, consistent with findings by Farris (1977), Quelch et al. (1984), Stewart and Furse (1986), and Strang (1980), as brands have a more unique position in the marketplace and a stronger point of differentiation, managers plan to allocate proportionately more of their marketing communications budget to advertising, and less to consumer and trade promotions. Having a powerful point of distinction provides a unique message for advertisements to communicate, and likely lessens the need for focusing on more deal-oriented promotions. We recognize the strong likelihood of reciprocal effects of brand differentiation and the advertising allocation (in which they are likely mutually reinforcing); in our study, we asked respondents to report the coming year's planned allocation to advertising, which allowed us to assess the effect of brand differentiation on future allocations. Further research in this area is needed to better identify the long-term, causal relationships that are at work here.

In terms of the relationship between organizational/managerial factors and the budget allocation decision, our empirical test showed support for 3 of 10 variables. When reward systems are focused on the short term and when retailers have influence over supplier's allocations, managers plan to allocate proportionately fewer dollars to advertising, and more to consumer and trade promotions. For managers who are concerned about the potential effect of their emphasis on promotions (relative to advertising) on brand equity and consumer attitudes, having a reward system that focuses on the near-term (i.e., quarterly) results is problematic. Further, some managers believe that retailers attempt to steer budget allocations toward more promotions. Our findings suggest that this perception is very accurate. Managers might work more closely with retailers either to monitor use of promotional dollars (at a minimum), or work on joint advertising/ promotion programs, which create a win-win situation.

When managers have more experience with the company, they plan to allocate proportionately more dollars to advertising and fewer to consumer and trade promotion. Experienced managers may feel more comfortable than their less-experienced colleagues in weighing the intangible benefits of tools like advertising. Less-

experienced managers may rely more on tools with more tangible, quantifiable results, such as promotions. Armed with this knowledge, firms may find it useful to have a formal mentoring program, whereby more experienced managers help less experienced managers in allocating their marketing communications budgets. Such a practice may counterbalance the tendency of less experienced managers to rely more heavily on promotions.

In comparing product/market factors with organizational/managerial factors, our findings show that the two sets of variables have roughly the same relationship strength. Not only was the variance explained similar (adjusted  $R^2=.14$ ), but the magnitude of the significant standardized beta coefficients was also similar (see Table 2). Low and Mohr (1992) offered preliminary findings that the relationships between the organizational/managerial variables and marketing communications budget allocations were possibly stronger than the same relationships for product/market factors. Our findings did not bear this out, however.

Despite the exploratory nature of this study, we were surprised by the relatively large number of nonsignificant findings, as well as the relatively low variance explained, for both sets of variables (product/market factors and the organizational/managerial variables). These variables had been identified both in prior research and in marketing communications textbooks as important guides for, and influences on, setting and allocating marketing communications budgets. One explanation might be the wide variety of companies and products represented in our dataset. In our desire to have greater generalizability, the many different kinds of companies and products could have introduced random “noise” in the dataset, dampening the effect of the hypothesized variables. While we took care to ensure that our items were context and industry-neutral, we did attempt to partial out this noise through additional coding of our dataset into product category, firm size, industry, and so forth; however, adding these variables as covariates did not help in partialling out the variance. Hence, it is questionable whether culling a more homogeneous sample would have produced different results.

Another explanation for the large number of nonsignificant findings could be the nature of the budget-setting/allocation process itself. Some argue that the budget-setting and allocation process is often arbitrary, or a “stab in the dark,” relying heavily on historical guesswork or accident. Indeed, prior research suggests that there is a large amount of inertia in the budget-setting process, in which last year’s budget allocation becomes the starting point for the next year’s allocation (Low and Mohr 1992). In fact, very few firms report the use of zero-based budgeting on a regular basis. If this is the case, the lack of a greater number of significant effects in this study is not surprising.<sup>5</sup> And, if such decisions are based on historical accident, are arbitrary, and/or are due to organizational inertia, the search for powerful antecedent variables may be a chimera.

In order to pursue this explanation further, we re-ran our regression models, including an additional covariate: the ratio of advertising to promotion from the *prior* year’s allocation. When this variable is included in the product/market and organizational/managerial models, the overall  $R^2$ ’s jump to .87 and .78, respectively ( $p<.01$ ), with the beta coefficients for the prior year’s allocation at  $b=.88$  and  $b=.83$ ,

respectively ( $p < .01$ ). With this variable in the model, it overwhelms the effect of all the other variables (change in  $R^2 = .03$ ,  $F = 3.10$ ,  $p < .01$ , and change in  $R^2 = .03$ ,  $F = 1.65$ ,  $p > .10$ ). The complete results of these regressions are included in Table 2.

Based on this data, it appears that the inertia in budget setting and allocation is a very powerful issue. If one can assume that the prior year's allocation is a good one, then this inertia might not be all bad. Clearly, it could lead to some efficiencies in terms of time and effort. However, a critical question is how the past allocations were derived, and whether or not that allocation is still appropriate for the coming year (given the many market and competitive changes that may occur). We believe that these findings provide compelling evidence to better understand the budget-setting and allocation process, and its influencing variables, in order to make the process more systematic and the effect of the influencing variables more explicit. In our next section, we examine the relationships between the marketing communications budget allocation and perceived outcomes.

### Outcomes—Results

In order to examine the interactions in the relationships of allocations to advertising, consumer promotion, and trade promotion with our outcome variables, we used median splits to create groupings in our dataset.<sup>6</sup> Table 3 shows the data for these median splits, with additional information on the resulting subgroups. For the advertising allocation, the median split was at 20 percent; for consumer promotion, 15 percent; and for trade promotion, 40 percent.

**Table 3. Mean (Standard Deviation) of Allocation Percentages by Subgroups (Based on Median Splits for Each Variable)**

	Advertising %	Consumer Promotion %	Trade Promotion %
Subgroups:			
<i>Advertising<sup>a</sup></i>			
Low (n=70)	6.41 (5.78)	24.41 (24.66)	58.79 (30.44)
High (n=81)	43.99 (20.89)	19.75 (16.29)	31.36 (20.78)
<i>Consumer Promotion<sup>b</sup></i>			
Low (n=70)	27.64 (29.12)	5.67 (4.76)	53.82 (34.20)
High (n=80)	25.17 (19.75)	36.00 (18.79)	35.99 (20.81)
<i>Trade Promotion<sup>c</sup></i>			
Low (n=71)	39.07 (27.81)	28.41 (25.21)	18.23 (11.53)
High (n=80)	15.00 (13.31)	16.20 (13.44)	67.35 (18.58)

<sup>a</sup> Median Split = 20%

<sup>b</sup> Median Split = 15%

<sup>c</sup> Median Split = 40%

Based on these median splits, to test our hypotheses we used multivariate analysis of variance, with four dependent variables: consumer attitudes (as perceived by the respondent), current monthly market share, current year's profits, and current year's sales (sales and profits were expressed as a percentage increase or decrease vs. the previous year); and three independent variables (each at two levels, high or low): allocations to advertising, consumer promotions, and trade promotions. (For these independent variables, we used last year's allocations to the various marketing communications tools to predict outcomes.) In addition, we used four covariates (stage of the product life cycle, quality of the advertising creative, brand differentiation, and contribution margin). These results are shown in Table 4; Table 5 shows the means (standard deviations) of the outcomes for each of the eight cells.

**Table 4. MANCOVA Results: Effects of Allocations on Outcomes**

Covariates <sup>a</sup>		Outcomes				
		Consumer Attitudes	Current Share	Profit Index	Sales Index	Multiv. Effect <sup>b</sup>
Brand Life Cycle		.05 (.82)***	.25 (4.31)**	-.14 (5.58)	-.01 (2.92)	
Quality of Advertising Creative		.32 (.08)	.07 (0.40)	.12 (0.52)	.38 (0.27)***	
Brand Differentiation		.08 (.08)	.31 (0.44)**	-.14 (0.57)	-.15 (0.30)	
Contribution Margin		.16 (.14)	.01 (0.72)	.14 (0.93)	-.05 (0.49)	
<b>Main Effects<sup>c</sup> (df = 1,70)</b>						
Advertising	F	.35	.20	.36	.58	.42
	$\eta^2$	.00	.00	.00	.01	.02
Consumer Promo	F	.93	6.34***	.19	3.89***	2.58**
	$\eta^2$	.01	.08	.00	.05	.13
Trade Promo	F	.02	.02	.07	.97	.24
	$\eta^2$	.00	.00	.00	.01	.01
<b>Two-way Interactions (df = 1,70)</b>						
Advertising x Consumer Promo	F	.53	.05	.07	.24	.19
	$\eta^2$	.01	.00	.00	.00	.01
Advertising x Trade Promo	F	.09	1.25	.74	1.97	.89
	$\eta^2$	.00	.02	.01	.03	.05
Consumer Promo x Trade Promo	F	4.93**	.45	.74	.05	1.41**
	$\eta^2$	.07	.01	.01	.00	.08
<b>Three-way Interaction (df = 1,70)</b>	F	5.00**	2.86*	3.03*	5.29**	3.10**
	$\eta^2$	.07	.04	.04	.07	.16
Adjusted R <sup>2</sup> (df = 4,70)		.11**	.08**	.00	.08**	

<sup>a</sup> numbers are beta coefficients (std. error)

<sup>b</sup> Wilks F

<sup>c</sup> Based on median splits

\*p<.10, \*\*p<.05, \*\*\*p<.01

**Table 5. Means (Standard Deviations) of Outcomes by Levels of Marketing Communication Allocations**

		Low Advertising Allocation ( $\bar{x}$ = 6.41%)		High Advertising Allocation ( $\bar{x}$ = 44%)		Row Means
		Low Trade ( $\bar{x}$ = 18.23%)	High Trade ( $\bar{x}$ = 67.35%)	Low Trade ( $\bar{x}$ = 18.23%)	High Trade ( $\bar{x}$ = 67.35%)	
Low Consumer Promo ( $x=5.67\%$ )	Outcomes:					
	Consumer Attitudes <sup>a</sup>	23.76 (2.08)	18.42 (2.45)	22.09 (5.41)	21.86 (3.23)	20.43 (4.01)
	Current Share	27.00 (17.35)	18.44 (21.83)	26.64 (18.87)	26.09 (21.25)	22.67*** (20.58)
	Profit <sup>b</sup>	104.33 (9.23)	90.89 (26.60)	92.38 (20.05)	112.71 (25.79)	96.13 (24.69)
	Sales <sup>c</sup>	113.67 (15.56)	97.42 (10.97)	98.32 (10.54)	106.71 (15.48)	100.51*** (11.99)
High Consumer Promo ( $x=36\%$ )		n = 3	n = 19	n = 11	n = 7	n = 40
	Consumer Attitudes	19.00 (1.41)	21.69 (4.04)	21.45 (3.25)	21.86 (2.91)	21.48 (3.37)
	Current Share	4.60 (1.98)	18.38 (21.24)	20.75 (13.42)	10.17 (9.62)	17.48 (14.66)
	Profit	97.00 (24.04)	93.23 (22.25)	106.55 (22.83)	93.51 (9.11)	99.81 (21.35)
	Sales	96.50 (16.26)	97.23 (10.68)	98.50 (14.58)	95.29 (8.96)	97.48 (12.13)
Column Means n =		5	32	31	14	Grand means (n = 82)
	Consumer Attitudes	21.80 (3.03)	19.75 (3.53)	21.68 (4.07)	21.86 (2.96)	20.96 (3.71)
	Current Share	18.04 (17.38)	18.41 (21.25)	22.84 (15.52)	18.13 (17.87)	20.01 (18.25)
	Profit	101.40 (14.28)	91.84 (24.61)	101.52 (22.62)	103.14 (21.07)	98.01 (22.97)
	Sales	106.80 (16.60)	97.34 (10.68)	98.44 (13.10)	101.00 (13.52)	98.96 (12.48)

<sup>a</sup> Four-item scale, range from 7-28.

<sup>b</sup> Index of Actual Profit with Planned Profit = 100

<sup>c</sup> Index of Actual Sales with Planned Sales = 100

\*\*\*difference in means significant at  $p < .01$

As these results show, the three-way interaction between the marketing communications tools was significant (Wilk's multivariate  $F=3.10$ ,  $p < .05$ ), with significant univariate relationships found for each of the four dependent variables: managers' perceptions of consumer attitudes ( $F=5.00$ ,  $p < .05$ ), market share ( $F=2.86$ ,  $p < .10$ ), profit index ( $F=3.03$ ,  $p < .10$ ), and sales index ( $F=5.29$ ,  $p < .05$ ). In addition, the two-way interaction between consumer and trade promotion with consumer attitudes was significant ( $F=4.93$ ,  $p < .05$ ), as were the main effects relationships of consumer promotion with market share ( $F=6.34$ ,  $p < .01$ ) and sales ( $F=3.89$ ,  $p < .01$ ).



In order to further examine the significant three-way interaction, we examined the two-way interactions between advertising and trade promotion for each level of consumer promotion: high and low allocation. Figure 2 presents these results; the two-way interactions between advertising and trade promotion for the “low” level of consumer promotion allocation is on the left side of the Figure (column “i”), while the two-way interactions between advertising and trade promotion for the “high” level of consumer promotion allocation are on the right side (column “ii”).<sup>7</sup>

The multivariate tests for the two-way interaction between advertising and trade promotion are significant for both the “low” and “high” consumer promotion subgroups (Wilk’s Lambda = 2.61,  $p < .06$ , and Wilk’s Lambda = 2.25,  $p < .06$ , respectively). The findings for the “low” consumer promotion subgroup show significant two-way interaction relationships between advertising and trade promotion with perceived profits ( $F = 2.80$ ,  $p < .10$ ) and sales ( $F = 7.27$ ,  $p < .01$ ); the effects for consumer attitudes and market share are not significant. Conversely, the findings for the “high” consumer promotion subgroup show significant two-way interactions for consumer attitudes ( $F = 3.71$ ,  $p < .06$ ) and market share ( $F = 5.82$ ,  $p < .02$ ); the findings for profit and sales are not significant.

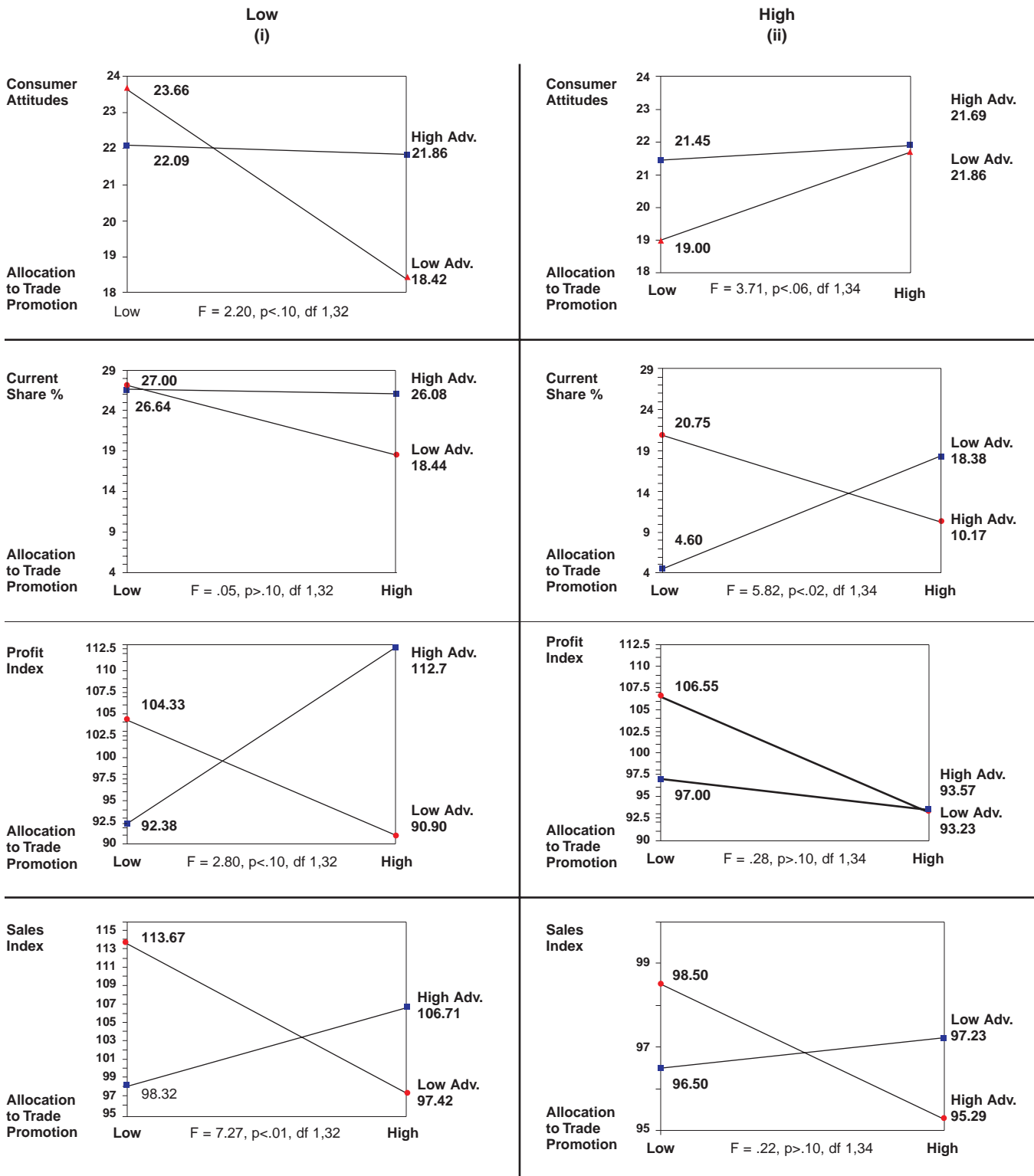
More specifically, under a *lower* allocation to consumer promotion (Figure 2-i), higher allocations to trade promotion are negatively associated with perceived profit and sales if advertising allocations are also low. However, if advertising allocations are high (and allocations to consumer promotion are low), higher allocations to trade promotion are positively associated with both perceived profit and sales ( $F = 2.80$ ,  $p < .10$  for profit;  $F = 7.27$ ,  $p < .01$  for sales). While not statistically significant, the findings for the other two outcomes (consumer attitudes and market share) show the same directional findings for low advertising allocations: under a lower allocation to consumer promotion, higher allocations to trade promotion are negatively associated with perceived consumer attitudes and market share if advertising allocations are low. However, if advertising allocations are high, higher allocations to trade promotion are not associated with perceived consumer attitudes and share.

Under *higher* allocations to consumer promotion (Figure 2-ii), higher allocations to trade promotion are positively associated with perceived consumer attitudes and market share if advertising allocations are low ( $F = 3.71$ ,  $p < .06$  for consumer attitudes;  $F = 5.82$ ,  $p < .02$  for market share). However, if advertising allocations are high, the relative allocation to trade promotion has relatively little impact on consumer attitudes, while higher allocations to trade promotion are negatively associated with perceived market share.<sup>8</sup>

Before summarizing and discussing the implications of these findings, we address the significant two-way interaction between trade and consumer promotions, and the significant main effects relationships for consumer promotion. Figure 3 shows the significant two-way interaction between consumer and trade promotions as it relates to consumer attitudes ( $F = 4.93$ ,  $p < .03$ ). If the allocation to trade promotion is low, higher allocations to consumer promotion are negatively associated with perceived consumer attitudes. However, when the allocation to trade promotion is high, higher allocations to consumer promotion have a strong positive association with perceived consumer attitudes.



**Figure 2. Two-way Interactions between Advertising and Trade Promotion Spending Level under Each Level of Consumer Promotion Spending**



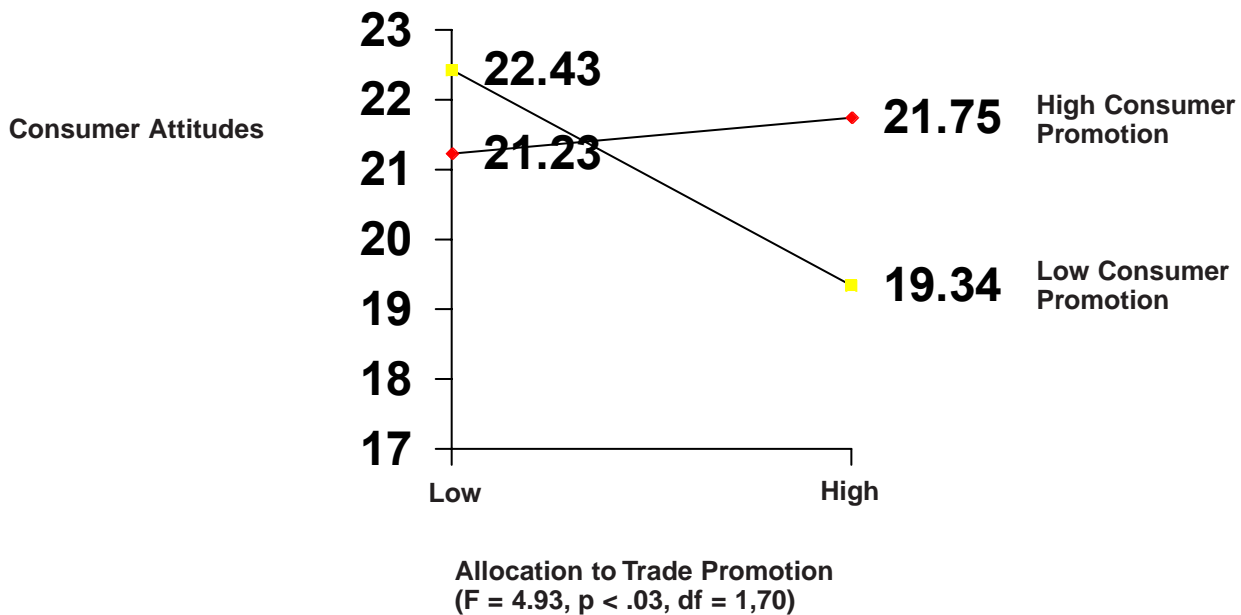
Multivariate (Wilk's Lambda)  $F = 2.61, p < .06, df = 4, 29$

Multivariate (Wilk's Lambda)  $F = 2.25, p < .06, df = 4, 31$

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**Figure 3. Two-way Interaction Between Consumer and Trade Promotions**

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The main effect association of consumer promotion with perceived market share and sales (see row means in Table 5) shows that, under lower allocations to consumer promotion, both perceived market share ( $F=6.34, p<.01$ ) and sales ( $F=3.89, p<.01$ ) are significantly *higher* than under higher allocations to consumer promotion. This finding is counterintuitive and will be discussed in the next section.

### **Outcomes—Discussion**

The significant three-way interaction relationship between the advertising allocation, the consumer promotion allocation, and the trade promotion allocation and outcomes is summarized in Table 6. Briefly, the results show differential associations between the allocation and perceived outcomes, depending on whether the allocation to consumer promotion is high or low. When the allocation to consumer promotion is low, trade promotion and advertising allocations have a significant interactive relationship with sales and profits. On the other hand, when consumer promotion is high, trade promotion and advertising allocations have a significant interactive relationship with perceived consumer attitudes and market share.

**Table 6. Summary of Findings: Relationships Between the Marketing Communications Allocation and Outcomes**

The relationship between increases to trade promotion allocations and outcomes when:

		Consumer Promotion	
		Low	High
Advertising	Consumer Attitudes <sup>a</sup>	—	+
	Low Market Share	—	+
	Sales	— <sup>b</sup>	0
	Profit	— <sup>b</sup>	—
	cell number	1	4
High	cell number	2	3
	Consumer Attitudes	0	0 <sup>b</sup>
	Market Share	0	— <sup>b</sup>
	Sales	+	—
	Profit	+	— —

<sup>a</sup> To be read as, “When the consumer promotion and advertising allocations are low, increased allocations to trade promotion has a negative relationship with consumer attitudes.”

<sup>b</sup> The relationship between increasing allocations to trade promotion and the variable in this cell exhibits a significant difference from the corresponding high (or low) advertising cell.

0 Negligible relationship

+ Positive relationship

— Negative relationship

— — More strongly negative than the corresponding relationship in the low advertising cell

Table 6 suggests that, contrary to conventional wisdom, higher allocations to trade promotions need not be inherently harmful to consumer attitudes. Moreover, higher trade promotion allocations do not necessarily relate to higher volume sales at lower profits. By highlighting the synergistic relationships between the marketing communications allocation and outcomes, our findings suggest that it is how the trade promotion allocation is *combined* with advertising and consumer promotion allocations that determines its relationship with outcomes.

Our findings show that higher trade promotion allocations can be positively related to outcomes, including consumer attitudes, if :

- ❑ the advertising allocation is low and the consumer promotion allocation is high, or
- ❑ the advertising allocation is high and the consumer promotion allocation is low.

In our dataset, these combinations translate to roughly 7 percent advertising, 44 percent consumer, and 45 percent trade, *or* 51 percent advertising, 6 percent consumer, and 34 percent trade.<sup>9</sup> The results show that higher trade promotion allocations alone, even when consumer promotion and advertising allocations are low, do not provide the sales “fix” attributed to them by many managers.<sup>10</sup> The findings from Cells 1 and 3 suggest that managers use caution in these relative allocation areas.

The interplay between consumer and trade promotion allocations is also seen in the significant two-way interaction between the two sales promotion tools. When the allocation to consumer promotion is low, higher allocations to trade promotion have a negative relationship with managers' perceptions of consumer attitudes. However, when the allocation to consumer promotion is high, higher allocations to trade promotion have a negligible relationship with consumer attitudes. This finding could arise because the high consumer promotion activity allows the brand to have some presence/visibility in the market, which insulates the brand from the potentially harmful effects of higher allocations to trade promotion.

In addition, the significant negative relationship between the consumer promotion allocation and perceived share and sales suggests that consumer promotions may not be having the short-term boost that firms would like. Possibly (despite the market visibility fostered by consumer promotion activity), consumers are tired of sales promotion deals and the negative relationship with sales and share is the result of this promotion overkill. Alternatively, there may be so many deals in some consumer packaged good categories that firms using these promotions are fighting ever harder for an increasingly smaller group of price-sensitive consumers who are still willing to take advantage of the deals. Dollars might be better spent building loyalty, and using promotions sparingly.

This picture is clearly complex: it suggests that drawing conclusions about the relationships between the allocations to any one of the three common marketing communications tools and their desired outcomes, without considering the interplay among them, could be misleading. In addition, our findings show differential effects of the relative allocations on perceived outcomes. Indeed, even sales and market share appear to be differentially related to spending patterns. These findings imply that it may be difficult for firms to simultaneously achieve positive results on all four outcomes from their allocation decisions.

# Limitations

As always, the results of this study must be tempered by its limitations. As mentioned previously, the relationships between marketing communications allocations and outcomes are complicated greatly, not only by the many uncontrollable variables that can affect outcomes, but also by the lag time that may occur between the strategy and the outcomes. While we attempted to control for important covariates, it is clear that other variables have an important effect on outcomes. Regarding the lagged nature of allocated expenditures as they relate to outcomes, we attempted to control for this by using the *last year's allocation* and the *current year's outcomes*. However, for two of our measures, we were able to gather performance data only for the previous year (respondents did not have current year data yet available). It is reassuring to note that the correlation of last year's sales and profits were significantly correlated with the current year's anticipated sales and profits (sales  $r=.57$ ,  $p<.001$ ; profits  $r=.24$ ,  $p<.01$ ).

It is important to note that the outcome findings were based on the allocation *percentages* to the three marketing communications tools; no conclusions can be drawn whether the absolute *level* of spending is high or low. In addition, no conclusions can be drawn about the types of promotions being offered. These comparisons are also *between groups* of products with different allocation patterns, not within-product.

In addition, we collected data based on the brand managers' knowledge and perceptions. While we believe that most brand managers would have a reliable sense of product, market, and organizational factors, allocations, and product outcomes, it would also be important for future research to assess some of these variables, such as consumer attitudes and profits, more directly. As stated at the outset, our goal in this study was to understand managers' "mental models" in making these important allocation decisions. It is managers' perceptions of these factors that affect their decision making; hence, perceptual measures were used.



# Conclusions

Despite the importance of the marketing communications budget allocation, it is a poorly understood decision. It is unclear just how managers weigh a variety of variables in making their allocation decision. In order to address this lack of knowledge, we conducted a study of the antecedents and outcomes of managers' allocations to advertising, trade promotion, and consumer promotion. When one combines the findings from the antecedent hypotheses with those from the outcome hypotheses, a fuller picture of the complexities of the budget allocation decision emerge. Based on data collected from 165 managers of packaged good firms in the U.S., we found that:

- ❑ As brands move to the more mature phase of the product life cycle, managers allocate less to advertising and more to promotions.
- ❑ When a brand is well-differentiated from the competition, managers allocate more to advertising relative to promotions.
- ❑ When formal rewards are focused on short-term results, managers allocate less of their budgets to advertising relative to promotions.
- ❑ As retailers have more influence, managers allocate less of their budgets to advertising relative to promotions.
- ❑ As managers have greater experience with the company, they tend to allocate proportionately more of their budgets to advertising relative to consumer and trade promotions.

A summary of hypotheses and results can be found in Table 7.

Despite these findings, there appears to be a large amount of organizational inertia involved in allocating budgets. Such past allocations may be based on accident or guesswork; in which case continuing to rely on historical allocations could lead to unanticipated results.

In addition, the findings suggest that the three types of marketing communications investigated in our study work in a synergistic manner—one cannot draw conclusions about the effect of an allocation to any one of the three tools without simultaneously considering the relative allocation to the other two. This is particularly important in light of today's flat budgets in which an increase in allocations to one communications tool typically comes at the expense of another.

**Table 7. Summary of Hypotheses and Results**

H <sub>1</sub> :	Managers' belief that intensity of competition in a product category is high is negatively related to advertising allocations relative to consumer and trade promotion allocations.	Not supported
H <sub>2</sub> :	Managers' belief that a product category's sales are seasonal is negatively related to advertising allocations relative to consumer and trade promotion allocations.	Not supported
H <sub>3</sub> :	When market growth rates are high, managers tend to allocate more resources to advertising relative to consumer and trade promotion.	Not supported
H <sub>4</sub> :	Managers' belief that market share is high is positively related to advertising allocations relative to consumer and trade promotion allocations.	Not supported
H <sub>5</sub> :	In the later stages of the product life cycle (maturity) compared to the earlier stages of the product life cycle (introduction and growth), firms show a lesser emphasis on advertising relative to consumer and trade promotion.	Supported
H <sub>6</sub> :	Managers' belief that a product's contribution margin is high is positively related to advertising allocations relative to consumer and trade promotion allocations.	Not supported
H <sub>7</sub> :	Managers' belief that brand differentiation is strong is positively related to advertising allocations relative to consumer and trade promotion allocations.	Supported
H <sub>8</sub> :	Managers' belief that the sales force has a strong influence on the budget allocation is negatively related to advertising relative to consumer and trade promotion allocations.	Not supported
H <sub>9</sub> :	Brand managers' perception that the sales manager is involved as a formal member of the budget allocation team has no impact on the resulting allocation.	Not supported
H <sub>10</sub> :	Managers' belief that the reward system emphasizes near-term results is negatively related to advertising allocations relative to consumer and trade promotion allocations.	Supported
H <sub>11</sub> :	Managers' belief that the decision process is formal is positively related to advertising relative to consumer and trade promotion allocations.	Not supported
H <sub>12</sub> :	Managers' belief that retailer influence is high is negatively related to advertising allocations relative to consumer and trade promotion allocations.	Supported
H <sub>13</sub> :	Managers' belief that trade relationships are close are positively related to advertising relative to consumer and trade promotion allocations.	Not supported
H <sub>14</sub> :	Managers' belief that their organization is willing to tolerate risk is positively related to advertising allocations relative to consumer and trade promotion allocations.	Not supported
H <sub>15</sub> :	Managers' belief that their use of marketing information is high is positively related to advertising relative to consumer and trade promotion allocations.	Not supported
H <sub>16</sub> :	Managers' experience level is positively related to advertising relative to consumer and trade promotion allocations.	Supported
H <sub>17</sub> :	Managers' balancing of intuition and marketing research information is positively related to advertising relative to consumer and trade promotion allocations.	Not supported
H <sub>18</sub> :	(a) When the advertising allocation is low, higher allocations to consumer promotions are negatively associated with managers' perceptions of (i) consumer attitudes and (ii) profit, and positively associated with managers' perceptions of (iii) sales and (iv) market share. (b) When the advertising allocation is high, higher allocations to consumer promotions are positively associated with managers' perceptions of (i) consumer attitudes, (ii) profits, (iii) sales, and (iv) market share.	Not supported*
H <sub>19</sub> :	(a) When the allocation to consumer promotion is high, higher allocations to trade promotion have a strong negative association with managers' perceptions of (i) consumer attitudes and (ii) profit, and a strong positive association with managers' perceptions of (iii) sales and (iv) market share. (b) When the allocation to consumer promotion is low, higher allocations to trade promotion have a weak negative association with managers' perceptions of (i) consumer attitudes and (ii) profits, and a weak positive association with managers' perceptions of (iii) sales and (iv) market share.	Partial support**



H<sub>20</sub>: (a) When the allocation to advertising is low, higher allocations to trade promotion have a negative association with managers' perceptions of (i) consumer attitudes and (ii) profit, and a positive association with managers' perceptions of (iii) sales and (iv) market share. (b) When the allocation to advertising is high, higher allocations to trade promotion have a positive association with managers' perceptions of (i) consumer attitudes, (ii) profits, (iii) sales, and (iv) market share.

Not supported\*

\* Although these hypotheses were not supported, the three-way interaction between advertising, consumer promotion, and trade promotion was significant. See Tables 4 and 6.

\*\* The two-way interaction was predicted to relate to all four outcomes in a similar way. Only the first (consumer attitudes) was significant and the relationship was slightly different than predicted (see Figure 3).

## Implications for Marketing Practitioners

These findings shed new light on the budget allocation process, which provides marketing practitioners with a depth of understanding across firms that may allow them to better manage the budgeting process. The antecedent relationships identified could be critiqued and discussed in marketing planning teams in companies in order to determine if these overall trends fit their company's strategic direction for a product or division. For example, should products in the mature phase of their life cycle receive more sales promotion spending and less advertising than new brands? Should a well-differentiated brand receive more advertising and less sales promotion than me-too brands? Should perceptions of retailer power be allowed to influence allocations to more sales promotions at the expense of advertising? By explicitly considering these issues in budgeting decisions, managers may be able to avoid allowing such factors to unwittingly influence their budget allocations. This implication has particular relevance to the informal, political influence of retailers and the sales force on spending decisions.

Similarly, these results suggest that managers may be subject to strong historical inertia in budget allocation decisions. Without passing judgment as to the "goodness" of such an influence, we suggest that managers take the time to understand how previous budgets were allocated, in order to more fairly judge the effects of historical inertia. If the rate of change in the company's environment is slow, these historical allocations, when based on careful strategic analysis, may be a valuable decision heuristic. On the other hand, when environmental change is rapid, managers would do well to disregard historical precedent as much as possible and try to implement zero-based budget allocations.

Finally, managers should not measure the impact of each marketing communications tool individually on sales, share, and profits. Given the complex interplay between these tools, managers should avoid drawing conclusions about one without considering the combined effects and synergy of all three. This finding supports an integrated marketing communications philosophy in which all communications activities for a product or firm are coordinated, implemented, and evaluated as a total promotion mix (Schultz, Tannenbaum, and Lauterborn 1993).

## Implications for Research

These findings point to many fruitful areas for further study. The antecedent findings suggest that new variables, such as perceived political behavior on the part of

retailers, can influence important spending decisions. Ailawadi, Farris, and Parry (1994) concluded that traditional product/market factors such as market share and growth are not good predictors of advertising and sales promotion spending. Our results support this conclusion and, in addition, identify a number of organizational and managerial variables that also influence advertising and sales promotion allocations, such as the reward system, influence of retailers, and the experience of the decision maker. Future research could address these organizational decision-making realities in more depth to determine the conditions under which they are more or less likely to influence the budget allocation.

In addition, more research is needed in order to better understand the longitudinal nature of budgeting decisions, and to identify the role of historical allocations. These results support a decision-making model that takes the previous year's decision as a base, and adjusts it slightly for current market and organizational conditions. The powerful nature of historical inertia could be studied in greater depth to determine the extent to which new creative and strategic direction is suffocated by the overwhelming need to "keep last year's budget allocation."

Finally, research that considers the outcomes of advertising, consumer sales promotion, and trade sales promotion tools simultaneously, as opposed to each tool separately or any two of these tools together, will produce the most ecologically valid results. Simple main effects studies in which advertising spending is correlated with sales, profits, and market share could be misleading if spending levels of other promotional tools are not included. Studies by Bemmaor and Mouchoux (1991) and Mela, Gupta, and Lehmann (1997), which investigate the sales effects of two communications tools, attempt to capture these synergistic effects; however more research is needed which combines *all three* communications tools.

# Appendix A. Measures

## Product/Market Factors

*Competitive Intensity:* (Coefficient alpha = .69)

Competition in my brand's category is cut-throat.

There are many promotion wars in this category.

Anything that one competitor can offer, others match readily.

*Seasonality:*

Sales volume for my brand is very seasonal.

*Market Growth Rate:*<sup>A1</sup>

Compared to last year, the annual volume sales growth for this brand's product category is:

Decreasing over 10%/- 6-10%/- 1-5%/Stable-No Growth/Increasing 1-5%/+6-10%/Growing Over 10%.

*Market Share:*

Relative to my competitors, the volume market share for my brand is quite a bit lower. (R)<sup>A2</sup>

*Stage of Brand's Product Life Cycle:*

Which of the following best describes the product life cycle stage of your brand:

Introductory, Growth, Maturity, Decline

[Because of the nature of our hypothesis, which compared earlier stages of the PLC—introductory and growth—to maturity, respondents in the introductory or growth stage were coded as “0” (cf. Sethuraman and Tellis 1991), while respondents in the mature stage were coded as “1.” The “other” or “decline” cases (n=10) were coded as missing for this variable.]

*Contribution Margin:*

Relative to other brands in my company, the contribution margin for my brand is quite a bit lower. (R)

*Brand Differentiation:* (Coefficient alpha = .85)

My brand is well-differentiated from competing brands.

The marketing strategy for my brand includes a strong unique selling proposition.

A powerful positioning idea has been developed for my brand compared with other brands in its category.

My brand's strategy has a “me-too” orientation. (R)

## Organizational Factors

*Sales Manager Formal Participation:* (Correlation  $r=.59$ ,  $p<.00$ )

At our firm we include, as a matter of policy, one or more sales managers in deciding marketing spending levels.

Our marketing planning approach formally includes a manager from the sales force as a team member.

*Influence of Sales Force:* (Coefficient alpha = .82)

Members of the sales force in my company, in informal conversations (in the hallway or cafeteria), have tried to influence me about trade promotion spending.

Members of the sales force in my company, in informal conversations (in the hallway or cafeteria), have tried to influence me about advertising spending.

Members of the sales force in my company, in informal conversations (in the hallway or cafeteria), have tried to influence me about consumer promotion spending.

During the brand planning process, the sales force in this company informally attempts to sway the marketing budget allocation process.

In our last brand plan, members of the sales force changed or influenced the marketing budget allocation using company politics to do it.

The sales force has a significant informal influence on marketing budget allocations.

*Reward System Orientation:* (Coefficient alpha = .81)

No matter which department they are in, people in this company get recognized for achieving short-term, not long-term, performance.

Formal rewards in this company (i.e., pay raises, promotions) are more likely to be given to managers who produce short-term results than to those who engage in more long-term, brand-building activities.

Managers' bonuses here are almost entirely based on annual results, as opposed to more long-term, multiple-year measures.

*Decision Formality:* (Coefficient alpha = .82)

In our company, we rely on formal policies to guide us in making advertising and sales promotion budget decisions.

Top management in this company has established guidelines which must be followed in setting and allocating marketing budgets.

Marketing budget decisions in this company are structured and well-defined.

*Trade Relationships:* (Coefficient alpha = .82)

Senior managers in this company have established closer relationships with retailers.

This company has been successful in forming trade partnerships.

Considerable company resources have been devoted to building closer working relationships with the trade.

Retailers tend to cooperate with us when we are doing a promotion for my brand.

*Retail Influence:*

Retailers have no influence in how funds are allocated to the various marketing tools for my brand. (R )

*Risk Encouraged:* (Coefficient alpha = .83)

Top managers in this company believe that higher financial risks are worth taking for higher rewards.

Top managers around here like to implement plans only if they are very certain that the plans will work. (R)

Our management is willing to take a chance on an unproven idea.

The philosophy of our management is that, in the long run, we get ahead faster by playing safe. (R)

*Use of Marketing Information:*

Which of the following types of information do you use in planning the marketing budget allocation for your brand? Check all that apply.

Advertising Awareness Studies	Consumer Attitude Surveys
Brand Tracking Studies	Quantitative Modeling/Computer
Focus Groups/Qualitative Techniques	Optimization Programs
IRI/Nielsen Survey and Scanner Data	Other (describe)

(The scoring for this item ranged from 1 to 7, with the score representing the number of types of information used by the respondent's firm to assist in the allocation decision.)

*Decision Maker's Experience:*

Please specify the number of years that you have worked in this company.

*Balance of Intuition and Marketing Research Information:* (Coefficient alpha = .76)

Marketing budget allocations for my brand are based as much on intuition as on objective information.

Decisions for my brand's marketing budget reflect less of the market research and more of my experience.

My experience and intuition are as useful as market research in determining marketing spending.

**Budget Allocation**

"Responding to competitive threats and/or financial concerns may mean that what you *actually* spend on advertising, consumer promotion, and trade promotion differs from what you *planned* to spend. **Planned** refers to the percentage allocation numbers in your brand plan; **Actual** refers to the percentage that was actually spent after changes and adjustments in spending were made during implementation in the past year.<sup>A3</sup> (Note: if your brand is a new brand, put "0" in last year's columns.) All responses are anonymous."<sup>A4</sup>

	Last Year's Planned Spending (Divide 100%)	Last Year's Actual Spending (Divide 100%)	This Year's Planned Spending (Divide 100%)
Advertising			
Consumer Promotion			
Trade Promotion			
Other (specify) <sup>A5</sup>			
Totals	100%	100%	100%

## Outcomes

*Consumer Attitudes:* (Coefficient alpha = .70)

Consumer attitudes, in general, for my brand are very positive.

Consumer attitudes towards my brand, relative to my key competitor(s), are more favorable.

Relative to last year, consumer attitudes for my brand are more positive.

Consumers feel better now about my brand than they have in the past.

*Current Market Share:*

The current monthly volume market share for my brand nationally is: (please fill in percent)

*Last Year's Market Share:*

My brand's monthly volume market share nationally a year ago was: (please fill in percent)

*Brand Sales Volume and Profit:*

"For the following questions, last year's sales and profit for your brand appear as a base index of 100. Complete the other two columns with appropriate indexes. For example, if actual sales last year were 5% higher than planned, write 105 in the Last Year's Actual column."

	Last Year's Planned	Last Year's Actual	This Year's Planned
Brand Sales Volume	100		
Brand Profit	100		

We used Last Year's Actuals in our tests.<sup>A6</sup>

## Covariates

*Unit of Analysis for Planning Allocations: Brand Type* (Family vs. Single Product Brands)

Please check the brand type that best describes your brand responsibility (check one).

This is a:

Family brand (one brand name/multiple products, i.e., Dole products).  
(n=93)

A single product brand (i.e., Crest toothpaste, which comes in multiple sizes and flavors). (n=29)

A group of single product brands. (n=35)

Other (specify): (n=8)<sup>A7</sup>

*Price:*

Relative to my competitors, my brand's retail selling price is higher.

*Quality of Advertising Creative:* (Coefficient alpha = .78)

The brand's basic selling idea is expressed very well in our advertising.

My brand's advertising consistently emphasizes a unique selling proposition.

Our advertising could do a better job of differentiating my brand. (R)

I would say that the quality of the advertising for my brand is very high.

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<sup>A1</sup> Coded from 1 through 7, higher numbers for higher growth rates.

<sup>A2</sup> R denotes reverse scoring.

<sup>A3</sup> An open-ended question below the categories asked respondents to detail the reasons why planned spending may have deviated from actual. In addition, they were asked to list any strategic changes that might have influenced this year's allocation. Of the 35 respondents who had a deviation from planned spending to actual, most cited increased competitive activity and pressure from retailers to increase trade dealing (in order to keep shelf space and retail support). Other reasons for deviation from planned vs. actual were delays in advertising creative, disappointing advertising results, investing in brand-building activities, entering new geographical markets, introducing new products, oversupply of product, increased costs of products, and organizational restructuring. Of the n=42 respondents who cited strategic changes that influenced the planned allocation, the majority included a philosophical shift away from trade and into advertising/consumer activities.

<sup>A4</sup> For those firms who might have defined the various tools in a "unique or different way" or for those who felt a need to elaborate on the categories used by their firm, an open-ended question beneath the categories allowed respondents to elaborate on their categories. Information here generally supported the distinctions drawn between the three tools. For example, advertising expenditures included media spending; consumer promotion included in-store demonstrations, coupon vehicles such as FSI and direct mail, samples, and so forth. Only 4 of the 165 surveys indicated slight differences. For example, two respondents said that consumer promotion included point-of-purchase and in-store (non-price) materials. And two respondents indicated that brand budgets did not contain trade dollars—one because the trade budget is set prior to "handing down" a budget to brands, and the other because trade promotion was not considered a marketing expense, but rather an "offset" to revenue. We re-ran the analyses without these four cases; the results did not change.

<sup>A5</sup> An "other" category was provided for those whose plan included other tools, such as direct mail. Twenty-eight respondents included other items in their marketing communications budget. However, by using the relative allocation (Advertising/Consumer+Trade Promotion), we avoid bias in the antecedent hypotheses. To check for potential bias in the outcomes analysis, a covariate was added to control for these 28 cases, and the MANCOVA was re-run with the same results. In addition, we ran the MANCOVA again without these 28 cases, and again, the results were the same.

<sup>A6</sup> While it would have been ideal to collect current sales and profit numbers (given the causal sequence in our hypotheses, in which last year's allocation is predicted to be related to the current year's financial performance), respondents did not have the current year's financial figures at the time of our study. However, the correlation between Last Year's Actual Profit and a single-item perceptual measure for current profit performance ("Relative to other brands in my company, my brand profit performance has been very good lately") was  $r=.28$  ( $p<.01$ ).

<sup>A7</sup> The categories for brand type were coded using 1 for family brand, 2 for single product brand, 3 for a group of single product brands, and 4 for "other." The first three categories made sense to code in a linear fashion, as each brand type increased in uniqueness and complexity. We determined that coding the "other" cases as a 4 was appropriate after looking closely at the eight cases in this category and noting that these exceptions were a step higher in complexity and uniqueness of brand type.





# Appendix B. Scale Purification

All scales were assessed for reliability and validity. Item-to-total correlations and confirmatory factor analyses (using Lisrel VII) were used in the reliability analysis. Tables B1 and B2 show the confirmatory factor analyses, Table B3 shows means, standard deviations, and coefficient alphas, and Table B4 shows the correlations.

Because of the large number of constructs in our study, the confirmatory factor analyses were run in two groups. The first group included the multi-item scales used to measure the organizational variables: sales force influence (6 items), short-term reward focus (3 items), decision formality (3 items), closer retail relationships (4 items), risk tolerance (4 items), and balance of intuition and information (3 items). As Table B1 shows, the 23-item model has an acceptable fit, with chi-square of 280.58 ( $df = 215$ ,  $p = .00$ ),  $GFI = .857$ , and  $AGFI = .817$ . The measures have convergent validity, given that all lambdas are large and significant, and all  $t$ -values exceed 5.9. Also, the coefficient alphas range from .76 to .83 (see Table B3). Finally, the phi coefficient between all pairs of constructs is significantly different from 1.00 ( $p < .001$ ), providing evidence of discriminant validity.

The second group of items included the multi-item scales used for the product/market factors, covariates, and outcomes: competitive intensity (3 items), brand differentiation (4 items), quality of creative (4 items), and consumer attitudes (4 items). As Table B2 shows, the 15-item model has an acceptable fit, with a chi-square of 169.59 ( $df = 84$ ,  $p = .00$ ),  $GFI = .863$ , and  $AGFI = .804$ . Again, the lambdas are large and significant providing evidence of convergent validity. Coefficient alphas range from .69 to .85 (see Table B3). The phi coefficient between all pairs of constructs is significantly different from 1.00 ( $p < .001$ ), providing evidence of discriminant validity (Bagozzi and Phillips 1982).

Because of the potential conceptual overlap between several of the variables, we provided additional testing on different groupings of some constructs (including consumer attitudes, brand differentiation, and quality of advertising creative) to further assess discriminant validity. These tests, which provide additional evidence for discriminant validity, are available from the authors.

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**Table B1. Confirmatory Factor Analysis—Organizational Variables**

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Variables:	Factor Loadings: $\lambda$ 's			
Sales Force Influence	.653			
	.628			
	.669			
	.813			
	.594			
Short-term Reward Focus	.580			
		.736		
		.918		
Decision Formality		.656		
			.760	
			.828	
Trade Relationships			.740	
				.741
				.824
				.760
Risk Tolerance				.502
				.728
				.692
Balance of Intuition and Information				.729
				.856
				.795
				.788
				.566

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Chi-square = 280.58 (p = .00)

df = 215

GFI = .857

AGFI = .817

All t-values exceed 5.90.

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**Table B2. Confirmatory Factor Analysis—Product/Market and Outcome Variables**

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Variables:	Factor Loadings: $\lambda$ 's			
Competitive Intensity	.731			
	.717			
	.538			
Brand Differentiation		.736		
		.856		
		.869		
		.586		
Quality of Advertising Creative			.750	
			.800	
			.541	
			.677	
Consumer Attitudes				.327
				.359
				.914
				.798

---

Chi-square = 169.59 (p = .00)

df = 84

GFI = .863

AGFI = .804

All t-values exceed 5.90.

**Table B3. Means,\* Standard Deviations, and Coefficient Alpha**

Variable	Mean	Standard Deviation	Coefficient Alpha
<b>Covariates</b>			
Brand Type	<sup>a</sup>	—	—
Price	4.18	2.04	—
Quality of Advertising Creative	4.66	1.23	.78
<b>Product/Market Factors</b>			
Competitive Intensity	5.15	1.32	.69
Seasonality	4.01	1.98	—
Market Growth Rate <sup>b</sup>	4.85	1.34	—
Last Year's Market Share (%)	19.91	19.43	—
Stage of Brand's PLC	<sup>c</sup>	—	—
Contribution Margin	5.02	1.89	—
Brand Differentiation	4.71	1.34	.85
<b>Organizational/Managerial Factors</b>			
Sales Manager Formal Participation	4.53	1.69	—
Influence of Sales Force	4.23	1.27	.82
Short-Term Reward System Orientation	4.88	1.30	.81
Decision Formality	3.35	1.43	.82
Trade Relationships	4.74	1.18	.82
Retail Influence	4.09	1.67	—
Risk Tolerance	2.81	0.98	.83
Use of Marketing Information	3.01	1.74	—
Decision Maker's Experience (# years)	7.47	6.62	—
Balance of Intuition and Information	4.66	1.10	.76
<b>Budget Allocation</b>			
Advertising-to-Sales Promotion Ratio	.50	.15	—
Last Year's Actual Advertising Allocation (%)	26.32	24.49	—
Last Year's Actual Consumer Promo. Alloc.	21.94	20.71	—
Last Year's Actual Trade Promotion Alloc.	44.26	29.13	—
<b>Outcomes</b>			
Consumer Attitudes	5.25	0.96	.70
Current Market Share (%)	20.48	19.55	—
Last Year's Actual Brand Profit (Index)	100.34	25.02	—
Last Year's Actual Sales (Index)	100.78	13.50	—

\* All items on a 7-point scale, unless otherwise noted.

<sup>a</sup> Categorical: Family brand (n=93); Single product brand (n=29); Group of single product brands (n=35); Other (n=8)

<sup>b</sup> The categories for the 7-point scale were: Decreasing over 10%; -6-10%; -1-5%; Stable No Growth; Increasing 1-5%; +6-10%; Growing Over 10%

<sup>c</sup> Categorical: Introductory (n=9); Growth (n=77); Maturity (n=63); Decline (n=10)

**Table B4. Intercorrelations of Variables**

Covariates	Brand Type	Price	Qual. Adv.	Comp Int.	Seas	Mkt. Grwt.	LY Shar	Brand PLC <sup>a</sup>	Cont. Mar.	Brand Diff.	Sales Mngt.	Infli. S-Force	S-T Rewards	Dec. Formal	Trade Relat.	Retail Infli.	Risk Tol.	Use Inf.	DM. Exper.	Ball Intuit.	Adv./ Sales	Adv. Alloc.	Cons. Promo.	Trade Promo.	Cons. Att.	Curr. Share	LY Profit	LY Sales
	1.00	1.00	1.00																									
Product/Market	Brand Type <sup>a</sup>	-.05																										
	Price	.23**	1.00																									
	Qual. Of Adv.			1.00																								
	Compet'v. Intens.	-.24**	-.11	-.05																								
	Seasonality	-.02	-.19*	.09	1.00																							
L.Y. Market Share	Mkt. Growth	.01	-.05	.14	-.21**	1.00																						
	L.Y. Market Share	.01	.18*	.03	-.10	.10	1.00																					
	Stage of Brand PLC <sup>a</sup>	-.07	-.03	-.03	-.03	-.03	-.03	1.00																				
	Contrib'n. Mar.	.22**	.16*	.18*	-.08	.01	.26**		1.00																			
	Brand Diff'n.	.13	.34**	.40**	-.24*	.02	.19*	-.35**		1.00																		
Organizational/Managerial	Sales Mngt'r. Partic'n.	-.09	-.07	-.02	.16*	.19	-.04	-.04	-.04	-.11	1.00																	
	Infli. of Sales Force	.06	.09	.10	.16*	.13	.06	-.02	-.02	-.12	.35**	1.00																
	S-T Rewards	-.11	.02	.02	.04	-.15	.03	-.12	-.12	-.15	-.07	.20*	1.00															
	Decision Formality	-.07	.13	.14	.12	.03	-.02	-.02	.11	.09	.12	.08	.06	1.00														
	Trade Relat.	-.14	-.01	.09	.15	.04	.01	.15	-.15	.12	.14	.09	.06	.03	1.00													
	Retail Infli.	-.17*	-.17*	-.12	.23**	-.02	-.20*	-.15	-.20*	-.20*	.00	.11	.15	-.02	.00	1.00												
	Risk Tol.	-.03	.10	.21*	.06	.05	.14	-.18*	.18*	.13	.10	.05	-.26**	-.02	.29**	.00	1.00											
	Use of Info.	-.01	-.05	.08	.12	-.01	-.09	.05	.13	.11	.06	-.05	-.09	.09	.13	-.01	.02	1.00										
	Dec. Maker Exp.	-.01	-.08	-.04	.00	.00	.07	-.03	.03	.05	-.02	-.09	-.02	.28**	.04	.05	.05	.03	1.00									
	Ball. Intuit/Infli.	-.13	-.02	-.09	-.02	.01	-.10	-.02	-.02	-.04	-.03	.08	.09	-.22**	.03	.10	-.02	-.32**	-.20*	1.00								
	Budget Allocation																											
	Adv/Sales Promo Ratio	.23**	.16*	.23**	-.12	.02	-.02	-.18*	.18*	.18*	-.04	-.01	-.15	.14	-.03	-.20*	-.02	.12	.19*	-.19*	1.00							
	LY Adv. Alloc'n.	.18*	.13	.22*	-.10	.07	-.03	-.21**	.21**	.24**	-.14	-.01	-.11	.14	.00	-.11	.02	.07	.14	-.19*	.83**	1.00						
	LY Cons. Promo.	.02	.04	.01	-.18*	-.04	-.10	-.01	-.01	.00	.02	.10	.02	.06	.02	-.02	.15	.18*	-.10	.04	-.27**	-.23**	1.00					
	LY Trade Promo.	-.15	-.18*	-.14	.32**	-.03	.07	-.08	-.08	-.28**	.12	.08	.10	-.18*	.05	.12	-.07	-.18*	-.12	.17	-.55**	-.57**	-.37**	1.00				
Outcomes	Cons. Att.	.15	.08	.34**	-.14	-.07	.14	-.18*	.18*	.30**	-.05	-.04	-.04	.07	.01	-.03	.11	.14	.10	-.08	.05	.10	.05	-.19*	1.00			
	Current Share	.00	.20*	.08	-.15	.08	.01	.98**	.25**	.23**	-.04	.04	-.03	.00	.12	-.21*	.13	.05	.06	-.12	.02	.01	-.08	.00	.23*	1.00		
	LY Profit	.04	-.02	.09	.00	-.08	.08	.12	.17	.11	.06	-.01	-.09	.00	.24**	-.03	.14	.16	-.06	-.03	.14	.15	.01	-.08	.14	.11	1.00	
	LY Sales	-.08	-.06	.21*	-.02	-.08	.10	.08	.00	-.05	.12	-.06	-.09	.12	.14	-.08	.04	.13	.07	-.15	.05	-.06	.08	-.03	.19*	.10	.40**	1.00

<sup>a</sup> Categorical Variable

\* p<.05

\*\* p<.01 (2-tailed)

# Notes

1. We define advertising as nonpersonal communication via paid media (e.g., broadcast, print, outdoor, and direct mail), consumer sales promotion as programs intended to stimulate short-term sales by end-users (e.g., coupons, rebates, and contests), and trade sales promotion as programs intended to stimulate short-term sales to channel members (e.g., slotting fees, off-invoice allowances).
2. While market share might also be considered an outcome of marketing communications allocations, we model the relationship between last year's market share and the coming year's planned allocation. This hypothesis is consistent with work by Balasubramanian and Kumar (1990), who examined the impact of market share on marketing communications spending.
3. This argument hints at the possibility of an interaction between sales force influence and sales force participation. We tested for the presence of an interaction and found none.
4. We tested for the presence of an interaction between retail influence and retail relationships and found none.
5. Our thanks to Paul Farris for suggesting this possibility.
6. Because of the multivariate multicollinearity with the allocation, we could not use multiple regression analysis.
7. We present the results under the low and high levels of consumer promotion allocation in order to highlight the interplay between advertising and trade promotion allocations.
8. While statistically nonsignificant, the directional findings for sales and profits are slightly different under higher allocations to consumer promotion; higher allocations to trade promotion are:
  - ❑ negligibly associated with perceived sales and negatively associated with perceived profits if advertising allocations are low;
  - ❑ negatively associated with perceived sales and profits if advertising allocations are high. (Note that the directional negative relationship for this latter group on profits is stronger than the negative relationship in the high consumer promotion/low advertising subgroup.)
9. We caution managers in using these numbers exactly, as the specific allocations would also depend upon the specific costs for each of the tools. For example, some advertising markets may be more expensive than others, and a 9 percent allocation to advertising may not have sufficient weight to have an impact.

10. An alternative way to frame these findings is by grouping the data based on low versus high levels of advertising (and examining the two-way interaction between consumer and trade promotion). Examining the results in this manner confirms these findings: when a firm has a high allocation to both consumer and trade promotions, higher advertising allocations are not significantly related to perceived consumer attitudes, and are negatively related to perceived sales, profit, and market share. Furthermore, if both consumer and trade promotion allocations are low, higher advertising allocations are negatively related to perceived profits and sales (with a negative directional effect for consumer attitudes also; the relationship for market share is negligible). However, when a firm has a higher allocation to either consumer promotion or trade promotion (but not both), higher advertising allocations are positively associated with perceived consumer attitudes and share (under high consumer promotion allocations and low trade allocations) or profit and sales (under low consumer promotion allocations and high trade allocations).

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