

FREEBIES FIGHT HOTS UP

Marketers are piling on the free-gift offers with product purchases. But who are the winners in a freebies war – the customers or the retailers?

WITH THE RUSSIAN military pulling out from Afghanistan in 1989 after 10 bloody years of combat and mindless killings, one might think that's the closing down of another war zone. That might be so, but in the retail world, another war zone is being opened up – premiums; articles given free or at discounted prices when a product is purchased.

Gone are the days when products are purchased solely for their utility and the belief that consumers have in them. Premiums are yet another tool for aggressive selling and have created quite a stir in the retail market. Children, especially, are very captivated, even though they may not have the financial means to acquire except through their parents.

Despite being better educated and more informed, consumers are still falling prey to these premiums. Some would even go to the extent of purchasing a product they don't need and cause a disequilibrium in their budget simply because of the free gift or offer attached to it.

Premiums meet an array of marketing and promotional objectives. They have been used as tools to offset the impact of a new competitive product in the market. They have also been exploited to entice customers to switch from a competitor's product to one's own brand and become regular users.

In the manufacturers' undying quest to preserve brand loyalty, premiums have been utilised to attract repeat buyers, in addition to attracting purchases when there is little to choose between products.

If consumers are not brand conscious, retailers will have a hard time because they will have to come up with more attractive and quality premiums, says Hamdan Adnan, president of the Federation of Malaysian Consumer Associations (Fomca). Retailers often use premiums to offset seasonal slumps and stimulate impulse buying. They are also often used to encourage purchase of larger volumes by the consumers.

An analysis of the Malaysia retail market reveals the presence of four major groups of premiums:

- Direct premiums or free give-aways that go right to the consumer free of charge at the point of purchase. These are the most common.
- Self-liquidating premiums that require the consumer to make a payment for the premium article (often at reduced prices) and provide proof of purchase for the product.
- Free mail-in premiums. Under this arrangement, the consumer receives the premium after mailing in a coupon along with proof of purchase for the product.
- Continuity coupon premiums. These are articles which the consumer may acquire by submitting a specified number of coupons, proof-of-purchase seals, special labels or some other forms of product identification that came along with the product.

MICHAEL TANG, KFC Holdings (Malaysia) Bhd marketing manager, says when there is a free gift or offer, the product may cost more. Thus KFC is very particular about what it gives away or what it asks its customers to buy. 'We don't offer premiums for the sake of offering premiums, and not any premium will do,' he says. 'Sub-quality premiums can have adverse effects on our "whole-some" image.' He adds, 'All our premiums must also be related to our brand. At KFC, our business is to sell chickens, not premiums.' He emphasizes that KFC does not make any money from the premiums it offers at its restaurants.

Ideally, according to marketing sources, all premiums should possess an evident value that they are worth considerably more than the price charged. Apart from being useful to their recipients, they should also not be easily found at retail level (limited availability). Premiums should also be glamorous and desirable to possess, and should relate, in every possible way, to the retailer's advertising and promotional strategies.

A recent call by the Petroleum Dealers' Association of Malaysia (PDAM) to avert a 'free gift war' among petroleum companies as a result of the promotional campaign by British Petroleum (BP) backfired when the Ministry of Finance announced that the BP campaign was scrutinised and found to contain no elements of gaming. BP offered a range of small gifts with a grand prize of a Proton Saga under its scratch-and-win campaign. The ministry regarded the campaign as healthy business competition and said that others may follow suit upon approval by the finance ministry and other relevant authorities. (See box story).

The finance ministry's announcement not only intensified the already heated premium war, but has also caused several perennial questions about premiums to come back to life. Are premiums really free? What will they do to the supply-demand equation in the retail market? How will they affect the marketing and promotional strategies and budget of the retailers?

It was reported that the Consumers Association of Penang (CAP) has requested the Ministry of Trade and Industry to determine whether the BP campaign is genuinely a free gift exercise or not. CAP is concerned the BP campaign might be an attempt to recover the cost of its 17 million ringgit re-imaging and upgrading exercise.

If BP denies this allegation, one would wonder why it resorted to entering into the premium war zone to promote petroleum sales. There are obviously less 'violent' ways to boost sales, such as cash discounts, efficient services and better quality products. BP, in a news statement, had this to say: 'The various oil companies in Malaysia have organised promotions in the past. It is normal industry practice to conduct promotions for newly-opened or upgraded/revamped stations; so it is not as though BP is taking a different approach.'

One distinct feature of the BP promotional exercise is the fact that BP had a single promotion for its entire revamped network instead of individual station promotions. The latter, according to BP, would have been too costly in terms of both financial and manpower resources.

One industry source laments: 'Before, the oil companies only sell petrol and have a certain market share. Now with the premium war, they sell petrol and give a premium. Costs are pushed way up, but sales may or may not necessarily go up.' Not good for the oil companies perhaps but no reason for consumers to complain.

CAP's legal advisor, M Thayalan says that CAP is not coming down specifically on BP, but the retail oil industry as a whole. 'If the gifts the retailers are offering are genuinely free, we don't have a problem. The consumer benefits ultimately if that's the case.'

But it is hard to see CAP's point about promotional campaigns for the oil industry. In the case of BP's promotional campaign, it is not evident how the consumer will lose out. Pump prices have not gone up due to the promotions and as prices are controlled by the government anyway, free gifts can only benefit the consumer in this particular instance by promoting competition among the various oil retailers.

'Premiums have given promotions a bad name,' Tang says. 'The profligate use of premiums will dilute the effectiveness of a promotional campaign.' Most retailers engage in premium-related promotions because they strongly believe that premiums will help them carve out a better market share.

In the rush to defend their respective market shares, inferior premiums are employed. Instead of increasing sales and market share, these retailers incur losses when they are stuck with premium inventory (products they don't normally sell). On top of that, they will also be slapped with enormous administrative and promotional costs. 'The problem with marketers today is that they don't have many bright ideas,' Tang notes. 'So, when someone comes up with an idea under these limitations, the rest of the market will imitate, and the effect will be nullified and diminished.' Tang points out that companies today are in a dilemma. 'If they do not use premiums in their sales promotions, they may lose market share, but if they use premiums, a gain in market share is also quite doubtful,' he adds.

According to KFC's Tang, a quick jump on to the bandwagon of premiums is not a very wise idea. 'You've got to know your premium suppliers. When a supplier comes in and talks about a premium, we get very involved. It's more than just talking about product testing, increasing frequency of purchase, brand relevance and community projects. We're talking the entire marketing strategy,' he says. As such, Tang says a prudent retailer should first make sure that the premium supplier is not a supplier to its major competitors. 'Your premium suppliers must also be a long standing partner of trade.'

Hamdan says that premiums attached to retail products will usually encourage consumers to spend more than they should otherwise. 'For those who can afford it, it's okay. But there are some who would go and spend way beyond their means, and that's bad.'

Hamdan says that some premiums are 'totally useless', but there are also premiums that are worth it. He points out that consumers must learn how to take the time to study the various special offers carefully. He cites an example. In some of the 'buy two get one free' offers, the premium furnished may be items that have exceeded their expiry dates or old stocks that need to be cleared immediately. Hamdan says that consumers must be aware of these things in order not to be fooled.

IN EVERY WAR, there are casualties. Who stands to win in the premium war of the retail market – the consumer or the retailer? Tang says with the fierce competition existing among the retailers, the consumer stand to win. For the retailers, profit margins will be cut as a direct result of mounting costs. In the long run too, the retailers will suffer, if sales promotions using premiums are not employed discreetly.

Hamdan sounds a different tune. He says that the consumers will be the casualties because the price of products in the retail market will increase as a result of the premiums attached to them. 'The retailers will pass the promotional costs to the consumers,' he says. 'The retailers are in the business to make money, not lose money.'

Point of purchase displays, premiums, coupons and contests, along with other consumer deals and advertising specialities provide the marketer with a wealth of powerful weapons for use in the battle for consumer loyalty. Management must know the strengths and limitations of these techniques, as well as the conditions under which each is most appropriate.

Marketers have to guard against the tendency to overuse the promotional tools because it is very possible that a dependency will develop to the point where the absence of the promotional device will trigger an unwarranted change in buying behaviour. Marketers generally agree that if long term allegiance toward a product is desired, the promotional tools should not overshadow the product they are supporting.