A Brand's Advertising and Promotion Allocation Strategy: The Role of the Manufacturer's Relationship with Distributors as Moderated by Relative Market Share

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Results of this study suggest that the type of exchange relationship between a packaged-goods manufacturer and its distributors influences a manufacturer's brand allocation between the frequently opposing strategies of advertising and promotion. As exchange relationships become more relational, manufacturers increase their allocation to advertising. Conversely, as relationships become more discrete, manufacturers increase their allocation to promotion. Additionally, study results suggest that a brand's relative market share moderates the influence of the exchange relationship type. Brands with low relative market share may experience greater opportunity for advertising in relational exchange and increased pressure for promotion in discrete exchange. J BUSN RES 2000. 48.113–122. *© 2000 Elsevier Science Inc. All rights reserved.*

In today's environment of increasing pressure for marketing productivity and brand profitability, packaged-goods manufacturers are seeking direction in their advertising and promotion allocation decisions in order to gain market share and build a long-term franchise. The marketing literature has begun to offer an understanding of this complex allocation decision by identifying factors that may influence the frequently opposing strategies of advertising and promotion (Strang, 1975, 1980; Low and Mohr, 1992, 1994), suggesting consumer decision-making outcomes (Mela, Gupta, and Lehmann, 1997), and offering prescriptions that lead to allocation plan optimization (Sethuraman and Tellis, 1991; Neslin, Powell, and Stone, 1995). While these prescriptions address distributor factors (e.g., inventory carrying cost and trade promotion pass-thru), manufacturers may find the effectiveness of their allocation strategy lessened if the type of exchange relationship a manufacturer has with its distributors is not included as a decision variable. The nature of buyer-seller behavior is captured in the type of exchange relationship (Dwyer, Schurr, and Oh, 1987).

Packaged-goods manufacturers use their exchange relationship with distributors as a mechanism to govern their relationship with distributors. Governance is at issue for manufacturers as they seek control for the final exchange with consumers. Exchange relationships range in type from discrete to relational (Macneil, 1980) on a continuum that becomes increasingly interdependent, cooperative, and complex (Macneil, 1981). The focus of discrete exchange is on a single transaction and the pursuit of individual goals within the relationship (Macneil, 1978). Relational exchange is based on the expectations of bilateral, long-term exchange crafted to enhance the interests of the overall relationship. The exchange relationship between a manufacturer and its distributors is guided by norms that serve to control proper and acceptable behavior by describing how parties behave and, also, prescribing how they ought to behave (Macneil, 1980, p. 38). When exchange is viewed as long term, norms represent important social and organizational mechanisms of control (Gundlach and Achrol, 1993).

In the absence of a long-term view, where an exchange relationship is guided by self-interest and may be characterized by opportunism, a manufacturer's allocation decision may be compromised by distributor actions that push products (in the form of promotion) to be commodity-like and not allow for the differential effects of the brand. These types of exchange relationships may inhibit investment in the future of the brand (in the form of advertising) and restrict the allocation between advertising and promotion from its marginal level. This compromise in allocation strategy is at the center of distributor governance for packaged-goods manufacturers as they seek to gain market share and build a long-term brand franchise.

The purpose of this article, then, is to further our under-

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standing of a manufacturer's advertising and promotion allocation decision by examining the influence of the type of exchange relationship a manufacturer has with its distributors. The potential moderating role of a brand's relative market share also is addressed. Within a given exchange type, manufacturers may respond differently in their allocation between advertising and promotion based on the market position of their brand.

The allocation between advertising and promotion may be expressed as a ratio (A/P), which is the proportion of the total advertising and promotion budget accounted for by each activity (Strang, 1975). In this study context, a manufacturer's promotion allocation is directed towards both consumers (e.g., sampling) and the trade (e.g., price discounts). While the promotion allocation is defined to include both types of promotion, trade promotions have been the predominant type of promotion for packaged-goods manufacturers (Cox Direct, 1996).

Industry Background: Trade Promotions and the Shift in Power to Distributors

During the past 15 years, packaged-goods manufacturers have increased their promotion allocation as a part of their total advertising and promotion expenditures from 57% in 1981 to 73% in 1992 (Mohr and Low, 1993) and to 75% in 1995 (Cox Direct, 1996). Driving this promotion allocation increase was trade promotions. Trade promotions are special incentives (e.g., price discounts and free case offers) provided to distributors for the pass-thru of a price reduction to consumers and, in many cases, the feature/display of a product (Blattberg and Levin, 1987). In 1970, trade promotions represented only 7% of the total advertising and promotion expenditures (Schiller, Zachary: Not Everyone Loves a Supermarket Special. 1992. *Business Week*, February 17. pp. 64–68) by 1995, packaged-goods trade promotions had increased to 51% (Cox Direct, 1996). Of the total funds spent on promotion in 1995, trade promotions accounted for more than two-thirds of the expenditures (the remaining expenditures were spent on consumer promotions).

This reallocation of funds in the advertising and promotion budget reflects a shift in power to distributors (Buzzell, Quelch, and Salmon, 1990). While competing packaged-goods manufacturers have pursued growth in mature markets by pouring product into the distribution pipeline and using trade promotions to ease the flow, distributors have become gatekeepers controlling the extent of a manufacturer's influence with the consumer. This gatekeeper role has allowed distributors to demand increased levels (depth) of trade promotion for limited shelf access and display features. At the same time, manufacturers have faced retaliation by distributors if they enforced the trade promotion contract that requires a discount to be passed on to the consumer for the total quantity purchased (Buzzell, Quelch, and Salmon, 1990). These practices have further eroded the manufacturers' control of its exchange with distributors and consumers and have provided for a shift in channel profits to distributors. Industry sources estimate that up to 35% of a supermarket chain's profit and up to 75% of a wholesaler's income are derived from retaining trade promotions and not passing them on to the consumer (MacClaren, 1992).

For packaged-goods manufacturers, trade promotions can offer the benefits of short-term sales increases, merchandising and shelf space advantages (Mohr and Low, 1993), economies of scale and carrying cost reductions (Zerrillo and Iacobucci, 1995). Unfortunately, only 16% of trade promotions have been estimated to be profitable (Abraham and Lodish, 1990). Yet, some packaged-goods manufacturers have sold over 90% of their volume on promotion (Abraham and Lodish, 1987). This escalation in trade promotion depth and frequency has resulted in an increased intensity in promotions, a reduction in promotion pass-thru by distributors, and an increased sensitivity to promotion by consumers (i.e., switching behavior). The net result for manufacturers has been a rise in the cost of trade promotions without the attendant rise in benefit.

Additionally, the shift to trade promotions has been at the expense of advertising (Mohr and Low, 1993). A reduced advertising allocation restricts a manufacturer's ability to create brand awareness and image (Zerrillo and Iacobucci, 1995). A weakened image decreases a consumer's ability to distinguish brand attributes and thus value. Consumers become price sensitive (Mela, Gupta, and Lehmann, 1997), which suggests to distributors that the product is substitutable. Reduced advertising expenditures have negative implications for a brand franchise (Mohr and Low, 1993) and can hasten a brand's decline (Strang, 1980).

Current marketing literature suggests that for marketing environments reflecting increased promotional intensity, decreased pass-thru and increased consumer sensitivity, increased levels of advertising are appropriate (Neslin, Powell, and Stone, 1995). But, can a packaged-goods manufacturer act upon this prescription without distributors giving competitors greater shelf space, feature/display, and trade promotion pass-thru and, thus, a short-term loss in market share and economies of scale for the manufacturer? Although shifting to an increased advertising allocation may seem appropriate in theory, the type of exchange relationship between a manufacturer and its distributors may lessen the effectiveness of this prescription.

The Influence of Exchange Relationship Type

Macneil (1980) developed a typology of exchange that ranges on a continuum from discrete (low level) to relational (high level) and is manifested in the norms of the relationship. The exchange relationship type includes norms of solidarity, the importance of the relationship, in and of itself (Kaufmann and