

THE IMPACT OF SALES PROMOTION ON CONSUMER BUYING BEHAVIOUR

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UNIVERSITI MALAYSIA SABAH

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DECLARATION

The materials in this thesis are original except for quotations, excerpts, summaries and references, which have been duly acknowledged.

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ABSTRAK

KESAN PROMOSI PENJUALAN KEPADA KELAKUAN PEMBELIAN PENGGUNA

Pelbagai jenis peralatan-peralatan promosi telah digunakan oleh pemasar-pemasar sejak bertahun-tahun lagi untuk menjanakan jualan bagi penawaran mereka. Penggunaan kupon, potongan harga, sampel percuma, paket bonus, dan pameran dalam kedai adalah contoh-contoh strategi bagi promosi penjualan yang diamalkan oleh organisasi-organisasi untuk menjanakan percubaan produk dan kembali membeli produk yang sama. Walaupun kebanyakan peralatan promosi ini paling sering digunakan dalam Malaysia, tetapi ia masih terdapat pemahaman yang cetek tentang kesan peralatan promosi ini terhadap percubaan produk dan pembelian secara berulang antara penyelidik dan pengamal yang menggunakan strategi-strategi ini. Penyelidikan sekarang ini adalah cuba mendedahkan pengaruh kupon, potongan harga, sampel percuma, paket bonus, dan pameran dalam kedai ke atas percubaan produk dan pembelian secara berulang oleh pengguna-pengguna di Malaysia, terutamanya pengguna-pengguna di Kota Kinabalu, Sabah. Pengguna-pengguna dipilih secara rambang di Kota Kinabalu, Sabah telah dikaji melalui Soal selidik. Sebanyak 312 respon yang berguna telah diterima dan dianalisis. Keputusan menunjukkan potongan harga, sampel percuma, paket bonus, dan pameran dalam kedai adalah penentu teguh bagi percubaan produk. Kupon tidak. Dan percubaan produk menjadi pengantara antara peralatan-peralatan promosi dan pembelian secara berulang. Dapatan yang teliti dan implikasi-implikasi juga dibincangkan.

ABSTRACT

THE IMPACT OF SALES PROMOTION ON CONSUMER BUYING BEHAVIOUR

Various sales promotional tools (promo-tools) have been employed by marketers over the years to generate sales for their offerings. The use of coupon, price discount, free sample, bonus pack, and in-store display are examples of sales promotion strategies adopted by organizations to generate product trial and repurchase. Although most of these tools are used very frequently in Malaysia, there is still very poor understanding of their impact on product trial and repurchase among researchers and practitioners who deploy these strategies. The current research is an attempt to unveil the influence of coupon, cash discount, free sample, bonus pack, and in-store display on product trial and repurchase among Malaysia consumers, especially consumers in Kota Kinabalu, Sabah. Randomly selected consumers in Kota Kinabalu, Sabah were surveyed using structured questionnaire. A total of 312 usable responses were received and analyzed. The results show that price discount, free sample, bonus pack, and in-store display are robust determinants of product trial. Coupon is not. And product trial acts as a mediator between sales promotional tools and repurchase. Details of the findings and their implications are discussed.

TABLE OF CONTENTS

	Page
TITLE	i
DECLARATIONS	ii
ACKNOWLEDGEMENTS	iii
ABSTRAK	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURE	x
 CHAPTER 1: INTRODUCTION	
1.1 Introduction	1
1.2 Research Problem	3
1.3 Research Objectives	4
1.4 Scope of Study	4
1.5 Significance of Study	4
1.6 Organization of Study	5
 CHAPTER 2: LITERATURE REVIEW	
2.1 Introduction	7
2.2 Sales Promotion	7
2.2.1 Coupons	9
2.2.2 Price Discounts	12
2.2.3 Samples	12
2.2.4 Bonus pack	14
2.2.5 In-store Display	15
2.3 Deal Prone Consumer	16
2.4 Fear of Embarrassment or Losing Face	17
2.5 Familiarity of Sales Promotion	17
2.6 Trial	18
2.7 Repurchase	19
2.8 Previous Studies on the Relationship between Sales Promotion and Consumer Buying Behavior	20
2.9 Summary	25
 CHAPTER 3: RESEARCH FRAMEWORK AND METHODOLOGY	
3.1 Introduction	27

3.2 Research Framework	27
3.3 Variables in this Model	28
3.4 Hypotheses	30
3.5 Type of Study	32
3.6 Nature of Study	32
3.7 Unit of Analysis	32
3.8 Instrument	32
3.9 Population of Sample	34
3.10 Data Collection Method	34
3.11 Data Analysis	34
 CHAPTER 4: RESEARCH FINDINGS	
4.1 Introduction	37
4.2 Overview of Respondents Profile	37
4.3 Reliability of Measures	38
4.4 Descriptive Statistic	39
4.5 Test of Differences	41
4.5.1 Age	41
4.5.2 Race	42
4.5.3 Gender	43
4.5.4 Marital Status	43
4.5.5 Educational Level	44
4.5.6 Annual Income	44
4.6 Regression Analysis	45
4.6.1 Hypothesis Testing- Multiple Regression	45
4.6.2 Mediation Effect-Hierarchical Regression	48
4.6.3 Moderation Effect- Hierarchical Regression	51
4.6.3.1 Fear of Losing Face	52
4.6.3.2 Familiarity of Sales Promotion	53
4.7 Summary	54
 CHAPTER 5: DISCUSSION AND CONCLUSION	
5.1 Introduction	57
5.2 Discussion	57
5.2.1 Sales Promotion and Product Trial	57
5.2.2 Product Trial and Repurchase	60
5.2.3 Product Trial as a Mediator	60
5.2.4 Moderating Effect- Fear of Losing Face	61
5.2.5 Moderating Effect- Familiarity of Sales Promotion	62

5.3 Implications of Study	62
5.3.1 Implications for Practitioners	63
5.3.2 Implications for Researchers	64
5.4 Limitations of Study	65
5.5 Suggestions for Future Research	65
5.6 Conclusion	66
BIBLIOGRAPHY	68
Books	68
Journals	69
Website	73
APPENDICES	
Appendix A : Survey Questionnaire	74
Appendix B : Respondents Profile	83
Appendix C : Cronbach's Alpha Reliability Test	85
Appendix D : The Means and Standard Deviation of Variables	92
Appendix E : Test of Differences	93
Appendix E(1): Test of Differences –Age	93
Appendix E(2): Test of Differences –Race	98
Appendix E(3): Test of Differences –Gender	102
Appendix E(4): Test of Differences –Marital Status	104
Appendix E(5): Test of Differences –Educational Level	106
Appendix E(6): Test of Differences –Annual Income	108
Appendix F : Multiple Regression-sales promotional tools and trial	110
Appendix G : Regression-trial and repurchase	112
Appendix H : Hierarchical Regression-mediation effect	114
Appendix I : Hierarchical Regression-moderation effect	117

LIST OF TABLES

	PAGE
Table 3.1: Method of Data Analysis	36
Table 4.1: Respondent Profile	38
Table 4.2: Cronbach’s Alpha Value For Variables	39
Table 4.3: Means and Standard Deviations of Variables	40
Table 4.4: Promotional Tools and Product Trial	46
Table 4.5: Product Trial and Repurchase	48
Table 4.6: Promotional tools and Product Trial and Repurchase	49
Table 4.7: Fear of losing face	52
Table 4.8: Familiarity of sales promotion	54
Table 4.9: Summary for Hypotheses Results	55



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LIST OF FIGURE

PAGE

Figure 3.1:	Sales promotion and Consumer Buying Behaviour Framework	30
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CHAPTER 1

INTRODUCTION

1.1 Introduction

The past quarter of a century has seen a tremendous boom in sales promotion activity across the world. The money spent on sales promotion has been increasing year by year (Toop, 1992). According to Blattberg, and Neslin (1990, p.15), although advertising remains an important promotion tool, sales promotion expenditures have grown rapidly in recent years. Many reasons have been offered for the increase in the use of consumer promotions: Advertising is becoming less effective, consumers are more price sensitive, and the sales effects of sales promotions are easier to measure than those of advertising. Perhaps one additional reason is that promotions focus directly on changing consumer behaviour, a major goal of marketing.

The field of sales promotion has attracted increasing attention from both executives and researchers in recent years. This growing interest is the result of the increasing importance of sales promotion activities in marketing strategy. There have been an increasing number of researchers addressing questions about consumer response to sales promotion. Many studies have shown that price and sales promotions have a significant impact on consumers brand choice, purchase time, and purchase quantity decisions (Bell, Chiang, & Padmanabhan, 1999; Buklin, Gupta, & Siddarth, 1998; Ailawadi, & Neslin, 1998; Chiang, 1991; Chintagunta, 1993; Gupta, 1988; Blattberg, Eppen, & Lieberman, 1981; Guadagni & Little, 1983; Kinberg, Rao, & Shakun, 1974; Kuehn & Rohloff, 1967; Neslin, Henderson, & Quelch, 1985; Shoemaker, 1979; Ward & Davis, 1978; Wilson, Newman, & Hastak, 1979).

A recent study in the journal of Marketing Research found that promotional

displays that put numerical limits in quantities of individual items could influence shoppers to stockpile, or to buy more than they might need or normally buy. In fact, stockpiling occurred even if no price discount on the product were offered. The researchers also noted that shoppers who used grocery lists were less likely to purchase increased amounts in reaction to promotional displays (Consumers' Research Magazine, 1998).

A large body of literature study on consumer response to sales promotions, most notably is coupons (e.g., Bawa & Shoemaker, 1987 and 1989; Gupta, 1988; Blattberg & Neslin, 1990; Leone & Srinivasan, 1996). Coupons and discounts are the most widely used promotional tools. According to Gilbert and Jackaria (2002), coupon promotions should be more attractive than discount promotions in improving the transaction value of the product. Huff and Alden (1998) wrote that the statement of using coupon is better than using discount to attract consumers can be only proven if consumers are used to utilizing coupons then they are likely to have a more positive attitude towards them. Also, if a consumer is more price-conscious then the more positive will be his/her attitude towards a coupon.

Relatively little research has focused on response to non-price promotions. Two exceptions include Ward and Hill's (1991) discussion of effective promotion game design and Chandon, Laurent, and Wansink's (1997) study of the utilitarian and hedonic benefits of both monetary and no monetary promotions.

Though these studies have provided important insights into the effects of sales promotions, their usefulness in predicting the effects of sales promotions on product trial ability and repeat purchase behaviour of consumers is limited. Moreover, there have very little work has been done to investigate the effect of sales promotional tools into product trial and repeat purchase behaviour.

Therefore, the purpose of this paper is to present a model for answering the

above questions, and integrates existing research and extends our understanding of consumer response to sales promotions. More specifically, the study examines the direct and indirect effects of sales promotion variables such as coupons, price discount, samples, bonus packs, and in-store display on product trial and repurchase.

1.2 Research Problem

Beginning in the year of 1997, economic crises started and slow general economic growth continued through 2001. After the terrorist attack on the World Trade Centre and Pentagon on September 11, 2001, the world economy continued to falter. Moreover, many are still struggling especially when SARS attack the Asia countries. Goods are no longer fly off the shelves. Manufacturers and retailers are relentlessly searching for new areas in which to cut costs and increase profits. So, sales promotion is becoming more and more important as a promotional strategy. In order to justify and skilfully use expenditures on sales promotions to increase sales, marketing managers must understand and examine sales promotional tools that can add value and positively impact consumer buying behaviour, especially when facing tighter budgets. An understanding of the impact of sales promotion to consumer buying behaviour is important in developing effective strategies for sales promotions. Therefore, this study examines **"To what extent sales promotional tools such as coupons, price discounts, samples, bonus packs, and in-store display predict product trial and repeat purchase behaviour of customers. Some of the important questions the research will address are: does sales promotional tools such as coupons, price discounts, samples, bonus packs, and in-store display impact product trial and does a sales promotional tools such as coupons, price discounts, samples, bonus packs, and in-store display impact repurchase via product trial."**

1.3 Research Objectives

The objectives of this study are:

- 1) To understand better sales promotional tools, namely, coupon, price discount, free samples, bonus packs and in-store display and their effects on product trial.
- 2) To assess whether there have direct relationship between trial and repeat purchase.
- 3) To investigate whether there have any significant relationship between sales promotional tools, namely, coupon, price discount, free samples, bonus packs and in-store display with repurchase via product trial.
- 4) To examine the moderating impact of loss of face on the relationship between sales promotional tools such as coupon, price discount, free samples, bonus packs and in-store display with product trial
- 5) To examine the moderating impact of familiarity of sales promotions on the relationship between sales promotional tools such as coupon, price discount, free samples, bonus packs and in-store display with product trial

1.4 Scope of Study

This study attempts to see the impact of various forms of sales promotional tools on consumer product trial behaviour. Beside that, this study also attempts to see whether there has significant relationship between product trial and repeat purchase behaviour with various form of sales promotion. Last but not least, this study also attempts to see whether the moderating variables has impact on the relationship between sales promotional tools such as coupon, price discount, free samples, bonus packs and in-store display with product trial.

1.5 Significance of Study

This study offers the knowledge of sales promotional tools in influencing the product trial and repeat purchase behaviour of consumers. This study also identifies the key elements of sales promotion that have significant impact to induce repurchase via product trial. It also helped to enhance the understanding of sales promotion in nurturing the consumer buying behaviour.

The study is hoped to give a guideline to manufacturers and retailers toward using the right sales promotional tools in order to attract new customers and encourage them to repurchase. If the study is able to show that there is a positive relationship between sales promotion and repeat purchase via product trial, it can help the company to save cost and time because the company can carried out the right type of sales promotion as to induce a desired sales result. On the whole, it is hoped that the findings of this study will be able to help manufacturers and retailers use the right promotional tools to encourage consumer to try a new product in the market or attract new customer to try their existing product and continue to purchase the company's brand.

1.6 Organization of Study

This study contains 5 chapters. Chapter 1 presents an overview of the study, research problem, the objectives of the study, the scope of the study and significance of the study. Chapter 2 discusses the literature review related to the study and the definition of variables. Chapter 3 illustrates the research framework and methodology that is use in this study. Methodology includes hypotheses testing, sampling, data collection method, data analysis, and instruments used. This chapter also describes the research method used and the reason for choosing this method. The definition of terms used for this study also included. In addition, type of study, nature of study, and unit of analysis

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

There are a large number of studies addressing the question of how promotions affect individual purchase behaviour. Before a review of these studies, it is germane to understand the meaning of the term sales promotion.

2.2 Definition of Concepts

2.2.1 Sales Promotion

In Collins English Dictionary (1991), sales promotion defined as activities or techniques intended to create consumer demand for a product or service. According to Shimp (2003), sales promotion refers to any incentive used by a manufacturer to induce the trade (wholesalers, retailers, or other channel members) and/or consumers to buy a brand and to encourage the sales force to aggressively sell it. Retailers also use promotional incentives to encourage desired behaviours from consumers-come to this store rather than a competitor's; buy this brand rather than another; purchase larger quantities; and so on. Sales promotion is more short-term oriented and capable of influencing behaviour.

The term sales promotion refers to many kinds of selling incentives and techniques intended to produce immediate or short-term sales effects. Typical sales promotion includes coupons, samples, in-pack premiums, price-offs, and so on (Totten & Block, 1994). Gilbert and Jackaria (2002) also defined sales promotion as the offer of an incentive to induce a desired sales

result.

Fill (2002) wrote that sales promotion seeks to offer buyers additional value, as an inducement to generate an immediate sale. The inducement (for example, price-offs, coupons, samples, premiums) is presented as an added value to the basic product and is intended to encourage buyers to act 'now' rather than later. Sales promotion is used, therefore, principally as a means to accelerate sales. Brannan (1995) state that sales promotion comprises a range of tactical marketing techniques designed within a strategic marketing framework to add value to a product or service in order to achieve specific sales and marketing objectives.

Sales promotion is an action-focused marketing event whose purpose is to have a direct impact on the behaviour of a firm's customers (Blattberg & Neslin, 1990, p.3). Two points are noteworthy in this definition. First, the firm's customers may be channel members, such as retailers, in which case the promotion is called a trade promotion. Alternatively, the firm's customer may be a final consumer, in which case the promotions are called consumer promotions, such as coupons and free samples (Peter & Olson, 1996).

In the dictionary of marketing Terms in American Marketing Association (2004) have stated that consumer sales promotion is externally directed incentives offered to the ultimate consumer. These usually consist of offers such as coupons, premiums, rebates, etc., designed to gain one or more of the following: product trial; repeat usage of product; more frequent or multiple product purchases; introduce a new/improved product; introduce new packaging or different size packages; neutralize competitive advertising or sales promotions; capitalize on seasonal, geographic, or special events; encourage consumers to trade up to a larger size more profitable line, or

another product in the line.

According to Parker Lindberg, president of the Promotion Marketing Association of America, the key aspect of sales promotions is to “move the product today, not tomorrow. A sales promotion gets people to pick the product up at retail and try it by offering something concrete- a premium, cents off, or whatever” (Marketing News, 1984)

Sales promotional tools can be dividing into two: price-oriented promotions and non-price-oriented promotion. Price-oriented promotions include price discounts, coupons, and rebates (Kotler *et al.*, 1999). A price promotion typically reduces the price for a given quantity or increases the quantity available at the same price, thereby enhancing value and creating an economic incentive to purchase (Raghubir & Kim, 1999). According to Shea (1996), price-oriented promotions are used to increase sales and market share, entice trial, and encourage brand switching.

Non-price-oriented promotions include free samples, sweepstakes, contests, premiums, bonus-packs, buy one get one free and frequent user programs (Kotler *et al.*, 1999). Shea also wrote that non-price oriented promotions add excitement and value to brands and may encourage brand loyalty.

2.2.1.1 Coupons

In the dictionary of Marketing Terms in American Marketing Association (2004), coupon is a printed certificate entitling the bearer to a stated price reduction or special value on a specific product, generally for a specified period of time. According to Shimp (2003), a coupon is a promotional device that rewards consumers for

purchasing the coupon-offering brand by providing either cents-off savings or free merchandise. Cents-off savings often are as high as 75 cents or more. Shimp continues that free merchandise offers typically come in the form of "buy 2, get 1 free" in which the free item is either another unit of the same brand or a different item from the same company. Coupons are delivered through newspapers, magazines, freestanding inserts, direct mail, in or on packages, online, and, increasingly, at the point of purchase by package, shelf, and electronic delivery devices.

Fill (2002) defined coupons as vouchers or certificates, which entitle consumers to a price reduction on a particular product. The value of the reduction or discount is set and the coupon must be presented when purchasing the product. Coupons are a proven method by which manufacturers can communicate with consumers and are a strong brand-switching device. Peter and Olson (1996) concluded that coupon is used to offered cents-off or added value incentives to consumers for purchasing specific products.

Gardener and Trivedi (1998) wrote that coupons have been used as a major promotional tool for years as a means of offering the consumer a one-time reduction in price and building brand awareness and loyalty as well. In fact, coupons have the potential to induce brand switching and induce purchase, indicating that consumers are influenced by the discount stated in the coupon.

Sandra Grundfest, a psychologist with offices in Princeton and Somerset comments that granting a discount in exchange for a coupon may be more effective than simply dropping the marked price

on items. According to Sandra, coupons can give shoppers a feeling of exclusivity, as they are getting a bargain that other shoppers are not getting. And placing an expiration date on the coupon creates a sense of urgency, which means, "you use it or you lose it"(Darks, 2000).

Traditionally, coupons are distributed to consumers via print media (e.g. magazines or newspapers) or direct mail. Sometimes a coupon may be included in or on a package, either good for future purchase of that brand (often called a "bounce-back coupon") or a sister brand from the same manufacturer, called "cross-coupon" or "cross-ruff coupon". Occasionally, a brand will run a joint promotion with a company in another product category, using a coupon. Joint promotions are useful for products that "go together", such as ice cream and topping or swim gear and sunscreen. Generally, the face value of a coupon is not large because the retail price of the product is not high. For less frequently purchased products with higher price, directly discounting the price offers is more control in terms of budget of promotion cost (Percy, Rossiter, and Elliott, 2001).

Percy, Rossiter, and Elliott also wrote that there have one of the considerations must be factored into using coupons as part of a consumer promotion strategy. The consideration is the fact that very few people will actually redeem a coupon. The redemption rate for coupons can be expected to run between 2 and 5 per cent. The actual redemption rate will be a function of the face value of the coupon relative to the price of the brand, as well as the expiration period. The greater the value of the coupon and the longer the time

available for redemption, the greater the redemption rate for coupon. Jackson (1996) stated that coupon is nearing its expiration date as a sales promotion technique for packaged goods companies.

2.2.1.2 Price Discounts

Price discount is a deduction from the full amount of a price or debt, as in return for prompt payment or to a special group of customers (Collins English Dictionary, 1991). Also call price-off promotions (also called cents-off or price packs) entail a reduction (typically ranging from 10 to 25 percent) in a brand's regular price. A price-off is clearly labelled as such on the package (Shimp, 2003). Fill (2002) also stated that discount is the simplest technique to offer a direct reduction in the purchase price with the offer clearly labelled on the package or point of purchase display.

According to Percy, Rossiter, and Elliott (2001), there are many pricing strategies that retailers use in price-off promotions and there is actually some evidence to suggest that different consumers pay attention to different means of presenting price-off promotions.

2.2.1.3 Samples

By definition, sampling includes any method used to deliver an actual- or trial-sized product to consumers. According to Pramataris, Vrechopoulos, and Doukidis (2001), sampling is the activity of offering small quantities of product to consumers for free, in order for them to try it and potentially buy it. Fill (2002) also wrote that samples are often distributed to consumers free of charge, with the twin goals of introducing the product to new users and hopefully

encouraging them to switch brands.

Shimp (2003) suggested that various distribution methods are used to deliver samples either alone (solo sampling) or in cooperation with other brands (co-op sampling):

- a) Direct mail: samples that mailed to households targeted by demographic characteristics or in terms of geographic,
- b) Newspapers and magazines: samples often are included in magazines and newspapers,
- c) Door-to-door sampling by distribution crews: this form of sampling allows considerable targeting and possesses advantages such as lower cost and short lead times from when a sampling request is made by a brand manager and samples are ultimately delivered by the sampling company,
- d) On-or in-pack sampling: this method uses the package of another product to serve as the sample carrier,
- e) High-traffic locations and events: shopping centres, movie theatres, airports, and special events offer illustrative forums for sample distribution,
- f) In-store sampling: demonstrators provide product samples in grocery stores and other retail outlets for trial while consumers are shopping,
- g) Internet sampling: brand managers are increasingly distributing samples online.

2.2.1.4 Bonus packs

Bonus packs consist of additional amounts of the product that a company gives to buyers of the product (Peter, & Olson, 1996). Shimp (2003) added that bonus packs are extra quantities of a product that a company gives to consumers at the regular price. Gardener and Trivedi (1998) also wrote that bonus packs are offers by the manufacturer that add value to the product by offering additional product at the regular price.

Bonus packs are a frequently used consumer promotion. You can walk down the health and beauty aids aisles of any discount store and see all sorts of products claiming "25 % more free" or "four ounces free." These package labels are designed to attract shoppers' attention and ultimately get consumers to buy the particular product (Seibert, 1997).

The mega-deal in bonus pack promotions would be the "BOGO" (buy one, get one free). A sales promotion offer made to either the retailer or the consumer in which purchase of one unit of the product is encouraged or re-warded by providing a second unit of the same product free of charge (Dictionary of Marketing Terms in American Marketing Association, 2004). It is also called extra-product or volume promotion (Smith, & Sinha, 2000). Typically, the amount of the bonus varies between 20 to 40 percent; one-third more is most common (Urseth, 1994). However, in recent times, BOGO is getting more popularity.

According to Percy, Rossiter, and Elliott (2001), bonus packs do create an immediate incentive to buy, but the trade does not like