

Sales Promotion

Magdeburg Beer

The management of Magdeburg Beer, an Indian brewery located near to the main metropolitan centre of Bombay, were reviewing the marketing plan for the next year. The Indian beer market had expanded rapidly during the late 1980s and throughout the 1990s. With economic growth there had been a steady rise in disposable incomes in all the major urban areas. As spending power had increased, the regulations on the sale of alcohol in many Indian states had progressively relaxed. The company had been established for 2 years. Sales grew steadily over the period from 2.0 million litres in the first year of operation, to 3.5 million in the current year. This progress had been satisfactory, though the production plant, with a 5.0 million litre capacity, was still not breaking even. The management was determined to expand consumption rapidly, providing adequate profitability could be maintained.

Segment

The beer drinking population was exclusively male, young to middle aged, urban and from middle socio-economic groups. Beer drinking was a group activity, and therefore the choice of drinking establishment was heavily influenced by group pressures. Religion was also an important component of the demand for beer, as pressures on the Muslim community reduced the level of beer consumption. There was no significant risk associated with the segmentation decision, as the product, though new, was in an existing category with limited risk as there were few group influences on the beer purchased by the segment.

Product

The company produced a strong lager beer, brewed under licence from a German company. The alcoholic content was slightly higher than the competition and the taste was also stronger than the traditionally milder beers that had been previously produced in the Indian market. Research indicated that the typical consumer preferred cold beer in comfortable surroundings, and regarded foreign beers as significantly superior to those with local Indian connections. The Indian consumer was not however willing to travel far for a particular brand, and would drink an alternative product if the preferred brand was not available in the local outlet.

Information

The company carried out regular market research. This revealed that the product had a very high rate of repeat purchase, and that consumers, once they had tried the beer, preferred it to the competition. The company regularly monitored: sales by area and by van salesman; product quality through detailed quality control carried out on a daily basis; costs of raw materials; sales performance by sales representative; labour turnover; debtor and creditor analysis.

Packaging and production

The company used the standard 0.6l bottle which was used for a wide variety of soft drinks in the Indian market. The label was based on that used by the licensee in Germany, translated into English. It also carried the necessary information for local legislation. The product was bottled in a modern automated packing plant and supplied via piping from the brewery which had been constructed 3 years previously at the cost of \$1,300,000. Fixed

manufacturing costs - all labour, local taxes - were \$100,000 per annum. Variable costs - raw materials, power, bottles - were around \$0.10 per bottle.

Distribution channels

The Indian beer market was characterised by a very high level of on-trade consumption. (Beer markets are divided into those that emphasise on-trade consumption, that is drinking out of home in bars or other drinking premises, and off-trade consumption, drinking at home). The on-trade consumption took place in basic bars with limited decor and seating arrangements. Such bars were owner managed and stocked a variety of beers, were open long hours, and aimed to achieve the maximum volume of sales to the clientele. The average outlet served 4 or 5 competitive beers.

As the level of service that the outlets provided their clientele was limited, the owners of the outlets were prepared to support beer sales of a particular supplier if they received investment to improve the outlet. There were two common requests. The first was the supply of a large refrigerator to cool the beer for the clientele. For the necessary \$400 investment the owner was normally prepared to guarantee that only the supplier beers would be stocked, though monitoring and control of this guarantee posed substantial problems. The second was for re-furbishment, including the supply of ceiling fans, better tables and chairs, and painting. The investment required for such upgrading would be around \$2500. For such an investment, the owner of the outlet would be prepared to reduce the number of competitive beers on sale to one, or at the maximum two, others. This would have the possibility of substantially raising the potential market share in each of the outlets, though again there was the likely problem of ensuring compliance with the agreement. Magdeburg had considered the possibility of creating its own outlets. A typical outlet was capable of selling around 100,000 litres of beer a year (approximately 500 bottles/day). Buying the site and refurbishing it to adequate standards was estimated to cost around \$15,000. Running costs would be around \$1200 a year.

Supporting the distribution channel

Magdeburg operated a simple van sales operation in its supply area. Company lorries set off each day with a designated number of customers. Beer sales were made from the lorry and customers invoiced on a daily basis. In the current year, the company supplied 1500 outlets via a fleet of 20 lorries. The cost of the supply operation was around \$50,000 per annum. The product had a relatively long shelf life, and the company carried, on average, 5 days stock of product in the warehouse next to the factory. Finance costs in the Indian market were currently around 15 per cent.

The distribution channels expected daily deliveries or at the worst, deliveries every other day, a profit margin of 30 per cent on the retail price, posters and beer supply promotional material (beer mats, and other bar material). The van sales representatives received a graduated commission for the beer that they sold. For each sale above 600 bottles per day, the sales representative received \$0.02 per bottle, above 750, \$0.04 per bottle, and above 1200, \$0.07 per bottle. The sales representatives were responsible for all debt collection and invoicing. Most of the sales in the region were for cash, though an increasing proportion was on monthly credit terms. A number of sales promotional techniques had been identified as appropriate for the market. The first was the supply of salty snacks for the bar outlets. It was anticipated that providing products such as Bombay Mix would lead to a substantial increase in consumption. It was estimated that every \$1 of Bombay Mix would mean \$5 of extra beer sales. The owners of outlets could also be encouraged to carry particular beer products with suitable financial rewards, of around \$5 per month, though the exact sales values of such incentives was difficult to quantify. The

company supplied each outlet with a range of point of sale material, including beer mats, posters and match-books. The expenditure on each outlet was estimated to be around \$100 a year. The owners of the distribution outlets were particularly enthusiastic about the supply of match-books, and claimed that doubling of this promotional item would lead to a 10 per cent volume uplift. The costs of this would be an extra \$20 per year.

The company had also investigated the possibility of a bottle top promotion. There were two options that could be explored. One was to print onto specific bottle caps a prize number, which could then be sent to the brewery to exchange for the particular prize. The other was a straightforward promotion based on the total number of bottle tops sent in. In each case the collection of promotional items was similar. The company had sourced premium propelling pencils and pens (at a cost of \$5 each), calendars (\$5) T-shirts (\$6), silk ties (\$8), and beer mugs (\$10). The company had also considered including a holiday in Europe, with a visit to Euro-Disney and Germany as a premium prize in a competition. The cost of this would be \$6000. Though none of these sales promotional techniques had yet been used, similar programmes used by other consumer goods manufacturers had led to a 10 to 15 per cent sales uplift.

Pricing

Price was very important in the Indian beer market. Customers bought on price first, and on product quality second. A market average price for a 0.6 litre bottle of around \$0.75 had become established over the past 2 years. Magdeburg Beer had accepted that they would not be able to sell their product at a premium in the short term, as attempts in previous years to increase their price had led to substantial volume declines.

Promotion

Indian legislation created limitations on promotional material for alcoholic drinks. Companies faced strict controls on any promotional material in either press or television. Posters could be used providing no direct sales reference was made. The company had used posters with pictures of German beer drinkers in the town of Magdeburg over the past 2 years. Each poster cost around \$100 a year to display.

Action

What sales promotion policies should you follow?

Are there others that should be considered?

What are the likely problems that you will encounter?

How should sales promotion be integrated into the marketing mix?