Primary influences of environmental uncertainty on promotions budget allocation and performance: A cross-country study of retail advertisers

Kim-Shyan Fam, Zhilin Yang

*Department of Marketing, University of Otago, PO Box 56, Dunedin, New Zealand
bDepartment of Marketing, City University of Hong Kong, 83 Tat Chee Avenue, Kowloon, Hong Kong SAR

Received 30 June 2004; received in revised form 31 January 2005; accepted 31 March 2005

Abstract

Planning ahead has numerous benefits, but many small retailers do not seem to engage regularly in marketing planning. Researchers often document lack of planning expertise. This study attempts to examine whether retailers undertake planning when faced with an uncertain environment. Specifically, our study examines whether small retailers will switch from in-store promotion to outdoor advertising where the latter has mass audience reach capability and hence the potential to increase market share. The results show mixed financial performance. The study concludes by discussing the implications of the results for small retailers.

Keywords: Environment; Uncertainty; In-store promotion; Outdoor promotion; Budget allocation; Performance

1. Introduction

Today’s businesses are increasingly fraught with environmental complexity, turbulence and uncertainty. Scanning and interpreting environmental changes are usually the initial steps in strategic formulation and implementation (Hambrick, 1981; Hofer and Schendel, 1978). The environment–strategy–performance paradigm advances that a fit between environment characteristic and strategic orientation tends to result in superior performance (Miles and Snow, 1978; Venkatraman and Prescott, 1990). In light of these considerations, the essential question for retailers in an uncertain environment is: What strategies should be adopted to maximize their profit? This study intends to address three research issues. Investigated first is the effect of small retailers’ perception of environmental uncertainty on preference for in-store versus outdoor promotional tools and allocation of promotional budgets. Next, the study will examine the impact of promotional budget allocation on retailers’ market performance and, finally, the moderating role of environmental uncertainty in the relationships between promotional budget allocation and market performance will be addressed through a hierarchical moderating regression analysis.

2. Conceptual background

Based on the environment–strategy–performance paradigm, we developed a conceptual framework (see Fig. 1), which mainly links business uncertainty with promotion mix appropriation and firm performance. This model is a further extension of that provided by Low and Mohr (1992, 1998), Piercy (1986) and Lilien and Weinstein (1984). The figure shows that promotion budget allocation decisions could be influenced by retailers’ perceptions of the environment. However, this inference is untested and becomes the key research question in this paper.
2.1. In-store versus outdoor promotion appropriation

According to resource-based theory, a retailer’s competitive advantage comes from its resources and capacities (Grant, 1996). In this sense, retailers strive for efficient allocation of promotional tools to achieve maximum results since their promotional budget is a critical resource. The primary tools of promotions include advertising (print and broadcast advertising), direct mail, coupons and vouchers, in-store displays, public relations and personal selling. Advertisers tend to utilize various promotional tools to help consumers become aware of available products and services, to attract new customers, and to increase sales and market share. A number of authors (see Van Auken et al., 1992; Vaccaro and Kassaye, 1990) claim that small retailers tend to place greater emphasis on below-the-line promotions (direct marketing, in-store and sales promotion) than above-the-line promotions (traditional mass media such as television, radio and print). Limited budgets and expertise of small businesses are often the main reasons given for the emphasis on below-the-line promotions. For small businesses, in general, budgetary constraints and lack of time and expertise may lead to limited and often ad hoc or irrational promotion decisions. One is left with the impression that small business promotion decisions are far from strategic in nature. Nevertheless, in a dynamic marketing environment, quite often retailers encounter changing consumer tastes, demands and preferences and shifting competitive modes. Under this scenario, opportunistic retailers are more likely to focus on taking advantage of the changes in the environment. One of the marketing activities the small businesses could undertake is to communicate their store, products, and services to the consumers. The question is to what extent does environmental uncertainty influence small businesses’ decision on choice of promotional tools (i.e., in-store versus outdoor), budget allocation and market performance.

In-store promotion refers to personal selling, price markdowns (or price promotions as identified by Moreau et al., 2001) and in-store displays. In contrast, outdoor promotion refers to promotional tools, such as print and broadcast advertising, direct mail, give-away coupons and vouchers, public relations and sponsorships. Personal selling is regarded as an important promotional tool in the promotion literature due to the fact that the appearance of salespersons, knowledge of products and friendliness are equally effective compared to other promotion tools available when communicating information regarding a firm and its products and services. According to Fam and Merrilees (1998), “salespersons can be used to convince the consumers that the more expensive products possess attributes which justify their premium prices” (pp. 248). In the case of smaller retailers, where the very nature of being a small business often precludes them from being able to match the cheaper product or service offerings of larger firms (Smith and Sparks, 2000), the use of personal selling in this way is even more important to the success of the business. For the purpose of this study, this ubiquitous tool will not be included in our definition of in-store promotion. The primary reason is that personal selling is a part of any business whether there is any promotion undertaken or not. Including personal selling in our study where environmental uncertainty could be a potential driver of budget allocation will simply blur the outcome of our study. Price markdown is a promotion tool per se. Retailers can easily cross-out the regular price and discount the price by a certain percentage without incurring any expenses or loss as the regular price always carries a mark-up. Similarly the use of dump bins, buntings, posters and end-of-aisles are in-store displays which can be quickly and efficiently used to attract customers without having to incur much expense relative to some outdoor media like print, broadcast or direct mail which are usually more expensive and time-consuming to set up. For instance, to advertise in print media, a retailer needs to arrange a photo shoot, buy media space and select the most appropriate day to advertise.

Outdoor advertising constitutes a communication activity that draws customers to the store. This strategy constitutes more of an ‘outside in’ approach to attract potential customers to a particular retail store. Unlike in-store promotion, which is rather limited to walk-in customers, outdoor advertising (including newspapers, magazines, television and radio) has the ability to reach all segments of the population. Additionally, a specific target audience can be reached if retailers select a local newspaper or
tools such as price markdown and in-store displays over these small businesses would choose in-store promotional faces, simple reason logically indicates that, ceteris paribus, affordable option. Given the relatively constrained budgets campaigns seem to be run on appeals and effective media planning. Advertising cam-
equating to a lack of knowledge in appropriate advertising issue of insufficient specialty marketing expertise, often also restrict their ability to employ marketing specialists a higher proportion of revenues. Such financial constraints of income because of the impact of fixed costs, which take up small business has less to spend on marketing as a percentage payments, stock purchases or staff training. A stand-alone tend to have lesser priority over such elements as lease capacity significantly impacts the marketing performance of small businesses, as marketing exercises and expenses tend to have lesser priority over such elements as lease payments, stock purchases or staff training. A stand-alone small business has less to spend on marketing as a percentage of income because of the impact of fixed costs, which take up a higher proportion of revenues. Such financial constraints also restrict their ability to employ marketing specialists. From the budget point of view, limited resource preference will be given, over other options, to that particular tool. From the budget point of view, limited resource capacity significantly impacts the marketing performance of small businesses. Basically, if the personalised characteristics of the owner/manager are the dominant internal management influence, then marketing management of a small business will be very much affected by the competency and attitudes towards marketing held by the owner. Hence, if the owner/manager’s attitude toward a particular promotional tool is favourable, then preference will be given, over other options, to that particular tool. From the budget point of view, limited resource capacity significantly impacts the marketing performance of small businesses. The literature on small businesses generally characterizes the industry as having a lack of marketing expertise, personalised management, and small budgets. Scholhammer and Kuriloff (1979) originally proposed that a personalised management style was a distinguishing feature of small businesses. Basically, if the personalised characteristics of the owner/manager are the dominant internal management influence, then marketing management of a small business will be very much affected by the competency and attitudes towards marketing held by the owner. Hence, if the owner/manager’s attitude toward a particular promotional tool is favourable, then preference will be given, over other options, to that particular tool. From the budget point of view, limited resource capacity significantly impacts the marketing performance of small businesses. Marketing exercises and expenses tend to have lesser priority over such elements as lease payments, stock purchases or staff training. A stand-alone small business has less to spend on marketing as a percentage of income because of the impact of fixed costs, which take up a higher proportion of revenues. Such financial constraints also restrict their ability to employ marketing specialists. Harmeson and Elbert (1996) highlighted the issue of insufficient specialty marketing expertise, often equating to a lack of knowledge in appropriate advertising appeals and effective media planning. Advertising campaigns seem to be run on ‘gut instinct’, as this is the only affordable option. Given the relatively constrained budgets and marketing expertise a small business owner/manager faces, simple reason logically indicates that, ceteris paribus, these small businesses would choose in-store promotional tools such as price markdown and in-store displays over outdoor advertising. Rationality in this context takes into account the growing importance of in-store consumer decision making, where up to 70% of purchase decisions are now made in store (Connolly and Davidson, 1996; Fam and Merrilees, 1998), taking advantage of the relatively inexpensive and easily staged price markdowns and in-store displays. Based on the above inference, we hypothesize that: H1. Small businesses will allocate more advertising and promotion budget to in-store promotion than to outdoor advertising.

3.2. Environmental uncertainty, budget allocation and change in market share

According to the environment–strategy–performance paradigm, a fit between environment characteristic and strategic orientation will lead to superior performance (Miles and Snow, 1978; Venkatraman and Prescott, 1990). Environmental uncertainty is one major aspect of environmental characteristics (Dessecker and Becker, 1984). The literature purports that in a relatively unstable environment, firms must respond to changing competitive pressures that will have an effect on the way that they conduct their business (Simersly and Li, 2000). Paine and Anderson (1977) and Miles and Snow (1978) observed that managers who perceived themselves to be in a more turbulent environment tended to assume greater risks and employ more innovative strategies than managers who perceived themselves to be in a more stable environment. However, any change in strategies will depend on the size of the organisation. According to Verhees (1998), small businesses have an inherent problem of being unable to undertake time-consuming and costly market research in order to predict changes in the environment. Nevertheless, they have a distinct advantage over larger competitors in the sense that being small is likely to be more responsive, and, in turn, flexible to the environment (Dean et al., 1998). With respect to these findings, a link between perceived environmental uncertainty and short-term ad hoc planning can be discerned. This leads to the idea that, if a retailer perceives its retail environment to be uncertain, the retailer’s response will be to employ a promotional strategy that will capture as many sales as possible. West and Berthon (1997) claim that retailers’ uncertainty avoidance or risk taking has a significant impact upon advertising and promotion budget decisions.

In an uncertain environment, consumers’ tastes and preferences and competitors’ modes of competition will undergo constant fluctuation and these changes will have an effect on the retailers’ propensity toward change. Miller and Friesen (1982) claim that the more dynamic and hostile the environment, the greater the need for innovation and the more likely it is that firms will be innovative. This claim was also echoed by Dutton and Jackson (1987) and Johnson (1992) as these authors believed that if the retailers did not undertake any action, the changes in tastes, preferences and
competitive interactions would give the retailers a feeling of uncontrollability of the environment, potentially resulting in subsequent loss of market share. Managerially speaking, in an uncertain environment, the retailers should be more focused in their promotion activities. According to Fam (2003), successful retailers in an uncertain environment will pay more attention to movement of stocks and, to achieve this promotion objective, these retailers will “concentrate on carefully planning the promotion, co-ordinating all the media used in the most effective manner and using print media as a means of support for the promotion campaign” (p. 290). Seemingly, then, a retailer’s preference for a particular promotion tool hinges on how he/she perceives the environment. Recalling the differences in the communicative capabilities of in-store promotion versus outdoor advertising, one would assume that in an uncertain environment the retailers are more likely to employ outdoor advertising over in-store promotion. Outdoor advertising has the capability to reach, inform and entice mass audiences, as opposed to in-store promotion. Hence, in an uncertain environment as rivalries among retailers heat up, what better strategy exists than to enlarge the market share pie by reaching and pulling in a secondary target audience. By reaching out to the mass audience, retailers are more likely to capture additional sales than to compete among themselves using in-store promotion for a share of the primary target audience. From the small businesses’ point of view, switching from an in-store promotion to an outdoor advertising strategy merely represents a tactic to arrest declining sales. However, contingency theory holds that interaction between strategy and environment will influence firm performance (Duncan, 1972; Miller, 1988; Miller and Friesen, 1983). Hence, if a retailer uses the appropriate promotion strategy in an uncertain environment, the outcome of the decision, plausibly, will be positive. Based on the above inference, we propose the following hypotheses:

H2. Environmental uncertainty has a more significant positive effect on budget allocation to outdoor advertising than to in-store promotion.

H3. Outdoor advertising will have a more significant positive effect on market share change than will in-store promotion.

H4. When environmental uncertainty is increasing, allocating more advertising and promotion budget to outdoor advertising will lead to a significant positive change in market share.

4. Methods

4.1. Participants and data collection

We selected two countries, New Zealand and Portugal, as our target countries. We chose these two countries because they are both advanced countries where population frames are easily identified and accessed. The target populations for this study were small clothing and shoe retailers as they are important contributors to the economies of New Zealand (Statistics NZ, 2000a,b) and Portugal (Ministerio da Industria, 1999). Small, independent retailers were defined as retailers with between one and five outlets and less than 10 employees (Smith and Sparks, 2000). In addition, the clothing and shoe retail outlets tend to restrict their lines of merchandise in order to guarantee some assurances of uniformity of merchandise among the outlets. Small and independent retailers were chosen because they are likely to exercise more discretion in determining promotional activities. Small retailers are also said to be more innovative in their marketing practices than larger firms (Dean et al., 1998). The study participants were the managers of retail stores, because these people are usually gatekeepers of the choice of promotion tools that a retail store will employ. The sampling frame for the New Zealand data set was Yellow Page lists of clothing and shoe retail stores while the sampling frame for Portugal was the most recent Retailers Union and Franchising Institute Directory. The Portuguese questionnaire set was translated into Portuguese by a native speaker. The questionnaire was pre-tested before being sent to the respondents. The effective response rates were 29% (n=213) and 73% (n=124) for New Zealand and Portugal, respectively.

4.2. Measures

4.2.1. Promotion tools and budget allocation

A total of eight promotional tools were identified. These tools are commonly used by small retailers to promote their products and services (see Smith and Sparks, 2000; Vaccaro and Kassaye, 1990; Van Auken et al., 1992). Retailers were requested to state the amount they allocated to each of the eight promotional tools relative to spending on personal selling. More specifically, we first set the base of personal selling budget as 100%; then asked respondents to compare the budget spent on any of the other eight tools relative to that of personal selling. Three major reasons motivated us to adopt this method. First, personal selling is necessary and is the most important promotional tool, occupying the majority of promotion budgets for small retailers (Abratt and Anley, 1994; Levy and Weitz, 1992). Second, because retailers are usually very sensitive to budget information, they would feel more comfortable in filling in the relative weights rather than a straight number. From this perspective, we might obtain a relatively accurate estimation. Finally, this method addresses the variation in labour costs between New Zealand and Portugal, as the costs of the other eight promotion tools are compared relative to the country’s labour cost.

4.2.2. Environmental uncertainty

Environmental uncertainty is defined as the degree to which perceived instability of environments related to a
firm’s business (Duncan, 1972; Tan and Li, 1996). In this study, the five-item scale of environment uncertainty was adapted from Miller and Friesen (1982). Respondents were asked to rate their perceived uncertainty of the following five items: (1) customers’ buying habits, (2) nature of competition, (3) taste and preference of customers, (4) market activities of competitors, and (5) legal, political and economic constraints. Each statement was measured with a 7-point numerical scale (Likert scale) with endpoints labelled as 1 = strongly disagree to 7 = strongly agree. To examine the reliability and validity of the scale, we performed a CFA of the one factor model by using LISREL 8. The last item was deleted because of cross-loading. The reliability and validity of the scale were evidenced by such key psychometric properties as Cronbach’s alpha (0.81 and 0.76 for New Zealand and Portugal, respectively), average variance extracted (0.61 and 0.56), and composite reliability (0.78 and 0.75). The remaining four items were further examined by multi-sample analysis; they proved to be an adequate model fit ($\chi^2 = 4.64$, $df=1$, RMSR = 0.034, CFI = 0.98, GFI = 0.99 for New Zealand; $\chi^2 = 7.52$, $df=2$, RMSR = 0.046, CFI = 0.96, GFI = 0.97 for Portugal).

4.2.3. Performance and control variables

Measuring promotion effectiveness proved difficult. Nevertheless, we adopted market share change to measure the retailers’ performance index because market share has been widely accepted as a valid predictor of business performance (see Jacobson, 1988; Prescott et al., 1986; Montgomery and Wernerfelt, 1991).

Retailers were asked to indicate the extent to which their market share changed relative to their countrywide competitors in the past 12 months. Countrywide sales volume is often compiled by the respective industry and retailers usually have easy access to these data. The mean of market share change as reported by the retailers was 4.27% (S.D. = 1.43) and 4.5% (S.D. = 1.47) for Portugal and New Zealand, respectively. The difference was not statistically significant. The inter-correlations among study constructs ranged from $-0.16$ to 0.53 for the New Zealand sample and from $-0.30$ to 0.57 for the Portugal sample.

Three control variables were included in the regression analysis. The chain store (six or more outlets under one brand name) variable is included because if an organization has several outlets under one brand name, mass media are likely to be utilized given the lower unit cost as opposed to in-store promotion, which is normally performed on a per outlet basis. The shoe category variable is intended to gauge whether differences are apparent in budget allocations between shoe and clothing retailers. The third control variable relates to number of employees. Although Burnett (1993) claims that two budgets exist, one for hiring of staff and the other for advertising and promotion, we included this variable as it is possible that, as staff costs increase, the amount to be spent on advertising and promotion will decrease.

5. Results

5.1. Sample profile and perception of the environment

The study participants were managers of retail stores, because these people (in a smaller store environment) usually have the final say in the choice of promotion tools that a retail store will employ. For the New Zealand sample, the majority of our respondents were independent clothing retailers (74%) with an average of 5 employees per outlet. The remaining 26% were chain store (six outlets or more under one brand name) retailers. The Portuguese sample contained 90% independent clothing retailers and 10% chain store retailers. They employed an average of 4 employees per outlet. The retailers in New Zealand and Portugal gave their environment a mean score of 5.3 and 4.5 out of a possible score of 7 (with 7 being very uncertain), respectively. The difference is statistically significant at the 0.05 level. We viewed these scores as a good indication of the uncertain environment faced by the retailers as we believed any score above the neutral point (3.5 for our scale) indicates that the retailers experienced some changes in the consumers’ tastes and preferences, as well as in competitors’ activities.

6. Hypothesis test

6.1. Hypothesis 1

Our first hypothesis states that small businesses will allocate more advertising and promotion budget to in-store promotion than to outdoor advertising. The results show New Zealand retailers allocated 60.4% of the total advertising and promotion budget to in-store promotion compared to 40% for outdoor advertising. In Portugal, a higher percentage (74.8%) was allocated to in-store promotion as opposed to 25% for outdoor advertising. Hence, H1 is supported.

6.2. Hypothesis 2

Table 1 summarizes the result of H2. For each regression analysis, we examined multicollinearity by computing the variance inflation factors (VIFs) for all independent and control variables. For both regressions, the highest value for VIFs was 1.9 which was much lower than 10, and the average value of VIFs was 1.28 across all the variables. The low value for VIFs revealed that multicollinearity does not constitute a problem in our data analysis (Chatterjee et al., 2000). The results show environmental uncertainty has a positive impact on outdoor advertising budget allocation. In contrast, environmental uncertainty has a negative impact on in-store promotion budget allocation. The results showed that environmental uncertainty plays an important role on the advertising and promotion budget allocation decision;
Table 1
Regression of environmental uncertainty and control variables to budget allocation

<table>
<thead>
<tr>
<th>Environment uncertainty</th>
<th>New Zealand</th>
<th>Portugal</th>
<th>New Zealand</th>
<th>Portugal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain stores</td>
<td>0.026</td>
<td>0.281*</td>
<td>0.067</td>
<td>0.213</td>
</tr>
<tr>
<td>Number of full-time employees</td>
<td>-0.175*</td>
<td>-0.091</td>
<td>-0.096</td>
<td>0.030</td>
</tr>
<tr>
<td>Shoe category</td>
<td>0.048</td>
<td>0.021</td>
<td>0.008</td>
<td>-0.013</td>
</tr>
<tr>
<td>Chow test</td>
<td>21.136**</td>
<td>7.428**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.031</td>
<td>0.102</td>
<td>0.016</td>
<td>0.095</td>
</tr>
</tbody>
</table>

Note: *p<0.05, **p<0.01, ***p<0.001; chain stores=six or more outlets under one brand name.

that is, the greater the environmental uncertainty, the more budget will be allocated to outdoor advertising. However, only the Portuguese results indicated a significant and positive impact on outdoor advertising budgeting; this was not the case for the New Zealand sample. Thus, hypothesis 2 is partially supported although the beta coefficient for the New Zealand sample shows a positive but insignificant direction. We further employed the Chow test to assess the stability of the regression coefficients across the New Zealand and Portugal samples. The results, as indicated in Table 1, show that the relative strength of environmental uncertainty in determining budget spending is significantly greater for retailers in Portugal than for those in New Zealand. Additionally, we examined the effects of three control variables: chain stores (six or more stores under one brand name), number of full-time employees, and shoe category on budget allocations. The chain store and full-time employee variables have a significant impact on in-store promotion budget allocation in Portugal and New Zealand, respectively. The shoe category has no significant effect on the budget spending.

6.3. Hypotheses 3 and 4

To test H3 and H4, the hierarchical moderated regression analysis as recommended by Aiken and West (1991) was employed. Market share change was used as the major performance indicator. The initial model only included three control variables and the budget spending on in-store promotion and outdoor advertising as the independent variables. Environmental uncertainty was added in the second model. Finally, we imported the hypothesized interactions in the third model. All constituent variables were mean-centered before creating interaction terms to eliminate multicollinearity (Aiken and West, 1991). Again, we tested multicollinearity by computing the VIFs for each independent and control variable. For each model, all the values for VIFs were well below 10 and the mean value of VIFs is smaller than 1, indicating that multicollinearity would not create problems in the data analysis. The results of Model 1 in Table 2 indicate that, for both the New Zealand and Portugal samples, budget spending on outdoor advertising has a significant positive effect on the market share change. In comparison, budget spending on in-store promotion has an insignificant, but positive impact on market share change for the New Zealand sample, while the Portuguese sample has an insignificant negative impact. Thus, H3 is supported.

When environmental uncertainty was included as an independent variable, a significant negative effect was noted on market share changes for the New Zealand sample, while the Portugal sample had an insignificant negative impact (see Model 2 in Table 2). The effects on budget allocation across in-store promotion and outdoor advertising on market share varied slightly compared to those in Model 1. An obvious change is the beta coefficient for outdoor advertising due to its having shifted from a significant positive to a significant negative. Also, the addition of environmental

Table 2
Moderated regression analysis of the effect of environmental uncertainty on market share change

<table>
<thead>
<tr>
<th>Control variables</th>
<th>New Zealand</th>
<th>Portugal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain stores</td>
<td>0.047</td>
<td>0.049</td>
</tr>
<tr>
<td>Shoe category</td>
<td>-0.104</td>
<td>-0.115</td>
</tr>
<tr>
<td>Number of full-time employees</td>
<td>0.079</td>
<td>0.065</td>
</tr>
<tr>
<td>Chow test</td>
<td>21.136**</td>
<td>7.428**</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.031</td>
<td>0.102</td>
</tr>
</tbody>
</table>

Note: *p<0.05, **p<0.01, ***p<0.001; chain stores=six or more outlets under one brand name.
uncertainty significantly increases the $R^2$ by 83% ($\Delta F = 0.947$) in the New Zealand sample and by 9% ($\Delta F = 7.277$, $p < 0.01$) in the Portugal sample. The results presented in Model 3 indicate that the introduction of the interaction terms to the main effects model led to a significant positive coefficient for outdoor advertising in New Zealand, but an insignificant negative coefficient for Portugal. For New Zealand, the $R^2$ increases by 23% ($\Delta F = 1.254$, $p < 0.01$) for Model 3. No changes were detected for the Portugal sample. Hence, H4 is partially supported. That is, for New Zealand retailers, when the environment uncertainty is increasing, spending more on outdoor advertising and promotion is likely to improve their market share.

7. Discussion

Our results revealed a number of points worthy of further discussion. First, the study shows that retailers tended to allocate more advertising and promotion budget to in-store promotion relative to outdoor advertising in both New Zealand and Portugal. This finding is consistent with earlier studies indicating that, due to small budgets and lack of time and expertise, most retailers would choose in-store promotion over outdoor advertising. In-store promotion is much easier to undertake compared to outdoor advertising. For in-store promotion, all the retailers need to do is to vary the promotional messages, change the discount value, or simply re-mix the promotional items in the dump bins. In contrast, planning is needed for outdoor advertising. One has to plan as to what products are to be put on ‘special sale’, when to advertise, in which media, and how frequently. Fam (2003) claims that in any promotion campaign the primary marketing activity of most retailers is to move their inventories rather than to undertake proper promotional co-ordination and planning. Hence, in-store promotion coupled with consumers’ tendency to make a purchase decision while inside the store (Connolly and Davidson, 1996; Fam and Merrilees, 1998) become important strategic factors in moving inventories. Other reasons for not using outdoor advertising can be linked to small retailers having skeletal support staffs and as a result limiting the time personnel can dedicate to thinking about medium and long-term competitiveness issues (Conant and White, 1999).

Despite the positive attitude towards in-store promotion, our subsequent analyses showed some intriguing findings. When retailers perceived that the environment was becoming uncertain, they tended to allocate more promotion budget to outdoor advertising. Why does this shift in promotion strategy seem to surface under these circumstances? For a start, our sample consists of independent retailers who probably are decision makers themselves. Owner-managers are more likely to take personal risk with their store’s performance compared to lower-level employees. Since they are at the forefront of the business, these retailers most likely recognized the interdependency of their actions with the environment. According to contingency theory, any solution is situational rather than absolute, and any solution may become inappropriate under different environmental conditions (Gardner et al., 2000). In the case of our sample, the retailers seemed to know what action to undertake in an uncertain environment. In-store promotion may often be the ideal promotional tool for small retailers; but, when in an environment where the target market share is becoming smaller, competitive and un-predictive, outdoor advertising will be relied upon. The thrust of outdoor advertising is to cast the net wider and therefore draw more customers into the store, which will eventually lead to a positive market share. This course of action is especially important when the population is sparsely distributed as in Portugal and New Zealand. For instance, the use of community newspapers, magazines, radio, leaflets and brochures has wider audience reach and, hence, the potential to attract customers beyond the normal geographic area.

Robinson et al. (1986) found that operational planning (i.e., action plans and daily operation procedures) undertaken by small firms is strongly related to performance. In our study, we found that environmental uncertainty led to a negative market share. However, if the retailers switched to outdoor advertising, a positive market share change was recorded in the case of our New Zealand sample. For Portugal, the findings showed a negative market share change. We attribute the negative outcome to the promotion structure in Portugal. Unlike in New Zealand, outdoor advertising is the domain of Portuguese manufacturers (Sabatina Report, 1997). Since retailers play a small role in undertaking outdoor advertising, any perceived increase in environmental uncertainty will most likely be countered by re-juggling of the in-store promotional tools rather than switching to outdoor advertising. Nonetheless, these findings indicate that the small retailers tended to undertake lower-level operational planning. In New Zealand, the constant monitoring of the environment plus the retailers’ ability to switch from in-store to outdoor advertising derived more benefits than preparing a formal written strategic plan. For the Portuguese retailers, the inherent capability of in-store promotion limits market share growth, but this does not mean that the Portuguese retailers did not undertake operational planning.

Although we deliberately targeted the clothing and shoe retailers, as they tend to restrict their lines of merchandise and hence guarantee some assurances of uniformity of merchandise among the outlets, our results were mixed; that is, a positive relationship between planning and performance for New Zealand and a negative relationship between planning and performance for Portugal. One possible explanation for these inconsistent findings may be that the Portuguese retailers’ inability and/or reluctance to undertake outdoor advertising. Another possible explanation may be that the Portuguese retailers did not perceive the environment as uncertain as their New Zealand counterparts, and,
hence, the formers’ reaction is less aggressive. A further explanation may be that the thought of switching over to outdoor advertising requires planning initiatives, like the products to put on offer, discounting, accurate sense of targeting customer needs, knowledge of competitors, and so on, may not lead to better financial performance.

8. Limitations and future research

This study has concentrated on one particular industry, namely small and independent clothing and shoe retailers in two advanced countries, but with variations in population size and GDP growth. The behaviours of large firms warrant further investigation. In addition, future research should compare ‘like with like’; that is, two or more economically advanced countries together or two heavily populated countries together. Next, our approach to gauging the promotion budget was percentage of spending per promotion tool relative to personal selling. Although this method eliminates the variations in labour costs between the two target countries and sensitivity of providing raw sales and profit data from the retailers’ point of view, such an approach lacks the credibility of the widely used ‘percentage of sales’ method in budget allocation. Future research in this area should perhaps use this percentage of sales method of budgeting to ensure reliability and credibility of study. The use of market share in our study was again an attempt to circumvent the sensitivity of getting the retailers to reveal their annual sales turnover and/or profit. We agree that the market share estimation method might not be sufficient and there is a need to use a triangulated approach like combining market share with profitability and ROI for performance measure. The relatively low $R^2$ values suggest that, in addition to perceived environmental uncertainty, future research should also include variables like nature of business, location of business, and market size, to name a few, that might influence promotion budget allocation. The last limitation is that the study was conducted in two economies with strong growth and low inflation, and the findings may be different if these economies are undergoing stagflation. This may be an area for future research.

9. Conclusion

This study provides insight into the planning ability of small retailers faced with an uncertain environment. The study reveals that small retailers are more inclined to undertake lower-level operational planning like switching from in-store promotion to outdoor advertising when they sense a change in environment. The result of this switch-over is a positive change in market share. Interestingly, our findings are consistent with earlier similar studies of the environment–strategy–performance paradigm. However, as with any research of this kind, we must call for further studies of this type to enable comparison of results in other industries and national contexts.

References


