Chapter 3
Local Marketing in Practice

3.1 Introduction
In this chapter, we examine how local marketing is applied in Dutch supermarkets. We describe the research design in Section 3.1 and present the results in Sections 3.2-3.5. Section 3.2 focuses on how manufacturers differentiate between stores. Section 3.3 describes how manufacturers apply local marketing. Section 3.4 shows for each marketing instrument the restrictions manufacturers face in implementing local marketing and to what extent manufacturers apply local marketing. In Section 3.5 we formulate and test hypotheses about arguments for manufacturers to apply local marketing.

3.2 Research design
Although the term local marketing exists in the marketing literature (see Section 2.2) and the concept appears to be used in practice, there are, to the best of our knowledge, no published answers to the following questions:

- Why is local marketing applied?
- How is local marketing applied?
- What are the possible compositions of the marketing mix given a local marketing strategy?

We study these questions in both a qualitative and a quantitative way, starting with exploratory in-depth interviews, and then collecting answers to survey questions. We use the in-depth interviews to structure the survey.

In-depth interviews
We select respondents with a range of backgrounds. We interview nine store managers from five chains, including the four largest chains, consisting of a mix of franchise- and chain-owned stores located in different areas. We visit three head offices of retail chains and interview eight manufacturers representing different product categories. The manufacturers interviewed include ones that do not apply local marketing.
We summarize the results as follows:

- Manufacturers develop local marketing strategies at the category level if they use local marketing. All manufacturer brands within a category are used within the strategy.
- Manufacturers need a sales force to implement local marketing. Some manufacturers equip the sales force with a computerized support system for local marketing (local marketing tool).
- Possible reasons for a manufacturer to use local marketing include (i) store heterogeneity, (ii) the importance of the relationship with the store managers, (iii) category leadership, (iv) market saturation, and (v) the product’s sensitivity for impulse purchases.
- There is a difference between local marketing directed to franchise and chain-owned stores. Franchise supermarkets are owned by the store manager who faces less restrictions to apply local marketing and who is more motivated to apply local marketing. Therefore we collect data on both types of stores.
- The extent of local marketing is measured in two ways: (i) the percentage of stores for which marketing instruments are customized, (ii) the degree to which local marketing is applied (on a scale ranging from “no differentiation between stores” to “local marketing”). On this scale, differentiation between regions is an intermediate form of local marketing. Practitioners expect this scale to be more informative than the percentage measure. For this reason we add a survey question about the variables managers use to differentiate between stores.

Quantitative research

The quantitative part consists of a survey among manufacturers of national brands sold in supermarkets to which we add market data from ACNielsen.

The survey only covers manufacturers’ use of local marketing. It does not cover retailer behavior. The reasons for the exclusive focus on manufacturers are the following:

- Surveying manufacturers has the advantages that (i) each respondent is asked about one category (in some cases more), (ii) respondents provide information across stores, for example the percentage of stores where local marketing is applied.
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- Data collection at store level would be difficult. For each store, data on multiple product categories would be needed, and store managers (i) tend to be reluctant to answer lengthy questionnaires, (ii) are concerned about confidentiality, (iii) do not know the details of all products given the high number of brands sold in a store.

Questions
We first ask which variables manufacturers use to differentiate the marketing mix between stores. The variables are differentiation between chains, regions, stores (size-based), franchise- versus chain-owned stores, individual franchise stores, individual chain-owned stores, and no differentiation.

The questionnaire includes three questions to determine how manufacturers apply local marketing. These questions are (i) what is the size of the sales force in general (if any), (ii) does the manufacturer use a local marketing tool, and (iii) what are the inputs for this tool?

We ask respondents to indicate the degree to which they apply local marketing per marketing instrument (identified in the in-depth interviews). The question is asked separately for franchise- and chain-owned stores. First, we ask respondents about the percentage of stores for which they use an instrument for local marketing. This percentage indicates the absolute use of an instrument for local marketing. We calculate the relative use per instrument by comparing the absolute use with the total instrument use. Second, for each instrument we ask about the degree to which local marketing is used on a 7-point scale from no differentiation between stores to differentiation at the store level. We also ask respondents for an overall rating about the degree to which they apply local marketing on a scale from 0-100. We call this score the (manufacturers’) overall self rating.

We ask five questions on a five-point scale that may explain the degree to which local marketing is applied. These questions are to which extent

i. household purchase behavior differs between stores
ii. the relationship with store managers is important
iii. manufacturers consider themselves category leader
iv. the products are impulse products
v. the market is saturated.
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Quantitative research, data collection
We identify national brands sold in supermarkets from the membership database of the “Stichting MerkArtikel” (SMA). SMA is a Dutch association of Fast Moving Consumer Goods (FMCG) national brands, representing 135 manufacturers selling 1200 brands. Although this database facilitates the selection of national brands it has the disadvantage that it is based on self-selection by the manufacturers. This might result both in under-coverage (not all manufacturers are members) and over-coverage (some members might not meet the criteria for national brands). However, there are no obvious methods for identifying national brands. Importantly, the SMA list includes all major known national brands, which supports SMA’s claim that most manufacturers of national brands are members.

We use ACNielsen’s category definitions to construct a sampling frame of manufacturer-category combinations1. It is important to remember that that category definitions are ambiguous (Russell et al. 1999). We chose the categories defined by ACNielsen because they are based on the manufacturers’ perspectives.

We contacted all manufacturers to identify who is in charge of local marketing. Potential respondents received the questionnaire by e-mail if possible, and otherwise by regular mail. Respondents were given the option to return their responses by e-mail, fax, or regular mail. We promised confidential treatment of the data and to send respondents a summary of the results. We sent a reminder (via e-mail) after one week, and subsequently called all parties who had not yet responded. All returned questionnaires were checked for consistency and missing values. Respondents were contacted again for additional information, if required. The total response was 49 (35 percent).

We compared respondents’ size (turnover) and categories to determine possible non response biases. Respondents are evenly spread across categories. The maximum number of respondents per category is three. A size (turnover) comparison shows that the number of small respondents is larger than the number of medium sized and large respondents. The distribution is comparable to the total population. However, we note that respondents may have more affinity with local marketing than non respondents. In this case respondents are likely to apply local marketing more than non-respondents.

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1 In what follows we use the term manufacturer instead of manufacturer-category combination.
3.3 Variables used for differentiation

Local marketing is related to the customization of the marketing mix at the store level (compare Section 2.1). Local marketing differs from a strategy under which all stores are treated the same way. There are many possible strategies between these extremes, for example a distinction between groups of similar stores. In this section we discuss the variables manufacturers use to differentiate between individual stores or between groups of stores.

We show the percentage of manufacturers that differentiate to some extent in Table 3.1. Only 4 percent of the manufacturers do not make any distinction at any level. Hence, 96 percent of the manufacturers differentiate between stores.

Table 3.1 Variables used for differentiation (n=48)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Percentage of manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No differentiation</td>
<td>4%</td>
</tr>
<tr>
<td>Between chains</td>
<td>85%</td>
</tr>
<tr>
<td>Between regions</td>
<td>35%</td>
</tr>
<tr>
<td>Between stores (size based)</td>
<td>56%</td>
</tr>
<tr>
<td>Between all franchise and all chain-owned stores</td>
<td>38%</td>
</tr>
<tr>
<td>Between individual franchise stores</td>
<td>19%</td>
</tr>
<tr>
<td>Between individual chain-owned stores</td>
<td>10%</td>
</tr>
</tbody>
</table>

We noted in Section 2.4 that manufacturers use account management to approach chains individually. Individualization implies that the marketing mix may vary from chain to chain. This explains the high percentage of manufacturers who distinguish between chains (85 percent). The chain level is the most frequently cited variable used for differentiation.

Store size is another variable chains use to differentiate the marketing mixes. These differences are mainly related to assortment possibilities. More than half of the manufacturers use this variable (56 percent).

More than one third of the manufacturers (38 percent) indicate that they differentiate between stores in different regions. Regions may be heterogeneous in terms of how households react to the marketing instruments. Examples include differences in price elasticities, and product-, brand-, and package size preferences.

The difference between franchise- and chain-owned stores determines the possibilities open to a manufacturer to apply local marketing. In general, managers of franchise-owned stores face fewer restrictions and are more
motivated to cooperate with the manufacturer (see also Section 2.2). Thirty-five percent of manufacturers treat these two store groups differently. That is, they differentiate between franchise stores as a group and chain-owned stores as a group.

Two questions were specifically designed to identify whether manufacturers differentiate between individual franchise- and chain-owned stores. These questions focus on differences between stores within each group (franchise- and chain-owned). We expect manufacturers to differentiate more between stores within the franchise store group than between chain-owned stores. This is supported by the results in Table 2.1: 19 percent of manufacturers distinguish between individual franchise stores versus 10 percent who distinguish between individual chain-owned stores ($p=0.10$, one-sided).

### 3.4 How manufacturers apply local marketing

Manufacturer implementation of local marketing requires a sales force employee to visit individual stores. On-site observation and personal contact are necessary to convince the retailer of the benefits of local marketing.

We show data on the sales force in Figure 3.1. We find that 31 percent of the sample has no sales force. The decision to employ a sales force is based on expected profit contribution. Some manufacturers believe that the profit contribution of the sales force is negative.

The sales force is part of the manufacturer’s trade marketing efforts. Sales force employees work as intermediaries between the manufacturer and the store. They represent the manufacturer, “sell” the product to the store manager, communicate information, and provide services. At the same time they represent the retailer to the manufacturer.

The sales forces of companies that move toward a stronger market orientation have become more customer oriented. They are focusing more on initiating and building long-term, profitable relationships (Kotler et al. 2002, p.707, Cravens, 1995). Sales forces apply local marketing within this strategy.
Figure 3.1. Manufacturers, sales force and local marketing tool (percentage of manufacturers, n=49)

Store selection
The implementation of local marketing in a specific store requires substantial manufacturer investments. The manufacturer’s representative has to visit each store several times. Manufacturers, therefore, often select a limited number of stores for special consideration. Respondents indicate that this selection depends upon:

- retailer cooperation, and
- potential earnings.

Different factors determine a store manager’s willingness to cooperate. First of all, it is important that the manufacturer operates from the store’s point of view. This implies that manufacturers should not just consider their own products but strive for category optimization. The manufacturers share in the benefits of the whole category. Respondents indicate that in some cases the store manager wants to cooperate only if manufacturers provide turnover guarantees.

Second, cooperation is stimulated if the manufacturer is market leader within the category (category leader). The manufacturer needs to have a credible vision for the development of the category. Smaller manufacturers may face more resistance from the retailer.
A third factor that stimulates cooperation is the store manager’s motivation to gain additional profits. Respondents indicate that motivation increases if the store manager’s income depends on the store’s profitability (see also Ghosh, 1994). This certainly applies to managers who are store owners. In many cases owners adopt a franchising format. Franchisers differ from managers who manage a store owned by a chain\(^2\), for example in the sense that the franchise store manager’s income is profit dependent.

A final factor that affects the cooperation is the restrictions a store manager faces with respect to customization of the marketing mix. The restrictions to adaptation of a store are less for franchise- than for chain-owned stores. In addition, the restrictions differ between chains. Section 3.5 discusses the opportunities for differentiation in marketing instruments.

Manufacturers select stores for local marketing based on profit potential. This profit potential can be estimated from the same variables used for local marketing (store, competitor, and consumer characteristics). Manufacturers use size in particular as a selection criterion.

**Local marketing tool**

The local marketing tool is a computer program that uses data about the store and its environment to generate advice about the use of marketing instruments for local marketing. More than half of the manufacturers with sales forces have a local marketing tool.

The use of a local marketing tool has several advantages. First, the tool provides the sales force employees with knowledge about the store and its environment. Second, the use of these data promotes the quality of the advice. An additional advantage is that the use of a tool leads to a more consistent approach across stores. Third, this higher quality will have a positive influence on the store manager’s willingness to cooperate.

Current local marketing tools (1) determine the potential sales, and (2) provide advice on the composition of the marketing mix.

Local marketing tools use statistical models to estimate a store’s potential sales. We give examples in Chapter 4.

Manufacturers use different variables in their tools. We show the percentage of tools that use own market research data, store-, customer-, and competitor

\(^2\) We use the expressions franchise and chain-owned to indicate this difference.
characteristics in Figure 3.2. Almost all tools (94 percent) use store data\(^3\). This finding is in agreement with the fact that most of the variables used to distinguish between stores are “chain”, and “store size” (see Table 3.1). Examples of store data include annual turnover, sales area, number of checkouts and format. Thirty-eight percent of the tools use consumer data such as social class, family life cycle, product preferences etc. Competitor data and data from own market research are used in 31 percent of the tools. Competitor data refer, for example, to the location of competitors and their sizes. Own-market research data are often used to link household characteristics to potential sales (how much do consumers use?) or to determine how marketing instruments should be used (how do consumers react?). We summarize the figures about the data types used in Figure 3.2.

In the next step the tool generates an advice on how the marketing instruments can be specified. This advice is based on potential sales in relation to actual sales and the input variables. Current tools use subjective evaluations for this advice, i.e. they do not use statistical models.

The actual implementation of local marketing ultimately depends on the store manager’s decision. The store manager takes the final decision on the composition of the marketing mix. Therefore, good interaction with the retailer is critical. This requirement implies that the inputs to the models and the conclusions for the marketing mix be thoroughly discussed and changed if necessary.

\(^3\) Data about the content of the tool is based on a relatively small (n=16) subsample of the respondents who have a local marketing tool. Therefore, care must be taken when generalizing these results to the population. On the other hand our total sample covers 35 percent of the population.
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3.5 Marketing instruments and local marketing

We observed in Section 3.3 that the store manager’s willingness to cooperate is essential for the application of local marketing. The willingness to cooperate depends among other things on the manager’s opportunities to define the marketing mix. The first part of this section examines these opportunities for four classes of instruments. In the second part we study the use of these instruments in Dutch stores. One of the aspects we consider is how instrument restrictions relate to their use.

Regular price

In the past, manufacturers could impose restrictions on the retail price (resale price maintenance). Nowadays retailers have more pricing power and this implies that the manufacturers need good arguments if they want the retailer to change the price.

Dutch chains pursue a constant price image and therefore strive to achieve consistency in prices across stores. The extent to which this restriction is imposed depends on the chain and ownership type. Chains often impose a price in chain-owned stores while they give a price advice to franchise stores.

Franchise store managers indicate that they follow this advice in general for two reasons: (i) they believe that the main office has determined an optimal price,
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and (ii) they don’t want consumers to discover local price deviations from national advertising.

Hence, we conclude that local marketing with the regular price is quite difficult. Price differences are practically possible only at the chain level.

Assortment
Both the store and the chain have an assortment. The chain’s assortment consists of products that stores may sell. A subset of this assortment is included in an individual store’s assortment.

The chain and ownership type determine the store manager’s assortment restrictions. These restrictions determine the manufacturer’s opportunities to use the composition of the assortment for local marketing. The restrictions consist of two aspects:

- Restrictions to choose a subset of products from the chain’s assortment
- Restrictions to sell products that are not in the chain’s assortment.

Most chains influence the store’s assortment by giving an advice. This advice may more or less compulsory. Some chains give a store-specific advice.

A manufacturer who wants to include a product in an individual store’s assortment can follow two approaches. One approach is that he first convinces the chain to include the product in the chain’s assortment. Subsequently, depending on the restrictions, he either convinces individual stores to include the product in their subset of the chain’s assortment or he convinces the chain to include the product in the store’s assortment advice. A second possibility is to use the store’s possibility to offer products outside the chain’s assortment. However, respondents indicate that store managers prefer not to use the second possibility to make minor adjustments to the assortment (e.g. an additional variety). Moreover, this strategy may be unattractive due to high logistical costs.

Shelf design
Decisions related to the shelf design include the number of facings and horizontal and vertical positioning. The shelf design has two purposes. First, the shelf design serves to attract customers attention (see e.g. Drèze et al., 1994). Second, the shelf design determines shelf inventory and thus the probability of an out-of-stock situation. Many chains advise stores on shelf design together with the assortment advice. This advice may be more or less compulsory. Restrictions differ between stores and tend to be more stringent in chain-owned stores than in franchise
stores. In extreme cases, the shelf design is either imposed or completely unrestricted. In other cases there are some restrictions, for example the requirement to position store brands at eye level.

**Promotion and advertising**

Most chains arrange promotions for the whole chain. Individual stores are supposed to implement the promotions. These promotions have advantage for store managers in that they are (i) convenient and (ii) paid for by the chain.

Most stores are free to do additional local promotions. The disadvantage of additional promotions is that the store is responsible for the organization and for the costs. Such promotions are more likely to be used in a franchise store since the manager is motivated to improve the store’s performance. Store managers often ask manufacturers for financial support.

We classify local promotions into two groups. The first group consists of promotions that are similar to chain-level promotions (e.g. discounts) but applied to one store. The store manager may decide, for example, that an additional discount for a product is needed. The second type of promotion is a special promotion organized around a theme or assortment group (e.g. Christmas, foreign products).

**Empirical results**

We show empirical outcomes about the use of the marketing instruments in Tables 3.2-3.6. The results are based on manufacturers’ answers to questions about the percentages of franchise- and chain-owned supermarkets where marketing instruments are differentiated.

Table 3.2 shows the percentage of stores where manufacturers are able to manipulate the marketing instruments at the retail level. (This use refers to the total use including local marketing and undifferentiated use.) Table 3.2 shows that there is a great deal of variation between instruments. The most frequently used instruments are price promotions. Manufacturers are able to use this instrument in 49 percent of the supermarkets. Assortment (47 percent) and shelf design change (38 percent) are the second and third most frequently used instruments. Contests, demonstrations, and sponsoring are used infrequently (19 percent, 14 percent, and 3 percent). We find that the joint difference between franchise- and chain-owned stores is significant at p=0.05 (one-sided). All instruments except sponsoring are
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used significantly more often in franchise stores than in chain-owned stores\textsuperscript{4}. This is consistent with the idea that the higher motivation and the lower level of restrictions in franchise stores lead to greater use of marketing instruments.

Table 3.2 Percentage of stores where manufacturers manipulate an instrument (mean percentage across all manufacturers, \( n=45 \))

<table>
<thead>
<tr>
<th></th>
<th>All stores</th>
<th>Franchise stores</th>
<th>Chain-owned stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular price change</td>
<td>33%</td>
<td>35%**</td>
<td>30%</td>
</tr>
<tr>
<td>Price promotions</td>
<td>49%</td>
<td>53%**</td>
<td>44%</td>
</tr>
<tr>
<td>Premium promotions</td>
<td>25%</td>
<td>27%**</td>
<td>21%</td>
</tr>
<tr>
<td>Volume promotions</td>
<td>32%</td>
<td>34%**</td>
<td>30%</td>
</tr>
<tr>
<td>Contests</td>
<td>19%</td>
<td>20%**</td>
<td>17%</td>
</tr>
<tr>
<td>Displays</td>
<td>19%</td>
<td>21%**</td>
<td>17%</td>
</tr>
<tr>
<td>Advertising</td>
<td>34%</td>
<td>35%*</td>
<td>31%</td>
</tr>
<tr>
<td>Demonstrations</td>
<td>14%</td>
<td>16%**</td>
<td>12%</td>
</tr>
<tr>
<td>Sponsoring</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Assortment change</td>
<td>47%</td>
<td>53%**</td>
<td>40%</td>
</tr>
<tr>
<td>Shelf design change</td>
<td>38%</td>
<td>41%**</td>
<td>33%</td>
</tr>
</tbody>
</table>

\*significant difference with chain-owned stores (\( p=0.10 \), one sided)

\**significant difference with chain-owned stores (\( p=0.05 \), one sided)

Table 3.3 shows the extent to which manufacturers use marketing instruments for local marketing, specifically the percentage of stores where manufacturers with a sales force use marketing instruments. Having a sales force is a necessary condition for applying local marketing (see also Section 3.2).

We see in Table 3.3 that assortment- and shelf design change are the most frequently used instruments for local marketing (32 percent and 27 percent). Price promotions, most often used (see Table 3.2), are considerably less customized at the store level. Furthermore, the low percentage of stores where price is used for local marketing is worth noting. This percentage suggests that it is difficult to vary regular prices between stores. The joint difference between franchise- and chain-owned stores is significant at \( p=0.10 \) (one-sided). At the instrument level we find a significant difference between franchise and chain-owned stores for seven of the eleven instruments\textsuperscript{5}. Differences between instruments frequently used for local marketing (regular price, contests, sponsoring) are not significant.

\textsuperscript{4} We used a paired t-test to test the difference

\textsuperscript{5} We used a paired t-test to test the difference
### Table 3.3 Percentage of stores where a manufacturer uses an instrument for local marketing (mean percentage across manufacturers with a sales force, n=21)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>All stores</th>
<th>Franchise stores</th>
<th>Chain-owned stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular price change</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Price promotions</td>
<td>17%</td>
<td>22%**</td>
<td>10%</td>
</tr>
<tr>
<td>Premium promotions</td>
<td>11%</td>
<td>13%*</td>
<td>7%</td>
</tr>
<tr>
<td>Volume promotions</td>
<td>14%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Contests</td>
<td>7%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Displays</td>
<td>15%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Advertising</td>
<td>15%</td>
<td>20%*</td>
<td>8%</td>
</tr>
<tr>
<td>Demonstrations</td>
<td>9%</td>
<td>12%*</td>
<td>5%</td>
</tr>
<tr>
<td>Sponsoring</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Assortment change</td>
<td>32%</td>
<td>41%**</td>
<td>21%</td>
</tr>
<tr>
<td>Shelf design change</td>
<td>27%</td>
<td>34%**</td>
<td>18%</td>
</tr>
</tbody>
</table>

*significant difference with chain-owned stores at 90%, one-sided
**significant difference with chain-owned stores at 95%, one-sided

We show the relative use of an instrument for local marketing in Table 3.4. An instrument that is rarely used in general (Table 3.2) may be used frequently for local marketing (Table 3.3). We report the relative use as the ratio between the percentage of stores where an instrument is used for local marketing (using data for all manufacturers) and the percentage of stores where the instrument is used in general.

The relative use of the marketing instruments for local marketing varies considerably. Sponsoring is used relatively often for local marketing. The ratio of 0.75 means that local marketing applies to 75 percent of the sponsoring activities. Displays, shelf design, assortment, and especially demonstrations are used for local marketing relatively often. This suggests that presentation-related instruments are suitable for local marketing. The low ratio for regular price change confirms that this instrument is not used for local marketing. The difference between franchise- and chain-owned stores is significant for all instruments except prices. This confirms that there are more possibilities in franchise stores.

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6 This is the percentage of Table 3.3 recalculated for all manufacturers.
7 The difference is tested using the delta method. We tested for the difference of the logarithm of the ratios, which is asymptotically normal distributed with covariance matrix $\nabla \Sigma \nabla'$, with $\nabla$ the gradient of the transformation and $\Sigma$ the covariance matrix of the averages.
Table 3.4 Ratio of local-to-total instrument use

<table>
<thead>
<tr>
<th>Instrument</th>
<th>All stores</th>
<th>Franchise stores</th>
<th>Chain-owned stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular price change</td>
<td>0.11</td>
<td>0.12</td>
<td>0.11</td>
</tr>
<tr>
<td>Price promotions</td>
<td>0.24</td>
<td>0.29**</td>
<td>0.16</td>
</tr>
<tr>
<td>Premium promotions</td>
<td>0.31</td>
<td>0.33**</td>
<td>0.23</td>
</tr>
<tr>
<td>Volume promotions</td>
<td>0.30</td>
<td>0.35**</td>
<td>0.23</td>
</tr>
<tr>
<td>Contests</td>
<td>0.26</td>
<td>0.31**</td>
<td>0.20</td>
</tr>
<tr>
<td>Displays</td>
<td>0.55</td>
<td>0.56**</td>
<td>0.49</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.31</td>
<td>0.40**</td>
<td>0.18</td>
</tr>
<tr>
<td>Demonstrations</td>
<td>0.45</td>
<td>0.52**</td>
<td>0.29</td>
</tr>
<tr>
<td>Sponsoring</td>
<td>0.75</td>
<td>0.84**</td>
<td>0.55</td>
</tr>
<tr>
<td>Assortment change</td>
<td>0.47</td>
<td>0.54**</td>
<td>0.36</td>
</tr>
<tr>
<td>Shelf design change</td>
<td>0.49</td>
<td>0.58**</td>
<td>0.38</td>
</tr>
</tbody>
</table>

*significant difference with chain-owned stores at 90%, one-sided
**significant difference with chain-owned stores at 95%, one-sided

We asked manufacturers to give an overall self rating on local marketing. We also asked them to indicate for each instrument the degree to which they apply local marketing on a scale from “no differentiation between stores” to “local marketing”. In Table 3.5 we show the correlation\(^8\) between the degree manufacturers apply local marketing per instrument and the overall self rating. A higher correlation means that these instruments better indicate the degree to which manufacturers apply local marketing.

Table 3.5 shows that all correlations are positive and significant. We observe that the use of premium- and volume promotions are strong indicators for the overall self rating (the correlations are 0.521 and 0.531). The instruments assortment and shelf design, in absolute terms frequently used for local marketing, have a somewhat lower score (0.400 and 0.404). Contests and demonstrations are seen as the weakest indicators (correlations are 0.282 and 0.242).

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\(^8\) We use Spearman’s rho to calculate correlations because the observations are very skewed (many extremes).
Table 3.5 Correlation total manufacturer overall self rating for local marketing and instrument scores (n=45)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Spearman Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular price change</td>
<td>0.301**</td>
</tr>
<tr>
<td>Price promotions</td>
<td>0.389**</td>
</tr>
<tr>
<td>Premium promotions</td>
<td>0.521**</td>
</tr>
<tr>
<td>Volume promotions</td>
<td>0.531**</td>
</tr>
<tr>
<td>Contests</td>
<td>0.282**</td>
</tr>
<tr>
<td>Displays</td>
<td>0.407**</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.355**</td>
</tr>
<tr>
<td>Demonstrations</td>
<td>0.242*</td>
</tr>
<tr>
<td>Sponsoring</td>
<td>0.385**</td>
</tr>
<tr>
<td>Assortment change</td>
<td>0.400**</td>
</tr>
<tr>
<td>Shelf design change</td>
<td>0.404**</td>
</tr>
</tbody>
</table>

*significant correlation at 90%, one-sided
**significant correlation at 95%, one-sided

3.6 Why is local marketing applied?

In this section we focus on determinants of the degree to which manufacturers apply local marketing. More precisely, we investigate which factors determine a manufacturers’ perception of the degree they apply local marketing. We use a linear regression model to estimate the effects of six predictors. We start with a discussion on the selection of a local marketing measure. Next, we explain the predictor variables and their hypothesized influences on local marketing based on in-depth interviews and arguments discussed in the previous sections. We define variables in four areas: profit potential, market saturation, manufacturer market share, and manufacturer dependence. Finally, we develop a numerically specified model.

Local marketing measure

There are three measures that can be used to represent the degree to which local marketing is applied. We asked manufacturers (i) to describe the percentage of supermarkets where they use an instrument for local marketing, (ii) to indicate the degree to which they apply local marketing for each instrument on a scale from no differentiation between supermarkets to local marketing, and (iii) to give themselves an overall self rating for local marketing. We studied the usefulness of all measures at both the instrument and aggregate levels. At the instrument level we used the instrument-specific scores for measures (i) and (ii). At the aggregate level we considered aggregated instrument scores (measures, i and ii) and the...
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overall self rating (measure iii). We calculated the aggregate scores from principal component analysis (local marketing as an underlying factor), predicted scores from a regression of the self rating on instrument scores, and summated scores (unweighted, weighted with consultant ratings, weighted with the local-to-total use ratio from Table 3.4).

We conclude that there is insufficient information to estimate models at the instrument level. Information is limited because not all manufacturers use all instruments.9 With respect to the aggregated local marketing score across instruments we prefer the manufacturers’ overall self rating. The weights for summated scores are arbitrary and difficult to interpret. Principal component analysis does not suggest one underlying factor. Predicted scores have the disadvantage that information is lost. Hence, we use the manufacturers’ self rating as the criterion variable10.

Profit potential

We use three variables to measure the profit potential for local marketing. These variables are the annual category turnover, existence of differences in household purchase behavior between stores, and impulse sensitivity. The annual category turnover is provided by ACNielsen, the other variables are obtained from the manufacturer questionnaire.

We expect a positive relationship between the three variables and the profit potential. The existence of differences and impulse sensitivity should affect relative growth potential. That is, a differentiated marketing mix will have more effect if differences in purchase behavior are large. Alternatively, if there are no differences in purchase behavior, the optimal marketing mix for all stores is the same. Impulse product sales depend on their ability to attract household attention. Local marketing for these products is expected to present the products in an optimal way at the store level. Finally, category size determines how relative growth translates into absolute growth (absolute growth is relative growth times category size). Hence, we formulate the following hypotheses:

**H₁ There is a positive relationship between category size and the application of local marketing.**

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9 We used the Tobit-model for estimation at the instrument level.
10 Choosing the manufacturer’s self rating implies that no distinction can be made between local marketing applied in franchise and chain-owned stores.
Chapter 3

H₂ There is a positive relationship between store differences in household purchase behavior and the application of local marketing.

H₃ There is a positive relationship between a product’s impulse sensitivity and the application of local marketing.

Market saturation
We asked the manufacturers to indicate the degree of market saturation on a 5-point Likert scale. We expect a positive relation between market saturation and local marketing. Firms in saturated markets have to search for new strategies to grow. Section 2.2 showed that market saturation is a reason why firms shift from a product- and production oriented management strategy to a more customer focused orientation. Local marketing is a strategy that allows a firm to enhance customer value. Hence, we hypothesize:

H₄ There is a positive relationship between market saturation and the application of local marketing.

Manufacturer market share
The manufacturer category market shares are provided by ACNielsen. We hypothesize a positive relationship between market share and local marketing for two reasons. First, a higher market share (other things being equal), implies higher profit potential for the manufacturer who applies local marketing. Second, a higher market share indicates category leadership. Retailers are more likely to follow a category leader’s¹¹ proposal. Hence:

H₅ There is a positive relationship between manufacturer market share and the application of local marketing.

Manufacturer dependence
Manufacturers that are dependent may cooperate with the retailer to strengthen their position. Manufacturers may apply local marketing for this purpose. Therefore, we expect a positive relationship between manufacturer dependence and the application of local marketing.

We measure manufacturer dependence by asking the manufacturer to rate the importance of the relationship with the store manager. If this relationship is important this means that the manufacturers wants to influence the store’s marketing instruments. Stated differently, the manufacturer is dependent on the

¹¹ We measured category leadership also as the manufacture self rating on leadership. Both measures are correlated. We prefer market share as it is a more objective measure.
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store’s decisions. We choose to measure dependence at the store level as it is the relevant level for local marketing. Hence, we hypothesize:

\textbf{H}_6 \quad \textbf{There is a positive relationship between the importance of the relationship with the store managers and the application of local marketing.}

We specify the following linear regression model to test the hypotheses:

\[ LM_m = \beta_0 + \beta_1 CAT_m + \beta_2 DIFF_m + \beta_3 IMP_m + \beta_4 SAT_m + \beta_5 SHARE_m + \beta_6 REL_m + \varepsilon_m \]  

(3.1)

with

- \( LM_m \) = manufacturer \( m \)’s self rating for local marketing on a 0-100 scale (source: manufacturer)
- \( CAT_m \) = total sales of manufacturer \( m \)’s category (in €, source: ACNielsen)
- \( DIFF_m \) = the degree to which consumers’ purchase behavior differs between stores for manufacturer \( m \). (5-point Likert scale, higher value indicates higher sensitivity, source: manufacturer)
- \( IMP_m \) = impulse sensitivity of manufacturer \( m \)’s category (5-point scale, higher values indicate higher impulse sensitivity, source: manufacturer)
- \( SAT_m \) = manufacturer \( m \)’s category saturation level (5-point Likert scale, higher values indicate higher saturation levels source: manufacturer)
- \( SHARE_m \) = manufacturer \( m \)’s category market share (percentage of total category sales in all stores, source: ACNielsen)
- \( REL_m \) = the importance of a good relationship with the retailer for manufacturer \( m \)’s sales (5-point Likert scale, higher values indicate higher importance, source: manufacturer)
- \( \varepsilon_m \) = disturbance term.

We estimate the model with \textit{OLS} and show estimation results in Table 3.6. We report standardized coefficients and \( p \)-values. The hypothesis of positive signs for all parameters allows for the use of one-sided tests. We conclude that a hypothesis is confirmed if the coefficient has the expected sign and its \( p \)-value is less than 0.05. The advantage of standardized coefficients is that they are comparable as they correct for scale differences.
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Table 3.6 What predicts the manufacturers’ overall self rating for local marketing (n=45)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Standardized coefficient</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAT (H1)</td>
<td>0.29</td>
<td>0.01</td>
</tr>
<tr>
<td>DIFF (H2)</td>
<td>0.27</td>
<td>0.02</td>
</tr>
<tr>
<td>IMP (H3)</td>
<td>0.09</td>
<td>0.22</td>
</tr>
<tr>
<td>SAT (H4)</td>
<td>−0.10</td>
<td>0.20</td>
</tr>
<tr>
<td>SHARE (H5)</td>
<td>0.26</td>
<td>0.02</td>
</tr>
<tr>
<td>REL (H6)</td>
<td>0.32</td>
<td>0.01</td>
</tr>
<tr>
<td>$R^2$</td>
<td></td>
<td>0.50</td>
</tr>
</tbody>
</table>

We see that the predictor variables in model 3.1 explain a considerable part of the variance in the manufacturers overall self rating ($R^2 = 0.50$). The regression F-test is significant ($p < 0.01$) and thus we reject the null-hypothesis that all the parameters are zero.

Model 3.1 confirms four of the six hypotheses. The acceptance of hypotheses H1 and H2 suggests that both relative- and absolute profit potential stimulate the application of local marketing. The influence of a product’s impulse sensitivity is not confirmed (H3).

The hypothesized positive relationship between market saturation and the application is rejected (H4). Hence, we cannot confirm that manufacturers in saturated markets apply local marketing to obtain additional growth.

The significance of the coefficient for H5 (market share) indicates that manufacturer’s relative size matters. This suggests also that market leadership stimulates the application of local marketing.

The importance of a good relationship with the store manager also has a significant effect (H6). This suggests that manufacturers apply more local marketing when they are more dependent.

3.7 Summary and conclusions

In this chapter we studied the application of local marketing. We found that almost all Dutch manufacturers (96 percent) differentiate between stores in some way. The most frequently used variables are chain type (used by 85 percent) and store size (56 percent).

Manufacturers who want to apply local marketing need a sales force that visits individual stores. In the Netherlands, 69 percent of manufacturers have a sales force. Manufacturers select stores based on profit potential and a store manager’s willingness to cooperate. Thirty-six percent of manufacturers provide the sales force.
force with a tool to apply local marketing. This tool is a stand-alone computer system that uses store- and market characteristics to provide advice on the marketing mix.

There are various instrument-specific restrictions on the use of marketing instruments for local marketing. Restrictions differ between chains and ownership type – privately owned stores tend to be less restricted (and more motivated) to apply local marketing. Regular price, for example, is not suitable for local marketing, while shelf design and assortment are more suitable. This conclusion is supported by the empirical results that indicate that regular prices are hardly ever used and that shelf design and assortment are the most frequently used instruments. We also find that manufacturers apply more local marketing in privately owned stores than in chain-owned stores.

Finally, we studied what drives manufacturers to apply local marketing, measured as the manufacturers’ self rating. Our results suggest that the application of local marketing is determined by category size, differences in purchase behavior between stores, manufacturer market share, and the importance of a good relationship with the store manager.