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

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Results of this study suggest that the type of exchange relationship between a packaged-goods manufacturer and its distributors influences a manufacturer’s brand allocation between the frequently opposing strategies of advertising and promotion. As exchange relationships become more relational, manufacturers increase their allocation to advertising. Conversely, as relationships become more discrete, manufacturers increase their allocation to promotion. Additionally, study results suggest that a brand’s relative market share moderates the influence of the exchange relationship type. Brands with low relative market share may experience greater opportunity for advertising in relational exchange and increased pressure for promotion in discrete exchange.

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

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

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

The purpose of this article, then, is to further our under-
standing of a manufacturer’s advertising and promotion alloca-
tion decision by examining the influence of the type of ex-
change relationship a manufacturer has with its distributors. 
The potential moderating role of a brand’s relative market 
share also is addressed. Within a given exchange type, manu-
facters may respond differently in their allocation between 
advertising and promotion based on the market position of 
their brand.

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

**Industry Background:**

**Trade Promotions and the Shift in Power to Distributors**

During the past 15 years, packaged-goods manufacturers have 
increased their promotion allocation as a part of their total 
advertising and promotion expenditures from 57% in 1981 
to 73% in 1992 (Mohr and Low, 1993) and to 75% in 1995 
(Cox Direct, 1996). Driving this promotion allocation increase 
was trade promotions. Trade promotions are special incentives 
(e.g., price discounts and free case offers) provided to distrib-
utors for the pass-thru of a price reduction to consumers and, 
in many cases, the feature/display of a product (Blattberg and 
Levin, 1987). In 1970, trade promotions represented only 7% 
of the total advertising and promotion expenditures (Schiller, 
Business Week, February 17. pp. 64–68) by 1995, packaged-
goods trade promotions had increased to 51% (Cox Direct, 
1996). Of the total funds spent on promotion in 1995, trade 
promotions accounted for more than two-thirds of the expen-
ditures (the remaining expenditures were spent on consumer 
promotions).

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

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

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

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

**The Influence of Exchange Relationship Type**

Macneil (1980) developed a typology of exchange that ranges 
on a continuum from discrete (low level) to relational (high 
level) and is manifested in the norms of the relationship. The 
exchange relationship type includes norms of solidarity, the 
importance of the relationship, in and of itself (Kaufmann and
Forward buying can be described as quantity purchased on H1: (Macneil, 1980). Relational norms serve as a general protectiveWhile this study proposes that the type of exchange relation-
ship based on expectations of bilateral goals and a long-term view
of Relative Market Share future (Macneil, 1978). The norms of relational exchange are
Stern, 1988), and mutuality, the evenness of exchange ential effect of a brand to emerge, be maintained, or enhanced
through advertising. Increased advertising allows a manufactu-
tor to develop a franchise (value in the minds of consumers),
thereby, reducing brand substitutability (switching behavior)
and allowing for allocation optimality (marginal level). The
relational norms of the exchange provide confidence to a
manufacturer that in relinquishing contract control (i.e.,
through trade promotions), a condition of vulnerability will
not be created (Heide and John, 1992). In turn, distributors
benefit from the predictability of brand demand and lower
display costs under relational exchange.

During 1996, with the adoption of Efficient Consumer Re-
response (ECR) by some distributors, the amount spent by manu-
facturers on trade promotions declined an estimated 1 to 4%
while advertising allocations increased 1 to 3% as a part of
their total advertising and promotion expenditures (Tenser,
1997). ECR, a movement currently gaining acceptance in the
grocery industry, is a systems approach to enhance consumer
value with a focus on practices that increase the efficiency of
the total supply chain and not just the efficiency of an individ-
ual component (Kurt Salmon Associates, Inc., 1993). The prac-
tices of ECR require a joint effort by packaged-goods manufac-
turers and distributors that is cooperative and interdependent,
reflecting the norms of relational exchange. This emerging
trend in allocation would suggest that as exchange relation-
ships become more relational with both manufacturers and
distributors recognizing the goals of the other, manufacturers
may allocate more to advertising. Based on anecdotal evidence
and review of relevant literature, the following hypothesis was
developed for this study:

\[ H1: \] The type of exchange relationship between a manufac-
turer and its distributors influences the manufacturer’s
allocation between advertising and promotion for a brand. Greater levels of relational (discrete) exchange
increase the advertising (promotion) allocation.

The Moderating Role of Relative Market Share
While this study proposes that the type of exchange relation-
ship between a packaged-goods manufacturer and its distribu-
tors may be a decision variable in the manufacturer’s allocation
between advertising and promotion for a brand, the influence
of the exchange relationship may be more complex. Within
a given exchange relationship type, a manufacturer’s allocation
response may be different based on the competitive strength
of its brands.

A brand draws strength from its market share in relation to
its competition. This strength reflects the scale and bargaining
effects of the brand in its served market (Buzzell and Gale,
1987). Relative market share reflects how strong a market leader
is compared with the next largest competitor or how weak a
follower is compared with the market leader, a critical factor
that absolute market share may not capture (Kerin, Mahajan, and Varadarajan, 1990, p. 42). While the competitive strength of a brand does not correspond to a given exchange relationship type for a manufacturer (brand competitors from low to high relative market share can experience a given type of exchange relationship), manufacturers bring this market position or power into their relationship with distributors.

Blattberg, Briesch, and Fox (1995) found that low share brands in general receive less pass-thru of trade promotions to the consumer than large share brands. Strang (1980) suggests that manufacturers allocate more to promotion for low share brands, since they face a greater risk of a loss in distribution. Moreover, when low share brand manufacturers experience discrete exchange, additional incentives must be offered in order to curb distributor self-interest. Although manufacturers of low strength brands benefit from consumer interest and increased sales due to trade promotions (Hoch and Deighton, 1989), the discrete nature of a manufacturer’s relationship with its distributors may push the promotion allocation beyond its marginal level. As exchange relationships become more relational and manufacturer vulnerability to distributor opportunism is lessened, manufacturers of low strength brands may begin to engage in franchise building and increased advertising. Small share relational brands may experience increased ad message efficiency (Deighton, Henderson, and Neslin, 1994) and learned message effectiveness (Ha, Young-Wan: Consumer Learning as a Hypothesis-Testing Process. Unpublished doctoral dissertation, University of Chicago, Graduate School of Business, 1987) as a result of these franchise building efforts.

Manufacturers of brands with high relative market share may exercise greater control in their exchange relationship with distributors and thus their allocation response to advertising and promotion for the product. Since large share brands in general are less price or deal elastic (Bolton, 1989) and experience a greater level of trade promotion pass-thru (Blattberg, Briesch, and Fox, 1995), manufacturers of high strength brands compared with low strength brands often indicate a larger or dissimilar advertising allocation difference under discrete exchange and a smaller or similar advertising allocation difference under relational exchange. Thus, incremental advertising efforts for a high strength brand may have less impact on the allocation between advertising and promotion than for a low strength brand due to budget size and scale economies. The shift in allocation between advertising and promotion may be less dramatic for brands with high relative market share as manufacturers bring this bargaining power into their exchange relationship and governance with distributors. Thus, the following hypotheses are suggested:

**H2a:** The effect of the type of exchange relationship between a manufacturer and its distributors on the manufacturer’s allocation between advertising and promotion is dependent on the relative market share of the brand.

**H2b:** Greater levels of relational (discrete) exchange increase a manufacturer’s advertising (promotion) allocation at a higher rate for brands with low relative market share and at a lower rate for brands with high relative market share.

**Method**

**Context and Sample**

The strategy perspective of this study was that of the manufacturer, and the context was specific to packaged-goods. Manufacturers representing a cross-section of the departments and categories of a supermarket were chosen as respondents. The range of product differentiation and manufacturer governance strategies allowed for variance on the effects of relationship type, relative market share, and their interaction on the allocation between advertising and promotion.

The sampling frame for this study was a segment of the subscriber base of a national brand management publication. The audience for the publication is packaged-goods manufacturers who market through the food, drug, and mass channels. Individuals who indicated all or partial responsibility for a product were chosen as informants. An individual responsible for the management of a product is the medium through which information about the product flows between environment and firm. Position titles of the informants varied with company size, business unit organization, and approach to the market. Titles included descriptive management terms, such as brand, product, category, trade, business, marketing, and sales.

Informant competency was evaluated using the qualification method of Kumar, Stern, and Achrol (1992). A level of knowledge response was requested for the study areas of product strategy, relationship with distributors, and market environment. Specifically, respondents were asked their level of knowledge concerning “this product’s list price and promotion strategy,” “our relationship with distributors concerning this product,” and “the environment in which this product competes.” Any respondent indicating less than a three on the seven-point Likert-like measures (1 = do not have adequate knowledge, 7 = have adequate knowledge) were removed. The mean value of product strategy knowledge was 6.6 (SD = 0.74), relationship with distributors knowledge was 6.1 (SD = 0.99), and market environment knowledge was 6.5 (SD = 0.76). Additionally, the mean value of months of company service was 115.5 (SD = 88.1), and months responsible for the product was 63.9 (SD = 56.1), suggesting the respondents were informed in those areas covered by the survey.

To evaluate cross-category product representation, each respondent indicated the category in which the product competes. A category index from a major scanner data service was used for classification, consisting of 11 departments (e.g., dry grocery) with 122 product categories (e.g., cereal). Each department and 77 categories were represented with no one category representing more than 6.3% of the response set. A
Table 1. Descriptive Profile of Manufacturer/Product in the Response Set

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td><strong>Manufacturer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total annual sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 5 million</td>
<td>4</td>
<td>2.0</td>
</tr>
<tr>
<td>5–50 million</td>
<td>20</td>
<td>10.1</td>
</tr>
<tr>
<td>50–100 million</td>
<td>23</td>
<td>11.6</td>
</tr>
<tr>
<td>100–500 million</td>
<td>40</td>
<td>20.2</td>
</tr>
<tr>
<td>500 million</td>
<td>27</td>
<td>13.6</td>
</tr>
<tr>
<td>More than 1 billion</td>
<td>84</td>
<td>42.5</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographic distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National</td>
<td>184</td>
<td>89.8</td>
</tr>
<tr>
<td>Regional</td>
<td>21</td>
<td>10.2</td>
</tr>
<tr>
<td><strong>Stage of life cycle</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction</td>
<td>11</td>
<td>5.4</td>
</tr>
<tr>
<td>Growth</td>
<td>39</td>
<td>19.2</td>
</tr>
<tr>
<td>Maturity</td>
<td>137</td>
<td>67.5</td>
</tr>
<tr>
<td>Decline</td>
<td>16</td>
<td>7.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales percentage by distributor type</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional supermarket (e.g., Kroger)</td>
<td>47.1</td>
<td>21.3</td>
</tr>
<tr>
<td>Nontraditional format (e.g., Sam’s Club)</td>
<td>27.3</td>
<td>23.3</td>
</tr>
<tr>
<td>Wholesaler/distributor (e.g., Fleming)</td>
<td>24.7</td>
<td>18.6</td>
</tr>
</tbody>
</table>

* Missing values not included.

A descriptive profile of manufacturer/product characteristics in the response set is provided in Table 1.

**Data Collection**

Data were collected for this study by using a mail survey. In order to maximize response rates and reduce response bias, procedures suggested by Walker, Kirchmann, and Conant (1987) were adapted to this study. Two survey waves generated 206 responses or 11.7% of the 1,804 sampling frame. The response rate was tempered by the proprietary nature of the information requested, the time constraints of informants, and the movement of informants between manufacturers.

An *a priori* power analysis (Cohen, 1977, p. 439) was performed to determine the number of responses needed to find significance in the statistical tests. The required responses for 0.80 and 0.90 power were 164 and 210, respectively, given an $R^2$ effect size of 0.07, an alpha 0.05, and the maximum number of variables in the equations. Cohen (1977, p. 413) suggests that for a regression model, an $R^2$ effect size of 0.02 is small and 0.13 is medium. In the relevant literature (Boyle, Dwyer, Robicheaux, and Simpson, 1992; Heide and Miner, 1992; Heide, 1994) small to medium $R^2$ effect sizes may be found. A response rate that exceeded 200 questionnaires was targeted and achieved.

Nonresponse bias was evaluated by a comparison of first and second wave respondents. Achrol and Stern (1988) suggested that wave equivalence acts as a proxy for external validity on the basis that late respondents are like nonrespondents. No significant differences between wave respondents were found on the hypothesis variables or on a number of sample profile variables (e.g., sales percentage to traditional supermarkets).

**Measures**

The survey instrument was pretested following the recommendations of Fowler (1993, p. 102). The pretests were conducted at both a large and small Midwestern packaged-goods manufacturer. Five individuals from the large firm and one individual from the small firm, each having full responsibility for a product, completed the survey. Individual discussions, based on respondent schedules, also were conducted. Discussions averaged 60 minutes and began with a script by the researcher followed by an open period for general comments. Results of the pretest suggested minor changes in survey layout and wording and thus adequate face validity of the measures.

**EXCHANGE RELATIONSHIP TYPE.** The basis for placement of exchange relationship type on the continuum from discrete to relational is manifested in the norms of the relationship (Kaufmann and Stern, 1988). A scale (Likert-like) of equally weighted norms with items drawn from previous studies was used to measure exchange relationship type. The norms of solidarity, mutuality, flexibility, and role integrity were measured in this study as they form a dimension set commonly found in the literature (Kaufmann and Stern, 1988; Boyle, Dwyer, Robi-
Solidarity. The norm of solidarity is defined as the degree to which exchange partners view the relationship itself as important (Kaufmann and Stern, 1988). The solidarity norm reflects an orientation that ranges from a focus on an individual transaction to a focus on the relationship. Solidarity was measured using items from Kaufmann and Dant (1992) and Kaufmann and Stern (1988). One item from Kaufmann and Dant (1992) reflecting information exchange was not used. Information exchange was operationalized in the norm of role integrity by Gundlach and Achrol (1993) and is the position taken in this study.

Mutuality. Mutuality refers to the evenness in the division of exchange profit that assures adequate returns to each partner over the course of the exchange (Macneil, 1980,p.44). Division of profits under high levels of mutuality is evaluated over the long term rather than on an individual transaction basis (Kaufmann and Stern, 1988; Boyle, Dwyer, Robicheaux, and Simpson, 1992). The norm of mutuality was measured using the scale of Boyle, Dwyer, Robicheaux, and Simpson (1992).

Flexibility. The norm of flexibility refers to the bilateral expectation that adjustments in the substance and terms of the exchange will be made in accordance with changing circumstances. Exchange is open ended when flexibility is displayed (Boyle, Dwyer, Robicheaux, and Simpson, 1992). Flexibility was measured using the scale of Kaufmann and Dant (1992).

Role Integrity. The norm of role integrity refers to the extent to which roles of the exchange partners are viewed as complex and multidimensional and extend beyond individual transactions (Kaufmann and Stern, 1988; Kaufmann and Dant, 1992). Role integrity includes the expectation that each partner will provide information that is meaningful for the specialized activities of the other (Gundlach and Achrol, 1993). The norm was measured using role integrity items from Kaufmann and Dant (1992) and Kaufmann and Stern (1988), and items of information exchange from Heide and Miner (1992) and Kaufmann and Dant (1992).

The validity of the exchange relationship type norms was assessed by examining item-to-total correlations for the set of items corresponding to each theoretical subconstruct and conducting principal components analysis. Unidimensionality of each norm was evidenced by high single factor loadings (Carmines and Zeller, 1979). With orthogonal rotation, the explained variance for each single factor structure and the range of loading values was 65% and 0.80 to 0.81 for solidarity, 61% and 0.67 to 0.87 for mutuality, 65% and 0.77 to 0.85 for flexibility, and 55% and 0.61 to 0.85 for role integrity.

A separate principal components analysis was performed to assess the validity of exchange relationship type as a measure of the four (equally weighted) underlying norms. Final items from each norm and items from a measure of outcome/behavior-based control (measured in the study) yielded a single factor structure for exchange relationship type. With orthogonal rotation, the explained variance was 32%, and the range of loading values was 0.37 to 0.72, thus suggesting unidimensionality of scale items. Coefficient alpha for the exchange relationship type scale was 0.67. Achrol and Stern (1988) suggested that for theoretical research, a reliability coefficient greater than 0.60 is the conventionally accepted criterion. In summary, the evidence suggests that exchange relationship type has adequate measurement properties.

RELATIVE MARKET SHARE. The competitive strength of the brand was measured by its relative market share. Buzzell and Gale (1987) suggested that relative market share is more precise in calibrating competitive advantage than absolute market share. Relative market share is preferred over absolute market share when cross-sectional data is used and market share values, in sum, exceed 100% (Varadarajan and Dillon, 1982). In this study, the data is across product categories, and market share values exceed the sum constraint. The single indicator is computed by dividing the market share of the brand by the market share of the leading competitor. The measure of relative market share was transformed with a logarithmic transformation to account for the decreasing number of dominant brands.

ADVERTISING AND PROMOTION ALLOCATION. Strang (1975) suggested that the allocation between advertising and promotion can be expressed as a ratio or a single percentage. For simplicity, the percentage allocated to advertising was used as the dependent variable in this study. Either allocation provides for a test of the hypotheses.

Findings

Data Analysis

The hypotheses were tested using hierarchical moderator regression analysis. The independent variables were mean-centered to reduce multicollinearity between the main and interaction terms (Aiken and West, 1991). Following guidelines suggested by Cohen and Cohen (1983), the interaction variable
Table 2. Means, Standard Deviations, Reliabilities, and Intercorrelations of Study Measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Correlation Coefficient</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Step/Variable</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Relative market share (log)</td>
<td>0.08</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exchange relationship type</td>
<td></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Advertising allocation</td>
<td>0.21b</td>
<td>0.27a</td>
<td>—</td>
</tr>
<tr>
<td>Number of items</td>
<td>1</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>M</td>
<td>−0.075b</td>
<td>4.409</td>
<td>30.085</td>
</tr>
<tr>
<td>SD</td>
<td>0.524</td>
<td>0.753</td>
<td>23.845</td>
</tr>
<tr>
<td>Coefficient alpha</td>
<td>—</td>
<td>0.67</td>
<td>—</td>
</tr>
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</table>

n = 206.

1 p < 0.01 (two-tailed test).
2 Relative market share (log) ranges from −1.45 to 0.93.

was entered into the regression model after its components to partial out the “conditional” main effects from the interaction term. Examination of Mahalanobis distances and residuals scatterplots suggested regression assumptions were met.

Results

Table 3 presents results of the regression model. The effect of relationship type was predicted to influence the allocation between advertising and promotion for a brand. As exchange becomes more relational, packaged-goods manufacturers increase their advertising allocation (standard coefficient = 0.22, p < 0.01) and therefore decrease their total promotion allocation. Thus, hypothesis 1 is supported. The omnibus test (change in $R^2$) for the interaction term is significant. Additional variance is explained in the advertising allocation by the interaction, and thus supports hypothesis 2a. The effect of the type of exchange relationship on a manufacturer’s advertising allocation is moderated by the relative market share of the brand.

Hypothesis 2b predicted that greater levels of relational exchange increase a manufacturer’s advertising allocation (and therefore decrease their promotion allocation) at a higher rate for brands with low relative market share and at a lower rate for brands with high relative market share. The negative interaction coefficient indicates that as relative market share increases, exchange relationship type has a smaller effect on the advertising allocation. In other words, a greater level of relational exchange has a stronger, positive effect on the advertising allocation under low relative market share situations and a weaker, positive effect under high relative market share situations.

The simple slope of the regression of advertising allocation on exchange relationship type was 0.393 for low strength brands and 0.047 for high strength brands. Thus, hypothesis 2b is supported. The interaction analysis followed procedures suggested by Cohen and Cohen (1983) with high and low relative market share (log) determined one standard deviation above and below the mean, respectively. Figure 1 depicts the nature of the significant interaction.

Discussion

The marketing literature has begun to offer an understanding of the complex decision packaged-goods manufacturers face in their allocation between the frequently opposing strategies of advertising and promotion by identifying antecedent factors (Low and Mohr, 1992, 1994), suggesting consumer decision-making outcomes (Mela, Gupta, and Lehmann, 1997), and providing prescriptions for the optimization of their allocation decision (Sethuraman and Tellis, 1991; Neslin, Powell, and Stone, 1995). The results of this study suggest that the norms of the exchange relationship, as moderated by the relative market share of the brand, may influence a manufacturer’s advertising and promotion allocation decision.

The findings of this research suggest that a move by packaged-goods manufacturers away from the economic incentives of promotion must be in concert with the norms that guide the

Figure 1. The interaction of relative market share and exchange relationship type on a manufacturer’s advertising allocation.
relationship. This congruence binds a manufacturer’s brand advertising and promotion allocation strategy to the type of exchange relationship it has with distributors. The influence of the exchange relationship type may allow a packaged-goods manufacturer to differentiate a product and develop brand image through greater levels of advertising in relational exchange (a relationship guided by mutual interest) or, conversely, may allow distributors to push a product to be commodity-like by requiring greater levels of promotion in discrete exchange (a relationship guided by self-interest). A manufacturer in a discrete exchange relationship that increases its advertising (and thereby, decreases its promotion) allocation may experience a loss of distribution as distributors seek substitutions. Conversely, an increased promotion (decreased advertising) allocation by a manufacturer in relational exchange may increase a brand’s vulnerability to competition as consumers engage in switching behavior and distributors perceive less need for the product. Thus, an advertising and promotion allocation strategy for a brand that is incongruent with the type of exchange relationship between the manufacturer and its distributors may be less effective in achieving the manufacturer’s goal of increasing its brand market share and building a long-term franchise.

The relative market share of the manufacturer’s brand has a moderating effect on the norms of the relationship by bringing the competitive strength of the brand into the exchange between the manufacturer and its distributors. In this study, the magnitude of allocation response was greater for manufacturers of low strength brands than those with high strength brands. Manufacturers of high strength brands may be able to temper the self-interest of discrete exchange and the interdependence of relational exchange by bringing market power into the exchange relationship. This market power allows them to exercise greater control in response to product elasticities.

Manufacturers of low strength brands (low relative market share) are more responsive in their allocation between advertising and promotion with changes in the manufacturer’s relationship with its distributors. Low strength brands may experience greater pressure for trade promotions in discrete exchange as they struggle to maintain shelf space and promotion recognition. Relational exchange may present low strength brands with the opportunity to establish a loyal franchise, but also the responsibility to develop the consumer base through a greater advertising allocation. This finding suggests that low strength brands may be able to form long-term relationships with distributors. A summary distribution of brand relative market share values across exchange relationship type values is provided in Table 4.

**Limitations and Directions for Further Research**

The findings of this study must be considered in light of some limitations. The study results are descriptive. Though the model tests yield results that are consistent with the hypotheses, the cross-sectional design limits the ability to rule out alternative causal inferences. A longitudinal design that follows how manufacturers (re)allocate between advertising and promotion as a result of changes in their exchange relationships with distributors could strengthen model inferences and contribute to allocation prescription development.

Data were collected from single brand informants on the manufacturer’s side of the dyad. A dyadic perspective in data collection would improve the measure of exchange relationship type and enhance study results.

In this study, advertising and promotion are viewed as distinct strategies. The definition of each strategy becomes blurred when execution of each is combined, such as when an advertising message is delivered with a coupon in a free-standing insert. This execution could be deemed as franchise building (Strang, 1975) yet be included in the promotion allocation. A blurring of the definitions may understate the magnitude of allocation response was greater for manufacturers of low strength brands than those with high strength brands. Manufacturers of high strength brands may be able to temper the self-interest of discrete exchange and the interdependence of relational exchange by bringing market power into the exchange relationship. This market power allows them to exercise greater control in response to product elasticities.

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**Table 4. Joint Frequency Distribution of Relative Market Share and Exchange Relationship Type: Summary Values**

<table>
<thead>
<tr>
<th>Relative Market Share</th>
<th>Exchange Relationship Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2–3</td>
</tr>
<tr>
<td>0.02–0.50</td>
<td>2</td>
</tr>
<tr>
<td>0.51–1.00</td>
<td>2</td>
</tr>
<tr>
<td>1.01–2.00</td>
<td>1</td>
</tr>
<tr>
<td>2.01–8.50</td>
<td>0</td>
</tr>
</tbody>
</table>

*a Missing values not included.

*b Seven-point scale ranging from discrete (1) to relational (7). Minimum value in frequency = 2.50. Maximum value in frequency = 6.25.

Relative market share (RMS) is calculated by dividing informant brand market share by market share of largest competitor. RMS value greater than 1.00 identifies a share leader. Minimum and maximum values in frequency provided in classifications.
References


Appendix. Measures

Exchange Relationship Type

Seven-point scale ranging from strongly disagree (1) to strongly agree (7). Reverse-worded items are indicated by a (r). Items remaining after scale purification.

1. Our relationship with distributors could best be described as a “series of one shot deals, entered into one at a time” than as a “long-term venture.” (r)
2. Our relationship with distributors could best be described as an “arms length negotiation” than a “cooperative effort.” (r)
3. We usually receive a fair share of the rewards and costs from our relationship with distributors.
4. We might absorb some costs that we could share with distributors, but sometimes distributors absorb some expenses that we may have caused. Over time things balance out.
5. It is expected that a give and take on specific transactions with distributors would occur, if economic conditions change.
6. It is expected that changes in the terms of our transactions with distributors would be allowed if unanticipated economic events occur.
7. In our relationship with distributors, it is expected that any information that might help the other party will be provided to them.
8. The exchange of information in our relationship with distributors takes place frequently and informally.

Relative Market Share

1. What is the market share of your product within its distributed market? ____ %
2. What is the market share of your largest competitor? ____ %

Advertising and Promotion Allocation

What is your advertising and promotion ratio? Promotion includes both trade and consumer types. Advertising: Promotion. ____ % : ____ % (=100%)

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1 Items 1 and 2 solidarity norms; 3 and 4 mutuality norms; 5 and 6 flexibility norms; 7 and 8 role integrity norms.
2 Relative market share is calculated by dividing informant brand market share by market share of largest competitor.
3 Advertising percentage used as dependent variable in the study.