

Sales Promotion and Consumer Loyalty: A Study of Nigerian Telecommunication Industry

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Abstract

In today's competitive business world customers are considered to be kings. Customers have several choices to make among alternative products, and they exercise a high level of influence in the market with respect to product size, quality and price. Hence, it is important for producers to meet the needs of customers in order to stay competitive. One of the marketing communication tools that is used in attracting the attention of the customer and build their loyalty is sales promotion. The aim of this paper therefore is to determine the effect of sales promotion on customer loyalty in the telecommunication industry. In this study, the survey method was used in gathering information from the respondents. Simple random sampling was used to select a sample size of 310, while descriptive and inferential statistical analyses were conducted with the aid of SPSS software. Producers spend a large part of their total marketing communication expenses on sales promotion. Hence, this paper attempts to find the effect of sales promotion on customer loyalty using a sample of customers of mobile telecommunication services. The paper found that, there is positive relationship between sales promotion and customer loyalty. More importantly, it was discovered that non-loyal customers are more prone to switch to competing products as a result of sales promotion than loyal customers.

Key words: Sales Promotion, Customer Loyalty, Switching, Telecommunication, Nigeria

1. INTRODUCTION

In Nigeria, the telecommunication sector is highly competitive and telecom operators attempt to appeal and win customers through various sales promotion strategies. The Nigerian telecom industry is entering its maturity phase, with reducing average profit. With fierce competitive telecom operators must work hard to reduce cost, win new customers and retain existing ones and increase profit to ensure sustainable development of their businesses. There are four major telecommunication providers in Nigeria offering Global Systems of Mobile (GSM) services with several mobile fixed wireless companies Code Division Multiple Access (CDMA). Nigeria telecommunication industry is one of the largest in Africa with over seventy (70) million GSM users and still growing with one of the highest fixed line revenue and cumulative revenue of US\$14billion as at December, 2009 (NCC, 2010). There are tremendous growth prospects in the Nigerian telecom sector; as such new entrants are attracted. For example, Etisalat was recently in January 2007 licensed to provide telecom services and Airtel Indian largest telecom company in 2010 acquired Zain, the third largest mobile telecom provider in Nigeria this shows the level of attractiveness of the Nigerian telecom market. The telecom industry in Nigeria as at November, 2010 according to NCC had generated more than eight thousand direct first-tier employments (vendors, PR agencies, operators' call center employees, security etc) and estimated thirty (30) million indirect 2nd-tier employments (NCC, 2010). More im-

portantly, the telecom contribution to national Gross Domestic Product (GDP) has increased from 0.6% in 2001 to 4.2% in 2009.

Total private investment in the sector is US\$12billion and earning per line according to International Telecommunication Union (2010) in 2001 was US\$48.21, US\$17.80 in 2005 and US\$11.26 in 2008.

Tab. 1- Statistics of Nigerian Mobile Connections. Source: Nigerian Communication Commission (accessed 27/12/2010)

Market	Technology	Market share (%)	Quarterly growth (%)	Annual Growth (%)	Net Additions	Share of Net Addition (%)	Connections
Etisalat	GSM	1.66	46.61	-	365,620	6.78	1,835,870
GLO	GSM	23.32	4.30	13.17	665,695	12.34	16,228,556
Mtel	GSM	0.38	2.58	2.58	6,670	0.12	258,520
MTN	GSM	40.14	7.36	49.82	190,6018	35.34	29,740,000
Multi-links	CDMA	3.38	29.76	156.87	537,416	9.96	N/A
Starcomms	CDMA	2.17	15.16	134.71	197,521	3.66	N/A
Visafone	CDMA	3.68	12.18	353.68	276,793	5.15	N/A
Airtel	GSM	23.59	7.78	9.98	1,1174695	21.78	14,935,770
ZOOM-mobile	CDMA	1.78	27.15	-	262,781	4.87	N/A
Total		100	8.44	38.54	5,393,209	100	71, 998,716

Note: Global Communication Network (GLO); Mobile Telecommunication Network (MTN)

The percentage of the total Nigerian population of about 150 million with active mobile GSM lines is about 47.8%. The number of mobile phone users in Nigeria has grown rapidly in the wake of the industry deregulation of 2001. The tele-density rate grew dramatically from 1.89 in 2002 to 53.23 in 2009 and penetration rate of 1.2% in 2002 to 48.7% in 2009. It is common for an average Nigerian mobile telephone user to have more than one mobile line which helps to increase the penetration rate.

As a result of increasing efforts to expand market share and profit level, telecom operators have developed several strategies including “price war”. These had led to series of drops in mobile phone installation fees, call rates and free Short Message Services (SMS). Installation fee in 2001 was above N40, 000 but are now N100 and free in some instances (N150 Nigerian currency = \$1 as December, 2010). New entrants like Etisalat and Airtel in order to penetrate the market have introduced series of fee reduction on all calls including free night calls and per second billing as parts of their marketing strategies. Older operators like Mobile Telecommunication Network (MTN) also adopted a downward reduction in tariffs of their major repaid products. Other results of the high competition include wide range of improved quality services available with efficient, cost effective and competitive services.

To retain consumers in face of keen competition service providers must develop marketing strategies that will not only win customer but help to retain them. Sales promotion plays an important role in retaining old consumers and attracting new ones. Parts of the essence of a business existence are to produce goods and services that will be required by customers and to make profit from such activity. Enough sales must be generated for profit to be made. Sales estimate is the foundation in budgeting or profit planning process (Ayanwale, Alimi and Ayanbimpe, 2005). This is where sales promotion and customer loyalty are relevant. The aim of this study is therefore, to measure the impact of sales promotion on consumer loyalty among mobile telephone service users in Nigeria. The telecom companies spent millions of naira on the sales promotion of their products and brands. It is the aim of this paper therefore, to find the relationships between sales promotion strategy and loyalty of customers. Several studies have been undertaken on sales promotion, most of these studies were conducted in developed nations, Europe and America particularly in retail sector. However, few of such studies have been conducted in developing country like Nigeria, much less in service sector and particularly in telecom industry. This study is designed to fill this obvious gap in literature

2. LITERATURE REVIEW

2.1 Sales Promotions

It has been established in literature that only consumers with repeat purchases are profitable (Nagar, 2009). It is not every repeat purchase that is connected to consumer's commitment of a brand. However, consumer's commitment is important for a repeat purchase. Therefore, business operators need to develop marketing programmes that will not only reinforce customer's commitment but also encourage repeat purchases. A part of the functions of sales promotion is not only to reinforce commitment of consumers but to encourage repeat purchases. Effects of sales promotion on consumer behavior have been widely studied in literature (Nagar, 2009). Sales promotion has effects on various aspects of consumer's purchase decisions such as brand choice, purchase time, quantity and brand switching (Nijs, Dekimpe, Steenkamps and Hanssens, 2001); consumers' sensitivity to price (Bridges, Briesch and Yim, 2006).

However, whether the effect of consumer loyalty and purchasing behavior could be moderated by sales promotions has not yet been examined extensively. Regardless of a widespread interest in the relationship between sales promotion and purchasing behavior, most studies of this kind focus on the effect of sales promotions on choice at the time they are offered (DelVecchio, Hearnard, Freling, 2006). Only a few have investigated the lag effect of sales promotions on brand preference and the resultant buying behavior once the promotion campaign is rescinded.

Sales promotions could be in form of monetary and non-monetary ones. These types provide both utilitarian and hedonic benefits to the consumers. Utilitarian benefits refer to such benefits such as quality, convenience in shopping, saving in time efforts and cost (Luk and Yip, 2008). Hedonic benefits on the other hand refer to value expression, exploration, entertainment, intrinsic stimulation and self esteem (Chandon, Wansink and Laurent. 2000). According to Luk and Yip (2008) monetary promotions are incentive-based and transactional in nature and provide immediate rewards and utilitarian benefits to the customers. However, non-monetary promotions provide hedonic benefits but weaker utilitarian benefits (Kwok and Uncles, 2005).

Monetary promotion have been reported to be preferred over non-monetary promotion across all consumer goods in terms of their ability to elicit purchase intentions (Luk and Yip, 2008; Kwok and Uncles, 2005). Several other studies had reported different impact of sales promotion on consumer behavior. For example, Blatterger and Wisniewski (1989) reported that consumer gain more from price cut when buying an established up-market brand than a mass market brand. Pauwels, Hanssens and Siddarth (2002) argued that price promotion elicits temporary changes in brand and product choices and purchased quantity for established brand in mature market. These changes are because up-market brands are associated with prestigious brand with high level of reliability, low level of risks, greater concerns for customer's needs and stronger hedonic benefits (Luk and Yip, 2008). It is not settled in literature whether sales promotion can enhance or undermine brand preference beyond the time they are offered (Luk and Yip, 2008; DelVecchio, Henard, Freling, 2006)

Monetary sales promotions could lead to negative impact on brand preference and trust. This is because monetary promotion can divert attention to financial incentives which may encourage brand switching behaviour, increase price sensitivity and make quality criterion less important (Aaker, 1996; Manaled et al, 2007). Gedenk and Neslin (1999) argued further that sales promotion can lead to a significant decrease in brand loyalty. From the above discussions sales promotion seem to have double-edge impact on consumer behavior depending on the consumer level of commitment. A committed consumer is less receptive of sales promotional efforts. However, a less committed consumer is highly influenced by sales promotional efforts (Mariolle and Elina, 2005). These contradictory findings suggest a need for more research on the effect of sales promotion on consumer loyalty. It is however proposed that:

H1: Sales promotion does not have any impact on customer retention.

2.2 Consumer Loyalty

Jones and Sasser (1995) identified three parts of consumer loyalty: re-buy intention, primary behavior and secondary level behavior. According to Jones and Sasser (1995) re-buy intention refers to future intention of the consumer to re-purchase the product or service; primary behavior means the practical re-visiting behavior of a consumer; while secondary-level behavior indicates the willingness of a customer to recommend the product to others and enhances customer loyalty through human relationship (Chen, Chen and Hsieh, 2007). Oliver (1999) further stated that loyalty is a deeply held commitment to re-buy or patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same-brand set purchasing.

Chen and Ching, (2007) suggested that loyalty comprises of two dimensions: behavior and attitude. The behavior dimension is characterized by consequential actions resulting from loyalty, while attitudinal dimension refers to formative behavior as commitment i.e. a desire to maintain a valued relationship. More importantly, the consumer's attitude toward a product/service including attitudinal preference and commitment has a greater impact on forming loyalty. Loyalty therefore, is desirable by all business managers as it has established that it is cheaper to retain a customer than to win a new one (Rust and Zahorik, 1993). The following is therefore proposed:

H2: There is no relationship between sales promotion and customer loyalty



2.3 Sales promotion and Consumer Loyalty

Basically there are two types of consumer loyalty: hardcore loyal consumers and brand switchers. A hardcore loyal consumer is one who makes repeat purchases of a particular product irrespective of the premium price of the brand. In other words, hardcore loyal consumers are less price sensitive (Evan, Moutinho and Ranji, 1996). In contrast, a brand switcher refers to consumers who use two or more brands when a single brand does not satisfy all their needs (Evan, et al. 1996). Decision to be loyal to a brand or switch to other brands is affected by a number of factors: brand name (Aaker, 1996); product quality (Garvin, 1988); price (Cadogan and Foster, 2000); service quality (Mittal and Lasser, 1996) and promotion (Evan, et. al. 1996).

Sales promotion technique is an important tool in creating loyalty, this is so because sales promotion does not only bring the product to the attention of the buyers but provide incentives to encourage purchase. The impact of sales promotion on consumer behavior reveals mixed results. For example, Lau, Chang, Moon and Liu (2006) study showed that sales promotion is an important factor to differentiate hardcore loyal consumers from brand switchers and that sales promotion was the most important factor to attract brand switchers..However, a gap that is yet to be fully explored is the comparison of the effects of promotion on loyal consumer and non-loyal consumers. That is the use of sales promotion as a factor that influence loyalty among consumers and switcher had not been fully explored and more importantly in an emerging economy like Nigeria. The following is therefore proposed:

H3: Non loyal customers are more prone to brand switching in response to consumer sale promotion than loyal consumers

H4: There is no significant difference in the switching behavior of consumers in response to consumer sales promotion on the basis of socio-economic factors

3. METHODS AND MATERIAL

This study made use of mobile phone subscribers as respondents. The choice of telecom industry is necessitated by the increasing competition experience in the industry through regulation. The two biggest telecom providers in terms of subscriber base are selected for this study. Telecom providers in Nigeria made use of both monetary and non-monetary sales promotion incentive to woo subscribers. In fact in terms of percentage offering more than thirty percent (30%) of total sales promotion techniques to Nigeria consumers are offered by telecom providers (NCC, 2010). The two telecom providers between themselves accounted almost fifty (50%) percent of total mobile phone users meaning that 5 out of every 10 mobile users in Nigeria are subscribers to either or both selected telecom providers.

Survey research design was adopted in this study. Conceptually, survey research design, a descriptive research, is aimed at collecting large and small samples from a given population in order to examine the description, incidence and interaction of relevant variables pertaining to a research phenomenon (Osuagwu, 2003). Survey method was adopted as it economical and has the potential to address the research hypotheses in this study. The research approach adopted in this study is in line with similar studies and it follows the approach recommendation by Conart, Mokwa and Varadarajan (1990) that involves multi-item measure, self-typing and research assessment.

The sample frame for this research was drawn from a population of telecom subscribers (mobile phone users) among students and staff of a private university. Ota, Ogun state southwest Nigeria. Ogun state is border state to the north of Lagos, Nigeria former federal capital. The university has a combine population of over 8000 (students and staff). Ota is an industrial town with several large industrial and commercial concerns. The respondents cut across virtually all cadres of socio-economic strata of the society. Those included and considered as respondents are subscribers with active phone lines in the last six month, of the sampled telecom operators. Five hundred copies of questionnaire were administered to active subscribers of sampled telecom operators using convenient sampling techniques. The survey instrument is self-administered with 18 items measured on 5-point Likert scale ranging from strongly agree (5) to strongly disagree (1).

According to NCC an average GSM mobile user has two lines; those considered loyal are those who spent a greater proportion of their credit lines on either or both sampled telecom operators. Non loyal subscribers are those who switch or swamp SIM cards during promotional periods in the last six month. The items of the research instrument for this study benefited greatly from extant literature. For example, Nagar (2009) and LeClere and Little (1997) used the number of time a particular brand is purchased and brand frequently purchased to determined brand loyalty. Since different SIM cards cannot be purchased every time a call is to be made, the amount of credit loaded and spent on a particular line is used in this study to determine loyal customer.

Five hundred mobile phone users were used as respondents for this study. Two hundred and fifty users from each telecom network sampled. The respondents were randomly sampled within the campus of a private University in Southwest Nigeria. The sampled population consists of low income (junior staff and students), middle income (middle level academic and non academic staff) and high income group (mainly highly placed and senior academic and non academic staff). Of the sampled respondents 310 copies were retrieved and properly filled which form the basis of this study, which is about 62% response rate. The respondents are those who fulfilled two basic criteria specified before the administration of the instrument. These criteria are: whether the respondents make use of the sampled mobile network and whether the network had been used or loaded with credit in the last six month. The data set for this study was subjected to SPSS software package analysis. The hypotheses were tested with the use of correlation and regression analysis. The suitability of factor analysis for the data was tested using Barlett's Test of Sphericity ($p=0.000$) and Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy was discovered to be within acceptable limits (MTN=0.720 and GLO=0.832) (Hart, Webb and Jones, 1994)

Cronbach Alpha was used to test for the internal consistency of the data. Cronbach Alpha is the most often used for each set of measures to test reliability of a multi-item scale. The item by item reliability test ranges between 0.707-0.832 which falls within acceptable standard (Hair, Anderson, Tatham and Black, 1992). This suggests the adequacy of the measurement. To test for construct validity factor analysis was used in line with suggestion of Hair, et. al (1992). The size of the sample (310) makes factor analysis suitable. Cronbach's Alpha coefficient as suggested by McColl-Kennedy and Fetter (1999) served as additional evidence of convergence validity. Reliability is a necessary condition for validity as unreliable measure lessens correlation between research measures (Hair, et. al 1992).

4. RESULTS OF THE STUDY

Descriptive analysis, correlation and regression analysis are used in the data analysis of this study. The bio data shows that from the sampled network there are more female respondents 57% (in both networks) than male and those who are young are more (those less than 20 years =32%, while those between 21-30 years are 24%) than the old. This may be partly because of students that were sampled and partly because of the relatively young age of the University academic staff. The sample profile is as shown in table 2.

Tab. 2 - Sample Profile. Source: Field Survey, 2010

Demo-graphic	Items	MTN		GLO	
		No. of Re-spondents	Percentage (%)	No. of Re-spondents	Percentage (%)
Gender	Male	86	46	48	39
	Female	101	54	75	62
	Total	187	100	123	100
Age	< 20	62	33	39	32
	21-30	48	26	28	23
	31-40	41	22	36	29
	41-50	22	12	12	10
	>50	14	7	8	6
	Total	187	100	123	100
Grade	Students	72	38	49	40
	Assistant Lecturer	43	23	26	21
	Lecturer 11	27	14	28	23
	Lecturer 1	21	11	12	10
	Senior Lecturer	5	4	5	4
	Reader	7	4	-	-
	Professor	12	6	3	2
	Total	187	100	123	100

The grade classification of the respondents shows that there are more students respondents (38% for MTN and 40% for GLO) than any other group in the data. Lowest grade classification in terms of responses is Reader. This indicates that majority of the respondents that returned appropriately filled questionnaire are students and lower level staff. The data was further subjected to descriptive analysis. The result is shown in table 2. The mean scores of MTN range between 2.89 to 4.13 with the lowest standard deviation from 0.97 to 1.32. The mean scores of the other network GLO range from 2.47 TO 4.17 while the standard deviation scores of GLO network range from 0.86 to 1.34.

Tab. 3 - Descriptive Statistics. Source: Field Survey, 2010

	MTN			GLO		
	Mean	SD	Items	Mean	SD	Items
1.	3.29	1.35	4	4.17	0.96	3
2.	2.89	1.12	2	4.14	0.86	2
3.	3.69	1.07	3	3.91	1.34	3
4.	4.13	1.14	3	2.47	1.30	4
5.	4.09	0.97	4	3.80	1.01	3
6.	4.11	0.89	3	3.18	1.04	3

Note: 1. Price promotion 2. Free gift 3. Samples 4. Special events 5. Switching 6. Customer Loyalty

An analysis of kurtosis and skewness (though not shown in the table) indicate that the variables are close to normal distribution. The descriptive statistics show that the data exhibit relatively high values in most of the dimensions measured and the distribution of values are skewed except free gift for MTN and special event for GLO.

Tab. 4 - Correlation Values. Source: Field Survey, 2010

	MTN						GLO					
	1	2	3	4	5	6	1	2	3	4	5	6
1	1						1					
2	.419**	1					.086	1				
3	.385**	.377**	1				.350**	-.107	1			
4	.236**	.271**	.545**	1			.231**	-.0007	.561**	1		
5	.158*	.035	.319**	.402**	1		.581**	-.229**	.598**	.441**	1	
6	.360**	.211**	.429**	.501**	.454**	1	.491**	-.150*	.601**	.525**	.760**	1

*Correlation is significant at 0.05 level (2-tailed)

**Correlation is significant at 0.01 level (2-tailed)

Note: 1. Price promotion 2. Free gift 3. Samples 4. Special events 5. Switching 6. Customer loyalty

Pearson correlation analyses were used among the variables. Table 4 shows the correlation analyses among sales promotional tools (price promotion, free gift, samples, and special events), switching and loyalty for the sampled respondents. The results show that there is significant positive correlation between all sales promotional tools switching and loyalty: price promotion and switching ($r=0.158$, $p<0.01$), and loyalty ($r=0.360$, $p=0.01$). There is also significant positive correlation between sample and switching ($r=0.319$, $p<0.01$) and loyalty ($r=0.429$, $p<0.01$) for MTN. Similar pattern can also be observed in GLO correlation analysis. However, in respect of GLO correlation analysis free sample has negative correlation with both switching ($r= -0.229$, $p<0.01$) and loyalty ($r= -0.150$, $p<0.05$). The correlation results reject H2. By implication there is a positive relationship between sales promotion and customer loyalty.

Tab. 5 - Multiple Regression Results of Sales Promotion on Customer Retention. Source: Field Survey, 2010

		Customer Retention	
		MTN	GLO
Sales Promotion	Price Promotion	0.287**	0.176**
	Sample	0.363**	0.420**
R2		0.345	0.321**
Adj. R2		0.321	0.302**
F		55.109**	49.589**

Notes: ** denotes significance at the 0.01% level. Regression coefficients in the table are standardized.

Table 5 shows the results of the regression analysis. Results in Table 5 show that overall sales promotion has a significant positive effect on customer retention, thus rejecting H1. Therefore it can be inferred that sales promotion has positive impact on customer retention. Notably, sales promotion has a greater impact on customer loyalty. Sales promotion does not only attract customer it tends to ensure continued patronage. This suggests that timely and correct sales promotion provided by service organizations will increase customer retention.

In testing whether loyal customer are more prone to switching as a result of sales promotion as against non-loyal customers, independent t-test was used (table 6).

Tab. 6 - Independent t-Test between Loyal and Non-loyal Customers. Source: Field Survey, 2010

T-test	MTN		GLO	
	Loyal	Non-loyal	Loyal	Non-loyal
Mean	1.77	1.95	1.83	2.65
Variance	0.58	0.67	0.69	1.197
Observation	155	95	145	105
Pool Variance	0.63		0.943	
Hypothesised Mean Difference	0		0	
T Stat	5.456		6.21	
T Critical one-tail	1.213		1.213	

Critical evaluations of the mean score of loyal and non-loyal customers of the two networks show that non-loyal customers are prone to switching to other networks that offer sales promotion strategy than loyal customers. The results are similar in the two networks. Table 5 shows that the mean differences for two networks are significant. This helps us to find support for hypothesis 3.

5. DISCUSSION AND CONCLUSION

The main crux of the study is to investigate the relationships between sales promotion and customer retention for telecommunication mobile network users in Nigeria. The results show that sales promotion has positive relationship with customer retention. The finding of this study is consistent with the findings of other studies (Nagar, 2009; Das and Kumar, 2009). The use of telecommunication industry helps to verify the relative importance of sales promotion to customer loyalty. This is because of the high level of competition in the industry and the high level of promotional activities in the industry. The results show high level correlation among the tested variables. For example, price promotion is positively related to switching ($r = 0.158$, $p < 0.01$) and loyalty ($r = 0.360$, $p < 0.01$). The effect of sales promotion on customer loyalty is measured using multiple regression analysis. Price promotion for both sampled networks showed positive effect on customer loyalty e.g. for MTN $R^2 = 0.345$ and GLO $R^2 = 0.321$. This shows that customer loyalty can be won by sales promotion.

This research investigates the relationship and effect of sales promotion and customer loyalty. This was confirmed that there are positive relationships between sales promotion and customer loyalty. From the summary of the result it can be concluded that as sales promotion expenditure increases so does the customer loyalty. Hypotheses one to three were confirmed from the data of this study. The study is more relevant as most previous study dealt with the impact of sales promotion in retail outlet while this study studied the impact of sales promotion in telecommunication sector. The results of the study enable us to make a number of conclusions. Most respondents are reluctant to provide personal information as such their evaluation of sales promotion is negative.

Age and income are discovered to have separate impact on consumers' evaluation of sales promotion. Consumers of different age categories are influenced by sales promotions while different levels of income are equally affected. This is consistent with conclusions' from prior literature. A major reason for the heavy influence of sales promotion on loyalty can be explained with the dwindling consumer income of an average Nigerian. The Nigerian economy has been going through series of economic reforms including Structural Adjustment Programme. Part of the cumulative effect of these reforms is the devaluation of currency with it attendance effect on inflation and consumer purchasing power. The implication of this to Telecom companies is the development of sales promotion programmes to regularly attract and retain customers.

In practical terms consumers switch from one network to another or in most case make use of two or more SIM (telecom contract) so as to switch between networks during promotion and take advantage of reduced or discounted tariffs. However, the high tendency to switch or being loyal does not account for quality of service during promotion.

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