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Developing a model to identify the fade-away-impact of promotional activities over the financial performance

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The lack of understanding on the impact of marketing activities on financial performance had made the validity of and the effectiveness of marketing, a questionable one. When a particular promotional tool is used, the impact of that particular promotional activity is not restricted to the current period, but the effect permeates across future periods as well. The study identifies this impact as 'fade-away-impact' of promotional activities on the financial performance. Currently promotional activities are considered as costs which are deducted from revenues of the same month. This idea restricts the impact of promotional activities only to short term results and completely ignores the medium and long term impact of promotional activities on the revenue. The purpose of this study is to develop a model to identify whether there is a fade-away-effect of promotional activities over the financial performance and identify how the impact behaves over the time.

Promotional activities brings tangible and intangible benefits. Most of the marketing literature is focused on understanding the immediate/short term impact of promotional activities on the financial performance. This motivates the use of long-term or persistence models instead of event windows to study the impact of tangible and intangible effects. In order to reach the above mentioned objectives, the researchers use the *Lagging Effects* of regression model and *Markov Chain* related theories. Steady state vectors of the Markov process understand how the impact of promotional activities varies over time when a customer repeatedly purchase a given brand/ product or switch to a different brand. Data related to *Markovian* analysis have been collected from a questionnaire and tested. Apart from this, the lagging effect of linear regression models were used to assess which degree of lagging period of promotional cost is significant to the financial performance. The monthly promotions expenditures and the related revenue figures were collected from different firms to study the lagging effect.

The findings reveal that the impact of promotional activities have a *lagging-effect* on the firm's revenue/financial performance by proving the significant existence of 2nd and 3rd order lags in the simple linear regression model. Further, it proves through the Markov process that the impact of promotional activities will never go to zero, but it will become steady creating brand equity for the firm after a certain period and that period could be measured in which the researchers identifies as the period of *fade-away-impact.* The outcomes of the research enables the Marketing managers to make informed decisions on the selection of promotions mix tools and thereby to manage the promotional expenditures effectively without reducing their profitability.

Keywords: Fade-away impact, Lagging effect, Promotions, Revenue, Marketing