

Price and tobacco marketing strategy: lessons from 'dark' markets and implications for the WHO Framework Convention on Tobacco Control

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A marketing strategy involves specifying target markets and establishing a related marketing mix, which is commonly broken down into the 4Ps (ie, product, price, place and promotion).¹ It is important for those in tobacco control to recognise that marketing is much broader in scope than advertising or promotion.² Price entails marketers determining the monetary cost of products, including any applicable taxes, as well as consideration about the time and effort required by consumers to acquire the product. Firms typically determine their break-even point and evaluate whether they will be able to cover all of their costs and generate a profit with their product listed at a particular price. Managers may estimate the impact of alternative price levels on profits. Each of the 4Ps should be designed and directed toward well-defined target markets and developed synergistically to ensure a coherent and consistent brand meaning.

British American Tobacco regards Australia and Canada as the 'darkest' markets in the world due to their limited options for brand communications.³ In such 'dark' markets, tobacco companies have shifted much of their promotional dollars towards the retail sector and pricing has become an ever more important part of tobacco firms' marketing strategies.⁴ In Canada, for example, price had not traditionally been an important differentiating factor in marketing cigarettes, but this changed during the mid-2000s which coincided with federal and provincial legislation placing stringent stipulations on promotion. According to Rothmans, Benson & Hedges Inc. (RBH), 'the product mix has

continued to shift with many consumers leaving their traditional premium brands for contraband or cigarette price category products [those offering 'value' or relatively lower prices]. From a 33% share of the total tobacco market in fiscal 2005, price category cigarettes increased to almost 40% this past year [fiscal 2006].⁵ Competitor, British American Tobacco—the parent company of Imperial Tobacco Canada Limited (ITL)—estimates that 91% of the total Canadian domestic market consisted of 'premium' brands during 2003, whereas premium brands had a reported 39% market share by 2010.⁶ The premium category appeared to diminish further in 2011, as Derek Guile, director of sales and marketing for RBH, estimated that it represented 30% of the total category.⁷ Consequently, the popularity of various brands has shifted over the past decade and the market leader, ITL, has lost market share due to consumers down-trading to price category cigarettes, largely at the expense of competitor, RBH, as well as from contraband cigarettes (figure 1).

In this issue, Wakefield, Zacher, Scollo and Durkin offer important insight by exploring how cigarette brands are strategically listed on price boards—in Melbourne, Australia—subsequent to tobacco displays and promotions being banned at the point of sale (POS).⁸ They found that premium brands are more likely to be listed on price boards, despite an overall market share that is considerably lower than price category cigarettes. As the authors acknowledge, this observation likely reflects that premium brands offer a better profit margin for tobacco firms. In seeking to maximise profits, tobacco firms and retailers face the dilemma regarding to what extent they focus on premium brands that offer better profit margins or on price category brands that must be sold in higher volumes to meet desired profit objectives. In Canada, ITL's core strength is

the premium segment with their Player's and du Maurier brands, and thus the company has emphasised to retailers that this segment generates disproportionate revenue and such consumers are more likely to purchase additional goods simultaneously (ie, generate a larger basket). Although display payments to retailers are no longer likely with tobacco displays and promotions being banned at the POS, Canadian tobacco firms have established trade terms for their retailers that are performance-based. In speaking to retailer stakeholders, Ron Funk, vice president of corporate affairs for RBH, stated, 'You can expect our company to not be paying for retail display space. But that is not meant to imply that we are taking trade spending off the table, not at all. In fact, we will migrate that trade spend into pay-for-performance kind of programs. So we will be focused on specific brands, on information that you can provide to your consumers, those kinds of things... don't think that money is being removed from the category; it is not.'⁹

Wakefield and colleagues also identify premium, mainstream and budget/value as price classifications of cigarettes, which exemplifies a strategic marketing approach known as 'price lining.' *Price lining* involves establishing a limited number of price points for products, which serves to simplify the consumer's evaluation of alternative products. Like Australia, retailers selling cigarettes in Canada have commonly listed prices using up to three price points, with the various price points being dubbed, premium, value and 'budget' (figures 2 and 3). Collectively, the value and budget brands are commonly referred to as price category cigarettes.

Psychological pricing techniques may be used by marketers, including the use of 'prestige' or 'odd-even' pricing. For *prestige pricing*, retail prices are purposely established high relative to competing brands, with the higher price and premium moniker meant to convey superior product quality (ie, the aphorism, 'you get what you pay for') and market leadership, suggesting status redemption for its user. In contrast, *odd-even pricing* may be used to convey value and affordability by setting prices just below even dollar values (eg, charging \$9.99 for a product rather than \$10.00) (figure 4).^{10 11} Research indicates that prices with 99 endings, rather than 00 endings, can considerably increase sales.^{12 13}

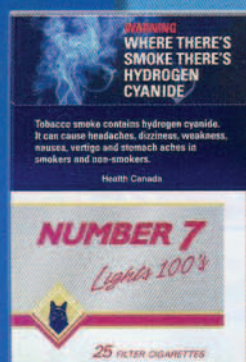
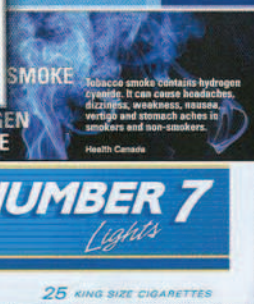
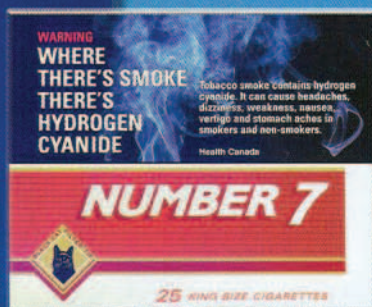
Another pricing technique is *leader pricing*, which occurs when a firm or retailer sets a promotional price, selling select products below their usual listed

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RBH

Rothmans, Benson & Hedges Inc.

The Price Category Leader in Canada



**PREMIUM QUALITY
COMPETITIVE PRICE**

Available in King Size & Regular Length 25's - 20's in Selected Markets

Any product information contained herein is intended to ensure that you, the tobacco product distributor or retailer, provide proper and current information to your customers. It is not intended as advertising of tobacco products and should not be displayed by you to consumers.

12 YCM

May/June 2005

STATE OF THE INDUSTRY REPORT

Figure 1 Canadian Classics and Number 7 are price category cigarette brands offered by Rothmans, Benson & Hedges Inc.—Canada's second largest tobacco firm—and the company self-identifies as being the industry leader in Canada for price category offerings. The advertisement circulated in the May/June 2005 issue of the retailer trade press magazine, *Your Convenience Manager*. According to December 2010 tracking data, Canadian Classics and Number 7 are among the top 10 selling brands overall in Canada.

LUXURY AND PRESTIGE DEFINED

INTRODUCING XS




URBAN CHIC DISTINCT STYLE ULTRA MODERN

XS offers discerning Adult Smokers a true luxury cigarette

Product information contained herein is intended for your information only.
It is not intended for use as advertising of tobacco products to consumers.

For more information contact your JTI-MacDonald representative
or our customer service at 1-800-361-5814

Figure 2 JTI-Macdonald, Canada's third largest tobacco firm, introduce their XS brand, which they claim is 'luxury and prestige defined.' The advertisement circulated in the January/February, March/April and May/June 2008 issues of the retailer trade press magazine, *Your Convenience Manager*.



DORAL

Larry Redmond
Doral Smoker
St. Charles, MO

Honest Value

Doral combines the taste, quality and extras
of higher-priced brands with a price that's always fair.
We think that's the kind of honest value you deserve.

Discover The Doral Difference.

SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, And May Complicate Pregnancy.

To discover all that Doral has to offer,
call us at 1-800-743-6725.

OFFER RESTRICTED TO SMOKING 21 YEARS OF AGE OR OLDER.

DORAL FULL FLAVOR

Figure 3 In the USA, Doral exemplifies a 'value' brand that is positioned to appeal to consumers who are looking for discount prices or attaining a 'bang for their buck.' The advertisement circulated in 1998 and includes the following ad copy: 'Doral combines the taste, quality, and extras of higher-priced brands with a price that's always fair. We think that's the kind of honest value you deserve. Discover The Doral Difference.'



Figure 4 A package of 20 cigarettes being offered for \$4.99 exemplifies the strategic use of odd-even pricing.

price, as a means of gaining attention or drawing consumers to the retail setting. Discount prices (eg, a 'good deal' being offered such as buy two packs, get one free) are likely to prompt impulse purchases and consequently encourage smokers to consume more than they might otherwise. According to youth survey data from the USA, POS tobacco advertising is positively associated with smoking initiation, while promotional offers (eg, multi pack discounts, special prices, gift with purchase) are particularly influential towards more established smokers.¹⁴

Article 13 of WHO Framework Convention on Tobacco Control (FCTC) calls for a comprehensive ban on tobacco advertising and promotion; guidelines for the implementation of Article 13 identify that discounts, free gifts, redeemable coupons and other retail merchandising activities, including incentive schemes, are forms of tobacco advertising and promotion covered by the stipulations of WHO FCTC. The guidelines only allow for the

'textual listing of products and their prices, without any promotional elements,' yet the guidelines elsewhere identify that promotional effects may be evident from the mere use of brand names, which has implications for how the listing of 'products' is interpreted for price board listings.¹⁵ In the elaboration of guidelines for implementation of Article 6 of WHO FCTC, it is strongly advised that the stipulations go beyond tax measures and also recognise the pricing strategies that may be used by tobacco firms in their marketing initiatives. Much of the tobacco control literature concerning price has focused on taxation as an intervention, and while this body of literature has been very important, more research is needed regarding tobacco pricing from a marketing and consumer perspective, which further builds upon the valuable contribution by Wakefield and colleagues.

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