

Surveillance of Tobacco Industry Marketing Strategies at Retail Outlets

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INTRODUCTION

As of 23rd September 2004, the Malaysian government amended the Control of Tobacco Products Regulation to ban all forms of tobacco product advertisements including brand name, logo and any pictorial device related to tobacco product trademark. The law also prohibits the sale of tobacco product with any object or thing as a gift or the sale of any object or thing with tobacco product as a gift. In addition the regulation requires the display of signage on prohibition of sale to minor to be displayed at counters where tobacco products are offered for sale.

Until Malaysia completely prohibits all point-of-sale (POS) promotions including visible displays of tobacco products as practised in places such as Ontario, Canada and Thailand, it is expected that the tobacco industry will exploit the retail environment as the primary site for the promotion and marketing of tobacco products. As mentioned by several researchers (Cohen, J.E. 2008, Harper, 2006), the tobacco industry spends more money on POS promotions than on all other forms of cigarette marketing combined. A study by E. C. Feighery, et al (2003) showed that 81.2% of marketing expenditure was spent in retail outlets, of which 44.5% was on advertising and promotional allowances and 36.7% on retail value added items such as gifts and discounts.

Retail advertising and promotion is a powerful medium in influencing buying decisions. This is confirmed by data from the Point-of-Purchase Advertising Institute (1995) which indicate that 70 percent of all product selections are made at the retail settings. The power of tobacco displays among adolescents has also been highlighted in a study in the United States which associate weekly visits to convenience stores with the likelihood to try smoking (Henriksen, et al; 2004). A statewide survey in California by E. C. Feighery, et al (2005) showed that half of all stores surveyed had ads that were or below 3 feet and about a quarter had cigarette displays next to candy. As emphasized by Feighery, “because three out of four teenagers shop at convenience stores at least once a week, many teens are routinely exposed to retail outlet advertising messages” (2005:184).

This research will monitor how the Malaysian tobacco industry promotes tobacco products at retail outlets under the amended laws that prohibit direct and indirect advertising. This study will document the various consumer-based sales strategies as well as retailer-based incentive strategies used by the tobacco industry to maximize sales of tobacco products. A study on POS in Malaysia before the 2004 amendments, it was found that 60.9% of convenience stores carried tobacco with gifts and the sale of single sticks was widely available in rural coffee shops and grocery stores (Khor et al. 2005). As the study was carried out before the implementation of FCTC, it is timely to conduct a similar study to monitor the situation after FCTC.

RESEARCH OBJECTIVES

In order to strengthen the current tobacco control laws, it is important to provide up-to-date country specific evidence on the advertising and promotional strategies used by the tobacco companies to increase visibility and sales at retail outlets including the nature of retailer incentive and its impact on the use of product placement, signage and value added items at point of purchase.

- To monitor the types of tobacco product display and promotional items at selected retail outlets;
- To find out the types of tobacco company incentives given to retailers to increase visibility and sales of their products.

METHODOLOGY

Study design

The study comprised two types of methodology. The first method is interviews with retailers on the POS consumer and retailer strategies implemented by tobacco industry. The second is observations of advertising, promotions and signage at the selected sites. Three observations were carried out over the months of October to December 2007.

Sample

The retail outlets for the survey were the main places for the purchase of tobacco products, namely, coffee shops, newsstands, grocery stores, petrol station kiosks, restaurants, convenience stores and discotheques/night clubs. In the rural areas, only the first four types of outlets were selected as the others were not available.

For the urban sites, the study was conducted in the town centres, namely, Georgetown, Air Itam, Tanjong Tokong, Tanjong Bunga, Pulau Tikus, Farlim, Bayan Baru, Bayan Lepas, within the state of Penang. As the island of Penang is largely an urban area, we selected the rural retail outlets from the neighbouring rice-growing state of Kedah. The selection of rural sites is based on the criteria that it is at least 15 kilometers away from a town centre. A convenience sample of five outlets per store type were interviewed and monitored. Altogether, 57 interviews and 176 observations were carried out.

Procedure and measures

Interviews were conducted with owners/managers/assistant managers of selected retail outlets in the state of Penang. The main aim of the interview was to find out the types of tobacco company incentive schemes, in-store promotions and total sale of cigarettes per week. Out of the 60 retail outlets selected, four were denied access for interview. All the four were discotheques.

Second procedure is the monitoring of the types of tobacco display and promotion at retail outlets such as product placement, promotions, freebies, single stick sale and others as well as visibility of product to children. This was done using a standard monitoring survey form.

FINDINGS

I. Tobacco Product Promotion and Display

1.1 Warning Signs

Based on the Control of Tobacco Products Regulation, all retail outlets are required to prominently display the warning signs at the counter where tobacco is sold. However, as can be seen in Table 1, most urban and rural outlets did not carry the required signs. In fact, there were more rural stores (54.5%) that carried the 'Prohibition of sale to minor' sign as compared to urban stores (34.3%), although the difference is not significant.

Table 1: Presence of warning signs

Types of Signs	Urban outlets n=37	Rural outlets n=20	P value
No smoking sign	25.7 %	27.3 %	0.897
Prohibit sale to minor	34.3 %	54.5 %	0.132
Prohibit sale of single sticks	31.4 %	22.7 %	0.477

Monitoring over the three months showed that there was no significant change in the number of outlets with warning signs over the three months surveyed.

Table 2: Monitoring of warning signs

Types of Signs	Round 1 n=57	Round 2 N=61	Round 3 N=61	P value
No smoking sign	26.3 %	24.6 %	32.8%	0.569
Prohibit sale to minor	42.1% %	42.6% %	44.3%	0.970
Prohibit sale of single sticks	28.1% %	43.4 %	34.4%	0.699

1.2 Advertising and Promotions

Before the 2004 tobacco regulation amendment, tobacco manufacturers provided retailers with many functional objects that carried the brand trademark such clocks, menu boards, ashtrays, cabinets, shelves and cash counters. While many of these functional objects

have markedly reduced, the tobacco companies have used other ways to promote their products. As can be seen in Table 2, display shelves in both urban (57%) and rural outlets (45.5%) still carry words and colours that can be associated with a brand.

Table 2: Advertising and promotional displays

Types of advertising	Urban outlets n=37	Rural outlets n=20	P value
Ashtrays, etc.	5.7 %	9.1 %	0.627
Shelves with brand words and colours	57.1 %	45.5 %	0.390
Counters with brand words and colours	14.3 %	0.0 %	0.100
Gimmicks	11.8 %	13.6 %	0.836

Most of these indirect advertising at shelves and counters are carried out by BAT which produced many new package designs, new flavours, and various gimmicks to publicise these new offerings (Table 3). In fact there was a slight increase of BAT advertising during the third round of monitoring in December.

Table 3: Types of promotions

Brand	Round 1 n=57	Round 2 n=61	Round 3 n=61
BAT	78.6%	71%	89.3%
Marlboro	7.1%	22.6%	7.1%
Others	14.3%	6.4%	3.6%

P=0.405

1.2. 1 Promotional strategy - Gimmicks. Gimmicks are used to draw attention to the brand. One is the use of luminous colours to highlight parts of a shelf where the brand is displayed. An example of a brand that used this gimmick was Pall Mall. Another is to the display mock-ups of cigarette boxes. An example is the display of three Winston cigarette packs pasted on a large decorative piece of cardboard. The display was placed on the cash counter to catch the attention of all consumers. Another gimmick is the use of calendar

which can be associated with Dunhill because of its brand colour and slogan '100 years celebration'.



Use of highlights on shelf to draw attention to the special edition of Pall Mall in a convenience store.



Calendar with Dunhill colour in rural grocery stores.



Standing display of mock-up Marlboro 'Ultra lights' pack, in a rural petrol kiosks.



Standing display of mock-up Winston cigarette box in a rural grocery store

1.2.2. Promotional strategy -Limited time offer or special edition cigarettes.

The study found several new editions of cigarettes. Some were produced in line with a cultural or religious festival such as the Muslim Eid by Dunhill and Sampoerna or in conjunction with a popular event such as the GT motorcycle race which was held in mid-October 2007. The tobacco companies also create the opportunity to advertise their new product offerings by producing limited time offer 23-stick pack (Pall Mall), 17-stick pack and new flavours (Marlboro's 'Ultra light').



Marlboro pack produced when the GT race was held in Malaysia found displayed in convenience stores



A table-top display of 23-stick pack of Pall Mall with 'gift' package in rural petrol station kiosks.

The BAT made use of its 100-year anniversary of Dunhill, to produce several special editions of Dunhill in very attractive designs. In addition, many shelves in both urban and rural stores carried the anniversary slogans ‘Celebrating 100 years’ and ‘1907-2007’, which is implicitly advertising the message that Dunhill is heritage and a classic product. Needless to say, the use of these slogans is the industry’s way of circumventing the advertising ban regulation as the brand name and trademark are not mentioned. However by placing the slogan next to the cigarette packs, the audience can associate the message with the brand.



Special edition of Dunhill sold in a rural petrol kiosk

1.2.3. Promotional strategy - ‘Gift’ with purchase.

Another common strategy to circumvent the advertising and promotion ban is to entice customers to buy the cigarette with a ‘gift’ such as lighter and toolkit. The ‘gift’ costs a token sum of RM0.20cents.



Attractively packaged ‘gift’ of toolkit with every purchase of 20-stick pack of Pall Mall, in a rural grocery store



Mild Seven's 'gift' with purchase sold at urban petrol station kiosk



Pall Mall advertisement occupy about half shelf space in a Dunhill –sponsored cabinet



Table top display advertising Pall Mall , with the slogan 'MAXIMUM TASTE' in a rural grocery store.

1.2.4. Promotional strategy – focus on rural outlets

Based on Table 4, it can be seen that the cigarette manufacturers have targeted the rural areas as the site for their promotional strategies. There are significantly more promotions of the ‘gift’ with purchase as well as special edition cigarettes being sold in the rural retail stores. The tobacco manufacturers circumvent Malaysia’s prohibition of free gift with cigarette by charging a token sum for the item such as cigarette lighter, toolkit, ashtray, packaged with the cigarette packs. The brands that promoted the gift with purchase were Pall Mall, Mild Seven, Sampoerna and Winston. Many of the fancy displays advertising these products found in the rural outlets and not in the urban stores.

Table 4: Promotional strategies

Promotional strategies	Urban outlets n=37	Rural outlets n=20	P value
Gifts with purchase	8.6 %	36.4 %	0.010*
Special edition/limited time offer	11.8 %	27.3 %	0.139

1.3 Sale of Loose Cigarettes

A violation of the tobacco regulation is the sale of loose cigarettes. This is more widely done by the rural outlets (Table 5) where consumers find it more affordable to purchase a few sticks at a time, even though the price per stick is more expensive. Similar to a self service, customers dip into an opened cigarette pack (usually Dunhill and/or Gudang Garam) which are either placed at the cash counter or tied to a string and hung above the cash counter. Even though it is illegal, stores sell loose cigarettes openly. In the rural areas, the price per stick is about US\$0.20 per stick, hence a retailer makes a profit of US\$1.45 for every 20-stick pack. In the urban areas, single sticks are also sold under-the-counter at a price of US\$0.30cents per stick, for which a retailer can make a profit of US\$3.57 per 20-stick pack.

Table 5: Sale of single sticks

Sale of single sticks	Urban outlets n=37	Rural outlets n=20	P value
Yes	8.6%	45.5%	0.001*



Easy accessibility of cigarettes from cigarette packs hung above snack food, within easy reach of children, in rural stores

1.4 Product Display

There is no difference in the location where cigarettes are displayed between the urban and rural stores. Almost all the stores displayed cigarettes on shelves behind the cash counters or in a cabinet placed on the cash counter (Table 6). Store managers claimed that this is to prevent thefts. The display of cigarettes is usually done by the cigarette distributor hired by the manufacturer that sponsors the shelves. The cigarette distributors ensure that competitor brands are only allowed to be arranged at the bottom shelf, and the cigarette packs are stacked one on top of another.

In all urban and rural outlets cigarette products are displayed within three feet of food items especially snack food, chocolates and chewing gums. Placing cigarettes together with food items may send a wrong message to children that it is a socially acceptable product, contradicting the warning that smoking is dangerous to health.

Table 6: Location of product display

Location in store	Urban outlets n=37	Rural outlets n=20	P value
Behind cash counter	68.6 %	25.7 %	0.457
On cash counter	54.5 %	31.8 %	0.457

In terms of cigarette display, the brands that occupy privilege positions such as top eye-level shelves tend to be from the BAT company especially Dunhill and Pall Mall (Table 7 and 8). Most of these shelves are sponsored by BAT.

Table 7: Display of brands at top shelf

Cigarette brand	Round 1 n=57	Round 2 n=61	Round 3 n=61
BAT (Dunhill, Pall Mall, Kent, Perillys)	75.4%	70.5%	68.9%
PM (Marlboro, L&M)	10.5%	16.4 %	16.4 %
JTI (Salem, Mild Seven, Winston)	8.8%	8.2%	6.6%
Others	5.3%	4.9%	8.1%

P=0.945

Table 8: Display of brands on second shelf

Cigarette brand	Round 1 n=57	Round 2 n=61	Round 3 n=61
BAT (Dunhill, Pall Mall, Kent, Perillys)	64.3%	63.9%	69.1%
PM (Marlboro, L&M)	8.9%	14.8 %	12.7 %
JTI (Salem, Mild Seven, Winston)	17.9%	13.1%	10.9 %
Others	8.9%	8.2%	7.3%

P= 0.977



BAT brands occupy top shelves whilst non-BAT brands are placed at bottom rows, stacked one on top of another. Notice the panel advertising Dunhill's anniversary.



A Philip Morris International sponsored space. PMI brands are arranged attractively on the top shelves. BAT products occupy bottom shelves.

2. Retailer-based Strategy

With an increasingly restrictive marketing environment, the retail environment has become a prime target for building cigarette brands. Retailers have become very important stakeholders for the tobacco manufacturers and various incentives are provided to them in the clamor for prime shelf space.

2.1 Retailer Incentives to Increase Sales of Tobacco Products

2.1.1 Rebate - All retailers earn 9%-10% profit for the sale of cigarettes. The most common mode of payment is for retailers to pay the cost of 9 boxes of cigarettes for each 10-box carton purchased. This is a lucrative rate especially for retailers with high sales volume.

2.1.2 Reward points - Retailers are given incentive to increase their sales through a reward points system. To participate in this scheme, the total sales volume is converted into reward points which are used to exchange for gifts. The distributors of both BAT and PM products participate in this reward scheme which seems to be more popular among the rural outlets (Table 9).



Catalogue of gifts that can be exchanged according to sales volume. The catalogue is for a PM distributor, obtained from a rural store owner.

Table 9: Retailer-based incentive to increase sales

Retailer strategies	Urban outlets n=37	Rural outlets n=20	P value
Gift exchange	9.1 %	36.4 %	0.013

2.1.3 Direct sales promotion - This method is a violation of the law that prevents face-to-face direct selling of cigarettes. Sales promoters, who are usually female, would promote and sell the cigarettes at eating places, restaurants and night clubs. They usually travel in a group, stopping at each outlet for only a short period of time. This makes them difficult to track. Cigarettes sold in this manner are usually cheaper by about US\$0.33 cents (equivalent RM1.00 ringgit) for a two-box pack inclusive of a gift such as lighter or gambling cards. The driver and sales promoters are paid fixed sum plus other volume incentives by the tobacco company that hires them.

2.2. Retailer Incentive to Increase Visibility of Tobacco Brands

2.2.1 Slotting fee. Through interviews it is found that many retail outlets have contracts with tobacco companies whereby fees are paid to ensure prime placement of their products. By this method, tobacco companies ensure that they deny their competitors the use of the most strategic display positions in the retail outlets. The fee includes prominent placement of signs and other promotional items. The amount of fee is negotiated between the two parties and either at the corporate level, which is often the case for convenience store chain and petrol station kiosks, or with individual outlets. Depending on the popularity of the outlet, the amount can range from US\$30,000 per annum to US\$300,000 per annum. For the chain stores, depending on the number of outlets, amount can be as high as US\$24 million per year.

2.2.2 Slotting fee with exclusivity clause. This type of contract involves more than display and promotional support. The contract provides for exclusivity clause by which the outlet agrees to sell only the company's brands. Such contracts negotiated with discotheques and nightclubs, also allow these premises to sell the cigarettes at mark-up prices.



A counter display advertising of Marlboro cigarettes at a discotheque.

2.3 Sales of cigarettes

Table 10: Average number of cigarette packs sold per week by store type

Types of outlet	Urban		Rural	
	20-stick pack	14-stick pack	20-stick pack	14 stick pack
Convenience store	400	382		
Restaurant	144	281		
Newsstand	222	265		
Grocery store	260	418	721	701
Street vendor	283	353	469	613
Petrol station kiosks	287	169	493	815
Coffee shops	185	364	256	294

As can be see from the Table 10, the ‘kiddie’ pack of 14 sticks sells better than the 20-stick pack. It is no wonder that the tobacco industry is adamant to sell 14-stick pack and managed to convince the government to postpone its ban to the year 2010. The above table also showed that sales are higher in the rural outlets than the urban areas. This is not surprising given that the prevalence of smoking is higher in the rural areas. Some grocery

stores and petrol station kiosks in the rural areas command very high sales volume as they serve as informal distribution points for the small coffee shops and vendors which do not have the capital outlay to purchase the product in large amount. According to these owners, the tobacco distributors have to replenish their stocks two or three times a week.

Discussion

In the past, POS used to play a supportive role to above-the-line advertising and promotion. With the prohibition of direct and indirect advertising and promotion, retail outlets have emerged as the focus of tobacco industry marketing activities. It is the site where large amount of money is being spent to woo the retailers for a slice of their 'real estate'.

Various strategies have been used by tobacco companies to obtain visual dominance at the POS. Given the ban on advertising brand name and trademark, the industry uses the cigarette pack as the main medium of display and attention. Hence the use of special editions cigarette using any pretext to do so such as brand anniversary, cultural festivals, special events. Otherwise the tobacco companies create a reason for special editions such as the 23-stick pack and 17-stick pack. Another technique is the use of the cigarette pack as display. The cigarette pack is incorporated into a table top or stand alone display to attract attention. A third technique is to introduce 'gift' packs. The whole idea is to create a dense environment to visually 'submerge' competitor image as well as to give the impression that the brand is predominant and prevalent.

The study found that many of the innovative promotional gimmicks and strategies are mainly found the rural retail stores. There seems to be a concerted effort by the tobacco industry to entice buyers by 'gift' with purchase and special edition packs. These products are also prominently displayed in ways that are not found in the urban stores.

Two types of violation of the law are the sale of loose cigarettes and the use of sales promoters to solicit sales. The sale of loose cigarettes is openly carried out in rural stores

and the most popular brands are Dunhill and Gudang Garam. More enforcement is needed to stop both of these violations.

Recommendations

1. There is a need to regulate the retail outlets which is now the primary site of sales and promotion for the tobacco industry. Anything short of complete ban of tobacco promotion will enable the tobacco companies to shift their promotional activities from one place to another.
2. The current strategy to use the brand for promotion is evidence that there is need to implement warning labels on the pack.
3. The current strategy to use the display shelves as cigarette 'power wall' and site for tobacco promotion, is evidence that there should be a ban on the display of all tobacco products.
4. Prohibit the sale of product being sold together with cigarette as this is being used to entice the poor and rural buyers.
5. Increase enforcement to stop the sale of loose cigarettes.
6. Increase enforcement to stop the use of sales promoters to solicit sale of cigarettes.
7. To implement rules to ensure that retail outlets have proper account procedure for slotting fees.