

Tobacco Industry Advertising and Promotion in Retail Outlets

Retail sale outlets have long been an important component of tobacco company marketing strategies. Tobacco retailers serve as the tobacco companies' major communication channel to reach present and future customers. The store environment exerts a unique influence to promote tobacco use as a desirable social norm because tobacco is both advertised and sold. Since the Master Settlement Agreement (MSA) of 1998, the retail environment has taken on greater importance to the tobacco companies. The MSA imposed restrictions on tobacco advertising in traditional venues such as magazines and billboards. The retail outlet, however, was left largely unchanged by the MSA. Only two provisions directly affected advertising in retail outlets: a limit on the size of exterior storefront signs (either outside the store or inside the store window facing outwards) to no more than 14 square feet (1.3 square meters) and a ban on the use of cartoon in all advertising. Since the adoption of the MSA, significant increases in the amount of tobacco advertisements and sales promotion activities have been observed at retail outlets.¹

Tobacco Companies Marketing Expenditures

The retail tobacco advertising and promotion environment is complex involving price, promotion, advertising, and placement. Nationally, the percentage of stores with tobacco promotions (e.g., buy two packs of cigarettes for the price of one or receive a free gift with purchase) increased significantly following implementation of the Master Settlement Agreement (MSA).

According to the recently released Federal Trade Commission Cigarette Report on tobacco industry marketing expenditures, tobacco companies spent \$12.47 billion in marketing in 2002. This is a 30.0 percent increase over expenditures in 2000. The largest category of spending was "promotional allowances." "Promotional allowance" is broken down to four sub-categories including:

- 1) Price discounts (paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers such as off-invoice discounts, buy downs, and voluntary price reductions).
- 2) Promotional allowances paid to retailers (payments to cigarette retailers in order to facilitate the sale or placement of cigarettes such as payments for stocking, shelving, displaying and merchandising brands, volume rebates, and incentive payments).
- 3) Promotional allowances paid to wholesalers (payments for volume rebates, incentive payments, value added service and promotional execution).
- 4) Other promotional allowances paid to anyone else (other than retailers and wholesalers and full-time company employees involved in the cigarette distribution and sales process, in order to facilitate the sale or placement of cigarettes).

When these four promotional allowance categories are combined, they total \$9.66 billion and account for 77.5 percent of all spending in 2002. Spending on point of purchase materials (ads posted at the retail location, but excluding outdoor ads on retail property) was \$60.9 million in 2002. Point of purchase advertising accounted for 2.1 percent of total advertising and promotion in 2002. Taken together, the cigarette manufacturers

¹ Wakefield Melanie et al. Changes at the point-of-sale for tobacco following the 1999 tobacco billboard ban. ImpacTeen Research Paper Series, No.4. University of Illinois at Chicago. July 2000;4:1-17.

spent almost 80 percent of their marketing dollars in stores, where the industry is relatively free from regulation. These expenditures are intended to increase demand and to ensure an ever-present supply of product for the addicted customer and entice new customers. To see the Federal Trade Commission Cigarette Report in its entirety, go to <http://www.ftc.gov/reports/cigarette/041022cigaretterpt.pdf>

Tobacco Company Incentive Programs

Tobacco companies ensure prime placement of their advertising and products in stores through incentive programs. Studies show that two-thirds of all tobacco retail outlets participate in some type of incentive program with tobacco companies.² Tobacco companies incentive programs are exchanges that occur between the companies and the retailers. In many cases the exchange occurs between the tobacco company and the corporate headquarters of the outlet and the specific retailer in your community has no input into the level of promotional activity, or placement of advertisements.

Incentive programs involve an array of advertising and promotion strategies including: buy downs and volume discounts. In exchange for volume discounts and buy downs, retailers are expected to follow tobacco company requirements to place products and advertising in specific locations and to advertise special prices prominently. Retailers are instructed to place signs in prime places like product shelving, registers or counter space. Often the tobacco companies provide diagrams indicating where signs should be placed. Retailers report that tobacco companies compete with each other to obtain prime placement of their products in stores to achieve high consumer visibility.³

Cigarette company incentive programs are achieving their intended purpose. Stores that participate in these programs contain more ads and promotional programs and are more likely to feature company products in prime locations. Studies show that tobacco advertisements and displays in stores boost average tobacco sales by 12⁴ to 28 percent.⁵ Retailers report buy downs bring in more customers and stimulate sales of tobacco and other products.⁶ Tobacco sales make up 20 to 60 percent of total sales for independently owned and franchised stores⁷.

Research conducted with retailers provides some insight into these incentive programs. Retailers are very familiar with incentive programs and recognize their impact on the store environment and on store sales. The financial inducements provided by tobacco companies help to increase store profits related to the sale of cigarettes. If retailers become more financially dependent on incentive programs, they may become more politically aligned with the interests of tobacco companies.

² Feighery E, Ribisl, K, Schleicher, N, Clark P. Retailer participation in cigarette company incentive programs is related to increased level of cigarette advertising and cheaper cigarettes prices in stores. Available online at <http://www.sciencedirect.com/>

³ Feighery E et al. How tobacco companies ensure prime placement of their advertising and products in stores: interviews with retailers about tobacco companies incentive programs. *Tobacco Control* 2003; 12: 184-188.

⁴ Feighery, Ellen et al., The 1999 annual report of the promotion industry, a PROMO magazine special report. Overland Park, 1999; and *Tobacco Control* 2001.

⁵ Point of Purchasing Advertising Institute. The Point –of-Purchase Advertising Industry Fact Book. Englewood, New Jersey: The Point of Purchase Advertising Institute, 1992

⁶ Henriksen L., Flora J, Feighery E, Fortmann S. Effects on youth of exposure to retail tobacco advertising. *Journal of Applied Social Psychology*, 2002;32 (9): 1771-89.

⁷ Feighery E, Ribisi K, Achabal D and Tyebjee T. Retail Trade Incentives: How Tobacco Industry Practices Compare with those of Other Industries. *American Journal of Public Health*. 89(10): 1564- 1566.

Chapter 2: Point of Purchase: Introduction

In addition to the volume of tobacco advertisements confronting customers when they enter a tobacco retail outlet, store clerks also promote sales, discounts and special offers, such as “two for one” to anyone buying cigarettes. Nationally, the percentage of stores with tobacco promotions and price discounts or purchase incentives increased significantly following implementation of the Master Settlement Agreement (MSA). To learn more about tobacco company incentive programs, visit www.elsevier.com/locate/ypmed and read “Retail participation in cigarette company incentive programs is related to increased levels of cigarette advertising and cheaper cigarette prices in stores.” Also read “How tobacco companies ensure prime placement of their advertising and products in stores: interviews with retailers about tobacco company incentive programs” at www.tobaccocontrol.com (2003; 12:184-188).

The Prevalence of Point of Purchase Advertising and Promotion

The prevalence of tobacco point of purchase advertising has increased since the MSA. Studies conducted in San Diego and Boston found that there is a disproportionately high prevalence of tobacco advertising in Latino and African American neighborhoods. These studies looked at both socio-economic status of the neighborhood and the type of retail outlet.⁸ Another study found that compared to other stores in the same community, stores where adolescents shopped frequently contained almost three times more marketing material for Marlboro, Camel and Newport, and significantly more shelf space was devoted to these brands.⁹ Studies conducted in both California and New Jersey show comparable results noting that the average retail outlet has approximately 17 tobacco ads, 25 percent of the ads are within three feet of candy, and 50 percent were placed at a height of three feet or lower¹⁰. Stores in rural areas tend to have the lowest price and the highest level of promotions and advertising. States with comprehensive tobacco control programs or with high cigarette excise and other tobacco taxes have higher levels of tobacco point of purchase advertising and promotional activities. A survey of tobacco retail outlets in New York will yield state and area-specific information on the tobacco retail environment here.

The Impact

Tobacco company in-store advertising serves many traditional advertising functions including promoting a particular brand, conveying a positive image of a product, and increasing purchases of a particular product. Cigarette advertising also increases smokers' daily consumption by cueing smokers to light up, reduces current smokers resolve to quit or consider quitting, and encourages former smokers to resume smoking by reminding them of their favorite brand every time they visit a store.¹¹ The advertising message is conveniently delivered in the same place where customers can easily purchase the product. In-store advertising prompts impulse buying. In order to increase sales, tobacco companies provide incentives to retailers to place their products in locations that maximize sales.

⁸ Laws MB, Whitman J, Bowser DM, Krech L. Tobacco availability and point of sale marketing in demographically contrasting districts of Massachusetts. *Tobacco Control* 2002; 11 (Suppl II):ii71-ii73.

⁹ Henriksen L, Feighery E, Schleicher N, Haladjian H, Fortmann S. Reaching youth at the point of sale: cigarette marketing is more prevalent in stores where adolescents shop frequently. *Tobacco Control* 2004;13:315-318.

¹⁰ Ruel E et al. After the Master Settlement Agreement: trends in American tobacco retail environment from 1999 to 2002. *Health Promotion Practice*. Supplement to July 2004 Vol. 5, No.3, 99S-110s.

¹¹ Warner KE. Selling smoke: cigarette advertising and public health. Washington, DC: American Public Health Association, 1986.

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In-store advertising of tobacco products also entices children and young people to begin smoking¹² and conveys the impression that cigarettes are readily available and that smoking is normal, even desirable. Three of four teenagers shop at convenient stores at least once a week¹³ and are routinely exposed to retail tobacco advertising. Whether or not children are exposed to more in-store tobacco advertising than adults, they are more likely than adults to notice and to remember the tobacco advertising,¹⁴ further reinforcing the normative impact of tobacco advertising on youth. Finally, youth are more likely to attempt to purchase cigarettes from stores that display tobacco advertising.¹⁵

Actions to Address the Problem

Funded community partners will implement actions in order to address the problem of tobacco advertising in the retail environment and continue our work to denormalize and deglamorize tobacco use and counter tobacco company marketing and promotion of tobacco products. An overview of these actions and detailed instructions can be found in the two subsequent sections of this chapter.

¹² Schooler, C et al. Seventh graders' self-reported exposure to cigarette marketing and its relationship to their smoking behavior. *American Journal of Public Health* 1996;86: 121-21.

¹³ Point of Purchasing Advertising Institute. The point of purchase advertising industry fact book. Englewood, New Jersey: The Point of Purchase Advertising Institute, 1992

¹⁴ Wakefield M, et al. Changes at the point of sale for tobacco following the 1999 tobacco billboard ban. *ImpacTeen Research Paper Series*. University of Illinois at Chicago. July 2000; 4:1-17.

¹⁵ Voorhees C, Yanek L, Stillman F, Becker D. Reducing cigarette sales to minors in an urban setting: issues and opportunities for merchant intervention. *American Journal of Preventive Medicine*. 1998; 4:138 – 142.

