

**Bijay Dhungana**

# **MARKETING IN REGULATED INDUSTRY**

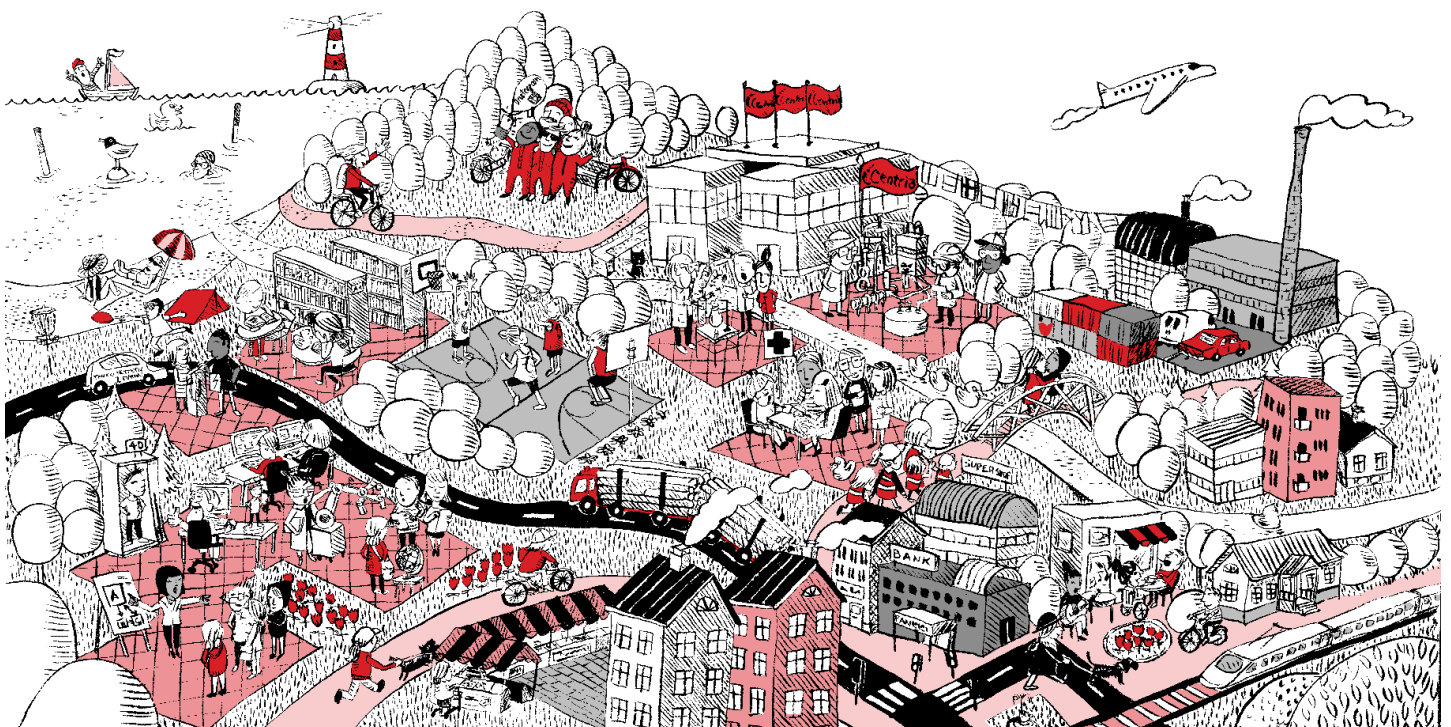
**Study of Tobacco Industry**

**Thesis**

**CENTRIA UNIVERSITY OF APPLIED SCIENCES**

**Business Management**

**October 2020**



**ABSTRACT**

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<b>Degree Programme</b> Business Management		
<b>Name of Thesis</b> MARKETING IN REGULATED INDUSTRY. Study of Tobacco Industry		
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<p>Most of the companies invest heavily in marketing and make use of available communication channels such as digital media, print and press, television and social media to reach their customer and to build relationship satisfying consumer needs. However, there are sets of industries where marketing of their products is highly regulated and their marketing channel is restricted. These regulations control the sales and advertisement of products since they are either mandated by government, international organization, health authorities or rejected by society and public communities.</p> <p>The main aim of this thesis was to understand the marketing strategies adopted by tobacco companies despite the existing strict regulation and find out whether they have been able to reach their end customers using these strategies. Another objective of the research was to understand source of knowledge of respondents on how a cigarette consumer came to know about particular cigarette brand when advertisement of cigarettes is banned in all forms of media. In order to achieve this aim, a survey among legal aged smokers was conducted through the questionnaire.</p> <p>This thesis is divided in two major parts where theoretical part defines regulated market, marketing strategies, marketing element and presents SWOT analysis of tobacco companies that operate in highly restricted, yet profitable market. Findings of this thesis suggested that conventional marketing doesn't allow tobacco companies to reach their end customer forcing them to invest heavily in unconventional marketing initiatives. Companies have complied with legal requirements but have identified alternative ways such as content marketing to subtly deliver their portfolio of products to end customer. One of the major strategies adopted by these companies was to invest heavily on travel retail space, and, develop alternative products and strategies to reach diverse demographics of customer. On the other hand, the average value of the ability to reach end customer in a scale of 1-5 was 3.10 which indicates that restriction in marketing has no effect on manufacturer ability to reach end customer.</p> <p>This thesis ensures generalizability in the context of other regulated and restricted markets such as sale of alcohol and alcoholic products. It could also serve as guide to firms and companies that are willing to market their products to niche segment of the economy and reach their consumers who prefer highly differentiated products and prefer personalized marketing media rather than mass communication.</p>		

<p><b>Key words</b> 4Ps, Marketing Mix, Marketing Strategies, Regulated Industry, Reinforcement Marketing, SWOT</p>
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## **CONCEPT DEFINITIONS**

### **PMI**

Philip Morris International

### **BAT**

British American Tobacco

### **JTI**

Japan Tobacco International

### **CNTC**

China National Tobacco Corporation

### **E-Cigarette**

Electronic cigarette powered by flow of current through rechargeable batteries.

### **TFI**

Tobacco Free Initiative

### **FCTC**

Framework convention on tobacco control

**ABSTRACT**  
**CONCEPT DEFINITIONS**  
**CONTENTS**

<b>1</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>2</b>	<b>REGULATED INDUSTRY.....</b>	<b>3</b>
	2.1 Overview Of Tobacco Industry.....	3
	2.2.1 History of Tobacco.....	4
	2.2.2 Big Tobacco Companies.....	5
	2.2.3 Market Share of Big Tobacco Companies.....	5
	2.2 Global Prevalence of Smoking.....	6
	2.3 Smoking in Finland.....	8
<b>3</b>	<b>MARKETING STRATEGIES IN REGULATED INDUSTRIES.....</b>	<b>10</b>
	3.1 Awareness of Law and Regulation.....	10
	3.2 Content Marketing.....	11
	3.3 Alternative Communication Channels.....	11
	3.4 Reinforcement Marketing.....	11
	3.5 Development of Alternative Products and Strategies.....	12
<b>4</b>	<b>MARKETING MIX.....</b>	<b>13</b>
	4.1 Product.....	13
	4.2 Price.....	13
	4.3 Promotion.....	14
	4.4 Place.....	14
<b>5</b>	<b>SWOT ANALYSIS OF TOBACCO INDUSTRY.....</b>	<b>16</b>
	5.1 Internal Factors.....	16
	5.1.1 Strengths.....	17
	5.1.2 Weaknesses.....	18
	5.2 External Factors.....	19
	5.2.1 Opportunities.....	20
	5.2.2 Threats.....	21
<b>6</b>	<b>CONDUCTING RESEARCH.....</b>	<b>24</b>
	6.1 Quantitative Research Method.....	24
	6.2 Data Collection.....	25
	6.3 Validity, Reliability and Limitations.....	25
	6.4 Questionnaire.....	26
	6.5 Survey Data Analysis.....	27
	6.6 Research Findings.....	40
<b>7</b>	<b>CONCLUSIONS AND DISCUSSION.....</b>	<b>41</b>
	<b>REFERENCES.....</b>	<b>44</b>
	<b>APPENDICES.....</b>	<b>50</b>

## **FIGURES**

FIGURE 1. Big tobacco market share in 2019.....	5
FIGURE 2. Percentage of smokers in Finland.....	9
FIGURE 3. Percent of global population covered.....	19
FIGURE 4. Consumer of vapor products.....	21
FIGURE 5. Age distribution of respondents.....	28
FIGURE 6. Percentage of respondents by gender.....	29
FIGURE 7. Nationality of respondents.....	30
FIGURE 8. Current status of smoking.....	31
FIGURE 9. Percentage of respondents by cigarettes brand.....	32
FIGURE 10. Source of knowledge about particular cigarette brand.....	33
FIGURE 11. Percentage of respondents who had reason to switch brand .....	34
FIGURE 12. Percentage of respondents who know about particular cigarette company.....	35
FIGURE 13. Source of knowledge about particular cigarette company .....	36
FIGURE 14. Cigarette manufacturer ability to reach end customer .....	36
FIGURE 15. Communication channel to reach end customer .....	37
FIGURE 16. Knowledge of alternative product offer .....	38
FIGURE 17. Percentage of respondents willing to switch to alternative products .....	39
FIGURE 18. Percentage of respondents who have observed marketing activities recently.....	39

## **PICTURES**

PICTURE 1. Pictorial health warning printed on retail cigarette packet.....	23
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## **TABLES**

TABLE 1. Top 20 countries with percentage of adults smokers above 15 years .....	7
TABLE 2. Tobacco industry revenue in millions.....	17
TABLE 3. List of brands manufactured by tobacco companies .....	32

## 1 INTRODUCTION

A product manufactured in the factory has to reach to end customer. Moving end product from the point of origin to destination doesn't ensure that it will reach the target audience. In the highly competitive market place, companies are constantly evolving and being equally creative on how to reach their end customers. As a matter of fact, companies that exist in an economy have proper form of marketing to let consumers know about the existence of their products. With advent of world wide web and internet this phenomenon has transcended the way companies interact with their existing and potential customers.

However, there exists handful of industries where companies don't market their products in any form. Unlike other regulated market such as alcohol, direct or indirect advertisement and marketing of tobacco products are highly restricted by laws and jurisdictions. Also in some society consumption of tobacco is considered as taboo, and, governments, health organizations, academic institutions, social and welfare organizations are consistently increasing awareness among people either to quit or not to start smoking at all. On the contrary, these companies are listed in fortune 500 and have brand value and revenue exceeding billion dollars. These facts made this topic an interesting one for research.

The main aim of this thesis is to understand the marketing strategies adopted by tobacco companies despite the existing strict regulation and find out whether they are able to reach their end customers using these strategies. Another objective of the research is to understand source of knowledge of respondents on how cigarette consumer knows about particular cigarette brand when advertisement of cigarettes is banned in all forms of media. In order to achieve this aim, a survey among legal aged smokers was conducted through the questionnaire.

It is a fact that tobacco product contains visuals, symbols and messages that are intended to discourage people to purchase. It is quite challenging for an industry to reach end consumers when products are known to have negative impact on the health and comply with very strict regulations. In these contexts, these companies should have gone out of business. Paradoxically, the most recent estimates for the global tobacco industry excluding China are worth approximately US\$785 billions. Hence it is interesting to analyze how marketing is executed in this industry and I was motivated to research on the topic of regulated market and marketing strategies of tobacco industry.

This thesis is divided in two major parts where theoretical part defines regulated market, marketing strategies, marketing elements and SWOT analysis of tobacco companies that operate in highly restricted, yet profitable market. Chapter 1 presents objective of the study, background, aims, and purpose to choose the topic. Chapter 2 defines regulated industry, history of tobacco, big tobacco companies and global prevalence of smoking including smoking in Finland. Chapter 3 presents marketing strategies of regulated industry. Chapters 4 and 5 present marketing element and SWOT analysis of tobacco companies respectively. Chapter 6 describes the research process and findings of the research. And, chapter 7 concludes this thesis including a development idea for future research. The main source of literature in this thesis is research work carried out by other researchers, e-books, online magazines and text books. On the other hand, a quantitative survey is conducted among legal aged respondents to test the theory presented in this thesis.

Furthermore, this thesis neither covers health related issues arising from consumption of tobacco nor particularly studies marketing strategies carried out by a specific company. On the other hand, tobacco companies manufacture and sell other form of tobacco products such as chewing tobacco, roll your own, cigars, cigarillos and accessories. However, the research is conducted only among cigarette consumers and therefore that limits the finding to apply in other form of tobacco products. Nevertheless, cigarette sales are the major source of revenue and marketing strategies are primarily focused on sale of cigarettes despite the existing restriction.

## 2 REGULATED INDUSTRY

A regulated market is a system where government controls the forces of economy such as demand, supply, prices, labor and new entrant. However in a wider prospective, a market is called regulated when the operations of a company are restricted by various factors such as law, authority, government, social advocate, education institution and health organization. Regulation imposes restriction on how goods and services are sourced, produced, priced, taxed, marketed and distributed. (Kenton 2019.)

Primarily there are two types of markets that are regulated. First, everyday consumer services such as water, gas and electricity, second, industries that produces goods for pleasure and have proven adverse health consequences such as tobacco, nicotine, alcohol and cannabis. The objective of imposing regulation on daily consumables is to enforce monopoly in the market and provide best services to consumers at competitive prices (Business Dictionary 2020). On the other hand, regulation on second part of industries is to reduce number of young consumers and health associated risks such as immature death (United States Food and Drug Administration 2016). Given these strict regulations, since 2009 shares in companies listed in the Bloomberg tobacco producers index have risen by 351 percent making it one of the best investments of the past decade (Aljazeera 2017).

### 2.1 Overview of Tobacco Industry

Growth of tobacco as an industry dates back to American revolutionary war, when it helped finance the revolution by serving collateral for loans. The major reason for tobacco's growing popularity in Europe is linked to healing properties when European misbelieved that tobacco could cure almost all the diseases from bad breath to cancer. However, it was only during eighteenth century scientists discovered pure form of nicotine and concluded that nicotine is dangerous to health. (Boston University Medical Center 1999.)

Today, tobacco industries are corporations that grow, sell and distribute tobacco and related products around the world. A variety of products such as chewing tobacco, cigar, cigarillos and cigarettes at several price points cover most of the market. When tobacco control was launched in 1992, Philip Morris



International's cigarette sales reached 400 billion sticks (Bialous & Peeters 2012, 92). Despite significant advances in tobacco control, strict regulations and legislation tobacco companies post significant profits. In 2015, the combined profits of the world's biggest tobacco companies exceeded US \$ 62.27 billion (Medical Press 2018).

On the other hand, in 2018, tobacco companies spent US \$9.06 billion in marketing cigarettes and other form of tobacco in United States alone. This is equivalent to US \$ 25 million each day or more than US \$ 1 million every hour. (Center for Disease Control and Prevention 2020.) As of today, it is estimated that global tobacco market size is expected to reach US \$ 1.08 trillion by 2027 at compound annual growth rate of 3.1 % over the forecast period. Increased number of smokers, emerging market in developing countries, coupled with new innovative product launch such as vapes and electronic cigarettes are expected to drive the market over the coming years.(Grand View Research 2020a.)

### **2.2.1 History of Tobacco**

Tobacco is a native plant to North and South America and it is believed to have was grown in America about 6000 B.C. According to Huron Indian myth, it is believed that when the land was barren and the people were starving, the Great Sprit sent a woman to save humanity. As she travelled over the world touching the soil, everywhere her right hand touched the soil there grew potatoes. And, everywhere her left hand touched the soil, there grew corn. And in the place where she had sat, there grew tobacco. (Mackay & Eriksen 2002, 18.)

Use of tobacco has a paradoxical history when it was believed to cure certain illness. It was used to dress wounds and as pain killer. While, chewing tobacco was believed to relieve the pain of a toothache. It was only during eighteenth century, scientists discovered pure form of nicotine and concluded that nicotine is dangerous to health. (Boston University Medical Center 1999.)

## 2.2.2 Big Tobacco Companies

Big tobacco refers to the world's major private entity that make 92% of tobacco trade. The six largest tobacco companies are Philip Morris International (PMI), British American Tobacco (BAT), Imperial Brands, Japan Tobacco International (JTI), Altria and China National Tobacco Corporation (CNTC). Among these, CNTC is government owned entity that controls tobacco regulation and manufacturing of tobacco products, rest of them are private owned entity. Therefore, CNTC is often excluded and big tobacco is commonly referred to big five privately owned companies.(Statista 2020a.)

## 2.2.3 Market Share of Big Tobacco Companies

China National Tobacco Corporation has the biggest share of market when compared to other players in the industry. Most of the world's tobacco is grown in China which is equal to 2.2 metric tons (Statista 2020a).

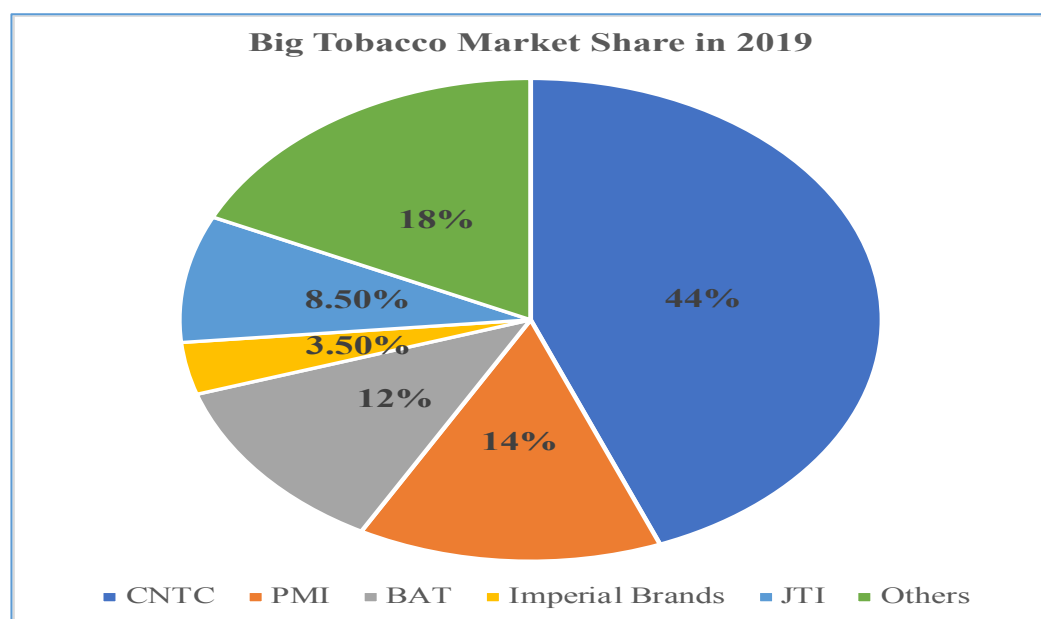


FIGURE 1. Big Tobacco Market Share in 2019 ( adapted from Statista 2020a)

Figure 1 shows that market share of CNTC is higher than combined market share of major other four companies. However, Philip Morris International has the biggest market share excluding CNTC that is

owned by government. And in terms of net sales British American tobacco leads the group with US dollars 32.7 billion worldwide sales (Statista 2020c).

## **2.2 Global Prevalence of Smoking**

Despite World Health Organization declining projection on the number of males using tobacco, it is estimated that every one- in-five adults in the world smoke tobacco. There are five countries where more than 40% of the population smoke (Ritchie 2019). These five countries are Kiribati, Montenegro, Greece, Timor and Nauru. During the year 2000, 73.4% of the total adults population were smoker in Kiribati, and by the year 2016 this number was reduced significantly to 47%. According to table 1, Kiribati has the largest population of smoker compared to rest of the world.

On the other hand, Greece has the highest percentage of adult smokers compared to other European countries. In the year 2016 43.4% of adult smoke cigarettes in Greece which is 11.4% higher than central Europe and Baltics. (TABLE 1.) Whereas central Europe and Baltics smokers represent 33% of the population which is 9.91% above the world data (TABLE 1). Although the number of smokers have declined in all countries since 2000, Austrian numbers have declined significantly. As shown in table 1, 49.1% of Austrian adult population smoke cigarettes during the year 2000 and this percentage dropped to 29.6% by the year 2016.

Table 1 represents the geolocation of most smoker in two regions, South-East Asia and Europe. As shown in table 1, 27.71% of the world population were smokers in 2000 and this number has fallen to 20.48% by 2016. Although the global number of smokers has declined, there are at least twenty countries where more than one third of the adult population smoke.

TABLE 1. Top 20 countries with percentage of adults smokers above 15 years (adapted from Ritchie 2019)

Total (ages 15+) (% of adults)	Year (%)								
	2000	2005	2010	2011	2012	2013	2014	2015	2016
Kiribati	73.40	64.70	55.70	54.50	52.70	51.20	49.80	48.30	47.00
Montenegro	52.70	50.20	48.30	47.80	47.40	47.00	46.70	46.10	45.90
Greece	53.50	49.70	46.60	46.10	45.30	44.90	44.40	43.80	43.40
Timor	51.80	49.70	46.80	46.00	45.20	44.60	44.10	43.20	42.60
Nauru	63.80	54.70	47.20	45.90	44.60	43.30	42.20	41.00	40.00
Papua New Guinea	60.90	52.10	44.20	42.60	41.20	39.80	38.80	37.40	36.30
Chile	56.60	49.60	43.60	42.60	41.50	40.60	39.60	38.70	37.80
Serbia	48.70	45.30	42.10	41.70	40.90	40.40	40.00	39.40	38.90
Bosnia and Herze- govina	47.70	44.30	41.70	41.20	40.70	40.20	39.70	39.40	38.90
Bulgaria	52.00	46.40	41.80	40.90	39.90	39.30	38.50	37.70	37.00
Russia	42.80	41.50	40.30	40.20	40.10	39.80	39.70	39.50	39.30
Cyprus	42.40	40.30	38.30	38.00	37.50	37.30	36.90	36.70	36.40
Cuba	45.70	41.60	38.40	37.70	37.20	36.50	36.10	35.90	35.20
Latvia	38.80	38.20	37.50	37.50	37.30	37.30	37.30	37.00	37.00
Indonesia	32.90	34.60	37.10	37.30	37.60	38.00	38.50	39.00	39.40
Croatia	33.10	34.30	35.30	35.60	35.70	36.10	36.40	36.70	37.00
Lebanon	37.50	36.10	35.10	34.70	34.80	34.20	34.20	33.90	33.80
Austria	49.10	41.90	35.70	34.60	33.60	32.40	31.40	30.60	29.60
Andorra	37.40	36.00	34.80	34.50	34.20	34.10	33.90	33.70	33.50
Czech Republic	34.10	34.30	34.30	34.20	34.30	34.30	34.20	34.30	34.30
Central Europe and the Baltics	39.51	36.15	33.23	32.75	32.23	31.77	31.25	30.80	30.39
World	27.71	24.97	22.73	22.27	21.95	21.55	21.16	20.80	20.48

### 2.3 Smoking in Finland

In the middle of 20<sup>th</sup> century, more cigarettes were consumed in Finland than anywhere else in the world. And during the 1940s, cigarettes were distributed to Finnish soldier as a ration during the wars which led 76% of Finnish Men and 13% of women smoke. (Tobacco-Free Finland 2030 2020a.) However, smoking in Finland has declined every year since 2000 (FIGURE 2). As of 2016, share of adults aged 15 years and older who smoke tobacco represents 20.4% of population which is 9.99% below the number of smokers in Central Europe and Baltics (TABLE 1). Reduction of smokers in Finland can be attributed to Ministry of Social Affairs and Health action plan to make country smoke-free by 2040 (World Health Organization 2014). It is illegal to market tobacco products in Finland. Shops are not allowed to keep cigarettes in visible places and tobacco product can be sold at buyer's request only after verification of identity (University of Jyväskylä 2019).

On the other hand, stricter legislation such as regular tax increases, extension of smoke free policies to residential area, private cars, and standardized packaging has contributed to decline in number of smokers in Finland. Similarly, the roadmap to become smoke free nation includes measures to help smokers who are willing to give up the habit. The vision is to make Finland smoke free by 2030 and it includes strategic policies such as making proposals that promote non- smoking in support of decision making, creating a positive attitude towards non-smoking and supporting the enforcement of the tobacco act. (Tobacco Free Finland 2030 2020b.)

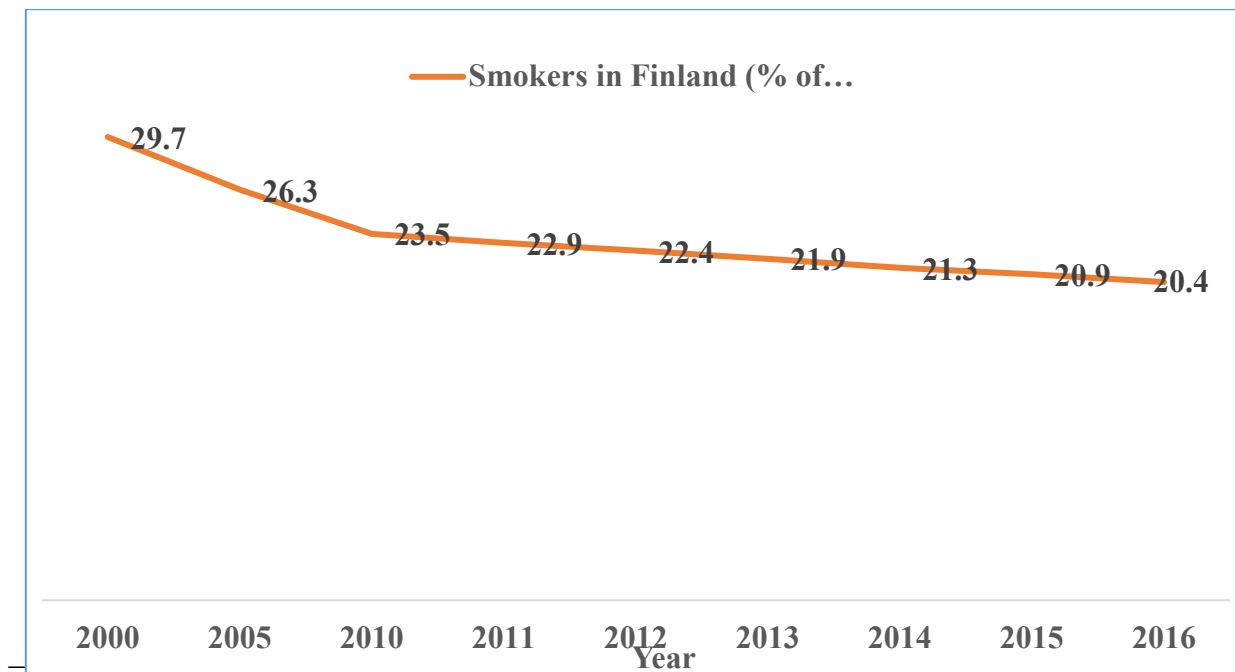


FIGURE 2. Percentage of smokers in Finland (adapted from Ritchie 2019)

Figure 2 shows the decline in adult smokers in Finland by 9.3% since 2000. However, if compared to the year 2012 smokers have declined by 2.5%. On the other hand, there is steep decline in numbers of smokers in the beginning of five years i.e. from 2000 to 2012 by 7.3%. With this trend, it can be easily predicted that in coming 14 years to become completely smoke free nation in 2030 is counter intuitive. Nevertheless, the number of adult smokers will be significantly reduced to below 18% of total population.

### **3 MARKETING STRATEGIES IN REGULATED INDUSTRIES**

Companies falling under regulatory premises find it extremely difficult to reach their target audience. They are faced with advertisement ban in different media such as television, movies, webpages, radio, print, press and social media.

However, in 2018, tobacco industry alone in USA spent \$9.06 billion dollars on advertising and promotion. Based on the report of Center for Disease Control and Prevention, tobacco companies spend \$7.73 billion on price discounts and promotional allowances accounting for 92.4% of all marketing expenditures in 2018. Tobacco companies pay price discounts to retailers and wholesalers to reduce the price of cigarettes for existing and potential consumers. And companies pay promotional allowances such as payments for stocking, shelving, displaying, and merchandising particular brands. Similarly, tobacco companies pay allowances such as payments for volume rebates, incentive payments and value-added services. (Center for Disease Control and Prevention 2020).

Marketing strategies of these industries can be broken down in four distinct areas such as awareness of law and regulation, content marketing, research on alternative products and usage of alternative communication channels and strategies.

#### **3.1 Awareness of the Law and Regulation**

The obvious starting point for all companies in a regulated industry is to have extensive knowledge of law and regulations that exist in the area of operation. Awareness of law and regulation ensure compliance of firm from sourcing to distribution stage of products. Law and regulation are inseparable element in formulating marketing activities in restricted market. This will help firms to get approval of their marketing initiatives, activities, contents and materials. (Marketing Insider Group 2016.)

### **3.2 Content Marketing**

In general content marketing means to create and share online material (such as videos, blogs, and social media posts) that does not explicitly promote a brand but stimulates interest in its products or services. Although Google and Facebook have advertisement bans on tobacco and similar restricted products (Helpert 2016), big firms operating in restricted markets have identified ways to stimulate customer interest with their marketing ingenuity. For example, they are marketing lifestyle rather than their products. In an advertisement series, Philip Morris International, manufacturer of Marlboro cigarette, ran a campaign with a tagline “DON’T BE MAYBE” to attract young people (Boseley 2014). Similarly, JTI, manufacturer of Winston cigarettes advertises its brand with the tagline “STAY TRUE” (Richnerstutz 2017).

### **3.3 Alternative Communication Channels**

Most of the communication channels and medias have either strong restriction or complete ban on marketing of tobacco products. Restricted industries have identified alternative channels such as creating brand names targeting specific racial or ethnic groups such as American Spirit, Rio and Dorado. On the other hand, companies rebate retailers and wholesalers to promote visibility (American Lung Association). Similarly, companies are investing heavily in travel retail space to promote visibility and engage customers by running activation that captures themes of seasons, occasions and special events. They launch their limited edition product in travel retail to reach customers across the globe (Hill 2018).

### **3.4 Reinforcement Marketing**

In general terms, reinforcement marketing or branding refers to encourage a customer to purchase a particular brand repetitively. However in the context of restricted industries such as liquor and tobacco reinforcement is about concurrent use of products, and marketing strategies linking cigarettes with alcohol. Smoking and drinking are strongly related behaviors. Smokers are more likely to drink alcohol frequently and vice versa. (Jiang & Ling 2011, 1.) Similarly, in most airports, space allocated for liquor and tobacco either face each other or are placed next to each other and these two categories are termed liquor and tobacco as single category (Fasola Shops 2015).



### **3.5 Development of Alternative Products and Strategies**

It might be counter intuitive for a manufacturer to tell customers not to buy their current product because of the arrival of new product. But, this alternative approach helps to draw attention of customers and make them curious to anticipate product innovation. Philip Morris, executed an advertisement campaign in several newspaper declaring company's 2018 resolution to give up cigarettes (Roderick 2018). The idea was to shift attention of customers and regulators towards new product iQOS based on heating technology in contrast to traditional burning tobacco (Philip Morris International 2020). Accordingly, Philip Morris International has been marketing this product as smoke free alternative.

Similarly, situational exploitation during natural disaster, environmental crisis and pandemic has helped tobacco companies to launch alternative marketing strategies in the form of aid and assistance to those in need. For instance, British American Tobacco pushed its branding and product marketing by offering help with medical equipment, ventilator, sanitizer, personal protective kit and cash, during 2020 corona pandemic. They used this opportunity to spread universal health messages placed on branded facemasks which were handed to social media influencer for free.(Hood 2020.) Not only limiting their aid and assistance with safety equipment and virus prevention tools, British American Tobacco company went further to claim that they have invested in development of vaccine to cure the Corona virus (British American Tobacco 2020a). This story made the company trending on popular social media such as Twitter and their news was picked by mainstream media such as The Guardian, The New York Times, CNN and The Wall Street Journal.

## **4 MARKETING MIX**

Marketing mix of 4P model is the standard set of activities that a firm performs to achieve and measure its marketing element in a target market. It was introduced by E. Jerome McCarthy in 1960. This model includes product, price, promotion and place. This model helps a firm to offer right product, at right place, at right time and at right cost. It is essential for a firm to understand its target market and their need to be sustainable and profitable, failing to do so will eventually lead a firm to be unsuccessful. And the tobacco industry is not an exception for this global concept. (Marketing Mix 2019.)

### **4.1 Product**

There are currently two main categories of tobacco products: The smokeless tobacco, which can be divided in dry snuff, moist snuff and chewing tobacco, and the smoking tobacco, which is the most common and recognized, and covers manufactured cigarettes, roll-your-own cigarettes, cigars, bidis, kreteks, pipes, water pipes and sticks. (Sebastian & Guzman 2012, 40.)

Companies offer adult consumers a range of products to choose from, including cigarettes and cigars; Fine Cut tobacco, as used in roll-your-own and make-your-own cigarettes; Swedish-style snus; and e-cigarettes. Their range of high-quality products covers all segments, from value-for-money to premium. Big tobacco tycoons are developing next-generation tobacco and nicotine products, a significant new growth opportunity (British American Tobacco 2018). This included launching of high-tech vape such as PMI IQOS (Mathis 2018). However traditional cigarettes account for majority of market share.

### **4.2 Price**

Price is the amount a customer is willing to pay for a product or service that is perceived to satisfy need. It is crucial component of marketing mix as it determines firms profitability and survival. Price is the outcome of pricing strategy that identifies how much customer is willing to pay, medium of payment,

competitors position, firms mark up and flexibility to offer discounts and special pricing (Business Queensland 2016).

Companies have adopted competitive pricing strategy with respect to other key players such as BAT, Philip Morris International, Imperial Tobacco and Japan Tobacco International. Price is as a fundamental marketing element in order to develop sustainable strategies and position their brands. On the contrary, in order to control consumption, the tendency to increase prices leads to reduce tobacco consumption (Bader, Boisclair & Ferrence 2011). This has led to create new plans, including the development of lower price categories of cigarettes such as Pall mall (Neate 2009) and the establishment of a variety of price related marketing efforts, that includes couponing and multi-pack discounts (Keklik 2017).

### **4.3 Promotion**

Promotion is a tool to aware existing and potential customers about the new product, offer and brand knowledge. Promotions are done in different media and locations such as television, newspaper, online, in store, events, exhibitions and press releases. However, given the strict regulation tobacco industries primarily promotes its brands in loosely regulated places such as duty-free in airports, ferries, inflight magazines. This includes price reduction, mix and match, product combo and free gift with purchase. All the travel retailers run promotion throughout the year targeting customers of diverse background, age, destinations and seasons. (The Moodie Davitt Report 2020.)

Similarly, tobacco continues to be an integral part of the duty free and travel retail industry's product offer. At 8% of global duty free and travel retail turnover, tobacco sales are an important source of revenue for airports, airlines and ferries. Tobacco also performs an important role as a major footfall driver to bring customers into these shops. (European Travel Retail Confederation 2020.)

### **4.4 Place**

Place is where and how products are visible and distributed to customers respectively. A product or services is accessible to a customer if a firm can identify right location, distribution channel and coverage. With advent of online market and cross docking facilities, place can be real physical store made of

brick and mortar or virtual store that exists in webpage (DutyFree 2009). According to Nicandro Durante, BAT's Chief Operating Officer, recently highlighted BAT's strength against its competitors in emerging markets. He described BAT as having the best exposure to developing markets of all publicly traded transnational tobacco company that gave an advantage because emerging markets are likely to be more resilient than developed markets. Similarly, as the smoking in the west declined the tobacco industry is spending their marketing resources into developing countries. This initiative is backed up since 80% of the world's one billion smokers live in low and middle income countries. (Gilmore 2015.)

## 5 SWOT ANALYSIS OF TOBACCO INDUSTRY

SWOT analysis is mostly used by business entities as a part of their strategic planning to understand factors affecting decision making. For example, it enables to discover opportunities for success that were previously unidentified and highlights threats before they escalate to failure. This way of analysis was first created in the 1960s by Albert Humphrey of Stanford Research Institute, during a study conducted to identify corporate failure (Nyarku & Agyapong 2011, 1). Hence, SWOT analysis is to aware business entity of the elements that influence the decision making process and it is acronym of two internal and two external factors of company's strengths, weaknesses, opportunities and threats respectively.

Given the fact of strict regulation and legislation, tobacco industry has faced many issues in recent history from health related to ban on marketing and selling of its products. For instance, cigarettes adverts were banned on television, first in the UK and then in the US but companies started to look alternatives such as sponsorship of arts and sports. In June 1988, the European Union passed a directive banning tobacco marketing, sponsorship and all other promotions in a staged phase-out by 2006 (World Health Organization 2019a) and recently, selling of menthol cigarettes was banned in UK on 20 May 2020 (Eurekalert 2020). Therefore, it is imperative for industries to regularly analyze and update their core decision making tools to strategically operate their business and remain sustainable amid volatile environment.

### 5.1 Internal Factors

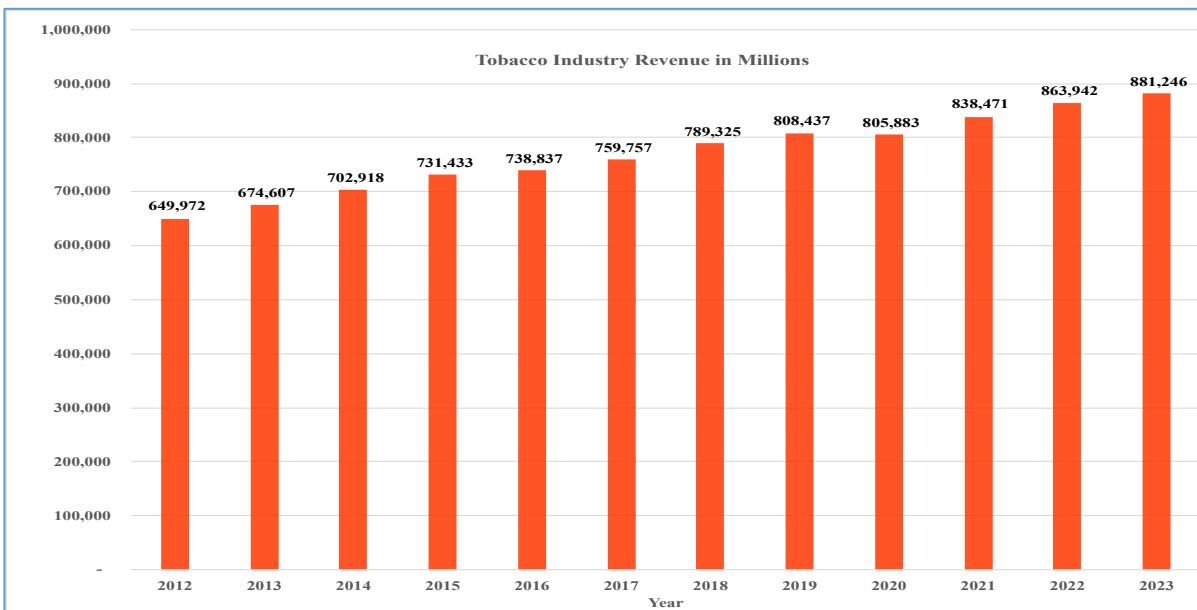
Strengths and weaknesses are categorized as internal factor of SWOT analysis. For example, resources and experience that are easily available to business are considered as elements of internal factors. Some common internal factors that make up strengths and weaknesses of tobacco industries are as follows (Bush 2019).

- Financial Resources such as funding, sources of income and investment
- Physical resources such as location, facilities, machineries and other equipment
- Human Resources such as employees, volunteers, interns and target audience
- Access to natural resources such as tobacco farms and land fertility
- Intellectual property such as trademarks, patents and copyrights
- Information technology such as software systems and automated processes

### 5.1.1 Strengths

As in table 2, the industry shows very strong financial power and this position has benefit to take growth opportunity in emerging market such as India, Pakistan, Indonesia, Philippines and eastern Europe in Russia. Tobacco companies have been investing more capital in developing local production in those regions. British American Tobacco through its subsidiaries has major shareholding of 30% in Indian Tobacco Company Limited, the cigarette market leader in India and 8<sup>th</sup> largest cigarette maker in the world (Tobacco Tactics 2020). Similarly, with solid financial resources companies can invest in automated production facilities to take benefit of economic scale of production. Kohl Tobacco automation provides control and automation solution for the entire product domain of tobacco and logistics division enabling companies to produce effective and efficiently (Kohl 2020).

TABLE 2. Tobacco industry revenue in millions (Adapted from Statista 2020b)



On the other hand, access and control of natural resources such as tobacco farms enables tobacco companies to bargain with their supplier. British American Tobacco produce its own leaf in 18 countries, and remaining leaf is sourced through third-party suppliers from 26 countries contracting over 250,000 farmers (British American Tobacco 2020b). Similarly, tobacco companies invest heavily in research and development to take advantage of technology used in other domain of industry such as automotive to

develop new product and reach new customers with polished products. For instance, Philip Morris International, world largest manufacturer and seller of tobacco products have already spent six billion dollars in research, product and commercial development to take advantage of technology such as temperature sensor widely used in automotive industry to heat tobacco in their newer product range famously known as IQOS (Mouratidis 2019).

Furthermore, with crowded market place, diversity in products of similar kind and stiff competition intellectual property of tobacco companies such as brand name and logo helps their customer to find them. Forbes estimates that brand value of Marlboro, world's no.1 cigarette brand since 1972, is 26.8 billion US dollars (Forbes 2020).

### **5.1.2 Weaknesses**

Although tobacco companies spend tens of billions of US Dollars on marketing and brand promotion worldwide every year, World Health Organization reinforces to completely ban all types of tobacco advertisement and sponsorship. According to World Health Organization report on the global tobacco epidemic, below are the list of direct and indirect bans on tobacco marketing and sponsorship. (World Health Organization 2013.)

- Ban on print (magazine, newspapers)
- Broadcast, cable and satellite (radio and television)
- On-screen advertisements (cinema, hoarding boards)
- Point of sale (checkout counters and instore display)
- Internet
- Freeze free distribution of tobacco and related products
- Promotional discounts
- Brand stretching ( non- tobacco goods and services identified with tobacco brand names)
- Brand sharing (brand names of non-tobacco products used for tobacco products)

Similarly, government regulation on restricted marketing, increased number of litigation and involvement on tobacco control convention such as FCTC, is believed to decrease the rate of smoker. It is

believed that comprehensive tobacco control program reduce smoking rate and the longer such program operate, the greater the positive impact (Jones & Silvestri 2010).

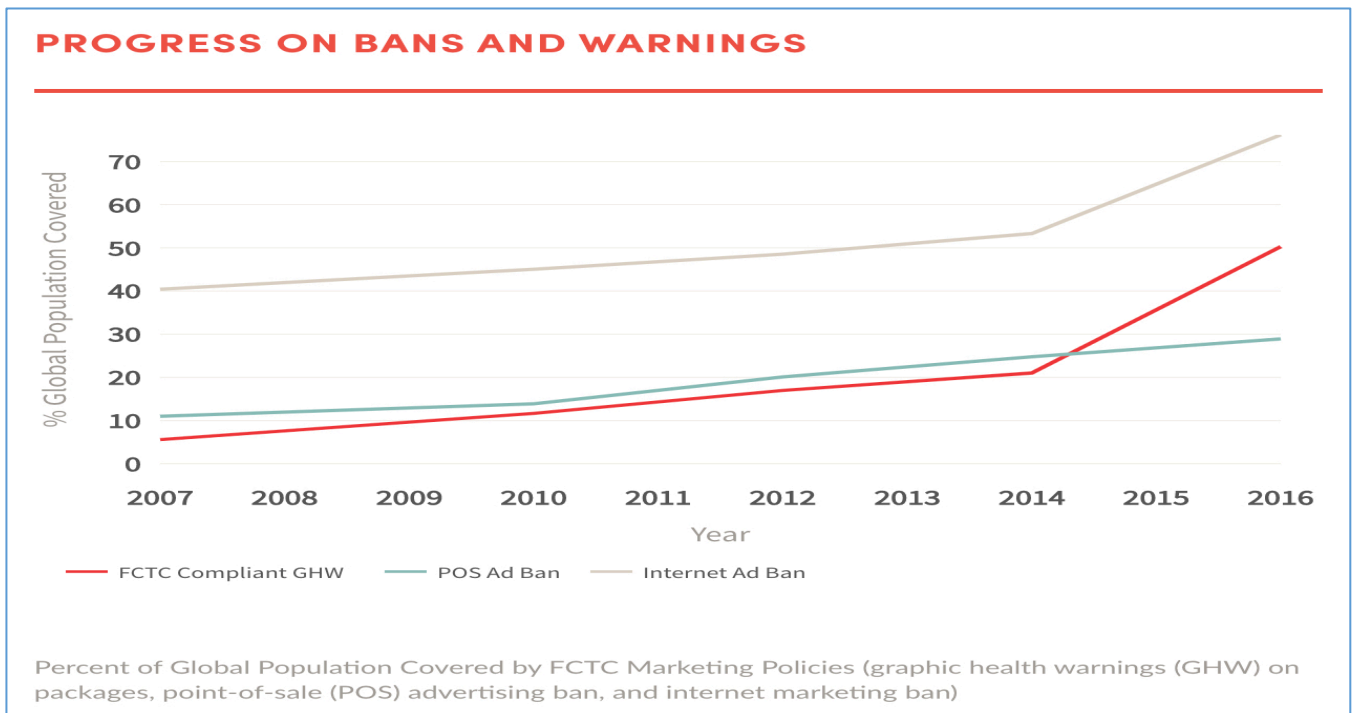


FIGURE 3. Percent of global population covered (Adapted from The Tobacco Atlas 2018)

On the other hand, The Framework Convention on Tobacco Control (FCTC) is the premier global public health treaty signed by 168 of 192 World Health Organization member states that provides joint response to tackle spread of health issues due to tobacco consumption and sets out specific guidelines for governments addressing tobacco use (Framework Convention Alliance 2008). Since 2007, more than 70 % of global population has been covered with ban on tobacco marketing and advertisement (FIGURE 3).

## 5.2 External Factors

Opportunities and threats fall under external factor of SWOT analysis. These factors may directly or indirectly affect opportunity and threat of tobacco industry, however, it is crucial to understand and become proactive to mitigate the adverse effect of externalities. For example, tobacco industry is globally regulated and controlled by either government of host nations or by international conventions and



restriction, in this scenario, industry is required to document, comprehend and operate according to these uncontrollable trends and changes. Some common external factors are as follows (Bush 2019).

- Political changes such as formation of new government, policies and regulations
- Environmental changes affecting supply chain such as natural disaster, pandemic and crop yield
- Change in market trends such as new products from competition, change in customer demand and preference
- Economic trends such as interest rate, unemployment, purchasing power
- Demographics such as mortality rate, age group, sex
- Relationship with suppliers and partners

### **5.2.1 Opportunities**

Rising popularity of electronic cigarettes, a battery operated device that is considered as a safe alternative to smoking cigarettes, and vaping devices presents a great opportunity to tobacco companies to invest and research in this product segment. The number of vapers has been increasing rapidly from seven to 41 million in 2018 (FIGURE 4). The global electronic cigarette and vape market was valued at USD 12.41 billion in 2019 and is expected to grow by 23.8% compound annual growth rate from 2020 to 2027 (Grand View Research 2020b).

Big tobacco companies have introduced these devices through various brands that meet diverse customer requirements. IQOS, a brand name of Philip Morris International electronic cigarettes is now available in their major markets. And, the company claims that around 10.6 million customers have switched to this product. (Philip Morris International 2020.) Similarly, British American Tobacco expects to create 5 billion pound in new category revenue of e-cigarettes and vapes by 2023/24 (Young 2020).

Furthermore, cigarette filter are made of a plastic containing cellulose acetate that doesn't disintegrate when tossed in the ground. Trillions of cigarettes filter end up in the environment that poses great risk of environmental hazard (Root 2019). Hence, discovery of biodegradable cigarettes filter presents a unique opportunity for companies to produce environmental friendly cigarettes. Tobacco companies

can collaborate with supplier such as Greenbutts, a company that designs cigarette filters that are biodegradable, cost effective and maintains the sensory experience of smokers, to produce and sale environmental friendly products (Greenbutts 2020).

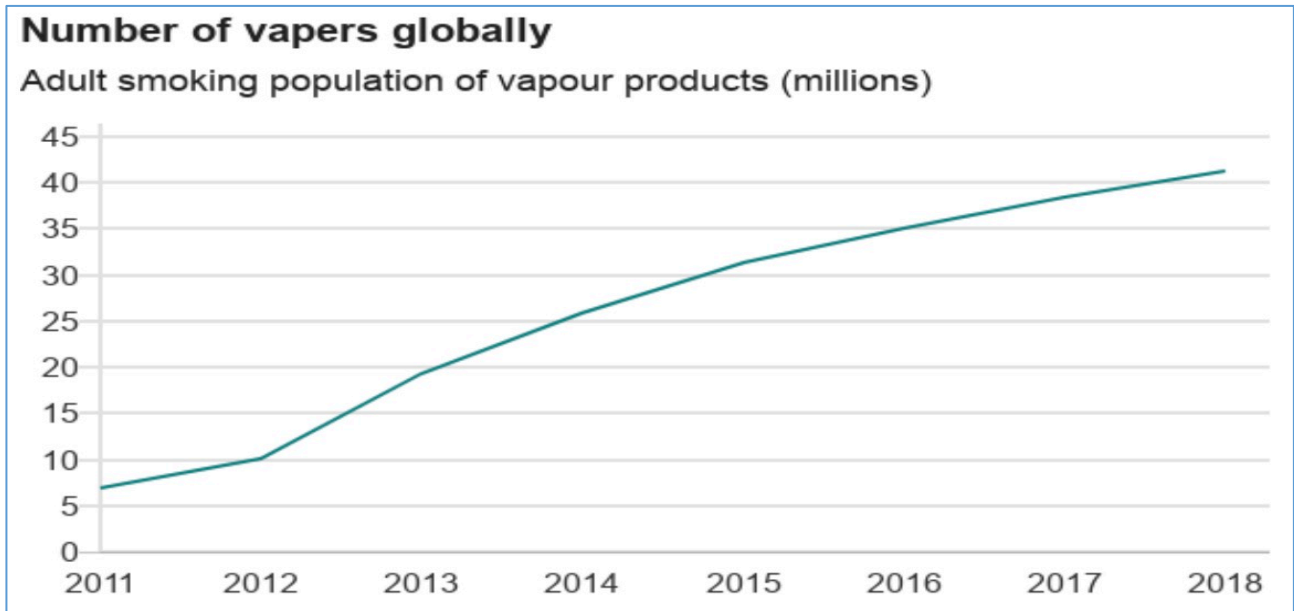


FIGURE 4. Consumer of vapor products (Adapted from Jones 2019)

On the other hand, tobacco companies take advantage of opportunity created during natural disaster, pandemic and environmental change. For instance, British American Tobacco Company has exploited the recent pandemic, COVID-19, to push its branding and products by assisting with supply of ventilators, gels, personal protection equipment and cash. In March 2020, as many governments began to lockdown their economy and people movement, British American Tobacco began sending universal health messages placed on branded masks that were distributed to social media influencers for free. (Hood 2020.)

### 5.2.2 Threats

People being aware of adverse health related issues from tobacco consumption, media campaigns to give-up tobacco, unified global action from governments to restrict marketing and selling of tobacco

products, intense competition in the market and counterfeit cigarettes poses huge threat to tobacco industry. World Health Organization's TFI requires companies to enact and enforce effective pictorial health warnings on all the tobacco product packaging. Companies are required to have interactive Cigarette health warning (FIGURE 5).

In order to curb tobacco consumption, government impose high taxes in manufacture and sale of tobacco products. To keep up the profits tobacco companies usually pass the price to consumers by increasing the retail sales price. This leads to higher price of cigarettes and combined with anti-smoking awareness and measures taken by health authorities triggers the decline in sales. For example, Philip Morris cigarettes sales volume have dropped for the past four consecutive years (Somvanshi 2017).

Similarly, smokers and their family members, government entities, health authorities have been filing lawsuits against tobacco companies for more than half a century. Hence, increasing cost of litigation has always claimed share of tobacco companies profit. In 2014, Florida jury found RJ Reynolds, second largest tobacco company in US, was asked to pay US dollars 23.6 billion in punitive damages in a lawsuit filed by the widow of a long time smoker who died of lung cancer in 1966 (Kay 2014).

On the other hand, pervasive contraband and counterfeit tobacco products pose great threat to tobacco industry. Industry estimates that 450 billion cigarettes are sold illegally each year. And in the European Union alone, 8.7% of all cigarettes smoked are either counterfeit or contraband. As such, illicit tobacco trade is a huge problem and it is believed that international tobacco smugglers make enough money that they could be considered the third largest tobacco company in the world. (Miloscia 2019.) According to WHO, countries differ in their relationship to the illicit tobacco trade and identifies and groups list of countries as source, transit and destination. Below is the list of countries that have been targeted by illicit trader.(World Health Organization 2020.)

- Main countries of origin for illicit cigarettes are China, Paraguay, the Russian Federation, the United Arab Emirates, Ukraine, Belarus, Moldova, Kenya and Zimbabwe.
- Main destinations are the European Union, the United States of America, Brazil, Canada, South Africa, Iran, Iraq, Hong Kong and Pakistan.
- Main transit and transit-destination countries are Egypt, Tunisia, Algeria, Libya, Mali, Niger, Guinea, Nigeria, Syria, Malaysia, India, Cambodia, Indonesia, Vietnam, Argentina, Chile,

Peru, Bolivia, Colombia, Venezuela, Poland, Lithuania, Greece, Montenegro, Turkey and Bulgaria.



PICTURE 1. Pictorial health warning printed on retail cigarette packet

## 6 CONDUCTING RESEARCH

This chapter of the thesis mainly describes the research process, data collection and the findings of the research. The most common research approaches are quantitative, qualitative and mixed research methods. The researcher expects the type of data required to respond to the research question. For instance, data might be numerical for statistical analysis, textual or both data might be required. (Williams 2007, 65.) Based on this assessment, the researcher selects one of the three before mentioned approach.

In this thesis, a quantitative research method was chosen to collect and analyze the data with the help of a questionnaire survey conducted among BBA students of Centria University of Applied Sciences and neighborhood of Vantaa district such as Koivukylä Mikkola and Myyrmäki . The primary source of data were students of Centria University and inhabitants of before mentioned neighborhoods who were either legal aged smoker or who had given up to smoke. The aim of conducting survey among students and residents of the Vantaa region was to include possible diversity in terms of demographics and eliminate bias in response since university students studying BBA would only represent limited age group.

### 6.1 Quantitative Research Method

Research methodology is defined as the general approach the researcher takes in carrying out the research project. Quantitative research involves the collection of data so that information can be quantified and subjected to statistical treatment in order to support or deny existing claims. The quantitative research originated in the physical sciences, particularly in chemistry and physics. The researcher uses mathematical models as the methodology of data analysis. (Williams 2007, 66.)

In this thesis a deductive quantitative research approach was chosen, in this approach theories concerning the topic are presented first and then tested to observed data. Accordingly, marketing strategies of tobacco companies that are presented at earlier chapter of this thesis are tested with which research questions were answered.

## 6.2 Data Collection

Data is a set of values of subjects with respect to qualitative or quantitative variables and Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes. The data collection component of research is common to all fields of study including physical and social sciences, humanities, business, etc. While methods vary by discipline, the emphasis on ensuring accurate and honest collection remains the same. (Responsible Conduct of Research 2020.)

The approach was to deal with secondary and primary data to meet the objective of the thesis. Secondary data was gathered by reading researches, reports and articles within the topic to give a literature preview. The secondary data used in this thesis came from books and reading internet pages which gave more knowledge about marketing strategies of regulated industries and tobacco industry. The knowledge gained through the secondary data collection helped to design the questionnaire and collect primary data through a survey.

On the other hand, primary data for this thesis was collected through a survey. This survey was based on responses to the questionnaire . The questionnaire was sent to target group via internet messaging and survey platforms such as What's app and Google forms. Quantitative approach was chosen to statistically analyze responses.

## 6.3 Validity, Reliability and Limitations

Reliability is the quality of being able to be trusted. In quantitative research, reliability refers to the consistency, stability, that is, the result of a researcher is considered reliable if consistent results have been obtained in identical situations but different circumstances (Mohajan 2017, 10). However, in qualitative research reliability refers to consistency within the employed analytical procedures (Noble & Smith 2015).

In this thesis, theoretical framework and deductive quantitative research procedures ensures to produce same result again if it is carried out by another individual or entity. However, the challenge to collate marketing data from big tobacco companies remains in place, since this data is often not made public

and considered to be confidential. These data are released through litigation and whistleblowers (World Health Organization 2019b).

Validity is the state of being logically true and accepted legally or officially . Reliability and validity are often referenced together because reliable results are trusted to be true. However, in experimental research such as in the field of physics, it may not be perceived that reliability leads to validity such as paper on Polymerase Chain Reaction published in 1993. In quantitative research, validity determines whether the research truly measures what was intended to measure or how truthful the research results are (Golafshani 2003, 599 [Joppe 2000] ). On the other hand, validity in qualitative research means appropriateness of the tools, processes, and data. For example, if the research question is valid for the desired outcome, the choice of methodology is appropriate for answering the research question, the design is valid for the methodology, the sampling and data analysis are appropriate, then the results and conclusions are valid for the sample and context. (Leung 2015.)

Validity of the findings in this thesis would represent the marketing initiatives adopted by tobacco companies to reach their end customer at present days. The findings will also enable readers to contrast the activities carried out by tobacco industry during mid 19<sup>th</sup> century when marketing of tobacco was pervasive in all media such as radio, television and print since the first noticeable ban on media came only on the 70's (History 2020).

This thesis presents marketing strategies of regulated industry in the preview of tobacco companies hence the research was limited to a single product category of cigarettes. Similarly, unlike other industries there are no text book on the topic of tobacco marketing. On the other hand, the challenge to collate marketing data from big tobacco companies remains in place , since these data is often not made public and considered to be confidential. These data are released through litigation and whistleblowers. Due to the time limitation the questionnaires were personally administered to minimize possible delay in receiving responses however there was no bias in responses from the sample population.

## **6.4 Questionnaire**

Questionnaire construction is often considered a very imperfect art. There are no established procedures that will lead consistently to a good questionnaire. However, a good questionnaire accomplishes the

research's objective. Accordingly, surveys must be custom built to the specification of given research purposes.(Aaker, Kumar, Day & Leone 2011, 275.)

The questions were written in English and short introduction of the thesis and objective was given to the respondents. The questionnaire had 26 questions that included multiple-choice, free writing and open-ended questions and 32 respondents took part in the survey. Respondents were informed about their privacy as such their names and email address collection features were turned off in the online form. However, the sample size was not large but adequate for the deductive analysis. Accordingly, questionnaire was designed to meet the research objective seeking response from sample population that would be precise and accurate to analyze the response. The answers were collected, analyzed and visualized using Microsoft Excel. The questionnaire is attached to the appendices.

### **6.5 Survey Data Analysis**

This chapter reports the findings of the empirical study that was conducted through a survey. This research analyzed appropriate responses received from the survey. In order to enable accuracy, typo errors received through free writing responses were corrected. This correction has not infiltrated the responses from the respondents but has helped to analyze the responses statistically. Similarly, the analysis includes responses from the respondents who have completed at least 20 questions. Those incomplete responses did not add any significant insight in the research hence this thesis has omitted those responses to avoid error in the analysis. The analysis of the survey will be presented with the assistance of pie chart, bar graph and tables.



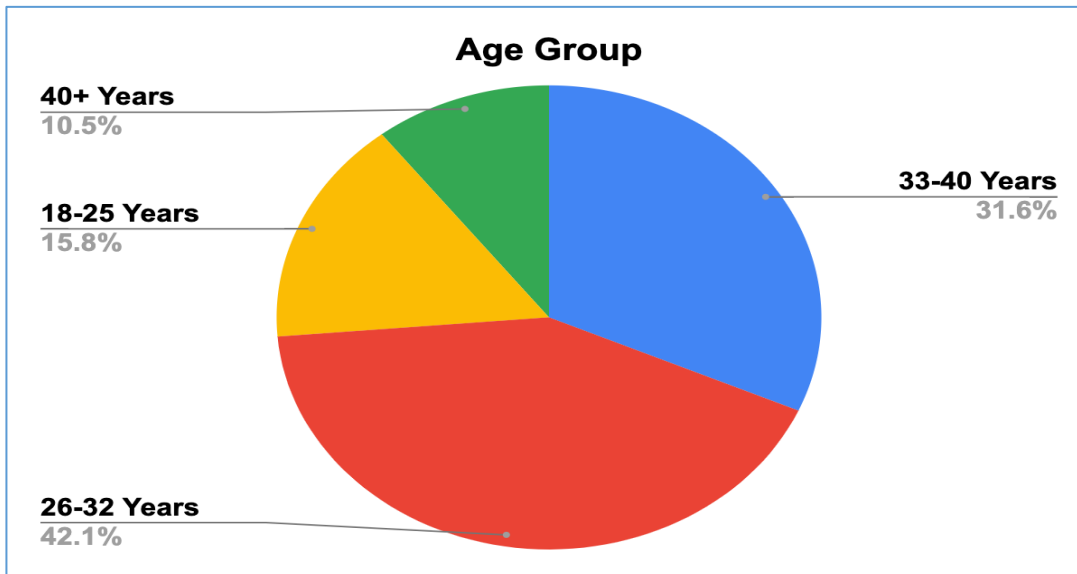


FIGURE 5. Age distribution of respondents

Figure 5 shows the age distribution of respondents. Out of total 38 respondents, age group of 26-32 years represent highest number of participation with 16 responses, followed by 33-40 years with 12 responses and the least participation was observed in the age group of 40+ years with only 4 responses.

One of the many regulation imposed on tobacco marketing is to restrict by age. And, tobacco industry has seen huge marketing transformation since mid 19<sup>th</sup> Century to today's date. Hence, observation of tobacco marketing and knowledge of particular brand from different age group of respondents clearly highlights transformation of these initiatives. People in the age group of 40+ had observed marketing of cigarettes through television and sport sponsorship which is restricted today. On the other hand, respondents in the age group of 18-25, who have recently started smoking, say that they have not seen any marketing materials from cigarettes company other than visibility in duty free and they came to know about their brand from colleagues.

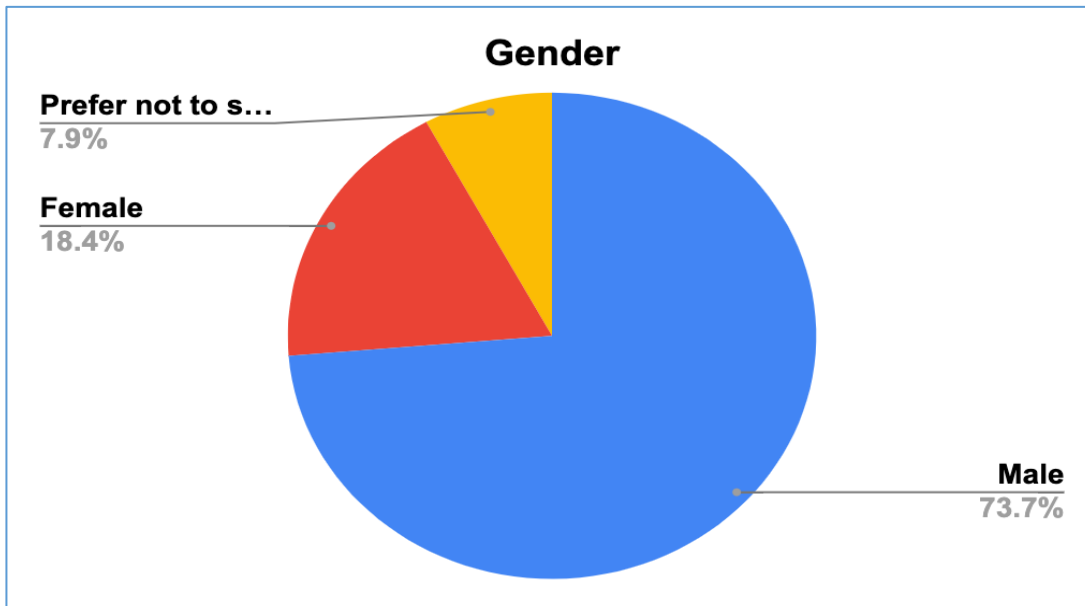


FIGURE 6. Percentage of respondents by gender

As shown in figure 6, 28 respondents were male representing 73.7% of total participation whereas 7.9% of respondents prefer not to disclose their gender. Surprisingly, all female respondents of the survey were smoker who were influenced to smoke via their colleagues and they all smoke for satisfaction. However, no specific marketing related information was observed based on gender. This implies that marketing by tobacco industries is not biased based on gender.

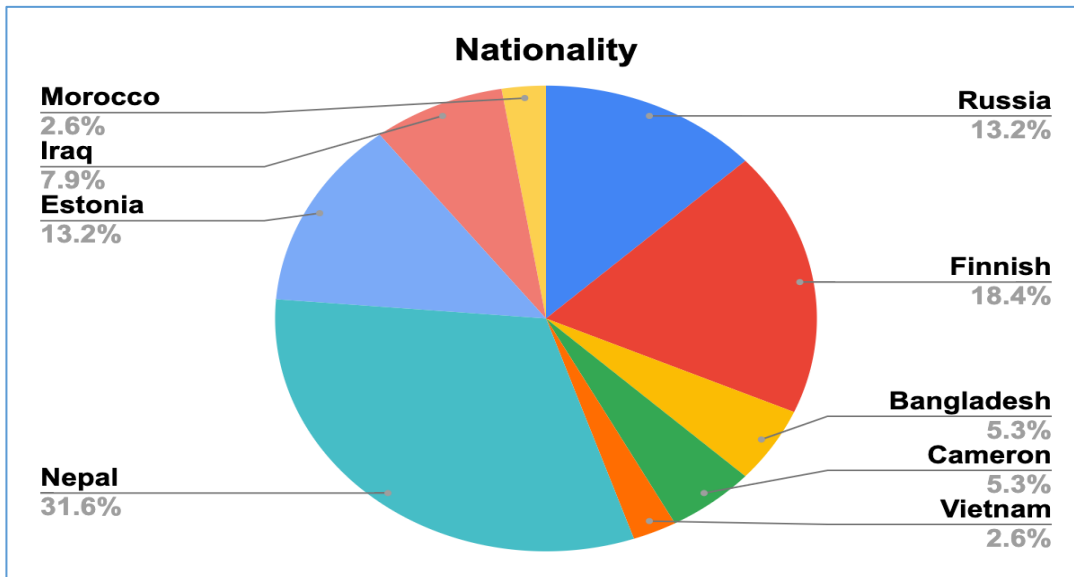


FIGURE 7. Nationality of respondents

Figure 7 shows the mix of nationality of respondents who took part in the survey. Nearly one third of the respondents were from Nepal representing highest number of participation followed by Finnish, Russian and Estonian respectively. Only one respondent were from Morocco and Vietnam.

Analysis of nationality revealed that one respondent from each country, Nepal and Iraq, had started smoking before reaching legal age of 18 years. They also responded saying tobacco marketing is legal in their country of birth. In Nepal and Iraq marketing is illegal at the moment however both countries became party to WHO Framework Convention on Tobacco Control recently in 2007 and 2008 respectively (Tobacco Control Laws 2019). Hence marketing of tobacco in such countries was observed by respondents who had started smoking during that period.

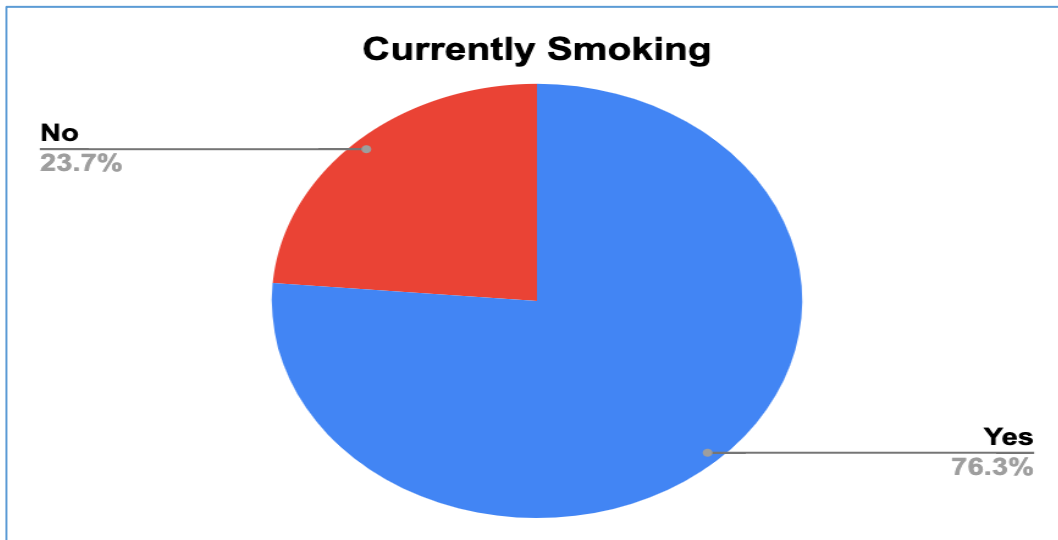


FIGURE 8. Current status of smoking

As shown in figure 8, more than 70% respondents were smoking representing 29 responses whereas 23.7% of respondents were quitter who had stopped smoking either for health related concerns or pressure from family, friends and society. Interestingly only one respondent, who had started smoking before reaching legal age quitted because of the pressure to quit from family, friends and society. Rest 90% of the quitter mentioned that they stopped smoking because of health concerns.

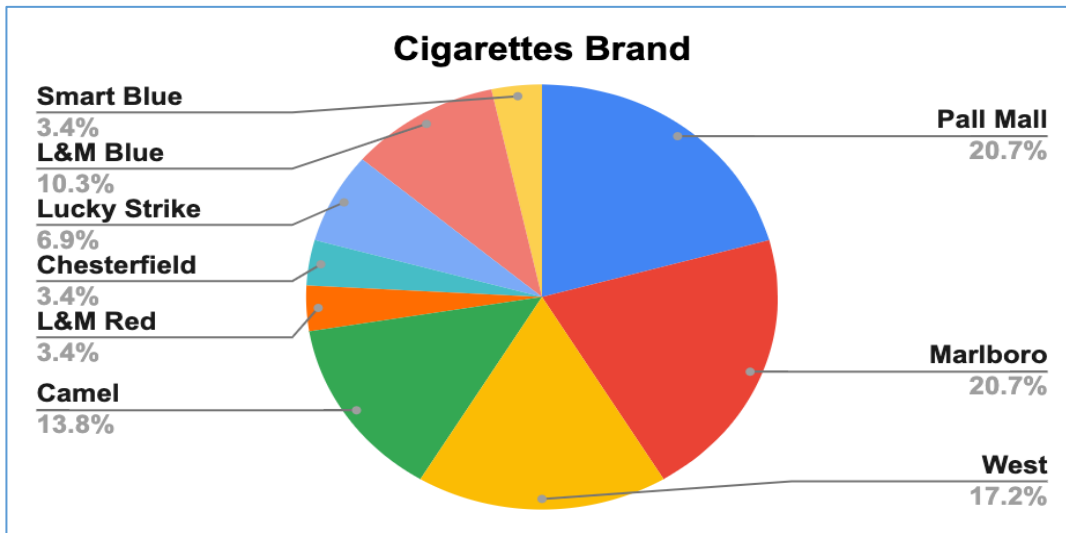


FIGURE 9. Percentage of respondents by cigarettes brand

Figure 9 shows the brand of cigarettes that respondent are smoking currently. This question was designed specially to analyze the market share of tobacco companies that manufacture these brands. This was one of the important section of research to see if the survey result aligns with the theory of current market share of big tobacco companies that was discussed earlier in chapter 2.2.3 of this thesis.

TABLE 3. List of brands manufactured by tobacco companies (adapted from Valvira 2016)

Brand Name	Manufacturer	% of smoker in the survey	Total Share by Manufacturers
Marlboro	Philip Morris International	20.70%	<b>37.80%</b>
L&M Blue	Philip Morris International	10.30%	
L&M Red	Philip Morris International	3.40%	
Chesterfield	Philip Morris International	3.40%	
Lucky Strike	British American Tobacco	6.90%	<b>27.60%</b>
Pall Mall	British American Tobacco	20.70%	
West	Imperial Tobacco	17.20%	<b>20.60%</b>
Smart Blue	Imperial Tobacco	3.40%	
Camel	Japan International Tobacco	13.80%	<b>13.80%</b>

Table 3 segregates the brand that respondents smoke and compiles those brands based on Valvira list of brands owned by respective manufacturer in Finland. The result of this analysis clearly supports the

theory showing that Philip Morris International, the largest private tobacco manufacturer, has the highest share of respondents who smoke their brand followed by British American Tobacco, Imperial Tobacco and Japan International.

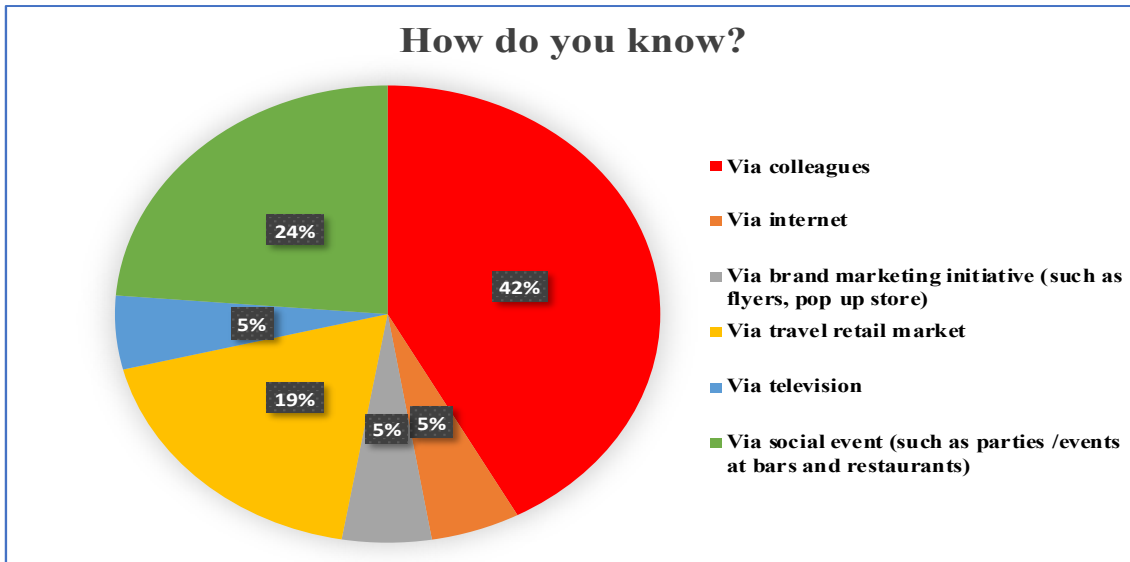


FIGURE 10. Source of knowledge about particular cigarette brand

Understanding source of knowledge of particular cigarette brand was one of the objectives of the research, hence, this question was included in the questionnaire. Given the fact that marketing of tobacco is banned, it was very important to understand how the consumers come to know about such product. Figure 10 shows that main source of brand knowledge comes from word of mouth. Most of the respondents, 42.1% said that they came to know about particular brand of cigarettes via their colleagues, followed by, social events such as parties at bars and restaurant and through travel retail market. Very few respondents, 2.6% said that they came to know about particular cigarette brand via television since mass media marketing is completely prohibited. These were the respondents who had started smoking in eighties and nineties when such marketing channels were not completely restricted in some parts of the developing countries such as Nepal.

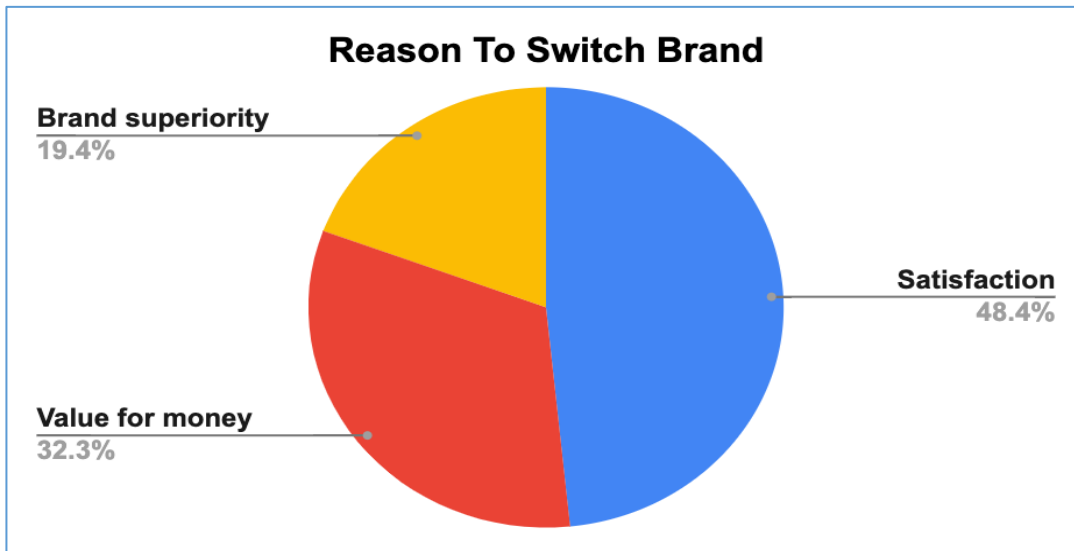


FIGURE 11. Percentage of respondents who had reason to switch brand

Figure 11 shows that nearly half of the respondents, 48.4% have switched their brand during the course of smoking. Whereas, 32.3% of respondents switch their brands due to value for their money spend in purchasing. These group of respondents were more likely to keep changing their brands since manufacturers aim to target these group of consumers by offering value proposition with multipack cartons of cigarettes available in duty free and some online stores. These packs of cigarettes are relatively cheaper than single pack purchase giving customer a substantial saving of \$0.53 to \$1.63 (Tobacco Control 2015).

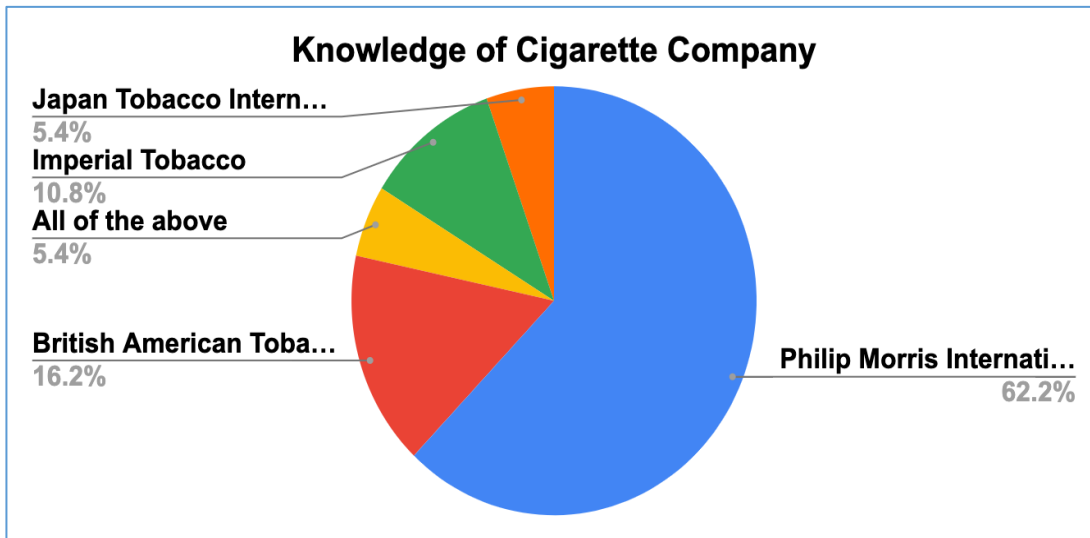


FIGURE 12. Percentage of respondents who know about particular cigarette company

As illustrated in figure 12, 23 respondents said that they have heard of PMI followed by BAT, Imperial Tobacco and JTI. Although the percentage for knowledge of cigarette manufacturer and knowledge of cigarette brand are not identical, the order of knowledge about particular manufacturer is similar to their market share. Company that has the biggest share of the cigarette market has the highest number of consumer who are aware of them followed by competitors in descending order of respective market share.



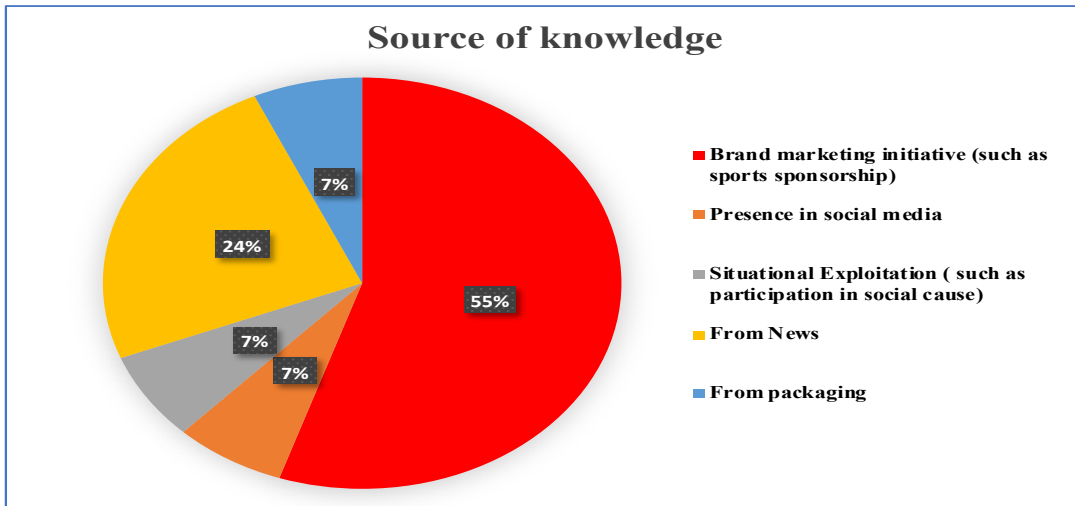


FIGURE 13. Source of knowledge about particular cigarette company

Figure 13 shows that source of knowledge about particular cigarette company is equally distributed. Out of 38, 8 respondents said that they came to know about particular cigarette company from their brand marketing initiatives contributing to 21.6% of the response. These were the group of respondents who believed that despite restriction cigarette manufacturers are able to reach their end customers.

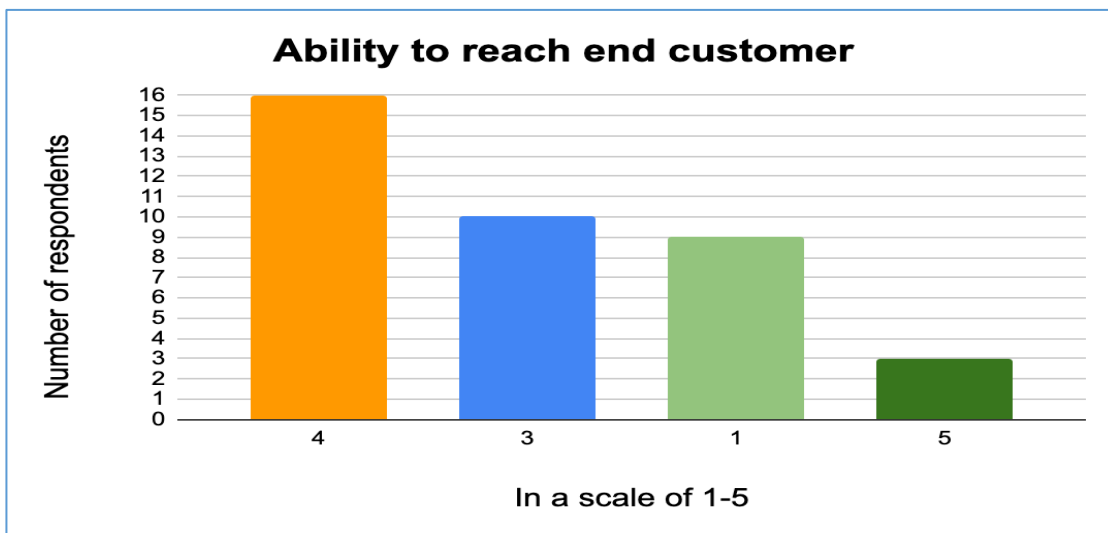


FIGURE 14. Cigarette manufacturer ability to reach end customer

According to figure 14, in a scale of 1 to 5, 16 respondents believed that manufacturer are easily able to reach end customer despite the restriction in marketing. On the other hand, 9 respondents believe that it

is extremely difficult for manufacturer to reach end customer given the restriction. The average value of the ability to reach end customer in a scale of 1-5 was 3.10 which indicates that restriction in marketing has no effect on manufacturer ability to reach end customer.

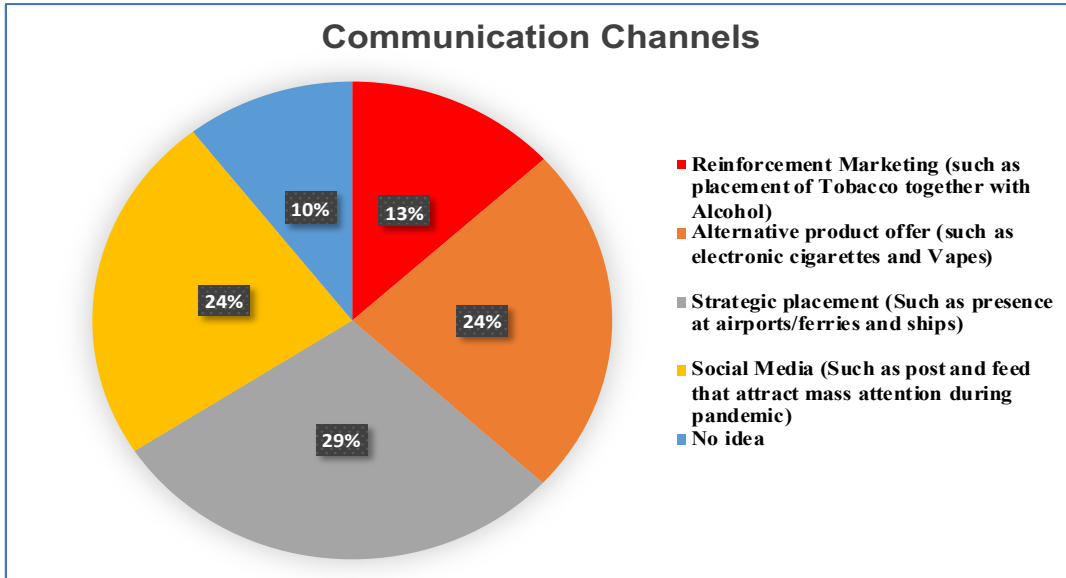


FIGURE 15. Communication channel to reach end customer

As illustrated in figure 15, highest percentage of respondents believe that strategic placement of cigarettes and tobacco products in airport, ships and ferries has enable cigarette manufacturer to market their products and portfolio. This finding strength the theory on marketing strategies adopted by tobacco industries. On the other hand, equal number of respondents believe that alternative product offer and presence in social media to gain mass attention has also channeled marketing message to end customer. Only 10.5% of respondents had no idea about what marketing channel cigarette manufacturers are using to reach end customer. Among these people, 50% have already given up smoking for health related issues and all of them were interested to try less harmful alternative to cigarette smoking such as e-cigarettes.

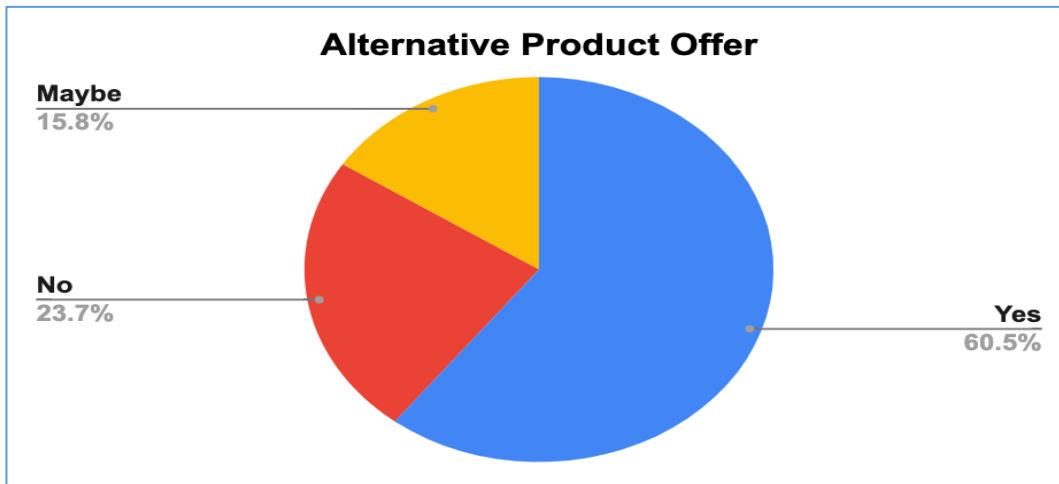


FIGURE 16. Knowledge of alternative product offer

As shown in figure 16, 60.5 % of respondents believe that they have the knowledge of alternative products that are less harmful than cigarette .Whereas, 23.7% of respondents had no idea about such product offers. And those who were aware of alternative products mentioned that they know about specific product such as e-cigarettes and vapes. 67.6% mentioned that they know e-cigarette while remaining 32.4% mentioned that they know vapes.

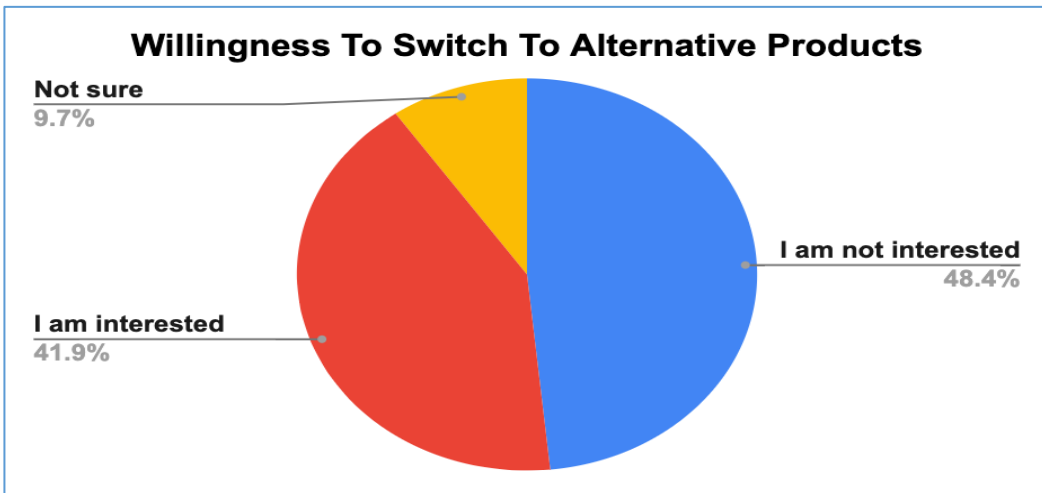


FIGURE 17. Percentage of respondents willing to switch to alternative products

As shown in figure 17, 41.9% of respondents are willing to give up smoking in exchange of alternative products that are considered less harmful than traditional cigarette smoking. Whereas, 48.4% of respondents said they will continue smoking traditional cigarettes implying the resilience of tobacco business.

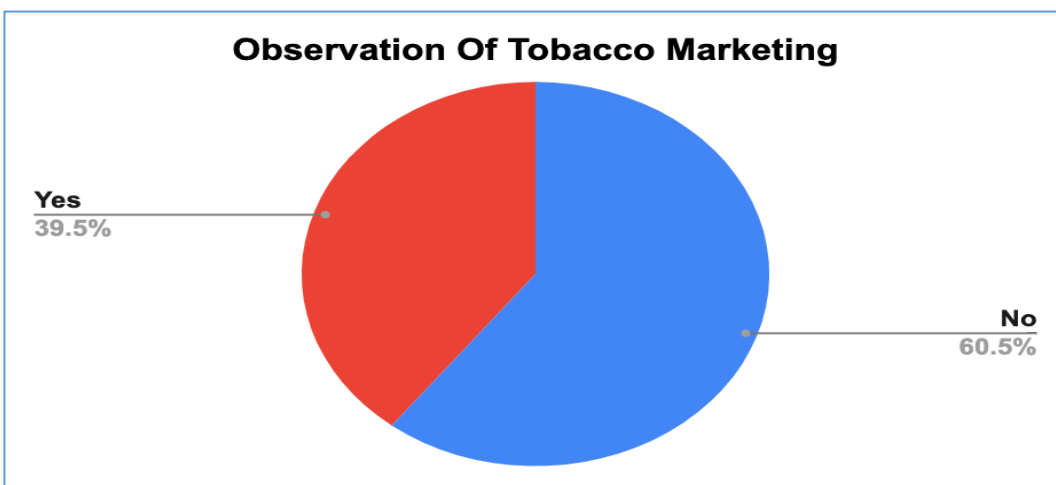


FIGURE 18. Percentage of respondents who have observed marketing activities recently

As shown in figure 18, 60.5% of respondents said they have not observed such activities since the marketing of tobacco and cigarette are banned at present days. However, 39.5% mentioned that they have observed marketing of tobacco in airport and ships. On the other hand, 90.3% of respondents believe

that marketing of tobacco should be restricted. While few 9.7% believe that marketing should be allowed with adequate information on negative effect of tobacco consumption.

## 6.6 Research Findings

Findings of this research suggested that conventional marketing doesn't allow tobacco companies to reach their end customer forcing them to invest heavily in unconventional marketing initiatives. Companies have complied with legal requirements but have identified alternative ways such as content marketing and presence in social media during the time of pandemic to subtly deliver their portfolio of products to end customer. One of the major strategy adopted by these companies was to invest heavily on travel retail space and develop alternative product such as vapes to reach diverse demographics of customer.

On the other hand, the average value of the ability to reach end customer in a scale of 1-5 was 3.10 which indicated that restriction in marketing had no effect on manufacturer ability to reach end customer. Despite, marketing restriction companies are able to reach their end customers using these strategies. Only 10.5% of respondents had no idea about what marketing channel cigarette manufacturers are using to reach end customer. Among these people, 50% had already given up to smoke for health related issues and all of them were interested to try less harmful alternative to cigarette smoking such as e-cigarettes. This indicated that why these companies remain resilient and profitable despite the restrictions.

Findings also revealed that product packaging is another way to reach the end-customer. And, marketing strategies of cigarettes companies are bias free hence no effect on gender was observed. Similarly, alternative strategies such as communicating health messages and monetary aids to people using social media influencer during pandemic and environmental crisis has helped companies to market their presence and product.

## 7 CONCLUSIONS AND DISCUSSIONS

Marketing is the activity and process for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Accordingly, most of the companies invest heavily in marketing and make use of available communication channels such as digital media, print and press, television and social media to reach their customer and to build relationship satisfying consumer needs. However, there are sets of industries where marketing of their products and offerings is highly regulated and their marketing channel is restricted.

The main aim of this thesis was to understand the marketing strategies adopted by tobacco companies despite the existing strict regulation and find out whether they have been able to reach their end customers using these strategies. Another objective of the research was to understand source of knowledge of respondents on how did cigarette consumer came to know about particular cigarette brand when advertisement of cigarettes is banned in all forms of media. In order to achieve this aim, a survey among legal aged smoker was conducted through the questionnaire.

In this thesis a deductive quantitative research approach was chosen, in this approach theories concerning the topic are presented first and then tested to observed data. Accordingly, marketing strategies of tobacco companies that are presented at earlier chapter of this thesis are tested with which research questions were answered. This thesis aimed to find marketing strategies of regulated industry in the preview of tobacco companies hence the research was limited to a single product category of cigarettes. The challenge to collate marketing data from big tobacco companies remained in place, since these data are often not made public and considered to be confidential. The questionnaires were personally administered to prevent the probability of delay in receiving responses however there was no bias in responses from the sample population.

Direct and indirect consumption of tobacco possess health related risks to people. Tobacco industry has been consistently tackling these strict regulations across the globe and is finding new creative ways to reach their potential customers. Activities these firms execute and message that they deliver seem to be in compliance of imposed restriction and regulation, however, there are many instances when these firms are sued for serious legislation breaches. For instance, British American Tobacco, Philip Morris International, had several lawsuit in many regions and countries it operated and still their business remain

resilient and active. One of the major strategy adopted by these companies was to invest heavily on travel retail space. And, strategically investing in emerging market and keeping products in the shelves of major travel retailers with the aim to cover diverse demographics of customer.

Findings of this thesis suggested that conventional marketing doesn't allow tobacco companies to reach their end customer forcing them to invest heavily in unconventional marketing initiatives. Companies have complied with legal requirements but have identified alternative ways such as content marketing to subtly deliver their portfolio of products to end customer. On the other hand, respondents were asked whether companies are able to reach their end customers despite of existing strict regulations and restrictions in a scale of 1-5. The average response was 3.10 indicating that restriction in marketing has no effect on manufacturer ability to reach end customer. Only 10.5% of respondents had no idea about what marketing channel cigarette manufacturers are using to reach end customer. Among these people, 50% had already given up to smoke for health related issues and all of them were interested to try less harmful alternative to cigarette smoking such as e-cigarettes. Findings also revealed that product packaging is another way to reach the customer. And, marketing strategies of cigarettes companies were gender neutral.

Furthermore, alternative product offer and strategies have given tobacco industry an opportunity to keep their business sustainable and profitable. Surge in sales of alternative products such as smoke free vape and electronic cigarettes has compensated the loss in declining trend of cigarettes sales. Similarly, alternative strategy such as communicating health messages and monetary aids to people using social media influencer during pandemic and environmental crisis has helped companies to market their presence and product. Hence, companies operating in strict regulation should invest in alternative product development and transform their marketing strategies. They should be proactive in their communication in order to benefit from existing situation.

Despite numerous lawsuits, strict regulations and adverse health effects of the products, this thesis was able to answer few of the big questions such as how big tobacco companies are able to reach their end customers and transform their product and marketing strategies. This thesis provides practical guidance on what tobacco companies did to transform their marketing initiatives at different point in time. During earlier days of tobacco ban, companies promoted sports and cultural events using their brand names to market their product portfolio. At present days, such sponsorships are strictly banned but still companies take extreme advantage of existing situation such as COVID-19 pandemic. They publicly get mass

attention in social media by making statements on vaccine development and supplying personal protection kits.

Hence, either these companies have the best alternative product and strategies to reach their end customers, or smoking cigarettes is so addictive that consumers locate their choice of brands that are hidden inside the shelves of stores to fulfill the urge of nicotine in their bloodstream. Therefore, this thesis will help further research aimed to understand the relationship between marketing of addictive products and customer responses to nicotine consumption.



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**APPENDIX 1****COVER LETTER**

Dear respondents,

You are requested to participate in a quantitative research on the topic of “marketing strategies in regulated industries, study of tobacco companies. Your responses to these questionnaire will help to test the theories presented in my thesis.

The main aim of this research is to understand the marketing strategies adopted by tobacco companies despite the existing strict regulation and find out whether they have been able to reach their end customers using these strategies. This survey will take about 5-10 minutes to complete and this research also helps to understand what communication channel tobacco companies are using to reach their end customers.

The basic ethical considerations shall be followed to ensure the privacy and identity of the respondents and shall not be exposed to any harm or benefits during and after the research process. None of your personal information is collected and to ensure anonymity and remain bias-free email tracking feature is turned off in the below link of google forms. Your answers and opinions are valuable and much appreciated. Once this thesis is completed, the result can be either published in theseus.fi or can be requested from Centria University of Applied Sciences.

Thank you for your valuable time and response.

Please find below link to the questionnaire.

<https://forms.gle/oCpznyT1pTLTxqVx5>

Best Regards,

Bijay Dhungana

Bijay.dhungana@centria.fi

Business Management Student

Centria University of Applied Sciences, Kokkola

**APPENDIX 2/1****RESEARCH QUESTIONNAIRE**

## 1. Age

- 18-24
- 25-32
- 33-40
- 40+

## 2. Gender

- Male
- Female
- Prefer not to say

## 3. Nationality

## 4. Are you a smoker now?

- Yes
- No

## 5. When did you smoke for the first time? If yes, when? Please mention year in format YYYY.

## 6. If you have stopped smoking, when did you quit? Please mention year in format YYYY.

## 7. What was the reason for quitting?

- Pressure from family/ society/friends
- Health concern
- Other- please specify in few words

## 8. Which cigarette brand are you smoking now?

## 9. How did you come to know about this particular brand?

- Via colleagues
- Via internet
- Via brand marketing initiative (such as flyers, pop up store)
- Via travel retail market
- Via television
- Via radio communication
- Via magazines/newspapers
- Via social event (such as parties /events at bars and restaurants)



**APPENDIX 2/2**

10. If you smoke, have you ever switched the brand of your smoke?

- Yes
- No
- I keep on switching the brand

11. What was the reason for switching?

- Value for money
- Satisfaction
- Brand superiority
- Don't know

12. Is tobacco marketing legal in your country of birth?

13. Do you know the name of any tobacco company?

- Yes
- No

14. If yes, which of the following companies names have you heard?

- Philip Morris International
- British American Tobacco
- Japan Tobacco International
- Imperial Tobacco
- China Tobacco
- All of the above

15. How did you come to know about this company?

- Brand marketing initiative (such as sports sponsorship)
- Presence in social media
- Situational Exploitation ( such as participation in social cause)
- Others

16. At current stage tobacco and related product marketing is highly restricted, in a scale of 1-5 , do you think manufacturers are able to reach their target audience? (1 - unable to reach end customer and 5-successful in marketing the product).

- 1
- 2
- 3
- 4
- 5

**APPENDIX 2/3**

17. In your opinion what communication channel currently tobacco companies are using to reach their customer?

- Reinforcement marketing (such as placement of tobacco together with alcohol)
- Alternative product offer (such as electronic cigarettes and vapes)
- Strategic placement (such as presence at airports/ferries and ships)
- Social Media (such as post and feed that attract mass attention during pandemic)
- No idea

18. Big tobacco companies are investing heavily in tobacco-less or tobacco-free products, are you aware of it?

- Yes
- No
- May be

19. If yes, which product have you heard about it?

- E-cigarettes
- Vapes
- Smoke free product such as IQOS
- No idea

20. Is this product available in your market?

- Yes
- No
- May be

21. If yes, what is your opinion on purchasing?

- I am interested
- I am not interested
- Not sure

22. If you are not interested on purchasing, what would be the reason for it?

- I prefer traditional cigarettes
- Price
- Portability
- Functionality
- Availability

**APPENDIX 2/4**

23. Have you ever received marketing materials related to tobacco products?

- Yes
- No
- Prefer not to say

24. Have you noticed any form of tobacco advertisement recently?

- Yes
- No
- Prefer not to say

25. If yes, where? Please mention location such as store/airport/hotels.

26. Do you think tobacco should be marketed? Please answer in few words.

Thank you for your time and valuable responses.

Best Regards,  
Bijay Dhungana  
Student of Business Management  
Centria University of Applied Sciences, Kokkola