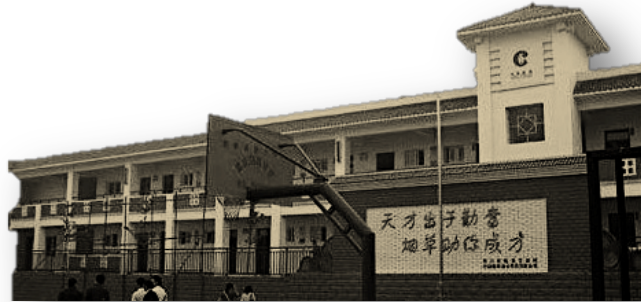


BIG TOBACCO HAS CANCER. Is INNOVATION THE CURE?

Marketing innovation in the context of regulation:
A case study of the tobacco industry



**“Genius comes from hard work, Tobacco helps you to be successful”
The Sichuan Tobacco Hope Elementary School in China’s sign**

ABSTRACT

Objectives: The tobacco industry has faced increasing marketing regulations since the danger of smoking was widely acknowledged in the 1960s. Critics have pointed out that the “big tobacco” have unlimited resources to circumvent regulations. The author aims at determining if such claims are justified and if the spectrum of regulations has pushed marketers to show a higher level of innovation.

Methodology: The author builds on case methods, establishing an industry-specific innovation measurement framework. Four measurement units were used in three distinct markets based on recent marketing mix activities. Markets with different degrees of marketing regulations were selected, namely Indonesia, Canada and Norway.

Results: Although marketing mix innovation is resourceful to counteract some of the effects of regulations, Norway, a highly regulated market presents a scarce level of innovations. Canada, which is slightly less regulated, has designed a pricing strategy enabling to survive on the short term but remains conservative in other marketing fields. Indonesia, on the other hand, show a high level of innovation in all aspects of the marketing mix studied. Overall, regulations did not foster innovation in the market scrutinized. Additionally, the author emphasizes that promotion regulations are decisive, and amend product innovation.

Discussion: The author analysed the case of three isolated markets at a time where the tobacco marketing and tobacco regulations become globally integrated, other factors must be accounted for. However, the findings suggest that profitability and innovation are not immediately correlated due to the peculiar and addictive aspect of cigarette. Besides, while strict regulations have been in place for only a few years, cigarettes have been in the cultural landscape for decades and the current ban does not remove previous brand and category knowledge. The industry can remain profitable by leveraging on the high price elasticity up to a certain point. It will unlikely be able to grow indeterminately on a very long term. Finally, the author discusses sustaining innovation, while the industry may soon respond more by introducing disruptive innovations and reinvent their activity.

Key words: Tobacco; marketing; smoking; regulations, innovation, marketing creativity.

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List of frequently used abbreviations

BAT = British American Tobacco;

FCTC = Framework Convention on Tobacco Control

LTDL = Legacy Tobacco Documents Library

PMI = Philip Morris International

JIT = Japan International Tobacco

RJR= R. J. Reynolds Tobacco Company

ITG = Imperial Tobacco Group

WHO = World Health Organization

Table of Contents

ACKNOWLEDGEMENT

LIST OF FREQUENTLY USED ABBREVIATIONS

1. INTRODUCTION	1
1.1. TOBACCO INDUSTRY: PRESENTATION	1
1.2. MARKETING AT THE CORE OF THE TOBACCO SUCCESS?	3
1.3. TOWARDS A RESEARCH PROBLEM	5
1.4. RESEARCH QUESTIONS	6
1.5. SUMMARY OF RESEARCH PROBLEMS	7
1.6. EXPECTED CONTRIBUTION	7
1.7. DELIMITATION OF RESEARCH	9
2. REVIEW OF INNOVATION THEORIES	10
2.1. UNDERSTANDING THE CONSTRUCT OF CREATIVITY AND INNOVATION	10
2.1.1. ECONOMIC AND HUMAN FOCUS	10
2.1.2. CORPORATE CREATIVITY	11
2.1.3. CORE DISTINCTION BETWEEN INNOVATION AND CREATIVITY	11
2.1.4. ARCHETYPE OF INNOVATION	13
2.1.5. DEGREE OF INNOVATION	13
2.2. INNOVATION MEASUREMENT FRAMEWORK	14
3. REVIEW OF TOBACCO MARKETING STRATEGY	16
3.1. MARKETING MIX AND TOBACCO	16
3.1.1. TARGET GROUPS	17
3.1.2. PROMOTION & ADVERTISING	18
3.1.3. PLACE	21
3.1.4. PRODUCT	22
3.1.5. PRICING	23
4. REGULATIONS OVERVIEW	24
4.1. REGULATIONS MOTIVES	24
4.2. VOLUNTARY REGULATIONS	24
4.3. REGULATIONS AND GLOBALIZATION	25
4.4. REACTION TO REGULATIONS	26
5. METHODOLOGY	28
5.1. APPROACH	28
5.2. GEOGRAPHICAL SCOPE	29
5.2.1. INDONESIA	29
5.2.2. NORWAY	30
5.2.3. CANADA	30
5.3. SELECTION OF THE COMPANIES	31
5.4. DATA COLLECTION	33
5.5. SELECTION OF MEASUREMENT UNITS	35
6. RESULTS	37
6.1. GLOBAL OVERLOOK	37

6.1.1.	PRODUCTS	38
6.1.2.	PRICING	39
6.1.3.	PROMOTION	39
6.2.	SUMMARY OF REGULATIONS	40
6.3.	NORWAY	43
6.3.1.	OVERVIEW	43
6.3.2.	PRODUCT	44
6.3.3.	PRICING	44
6.3.4.	PROMOTION	45
6.4.	CANADA	45
6.4.1.	OVERVIEW	45
6.4.1.	PRODUCT	46
6.4.1.	PRICING	47
6.4.2.	PROMOTION	47
6.4.3.	PLACE	49
6.5.	INDONESIA	49
6.5.1.	OVERVIEW	49
6.5.2.	PRODUCT	50
6.5.1.	PRICING	51
6.5.2.	PROMOTION	51
6.6.	SUMMARY OF FINDINGS	54
6.1.	VISUALIZATION CORRELATION	55
7.	IMPLICATIONS	56
7.1.	RESEARCH PROBLEM OUTLINE	56
7.2.	REGULATIONS IMPACT ON MARKETING MIX	56
7.3.	COMPENSATION OF PROMOTION REGULATIONS	58
7.4.	REGULATION OPTIMUM	60
8.	DISCUSSION	61
8.1.	MARKET MATURITY: AN ADDITIONAL FACTOR AFFECTING INNOVATION	61
8.2.	CASE OF OVER-COMPLIANCE	62
8.3.	OTHER FACTORS AFFECTING INNOVATION	63
8.4.	ABSOLUTE LEVEL OF REGULATIONS	64
8.5.	PROFITABILITY VERSUS INNOVATION	64
8.1.	DISRUPTIVE INNOVATION, THE REAL SOLUTION?	65
9.	LIMITATION	67
10.	CONCLUSION	68
11.	APPENDIX	72
11.1.	AN EXAMPLE OF POWER WALL IN CANADA	72
11.2.	EVENT PACKAGING IN INDONESIA	72
11.3.	LIFESTYLE ADVERTISING IN INDONESIA	73
11.4.	PRODUCT INNOVATION IN INDONESIA	74
11.5.	TOBACCO CORPORATION'S OWNED SCHOOL	76
11.6.	SMARTPHONE APPLICATION	76
11.7.	COMPARISON OF MARLBORO PACKAGING	77
11.8.	PROMOTION ENFORCEMENT MAP	78
11.9.	LUCKY STRIKE CONVERTIBLES	78
11.10.	PAX VAPORIZER	79

12. BIBLIOGRAPHY**80**

1. Introduction

1.1. Tobacco industry: Presentation

Smoking is one of the biggest hazards to health that the world has ever been confronted with (Peto et Al, 1996). Worldwide, cigarettes kill more than five million people annually. Every six seconds, smoking kills someone (WHO Fact sheet 339, 2012). In America in the late 90s, tobacco killed more people than AIDS, car accidents, alcohol, murder, suicide, illegal drugs and fire combined (The Economist, 2007). In November 2012, a team of British researchers even demonstrated that smoking affect cognitive abilities (Drogen & Al, 2012). Cigarettes contain over 4000 chemicals of which 60 are known or suspected carcinogens, such as cadmium, phenol and hydrogen cyanide (Mackay et al. 2006). On the other hand, smoking and the tobacco industry is also one of the most profitable industries. The tobacco industry is valued at USD 611 billion, more than the GDP of Sweden at USD 538 billion (Euromonitor International, Global Tobacco Findings 2011).

While the tobacco industry operates as a global force, regarding the world as its operating market by planning, developing, and marketing its products on a global scale, it faces strong national regulations (Yach & Bettcher, 2000). Tobacco companies have used a wide range of methods to buy influence and power, and penetrate markets across the world, often described as groundbreaking marketing. Or at least they are believed to do so.

The “Big Tobacco” a pejorative term used by anti-smoking groups to refer to the major multinationals of the tobacco industry is seen as a symbol of capitalism evil in popular imagination (Glantz, 2000). In modern common beliefs, tobacco companies are giant multinationals using immoral marketing techniques for profit, even despite regulations (Thank you for smoking, 2005; The Insider, 1999; The Tobacco Conspiracy, 2005). This conviction has been relayed by several justice decisions. According to government filing from the US District Court in the case of United States of America vs. Philip Morris,

Tobacco Companies engaged in a criminal conspiracy that sought to cover up the dangers of smoking (Kay, 2005).

In 2012, when several banks faced trial and sanctions for fraud, a Bank CEO made the following statement: *“this is the banking industry's tobacco moment”* (The Economist, 2012). For Dr Jeffrey Wigand of New Zealand, evil is an understatement when depicting tobacco companies. *“If you were to categorize their morality or ethical content, it's in the negative numbers. They will do anything to maximize profit at the expense of others”* (One News, 2012). For Allan Brandt, a Harvard professor, the tobacco companies have survived virtually everything their opponents have thrown at them. Brandt writes: *“The legal assault on Big Tobacco had been all but repelled. The industry was decidedly intact, ready to do business profitably at home and abroad”* (The Economist, 2007).

Nonetheless, some scientists and consumer smoking groups have argued that anti-smoking falls into conspiracism, *“a narrative form of scapegoating that frames demonized enemies as part of a vast insidious plot against the common good, while it valorises the scapegoater as a hero for sounding the alarm”* (Berlet et Al, 2000). In a 2000 editorial, Dr. Elizabeth M. Whelan, president of the American Council on Science and Health, accused some groups of alarmist actions and the use of hyperbole to exaggerate the dangers of tobacco use in the work place to an unrealistic level (Whelan, 2000). Two researchers of the Cato Institute, an independent public policy think tank published a book entitled *“Lies, Damned Lies, & 400,000 Smoking-Related Deaths”* emphasizing that *“the war on smoking...has grown into a monster of deceit and greed, eroding the credibility of government and subverting the rule of law”* (Levy & Marimont, 1998).

While all stakeholders acknowledge to some extent the dangers of tobacco and the role played by tobacco corporations, the author questions whether common beliefs may affect objectivity in evaluating the marketing success of tobacco. Are today tobacco companies that ingenious in developing evil marketing plans?

Since 1789, when the first tobacco advertisement appeared, tobacco manufacturers have indeed been pioneers of advertising and marketing, revolutionizing the way of doing business in the process (Porter, 1971). At the early age of tobacco, in the first half of the twentieth century, the industry uses simple image to promote cigarettes as a joyful habit. Tobacco smoking was viewed as chic and portrayed by sports and movie stars as part of a modern and pleasant lifestyle. At the rise of the tobacco era, doctors and scientists were used to promote cigarettes, for instance R.J. Reynolds in the 1940s claimed that “More Doctors Smoke Camels” (Porter, 1971).

In the 60s, public health institutions started to point out the dangers of tobacco, and slowly anti-smoking groups appear. Anti-smoking groups started to argue that restricting the promotion of cigarettes would make it less likely that people would take up smoking and that governments control were necessary and soon enough, marketing of tobacco products started to be regulated (Backinger, O’Connell, 2007). One of the first regulations introduced was the Television Act in 1964 in the UK, which banned advertisements for cigarettes on television (Leavey, 1998). Legislative measures to eliminate tobacco advertising, promotion and sponsorship took a more global aspect with the Framework Convention on Tobacco Control (FCTC), signed in 2003 by 168 countries, under the World Health Organization supervision out of 194 member countries (WHO, 2012).

Today, marketing efforts of tobacco companies remain significant. In 2008, in the US only, the marketing budget of the tobacco industry was \$9.9 billion (Federal Trade Commission, 2011). In 1997, a research group, including three Nobel laureates in medicine, noted that tobacco manufacturers spend the yearly equivalent of \$2.3 billion on direct and indirect tobacco promotion in the European Union (UNICEF, 1997).

1.2. Marketing at the core of the tobacco success?

Numerous studies have investigated the relationship between marketing expenses in the tobacco industry, particularly in terms of advertising and the sales of tobacco products

(Smee et Al, 1992, Chaloupka et Al. 2001, Townsend, 1996). There are multiple factors that must be taken into account including income growth and product price. Most econometric studies have found that increased expenditure on tobacco advertising increases demand for cigarettes, while banning advertising leads to a reduction in tobacco consumption.

A meta-analysis of 48 econometric studies found that tobacco advertising significantly increased tobacco sales (Andrews & Franke, 1991). The United States Department of Health and Human Services (1989) reached the same conclusion. Laugesen and Meads (1991) conducted a cross-sectional time series analysis in 22 OECD countries for the period 1960-1986, and concluded that increasingly strict regulation of advertising causes corresponding reductions in tobacco consumption. On a scale of one to ten, an increase of 10 per cent of the degree of restriction was found to translate into a 1.5% reduction in tobacco consumption, however this did not take into considerations anti-smoking campaigns (Laugesen & Meads, 1991). Other studies have measured the incidence of ban of the two most marketing techniques used by tobacco companies: advertising and sponsoring. In Norway, a complete ban on advertising and sponsoring, coupled with health warnings, public information and age limits on sales has reduced smoking by 9% in the 70s (Rimpelä et Al, 1993). In Canada, the ban on advertising and sponsoring and higher tobacco prices has resulted into a long-term reduction of smoking prevalence of 4% (Smee et Al. 1992). Finally, in New Zealand, a study has isolated the effect of price increase versus advertising; researchers found out that tobacco sales decline by 7.5%, and 5.5%, the majority could be attributed to ad ban (Smee et Al. 1992). However, another study, particularly pointed out by pro-tobacco groups, done in 22 countries at the same period came to a different conclusion (Stewart, 1993). This study suggested that advertising bans have no effect on tobacco consumption.

Does that indicate that the industry players can annihilate marketing regulations to sell tobacco products?

In any case, it is generally admitted that marketing efforts have a critical importance in tobacco, and tobacco players have done their best to limit regulations. Dr Paul Harrison points out that other forces are affecting smoking rates as well, limiting sales for tobacco companies. "As time has gone on it's been harder and harder for people to take up smoking (...) through general social shifts" (Trembath, 2010). Tobacco marketing there has never been as crucial as it is today.

1.3. Towards a research problem

Profitably is still today largely achieved in the tobacco industry. Conversely this does not necessarily mean that profits are increasing. Higher regulations seem actually unlikely to help the industry grow. However, as the author previously pointed out, some scientists believe tobacco players always sustain in a climate of ever growing regulations (The Economist, 2007). Is this claim really true?

One of the obvious answers to circumvent the growing regulations is to become more creative. But is there still even room for marketers to be creative in the Tobacco Industry? The study aimed at covering the complex relationship between stronger regulations and marketing activities, questioning innovation as an answer to more regulations.

This project was initiated by a job interview at one of the major tobacco multinational corporation and discussion with tobacco recruiters. Soon enough, the author realizes that jobs in the field encompass more sales than traditional marketing activities. The initial questioning raises concerns whether there is still space for marketing activities in a tobacco company in western markets?

In psychology, rules are known to both help and restrain employees; for risk-adverse employees, rules formalize processes and limit the numbers of grey area, and can actually positively develop creativity (Hirst et Al, 2011). If rules can help creativity, then regulations can help the creative process. In this scenario, could a regulated industry be more creative and produce more innovation? What if those regulations aim at diminishing the industry in itself? This leads the author to the following problem:

Do tobacco-marketing regulations foster industry innovation?

1.4. Research Questions

The author prompts several interrogations by raising this research problem. The scope of marketing regulations affecting the tobacco industry is the first field to be investigated. Are tobacco marketing activities always regulated? This leads to the following question:

Research question 1: Which variables of the marketing mix are affected by regulations?

The author aims at exploring marketing innovation from a marketing mix perspective. The first hypothesis formulated is that tobacco-marketing regulations often translates into advertising ban, therefore promotional activities are the most regulated. The aim is to validate that marketing regulations actually alter marketing mix variables.

This first hypothesis suggests that promotion is at the core of marketing regulations. If it is the case, then the author aims at measuring the incidence of promotion regulations on marketing innovation coming from the other aspects of the marketing mix.

Research question 2: How full-promotion ban has been compensated when being introduced?

The initial hypothesis made by the author is that promotion ban can be compensated by developing innovatively other aspects of the marketing mix.

The last research question built upon all previous findings leads us to consider the bigger picture. Taking into considering promotion and its incidence, the author would like to measure the overall marketing mix innovation level. If regulations affect the degree of

Research question 3: Is there a point where marketing innovation is completely hindered by regulations?

innovation, than there must be a point where the intensity of marketing regulations can suppress any attempt to market the products.

The first hypothesis is that in a closed market context, regulations amend any marketing activities and condemn the market to fail to renew itself. Alternatively, the author formulates that tobacco marketing has infinite capacity to resist regulations in line with concerns raised by Allan Brandt.

1.5. Summary of research problems

Do tobacco-marketing regulations foster industry innovation?		
RESEARCH PROBLEMS		
Which variables of the marketing mix are affected by regulations?	How full-promotion ban has been compensated when being introduced?	Is there a point where marketing innovation is completely hindered by regulations?
HYPOTHESIS		
H1: Promotion activities are mostly concerned by marketing regulations.	H2: Promotion regulations cannot be compensated by innovation in other fields.	H3: Heavily regulated markets show absolutely no sign of innovation.

1.6. Expected contribution

Governments, main stream media and some scientists postulate that tobacco multinationals have been and are currently at the forefront of marketing techniques, developing schemes to increase the number of smokers (Arnett, 2007; ABC News Australia, 2012). The Pharmacist review Clinical even published an article referring to the “the ‘Evil Geniuses’ of Tobacco Marketing” (Marcus, 2008).

Marketing itself remains today largely a field of ethical controversy; for some, consumers are victims of corporate manipulation, and marketing is branded as evil (Kandy, 2005). Among all industries, tobacco marketing is then the ultimate evil. Is this justified today?

The author aims at evaluating how the tobacco industry has reacted to governmental, forced regulations. Regulations and anti-smoking campaign have indeed proven to reduce cigarettes appeal on a macro level, but effects have said to be counteracted by industry marketing efforts. Other researchers have questioned the importance of tobacco advertising and their innovation aspect. Through a case study analysis, this study intends to bring a representation of the incidence of regulations on marketing innovation in three distinct markets. Has marketing innovation been able to successfully outwit the effects of governmental regulations? Or is the tobacco industry condemned to disappear?

More generally, the author is taking an atypical perspective on tobacco marketing research; existing research often focus on anti-tobacco advertising but ignores the difficulty encountered by the industry (Simonich, 1991, Bardsley, P. & Olekalns, 1998). In the most regulated countries, multinational tobacco corporations have access to very limited possibilities. Whether the author can demonstrate that in those regulated market, tobacco companies have still been able to operate successfully by innovation, would be an additional evidence of their resources. Else, the thesis does not intend to demonstrate that the lack of innovation would inevitably result in tobacco ends, but the author discusses that interrogation.

Additionally, innovation measurement is a crucial issue when designing research in this field, and every case differs. From an academic perspective, this thesis provides a first

contribution by investigating how marketing innovation can be measured. The author presents a review of existing methods, and marketing practices in the tobacco industry to find relevant variables applicable to the tobacco industry.

Finally marketing regulations are widespread and do not only affect the tobacco industry. This thesis calls for further research in other industries. Are the results obtained in the Tobacco Industry similar to those from other corporations? Regulations may initiate unwanted outcomes if they happen to foster innovation in a number of markets. Generally, governmental regulations are a growing issue among industries. There are full or partial bans on marketing communications in many other industries, including alcohol, pharmaceuticals, entertainment, legal and financial services, including banking. By looking specifically at the tobacco question, the author aims at understanding if marketers circumvent regulations efficiently, and this could be applied to other sectors.

1.7. Delimitation of research

The thesis refers to tobacco marketing, tobacco companies and tobacco products, but the author delimits the product to cigarettes. Cigarettes are defined in the United States by the Federal Cigarette Labelling and Advertising Act as: *“(A) any roll of tobacco wrapped in paper or in any substance not containing tobacco, and or (B) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labelling, is likely to be offered to, or purchased by, consumers as a cigarette described in subparagraph (A)”* (FDA, 2009). Tobacco products, such as roll your own and snus, more generally referred to as smokeless tobacco, are outside the scope of research. Electronic cigarettes are also voluntary not studied but discussed at the end of the research.

Furthermore, the author voluntarily focuses on global activities of multinational corporations as their respective national activity can be more easily compared. Although illegal activities occur on the tobacco market, only legal activities are studied. Finally, The author tried to remain as neutral as possible while acknowledging the delicate ethical issues in promoting a hazardous product.

2. Review of Innovation theories

A comprehensive review of the literature was first undertaken to identify previous studies. Without a clear epistemic community, pre-existing or assembled by the author, the thesis is a “pseudo-communicative task” (Shaw, 1991). A number of databases (LexusNexis, ProQuest, Business Source Premier...) were used to identify empirical literature published between 1950 to November 2012. The author is in this part giving an extensive review of literature on innovation essence and measurement.

2.1. Understanding the construct of creativity and innovation

There are a vast number of issues related to measuring innovation. First, there is a crucial need to clarify what are the processes involved and particularly where the difference between creativity and innovation lies. The author initial focus was on creativity. While the concepts of creativity and innovation are closely related, they are significantly different.

2.1.1. Economic and human focus

When investigating creativity, there is a profusion of research that has focused on its economic aspect. From this perspective, creativity is said to be the heart of the western economy. (Cunningham, 2006, Maskell & Malmberg, 1999; Guerrero-Cusumano & McGuire, 2001, Acs et Al, 2002). The direct measurement of creativity is a compelling factor of economic growth, which has been at been included in many economics research (Grupp, 1998). For the United Nations, “*the creative industries are central to the economic system and encompass the cycle of creation, production and distribution of goods and services that use intellectual capital as their primary input*” (United Nations, Creative economy report, 2008). Considering this definition, most industries are actually creative or partially require a form of creativity. As a consequence, today creativity is one of the most sought after skill among candidates (De Waal, 2012).

This focus on human creativity is used to justify diverse public policies. From this point of view, human creativity is viewed as a learning process that generates or acquires new knowledge, and allows its economic utilization a part of the innovation process (Witt, 1993). A problem associated with this understanding of the process is the lack of correspondence between the economic significance on the one hand, and the scientific and technological significance on the other hand (Hipp & Grupp, 2005). A new type of cigarette has a greater economic impact greater than the discovery of a new star.

2.1.2. Corporate creativity

Some researchers have focused exclusively on human creativity and innovation from the perspective of accumulation and application of knowledge and competencies, nonetheless scientific, marketing and technological processes have also been questioned (Lundvall, 1992). Creativity in the latest is applied to enterprises as distinct entities. The thesis focuses on creativity and innovation at the institution level, or what the author refer to as corporate creativity and innovation.

Much of the empirical research has defined creativity as an outcome, focusing on the production of new and useful ideas concerning products, services, processes, and procedures (Zhou, 1998). Creative outcomes can range from minor adaptations in workflow or products to major breakthroughs and the development of new products or processes (Mumford & Gustafson, 1988). From an organization perspective, creativity specifically involves producing novel and useful products, processes, or services (Shalley, 1995). However, this is where creativity can be confused with innovation.

2.1.3. Core distinction between innovation and creativity

Creativity differs from innovation in that innovation refers to the implementation of ideas at the individual, group, or organizational level (Amabile, 1996). In other words, creativity is the first stage in the thinking, and innovation the concrete implementation. King (1992) states that 'there is increasing awareness that innovation is a process'

although the process is ‘fluid without a fixed sequence of stages’. Creativity occurs at the beginning of this process and is complementary. This is one the reason that explains why a climate for creativity had a sizable effect on innovative achievement (Hunter, et Al, 2007). This “interactive process perspective” to innovation includes various elements (Slappendel, 1996). While creativity embraces cognitive elements such as knowledge creation, idea generation and idea screening, innovation encloses structural elements such as business processes, benchmarking, and knowledge and quality management (McAdam & Keogh, 2004). This can be visualized on figure 1. This understanding is crucial for companies, an explicit and “meta-cognitive awareness of the creative process” can do much to enhance “long-term creative results” (Adams, 2005).

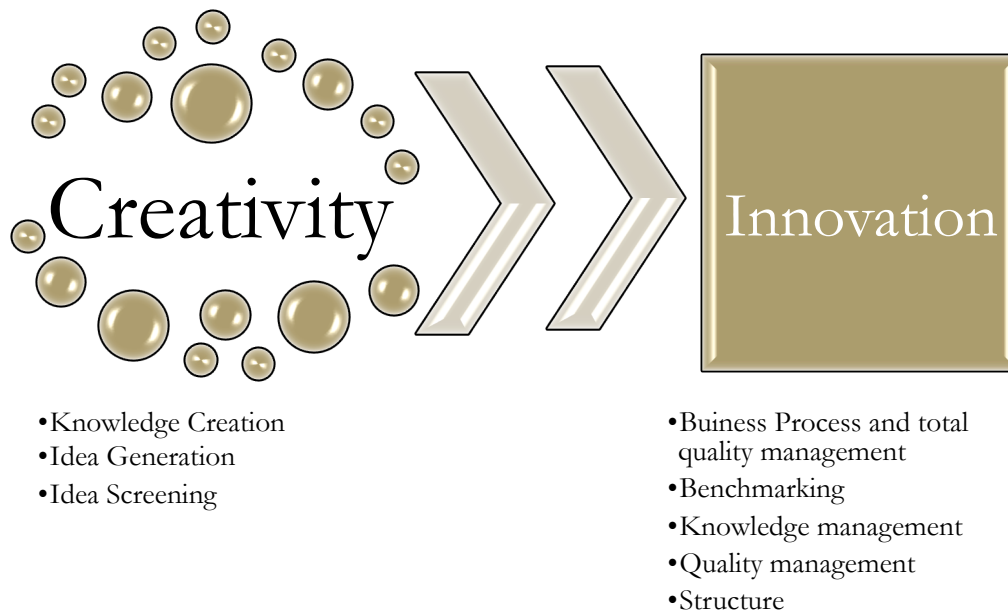


Figure 1: Interactive process perspective to Innovation inspired by McAdam & Keogh (2004)

For Myers & Marquis, it is important to insist that innovation is not simply the conception of a new idea, but an integrated matter (Myers & Marquis, 1969). Innovation is therefore a process of turning opportunity into new ideas and of putting these into widely used practice (Tidd & Bessant, 2009). It integrates several aspects, from technology development, manufacturing and marketing of new or improved product and services (Trott, 2008). No matter what those aspects are, this implementation has to result in a change for the organization. According to Damanpour (1996) “*Innovation is*

conceived as a means of changing an organization, either as a response to changes in the external environment, or as a pre-emptive action to influence the environment.” An additional implication of the process view of innovation is that the creative part, may lead to several distinct innovations. Since creativity is idea-based, it must be truly novel, whereas innovation can be based on existing ideas (Rank et Al, 2004).

2.1.4. **Archetype of innovation**

Tidd identifies four major types of innovation, product and service innovation, process innovation, paradigm (business model) innovation and position innovation. Those are known as the 4Ps of innovation. Product or service innovation is the most recurrent. This form introduces or improves a product or service for end-users. Secondly, innovations can also focus on processes through which products are created or delivered. The third focus of innovation involves re-positioning the perception of an established product or process in a specific context, altering how product or services are perceived or used. Paradigm-based innovation, the fourth “p”, defines or redefines the dominant paradigms of an organisation or entire sector, modifying mental models which shape what an organisation or business is about (Tidd & Bessant, 2009).

2.1.5. **Degree of innovation**

In addition to classification, researchers have also tried to establish measurement degrees of innovation level. A common view on innovation level has been to classify the different degree from radical to incremental, and sustaining to disruptive (Johannessen, 2008). This designation varies essentially according to author and has similar denotation. Clayton Christensen contrasts ‘disruptive’ with ‘sustaining’ innovation. The term ‘disruptive’ alters conventional paradigm of the market, disruptive innovation creates a new market by applying a different set of values, which ultimately and unexpectedly overtakes an existing market. Sustaining innovation on the other hand does not affect existing markets (Christensen, 1997). On the other hand, Dewar and Dutton (1986) distinguish between ‘radical’ and ‘incremental’ innovation. Incremental are minor improvements or simple adjustments, whereas in contrast radical innovation represents fundamental changes that represent revolutionary changes. However, in the scope of this

research, the author delimits the innovation from a product definition: cigarettes. Therefore, only incremental or sustaining innovations are examined. Other measurements attempts include extensive mathematical formula. German researchers Blinz and Reichle (2006) have used estimated value of importance of novelty for each customer and product requirement. However, no matter which numerical model is chosen, mathematical models require subjective estimations in their model.

2.2. Innovation measurement framework

Characterizing innovation has lead researchers to set up various frameworks to measure not only the degree, but simply to quantify innovation.

The literature is characterized by a diversity of approaches, recommendations and practices. In the innovation process, the main challenge is actually to collect and measure intangibles and subjective data. Conceptualized as a process, innovation measurement can be found in multiple research work with various focuses. A first problem associated with the measuring innovation is uncertainty (Mansfield, 1977). The means used to achieve innovation can differ from the outcome and not to be correlated in economic terms. Many innovations do not have positive financial effects, and some successful innovation did not require major work (Scherer, 1999). Therefore, as in many other aspects of economic measurement, two main fields can be observed the economic object - in this case the innovation themselves, or the economic subjects - in this case, the innovating firms, or the means to achieve innovation. As the thesis already defines clearly the economic subject – the tobacco industry and voluntary takes a corporate point of view, the author concentrates on the economic object, the innovation itself.

Measuring innovation incorporating is much easier if the focus is on the technological aspect. Although invention and innovation differs, invention is roughly the technological outcome of innovation with certain limitation. Tether and Howells (2004) advocate that ‘invention’ is well captured through R&D, patents and commercialization of inventions is measured through surveys. The authors point out *“the gap is in areas like diffusion and integration of technologies and practices, which require combinations of, and mutual*

adjustments to, skills, technologies, and organizational forms.” This means that technological measurement is not applicable to all innovation.

More concretely and for any type of innovation, in order to measure innovation a measurement unit should be chosen. For example, one of the most notable ways of measuring technological innovation is patent statistics. Multiple researchers have used this method as patents represent a unique source of information on inventions and innovations (Lanjouw, 1996). Nonetheless R&D and patents based measurements present a crucial limitation in the tobacco case: they reflect activities carried out in the industrial or manufacturing sectors and are not relevant for measuring innovation in the sector. Patents also do not really apply in the cigarette industry from a marketing perspective.

Additional, expenditures in marketing could be used as a measurement unit, particularly product launches. Nonetheless, it remains difficult to have access to numbers specifically dedicated to new projects. Sales number indicated by new products can also be taken into considerations. However, those variables work once again particularly well for manufactured products. Rogers (1998) highlights that there is no standard definition and a measurement method applicable to all industries can be not straightforwardly defined.

The logical conclusion is that each measurement framework has to be designed independently. Neely et al.’s action research has however let to a simplified set of the four universal guidelines for the measurement of the process of creativity and innovation. For the authors, the purpose of each performance measure should be made explicit; there should be clear data-collection methods. All stakeholders should be involved in the selection of the measures. The measures should be changeable based on organizational and environmental dynamics (Neely et Al, 2000).

Following this guideline, the author will attempt to build on a measurement model applicable to marketing innovation in the tobacco industry by reviewing the different variables encountered in the marketing process of tobacco products, precisely cigarettes.

3. Review of Tobacco marketing strategy

In this part, the author review existing practices aims describes the marketing practices used by industry players in order to identify key variables for measurement purposes.

According to the industry, marketing restrictions in the tobacco industry have produced a direct relationship between innovation and sales. For instance, 10% of sales in 2010 came from innovations made in the last 3 years (BAT, Delivering growth through innovation, 2010). This innovation in products and marketing is driven by the desire to increase market share and therefore profits (Lewis & Wackowski, 2006). This review needs to clarify what are the marketing activities involved in tobacco strategy.

3.1. Marketing mix and tobacco

The American Marketing Association defines marketing as “*the process of planning and executing the conception, pricing, promotion and distribution of goods, and service to create exchanges that satisfy individual and organizational goals*”. This is the very central and conventional approach to marketing. The author previously defined innovation from a producer point of view, but innovation also refers to any good, service, or idea that is perceived by someone as new (Kotler, 2001). Furthermore, Rogers (1995) defines the innovation diffusion process as “*the spread of a new idea from its source of invention or creation to its ultimate users or adopters*”. Eventually, innovations and marketing activities are highly dependent, whether the marketing activity is the innovation itself or a consequence of the innovation. Tobacco marketers are confronted to design their work in optimizing either the innovation diffusion or the innovation. How do they usually work?

Borden (1965) introduced the concept of the marketing mix with 12 elements: product planning; pricing; branding; channels of distribution; personal selling; advertising; promotions; packaging; display; servicing; physical handling; and fact finding and analysis. McCarthy later regrouped Borden’s 12 elements to four elements or 4Ps,

namely product, price, promotion and place at a marketing manager's command to satisfy the target market (McCarty, 1964). This marketing mix management has dominated marketing thought, research and practice ever since (Grönroos, 1994).

3.1.1. Target groups

Previous research has also demonstrated that smoking tobacco is not often a rational decision. Psychological models of persuasion called dual process models argue that one route to persuasion is effortful, systematic, and focused on persuasive arguments, but smoking instead is based on heuristics, peripheral cues, and experiential or affective processing: Heuristic-Systematic Model (Chaiken, 1980). In a more simple way, Hibbard and Peters (2003) describe two modes of thinking that can determine judgments and decision-making: one is analytic and logical; the other is emotional and intuitive. Emotional advertising seeks to emotionally influence the target audience and to encourage them to identify with the advertisement (Du Plessis & Rousseau, 2003). This emotional approach is evident in previous tobacco marketing efforts. Philip Morris used the Cowboy image on its commercials, because the image *"would turn the rookie smokers on to Marlboro the right image to capture the youth market's fancy a perfect symbol of independence and individualistic rebellion"* (Yesmoke, 2011). Rational advertising approaches, on the other hand, are based on the objective and factual features of the product, such as *"more doctors smoke camels"* (Lamb et al., 2000). This type of claim is less frequent in tobacco, at least nowadays. If the emotional approach is the most common, how are then the target group segmented?

Marketers divide actual and potential smokers into segments: groups of consumers who respond similarly to a given set of marketing messages on the basis of needs, characteristics, or behaviour (Kotler, 1999). Segmentation is a commonly used approach for defining the target market, in which specific audiences are identified for a product by dividing a mass market into subsets on the basis of variables such as demographics, geography, and preference for product benefits, consumption patterns, and psychographics. For more than thirty years, tobacco marketers and public health

researchers portray smoking initiation as a progression of stages (Philip Morris cited in US Dept. of Health, 1994). Tobacco industry researchers have used models presenting the creation of an addicted smoker in a series of periods, each with different needs and motivations, and have developed marketing strategies to move people through this process. For example, in 1973, a tobacco specialist illustrated how the young smoker progresses from “pre-smoker” to “learner” to “confirmed smoker”, and recommended to orientate marketing to match those two groups (Teague, 1973). Apart from the obvious non-smoker/smoker partition, the tobacco industry has tailored messages to different attitude and lifestyle. To respond to tobacco perception of any target group, smoking can be promoted with logically contradictory messages as a way to rebel for a given target and as a way to conform for another one (Harper, 2001). Ethnic and sexual minorities marketing have also given positive results for the industry. Cigarettes ads have for instance been more numerous in publication aiming at black and gay consumers. Tobacco companies have successfully been pioneers in gay specific marketing, the rate of smokers is twice as high for the latest (Pollay & Jung, 1992, Washington, 2002).

3.1.2. Promotion & advertising

Promotion is by far the most important of any marketing activity. It has a legal definition in Canada as a representation about a product or service by any means, whether directly or indirectly, including any communication of information about a product or service and its price or distribution, that is likely to influence and shape attitudes, beliefs and behaviours about the product or service (Federal Tobacco act, 2003).

There has been clear evidence that tobacco industry advertising and promotional activities can influence non-susceptible never-smokers to start the process of becoming addicted to cigarettes, for instance *“34 per cent of all experimentation in California between 1993 and 1996 can be attributed to tobacco promotional activities and 70% of confirmed never-smokers were categorized as receptive to tobacco advertising and promotions”* (Pierce & Al, 1999). In the years leading up to the 1975 advertising ban, all

tobacco manufacturers spent US\$ 7 to 7.5 million in magazine and newspaper advertising. Adjusted for inflation, spend in 1995 was estimated at UM 9.3 to 10 million for all types of marketing activity.

Promotion planning starts with a clear target market (Kotler, 1999). The author has reviewed a few possibilities in the previous paragraphs, but one of the crucial points of the industry players is targeting the right demographics (CQCT, 1999). According to RJR, the renewal of the market stems almost entirely from 18-year-old smokers. No more than 5 per cent of smokers start after age 24 (Diane Burrows – RJR researcher, 1984). The brand loyalty of 18-year-old smokers far outweighs any tendency to switch with age. All internal industry documents reflect that priority (Philip Morris USA, Corporate five year plan 1992 – 1996). Imperial Tobacco in 1988, defines “target groups” for various brands as “men 12-17” and “men and women 12-34”. The documents also mentions *“If the last ten years have taught us anything, it is that the industry is dominated by the companies who respond most to the needs of younger smokers* (Imperial Tobacco. Overall Market Conditions, 1987). *“Our efforts on these brands will remain on maintaining their relevance to smokers in these younger groups in spite of the share performance they may develop among older smokers”*. For RJR, their strategy relied on one major aspect: Marketing to children. *“As this 14-24 age group matures, they will account for a key share of the total cigarette volume – for at least the next 25 years. Thus our advertising strategy becomes clear for our established brands: marketing to children* (RJR, 1974).

However, advertising to children became more and more controversial worldwide. Brown and Williamson published a memo in 1975 to avoid explicitly referring to children *“when describing market categories and target audiences we use references such as ‘young smokers’, ‘young market’ ‘youth market’ etc. ...in the future when describing the low-age end of the cigarette business please use the term ‘young adult smoker’ or ‘young adult smoking market’”* (Brown and Williamson, 1975). Therefore all documentation found later mentions young adult smokers which actually including teenagers.

This strategy has been extremely successful for some brands. Fisher, Schwartz and Richard demonstrated that adverts for Joe Camel are effective in reaching children. Their study highlight that more than half of the children aged three to six who were presented with a variety of products matched the Joe Camel logo with a photo of a cigarette, overall the children knew Joe Camel nearly as well as Mickey Mouse (Fischer et al, 1991).

The use of non-traditional media such as sponsorship has only recently come into question. Sponsorship-linked marketing programs have similar effects as the advertising of tobacco products. The movie industry has offered one of the main communications for tobacco companies. In countries, where the restrictions are not in place, studies have shown this is an efficient strategy. Tobacco uses in Bollywood movies have largely increase the receptivity of tobacco products of Indian teenagers (Agora & Al, 2012).

Sports sponsorship has also vastly been used with great success. The purpose of this marketing strategy was to link cigarette brands with an exciting, popular and highly skilled sport to improve the image and appeal of the cigarette brand. Sports sponsorship also weakened smoking health warnings by combining cigarettes and physical capability. A study shows that: *“children were most aware of the cigarette brands which are most frequently associated with sponsored sporting events on TV”* (Ledwith, 1984). This demonstrates that the TV sports sponsorship by tobacco manufacturers acts as cigarette advertising to children and therefore circumvents the *“Marketing to children law banning cigarette advertisements on TV”* (Health Education Journal, 1984). J. Reynolds Tobacco Company said about using sporting events to advertise its cigarettes: *"We're in the cigarette business. We're not in the sports business. We use sports as an avenue for advertising our products. We can go into an area where we're marketing an event, measure sales during the event and measure sales after the event, and see an increase in sales"* (RJR, 1987). Finally, the tobacco industry is promoting their products in nightclubs by holding themed events. Models wearing cigarette brand colour clothing are invited club clients to buy their products directly (Oxygen, 2012).

3.1.3. Place

Place in the marketing mix refers to the mechanism through which goods and/or services are moved from the manufacturer/ service provider to the user or consumer. It includes two aspects: distribution and location (Kotler, 2001).

Regarding distribution, the classic channels for tobacco products are primarily bricks-and-mortar retailers, convenient stores, supermarkets, tobacco stores. The density of store retail has been an important element to induce consumption of cigarettes. For example, the more tobacco outlets surrounding high schools in Ontario, Canada, the greater the likelihood underage smokers purchased their cigarettes (Leatherdale, Strath, 2007). An American study also concludes that residential proximity to tobacco outlets influences smoking cessation and that zoning restrictions to limit tobacco sales in residential areas may complement existing efforts to reduce tobacco use (Reitzel et al., 2011). Surprisingly, restricting density of tobacco distribution has been mentioned and put in practice for alcohol product (Room et al., 2006).

The other aspect that might be more relevant is location. The primary point of communication between tobacco companies and consumers is indeed inside a retail outlet. There is a much greater focus on the quality of the in-store POS material (Philip Morris Australia, 1995). In-store activity has actually been of ever-growing importance since at least 1970, as a consequence of restrictions on other means of promoting sales. Tobacco displays act *“as a potent marketing tool, which normalise smoking and allow the tobacco industry to communicate with non-smokers, ex-smokers and established smokers”* (Wakefield et al., 2006). *“Displays should accomplish the five steps of selling, just as advertising and personal selling should. The five steps mentioned are as follows: (1) attract attention, (2) arouse interest, (3) create desire, (4) build confidence and (5) direct action”* (Pollay, 2007). According to industry players, maximum perceptual recognition should be achieved at point-of-sale by the appropriate pack style and design, by dynamic display layout, and by point-of-sale advertising materials (BAT, 2012). POP serve the ultimate strategic goals of differentiating brands from one another so as to minimise competitive substitution and the associated price competition that squeezes

profitability. The effectiveness of displays at POP helps explain why the tobacco industry have increased marketing expenditure within the retail environment, especially when other marketing channels have been closed off to them.

3.1.4. Product

A tobacco product is, in essence, a vehicle for delivery of nicotine, designed to deliver the nicotine in a generally acceptable and attractive form (Agora, Tewari et Al. 2012). New products provide a pretext to reach out “legitimately” the market, and playing on the lifestyle idea through flavours, colour, size or packaging. Director of Global Customer Strategy, Planning, Insights & Development for BAT explained that “*Vogue, and in particular lines such as Ephemère, is all about moving beyond tobacco towards the kind of merchandising that has served perfumes & cosmetics well, and it’s about new ways of engaging with consumers*” (Moodie Report, 2008).

Examples of global innovation in the tobacco industry include transforming cigarettes into small cigars, a category that is less regulated than cigarettes (Fox News, 2010). This has allowed what are essentially brown cigarettes to be sold in single sticks. Furthermore, tobacco manufacturers have recently introduced an abundance of flavours. Internal tobacco industry documents exposed “*the development of many new flavours delivery technologies hidden from consumers and public health professionals, including the use of a plastic pellet placed in the cigarette filter*” (ABC Australia, 2010).

Apart from the product itself, packaging is a crucial element. British American Tobacco and Philip Morris have predicted that pack design alone will drive brand imagery: “*The primary job of the package is to create a desire to purchase and try*” (Philip Morris, cited by Tan Yen Lian). “*In the absence of any other marketing messages, our packaging is the sole communicator of our brand essence. Put another way, when you don’t have anything else – our packaging is our marketing*” (Philip Morris cited by Hulit). Packaging greatly influences the perception of consumers (Wakefield & Al. 2002). Use of pack design and colour to communicate the false impression of less harm of lower tar or milder cigarette,

for instance research has already shown that using words such as "light" "mild" and "low tar" on cigarette packaging misleads consumers into thinking that one brand carries a lower health risk than another (Hammond, 2010). Other less obvious elements on a package also contribute to affect the buyer's attitude. Cigarettes are seen as less hazardous when the packs display words such as "silver" or "smooth" have lower numbers incorporated into the brand name or have lighter colours or pictures of filters on the pack (Hammond, 2010). Cigarette packs also contribute to communicate the "personality" of a brand to smokers (Wakefield & Al. 2002). Studies that tested a range of branded and unbranded packs found that this difference increased as progressively more branding elements and descriptors were removed: in other words, the plainer the pack, the less attractive (Cunningham, 1995).

3.1.5. Pricing

Pricing involves determining the monetary cost of products, including taxes, and from a consumer perspective, the time and effort required to purchase the good. *"Firms typically determine their break-even point and evaluate whether they will be able to cover all of their costs and generate a profit with their product listed at a particular price"* (Dewhirst, 2012). Despite tobacco being an addictive product, price has, nevertheless, been shown to have an important influence on consumption (Ontario Tobacco Research Unit, 2002). Tobacco price strategy intends to cover the effects of inflation and preferably increase profits. Industry players have mostly used pricing as a competitive tool to gain market shares and contribute to consolidate the markets. For Kluger (1996) *"low priced cigarettes and other tobacco products, including some priced below manufacturing costs were used to drive competitors from the market"*. Moreover, in the US, tobacco multinationals spend 83% of their marketing budget on price discounts, coupons, and retail value-added promotions (Cohen, 2012). Research also shows that increasing the price of tobacco products is the most important means of reducing tobacco consumption. This instrument has been widely utilised in Norway, which has imposed high taxes on tobacco products (National Strategy for Tobacco Control 2006-2010, Nova Scotia office of Health Promotion, 2011).

4. Regulations overview

In this part, the author aims at discussing which type of regulations is mostly affecting the tobacco industry. The reaction strategy of the tobacco industry is also shown to be distinct from most industry, as it has organized strategically to diminish the effects of regulation.

4.1. Regulations motives

Tobacco companies have maintained that tobacco was not as dangerous as it is said to be. In 1976, Philip Morris published the following statement: *“None of the things which have been found in tobacco smoke are at concentrations which can be considered harmful. Anything can be considered harmful. Apple sauce is harmful if you get too much of it”* (Wakeham, director of research at PMI interrogated by Taylor, cited by Sourcewatch, 2012). In 1999, the chairman of BAT, in a letter to the WHO director general, maintained that tobacco was addictive only in the sense in which chocolate was addictive (Yach and Bettcher, 2000). However, it has been widely accepted and demonstrated that smoking tobacco is a source of danger, raising concerns on how to diminish its importance.

Tobacco has been sold in Europe for over 500 years, and most smokers are addicted to smoking. Addiction undermines freedom of action by diminishing the ability to choose not to smoke (NIDA, 2012). A smoker who makes a serious attempt to stop smoking has less than a 5 % chance of being off cigarettes a year later (Sachs, 1991). For that reason, banning tobacco products would not be efficient, and create an illegal market that would deprive governments from tax revenue. Therefore, instead of simply banning the products, governments and health organization have introducing or supported more and more regulations on the sale and marketing of cigarettes.

4.2. Voluntary regulations

Previous literature and research distinguishes two types of regulations: voluntary (or self-regulations) and forced ones. Baggott (1986) describes a voluntary agreement as government exercising policy by way of a non-statutory negotiated agreement. Industry-

inspired voluntary marketing restrictions or in other words self-regulations create a sense of concern and responsibility. Self-regulation is a principle founded on the liberal ideology of non-intervention by governments in free enterprise systems (Chapman, 1980). In 2001 for example, British American Tobacco, Philip Morris, Japan Tobacco International, and five smaller tobacco companies publicly signed the International Tobacco Products Marketing Standards, an industry voluntary regulation (Lewis, 2001).

Nevertheless, self-regulation however may include measures known to be ineffective by anti-smoking lobbyists. Industries under threat often claim that self-regulation is sufficient and that they deserve the public and government's trust. As early as January 1954 in the US, the industry published "A Frank Statement to Cigarette Smokers" top Big Tobacco executives signed the following statement: *"We accept an interest in people's health as a basic responsibility, paramount to every other consideration in our business"* (Tobacco Industry Research Committee, 1954). Voluntary codes of advertising, very similar to the proposed Standards, were first adopted in the United States, Canada and Britain in the 1960s. Anti-smoking lobbyist criticized those restrictions are those codes are not particularly restrictive and were written with obvious loopholes (Richards et Al, 1996). For instance, The U.S. National Association of Broadcasters, in a confidential pointed out the intrinsic obstacles that tobacco advertising regulation was confronted to. For instance the non-target of younger audience. "Despite the changes which have been brought about in cigarette advertising on radio and television.... smoking is still made to appear universally acceptable, attractive and desirable" (National Association of Broadcasters, 1966).

Voluntary regulations are today a lot of weaker than constraint regulations. Furthermore, according to the oxford dictionary, a regulation is a rule or directive made and maintained by an authority (Oxford dictionary, 2012). The author therefore concentrates on constraint regulations.

4.3. Regulations and globalization

The most important international regulation has been developed by the World Health Organization (WHO) under the name of Framework Convention on Tobacco Control (FCTC). The FCTC is an international treaty designed to reduce the health damage of tobacco by committing signatories to enact laws that control the tobacco industry's production and promotion of tobacco, increase taxes, and promote education about the dangers of tobacco use and second-hand smoke. The FCTC was passed in February 2005, and, as of April 2009, 164 countries had ratified and were implementing the framework. Although the FCTC has contributed to shape global regulations, there are still a significant part that are led to federal, national or state/provincial governmental. Those require a depth analysis for each chosen market of studies.

4.4. Reaction to regulations

The fight against constraint regulations, either by lobbying or demonstrating some positive effects of tobacco highlights one fact, is probably the best proof that regulations impact tobacco multinationals activity.

Confronted not only to WHO regulations, but also national regulations, the industry has developed a strategy to influence regulations. The tobacco industry, behind the think tank INFOTAB, published *“A guide for dealing with anti-tobacco pressure groups”* (Infotab, 1989). This guide calls for the establishment of an *“early warning system” to detect dangerous signs such as the presence of a WHO regional office.* If a pro-tobacco control group is identified, the think tank recommends that the industry *“form industry lobby groups and alliances with the core arguments freedom/liberty, attack the credibility of activists; and stress the industry’s role in jobs and revenue”*. For instance, the tobacco industry has long maintained that tobacco-advertising bans constitute an infringement of commercial speech rights (Hinojosa, 1997). Thirty years ago, Brown and Williamson proposed to launch an advertisement proclaiming: *“The cigarette industry is being maliciously, systematically lynched . . . It’s more than cigarettes being challenged here. It’s freedom”* (Post-Keyes-Gardner cited by Glantz, 1996).

Besides lobbying activities, the industry players have traditionally invested a lot in product research to influence people’s judgement. Claude Teague, assistant director of

research at RJR comments (1973) *“the tobacco industry may be thought of as being a specialised, highly ritualised and stylised segment of the pharmaceutical industry. Tobacco products, uniquely, contain and deliver nicotine, a potent drug with a variety of physiological effects.”* If tobacco is similar to pharmaceutical industry, then it is also because it manages to have claimed to prove certain health benefits. In 1999, research carried out by the Parkinson's Institute in California showed that smoking may lessen the risk of Parkinson's disease (American Academy of Neurology, 2000). Other scientists have suggested that smoking may reduce the risk of hypertension (Marcoux et Al, 1989). Tobacco companies have funded research into sterility to prove smoking does not affect fertility (Nocera, 2006).

5. Methodology

Innovation is nowadays a fundamental determinant of value creation in business companies and economic growth. Therefore, the measurement of innovation has become a significant concern. Previously the author reviewed the different aspects of marketing innovation in the tobacco industry in order to build on a relevant methodology.

5.1. Approach

For the purpose of this thesis, the author undertook a qualitative approach, drawing upon secondary data on the subject matter from a range of sources across specific regions.

Based on logic models for case studies, the author first considered various approaches. The methodology itself was driven by outcomes, time, cost and efficiency. The research method chosen was that of building understanding using a number of case studies in an exploratory manner. The author bases his definition of case research on Benbasat et Al (1987). A case study typically uses multiple methods and tools for data collection from a number of entities by an observer in a single, natural setting that considers temporal and contextual aspects of the contemporary phenomenon under study, but without experimental controls or manipulations. More specifically, the author aimed at observing innovation measurement unit, combining weighted measures of attributes into overall innovation and compare it to other weighted factors of regulations. This combination was used in an empirical way to solve the different research questions.

The sample consisted an overlook of global activities and a comparison between three regions with different levels of regulations. Data were gathered mostly from four companies, representing “*the big tobacco*” presented in the introduction.

From a detailed review of the literature, the author observed that most studies have been focused on the danger of smoking and how to address addiction by regulations; extremely little has been written on how to address regulations by marketing. As a result of the scarceness of academic research in this particular area, the author relied on industry data,

and observation collected throughout the web. Some isolated observations in the case country were made in the case of Norway and Canada when online data was missing.

5.2. Geographical scope

Initially, more than 50 countries regulations were reviewed and explored. Different variables were retained according to literature. They covered the wide range of tobacco marketing activities or what is defined as such by the World Health organization. These countries were known to have various levels of regulations in different fields. The three markets that qualified to be representative of three levels of regulations were Indonesia (low level of regulations), Norway (really high level of regulations) and Canada (high level of regulations with some loopholes).

Global marketing innovations were presented first. Considering the small number of cases retained (3), the author wants to ensure that each innovation was distinct and nationally anchored. In the case of global innovation that occurred globally and in the three case markets, a more detail description was presented.

5.2.1. Indonesia

Indonesia was chosen for being a large non-regulated market. With a population of 234 million inhabitants, the country has the fifth highest tobacco consumption rate in the world evaluated at 31.5% and more than 60% in rural areas (WHO, 2012). Tobacco consumption has increased steadily since the 1970s, and it is also a major tobacco producing country, the 7th largest to be exact. Cigarettes in Indonesia are among the cheapest in the world, at RP 6, 000 (US\$1) according to data from the Southeast Asia Initiative on Tobacco Tax. The country is the only one in the Asia-Pacific region that did not sign the FTCT, and the government has virtually no tobacco control activities in place (WHO, 2012). The state is actually largely supporting tobacco product and trade. According to Euromonitor, there has been three phases of public policy in Indonesia, a pro-tobacco during 2007-2010, a balance pro/anti phase between 2010 and from 2016, the government will start prioritizing health issues over both employment and tax revenue

(Euromonitor, Indonesia Country Report, 2011). The country appeared in multiple researches as one of the least regulated, and multiple critics have been published over the poor regulations. A video published on YouTube by ITN news draw attention to the problem as it shows a young child smoking. (ITN news, 2012) According to Tobacco activists, the average age to start smoking has fallen from 19 a decade ago to just seven today (Financial Times, 2010).

5.2.2. Norway

Norway on the other hand is one of the most regulated countries in the world regarding tobacco. The WHO listed Norway among the highest achieving country to ban promotion, advertising and sponsorship and the only one in the OECD (See appendix 11.8). It was Norwegian Ministry of Health stated, *“In Norway we are now in what could be called the final phase of the tobacco epidemic, which is typified by a significant decline in smoking”* (National Strategy for Tobacco Control 2006-2010). Norwegian law has prohibited the advertising of tobacco products since 1975, while sponsorship, advertising through retail point-of-sale is also forbidden (WHO, 2012). Tobacco Control Policies in 28 European Countries have been ranked according to their total number of points in the areas concerned and Norway scored the third highest after Iceland and the UK (Joossens & Raw, 2006). In the ranking, Iceland a small market was eliminated due to limitation of data. The UK came at second place; however, the scale used by this research takes into account the GDP spending per percentage towards tobacco control. Norway’s really high GDP per capita relativize its lower ranking compared to the UK (World Bank, 2012). Another reason why the author preferred Norway to the UK is because it has one the lowest smoking rate in the world. Norwegian smoking rate is actually the lowest among developed countries at 493 cigarettes per capita per year versus 790 for the UK making it particularly difficult for tobacco companies to exist. (WHO, 2007)

5.2.3. Canada

In Canada, the Tobacco Products Control Act as of 1988 prohibited advertising of tobacco products. All tobacco products must show attributed warning signs on all

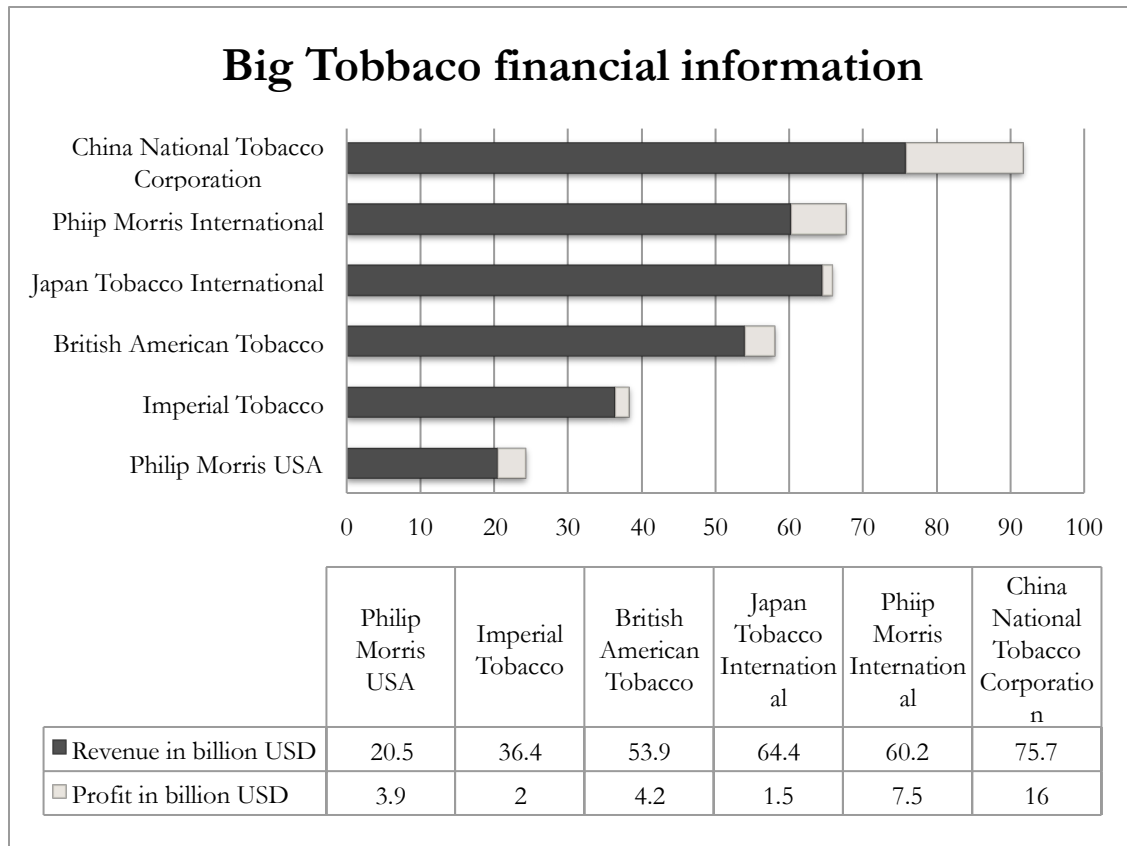
packaging. However, there is significantly less control in Canada than in Norway. In 1991, the Quebec Superior Court ruled in favour of the tobacco companies, deciding that banning tobacco advertising violated right to free speech under the Canadian Charter of Rights and Freedoms. Currently, radio ads, television commercials, event sponsoring, promotional giveaways and other types of brand advertising are prohibited. In May 2008, retail displays of cigarettes in convenience stores in Ontario, Quebec, Newfoundland and Labrador, New Brunswick, and Nova Scotia have been outlawed. They are still legal in other provinces. Overall, certain forms of advertising are permitted, such as print advertisements in magazines with an adult readership of 85% minimum, which is not the case in Norway (Reid & Hammond, 2012).

5.3. Selection of the companies

The tobacco industry is a mixture of some of the world most powerful transnational corporations, state monopolies and a few minor regional players. Regional industries and state monopolies have been declining since 1980 (WHO, Tobacco Atlas, 2010). The goal was to select companies, which by their size and activities are representative of the industry. An additional requirement was that they operate in the countries pre-selected. Four international tobacco companies, called by the mass public “Big Tobacco” - British American Tobacco, Imperial Tobacco, Japan Tobacco International and Phillip Morris International - account for some 45 per cent of the global market, 75% of the global market outside China (BAT website, 2012). This high centralization made it easier to focus on a few brands.

The China National Tobacco Company controls by far the largest market, and account for 39% of the global market share. (BAT Website Market share, 2012) However, it enjoys almost a virtual monopoly in China, and do not operate globally. Less than 1% of the 2.27 trillion cigarettes produced by CNTC are exported each year. (Euromonitor International, China. 2011) Excluding the joint venture and national entity of the big 4 groups, the only company in the top 10 of the tobacco industry is Swedish Match. The company had revenues of approximately 1,860 MUSD twenty times less than the

smallest big corporations, Imperial Tobacco Group. (Bloomberg Business Week, 2012)
Furthermore, Swedish Match specialized itself in smokeless tobacco, which the author did not consider in this thesis. (Swedish Match Website, 2012)



British American Tobacco (BAT) is a British multinational tobacco company headquartered in London, United Kingdom. It is the world's second-largest tobacco company by sales, and it has a market-leading position in over 50 countries and operations in around 180 countries. Its four largest-selling brands are Dunhill, Lucky Strike, Kent and Pall Mall. Excluding the US domestic market, BAT sells the most cigarettes worldwide and has the largest network in the most countries (BAT Website, 2012).

Japan Tobacco International (JTI) is the international tobacco division of Japan Tobacco a leading international tobacco product manufacturer. The company is headquartered in Geneva and sells its brands in 120 countries. Japan

Tobacco International most famous brands include Winston, Camel, Melvius, Benson & Hedges, Sobranie, Glamour, LD and Silk (JTI Website, 2012).

Philip Morris International (PMI), the world's leading international tobacco company with products sold in more than 160 countries. The company is headquartered in New York City, but operates through its operational headquarters in Switzerland and does not operate in the United States. The company has a strong brand portfolio of tobacco products, led by Marlboro; other bands include L&M, Bond Street, Parliament, Philip Morris, and Chesterfield (PMI Website, 2012).

Imperial Tobacco Group (ITG) is a British multinational tobacco company headquartered in Bristol, United Kingdom. It is the world's fourth-largest cigarette company measured by market share. Imperial Tobacco produces over 320 billion cigarettes per year, has 51 factories worldwide and its products are sold in over 160 countries. Its brands include Davidoff, West, Gauloises Blondes and Montecristo, Drum (ITG Website, 2012).

Others:

- R. J. Reynolds Tobacco Company (RJR) references were used in the literature review, the company is owned at 41% by British American Tobacco
- Philip Morris USA/Altria, a distinct legal entity from Philip Morris International was also searched in the review of existing practices.

5.4. Data collection

The Internet and database was searched using specified keyword searches, and terms identified as indicative of tobacco marketing practices. Words were searched in English, French and Norwegian through the help of native Norwegian speaker.

A very valuable resource in the approach was internal documents that have been made public after court investigation, although those documents concern mostly US and British

activities. For instance, in 1999, the British House of Commons Health Select Committee acquired access to internal documents of the main advertising agencies of the tobacco industry as part of their investigation into the conduct of the tobacco industry. A range of documents were obtained including: contact reports between client and agency, client briefs, creative briefs, media briefs, media schedules, advertising budgets and market research reports (their own and others by contracted agencies). The Legacy Tobacco Documents Library (LTDL) contains more than 14 million documents, representing more than 80 million pages created by major tobacco companies related to their advertising, manufacturing, marketing, sales, and scientific research activities (LTDL website, 2012). Out of those 80 million pages, 27 million pages of internal tobacco industry documents were disclosed a result of discovery processes in *The State of Minnesota and Blue Cross and Blue Shield of Minnesota versus Philip Morris et al.* The settling tobacco industry defendants were obligated by the Minnesota settlement to allow public access to the litigation depositories for 10 years (Consent Judgement, 1989). This case resulted in the release of documents from Philip Morris, RJ Reynolds, American Tobacco, the Tobacco Institute, Brown and Williamson, and the Council on Tobacco Research collections to become accessible (Hurt et Al. 2009). Another valuable resource was online tobacco stores and packaging collection website, that help the author to visualize which products are sold in a given market, as well as accessing English information about the product.

Initial searches generated thousands of documents. The author conducted a first screening to avoid redundancy on relevant documents. The final analysis is based on a final collection of approximately 300 marketing research studies, journal publications, news article, questionnaires, online stores and media plans. The author found most of the industry documents from Philip Morris or British American Tobacco. It is important to note the fact that Imperial Tobacco Canada is owned by British America reduced the importance of ITG in our research.

As mentioned in the literature review, the words “young adult smokers” is often designating underage smokers. The author limited his analysis to tobacco industry

documents that reflect legal activities. Some findings that do not conform exactly to regulations are discussed in the results part.

Other attempts to obtain data were made through a casual interview with a lobbyist from Philip Morris International in Switzerland. His responses did not bring additional value. The WHO was also contacted through the health department of the French embassy to the UN in Geneva in Switzerland. The organization replied that all publications were available online. A few data were collected through the support of field researchers. The author asked his friends and relatives living in Norway and Canada to indicate innovation observation.

5.5. Selection of measurement units

Final selection of measurement units was cautiously made after extensive literature review. The author based the selection of measuring units on decomposition of the 4Ps suitable for the tobacco industry with a focus on location and not distribution in the place aspect. Four items were employed to measure innovation in three different markets. All of them were qualitatively detailed.

Products

Product has three aspects: change in technology (content, taste, filter), change in nature of cigarettes (size of cigarettes or colours), or change in packaging.

Pricing

The pricing model was used to measure two aspects, the percentage of retail price going to the tobacco industry (margin), and brand positioning. Innovation is measured as a change of an existing model to increase profit performance.

Promotion

Promotion is measured through any external communication: sponsoring, virtual communication and advertising. Only Corporate social responsibility activates that

translate into obvious branding activities are considered: the company name or logo must be clearly mentioned. Donations to charitable organization are not measured.

POP display

The distribution network is not addressed. Point of purchase are analysed in their added value. Their evolution is measured in the last years, elements retained by the author include the use of “power wall”, multiple cigarette packaging used as a unique advertising display.

The author presents the findings in a qualitative way to illustrate the weight of each innovation component for the chosen markets. Only relevant data is presented. Final implications are drawn upon in a second time from these findings.

6. Results

Only relevant Data is presented here. The author did not note any essential innovation in terms of point of purchase display in Norway and Indonesia.

According to BAT, most forms of mass media promotion, TV and radio advertising and event sponsorship like Formula 1 now belong in the past. Tobacco companies claimed to have re-defined marketing in ways that allow them to continue to satisfy consumer preferences, while responding to reasonable stakeholder expectations of how we should market tobacco (Official website: BAT, PMI, and JTI, 2012). *“We see this as marketing for a new era, where product brand communication is primarily based on one-to-one permission marketing to adult smokers, in much more focused, narrower channels, with tight standards for age verification”* (BAT annual report). Is this claim true?

6.1. Global overlook

The first results that need to be weighted while measurement marketing innovation in the given market are the global marketing innovation. Cigarette is a relatively uniform product across markets, and the large tobacco companies have developed more than any other industries into a global power, leveraging on extensive financial capabilities and acquisition resources.

Philip Morris for instance pursued a globally synchronized marketing campaign to develop a global Marlboro brand identity through extensive global research. More concretely, it has standardized worldwide promotional efforts and Marlboro's core brand identity, while retaining some of the strengths of an adaptive local strategy in their copy design for specific advertisements. PMI created a Marlboro Worldwide Brief to be distributed to all marketing regions (Anon, 1993). In the fall of 1993, it also released the first worldwide document resource: four commercials and 63 print ads, aiming to *“Link Marlboro to relevant frontier values (Freedom, control, independence, mastery, timeless opportunity), covering all modern masculine values (Strong, sensitive, caring, in harmony with nature)”* (Philip Morris Marlboro Creative Development Advertising

Update, 1993). Behind this global branding, there was also a deliberate attempt to create a product with common traits. Indeed, Marlboros are made and marketed in different countries, and taste completely different. BAT researchers found that the exact blend and taste of Marlboro varied considerably around the world, but that there was a consistency in the way Philip Morris used ammonia addition to manipulate smoke PH. and available 'free nicotine' in the smoke. BAT dubbed this "*the Secret of Marlboro*" (Gordon, 2005).

The global branding and common product characteristics is a proof that tobacco companies leverage on their global impact to be successful and that marketing innovation is triggered by some global decisions. The author reviews here shortly some of the key development in global tobacco marketing innovation. This enables a better weighting process of innovation in the case countries.

6.1.1. Products

The first major global innovation concerns products. Filters and the content of cigarettes have been developed to taste and feel different (Lewis & Wackoswki, 2006). Cigarettes with capsule technology allow smokers to change the taste of cigarettes by popping a small ball of flavouring in the filter, menthol for example (Codden, 2012). This innovation is not only offered with multiple tastes, but also with various intensities. For instance, in South Korea, consumers can choose two degrees of menthol filter flavouring (Zigsam, 2012). This BAT 'Reloc' technology is marketed as a means of securing a 'fresher' product (Codden, 2012). This kind of innovation is designed not only to lock in flavour but also lock in the smoker to a premium brand by helping to justify the price, useful in times of price increase (O'Connell, 2004).

Size has also evaluated in the last year. Overall, super slims cigarettes are a global trend. (Filtronafilters, 2012). Super slims cigarettes have been launched in many markets, in the UK and France in purse pack standards, making it particularly attractive to Women (MySmokingShop, 2012).

The author also noted some improvement in odour control. JTI has notably launched D-spec technologies. 'D-spec' is a technology that helps to reduce odour through carbon, double layer paper, and added flavours (JTI Annual report 2012). Japan Tobacco has also promoted electronic cigarettes; the product is essentially a 'smokeless cigarette' with a tapered mouthpiece and a removable cap, with replaceable tobacco cartridges. However, those products go beyond our definition of cigarettes (Japan Tobacco Investor Press Release, 2010).

Another finding from scientists in the US is that on average the amount of nicotine that is actually delivered by cigarettes has increased significantly (Connely et Al. 2007). The data was collected from 1997 to 2005. A higher level helps to increase addiction (Griffiths, 1980).

6.1.2. Pricing

Innovation has also been part of pricing policy and positioning. To justify tax increases in the US, in 2010, Japan Tobacco launched 15 new Mild Seven package designs with new flavours and filter innovations. (Japan Tobacco Investor Press Release Mild Seven, 2009) In the UK, BAT has developed a kit of make your own of its traditional JPS silver. The final price for 20 cigarettes would be 3.80£ instead of £5 for pre-made cigarettes (Philips, 2011). Several actors have focused on launching limited editions, which can justify higher prices. In the US for instance, there has been limited editions with packaging featuring some major city (Camel Cigarettes, 2010), and in the UK (Pall MALL, BAT, 2010).

6.1.3. Promotion

Finally, interestingly enough a new global channel has been identified: smartphone app and social media (Freeman, 2011). Researchers at the University of Sydney in Australia have found more than 100 smoking-friendly apps in a trawl of the Apple App Store and Google Play, including a cartoon game called Puff Puff Pass. The latest has been the most downloaded games in the US at some point on the App Store (Bindihm et Al, 2012, iTunes, 2012). On Google Play, comments on some of these smoking games reveal a

positive outcome for tobacco manufacturers “my daughter loves this game” (see appendix 11.6). Pro-smoking content, include explicit cigarette brand images. Those apps are available without any warning and can be downloaded in Norway, Indonesia or Canada by anyone on Google Play and with a 17 year old on the App Store. However, independent programmers having no apparent link with the tobacco industry apparently develop these apps. Furthermore, they could be potential violations of the World Health Organisation Framework Convention on Tobacco Control (Freeman, 2011).

In 2010, Freeman and Chapman also discovered that BAT employees were taking part in promotion activities on the social media website Facebook. According to the author, there were 430 Facebook pages covering BAT brands and 60 pages covering the umbrella corporate brand (Freeman & Chapman, 2012). For Ribisl and Jo (2012), although social media focus on tobacco cessation, there is no one to monitor pro-tobacco content.

6.2. Summary of regulations

The markets chosen present different level of regulations. Findings from the tobacco Labelling Centre, Tobacco Control Laws, Euromonitor Country Report in Canada, Norway and Indonesia (2012 editions), Health Canada, The Canadian Department of Justice, Tobacco Free kids, A non-governmental organization based in Washington, D.C, The Foreigner.no, The Jakarta Globe have been combined.

The three market studied have different level of restriction. Data is presented in the following tab:

Type of restriction	Indonesia	Canada	Norway
Domestic TV and radio	Some restrictions	Banned	Banned
Domestic newspapers and magazines	Allowed	Banned	Banned
Other domestic print media	Allowed	Adults allowed	Banned
Domestic internet communications	Allowed	Banned	Banned
Domestic internet sales	Allowed	Banned	Banned
International TV and radio	Allowed	Allowed	Banned
International newspapers and magazines	Allowed	Allowed	Allowed
International internet communications	Allowed	Allowed	Some Restrictions
International internet sales	Allowed	Some Restrictions	Banned
Outdoor advertising	Allowed	Banned	Banned
Point of sale advertising	Allowed	Some Restrictions	Banned
Point of sale product display	Allowed	Restricted	Restricted
Vending machines	Allowed	Some Restrictions	Banned
Conventional mail	Allowed	Some Restrictions	Banned
Telephone and cellular phone	Allowed	Banned	Banned
Brand marking	Allowed	Some Restrictions	Banned
Tobacco packaging, labelling and inserts	Allowed	Some Restrictions	Some Restrictions
Free distribution of tobacco products	Allowed	Banned	Banned

Promotional gifts in conjunction with product purchase	Allowed	Banned	Some Restrictions
Competitions associated with products	Allowed	Banned	Banned
Direct targeting of individuals	Allowed	Banned	Allowed
Reverse brand stretching	Allowed	Some Restrictions	Banned
Toys resembling tobacco products	Allowed	Allowed	Allowed
Paid placement in TV, film, or other media	Banned	Banned	Banned
Unpaid depiction in TV, film, or other media	Some restrictions	Allowed	Allowed
Financial support to groups, events, etc.	Allowed	Allowed	Allowed
Financial support to venues for decorations, renovations	Allowed	Some Restrictions	Banned
Financial support to venues for direct customer sales	Allowed	Some Restrictions	Banned
Price: Excise or special tax	Yes	Yes	Yes
Price enacted	No	No	No
Packaging warning	Yes	Yes	Yes
% Of principal display areas covered	N/A	50% until sept 2011 then 75%	35%
Type of Warnings	Text	Photos/Text	Photos since 2011/Text

6.3. Norway

6.3.1. Overview

As presented in the methodology, Norway has one of the strictest regulation systems in terms of marketing tobacco. The Display Ban, one of the first countries to initiate it, covers all tobacco products (Bjartveit, 2003). Norwegians are only in contact with tobacco advertisements in imported magazines and on satellite television (Norwegian Law Database, 2012). The first marginal result is that international brands have been pushed; they enjoy better global brand recognition throughout sponsors or former sponsorships of major sports events. Marlboro shares are 14% in 2010 compared to 9% in 1995 (Oslo District Court, 2012). As the market is also declining, major tobacco groups have bought smaller national brands. The main conclusion about the Norwegian market appears to be that it is the principal players with established brand names who have consolidated their position, raising an evidence for other brands have not been pushed by innovation.

Norway has also distinguished itself in the last OECD health report. The number of smokers has diminished by 40% between 2000 and 2010 (Svarstad & Slettholm, 2012). This is a record level smoking prevalence reduction in the world. In accordance to those findings, retail volume sales of cigarettes suffered a strong decline in 2010. The number of cigarettes smoked in Norway has been slowly decreasing. It represented 2,382 million cigarettes in 2005, 2,229 million in 2010, and according to Euromonitor forecast; it will only represent 1,725 million cigarettes in 2015, despite the population growing (SSB, 2012). All types of cigarettes experienced a decline in retail volume sales in 2010, although it is relevant to signal a raise in smokeless tobacco. In 2010, 12% of the adult male population used snus daily, an increase of nine percentage points over 1986. Snuff consumption among women increased by six percentage points between 2005 and 2010 to reach 7% (Euromonitor, Norwegian Country Report, 2011). The logical conclusion seems that the tobacco industry has been impacted by the recent regulations, as the strong decline is correlate to new law enforcement.

Philip Morris Norway has mostly acted in court, suing the Norwegian government for its ban on the visible display of tobacco products. The company maintains that the ban contravenes the European Free trade agreement and impedes competition. *“While we support comprehensive, effective tobacco regulation, we do not support regulation that prevents adults from buying and using tobacco products or that imposes unnecessary impediments to the operation of the legitimate tobacco market. In that regard, we oppose measures such as generic packaging, point of sale display bans, and total bans on communications to adult consumers, and bans on the use of all ingredients in tobacco products”* (PMI, 2012). Although Norway is not a key market for Philip Morris International, the goal is certainly to avoid the case would be reproduced in other countries. To grow, the giant PMI has bought Petterøes tobacco business for \$209 million in 2009. It also entered in an agreement with Swedish Match to diversify into snus. (PMI Annual report, 2011) Are marketing specialists also addressing this ban in an innovative way?

6.3.2. Product

Philip Morris Norway and British American Norway dominate the market. Following the ban, Marlboro MX4 was launched in 2010 to stimulate sales (Zigsman, 2012). After the ban, PMI also launched Next Blue and Next Red in 18-stick economy packs (PMI Norwegian website, 2012). Paramount cigarettes packaging were slightly redesigned (Cigarettespedia, 2012).

6.3.3. Pricing

Taxes in Norway represent 212 NOK for 100 cigarettes in 2010 and 227 in 2011 (Norwegian state budget: Statsbudsjettet.no, 2012). With a pack of 20 costing, 90 NOK, and a VAT added (25%), the tax rate is about 80% (newsinenglish.no, 2012). The higher the price of the cigarettes, the lower the percentage of the tax was. Therefore, manufacturers have focused on premium a brand, which can leaves a 30% margin to

share between the manufacturer and retailers. In 2010, premium accounted for a 95% share of retail volume sales. (Euromonitor Tobacco Norway, 2011)

6.3.4. Promotion

Philip Morris has been accused after paying exclusive distribution rights for many festivals. The one that got the most attentions in the media were the gay days (Bergens Tidende, October 2012). A finding in line with American research explicating additional efforts made towards sexual minorities (Washington, 2002) PMI also acknowledged having similar agreements with 22 festivals. The “Helsedirektorat” (Norwegian Health Agency) has identified three cases of illegal sponsoring that violates the Norwegian Tobacco Act. Philip Morris, however, believes they have kept to the rules. *“All our business activities are carried out fully in accordance with laws and regulations”* (VG Nett, 2012). Marlboro clothing brand, owned by Valentino Fashion with Trademark from Philip Morris has 6 stores in prominent location in Norway (MCS Website, 2012).

6.4. Canada

6.4.1. Overview

The Canadian Tobacco Use Monitoring Survey (CTUMS) reported a decrease in 2010 of the number of smokers compare to 2007, from 17% to 16%, a lot more modest than in Norway. However, as Canada’s population is rising promptly, the number of cigarettes smoked is still increasing, at 34 875 million in 2011 compared to 31 500 million in 2009. The growth from 2006 until 2011 has been around 3%. However, this does not reflect the financial value of the market. In Canadian dollars, the market is worth 11,815 million dollars up of more than 2 billion dollars compared to 2009. Since 2006, the value of the cigarette market has increased by 17%, much more than the volume. Volumes are predicted to diminish by 0.5% in the next five years, while financially; the cigarette market will grow of 5% over the same period (Euromonitor, 2012). Interestingly enough and as opposed to the world trends, Canada sees a reduction of roll your own tobacco, cigars, and smokeless tobacco. This first overview let the author suppose that marketing has been more successful in Canada than in Norway and should be reflected in the number of innovations. Is this true?

The major corporations the author listed previously dominate the Canadian market, although there are only three of them, as British American Tobacco owns Imperial Tobacco Canada. The two others entities are Rothmans Benson & Hedges, belonging to Philip Morris International, and JTI MacDonald Corporation, part of Japan Tobacco. There are a few forms of advertising permitted in Canada, direct mail, addressed to a specific adult; publications with an adult readership of 85% or more, signs in a place where young persons are not permitted by law (i.e. bars). The information that can be communicated includes: characteristics of products, availability and price only.

An analysis by CBC News of lobby registry filings and other documents reveals tobacco executives communicated dozens of times with key government ministries and their policy advisers, including the Prime Minister's Office” (CBC, 2010). It is also interesting to mention that some provinces are suing Canadian Tobacco Companies to recover health care costs, although the products is already overtaxed. Besides legal reaction, what have been the main innovations in Canada in the last years?

6.4.1. Product

New cigarettes launch have seen a lot more additives to improve their taste or mask the smell of their smoke. “More” international, a JTI-owned brand introduced in Canada Whiskey, Liqueur D’Orange and Dark Rhum products, contributing to the association of alcohol and cigarettes (SmokeFree.ca, 2012). Cigarettes that emits a vanilla aroma when smoked and is being promoted as the only cigarette in Canada with “unique Less Smoke Smell (LSS) Technology.” (Ottawa Citizen, 2007) Apart from the ban on marketing of products with claims such as “light” and “mild”, there has been no discussion to limit tar content to a particular level. All three manufacturers claim to be in accordance with the government requirements, i.e. submitting on-going reports to Health Canada on ingredients and components of cigarettes. Health Canada has conducted a thorough investigation of this issue and confirmed publicly that Canadian tobacco companies neither add nor manipulate nicotine (Imperial Tobacco Canada, 2012).

Furthermore, mini-cigarettes were introduced. Mini size cigarettes are shorter (69 mm) than regular size cigarettes (72 mm) and king size cigarettes (84 mm). Nonetheless, mini size cigarettes deliver similar amounts of smoke per cigarette as a basic size cigarette, as they are designed with a higher filter density. (Health Canada, 2012)

6.4.1. Pricing

Ontario has one of the lowest taxation levels whilst Alberta has the highest taxation imposed on cigarettes. In 2011, 52.6% of the final price of a premium brand cigarette in Ontario was made up of tax and 58% in Alberta (federal sales and excise and provincial excise tax). For mid- priced cigarettes, 56.5% of the final price was tax whilst tax accounted for 63.8% of the price of economy cigarettes in Ontario and 82% in Alberta. Depending on the province, Cigarette manufacturers earn up to 36% of the retail price on premium cigarettes (Ontario), 14.5% only on economy cigarettes in Alberta (Reid & Hammond referring to Tobacco Act, 2012).

This complex tax structure still lead Canadian manufacturers to position their product mostly in the premium or mid-segment market (Euromonitor, 2011). There seems to be due to the fact that innovation or marketing efforts have been focused on those premium products. This switch to higher priced cigarettes is one of the reasons why the market value of tobacco is increasing in Canada. Finally, according to several researchers, the Canadian tobacco industry acts like a cartel in raising prices – whenever the market leader, Imperial Tobacco Canada (BAT) raises prices; Philip Morris and Japan Tobacco follow (Canadian Smoking And Health Action Foundation, 2000). This is once again an illegal practice.

6.4.2. Promotion

Tobacco spending in advertising in Canada is significantly lower than in the US. Most of the advertising observed by Health Canada comes from tobacco retailers and not tobacco

companies, particularly cigar stores. Typically advertising for cigar stores are published in magazines aimed at tourists or on websites. The approximate annual advertising expenditures by the Canadian tobacco industry: \$32 million on advertising in newspapers and magazines, on exterior billboards and within public transit networks. Regulations are somewhat complex due to the federal nature of Canada and legal system. The Tobacco Act, which the federal government passed in 1997, was changed by the Supreme Court of Canada, which upheld the advertising restrictions listed in until 2007. The Canadian tobacco industry's opposed the new restrictions, and a 10 yearlong court battle that ensued. In 2007, JTI-Macdonald launched several new products with accompanying ad campaigns. Some ads have been published in a few magazines: Montréal's Mirror and Vancouver's Georgia Straight, and in the Canadian edition of Time (Collier, 2008).

Prior to 2003, tobacco manufacturers also worked around advertising restrictions by sponsoring different cultural and sporting events, such as the Benson & Hedges Symphony of Fireworks, the Formula One Grand Prix of Montreal and the LPGA Du Maurier Golf Classic Today, the only remaining promotion form noted by the author is in bars. Typically, tobacco companies are paying advertising for a DJ or a music group performing without mention of a financial support. In exchange, they redecorate the venue place with colours of the cigarette brand they would like to promote to influence the visitors, and distribute ashtrays with the logo of the brand, while allowing "cigarette girls", "attractive" on site sales person.

Other forms of concealed promotion have been developed through umbrella organization. Imperial Tobacco produced Rumbling Walls Events. The Rumbling Walls event is allowed to sponsor Definiti events. (Alberta Health Services, 2010) Imperial Tobacco Canada also owned Channel 2, which allows it to promote some of its brand at various events. (Bloomberg, 2012) However, some of this marketing seem to violate the Canadian tobacco act on several levels, and therefore do not qualify as marketing innovation within regulations. Individuals cannot sell tobacco, as it has to be done "*by means of a display that permits a person to handle the tobacco product before paying for it*" (Tobacco Act from Health Canada, 2012).

6.4.3. Place

Tobacco products are also displayed at point of sale, and this is used as a channel of promotion. Originally, the marketing effort was concentrating on displaying posters; the industry spent \$70 million on point-of-sale advertising in 2007. The role of those posters was to portray cigarettes as classy, informal, young, fun, international, modern, contemporary, high tech, a “*wellness*” product, masculine or any other characteristics. (Polay, 2007) One important restriction is that any marketing in Canada must not convey lifestyle advertising, meaning “*associates a product with, or evokes positive or negative emotion about or image of, a way of life such as one that includes glamour, recreation, vitality, risk or daring.*” So traditional ads have been replaced with artistic collages of cigarette packs, often glued to a background painted in brand colours (Simpson, 2005, and appendix 11.1). While looking at those “*power wall*”, it is clear that cannot achieve the same degree of complexity as traditional display as cigarette packs have limited size and it is coupled to other marketing regulations.

6.5. Indonesia

6.5.1. Overview

Indonesia is the world’s fifth largest tobacco market by volume. Retail volume sales have increased by 26.4% in the last ten years from 132.6 billion sticks in 1998 to 167.6 billion sticks in 2008 (Euromonitor, 2012). The market leaders in Indonesia include both transnational and locally owned tobacco companies. The large tobacco companies aggressively advertise and market brands in order to attract new smokers and to encourage current smokers to switch brands. In Indonesia overall, cigarette firms spend an estimate \$196 million USD annually in 2010. PMI/PT Sampoerna’s profit in Indonesia is increasing and it has the largest market share of almost 30 per cent (SEATCA, 2011). Besides those numbers, Indonesia has a unique market because the majority of smokers in Indonesia, 90 %, use kreteks, which are traditional cigarettes made from tobacco, clove buds and flavouring “sauces” and are either hand-rolled or machine-rolled into conventional cigarette form (Brinson, 2008, Hanusz, 2000). The act of smoking is also gendered biased, Smoking becomes a ritual of passage towards manhood for Indonesian

boys. The author notes that many of the cigarettes available explicitly or implicitly target men using images of patriotism, adventure and masculinity. (Ng et Al, 2006)

6.5.2. Product

There have been a vast number of new products flourishing on the market in the last years. One of most noticeable finding involved cigarettes taste: flavours have been multiplied. It now includes cappuccino, Vanilla, Island spices, black tea, menthol (Djarum.com, 2012). An example of subsequent claim to describe the flavour is the following. *“The rich, warm cappuccino element complements the tobacco and clove components perfectly, yielding an unusual and memorable product to be slowly savoured”* (Ciggies World, 2012). The industry has developed black cigarettes. (See appendix 11.4). The strength of cigarettes has also varied considerable. The author notes the words *“Low tar, light, mild”* among others. Djarum Black Slimz for instance has been introduced in 2008 as a low tar, low nicotine urban cigarette (Djarum.com, 2012).

Indonesian tobacco companies have been also extremely innovative in launching new packaging. Indonesia has followed and has been at the forefront of the switch of size. In February 2008 Sampoerna (PMI) introduced AVolution, a super-slim cigarette with packaging that looks like a tube of lipstick, describe as shiny and elegant (see appendix 11.4). This new approach has been seen as quite efficient. *“In Indonesia you see cigarette packs in the market that look like lipstick cases and they sell skinny cigarette sticks so they can fit into the purse of young girls very easily. The prevalence rate for teenage girls is increasing and teenage smokers grow up into adult smokers so you get a more sustained, larger base of customers* (Dr Assunta cited in Stark, 2012). The Marlboro Black Menthol, was designed with colours and materials aimed at targeting young “adult” males (PMI, 2009). Bentoel Biru brand was launched in 2007 with hologram packaging and was promoted to *“reward its targets by providing the sense of pride as being present in Indonesian men”* (Lexcigarettes, 2012). Packaging has been also been designed in limited edition or in line with special events (See appendix 11.2 for illustration). In 2006,

Djarum Super launched a Limited Edition Super Soccer Series in conjunction with the 2006 and 2010 Soccer World Cup. (Zigsam, 2012)

6.5.1. Pricing

In Indonesia as opposed to Norway and Canada, most of the cigarettes are in the mid-priced segment. Between 50-70% of the final price of an average cigarette is made up of tax. The spectrum of price positioning is quite high with cigarettes ranging from 7000 to 15 000 Indonesian rupee (Euromonitor, 2011).

6.5.2. Promotion

Indonesia has been extremely diversified and innovation in launching advertising campaign. For instance, in 2010, Gudang Garam was Indonesia's fifth largest advertiser worth US\$93 million on advertisements (Wall Street Journal, 2012).

Each cigarette launched has a clear positioning. For instance, Indonesia's leading white cigarette, Country is aimed at "*middle class young adult men*" and is promoted as "*a symbol of masculinity visualized through adventure*." Advertisements in billboards or TV have been designed to follow the "*adventure*" touch with associations of extreme sports, rock climbing and mountain biking. Other positioning includes "made for men having a tough personality, modern style and good appreciation of the real art of smoking" (Gudang Garam Facebook page, 2012), "*symbol of hope in surviving life by using the spirit of togetherness*" and target users for "*their resilience and efforts to make tomorrow better than today*" (Ciggies World, 2012) or "*to reflect the dynamic spirit of youth that is full of enthusiasm and loves life's challenges*" (Clovecigarette, 2012).

In accordance to those positioning, Tobacco companies sponsor parties, concerts, sports teams, and sporting events, sport venues, contributing to brand promotion. (See appendix 11.3 for illustration).

Nichter et Al., demonstrated that there were more than 1350 events sponsored by tobacco companies that took place in the Indonesia in 2007. (Nichter et Al., 2009). Examples in the last five years include music talent search, Mild Live Wanted, the Marlboro Rock in Orchestra and James Morrison concert. Other events include sports, Copa Dji Sam Soccer tournament for the elite teams in Indonesia, Sampoerna Hijau Voli Proliga, a volleyball tournament (Financial Times, 2012, Taking on Tobacco, 2009, Viva News, 2009, Amild.com, 2012, Djisamsoe.com, 2012). Bentoel has been a sponsor of a major soccer team. On its corporate website, Bentoel states: *“Just as the clove cigarette tradition, football is also a deeply cherished pastime activity among Indonesians”* (Bentoel, 2012). Gudang Garan has signed with Rio Ferdinand, a Manchester United soccer player (Wall Street Journal, 2012). His image was used on an advertisement on public advertising billboards in Indonesia and in a 30-second TV-commercial available on YouTube (YouTube, 2012).

The industry denies it targets children, despite sponsoring of youth events and sports event at school, including Philip Morris’s official guidelines (PMI and Sampoerna official website, 2012). However, Philip Morris Sampoerna did one of the most illustrative billboard campaigns in Indonesia in 2011 targeted at Youth. The image represents a young man floating in the air held by two friends in a moving bus, with the following claim: *“Dying is better than leaving a friend; Sampoerna is a cool friend”* (See appendix 11.3, Asia Sentinel, 2011). Indonesia being a Muslim country, Sampoerna placed this advertisement during the Ramadan holidays to avoid customers quitting at a time in which Muslims smoke less (Seatca, 2011). Not all advertisement have raised as many controversies as this one, but other examples including the following claims *“Others are acting, but I’m the real thing”* and *“Real freedom comes from following your heart”* (The Guardian, 2012). Television commercials show physical activities and adventure associated with cigarettes: climbing mountains, fighting. Sexuality is also associated to those commercials (YouTube, Djarum Black Commercial Ad “Beach”, 2009). On the Internet, most cigarettes brands have extensive website. Djarum has also sponsored new music podcasts from 2006 to 2008 (Equinox digital music distribution, 2012).

A distinct marketing innovation that has been identified in Indonesia is related to Corporate Social Responsibilities, which often translates into branding and visibility offer. Among those are efforts following natural disasters. After the 2009 Mudflow: Bentoel has for instance contributed to settle new business centres, organize micro credit loans, and set up supermarkets (Rajawalif Foundation, 2012). The Real goal of Bentoel could be misinterpreted as Supermarkets are actually also a sales channel for cigarettes in Indonesia, representing 2.5% of all sales of cigarettes (Euromonitor, 2011). PMI has worked with the Indonesian Red Cross (PMI) in West Sumatra, the Company assisted the development of 516 temporary housing for the tsunami survivors. PMI notably also sponsored a rescue camp on the slopes of Mount Merapi, a volcano that erupted in Central Java in 2010. Staff members at the camp wore uniforms with company logos and drove response vehicles and trucks with the same logos creating brand awareness at a large scale (Tempo Interactive, 2010).

Apart from disaster activities, tobacco companies have also invested in leisure and education. Bentoel owns a theme park: Sengkaling recreation park, an outdoor water park serving the *“youth lifestyle market at a low price”* as presented on the CSR website. The Bentoel logo is clearly visible on the park webpage (see appendix 11.3) and in the park (wisata-sengkaling.com, 2012). Other activities include hospital and medical facilities, the Bentoel Medical Centre (Rajawalif Foundation, 2012). Tobacco companies have also been extremely good at gaining visibility among youth by providing educational scholarship program for under privileged student (Botoel Website CSR, 2012) or developing sports development facilities for young people, or even throughout an own school such as the Sampoerna Academy (See appendix 11.5, www.sampoernafoundation.org/en/sampoerna-academy, 2012).

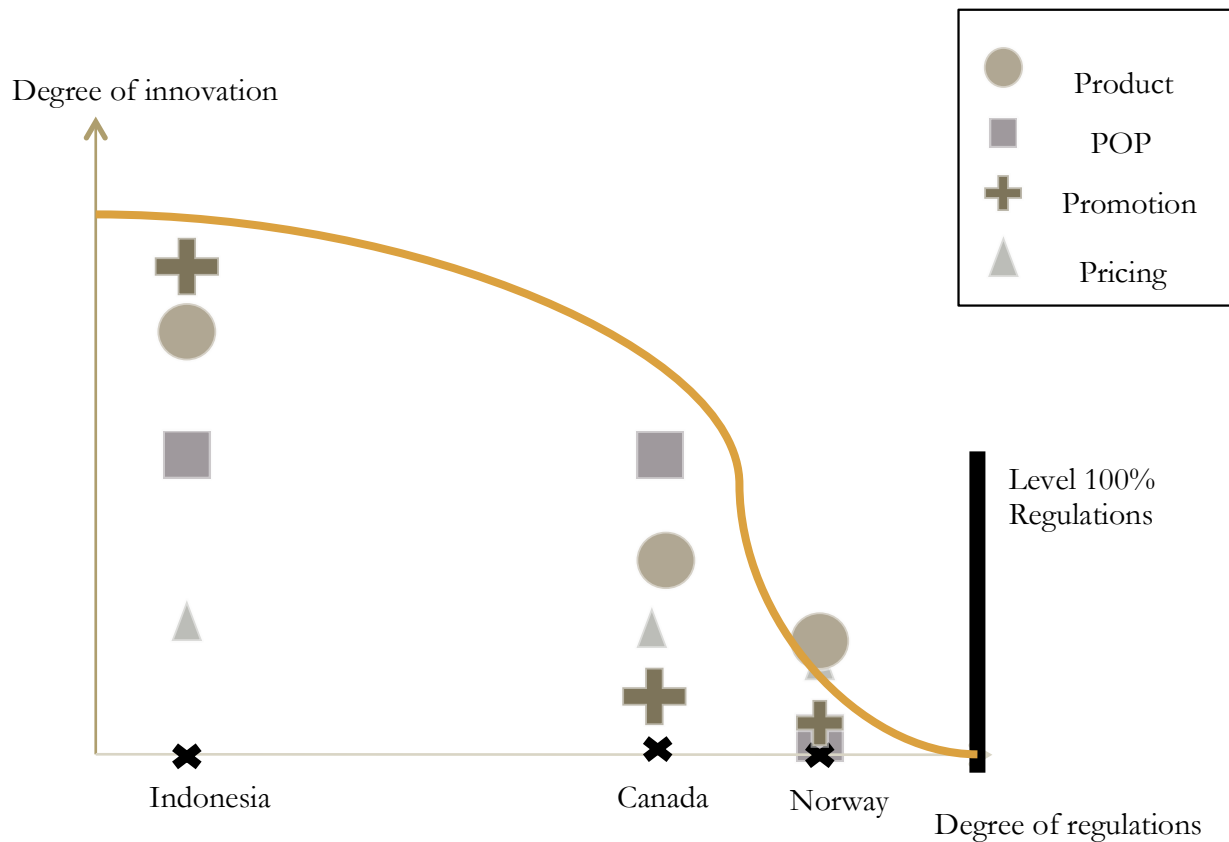
6.6. Summary of findings

Summary of findings				
COUNTRY		Indonesia	Canada	Norway
Product	Flavor	Extensive More than 10 new flavors, filter options	Moderate, a few flavors	No flavor introduction
	Strength	Extensive More than 10 strengths	Similar to global introductions	Similar to global introductions
	Width/Size	Slim, King, Ultra-slim	Mini, slim and king common	King size available
	Color	Introduction of black and golden cigarettes	Standard	Standard
POP		n/a	Power wall attempt	n/a
Price	Branding	Dynamic multisegment strategy	Premium switch Price increase	Premium Price stable
Packaging	Color	Any more than 10 introductions	No innovation	No innovation
	Materials	Use of Holograms, shines, 3D effects	Classic, "Premium touch"	Classic
	Format	Lipstick, Metal, Classic	Classic	Classic
Promotion	Sports	Sponsoring, event packaging	Not since 2003	Not since the 70s
	Concerts/Bars	Local, international bands, TV programs	Yes but hardly legal	Yes but hardly legal
	Sponsoring public places	Theme park, Concert Venues	No	Event exclusive distribution (hardly legal)
	Education	Strong presence in schools, scholarship	No	No
Retail volumes		Up	Down but profit up	Down, industry struggling in the cigarette segment
Illegal actions		No	No	Recommendations in store
Legal actions		No	Court (General, several attempts)	Court (PMI for POP)

6.1. Visualization correlation

The following graph represents the degree of innovation identified by measurement units by the author in the three distinct markets with three different levels of regulations.

The graph does not intend to quantify the different levels of the marketing mix but offer a visualization of the innovation activity in the given markets. The activity level is represented in the vertical axis while the horizontal axis represents the markets by level of regulations. The orange line is a curvature following the general correlation between the degree of innovation and the market based on the degree of regulations in the tobacco market.



7. Implications

In this part, the author discusses and answers the research problems according to data presenting in the results.

7.1. Research problem outline

The author set up several research questions aiming at answer the general problem, which can be visualized in the following tab.

Do tobacco-marketing regulations foster industry innovation?		
RESEARCH PROBLEMS		
Which variables of the marketing mix are affected by regulations?	How full-promotion ban has been compensated when being introduced?	Is there a point where marketing innovation is completely hindered by regulations?
HYPOTHESIS		
H1: Promotion activities are mostly concerned by marketing regulations.	H2: Promotion regulations cannot be compensated by innovation in other fields.	H3: Heavily regulated markets show absolutely no sign of innovation.

7.2. Regulations impact on marketing mix

A critic that could be addressed to marketing regulations in the tobacco industry is that they have concentrated the market to a few companies, raising high entry barriers (BAT Tobacco companies' global market share, 2012). One of the consequences of this market failure is the economic bias it created towards bigger multinationals. (Gilmore & Al, 2010) For many years, tobacco companies had the opportunity to build strong brands. For instance, the Marlboro name was recognized by 95% of the children that have never smoked in Honk Kong in 1990. In 1990 tobacco advertising on broadcast media was prohibited, and later billboard bans were instituted bans of print media advertisements were banned in 1999, and yet in 2001, there were still 44% of the non-smoking HK children who recognized the Marlboro logo (Fielding et Al. 2001). In a study of five

kinds of consumer products, tobacco products have the least degree of correlation between popularity of the brand and loyalty (RAJ, 1985). Those “legacy” cigarette brands have had the best resistance in terms of sales to tobacco regulations, Marlboro and Prince for instance in Norway. Furthermore, the big corporations have also achieved growth through acquisition of smaller companies.

The first question raised by the author questions the relationship between marketing mix and regulations, which variables of the marketing mix are affected by regulations? By questioning pricing strategy, the author notes that regulations have actually occurred in all three markets studied through different taxation levels. This is the initial step taken by the Indonesian government. From 2009 to 2010, the excise rate on cigarettes went from an average of 9.6 per cent to 21 per cent (Jakarta Globe cited by Indonesia Tobacco, 2010). It increased by 12.2 per cent in 2012 (Jakarta Globe, 2012). However, governments only control the tax level, and tobacco companies are free to set up the retail price. In Canada, pricing strategy has been one of the reasons why tobacco multinationals are successful. Critics have observed that the market institute the price level, and that increase are not noticed or attributed to tobacco manufacturers by consumers as they occur simultaneously to tax increase. Overall, consumers are not conscious that a small share of retail price increase is not driven by governmental intervention but rather by industry control (Gilmore & Al, 2010). This is characteristic of a position-based innovation (Tidd & Bessant, 2009). The regulations affect manufacturers to set a low price as excise are fixed by cigarettes sold and not by percentage but they remain free to set up the price level above that minimum. The author concludes that pricing regulations exist but are not central to the marketing restrictions, as tobacco manufacturers remain free to set up their price strategy before taxes.

This switch to premium cigarettes is also accompanied by a change in the product itself. Although tobacco manufacturers must publish the cigarettes content, they remain free to adjust the size and taste of the cigarettes: King Size in Norway, King, Mini and Slim in Canada (Health Canada Report - Mini Size Cigarettes, 2011). Packaging change towards “gold” or premium association has also been noticed. Overall, newly introduced products

feature more options to complement the brand portfolio. An interesting point is that the controversy in product innovation (flavour cigarettes, slim cigarettes, extra-quality) is not that the products are necessarily more dangerous, but rather that the way they are promoted makes them less dangerous. For instance, flavour cigarettes are not the issue, but advertising flavours on the packaging, on pop is the issue (Dummont, 2010).

Looking more closely at the current regulation system, the degree of product innovation is also affected. Regulations limit tobacco manufacturers to advertise cigarette benefits, brand positioning, or any additional “gain” provided by product innovation. In the three countries studies, most regulations cover two fields: Brand and category building (sponsorship, toys in shape of cigarettes) and product differentiation (distinct packaging, display at point of purchase). Governments in both Norway and Canada control distribution in the same extent as a way to avoid cigarettes between displayed everywhere. Nevertheless, in Canada, external promotion regulations have driven the focus on marketing innovation at the POP. Promotion regulations have in Canada and Norway apriori impacted the number of product innovation compared to the number of products observed in Indonesia.

To conclude, regulations are proven to affect external promotion, pricing strategy, place activities, and product innovation. All fields are concerned, but the degree of depth and detailed given to promotion is the one that has the most incidence nowadays. Considering, the current environment, the initial hypothesis is therefore verified. Promotion activities are mostly concerned by marketing regulations in the most regulated markets. Other regulations have been in place earlier.

7.3. Compensation of promotion regulations

As promotion plays a crucial role, the author questioned specifically the relation between promotion and its relationship with innovative marketing. The director of WHO's Tobacco Free Initiative pointed out that many studies have shown partial bans have no effect on reducing tobacco consumption. Restricting one form of advertising merely results in a shift to another form. Complete bans however can reduce smoking rates by as

much as 6%, according to the World Bank Group's 1999 report *Curbing the Epidemic*. (Bettcher cited by Collier, 2008). The author noted a certain degree of innovation in pricing and positioning strategy in the two heavily regulated markets that are Norway and Canada, and also on POP marketing in Canada. Products change are however less numerous in those countries than in Indonesia.

The variety of packaging, flavours, size introduced in Indonesia is by far superior in terms of quantity and diversity than in Norway and Canada. Canada has seen a few products introduction, that were solely advertised on site. Canada has also not used the full spectrum of marketing communication allowed. One point may be that Canadians are constantly in touch with US media where cigarettes advertising and sponsoring remains mostly legal.

Pricing innovation has been a solution to declining volumes, but does not appear as a sustainable solution, unless the addictive nature of the nature suggests that there is a minimum number of consumers that have a price elasticity close to infinite. Place advertising and POP displays have been a solutions in Canada, although they started to be banned in some provinces. Since POP displays have also been in Norway, consumers are requested to ask for their brand. It seems that manufacturers have tried to push direct recommendation by sales person, but this is illegal. Overall, a really low level of product innovation in the cigarette segment has characterized the Norwegian market.

As mentioned previously, Indonesia presents the most innovative products (flavours, size, colours) with a variety of packaging almost unmatched compared to other countries. 3D hologram are for instance unique in Indonesia. Any launch has been accompanied with a clear positioning and massive promotion campaign through various media. Regulations in the two other markets do not limit manufacturers innovation on respectively 25% to 65% of the packaging in Canada and Norway; however there have not been any major changes in the last years. Odour control or “*click to diffuse flavour*” innovation were also not introduced in these two markets, although most manufacturers have introduced similar products than in the rest of the world. Canada however has seen slim and mini-cigarettes

becoming more common. Only a few distributors offer non-standard size cigarettes in Norway (King Size).

A first conclusion is that tobacco corporations do not necessarily embrace all the possibilities offered, even when there are only a few left. This is particularly true in the Case of Norway. The industry may question if it is viable to dedicate resources for the creation of a packaging effect when the only way the consumers are aware of the product is by asking for it, as the product cannot be handled before purchase. From the case observed, promotion is the most active field of regulations as it is also the most active field of tobacco marketers; consequently, it is also the one affecting the most the marketing strategy of tobacco manufacturers. Promotion ban has drained innovation, notably when it comes to product launch, therefore promotion regulations cannot be compensated by innovation in other fields.

7.4. Regulation optimum

At this point, the author questioned the overall marketing mix innovation. Is there a point where marketing innovation is completely hindered by regulations?

Norway's marketing possibilities are limited; it includes modifying the products and packaging. In the previous part, the author demonstrated that promotion ban affected other marketing mix variables. Is it still worth launching a new product if consumers will not be aware of its existence? The industry players do not seem to think so. Actually the only innovation observed in Norway seems to have happen only in a climate of market harmonization, and are similar to those of Sweden, Finland and other markets. For instance, Japan International Tobacco do not have any offices in Norway, and treat the Nordics as an entity despite really different type of marketing regulations. This could provide a first answer to the question. There is a point of regulation where it is no longer worth launching innovation: when any type of communication toward the consumer is banned.

Generally, the study demonstrates that in the three given markets that are Norway, Canada and Indonesia, regulations have negatively impacted marketing innovation. In other words, regulations did not foster innovation. Other factors are yet to be discussed.

8. Discussion

This part presents the theoretical and managerial implications of the findings of the author, as well as questioning further research.

8.1. Market maturity: an additional factor affecting innovation

Looking further Indonesia is not the only market where tobacco companies have been showing signs of innovation. Tobacco companies have been also quite successful in China; the largest tobacco market in the world. For instance, Tobacco companies have marketed their products as the perfect gift, exploiting the Chinese gift giving culture. They introduced holiday seasonal packaging for cigarettes, such as the Chinese New Year (Zachary & Xiao, 2011). Finally, companies have taken sponsorship one-step further by fiscally sponsoring schools and naming such schools after the tobacco company. Tobacco companies reportedly sponsor more than 100 elementary schools across China. Schools with Chinese tobacco company names include Zhongnanhai Heart Elementary School and Sichuan Tobacco Hope School which school slogan is “*Genius comes from hard work, Tobacco helps you to be successful*” (see cover page). Inside the schools, employees often have branded uniforms and distribute cigarette-shaped sweets. To respond to limited solvability of pupils, the Chinese tobacco company prefers to package its cigarette individually instead of selling a cigarette pack of 20 units (The Telegraph, 2011). This ensures building product-loyalty at an early stage.

The fact that tobacco companies are innovating more in developing countries than mature market may also be due to the fact brand knowledge is not yet there. In the US, Canada and Europe tobacco firms are promoting brands that are sometimes more than a century old. Research has demonstrated that there is a higher correlation between demographics and consumer brand usage for cigarettes than for other product categories (Dawes, 2012). If demographics identity is exceedingly central for cigarettes purchase in developing

markets, this must translate into additional branding efforts using the full spectrum of marketing activities. In Indonesia, Djarum cigarettes are marketed online, on billboards, through sponsorship, and benefit from frequent packaging redesigns to capture the brand essence, in this case, adventure. The author also presented the various claim for cigarettes in the finding section such “middle class young adult men” highlight that tobacco manufacturers are truly building their demographic positioning. This traditional dichotomy west/east would be mostly due to the degree of maturity of the market.

8.2. Case of over-compliance

A number of innovations such as the British American Tobacco Capsule Technology (see appendix 11.9) was launched in a vast number of markets. From BAT internal documents, the author note this introduction more than 22 countries, including Japan, Russia, South Korea, Ukraine, Switzerland, Turkey, Romania, Netherlands, Brazil, Chile, France, Spain, Italy, Saudi Arabia. (Cobben, 2012) For unknown reasons, the technology was not introduced in Norway or Canada. On the other hand, the author found that cigarettes packaging did not change remarkably in Norway. Moreover, promotion through certain globally based media, online and on smartphone is relatively poorly exploited. Are tobacco multinationals afraid to push innovation into regulation loopholes? Is this a case of over-compliance?

Literature offers various explanations for over compliance. According to one explanation, firms may over comply if they anticipate stricter regulations. At a time, where the market is highly consolidated in Norway, the few tobacco companies may accept to the slow decline of the category. BAT, PMI, JTI, ITG enjoyed high margins and their products require little human and fixed capital. For example, PMI's Norwegian office is only made of 19 people and the company captures 27% of the cigarette market, while BAT, number one in the country, has 64 employees and a 62% share of retail volume sales in 2010. Imperial Tobacco has been present in the country after it purchased Gunnar Stenberg AS, in 2006 and consists of around 63 employees but with than 10% market share the company focus on smokeless tobacco (Purehelp.no for employee numbers, Euromonitor Tobacco in Norway Report, for market share, 2012).

8.3. Other factors affecting innovation

The author decided not to look closely at the relationship between distribution channels and tobacco manufacturers. Reducing the density of tobacco retailers affect tobacco consumption and could become a new regulation for path for many countries. (Cohen & Anglin, 2009) Further research would be needed to investigate distribution options in the tobacco industry in this regulated climate.

Another component of the environment that was not measured is the influence of public opinion and corporate social responsibilities activities. Marketing reports and internal strategy of tobacco companies have come under scrutiny, and public opinion is increasingly against smoking. Between 1992 and 2002, the number of Americans supporting tobacco advertising - *tobacco advertising should always be allowed* - fell from 20% to 12% (Pacheco, 2011). Although in Indonesia, tobacco multinationals have been designed campaign towards the youth segment, it is an extremely sensitive matter in the western market since the 1970s. Flavoured cigarettes for instance are said to target youths (Connolly, 2004). Just as regulations, public opinion may also contribute to shape marketing activities. For instance, the option for Chinese tobacco companies to sponsor school names and change their motto, claiming that Tobacco helps you to be successful, would not only raise legal concerns in western markets but also generates major public responses.

Finally, a real issue in tobacco regulations overseen in the introduction of the Indonesian market is that governments have also a financial incentive in smokers. For Akehurst, tobacco has two distinct functions, "*one as a consumable article and the other as a revenue earner, which at times appears to secure conflicting official treatment*" (Akehurst, 1981). Indonesia has clearly indicated that it supported tobacco activities for economic reasons. The fact that oil-rich Norway is among the three richest in the world, considering its GDP per capita probably limit its interest to tobacco money (World Bank, 2012). Although, it is only in 2010 that the Norwegian Sovereign Fund divested the equivalent

of 2 billion USD from tobacco companies. The same year as it introduced, point of display ban for tobacco products (FCTC Publications, 2010).

8.4. Absolute level of regulations

The author provided an attempt to visualize the innovation according to regulation level in the three markets studied, which raises another concern. By defining the absolute level of regulation coinciding with the zero innovation potential, when is the ultimate level of regulations attained?

Two options appear conceivable. On the one side, the ban of cigarettes seems to the logic absolute maximum of marketing regulations. Ban of cigarettes could be observed through the attempt to reduce youth access to cigarettes, and ban of cigarette sales its sales to those under 18 year old has been enforced in many countries, including Norway and Canada. Researchers affirm however that there will always be a form of tobacco use by adolescents, just as there is illegal use of alcohol and less accessible drugs such as marijuana, cocaine, and heroin. But the greater the risk young people must take to obtain tobacco and the more that community norms reject adolescent tobacco use, the lower the likelihood that youth will begin to use tobacco (Altman et Al, 1999). On the other hand, considering a sales ban would actually encompass the distribution aspect of cigarettes, a variable not discussed by the author, the absolute level of marketing regulation in this study could simply be the ban of any type of promotion, unified the product according to strict guidelines, of size, strength, ingredients, and setting a fixed price. This scenario would transform cigarettes into a standardized unbranded product and seems likely than a tobacco ban.

8.5. Profitability versus Innovation

The Tobacco industry has generally a very high profitability that is explained by high levels of cash flow, low capital expenditure, and low working capital requirements, as the production of cigarettes is highly robotized. The average industry ROC (Return of Capital) is around 40%. (Dominion Bond Rating Service, 2012) In 2010, the combined profits of

the six leading tobacco companies was U.S. \$35.1 billion, equal to the combined profits of Coca-Cola, Microsoft, and McDonald's in the same year (Eriksen et Al, 2012).

The profitability itself does not seem necessarily compromised by innovation. The case of Canada shows that a relatively low level of innovation, and a high level of regulation could simply lead to price trust, and price increase. In addition, the absence of promotion activities limits marketing expenses, contributing to lower the cost of the product sold. However, it does guarantee tobacco companies to be exempt of financial disappointment, during certain quarters (Sunday Business, 2003). Although the number of consumers overall may still increase, smokers in the developed markets have still a much higher value than in less regulated markets. According to British American Tobacco, disposable income grows around the world, particularly in developing countries, and one would expect that more smokers are upgrading to premium brands rather than low quality local alternatives but this is not the case (Bowers, 2012). At as little as 7000 Indonesian rupiah, a pack of cigarettes for instance in Indonesia is worth 5 SEK. (XE rate, 2012)

The real question that emerges is how long can tobacco companies sustain without innovation? Does the industry even need innovation? As a side note, the author investigated the case of also investigated the comparison of Marlboro packaging, and products, the most successful brand worldwide. The different packagings are visible in appendix 11.7. Interestingly enough, they are extremely similar and only differ with different national health claims. This example shows that the most famous tobacco brand has not changed for years, and brand salience legacy seems to be more valuable than modified products.

8.1. Disruptive innovation, the real solution?

In the current tobacco environment, competition is global, intense and dynamic. The development of new commercially exploitable products, services and business models is a focal point of competition (Hamel, 2000). In many ways, innovation is the single most important building block of competitive advantage, giving a company something unique that its competitors lack (Hill & Jones, 1998).

As early as 1981, Webster concluded that marketers were not sufficiently innovative and entrepreneurial in their thinking and decision-making. Lehman, 1997 and Day and Montgomery, (1999) suggests that marketing has become less strategic and consists of the tactical implementation of marketing mix elements. Considering that marketing mix is essential to tobacco, the author questions the implication of four main categories: pricing, promotion, product, and place promotion throughout the point of purchase activities. When defining measurement units, the author focused on sustaining or incremental organizations affecting the cigarette products, and not the tobacco category. However, the industry may find a better way to by pushing discontinuous innovations as a way to reach non-smokers, and answer tobacco regulations. Innovation for tobacco companies may no longer address cigarettes in the future.

Discontinuous innovations can be broken down into subgroups: product discontinuities and process discontinuities (Tushman & Anderson, 1986). In the case of the tobacco industries, regulations have been targeted at product; therefore it seems more likely that discontinuities will occur first in the product category. Disruptive innovation are only truly realised when the marketplace shifts to adopt a new paradigm in what it is called a “tornado” of adoption, a dramatic innovation shift where benefits from the new paradigm are spread promptly (Lettice & Thomond, 2003). Benefiting from government supports, a non-dangerous form of cigarette could easily be pushed publicly and originate this tornado effect.

Electronic cigarettes or e-cigarettes are probably the most illustrative disruptive innovation that could lead to such a revolution. The market size of electronic cigarettes is currently valued at more than \$US2 billion globally according to Euromonitor International estimates, but they could gain momentum (Milenkkovic, 2012). BAT Chief Financial Officer estimates that the size of the market for tobacco alternatives could account for as much as 40% of BAT’s revenues in 20 years’ time. *“It will be sizeable in 20 years’ time ... it’s going to grow”* (Financial Times, 2012). However, as of today, Euromonitor International predicts that by 2050, non-tobacco cigarettes will be worth 4%

of the value of total tobacco (Milenkkovic, 2012). This still gives cigarettes many years of cash flow generating, giving cigarettes end a long deferment.

Along electronic cigarettes, other innovation could be classified as disruptive innovation. The Pax Vaporizer is for instance an innovation developed this year in partnership with JTI. This smoking device is made out of anodized aluminium built tobacco receiver, turning the actual leafs into vapour with three temperature options. The device is visible in the appendix 11.10. (Vape World, 2012) As opposed to electronic cigarettes, this device goes against the traditional code of cigarettes except for its nicotine bringing. Additional future technology development may also finally lead to a satisfying tobacco replacement from a multiple stakeholder perspective.

9. Limitation

One of the difficulties of doing case research is the requirement of direct observation in the markets chosen. Qualitative research is frequently perceived as displaying a tendency for construct error, poor validation, and questionable generalizability. (Aldag and Stream, 1988) There are 80 million pages of internal tobacco-industry documents available to the public available on one database, and millions of other pages related to the subject, the author did not go through all of the pages. Furthermore, the data address was one way or another made accessible to the public, and included mostly US activities. Findings are mostly based on web searches. Although some of the data were not voluntarily revealed by the industry, tobacco companies have probably kept part of their internal activities, particularly in Indonesia.

Regarding the measurement evaluation method a number of critics can be formulated. The measurement units chosen by the author are based on an adaptation of the common marketing mix 4Ps. A critic often cited to this approach has been emitted by Robert Lauterborn suggested that sellers should first work with customer value, customer cost, communication, convenience and customer value rather the seller's aspect. The author limits himself to corporate activities and ignores the customers. (Lauterborn, 1990)

Furthermore, a qualitative understanding of the variables and subjective evaluation is also required for the innovation measurement framework created by author. Although innovation measurement applied to marketing are generally idiosyncratic, other measurement units would affected the final results. For instance, the author chooses not to address the distribution.

Another aspect that affects the results is the strict delimitation of research. The author focuses exclusively on the legal sales of cigarettes, which limits the tobacco industry. In Norway, sales of cigarettes from Sweden and Denmark represent a non-negligible portion of the market. The author clearly defines cigarettes, and do not discuss disruptive innovation brought outside this product category such as smokeless tobacco or electronic cigarettes. Finally, the research method chosen took aimed at providing a case overview in three given markets. Although the author is cautious in expanding his results to other markets, generalizability to other marketers also known as 'external validity', is as problematic for case studies as it is for rationalist studies (Hedrick, 1993).

10. Conclusion

Milton Friedman wrote that businesses "*should increase profits as long as they stay within the rules of the game*" (Friedman, 1989). This controversial point of view has been debated over the years, as organizations, including tobacco companies became more and more accounted for the consequences of the products sold. However staying within the rules of the games has lead tobacco companies to show limited marketing innovation output, although the mechanism that elicits innovation in the tobacco-marketing field is complex. First and foremost, this study provides an additional evidence for policymakers and tobacco makers that regulations are impacting sustaining innovation possibilities.

Tobacco companies have faced an increasingly competitive marketplace, with additional restrictions, and declining smoking rates in the developed world (Who, Tobacco report 2011). Although, the danger of cigarettes has long been known, this is only recently that restrictions started to attack marketing activities. The first report of diminished life span

among smokers appeared in 1938 (Lukachko & Whelan, 1999). But this is only in the sixties that the first regulations appeared and later intensified. In 2010, Bhutan decided to ban the sales of cigarette in the country and forbid any importations (Time, 2011). In a fictional article written in “2032”, non-fictional US professor Richard Daynard (2012) describes “how smoking became history” assuming that tobacco will slowly became an illegal substance. Whether, countries will start banning cigarettes remain a mystery, but the intensification of regulations could become soon a lot more problematic.

Tobacco multinationals have been aware of the complex surroundings in which they are immersed and regulations have actually leveraged certain aspect of marketing innovation. American research reveals that tobacco companies have significantly changed their focus from the traditional advertising to use of techniques “*which emphasize on developing as well as maintaining a relationship with individual customers*” (Pierce et al, 1998). This is not always feasible in the markets studied. In Norway, the industry experienced it and was reported to illegally use sales cashier as a way to promote their products (Holte, 2012). If the author did not evidently demonstrate the use of direct marketing technique, one of the main finding is that pricing strategy is crucial to preserve profitability. In the absence of large number of new products or communication channels options, many ways to successfully address industry regulations, and maintain profitability growth have been developed. Examples of those method include: positioning products on the premium segment to mechanically lower the tax rate, introducing smaller packs of 18 cigarettes, creating a trust market by killing competitors or simply increasing prices simultaneously to government announcements.

Despite this limited innovative marketing activities, the author demonstrated that in the case of Norway and Canada, two highly regulated countries, the number of innovations is low. On the other hand, in the case of Indonesia, which as a limited level of regulation, a record number of innovative packaging, flavourings, and promotion materials has been noticed. The author concludes that regulations did not foster innovation in those markets. This conclusion raises several concerns. If tobacco manufacturers are no able to somehow get their message across, the category awareness may simply vanish. The next

consumer generation may never see people smoking in movies, or see the Marlboro logo anywhere. Will cigarettes ever joined VHS, floppy disk, or even CDs in the forgotten category? The answer is not so simple for two main reasons: by nature cigarettes are addictive, and national market are not enclosed, such a scenario would require a unify ban of any tobacco marketing activities. This level has not yet being attained in any given country.

To subsist in the current environment, tobacco multinationals strategy has been largely focussed on developing countries although they may deny it. According to a BAT representative, *“there is constant speculation that we're breaking into emerging markets to avoid regulation. But this is not true. We didn't invent smoking, nor 'export' it anywhere, and we have been in many of these developing markets for hundreds of years – in the case of Africa, India and Brazil, since the early 1900s”* (Bowers, 2012). Despite this claim, this is actually the strategy that seems to pay off. The same BAT Company mentions in its investor report that *“there are still opportunities to improve the product and price mix, primarily in developing markets”*. (BAT, Delivering growth through innovation 2010). Between 1970 and 1995, per-capita cigarette consumption in poorer developing countries has indeed increased by 67 %. (WHO, 2002) However, this growth will halt, as the developing countries will eventually reach the same level of product maturity. According to Euromonitor, the number of smoker's worldwide will remain at one billion despite population growth. Since the same number smokers would also reduce their annual consumption, the market will contract by nine per cent in terms of volume. Overall, soon enough, the industry will be facing similar problems everywhere; creating category and brand awareness among the young segments, which is necessary to ensure sustainability of consumptions, a task almost impossible if the regulation level is unified to its current maximum. After all, cigarettes may be the next floppy disk.

"... and now, pour la digestion, allow me to offer you a cigarette. Have no fear, at most this is only the one before last" he added wittily.

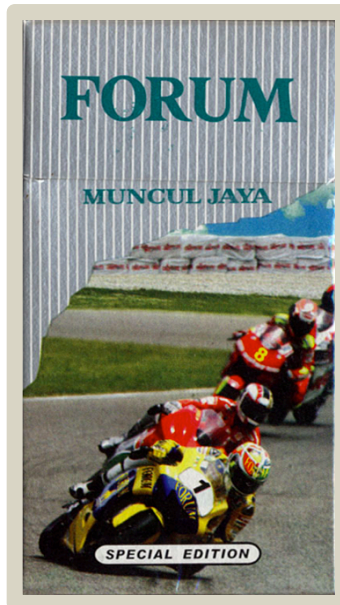
Vladimir Nabokov, *Invitation to a Beheading*, chapter 1 (1959).

11. Appendix

11.1. An example of power wall in Canada



11.2. Event packaging in Indonesia



11.3. Lifestyle advertising in Indonesia



The advertisement for DJARUM SUPER ROCKfest 2012 features a collage of rock bands and event details. The DJARUM SUPER logo is at the top left. The main text "DJARUM SUPER ROCKfest 2012" is prominently displayed. Below it, the text "COME OUT & PLAY!" is written. The event details include the dates "SAT - SUN 10-11", the month "NOV 2012", the location "LAPANGAN D SENAYAN - JKT", and the gate opening time "GATE OPENS AT 15.00". The ticket prices are listed as "TICKET: DAY1: 100rb DAY2: 150rb". The lineup of bands includes PORTNOY - SHEEHAN - MACALPINE, SHERINIAN (PSMS AMAZING UNION), DAVID KENNEDY (AVA) - SEPULTURA, DJ MOTIV8 (BLACK EYED PEAS) - SINCLARITY - WE START PARTY, RII (ROY + IVAN) - 7 KURCADI - SWEET AS REVENGE - MELODRAMA, THE MIRACLE - BLITZKRIEG - FLAP (KEMAL TOBING) - COZY REPUBLIC, THE AFTER MILES (AGUS RINGGO) & MANY MORE... The website "WWW.VARIANT-ENTERTAINMENT.COM" and "WWW.DJARUMSUPER.COM" are listed at the bottom. A hotline number "021-32757677" is also provided. A search bar is located on the left side of the advertisement.

HOME
SUPER ADVENTURE
SUPER EVENT
ADVENTURE
SPORT
MUSIC
PHOTO GALLERY
VIDEO GALLERY
SUPER PRODUCT
Search

DJARUM SUPER
ROCKfest 2012
COME OUT & PLAY!

PORTNOY - SHEEHAN - MACALPINE
SHERINIAN (PSMS AMAZING UNION)
DAVID KENNEDY (AVA) - SEPULTURA
DJ MOTIV8 (BLACK EYED PEAS) - SINCLARITY - WE START PARTY

RII (ROY + IVAN) - 7 KURCADI - SWEET AS REVENGE - MELODRAMA
THE MIRACLE - BLITZKRIEG - FLAP (KEMAL TOBING) - COZY REPUBLIC
THE AFTER MILES (AGUS RINGGO) & MANY MORE...

SAT - SUN 10-11 NOV 2012 LAPANGAN D SENAYAN - JKT GATE OPENS AT 15.00

TICKET: DAY1: 100rb DAY2: 150rb

WWW.VARIANT-ENTERTAINMENT.COM WWW.DJARUMSUPER.COM
HOTLINE: 021-32757677

MEROKOK DAPAT MENYEBABKAN KANKER, SERANGAN JANTUNG, IMPOTENSI DAN GANGGUAN KEHAMILAN DAN JANIN



Translation: “Dying is better than leaving a friend;
Sampoerna is a cool friend.”

11.4. Product innovation in Indonesia



11.5. Tobacco Corporation's owned school

SAMPOERNA ACADEMY
 ABOUT | PROGRAM | REGISTRATION | LATEST NEWS

ABOUT SAMPOERNA ACADEMY



Sampoerna Academy educates the children of Indonesia into intelligent upright future leaders of the nation



WEAVING THE THREADS OF UNITY AND PROSPERITY THROUGH HOLISTIC EDUCATION

Indonesia's 230 million populations is the country's most precious underdeveloped resource. A UNDP 2011 report shows that Indonesia is ranked 124th from 187 countries in human capital index. Realizing this, Putera Sampoerna Foundation Initiated Sampoerna Academy program to deliver international-standard boarding schools for bright students regardless of their race, religion, ethnicity and social group to create new waves of high caliber leaders to be the forefront of national progress.

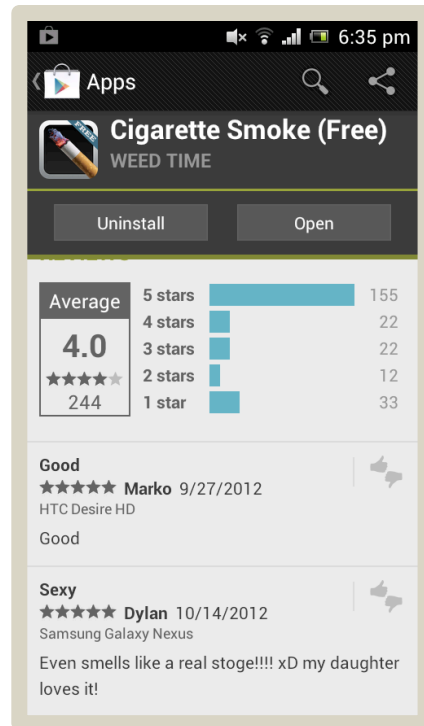
EDUCATION DEDICATED FOR ADVANCING INDONESIA

Sampoerna Academy is an education program delivering a world-class education emphasizing in both academic rigor and high moral character. It is designed to create future leaders who not only possess knowledge and skills, but also integrity and social awareness for the betterment of Indonesia. We have built a network of boarding schools in different regions in Indonesia. Currently, our program is available in Malang, Palembang, Bali and Bogor.



CREATING CHAIN REACTION OF GOODNESS

11.6. Smartphone application



(Captured by the author)

11.7. Comparison of Marlboro packaging

Norway (2009)



Canada (2006)

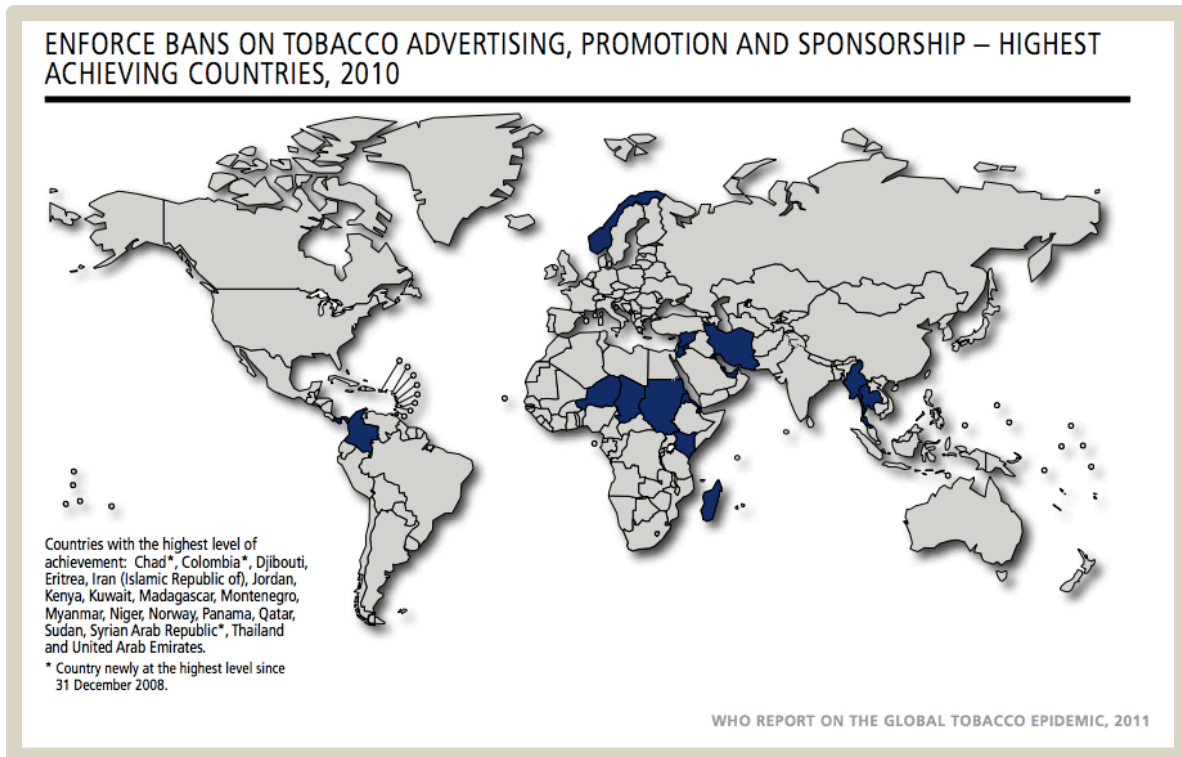
Name does not appear
because PMI sold its right to
license Marlboro to ITG



Indonesia (2009)



11.8. Promotion enforcement map



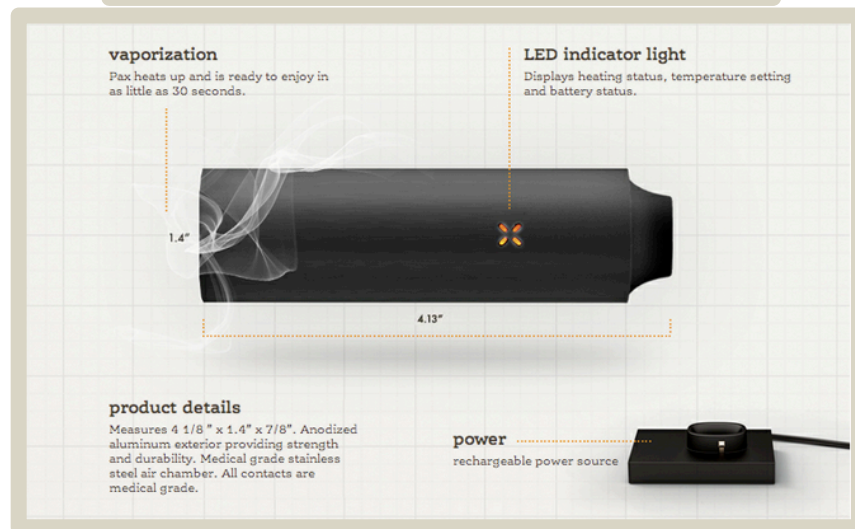
11.9. Lucky Strike Convertibles

Source: Cheap Cigarettes 4 You, 2012



11.10. Pax Vaporizer

Source: VapeWorld, 2012



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