

Chapter 3: Analyzing Global Industry

Case Study: 'The Tobacco Industry Should be Dead by Now'

Suggested answers to case study questions

1. Describe the global market structure of the tobacco industry.

Students could begin by calculating the CR4 of 78.4 or CR5 of 83.1. The industry at the global level is dominated by a small number of firms—the market structure is oligopolistic. They could be asked to work out the HHI by squaring the share of the top six companies and making the assumption that inclusion of the remaining firms would not seriously distort the result. The HHI index at 2391 also indicates oligopoly.

2. How does the global market structure compare with regional/national markets? For information, Google tobacco+national+market+shares; also see the Tobacco Atlas at <http://www.tobaccoatlas.org/topic/tobaccocompanies>.

Students may encounter difficulties obtaining up-to-date information. The WHO publishes data on tobacco companies e.g. see: <http://www.who.int/tobacco/en/atlas18.pdf>

Generally national and regional markets are oligopolistic showing high levels of market concentration. Some are more and some less highly concentrated than the global market.

3. What form would you expect competition to take in the tobacco industry?

Competitive strategies in consumer product markets with an oligopolistic structure like tobacco usually focus on attempts to differentiate the products through advertising, sales promotion, and packaging. Companies try to avoid competing too much on price. Faced with pressure from health campaigners and with major markets in developed economies in decline, companies look to tap into the less developed markets. e.g. in Africa and also by moving into the market for electronic cigarettes. Mergers and acquisitions can also play an important part of strategy where markets are in decline and where brand loyalty is important.

Students could be asked to look at the report by the US Federal Trade Commission at https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-cigarette-report-2016-federal-trade-commission-smokeless-tobacco-report/ftc_cigarette_report_for_2016_0.pdf and company strategies e.g. the article on CNTC by Fang, Lee and Sejbak at <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5553430/>

For BAT's approach in Africa see: <http://ash.org.uk/wp-content/uploads/2017/05/BATs-African-Footprint-with-links.pdf>

Annual reports by companies such as Philip Morris and BAT could also be consulted.

4. How did the industry change its advertising strategy when the USA and the EU banned cigarette advertisements on radio and television?

In addition to the material in the case, see the article in the New York Times at http://www.nytimes.com/2013/12/13/health/tobacco-industry-tactics-limit-poorer-nations-smoking-laws.html?_r=0, and the report by the US Federal Trade Commission at https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-cigarette-report-2016-federal-trade-commission-smokeless-tobacco-report/ftc_cigarette_report_for_2016_0.pdf, and <https://www.tobaccofreekids.org/assets/factsheets/0156.pdf>

5. How does Porter define a substitute? Discuss whether ecigarettes are a substitute for cigarettes.

Substitutes are goods or services produced by firms in a different industry which deliver a similar service to the consumer but in a different way. E-cigarettes provide a similar sensation to inhaling cigarette tobacco smoke. However, production methods are different as are the materials used in the manufacture of the products. On that basis, it could fairly be claimed that they are a substitute.

6. Assess how successful the tobacco industry response has been to the major challenges in its external environment in terms of:

- a) growth of sales by value and volume;
- b) profits; and
- c) prevalence of smoking. See <http://www.who.int/gho/tobacco/use/en>.

[Answer forthcoming]

7. *The Economist* (21 January 2017) points out that restrictions on advertising and sales may not have the effects desired by health campaigners because they lower marketing costs for existing firms and make it more difficult for new firms to enter and get established in the market. Weigh up arguments for the contention by *The Economist* that restrictions on advertising and sales promotion could help existing tobacco firms. See WHO video supporting plain packaging of cigarettes at <http://www.who.int/campaigns/no-tobacco-day/2016/en>.

The arguments advanced by *The Economist* carry weight since restrictions on advertising and sales promotion would make it more difficult for new entrants to inform consumers of the existence of their new and to persuade them to purchase them. On the other hand, it could be argued that, in the current situation, new entry is unlikely given the existing high barriers to entry created by the industry focus on product differentiation through advertising and sales promotion. Potential New entrants are also likely to be dissuaded by declining markets and the activities and

policies of governmental bodies and pressure groups to reduce the incidence of smoking. It could be argued that the benefits of reductions in smoking resulting from restrictions on advertising and sales promotion outweigh the costs of making entry into the industry more difficult.

8. According to one commentator, the tobacco industry should be 'dead by now'. He argues that the industry has survived by being crafty and resilient (*Financial Times* 17 September 2016). Discuss.

See: case of *Boeken v. Philip Morris, Inc.* at [//casetext.com/case/boeken-v-philip-morris-inc](http://casetext.com/case/boeken-v-philip-morris-inc);

Tobacco Explained produced for the pressure group Action on Smoking and Health (ASH) at www.who.int/tobacco/media/en/TobaccoExplained.pdf;

and article at <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2563590/>

One could expect students to draw on their answers to questions 3 and 4 as well the website addresses above. Students could be asked to comment on the ethics of some of the activities of tobacco firms.