

Counter Arguments

HOW IMPORTANT IS TOBACCO TO SMALL RETAILERS?

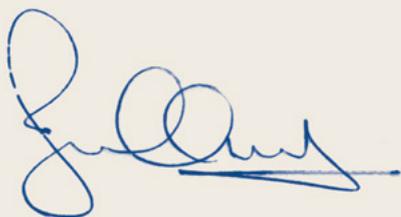


FOREWORD

Small retailers in Britain have little choice but to sell tobacco as many of our customers still smoke. But tobacco makes me very little money while tying up plenty of cash in stock. Tobacco is a burden for me, to say nothing of the burden of ill health it imposes on my customers.

The time is ripe for change. The decline in the market, the disappearance of cigarettes behind gantry doors, and the shift to 'plain', standardised packaging have made the traditional approach to selling tobacco out-dated. Why give up so much prominent space at the till to these products? The alternative is to reduce stock, shift the gantry well out of the way and free up space for products that actually turn a decent profit. As retailers, we can keep our customers who smoke, improve our profitability and make tobacco truly invisible to the many young people who come into our shops.

I welcome this report as it challenges retailers to consider whether tobacco companies and their local reps really have our best interests in mind. The tobacco manufacturers need us more than we need them. We can decide for ourselves how best to sell tobacco. I won't be able to walk away from selling tobacco any time soon but I look forward to the day when I can. Smoking rates have some way to fall before this option is realistic but when the day arrives we will all be winners.



John McClurey
Small retailer, Newcastle

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This report was commissioned by ASH and informed by a Steering Group of experts, including John McClurey, who has been a member of the ASH Advisory Council for the past 4 years.

Steering Group Members

| | |
|--------------------|--|
| Deborah Arnott | Chief Executive, ASH |
| Dr Robert Branston | Deputy-Director of the Centre for Governance and Regulation, University of Bath |
| Hazel Cheeseman | Director of Policy, ASH |
| John McClurey | Independent Retailer |
| Dr Garth Reid | Principal Public Health Adviser, NHS Health Scotland |
| Martine Stead | Deputy Director, Institute for Social Marketing, University of Stirling |
| Sally Slade | Trading Standards Officer, Southwark Council |

| | |
|----------|---|
| Author | Will Anderson |
| Analysis | Dr Sara Hitchman, King's College London |
| Design | Wee Creative |

The methodology and detail of the EPOS data analysis and the survey of tobacco retailers are available: from the ASH website at: www.ash.org.uk/counterarguments

SUMMARY

Tobacco manufacturers regularly communicate with small retailers through the Tobacco Retailers' Alliance, the trade press and local sales representatives (see pages 14 - 19). Tobacco companies claim that:

- *tobacco sales are crucial to the business of small retailers,*
- *tobacco drives footfall and smokers spend more than other shoppers,*
- *maximising the availability and range of tobacco brands is important to customer retention and sales.*

The manufacturers also seek to win the support of small retailers in opposing new tobacco control legislation, arguing that new controls are ineffective and increase the illicit trade in tobacco.

This report scrutinises these messages and asks whether the traditional approach to selling tobacco in small shops is still in retailers' best interests, given the ongoing decline in the market and the recent changes to how tobacco is sold.

The findings in this report are drawn from two new pieces of research: an analysis of Electronic Point of Sale (EPOS) data from a sample of 1,416 convenience stores in Britain and a survey of 591 owners and managers of convenience stores.

Profits. Despite the high volume of tobacco sales in convenience stores, accounting for 25% of total sales income in our sample, small retailers make very little money from tobacco. The margin on tobacco products is around 6% compared to an average of 24% for the other products they sell. The average weekly profit made by small retailers on tobacco products is 1.6% of total sales income whereas profit from non-tobacco products is 17.6% of sales income.

Footfall. Tobacco manufacturers claim that retailers do well from tobacco sales because smokers buy other products while they are in the shop. However, other than the money they spend on tobacco, smokers do not spend significantly more than people who do not buy tobacco.

Retailers would risk losing the custom of their smokers if they dropped any of the everyday products that smokers come into their shops to buy including alcohol, lottery tickets, confectionery and snacks. Everything that retailers sell drives footfall, not just tobacco.

Variety of stock. Tobacco manufacturers encourage retailers to maintain the availability of their own brands and brand variants. Yet the cost to retailers of ignoring this advice is low: a few disappointed customers per week add up to a very small cut in profits. Smaller stock would mean less money tied up in tobacco and more space available at point of sale to promote and sell higher margin products.

Opposition to new legislation. The claim that tobacco control measures increase the size of the illicit market does not stand up to scrutiny. In Britain, the market share of illicit tobacco has declined since 2000 despite all the changes to how tobacco is sold. The size of the illicit market is determined principally by the effort put into law enforcement.

Diverging interests. Retailers should not assume that their interests are perfectly aligned with those of the tobacco manufacturers. As retailers have no choice but to sell tobacco if they want to retain smokers as customers, tobacco manufacturers can squeeze retailers' margins while making enormous profits themselves. Manufacturers will continue to press retailers to maximise their investment in tobacco despite it being a declining, low-profit market.

A new approach. Retailers could benefit from a declining population of smokers if they reduce their stock of tobacco to core products, shift their gantries out of customers' line of sight, and use the freed-up space to promote and sell higher margin products. They can keep regular smokers among their customers while reducing the burden of smoking on their cashflow and, potentially, increasing their profitability.

INTRODUCTION

Small convenience stores are important players in the retail market for cigarettes and other tobacco products. In Britain, 45% of smokers buy tobacco from corner shops.¹ Consequently tobacco manufacturers invest considerable resources in maintaining the profile of their products within these stores.

But the retail tobacco market is not what it used to be. Tobacco sales are in long-term decline in Britain due to the ever-decreasing number of people who smoke. Although tobacco companies continue to make vast profits from the sale of tobacco products, retailers do not. With the introduction of standardised packaging, the shine is literally disappearing from the products themselves, which are now hidden behind gantry doors. Yet, despite these changes, most small retailers stick to a long-standing model of selling tobacco. The tobacco gantry remains a prominent feature behind the counter of most small shops in Britain.

This report questions the core messages promoted by tobacco manufacturers and invites retailers to consider whether the traditional approach to selling tobacco in small shops remains in their best interests.

The authors of this report are committed to reducing the harm caused by smoking in Britain, which includes over 200 smoking-related deaths every day and hundreds of millions of pounds of lost economic output per year. We recognise, however, that small retailers want to retain their smoking customers and cannot stop selling tobacco altogether. This report encourages an approach to selling tobacco which, we believe, can actually benefit retailers.

RESEARCH METHODS

The findings in this report are drawn from two new studies: an analysis of retail sales data² from small shops in Britain and a survey of the attitudes and experience of small retailers.³

Retail sales data

We obtained retail sales data from a sample of 1,447 small shops in the UK. The data, purchased from a company that provides electronic point of sale systems (EPOS) to these shops, are for the week beginning 21st September 2015. The data were checked against other weeks to ensure reliability. The sample included 500 unaffiliated independent shops and 947 shops affiliated with a symbol group, i.e. a franchise such as Londis or Nisa. All shops had a monthly turnover of £5,000 or more. Thirty-one shops were excluded due to EPOS errors (zero or negative values), leaving a final sample of 1,416.

The EPOS data are for weekly sales of tobacco products and non-tobacco products. Tobacco products include cigarettes, roll-your-own tobacco, cigars, and pipe tobacco. Non-tobacco products include all other products including e-cigarettes and tobacco sundries (lighters, matches and rolling papers). Products not included in the data are weighed products, lottery tickets and Paypoint transactions. Gross margins were calculated using product sales values and cost price values. For products with missing costs data (23%) a notional gross margin value, based on the gross margin of comparable products that did include a cost price, was used to estimate a profit figure. Quantitative analysis was undertaken using SPSS Version 23.

Survey of retailers

The survey was conducted by telephone between 16th March and 1st April 2016 by Retail Connect Cheetham Bell using an established database of independent stores and sole traders across the UK. Interviewees were owners or managers of these small shops. All questions followed a fixed script and had predefined answers but interviewees could refuse specific questions. The final sample size was 591 retailers. Quantitative analysis was undertaken using SPSS Version 23.

1. ASH Smokefree GB Survey 2016

2. Further information on the retail sales data is available at: www.ash.org.uk/counterarguments

3. Further information on the survey of retailers is available at: www.ash.org.uk/counterarguments

IS SELLING TOBACCO A GOOD DEAL FOR SMALL RETAILERS?

- **The average profit margin on tobacco products is 6.6% compared to an average of 24.1% for non-tobacco products.**
- **Despite the high volume of tobacco sales in small shops, profit on tobacco represents only 1.6% of total sales income.**
- **In 2013 tobacco companies made £1.1bn profits from their UK business.**

Small retailers in Britain invest a lot of money in selling tobacco. But this certainly doesn't mean that tobacco is their favourite product line.

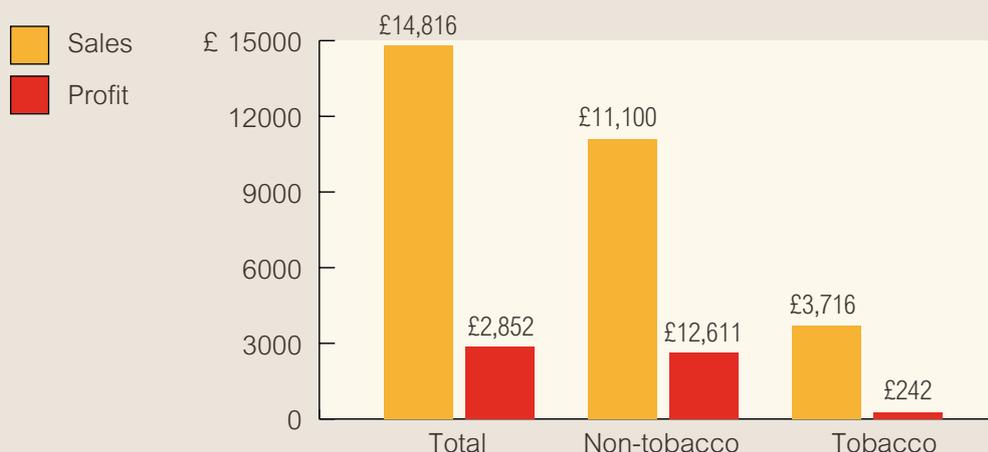
Retailers are well aware of the big downside of tobacco: the products are expensive to stock and margins are low. In our survey of retailers, over two thirds (69%) acknowledged that they do not make much profit from cigarettes compared to other products.

In our analysis of EPOS data, a quarter of the money taken at the tills of small shops was for cigarettes and other tobacco products. But the average margin for tobacco sales was only 6.6% compared to 24.1% for the non-tobacco products sold, so retailers are tying up a lot of money in stock for relatively little gain.

Take a corner shop in Britain with an average weekly income (Chart 1). In a week, total sales are £14,816. Of this, £3,716 comes from tobacco sales (25%) and £11,100 is taken from the sale of other products (75%). But the profit from tobacco is a mere £242 (1.6% of total sales) compared to £2,611 from non-tobacco products (17.6% of total sales).

Chart 1.

Average weekly sales and profits of small shops



Retailers know that they have to keep selling tobacco products, despite their poor margins, as many of their customers still want to buy them. This means that tobacco companies can squeeze retailers at minimal risk while making enormous profits for themselves. In 2013, the total profit made by tobacco companies from their UK sales was over £1.1 billion with company profit margins of up to 60%.⁴

4. Branston JR, Gilmore AB. The extreme profitability of the UK tobacco market and the rationale for a new tobacco levy. University of Bath. 2015.

Tobacco companies and their representatives constantly remind small retailers of how important tobacco sales are to their businesses. These figures suggest that retailers ought to be wary of such advice and the priorities that inform it.

DO TOBACCO SALES TRIGGER OTHER PURCHASES?

- **Other than the money they spend on tobacco, smokers do not spend significantly more in small shops than people who do not buy tobacco.**
- **The majority (79%) of transactions in small shops are for non-tobacco products only. Only 13% of transactions in small shops include both tobacco and other products.**
- **Retailers would risk losing the custom of their smokers if they were to drop any of the everyday products that smokers come into their shops to buy. Everything that retailers sell drives footfall, not just tobacco.**

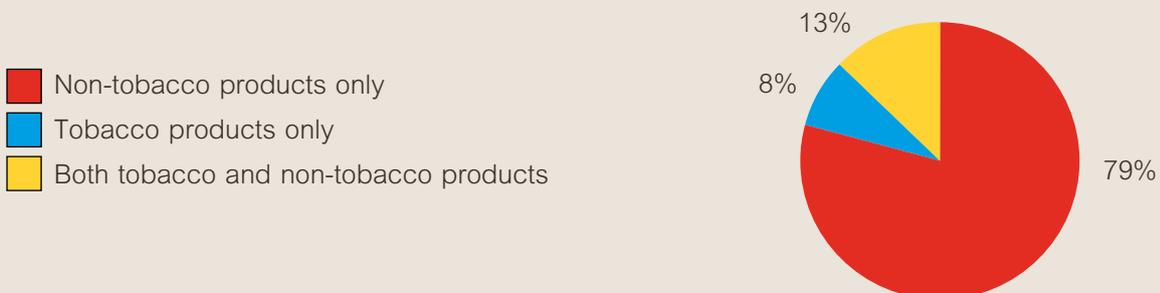
Smokers who go to their local shop to buy tobacco often buy other things while they are there. It's tempting to see these other purchases as a bonus brought in by the tobacco sale. But would such purchases have happened anyway?

Tobacco companies use the 'footfall' argument to reassure retailers that despite the poor margins they get from their tobacco sales, their business is still doing well from tobacco thanks to all the other products that smokers buy at the same time. In our survey of retailers, 82% agreed that selling tobacco was important to their business because of footfall.

Most transactions in small shops do not involve tobacco at all. In our analysis of EPOS data, 79% of all transactions were solely for non-tobacco products, 8% were for tobacco only, and 13% were for both tobacco and non-tobacco products (Chart 2).

Chart 2.

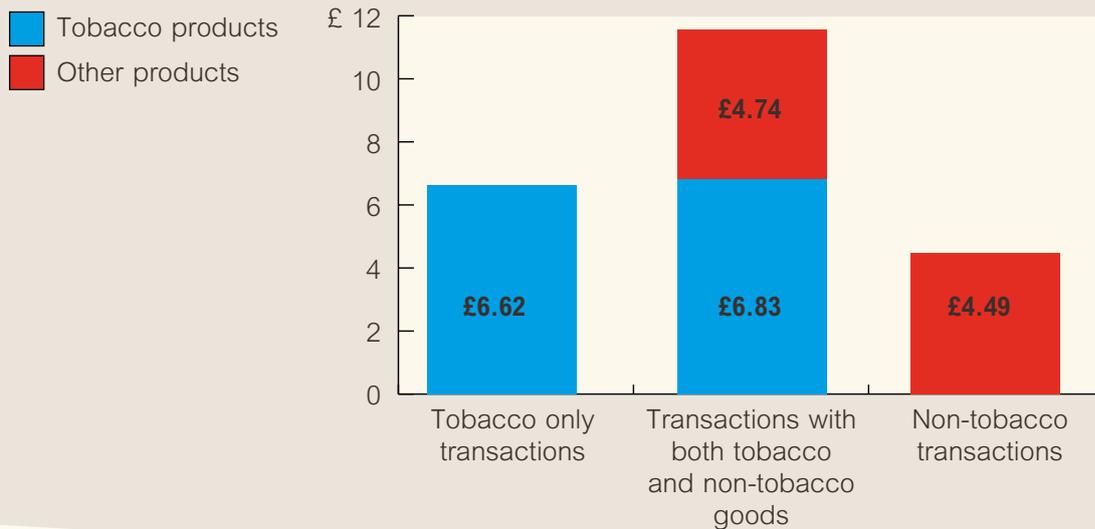
Tobacco and non-tobacco transaction rates



If we compare the average values of these different types of transaction, we find that there is no relationship between sales of tobacco products and non-tobacco products (Chart 3).

Chart 3.

Average transaction values for small retailers



Spending on tobacco products (in blue) is much the same regardless of whether or not other products are bought at the same time. Similarly, spending on non-tobacco products (in red) is much the same regardless of whether or not tobacco is bought at the same time. Those buying tobacco spend on average only 25p more on non-tobacco items than shoppers who do not buy tobacco. This small extra spend includes their spending on tobacco sundries such as lighters and papers, which are included in the 'non-tobacco' category in this analysis.

The similarity of these figures for non-tobacco spending suggests that smokers approach the till with a similar basket of everyday items to those who come into the shop with no desire to buy tobacco. The reason smokers outspend other shoppers is simply that they buy tobacco as well.

Undoubtedly small retailers would lose some or all of the income from additional non-tobacco purchases if they stopped selling tobacco altogether. But they would risk losing this custom if they dropped any of the everyday products that smokers come into their shops to buy including alcohol, lottery tickets, confectionery, and snacks. Everything that retailers sell drives footfall, not just tobacco.

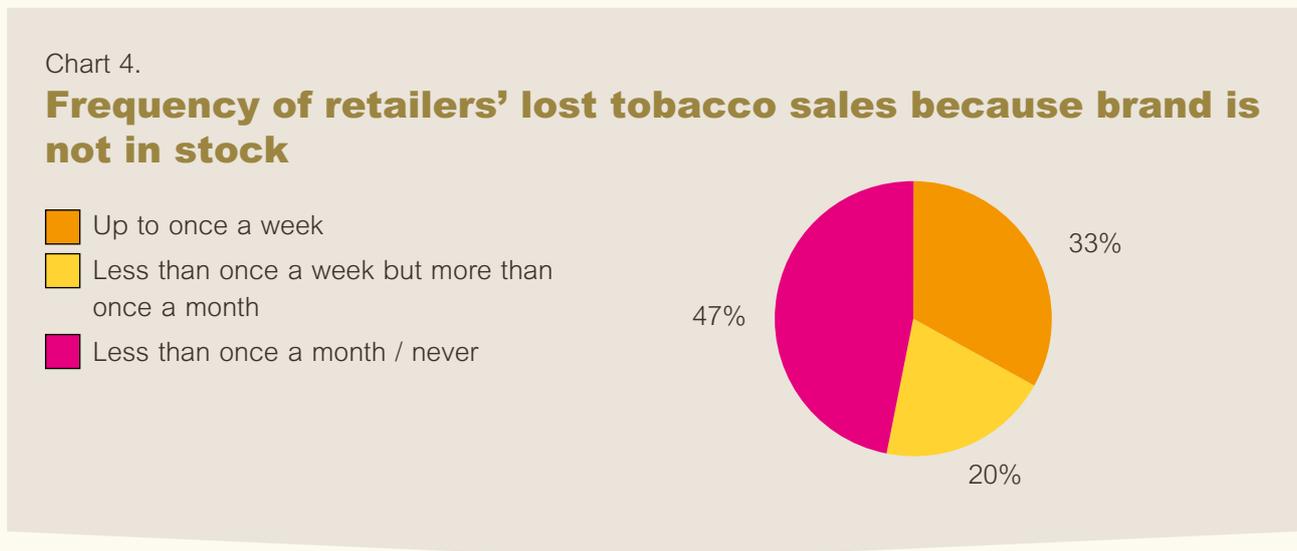
SHOULD RETAILERS STOCK EVERY BRAND?

- **72% of convenience store retailers feel they have too much money tied up in their tobacco stock.**
- **Retailers can be less cautious at little cost. A shift from losing tobacco sales less than once a month to less than once a week has a maximum profit penalty, on average, of £6.24 per month.**
- **Reducing stock frees up cash and makes space for higher margin products.**

Tobacco companies encourage retailers to maintain the availability of their brands including a wide range of brand variants. But the cost to retailers of ignoring this advice is small and the potential benefits of doing so are significant.

Small retailers want to do the best for their customers, so it's not unusual for them to aspire to stock as many different brands of tobacco as possible. In our survey of retailers, three quarters (74%) said that it is important to have full availability of a wide range of tobacco brands. However, almost as many (72%) said that they have too much money tied up in tobacco stock every week and nearly a quarter (24%) said they regularly had problems with the cost of stocking up.

What should retailers do? How much do they stand to lose if they reduce their stock? The answer to this question can be estimated from retailers' reports of how often they currently refuse customers. In our survey, we asked retailers how often they lost a tobacco sale because the brand the customer wanted was not in stock. Chart 4 illustrates their responses.



A third (33%) lost a sale up to once a week, 20% lost a sale less than once a week but more than once a month, and 47% lost a sale less than once a month or never.

Nearly half of retailers keep enough stock to ensure that they lose no more than one tobacco sale per month. But what would the cost be to them of reducing their stock and moving to the middle group who lose more than one sale per month but less than one per week?

A retailer in this middle group will lose a maximum of four sales in a month of just over four weeks. As the profit on the average tobacco-only transaction is only 44p, these retailers will lose up to £1.76 per month. If we take the worst case scenario and assume that the four disappointed customers walk out the shop and do not purchase any non-tobacco products, this monthly loss in profit rises to £6.24. This represents 0.05% of the average monthly profit of small retailers.

This small loss is potentially more than matched by the benefits of this approach. Retailers who reduce their stock are relieved of some of the financial burden of maintaining high stock levels and can reduce the size of their gantries, freeing up space at the point of sale for visible rather than hidden products that are likely to be both more widely desirable and more profitable than cigarettes. Any increase in these sales is likely to offset the £6.24 loss in monthly profit and push retailers to increased profitability overall.

IS ANTI-SMOKING LEGISLATION ALWAYS BAD FOR RETAILERS' BUSINESS?

- **Contrary to the claims of the tobacco manufacturers, changes to how tobacco is sold in small shops have reduced take-up of smoking among young people and the illicit market has not increased.**
- **As tobacco is a declining, low-profit market, retailers can reduce their stock and make better and more profitable use of the space they currently give over to tobacco.**

Tobacco manufacturers always oppose government efforts to reduce smoking rates through public policy. The doors on tobacco gantries and the shift to plain, standardised packaging are recent examples of policy changes that the manufacturers have lobbied hard against. However, the arguments made by the tobacco companies are not as robust as they may seem. Retailers should be wary of always doing the tobacco companies' bidding in opposing government policy.

Sometimes the practical aspects of changes to how tobacco is sold can be frustrating for retailers. For example, in our survey of retailers, five identified the doors to tobacco gantries as an obstacle in their day-to-day business. Likewise the introduction of plain standardised packaging may initially slow down the retrieval of products. However, most retailers are quick to adapt to such changes: in Australia, the introduction of standardised packaging actually increased the efficiency of retail sales.⁵ Following the lead of the tobacco manufacturers, retailers' opposition to regulation tends to focus on the broader issues of whether point-of-sale changes actually make a difference, and whether restrictions on tobacco sales increase the sale of illicit tobacco.

It is a common perception among retailers that legislative changes have no impact. Retailers know who their smoking customers are and see them buying tobacco regardless of how the products are presented. However, this doesn't mean such changes are a failure. The prohibition of cigarette advertising at the counter, the enclosure of the gantries, and the introduction of standardised packaging are all designed principally to make smoking less attractive to young people. The primary goal is to stop people starting smoking in the first place. If they also encourage adults who already smoke to quit, that's a bonus. These changes are part of a bigger effort, which includes the advertising ban and smokefree restrictions in public places, to make smoking appear unattractive to young people and adults alike. This effort is unquestionably working: regular smoking among 11-15 year olds has fallen from a peak of 13% in 1996 to 3% today⁶ and adult smoking rates have more than halved since 1974 when 51% of men and 41% of women smoked.⁷

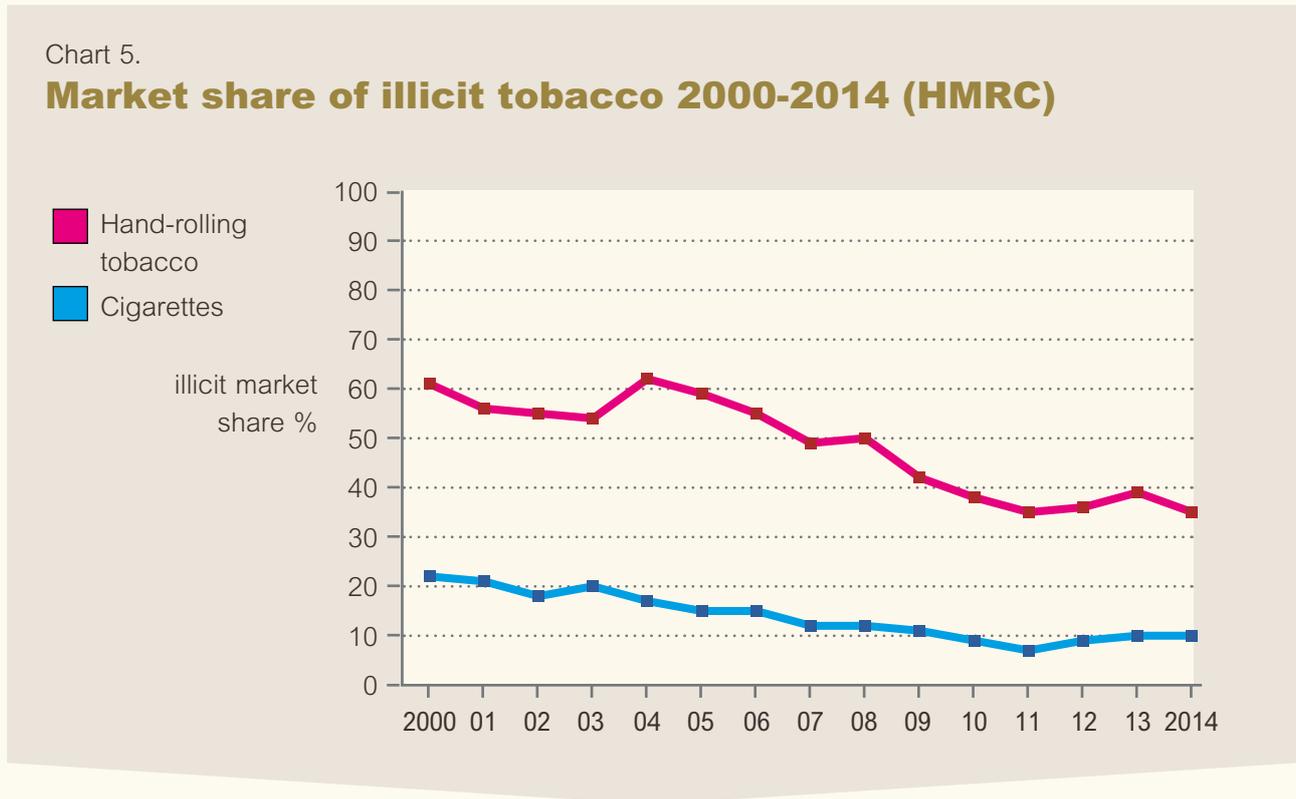
Tobacco manufacturers argue that restrictions on the sale of legal tobacco stimulate the illicit market, thereby undermining retailers' business. This argument has been made so frequently and forcefully that it might seem unassailable. Yet there is actually very little evidence to support it. In reality, the size of the illicit market is not driven by the manner in which legal tobacco is sold.

5. Carter, O et al. Plain packaging for cigarettes improves retail transaction times. *BMJ* 2013; 346: f1063

6. Smoking, drinking and drug use among young people in England in 2014. Health and Social Care Information Centre, 2015

7. Adult smoking habits in Great Britain, 2014. ONS, 2016

There will always be criminals keen to sell illicit products. The size of this market is determined primarily by the effectiveness of law enforcement. Since the beginning of the century, the price of tobacco in Britain has risen and there has been a raft of changes to how tobacco is sold, all of which tobacco manufacturers argued would increase the size of the illicit market. Yet the illicit market declined over this period thanks to a strong government anti-smuggling strategy.⁸ (Chart 5)



This relationship is clear at an international level: low income countries where cigarettes are cheap but enforcement is poor have much larger illicit markets than high income countries such as the UK where cigarettes are expensive but enforcement is strong.⁹

The long-term impact of anti-smoking legislation has not been to increase the illicit market but to reduce the size of the smoking population, which has halved from 39% of adults in 1980 to 18% today.

The decline in smoking prevalence and the changes to how tobacco products are sold present an opportunity for retailers. If smoking is becoming marginal to both British society and retail profits, there is a good case for minimising the space, time and money that tobacco products demand of small retailers, relieving the financial burden of high stock levels and making room for higher margin products. Given that smoking kills over 200 people every day in the UK, one can argue that a healthier, longer-living, non-smoking population would be good business for retailers.

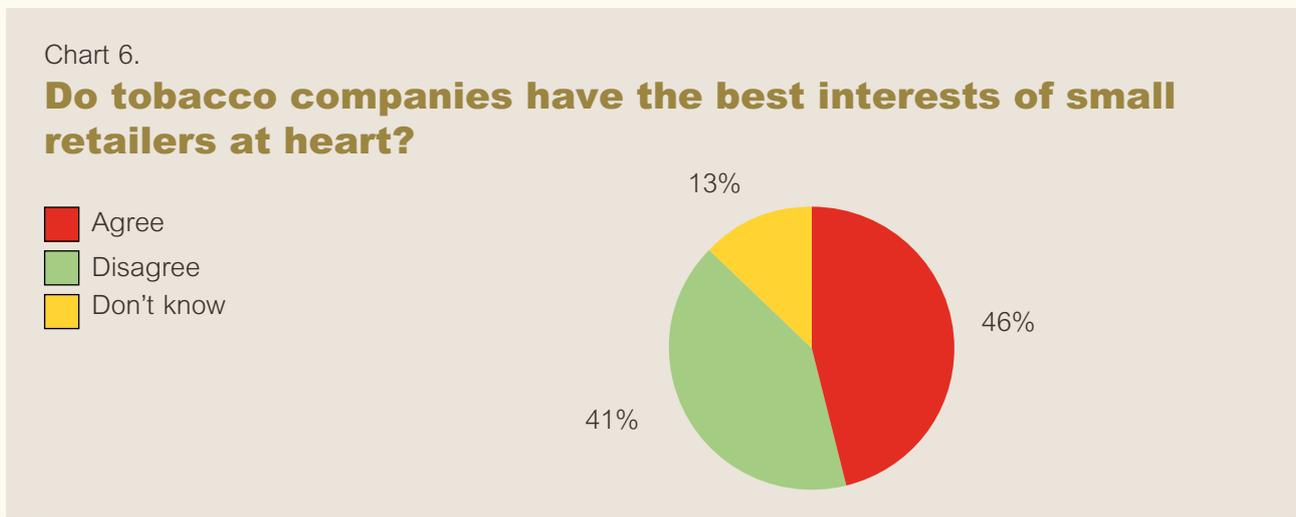
8. Tackling illicit tobacco: From leaf to light. The HMRC and Border Force strategy to tackle tobacco smuggling, 2015

9. Joossens L, Merriman D, Ross H, Raw M. How eliminating the global illicit cigarette trade would increase tax revenue and save lives. International Union Against Tuberculosis and Lung Disease, 2009

ARE TOBACCO MANUFACTURERS ON THE SIDE OF RETAILERS?

- **46% of small retailers feel that the tobacco companies have their best interests at heart.**
- **Retailers are in a strong position to rethink, to their advantage, the traditional model of selling tobacco.**

Tobacco manufacturers present themselves as being on the side of small retailers, not least through control of the Tobacco Retailers' Alliance. However many retailers are not persuaded. In our survey, we asked small retailers whether they felt the tobacco companies had their best interests at heart. The response was split: 46% agreed and 41% disagreed (Chart 6).



The analysis in the preceding sections highlights the basic problem facing retailers: they have to stock tobacco because cigarettes remain an everyday need for customers who smoke, yet the return is small and the costs are high. Potentially, retailers' profits from tobacco could be matched if the currently prominently placed tobacco gantry was replaced by promotions of high margin products.

The primary interest of tobacco companies is to maximise their profits. Consequently they have to keep small retailers on side. As few retailers want to walk away from selling tobacco, the companies can achieve this principally through good public relations and active reps on the ground. Manufacturers will continue to press retailers to maximise their investment in tobacco despite it being a declining, low-profit market.

Tobacco companies may be big and powerful but retailers can still call the shots. The optimal approach to selling tobacco products should always be a judgement for retailers, not tobacco manufacturers.

SELLING TOBACCO: GOOD PRACTICE

Most small retailers cannot yet afford to stop selling tobacco. They can, however, rethink how they sell tobacco to ensure that they retain their smoking customers while reducing costs and maintaining or even improving profitability.

This report has argued that the tobacco manufacturers' messages to small retailers serve their own interests rather than those of the retailers. Retailers can do better for themselves and for their customers if they take an approach to selling tobacco that puts their own business and the health of their customers before the profits of the tobacco manufacturers.

We recommend the following approach as good practice in selling tobacco in small shops. The objectives of this approach are to improve profitability, reduce the visibility of tobacco products, discourage young people from starting to smoke, and help smokers to quit.

- 1. Reduce your stock to core products, minimise the size of your gantry and move it away from customers' line of sight. Use the freed-up space behind the counter to promote higher margin products.**
- 2. Ensure full compliance with the law on underage sales, illicit tobacco and proxy purchasing.**
- 3. Offer alternative nicotine products for sale, such as e-cigarettes. The profit margins of these products are much higher than those of tobacco products.**
- 4. Display information on local quitting services such as the number of a quitting helpline.**
- 5. Do not automatically oppose anti-smoking legislation but consider the long-term benefits to your business of a non-smoking population.**

CONCLUSION

In our survey, we asked retailers to state how important they think tobacco will be to their business in ten years' time. Two fifths (40%) felt that tobacco would be less important, 35% felt that it would be just as important, and 12% felt that it would be more important (12% did not know). Those who expect a decline in tobacco sales are the most realistic. The number of cigarettes sold in Britain today is one third of what it was 25 years ago¹⁰ and there is no reason to suppose this long-term decline is going to ease off.

This report invites retailers to see this long-term change not as a threat but as an opportunity. The tobacco manufacturers' PR machines will continue to insist that tobacco products are crucial to small retailers' business. But the analysis in this report suggests otherwise: tobacco is a high-cost, low-profit product; smokers do not spend significantly more on non-tobacco products than other shoppers; and the cost of not stocking a full brand range is small. Retailers can make the most of these conditions if they stock only what is needed to keep regular customers happy, get the tobacco out of the way and use the space behind the counter to promote and sell high margin products that everyone wants, not just the dwindling minority of customers who still smoke.

10. HMRC: Tobacco Bulletin, May 2016 Tobacco manufacturers' communications

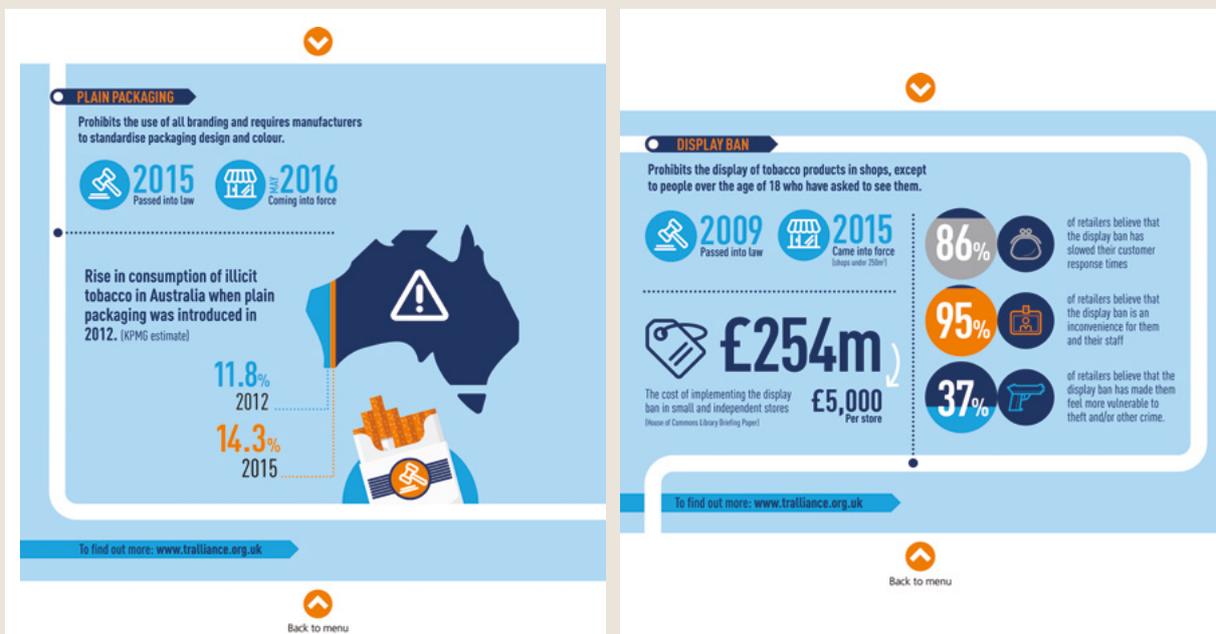
ANNEX

TOBACCO MANUFACTURERS' COMMUNICATIONS TO SMALL RETAILERS

Tobacco manufacturers seek to influence small retailers in three distinct ways: through the Tobacco Retailers' Alliance and other trade bodies, through the trade press, and through visits by company representatives (reps) to retailers' shops. Through these mechanisms, manufacturers seek both to persuade retailers that tobacco remains vital to their business and to win their support in opposing tobacco control legislation.

The Tobacco Retailers' Alliance presents itself as a campaigning organisation representing small retailers who sell tobacco products.¹¹ It is funded by the Tobacco Manufacturers' Association, the trade organisation that represents three out of four of the major manufacturers: British American Tobacco, Japan Tobacco International and Imperial Brands.¹¹ The Alliance has been used by the manufacturers to co-opt retailers to oppose new tobacco control legislation, for example by funding and orchestrating postcard campaigns directed at MPs.¹² In opposing new measures, such as the point of sale display ban and plain standardised packaging, the Tobacco Retailers' Alliance has consistently argued that these measures will prove to be ineffective and a burden on retailers, and will encourage the illicit trade.¹³

Tobacco Retailers' Alliance: Interactive briefing document – Plain Packaging & Display Ban¹³



11. Tobacco Retailers' Alliance. Our role – webpage. <http://www.tralliance.org.uk/our-role/> [accessed: 15 September 2016]

12. Tobacco Tactics, 2016 http://www.tobaccotactics.org/index.php/Tobacco_Retailers'_Alliance [accessed: 22 September 2016]

13. Tobacco Retailers' Alliance. Scrap the Tax - interactive briefing document. http://www.tralliance.org.uk/wp-content/uploads/2016/02/TRA_Legislation_Interactive_Final.pdf [accessed: 15 September 2016]

Tobacco Retailers' Alliance Briefing: Revisions to the EU Tobacco Products Directive¹⁴

"While there is no credible, impartial evidence to prove that these measures will deliver the intended health benefits, they will certainly restrict consumer choice, damage legitimate business interests and fuel the illicit trade in tobacco products."

REVISIONS TO THE
EU TOBACCO PRODUCTS DIRECTIVE

tobacco
retailers'
alliance

THIS DIRECTIVE WILL...

- 1** Deny adult consumers their choice of preferred tobacco products.
- 2** Damage the viability of legitimate retailers and supply chain businesses in already difficult economic conditions.
- 3** Drive the illicit trade in counterfeit and smuggled tobacco, depriving HM Treasury of much needed revenue for public services.

Tobacco companies are permitted to run advertisements in the trade press, such as *The Grocer*, *Convenience Store* and *Asian Trader*, which they use to communicate key messages to small retailers. These journals also regularly run news stories supporting the campaigns of the Tobacco Retailers' Alliance. The examples here illustrate the primary messages directed to retailers, i.e. that:

- *tobacco sales are crucial to the business of small retailers*
- *tobacco drives footfall and smokers spend more than other shoppers, and*
- *maximising the availability and range of tobacco brands is important to customer retention and sales.*

14. Tobacco Retailers' Alliance. Revisions to the EU Tobacco Products Directive. 15 September 2016 http://www.tralliance.org.uk/wp-content/uploads/2015/05/TRA_EUTPD-2015.pdf [accessed: 15 September 2016]

Asian Trader News Story: “TRA spokesman speaks out against anti-tobacco crusade”, 1 June 2016¹⁵



“Highlighting the importance of cigarettes to independent retailers, he [SULEMAN Khonat, the national speaker for the Tobacco Retailers’ Alliance (TRA) and a local councillor and Blackburn newsagent] cited a survey by the TRA which found 87 percent of small shop owners thought they would have to close their business if they lost the ability to sell tobacco products.”

JTI Advert: “Tobacco Products Directive Summary” Convenience Store, 26 February – 10 March 2016 page 25¹⁶

The advertisement is a green and white flyer. At the top right is the JTI logo. The main title is 'Tobacco Products Directive Summary'. Below the title, it states: 'New EU Tobacco legislation, known as the Tobacco Products Directive, will come into force from May 2016 for tobacco manufacturers. There will be a year's sell through period, meaning that from May 2017 a range of tobacco products will be banned from sale. In addition to the new EU rules, the UK government has passed plain packaging legislation, which means from May 2017, retailers will not be permitted to sell branded tobacco products.'

Key statistics and facts:

- £2,000 LOST SALES**: A tobacco shopper can be worth over £2,000 a year. Ensure you maintain availability and range to keep customers coming back.
- 97%**: of existing adult smoker shoppers, in the traditional convenience channel, said tobacco was one of the reasons for visiting.
- Be a tobacco A.I.S.A. and maintain AVAILABILITY and RANGE**: JTI has developed ARTIST, which stands for Availability, Range, Training, Innovation, Sales and Technology. It brings all these together to maximising tobacco profits. Full details about ARTIST can be found on jtiadvance.co.uk.
- AVAILABILITY**: 100% availability 24/7 is key. Review stock levels each morning and prior to peak trading times as out-of-stocks lead to lost sales.
- RANGE**: Stocking a wide range of pack sizes, as well as price marked and non-price marked packs, demonstrates to existing adult smokers they are getting the best possible choice and value.

Timeline of key dates:

| May 2016 | May 2017 | May 2019 | May 2020 |
|---|--|---|--|
| Manufacturing Deadline Last date to manufacture packs that have not been made, packaged and packed into 30g off your own. | Sell Through Deadline Packs less than 20 years, single cigarettes and packs less than 10g will not need to be sold in the UK. Distributing pack through shops, kiosks, hotels etc and selling online. | Track & Trace Implementation Advanced traceability security features. | Menthol Ban Menthol cigarettes and cigars. |

For more information on tobacco retailing visit www.jtiadvance.co.uk

“91% of existing adult smoker shoppers in the traditional convenience channel said tobacco was one of the reasons for visiting”

“100% availability 24/7 is key. Review stock levels each morning and prior to peak trading times as out-of-stocks leads to lost sales”

“Stocking a wide range of pack sizes, as well as price marked and non-price marked packs, demonstrates to existing adult smokers they are getting the best possible choice and value.”

15. Asian Trader: TRA spokesman speaks out against anti-tobacco crusade, 1 June 2016

16. JTI Advert “Tobacco Products Directive Summary” Convenience Store, 26 February - 10 March 2016, page 25

Imperial Tobacco Advert: “Partnering for Success” [TPD advice for retailers] Convenience Store, 11 March – 24 March 2016¹⁷

“Tobacco attracts shoppers to your stores: Tobacco will remain a footfall driver. A wide range and high availability are drivers for success – 1 in 10 potential shoppers will walk out if their brand choice isn’t in stock.”

“Tobacco shoppers outspend other shoppers: Adult smokers don’t just buy tobacco products. Their basket spend is more than twice as much as the average convenience shopper per year.”

PART 2 PARTNERING FOR SUCCESS...

WHAT IS HAPPENING?
 In 2014 the European Union adopted the revised Tobacco Products Directive – or “EUTPD II”. It’s a series of new rules regarding the way tobacco products are manufactured, packaged and sold within the EU. The UK Government has also chosen to add extra legislation in the form of Standardised – or “plain” – Packaging.
 This new legislation will affect everybody involved in the tobacco category, including you.
 As a responsible business we recognise the need to prepare for compliance. The result is **Partnering for Success**, a programme to advise and support retailers through EUTPD II and Standardised Packaging.

WHEN IS IT HAPPENING?

TRANSITION PERIOD

- From now until 20 May 2017 retailers are allowed to sell current packs.
- From 20 May 2016 standardised packs will begin to appear in the market. Between this time and 20 May 2017, retailers are allowed to sell both current packs and standardised packs.
- From 20 May 2017 retailers are only allowed to sell standardised packs.
 - Current packs must be 200 sticks or more
 - Packs that were tobacco products must be 100 or more
 - Price Matched Packs no longer allowed

HOW ARE WE SUPPORTING YOU?
 Our START* pack updates ensure retailers have all the latest legislative information and category advice at their fingertips.
 The latest updates include a case study focusing on the impact of Standardised Packaging legislation on an Australian retailer, plus recent Imperial Tobacco Anti-Illicit Trade initiatives.
 Many retailers have been provided with START packs by their designated Imperial Tobacco rep; digital versions can be downloaded from www.imperial-trade.co.uk or via the ignite website.

THE IMPORTANCE OF TOBACCO TO YOUR BUSINESS
 Tobacco’s role in independent retail will remain in a standardised packaging environment.

- Tobacco attracts shoppers to your stores:** Tobacco will remain a **footfall driver**. A wide range and high availability are drivers for success – more than 1 in 10 potential shoppers will walk out if their brand choice isn’t in stock*.
- Tobacco shoppers outspend other shoppers:** Adult smokers don’t just buy tobacco products. Their **basket spend** is more than twice as much as the average convenience shopper per year*.

PLANNING AND PREPARING FOR CHANGE
 Imperial Tobacco’s experiences in Australia, which introduced standardised packs in 2012, suggest that retailers who **plan and prepare** for the legislation will be putting themselves in a strong position for a successful transition.

Improve your tobacco offering by focusing on the following:

- Aim for maximum availability:** By focusing on high availability, you’ll build a loyal shopper base who’ll return to your store time and again.
- Stock a wide range:** As well as premium brands, our range also contains value-orientated alternatives. A wide range will meet all of your customers’ needs.
- Let’s work together:** By combining your retail experience with the category knowledge of your Imperial Tobacco sales representative, you’ll optimise your tobacco range, protect availability and improve gentry navigation.

Imperial Tobacco continues to work with the trade to prepare and plan for a **smooth and successful transition** between 20 May 2016 and 20 May 2017.
 To find out more, retailers should talk to their Imperial Tobacco sales representative, while taking advantage of free resources including our **START packs** and **MyTobaccoPriceList.co.uk**.

... THROUGH EUTPD II AND STANDARDISED PACKAGING

Source: * ITC estimates based on McKinsey Shopper Research 2013.
 * For the purposes of this ad, the category is the equivalent of the 2000 packs and 1000 products in the market. Retailers should refer to the relevant public reporting 2013 and a full list of tobacco products in the relevant public reporting 2013.

Imperial Tobacco
 For Tobacco Traders Only
www.imperial-trade.co.uk

The trade press is also used to gain the support of retailers in opposing tobacco control legislation.

The Grocer feature, “The fat lady sings” 13 February 2016 (page 47) ¹⁸

“Imperial has branded the plain packaging rules “a gift for organised crime”, citing a report that found sales of illicit tobacco have grown 3% since the introduction of standardised packs in Australia.”

The screenshot shows a magazine page with the headline "The fat lady sings" and a sub-headline "With tough new tobacco rules imminent, brands are preparing last gasp bids to encourage loyalty. What's ahead for the market?". The article is by Tania O'Donnell. It discusses the EU Tobacco Products Directive II (TPD2) and plain pack rules, mentioning that cigarette sales are down 2.5% on volume and 6.5% on value. It also notes that the industry is preparing for the introduction of minimum pack sizes and the removal of 10 and 15 cigarette packs. A quote from a source says: "Smokers have no idea EUTPD2 is coming, I'm sure they think it's a Star Wars character".

Asian Trader, “Display ban and smuggling hit Treasury duty revenues”, 14 July 2016 ¹⁹

“Mr Khonat [national spokesman for the Tobacco Retailers’ Alliance and a Blackburn newsagent] said that, in addition to dealing with supermarket competition and online shopping, corner shops were suffering fallout from a “50-year war against the corporate marketing of smoking”, starting with the ban on TV advertising in 1965 and culminating in the display ban and, most recently, the introduction of plain packaging and the banning of packs of ten cigarettes.”

The screenshot shows a website article from Asian Trader. The headline is "Display ban and smuggling hit Treasury duty revenues". The article is dated Thursday, July 14, 2016. It features a photograph of a person in a yellow high-visibility vest handling large stacks of tobacco packs. The text of the article states: "THE TOBACCO display ban and an increase in smuggling has led to a substantial decline in Treasury duty revenues, The Times reported. Tax revenues in the 2015-16 tax year fell by almost one per cent, from £9.55 billion to £9.48 billion, while revenues from March to May this year fell by 3.5 per cent to £2.38 billion, according to Revenue & Customs. In a bid to cut smoking rates and improve health, tax on cigarettes has been rising at two per cent above inflation since 2010. A trading update from Booker showed a 7.7 per cent drop in sales of tobacco products during the first quarter."

18. O'Donnell, T. The fat lady sings. The Grocer, 13 February 2016, page 47

19. Display ban and smuggling hit Treasury duty revenues <https://www.asiantrader.biz/industry-news/Display+ban+and+smuggling+hit+Treasury+duty+revenues/4067> Asian Trader, 14 July 2016 [Accessed 15 September 2016]

Asian Trader, “Surge in British black market cigarette trade”, 8 June 2016²⁰

“A NEW KPMG study for the big four tobacco firms - British American Tobacco (BAT), Imperial Tobacco, Japan Tobacco International (JTI) and Philip Morris International (PMI) – has detected an alarming rise in the UK’s black market tobacco trade.”



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INDUSTRY NEWS

Surge in British black market cigarette trade

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Wednesday, June 08, 2016



A NEW KPMG study for the big four tobacco firms - British American Tobacco (BAT), Imperial Tobacco, Japan Tobacco International (JTI) and Philip Morris International (PMI) – has detected an alarming rise in the UK’s black market tobacco trade.

KPMG has found an almost 300% increase in counterfeit cigarette volume, which has driven a second consecutive annual rise in UK black market cigarette consumption. The study found the overall volume of illegal cigarettes consumed in the UK during 2015 rose by over 8% to reach 6.7bn cigarettes. This means that 16% of all cigarettes now consumed in the UK are either contraband or counterfeit, the second highest volume in the EU.

Other key findings from the study include the fact that non-duty paid volume coming into the UK from Romania has increased by nearly 400%, that 78% of counterfeit products had duty free labelling, and that an additional tax revenue of €2.8bn would have been collected in the UK if all black market products consumed had been sold legally. In total EU member states lost an estimated €11.3bn in tax revenues to the illicit tobacco market in 2015.

Tobacco companies invest a lot of money in their local reps. Our survey revealed that over four fifths (81%) of retailers speak to a tobacco company rep at least once every six months and 45% see one at least once a month. The main objectives of these visits from reps are to encourage retailers to stock their brands and to position and promote them effectively (Table 1).

Table 1.

Topics small retailers discussed with tobacco company reps in previous 6 months

| Topics Discussed | Retailers |
|--|-----------|
| What brands to stock | 73% |
| Where tobacco stock should be positioned | 67% |
| Standardised packaging | 66% |
| Where tobacco sundries should be positioned | 64% |
| What brands to promote to customers | 61% |
| Stocking their e-cig brands | 60% |
| How to speak to customers about brand promotions | 52% |
| Free tobacco products | 26% |

20. ‘Surge in British black market cigarette trade’. Asian Trader, 8 June 2016 <https://www.asiantrader.biz/industry-news/Surge+in+British+black+market+cigarette+trade/3948> [Accessed 15 September 2016]

Counter Arguments

HOW IMPORTANT IS TOBACCO TO SMALL RETAILERS?



This report was commissioned by ASH and informed by a Steering Group of experts, including John McClurey, who has been a member of the ASH Advisory Council for the past 4 years.

Steering Group Members

Deborah Arnott

Chief Executive, ASH

Dr Robert Branston

Deputy-Director of the Centre for Governance and Regulation, University of Bath

Hazel Cheeseman

Director of Policy, ASH

John McClurey

Independent Retailer

Dr Garth Reid

Principal Public Health Adviser, NHS Health Scotland

Martine Stead

Deputy Director, Institute for Social Marketing, University of Stirling

Sally Slade

Trading Standards Officer, Southwark Council

Author Will Anderson

Analysis Dr Sara Hitchman, King's College London

Design Wee Creative

The methodology and detail of the EPOS data analysis and the survey of tobacco retailers are available: from the ASH website at: www.ash.org.uk/counterarguments