



Price-Related Promotions for Tobacco Products: An Introduction to Key Terms & Concepts

This fact sheet answers some of the more frequently asked questions about the terms used to describe the tobacco industry's price-related marketing strategies. It is designed as an introduction to the Consortium's more in-depth publications that discuss policy options for regulating the price of tobacco products.¹

The tobacco industry employs a variety of strategies to decrease the price of tobacco products and make them more appealing to price-sensitive consumers. These strategies include direct-to-consumer marketing, such as the targeted mail distribution of coupons and the creation of websites or toll-free numbers that tobacco users can call to register to receive coupons. They also include coupons on the tobacco product packages themselves that can be redeemed at the point of sale, multi-pack offers, and "buy one, get one free" deals. Other industry strategies include retailer incentive programs, such as discounts on the retailers' cost of ordering cigarettes if they agree to place tobacco product displays or post tobacco advertisements in prominent areas of their stores.

Q: What are tobacco industry "promotional allowances"?

A: According to the Federal Trade Commission, the term "promotional allowances" can be broken down into four subcategories:

- (1) Price discounts – manufacturers' reductions in the prices paid by retailers and/or wholesalers for tobacco products, who in turn reduce the prices to consumers, such as off-invoice discounts,² buy-downs (defined below), and voluntary price reductions;
- (2) Allowances paid to retailers – payments from manufacturers to retailers to promote increased sales volume or secure preferred placement of their brands, such as volume rebates,³ "slotting fees" and other payments for stocking, shelving, displaying and merchandising brands in a certain manner, and other incentive payments;
- (3) Allowances paid to wholesalers – payments from manufactures to wholesalers, including volume rebates, incentive payments, and fees for performing services related to retail value-added promotions (defined below); and

- (4) “Other” allowances – payments made to others (besides retailers and wholesalers) involved in the cigarette distribution and sales process, to promote the sale or placement of the manufacturer’s brand.⁴

Q: What are tobacco retailer incentive programs?

A: Tobacco retailer incentive programs can take a number of forms, but generally this term refers to a program under which a tobacco manufacturer or wholesale distributor offers a retailer a rebate or some other type of financial incentive in exchange for offering its products for sale. Typically, the tobacco manufacturer sets additional conditions on participation in such a program, such as requiring that the retailer ensure prime product placement for the manufacturer’s products and place their advertisements at prominent locations within the store.

Tobacco companies ensure prime retail placement of their products, and their advertising in stores, through incentive programs. According to one national study, 65% of tobacco retail outlets participate in some type of incentive program with tobacco companies, and 80% of these participating retailers reported some level of cigarette company control over product and advertisement placement in their stores.⁵

Often, the tobacco companies offering such incentive programs to retailers provide diagrams indicating where products and advertisements should be placed within the store. Retailers report that tobacco companies compete with each other to obtain prime placement of their products in stores to achieve high consumer visibility. Further, retail stores that participate in these incentive programs offer more price promotions to customers, display more tobacco advertisements, and are more likely to feature tobacco products in prime locations near the point of sale.

Q: What are “retail value-added” promotions?

A: “Retail value-added” is a term used to refer to in-store promotions such as multi-pack discounts and offers of free tobacco products with the purchase of another type of tobacco product. “Buy one get one” free offers are a common retail value-added promotion.

Q: What are “buy-downs”? “Master-type” programs?

A: Buy-downs and master-type programs are similar; the difference is that a buy-down is offered by a tobacco product manufacturer, while a master-type program is offered by a wholesale distributor.

Under a buy-down program, the manufacturer offers a retailer a rebate for sales of a particular brand of tobacco product. The retailer is given the rebate either for selling a specific quantity of that product or for selling a minimum quantity of that product over a predetermined period of time. The manufacturer can pick and choose which retailers it offers the buy-down program to; it may not offer the program to all retailers in a given

community, or to all localities, which can lead to community- and state-wide price differentials.

The master-type program uses the same approach, but the rebate is offered by a wholesale distributor to a retailer.

Q: Why should public health advocates be concerned about these tobacco price-related marketing strategies?

A: Price is one of the most powerful factors affecting tobacco use, and the industry's price-related marketing strategies are designed to reduce tobacco product prices and dampen the public health benefits of high tobacco taxes. According to the U.S. Surgeon General, raising the price of tobacco products is the single most effective method for improving the public health outcomes of decreased smoking prevalence and initiation, reduced consumption, and increased, sustained cessation.⁶

Tobacco consumers, particularly youth users, are price-sensitive and seek out ways to purchase less expensive products.⁷ It is estimated that a 10% increase in the price of cigarettes reduces consumption by about 7% for youth and 4% for adults.⁸ Studies show that higher cigarette prices achieved through excise tax increases encourage smokers to quit, and discourage former smokers and youth from resuming or starting to smoke.

The tobacco industry's price-related marketing strategies are designed to lower tobacco prices and offset the price increases achieved through taxation. Moreover, the tobacco industry's use of price-related marketing strategies is increasing. It is well-documented that the industry has channeled more resources into price-related marketing – particularly in the retail environment – since the 1998 Master Settlement Agreement restricted its more traditional venues for advertising like billboards, television and radio broadcasts, and print media.⁹ The retail outlet is now the tobacco industry's primary marketing channel to reach current and future customers.

The tobacco industry spends the largest share of its annual marketing budget (nearly 74%) on price discounts. In 2006 (the most recent year in which data is available from the Federal Trade Commission), the tobacco industry spent \$12.49 billion on advertising and promotions.¹⁰ In that year, the largest single category of these expenditures – \$9.21 billion, amounting to 73.7% of total advertising and promotional spending – was in the form of price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes.¹¹

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Notes

¹ See Marlo Miura, TOBACCO CONTROL LEGAL CONSORTIUM, REGULATING TOBACCO PRODUCT PRICING: GUIDELINES FOR STATE AND LOCAL GOVERNMENTS (2010), available at <http://publichealthlawcenter.org/sites/default/files/resources/tclc-fs-pricing-2010.pdf>.

² The term “off-invoice discount” simply means a price reduction that does not appear on the billing invoice. The term typically refers to promotions in which a manufacturer offers a retailer a price reduction in return for purchasing specific quantities of goods within a specified time.

³ A “volume rebate” is a discount in dollars or percent from a manufacturer to a retailer, allowed off the invoice price on the condition that the retailer will purchase a given quantity of merchandise.

⁴ FED. TRADE COMM’N, CIGARETTE REPORT FOR 2002, at 4 (2004), available at <http://www.ftc.gov/reports/cigarette/041022cigaretterpt.pdf>.

⁵ Ellen C. Feighery, *Retailer Participation in Cigarette Company Incentive Programs Is Related to Increased Levels of Cigarette Advertising and Chapter Cigarette Prices in Stores*, 38 PREV. MED. 876 (2004).

⁶ CTRS. FOR DISEASE CONTROL & PREVENTION, REDUCING TOBACCO USE: A REPORT OF THE SURGEON GENERAL (2000).

⁷ Andrew Hyland et al., *Higher Cigarette Prices Influence Cigarette Purchase Patterns*, 14 TOBACCO CONTROL 86 (2005).

⁸ John A. Tauras et al., Bridging the Gap Research, ImpacTeen, *Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis* (Apr. 2001), available at http://www.impacteen.org/generalarea_PDFs/AccessLaws.pdf.

⁹ Melanie Wakefield et al., *Tobacco Industry Marketing at Point of Purchase After the 1998 MSA Billboard Advertising Ban*, 92 AM. J. PUB. HEALTH 937 (2002).

¹⁰ FED. TRADE COMM’N, CIGARETTE REPORT FOR 2006 (Aug. 2009), available at <http://www.ftc.gov/os/2009/08/090812cigarettereport.pdf>.

¹¹ *Id.*