

## CHAPTER 7

# ADVERTISING EXPENDITURE AND THE TOBACCO INDUSTRY: A VIEW FROM THE OUTSIDE

### 7.1 Introduction

In many countries cigarettes are among the most heavily advertised and promoted consumer products (Saffer, 2000: 217).<sup>1</sup> The aim of advertising is to use the mass media to create positive product imagery or positive product association. Cigarette advertising is usually designed to associate the product with people's desire for sophistication, pleasure and success. In order to segment the market and to appeal to a wide variety of current and potential consumers, different desires are created by different brands.<sup>2</sup>

Tobacco control advocates argue that all tobacco advertising and promotion should be banned (World Bank, 1999 and Saffer, 2000). They maintain that advertising presents cigarette smoking as glamorous, sophisticated and sexy, and that the associated health risks are downplayed. Advertising creates an environment where smoking is seen as a natural, normal and pleasurable activity. Through the advertising imagery, it appeals to the personal and developmental concerns of teenagers. Furthermore, rather than providing information to the public, it is argued that cigarette advertising stifles the dissemination of knowledge about the product (Seidel Marks, 1998). By threatening to divert their advertising expenditure away from particular publications or broadcasters, cigarette manufacturers could bias the media's analysis of tobacco-related news.

In contrast, the tobacco industry argues that cigarette advertising is not primarily aimed at glamorising the product or at recruiting new smokers. Because the product is in the mature stage of the product life cycle, advertising merely encourages confirmed smokers to stay with, or switch to, a particular brand. Cigarette advertising is meant to inform consumers (for

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1. In the US, for example, cigarette advertising expenditures as a percentage of total retail sales (approximately 6 per cent) is more than double the industry average. A similar pattern was found in South Africa before cigarette advertising was banned in 2000. Throughout the 1980s and the first half of the 1990s, cigarette advertising comprised between 4 and 6 per cent of total advertising expenditure. Cigarette expenditures were consistently less than 2 per cent of total consumer expenditures during this period.
  2. Some of the well-known cigarette advertising themes in South Africa included the following: international travel (Peter Stuyvesant, "The international passport to smoking pleasure"), self-confidence and rebelliousness (Winston, "Do I look shy?"), and adventure (Camel).

example, about new product developments); it does not coerce them to smoke. The tobacco industry further argues that their advertising is not aimed at children, but at existing smokers.

The international empirical literature on the relationship between advertising expenditure and cigarette consumption does not provide conclusive answers (Chaloupka and Warner, 1999). In fact, as was pointed out in chapter 3, the debate between proponents of a consumption-advertising relationship and its critics is particularly acrimonious. The standard econometric way of measuring the impact of advertising on cigarette consumption is to include advertising expenditure as an independent variable in a demand regression equation, and to consider the significance of the coefficient on the advertising expenditure variable. A study on the impact of advertising expenditure on cigarette consumption in South Africa, in which a marginally significant positive relationship was found (ETCSA, 1998), was heavily criticised by detractors (High, 1999 and Leach, 1998).

Saffer (2000) argued that traditional econometric techniques are unlikely to produce any significant results, because advertising is likely to be subject to decreasing marginal returns. A moderate increase or decrease in advertising expenditure is unlikely to have a significant impact on total cigarette expenditure. However, should advertising be banned completely, it would probably have a significant impact on aggregate cigarette consumption. Saffer investigated a number of countries that have imposed partial or complete advertising bans. He concluded that partial bans had little or no impact on cigarette consumption, but total (or very strong) advertising bans resulted in significant falls in cigarette consumption over time.

Based on the rationale that complete bans are more effective than partial bans, South Africa has implemented legislation (the Tobacco Products Control Amendment Act, Act 12 of 1999) which banned all tobacco advertising and sponsorship from January 2001, subject to a 'sunset clause'.<sup>3</sup> The legislation was vehemently opposed by both the tobacco and advertising industries, the latter arguing that the legislation would lead to major revenue and job losses in the advertising industry. However, despite its opposition to the legislation, the advertising industry complied with the regulations after these were enacted.

The aim of this chapter is to examine the main trends in South Africa's advertising expenditure and the role that cigarette advertising played. In previous research on the demand determinants of cigarette consumption, cigarette advertising expenditure was included in the demand equation, but the data were highly aggregated and not complete for the full sample. It is believed that this is the first South African tobacco-related study to analyse cigarette advertising data at this level of comprehensiveness and detail.

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3. According to the regulations, tobacco product advertising had to be phased out by April 2001. The three-month grace period would have allowed the industry to honour contracts with advertising agencies for that period. However, the tobacco industry announced in December 2000 that it would cease all advertising by the end of that year.

The structure of the chapter is as follows. In Section 7.2 the derivation of the data is discussed. This is followed in Section 7.3 with a discussion of the main trends in cigarette advertising in South Africa, specifically in comparison to total advertising expenditure. In Section 7.4 the focus shifts to an analysis of advertising trends among the major cigarette brands.

## **7.2 Data used**

All advertising expenditure ('adspend') data were obtained from AC Nielsen, which has been collecting adspend data since 1967. At first only advertising data for the print media and the state radio and television broadcast network, the South African Broadcasting Corporation (SABC), were collected, but since 1976 outdoor and cinema advertising has been monitored as well. All television advertising has been observed since this advertising medium was introduced in 1978.<sup>4</sup> Advertising on independent radio stations has been monitored since 1981. 'Knock 'n drop' advertising<sup>5</sup> and Internet advertising has been monitored since 1998 and 2000, respectively.

AC Nielsen collects the data in one of two ways. For print, television and radio advertising, they monitor the relevant medium and record the value of the advertising for all products and services advertised. This means they subscribe to all newspapers, magazines and journals, and their personnel listen to all radio stations and watch all television channels. To calculate the print media's adspend, each publication is scrutinised, the size of the advertisement is measured, its location (e.g. back page, cover page, etc.) is noted, and the details are entered into the computer system. The value of the advertisement is calculated by applying the relevant publication's published rates. For radio and television advertising AC Nielsen employees listen to and watch all stations and record the details of the advertisement (station, time of day, length of advert, product, etc.). For outdoor, cinema, 'knock 'n drop' and Internet advertising, AC Nielsen obtains copies of invoices from the main service providers.

Given that the data are collected in great detail, the resulting reports are also very detailed. In the main report, monthly and year-to-date data about the adspend on a particular product or range of products are provided by medium, or component thereof (e.g. English weekend newspapers, trade magazines, Radio 702, TV1, etc.). So, for example, one can trace the monthly adspend on Dunhill Superior Mild cigarettes in English weekly newspapers, or a particular radio station, or a television channel, etc.

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4. Advertising on the TV1 channel was introduced in 1978, on TV2 and TV3 in January 1982, on Bop TV in July 1984, on TV4 in May 1985 and on M-Net in October 1986.
  5. 'Knock 'n drop' advertising includes unsolicited distribution of samples, and delivery of flyers at people's homes, street corners, etc.

One must bear in mind that although the data are comprehensive and detailed, this only covers a proportion of the total costs of advertising.<sup>6</sup> For example, the production costs of the advertisements are not included in these figures. These data only refer to publication and broadcasting costs.

Monthly data after January 1994 were made available in electronic format. However, before 1994, the data were only available in published (hard copy) form. To obtain the data, the researcher searched through AC Nielsen's archives. A complete set of monthly data was available for the period after 1981, but because of missing data sources, the data set is incomplete for the period before 1981. The focus of this paper will therefore be primarily on the period after 1981.

Given the relative insignificance and newness of knock 'n drop and Internet advertising,<sup>7</sup> this was excluded from the analysis altogether. The following media were included in the current analysis: (1) print, (2) radio, (3) television, (4) cinema, and (5) outdoor advertising. AC Nielsen also publishes a "total adspend" figure for a particular month or year.<sup>8</sup>

Naturally the quality of the data depends very much on the data collecting process. This is something that cannot be readily verified, especially not retrospectively. However, one can take comfort from the fact that, given AC Nielsen's reputation in the collection of management information, it is unlikely that systematic and serious errors will be made.

However, an area where there have been some significant problems is in radio adspend. During some months during the 1980s and early 1990s some radio stations were not monitored, with the result that these data would understate true radio adspend.<sup>9</sup> Rather than publishing obviously wrong and distorted data, new data were generated based on the average year-on-year growth rate of adspend in the previous and following months for which accurate data were available.

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6. Furthermore, advertising costs comprise only a part of overall marketing or promotion costs. Marketing is defined as all activities designed to increase sales. Other than advertising, marketing includes promotional allowances, free sampling, sponsorship, public entertainment, and retail coupons. In the US the relative share of advertising in total promotional costs dropped from 32 per cent in 1986 to 16 per cent in 1996 (Saffer, 2000: 216). Since then it has dropped even further (De Beyer, personal communication, 2005).

7. In 2000 these two media, combined, comprised less than 1 per cent of total adspend.

8. Ignoring knock 'n drop and Internet advertising, this figure should equal the sum of the five listed media. However, for unknown reasons this does not always happen. The following convention was thus followed: If the sum of the adspend by medium exceeds the published total, the published total is discarded and replaced by the sum of the adspend by medium. However, if the sum of the adspend by medium is less than the published total, the published total is presumed to be correct.

9. Months where the radio adspend data are incomplete are the following:

Nov 1983: 702, Paralelo and Bop stations excluded;

Mar 1986: most stations excluded;

Feb 1988 – Nov 1988: most stations excluded;

April 1992: No explanation;

June 1992 – Nov 1992: most stations excluded;

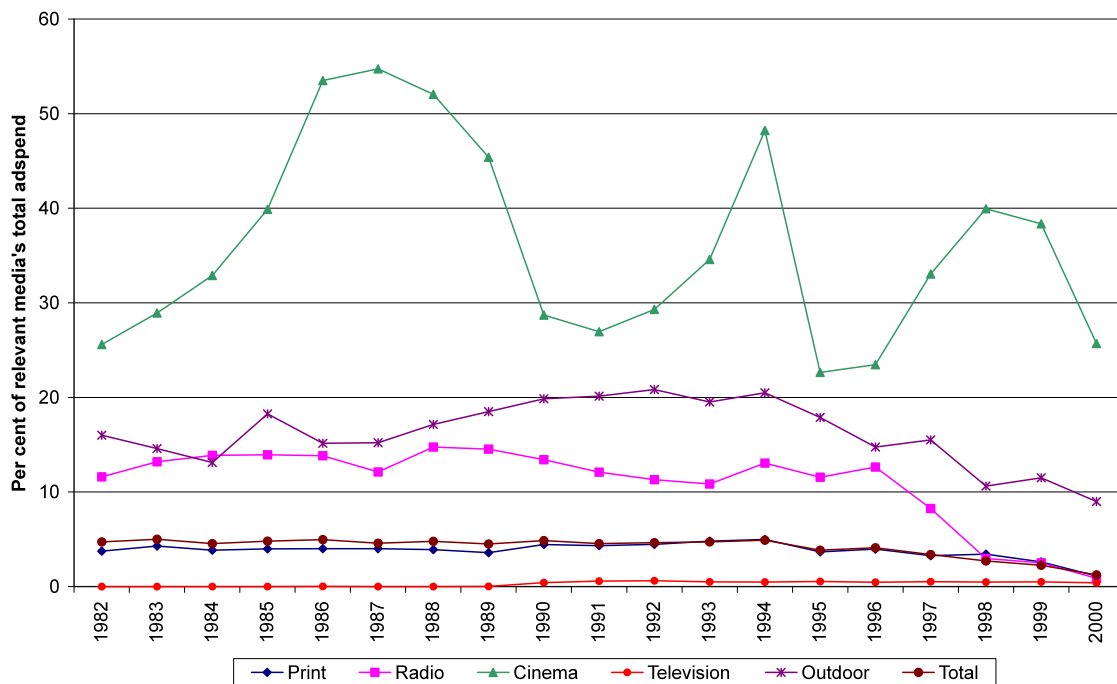
Dec 1997: There seems to be a problem on the AC Nielsen side. The value is apparently far too high. This seems wrong, given that December generally marks a seasonal downturn.

### 7.3 The relative importance of cigarette advertising to the advertising industry

At the 1998 public hearings by the South African Parliamentary Portfolio Committee for Health on the Tobacco Products Control Amendment Bill, the advertising industry argued strongly against the tobacco advertising ban proposed in the Bill, on the grounds that tobacco advertising business was an important component of their total revenue. According to some submissions (see Van Walbeek, 2001), the tobacco business was more profitable than other business, and the loss of this adspend would lead to cash flow problems. While the present data do not allow one to investigate these claims, the aim of this section is to determine the relative importance of cigarette advertising in the advertising industry.

The relative importance of cigarette advertising, defined as the percentage of cigarette advertising in total adspend, per medium, for the period 1982 to July 2001 is shown in Figure 7.1.

**Figure 7.1: Relative importance of cigarette advertising on various advertising media**



Source: AC Nielsen (2001)

There are clearly wide variations in “cigarette dependency” between the various media. Cinema advertising was by far the most dependent, with about a third of total advertising revenue derived from cigarette advertising over the past 20 years. This was subject to significant fluctuations. Similarly, outdoor advertising was heavily dependent on cigarette advertising, the latter contributing 20 per cent of total revenues during the early 1990s. However, between 1994 and 2000, the share of cigarette advertising decreased from 20 per cent to 10 per cent.

Cigarette advertising was responsible for between 10 and 15 per cent of all radio adspend between 1982 and 1996. Subsequently, there was a dramatic decline in radio cigarette advertising. After 1998 less than 3 per cent of radio adspend was obtained from cigarette advertising.

Cigarettes comprised a stable 5 per cent of total print advertising for most of the period. During the second half of the 1990s it tailed off, and generated less than 2 per cent of the print media's adspend during 1999 and 2000.

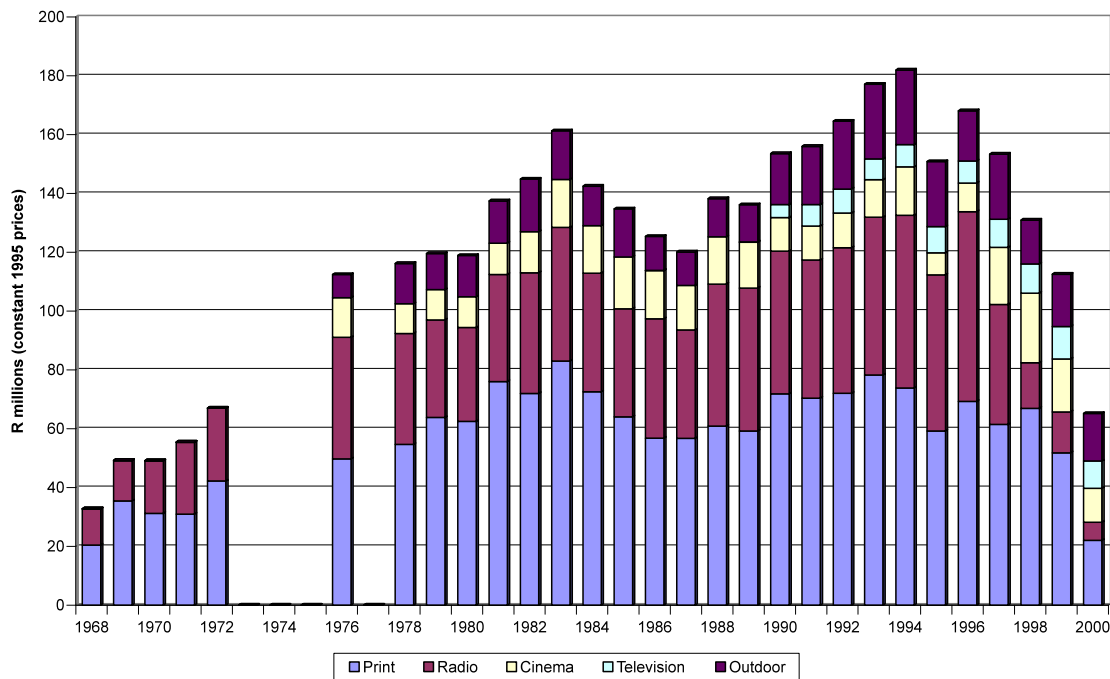
As a result of an agreement with the South African Broadcasting Corporation not to advertise cigarettes on television, the "cigarette dependence" of television advertising was very small. However, throughout the 1990s the tobacco industry advertised some of its promotional and sponsorship activities on television.

The overall conclusion is that cigarette advertising has been decreasing in all media, other than cinema, since the early 1990s. This decrease in adspend is correlated with the sharp decrease in cigarette consumption since the early 1990s. The implication for advertising agencies is that their dependence on cigarette advertising has been slowly decreasing, not because of government-imposed advertising restrictions, but because of reduced advertising budgets by the cigarette manufacturing industry itself.

In Figure 7.2 real annual cigarette adspend (deflated by the CPI) is shown for the period 1968 through 2000. Unfortunately, data for four years during the 1970s could not be located in the AC Nielsen archives. Furthermore, some media were not monitored before 1976 (cinema and outdoor), or did not yet exist (television).

Despite these limitations, some interesting trends can be recognised: (1) a rapid increase in cigarette advertising throughout the 1970s and early 1980s, (2) a decrease in the mid-1980s, (3) a recovery between 1987 and 1994, and (4) a very rapid decrease after 1994. The sudden, but temporary, decrease in adspend in 1995 was caused by the introduction of health warnings on cigarette packs, to which the industry reacted by greatly reducing adspend in most media.

**Figure 7.2: Media composition of cigarette advertising, 1968-2000**



Source: AC Nielsen (2001)

Long before the South African Minister of Health introduced the Tobacco Products Control Amendment Bill in Parliament in 1998, the tobacco industry was reducing its real advertising expenditure. One could speculate on possible reasons for this: (1) the industry pre-empted the legislation and wanted to phase out its advertising slowly; (2) advertising expenditures were reduced in accordance with the decrease in sales; and (3) the industry was shifting its resources from direct advertising to other promotional activities. It is also possible that the threat of legislation reduced advertising agencies’ interest in tobacco advertising, because they may have expected the tobacco revenue to be transitory.

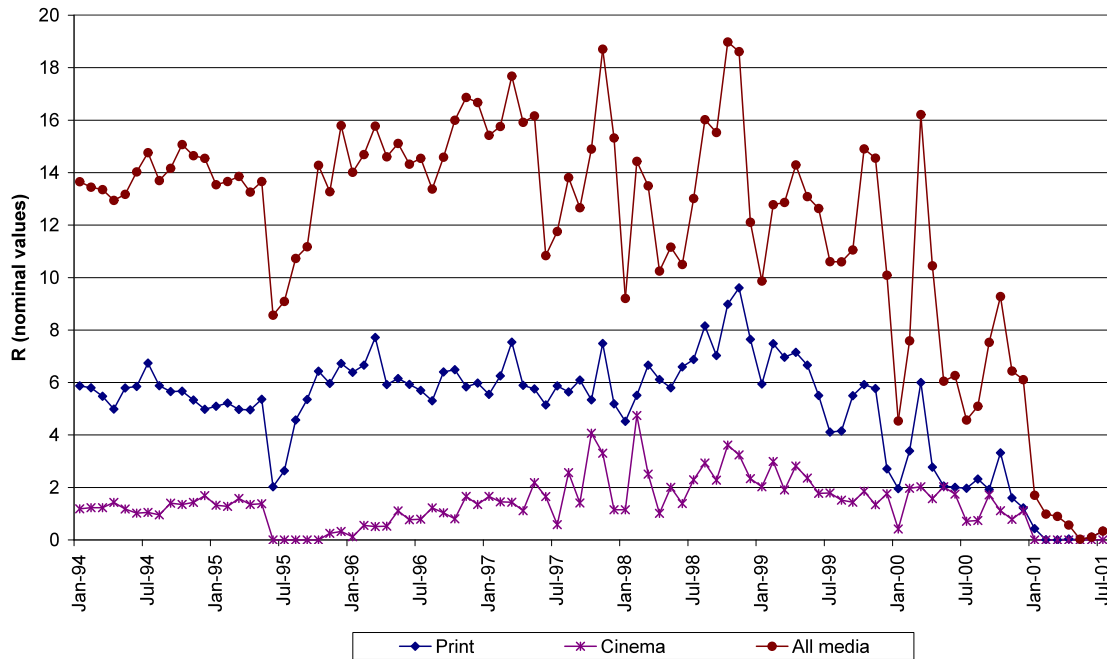
Whatever the reason for the real decrease in cigarette advertising, it is clear that the impact of the advertising ban on the advertising industry was significantly diminished. The advertising industry was being “weaned off” cigarette advertising for a period of at least five years before the advertising ban became effective in January 2001.

Using monthly data, short-term movements in cigarette advertising are analysed. In Figure 7.3 nominal adspend amounts are shown for cigarette advertising in some selected media (print and cinema, as well as the total) for the past seven years.

After 1997, nominal total cigarette adspend decreased rapidly and was subject to much volatility. The cause of this volatility is not investigated, but could serve as a potentially fruitful area for future research. However, one could speculate that legislative developments and the threat of such developments could have increased the volatility of cigarette adspend. For example, the sharp decrease in cigarette adspend at the end of 1999 could be explained by

the fact that the industry may have expected the advertising ban to become effective in 2000 and that they reduced their advertising expenditure as a precautionary measure. An alternative explanation is that the industry made more use of ‘pulsing’ techniques after 1997. A ‘pulse’ is a burst of advertising that lasts for a limited period, and then stops (Saffer, 2000: 218). Depending on the product, pulsing may be more effective than consistent, but less intense, advertising.

**Figure 7.3: Monthly cigarette adspend in nominal values**



Source: AC Nielsen (2001)

The sharp decrease in adspend in June 1995 is explained by the introduction of health warnings on cigarette packs and visual advertising material. Cigarette advertising in cinemas disappeared completely for five months, and made only a slow recovery afterwards. Print advertising was halved for two months, but recovered rapidly. Interestingly, radio and outdoor cigarette advertising did not experience any significant reductions during this period.<sup>10</sup> In the case of outdoor advertising, this is explained mainly by the way in which the data are collected (i.e., invoices, based on long-term contracts, not on actual observation of billboards). In the case of radio, it is presumably due to the fact that the legislation did not prescribe health warnings for radio advertising.

10. To prevent Figure 7.3 from becoming excessively cluttered, these two media are not included in the graph.



#### 7.4 Advertising of specific cigarette brands

Until recently some of the large international cigarette brands, Marlboro in particular, were regarded as the world's most valuable brands. Public opinion, lawsuits and legislative restrictions in many developed countries, and the US in particular, have placed large cigarette companies under pressure, and this has resulted in a debasement of the brands' value over the past number of years.

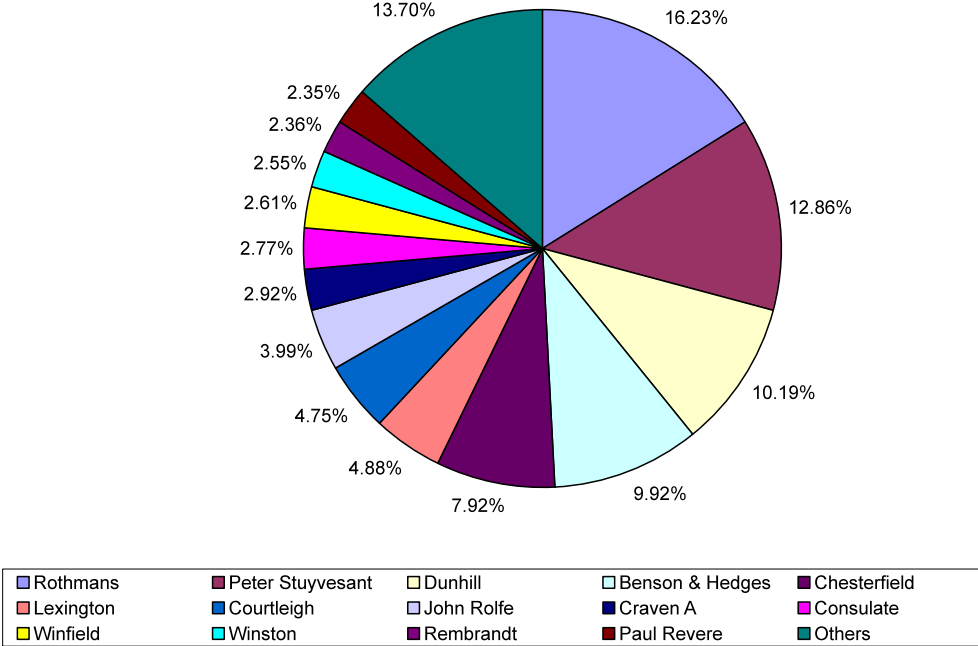
In South Africa, the most advertised and promoted cigarette brands have been Peter Stuyvesant, Rothmans, Benson & Hedges, and Dunhill. These four brands were heavily associated with sport and cultural sponsorships, specifically:

- Peter Stuyvesant: music extravaganzas;
- Rothmans: the Rothmans July Handicap (horse racing) and the Rothmans Cup (soccer);
- Benson & Hedges: the Benson & Hedges Night Cricket series; and
- Dunhill: the Dunhill Cup (golf).

Sales data on the various cigarette brands are not in the public domain, which makes it impossible to ascertain the market shares of the various brands. However, the relative shares of these brands in total cigarette *advertising* are available from AC Nielsen. In Figures 7.4 and 7.5 the percentage shares of total cigarette adspend (all media) are shown for two years, 1994 and 1999. Data were available for 2000 as well, but because this was a 'sunset' year for cigarette advertising, 2000's data are not shown.

Please note that this discussion focuses only on the main brand names (also known as brand families), not the descriptors (e.g., 'light', 'mild', 'super', 'king size', etc.).

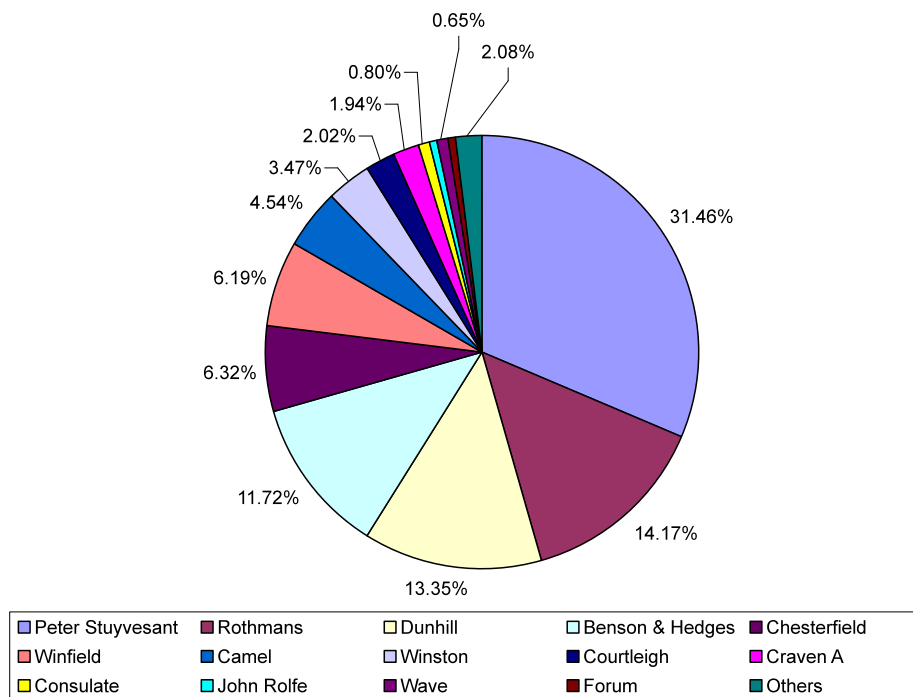
Figure 7.4: Relative adspend shares, 1994



Source: AC Nielsen (2001)

In 1994, about 50 per cent of all cigarette advertising expenditure was spent on the four main brands. However, by 1999 and 2000 this percentage had increased to 70 per cent. One possible explanation could be that the industry, in a shrinking market, wanted to protect its core brands and was therefore prepared to jettison its less valuable brands. Another explanation could be that the industry anticipated the advertising ban and decided to discontinue advertising the smaller brands because it knew that it was impossible to sustain its advertising legally.

**Figure 7.5: Relative adspend shares, 1999**

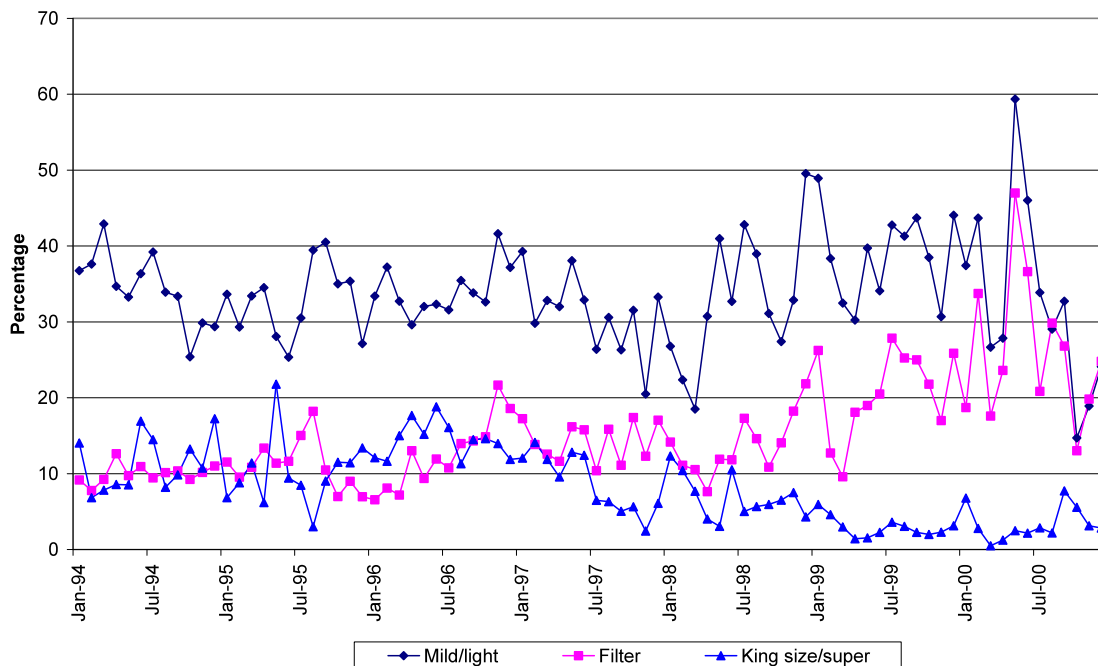


Source: AC Nielsen (2001)

An issue of considerable concern to tobacco control advocates is the use of descriptors such as “mild”, “light”, “ultralight”, etc. It is argued that these descriptors create a false impression that such cigarettes are less harmful than other cigarettes. According to the US Surgeon-General (USDHHS, 2000) people who smoke low-tar and low-nicotine cigarettes “compensate” by smoking more cigarettes per day, and by inhaling deeper into the lungs. It is also argued that this false impression encourages smokers who want to quit, to switch to “mild” cigarettes, rather than quitting completely.

Given the fact that government policy and public perception has turned against smoking (primarily because of health concerns), it seems likely that the tobacco industry would be advertising its “mild” and “light” cigarettes more vigorously than before. The total adspend on cigarettes that have these and similar descriptors, expressed as a percentage of the total, is shown in Figure 7.6. Included in the graph is the share of cigarettes that have the descriptors “super” or “king size”, as well as the share of cigarettes that have specific reference to filters.

**Figure 7.6:** Adspend on specially designated cigarettes as percentage of total adspend on cigarettes



Source: AC Nielsen (2001)

Figure 7.6 does not reveal a significant change in the relative share of adspend on “mild” and “light” cigarettes. However, there has been a significant increase in the adspend share on filtered cigarettes and a decrease in that of “super” and “king size” cigarettes.<sup>11</sup> The growth in adspend on designated filtered cigarettes is to be expected, given the increased focus on less harmful cigarettes. However, the fact that adspend on “light” and “mild” cigarettes has not increased is rather surprising.

Another interesting feature is the increasing share of sponsorship advertising over the past seven years, shown in Figure 7.7.<sup>12</sup> Despite the extreme volatility of this type of advertising, there had been a strong upward trend since 1994. The explanation probably lies in the fact that sponsorship advertising was not subject to the health warnings. The volatility is probably the result of pulsing.

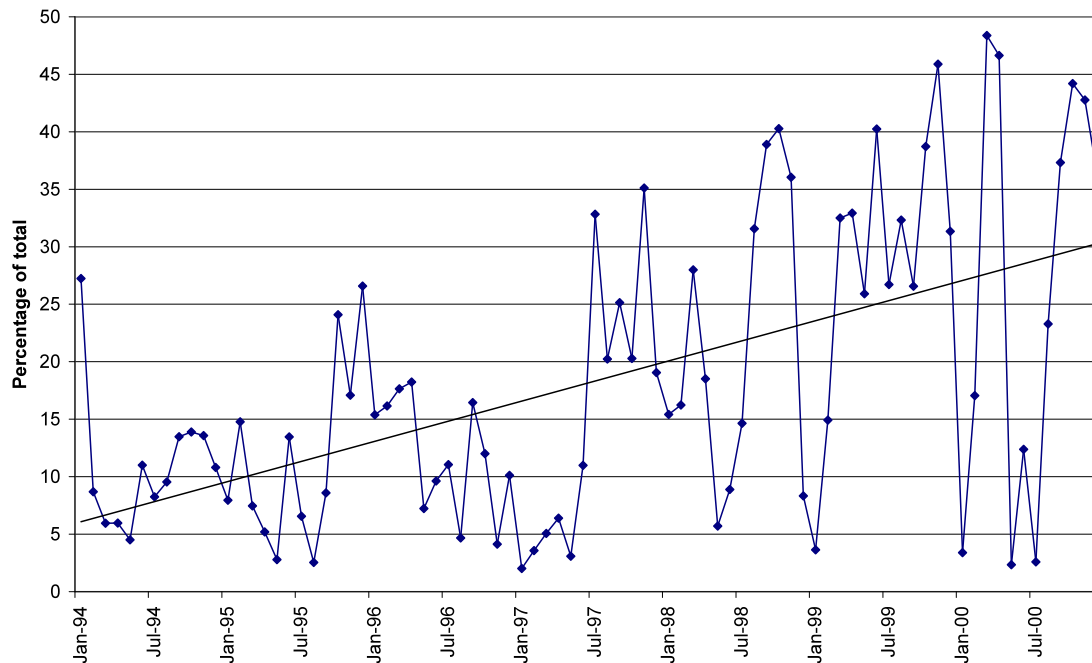
Tobacco control advocates have argued that non-comprehensive legislation against the tobacco industry is ineffective because the industry will simply exploit the gaps in the legislation. For example, a non-comprehensive ban on advertising would simply divert spending from banned activities to activities that are not banned. The rapid growth in

11. Please note that these descriptors are not mutually exclusive. For example, Rothmans King Size Light cigarettes would appear under both the “mild/light” and “king size/super” categories. However, examples of such “dual descriptors” are relatively rare.

12. Please note that these data do not include the value of the sponsorship itself, but only the advertisements related to the sponsorship.

sponsorship advertising suggests that the industry used this channel to circumvent the health warnings.

**Figure 7.7: Expenditure on corporate and sponsorship cigarette advertising as percentage of total cigarette advertising**



Source: AC Nielsen (2001)

### 7.5 Conclusion

The aim of this chapter was to provide a broad historical overview of cigarette advertising expenditure in South Africa. The Tobacco Products Control Amendment Act, Act 12 of 1999 banned cigarette advertising as from January 2001. The evidence indicates that the tobacco industry has complied with the regulations. The sizeable fines and associated negative publicity for not keeping to the regulations would certainly have encouraged compliance.

Before the imposition of the advertising ban, the advertising industry argued that the ban would hurt them badly. Whether this has actually occurred cannot be verified, mainly because the period after the imposition of the ban is too short to identify any trend break in overall adspend. However, in fighting the proposed legislation the advertising industry did not mention that cigarette advertising had been decreasing rapidly since 1994. While it is true that the process may have been accelerated after the Ministry of Health mentioned the possibility of an advertising ban in the mid-1990s, the fact of the matter is that the advertising industry was being weaned off cigarette advertising for at least five years. Cigarette advertising was, so to speak, phased out with a whimper rather than with a bang.

The manner in which cigarette advertising was phased out would certainly have had an effect on the advertising industry. Had the termination been sudden and unexpected, the advertising

industry would have experienced a major shock in adjusting to the new environment. However, given that the process was relatively slow and the ban was anticipated for at least two years, the advertising industry presumably has had time to adjust.