Study shows cigarette tax hikes can help boost bigger brands, hurt consumers

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For decades, governments and health authorities have tried to steer people away from "vice" products such as tobacco, soda and alcohol through counter-marketing measures—things like tax increases, usage restrictions and ad campaigns.

But which ones are the most effective? And what do they mean for big brands such as Marlboro, Coca-Cola, McDonald's and Budweiser?

According to a new study from the UBC Sauder School of Business, they can all help people quit—but how much they help, and who pays the price, varies significantly.

The researchers also found that tax hikes can disproportionately favour bigger brands, while tightened restrictions can hurt them.

For the study, titled Investigating the Effects of Excise Taxes, Public Usage Restrictions, and Antismoking Ads Across Cigarette Brands, researchers examined U.S. cigarette sales data from 2005 to 2010 and retail scanner data from 2006 to 2010. They also analyzed a comprehensive data set that comprised state-level cigarette taxes, state-level smoking restrictions and national anti-smoking advertising campaigns.

The team modeled each smoker's brand and purchase quantity, then looked at how the taxes, restrictions and ad campaigns influenced their decisions across different brands and price tiers.

What they found was that when taxes go up, big brands such as Marlboro may see an overall reduction in sales—but they get a boost in market share over smaller players.

"Market leaders such as Marlboro were able to absorb more taxes and pass less cost down to their consumers," says UBC Sauder Assistant Professor Yanwen Wang (she, her, hers), who co-authored the study with Emory University Professor of Marketing Michael Lewis and New York University Professor of Marketing Vishal Singh. "So, when consumers look at the prices, it seems like Marlboro has raised prices less when compared to smaller brands."

Conversely, smoking restrictions seem to hit bigger brands harder—likely because they take away smoking's brand-driven "cool" factor.

"Years ago, the Marlboro Man and Camel campaigns were really successful at creating that cool image—so when you took a cigarette from the package, you created a social image," explains Professor Wang. "But if you're not allowed to smoke in public areas, it's taking away the channel for you to signal who you are through smoking—and that reduces people's interest in smoking those higher equity brands."

The researchers also looked at the effect of anti-tobacco ads on large brands, but found their effect was neutral—likely because most of the big campaigns and lawsuits happened years earlier, in the late 1990s and early 2000s.

The study also shows that while the taxes may help governments boost their bottom lines, ultimately smokers pay a heavier price. In fact, the researchers found that a 100 percent tax hike leads to a 30 percent increase in the rate of smokers quitting, but it puts the cost on consumers—and only lifts overall tobacco tax revenue by roughly 28 percent because of declining sales.

"We don't speculate on whether it's right or not for consumers to bear the cost; that's a different debate," says Professor Wang. "But we want to highlight that tax increases bring disproportionate revenue to governments while putting an extra tax burden on smokers."

In contrast, strong smoking restrictions boost quit rates by nine percent and reduce tax revenues by six percent—so while consumers may experience some inconvenience in terms of where they can smoke, they don't shoulder the economic costs.

Professor Wang says the findings could be helpful as governments and health authorities try to ween the public off other unhealthy products, including sugary sodas, fast food and alcohol. Earlier this year, B.C. announced a new tax that would affect vice products such as soft drinks and vape products; in May, Newfoundland and Labrador also announced tax hikes on sugary beverages and cigarettes.

The so-called sugar taxes will likely help curb consumption, says Professor Wang, but they will favour larger brands like Coca-Cola and Pepsi while hitting consumers in the pocketbook—and governments may not get all the revenue they expect.

"Governments aren't going to get all of that extra money, and they need to understand it will impose a disproportionate economic burden on the consumers of soda drinks," says Professor Wang, who adds that because sugary drinks are so widely consumed, the taxes could disproportionately affect families, people with low incomes and people with disabilities.

"It's even harder to justify whether it's fair for everybody to bear the economic cost."

More information: Yanwen Wang et al, Investigating the Effects of Excise Taxes, Public Usage Restrictions, and Antismoking Ads Across Cigarette Brands, *Journal of Marketing* (2021). DOI: 10.1177/0022242921994566

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