

Update on promotional pricing

Cigarette prices in downtown Montreal 2017-2019

INTRODUCTION

In the fall of 2017, a survey of more than 200 convenience stores in Quebec¹ revealed that taxation policies to maintain higher prices for Canadian cigarettes were undermined by two pricing strategies implemented by tobacco companies:

- **Lower price brands (price segmentation)**

Companies sell some of their cigarette brands at a higher price than others, even though they are functionally equivalent and may have similar costs of production. Among the brands whose prices were displayed, the median non-tax price of premium brands (i.e. Players, \$5.84) was found to be more than twice that of lowest-price brands (i.e. Pall Mall, \$4.24) .

- **Lower price outlets (price localization)**

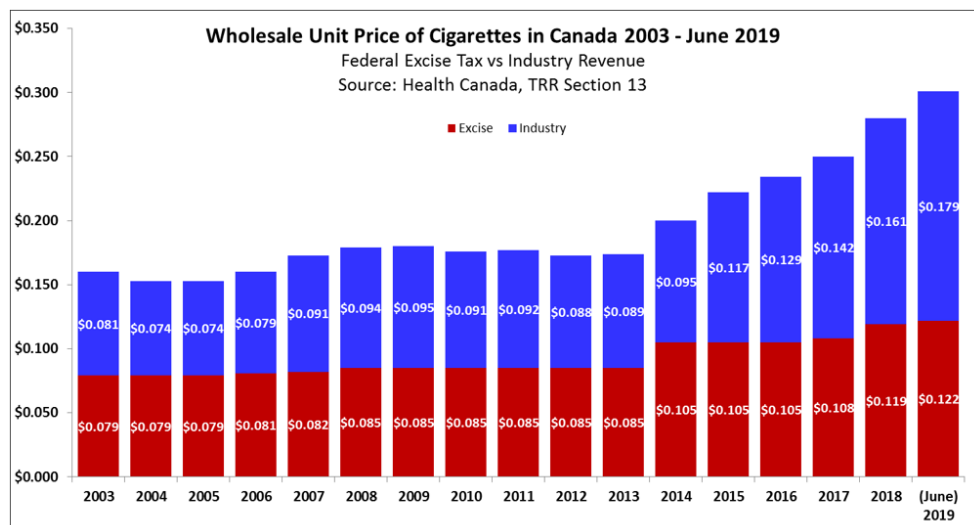
Companies charge different wholesale prices to different retailers, and have contracts with retailers which affect how much retail mark up is charged. Among the brands whose prices were displayed, the non-tax price of discount brands was twice as high in some stores as in others. For example, the non-tax price for the same package of Pall Mall ranged from \$1.46 to \$3.36.

Price segmentation between brands was introduced by the companies starting in 2003, when discount brands appeared for the first time. Prior to that, all cigarette brands were sold at essentially the same price. Price localization was introduced following changes to the federal Competition Act in 2009, after which wholesale distribution was replaced with direct shipments from the companies to retailers. Each retailer has a separate contract, and prices between them differ.

Health Canada has reported that tobacco industry wholesale revenues increased in 2018.² Because data for individual brands or retail contracts is not released, it is not known whether this aggregate change resulted from equivalent increases in all brands, or for all retailers.

This study aimed to assess whether price localization continued in Montreal,

and whether there was a general upward trend in prices, even in the advertised price of the cheapest brands.



METHODS

A smaller footprint than the original study was established by removing stores north of Mont Royal Avenue or south of Boulevard René Levesque, and a shorter time for data collection was provided. Stores were visited in roughly the same season (October 3-13, 2017, October 13,20, 2018, November 5-7, 2019). In 2017, 123 convenience stores and tobacconists were found to be selling cigarettes in this geographic area; half (51%) of these were visited in 2018 and two-thirds (66%) were visited in 2019. The number of outlets visited are shown in Table 1 and their locations are shown in Figures 1a and 1b.

Price signs in Quebec are subject to regulation, and the maximum size is set at 3,600 cm². Tobacco and vaping product brand names and prices may not appear elsewhere in the store.³

In each store, a picture was taken of the price sign and the combined manufacturer-retail revenue per cigarette (the ‘non-tax price’) was calculated by subtracting the value of excise taxes.

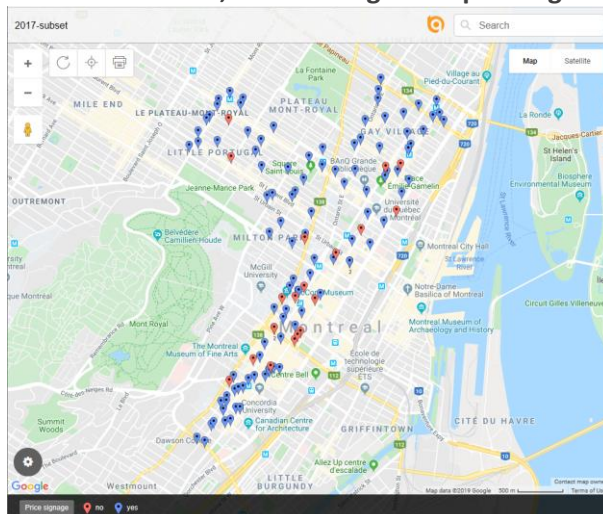
TABLE 1: SUMMARY STATISTICS

	2017	2018	2019
Number of stores selling cigarettes visited (% of such stores in geographic area)	123 (100%)	63 (51%)	82 (66%)
Number of stores visited which have permanently closed since 2017		3	4
Number (%) of stores visited which have price signs for cigarettes	103 (84%)	53 (88%)	39 (50%)
Number (%) of stores visited with price signs for vaping products	0	7 (12%)	33 (45%)
Number (%) of stores visited with price signs for heat-not-burn products		14 (23%)	15 (19%)
Median number of cigarette brands on price sign in stores with signs	6	7	4
Median number of vaping brands on price sign in stores with signs		1	2

FIGURE 1A AND 1B: STORES VISITED AND PRESENCE OF PRICE SIGNS

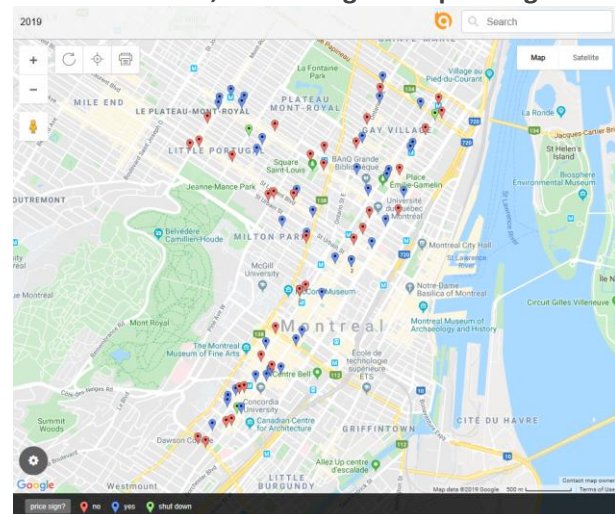
2017

123 stores visited, 103 with cigarette price signs



2019

82 stores visited, 39 with cigarette price signs



Blue = price sign; red = no price sign; green = store closed permanently

RESULTS

Price localization is a continuing market practice.

Each brand advertised through price signs continued to be sold at a wide range of prices.

- The non-tax price was twice as high in some stores as is others for each of the brands most frequently identified on price signs.
- Stores which advertised prices of brands from different companies generally set the same price for each manufacturers' lowest cost brand.
- The median price and the range of prices for the most advertised brands for each company were very similar.

The price ranges observed for the brands **Philip Morris** (Rothmans, Benson & Hedges, RBH), **LD** (JTI-Macdonald) and **Pal Mall** (Imperial Tobacco Company, ITCO) are shown in Figure 2.

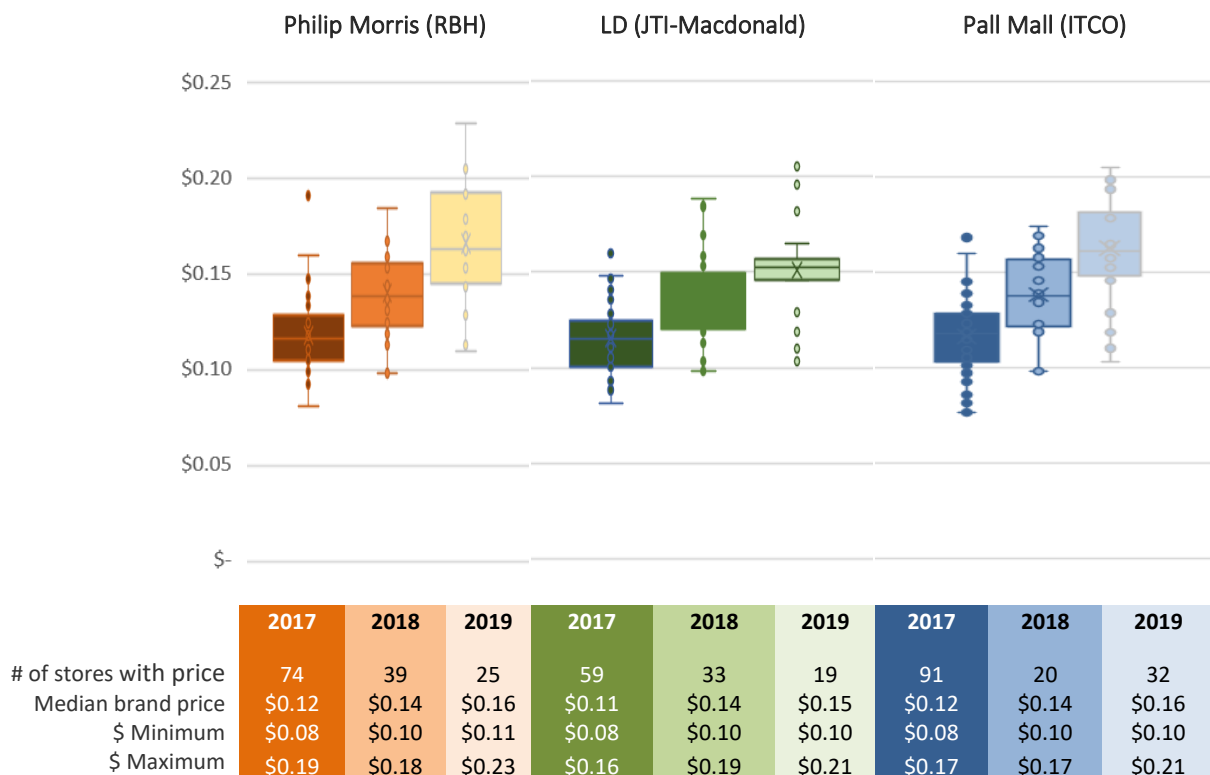


Souvenirs Canadiens, 1438 Saint Catherine Ouest, November 7, 2019



Tabagie Pat et Robert, 1474 rue Ontario Est, November 5, 2019

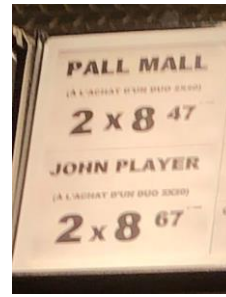
FIGURE 2. NON-TAX PRICE PER CIGARETTE, BRANDS MOST FREQUENTLY ADVERTISED ON PRICE-SIGNS.



Chain stores illustrate the phenomenon of localized prices

Price sign data collected in each year from stores associated with Canada’s largest convenience chain (Couche-Tard) indicate that even within a retail management structure, cigarette prices vary considerably. The price of the cheapest brands advertised in some Couche-Tard stores were \$0.04 to \$0.05 per cigarette less than in other stores, equivalent to \$7.74 to almost \$9.80 per carton.

Over the two year period, there were differences in which stores sold cigarettes at the lowest prices. The median increase in prices in each outlet over the period was \$7.06 (Philip Morris), \$4.38 (LD) and \$4.73 (Pall Mall), but some stores increased prices as much as \$10 per carton and others reduced the non-tax price by \$1.22 (because of tax increases, the price charged to customers was higher).

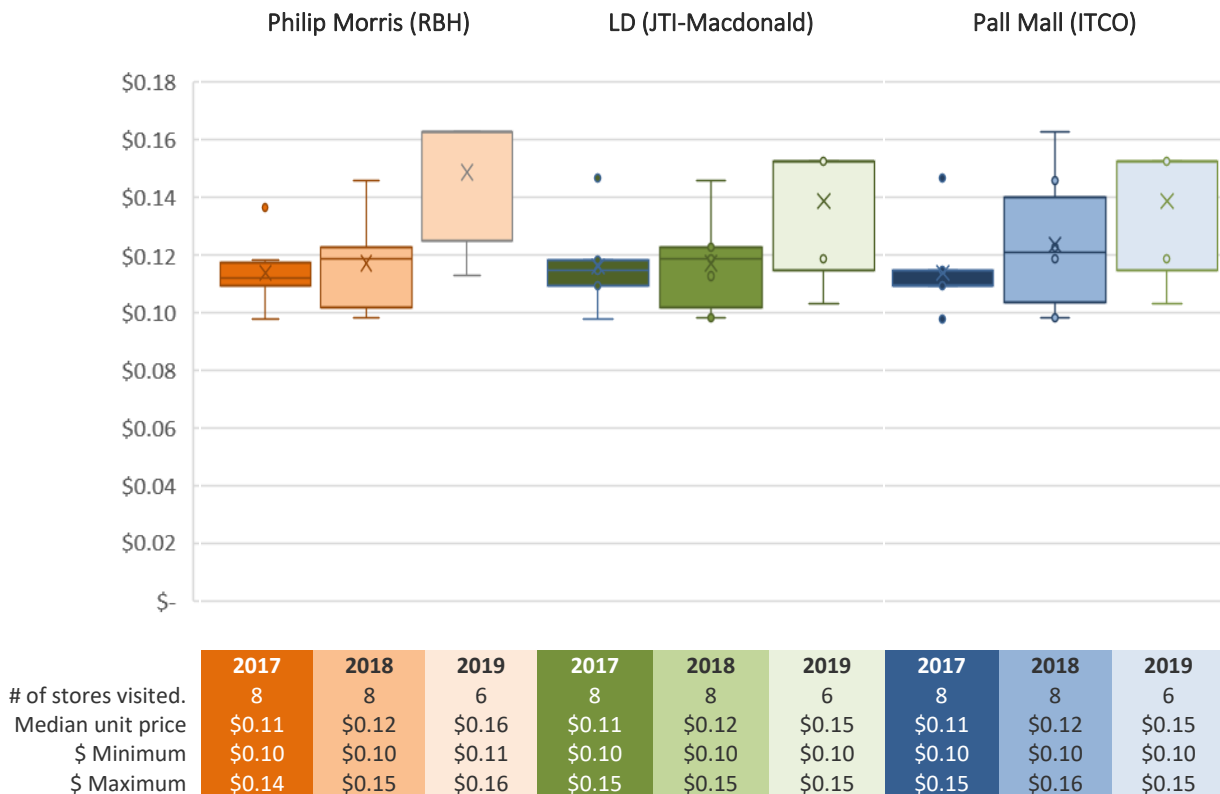


*Couche Tard,
1 René Levesque,
November 5, 2019*



*Couche Tard,
888 de Maisonneuve E,
November 6, 2019*

FIGURE 3. NON-TAX PRICE PER CIGARETTE, CHEAPEST BRANDS ADVERTISED ON PRICE-SIGNS IN COUCHE-TARD .



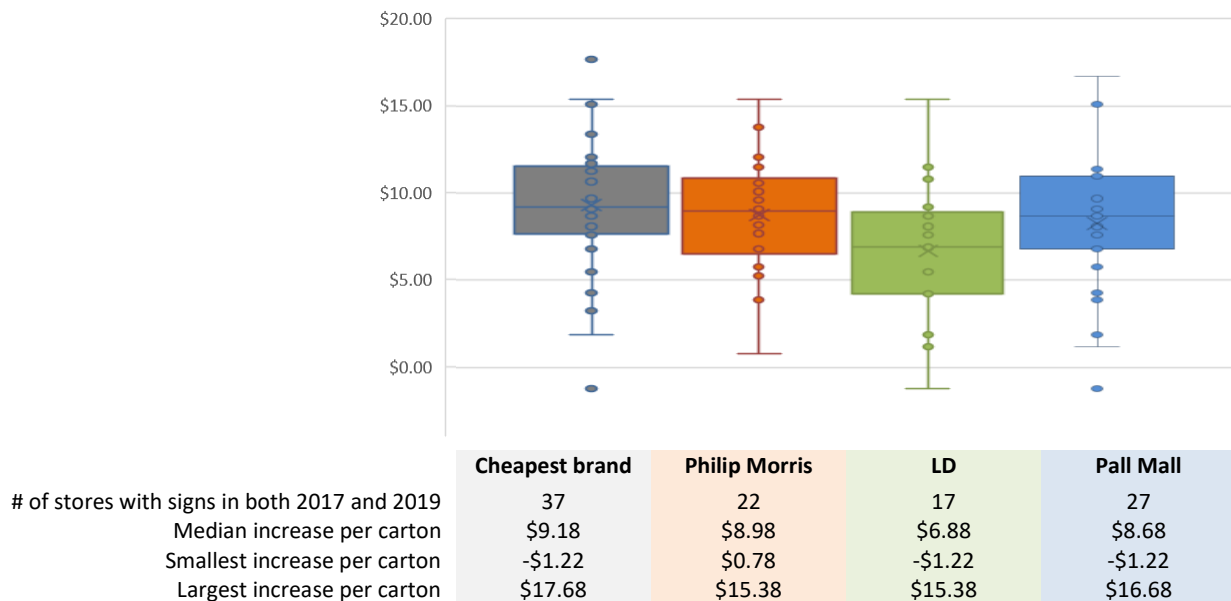
Manufacturers-retail revenue from cheapest brands has increased by about one-third, or more than \$9.00 per carton.

- The aggregate non-tax prices increased for all brands.
- Among the stores showing price signs in both 2019 and 2017, the median increase in the cheapest brand advertised was \$9.68 per carton (\$0.048 per cigarette). In only 1 store was the manufacturer-retailer price reduced.
- Among the stores showing price signs for Philip Morris in both 2019 and 2017, the median price increase was \$9.08 per carton (\$0.045 per cigarette).
- Among the stores showing price signs for LD in both 2019 and 2017, the median price increase was \$7.33 per carton (\$0.037 per cigarette)
- Among the stores showing price signs for Pall Mall in both 2019 and 2017, the median price increase was \$8.83 per carton (\$0.044 per cigarette).

Manufacturer-retail revenue on the cheapest brands increased by three times as much as taxes in this period.

- Between 2017 and 2019 there was a \$2.82 increase in excise taxes on cigarettes:
 - Quebec taxes were not increased, and remained at \$29.80 per carton (\$0.1490 per cigarette)
 - Federal taxes were increased by \$2.82 per carton - from \$21.56 per carton (\$.1078 per cigarette) to \$24.38 per carton (\$.1219 per cigarette)

FIGURE 3. INCREASE IN NON-TAX PRICE PER CARTON OF CIGARETTES IN STORES WITH SIGNS IN BOTH 2017 AND 2019



Vaping product pricing also varies by location

In 2019, vaping products appeared almost as often as cigarettes on pricing signs (45% vs 50% of stores visited).

Often, but not always, cigarette and vaping prices are both displayed. 29 of the 39 stores with cigarette prices also displayed the price of one or more vaping products. Four stores had price signs for vaping products, but did not include prices for cigarettes.

The price of vaping products varied significantly from one store to another, with the exception of Blu, for which all prices observed were identical. Stores run by the Couche-Tard chain consistently advertised lowest prices for vaping products.

The price of vaping products has fallen.

Vaping products containing nicotine were legalized in May of 2018. In October 2018, price signs for vaping products were only observed in Couche-Tard convenience stores. At that time the product advertised was the Vype ePen3, with a price of \$25 for the starter kit. Since that time, Imperial Tobacco has launched another Vype variant (ePod), for which the advertised starting price was \$14.99.



Price signs in Montreal, Nov 5-7, 2019

TABLE 2: ADVERTISED PRICES FOR VAPING PRODUCTS, 2019

	Juul	Logic	Vype	Blu
Starter Kits				
# of stores with signs	14	21	10	2
\$ Minimum	\$29.99	\$10.99	\$14.99	\$17.99
\$ Maximum	\$64.99	\$19.99	\$19.99	\$17.99
Cartridges				
# of stores with signs	10	7	17	1
# of cartridge in package	4	2	2	2
\$ Minimum	\$9.99	\$5.00	\$6.00	\$12.99
\$ Maximum	\$21.00	\$9.99	\$12.00	\$12.99
Device				
# of stores with signs	7	4	19	7
\$ Minimum	\$9.99	\$9.90	\$8.70	\$9.99
\$ Maximum	\$55.99	\$14.99	\$19.99	\$9.99

OTHER FINDINGS:

Fewer retailers are displaying price signs than in previous years.

Of the 78 stores which were visited in both 2017 and 2019, 67 (88%) had price signs in 2017, but only 39 (51%) had signs in 2019. There were 28 stores which had signs in 2017 but not in 2019, but only 2 stores which had no signs in 2017 yet had them in 2019.

Price signs are used to promote new brands.

Quebec is one of two Canadian provinces which allows brand names to be displayed on price signs. This is one of the last remaining forms of brand promotion for cigarettes at the retail level. The launch of new products was reflected in the selection of brands displayed on the price signs:

- Brands which were launched subsequent to 2017 and whose names appeared frequently on price signs include: Rothmans Standard (2018, 75% of price signs), American Spirit, Camel North, du Maurier Sync.

Imperial Tobacco is financing a signage and shelving campaign

Many of the stores visited had new shelving and were displaying signage that promoted adherence to minimum age laws. When asked, retailers volunteered that these shelves and signs had been put in place by Imperial Tobacco. The shelving bears distinctively different colours for tobacco products (black) and vaping products (white). The signs read: *“Une pièce d’identité? Avez-vous 18 ans? Nous ne vendons pas de tabac ni de produits de vapotage aux mineurs. Afin de prévenir la vente de tabac et de produits de vapotage aux mineurs, il est obligatoire de présenter une pièce d’identité.”*



REFERENCES

- 1 Callard, C and Collishaw, N. Cigarette pricing 1 year after new restrictions on tobacco industry retailer programmes in Quebec, Canada. Tobacco Control. January 2019.
- 2 Health Canada. Tobacco Control Directorate. Business Intelligence Division. Tobacco Sales in Canada: Key Trends. August 2019.
- 3 Quebec. Regulation under the Tobacco Control Act. (chapter L-6.2, ss. 19, 25, and 29.1).