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PLAIN PRODUCTS – A COMPREHENSIVE ANALYSIS OF CONSUMER PERCEPTIONS VS. BUSINESS IMPLICATIONS FOR COMPANIES

Review

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Abstract

This scientific paper is focused on analysis of plain product concept, by taking in consideration relevant perspectives – a policy perspective, related to the measures and regulations regarding the plain packaging; consumer perspective - behavior, perceptions, associations and other prerequisites for building a consumer loyalty, in terms of branded vs. non branded products and plain packagings, and the companies perspective, through taking in consideration the implication for businesses caused by literal un-branding of these sensitive products. The plain product concept has a significant influence on consumer behavior, and the brand building and loyalty-strengthening processes. It refers to application of generic packaging for potentially harmful products, as well as removal of brand elements, features and/or trademarks that would be attractive or appealing to consumers, due to institutional environment and policy regulations. Particular attention will be paid to analysis of actual application of this concept in practice.

Keywords: plain packaging, demarketing, non branding

1. INTRODUCTION

The roots of plain packaging could be identified back in 70's and 80's in XX century. It refers to application of generic packaging, as well as removal of brand elements, features and/or trademarks that would be attractive or appealing to potential consumers, in terms of consumption of potentially harmful products. It has been introduced as a set of state regulation measures employed in terms of consumption of socially harmful goods such as tobacco products, alcoholic beverages and other sensitive products. The emergence of a new conceptual "no branding" approach regarding the socially harmful goods is originally referred as "Plain packaging". It is completely opposite approach compared to marketing and branding, actually, introduction of plain packaging is a part of demarketing strategy, undertaken by governmental institution through a set of regulations, aimed to reduce the consumption of sensitive products in order to achieve a positive social impact, such as improving the public health etc. However, there is no significant research background that would clearly explain how demarketing activities influence consumer behavior in this sense.

Even though there are some research evidence regarding the functioning of the individual elements of marketing mix in a demarketing context and their effects on smoking reduction, relatively little is known about how the 4Ps marketing mix contributes toward the achieving the goals of governmental demarketing, including tobacco (Shiu et al, 2008, p.2). In this paper, plain packaging introduction is observed both from policy perspective, as a governmental demarketing measure, and from consumer perspective, related to consumer behaviour, attitudes and perceptions, and their shift as a result of changes in the marketing and demarketing environment.

The history of advocacy for plain packaging goes back to 1989, when Canadian legislation has banned the tobacco advertising, and stimulated tobacco industry to introduce the plain packs. Also, in 1989, the New Zealand government has adopted regulations related to tobacco product packagings, providing that cigarettes should be sold in plain white packs with simple black text and no colours or logos. In Australia in 1992 it was recommended that 'regulations should be extended to cover the colours, design and wording of the entire exterior of the pack' (Freeman, Chapman, Rimmer, 2007). In 1994, these measures were considered in Canada, but dismissed, due to legal issues in relation to commercial rights and intellectual property rights (Sambrook Research International, 2009). However, plain packs were endorsed and it was recommended that enabling legislation should be implemented depending on the probable effectiveness of plain packs.

2. PLAIN PACKAGING AS A DEMARKETING POLICY MEASURE – BEYOND THE INTERESTS OF BUSINESSES AND CONSUMER WELFARE

Regarding the establishment of a formal legislative infrastructure related to the plain packaging application, Australia was the first country that adopted the measures and implement it into practice of state regulation of the commodity

market (from 1.09. 2012); followed by France, which implemented the measure from 31 December 2016. In the UK, plain packaging has been in force as of May 2017; Ireland has signed a commencement order on 29 March 2017, enforcing standardised packaging as of 30 September 2017; Hungary will implement plain packaging in 2018 and Slovenia in January 2020. USA Legislation does not explicitly urge businesses to introduce plain packagings, moreover, there is an evident resistance in USA economy towards these measures. Even though in numerous analyses it has been emphasised that the plain packs are becoming the global norm, no significant adjustments in US regulation has been evident so far.

In Europe, the first EU wide requirements for tobacco plain labelling were introduced in 1989, through the labelling Directive (89/622/EEC) and amended in 1992. Belgium was the first EU Member State to introduce pictorial warnings on cigarette packs in November 2006, followed by Romania in July 2008 and the UK in October 2008 (Sambrook Research International, 2009). While scientific evidence shows that plain packaging has a positive impact on public health, the WHO FCTC and the EU Tobacco Products Directive (TPD) provide legal frameworks for their introduction. Therefore EU Member States are urged to introduce plain packaging and to evaluate the results of the implementation. A number of other countries have already taken serious steps in the legislation process or formally considered to introduce these legal measures such as Norway, New Zealand, Canada, Uruguay, Thailand, Singapore, Belgium, Romania, Turkey, Finland, Chile and South Africa. EU candidate countries, such as Republic of Macedonia, are strongly advised to further adjust and harmonise their legislation in this direction (ENSP, 2017).

Research findings undoubtedly indicate that “plain and generic packaging of tobacco products (all other things being equal), through its impact on image formation and retention, recall and recognition, knowledge, and consumer attitudes and perceived utilities, would likely depress the incidence of smoking uptake by non-smoking teens, and increase the incidence of smoking cessation by teens and adult smokers” (Freeman, Chapman, Rimmer, 2007). There are comprehensive studies conducted in this context, which indicate that “compared with a ‘classic’ package, the neutral package is associated with less positive assessments of the packaging, brand and cigarettes it contains. A lower satisfaction with smoking and smoking in front of others was also noted. This study shows that, in line with previous work on the neutral package, the latter influences the reactions of smokers in a direction favorable to tobacco control policy” (Gallapel-Morvan, 2015, p. 17-18: 308-315).

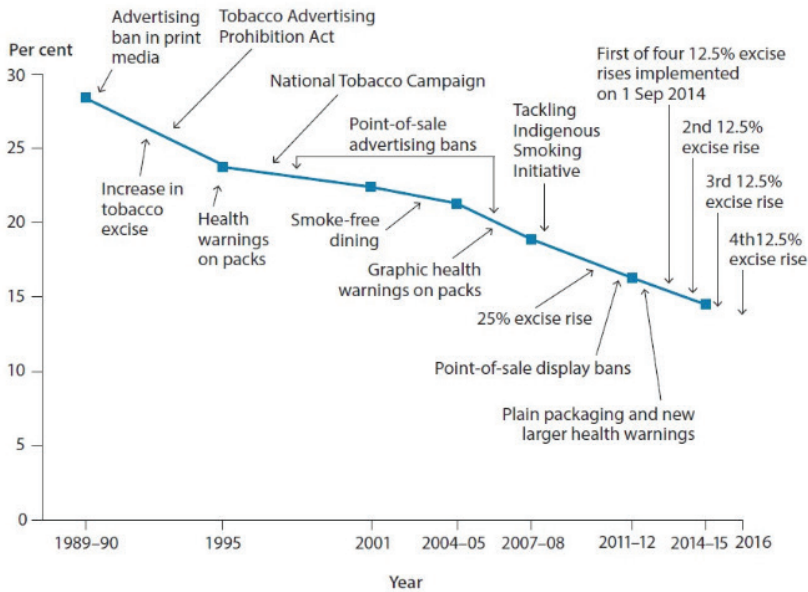


Figure 1 Key tobacco control measures in Australia and their influence on decrease of the number of smokers

Source: Australian National Health Surveys 2011-12, 2014-15, Department of health, 2015

According to this conceptual approach, customers are expected to change their behaviour and attitudes due to the absence of recognisable brand elements on the package, that are the drivers of their loyalty. Investigation of consumer behavior in specific environment, in terms of demonstrating various behaviour when consuming branded tobacco products vs non-branded (plain) packagings, scientific evidence undoubtedly indicate that “plain packaging reduces smoking prevalence, increases thoughts about quitting and calls to quit lines, reduces brand awareness, attractiveness and appeal of the package, increases awareness and effectiveness of health warnings among adolescents, does not impact illicit trade or product retrieval time (Joint Statement of Plain Packaging ERS/ENSP, 2016). A substantial number of peer-reviewed studies that examine plain packaging support the conclusion that introduction of plain packaging reduces the attractiveness and appeal of tobacco products (WHO, 2016).

It is evident that plain packaging and new larger health warnings have been introduced recently, as a complementary set of measures in the overall set of regulations and measures. Numerous studies (many of them cited in this text), have been conducted with a main purpose of justification of such measures, seeking for scientific evidence related to the influence of brand on consumer behaviour, and therefore, the expected shift in their attitudes and behaviour as

a result of removing the brand elements that lead to high degree of consumer attachment to the brands, so called Keller's brand resonance stage, characterised by maximum attachment, loyalty, sense of belonging to the community and highly emotional and irrational attachment to the brand, accompanied with limited rationality during the purchasing decision making and consumption.

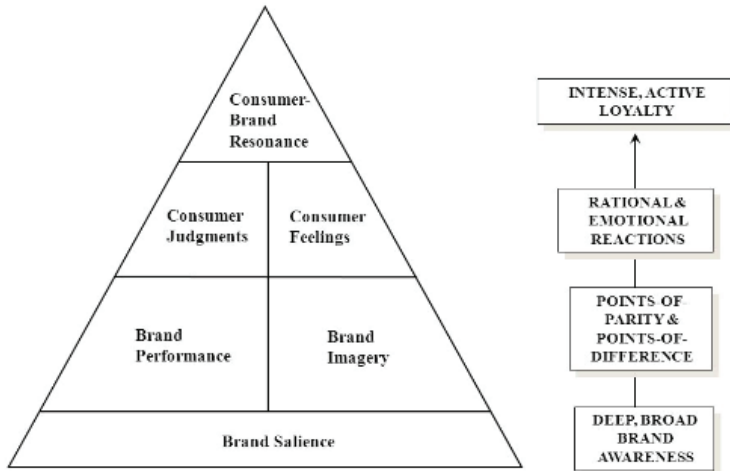


Figure 2 Keller's Brand Equity Model

Source: *Strategic Brand Management – Building, Measuring and Managing Brand Equity*, Kevin Lane Keller, Pearson Education 2013

Brand building process is very complex, and starts with creating favourable associations in the consumer's minds, that further generate favourable feelings and judgements, that implicitly lead to strong emotional attachment to the brand. There are a lot of nonfinancial indicators developed for the purposes of measuring the brand performance, relying on consumers positive perceptions and associations as a main generators for positive brand equity, and, implicitly, brand loyalty. Strong brand is a generator of profitability and growth of the company, and a goodwill creator, so it is logical that most of nonfinancial indicators are closely related to measurement of intangible brand features that lead to materialised direct effects, such as sales volume, market share, profitability, ROI etc (Mojsovska Salamovska, 2015, p.267). Therefore, governmental demarketing policies have completely opposite starting point - their purpose is to stimulate consumers rational judgement, to minimise the emotional decision making in consumption of potentially harmful products, and also to generate realistic associations and feelings, that in this context are negative, and appealing to health damages etc. Introduction of plain products tends to make the consumer decision making more objective, and to eliminate the explicit influence of strong brand elements that lead to limited rationality in this process.

Research findings indicate that such restrictions can also impact other commodity groups such as alcoholic beverages, fast food, carbonated soft drinks, toys, sugar, computer games etc. In addition, another negative phenomenon of the introduction of the concept of no brand goods in the framework of the concept of state regulation of socially harmful goods both in Australia and in the UK was the criminalization of the production sphere and tobacco products sale. It is estimated that around 50 % of the UK smokers have switched to the consumption of illicit tobacco products from countries with cheaper production resources (labor, means of production, logistics). (Syaglova, 2017, p.95) In France, since the Prohibition Act for banning branded cigarette packaging came into effect in January 2017, tobacco products have been sold in plain packs covered with daunting pictures to illustrate health damages of various kinds and warnings against potential smoking effects. At first consumers were confused, and could not find familiar marks of cigarettes on the shelves among plainly packed tobacco products with terrifying pictures on them. However, this fact did not discourage regular consumers from buying tobacco, and soon they got accustomed to the new design and easily recognized their favourite brands. Tobacco companies have not recorded any decrease in sales after plain packaging launch. As France's Customs Administration that regulates tobacco sales all over the country informs the volume of tobacco products shipping has not declined since January 2017. Instead, it has shown a 1.4% rise against the same period of 2016 (Syaglova, 2017, p. 96).

Restrictions imposed on tobacco branding have aroused fears among entrepreneurs that this measure might negatively affect their profits and the cost of the selling points as well as increase the quantity of counterfeit tobacco goods. Tobacco counterfeiters have gained a valuable advantage over legal manufacturers through a branded pack at a lower price. (Syaglova, 2016, p. 2187).

As a result, the average level of the realized demand on the price scale significantly decreased in its absolute value. Smokers began to buy goods with lower retail prices, which means that a price target set earlier by the state in the direction of growth has become a natural fall, opening access to tobacco products for consumers with low incomes, which is reflected both in the growth of the number of smokers due to the emergence of segments of the consumer audience, and in the growth of consumption. Both phenomena are negative from the point of view of protecting and supporting the health of the nation and in flagrant contradiction with the goals of the government program. (Syaglova, 2016, p. 2189).

3. PLAIN PACKAGING IN PRACTICE – AN INSIGHT FROM RUSSIAN ECONOMIC REALITY

In Russian Federation, plain packaging of tobacco products is not required legally, but there are other measures and restrictions stipulated by the relevant legislation which requires display of warning messages and other elements on unit packaging, written in Russian - the principal language of the

country (Technical Regulations for Tobacco Products, 2008).

Technical Regulations on tobacco products (TR TS 035/2014) came into force On May 15, 2016, adopted on the basis of the Decision of the Council of the Eurasian Economic Commission № 107 of 12.11.2014, which has stricter rules for packaging of tobacco products. In accordance with the new requirements illustrations showing the effects of tobacco use for the vital organs of people will be depicted on both sides of the pack. These images must occupy at least 50% of the side space of the pack. In addition, the pack must not display the words: soft, light, etc., facilitating the introduction of customer confusion about the consequences of smoking. These new rules will be mandatory for application from November 15, 2017.

The Ministry of Healthcare of the Russian Federation initiates the debranding of tobacco production through unified or standardized packaging which can be regarded as a part of continuous anti-tobacco concept. The initiative is currently undergoing an intersectoral approval, and the officials are convinced that standardized packaging excepted by all market-players will cause a considerable decrease in smoking-appeal as one of the major stimuli of tobacco sales and consumption is attractive cigarette packaging which can be considered as an element of advertising. Packaging and product attributes are widely employed in diverse ways to attract consumers' attention by their logos, colours, fonts, images, shapes and materials on cigarettes or packs or/and other tobacco products.

The Federal Anti-Monopoly Service of the Russian Federation has voiced objections to the proposed tobacco products debranding concept for it being an excessive measure to hamper trade. In accordance to the opinion expressed by the FAS officials, a standardized tobacco pack will not only affect negatively the turnover of tobacco products but might facilitate manufacturing and distributing counterfeit tobacco production for unscrupulous entrepreneurs. Besides, a standardized (unified) pack will considerably reduce the distinction between genuine and fake products as the unique features and design peculiarities of legally and factory-manufactured and officially supplied items might be eliminated. There is an ongoing discussion about the need for no brand packaging of tobacco products and alcoholic beverages. Recently, an international summit "Retail Business Russia 2016" was organized in Moscow, and leading subject experts from different countries of the world on the subject discussed this topic, emphasising that the impersonal (no brand) packaging of tobacco products has not brought the desired social effect observed through the reduction of the number of smokers. various manufacturers look similar, and therefore, smoothing of price and quality differentiation occurs, because, in the minds of consumers the packages are becoming identical and, therefore, the need to pay a higher price for a no-brand package disappeared.

As stated by the General Director of JTI Russia, Dean Gilfillan, "the only proven effect of the introduction of non branded packaging of tobacco products was the prioritization of price over quality (Syaglova, 2016, p. 94).

Based on the findings of the VCIOM sociological survey among 1500 Russian smokers, it has been revealed that more than half of the respondents (53 %) said that branded cigarette packaging allows to distinguish a quality product from a fake, and about 2/3 (65 %) of respondents expressed their concerns that no brand cigarette packs will lead to an increase of counterfeited goods. In the same survey the majority of respondents expressed their confidence that no brand packaging will lead to lower prices and increase the level of affordability for customers. In the end, 2/3 of respondents (66 %) are sure that “no brand packaging” will not reduce the demand for tobacco products. Currently, more than 80 % (81%) of smokers choose tobacco relying on the brand name. Only a small share of Russian smokers (9 %) focus on price (Syaglova, 2017, p. 95).

Essential aspect of realizing inner businesses for entrepreneurship is recognition and identification of tobacco products when they are accepted, sorted and labeled. But vendors managed to easily overcome this problem by attaching tags of different corporate colours to each tobacco brand to simplify the search for a certain preferable tobacco mark (Syaglova, 2016, p. 92).

4. CONCLUSIONS

Plain packaging measures are among relatively new measures undertaken by governments in order to reduce the consumption of potentially harmful good and/or services, due to the negative implications on consumers health and/ or quality of life. The standpoint of state is very clear, the intention is to protect the citizens, and to reduce their exposure on aggressive marketing campaigns related to category products, and , even more – the strong brands, that lead to irrational purchasing decisions based on non-reliable data, that implies further health damages and endanger the public health.

It is very important that this concept has been initiated in countries that pay specific attention to the quality of life of their citizens, and also consumer welfare. The idea is to inhibit businesses to conduct unethical advertising, and therefore to use the power of brand equity to lead the consumer into purchasing harmful for their physical and mental health. The perspectives of businesses are completely opposite, but it is an ongoing trend from the global environment that must be seriously taken in consideration in the future. The pressure of consumerism organizations leads to adjustments of regulations and legislation in favor of consumers. Businesses that are affected must reshape their strategies due to the strategic implication of this issue. The “non branding” concept is a new interdisciplinary paradigm that is going to take significant part in future literature and practice.

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