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Smoking prohibited: Culture of Tobacco Consumption and the Impending Market Resilience

Case study: Marketing Strategy of Tobacco Employed in China

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Abstract

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This research's primary objective is to conduct a case study on the tobacco industry and determine how its marketing strategy is implemented in China. The ongoing prosperity of the tobacco industry is an additional issue implied by this thesis.

The thesis employed qualitative data collection and a comprehensive literature review focusing on the primary aspect of marketing and advertising, consumers' needs and values, and the impact of competitive markets and branding to support the case study methodology. Due to differences in culture, attitudes, and personal experiences, the use of a questionnaire or interview would have produced inaccurate data and applied complications in interpreting the responses.

Using the marketing tools Pestle and the Marketing Mix, the current state of the tobacco industry and its impact on society and the environment can be identified and comprehended in the context of tobacco's consumer markets and attitudes towards it.

The author summarises the findings by evaluating the three most prevalent and consistent marketing strategies sustained by the largest tobacco company in China and its relevance to the literature review in the Thesis.

Keywords: marketing, tobacco, tobacco industry, markets, advertising

Contents

Glossary

1	Introduction	1
2	Literature review	3
2.1	Marketing	3
2.1.1	Marketing techniques	4
2.2	Advertising	7
2.2.1	Traditional advertising techniques	7
2.2.2	Modern advertising techniques	8
2.2.3	Personalized advertising	9
2.3	Target market of Tobacco	10
2.3.1	Needs	11
2.3.2	Attitudes	14
2.3.3	Values	14
2.4	Consumer learning methods	15
2.4.1	Behavioural and cognitive learning	15
2.4.2	Classical and instrumental conditioning	16
2.5	Competitive markets and branding	17
2.5.1	Brand Value	17
2.5.2	Product Placement	18
2.5.3	Celebrity involvement	19
2.6	Tobacco Control and Legislation	19
3	Methodology	22
3.1	Qualitative research method	22
3.2	Quantitative research method	23
3.2.1	Research question and data collection	24
3.3	Case: Asian tobacco industry	25
3.4	Reliability and limitations	26
4	Research results	28
4.1	Marketing mix	28
4.1.1	Discussion	35

4.2	Pestle analysis	35
4.2.1	Discussion	44
5	Conclusion	45
	References	47
	Figure References	52
	Appendix 1. Tobacco Timeline*	54
	Appendix 2. Examples of visualization of tobacco	56

Table of Figures

Figure 1.	Customer-driven Marketing Strategy.	6
Figure 2.	Advertising targeted towards woman in 1951 (Stanford University, 2023a).	10
Figure 3.	Maslow's Hierarchy of Needs.	11
Figure 4.	Camel-branded cigarettes were approved by doctors in 1946 (Stanford University, 2023b).	13
Figure 5.	American Lung Association's advertisements (2010, 1977, n.d.) (Stanford University, 2023c).	20
Figure 6.	The cartoon advertisements of Joe Camel (1992, 1989) (Stanford University, 2023d).	21
Figure 7.	Zhongnanhai branded cigarettes in the year 2017 (Tobacco Pack Surveillance System, 2017a).	29
Figure 8.	Chunghwa branded cigarettes in the year 2017 (Tobacco Pack Surveillance System, 2017b).	29

Tables

Table 1.	Labelling requirement indicators for cigarette packaging 2020.	31
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Glossary

ASH	Action on Smoking and Health. Public health charity organization which aims to expose the risks associated with smoking and advocate stricter tobacco laws through campaigns.
BAT	British America Tobacco. Tobacco corporation established in 1902 and net worth in the year 2023 of approximate 87 billion US Dollars.
CNTC	China National Tobacco Corporation. Global leader in manufacturing of tobacco and leading in Chinese domestic market through monopoly positioning.
CPI	Consumer Price Index. Compares the change in the prices of goods and can be further used to measure the purchase power of consumers.
CSR	Corporate Social Responsibility. Aims the company to be socially and environmentally friendly towards the business operations and stakeholders.
CTCT	The China Tobacco Consumption Tax. Includes taxation towards tobacco actions such as tobacco leaf tax, tobacco excise tax, value-added tax and corporate income tax on production.
ENDS	Electronic Nicotine Delivery Systems. Devices used as replacement for the traditional cigarette by vaporizing e-liquid.
FCTC	Framework Convention on Tobacco Control. Contract negotiated with the WHO to ensure the highest standard of health for all people based on evidence and information captured from research. Developed mainly to respond to the tobacco epidemic and consumption.
FDA	U.S. Food and Drug Administration. Protects the public health and safety and regulates the manufacturing, marketing and distribution of tobacco products.

HTP	Heated Tobacco Product. Electronically heats real tobacco without burning and does not include e-liquid.
IMF	International Monetary Fund. International system which oversees and monitors the international monetary, economic developments and guides nations with risk, growth and financial factors.
JTI	Japan Tobacco International. Tobacco corporation established in 1999 and net worth in the year 2023 of approximate 39,7 billion US Dollars.
PMI	Phillip Morris International. Tobacco corporation established in 1847 and net worth in the year 2023 of approximate 154,4 billion US Dollars.
SOE	State-owned enterprise. Fully or partially operated enterprise by the government to maintain and supervise profit and financial goals through legal actions.
STMA	The State Tobacco Monopoly Administration. Enforces monopoly around tobacco in China and is owned by the Ministry of Industry and Information Technology of China.
WHO	World Health Organization. Organization founded by United Nations to guarantee good health and safety for all.
WTO	World Trade Organization. Monitors and develops the global trade rules.

1 Introduction

The manufacturing of tobacco, with its wide-ranging consequences on the environment, as well as the detrimental effects of smoking on health, are just a few examples of the significant burdens it composes on society. Today, almost 1.3 billion people are said to be using tobacco products globally. In addition, tobacco use is estimated to have a yearly cost to the economy of 1.4 trillion US dollars, due to the multitude of negative health effects and deaths it causes (World Health Organization 2021: 15).

The worldwide spread of the disease outbreak of COVID-19 in 2020, has compiled the gathering of additional proof regarding the perils associated with the habit of smoking cigarettes. To elaborate, the virus displayed aggression towards the lungs and individuals who consumed tobacco goods actively, were at a greater risk for developing the illness and carrying more severe symptoms of it.

A discovery made in the 1940s indicated the link between smoking cigarettes to the increased number of incidences of lung cancer, yet consumers' attitudes towards tobacco did not appear to change. Furthermore, the introduction of cartoons and other traditional marketing strategies that were successful in the 1950s presents a good example of how the adolescents of today's society face similar manipulation via newer formats.

Recent studies, campaigns, and new international legislative measures and aims have all contributed to the formation of the tarnished image of tobacco use that is now prevalent. Furthermore, in the year 2003, The World Health Organization Framework Convention on Tobacco Control (WHO FCTC) was introduced and has been in effect since 2005. FCTC states that at least one of their MPOWER measures are covering at least 69 per cent of the world's population in the year 2020 (World Health Organization 2021: 20).

These measures (MPOWER) are designed to Monitor tobacco use, Protect individuals from tobacco use, Offer aid to quit tobacco use, Warn about the

dangers of tobacco use, Enforce the ban on tobacco advertising, promotion, and sponsorship, and Raise the taxes on tobacco (World Health Organization, 2022a).

This thesis aims to identify the reasoning behind the continued prosperity of tobacco products in the consumer market. Another key subject to take into consideration is the slow relevance and adoption of recent and upcoming implementations regarding tobacco control. The author of this research finds it interesting that the tobacco industry is still thriving despite the tough and congested industry environment that has evolved. The tobacco business as a whole, its marketing style, and the industry's history could all help to form a fuller understanding of the consumption of tobacco products. By conducting a case study on the consumption of tobacco in Asian markets, it could be possible to acquire aspects that accompany the success of major tobacco companies.

Marketing strategy encompasses several categories explained by the marketing mix, where the most relevant and significant are customer knowledge and the active engagement of companies in numerous channels. A thorough literature review on previous and current advertising tactics and consumer needs, values, and attitudes, are just the few methods used to thoroughly examine the thesis question.

2 Literature review

As tobacco evolved into a phenomenon globally, the accessibility to investigate the reasoning behind particular markets consuming more or less of the product became relevant. It is widely known that tobacco products originated in America and made their way to Europe between the 15th and 16th centuries when the intake of tobacco was seen as a component for celebration. As a point of fact, smoking tobacco was considered to be calming, effective for painkilling, and fairly beneficial for alleviating hunger.

The production and consumption of tobacco eventually spread to Asia to promote religious gatherings, shamanistic rituals, and even social ceremonies and activities. Before the turn of the 20th century, smoking cigarettes quickly became a ritual performed all over the world with the assistance of supplemental items. It may be argued that this led to an increase in the number of commercial options and expansion of labour markets, both of which assisted the process of smoking becoming idolized in art, music and many more (Hilton, M., n.d.). A more detailed chronology of tobacco can be seen in the Appendix 1 of this paper.

In order to build comprehensive familiarity on why an industry founded on detrimental goods remains prosperous, it is essential to undertake an examination of the origins of advertising and the elements of marketing. In addition, research on consumer behaviour and how the initial customer foundation was built and maintained can give valuable information.

2.1 Marketing

Authors Hooley *et al.* (2017: 5) present that the notion of marketing is the most essential component for companies based in today's modern environment to comprehend, in order to maintain their presence in the market. Furthermore, the principal of marketing continues to state customer satisfaction; the process of fulfilling the needs and expectations of the customer.

Similarly, *Kotler and Keller* (2016: 27-28) state that the purpose of marketing is to determine and then fulfil the needs of the human and social environments. In a similar manner, the marketing management of a company places a significant emphasis on the collection of detailed information regarding the company's customers, its competitors, and the factors that suggest changes in cost and demand. Nonetheless, it is essential to be aware that businesses are marketing not only the products and services they offer, nevertheless the experiences, personas, and locations.

2.1.1 Marketing techniques

The broad use of marketing techniques offers a great approach to evaluate how effectively company's marketing plan is operating in the context of an environment that is constantly shifting and evolving. It is essential to devise and put into action a strategy to contend with obstacles in the most effective manner.

The following four marketing tools will only cover a small selection of the many. Furthermore, numerous additional well-known methods can be utilized to investigate the marketing strategy in addition to the ones that are listed below. To illustrate a few, these include concepts such as the Boston Consulting Group Matrix (BCG), Porter's Five Forces, and the Business Model Canvas.

1. The *Pest* or *Pestle Analysis* constitutes as the first example of a marketing tool. In this type of analysis, changes in the environment are characterised by categorising changes into their appropriate subcategories. This particular instrument represents the Political, Economic, Social, and Technological environments. In certain circumstances, considerations pertaining to the Law and the Environment are also taken into consideration (Hooley 2017: 56).

In the context of the economy, previous economic recessions have the potential to provide the company with useful information regarding the worth of the company as well as the purchasing power of consumers. The political climate is dominated by the stresses imposed by the government, such as a progressive increase in taxes and reductions in funding (Hooley 2017: 57). The focus of the

social environment is on the characteristics that are mostly constructed by demographic parameters, such as the average age of the population (Hooley 2017: 59-61). An examination of the considerable and rapid advancement of technology is the focus of the field of technological environment. This is true in areas such as advertising, the collection and storage of information, innovation, and even the experience of customers (Hooley 2017: 63). Legal environment is primarily concerned with the legal factors that are both internal and external to the organisation, such as the laws governing labour and consumer rights. The environmental element examines the effect that the company has on its surroundings, such as through farming or tourism. Another excellent illustration of this would be the geographical location and the variations in the climate (Pestle Analysis, n.d.).

2. Second example of a marketing technique is *The Marketing Mix*, commonly known as the *4 P's*, which consists of the following components: Product, Pricing, Place, and Promotion. In addition, this particular tool is often time seen as one of the most controversial marketing techniques when it comes to developing a marketing plan or strategy. However, it has been expanding in recent years to include four additional components: People, Processes, Programmes, and Performance. This is owing to the simple fact that marketing has evolved along the environment it has been placed on (Kotler and Keller 2016: 47-48).

Nonetheless, a business may evaluate its connection with its customers by considering a broader range of factors, including segmentation, targeting, differentiation, and positioning. Figure 1 highlights the significance for businesses to know the needs of their customers to retain and maintain customer satisfaction as well as relationships with those customers (Kotler and Armstrong 2012: 48).



Figure 1. Customer-driven Marketing Strategy (Kotler & Armstrong 2012: 48).

3. Exploring diverse models of the *communication process* is the third and arguably one of the most essential marketing techniques. They are separated into two parts: the *macromodel*, which focuses on the communication process as a whole, and the *micromodel*, which examines how individuals respond to specific messages. Although these approaches are most typically employed for branding purposes and increasing customer loyalty, they are also used to establish and maintain strategic positioning, as well as to research which communication strategies have the most impact on the company's customers (Kotler and Keller 2016: 583-585). In the micromodel, the consumer is seen to respond to a communication method by first doing so on a cognitive level, then on an affective level, and finally responding on a behavioural level.

While the concept of marketing is fulfilling the customers' needs, advertising focuses on influencing consumer behaviour; increasing emotionality, awareness, and interest towards the product and hence the company through commercial activities.

2.2 Advertising

Competition in advertising that is now prevalent can be seen as a result of previous advertising techniques as well as the effect of improving technological advantages.

2.2.1 Traditional advertising techniques

From as early as the 19th century through the end of the 20th century, key communication was mostly done by the mass production of newspapers. Before the evolution of magazines, *newspapers* showcased the advantage of a faster form of information spreading.

Direct mail sprang to prominence as one of the most effective forms of advertising in relatively short order around the end of the 19th century. These methods of direct mail were in the form of postcards, envelopes, and catalogues. After some time, the advertising scheme attracted such a large number of participants that advertisers started using public places as posting locations for their advertisements; resulting in the leasing opportunity of billboards, public transportation, fences, barns, and even the side of trains and riverboats (Hill 2002: 21-25).

In contrast to the usage of flyers or paper advertisements in general, the rise of *television and radio*, created massive opportunities for a variety of businesses to link moving pictures and sound to their advertising.

To give an example, Hollywood studios catapulted the popularity of television and radio by establishing television shows and other types of television entertainment. Mini advertisements began to take place during programmes, despite television was considered to be dangerous for the radiation it emitted. After the year 1945, the television format was however reintroduced, providing a good opportunity to demonstrate the actual product, its operation, packaging, and many other. In addition, consumers who preferred radio gained familiarity towards the Hollywood celebrities they were regularly listening to (Hill 2002: 28-31).

Tobacco advertising was actively promoted on television and radio during the 1960s and carried out even until the 1990s. However, television advertising provided more opportunities to display the actual cigarette and its various functions while being playful, humorous, erotic, and even musical (Williamson, G., n.d.).

2.2.2 Modern advertising techniques

The introduction of electronic commerce in the 21st century has enabled businesses to broaden the scope of their advertising efforts. Due to the proliferation of social media along with other forms of digital marketing, global marketing has emerged as one of the most effective strategies to get consumers closer to a given company (American Marketing Association, n.d.).

Kotler & Keller (2016: 638) emphasise that the growth of commercial activity on the internet generates more advantages for companies compared to disadvantages. Similarly, an increasing number of consumers are linked to the internet and social media, and it is generally agreed that the best business occurs where the consumers are (Kotler & Keller 2016: 638).

E-mail, websites, search and display advertisements are the four most frequent forms of digital marketing utilised in modern advertising techniques. To include, the potential of modern *direct mail* has shifted to mobile text communications and email newspaper subscriptions. The explanation for this remains the same as it was in the 20th century: to engage with customers more quickly.

Furthermore, the increase in popularity of websites essentially posed issues with the allocation of both purchasing and selling. To illustrate, websites that have never sold alcohol and tobacco goods are alleged to be unaware of the procedures for verifying customer's age. In addition, some platforms for online shopping may incorrectly categorise certain tobacco products as regular items. Since age identification is not required for the purchase of regular items on these platforms, the likelihood that a minor will be able to buy tobacco products is increased (Kotler & Keller 2016: 638).

Surprisingly, marketers of tobacco are still authorized to advertise in cinema, posters, and billboard sites, despite the fact that these settings are still subject to the bans that national laws have imposed on them. Additional research reveals that the promotion of tobacco, alcohol, and pharmaceutical products are exposed to the most severe restrictions in Europe. The promotion of tobacco products is fully outlawed in France, and it appears that an increasing number of other European countries are moving in the same direction (Czinkota, Ronkainen and Cui, 2022: 373).

2.2.3 Personalized advertising

De Keyzer, Dens and Pelsmacker (2015: 3) describes personalized advertising with the following:

“... advertising that is tailored to an individual’s characteristics and/or interests or tastes. ...marketers can use this (personal) information to personalize their advertising messages on social network sites to a great extent.”

The proliferation of *smartphones* and *computers* elaborated an increase in the amount of attention paid to the gathering of personal information and data. The advancement has made it possible for businesses to compile information about their *Unique Visitors* or UVs. This data format stores a variety of information about the consumers for the company's advantage, including the number of people who click on an advertisement, the length of time consumers spend on a particular advertisement or website, the activities consumers engage in while using these advertisements, and the sites to which they will next navigate to. These information-gathering data are known by *Cookies* on websites, as well as tracking software and algorithms (Kotler and Keller 2016: 638).

As an example, when searching for information on the tobacco industry, one may find more tailored research results and personalised tobacco advertising to appear more frequently after the initial search. Newberry C. *et al.* (2022) define *algorithms* as a platform's automatic rule and signal for displaying relevant material based on the user's liking history and engagement likelihood.

Furthermore, algorithms can assist businesses in determining where and when their most likely target market is. This includes, among other things, engaging in and understanding trends, using clear and accurate headlines and captions, and knowing when your target audience is most likely to engage with your post (Newberry C. *et al.*, 2022).

2.3 Target market of Tobacco

Marketers divide the collection of potential customers into distinct subgroups called *target markets* by analysing the demographic, psychographic, and behavioural characteristics of each group. With more research, the organisation will be able to evaluate the specific needs and values of its clients (Hill 2002: 31-32).

Men were seen as the primary audience for fraudulent goods such as tobacco. This was due to a prolonged advertising campaign of cigarettes, in which women were shown to carry cigarettes without actually smoking, and women who did, were shown as having a low social position. However, advertising for women in the 20th century quickly increased, and many of these advertisements featured children and other aspects of family life to appeal more effectively (see Figure 2).



Figure 2. Advertising targeted towards woman in 1951 (Stanford University, 2023a).

This method of advertising quickly evolved into a cultural phenomenon that shaped expectations about how women, children, and families as a whole should behave and act (Hill 2002: 210-211).

Women were taught that smoking cigarettes was against proper etiquette, whereas males considered the presence of women on cigarette packaging to be appealing. Furthermore, in the year 1926, the American Tobacco Corporation introduced a cigarette brand called *Lucky Strike*, specifically marketed towards all women, even women who were pregnant as an appropriate option. The advertising of tobacco has proved a connection between smoking and activities, such as enjoying a nice meal, going for a walk outside, and even being in a position of authority (Hill 2002: 221-223).

2.3.1 Needs

One widely appreciated model for recognizing how human behaviour and motivation functions is psychologist Abraham Maslow's *Hierarchy of Needs* from the year 1943. Its main purpose shows the significance of fulfilling one need before the other could be achieved. To elaborate, needs in the hierarchy are fundamental needs, such as food and water, shelter, belonging, esteem and finally as the superior, self-actualisation, which can be seen in Figure 3 (Solomon 2019: 170-171).

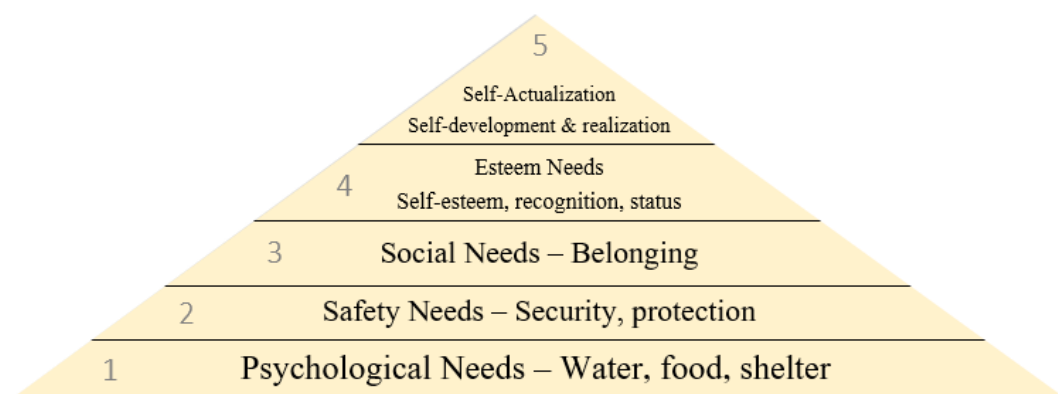


Figure 3. Maslow's Hierarchy of Needs.

However, in the book *Consumer Behaviour* by Solomon (2019), the pyramidal structure is rather highly criticized. One of the reasons for such is that the hierarchical structure is unable to detect cultural effects or the importance of materialism and individualism. Similarly, an individual's need for self-fulfilment may be greater than their need for belonging.

Further research demonstrates that an individual's values, beliefs, and attitudes, as well as their cognitive resources, social, cultural, and religious, all could play a role in how an individual evaluates for example the tobacco industry and smoking. In addition to this, culture influences how consumers use services and products as well as the activities they engage in, and their wants and needs (Solomon 2019: 513).

The psychological strategy of *Appeal Theory* is practised in advertising by which the company is able to attract the *needs, interests, and wants* of consumers. The theory is composed of seven different approaches: *Musical, Sexual, Humorous, Fearful, Rational, Scarcity* and *Emotional*. These appeals are utilised with the ambition of eliciting favourable responses from customers (Folliero, 2018). Examples regarding Appeal Theory and tobacco can be seen in Appendix 2 of this paper.

A sense of involvement and belonging are characteristics that are considered social needs. Cultural differences shape the level of importance of social needs, also affecting an individual's motivation and decision-making. An individual must reach a certain level of social positioning or role in their culture, in order to avoid being rejected and, conversely, in order to attain achievement, social status, affiliation, and belonging (Hoyer *et al.* 2015: 47). Adolescents can find themselves in a position in which they are required to engage in behaviours such as smoking, in order to satiate social needs such as a sense of belonging.

As smoking is not an essential *need* for a consumer, American Tobacco Company and R. J. Reynolds were the leading primaries in introducing consumers to the world of tobacco. This was accomplished by marketing tobacco

in a way that did not make smoking seem like a need. Moreover, cigarettes and smoking were advertised as healthy on all levels—psychologically, cognitively, and socially. Considering this, companies promoting tobacco dominated the concept that consumers who used their products were part of a both healthy and well-developed social network.



Figure 4. Camel-branded cigarettes were approved by doctors in 1946 (Stanford University, 2023b).

Soon, doctors were seen smoking cigarettes too, and as a result, consumers across the board, from the typical consumer to pregnant mothers and adolescents, were considered to take influence by authoritative figures such as doctors (Little, 2018). During the 1940s, R.J. Reynolds launched a marketing campaign for their Camel brand of cigarettes, using the tagline "*More doctors smoke Camels than any other cigarette.*", (Sky News UK, 2015) which can be seen in Figure 4.

2.3.2 Attitudes

An individual can discover that acquiring and evaluating information that contradicts their previous opinions is less motivating than they expected (Hoyer *et al.* 2015: 60). *Motivated reasoning*, which includes psychological traits such as self-concept, values, and needs, could contribute to preventing conflicts with attitudes (Hoyer *et al.* 2015: 47). Attitudes that are formed as a result of how an individual perceives or pursues their identity could be examples of *socially identity-based attitudes* (Hoyer *et al.* 2015: 132).

The social and cultural resources that an individual possesses, such as their social relationships, cultural knowledge, and experiences with the brand, can have an impact on their behaviour towards the acquisition, consumption, and disposition of goods (Hoyer *et al.* 2015: 60-62).

2.3.3 Values

It is stated that consumers build *value* over tangible and intangible benefits and costs, which are said to increase when quality and service are high and decrease when price increases. The ability of the company to recognise, develop, communicate, provide, and monitor the values held by its customers is what ultimately leads to the satisfaction of those customers (Kotler and Keller 2016: 33). The decisions, beliefs, and desires of the consumer can also contribute to the formation of the consumer's *core values*, in addition to the consumer's behaviour and attitude (Kotler and Keller 2016: 187).

Additionally, if an individual's core values are centred on their relationships with others, such as their friends and family, they may find that smoking is beneficial to them. This is due to tobacco use resulting in the formation of additional social connections, as well as a sense of belonging with people who share similar values and interests (Hoyer *et al.* 2015: 132).

Affecting involvement, psychologically motivating methods for the individual to self-report their interest towards offering, activity, and decision, could give a

justification. When an individual becomes involved, they might feel compelled to either willingly use or grow their emotional energy or build feelings over time to be aroused by the offering or activity (Hoyer *et al.* 2015: 47).

2.4 Consumer learning methods

From the vantage point of specialists who are not in marketing, consumer markets can appear to be exceptionally ambitious. However, the notion of *learning* can represent a considerable measure of detail regarding how and why particular items are connected with particular acts or occurrences (Solomon 2019: 215).

Furthermore, psychologists have developed a wide range of hypotheses regarding consumer behaviour, of which the majority fall into either of two categories: *behavioural* or *cognitive* learning theories. These theories are helpful to a marketer in understanding the fundamental purchasing behaviour of consumers (Solomon 2019: 215).

2.4.1 Behavioural and cognitive learning

The behavioural learning viewpoint is a method that is used to examine the capability of consumers to react to factors from the outside world. Solomon (2019: 215), on the other hand, argues that the majority of psychologists who are enthusiastic about this particular learning method are ignoring the internal reasoning process of consumers.

In contrast to behavioural learning, *cognitive learning* is understood to be the product of mental processes that occur within an individual. The act of gathering information from one's environment, which ultimately results in the construction of expectations and stimuli in relation to a response, is one of the hypotheses that underpin this theory. These responses to a product, brand, or even an activity is produced as a result of having objective knowledge as well as the actual knowledge on the subject created through conscious hypotheses (Solomon 2019: 221-222).

One approach to the study of cognitive learning is to explore the process of *learning by observation*, in which individuals learn by observing the activities of others (such as smoking) and create connections to the forms of responses they receive (good, bad, cool, refreshing). The term *modelling* refers to the process by which an individual learns to imitate the actions of others by initially storing information of the action and behaviour in their memory, in order to reflect on it at a later time (such as having a cigarette after lunch) (Solomon 2019: 221-222).

2.4.2 Classical and instrumental conditioning

Classical conditioning illustrates why consumers construct a secondary type of stimulus, even when the initial stimulus is not present. This can happen even if the consumer is exposed to a new stimulus. The purchase of a lighter by a consumer can result in classical conditioning for the initial stimulus representing a possibility to use that lighter for smoking. The capability to use purchased lighter for other purposes than initially planned for is the source of the second (or more) stimuli that are generated as a result of this response (Solomon 2019: 217).

However, classical conditioning is also affected by continuousness and can thus collapse if the initial stimuli are not presented with a suitable amount of exposure or with appropriate amounts of repetition. If a consumer suddenly finds that the purchased lighter is not good for smoking purposes, it is possible that they will break the habit of using that brand's lighters altogether. In later studies, a combination of sufficient consumer involvement and effective exposure may play a role in determining the presence of secondary stimuli. This could imply utilising a different media method for advertising, or it could mean decreasing the availability of a single service: Therefore, creating a response where the consumer feels superior for simply having an option to ignite the flame for smoking purposes (Solomon 2019: 217).

Instrumental conditioning explains the connection between behaviour and a positive outcome, while also allowing for the avoidance of unfavourable outcomes (Solomon 2019: 218). In the field of instrumental conditioning, *shaping* is a term used that refers to the practice of awarding the process of working towards a goal in some form. Due to not being dependent on an immediate stimulus yet rather on an assortment of actions that are learned over the course of a specific amount of time, this form of conditioning also requires active reinforcing in order to be effective. To use the example of a lighter, consumers are most likely to continue using one if they are rewarded for doing so; this is in the case that the lighter can for example function in any weather. This would indicate that there are rewards associated with levelled achievements as well as a simple discount for the following activity or even the capability of implementing one (Solomon 2019: 218).

2.5 Competitive markets and branding

The rivalry among companies, as well as the products and services that customers have alternatives to choose from, is explained by the competition that exists in the marketplaces (Kotler and Keller 2016: 34). One example of advanced competitiveness is the creation and maintenance of strong branding by distinguishing oneself from the competition in the market (Kotler and Keller 2016: 304).

2.5.1 Brand Value

The corporation collects acknowledgement from customers by means of their product, communications, trade possibilities, employees, and other things as part of an investment in a marketing programme. These may be anything from the design of the product to the creation of the product itself. This contributes to the formation of the customer's mindset, in which awareness is raised, which, for instance, results in the formation of an attitude.

In essence, what customers *think*, and *feel* is not only towards the product, nevertheless about the company and the brand in and of itself. All these factors build the groundwork for consumer purchasing behaviour, which in turn affects

price and market share. In the last stage, shareholders create an analysis of the company and decide whether the company has the potential to increase its market capitalisation and become a corporation that is worthy of investment (Kotler and Keller 2016: 337-338).

The program multipliers are predicated on the creation of simple value and relevance within the market, which results in the production of a substantial role in the mindset of customers and ensures the quality of programme investment. *Customer multiplier* is more focused on consumers, markets in which maintaining healthy levels of competition is essential, and in which a portion of a company's value is derived from the size and composition of its customer base. To elaborate, the customer base is the sole component that creates influence on the performance of the business.

In addition, businesses compete against one another in terms of quantity and quality, as well as the manner in which third parties operate in the market and generate sales, and, ultimately, the number of customers and the type of customers who are drawn to the brand. In addition, the *market multiplier* is highly dependent on the performance of the financial and investment markets, which creates value for the shareholders (Kotler and Keller 2016: 337-338).

Tobacco manufacturers utilised the irritation of the throat, coughing, and the aftertaste of cigarettes as a competitive advantage in the market. A competition was likely performed to determine which manufacturer and brand of cigarettes deliver a tobacco flavour and aroma that is more refined, sophisticated, and opulent. This was attributable to the fact that the company was offering a superior product than the other, despite that the source of the initial problem was smoking (Little, B., 2018).

2.5.2 Product Placement

The market of product placement is anticipated to be worth approximately 23 billion dollars within the year 2022. Newell, Salmon and Chung (2006: 577), describe the scope of product placement with the following: "...*product placement*

was initially defined as the inclusion of trademarked merchandise, brand-name products, or signage in a motion picture”.

Product placement is seen visibly used in movies and television series, as well as in the music and gaming industry, where businesses compete against one another for the opportunity to have their products included. These could be anything from tobacco products to alcohol, weaponry, automobiles, accessories, and even quick-service restaurants (Pavlou, 2019). To provide an example, cigarette manufacturer Chesterfield was featured in the film *You’ll Never Get Rich* (1941), and in return, Fred Astaire can be seen dancing while smoking their brand of cigarettes (Newell *et al.* 2006: 583). Further product placement examples can be found in Appendix 2 of this paper.

2.5.3 Celebrity involvement

Innovative marketing strategies and concepts are merely one approach to attracting consumers’ attention in the present decade. One line of argument would be that businesses are vying with one another for the most unique marketing tactic. This could involve anything from utilizing explicit language to inside humour and making use of current trends, well-known artists, content creators, movie stars, and celebrities in general, to promote the product in the way that is most appropriate for it.

2.6 Tobacco Control and Legislation

WHO’s Framework Convention on Tobacco Control (FCTC) is an evidence-based agreement that provides a framework to regulate and monitor tobacco use by WHO’s member states’ implementing it. With the assistance of its 182 member parties, FCTC continues to be effective and successful in its endeavours after the year 2005 (World Health Organization 2021: 24).

The statement given by the United States Food and Drug Administration (FDA) regarding the jurisdiction of tobacco products was supported by President Bill Clinton’s declaration, where in the year 1996 Clinton approved the statement

of nicotine being an addictive drug (Associated Press, 1996). The American Lung Association was seen as the leader of many campaigns during this time period (Figure 5). These campaigns focused on the evidence found in various research claiming smoking to be hazardous, and as a result, they had a huge impact on the taxing, controlling, programming, and legislation that tobacco is known to carry out today.



Figure 5. American Lung Association's advertisements (2010, 1977, n.d.) (Stanford University, 2023c).

In addition, a number of anti-smoking organisations and associates who support the concept of a smoke-free society, have collaborated to develop a number of pieces of legislation and laws that prohibit smoking in places of employment, public areas such as parks and centres, restaurants and bars, as well as in private residences and other indoor spaces such as gyms, concert halls, and so on (Yale University Library, 2022).

In 1987, the R. J. Reynolds tobacco company was pressured to remove their advertisement featuring the childlike figure Joe Camel that can be seen from Figure 6 (American Lung Association, 2022.).



Figure 6. The cartoon advertisements of Joe Camel (1992, 1989) (Stanford University, 2023d).

The government of England, along with the governments of other countries, has established various objectives for achieving a smoke-free nation by the year designated in their goals. For instance, the United Kingdom (UK) has chosen the year 2030 as the target year for when they intend to achieve their goal of becoming a smoke-free nation. One of the strategies for achieving the goal is to gradually increase the minimum age of purchase in England until the option to do so no longer exists (Ash UK, 2023).

By the year 2030, Finland intends to put an end to the consumption of cigarettes and any other product that contains nicotine on a national scale (ASH Finland, 2023). Since 2012, smoking has been completely banned in public areas including restaurants, bars, and workplaces; advertising tobacco products has also been banned altogether, and legislation governing the sale, importation, and display of tobacco products has become more restrictive. In the year 2023, Finland can be seen restricting regulations on the packaging of tobacco goods, resulting in regulation on plain packaging entering into force on 1 May 2023 (Valvira, 2022).

3 Methodology

Marketing research is the result of gathering information and data from different aspects that help to form a better marketing strategy. These aspects for example range from gaining knowledge of customers and the consumer market, financial reporting, market positioning, competition, and additional economic environment (Wiid and Diggines 2019: v).

Qualitative or quantitative research approaches can be utilised to successfully distinguish between the market condition and the overall study circumstances. Both methods hold different approaches which contribute to obtaining the best possible results following the research objective (Nuttavuthisit 2019: 1). These two approaches are investigated further in order to identify the strategy that is most suitable for answering the research question that this paper addresses.

3.1 Qualitative research method

Qualitative research is a natural method for addressing a problem, where the variables involved in the research problem are not known in advance. In addition, qualitative research method ensures opportunities for further investigation and interpretation of the findings (Creswell 2012: 16).

The objective of *exploratory research* enhances qualitative research, emphasising the significance of observing phenomena rather than placing a large degree of reliance on literature. To elaborate further, the significance of the literature in qualitative research is not as fundamental to the research problem as it is in quantitative research; yet it is relevant as it demonstrates the connection to the research question (Creswell 2012: 17, 74).

In qualitative research, the data is gathered from specific context areas such as people or culture, which results in the creation of natural research responses and greater opportunity for observation. Existing materials, interviews, and projective techniques are just a few of the methods that can be utilized to collect data for the research (Nuttavuthisit 2019: 3). In addition, these methods contribute to the

formation of a foundation for research carried out using a case study (Creswell 2012: 205).

In the discipline of qualitative research, in particular, when the primary emphasis is placed on consumer and marketing research, the primary data is sourced with the interest of locating the reason for consumption (Nuttavuthisit 2019: 2).

The use of numbers, ratios, or proportions in qualitative analysis can be obtained, even while statistical evidence is seen to be more weighted towards the quantitative research method. In the same vein, quantitative research can incorporate features that are more typical of qualitative studies, such as historical perspectives and the experiences and reflections of representatives (Nuttavuthisit 2019: 4).

3.2 Quantitative research method

The quantitative research method emphasizes the collection of data via variables, scales, and dimensions, developing an approach that is mathematical and statistical. Quantitative research methods analyse the context in a more generic and broader setting, in contrast to the qualitative research approach, which places a heavy emphasis on a particular context. In addition, quantitative analysis is used to validate and verify the results of experiments as well as other controlled environments (Nuttavuthisit 2019: 3).

Nonetheless, carrying out experiments in the form of questionnaires or surveys is a viable option for data collecting. They may take the form of e-mail, telephone, or internet discussions, or they may take the form of in-person interviews. The preferred questions for these various techniques of data collecting have an emphasis on the narrative and the objective, and they also include classified follow-up questions. However, if the findings were to indicate that additional information would be beneficial for the study, questions can be formulated by including either alternative responses or open-ended questions (Nuttavuthisit 2019: 4).

While doing quantitative research, it is natural to reflect on both *descriptive* and *causal* research objectives. The research study is provided with an explanation by the descriptive aim, which is achieved via the linkage among several variables (Creswell 2012: 13). In addition, descriptive statistics are effective resources for summarising and finding data based on tendencies and trends (Creswell 2012: 183). Furthermore, literature serves an important function by contributing to the justification, the provision of direction, and the proposal of statements and hypotheses (Creswell 2012: 13). The investigation of the causal links and effects of the variables is an important step in the formation of hypotheses (Creswell 2012: 304).

3.2.1 Research question and data collection

In order to answer the research question, "*How the tobacco industry is succeeding?*", the qualitative research approach would be the most effective research choice presently accessible to employ. The author of this thesis recognized that a case study can fulfil the thesis's objective more effectively since the research area in question is extensive alone.

The nature of a case study is to determine and discover either an event, activity, or process. To answer the research problem of this paper, an *instrumental* case study helps to illustrate and give insight into the cause of the initial research problem (Creswell 2012: 465). Kotler and Keller (2016: 125) identify two ways for data gathering: *primary data and secondary data*. When information is obtained from fresh sources and tailored to fit a particular objective or project, this type of data is referred to as primary data. Secondary data, on the other hand, refers to data that already exists and is collected for another purpose.

In addition, further research justified qualitative research to be more accessible since it shares the possibility of more limited and targeted sampling and facilitates the construction of case studies. Whereas the quantitative research approach has the potential to present new and statistical evidence on the subject under investigation, the sample size would grow unmanageably vast. Hence, evidence

would be very varied depending on the variable in question; due to the characteristics of diverse cultures, attitudes, and experiences.

Secondly, further study revealed lack of information supplied on the Asian tobacco industry and majority was placed on Northern-American view. Consequently, using a strategy of collecting *secondary data* for the case provides for a more relevant and research-friendly investigation. The process of gathering data will be accomplished through the use gathering of literature and material that is available online and that is most relevant.

The following questions, such as "*Why does the consumer market for tobacco remain prosperous?*" and "*Are the current regulations effective enough?*", will be used to conduct further research and analysis on the thesis subject. Further investigation into the topic under study will be followed by referencing the literature of this paper and making use of various marketing techniques. The author argues that by using this technique, the question concerning the marketing strategy of tobacco could be at least partially answered.

3.3 Case: Asian tobacco industry

According to the WHO FCTC, China is responsible for producing and consuming the largest quantity of tobacco globally (World Health Organization 2021: 63). Furthermore, there has been an increase in the amount of foreign capital perceived to be invested in China as a result of the required degree of manufacturing facility possibilities and investments in factories in general (Cavusgil, Ghauri and Ackal 2013: 21). Moreover, internationalisation has led to stronger competition and growing capabilities in the market, resulting China to benefitting from this progression (Cavusgil et al. 2013: 23). Wholesalers, manufacturers, and importers have more authority over financial agreements, laws, and regulations, and as a result, consumers have less purchasing power (Cavusgil et al. 2013: 20).

Nonetheless, international marketing and international business will change according to the environment in which they are conducted. These markets are formed from elements including the level of technology, the cultural and social characteristics, and political and legal forces. If businesses were to apply the same marketing strategies internationally, the political decisions taken in the domestic market or the economic recession of one can affect international operations (Cavusgil et al. 2013: 25-27). Consequently, consumers in China obtain distinct decision-making processes, motivations, and attitudes in comparison to consumers in Western societies (Cavusgil et al. 2013: 50).

Maslow's Hierarchy of Needs has potential to form a stronger explanation of the consumer behaviour that exists in the market. Since the theory shows tendency towards value creation inside the culture, a comprehensive understanding towards the tobacco industry in Asia can be better analyzed. In addition, the structure that is formed of a *PESTLE* analysis is clearer to justify since specific political, economic, and environmental factors can be attained and connected to one another. Particular interactions with the needs, attitudes, and values of consumers, data in support of searching marketing techniques utilized is easier to gather and analyze.

3.4 Reliability and limitations

Despite the possibility to conduct research on the industry of tobacco in Asia, opposing different cultural perspectives, experiences and prerequisites from the author and upcoming readers of this paper, can be seen available.

Furthermore, the nature of conducting a Bachelor's thesis is limited in time and as a result, a large, high quality and detailed study can be difficult to conduct. In addition, the discussion around, and research to be conducted on, the Asian market alone is substantial; as a result, certain arguments cannot be applied to the entirety of Asia.

The collection of theoretical evidence on Asian markets, and more especially on the markets in China, might be challenging or limited to acquire. In addition, the chance to travel to one of the countries of the research, solely to gain fuller study or observation for the purpose of the topic, remains low for a university student. Acquired information and data can be out of date from a statistical point of view. The lack of personal experience that the author has with Asian markets and culture is the second constraint that can arise, and it has the potential to both confuse and degrade the final outcome.

Finally, the acquisition of new and relevant information, as well as the utilisation of professional publications and reports, are costly to purchase. Potential requests for free samples from these studies cannot be met in the limited time frame allocated to the Bachelor Thesis.

4 Research results

The marketing tool *Pestle* and the *Marketing mix* can supply numerous aspects regarding the consumption and manufacturing of tobacco to identify the employment of the marketing strategy in Western-Pacific Asia. The findings regarding case study contribute to gaining a greater awareness of tobacco products as well as the place, pricing and promotion associated with such goods. The opportunities and challenges that are faced by the tobacco industry are jointly influenced by political and environmental variables. Societal, and economic aspects, on the other hand, can reveal specifics concerning the behaviour of consumers concerning tobacco-related goods.

As of the month of March in the year 2023, the China National Tobacco Corporation (CNTC) continues to maintain the leading position as the largest manufacturer of cigarettes globally. In accordance with the University of Bath (2023), CNTC primarily operates in the Chinese domestic market, while maintaining a monopoly positioning and retaining influence over other Chinese tobacco manufacturers as a state-owned entity (SOE). According to Wallstreetmojo (n.d.), state-owned entities are corporations that are owned and controlled entirely or partially by the government to contribute in a variety of economic activities in the favour of that country.

4.1 Marketing mix

Due to the complexity of the Marketing mix and the *four P's (Product, Price, Place and Promotion)*, the components of each category will be further dissected and clarified in their own sections (Kotler and Keller 2016: 47).

- **Product:** According to Kotler and Keller (2016: 47), the product category is comprised of ten distinct divisions; Variety, quality, design, features, brand name, size, packaging, services, warranties, and returns.

The *Zhongnanhai* and *Chunghwa* brands of cigarettes (see Figures 7 and 8), produced by one of the largest tobacco companies, the *Shanghai Tobacco Group*, are regarded as being among the most popular cigarette brands in China (University of Bath, 2023).



Figure 7. Zhongnanhai branded cigarettes in the year 2017 (Tobacco Pack Surveillance System, 2017a).

The packaging that is typically found in cigarettes sold in China frequently involves the utilisation of colours, particularly red and gold (Tobacco China Online, 2016).



Figure 8. Chunghwa branded cigarettes in the year 2017 (Tobacco Pack Surveillance System, 2017b).

In addition, the packaging on various tobacco brands, including *Chunghwa*, features pictorial representations of historical and cultural iconography, such as intricately embroidered columns, white cranes, buildings, flowers, and national treasures, to name just a few examples (Tobacco China Online, 2016).

Consequently, cigarette packs can additionally incorporate wedding pictorial and vocabulary, such as dragons and phoenixes (representing male and female), mandarin ducks representing loyalty and love, and the notion of "*double happiness*" written in Chinese characters (Trimble *et al.* 2021: 770-771). The practice of gifting cigarettes in Chinese culture does not discourage the consumption of tobacco products, instead, it is seen as a tradition on holidays and other special occasions (Trimble *et al.* 2021: 770).

Warning labels and other health-related messages were required to be printed on cigarette packages in accordance with the EU tobacco directive, which went into effect in the year 2016, following to apply at least in some capacity across 45 countries. However, the cautionary messages on cigarette packaging were considered irrelevant and against the traditional Chinese culture, which caused a huge amount of controversy in the media and among the public. In addition, it was believed in the year 2016 that the proposed labelling regulations that were expected to go into force in Asia, would not be implemented after all, at least not in that time (Tobacco China Online, 2016).

Furthermore, the heavy press and guidance from the WHO FCTC applied force towards Asia and specifically China, with a heavy emphasis on Article 11;

"Each Party shall ... adopt and implement ... effective measures to ensure that ... tobacco product packaging and labelling do not promote a tobacco product by any means that are false, misleading, deceptive or likely to create an erroneous impression about its characteristics, health effects, hazards or emissions", (World Health Organization 2021: 72).

The inclusion of health warnings on cigarette packaging has the objective of discouraging the consumption of tobacco and increasing the likelihood that individuals who are already engaged in the habit of smoking will decide to quit.

The WHO FCTC (2021:72), identifies the packaging that manufacturers of cigarettes employ to be one of the strategies for selling their cigarettes. This can be accomplished by, for instance, influencing the expectations and perceptions of consumers regarding the flavour and strength of the cigarette brand in question. In addition, warning labels are described as being beneficial for preventing adolescents and young adults from smoking and emphasizing the negative effects that smoking has on them (World Health Organization 2021: 72).

The warning labels, sizes, and characteristics that are printed on cigarette packages were further analysed to compile data of the nation involvement for 2020 indicator measurers (World Health Organization 2021: 123). Table 1 provides an explanation of the indicator requirements that the chosen nations for this case study have addressed by the year 2020.

Table 1. Labelling requirement indicators for cigarette packaging 2020.

Level of requirement	Detail on requirement
1	Data not reported
2	No warnings, or small warnings
3	Medium size warnings, missing some or many appropriate characteristics, or large warnings missing many appropriate characteristics.
4	Medium size warnings with all appropriate characteristics, or large warnings missing some appropriate characteristics.
5	Large warnings with all appropriate characteristics.

The characteristics include for example, warning labels that need to be placed on the outside of individual packages as well as cartons that are used in retail sale; the labels are large, visible, and legible; they follow specific mandatory sizing, colouring, and font style requirements; they rotate and they are written in all the primary languages that the nation speaks (World Health Organization 2021: 123). The standards for the warning label were met in China at level 3 (World Health Organization 2021: 150-151).

Following the shrinkage of the market for traditional cigarettes, the State Tobacco Monopoly Administration (STMA), authoritative to the monopoly action taken

under tobacco, a new strategy for the promise of continued business has been developed towards the Electronic Nicotine Device Systems (ENDS) market and Heated Tobacco Products (HTP) (University of Bath, 2023).

- **Price:** The price category of Marketing mix is comprised of five divisions; List price, discounts, allowances, payment period and credit terms (Kotler and Keller 2016: 47).

The decline in tobacco consumption in developing markets has led to an increase in the industry's tendency towards consolidation, further resulting to increasing strategies towards the emerging markets. In addition, it is anticipated that the profitability of tobacco will improve in mature markets, which will further elaborate the strategy that will be concentrated on globalisation. This allows to understand why investments have been made towards obtaining larger market shares in the tobacco industry globally. Despite the fact that the smoking prevalence rate as a whole has been descending, there is still room for prospective growth to be sustained through growing population opportunities, such as in Asia. The current pricing strategy in the tobacco industry focuses a major emphasis on increasing prices in those locations where consumption and prevalence have declined in order to meet and sustain profitability (Freeman, B. *et al.*, 2019).

The price of cigarettes in China is calculated from four different measures: the price at the place of manufacture, the price at the transfer point, the wholesale price, and the retail price. The China Tobacco Consumption Tax (CTCT) has accountability for determining the transfer price, which is then undersigned by both the manufacturer and the purchaser (Zhao, S. 2022: 3-4). It is believed that the taxation on tobacco, and more specifically cigarettes, in China is roughly 40 per cent of the retail price. Furthermore, the average rate of taxation across the goods internationally is between 65 to 70 per cent. In addition, the taxation of tobacco in China includes other forms of taxation, such as the tobacco leaf tax, which is paid to the government at a rate of 20 percent by the CNTC (Hu, T. *et al.* n.d.).

Despite the fact that STMA choose the ultimate taxing price, the price that was calculated by CTCT serves as the basis for the ex-factory pricing. This is made possible by the power that STMA possesses to regulate both the adjusted and regular gross margins. The cigarette adjustment price profit rate is incorporated into the wholesale price once the allocation price has been determined, which results in the wholesale price to become effective. The wholesale price is added to the price margin, which is the difference between the wholesale price and the retail price (Zhao, S. 2022: 3-4).

In a research report from the year 2010, Li *et al.* evaluated the consumption of less costly cigarettes in China. The discussion around the findings, where inexpensive price strategy with tobacco goods continued the consumption of cigarettes, emphasizes the tax and pricing policy the tobacco industry is believed to practice. For example, if CNTC were to substantially upward their pricing on cigarettes, the consumers in China are still most likely to continue smoking, however, locate another, more affordable brand (Li, Q. *et al.* 2010: 67). Since CNTC is operating as an SOE, this would mean significant ground difficulties and damage to the economic growth in China.

It has been discussed by Takahiro, T. (2021: 81), that traditional cigarettes in Japan are too inexpensively priced and the approach to managing such goods needs to be strengthened. This could mean improving and deploying stricter taxation measures and smoking bans, and in addition increasing the availability of anti-smoking media initiatives.

- **Place:** In accordance with Kotler and Keller (2016: 47) third *p* involves channels, coverage, assortments, locations, inventory, and transport.

Wholesalers and retailers work together to build a profitable supply chain in China in order to offset the complicated monopolistic position that the tobacco industry possesses. As a consequence of this, consumers become dependent on marketers, and in addition, retailers are required to carry monopoly licenses and operate according to the restrictions specified in those licenses. Kiosks and

convenience stores are by far the most popular locations in which vendors sell cigarettes. Some of these marketplaces are specialized tobacco shops, where cigarettes of a higher quality can be purchased alongside other goods, including alcoholic beverages (Barnett, R. *et al.* 2021: 124-125).

Additionally, an interesting aspect of these niche marketplaces is that tobacco corporations expect to obtain *premiumisation* from them as part of their broader strategy. Companies that sell cigarettes are frequently observed to provide counselling and training for the owners in order to enhance sales and guarantee the most favorable customer experience. This phenomenon is done considering the family business model is a highly practiced method of business in China and additionally business relations are widely prominent. The majority of the time, a few of these establishments are able to be recognized as high-quality and provided with a quality guarantee badge near the entrance. This creates trustworthiness and ensures consumers to recognize the highest quality product offerings (Barnett, R. *et al.* 2021: 124-125).

- **Promotion:** Kotler and Keller view the final *p* of the Marketing mix to include sales promotion, advertising, sales force, public relations, and direct marketing (2016: 47).

Brand consolidation and the promotion of *premium and high-value* cigarettes are two marketing approaches that the CNTC are seen to implement (Barnett, R. *et al.* 2021: 112). In terms of brand consolidation, the significance of brand visibility and the connection between it and cigarette packaging, influences customer behaviour and affluence, in addition to contributing to the overall image of the company and their brand (Kotler and Keller 2016: 412). Barnett, R. *et al.* emphasize that adolescents, female, and health-conscious consumer target groups in China are typically marketed via short-sized cigarettes and slim cigarettes (Barnett, R. *et al.* 2021:113).

Researching instances of modern-era advertising from China is made challenging due to the laws that prohibit the advertising, promotion, and

sponsorship of tobacco products online and in social media. Although it is illegal to advertise or promote tobacco products in China, businesses can nevertheless receive sponsorships from events and organisations, take advantage of discounts, and participate in programs designed to assist them (Tobacco Control Laws, 2022).

4.1.1 Discussion

In conclusion, it can be observed that CNTC engages in *program multiplier* activity within the context of its brand value; Focusing on influencing consumers' mindsets and levels of awareness through the original marketing program. The value that CNTC has been able to build for its products is arguably one of the reasons for its continued success. One approach to achieving this goal is to differentiate cigarette packaging from that of other markets, particularly by the striking use of particular colors in a continuous manner.

Additionally, there is a large product place, and tobacco goods are designed to be purchased from a variety of different sources, providing consumers with an increased level of convenience. The customer mindset is built on awareness, which includes capitalizing on the tradition of gift-giving and the structure of family enterprises.

The smoking culture in China as a whole is widely practiced, the CNTC has a sizable market share, effective SEO practices, and a carefully planned pricing and taxation policy; all of which contribute to the company's strong brand performance. The tobacco industry in China is highly profitable, generating money not only for the Chinese government but also for their stockholders.

4.2 Pestle analysis

The term *Corporate Social Responsibility* (CSR) refers to a series of initiatives that businesses can take to improve their level of accountability and commitment to the communities in which they operate. Better environmental practises,

volunteering with charitable organisations, adhering to ethical labour standards, and coordinating volunteer efforts are four of these measures. Companies that participate in CSR initiatives are able to affect the way their customers, employees, and investors view them (Reckmann, N., 2023).

According to Fang, J. *et al.* (2019:1), CNTC can be seen contributing to a wide range of CSR activities such as education. According to the article (2019:1), the CNTC is the sponsor of *Project Hope*, which specialises in building schools for rural development. This sponsorship results in the hidden promotion of tobacco products through the use of business logos and the visibility of coverage in the press.

The characteristics of the *Pestle Analysis* tool can additionally contribute to the formation of answers towards the questions posed in this thesis, and in further objective to identify reasons behind specific activities employed by the CNTC and its accountability to the CSR. In light of the extensive conversation that has taken place concerning the legal activities of the tobacco industry in China and the operations carried out by the CNTC, the *Legal Environment* of the Pestle will be removed in order to improve the Pestle's readability and to represent other traits more in-depth.

- **Political:** *Pestle Analysis.com* identifies political factors to refer activities that affect the economy and certain industry (n.d.). This will be further executed by analysing tobacco control policies, restrictions, taxation, and trade.

The conflict of interest is evident in China's political system. While the CNTC and STMA collaborate on tobacco control policies, the WHO FCTC and the government all hold the same position in the implementation committee. Despite this, the CNTC funds and organises a number of research initiatives in the name of industry importance and the assertion of the low danger associated with tobacco use. In the same year (2005) that China approved the WHO FCTC, STMA was seen to produce a study that implemented tactics for avoiding the

primary articles indicated in the FCTC and, finally, minimising its impact on the industry (Yang, G. *et al* 2015: 1021).

Second-hand smoking has been one of the most widely debated problems in China. While smoking is permitted in indoor and outdoor public spaces, workplaces, restaurants, and bars, the Chinese government was able to promote smoke-free cities throughout China between 2009 and 2013. This state-wide effort resulted in partial or total measures to eliminate second-hand smoking, especially in China's largest cities such as Tianjin, Shanghai, and Lanzhou (Yang, G. *et al* 2015: 1023). According to the book *Smoking Environments in China* by R. Barnett *et al.* (2021: 288), despite the fact that China has adopted several aspects of the WHO FCTC, the lack of statewide smoking bans is considered to be relevant. Furthermore, in January the first in the year 2019, smoking ban regulations in indoor public places, workplaces and public transportation came into effect. In the matter of fact, the visibility of tobacco goods still maintained high presence even close to school districts (Barnett, R. *et al.* 2021:4).

While CNTC remains a monopoly in China, PMI (Phillip Morris International), BAT (British America Tobacco), and JTI (Japan Tobacco International) are three successful tobacco companies that can compete in the market under CNTC and STMA's rules (University of Bath, 2023). BAT continues to own and administer *State Express 555* and *Shuang Xi* outside of China after signing the Joint Venture agreement with CNTC in 2013. After the year 2005, agreement between PMI and CNTC for manufacturing and distributing in China took effect in 2008, PMI has maintained its active market presence in China. The arrangement however only applied to PMI's *Marlboro* brand cigarettes, and CNTC was allowed to distribute their brand internationally as part of a Joint Venture strategy (Phillip Morris International, n.d.).

Restructuring the tobacco industry in China in the early 2000s ensured a competitive foundation in today's global markets. This included adjustments at the provincial, municipal, and county levels, as well as a proposal to divide the industry into four sectors in order to increase productivity, efficiency, and overall product quality: large, medium, small sized, and poor (bankruptcy declaration)

companies (Fang, J. *et al.* 2023: 174). Furthermore, alterations at the provincial level resulted in the division of corporations into three districts: *industrial enterprises*, *tobacco companies*, and *local monopoly bureaus* (Fang, J. *et al.* 2023: 175). Each of these categories had its own set of responsibilities: industrial enterprises centralized management and resource availability, tobacco companies focused on sales and distribution in the province, and monopoly bureaus regulated the sector at the provincial level.

- **Economical:** Economical factors including inflation rates, purchasing power and demand/supply cohesion (Pestle Analysis, n.d.). Examining economic growth, income levels, and manufacturing.

The unequal distribution of income between individuals has a considerable influence on a variety of health and social outcomes. This can occur when social communities are compared, investment towards public resources is decreased and when social capital faces disruptions. Additional inequality in society can contribute to a poor perception of position and place pressure on individuals to engage in anti-social behaviorism. This further results in decreased engagement in society, lowered trust, and impairment of social cohesion within the social structure. As a result, economic growth and financial performance play a role in the well-being of society, which generates surprising results with reference to smoking (Barnett, R. *et al.* 2021: 178-179).

According to the data presented in the book by Barnett, R. *et al.* (2021: 182-183), a greater level of wealth disparity is associated with a higher rate of smoking among adolescents. In addition, the prevalence of smoking among both girls and boys is shockingly elevated. It was shown that boys were more affected by their previous incomes in relation to smoking, which could be explained by the traditional Chinese culture where it is believed that men are the primary income earners. On the other side, it was shown that girls were more likely to have social contexts that contributed to their stress, such as smoking with their friends or displaying signs of success or consumerism. A study was also done on individuals over the age of 50, and the results showed that stress towards

smoking was the initial factor in retaining a higher salary and a high social positioning (Barnett, R. *et al.* 2021: 182-183).

However, the amount of income, education, or occupation does not necessarily reflect the same conclusions in favor of smoking, and as a result, smoking can be a result of other factors as well. To provide an illustration, higher economic status and a lower education can result in same amount of consuming tobacco as to individuals who have low economic status and a high education (Barnett, R. *et al.* 2021: 44-47).

One way to estimate the size of the demand for tobacco products, is to measure the number of people in the population who frequently purchase and smoke cigarettes. In the year 2015, it was estimated that there were approximately 316 million active smokers over the age of 15 (Parascandola and Xiao: 2019: 1). In comparison, it is projected that there would be approximately 300 million active smokers in the year 2023 (World Health Organization, 2023). This provides support for the rationale behind the high production market in the year 2015, which saw more than 129 billion cigarette packs of all classes manufactured (Goodchild and Zheng 2018: 509), whereas in the year 2022, the number of manufactured individual cigarette sticks was close to 2.5 trillion (125 billion packs, where a pack equals 20 sticks) by CNTC (Business of Tobacco, 2022).

A press release of the China Annual Report was issued by the International Monetary Fund (IMF) in the year 2023. Given the circumstances that would exist in the world following the pandemic in 2020, the current CPI (Consumer Price Index) indicates low inflation rates and poor purchasing power. Despite this, there is evidence that the CPI is gradually increasing, which has led to cheaper food and energy prices (International Monetary Fund 2023: 38) as well as market prices that have remained stable (International Monetary Fund 2023: Statement 2).

Additionally, the economic development that has place in China following the turn of the 2000s, has resulted not just in improved economic opportunities

nevertheless in large income increases. Additionally, the natural low-middle class environment in China has been through a strong transition into the middle class, resulting to more opportunities for consumption as well as savings from the population. This economical boost has also resulted in the development of new growth opportunities in the online retail industry. However, in the near future, the upcoming growth in the economy will face new political and demographic challenges. These challenges will include rising environmental impacts as a result of rising petrol consumption, rising health care costs primarily as a result of an ageing population and the income inequality across the nation (China Power, 2021).

- **Social:** Population age, attitudes, lifestyle, culture, career, the importance of community. How the social environment is overseen in the market (Pestle Analysis.com, n.d.).

Differentiation in smoking can be seen in gender-appropriate behaviourism and in the sex role norms that are natural to the market (Barnett, R. et al. 2021: 142). According to *Bates College* (2010: 1), Confucian principles are an inherent part of Chinese culture, which places a strong emphasis on the family model and a hierarchical structure of relationship building. In addition to this, Confucian morality can be understood as the everyday life model of following acceptable manners, habits, and etiquettes while engaging in self-discipline and recognising what is considered appropriate behaviour (Bates College 2010: 6).

When taking into consideration the normalcy of smoking, which has been evolving into a natural part of Chinese culture, there are two factors that can be seen as contributing to it. *Firstly*, CNTC has gained a positive community presence as an employer, revenue provider, and sponsor towards poor or local communities. *Secondly*, high-quality cigarettes are thought to be better for one's health, resulting in falsely understood information (Barnett, R. et al. 2021: 219).

It was shown that social interaction within the workplace had the greatest influence on the smoking behaviour acquired from adult men. It is considered

impolite to refuse a cigarette, which results in an increase in the amount of social pressure (Xia, W. *et al.* 2021: 5). However, according to the findings of a study conducted by Xia *et al.* (2021), soon-to-be-fathers reported that it was simpler to give up smoking after their partner became pregnant as a result of the health risks associated with smoking. An additional interesting factor was the fact that many males were given acceptance to give up cigarettes as a result of this particular announcement given by the family (Xia, W. *et al.* 2021: 56).

- **Technological:** While Technological measure identifies innovations on technology, it can also explain research and development in the market (Pestle Analysis.com, n.d.) In addition, overseeing availability of information and the forms of advertising on media channels.

Another important aspect to consider is the accumulation of technological opportunities and advancements that the CNTC and the tobacco industry in China as a whole have undergone over the course of the years. According to He. *et al.* (2013: 87), one of these approaches lends support to the four modernisation strategies of the STMA in favour of CNTC. It has been reported that new technology is received from abroad; exporting machinery and services and developing superior manufacturers. Among the various offices and departments that together make CNTC's business, the Department of Hefei Institute of Economics and Technology (HIET) provides its students and employees expertise in a variety of topics, such as tobacco cultivation, process technology, analysis and diagnosis, machinery, and manufacturing (He. *et al.* 2013: 86). Furthermore, Barnett *et al.* (2021: 99) emphasised how crucial it was for STMA to acquire new technology and improve product standards after China had established membership with the World Trade Organisation (WTO) in the year 2001.

The opportunities that are presented by technological breakthroughs are not restricted to the realm of manufacturing; rather also include the vast improvements that may be made using internet technology. According to Leng

and *Mu* (2020: 9), the proliferation of the internet, along with social media, can significantly "...increase people's awareness of the risks of smoking."

The regional variances in China are another intriguing aspect of the marketing and advertising strategies used for tobacco products in China. Although the promotion of tobacco products through direct advertising was made illegal in China in the year 2015 (Barnett, R. *et al.* 2021: 122), many individuals are seen to be respond to other forms of tobacco advertising; posters, billboards, newspapers, and magazines, on the internet and on television, and additionally, promotional tactics at the point of sale (Barnett, R. *et al.* 2021: 121-122). Additionally, the CNTC's involvement in social activities does not preclude the possibility of tobacco advertising occurring through sponsorships and other forms of community involvement, as was covered previously in this section.

Social media platforms that are popular in China, such as *WeChat* and *Weibo*, are described to be attracting young adults in particular. To achieve this objective, one strategy aims to integrate tobacco into popular culture, in areas such as clothing, pop stars, the cosmetics sector, and the entertainment industry. In some of the posts, a connection with tobacco use was used to romanticise and idealise smoking while also associating it with history and art. Barnett (2021) points out that the current marketing methods that are available on these sites expand the ineffectiveness of the laws that regulate tobacco use since the regulations do not take into consideration the advertising that is done on social media. Due to the fact that the Advertising Law became effective in the year 2015 (Barnett, R. *et al.* 2021: 130-132), account profiles that contained any content that may be perceived as suggesting the consumption of cigarettes were prohibited and erased from the WeChat website by the site administrators.

- **Environmental:** Pestle Analysis.com finds the measure of environment to be focused on the surrounding environment of the company (n.d.). Analysing findings on the climate conditions, nature consequences, pollution and waste generated from manufacturing.

Arguably, the tobacco industry causes a significant amount of environmental stress in the society, and this stress is dependent not only on tobacco companies and manufacturers, nevertheless on tobacco farmers and individuals who consume tobacco products. Tobacco production alone is responsible for a significant amount of environmental damage, including the depletion of water supplies, massive amount of energy use, the destruction of forested areas, collection and disposal of raw materials, and the contamination of air and larger water systems (World Health Organization, 2022b).

Growing tobacco takes a considerable amount of time, and in return, farmers are not seen to obtain great and justifiable compensation for the labour that they perform (University of Bath, 2020). Concerns have also been raised regarding the process of farming, in which it is believed that women are not on the same level as males when it comes to the decision-making processes, and in which they may also experience wage inequalities and even health problems such as miscarriages while working. To place even more stress on the peril that is associated with the cultivation of tobacco leaves, farmers are always at risk of obtaining nicotine poisoning through the handling of tobacco leaves, as well as pesticide poisoning and exposure to other chemicals (University of Bath, 2020).

When individual consumption of cigarettes is taken into consideration, the cigarette itself is a contributor to both waste and pollution. To put it more simply, the smoke that comes from the cigarettes itself is poisonous and contributes to both the pollution of outdoor air and secondhand smoking. The amount of post-consumer waste is astonishing; cigarette butts, in particular, are the most littered item on the planet, with over 4.5 trillion butts having been abandoned in the environment so far (University of Bath, 2022). This is in addition to the fact that cigarette butts produce an unattractive sight on the streets and beaches. In addition, empty cigarette packaging can be easily left behind by the user. This was proven by Barnett (2021: 193) through the use of a photograph of an urban alley where tobacco packages can be seen, or as the author puts it: "*littered on the ground.*"

4.2.1 Discussion

On a global scale, the elements that conduct the production, selling, distribution, and consumption of tobacco products are massive. The ongoing rules and the political choices made to eliminate or at least significantly reduce the consumption of tobacco are complicated, and there are a great number of parties engaged. Although the CNTC and its members around it have agreed on the FCTC, it was well-recognised that advertising and promotion of tobacco products are still present in the market. It may be argued that the history of CNTC has been extremely successful in the sense of creating a market where the company maintains complete control over its policies and marketing. The complexities of the monopoly position, on the other hand, can give rise to problems and challenges for the sector as well as for society as a whole.

In addition, both demand and supply in the tobacco industry remain high, and the culture of smoking affects almost every aspect of Chinese culture and society. Rebuilding some of the social structures would be advantageous; norms of society and gender roles, income levels, and the hierarchical structure all contribute to the creation of a weighted value for the activity of smoking.

Another major cause for concern is the possibility that the tobacco industry is engaging in greenwashing. This refers to the practise of displaying generosity towards society and communities as a worthy act, even though the true motivation lies in the profitability of the industry. Since technological advantages in manufacturing and the use of the internet are both components of the strategy for more efficient cigarette production and sales, it might be challenging to maintain control over both of these developments. It can be argued that the tobacco industry has succeeded to work very business-minded, is innovative, and addresses issues ahead of time in order to grow into a large business and industry that is difficult to stop or control from the outside.

5 Conclusion

The objective of this Thesis was to identify the reasoning behind the tobacco industry and its products prospering in the consumer market. The findings of the study provided vital information on the significance of culture, the unique concept of history, and the elements that contribute to social standards that define success.

While the majority of the literature review focused on Western culture, values, and history, this paper was able to suggest a different approach in the area where the tobacco industry currently thrives the most. Cognitive learning exists in Chinese culture and is influenced by family behaviour and habitual consequences. Furthermore, learning by observation is widely practiced in China, where cigarettes are always available; either in the form of gift-giving and sharing culture or simply by being present by the population who uses tobacco products.

Three arguments were raised in relation to the marketing strategies used by tobacco companies;

Firstly, smoking has a long history, and the attitude towards it continues to be cool, powerful, and socially acceptable. A consumer's needs and values are heavily influenced by social characteristics, including consumers defined by a hierarchy of needs based on social or esteem needs.

Secondly, brand value, product positioning, and tobacco's presence in practically any category are all evident. Tobacco consumption is widely represented in movies, music, entertainment, and art. Additionally, tobacco companies are intelligent in differentiating themselves from competitors, whether through superior product quality and detail or pure and excellent consumer-centered advertising and marketing.

Lastly, the increasing benefits of social media and the power of the internet continue to heavily influence and engage with adolescents and every new customer demographic as plausible, whether in the form of traditional cigarettes

or new emerging products such as Electronic Nicotine Delivery Systems (ENDS), Heated Tobacco Products (HTP), or purely by something containing nicotine such as snus.

While large and frighteningly successful tobacco companies such as China National Tobacco Company, Phillip Morris International, and British America Tobacco continue to manufacture and profit beyond what is healthy for all, the marketing strategy implied is business-minded and very strategically thought out and later implemented.

To put it into perspective, the tobacco industry is a major market dominator, and so its strength is quickly overlooked. Previous legislations, impending restrictions, and ongoing updates on laws and anti-smoking activities have all contributed to a decrease in the number of active smokers and, more significantly, to overall better health. However, it was noted that some of the legislations had been implemented too late. The reasoning behind this can be complex, and further examination would be outside the scope of this case study. Furthermore, if the monopoly were broken down, governmental structures, political policies, and forces would be difficult and time-consuming to establish. The tobacco industry's bureaucracy is perhaps at an all-time high and the idea that cigarette corporations behave like any other business must be remembered.

To conclude, the tobacco industry as a whole is expected to eventually wipe itself off the market. However, this could take decades, if not centuries, and if so, arguably China National Tobacco Company would be the last of them. To justify, CNTC has performed as a massive competitor in all forms and gained far too many parties to be associated with the business. Finally, it has been placed for the end reader to determine if CNTC has become an international company that is now, *Too Big to Fail*.

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Figure 1. Kotler, P. and Armstrong, G. 2012. *Principles of Marketing*. Pearson Education: New Jersey, p. 48. *Customer-driven Marketing Strategy*.

Figure 3. Kotler, P. and Keller, K. 2016. *Marketing Management*. Pearson Education Limited: United Kingdom, p. 188. *Maslow's Hierarchy of Needs*.

Table References

Table 1. World Health Organization, 2021. *Framework Convention on Tobacco Control*, p. 123. *Warning labels on tobacco packaging*.

All of the references utilized in the Appendix 1 and Appendix 2 can be found from the end of each Appendix.

Appendix 1. Tobacco Timeline*

6,000 BC – Native Americans first start cultivating the tobacco plant.

Circa 1 BC – Indigenous American tribes start smoking tobacco in religious ceremonies and for medicinal purposes.

1492 – Christopher Columbus first encounters dried tobacco leaves. They were given to him as a gift by the American Indians. Tobacco plant and smoking introduced to Europeans.

1531 – Europeans start cultivation of the tobacco plant in Central America.

1558 – First attempt at tobacco cultivation in Europe fail.

1571 – European doctors start publishing works on healthy properties of the tobacco plant, claiming it can cure a myriad of diseases, from toothache to lockjaw and cancer.

1602 – King James I condemns tobacco in his treatise *A Counterblast to Tobacco*.

1614 – Tobacco shops open across Britain, selling the Virginia blend tobacco.

1633 – Turkey introduces a death penalty for smoking but it doesn't stay in effect for long and is lifted in 1647.

1650 – Tobacco arrives in Africa – European settlers grow it and use it as a currency.

1700 – African slaves are first forced to work on tobacco plantations, years before they become a workforce in the cotton fields.

1730 – First American tobacco companies open their doors in Virginia.

1794 – First American tobacco tax.

1826 – Nicotine isolated for the first time.

1847 – Philip Morris opens their first shop in Great Britain, selling hand-rolled Turkish cigarettes.

1890 – American Tobacco Company opens its doors.

1902 – Philip Morris starts selling cigarettes in the US – one of the brands offered is Marlboro.

1912 – First reported connection between smoking and lung cancer.

1918 – An entire generation of young men returns from war addicted to cigarettes. **1925** – Philip Morris starts marketing to women, tripling the number of female smokers in just 10 years.

1947 – Lorillard chemist admits that there is enough evidence that smoking can cause cancer.

1950 – 50% of a cigarette now consists of the cigarette filter tip.

1967 – Surgeon General definitively links smoking to lung cancer and presents evidence that it is causing heart problems.

1970 – Tobacco manufacturers legally obliged to print a warning on the labels that smoking is a health hazard.

1961 – First American cigarette factory produces 20 million cigarettes.

1992 – Nicotine patch is introduced – in the following years more cessation products will start being developed.

1990 – 4 billion cigarettes are sold this year and manufacture is on the rise.

1924 – Over 70 billion of cigarettes are sold in the US.

1996 – Researchers find conclusive evidence that tobacco damages a cancer-suppressor gene.

1997 – Liggett Tobacco Company issues a statement acknowledging that tobacco causes cancer and carries a considerable health risk.

1997 – Tobacco companies slammed with major lawsuits – ordered to spend billions of dollar on anti-smoking campaigns over the next 25 years predominantly focused on educating the young on dangers of smoking.

1997 – For the first time in history a tobacco company CEO admits on trial that cigarettes and related tobacco products cause cancer. His name was Bennett Lebow.

1970 – 1990 – Tobacco companies faced with a series of lawsuits. Courts limit their advertising and marketing.

1990 – 2000 – Bans on public smoking come into effect in most states in America, as well as in other countries in the world.

(Tobacco-Free Life, 2016)

*The timeline has been edited into a chronological order by the author of this thesis for a better readability.

Appendix 2. Examples of visualization of tobacco

Tobacco use in movies, television series, music and the internet.



Up Left: Paramount Pictures: *Beverly Hills Cop*, 1986. Available at:
<https://m.imdb.com/title/tt0086960/?ref_=m_ttmi_tt>

Up Right: *Sex and The City*. Season 3, episode 11: *Running with Scissors* (2000). Available at:
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Middle:

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Appeal Theory



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