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Retail Trade Incentives: How Tobacco Industry Practices Compare With Those of Other Industries

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ABSTRACT

Objectives. This study compared the incentive payments for premium shelf space and discounts on volume purchases paid to retailers by 5 types of companies.

Methods. Merchants were interviewed at 108 randomly selected small retail outlets that sell tobacco in Santa Clara County, California.

Results. Significantly more retailers reported receiving slotting/display allowances for tobacco (62.4%) than for any other product type. An average store participating in a retailer incentive program received approximately $3157 annually from all sampled product types, of which approximately $2462 (78%) came from tobacco companies.

Conclusions. Future research should assess the impact of tobacco industry incentive programs on the in-store marketing and sales practices of retailers. (*Am J Public Health.* 1999; 89:1564–1566)

The tobacco industry has shifted away from traditional forms of advertising toward focused retailer incentive programs. In 1996, traditional venues such as magazines, newspapers, and outdoor advertisements consumed only 11% of the tobacco industry's $5.1 billion advertising budget, while 47% of the budget ($2.4 billion) went into retailer incentive programs that included promotional allowances and point-of-sale marketing programs.[1]

Many industries, including tobacco companies, use dual strategies to maximize total sales by *pulling* or encouraging consumers to buy a product while using retailer strategies to *push* or sell a product through a distribution channel.[2] Consumer-based pull strategies include advertising, coupons, 2-for-1 sales, and gifts with purchase. Retailer-based push strategies include payments for prime shelf space, volume discounts, and in-store displays that are designed to motivate retailers to create in-store merchandising environments that maximize sales.[2]

Few systematic data are available on retailer incentive programs.[3] Two studies of tobacco advertising in stores revealed that about 50% to 60% received monetary incentives from tobacco companies to display advertisements, but neither the types nor the amounts of monetary incentives were identified.[4,5] We found no other studies that examined this issue. Given the magnitude of tobacco marketing expenditures in retail outlets, this study was designed to ascertain the types and amounts of incentives received by local tobacco retailers compared with those received for other commonly sold products.

Methods

Design

A cross-sectional survey was designed to investigate the types of retailer incentive programs offered in 5 product categories to

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TABLE 1—Proportion of Stores Participating in Incentive Programs, for 5 Consumer Products Sold in Retail Outlets: Santa Clara County, California, 1997

	Store Received Payments for				Retailer Incentive Programs, %			
	Slotting/Display Allowances		Trade Allowances		Both Slotting/ Display and Promotional Allowances	Either Slotting/ Display or Promotional Allowances	Neither	n^a
Consumer Products	% ± SE	n^a	% ± SE	n^a				
Candy	2.3 ± 1.6	86	19.1 ± 4.2	89	0	18.8	81.2	85
Snack foods	6.9 ± 2.7	87	11.5 ± 3.4	87	2.4	11.8	85.9	85
Soft drinks	16.5 ± 3.9	91	44.6 ± 5.2	92	9.0	42.7	48.3	89
Beer and wine	9.1 ± 3.6	66	25.8 ± 5.4	66	3.1	26.2	70.8	65
Cigarettes and tobacco	62.4 ± 5.1	93	23.9 ± 4.5	92	18.7	48.4	33.0	91
P	<.001		<.001		<.001			
Cochran's Q	94.2 (df = 4, listwise n = 62)		34.0 (df = 4, listwise n = 62)		30.5 (df = 4, listwise n = 61)			

[a]Sample sizes differ because some respondents answered "don't know" and some refused to answer, and because a subset of stores did not sell beer and wine.

small retail outlets in 1 urban county in California. Categories other than tobacco were included to provide comparative data, as well as to mask the focus of the survey from the respondents and thereby minimize refusals and bias.

Sample

A random sample of 250 small retail outlets selling tobacco in Santa Clara County was chosen from a comprehensive list maintained by the State of California for taxation purposes. This sample represented 29% of the small retail outlets in the county. Small retail outlets were taken from 5 store types that each averaged less than 2000 square feet of retail space. Small outlets were chosen because formative work revealed that managers of larger outlets, such as chain grocery stores, were less knowledgeable about marketing incentives because they were negotiated at the corporate level. Eligibility criteria required that (1) outlets were small retail stores, (2) the owner or manager was available and could complete the interview in English, and (3) the outlet sold tobacco products and had in-store advertising or promotional displays (to ensure that there was a potential for advertising or product display incentives).

A total of 133 stores met the study criteria. The sample attrition was primarily due to the unavailability of an owner or manager on the premises. Of the 133 stores, 108 agreed to in-person interviews (81.2% response rate), 4 of which were completed by telephone. In an effort to complete the surveys, stores were visited 2 to 3 times; 25 merchants (18.8%) refused to participate, with most saying they were "too busy." The breakdown by store type was as follows: chain convenience stores (n = 17, 15.7%), gas stations (n = 38, 35.2%), small grocery markets (n = 20, 18.5%), liquor stores (n = 31, 28.7%), and tobacco stores (n = 2, 1.9%). This final breakdown was highly representative of the county sample. Nearly all interviews were conducted with the owner (45.4%) or manager (45.4%); the rest were conducted with an assistant manager or head clerk. Informed consent was obtained and confidentiality assured. Data collection occurred in November and December 1997.

Measures

Merchants were asked by our trained interviewers whether they received slotting allowances, point-of-purchase display allowances, or trade allowances, and if so, how much they received on average in a typical month in 1997 for the following 5 product categories: candy, snack foods, soft drinks and other nonalcoholic beverages, beer and wine, and cigarettes and tobacco products. *Slotting allowances* were defined as "fees that manufacturers pay retailers to encourage them to carry a new product or to allocate premium shelf space to a product." *Point-of-purchase display allowances* were defined as "payments or price reductions for displaying advertising materials such as posters, clocks, or display racks." *Trade allowances* were defined as "free goods or price reductions in return for the purchase of specific quantities of goods."[6] The data for slotting and point-of-purchase display allowances were combined because merchants said that these were typically paid as 1 lump sum.

Statistical Analysis

The Cochran Q test, a nonparametric test for dichotomous variables, was used to determine whether there were significant mean differences across the 5 product categories in the rate of receiving payments for slotting/display allowances and trade allowances.

Results

Table 1 shows the percentage of stores receiving each of the incentive programs and the number of programs in which they participated for the 5 product categories. Participation rates varied significantly (P < .001) across the product types for each of the 2 types of marketing incentives. For tobacco products, 62.4% of respondents reported receiving slotting/display allowances; soft drinks were the next highest at 16.5%. Trade allowances were offered at the highest rate for soft drinks (44.6%), followed by beer and wine (25.8%) and then tobacco (23.9%). We also compared whether tobacco companies were more likely than other companies to offer both retailer incentive programs. These data clearly show that the tobacco industry was more likely than other industries to offer *both* types of incentive programs (i.e., slotting/display allowances and promotional allowances). Stores receiving both types of incentives were significantly more likely to receive them for tobacco than for any other product type (P < .001).

Descriptive statistics on the monthly amounts paid to retailers for the various marketing incentives are presented in Table 2. Among those stores that reported amounts of allowances, tobacco industry slotting/display allowances averaged $204.51 per month.

Total annual allowances paid for these 2 marketing incentive programs were computed for a subsample of stores (n = 38) that carried all 5 products and that reported a dollar amount for either type of incentive payment. On average, these stores received $3157 annually across the 5 product types, of which 78%

TABLE 2—Average Amount of Marketing Incentive Payments Paid Monthly to Retailers by Vendors for 5 Consumer Products: Santa Clara County, California, 1997

	Amt Stores Received for Slotting/Display Allowances[a]			Amt Stores Received for Trade Allowances[a]		
Consumer Product	Mean	SD	n	Mean	SD	n
Candy	NA	NA	0	$35.38	11.4	8
Snack foods	$70.00	10.0	2	$60.00	17.3	3
Soft drinks	$47.86	16.1	7	$66.27	13.7	22
Beer and wine	$100.00	NA	1	$137.50	37.5	4
Cigarettes and tobacco	$204.51	26.8	41	$112.40	46.6	10

Note. NA (not available) indicates that standard deviation could not be computed with only 1 data value.

[a]Data on the mean dollar value of these marketing incentives are displayed only for the subset of stores receiving that type of incentive payment. Sample sizes for stores receiving allowances are lower than for the dichotomous responses from Table 1 primarily because many stores did not receive these payments, and to a lesser extent because of "don't know" responses and refusals.

was from the tobacco industry. Among these stores, 78.9% received more money from tobacco companies than from any of the other 4 industries, even though only 33% reported that the tobacco sales category accounted for their highest sales volume. Although the sample sizes were small and conclusions drawn from them should be viewed with caution, tobacco industry incentives far exceeded those paid by other industries.

Discussion

The data show that all 5 industries use retailer-oriented "push" strategies to sell their products; however, tobacco spending dwarfs the other 4 categories. These survey results suggest that tobacco companies use generous incentives and aggressive marketing programs to motivate retailers to prominently display, promote, and advertise their products to ensure the high visibility of their products and marketing materials.

This study is limited by its narrow geographic scope and reliance on self-reported data from merchants. In addition to replicating this study in a larger geographic area, future research should include large stores and those with no tobacco advertising. Future efforts to understand how incentive programs are administered might also include examining recently disclosed tobacco industry documents to learn more about retail trade incentives. In addition, because alcohol companies are prohibited by law from providing slotting allowances to retailers,[8] our finding that a small number of stores reported receiving slotting allowances from beer and wine companies also warrants further study.

Substantial attention has been focused on tobacco advertising campaigns aimed at *consumers*, even though the tobacco industry spends far more on *retailer* incentive programs that ensure prominent placement of tobacco products in stores. Our evidence indicates that the tobacco industry may be adapting to restrictions on advertising and promotions targeted at consumers by shifting the marketing emphasis to the retail trade. Perhaps the Federal Trade Commission should consider expanding its ongoing investigation of Philip Morris' merchandising practices to the tobacco industry as a whole.[7] New policies may be needed to address the push marketing strategies of the tobacco industry and their impact on in-store marketing environments. □

Contributors

All authors participated in the conception and design of the study and interpretation of the data. K. M. Ribisl was the primary data analyst; E. C. Feighery and K. M. Ribisl were responsible for the initial writing of the manuscript. All authors reviewed and edited drafts and approved the final version.

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