

Industry profits continue to drive the tobacco epidemic: A new endgame for tobacco control?

J. Robert Branston^{1,2}

Despite the best efforts of the tobacco control community over a number of decades, tobacco use continues to kill millions of people each year. The various control measures that have been introduced in many countries have helped to curtail that number, but such restrictions have generally been vehemently opposed^{1,2} and actively undermined/bypassed by the tobacco industry – see for example their recent efforts with regard to the EU menthol ban^{3,4}. While very unwelcome, such actions are no surprise as tobacco companies need to maintain their position in markets so that they can continue to sell their products and hence earn profits for their owners.

Inordinate profits

These profits are as addictive as the tobacco that generates them, as manufacturing and selling tobacco products like cigarettes is astonishingly profitable, even with tobacco excise duty to pay. In 2018, the most recent year for which figures are reported, the world's six largest cigarette manufacturers made profits (before income taxes) of more than US\$55 billion⁵⁻¹⁰. That is more than the combined profits (US\$51 billion) of, for example, Coca-Cola, Pepsico, Nestle, Mondelez, Fedex, General Mills, Starbucks, Heineken, and Carlsberg, who collectively own many household brands with global appeal¹¹⁻¹⁹.

Such massive profits are possible because the tobacco companies have very high profit margins on their sales. For instance, in 2018 Imperial Brands reported a margin on global operating profits of 46%⁵, rising to 63% in the UK market (which actually increased to 71% in 2019)²⁰. This means for every £100, that the company globally generated in revenue after paying excise taxes, £46 was profit. Such margins are phenomenal when compared to those earned by firms in other industries. For instance, the global comparator companies mentioned above generally have operating profit margins of around 15–16%, with the outliers earning a low of 6.5% (Fedex) and a high of 26.7% (Coca-Cola)¹¹⁻¹⁹.

Tobacco companies can have such extreme margins, and hence corresponding overall profits, because they sell very addictive products that cost little to make, require very little on-going R&D expenditures on their key products, and can sell their products at relatively high prices. The companies also benefit from a lack of the competitive market pressures that firms in other sectors regularly face, in significant part because of tobacco control restrictions. For example, prohibitions on advertising/promotion that make it hard for new firms to enter the market, and thereby increase competition and lower profit margins. Such powerful positions therefore allow the firms to, amongst other things, offset falling sales volumes with higher prices.

AFFILIATION

¹ School of Management, University of Bath, Bath, United Kingdom

² Tobacco Control Research Group, Department for Health, University of Bath, Bath, United Kingdom

CORRESPONDENCE TO

J. Robert Branston. School of Management, University of Bath, Claverton Down, BA2 7AY, Bath, United Kingdom. E-mail: J.R.Branston@bath.ac.uk ORCID ID: <https://orcid.org/0000-0002-2332-2403>

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A new possibility for Tobacco Control Endgame

The problem with such large and enduring profits is they not only provide a very strong incentive to maintain current markets, but they also provide tobacco companies the means to fight new tobacco control measures. This gives them both the desire and ability to keep making these profits by continuing to sell the cigarettes that currently provide the overwhelming majority of their profits. Changing this profit story would therefore represent a game-changing possibility for tobacco control, as the companies will lose interest in selling products like cigarettes if they cannot profit from doing so. Quite how this can be done needs some imagination, and will likely need to vary based on local market conditions and legal possibilities. A good starting point is to curtail the power the industry has to set its retail prices²¹⁻²⁵, which will also then make excise taxes more effective. Another option would be to massively increase the income taxes paid on the profits earned²⁶ so they cannot really benefit from the sale of such harmful products. Let's be innovative as a community! Unless such policies are adopted, tobacco companies will keep profiting from the harm and misery they create, and the incremental expansion of traditional tobacco control measures will continue to be a battle.

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