

UDC 339.138:663.97

DOI <https://doi.org/10.26661/2414-0287-2022-1-53-20>

PECULIARITIES OF THE ORGANIZATION OF MARKETING ACTIVITIES OF THE TOBACCO PRODUCTS MARKET

Shcheblykina I.A., *Shcheblykina Z.V., Labenskaya Yu.D.

Zaporizhzhia National University

Ukraine, 69600, Zaporizhzhia, Zhykovsky str., 66;

**Bogdan Khmelnytsky Melitopol State Pedagogical University*

Ukraine, 72300, Melitopol, Zaporizhzhia region, Getmanska str., 20

innasheblykina@gmail.com

ORCID: 0000-0002-4886-5850, ORCID: 0000-0002-3214-8478

Key words:

marketing research,
marketing activity,
tobacco products market,
marketing product policy

The peculiarities of the organization of marketing activities of the tobacco products market are studied, the analysis of the marketing product policy of tobacco products in Ukraine is carried out on the example of Philip Morris International. It is noted that the product policy plays an important role in the commercial and marketing activities of the enterprise, as it determines the actions aimed at meeting the needs of consumers and achieving economic efficiency of the enterprise in the sale of products. The tobacco market in Ukraine is developing dynamically, despite efforts to reduce the consumption of tobacco products, and occupies a leading position in terms of tax contributions to the state budget. The tobacco industry is a highly competitive environment. Cigarette and tobacco production in Ukraine is controlled by multinational tobacco corporations that have set up joint ventures with former state-owned enterprises. As a result of the marketing analysis it was determined that the main representatives of the national market of tobacco products are Philip Morris Ukraine, Imperial Tobacco Group, Japan Tobacco International, PJSC «Pryluky». The SWOT analysis analyzed Philip Morris International's product policy and identified the company's strengths as it develops and sells dozens of popular regional, national and international brands, from Marlboro to Parliament. Despite various measures aimed at limiting the advertising and marketing opportunities of the tobacco industry, the company continues to transform its own brand into an annual company. One of the main shortcomings of the company's global development is insecurity against the problems of the local economy. Changes in exchange rates can have a significant impact on business in key regions. Analyzing the effectiveness of the company's product policy, on the example of products from different price segments of the market, it was determined that the product structure of Philip Morris International is quite balanced and suggested possible ways to improve the company's marketing activities.

ОСОБЛИВОСТІ ОРГАНІЗАЦІЇ МАРКЕТИНГОВОЇ ДІЯЛЬНОСТІ РИНКУ ТЮТЮНОВИХ ВИРОБІВ

Щебликіна І.О., *Щебликіна З.В., Лабенська Ю.Д.

Запорізький національний університет

Україна, 69600, м. Запоріжжя, вул. Жуковського, 66;

**Мелітопольський державний педагогічний університет імені Богдана Хмельницького*

Україна, 72300, м. Мелітополь, Запорізька область, вул. Гетьманська, 20

Ключові слова:

маркетингові дослідження,
маркетингова діяльність,
ринок тютюнових виробів,
маркетингова товарна політика

Досліджено особливості організації маркетингової діяльності ринку тютюнових виробів, проведено аналіз маркетингової товарної політики тютюнових виробів в Україні на прикладі компанії Philip Morris International. Зазначено, що товарна політика відіграє важливу роль в комерційній і маркетинговій діяльності підприємства, оскільки, визначає дії, спрямовані на забезпечення потреб споживачів та досягнення економічної ефективності підприємства при реалізації продукції. Ринок тютюну в Україні динамічно розвивається, незважаючи на зусилля щодо скорочення споживання тютюнових виробів, і займає провідне місце за обсягами податкових відрахувань до держбюджету. Тютюнова галузь є висококонкурентним середовищем. Виробництво сигарет

та тютюну в Україні контролюють транснаціональні тютюнові корпорації, що створили спільні підприємства з колишніми державними підприємствами. В результаті проведено маркетингового аналізу було визначено, що основними представниками національного ринку тютюнових виробів є Philip Morris Ukraine, Imperial Tobacco Group, Japan Tobacco International, БАТ «Прилуки». За допомогою SWOT-аналізу було проаналізовано товарну політику компанії Philip Morris International і визначено, що сильними сторонами компанії є те, що вона розробляє та продає десятки популярних регіональних, національних та міжнародних брендів, починаючи від Marlboro до Parliament. Незважаючи на різні заходи, спрямовані на обмеження рекламних та маркетингових можливостей тютюнової індустрії, компанія продовжує трансформувати свій власний бренд у щорічно зростаючу компанію. Одним з основних недоліків глобального розвитку компанії є незахищеність перед проблемами місцевої економіки. Зміни валютного курсу можуть суттєво вплинути на бізнес у ключових регіонах. Проаналізувавши ефективність товарної політики компанії, на прикладі продуктів з різних цінних сегментів ринку, визначено, що товарна структура Philip Morris International є досить збалансованою та запропоновано можливі шляхи вдосконалення маркетингової діяльності компанії.

Statement of the problem

The formation of a market economy in Ukraine raises many problems, the practical solution of which is complicated by the lack of relevant theoretical developments. One of the most relevant problems today is the formation of the product policy of enterprises. In the current conditions of market relations, the issues of effective management of marketing product policy of the enterprise taking into account the long-term perspective, due to the changing functioning of the external environment, increasing competition for markets, increasing consumer importance, implementing concepts of socio-ethical marketing and marketing. actualization of intangible assets of the enterprise. Commodity policy plays an important role in the commercial and marketing activities of the enterprise, determines the actions aimed at meeting the needs of consumers, and achieves economic efficiency of the enterprise in the sale of products.

Analysis of recent studies and publications

In modern economic literature, much attention is paid to the components of marketing product policy, marketing product policy management system, methodology for assessing the strategic product position of enterprises, socio-economic efficiency of marketing product policy management. These issues were considered in the works of M.P. Afanasyev, L.V. Balabanova, V.M. Vlasova, S.S. Garkavenko, P. Doyle, S.M. Ilyashenko, I.V. Korneeva, F. Kotler, T.S. Maksimova, A.N. Romanov, B.A. Solovyov, N.B. Tkachenko, V.M. Shcherban. However, the developed strategic concepts, approaches, and actions for the management of marketing product policy need further development and improvement based on the use of the systemic, integrated, strategic, process, and forecasting approaches.

Objectives of the article

This work aims to analyze and develop suggestions to improve the methods for evaluating the effectiveness of marketing product policy of tobacco products on the example Philip Morris International,

The main material of the research

The tobacco market in Ukraine is developing dynamically, despite efforts to reduce the consumption of tobacco products, and occupies a leading position in terms of tax contributions to the state budget. In particular, in 2020, tobacco producers paid more than 65 billion hryvnias in taxes, which is 8% of all tax duties of the state [1]. The specificity of tobacco products causes many problems for manufacturers and sellers in both global and domestic markets. The main ones in Ukraine are regulatory conditions that significantly restrict the rights of tobacco market players, increase excise taxes and, accordingly, product prices, ban on open advertising campaigns, restrictions on labeling, packaging, placement on the packaging of trademarks, logos, multicolored and more than 1 color, illegal cigarette products, the volume of which from the beginning of 2017 to the end of 2020 increased 7 times [1–5]. Therefore, to ensure the demand of the population for quality legal products, the analysis of marketing product policy and adaptation to modern market conditions becomes relevant.

Companies in the tobacco market have a competitive advantage through product quality, brand recognition, brand loyalty, taste, research and development, innovation, packaging, customer service, marketing, advertising, and retail prices. Consolidation of the industry and privatization of state-owned enterprises has led to increased competitive pressure [8].

Philip Morris International (PMI) is an American global cigarette and tobacco company that entered the Ukrainian market in 1994. In 2016, Ukraine became one of the first markets where PMI introduced its revolutionary product IQOS, based on innovative technology that reduces the risk of smoking-related diseases due to the absence of smoke [7; 9]. PMI has the largest market share due to its focus on identifying the hidden needs of consumers and their satisfaction. More and more smokers are switching to Reduced Risk Products (RRPs) to stay healthy.

Table 1 shows the main indicators of the company's activities over the past two years [11].

Table 1 – The main financial indicators of the enterprise

Indicators	Currency	Years		Deviation	
		2019	2020	absolute, thousand UAH	відносне, %
1. Net income (revenue) from sales	thousand UAH	11 767 758	12 025 925	258 167	2,2%
2. Cost of goods sold	thousand UAH	6 904 443	6 634 350	-270 093	-3,9%
3. Administrative expenses	thousand UAH	823 550	866 470	42 920	5,2%
4. Selling expenses	thousand UAH	262 551	247 452	-15 099	-5,7%
5. Total costs of production and sales	thousand UAH	7 990 544	7 748 272	-242 272	-3,0%
6. Profit from sales	thousand UAH	4 863 324	5 391 575	528 251	10,9%
7. Profit (loss) from operating activities	thousand UAH	2 946 286	3 776 610	830 324	28,2%
8. Net financial result	thousand UAH	2 598 558	2 727 658	129 100	5,0%
9. Costs per 1 UAH. net sales revenue	kop.	67,9	64,4	-3,5	-5,14%
10. Profitability of sales	%	41,3%	44,8%	3,5%	2,9%
11. Cost-effectiveness	%	60,9%	69,6%	8,7%	14,3%

Source: developed by the author according to the financial statements of PMI [11]

The absolute deviation of sales revenue to 2019 amounted to UAH 258 thousand, and revenue from sales increased by 2.2% with a moderate reduction in cost by 3.9%. Net financial results for the analyzed period increased by 5.0%, which indicates a positive trend. There was a decrease in sales and marketing costs compared to 2019, which was mainly influenced by the company's marketing strategy aimed at promoting an innovative, safer product and the devaluation of the hryvnia.

Profitability indicators in the reporting period are higher than in the previous period, which indicates the efficiency of the company. Thus, the profitability of sales increased by 2.9%, the profitability of costs – by 14.3%. According to the analysis of activities and key financial indicators, the company has a fairly stable position in the highly competitive market of tobacco products and a strong marketing development strategy. Despite the significant impact of the negative dynamics of world markets and the economy of Ukraine, associated with both the coronavirus pandemic and the political situation in the country, the company remains a leader and has a large number of loyal customers. This is due to the high quality of products and focuses on meeting the needs of consumers.

The level of efficiency of the company's product policy depends on the position of products on the market, as well as the ratio of sales growth and the relative share of goods in the market at different stages of its life cycle.

The composition of indicators characterizing the level of effectiveness of product policy is unique for each enterprise, taking into account the features and desired prospects for its development, product characteristics, market characteristics, experience with consumers. All methods of product policy analysis differ in the number of indicators and factors that they operate. These techniques make it possible to assess the product policy of the company in many ways, covering almost all the main features such as prices, costs, gross margin, profit, profitability, turnover, sales variations, product life cycle, etc. [13].

The Philip Morris International has the largest and most diverse range of brands in the industry, with Marlboro, the world's most popular, in the world. In total, the company owns 6 of the 15 most famous cigarette brands in more

than 180 countries. PMI represents brands in different price categories. Marlboro is in the premium price range along with the Parliament and Virginia S brands. The leading brands in the middle price segment are L&M, Lark, Merit, Muratti, and Bond Street. Also, such global brands as Philip Morris, Chesterfield, Next, and Red & White are popular.

The goal of the PMI is to replace cigarettes with smoke-free products. The company's current smoke-free product portfolio includes four platforms at various stages of development and commercialization. PMI is developing alternatives to cigarettes that contain nicotine and meet the needs of adult smokers but do not contain smoke [7; 10].

The company's product policy was analyzed by using SWOT analysis (table 2).

The purpose of this method is to determine the advantages and disadvantages of the enterprise, as well as to identify opportunities for further successful activities and events that may threaten it [15].

The company's strengths are that Philip Morris International develops and sells dozens of popular regional, national, and international brands, from Marlboro to Parliament. Despite various measures aimed at limiting the advertising and marketing opportunities of the tobacco industry, RMI continues to transform its brand into an annual company. The global demand for products with a high margin of Philip Morris International provides a steady increase in cash. Excess cash is used to fund innovations such as electronic and low-risk products.

One of the main shortcomings of the company's global development is insecurity against the problems of the local economy. Changes in exchange rates can have a significant impact on business in key regions. For example, recent economic problems in Western Europe have forced the company to rely more on Asian and African businesses. Sudden waves of political struggle can also have serious consequences for supply and business in different regions. As the company continues to expand into developing countries, many potential risks need to be considered [15]. In addition, the nature of PMI's business is subject to exceptional levels of attention, taxation, and regulation. Among the many measures taken by foreign governments to reduce the national level of smoking, packaging

Table 2 – SWOT analysis of product policy of Philip Morris International

Strengths	Weaknesses
High-level R&D activity. Has regular customers. Strong brand. Unique products. Prestigious image of stamps Strong (stable) distribution channels. A wide range of nomenclature. Stable competitive position. High profitability of the business Reliable sales system. Reliable suppliers.	The company is not diversified. There are weak, outdated brands. High prices for products. There is a lack of communication with the public and consumers
Opportunities	Threats
Acquisition of assets. Growth potential. Development of innovative products. High entry barriers. Implementation of foreign economic activity.	Aggressive marketing campaigns of competitors. Economic downturn. Long maturity of brands, products, or services. Anti-tobacco campaign. Increased taxes and duties on both imports and production of cigarettes The emergence of a substitute product Legal barriers against cigarette consumption and advertising. Reducing the proportion of people who smoke.

Source: developed by the author according to the official website of RMI [10]

simplification mandates are the last major challenge for the company.

The company has great opportunities on the international market since PMI identifies growing regions with insufficient demand for tobacco products. As some countries apply new rules and increase tobacco taxation, this global flexibility allows companies to make the most of potential business in other areas.

Among the restrictions on the consumption of traditional tobacco products are new opportunities for industrial growth. Over the past few years, the growth of the low-risk cigarette segment has accelerated in combination with various smoking bans in society and other factors. Philip Morris International, for its part, received exclusive rights to distribute and market alternative products [8].

The main threat to the company's activities is competition not only with large companies but also with small ones. That is, given the growing global focus of the tobacco business, some regionally focused companies may take control of their local smoking markets. Another threat is that working in the tobacco industry requires expert brand marketing and exceptional cash generation. In recent years, there has been increasing pressure from governments and health care institutions to phase out smoking. To attract more customers, Philip Morris International needs to invest heavily in e-cigarette technology, as well as various lobbying and legal efforts to maintain a favorable operating environment.

In this way, the company maximizes its opportunities for growth in the brand stock market and innovative products and remains financially strong in a profitable industry. To further strengthen its position, minimize threats and develop opportunities, PMI needs to diversify its range, which can be done by focusing on realizing innovation potential and promoting new e-products with reduced health risks.

The product policy of Philip Morris International, including the most popular brand in each price segment was analyzed in Table 3 [10].

One of the most well-known tools of business management is the BCG Matrix method, the purpose of which is to analyze the relevance of the company's products depending on the growth of the market for this product and its share. The matrix stipulates that to ensure productive profitable long-term growth, a company must generate and extract funds from successful brands in mature markets and invest them in fast-growing attractive new segments, strengthening the position of its products and services for sustainable income [16].

Based on the data given in the table a matrix BKG was created (fig. 1).

The IQOS brand belongs to the category of «Difficult children» and is located in the first square of the BCG matrix. It is represented in a fast-growing segment but has a low market share, less than 1, ie occupies a weak position in the market. This is because the product is completely

Table 3 – Data for BKG analysis

Brand PMI	Sales volume		Market growth rate	Market share (2020)	Relative market share
	2019	2020			
Marlboro	26 009	26 397	1,5 %	33,8 %	3,9 %
Bond Street	4122	3671	-10,9 %	4,7 %	0,75 %
Philip Morris	3298	4741	43,75 %	6,07 %	1,06 %
IQOS	674	3514	100+ %	4,5 %	0,7 %

Source: developed by the author according to the official website of RMI [10]

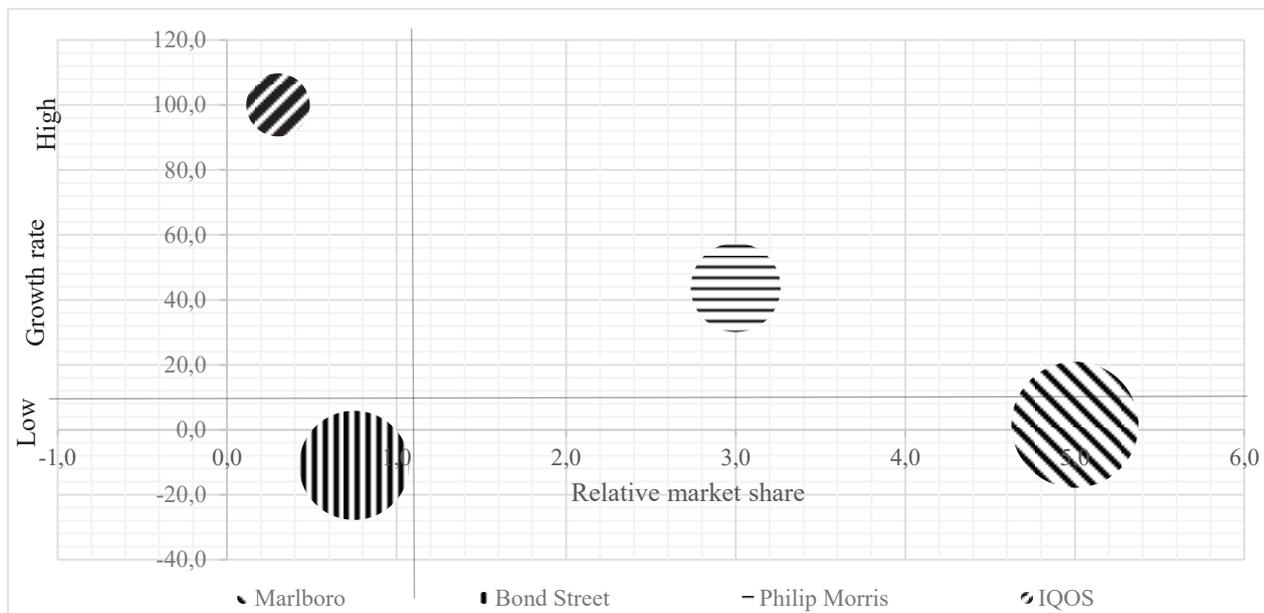


Fig. 1 – Philip Morris International’s BKG product policy matrix

new, innovative and many consumers are not familiar with it. To grow in line with the market and strengthen its position, this product requires a high level of investment. Companies need to decide whether they currently have sufficient resources to develop a product in this market. Philip Morris International is actively investing and developing this product, as it can revolutionize the tobacco market by making smoking safer. In the second square of the BCG matrix – «Stars» is the brand Philip Morris. Now this line of business of the company is a leader in its fast-growing industry. This is due to rising cigarette prices, so consumers tend to switch to cheaper product. In addition, it is of better quality and positions itself as a premium compared to competitors. Quality rebranding and marketing strategy played an important role in the rapid growth of the brand.

The Marlboro brand belongs to the Dairy Cows, it has a high relative market share, more than 1, in a slow-growing market, the market growth rate is less than 10. The company’s products and services presented in this square BCG matrix are usually the main generators of income and cash. This brand does not require high investment, only to maintain the current level of sales. PMI uses the cash flow from the sale of such goods and services to develop its more promising areas of business IQOS and Philip Morris.

In the fourth quadrant of the matrix – «Dogs» is the brand Bond Street. Usually in this quadrant are concentrated areas of business with a low relative market share in slow-growing or stagnant markets. The reason for the decline in the popularity of this brand is the reduction of the boundaries between the high and medium price category of cigarettes due to higher prices. Thus, due to a small difference in price, consumers switch to premium brands or prefer a lower price segment. Now, this brand brings little profit so the company is looking for the right strategy.

Analyzing the effectiveness of the company’s product policy, on the example of products from different price

segments of the market, it can be seen that the product structure of Philip Morris International is quite balanced. The company makes big profits thanks to status brands in the premium price segment and can direct it as an investment to promote and improve innovative products such as IQOS, which is in the market, or Philip Morris, which is gaining popularity in today’s market environment.

For the PMI, the most important criteria for assessing the effectiveness of product policy are:

- the importance of the product for the enterprise: part of the turnover, reliable performance, profitability;
- the position of the goods on the market: a part of the market for the main competitors, a stage for the cycle of goods, the possibility of modifying.
- competitiveness of goods: equal quality, technical and economic parameters, exploitation characteristics, thoroughness of design, imaging of goods.

Within the framework of the audit, an assessment of the effectiveness of the marketing product policy of the company is based on an additional ABC analysis, which additionally helps to assess the importance of the skin product position for the business and to the centralized value of goods. A high level of competition in on the tobacco market and the need for a consistently high-quality assortment of current methods in assessing the competitiveness of goods of PMI.

Conclusions

Philip Morris International has a strong position in the highly competitive tobacco market and a strong marketing development strategy based on an analysis of key financial performance indicators. This is due to the high quality of products and the focuses on meeting the needs of consumers. RMI cares about its image and positions itself as a socially responsible company. Despite a large number of risks on almost all operating fronts, the product structure of RMI is quite balanced, which makes the company a big profit.

References

1. Tyutyunoviy rynek v Ukraini [Tobacco market in Ukraine]. *base.garant.ua*. URL: <http://imperial-tobacco.com.ua/tobacco/market/> [in Ukrainian]
2. Ekonomyka nalohooblozhenyia tabachnykh yzdelyj v Ukrainy [Economics of tobacco taxation in Ukraine]. *base.garant.ru*. URL: <http://www.tobaccofreeunion.org/assets/TechnicalResources/EconomicReports/EconomicsofTobaccoTaxationinUkraine-RU.pdf> [in Russian]
3. Zakon Ukrainy «Pro reklamu» [Law of Ukraine «On Advertising»]. *base.garant.ua*. URL: <http://zakon0.rada.gov.ua/laws/show/270> [in Ukrainian]
4. Rahman, M.S., & Rudenko, A.M. (2019). Paradyhmy vyrobnykiv tyutyunovoho rynku ta misce Philip Morris International v Ukraini [Paradigms of tobacco producers and the place of Philip Morris International in Ukraine]. *Biznes Inform – Business Inform*. No. 11. P. 164–171. [in Ukrainian]
5. Tut kuriat: chym zhyve tiutiunovyi rynek Ukrainy u 2020 [They smoke here: how does the tobacco market of Ukraine live in 2020]. *base.garant.ua*. URL: <https://daily.rbc.ua/ukr/show/kuryat-zhivet-tabachnyy-rynok-ukrainy-2020-1603357> [in Ukrainian]
6. Ofitsiinyi sait zhurnalu Forbes Ukraina [Official site of Forbes magazine Ukraine]. *forbes.net.ua*. URL: <http://forbes.net.ua/> [in Ukrainian]
7. Ofitsiinyi sait kompanii «Filip Morris Ukraina» [Official site of Philip Morris Ukraine]. *www.pmi.com/ukr*. URL: <http://www.pmi.com/ukr/> [in Ukrainian]
8. Tkachuk, V.V. (2014). Rynek tiutiunovykh vyrobiv v Ukraini: realii, problemy, perspektyvy rozvytku [Tobacco market in Ukraine: realities, problems, prospects]. *Tovaroznavchyi visnyk – Commodity Bulletin*. No. 7. P. 185–192. [in Ukrainian]
9. IQOS: vredno yly net. Chto na samom dele skazaly v amerykanskoj FDA [IQOS: harmful or not. What was actually said in the American FDA]. *Portal Finance.ua*. URL: <https://news.finance.ua/ru/news/-/420387/iqos-vredno-ili-net-chno-na-samom-dele-skazali-v-amerikanskoj-fda/> [in Russian]
10. Ofitsiinyi sait Philip Morris International [Official site Philip Morris International]. *www.pmi.com.ua*. URL: <https://www.pmi.com/markets/ukraine/uk/about-us/overview/> [in Ukrainian]
11. PrAT «Filip Morris Ukraina» Finansova zvitnist vidpovidno do Mizhnarodnykh standartiv finansovoi zvitnosti ta zvit nezalezhnogo audytora 2020 rik [PJSC «Filip Morris Ukraina» Financial statements in accordance with International Financial Reporting Standards and the Independent PMU FS 2020]. *www.pmi.com.ua*. URL: https://www.pmi.com/markets/ukraine/uk/media-centerv.final_clean.pdf/ [in Ukrainian]
12. Illiashenko, S.M. (2005). Marketynhova tovarna polityka [Marketing product policy]. Sumy : Universytetska knyha. [in Ukrainian]
13. Evdokhova, L.N., Pynchukova, Yu.M., & Bolotko, A.Yu. (2016). Teoretycheskye osnovy tovarovedeniia [Theoretical foundations of commodity science]. Mynsk : Vysheishaia shkola. [in Russian]
14. Reklamnoe stoletie. Chelovek Marlboro [Advertising century. A Marlboro man]. URL: <https://adage.com/article/special-report-the-advertising-century/marlboro-man/140170/> [in Russian]
15. Value Line. Educational Articles. A Brief SWOT Analysis. URL: http://www.valueline.com/Stocks/Highlights/Philip_Morris_International_A_Short_SWOT_Analysis.aspx/ [in English]
16. Tsely y osnovnie etapy portfelnoho analiza STPLAN.RU stratchycheskoe upravlenye y planyrovanye [Objectives and main stages of portfolio analysis. STPLAN.RU strategic management and planning]. *base.garant.ru*. URL: <http://www.stplan.ru/articles/theory/bkg.htm/> [in Russian]