

Update on promotional pricing

Cigarette prices in downtown Montreal 2017-2021

BACKGROUND:

Tobacco industry pricing strategies

Tobacco companies in Canada use two pricing strategies which blunt the effect of tax policies by ensuring that cheaper cigarettes are available to price-sensitive smokers.¹ These strategies are:

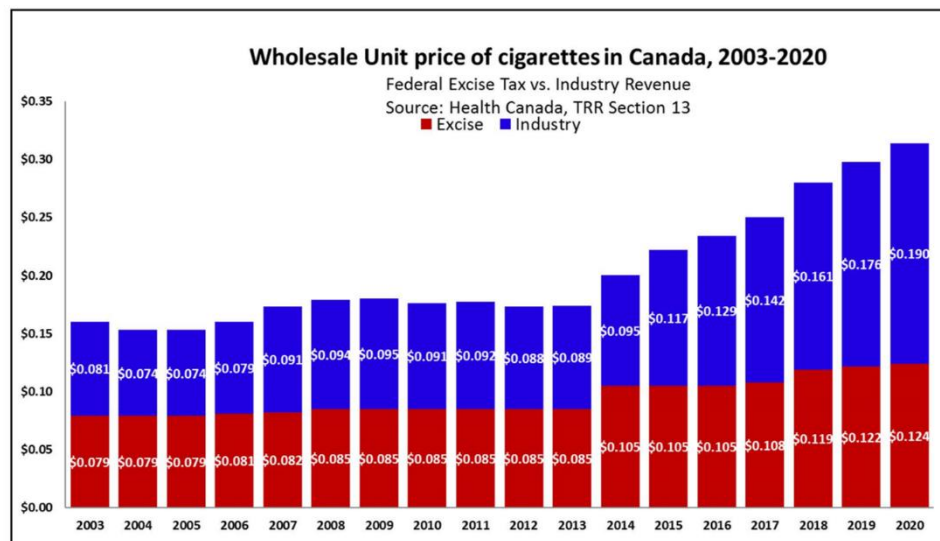
- **Price segmentation, which makes cigarettes cheaper for some brands**
Companies sell some of their cigarette brands at a higher price than others, even though they are functionally equivalent and may have similar costs of production. Price segmentation between brands was introduced to Canada by the companies starting in 2003, when discount brands appeared for the first time. Prior to that, all cigarette brands were sold at essentially the same price.
- **Price localization, which makes cigarettes cheaper in some stores.**
Companies charge different wholesale prices to different retailers, and have contracts with retailers which affect how much retail mark up is charged. Price localization was introduced following changes to the federal Competition Act in 2009, after which wholesale distribution was replaced with direct shipments from the companies to retailers. Each retailer has a separate contract, and prices between them differ.

Increasing average wholesale prices

Tobacco companies are required to provide Health Canada with monthly reports on the volume and revenues per brand for each province.² Health Canada periodically makes aggregate information from these reports available. In the spring of 2021, Health Canada reported that tobacco industry wholesale revenues had increased in each year since 2015.³ Because

data for individual brands or retail contracts is not released, it is not known whether this aggregate change resulted from equivalent increases in all brands, or for all retailers.

This study looks at the displayed prices in a section of stores in central Montreal.



METHODS

A sample of stores in central Montreal were visited in roughly the same season over a 5 year period (October 3-13, 2017, October 13,20, 2018, November 5-7, 2019 and November 10-11, 2021). In 2017, 123 convenience stores and tobacconists were found to be selling cigarettes in this geographic area; half (51%) of these were visited in 2018 and two-thirds (66%) were visited in 2019. Due to the COVID-19 pandemic, no visits were made in the fall of 2021. The number of outlets visited are shown in Table 1 and their locations are shown in Figures 1a and 1b.

Price signs in Quebec are subject to regulation, and the maximum size is set at 3,600 cm². Tobacco and vaping product brand names and prices may not appear elsewhere in the store.⁴ In each store, a picture was taken of the price sign and the combined manufacturer-retail revenue per cigarette (the ‘non-tax price’) was calculated by subtracting the value of excise taxes.

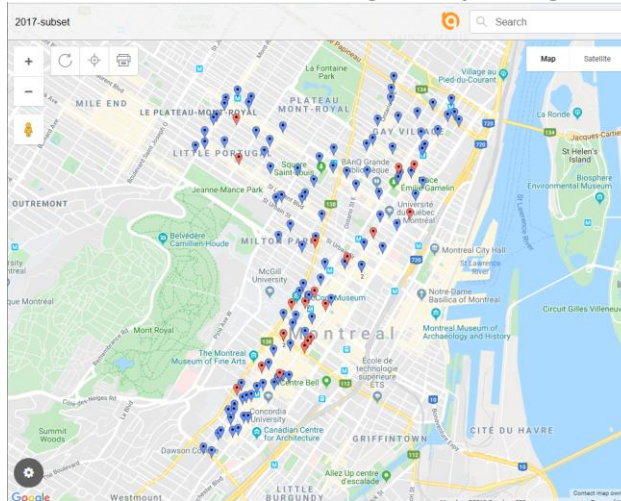
TABLE 1: SUMMARY STATISTICS

	2017	2018	2019	2021
Number of stores selling cigarettes visited	123	63	82	59
Number (%) of stores visited which have price signs for cigarettes	103 (84%)	53 (88%)	39 (50%)	24 (40%)

FIGURE 1A AND 1B: STORES VISITED AND PRESENCE OF PRICE SIGNS

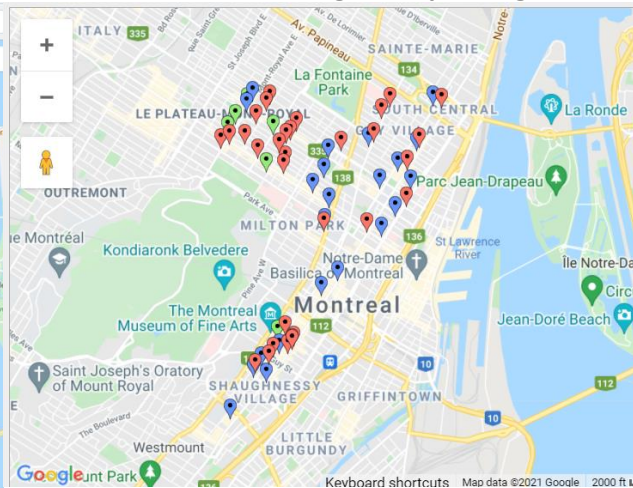
2017

123 stores visited, 103 with cigarette price signs



2021

59 stores visited, 24 with cigarette price signs



Blue = price sign; red = no price sign; green = store closed permanently

RESULTS

Price localization is a continuing market practice.

Each brand advertised through price signs continued to be sold at a wide range of prices.

- The non-tax price was twice as high in some stores as is others for each of the brands most frequently identified on price signs.
- Stores which advertised prices of brands from different companies generally set the same price for each manufacturers' lowest cost brand.
- The median price and the range of prices for the most advertised brands for each company were very similar.

The price ranges observed for the brands **Philip Morris** (Rothmans, Benson & Hedges, RBH), **LD** (JTI-Macdonald) and **Pal Mall** (Imperial Tobacco Company, ITCO) are shown in Figure 2.

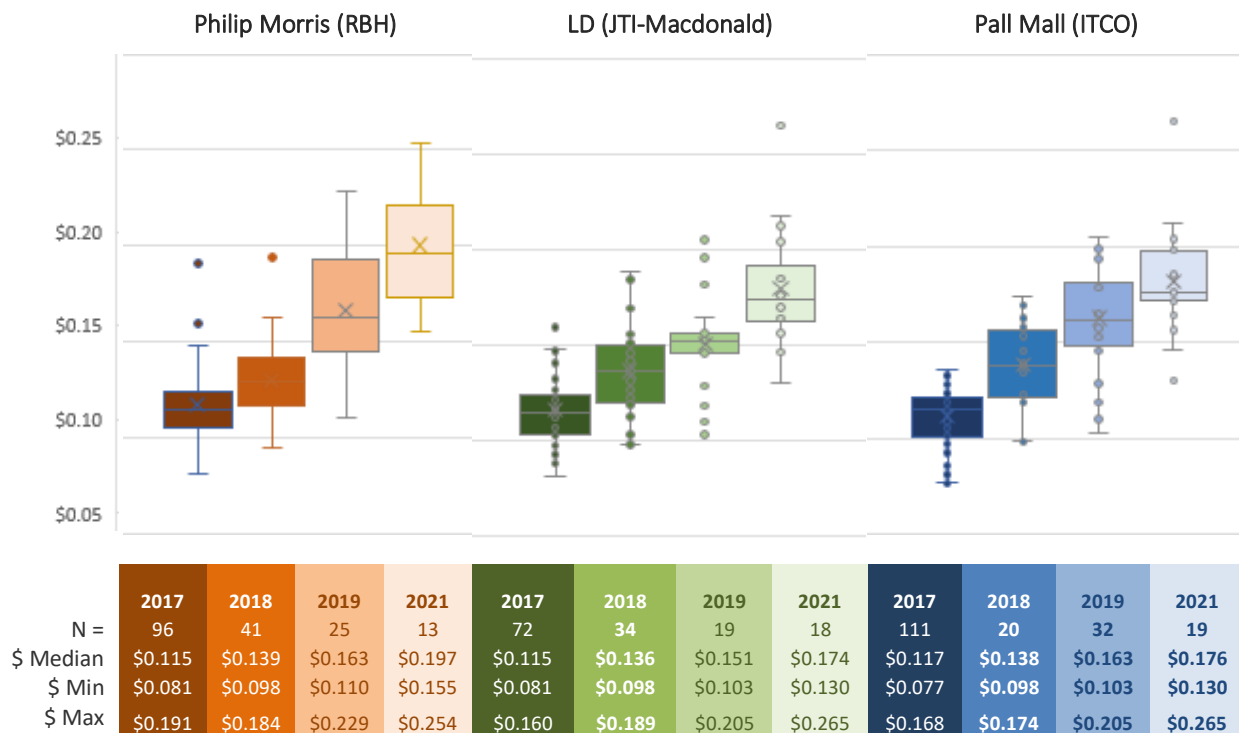


Souvenirs Canadiens, 1438 Saint Catherine Ouest, November 7, 2019



Tabagie Pat et Robert, 1474 rue Ontario Est, November 5, 2019

FIGURE 2. NON-TAX PRICE PER CIGARETTE, BRANDS MOST FREQUENTLY ADVERTISED ON PRICE-SIGNS.



Chain stores illustrate the phenomenon of localized prices

Price sign data collected in each year from stores associated with Canada’s largest convenience chain (Couche-Tard) indicate that even within a retail management structure, cigarette prices vary considerably. The price of the cheapest brands advertised in some Couche-Tard stores were \$0.06 to \$0.09 per cigarette less than in other stores or more than \$10 per carton.

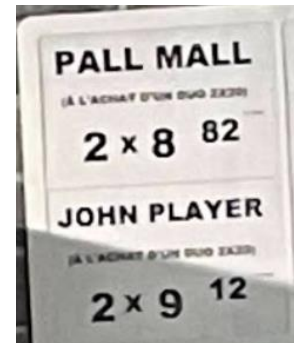
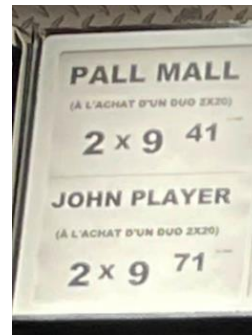
*Couche Tard,
1 René Levesque,*



*Couche Tard,
888 de Maisonneuve E,*



November 2019



November 2021

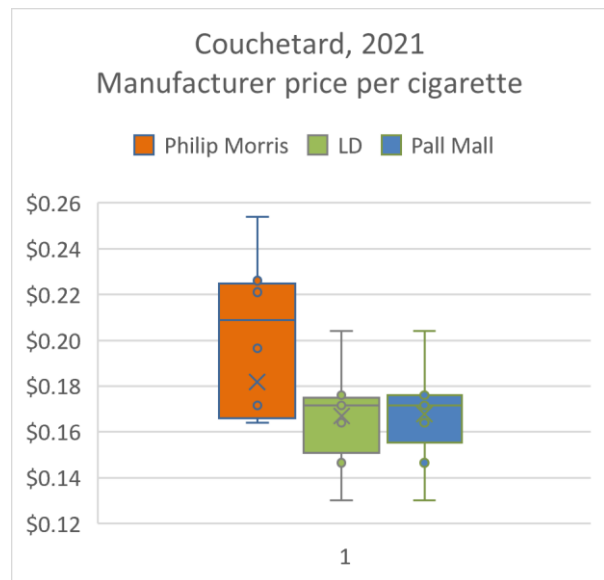
Manufacturer price increases were much greater than tax increases.

Between 2017 and 2021 the combined federal and provincial taxes on a carton of cigarettes increased by \$7.53. Quebec taxes were not increased and remained at \$29.80 per carton (\$0.1490 per cigarette). Federal taxes were raised from \$21.56 per carton (\$.1078 per cigarette) to \$29.09 per carton (\$.1454 per cigarette)

During the same 4 year period the revenue received per carton of the cheapest cigarettes observed in this series of surveys of Montreal retailers increased by \$11.80 (LD and Pall Mall) to \$16.40 (Philip Morris). This is slightly more than the average increase in the wholesale price across Canada (which did not include retail mark up) for the 3-year period 2017 to 2020: from \$0.106 per cigarette in 2017 to \$0.124 in 2020.(Data provided by Health Canada shown above.³⁾

REFERENCES

- 1 Callard, C and Collishaw, N. Cigarette pricing 1 year after new restrictions on tobacco industry retailer programmes in Quebec, Canada. Tobacco Control. January 2019.
- 2 Tobacco Reporting Regulations, SOR 2000-273. s. 13.
- 3 Health Canada. Tobacco Control Directorate. Business Intelligence Division. Cigarette Sales in Canada 2020. March 2021.
- 4 Quebec. Regulation under the Tobacco Control Act. (chapter L-6.2, ss. 19, 25, and 29.1).



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