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**Communicating in the highly regulated tobacco industry**  
The case of Philip Morris International

Luís Carlos Carvalho Carapinha

*Master in, Marketing*

Supervisor:  
Prof. Mónica Mendes Ferreira, Invited Assistant Professor,  
ISCTE Business School,

November, 2020





BUSINESS  
SCHOOL

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Department: Marketing, Operations and General Management

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## **ACKNOWLEDGEMENTS**

I am struggling as much to write this small section of the report as the rest of it. Which is strange since in public/personally I am quite sentimental – I do not hide my insecurities and weaknesses, I praise my colleagues and friends, and I thank others when I feel I should.

Perhaps it is because it is meant to be in written format, and the written word is so definitive and binding that it turns into a cruel and violent process something that comes out of me so very naturally and spontaneously, something that should solely remain privately registered in the moment and memory of the ones involved.

I am probably over-thinking (which is recurrent).

I could list here all the people who were part of my academic journey which is culminating (as of now) in this report, but that would make for an extensive list and I would forever be remorse for having left someone out. I could list the most important people, but how to quantify such? What would be the criteria? Besides, the degrees of importance are not always reciprocal, and the last thing I want is to with an apparently innocuous section of this report trigger disappointment or resentment in others.

I also want to avoid formality, as I do not thank others out of obligation but out of pure gratitude; but I also want to avoid the recurrent and excessive use of adjectives and compliments appealing to emotions. I will keep it simple and concise.

That said...

I want to thank my parents and sister.

I want to thank my closest family (the ones that are still here and the ones who live in memory).

I want to thank Professor Mónica Ferreira.

I want to thank Professor João Guerreiro.

I want to thank my friends.

Thank you.



*“Everyone has the right to freely express and divulge his thoughts in words, images or by any other means, as well as the right to inform others, inform himself and be informed without hindrance or discrimination.”*

– Article 37 (Freedom of expression and information),  
Constitution of the Portuguese Republic



## **RESUMO**

Este relatório surge para estudar como certas regulamentações legais restringem os esforços de comunicação e promoção da indústria do tabaco, no mundo e em Portugal. O objeto de estudo escolhido foi a Philip Morris, principalmente devido às tentativas no passado de superar as limitações da indústria, à importância histórica em relação à comunicação em Marketing, e à nova oferta de produto (IQOS).

O consumo de tabaco está em declínio. Os consumidores estão mais instruídos, têm mais acesso à informação e estão mais conscientes do que o tabaco faz à saúde. O IQOS aparece como resposta às preocupações de saúde do consumidor moderno e à queda da quota de mercado dos cigarros, mas também como via para a Philip Morris comunicar externamente sem tantas restrições – a empresa olha para o futuro em vez de depender dos produtos e campanhas do passado.

Em Portugal, a Philip Morris tem um público-alvo imediato de 610.000 para vender o IQOS – fumadores diários, dos 25 aos 54 anos, que querem mudar e melhorar a saúde. A Philip Morris incentiva todos os fumadores a parar, mas se eles falharem nessa tentativa o IQOS surge como uma maneira menos prejudicial de apreciar o sabor e experiência do tabaco. Para atrair e manter esse público-alvo e difundir o novo posicionamento da Philip Morris foram propostas algumas recomendações, focadas em cinco objetivos de comunicação: aumentar/criar reconhecimento da marca, mudar atitudes relativamente aos RRP, estabelecer a necessidade de RRP, influenciar a intenção de compra, e reter clientes existentes (fidelidade à marca).

**Palavras-Chave:** tabaco, regulamentação, produtos de risco reduzido, marketing, comunicação

### **JEL Classification System:**

M31 Marketing

L66 Food • Beverages • Cosmetics • Tobacco • Wine and Spirits



## **ABSTRACT**

This report was developed to study how legal regulations restrict the communication and promotional efforts of the tobacco industry, worldwide and in Portugal. The object of study chosen was the tobacco firm Philip Morris, mostly due to its attempts in the past to overcome industry's boundaries, its historic importance regarding communication in Marketing, and its new product offering (IQOS).

Tobacco consumption is declining in the world. Consumers are more educated, have more access to information and are more aware of what tobacco products do to their health. The IQOS comes as an answer to the health concerns of the modern tobacco consumer and to the dropping cigarettes' market share, but also as a possible way for Philip Morris to communicate externally without so many restrictions – the firm looks into the future instead of relying on yesterday's successful products and campaigns.

In Portugal, Philip Morris has an immediate target of 610,000 to pitch the IQOS to – these are daily smokers, aged from 25 to 54, who want to change and improve their health. Philip Morris encourages every smoker to quit, but if they fail in such attempt the IQOS is there for them as a less harmful way to enjoy the tobacco taste and experience. To attract and retain that target and to spread the new positioning of Philip Morris some recommendations were proposed, which focused on achieving five communication objectives: increase/build brand awareness, change attitudes towards RRP, establish need for RRP, influence purchase intent, and retain existing customers (brand loyalty).

**Keywords:** tobacco, regulation, reduced-risk products, marketing, communication

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## **CASE STUDY CONTEXT**

Every brand has a positioning (for itself and for its products and services), which is crucial to set differentiation and to guarantee a perceived quality in the minds of the consumers. But what happens to brands when limitations are imposed on them; limitations that restrict and define how they communicate to an audience?

The act of communicating has the overall purpose of stating that they (brand and product/service) exist and how they differentiate themselves from others. Therefore, companies need to ensure that when the customer makes the purchase decision that he or she has all the information needed to make a conscious and informed decision. All great brands build their status based on reputation and communication. That is why every assault to their reputation is a damage to their value and a depreciation of their patrimony. And that is why when brands do not communicate (or are limited to) they alienate from their consumers, becoming irrelevant and dull in the process.

The authorities, in its legitimate field of action, have several duties: to intervene, promote, modify, and penalize certain behaviours of citizens and businesses. And for that, they tend to use different options of action: one of those being the regulatory way. When a brand is prevented from using its trademark (e.g., plain packaging enforcement in some countries) it ceases from being a brand – products legally prevented from displaying any distinctive signs that associates them with a brand can no longer be identified, making them lose credibility and quality assurance. This takes away the right of information for the consumer, but it also takes away the businesses right to inform – brands that took decades to be built disappear instantly.

One of the problems/difficulties that brands face is the huge amount of national entities that interfere with the commercial communication of companies, and they exist in the most diverse industries: the banking industry (e.g., Banco de Portugal), the health industry (e.g., Infarmed), the insurance industry, the automobile industry, the cosmetic industry, the real estate industry, among many others. For example, obligatory mentions (e.g., fine print, health warnings, etc.) make it very difficult for companies to communicate commercially, and especially for their usual length and confuse/dense text they end up not informing, thus harming advertisers, media, and consumers. It is very difficult to communicate given the time and steps required. It may be indeed very difficult to pass on the information.

The legal framework is essential and indispensable (with self-regulation efforts being complementary to the law), but the problem lies exactly in its legal limits – i.e., in an ideal scenario there would be a proportionality between rights and duties, but when the regulation is

higher than desirable it ends up restricting the freedom for commercial expression. This obviously has a huge impact: communication is information (one of the main objectives of communication in Marketing is indeed to inform consumers about the different products and services available), and if this information does not reach consumers then they will be prejudiced.

Why so much regulation? Why so much law, so much rule, what is it for, what are the goals? Is it to defend and better inform consumers? Are all these laws, rules, and processes making the consumer better informed, or if on the contrary with so much noise and parallel information the consumer becomes more confused and even disinterested? Why is the tobacco industry being targeted by regulation? Is it more dangerous than other industries, or is the law simply chasing after fads and trending themes, being influenced by the public opinion? What are the advantages and disadvantages of such regulated communication? What are the alternative ways and where is self-regulation? As major advertisement vehicles such as television, radio, outdoors, sponsorship, and even the products own packaging vanish from the marketer's toolkit, how are brands able to continue to communicate with consumers and achieve brand salience, in this so-called "*forbidden industries*"<sup>1</sup>?

The goal of this case study is to unveil the communication strategies used in the tobacco industry, specifically the ones used by Philip Morris considering the Portuguese market and the legal restrictions associated to the promotion and communication of tobacco related products.

This research will be presented in pedagogical case study format, i.e., in a report whose objective is to help the readers to develop their knowledge on the tobacco industry, its restrictions and the ways firms have overcome those same restrictions to communicate with consumers. This would not be a strong case study without the inclusion of a real-life example, as such the chosen firm is Philip Morris who is represented in the Portuguese market by its subsidiary Tabaqueira. In the process of choosing the said firm, it was taken into consideration: successful implemented strategies to overcome this industry's boundaries, its dimension and prominence in the market, information availability, and also its past (and present) historic importance regarding communication in Marketing.

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<sup>1</sup> This author's term for industries whose offerings are highly limited/restricted to be sold and advertised to the general public (e.g., tobacco, alcohol).

## **1. Tobacco Marketing**

Until the arrival of the 21<sup>st</sup> century, the tobacco industry marketed almost exclusively the cigarette – it was almost the only product (certainly the biggest and most profitable) available in their portfolio. Nowadays, with more tobacco-related products being offered (e.g., electronic cigarettes, heat-not-burn products), and with the existing legal restrictions, tobacco marketing has changed and has broadened its reach. Billions of dollars are spent every year to market these products: e.g., in the USA, in 2017, tobacco firms spent \$9.36 billion – which can be roughly translated to spending \$1 million every hour (including the hours the target is at sleep) (Centers for Disease Control and Prevention, a, n.d.).

Whether to increase the consumption of tobacco products (i.e., to gain new consumers, or to keep consumers from quitting), or to encourage consumers to shift brands (the only purpose tobacco advertisements have, according to tobacco firms), the reality is that today tobacco marketing mostly serves as a voice to counter the increasing regulation imposed on the industry and the organisations that fight for the ban of all tobacco products. This is done by sponsoring charities and sporting events (including sports' teams), by normalising the industry for it to not be perceived as a conglomerate of evil corporations (i.e., to be viewed just like any other industry operating in the world), and by showing that tobacco industries are responsible and have corporate values that are aligned with those of the general public (e.g., promoting campaigns against underage smoking) (Pollay, 2000; National Cancer Institute, 2008).

### ***1.1. Formulas***

Tobacco firms use lots of formulas in their marketing tactics to reach the target and achieve results. The main ones used throughout the last decades emphasise social and individual aspects of the consumers' lives.

It is a fact that most tobacco consumers started to be so due to peer and/or social pressure; as so, tobacco firms utilise the social aspect of the consumption in their marketing. Brands want to transmit the idea of “popularity” and that social exclusion/isolation is bad, hence the implicit need that the target must smoke the specific brand to be socially accepted. They want to be associated with positive traits (e.g., high social status, wealth, sexiness, athleticism), even though the majority of long-time smokers do not consider their consumption habit as a choice that highlights these traits and regret having started it (National Cancer Institute, 2008; Pechacek *et al.*, 2018). As most smokers start their tobacco consumption in their adolescent years, the feeling (or state) of rebellion and non-conformity is heavily utilised in tobacco marketing. But also the loneliness is a consumers' characteristic that the industry has sought

after; the suggestion that the cigarette can help someone shy and introvert to overcome that state of mind was the theme of some advertisements – the cigarette as a social prop to keep insecurity away when the consumer feels alone or in a socially awkward situation. Tobacco advertisements rarely push the target with messages to explicitly consume tobacco, instead it is more used the suggestion of tobacco as a mean to be rebel, to detach from the authority and to feel free (Grandpre *et al.*, 2003; O’Neill, 2017; Pechacek *et al.*, 2018).

Not only do tobacco advertisements rarely explicitly promote the consumption of tobacco, but they also frequently omit (unless by legal obligations) the addictiveness factor of tobacco (more precisely of the nicotine) – claiming explicitly that the addictiveness factor reminds smokers of tobacco health harms. Creating new tobacco products and brands that are, allegedly, non-addictive and healthier than conventional tobacco products is a marketing endeavour that firms explore, not only to build brand loyalty and communicate with customers but also to undermine stricter legal regulations; and it is not a recent strategy as one might think.

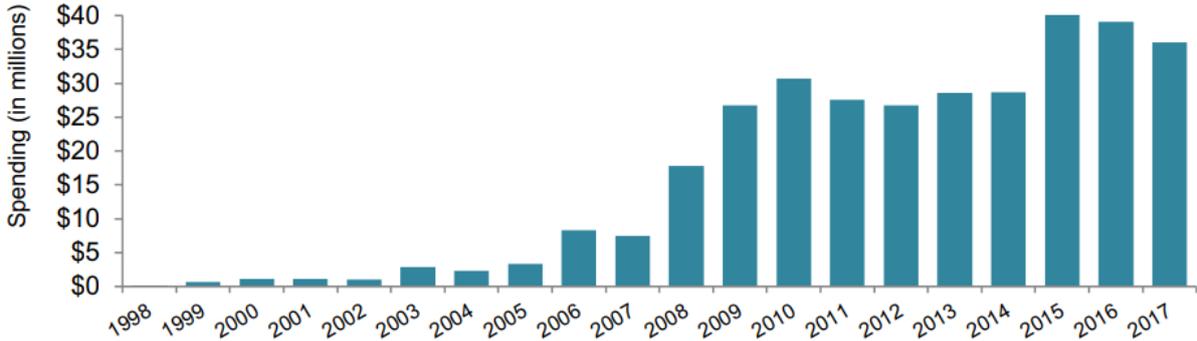
## ***1.2. Vehicles and Targets***

Starting in the 1920s, the decade when tobacco advertising began to be widely spread and more similar to what was still being done a few years ago (and in some cases still today), tobacco marketing started to employ new techniques and vehicles of diffusion: brands had slogans, there were celebrity and doctors endorsements, product placement in films began to be a reality, cultural icons emerged (who does not know about the Marlboro Man, the symbol of manliness and independence that was used in Marlboro’s campaigns from the late 1950s to the 1990s; or Joe Camel, a cartoon character that appealed to kids), sponsorship in sports, etc. (Tobacco Stops With Me, n.d.). It was in this decade that women started to be highly targeted. Until that decade, women who smoked were perceived as “fallen women” and prostitutes – smoking was an immoral act that was even banned in some states in the USA. In 1914, the World War I began and as so men were sent to war; as they left the country to fight overseas, they also left their jobs at home, and given that women were not sent to war (except in some specific circumstances) they occupied their husbands’, brothers’, fathers’, sons’ places of work. This was an important step in women emancipation: cigarette consumption came as way to further extend that and to challenge the social norms (i.e., to fight for equal rights as men) – the cigarette became a symbol of independence (Amos *et al.*, 2000). During the World War II (1939 to 1945) cigarettes were distributed to soldiers, regardless from who they fought for. Many of those cigarettes were sent by tobacco firms for free: in the aftermath, cigarette sales rose as returning soldiers were a new group of consumers (Randall, 1999; Bachinger *et al.*, 2008). Amidst the

1950s and the 1960s, the American civil rights movement was at its peak; African Americans were struggling to be granted the same rights and opportunities as any other citizen and tobacco firms seized an opportunity: racial segmentation is a reality, and what better way to attract and retain customers than by supporting related causes (e.g., civil rights causes) and promoting social mobility (Yerger *et al.*, 2002; National Cancer Institute, 2008). Up until the 1970s, tobacco advertising was for the most part legal in the USA and Europe, as such tobacco firms sponsored a lot of radio and television shows, some of which were watched by youth segments of the population. Tobacco firms would even advertise their products as not having any serious health risks associated; this was done through disinformation campaigns by publishing “fishy” reports, by contesting external reports (mainly the ones stating that smoking tobacco caused lung cancer and other diseases – the “*A Frank Statement to Cigarette Smokers*” was a famous advertising/statement, launched in 1954 and supported by many different tobacco firms, that was part of a campaign intended to discredit these scientific studies), and by advertising medical staff smoking (i.e., suggesting that doctors smoke a certain brand certainly skews the consumers’ perceptions on the harmfulness of the product) (The Washington Post, n.d.; National Cancer Institute, 2008). The year 1964 marks a turning point for the way tobacco marketing was run: a report, entitled “*Smoking and Health: Report of the Advisory Committee to the Surgeon General of the United States*”, on the negative health effects of tobacco smoking is published, and it quickly affected the worldwide perception on smoking – for the first time a credible source proved that smoking causes lung cancer, laryngeal cancer, and chronic bronchitis. Hundreds of academics and thousands of articles and papers from all around the world contributed for the making of this report, which was only made possible after numerous associations joined forces to guarantee governmental approval for the project. Its publishing made way for more strict rules and laws on tobacco products’ advertising for the upcoming years, – mainly on the now mandatory warning labels on cigarette packaging, and the broadcasting ban of cigarette advertisements – a change that was felt mainly in the USA and in Europe (Surgeon General’s Advisory Committee on Smoking and Health, 1964; Hughes, 2012; Little, 2018; Centers for Disease Control and Prevention, b, n.d.; U.S. National Library of Medicine, n.d.). With advertising restrictions beginning to be progressively stricter, tobacco firms shift their advertising efforts to media vehicles that were not, by then, yet restricted. The industry starts to invest even more on sporting and events sponsorships: firms name events after themselves or their brands, advertisements are placed inside and outside of sports venues, athletes and teams display the sponsorship in their equipment. And the best of all is that, despite the television ban, these sponsorships could later be seen in television during the broadcast of

those same events. Not long after, in the last decades of the 20<sup>th</sup> century, these types of sponsorships began being banned all over the world (National Cancer Institute, 2008). As one door closes another one opens – this seems to be the symptomatic behaviour of the tobacco industry across history. Nowadays the internet, a vehicle of primary source information for many and with no restrictions on its core concept (hence the difficulty to monitor and regulate it), is a major platform for tobacco advertising. Although efforts have been done by technological giants such as Google, Microsoft, and Facebook (these firms all have tobacco advertising prohibition policies in their internet advertising services), tobacco firms can still get around and advertise their products, mainly through unpaid content from influencers (who are sponsored by those firms). These influencers, a recently created designation for what was then known as marketing reps, also act offline, albeit with some restrictions associated. The internet is a place where tobacco firms can easily reach and communicate for young audiences: 92% of teens (aged 13 to 17) use the internet on a daily basis, 73% has access to smartphones (making the use of internet easier and more frequent), and 76% own an account in at least one social media platform. Tobacco advertisements and campaigns banned from other platforms (e.g., television, billboards, retail, etc.) can still be found on the internet: the Marlboro Man, the iconic personification of one of the most successful tobacco adverting campaigns ever, or Camel Joe are easily found on the internet, maybe not as nowadays marketing campaigns but as a reflection of the past that still influences the present (National Cancer Institute, 2008; Hansen, 2018; Campaign for Tobacco-Free Kids, 2019a; Google, n.d.).

*Graph 1.1: Tobacco firms spending, in the USA, on internet marketing and own websites*



*Source: (Campaign for Tobacco-Free Kids, 2019a)*

Innovation is a major factor for the success of any industry, and the tobacco one is no exception. Ever since the end of conventional forms of advertising and communicating, tobacco firms have come up with ingenious ways to promote their products and communicate with customers. Product and packaging innovation are of big importance for such to happen, for the present and future success of the industry. Firms have launched in recent years lots of new and

redesigned tobacco products: from female slim tobacco, to electronic cigarettes, to rolled tobacco, to curved packs. The purposes are simple: to deliver a different and reduced risk experience, to justify premium prices, and to get around tobacco taxes and marketing policies.

### 1.2.1. Sports

It is well-documented that tobacco marketing had a big presence in sports, a partnership mostly done through sponsorships. Tobacco firms seek this connection to extract benefits from the obvious dichotomy between a harmful product and healthy activities (those health connections are very important), from the use of well-known athletes and their athletic achievements that may give more notoriety to the brands advertised, and from the wide and global reach sports have. Sporting events have always been a great platform for marketing and the advertising of products and brands; tobacco firms were no exception, that said they went out to endorse teams and athletes and sponsor athletic events, all for the sake of this powerful association between tobacco and active, adventurer, riskier and exciting lifestyles (National Cancer Institute, 2008; Favero Family Dental, 2015).

Starting in the 1970s, tobacco firms started to invest and to be more involved in motorsports, an area of sports with no advertising restrictions: direct branding was the strategy, with brands sticking their names and logos on cars, motorbikes, team uniforms, and racing tracks<sup>2</sup>. That guaranteed not only brand exposition on the site but also on TV via their broadcast. Their presence was ubiquitous (e.g., in the 1995 F1 season, 9 of the top 10 drivers drove racing cars with tobacco-brand logos on it) (National Cancer Institute, 2008; Grant-Braham *et al.*, 2012; Liber, 2019). Advertising restrictions started to kick into motorsports in the 1990s but mostly in the beginning of the 21<sup>st</sup> century, but, as necessity is the mother of invention, tobacco firms got creative to go around the rules and maintain their sponsorships: the trend at the moment is to promote corporate mission statements that are, directly or indirectly, associated with Reduced-Risk Products. The WHO is currently putting efforts to also ban this advertising trend (WHO Framework Convention on Tobacco Control, 2019; World Health Organization, 2019d).

The Formula 1 was (and still is) a fundamental medium of tobacco marketing, as it is a sport of great appeal to people of all ages around the world (in 2018, it had an estimated fanbase of 506 million people, with 205 million of those being under the age of 35), mostly likely due

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<sup>2</sup> A great image gallery of some of tobacco liveries in F1 cars throughout the decades can be found at <https://www.foxsports.com/motor/gallery/f1-cigarette-livery-images-090815> .

to its globetrotter glamour, the cars, the fast pace, and the drivers with their hero status. Albeit the fact that tobacco sponsorship in sports is banned in some countries, Formula 1 still manages to deliver tobacco advertisements to those countries: since the races occur in different countries and continents, some which do not have restrictions in tobacco sponsorship, tobacco firms manage to deliver the advertising message through television broadcast (which is worldwide) – television networks cannot control (at least to some extent) what is happening in the race – hence reaching markets that do not allow for tobacco sponsorship in sports (Grant-Braham *et al.*, 2012; Noble, 2018; van Osten, 2019). Back then, tobacco sponsorship in F1 was just like in any other motorsport, but in the 1990s with the emergence of tobacco advertising restrictions things changed: for example, British American Tobacco began to outline strategies for the so-called “*dark markets*”<sup>3</sup>, which consisted of utilising the distinctive colours and shapes of a brand in the sponsorship to make an association with the brand, without explicitly displaying the brand (e.g., red and triangular shapes for Marlboro), thus preventing the brand from being the target of legal restrictions. Of course, this strategy was in plain sight of everyone, but local governments allowed some exemptions in fear that their respective countries could lose their lucrative and prestigious F1 races in favour of countries with fewer advertising restrictions (Carlyle *et al.*, 2004; Grant-Braham *et al.*, 2012). In 2002, FIA (Fédération Internationale de l’Automobile), the association that owns and presents F1, agreed on banning any tobacco advertising and sponsorship and encouraged countries that hosted their races to also do it, starting from the end of 2006 – a measure with high financial costs given the \$350 million annual teams’ revenue from tobacco sponsorship. During the 2007 season, some countries still permitted tobacco advertising in races (e.g., Monaco and China), but from 2008 onwards it was full ban. Albeit that, Philip Morris’s sponsorship in F1 continued and continues (they had just, in 2005, extended the sponsorship with Ferrari in a contract understood to be worth \$1 billion) (Fédération Internationale de l’Automobile, 2002). Similarly to BAT’s strategy, to face the tobacco advertising ban PMI began in 1993 to, sporadically, replace Marlboro’s logo with barcodes; only by the start of the 2008 season the barcodes went “full-time” replacements on Ferrari cars and drivers’ racing suits and helmets. These barcodes (in red, white, and black colours) intentionally or not resembled the Marlboro logo (even when viewed in a moving car at 300 kph), which lead to some accusations of subliminal advertising – to influence the audience without them being aware of it, i.e., the message is delivered below the human

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<sup>3</sup> “*Dark Markets*”: areas and countries in which tobacco promotion is restricted (Grant-Braham *et al.*, 2012).

conscious threshold of perception/awareness (Appendix L). Both Ferrari and PMI denied such accusations, claiming that the barcode was an integral part of the livery of the cars and using the argument that “*the colour red or a graphic design which shows a barcode could induce people to smoke*” to be “*completely pointless and (...) verging on the ridiculous*”, but neither have come up with an explanation for the barcode’s inclusion (Italiaspeed, 2010). An out of the box solution – the pursuit for a loophole – that showed the desperation tobacco firms were (and are) having to market their brands and products in increasingly regulated environments. The barcode would be voluntarily withdrawn from anything related with F1, starting from the Spanish Grand Prix (the 5<sup>th</sup> race of the 2010 season, on 9 May) (Baker *et al.*, 2019).

### *1.2.2. Corporate Social Responsibility (CSR)*

CSR efforts is a trend that started in the ends of the 1990s and the beginnings of the 21<sup>st</sup> century, a trend that, if not pioneered by, was and is certainly used by firms who operate in industries that are often connected to bad practices (in environmental, social, and/or legal levels). This is mainly a Public Relations exercise targeted to change and improve the firm’s/industry’s image, reputation and credibility, with oil, chemical, and tobacco industries using it more. CSR is a great and powerful tool, and since there is no minimum standard of social performance, any kind of firm can designate itself as being socially responsible – tobacco firms do it, despite tobacco being the world’s leading cause of preventable death. Indeed, given the legal restrictions tobacco firms face concerning the advertisement and promotion of their products/brands, CSR is an optimal vehicle of promotion to reach not only consumers but also a wider audience. Tobacco firms mostly perform CSR through three ways: by being (or alluding to be) more transparent, for example through the disclosure of documents (e.g., studies, reports, etc.) and open dialogue with the exterior (i.e., stakeholders, government, organisations, general public, etc.); by partnering with the government or with non-governmental organisations (this may involve the creation of institutes or the partnership with existing ones); and by delivering money or goods to social causes (i.e., actions of philanthropy and sponsorship). Sometimes these CSR actions are nothing but an “illusion”, a way to convey a message of a “changed” firm and its efforts to improve social and health problems – “*greenwashing*” is a term that characterises the behaviour of a firm into misleading the audience to believe that the firm’s activities are more protective of the environment that they really are. (Chapman, 2004; Hirschhorn, 2004; Friedman, 2009; World Health Organization, 2019b; Cambridge Dictionary, n.d.).



## 2. Regulations

In order to protect people from the hazards of tobacco smoke (including second-hand smoking) – an habit that may increase the risk of cancer, emphysema, heart disease and other diseases – governments and other institutions have (almost ever since tobacco began to be consumed) been implementing laws banning or restricting tobacco products, namely: what constitutes a tobacco product, how they can be used/consumed, where such consumption is allowed, and whom can consume. Such laws also serve indirect purposes: to reduce costs with health care (less people getting sick), to collect more money (through excise taxes) to be used in public services, etc. One of those institutions, the World Health Organization puts the regulation of tobacco products (alongside with education and cessation programs) as a crucial strategy to decrease the demand for this type of products and to improve the environment and quality of life for everyone (WHO Framework Convention on Tobacco Control, 2017).

### 2.1. *Continental scope (Europe)*

Taking into consideration the risks of significant cross border trade of tobacco products and of divergent national laws, in an effort to bring every country together and standardise procedures, as it is its prerogative, the European Union (EU) proposed (in the figure of the European Commission) the Tobacco Products Directive (TPD), which aimed to “... *approximate the laws, regulations and administrative provisions of the Member States concerning maximum tar, nicotine and carbon monoxide yields of cigarettes and the warning regarding health and other information to appear on unit packets of tobacco products...*” (European Parliament, 2001), i.e., to regulate the manufacture, display, and sale of tobacco products (e.g., cigarettes, roll-your-own tobacco, cigars, smokeless tobacco, etc.) inside the EU. The TPD (Directive 2001/37/EC) was published on the 18<sup>th</sup> of July 2001, and the EU demanded the directive to be transposed into each country’s national law by the 30<sup>th</sup> of September 2002 at the latest (European Parliament, 2001). In 2012, to reflect scientific, market, and international developments, a revision to the TPD began to be officially debated: by then, new products that were not covered by the 2001 TPD had or were about to enter the market (e.g., e-cigarettes) (products whose effect on public health was unknown and that needed new rules had to be placed to assure their safety and quality), and studies showed that the informative tar and nicotine levels printed on tobacco packs were misleading consumers into thinking that some tobacco products were less harmful than others. On the 19<sup>th</sup> of May 2014 the new TPD (2014/40/EU) was published – the old one would have to be completely repealed from each EU’s member state law and replaced with the new one by the 20<sup>th</sup> of May 2016 (and thus

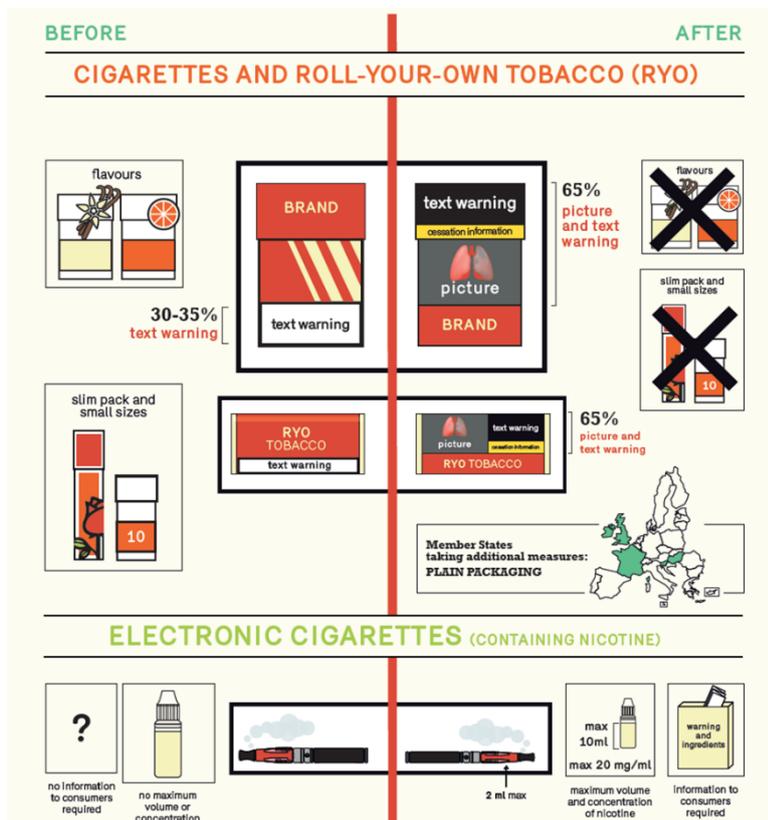


Image 2.1: EU rules on tobacco products

Source: (European Commission, 2016)

EU market (e.g., ingredients, labelling, packaging), to restrict the advertising of tobacco products, to impose tax measures, to fight illegal trade, and to promote a smoke-free EU. The Directive also allows member states to introduce further regulative measures (e.g., plain packaging) as long as they are justified on grounds of public health (European Parliament, 2014; European Commission, a, n.d.; European Commission, b, n.d.). As of 2014, 28% of EU citizens were smokers (21% were former smokers, and 51% never smoked), and 94% of those smokers started their nicotine consumption when they were under 25 years of age (70% started before the age of 18); an addiction that affects both women and men (44% and 56%, respectively) and that is responsible for the annual death of 700,000 EU citizens<sup>5</sup> (European Commission, 2014).

## 2.2. National scope (Portugal)

Following the 56<sup>th</sup> World Health Convention on the 21<sup>st</sup> of May 2003, and the subsequent signing of WHO's Framework Convention on Tobacco Control (FCTC), Portugal ratified the

<sup>4</sup> Except for menthol cigarettes, given the transitional period until the 20<sup>th</sup> of May 2020 for products with an EU-wide sales volume equal or above 3% (which is the case here).

<sup>5</sup> As comparison: car accidents (43,000 annual deaths), drugs (38,396 murders (18,573), and AIDS (9,300) (European Commission, 2014).

treaty on the 8<sup>th</sup> of November 2005 with the publication of the Decree No. 25-A/2005 – although FCTC’s directives and guidelines would only begin to be executed in Portugal on the 1<sup>st</sup> of January of 2008, after the publication of the Law No. 37/2007. The year 2008 marks a shift in the social habits of the Portuguese people: smoking becomes interdict in all public and closed spaces (e.g., work places, hospitals, schools, museums, shopping malls, hotels, elevators, etc.), with some exceptions made, for example to food or drink establishments<sup>6</sup>; a scenario which is consensual among society today (everyone seems to agree that this was a change for the better) making it almost difficult to acknowledge that there was a reality one decade ago where non-smokers had to “mingle” with the smell of cigarettes everywhere they went (most of the population cannot conceive an existing past where smoking was allowed in certain places) (Assembleia da República, 2007; Lusa, 2017).

The first review to the Law No. 37/2007 came on the 26<sup>th</sup> of August of 2015: with the EU’s 2014 TPD, Portugal was obliged to transpose the new continental guidelines concerning tobacco regulation to national law, and so the Law No. 109/2015 is published and entered into force on the 1<sup>st</sup> of January 2016 (Assembleia da República, 2015). The second review (and the most recent and updated national law on the subject) came on the 3<sup>rd</sup> of August of 2017 (Law No. 63/2017) and it was published, essentially, as an answer to broad the concept of smoking to include the consumption of novel tobacco products without combustion that produce aerosols, vapours, gases, or inhalable particles; and also to regulate these type of products concerning the “smoke” exposure from these products, and their advertising and promotion – the modifications and new additions to the previous laws entered into force on the 1<sup>st</sup> of January 2018 (Assembleia da República, 2017).

Despite all the prevention and control measures, smoking is still both in Portugal and the world one of the leading causes of preventable death: in 2016, in Portugal, over 11,800 people (roughly one in every 50 minutes) died of tobacco-related diseases – that is 10.6% of the total deaths registered in Portugal for that year – with the 50 to 59 age-group being the most affected with one in every four deaths being attributed to tobacco. These numbers are clear concerns for governments, given that the last national health survey (from 2014) concluded that 20.0% of the residents in Portugal were smokers, with 81.9% smoking on a daily-basis (45.9% of those smoked, on average, 11 to 20 cigarettes per day); the most consuming age-group being from 25

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<sup>6</sup> In this case, if the establishment is smaller than 100 m<sup>2</sup> the owner can opt to allow smoking inside or not, and if the establishment is equal or larger than 100 m<sup>2</sup> then the owner can have a part of the space (30% to 40%) destined for smoking (Assembleia da República, 2007).

to 34 (32.0% in total, 41.9% for men and 22.3% for women) (Appendix D) (Direção-Geral da Saúde, 2017a).

The most recent Law approved in Portugal regarding tobacco products concerns reducing the environmental impact of cigarette butts (and similar). This law (Law No. 88/2019), approved on the 19<sup>th</sup> of July 2019 and entry into force on the 4<sup>th</sup> of September 2019, stipulates the prohibition on throwing cigarette butts, cigars, or any other cigarettes containing tobacco products to the ground in public spaces. To make the law more effective (i.e., to prevent the scattering of waste in public space), it forces all commercial establishments (namely catering and beverage), all recreational establishments, and all other non-smoking buildings (including universities, hospitality services, and other services) to own ashtrays and other equipment for the disposal of undifferentiated and selective waste produced by their customers; adding to this, all these establishments must also ensure that the waste produced in areas within 5 meters of those said establishments is collected and that those areas stay clean (i.e., free of waste). Whoever does not respect this law is obliged to pay a monetary fine. The present law also stipulates that the government, alongside with tobacco producers and importers, must promote awareness campaigns and actions to the parties (e.g., tobacco consumers, establishments, etc.) that this law is intended for – tobacco firms are an active part in the prevention and combat of the pollution created by tobacco products' filters (which contain plastic particles that are harmful for the environment) (Assembleia da República, 2019). The draft bill that introduced this topic to the parliament showed the cigarette filter as a small and light residue that can be easily blown away by the wind and whose chemicals can penetrate the soil and reach the water, a residue that can take up to 10 years to decompose. Tobacco butts are the most found residue in coastal zones, with traces of it having been already found within the digestive system of fish, birds, whales, and other marine animals; which can latter find its way to the human digestive system. In Portugal, every minute 7 thousand cigarette butts are thrown to the floor – a behaviour deemed acceptable for 20% of the Portuguese population, and that 80% of smokers justify by the inexistence of equipment and infrastructures on the street to collect the butts (Silva, 2019).

### *2.2.1. Taxation*

Alongside with advertising bans and public smoking prohibitions, tobacco taxation is one of the most effective ways to reduce and prevent tobacco consumption. Higher taxes in tobacco products translates into higher sale prices for these, propelling some consumers to quit, others to reduce their consumption, and others from even initiating its consumption – on average, a

10% increase on the price of a given pack of cigarettes would expect a decrease in the demand for it by around 4% to 5%. Furthermore, the taxation of tobacco is a very efficient source of revenue (without adverse effects on the economy) given the few producers and product substitutes in existence, and the relatively inelastic demand for these types of products; this generated revenue through taxation can later be used as funding to implement and support tobacco control initiatives aimed to promote public health and to cover costs resulting from tobacco consumption (e.g., health care services borne financially by governments). Changes in tobacco taxes, and consequently on products prices, influence the tobacco consumption among low-income, less-educated, and young demographics (children and adolescents are more price sensitive than adults) – as stated on WHO’s FCTC article 6: “... *price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.*” (World Health Organization, 2003:7).

There are a few different ways on how tobacco products can be taxed: excise taxes, sales taxes, value-added taxes, or a combination of the above. A value-added tax (VAT) is a consumption tax that is collected as a percentage of the value added to a product at each stage of its production. The sales tax is very similar to the VAT, the only difference being that the former is collected only once (from the final consumer) whereas the latter is collected whenever the product is sold along its “life” (including the sale to the final consumer). An excise tax is an indirect tax applied in the price of the product and collected as the final sale is made to the consumer, and there are two types of excise taxes:

(1) Specific, a fixed amount of monetary value that is charged per a specific quantity of product (e.g., a fixed amount per cigarette, per pack, per weight of tobacco, etc.). This type of tax is easier to apply (easier to measure quantity than to determine the value of a product) and affords a more predictable revenue stream, given that its application results in a more uniform price increase in all tobacco products subjected to it;

(2) Ad Valorem, a fixed percentage of the value of the product (e.g., percentage of the retail price). Given its percentage nature, its application can cause large price differences between different priced products (including products within the same class). On the other hand, it adjusts automatically for inflation whereas specific excise taxes do not (since the latter is fixed, inflation can subvert its value if it the tax is not updated).

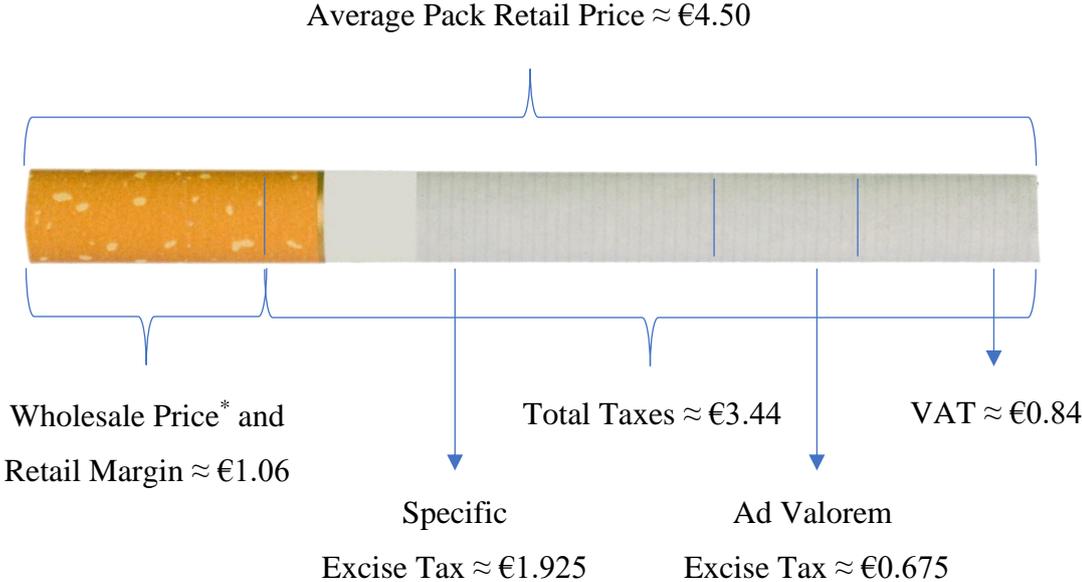
To prevent tobacco firms (and other tobacco stakeholders) from getting around the effects of excise taxes (e.g., reducing the effectiveness of Ad Valorem taxes by selling lower-priced

products), it is usual for governments to impose a minimum threshold percentage or value of excise taxes to be attached in the retail price for consumers.

The way each country and/or government chooses to tax tobacco products depends on their economic and social situation, so it can be very different from case to case; however, given the countless examples around the world on tobacco taxation putted into practice, some guidelines can be drawn: specific excise taxes tend to increase the average retail price more than ad valorem excise taxes do (the long-term goal should be to rely more on the former), all tobacco products should be given equivalent taxes (to avoid consumers switching to cheaper brands or products as a response to tax increases), excise taxes should account for 70% in the price of the product when it is sold to the final consumer, and taxation should increase regularly to reflect inflation and consumers incomes (not allowing for tobacco products to become more affordable) (Council of the European Union, 2011; World Health Organization, 2011; World Health Organization, b, n.d.).

In Portugal, tabaco taxation is established in “*Código dos Impostos Especiais de Consumo*” (Code of Excise Duties), which also regulates the taxation on petroleum and energy products, and on alcohol, alcoholic beverages and beverages containing added sugar or other sweetening matter. These excise duties, beyond their traditional component as taxes (i.e., a source of revenue), intend to condition the consumption of goods that have harmful effects on public health and the environment (Appendix P; Appendix Q).

Figure 2.1: Cigarette depicting all the monetary values that make up the average pack



\* i.e., production costs, industry profit, and wholesale margin

Source: own design based on the data from Appendix R

## 2.3. Specific Restrictions around the World

### 2.3.1. Plain Packaging

Plain Packaging (also known as Standardised Packaging in the UK, or Neutral Packaging in France) is a measure of tobacco control which attempts to standardise the appearance of tobacco products packages<sup>7</sup>: by removing/prohibiting all brand imagery (i.e., corporate logos, trademarks, colour schemes, graphics, etc.), the packages would only be allowed to display a standard and uniform background colour (drab dark brown, Pantone 448C), texture, shape and



Image 2.2: Marlboro packs in Australia (2012 vs. 2014)

Source: (Tobacco Labelling Resource Centre, n.d.)

size, the mandatory information (e.g., health warnings, ingredient information, toxic constituents, price information, tax stamps, and other government requirements), and the brand name in a standard position, font and size. Once tobacco advertising, promotion, and sponsorship gets restricted or prohibited, tobacco packaging becomes one of the main vehicles of communication for brands; as such the objectives of implementing such tobacco control measure are: preventing the packaging from being a promotional tool/vehicle (reducing brand awareness, attractiveness, and appeal) and conveying deceptive messages that may mislead consumers, and to enhance the health warnings effectiveness and salience – all with the purpose of reducing tobacco consumption particularly amongst underage consumers. The implementation of plain packaging is regarded in both WHO's FCTC (articles 11 and 13) and EU's TPD, but as recommendation not an obligation. Australia was, on the 1<sup>st</sup> of December 2012, the first country in the world to require standardised/plain packaging in tobacco packs; this measure of standard packs would arrive to Europe in 2017, when it was implemented in

<sup>7</sup> Including the standardisation of the cigarette, which must be all white or white with a “cork” colour tip (i.e., the filter).

both France and the United Kingdom (World Health Organizations, 2018c; Tobacco Free-Kids, 2019; Tobacco Free-Kids, c, n.d.).

### 2.3.2. *Retail Display Ban*

Tobacco products being hidden from display is a reality in a few countries around the world. Mostly present in countries that have already more restricted rules concerning the promotion and advertising of tobacco products, this tobacco control measure (although it differs from country to country, particularly on the tobacco products that are included on the ban) stipulates that tobacco products sold at retailers must be utterly covered from customers' eyesight, and only be shown at the request of customers (over the minimum legal age for smoking) when they intend to make a purchase. Tobacco products must then, instead of being on display, be stored, for example, under the counter, inside special cabinets with sliding doors, or behind curtains; only the products' listing brands (and its variants) and prices (in text and numbers) can be displayed<sup>8</sup> (normally on a list, following certain rules such as using a standard letter type, font, and size). In the UK, for example, within the area where tobacco products are stored (let's say behind a curtain) there cannot be non-tobacco products; this to prevent tobacco products from being displayed when someone asks for a non-tobacco product that is also hidden next to them (Unitas Wholesale, 2015; World Health Organization, 2017; Ford *et al.*, 2019; Smokefree Action, n.d.).

Assuming that displaying tobacco products in retail shops encourages people to smoke and prevents smokers from quitting<sup>9</sup>, this tobacco control measure aims to keep people from knowing what kind of tobacco products, brands and its variants are available for purchase – thus being expectable that such measure will safeguard young people's tobacco consumption and initiation to it, while serving the purpose of turning the buying of tobacco more unappealing and a sort-of unacceptable act (World Health Organization, 2017; He *et al.*, 2018; NSW Government, n.d.).

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<sup>8</sup> Although in some countries a picture can be used next to the brands and prices, however this list can only be shown to customers aged over 18.

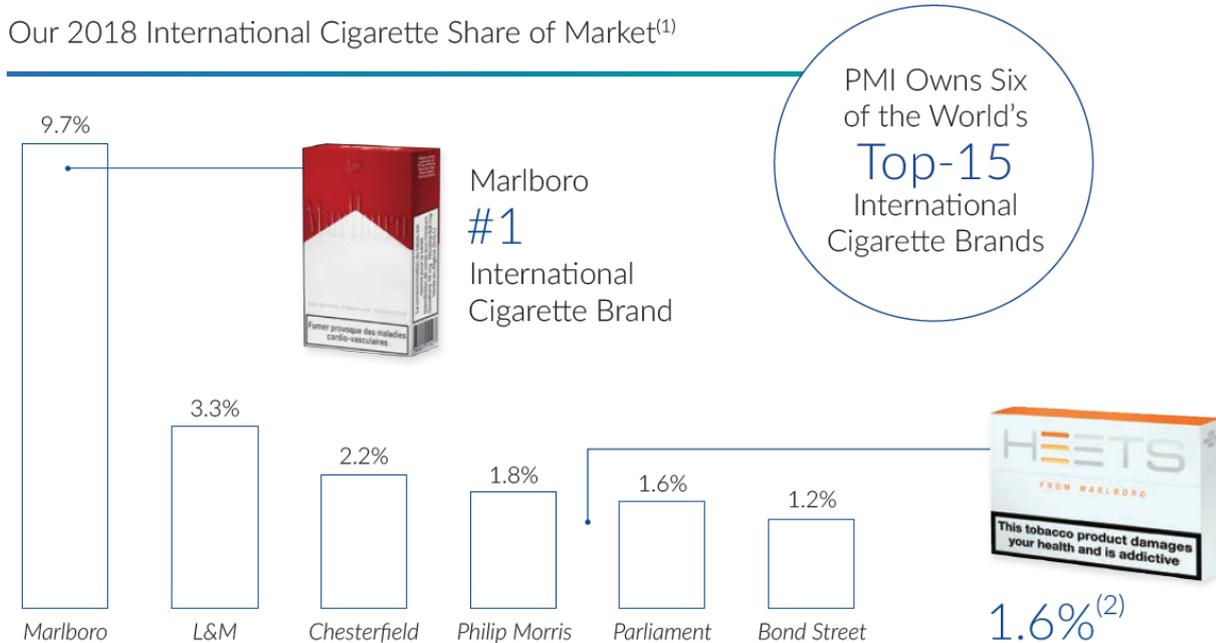
<sup>9</sup> WHO's guidelines on the article 13 of the FCTC state: "*Display of tobacco products at points of sale in itself constitutes advertising and promotion (...) a key means of promoting tobacco products and tobacco use (...) making it harder for tobacco users to quit. Young people are particularly vulnerable to the promotional effects of product display.*" (WHO Framework Convention on Tobacco Control, a, n.d.).

### 3. Philip Morris and Tabaqueira

Philip Morris International Inc. (PMI) is a multinational cigarette and tobacco manufacturer based in New York City (New York, USA). PMI owns 6 of the 15 best-selling cigarettes brands in the world, including its flagship brand *Marlboro* which is the number one cigarette brand in the world.

Graph 3.1: Top 6 PMI's cigarette brands

Our 2018 International Cigarette Share of Market<sup>(1)</sup>



<sup>(1)</sup> Sales volume of cigarette brand as a percentage of the total industry sales volume for cigarettes.

<sup>(2)</sup> Sales volume of PMI HTUs as a percentage of the total industry sales volume for cigarettes and HTUs.  
Note: Excluding China and the U.S.

Source: Philip Morris International, 2019a

Nowadays, PMI employs more than 77,000 people that contribute to the manufacturing and commercialisation of the firm's portfolio of products in the more than 180 countries where it is represented (Philip Morris International, h, n.d.). Last year's (2018) annual report revealed that PMI had an international market share<sup>10</sup> of 26.8% for cigarettes and of 1.6% for heated tobacco (Appendix C), which granted them a total revenue of USD \$79,823 Million for that year (Appendix A).

The tobacco industry is highly controversial, not only because it commercialises addictive products whose base ingredient (i.e., tobacco) is the single most preventable cause of death in the world, but also because it has been subject to ongoing accusations of bad practises (e.g., omission of scientific studies regarding the health impacts of smoking), to efforts by NGOs (e.g., World Health Organization) to control the commercialisation of tobacco products, and to the general public awareness of the dangers of cigarettes to human health (World Health

<sup>10</sup> Not accounting for the USA and China markets.

Organization, 2019a). As a response, PMI has issued in recent years communication campaigns advocating a “*smoke-free future*”, – essentially promoting healthier alternatives to cigarettes, such as the IQOS – a promising strategy that will forever change the tobacco industry as we know it (Philip Morris International, i, n.d.).

### **3.1. History**

It is not possible to talk about the history of Philip Morris without briefly introducing the history and origin of the product that catapulted the firm to its success: the tobacco.

The year was 1847; the Morris, a family recently immigrated from Germany to England, began to import tobacco and to sell it at a little mercantile shop of their own on London’s Bond Street (Cox, 2008). The Morris shop was already selling cigarettes (hand-rolled cigarettes, imported from Tukey), but back then to chew was the preferred way of consuming tobacco; it was not until the Crimean War (1853–1856) that the habit of smoking the tobacco began to be popularised – British soldiers were introduced to hand-rolled cigarettes by their Turkish allies, and when returning home from the war the newly acquired taste persisted. Philip Morris (by now in charge of the family store) seized the opportunity and began, in 1854, to produce his own brand of hand-rolled cigarettes to meet with the recent high demand (Randall, 1999; Aldrich, 2013). In 1902, the firm is relocated to the USA and establishes its headquarters in New York; and in 1954 the firm opens its first international subsidiary, in Australia, which enabled the firm for the first time to produce and commercialise PMI’s brands outside of the USA. Marlboro (established and registered as a trademark in 1908) becomes, in 1972, the world’s top-selling cigarette brand – it is PMI’s most valuable brand and also the most recognisable one, with its characteristic chevron symbol and the distinctive typeface of the written brand word. In 2001, PMI’s operations centre got moved from New York to Lausanne (Switzerland); and in 2009, a R&D facility known as “*The Cube*” was built in Neuchâtel (Switzerland) to serve PMI’s efforts to develop better and reduced-risk tobacco products – both buildings could be easily mistaken for the headquarters of any Silicon Valley’s tech firm due to their designs. After years of research and millions of dollars invested, PMI starts producing and selling in 2014 its first reduced-risk product (the IQOS, its first heat-not-burn device), as an alternative to the more conventional and harmful cigarettes. This not only goes along with PMI’s new vision of designing a world free of smoke, but also takes part of its efforts to present a more transparent image in an industry historically obscure. To achieve it, PMI is committed to build a portfolio of less harmful alternatives to conventional tobacco, to share its discoveries for independent experts to review it, and to align its methods of production with the guidelines

of regulators and the scientific community. PMI has also promised to disclose all of its activities (e.g., its charitable and political contributions, the provenance of its products' raw materials, fair trade initiatives, etc.), and to initiate closer dialogue not only with governments but also with other stakeholders (e.g., anti-tobacco NGOs, business partners, etc.). Marketing strategies employed by tobacco firms were always subject of scrutiny due to the nature of the industry, for that matter PMI is willingly setting standards that are, in some cases, higher than the ones imposed by local governments; a few examples are: to not insert advertisements on the front or back covers of any publication of general circulation; to not promote product placement in movies or television; to not place names or logos of PMI's brands on promotional items that may be used or seen by underage children; and to not use cartoons, youth-oriented celebrities and/or models who are under 25 years of age (or that appear to be so). All this efforts and initiatives are meant to show that collaboration, trust, and integrity are the core values with which PMI wants to see perceived by society – to ensure that everything PMI says and does is aligned with society expectations (Stewart, 2019; Philip Morris International, t, n.d.; Philip Morris International, w, n.d.; Philip Morris International, ab, n.d.; Philip Morris International, ag, n.d.).

Meanwhile in Portugal, Tabaqueira – a Portuguese tobacco importer firm – is founded by Alfredo da Silva in 1927. It is only in 1962 that Tabaqueira begins to produce tobacco-based products to commercialise and to export: the factory is assembled in Albarraque (Sintra, Portugal), as well as a residential district (including homes, a canteen, a nursery, a medical post, a cultural centre, and a chapel) for the workers and their families to live in – Tabaqueira was at the time employing around 660 workers (including technical and administrative staff) and had an annual production of roughly 6 billion cigarettes. In 1996, PMI acquires 65% of Tabaqueira, S.A. shares (nowadays it owns more than 99% of it); this shift turned Tabaqueira into one of Europe's biggest tobacco production centres – currently the factory, located in Albarraque (Sintra, Portugal) produces three times the volume produced before the integration of PMI, it employees around 800 workers, and it is one of the ten biggest exporting companies in Portugal producing for over 25 countries<sup>11</sup>. To better organise such a fast-growing business, PMI made in 2008 the decision to separate and to turn Tabaqueira, S.A. into two separate firms: Tabaqueira – Empresa Industrial de Tabacos, S.A. (responsible for the production of tobacco-related products), and Tabaqueira II, S.A. (responsible for the commercialisation of said products).

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<sup>11</sup> In 2017, the volume of exports accounted for €600 million. Portugal is not yet producing HEETS but that is one of Miguel Matos ambition for the next few years, which may increase the exportations volume (Silva, 2017).

Portugal was the fourth country in the world (after Japan, Italy, and Switzerland) to commercialise the IQOS, positioning the Portuguese market and Tabaqueira as pillars of PMI's vision and strategy for the future of the business. IQOS and Heets (the tobacco sticks intended for the IQOS) are already two of the main brands of Tabaqueira, alongside with Marlboro (number-one selling international cigarette brand), L&M (the fourth best-selling international cigarette brand), Chesterfield (the seventh best-selling international cigarette brand), SG (top-selling Portuguese cigarette brand) and Português (Cotec Portugal, n.d.; Infopédia, n.d.; Philip Morris International, c, n.d.; Philip Morris International, e, n.d.; Philip Morris International, ac, n.d.).

### 3.1.1. *Marlboro*

Marlboro is one of the most recognisable and valuable/powerful brands in the world, alongside the likes of Apple, McDonald's, Mastercard, Coca-Cola, Nike, Starbucks, and others (Winter, 2019; Forbes, n.d.). A cultural icon that has grown to be the world's best-selling cigarette brand since 1972 – 264 billion cigarettes were sold outside of the USA and China in 2018, accounting for a 9.7% share of the cigarette market<sup>12</sup> (Philip Morris International, c, n.d.). The now most-selling cigarette brand in the world, named after Great Marlborough Street, the original Philip Morris' factory location in London, England, began to be produced in 1924, initially in Richmond, Virginia (USA). Under the slogan "*Mild As May*", Marlboro cigarettes started to be advertised as a luxury cigarette aimed at women, employing this slogan with image of beautiful, sophisticated, and rich women. The aim at women continued through the 1930s and 1940s: the addition of greaseproof ivory tips to the cigarettes to prevent women's lipstick from smearing, or the painting of red tips to hide lipstick stains were measures directly targeted at the women segment. In the 1950s, following the emergence of studies linking lung cancer with tobacco smoking, tobacco firms began to commercialise filtered cigarettes (a product considered healthier but by then only marketed to women, and that would only be massified in the 1960s), and Philip Morris made the decision to reposition Marlboro as a cigarette for the men concerned about the harmful effects of smoking – once again Marlboro positioned for a niche market. The brand new filtered Marlboro is launched in 1955, and concerning that men would hesitate to adapt a "women's type of cigarette", Philip Morris changed all the brand's wardrobe: designer Frank Gianninoto added red to the white dull Marlboro package, marking the frontier between

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<sup>12</sup> Excluding the USA and China. In the USA, in 2017, Marlboro's had an astonishing share of 40% (Centers for Disease Control and Prevention, 2018).

the two colours with an arrow pointing upwards (a chevron or a rooftop design that is now a worldly recognisable symbol for Marlboro); and advertiser Leo Burnett set a campaign to reposition Marlboro as the rugged macho man's cigarette of choice, for that they needed something that personified a rugged and masculine life, something that would resonate with men of all ages and of any social status, so the choice fell onto the figure of an unnamed cowboy (the Marlboro Man) – a figure that represented independence, strength, confidence, and freedom; someone men wanted to be and women wanted to be with. While most brands

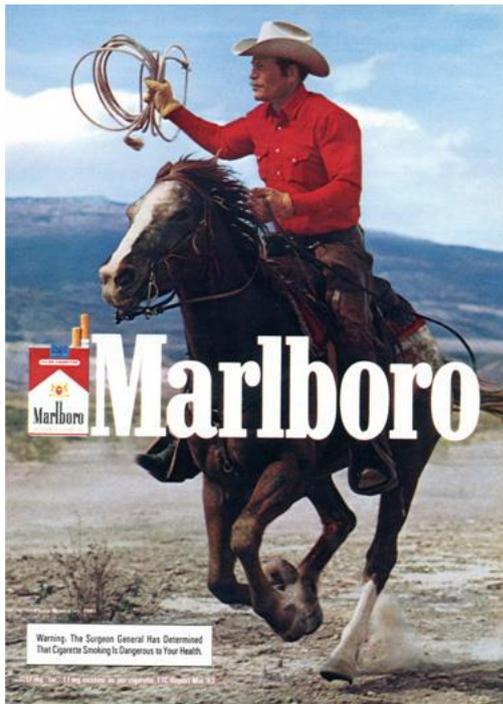


Image 3.1: Marlboro advertisement from 1983 featuring Darrell Winfield, the most famous and long-lasting "Marlboro Man" (from 1968 to 1989)

Source: Stanford University, a, n.d.

communication centred around the safety of the filtered cigarette and its “healthier” improvements over the previous unfiltered one, Marlboro took a detour: it focused on the independence of the smoker, on how he can make his own decisions and take his own risks in life, almost alluring and accepting the dangers of tobacco consumption. Masculinity and individualism played a big part in Marlboro’s communication; the Marlboro Man was (and still is to some extent) the personification of the American Dream, – that anyone can accomplish anything if they put hard work into it – whoever smoked a Marlboro would be a step closer to live it. These changes were spot on: in 1956,

Marlboro sales increased 3000% when comparing with the previous year, generating a revenue of \$5 billion, and in 1957 it increased even more to \$20 billion. In a year Marlboro went from a market share of less than 1% to become the fourth best-selling tobacco brand in the USA. Philip Morris’ initially also used other masculine and strong figures (e.g., weight lifters, sea captains, construction workers, war correspondents, etc.) but given his early success Philip Morris decided to put aside all the other figures and build the campaign around the cowboy figure. The *Marlboro Man* advertisements depicted cowboys in natural and prairie landscapes, often riding a horse or taking a break to enjoy a cigarette, almost always featuring the slogan “*Come to where the flavor is... Come to Marlboro Country*”. For the next decades the Marlboro Man would appear in countless advertisements across all kinds of platforms and channels, until it ended due to stricter advertisement regulations in 1999 in the USA and in the early 2000s in the rest of the world

(Appendix B) (Hine, 1995; Krishnamurthy, 2007; Norval, 2018; Yadav, 2019; First Versions, n.d.; Stanford University, b, n.d.).

Other advertising campaigns would follow (notably the partnership with Formula 1 teams), but still the Marlboro Man remains as the most successful and iconic one, a true testimony of tobacco industry's ability to influence the public through marketing.

### **3.2. Market**

The tobacco market is huge (it accounted in 2017, approximately, \$785 billion USD in global retail sales) and it does not comprises solely to the commercialisation of cigarettes; in fact, there are other types of tobacco/nicotine related products: the combustible tobacco products (cigarettes, cigars, cigarillos, smoking tobacco, and smokeless tobacco), the vapor products (vaping systems, and heated tobacco products), and nicotine replacement therapy (NRT) smoking cessation aid products. Despite that, cigarettes are still the most consumed tobacco product in the world accounting for 89.1% of global retail sales value (Appendix E). Approximately 5.4 trillion cigarette units were sold in 2017, a number that has been declining every year for several factors (e.g., local taxation changes, regulatory enforcement, consumer tastes, etc.); however, the value of retail sales has been increasing, mostly due to price increase per unit (Appendix F). In fact, only cigars, cigarillos, vapor products, and NRT products are selling more units when compared to the previous year. The case of vaping products is interesting since its growth is huge in both volume sold and value collected, showing to be by far the most promising category of tobacco products – especially when considering that it is not yet commercially available in every country where other more conventional tobacco products are (Foundation for A Smoke-Free World, 2018).

### **3.3. Competitors**

Through the years several firms have manufactured and/or commercialised tobacco products, either at local or global dimension. Some grew to a huge dimension and are now the big players in the market, while others have merged or been acquired by bigger and more powerful firms. Nowadays, five firms control the majority (approximately 80%) of the global tobacco industry: Philip Morris International (PMI), British American Tobacco (BAT), Imperial Tobacco, Japan Tobacco (JT), and China National Tobacco Corporation (CNTC) (Tobacco Free-Kids, 2018).

The CNTC is by far the leading company in the global cigarette market with an astonishing 42.6% market share, but there is an explanation for it: the firm is owned and operated by the

Chinese government, and given the huge limitation of cigarette imports and the lack of competition, it enjoys a virtual monopoly within the country – only 1% of the cigarettes produced are exported, the rest is consumed internally. Therefore, it is simple to explain such a global market share value, as the Chinese population (which is enormous in number) has no other option but to consume CNTC products (Tobacco Free-Kids, 2018).

Based in London, the BAT is the third largest firm (11.8% of market share) operating in the global cigarette market in over 200 markets. The firm has, over the years, acquired and merged with other firms in an effort to reach new markets, to become stronger and to increase sales: Reynolds American (which is its subsidiary for the USA), Bulgartabac (BAT bought a number of their cigarette brands), and others. Its top selling brands include Pall Mall, Rothmans, Kent, Dunhill and Lucky Strike – the listed brands account for roughly 50% of BAT's cigarette sales (British American Tobacco, 2019a).

JT has, like CNTC, almost exclusively restricted its operations to the country of its headquarters (Tokyo, Japan) in a similar case to China (the Japanese government owns 33.3% of JT's shares); for international purposes, Japan Tobacco International (JTI) was created and it is located in Geneva (Switzerland). Despite being the parent firm, JT's sales only account 40% of the total operating revenue – which is normal, given that it only serves the Japanese market, whereas JTI acts all over the world. JT commercialises its products in over 130 countries, controlling 8.4% of the global cigarette market share. The top brands in its portfolio are Camel, Winston, Liggett Ducat, Mevius, and Amber Leaf. Like the other firms, JT also has a history of acquiring other firms; its most recent acquisitions were in Indonesia and in the Philippines in 2007, which align with the strategy of expanding JT's presence in emerging markets. JT has the particularity to maintain non-tobacco operations, mainly in the pharmaceutical and food industries (Japan Tobacco Inc., 2019).

The fifth largest firm in the global cigarette market is Imperial Tobacco Group with a market share of 3.7%. This British firm operates in more than 160 countries and its top brands include West, Davidoff, John Player Special, Montecristo, and Golden Virginia (Imperial Brands, 2018).

### **3.4. Trends**

More than 1 billion people around the world consume tobacco products. There can be drawn several reasons for people to start and engage in such consumption habit, but the most prevalent ones are: to feel pleasure/enjoyment, and to feel relaxed (as a weapon to fight stress) – although this does not exclude the fact that tobacco (or more precisely nicotine) is addictive and that

itself contributes for its prolonging consumption. But nowadays, people are becoming more aware of the harms and disadvantages of smoking: recent generations have more access to education (and information) than previous ones, and they are more concerned with their well-being. At the same time, the WHO and other health organisations devote a lot of their efforts (e.g., studies, campaigns) to report the negative health impact related to the consumption of tobacco products (Foundation for A Smoke-Free World, 2018; World Health Organization, 2018a). The ease to which newer generations can gather information propels the search for alternative ways to consume tobacco, alternatives that albeit putting the consumer's health at risk do not harm as much as the conventional cigarette. As such, tobacco firms have endeavoured into the research and development of such alternatives, with the biggest trend right now being the Reduced-Risk Products (RRPs) – products that have the potential to reduce the health risks associated with conventional cigarettes. Amongst other benefits that have the potential to motivate consumers into moving from conventional cigarettes to RRP are: the affordability and value for the money, social considerations (e.g., these are products that have a more pleasant smell compared with conventional cigarettes), and convenience (easy to use; depending on the countries it may be possible to use them at premises where it is not possible to smoke conventional cigarettes) (Japan Tobacco, n.d.).

The first largely commercialised RRP around the world was the Electronic Cigarette (e-cigarette), a type of ENDS (Electronic Nicotine Delivery Systems). Developed in 2003 by a Chinese pharmacist named Hon Lik, the e-cigarette is a simple battery-powered cylindrical shaped device (which can be reusable or disposable; with similar dimensions to a conventional cigarette, and depending from the manufacturer it can be rectangular), but instead of using tobacco leaves and burning them it works by heating a liquid (which contains nicotine, amongst other substances) that produces an aerosol (or vapour, that is denser or more persistent than cigarette smoke) that the consumer inhales and exhales just as if it was a conventional cigarette. Besides its claims to be of less harm to health, the e-cigarette also has the differentiating factor of providing different tasting flavours for the consumer – depending on the composition of the liquid, the inhaled smoke would taste differently – and as expected the four biggest tobacco firms in the world (excluding CNTC) seized the opportunity and went to launch their own e-cigarette brands, with loads of customisable options and flavours. The effects that the consumption of e-cigarettes have on human health are still being studied, and albeit some have found e-cigarette's vapour to contain fewer of the toxic particles found on tobacco smoke, the former may contain toxic particles that the latter do not. A recent study, presented by PMI in 2019, showed evidence that the e-cigarette causes fewer biological responses associated with

cardiovascular and lung diseases than cigarette smoke. This type of RRP has become very popular since its introduction in 2003, mostly for health reasons (people who consume or want to quit tobacco consumption and found in the e-cigarette a healthier alternative or a “transition” product), for legal restrictions (to go around smoke-free policies), for flavouring options (cigarettes have little to no different options of flavour, whereas e-cigarettes has thousands), and for the customisation/DIY appeal (some e-cigarette devices are modifiable, as in a car where one can exchange parts to increase the performance or for aesthetic reasons; consumers can also manufacture their own liquid by mixing different ones, influencing the amount and intensity of nicotine and flavour delivered with every puff). The most known ENDS in the world are BAT’s Vype, Imperial’s blu, and Juul. (Appendix G) (Fernández *et al.*, 2015; Geller, 2015; World Health Organization, 2015; Bals *et al.*, 2018; Glantz *et al.*, 2018; World Health Organization, 2019c; Philip Morris International, 2019m; CASAA, n.d.; Smokefree, n.d.).

For the first time in decades, albeit some efforts have been made in the past<sup>13</sup>, tobacco firms were expanding their portfolio beyond the conventional cigarette – a pretty standardised product almost undistinguished from brand to brand, hence why marketing and advertising are of such importance in this industry. Of course, one can mention the addition of the filter to the cigarette (and later the incorporation of flavours to the same filter) or the introduction of the so-called “light” cigarettes, but the product remained virtually the same. Both these innovations are examples of products developed to offer “healthier” alternatives, and both these innovations were criticised by medical and social organisations around the world (American Cancer Society, 2019). It is hard to innovate in the tobacco industry, because no matter what in its essence tobacco consumption (of any form) is bad for human health. That is a fact, however tobacco firms never claimed that these innovations would eliminate all the risks of tobacco-related products consumption; in fact, all firms state that these products merely reduce the risks of such consumption, an advantage (in their words) for people that are already consumers of conventional cigarettes. But on the other hand, medical and social organisations state that these alternatives are as bad as the original product: e.g., although they recognise that “light” cigarettes contain lower levels of harmful components, the consumption of such cigarettes is highly discouraged given that a regular smoker would inhale larger quantities of smoke from it when compared to a conventional cigarette, putting them hand-in-hand in the harmful done to

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<sup>13</sup> Cigarette firms have been working on electronic based cigarettes solutions since 1963 (Dutra *et al.*, 2017).

the consumer's health. Such organisations have a lot of power and recognition (we are talking about big medical organisations such as the World Health Organization, the Tobacco Control, the International Agency for Research on Cancer; smaller local and international non-governmental organisations; and even country governments), and they are the ones that impose restrictions and bans on tobacco-based products. For example, in the USA it is forbidden since June 2010 to advertise and label tobacco products as "light". These organisations frequently accuse tobacco firms of hiding documents and research studies that prove the harms of these alternative products, picturing in the consumers' (and the general public) minds the tobacco firms as evil corporations whose only goal is to seek profit at the cost of millions of lives (National Cancer Institute, 2010; World Health Organization, a, n.d.). As with all stories, the truth lies somewhere in between both sides, however one is at clear advantage of the other. Tobacco firms, being the "weakest" actor in this story, have the role to go after the damage, i.e., to fight back the attacks directed at them. When e-cigarettes began its production and commercialisation there were few to no restrictions on its labelling, packaging, and advertisement – the society, as a whole, simply did not had enough information about on the benefits and/or health risks of it to make a verdict. It was just a matter of time until opinions were formed and actions undertook: most countries now treat e-cigarette just like a conventional one, and some countries even banned its commercialisation entirely (e.g., Japan, Thailand). Faced with the obstacles imposed on e-cigarettes, tobacco firms had to turn to other options and to keep moving, hence the most recent trend on Heated Tobacco products – an effort to benefit from a product that is still largely unknow to the public (and as such with little to no regulation) but that promises the same benefits as the e-cigarette.

Another RRP, Heated Tobacco Products (HTPs) are very similar to e-cigarettes, the difference is that instead of heating a liquid to produce the aerosol that contains nicotine (and other chemicals) to be inhaled by the person smoking it heats tobacco<sup>14</sup>. As with e-cigarettes, HTPs can also have different flavours for consumers to experience. As of 2016, WHO had not found any credible evidence suggesting that HTPs had lower health risks when compared to conventional cigarettes (they claim that the studies reporting lower risk and/or health benefits from the consumption of HTPs were funded by the industry); but in 2018, Public Health England (an UK executive agency of the Department of Health and Social Care) published a

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<sup>14</sup> The most common type is a device that heats processed tobacco to produce an aerosol (e.g., IQOS), but there is another less common type of device that produces an aerosol (from non-tobacco sources, e.g., liquid) which then goes through processed tobacco (or leaves) to get its flavour (e.g., JTI's Ploom Tech) (Japan Tobacco Inc., 2018).

report with claims that although HTPs could in fact be safer than conventional cigarettes, they may not be safer than e-cigarettes (McNeill *et al.*, 2018; World Health Organization, 2018b). However, these are very preliminary and limited conclusions and only further studies can really assess the industry's claimed benefits on HTPs compared with other tobacco products; no long-term studies have been published and those will still take years from now to conclude – it takes decades to monitor and evaluate any product's effect on human health. Nonetheless, according to PMI some independent studies have been conducted (none approaching the long-term health effects of HTPs) showing evidence that HTPs are a better alternative for smokers than cigarettes – because it is the combustion (i.e., the burning of the tobacco) that releases the vast majority of harmful chemicals causing conventional tobacco products related illnesses – a fact that, in the eyes of PMI, WHO ignores and refuses to include in its reports and in the development of future politics on health improvement measures (the latest 2019 WHO's report on the tobacco epidemic stills omits scientific evidences supporting RRP as better alternatives for cigarette smokers) (Philip Morris International, 2019d; Philip Morris International, 2019h; World Health Organization, 2019c).

Tobacco firms have been launching HTPs since 1988, but their commercialisation has always been a failure (the products never satisfied consumers due to the technology available at the time, the difficulty to use such devices, and the taste); nonetheless tobacco firms continued to insist throughout the years to invest in this type of product – perhaps due to the conviction that they made a better and “healthier” product, or maybe because there is a global decline in tobacco consumption that which in conjunction with tighter legal regulations led tobacco firms to invest and offer alternative products to safeguard their profits and political interests. What is known for sure is that HTPs are still, for the most part, in a blurry area regarding legal restrictions (tax, health warnings, smoking bans, advertising bans, etc.), and that its acceptance levels by consumers are good and promising propelling tobacco firms to capitalise as much and fast as possible on it. As of October 2018, 40 million people around the world had adopted e-cigarettes, and 6 million were consuming PMI's RRP. By the end of 2018, PMI's RRP were already accounting for 5.1% of sales volume and 13.8% of net revenue (Caputi, 2016; Bialous *et al.*, 2018; Philip Morris International, 2018g; Philip Morris International, 2019i).

### 3.4.1. IQOS

PMI is already looking for the future: its most recent vision of a world without cigarettes prompted a huge investment (more than 10 years, USD \$6 billion, and over 400 scientists) into

research and development of alternative products. Their promise to design a smoke-free future has brought results, and the product leading the way is the IQOS. Under the motto “*Tobacco Meets Technology*”, the IQOS (pronounced “eye-kose”) is a pen-shaped electronic device that heats specially designed heated tobacco units (HEETS – which comes in packs of 20 units, weighing 6.1 grams, similar to most conventional cigarette packs and units but shorter and more compact; these mini tobacco sticks last for approximately 6 minutes or around 14 puffs) – some might think of it as a hybrid between the e-cigarette and the conventional cigarette – which releases vapor without burning the tobacco or heating a nicotine-containing liquid. The particularity of such device relies on the temperature to which the tobacco is exposed: in a conventional cigarette the tobacco burns at approximately 600°C, whereas the IQOS heats the tobacco at 350°C. This new method of heating the tobacco instead of burning it releases vapor (aerosol, not smoke) without the need for combustion or fire, it does not produce ash nor smoke, the released aerosol dissipates faster, and the smell is nicer and much less persistent. PMI argues that this difference in temperature and method (to heat vs. to burn) guarantees that lower levels of harmful chemicals from conventional cigarettes are generated, while maintaining all the same ritual, experience, “pleasure”, and flavour of a conventional cigarette – as PMI states, the nicotine is the tobacco element that creates addiction, and although it is not completely safe (it propels and increases blood pressure) it is not the element that induces tobacco-related diseases; the IQOS comes as a way for smokers to continue to consume nicotine without the harmful components featured in conventional tobacco products (around 70% of IQOS consumers stop smoking cigarettes<sup>15</sup>). The experience of using the IQOS is very simple and intuitive: the process starts by inserting a unit of HEETS into the holder, then with the push of a button a light next to it starts to blink (the tobacco is being heated), and when the light stops blinking and stays on the IQOS is ready to use (the aerosol is then inhaled through a mouthpiece with a filter); the HEETS unit usage time is about to be over once the light starts blinking again (the IQOS also vibrates twice to warn the user) and it is over when the light turns off (Philip Morris Products, 2018). The IQOS, a high-tech, sophisticated, and aspirational product was first launched in Nagoya (Japan) in 2014, but quickly went to other markets. It is currently available in 48 countries<sup>16</sup>, located mainly in Europe, and its launching in every country is always a big

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<sup>15</sup> (Philip Morris International, 2019e).

<sup>16</sup> After two years of the official request and more than 2 million pages in reports submitted, the IQOS finally got in April 2019 the approval from the FDA (Food and Drug Administration) to commercialise the IQOS within the USA, stating that a market with 40 million smokers could benefit a lot from a product that has the potential to save lives. The commercialisation has effectively began

mark: events are held, normally within the newly open stores, surrounded with glamour and sophistication (traces that the conventional tobacco has long lost), with different lounge areas and sitting spaces, featuring music (e.g., DJs), catering, product sampling of the IQOS, and other attractions. In countries where the IQOS is currently being sold, PMI devotes roughly 90% of its budget to IQOS and only 10% to everything else (which includes cigarettes) (Appendix H; Appendix I) (Truth Initiative, 2018; Rocha, 2019; Philip Morris International, a, n.d.; Philip Morris International, i, n.d.; Philip Morris International, l, n.d.; Philip Morris International, n, n.d.; Philip Morris International, af, n.d.; Philip Morris International, ai, n.d.). This type of RRP is still a new phenomenon: PMI claims that the vapour released from the IQOS contains less than 90% to 95% of the harmful substances/particles found in conventional cigarettes<sup>17</sup>; the firm has already conducted studies in which they observed that IQOS users and former smokers (who do not consume IQOS) have very similar levels of tobacco exposure. But, because this type of product has not been in the market for that long, few independent studies of its effect on human health (including the effect on youth consumption and smoke cessation) were conducted (the majority of science studies published on IQOS are from PMI itself) and none have reached any significant long-term conclusions. However, some published independent studies (more than 20 by April 2019, according to Tabaqueira) have confirmed heated tobacco products to be a better alternative to cigarettes for smokers who do not want or cannot stop smoking, as they reduce the toxic constituents found in cigarette smoke by 90% to 95%<sup>18</sup>. For now, the IQOS lives in a product category that does not get as much marketing and advertising restrictions as traditional tobacco products (e.g., outdoor advertisement, POS displays, sponsorship, events, etc.). Of course, this might change in the future (it most likely will), but for now PMI is able to capitalise on it: the product was displayed and used on Japanese national television shows, it is being promoted on social media (a first-time venture for PMI), and it is taxed at a lower rate than conventional cigarettes (Bansal *et al.*, 2017; Philip Morris International, 2019c; Tobacco Free-Kids, b, n.d.). PMI expects that by 2025 at least 40 million consumers of PMI brands (who do not wish to quit smoking) have switched to smoke-free products and that at least 30% of the firm's total shipment volume will come from these

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in October 2019, making the IQOS the first HTP to hit that market, a true testament of this PMI's product pioneer status (Petiz, 2019).

<sup>17</sup> This does not mean that there is an effective risk reduction, all it means is that it contains lower levels of the particles found in conventional cigarettes that cause health problems, but it does not state that it is of less harm to human health than conventional cigarettes; people simply associate one thing with the other (Glatz, 2018).

<sup>18</sup> Nonetheless, PMI and Tabaqueira always stress that the best for smokers' health is to stop consuming any tobacco or nicotine-based products.

products, thus reducing the number of PMI's cigarette smokers to 55 million (Kaplan, 2018; Philip Morris International, 2019f).

In Portuguese territory, the IQOS made its debut in December 2015, in the Lisbon area, when the first devices were sold to a selected number of people through a referral program (it were the pilot-test participants, mostly Tabaqueira collaborators, that recommend adult smokers that they think match with the new product), with each of these people having a username and a password needed to make the online purchase of IQOS and HEETS<sup>19</sup>. Half a year later, on the 18<sup>th</sup> of July 2016, the IQOS started to be officially commercialised in Portugal – by the end of the year IQOS already had ten thousand users in Portugal, mostly smokers aged between 30 and 40 years old who were looking for an alternative to conventional tobacco consumption. The most recent data registers 200,000 IQOS consumers in Portugal by the end of the first trimester of 2019, a big increase against the 150,000 by October 2018. In February 2019, Tabaqueira was one of the recipients of the award “*Produto do Ano*” (in English, “*Product of the Year*”) for the IQOS product; this award, voted by the consumers, is given to the most innovative products and gives them the right to display the “*Produto do Ano*” trademark in all of the product's advertising, packaging, and marketing for a year (Espírito Santo, 2016; Philip Morris International, 2016b; Ferreira, 2017; Philip Morris International, 2018e; Philip Morris International, 2019c; Philip Morris International, 2019k). PMI is currently launching the third generation of the IQOS, which comprises two devices: the IQOS 3 and the IQOS 3 MULTI. These are newly and improved devices based on the original IQOS that feature a better design and an improved experience for the consumer. The goal for PMI with this new generation of devices is to encourage an even greater number of people to substitute the consumption of conventional cigarettes for HTPs (mainly the IQOS) – as of September 2019, around 8.8 million people around the world have stopped smoking and switched to the IQOS (Philip Morris International, 2018f; Philip Morris International, 2019e). One of the biggest characteristics and assets of the IQOS line is its accessories and customisation options: the consumer choses one colour for the kit but then he or she can buy cases or sleeves of other colours to fully personalise its equipment (Appendix H). PMI sells and showcases its products in their online and physical shops as a high-tech experience, in a similar fashion as other electronic devices are (e.g., smartphones); even the package (inside and out) containing the product and its accessories is hard to distinguish from a smartphone package (Appendix J). Given the current state on HTPs'

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<sup>19</sup> In the beginning of its commercialisation in Portugal, the HEETS was originally named “*Marlboro Heatsticks*”, then it was rebranded as “HEETS from Marlboro, and finally in the beginning of 2018 it become “*HEETS*” as it is known today (IQOS HEETS, 2018).

marketing and advertising restrictions, PMI is still able to provide all the information (characteristics, benefits, etc.) on IQOS to everyone, not only on their own website but also in physical stores across the country. The story is different when talking about HEETS (Appendix I): since it is a product that contains tobacco it has some restrictions in the way it is communicated, and just like conventional cigarettes it cannot be advertised or sold online. But, being an electronic device (regardless of its final/intended use), IQOS can; for that matter PMI can sell online (which it does). A great tool that PMI offers online for anyone interested in the IQOS is a map with the locations where IQOS and HEETS can be found for selling – not every business sells both the IQOS devices and the HEETS tobacco, hence the utility of this online tool. Regarding PMI's direct selling to the final consumer, the firm provides three channels to make it happen: the website, their own stores, and salespeople. The purchasing option from the website is very simple and familiar; as it was already said, it is as intuitive as buying a smartphone from an electronic online retailer (or any other product as a matter of fact): the customer chooses the product, puts it in the virtual shopping cart, chooses an address for the order to be delivered (the order can be picked-up at a selected number of PMI's partners), selects the payment method; he or she is then able to check the status of the order, to cancel it, or to change the address for where the order is to be delivered (Tabacaria, n.d.; Philip Morris International, x, n.d.; Philip Morris International, aa, n.d.; Philip Morris International, ah, n.d.). PMI's own stores for the IQOS are a drift on the tobacco industry, very different from the impersonal and mass selling process that characterises the conventional cigarette pack. Being an innovative product on its own for a very traditional industry, PMI had the opportunity to reinvent the marketing for it; as such they decided to use pop-up stores (i.e., stationery and temporary stores, located in popular shopping areas). Their stores are very modern, minimalist, and very focused on the product (resembling technology stores, such as the ones from Apple): the IQOS is a product that requires a lot of explanation (it did not exist before in the market), so the goal is to showcase the product, to educate consumers on it, and to make them experience the product with all their senses (Appendix K) (Burkert, 2017). Lastly, PMI also makes use of salespeople to advertise and communicate the IQOS: it is possible for a customer to arrange a meeting at a convenient time at either in any of PMI's stores, in a selected number of resellers, or at any other location that best suits the customer. These meetings can be appointed through IQOS' website or by calling a dedicated phone number. As a plus there is the option for the customer, after the said meeting, to borrow (free of charge) an IQOS kit for seven days. PMI has also made available numerous platforms at distance for consumers to reach out to them in case of any doubts; these additional support contacts are available on their website (through a

live chat), on social media (Facebook and Twitter), by email, and by phone. Altogether, it is possible to contact PMI any day of the week at any hour of the day (Philip Morris International, f, n.d.; Philip Morris International, g, n.d.; Philip Morris International, z, n.d.; Philip Morris International, ae, n.d.).

### **3.5. Current Campaigns / Strategies**

#### *3.5.1. Formula 1 / Ferrari with “Mission Winnow”*

PMI has a partnership with Ferrari – the most dominant in terms of race wins and the most valuable F1 team (worth \$1.33 billion, in 2017) – that dates back to 1984, with Marlboro being the brand that benefits the most from it (one of the goals was for Marlboro to build brand attributes based on the positive characteristics of the Ferrari brand). Marlboro had previously sponsored the McLaren and Alfa Romeo teams, amongst others. The iconic relationship with Ferrari only started in 1997 and it was a great match from the beginning: the Ferrari F1 team traditionally races in red (Italy’s national motor racing colour) which is the same colour associated with the Marlboro brand. Soon, in 1997, Ferrari included Marlboro into its team name (Scuderia Ferrari Marlboro), which stayed like that until 2010 when sponsorship bans became too strict. In 2017, PMI renewed the partnership with Ferrari, a deal worth between \$50 and \$100 million annually to Ferrari; PMI is actually the only “surviving” tobacco firm in F1. Due to the tobacco advertising ban in F1, the last time the Marlboro logo appeared on a race car was at the Chinese Grand Prix in 2007 (Motorsport, 1996; Philip Morris International, 2009; Grant-Braham *et al.*, 2012; Edmondson, 2017; Smith, 2017; Sylt, 2019; F1 Fansite, n.d.). The year 2018 marks the beginning of a new PMI’s positioning in F1: “*Mission Winnow*”<sup>20</sup> is the newest PMI initiative, not intended to advertise or promote any PMI-branded product, but to demonstrate with full transparency their commitment to “*continuous innovation and development of new solutions that can expedite positive change for society*” (Philip Morris Products, a, n.d.), a CSR effort to demonstrate the transformation the firm is going through and to portray it as a responsible and transparent member of society. However, in Ferrari’s section of the F1 website, it clearly states that “*Mission Winnow*” is about replacing cigarettes with smoke-free products (e.g., the IQOS). PMI’s decision to allocate “*Mission Winnow*” to Ferrari is due to parallels that can be drawn between the two firms: Ferrari is on this constant focus to

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<sup>20</sup> Winnow is an English word meaning: to remove something, to get rid of, to separate desirable from undesirable, etc. PMI states that it is the distinction between what is good and truth from the inaccurate or fallacious; a crucial distinction in a world overwhelmed with information not always trustworthy (Philip Morris International, 2018a) (Merriam-Webster, n.d.).

improve performance and reliability, whereas PMI is seeking to transform the tobacco business through the use of science and technology, for innovation to make ways for a better future; and both are in the constant pursuit of victory. As PMI's CEO Andre Calantzopoulos said, "*We will use this global platform as a window into the new PMI and to challenge preconceptions, as we know there are many who may have doubts about us and our motivations. Our partnership with Scuderia Ferrari gives us the opportunity to build on many encouraging individual*



Image 3.2: "Mission Winnow" logo with chevrons highlighted

Source: (Hefler, 2019)

*conversations with critics and supporters alike and reach out to a broad audience to engage at scale*"<sup>21</sup>.

"Mission Winnow" made its first appearance on Ferrari's cars at the Japanese Grand Prix in October 2018; as expected, PMI was accused of using this apparently "benevolent"

campaign as an effort of subliminal advertising for their cigarettes (the logo is said to be reminiscent of the Marlboro one, with its chevron shapes and white, red, and black colours), which they deny, stating that the design of the logo does not intend to reflect any of their brands and products, and remembering that all tobacco branding they had on cars, bikes, drivers' and riders' uniforms, and racetrack signage has been absent since 2007 (Appendix L). Some race circuits allowed for Ferrari to have the "Mission Winnow" sponsorship while others have not, which has to do mostly with the different tobacco advertising restrictions in effect in the different countries where F1 races take place, and due to this "on-off" branding PMI has considered to remove the "Mission Winnow" campaign entirely from the what remains of the 2019 F1 season. (Philip Morris International, 2018b; Collantine, 2019; Fletcher, 2019; Hall, 2019; Impey, 2019; Noble, 2019; Ferrari, n.d.; Philip Morris Products, a, n.d.).

### 3.5.2. Social Patronage and Sustainability Causes

Given the communication restrictions in the industry, the majority of the firm's communication is set *below the line*. To achieve it, PMI and Tabaqueira put efforts into patronage. Globally, PMI presents itself as a firm strongly committed to help the local communities, where they and their subsidiaries operate, contributing for their development and growth (in 2018, PMI contributed with more than USD \$28 million). Their patronage (i.e., charitable giving and

<sup>21</sup> (Sport Industry Insider, 2018).

community investments) is aligned with the United Nations Sustainable Development Goals; to achieve it, PMI's investment focus relies mainly on four areas: access to education, the empowerment of women, economic opportunity, and disaster preparedness and relief efforts. Last year (2018), they invested USD \$121,102 in patronage (the average annual investment of the last three years was USD \$166,543), in associations dedicated to social causes, economic inequality, and assistance and combat to natural disasters. (Appendix M) (Philip Morris International, 2019b; Philip Morris International, k, n.d.; Philip Morris International, m, n.d.).

For 2019, Tabaqueira has a running awareness campaign titled "*Cada Coisa no Seu Lugar*" promoting good environmental practices, which follows PMI public support to the goals of EU's directives on the reduction of the impact of certain plastic products on the environment. So the goal of the campaign is to raise awareness, particularly among adult smokers and consumers of "heat-not-burn" products, on the importance each of them has in protecting the environment by disposing the tobacco filters in appropriate collection sites ("plastics and cigarette butts do not belong in neither the ground nor the sea"). The campaign focus heavily on the accumulated waste in oceans (they state that 80% of the waste found at sea is comes from waste generated on ground), on how citizens and adult smokers can contribute to the protection of the oceans, and their mottos are "*Every thing in its place, and plastics is not at the sea*" ("*Cada coisa no seu lugar, e o dos plásticos não é no mar*") and "*don't throw it to ground, what falls to the ground to the sea will get*" ("*Não deite no chão, o que cai no chão ao mar vai parar*"). The campaign kickstarted in December 2018 with an awareness action held at the Oeiras' and Algés' train stations – it would then partner with events, mainly music and art festivals, along the 2019 summer (Regata de Portugal, NOS Primavera Sound, Galp Beach Party, Sumol Summer Fest, EDP Cool Jazz, NOS Alive, Super Bock Super Rock, MEO Marés Vivas, MEO SW, Vodafone Paredes de Coura, EDP Vilar de Mouros, e Super Bock em Stock)<sup>22</sup> – and the action, besides conveying the message of good environmental practices it also distributed reusable pocket ashtrays (a tiny bag smaller than a smartphone) thus encouraging consumers to take action and be part of this sustainability movement. Regarding this initiative, Miguel Matos (Tabaqueira's General Manager) added: "*The issue of environmental education has been a concern of ours (...) to aware adult smokers of the importance of their contribution to a cleaner environment, protecting the oceans by putting out their cigarettes (...) and placing them in ashtrays.*". This is not the first time Tabaqueira does this kind of actions to raise awareness on sustainability issues: in a recent past similar campaigns were held on the beaches

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<sup>22</sup> See Appendix S.

of Sintra, Porto Santo (Madeira archipelago), and Praia da Vitória (Azores archipelago) (Philip Morris International, 2018a; Philip Morris International, 2018c; Philip Morris International, 2019l; Philip Morris International, ac, n.d.; Philip Morris International, ad, n.d.).

Given the sheer amount of fires triggered every summer in Portuguese forests, in 2019 Tabaqueira partnered up with the Ministry of Internal Affairs, with *Liga dos Bombeiros Portugueses* (portuguese association of firemen), with radio broadcaster *TSF*, and with newspapers *Jornal de Notícias* and *Diário de Notícias* to create the national movement “*Bravos Heróis*” (in English: “*Brave Heroes*”) aimed at raising awareness among Portuguese citizens on their behaviours towards fire prevention. At the presentation conference of this movement, Miguel Matos reinforced the importance given by Tabaqueira to sustainability and to a smoke-free Portugal; he also argued that only by changing human behaviour, namely the one that eliminates combustion, will the risk of fire be reduced or eliminated. When visiting the movement’s website, on the homepage<sup>23</sup> one can read “*Portugal without smoke – to make a difference has never been easier*” – a sentence that goes hand-in-hand with PMI’s own positioning, and that could easily be also featured on Tabaqueira’s website homepage (Philip Morris International, 2019j).

### 3.5.3. “Unsmoke Your World” and “It’s Time”

Cigarette volume sales are falling all over the world at a fast pace; PMI instead of fighting that problem (because it is a problem when a business’s main product starts selling less) embraced it. They listened to the market demands, they observed the sustainable trend emerging in the world, they acknowledged that the consumers are today more concerned about their health than before. PMI made the commitment to develop and offer to consumers a better product; and that commitment is so strong and sharp that the firm’s long-term plan is to eventually stop selling tobacco and offer a portfolio only of alternative and better products<sup>24</sup>. Although this move by PMI aims at a good and sustainable necessity found in the market, they do acknowledge that this is not a purely altruistic move, there is business value in this change and PMI does not hide that fact many of these endeavours are planned from a business perspective; nonetheless, PMI does not aim to captivate new and/or young consumers (Baker, 2019).

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<sup>23</sup> See <http://bravosherois.tsf.pt/>.

<sup>24</sup> The technology PMI is developing can also be used for other products: e.g., nicotine can have other uses and PMI is already investing in a firm that produces vaccines for various diseases using nicotine (Rocha, 2019).

*“Unsmoke Your World”* is PMI’s most recent communication campaign, and it is a very simple and straightforward one: *“If you don’t smoke, don’t start. If you smoke, quit. If you don’t quit, change.”* The campaign’s own website is filled with video testimonials of people who have quit smoking<sup>25</sup> featuring short and “inspirational” sentences: *“United we can rid smoke from our lives.”*, *“Together we can Unsmoke the World.”*, *“Because it’s the smoke that’s the main problem.”*, and many more. The simple truth is that the best anyone can do for their health is to never smoke, but PMI wants to assure existing smokers who do not wish to quit that there are better alternatives – *“If we have been part of the problem until now, we have the possibility to be part of the solution”*, stated<sup>26</sup> Rui Minhos (head of Scientific Engagement at PMI). There are 1.1 billion smokers in the world; to counter that number, governments and regulators have implemented numerous tobacco control strategies to promote, accelerate and intensify the decline in the number of smokers. Despite the numerous strategies employed (e.g., smoking bans, restrictive advertising and promotion of tobacco products, raising the taxes for those products, printing health warnings in their packages, etc.) the reality is that the number of smokers in 2025 will be of 1 billion according to the WHO, a small decline compared with today’s numbers. The world has entered a decade of sustainability, a decade where industries have been increasingly supportive and concerned on the society and the world, where brands adopt social purposes and promise to have a positive impact in the world: the food industry is offering products with less sugar and fat levels, the car industry is striving to design environmentally friendly engines and to expand their portfolio of electric vehicles, and PMI is developing smoke-free alternatives. *“Unsmoke Your World”* came as PMI’s positioning to face this public health problem. Marketing and communication play a big role in the conversion of consumers but getting the message across is very difficult in strict advertising restriction environments. The PMI initiative for dialogue with governments and regulators to assure the accuracy of information delivered to the consumers is part of a parallel campaign entitled *“It’s Time”*, because when all products are equally regulated (i.e., considered the same) and thus restricted in communication<sup>27</sup>, the consumer is denied access to information. PMI states that it has done its part in promoting a smoke-free world (by investing in innovative alternative RRP), that it is now up for governments and regulators to respond with different and innovative policies – regulation of tobacco and nicotine products is important and necessary, but they are essentially built around tobacco cessation measures, so PMI believes it is time for policy makers

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<sup>25</sup> See, as an example, <https://www.youtube.com/watch?v=Si0A2glDJ9g> .

<sup>26</sup> (Plüss, 2019).

<sup>27</sup> PMI often alerts the reader that many regulations were outlined before RRP existed in circulation.

to acknowledge that some consumers do not wish to quit and that there are better alternatives that could be of less risk for health than the current offers. As stated by Rui Minhos<sup>28</sup>, “*If harm reduction programmes for HIV, seat belts, and needle replacement programs work, why don’t look at tobacco harm reduction?*”. In 2018, a global survey, commissioned by PMI and inquired in 31 countries (to a total of 31,000 adults), revealed that 92% of respondents believe that smokers should have access to the most accurate information in order to make informed choices, with 77% believing that governments should do anything to encourage smokers who do not wish to cigarettes to substitute them for better alternatives, and with only 35% agreeing that governments have done a good job to ensure anyone has access to the latest advancements and innovations; a sign, on PMI’s opinion, that society does not want governments to block promising solutions for the resolution of public health issues. Summing up, “*Unsmoke Your World*” is a campaign aimed at tobacco consumers around, whereas “*It’s Time*” is aimed at governments, regulators, and health authorities, but both campaigns aim for the same: promote the substitution of tobacco products for a smoke-free world through PMI’s alternatives. The speech is virtually the same for the two campaigns, the only thing that changes is the target for each. Terms as “*dialogue*”, “*conversation*”, “*message*”, “*information*”, “*innovation*”, “*alternatives*” are all over the place, and subjects as the investments undertook by PMI, the science behind the alternative products, the importance of regulation on tobacco products (and need to adapt it to alternative products), the confusion on consumers’ minds about the benefits and disadvantages of each product (due to regulation not distinguishing them), and the fight for a world without “smoke” are recurrent. During 2019’s *World No Tobacco Day* (celebrated every year on the 31<sup>st</sup> of May), PMI’s COO Jacek Olczak aligned PMI’s vision with the purpose of this day, but at the same time proposed that a more refined and accurate designation for this celebratory day should be “*World No Smoking Day*” (Business Wire, 2018; Lepitak, 2018; Philip Morris International, 2019g; Philip Morris International, 2019n; Rocha, 2019; Philip Morris Products, b, n.d.; Philip Morris International, p, n.d.; Philip Morris International, q, n.d.; Philip Morris International, r, n.d.; Philip Morris International, s, n.d.; Philip Morris International, aj, n.d.).

Most of PMI’s content on social media (e.g., LinkedIn, Twitter) concentrates heavily on both the “*Unsmoke Your World*” and “*It’s Time*” campaigns, with most posts being on the subject of the differences between cigarettes, e-cigarettes, the IQOS’ technology, and on the misinformation and confusion that consumers may have regarding these new RRP. On

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<sup>28</sup> (Plüss, 2019).

YouTube, PMI's account features countless videos, and ever since the 24<sup>th</sup> of April 2018<sup>29</sup> – when “*The Decade of Disruption*”, a documentary about the health risks of cigarette consumption, the state-of-the-art technology behind the alternative products that PMI is developing and the foreshadow of the smoke-free world they envision for the future – most videos' themes revolve around both these campaigns. PMI uploads videos almost every day (sometimes more than once per day) and they basically have four types of videos:

- ordinary people testimonials on how they managed to quit smoking, and the benefits derived from such decision;
- interviews to ordinary people and to PMI's employees on questions related to access of information (e.g., should everyone be given access to all information available, why is it important to inform, etc.);
- PMI's employees' testimonials on why they enjoy working for the firm (e.g., good work environment, flexible working schedule, international opportunities, etc.), on the alignment between theirs and the firm's vision, etc. (while always showing clips of the employee interacting with others in the firm's premise, and clips of the premise itself);
- presentation of the new alternative products and PMI's vision (the investment made, the technology that led to the product, the laboratories where the development are made, scientists working on their duties, comparison with other products, the sustainability factor), mostly through former or current scientists' employees of PMI and animated clips.

PMI has sponsored and made the IQOS brand presence felt in numerous events across the world, mainly in cultural and art festivals (e.g., street food festivals in Ukraine, beer fests in Serbia and Romania, music festivals in Portugal and Colombia, fashion shows in Ukraine, etc.), events that more than to educate attendees on the product is more about normalising and/or glamorising the IQOS (Appendix T) (Tobacco Free-Kids, a, n.d.).

PMI makes use of brand ambassadors (usually young and attractive people) to promote the IQOS on social media<sup>30</sup>, although it does not make use or invest as much as other brands (outside of the tobacco industry) do. It is more present on Instagram, and the particularity of

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<sup>29</sup> As of October 14, 2019, PMI had uploaded in its YouTube channel 103 videos since that documentary – <https://www.youtube.com/channel/UC8Ljkwa0c7Njol3g7LGW2Ww/videos> .

<sup>30</sup> PMI has decided, starting in May 2019, to suspend IQOS' global social media marketing campaign due to accusations of the firm using under 25 years of age ambassadors, which is not illegal but goes against PMI's own internal standards that stipulates that age limit (Kirkham, 2019).

the content (i.e., photos) published by the ambassadors is that they are not consuming the product (although sometimes it is featured and the consumption is implied), instead they are seen at landscapes, locations, or events often associated with a wealthy and glamorous lifestyle, often depicting the IQOS as a sexy and cool fashionable accessory. Often this content can only be associated with the IQOS through the hashtags (e.g., #IQOS, #iqosambassador, #iqos\_friends, etc.) used next to the photos (Kirkham, 2019; Tobacco Free-Kids, a, n.d.). For the case of Portugal, the most popular content on Instagram associated with the IQOS comes from actors and television celebrities: the photos shared are mostly from exclusive areas (i.e. VIP areas) of events (e.g., music festivals, MotoGP races, etc.) and most of the photos feature more than one person giving a sense of interaction, socialisation and exclusivity, always containing IQOS allusive hashtags (e.g., #mundosemfumo, #iqosclub, #iqoslounge, #iqos, #iqoslovers) (Instagram, n.d.).



## QUESTIONS

1. Assess the attractiveness of the tobacco industry and of PMI's IQOS.

Recommendation: conduct both a Porter's Five Forces and a STEPE analysis for the industry and a SWOT analysis for the IQOS.

2. Identify the competitive advantage of PMI and how it is delivered. Briefly explain the threats and challenges facing PMI's business model.

Recommendation: reflect on PMI's past communication efforts to differentiate itself from the competition.

3. Can the IQOS reverse the decline of tobacco consumption worldwide? Identify the critical success factors for PMI to succeed with the IQOS.

Recommendation: reflect on past innovations the tobacco industry has been through (briefly describe on what they consisted, why did they appeared, their success or failure, do they still exist, etc.). Define, very shortly, the identity of the brand IQOS.

4. Which target should PMI prioritise to consolidate IQOS's place in the Portuguese market?

Recommendation: study the potentiality of Portugal as an IQOS market. What aspects are crucial in the communication plan to consolidate the IQOS among the target?

5. Develop marketing and communication efforts, for the Portuguese market, to attract and retain IQOS consumers.

Recommendation: set at least four communication objectives and organise the efforts according to them.

Note: keep in mind the existing regulations that may limit marketing and communication efforts.



# APPENDIXES

## Appendix A – PMI’s global financial data

Table A.1: PMI's global financial data (in millions of USD)

	2018	2017	2016	2015	2014
<b>Revenues</b>	79,823	78,098	74,953	73,908	80,106
<b>Excise taxes on products</b>	50,198	49,350	48,268	47,114	50,339
<b>Net revenues</b>	29,625	28,748	26,685	26,794	29,767

Source: Philip Morris International, 2019a

## Appendix B – Marlboro Man campaign advertisements

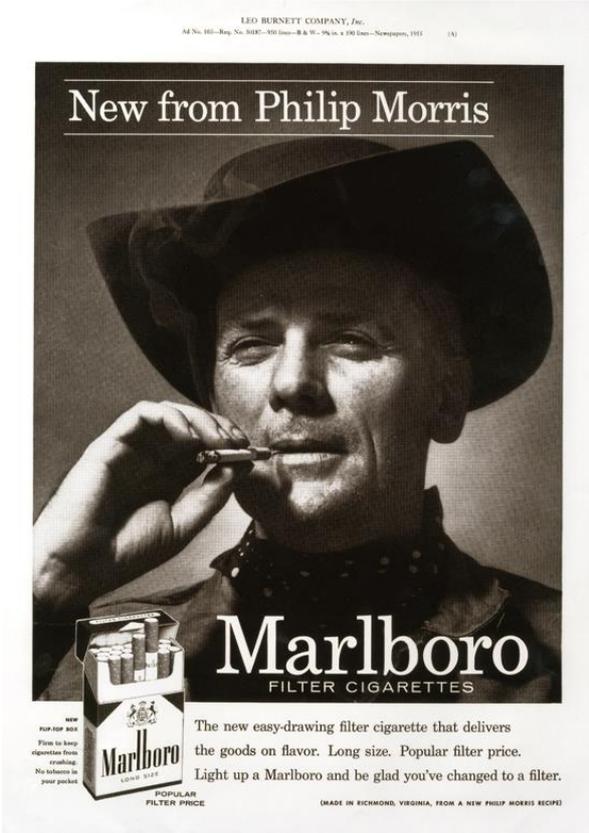


Image B.1: The first "Marlboro Man" advertising campaign (1955)

Source: First Versions, n.d.

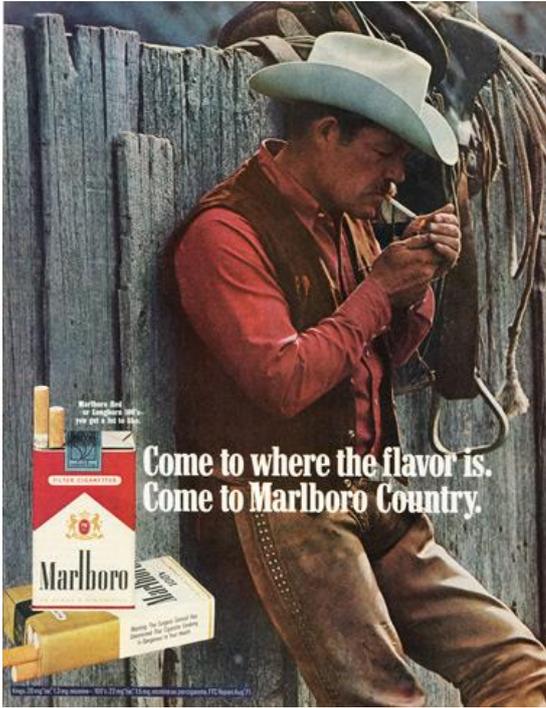


Image B.2: Marlboro advertisement from 1971 featuring Darrell Winfield the most famous and long-lasting "Marlboro Man" (from 1968 to 1989)

Source: Stanford University, a, n.d.



## Appendix C – PMI’s market share, shipment volume and net revenue by product category

Total international cigarette market share = 26.8% (2018), 27.1% (2017)

Total international heated tobacco unit market share = 1.6% (2018), 0.8% (2017)

Table C.1: PMI's shipment volume (in million units)

	2018	2017	2016
<b><u>Cigarettes:</u></b>			
<i>European Union</i>	179,622	187,293	193,586
<i>Eastern Europe</i>	108,718	119,398	129,456
<i>Middle East &amp; Africa</i>	136,605	136,759	141,937
<i>South &amp; Southeast Asia</i>	178,469	171,600	185,279
<i>East Asia &amp; Australia</i>	56,163	62,653	74,750
<i>Latin America &amp; Canada</i>	80,738	84,223	87,938
<b><i>Total Cigarettes</i></b>	<b>740,315</b>	<b>761,926</b>	<b>812,946</b>
<b><u>Heated Tobacco Units:</u></b>			
<i>European Union</i>	5,977	1,889	224
<i>Eastern Europe</i>	4,979	674	64
<i>Middle East &amp; Africa</i>	3,403	907	36
<i>South &amp; Southeast Asia</i>	N/A	N/A	N/A
<i>East Asia &amp; Australia</i>	26,866	32,729	7,070
<i>Latin America &amp; Canada</i>	147	27	N/A
<b><i>Total Heated Tobacco Units</i></b>	<b>41,372</b>	<b>36,226</b>	<b>7,394</b>

Source: Philip Morris International, 2019a

Table C.2: PMI's net revenues by product category (in millions of USD)

	2018	2017	2016
<b><u>Combustible products:</u></b>			
<i>European Union</i>	8,433	8,048	8,105
<i>Eastern Europe</i>	2,597	2,657	2,478
<i>Middle East &amp; Africa</i>	3,732	3,893	4,513
<i>South &amp; Southeast Asia</i>	4,656	4,417	4,396
<i>East Asia &amp; Australia</i>	3,074	3,156	3,619
<i>Latin America &amp; Canada</i>	3,037	2,937	2,841
<b><i>Total combustible products</i></b>	<b>25,529</b>	<b>25,107</b>	<b>25,952</b>
<b><u>Reduced-risk products:</u></b>			
<i>European Union</i>	865	269	57
<i>Eastern Europe</i>	324	55	6
<i>Middle East &amp; Africa</i>	382	94	4
<i>South &amp; Southeast Asia</i>	N/A	N/A	N/A
<i>East Asia &amp; Australia</i>	2,506	3,218	666
<i>Latin America &amp; Canada</i>	19	4	1
<b><i>Total reduced-risk products</i></b>	<b>4,096</b>	<b>3,640</b>	<b>733</b>
<b><i>Total PMI net revenues</i></b>	<b>29,625</b>	<b>28,748</b>	<b>26,685</b>

Source: Philip Morris International, 2019a



## Appendix D – Tobacco consumption statistics, in Portugal and in the European Union

Table D.1: Sales evolution of taxable tobacco products in Portugal

	2016	2015	2014	2013	2012**	2011**	2010*
Cigarettes (in thousands)	10,487,487	9,219,337	9,651,991	10,018,196	10,233,908	11,946,767	14,211,590
Cigarillos (in thousands)	275,595	281,793	305,366	179,526	124,899	90,714	118,151
Roll-Your-Own Tobacco (in kg)	620,803	731,947	805,017	1,118,340	1,690,971	1,882,580	860,321
Cigars (in thousands)	2,366	4,712	3,005	3,500	4,094	4,662	6,037
Other tobacco products (in kg)	5,322	4,953	6,438	3,135	638,676	80,173	20,769
Waterpipe Tobacco (in kg)	52,178	22,039	9,380	N/A	N/A	N/A	N/A

\* National Total

\*\* Portugal continental Total

Source: Direção-Geral da Saúde, 2016; Direção-Geral da Saúde, 2017a

Table D.2: Tobacco smoking prevalence, for people aged  $\geq 15$  years

Total (Male / Female) (in %)						
	2000	2005	2010	2015	2020	2025
Portugal	24.1 (35.8 / 13.4)	22.8 (33.0 / 13.4)	21.1 (30.0 / 13.2)	19.8 (27.4 / 13.1)	18.6 (25.2 / 12.9)	17.8 (23.2 / 13.0)

Source: World Health Organization, 2018d

Table D.3: Daily smokers, aged 15 or more, in Portugal by age group, gender, and averaged number of cigarettes consumer per day, in 2014

	Total	$\leq 10$	11 to 20	21 or +
<b>Total</b>	1,457,604	652,798	668,756	125,681
15-24	166,087	110,561	53,350	N/A
25-34	313,494	156,052	135,948	N/A
35-44	349,751	135,477	178,966	34,722
45-54	330,820	126,944	160,791	38,140
55-64	216,527	88,018	105,013	22,323
$\geq 65$	66,824	26,782	30,250	N/A
<b>Men</b>	949,090	346,521	488,770	105,483
15-24	100,889	62,241	37,502	N/A
25-34	201,921	87,201	97,157	N/A
35-44	215,979	61,683	124,058	30,123
45-54	230,328	68,753	123,916	33,814
55-64	141,255	43,369	78,004	N/A
$\geq 65$	46,832	N/A	24,903	N/A
<b>Women</b>	508,514	306,278	179,986	N/A
15-24	65,199	48,320	N/A	N/A
25-34	111,573	68,851	38,791	N/A
35-44	133,772	73,794	54,908	N/A
45-54	100,492	58,191	36,875	N/A
55-64	75,272	44,649	27,008	N/A
$\geq 65$	N/A	N/A	N/A	N/A

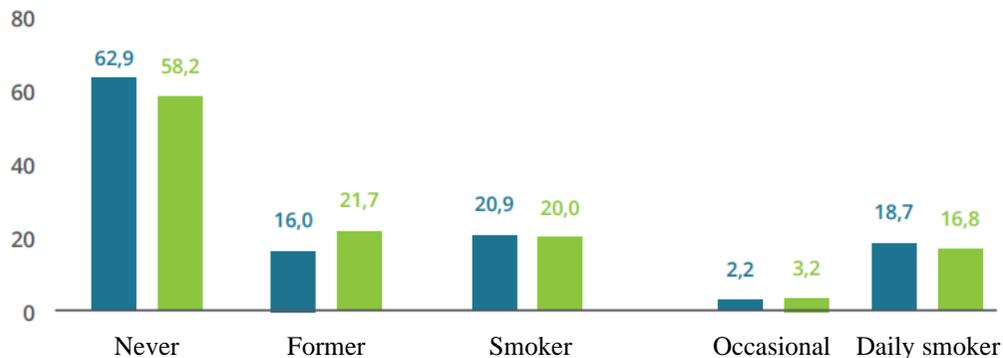
Source: Instituto Nacional de Estatística, 2016

Table D.4: Portugal's factsheet for 2014

Indicator	Value
Tobacco use among adults	
Smoking tobacco, total daily smokers	16.8%
➔ Female	10.9%
➔ Male	23.5%
Smoking tobacco, total occasional smokers	3.2%
➔ Female	2.3%
➔ Male	4.3%
Smoking tobacco, total former smokers	21.7%
➔ Female	12.9%
➔ Male	31.8%
Smoking tobacco, total never smokers	58.2%
➔ Female	73.9%
➔ Male	40.3%

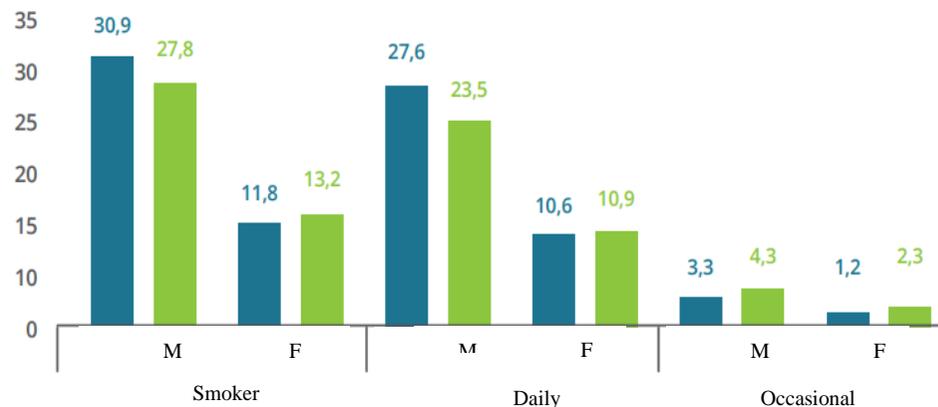
Source: WHO Framework Convention on Tobacco Control, b, n.d.

Graph D.1: Proportion of population in Portugal, aged 15 or more, according to tobacco condition in 2005/2006 (blue) and 2014 (green)



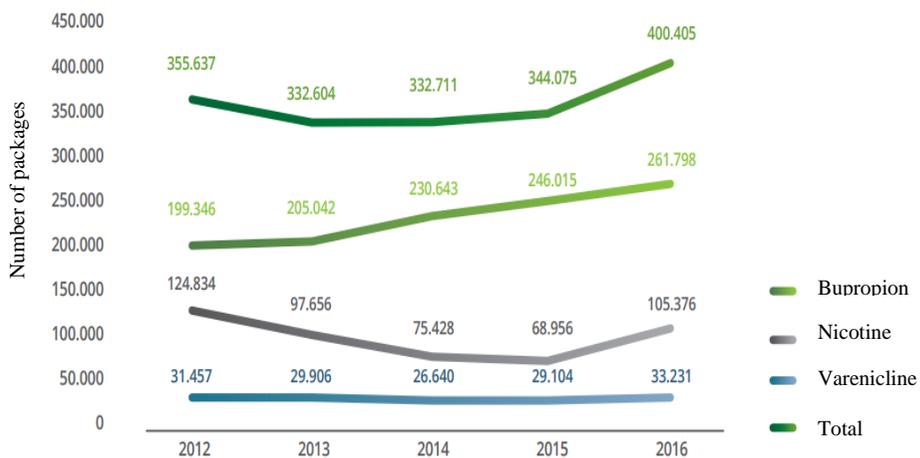
Source: Direção-Geral da Saúde, 2017a

Graph D.2: Proportion of population (in %), aged 15 or more, according to tobacco condition in 2005/2006 (blue) and 2014 (green), per gender



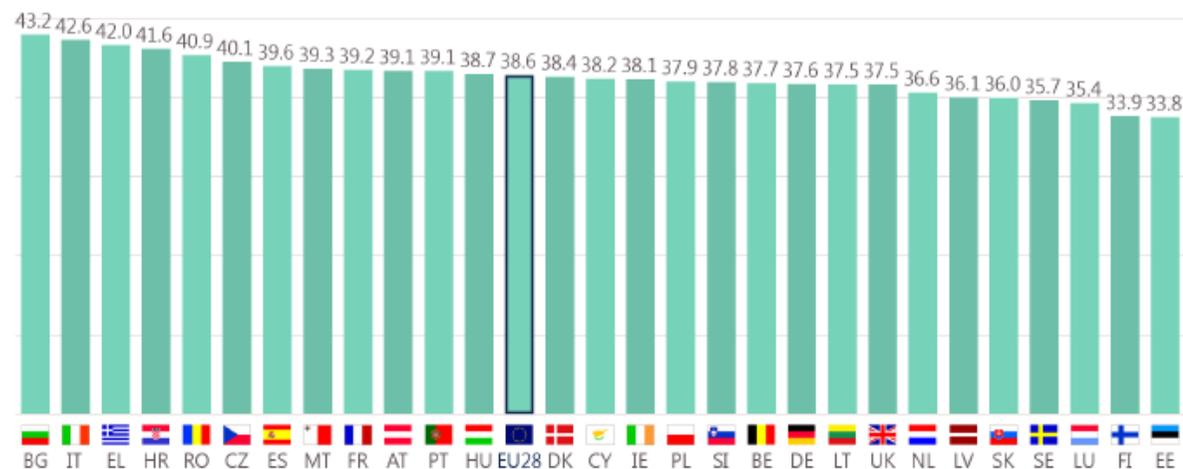
Source: Direção-Geral da Saúde, 2017a

Graph D.3: Evolution of the dispensation of smoking cessation support drugs in pharmacies (n.º of packages), Portugal mainland, from 2012 to 2016



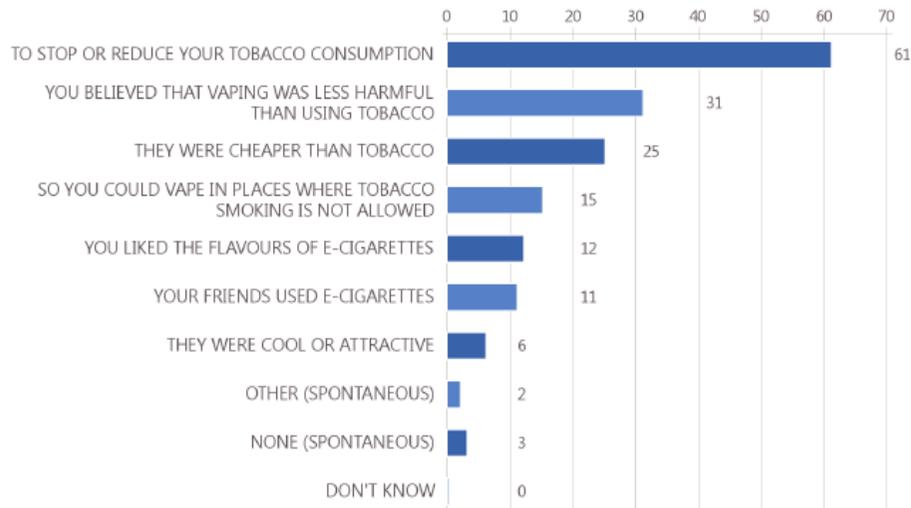
Source: Direção-Geral da Saúde, 2017a

Graph D.4: Average age for smokers to quit smoking, in the European Union, in 2017



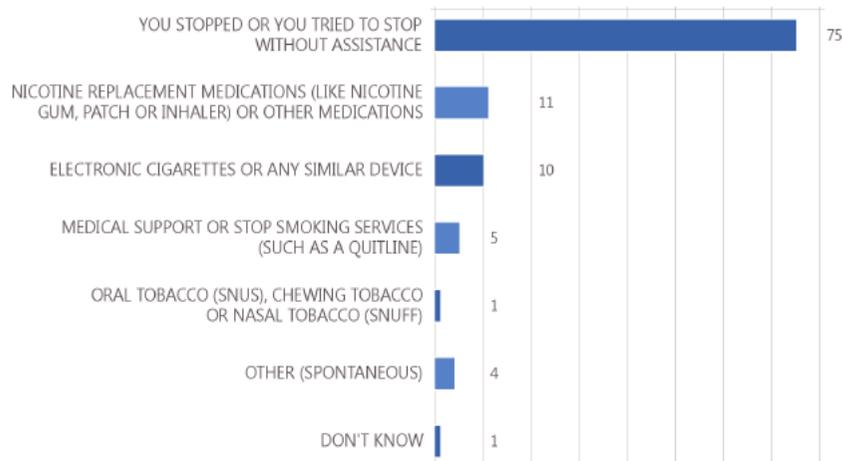
Source: European Commission, 2017

Graph D.5: Factors that influence the decision to start consuming e-cigarettes, in the European Union, in 2017 (in %)



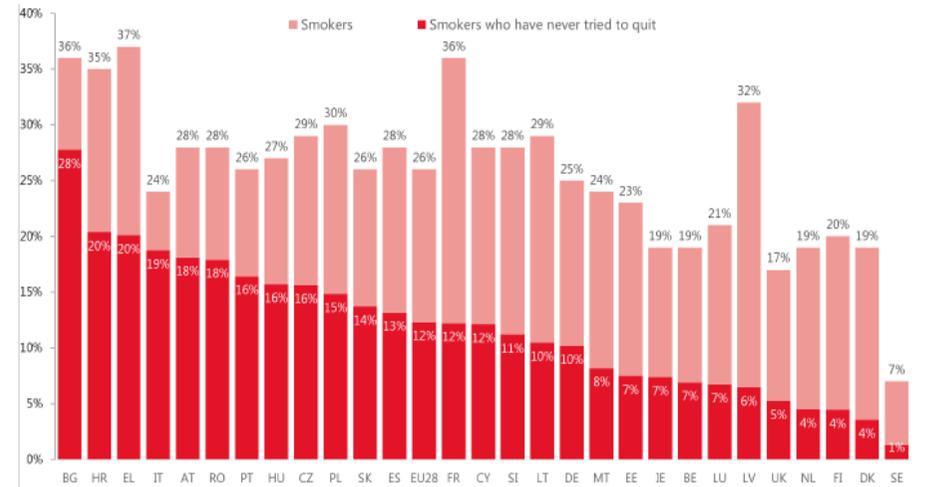
Source: European Commission, 2017

Graph D.7: Which of the following did you use in order to stop or to try to stop smoking? Data from 2017



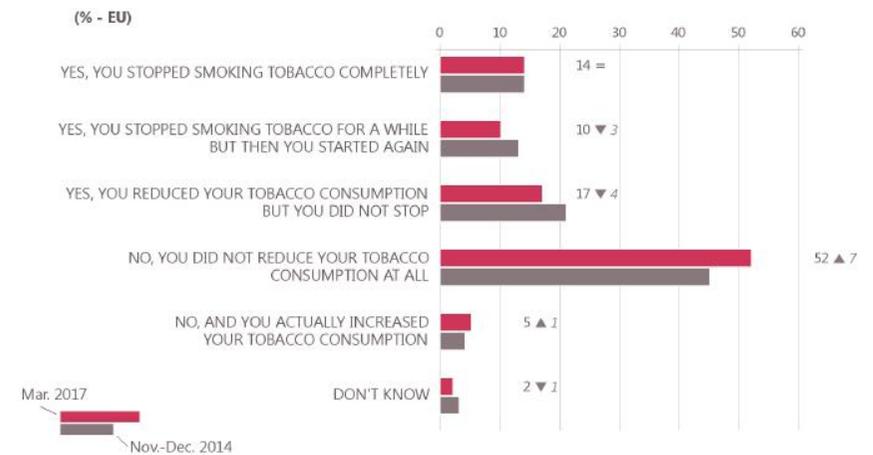
Source: European Commission, 2017

Graph D.6: Proportion of smokers vs. proportion of smokers who never tried to quit, in



Source: European Commission, 2017

Graph D.8: Did the use of electronic cigarettes or any similar device helped you stop or reduce your tobacco consumption? Data from 2017



Source: European Commission, 2017



Appendix E – Global shares by product category, and global cigarette market

Table E.1: Global tobacco ecosystem by product category (% of retail sales value)

	2017
<i>Cigarettes</i>	89.1%
<i>Cigars and Cigarillos</i>	3.1%
<i>Smoking Tobacco</i>	3.6%
<i>Smokeless Tobacco</i>	1.6%
<i>Vaping Systems</i>	1.5%
<i>Heated Tobacco Products</i>	0.8%
<i>NRT Smoking Cessation Aids</i>	0.3%

Source: Foundation for A Smoke-Free World, 2018

Table E.2: Global cigarette market (% of regional shares)

	2017
<i>Europe</i>	18%
<i>Middle East &amp; Africa</i>	9%
<i>Asia &amp; Pacific</i>	64%
<i>North America</i>	5%
<i>Rest of the world</i>	4%

Source: Tobacco Free-Kids, 2018

Appendix F – Global growth retail sales by product

Table F.1: Product category global retail sales value growth rates in 2017

	Growth Rates in 2017	
	Retail Sales Value	Unit Volume
<i>Cigarettes</i>	2.8%	(1.4%)
<i>Cigars and Cigarillos</i>	10.1%	8.5%
<i>Smoking Tobacco</i>	4.7%	(0.3%)
<i>Smokeless Tobacco</i>	6.2%	(1.5%)
<i>Vapor Products</i>	50.7%	36.8%
<i>NRT Smoking Cessation Aids</i>	4.0%	2.5%

Source: Foundation for A Smoke-Free World, 2018

Appendix G – Tobacco firms’ brands per category

Table G.1: Tobacco and Nicotine products by firm and category

	E-Cigarettes		Heated Cigarettes	
	Brands	Starting year of commercialisation	Brands	Starting year of commercialisation
<i>BAT</i>	Vype, Vuse (USA), Ten Motives (UK), Chic (Poland)	2013	glo	2016
<i>JTI</i>	Logic	2015	Ploom	2016
<i>PMI</i>	MarkTen (discontinued in December 2018), IQOS Mesh	2014	IQOS, TEEPS	2014
<i>Imperial</i>	blu	2014	Pulze (Japan)	2019

Source: British American Tobacco, a, n.d.; British American Tobacco, b, n.d.; Imperial Brands, n.d.; Japan Tobacco International, a, n.d.; Japan Tobacco International, b, n.d.; MarkTen, n.d.; Philip Morris International, j, n.d.; Philip Morris International, ad, n.d.; Tobacco Tactics, n.d.



Appendix H – IQOS 3 and IQOS 3 MULTI specifications for the Portuguese market, as of October 2019

Table H.1: IQOS 3 and IQOS 3 MULTI specifications for the Portuguese market, as of October 2019



<i>Price</i>	€89.00 (€45.00 for both the device and the pocket charger, if bought separately)	€79.00
<i>Kit Content</i>	<ul style="list-style-type: none"> <li>. 1 IQOS 3 device;</li> <li>. 1 IQOS 3 pocket charger;</li> <li>. Power Adaptor;</li> <li>. Charging Cable;</li> <li>. IQOS Cleaning Tool.</li> </ul>	<ul style="list-style-type: none"> <li>. 1 IQOS 3 MULTI device;</li> <li>. Power Adaptor;</li> <li>. Charging Cable;</li> <li>. IQOS Cleaning Tool.</li> </ul>
<i>Colours</i>	4 Options (Warm White, Velvet Grey, Brilliant Gold, Stellar Blue)	
<i>Design and Features</i>	<ul style="list-style-type: none"> <li>. Compact &amp; Ergonomic Design;</li> <li>. ProtectPlus™ System for improved reliability;</li> <li>. Easy drop insertion with magnetic lock;</li> <li>. Slimmer holder (the smallest tobacco holder in PMI's range).</li> </ul>	<ul style="list-style-type: none"> <li>. All-in-one pocket-size design;</li> <li>. Portable and lightweight.</li> </ul>
<i>Number of Sessions<sup>31</sup> per charge</i>	20 sessions	10 sessions
<i>Customisation Options</i>	<ul style="list-style-type: none"> <li>. Coloured Caps in 12 colours;</li> <li>. Door Cover in 12 colours.</li> </ul>	<ul style="list-style-type: none"> <li>. Coloured Caps in 12 colours.</li> </ul>
<i>Accessories Options</i>	<ul style="list-style-type: none"> <li>. Charging Dock;</li> <li>. Slim Sleeve;</li> <li>. Silicone Sleeve;</li> <li>. Leather Sleeve;</li> <li>. Duo Folio;</li> <li>. Simple Folio;</li> <li>. Leather Folio;</li> <li>. Aluminium Door Cover;</li> <li>. Door Cover;</li> <li>. Coloured Cap;</li> <li>. Carry Case;</li> <li>. Cleaning Brush;</li> </ul>	

<sup>31</sup> One session equals the duration (either in time and/or puffs) of the consumption of a conventional cigarette.

	<ul style="list-style-type: none"> <li>. Cleaning Sticks;</li> <li>. Car Tray (with or without packholder);</li> <li>. Clip-On Tray;</li> <li>. Ceramic Tray;</li> <li>. Car Charger;</li> <li>. AC Power Adaptor.</li> </ul>	
<i>Battery Capacity</i>	2900 mAh nominal	830 mAh nominal
<i>Battery Life</i>	Up to 14600 sessions	
<i>Charging Time</i>	<ul style="list-style-type: none"> <li>. Average 3h30m for the Holder;</li> <li>. 120 minutes for 20 sessions.</li> </ul>	. 75 minutes for 10 sessions.
<i>Available in which countries<sup>32</sup></i>	Andorra, Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Canary Islands, Canada, Colombia, Croatia, Curaçao, Cyprus, Czech Republic, Denmark, Dominican Republic, France, Germany, Greece, Guatemala, Hungary, Italy, Israel, Japan, Kazakhstan, Korea, La Réunion, Latvia, Lithuania, Malaysia, Moldova, Monaco, the Netherlands, New Zealand, Palestine, Poland, Portugal, Romania, Russia, Serbia, Slovak Republic, Slovenia, South Africa, Spain, Switzerland, Ukraine, the United Kingdom, and in some Duty Free shops.	

Source: Philip Morris International, a, n.d.; Philip Morris International, b, n.d.; Philip Morris International, d, n.d.; Philip Morris International, u, n.d.; Philip Morris International, v, n.d.; Philip Morris International, ad, n.d.

## Appendix I – HEETS specifications for the Portuguese market, as of October 2019

Table I.1: HEETS specifications



<i>Variants</i>	Bronze	Sienna	Amber	Yellow	Blue	Turquoise
<i>Description</i>	Rich and warm	Balanced and woody	Balanced and roasted	Mild and zesty	Deep and cooling	Refreshing and cooling
<i>Price</i>	€4.50 <sup>33</sup>					
<i>Tobacco Weight</i>	6.1 grams					
<i>“Stats” (ranging from 1 to 5)</i>	Scent: 5 Body: 3 Intensity: 4	Scent: 3 Body: 4 Intensity: 4	Scent: 4 Body: 3 Intensity: 3	Scent: 5 Body: 2 Intensity: 3	Scent: 2 Body: 4 Intensity: 3 Menthol: 4	Scent: 1 Body: 2 Intensity: 2 Menthol: 3
<i>Scent</i>	Cocoa	Wood	Dried Fruits	Citrus	Peppermint	Acidic

Source: IQOSmag, 2018; Durand, 2019; Philip Morris International, y, n.d.

<sup>32</sup> This does not refer solely to the IQOS 3, but yes to the overall IQOS offering.

<sup>33</sup> It costed €4.70 in 2015 upon the Portuguese release date (Marcela, 2015).

Appendix J – IQOS 3 packaging and device



Image J.1: IQOS 3 packaging and device

Source: FergusM, 2019

Appendix K – IQOS stores examples, worldwide and in Portugal



Image K.1: IQOS' stores worldwide

Source: Burkert, 2017; Tobacco Free-Kids, a, n.d.

Note: from left to right, the first two images are in Germany and the others are from Moscow and Tokyo, respectively



Image K.2: IQOS flagship store in Portugal (Chiado, Lisbon)

Source: Matias, 2016



Appendix L – Philip Morris and Marlboro presence in Formula 1 throughout the years



Image L.1: Ferrari's F1 car, from the 2005 season



Image L.2: Ferrari's F1 car, from the 2007 season

Source: Graphicology, 2010

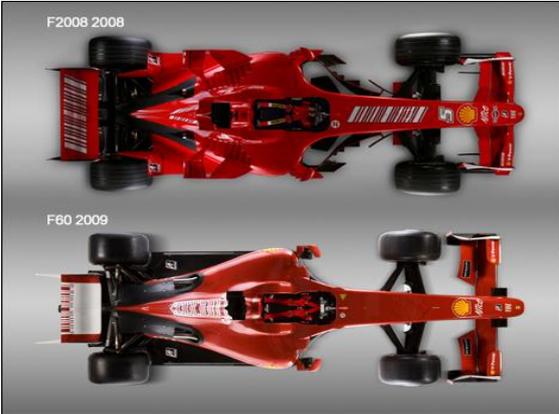


Image L.3: Comparison of Ferrari's F1 cars, from the 2008 and 2009 seasons

Source: Fagnan, 2009



Image L.4: Ferrari's F1 car, from the 2010 season

Source: Farnsworth, 2010



Image L.5: Ferrari's drivers Fernando Alonso (backwards) and Felipe Massa (facing), from the 2010 season

Source: Siler, 2010



Image L.6: Ferrari's F1 car, from the 2019 season

Source: Formula 1, 2019

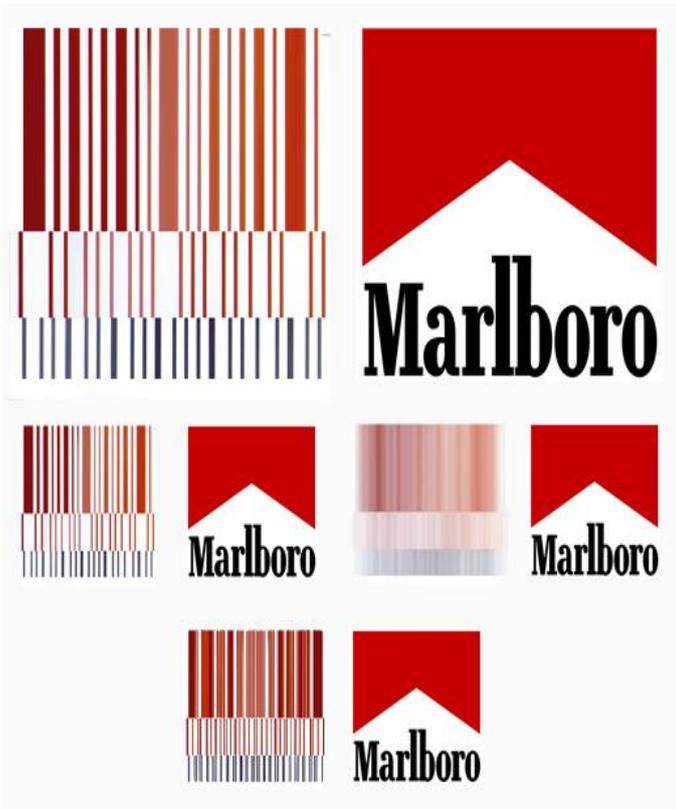


Image L.7: Visual comparison of the barcode and the Marlboro logo

Source: Graphicology, 2010

	F1 Marlboro BRM - 1972
	F1 McLaren - 1988
	F1 Ferrari - 1993
	F1 Ferrari - 2007
	F1 Ferrari - 2008
	F1 Ferrari - 2009

Image L.8: The evolution of the Marlboro barcode

Source: Grant-Braham et al., 2012



Image L.9: The new "Mission Winnow" Ferrari logo compared

Source: Hall, 2019

## Appendix M – PMI’s charitable contribution expenses in Portugal

Table M.1: PMI's charitable contribution expenses in Portugal, from 2016 to 2018

	Name of Organisation	Project Description	Focus Area(s)*	Amount in USD	Total
2018	Comunidade Vida e Paz	Providing accommodation to homeless people	Economic Opportunity	\$17,008	\$121,102
	Médicos do Mundo	Supporting the victims of wildfires	Other	\$27,037	
	Cruz Vermelha Portuguesa	Provision of an emergency logistics truck for emergency situation	Disaster/Emergency Relief and Preparedness	\$67,044	
	Agência de Empreendedores Sociais	Vocational training for unemployed young adults	Economic Opportunity	\$10,013	
2017	Cruz Vermelha Portuguesa	Support to the acquisition of an emergency logistics truck following forest wildfires in Central Portugal	Disaster/Emergency Relief and Preparedness	\$55,398	\$182,183
	Agência de Empreendedores Sociais	Promoting the socio-professional reinsertion of disadvantaged individuals	Economic Opportunity	\$31,994	
	Associação de Mulheres Contra a Violência	Assistance to victims of domestic violence housed in shelters	Empowering Women	\$29,349	
	APAV – Associação Portuguesa de Apoio à Vítima	Workshops to promote the socio-professional integration of victims of domestic violence	Empowering Women	\$21,972	
	CAIS – Associação de Solidariedade Social	Program to enhance the employability of homeless people	Economic Opportunity	\$25,885	
	Comunidade Vida e Paz	Promotion of organic agriculture to facilitate the reintegration of former homeless people	Economic Opportunity	\$17,585	
2016	Comunidade Vida e Paz	Promotion of organic agriculture to facilitate the reintegration of former homeless people	Economic Opportunity	\$25,775	\$196,343
	Cáritas da Ilha Terceira	Provision of social tools and trainings to advance the social inclusion of adolescents and young women	Economic Opportunity	\$25,653	
	Agência de Empreendedores Sociais	Training and networking opportunities for not-for-profit organizations and social entrepreneurs	Economic Opportunity	\$42,826	
	Associação de Mulheres Contra a Violência	Reconstruction work and refurbishment of a shelter for victims of domestic violence	Empowering Women	\$21,121	
	APAV – Associação Portuguesa de Apoio à Vítima	Workshops to promote the socio-professional integration of victims of domestic violence	Empowering Women	\$26,213	
	CAIS – Associação de Solidariedade Social	Support the strategic repositioning of CAIS magazine sold by former homeless people	Economic Opportunity	\$6,454	
	Cáritas Diocesana do Funchal	Reconstruction of houses following wildfires in Madeira	Disaster/Emergency Relief and Preparedness	\$16,889	
	Center for Education of Disabled People	Rehabilitation of the sensorial stimulation space of the Center for Education of Disabled People to the benefit of the Sintra community	Other	\$31,412	

Source: Philip Morris International, 2016a; Philip Morris International, 2017;

\* Focus Areas:

- Access to Education
- Economic Opportunity
- Empowering Women
- Disaster/Emergency Relief and Preparedness

Philip Morris International, 2018d



## Appendix N – Overview of EU’s tobacco TPD (2014/40/EU)

Table N.1: European Union’s Tobacco Products Directive (2014/40/EU) – Overview

Topic	Measures	Article(s)
Flavouring	<ul style="list-style-type: none"> <li>Prohibition on cigarettes and ROY tobacco with characterising flavours (e.g., candy, vanilla, fruit, herbs, etc.) in any of their components;</li> <li>Other tobacco products (e.g., smokeless tobacco, cigars, cigarillos, etc.) may be exempted from the prohibition, as long as there is no substantial change of circumstances (i.e., increase of sales volume, or increase of use in the under 25 years of age consumer group)</li> </ul>	7
Health Warnings	<ul style="list-style-type: none"> <li>Text health warnings must cover 50% of the surfaces on which they are printed;</li> <li>The combined health warnings (text + image) shall cover 65% of both the external front and back of any cigarette and ROY tobacco packaging (only text is mandatory for other tobacco products).</li> </ul>	9 and 10
Packaging	<ul style="list-style-type: none"> <li>Omission of any information regarding nicotine, tar, or carbon monoxide;</li> <li>Unit packs of cigarettes must have a cuboid shape and include at least 20 cigarettes;</li> <li>Unit packs of RYO tobacco shall have a cuboid, cylindrical, or pouch shape containing no less of 30g of tobacco;</li> <li>No promotional or misleading messages (for example the use of such words as light, mild, natural, organic, slim, etc.; or the suggestion of benefits or qualities such as weight loss, lifestyles, sex appeal, social status, masculinity, femininity, etc.) are allowed on the labelling of unit packs (or any outside packaging) and on the product itself<sup>34</sup>.</li> </ul>	13 and 14
Electronic Cigarettes	<ul style="list-style-type: none"> <li>Maximum nicotine-containing liquid of 20mg/ml, and containers no larger than 10 ml for refillable e-cigarettes and 2 ml for disposable e-cigarettes;</li> <li>E-cigarettes and its accessory products (i.e., refill containers, cartridges, and containers) need to be child- and tamper-proof;</li> <li>Unit packs and any outside packaging is required to include information on health warnings, list of ingredients, nicotine content, and instructions of use;</li> <li>Ban on all promotional elements (just as conventional cigarettes), except the ones intended for professionals;</li> <li>Member states are left with some regulatory decision, namely age limits and flavouring.</li> </ul>	20

Source: European Parliament, 2014

<sup>34</sup> Philip Morris reaction was to, for example, remove the terms “light”, “ultra-light”, and “mild” and substitute them for new names, but keeping the same colours so smokers could still identify their preferred variants: “Marlboro Light” became “Marlboro Gold”, “Marlboro Mild” got renamed to “Marlboro Blue”, and “Marlboro Ultra-light” became known as “Marlboro Silver” (Connolly *et al.*, 2014).



## Appendix O – Overview of the Portuguese Law on Tobacco Prevention (Law No. 63/2017)

Table O.1: Overview of the Portuguese Law on Tobacco Prevention (Law No. 63/2017)

Topic	Measures	Article(s)
Concepts	<p>Cigarette – tobacco roll that may be consumed through a combustion process;</p> <p>Electronic Cigarette – product utilised to consume vapor containing nicotine, by means of a mouthpiece or similar;</p> <p>Environmental Smoke – the smoke released into the atmosphere from the combustion of tobacco products;</p> <p>Herb-based Products to Smoke – a herbal-based or fruit-based product that does not contain tobacco and that can be consumed through a combustion process;</p> <p>Novel Tobacco Products – a tobacco product commercialised after the 19<sup>th</sup> of May 2014 and that does not belong to any of these categories (cigarettes, ROY tobacco, pipe tobacco, waterpipe tobacco, cigars, cigarillos, chewing tobacco, snuff, and tobacco for oral use);</p> <p>Tobacco Product – products which may be consumed and consisting, even partially, of tobacco;</p> <p>To Smoke – the consumption of tobacco products to smoke, the consumption of herb-based products to smoke, the use of electronic cigarettes with nicotine, or the consumption of novel (without combustion) tobacco products that produce aerosols, vapours, gases, or inhalable particles;</p> <p>Smokeless (without combustion) Tobacco Product – tobacco product that does not involve a combustion process;</p> <p>Smoking Tobacco Products – tobacco product other than smokeless (without combustion) tobacco products;</p> <p>Tobacco Advertising – any form of communication made by public or private entities, in the context of a commercial, industrial, artisanal, or liberal activity, with the direct or indirect purpose of promoting a tobacco product or its consumption;</p>	2
Spaces/Areas to smoke	<ul style="list-style-type: none"> <li>• Prohibition to smoke (incl. smokeless tobacco) in every enclosed (i.e., indoor) space;</li> <li>• Exceptions<sup>35</sup>: <ul style="list-style-type: none"> <li>➤ in health care facilities (e.g., hospitals, clinics, treatment and rehabilitation centres, nursing homes) rooms exclusively for smoking patients can be created;</li> <li>➤ in prisons, some units of residence may be reserved for smoking inmates;</li> <li>➤ in concert halls, casinos (and similar), exhibitions, commercial establishments (including shopping malls), accommodation establishments, restaurants and bars (including the ones with spaces intended for dance), airports, and in railway stations there may be smoking spaces<sup>36</sup> (as long as they are physically separated from the other areas, and as long as they do not have bar and/or catering service);</li> </ul> </li> <li>• Prohibition to smoke both indoor and outdoor: <ul style="list-style-type: none"> <li>➤ in places intended for underaged children (e.g., nurseries, day care centres, holiday camps, playgrounds, schools, and similar);</li> <li>➤ in service areas and gas stations near the areas where vehicles are refuelled.</li> </ul> </li> </ul>	3 to 5

<sup>35</sup> These exceptions are only valid until the 31<sup>st</sup> of December 2020; beginning in the first day of 2021 the prohibition extends to all enclosed spaces.

<sup>36</sup> In places where games of chance (e.g., casinos) are played and in accommodation establishments the smoking spaces/areas cannot exceed 40% of the total area of the place.

Health Warnings	<ul style="list-style-type: none"> <li>• Every individual package and exterior package of smokeless tobacco must exhibit the following health warning: “<i>Este produto do tabaco prejudica a sua saúde e cria dependência.</i>” – “<i>This tobacco product damages your health and is addictive.</i>”;</li> <li>• This message shall cover 30% of each of the two largest surfaces of every package;</li> <li>• Combined health warnings (text + image) is mandatory for smoking tobacco products.</li> </ul>	11
Packaging	<ul style="list-style-type: none"> <li>• The labelling of any tobacco packaging, as well as the product itself, cannot contain any element or characteristic (text, symbols, designations, figures, or others) that: <ul style="list-style-type: none"> <li>➤ promotes a tobacco product or incentivise its consumption, referring to its characteristics (e.g., flavour, smell, etc.), health effects, or ingredient information (i.e., content levels of nicotine, tar, or carbon monoxide);</li> <li>➤ resembles a food or cosmetic product;</li> <li>➤ suggests that a tobacco product has environmental advantages.</li> </ul> </li> <li>• It is also not allowed for any packaging to suggest or contain economic advantages (e.g., printed coupons, discount offers, two for the price of one, and similar).</li> </ul>	13
Selling	<ul style="list-style-type: none"> <li>• The selling of tobacco products (including smokeless tobacco products) and electronic cigarettes is prohibited within: <ul style="list-style-type: none"> <li>➤ places where public and government services are installed;</li> <li>➤ health care facilities (e.g., hospitals, clinics, treatment and rehabilitation centres, nursing homes);</li> <li>➤ places intended for underaged children (e.g., nurseries, day care centres, holiday camps, playgrounds, schools, and similar);</li> <li>➤ educational training establishments/centres (within all its facilities);</li> <li>➤ museums, cultural centres, libraries, conference rooms, and similar;</li> <li>➤ cafeterias, canteens, and bars of public and private entities intended exclusively for their staff;</li> <li>➤ covered/indoor car parks;</li> </ul> </li> <li>• Any tobacco vending machine must be inside the business establishment premises and at sight of someone in charge of the establishment, and have a blocking system preventing the machine access from underage children;</li> <li>• It is prohibited to sell tobacco products through telesales, telephone, or postal means;</li> <li>• All tobacco products are prohibited from being sold on the internet, except for: electronic cigarettes and its components, smokeless tobacco devices (including its accessories), and other devices or refills necessary for the utilisation of tobacco products (e.g. cigarette rolling paper, hookah, etc.);</li> <li>• It is also prohibited to sell tobacco products, herb-based products to smoke, and electronic cigarettes using databases, electronic customer registration, or customer loyalty techniques (e.g., loyalty cards, awarding of points or rewards, etc.).</li> <li>• The commercialisation of promotional or reduced-price packages is strictly prohibited.</li> </ul>	15

Advertising and Promotion <sup>37</sup>	<ul style="list-style-type: none"> <li>• All forms of advertising and promotion (including hidden, disguised, and subliminal advertising) to tobacco products through national or Portugal-based advertising vehicles are prohibited;</li> <li>• Exceptions: <ul style="list-style-type: none"> <li>➤ Commercial information (i.e., price and brand) displayed within establishments selling tobacco products, as long as the said information is not visible from the exterior of the establishment;</li> <li>➤ Advertising in press and other print media is allowed as long as it is in publications intended exclusively for professionals (in the tobacco industry and trade), or in publications edited and printed in foreign countries (and that are not intended primarily for the EU market);</li> <li>➤ The promotion of these products can be made exclusively to professionals (in the tobacco industry and trade), outside the scope of public sale activity.</li> </ul> </li> <li>• It is prohibited the free distribution or the promotional sale of tobacco products and of any goods that may (directly or indirectly) have an effect on the promotion of these tobacco products or their consumption;</li> <li>• Firms directly or indirectly connected to tobacco (manufacture, distribution, or selling) are prohibited from distributing gifts, awarding prizes, or making contests, even if the target is exclusively smokers;</li> </ul>	16
Advertising on Consumer Goods	<ul style="list-style-type: none"> <li>• In advertising efforts, it is prohibited to place names, brands, or emblems of a tobacco or herb-based products on consumer goods other than the tobacco or herb-based products themselves;</li> <li>• Exceptions: <ul style="list-style-type: none"> <li>➤ goods and services that make use of names or brands identical to those of tobacco or herb-based products, but whose use is clearly different from that of the tobacco or herb-based products names and brands;</li> <li>➤ goods and services whose sale or sponsorship is not related with the sale of tobacco or herb-based products.</li> </ul> </li> <li>• It is prohibited the manufacture and commercialisation of games, toys, video games, food, or treats with the shape of tobacco or herb-based products or with tobacco or herb-based products brands logos.</li> </ul>	17
Sponsorship	<ul style="list-style-type: none"> <li>• It is prohibited any form of public or private contribution intended for an event, activity, individual, audio-visual work, radio or television program, aimed at (direct or indirectly) promoting a tobacco or herb-based products or its consumption, especially when it its done by firms connected with the manufacture, distribution, or sale of tobacco products.</li> </ul>	18
Prevention Campaigns	<ul style="list-style-type: none"> <li>• Campaigns or other initiatives that are aimed, directly or indirectly, into smoking prevention cannot be promoted or sponsored by firms connected with the manufacture, distribution, or sale of tobacco products and herb-based products to smoke.</li> </ul>	19

*Source: Assembleia da República, 2007; Assembleia da República, 2015; Assembleia da República, 2017; Philip Morris International, o, n.d.*

<sup>37</sup> Within this topic, all the references made to tobacco products include as well electronic cigarettes and its components, herb-based products to smoke, smokeless tobacco devices (including its accessories), and other devices or refills necessary for the utilisation of tobacco products.



## Appendix P – Tobacco and Nicotine taxes in Portugal (mainland)

Table P.1: Tobacco and Nicotine taxes in Portugal (mainland)

	Taxes					
	2019		2018		2017	
	Specific	Ad Valorem	Specific	Ad Valorem	Specific	Ad Valorem
Cigarettes <sup>38</sup>	€96,12‰	15%	€94,89‰	15%	€93,58‰	16%
Cigars <sup>39</sup>	N/A	25%	N/A	25%	N/A	25%
Cigarillos <sup>40</sup>	N/A	25%	N/A	25%	N/A	25%
ROY Tobacco, snuff, chewing tobacco, smokeless tobacco <sup>41</sup>	€0,081/g	15%	€0,080/g	15%	€0,080/g	16%
Waterpipe tobacco	N/A	50%	N/A	50%	N/A	50%
Nicotine-containing liquid <sup>42</sup>	€0,31/ml	N/A	€0,3/ml	N/A	€0,3/ml	N/A

Source: Procuradoria-Geral Distrital de Lisboa, a, n.d.; Procuradoria-Geral Distrital de Lisboa, b, n.d.; Procuradoria-Geral Distrital de Lisboa, c, n.d.

Note: The Autonomous Regions of Madeira and the Azores have different tax rates than the ones expressed in this table.

## Appendix Q – Excise duties for tobacco products in Portugal

Table Q.1: Excise duties for tobacco products in Portugal (data from 2019)

	Specific excise (per 1000 cigarettes)			Ad valorem excise in %	VAT in %	Total tax (incl. VAT)	WAP (per 1000 cigarettes)
	EUR	As % of WAP	As % of total tax (specific + ad valorem + VAT)	(as % of WAP)	(as % of WAP)	(as % of WAP)	EUR
Cigarettes	96.12	42.79	55.94	15	18.7	76.49	224.63
	Specific Excise (per kg)	Ad Valorem Excise	VAT in %	Ad Valorem Excise + VAT	Current WAP per kg		
	EUR	(as % of WAP)	(as % of WAP)	(as % of WAP)	EUR		
Cigars and Cigarillos	N/A	25	18.7	43.7	N/A		
ROY Tobacco, snuff, chewing tobacco, smokeless tobacco	81	15	18.7	33.7	262.59		

Note: WAP = Weighted average price

Source: European Commission, 2019

<sup>38</sup> Cigarettes are subject to a minimum amount of tobacco tax which follows the following formula: (Specific + Ad Valorem + VAT) × 104% - VAT

<sup>39</sup> The tax amount on this type of product cannot be less than €410,87‰ (in 2019), €405,60‰ (in 2018), or €400‰ (in 2017).

<sup>40</sup> The tax amount on this type of product cannot be less than €61,63‰ (in 2019), €60,84‰ (in 2018), or €60‰ (in 2017).

<sup>41</sup> The tax amount on these types of products cannot be less than €0,174/g (in 2019), €0,171/g (in 2018), or €0,169/g (in 2017).

<sup>42</sup> Used for electronic cigarettes.



## Appendix R – Deconstruction of the WAP of pack of cigarettes and of a pack of HEETS

Table R.1: Calculation of the Weighted Average Price of a pack of 20 cigarettes and of a pack of HEETS

Pack of Cigarettes	HEETS
Retail Selling Price (excluding price)	Retail Selling Price (excluding price)
€1.06	€2.491
+ Excise Tax - <i>Specific</i> :	+ Excise Tax - <i>Specific</i> :
€1.925 (42.79% of RSP)	€0.494 <sup>b</sup> (10.98% of RSP)
+ Excise Tax - <i>Ad Valorem</i> :	
€0.675 (15% of RSP)	
Total Excise Tax	Total Excise Tax
€2.6	€1.1
= Price (excluding VAT)	
€3.66	
+ VAT 23%	
€0.84	
= Retail Selling Price (including all taxes)	
€4.50 <sup>a</sup>	

<sup>b</sup> Since HEETS (smokeless tobacco) has the same RTS as the WAP of a pack of conventional cigarettes, as well as the same VAT and Ad Valorem tax, there is only the need to calculate the Specific Excise Tax.

<sup>a</sup> Calculated by dividing WAP (per 1,000 cigarettes) by 50 (assuming that each pack of cigarettes contains 20 cigarettes within).

Source: data from Appendix I and Appendix Q



Appendix S – Tabaqueira’s stands at music festivals

Note: Rock in Rio 2018 (top left), NOS Alive 2019 (top right), NOS Primavera Sound 2018 (bottom left), and Vodafone Paredes de Coura 2018 (bottom right).



Source: aoficinagram, 2018a



Source: aoficinagram, 2019



Source: Primaveraamsf, 2018



Source: Aoficinagram, 2018b

Image S.1: Tabaqueira’s stands at music festivals

Appendix T – IQOS brand activations and stores in Europe



Image T.1: IQOS’ booth at a Street Food Festival in Kyiv, Ukraine (July 2017)

Source: Tobacco Free-Kids, a, n.d.



Image T.2: IQOS’ kiosks in shopping malls (in Greece, left; and in Russia, right)

Source: Tobacco Free-Kids, a, n.d.



## **TEACHING NOTES**

### **4. Case study target**

Primarily, the target of this case study are the students of ISCTE-IUL's Business School, particularly the one's enrolled in undergraduate's or master's programmes containing marketing and/or management related classes, as well as the professors teaching and guiding those students in the said programmes. The present report will be useful for those who are interested and would like to know more about the legal regulations to which the tobacco industry is subject to, and how firms were able to adapt and come up with strategies to counteract those same restrictions and communicate the best way they can their offerings to all stakeholders. Nonetheless, the research gathered within this report may be of interest to anyone who is curious to learn about the history of the tobacco industry and of Philip Morris International's role within it. Keep in mind that this report mostly addresses marketing topics (advertising, competition, innovation, legal and social issues, marketing communications, customer relationships, etc.).



## **5. Pedagogical objectives**

The present report is intended to deliver a global view, from a marketing and management perspective, of the tobacco industry and of the efforts done by a specific firm (Philip Morris International) within it. As so, this pedagogical case study was developed so that in the end readers may be able to:

- Know more about the tobacco industry (and its place in History), mainly past and current marketing and communication campaigns and the outcomes derived from those;
- Feel stimulated to be involved and interested on a hot topic that is transversal to a lot of industries and that can be observed in everyday life;
- Cross data and information, in both analytical and creative ways, to assess some particularities of the industry and the firms operating within it, so reasoned and shrewd conclusions can be drawn;
- Understand that, in most industries, there are constraints that limit firms' actions to which brand and product managers must be aware before outlining any strategy;
- Critically analyse an industry and its participants, and make decisions regardless of one's beliefs and ethical judgements;
- Be more inquisitive, to not believe in everything just because. To take their own conclusions based on research and critical thinking.



## 6. Literature Review

### 6.1. Marketing Communications

As of 2016, Kotler *et al.* define marketing communications as “*the means by which firms attempt to inform, persuade, and remind consumers – directly or indirectly – about the products and brands they sell.*” (Kotler *et al.*, 2016: 580). It is through marketing communications that organisations can establish dialogues and build relationships with consumers – such strategies represent the “voice” of the organisation (Kotler *et al.*, 2016).

Marketing communications is one of the elements of Bob Lauterborn’s proposed reformulation of Edmund Jerome McCarthy’s 4Ps framework for the marketing-mix<sup>43</sup>, and it is of crucial importance as it is the element that connects the consumer to the organisation, after the latter have determined the product to offer, the price of it, and the channels for distribution (Arens *et al.*, 2017: 202).

The purposes of Marketing Communications can be divided into three categories: reach, process, and effectiveness. Reach as in aiming effectively and efficiently for a target group, through the segmentation and behavioural analysis of the desired segments. Process as the information captured by the targeted group that needs to be processed and remembered. And effectiveness as the sum of the previous categories that ensure enough exposure of the product and the correct processing of the message (de Pelsmacker *et al.*, 2013).

#### 6.1.1. Response Hierarchy Models

The final goal for most marketing efforts is to increase customer loyalty (repeating purchases that lead to more profits), but there are some stages between the necessities that a consumer is faced with and the purchase act. Some models, called Response Hierarchy Models (see Figure 3, below), have been built around the problematic of this journey, and, albeit being different, most of them revolve around the idea of three stages: cognitive, affective, and behavioural. The

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<sup>43</sup> The Marketing Mix, one of the most fundamental concepts in Marketing, whose most well-known and widely accepted definition – “... *a combination of all the factors at a marketing manager’s command to satisfy the target market.*” (McCarthy, 1964 as cited by Rafiq *et al.*, 1995: 4) – was brought up in 1964 by Edmund Jerome McCarthy. He also created one of the most popular and more utilised frameworks (certainly the one with the most notoriety and prominence) to organise Marketing-Mix elements: the 4Ps (Product, Price, Promotion and Place) (Dionísio *et al.*, 2018; Kotler *et al.*, 2018). Over time, McCarthy’s 4Ps framework got some criticism from its product-orientation approach, for only being seen by the marketing management perspective. In 1990, Bob Lauterborn proposed a new framework for the Marketing-Mix, where its variables would be seen and evaluated from the consumer’s perspective: Product becomes Customer Solution, Price converts into Cost to the Customer, Place becomes Convenience, and Promotion turns into Communication – the 4Ps becomes the 4Cs. It marks the shift from mass marketing to niche marketing (Lauterborn, 1990).

cognitive stage comprises the awareness and/or knowledge of a product/brand, the affective stage refers to the feelings (interest, desire, preference, attitude) consumers have towards a product/brand, and the behavioural stage reflects the purchase intention and the act itself of purchasing. The objective of Marketing Communications is to influence customers to go through these stages.

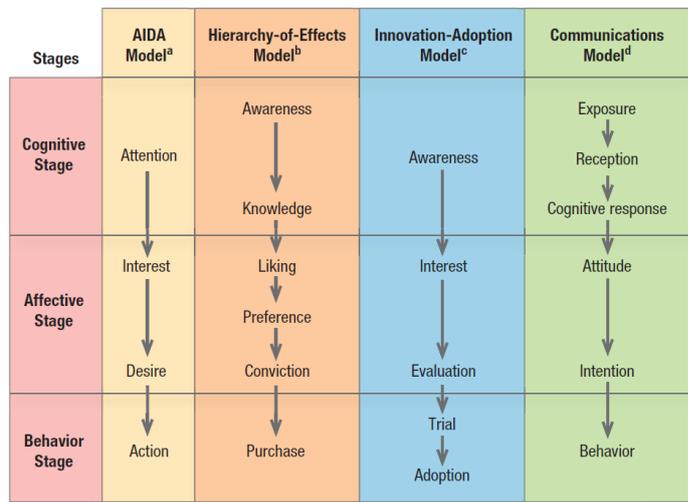


Figure 6.1: Response Hierarchy Models

Kotler *et al.*, 2016: 585

However, as much as these models are helpful, they are also not conclusive: not all customers go through all the stages, the stages may not occur sequentially in an hierarchy order, scenarios such as impulsive purchase suppress the stages, and even the linearity of it (e.g., the lack of a loop from the last stage to the first one, to show that the purchase action is not the “end” stage, but a step for

an ongoing relationship; or the purchase of a product being before the formation of an attitude towards it). Nonetheless, these kinds of models may be helpful when setting communication objectives and choosing the appropriate methods (Smith *et al.*, 2011).

### 6.1.2. Marketing Communication Objectives

One of the many Response Hierarchy Models created is the DAGMAR (Defining Advertising Goals for Measured Advertising Results), developed by Russell Colley (1961), which maps the prospect buyer to go through four stages in a purchase decision: awareness, comprehension, conviction, and action. This model, a “descendant” of the AIDA Model (see Figure 3), states that nine communication objectives/goals can be set at any marketing communication strategy; it is then of the marketer’s role to enrol in the making of a communication campaign according to the communication goals that need to be reached. For any campaign to be fully developed, it is of the best interest for the organisation to brief its objectives to all the parties involved (e.g., advertising agencies, sales promotion agencies, media planners). When these objectives are well defined and can be quantified, they also serve as criteria to assess the success (or failure) of any given communication campaign (de Pelsmacker *et al.*, 2013).

Based on the works of de Pelsmacker *et al.*, (2013) and Kotler *et al.*, (2016), the following list summarises the main characteristics of each of the nine communication objectives/goals:

1. Establish Need for Category – create in the customer the perception of needing something; remind the customer on the need for an infrequent used category (e.g., medicines);
2. Build Brand Awareness – influence the customer to recognise and recall the product/brand in aided and unaided contexts, respectively; to associate physical characteristics (e.g., name, logo, package) to a category need;
3. Brand Knowledge and Comprehension – customers awareness on the main characteristics, features, and benefits of the brand/product, implying its advantage over the competition;
4. Build Brand Attitude – help customers' evaluation on a currently relevant need, either the need being negatively oriented (solution to a problem, dissatisfaction with something) or positively oriented (sensory gratification, social approval), by influencing their perceived value for a product/brand;
5. Influence Brand Purchase Intention – take the customers into purchasing the product/brand or take purchase-related actions (e.g., store visit, information search); more critical in high-involvement purchase situations where the perceived buying risks are higher;
6. Purchase Facilitator – facilitate/minimise the perceived difficulties customers may encounter previously or upon the purchase (e.g., availability or price of a product);
7. Purchase – lead the customers into making the actual purchase;
8. Satisfaction – reassure the customers (new and existing ones) concerning their choice to generate and facilitate future purchases and positive word-of-mouth; avoid cognitive dissonance, i.e., doubts customers may have on the choices made;
9. Brand Loyalty – achieve commitment between the customer and the product/brand and encourage customers to purchase/use it more frequently.

Preliminary studies must be carried out to assess which objectives make sense to be chosen, which is usually done through a situational analysis of the organisation itself and the environment surrounding it (e.g., analysis of the market, current brand position, competition, opportunities, threats, etc.). Therefore, communication objectives are just a means to an end – an intermediary step to reach for the overall marketing objectives (e.g., sales volume, market share, etc.) (de Pelsmacker *et al.*, 2013).

### 6.1.3. Buyers' Decision-Making Process

Formulating a marketing communications strategy begins with the identification, analysis, and the understanding of the target market and its buying behaviour (Smith *et al.*, 2011). In 1969, John Howard and Jagdish Sheth developed the “*Theory of Buyer Behavior*”, which was meant to identify and split the elements of buyers’ decisions into three groups: (1) a set of motives, (2) several alternative courses of action, and (3) decision mediators by which the motives are matched with the alternatives. Motives here reflect the needs of the buyer for a specific product class (Howard *et al.*, 1969). This theory was the predecessor for the well-known Buyers’ Decision-Making Process, a five stage-model that comprises the path a consumer goes through when acquiring a product or service (Stankevich, 2017).

The table below highlights the potential stages (in order of occurrence) that a prospect customer goes through when facing a problem/need, and a summary concept of each stage (from the buyer’s and the marketer’s perspective). The information displayed/gathered in the table below is based on the works of Howard *et al.* (1969), Gilly *et al.* (1998), Campbell *et al.* (2001), Schiffman *et al.* (2012), Kotler *et al.* (2016), Stankevich (2017), and of Kotler *et al.* (2018).

Table 6.1: Prospect Customer’s stages when facing a problem/need

Stage	Buyer’s role	Marketer’s role
Problem recognition	<ul style="list-style-type: none"> <li>• Problem (or need) recognition, triggered by internal or external stimuli.</li> <li>• External stimuli are often product of marketing efforts/activities – when organisations communicate with the consumers (e.g., media ads) – but can also derive from a social environment (e.g., word-of-mouth).</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of what triggers the need.</li> <li>• Stimuli the buyer’s needs.</li> </ul>
Information search	<ul style="list-style-type: none"> <li>• Active search for information (e.g., reading material, asking friends, visiting shops).</li> <li>• Becomes more receptive to information and considers all the options (even some he may have never used before).</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of the sources the buyers might go after on their search for information.</li> <li>• Identification of the hierarchy of attributes</li> </ul>

	<ul style="list-style-type: none"> <li>• Major sources of information are personal (e.g., family, friends), public (websites, blogs, specialised magazines), commercial (e.g., advertising, salespeople, dealers), and experiential (using the product, touching it, examining it)</li> </ul>	<p>which guide the buyers' decision.</p>
<p>Evaluation of alternatives</p>	<ul style="list-style-type: none"> <li>• Previous obtained knowledge is processed.</li> <li>• Different products are considered and compared.</li> <li>• Some product's criteria are considered: attributes, benefits, quality, price, service, response to the need, etc.</li> <li>• A ranking of preferences is formed.</li> </ul>	<ul style="list-style-type: none"> <li>• Identification on the way buyers form their preferences (the evaluation process).</li> <li>• Stimuli the buyer by producing changes to the offering: modify products' attributes, change communication efforts.</li> <li>• Work on the beliefs and attitudes the buyers have towards the brand/product.</li> </ul>
<p>Purchase decision</p>	<ul style="list-style-type: none"> <li>• A choice is made: either to buy, to postpone the purchase, to modify it, or to reject it.</li> <li>• The perceived risks of such a purchase are considered: functional (performance of the product up to the expectations), physical (it is a threat to the well-being), psychological (it does not conform with the buyer's self-image).</li> <li>• Situational factors may influence the purchase (e.g., cash-flow problems, time availability, location, stock levels).</li> </ul>	<ul style="list-style-type: none"> <li>• Seek and evaluate the factors that may induce a perceived risk to the buyers.</li> <li>• Set strategies to resolve and reduce that perceived risk.</li> <li>• Simplify/Facilitate the purchase decision by providing an adequate amount of information (e.g., promotions, bundles).</li> </ul>

<p>Post-purchase behaviour</p>	<ul style="list-style-type: none"> <li>• Comparison between the expectations and the reality (e.g., how effective was the product at satisfying the need?).</li> <li>• Newer decision processes will consider this process's experience.</li> <li>• Some cognitive dissonance<sup>44</sup> may occur, i.e., the tension/anxiety post-purchase (e.g., was this purchase the right decision?).</li> <li>• Possible transmission of information to other people regarding the ownership, usage, and experiences of the product.</li> </ul>	<ul style="list-style-type: none"> <li>• Keep up communication efforts to “assure” that the buyer made the right choice.</li> <li>• Monitor the buyer's post-purchase satisfaction, troubles, and actions.</li> <li>• Undertake post-purchase communication efforts to engage customers and to build brand loyalty.</li> </ul>
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Source: own design based on the works of Howard et al. (1969), Gilly et al. (1998), Campbell et al. (2001), Schiffman et al. (2012), Kotler et al. (2016), Stankevich (2017), and of Kotler et al. (2018)

The buying process starts way before the actual purchase and continues after it. As an example, some consumers may decide to purchase a product from unsolicited information they might step on while passively walking through a shop, making it vital that marketing managers take some efforts to reach consumers at the various decision stages (Kotler et al., 2016). Along with this thought, the buyer may even skip some of these stages – which usually happens in regular and routine purchases, but not on more complex and weighted decisions – or shift them around (Kotler et al., 2018).

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<sup>44</sup> Proposed by Leon Festinger in 1957, the Theory of Cognitive Dissonance centres around the creation of knowledge regarding important psychological processes. It focuses on the relation cognitions have with each other – cognitions being elements of knowledge that someone may have regarding their behaviour, feelings, environment, beliefs, perceptions, or attitudes – and it states that when someone has two (or more) cognitions that are inconsistent with one another (i.e., one follows from the opposite of the other), then that someone will experience dissonance and thus will seek to reduce it in one of three ways: add new consonant cognitions, reduce the importance of dissonant cognitions, or remove dissonant cognitions. The dissonance's strength is influenced by the number of dissonant cognitions as well as the underlying importance of each, and as the magnitude of the dissonance increases the motivation to reduce dissonance increases as well. Several revisions of the original theory have been proposed, most which positioned dissonance as the conflict that results from someone acting in a way that contradicts their sense of moral integrity and own perception/self-concept. Still, Festinger's original version retains stronger academic support. This theory is used by researchers from a variety of different social sciences to predict and explain human behaviour; in Marketing it is very used (ever since the introduction of it) to understand and explain consumer behaviour (e.g., how the level of involvement with a product influences post-purchase and how can marketers design promotional mixes to decrease consumers' dissonance after they do the purchase) (Telci et al., 2011).

Understanding which experiences have the most impact at each stage of the buying process will help in a more effective allocation of the marketing communications budget (Kotler *et al.*, 2016). After all, one of Marketing big goals is to “...*reach consumers at the moments that most influence their decisions...*” (Stankevich, 2017: 8).

## **6.2. *Integrated Marketing Communications***

“Integration” is the key word here – to provide a consistent communication idea across the whole spectrum of the communication mix has always been crucial for organisations. Nowadays, given the multiplicity of available media channels, it has become more urgent (and difficult) to integrate and coordinate all the different messages into one consistent image to be delivered to all stakeholders. But it has always been important even during the twentieth century, and the idea behind the IMC goes back to the early 1970s (Connelissen *et al.*, 2000). However, the first conceptual ideas on IMC were only published by Schultz *et al.* in their book “*Integrated Marketing Communications*” (1993). Enthusiasts of the IMC state that its emergence came from the media agitation context at the time, with the increasing global competition environment and the rapid technological advances (e.g., digital TV, mobile phones, personal computer, etc.) (Kliatchko, 2005). The recent global marketplace, within a technological savvy world, may enhance marketing communication strategies to be more customer-driven and focused, while still maintaining the traditional advertising techniques. This enables organisations to achieve integration of different products/brands and communication messages within, encouraging the pursue of multiple targets (Dewhirst *et al.*, 2005; McGrath, 2005). Therefore, IMC can be seen as a “natural evolution” of marketing communications (Kliatchko, 2005: 7).

As it is with the concept of Marketing-Mix (a much older concept which has been subject of academic debate for decades), also the IMC’s concept does not have a common understanding and there is the “... *lack of a generally accepted definition.*” (Holm, 2006: 24). In fact, various authors state the ambiguity that surrounds the definition of IMC and the lack of a consensus on it (Reid *et al.*, 2005). In 2005, Jerry Kliatchko reviewed the various definitions that a number of authors gave to IMC; and although they diverge in a lot of points, there are two points in which all the authors agree on as being fundamental to define IMC: the coordination/consistency of messages and channels, and the need to adopt a strategic approach to the planning of marketing communications (Kliatchko, 2005). This corroborates with more recent attempts to define IMC, as the “... *coordinated, consistent means by which firms attempt to inform, incent, persuade, and remind consumers – direct or indirectly – about the products*

*and brands they sell.*” (Batra *et al.*, 2016: 137). To embrace an IMC program, it is required for the whole organisation to get involved – a comprehensive view of the organisation is a must (Kliatchko, 2005; Reid *et al.*, 2005). Keller (2013) lists the six most relevant criteria (the 6 Cs) for the creation of and to ensure an effective and efficient IMC program:

- (1) Coverage – the extent to which the different communication tools are able to reach the desired target;
- (2) Contribution – the effectiveness in each of the communication tools in terms of getting the message to the target;
- (3) Commonality – the extent to which messages spread by different communication tools share meaning amongst them, i.e., the communication strategy should guarantee the consistency and cohesiveness of the message across all the channels (so consumers can better recall the information that is intended to reach them);
- (4) Complementarity – the extent to which different associations and linkages are emphasised across communication tools, i.e., to make sure that the chosen communication tools are mutually compensatory and work together to ensure the message spread;
- (5) Conformability – the ability of a marketing communication strategy to effectively reach the group of consumers who have been previously exposed to the message and the ones who have not;
- (6) Cost – the decision on which communication tools should be used, weighing their costs and their effectiveness for the current communication strategy.

The very own concept of IMC places marketing communications as a pivotal point within any organisation, as its planning and application influences all other areas of the business operation; and so, an integrated approach (as the name itself suggests) must consider, encompass, and be in synergy with all the other business areas of an organisation’s operations, for the latter to reach a sustainable competitive advantage position (Kitchen *et al.*, 2010; Fulgoni *et al.*, 2014). The 21<sup>st</sup> century marketing environment obliges organisations marketing communications to be built upon the pillars of integration and personalisation if they want their products/brands to be strong and to win consumers. In fact, organisations that neglect IMC and that do not deliver their messages coherently, may be transmitting an inconsistent product/brand image, whose aftermath might result in a negative influence over consumers buying behaviours. After all, communication is the foundation for all human relationships (McGrath, 2005; Holm, 2006; Kitchen *et al.*, 2010; Keller, 2013; Batra *et al.*, 2016).

## 7. Action plan

Table 7.1: Recommended Action Plan for the handling of this report's case educational purposes

Moment	Objectives	Action Plan	Support Materials	Duration Time
1 <sup>st</sup> Session	<ul style="list-style-type: none"> <li>✓ Introduce the case to students and stimulate their interest for it.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Hand the “Case Study Context” section to the students;</li> <li>❖ Introduce chapter 3 “<i>Philip Morris and Tabaqueira</i>”;</li> <li>❖ Question the students on what they know regarding the tobacco industry and its players;</li> <li>❖ Creation of work groups.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chapter 3 of the report, “<i>Philip Morris and Tabaqueira</i>”;</li> <li>▪ Stanford University’s Tobacco Advertising gallery;</li> <li>▪ Yale University’s Selling Smoke exhibition.</li> </ul>	60 min
Out of Session	<ul style="list-style-type: none"> <li>✓ Students must familiarise with the case on their own;</li> <li>✓ Arouse students’ critical spirit.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Analysis, individual and in group, of the case study;</li> <li>❖ Resolution, in group, of the animation questions.</li> </ul>		120 min
2 <sup>nd</sup> Session	<ul style="list-style-type: none"> <li>✓ Confrontation and exchange of ideas;</li> <li>✓ Arouse students’ critical spirit;</li> <li>✓ Further development of the case analysis.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Presentation of each group’s thoughts on the animation questions, followed by an in-class debate on the difference of opinions;</li> <li>❖ Analysis of past marketing efforts in the tobacco industry (e.g., formulas, channels, targets, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chapter 1 of the report, “<i>Tobacco Marketing</i>”.</li> </ul>	60 min
Out of Session	<ul style="list-style-type: none"> <li>✓ Further and deeper familiarisation with the case.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Reflect on possible change of opinions (concerning the animation questions) arising from the content presented in the previous class.</li> </ul>		120 min
3 <sup>rd</sup> Session	<ul style="list-style-type: none"> <li>✓ Redo of the confrontation and exchange of ideas;</li> <li>✓ Arouse students’ critical spirit;</li> <li>✓ Further development of the case analysis.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Assess if the groups have switched their opinions and positions on the animation questions previous debated;</li> <li>❖ Analysis of the regulations in the tobacco industry (e.g., marketing restrictions, taxation, smoking bans, etc.);</li> <li>❖ Formulation of the case study questions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chapter 2 of the report, “<i>Regulations</i>”.</li> </ul>	60 min
Out of Session	<ul style="list-style-type: none"> <li>✓ Resolution of the case study questions.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Reflect on the previous class sessions, on everything that was learned, and analyse the Case Study;</li> <li>❖ Discuss, within the group, the best strategies to answer the questions;</li> <li>❖ Search, if necessary, for additional information that may complement the case study’s content;</li> <li>❖ Develop the case resolutions slideshow and prepare the presentation to the class.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “<i>Case Study Context</i>” section of the report;</li> <li>▪ Eventually other materials different from the ones provided by the teacher.</li> </ul>	150 min

4 <sup>th</sup> Session (final one)	<ul style="list-style-type: none"> <li>✓ Presentation of the case study resolution;</li> <li>✓ Confrontation of the groups' answers with the ones proposed by the teacher.</li> </ul>	<ul style="list-style-type: none"> <li>❖ 15 to 20 min group presentations;</li> <li>❖ Once every presentation has been done, the teacher may present his or her resolution proposal – as each question is answered, the students are incentivised to participate and express their opinions and ideas.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Each group's presentation (ideally in a visual format, e.g., PowerPoint);</li> <li>▪ Teacher's presentation in visual format.</li> </ul>	90 min
Out of Session	<ul style="list-style-type: none"> <li>✓ Grade the proposed answers and presentation (by group and individually).</li> </ul>	<ul style="list-style-type: none"> <li>❖ The distributed weight of each student's final grade is: case resolution (50%) + individual presentation (30%) + Individual participation in the discussions (20%).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Notes collected, through the four sessions, on the groups' and each element's performance in the tasks assigned (e.g., in-class discussion of the animation questions, group's proposed answers, individual presentation, etc.).</li> </ul>	N/A

*Source: own design*

Note: Assuming that each session can have a maximum duration of 90 minutes, then only 60 minutes of each session (except for the last one) will be reserved to directly address the case study. The remaining 30 minutes are meant for the teacher to present theoretical topics that may, indirectly, help students to answer the case study questions. As a support material for the theoretical topics, it is suggested for the teacher to serve on chapter 6 “*Literature Review*” of this report. To note that the duration times for each moment are merely suggestions, it is up for the teacher and the students to adapt those duration times according to their own schedules, priorities and goals.

## **8. Analitic framework presentation**

To ensure that the readers can make a good analysis of the case and answer the questions in the most structured and effective way, it is suggested to approach this report in two ways: qualitative and quantitative.

A qualitative analysis will provide a better general understanding of the past, present, and future situation of the tobacco industry. It is then suggested to consider the following:

- Innovations on the tobacco industry throughout time;
- External and internal factors shaping the tobacco industry;
- PMI's current and past marketing and communication efforts;
- Existing regulation, in Portugal and around the world, that limits the action of tobacco firms and the penetration of tobacco products;
- The IQOS offering (product, identity, values, mission, factors influencing its penetration, etc.).

A quantitative analysis comes to complement, reinforce, and sustain the diagnostics done and recommendations/strategies proposed. The readers must base their analysis on the following sources of secondary data:

- PMI's Annual Report for 2018;
- World Health Organization reports on the tobacco epidemic;
- Portugal's National Health Survey of 2014;
- Direção-Geral da Saúde analysis' reports on the National Health Survey of 2014;
- Portugal's National Program for Tobacco Control and Prevention;
- European Union's special barometer on Attitudes of Europeans towards tobacco and electronic cigarettes;
- Reports, by small NGOs and other associations, on the tobacco industry (expenditures, market shares, etc.).

To answer the case study questions the readers will only need the data and information contained in this report, basic management and marketing knowledge, general knowledge, and a bit of common sense. But in case any of the readers would like to go further, below are some useful links sorted by subject.

1. To learn more about Tobacco Regulation:

- ✓ in the world (<https://www.who.int/fctc/en/>);
  - ✓ in Europe ([https://ec.europa.eu/health/tobacco/overview\\_en](https://ec.europa.eu/health/tobacco/overview_en));
  - ✓ in Portugal (<https://www.dgs.pt/programa-nacional-para-a-prevencao-e-controlo-do-tabagismo/legislacao.aspx>).
2. To learn more about Tobacco Consumption data:
- ✓ in Europe ([https://ec.europa.eu/health/tobacco/eurobarometers\\_pt](https://ec.europa.eu/health/tobacco/eurobarometers_pt));
  - ✓ in Portugal
    - ([http://www.sicad.pt/PT/Documents/2017/INPG%202016\\_2017\\_I%20relatorio%20final\\_dados\\_provisorios.pdf](http://www.sicad.pt/PT/Documents/2017/INPG%202016_2017_I%20relatorio%20final_dados_provisorios.pdf)) (<https://www.dgs.pt/programa-nacional-para-a-prevencao-e-controlo-do-tabagismo/relatorios-e-publicacoes.aspx>)
    - ([http://repositorio.insa.pt/bitstream/10400.18/4117/5/INSA\\_Relatorio-Consumo-de-tabaco\\_INS%201987-2014.pdf](http://repositorio.insa.pt/bitstream/10400.18/4117/5/INSA_Relatorio-Consumo-de-tabaco_INS%201987-2014.pdf))
    - ([https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine\\_publicacoes&PUBLICACOE\\_Spub\\_boui=263714091&PUBLICACOESmodo=2](https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_publicacoes&PUBLICACOE_Spub_boui=263714091&PUBLICACOESmodo=2)).
3. To learn more about Tobacco Advertising throughout the History:
- ✓ Stanford University's Tobacco Advertising gallery ([http://tobacco.stanford.edu/tobacco\\_main/index.php](http://tobacco.stanford.edu/tobacco_main/index.php));
  - ✓ Yale University's Selling Smoke exhibition (<http://exhibits.library.yale.edu/exhibits/show/sellingsmoke/>).

## 9. Animation questions

The set of questions below is meant to stimulate debate and critical thinking amongst students. None of these questions should be treated as the closed-ended type, even the ones that are dichotomous in nature should be answered in an open-ended format – they do not have a single solution (i.e., a correct answer). Whoever hands these questions to an audience (e.g., a class of students) should perceive them as a “warm-up” for what is coming next (to set the tone for the upcoming contents), as a stimuli for reasoning and a “push” for the audience to begin searching and developing interest (or at least curiosity) on the subjects within this report. Moreover, these questions can also be used to assess the audience’s knowledge and preliminary level of interest, involvement/engagement and motivation. The answers (or better be the opinions/points-of-view) should not come immediately: reflection and interchanging ideas are crucial for the animation questions to serve their purpose.

The author gives a recommended time for these questions to be presented<sup>45</sup>, however there is no ideal timing for it: it can be done prior to the introduction of the case, it can be during, afterwards, ..., prior and after (to assess the changes in the answers given and positions taken at different moments), etc. It all depends on the objectives traced by whomever is steering the session(s).

- Regulation or prohibition?
- Is it hypocritical to ban tobacco advertising when fast-food and alcohol are not?
- Are tobacco firms compatible with sustainable health care values?
- Has PMI cannibalised its main product with the introduction of the IQOS?

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<sup>45</sup> See Chapter 7 (“Action Plan”).



## 10. Case study resolution proposal

### 1. Assess the attractiveness of the tobacco industry and of PMI's IQOS.

**Recommendation: conduct both a Porter's Five Forces and a STEPE analysis for the industry and a SWOT analysis for the IQOS.**

#### Porter's Five Forces analysis

##### Threat of New Entrants – Low

The pressure exerted by new entrants in the tobacco industry would be small, given that the five major tobacco firms controlled, as of 2017, 80.6% of the global cigarette market (which is the main product of the industry). Besides that, those five firms have a portfolio of big and strong household brands, very good and wealthy financial records, and worldwide consolidated production and distribution channels. Nonetheless, the status quo is constantly changing in the tobacco industry: in case newer and stricter regulations come in place, or existing regulations get implemented globally (e.g., plain packaging), the market share and sales of big industry players could collapse. Picking up on the plain packaging example, such regulation could shift the market dynamics as price becomes the main differentiating aspect of the product, which could propel consumers to opt for the cheapest brand (which is likely to come from a smaller player outside of the major five). But in the end, what probably would happen is major brands either lowering their brands' prices or acquiring the newly comer brands, thus continuing to dominate the global market. The main opportunity for new players to enter the industry has been through novel products (e.g., electronic cigarettes, vaping systems, etc.); and they were successful in the beginning, but as soon as the big players felt threaten they promptly launched their own brands and versions for more contemporary product categories. Legal restrictions would also make it very difficult for new products to be advertised and to build new brands.

##### Threat of Substitutes – High

Tobacco substitutes come, for the most part, as a consumer's necessity to improve one's health (in other words, to mitigate the hazardous effects tobacco consumption has on human health). There are usually two categories of products to attend that necessity: medicines and reduced-risk products. The former is sought after by tobacco consumers who wish to quit, i.e., who want to eradicate tobacco (and potential related diseases) from their lives; the latter by consumers who enjoy the pleasurable flavour and experience withdrawn from tobacco consumption but, by being aware of its risky behaviour, look for alternatives that are of less harm to health.

Cigarettes are still the biggest product in the industry, but as times change and the consumer becomes increasingly aware of the health risks of smoking, things might shift: it is still too early to forecast anything, but the reality is that for the past few years cigarette consumption has been dropping and the consumption of other product categories has been skyrocketing. Regulations, albeit not choosing sides (except for medicines and smoking cessation programmes), are by now indirectly favouring substitute products through lower taxation when compared with cigarettes. The trend is for those big tobacco names to also enter the game and release substitute products for the cigarette, a somewhat self-cannibalisation of the business.

#### Bargaining Power of Customers – Low

The tobacco industry has its roots on the addictive properties of nicotine – consumers are generally willing to buy cigarettes despite the price (in every sense of the word) – thus making this a market with an inelastic demand. Some constraints may exist that can force tobacco firms to reduce the prices of their products, as religious/cultural motives (the consumption of tobacco can be seen as a deviant behaviour and/or as a taboo) or due to legal regulations (e.g., plain packaging); in such cases the reduction of prices is one of the easiest and short-term solutions to counteract the problem (but certainly not the most enduring one), but it is not the customers who exert that kind of pressure. While conventional tobacco products present few to no switching costs for customers (e.g., cigarettes are almost all the same, and the way to consume them certainly is), novel products on the other hand imply some costs if the customer chooses to switch brands (e.g., one brand's nicotine liquid may not be compatible to use in the e-cigarette of another brand).

#### Bargaining Power of Suppliers – Low

A divisive parameter: on one hand tobacco firms cannot sustain their business without suppliers (except if the firms own their own suppliers), and in that situation the latter can exert some power over firms; on the other hand there are a lot of suppliers around the world, from small local crops to big industrialised plantation fields, and what probably happens is that just like in many other Consumer Goods industries the production volume surpasses the demand, causing tobacco firms to look elsewhere for a supplier if theirs increase prices or limits the supplied materials – low switching costs. There are some constraints that can influence the relationship between tobacco firms and suppliers, such as government intervention (e.g., quota systems, the obligation for tobacco firms to source raw materials locally, etc.) or nature interventions (e.g. natural disasters, parasites/diseases affecting plantations, etc.) that could potentially increase

prices on tobacco firms due to reduced levels of productivity and therefore supply volume, but even in those scenarios the power on the supply side would be momentary and possibly overcome by tobacco firms. Besides that, tobacco as a raw material offers little to no differentiation, weakening the negotiation position of suppliers.

### Competitive Rivalry – High

The biggest tobacco firms in the world have an history of acquiring and merging with other firms, increasing their portfolio of brands/products and growing in dimension/importance in the process. This industry is structured as an oligopoly, where five major firms dominate the world market with roughly the same product portfolio. Once a new product or innovation is out, the competition is quick to react and to launch its own take of that product: all four major firms (excluding CNTC) started to commercialise their own e-cigarette brands within two years after the first of them launched its (from 2013 to 2015), and within five years for heated cigarettes brands (from 2014 to 2019). Within a limited industry, the biggest firms try the most to diversify their offerings and to match what the others are doing; a fight that is not fought so much in the price-field but more on the visibility and reach each portfolio has.

## **STEPE analysis**

### Social factors

The tobacco industry developed and achieved its huge dimension in a time where people were less “school educated” and access to information was scarce; misinformation existed to the point where some people even viewed tobacco as a good medicine for colds. Nowadays, despite misinformation still existing (due to the enormity of sources, not because the lack of them like in the past) people are more critical and aware of more subjects: they are more conscious of the health implications tobacco consumption brings and of the strategies employed by tobacco firms to promote its products. Smoking is no longer, for the most part, seen as a cool or glamorous act and celebrities no longer endorse tobacco products; smoking has increasingly been seen as a deviant act (almost like a crime) and the prevalence of smokers decreases every year.

### Technological factors

The industry is facing its most technological breakthrough period probably since cigarette units began to be mass produced by machines. Tobacco has gone hi-fi with the introduction of e-cigarettes and other similar reduced-risk products (disruptive innovations that promise to offer

the same flavour and experience but with less risk for the human health). Tobacco firms have been investing a lot since the past decade on this trend of products, and the preliminary results of its acceptance by consumers predict that a new era on the tobacco industry is on the rise.

#### Economic factors

The tobacco industry is stable from an economic point-of-view: despite regular increases on retail prices (mostly due to tax increases to reflect inflation) the consumer keeps on purchasing the product – the consumption of tobacco is so intrinsic on smokers that it makes the demand inelastic. Some consumers see an increase in prices as an argument to shift to substitute products, but even those situations work in favour for tobacco firms since lately they have been heavily investing on those products (which are normally less taxed than the conventional ones). Firms can now answer to more profiles of consumers and expand their business reach.

#### Political factors

Regulation is a hot topic in the tobacco industry: international conventions and governments impose marketing restrictions, high taxes, smoking bans, etc.; measures that restrict the actions of tobacco firms. The industry is very much at the mercy of regulators, and any stricter new measure is a hard blow in their aspirations (e.g., plain packaging, display ban, etc.). Because of this, the industry has an history of lobbying to safeguard its interests, often looking to exert direct influence among the legislators and other people (e.g., politicians) who have the power to influence and change regulations.

#### Environmental factors

Cigarettes are a disposable item (only last for one use) and after its consumption lots of cigarette butts end up on the ground instead of the trash (thousands per minute). Besides the cost to society for having to collect the butts thrown the ground, the big cost here is for the environment: cigarette butts contain plastic particles that are harmful for the environment, and given its small dimensions and light weight it becomes scattered trash that can potentially reach the oceans and the animals that feast within it (and eventually us humans). Firms have in the past produced biodegradable cigarette butts, and currently their reduced-risk products also address the environment issue by not producing ashes and not containing disposable plastic. Tobacco firms are increasingly adopting values promoting a sustainable and green future.

## SWOT analysis

<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> <li>• Strong firm with an iconic reputation and strong financial resources behind (PMI).</li> <li>• Capacity to invest in R&amp;D.</li> <li>• Staff of over 400 scientists on the conception of the product.</li> <li>• Reduce the toxic constituents found in cigarette smoke by 90% to 95%.</li> <li>• First Heat-Not-Burn product in the market.</li> <li>• Ability to penetrate globally.</li> <li>• More than 10 years and USD \$6 billion invested.</li> <li>• Delivers the same nicotine levels consumers of cigarettes seek but with reduced risk of smoking related diseases.</li> <li>• Better for the environment and for non-smokers than cigarettes.</li> </ul>	<ul style="list-style-type: none"> <li>• High initial cost.</li> <li>• Requires maintenance and cleaning, which some consumers might find “annoying”.</li> <li>• Limited distribution channel.</li> <li>• The full effects on human health were not yet discovered (long-term effects on health take years to study).</li> <li>• The consumer must be educated on the benefits and features of the product, and on how to use it.</li> <li>• Few to none independent studies have proven the benefits claimed on the IQOS.</li> </ul>
<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"> <li>• Potential to reduce the prevalence of non-communicable diseases related with tobacco consumption.</li> <li>• Few competitors and most of them are of e-cigarettes.</li> <li>• Few to no marketing restrictions (depending on country).</li> <li>• Lighter taxes when compared with conventional tobacco products.</li> <li>• A technologic product for a technologic era.</li> <li>• Increasing concern with environment and sustainability values.</li> <li>• There is no tobacco product on the market for people that wish to enjoy the flavour and experience the cigarette provides them but with fewer health risks associated.</li> </ul>	<ul style="list-style-type: none"> <li>• Other tobacco firms will (or have already) launch their own “heat-not-burn” products.</li> <li>• Communication restrictions may leave the consumers misinformed.</li> <li>• NGO’s and other anti-tobacco organizations refuse to dialogue and immediate denial of the health benefits of the IQOS compared with cigarettes.</li> <li>• Risk of being appealing to non-smokers and underage children.</li> <li>• Long-term studies may show that the claimed benefits of the IQOS were not true.</li> <li>• Health risks emerging from the consumption of IQOS that were not found in conventional tobacco products.</li> </ul>

**2. Identify the competitive advantage of PMI and how it is delivered. Briefly explain the threats and challenges facing PMI's business model.**

**Recommendation: reflect on PMI's past communication efforts to differentiate itself from the competition.**

The most obvious way to create value for a firm in a market to differentiate it from the competition is through either price or quality (or a combination of both), which is hard to do in an industry where there is almost no difference between brands in terms of price or quality. Tobacco firms never went through the price differentiation route, but they have certainly gone to communicate their own brands has having a superior quality (or offering more health benefits) than others – e.g., for the first half of the 20th century doctors were heavily featured on tobacco advertisements, to communicate the health benefits derived from smoking a particular brand of cigarettes. PMI was no exception and they also began by differentiating its brands through quality. In parallel, PMI was one of the first firms (certainly the most successful one) to stop addressing quality and health benefits when they realised that the product (cigarette) was so homogeneous that they needed to focus on other aspects besides the product – their competitive advantage was to build an unique branding around their products by attaching a personality to them representing values that people could relate (or aspire) to and that went beyond tobacco and the health hazards associated with its consumption.

Over the years, PMI went through different marketing strategies to build a good and solid position for its brands, with the most targeted brand being Marlboro: a brand that was initially targeted at women but that in the 1950s PMI decided to rebrand it as a brand for the men concerned with the harmful effects of smoking. Instead of focusing on the health benefits of a Marlboro cigarette over the ones from the competition, PMI focused on building a personality for the brand, on attaching to the Marlboro cigarette/pack a set of attributes and values to which the consumer could relate to or aspire to obtain. The “*Marlboro Man*” campaign was the epitome of PMI's strategy to increase customer loyalty and brand awareness – a rough figure that personified manly values (e.g., independence, strength, freedom, etc.). Others would follow, such as the notable and long-lasting partnership with Formula 1 through the Marlboro sponsorship of Ferrari, that also allured to other manly values (e.g., danger, risk, adventure, competition, etc.). Both these examples were designed to shift the consumers' attention from the health hazards caused by the consumption of the advertised product towards aspiring and positive values.

These two campaigns extended for decades (the “*Marlboro Man*” from 1955 to the early 2000s, and the sponsorship to Ferrari still exists today since 1984), delivering a consistent brand image that impacted society so much that turned Marlboro into a cultural icon, alongside the likes of other icons such as Coca-Cola, McDonald’s, or Apple. When one thinks of tobacco, one thinks of Marlboro: it is the top-of-mind brand in the industry. And PMI achieved it in a genius way: cognitive dissonance is high among smokers, they know it is not a healthy habit, but they still continue to smoke; their behaviour is contradicting their own beliefs. Smokers have two options to decrease (or mitigate) that sense of dissonance: change their behaviour and quit smoking, or change their beliefs about the behaviour. The second option is better from the tobacco business point-of-view, and that is the strategy PMI took. Marlboro gave consumers another thing to think about instead of the health hazards of tobacco smoking.

Nowadays PMI’s competitive advantage is being threaten. Tobacco consumption is declining in the world; it is a slow decline, but it is. Consumers are more educated, have more access to information, and thus are more aware of what tobacco products do to their health. Novel products, such as e-cigarettes and vapour products, came to answer the health concerns of the modern tobacco consumer and are slowly seizing cigarettes’ market share. It has also become harder for tobacco firms to build their brands due to stricter regulations on advertising, promotion, and marketing in general – all the traditional channels PMI would use for Marlboro and other brands are either closed or on the verge of being.

### **3. Can the IQOS reverse the decline of tobacco consumption worldwide? Identify the critical success factors for PMI to succeed with the IQOS.**

**Recommendation: reflect on past innovations the tobacco industry has been through (briefly describe on what they consisted, why did they appeared, their success or failure, do they still exist, etc.). Define, very shortly, the identity of the brand IQOS.**

The tobacco industry lays its foundations on the cigarette, a simple one-time use homogenous product that all players sell at roughly the same price-point. It is hard to have a differentiating offer for a product like that. To highlight their offerings (i.e., for them to stand out in the market) firms have always tried to improve their existing products and to develop new ones – the cigarette as it is today is an innovation itself (the filtered tip did not exist until the 1950s, and it was only in the 1960s that it became the standard tobacco product). More innovations on the cigarette included flavoured cigarettes (the most famous being menthol, which was in the 1930s

advertised as a treatment for persistent cold) and “light” variants (that so often exist in Consumer Goods markets) promising a smoking experience with fewer levels of nicotine, tar, and other chemicals than normal cigarettes. This pretty much sums up the 20<sup>th</sup> century innovations on tobacco, and it is curious that all these innovations were aimed at reducing the health risks consumers were exposed by the consumption of tobacco products (or at least they were advertised as so). All these innovations, that once helped the industry gain customers, are still being commercialised; so why is tobacco consumption declining? For starters, the filtered cigarette is no longer an innovative product; there was a time when it did help to retain existing consumers and to obtain new ones due to its “healthier” design, but now it is simply known as a harmful product, there is no longer a worse product to serve as a term of comparison. The cigarette is bad, period. As for the other innovations, regulation came into the scene: tobacco packages can no longer feature elements suggesting that a product is less harmful than others (this includes omitting any information on the constituents of the product, notably the levels of nicotine, tar, and carbon monoxide), so terms as “*light*”, “*mild*”, or “*slim*” disappeared from the lexicon of tobacco packages; and cigarettes with characterised flavours have been banned from the markets.

The cigarette only evolved from chopped tobacco leaves wrapped in paper because consumers wanted a better product, and because regulators and other organizations restricted the actions of tobacco firms; history repeats itself and so the industry was once again “forced” to innovate. The first big innovation of the 21<sup>st</sup> century was the electronic cigarette, a product that did not contain any tobacco (an aerosol was produced by heating a nicotine-based liquid) and that promised to reduce the health risks associated with conventional cigarettes. However, it was not the big tobacco firms that introduced the electronic cigarette in the market, in fact it took them nearly a decade to launch their own brands of electronic cigarettes. By that time electronic cigarettes were already being targeted with restrictions and taxes similar to the ones imposed on conventional tobacco products; in some countries (e.g., Japan, Thailand) the electronic cigarette was even banned, and others may follow (as usual in the industry, all it takes is a precedent).

The IQOS comes as another product that promises the same (or similar) health risk reduction as electronic cigarettes, but with a different method: instead of heating a nicotine liquid, the IQOS heats tobacco (specifically designed tobacco units, similar to cigarettes but shorter and more compact).

PMI does not want to reverse the decline of tobacco consumption. They realised that the market and the consumer of today are different from when the filtered tobacco was introduced.

They do not want to follow on the footsteps of past big players in other industries (e.g., Kodak in the photo industry, Blockbuster in the video renting industry, etc.) who were comfortable as industry leaders and refused to innovate, for either fear of cannibalisation of its own main and profitable products or for ignoring the competition and the innovations those were bringing to the respective industries. PMI acknowledges the decline in the industry and that the cigarette as we know today will probably cease to exist in a few decades; the firm is simply looking into the future instead of relying on today's and yesterday's successful products. In a short answer, PMI cannot reverse the global decline of tobacco products, but they sure can contribute for the rise of a new type of product (the IQOS) that meets today's (and tomorrow's) consumer and market needs.

### **Critical Success Factors**

- ❖ Supply of electronic components – as technology enters the tobacco realm, the existing firms must adapt. PMI are by now experts in the procurement of raw materials for conventional tobacco products, but for novel products they are still learning. They depend on other firms for the supply of electronic components.
- ❖ Ensure production capacity – the production facilities must be adapted to accommodate the IQOS and HEETS.
- ❖ Regulation – fiscal, marketing, and other types of regulation may set the pace to which adult smokers will adopt IQOS, which will vary from country to country (e.g., in the USA, one of the biggest world markets, it took two years for the IQOS to get approval to be commercialised within the country).
- ❖ Convince adult smokers to convert – smokers must be educated on the differentiating IQOS technology and benefits compared with cigarettes. PMI must also, to most extent, prevent the dissemination of misleading and inaccurate information concerning the IQOS.
- ❖ Counterfeiting – contraband and counterfeiting products have always been a big issue with cigarettes. It is well known that technological products are very prone to be counterfeited and sold under other brands at cheaper prices than the original; there is a risk that can happen to the IQOS, which would make PMI lose revenue. Case the IQOS device and HEETS units start to be counterfeited that could also affect consumers satisfaction and perception of the original product, as most counterfeit products do not offer the same quality nor experience as the originals.

- ❖ Publications, researches, and studies assessing IQOS' claims – it is essential that more independent studies get published assessing the benefits of the IQOS, confirming to society that the IQOS is the best alternative for smokers who do not wish to quit. Anything of prejudice that is said or written regarding IQOS' claims can seriously jeopardise its entire aspirations.

### **IQOS' brand identity**

The IQOS is the product in the frontline of PMI's journey to provide smoke-free alternatives to all cigarette smokers. The IQOS marks the tobacco industry entrance in the 21<sup>st</sup> century: technology, engineering, and tobacco came together to deliver a modern, sophisticated, and high-tech product capable of delivering the same flavour and experience one gets from cigarettes but with fewer of the health risks associated with the latter. A disruptive product for disruptive times. A start-up product and vision backed up by a large firm's capital power.

#### **4. Which target should PMI prioritise to consolidate IQOS's place in the Portuguese market?**

**Recommendation: study the potentiality of Portugal as an IQOS market. What aspects are crucial in the communication plan to consolidate the IQOS among the target?**

In Portugal, the most recent data (from 2014) shows that 20.0% of the resident population smokes (i.e. either smoke on a daily-basis or occasionally), with 27.8% being men and 13.2% women. That means that approximately 1 in every 5 residents in Portugal consume tobacco or nicotine products, therefore PMI has the opportunity to promote the IQOS and a new quality of life to an audience of roughly 2 million (assuming that Portugal has a population of 10 million people).

To further segment the target, one can look at the monetary investment the smoker has to make to consume the IQOS. Albeit a pack of HEETS costs the same as the average cigarette pack price, the consumer must first buy the IQOS device, – a medium to high investment (between €49 and €89) that is not necessary for the consumption of conventional cigarettes – which may prevent a large number of smokers from adopting it (in particular the occasional smokers). That sets the IQOS has a device targeted primarily to daily smokers, which are most

of the segment in Portugal (16.8% of daily smokers vs. 3.2% of occasional). At the same time, the IQOS device initial investment guarantees that the switching costs are high, increasing customer loyalty to the product. It is then crucial that PMI quickly establishes the IQOS as the preferred alternative to cigarette smoking before the competition does it. Fortunately for PMI, the majority of daily smokers in Portugal are aged between 25 and 54 (994,065, approximately 68.2% as of 2014), a group that has enough purchasing power to acquire an IQOS device (but that does not mean they will).

The IQOS, despite not being a difficult device to work with, is a tech device and as such some smokers (particularly older ones) can feel intimidated by it or not understand it, which may limit IQOS' penetration. Luckily, this will not affect the penetration of the IQOS in Portugal as much: assuming that people over 55 can be the most resistant to change, that segment of the population accounts for roughly 285,000 people (about 20.0% of the total Portuguese population of daily smokers), which despite being a significant number does not prevent the IQOS from establishing itself as the best alternative to cigarette smoking. Besides that, this is a product for the future, so focusing on today's young and middle-age segment may guarantee tomorrow's older segment.

The target prioritisation is not based solely on the direct and immediate profitability, but yes on the visibility and positioning it can bring to the brand. The consolidation of the IQOS (i.e., growth in sales and market share) will come later as more and more smokers start to have their values and priorities aligned with the ones from PMI.

To summarise, PMI should focus the adoption of the IQOS by people between the ages of 25 and 54, who already smoke tobacco products on a daily basis, with purchase power, and (most importantly) who want to change and improve their health (i.e., determined, with well-established goals, confident). Assuming that a smoker attempt to quit qualifies that same consumer as having the desire for change and to improve his or her health, and taking into account that such attempt has verified on an average of 61.5% of smokers, then the gross number of PMI' target is approximately 610,000 people (which accounts for 30.5% of the total number of smokers in Portugal).

### **Crucial communication aspects**

Smokers are very conscious about the dangers of consuming tobacco products, but they still do it. European Commission data from 2017 revealed that 38.5% of smokers in Portugal have in some moment tried to quit (not just thought about it, but actually tried to quit). Unfortunately,

on average in the EU, 75% of those who try to quit do it without any assistance (this means without any medications, RRP, medical support, etc.), just with willpower. It is praiseworthy smokers' desire to quit, but it is very difficult to achieve it without any help or guidance: 10% tried to quit resorting to RRP when this type of products is not meant to help smokers quit. The market is craving for new alternatives to tobacco smoking. The electronic cigarette was believed to be a great less harmful alternative to tobacco products, but unfortunately that is not the case: on average, in the EU, 67% of the smokers who began using electronic cigarettes to stop or reduce tobacco consumption did not reduce at all, and only 14% have completely stopped smoking tobacco products. Albeit the goal of a definitive alternative product was not achieved, what matters is that it showed that smokers' initiative to start consuming electronic cigarettes was for the right reasons: the top two factors were "*to stop or reduce tobacco consumption*" and "*belief that vaping was less harmful than tobacco*", while the potential "*coolness or attractiveness*" of the device was the least chosen factor.

PMI encourages smokers to quit, but if they do not succeed they need to have (better) alternatives to conventional tobacco products. It happens so that the IQOS is a less harmful way to enjoy the tobacco taste and experience. As the "*Unsmoke Your World*" campaign says: "*If you smoke, quit. If you don't quit, change.*". The electronic cigarette already disappointed them, so smokers are sceptical about the effectiveness of these type of products; they need evidence that corroborates the message PMI is spreading about the IQOS. The real and live testimonials of IQOS adopters are the best evidence smokers need to make the change; it is PMI's target itself for the IQOS that is going to bring more smokers to a better alternative.

Because the target chosen here to be prioritised are the ones who will purchase and consume the product for the right reasons, those are the ones who will also advocate the product for the right reasons. But not only them: IQOS' salespeople are also there on the frontline to spread PMI's vision of a smoke-free world and to educate smokers on the IQOS, as well as online channels.

Bottom line, the crucial aspect is people. This is a product for the people, and it will be people who determine the success or failure of PMI's purpose with the IQOS. PMI is there to tell all about the science and technology that makes the IQOS the best tobacco alternative for smokers who do not wish to quit, but it is the people that will show it.

**5. Develop marketing and communication efforts, for the Portuguese market, to attract and retain IQOS consumers.**

**Recommendation: set at least four communication objectives and develop the efforts according to them.**

**Note: keep in mind the existing regulations that may limit marketing and communication efforts.**

Selling cigarettes is easy (the product is well-established and the consumer knows it, so it just needs to be in the point-of-sale), the hard part is to sell the brand (to make consumers choose one brand of cigarettes over another). For RRPs, in particular the IQOS, the problem lies in the entire customer journey, from bringing awareness on the product to building customer loyalty – with the IQOS, communication has to be constant and in every stage of the journey (something very difficult to achieve in an industry where regulation keeps closing communication channels) to make sure that the consumer does understand the product and its intrinsic benefits, guaranteeing that the consumer does not go back to cigarettes. This being said, the following communication objectives should be met: increase/build brand awareness, change attitudes towards RRPs, establish need for RRPs, influence purchase intent, and retain existing customers (brand loyalty).

The IQOS is clearly influenced by smartphones, and similar technological devices, in its conception and business strategies: launch of new and upgraded models (often with only a few tweaks compared to the previous model) in short time frames (almost every year), high-tech and sophisticated designs with aspirational messages backing it, a perceived exclusivity from owning the product (the sense of belonging to a restrictive group of people), and range of colours to choose for the device and accessories to complement its use (the personalisation aspect of it). From time to time, smartphone brands make partnerships with brands outside of the industry to launch limited editions of their devices and accessories featuring some aspect(s) of the partner brand (e.g., its colours, its logo, etc.). PMI could do the same for the IQOS, and there is an obvious brand that could be associated with it: limited-edition IQOS devices and accessories featuring Ferrari's colours and logo (and possibly racing and Formula 1 allusive elements) would be a great match and an easy one to pull off. Releasing limited edition products is a great way of refreshing PMI's offering and giving something new and unseen to the market. In the eyes of consumers, especially the ones who still are in doubt of adopting the IQOS (or on which model to choose) this can be perceived as added value and an exclusivity factor that

differentiates the IQOS from similar competition products. Specifically for the case of Portugal, football clubs are brands to whom consumers are passionate about and have very strong feelings and beliefs towards. Considering the top three football clubs (by number of supporters) and their respective main colours (blue, green, and red), at the moment only blue is available in the colour selection for the IQOS device – any Portuguese can tell (no master in Marketing is necessary for that) that no Benfica supporter (especially men) will buy the IQOS blue device. Adding to the offering a limited-run of IQOS devices featuring the logos and colours (or any other elements) allusive to each of the top three clubs would leave the consumer owning a unique and exclusive product that only a few had the chance to get.

There is also a very specific niche of consumers who crave for this type of offering: collectors love owning every product and accessory variants (including colours) that a brand they love launches. It will be residual, but limited edition IQOS devices and accessories may guarantee a permanent minimum number of sales thanks to these consumers (which from a business perspective may be enough to make this type of offering viable).

Consumers who own limited-edition products are also great brand advocates, as consumers will only buy limited-edition products either because they love the brand (either the IQOS or the partner brand, or both) or because of the exclusivity factor. Either way, the IQOS benefits from more visibility.

There is also the possibility to personalise the IQOS device and accessories to each other's taste (e.g., engraving personal names or random pictures in the device, etc.), but with that comes the risk of banalizing the IQOS brand (and subsequent its mission), which is something PMI does not seem to want for now.

Objectives fulfilled: influence purchase intent.

Trade-in programs are also a strategy heavily employed within industries that deal and commercialise electronic products (e.g., smartphones, computers, printers, coffee machines, fridges, etc.), and it consists on offering a discount on the price of a newer and updated model of the product in exchange for the old one. Electronic devices have an expiration date, it may not come labelled as in food products but they certainly have one, either due to hardware malfunctions over time or outdated software (or simply because newer and better versions are rolled out in the meantime). For the case of the IQOS, it is not much on the software side but yes on the hardware: newer versions of the IQOS feature obvious improvements on its performance (e.g., longer lasting battery, faster charging times, vibration alerts, brighter LED lights, etc.), which does not necessarily translate in an improved experience for the consumer.

Iterations of the IQOS are launched in short time frames apart, consumers who bought an older version may feel underwhelmed since better versions were made available in the meantime. If PMI opened a trade-in program every time a new version of the IQOS is launched – e.g., once the IQOS 3 DUO is out, consumers could get a price discount for it in exchange for their older devices (the older the device’s version, the smaller the discount) – that could benefit both the consumers and the firm: the consumers could be up with the trend by acquiring the latest IQOS (equals customer satisfaction), and PMI would make more sales and improve customer loyalty on the product.

Objectives fulfilled: influence purchase intent, retain existing customers (brand loyalty).

The IQOS, being a portable electronic device, relies on electric charge to be used; i.e., the IQOS can be consumed as long as its internal battery is capable of producing electricity, once it runs out of electricity that battery must be charged. A fully charged IQOS 3 battery can last up to 20 sessions (each session equals roughly the consumption of a conventional cigarette, either in duration or quantity of “puffs”), which may seem a lot and enough for consumers, but if taken into account that about 54.5% of Portuguese daily smokers smoke on average a minimum of 11 cigarettes every day, then 20 sessions is no longer seen as that big of a number. For an IQOS consumer who uses the device 14 times a day and that charges it every day (for example, before leaving the house), the battery is enough. But what happens if one day the consumer forgets to charge it? What if the consumer spends all day at work, and then skips home at the end of the day and goes out for the night? Probably on that day the consumer is going to use the IQOS for more than 20 sessions. And in the case of going on holiday for the weekend and the charging cable is forgotten at home? For sure the consumer will want to use the IQOS more than 20 times in the course of two or three days. The most obvious solution would be to buy or borrow a charging cable, but even so a power supply is needed to charge the device (not always easy to find or to have access to) An alternative could be to return (even if momentarily) to cigarettes, as they are easy to find and to operate, but PMI does not want its consumers to return to old and more harmful habits. The smartphone segment has already found a solution for this in the form of portable chargers, which could also be a solution for the IQOS, but besides being another extra item the consumer must carry with it does not leverage any benefit for the IQOS brand. A proposed solution could be IQOS fast chargers: imagine having fast charging stands, with individual slots, scattered around town; these stands would be for exclusive use of IQOS owners – each slot could be designed to only allow for IQOS devices to be inserted in and charged (i.e., only the base of the IQOS would fit the slot, any other electronic device would not fit it and

thus would not charge). Imagining that each stand would possess five slots, more than half of them could be reserved for the most recent IQOS version. On one hand, such measure could reduce the queueing charging time for users of the latest IQOS, but on the other users of older devices could expect to take longer times at the stand (which could, hopefully, propel those users to purchase more recent versions of the IQOS). Of course such idea could not be physically implemented anywhere: without supervision there is the risk of vandalism and/or theft, and being an electronic stand (it must be, to charge the devices) it needs a power supply and it cannot be on the outside at the risk of damaging due to weather or other external conditions. The stands should be within premises that go along with the IQOS positioning: retailers that deal with the IQOS (particularly the ones that provide technical assistance), leisure and recreational establishments (e.g., restaurants, hotels, bars, etc.), and events (e.g., arts and cultural festivals, corporate events, congresses, etc.). The implementation of the stands in such locations would require PMI to establish partnerships, which could serve very well the interests of the parts involved. The fast charging stands design would be minimalist and preferably made of wood or “natural” elements, as if it was an extension of IQOS’ stores. This has the potential to be a great touchpoint for consumers to feel that the PMI is concerned with their needs, and that the IQOS project is viable and not just a fad of the moment – that the IQOS is here to stay and that it does work at all levels as the best alternative for tobacco and nicotine combustible products.

Objectives fulfilled: increase/build brand awareness, retain existing customers (brand loyalty).

PMI is very straightforward in its mission of designing a smoke-free world: you either smoke or you do not, and if you do it is preferable to change to RRP. Of course, neither PMI or any other firm or organisation can force smokers to quit or change to better alternatives, but they can show them the way. NGOs and governments propose and implement regulations that constrain the consumption of tobacco and other nicotine products, and they can also forward smokers to tobacco cessation programmes, assist them with medicines, and launch tobacco prevention campaigns. As for PMI and all the other tobacco firms, they are a bit more limited in action than all the other interested parts: legal regulation restricts PMI’s communication efforts a lot, but there is in fact a recently announced product ban that might just work in favour of the firm. In 2014, EU’s Tobacco Products Directive decided to ban all characterising flavours from tobacco products, a measure that would come into force in Portugal starting on the first day of 2016; but one flavour stood: menthol, because it had a considerable amount of sales volume, was allowed to remain in EU’s markets until the 20<sup>th</sup> of May 2020. What this means is

that by the 2<sup>nd</sup> semester of 2020 the cigarette becomes even more homogenous than it already is. Guess what product gets to keep flavours, including menthol? That is right, HEETS does not need to stop commercialising its range of flavoured tobacco units, which means that the IQOS can be positioned as the solution for smokers who were consumers of flavoured tobacco. That is a double win for PMI: more people move to RRPs in detriment of conventional tobacco products, and PMI gets to increase its IQOS customer base. The HEETS is not the only product that gets to keep flavoured variants, electronic cigarettes will also not be affected by this ban; so PMI needs to start campaigning for the IQOS as of yesterday. PMI is restricted from doing it directly, but that would not even be the best strategy. The goal is to make menthol cigarette smokers aware of the upcoming ban (it is likely that the majority does not know) and inform them that with the IQOS they will be able to continue, in the future, to enjoy menthol flavoured tobacco; and there is no one better to do it than salespeople. Not PMI's salespeople, but the ones of independent retailers (e.g., stationery stores, gas stations, cafes, etc.), the ones that sell menthol cigarette packs every day; those are in the right place to disclose to customers that a ban is coming on menthol tobacco and that the IQOS may be the best solution to keep enjoying that flavour. In this case, stricter regulation may actually help PMI's plans for its future.

Objectives fulfilled: change attitudes towards RRPs, establish need for RRPs, influence purchase intent.

Legal regulations also limit heavily the locations where one can smoke. In the beginning of the 21<sup>st</sup> century, in Portugal, it was still possible to smoke in almost every spaces (whether indoor or outdoor), but in 2008 smoking became interdict in all public and closed spaces (with some exceptions made, namely to food and drink establishments); around that time the electronic cigarette began to be commercialised, and because it was not included in the smoking interdiction it became quite popular as it was possible to consume them in places where it was not possible to smoke conventional cigarettes. In the meantime, electronic cigarettes were equated to conventional cigarettes and its use got the same location restrictions as the latter (smokeless tobacco also got the same restrictions). The currently existing exceptions will no longer exist after the first day of 2021: starting on that date, it will be prohibited to smoke in every enclosed/indoor space (with no exceptions). As of now that is one year apart, one year for PMI to capitalise on one more channel that is going to extinguish. Establishments that can and allow smoking inside need to have a permit sign identifying that; the sign shows a lit cigarette and the word smokers (implying that it is allowed to smoke inside), but IQOS users are not smokers and they also can consume it inside: why is not the sign more inclusive? People

need to know that the IQOS does not produce smoke, hence IQOS consumers are not smokers. Dialogue with the governments and other decision makers is vital to change the society's perception on the IQOS; legislation and all efforts and strategies associated with it must be updated to reflect the specificities of the IQOS. PMI can also go directly to those spaces and discuss with the owners the placing of a sign identifying such spaces as IQOS-friendly (i.e., where it is allowed to use the IQOS): simple signs just saying IQOS area/space/lounge (whatever word best suits the specific space and its environment), curvilinear instead of rectangular, perhaps made of wood or opaque plastic, etc. It is important that the sign stands out and is visible to everyone within the space – making a simple sticker (as the smoking permit signs) does not differentiate the IQOS from regular tobacco, it just makes the former look dull and outdated as the latter.

Objectives fulfilled: increase/build brand awareness, change attitudes towards RRP, influence purchase intent.

Another recently published regulation from which PMI can also benefit from is on the prohibition of throwing any tobacco products waste to the ground in public spaces. Obviously, throwing any kind of waste to the ground was already punished in Portugal, what this new law brings is the obligation for all establishments (private and public) to own ashtrays, so people may dispose their tobacco waste in the proper place. The law itself stipulates that the government alongside with tobacco firms must promote awareness campaigns among the involved parties (i.e., tobacco consumers, establishments, etc.). Tabaqueira has been doing that before the law got published – “*Cada Coisa no Seu Lugar*” campaign already addresses the impact that tobacco waste has on the environment. But they could go further. PMI could provide ashtrays to establishments that lack one so they are in compliance with the law – a sort of PMI's venture into the HORECA channel. National legislation does not allow for any advertising that promotes, direct or indirectly, the consumption of tobacco products, as such no mention to PMI's brands (including the IQOS) can be made in ashtrays (e.g., printing the IQOS letters on the ashtray). But what is in the inception of the IQOS? The IQOS came to be due to PMI's new vision of reducing the health risks cigarette smokers (and second-hand smokers) are subject to; the firm wants to build a world with no smoke nor ash, and that is something PMI is allowed to communicate. This is what PMI could do: provide to establishments ashtrays with a similar design of IQOS (curved, minimalist) with engraved messages alluring to a smoke-free world (which have to be carefully selected so authorities do not link them to the promotion of IQOS). Outside of the HORECA channel, PMI could set bigger ashtrays for people on the streets to

have a place to dispose of their tobacco waste. To illustrate, one of those street ashtrays could have two compartments for people to throw their tobacco wastes, each with a label above it (one saying “*Cigarette butts*” and the other “*Smokeless butts*”). The ashtray container would be transparent so people passing by could see the amount of waste collected from each compartment. Obviously some people would make fun of it and throw garbage into the compartments, others would throw their tobacco waste in the wrong one compartment; the important aspect here is not to make a reliable count of the most consumed type of tobacco products, but yes to acknowledge people that there are alternative products to the cigarette. Ashtrays are a one-compartment trash can, so the emergence of a new one featuring two (or more) compartments will draw people’s attention and make them curious on this new category of tobacco products. A positive side effect from this type of ashtray could be people comparing it to regular multi-compartment trash cans: some trash cans have compartments for product recycling and one for regular waste (these can usually be found in shopping malls), so if people perceived the cigarette compartment as the regular waste and the smokeless one as the recycling waste that could boost the penetration of the IQOS in Portugal and the formation of a positive attitude towards it (not only by tobacco consumers but by society as a whole). Then, depending on the ashtray’s location, a personalised message could be feature on it: on places near the ocean or beaches the ashtrays could feature messages alerting for the waste that ends up on oceans, etc. Additionally, the collected tobacco waste could be reused in the manufacture of something (perhaps paper, bricks?), just like it happens with recycled waste.

Objectives fulfilled: increase/build brand awareness, change attitudes towards RRP, establish need for RRP, influence purchase intent.

To integrate a lot of these strategies and to guarantee that the IQOS consumer has a seamless experience, a smartphone application could be developed. The app would be exclusive for IQOS consumers (an access code would be handed to them upon the act of purchasing the IQOS device) and would primarily function as know-it-all assistant: direct access to the online store, news on the IQOS (e.g., new products, new accessories, published studies verifying the effectiveness of the IQOS, IQOS vs. cigarettes, etc.), monitoring of the user’s IQOS device (check the battery status, consumption history, etc.), access to a map with different search options (HEETS store locator, technical assistance locator, fast charger stands locator, IQOS-friendly spaces locator, etc.), etc.

Objectives fulfilled: increase/build brand awareness, change attitudes towards RRP, establish need for RRP, influence purchase intent, retain existing customers (brand loyalty).



## 11. Case study resolution slides



Communicating in the highly regulated tobacco industry:  
The case of Philip Morris



**Question 1**

Porter's Five Force analysis

Bargaining Power of Suppliers – Low

- Lots of suppliers to choose from;
- Raw materials with little to no differentiation.

Threat of New Entrants – Low

- Five major firms control the market (oligopoly).

Competitive Rivalry – High

- All the big firms match each other's offerings.

Bargaining Power of Customers – Low

- Inelastic demand.

Threat of Substitutes – High

- Increasing trend of new products replacing conventional tobacco products.





# Question 1

## STEPE analysis



**Social factors**

- Consumers have access to more information.
- Consciousness of tobacco health harms.

**Economic factors**

- Regular retail price increases (mostly due to taxes)

**Environmental factors**

- Cigarettes as a disposable product are an issue

**Technological factors**

- Emergence of RRP's.

**Political factors**

- Marketing restrictions, high taxes, smoking bans, etc.
- Lobbying



# Question 1

## SWOT analysis



**Strengths**

- Strong firm with an iconic reputation and strong financial resources behind (PMD).
- Capacity to invest in R&D.
- Staff of over 400 scientists on the conception of the product.
- Reduce the toxic constituents found in cigarette smoke by 90% to 95%.
- First Heat-Not-Burn product in the market.
- Ability to penetrate globally.
- More than 10 years and USD \$6 billion invested.
- Delivers the same nicotine levels consumers of cigarettes seek but with reduced risk of smoking related diseases.
- Better for the environment and for non-smokers than cigarettes.

**Weaknesses**

- High initial cost.
- Requires maintenance and cleaning, which some consumers might find "annoying".
- Limited distribution channel.
- The full effects on human health were not yet discovered (long-term effects on health take years to study).
- The consumer must be educated on the benefits and features of the product, and on how to use it.
- Few to none independent studies have proven the benefits claimed on the IQOS.

**Opportunities**

- Potential to reduce the prevalence of non-communicable diseases related with tobacco consumption.
- Few competitors and most of them are of e-cigarettes.
- Few to no marketing restrictions (depending on country).
- Lighter taxes when compared with conventional tobacco products.
- A technologic product for a technologic era.
- Increasing concern with environment and sustainability values.
- There is no tobacco product on the market for people that wish to enjoy the flavour and experience the cigarette provides them but with fewer health risks associated.

**Threats**

- Other tobacco firms will (or have already) launch their own "heat-not-burn" products.
- Communication restrictions may leave the consumers misinformed.
- NGO's and other anti-tobacco organizations refuse to dialogue and immediate denial of the health benefits of the IQOS compared with cigarettes.
- Risk of being appealing to non-smokers and underage children.
- Long-term studies may show that the claimed benefits of the IQOS were not true.
- Health risks emerging from the consumption of IQOS that were not found in conventional tobacco products.





## Question 2

### PMI's competitive advantage



To build an unique branding around their products by attaching a personality to them representing values that people could relate (or aspire) to and that went beyond tobacco and the health hazards associated with its consumption.

### Threats and challenges facing PMI's business model

• Tobacco consumption declining in the world.

• General awareness on the health harms induced by tobacco consumption.

• RRP's taking over cigarettes' market share (which is PMI's main product).

• Stricter regulation on advertising, promotion, and marketing in general.



## Question 3

### Critical success factors for PMI to succeed with the IQOS



Supply of electronic components

Ensure production capacity

Regulation

Convince adult smokers to convert

Counterfeiting

Publications, researches, and studies assessing IQOS' claims

### IQOS' brand identity

The tobacco product of the 21<sup>st</sup> century:

Technology, engineering, and tobacco came together to deliver a modern, sophisticated, and high-tech product capable of delivering the same flavour and experience one gets with cigarettes, but with fewer of the health risks associated with the latter.





### Question 3

Can the IQOS reverse the decline of tobacco consumption worldwide?



PMI does not want to reverse the decline of tobacco consumption.  
The market and the consumer of today are different from when the filtered tobacco was introduced.



The firm acknowledges the decline in the industry and that the cigarette as we know today will probably cease to exist in a few decades.

The firm is simply looking into contributing for the future of the industry with a new type of product (the IQOS), one that meets today's consumer and market needs.



### Question 4

Target to prioritise in Portugal



Between 25 and 54 years of age

Daily smokers

Purchase power

Desire to improve their health

≈ 610,000 people

30.5% of the total number of smokers in Portugal

Crucial communication aspects for the IQOS consolidation in Portugal

- Consumers as the proof that the IQOS is the best alternative (brand advocacy).
- Salespeople (and online channels) to educate smokers on the IQOS and to spread PMI's vision of a smoke-free world.





## Question 5

Marketing and communication efforts for the IQOS in Portugal

**IQOS**  
THIS CHANGES EVERYTHING

- Limited-edition IQOS devices

Objectives fulfilled: influence purchase intent.

- Trade-in programs

Objectives fulfilled: influence purchase intent, retain existing customers (brand loyalty).

- Fast charging stands

Objectives fulfilled: increase/build brand awareness, retain existing customers (brand loyalty).



## Question 5

Marketing and communication efforts for the IQOS in Portugal

**IQOS**  
THIS CHANGES EVERYTHING

- HEETS as the only flavoured tobacco product

Objectives fulfilled: change attitudes towards RRP, establish need for RRP, influence purchase intent.

- IQOS-friendly indoor spaces

Objectives fulfilled: increase/build brand awareness, change attitudes towards RRP, influence purchase intent.

- Public and private ashtrays

Objectives fulfilled: increase/build brand awareness, change attitudes towards RRP, establish need for RRP, influence purchase intent.

- Smartphone app

Objectives fulfilled: increase/build brand awareness, change attitudes towards RRP, establish need for RRP, influence purchase intent, retain existing customers (brand loyalty).





## MANAGEMENT AND ACADEMIC LESSONS

The launch of the IQOS by Philip Morris was not merely a move to extend the firm's portfolio of products; alongside with it came the firm's new vision of designing a "*Smoke-Free World*" (i.e., a world without smoke). The issue here is that smoke is the result of combustion, and the tobacco industry relies heavily on combustible products (e.g., cigarettes, cigarillos, cigars, etc.) – so if Philip Morris wants to eradicate combustible products, that means that the firm is dismissing from its offering the most sold product category. Seen from the outside this move by Philip Morris to cannibalise its own business seems insane (it is certainly bold): they own Marlboro (the number one international cigarette brand), they are the market leader of the industry, they have huge profits, ..., why risk it all? It is important to learn from the past and from mistakes others have made; that is exactly what Philip Morris did, they observed and acted upon. Kodak and Blockbuster were once leaders in their respective industries (just like Philip Morris is in its), and they were so comfortable in their unreachable position that they failed to see the signs of decline: the consumption patterns were changing, their respective markets were demanding innovation and both companies refused to listen and to change strategies. Perhaps because they did not want to cannibalise the sales of their best-selling products and services, because they thought they were too big to fall, or because they did not fear the competition and their new products; who knows what propelled these two firms to do nothing about it. Philip Morris does not want to follow on the footsteps of these big players of the past. The firm knows that in a competitive industry such as the tobacco one, the competition does not rest; Philip Morris does not want for another firm to step in and replace its position in the industry.

It is a fact that the global cigarette consumption is declining, it is a slow decline and so Philip Morris could very well decide to invest more on its leading product to try to "save" it. Instead, the firm decided to invest in something else, in a product and in an ideal that the market is demanding. Just because the firm has devoted most of its business throughout its history to the cigarette (to simplify), that alone does not merely justify further investments in that product (sunk cost fallacy). The market is changing, the firm acknowledged it and went to invest on electronic devices to stay ahead of the competition. Obviously, Philip Morris saw the success that electronic cigarettes had when they started to be commercialised in the late 2000s, and now it is trying to get a piece of the action. It is still too early to say if this bet on alternative products and RRP's by Philip Morris is not just the firm making a profit on a fad of the moment, or if it is really to safeguard its feature in the industry and change its paradigm. Perhaps it is Philip Morris taking advantage of a not so regulated product to indirectly promote their cigarette

brands. Regardless of Philip Morris' true intents, what matters is that it is reacting to the market, to the consumers demands and to trends – the firm is actively adjusting to its surroundings, which is essential for any business (big or small) to succeed.

To summarise, the following are management and academic lessons withdrawn from the tobacco industry and from the specific case of Philip Morris that can be applied to many other industries and firms:

- Continuous innovation is crucial in every single industry, even in the ones that do not seem to need it. There are always weaknesses to be improved and white spots to be found.
- Listen to the market, understand your consumers' needs and wants. Firms must have a proactive approach to their businesses.
- It is important to focus on the product and/or service, but if it is not properly communicated and promoted it will not grab the market's attention and/or may be poorly perceived.
- Communication does not necessarily need to emphasise on products' features or physical characteristics, sometimes the most effective way to promote a product is by attaching attitudes and values to the product (immaterial benefits the customer can capture from consuming the product). It is certainly one of the best ways to increase customer loyalty and brand awareness.
- Learn from your competitors but act quickly upon their moves. First movers take the highest risks, but also get the highest rewards.

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