



ALLOCATIONS OF U.S. CIGARETTE COMPANY MARKETING EXPENDITURES SINCE 1998

Type of Marketing	1998		1999		2000		2001		2002		2003		2004		2005		Change 2004 to 2005	Change 1998 to 2005
	\$ Millions	%	\$ Millions	%	\$ Millions	%	\$ Millions	%	\$ Millions	%	\$ Millions	%	\$ Millions	%	\$ Millions	%		
Promotional Allowances -To Retailers -To Wholesalers -Other	\$2,878.9	42.8%	\$3,543.0	43.0%	\$3,914.0	40.8%	\$4,452.7	39.7%	\$1,782.2	14.3%	\$1,915.2	12.6%	\$931.3	6.6%	\$847.7	6.5%	-9.0%	-70.6%
									\$1,333.1		\$1,229.3		\$542.2		\$435.8			
									\$446.3		\$683.1		\$387.7		\$410.4			
									\$2.8		\$2.8		\$1.3		\$1.5			
Price Discounts									\$7,873.8	63.2%	\$10,808.2	71.4%	\$10,932.2	77.3%	\$9,776.1	74.6%	-10.6%	100+%
Retail Value Added -Bonus Cigarettes -Non-Cigarette Bonus	\$1,555.4	23.1%	\$2,559.9	31.1%	\$3,453.4	36.0%	\$4,761.8	42.5%	\$1,085.0	8.7%	\$697.8	4.6%	\$650.5	4.6%	\$732.5	5.6%	12.6%	-52.9%
									\$1,060.3		\$677.3		\$636.2		\$725.0			
									\$24.7		\$20.5		\$14.3		\$7.5			
Coupons	\$624.2	9.3%	\$531.0	6.5%	\$705.3	7.4%	\$602.1	5.4%	\$522.2	4.2%	\$650.7	4.3%	\$751.7	5.3%	\$870.1	6.6%	15.7%	39.4%
Specialty Item Distribution -Branded Items -Non-Branded Items	\$355.8	5.3%	\$335.7	4.1%	\$327.8	3.4%	\$333.4	3.0%	\$223.6	1.8%	\$264.2	1.7%	\$224.6	1.6%	\$230.5	1.8%	2.6%	-35.2%
									\$49.4		\$9.2		\$8.0		\$5.2			
									\$174.2		\$255.0		\$216.6		\$225.3			
Subtotal: All Price-Related	\$5,414.3	80.4%	\$6,969.6	84.6%	\$8,400.5	87.6%	\$10,150.0	90.5%	\$11,486.8	92.1%	\$14,335.5	94.6%	\$13,490.3	95.3%	\$12,456.9	94.9%	-0.4%	129.9%
Outdoor Advertising	\$294.7	4.4%	\$53.8	0.7%	\$9.3	0.1%	\$8.2	0.1%	\$24.2	0.2%	\$32.6	0.2%	\$17.1	0.12%	\$9.8	0.1%	-42.7%	-96.7%
Point of Sale Advertising	\$290.7	4.3%	\$329.4	4.0%	\$347.0	3.6%	\$284.3	2.5%	\$260.9	2.1%	\$165.6	1.1%	\$163.6	1.1%	\$182.2	1.4%	11.4%	-37.3%
Magazine Advertising	\$281.3	4.2%	\$377.4	4.6%	\$294.9	3.1%	\$172.9	1.5%	\$106.8	0.9%	\$156.4	1.0%	\$95.7	0.7%	\$44.8	0.3%	-53.2%	-84.1%
Public Entertainment -Adult-Only -General-Audience	\$248.5	3.7%	\$267.4	3.3%	\$309.6	3.2%	\$312.4	2.8%	\$253.1	2.0%	\$183.7	1.2%	\$140.2	1.0%	\$214.2	1.6%	52.7%	-13.8%
									\$219.0		\$150.9		\$140.1		\$214.1			
									\$34.1		\$32.8		\$0.11		\$0.15			
Direct Mail	\$57.8	0.9%	\$94.6	1.2%	\$92.9	1.0%	\$133.9	1.2%	\$111.3	0.9%	\$93.0	0.6%	\$93.8	0.6%	\$51.8	0.4%	-44.8%	-10.3%
Transit Advertising	\$40.2	0.6%	\$5.6	0.1%	\$0.004	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	0.0%	-100.0%
Newspaper Advertising	\$29.4	0.4%	\$51.0	0.6%	\$51.7	0.5%	\$31.7	0.3%	\$25.5	0.2%	\$8.3	0.1%	\$4.9	0.03%	\$1.6	0.01%	-67.7%	-94.6%
Free Sample Distribution	\$14.4	0.2%	\$33.7	0.4%	\$22.3	0.2%	\$17.2	0.2%	\$28.8	0.2%	\$17.9	0.1%	\$11.6	0.08%	\$17.2	0.1%	47.7%	19.2%
Internet	\$0.13	0.0%	\$0.7	0.0%	\$0.95	0.0%	\$0.8	0.01%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%	0.0%	-100.0%
All Other -Sponsorships -Company Website -Telephone	\$61.6	0.9%	\$54.7	0.7%	\$63.4	0.7%	\$104.8	0.9%	\$168.7	1.4%	\$152.7	1.0%	\$132.3	0.09%	\$132.9	0.01%	0.4%	115.7%
									\$54.2		\$31.4		\$28.2		\$30.6			
									\$0.9		\$2.9		\$1.4		\$2.7			
									\$0.7		\$0.8		\$0.34		\$0.6			
Grand Totals (Billions)	\$6.7	100%	\$8.2	100%	\$9.6	100%	\$11.2	100%	\$12.5	100%	\$15.1	100%	\$14.1	100%	\$13.1	100%	-7.3%	95.5%

Campaign for Tobacco-Free Kids, May 4, 2007/Ann Boonn

Source: U.S. Federal Trade Commission (FTC), *Cigarette Report for 2004 and 2005*, 2007, <http://www.ftc.gov/reports/tobacco/2007cigarette2004-2005.pdf>.

Total marketing increased from 1998 to 1999 by 22.3%, 1999 to 2000 by 16.4%, 2000 to 2001 by 16.9%, 2001 to 2002 by 11.1%, 2002 to 2003 by 21.5%. From 2003 to 2004, there was a slight decline by 6.6%, another slight decline by 7.3% and from 2004 to 2005. Marketing spending by cigarette companies in 2005 almost doubles the amount spent in 1998.

“Promotional Allowances” go primarily to retailers (e.g., to pay for off-invoice discounts, buy downs, other special price discounts, displays, shelf space, etc.); “Retail Value Added” refers primarily to “buy-two-packs-get-one-free” type specials at retail outlets, for which retailers are compensated; and “Specialty Item Distribution” includes the distribution of non-cigarette items marked with cigarette brand names. No funds were reportedly spent in 2002 for product placement in movies, TV, plays, etc. – which is largely prohibited by the 1998 Master Settlement Agreement (MSA) between the states and the major cigarette companies.

In 2005, several of the original categories were broken down further. Most notably, the “promotional allowance” category was separated into four new categories: price discounts, promotional allowances paid to retailers, promotional allowances paid to wholesalers, and other promotional allowances. Price discounts (e.g., off-invoice discounts, buy downs and voluntary price reductions to reduce the price of cigarettes to consumers) was by far the largest category, accounting for 74.6% of total spending. The four new promotional allowance categories combined equal \$10.6 billion, down slightly from the \$11.9 billion spent in this category in 2004, a decrease of 10.5%.

In 2002, the definition of sampling was clarified to mean, “when coupons are distributed for free cigarettes and no purchase is required” and when “the distribution of cigarettes for consumer evaluation when consumers are able to smoke the cigarettes on their own.” Specialty item distribution was separated into two categories: branded and non-branded. Non-branded items include non-cigarette items that are for the marketing or promotion of cigarettes. Finally, public entertainment was broken down into adult-only facilities and general-audience facilities.

The most recent FTC report on smokeless-tobacco marketing shows that the top-five companies’ marketing expenditures increased from \$150.4 million in 1997 to an all-time high of \$250.8 million in 2005 (a 66.7% increase). FTC, *Smokeless Tobacco Report for the Years 2002 and 2005*, 2007, <http://www.ftc.gov/reports/tobacco/02-05smokeless0623105.pdf> [data for top 5 manufacturers only].

Some of the shifts in marketing allocations from 1998 to later years reflect the November 1998 MSA, which eliminated all outdoor and transit tobacco advertising other than ads at businesses that manufacture or sell tobacco products; limited the companies’ ability to sell or distribute brand-name-marked merchandise (which falls under “Specialty Item Distribution”); and limited the companies’ brand-name sponsorships of sporting events. Allocations in 2000-2001 may have changed further because the cigarette companies’ advertising in magazines with large youth readerships came under considerably scrutiny in May 2000, leading Philip Morris to temporarily suspend its magazine ads in some publications.

For more cigarette marketing info, see <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=23> and <http://www.tobaccofreekids.org/research/factsheets>.