

STUDY REGARDING THE EVOLUTION OF ROMANIAN CIGARETTES MARKET

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Key words: Comparative studies, cigarettes market, consumption behaviour.

Abstract: The present paper propose a comparative study on the evolution of Romanian cigarettes market for years 1997, 2002 and 2007. After the theoretical and experimental researches made, it was determined that the structure of Romanian cigarettes market has starkly changed. This evolution was influenced by the consumer’s behaviour, they prefers certain brands, being influenced firstly by the financial resources he is minded to allot for such a product, but also by the custom to use a certain cigarettes brand.

1. INTRODUCTION

In the early ‘90s, the only manufacturer in the country was “Tutunul Românesc” (Romanian Tobacco) National Society, that covered the manufacturing and marketing, the imports being very low.

During the economic development in Romania, several other companies appeared and formed their own markets, and later on they invested a great deal in modern manufacturing facilities. So, the said reasons contributed to some important changes in the Romanian tobacco market.

The structure of Romanian cigarettes market has starkly changed during the last 10 years due to the ingression of the big international producers on national market, but also due to the consumption behaviour changing.

A theoretical and experimental research was made for this paper accomplishment, the information used rising both from primary and secondary sources.

The evolution of Romanian cigarettes market during three basic years - 1997, 2002, 2007 is presented and analysed in the first part of paper

The causes and factors which produced these starkly chances are presented in the second part of the paper.

2. THE EVOLUTION OF ROMANIAN CIGARETTES MARKET

2.1. The structure of Romanian cigarettes market for year 1997

In 1997, the “Tutunul Românesc” (Romanian Tobacco) National Society (SNTR) was market leader on national cigarettes market, with a market share of 61% (figure 1).

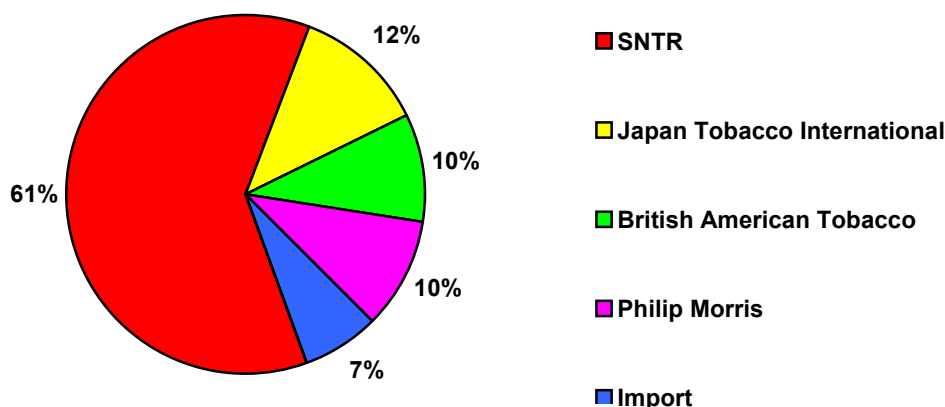


Figure 1. Market percentage in 1997 [1]

“Romanian Tobacco” Romanian Society invested \$ 35 millions for modern technologies, better quality and lower costs. Although this company made investments for modern technologies it was not enough to face the competition and the pressure exercised by the multinational companies, which have ingress the market through imports, and afterwards through their investments in Romania.

2.2. The structure of Romanian cigarettes market for year 2002

The multinational companies invested in Romanian factories about \$ 200 millions, for technology and manufacturing area, and they employed thousands of workers. For instance, Philip Morris has a company of 15 ha, with more than 600 workers, and the investment counts more than \$100 millions.

“Romania is the second Central European market, after Poland” declared Michel Heiz, Manager of Japan Tobacco International, based on the following business figures: in 2002, there were sold 44 billion cigarettes, which is equivalent with 2000 cigarettes/inhabitant.

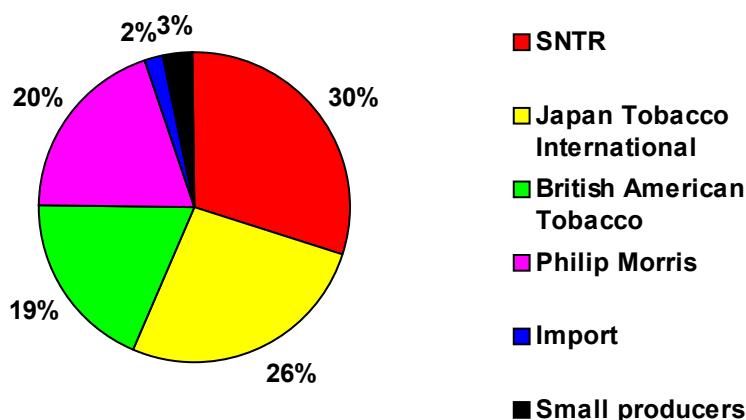


Figure 2. Market percentage in 2002 [3]

2.3. The structure of Romanian cigarettes market for year 2007

The consumers' tastes are unchanged regarding the brands. The best sold brands in 2007 were:

1. Kent (British American Tobacco);
2. Marlboro (Philip Morris);
3. L&M (Philip Morris);
4. Pall Mall (British American Tobacco);
5. Winchester (Japan Tobacco International)

The five brands previous mentioned cumulate a market share of 61%, as selling volume (figure 3). Between the best sold brands in 2007 there are any of assortments produced by “Romanian Tobacco” Romanian Society, which in 1997 has a market share of 60%. This is due to its long and tumultuously privatization process. This company was forced to reduce its activity, by closing 5 factories (București, Iași, Râmnicu Sărat, Târgu Jiu, Timișoara,) because of the difficult privatization process, because of the fact that it was not applied starkly measures correlated with national and international market evolution, because of changing the consumer's behaviour and because of misfit at market demands. For the other one of its factories (Sfântu Gheorghe) the activity was reduced. At this moment “Romanian Tobacco” Romanian Society produces and sells cigarettes for

only a small segment of market, made by “nostalgic” people and faithful consumers, the ones that are in one of the next phases of life cycle: decline maturity and/or decline. British American Tobacco still remains the producer with biggest sells on market, followed by Philip Morris, JTI (Japan Tobacco International) and Gallagher. The last two companies were last year participants in a transaction. „Since then, we get the second place, and now we have together 29.1% of market volume. The growth was constant, the position being now consolidated“[4], explain Gilda Lazăr, corporate affairs director at JTI, saying that the product which is best sold is Winchester, but the powerful brand of JTI is Winston.

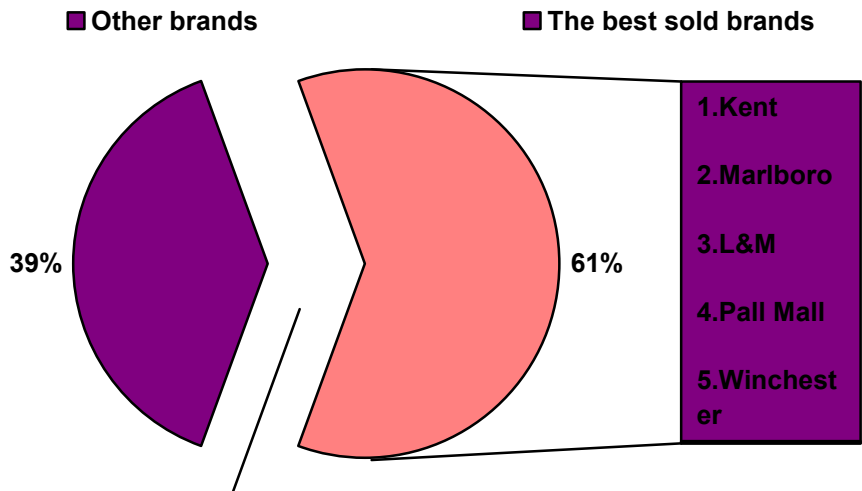


Figure 3. The best sold cigarettes brands, in Romania, in 2007

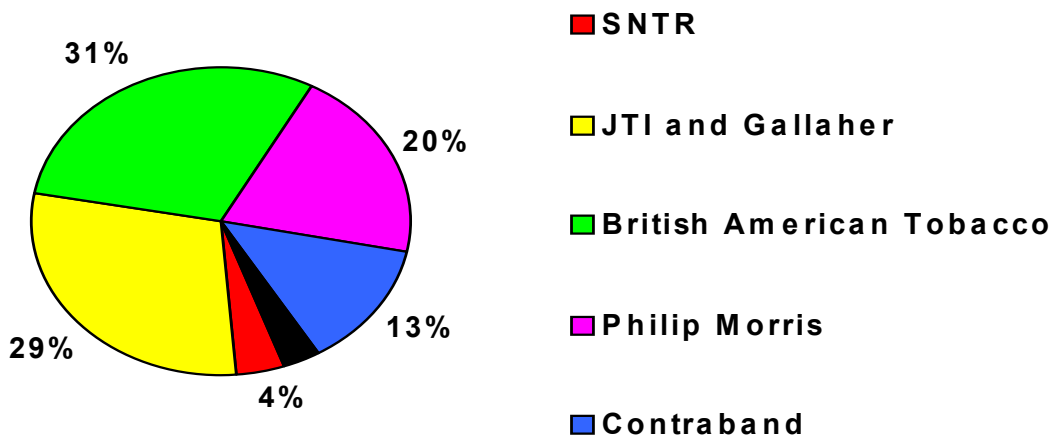


Figure 4. Market percentage in 2007

In 2007, the market was constant, close to 35 milliards of sticks (n.a. cigarettes) annually, which is equivalent with a consume of 1590 cigarettes /inhabitant/year.

3. FACTORS THAT CONTRIBUTED TO CHANGE THE ROMANIAN CIGARETTES MARKET

The main factors that contributed at changing of Romanian cigarettes market:

- Appearance of a competition environment, because of big world producers' ingression on the national market;
- "Romanian Tobacco" Romanian Society, market leader until 1997, did not adapted itself to the market demands and did not produced competitive products;
- The legislation, more and more restrictive for this activity area;
- The excessive taxation. In 2002 the value of excise was 2E/1000 cigarettes, in 2008 it is 39,5 E/1000 cigarettes, with 4,55% more than in the second half of last year. At the end of 2007, before the excise grows, the cigarettes price in Romania was situated at 33% from European average, comparative with 52% in Bulgaria, 55% in Hungary or 74% in Greece. „The price will also rise this year because of excise, but in stages. So it can be avoided the shock of consumers” says Gilda Lazăr, mentioning that last year the value of excise paid by the producers to the government was 1,4 milliards euro. She estimates a rising with 30% of the cigarettes market value in 2008 [4].
- The consumers' tastes have not modified significantly. It can be observed a migration of smokers from cigarettes full-flavour to cigarettes lights, the last mentioned category representing during last year 37.1% of market, comparative with 34.7% in the previous year. Cigarettes Slims and Super Slims have become more popular, the percentage of the volumes sold for this category being 2.7% in 2007, from only 1.1% in 2006.
- The best sells of cigarettes are made in small stores (41,8%), booth (15,1%), general store (10,7), big store (8.7%), supermarket (8.3%). After these data were analysed it can be drawn the conclusion: smokers do not make “stocks”, they prefer to buy cigarettes near their home.

4. CONCLUSIONS

For 2008 it forecast that the sells volume will reach 34.5 milliards cigarettes, a slightly decrease in regard to 2007, because there is not a precise measurement method of these sells, the volume sum includes also the contraband cigarettes. The parallel commerce with cigarettes maintained at low quotes in 2007, more exactly 13%, in regard to 16% in 2006, due to the authorities and producers efforts.

After this comparative study can be observed a decrease of cigarettes number per inhabitant, from 2000 cigarettes / inhabitant /year in 2002 to 1590 de cigarettes/ inhabitant /year in 2007. This decrease is due probably to the actions made by the civil society in order to eliminate/ reduce the cigarettes consume, but also to labour migration. If the new regulations regarding the products promotion did not affected to much the producers, the labour migration abroad can not be counterworked so easy, using ingenious marketing operation.

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