

Analysis of cigarette industry in united states

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- Market size and growth rate - In the last decade, tobacco industry has experienced a significant decline due to its harmful effects. People understood the diseases and illness caused by the consumption of cigarettes. The total market of cigarette industry contributes about \$15 billion in wages, which includes production, marketing, distribution and sales (Capehart, 2008). The introduction of machine made cigarettes has led to mass production & sales. For many years, U. S. has been the main importer and exporter of tobacco. High quality tobacco is produced in the country due to which there is a high demand from foreign manufacturers.

The industry makes a high contribution towards balance of trade (U. S. Tobacco Industry...).

- Rivals- The companies, which are included in this industry, are those manufacturing cigars, chewing, and snuff. The industry is dominated by the large firms. China National Tobacco Co is a leading company in the world by sales volume. The top firms in U. S tobacco industry are; R. J. Reynolds Tobacco, Lorillard, Brown & Williamson Tobacco, Philip Morris and Liggett Group (Competition and the Financial..., 1997).
- Scope of competitive rivalry - The cigarette industry firms has mutual interdependence. It has an oligopoly market structure.

Competitive rivalry is not much high in the industry and companies price their products above the competitive level (Competition and the Financial..., 1997).

- Buyer needs and requirements - Distributors are fragmented in this industry. Buyer focuses on the product quality and innovation. Customer requires taste and quality in the product and they also focus on the filtering process which plays an important role in the product quality and taste. Greater emphasis is put on the brand when purchasing the product.

Degree of product differentiation - Production differentiation is very low in the cigarette industry.

All the firms produce similar types of products and offers extensive range of products. • Product innovation - Production innovation is a continuous process in the industry. Competition is the result of innovation in the product design. In the past, innovation has taken place in the form of addition of filters, low tar cigarettes (Competition and the Financial..., 1997). • Supply/demand conditions - The demand of U. S. tobacco products is high in other countries due to its high quality. However overall the industry is experiencing a decline in the demand of the product which has resulted in low profit margins.

The supply meets the level of demand as the production of crop is quite profitable to the farmers. • Pace of technological change - Technological change takes place at a moderate level. Advancing technology has resulted in mass production and better filtering process. • Vertical integration - Coordination is high in the industry due to several factors. Integration helps the firms in generating high profits. The product has inelastic demand, so if the prices are high, consumers will continue to smoke and firms would remain profitable. • Economies of scale - There is economies of scale in the production of the cigarettes.

But it has become difficult to maintain it due to declining demand. The industry is not much attractive and there is a need of government support to remain cost effective and survive in the competitive world. • Learning and experience curve effects - Learning and experience curve is positive for the cigarette industry. 2. Driving Forces • Inflation & rising prices - There is a

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continuous increase in the prices which has resulted in decline in the cigarette consumption. The companies have increased the prices to cover the cost after the introduction of Master Settlement Agreement (Capehart, 2008).

- Socio-cultural factor - People are highly concerned about the increasing consumption of tobacco and its harmful effects. They want to prevent minors from using it (Capehart, 2008).
- Tax policy - The tax policy is changed and the excise tax has been increased which is charged from the manufacturers. But the burden of tax is passed on the final consumers. All these factors have led to the decline in the demand of the product. Due to rising prices consumption of cigarettes has considerably decreased. The increasing awareness among the people about the harmful effects of tobacco has also led to negative impact on the industry.

The tobacco industry is unable to compete in the international market due to its high cost. These driving forces result in low profits for the industry (Capehart, 2008). To mitigate the impact of driving forces, there is a need to make changes in the tobacco program. If the marketing quota and price support is eliminated, there will be a decline in the prices and leaf production would significantly rise. The companies also need to focus on reducing the harmful effects of the products.

3. Key Factors for Competitive Success

- Product Attributes - The product attribute is highly important in the tobacco industry.

The product quality, brand, flavor plays a significant role in the success of the cigarette industry. If the product is not of good quality and does not meet the standards, it will lead to the failure of the firm.

- Leaf quality and

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Improved Cultivation - In the last few years, it is seen there is significant decline in the quality of leaf produced by U. S. The cigarettes produced in United States have foreign tobacco due to which the industry has lost its competitiveness. The industry is losing its market share in the international market due to inefficient production in the country (U. S. Tobacco Industry...).

- Competency in terms of price, production and strong distribution network - Cigarette industry all over the world is facing various problems. There is significant price increase and decline in the total consumption. Tax rates are high on the product which makes it unprofitable for the companies. The companies operating in this industry need to maintain low prices, focus on building strong brand image and should have effective distribution system to compete successfully. Customers should be brand loyal in this industry.

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