

Ban on chewable tobacco



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Ban on Chewable Tobacco Study on the Implications for Producers and the Supply Chain Group 10 | Marketing Research Project | November 18, 2012

Introduction A Food Safety and Standards Authority of India (FSSAI) regulation issued on August 1, 2011 has recommended a ban on the manufacture, sale and storage of tobacco/nicotine-based pan masala, 1 gutka . This is in accordance with the Food Safety and Standards (Prohibition and Restrictions on Sales) Regulations of 2011 which empower the Food safety Commissioner to ban products that use tobacco and nicotine as ingredients in any food products. The state could now ban gutka using this regulation coupled with a Supreme Court ruling that stated, " since pan masala, gutka and supari are eaten for taste and nourishment, they are all food." Following the reclassification of gutka - a form of chewing tobacco - as a foodstuff, 14 states in India 2 have now banned its sale, production and distribution . These states include Madhya Pradesh, Kerala, Bihar, Rajasthan, Maharashtra, Gujarat, Haryana, Chhattisgarh, Jharkhand, Tamil Nadu and Delhi. According to recent reports, the Uttar Pradesh government has already begun the process of 3 4 banning these products and the West Bengal government is mulling implementation as well . With nearly 13 out of every 100, 000 Indians suffering from oral cancer according to the World Health Organisation, it is hoped the ban will help improve the nation's health.

Objective The implementation on the ban of chewable tobacco in the form of gutka, pan masala, mawa, khaini or zarda has made an impact throughout the supply chain for these products. The implications or impact of the ban at various points in the supply chain is discussed briefly here: A. Raw Material Producers: The ingredients for preparation of gutka are crushed areca nuts (also called betel nut), tobacco, catechu, paraffin, slaked lime and sweet or

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savory 5 flavorings . Upon the implementation of the ban, producers of these products have suffered since the demand and consequently, the prices have fallen drastically. There is a fear of the market drying out in the years to come. B. Gutka Brand Manufacturers: The “ chewing tobacco" product category accounted for 65.6% of the total market for tobacco in India in 2010, which was valued at \$13,470 million . There are several manufacturers of chewing tobacco in the country and all firms in the business have been affected by the outlawing of the product. C. Supply and Distribution Chain: The distribution of chewing/smokeless tobacco is managed mainly by the manufacturers themselves whereby manufacturers appoint regional wholesalers and distributors for the distribution and management of their 7 products, allowing them to achieve deeper penetration . The ban has affected stakeholders present at each level of the supply chain. D. Consumers: Due to the addictive nature of tobacco consumption via smoking/ingestion, there is bound to be an impact on the consumers of smokeless tobacco. It remains to be seen what consumption trends emerge due to scarce or no availability of chewing tobacco. The broad objective of this project is to analyse what new dynamics have emerged in the market due to the ban, at all these levels, barring the consumers since we believe that it requires a detailed study to assess consumers as a segment given the size and diversity of the market in India. Several recent reports of reactions to the ban have brought to light various issues and in certain cases, controversies. Though the implementation of the ban itself is at best nascent, it is potentially a landmark development in the tobacco market of India. Since the ban has been proposed and discussed for the state of West Bengal as well, an attempt has been made to quantify the

implications for retailers in the city of Kolkata, specifically. The methodology for conducting the research is described briefly below. Research

Methodology A combination of primary and secondary research has been used to develop an understanding of the matter, and to frame arguments regarding the issues involved. 1. Secondary research: The major sources of data include online news websites, reports on the tobacco market in India by various market research firms and any other relevant publications. Primary research: The primary research include data from in-person and telephonic interviews with concerned individuals (purposive sampling) and a field survey. 2. Figure 1: Research Methodology Data Collection Efforts A.

INTERVIEWS The following people were interviewed as part of the primary research efforts: a. Mr. Ganesh Gowda KS: Owner, farming business for production of Areca Nuts, a raw material for gutka. b. Mr. KR Srinivasa Murthy: Farmer, Areca Nuts (based in Tamil Nadu) c. Mr. Pramod: Farmer, Areca Nuts (based in Tamil Nadu) d. Mr. Ankur Gupta: Haryana-based distributor for Dilbagh Group and Dharampal Satyapal Group (DS Group), manufacturers of gutka, pan masala, etc. Detailed transcripts of all interviews are provided as Appendix A, B, C and D. The questions were specific to begin with, though the respondents did have other information to provide in response to open-ended questions. PAGE 2 B. FIELD SURVEY A

survey of 30 shop-owners (selling gutka) was conducted as per a structured questionnaire (provided here as Appendix E). The results of the questionnaire have been discussed in the next section. Key Findings 1. The chewing tobacco market in India is large, albeit fragmented A variety of facts and figures regarding India's chewing tobacco market indicate that it forms a sizeable portion of the total tobacco business and is a major industry by

itself. In 8 2008, India accounted for 89% of global smokeless tobacco volume consumption . Some 30% of the population use smokeless in India, compared with a smoking prevalence of some 20%. Key figures are stated here: ^o Tobacco Market in India (2010): \$13, 740 mn (~ Rs. 7. 3 lakh crores) ^o " Chewing Tobacco" Product Category: 55. 6% of the total market ^o India accounted for 89% of world's " smokeless" tobacco consumption (2008) ^o Smoking prevalence of 20%, Chewable tobacco — 30% ^o Paan shops accounted for 66% of total smokeless tobacco sales, street vendors — 16% Figure 2: Growth of tobacco and chewable tobacco industries in India till 2010 (Source: Marketline) The fragmented nature of the market creates a need for collaboration between various firms in the business at certain levels. This collaboration is done through a variety of means which will be discussed shortly and is made necessary due because individually, all gutkha firms have 7 traditionally maintained low profiles . Figure 3 explains the current market scenario for the Indian gutkha industry. PAGE 3 13% 8% 7% 66% 4% 2% Dhariwal Dharampal Satyapal Som Sugandh Shree Meenakshi Kothari Others Figure 3: Market shares of various players in the Indian Gutkha market [Source Euromonitor] 2. Downmarket Stretch: The Way Forward? Gutka manufacturers have begun exploring other opportunities/avenues of targeting the same customer segments in the same environment and location as for chewing tobacco. The downmarket stretch is helped by the fact that supply chain associates for these firms have started looking for alternatives to the gutka business due to the recent change in market conditions. For example, Godrey Philips India has entered the bidi market with Sona Bidi and have also launched their pan masala brand, called Pan Vilas Pan Masala 7 At this juncture, the new low cost cigarettes that are

trying to capitalize that need to be mentioned are [See Exhibit 2]: o o o o

Special Brand — Rs. 19 per packet of 10 cigarettes Regent by New Tobacco Company — Rs. 2 per stick Red and White Select by Godfrey Phillips — Rs. 19 per packet of 10 cigarettes 14 Capstan These cigarettes essentially, are priced between Rs. 19-25 per packet of 10 cigarettes. Select, 14 already has brought in variants, in this segment. 3. Alternatives/substitutes Due to the peculiar nature of the product, there are no clear favourite substitutes as of now, but as was expected, consumers are shifting primarily to the traditional Paan and other low-cost options such as bidis, and in certain cases, low-MRP cigarettes. There is not enough data at this point in time to quantify the impact, but the initial impression of retailers and distributors suggests that none of the substitutes might be able to capture the entire gap that has been created, immediately. The biggest player in the gutkha manufacturing and distributing business, as was seen from the study has been Dhariwal. But from a general purview, the gutkha industry is PAGE 4 fragmented, with the maximum share of 13% being held by Dhariwal, which can be considered negligible. With the ban on the sale of gutkha in over 14 states, the manufacturers, not wanting to lose out on the already established distribution network that they have, have started introducing close substitutes such as chewing gums, jaljeera and candy. At the same time, new brands of cigarettes — Special, Select and Regent, are trying to capitalize. Quite a few notable products can be mentioned as examples of substitutes that the gutkha manufacturers are coming up with, which have proved to be effective and are as follows: 1. 2. Fandoo Goli candy by Four Square Chingles — chewing gum, jaljeera and similar drinks by manufacturers of Rajnigandha of 11 the DS Group . Of their confectionary <https://assignbuster.com/ban-on-chewable-tobacco/>

market of Rs. 9000 crore, the chewing gum market is Rs. 1500 crore growing at 25 per cent Mamma Mia and Meetha Mewa by manufacturers of Kuber Gutkha Biscuits and masala by manufacturers of Raja Brand Gutkha 12 Pass Pass and Sada masala from DS Group 13 The Catch range of products such as Catch Piyoz from DS group . This is more of a health oriented option in the fizzy drinks segment. Allegations of unfair competitive practices — PR and Legal Battles Manufacturers of chewing tobacco have alleged that the ban has been imposed due to unfair lobbying by smoking-tobacco brands such as ITC in India. Representing the chewable tobacco industry, associations such as The Central Arecanut and Cocoa Marketing and Processing Co-operative Ltd., Smokeless Tobacco Association and the All India Kattha Factories Association have come up with advertisements highlighting how it is more a matter of policy manipulation rather than a ban on chewable tobacco on account of health concern [See Exhibit 1]. Advertisements that bring out the potential danger of tobacco, comparing and contrasting the harm brought about by smoking tobacco in the form of cigarettes being more than chewing tobacco, are causing a stir. The crux of all these advertisements, essentially, has been the central legislation not being fair in defining both cigarette and gutkha as tobacco products, but banning just gutkha. Also, the most important claim that they have is that the 14 states wherein the ban has been made effective, believe that gutkha is considered as a food product. These associations have now been forced to believe that this is a move by powerful cigarette manufacturing firms to smoke out other small firms to gain more market space for 4 cigarettes. Due to the apparent continued misinterpretation of gutkha ban through these advertisements on national news papers, the Health Ministry is mulling to penalize firms 15

manufacturing tobacco products for having violated provisions of food safety law. 3. 4. 5. 6. 4. PAGE 5

5. Impact on Profit Margin of Retailers due to supply fluctuations: The following chart is a graphical representation of our findings via the field survey conducted. Profit Margin 0-5% 5-10% 10-15% 15-20% > 20% 44% 20% 3% 10% 23%

Prior to imposition of ban, the price of Gutkha was stable. For instance, the Profit Margin prior to ban was 33% (A packet of 60 sachets of gutkha costing Rs. 80 was sold for Rs. 120 i. e. Rs 2 per sachet. Profit Margin = $(120-80)/120*100 = 33\%$). The ban has resulted in selling gutkha in black markets which has led to a lot of fluctuation in gutkha prices. This is as was anticipated earlier by 16 other state governments, and published in leading newspapers of India . The high fluctuation in prices has resulted in reduction and variance in the Profit Margin of the retailers. Post ban the profit margin on Gutkha sales predominantly ranges between 5-20% as shown in above figure. 6. Impact on Monthly earnings of Retailers: The following figure is a graphical representation of our findings via the field survey conducted. Monthly earnings from Gutkha sales > 40% 30-40% 20-30% 10-20% 0-10% 47% 37% 10% 3% 3% PAGE 6

As depicted in the figure above, a majority of retailers earn more than 20% of their total income by selling Gutkha. Hence a ban on Gutkha is bound to have an impact in the short run. However in the longer run the loss in sales is expected to be offsetted by rise in sales of alternatives such as Paan etc. (as was communicated by several paan-shop retailers). Again, this has also been reported online by The Hindu and our findings through primary research echoed a similar opinion. Offsets in consumer habits should offset other changes in the long run. 9 7. Summary of Impact on various stakeholders in the Value Chain Raw Material Producers â–º No immediate noticeable

changes in prices – Long-term effect expected to be less pronounced

Some reports predict rise in prices in the long run Gutkha Brand

Manufacturers – Primary business affected severely – Shifting to other

products and markets with major investments – Leveraging distribution

networks and cash surplus – Collaborating to wage public PR battles

Distributors/ C&F Agents – No major fixed costs invested – mulling shifting

to other businesses, or – Sticking to original business, but with other products

– Not left with many options for gutkha distribution Retailers/ Gutkha-

sellers – – – – Not very bothered by ban on gutkha Expect shift to

Paan – a higher margin product Expect ban to be implemented in a few

years Aware of health issues associated PAGE 7 References 1. 2. 3. 4. 5.

Source: Times of India Online (http://articles.timesofindia.indiatimes.com/2012-09th18/chennai/33924639_1_ban-gutka-tobacco-products-pan-masala), September 18, 2012.

Source: BBC News Asia Online (<http://www.bbc.co.uk/news/world-asia-19569184>), September 12, 2012.

Source: Times of India Online (http://articles.timesofindia.indiatimes.com/2012-09th12/allahabad/33788622_1_gutkha-consumption-of-pan-masala-ban),

September 12, 2012.

Source: It's Not Yellow Online (<http://mail.itsnotyellow.com/press-release-kolkata-hc-admits-pilth-gutka-ban-west-bengal>),

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Online (http://www.dnaindia.com/bangalore/report_cant-let-gutkha-industrydie_1683432) Chingles : <http://www.dsgroup.com/pressrelDesc.aspx?id=19> ; Pass Pass : <http://www.dsgroup.com/confectionary.html> Catch : <http://www.dsgroup.com/pressrelDesc.aspx?id=47> <http://act.tobaccochina.com/englishnew/content1.aspx?id=51608> Health Ministry penalizing tobacco products manufacturers: http://articles.economictimes.indiatimes.com/2012-10-18/news/34555729_1_smokeless-tobaccogutkha-ban-tobacco-and-nicotine Source: Times of India Online (http://articles.timesofindia.indiatimes.com/2012-0917/jaipur/33901940_1_gutkha-pan-masala-state-government) 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. Appendix A: Interview with Mr. Ganesh Gowda, Areca Nuts Farming Business Owner 1. Which industries are the major consumers of Areca Nuts? Gutka production industries are the major consumers of Areca Nuts followed by Supari/Pan Masala industry. What are the alternatives for you except growing Areca nuts? Would you consider shifting to these crops in the absence of the ban? No, due to high initial investments and suitability of climate conditions, we would prefer sticking to Areca nuts. It is not feasible to grow most other non-cash crops in the conditions. Have you noticed any impact on prices of Areca Nuts due to the ban on Gutka consumption? Yes, prices have decreased from ₹1,30K to ₹1,20K per quintal on an average and we are worried that the prices may fall further in the time to come. Are you aware of any schemes or help provided by Government bodies/agencies to counter the financial effect of the ban on Gutka on Areca nut farmers? No, never heard of any such schemes, though the government does fix the minimum price. However, that might not be helpful when demand drops even further. Through the discussion, it was found that areca nut farmers prefer the crop over other

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commercial crops even though the demand of Areca nuts is gradually decreasing due to the ban on Gutka 2. 3. 4. PAGE 8 products. This is partly since the land used for areca nuts production is not suited for growing most other crops, given that a significant portion of the landscape is hilly (Western Ghats, Kerala). Certain recent reports have suggested that the ban on Gutkha might not have a long-term impact on the areca nut market, and that certain farmers believe that the ban might help the prices in the 9 long-term . Appendix B: Interview with Mr. KR Srinivasa Murthy, Areca Nuts Farmer (Age 56) 1. 2. 3. Please list all the crops that you grow. Areca Nuts, Rice, Coffee, Cardamom, Pepper Which industries are the major consumers of Areca Nuts? Gutkha production and regular consumption along with beetle leaves. What are the alternatives for you except growing Areca nuts? Growing other agricultural products like Rice, Coffee, Cardamom and Pepper is an option. But areca nuts are a highly profitable income source with prices going up till Rs. 25000/quintal. There hasn't been much of a shift in prices recently. Would you consider shifting to other crops in the presence of the ban? No, there hasn't been much of a drop in demand of late. Secondly, there has not been any direct ban on producing areca nuts, as far as we know. Have you noticed any impact on prices of Areca Nuts due to the ban on Gutkha consumption? No major changes in price have occurred as the other consumption means are increasing. Are you aware of any schemes or help provided by Government bodies/agencies to counter the financial effect of the ban on Gutka on Areca nut farmers? We haven't received any such information from the government or any agencies. [Phone number: 9449115651] 4. 5. 6. Appendix C: Interview with Mr. Pramod, Areca Nuts Farmer (Age 38) 1. 2. 3. Please list all the crops that you grow. Areca Nuts, <https://assignbuster.com/ban-on-chewable-tobacco/>

Paddy, Pepper, Banana, Coffee Crops and other Spices. Which industries are the major consumers of Areca Nuts? Gutkha production and regular consumption with beetle leaves. Would you consider shifting to other crops in the presence of the ban? Won't stop the production as we do not see our profits falling. The climate is suitable for growing these crops here which gives us a natural competitive edge, as long as there is a demand for the product overall. Have you noticed any impact on the prices of Areca Nuts due to the ban on Gutkha consumption? Have seen fluctuations but it is not following any noticeable trend. Broadly, the prices have stayed constant. Are you aware of any schemes or help provided by Government bodies/agencies to counter the financial effect of the ban on Gutkha on Areca nut farmers? 4.

5. PAGE 9 No information has been provided to us as of now from any agency. If we find that growing the crop is a lossy proposition in the future, we will have to consider other options, but it does not seem necessary right now. Appendix D: Interview with Mr. Ankit Gupta, Distributor (Dilbagh Gutkha) 1. 2. Which districts do you manage for the Dilbagh Group? Newat and Gurgaon (Haryana). How many distributors does the Dilbagh Group have in Haryana? I estimate there would be around 30 distributors of Dilbagh in Haryana. A distributor is free to expand the region under their control as long as the territory is not served by another distributor. With Gutkha being banned in Haryana, how exactly was your business impacted? We were informed by Dilbagh that since Gutkha had been banned by the government, there will no longer be any supply from their end, though other products like pan masala will continue to be sold. The impact is pretty severe since this ban takes away the biggest contributor to our profits. What have been the new developments due to the ban? Have Dilbagh or other competitors

introduced new products? There have been several new introductions. DS Group recently launched " Chingles" (a chewing gum) and " Catch Piyoz" (a mix & drink sachet product) since they see their gutkha market suffering in the near future. What is your take on the reasons behind ban? There are several things that are being said, like the WHO's recommendation being the primary cause behind the ban, but we do not think it is true. The Supreme Court ruling favours companies like ITC and there is a feeling that the cigarette lobby is involved somewhere at the top level of decision making. What other indications have there been from the government's side for banning gutka? In 2010, government banned plastic pouches to decrease the shelf life of gutka products. The reason given was that moving to non-plastic packaging will be a more environment-friendly move, but they did not do so for several other products. So there are several reasons to doubt their intentions. We have heard that by 2015, all forms of tobacco except cigarettes will be banned. How do you see tobacco companies capitalizing on this ban? It has already started happening. ITC, Godfrey Phillips, etc. have all launched low-cost cigarette brands. Godfrey Phillips has even entered the pan masala and beedi market. 3. 4. 5. 6. 7. PAGE 10 Appendix E:

Questionnaire furnished to retailers (gutkha-sellers) for field survey Q 1. For how long have you been in the business of selling Gutkha and Tobacco products? 1. 0-5 years 2. 6-10 years 3. > 10 years Q 2. In which ways do you benefit from sales of gutkha and other chewable tobacco products? Regular profits from sale of gutkha Advertising and brand visibility fees Discounts and offers from gutka retailers Other ways (please specify)

_____ Q 3. Profit margin on sale of gutkha? 1. 0-5% 2. 5-10% 3. 10-15% 4. 15-20% 5. > 20% Q 4. What

percentage of Gutkha consumers also smoke cigarettes? 1. 0-20% 2. 20-40% 3. 40-60% 4. 60-80% Q 5. What do consumers buy in case of non-availability of their desired brand of gutkha? (Mark one or more) Some other brand of gutkha Cigarettes Mouth freshener Beedi Candy/Drink PAGE 11 Others (if yes, please specify) _____ Q 6.

What percentage of your monthly earnings is from Gutkha sales? 1. 0-10% 2. 10-20% 3. 20-30% 4. 30-40% 5. 40-50% 6. > 50% Q 7. Have you received any formal/informal communication from Gutkha suppliers about any imminent threat of ban on Gutkha? 1. Yes (If yes, please specify)

_____ 2. No Q 8. Ingredients (tobacco and areca nut) sales as compared to gutkha sale? 1. Lesser 2. Equal 3. Greater Q 9. How many distributors do you purchase gutkha/chewable tobacco products from? 1. 1 2. 2 3. 3 4. 4 5. 5 or more Q 10. Have you received any information about the launching of a new cigarette brand? 1. No 2. Yes (if yes, specify brand name and price)

PAGE 12 Q 11. Have there been new product launches by gutkha companies in recent times? (Like chewing gums, mouth fresheners, low-cost drinks, candy, etc) 1. No 2. Yes (if yes, please give product details, price, etc.)

Q 12. Your opinion on ban of Gutkha-Tobacco products on human health and retailers' daily earnings [Open ended question]

_____ Any other information?
