



Plain packaging: unforeseen consequences

A briefing for the All Party Groups on Heart Disease and Smoking & Health

Branding on packaging safeguards consumers and ensures markets work well. Any proposal to restrict branding must assess the impact on **all** the functions that branding performs to ensure the policy is evidence-based and effective. Without such analysis, any restriction will be a leap in the dark, with severe risks of unforeseen consequences.

INTRODUCTION

This briefing is provided to the **Heart Disease** and **Smoking & Health** All Party Groups ahead of their joint meeting on 18th January 2012 to discuss plain packaging for tobacco products. It is provided by the Anti-Counterfeiting Group and the British Brands Group, two organisations that represent brand owners and share a keen interest in branding and its protection.

BRANDING ON PACKAGING

On-pack branding performs many functions, from informing consumer purchase to ensuring vigorous competition. It enables the effective functioning of markets and as such performs a self-regulatory role. Remove brand imagery from packaging and these benefits fall away.

Two aspects of branding are particularly relevant, each explored further below:

Differentiation The ability to distinguish clearly one product from another provides consumer information and choice, incentives for investment in quality and reputation, and strong competition based on both quality and price.

Consumer interest Companies keen to preserve and build their reputations will strive to deliver consistent quality and inspire consumer confidence, operating through distribution channels that ensure quality and comply with regulation.

REMOVING THE ABILITY TO DIFFERENTIATE

Destroying the ability to differentiate via plain packaging risks some damaging consequences:

- **Loss of choice** With all products looking the same, consumers will face significantly less perceived choice. They will be unaware of the range of options available to them;
- **Less information** Brand imagery provides an information shorthand to consumers, communicating complex values almost instantly in such areas as provenance, quality and reputation. This shorthand would be lost;
- **Mistaken purchase** The reduced ability of retail staff to distinguish one product from another is likely to increase significantly the incidence of mistakes;

- **Increased costs to serve** Difficulties in distinguishing one product from another is likely to increase retail costs in serving consumers;
- **Stronger price competition** With all products looking the same, producers will have a reduced incentive to invest in added value and better quality (these could no longer be communicated). Competition can therefore be expected to be increasingly price led, potentially increasing tobacco consumption;
- **Market sclerosis** With no differentiation, consumers will have no reason to switch products. It will also be nigh impossible for a new market entrant to use any strategy other than price, even for a new product less likely to be hazardous to health than existing products. Sclerosis is likely to settle on the market, favouring established players.

THE CONSUMER INTEREST

The removal of brand imagery may act against the consumer interest in a number of ways:

- **Reduced investment** Reduced ability to communicate quality advantages and brand reputations represents a reduced incentive to invest in these areas;
- **Reduced quality** With (low) price likely to be the only viable strategy for any new market entrant, low price is likely to come at the expense of quality;
- **Increased parallel trade** Were branded packs to be more attractive than plain packs as research suggests, this would encourage illicit parallel trade into the UK from countries with branded packs. Such illicit trade would use unregulated supply chains, bypassing age controls and potentially increasing young people's access to tobacco products. Any increase in illicit parallel trade would also impact on duty revenues;
- **Increased counterfeiting** With all tobacco products being essentially indistinguishable and counterfeiters only having to replicate one simple design, it is inevitable that counterfeiting will be easier, while being more difficult to detect. Consumers would be put at risk from low quality, even dangerous, ingredients. Counterfeit products would also use unregulated supply chains. These factors will increase, not reduce, young people's access to tobacco.

DOES ON-PACK BRANDING PROMOTE SMOKING?

The policy to remove on-pack branding is based on the premise that branding in general encourages product use. There is scant evidence to support or quantify this. Any such effect will be tempered significantly in the tobacco category by the large graphic health warnings (tobacco packaging cannot be described today as "glitzy"). Furthermore, following the display ban, tobacco packs will not be visible at point of sale, further reducing any promotional effect.

SUMMARY

On-pack branding performs many positive functions that support consumers and ensure markets work well. Removing brand imagery can be expected to have a number of adverse effects while not necessarily achieving the intended change in behaviour. Full analysis is required if the policy is not to have significant unforeseen consequences that run counter to the policy aim.

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