

(Black) Marketing “Primo” in Rohanda

Topic: Black-Market Activity

Characters: Suzanne Thompson, International Tobacco Products Manager,
U.S. Tobacco Inc.
Suppakorn Rachinda, a Kalandese national, Southeast Brand
Manager for UST’s “Primo” brand

Freshly promoted to International Tobacco Products Manager for U.S. Tobacco, Suzanne Thompson finds herself at the cutting edge of the firm’s growth strategy for the next decade. Faced with declining volume sales and systematically increasing taxes on tobacco products in the United States, U.S. Tobacco has targeted for growth in volume sales. Further, the prestige image of American cigarettes in many foreign markets permits higher prices and margins on tobacco products. This is particularly true of the “Primo” brand, whose symbol of a sophisticated, urban, professional male is recognized virtually worldwide.

In Rohanda, UST’s plans have run afoul of a government policy which formally bans the import of cigarette products. While the health ministry supports the ban, the major beneficiaries of the policy are the government-owned cigarette monopoly and the country’s tobacco farmers. The monopoly is required to buy the crops of these farmers at above-market prices. Intense pressure from U.S. tobacco companies and the U.S. Department of Commerce has failed to convince the government of Rohanda to repeal the ban on cigarette imports. Ironically, American brands have traditionally controlled about 20 percent of Rohanda’s cigarette market as the result of black-market sales by established distributors in neighboring Kalanda. Rohanda’s government has not enforced the ban in the past, nor has it made any effort to stop UST from spending \$8 million a year to advertise “Primo.” Apparently, the government is convinced that the high prices for black-market cigarettes are sufficient protection for the brands offered by their monopoly.

Disgusted by what he considers a duplicitous policy, Suppakorn Rachinda, “Primo” brand manager in Southeast Asia, has submitted to Suzanne his first-ever marketing plan for Rohanda. He proposes to double the advertising budget in Rohanda to \$16 million and increase prices to Kalanda distributors by 20 percent. He argues that this plan will allow UST to capitalize on its premium position in Rohanda and share in the lucrative black-market profits. He asserts further that the plan will not produce higher prices in Kalanda since the smuggling distributors will not have to raise prices, thus ensuring that the nonsmuggling distributors will be unable to do so. Finally, he maintains that the plan is consistent with the established practice of Rohanda’s government, if not its formal policy.

Suppakorn’s proposed marketing plan is now on Suzanne’s desk, awaiting her approval for implementation in the coming year.

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