



LEO J. SHAPIRO & ASSOCIATES LLC

March 31, 2008

Shutting Down Tobacco

Recently, Wegman's Foods, a widely heralded supermarket chain in the Northeastern United States, announced that they are discontinuing the sales of tobacco products. Other food chains appear to be following their lead, and drug chains may well also ban the sale of tobacco in their stores. Public acceptance of increasingly strict curbs on smoking in public places has undoubtedly created an opportunity for retailers to abandon their tobacco business.

A study completed by Leo J. Shapiro & Associates in March suggests that retailers who discontinue the sale of tobacco stand to benefit by increasing their business*. Four in ten consumers say they are opposed to food and drugstores selling tobacco products. That is more than twice as many as favor tobacco sales (19%). An additional 41% say that whether or not food and drugstores sell tobacco products makes no difference to them.

Opposition to the sale of tobacco in food and drugstores is sufficiently intense to benefit retailers who discontinue tobacco sales. Nearly three in ten consumers (29%) say that if a food store they shop at discontinued the sale of tobacco products they would be more likely to shop there. Just 3% said the store would be likely to lose their business if it no longer sold tobacco products. These percentages were virtually the same for drugstores, respectively 29% and 3%.

Clearly, abandoning tobacco sales is becoming a growth strategy. This makes it likely that tobacco sales will be discontinued by more food and drug chains. Those in the forefront of this trend stand to reap the most publicity and greatest benefits.

Discontinuation of tobacco sales is consistent with the increasing effort being made by retailers to enlarge their healthcare business. Food stores are launching numerous programs to attract and hold trips by counseling on healthy market baskets and making healthy food choices easier. Drugstore chains are opening walk-in clinics and promoting their pharmacies to play an increasing role in the healthcare of their customers. This is true, as well, in food chain stores with pharmacies. Discontinuation of tobacco sales helps to authenticate retailers' effort to play a health card in attracting and holding customers.

* The Shapiro study interviewed a national sample of 450 households personally by telephone. It was conducted in March 2008.

It may one day become possible for retailers to advance their position for healthcare by returning to the sale of tobacco products. One in six consumers now thinks that tobacco products should be sold only on a prescription basis. There has been no public, regulatory, or industry effort to make tobacco a prescription product. Absent such an effort, the present level of approval suggests that an eventual shift of tobacco sales to pharmacies cannot be ruled out. If this happens, many retailers will be back squarely in the tobacco business without compromising their commitment to healthcare and healthy living.

For some retailers, the abandonment of tobacco is not easy. Wal-Mart discontinued selling tobacco in its 123 Canadian stores in 1994, but has not done so in the U.S., focusing its effort instead on curbing sales to minors. The customers that Wal-Mart serves in the U.S. will respond favorably to their effort because they also support retailers discontinuing the sale of tobacco products. Among customers who shopped at Wal-Mart within the past four weeks, 44% are opposed to the sale of tobacco products by food and drugstores, mirroring 43% opposition by the nation as a whole. Given that Wal-Mart is both a food and drugstore, it may find that curbing sales of cigarettes to minors may not be enough to placate opposition to the sale of tobacco products.

Continuation by Wal-Mart of tobacco product sales may discourage some food and drug chains from doing so for fear of losing trips to Wal-Mart. This means that those chains which discontinue tobacco products will enjoy an advantage by the distinctiveness of their commitment to health and healthy living. This advantage is likely to last so long as Wal-Mart continues the sale of tobacco products.

Wal-Mart's entry into healthcare will put increasing pressure on management to discontinue its sale of tobacco products, as it has already done in its Canadian stores. Wal-Mart is the nation's largest pharmacy and stands to become the largest source of walk-in clinics. As a growing low-cost and convenient healthcare provider, Wal-Mart may not wish to compromise its position in the health care market with the sale of tobacco products.

The American tobacco industry understands these threats and has increasingly shifted its marketing off shore, especially to developing economies in Asia and Africa. It is also investing large sums to create safer cigarettes, perhaps so safe that approval from the Federal Drug Administration can be courted. What is clear now is that a new stage has been entered in the distribution of tobacco products in America. In the more than 50 years since the Surgeon General's conclusion about the harmfulness of cigarettes and decision to label the health hazard on packages of cigarettes and to limit their advertising, there has been profound cultural change in the social acceptance of smoking, along with a substantial decline in smokers. That change has isolated smokers in the workplace, in public places, and even in their homes. Now, the comedown of tobacco in American life has reached the point where access to supply is being diminished, and retailers may increasingly be pressed to discontinue the sale of tobacco products. The one in six American adults who feel that tobacco products should be sold on a prescription basis reflects public recognition that smoking is a condition and no longer a social accessory.

	Food Store (n=450)	Drugstore (n=450)
<i>If a food store...drugstore that you shop at stopped selling tobacco products, would you be more or less likely to shop there?</i>		
More Likely	30%	31%
Less Likely	9	9
No Difference	61	60
<i>Overall, would you say you are in favor or opposed to food and drugstores selling tobacco products?</i>		
In Favor	17%	
Opposed	43	
No Difference	40	
<i>Do you think that tobacco products should only be sold by prescription at pharmacies?</i>		
Yes		20%
No		72
Don't Know		8

	Wal-Mart Customer Past Four Weeks (n=305)	All U.S. Households (n=450)
<i>If <u>food</u> store stopped selling tobacco products would be...to shop there?</i>		
More Likely	32%	30%
Less Likely	7	9
No Difference	61	61
<i>If <u>drugstore</u> stopped selling tobacco products would be...to shop there?</i>		
More Likely	34%	31%
Less Likely	8	9
No Difference	58	60
<i>Overall, would you say you are in favor or opposed to food and drugstores selling tobacco products?</i>		
In Favor	17%	17%
Opposed	44	43
No Difference	39	40
<i>Do you think that tobacco products should only be sold by prescription at pharmacies?</i>		
Yes	22%	20%
No	71	72
Don't Know	7	8

For more information on studies underlying this report,
contact George Rosenbaum at georger@ljs.com