

# Determinant Factors and Policy of Promotion Mix Innovation for Cigarette Products in Indonesia

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## Abstract

This research was intended to identify and analyze the factors influencing cigarette consumption, and the impacts of regulations on cigarette promotion by Indonesian government on cigarette consumption as well as to identify and analyze the effectiveness of innovation policy of cigarette promotion that will be developed. The research used quantitative method, and the analysis tool used was Structural Equation Model (SEM). The research was conducted in several cities in Indonesia such as Jakarta, Sarabaya, Malang and Kudus involving 300 respondents. The research results showed that cigarette consumption was influenced by promotion mix; that is, sales promotion, sales people, public relation, direct marketing except advertising. The policies of cigarette promotion innovation to be developed would be effective.

**Keywords:** innovation, promotional mix, cigarette products, Indonesian cigarette industry

## 1. Introduction

The existence of cigarette industry, particularly *kretek* (clove cigarette) in Indonesia, has been developing since the 17th century. Historically, clove cigarette was started from the experiments of chopping clove and mixing it with tobacco rolled into cigarettes. Because, when smoked, the burnt cloves emitted "*keretek*", the cigarette was known as "*kretek*" (Fauzi, 2010; Bashir, 2010; Castles, 1982).

The categorization of cigarette products has been made by Indonesian Central Bureau of Statistics that explicitly categorizes the products into two (2) types: cigarettes and clove cigarettes (original cigarettes). Cigarette is known as western country machine-made cigarette which is then called (according to cigarette consumption in Indonesia) as white cigarette. *Kretek* is typically an Indonesian tobacco product blended with cloves in it with an average ratio of two portions for tobacco and one portion for clove (Castles, 1982; Abhisam, 2012).

The cigarette industries in the last decade experience ups and downs in relation to the regulations or rules on the existence of the performance structure of the tobacco industries in Indonesia. The composition of clove cigarette industries is currently large enough by 93% while white smoke is only 7% (Daeng, 2011; Serad, 2011). The paradigm of regulations on cigarette industries in Indonesia step-by-step follows the national and international constellations, both in the aspects of industrialization and business. However, it has been deeply known that one aspect of marketing; that is, advertising, shows that sponsorship, sales promotion, direct marketing even cigarette sales people almost have no promotional restrictions. This fact ultimately inspired the regulation presence, among others: Government Regulation (PP) No. 19 Year 2003 on Smoking Safeguard to health. The regulations on smoking ban are also issued by a number of local governments, such as Local Rule on Smoking Ban by the issuance of Jakarta Local Regulation No. 75 Year 2005 on No Smoking Area, Surabaya City Local Regulation No. 5 Year 2008 on No Smoking Zone and Smoking Restricted Zone. The public policies related to smoking ban win very strong justification after the issuance of Law No. 36 Year 2009 on Health and Government Regulation No. 19 Year 2003 on Smoking Protection to Health. Massive health promotions directly present atmosphere as if it were conditioned that public be hostile or combat tobacco on health reasons. In contrast, the presence of tobacco industries also has a positive impact on the national economy; that is, increasing state revenue through excise, providing employment jobs, fostering socio-economic and socio-cultural life. Therefore, all forms and attempts to restrict and prohibit tobacco products make government's role as a wise regulator, in which it keep attempting to grow and develop the industries, so they still support farmers, sellers, workers and labor, business people and become the backbone of the national economy (Daeng, et.al, 2011); however, on the other side, attempts to prevent the effects of smoking on health are not performed sporadically and carefully by considering the aspect of socio-economic of the society.

Thus, the impacts of Law No. 36 Year 2009 on Health and Republic of Indonesia Government Regulation Year 2003 on Cigarette Protection for health as well as some local regulations either in Provinces or Regencies/Cities, also Fatwa from MUI and Central Board of Muhammadiyah (Indonesian 2<sup>nd</sup> largest Muslim Community), the promotional activities of tobacco industries gain restrictions or bans on cigarette promotion in some places and media.

The contribution of excise to the national economy over the years has grown significantly as set forth in the Law of the Republic of Indonesia Number 11 Year 1995 on Excise as further amended by Law of the Republic of Indonesia Number 39 of 2007. According to article 1 point 1 of this law, excise is the state levy imposed on certain goods that have traits or characteristics determined in this law. Furthermore, according to article 4 point 1C, tobacco products cover cigarettes, cigars, chopped tobacco leaf cigarette, and other tobacco processing results, with no regard of utilizing or not utilizing substitutive or supporting ingredients in the manufacture.

The insistence of the Framework Convention on Tobacco Control (FCTC) to immediately sign a global health treaty and the first tobacco industries accountability agreement will save millions of lives and change the way the tobacco industries operate simultaneously. Indonesia is the only country in Southeast Asia and even in Asia Pacific region that has not signed the FCTC; in fact, since the beginning (during the period of 2000-2003) Indonesia has included in the States that pioneered to and became an active contributor to the birth of the document. The FCTC is an international treaty adopted by 192 member states of the World Health Assembly (WHA) which is the highest body of the UN that governs the World Health Organization (WHO). After 40 countries ratify through their domestic processes, the FCTC will be valid and has the binding force as an international law (Karbyanto, 2007).

The reason of the government for not signing the agreement is the high level of cigarette consumption, Indonesia belongs to the five largest tobacco producing countries in the world, the cigarette excise reaches 50 trillion rupiah and Indonesia has 2,000 cigarette companies owning hundred thousands workers (Karbyanto, 2007). Besides, Indonesia is the country with the 10th largest number of smokers in the world in the third rank after China and India with totally 65 million smokers; China 390 million smokers, and India 144 million smokers.

Therefore, the interesting debate is precisely the dichotomy between tobacco farmers and cigarette industries to public health. On one hand, it carries the interest in socioeconomic reasons such as state revenue through excise, employment, and other social issues, and on the other hand, the public should be protected from health problems.

## 2. Research Objectives

The general objective of this research was to find an alternative policy of cigarette promotion innovation replacing promotional campaigns restricted or banned by the government for the cigarette industry. In addition to the general objective as mentioned above, this research has the specific objective to identify and analyze the factors influencing cigarette consumption (in need of a paradigm shift *in side out* to be *out side in*).

## 3. Research Methods

This research basically used the type of quantitative research with survey method by taking samples from the population. The research instruments were in form of a list of questions or standard questionnaires that had been prepared previously. Moreover, this study used explanation or explanatory pattern which is in purpose explaining the positions of the studied variables and the relationship and effect of one variable with another variable (Sugiyono, 2002; Cooper and Emory, 1996). As explained in earlier part that this research with a quantitative approach is limited in scope as follows: the research locations were in Jakarta, Surabaya, Malang, Kudus.

Sampling technique applied proportional random sampling involving 300 active smoker respondents determined by proportional random sampling technique based on the ratio of population. Data were collected by direct interview and questionnaires to the respondents. Specification of Analysis Model using SEM (Note 1) From the results of this research, it can be conducted a comprehensive discussion of the following analysis. (Note 2) The results of the feasibility test model of the evaluation model shows that all criteria used have good category. GFI value reached 0.927 meaning 97.7% population covariance matrix can be explained by the sample covariance matrix. The test results with chi-square generated the value of 204.699 within probability 0.000 which also explains that the variance covariance matrix of the empirical data was different from the proposed model (prob <0.05). RMSEA value of 0.056 was the criteria that met the criteria suggested which is below 0.08. AGFI value in the analysis was 0.894 in marginal criteria because it ranged from 0.80 to 0.90. Eligibility index model with Tucker Lewis Index (TLI) and Comparative Fit Index (CFI) which is recommended more than 0.90 (Kelloway,

1998) reached 0.925 and 0.903. The results of the analysis led to the conclusion that the fifth evaluation model has an acceptable eligibility and becomes the final model to perform an interpretation and hypothesis testing.

#### 4. Hypothesis Test Results

Based on the hypothesis test result as presented in the previous section, it was found that of the 10 tested hypotheses, all were accepted except the 4<sup>th</sup> one at 5% significance level.

#### 5. Research Findings

The results of data analysis and hypothesis examination produced some interesting findings from this model including:

1. Promotion was substantially explained more by publicity indicators. The main indicators of cigarette products promotion were in form of publicity of new products and social status of smokers. Cigarette companies should, in holding a promotion, emphasize more on the element of publicity. In fact, promotion did not provide a significant effect on the consumption level.  
When viewed further why this did not significantly affect the level of consumption, it was because most of the respondents stating that they smoked for friendship, self-satisfaction or trial and error were 93.7%, while those for parents or siblings were only 4% and those for the effect of advertising or sales persons were only 2.3%. From these data, it is clear that people were first smoking not because of promotions made by the cigarette industry, but the friendship became more dominant.
2. Promotion restrictions substantially were explained more by the indicator of law. The correct understanding of cigarette promotion restrictions would determine the effectiveness of promotional restrictions.
3. Social responsibility was substantially explained more by the indicator of public. The number of workers that could be absorbed by the company, the ability of cigarette companies to improve the welfare of local communities and the assistance for public facilities development are the strongest reflections of social responsibility.
4. Consumer behaviors were substantially explained more by the indicator of brand reputation. Positive imaging intensively conducted by the cigarette companies, such as smoking cigarettes can improve appearance and self-confidence, would be the strongest reflection to explain consumer behavior.
5. Consumption level was substantially explained more by the indicator of repeat purchases. Repeat purchase on this indicator was explained by purchasing cigarette of the same brand, buying cigarettes based on consideration of price and taste.
6. Promotion directly provided a significant effect with positive direction on the promotion restriction. Promotions performed correctly, especially in terms of publicity on the new things, would encourage restriction program on cigarette promotion.
7. Promotion and promotion restriction simultaneously had a significant effect with positive direction toward cigarette corporate social responsibility. The contribution of promotion restriction on social responsibility was stronger than the promotion. Social responsibility would be stronger if the cigarette companies were in a strong synergy in running promotional restrictions set by laws and government regulations.
8. Promotion, promotion restriction and cigarette corporate social responsibility simultaneously had a significant effect with the positive direction toward consumer behavior. Promotion set dominant, direct roles to changes in consumer behavior than promotion restriction and social responsibility. Consumer behavior to keep consuming cigarettes of the same brand would be stronger if the promotions performed by the cigarette companies successfully chose the right publicity.
9. Promotion, promotion restrictions, cigarette corporate social responsibility and consumer behavior simultaneously provided a significant effect with the positive direction toward the level of consumption. Consumer behavior dominantly, directly influenced the level of consumption compared with the other promotions, promotion restrictions and social responsibility.
10. Promotion restrictions, social responsibility and consumer behavior proved to set roles as mediators between promotion and consumption level. The strongest mediation was seen on the indirect effect

of a promotion on the level of consumption through consumer behavior.

Promotion mix which consists of sales promotion, advertising, sales persons, public relations, direct marketing (Kotler and Keller, 2007) is valid to normal goods and services in general.

As a new step in promotional activities in form of virtual promotion and social community, it is necessary to get an appreciation, especially for the cigarette industry. This advantage is felt not only by the business actors, in this case the cigarette industries, but also by the government and consumers.

Thus, it is clear that the opinion of Kotler and Keller (2007) mentioned above about promotion mix is less relevant anymore especially when applied to convenience goods such as cigarettes because it needs the addition of community development as stated by Bardhan (1989); Rutherford (1994); Yeager (1999), and Pejovich (1995). Similarly, virtual promotion as suggested by Turban *et. Al.* (2004), Drucker (1993), Goeswarni and Mathew (2005), Moore (2004). Considering the results of this research that found the phenomenon of social networking in society, especially internet users who use the internet as a communication medium such as a community clove cigarette and the other sites.

Thus, this research generated a new finding, especially the contribution to improving the theories of Kotler and Keller (2007) related to promotion mix by completing them with sales promotion, advertising, sales persons, public relations, direct marketing, virtual promotion, social community. Besides, It was also found some factual conditions:

1. Regulation of cigarette promotion by the government factually did not have any impact on the cigarette consumption.
2. By the regulations on cigarette promotion by government, the cigarette promotion innovation was a new form of promotion mix by adding the existing promotional mix. This new innovation was in form of promotion that could be in form of virtual social networking through the virtual world by making use of new technology, namely the internet, either facebook or twitter. In addition, it can also be performed through community development by forming social groups such as clove cigarette community, Djarum Black community, the communities of Dji Sam Soe, Gudang Garam, Bentoel and so forth like bicycle lover community, vintage car community, dove lover community and many more.
3. The policy of promotion innovation by virtual promotion. This policy would be effective if supported by several factors, among which can be performed by the cigarette industries as an effort to make a breakthrough in the field of promotion through social networking engineering to form social groups that can be used as promotional media, in addition to the virtual world by using the Internet such as facebook or twitter. It is predicted that in the future the internet use will be more widespread among communities and the internet will have a greater role as a means of promotion.
4. Explicitly, it can be said that an important finding in this dissertation is the critique to the theory proposed by Kotler and Keller (2007) that the promotion mix that consists of sales promotion, advertising, sales, public relations, and direct marketing is no longer suitable, particularly for convenience goods. Therefore, based on the results of this research, the component of promotion mix is added with virtual promotion and community development, so that the elements of promotional mix become sales promotion, advertising, sales, public relations, direct marketing and virtual promotion and community development.

Thus, the elements of the promotional mix have been completed that evolve as a part of the marketing mix that has already exists so far.

## **6. Policy Implications**

The following recommendations are addressed to three parties, namely researchers, cigarette industries and the government.

For researchers:

For further researchers, this research is still interesting to continue, particularly to explore further the smoking behaviors, process innovation and mindset innovation as the continuation of product innovations that have been performed in this research

For the cigarette industries:

This is preliminary information that is expected to be useful, especially in anticipating the promotion regulations by the government for the cigarette industries. It is important to know that perhaps it is the company's efforts to build a wider networking or networks, especially building up social networking either through virtual community

or virtual world.

For the Government:

New innovation of promotion which is a new thing in the promotions through the virtual world, social networks and social community is in need of support from the government, at least the government provides concessions in form of policy or rules and regulations.

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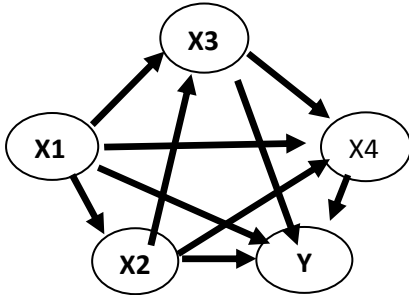
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**Notes**

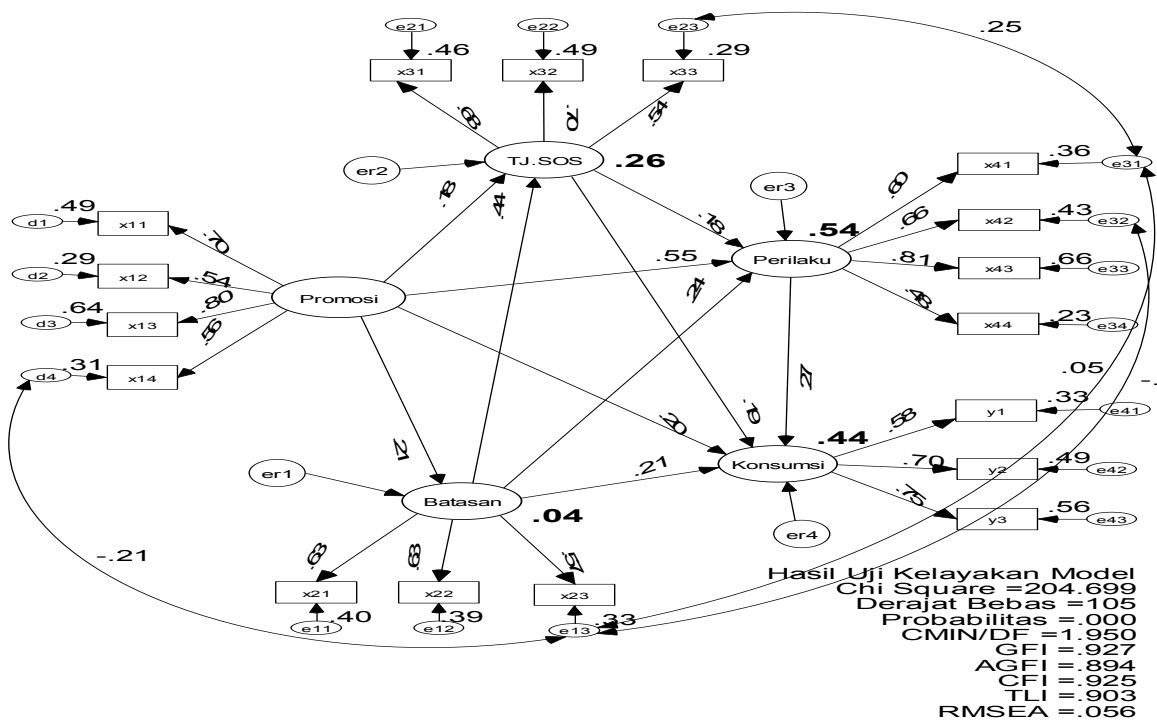
Note 1: Figure 1. SEM Analysis Model



Notes:

- X1 = Promotion
- X2 = Promotion Restriction
- X3 = Corporate Social Responsibility
- X4 = Consumer Behavior
- Y = Consumption Level

Note 2: Figure 2. Result of Structural Model of Evaluation



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