

Characteristics of FCT consumers and affordability

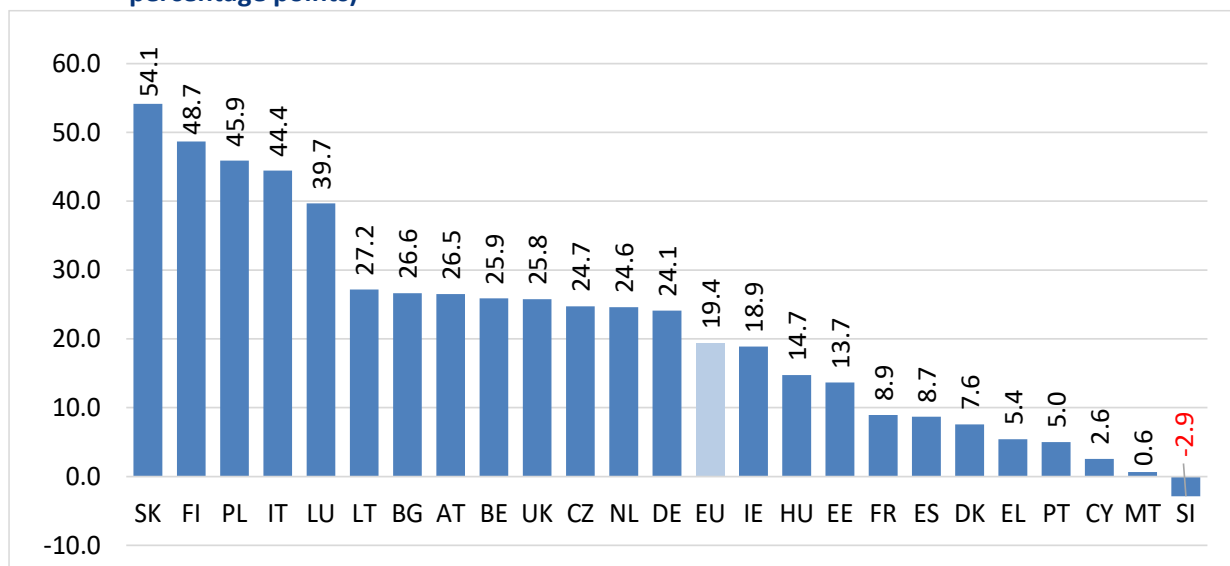
London Economics' analysis for ESTA

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Characteristics of FCT consumers

There are significant and well-established differences in the personal and socioeconomic characteristics of smokers and those individuals that have never smoked. For instance, information from Eurobarometer 458 indicates that compared to individuals that have never smoked, individuals who currently smoke are more likely to be male; more likely to be aged between 25 and 54; more likely to have completed formal education between the ages of 16 and 19; more likely to be self-employed or unemployed; and are more likely to have positioned themselves on Levels 1 to 4 (out of 10) of a 'social staircase' measure. However, there are also fundamental differences between the socioeconomic characteristics of FCT and FMC smokers.

Figure 9: Difference in unemployment rate between current everyday FCT and FMC smokers (in percentage points)



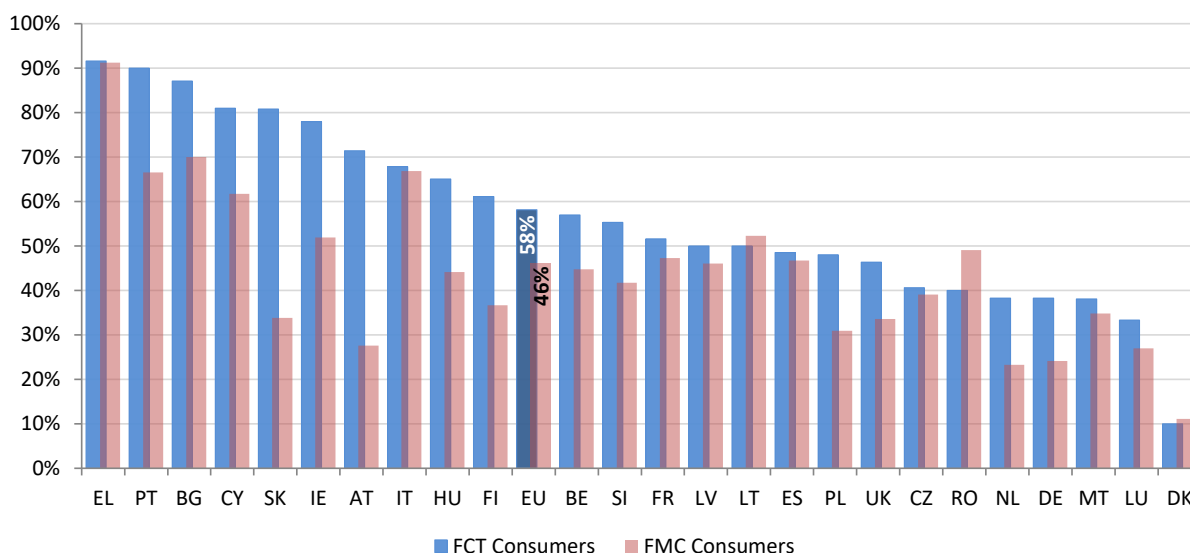
Source: London Economics' analysis of Eurobarometer 458, May 2017.
(http://data.europa.eu/euodp/en/data/dataset/S2146_87_1_458_ENG)

Again using country-level information from Eurobarometer 458, it is possible to identify a number of the personal and socioeconomic differences between FCT and FMC consumers. In terms of personal characteristics, individuals who consume FCT are more likely to be male (compared to FMC consumers); more likely to be younger adults; and are more likely to self-categorise themselves in lower social groups. However, in relation to more economic or socioeconomic characteristics, Figure illustrates the difference in unemployment rate between individuals describing themselves as FCT consumers or FMC consumers. Across the EU, individuals who are FCT consumers are approximately **19 percentage points** more likely to be unemployed than individuals describing themselves as FMC consumers. Again, there is substantial variation around the mean, with FCT consumers in Northern European countries significantly more likely to be unemployed relative to their FMC counterparts.

Figure demonstrates that, among current daily smokers, consumers of FCT are more likely to report that they have problems paying their bills (either “some of the time” or “all of the time”) than FMC consumers.

This analysis also illustrates that FCT consumers (in general) face tighter budget constraints (and hence affordability issues) compared to FMC consumers. On average, there is a **12 percentage point** gap in the proportion of FMC and FCT everyday smokers that have report financial difficulties (at least some of the time). Even in those jurisdictions where these budget constraints are less binding than the EU average (for instance, Germany, the United Kingdom and the Netherlands), it remains the case that FCT consumers indicate that they face greater challenges paying their bills compared to FMC consumers.

Figure 10: Proportion of current everyday smokers (either FCT and/or FMC) who report financial difficulties (at least some of the time).



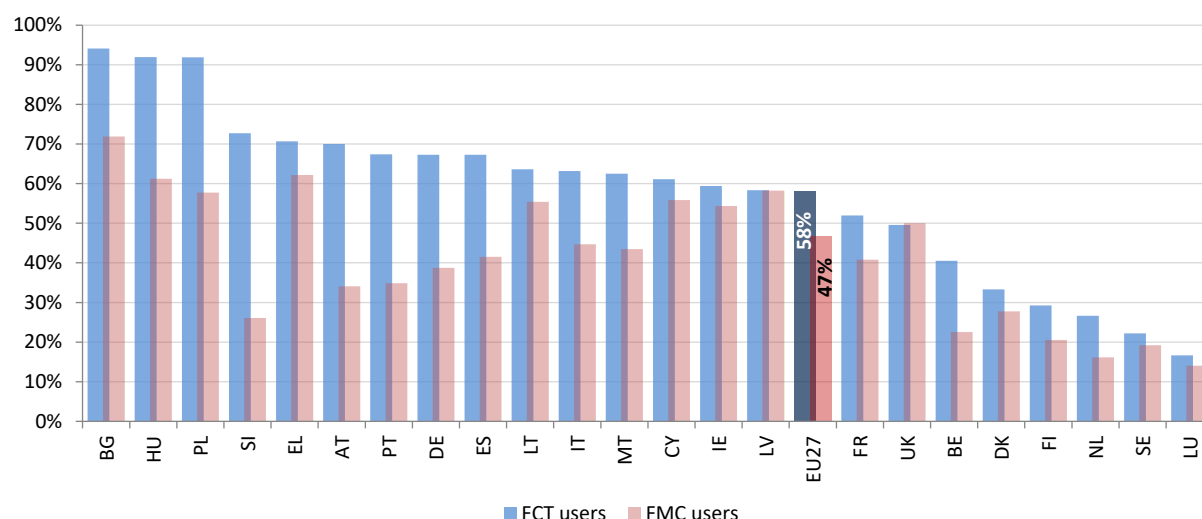
Source: London Economics’ analysis of Eurobarometer 458, May 2017.

What does this mean in practice? There is a correlation between wider economic measures (such as long-term unemployment rates) and narrower household measures relating to general financial standing (such as ability to pay bills); however, the next element of the analysis provides some additional information on the importance of price on tobacco brand selection. The analysis does not present information on the relationship between price and tobacco consumption generally, but only information on the importance of price in the choice of brand. However, despite this, it is

interesting to note that, in general, individuals who are FCT consumers indicate that price is more influential on their choice of brand compared to individuals who currently consume FMC everyday.

Looking at the Eurobarometer data on the impact of price on the selection of brand, across all Member States, although there is a **11 percentage point** gap in the proportion of FMC and FCT everyday consumers indicating that price is important in the selection of brand, the difference is in excess of **30 percentage points** in Hungary, Poland, Austria Portugal and Slovenia, and between **20 and 30 percentage points** in the Bulgaria, Germany and Spain.

Figure 11: Proportion of current everyday smokers (either FCT and/or FMC) indicating that the price is either fairly or very important in selection of brand



Source: London Economics’ analysis of Eurobarometer 385, May 2012 (here).

Note: Sample sizes for FCT users in Estonia, Czech Republic, Romania, and Slovakia were small and are not shown above. In some cases, individuals may be FCT and FMC smokers and hence, observations are not unique.

In summary, the analysis demonstrates the fact that FCT consumption across EU Member States varies significantly. However, in addition, the analysis also illustrates that there are noticeable differences in the personal and socioeconomic characteristics of FCT and FMC consumers. In other words, **not all countries are the same and not all consumers are the same**. Notably, FCT consumers are typically low-income, more price-sensitive and hence face affordability constraints. The next section details a number of economic foundations upon which our case study analyses are based.