The Potential Impact of the Proposed Regulations on the Alcohol Market in South Africa

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ABSTRACT

Alcohol abuse is a major problem in South Africa and across the world. It diminishes mental capital, as well as places heavy financial and social burdens on the state and the affected communities. It is, therefore, vitally important that irresponsible alcohol consumption be curbed.

Critics of alcohol advertising argue that advertising and marketing of alcoholic beverages increases alcohol consumption, which, in turn, increases alcohol abuse and the fatalities associated with it. A number of researchers have confirmed that advertising is a factor that may influence alcohol consumption, but the same number of researchers has proven otherwise.

This study assessed the effectiveness of the proposed regulations on reducing alcohol consumption in the country and it found that the alcohol market size would not diminish if mainstream advertising were banned.

The study was exploratory in nature. The data was collected through in-depth interviews with a convenience sample of experts and was analysed using direct content analysis.

The research did find that a ban on above-the-line advertising would affect the alcohol market size and structure. The research was inconclusive with regard to the effect of the ban on competition within the industry. However, it found that the market size and total alcohol consumption are unlikely to be impacted.

DECLARATION

I, Shivani Maharaj, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

SHIVANI MAHARAJ

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2012

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Chapter 1: Introduction

1.1. Purpose of the Study

The purpose of this research was to investigate the potential impact of the proposed regulations on promotions on the alcohol industry in South Africa.

Following the Biennial Summit on Substance Abuse held in March 2011 in Durban, 34 resolutions were adopted, of which 5 are directly related to this research (Kalaeamodimo, 2011):

1. Harmonisation of all laws and policies to facilitate effective governance of alcohol production, sales, distribution, marketing, consumption and taxation.
2. Raising the legal age for the purchasing and public consumption of alcohol from that of 18 to 21.
3. Banning all sponsorship by the alcohol industry of sports, recreation, arts and culture, and related events.
4. Immediate implementation of regulations that permit the restriction of the time, location and content of advertising related to alcohol and, in the medium term, banning of all advertising of alcoholic products in public and private media, including electronic media.
5. The short-term intervention will include measures that will ensure that alcohol will not be marketed at times and locations where young people may be influenced and the content of the advertising should not portray alcohol as a product associated with sport, and social and economic status.

1.2. Context of Study

The tobacco epidemic was first brought to light in 1964 by the United States General Surgeon, Luther L. Terry (Office on Smoking and Health, 2006). The report concluded that smoking was a probable cause of lung and laryngeal cancer, as well as the leading cause of chronic bronchitis. The release of this report by the General Surgeon started the regulatory battle between the government, advertisers and the tobacco companies in order to curb tobacco use.

After the World Health Organisation (WHO) Director-General, Dr Gro Harlem Brundtland, made global tobacco control a priority for WHO in 1998, the WHO began negotiations on the Framework Convention on Tobacco Control, which was adopted by the World Health Assembly (WHA) in May 2003. The treaty required the 168 signatories to ban tobacco advertising and to implement certain policies, unless their constitution forbade it.

Following Dr Brundtland's announcement in 1998 and the increased focus on smoking-related diseases, the South African government amended the Tobacco Products Control Act of 1993. The amendment banned advertising and promotions of tobacco products, amongst other regulations (Department of Health, 1999).

The alcohol industry is undergoing a similar transformation with regard to curbing the abuse and misuse of alcohol. The WHO estimates that alcohol abuse and misuse causes approximately 2.5 million deaths per annum (WHO, 2010). As a result in May 2008, the World Health Assembly adopted a resolution to formulate strategies to reduce the harmful use of alcohol (WHO, 2008). The resolution urged member states of the WHO to assist in developing a draft global strategy to reduce the harmful use of alcohol and to develop national systems to monitor the consumption of alcohol and its health and social consequences. Furthermore, member states were asked to regularly report to the WHO and to implement policies to reduce alcohol-related harm.

In May 2010, the WHA endorsed the *Global Strategy to Reduce the Harmful Use of Alcohol* after considering the draft strategies and reports submitted by the Director-General and the Secretariat of the WHO (WHO, 2010). The strategy proposed ten target areas for policy options and interventions to the WHO member states. The ten areas are (WHO, 2010):

(a) leadership, awareness and commitment

(b) health services' response
(c) community action
(d) drink-driving policies and countermeasures
(e) availability of alcohol
(f) marketing of alcoholic beverages
(g) pricing policies
(h) reducing the negative consequences of drinking and alcohol intoxication
(i) reducing the public health impact of illicit alcohol and informally produced alcohol
(j) monitoring and surveillance.

Taking its directive from the World Health Organisation (WHO), the South African Department of Trade and Industry (DTI) proposed regulations on the sale, manufacture, distribution and advertising of alcohol within the country, in order to address the problems associated with alcohol abuse and misuse. The draft regulations aim to curb the increase of alcohol abuse and deaths due to drunken driving, amongst other alcohol-related illnesses, such as foetal alcohol syndrome.

However, global brands rely heavily on marketing in order to embed the brand identity with the targeted groups. Alcoholic drinks are one of the most heavily advertised products in the world (Heimonen and Uusitalo, 2009). Jernigan (2009, p. 9) says, "Successful brands become part of the identity of the consumer." Industry competitors are constantly trying to increase mindshare of their brands, and, in so doing, increase market share of their respective brands. As a result, advertising spend amounts to billions of dollars every year (Jernigan, 2009). Due to the fundamental nature of mass media advertising, people of all ages are exposed to the communications. There is no discrimination between people above the legal drinking age and those below the legal drinking age. The proposed regulations will prohibit mass media advertising of alcohol. In addition, promotion of alcoholic drinks through sponsorships of events will be banned.

1.3. Problem Statement and Sub-Problems

Problem Statement:

To determine the potential impact of the proposed regulations on promotions on the alcohol market size and structure in South Africa.

Sub-Problem 1:

To identify the role of promotions in alcohol brand choice and consumption.

Sub-Problem 2:

To determine the perceptions of the market on the future market structure and size, as a result of the change in legislation.

1.4. Significance of the Study

In spite of regulations on alcohol promotions being implemented in other parts of the world, research has failed to prove convincingly that banning of advertising is directly correlated to increased alcohol consumption rather than to increased brand equity (Nelson, 2005, 2010).

The study fills a gap, in that it assessed the effectiveness of the proposed regulations on reducing alcohol consumption in the country. This will lead to an understanding of market share, and hence, profitability for the companies concerned.

If ratified, the proposed regulations will have a major impact on the several industries as well as on the consumer. Furthermore, the South African national broadcaster, the SABC, stands to lose between R250 million and R400 million per annum if alcohol advertising is banned. This translates to approximately 8.5% of the SABC's annual advertising revenue (Benjamin, 2011). There will also be a huge impact on the country's fiscus arising from the loss of VAT of R280 million per year (South African Press Association (Sapa), 2011).

Moreover, in total Brandhouse, Distell and SABMiller spent approximately R1.4 billion on advertising in 2010 (Furlonger, 2011). SABMiller spent the third largest amount on advertising in the country in 2010. Brandhouse was the seventh largest spender, while Distell was tenth. The large amounts spent on advertising by the alcohol companies are an indication of the size of the potential impact on the advertising industry if the proposed regulations are ratified.

This study provides guidance on how all the affected parties should react to the new regulations. In addition, it assists in formulating business strategy.

1.5. Delimitations of the Study

This research investigated the impact of the potential ban on promotional activities and above-the-line advertising on liquor products on the alcohol market structure and size. It did not look at the effect of the new regulations on the sports industry, events sponsorships and on below-the-line advertising activities. Furthermore, the study did not examine the impact of advertising on underage drinking.

1.6. Assumptions

The following assumptions were made during the study:

- The regulations will only ban advertising through above-the-line communications, including electronic media. Below-the-line communications, such as in-store display units and gondolas, will be allowed. If this assumption is negated, the study will not have firm conclusions and further research will have to be conducted.
- Moreover, the information used in the research methodology and analysis was truthful and accurate. Incorrect data would have affected the credibility of the study.

1.7. Definitions

Mass media	Media used to communicate to mass audiences, such as television, radio, magazines, newspapers, public billboards, and advertising in public areas.
Above-the-line	Advertising using mass media, thus communicating to mass audiences.
Below-the-line	Advertising using non-media outlets that target specific consumer groups.
Shebeen	Illicit establishment where liquor is sold or consumed
Tavern	Licensed estabilishment where liquor is sold or consumed. A tavern is a "legal shebeen".

1.8. Abbreviations

ARA	The Industry Association for Responsible Alcohol Use *The ARA is a non-profit organisation (NPO) registered with the Department of Social Development. The organisation is focused on the prevention of the negative consequences of alcohol abuse (ARA, 2012).*
BCAP	British Code of Advertising Practice
DTI	Department of Trade and Industry
SADD	South Africans Against Drunk Driving
WHA	World Health Assembly
WHO	World Health Organisation

Chapter 2: Literature Review

2.1. Introduction

Critics of alcohol advertising argue that advertising and marketing of alcoholic beverages increases alcohol consumption, which in turn increases alcohol abuse and fatalities associated with it. A number of researchers have confirmed that advertising is a factor that may influence alcohol consumption, but the same number of researchers has proven otherwise.

This chapter will begin by comparing the strong and weak theory of advertising.

Thereafter, the literature review will explore the strength of advertising in alcohol brand choice. It will then look at the perceptions of the market on future market structure and size, as a result of the change in legislation of promotions for alcoholic beverages.

2.2. Theory of Advertising

The ultimate goal of advertising is to increase sales; however, consumers do not switch from being disinterested to becoming convinced purchasers at the first exposure to an advertisement (Lavidge and Steiner, 1961). In the long term, advertising may or may not increase sales, but in the short term advertisements seek to increase awareness and/or level of knowledge of the product (Lavidge and Steiner, 1961; Kotler and Keller, 2009).

The strong theory of advertising arises from the response hierarchy models summarised by Kotler and Keller (2009). The AIDA, hierarchy of effects, innovation-adoption and the communications models all assume that the buyer passes through a cognitive, affective and behavioural stage (Kotler and Keller, 2009).

Lavidge and Steiner (1961) examine the effectiveness of advertising by understanding its function. The authors formulate the hierarchy-of-effects model of advertising, from which the strong theory of advertising emerges. The theory says that sales are a direct function of advertising. Figure 1 below describes the process that a consumer undergoes when exposed to advertisements.

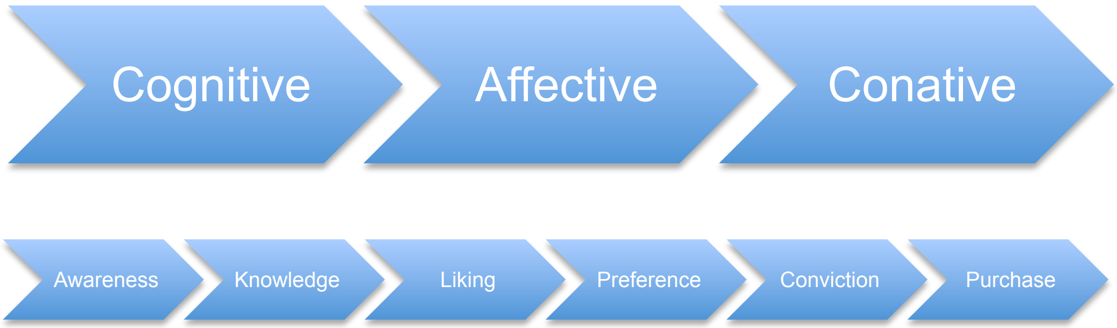

Figure 1: The Hierarchy of Effects
(Lavidge and Steiner, 1961)

The three functions of advertising are directly related to three behavioural dimensions:

1. Cognitive – the realm of thoughts. Firstly, advertisements seek to increase information and awareness of the product.
2. Affective – the realm of emotions. Secondly, advertisements seek to change attitudes or feelings toward the product.
3. Conative – the realm of motives. Lastly, advertisements seek to produce action. The consumer acquires the product.

Rogers' innovation-adoption model follows the same process as outlined in Figure 1 (Rogers, 1962).

In summary, the response hierarchy models promote that advertising seeks to persuade the consumer to buy (more).

In contrast, the weak theory of advertising proposes that the conative step comes before the affective step. The importance of product trial and usage experience is emphasised in the low-involvement hierarchy models (Vakratsas and Ambler, 1999). Krugman (1965) has been credited with formulation of the concept. He concluded that, while television advertisements may not directly change attitude, they might, after repetition, change the shape of the audience's cognitive structure. When faced with a buying decision, consumers remember the name or idea of a product, and then make the purchase of the product. However, future purchases of the product are a function of the experience with the product. Thus, the low-involvement hierarchy model is a cognitive-conative-affective model (Krugman, 1965; Ray, 1973). In other words, sales are a direct function of consumers trying a product and adopting it if it is favourable.

2.3. The Effect of Advertising on the Decision to Consume or Purchase Alcohol

2.3.1. Factors determining alcohol consumption choice

The motivational model of alcohol use assumes that the decision to consume alcohol is based on a combination of emotional and rational processes (Cox and Klinger, 1988). Furthermore, the decision is based on whether the positive affective consequences expected by drinking outweigh those of not drinking. Kuntsche, Knibbe, Gmel and Engels (2005) go on to say that an individual's expectancies of the chemical and non-chemical effects of alcohol consumption are based on historical, current, situational and cognitive factors (Cox and Klinger, 1988; Kuntsche, Knibbe, Gmel and Engels, 2005).

The historical variables help shape the nature of an individual's past experiences with consuming alcohol. and these past experiences influence that individual's current motivation to drink.

Parental drinking behaviour has been found to be an important factor in a child's decision to consume alcohol. Chuan-Yu, Storr, Chieh-Yu, Kuang-Hung, Chen et al. (2011) conducted a study amongst 4th and 6th graders in Taiwan in order to understand the differential relationship of family drinking with alcohol expectancy amongst schoolchildren. The authors found that approximately 29% of 4th graders and 43% of 6th graders had consumed alcohol. The study highlighted the significant role of family drinking behaviour on an individual's early life. Furthermore, the study proposed the use of policy directed at addressing family influences on alcohol expectancy in preventing adolescent drinking (Chuan-Yu, Storr, Chieh-Yu, Kuang-Hung, Chen and Keh-Ming, 2011).

Clark, Nguyen, Belgrave and Tademy (2011) found that parental disapproval of alcohol led to lower rates of alcohol use amongst children. Several dimensions of parenting were found to affect alcohol use, refusal or both. For example, parental monitoring and control, disapproval of alcohol use, and relationships with each parent directly influence the drinking behaviour of the child.

The current factors that have an impact on a person's decision to drink include the situation in which the person is located at a point in time, and whether drinking will enhance a current positive affect, or counteract a negative effect. Cox and Klinger (1988) suggest that the situational and current factors give rise to cognitive processes that determine the expectations, both chemical (direct) and instrumental (non-direct), associated with consuming alcohol.

Moreover, Abbey, Smith and Scott (1993) demonstrate that it is vitally important to consider simultaneously personal motives for drinking alcohol and the situational factors that correspond to these motives for drinking alcohol. For example, if an individual reported consuming alcohol in order to cope with stress, that individual consumed more alcohol when experiencing stress. If an individual reported consuming alcohol to be sociable, that individual consumed more alcohol when their peers frequently consumed alcohol at the social gatherings they attended together.

Additionally, Khan, Murray and Barnes (2002) investigated the short- and long-term effects of poverty and unemployment on alcohol abuse. The results of the study found that increased poverty increased alcohol use and problems. Furthermore, it was found that a recently unemployed individual consumed less alcohol, while prolonged unemployment increased the consumption of alcohol. A study by Mossakowski (2008) reiterates the fact that poverty, unemployment and the duration thereof are risk factors of heavy drinking in the United States.

2.3.2. Effect of advertising on alcohol consumption

As previously mentioned, there are conflicting conclusions amongst researchers about whether alcohol advertising is directly linked to increased consumption. Wilcox and Kyung Ok (2010) point out that many of the researchers who support the view that advertising leads to increased alcohol consumption use either cross-sectional data (survey methodology) or controlled experiments in their research methodology. Cross-sectional studies are helpful in linking individual choice to advertising; however, they are not useful in identifying the relationship between advertising, advertising expenditure and the total consumption of a population (Wilcox and Kyung Ok, 2010). Therefore, the authors use a time-series method in identifying the aforementioned relationship between advertising expenditures and total alcohol consumption.

The Wilcox and Kyung Ok (2010) analysis used six advertising mediums (print, outdoor, television, radio and the internet), the alcohol consumer price index, per capita disposable income and tax rates as independent variables, with per capita spirits consumption was used as the dependent variable. Radio advertising was found to be significantly related to consumption. However, the coefficient value was extremely small, meaning that a $1.6 million increase in radio advertising would increase per capita consumption of alcohol by 2,835 grams. The final conclusion was that advertising had a weak effect on the aggregate consumption of alcohol beverage in the United Kingdom between 1971 and 2007.

Duffy (1991) suggests that many previous papers used annual data in determining the relationship between advertising and alcohol consumption. The author believed that the previous methodologies were unacceptable as advertising’s effect on sales lasts for months, rather than years. Therefore, Duffy (1991) examined the relationship between advertising and consumption, using quarterly data. In addition, the author improved the model by including tobacco in the study. The study found little evidence to support the view that advertising increases alcohol consumption (Duffy, 1991).

Nelson and Young (2001) studied the per capita consumption of alcohol in 17 OECD countries over the period between 1977 and 1995 in order to establish whether advertising bans were effective or not. The conclusion, as stated by the authors, is: "The evidence indicates that a complete ban on broadcast advertising of all beverages has no effect on consumption relative to countries that do not ban broadcast advertising." (Nelson and Young, 2001)

2.4. The Effect of Advertising on the Market Structure

2.4.1. Factors determining alcohol brand choice

According to Bogart (1986, p. 208), advertisers use repetition to impress "the advertised name upon the consumers' consciousness and [to] make them feel comfortable with the brand". One of the main objectives of advertising is to generate and maintain brand awareness (Bogart, 1986; Hoyer and Brown, 1990). The Hoyer and Brown (1990) study demonstrated that brand awareness has an influence on consumer choice and brand sampling.

However, analysis has shown that very few consumers of a particular product category are 100% loyal to any particular brand (Foxall and James, 2003). Foxall and James (2003) showed that consumer brand choice is highly price sensitive, and that the marketing mix, promotions and place are important in consumer buying behaviour.

Pettigrew (2001) found that the Australian beer market is characterised by image management. Consumers managed their beer consumption behaviour, including brand choices, location choices, posturing while consuming, and discussions about the beer category, in order to achieve their ideal self-images. The implication is that consumers remove free choice in order to manage their image, which is culturally defined.

In his paper, Vrontis (1998) explains the importance of branding in the homogenous beer market. Brewers in the European market consider beer as a homogenous product, thus using differentiation strategies – product image and segmentation – to grow market share. Furthermore, the author emphasises that it is the brand values, images and associations that influence the consumer's perceptions. Like Pettigrew (2001), the author mentions that consumers can also be influenced by the perceptions of others.

2.4.2. The effect of advertising on market share

The effect of a change in legislation on market structure and size is not fully understood. The results across the literature vary. However, investigating the impact of advertising expenditure on alcohol demand provides some insight into changes in the market structure when a change in legislation occurs. Eckard (1991) investigated the changes in the market structure after a ban on cigarette television advertising was implemented in the United States. The authors found that brand and firm shares were more stable after the ban, and that leading brands and firm concentration that were declining before the ban were stable or increased after the ban (Eckard Jr, 1991).

In contrast, Heimonen and Uusitalo (2009) investigated the impact that advertising expenditure had on the Finnish beer market in the absence of price competition. During the period concerned, price competition in the Finnish beer market was outlawed, thus making it an oligopolistic market, in which each firm uses marketing campaigns to sell, instead of prices irrespective of rival behaviour.

The authors found that advertising did not impact the market share of the respective beer brands proportionately. The results showed that strong brands benefited from the advertising spend of weaker brands. In other words, the association between the brand and the brand information from advertising was disjointed. The authors propose that brand familiarity is a possible explanation for the phenomenon. Strong brands are able to maintain their market share with a proportional share of advertising, while weaker brands require a greater share of advertising voice to maintain market share

(Heimonen and Uusitalo, 2009). Kent and Allen (1994) support the notion that familiar brands tend to maintain a market share that exceeds their advertising share-of-voice, while less familiar or low-share brands tend to have an advertising share-of-voice that is greater than their market share. Additionally, the study found that consumers tend to remember new product information better for well-known familiar brands.

2.4.3. The effect of advertising on competition

In his study on the effect of advertising in overcoming brand loyalty in the breakfast cereals market, Shum (2004) found that advertising plays a role in encouraging switching behaviour and in persuading consumers to try brands that they have not tried recently. The findings imply that advertising may be an effective way for new brands or firms to overcome the advantage enjoyed by incumbent brands and firms.

Eckard (1991) found that new brand entry in the cigarette market ceased in the first four years of the ban on television advertising in the United States. The author concluded that the the television advertising ban had a negative impact on competition in the tobacco industry.

2.5. A Review of Alcohol Controls on Promotions and Subsequent Consumption around the World

Restrictions across the globe vary from total bans to voluntary advertising codes. Countries that belong to the European Union have regulations as set out by the directive on TV advertising (89/552/EEC). Over and above the provisions of the directive, some countries have imposed additional restrictions on advertising.

Table 1 below shows the spread of the types of restrictions on advertising amongst the 37 countries in the European region in 1998.

Table 1: Restrictions on Alcohol Advertising on TV and Radio

(Rehn, Room and Edwards, 2001)

	Spirits		Table Wine		Beer	
Type of Restriction	**TV**	**Radio**	**TV**	**Radio**	**TV**	**Radio**
Complete Ban	15	13	12	11	9	8
Legal Restrictions	14	14	16	15	14	12
Voluntary Code	8	7	8	7	9	9
No Restriction	3	6	4	7	8	11

In 1998, Greece, Hungary and Romania had no restrictions on advertising, while eight other countries only restricted advertising through voluntary codes. The effect of consumption across the different restrictions and the different countries varies dramatically. The following sections will look at specific country profiles.

2.5.1. United Kingdom

Advertising in the UK is regulated by the Communications Act of 2003, which is administered by the statutory regulator Ofcom. The British Code of Advertising Practice (BCAP) governs alcohol advertising in the United Kingdom. Ofcom and the Advertising Standards Authority co-regulate the United Kingdom's broadcast advertising using the BCAP code. The code is extensive with the outlining principle being that "*Advertisements for alcoholic drinks should not be targeted at people under 18 years of age and should not imply, condone or encourage immoderate, irresponsible or anti-social drinking."* (Advertising Standards Authority, 2010). The BCAP code is a voluntary code. The broadcasters have the responsibility of changing or withdrawing an advertisement. However, as part of a broadcasting licence, the broadcaster is obliged to abide by the ASA rules and codes.

Compliance to the code is measured annually by the ASA through an assessment of independently chosen alcohol advertisements. In 2009, the industry achieved 99.7% compliance with the code (Advertising Standards Authority, 2009).

A number of studies were conducted to establish the effect of advertising on consumption in the UK. As was mentioned previously, the Wilcox and Kyung Ok (2010) analysis concluded that advertising had a weak effect on aggregate consumption of alcohol beverage in the UK between 1971 and 2007.

Moreover, Duffy (2003) used a dynamic demand modelling system to investigate the influence of advertising on the inter-product distribution of consumer demand for food, tobacco, alcohol and services in the UK over the period 1963 to 1996. The model, using estimations of price elasticities, confirmed that prices have a strong influence on the allocation of consumer expenditure. However, advertising was found to be non-influential in the determination of inter-product consumer demand, hence also in consumer preferences and pattern of expenditure.

2.5.2. Russia and the Baltic Countries

In 1984, alcohol consumption in Russia was estimated to be approximately 10.2 litres per capita and it was rising at an astonishing rate (Levin, Jones and Braithwaite, 1998). In 1985, the totalitarian Russian government implemented a number of alcohol reforms in order to address the problem of alcohol abuse in the country. In the first three years of the reform, state alcohol production was reduced by 50%. However, legal drinking became illegal drinking. Table 2 below shows the per capita consumption that took place from 1984 to 1995 in the country, since the reform.

Table 2: Chronological Figures of Per Capita Sales of Alcohol in Russia

(Levin et al., 1998)

Years	**1984**	**1985**	**1986**	**1987**	**1992**	**1994**	**1995**
Litres	10.2	8.3	5.6	3.8	5.8	6.8	7.1

Table 2 above shows a marked decrease in alcohol consumption since the implementation of the reforms. However, the illegal production of alcohol during that time was estimated to be 50 million decalitres, while state production was 122 decalitres. When the illegal production was taken into account, the per capita sales of alcohol was estimated to be fourteen to fifteen litres in 1994 (Levin et al., 1998). Rather than addressing the problems, the reforms created new ones.

During the 1990s, in addition to the restrictions on the manufacturing, distribution and sale of alcohol, Russia, Latvia, Lithuania and Estonia implemented restrictions on advertising (Reitan, 2000). The regulations varied across alcohol categories and the countries concerned. Lithuania and Russia implemented total bans on alcohol and tobacco advertising, whereas Estonia restricted the advertising of beverages with an alcohol content of more than 22%. In 1995, Latvia prohibited the advertising of spirits, but allowed advertising of beer and wine, as long as it followed a specific set of rules.

Figures 2 and 3 below shows the trend in alcohol consumption by Russian men and women since 1994. It can be seen that a rise in consumption existed during the years of the advertising ban. The sudden economic decline in the late 1990s contributed to the decrease in consumption at the start of the new century.

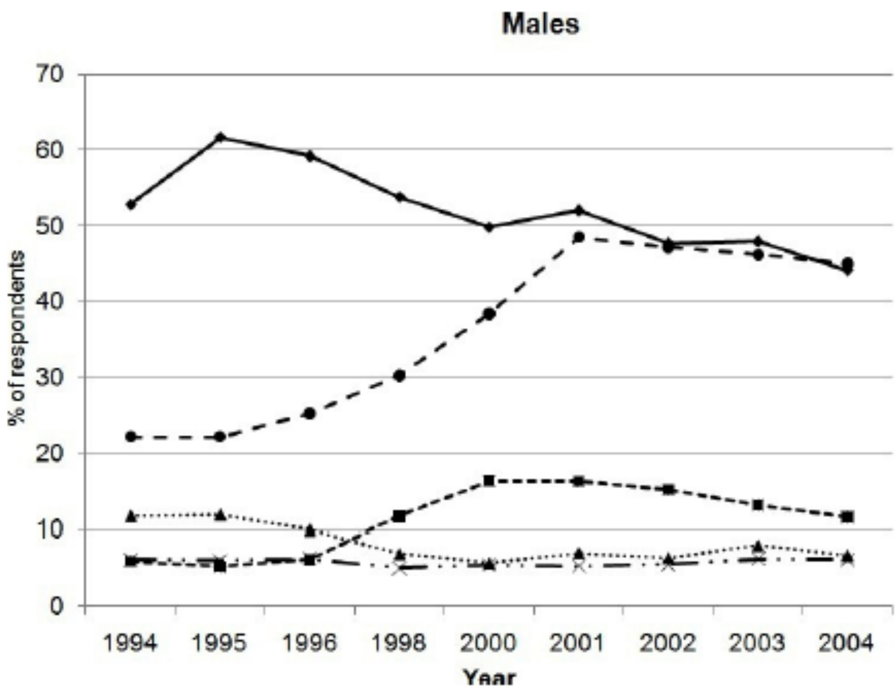

Figure 2: Percentage of Russian Men consuming alcohol beverages

(Perlman, 2010)

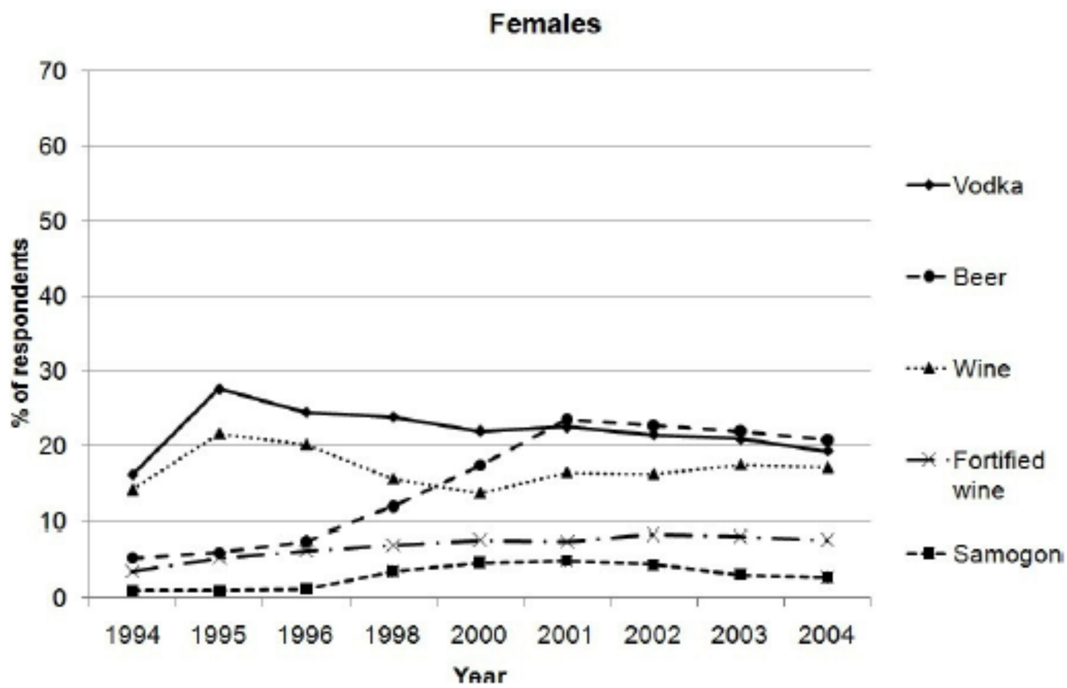

Figure 3: Percentage of Russian Women consuming alcohol beverages
(Perlman, 2010)

2.5.3. France

France has been implementing an increasing number of alcohol advertising regulations since 1949. In that year, advertising in newspapers intended for children was banned (Corniti, 1990). In 1987, a law was passed that limited the television advertising of certain alcoholic beverages. Furthermore, the law set out rules for advertisements. It required that advertisements could no longer portray well-known persons, or refer to children, sports or sex (Corniti, 1990). Thereafter, in 1991 the *Loi Evin* – the alcohol policy law – was passed, banning television advertising of alcohol, enforcing rules and controlling the message communicated in radio, press and billboard advertising (Saffer, 1991).

France's mean per capita consumption of pure alcohol in 1990 was 16.66 litres. In 2000, the figure was 13.41 litres (Nelson, 2010). However, Nelson (2010) used cross-country panel data to assess the impact of advertising regulations on alcohol demand, after which the author rejected the null hypothesis that bans on alcohol advertising do not decrease the market demand for alcohol.

2.6. Perceptions and Attitudes Towards Alcohol Regulation

According to Tobin, Moodie and Livingstone (2011), public opinion and policy have a dynamic relationship; public opinion often influences policymakers, while policy often helps to shape public opinion. The research conducted by Tobin et al. (2011) involved reviewing levels of, and trends in, public support for different alcohol controls in Australia between 1998 and 2009. The study found that Australians were very supportive of stricter controls (enforcement of licensees' compliance with legislation, inclusion of health warnings on alcohol labels, and restrictions on alcohol advertising) that targeted high-risk populations, but were less supportive of controls that restrict alcohol availability and that increase price through taxation.

Moreover, Kaskutas (1993) suggests that public support for alcohol control policies depends on whether the policy affects the entire population, or just the problematic drinkers. The greatest public support is given to those policies that are not intrusive to the moderate, social alcohol consumer (Kaskutas, 1993; Giesbrecht and Kavanagh, 1999).

On the contrary, Bongers, Van de Goor and Garretsen (1998) found that, in Rotterdam, the support for regulation of alcohol advertising and an increase in alcohol tax dropped by 10% between 1980/81 and 1994. Table 3 below

Table 3: Public Opinion on Alcohol Control Measures in 1980-81 and 1994

(Bongers et al., 1998)

	1980 - 1981				1994		
	In Favour	**Indifferent**	**Against**	***n***	**In Favour**	**Against**	***n***
In favour or against:							
Prohibition of advertising	52.1%	26.5%	21.4%	2094	40.6%	59.4%	3358
Price increase of 50 cents a glass	41.9%	24.2%	33.8%	2089	31.5%	68.5%	3346
Restriction on alcohol use in public places	77.6%	11.3%	11.1%	2107	81.1%	18.9%	3440
Raising Age Limits	61.5%	18.6%	19.9%	2080	61.7%	38.3%	3381
Reduction in number of public houses	30.4%	30.6%	39.0%	2038	29.2%	70.8%	3301
Reduction of number of shops selling alcoholic beverages	32.9%	29.4%	37.6%	2056	32.8%	67.2%	3325

2.7. Conclusion of Literature Review

It cannot be denied that alcohol abuse is a social ill that must be prevented; however, the above discussion highlights the discrepancies between different studies with regard to advertising and its effect on alcohol consumption. This is as a result of the complex decision-making processes that consumers go through in deciding whether to consume alcohol or not.

The literature also draws attention to the wide range of perceptions held by people with regard to alcohol controls. Consumers favour controls that are not intrusive; however, they understand the need for controls.

A quotation from J. S. Mill (1883) summarises the policy problem:

> "There are some things with which governments ought not to meddle and other things with which they ought; but whether right or wrong in itself, the interference must work for ill, if government, not understanding

the subject with which it meddles, meddles to bring about a result which would be mischievous."

The literature review gives rise to the following research propositions:

2.7.1. Research Proposition 1:

The alcohol market adheres to the weak theory of advertising. The market size will be unaffected by the proposed regulations on promotions.

The above proposition was based on the fact that the decision to consume alcohol is based on a combination of emotional and rational processes (Cox and Klinger, 1988). Furthermore, according to Abbey et al. (1993), personal motives and situational factors affect the decision to consume alcohol.

Moreover, the studies by Duffy (1991), Nelson and Young (2001) and Wilcox and Kyung Ok (2010) found that advertising has no or little effect on the aggregate of consumption of alcohol.

2.7.2. Research Proposition 2:

The market structure will change if promotions in mainstream media are banned. The market structure will change as follows:

a. **Consumers will move from lesser-known brands to established brands.**
b. **The market share enjoyed by the alcohol companies will not change significantly.**
c. **Promotions will change from above-the-line to below-the-line.**
d. **As a result of the new alcohol regulations, the barriers to entry into the alcohol industry will increase. The dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market.**

This proposition was based on the following studies:

1. The Hoyer and Brown (1990) study demonstrated that brand awareness has an influence on consumer choice and brand sampling. Moreover, Heimonen and Uusitalo (2009) found that strong brands are able to maintain their market share with a proportional share of advertising, while weaker brands require a greater share of advertising voice to maintain market share.
2. Eckard (1991) found that brand and firm shares were more stable after the United States banned television advertising of cigarettes and that leading brands and firm concentration that were declining before the ban were stable, or increased, after the ban. Furthermore, the author found that new brand entry in the cigarette market ceased in the first four years of the ban on television advertising. The author concluded that the ban had a negative effect on advertising within the cigarette industry.
3. In his study, Shum (2004) demonstrated that advertising might be an effective way for new brands or firms to overcome the advantage enjoyed by incumbent brands and firms.

Chapter 3: Research Methodology

3.1. Introduction

This chapter outlines the research methodology that was used in the study. It begins by describing the methodology followed by the design. Thereafter, the population and sampling is discussed. The data collection, analysis, and interpretation methods are then outlined, followed by a discussion of the reliability and validity of the research.

3.2. Research Methodology

This study used a qualitative approach to gather the appropriate data. Denzin and Lincoln (1994) define qualitative research as an interpretive, naturalistic approach. The researcher studies the subjects in a natural setting, collecting data in a number of ways, including by means of interviews, artefacts, cultural texts and focus groups. The researcher attempts to interpret and to make sense of the phenomena under review in terms of the meaning that the subjects bring to them.

This research involved investigating the proposed alcohol regulations and their perceived impact on the market size and structure within the alcohol market in South Africa. Since the proposed alcohol regulations have not yet been implemented in the country, quantitative data were not available for analysis. It can be argued that the implemented tobacco regulations are similar to the proposed alcohol regulations, due to both products having possible adverse effects on the health of individuals and communities. However, according to Shiffman and Balabanis (1995), the direction of the influence between alcohol and tobacco cannot be distinguished clearly. In other words, cross-sectional correlation studies cannot distinguish whether drinking alcohol increases smoking, or whether smoking increases the consumption of alcohol. Therefore, it was important to collect separate data for this research, due to the lack in evidence supporting whether the impact of the tobacco regulations was able to predict the impact of the proposed alcohol regulations. Due to the concepts of this research being exploratory, a qualitative approach was best suited to this research topic.

The data was collected using semi-structured interviews with respondents. Face-to-face interviews were conducted in order to draw together the respondent's personal views and experiences around the topic concerned.

3.3. Research Design

This exploratory research was a cross-sectional study that used an interpretivist paradigm. As was previously mentioned, quantitative data were not available for analysis and, due to the exploratory nature of the topic, semi-structured interviews were best suited to gathering data for the study. In addition, an interpretivist view was adopted, as it is important to understand that social behaviour is dependent on how people define and interpret the social situations in which they find themselves. Furthermore, the research examined the subject's views at a point in time; the answers to the interviews were context-bound and will not be applicable to all, at all times, and in all situations.

3.4. Population and Sample

The population and sample greatly affect the generalisability of the research (Flick, 2005). This research examined the effect of the proposed regulations on all the categories of alcoholic beverages in the market. As a result, generalisability was an important factor in determining the population and sample for the study.

3.4.1. Population

The population was drawn from all persons who are, or were, involved in the tobacco and alcohol industries within South Africa in some form or the other. The population included people who work, or worked, for a manufacturing company and their respective marketing and advertising partners. Moreover, marketing analysts and advertising regulators were included in the population.

3.4.2. Sample and Sampling Method

A purposive sampling technique was used to determine the sample for the research. Purposive sampling is a technique that uses predetermined criteria relevant to the research problem to select individuals (Marshall, 1996).

Specifically, expert sampling was used. Experts from the population were approached. These persons were, or had been, involved in alcohol and/or tobacco marketing communications and/or company strategy formulation.

Experts were used in the study due to the fact that consumers of tobacco and alcohol products lack the required information in order to make sound judgements concerning proposed regulations in the alcohol industry. All persons in the country are equally exposed to the mainstream advertising of alcohol and to the lack of mainstream advertising of tobacco. In contrast, experts have the information required for reflecting, articulating and rendering opinions that are valid and authentic.

Experts were selected from organisations and companies operating within the country. The respondents were at senior management level or were industry leaders in the advertising and marketing field. These individuals were asked to recommend other experts in the field. Due to the highly competitive nature of the alcohol industry, the individuals who participated in the study asked to remain anonymous.

Sixteen individuals were approached and eleven were finally interviewed. The companies and organisations that participated in the study included Ogilvy South Africa, SABMiller, Brandhouse, De Garve Microbrewery and ARA.

3.5. Research Instrument

Semi-structured interviews were conducted with the identified sample. The interview agenda is provided in Appendix A. The agenda was formulated using information obtained from the literature review and contained a series of open-ended questions. The inclusion of such questions helped to ensure that all the propositions were examined during the interview process. Furthermore, the consistent use of the interview guide increased the comparability of the data collected (Flick, 2005).

The first part of the interview guide was designed to establish the respondents' knowledge of the proposed policies, of the advertising theory and of the factors that influence consumption. The second set of questions related to the effect of the ban on promotions on market size. The last set of questions provided insight into how the market structure would be perceived to change, post the implementation of the ban on mass media marketing on alcoholic beverages.

3.6. Data Collection

Figure 3 below illustrates the data collection procedure.

Figure 4: Data Collection Procedure

All the interviews, which were conducted between November 2011 and February 2012, took the form of face-to-face interviews. The short timeframe involved ensured that the participants were not exposed to external influences, thus increasing the reliability of the data. The first two interviews were used as a pilot study in order to refine the interview agenda. Thereafter, potential participants were contacted and those who consented to the interview were interviewed. Each interview was transcribed and points that were unclear were verified with the participant concerned.

3.7. Data Analysis and Interpretation

The transcriptions were analysed using the 'Directed Content Analysis' method, as described by Hsieh and Shannon (2005). Existing theory was used and the research propositions, predetermined concepts and variables were selected. The variables concerned formed the basis of the coding structure that was used in the coding step. The transcript data was categorised into the predetermined variables. Any text that could not be categorised using the predetermined variables was assigned a new variable (Hsieh and Shannon, 2005).

3.8. Limitations of the Study

The biggest limitation to the study is that the findings obtained might not be transferable to a bigger population. This is due to the small sample size in comparison to the size of the overall population. In addition, the study was cross-sectional, with data being collected at a certain point in time. This meant that the conclusions would only be applicable for the specific data collected. Using the conclusions to predict future behaviour must be done with caution, due to the fact that people's situations change.

3.9. Validity and Reliability

3.9.1. Validity

The sampling procedure and the data capturing method used was followed with rigour in order to ensure the external validity of the study. The sample consisted of a broad, diverse set of individuals. This improved the transferability of the research. Furthermore, the data was captured over a period of two months, thus ensuring that the respondents were not exposed to vastly different stimuli that could have greatly affected their responses and the corresponding data.

Accurate data capturing and an unbiased analysis improved the internal validity of the research.

3.9.2. *Reliability*

Reliability is concerned with the degree to which the results and conclusions of a particular study can be reproduced if conducted in the same manner. In other words, reliability describes whether a particular test, tool or procedure will produce similar results in different circumstances, provided that nothing else has changed (Roberts, Priest and Traynor, 2006). In order to ensure the reliability of the study, the data was collected and analysed concurrently. During the analysis of the data, the reliability of the interpretation was checked against other passages in the same transcript. Furthermore, follow-up questions were used during or after the interview if an idea was not understood or more clarification was required. Lewis (2009) suggested that varying the observations by changing the locations and the times at which the interviews were conducted will improve the replicability of the research.

Chapter 4: Presentation of Results

4.1. Introduction

This chapter presents the results and findings of the semi-structured interviews conducted, as they relate to both research propositions. The results presented were calculated from a total of 11 respondents.

4.2. Research Proposition 1

The alcohol market adheres to the weak theory of advertising. The market size will be unaffected by the proposed regulations on promotions.

This proposition was founded on the fact that the decision to consume alcohol is based on a combination of emotional and rational processes, personal motives and situational factors. In addition, studies, conducted in countries where advertising was banned, found little or no evidence to support the claim that advertising increases total alcohol consumption (Duffy, 1991; Nelson and Young, 2001; Nelson, 2010; Wilcox and Kyung Ok, 2010).

The first part of the interview guide was designed to establish the respondents' knowledge of the proposed policies, advertising theory and the factors that influence consumption.

4.2.1. Factors that influence the choice to consume or purchase alcohol

Eight of the eleven respondents said that childhood experiences lead to either responsible or irresponsible drinking behaviour. Seven of the eleven respondents believed that the socio-economic circumstances surrounding the individual lead to the misuse or abuse of alcohol.

With regard to the factors that influence the choice to consume or purchase alcohol, two main themes emerged:

- *Childhood experiences are greater influences of alcohol consumption that advertising.*
- *Socio-economic issues contribute to alcohol abuse and misuse more than alcohol advertising.*

Tables 4 and 5 below document the responses related to the reasons and factors that influence the choice to consume or to purchase alcohol.

Table 4: The influence of childhood experiences on alcohol consumption

Childhood experiences are greater influences of alcohol consumption that advertising.
• I think a child's first experience of alcohol is their parents' consumption of alcohol not through an outdoor billboard or a television ad. That's were the fundamental learning structure comes from and is originally formed – what alcohol means or what constitutes alcohol and where alcohol comes from. • … strictly advertising didn't convince me that I wanted a beer when I was 16 years. Seeing my father drink a beer around the fire with his friends - that convinced me that I wanted a beer. • That's why the One More campaign we run is simply trying to demonstrate to parents how important their role is in engaging with their kids and secondly in setting an example. That's the real impact. • I think it's the approach to alcohol that you have at home. I know that growing up when I was 12/13 my parents would pour a little bit of wine and there would pour soda water and I would have it with a meal. So alcohol was not something that you drank to get drunk; it was a social lubricant. • true alcoholism there is some genetic disposition there but risky drinkers learn it from their parents. • Male role models in this society are the single biggest problem we face. • Young boys always get to a crossroads, they come to a fork in the road and it's the ones that have grown up with the skills about which is the right choice to make about which road I take are the ones who take the correct road. But if you haven't had that instilled in you by watching and growing up around other

men who display that behaviour. • I came from a home where alcohol was readily available from 14. It was my parents approach was we will introduce you to alcohol so that you are doing it in front of us opposed to thinking that it is some illicit thing that you need to go and hide behind school to do and stuff. • Studies have shown that parental influence is the biggest influence that will result in whether a child will drink or not. And people's attitudes towards alcohol. • I also wanted to be part of the group. So that's you know one of the main reasons - alcohol is legal and you can get a kick out of alcohol.

Table 5: The effect of socio-economic issues

Socio-economic issues contribute to alcohol abuse and misuse more than alcohol advertising
• Alcohol abuse is related to a number of social economic issues, there's a level of escapism in it and I think that simply making alcohol less visible from an advertising perspective won't – it's not doing anything to alleviate the fundamental issue at play. It's like treating the symptom rather than the disease. There is a disease at play, which needs to be sorted. Not to say that treating the symptom can't have an effect, but actually both need to be tackled. • Alcohol abuse in SA is a major problem. There is absolutely no doubt about it. The underlying causes of alcohol abuse and misuse are poverty, lack of education, skills, no jobs, and sense of hopelessness. That is what really drives it. • I spoke to who is an alcoholic - he said that he couldn't understand the stupidity around advertising. He said "I never drank because of advertising; I am an alcoholic. I drank because I wanted to drink". • I think the abuse of alcohol - the reasons for the abuse of alcohol are a lot deeper; they have to do with poverty; they have to do with socio-economic; so there are bigger social issues. • If you look at the foetal alcohol syndrome, that's not driven through advertising. There are socio-economic issues.

4.2.2. The effect of advertising on the choice to consume or purchase alcohol

All the participants expressed a belief that advertising is not one of the factors that influences the choice to consume or to purchase alcohol. The analysis gave rise to the theme: *Advertising does not affect the decision to consume or purchase alcohol.* Table 6 below tabulates the responses obtained.

Table 6: Responses to whether advertising has an effect on the choice to consume or purchase alcohol.

Advertising does not affect the decision to consume or purchase alcohol.
• …and it has been borne out of several other markets – that simply banning advertising wouldn't take away the need or want or desire to consume alcohol. • If they ban advertising tomorrow I don't think you will see a dip in alcohol consumption unless there is a fundamental shift in the global view on alcohol like there was in cigarettes. • The majority of alcohol consumed in the world today is not advertised globally… The amount of ethanol alcohol swallowed - the majority of it - over 50% is not advertised - it is local alcohols, which are not advertised at all. • I personally don't believe that by banning advertising of alcohol there will be a reduction in abuse of alcohol. • Everybody who has walked into that outlet made the decision to go into an outlet whose purpose in life is selling an alcoholic beverage. • So in all honesty I don't think that unless we do lots of the other reasons behind why people abuse and misuse alcohol, that advertising is necessarily going to change the way in which South African's drink. • If you look at the abuse in the winelands, they are not getting exposure to advertising; they are getting the exposure to what they see other people doing. And that's not true advertising.

4.2.3. The effect of advertising on total consumption

Nine respondents believed that a ban on above-the-line advertising would not affect market size or total consumption of alcohol. Two respondents believed that total consumption will fall slightly due to the lack of awareness.

Two themes surfaced from the analysis with regard to the effect of the ban on total consumption and market size:

- *A ban on above-the-line advertising would not affect market size or total consumption of alcohol*
- *Alcohol advertising does not play a role in recruiting non-drinkers.*

Table 7: The effect of a ban on above-the-line advertising

A ban on above-the-line advertising would not affect market size or total consumption of alcohol
• If alcohol advertising, liquor advertising was so powerful that it could make people drink, then you have to ask the question why the majority of South Africans 55+ do not touch alcohol. • There's no correlation between advertising and sales unless there is a very retail orientated message. So if you say "Go to Spar Tops because you can get 6 pack for this price" then there will be a direct impact. • I don't think it’s going to do anything to market size. • If it [advertising] wasn't there, it might determine brand choice but I don't think it will determine consumption. • What will happen is that the market size won't change. But will change is the competition within the market - competition will be dramatically reduced - between the brands. In economics terms, you will have effectively cooled off or reduced inter brand competition. • I don't think it's trying to increase consumption. We are trying to say if you want to buy alcohol from PnP then we offer a store next to it that you can come and buy alcohol. We are not - obviously we would like you to purchase more - but we are not particularly driving at individual consumption. • Purely based if we are speaking just if advertising would stop tomorrow. I don't

think it would have an effect [on total market size]. • To be honest, most of the evidence we have seen globally is that the market size will not going to be affected by the reduction in advertising. It's proven in quite a few case studies that it won't necessary reduce alcohol consumption. • You see what happens now; you might see a swing from on-consumption to off-consumption. So people buy and drink at home. It's not that they are drinking any less.

Table 8: Alcohol advertising's role in the recruitment of new consumers

Alcohol advertising does not play a role in recruiting non-drinkers
• Our advertising has never really been conceptualized or developed with an eye to turning someone or making someone who doesn't drink or turning someone who is a non-drinker into a consumer. • So again you are talking to people who are already in a shebeen or in a tavern who are already drinking beer. So you are not talking to anyone who isn't currently consuming. • I don't think that advertising plays a role in recruiting new consumers. • I wouldn't necessarily target non-drinkers; I would try and take drinkers from my competitors. so what you would do is advertise ATL so that people are aware of it but you'd have to do a lot of sampling and trial. • We are not catering for the non-drinker - someone who hasn't consumed alcohol. Those are not the people that we are targeting. • I don't think they are forcing anybody. They are just making you aware of the brands in their portfolio. The retailers would just offer you a destination. • I don't think it's trying to increase consumption. We are trying to say if you want to buy alcohol from PnP then we offer a store next to it that you can come and buy alcohol. We are not - obviously we would like you to purchase more - but we are not particularly driving at individual consumption.

4.2.4. Summary of the results

A number of themes emerged with regard to the effect of the proposed regulations on the market size and total alcohol consumption in the country.

- *Childhood experiences are greater influences of alcohol consumption that advertising.*
- *Socio-economic issues contribute to alcohol abuse and misuse more than alcohol advertising.*
- *Advertising does not affect the decision to consume or purchase alcohol.*
- *A ban on above-the-line advertising would not affect market size or total consumption of alcohol*
- *Alcohol advertising does not play a role in recruiting non-drinkers.*

4.3. Research Proposition 2

The market structure will change if promotions in mainstream media are banned. The market structure will change as follows:

a. **Consumers will move from lesser-known brands to established brands.**
b. **The market share enjoyed by the alcohol companies will not change significantly.**
c. **Promotions will change from above-the-line to below-the-line.**
d. **As a result of the new alcohol regulations, the barriers to entry into the alcohol industry will increase. The dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market.**

The latter part of the interview guide was designed to elicit responses related to whether a ban on advertising and promotions in the alcohol industry would affect the market structure and the market size.

A number of themes surfaced during the interviews. The responses are tabulated below as they relate to each theme. The themes are:

4.3.1. Factors determining consumer brand choice and market share

All the respondents agreed that the main purpose of alcohol advertising is brand awareness and growing brand equity. The themes that surfaced are:

- *Alcohol advertising helps fight for market share.*
- *The main purpose of alcohol advertising is brand awareness and growing brand equity.*
- *Consumers are brand loyal and there will be no homogenisation of brands.*

Table 9: Advertising helps fight for market share

Advertising helps fight for market share
• What we really fighting for is – we fighting for a little bit of share that the other guy has and we are trying to make our brand a little more attractive than the other brands. • I think what it does is that it builds an infinity towards one brand or another. • You want the person who's made a decision this evening to have a beer to drink a Castle rather than an Amstel. • What I believe advertising does is that it creates a stronger relationship between you and your consumers; it deepens your loyalty between you and your consumers. It might bring people over that have been on the fence and not too sure about this brand. • Because it is about winning your share of the market. • It doesn't affect the overall consumption but what it does do is that advertising affects which brands wins which markets or categories. So beer over wine etc. • But will change is the competition within the market - competition will be dramatically reduced - between the brands. In economics terms, you will have effectively cooled off or reduced inter brand competition. • The purpose of it is so that people can choose a brand. It's about brand choice. You drink Castle? We want you to drink MGD because... even between the brands; our brands compete with each other and to compete with the competitor. It really boils down to brand choice and that's why we advertise. • It's to promote products. But I mean thinking about what we see on TV and sports its SA breweries, Heineken and who else... brandy and whisky. Apart from that you don't see anything else. And those are established brands. So it's to promote the product. • Obviously for brand strength. There are two different ways. If you look at suppliers they advertise to drive their brands. Then you have the second type of advertisers: the retailers who drive you to buy the alcohol at the stores. • I don't think it's trying to increase consumption. We are trying to say if you want to buy alcohol from PnP then we offer a store next to it that you can come and buy alcohol. We are not - obviously we would like you to purchase more - but we are not particularly driving at individual consumption

Table 10: Responses to what is the main purpose of alcohol advertising

Advertising, brand awareness and brand equity
• But what I think, it [advertising] fundamentally builds a set of – it attempts to build a set of values into a brand – a set of values or an understanding of what that brand represents – what that brand stands for around perceptions, around memories. • So I think what we are starting to see is far clearer thinking around what each brand is and what each brand represents. • In a way people think that if its on TV it must be good. If it can afford a TV ad, it must be kosher. If its something that you kind of see on shelf you've never seen before, there's all these things that run through your mind. A brand and a big brand feel reassures people about their choices. • But will change is the competition within the market - competition will be dramatically reduced - between the brands. In economics terms, you will have effectively cooled off or reduced inter brand competition. • What will happen is that if you ban advertising is that people are going to walk into those outlets and are going to buy the brand that they know. The contestation for the consumers' loyalty would have been eliminated. • A lot of it has to do with association with the brand, particularly on liquor. A lot of it is status. It's a lot to do with the occasion. You will find loyalty to brands. What ever occasion you might be in and your repertoire of brands would choose that. Price still plays an important role. • There's two parts to it. There's the equity. And equity if you don't push it, it will erode over time. That means that you will touch onto a smaller brand. But at the same time, the strong guys will survive because they are strong right now. But over a 2/3-year period, you will not remember that 3 years ago X was a dude master. • Possibly people would be less inclined to be with them all the time, because it erodes equity and they might try a lesser brand. So on one hand it will help the big guys because they are already established. But in time if they don't look after their equity, you will find people moving to lesser brands.

Table 11: Responses to what is the main purpose of alcohol advertising

Movement from a mainstream brand to a lesser-known brand
• I think that brands play a very definite very specific role in people's lives and people will gravitate and orientate themselves around the brands that are relevant at any one given time. I don't think that by removing the above-the-line aspect of advertising that there would be a homogenisation of brands that will all slowly start to collapse in some way or the other.

4.3.2. Changes in market share as a result of a ban on above-the-line advertising

According to the respondents, the market share enjoyed by the different alcohol companies in the country will not change significantly if above-the-line advertising is banned. The main theme is:

- *The market share of the different alcohol companies will not change significantly.*

Table 12: Effect of a ban on above the line alcohol advertising on competition

The market share of the different alcohol companies will not change significantly
• I think we will lose consumers with the smaller brands. People that have ... I think the smaller brands are going to be affected because the others are established and have been punted already but like new brands into the market and I think the smaller brands will suffer a bit. • If you ban alcohol advertising, the first thing that will happen is that you will freeze market shares. That's also just logical. If there is no way to tell the potential consumer that there are different brands, they will stick to what they know. So that's point one. It would benefit SAB - it would lock in the 85. • There's a ban - people will stick with their own things. • I think that the fact that you don't advertise and everyone doesn't advertise means that people will stay more with the brands that they already know. So it will be a lot more difficult for new brands to come in. And what will end up

happening is that we'll get a more loyal consumer.

- They won't actually shift brands. What you will find is that their loyalty will stay with what they know.
- So that's why I say you'll get that initial dip because people will forget about it for the time being and then they'll say where's my beer.
- They would stick to what they know. So if you are a Grolsch drinker you will continue to drink Grolsch. If you are a Castle drinker you will continue to drink Castle. You might depending on the day you walk into the store see a big ice cold Amstel and think that "I haven't had an ice-cold Amstel in a while and that's a good price". So it generally it freezes market share.
- People naturally choose brands that they know.
- Tobacco industry what happened as a consequence of the advertising ban was not that people suddenly stopped smoking, or that young people didn't experiment with smoking. That all carried on. Yes, there is a more general health movement - so the overall rate of smoking was reduced. What did happen was that the big brands - their market share got locked in.
- So if you are no longer allowed to advertise on TV, you'll find something else. Company, which is the most creative will most probably, gets the market share eventually.
- Even in downturns, we haven't seen a major shift towards cheaper brands in the market. People tend to if anything they go with the tried and trusted. They don't experiment as much. There's also prestige in terms of brands as well.

4.3.3. Advertising spend within the industry

It was unanimously agreed that the advertising spend would move from the above-the-line space to the below-the-line space. The main theme is:

- *Advertising spend will move from above-the-line to below-the-line space.*

Table 13: Effect of the ban on advertising spend

Advertising spend will move from above-the-line to below-the-line space.
• So I'd imagine that the shift would move far more from a broad based awareness model which advertising does to a far more one-on-one engagement model within the environments that people are actually consuming alcohol. • The war for alcohol brands is happening in trade, in bottle stores, it's happening in distributors, in shebeens, in taverns, in counter serves, in people's homes. • So while it may seem that a lot of advertising is on TV and a lot of visibility in print and even sponsorships. But the majority - if you go into a tavern tomorrow you will see a lot of branding and a lot of promotions that cost money. Particularly in any one street 2 or 3 taverns - a lot of promotions and branding - and that's one street - it doesn't take into account the rest of Johannesburg, Durban, cape town, PE • What would be very important to a smaller player would be an approach that the craft brewers have taken which is around visibility and presence in the kind of environments. • The only way to reach your consumer is to be in store. • I think below the line; I think direct marketing, experiences. • But I know they [the tobacco industry] did far more expense way of advertising where it was face-to-face marketing and having to go out there and meet the people and talk to the people directly. But you need money to do that sort of thing. So if you are starting off as a small guy, how may people can you physically go and meet?

4.3.4. Factors determining competition within the industry

There were conflicting views regarding the effect of a ban on advertising on competition within the industry and between brands. Two themes emerged:

- *The effect on competition will depend on the company's/brand's target market.*
    - *Competition in niche markets will remain the same.*
    - *Competition in mainstream markets will be reduced.*
- *Innovation will be hindered and there will be no new entrants into the market.*

Table 14: The effect of a ban on above-the-line alcohol advertising on competition

The effect on competition will depend on the company's/brand's target market.
• I think there is something in exclusivity. There is a sector of people who do not want to drink what everyone else is drinking. So there will always be a place for new exciting entrants into the market. • I think you will always have new brands and new brands that are coming in as part of the company. • There will be no new products and some of the craft breweries will still survive. • But many of the very tiny wine farms; they are already in trouble so it's not going to be easy for them to survive. Because there is no way to get people to try your brand. The other impact will be BEE - no new entrants into the market. • I think the competition with the better distribution, the better sales force, the better in store executions will win. No longer can you create desire on TV and get people to switch brands by just being available. I think the companies with the better execution will win. • I think they will still have their niches. I don't think they will become like really big players. I don't think you'll read stories about a craft beer become a 10% brand in the beer market. I suppose they will stay as they are. • So I don't think a small wine producer would ever have the opportunity to do that. They will be able to go on newspapers; they will be able to go on radio. So their growth will definitely be neglected. • What will happen is that the market size won't change. But will change is the

competition within the market - competition will be dramatically reduced - between the brands. In economics terms, you will have effectively cooled off or reduced inter brand competition.
• This industry is very concentrated already; but what you will find is that the opportunity a small guy has today to grow into something is lost.
• I think we will lose consumers with the smaller brands. People that have ... I think the smaller brands are going to be affected because the others are established and have been punted already but like new brands into the market and I think the smaller brands will suffer a bit.
• So if you are starting off as a small guy, how may people can you physically go and meet?
• Take an example, Draymans. They are about ten fifteen times the size of my brewery and are still a microbrewery. You don't see them on TV; you don't hear them on the radio. You don't see them advertising in the papers. They advertise the way that I do - the website, through personal contacts, festivals. Its a totally different league; totally different production.
• SAB smaller brands and anybody who is a small brand in the SAB portfolio. It's going to be hard to crack into the markets if you aren't able to use advertising. Probably the smaller guy would feel the pain.
• Ultimately you will find that the bigger will get stronger. The strong brands will remain strong.
• I think the smaller guys would definitely suffer. Difficult to do new entries as well.

Table 15: The effect of a ban on above-the-line alcohol advertising on innovation and new market entrants

The effect on innovation and new market entrants
• The challenge for new entrants into the market if the alcohol regulation doesn't allow above-the-line advertising, it means that they won't be able to get that awareness.
• So think about it from the point of view that it will be much more difficult for us; it will kill innovation. Innovation is important; lower alcohol products; safer products.
• You will be protecting SAB's dominant position in the market. You will effectively be locking out the opportunity for any new entrants to come in... No new entrants. There are still brewers out there internationally who are not present within this

market. They will not come here is they can't advertise.

- And by creating a dark market you aren't going to get any new role players into the industry because in order to kick off you are going to need to advertise your brand. So the small boys that are going to suffer the most.
- I think the smaller guys would definitely suffer. Difficult to do new entries as well.

4.3.5. Summary of results

The ban on above-the-line advertising will greatly affect the structure of the alcohol market. The apparent themes from the analysis are:

- *Alcohol advertising helps fight for market share.*
- *The main purpose of alcohol advertising is brand awareness and growing brand equity.*
- *Consumers are brand loyal and there will be no homogenisation of brands.*
- *The market share of the different alcohol companies will not change significantly.*
- *Advertising spend will move from above-the-line to below-the-line space.*
- *The effect on competition will depend on the company's/brand's target market.*
    - *Competition in niche markets will remain the same.*
    - *Competition in mainstream markets will be reduced.*
- *Innovation will be hindered and there will be no new entrants into the market.*

Chapter 5: Discussion of Results

5.1. Introduction

This chapter discusses the results that materialised from the interviews with the various respondents. The results were calculated from a total of 11 respondents who participated in the interview process.

5.2. The Effect of the Proposed Regulations on Market Size

All the respondents firmly believed that a ban on above-the-line alcohol advertisements would not have an effect on the market size or on total consumption of alcohol. The respondents believed that the purpose of alcohol advertising is not recruitment. In other words, alcohol advertising does not aim to convert non-drinkers to drinkers; the purpose of advertising is to build brand awareness amongst those who have already chosen to consume alcohol. Consequently, the lack of advertising would not affect the decision to consume and, in so doing, leave market size unaffected.

Krugman (1965) concluded that, when consumers are faced with a buying decision, they remember the name or idea of a product, and then purchase the product. However, future purchases depend on whether the experience with the product was favourable or not. Figure 5 below illustrates the three behavioural dimensions that a consumer experiences when faced with a buying decision in the low-involvement hierarchy model.

Figure 5: Low-Involvement Hierarchy Model

A ban on advertising would directly affect the cognitive step in the process. Consumers will not be privy to the information about the products or brands available on the alcohol market. According to the low-involvement hierarchy model, the consumer will then purchase the product or brand he or she has already tried and which has provided the best experience.

In addition to the opinion that alcohol advertisements do not turn non-drinkers into drinkers, the majority of the respondents believed that the decision to consume alcohol stems from the experiences that an individual has had with alcohol during childhood. Chen et al. (2011) and Clark et al. (2011) highlighted the significant role of family drinking behaviour and beliefs on an individual's propensity to consume alcohol. One of the participants said, "A child's first experience of alcohol is their parents' consumption of alcohol, not through an outdoor billboard or a television ad. That's where the fundamental learning structure comes from and is originally formed – what alcohol means or what constitutes alcohol and where alcohol comes from."

In explaining their opinion that alcohol abuse is impervious to alcohol advertising, the respondents mentioned the effect of the socio-economic circumstances surrounding the individual. They believed that poverty, lack of education and unemployment predisposed individuals to adverse drinking behaviours. This idea is supported by research conducted by Khan et al. (2002) and Mossakowski (2008). The studies showed that the likelihood of alcohol abuse increased with increased levels of poverty and prolonged unemployment.

The results of the interviews were found to be consistent with the research. It can be concluded that a ban on above-the-line advertising will not affect the alcohol beverage market size in South Africa.

5.3. The Effect of the Proposed Regulations on the Market Structure

5.3.1. The effect of the proposed regulations on market share

An understanding of the role of advertising is important when predicting the movement and changes in market share. As mentioned previously, all the respondents believed that the role of advertising is to build brand equity and brand awareness. According to one of the participants, "it [advertising] fundamentally builds a set of … values into a brand – a set of values or an understanding of what that brand represents – what that brand stands for around perceptions, around memories".

Consequently, the consensus amongst the participants was that the market share of the different companies and brands would remain as it was at the time of the report. The main reason given is that if there is no way of communicating and of telling the consumer about what is available on the market and of what the brand represents; the consumer will purchase the brands and products that they understand and know. The respondent from Ogilvy South Africa felt that consumers would not move from lesser-known brands to the mainstream brands. Furthermore, "brands play a very definite [and] very specific role in people's lives and people will gravitate and orientate themselves around the brands that are relevant at any one given time." In addition, the respondent did not believe that "by removing the above-the-line aspect of advertising that there would be a homogenisation of brands that will all slowly start to collapse in some way or the other".

However, two respondents felt that the brands would experience a slight fall in their respective market shares in the short term (six to eight months). They believed that, without the constant reminder of the brand through mainstream advertising, the consumer loses interest and becomes less aware of the brand. As a result, the consumer will not make regular purchases. He or she will, however, make the purchase when he or she is reminded of the brand by peers or by the immediate experience.

The two respondents also indicated that the drop in market share would be temporary, and that, in the long term, market share amongst the brands would normalise once more.

In contrast, in their study, Heimonen and Uusitalo (2009) found that advertising did not impact the market share of the respective Finnish beer brands proportionately. The results showed that strong brands benefited from the advertising spend of weaker brands. Strong brands were able to maintain their market share with a proportional share of advertising, while weaker brands required a greater share of advertising voice to maintain market share.

Kent and Allen (1994) found that consumers tend to remember new product information better in regard to well-known familiar brands. If the same holds true for South African consumers, it can be predicted that the market share of the well-known familiar brands will not change significantly post a ban on promotions and above-the-line advertising of alcoholic beverages.

5.3.2. The effect of the proposed regulations on competition in the market

The respondents were not in agreement regarding the effect of a ban on advertising and promotions on competition in the alcohol industry. The respondent from Ogilvy South Africa believed that “there is something in exclusivity” and that “there is a sector of people who do not want to drink what everyone else is drinking, so there will always be a place for new exciting entrants into the market”. The important factor would be the approach used by the new entrant or the smaller firm in communicating the product information to its target consumers. This sentiment was also shared by the participant from De Garve Brewery, a microbrewery in the south of Johannesburg. The participant believed that the microbrewery sector is a very different field and that the ban on advertising would not affect the way in which the sector markets its products. Microbreweries do not currently advertise on television, on the radio or in the print media. Instead, they make use of word-of-mouth advertising and social media. As a result, the niche market concerned will not be affected by the ban on promotions on alcoholic beverages.

In contrast, other respondents believed that all the smaller players in the alcohol market would dramatically lose market share and would eventually have to shut down their operations. They felt that the opportunity for the small business owner to grow would be lost, due to the fact that the business could not advertise and let potential customers know what is on offer. Furthermore, the dominant players in the market would lock in their market shares, thus preventing small businesses from switching consumers from the dominant brands to their lesser-known brands.

According to Shum (2004), advertising plays a role in encouraging switching behaviour and in persuading consumers to try brands that they have not recently tried. Eckard (1991) concluded that the ban on television advertising in the cigarette industry had a negative effect on competition within the cigarette industry.

5.4. Conclusion

In conclusion, the market size and the market structure are likely to be affected by a ban on above-the-line advertising on alcoholic beverages. All the respondents believed that total alcohol consumption – market size – would not be affected by the ban.

However, the opinion regarding the changes in market structure varied amongst the respondents, with some believing that it would change, while others thought otherwise.

Chapter 6: Conclusions and Recommendations

6.1. Introduction

This chapter will summarise the findings and conclusions of the research. In addition, the literature will be referenced to illustrate differences or similarities in the findings. Thereafter, recommendations and suggestions for future research will be presented.

6.2. Conclusions to Proposition 1

The alcohol market adheres to the weak theory of advertising. The market size will be unaffected by the proposed regulations on promotions.

The results of the interviews are consistent with the research. All the participants of the research expressed the view that total alcohol consumption will neither increase nor decrease if a ban on mainstream advertising is ratified.

The main reason for the result obtained was based on the belief that alcohol advertising does not aim to convert non-drinkers to drinkers; the purpose of advertising is to build brand awareness amongst those who have already chosen to consume alcohol. Consequently, the lack of advertising would not affect the decision to consume and, as a result, in so doing, would leave market size unaffected.

Consequently, we **accept** the proposition that the alcohol market adheres to the weak theory of advertising, and that the market size will be unaffected by the proposed regulations on promotions.

6.3. Conclusions to Proposition 2

The market structure will change if promotions in mainstream media are banned. The market structure will change as follows:

a. **Consumers will move from lesser-known brands to established brands.**
b. **The market share enjoyed by the alcohol companies will not change significantly.**
c. **Promotions will change from above-the-line to below-the-line.**
d. **As a result of the new alcohol regulations, the barriers to entry into the alcohol industry will increase. The dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market.**

6.3.1. Consumers will move from lesser-known brands to established brands.

The consensus amongst the participants was that consumers would consume the brand that they understand and know. In the absence of advertising, consumers lack the opportunity to learn about what is on the market, and as a result, they would purchase what is familiar and understood. However, the Kent and Allen (1994) study found that consumers tend to remember better new product information for well-known familiar brands.

In their study, Heimonen and Uusitalo (2009) mention the fact that strong brands were able to maintain their market share with a proportional share of advertising, while weaker brands required a greater share of advertising voice to maintain their market share.

The findings from previous studies and the responses from the participants do not lead to a definite answer as to whether consumers would gravitate towards well-known brands. Therefore, we **partially accept** the proposition that consumers will move from lesser-known brands to established brands.

6.3.2. The market share enjoyed by the alcohol companies will not change significantly.

Regarding whether market share would change significantly, the respondents were of the same mind. The market share of the different companies and brands would remain as it is currently. The main reason given for the above was that, if there is no way of communicating and of telling the consumer about what is available and of what the brand represents, the consumer will purchase the brands and products that they understand and know.

According to Shum (2004), advertising plays a role in encouraging switching behaviour and in persuading consumers to try brands they have not tried recently. Heimonen and Uusitalo (2009) found that advertising did not impact the market share of the respective Finnish beer brands.

Therefore, we **accept** the proposition that the market share amongst the various alcohol brands will not change significantly.

6.3.3. Promotions will change from above-the-line to below-the-line.

The law will dictate what is allowed with regard to advertising on television, radio, in the print media and outdoors. If the proposal to ban mainstream advertising is accepted, companies will be forced to move into the below-the-line advertising space. The participants were in agreement with one respondent indicating, "the shift would move far more from a broad based awareness model, which advertising does, to a far more one-on-one engagement model within the environments that people are actually consuming alcohol".

We **accept** the proposition that promotions will move from above-the-line to below-the-line.

6.3.4. The barriers to entry into the alcohol market will increase.

According to Shum (2004), advertising plays a role in encouraging switching behaviour and in persuading consumers to try brands that they have not recently tried. Eckard (1991) concluded that the ban on television advertising in the cigarette industry had a negative effect on competition within the cigarette industry.

There were conflicting views regarding the effect of a ban on advertising on competition within the industry and between brands.

The majority of the participants held the belief that the smaller players in the alcohol market would dramatically lose market share and would eventually shut down their operations. They felt that the opportunity for the small business owner to grow would be lost, due to the fact that the business could not advertise and let potential customers know what is on offer. Furthermore, the dominant players in the market would lock in their market shares, thus preventing small businesses from switching consumers from the dominant brands to their lesser-known brands.

In contrast, a few participants shared the sentiment that competition will not be greatly affected by the ban on above-the-line advertising. The market share enjoyed by niche products would be left unchanged.

Therefore, we neither accept nor reject the proposition that the dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market. The study, in this regard, was **inconclusive.**

6.4. Summary

Table 16 below summarises the conclusions of the study.

Table 16: Summary of conclusions of the study

The alcohol market adheres to the weak theory of advertising, and that the market size will be unaffected by the proposed regulations on promotions.	**Accept**
Consumers will move from lesser-known brands to established brands.	**Partially Accept**
The market share amongst the various alcohol brands will not change significantly.	**Accept**
Promotions will move from above-the-line to below-the-line.	**Accept**
The dominance of the big players in the industry will continue, while new entrants (brands and/or companies) will find it difficult to enter the market.	**Inconclusive**

6.5. Recommendations

Alcohol abuse is a major problem in South Africa and across the world. It diminishes mental capital, as well as places heavy financial and social burdens on the state and the affected communities. It is, therefore, vitally important that irresponsible alcohol consumption be curbed. However, the current study assessed the effectiveness of the proposed regulations on reducing alcohol consumption in the country and it found that the alcohol market size would not diminish if mainstream advertising were banned.

Therefore, it is recommended that other approaches be explored to curb the abuse and misuse of alcohol. For example, the 'One More' campaign run by the ARA puts the spotlight on the effects of irresponsible alcohol use on families. The campaign flighted advertisements on television demonstrating how parents' behaviour plays an important role in influencing their children's environment and growth (ARA, 2012).

The organisation South Africans Against Drunk Driving (SADD) is a non-profit, project-based organisation that works in schools and universities around the country, educating people about the adverse effects of drunk driving. In addition, they work with the authorities to enforce the laws governing drunk driving (SADD, 2012).

Also, it is imperative that the government alleviate the negative socio-economic conditions surrounding those at risk for substance abuse. Poverty, unemployment and a lack of education often lead to substance abuse.

The effect of the ban on above-the-line advertising on alcohol companies cannot be underestimated. Companies must begin by understanding their target markets and their consumers. In addition, companies must find innovative ways to tell their brand stories and build brand awareness.

6.6. Suggestions for further research

This study was exploratory in nature and follow-up research is needed to build on the conclusions. Furthermore, the study did not look at the effect of the new regulations on the sports industry, events sponsorships and on below-the-line advertising activities. Therefore, suggestions for further research include:

- An exploratory study of the effect of the ban on the sports industry in the country.
- A quantitative study of the effect of the ban on the market size and structure.
- A longitudinal study to understand the market size prior to the implementation of the ban and post the implementation of the ban.
- A longitudinal study of the effect of the ban on competition within the industry.

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APPENDIX 1: Interview Guide

Establish knowledge of the proposed policies

1. What is your understanding of the proposed alcohol regulations mentioned by the health minister?
2. Why do you think the minister wants to implement these regulations? In your opinion, will the proposal be effective?
3. In the alcohol industry, why do you think companies advertise? What is the purpose of advertising in the alcohol industry?
4. What determines whether the advertising will be below-the-line or above-the-line?

Determining effect on market size

5. Why do people choose to purchase or consume alcohol?
6. How do they choose brands?
7. Does advertising affect these brand choices? How so?
8. In your opinion, does advertising increase alcohol consumption? In other words, does advertising directly increase the alcohol market size?

Determining the effect on market structure

9. How will the banning of promotions affect the advertising spend in the alcohol industry?
10. Do you think that consumers' brand choices will be affected by the lack of mainstream advertising? In what way will the brand choices be affected?

11. Do you think that the banning of advertising will affect market share in the industry? How so?
12. What effect will the regulations have on competition within the industry?

Is there anything else that you would like to add?

APPENDIX 2: Mind Maps

Diagram 1: Socio-Economic Circumstances

Diagram 2: Advertising's effect on the decision to consume

Diagram 3: Child's first experience of alcohol

Diagram 4: The effect of advertising on total consumption

Diagram 5: The Main Purpose of Advertising

Diagram 6: Changes in Market Share

Diagram 7: The effect on competition