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TABACCO INDUSTRY ANALYSIS : MACROECONOMIC INDICATORS INFLUENCE ON THE COMPANIES PROFIT

***Аннотация:** В статье рассматривается состояние табачного рынка в России – его динамика, тенденции и конкурентная среда. Автор выявляет влияние макроэкономических факторов и прибыли компаний табачного сектора. Выявленная в ходе анализа наиболее прочная взаимосвязь позволяет определить тренд на будущей и рассмотреть возможные сценарии повышения прибыли FMCG-компаний.*

***Ключевые слова:** Регрессионный анализ, спрос, макроэкономические показатели, табачный рынок, EBITDA, статистическая значимость.*

***Annotation:** The article examines the state of the tobacco market in Russia , dynamic, trends and a competitive environment. The author figures out the impact of macroeconomic factors and profits of the companies in the tobacco sector. The strongest correlation revealed during the analysis allows us to determine the trend for the future and to consider possible scenarios for profit increasing of FMCG companies.*

***Key words:** Regression analysis, demand, macroeconomic indicators, EBITDA, statistically significant, tobacco market.*

According to statistics for the year 2016 in the world about 1.3 billion smokers, about. If we consider that there are 7.3 billion people on the planet, in percent this is about 18%¹. Russia ranked fourth in the ranking of the most smoking countries.

Tabacco industry is favourable sector in economic and profit terms. It is wellknown fact that the smoking is a bad habbit such as alcohol dependance but in finncial terms it is really good way to get money. It is interesting sphere of business activity because tobacco industry has lots of prohibitions in terms of law reguation and companies have to do theit business very carefully going with the regulation.

In Russia regulation advertising tobacco industry observed within Federal Law " On advertising"². According to Article 8 point 7 of the regulation, advertising of the tobacco products and smoking accessories, including pipes, hookahs, cigarette paper, cigarette lighters is prohibited. This innovation is the beginning of the operation from November 15, 2013.

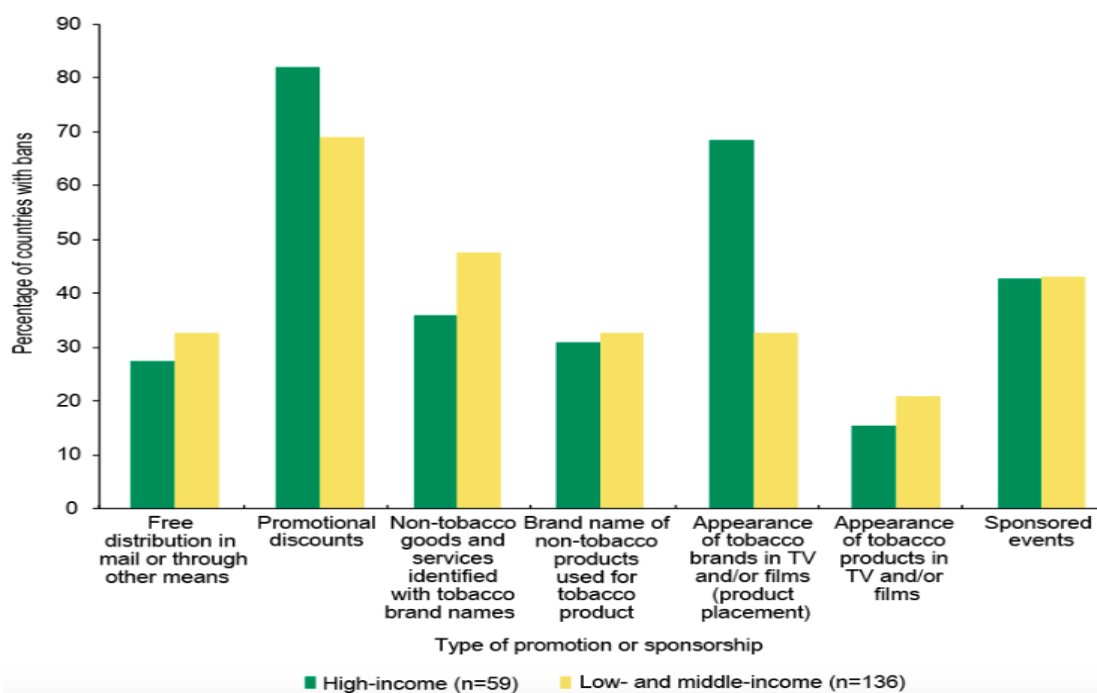
The same rules have been adopted by lots of countries. Those governments (in high- and low-middle income) have prohibited the variety marketing channels to populate tobacco (Diagram 1)³.

¹ Countries That Smoke The Most Cigarettes Available at: <http://www.worldatlas.com/articles/countries-that-smoke-the-most-cigarettes.html> (accessed 20.03.2018)

² Federal Law №. 38-FL of March 13, 2006 "On Advertising" Available at: http://www.consultant.ru/document/cons_doc_LAW_58968/ (accessed 23.03.2018)

³The Impact of Tobacco Industry Marketing Communications on Tobacco Use Available at: https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_7.pdf (accessed 21.03.2018)

Diagram 1. Global prevalence of bans on the promotion and sponsorship of tobacco products, 2014

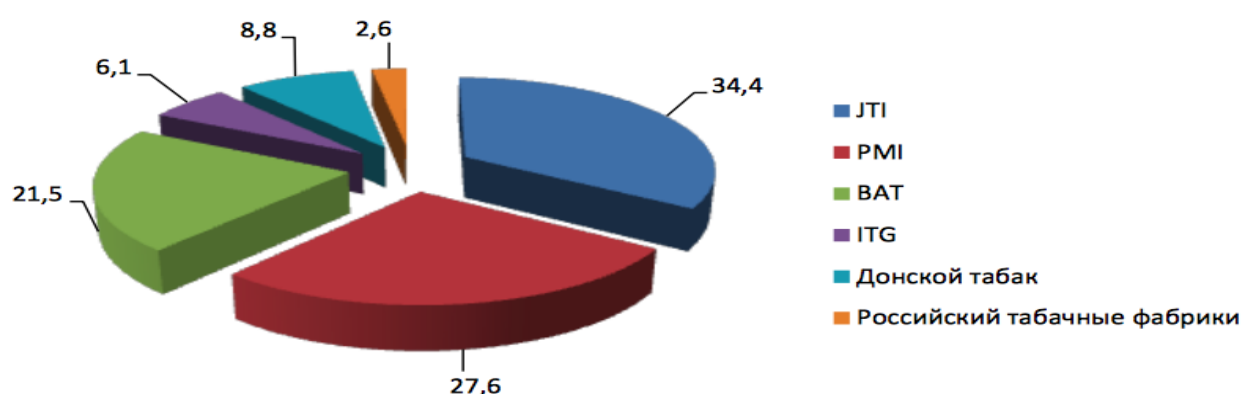


Regulation of the tobacco industry takes a central place on the right-wing field when introducing legislative norms in many countries. Russia is no exception. Along with this, in 2016 the Ministry of Health announced "Concept of state policy to counter tobacco consumption in the years 2017-2022 and beyond"⁴, which is designed to use various ways to encourage people to quit smoking.

The smoking is a habit bad addiction and despite of the government restrictions and health lifestyle popularity the big tobacco firm is ongoing to get profits. There are 3 key tobacco company in Russia: British American Tobacco, Philip Morris International (PMI), JTI (Japan Tobacco International)

⁴ DRAFT of the Concept of Implementation of the State Policy on Counteracting Tobacco Use for 2017-2022 and Further Prospects Available at: <https://www.rosminzdrav.ru/documents/9544> (accessed 23.03.2018)

Diagram 2 Market shares of the Tobacco companies in Russia



According to statistic the consumption basket become cheaper because consumers prefer to spend few money on everyday grosseries but not so much people to get rid of smoking. The last point means that smokers continue to spent money despite on economic, financial problems and social mind changes to healthy.

According to that logic interesting to analyze the key relevant macroeconomic factors that influence on the tobacco company EBITDA (the key inricator of success) in Russia during the last 20 years in one of the presented retail companies.

Lets look more deeply into analyzis British American Tabacco.The key factors that we can the calculate and the figuers out the data are⁵:GDP, Disposal income, Consumer confidence, Consumer confidence index, Subsistence level.

The choosen indicators have crucial influence in the retail indistry and on the consumer because purchase consumer power depend on how much money peple have and what share oh their income thay can spend in the sigarettis.

⁵Federal State Statistics Service. Available at http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/ (accessed 16.03.2018)

Table 1. Macroeconomic figures and BAT EBITDA, 1999-2017

Year	EBITDA, thousand RUB	GDP, billion RUB	Disposal income thousand RUB	Consumer confidence index, %	Subsistence level (RUB per month)
2017	23765000,00	92081,9	55763,0	-11	10328
2016	24965000,00	85917,8	55967,2	-18	9828
2015	18579900,00	83387,2	46308,5	-26	9701
2014	18208300,00	79199,7	38807,2	-18	8050
2013	15610500,00	73133,9	41276,8	-11	7306
2012	13345200,00	68163,9	33247,5	-8	6510
2011	8696200,00	60282,5	26917,2	-7	6369
2010	9332180,00	46308,5	21609,8	-10	5688
2009	9437760,00	38807,2	16 856,9	-20	5153
2008	8696200,00	41276,8	14 940,6	-20	4593
2007	8424571,43	33247,5	12 602,7	-5	3847
2006	9799302,86	26917,2	10 196,0	-3	3422
2005	9174034,29	21609,8	8 111,9	-7	3018
2004	9146235,24	17027,2	6 410,3	-13	2376
2003	8849926,38	13208,2	5 170,4	-11	2112
2002	7974910,13	10830,5	3 947,2	-10	1808
2001	7099893,88	8943,6	3 062,0	-17	1500
2000	4224877,64	7305,6	2 281,1	-35	1210
1999	3349861,39	4823,2	1 658,9	-58	1100

The key objective of the analysis is to reveal how macroeconomic indicators affect the profit of the company, which is the FMCG firm.

The collected data can be extrapolated and understood, which shows the greatest dependence when solving macroeconomic problems and the proceeds of FMCG organization.

The analysis consisted of four steps on each of them: one or another macroeconomic indicator that did not pass by the Student's criterion was eliminated based on T-statistics.

Table 2. Regression analysis results

№ stage	Number of exogenous variables	R²	Excuded indicator (has not passed T-statistic)
1	4	0,9358	Subsistence level
2	3	0,9324	Consumer confidence
3	2	0,9109	GDP
4	1	0,8857	-

In this way, based on multiple regression, it was possible to establish that the largest impact on British American Tobacco's profit is the amount of disposable income. In addition to static analysis, this regularity can be explained by casual connections. The income of the population has a direct impact on consumer demand - the lower the income, the less consumers are willing to spend. This regularity can be transferred to such a specific industry as the sale of tobacco products.

Tobacco products - is a product whose consumption is based on habits, i.e. the majority of smokers will continue to buy tobacco products if they drop the income they distribute, however, moving to the price segment is lower. In this context, companies need to set themselves the goal of not getting more profits, but of winning the market by increasing the market share. In this case, it will be possible to maintain the level of demand at the required level, while reducing the prices for products and winning in the amount.

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1. Communications on Tobacco Use Available at: https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_7.pdf (accessed 21.03.2018)
2. Countries That Smoke The Most Cigarettes Available at: <http://www.worldatlas.com/articles/countries-that-smoke-the-most-cigarettes.html> (accessed 20.03.2018)
3. ¹DRAFT of the Concept of Implementation of the State Policy on Counteracting Tobacco Use for 2017-2022 and Further Prospects Available at: <https://www.rosminzdrav.ru/documents/9544> (accessed 23.03.2018)

4. Federal Law №. 38-FL of March 13, 2006 "On Advertising" Available at:
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23.03.2018)

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16.03.2018)