

## **FACTORS INFLUENCING BRAND LOYALTY OF CIGARETTE PRODUCTS: A CASE STUDY OF CHEAP CIGARETTE PRODUCTS**

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**Abstract.** Cigarette products, both kretek and filter types, are widely consumed by the Indonesian people. There are 70 million active smokers. Cigarettes are a source of foreign exchange for the country, state revenue from cigarette excise taxes reached IDR 183.2 trillion in August 2024. This study intends to analyze the brand loyalty of smokers, namely the factors that drive loyalty to a brand or the influence of switching to another brand. The research method used is mixed methods because it will examine two aspects, namely quantitative and qualitative aspects. Brand loyalty is personal/individual because it concerns taste, prestige and so on. One of the dominant factors is the increase in cigarette prices from 2022 to the present. The increase was due to a 10% increase in excise rates. The results of the study show that most smokers who are not loyal switch to cheap cigarettes. They consider purchasing cigarette products not from taste or prestige but from an economic perspective. This disloyalty is caused, mainly, by the decreasing purchasing power of the community. Therefore, considerations for increasing cigarette excise rates need to be studied in depth and holistically.

**Keywords:** *Brand; Cigarette; Excise; Loyalty; Tax.*

### **1. INTRODUCTION**

Indonesia is one of the countries with the largest number of smokers in the world. According to World Statistics, male smokers in Indonesia reach 70.5%. Meanwhile, data from the Indonesian Health Survey (SKI) estimates that the number of active smokers in Indonesia is 70 million people. Cigarettes are one of the contributors to the national economy, namely a source of excise revenue. State revenue from cigarette excise will reach IDR 183.2 trillion in August 2024. The total cigarette tax received by the provincial government is estimated to reach IDR 22.98 trillion in 2025. Cigarette products are one type of fast moving consumer goods (FMCG) product. In addition, cigarette products are one of the products related to the people's economy as the dominant cigarette consumers. Although the profit margin from cigarettes is small, the turnover is fast so it is categorized as an FMCG product. Cigarette products are widely available in large stores, small shops and retailers. Sales vary, namely sold in packs or retail bars. Actually, by selling cigarettes retail, the profit is greater. In the suburbs or suburbs, many cigarette consumers buy retail, for example 3-4 cigarettes for IDR 5,000.

Since 2022, the government has imposed cigarette excise rates. Regulation of the Minister of Finance (PMK) Number 97 of 2024 concerning the Third Amendment to PMK Number 192/2021 concerning Additional Excise Rates. The implementation of new cigarette excise rates has caused cigarette prices to become expensive. Although cigarette prices are expensive, there has been an increase in the number of cigarette production, which is 145.5 billion cigarettes in the first semester of 2024. Compare this with the production volume for the same period in 2023 of 141.4 billion cigarettes.

The increase in cigarette prices has caused many smokers to switch to cheap cigarettes. However, some smokers remain loyal to consuming the same cigarettes, even though the price has increased. Indicators of consumer loyalty are repeat purchases (loyal to the product); retention (ignoring or resisting the negative influence of the product or company); referrals (referring the company's products and services to others). The classification of brand loyalty is as follows: 1). Hard-core loyals; 2). Split loyals ;and 3. Shifting loyals. The first is the hard-core loyals type of smoker, who buys the same brand forever, even though the price goes up. Cigarette products can describe a person's lifestyle, prestige, and profession. The effect of advertising and other marketing factors on cigarette demand is examined in various studies (Dawes, 2014). The second type is the split loyals smoker, who is loyal to two or three brands. These smokers have several options to buy cigarettes with different brands. The third is the shifting loyals smoker, who switches from one brand to another. The third type of smoker is very large, they are consumers of cheap cigarette products that cost between Rp. 10,000 to Rp. 15,000 / pack. They consume cigarettes based on affordable prices, not taste or prestige. The cheap cigarette market segment is very potential because this type of consumer does not have loyalty to one brand. Generally, these types of cheap cigarettes are sold in small shops located on the outskirts of the city or region. These cigarettes are sold per pack or retail. The retail price of cheap cigarettes is around Rp. 1,500 - Rp. 2,000, - / stick or sold as many as 3-4 sticks for Rp. 5,000, - This study is about the phenomenon of brand loyalty of smokers in the context of increasing excise rates which cause expensive cigarette prices. The factor of decreasing purchasing power has caused changes in brand loyalty. To meet the market demand for cheap cigarette products, several cigarette companies produce cheap cigarette products that are adjusted to the weak purchasing power.

## **1. LITERATURE REVIEW**

### **2.1 Customer Loyalty**

Loyalty is widely acknowledged as a brand asset that businesses invest in to preserve and grow (Sari et al., 2023). Consumers loyalty who return again and time again to fulfill a need by purchasing a good or service (Suharto et al., 2022). According to the marketing literature, there are two different approaches to describe client loyalty. The two-dimensional loyalty techniques of deterministic (attitudinal) and stochastic (behavioural) approaches were first introduced by Jacoby (1971) (Atulkar, 2020). According to the first, loyalty is an attitude, and according to the second, it is a behavior (Hallowell, 1996). Brand-loyal attitudes are underlying predispositions to behave in such a selective manner whereas brand-loyal behavior is the overt act of selective repeat purchasing based on evaluative psychological decision processes (Ramachandran and Balasubramanian, 2020). According to Saleem et al. (2018), loyalty is the deeply held commitment to repurchase or visit a preferred brand without reservation in the future. Loyal customers are devoted to their brand or business, less price-sensitive, and less susceptible to other temptations (Ramachandran and Balasubramanian, 2020). The desire of customers to remain loyal to a business and to keep doing business with it over time is known as customer loyalty (Manyanga et al., 2022). According to Irgui and Qmichchou (2023), customer happiness is still a measure of prior service experiences and has a favorable effect on trust and loyalty.

### **2.2 Brand Loyalty**

One of an organization's most important intangible assets is its brand, and a customer's level of attachment to a brand is determined by its level of trust and loyalty (Atulkar, 2020). A brand serves as a guarantee for a certain brand's product or activity and a trust mark for all intangible credibility (Sari et al., 2023). Brands serve as a marketing tool to build private and social connections and experiences for customers (Kruger, 2016). For a business to prosper, brand loyalty is crucial (Zaato et al., 2023). Since brand loyalty immediately increases market share and profitability, it has become a crucial component of sustainable business success (Ramachandran and Balasubramanian, 2020). Brands have long been seen as being crucial

to building solid customer relationships and attaining long-term economic success (Rather et al., 2018). One of the main effects of brand love is brand loyalty (Le, 2020). Cigarette markets have historically shown high levels of brand loyalty (DeCicca et al., 2021). According to Aaker (1996), a company needs devoted customers in order to gain a sizable market share, and brand loyalty is regarded as a crucial indicator of the effectiveness of a business's marketing plan (Mostafa & Kasamani, 2020). The American Marketing Association defines brand loyalty is the degree to which a customer consistently purchases the same brand within a product class is how (Parmar & Radha, 2019). Oliver (1997) defines loyalty is a deeply held commitment to rebuy or repatronise a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior (Kasamani and Mostafa, 2020). Customers also purchase brands because of the meanings the brands add to their lives (Rather et al., 2018). Brands also have symbolic value because they help consumers express themselves and give them a sense of identity (Kruger, 2016). Brand loyalty is the behavior of consumers who consistently use or consume products from a specific brand rather than competing ones, demonstrating their faith in that brand (Zaato et al., 2023).

### **3. RESEARCH METHODS**

This study uses a qualitative approach with a descriptive method because it is adjusted to the needs of the data, namely the opinions of informants regarding subjective brand loyalty. Qualitative research questions may concern broad areas of research or more specific areas of study. The goals of qualitative research are to investigate intricate problems, formulate novel hypotheses, and contextualize findings from mixed-method and quantitative research (Turner et al., 2021). Understanding how people construct their worlds, evaluate their experiences, and assign meanings to their experiences is of interest to qualitative researchers (Meriam and Tisdell, 2016). Assumptions and the use of interpretive and theoretical frameworks serve as the foundation for qualitative research, which examines the meaning that people or groups assign to social or human issues.

According to Bouchrika (2024), descriptive research questions aim to provide a description of a phenomenon. The purpose of descriptive research questions is to either describe factors that the study will measure or gauge how the population of a study responds to one or more variables. Usually, these inquiries start with "what" (Bouchrika, 2024).

The data collection technique was through interviews as primary data. Informants were 25 people who were selected randomly and came from various professions, educational backgrounds, smokers, and cigarette sellers. While secondary data comes from journals and the internet.

### **4. RESULTS AND DISCUSSION**

#### ***4.1 Excise Taxes Cause Cigarette Prices to Become More Expensive***

High cigarette excise taxes are levied in the United States and many other nations to deter smoking and raise money (DeCicca et al., 2021). The amount of cigarette excise tax increase for 2023 and 2024 is 10 percent. Meanwhile, the increase in cigarette excise has been ongoing since 2022. This means that every year there is an increase in excise and cigarette prices, which is around IDR 30,000 - IDR 40,000 / pack. This change in excise rates has caused cigarette prices to increase significantly, for example the price of Gudang Garam Filter cigarettes is IDR 42,200 / pack, the price of Gudang Garam Surya Exclusive 16'S is IDR 44,500 / pack, the price of Esse Golden Leaf Filter Cigarettes 20'S is IDR 42,800 / pack, the price of Marlboro Filter Light cigarettes 20'S is IDR. 42,200,- and the price of Marlboro Filter Hardpack 20' is Rp. 42,200,-/pack. Marlboro cigarettes are the best-selling cigarettes in the world. Generally, expensive cigarette products are sold in large stores such as Indomart, Alfamart and other large stores. In addition to the different market segments, it also requires large capital because the shop owner must buy in large slops. In 1 slop contains 20 packs of

cigarettes or 240 to 200 cigarettes. Depending on the number of cigarettes. For example, some expensive cigarette products include Dji Sam Soe Super Premium Cigarettes Rp. 68,100,-/pack/12 cigarettes; Dji Sam Soe Samsu 234 Refill Super Premium Rp. 48,400,-/pack/ 12 cigarettes; Marlboro Filter Light Rp. 42,200,-/pack/...sticks; Marlboro Filter Hardpack 20'S Rp. 42,200,-/pack/20 cigarettes; A Mild Red Rp.36,000,-/pack/16 cigarettes; Sampoerna A Mild Menthol Burst 16s Box Rp.40,000,-/pack/16 cigarettes; Gudang Garam Filter Surya 16'S Rp.36,700,-/pack/16 cigarettes; Esse Change Filter Applemint 16'S Rp.36,000,-/pack/16 cigarettes. Marlboro retains its position as the world's most valuable tobacco brand for the 10th consecutive year. Before the increase in excise, Sampoerna A Mild cigarettes were widely consumed by middle to upper class smokers such as students, office workers, and young entrepreneurs because the price was relatively affordable. When choosing a brand, factors including the brand's name and market age were taken into consideration (Radha and Parmar, 2019). Currently, the average price of Sampoerna A Mild cigarettes is around Rp.30,000,- to Rp. 40,000,-/pack. Several factors that cause loyal smokers not to switch to cheap cigarettes include, different tastes, can cause coughing, and loss of prestige in a well-known brand. A commitment to purchase and utilize the same good or service is known as loyalty (Suharto et al., 2022). Meanwhile, split loyal smokers switch from well-known brands to brands that have almost the same taste. For example, a loyal smoker of Dunhill Fine Cut Mild 16'S cigarettes Rp. 31,500, - / pack / 16 sticks has now switched to the Lato brand or switched to the Magnum Edisi Bintang 12'S brand for Rp. 27,000, - / pack / 12 sticks. In general, the switch in cigarette brands is caused by decreasing purchasing power of the community, because cigarette products are not primary products. Hand-rolled kretek cigarettes (SKT) are cheaper than filtered cigarettes produced by machines. For the typical consumer, price is the most important factor (Dawes, 2014; Parmar & Radha, 2019).



Fig. 1 Famous Kretek Cigarettes Brand "Dji Sam Soe" Produced by PT. HM Sampoerna Tbk

PT. HM Sampoerna is one of the largest and oldest cigarette companies in Indonesia. In 2005, PT Philip Morris Indonesia (PMI) acquired the majority of shares in PT. HM Sampoerna. Tbk. With a share ownership of 92.50% of Sampoerna's shares. Marlboro is one of the best-known brands among all consumer products and has been the world's number-one international selling cigarette brand since 1972. The cigarette sales volume of PT. HM Sampoerna Tbk. (HMSP) reached 63.1 billion cigarettes during the 9 months of 2023. The sales volume decreased by 3.9% compared to the same period last year of 65.6 billion cigarettes (Saumi, 2023). So far, HMSP has controlled 28.8 percent of the cigarette market share in Indonesia. The impact of high cigarette prices has caused a decline in sales, PMI sold 39.4 billion cigarettes in the first semester of 2024. In addition, the consequence is a decrease in the company's income.

#### 4.2 Cheap Cigarette Products

Most consumers reasoned that they switched to cheap cigarette brands because their

purchasing power had decreased so that they could no longer afford the original brand. They come from lower-class communities such as factory workers, informal workers, carpenters, drivers, small traders and the like. They consume cigarettes without thinking about taste or prestige but the important thing is to be able to smoke. Because their capacity to comprehend information about purchases declines with age, older consumers tend to favor well-known companies over new ones (Manyanga et al., 2022).

Cigarettes are divided into 6 types, namely, Machine-made Kretek Cigarettes (SKM), Hand-made Kretek Cigarettes (SKT), Hand-made Kretek Cigarettes with Filters (SKTF), Machine-made White Cigarettes (SPM), Hand-made White Cigarettes (SPT), and Hand-made White Cigarettes with Filters (SPTF). The following is a breakdown of excise rates for cigarettes.

Some examples of cheap cigarette products include Lato Slim Original Rp. 17,000,-/pack/20 sticks, Lato Slim Menthol Rp. 17,000,-/pack/20 sticks, Lato International Rp. 14,000,-/pack/20 sticks, Lato Super Rp. 14,000,-/pack/20 sticks, Lato Bold Rp. 14,000,-/pack/20 sticks, Lato Bold Ice Rp. 14,500,-/pack/20 sticks. These cheap cigarettes are sold per 10 slops or 100 packs. The price above is the selling price to consumers. The selling price from the distributor for Lato Slim Original and Lato Menthol cigarettes is Rp. 145,000,-/slop/10 packs. If the retail purchase is less than 1 slop, then the price is Rp. 15,500,-/pack. Some other cheap cigarette brands are North-On priced at Rp. 10,000,-/pack/contents 12 sticks. Below are examples of cheap cigarette products.



Fig. 2 Several cheap cigarette brands

The marketing target of cheap cigarettes is smoker consumers who have low purchasing power, live and have activities in the suburbs or regions. Cheap cigarettes are sold per pack or retail, which is adjusted to consumer demand. The profit margin of retail cigarette sellers or shop owners is small but sales are fast. Selling retail cigarettes by the stick is more profitable for shop and shop owners because the profit margin is greater. For example, the retail price of Lato kretek cigarettes is an average of IDR 5,000 per 3 sticks. While the retail price of North-On kretek cigarettes is IDR 1,500 per stick or IDR 5,000 per 4 sticks.

Some factors of smokers being loyal to a brand are due to various reasons. For example, in addition to buying goods and services to fulfill their desires, consumers also buy brands for the experiences that come with their attachment and relationship (Kruger, 2016). Below are some results of interviews with cigarette informants, both kretek and filter smokers.

*"I have been consuming Djarum Coklat cigarettes for a long time, around 10 years. I have never changed brands because they don't suit me and I often cough" (Aman, 52 years old, cracker seller, Ciamis).*

*"I smoke Magnum blue because the taste is not much different from Dji Sam Soe and the price is cheaper, only Rp. 27,000/pack" (Setiawan, 60 years old, lecturer,*

Bandung).

*"My cigarettes are Esse Change Filter Applemint 16'S which cost around Rp. 36,000 per pack or other similar brands. Because the price is expensive, I limit my smoking to only 1-2 cigarettes per day" (Anonymous, 35 years old, employee, Bandung).*

*"My current cigarette brand is Lato Menthol because Dunhill cigarettes are very expensive" (Lia, 45 years old, employee, Bandung).*

Below are the results of an interview with a smoker in the split loyals category:

*"I have been smoking two brands, namely Magnum and Djarum Super kretek cigarettes. I have been smoking Magnum for about 10 years because the taste has not changed until now, it is just wasteful. One or two packs of Magnum cigarettes can be finished in a day and night. Meanwhile, Djarum Coklat cigarettes are economical" (Adhar, 40 years old, employee, Bandung).*

Below are the results of an interview with a former smoker because of the expensive price:

*"I used to smoke the Signature brand but because the price went up, I stopped smoking 2-3 years ago. It is better to use the money for other needs" (Heryadi, 27 years old, employee, Cimahi).*

Below are the results of an interview with a smoker in the shifting loyals category:

*"My current cigarette is the Lois brand which contains 20 cigarettes and is cheap at only Rp. 11,000 per pack. I have only tried Lois since 5 months ago. Previously, I smoked Djarum Coklat which is now around Rp. 17,000 per pack but I switched to cheap cigarettes because the important thing is to 'smoke'" (Iwan, 44 years old, carpenter, Bandung).*

In general, smoker respondents switched to other brands that were cheaper. The taste factor was no longer considered but the important thing was being able to smoke. Generally, sellers of cheap cigarettes target this category of smokers because they are more likely to change brands or switch to new brands.

## **CONCLUSION**

Brand loyalty of cigarette products depends on many factors but the main factor is the selling price because most smokers experience a decrease in purchasing power. The increase in cigarette prices is due to the high increase in excise. However, the impact of imposing cigarette excise has given rise to cheap cigarette products that are affordable. Cheap cigarette products are widely consumed by loyal consumers of the shifting loyal type who do not care about taste or brand because the main orientation of shifting loyal cigarette consumers is affordable or cheap prices. In addition, cheap cigarettes are sold individually or by the stick in small shops or known as "cigarette kiosks" or by street vendors.

Most consumers of kretek cigarettes are old smokers who come from lower-class society. Although the nicotine and tar content is high, this type of cigarette is able to create a different taste and sensation. According to kretek smokers, these cigarettes provide a unique pleasure compared to filter cigarettes. This type of smoker can be classified as a loyal smoker. While filter cigarettes are widely consumed by young people because of several factors, including being more practical than kretek cigarettes, low in nicotine and tar. Tar is the most dangerous substance in cigarettes because it can trigger diseases in smokers.

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