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## Retailers' Perspectives on Selling Tobacco in a Low-Income San Francisco Neighborhood after California's \$2 Tobacco Tax Increase

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### Abstract

**Background**—California's tobacco tax increased by \$2.00 per pack in 2017. Although such increases are among the most effective tobacco control strategies, little is known about their impact from the perspective of corner store owners in low-income neighborhoods with high concentrations of tobacco outlets.

**Methods**—We interviewed 38 corner store owners and managers in San Francisco's Tenderloin, the district with the city's highest tobacco outlet density, 60-90 days following implementation of the tax increase. Questions focused on perceptions of the impact of the higher tobacco tax on their revenues, customers, and tobacco company promotions We used qualitative content analysis to identify, compare, and reconcile key themes.

**Results**—Most retailers reported a decline in cigarette sales, with customers buying fewer cigarettes, switching to cheaper brands or other products like marijuana, or trying to quit smoking. Retailers described challenges associated with running a small business and selling tobacco and concerns about selling a product that is “bad” for customers' health Contrary to expectation, tobacco companies appeared to be offering few product promotions in this neighborhood.

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Conflict of Interest

The authors declare that there is no conflict of interest.

**Conclusions**—Small, independent retailers’ concerns, about selling tobacco and about the health and well-being of customers suggest that such retailers may be important allies in tobacco control efforts, in anti-tobacco education and advocacy, particularly those focused on the point-of-sale.

### Keywords

Tobacco tax increases; tobacco retailers; tobacco tax avoidance strategies; California

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## INTRODUCTION

California has been a global leader in tobacco control since 1988, when it became the first US state to implement a tobacco control program funded by an increase in state tobacco taxes (Proposition 99).<sup>1</sup> Smoking prevalence dropped from 33% in 1980 to 15% in 2015.<sup>2</sup> In 2017, California increased its tobacco tax by \$2.00, to \$2.87 per pack of cigarettes, through a voter-approved ballot measure. Numerous studies have demonstrated that tobacco tax increases are an effective means of reducing smoking prevalence on a population level by preventing smoking initiation, promoting cessation, and reducing tobacco consumption.<sup>3</sup> In addition to projected substantial declines in cigarette smoking with the implementation of Proposition 56, the \$2 per pack increase in the price of cigarettes in California is expected to have other positive and long-lasting impacts through its funding of prevention programs, cancer research, expansion of Medicaid (Medi-Cal in California) health insurance coverage and more.<sup>4</sup>

To date, little attention has been paid to retailers’ experiences with and attitudes toward such tax increases. In California (and likely other states), tobacco retailers, including small store owners, are an important constituency for policymakers and the public. Indeed, their opposition to, or support for, tobacco control policies can be critical in determining the outcome of policy proposals.<sup>5</sup> Although we might expect uniform retailer opposition to tobacco tax increases, or to tobacco control policies more generally, research in the US and internationally suggests that retailers often support some tobacco control policies, despite their potential economic downsides.<sup>6–12</sup> Given the key role that retailers play in the tobacco control policy landscape—both in influencing policy outcomes and in complying with and interpreting policies for their customers – we sought to understand their perspectives on California’s recent cigarette tax increase.

The present study draws on interviews with corner store retailers in San Francisco’s low income Tenderloin neighborhood, conducted 60-90 days after implementation of California’s \$2 per pack tobacco tax increase. The Tenderloin has little healthy food access, no full serve grocery store, and an abundance of tobacco and alcohol outlets.<sup>13</sup>

## METHODS

### Participants

We recruited corner store retailers from San Francisco’s Tenderloin neighborhood during summer 2017. Of the neighborhood’s 32,000 racially and ethnically diverse residents, over

30% live below the federal poverty line, compared to 14% city wide.<sup>14</sup> We approached retailers at 47 of the neighborhood's 59 corner stores, all but 2 of which sold tobacco at the time of this study, and each of which was an independent, family owned "mom and pop" store. The decision not to approach the remaining 10 stores that sold tobacco was based on prior knowledge of storeowners' linguistic barriers and/or history of nonparticipation in related studies. Big chain stores were not included in this sample since there are none in this neighborhood. Close to two-thirds of the retailers we approached (n=38) agreed to participate in the interviews, with three others failing to meet eligibility criteria (e.g., being a store's owner or manager and having English proficiency), and six declining, typically stating that they were too busy. The majority of those we interviewed were immigrants from Middle Eastern or South Asian countries who worked 6-7 days a week to keep their businesses running. Most identified as members of the Tenderloin community, currently or formerly living in the neighborhood, and having relationships with Tenderloin residents beyond their roles as retailers.

### Procedures and Measures

The study was approved by the UC Berkeley Committee for Protection of Human Subjects. All interviews were conducted in person in the stores by one or more of the authors at a time convenient for the retailers. An IRB-approved script was used to explain the purpose and voluntary nature of the study, and verbal consent was secured. Interviews lasted approximately 30 minutes, and participants were given a \$10 gift card as thanks for their time. The open-ended interview questions concerned retailer perspectives on changes in cigarette sales since the tax increase; customer comments about the tax increase; discounts and/or promotional offers that might impact sales; and interactions with tobacco company representatives (see online appendix). Retailers reporting a decrease in tobacco sales as a problem for their bottom line were asked a follow up question about whether there were resources or strategies that might help them make up for lost tobacco revenue. Questions about other tobacco products (e.g., e-cigarettes, cigars) were not included, in part due to retailers' time constraints. Further, since the \$2 tax increase related specifically to cigarettes, we believed it important to focus on that product. However, any retailer comments on other tobacco products were noted and later coded.

Most retailers preferred not to be audiotaped due to discomfort with the idea and concerns about the anticipated need to interrupt taping to tend to customers. The interviews were conducted by two researchers who alternated asking questions and taking handwritten notes during and immediately after each interview, including relevant verbatim quotes capturing retailer perspectives.

### Data Analysis

We [Chavez, Falbe, and Minkler] compiled the interview notes and created a codebook through a collaborative, multi-step process driven by the existing literature, our research questions, and the raw data.<sup>15</sup> Using an iterative process of repeated examinations of the raw data and group discussions, we further expanded upon and refined our coding scheme, which guided the systematic analysis. The codes we developed represented themes capturing topics including perceived changes in tobacco sales, customers' reported responses to the tax

increase, and retailer interactions with tobacco representatives and participation in tobacco-company sponsored promotions (see online appendix). Using a web-based program for qualitative data management (Dedoose version 7.6.18), we independently double-coded each interview and then compared and reconciled differences. We analyzed findings using qualitative content analysis, identifying common themes and patterns, as well as verbatim quotes that illustrated the themes uncovered.

## RESULTS

### Perceived effects of the cigarette tax increase on sales and customer behavior

Although the goal of a cigarette tax increase is to encourage cessation by making smoking more expensive, to be effective, consumers must face higher prices at retail. While we did not collect data on cigarette pack prices or available brands at the stores in our study, previous research suggests that smokers in neighborhoods like the Tenderloin had opportunities to avoid the full economic impact of the tax increase. Tobacco manufacturers, for example, may have lowered the price of some cigarettes, or introduced new discount brands to coincide with the tax increase.<sup>16–18</sup> This could result in substantial savings for smokers: pre-tax hike, the cheapest cigarette pack in California cost nearly 21% less than the average-priced pack state-wide.<sup>19</sup> Nationally, some premium brands cost less in neighborhoods like the Tenderloin with higher proportions of African Americans,<sup>20</sup> a pricing strategy that could also blunt the financial impact of the tax increase.

In the absence of sales and pricing data, retailers provided us with a sense of how they and their customers experienced the new tax policy. When the interviews were conducted, 60-90 days after the tax increase took effect, over 80% (31 of 38) of retailers reported a decline in cigarette sales, with a median reported decline of 20-25%. Some indicated considerably greater losses, with one commenting, *“My [tobacco] sales have gone down maybe 30-40% -- I sell maybe 10 packs of cigarettes a day”* (Store 22). The remaining retailers reported a temporary decline (Store 5) or no decline, because, according to one retailer, addiction was more powerful than a price increase (Store 18).

In discussing the impact of the tobacco tax increase, retailers described a variety of changes in customer behavior. One retailer reported that his customers bought cigarettes at higher-volume competitors, who could afford to offer discounts: *“People don’t buy from me anymore. They come, and they get upset over the price—so they go to the store like the gasoline [station] because they sell higher volume and have better price for the same product”* (Store 39). Other retailers said that customers bought cigarettes illegally *“on the street”* (Store 31), switched to a cheaper store-bought brand (Store 2, Store 4) or to cigars (Store 4), purchased (less expensive) roll-your-own tobacco (Store 25), purchased one pack every two days rather than daily (Store 17), *“tried to quit”* (Store 31) or *“quit because they [were] forced to”* (Store 34). Some customers also reportedly switched to marijuana *“because they say it is cheaper, and it is better for you”* (Store 25) or to e-cigarettes (Store 10). One retailer claimed that the tobacco tax increase had the opposite of its intended effect, at least initially: *“[Customers are buying] more, actually. I’m shocked at how many people are buying [at the new] retail price. They are buying three packs. They may be thinking the price will go up”* (Store 1).

Retailers also shared with us the frustration and suspicions some of their customers had voiced about the use of the new tax revenue:

*“People complain...to me about it. ‘Where is all their money going? What are they doing with all this tax money?’ They say they don’t see changes. ‘What are they using this for? When are they going to fix up the neighborhood?’ You know like that law they passed to pick up cigarette butts. They said they were going to use the money to clean up the streets, but you still see cigarettes all over. I tell them it takes time; it’s not going to happen from one day to the other”*(Store 18).

Another retailer commented that *“Some people ask why they don’t offer something like classes on quitting. Why is the main thing always to raise the price of cigarettes?”* (Store 26).

### **Taxes and other challenges associated with tobacco sales**

Many retailers voiced concerns about how declines in tobacco sales had affected their store’s profits, or bottom line, with a few noting that it was among the constellation of factors causing them to consider selling their business. As one retailer explained:

*“They [my customers] complain [about the tax hike], and some go to another store. That hurts my business. This tax and that one! I’m waiting for my lease to be over in 3 years and then I’ll go back to my old job [nursing]”* (Store 27).

One retailer, did, in fact, sell his store in the three months following our interview; however, without longer term follow up, it is unclear whether other retailers were simply venting frustrations or actually intending to sell their businesses. Further, even if stores are sold, it is difficult to determine the degree to which tobacco taxes versus other expenses (including rising commercial rents) are responsible.

Many retailers described numerous challenges associated with both selling tobacco and running a small business. One commented that after the tobacco tax increase, *“I only make 60 cents per pack, and it’s a high cost inventory product. It’s like holding money on the shelf”* (Store 23). He added that stocking and maintaining displays of this high cost product while also deterring theft required a lot of effort (Store 23). Other retailers expressed concerns about theft; indeed, one storeowner said that he couldn’t participate in the interview because he had to remain constantly vigilant about people coming into the store. Selling tobacco also added to retailers’ already-heavy paperwork burden, since such sales required both state and local licensure. When added to requirements to purchase permits *“for almost everything”* (Store 36) and attempts by underage customers to illegally purchase cigarettes, selling tobacco, now with an even lower profit margin, was described by many merchants as stressful.

Finally, several retailers captured some of the ambivalence they and others felt about being able to have a store with a healthy bottom line and, at the same time, helping residents quit an unhealthy behavior:

*“Tobacco sales have gone down. I would say about 20%. It’s a good thing and a bad thing. A good thing because people are smoking less”*(Store 16).

*“Some people say they are going to quit, and I say that is good”* (Store 14).

*“It would be even better if they STOP all sales of cigarettes. Really that would be better for everyone”* (Store 36).

### Coupons and contracts

We asked retailers about a reported<sup>21</sup> increase in tobacco company-sponsored coupons for California customers intended to offset the higher per-pack cost. All but three stated that they had not noticed an increase in the number of customers coming in with coupons for tobacco products. For some retailers, this was explained, in part, by their longstanding refusal to accept coupons. These retailers asserted that while coupons might work for large businesses and gas stations with a high volume of sales, they were not practical for small family-owned stores in poor neighborhoods. The number of customers bringing in coupons was too few to justify the time involved in redeeming coupons:

*“It’s too much work... You have to save [the coupon] and mail it in and then wait for [the reimbursement] to come in, and if you lose the [coupon] you have to fill out a lot of paperwork”* (Store 21).

In addition to offering customers discounts, tobacco companies typically offer retailers financial incentives to sell and advertise their products. These include “slotting fees,” payments to retailers that guarantee prime display space for particular brands; volume discounts; and “buydowns” that reimburse retailers for the difference between the inventory price and a specified sale price, usually offered for a limited time.<sup>22–25</sup> When asked whether they had contracts with tobacco companies, the majority of retailers said “no.” Some commented that although they had previously had tobacco sales contracts, they no longer did. These retailers had either opted out of extending them (in some cases, because they saw contracts, like coupons, as not worth the trouble), or tobacco companies were no longer offering them, probably due to low sales volumes. One retailer who previously had a Newport contract explained why he decided to end it:

*“And the way that works is...they ask you to sell large amounts of their product, about 5,000 units, and at the end of the year, they cut you a check of a couple hundred dollars. But I didn’t like that—you are just selling more of their product for them. I didn’t think it was worth it”* (Store 9).

Seven retailers reported that they *did* have current tobacco contracts that featured incentives tied to sales volume (which was often low) and/or buy-downs. Retailers who had contracts that permitted buy-downs stocked cigarette packs with “cents off” coupons directly on the package. As one store owner remarked, however, the per-pack discounts had actually decreased around the time of the tax increase, from 75 cents off to 50 cents off (Store 8).

When asked when the last time was that a tobacco company representative had come in, many retailers explained that the representatives had stopped coming altogether. Overall, it appears that tobacco companies no longer expend much energy on pursuing contacts with retailers in this neighborhood.



### Retailers' concerns for their customers' health and well-being

Despite frequently expressed worries about business losses in the wake of the cigarette tax increase and other taxes and restrictions, many retailers also expressed concern about the health and well-being of their customers and community. For example, some retailers commented that the tax increase imposed an additional financial burden on people who were already destitute. As one retailer explained, *“The tax is hard on my customers because they’re low income, so spending more on cigarettes leaves them with less money for other things”* (Store 8). Two other retailers stressed the need for more help for customers trying to quit, with one commenting, *“We need more education... Even if [the price] is \$12 a pack, people will still buy it.”*

Other retailers, however, described efforts they’d taken to discourage smoking, noting that it was “bad” for their customers. As one retailer remarked, particularly when his customers bought multiple packs of cigarettes at a time, *“I tell them to slow down... I tell [them] to quit”* (Store 1). Another retailer had posted near the cash register inspirational messages about changing habits and before and after pictures of a longtime smoker, ravaged by lung disease (Store 13). Concerns for customer health and well-being similarly were described by Tenderloin retailers in a separate qualitative study of their attitudes toward healthy retail.<sup>26</sup> In that study, too, retailers spontaneously brought up actions they had taken to discourage smoking among customers (e.g., sharing tips on quitting), and helping homeless people. Although some of the comments of retailers in the present study (e.g., on the regressive nature of the tax and the need for smoker education rather than more taxes and regulation), appear to echo tobacco industry messaging,<sup>27</sup> others do appear to suggest genuine retailer concerns for their customers and community.

When asked if there were resources or strategies that might help compensate them for losses due to declines in tobacco sales, most retailers said that they had not yet given it much thought. Others, however, mentioned strategies for selling healthier items and suggested that *“selling more groceries,”* or selling healthier groceries could help them stay afloat, with the added benefit of being good for their customers. Retailers spoke with enthusiasm about trying to change their business models toward more fresh food and affordability, in part for the sake of local residents. As one retailer explained, *“I am really trying to make my store a community store. I keep my groceries and produce at an affordable price”* (Store 1). One retailer described his desire to sell more food, while also noting that doing so required financial resources that were now potentially further out of reach due to declines in tobacco sales: *“I need to sell more to make the money to put into the store”* (Store 1). Two others reported hoping to overcome this problem by joining the city’s healthy retailer incentive program (HRSF), which provides benefits including store redesigns to selected corner stores that wish to change their business model toward more fresh produce and other nutritious products while limiting selling space for tobacco and alcohol.<sup>28</sup>

## DISCUSSION

In neighborhoods like San Francisco’s Tenderloin that lack supermarkets, corner stores are a key source of tobacco for residents, and corner store owners are likely to have a unique perspective on the impact of a tobacco tax increase. Our study had limitations, including a



small, non-generalizable sample of small independent retailers in one neighborhood, a lack of point-of-sale data to confirm retailers' impressions of cigarette sales patterns following the tax increase, and the possibility that retailers may have overstated their dissatisfaction with tobacco sales specifically or retailing more generally. Note-taking during the interviews instead of audio recording, while necessary, may have resulted in omissions, research bias such as putting more weight on certain responses, and misreporting of verbatim quotes. Despite these limitations, however, the study offers a window into the localized response of customers, retailers, and the tobacco industry to the first statewide tobacco tax increase since 1998.

Most corner storeowners and managers we interviewed experienced a decline in cigarette sales in the first few months following the tax hike. They reported that customers engaged in a variety of activities to try to reduce the financial impact of the tax, including reducing consumption or trying to quit smoking, switching to cheaper brands or sources of cigarettes, substituting different types of tobacco products for factory made cigarettes (e.g., roll-your-own tobacco, cigars), or replacing tobacco with marijuana. Most of these responses are consistent with previous research exploring the economics of tobacco use, particularly among low-income smokers. For example, following a cigarette tax increase, lower income smokers are more likely than higher income smokers to reduce cigarette consumption;<sup>29,30</sup> quit or attempt to quit smoking;<sup>30</sup> or switch to a discount brand,<sup>29,31,32</sup> or loose tobacco,<sup>29</sup> and/or turn to illegal sources of tobacco.<sup>33</sup> Substituting marijuana for cigarettes has not been previously reported as a response to an increase in cigarette prices. It contradicts earlier research suggesting that higher cigarette prices reduce the probability and frequency of current marijuana use.<sup>34,35</sup> Additional research, with larger and more representative samples of retailers, gathered in conjunction with policy changes affecting cigarette prices and availability could help shed further light on this issue.

Retailers' reports of customer questions about the uses of cigarette tax revenue and desire for smoking cessation assistance rather than higher taxes highlight the potential risk of smokers feeling uninformed about or alienated from policy decisions that affect them, and consequently, less likely to support new tobacco control measures.<sup>36</sup> San Francisco smokers have access to several free sources of smoking cessation assistance, including the state's telephone helpline. Although the California helpline issued a press release (also posted on social media) reminding residents of helpline resources the week that the higher tax went into effect,<sup>37</sup> more may be needed to enhance public awareness, particularly in low income communities, at a time when cessation help may be most needed. Creating a media campaign that directly links a tax increase to available cessation services could help promote understanding that smoking cessation is a major goal of the tax increase.

Although media reports had led us to anticipate an increase in tobacco companies' provision of coupons or other incentives in the Tenderloin as a "secret weapon" against the tax increase,<sup>21</sup> this was not borne out in our study. Indeed, our findings suggested that tobacco companies were generally *not* offering many promotions to neighborhood retailers or customers. This may reflect the limited number of pre-existing tobacco company contracts among Tenderloin retailers, a consequence of retailer disinterest and low sales volumes. Tobacco manufacturers may also have relied on strategies other than coupons or buy-downs

that we did not capture – such as lowering the price of or introducing new discount brands – that are less reliant on retailers’ willingness to participate.

Retailers have often served as important tobacco industry allies, particularly when opposing local tobacco control efforts.<sup>38</sup> The retailers in our study, however, appeared to have weak ties to the tobacco industry. Not only did they have few contracts with tobacco companies, but many also expressed ambivalence about selling tobacco, whether because of decreasing profitability, the stress and “hassle” involved, and/or concerns for customer well-being. These findings underscore the value of viewing retailers as potential stakeholders in tobacco control efforts.<sup>12</sup> In San Francisco, this recognition has already borne fruit: retailer outreach and engagement by the Department of Public Health and others proved vital to the passage of a 2014 ordinance capping the number of tobacco retail licenses at 45 in each of the city’s 11 districts.<sup>39</sup> For other communities, a first step toward enlisting tobacco retailers as tobacco control allies may be to assess the strength of the relationship between retailers and the tobacco industry – it may be weaker than anticipated.

Communities could also try to capitalize on small retailers’ negative experiences with selling tobacco (including low profit margins and high stress) to encourage them to minimize or abandon such sales. A key selling point of San Francisco’s healthy retail program mentioned above is the higher profit margins retailers can realize on fresh produce compared to cigarettes.<sup>40</sup> Jurisdictions that have tobacco licensure could consider offering tax or other incentives to store owners who permanently give up their tobacco licenses. This could be promoted with a “quit tobacco” campaign that emphasized not simply the health benefits to the community (an approach taken in 2008 by the New York State Department of Health),<sup>41</sup> but also the financial and mental health benefits for retailers.

Given the limitations of our study and the small number of earlier studies that have examined tobacco retailers’ perspectives on selling tobacco, and on tobacco control policies, 6–12, 42, 43 further research is needed. Little is known, for example, about the perspectives of large retail chains that sell tobacco, although some information is available on those that have discontinued the practice.<sup>41,44</sup> More research is also needed on small retailers to understand their attitudes toward selling tobacco, any patterns in their relationships with tobacco companies, etc. Both types of research would benefit from POS data to help confirm retailers’ experiences and shed light on tobacco company pricing strategies in the face of tax increases.

The retail sector is becoming an important focus of tobacco control policy discussion, with advocates and researchers proposing various strategies to reduce the number of tobacco retailers (e.g., prohibiting tobacco sales within a certain distance of schools, regulating the distance between tobacco outlets, confining sales to particular types of stores).<sup>45–47</sup> If these efforts are to succeed, it will be important to enlist retailers as allies. Our study suggests that there may be opportunities to do so among small retailers, particularly those with concerns about the impact of selling tobacco on their customers’ health and their own peace of mind.

## Supplementary Material

Refer to Web version on PubMed Central for supplementary material.

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### What this Paper Adds

- Although retailers are an important constituency for tobacco control policies that affect the point of sale, few studies have explored the perceptions of small, independent retailers on the impact of tobacco tax increases on their customers and businesses. Our qualitative study contributes to this small literature.
- This study of tobacco retailers in a low-income multiethnic neighborhood in San Francisco with the highest concentration of tobacco outlets found that the great majority reported that the immediate impact of California's \$2 per pack tax increase was a reduction in sales.
- Some retailers expressed ambivalence about selling a product that is bad for their customers, and few had formal relationships with tobacco companies, suggesting that retailers in this neighborhood may be enlisted as tobacco control allies.