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On the Development and Maintenance of Cigarettes Exported to North Korea

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Abstract According to the requirements of "going out" strategy of Jilin Tobacco Industry Co. Ltd., in order to further expand the Changbaishan series brand in the market of North Korea, this paper elaborates the product development and maintenance ideas and measures for three cigarette companies in North Korea based on the actual work being done, so as to determine the development and maintenance focus of export cigarettes and provide strong technical support for accelerating the pace of localization of production while achieving homogenization of production.

Key words Export of cigarettes, Development, Maintenance, Packaging, Localization, Homogenization

The world's leading large tobacco companies all grow up by "going out" to expand overseas markets^[1]. To build the brand "Changbaishan" overseas, Jilin Tobacco Industry Co. Ltd. (hereinafter referred to as the company) has set up three cigarette manufacturers in North Korea, and "going out" strategy is established as the basic principles for the further expansion of "Changbaishan" brand overseas. In recent years, with the rapid expansion of scale of multinational enterprises^[2], the "Changbaishan" series brand exported to North Korea has achieved leapfrog development. In 2011, the production and sales of the company reached 141000 boxes, accounting for more than 40% of total supply of cigarettes in North Korea, and it became China's largest overseas tobacco cigarette manufacturer. As overseas enterprises develop by leaps and bounds, how to research and develop the marketable cigarettes with better economic and social benefits in accordance with the actual situation of North Korea, enhance product maintenance and accelerate localization of production while achieving homogenization of production, is becoming a major issue that must be thoroughly studied and solved by R & D personnel.

1 Current situation and development prospects of cigarette market in North Korea

1.1 Market situation North Korea is an underdeveloped country, and people's standards of living are relatively low. Especially in the areas outside Pyongyang, the consumers' purchasing power is very low. Subject to the constraints of the purchasing power of consumers, the cheap and high-concentration cigarettes occupy most of the cigarette markets in North Korea. Pyongyang is North Korea's capital, with high spending power, and as the foreign investment organizations and Chinese tourists continue to increase, Pyongyang has become the major consumer market of medium-to-high grade cigarettes in North Korea. More than 80% of men in North Korea smoke while women basically do not smoke.

Currently, the actual cigarette consumption is 0.4 million cases in North Korea.

1.2 Development prospect Over the years, the special political and military environment and closed socio-economic factors of North Korea have restricted the speed of its economic development. In recent years, North Korea has implemented economic revival policies and some open-door policy to attract foreign investment. It allows Jilin Tobacco Industry Co. Ltd. to establish the tobacco base and tobacco production line in North Korea to expand production scale. With the change in North Korea's economic policy over the next 10 years, the living standards and purchasing power of the people will be gradually improved, and the potential market capacity is estimated at 0.8 – 1 million cases, bringing favorable market basis for the enterprises to expand the scale. At the same time, the company establishes the tobacco base and tobacco shred production line in North Korea, to create a favorable production base for further deepening bilateral cooperation and expanding production scale.

2 Product style, market positioning and product structure

2.1 Product style and market positioning According to the actual market situation of North Korea, combined with years of accumulated experience in product development, we determine the style of different grades of tobacco products and market positioning, as shown in Table 1.

2.2 Product structure According to the production plan in 2013, we determine the proportion of low-end, middle-end and high-end cigarettes, as shown in Table 2.

3 Ideas and measures concerning the product development and maintenance

3.1 Product development ideas Most of current China's exported cigarettes are Chinese flue-cured tobacco type cigarettes, but in the long term, in order to win broader space for development, the export cigarette industry enterprises should further focus

on technological innovation, and pay attention to the development of Chinese mixed type cigarettes and low-nicotine cigarettes, to explore the international market, actively guide the consumption, actively create demand, and expand overseas market share^[3]. The research and development of low hazard cigarettes is the research focus of the tobacco industry at home and abroad^[4]. Based on the overall planning and design idea of Jilin's overseas tobacco companies during the Twelfth Five-Year Guideline period, combined with the current market situation of North Korea, it is necessary to

Table 1 The cigarette product style and market positioning in North Korea

Grade of products	Product flavor	Sensory quality characteristics	Major consumer groups	Age range	Major consumer markets
Low-end	Chinese mixed type	High concentration, high physiological strength	Farmers, business workers, the general staff	20 – 50 years old	The whole territory of North Korea (except Pyongyang)
Middle-end	Chinese flue-cured tobacco type and Chinese flue-cured tobacco	Relatively high concentration, relatively high physiological strength	Farm cadres, cadres of enterprises, civil servants	20 – 40 years old	The whole territory of North Korea
High-end	Chinese flue-cured tobacco type	High smoking aroma quality, high concentration of aroma, moderate physiological strength, moderate concentration	Business leaders, military leaders, Chinese business staff, Chinese tourists, young fashion – pursuers	25 – 60 years old	Pyongyang

Table 2 The proportion of low-end, middle-end and high-end cigarettes

Grade of products	Proportion // %
Low-end	92.4
Middle-end	7.5
High-end	0.1

3.2 The product maintenance measures for localization of production Due to the raw material costs and other factors, the profit of low-end cigarettes currently exported to North Korea is generally low, becoming the greatest constraint on overseas enterprises' further development. The company decides to implement the strategy of localization^[5] to lower product costs and improve economic and social benefits, and build the tobacco base in North Korea and transfer the ancillary equipments related to the production of cigarettes to North Korea, to create a good hardware environment for the localization of industrial production^[5]. With the homogenization of production as purpose and improvement of economic benefit as goal, the product maintenance for localization of production is specifically divided into three stages. The first stage is the lamina production stage, during which the same formula and different shred-cutting methods are used, and the of raw material is in the state of lamina. The specific maintenance idea is that the lamia, tobacco stems, flakes and other raw materials imported from China are used and the cigarettes are produced with the same formula in North Korea. The key technology at this stage is the adjustment of technology route and process parameters to achieve homogenization of production^[6]. The second stage is the mixed production stage of lamina and bundle, during which different formulae and different shred-cutting methods are used and the raw materials are in the state of lamina and bundle. The specific maintenance idea is that according to the tobacco production of North Korea in the previous year, part of local bundles and part of

determine the development focus for different grades of cigarettes (with the Chinese flue-cured tobacco type and Chinese mixed type cigarettes^[2] as development focus), to gradually guide the middle-end and high-end cigarette market, and expand production scale. As for the low-end cigarettes, due to the constraints of raw material costs and widespread loss, it is necessary to take the low-cost and low-tar (tar of 9 – 11 mg) Chinese mixed type cigarettes as the product development focus.

imported lamina and tobacco stems are used; tobacco sheet and other raw materials are totally imported from China. The key technology at this stage is tobacco grouping, processing, blending, processing technology design^[7] and homogenization, with the purpose of eliminating differences in the quality of tobacco between different types, different regions and different grades, avoiding the fluctuations in the product quality due to the formula adjustment^[7], and achieving homogenization of production. The third stage is the cigarette bundle production stage, during which different formulae and different shred-cutting methods are used, and the raw materials are in the state of bundle. The key technology at this stage is the development of cigarette production formula and proper adjustment of processing route and parameters to achieve the purpose of homogenization of production. The specific maintenance idea is that the locally grown tobacco, stems and sheets are used, in order to achieve the ultimate goal of localization of production.

3.3 Supply mode of semi-finished materials According to product quality, aroma, formula structure, flue-cured tobacco yield and quality and actual conditions of North Korea, the supply mode of some semi-finished materials is determined. The raw materials for middle-end and high-end cigarettes are flue-cured tobacco, and taking into account the poor yield and quality of flue-cured tobacco produced in North Korea, the tobacco shreds for middle-end and high-end cigarettes are primarily provided from domestic production. The raw materials for low-end flue-cured cigarettes are low-grade flue-cured tobacco. Due to the poor yield and quality of flue-cured tobacco produced in North Korea, the flue-cured tobacco can not be used for production until the tobacco quality meets the needs of production. So the tobacco shreds for low-end flue-cured cigarettes are temporarily provided by the company from domestic production. According to the situation of sharp increase in domestic tobacco prices and raw materials shortage, we

take into account the actual needs of specific consumers' smoking and use some products with great difficulty in development of domestic raw materials. The international purchasing of tobacco is taken to ease the shortage of domestic raw materials and sharp rise in product costs.

4 Cigarette packaging design

The cigarette packaging design, as an important part of cigarette product design, plays an important role in transmitting the internal product information, and establishing a brand image. Along with North Korea's increasingly fierce competition in the tobacco industry, cigarette packaging has played an increasingly important role in increasing consumers' brand awareness and developing consumers' loyalty to brand. The cigarette packaging design in North Korea is different from China's special requirements, and it has rich Korean national characteristics and cultural connotations.

4.1 Difference in cigarette packaging between China and North Korea

Due to the impact of national conditions and traditional cultural practices, the cigarette packaging in North Korea is different from China's cigarette trademark in terms of cigarette names, packaging color, text, symbols and materials. The cigarette prices are generally low in North Korea, so the low-end products adopt the coated paper and soft box as packaging materials, the middle-end and high-end products generally use white cardboard and hard box as packaging materials, and only a few high-end products use the laser cardboard and golden card paper. In this regard, it is more environment-friendly than China's cigarette trademark.

4.2 Design direction- highlighting the characteristics of cigarette trademark in North Korea

The packaging design of cigarettes exported to North Korea must inherit North Korea's national culture and traditional practices, and it is necessary to use nationalized cigarette packaging design with distinctive characteristics of North Korea^[8]. In the first place, it is necessary to highlight the cultural characteristics of North Korea, endow the cigarettes of North Korea with historical and cultural characteristics, and innovate upon the cigarette trademark, cigarette packaging, cigarette advertising, cigarette shape design and marketing methods, to make cigarettes carry more historical and cultural connotations. In the second place, it is necessary to highlight the national character and national ideology, and firmly grasp this principle in cigarette brand design. In the design of cigarette trademark and packaging design, there is a need to study the Korean consumer psychology, and it must be designed to fully reflect the national characteristics and national ideology of North Korea^[8]. The specific design paradigm is embodied in the cigarette packaging design of "Changbaishan" (아리랑) brand, as shown in Fig. 1. The Koreans are known for their singing and dancing, and the dance moves are mostly improvised. The performers' inherent emotions are in harmony with their actions, and the major forms include Farmers' Dance, Mask Dance, Sword Dance and Fan Dance. The design uses white color as the dominant hue, and selects the pattern of a

pair of dancers, embellished with streamlined silver ribbon in the blending of quietness and motion, symbolizing Korean People's folk culture of optimism and singing and dancing.



Fig. 1 "Changbaishan" (아리랑) cigarette trademark

In addition, it is necessary to pay attention to the application of new style in packaging design. The external packaging is an important part of brand for highlighting individuality and attracting attention, and how to use the external packaging styles for brand promotion is a very important aspect. The specific design paradigm is embodied in the packaging design of "Changbaishan" (아리랑) cigarette gift box and the packaging design of flat cigarette box, as shown in Fig. 2. This cigarette product is mainly used for promotion and gift giving. The flat hard box packaging is designed, and it is unique in an array of square cigarette packaging, which can improve high-end consumers' awareness of this cigarette product. Due to the impact of national conditions and traditional cultural practices of North Korea, the cigarette packaging in North Korea has its unique demand in terms of cigarette name, packaging color, text symbols and materials, and designers must know and remember this. The future cigarette packaging design in North Korea should highlight the trademark nationality of Korean cigarette, reflect cultural connotation, and focus on the application of new style in the packaging design.

5 Conclusions

5.1 Accelerating the implementation of localization Localization is essentially the key of multinational globalization strategy, and in the localization process, it is necessary to occupy the local market, and inject its management philosophy into the capital-importing countries to accelerate the pace of integration into economic globalization^[3]. Accelerating the localization of production is directly related to the rapid expansion of overseas business scale, improvement of product structure, cost reduction, and substantial increase in the economic and social benefits as well as the competitiveness of products. It is necessary to focus on the localization of production of raw materials and other related auxiliary materials, which is of vital importance to the company's going out" development strategy.

5.2 Optimizing the product structure In the product structure determined by yield, the proportion of middle-end and high-



Fig.2 "Changbaishan" (아리랑) cigarette gift box and flat box trademark

end cigarettes is too small, while the proportion of low-end cigarettes is too large (Table 2), and the resulting unfavorable situation of poor economic returns has become a constraint on the development of overseas enterprises. Therefore, based on product sales, it is necessary to re-enact marketing plan, and vigorously strengthen the development and marketing of middle-end and high-end products and gradually narrow the production scale of low-end products.

5.3 Actively carrying out the trademark design and registration Currently, in the research, development and design of exported cigarettes, the trademark registration process is slow, and the period of coming into the market is long. In the future work, the three companies in North Korea should strengthen the collaborative work in a timely manner, and actively work to determine cigarette brand names in accordance with the needs of the Korean market, to provide a clear direction for the logo design work. Meanwhile, it is necessary to accelerate the trademark registration, and shorten the development cycle of new products.

5.4 Strengthening the product marketing efforts With "taking the initiative, long-term cooperation, joint operation and common development" as goals, it is necessary to strengthen the rational distribution of interests or use partner channels to work together to build the cigarette sales network and channels, promote the cigarette marketing and sales activities to lay a solid and reliable foundation for the exported cigarettes to expand the international market, and provide strong network security and support channels^[3]. In the brand management process, multinational companies^[2] are inseparable from professional marketing team. Currently, the DPRK side is responsible for the sales of the products of joint venture in North Korea, and the weak sales link affects the further expansion of product sales volume, so it is necessary to continue to strengthen and improve the cigarette marketing. The product research and development technical staff should fully assist the three overseas companies to constantly explore the new demand of Korean marketing strategy, and strengthen technical consulting services and collaboration work, to expand the competitiveness and influence of "Changbaishan" brand cigarette in the Korean market.

5.5 Shouldering heavy responsibilities to promote "going out" To further expand the "Changbaishan" brand overseas, Jin

lin Tobacco Industry Co. Ltd. should not only refer to the successful experience of "Changbaishan" brand at home according to North Korea's national conditions, but also determine the style of the product and market positioning on the basis of accurately grasping the current cigarette situation and development prospects in North Korea. Under the premise of improving product structure, it is necessary to optimize the product structure, focus on the development of middle-end and high-end cigarettes exported to North Korea, enhance the homogenization of production, significantly reduce product costs, and improve economic efficiency. It is also necessary to accelerate the localization of production to meet the requirements of homogenization of production, further expand the scale, improve product structure, and improve economic efficiency. Meanwhile, it is necessary to vigorously strengthen product marketing efforts to build a professional marketing team, and provide powerful marketing tool and perfect marketing environment as well as sales channels support in order to expand the business scale, improve the structure, and enhance the economic and social benefits.

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