



**Federal Trade Commission**

**Cigarette Report**

**For 2006**

ISSUED: 2009

## **I. INTRODUCTION**

This report is the latest in a series on cigarette sales, advertising, and promotion that the Federal Trade Commission (“the Commission”) has prepared since 1967.

The statistical tables appended to this report provide information on domestic sales and advertising and promotional activity for U.S.-manufactured cigarettes for the years 1963 through 2006. The tables were compiled from raw data contained in special reports submitted to the Commission pursuant to compulsory process by the five major cigarette manufacturers in the United States. The 2006 data were obtained from: Altria Group, Inc. (the ultimate parent of Philip Morris); Houchens Industries, Inc. (the ultimate parent of Commonwealth Brands, Inc. during the relevant period); Loews Corp. (the ultimate parent of Lorillard Tobacco Co. during the relevant period); Reynolds American, Inc. (the ultimate parent of R.J. Reynolds Tobacco Co. during the relevant period).

Table 1A displays the total number of cigarettes sold and given away in the years 2001 through 2006.<sup>1</sup> In 2006, the major domestic cigarette manufacturers sold or gave away 350.6 billion cigarettes domestically, down from 354.6 billion in 2005. Sales declined from 351.6 billion in 2005 to 343.4 billion in 2006, while cigarettes given away rose from 3.0 billion in 2005 to 7.2 billion in 2006.

Because the cigarette sales data reported to the Commission by the major manufacturers are based on factory shipments, and thus can reflect changes in inventory holdings by cigarette wholesalers and retailers, the Commission's annual reports also include information from the cigarette consumption series produced by the U.S. Department of Agriculture (USDA), which is based on an estimate of the number of cigarettes actually consumed.<sup>2</sup> USDA's cigarette consumption estimates, which are included in Table 1A, show a 1.3 percent decrease from 2005 to 2006 (from 376 billion cigarettes to 371 billion).

### **III. ADVERTISING AND PROMOTIONAL EXPENDITURES BY CATEGORY**

Tables 2 through 2D show the amounts spent on cigarette advertising and promotion for the years 1970, and 1975 through 2006.<sup>3</sup> These tables list the amounts spent on the different types of

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<sup>1</sup> Cigarettes given away include all cigarettes distributed for free, whether through sampling, coupons for free product, "buy 3 packs, get 1 free" type offers, or otherwise, as long as those cigarettes were not reported as sold. For years prior to 2001, the Commission required the manufacturers to report the number of cigarettes they sold but not the number they gave away. It is possible, however, that in those earlier years, some manufacturers included in their sales figures some cigarettes that were actually given away.

<sup>2</sup> USDA's estimates also include sales by smaller manufacturers and importers.

<sup>3</sup> The reported figures include all advertising, merchandising, and promotional expenditures related to cigarettes, regardless of whether such expenditures would constitute "commercial speech" or would be protected from law enforcement action under the First Amendment. The Commission began requiring tobacco companies to include expenditures for such protected speech in 1989.

media advertising (*e.g.*, magazines) and sales promotion activities (*e.g.*, distribution of cigarette samples), and also give the percentage of the total amount spent for the various types of advertising and promotion.

Table 2D shows that overall, \$12.49 billion was spent on cigarette advertising and promotion in 2006, a decline from the \$13.11 billion reported by the major cigarette manufacturers in 2005.<sup>4</sup>

The manufacturers reported spending \$50.3 million on magazine advertising in 2006 – up from \$44.8 million in 2005. Magazine advertising represented less than one-tenth of one percent of total spending in both years. Spending on magazine advertising peaked in 1984, when the cigarette companies reported spending \$425.9 million (20.3 percent of total advertising and promotional expenditures).

Spending on “outdoor” advertising declined from \$9.8 million in 2005 to \$935,000 in 2006. Beginning in 2002, “outdoor” advertising has been defined to mean billboards; signs and placards in arenas, stadiums, and shopping malls (whether they are open air or enclosed); and any other advertisements placed outdoors, regardless of their size, including those on cigarette retailer property. In prior years, “outdoor” advertising was not precisely defined. In particular, it was not clear that signs in arenas, shopping, stadiums, shopping malls, or on retailer property would have been reported in this category.

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<sup>4</sup> Definitions of the advertising and promotional expenditure categories currently used are reported in the Appendix to this report. To avoid potential disclosure of individual company data, the Commission is not separately reporting expenditures for newspaper advertising; promotional allowances paid to persons other than retailers and wholesalers; sponsorships; general audience public entertainment; or telephone advertising. Those categories are shown as “N/A” on Table 2D and their expenditures are included in the “All Others” category. Nor is the Commission reporting the amount of money spent advertising and promoting sports and sporting events.



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<sup>6</sup> Branded specialty item distribution includes the practice of selling or giving to consumers non-cigarette items such as T-shirts, caps, sunglasses, key chains, calendars, lighters, and sporting goods bearing a cigarette brand's name or logo.

<sup>7</sup> Non-branded specialty item distribution includes the practice of giving consumers non-cigarette items such as compact discs, lighters, and sporting goods in connection with the marketing of cigarettes.

<sup>8</sup> As explained in footnote 4, above, the Commission is not reporting the amount spent on general audience public ente

testimonials for cigarettes in 2006, or on audio-visual advertising.

The cigarette companies reported spending \$102.4 million for direct mail advertising in 2006, up from \$51.8 million spent in 2005.<sup>9</sup>

The industry reported spending \$625.8 million on coupons in 2006 (a decrease from the \$870.1 million reported in 2005).<sup>10</sup>

Retail-value-added expenditures are the costs associated with offers such as “buy one, get one free” and “buy three, get a free T-shirt,” where the bonus item is distributed at retail when the cigarettes are purchased.<sup>11</sup> The companies spent \$817.8 million in 2006 on retail-value-added involving free cigarettes. They also spent \$14.6 million on retail-value-added involving free non-cigarette items. Total retail-value-added expenditures were \$832.4 million in 2006, an increase from the \$732.5 million spent in 2005.

In 2006, the companies reported spending \$6.5 million on advertising on company websites; that figure had been \$2.7 million in 2005. They continued to report having made no expenditures on any other Internet advertising (*e.g.*, banner ads on third-party sites or direct mail advertising using e-mail).

In 2001, the Commission began requiring the major cigarette manufacturers to report expenditures on advertisements directed to youth or their parents that are intended to reduce youth smoking. For 2006, the companies reported spending \$57.7 million on such advertising, an increase

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<sup>9</sup> This category does not include direct mail containing coupons, which are reported separately.

<sup>10</sup> In 2002, the Commission clarified that when coupons are distributed for free cigarettes and no purchase is required to redeem them, such activities should be reported only as “sampling,” not as “coupons.”

<sup>11</sup> The cigarettes and the bonus items are often packaged together as a single unit.

from the \$55.5 million spent in 2005.<sup>12</sup> These figures do not include contributions to third parties that

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<sup>12</sup> These expenditures are not included in the \$12.49 billion reported in Table 2D.



Commission began collecting this information in 1963. Filtered cigarettes continued to account for 99 percent of the market in 2006.

Table 6 provides the domestic market share of the various cigarette length categ

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<sup>13</sup> Prior to 2002, the Commission asked whether “tar and nicotine ratings” were displayed on cigarette packaging.

TABLE 1

TOTAL DOMESTIC CIGARETTE UNIT SALES  
(IN BILLIONS OF INDIVIDUAL CIGARETTES)

TOTAL SALES REPORTED BY  
CIGARETTE

YEAR

TABLE 1A

**TOTAL DOMESTIC CIGARETTE UNITS SOLD AND GIVEN AWAY**  
(IN BILLIONS OF INDIVIDUAL CIGARETTES)

<u>YEAR</u>	<u>UNITS SOLD*</u>	<u>UNITS GIVEN AWAY**</u>	<u>TOTAL NUMBER SOLD AND GIVEN AWAY AS REPORTED BY MANUFACTURERS</u>	<u>UNIT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u>	<u>PERCENT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u>	<u>USDA CIGARETTE CONSUMPTION ESTIMATES</u>
2001	398.3	3.9	402.2	***	***	425.0
2002	376.4	11.1	387.4	(14.8)	(3.7)	415.0
2003	360.5	7.1	367.6	(19.8)	(5.1)	400.0
2004	361.3	2.1	363.4	(4.2)	(1.1)	388.0
2005	351.6	3.0	354.6	(8.8)	(2.4)	376.0
2006	343.4	7.2	350.6	(4.0)	(1.1)	371.0

\* Cigarettes sold by manufacturers to wholesalers and retailers within the U.S. and to armed forces personnel stationed outside the U.S.

\*\* Cigarettes given away within the U.S. and to armed forces personnel stationed outside the U.S.

\*\*\* Prior to 2001, the Commission did not ask about cigarettes given away, although some cigarettes given away may have been reported as sold.



TABLE 2A  
DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES FOR YEARS 1986-1995 (DOLLARS IN THOUSANDS)\*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Newspapers	\$119,629 5.0%	\$95,810 3.7%	\$105,783 3.2%	\$76,993 2.1%	\$71,174 1.8%	\$48,212 1.0%	\$35,467 0.7%	\$36,220 0.6%	\$24,143 0.5%	\$19,122 0.4%
Magazines	\$340,160 14.3%	\$317,748 12.3%	\$355,055 10.8%	\$380,393 10.5%	\$328,143 8.2%	\$278,110 6.0%	\$237,061 4.5%	\$235,253 3.9%	\$251,644 5.2%	\$248,848 5.1%
Outdoor	\$301,822 12.7%	\$269,778 10.5%	\$319,293 9.7%	\$358,583 9.9%	\$375,627 9.4%	\$386,165 8.3%	\$295,657 5.7%	\$231,481 3.8%	\$240,024 5.0%	\$273,664 5.6%
Transit	\$34,725 1.5%	\$35,822 1.4%	\$44,379 1.4%	\$52,294 1.4%	\$60,249 1.5%	\$60,163 1.3%	\$53,293 1.0%	\$39,117 0.6%	\$29,323 0.6%	\$22,543 0.5%
Point-of-Sale	\$135,541 5.7%	\$153,494 5.9%	\$222,289 6.8%	\$241,809 6.7%	\$303,855 7.6%	\$344,580 7.4%	\$366,036 7.0%	\$400,943 6.6%	\$342,650 7.1%	\$259,035 5.3%
Promotional Allowances	\$630,036	\$702,430	\$879,703	\$999,843	\$1,021,427	\$1,156,280	\$1,514,026	\$1,557,635	\$1,678,917	\$1,865,657





TABLE 2D

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES  
FOR YEAR 2006 (DOLLARS IN THOUSANDS)\*

2006

Newspapers






TABLE 4A  
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

Year	Market share of cigarettes having tar yields of:				
	15 mg. or less	12 mg. or less	9 mg. or less	6 mg. or less	3 mg. or less
1991	60.5%	52.6%	22.0%	12.7%	2.6%
1992	68.7%	52.9%	24.9%	12.7%	2.5%
1993	66.5%	53.3%	23.4%	12.6%	1.9%
1994	71.2%	53.7%	23.1%	12.3%	2.1%
1995	72.7%	53.6%	27.1%	12.2%	2.2%
1996	67.4%	55.5%	22.3%	11.9%	1.9%
1997	70.2%	55.6%	21.9%	11.5%	1.7%
1998	81.9%	56.8%	22.9%	13.2%	1.6%
1999	86.6%	57.4%	25.3%	13.6%	1.6%
2000	87.1%	50.4%	23.7%	13.6%	1.3%
2001	85.2%	58.1%	22.6%	13.2%	1.0%
2002	84.9%	58.2%	22.5%	12.9%	0.9%
2003	84.9%	59.5%	22.5%	12.6%	0.8%*
2004	84.8%	57.7%	19.2%	11.5%	0.8%
2005	83.5%	58.4%	18.7%	11.5%	0.6%
2006	92.7%	63.2%	21.0%	12.4%	0.6%

\* This figure was erroneously reported as 1.0% in a previous Commission report.

TABLE 5

DOMESTIC MARKET SHARE OF FILTER  
AND NON-FILTER CIGARETTES

<u>YEAR</u>	<u>NON-FILTER</u>	<u>FILTER</u>	<u>CHARCOAL</u>	<u>NON-CHARCOAL</u>
1963	42%	58%	*	*
1964	39%	61%	*	*
1965	36%	64%	*	*
1966	32%	68%	*	*
1967	28%	72%	*	*
1968	26%	74%	6%	68%
1969	23%	77%	6%	71%
1970	20%	80%	6%	74%
1971	18%	82%	6%	76%
1972	16%	84%	6%	77%***
1973	15%	85%	5%	80%
1974	14%	86%	5%	81%
1975	13%	87%	5%	82%
1976	12%	88%	4%	84%
1977	10%	90%	4%	86%
1978	10%	90%	3%	87%
1979	9%	91%	3%	88%
1980	8%	92%	3%	89%
1981	8%	92%	2%	90%
1982	7%	93%	2%	91%
1983	7%	93%	2%	91%
1984	7%	93%	2%	91%
1985	6%	94%	1%	93%
1986	6%	94%	1%	93%
1987	4%	96%	**	**

\* Figures for charcoal filter cigarettes for the years 1963 through 1967 were not obtained.

\*\* Beginning with 1987, figures for charcoal filter cigarettes have no longer been reported.

\*\*\* This figure was previously misreported as 87%.

TABLE 5A

DOMESTIC MARKET SHARE OF FILTER  
AND NON-FILTER CIGARETTES

<u>YEAR</u>	<u>NON-FILTER</u>	<u>FILTER</u>
1988	5%	95%
1989	5%	95%
1990	5%	95%
1991	4%	96%
1992	3%	97%
1993	3%	97%
1994	3%	97%
1995	3%	97%
1996	3%	97%
1997	2%	98%
1998	2%	98%
1999	2%	98%
2000	2%	98%
2001	2%	98%
2002	2%	98%
2003	1%	99%
2004	1%	99%
2005	1%	99%
2006	1%	99%

TABLE 6

DOMESTIC MARKET SHARE OF CIGARETTES  
BY LENGTH IN MILLIMETERS (mm.)\*

<u>YEAR</u>	<u>68-72 mm.</u>	<u>79-88 mm.</u>	<u>94-101 mm.</u>	<u>110-121 mm.</u>
1967	14%	77%	9%	---
1968	12%	74%	13%	---
1969	11%	74%	16%	---
1970	9%	73%	18%	---
1971	8%	72%	20%	---

TABLE 7

DOMESTIC MARKET SHARE OF MENTHOL  
AND NON-MENTHOL CIGARETTES

<u>YEAR</u>	<u>MENTHOL</u>	<u>NON-MENTHOL</u>
1963	16%	84%
1964	16%	84%
1965	18%	82%
1966	19%	81%
1967	20%	80%





## APPENDIX

### 2006 Advertising and Promotional Expenditure Categories

**Newspapers:** Newspaper advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

**Magazines:** Magazine advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

**Outdoor:** Billboards; signs and placards in arenas, stadiums, and shopping malls, whether they are open air or enclosed; and any other advertisements plac

**Public Ent**

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