



Federal Trade Commission
Smokers Tobacco Report
for the Year 2006

2009

I. INTRODUCTION

This report is the latest in a series on smokeless tobacco sales, advertising, and promotion that the Federal Trade Commission (“the Commission”) has prepared since 1987. The statistical tables contained within this report provide information on domestic smokeless tobacco sales and advertising and promotional activities.¹ Commission staff prepared these tables using information collected, pursuant to compulsory process, from the parent companies of the five major manufacturers of smokeless tobacco products in the United States. The 2006 data were obtained from: North Atlantic Trading Company, Inc. (the parent of National Tobacco Company); Reynolds American, Inc. (parent of R.J. Reynolds Tobacco Company and Conwood LLC, which is the general partner of Conwood Sales Co., L.P.); Swedish Match North America, Inc.; Swisher International Group, Inc. (the parent of Swisher International, Inc.); and UST, Inc. (the parent of United States Smokeless Tobacco Company).

II. TOTAL SMOKELESS TOBACCO SALES AND ADVERTISING AND PROMOTIONAL EXPENDITURES

The figures in Table 1 indicate that the total number of pounds of smokeless tobacco sold by manufacturers to wholesalers and retailers was 115.82 million pounds in 2006, a decrease from the 116.20 million pounds in 2005.

Sales revenues received by the manufacturers from wholesalers and retailers decreased from 2005 (\$2.61 billion) to 2006 (\$2.59 billion), the second straight year in which revenues have declined.

¹ Some 1985 data are included. The 1985 data are less detailed than those from 1986 forward because they were collected retrospectively and were meant to serve as baseline data.

The five major manufacturers spent a total of \$354.1 million on advertising and promotion in 2006, an increase from the \$250.8 million spent in 2005.

In its 2007 Report covering the years 2002 through 2005, the Commission for the first time published data on the number of units of smokeless tobacco the companies sold and gave away in packages of various size (e.g., less than 1 ounce, from 2 ounces to less than 5 ounces, or 15 ounces or more). Those data are reported in Table 2, which shows that in 2006 – as in the previous four years – more packages weighing 1 ounce to less than 2 ounces were sold and given away than any other size package.

III. SMOKELESS TOBACCO ADVERTISING AND PROMOTIONAL EXPENDITURES BY CATEGORY

The Commission report covering 2002-2005 was the first one issued since the Commission substantially revised its definitions of the various smokeless tobacco advertising and promotional expenditure categories. These revisions clarified (and, in some cases, expanded) the definitions of certain categories, split several categories into smaller subcategories, and specified where money should be reported when expenditures fell within two or more categories.² The Commission also added new categories to pick up expenditures that may have previously been unreported or reported in the catch-all “other” category. Because this is only the second report since those changes were instituted, the revisions are discussed below with respect to the specific 2006 expenditure categories reported in Table 3H.³

² In some cases, the companies were asked to report these “dual” expenditures in a different category than they previously were reported.

³ Detailed definitions of the expenditure categories appear in the Appendix to this report. To avoid potential disclosure of individual company data, the Commission is not separately reporting expenditures for newspaper advertising, audio-visual advertising, promotional

allowances paid to persons other than retailers and wholesalers, branded specialty items, endorsements, sponsorships, or telephones. Those categories are shown as “N/A” on Table 3H and the expenditures are included in the “All Others” category.

⁴ Beginning with data for the years 2002-2005, the Commission has permitted the companies to report expenditures in thousands of dollars, rather than in actual dollars, as had previously been required.

⁵ The Commission’s orders for the years since 2002 have defined “outdoor” advertising 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 smokeless tobacco retailer property. Prior to 2002, “outdoor” advertising was

⁶ As explained in footnote 3, above, the Commission is not reporting the amount spent on promotional allowances paid to persons other than retailers and wholesalers.

This expenditure ca

Since 1992, the Commission has required the manufacturers to report the total amount of money they spent advertising and promoting sports and sporting events.¹¹ This question is separate from, and duplicative of, the reporting of the individual various advertising and promotion categories. For example, money spent on a magazine advertisement promoting a smokeless tobacco-branded sports tournament open to those of all ages is reported under the category “general-audience public entertainment” and is also reported as an expenditure on “sports and sporting events.” Similarly, expenditures on sponsorship of sports teams and individual athletes are reported under the category “sponsorship” and are also reported as “sports and sporting events.” These expenditures are only counted once, however, in computing the industry’s total advertising and promotional expenditures. Expenditures for sports and sporting events rose from \$15.7 million in 2005 to \$16.9 million in 2006.

The companies did not report spending any money in 2006 on advertisements directed to

¹¹ This includes expenditures for: (1) the sponsoring, advertising, or promotion of sports or sporting events; support of an individual, group, or sports team; and purchase of or support for equipment, uniforms, sports facilities, and/or training facilities; (2) advertising in the name of the smokeless tobacco company or any of its brands in a sports facility, on a scoreboard, or in conjunction with the reporting of sports results; and (3) all expenditures for functional promotional items (clothing, hats, etc.) connected with a sporting event.

¹² These expenditures are not included in the \$354.12 million reported in Table 3H.

television shows. The companies also reported that neither they nor anyone working for them or on their behalf: sought, solicited, granted approval, or otherwise gave permission for the appearance of any smokeless tobacco product or smokeless tobacco brand imagery in any motion picture, television show, or video appearing on the Internet.

IV. SMOKELESS TOBACCO SALES AND ADVERTISING AND PROMOTIONAL EXPENDITURES BY TOBACCO TYPE

There are several types of smokeless tobacco products, including dry snuff, moist snuff, plug/twist, and loose leaf chewing tobacco. Tables 4A through 4D present details on sales and advertising and promotional expenditures by type of smokeless tobacco.

From 2005 to 2006, the number of pounds of moist snuff sold increased, while the number of pounds sold of loose leaf/chewing tobacco, plug/twist, and scotch snuff/dry snuff, all fell. The 77.44 million pounds of moist snuff sold in 2006 exceeded the combined sales of all of the other kinds of smokeless tobacco.

Similarly, moist snuff continued to generate more revenue than any other type of smokeless tobacco. In 2006, dollar sales for moist snuff were \$2.21 billion, representing 85.1% of total smokeless tobacco sales.

Tables 4A through 4D also indicate that moist snuff continued to receive the greatest advertising and promotional support. In 2006, the companies spent \$308.46 million advertising and promoting moist snuff, compared to \$18.91 million for loose leaf/chewing tobacco, \$4,000 for plug/twist, and \$191,000 for scotch/dry snuff.

The companies also reported spending \$25.23 million in 2006 marketing brands that encompass more than one type of smokeless tobacco product. The amount spent on advertising

and promotion of these products is included in the total set forth in Table 3H, but not in Tables 4A through 4D.¹³

Tables 5A through 5D present details about the number of units sold in packages of various sizes for each type of smokeless tobacco product. For plug/twist, scotch/dry snuff, and moist snuff, more packages weighing 1 ounce to less than 2 ounces were sold in 2006 than any other size. For loose leaf/chewing tobacco, more packages weighing 2 ounces to less than 5 ounces were sold in 2006 than any other size.

¹³ The Commission now allows the companies to report marketing expenditures at the brand level, rather than at the variety level. For those smokeless tobacco brand families that encompass more than one type of product (e.g., moist snuff and plug/twist), marketing expenditures are thus available only at the brand level, and not for each individual type of product within the brand family.

TABLE 1
TOTAL SMOKELESS TOBACCO SALES
AND ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR 1985 - 2006

<u>Year</u>	<u>Sales in Pounds</u>	<u>Sales in Dollars</u>	<u>Advertising and Promotional Expenditures</u>
1985	121,449,115	\$730,618,970	\$80,068,229
1986	118,778,334	\$797,777,885	\$76,676,706
1987	116,540,281	\$852,717,347	\$67,777,044
1988	114,433,782	\$901,654,382	\$68,223,671
1989	116,440,365	\$981,637,304	\$81,200,611
1990	117,415,326	\$1,091,170,201	\$90,101,327
1991	120,110,686	\$1,237,961,670	\$104,004,040
1992	118,372,693	\$1,361,360,729	\$115,346,708
1993	115,888,785	\$1,475,460,518	\$119,230,826
1994	115,495,201	\$1,612,098,989	\$125,972,408
1995	116,387,464	\$1,735,840,489	\$127,323,282
1996	116,404,222	\$1,790,406,160	\$123,877,458
1997	113,975,148	\$1,817,508,055	\$150,426,310
1998	110,036,380	\$1,886,328,217	\$145,486,899
1999	109,401,055	\$1,940,736,017	\$170,213,761

TABLE 3A

TABLE 3B

SMOKELESS TOBACCO ADVERTISING
AND PROMOTIONAL EXPENDITURES
BY CATEGORY
FOR 1986 AND 1987

	1986	1987
Newspapers	\$626,979	\$1,452,710

* Expenditures allocated for television and radio advertising on electronic media subject to Federal Communications Commission ("FCC") regulations cover approximately six months of 1986 because the statutory broadcast ban became effective on August 28, 1986.

TABLE 3C

SMOKE LE SS TOBACCO ADVERTISING
AND PROMOTIONAL EXPENDITURES
BY CATEGORY
FOR 1988 - 1991

	1988	1989	1990	1991
Newspapers	\$940,256	\$449,918	\$880,629	\$1,109,503
Magazines	\$5,778,582	\$6,410,401	\$10,214,280	\$9,652,958
Outdoor	\$4,801,955	\$2,913,074	\$2,650,471	\$1,644,287
Audio, Visual	\$0	\$0	\$0	\$0
Transit	\$0	\$0	\$0	\$0
Point-of-Sale	\$7,436,270	\$9,693,996	\$10,320,657	\$10,749,602
Promotional Allowances	\$6,360,041	\$8,327,225	\$9,936,022	\$14,771,597
Sampling	\$12,345,180	\$15,019,174	\$13,461,932	\$13,959,101
Distribution Bearing Names	\$4,055,180	\$4,611,457	\$2,854,289	\$3,866,263
Direct Mail	\$623,731	\$935,370	\$78,000	\$893,000
Public Entertainment	\$17,501,791	\$19,638,397	\$20,272,355	\$21,116,095
Endorsements	\$260,539	\$292,290	\$264,484	\$344,000
Coupons & Retail Value Added*	\$4,655,429	\$9,689,049	\$16,438,440	\$23,306,499
<u>All Other</u>	<u>\$3,463,919</u>	<u>\$3,220,210</u>	<u>\$2,729,768</u>	<u>\$2,591,135</u>
TOTAL	\$68,223,671	\$81,200,611	\$90,101,327	\$104,004,040

* One company reported no expenditures for this category because its accounting records were not maintained to allow calculation of these expenditures. Instead, these expenditures were reported to the Commission in the Point-of-Sale or Promotional Allowances categories.

TABLE 3D

SMOKELESS TOBACCO ADVERTISING AND PROMOTIONAL EXPENDITURES
 BY CATEGORY
 FOR 1992 - 1995

	1992	1993	1994	1995
Newspapers	\$269,032	\$274,738	\$128,849	\$142,562
Magazines	\$9,258,297	\$8,040,702	\$10,261,201	\$11,533,093
Outdoor	\$694,388	\$855,643	\$1,112,524	\$1,474,121
Audio, Visual	\$0	\$0	\$0	\$0
Transit	\$0	\$0	\$0	\$0
Point-of-Sale	\$12,133,489	\$13,465,302	\$13,555,569	\$15,170,713
Promotional Allowances	\$11,397,882	\$13,073,381	\$10,244,241	\$8,304,066
Sampling	\$15,975,134	\$15,794,391	\$14,279,127	\$15,748,393
Distribution Bearing Names	\$2,609,348	\$4,246,353	\$10,368,596	\$9,915,589
Direct Mail	\$1,289,000	\$1,099,000	\$103,000	\$253,000
Public Entertainment	\$21,511,594	\$22,912,765	\$25,397,969	\$26,749,679
Endorsements	\$155,000	\$215,000	\$160,000	\$160,000
Coupons & Retail Value Added*	\$31,524,486	\$32,297,431	\$36,687,092	\$33,701,379
<u>All Other</u>	<u>\$8,529,058</u>	<u>\$6,956,120</u>	<u>\$3,674,240</u>	<u>\$4,170,687</u>
TOTAL	\$115,346,708	\$119,230,826	\$125,972,408	\$127,323,282

Sports & Sporting Events \$20,970,580 \$22,742,986 \$24,521,715 \$25,863,187

* One company reported no expenditures for this category because its accounting records were not maintained to allow calculation of these expenditures. Instead, these expenditures were reported to the Commission in the Point-of-Sale or Promotional Allowances categories.

TABLE 3E

SMOKELESS TOBACCO ADVERTISING AND PROMOTIONAL EXPENDITURES
BY CATEGORY FOR 1996 - 1999

	1996	1997	1998	1999
Newspapers	\$236,765	\$1,642,347	\$2,807,281	\$3,306,548
Magazines	\$13,362,100	\$11,874,395	\$18,389,758	\$18,436,630
Outdoor	\$3,544,994	\$4,991,256	\$2,228,381	\$7,258
Audio, Visual	\$0	\$0	\$0	\$0
Transit	\$0	\$0	\$0	\$0
Point-of-Sale	\$13,568,572	\$14,712,560	\$25,202,972	\$26,092,942
Promotional Allowances	\$12,722,615	\$14,692,865	\$14,959,694	\$30,756,608
Sampling	\$12,640,816	\$11,155,411	\$17,439,990	\$17,884,888
Distribution Bearing Names	\$11,728,976	\$17,999,555	\$3,768,161	\$3,161,884
Direct Mail	\$314,599	\$808,247	\$6,948,300	\$5,620,844
Public Entertainment	\$22,736,345	\$28,940,337	\$25,426,519	\$22,136,453
Endorsements	\$162,500	\$165,000	\$165,000	\$130,000
Coupons	\$3,446,225*	\$3,447,124*	\$10,965,387	\$24,221,899
Retail Value Added	\$22,390,838*	\$34,938,115*	\$11,204,800*	\$11,135,604*
Internet				

* One company reported no expenditures for this category because its accounting records were not maintained to allow calculation of these expenditures. Instead, these expenditures were reported to the Commission in the Point-of-Sale or Promotional Allowances categories.

TABLE 3F

SMOKELESS TOBACCO ADVERTISING AND PROMOTIONAL EXPENDITURES
BY CATEGORY FOR 2000 - 2001

	2000	2001
Newspapers	\$2,413,104	\$1,825,748
Magazines	\$13,890,399	\$21,963,961
Outdoor	\$6,987	\$10,522
Audio, Visual	\$0	\$0
Transit	\$0	\$0
Point-of-Sale	\$15,179,555	\$17,412,893
Promotional Allowances	\$45,393,210	\$60,866,870
Sampling	\$15,761,075	\$17,888,963
Distribution Bearing Names	\$347,124	\$324,694
Direct Mail	\$17,015,856	\$16,340,203
Public Entertainment	\$11,223,945	\$18,063,522
Endorsements	\$230,000	\$255,000
Coupons	\$32,746,769	\$31,526,860
Retail Value Added	\$64,883,152	\$43,235,466
Internet	\$155,405	\$262,296
<u>All Other</u>	<u>\$5,336,176</u>	<u>\$6,699,919</u>
TOTAL	\$224,582,757	\$236,676,917
Sports & Sporting Events	\$11,026,204	\$17,866,620

TABLE 3H

SMOKELESS TOBACCO ADVERTISING AND PROMOTIONAL
EXPENDITURES BY CATEGORY FOR 2006

	2006
Newspapers	N/A
Magazines	\$16,591,000
Outdoor	\$166,000
Audio, Visual	N/A
Transit	\$0
Direct Mail	\$9,574,000
Point-of-Sale	\$20,824,000
Price Discounts	\$203,692,000
Promotional Allowances – Retailers	\$3,731,000
Promotional Allowances – Wholesalers	\$9,047,000
Promotional Allowances – Other	N/A
Sampling	\$41,979,000
Specialty Item Distribution – Branded	N/A
Specialty Item Distribution – Non-Branded	\$34,000
Public Entertainment – Adult Only	\$0
Public Entertainment – General Audience	\$144,000
Endorsements & Testimonials	N/A
Sponsorships	N/A
Coupons	\$16,133,000
Retail Value Added – Bonus Smokeless Tobacco Product	\$12,047,000
Retail Value Added – Non-Smokeless Tobacco Bonus	\$1,406,000
Company Websites	\$891,000
Internet – Other	\$944,000
Telephone	N/A
<u>All Others</u>	<u>\$16,920,000</u>
TOTAL	\$354,123,000
Sports & Sporting Events	\$16,912,000

** Expenditures denoted “N/A” are included in the “All Others” category to avoid potential disclosure of individual company data.

TABLE 4A

SMOKELESS TOBACCO SALES AND ADVERTISING AND PROMOTIONAL
EXPENDITURES BY TOBACCO TYPE FOR 1986 - 2006
LOOSE LEAF/CHEWING TOBACCO

<u>Year</u>	<u>Pounds Sold</u>	<u>Dollar Sales</u>	<u>Advertising and Promotional Expenditures</u>
1986	65,697,634	\$255,668,419	\$32,249,750
1987	64,634,524	\$267,766,776	\$28,403,536
1988	60,648,126	\$264,298,268	\$26,198,078
1989	61,869,625	\$281,701,402	\$34,057,050
1990	60,896,991	\$295,462,446	\$35,194,561
1991	62,177,203	\$321,458,416	\$38,190,095
1992	58,850,933	\$320,085,975	\$42,820,544
1993	55,912,562	\$319,672,867	\$46,032,905
1994	54,242,322	\$316,888,405	\$44,807,716
1995	54,605,149	\$323,156,639	\$43,842,237
1996	54,204,655	\$325,533,391	\$36,387,774
1997	51,831,834	\$330,903,053	\$45,573,616
1998	46,887,918	\$317,087,609	\$26,780,236
1999	44,531,612	\$278,670,311	\$21,219,600
2000	44,077,019	\$275,356,571	\$15,592,978
2001	42,396,301	\$278,982,298	\$16,659,755
2002	40,703,148	\$288,895,090	\$17,211,000
2003	39,105,547	\$294,705,352	\$17,476,000
2004	39,183,779	\$310,329,793	\$18,218,000
2005	36,410,287	\$307,026,071	\$16,746,000
2006	34,692,990	\$310,525,106	\$18,910,000

TABLE 4B

SMOKELESS TOBACCO SALES AND ADVERTISING AND PROMOTIONAL
EXPENDITURES BY TOBACCO TYPE FOR 1986 - 2006

PLUG/TWIST CHEWING TOBACCO

Pounds Sold

Dollar Sales

TABLE 4C

SMOKELESS TOBACCO SALES AND ADVERTISING AND PROMOTIONAL
EXPENDITURES BY TOBACCO TYPE FOR 1986 - 2006
SCOTCH/DRY SNUFF

	<u>Pounds Sold</u>	<u>Dollar Sales</u>	<u>Advertising and Promotional Expenditures</u>
1986	8,110,168	\$58,951,001	\$181,977
1987	7,255,296	\$56,709,742	\$263,482
1988	7,069,754	\$57,221,662	\$501,543
1989	7,244,911	\$62,155,826	\$654,591
1990	6,185,410	\$56,601,390	\$472,404
1991	5,833,210	\$56,881,288	\$517,145
1992	5,623,404	\$57,657,911	\$354,774
1993	4,996,957	\$54,302,829	\$313,659
1994	4,814,130	\$55,574,320	\$272,038
1995	4,490,094	\$53,885,040	\$486,280
1996	4,218,705	\$53,858,106	\$437,339
1997	4,063,630	\$54,725,929	

TABLE 4D

SMOKELESS TOBACCO SALES AND ADVERTISING AND PROMOTIONAL
EXPENDITURES BY TOBACCO TYPE FOR 1986 - 2006

MOIST SNUFF

<u>Pounds Sold</u>	<u>Dollar Sales</u>	Advertising and Promotional <u>Expenditures</u>
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TABLE 5A

NUMBER OF UNITS SOLD – BY PACKAGE SIZE
FOR 2002- 2006

LOOSE LEAF/CHEWING TOBACCO

	Less than 1 oz.	1 oz. to less than 2 oz.	2 oz. to less than 5 oz.	5 oz. to less than 10 oz.	10 oz. to less than 15 oz.	15 oz. or more
2002	0	699,115	203,476,178	5,426,568	0	2,800
2003	0	658,495	191,761,704	6,750,937	0	286,274
2004	0	542,335	180,401,587	7,586,542	0	2,002,084
2005	0	448,644	165,667,992	6,859,556	0	2,157,700
2006	0	376,297	156,832,421	6,163,226	684	2,507,750

TABLE 5B

NUMBER OF UNITS SOLD SO

APPENDIX A

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 placed outdoors, regardless of their size, including those on smokeless tobacco retailer property; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail value added.

Audio-visual: Audio-visual or video advertising on any medium of electronic communication not subject to the Federal Communications Commission's jurisdiction, including screens at motion picture theaters, video cassettes or DVDs, and monitors in stores; but excluding expenditures in connection with Internet advertising.

Transit: Advertising on or within private or public vehicles and all advertisements placed at, on, or within any bus stop, taxi stand, transportation waiting area, train station, airport, or any other transportation facility; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail value added.

Direct Mail: Direct mail advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, retail value added, and Internet advertising.

Point-of-Sale: Point-of-sale advertisements; but excluding expenditures in connection with outdoor advertising, sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail value added.

Price discounts: Price discounts paid to smokeless tobacco retailers or wholesalers in order to reduce the price of smokeless tobacco to consumers, including off-invoice discounts, buy downs, voluntary price reductions, and trade programs; but excluding retail value added expenditures for promotions involving free smokeless tobacco and expenditures involving coupons.

Promotional Allowances—Retail: Promotional allowances paid to smokeless tobacco retailers in order

Retail Value Added – Bonus Smokeless Tobacco Retail value added expenditures for promotions involving free smokeless tobacco products (e.g., buy two, get one free), whether or not the free smokeless tobacco products are physically bundled together with the purchased smokeless tobacco products, including all expenditures and costs associated with the value added to the purchase of smokeless tobacco products (e.g., excise taxes paid for the free smokeless tobacco product).

Retail Value Added – Non-Smokeless Tobacco Bonus: Retail value added expenditures for promotions involving free non-smokeless tobacco items (e.g., buy two packs, get free key chain), including all expenditures and costs associated with the value added to the purchase of smokeless tobacco products.

Company Website: All expenditures associated with advertising on any company Internet website that can be accessed by computers located in the United States.

Internet – Other: Internet advertising other than on the Company's own Internet website, including on the World Wide Web, on commercial on-line services, and through electronic mail messages.

Telephone: Telephone advertising, including costs associated with the placement of telemarketing calls. 40000 TD(