CANADA'S SMOKERS PLUNGE DOWN THE TAR TABLE

A brisk switch of sales towards cigarettes lower and even lower in tar content has been the big feature of the marketing year, writes our correspondent, J.J. McGILL. Cigarette sales rose 2% in 1980, but trade in all other tobacco products, including fine-cut for hand-rolling, fell once more.

In the face of adverse circumstances on all sides, 1980 cigarette sales performed surprisingly well. As the year fades out total volume should reach 65,000m, registering a gain of just under 2% over 1979.

The climate for growth was unbelievably bad. Anti-smoking publicity was stepped up. Employment was intolerably high, while inflation ...ided the double-digit mark. Strikes plagued the service and manufacturing sectors of the economy. Meanwhile, tobacco taxation was increased and, together with higher manufacturing costs, passed on to the consumers. Once again, the cigarette business has proved itself a very resilient industry.

The 'roll your own' market continued its long-time slide, declining by a further 7%.

This continuing fall-away in sales of cigarette tobaccos is a conundrum. Hard pressed-consumers valiantly shop the grocery and clothing stores to make their eroding household budget dollars go further, yet pass right by the fine-cut packages – despite the modest price of home-making machines, good filter strips etc.

The total fine-cut market is highly f...ionalized, with some 34 brands c...peting for volume. RJR - Macdonald's *Export* continues to be the favourite with Canadian smokers, followed by Imperial's *Players* and *Matinée*, Benson & Hedges's *Mark 10* and Rothman's *Craven A*.

PERSISTENT WEAKNESS

Pipe tobaccos are in a weak, long-range cycle and sales fell by 8% in 1980. Imported brands continue to enjoy a major share of total volume, but all segments of the market are depressed. In the early 1970s, coarse-cut sales exceeded 3.8m lb (1.7m kg). The 1980 figure will be around 2.75m lb (1.25m kg).

Douwe Egbert's *Amphora* leads the sales parade, with something better than 33% of market. Among other prominent brands are Imperial's *Borkum Riff* from Sweden, and *Sail*, a Niemeyer product marketed by RJR - Macdonald. Rothmans have *Golden Dansk*, *Erinmore* and *Silver Dansk*. All

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in all, it currently is not a very exciting time for this part of the industry.

Through the industry, the cigar business has been in the doldrums for a number of years. Imperial, through its wholly-owned subsidiary, General Cigar, dominates the market with an almost 90% share, but it is not operating in a growth situation. Its *Old Port* cigarillos have proved a blessing to the industry, but sales of medium- and higher-priced cigars are suffering. Cigar smoking has become a very expensive pleasure.

Total volume for regular-sized cigars de...ined 6.4% in 1980, registering sales of 72.8m, while cigarillos and small cigars advanced a meager 0.2% with sales of 343m.

Focussing back on the cigarette market, the sales trend is dramatically pointed towards the lower-tar brands. Including king size, regular and menthol lines, there were 20 new entries during 1980. Ten of these carry readings of 5mg or less and only one exceeds 12mg of tar.

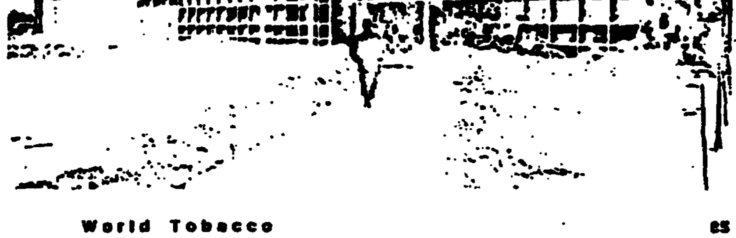
MARKET SHARES (Tar Segments)

	1980	1979	Change
0 - 7 mg	7.6%	6.6%	+ 18.0%
8 - 12 mg	23.9%	21.8%	+ 12.0%
13 - 15 mg	22.3%	19.7%	+ 16.5%
16mg and up	46.2%	51.9%	– 9.0%

With Imperial's share of the total market still improving, increased promotional activity by all companies is apparent. This is particularly noticeable in the case of Benson & Hedges whose 'stand alone' trade marks *Accord* and *Vista*, with emphasis on the former, have built solid foundations without the benefit of previously-established parent brands. *Accord Ultra Mild*, in standard and menthol versions, are out at 3 mg, while *Vista*, regular, king-size and menthol, carry 12 mg. These trade marks were introduced in Marc...

In May, they were followed by a different version of *Viscount*, in the 3 mg and 7 mg tar segment, and *Belvedere Extra Mild Menthols* with 10 mg. Before things settled down, this company moved again in September with *Belmont Light K* at 9 mg and *Belmont 3 Extra Lights*, also king size, reading of only 3 mg. It has been a very busy year for the Benson and Hedges marketing group.

The continued rise in cigarette consumption could make cheerful what goes on here. This is one of Ontario's leaf exchanges, where home manufacturers are big buyers.



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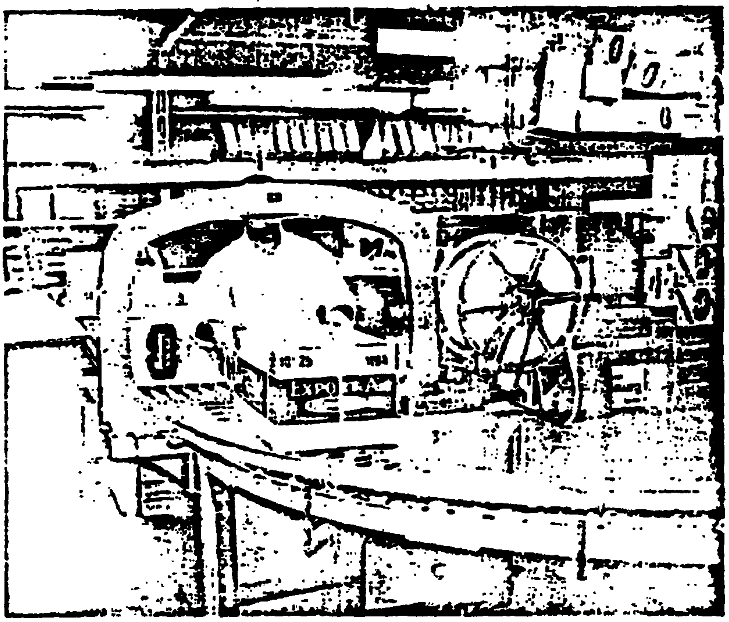

A final strapping for a consignment of tobacco goods - mainly cigarettes - being prepared for a retailer in the warehouse of one of Canada's large wholesalers.

RJR - Macdonald made their moves in March with *Export A Medium* at 15 mg and in September with *Vantage Lights* in king size and menthol, both at the 5 mg mark. Imperial and Rothmans held their fire until the Fall. In September, Imperial introduced *du Maurier Light* in regular and king size, at 9 mg and 11 mg and then, in October, hit the low, low tar segment with *Cambridge Extra Mild* king size with 1.0 mg. In mid-October, Rothmans, which had been concentrating its efforts on entries of previous years, brought out *Rothmans Extra Lights*, with 8.0 mg, to present a further challenge in the lower tar category.

Action has been the key word as companies moved to fill gaps in their tar and nicotine ladders. Not so happy about all this innovation have been the wholesalers and retailers, contemplating crowded warehouses and shelf space, and the added cost of carrying an ever-increasing list of brands, line extensions and packagings.

COMPANY STANDING

At the year-end, company market shares probably stood as follows:

	1980	*1979*
Imperial	46.4%	45.2%
Rothmans	24.6%	25.6%
RJR - Macdonald	17.5%	17.4%
Benson & Hedges	11.5%	11.8%

The past 12 months have proven to be a reasonably good period for the industry. Over what the future portends, hangs a question mark.

Overall, short range business forecasts are not optimistic as the country

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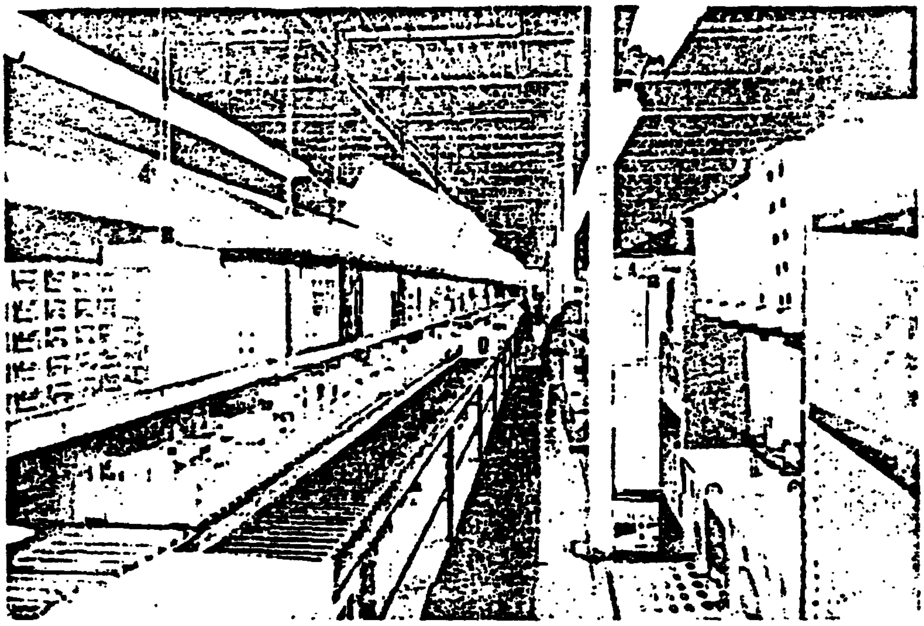

The present trend towards brand fragmentation, calling for distributors to stock ever more lines and brand variants, causes problems for even the most highly-automated wholesalers, with facilities on this scale.

struggles with its own internal problems and worries about the unsettled US economy. However, history has proven the tobacco industry to be reasonably resistant to difficult times. Cigarette sales may be expected to at least hold their own and perhaps to advance a fraction. Sales of tobacco products give no promise of breaking their downward trend, though logically one would expect fine-cut sales to at least stabilise.

FEWER NEW LINES

With the four manufacturers now pretty well covered in the various cigarette categories, a slow-down in the introduction of new entries to the market can be expected with the possibility of a shake-down in the present number of brands or packings. Hopefully, excise and sales taxes have peaked, at least temporarily. We will probably have to live with increased manufacturing costs. Anti-smoking pressures will not subside. The flow to lighter cigarette brands will continue to accelerate and we should look for growth segment of the market that has 10 mg and less of tar. Promotional dollar spending will be high as the companies strive for a larger share of what appears to be basically a non-expanding market.

Finished products trade trends

Over the four years ended 1979, Canadian imports of cigarettes rose steadily, to 620m at the end of that period, though in the first eight months of 1980 there was some falling-away in imports. A closely similar trend was observable in cigarette exports, which in 1979 totalled 590m and throughout the period had been only a few million below imports; there was a slight decline in exports in the early months of 1980.

Canadian foreign trade in cigars is comparatively small. Over the years 1976-79 imports fell sharply to a level, at the end of that period, less than half that at the beginning. But imports in the first part of 1980 seemed to be rising a little. Cigar exports are a small but steady business for Canada, with shipments in recent months running at the annual equivalent of about 8.7m (a total which, however, is only about 5% that of US cigar exports). Britain is a major and rising market for Canadian cigars.

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