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All the top cigarette and tobacco brands are in decline. Who's being hit hardest?

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From high-tech devices to a new kind of fag paper – the latest category innovations

The last gasp for cigarettes?



As the UK prepares for a 'smoke-free' future, cigarettes are being stubbed out at pace. How is big tobacco generating new revenue?

Matt Chittock

Cigarettes and rolling tobacco are fast being extinguished. The rise of vapes, anti-smoking regulation and soaring prices have made them the two fastest-declining categories in UK grocery.

Fresh legislation is now seeking to hasten that decline. In January, Rishi Sunak committed to a 'smoke-free generation', meaning children who turned 14 in 2023 will never be legally sold tobacco products.

But the fags market isn't dead just yet. Some 6.4 million tobacco smokers in the UK haven't quit or switched to vapes. And even in this rapidly contracting category, there are rare pockets of growth.

The question is, what's driving them – and how are brands squaring their mandate to turn a profit with Sunak's smoke-free future?

In the face of falling demand, many brands have turned to a tried-and-tested strategy: slashing prices. With products set to rise 2% over RPI inflation each year, it's no surprise cheaper lines are generating growth.

For instance, Chesterfield has added £70m thanks to the below-average price of its factory-made cigarettes (FMC) [NIQ 52 w/e 9 September 2023]. In the roll your own (RYO) category, Benson & Hedges and Marlboro have bumped up their volumes by coming in cheaper than market leader Amber Leaf.

“With the cost of living crisis, price remains a key factor for remaining adult smokers”

“As the cost of living crisis continues to put pressure on consumer spending, price remains a key factor for existing adult smokers,” says Gemma Bateson, sales director at Japan Tobacco International UK (JTI UK). She believes value tobacco is “paving the way for brands to accelerate in the market”, accounting for 58.7% of volumes in FMC and RYO.

As such, JTI expanded further into ultra-value products with the launch of its Mayfair Gold cigarettes last year, building on the 2022 launch of Benson & Hedges Blue RYO – which remains in growth, according to Bateson.

Yet the rise in lower-priced lines during the cost of living crisis isn't offsetting wider declines for tobacco, says NIQ analytics executive Angela Yang.

“Even the leading brands in the lowest price segment [Benson & Hedges, Lambert & Butler] are seeing double-digit declines in volume,” she says. ➔



Top five loose tobacco brands by volume change

▼ 0.1 kg (m)	Cutters Choice (-20.7%)
▼ 0.3 kg (m)	Golden Virginia (-22.2%)
▼ 0.3 kg (m)	Gold Leaf (-30.4%)
▼ 0.3 kg (m)	Sterling (-21.7%)
▼ 0.5 kg (m)	Amber Leaf (-24.5%)

Top five cigarette brands by volume change

▼ 8.2 packs (m)	Marlboro (-14.8%)
▼ 18.4 packs (m)	Lambert & Butler (-15.4%)
▼ 23.0 packs (m)	Sterling (-25.3%)
▼ 30.8 packs (m)	Benson & Hedges (-14.8%)
▼ 30.9 packs (m)	Players (-23.2%)

Source: NIQ 52 w/e 9 September 2023

● Traditional tobacco is in terminal value and volume decline. Cigarette volumes have nosedived by 14.9%. Loose tobacco volumes, meanwhile, are down 18.7% as distribution and shopper demand declines.

● “Despite its market size, cigarettes are losing shoppers to e-cigs, heat not burn and other new formats,” says NIQ analytics executive Angela Yang. “Traditional manufacturers are highly impacted by this shift.”

● Brands are driving

growth using the only tool left at their disposal: undercutting rivals with cheaper packs. The greatest volume growth has been achieved by the cheapest brands, such as Richmond (up 30.4%) and Chesterfield (28.9%). Both gained distribution.

● It’s a similar picture in loose tobacco. Benson & Hedges (up 283.4% in volume) and Marlboro (up 58.4%) are stealing share with prices significantly below the market average.

● Nicotine replacement

volumes, meanwhile, are up by almost a fifth (19.7%). Velo (up 120.8%) and Nordic Spirit (up 61.4%) have won sales by investing in flavoured pouches and promoting them online.

● “By using platforms like Instagram and TikTok, they’ve engaged target audiences and built brand awareness,” says Yang.

NIQ

NIQ monitors weekly data from a national network of EPoS scanners to represent sales in grocery multiples, co-ops, multiple off-licences, independents, forecourts, convenience multiples, symbols and online grocery retailers.

“Cigarillos barely existed four years ago but are now already worth over £111m in annual sales”

🔗 In this climate, genuine examples of growth are rare. One such example is cigarillos. Nataly Scarpetta, marketing manager at Scandinavian Tobacco Group UK, says the shorter smokes are the only segment of cigars in growth. Plus, they’re the largest – accounting for roughly half of volumes.

“Cigarillos barely existed four years ago but are now already worth over £111m in annual sales,” Scarpetta says, noting 13.6% growth in value and 2.8% in volume [IRI 52 w/e 26 November 2023].

Another rare pocket of growth is accessories. As cost-conscious smokers switch to RYO tobacco, category value has grown 8.1% [Circana 52 w/e 26 November 2023]. Papers remain the highest value segment, having grown over 10% to be worth a tidy £113m.

It’s a particular opportunity for brands given that – unlike cigarette packs – accessories can carry logos.

“RYO products can be used as a valuable signpost for related products,” says Gavin Anderson, head of sales and marketing at smoking accessories company Republic Technologies UK. “Upselling to increase multi-purchase sales at point of purchase is the best way to engage shoppers in bestsellers or product innovation.”

For Republic, this means leaning into natural cues with its new OCB Rice Papers, made from a blend of rice and organic hemp.

Smoke-free growth

Still, there’s no doubt that tobacco usage is on a downward trajectory. So as a long-term plan, the tobacco giants are focusing their efforts on next-gen smoke-free products. Philip Morris has even vocally claimed it wants to help smokers quit.

“Accelerating the end of cigarettes will only be achieved by providing legal age smokers with as much support as possible,” says Duncan Cunningham, director of external affairs at Philip Morris.

“While the best choice for any smoker is to completely quit tobacco and nicotine products, many, unfortunately, don’t,” he adds. “It’s therefore crucial that people have a range of smoke-free options available.”

Those options span heat-not-burn devices, nicotine pouches and vapes. The latter is the largest market, having more than doubled its value to £1.7bn last year [NIQ]. Young people in particular are drawn to their “high nicotine

levels and a range of flavours”, says NIQ’s Yang. Still, the ban on disposables and flavours marketed at children could put a dampener on that appeal (p41).

So Philip Morris, for one, is looking elsewhere for future revenue. It is pinning hopes on its heat-not-burn device Iqos and nicotine pouch brand Zyn.

Although these are smaller markets than vaping, they’re reporting fast growth. UK supermarket sales of heat-not-burn have grown 20.5% in the past year to be worth £59m, according to Circana analysts.

Meanwhile, nicotine pouches are now worth £34.8m in the UK and Ireland [Circana Annualised Figure Based on March 2023], with leading brands such as Velo and Nordic Spirit up in volume 120.8% and 61.4%, respectively [NIQ].

Like vapes, nicotine pouches benefit from flavour variety, says Bruce Terry, portfolio brand manager at JTI UK. “Offering a wide range of flavours is key to success in alternative nicotine product categories, such as nicotine pouches.

“Mint-flavoured products have soared to new heights within the category, with the market currently split 80.1% mint and 19.4% fruit,” he says, citing Circana volume data.

Seventy-three per cent of nicotine pouch sales in traditional retail in the UK are in the extra-strong or strong categories, according to Circana. And unlike traditional products, brands like Nordic Spirit and Velo are tobacco-free.

Still, their popularity has caught the eye of Rishi Sunak, who closed a loophole allowing under-18s to legally buy nicotine pouches as part of his January crackdown.

Smokeless future?

For big tobacco, though, clearly the most concerning part of that crackdown is the generational ban. JTI, for one, is vocally opposed.

“A generational ban takes away the right of adult consumers to make their own choices solely based on their year of birth and sets a worrying precedent for this type of discriminatory approach to other products,” says Sarah Connor, communications director at JTI UK, who likens it to 1920s prohibition.

The “impractical and illiberal experiment” could have “serious” consequences such as the growth of the illegal market, Connor says. Plus, she points to the difficulties for retailers in establishing exact shopper ages.

History shows that legislation can be overturned. Similar proposals were shelved as “unconstitutional” in Malaysia last year, and the shock scrapping of New Zealand’s generational smoking ban in 2023 also shows how fast official policy can change.

In the meantime, though, big tobacco had better prepare for a smoke-free future – or risk being extinguished.



Iqos Iluma

Launch date: September 2023 **Manufacturer:** PMI

The Iqos Iluma scooped The Grocer’s 2023 ‘Top Launch’ award in vaping & tobacco shortly after making its debut in autumn. Previous iterations of the heat-not-burn system featured a metal blade to heat the tobacco. The new version comes with a bladeless system that promises no tobacco residue or broken blades – and no cleaning is required. PMI maintains the system emits on average 95% lower levels of harmful chemicals than cigarettes. Starter kits begin at a price of £29.



Ploom X Advanced

Launch date: September 2023
Manufacturer: JTI

JTI has updated its Ploom heat-not-burn tobacco range with Ploom X Advanced (£29). The latest version features an optimised ‘HeatFlow’ system that delivers a higher volume of vapour during initial puffs for an improved user experience, JTI says. The charging time is also improved – taking 90 minutes to reach a full charge.



Nordic Spirit Spearmint Strong

Launch date: March 2023
Manufacturer: JTI

Nordic Spirit Spearmint Strong (rsp: £6.50) is the newest higher-nicotine addition to the Nordic Spirit portfolio. Each can features 20 pouches packing 9mg of nicotine. Also available in Wildberry, Elderflower, Mocha and Watermelon, the white pouches are designed to fit under the lip, where the nicotine is absorbed through the gums.



OCB Authentic Rice Papers

Launch date: January 2024
Manufacturer: Republic Technologies UK

Republic Technologies is responding to customer demand for more natural roll-your-own products with this launch. Organic and chlorine-free, the natural brown papers (rsp: £1.10) are made from a blend of rice and organic hemp and promise a premium rolling and slow-burning experience. Each pack contains 32 papers.