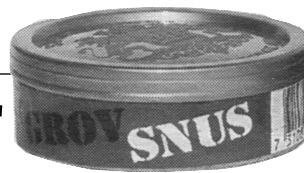


CompanyFile

SNUFF



MERCHANTS

Sweden is the only country in the western world with fewer than 20 percent cigarette smokers, according to the World Health Organization, that also notes that Swedish men have the lowest rate of lung cancer in the world. With 80 percent of Swedish smokers wanting to quit, the downward trend, that started in the 80s, is expected to continue. Parallel to this, the consumption of snuff is rising and the upward trend is also expected to continue.

Everywhere you go in Sweden, you see young men and women with the characteristic bulging upper lip. "Snus" or Swedish wet snuff is savoured loose, or in the form of a small "teabag", on the gum above the front teeth, unlike the American dry snuff that is placed in the lower part of the mouth.

There are some 800 000 male and 200 000 female regular users in Sweden and the consumption has increased so much that it will soon beat the record consumption year, 1919. Snuff has become the most popular method of quitting smoking. When smoking was banned in restaurants earlier this year, there was a further boost in sales as ashtrays were gradually replaced by "Scandinavian Modern" snuff cups. Cigarette sales machines are now also making way for ultra-modern snuff dispensers.

Swedish Match (*CompanyFile Feb03*) sold its cigarette production in 1999 but held on to its Swedish snuff monopoly. About 200 million hockey puck-shaped packages of snus are sold in Sweden for about SEK 4 billion each year and there are many more manufacturers who want a slice of Swedish Match's business. Seven competitors have already entered the market, but Swedish Match still controls 95% of sales with its *Timber Wolf*, *Ettan*, *General*, *Catch*, *Grovsnus*, *Göteborgs Rapé*, *Renegades*, *Taxi* and *Catch Dry*.

Their most serious competitor is the world's fifth largest tobacco company Gallaher that bought the upstart Swedish snuff producer, Gustavus, and now has taken 2.4% of the market with its *Grand* and *Gustavus* brands. Another formidable competitor is the world's second largest tobacco company, British American Tobacco that could also easily swallow Swedish Match. BAT is test-marketing its own version of Swedish snuff in Stockholm and in

Johannesburg, South Africa. Malmö-based Fiedler and Lundgren, that is backed by the Danish Skandinavisk Tobakscompagni, is taking on Swedish Match head on by lowering the price of its *Granit* brand from the general price level of SEK 26 to a low SEK 16. The move has not resulted in a price war, but Fiedler and Lundgren is sure that it will increase its 1.45% market share while maintaining the price on *Metropol* and the chic *Mocca* for female consumers.

The IT entrepreneurs, Adam Gillberg and Jonas Engwall have switched businesses and, backed by venture capital, they have started the Skruf snuff factory in Småland. *Skruf* now has a one percent share of the Swedish market and is also available in Norway. *Skruf* has maintained the traditional flavour while *XQS* in Östersund has introduced snuff with tastes of coffee, ice-mint and orange. The heavily advertised *XQS* snuff is sold in small envelopes that can be placed inside cigarette packages for

(Below) A regular snuff user and new merchants Jonas Engwall and Anneli Hellström



smokers who want a bit of a change or want to switch. *Snusab* sells an "artisan-made" snuff with more expensive tobacco and tastes of beer, cognac and licorice in cute plastic packaging. *Snusab's* brands have the market's lowest level of nitrosamin, the carcinogenic part of snuff, while *Nicofree* in Jämtland has come up with nicotine-free snuff. It was when Anneli Hellström got pregnant and had to stop smoking and stop using snuff that she came up with the nicotine-free variety. It took her another five years to find the money for full-fledged production, but now her nicotine-free snuff, *Choice* is available in more than a thousand outlets across Sweden and her 12 employees produce 300 snuff packages a minute. Sales have reached SEK 12 million a year and Anneli Hellström projects sales of SEK 50 million when she gets distribution in the US, and hopefully also in Europe, in place.

Swedish Match does not seem too upset about the new players on "its" Swedish market and is now setting its sights on the United States and Eastern Europe. What does upset the company is the EU ban on snus. An exemption from this ban was one of the conditions of Swedish membership. And during the last few years the Swedish government has supported Swedish Match's lobbying efforts to have the ban lifted. Recently even BAT has joined in the lobbying campaign. Despite the ban, Swedish snuff does get around in Europe, and in Finland every tenth youth is a regular user.

Although snus is classified as a grocery item in Sweden, it has, until now, not been subject to the regulations regarding the listing of all ingredients on food items. This will change on November 25 and each snus product will have to have a declaration of the amount of nicotine and nitrosamin it contains. Nicotine is addictive and can affect the cardio-vascular system, but according to a Swedish study it can also prevent Parkinsons Disease. Nitrosamin can cause cancer, but the warning labels regarding this were taken off Swedish snuff packaging in 2001 after much industry lobbying. It was argued Swedish snuff was much safer than dry snuff and that the cancer risk was minimal.