

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



From Tobacco to Tobacc-NO: The ZYN story in the UK (Swedish Match)

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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WRITTEN CASE

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Just like sushi, swimming in a blue ocean

Today, sushi is one of the most popular take-out foods in the west, we can't imagine life without it. But for just one moment, imagine how it must have been received when it was first introduced. In its home market Japan, it was commonplace, but in the west the concept of eating raw fish on a bed of rice that is mixed with vinegar, sugar and water and then dipping it in a salty black liquid for consumption must have sounded like the ramblings of a madman. But here we are a hundred years later and sushi is available in every city and corner of the world.

This is the problem and opportunity that Swedish Match and their brand ZYN is facing with the introduction of nicotine pouches in the UK. In Scandinavia, oral tobacco (and now nicotine pouches) is a part of our daily lives and culture. That familiar "pop" of the snusbox is enough to make a man grin from ear to ear much like Pavlov's dogs salivated at the sound of the bell. But when the culture and practice isn't there, that "pop" only leads to confusion, Swedish Match and ZYN need to "pull a sushi" and become widespread. It's an arduous task to get people excited about a blue ocean when the people in question can't swim.

The history of snus

The tobacco leaf has a rich history stretching far back in time and it had many stops before it ended up in Sweden and became the snus we know today.

During the 15th century on the island of Hispaniola, now known as Haiti, in the west indies; europeans were introduced to tobacco leaves for the first time. The year was 1492, Christofer Columbus and his men had beached. On land they were met by

the indigenous people who came with all sorts of gifts, including but not limited to tobacco leaves that they held in high regard.

A monk known as Ramon Pane witnessed the predecessor of snus in action in 1497 during a trip to America that he embarked on with Christofer Columbus. Indian priests would ingest a powder that contained tobacco leaves among other things, through their noses using a tube. A while later during the mid 1500s, Spanish and Portuguese seamen brought the plant to Europe and people started growing it in their gardens, it was believed that it held properties that could cure cancer and syphilis.

During the 16th century the first mention of snus was documented in Sweden. At the time, Paris was an icon to be followed and they indulged in sniffing-tobacco, what we know today as the abbreviated “snuff”. Many European countries followed and among these were Sweden and it quickly became a must for the aristocratic class.

The way of using this type of tobacco was revolutionized by the Swedish people, farmers in particular who had their own plantations and made their own snus, the people started putting the tobacco under their lip and the rest is history.

The 20th century introduced a monopoly on snus by the Swedish government and the snus consumption skyrocketed reaching its peak in 1919 when it was reported that the Swedish people consumed 7000 tons of snus during a time when the population was 6 million equating to 1.2 kilograms per person. However, as time went on snus took a backseat to the cigarette that especially penetrated the american market.

Swedish Match

The monopoly flew under the banner of AB Svenska Tobaksmonopolet which translates to AB (Corporate form) Swedish Tobacco monopoly. When the monopoly was subsequently abolished the company was remade as Svenska Tobaks AB (STA), together with the matchstick company Svenska Tändsticks AB (Swedish Matches AB) the Swedish Match group was created in 1992.

With a rich history of snus production Swedish Match proudly showcases a range of well known brands such as General, ZYN (Nicotine pouches), Longhorn, Onico, Big Duke, Thunder, Oliver Twist, White Owl, Game, Fiat Lux, Cricket just to name a few! While many of the biggest tobacco companies still cling on to their cigarette business, Swedish Match decided to go a different way in pursuit of something bigger. Their vision is to create a world without cigarettes by offering consumers alternative nicotine products in a responsible manner. By offering products that are considerably safer to consume than cigarettes Swedish Match is contributing to the improvement of people’s health.

In the US, Swedish Match is the biggest actor when it comes to nicotine pouches with the brand ZYN as well as the largest producer of chewing tobacco. Furthermore, they are the third largest actor of moist snuff with a long history of their established General brand. When it comes to the Scandinavian market, Swedish Match is market leading when it comes to regular snus and the impressively second largest actor for nicotine pouches.

Nicotine pouches enter - A step in the right direction

As the research towards the health hazards regarding smoking and tobacco in general processed and presented new harrowing results, snus became the new black. With snus the inhalation of harmful smoke was eliminated, but the possible dangers of tobacco still remained, although to a smaller extent compared to earlier (Swedish Match, n.d.-a). For many cigarette smokers, this was seen as a less harmful way to consume nicotine and as a way to quit smoking, but still have the possibility to consume nicotine and elude a period of abstinence and quitting (Robichaud et al., 2019). As the evolution in consumption of tobacco products has gone from smoking to non-smoking, the market has shown a demand for tobacco-free products, with nicotine. In other words, there has been a switch in what the market consumes from tobacco to nicotine. Enter nicotine pouches.

First, white snus was introduced as a less runny option to the portion snus which marked a huge shift in how snus was consumed when it was introduced, as it was already pre-portioned in contrast to the loose snus. Then nicotine pouches were introduced as a response to the US demand of a nicotine product that didn't taste or smell like tobacco, the solution was ZYN. The pouches are made up of high quality nicotine and food-grade ingredients. The pouch itself is made from plant fibers, specially designed to release nicotine to give a comfortable feeling while under the consumer's lip, and proved to be popular among women and the younger audience (Robichaud et al., 2019). While the non-white snus, and especially the loose snus was mostly consumed by men and more so blue-collar workers, nicotine pouches was a disruptive product that attracted a segment that earlier would have turned to smoking. This is mainly attributed to the fact that nicotine pouches do not taste or smell like tobacco, nor does it stain the teeth or the gums as the regular tobacco snus does. With the growing popularity, and the ability to make a nicotine product even less harmful, Swedish Match introduced the tobacco free nicotine pouches, ZYN.

UK tobacco market and current alternatives

The most usual way to use tobacco in the UK is with classic cigarettes. In 2019, 14.7% of people over 18 used cigarettes regularly. There has been a steady decline during the prior years. If we look at the difference between 2018 and 2019, the number of users has gone from 14.7% to 14.1%. Another interesting fact is that 52.7% of the smokers state that they would like to quit smoking (Gov.uk 2020).

During the later years, the tobacco industry has been challenged by a relatively new product called vape or e-cigarette. In 2020 about 6% of the adult population were using vapes, which can be seen as a contributing factor to the decline of cigarette smokers. In 2012 an absolute majority of people using vapes were also smoking, but during the following 8 years, these numbers have more than halved. Over 60% using vapes answered during a survey that they vape because they want to quit or reduce smoking, at the same time only 29% believed that vaping was less harmful than smoking (Gov.uk 2021a).

The UK is working heavily towards becoming smoke free. In 2019 the UK government stated that the nation aims to be smoke free in 2030. The usage of alternative products, that are less harmful, should be used instead. Even if critics say that it does not look like they will accomplish it in time, it sure speaks for the support of substitute products, like the nicotine pouch (Gov.uk 2021b).

Regulations

It is important to keep in mind that the future of nicotine pouches can be regulated due to the uncertainty of how to classify the products. If we look at Sweden as an example where nicotine pouches have not been regulated in any particular way except that you need to be over the age of 18 to be able to buy the product. Why Sweden has not regulated the nicotine pouches is because it is classified as a food item and not containing any tobacco and as such not regulated under the tobacco product regulations. The fact that nicotine pouches do not fall under the alcohol and tobacco law in Sweden allows companies to be more free in their choice of marketing. Things such as “buy one get one free”, sales, free samples and influencer marketing are all legal when it comes to nicotine pouches which opens up avenues for the brands.

The US food and drug administration (FDA) have only regulated the nicotine pouches in America to age restrictions and health warnings regarding use of nicotine. Except those two regulations the companies are free to market and expose their products freely.

The future of nicotine pouches and regulations on the UK market are hard to predict. However, a government consultation in 2019 presented a vision to make England Smoke free by 2030. This could result in that no further regulations will be implemented on nicotine products other than you need to have the right legal age to

be able to buy it. The vision of having a smoke free England by 2030 indicates that the government wants people to stop using tobacco products and switch to reduced-risk products which are strong motives that the government does not want to complicate the opportunities to bring tobacco free products to the mass markets.

Nicotine pouches competition

Swedish Match and their Nicotine pouches Zyn are not the first ones to enter the UK market. However, the main competitors that entered the market during 2019 have not fully penetrated the market yet and the opportunities to grab hold of market shares are plenty. There are three main competitors that Swedish Match must have in mind, Lyft, ZoneX and Nordic Spirit are the main big competitors for Swedish Match to handle.

Even though the products that are offered on the market are similar to each other, Swedish Match must face a challenge that is not primarily product specified, rather economical. The competitors have large corporations behind them with a lot of financial opportunities to stabilize on the new and growing market in the UK.

Swedish match has over the last twenty years been in the driver's seat innovating their tobacco products including the nicotine pouches. Since Swedish match still has a variety of products they can't just focus entirely on investing in nicotine pouches.

Lyft is a product by the British American Tobacco company that introduced the all white snus for the first time under the name Epok which has over the years changed names to Lyft. As being the first company on the market with an innovative snus you can say that Lyft did the hard work and opened up the path for other companies to move into a new market.

British American Tobacco's revenue in 2019 in modern nicotine pouches reached an incredible 1,2 billion GBP (BAT annual report, 2019).

Nordic Spirit who is owned by Japan Tobacco International, have over the years invested in growing their business into nicotine products that have potential growth in markets that have not been exposed to tobacco free products yet. These products are marketed as next generation products and labeled as reduced-risk products.

Lastly we have ZoneX that is owned by Imperial brands, which is a multinational tobacco company based in the UK. What all three of these competitors have in common is there large multinational corporations behind them that have a lot of financial assets.

Introducing nicotine pouches in the UK

The nicotine pouch is a brand new thing for the people of the UK. They have experienced multiple different ways of using nicotine, but due to a ban on regular snus, most people barely know what it is. This will be a barrier, since introducing nicotine pouches in the UK can be considered as moving into a blue ocean. The fact that they do not know how to use the product, means that the companies selling the snus have to start from scratch. Policymakers and regulators are also important to educate since the connections between tobacco and nicotine pouches are strong which could cause issues when branding. When introducing the nicotine pouch to the market, it will be important to educate the customers in how to consume the product. In Sweden, we have a rich history of snus, which has led to us educating each other.

America is a fairly new market for snus, but there are some important differences compared to the UK. In America they have a history of using quite similar products to consume nicotine and tobacco, such as dip. About 150 years ago, many Swedes emigrated to the USA and took the tradition of snus with them. So when nicotine pouches were introduced to the USA, they did not face the same barrier with the need to educate the potential users. Even though the barriers were not the same, they did struggle to get the users to put it under the upper lip, since the other domestic products were usually put under the lower one.

Visiting the British

Due to the successful implementation of nicotine pouches in the US and the lingering vision of creating a smoke free world, expansion to other countries is imminent. A market that might not face the same regulations as the rest of Europe due to their exit is the UK which is of particular interest to Swedish Match. As mentioned previously, the cultural differences cause an issue when trying to implement a novel concept such as nicotine pouches to the population. While the expansion to the US could be construed as similar, they were granted leniency due to the fact that the US has a history of tobacco that's ingested through the mouth making it a less novel concept. While the Scandinavian unit is focusing on establishing Swedish Match as the number one nicotine pouch brand in Scandinavia, the overseas unit has a different task at hand.

Swedish Match needs to figure out a strategy for the introduction of nicotine pouches to the British people that is educational yet young, modern and exciting. The issue at hand is further complicated with the presence of competitors.

Question: How should Swedish Match introduce their nicotine pouches, ZYN, in the UK?

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