

Big tobacco pushes into e-cigs

October 2 2013, by Paul Handley

The former Playboy centerfold strikes a sultry pose in a bar, the sleek black cigarette in her hand and a handsome dude at her side.

"I love being single. But here's what I don't love: a kiss that tastes like an ashtray. Blech," she says.

"Now that I've switched to blu, I feel better about myself. And I feel free to have one almost anywhere."

Sex and freedom: the slick advertisement for Lorillard's blu eCigs, starring TV personality Jenny McCarthy, shows how Big Tobacco is pushing into [electronic cigarettes](#).

They are seeking to take command of a market they fear could one day supplant traditional [tobacco](#).

In just the past few months British American Tobacco, Lorillard, Reynolds American, Altria and others have launched e-cigarettes, with a message that they can be smoked or "vaped" anywhere that regular cigarettes are banned or disdained.

"We see huge potential for this market, both domestically and globally," said Richard Smith, spokesman for Reynolds American, parent of tobacco powerhouse RJ Reynolds and producer of the VUSE e-cigarette, which it recently introduced in Colorado to test the market.

"Adult tobacco consumers are making it known that they want

convenient tobacco products they can use in a variety of settings, giving them the freedom to enjoy tobacco on their own terms," he said.

Lorillard's blu—a brand it bought for \$135 million (100 million euros) in April—has stolen a march in the US market on competitors.

Altria, parent of Philip Morris, has test-launched its MarkTen in Indiana, and BAT kicked off the Vype across Britain in July.

Meanwhile NJOY, an independent with Silicon Valley and Hollywood startup capital, has also carved out significant market space.

Bonnie Herzog, an industry specialist at Wells Fargo Securities, forecasts \$2 billion in e-cigarette sales in the United States by the end of this year—two percent of the tobacco market—and \$10 billion by 2017.

"Consumption of e-cigs could surpass consumption of traditional cigs within the next decade," she said.

Companies say the recognition level of e-cigarettes is already widespread in the United States and Europe. Some 37 percent of smokers in Europe have sampled them.

But the takeup rate is still low, and the big tobacco firms say their challenge is to figure out why.

"The experience is quite different than a cigarette," said Des Naughton, managing director of Nicoventures, the BAT subsidiary behind Vype.

"The product and how it performs is quite different from a cigarette. Obviously there are people who try it and find it's not for them."

The products available are diverse: disposable and rechargeable, some

designed to look like old-fashioned cigarettes and some striving to be different.

Some stick to traditional tobacco flavors while others, like blu, explore tastes like those in an ice cream parlor: "Cherry Crush", "Java Jolt" or "Pina Colada."

"The opportunity remains for companies like ourselves... to understand the potential, the technology involved, and improve what's on offer," said Naughton.

'You can smoke at a basketball game'

Marketing too is still in infancy.

NJOY, in a pioneering television ad during the hugely watched Super Bowl championship in February, emphasized "the look, feel and flavor of the real thing."

Naughton says the focus for BAT is still in enlightening consumers, persuading them to "give it a go."

Blu however has gone the lifestyle route, long a sure winner for cigarettes, emphasizing freedom and fun with McCarthy and actor Stephen Dorff.

"With blu, you can smoke at a basketball game when you want to," Dorff says in a TV spot. "We're all adults here. It's time we take our freedom back."

The big companies are expected to squeeze aside scores of small e-cigarette pioneers as they push into the market.

"There are great advantages to scale in this industry," said blu's president Jim Raporte.

"Innovation will be a key factor in the success of the players within this space."

The big challenge is regulation. The US Food and Drug Administration (FDA) is expected to propose to regulate e-cigarettes like tobacco in the coming weeks.

European regulators are trying to determine whether to control them like pharmaceuticals, regular cigarettes, or other products.

Regulation could limit distribution, sales and advertising. For instance, tobacco ads have been banned from US television since 1971, but so far e-cigarettes can advertise.

Naughton backs regulating them like over-the-counter drugs. But he warned that if e-cigarettes face tight controls on testing and review, it could stifle quick product innovation and development.

Reynolds' Smith said they believe the FDA will regulate e-[cigarettes](#) "based on sound science."

Since Reynolds' other products compete under strict regulation, he added: "We have no reason to believe that (VUSE) cannot do the same."

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