



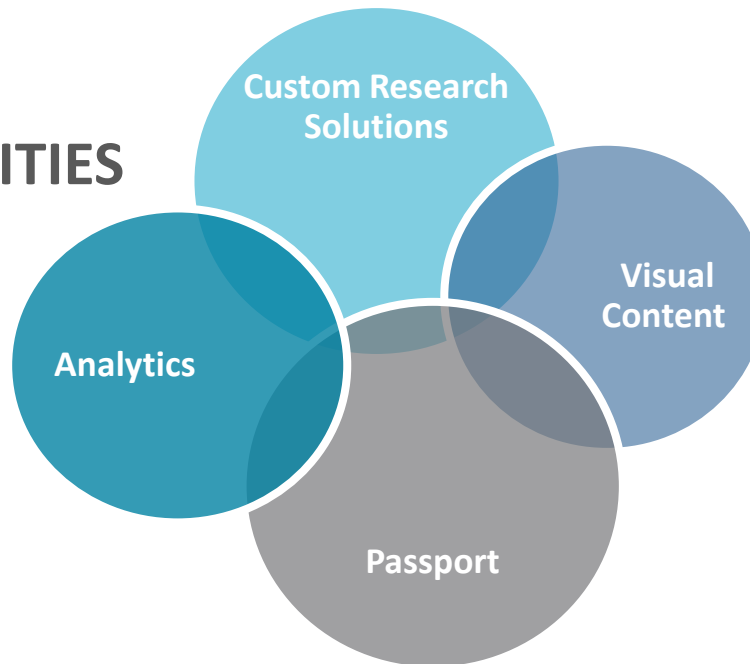
HOW INNOVATION AND NEW LIFESTYLES IMPACT THE TOBACCO INDUSTRY WT MIDDLE EAST 2019

IVAN GENOV

GLOBAL OPERATIONS

- Global provider of *Strategic and Tactical Market Intelligence*
- Cross-country comparable data and analysis
- **1000+ analysts in 100 countries**
- Subscription services, reports and customised research
- Complete market analysis, including alternative channels
- 15 offices worldwide

CORE CAPABILITIES



LONDON HQ

Chicago

Singapore

Shanghai

Dubai

Vilnius

Cape Town

Santiago

Tokyo

Sydney

Bangalore

Sao Paulo

Seoul

Hong Kong

Dusseldorf



THE GLOBAL CIGARETTES MARKET IN FIGURES



5,420 billion =
cigarettes consumed



2.8% = value growth in
cigarettes
(2.1% ex-CN)



1.4% year on year
decline
(3.1% ex CN)



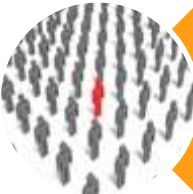
US\$699 billion = value
of global cigarettes
market



11% = illicit
penetration of total
sales (excluding China)



US\$2.58 = average
amount spent per pack
of 20



19.7% = proportion of
adults in the world
smoke



89.4% = cigarettes as
share of total value
sales

REINVIGORATING THE CORE MISSION

PLEASURE AND
WELLBE

NO 
SMOKING

REINVIGORATING THE CORE MISSION



PLEASURE AND
MENTAL WELLBEING



FORCES SHAPING THE NEW NICOTINE CONSUMER



WIDER CONSUMER MEGATRENDS IMPACTING NICOTINE

Influencing consumer expectations, accessibility, product type

Shopping Reinvented

- Changing platforms – online/mobile
- Subscription and curation models

Connected Customer

- Universal technological aptitude
- Data reflecting and responding to use patterns

Premiumisation

- Reengaging with developed market consumers
- The battle of substance priorities

Striving for Authenticity

- Brand and company narrative vital
- Less compromise on values

Personalisation

- Range of delivery systems, enhanced consumer knowledge
- Emphasis on design

Healthy Living

- Rehabilitating nicotine
- Modified risk recognition vital

Shifting Market Frontiers

- Economic power moving east – accelerate or stall development of NGP?

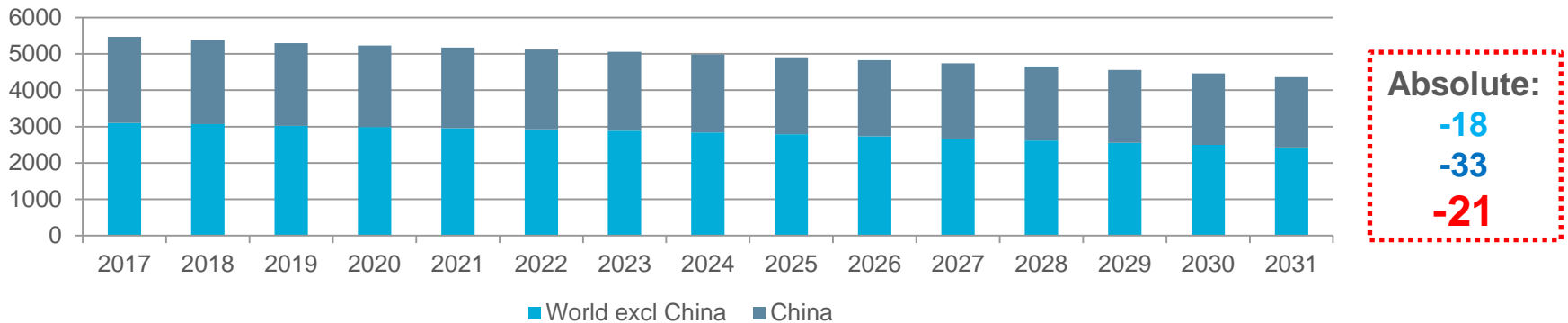
Generation Gaps

- Distinct difference in attitudes to substance use especially tobacco

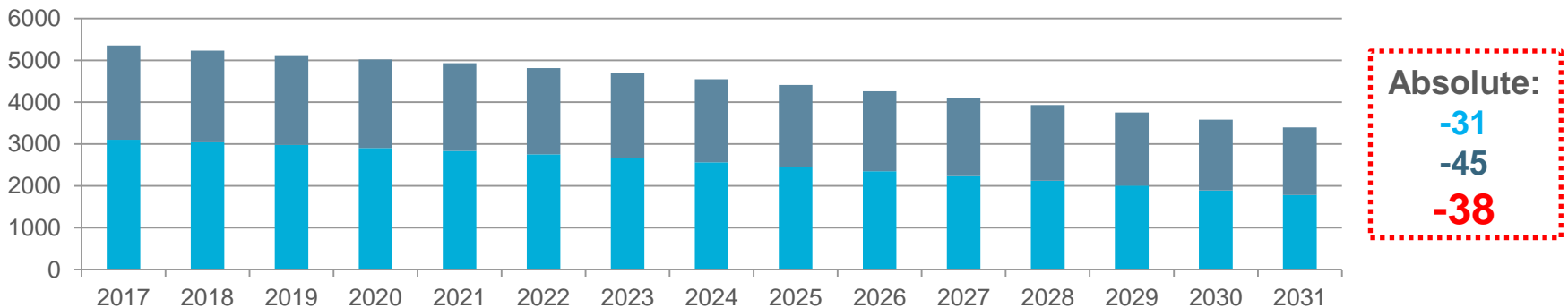
CIGARETTE RETAIL VOLUME PROJECTIONS 2017–2031

Absolute World Volume Growth 2001-2017: +2%

Positive Realist Scenario: Fading status quo; Incrementally stricter excise and regulation; Relatively slow migration to RRP



Pessimistic Realist Scenario: Significant adoption of RRP in dev markets; Substantially enhanced reg. and excise in CN



CURRENT NPDS IN CIGARETTES

Capsule and flavour



Filter, format, pack size



Economy



Blend, origin, natural components



CIGARETTE INNOVATION OPPORTUNITIES IN REGULATED ENVIRONMENTS

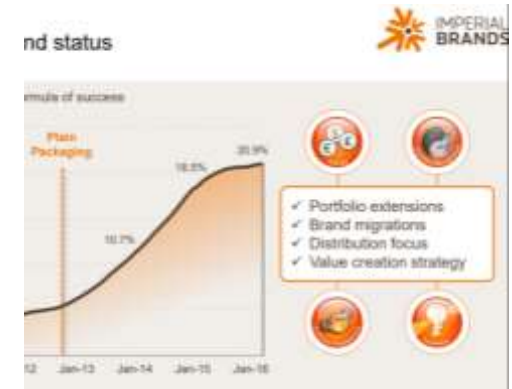
Biodegradable Filter



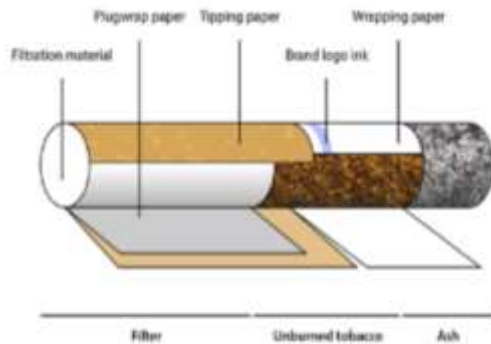
Special Filter



Positioning



Stick Restructuring



Modular Cigarettes



Supply Chain Initiatives



SHISHA FINDING GROWTH WHERE OTHER CATEGORIES CANNOT



- More socially acceptable, especially among the younger generation
- Opportunities in flavours
- Amenable to expression of personal expression
- Status building tool
- Escapism

EXPANDING RRP LANDSCAPE

Flavoured nicotine lozenges



Tobacco free snus



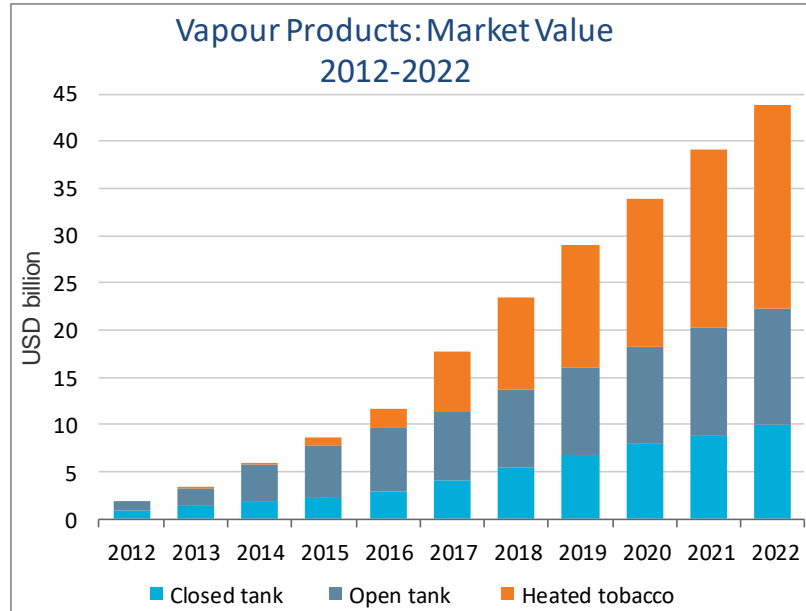
Non tobacco shisha



Edible nicotine



BECOMING THE LEADING CATEGORY OUTSIDE COMBUSTIBLE CIGARETTES



2012

2017

2022

7

39

64

million vapers

Selected Tobacco Categories Global Market Size 2017 (USD billion)

Fine Cut Tobacco



22.6

Cigars



20.3

E Vapour and HTP



17.7

Moist Snuff



11.5

Pipe Tobacco

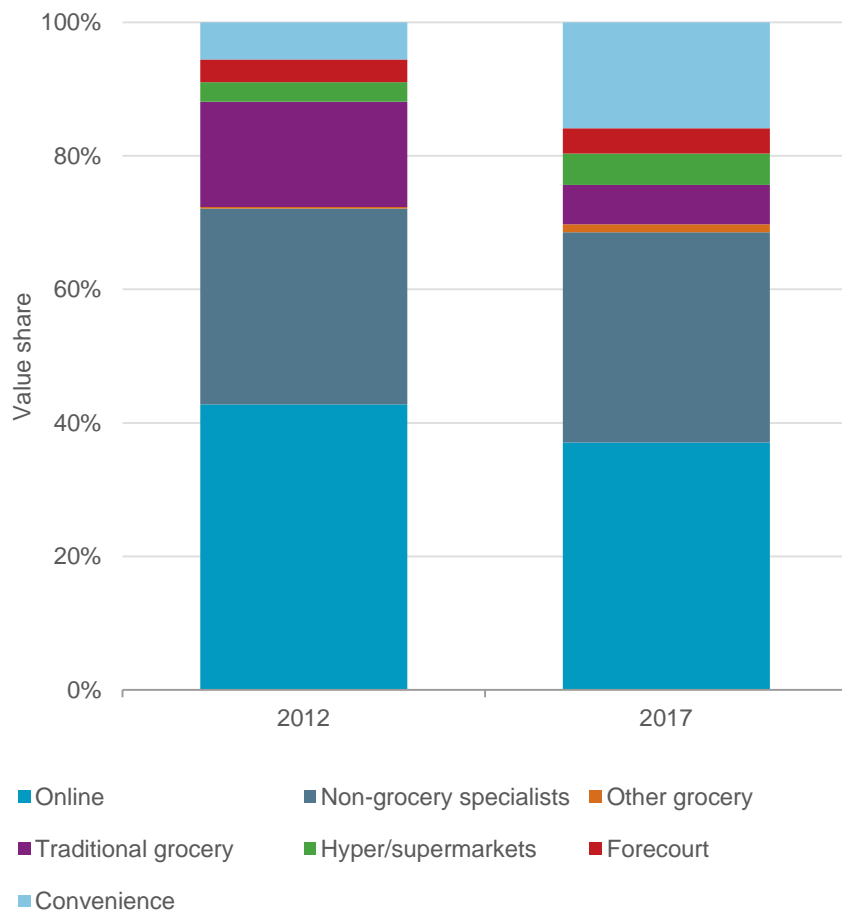


5.9

Largest single non-cig category by 2019

TWO LEADING CHANNELS PLAY NO ROLE IN TRADITIONAL TOBACCO

Vapour Products: Global Distribution Value Share 2012/2017



Leading Channel by Region 2017

Asia Pacific	Online
Australasia	Online
Eastern Europe	Non-Grocery (Vape Stores)
Latin America	Online
Middle East and Africa	Non-Grocery (Vape Stores)
North America	Non-Grocery (Vape Stores)
Western Europe	Non-Grocery (Vape Stores)

DIGITALISATION INFLUENCING VAPOUR DISTRIBUTION AND COMMS

Engaging nicotine consumers in a changing environment



Social media



Lifestyle and health influencers



AR/VR assisted consumption



Virtual vape store



Accessible commerce (voice control, subscription etc)

SELECTED TOP TRENDS IN VAPOUR

Developments relate to nicotine delivery, simplicity and flavour profile

Nicotine Salts



Vapourisation



Pods to the horizon



Category blending



Flavour evolution



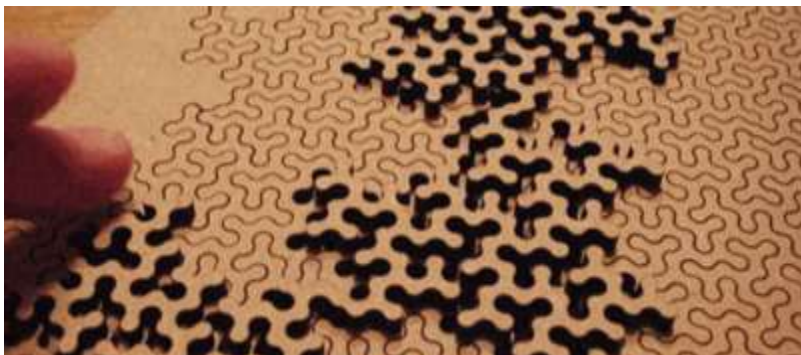
Enter CBD



THE SHAPE OF THE FUTURE

When everyone has nicotine salts what constitutes a real competitive edge?

Integration and interconnectedness



Using data to shape behaviour



Customisability



The 'ers': smaller, faster, stronger, longer



FLOW OF TECH CHANGE GUSHES AWAY FROM TRADITIONAL TOBACCO

Developments could be leveraged in NGP

VR - enhancing consumption



VR technology offers the prospect of manipulating sensorial perception during consumption

AR - educating consumers



AR is already being used to communicate to and educate consumers, though future restrictions unclear

AI/Mood tracking - customer service



The combination of AI and mood tracking radically alters customer service possibilities

Transhumanisation - physical/digital interfaces



Transhumanisation will change payment processes, data flows and ultimately consumption of substances itself

SWEEPING DEVICE-IFICATION OF EVERYDAY LIFE PRIMES NICOTINE USERS

Mechanisation

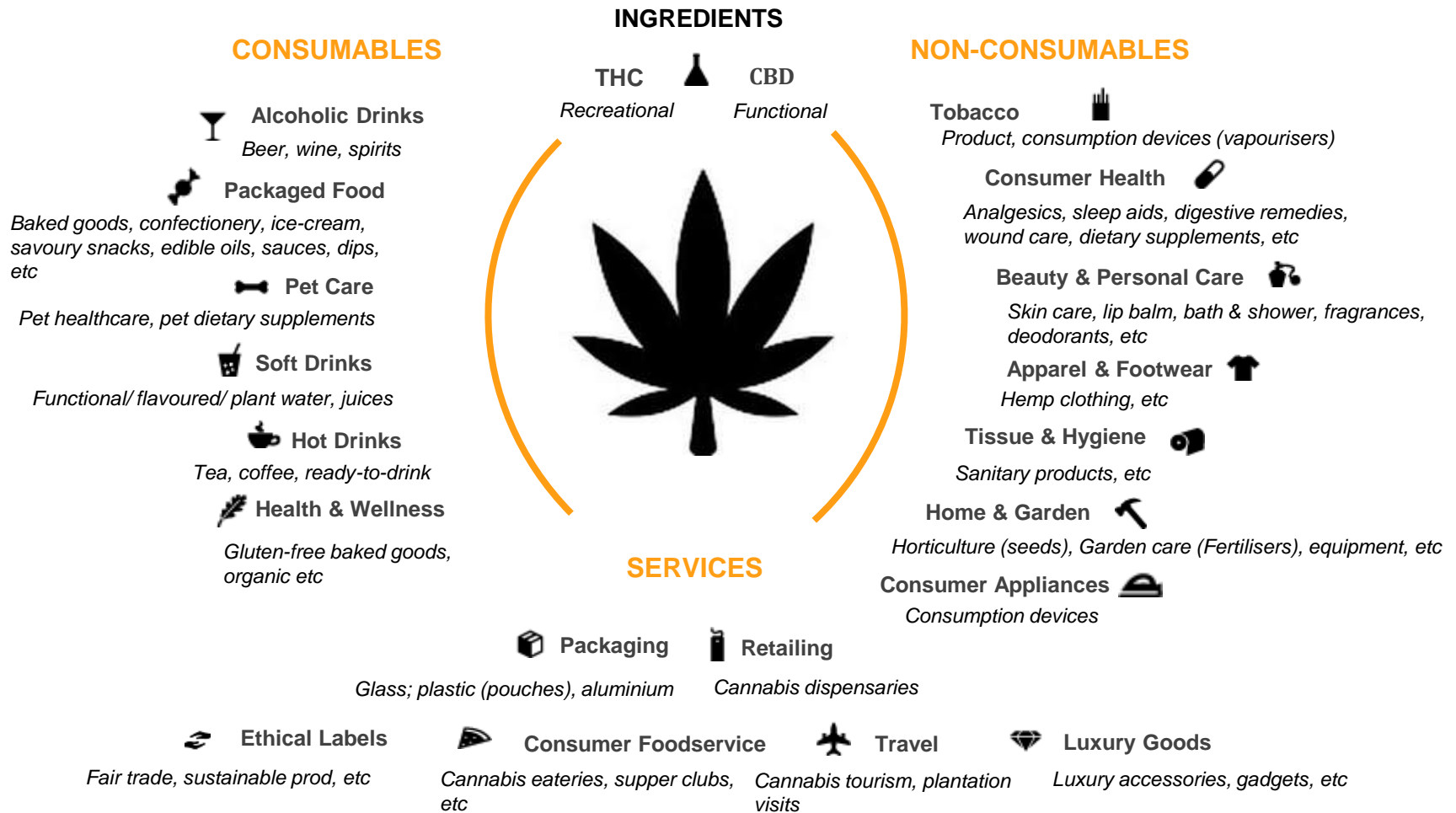


- Devices substitute or augment 'organic' or natural processes in more and more areas of consumers' lives
- This process is fed by device use in nicotine but it also forms the backdrop of expectations and familiarity which consumers will be bringing to bear on their nicotine selves

Fragmentation



CANNABIS AS A DISRUPTOR ACROSS FMCG INDUSTRIES



WHY TOBACCO AND NICOTINE SHOULD BE INTERESTED IN LEGAL CANNABIS

Clear general points of leverage for the tobacco industry

Shared consumers, shared missions

- Many cannabis consumers are also tobacco or nicotine users



Agricultural supply chain... for now

- Like tobacco, cannabis is (currently at least) a seed to the value-added product industry



Compliance procedures

- Legal cannabis will require substantial compliance procedures, consumers require product certainty



Brand building in restricted environments

- Experience of operating in heavily restricted environments



OUR MULTI-SUBSTANCE, PLATFORM-AGNOSTIC FUTURE

A fundamental reshaping of the competitive environment



For pleasure substance providers the future is **fragmented and cross-category**

Consumers will be **open to multiple formats** for a single substance but also increasingly multiple substances across their daily schedule

The tobacco industry has metabolised the first element of this well but not yet the second – **cannabis** offers a starting point

Tobacco should use its **technology and branding capabilities** to lead in this coming format- and substance- agnostic world



Thank you

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