

US smokers and e-cig users eye next-generation vape devices

Use and sales of second generation devices are growing fast in the US market, but what do we know about the consumers that are driving this trend? TJI invited Steve Hong of New York-based Roebeling Research, to share a preview of his exciting new research in this field.

Though the concept of vaping may still be new to many in the US, some e-cigarette users and smokers are already moving on to the next big thing in vape devices. But is the average smoker ready for it?

Next generation vaping devices may look strange to the uninitiated. Unlike the e-cigarette, they are not constrained by the form factor of a Marlboro or Camel. Indeed the devices might resemble a Sharpie marker, a flashlight, or a small plastic box. These additional degrees of freedom mean that they can

pack bigger batteries and deliver voluminous puffs that purportedly give greater satisfaction to the user.

The market has already begun to reflect this migration as sales of first generation e-cigarettes, often called cig-alikes because of their resemblance to the real thing, have softened. Wells Fargo estimates that in 2014 the next generation segment, including liquids, will account for USD 1.5 billion (EUR 1.18 billion) of the expected USD 2.5 billion dollar US vape market. Given the product benefits, it's no surprise that more cig-alike

users and smokers are considering switching to these devices.

The growing demand for next generation devices, often called "open systems" because they can be refilled, is also drawing a number of different competitors to the sub-sector. Currently, most of the market is made up of a myriad of smaller Chinese brands like Innokin and Kangertech that are popular among open system users but have low awareness outside of this market. Leading e-cig brands like LOGIC, Blu, V2, and NJOY are all moving beyond cig-alikes, ▶

Big tobacco brands not preferred for open system buyers



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likely as a way to hedge against cannibalisation. In recent months, these brands have all released or announced plans for new lines of next generation devices.

Given the growth of supply and demand for open systems, we wanted to learn more about the next wave of consumers to enter the market. In August of this year, we conducted a survey of 879 adults who smoke or vape and asked them about their intentions to buy an open system, their preferred channel through which to purchase one, and how they felt about different brand types. In doing so, we confirmed that demand is indeed high among new potential users. Our results show that 20 per cent of smokers and 49 per cent of cig-alike users said they intended to buy a next generation device in the next six months.

Our analysis also segments respondents by their respective generations; Gen Y, Gen X, and Baby Boomers. Generally speaking, the current market for open

systems is made up of early adopters and hobbyists and is driven by the tastes of its younger consumer base. We estimate that about half of open system users are members of Gen Y and therefore much more likely to be native technologists. Much of the appeal of the product for current users is that they can customise their vaping experience by tinkering with everything from the nicotine “juice” they vape to the heating element and voltage output of their devices. But for non-tinkerers, the level of effort required to use and maintain an open system device may not be desirable.

Brand-type preference

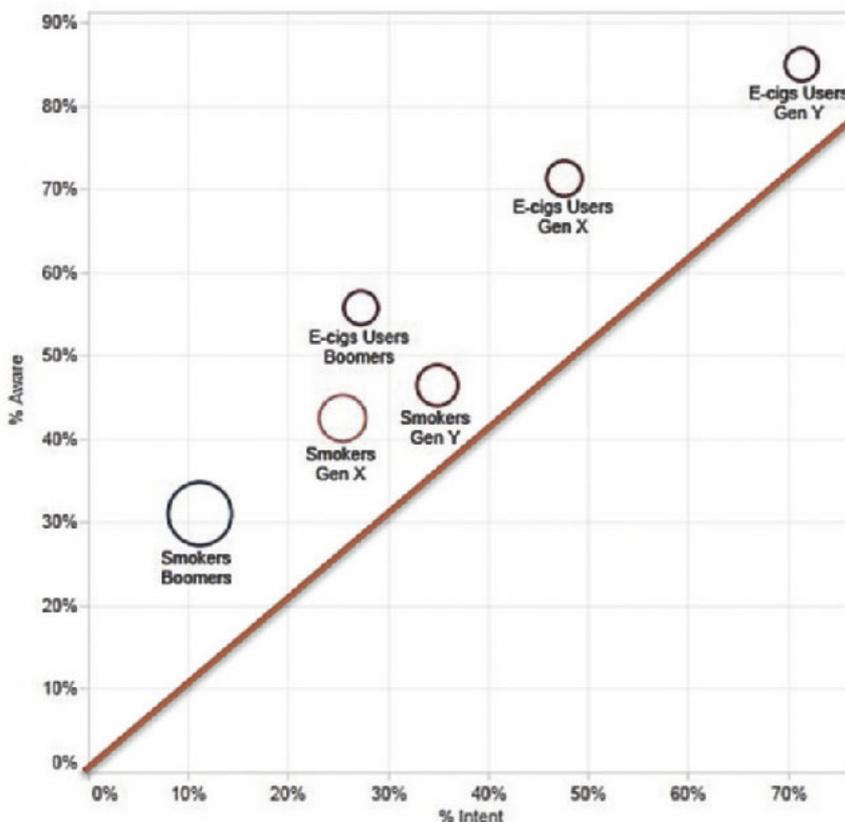
Using this data, we performed analysis to see how different brand types (independent e-cig brands, big tobacco-owned brands, and established open system brands) are positioned in the

market for next generation devices. We asked open system users and the addressable market of smokers and cig-alike users who intend to buy an open system about their preferences regarding brand type.

The first thing we can see is that universally, respondents would prefer not to buy from a brand owned by big tobacco as it ranks low in the current and addressable markets. What remains to be seen, however, is if consumers are generally aware that top brands like Blu, Vuse, and MarkTen are owned by big tobacco.

While open system users preferred to buy from open system makers, the addressable market preferred to buy from an e-cig company. We might expect this result from cig-alike users but we are somewhat surprised that smokers also preferred an e-cig brand. Note that there are a number of respondents for whom brand was not important or the descriptions were not persuasive. Regardless, we think that current independent e-cig brands are well positioned for success among the next wave of open system consumers.

Awareness of and intent to buy an open system device



Awareness and intent

This graph is a comparison of different segments of the addressable market in terms of size, open system awareness, and intent to buy an open system. Here we define segments by generation and cigarette or cig-alike use. The circles on the graph represent the size of the segment so you can see that for instance, Baby Boomer Smokers are the largest segment. The positions of the circles on the Y and X axis represent the percentage of each segment that is aware of open systems and intends to buy one respectively. So for instance about 70 per cent of Gen X e-cig users are aware of open systems and a little less than 50 per cent intend to buy one.

In general, cig-alike users have higher awareness and intent to buy open systems but smoker segments are larger than cig-alike segments. The high and right position of Gen X and Gen Y e-cig users are the low hanging fruit for e-cig brands that now want to sell their next generation devices. But the question is, can smokers, and in particular Baby

Boomers, be more developed as a target segment. This segment has low intent to purchase an open system because it ranks low in awareness but it represents a valuable potential target segment because of its large size.

Channel preference

We asked smokers and cig-a-like users who intend to buy an open system where they would prefer to do so. The first thing to notice is that convenience, gas and discount retailers rank low among all segments. As well, all segments prefer independent channels over mass channels. Notice that groups made some natural choices that one might expect. Open system and e-cig user segments preferred to buy more from vape shops while smokers preferred to buy from tobacco shops.

Summary

In considering these results, we feel that e-cig brands are best positioned to gain sales from the addressable market. On average cig-alike users have a higher in-

Roebing Research is a boutique market research agency devoted to the study of the vapour industry. The research for this article was conducted with cooperation from ClearVoice Research and ECigIntelligence.com.

TJI is also pleased to announce that Steve Hong will be presenting his research on this topic at our forthcoming TobaccoCampus event to be held 8-9 December 2014 in Wiesbaden, Germany.

The complete findings from this study can be purchased at roebingresearch.com.



tent to buy an open system than someone who only smokes and e-cig brands are already well positioned to market to their own customer base. Second, our finding is that in general potential open system purchasers would rather buy their first device from an independent e-cig brand rather than a tobacco owned brand or even a company known for making open systems. Third, e-cig brands may already have presence

in the channels where first time open system buyers want to buy devices, i.e. independent channels like vape and tobacco shops.

We think that tobacco companies have an opportunity to sell open systems to baby boomer smokers. That segment is large and right now has fairly low awareness and intent to buy an open system. However big tobacco has extensive experience in marketing to that segment which is a ready receptor for advertising. The challenge however, is that most first time open system users want to go to independent channels to make their first purchase so big tobacco-owned brands may have to get a foothold in that channel.

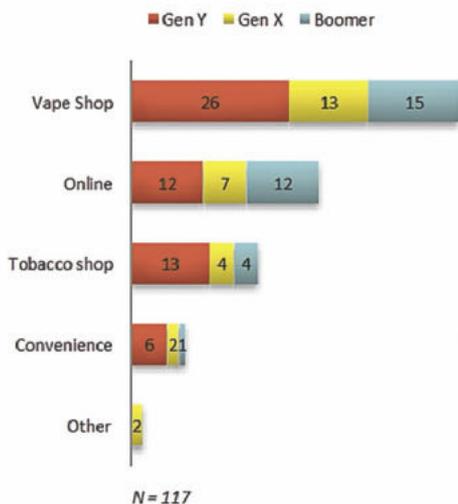
Open system brands currently control the market but the question is whether they can maintain it given competition from new types of competitors who have more experience in marketing. What open system brands do have going for them is their position in the independent retail channel and, in general, good reputations among current open system users. We will be following this transition to see what a changing consumer base means for different vape brands.

Steve Hong

High touch, independent channels preferred

Current Open System Market

Open System Users



Addressable Market

E-cig Users



Smokers

