

HEATED TOBACCO PRODUCTS (HTPs) MARKET MONITORING INFORMATION SHEET

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What are heated tobacco products?

Heated tobacco products (HTPs) are those that produce aerosols containing nicotine and other chemicals, which are inhaled by users through the mouth. They contain the highly addictive substance nicotine (in the tobacco), which makes them addictive. They also contain non-tobacco additives, and are often flavoured. HTPs mimic the behaviour of conventional cigarette smoking, and some make use of specially designed cigarettes to contain the tobacco for heating. Although HTP technology has existed since the 1980s (see Fig. 1), the early products were unsuccessful (see Fig. 2).

FIG. 1: HTP TIMELINE

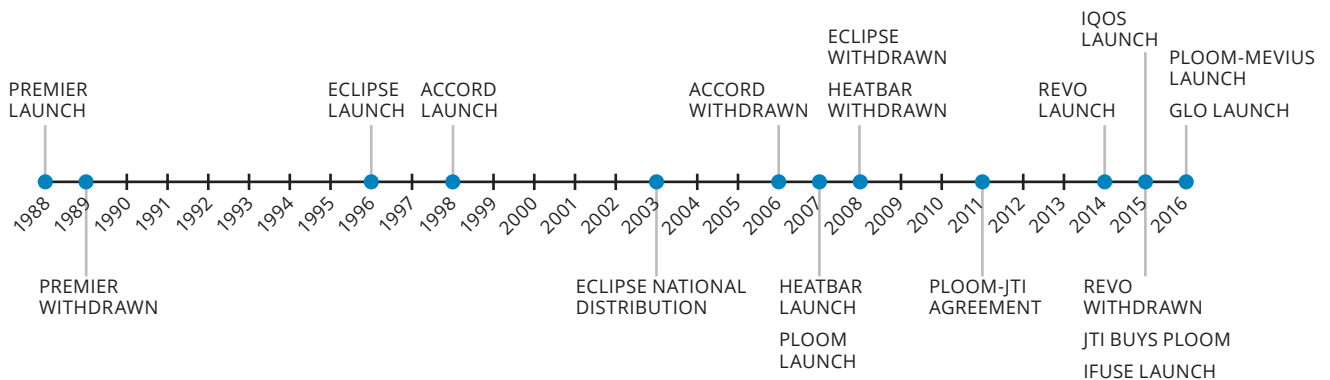
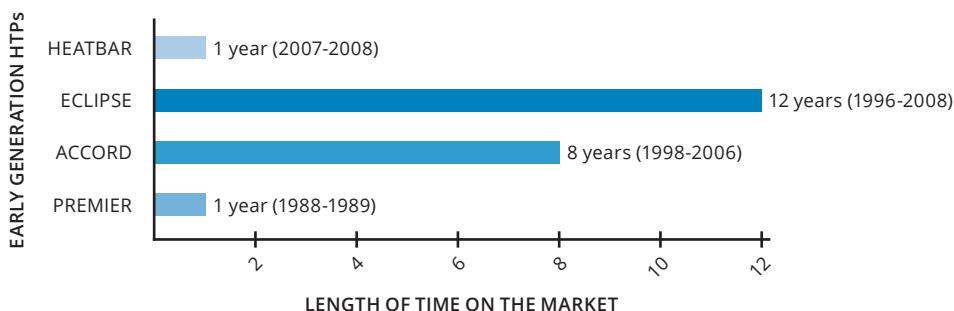


FIG. 2: LAUNCH AND WITHDRAWAL FROM THE MARKET OF EARLY GENERATION HEATED TOBACCO PRODUCTS



Who are the major market players?

The HTP market is dominated by three leading tobacco product manufacturers: Philip Morris International (PMI), Japan Tobacco International (JTI) and British American Tobacco (BAT).

- Since PMI launched iQOS in Japan at the end of 2014, iQOS has been introduced in 34 other countries¹ (as of April 2018).(1)
- JTI was the first entrant into the global new generation HTP market with the 2013 launch of the Ploom HTP, which was developed through a joint venture with a United States-based company of that name, which is now called Pax Labs. Following dissolution of this partnership, JTI acquired the Ploom technology and launched a new HTP called Ploom TECH in several Japanese cities in March 2016 and in Switzerland in July 2017.(2)
- BAT was the third entrant into the new generation HTP market, with its introduction of iFuse, in Romania in 2015. Shortly after, BAT developed and launched glo in Asia, which is now sold in seven markets.²
- Korea Tobacco (KT&G) also entered the HTP market with the launch of lil in the fourth quarter of 2017 in the Republic of Korea. KT&G is the country's leading cigarette producer in a market that has witnessed the rapid conversion of cigarette users to HTP, with lil intended to create a domestic presence.

1 Andorra, Bulgaria, Canada, Colombia, Croatia, Cyprus, Czech Republic, Denmark, France, Germany, Greece, Guatemala, Italy, Israel, Kazakhstan, Republic of Korea, Lithuania, Monaco, the Netherlands, New Zealand, Palestine, Poland, Portugal, Romania, Russia, Serbia, Slovak Republic, Slovenia, South Africa, Spain, Switzerland, Turkey, Ukraine and the United Kingdom
2 Canada, Italy, Japan, Republic of Korea, Romania, Russia, Switzerland

What are HTP sales?

According to data released by Euromonitor in 2017, total sales for HTPs in 2016 were US\$ 2.1 billion (3) and Euromonitor International expects HTP totals to reach US\$ 17.9 billion by 2021, according to its 2018 forecast.(4) Profit margins for PMI's iQOS are 30%–50% higher than for conventional cigarettes, leading some analysts to project that iQOS sales will contribute up to 15% of PMI's profits in 2019.(5)

Japan and the Republic of Korea have witnessed rapid adoption of iQOS. Japan accounts for over 90% of the US\$ 5 billion HTP market, according to Euromonitor. Spurred by tight regulation of the e-liquids used in ENDS, iQOS entered the market aggressively. Price competition is taking place within the HTP market in Japan, as Japan Tobacco and BAT compete for HTP customers. PMI's earnings report from the second quarter of 2018 notes that iQOS currently controls 15.8% percent of Japan's overall tobacco market, including conventional cigarettes, and 80% of the heated tobacco category.(6)

For Korea, HEETS (refills which are inserted into the IQOS holder to be heated) market share reached 8% in the second quarter of 2018, an increase of 7.8 points from the prior year period. (7) To give some sense of the expansion of the HTP market in the Republic of Korea, cigarettes used to capture more than 99% of the total tobacco product sales before the launch of HTPs. In Japan, Euromonitor (2018) anticipates that HTP sales there will exceed \$8.7 billion by 2021.(8)

Even so, the rapid growth of HTPs in Japan has decelerated since early February 2018, with market share gains of BAT's glo demonstrating a slowdown in sales, bringing into question BAT's ambition to exceed US\$ 1.34 billion in HTP revenue by the end of 2018.(9)

What does the tobacco market look like with the introduction of HTPs?

There has been a proliferation of diverse novel tobacco products, including HTPs, in several markets, which has led to a change in the dynamics of the tobacco market.(10)

Over the past decade, cigarette sales have steadily decreased in the majority of high-income countries.(11) This decline has spurred tobacco companies to seek customers with products that are marketed as having potentially lower health risks, such as electronic nicotine delivery systems (ENDS) and HTPs.(12)(13) For example, Euromonitor shows a 5% decline in cigarette sales in cigarettes in Japan from 2015 to 2016, which it attributed to the expansion of the HTP market.(14)

While PMI claim that there are high conversion rates from cigarettes to HTPs, these have not been independently confirmed. The company claims, for instance, that 70% of iQOS purchasers have either fully or predominantly converted to the product.(15) When generalizing results from a Japanese survey to the general population, over three million Japanese are current iQOS users.(16)

In recognition of this potential, tobacco firms are investing heavily to increase their HTP portfolios. For example, BAT is creating additional features for its glo HTPs, which includes the next generation of devices, additional flavours and blending technologies. PMI's website notes that it is following a similar strategy, with investments in not only the next generation of iQOS products, but also new HTPs like TEEPS, which uses an alternative source to heat tobacco.(17)

What marketing strategies are used to promote HTP sales?

The latest generation of HTPs are not only targeted at a specific sub-segment of tobacco users, but also employ nontraditional marketing and product distribution strategies.(18) Marketing strategies used by tobacco companies to attract customers and increase sales include the following.

- Reducing consumer health concerns through claims that HTPs are reduced-risk products – a claim that is scientifically unsubstantiated.
- Designing HTPs to fulfil the role cigarettes once held to boost the user's social image. For example, iQOS is available in different colours, limited edition designs and increases consumers' convenience through reduced odour, rapid charging, and similar features.
- Opening dedicated retail stores for HTP brand (e.g. iQOS, glo) demonstrations and sales, alongside call centre support for consumers.
- Employing the "bait and hook" pricing strategy, where a base device (e.g. iQOS base device and charging station) is typically sold at a discounted price, with a recurrent price being charged for refills (e.g. HeatSticks). This increases customer retention rates through increased upfront switching cost and lifetime value of consumers as a result of repeat buying.
- Using social marketing techniques involving the development of community activators and brand ambassadors who promote HTPs through various channels, ranging from individual and community engagement to social media marketing (e.g. social media platforms, promotional videos).
- Advertising by acknowledging the health risks of traditional cigarettes and describing new products as cleaner alternatives, and the shift in tobacco companies' corporate image towards promoting alternative tobacco products.
- Selling and marketing on multiple channels, including dedicated HTP stores, retail establishments and e-commerce websites.

What are WHO's recommendations for national surveillance mechanisms to monitor HTP marketing?

The first step to effectively monitor growth trends in these products should involve the development of metrics (e.g. product use by different customer segments including pricing, generated sales through various channels) to capture aspects of HTP positioning and sales strategy. Infrastructure should be established to collect and catalogue data on these metrics, which could include a requirement for wholesalers to provide information on sales, tracking information on use through user surveys, a requirement to provide information on pricing when registered with the relevant authority, exploiting global surveys, etc. This could be supported through a register of wholesalers with a requirement to inform the government of sales, or alternatively through user surveys. Monitoring sales volumes by distribution channel, collecting information on user demographics, conversion rates and marketing dollars spent could hold the key to anticipating subsequent innovations and trends in this product category. Further, coordinated efforts to set up global surveillance systems to study market trends should be encouraged to provide countries with much-needed data within the context of national regulatory frameworks.

All forms of tobacco use are harmful, including HTPs. Tobacco is inherently toxic and contains carcinogens even in its natural form. Therefore, WHO recommends that HTPs should be subject to the same policy and regulatory measures applied to all other tobacco products, in line with the WHO Framework Convention on Tobacco Control (WHO FCTC).

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