

A Bolder Effort by Big Tobacco on E-Cigarettes

By **MATT RICHTEL** JUNE 17, 2014

Electronic cigarettes, promoted as a healthier alternative to tobacco, are getting powerful new backers with an unhealthy reputation: big tobacco companies.

The development points to ways Big Tobacco is moving to turn the young e-cigarette market to its advantage.

E-cigarettes have become an overnight sensation, with \$2.5 billion in sales, though that is a tiny fraction of the smoking industry. The devices have also touched off a public health debate. Some argue that e-cigarettes, which vaporize nicotine, offer a less dangerous alternative to cigarettes. Others warn there is insufficient evidence on the product's health risks and whether e-cigarettes are prompting people to quit smoking.

In fact, the tobacco companies say they do not yet see evidence that most smokers are captivated by e-cigarettes, but they could become so.

A subsidiary of Reynolds American, which is known for Camel cigarettes, plans to announce on Tuesday that it will start distributing its Vuse e-cigarettes nationwide on June 23. NuMark, a subsidiary of Altria, known for Marlboro cigarettes, plans to follow suit by year-end with MarkTen, as signs emerge showing that e-cigarettes are nipping into sales of cigarettes. Both companies join Lorillard, which owns the nation's dominant e-cigarette brand, Blu eCigs.

Joining Lorillard, Reynolds plans a national marketing campaign, including television advertisements in major markets. E-cigarette makers say that move could popularize an alternative to tobacco, but critics warn it could glamorize smoking and lead people to smoke.

For example, public health advocates have taken issue with the advertising tag line NuMark uses on some ads for MarkTen: "Let It Glow." The critics say the campaign plays off Disney's animated musical "Frozen" and its hit song "Let It Go."

Concerns about marketing of e-cigarettes, and whether the ads appeal to children, have prompted a Senate hearing planned for Wednesday. The Food and Drug Administration recently proposed guidelines for regulating e-cigarettes, but did not propose any restrictions on marketing, drawing criticism from some public health groups. Marketing of cigarettes is heavily restricted, with TV ads forbidden.

Matthew L. Myers, president of the Campaign for Tobacco-Free Kids, who is scheduled to testify at the Senate hearing, said the fact that the F.D.A. did not limit marketing allowed tobacco companies to return to the airwaves with ads that make e-cigarettes sexy, rebellious, glamorous — "exactly the same themes we saw work with kids in the U.S. for decades with cigarettes."

In the absence of marketing regulation, "they will set the agenda," Mr. Myers said of the tobacco companies. "They will drive the evolution of the product in a way that serves their interests and not public health, and that's exactly what's happening."

But Stephanie Cordisco, the president of R. J. Reynolds Vapor Company, a Reynolds American subsidiary, said the company was going down a new path with e-cigarettes, with an eye to public health. She said Vuse would initially be available in 15,000 stores, supported by a national marketing campaign, including TV.

"I know the perception of who we are and what we stand for," Ms. Cordisco said, adding later, "We're here to make sure we can put this industry on the right side of history." She continued: "We're trying to redefine tobacco enjoyment and give smokers an alternative, one that potentially reduces harm."

Still, Ms. Cordisco took a shot at Lorillard and Altria for what she said was irresponsible marketing. She said the "Let It Glow" tag line was "terrible," and that she found Lorillard's advertising for Blu "distasteful," which included a sexy advertisement in the annual swimsuit edition of Sports Illustrated. She also criticized the use of celebrity advertising.

"Those running the most irresponsible campaigns are the ones who know better," Ms. Cordisco said. The marketing campaign for Vuse, which is built around the slogan "a perfect puff" every time, is not aimed at children, she said.

David B. Sutton, a spokesman for Altria, which owns NuMark, the seller of MarkTen e-cigarettes, said the "Let It Glow" campaign that began this month was aimed at adults. Robert Bannon, the head of investor relations at Lorillard, defended Blu ads as "trying to make the products as attractive to consumers as possible, and we don't think there's a problem with that." Echoing the views of companies in the e-cigarette industry, including small players, he said that such advertising is the way to tell consumers about "a viable alternative to combustible cigarettes."

Lorillard has said it spent \$40 million last year marketing Blu, mostly on TV ads. Mr. Bannon said the company planned to keep spending at about that level in the near term. The ads have paid off, but only to an extent. Sales of Blu hit \$54 million in the fourth quarter of last year, but slipped to \$51 million in the first quarter. Part of that might reflect changing consumer tastes, including the emergence of new e-cigarette technology, called tank systems, which present an alternative to e-cigarettes.

Sales of e-cigarettes are minuscule compared with Lorillard's overall annual sales of \$7 billion. Of that, Lorillard's profit was around \$1.2 billion, while the profit from e-cigarettes was just \$6 million, raising questions of why tobacco companies are pushing so aggressively into the new market.

Mr. Bannon of Lorillard said the company saw two reasons to invest in e-cigarettes: first, as an insurance policy in case e-cigarette sales took off, and second, as a self-funding source of research and development into e-cigarette technology.

Such assurances aside, critics of the tobacco industry are wary.

"You've got to be extremely skeptical about what they're up to," said Gregg Haifley, director of federal relations for the American Cancer Society. Tobacco companies are not interested in getting people to quit smoking, he said. "They're just too profitable for them to be interested in doing that."

Mr. Haifley also warned that unfettered marketing of e-cigarettes would allow the tobacco companies to define the activity of smoking an e-cigarette as “sexy, youthful and vigorous,” and that in doing so, they may drive people back to cigarettes, their main market. And that, he said, would be a big setback for public health.

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“To the extent that we’ve de-normalized cigarettes,” Mr. Haifley said, “e-cigarettes are undercutting that de-normalization.”

Bonnie Herzog, a financial analyst who covers the tobacco industry for Wells Fargo Securities, and who projects growth for e-cigarettes, said that the companies had big money to spend on marketing and that they had enormous influence over what kinds of products got carried in convenience stores. Ms. Herzog said the Big Tobacco companies also got a lift over smaller e-cigarette companies from the recently proposed federal regulations. The regulations, which the F.D.A. says may evolve, require disclosure about e-cigarette ingredients and manufacturing but don’t restrict marketing, favoring companies that have money to spend.

Ms. Cordisco, the president of Reynolds’s vapor subsidiary, said, “We’re not here to put the small players out of business.”

But, she added, “If anyone can deliver a product that meets the needs of smokers in satisfaction and taste, it would be us.”

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