

Bloomberg Businessweek **Big Tobacco Keeps Pushing Into E-Cigarettes**

John Tozzi and Justin Bachman, June 17 2014

R.J. Reynolds (RAI) announced (PDF) today that it plans to expand its Vuse electronic cigarette brand, tested in four states, to retailers nationally next week, making it the second of the three big tobacco companies to make a serious foray into e-cigs. Lorillard (LO), which acquired Blu eCigs in 2012 for \$135 million, now enjoys about 40 percent of the current market; Altria Group (MO) owns two e-cig brands and has plans to expand nationally as well.

At this point, the tobacco companies see e-cigs as more of an opportunity than a threat. While e-cigs are still only a tiny share of the market, sales have grown rapidly—up 72 percent in the last 52 weeks, according to Bloomberg Industries—while tobacco sales are declining.

The tobacco companies have a lot of catching up to do. Consumers are increasingly trading disposable or rechargeable electronic cigarettes for more durable vaporizers that can be refilled with nicotine liquid of many flavors. None of the big three tobacco companies yet offer these devices, says Kenneth Shea, a senior analyst with Bloomberg Industries. Keeping pace may be a challenge for an industry that's had little new competition for decades. "There's virtually no barriers to entry in this business," Shea says. "That's the exact opposite of traditional tobacco."

With the national rollout of Vuse, Reynolds is pitching "a product that delivers a consistent experience every single time," according to spokesman Richard Smith. He says rival products are made by hand in China and don't offer the same consistency.

While tobacco companies haven't had to compete with new rivals for a long time, they may have an advantage over upstarts on the e-cigarette frontier. New regulation proposed by the U.S. Food and Drug Administration would outlaw sales to minors, but it still allows e-cig makers to sell flavorings and to advertise broadly, which regulators stopped traditional cigarette brands from doing years ago. For tobacco companies that have been barred from the airwaves for years, e-cigarettes are a way back in.

<http://www.businessweek.com/articles/2014-06-17/big-tobacco-keeps-pushing-into-e-cigarettes>