

MarketLine Case Study

British American Tobacco's Glo

Emerging tobacco innovation
escalates competition in Japan

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OVERVIEW

Catalyst

British American Tobacco's Glo is a new tobacco heating device that was first launched in Japan in December 2016. Some of its features seek to overcome the perceived weaknesses of Philip Morris's IQOS, the first mover in the tobacco heating category. Glo has made a significant impact on Japan's tobacco market, increasing competition between new tobacco innovations.

Summary

- Glo is a tobacco heating product that launched in Japan as its first market.
 - Glo is a tobacco heating product introduced by British American Tobacco (BAT), which features a simple one-button design to produce a nicotine-containing aerosol/vapor.
 - BAT reports that Glo is "extremely" successful in Japan and that more than two million Glo devices have been sold since its launch in December 2016 and mid-January 2018.
- Glo offers unique features over its main competitor, IQOS.
 - Its simple design and long battery life appeal to time-scarce Japanese smokers over competing IQOS device from Philip Morris.
 - Flavor is one of the most important aspects of Japanese smokers' tobacco product selection, and Glo's heating system produces a flavor that meets the requirement of Japanese smokers.
 - The shape of Glo is unique in Japan's tobacco market, and its customizable features entice inquisitive smokers.
- Strong impactful design and improved functionality makes Glo a worthy innovation to compete against the market leader.
 - Identifying the market leader product, and seeking to overcome its weakness, such as flavor variations and design, helps this product to become a strong competitor.
 - Tobacco innovation must meet smokers' needs, such as flavor, quality, and price, to encourage smokers to switch from traditional tobacco products to new smoking concepts.

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GLO'S SIMPLE BUT UNIQUE FEATURES HAVE MADE IT A SUCCESS IN ITS FIRST MARKET

Since its launch in December 2016, Glo has grown to become extremely successful within its first market, Japan. Although the concept of Glo, a tobacco heating product is not a new one, the device offers consumers unique features such as simplicity, flavor, and a distinctive shape, which truly makes it stand out from competitors. According to BATJ, more than two million Glo devices have been sold since its launch to mid-January 2018, illustrating its appeal.

Glo is a tobacco heating product that is simple to use with its one button design

Glo is a tobacco heating product which was introduced by British American Tobacco (BAT). It comprises a battery-powered device that heats specially-designed tobacco sticks to approximately 240 degrees Celsius. This process produces a nicotine-containing aerosol/vapor with a natural tobacco taste that the user inhales. According to BAT, Glo does not generate cigarette smoke, and the vapor contains around 90-95% less toxicants than the smoke of traditional cigarettes; Glo also produces less smell and no ash when compared to conventional smoking. Richard Widmann, Area Director of BAT Southern Central Europe describes on the company website that "Glo took four years and a great deal of resources to develop and it is truly a best-in-class product. It is simple to use, with its one-button design and outstanding battery power – one single charge lasts up to 30 consecutive sessions."

BAT launched Glo in the Japanese city of Sendai in December 2016 as its first market, and then expanded nationally. Japan is unique with its tobacco-related regulation being relatively relaxed compared to Western markets. For example, in terms of packaging regulations, the Japanese government requires manufacturers to present more than one general warning phrase covering 30% of both the front and back of the cigarette packet, but not to display warning images. People are also still allowed to smoke in public places in Japan, although most restaurants and cafés have separate smoking and non-smoking areas. In Japan, e-cigarettes are recognized as a cigarette substitute, but e-liquid produced in Japan cannot contain nicotine by law.

BAT has since expanded Glo's market internationally. As of December 2017, its markets include Switzerland, Canada, South Korea, and Russia. Romania is the most recent market where Glo has been introduced and the first market in the European Union.

Figure 1: Glo heats tobacco sticks to approximately 240 degree Celsius



SOURCE: British American Tobacco website

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Glo is extremely successful in Japan

In Japan, Glo is used with specially-designed tobacco sticks called Kent Neostiks. Three variants of Kent Neostiks were launched when Glo debuted in the country – Bright Tobacco, Fresh Mix, and Intense Fresh. The line-up of Kent Neostiks has now expanded to eight, with the addition of Smooth Fresh, Rich Tobacco, Citrus Fresh, and Spark Fresh variants.

BAT originally started selling Glo at its flagship store in Sendai City in December 2016. Glo's online store was then opened in June 2017. Glo eventually became available nationally via flagship stores as well as tobacco stores in October 2017. Meanwhile, the number of its flagship stores has increased, and there are now seven stores operating as of March 2018.

BAT reports that Glo is "extremely" successful in Japan, with one in 10 smokers having switched to Glo in Sendai, one of Japan's largest cities. The company announced the market share of Glo in Japan reached 3.6% by the end of 2017, and 50% of the overall category growth in Japan has been driven by Glo. In an interview, Roberta Palazzetti, the president of British American Tobacco Japan (BATJ), stated that Glo's market share reached 4% in January 2018, which is a significant achievement in the Japanese tobacco market. According to BATJ, more than two million Glo devices have been sold since its launch in December 2016 and mid-January 2018. In particular the national launch of Glo had a significant impact on its sales – one million devices were sold within four months after the national launch.

Figure 2: Kent Neostiks are now available in eight flavors



SOURCE: BAT Press Release, December 2017

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Glo offers three key unique features – simplicity, flavor, and distinctive shape

The heated tobacco system was not new in the market when Glo was launched. Philip Morris's IQOS is the first "no-burn-tobacco" device in the market, and subsequently it has been capitalizing on its first mover advantage. Thus, the sales achievement that Glo has made so far is significant in Japan. IQOS and Glo – heated tobacco devices – offer numerous benefits, such as being free from fire, ash, and smoke, as well as reduced smell and health risks (IQOS also claims to deliver 90% fewer toxins than what is produced by cigarette smoke). These features made IQOS immediately successful in the country. However interestingly, there are several differences between IQOS and Glo, which help Glo to effectively compete with IQOS. Observing the Glo kit, three elements enhance the uniqueness of Glo, which are a simple device system, flavor, and device shape.

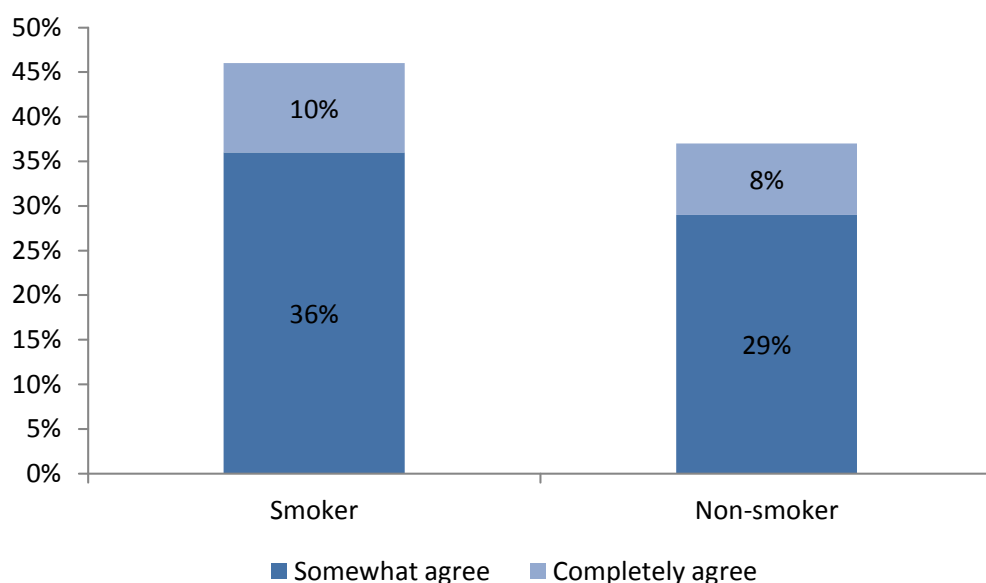
A SIMPLE DESIGN AND LONG BATTERY LIFE APPEAL TO TIME-SCARCE JAPANESE SMOKERS

Glo's simple system and long battery life makes it appeal specifically to Japanese smokers, who rely heavily on time saving products, which gives it an edge over its competitors. Glo also offers a unique range of high quality flavors that match the flavor experience of smoking traditional cigarettes, a feature which is a key demand amongst smokers in Japan. The product is also available in a range of colors and can be customized with accessories such as colorful sleeves, which Japanese consumers find appealing.

Glo's "simple to use" design is a key successful factor

Glo's simple design and long battery life appeal to time-scarce Japanese smokers over IQOS' heated tobacco product. Glo combines its battery and heating device in one. Thus unlike Philip Morris's IQOS, smokers do not need to carry its charging equipment separately. The Glo device itself is designed simply with one button to start heating, Glo then vibrates to let the smoker know it is "ready to smoke" as well as ready to finish or "end to smoke." The simple system appeals to Japanese smokers, as they generally seek tobacco and anti-smoking devices that are easy to understand and include simple instructions. According to GlobalData's research, this aspect is the top priority in the packaging of these products. Furthermore, Japanese smokers tend to rely on time-saving products and services more than non-smokers. Glo allows users to smoke up to 30 Kent Neostiks with one full charge, which is also highly appealing, in comparison to IQOS that requires charging every time the user smokes. Glo is highly accessible with less waiting time.

Figure 3: Japan: Consumers who agree with the statement that they rely heavily on time-saving products and services by non-smokers and smokers, 2016



SOURCE: GlobalData 2016 Q3 global consumer survey

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Glo offers unique and high quality flavors that smokers consider "good enough" to switch to from cigarettes

BATJ states that Glo heats the Neostiks from a 360 degree angle at 240 degree Celsius. This is designed to heat the stick evenly and helps to provide a full body flavor of tobacco.

According to Nikkei Trendy, the flavor aspect of Glo has helped it to gain popularity, encouraging heavy smokers to switch from cigarettes entirely or dual usage of both Glo as well as IQOS. In fact, flavor is the most influential aspect when Japanese smokers choose tobacco products, and flavor is top priority across different tobacco categories, including cigarettes, e-cigarettes, and other tobacco products.

Currently, Kent Neostiks offer eight flavors that consist of two tobacco flavors and six menthol based flavors. The two tobacco flavors offer different notes, such as rich/full body or light/aromatic, while the menthol ones offer different intensities of menthol. Some also include added flavor notes, such as citrus to enhance the taste. As Japan is a highly flavor-driven market, Glo has a slight advantage with its eight flavor offerings over IQOS which only offers six flavor variants.

Glo's individualistic approach engages Japanese smokers

Glo's most significant competitor is Philip Morris's IQOS. Another is Japan Tobacco's vapor product, Ploom Tech, which works with tobacco capsules. Both of them have a cigarette style shape, while Glo offers a new shape in the heated tobacco market. Roberta Palazzetti, the president of BATJ describes that Japanese smokers are relatively experimental. Glo's unusual shape helps to appeal to these smokers. In Japan, e-cigarettes have gradually become recognized as a smoking alternative, but e-liquid made in Japan is not allowed to contain nicotine by law, so e-cigarettes cannot offer the same effect as Glo, IQOS, Ploom Tech or traditional cigarettes and therefore cannot be a direct competitor. BATJ also offers variations in the device color and a colorful sleeve to customize the product. Smokers in Japan tend to find customizable aspects appealing, and these are likely to influence their product choice. This approach has considerably fueled Glo's success.

Figure 4: The device is available in five color options



SOURCE: British American Tobacco website

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INNOVATION IN FEATURES AND DESIGN ENABLE GLO TO COMPETE AGAINST THE MARKET LEADER

Despite being a late comer to the “heat-not-burn” market, BAT have improved the functionality of the product in addition to adding unique design features, which has allowed the Glo to compete with Philip Morris's IQOS. This, combined with a strong understanding of smokers' needs has been crucial in developing this tobacco innovation and ensuring its success in the Japanese market.

Unique design features and improved functionality are powerful elements to compete against the market leader

“Heat-not-burn” technology is a new tobacco concept in Japan as well as across global markets, but Glo is not the first-mover in these new markets because of Philip Morris's IQOS. However, Glo has shown an impactful pursuit of IQOS. Glo demonstrates that a late comer product does not need to follow the same features of the first product in the market. Key successful factors of Glo are that it overcomes potential weaknesses in the IQOS as well as offering features that are different from its competitor, which include Glo's simple yet unique design, longer battery life, and satisfying flavor.

Although regulations relating to tobacco products vary depending on markets, fundamentally understanding what smokers are looking for in tobacco products is essential and highly useful to develop new innovations. One of Glo's success factors is its simple design, which meets the desire that smokers in Japan seek in product packaging.

Figure 5: Glo's competitor IQOS differs in design and features



Understanding smokers' needs and delivering them are key in developing a tobacco innovation

Glo aims to deliver a flavor experience that offers similar satisfaction to traditional cigarettes, which has contributed to its success as smokers in Japan are highly flavor-driven. Taking a global view, flavor is smokers' top priority when shopping for cigarettes, thus, tobacco innovations must deliver on strong flavor profiles and experiences otherwise manufacturers may struggle to entice such cigarette smokers to new and unique innovations such as "heat-not-burn" devices.

Relatively relaxed, Japan's smoking law has contributed to the success of heat-not-burn tobacco products – including both Glo and IQOS. For example, some restaurants and taxi companies ban cigarette smoking but allow these tobacco innovations. Smoking regulation varies depending on local governments, and heat-not-burn tobacco products have capitalized on their unique attributes (e.g. "cleanness" with no ash or smoke). These are therefore dealt with differently to conventional cigarettes, allowing usage of these devices in more areas. However, in the run up to the 2020 Tokyo Olympics, the Japanese government has been considering imposing stricter laws on the entire tobacco industry to meet the standard of Western countries, which may impact the growth of these innovations.

CONCLUSIONS

Glo combines innovation with simplicity to effectively appeal to the unique demands of Japanese smokers

Despite being a later-comer to the “Heat-not-burn” tobacco market, BAT’s Glo device has gone on to experience extreme success in its first ever market, Japan, where it has gone on to sell over 2 million devices. By releasing a device after its competitor Phillip Morris, BAT has been able to develop innovation which overcomes the weaknesses of the devices that have come before it, by including a strong battery life and simple design. The company has effectively understood the main priorities of Japanese smokers, which include flavor, price and quality, and have ensured that these key features were not compromised when developing new innovation. This has given Glo a wide appeal in the market and has made the product a worthy alternative to traditional cigarettes.

The success of Glo demonstrates that emerging tobacco innovations offer new benefits to smokers, including cleanness, reducing health risks, and personalization, with smokers viewing these benefits favorably. In fact, Glo has been expanding its markets outside of Japan. Thus, innovations such as heat-not-burn tobacco are likely to become a new tobacco staple across the global marketplace.

APPENDIX

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Further Reading

MarketLine Company Profile: British American Tobacco p.l.c.

MarketLine Industry Profile: Japan – Tobacco

MarketLine Case Study: IQOS – Tobacco Innovation Captivates Japanese Smokers: Success in Japanese market encourages Philip Morris to expand product abroad

MarketLine Case Study: E-Cigarettes: Big Tobacco moves in for the kill, but could profits disappear in a puff of smoke?

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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