

# Appendix 4.3

## The Rapidly Changing E-Cigarette Marketplace

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## Consolidation of the E-Cigarette Companies

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Since 2011, e-cigarette companies have consolidated rapidly, led by companies in the conventional cigarette business and a few independent e-cigarette companies. Table 4.3 in the main narrative of Chapter 4 summarizes the major mergers, formations of partnerships, and acquisitions (M&As) that could be documented by January 2016. The first major M&A came in 2012 when Lorillard purchased the blu brand, the leading e-cigarette brand in the United States at that time, for \$135 million. Since then, most of the major cigarette companies have made acquisitions in the e-cigarette market. Figure A4.3-1 uses figures from retail channels, tracked by Nielsen, to compare sales of e-cigarettes between companies manufacturing conventional cigarettes (Altria, Reynolds American) and independent e-cigarette companies. By the end of 2014, more than 65% of e-cigarette sales in traditional retail establishments were from the major cigarette companies, which included Altria and Lorillard (now part of Reynolds

American), as shown in the figure. Sales in retail establishments for independent e-cigarette companies declined in 2014, and their market share shrank to less than 35% of the total.

Independent e-cigarette companies, such as the Electronic Cigarettes International Group, Ltd. (ECIG Ltd.), have also played an active role in M&A activities. ECIG Ltd., headquartered in Grand Rapids, Michigan, is not to be confused with the Electronic Cigarette Industry Group, Inc. [ECIG Inc.], which is based in Tallahassee, Florida, and will be discussed later). ECIG Ltd.'s \$170 million acquisition of FIN Branding Group LLC in 2014 is one of the largest transactions to date among e-cigarette companies. However, ECIG Ltd. has since scaled back its M&A activities because of intensified competition from the major cigarette companies and its failure to secure additional capital to finance further expansion.

## Major Players in the E-Cigarette Market

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As a result of the M&A activities discussed above and through the development of their own e-cigarette products, the leading cigarette companies are now major players in the e-cigarette market, at least in traditional retail establishments. In addition, independent, publicly traded e-cigarette companies (e.g., ECIG Ltd., Vapor Corp, MCIG [Mainstream Cannabis Innovations Group]), and independent privately owned e-cigarette companies (e.g., NJOY, Ballantyne Brands [Mistic], CB Distributors Inc., International Vapor Group, VMR) play an important role in the market. A few companies that specialize in a specific area in the industry—such as e-liquids (Johnson

Creek), flavorings (Flavoriq), batteries (EVE Energy Co., Ltd), nicotine solutions (Liquid Nicotine Wholesalers, USA Liquid Nicotine), and e-liquid solution bases (Essential Depot)—also play key roles in determining the dynamics and development of the e-cigarette market. In addition, China-based e-cigarette manufacturers support the industry by producing and supplying the majority of e-cigarette devices and parts on the market. Appendix 4.1 presents a detailed description of the major players within the e-cigarette industry, their roles in the market, main characteristics, and the types and brands of their primary product.

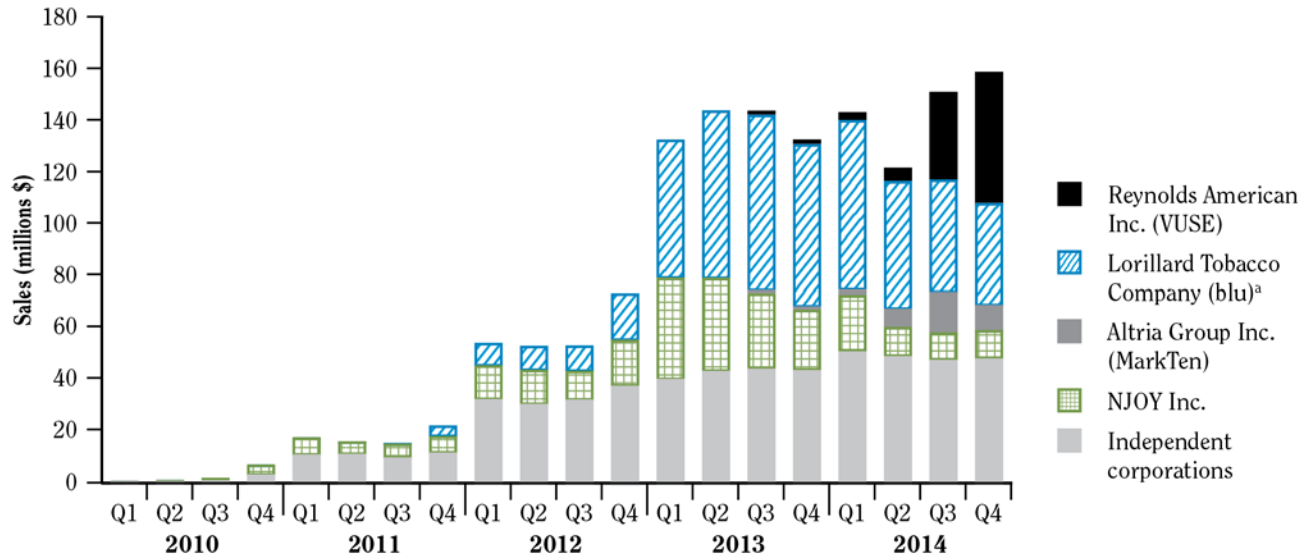
## E-Cigarette Trade Organizations and Partnerships

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As the efforts of e-cigarette advocates and the initiatives of consumer advocacy groups have coalesced, several organizations have emerged. Descriptions of the e-cigarette trade organizations and advocacy groups are found in Appendix 4.2. The Smoke Free Alternatives Trade Association (SFATA), the American Vaping Association (AVA), and the Tobacco Vapor Electronic Cigarette Association (TVECA) are trade organizations that are proponents of e-cigarette manufacturers, distributors, and retailers. The Consumer Advocates for Smoke-free Alternatives Association (CASAA) originated as an online forum that became a nonprofit consumer advocacy group

with a 501(c)(4) status and a similar mission. The American E-Liquid Manufacturing Standards Association (AEMSA), was established in 2012 to advocate for self-regulation of e-cigarette liquids and is a 501(c)(6) organization. Finally, the previously mentioned Electronic Cigarette Industry Group, Inc. (ECIG Inc.) is an industry membership association with 501(c)(6) status that works on behalf of e-cigarette companies. Little research has been conducted to date, however, to investigate how industry organizations are influencing market activities and public policies at the federal, state, or local levels.

Figure A4.3-1 Market share of e-cigarette products



Source: Huang and Chaloupka (under review).

<sup>a</sup>blu is included as part of Lorillard from Quarter 2, 2011 to Quarter 2, 2012, although Lorillard did not acquire blu until April 2012.

## Reference

Huang J, Chaloupka FJ. Rapidly Changing Electronic Nicotine Delivery Systems (ENDS) Market (working paper). Chicago (IL): University of Illinois at Chicago, under review.