In depth: how e-cig brands can succeed in mainstream retail

Written by Simon Jack || 8 January, 2015

The e-cig industry is still developing offline, which gives smaller brands a chance to make their mark in supermarkets and other mainstream retail outlets across the UK, the U.S. and elsewhere. But what's the best way to approach the retailers?

Making the leap from selling e-cigarettes through a Website, as most startup brands do, to landing a listing in a major retail chain is not easy. Still, startups do have some advantages over larger industry players.

While large tobacco firms have put much of their efforts into making cigalike brands, for example, startups are more likely to have developed more sophisticated e-cigarettes, which have grown in popularity. Moreover, the proliferation of flavours and delivery mechanisms in the burgeoning tank market could be attractive to supermarkets and convenience store chains.

This may be even more true in the UK after 6th April, when tobacco products must be hidden from view in smaller stores as well as in their larger counterparts; e-cigs could provide a way to liven up the area around the "dark" displays.

Which buyer?

When approaching retailers, one of the most crucial decisions is choosing which buyer to contact. Most retailers simply use their tobacco-buying department to cover e-cigarettes – such as the Co-operative Group in the UK, which treats e-cigs as a subcategory of the overall cigarette market.

However, at other retailers – such as pharmacies, off-licences and pub chains – the buyer may be responsible for a variety of departments, including health and leisure and impulse purchases. Therefore the location of the products in-store is a vital clue to who should be approached.

Startups should also consider which retailers might provide the most fertile ground, as some stock a wider variety of brands than others. Looking at Britain again, ECigIntelligence's report [**In depth: e-cigs in the UK – market and regulatory analysis**] examines where ten leading e-cigarette products are stocked. Tesco comes out top with seven brands, followed by Shell, Sainsbury's, WHSmith and Asda, which stock five each.

Stiff competition

Competition may be higher if a retailer already stocks several brands, but at least it shows the retailer takes the category seriously and might be receptive to selling new products, while those that only stock one type of e-cigarette may be doing so as part of a link-up with a certain brand. This has been the approach of Enterprise Inns, which has a deal to supply Nicolites to its pubs. Similarly, Lloyds Pharmacy has a deal with Nicoventures to sell its Vype product, while Boots sells Imperial Tobacco's Puritane brand exclusively.

Many retailers are willing to consider smaller brands. A spokesperson for the Co-operative Group says: "We receive enquiries on a weekly basis and we look at and investigate all potential suppliers. However, with the limited space we have in store, we can only run with a select number."

BP, which operates convenience stores at its fuel stations, will look at smaller brands – but they must demonstrate some level of success. "For a new category like this, we will generally not look to launch an 'unknown' brand. We would look to sell products that were relatively well-known, but these could be from small manufacturers as well as the larger brands," the company says. "Also, we are very careful about the quality and safety of these products so, while we consider smaller manufacturers, they would absolutely have to prove their quality credentials."

Brand appeal

All aspects of the brand must be well-thought-out to appeal to a buyer. This would include information about marketing plans, in-store material, packaging, production arrangements, as well as the product's sales history, from its launch to the present day.

Profit margin is key to the retailer. E-cigarettes are high-margin products, and retailers will expect their share of the benefits. So if brand owners sell through a supermarket or convenience chain, they will make less than they do online.

On the plus side, there is the prospect of gaining increased exposure to potential customers by being sold across a wide geographical area. However, there is a danger that the brand owner will make insufficient returns. It is essential to work out different scenarios before any negotiations begin, and build in the fact that retailers may squeeze on the price they are willing to pay if volumes mushroom.

Determining factors

A range of factors affects retailers' decision about which products to stock. "These include brand presence, marketing support, listings in other retail outlets, price, quality and emerging trends in terms of flavours, pack sizes and new variants," says BP's spokesperson.

The Co-op adds: "We need to ensure the supplier demonstrates an appropriate level of competence and due diligence with regard to product safety. Obviously commercial considerations are important, but we also want to understand that the supplier would be in it for the long haul and be able to work with us collaboratively."

Brands will also have to show they have the ability to keep up with production if volume sales dramatically increase. They must also meet the retailer's logistics requirements. In the UK, for example, consignments will usually have to go through a national or a series of regional distribution centres, rather than directly to local stores, and brand owners will have to absorb the cost of the transport. But distribution arrangements can differ drastically from one country to another.

Merchandising plans

Retailers like to control merchandising in-store and often have in-house specialists to plan the correct balance of product. BP, for example, has a team dedicated to this.

“The space planning team determines the optimum location for all products and then creates category-specific planograms to achieve maximum sales,” the company says.

Although the plan is worked out by the retailer, it is worth discussing this to ensure enough shelf space is devoted to the brand to make it stand out from its competitors and other distractions around the checkout, such as confectionery, chewing gum and lottery tickets.

Some retailers may require in-store marketing material to be provided. They may work in conjunction with the brand owner to produce suitable designs, or alternatively may expect the brand owner to create material and submit it for approval.

Negotiating a contract

Once the retailer has agreed to take a product on, there is the thorny question of negotiating a contract. Sometimes the retailer will want a trial period to test products in a certain geographic area, a limited number of stores or a certain type of outlet: perhaps at the tobacco counter in a major supermarket or in one of their smaller, local stores.

This can be a useful exercise for the brand owner, too, as it can see what the retailer is like to deal with in practice, and test operational aspects such as logistics. It may also show how seriously the retailer regards the product, by revealing the amount of space they will give it in-store.

Product exclusivity is key to the contract and can be a double-edged sword. The retailer is likely to push the brand more if it has sole rights to sell the product and is also likely to offer greater levels of support. It also simplifies trading arrangements, including distribution and financial management.

However, an obvious drawback is that it will limit sales to that retailer and could therefore curtail the brand’s development. Whether the retailer would be happy for the brand to continue to sell products through its own Website also needs to be discussed.

It’s important to consider what happens if the relationship with the retailer breaks down. If a brand is sold through a number of chains, for example, ending the relationship with just one retailer would be less painful. On the other hand, the retailer is likely to offer a longer-term commitment for exclusivity and may agree a notice period if it decides to delist the brand.

Judging success

There are a number of ways in which retailers will judge the success of a brand, aside from the obvious metrics of sales values and volumes. BP uses customer feedback, market share figures, advertising presence, trade commentary and in-store feedback. Rather than just an overall sales figure, it will examine the rate of sale, which is the number of units sold per week, per store.

The Co-op says there is little market data available to judge e-cigarette brands because it's a relatively new sector. However, it stocks more than one brand, which helps it measure sales.

Its spokesperson comments: "We have three suppliers so we can compare their performances. We also track how the brands are building on a weekly and yearly basis. At this stage, all of our suppliers are seeing growth, as this is a rapidly growing market."

Country variations

The opportunities presented to smaller brands may vary from one country to another, and depend on how the market has developed so far. Shane MacGuill, tobacco senior research analyst at Euromonitor International, says there are subtle yet distinct differences between the UK and the U.S., for example.

He believes the rise of tank systems could open doors for small brands in the UK, especially as tobacco firms have not concentrated their efforts on this part of the market.

"There is a shift away from the previously dominant cigalike product in the UK, which is likely to impact retailer attitudes to new brands. Even main brands have not irrevocably captured consumer loyalty within the cigalike space, and the shift to tank systems only exacerbates this. My feeling is that UK retailers would be receptive to a new brand – in fact, they might well be clamouring for one to dominate this new category," he says.

However, there may only be a small window of opportunity to get products into stores before the larger players. "You can imagine that the tobacco manufacturers will be working very hard to carve up this space with their own offerings," says MacGuill.

The U.S. market is much more dominated by e-cigarettes created by large specialist producers and tobacco firms, which both already have a significant presence in bricks-and-mortar outlets. However, it would not be impossible for smaller brands to break through.

"There may be opportunities, for the right brand, in channels which, to date, have distanced themselves from e-cigarette products, such as drugstores and some of the major supermarket chains," comments MacGuill.

"Like the UK, a shift to tank systems has happened and I think the mainstream retail infrastructure in the U.S. is under-served in this regard. So, before existing cigalike brands manage to successfully launch tank systems, there will be opportunities here."

Fastest-growing category

The role of convenience stores in selling e-cigarettes in the U.S. is predicted to rise, which could stimulate opportunities for smaller brands. Research by Management Science Associates found e-cigarettes to be the fastest-growing product category – ahead of general merchandise, wine, grocery and other tobacco products.

Regulatory changes in the U.S. – and the difficulty in enforcing age restrictions online – may also increase the significance of convenience stores. This is the belief of major e-cig maker Logic, whose president Miguel Martin says: "This will be the long-term play of where e-cigs will be sold."

In other countries, however, the structure of the market can make it difficult to link up with major retailers. **ECigIntelligence research on France**, for example, shows that 62% of e-cigarette consumers buy their products in vape stores and a further 23% in traditional, independent tobacco stores.

However, in both the UK and the U.S. there are definite opportunities – but only for brands able to put all the necessary support and operational systems in place to attract the retailer, and with the strength to hold off potential competition from larger competitors.

– Simon Jack *ECigIntelligence contributing writer*