

MARKET OF E- CIGARETTES IN RUSSIA

SHORT OVERVIEW

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EXECUTIVE SUMMARY

- Share of e-smokers in general smoking population of Russia is fairly small – only about 1%. However, number of traditional smokers steadily decreases, while e-cigarette users are growing in number (by about 5-8% annually)
- **Non-disposable cigarettes are more popular** among Russians due to number or reasons:
 - They are cheaper in terms of cost of one smoke
 - Quality of non-disposable e-cigarettes is substantially higher comparing with disposable e-cigarettes present on Russian market
 - There is very wide variety of tastes and flavors available for disposable e-cigarettes that is not available for disposable cigarettes
- Market share of disposable e-cigarettes is likely to grow in future.
- Market of e-cigarettes in Russia **exceeds RUB 4 billion** and it is going to grow by 12% per year till 2016.
- **Refill liquids** for non-disposable e-cigarettes account for about **70% of total market in value** and their share is likely to grow in future.
- **Cartridges and cartomizers** (components of non-disposable e-cigarettes) account for about **18% of the market** and their market share would drop in future.
- **Disposable e-cigarettes and starter kits** account for only **6% of market share each**. Share of disposable e-cigarettes would decline, as more consumers shift to non-disposable e-cigarettes.
- **Online stores and tobacco specialists** account for more than **90%** of total sales of e-cigarettes in Russia.
- **Joyetech, Dekang, Hangsen, Pons, Glos and DSE** are the leading brands. Joyetech is the evident market leader.



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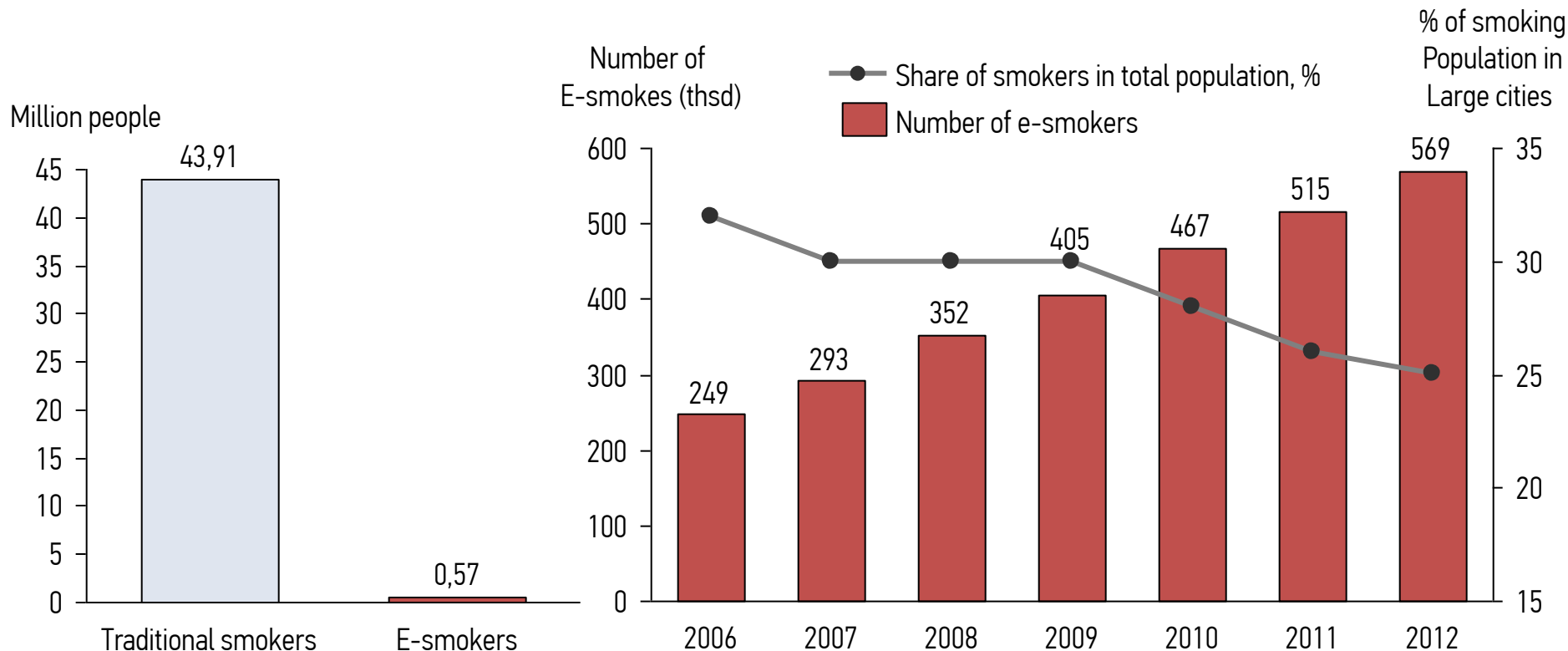


SECTION 1 | Market size



SMOKING POPULATION IN RUSSIA (1/2)

E-smokers are relatively few in Russia, but their number is growing fast



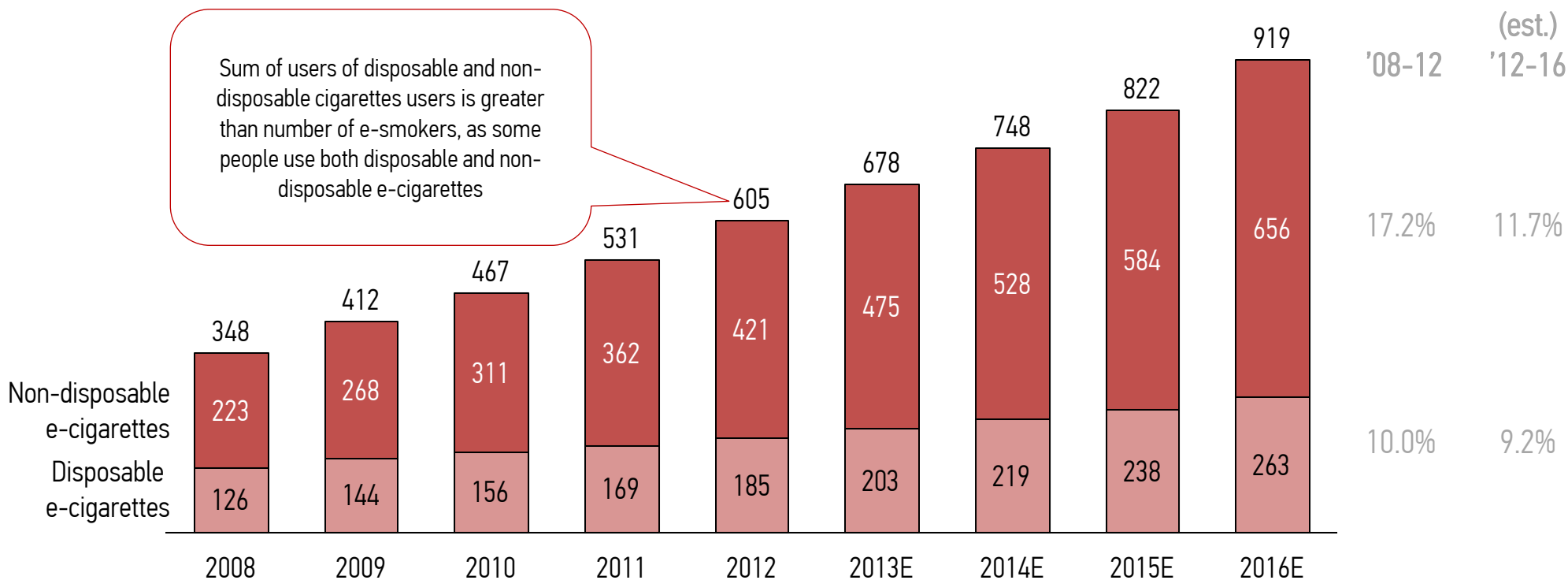
E-smoking is relatively new in Russia. There were only 569 thousand e-smokers in Russia in 2012 compared with almost 44 million of traditional smokers. However, e-smoking population in Russia is growing by 5-8%, while number of traditional smokers has a strong tendency of decline.



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SMOKING POPULATION IN RUSSIA (2/2)

Evolution of e-smoking population in Russia (thousand users)



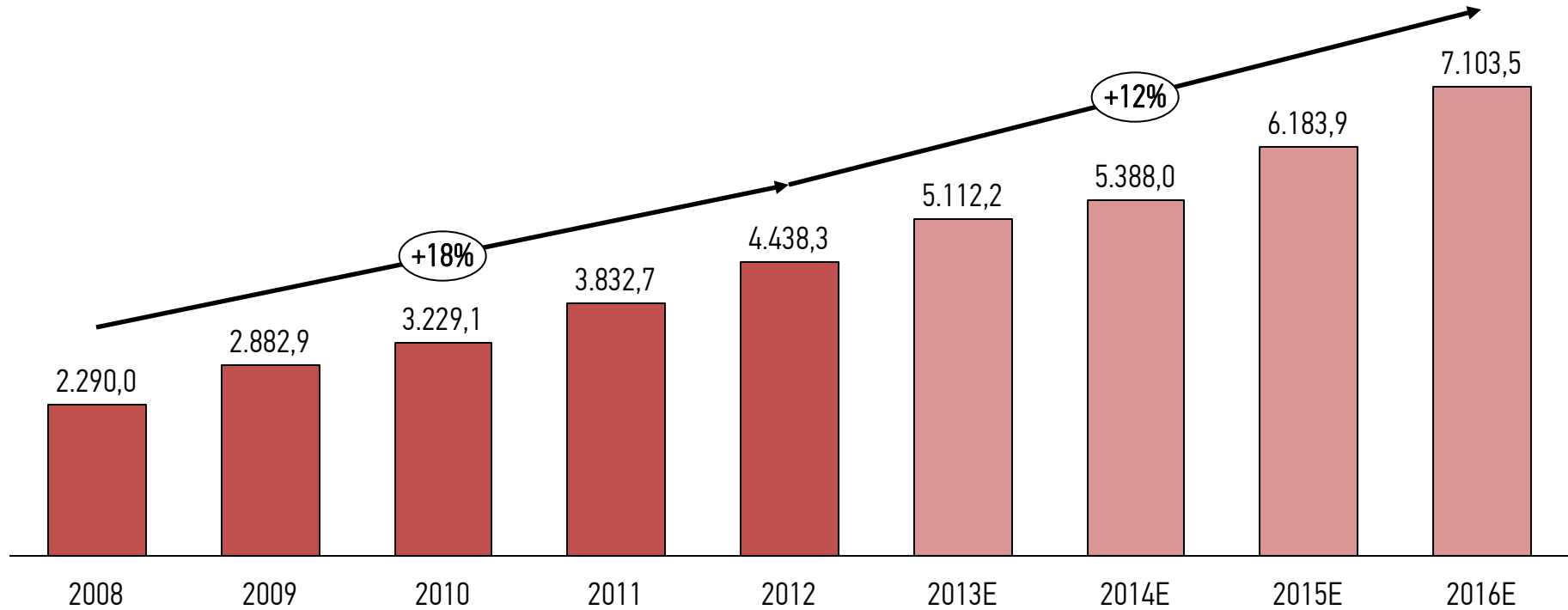
Non-disposable e-cigarettes are more popular in Russia and they are going to gain even larger market share in future. Disposable e-cigarettes are perceived as products of inferior quality that are typically used occasionally, while non-disposable e-cigarettes are consumed regularly and are viewed as alternative to traditional smoking.



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MARKET SIZE AND GROWTH

E-cigarette market in Russia (million Rub)



Market of e-cigarettes is quite young and has been growing fast over the period of 2008-2012. After introduction of new anti-tobacco legislation in Russia in 2012 number of e-smokers increased substantially. In the long run, moderate double-digit growth is expected on the market.



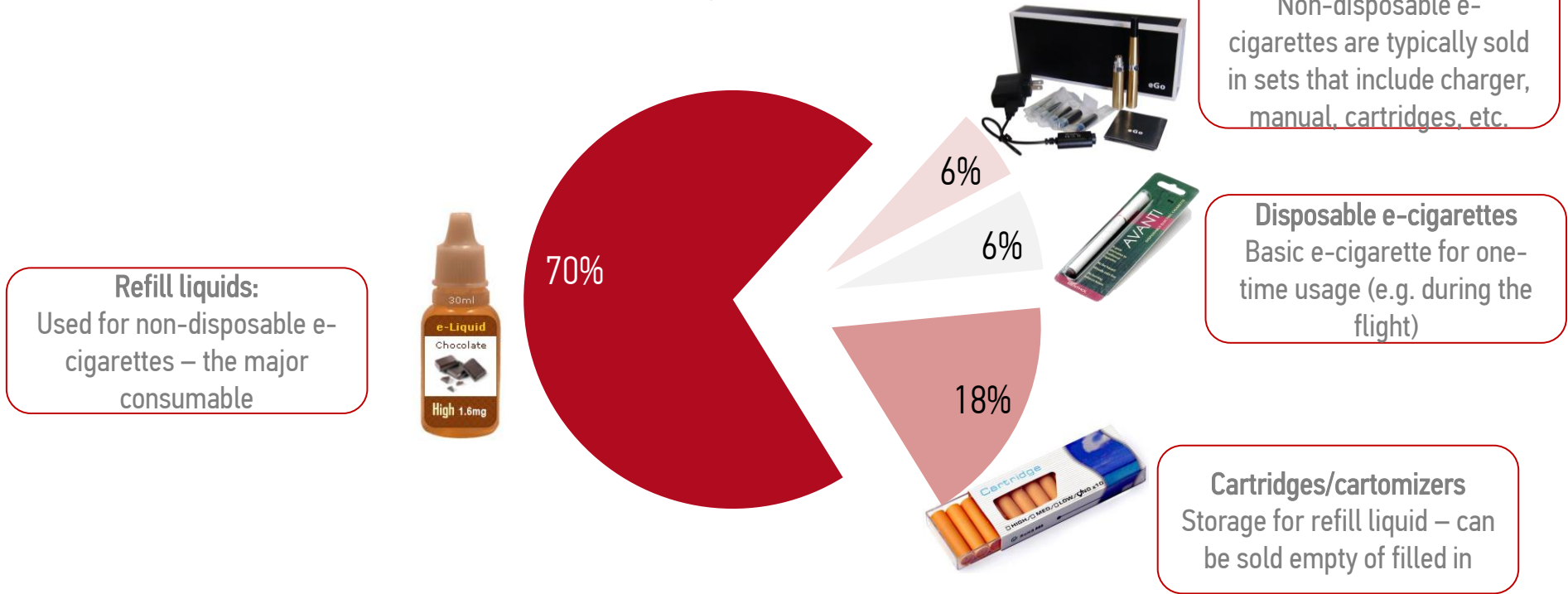
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SECTION 2 | Market segmentation



MARKET STRUCTURE

Structure of Russian e-cigarette market (2012, in value)

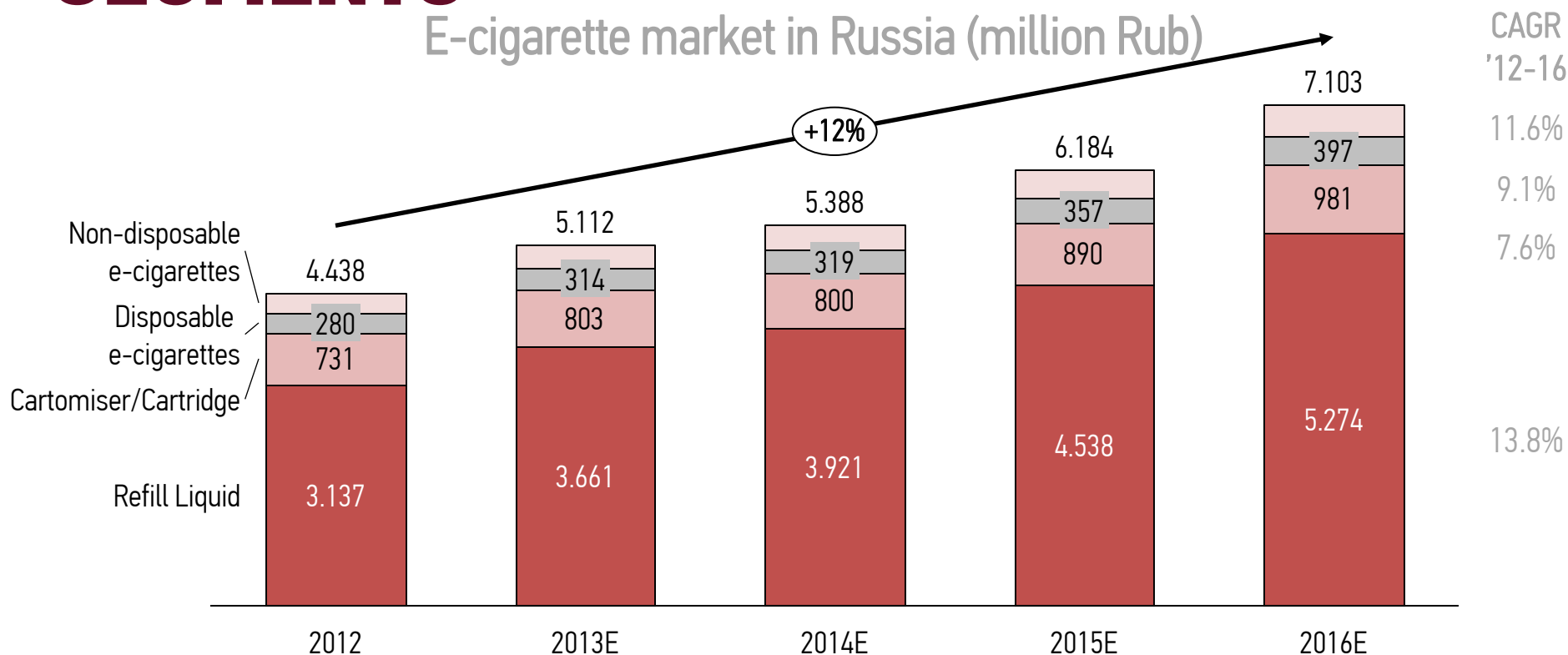


Refill fluids, which are the core consumable, sale of which drives the entire market of e-cigarettes. Using of refill liquid is usually preferred to changing cartridges in Russia. Starting kits and disposable e-cigarettes account for about 12% of the total market.



EVOLUTION OF E-CIGARETTE MARKET SEGMENTS

E-cigarette market in Russia (million Rub)



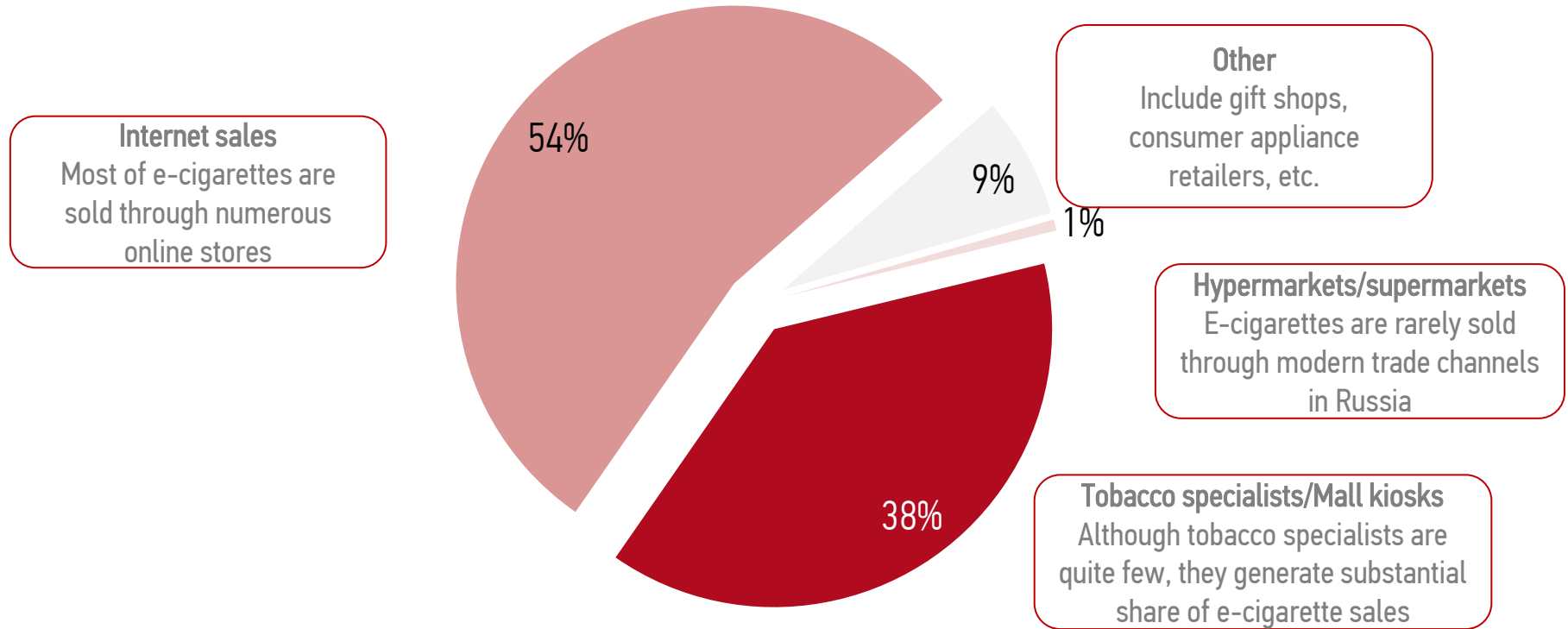
Total market of e-cigarettes is expected to grow by 12% per annum in near future. Increased intensity of usage would lead to higher growth rate of Refill Liquid segment. Share of disposable e-cigarettes would decline, as users who tried such e-cigarettes tend to shift to non-disposable ones in future.



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CHANNEL SPLIT

Key channels of Russian e-cigarette market (2012, in value)



Internet channel of e-cigarette sales is particularly strong in Russia. Its popularity is primarily due to the fact that offline retail of e-cigarettes in Russia is underdeveloped. Online stores offer wider range of products and delivery option which attracts Russian customers.



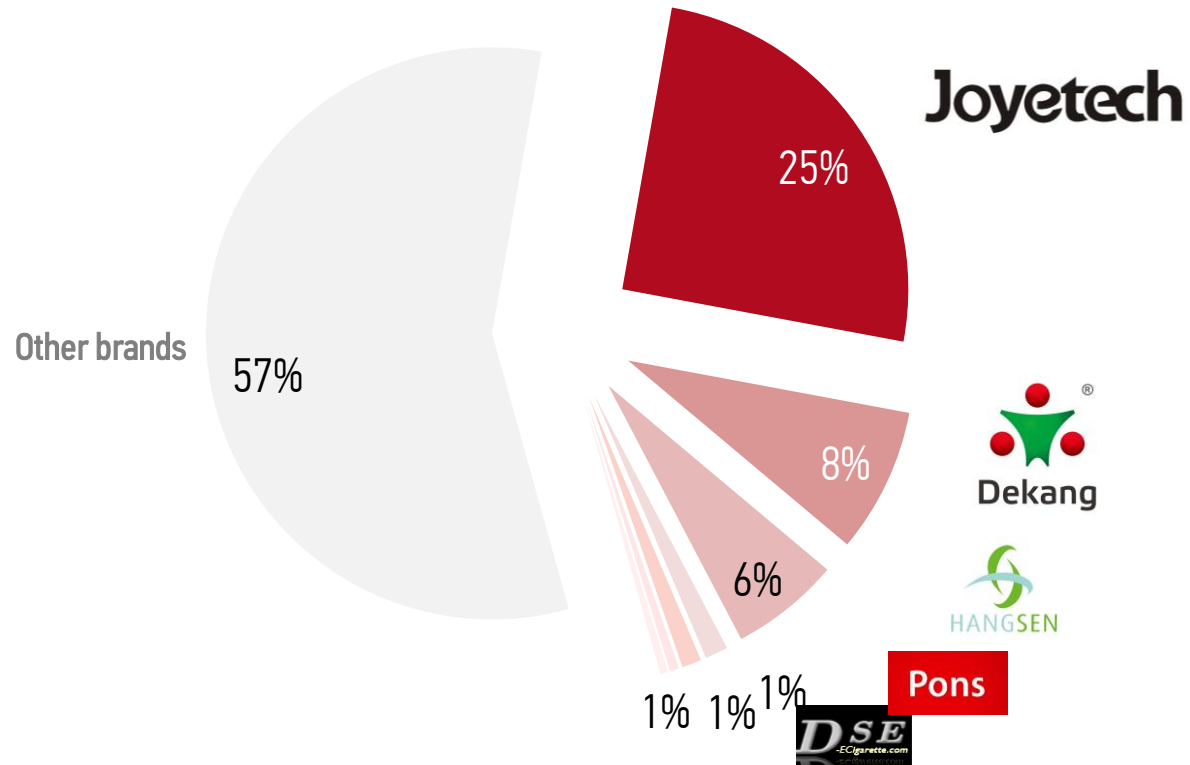
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SECTION 3 | Key players



BRAND SHARES



Joyetech is the evident leader of the Russian e-cigarette market. The brand has high recognition and wide distribution chain. Dekang and Hangsen mainly sell refill liquids on Russian market. Producers of disposable cigarettes have quite low market share.



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Source: Expert interviews (n=20), secondary research

SECTION **4** | **Qualitative
insights**



Qualitative insights (1/2)

Future trends

- **Premium segment would gradually grow.** More users would turn from cheap no-brand disposable e-cigarettes to more advanced options of medium-priced non-disposable e-cigarettes. Such tendency takes place thanks to growing disposable income and growing awareness among e-smokers that only non-disposable e-cigarettes from the established producer can provide the e-smoker with enjoyable experience of e-smoking.
- **Segment of cartridges/cartomisers would not grow fast, as people would prefer buying refill liquids instead of changing cartridges (cartomisers),** as it is cheaper to use liquids and there is great variety of liquids of all tastes and strength.
- **Average price of a sold starter kit would grow** due to inflation and technological advances (such as higher battery capacity, more advanced atomizer, absence of by-tastes , etc) that would make the e-cigarette the more expensive product. E-cigarette experts who test different products available on Russian market (e-cigarette-test.ru) claim that due to low quality of cheap (primarily disposable) e-cigarettes (e.g. presence of sintepon) creates by-tastes, such as taste of burning and other unenjoyable consumer experience.
- **Both traditional and online specialized retail is going to grow.** The market of e-cigarettes is unsaturated now, so chains of specialized retailing (especially in regions) would grow fast. It is also expected that large chain retailers would appear on the market.



Qualitative insights (2/2)

Legislation environment

- There is no legislation that specifically regulates the market of e-cigarettes in Russia. There is currently no age restriction for purchase of e-cigarettes, even though many sellers claim they do not sell e-cigarettes to children under 18. Given the market is small and young legislators give no specific attention to this product.
- However, there are some **local restrictions** on use of e-cigarettes. For example, major Russian airline carrier Aeroflot has banned smoking of e-cigarettes on all its flights, while its close follower Transaero allows smoking of e-cigarettes on board the plane.
- On January 25, 2013 Duma, the Russian Parliament, passed the **bill «On limiting the consumption of tobacco»** in second reading. This bill is one of the most restrictive anti-smoking bills in Europe. The bill prohibits the consumption of tobacco products («products completely or partially produced from tobacco leaves for smoking, sucking, chewing or sniffing») in a wide variety of public places, prohibits tobacco advertising, and seriously limits the retail sale of such products (banning their sale in kiosks and banning displaying cigarette packs at the cash desks). The bill also bans manufacturing and retail sale of «candy, snacks, toys or other objects that look like tobacco products and attract the attention of the underaged».
- According to the market players smoking ban **has positive effect on the e-cigarette market**, as it stimulates people shift from traditional cigarettes to electronic analogues.



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