

Dissolvable Tobacco Products: Design, Development & Marketing

**Tobacco Products Scientific Advisory Committee
July 21-22, 2011**

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Historical Background

- 2001 Brown and Williamson and Star Scientific begin relationship
- 2001 Ariva is launched by Star Scientific
- 2003 Stonewall is launched by Star Scientific
- 2003 Interval is launched by B&W in Louisville
- 2004 Report by Star Scientific Consensus Panel
- 2004 B&W and RJ Reynolds merge
- 2004 RJR terminates the B&W/Star contractual relationship which triggers that contract's 4 year non-compete in "Hard Tobacco" category
- 2006 RJRT launched Camel Snus
- 2009 RJRT launched Camel Orbs, Sticks and Strips



Tobacco Product Design

- The primary objective of tobacco product design and development is to produce a marketable product which meets or exceeds the expectations of adult tobacco consumers (ATC)
- Through consumer research, new or modified product ideas are fielded or generated (Qualitative Research)
 - Only ATC's 21 years of age or older are used in the research
- Prototypes are developed and assessed internally (expert panels) and refined
- Refined prototypes can then be further assessed through consumer research (Quantitative Research) to aid in market launch decisions



Tobacco Product Development Process

- **Concept ideation and refinement**
 - Qualitative Research
- **Prototype development and assessment**
 - Technical feasibility and sustainability
 - Prototype modifications and improvement
 - Product stewardship
 - Consumer acceptability (Quantitative Research)
- **Large scale market feasibility**
 - Specifications / Bill of Materials development
- **Production**
 - Quality Control / Quality Assurance



Sequential Recycling Research

- In 2007, qualitative research was conducted among adult smokers age 21-45 to discuss and brainstorm around new smokeless tobacco concepts
- Camel Orbs, Sticks and Strips were the outcome of this consumer research



ATC Feedback from Sequential Recycling

- Range of offerings
- Different shape formats
- Acceptable taste
- Complete dissolve
- Different dissolve times
- Contemporary packaging



Product Design Objectives

- Tobacco is predominant ingredient
- Food/Pharma/GRAS grade ingredients
- Meets Gothiatek[®] Constituents Limits
- ATC acceptable visual/oral/taste sensory
- Cost
- Scalability



Initial Prototype Development

- Investigated the oral sensory attributes of tobacco types/grades
- Investigated bandcast, extrusion, pelleting and other technologies
- Through this initial development, we were able to define some important product attributes that we used going forward



Product Attributes

- Color
- Mouthfeel
- Dissolve time
- Irritation / Bitterness
- Tobacco taste
- Flavor
- Sweetness
- Size



Processed Tobacco

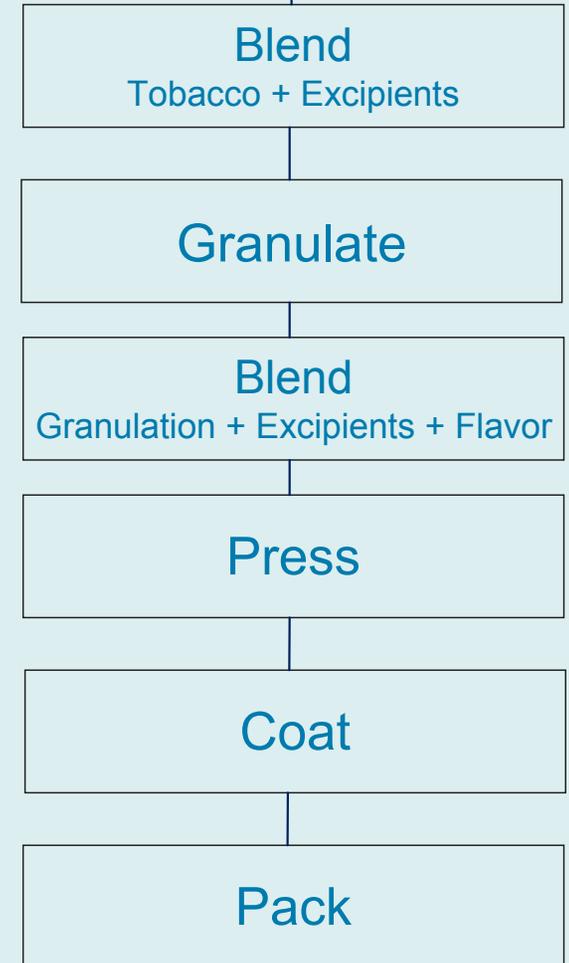
STRIPS



STICKS



ORBS



Dissolvables Market Launch

- Launched Camel Orbs into 3 cities in Jan 2009
 - Portland, Oregon
 - Columbus, Ohio
 - Indianapolis, Indiana
- Launched Camel Sticks and Strips in July 2009



Marketing Studies (Post-Market)

- Monitored product performance by conducting post-market research studies among ATC's:
 - Retail intercept studies
 - Buyer studies
 - Awareness, Trial, and Purchase studies
 - Promotion studies
 - Marketing platform studies



Marketing Studies (Post-Market) (cont'd)

- Post-market data collected included:
 - Awareness, trial and purchase levels
 - Demographic profile among product triers and buyers
 - Future purchase intentions of product triers
 - Reasons for trying, buying or rejecting
 - Product and proposition understanding; likes/dislikes, usage occasions and consumption per day
 - Response to and perceptions of promotional offers
 - Shipment volume, retail uptake, market share and average retail selling prices to consumers



Learnings Applied to 2011 Relaunch

Concept relevant, but did not deliver on products and packaging:

- Products have low acceptance
- Packaging a barrier to trial



Improve trial and taste signature:

All mint-platform with more modern and intuitive packaging, maintaining child resistant features

Offer variety pack as a saleable unit

Good opportunity for Female smokers 35 – 50 years old to switch



Ensure consumer touchpoints on Female Adult Smokers (FAS) 35 – 50



Learnings Applied to 2011 Relaunch (cont'd)

Retail presence must convey innovative nature of category



Created high-impact merchandising and Point of Sale materials to further differentiate category

New marketing mix requires new lead markets – easier to start anew than to change existing perceptions



Relaunch instead of Expansion

Distribution in traditional retail channels not reflective of a newer, innovative category



Market in channels to include those preferred by female adult smokers age 35 – 50: Gas/Conv and Grocery



Product Changes based on Learnings

- **Orbs**
 - New tobacco blend
 - Changed color of coating
- **Sticks**
 - New tobacco blend
 - Moved to mint flavor
- **Strips**
 - Moved process from bandcast to extrusion which required new formulation
- **Optimized packaging for all products**
 - Meets CPSC guidelines for both child resistance and senior friendly



Products Relunched

- Products optimized and relaunched into 2 cities in 1Q 2011
 - Denver, Colorado
 - Charlotte, North Carolina



Current Product Composition

- Sensory driven
- Resulted in products as follows
 - Orbs ~30% tobacco ~1.2 mg nicotine
 - Sticks ~30% tobacco ~2.4 mg nicotine
 - Strips ~30% tobacco ~1.3 mg nicotine
- pH 7.8 for all products



Camel Dissolvable Tobacco Products



Conclusions

- Dissolvable tobacco products not new
- Developed by adult tobacco consumers for adult tobacco consumers
- Intended for adult smokers interested in lower-risk tobacco alternative
- Launched, learned, relaunched

