Guest post: BAT executive on disruption of the tobacco industry

written by Clive Bates | 26 September 2017



BAT's O'Reilly on the disruption of the tobacco industry

On June 12th, I published a blog, *Pariahs, predators or players? The tobacco industry and the end of smoking*, in which I tried to guess how tobacco companies are thinking about the future from my vantage point on the sidelines. But I also asked if any industry figures would like to offer an informed insider's view and offered a right of reply. Well, to my surprise one executive did reply. David O'Reilly is BAT's Group Scientific and R&D Director, and here is his perspective.

> ***Dr David O'Reilly, Group Scientific and R&D Director, British American Tobacco***
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> *A few weeks ago I was asked about my views on the upcoming "decade of disruption" for tobacco and nicotine companies. While the questioner was right to suggest that next generation products such as e-cigarettes and Tobacco Heating Products (THPs) will have a colossal impact on our industry – and be transformational for consumers – in reality, the question was probably posed around ten years too late. The industry has already been disrupted and the pace of change is accelerating.*

Set against this backdrop, I enjoyed reading Clive Bates' comprehensive blog post on the current opportunities and challenges facing modern day tobacco and nicotine companies like British American Tobacco (BAT). Of course, there have been discussions on this topic elsewhere, such as at the Global Forum on Nicotine in June where I participated in a panel discussion, "Nicotine futures: the tobacco industry and public health" (YouTube). It's a broad, relevant and important topic. Below I've outlined a few thoughts capturing our current thinking on some of the most salient aspects of these conversations:

1. Motivation

I can't speak on behalf of the industry, but at BAT our motivations in developing a range of next generation reduced-risk products is clear. We're a business and so our primary objective has to be commercial. This isn't – or at least shouldn't be – controversial or surprising.

That said, we see no dissonance between our commercial objectives and striving for a future where smoking-related disease is a thing of the past. Indeed, given that the vast majority of our consumers also want to see an end to smoking-related disease and our shareholders want to invest in a sustainable business, our increased focus on next generation products makes perfect sense.

We view next-generation products as a win for consumers who might benefit from less-risky products and increased choice, a win for public health where the upside is self-evident and a win for our shareholders as we're well positioned to further unlock the commercial benefits of the emerging category and take a leading position in the marketplace for these new products.

2. Regulation

At BAT, we're strong advocates for sound regulation. It's essential for the continued growth of the category and ultimately paramount for both consumers and for public health. As such, we would like legislators to develop consistent regulation and a fair system of taxation that reflect the relative risks of the products and doesn't restrict their growth. Poor regulation could easily halt progress in what is still a very nascent category, and so our view is that regulation must be truly consumer-centric:

- *It is crucial for consistent quality and safety standards to be in place. To ensure consumer confidence and a high-level of safety, these standards must be based on robust science and not be arbitrary or ill-informed*
- *Marketing and advertising rules must ensure that adult consumers are the only target*
- *Regulation can – and should – ensure a high-level of consumer safety and product quality while also enabling appropriate levels of freedom to innovate, market and distribute. Ultimately freedom in these respects will enable the category to grow, which will be better for consumers and better for society.*

In reality, we recognise that our primary responsibility is to create winning products based on science that consumers can trust. Our role is to ensure that our next generation products perform well enough to be relevant and viable alternatives to cigarettes.

Future success will require transformative, innovative products and changing the conversation about tobacco harm reduction. Governments will ultimately decide on regulations. We were very encouraged by US Food and Drug Administration's recent announcement recognizing tobacco harm reduction policies and the continuum of risk for tobacco products. These principles have long been the core of our efforts in leading the transformation of the tobacco industry.

3. More and better choices

While the tobacco and nicotine industry was dominated by one product in the 20th Century, it's clear to us that the 21st Century will be one of fragmentation. This is no different to the fragmentation that we see in beer, chocolate, coffee – you name it. Why should tobacco and nicotine be any different?

Arguably, this fragmentation is led by consumers. We already see that some consumers smoke, some vape, some prefer THPs, some combine one product with another and so on. Consumers are hungry for more and more, and better and better choices.

The 'more and more' is why we're focused on building a family of brands and product platforms across a range of sub-categories – but the 'better and better'

is key too. To accelerate the conversion of smokers into ex-smokers, it's essential that consumers have brands that they can trust. That's why we're setting the bar on standards for product safety and quality, based on robust science.

Disruption is already a reality for tobacco and nicotine companies – and it's only just begun. We are excited about the opportunities this can bring for consumers, society and our business – we don't fear it and we're already fully embracing it. I hope that in the future, there will another generation of people who will say that the leaders of the tobacco industry in the early 21st century got it right.

Comments welcome…!