



MScBM Capstone Project

-- ComBetter HNB Product

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INTRODUCTION AND BACKGROUND

INTRODUCTION

2020

Global revenue
Tobacco products
US\$805,883m

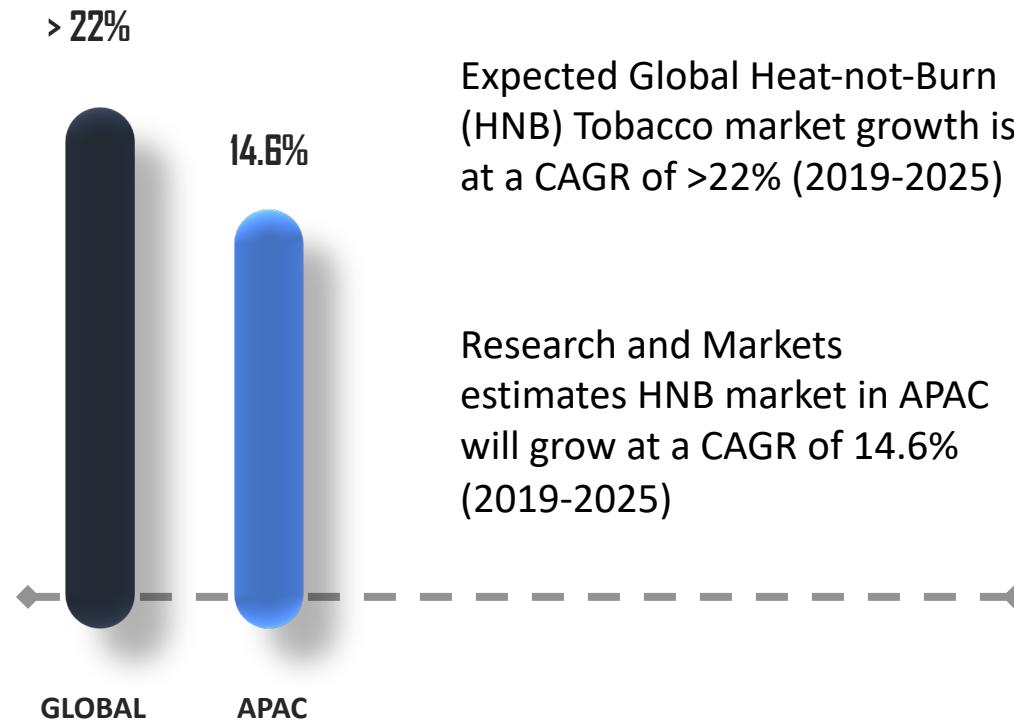
China contributes
the highest
US\$229,692m

Source: Statista.com

- The market is expected to grow annually by 3.0% (CAGR 2020-2023)
- The tobacco industry is very lucrative, especially in China.

INTRODUCTION continued

- Growing Concerns for health gives Heat-Not-Burn (HNB) cigarettes a promising future.
- Considered less Harmful (less nicotine content)



Source: [researchandmarkets.com](https://www.researchandmarkets.com)

COMPANY BACKGROUND



Combetter (est. 2005) is a Chinese HNB production company that sees the potential of the HNB market in China

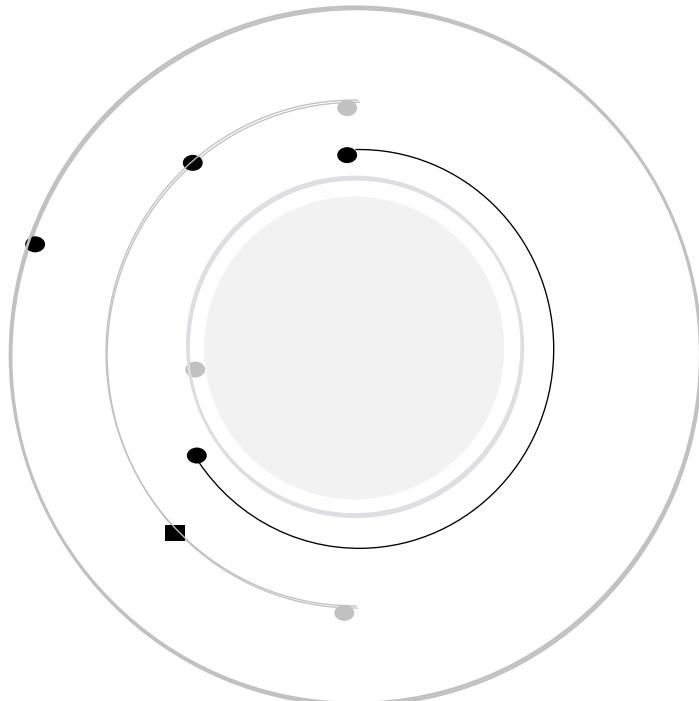


However, Combetter is challenged with current government restrictions on the sale and production of Tobacco related products.



There are indications of future relaxation of restrictions

PROBLEM STATEMENT



- Combetter wants to be fully prepared, when the market opens up.
- This group was tasked to develop a marketing strategy in anticipation of the relaxation of restrictions.



PROJECT OBJECTIVES

The project objectives were:

-
- The diagram consists of a horizontal grey line with three dark blue circular markers. Vertical dashed lines connect each marker to its corresponding objective text below it.
- 1 To identify key insights of the Japanese HNB market to help analyze the HNB market prospect in China.
 - 2 To determine Chinese consumers' perception and response to HNB products.
 - 3 To identify the target customers of HNB product and achievable market strategies.



PESTEL & SWOT ANALYSIS

PESTEL Analysis

Political

WHO's MPOWER for Tobacco Control

- M-Monitoring the epidemic and prevention policies carefully
- P-Protecting people from second-hand smoke
- O-Offering help to people who want to quit
- W-Warning everyone about the dangers of tobacco
- E-Enforcing the ban on advertising, promotion, and sponsorship
- R-Raising taxes and prices

China

HNB Tobacco:

- Satisfies Article 5 of the Tobacco Monopoly Law of the People's Republic of China
- Reduces the content of tar and other harmful ingredients
- Provides an avenue for the increase in tobacco tax revenue

Japan

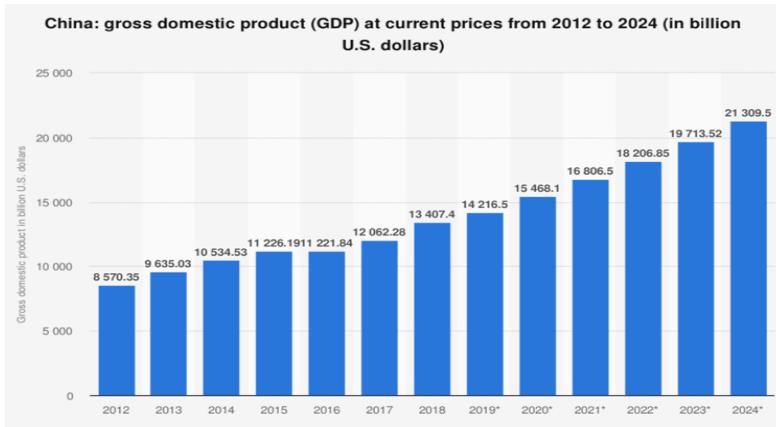
HNB Tobacco:

- HNB industry is quite mature in Japan where HNB tobacco has been already sold since 2014
- Japanese government permits domestic TV, print media, Internet platform, and many channels to publish tobacco advertisements and promotion campaigns

PESTEL Analysis

Economic

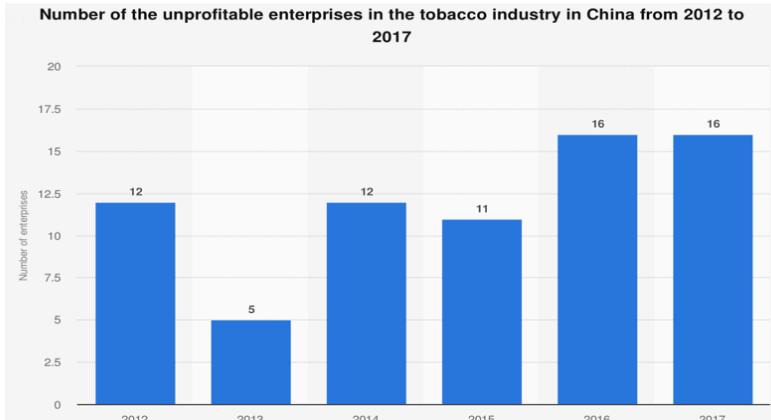
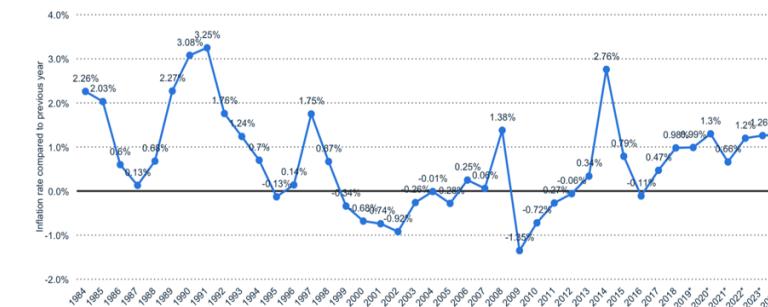
China



Japan

Japan: Inflation rate from 1984 to 2024 (compared to the previous year)

Inflation rate in Japan 2024



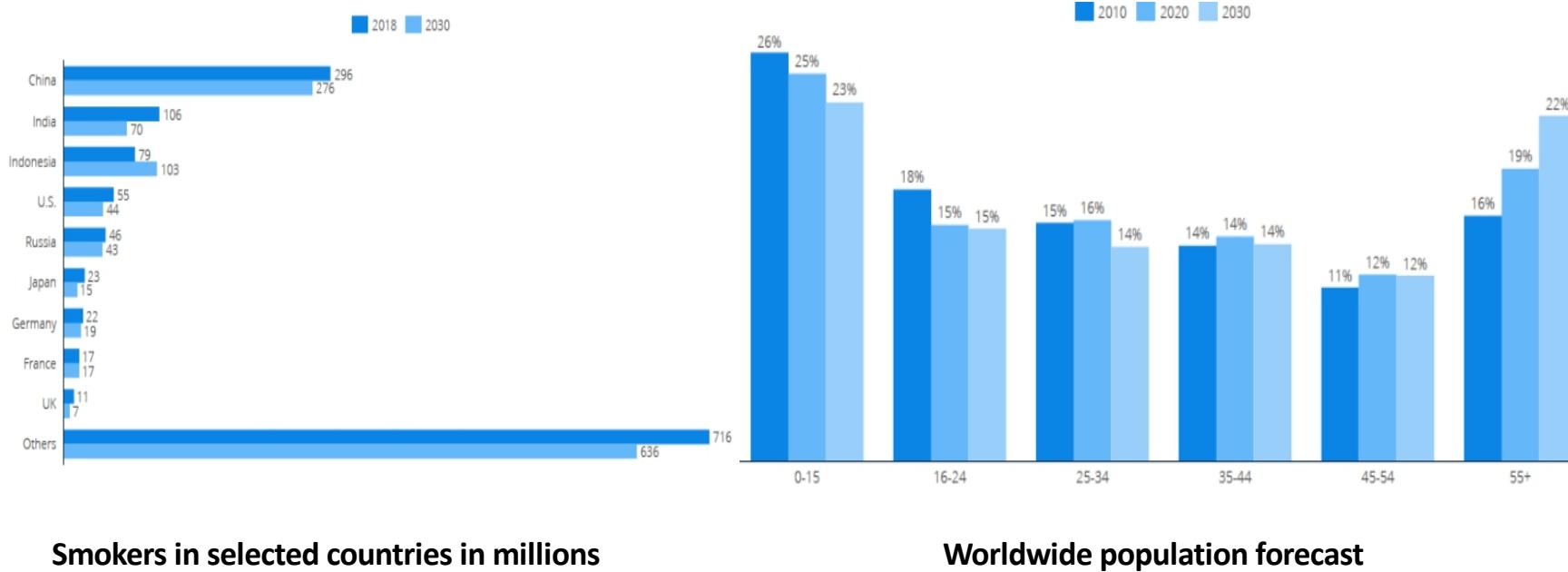
Japan

Japan: Gross domestic product (GDP) in current prices from 1984 to 2024 (in billion U.S. dollars)



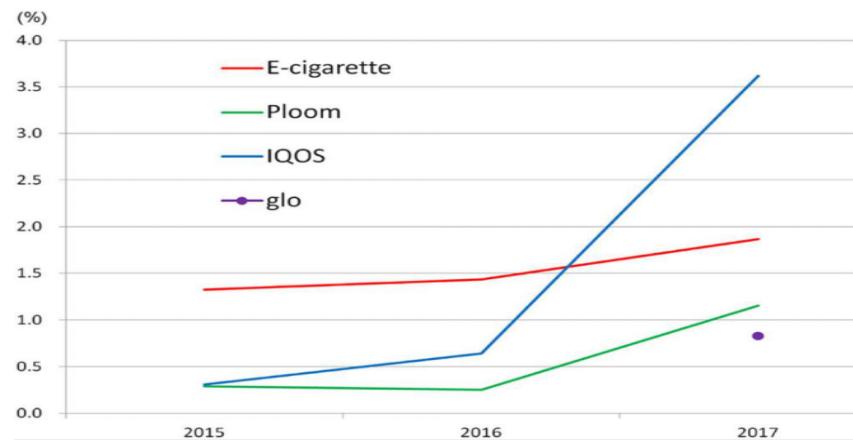
PESTEL Analysis

Social



PESTEL Analysis

Technological



Heat-not-burn tobacco product use in Japan



PESTEL Analysis

Environmental

Pollution From Cigarette Production

- Processing
- Combustion of coal
- Sewage problem



Pollution From Cigarette Consumption

- Cigarette smoke
- Cigarette filter

PESTEL Analysis

Legal

China

- All tobacco products are controlled and franchised by China National Tobacco Corporation
- Law of the People's Republic of China on Tobacco Monopoly
- CNTC is looking for collaboration with HNB companies

Japan

- Banned e-cigarettes in 2010, launch IQOS in 2014
- Light regulation, lower tax rate
- Mature and specific laws for HNB

標識の例



SWOT Analysis

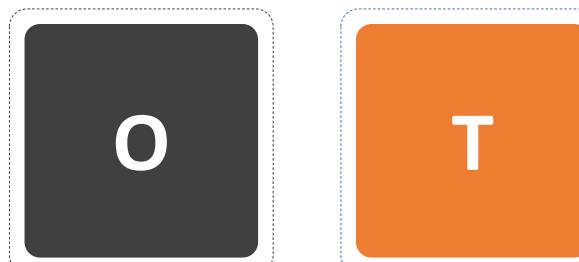
Strength

- Close relationship with CNTC
- First-mover advantage
- Provide complete products, solutions, and intellectual property
- Scientific research institutions cooperation
- Strategic cooperation with supply chain and foundry companies



Opportunity

- Health new tobacco grows more popularity
- IQOS has done the preliminary market introduction and education
- CNTC promotes healthy new tobacco types



Weakness

- Not strong capital support
- No own production system
- Lacks brand operation experience
- Low brand awareness as a fresh start-up company

Threat

- China's still unclear domestic HNB market policy
- Compete with imitation products and face price competition
- Big capital may boost malicious competition
- Illegal sells from domestic and foreign HNB manufacturers



METHODOLOGY

Methodology

1

Structure of The Questionnaire - Five parts

- Introduction
- Warm-up questions (whether the respondent is a smoker or not)
- Transition questions (Have you heard of HNB),
- Complex questions
- Personal information questions

2

Classification of Questions

The questionnaire includes

- 11 nominal questions (Q1,2,5,7,8,9,11,15,16,17,21)
- 4 ordinal questions (Q3,4,13,19)
- 6 interval questions (Q6,10,12,14,18,20)
- NO ratio question involved

3

Descriptive Research

The design of each question is as clear as possible

- Simple grammar
- focusing on a single topic
- Avoiding to use absolute words



Methodology

1

Sample Selection

- The target group of interviewees is "the adult in mainland China"
- "Convenient Sampling Method" was used
- Limitation
 - HNB products are not yet available in the Chinese mainland market --- Hard to define user group
 - Questionnaires were sent out via WeChat --- can not cover all target group
 - Recent COVID-19 pandemic

2

Sample Size

Original plan --- 250

The total number of samples received --- 201

3

Collection Method

- "Online Computer-administered" method
- Formed based on the WenJuanXing (问卷星) platform
- Distributed on the WeChat platform.





DATA ANALYSIS AND RESEARCH FINDINGS

Data Analysis and Research Findings

Demographic Profile



Gender:

male	88 (44%)
female	113(56%)



Education Level:	University/College	119 (59%)
	Post graduate	64 (32%)



Location:

Tier 1 city	103 (51%)
New Tier city	46 (23%)
Other	52 (26%)

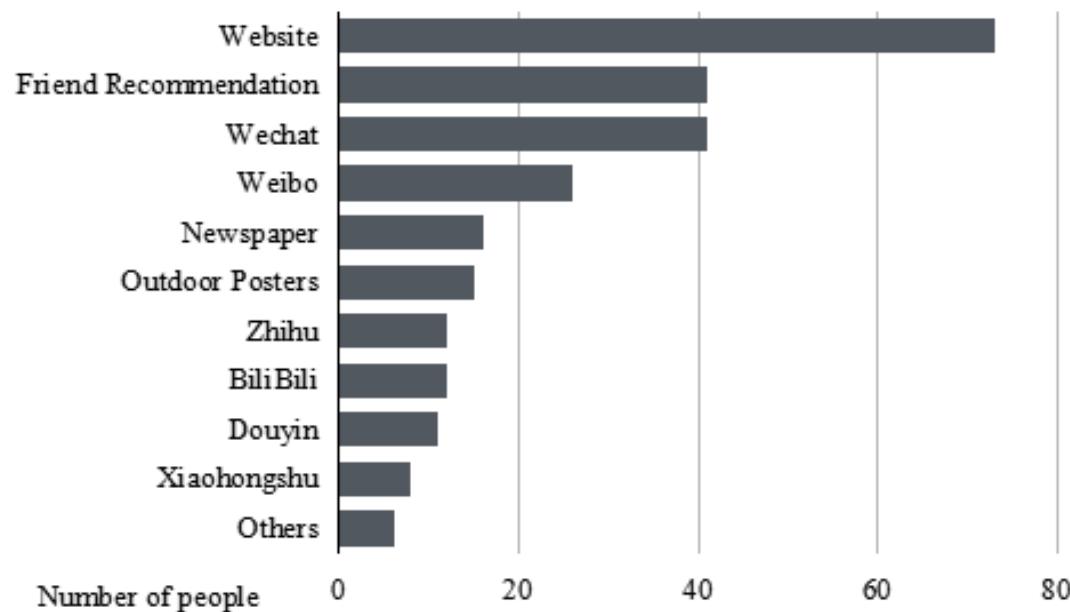


Monthly Income:

Less than 3,000	52(26%)
3,000-7,000	74(37%)
7,000-15,000	52(26%)

Data Analysis and Research Findings

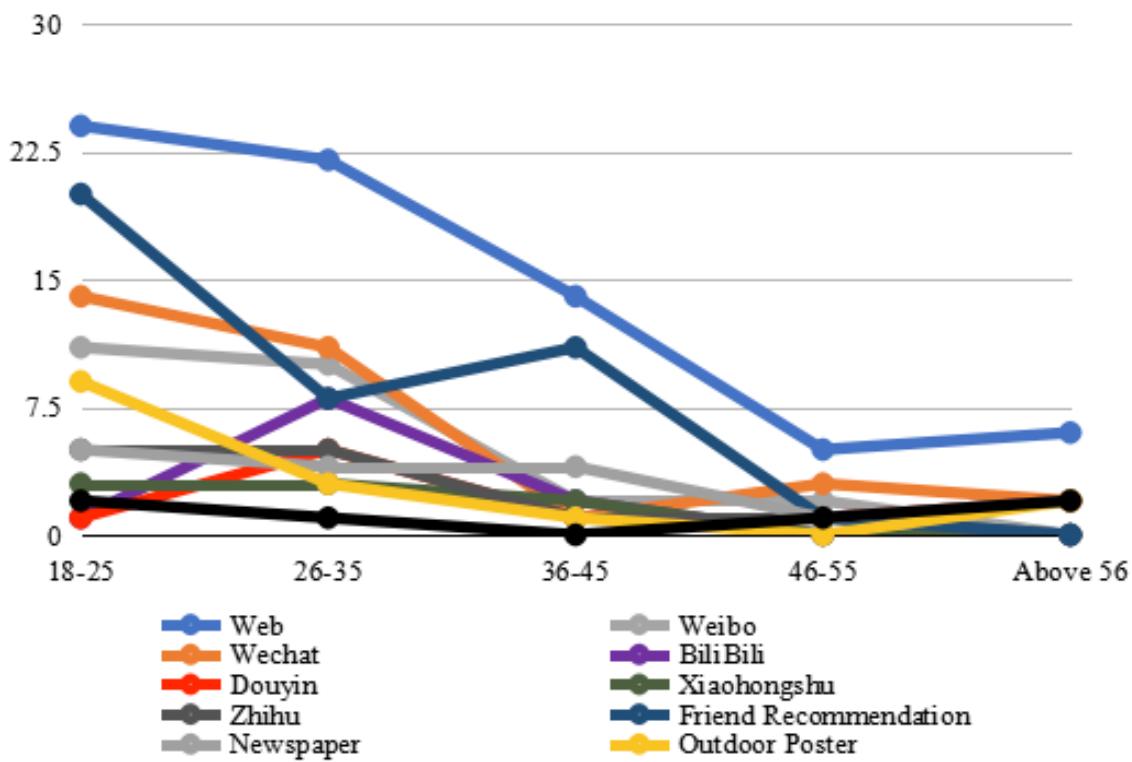
Perception of HNB



Exposure rate of HNB: 99(49.3%) had heard of HNB
102(50.7%) have never heard of HNB

Information Sources: the Internet, friend's recommendation, WeChat and Weibo are the main channels

Data Analysis and Research Findings



Perception of HNB

Age and Information Sources Cross Analysis:

- the proportion of young people (18~35 years old age group) is relatively high
- The main channels are website and friend recommendation.

Prior Usage of HNB:

Among 99 people who have heard about HNB
54(54.5%) tried
45(45.5%) not tried

Data Analysis & Research Findings: Conversion Rate

	Numbers of People	Percentage
Yes	86	42.8
No	115	57.2
Total	201	100.0

Smoker Ratio

Have you ever smoked or used tobacco related products?

42.8%: have used tobacco products; 57.2%: have never used tobacco products

Data Analysis & Research Findings: Conversion Rate

	Very Unlikely	Unlikely	Neutral	Likely	Very Likely	Total
Smokers	3	3	17	7	7	37
Non-smokers	49	17	23	15	6	110
Total	52	20	40	22	13	147

	Value	Degree of Freedom	P Value
Chi-Square Test	24.060^a	4	0.000
Likelihood Ratio	26.011	4	0.000
Linear Correlation	19.451	1	0.000
Number of Valid Cases	147		

Chi-Square Test.

Conversion statistics after reading the introduction.

P value < .05, the relationship is significant.

(interviewee's willingness to try HNB & reading the introduction)

A Pearson product-moment correlation coefficient: positive correlation, n=147, p<.05.

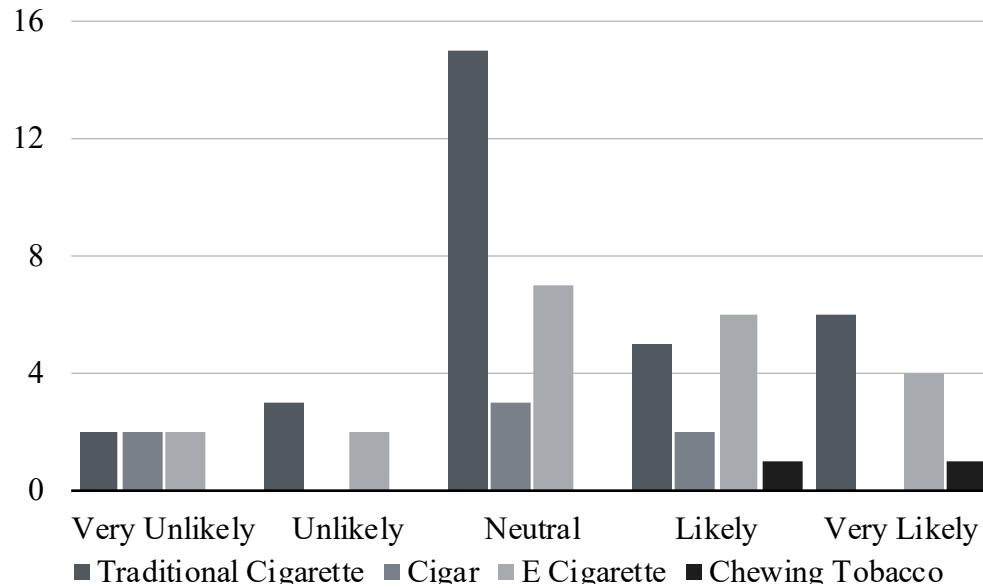
(interviewees and their willingness to try after reading the introduction)

Strong positive correlation between the interviewees and their willingness to try HNB product.

Cigarette user --> more positive.

More than half of the non-smokers --> more resistant to HNB products.

Data Analysis & Research Findings: Conversion Rate



		Smoking Ages	Usage Amount	Gender	Age	Education Level	Monthly Salary	Place of Residence
After reading the introduction of HNB, to what extent you will try HNB tobacco?	Pearson Correlation	0.364	0.351	-0.147	-0.103	-0.084	0.012	0.118
	Significance Level	0.000	0.000	0.076	0.215	0.313	0.889	0.156

Correlation analysis: willingness to try HNB & other factors

Confidence interval: 90%, significance test level: 0.1

Different Tobacco Users' Willingness to Try HNB

- Traditional cigarette users: neutral towards HNB.
- E-cigarette users: relatively positive

Education Level, Monthly Salary: P value < .1 -->significant

Gender, Age, Place of Residence: P value > .1 -->relatively small

Smoking Ages, Usage Amount: P values much larger than .1: insignificant

Data Analysis & Research Findings: Conversion Rate

	Unstandardized Coefficient		Standardized Coefficient	t	Significance Level
	B	Standard Error	Beta		
(Constant)	3.318	0.823		4.031	0.000
Gender	-0.240	0.252	-0.087	-0.954	0.342
Age	-0.133	0.093	-0.134	-1.427	0.156
Education Level	-0.198	0.196	-0.092	-1.010	0.314
Monthly Salary	0.053	0.116	0.040	0.456	0.649
Place of Residence	0.197	0.131	0.128	1.504	0.135

Regression Model: Relationship between the five factors and the conversion willingness to HNB; Conversion willingness to HNB as dependent variable.

Age, Place of Residence: most

Age: negative correlation to the conversion willingness to HNB --> with the increase in age, respondents are less likely to try HNB tobacco.

Place of Residence: positive correlation to the willingness to convert to HNB --> Tier 1 cities' residents are more likely to try HNB tobacco.

Data Analysis & Research Findings: Target Customer



Target Customers

✓ 18~25 Age Group

✓ Tier 1 Cities' Residents

✓ Smoker Group

✓ E-cigarette & Trad. Cigarette Smokers

Data Analysis & Research Findings: Preference

	Appearance	Price	Heating Time	Brand	Taste	Durability
Total	668	690	645	637	708	705
Medium	3.32	3.43	3.21	3.17	3.52	3.51
Standard Deviation	1.304	1.295	1.243	1.233	1.393	1.342

		Appearance	Price	Heating Time	Brand	Taste	Durability
Male	Total	88	88	88	88	88	88
	Average	3.43	3.42	3.28	3.32	3.76	3.72
	Medium	4.00	3.00	3.00	3.00	4.00	4.00
Female	Total	113	113	113	113	113	113
	Average	3.24	3.44	3.15	3.05	3.34	3.35
	Medium	4.00	4.00	3.00	3.00	4.00	4.00

Considered Factors When Buying HNB Tobacco

Considered factors:

Taste > Durability > Price

then Appearance, Heating time, Brand

- Males: Taste, then Durability;

- Females: Price, Durability.

Specific to gender...

Data Analysis & Research Findings: Preference

		Appearance	Price	Heating Time	Brand	Taste	Durability
Less than 3,000	Total	52	52	52	52	52	52
	Average	3.44	3.88	3.37	3.25	3.71	3.75
	Medium	4.00	4.00	3.00	3.00	4.00	4.00
3,000 to 7,000	Total	74	74	74	74	74	74
	Average	3.28	3.26	3.18	3.14	3.35	3.42
	Medium	4.00	3.00	3.00	3.00	4.00	4.00
7,000 to 15,000	Total	60	60	60	60	60	60
	Average	3.38	3.45	3.20	3.25	3.70	3.52
	Medium	4.00	4.00	3.00	3.50	4.00	4.00
15,000 to 30,000	Total	7	7	7	7	7	7
	Average	2.71	2.43	3.14	2.71	3.00	3.29
	Medium	3.00	3.00	3.00	3.00	3.00	4.00
Above 30,000	Total	8	8	8	8	8	8
	Average	3.00	2.88	2.63	2.75	3.00	2.88
	Medium	3.00	2.50	3.00	3.00	3.00	3.00

Relationship Between Considered Factors & Monthly Salary



Monthly salaries < 3,000 RMB: Price;

3,000 to 7,000 RMB: emphasis on Durability;

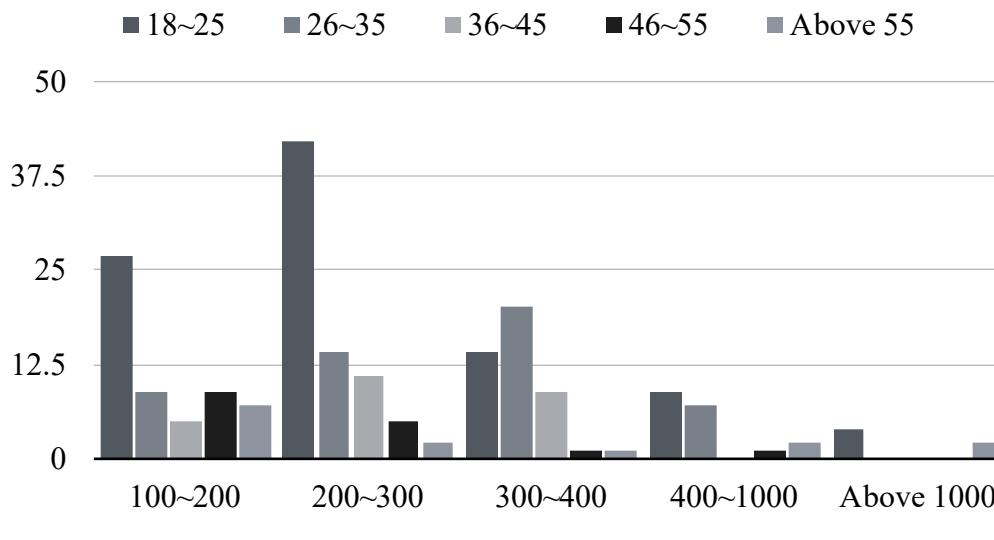
7,000 to 15,000 RMB: more emphasis on Taste;

15,000 to 30,000 RMB: Durability;

Above 30,000 RMB: Appearance & Taste.

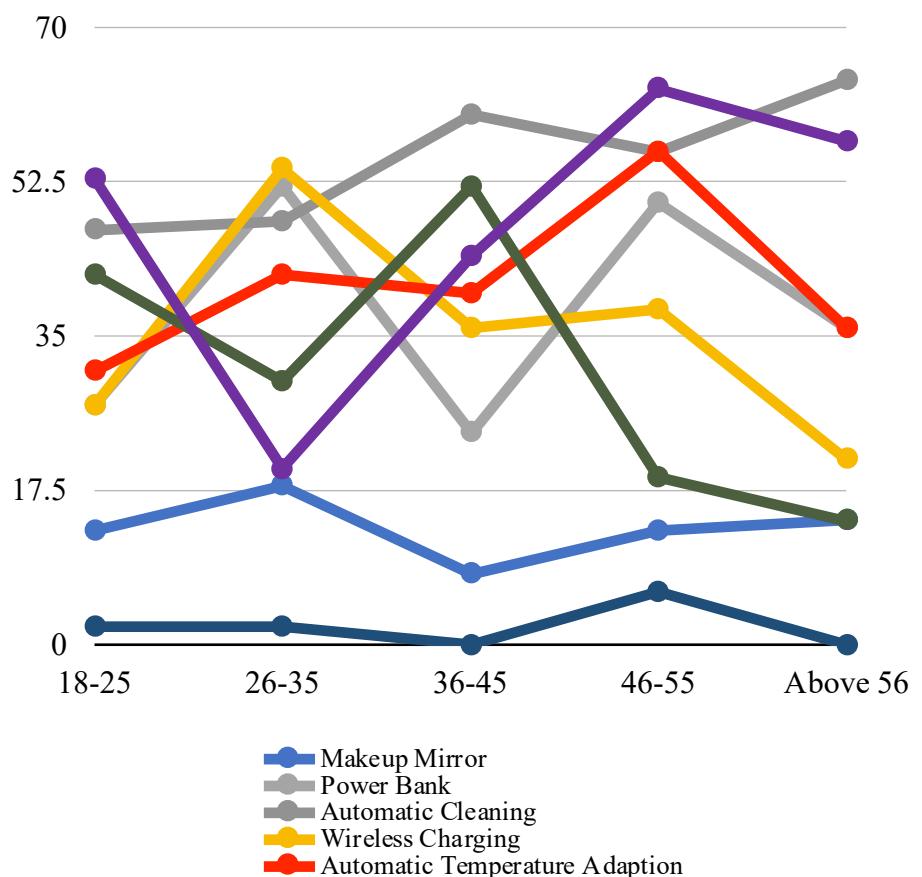
Data Analysis & Research Findings: Preference

Price (RMB)	Frequency	Percentage
100~200	57	28.4
200~300	74	36.8
300~400	45	22.4
400~1000	19	9.5
Above 1000	6	3.0
Total	201	100.0



RMB 100 ~ RMB 400 is the acceptable price to the vast majority;
Ages of 18-25: 200-300;
Ages of 26-35: 300-400.

Data Analysis & Research Findings: Preference



Relationship between Age & Desired Functions

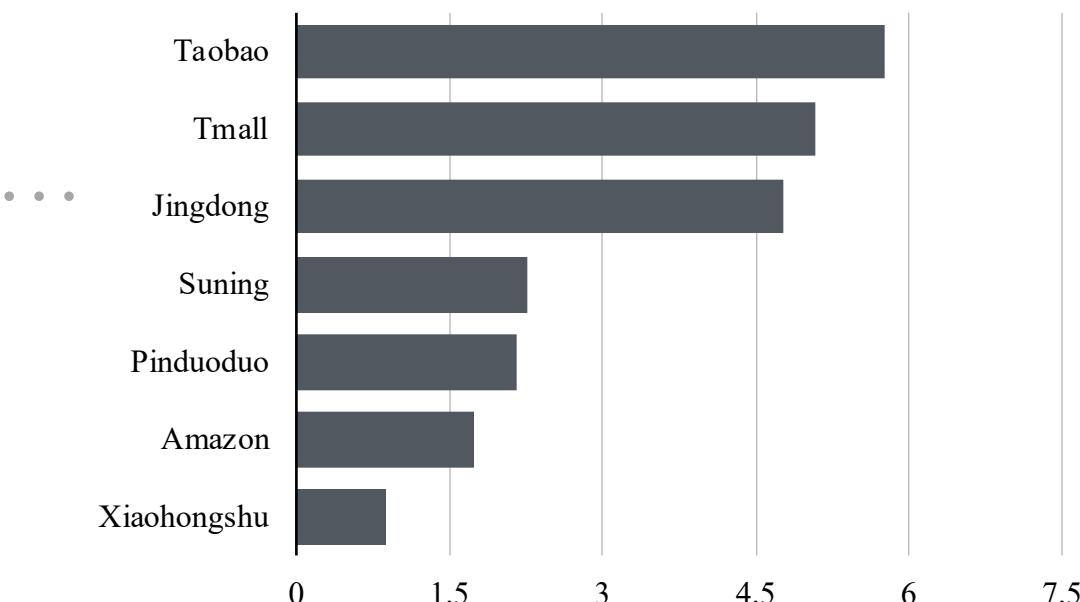


- Automatic Cleaning: high demand among all the age groups (relatively higher among 36-45 years & above 56 years age ranges);
- Health Monitoring App: especially among 46-55 years & above 56 years age groups;
- Make-up mirror: almost all the age groups do not fancy as an additional feature.

Data Analysis & Research Findings: Preference



Preference for various platforms: popularity of shopping platform
--> the higher the more popular





CONCLUSION & RECOMMENDATIONS

TARGET CUSTOMERS

Traditional cigarette and e-cigarette smokers in 18~25 age group living in Tier 1 cities

THE MOST CONSIDERED FACTORS

Taste & Durability

PRICE

200 ~ 300 RMB

FUNCTION

Auto cleaning
Health monitoring App

SALES CHANNEL

Taobao, Tmall, and Jingdong

INTERACTION

Face to face meetings and interactions being halted because of COVID-19.

DATA COLLECTION

Focus groups, depth interview and observation cannot be realized.

LIMITATIONS

CHINESE POLICY

HNB products are still not allowed to be sold on Chinese market.

TIME & FINANCIAL

Acquiring larger sample size needs more time and money.





Continue to do research and development to increase products' differentiations.



Use the WeChat Official Accounts for pre-publicity.



Sell products in airports' Duty-Free stores in popular tourist destinations around China.

BEFORE POLICY OPENING



AFTER POLICY OPENING



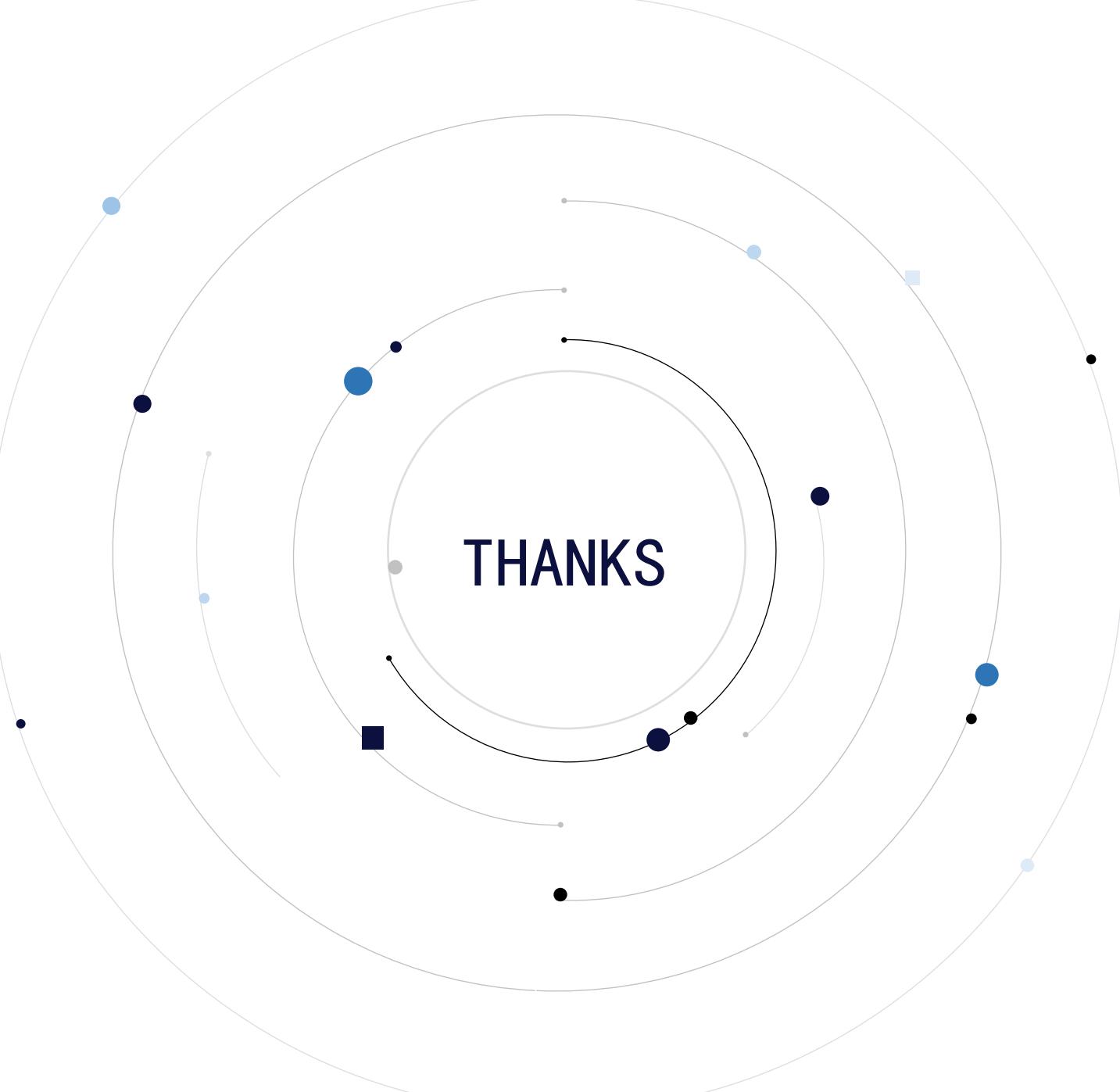
Cooperate with popular domestic KOLs to promote the product through popular platforms.



Sell product online at the begining to save cost and gain more cpatitals.



Open some offline stores and flash stores near shopping malls and restaurants.



A circular diagram featuring three concentric gray circles. The innermost circle contains the word "THANKS" in bold, dark blue capital letters. A small gray dot is positioned just outside the inner circle. A black curved arrow starts at this dot and points to a dark blue circular dot on the middle ring. From this dark blue dot, a thin black line extends to a light blue square on the outermost ring. There are other colored dots (light blue, dark blue, and black) and small gray dots scattered across the rings, some connected by thin black lines.

THANKS

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