

Cigarettes Shortage In Japan Following Tsunami

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Cigarette sales of Japan Tobacco, Japanese market leader, have suffered a substantial reduction as a result of damage to two production facilities, a filter plant and distribution facilities in the north east.

Some reports suggest that as much of a third of production has been hit and may not return to full capacity before the end of May.

PMI and BAT, second and third in the fourth-largest market in the world, are likely to benefit significantly over the March-May period.

The earthquake and tsunami, which devastated Japan in March, caused a cigarette shortage in some parts of the north east region, according to cigarette market leader Japan Tobacco Inc.

The company said initially that the disruption was unlikely to have a major impact on sales forecasts for the year but subsequently, stories emerged that, due to damage to two cigarette factories, perhaps a third of cigarette production in Japan had been hit. As always in a disaster situation things are confused and contradictory stories appear.

It was reported that BAT and PMI had stated that they would not try to benefit from Japan Tobacco's misfortune. However, there have also been reports that the companies have been importing cigarettes from the US and Europe to meet demand and also reports that the international companies have been receiving 'panic orders' from Japanese retailers unable to get stocks to supply their customers.

Impact on Japan Tobacco

However it turns out, the impact on Japan Tobacco of the tsunami and its wider ranging consequences are significant. The situation appears to be that following the damage to the two cigarette production facilities in north east Japan, the company decided to halt deliveries across the whole country for 12 days from March 30th in order to reorganise production and rebuild stocks.

The company stated that although it would try to resume production at two factories it would only be shipping 25% of normal volumes for a time, focusing on its leading brands only.

In addition to damage to production and distribution facilities in the north east region, Japan Tobacco also reportedly suffered a shortage of cigarette filters due to disaster damage to one of four filter producing factories owned by a subsidiary.

The company is planning to return cigarette production back to some 90% of normal volumes by the end of May but this could mean, depending on the inventory situation when the tsunami struck, that for up to three months a third of supplies may have been lost.

Euromonitor International estimates that in a worst case scenario, Japan Tobacco might end up losing some 10-20 billion sticks of sales ie one third of sales over a two/three month period.

Japan Tobacco accounts for some 65% of cigarette sales in Japan and, despite not wishing to benefit from the disaster impact on Japan Tobacco's sales, its problems will benefit PMI and BAT which account for some 24% and 11% respectively of total volume sales.

Change of brand dynamic

How great the ultimate impact on Japan Tobacco turns out to be now depends on how quickly the company gets its production and distribution back to normal. Not surprisingly the company's problems have led to speculation that the disruption could change the brand dynamic in favour of imported international brands.

For a number of years imported brands of PMI and BAT had been gaining share, but over the past two years Japan Tobacco had reversed the trend away from its brands and the recent major price hike was expected to benefit the company's mid-price band orientation.

The latest reports suggest that Japan Tobacco is meeting its own schedules and has resumed shipments of its top seven products on April 11th, with shipments of nine more products to be resumed from April 25, and a further nine by May 9th.

Analyst Insight by Don Hedley.

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