

TOBACCO STRATEGY GROUP : 19th MAY 1993

BRIEFING NOTE

For Agenda items 1 to 4, Norman Davis, Ian Snowden, Earl Kohnhorst and Werner Zapf will be attending the meeting. For lunch and agenda items 8 to 12, Jimmi Rembiszewski and Paul Adams will be attending.

1. AGENDA ITEM 1 (Minutes and Matters Arising)

- 1.1 **Minutes of the Meeting held on 24th February 1993:** We have no corrections to suggest to these Minutes. You may recall, however, that you got Hilary Barton to send out a correction for paragraph 13, deleting any reference to Ray Pritchard recommending that a Leaf Director should be appointed for BATCo.
- 1.2 **Training:** David Stevens was required to:-
- present the training calendar for 1994 and a final draft of the Groupwide brochure including instructions on nominations (para 9).
 - determine, with the Human Resource directors (including you), those elements of the MDP that are useful and should be covered in another way (para 11).
 - Define, with the help of the HR directors, the needs of a new Board member, and make detailed proposals (para 11).

There are no BATCo briefing papers on these issues.

There are, however, briefing papers on the following:-

- a) **Leaf Training:** Various notes by Ian Snowden and Geoff Brooks relating to Leaf training and Career Development for Blenders (para 8 of the February TSG Minute).
 - b) **Finance Training:** A note by Richard Pilbeam is attached relating to the resource required for running the Finance Programme (para 9 of the February TSG Minute).
 - c) **Marketing Training:** A note by Bob Taylor is attached commenting on the BATCF Level I Marketing Programme.
- 1.3 **World-Wide Best Ultralights Exercise Feasibility:** Earl Kohnhorst is scheduled to lead on this issue (a background note by Taj Hirji/Robin Crellin is attached). A briefing note by Graham Read is also attached relating to the Virginia project.
- 1.4 **Scientific Research Group:** You are scheduled to lead on this issue (i.e. do we have the right SRG advisers, para 23 refers). Attached is a briefing note by Ray Thornton on this.

You have asked that Ray Thornton stand by to attend the meeting, and he will be at Windsor House (at another meeting, also starting at 9.00 a.m., from which he can be extracted).

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- 1.5 **Group-Wide Purchasing:** You are scheduled to lead on this issue, reporting back on the recommendations on the meeting of Group purchasing managers organised by Ed Watt (paras 24 and 25). A paper by Ed Watt is attached, which has been circulated to TSG members.
- 1.6 **Manufacturing Disaster Recovery:** Earl Kohnhorst is scheduled to lead on this issue. Attached is a copy of the paper we believe EK will be submitting to the TSG. The key point for BATCo is contained in the sidelined paragraph at the bottom of page one i.e. approval is needed for Southampton factory to approach other UK producers for reciprocal emergency production agreements.

2. **AGENDA ITEM 2 : EUROPEAN MANUFACTURING LOCATION STRATEGY**

The proposal is that Booz Allen Hamilton will be asked to make a presentation of about 20 minutes on this.

A paper has been prepared by BATCo (and agreed with BATCF), and this has been circulated to TSG members (copy attached). Norman Davis will be in attendance.

3. **AGENDA ITEM 3 : LEAF TRADING STRATEGY**

Ian Snowden will be leading on this topic. The original proposal was for IS to brief members on the implications of the Standard Commercial/Dibbrell merger for BAT's Leaf Trading Strategy. Now that this merger is no longer going ahead, the report will be more of an update on where we are with our strategy.

A briefing note on this from Ian is attached.

Also attached, as background information, are copies of:-

- BATCo's December 1992 Leaf Exports Review paper;
- An update of the key figures from the BATCo paper, using final Company Plan exchange rates;
- A 23rd February 1993 note from Ian Snowden, indicating that the projected 1993 Leaf profits are not attainable.

4. **AGENDA ITEM 4 : LEGAL/REGULATORY ISSUES**

- 4.1 **Talisman:** Stuart Chalfen will be leading on this issue. As a meeting on this is scheduled for Friday 14th May in Brussels, Stuart Watterton will provide you with either a written or verbal briefing early next week.
- 4.2 **Other Progress Reports:**
- 4.2.1 **ETS:** Nothing of interest appears to have happened on this issue since the last meeting, other than the ban on smoking in public places in France (a copy of the provisions is attached).
- 4.2.2 **Fire-Safe Cigarettes:** An update note on this from Graham Read is attached, along with the fuller briefing note provided to you for the last TSG meeting.

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4.2.3 **Advertising Restrictions:** You are scheduled to lead on this, briefing TSG members on advertising restrictions in the UK. An update note on this from David Bacon is attached.

4.2.4 **Leaf Contracts:** A note on this from Peter Clarke is attached.

4.2.5 **Distributors' Contracts:** A note on this from Peter Clarke is attached.

5. **AGENDA ITEM 5 : TRADING REVIEW**

A copy of the latest draft BATCo Monthly Report (14th May) for April 1993 is attached.

6. **AGENDA ITEM 6 : 5 YEAR PLAN/BUDGET**

David Allvey will be leading on this issue. Attached as background briefing is your copy of the BATCo 1993 - 1997 Plan, plus a copy of the detailed BATCo P&L account.

7. **AGENDA ITEM : TOBACCO STRATEGY**

Ulrich Herter and Hilary Barton will be leading on this (a paper has been circulated to you).

Attached, as background, is an extract of the Tobacco section (plus relevant tables) from the April 1993 BAT Industries Future Business Environment paper, plus the Tobacco section from the 1992 BAT Industries Strategy paper.

8. **AGENDA ITEM 8 : CONFERENCE ON SALES AND DISTRIBUTION**

Flavio de Andrade will lead on this item. Attached are various communications between Hans Niedermann, yourself and Flavio de Andrade.

You may wish Jimmi to take the opportunity to outline BATCo's approach to Trade Marketing and to emphasise the need for a co-ordinated Group-wide approach across BAT Industries.

9. **AGENDA ITEM 9 : MARKETING**

9.1 **Item 9(i). Andean Pact/Colombia:** You are down to lead on this. A BATCo paper (attached) has been circulated to TSG members (along with the booklet detailing BATCo's original proposal, also attached). A key point is that, although the original BATCo paper was in line with the TSG objective, the compromise proposal coming out of the 'co-ordination team' is not, inasmuch as there would not be one company responsible for driving forward BAT's overall business. Clearly, this is a sensitive area for B&W and it is they, rather than Souza Cruz, who are opposed to the BATCo plan.

Also attached, as background, are various letters/faxes between Keith Dunt and Antonio de Castro primarily concerning the launch of FREE in Peru.

9.2 **Item 9(ii). Mexico:** This item is to be led by Tommy Sandefur. There are no briefing papers on this.

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9.3 **Item 9(iii). Lucky Strike Sonst Nichts Campaign:** You are down to lead on this. The subject relates to para 36 of the February TSG Minute, where Ulrich Herter requested an evaluation of the Lucky Strike Sonst Nichts campaign outside Germany. Attached is:-

- i. An 'analysis' by B&W of the two campaigns.
- ii. A note from Iain Hacking to Tom Whitehair commenting on the B&W analysis.
- iii. A BATCo briefing note on this issue by Sean Ashe.

9.4 **Item 9(iv). BAT's Brands in Egypt:** You are down to lead on this. The item relates to para 43 of the February TSG Minute, which indicated that you would investigate what happened to BAT's brands in Egypt. Attached is a note from Legal Department on the trade mark position, plus a sheet showing BAT sales by brand and Operating Company for the years 1977 to 1993.

10. **AGENDA ITEM 10 : MANAGEMENT OF EXPORT MARKETS (Strategy for Russia).**

There are no specific briefing papers on this subject, but I have included an extract from the BATUKE 1993 - 1997 Plan relating to sales to Eastern Europe and the Minutes of the Group Co-ordination Team (which Tony Pereira attends on behalf of BATCo).

Also attached is a note by Brendan Brady relating to BAT Corporate Affairs representation for BAT Russia.

11. **AGENDA ITEM 11 : PROGRESS REPORTS**

11.1 **Item 11(i). USIBs:** Tommy Sandefur will lead on this. Briefing papers on Barclay, Kent, Lucky Strike and Pall Mall are attached, plus a schedule relating to Hilton.

Also attached (after the relevant brand reports, where appropriate) are:-

- A note by Iain Hacking summarising agreement reached between Herter, Rembiszewski and Hacking on the use of Pall Mall and Kent as the Group's low-price brands in Europe.
- A note on the Pall Mall trademark (ref. para 36 of the February TSG Minute).
- A note on the positioning of Kent.
- A note on Kent duty-free in Europe.

11.2 **Item 11(ii). UKIBs:** You are down to lead on this. Papers on this item, which have been circulated to TSG members, are:-

- a one-page summary sheet
- SE555
- Benson & Hedges
- Players Gold Leaf

There is no paper this time on JPS, but there will be for the next meeting.

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- 11.3 **Item 11(iii). Competitors (including PM strategy):** This item relates to all members. The following papers are relevant:-

- BATCo's report on Rothmans, Seita and Tabacalera (which has been circulated to TSG members). Lindsay Mair has also prepared an additional background information for you on Rothmans' pricing and brand launch activity over the last three months.
- A Quarterly Competitor Activity report prepared by Marketing Department; which is only a briefing for you.
- The letter sent to OpCos by Jimmi Rembiszewski relating to the PM price cuts for Marlboro in the USA.
- A note from Iain Hacking referring to a March 1992 speech by PM's Michael Miles.
- Two BATCo booklets (March 1993 and April 1993) analysing the PM Marlboro pricing strategy and its implications for BATCo.

Paul Bingham believes that there is no need for a note on the Group-wide 'Competitor Activity Study Report', as the process is 'grinding on relentlessly' to the production of the various reports by the appropriate Operating Groups.

- 11.4 **Item 11(iv). Central/Eastern Europe/CIS:** BATCF are scheduled to lead on this. Attached as background is a note by Mick Fenn updating the BATCo situation in this region.
- 11.5 **Item 11(v). New Markets:** Nick Brookes is down to lead on this. Attached is a copy of the latest NBD briefing note.
- 11.6 **Item 11(vi). Other Key Markets - Uruguay, Cuba, Mercosul Task Forces:** Souza Cruz are to lead on this subject. Attached is a very brief note from Alastair Young indicating BATCo's limited involvement in the Uruguay and Cuba work.
- Also attached is a brief note from Alastair Young relating to the Mercosur work.
- 11.7 **Item 11(vii). Philippines and Iran:** B&W and BATCF are to lead on these items. There are no briefing papers.

12. **AGENDA ITEM 12 : ANY OTHER BUSINESS**

- 12.1 **Item 12.1. Excise Taxation Manual** (para 12 of February TSG Minute): A briefing note by Paul Bingham is attached.
- 12.2 **Item 12.2. ISO 9000** (para 15 of February TSG Minute): A note by Norman Davis is attached.
- 12.3 **Item 12.3. Group Use of ATC's Tobacco Technologies:** (para 20 of February TSG Minute): A note by Graham Read is attached.
- 12.4 **Item 12.4. Cigmar** (para 52 of February TSG Minute): A note by Paul Bingham is attached outlining progress at implementing this system. However the note does not address the point made at the last TSG meeting about access to sensitive information (see last part of Paul Bingham's briefing note to you for the February TSG, attached). Paul says that he is unable to progress this issue further, and that it really needs you and Tommy Sandefur to get together.

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- 12.5 Item 12.5. Brand Evaluation Model (para 53 of February TSG Minute): A briefing note by Paul Bingham is attached.
- 12.6 Item 12.6. Strategic Machinery Reserve (para 54 of February TSG Minute): A note by Roger Beck is attached.
- 12.7 Item 12.7. Panorama 10th May 1993: David Bacon's 11th May note to BATCo senior managers is attached for information.
- 12.8 Item 12.8. Trademarks: Attached are two notes which you requested be brought forward for this TSG meeting.
- 12.9 Item 12.9. JTL Capacity (para 38 of February TSG Minute): A note by me is attached.
- 12.10 Item 12.10. Counterfeit: A note by Peter Clarke is attached.



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