

REVIEW OF THE COMPETITIVE ENVIRONMENT

November 26, 1993

**Category Performance:**

The continued expansion of the DFX tailor-made portion of the industry remains the dominant issue.

As of October, the contribution of domestic tailor-made to the total CTMC reported industry stands at 60% on a twelve month basis (down from 69% in January). This decline is attributable primarily to Quebec and Ontario, where sales of domestic tailor-made to date represent 61% and 78% of the previous years' volumes respectively.

Like domestic tailor-made, the contribution of domestic fine cut to the industry continues to decline (8.8% in October vs. 10.4% in January). This decline is due primarily to the move out of traditional 200 gram fine cut options. "25% more" bonus fine cut has grown very slightly and low-weight fine cut remains relatively stable.

These declines in domestic tailor-made and fine cut are a result of volume shifting to the DFX portion of the industry. DFX tailor-made currently represents in excess of 25% of the CTMC reported industry on a twelve month basis, up from 18% in January, while DFX fine cut has grown slightly more than 1% in contribution over the same period to account for just less than 5% of the market.

**Total Industry Volume:**

To October, total CTMC industry volume remains steady at 50.9 billion cigarettes on a twelve month basis. This represents a decline of 1.8% from October 1992. Since March of this year, the decline in CTMC industry volume has stabilized, as the availability of all major trademarks at "cheaper" prices, through alternative channels has made generics and "other products", such as raw leaf, far less attractive to consumers. The total industry (non-CTMC and CTMC) stands at 53.6 billion cigarettes on a twelve month basis to October. We anticipate the total industry for 1993 to decline 2.8% from 1992, to 53.0 billion cigarettes.

company93.jm

502589051

The market remains dynamic and fragmented. Access to Canadian products illegally imported back into Canada through the U.S. remains widespread and continues to grow. A wide variety of fine cut products are now more readily available through these alternative channels and counterfeit outer-packings of major brands are surfacing in the market.

DFX CTMC tailor-made volume in 1992 totalled 8.1 billion cigarettes of which we estimate 6.1 billion entered Canada illegally. Through the first ten months of 1993, DFX CTMC tailor-made volume stands at 10.9 billion cigarettes (compared to 6.2 billion to October '92). By year end, we anticipate this volume to reach 13.0 billion cigarettes, of which approximately 10.8 billion can be attributed to "general trading".

In share terms, I.T.L. finished 1992 with 55.6% of the total CTMC tobacco market. To October, our share stands at 55.4% on a twelve month basis. It appears unlikely that I.T.L. will reach its share objective of 57.8% in the total CTMC tobacco market for 1993. Due to the larger than anticipated shift in volume to the DFX tailor-made portion of the industry where we continue to work to build back our share (47% on a three month basis to October), we anticipate reaching a share of 57.1% by year end. I.T.L.'s share of the total market has been hampered by our lack of full availability in these alternative channels. However, agreements that have been put into place to ensure wider distribution of our products, particularly Player's products, should serve to ensure our continued share growth in the DFX portion of the market.

Although I.T.L. is making some in-roads in the DFX and low-weight fine cut portions of the industry, the competition continues to perform relatively well. R.B.H. finished 1992 with a 25.9% share of the total CTMC tobacco market and this share has declined slightly to 25.0% (12 months to October). R.B.H.'s superroll fine cut products continue to perform well in domestic and DFX channels. R.J.R., on the other hand, continues to enjoy solid performance from its Export A trademark, particularly in the DFX tailor-made and domestic bonus fine cut portions of the market. They finished 1992 with an 18.5% share of the total CTMC tobacco market, however on a twelve month basis they continue to hold approximately 19.5% of the market in 1993.

compenv93.jm

2  
5025189052