



BRITISH-AMERICAN TOBACCO COMPANY LIMITED

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SUBJECT: BATCO - PRICING STRATEGY

The attached provides a perspective of how we see cigarette pricing developing over the coming years and what our strategy should be to cope with the various emerging price segments.

Key points are:

1. BATCO should continue to focus resources on building full revenue business based on consumer trends and needs in key developing markets in Asia Pacific, Subcontinent and Latin America. Also, in most of Europe, we should continue to invest in Barclay and Lucky Strike to establish a global portfolio of profitable international brands covering all relevant consumer needs.

To do this successfully, our full revenue brands must be priced with a justifiable premium over lower priced offers but in a way that the added value will still be broadly accessible to smokers.

In addition, consistent product, pack and on-strategy advertising and promotion upgradings are needed to maintain the added value in the eyes of the consumer. Innovations and creativity will be key to the achievement of this strategy.

2. In parallel to the above, a mid-low price brand portfolio is needed to protect corporate volumes against competitor pricing activity. This portfolio needs to be managed consistently with a centrally driven product and marketing mix to avoid brand proliferation and to ensure that BATCO competes effectively against the global approach from our competitors. These brands should be made ready in countries where low price competition has a high probability.

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Establishing these brands in a clear price position will also help to avoid triggering price wars as long as our full revenue brand portfolio is simultaneously priced on a consistent basis.

3. While we put the obvious international brands into the mid-low sector (Viceroy, Pall Mall, Hollywood, PGL etc.), we should also consider using new concept brands which might be seen to be more honest value-for-money offers by the consumer than brands which once enjoyed premium status but because of their inability to create a successful franchise are now downpriced. The success of Basic, Golden America, West and Horizon could suggest that the consumer might react more favourably to those new "honest" offers provided they do offer something beyond just a low price. In the case of Horizon, I am convinced that this brand has a strong, light - fresh appeal, excellent range appeal and colour coding which comes out of the pack design, not necessarily from the trademark. We should try not to just "use" well know brands but try to meet some consumer needs in the lower price segment as we do in the full revenue sector, i.e. masculine full power, feminine - light etc.
4. A major risk for a global price war stems from increasing capacity in low wage countries such as in Eastern Europe and the Far East. This comes from investments in these markets in modern highly efficient machinery coupled with certain export commitments and/or needs to provide hard currency. We should closely monitor these capacity build-ups as this could help us to prepare our responses early enough.

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