MENTHOL

Starting shortly before we withdrew support from Cameo, the opposition began introducing a series of new menthol options, generally attached to non-menthol introductions, generally in the 4-5 mg tar level.

As of 12 months January 1982, Craven M Special Mild K.S. (4) and 100's (9), Accord Menthol (3), Viscount Menthol (3), B & H Lights Menthol 100's (12), Select Menthol (4), and Vantage Lights Menthol (5) accounted for 1.14% of the national market - virtually 20% of the menthol segment.

In 1981, the menthol business cost us a net .28 in English markets - about .20 nationally:

- non-menthol to menthol - we gave up .32 and got .25 (-.07)
- menthol to menthol - we gave up .11 and got .02 (-.09)
- menthol to non-menthol - we gave up .20 and got .08 (-.12)

The two problems we face are the potential for this net loss to increase and the overall reduction of relevance of the Cameo trademark.

NON-MENTHOL TO MENTHOL

This is the most vulnerable movement of smokers from our point of view - also the largest (.7-.8 per year English). We can expect two things to characterize this group of smokers in the future. First, as our share of the non-menthol business expands, ITL will give up relatively more smokers to menthols; second, where smokers have historically migrated from mid and high brands, they will begin to move menthols from milder options. Mid and high, which made up 55% of source smokers in 1979, was down to 33% in 1981. Very and ultra low switching to menthols which was non-existant in 1979 but is 10% in 1981.

The Cameo trademark position in menthols must remain relevant and competitive vs. other menthols to insure that we can continue to attract this business. Has it?

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% OF NON-MENTHOL SWITCH-IN BY BRAND

	1979	1980	1981	1979	1980	1981
CAMEO	23	14	23			
CAMEO EXTRA MILD	17	15	10	52	47	30
CRAVEN M	35	32	20			
CRAVEN M SP. MILD KS/100	7	9	9			
B & H M 100	3	4	5	7	14	30
B & H M 100 LT.		2	6			
ACCORD	-	3	15	59	61	60
VOLUME OF BUSINESS (ENGLISH)	.70	1.05	.77			

In the past three years "new light" menthol introductions have increased from 7% to more than 30% of the locations where switchers to menthol wind up. This growth has come at the direct expense of Cameo Extra Mild and Craven M.

The resiliancy of the Cameo parent is probably due to the fact that it is the upper delivery option.

We know that if -10 mg mildness becomes increasingly important to menthol switchers, we won't be able to compete at this level - particularly with those brands whose non-menthol siblings reinforce their image of mildness (Accord, Select). Cameo Extra Mild could not move fast enough nor would we want to have the 10 mg slot open. There is an indication that this type of mildness is more important than we might have thought. Also of concern is the growth of 100 mm options. Over the three years listed they have gone from 3% to 14% of switching. In sales, they have increased from 6% to 10% of segment volume. Considering the highly female nature of the switching (+70%) and an assumed propensity of females to look for aesthetic properties in their products, it is a little unsettling to also notice that English females rate B & H menthol 100's and Craven M 100's to have the most attractive packs (as they do all 100 mm). Cameo and Cameo Extra Mild, on the other hand, have shown a tendancy in 1981 to let a recessive ugly gene emerge. Their packages are not rated as significantly less attractive than those of other menthols (on a dimension that doesn't discriminate well at the best of times), but in the small discrimination that does exist, they are tied for last.

The magnitude of Cameo's misalignment with this switching flow is probably less today than the data suggests, however, there is every reason to suspect that a degree of imprecision in our positioning does exist and will increase over time.

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MENTHOL TO MENTHOL SWITCHING

Of all the menthol switching up for grabs, this is about 25-35% of the total. In 1981 the share of English smokers involved was .26, down significantly from 1979 and 1981 (.48 and .59). The slowdown does not appear to be a result of smokers selecting mild non-menthol options. The movement out of menthols is also down considerably.

Recent opposition menthol introductions, as well as eroding our ability to get non-menthol switching, have reduced Cameo's ability to protect itself within the segment:

	1979	1980	1981
From Cameo to other Menthols	.15	.14	.08
To CXM from Cameo	.08	.07	.01
%	50	50	10
To CXM from all other menthols	.17	.12	.02
% CXM of all menthols to menthol switching	35	20	8

There are three liabilities:

1. Cameo Extra Mild is showing a decreased ability to protect an albeit reduced switch-out from Cameo to other menthols - the plug is coming out of the bucket.

2. Cameo Extra Mild is showing a decreased ability to attract the menthol switch-out of other menthol brands.

3. As opposition entries develop Cameo will itself become a target for increasing switch-out to milder menthol options.

USER IMAGES 1981

	LOW T/N	FLAVOUR
ACCORD	6.5	5.6
CR. SP. MILD	6.1	5.3
CXM	4.7	6.1
CR. M	4.3	5.9
CAMEO	4.2	5.9

Versus Craven M, Cameo Extra Mild users see themselves to have more flavour at a milder smoking level. Accord and Craven M Special Mild smokers seem to know they have traded flavour for lightness, however, it appears the lightness gained exceeds the flavour lost.

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In summary:

1. Switching into menthols is holding at .7-.8 in English Canada (.5-.6 nationally).

2. The segment is not going to hell in a hand basket. It is 6.5% in the National market declining at about .2%/year.

3. The source of business for the segment should increasingly be ITL brands (currently 42%) and should increasingly originate from brands that have mildness as a part of their credentials. (There has also, it is worth noting, been an increasing level of starting activity in the segment - .04-.08-.12 English Canada 1979-1981).

wouldn't Churchill have loved this!

4. The Cameo family position is being chiseled away at. Cameo is insulated from this to some extent by its singular position. Cameo Extra Mild, however, has paid a lot of the price for the expansion of milder options.

5. There is a hint that the influx of new options may be accelerating the fatigue of our pack design (probably assisted by a reduced advertising visibility).

6. Switching between menthols accounts for between .3-.5 share of smokers. Cameo Extra Mild's ability to attract switch-out from Cameo <u>or</u> other menthols has demonstrated a marked reduction.

7. This appears to be explained largely by the fact that it cannot accommodate the needs of smokers looking for menthol mildness at a level below 10 mg.

<u>STRATEGIC CONSIDERATIONS</u>

We cannot take for cash that menthols will:

1. Go away completely or even significantly at this point.

2. Not experience a "rebirth" at some future point. (Why is the influx of starters increasing?)

We must not allow the Cameo trademark to lose its relevance to smokers interested in using a mentholated product.

<u>To do so incurs four major liabilities:</u>

1. We will recover an increasingly small share of the increasingly large number of smokers we can expect to put into the segment.

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2. The 2.5 share we have invested in menthol brands will become increasingly vulnerable to losses to opposition entries.

3. We will lose the ability to act as effectively from a known relevant trademark should the segment stabilize and/or grow or should our position erode significantly.

4. We will lose the current level of credibility that exists in Cameo for endorsement of a "Bud" type of taste that is in the mint (but non-menthol) category.

It would seem that the strategic question is not whether we should do something but when, where, what and at what cost? The crucial need is not to generate volume but to ensure the viability of a trademark.

WHEN AND WHERE

Development options should be considered for markets where menthol is biggest and Cameo is the most vulnerable - Ontario and the West. The need is less urgent in the Maritimes today - however, it would need to be included, ultimately in any change.

The demographic concentration of the segment should be exploited to the fullest to reduce launch costs. If media is used at all, it should be extremely selective. Retail activity can be concentrated with appropriate innovative merchandising in those accounts frequented by the predominantly female target groups. A test market that evaluated both the best way to communicate at the lowest possible cost and product acceptance would be required.

Both the size of the segment and the nature of our strategic weakness suggests that the timing of the introduction cannot be predicated on the volume of smokers that are moving. It must be determined by a change in the dynamics of the movement. Given the changes that appear to be taking place, the solution to the problem is timely now. We should plan to act as soon as possible.

CONCEPTS

1. The option must contain a 3-7 mg product level.

2. To increase the potential for net business improvement, the option should contain a 100 mm and a king size length.

3. Because - 1. we are not intercepting major switching movements and 2. a primary concern is to protect and consolidate our corporate position in menthols - the option should derive from the Cameo trademark.

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3. 2. (cont'd) The effect will be to use cannibalization to establish the product at a reasonable volume level with the intention of quickly developing a self sustaining franchise that does not require enormous levels of introductory and on-going support.

4. The option should update the aesthetic attractiveness of the Cameo franchise.

5. The primary target will be females 20-45.

These appear to be two approaches to evaluate:

1. Introduce a direct line extension of Cameo Extra Mild between 3 and 6 mg but closer to 6 in both K.S. and 100 mm lengths. Simultaneously (as in 1976) make adjustments to the packaging of the parent(s) to improve their relative attractiveness.

2. Introduce a "semi free" extension carrying a freestanding name with obvious and significant endorsement by Cameo. The option would appear in two strengths - a 3-6 mg king size and a 7-10 mg king size and 100. The presentation would be significantly more upscale, female and contemporary in image terms than existing menthol brands without crossing into the terrain of prestige or specialty products.

The parent would remain untouched or undergo at least minor surgery.

Both options should be evaluated. The difference between the two lies in the relative importance of upgrading our aesthetics and the degree of emphasis or likely success against opposition 100 mm entries.

A B.C. test market and a launch that does not initially involve media but takes extensive advantage of in-market communications is recommended.

The project should be developed for a launch option in the 3rd quarter of F'82 in the event that Huron does not emerge as viable by that time. The test should be extensive enough to evaluate the potential of a low resource level launch.

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RB:pc
March/82