

Tobacco Strategy Review Team

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A meeting of the Tobacco Strategy Review Team was held on 9th February 1990.

Present: Mr. P. Sheehy, Mr. B.D. Bramley, Mr. R.J. Pritchard,
Mr. U. Herter, Mr. L.J. Saboia e Silva, Mr. J-L. Mercier,
Dr. R. Salter (Secretary).

Mr. P.J. Rombaut and Mr. T. Wylie also attended the
meeting.

Mr. B.P. Garraway was unable to attend.

1. The minutes of the meeting held on 10th November 1989 were agreed.
2. Mr. Bramley reported progress on Inter-Company Transfers and it was noted that two transfers had been implemented since the last meeting. A meeting, including a representative from Imasco, would be held in mid-1990; to progress the transfers planned for 1990-1991 and to consider candidates for 1992-1993. Further progress would be reported to the team in late 1990.
3. It was noted that the commercialisation of new products based on Y-1 tobacco and De Mauduit 'low sidestream' paper was being progressed in Brown & Williamson. Development was also planned in BATCo., BATCF, Imasco and Souza Cruz.
4. It was agreed that all companies would review their requirements for Y-1 tobacco and would place orders during the next 30 days for delivery in 1991 either from Brazil or through arranging, as has already been done in Canada, to have Y-1 grown in other countries where the Group could exercise sufficient control to ensure exclusivity. It was noted that although Y-1 yielded approximately 10% less than conventional tobacco, this was compensated for in the price to the farmers. It was also noted that disease resistant strains were under development.
5. Regarding low sidestream products, it was noted that there was a potential problem in that some products with a reduced visible sidestream actually have an increased invisible sidestream (e.g. Virginia Super-slms are said to have high CO numbers - which would be a problem in Canada where CO numbers are shown on the packs). It was agreed that Mr. Pritchard would present a paper at the next meeting reviewing possible ways for achieving low sidestream and the implications of the alternative methods available, including double wrapping. It was noted that Brown & Williamson could not use De Mauduit paper because of the additives involved. However, they might be able to use an alternative paper which is under test by BATCF and which is said to reduce both visible and invisible sidestream.
6. The importance of introducing ammonia treatment as the means for producing an authentic US taste was again stressed. It was noted that Brown & Williamson considered that the optimum effect is obtained through the introduction of diammonium phosphate and ammonia during the cooking process in the production of hand cast reconstituted tobacco. BATCF are not permitted to use diammonium phosphate in cigarettes sold in Germany and have developed an alternative process incorporating a mixture of pectin, ammonium hydroxide and sugars into paper reconstituted tobacco. As an alternative to these processes, ammonia can also be introduced via casing compounds. However, the current view is that this is less effective than the other processes in producing the desired smoking quality.

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7. It was agreed that Mr. Fritchard would organise a technical seminar to ensure that blenders throughout the Group were fully conversant with the techniques for ammonia treatment and could introduce appropriate modifications to all processes for producing US-type cigarettes.
8. It was also noted that Mr. Bramley would initiate an R&D programme to investigate possible benefits of introducing ammonia treatment for Virginia cigarettes.
9. Reviewing methods for producing reconstituted tobacco, it was noted that the paper process gave the lowest cost product but required high volumes to be economically viable. The extrusion (DEER) process was more economical at low volumes but tests by Brown & Williamson had suggested that the binders used in the process could introduce an off-taste in the product. In addition, it had not yet been possible to introduce ammonia treatment into the process. They therefore preferred the band cast process which although slightly more expensive did have the potential for introducing superior smoking quality to the product.
10. Mr. Mercier reported that Inasco had experienced some effluent problems with the band cast process which had not yet been overcome. He also reported better experience with their pilot plant for DEER with the expert panel failing to detect any off-taste from the product. However, this still needed to be confirmed in consumer testing.
11. It was agreed that a first requirement for any reconstituted tobacco process was that its use should result in sustained or improved quality in the final product. No further DEER plants should be ordered until it was certain that this condition would be met, with solutions being found to any problems relating to off-taste and ammonia treatment and approval obtained for any additives used. In the meantime, companies should also evaluate the band cast process as an alternative.
12. It was agreed that the research programme to develop an extrusion process for cigarette manufacture (EPCOT) should continue but it should be made clear that, at this stage, the main interest in the process was within R&D, who should be challenged to provide evidence of their ability to develop a product either with a significant cost advantage but no diminution in smoking quality or with a new quality which is sufficiently marketable to justify a commercial interest in the development. It was also noted that the process should not involve the use of new additives which might lead to regulatory problems.
13. It was noted that a first edition of a Central Additives Register for the Group would be completed by August.
14. Reviewing the Group's arrangements for dealing with regulatory issues, it was noted that the representation on CORESTA had been strengthened and that the Group was also active in influencing ISO. It was agreed that Mr. Bramley, Mr. Herter and Mr. Fritchard would be jointly responsible for ensuring that the Group was adequately covered in relation to US and European regulatory bodies, with appropriate arrangements set up; to monitor any proposed or actual new legislation and to ensure that the Group's views are taken into account as early as possible during the framing of new regulations, including those governing advertising and promotion. They would also ensure that Inasco and Souza Cruz were kept informed of developments so that they could prepare for the possibility that similar requirements would be introduced in Canada and Brazil.

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15. It was noted that two new Smoking Issues Documents would be available for distribution at the end of February. These will be "Smoking: Habit or Addiction?" and "Smoking: The Scientific Controversy", which is a shortened version of "Smoking and Health, the Unresolved Debate". It was also noted that it was intended to review and update these and all previously issued documents on an annual basis, starting in January 1991.
16. It was noted that Mr. Bramley would present a paper at the next meeting, proposing a Group policy on Leaf durations.
17. It was also noted that Mr. Pritchard would present a paper proposing a co-ordinated Group list of Leaf grades, rationalising similar grades under a common nomenclature as a first stage towards easing transfers to rectify under and over-supply of stocks in individual companies.
18. It was noted that further study had shown that off-balance sheet financing of leaf stocks would involve a significant charge and/or a reduction in the security of supply. As a result, it had not been possible to devise a scheme where the benefits outweighed the costs.
19. Reviewing potential new markets, it was noted that although still small in terms of market share, BATUKE volumes in Thailand had increased by 50% in 1989 and were now 250 million. The total market was 35 billion and following strong pressure from the US Trade Representative, invoking Super 301, it was hoped that the market would open up further towards the end of the year. In preparation for this, BATUKE had identified agents and had increased market expenditure. Brown & Williamson had taken preliminary action on promotion and were also marketing US brands through SUTL.
20. Mr. Herter presented a paper on Eastern Europe reviewing the current situation and providing data on the economic background and market characteristics for each country, including the USSR.
21. It was agreed that it was necessary to consider each country separately. Although they were all moving in the same direction towards becoming market economies, they were at different stages of development and the nature of the opportunities varied from country to country. The one common factor was the need to keep open as many options as possible, concentrating on establishing contacts rather than becoming involved in long term contractual obligations such as Joint Ventures or long term licencing agreements similar to that which had been so disadvantageous to Philip Morris in Japan.
22. It was agreed that the main responsibility for developing the markets in Eastern Europe should be shared between Brown & Williamson and BATCF with BATUKE working through BATCF.
23. East Germany was expected to become part of a unified German market and BATCF would aim to achieve a 20% share of the 27 billion cigarettes sold in the current East German market, using existing capacity as the source of supply and treating both parts of Germany as a single domestic market to be served by the existing salesforce. The current manufacturers in East Germany had three inefficient factories and were not seen as strong competitors. However, Philip Morris were operating at full capacity in their current manufacturing plants and might use the opportunity to establish a new factory in the East. Further consideration would be given to ways in which this competitive threat might be met.

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24. Elsewhere in Eastern Europe, the first priority would be to expand direct exports to hard currency shops. At the same time, opportunities would also be sought to licence tactical brands, in order to keep a contact in the market, ahead of the time when it becomes completely open. It was noted that BATCF already had an agent in Poland and were seeking representation in other countries.
25. It was suggested that the priority markets for further consideration should be Czechoslovakia and Hungary and that the first stage in becoming established in these markets should be to identify embryo private organisations run by people of substance, who were likely to be in the forefront of the market's development. Representation in the markets should be negotiated at the highest level and the CPC consulted before appointments are made.
26. Introducing the review report for the major US brands, Mr. Pritchard said that the figures quoted would be revised in the light of the most recent information available and a modified report would be circulated to team members before the next meeting. It was noted that the growth in licensee sales may have been underestimated. As an example of this, Hilton sales into China were already exceeding the rather conservative budget.
27. The Kent blend was said to be as good as it has ever been and this, combined with sharply focussed promotion, had enabled the brand to compete strongly, outselling Marlboro in some major markets. The Chairman noted that there was a good awareness of the brand in Europe and suggested that a task force should be set up to relaunch Kent in selected European markets. Mr. Pritchard will report back on this at the next meeting.
28. Mr. Mercier suggested that the expected relaunch of Kent in the VFH segment of the US market might affect the image of the brand in other markets. It was agreed that this would need to be monitored carefully but the view at present was that a move downmarket in the USA would not necessarily degrade the image of the international brand.
29. Lucky Strike appealed to younger smokers and was making encouraging progress in most markets. It was noted that there had been some problems in adapting the brand image to all markets. However, while minor modifications could be permitted to meet local requirements, these variations should not be such as to confuse or dilute the basic formula.
30. It was agreed that promotional efforts should be tightly focussed (e.g. by concentrating on Lucky Strike Lights in priority markets such as Brazil, Italy, Argentina and Spain, where there should be a specific objective to reverse the adverse share trend which has been experienced).
31. Mr. Pritchard was asked to report progress on Lucky Strike at the next meeting. In addition, he was also asked to study and report on the relationship between price and quality and the extent to which improved quality might enable Lucky Strike to compete with Marlboro at smaller price differentials than had been found necessary up to now.
32. Mr. Pritchard reported that the problems regarding the classification of Barclay had been largely overcome and that a major promotion of the brand was planned for 1990. This would include Barclay Lights (8-9 mg tar) and Ultra Lights, using a conventional acetate filter and Y-1 tobacco. The Middle East market was picking up and there were also plans for a launch in Japan using a charcoal Actron filter.

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33. It was noted that market shares were not progressive in some key countries Europe. However, Mr. Pritchard said that a new thrust was planned in Norway, Mr. Herter said that a launch of the Lights product was being considered in France and Italy once the ISO classification had been finalised and Mr. Bramley said that a new push was planned in Switzerland as soon as agreement was reached with the cantonal chemists on the classification for the product. Planned growth in BATCo. was 6% overall.
34. The Chairman asked to see the plan for growth in Switzerland and asked that a full 1991 marketing plan for Barclay should be prepared in the autumn with particular emphasis on Europe.
35. It was noted that although there had been some disappointment in the overall share achieved by Capri, the brand had done well in those countries where there was an established female segment. The 120 mm version was now out in the market and was being progressed. It was also believed that further progress could be made with a Lights version of Capri, especially in the USA and Italy.
36. It was noted that Vogue had been more successful than Capri in France and the Netherlands. This was ascribed to an earlier launch by Vogue which also had the advantage of a name which was particularly evocative of female style in France. Mr. Mercier suggested that in francophone countries the alternative brand name of Finesse might be more successful than Capri.
37. It was noted that the main market for Viceroy was out of Cyprus into the Levant. However, the brand was also being launched in Israel and was doing well in Chile. It was hoped to recover share in Hong Kong through reverting to a product which would be manufactured in the USA and sold under a traditional label.
38. Mr. Pritchard reported that although the quality of Kool had been improved, smokers had failed to appreciate this. Experiments were under way with a new pack design to try to break the apparent association between the old pack design and the harshness of flavour which was the previous cause of complaint.
39. Mr. Bramley reported that Benson & Hedges was still generally progressive and was a major contributor to profits. It was noted that the problems experienced in Malaysia and with the advertising campaign in Nigeria had shown the importance of maintaining quality and of persevering with the traditional image for the brand.
40. Mr. Mercier also noted that Benson & Hedges was declining in Canada where Philip Morris had allowed the image to be downgraded. Mr. Herter reported that there were problems in Germany where strong competition from Davidoff and PM Gold had underlined the movement in taste towards a lighter smoke and away from brands such as Prince and Benson & Hedges.
41. It was noted that an American blend version of Benson & Hedges was being considered and would be the subject of a presentation to Mr. Bramley in March.
42. Reporting on State Express, Mr. Bramley said that this brand also made a major contribution to profits and was very successful in the Far East, including Malaysia where it was growing in importance. The need to maintain quality and to monitor this through research was again emphasised in relation to the Malaysian market.

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43. It was noted that JPS and Players Gold Leaf were of relatively minor importance as international brands and although progress should be made where possible, the main emphasis in marketing should be focussed on the major brands.
44. Summarising the discussion on brand management, the Chairman stressed the importance of concentrating the Group's resources on promoting a limited number of major brands within selected growth market segments. There should be particular emphasis on:-
 - (a) Penetrating the low-tar segment.
 - (b) Relaunching Kent in Europe.
 - (c) Reviving Lucky Strike in Spain which was a key market both domestically and because of the tourist trade.
 - (d) Careful step-by-step market expansion by Lucky Strike Lights ensuring that it is properly positioned in each market.
 - (e) Rigorous justification of the requirement for an extension to a Lucky Strike Ultra Lights product, market by market.
 - (f) Continued promotion of Barclay, especially in Switzerland.
 - (g) Tighter control of Benson & Hedges and the launch of a US-type product.
45. Capri, State Express and the other international brands should continue to be progressed but with less priority than for the major brands.
46. The paramount importance of quality was again emphasised and it was agreed that the achievement of improved smoking quality should take priority over cost saving.
47. It was agreed that there should be a further review of international brands at the next meeting of the team and that figures for US domestic brands should also be included in this review.
48. Reviewing the budgets for 1990, the Chairman stressed the need to achieve a good result in 1990, which could be of critical importance if the Hoylake bid was revived. The increase in volume achieved in 1989 was encouraging and a similar increase was planned for 1990. However, there were still elements of this forecast which were unsatisfactory and there was a need to improve on the figures for US international brands, especially in respect of franchised sales.
49. The total tobacco profits for the Group showed a satisfactory increase in 1990. However, it was important that all companies should contribute fully to this and some further improvement was being looked for in BATCF. It was noted that profits could be adversely affected by a possible reduction in the loading in the USA. This and any shortfalls from the current budgets would need to be compensated for elsewhere and it was possible, therefore, that companies might be asked to implement contingency plans later in the year.
50. The next meeting has been arranged for Friday, 18th May.

RS/DJA
21st February 1990

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