

To: Mr. P. Sheehy

File

Tobacco Strategy Review Team

I thought you might wish to have a briefing note for the meeting to be held on 9th February 1990.

There were no papers from Inasco but all other companies produced papers in advance of the meeting.

1. All items from the minutes of the last meeting are included on the agenda except for the publication and updating of the Smoking Issues compendiums, on which Mr. Bramley has produced a report.

2. Matters arising from the last meeting:-

- (a) Mr. Bramley has prepared a paper on inter-company transfers. It was agreed last time that there should be more emphasis on marketing transfers.
- (b) Regarding the extrusion process for offal recovery, the main hold-ups were in Souza Cruz (no extruder) and Brown & Williamson (preferred the sheet process). Souza Cruz have reported progress.
- (c) Souza Cruz and BATCo. have reported progress in the wider use of ammonia treatment.
- (d) The team agreed that the main application for the use of extrusion in manufacturing was in cost saving at maintained quality and that there should be an objective to achieve this without new chemical additives. Mr. Bramley's report on the new objectives for IPCOT does not appear fully to meet these requirements.
- (e) Mr. Bramley has reported progress on the additives register but might be asked for a target date for this to be completed.
- (f) Key issues on regulatory issues would appear to be:-
 - (i) Whether the Group's views are adequately represented to bodies responsible for setting regulations.
 - (ii) Whether new product development adequately reflects likely future requirements/opportunities which could arise from new regulations.

It is not clear from the BATCo. paper whether the team is being asked to agree any specific new actions or changes in policy.

Appendices I and II to the paper have not been circulated but will be available at the meeting if required.

- (g) On Leaf, Mr. Bramley is proposing that a draft guideline on durations should be submitted to the next meeting. Work is proceeding to agree more common grades and it is now proposed to set up an exchange system (by when?) rather than a comprehensive inventory of stocks. It is concluded that off-balance sheet financing of leaf stocks is not feasible at reasonable cost (not quantified). Souza Cruz have come to a similar conclusion but again without quantification.
- (h) Progress in Thailand will be reported verbally by Mr. Bramley and Mr. Pritchard who were asked to describe action being taken to build a base in the market and to assess whether the effort being applied was commensurate with the potential opportunity. No report is due on Turkey. /...

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- (1) Although BATCo. and Souza Cruz report some progress on products incorporating Y-1 and low sidestream paper, there are no reports from Brown & Williamson or BATCF regarding these developments, on which you wished to keep up the pressure.

3. Brand Owners' Reviews

(a) Virginia Brands

It might be helpful for BATCo. to be asked to provide more information on the profit contributions from the respective brands and to indicate where promotional expenditure is effectively an investment aimed at achieving future profits and/or gains in market share rather than at maintaining a current share/profit stream.

(b) US Brands

A summary of the figures for 1990 taken from the Brown & Williamson report is shown below.

<u>Brand</u>	<u>Volume (bns)</u>	<u>Contribution (\$m)</u>	<u>Contribution (\$/mille)</u>	<u>Marketing (\$m)</u>	<u>V. Margin (a) (\$/mille)</u>
Kent	21.95	144.24	6.57	42.73	8.52
Lucky Strike	11.92	37.82	3.17	39.58	6.49
Barclay	4.98	(1.92)	(0.39)	33.60	6.36
Capri/Finesse	1.21	6.56	5.42	5.31	9.81
Viceroy	5.78	13.51	2.34	2.02	2.69
	45.84	200.23	4.37	123.24	7.06
Budget Total(b)	60.4	185.1	3.06	184.2	6.11

- (a) Calculated from Contribution and Marketing Spend
- (b) Figures from modified BWIT budget.

At the last meeting, Brown & Williamson were asked to investigate why Vogue outsold Capri in France, the Netherlands (and now Switzerland?). This is covered on page 2 of the Capri section of the report.

Souza Cruz have also reported their progress and plans for international brands.

- 4. The report of the task force to study the potential opportunities in Eastern Europe consists mainly of background information and the recommendations in the executive summary are expressed in very general terms.

Assuming that BATCF are given the main responsibility for developing these markets, they might be asked to prepare a specific action plan showing the main objectives for increased market penetration and the levels of effort that it is proposed to apply to this in 1990/1991.

Mr. Harter might also be asked to comment at the meeting on the markets he believes to offer the best prospects for the Group (short term and long term) and the level of priority/expense he believes to be justified in seeking to develop these markets.

R. Salter
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RS/DJA

7th February 1990

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