

SECRET

1. INTRODUCTION

This paper sets out the background to TMD and the latest legislative moves affecting it.

It also addresses the specific issue raised by the TSRT regarding the initiation of research in respect of the TMD activities carried out by Marlboro and Camel.

2. TRADEMARK DIVERSIFICATION - BACKGROUND

All the major international tobacco companies pursue a TMD strategy in one form or another and all (with the possible exception of Dunhill) have the same motivation.

"To maintain cigarette brand name/imagery communication for as long as possible in the face of increasingly hostile legislation."

Over the last 3 years the laws around the world have become more restrictive both as regards cigarette advertising and the ability to advertise non-tobacco goods or services which bear tobacco trade marks. Restrictions currently apply in Singapore, Malaysia, Thailand, Nigeria and Australia, with TMD activities banned in New Zealand and Canada. In Europe, cigarette advertising is not permitted in Italy, Portugal, Finland, Hungary and Norway, and France is moving to a ban.

The industry at large has reacted to cigarette advertising restrictions by embarking on TMD activities. In the majority of cases, such moves have sought to establish TMD businesses before tobacco advertising restrictions become severe. However, a proposed EC Directive in circulation in 1989/90 prohibited the advertisement of non-tobacco goods bearing a trade mark mainly used in connection with tobacco products unless the ownership of the undertaking marketing the goods was legally and financially distinct from the tobacco operation. As a result of these parameters, and although the Directive in that form was blocked, it is believed that our competitors set up operations which could, subject to profitability, be regarded as legally and financially distinct from tobacco.

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As a result of this earlier Directive, a number of principles have emerged which it is believed are of paramount importance for the survival, if at all, of TMD in the future.

In summary these are:-

- to have an established business prior to legislation
- to have a financial, legal and organisational structure quite separate from tobacco
- to be based on sound commercial criteria and be profitable.

Appendix 1 spells these out in greater detail.

Last week, the EC proposed a new Directive on advertising which, unless blocked by the requisite majority of the Council of Ministers who can meet as early as in the Autumn this year, is to be adopted by Member States by January 1993. These proposals amount to a total ban on cigarette (other than point of sale) and TMD advertising in Europe. Sponsorship advertising is also banned. The Explanatory Memorandum to the Directive comments that the tobacco industry has turned to indirect advertising e.g. Marlboro clothes, Camel boots and Barclay matches. "It is certainly not by chance that the budget for the advertising for these products is disproportionate in relation with the emphasis of the relevant market". The Directive indicates that "Member states should ensure that brands and trade marks whose reputation is normally associated with the tobacco product are not used for advertising in other areas, if this brand or trade mark is still being used for the advertising for the tobacco product". It is thought Dunhill will survive because it does have a reputation other than in tobacco. Attached as Appendix 2 is an extract from the proposed Directive.

Whether or not this Directive survives, it is clear that the legislators acknowledge the disproportionate advertising behind current TMD activities. If the legislators allow TMD to survive it will only be on the basis of the principles set out in this document and in particular that the operations are independent from tobacco and are profitable, having taken account of the advertising spend which should not be disproportionate to the product category used.

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Marlboro (via Marzotto) and Camel (via Star Corporation - a non tobacco subsidiary of RJR) have sought to distance their TMD operations from tobacco, but their profitability after advertising costs must be questionable. That they will both fight the EC directive is to be expected.

In whatever form the Directive is adopted, it is likely to be in months rather than years, and is likely to have an influence well beyond European frontiers. There is thus a genuine urgency for tobacco companies to attempt to maximise the impact and longevity of TMD while the opportunity remains.

However, this sense of urgency is balanced to some extent by uncertainty over the intrinsic value of TMD and its impact on brand awareness. In BATCo, there has been little research on the impact and value of TMD in relation to the investment involved.

In order to understand this better, it is proposed to commission a research study which will evaluate consumer attitudes to TMD activities and the cost effectiveness of these activities in maintaining awareness of brand values and imagery to the extent that the impact of TMD can be separated from that of sponsorship and advertising. This research will be directed at competition activities in order to avoid the potential constraints and complications of commissioning research on BAT products and activities.

3. MARLBORO SUMMARY

Based on initial desk research, a summary of Marlboro's TMD activities is given below.

After many years of experimentation, Classics has emerged as the lead activity world-wide. Classics is a men's clothing range with a Western theme and is operated through a large Italian textile company - Marzotto. Distribution is widespread in Europe and the Far East with own retail outlets increasingly a feature of the operation.

Advertising is overtly and consistently allied to the cowboy/Western cigarette theme and as such is highly provocative. Spend levels vary and reliable published data is not always available. In Italy in 1990 total TMD above line spend was reportedly over £3 million.

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Trademark registration in non-tobacco classes is always in the name of Philip Morris; their relationship with the Marzotto company is not known.

Other TMD activities include a Leisurewear clothing range, Holidays and Adventure Store. The geographical spread is shown below:

Adventure Store: Germany

Classics:	Belgium	Denmark
	Finland	France
	Guyana	La Reunion
	Martinique	Greece
	Holland	Hong Kong
	Italy	Japan
	Luxembourg	Norway
	Sweden	Switzerland
	Taiwan	UK

Leisurewear:	Argentina	Belgium
	Chile	Finland
	Germany	Holland
	Hong Kong	Italy
	Spain	Taiwan
	Turkey	

Holidays:	France	Germany
	Italy	Malaysia
	UK	

Information from BATCF indicates the following above line spend levels for Classics in Europe.

	1989	1990
France		£ 3,300
Greece		£ 83,000
Holland		£ 15,000
Italy	£900,000	£470,000 Jan-Nov

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3. CAMEL SUMMARY

Camel's TMD activities are summarised below.

RJR operate their TMD activities via a licencing company - The Star Corporation. The HQ operation is based in Cologne with a staff of thirteen and reported sales of £65.5 million in Germany in 1989. There are also Star Corporations in France, Holland and Switzerland.

All Camel TMD activity is geared to exploiting the success of the Camel Trophy with licenced manufacturers distributing Camel clothing, footwear and watches widely across Europe. Distribution method varies between mail order and retail outlets. Camel's TMD activities outside Europe are limited.

With the notable exception of Italy, advertising spend levels appear modest (see below) and are therefore defensible relative to the size of the business. Creatively, the advertising echoes the cigarette campaign but less blatantly than Marlboro

The geographical spread of Camel TMD activity is as follows:

Adventure Shop -	Belgium Germany Holland	Malaysia Switzerland USA
Clothing:	Germany Holland Hong Kong	Singapore Switzerland USA
Boots:	Finland Germany Greece Holland	Luxembourg Norway Spain Sweden Switzerland
Watches:	Finland France Greece Duty Free	Hong Kong Italy Spain Turkey
Holidays:	France	Italy

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Information from BATCF indicates the following above line spend levels for Camel watches in Europe:

	1989	1990
France	--	£ 63,000 (Jan-June)
Greece	£ 33,000	£ 3,000
Spain	£ 1,300	£ 62,000
Italy	£1,730,000	£930,000 (Jan-Nov)

4. RESEARCH PROPOSAL

Objective

To examine the activities of two major competitors in the field of Trademark Diversification (Marlboro and Camel) and assess the effectiveness of their operation in selected markets.

Outline Methodology

Desk Research should be undertaken initially to expand on the desk work already carried out. This will provide factual and quantitative data and assist in determining the markets to be covered in subsequent stages.

A Quantitative stage follows via participation in an omnibus survey in designated markets. This second phase of research will be a guide to awareness and penetration of TMD and degree of association with the cigarette brand. It will also seek to establish a ranking of the impact of the various communications activities to which the consumer is exposed, e.g. cigarette advertising, TMD advertising, sponsorships, promotions.

A third stage using Qualitative groups will seek to expand on the information gathered in the omnibus stage to examine consumer attitudes to TMD activities and the advertising which is used to support them.

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5. MEASURING THE EFFECTIVENESS

Assuming the key objectives of TMD activity/advertising are:

- to maintain visibility and thereby awareness of the cigarette brand name among target consumers;
- to maintain awareness of the cigarette's brand values/imagery among target consumers.

Thus the consumer/respondent must recognise the cigarette connection and ideally view the activity positively as a compatible and logical extension of the cigarette brand's inherent values into a separate business.

However, respondents may take the view that the TMD activity/advertising is designed to promote the cigarette rather than, or in addition to the TMD product itself. Although less positive this would still represent an achievement of the objectives.

Ideally, in addition to the above consumer responses, the TMD advertising should generate a favourable reaction to the TMD product per se with a positive indication of propensity to purchase. Without this, the TMD activity is less likely to flourish and generate profit and thus be more vulnerable to legal assault.

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PRINCIPLES OF TMD OPERATIONS.

1. **Corporate Structure.**
 - All TMD operations must have separate legal, financial and organisational structures.
 - To be credible and to withstand external scrutiny, TMD operations should be based on sound commercial criteria and be profitable.
 - TMD operations must be seen to be entirely independent of any tobacco connection. Fund flows must be confidential.
 - TMD activities must be seen to be genuine businesses capable of supporting their own advertising spend in the long term.

2. **Advertising.**
 - TMD advertising/communications should be handled by agencies having no connection with the tobacco brand business.
 - Advertising budget levels should be in scale with the norms of the TMD product category and appropriate to the level of product distribution.
 - Advertising creative content should be compatible with the cigarette brand values and emphasise the brand name.
 - Advertising creative content should not be a blatant and provocative reflection of the cigarette advertising.
 - Media appropriate to the product category must be used but not exclusively so.
 - In order to preserve independence and security, the application of Group media discounts to TMD must be sacrificed.

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