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A Tobacco Marketing Strategy meeting was held on Tuesday 10th and Wednesday 11th May 1994.

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Present: Mr U G V Herter, Mr M F Broughton (items 1 to 7), Mr P Adams, Mr D P Allvey, Mr F Andrade, Mr R Bexon, Mr B D Bramley (Wednesday only), Mr R D Brown, Mr A M Castro, Mr N Davis, Mr G Domizlaff, Mr K Dunt, Mr E E Ettegui, Mr A Johnston, Mr J Rembiszewski, Mr T E Sandefur, Dr B Schweitzer, Mr H-A Tomat, Mr J Winebrenner, Miss H C Barton (Secretary)

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International Brands

1. **Lucky Strike:** The following pack design changes were agreed:
  - the bulls eye will be enlarged.
  - the Lights bulls eye will be changed from gold to red.
  - the lettering of the parent will remain in black.
  - the logo will be made more readable.
2. Three versions of the Lights pack (white on gold, white on red and black on red) will be tested within the whole family range in Japan against the black on red parent. Black on red will be chosen unless there are very strong indications that white is preferred. If the American Tobacco acquisition goes ahead, Brown & Williamson will support the black on red Lights in the US.
3. Either the Superlights or the Supermilds name will be chosen, for the 6mg product to be introduced in Japan.
4. The pricing for Lucky Strike should be considered market by market. The objective for new or currently small markets is to be at parity with Marlboro or to be one price point below, providing this is still high priced. In existing markets, the current price will be retained where the volume is substantial or progressive. The previous commitment to close any pricing gap with caution over time is removed, but neither is it forbidden.
5. The implication of this pricing position is that Lucky Strike will not contest the position of leading US premium priced full flavour cigarette with Marlboro. Hence Philip Morris' profit per mille will continue to be higher than that of BAT.

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BATCO CONFIDENTIAL - CATEGORY I: MINNESOTA TOBACCO LITIGATION

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6. None of the three new campaigns is believed to be obviously a winning world-wide campaign. The Lucky/Unlucky campaign, which looks to have a workable concept, will be tested in the US and the main markets. Enough time will be taken to ensure that the right world-wide campaign is developed, but it is hoped that this will be by the end of 1994.
7. In the interim period, while the new campaign is being developed, momentum will be maintained by use of the new biker films and the Team Lucky Strike Suzuki films and supporting print advertising.
8. The best blends currently available will be used rather than waiting for World-Wide Best. In developing new blends, consumer profiling will be used as well as reverse engineering in order to achieve overall preference.
9. **Kool:** In the US the objective is to reassure the current franchise. For international use, Newport was considered to be the stronger menthol offer, utilising the "best selling US" menthol brands claim.
10. It was agreed that a substantial menthol market is better addressed by a stand-alone menthol brand. However this does not rule out the tactical use of line extensions, possibly in the same market as a stand-alone brand.
11. **Kent:** 50% of the volume is in Japan and 75% in the Far East. Sales in Japan, where the product is blended for a charcoal filter, are growing. Sales elsewhere, where the product uses the old spicy blend, are not growing, inter alia because of product deficiencies.
12. Kent's positioning is Lights. It is perceived as equivalent to Marlboro Lights. However the parent currently has 13mg tar which does not qualify as a Lights in many markets. As the blend is developed, the tar level must be reduced gradually from perceived to actual Lights tar levels.
13. The recommended range of blue packs presented by B&W in different shades was agreed.
14. Preliminary CPT results from Japan indicate a preference for the Kent 1mg charcoal product over Next and Frontier. A second CPT is scheduled for July. Non-charcoal 1mg tar versions are currently in development by B&W, to pre-empt a PMI global launch.
15. BAT's Lights development in Asia will focus on Kent, while the European Lights development will focus on Barclay. Over the long term, where whole markets move to below 10mg, there may be room for both products in the same market with different positioning.
16. Kent has different age profiles in different markets. It has a young profile in Japan and China, a more ageing profile in Hong Kong, and did not test well against L&M, which has a young profile, in Brazil. Major progress has been made in developing the positioning of the brand, but more work is needed on the rest of the package. It will take time to make the age profile younger.
17. It is likely that Kent will retain a more traditional campaign in Japan, while a more contemporary campaign is adopted elsewhere. Grey are finalising the storyboard and B&W and BATCo will agree the funding.

18. **Viceroy:** Viceroy's volume base is in volatile markets and price competition is increasing in the low price segment. A product is being tested with 75% domestic leaf content. If the best blend is the GPC blend, this would bring efficiency gains. It was agreed that in general the best blend should be used providing the margin remains acceptable
19. The packaging is being redesigned for consistency and a proposal will be made to the September TSG. All the communications for international value for money brands must be consistent, as they must be advertised and promoted and not just sold on price
20. **Pall Mall:** Pall Mall's volume base is also in volatile markets, but it is priced at mid rather than low price to compete with Chesterfield and L&M.
21. It was agreed that the plain, filter lights and menthol packs would be unchanged in Germany. In new markets the "Finnish" range will be used. The "Finnish" range will be tested against L&M in Brazil for the young profile, but if it does not test well the white edge will be retained. The USA Superlongs pack will not be changed.
22. **State Express 555:** A Lights product below 10mg tar is being developed
23. SE555 is currently a Far East brand. It will be tested in a wider geography, and BATCo must produce a plan of when it is to be tested in which markets. B&W have already agreed to test it in Japan. The weakness is perceived to be the pack which is old fashioned.
24. SE555 has, until recently, been growing on the basis of its heritage and "Made in England", though the current advertising is changing this. If it is launched in markets where it has not had the benefit of the new advertising and has only a "heritage" it will need strong advertising support to enable local manufacture to be a success
25. **Benson & Hedges:** B&H should be reconsidered before being tested in a soft cup in South Africa for the black market. Some elements of the marketing mix do not appear to be optimal. There may be some lessons from the success in Nigeria
26. **Players:** BATCo are planning to have two brands within the House of Player: JPS as a flagship brand, and PGL in the mid-price segment. The other members of the House of Player family are the Players brands in Canada
27. The range of packs for PGL has been ~~even more~~ inconsistent than for Pall Mall. The price positioning is at the upper end of local brands with superior taste. New packs and advertising are being tested
28. In BTL, if the head cannot be retained, the lifebelt will be used without the head and the wave will be introduced. Mr Herter was concerned about this, as the head and hat are the core of the brand, which is known in some places as "Sailor". He also questioned how closely the sailor's head was linked with maritime adventure. In some of the target markets, such as Bangladesh, the sea is seen as threatening. Since this is a growing brand, the execution must be developed cautiously. It is being tested at mid-price in South Africa and China.

29. Players in Canada has been losing some of its target male, under 25 segment because of the worsening fibreglass filter rumour. One third of the switches from Players are to du Maurier which is smoother. The "smooth" line extension is also doing well. Players Racing Limited features on television. The pack has been redesigned for the new health warning, but even restrictions create competitive opportunities. The name of the brand can contain the imagery if it is loaded over the years, but as restrictions increase this cannot last forever. Players will last longer than its competitors, but eventually competition will be on price.
30. **Kim:** Kim has a female bias but is smoked by some males in Italy. It is an American blend, in slims and ultraslims, 7mg Lights and 4mg UltraLights. An international advertising campaign is being developed to be ready late summer. BATCF is currently evaluating it in Korea.
31. **Hollywood:** It is not possible to modernise a brand through line extensions, therefore Hollywood Lights should be consistent with the parent even if it is less modern.
32. In export markets, Hollywood is perceived as a US brand. This is possible only where the pack does not have to state a country of origin. It is better not to use Hollywood in markets where the country of origin has to be shown. Alternatively it could be made in the US, but this would leave little margin for support.
33. It was discussed whether we need another low price USIB in addition to Viceroy. Mr Andrade considered that Hollywood's advantage is its full communications platform. Mr Tomat thought that as Philip Morris and RJR both have 3 brands, we need both Viceroy and Hollywood, particularly in markets such as Russia which are vast, unknown and developing.
34. Hollywood is retailing at 30 cents a pack in Uzbekistan. This was done to correct a specific stock problem in Arabia. However, it is wrong as it will now be very difficult to increase the price or build equity, and increase the volume in Uzbekistan.
35. Barclay's Barons is being tested in Spain, and tests are planned in Hong Kong and Panama. If the American Tobacco acquisition goes ahead there will be an overlap between Barclay and Cariton, which is much more significant in the Middle East. Since we have to have PGL and Lucky Strike in the Middle East, there is unlikely to be room for both Barclay and Cariton.
36. The pack design for Barclay No 1 is blue. The "one" is successful as letters in Switzerland, but would not communicate 1mg in Japan, where the figure "1" would be preferable. The pack design featuring the figure "1" will be used in all markets with the exception of markets in Western Europe where the letters only version has already been launched.

#### Global Brand Priorities

37. Lucky Strike is the Group's global USIB priority and we must therefore try to develop it in every country. No other brand is a global priority.
38. The Group does not have a global low tar USIB. Kent is strong in the Far East and some South American markets. Barclay is strong in Europe. There may be low tar markets in the future where there will be room for both with different positioning.

39. Benson & Hedges is a priority where it already has a franchise, but it is not a priority outside Europe Duty Free and hence not a global priority.
40. Viceroy is a priority in Asia Pacific and could be a candidate to be our global VFM IB, with Pall Mall at a mid-price point. However, the pricing levels of Viceroy and Pall Mall are not consistent around the world, and B&W has just decided to let Viceroy find its own level in the US. Viceroy has opportunities in every region but not every country.
41. Mr Rembiszewski proposed that instead of segmenting the market by price we could segment it by customer need, with Pall Mall as a full flavour, masculine offer and Viceroy as a lighter, more feminine offer. The proposal will be discussed further.
42. To compete with L&M, Chesterfield and Bond Street at low price, BAT has Viceroy, Pall Mall and Hollywood as USIBs and PGL as a UKIB. After the American Tobacco acquisition we will have several more including Montclair and Misty.
43. If we segment on consumer need, we also require a global Lights/SuperLights brand. Philip Morris has not yet established a free-standing global Ultra Lights brand, but is trying with Next. BAT has a good chance of succeeding and this would give a competitive advantage.
44. In menthol markets it is better to have a stand-alone menthol brand than menthol line extensions. However, except where Kool is already established, Newport would be preferred in markets where being number 1 in the USA provides a competitive advantage.
45. With the exception of Lucky Strike which should be developed in every country, our other IBs are strong in some regions, and should be developed globally out of those regions, but not in every country.

Regional Priorities

- |                   |   |              |
|-------------------|---|--------------|
| 46. Asia Pacific: | <u>UK</u>                               | <u>US</u>    |
| Premium           | 555                                     | -            |
| High              | -                                       | Lucky Strike |
|                   |   | Kent         |
| Mid               | PGL                                     | Hilton       |
| Low               | Several options -<br>one to be selected | Viceroy      |
47. Japan: 1. Kent; 2. Lucky Strike; 3. Kool; 4. Capri, and possibly SE 555.
48. Korea: 1. Kent; 2. Finesse
49. Sub-Continent: Strong regional brands but no IBs. Testing Lucky Strike, PGL and SE 555.
50. Arabia: USIBs Lucky Strike, Barclay (or Carlton) and Viceroy. UKIB PGL.

51. **Russia/Eastern Europe/Central Asia/Turkey:**

	<u>US</u>	<u>UK/Other</u>
High	Kent	SE 555
Mid	Lucky Strike	HB
	Pall Mall	
Low	Viceroy	Hollywood

52. **Western Europe:** Premium to high Lucky Strike; Premium Lights Barclay; mid to low Pall Mall.

53. **Levant:** Lucky Strike, Pall Mall, Viceroy, Kent, and Barclay (or Carlton) (in Lebanon only).

54. **Israel:** Kent, Lucky Strike

55. **Central America:** Lucky Strike, Beimont. Kent and Pall Mall should be in the portfolio but not as priorities. Viceroy is currently at a high price due to its heritage here and elsewhere in Latin America (eg Chile). Consideration will be given to the two alternatives of repositioning Viceroy as the VFM HB or the use of Pall Mall.

56. **South America:** Lucky Strike (or Kent), Viceroy, Pall Mall, Hollywood.

57. **Brazil:** Lucky Strike, Hollywood (at mid price), Pall Mall (at low price)

58. **Mexico:** Kent, Lucky Strike, Capri, JPS (when the license is terminated), GPC (in the future, when a low price brand can be marketed without risk of incurring a "dumping" action). BAT does not own Viceroy or Raleigh in Mexico. Hollywood should be considered.

59. **Africa:** PGL, B&H, regional brands such as Embassy and Sportsman. Lucky Strike should be tested in all countries and Kool or Newport in markets with high menthol shares. 555 exists in some markets, where it is not a priority.

Regional Brands

60. **Hilton:** Hilton has low brand equity and an ageing profile. It sells in Hong Kong and China and may have potential in the Asia-Pacific region, although generally gold packs do not do well in Chinese communities. It is not really a regional brand, but the option will be kept open. The positioning is true value-for-money.

61. **Newport:** Newport is the number one selling menthol brand in the US and therefore could potentially have a strong position in the other menthol markets. The aim is for superiority to Salem. Newport should be the first choice for new menthol markets.

62. **HB:** HB is at the consumer price level in Germany and must be reduced from 13mg to 12mg within 2 years. It was the largest consumer priced brand from its launch in 1955 to the price war in 1983, therefore its consumers tend to be price sensitive. It has an ageing profile.

63. It has been decided to have an HB family with three "personalities" appealing to different segments: "Classic" 13 mg; "Medium" 9mg; "Lights" 5mg. These will be launched early in 1995 with a new advertising campaign.
64. "British-American Tobacco" has a good corporate image, and in the eyes of the consumer has associations with the two most highly regarded sources of cigarettes. A good high profile corporate image will assist in opening up new markets, being seen as a good venture partner, and supporting our relationships with governments. For all these reasons, BATCF will be renamed to include "British American Tobacco", and "Manufactured by British American Tobacco" should be stated on the packs of all key brands. This should be considered for all companies and brands
65. **Belmont:** Belmont has a key position throughout the Andean Pact, particularly with the current attempts to gain ownership in Colombia and Ecuador. It has a lifestyle image of happy people on the beach which works better on TV than in print. This is potentially a strong regional brand, but there is little consistency in the packs, and it is at a lower price point in Brazil. It was agreed that Brazil will be an integral member of the already-operating User Group and will test the agreed changes in the mix.
66. **Derby:** Derby has been successful by giving good quality at a low price (particularly in Argentina and Brazil). The attempt to add imagery has been less successful, though the new campaign (Park) is more honest.
67. Philip Morris' objective in launching Dallas in Brazil was to de-stabilise the market and increase market share
68. **Free:** Free has 70% of the low tar segment in Brazil and is the leading brand in universities. It is priced below Marlboro, above L&M. Free in Argentina is owned by PM. BAT may be able to regain it through notoriety by selling in other markets. Otherwise there will be a threat through Mercosur. Free is being tested in certain Andean Pact markets where BAT owns the trademark
69. **Continental and Minister** are both cheap, medical brands which are used to compete with very cheap Japanese imports. They have no advertising or support and will only be used if absolutely necessary

#### Major Markets

70. **Japan:** Lights and UltraLights account for half the market and are growing. The two major 1mg products are PM's Next and JTI's Frontier. There are also line extensions including Kent SuperLights. It is a very profitable market despite high support expenditure. It is B&W's top international priority with the focus on Kent and Lucky Strike (which have the same blend). Kool does not have a charcoal filter because it does not work with menthol. Capri is focused on the growing female segment.
71. Next has a unique coaxial filter which we should test to see why it has been adopted. The brand failed in the US. The launch of a free-standing 1mg product in Japan would cost \$40m, therefore it is important for Kent to have a 1mg version.

72. JTI are achieving price rises by switching from soft cup to box at 20 yen more. Other manufacturers are unlikely to achieve a price rise at least until JTI is privatised.
73. **Korea:** The outlook for B&W in Korea is improving in spite of anti-Western sentiment. This is due to B&W's focused portfolio. JTI breaks even, all the other importers lose money in the market. B&W's focus is on Kent and Finesse (which has a male profile; Virginia Slims outsells Marlboro and is also a male brand).
74. The outlook for the fast growth of the import segment in Korea is not promising as the retailers are anti-western and the aspirational lifestyle is Japanese. Kim will be tested again, and a Japanese name could be considered.
75. **Combined Exports:** This market has 300 million consumers. The only national brand is Hong Ta Shan with 2% of the market, the other brands are regional. CNTC has 180 plants, many in competition with one another, and over-capacity.
76. Viceroy is growing fast but is cannibalising Hilton. Lucky Strike will be priced just under Kent. The portfolio is complete with the possible exception of a mid/low priced UKIB.
77. The main risk is from the over-heating economy, and the highest priority is to achieve the largest joint venture possible, quickly.
78. **Russia/CIS:** The number of brands in the market has reduced from 300 to 80 since advertising was started in 1992. There is a high level of counterfeit and "revenue reduced imports" with which legal imports cannot compete.
79. The brands in order of priority are Lucky Strike, HB, Pall Mall, Hollywood or Viceroy, Kim, 555 and Kent. It is not yet clear which brands will eventually be preferred by the consumers, therefore a pragmatic approach is needed.

The meeting will continue on 2-11 June

H C Barton  
27th May 1994