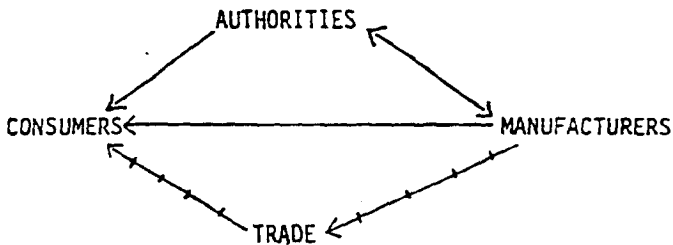


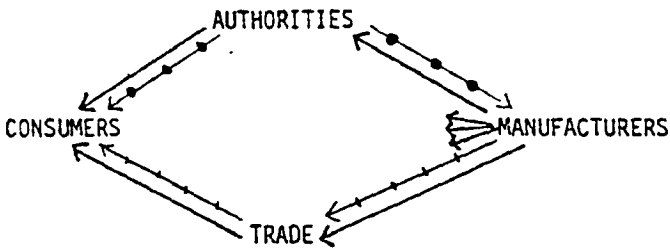
THE DEVELOPMENT OF THE TOBACCO MARKET - A PERSONAL VIEW

1960's MARKETS



- A CLASSICAL STRUCTURE
- NATIONAL MARKETS

1980's MARKETS



--- PRODUCT FLOWS
— INFORMATION FLOWS
• CONTROLS

- A CONTROLLED MARKET WITH STATUTORY REQUIREMENTS.
- PAN NATIONAL

400459896

PRINCIPLE CHANGES IN THE MARKET STRUCTURE

a) AUTHORITIES

STAGE 1 (MID '50's - MID 60's)

PUBLIC INFORMATION

- Rational, informative campaigns - smoking causes lung cancer.
- Result: Tobacco market continues to grow, smoking incidence unaffected.
- Miniscule share of voice vs. tobacco advertising.
- Rational argument vs. physiological and psychological habit.



STAGE 2 (MID 60's - MID 70's)

COMMUNICATION INTERVENTION

- Advertising restrictions on both media and content.
- Smoking presented as a dirty, anti-social habit.
- Result: - Beginning of polarisation in smoker/ non smoker opinions.
- Total market still growing.
- Inefficient media → greater visibility for tobacco advertising, not less.
- Physiological/ psychological dependence governs smoker behavior.



STAGE 3 (MID 70's - MID 80's)

PRODUCT INTERVENTION

- Delivery limits.
- Advertising bans.
- Smoking restrictions.
- Results: - Punitive tax increases → declining markets.
- Switch to low tar → increasing markets (compensation)
- Smoking restricted to a minority habit. Growth of non-smokers rights movements.
- 'Soft' advertising/ offshore media.
- Low tar a blind alley.

400459897

STAGE 4 (MID 80's - ?)

REGULATED INDUSTRY

- Tobacco treated as an ethical drug ?
- Multinational approach - WHO/UNCTAD/EEC etc.
- Packaging limitations - commodity style.
- No endorsement of low tar.
- Pharmacological approach for existing smokes.

Results: - Declining markets

- Switch back to satisfaction amongst remaining smokers.
- Growth of smokeless tobaccos ?
- New brand launches increasingly difficult.

400459898

b) MANUFACTURERS1960's

- GROWING DEMAND
- NATIONAL MARKETS
- MULTIFARIOUS PRODUCT SPECIFICATIONS

1980's

- CLASSIC MATURE INDUSTRY
- NO MAJOR PRODUCT INNOVATION IN 80 YEARS.
- OVERCAPACITY
- STANDARDISED PRODUCTS
- PAN NATIONAL MARKETS



- BATTLE FOR MARKET SHARE
- BENDING THE RULES
- SHORT TERM STRATEGIES (PRICE WARS)
- PRESSURE ON PROCESS INNOVATION
- CENTRALISATION / RATIONALISATION

400459899

c) TRADEKEY CHANGES:

1. TRADE CONCENTRATION AND COMPETITION HAVE INCREASED.
2. TRADE IS IMPORTANT TO TOBACCO INDUSTRY AS INFORMATION AS WELL AS SUPPLY CHANNEL TO CONSUMERS.



TOBACCO INDUSTRY INCREASINGLY SEEN AS A SUPPLIER WHICH MUST CONFORM TO TRADE'S MARKETING OBJECTIVES.



- PRICE COMPETITION.
- PRESSURE ON MARGINS.
- MARKET POLARISATION:
ESTABLISHED IMAGE BRANDS VS COMMODITY BRANDS

400459900

d) CONSUMERSFACTORS INFLUENCING CONSUMER HABITS & ATTITUDES1. SMOKING & HEALTH

- Traditional disposition to believe smoking is harmful was offset by the widespread belief that it was a majority habit.
 - Health question seen as little more than an occupational hazard.
- Widespread anti-smoking propaganda has destroyed the consensus between smokers and non-smokers and exposed the myth of the majority habit.
 - Non-smokers have become proselytizing anti-smokers.
 - Smokers have become increasingly defensive - the only resolution is to quit. (Effect most marked in upper socio-economic groups)

2. PRODUCT /BRAND RANGE

- The shift away from smoking quality:
 - Plain Brands = Product quality principle factor in brand choice.
 - Filter Brands = Product differences less marked. Image factors become principle factor in brand choice.
 - Low Tar Brands= Smoke constituents become principle factor in brand choice.
- But the shift to Low Tar is only partial and has lost momentum:
 - Uneasy compromise with both smoking quality + image projection
 - Uncertain health benefit - compensation.
- Highest penetration amongst those under most pressure or pre-disposed to accepting compromise.
 - OECD markets
 - Higher socio-economic groups
 - Women

400459901

3. SOCIO/ ECONOMIC

- Cigarettes are the cheapest form of making a personal image statement.
But. In some countries use of any cigarette is now a negative image statement.
- Cigarette prices are generally lower in real terms whilst purchasing power has risen dramatically.
But. The economic accessibility of cigarettes coupled with increased consumption per smoker has led to consumers becoming more price sensitive, looking at the total cost of a commodity product rather than the unit price of an image brand.
- The search for the "risk free" society has closed off lines of defense of the smoking habit. Under this pseudo philosophy the benefits of any product which can potentially cause harm are irrelevant.

400459902

THE FUTURE MARKET SCENARIO

- No directional shift in the situation/ strategies of authorities, manufacturers or trade.
- Smokers will become an increasingly beleaguered minority, particularly in OECD markets, whilst the social cachet bestowed by accessible status symbols such as cigarettes will delay this development in the Third World.
- Smokers will become increasingly disillusioned about the health benefits of reduced deliveries. The only justification to keep on smoking will be the pleasure it affords, albeit with a recognised long term risk.



A RETURN TO SMOKING QUALITY

The following project proposals are designed to give a clear quality advantage to our products in two distinct market types.

400459903

LDC PROJECT

TARGET MARKETS: LDC ECONOMIES WITH EXTREME CLIMATES.

MARKET BACKGROUND:

- SHELF LIFE OF 20's PACKS LESS THAN 3 MONTHS.
- LONG, SLOW DISTRIBUTION CHANNELS.
- MAJORITY OF CONSUMER PURCHASES IN STICKS.
- MADE IN U.S.A. / U.K. A CONSUMER BENEFIT.
- HIGH BRAND LOYALTY.

TECHNICAL CONSIDERATIONS:

- CONVENTIONAL PACKAGING REPRESENTS A HIGH PROPORTION OF VARIABLE COSTS.
- CONVENTIONAL PACKAGING IS DESIGNED TO MEET REQUIREMENTS OF TEMPERATE CLIMATES WHERE PACK PURCHASE IS THE NORM.
- TRADITIONAL EXPORT PACKAGING (50's TINS) PROVIDED GREATER PRODUCT PROTECTION.
- OPPORTUNITIES EXIST FOR HIGH QUALITY PRINTING ON UNCONVENTIONAL PACKAGING MATERIALS.

PACKAGING SPECIFICATIONS:

- CONTINUOUS REEL OF INDIVIDUALLY HEAT (?) SEALED CIGARETTES WITH PERFORATIONS BETWEEN EACH.
- 200 CIGARETTES PER REEL.
- 50 REELS PER SHIPPING CONTAINER.

400459904

CONSUMER PROPOSITION:

PRIMARY: NEW BRAND X IS FACTORY SEALED TO GIVE YOU PERFECT QUALITY - EVERY TIME.

SECONDARY: BUY THE NUMBER YOU NEED - EVERY TIME.

MARKETING REQUIREMENTS:

- BRAND IMAGE MUST BE ENHANCED BY THE NEW PACKAGING. —→
- 1. - IMPROVED PRODUCT BRANDING.
(HOT FOIL DYE STAMP ON TIPPING)
- 2. - BRAND IDENTITY ON EACH REEL.
(CONTINUOUS PRINTING ON POLYPROP)
- 3. - HIGH QUALITY DISPENSERS. - USAGE A CONDITION OF SALE.
(USE ADDITIONAL SHELF SPACE FOR BRAND MESSAGE)
- 4. - CONSUMER IMAGE REASSURANCE.
(PERMANENT PACK GIVEAWAYS DESIGNED TO HOLD UP TO 20 CIGS)
- 5. - SELECTIVE DISTRIBUTION INITIALLY TO PROJECT EXCLUSIVITY.
(MONITORED ROLL OUT FROM MAIN URBAN AREAS)
- 6. - ESTABLISHED BRAND AWARENESS AND IMAGE.
(NEW PACKAGING OF EXISTING BRAND)

TARGET SMOKERS:

- URBAN
- MALE
- 18 - 30
- ASPIRING LOWER MIDDLE SEG.

N.B. CONCEPT MUST BE ACCEPTABLE TO EXISTING BRAND FRANCHISE.

400459905

RESEARCH:

- FACILITIES LIKELY TO BE LIMITED → CONCEPT PRE-TESTING ONLY.
- MARKET PERFORMANCE VS. CONVENTIONAL PACKAGING TO BE USED AS CRITERIA FOR ROLL OUT.

PROBLEM AREAS:

- CIGARETTE CONDITIONING BEFORE SEALING.
- SEALING MACHINERY SPEEDS / MATERIAL COSTS.
- GREATER BULK - SHIPPING COSTS.
- MANDATORY PACK CLAUSING.

30.5.84 IAR/SL

400459906

OECD PROJECTINITIAL MARKET U.S.A. OR U.K. AS INTERNATIONAL BRAND SOURCES.MARKET REQUIREMENTS

- A SHIFT BACK TO FULL FLAVOUR BRANDS.
- PUBLIC SCEPTICISM ABOUT HEALTH BENEFIT OF LOW TAR.
- AUTHORITIES NOT ACTIVELY ENDORSING LOW TAR.
- FULL FLAVOUR BRANDS IN THE 14 MG - 20 MG TAR RANGE.
- LIMITED DIFFERENCES IN SMOKING CHARACTERISTICS ESTABLISHED THROUGH BLIND PRODUCT TESTING.

TECHNICAL CONSIDERATIONS

- CASINGS + FLAVOURS ARE USED TO DISGUISE POOR TOBACCO TASTE AND ENHANCE OVERALL TASTE.
- MOST TOBACCO TASTE COMES FROM THE PERIMETER OF THE ROD. THE CORE IS BASICALLY JUST A FUEL SUPPLY.
- WRAPPER LEAF IS AN IMPORTANT INFLUENCE ON TASTE IN FINE CIGARS.
- EXTRACTING FOOD FROM TOBACCO IS NOW TECHNICALLY FEASIBLE. FOOD IS PROTEIN AND PROTEIN WHEN BURNT TASTES POOR.
- THERE IS CURRENTLY A WORLD OVERSUPPLY OF TOBACCO.

PRODUCT GUIDELINES

OBJECTIVE: TO PRODUCE A CIGARETTE AT ACCEPTABLE TAR/NIC DELIVERIES (14mgs/1.4mgs) WITH A CLEAR TASTE ADVANTAGE BOTH QUALITATIVELY AND QUANTITATIVELY OVER CONVENTIONAL PRODUCTS OF SIMILAR DELIVERY LEVELS.

THE RESULTING PRODUCT MUST BE RECOGNISABLY A CIGARETTE.

BY: PRIMARY PROCESSING:

- NEW TECHNOLOGY TO EXTRACT UNWANTED COMPOUNDS FROM FILLER TOBACCO

AND / OR

- NEW TECHNOLOGY TO PRODUCE BLEACHED TOBACCO BASED CIGARETTE PAPER

AND / OR

400459907

SECONDARY PROCESSING:

- NEW TECHNOLOGY TO CONCENTRATE FLAVOUR GRADES AT PERIMETER OF THE TOBACCO ROD.

CONSUMER PROPOSITION

- THE ALL TOBACCO CIGARETTE - A TASTE TO REMEMBER.
- NO ARTIFICIAL FLAVOURS OR ADDITIVES - JUST THE PURE TASTE OF THE FINEST TOBACCO.
- IF SMOKING IS NOT A PLEASURE WHY BOTHER ?

TARGET SMOKER

- THE CONFIRMED SMOKER: - HEALTH CONCERN, IF ANY, IS MORE OVER THE NUMBER OF CIGARETTES SMOKED RATHER THAN TAR DELIVERY.
- HOSTILE TO ANY IMPLICIT HEALTH CLAIM.
- PREDOMINANTLY MALE: - UNCOMPROMISING POSITION.
- UPPER MIDDLE SEG: - PRODUCT QUALITY ORIENTED.
- 30 - 45 YEARS: - PAST 'IMMORTAL' + 'NOVEL' STAGES OF SMOKING CAREER.

BRANDING

- A NEW BRAND DEVELOPMENT.
- DORMANT PLAIN BRAND NAME MIGHT BE APPROPRIATE (E.G. GOLD FLAKE)
- PACKAGING STYLE:
 - SOLID
 - REASSURING
 - QUALITY
 - STRONG
 - TRADITIONAL

PRICING

- ACCESSIBLE PREMIUM OVER SEGMENT LEADER JUSTIFIED BY QUALITY.

30.5.84 IAR/SL

400459908