SUMMARY OF GROUP MARKETING STRATEGIES

(This document replaces all previous Marketing guidelines and should be read in conjunction with the BATCo Marketing Department Mission Statement.)

Objective:

"To develop a long term worldwide marketing plan which makes BATCo gain market leadership on the back of one dominant brand. Long term no more than two international brands per region should be supported continuously."

Strategy:

The worldwide trend to international brands is relentless and their global market penetration has doubled over the last ten years to more than 12%. Accordingly marketing resources will be concentrated behind the following key international brands with particular emphasis on the designated regions:

Benson & Hedges	Worldwide (where owned)
555	Asia & Indian subcontinent
Lucky Strike	Worldwide
Kent	Far East
Barclay	Europe

General and market specific brand guidelines will be issued to all operating companies as part of the Company Plan process. Operating companies should demonstrate how they intend to achieve market leadership for their key international brand over the longer term in accordance with overall brand plans. It is expected that no company will support more than two international drive brands long term.

Local brands will continue to form the majority of the Group business over the coming years. Resources should be concentrated again only behind those brands capable of sustaining in the long term significant consumer franchises. This should be on the basis of local heritage which can not be covered by international brand promises. It should, however, be foreseen as a long term niche e.g. Prince portraying the Nordic character. In order to move towards the longer term objective of building market leadership on one or two dominant brands per region, it is expected that no company will have more than three brands in its drive brand portfolio in the short to medium term.

Emerging consumer segments should be covered preferably by spin-offs of existing drive brands or launches of drive brands from neighbouring markets. Free-standing new local brand launches should be avoided.

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Objective:

"To improve BATCo's profitability by building brands with critical mass allowing for spending synergies, manufacturing scale, research concentration, speed of innovation and management synergies."

Strategy:

Philip Morris' international profitability per mille is currently 85% higher than BAT. This is a function of a limited brand range (less than 40 active trademarks versus 240 for BATCo), concentration on the premium end of the market, consistent global or regional brand strategies, emphasis on marketing efficiency and productivity, and larger average manufacturing plant size.

The attainment of these same virtues forms an integral part of BATCo's marketing strategy. The importance of consistent support of a focused drive brand portfolio has been described above but there are other issues which need to be addressed by operating companies in their planning which are critical to the attainment of this objective.

Marketing Productivity

All companies should seek to achieve reductions of at least 5% p.a. in real per mille trade and consumer marketing costs (excluding brand communications expenditure and depreciation). Methods to assess the efficacy of marketing activity must be developed for all aspects of the marketing mix. There is no reason why marketing cannot be subject to the same quantitative measurement disciplines that apply to, for example, production. Operating companies will be required to justify their marketing plans on quantified, research based criteria rather than judgement. Measurement systems should be focused on the consumer and evaluated against key competitor brands. Millbank Marketing will actively seek to establish and communicate appropriate measurement systems but, in their absence, the onus remains on the operating companies to ensure that appropriate tools are in place.

Operating companies should use whatever critical mass is at their disposal to ensure that as much as possible of their marketing budget is spent against the consumer. Concentrating budgets in a single agency to reduce commission fees is encouraged (though subject to agency alignment of international brands which will be controlled by International Brand Management in Millbank.) Similarly agencies should increasingly be responsible for all aspects of consumer communications across the marketing mix and not simply ATL spend in order both to reduce management overheads and ensure a commonality of message and look.

Traditional ATL media still represents the most cost effective means of reaching the consumer. Wherever regulations and market circumstances allow, brand budgets should reflect this reality. Significant investment in less efficient means of reaching the consumer should only be considered if they have a realistic potential of escaping anticipated future restrictions on tobacco advertising and marketing.

Trade marketing should also be part of a constant review of how to a) become more competitive and b) more productive. Better distribution, POS presence, trade relationships etc are critical to the future of our brands.

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Marketing plans should not ignore their potential effect on manufacturing productivity. Wherever possible full utilisation of existing machinery and materials should be a common objective of both marketing and production.

Similarly all R&D activity should have an identified and defined marketing application within a given time frame. The attainment of international brand product quality standards remains a key objective. Smoking quality should be assessed by the consumer and products should perform in accordance with the brand proposition.

Brand Management

The essence of BATCo's marketing strategy lies in disciplined, consistent and long term management of a focused brand portfolio.

All drive brands must have a defined Copy Strategy which forms the base document on which all aspects of the brand are managed. Once established these copy strategies will not be amended unless there are compelling market reasons for doing so. In the case of the five key international brands the Copy Strategy will be developed by International Brand Management in Millbank.

Brand resources should always be directed at the full revenue segment of the market in order to drive value share at a faster rate than volume share. Similarly key brand share will become as important a performance indicator as corporate share is currently. Tactical new brand launches are to be avoided wherever possible and in all instances should be drawn from BATCo's current portfolio of active trademarks.

Brand management must encompass all elements of the marketing mix, not simply advertising and promotion. This implies that marketing management must have a full understanding of sales and distribution, product formulation and manufacture, and the financial implications of these. Operating Companies should demonstrate how they intend to manage brands as businesses in their own right.

A long term focus on developing brand businesses requires 'milestone' markers to measure progress against the eventual objective. All drive brands should have measurable short and medium term targets to fulfil this role. These should encompass not only consumer share and ex-factory sales but distribution levels, brand and advertising awareness, smoker profiles, trial rates, and brand image attributes.

Sales Management

The active management of distribution channels has received only limited attention over recent years in both developed and developing markets. Low margin FMCG companies have been forced to recognise that individual distribution channels need specific strategies and these are vital to develop competitive advantage. Operating companies should critically examine their existing distribution arrangements and formulate plans to enhance their salesforce productivity and competitive position.

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Objective:

"Develop and test copy, products, packaging and line extension strategies for B&H and 555 which, once proven to drive market shares in premium segments in core markets, will be rolled out globally."

Strategy:

BATCo will only invest centrally behind B&H and 555 amongst its UK International Brand portfolio. Full brand guidelines will be issued as an integral part of the Company Plan process.

Agency assignment for these brands is the responsibility of International Brand Management in Millbank. The agency of record for 555 and B&H is BSB and all brand support budgets must be channelled through them (both ATL and BTL). Any exceptions to this require prior approval from International Brand Management.

Any Operating Company that wishes to market these brands will be expected to adhere to the international brand plans. Local variations in product formulation and advertising execution will only be permitted on the basis of quantitative research evidence.

No significant element of the marketing mix of these key brands can be altered without quantitative research backing and the prior approval of International Brand Management.

Maintenance of international quality standards is a fundamental pre-requisite for the right to manufacture the key international brands. Operating Companies must indicate how they intend to achieve these standards as measured by QUAINT and MASQ within a defined time frame.

BATCo will fund a development package for Players Gold Leaf in conjunction with the African and Sub Continent operating companies. This will encompass a new copy strategy, revised packaging, new advertising and reformulated product guidelines. Completion is expected by the end of this year. Assuming a successful market test this will form the basic brand package to which Operating Companies will be expected to adhere. In the interim new launches should be avoided.

Usage of all other BATCo trademarks, including JPS, remain the prerogative of operating companies. Brand plans should conform, however, to the marketing principles outlined above.

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Objective:

To develop in accordance with the Brand Owners, best business building strategies for Lucky Strike, Barclay, and Kent.

Strategy:

International brand strategy will remain the responsibility of Brown & Williamson but BATCo's marketing of these brands will be co-ordinated and controlled through the USIB unit in Millbank. Accordingly all proposals affecting strategy for these brands should be channelled through the USIB unit in Millbank in the first instance.

The operating principles governing the key UK international brands apply equally to the B&W trademarks. Brand guidelines will be issued as part of the Company Plan process.

Objective:

"To build and hire the best marketing talent worldwide."

Strategy:

Though the Group has highly talented managers worldwide there remains a question mark over their professionalism. This is due partly to the absence of common performance standards across the Group and partly because formal training has concentrated on marketing strategy rather than job skills development and strategy implementation.

Millbank Marketing will develop over the course of this year a series of modular training programmes designed to foster proficiency in the building blocks of marketing. Nevertheless, the onus for marketing management development remains with the operating companies themselves. Operating companies should construct plans to improve the professionalism of their marketing staff through career planning principles and training and development opportunities.

Attachment: Marketing Department Mission Statement.

7th May 1992

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