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1995 KEY AREA PAPER : MARKETING STRATEGIES

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:

SE555	Far East and, longer-term, worldwide.
Benson & Hedges	Far East, Africa and Indian Sub-Continent.
JPGL	Indian Sub-Continent, Africa and the Far East
Lucky Strike	Worldwide
Kent	Worldwide
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.

National brands currently account for 70% of BATCo sales and are likely to continue to account for the majority of sales in the foreseeable future. However, resources allocated to these brands should be on the basis of local heritage which cannot be covered by international brand promises, and where sustainable long-term significant consumer franchises can be achieved. In order to move towards the longer-term objective of building market leadership with 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 medium term.

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 120% 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 mile trade and consumer marketing costs (excluding brand communications expenditure). Methods to assess the efficacy of marketing activity must be developed for all aspects of the marketing mix and particularly the effectiveness of advertising spend in terms of its impact upon awareness and image. 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 they derive the best value for money from their Marketing budgets. Concentrating advertising expenditure in one or two agencies to reduce commission is encouraged (subject to the global agency alignment for International Brands which will be controlled by Millbank). Concentrating below-the-line expenditure into the same agency as ATL in order to reduce overall fees payable is also encouraged, both from a productivity and commonality of message and look point of view. Managing advertising production costs, research and development costs and other elements of the marketing budget to ensure optimum value for money is achieved is essential if we are to maximise the proportion of the overall marketing budget spent through ATL and BTL communication to the consumer.

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 not being subject to anticipated future restrictions on tobacco advertising and marketing.

All consumer and trade promotions should be implemented only if they are justified by higher sales. Post-promotional evaluations must become the norm in order to build up a data bank of knowledge on what promotions work in practice and to avoid expensive errors.

Sponsorships are a key element within the marketing mix, particularly for international brands. Their role is to provide incremental media exposure to enhance awareness and brand imagery by emphasising the key attributes of brand character. Measurement of the effectiveness of promotional expenditure is undertaken for international sponsorships but all sponsorship activities for national brands must equally have clear objectives with regular monitoring of their effectiveness.

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

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 six 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.

Brands 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.

Objective:

"To develop a long-term global marketing plan to dominate the Lights segment".

Strategy:

Lights is one aspect of the resocialisation of smoking whereby brands and products become the foundation for maintaining our long-term business by focusing upon the pleasures and positives of smoking as opposed to addressing the negatives. Lights is a concept, not a product delivery position, which incorporates modernity, freshness, innovation, excitement and interest, all of which are focused upon the young adult smoker. Although product delivery is one aspect of Lights, it is the other aspects which offer BATCo the greatest opportunity to gain a competitive edge.

Lights brands currently have an 20% global share whereas they are growing at around 7% per annum. Their penetration level is higher in the more developed markets but they offer a significant competitive advantage opportunity in the less developed markets by minimising the opportunity for Philip Morris to establish their full flavour international brands across the various price segments.

BATCo will develop a global strategy to optimise this smoker segment opportunity, which will include:

- a clear definition of the Lights concept and how to communicate this to smokers.
- an evaluation of the potential for Lights in end markets with each company developing a means of monitoring smoker attitudes and behaviour regarding Lights.
- a clear role and brand positioning for free standing Lights brands vis a vis Lights line extensions.
- a clear global, regional and market strategy for exploiting the Lights segments in markets where potential to do so is high.

End markets will develop a market strategy for the long-term optimisation of their Lights business which will include brand prioritisation and channel management. This strategy should be a key element within their 1996 company plans.

Objective:

"To achieve and maintain product superiority for our key brands by ensuring that BATCo products meet consumer expectations and are recognised as being superior to target competitor products".

Strategy:

Regular and reliable consumer feedback, complemented with thorough in-house monitoring of the products, is a fundamental requirement for driving the product development process. Operating Companies should undertake consumer product tests of own key products versus target competitor products at least once per annum using the MASQ methodology and implement necessary product improvements to maintain superiority.

Monitoring of own and competition products for visual and tactile, physical and chemical quality characteristics through PQRS is now well established within all Operating Companies. The initial objective should be consistently to outperform the competitors products by at least 10% in PQ Rating, not only on the overall brand performance, but also on each of the three elements - outer, pack and cigarette. Additionally, the international brands must also conform to the quality standards as specified by the International Brand Groups. Therefore, Operating Companies must maintain the appropriate level of sampling for monitoring ex-market samples but additionally, introduction of the CARS approach for ensuring conformance to standards must be considered.

To meet the product quality objective outlined above, a high level of technical capability is required within Operating Companies. This can only be developed internally, to which end BATCo will develop a modular training programme, comprising 'on the job' training supported by BATCo workshops. From the training checklist, Operating Companies should construct clear training plans to ensure technical capability in the short and long term.

Objective:

"Develop and test copy, products, packaging and line extension strategies for SE555, B&H and JPGL which, once proven to drive market shares in premium and high price segments in core markets, will be rolled out globally".

Strategy:

BATCo will only invest centrally behind SE555, B&H and JPGL 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 SE555 and B&H is BATES WORLDWIDE (also Lucky Strike). Whereas it is GREY for JPGL. 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 end market that wishes to market these brands will be expected to adhere to the international brand plans. Local variations in product formulations, advertising execution or any other element of the marketing mix will only be permitted on the basis of quantitative research evidence and with 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 and PQRS within a defined time frame.

BATCo has developed a new uniform package for John Player Gold Leaf in conjunction with the African and Sub Continent Operating Companies. This encompasses a new copy strategy, standard new packaging, a standard cigarette, new advertising and new product guidelines. This will form the basic brand package which existing and potential end markets will adopt in 1995/96 or have done so already. End markets are encouraged to identify new opportunities for the launch of JPGL.

Usage of all other BATCo trademarks remain the prerogative of Operating Companies. Brand plans should conform, however, to the marketing principles outlined above.

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.

Agency assignment is the responsibility of International Brand Management in Millbank. The agency of record for Kent and Barclay is GREY whereas it is BATES WORLDWIDE for Lucky Strike.

Objective:

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

Strategy:

- To implement the marketing strategies outlined above. BATCo needs the highest quality marketing professionals. Our policy is to develop and promote internally over the longer term. However, until the quality of internal marketing managers has attained the required standard, it will be necessary to supplement our internal resources with some external recruitment of mid-career professionals.
- BATCo will continue to focus upon 'on the job training' with the line manager having the prime responsibility for this. The Brand Excellence modules, which summarise best practice in brand marketing will form the basis of this training with the modules being made available in late 1995. End markets should construct clear on the job training plans to improve the quality of their marketing staff. This will be supplemented by subject specific seminars managed by BATCo.
- The new Marketing Staff Planning system will be implemented progressively during 1995 with proactive career planning for managers on Grade 10+ or equivalent (plus those below Grade 10 but identified as having potential), whether international or national staff. This new system will ensure that BATCo is getting the best value from its staff whilst developing individuals to their maximum potential.

Objective:

"To build a world class trade marketing organisation so that the trade regard BATCo as their preferred supplier over our competitors whilst ensuring that trade marketing effort and expenditure is integrated fully with our brand objectives".

Strategy:

- To achieve sales and profit targets by securing the active support of the wholesale and retail trade by offering them support in all aspects of Trade Marketing and Distribution in each trade channel. BATCo will offer them advice and support which is tailored to their specific needs.
- To ensure regular trade coverage either directly or through distributor sales forces of outlets accounting for at least 75% of all market volume sales.

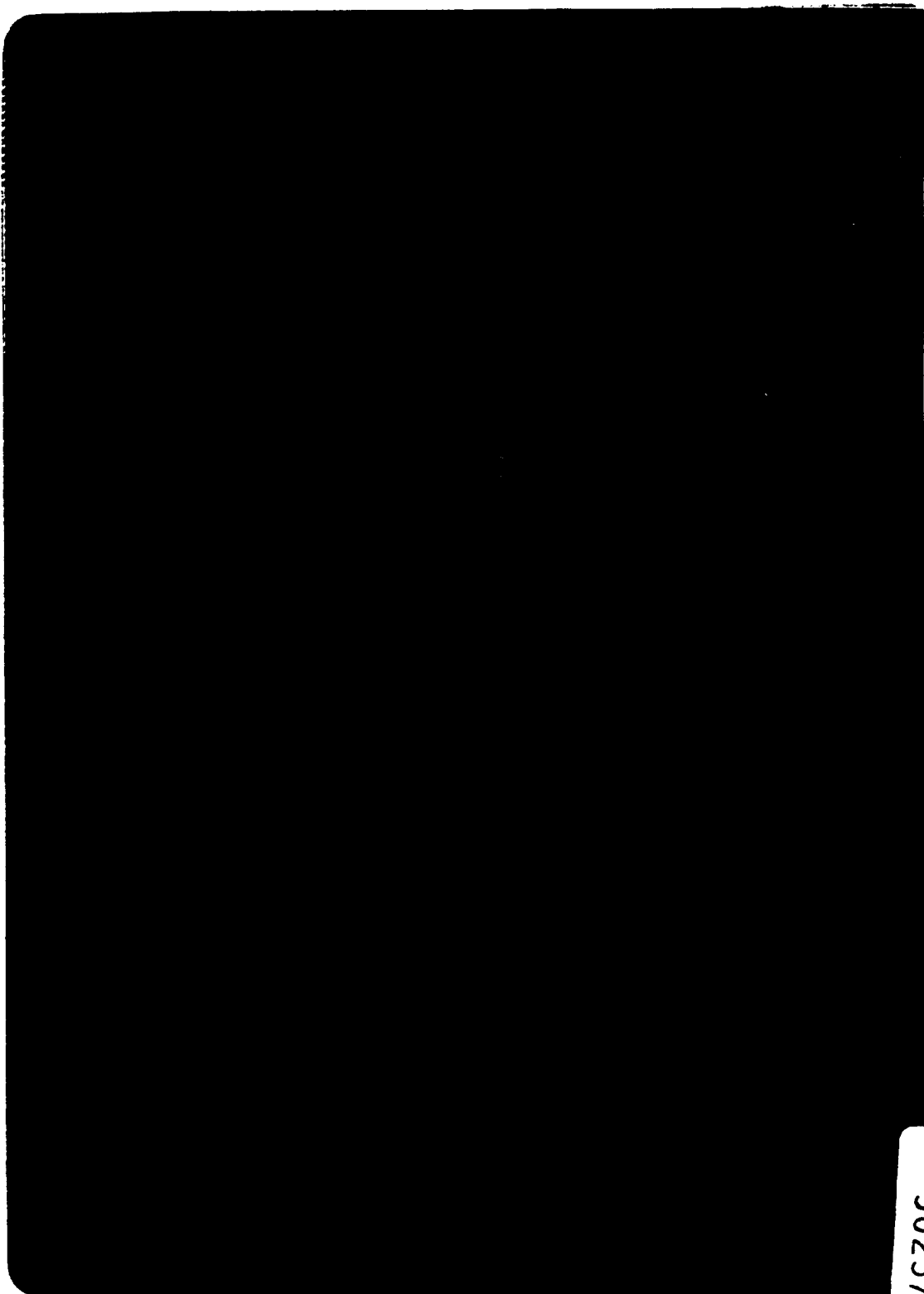
- To increase distribution and visibility of our brands in each trade channel, to target sales calls better and to optimise the effectiveness of all trade marketing personnel.
- To restructure the trade marketing organisation to reflect the sophistication and specialisation of the trade and to ensure changing patterns of sales are anticipated and exploited.

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BATCO CONFIDENTIAL - CATEGORY I: MINNESOTA TOBACCO LITIGATION.

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