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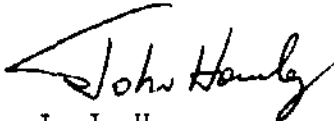
INTERNAL CORRESPONDENCE

LOUISVILLE

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DATE: JUNE 4, 1981
TO: BILL TELLING
BRIAN O'HARE
FROM: JOHN HOWLEY /dh
SUBJECT: BATUKE THREE-YEAR STRATEGIES

Please circulate the attached BATUKE three-year strategy document to your groups and return to me.


J. J. H.

Attachment

cc: W. J. Mason
J. B. Judd

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SECRET

INTERNATIONAL VIRGINIA BEAUTY

THREE YEAR STRATEGIES

1982 - 1984

COPY NO. 29

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B.A.T (U.K. AND EXPORT) LIMITED

INTERNATIONAL BRAND MANAGEMENT

INTERNATIONAL VIRGINIA BRANDS

THREE YEAR STRATEGIES

1982 - 1984

APRIL 1981

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1. THE INTERNATIONAL CIGARETTE MARKET
KEY TRENDS & ASSUMPTIONS

- 1.1 The growth rate of international filter brands (US and Va) will be around 5% per annum compared with total free world growth in cigarette consumption of 2%.
- 1.2 International brands (US and Va) will increase their share of total free world consumption from 13% (1980 est.) to an estimated 16% in 1985.
- 1.3 Competitive US manufacturers will exploit the trend to blended products and will seek further expansion in traditional Virginia markets. It is forecast that US international brands will expand at more than twice the annual growth rate of international Virginia brands.
- 1.4 Within the international Virginia segment, King Size full flavour (medium delivery) brands will continue to hold the major share of volume but this will decline (estimated - 1980: 74%; 1985: 66%).
- 1.5 The main growth will be in the KS mild/low tar segment which will increase its share of international Va. volume from an estimated 10% to 18% (1980 - 1985).
- 1.6 The share of total international Va. volume held by the twin ten segment will remain virtually static.
- 1.7 Increased and persistent anti-smoking activity will lead to:
 - 1.7.1 the elimination of most traditional communications vehicles in the major markets by 1985
 - 1.7.2 the imposition of mandatory regulations in the areas of product and packaging
 - 1.7.3 the widening exploitation of cigarette trademarks in non-tobacco goods
 - 1.7.4 increasing social pressures with emphasis on passive smoking
- 1.8 The trend towards products with lower deliveries of key smoke constituents will accelerate.
- 1.9 There will be less rigid delineation between US and Va. brands in terms of product, packaging and image projection.
- 1.10 There will need to be greater flexibility in Virginia product/blend formulation in order to retain an acceptable level of taste in low delivery products.
- 1.11 Virginia products will continue to be at a price disadvantage relative to US brands.

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2. OPPORTUNITIES AND THREATS

From an analysis of the current situation as well as the trends/forecasts, we have identified the following areas of opportunity and threat:-

2.1 Areas of opportunity

- 2.1.1 The growth in the total international brand segment and the resultant incremental Virginia volume.
- 2.1.2 The major volume opportunities which the King Size full flavour segment will continue to represent.
- 2.1.3 The projected growth in the mild/low tar segment.
- 2.1.4 The premium twin-ten segment in terms of House image projection (but not in volume growth).
- 2.1.5 Products which in both product and presentation terms are less traditionally Virginia in style.
- 2.1.6 The wider use and exploitation of our Virginia trademarks in non-tobacco areas.

2.2 Threats

- 2.2.1 The increase in anti-smoking activity at all levels and the attendant restrictions and impositions on our business.
- 2.2.2 The considerably greater growth rate of US type international brands
 - evident consumer acceptance of blended products even in traditionally Virginia markets
 - the edge which blended products have in retaining taste at lower delivery levels
 - the price advantage
 - the levels of support expenditure/investment employed by US competition
- 2.2.3 The broader range of brands offered by Virginia competitors and the advantage of their strong home base.
- 2.2.4 The trademark restrictions which apply to some of our key brands.
- 2.2.5 The increasing levels of advertising support being put behind all our major competitive Virginia brands.

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3. STRATEGIES

The following strategies are addressed to exploiting those areas of opportunity identified above and to countering the threats.

The implementation of these broad strategies is subject to trademark and other regional restrictions and/or priorities and these are reflected in the Regional Summaries and Strategies in Section 4 of this document.

3.1 To concentrate our resources on a limited number of brands in order to achieve the following key objectives:-

- the protection and development of our volume in the full flavour sector
- the positioning of spin-off brands to gain an immediate share of the emerging mild/low tar sector
- the development of new mild brands/projects to obtain an increasing share of the anticipated growth of the mild/low tar sector

In line with this strategy the following brands will be positioned to fulfill the roles indicated:

FULL FLAVOUR

Extra length:
JOHN PLAYER SPECIAL

To be the Group's main contender in all regions where trademark permits.

King Size:
B&H SPECIAL FILTER

To be the Group's priority brand in all regions where trademark ownership permits.

555 FILTER KINGS

To have the major role in a medium priced positioning in the Mid East and the Far East; also as our strongest contender in the developing market in China.

MILD/LOW TAR - short term objective

Extra length:
B&H LUXURY MILD

To have the primary role in this segment and to provide the prestige endorsement for other B&H mild brands.

King Size:
B&H SPECIAL MILD

A direct derivative from B&HSF. The key brand in the immediate establishment of a Group presence in the growing mild/low tar KS volume segment.

555 SPECIAL MILD

A direct spin-off from Filter Kings in the medium priced KS segment with specific regional strengths/opportunities.

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MILD/LOW TAR - medium term objective

DU MAURIER HOUSE

To establish du Maurier as the Group's definitive low tar/mild House widening deployment from an established UK domestic/duty free base.

- 3.2 To develop and deploy the following brands in relation to specific market or regional needs:-

FULL FLAVOUR

JPS KS

Where the parent EL brand has established a franchise and where a volume opportunity for a KS spin-off is identified without jeopardising or diluting the parent's prestige positioning.

LAMBERT & BUTLER
SPECIAL FILTER (KS)

As a substitute for B&HSF in the W. Hemisphere.

MILD/LOW TAR

LAMBERT & BUTLER LUXURY MILD

As a substitute for B&HLM in the W. Hemisphere.

JPS MILD (EL)

As a direct mild derivative from the parent brand.

- 3.3 To deploy and support the following brands in relation to the limited opportunities foreseen:-

555 INTERNATIONAL

Limited regional potential at sub-premium price; prestige endorsement of other 555 brands.

B&H LUXURY MENTHOL

To establish a base in W. African transit prior to examining its wider potential.

- 3.4 To develop a new product concept to compete primarily in Europe with Peter Stuyvesant.
- 3.5 To stimulate royalty income by encouraging the introduction of other brands (e.g. Gold Leaf, Embassy and related spin-offs) by Associated Companies or through licensees.

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- 3.6 To develop the following projects with MTC:-
- Project BULLION: a premium King Size full flavour brand from the B&H House.
 - Project LADBROKE: a premium King Size full flavour brand from the State Express House.
- 3.7 To establish brand priorities by region and determine central support levels taking into account:-
- a) the support provided locally by Ass. Co./Area Team.
 - b) the longer term objective in Group terms.
- 3.8 Where volume potential is identified, to exploit opportunities for our brands in traditionally non-Virginia markets.
- 3.9 To pursue a strategy of greater flexibility in terms of blend modifications in order to protect and extend the franchise of our Virginia brands.
- 3.10 To pursue product development and innovation primarily in the areas of:-
- a) low and ultra low deliveries (e.g. to achieve a 1 mg. Virginia cigarette with taste).
 - b) variable cost reduction to improve the competitive position of Virginia products versus US.
- 3.11 To continue to ensure that deliveries of all our international brands are reduced in line with Group guidelines.
- To ensure that all our brands are advantageously positioned to exploit market requirements and/or competitive moves.
- 3.12 To develop effective alternative means of communication to meet an increasingly restricted environment and to contribute to the exploitation of our trademarks in non-tobacco areas.

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4. REGIONAL SUMMARIES - INTERNATIONAL VIRGINIA BRANDS

Within the context of the global strategies outlined above, we have examined each geographic region and developed strategic priorities specific to the situation and anticipated developments within the particular region. These are summarised below.

4.1 FAR EAST (Excluding Sub-Continent/Australasia)

4.1.1 Trends

Total cigarette consumption in the region is forecast to increase 15.5% by 1985. A major share (excl. China) of incremental worldwide cigarette volume is anticipated (17.4%).

Region represents 12% of all Int. Va. sales (1979). Total international brand volume was split 43% Virginia; 59% US with the latter showing an increasing trend.

BAT share of Int. Va. brand sales 62% (1979) but declining.

Virginia competition: Dunhill KS has grown significantly although the twin-ten parent has declined. Peter Stuyvesant has grown in Malaysia as has Rothmans in its 100 mm format; Rothmans KS has declined.

US competition: Marlboro has made significant gains and accounts for the greater part of US growth in the area which represents a major threat.

Note: In Australasia total cigarette consumption is forecast to grow by 8.3% by 1985 and in the sub-continent by 23%. Int. Va. brands declined in Australasia 4% from 1978 to 1979; in the sub-continent the major international brands have insignificant volume although Capstan and Gold Leaf are flourishing.

4.1.2 Assumptions

The Far East will continue to represent a major region for Int. Va. brands but US brands will continue to increase share.

Although currently very small, there will be a substantial mild segment by 1985.

China will present new volume opportunities.

Communication restrictions will intensify in Malaysia and will begin to bite in Hong Kong and Indonesia.

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4.1.3 Strategies

- 1) To position the following as priority brands in each of the major market segments and support them with international media and airport advertising:

Extra length: JPS

Extra length mild: B&H Luxury Mild

KS full flavour: B&H Special Filter (high price)
555 Filter Kings (medium/high price)

KS low tar: B&H Special Mild

- 11) To position the following as development/support brands:

Extra length: 555 International

KS low tar: 555 Special Mild

These brands will also be supported; 555 International will provide prestige endorsement for the parent KS brand.

- 111) To upgrade the image and exploit the assets of the State Express House by developing a prestige KS brand. (Project "Ladbroke" in conjunction with MTC).
- iv) To actively pursue the opportunities presented by the opening up of the China market.
- v) To examine the following longer term opportunities:
- a) JPS Mild as a support brand in the Extra Length mild segment.
 - b) Wider deployment of "Bullion" following the proposed launch in Malaysia in 1981.
 - c) A King Size JPS spin-off.
 - d) Wider marketing opportunities in the KS mild segment for the Du Maurier house.

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4.2 WESTERN HEMISPHERE

4.2.1 Trends

Total cigarette consumption in Latin America is forecast to grow by 29.7% by 1985 and in North America by 5.3%. Major share of forecast incremental world cigarette volume in Latin America (24%); only 4% in N. America.

The region represents only approx. 3% of all Int. Va. filter sales.

In Central and South America, Virginia volume has grown by 458 million/36% (1976 - 1979) and the share of US/Va. is 95/5. BAT share of Va. volume in 1979 was 43% and growing.

In the Caribbean, representing 1.5% of total international Virginia volume, the BAT share was 47%.

4.2.2 Assumptions

Price will continue to restrict the volume of imported brands in Latin America.

Opportunities for straight Virginia brands in Latin America will be limited.

The Caribbean will continue to represent a relatively small and static market for international Virginia brands (2.2 - 2.3 bn. p.a.).

Relative to other areas the smoking & health issue and related restrictions will not develop rapidly.

4.2.3 Strategies

Our strategy for the region concentrates on Central and South America and the Caribbean; trademark problems, consumer tastes and investment requirement restrict the potential in the USA except in duty free. Hence our key strategies are:

- i) To support JPS as our priority brand in Latin-America.
- ii) To examine the potential for a modified Va. blend for JPS as a means of widening the franchise.
- iii) To assess the potential for a Lambert & Butler development (in B&H livery) in the Extra length Mild and King Size segments.
- iv) To examine the potential for Du Maurier house brands.
- v) To continue with a moderate level of support for B&H Special Filter, B&H Luxury Mild, 555 Int. and 555 Filter Kings in the Caribbean.

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4.3 MIDDLE EAST

4.3.1 Trends

Growth in total cigarette consumption is forecast at 35.7% by 1985 (including N. Africa) and 10% of anticipated incremental world volume will come from the Middle East/N. Africa.

The Middle East represents 13.7% of total Int. Va. filter volume (1979) with BAT share at 22%. International brands were split in 1979 in the ratio 60/40 US/Va; the Middle East represents 15% of total US international volume having grown by some 80% since 1974.

4.3.2 Assumptions

The Middle East will continue to be a major market for international brands and our low share presents growth potential.

The Smoking & Health issue and related restrictions/propaganda will grow and make communications very difficult. Government pressure on maximum delivery levels will intensify (currently 15/1.0 in Saudi Arabia).

Saudi and Yemen will be key markets for increased volume.

A mild sector will develop and the threat from Silk Cut will grow.

4.3.3 Strategies

- 1) Effort will be concentrated behind B&H Special Filter as our main volume brand opportunity in the short to medium term.
- ii) Support for B&H Luxury Mild to establish a prestige image for the B&H House; longer term this will help establish B&H Special Mild which is the Area Team's mild drive brand in this region.
- iii) We will examine potential for 555 Special Mild; also du Maurier low tar.
- iv) Consideration to be given to support for JPS as the brand develops; possible longer term spin-offs (e.g. JPS Mild, JPS KS).

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4.4 AFRICA

4.4.1 Trends

Total cigarette consumption will grow by an estimated 25.5% by 1985 (West Africa: 32%).

The region's share of incremental cigarette volume will be low at around 4%.

The region currently accounts for ca. 15% of total Int. Va. volume and is growing. Our share is 49%.

South Africa is the main market accounting for 42% of the total regional volume (Nigeria 36%).

4.4.2 Assumptions

There will be significant growth for Int. Va. brands in Africa (particularly West Africa).

There will be increased activities by US brands - again with the emphasis on West Africa.

We will continue to be heavily dependent on West African business.

We will continue to be in an intensely competitive situation in South Africa.

4.4.3 Strategies

- i) Support B&H Special Filter as our drive brand primarily in West Africa.
- ii) Support B&H Special Mild in South Africa.
- iii) Support 555 Filter Kings as a back-up brand primarily in West Africa.
- iv) Develop B&H Luxury Mild and B&H Special Mild for a secondary role in West Africa.
- v) Encourage spin-offs from Gold Leaf and Embassy in existing markets and to extend franchises to new markets where practical, in order to protect and develop royalty income.
- vi) Develop the B&H Luxury Menthol franchise in West Africa.

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4.5 EUROPE (excluding Duty Free)

The European scenario (1979) for international brands showed the following breakdown in terms of volume/share:

US type	88.6 billion for a share of 72.9%
"True" Va. type	13.8 " " 11.4%
P. Stuyvesant	19.1 " " 15.7%

BAT's share of the total was 2.4% and of the "true" Virginia 21%. Our main contender B&HSEF grew 9% from 1978 to 1979 but all major competitive international Virginia brands grew at significantly faster rates (e.g. RKS 33%, R. Pall Mall 17%, DI 15%, DKS 12%).

Rothmans Peter Stuyvesant increased by 35% over the same period mainly in France and Benelux; Reemtsma's Stuyvesant declined 3%.

On the US side, Marlboro and Camel are the leading brands and are strongly progressive.

4.5.1 Trends

A relatively low increase of 5.1% in total cigarette consumption by 1985 is forecast.

The share of worldwide incremental cigarette volume will vary by region:

Western/Northern Europe	- nil
Southern Europe	- 10%
Eastern Europe	- 22%

The region as a whole (excl. duty free) represents 22% of all Int. Va. sales (1979) which are progressive. Excluding Rothmans and Reemtsma's Peter Stuyvesant brands the "true" Virginia volume in Europe accounts for only 9% of all Int. Va. sales.

4.5.2 Assumptions

There will be no significant growth in overall volume in West Europe but blend switching away from black will offer Va. growth opportunities.

Virginia brand growth will be heavily dependent on pricing and support investment.

In certain segments (e.g. Mild) an established UK base will assist extension of those brands into ESAS/Europe domestic.

The Smoking & Health issue and related restrictions will intensify.

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4.5.3 Strategies

- 1) To support the following as priority brands in European domestic markets:-
 - B&H Luxury Mild
 - B&H Special Filter
 - B&H Special Mild
- 11) To examine the following medium to longer term opportunities:
 - a) The development of du Maurier from its UK base with brands positioned in the mild and extra mild KS segments.
 - b) State Express brands possibly involving a repositioning in terms of image, price, packaging and blend.
 - c) A brand development to compete with Rothmans Peter Stuyvesant in image and blend terms.

4.6 INTERNATIONAL DUTY FREE/EUROPE DUTY FREE

4.6.1 Trends

It is estimated that by 1985 the worldwide duty free business will have increased by 13.6% (4.5 billion) to a total 37.8 billion.

The share held by UK and European brands will decline to 23.9% and 18.0 respectively; US brands will increase to 58.1 share.

In Europe, the duty free business will decline by 3.3% (5.5 million) to a total 16.3 billion. US brands will remain static; UK and European will decline. Shares in 1985 will be US 36.4; European 33.7; UK 29.9.

BAT share of worldwide duty free was 11.9% in 1980 and is expected to be 12.5% in 1985. Of Europe, our share is 16.0% and will remain at that level in 1985.

BAT share of the UK brand segment (worldwide) will increase from 49.5% to 52.3 and in Europe from 53.1 to 53.5.

4.6.2 Assumptions

The King Size full flavour segment will continue to dominate.

The mild segment will develop further, reflecting domestic market trends.

An established UK base will assist in the extension of mild brands into Europe duty free.

The duty free business will become increasingly subject to Smoking and Health related restrictions and impositions as apply in domestic markets.

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Pressure on prices will increase and US/European brands will continue to have an advantage.

4.6.3 Strategies

- i) The following will be supported as priority brands:

John Player Special (EL)
B&H Luxury Mild
B&H Special Filter
B&H Special Mild

- ii) The following options will be examined as potential development brands with particular emphasis on identifying a KS Mild contender (v. Silk Cut).

Du Maurier - positioned as the definitive mild house; wider deployment of the KS red version to be considered hopefully from the UK base. Also, longer term spin-off of ultra-low delivery version (blue).

JPS Mild - a possible back-up in the EL Mild segment depending on its performance in South Africa.

555 Special Mild - the extension of the brand into Europe duty free will be largely dependent on its performance in UK domestic.

- iii) To develop a new project for a brand to compete directly with Rothman's Peter Stuyvesant, initially in Europe (domestic) but longer term in duty free also as appropriate.

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INTERNATIONAL BRAND DEPLOYMENT BY SEGMENT

<u>SEGMENT</u>	<u>HIGH PRICE</u>	<u>MEDIUM PRICE</u>	<u>MAIN VA. COMPETITION</u>	<u>MAIN US COMPETITION</u>
Extra Length Full Flavour	JPS	555 Int. DuMSK	Dunhill Int. Rothman Int. P. Stuyvesant 100	P. Morris Int. Winston Int. B&H 100s
Extra Length Mild	B&H Lux. Mild JPS Mild		Dunhill Sup. Mild Silk Cut Int.	B&H Lights 100's
Extra Length (Menthol)	B&H Lux Menthol		St. Moritz Dunhill Menthol	
King Size Full Flavour	B&H Sp. Filter JPS KS	555 P.K. POL Embassy	Dunhill Rothmans P. Stuyvesant Craven A	Marlboro Winston Full Mall Camel
King Size Mild	B&H Sp. Mild Du M. (red)	555 Med. Mild 555 Sp. Mild	Roth. Sp. Mild Silk Cut Dunhill Sup. Mild P. Stuyvesant Ex. Mild	Marlboro Lights Winston Lights Camel Lights
King Size Extra Mild	B&H Ultra Mild		Silk Cut Ex. Mild P. Stuy. Ultra Mild R. Pall Mall Ex. Mild	Merit Vantage

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