15101

AG-41

AG-41 Document entitled "The response of the market and of Imperial Tobacco to the smoke and health environment

RESPONSE OF THE MARKET AND OF

IMPERIAL TOBACCO TO THE SMOKING AND HEALTH ENVIRONMENT

Consumer Awareness and Attitudes Towards Smoking and Health

A widespread awareness of the Smoking and Health controversy developed among consumers during the 1960's and the early 1970's. By 1973, 60% of all smokers agreed with the statement that smoking is dangerous for anyone. (That figure has now increased to 71%).

Beginning in 1975, anti-smoking programs and the general pressures against smoking in public or in the presence of non-smokers has caused social unacceptability of smoking to develop. Certain marketing activities have also increased consumer awareness of the whole smoking question. For example, the Viscount campaign in 1975, which stressed that Viscount was lowest in T & N, and the successful launch of milder line extensions have accelerated consumer switching to mildness. In 1975, when T & N numbers appeared on the packages, consumers began examining these numbers closely before first trying a new brand. More recently, local by-laws have begun to limit the freedom of smoking in public. Such laws tend to make smokers still more aware of the Smoking and Health and social unacceptability questions. Twenty-nine percent of all smokers now consider the amount of T & N to be very important in brand choice; 25% consider it to be fairly important, only 23% consider the amount of T & N not important at all.

Although the incidence of smoking is declining gradually (currently, 40% of all adults, 15 years and over, smoke factory cigarettes), it is due to a slight decline in starting rather than an increase in long-term quitting which has levelled off at 16% of all adults. However, 40% of all adult smokers tried to quit at least once during the past 12 months.

Marketing Opportunities

Smoking and Health has caused a general movement in the market down the T & N scale. Whereas in June of 1976, 86% of all cigarettes sold were of 15 mgs. or more, that figure is currently at 65%. Over the same period, the 1 mg. segment has risen from 0 to 1%, the 4 and 5 mgs. segment has risen from 1.7% to 3.8%, and nearly 10% of all cigarettes sold are now below 10 mgs. as opposed to 2.2% in July of 1970.

Charts A and B show that the four brands containing less than 6 mgs. of tar now hold a combined 4.5% market share. We have evidence of virtually no quitting among smokers of those brands, and there are indications that the advent of ultra low tar cigarettes has actually retained some potential quitters in the cigarette market by offering them a viable alternative.

.../

During the past year, 44% of all brand switchers moved downward in tar, whereas only 15% moved upward. More than half of all people who switch brands do so because "they want a milder cigarette" or because their previous brand had "too much tar and nicotine" or "was too strong". Any indication of such brand switching obviously uncovers opportunities to gain smokers from competitive brands.

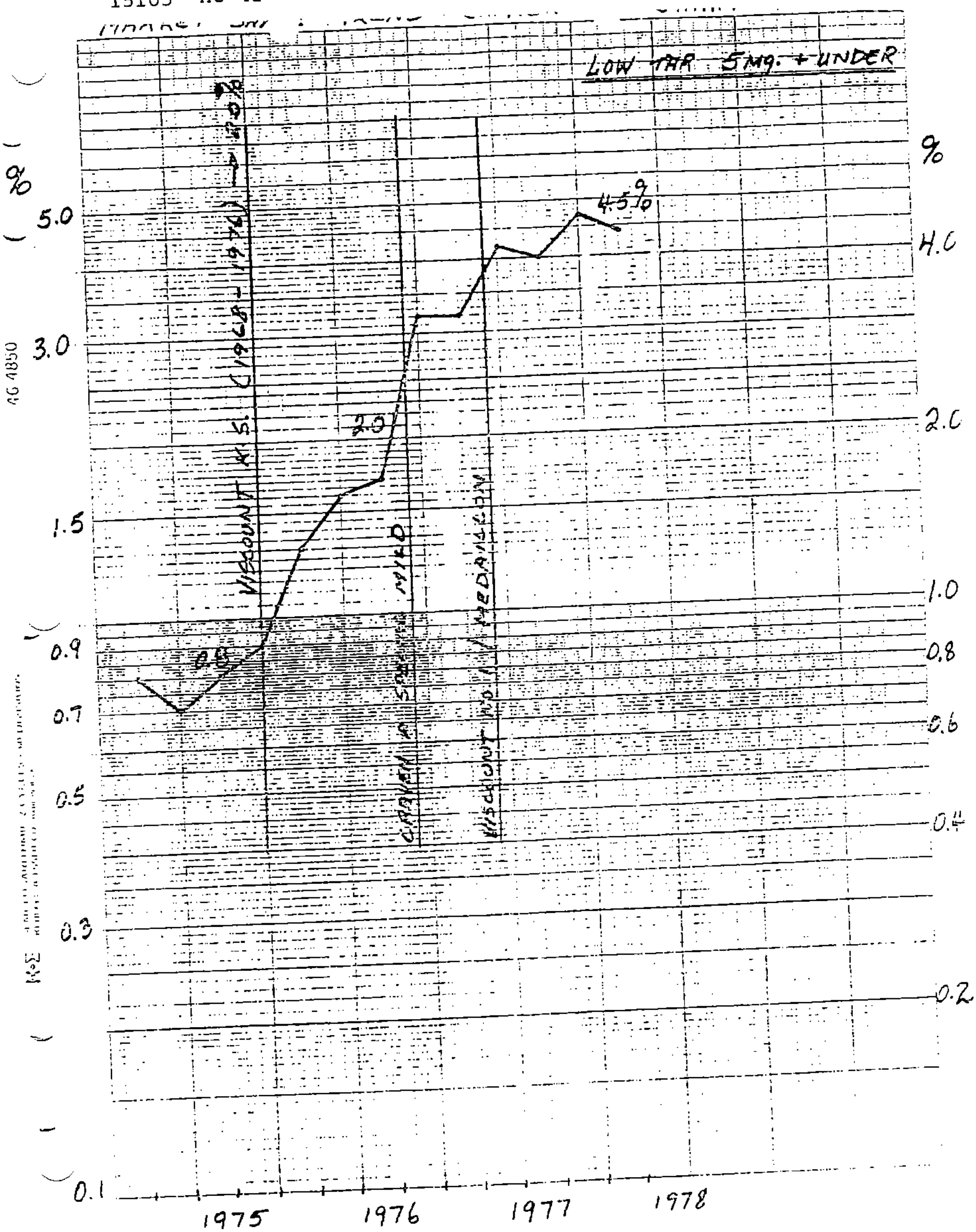
There are already meaningful segments at 1 mg., 5 mgs. and 12 mgs. There could conceivably be new opportunities at 4 mgs., 7 mgs. and 9 mgs., because many smokers require a certain level of taste or satisfaction but will go as low in T & N as their physical makeup will allow them. The attached chart C gives a list of all the new brand and line extension launches since 1975 and the degree of success. Their combined share is currently 16.4% and rising. The average tar delivery of Canadian cigarettes is trending milder, however, as the current average is 15.6 mgs. compared to 18.1 mgs. in 1970 (see chart D).

We expect that the trend to lower tar in cigarettes will continue. Not only are the milder line extensions of the major brands continuing to gain in share, but also the stronger brands are gradually modifying their recipes to reduce numbers. Within 5 years, the average weighted delivery of Canadian cigarettes could be as low as 13 mgs. If CO and other constituents "catch the public's fancy", new segments or marketing opportunities could be developed. Another future possibility is that the government would begin relating excise taxes

.../4

to T & N levels. That could conceivably create a new area of competition according to price segments. Chart E indicates that despite the long-term decline in incidence which we expect to continue, we project continued growth in the Canadian cigarette market through 1985 albeit at a lower rate of increase.

15105 AG-41


LOW TAR 5MG. + UNDER
%
%
4.5%
5.0
4.0
3.0
2.0
2.0
1.5
1.0
0.9
0.8
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
VISCOUNT K.S. (1968-1976) → 20's
CRAVEN A SPECIAL MILD
VISCOUNT NO. 1 / MEDALLION
1975
1976
1977
1978

MARKET SHARE HISTORY

	Viscount K.S. (5 mg.)	Viscount No. 1 (1 mg.)	Craven "A" Sp. M. (5 mg.)	Medallion (1 mg.)	Total
1975 - 1/4	0.8				0.8
2/4	0.7				0.7
3/4	0.8				0.8
4/4	0.9				0.9
1976 - 1/4	1.3				1.3
2/4	1.6				1.6
3/4	1.7				1.7
4/4	2.2		1.0		3.2
1977 - 1/4	1.7	0.2	1.3		3.2
2/4	2.0	0.3	1.5	0.4	4.2
3/4	1.9	0.2	1.5	0.4	4.0
4/4	2.2	0.3	1.7	0.5	4.7
1978 - 1/4	1.9	0.3	1.6	0.7	4.5

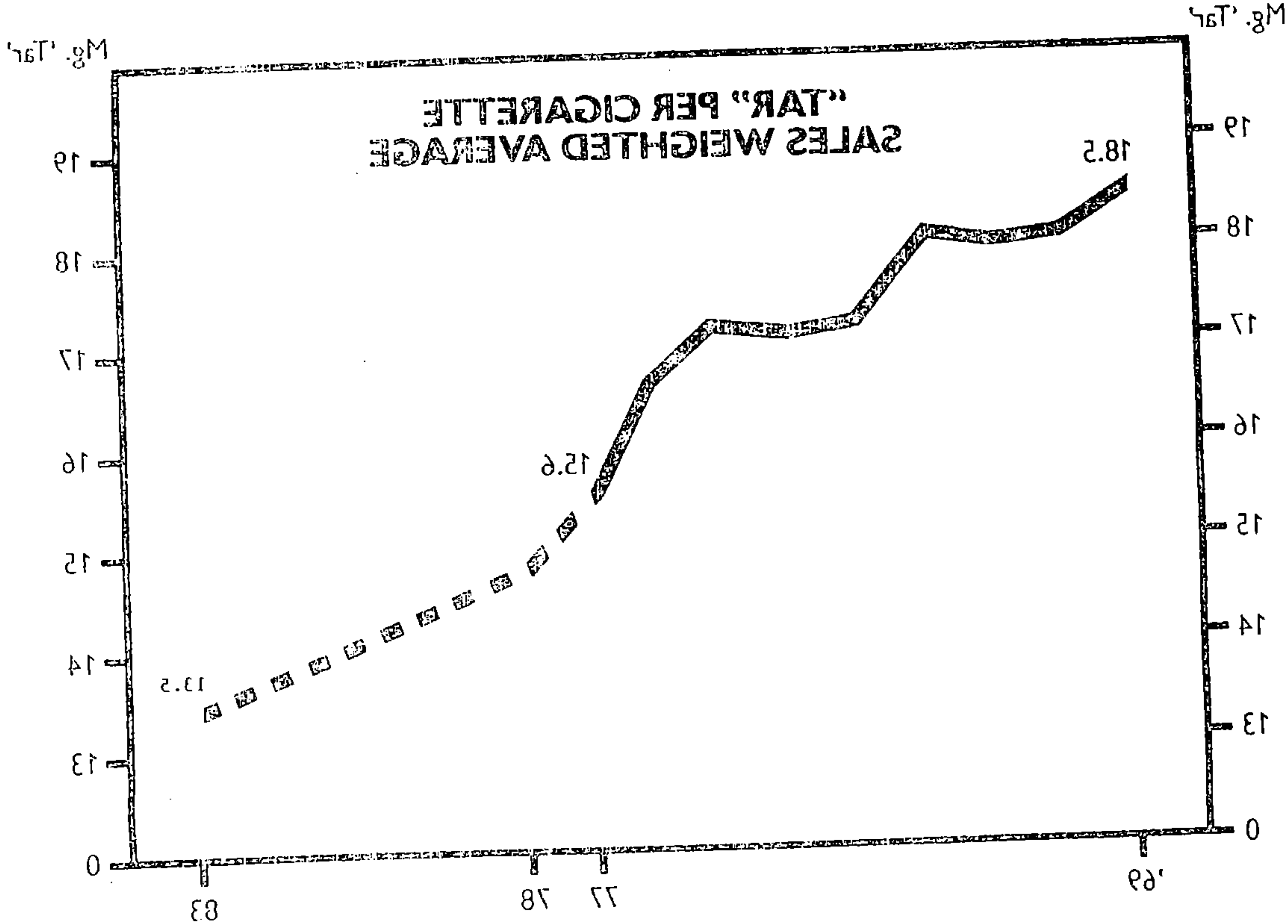
15107 AG-41

CHART C

NEW BRAND LAUNCHES SINCE 1975

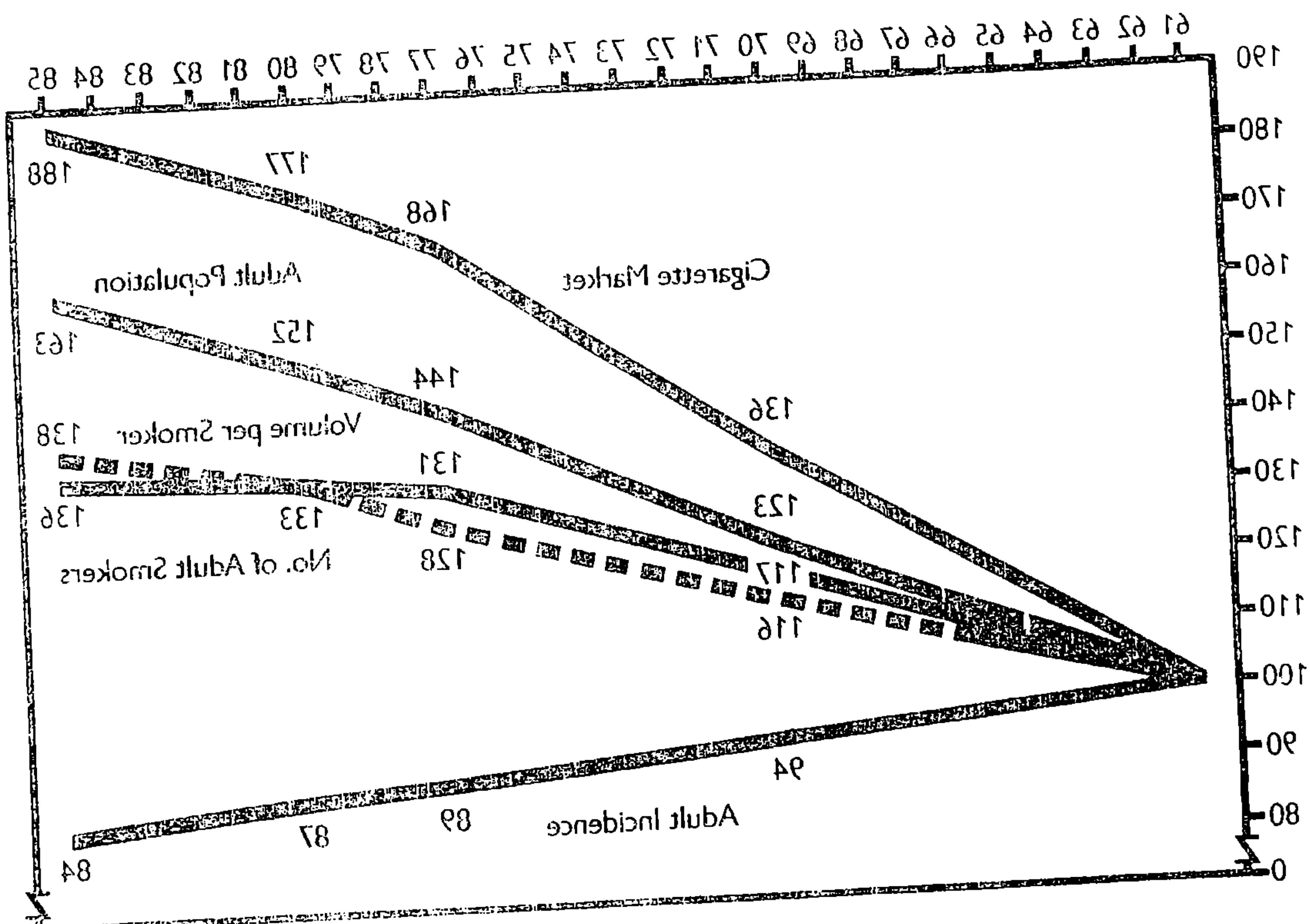
BRAND	TYPE	COMPANY	K.S. MG. D.P.M.	CURRENT SHARE (ALL FORMATS)
1976 Launches				
Vantage	New Brand	Macdonald (Reynolds)	11 mg.	1.1 %
Cameo Extra Mild	Line Ext.	I.T.L.	12 mg.	0.9
Matinée Special Filter	Line Ext.	I.T.L.	10 mg.	0.7
Player's Light	Line Ext.	I.T.L.	14 mg. Reg.	4.8
Export "A" Lights	Line Ext.	Macdonalds	14 mg. Reg.	2.0
1977 Launches				
Viscount No. 1	Line Ext.	B & H (P. Morris)	1 mg.	0.3 %
Craven "A" Sp. Mild	Line Est.	Rothmans	5 mg.	1.6
Belvedere Extra Mild	Line Ext.	B & H	11 mg.	0.5
Medallion	New Brand	I.T.L.	1 mg.	0.7
Tabac Léger	Line Ext.	B & H	12 mg. Reg.	0.0
Rothmans Special Mild	Line Ext.	Rothmans	12 mg.	1.8
duMaurier Special Mild	Line Ext.	I.T.L.	13 mg.	1.6
Benson & Hedges Lights	Line Ext.	B & H	12 mg.	(limited distribution
1978 Launches				
Craven "M" Sp. Mild	Line Ext.	Rothmans	5 mg.	0.4 %
Number 7 Lights	Line Ext.	Rothmans	12 mg.	(too early to determine

CHART D



14-GA 80151

CHART E



15109 AG-41

CIGARETTE MARKET BUILDING BLOCKS

EXPLANATION OF CHART E

Real Values	1961	1970	1977	1980	1985
	Calendar Year				
Cigarette Market (billions)	36.7	49.8	61.8	65.0	68.8
Adult Population 15+ (millions)	12.0	14.8	17.3	18.3	19.6
No. of Adult Smokers (millions)	5.4	6.3	6.9	7.2	7.4
Volume per Smoker					
Cigarettes per Year	6770	7897	8920	9024	9340
Cigarettes per Day	18.5	21.6	24.4	24.7	25.6
Adult Incidence %	45.0	42.5	40.0	39.3	37.6

Indices	1961	1970	1977	1980	1985
Cigarette Market	100	136	168	177	188
Adult Population	100	123	144	152	163
No. of Adult Smokers	100	116	128	133	136
Volume per Smoker	100	117	132	133	138
Adult Incidence	100	94	89	87	84