Imperial Tobacco Limited

U.H.
REC'D - ? JUL 1993
Ans'd ....

July 6, 1993

R. Don Brown
Chairman, President and
Chief Executive Officer

Mr. Ulrich Herter
B.A.T. Industries
Windsor House
50 Victoria Street
London SWIH OLN
England

Copy to H. Bxton
15 JUL 2017

Dear Ulrich.

RE: 'TAR' LEVELS - CANADIAN MARKET

At the last T.S.G. meeting, you asked for a report on the structure of local markets with regard to 'tar' and nicotine content levels.

There are no regulated 'tar' bands or structures, nor maximum levels in Canada. Manufacturers use descriptors such as mild, light, extra light, ultra light, etc. as they decide, usually for brand positioning reasons. Until 1988, the industry's voluntary code with the Department of Health & Welfare included a maximum tar level (21 mg as I recall) and a "sales weighted average tar" target for the industry, the most recent being 12 mg. However, with the legislating of the Tobacco Products Control Act in 1988, the voluntary code fell away, and the Act includes no mandated ceilings nor 'tar' brand designations.

In this market, light or mild descriptors are used (and understood by the consumer) in relation to a brand. Brand names have a clear and fairly accurate perceived position, with the light version accepted generally as "slightly" milder than the parent brand (3-5 mg), "extra light": 3-5 mg milder yet, and so on. Most popular brands are sold in both regular length (72 mm) and K.S. (85 mm) confusing the 'tar' issue further.

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I.T.L. TREATMENT OF
ACTUAL vs. PERCEIVED STRENGTH

Attached, you will find the actual declared tar and nicotine values for major brands in the Canadian market. Beside this, I have placed the perceived strength levels of the brands as recorded in our annual Image Project (on a 1-9 sale, where 9 is more).

Based on this information, we have learnt that tar level isn't the only determinant of strength. Other main contributors would be the qualifier (strong, medium, light), packaging and other elements that contribute to the trademark image. A good illustration of this is Player's Medium versus Player's Light; the tar level of these two brands is practically identical (14 vs. 13) - yet in Image terms, they are perceived to be significantly different on strength (6.4 versus 5.1). This phenomenon is repeated across the board - particularly when you look at the Medium versus Light segment.

When we position our brands, we use all the tools to place the brands at the desired position in relation to the parent and the competition. Therefore, a light version of Player's will not necessarily be positioned at an identical strength level to compete with a du Maurier. It will be true to the trademark positioning and in correct relation to the parent. Therefore, all the elements (tar level, packaging, product etc.) must conform to create the desired image.

A good example is Player's Light and Player's Extra Light. The intended positioning of both brands is to be at the top of their segment. In actual tar level terms - they are at the top of their segment. Player's Extra Light is way above the competitive brands in its segment (11 vs 8), while Player's Light is slightly above the competitive brands (13 vs. 11 and 12). However, in perceived terms, they are both positioned approximately .6 image scale points above the competition. Therefore, the intended position in relation to the parent and the competition has been accomplished by I.T.L. through use of actual tar level and image creating tools.

Should you need further elaboration - or wish to discuss it further, please feel free to call.

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Mr. Ulrich Herter
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Although 'tar', nicotine and C.O. numbers are printed on all packs and used by consumers for reference, perceived strength measured through image studies is a more important brand positioning measure for us.

Attached, for your reference, is an explanation and list of a few brands as well as a complete 'tar' and nicotine listing of our market.

Please note: the actual vs perceived strength list omits one category at the bottom of the scale. Medallion (I.T.L.) and Viscount (RBH) are the only significant 1 mg brands, totalling slightly more than 1% of market and stable.

I trust this is as required.

Regards,

Don

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STRENGTH: PERCEIVED vs. ACTUAL

	Actual Tar	Actual Nicotine	Perceived * Strength
<u>Strong Segment</u>			
Player's Filter	16	1.4	7.6
Export Filer	15	1.3	8.2
<u>Medium Segment</u>			
du Maurier Reg.	13	1.1	6.3
Player's Medium	14	1.3	6.4
Export Medium	13	1.2	6.1
<u>Light Segment</u>			
du Maurier Light	11	1.1	4.4
Player's Light	13	1.1	5.1
Export Light	12	1.3	4.3
<u>Extra Light Segment</u>			
du Maurier Extra Light	8	.9	3.3
Player's Extra Light	11	1.0	4.0
Export Extra Light	8	.9	3.4
<u>Ultra Light Segment</u>			
du Maurier Ultra Light	6	.7	2.9
Export Ultra Light	6	.8	3.0
<u>Low Tar</u>			
Matinee Extra Mild	4	.4	2.2

* Based on an Image study