

CEC KEY ISSUE PAPER

(1)

ISSUE: HOW CAN BAT USE ITS BRAND PORTFOLIO AND BUSINESS MIX TO GAIN MARKET SHARE IN

- 1 The Lights Segment
- 2 Up Trading Environments
- 3 Down Trading Environments
- 4 Young Adult Segment

I. THE LIGHTS SEGMENT

		1990	1994	Forecast 2010
Global Sales	- Total	860	970	1700
	- Line Extensions	545	650	-
	- Free Standing	315	320	-
	- Total	23%	26%	50%
Global Share	- Total	114	158	420
	- Line Extensions	60	104	-
	- Free Standing	54	54	-
	- Total	13%	16%	25%
BAT Ind Sales	- Total	220	275	680
	- Line Extensions	157	215	-
	- Free Standing	63	60	-
	- Total	26%	29%	40%
PM Segment Share	- Total	220	275	680
	- Line Extensions	157	215	-
	- Free Standing	63	60	-
	- Total	26%	29%	40%

Penetration of this fast growing segment which will account for more than half of global sales (excl China) by 2010 will increase naturally for BAT with line extensions of drive brands, but a quantum leap will only be achieved with a clearly focused global strategy in the context of the Resocialisation of Smoking.

All drive brands will have lights line extensions in market or ready for launch. This is mainly a defensive strategy to maintain brand loyalty as smokers switch down in delivery, but it is an essential element of the overall corporate target of growing our lights share

Freestanding lights brands will grow segment share from 33% to 38% by 2010 and are the proactive means of significantly growing lights share. Each of the four strategic lights brands - KENT, BARCLAY, SILK CUT, CARLTON - will be uniquely positioned to exploit the lights opportunity with launches linked to optimising the brands with individual market lights opportunities

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To match PM's growth and ultimately to overtake them, BAT will change the lights segment rules of the game, proactively positioning our free standing lights brands in the context of resocialisation and so shifting the lights balance away from line extensions. This will require a quantum shift in brand focus and spend if we are to achieve the 420bns sales and 25% lights segment forecast above.

Lights is a critical element within the BAT YAL'S strategy with such smokers increasingly switching to lights brands as one element in an overall lights lifestyle which covers many other product categories (beer, food etc). In key markets, we estimate that the proportion of YAL'S Lights smokers will double from 27% to over 50% by 2010, and that the global lights takeup will accelerate in all markets.

Within the lights strategy, BAT will innovate and experiment in the following areas in order to destabilise the status quo which works in PM's favour.

- product innovation to manage the different taste profile as deliveries reduce
- packaging innovation
- retailer differentiation between lights and full flavour
- boreca initiatives
- direct marketing

Geographically, lights will be a global focus but with the lead regions being:

Lights Share

	<u>1994</u>	<u>2010</u>
- Western Europe	24%	55%
- Asia Pacific (excl. China)	46%	72%
- Latin America	34%	45%

2. UP TRADING ENVIRONMENTS

Despite the smoking issue, excise tax increases, and competitive pressure, smokers are expected to continue their uptrading pattern in most regions over the next fifteen years.

BAT will focus upon four strategic IFB's plus selected premium priced drive national brands in order to maximise share in the high and premium price segments in global markets, particularly in Asia Pacific where our biggest challenge is PM.

<u>Strategic IFB's</u>	<u>Super Premium Brands</u>	<u>Others e.g.</u>
Lucky Strike	Silk Cut	Carlton
Kent	B&H Suprema	Prince
SE 555	J P Special Reserve	
Barclay	555 Equinox	

Where Lucky Strike is not currently priced alongside other high and premium priced IFB's, the opportunity to close the gap will be taken when market conditions so permit

Although the actual prices of these brands will vary according to individual markets, their price positioning will be globally consistent

From a geographical business viewpoint, BAT uptrading opportunities will be greatest in growth markets and in particular throughout Asia Pacific, parts of Europe, Latin America, and tax free markets

- Concept developments will be pursued for super premium priced line extensions of UKIB's - 555, B&H, JPS, SILK CLT - both to add value to the brand, and to encourage uptrading from own and competitor brands. Initially, these will be tested in tax free markets but longer term tax paid opportunities will also be exploited e.g. Davidoff whose global sales are 3bns.

3. DOWN TRADING ENVIRONMENT

- Markets will tend towards polarisation with existing consumer price brand smokers being the main source of business for value brands
- BAT will use a broad brand portfolio to cover the mid to low price segments of global markets, although our focus will be upon IFB's with a consistent advertising platform, product and packaging mix.
- Drive National brands, normally one or two per market, have already been identified and will continue to be actively supported to benefit from downtrading e.g. Jockey Club, Horizon, Hilton
- Additionally, the following IFB's will be used either globally or regionally to meet smoker value for money needs which cannot be met by national brands.
 - Pall Mall** This mid price USIB value offer will be the global priority against L&M and Chesterfield, particularly in Europe and Latin America.
 - JPGL** The mid priced UKIB value offer with the Indian SC, Africa, Arabia and selected Far Eastern markets as the focal point.
 - Misc** Viceroy, Embassy, Capstan, Hilton, will be used tactically where necessary, together with National Brands in some markets

4. YOUNG ADULT SEGMENT

The YAU'S segment is a key source of new business for all brands but particularly IFB's and Lights. By 2010, an estimated 50% of YAU'S smokers will be lights consumers, whereas a similar proportion will smoke IFB's

The key brands which will be focused upon the YAUS segment are

Lucky Strike
Pall Mall
SE 555
JPGL
Kent

Brand communications activities, promotions and Trade Marketing will be heavily skewed towards achieving YAUS awareness, trial, conversion and repeat purchase. Specific YAUS environment activities are and will continue to be developed both from the Brand and Trade Marketing viewpoints, while product innovation will also be targeted towards YAUS smokers.