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MARLBORO HISPANIC MARKET

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HISPANIC BUDGET SUMMARY

	<u>PROMOTIONS</u>	<u>EVENTS</u>	<u>TOTAL</u>
1991			
MEDIA			
MARLBORO BRAND			
MAGS	\$384.4		
SHPS	—	\$165.0	
ROP	\$677.7	\$50.0	
FSI'S	—	\$13.5	
OOH	\$2,081.1	\$40.0	
SUBTOTAL	\$3,143.2	\$220.3	\$4,632.0
		<u>MINORITY ADV</u>	<u>\$488.8</u>
1992			
MAGS	\$432.0	\$178.5	
SHPS	\$164.6	\$103.0	
ROP	\$690.0	\$9.6	
FSI'S	—	\$90.0	
OOH	\$1,623.0	\$33.6	
SUBTOTAL	\$2,909.6	\$414.7	\$4,924.3
		<u>MINORITY ADV</u>	<u>\$414.7</u>
1993			
MAGS	\$115.9	\$199.6	
SHPS	\$178.4	\$365.0	
ROP	—	\$31.0	
FSI'S	—	\$250.0	
OOH	\$1,354.0	\$180.2	
SUBTOTAL	\$1,648.0	\$1,025.8	\$4,373.8
		<u>MINORITY ADV</u>	<u>\$180.2</u>

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WHERE WE WERE

► Background

The Marlboro Hispanic Task Force was first brought together on January 7, 1994

Purpose:

- To bring a sharper focus and vision to Hispanic marketing efforts

Goal:

- Develop an integrated marketing plan that reflects the growing importance of the market and the opportunities it offers

Objectives:

- Develop a better understanding of business opportunities
- Establish marketing strategies and objectives
- Determine adequacy of current efforts in media, research, promotion, direct, events and communications
- Improve communication process for obtaining key/input into plan

WHERE WE WERE (continued)

- ▶ **No process**
- ▶ **Nothing versioned**
- ▶ **General market advertising adapted to market on gut, and not unsuccessfully**

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WHERE WE WERE (continued)

- ▶ We've done okay, share is good but some slippage
- ▶ Yet not really sensitive to market and its implications
- ▶ Need for overall approach

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THE HISPANIC TASK FORCE PROCESS

Short term Accomplishments:

- ▶ **Changed dynamics of how we work**
- ▶ **All communications now come through Brand**
- ▶ **Provides for a functionally integrated plan, tied to overall Brand objectives/strategies**

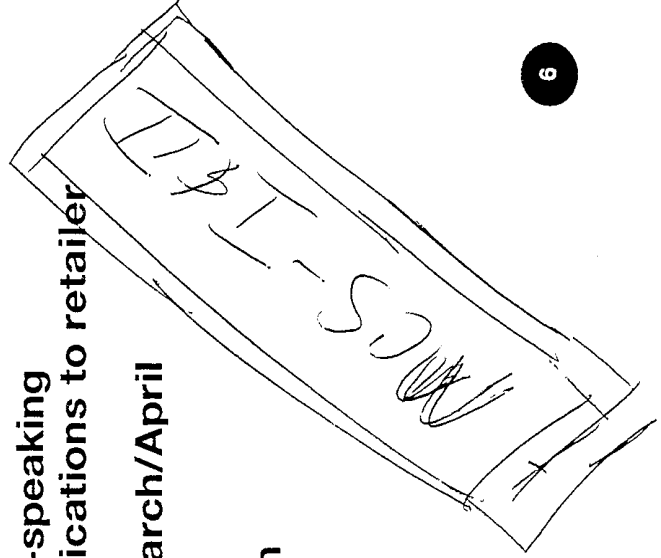
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THE HISPANIC TASK FORCE PROCESS (continued)

- ▶ **Address Hispanic market like general market**
- ▶ **Brought people upfront in process**
- ▶ **Process itself has pushed ideas and programs**
 - **Now a Hispanic Van program with Spanish-speaking reps, Hispanic POS and Spanish communications to retailer**
 - **There are versions of Hispanic POS for March/April visibility drive**
 - **There is a non-workload visibility program**
 - **Marlboro Country Store will be versioned**

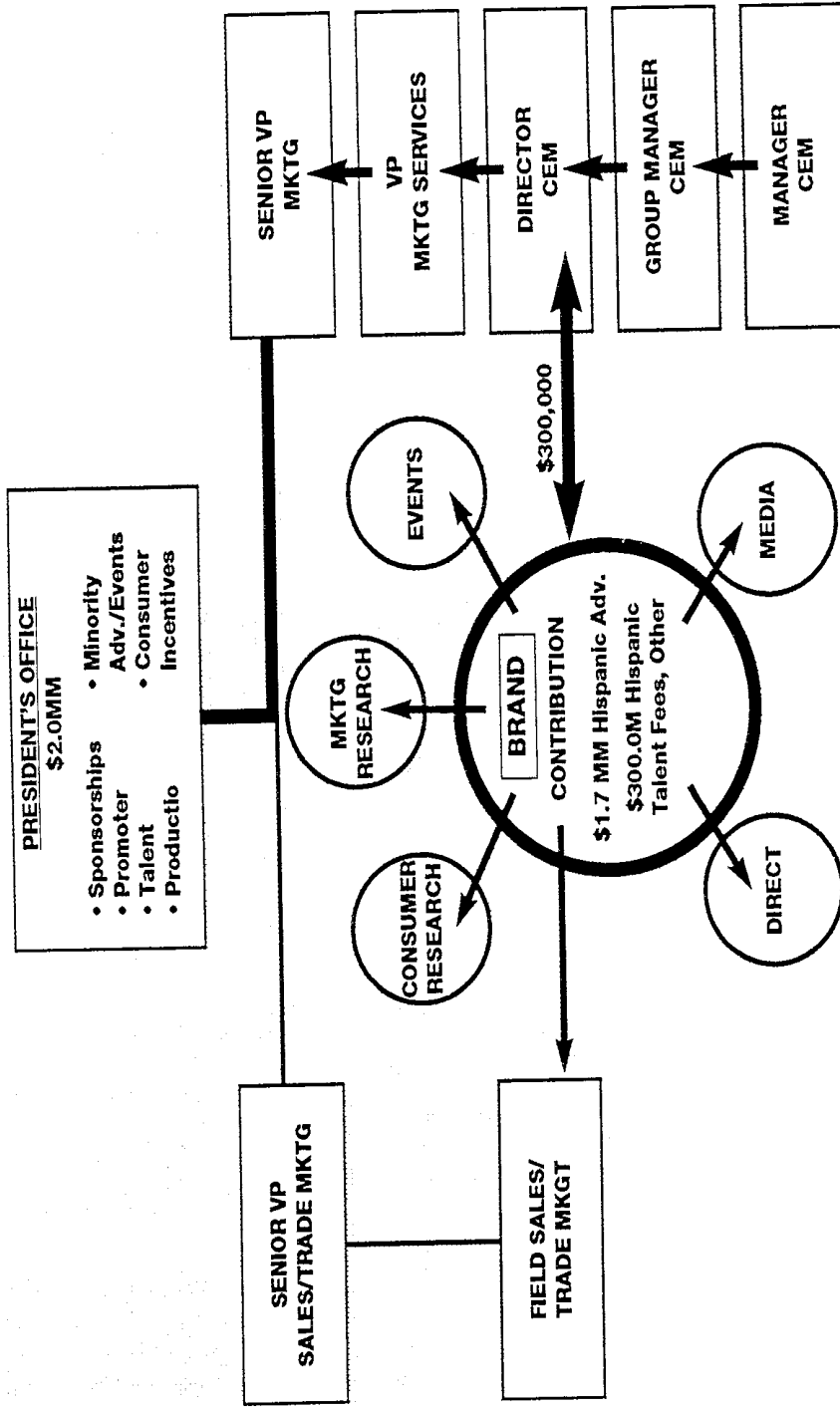
TCF
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THE HISPANIC TASK FORCE PROCESS (continued)

- ▶ Specific agendas have been created within functional areas

HISPANIC PROCESS FLOW



- ▶ Marlboro Hispanic budget of approximately 4MM goes against Advertising/Events
- ▶ Roughly 88% of Event's budget is Marlboro and 32% of this is Hispanic

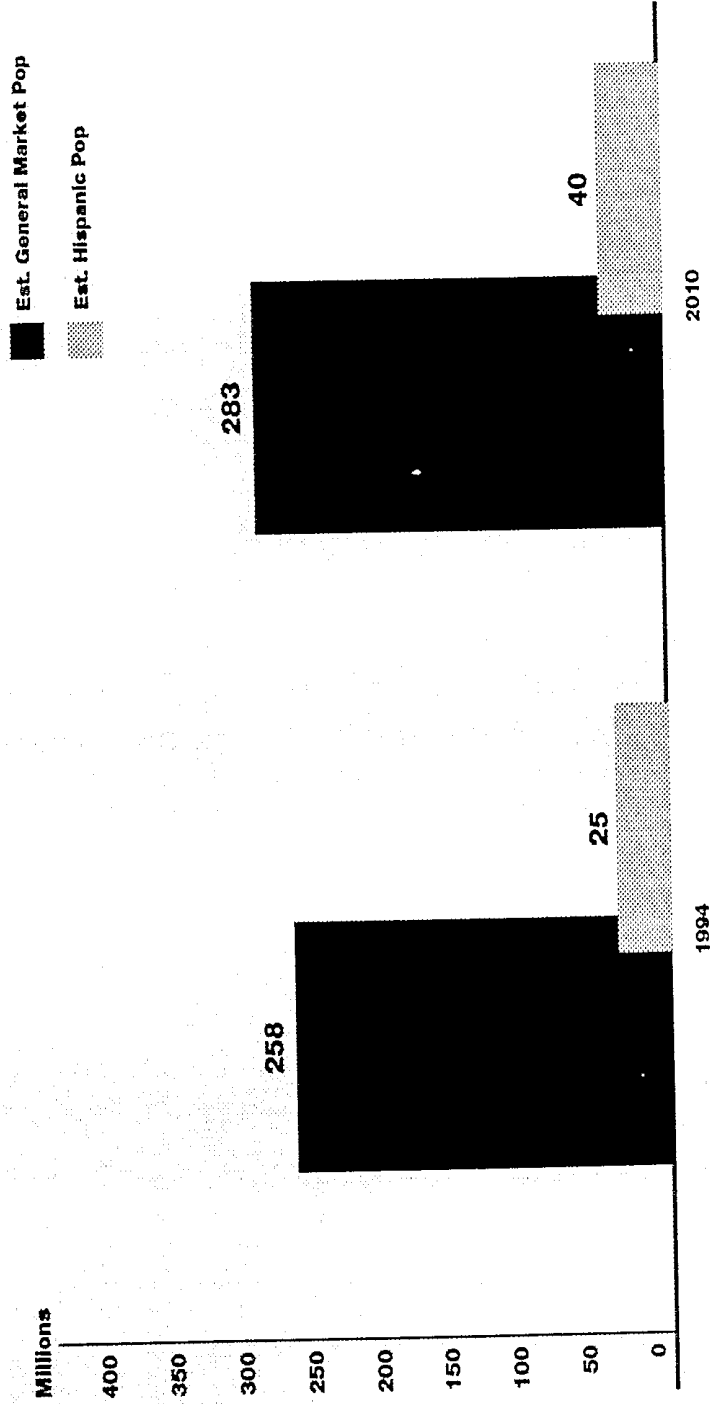
 CURRENT MARKET SITUATION

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THE CHANGING U.S. MARKET

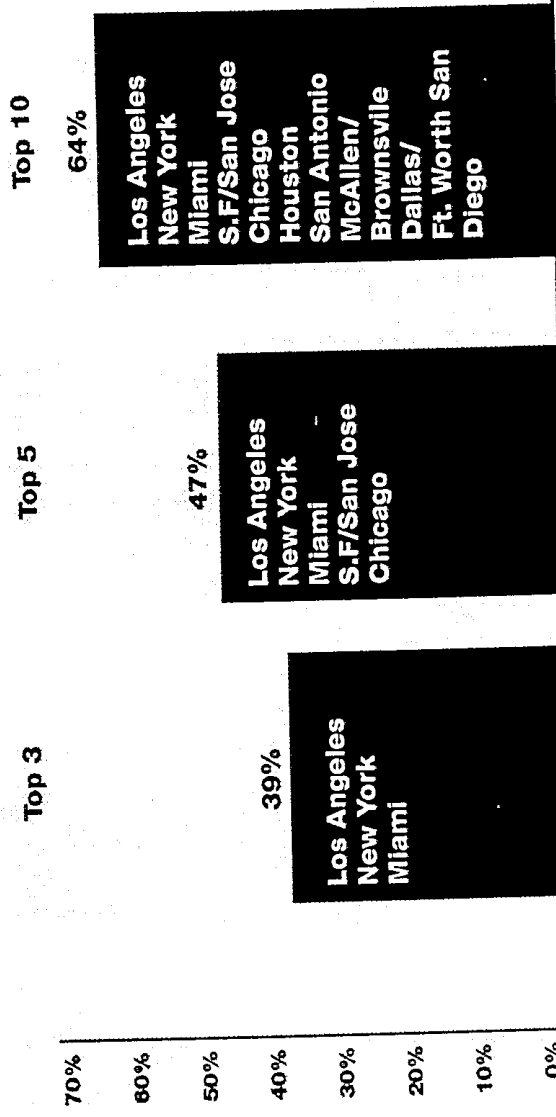
- ▶ Hispanic population will represent almost 15% of total population in 2010, up from 10% today
- ▶ Growing at five times the rate of non-Hispanic population



Source: Bureau of the Census, Projections of Hispanic Population SRC 1994

TOP HISPANIC MARKETS

- ▶ 64% of Hispanic population lives in Top 10 markets
- ▶ It is a concentrated market, easily reached

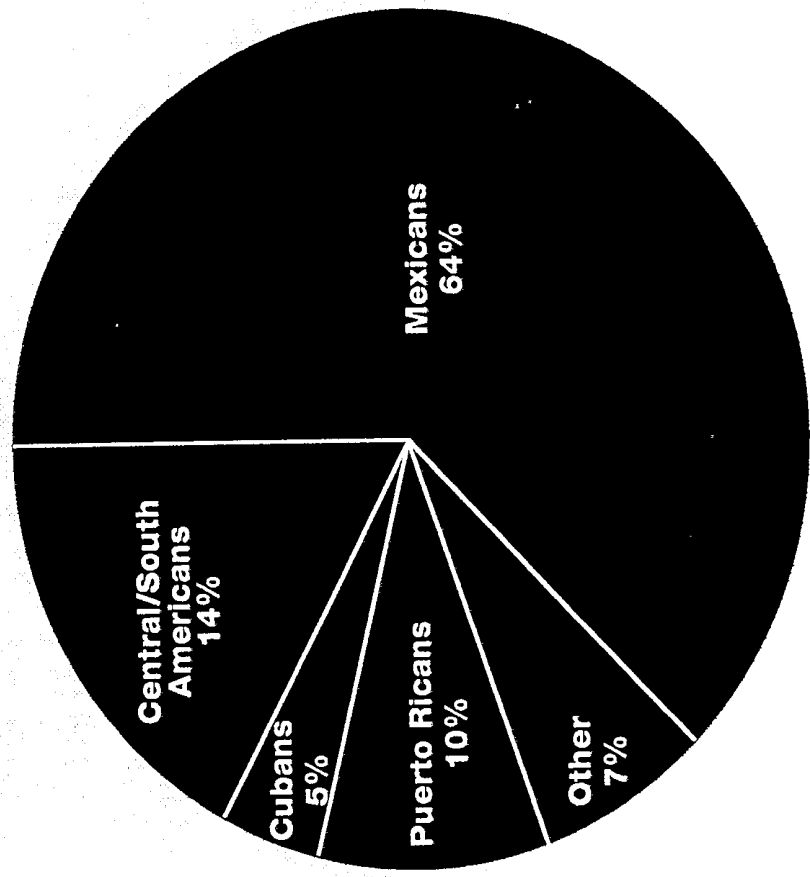


Source: SRC, 1994



HISPANIC POPULATION PROFILE

- ▶ Mexicans account for almost 2/3 of Hispanics
- ▶ Central Americans have increased at the fastest rate: 200% since 1980, primarily through immigration



Source: Strategy Research Corporation, 1994.



LEADING BRANDS BY COUNTRY OF ORIGIN

- ▶ Mexicans are 64% of total US Hispanic population
- ▶ High population/high share combined greatly impacts overall Hispanic volume

	1991	1990
Mexicans		
Marlboro	55.3%	51.9
Winston	10.8	12.5
Salem	7.7	6.9
B&H	5.0	6.5
Camel	2.8	3.1
Kool	2.3	2.2
V. Slims	1.4	1.5

	1991	1990
Puerto Ricans		
Newport	29.6%	23.0
Marlboro	23.1	23.6
Winston	13.0	20.8
Kool	5.3	5.1
Salem	4.1	5.6
Parliament	3.0	3.4
Camel	3.0	1.1

	1991	1990
Cubans		
Marlboro	40.4%	31.8
Winston	10.6	16.9
B&H	9.6	12.3
Salem	6.1	4.5
V. Slims	4.4	5.8
Newport	4.4	3.2
Kool	4.4	1.9

	1991	1990
Central/South American		
Marlboro	56.2%	64.2
Newport	6.7	5.8
Winston	6.2	2.3
Kent	5.6	5.2
B&H	5.1	5.8
Salem	3.4	1.7
Merit	2.2	.6

Source: Consumer Trading IX

HISPANIC SMOKER PROFILE

- ▶ Male
- ▶ Younger
- ▶ Urban
- ▶ Hard box
- ▶ Full flavor

	TOTAL SMOKERS	SPANISH SPEAKING SMOKERS	INDEX
Male	51.0	56.4	111
Female	49.1	43.6	89
18-24	13.9	19.5	140
25-34	26.6	29.0	109
35+	59.5	51.5	87
<\$30,000	45.4	47.1	104
>\$30,000	44.1	43.3	98
Nielsen A	31.7	41.8	132
Nielsen B	32.5	31.7	98
Nielsen C	17.4	14.0	80
Nielsen D	18.4	12.5	68
Soft Pack	65.3	55.1	84
Hard Box	33.4	43.2	129
Menthol	26.7	29.9	112
Kings	52.8	56.1	106
100's	40.6	37.5	92
Full Flavor	43.0	49.4	115
Low Tar	43.3	39.7	92
Ultra Low	11.9	8.8	74

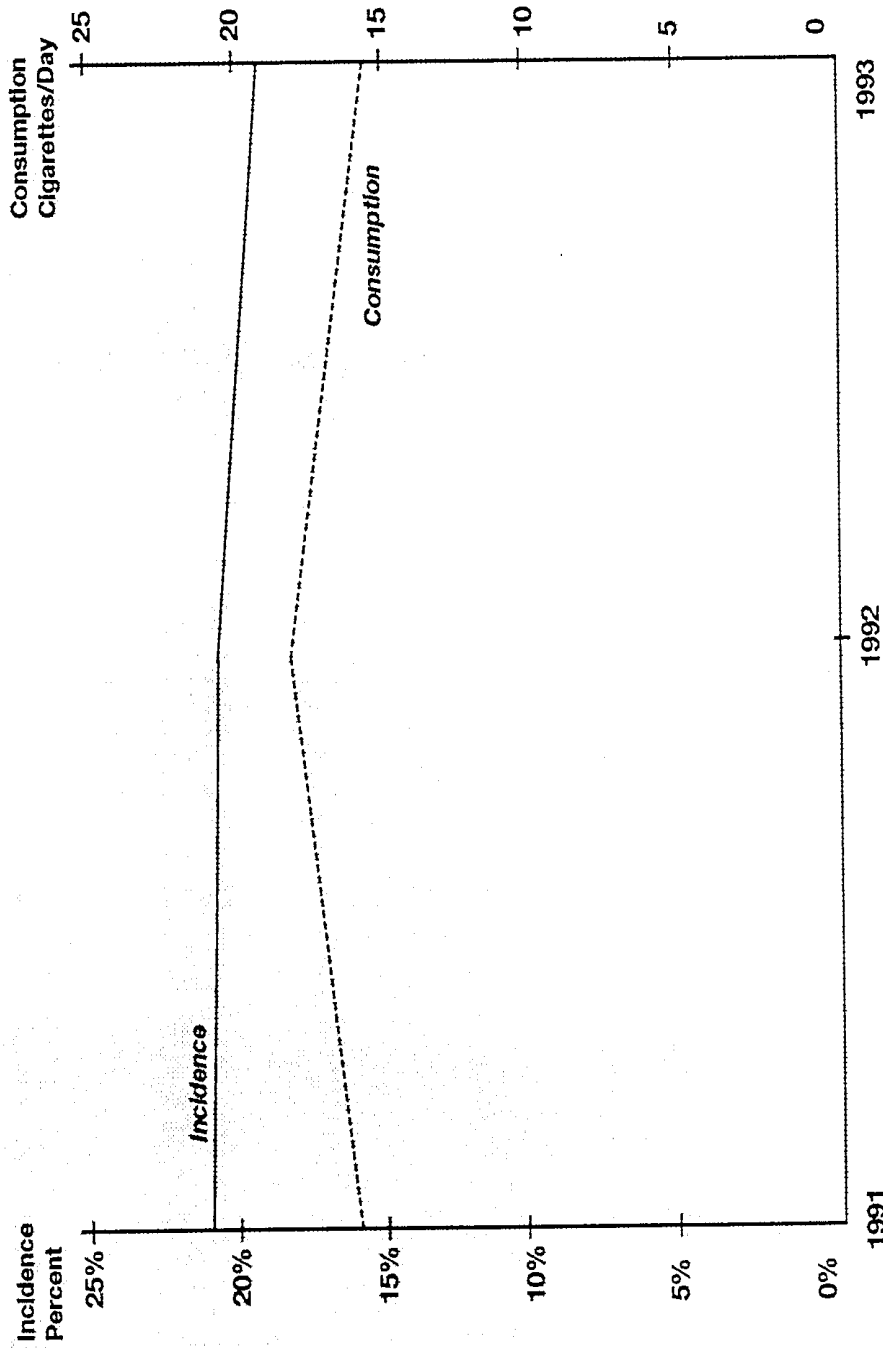
Source: Consumer Tracking, 12MM, Feb. '94.

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HISPANIC SMOKING INCIDENCE AND CONSUMPTION

- ▶ Slight decline in incidence
- ▶ Consumption declining at slightly faster rate



Source: Consumer Tracking 12 months ending 1993

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BRAND LOYALTY: HISPANICS ARE VERY LOYAL TO THEIR BRANDS

- ▶ Risk aversion
- ▶ Less disposable income
- ▶ More stores in close proximity

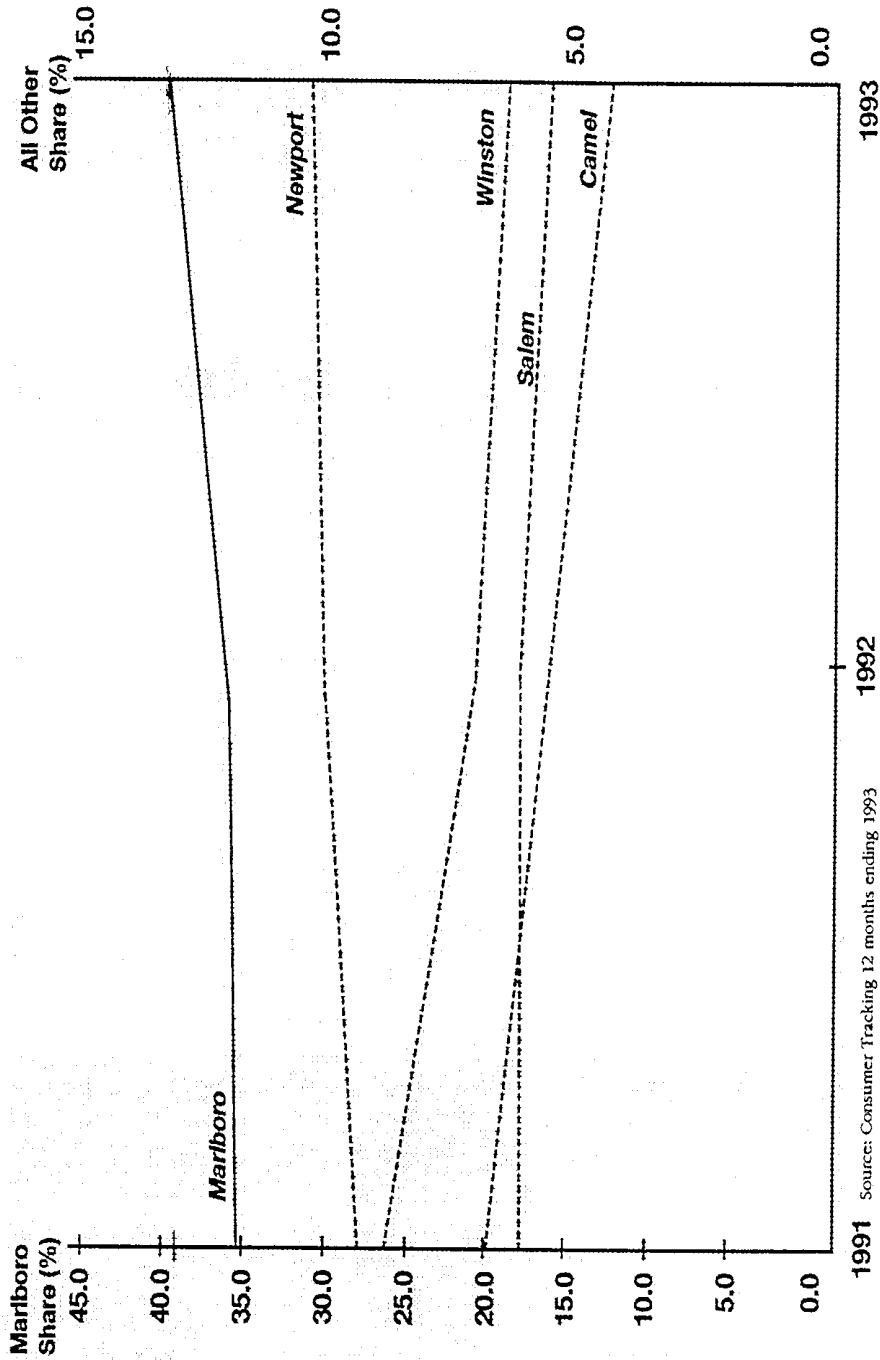
<i>If Brand Not Available, Would...</i>	1991 Tracking	
	Hispanic %	White %
Go to another store	53	39
Buy a different type of regular brand	15	34
Buy a different brand	22	22
Wait	8	2

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SPANISH-SPEAKING SMOKER SHARES, TOP 5 BRANDS

- ▶ Sharp increase in Marlboro share
- ▶ Newport share increase flattening out
- ▶ Possibly reflects more stable pricing

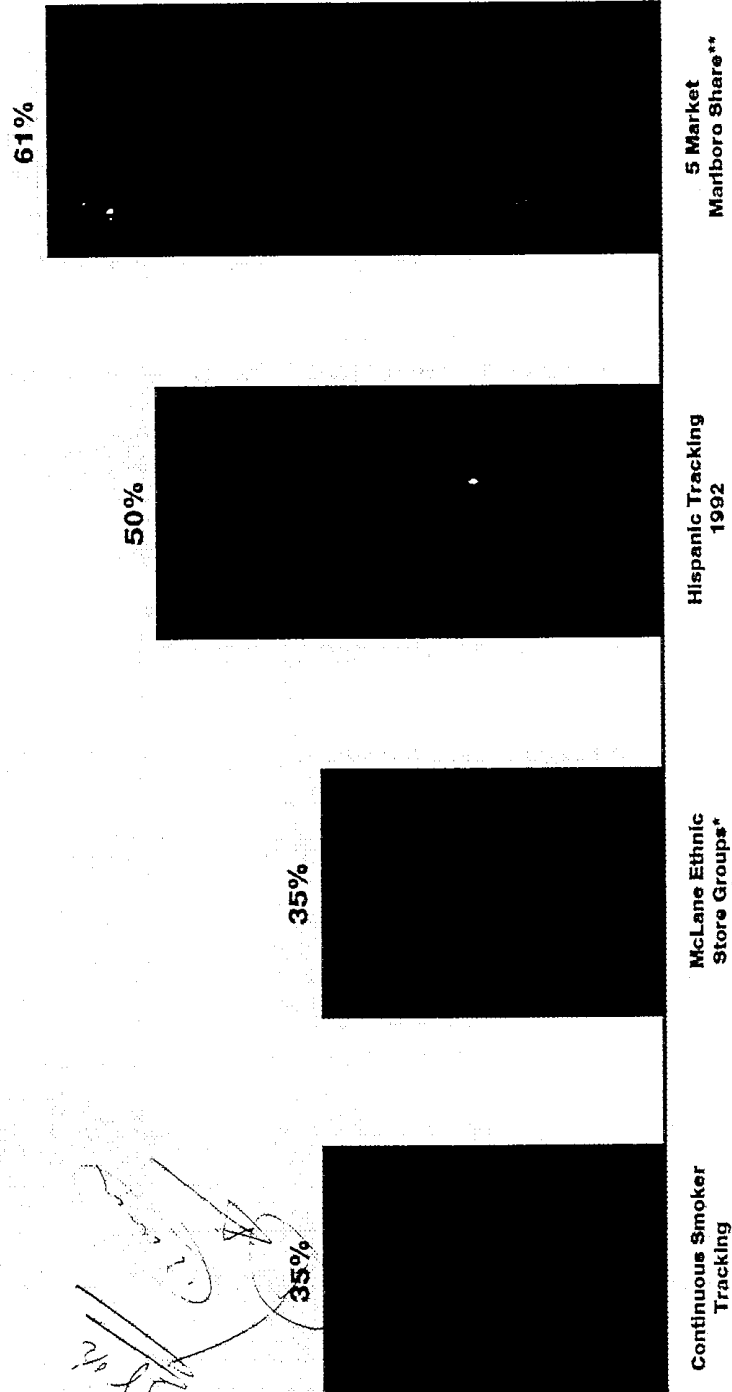


1991 Source: Consumer Tracking 12 months ending 1993

1992

1993

WIDE VARIATIONS EXIST AMONG DATA SOURCES



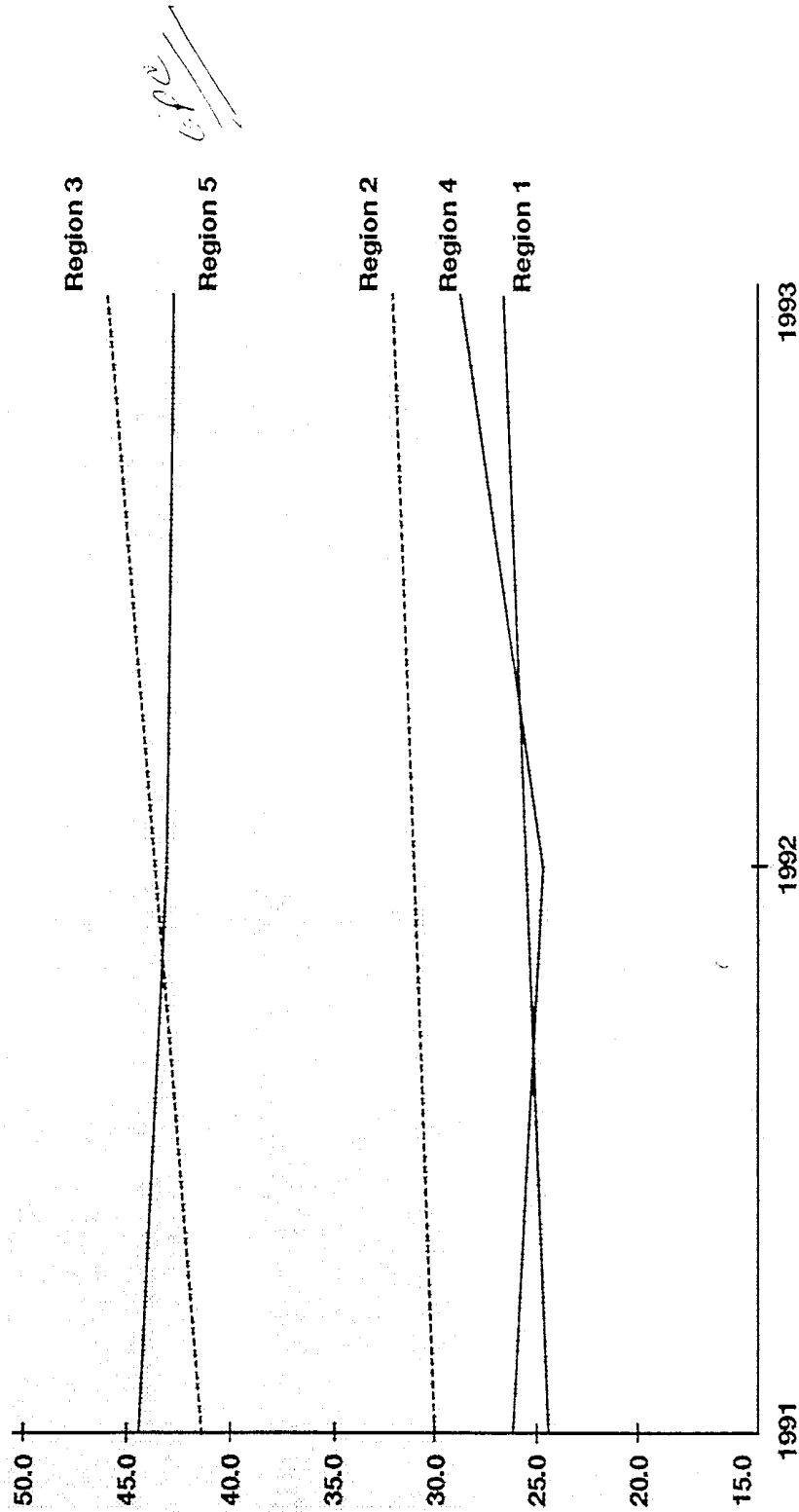
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 35%

* Respondents Mexican subsegment, key distributor shipments, 1/94
 ** Telephone survey of 1,066 interviews in LA, NY, Miami, Houston and San Antonio in language of choice, 9/93



MARLBORO SPANISH-SPEAKING SHARE BY REGION

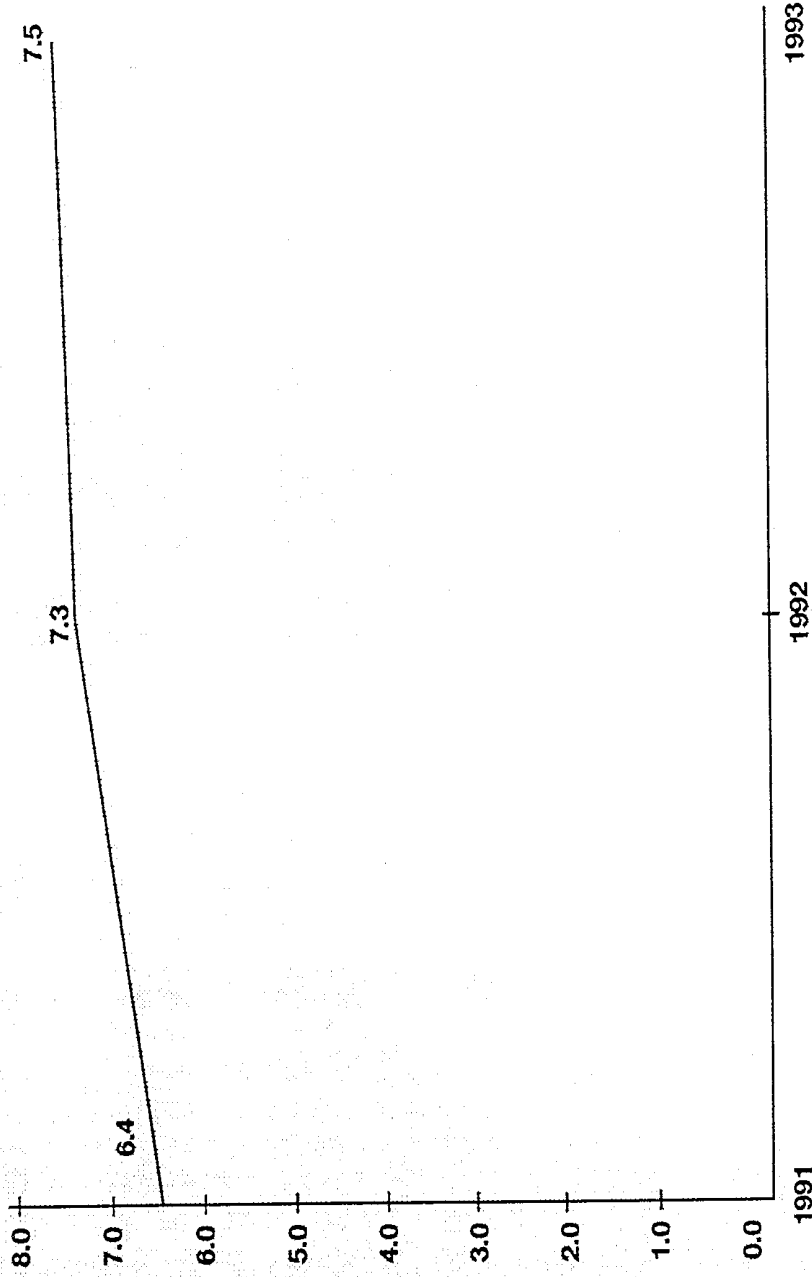
- ▶ Decline in Region V with greatest concentration of Mexican Americans
- ▶ Possible result of Camel share increase '91/'92 + '92/'93 impact of discount brands



Source: Consumer Tracking 12 months ending 1993

% OF MARLBORO SMOKERS REPRESENTED BY SPANISH-SPEAKING

▶ Marlboro share represented by Spanish-speaking smokers increasing

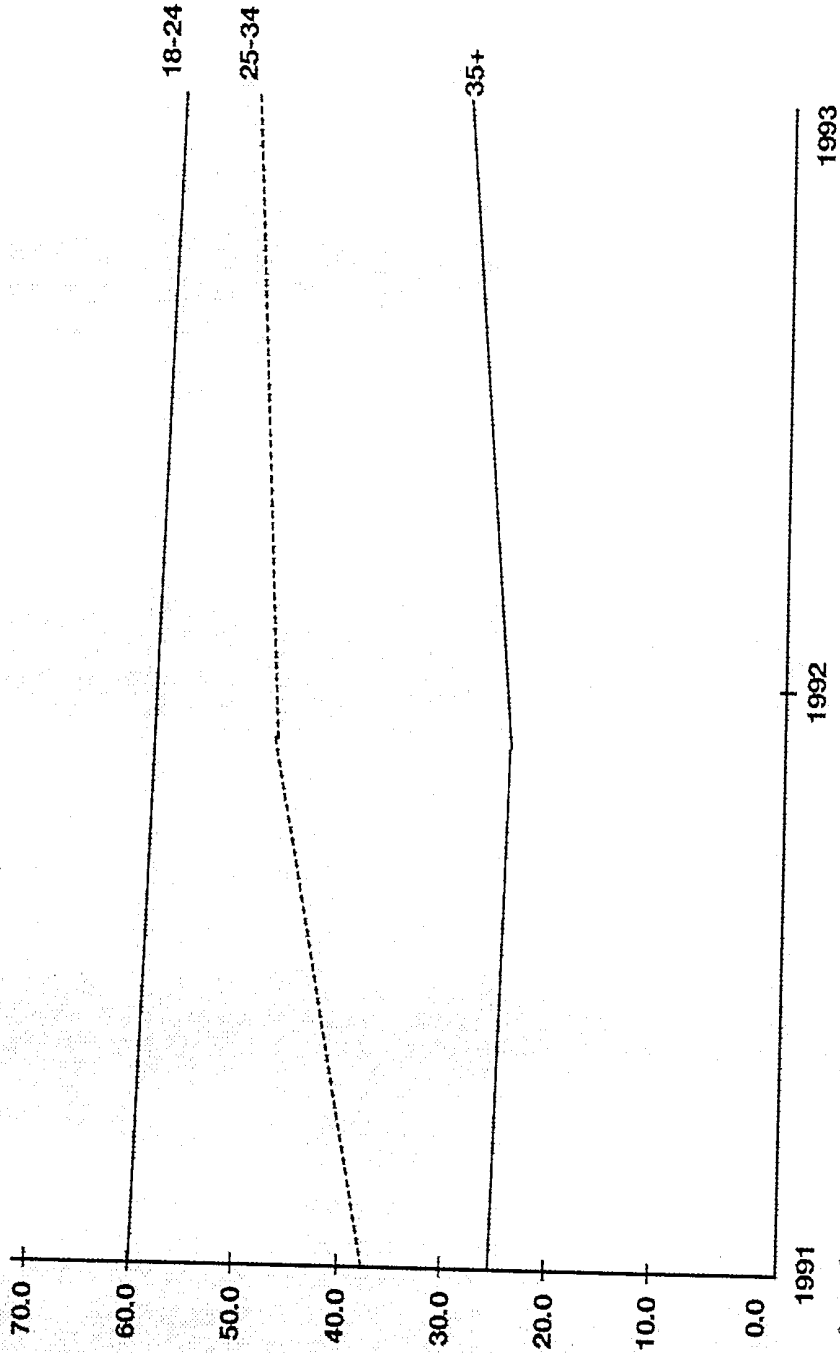


Source: Consumer Tracking 12 months ending 1993



MARLBORO SPANISH-SPEAKING SHARE BY AGE GROUP

► Marlboro smoker share among this audience stabilizing



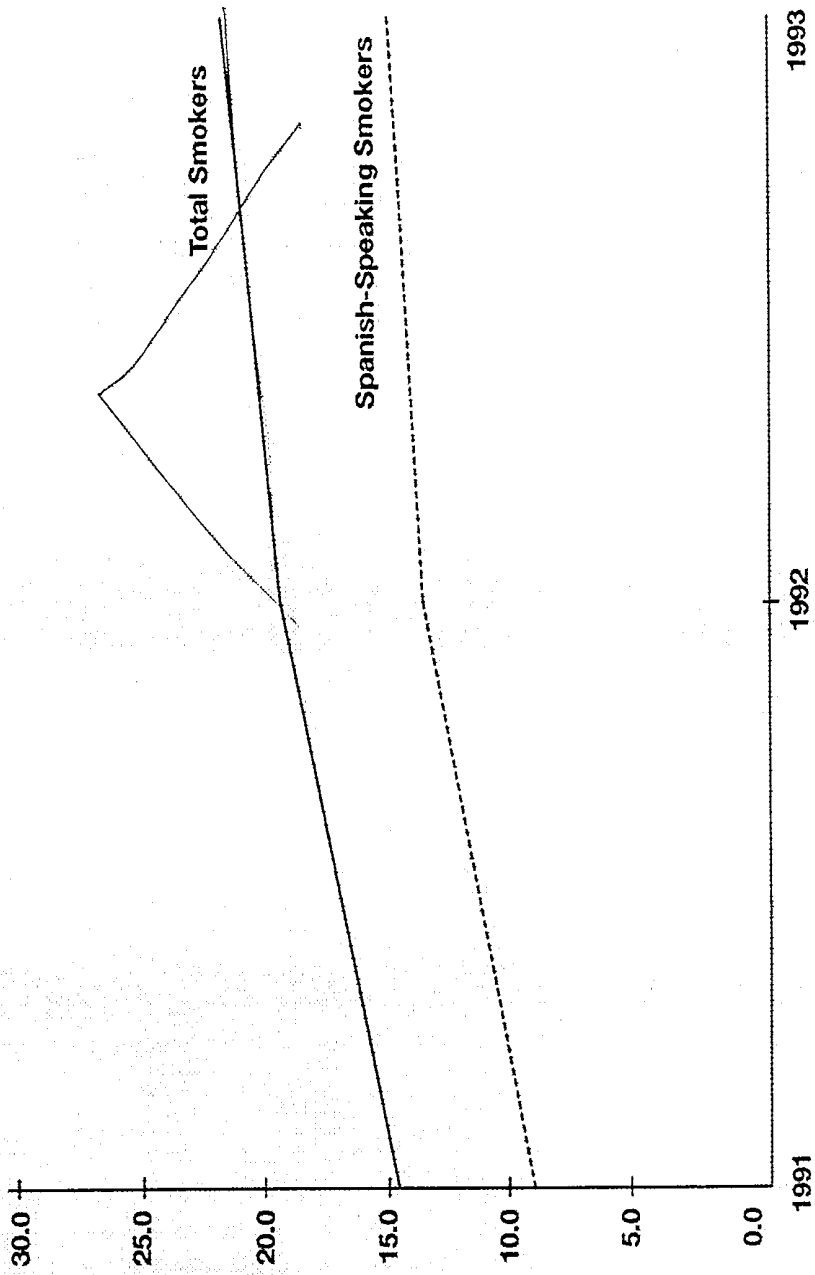
Source: Consumer Tracking 12 months ending 1993

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DISCOUNT SMOKER SHARE

▶ Discount smoker share among Spanish-speaking increasing at slightly slower rate than among total smokers



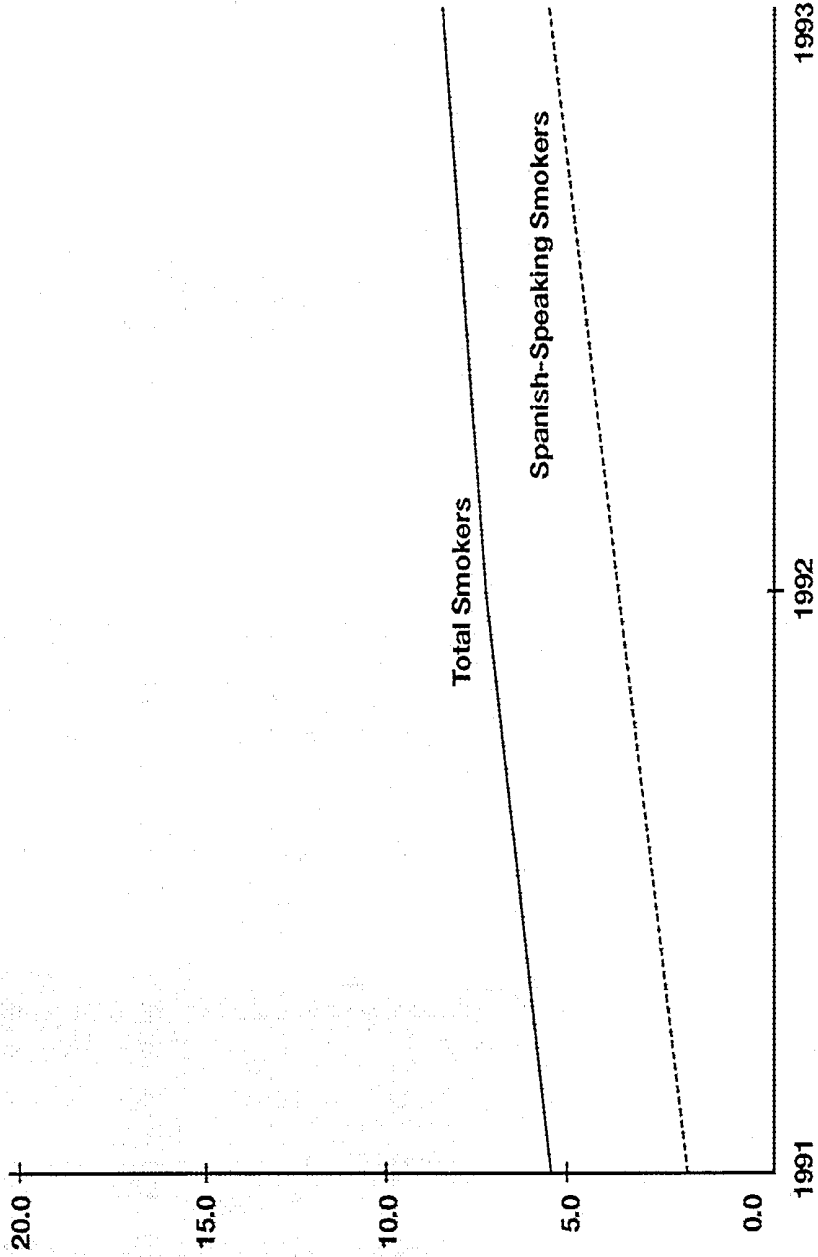
Source: Consumer Tracking 12 months ending 1993

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DISCOUNT SMOKER SHARE 18-24

- ▶ Discount smoker share among Spanish-speaking smokers 18-24 increasing at faster rate than among total smokers in this segment

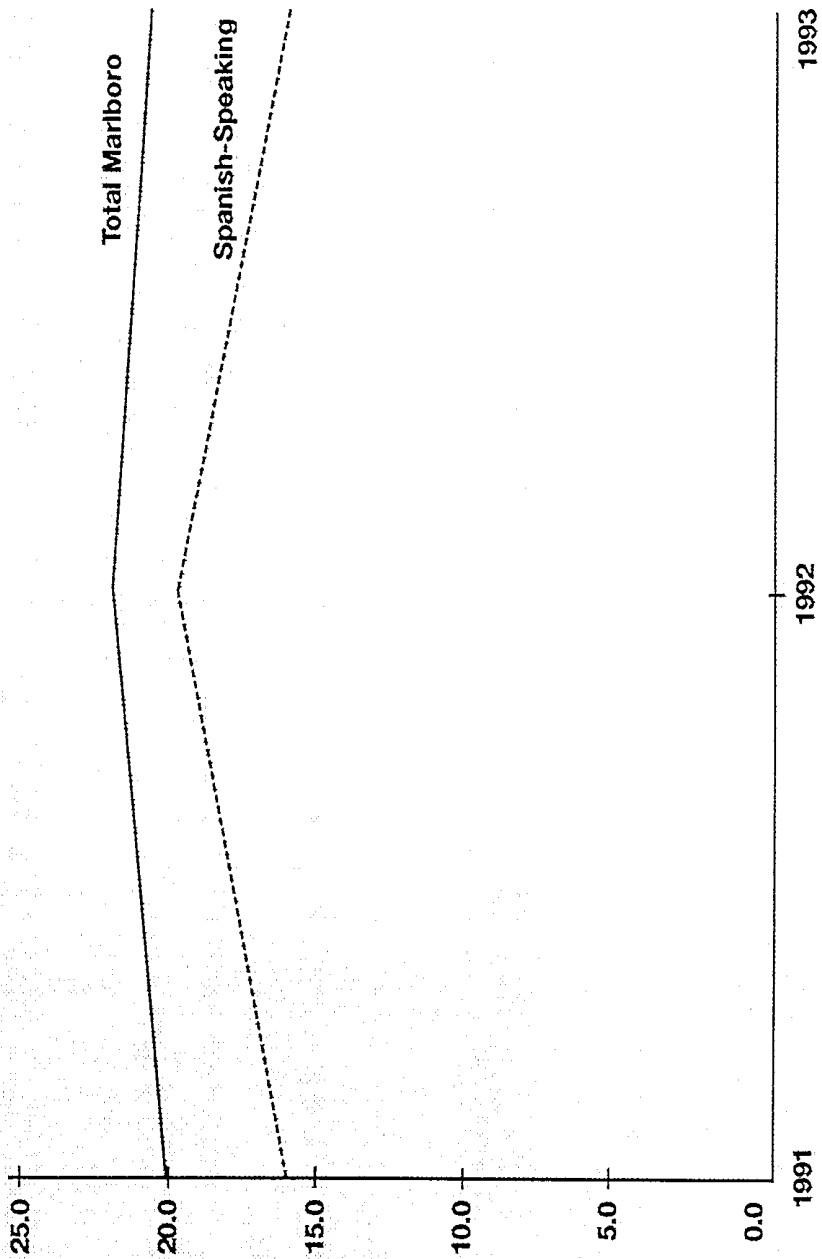


Source: Consumer Tracking 12 months ending 1993

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▶ % OF MARLBORO SMOKERS USING PROMOTIONS/DEALS TO BUY BRAND

▶ Spanish-speaking smokers less likely to purchase Marlboro on promotion/deal



Source: Consumer Tracking 12 months ending 1993

MARLBORO HISPANIC MARKET SITUATION SUMMARY

STRENGTHS

- ▶ Marlboro is overwhelming brand of choice for nearly all Hispanic subgroups
- ▶ Hispanic Marlboro very brand loyal
- ▶ Marlboro franchise very strong overall among Mexicans, the dominant subsegment in US Hispanic market

WEAKNESSES

- ▶ Marlboro share among YAS showing some vulnerability
- ▶ Declining share in Region V (greatest Mexican/American concentration)

OPPORTUNITIES

- ▶ Continuity
- ▶ Grassroot events

THREATS

- ▶ Discount segment growing for YAS
 - ▶ Newport share
- in market*

KEY ISSUES

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KEY ISSUES

- ▶ **What strategies can we pursue to counter Newport's share among Puerto Ricans**
- ▶ **How should markets be tracked to ensure accuracy/consistency**
- ▶ **Is there share erosion among key YAS LA-24 and how can we do better here**

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KEY ISSUES (continued)

- ▶ **What are differences between assimilated/unassimilated Mexicans as to how they perceive discount and premium segment**

- ▶ **How do you integrate marketing elements to achieve greatest reach and overall brand impression**

- ▶ **What marketing areas offer greatest opportunity for Brand**

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■ SPECIFIC AGENDA BY FUNCTIONAL AREA

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ADVERTISING

- ▶ **Prior to this year, adapted advertising on intuition and quite successfully**
- ▶ **Content was mostly macho, focused on profiles, and all Marlboro red**
- ▶ **Research revealed YAS liked Country as well as faces**

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ADVERTISING (continued)

- ▶ **Qualitative research completed 1st Qtr '94 covering five different content areas, extending reach and impression of Marlboro by fully dimensionalizing the man and his land**
- ▶ **New mix to be rotated into schedule, creating adaptations more in line with Hispanic perceptions of brand and its many positive brand associations**

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PROMOTIONAL LEARNING

▶ Retail/Incentives

- In inner city, high density areas, POS is limited to posters, shelf talkers, danglers.
- Do primarily 10 deal/20 deal
- Lots of on-pack stuff due to space limits
- Mostly one/two packs
- What's worked best
 - 1 pack/lighter
 - 2 pack/better lighter
 - 2 pack/cap

PROMOTIONAL LEARNING (continued)

► **Van program/Incentives**

- More unique incentives have worked well when space not a problem
- Customized incentives used in '93 MAT Van program
 - 1 pack/lighter
 - 2/3 pack/sunglasses
 - 5 pack/T-shirt
 - Carton/beach towel
 - 2 cartons/brass lighter

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PROMOTIONAL LEARNING (continued)

► **Direct**

- Only promotion to Hispanics in 4th Q '92
- Tested media/creative in course of additional name generation
- Sweepstakes offer vs. Premium Offer with premium (YA lighter) generating much greater response
- Majority chose to respond in Spanish but difference not great
- Results indicate need for bilingual creative in this type of communication

*name research
test
1992*

*How many
names?
Researcher:*

*no fear
ambiguity*

*Don't know
more*

PROMOTIONAL LEARNING (continued)

▶ **Events**

- Working off 3 successful retail tie-ins in '93
 - 3-pack T-shirt offer "localized" to Event (Calle Ocho)
 - Discount ticket offer...\$10.00 off with 5-pack proof-of-purchase
 - Free concert tickets for carton purchase through MAT Van
- Extend to 7 markets in '94

▶ **Sales**

- Focus on local market initiatives such as SBO for Marlboro menthol in Region 1
- Look at promotional opportunities not covered by Events at distributor/subjobber level

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SALES

- ▶ **Develop two separate programs for Region I:**
 - **A Marlboro Visibility Drive for non-retail masters Hispanic urban pack outlets, workload/non-workload**
 - **A Marlboro Menthol general market/Hispanic retail program for non-workload accounts handled by subjobbers**

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SALES (continued)

▶ **Marlboro Visibility Drive**

Objective:

- Build presence and grow volume in Hispanic urban markets for Marlboro
- Hispanic brand preference in NE differs from Hispanic brand preference nationally
- Spanish-speaking smokers in Region I prefer menthol and smoke Newport as brand of choice
- Marlboro Red is preferred brand among Spanish-speaking regular smokers

SHARE OF SPANISH SPEAKING SMOKERS

	MARLBORO	NEWPORT
TOTAL US	37.7%	10.2%
Region 1	28.5	30.6
New York Market	28.0	34.6

Consumer Tracking (Quant) Jan '94 12mm

SALES (continued)

▶ **Marlboro Visibility Drive (continued)**

Background:

- Majority of Region I Hispanic consumers live in urban areas
- Dominant classes of trade are Bodegas and smoke shops
- Most accounts are low volume and undercapitalized
- Special promotions required to gain retailer support
- Subjobbers are key link in distribution channel to this market
- Competition has been successful in building presence and visibility
- Cash payments for POS placements common
- Retail Masters program account penetration far below that of suburban areas

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SALES (continued)

▶ **Marlboro Visibility Drive (continued)**

Recommendations:

- Develop a long term program that provides support to retailers/wholesalers who encourage sale of PM products over competition
 - Programs must increase inventory levels at retail and gain trial of PM brands by consumers
 - Retail promotions must have depth and longevity in marketplace
 - Consumer incentive must appeal to broad spectrum of Hispanic smokers

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SALES (continued)

► **Marlboro Visibility Drive (continued)**

Support:

- Development of a special sales team, "Team Espano!" to plan and implement programs in key markets in Region I
- Team would function as planning unit to adjust sales marketing plan
- Sales Reps selected for programs are among SAR's available due to redeployment/attrition
- Marlboro Brand would support the part-timers who would assist in the POS/Merchandising drive in Hispanic urban accounts and non-workload accounts

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► **Marlboro Menthol General Market/Hispanic retail program**

Objective:

- Create trial among competitive menthol smokers
- Program would provide inventory to increase promotional depth to low volume urban accounts and SBO for subjobbers and direct customers in key markets

Three possible offers:

- Buy one/get one free
- Marlboro menthol cents off
- Marlboro 2 pack with incentive

Product Mix:

Full flavor box	50%
Lights box	40%
Lights box 100	10%



SALES (continued)

▶ **Marlboro Menthol General Market/Hispanic retail program (continued)**

Target/trade class:

- Non-workload accounts, Grocery, Smoke Shop, Convenience, Drug and Carton outlets with SS packs

Execution:

- Product assembled at Precon for shipment to direct accounts
- 50% of product allocated to distributors based on their menthol sales for participation in SBO program
- With application of data form Wholesale Masters distributors will ship this SBO to designated Menthol Areas and specific counties
- Sales reps for general market would pre-book quantities to select retail accounts and subjobbers

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MEDIA

- ▶ **Media was good, but some important changes to make it work harder/more effectively to:**
 - **Stand out in environments that are relevant and highly visible among key YAS audience**
 - **Establish strong presence at key retail locations in order to drive sales and in-store positioning**
 - **Reinforce Marlboro's "Big Brand" image in market**

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MEDIA (continued)

► **Major Media Considerations:**

- Move from previous mix of 30 sheet/8 sheet to all 8-sheet to reinforce brand awareness in urban neighborhoods prior to purchase
- Extend 8-sheet presence to 25 markets from 20
- Extend exposure time for OOH
- Focus on highest density geography to ensure greatest exposure
- Cut back on magazine schedule to more closely focus on primary and secondary audience
- Use quality newspaper supplements through Spanish language newspapers in support of high visibility soccer/baseball
- Increase number of spreads for greater emphasis on Big Country aspect of Brand

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MEDIA (continued)

- ▶ **Major Media Considerations: (continued)**
 - Schedule national media overlay around Events calendar to heighten brand awareness/impact

- ▶ **Key Issues:**
 - How to measure/track OOH effectiveness

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COMMUNITY EVENT MARKETING

- ▶ Perhaps events have been underutilized in past, especially in Region V where overall brand impact is critical due to large concentration of Mexican-Americans
- ▶ Marlboro involved primarily in "Signature" events:
 - 100,000+ attendance
 - Community supported
 - Product exclusivity on-site
 - More adult oriented
 - Sanctioned by field sales
 - Allow pack sales

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COMMUNITY EVENT MARKETING (continued)

- ▶ **Local events offer Brand:**
 - A personal impression at grass roots level
 - Strong support from local third party allies
 - Smoker tolerance in a social atmosphere
 - An environment that is highly supportive and favorable to Brand
 - The geographic flexibility to extend/reinforce message to any/all Hispanic subgroups



COMMUNITY EVENT MARKETING (continued)

▶ **In 1993**

- Executed 11 events in key Hispanic markets covering all major groups
- Generated 100,000 names and moved 2MM units

▶ **In 1994**

- Extend event participation to 28 total events
- Generate 179,000 names for database and move 3.5MM units
- Heavy up in Region V due to importance of Marlboro Hispanic franchise
- Extend retail tie-in to seven markets based on successful test program in 1993



COMMUNITY EVENT MARKETING (continued)

▶ **Retail Extension**

- Combines imagery, value and reward
- Can capitalize on strong Marlboro brand loyalty to ask for repeat purchase

▶ **Longer term**

- Look for additional "Signature" events
- Increase presence in key Hispanic markets for Brand (high population/high MSA% contribution to volume)
- Beef up on-site presence/activity wherever Brand participates to leadership levels



DIRECT

▶ **Total Hispanic names on database now 508,996, or 17.9% penetration, up from 13.9% in 1992**

PM SMOKER DATABASE
1ST Q. 1994

HISPANIC POPULATION	% SMOKING INCIDENCE	HISPANIC SMOKERS	DATABASE HISPANIC SMOKERS	% PENETRATION
16MM	17.8%	2,850M	508,996	17.9%

▶ **Only response oriented mailing was a small scale test of media/creative in 4th Q of '92**

- Sweepstakes vs. Premium offer with premium (YA Lighter) generating much greater response
- Majority responded in spanish, but difference not great (56%/44%)
- Generated 31,000 new names
- Most effective of all media/creative combinations had response rate of 1.1%, well below that of general market

DIRECT (continued)

- ▶ All other efforts to date geared to name generation, not responsiveness
- ▶ Of 508,996 names on database, most have come in through English database programs, suggesting these Hispanics are mostly assimilated. Only 22,000 Hispanics filled out Spanish section in Van/Bar program
- ▶ No relationship with smokers established due to single-minded focus on names

DIRECT (continued)

► Learning

- Have to reevaluate future response projections based on low response rates compared to general market
- Task force process has created new interest in name generation and a full-blown analysis of same
- Direct/Events now working together to ensure all name generation activity is compatible with what currently exists on database and is readily available to Brand group
- Direct and Events have adopted common event generation survey



DIRECT (continued)

► Next Steps

- Currently finalizing analysis on differences between Hispanic/non-Hispanic smokers on database with regard to profiles/responsiveness
- Finished April, '94. At that time, a strategic look at Direct will address Key Issues

► Key Issues

- What are goals for hispanic name penetration
- What should objectives/strategies be for Marlboro beyond name generation
- Should Direct be part of Marlboro Hispanic media mix. As primary/secondary support?
- How do we reach unassimilated and partly assimilated Hispanic market



RESEARCH

Three consumer research initiatives underway coming out of Hispanic Task Force Process:

► Hispanic advertising direction

- Past Marlboro efforts successful on intuitive basis
- Advertising was mainly profiles and all Red
- Hispanic brand image much broader than what advertising portrayed
- Five different content areas tested
- Work reviewed among Hispanics to benchmark differences from general market reactions
- Various packings also incorporated in to ads tested
- Research completed in April
- Strongest work across all content areas to be rotated into magazine/OOH schedules starting May/June



RESEARCH (continued)**► Research to address Key Issues**

- Mexican subsegment dominates U.S. Hispanic market and is critical to maintaining share/momentum in Hispanic market for Marlboro
- Research objectives have been drawn up based on following Key Issues, starting with Mexican-American:

Key Issues:

- What is behind strong Marlboro showing among Mexicans in U.S. given fact share in Mexico is less than half of what it is here
- How do Mexicans view premium brands vs. discount segment
- More specifically, how is discount segment viewed by YAS LA-24
- Can Marlboro expect similar flight pattern to discount brands among Mexicans in this age group?
- What sort of trends/patterns can be seen between assimilated/unassimilated Mexicans in relation to discount/premium segments



RESEARCH (continued)

Key Issues (continued)

- Why is Newport so popular among Puerto Ricans in U.S. given last place position and declining share in Puerto Rico
- What role does POS play in purchase decision
- What are motivations behind alternate purchase

► Hispanic Smoker Tracking

- Inconsistency in overall Marlboro share coming from various smoker tracking studies
- In fact, is there share erosion and where is it coming from?
- Major price changes of Aug/Nov '93 may be causing wide share swings we're now seeing. With pricing now stable, traditional brand loyalty patterns may reemerge, and with it more consistent share data
- New Hispanic tracking source to begin early second quarter of this year

 **FUTURES**

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FUTURE DIRECTION

- **Hispanic market focus now clear**
- **Agendas have been created**
- **Specific opportunities being pursued for Brand**
- **Task Force has raised awareness of Hispanic market and begun to institutionalize process to successfully pursue it**
- **Continued coordination necessary to manage Hispanic needs/priorities within overall Marlboro operations**
- **Possibly in form of brand facilitator**
- **Marlboro should optimize opportunities on a continuing basis in segment of extreme importance to overall brand franchise**

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