

Monterrey, N.L.,
May 27, 1983.

MR. TOM WHITEHAIR
BROWN & WILLIAMSON INTL. TOBACCO
3000 FIRST NATIONAL TOWER
101 SOUTH FIFTH ST.
LOUISVILLE, KY. 40202
U.S.A.

Dear Tom:

Attached please find four copies of the Marketing Managers Conference 83, held in Guadalajara in March 14-16, 1983.

I will appreciate your turning one copy to Tom Sandefur, one to Ted Parrack and one to Bill Telling.

The Minutes were prepared with material given by the speakers as well as with the notes given by the moderators of each theme. Nevertheless, it might be possible that any of the participants would like to make corrections to them and if so, I am asking them to make the proper changes sending one copy to all the delegates to the conference.

Best Regards,



LIC. JAIME GARCIA S. NARRO
MARKETING DIRECTOR

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T. E. W.

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MARKETING MANAGERS CONFERENCE

MEXICO - MARCH 14TH-16TH, 1983

DELEGATES LIST

U.K.	MR. MIKE HEATH	MARKETING DIRECTOR	B.A.T.
	MR. IAN STEWART	TERRITORIAL COORDINATOR	B.A.T.
	MR. IAN HACKING	MKTG. PLAN. & OPERATIONS	B.A.T.
	MR. GEOFF BROOKS	PRODUCT PLANNING	B.A.T.
	MR. DAVID BEECROFT	INTL. BRAND GROUP MANAGER	BATUKE
	MR. PAUL VINER	INTL. BRAND MANAGER	BATUKE
U.S.A.	MR. THOMAS SANDEFUR	SR. VICE-PRES. INTL. MKTG.	BWIT
	MR. TOM WHITEHAIR	AREA V. PRES. LATIN-AM/F. EAST	BWIT
	MR. TED PARRACK	VICE-PRES. BRAND MANAGEMENT	BWIT
	MR. BILL TELLING	DIR. OF MKTG. LATIN-AM/F. EAST	BWIT
BRASIL	MR. WINTER ROSE	MARKETING DIRECTOR	SOUZA CRUZ
ARGENTINA	MR. ED GRANT	MARKETING DIRECTOR	NOBLEZA PICCARDO
CHILE	MR. TONY PEREIRA	MARKETING IDIRECTOR	CIA. CHILENA DE TAB.
VENEZUELA	MR. OMAR DIAZ	MARKETING DIRECTOR	CIA. CIG. BIGOTT
PANAMA	MR. J. MAURICIO WURMSER	MARKETING DIRECTOR	TAB. ISTMEÑA
COSTA RICA	MR. VINICIO LINES	MARKETING DIRECTOR	REP. TOBACCO
NICARAGUA	MR. IAN IMRIE	GENERAL MANAGER	TAB. NICARAGUENSE
HONDURAS	MR. ROBERTO DANILOV	MARKETING MANAGER	TAB. HONDUREÑA
SALVADOR	MR. ENZO BIANCHI	MARKETING MANAGER	CIG. MORAZAN
GUATEMALA	MR. RONNIE BURNETT	MARKETING MANAGER	TAB. NACIONAL
CANARIAS	MR. RAUL MATAMOROS	MARKETING DIRECTOR	TABACANARIAS
MEXICO	MR. HECTOR ARECHAVALA	GENERAL DIRECTOR	CLM
	MR. JAIME GARCIA S. NARRO	MARKETING DIRECTOR	CLM
	MR. CESAR GAETH	BRAND PLANNING MANAGER	CLM
	MR. ROLANDO SEPULVEDA	MARKETING SERV. MANAGER	CLM
OUTSIDE SPEAKERS	MR. ENRIQUE GIBERT	CREATIVE V. PRESIDENT	MAQUEDA GIBERT
	ING. JOSE G. CARRILLO	ADMIN. PROCESS DIRECTOR	SYNKRO

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MARKETING MANAGERS CONFERENCE

Guadalajara - México

March 14-15-16, 1983

A G E N D A

DAY 1

08:30		Introduction / Administration	10 mins.	J. García C. Gaeht
08:40	I.	<u>MARKETING LOW DELIVERY PRODUCTS</u>		A. Pereira (Moderator)
		a) <u>League Tables</u>		
		1. Worldwide Study of "Impact of League Tables".	45 mins.	G. O. Brooks
		2. Update on recent events in:		
		(I) Brazil	15 mins.	W. Rose
		(II) Chile	20 mins.	A. Pereira
		3. Review of Activity in each country and recommendations/conclusions	60 mins.	
11:00		B R E A K	30 mins.	
11:30		b) <u>Product Development</u>		G. O. Brooks (Moderator)
		1. A presentation on recent product innovations, rationalization of materials, and implications of lower delivery products.	45 mins.	G. O. Brooks
		2. Discussion	30 mins.	
12:45		B R E A K		
14:30	II.	<u>MARKETING IN A RESTRICTIVE ENVIRONMENT</u>		V. Lines (Moderator)
		1. Venezuela's Experience.	20 mins.	O. Díaz
		2. Relevant Aspects in Other Countries of the Area.	30 mins.	
		3. Discussion of BATUKE's 'Aide Memoire' and conclusions/recommendations	70 mins.	
16:30		B R E A K		
17:00	III.	<u>STAFF TRAINING AND DEVELOPMENT</u>		R. W. Burnett (Moderator)
		a) <u>Courses Planned by Millbank</u>	10 mins.	G. O. Brooks
		b) <u>Needs of the Area</u> Each Country to outline needs	20 mins.	
		c) <u>Regional Courses</u>	30 mins.	
		d) <u>Conclusions and Recommendations</u>	30 mins.	
18:00		END OF DAY		

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DAY 2

08:30	IV.	<u>STRATEGIC PLANNING IN MARKETING</u>		J. García (Moderator)
		1. <u>Presentation</u>	90 mins.	J. Carrillo
		2. <u>Conclusions and Recommendations</u>	30 mins.	
10:30		B R E A K		
11:00	V.	<u>PRICING/VALUE FOR MONEY BRANDS</u>	60 mins.	I. Hacking (Moderator)
		Discussion on Mike Heath's paper leading to conclusions and recommendations.		
12:00	VI.	<u>REVIEW OF SALES FORCE DEVELOPMENT</u>	60 mins.	O. Díaz (Moderator)
		Each delegate to outline the progress made as a result of last year's conference.		
13:00		B R E A K		
14:30	VII.	<u>MARLBORO IN MEXICO</u>		R. Danilov (Moderator)
		1. <u>Study Time</u>	60 mins.	
		Each delegate will have time for the last review of Marlboro Case.		
		2. <u>Questions</u>	15 mins.	
		The mexican team will solve the questions arising from the Marlboro Case.		
		3. <u>The Marlboro Advertising in Mexico</u>	45 mins.	E. Gibert
16:30		B R E A K		
17:00		4. <u>Group Discussion</u>	60 mins.	
		Delegates will be assigned into groups to discuss the Marlboro Case.		
18:00		5. <u>Groups Presentation</u>	30 mins.	
18:30		E N D O F D A Y		

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DAY 3

08:30	VIII.	<u>INTERNATIONAL BRANDS</u>		E. Grant (Moderator)
		1. <u>Overview of BAT Marketing Policies and Strategies.</u>	60 mins.	A. M. Heath
		2. <u>1982 Sales Results in the Area</u>	30 mins.	I. Hacking
		3. <u>Competition Strategies</u>	60 mins.	
		Delegate from each Country.		
11:00		B R E A K		
11:30		4. <u>BATUKE Int. Brands Strategies & Plans for JPS.</u>		J. M. Wurmser (Moderator)
		BATUKE Delegate	30 mins.	D. Beecroft
		5. <u>BWIT new Organization and Orientation</u>	15 mins.	T. Sandefur
		6. <u>U.S. Int. Brands Strategies & Plans</u>		
		BWIT Delegates	60 mins.	T. Parrack
13:15		B R E A K		
14:30		BWIT Presentation Continued.	120 mins.	
16:30		B R E A K		
		7. <u>Conclusions/Recommendations</u>	60 mins.	
		Covering the whole day's proceedings.		
17:30	IX.	<u>CLOSING THE CONFERENCE AND CRITIQUE</u>	30 mins.	J. Garcia (Moderator)
18:00		END OF THE CONFERENCE		

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MARKETING MANAGERS CONFERENCE

GUADALAJARA - MEXICO

MARCH 14-15-16, 1983

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MARKETING MANAGERS CONFERENCE

GUADALAJARA - MEXICO
MARCH 14-15-16, 1983

M I N U T E S

I. INTRODUCTION

J. García opened the conference with a Welcome to all Delegates, in behalf of CIGARRERA LA MODERNA, S.A. de C.V., host company and started the works of the MMC 83, reminding that the main purpose of these meetings is to have the opportunity of interchanging experiences among all participating countries of the most relevant themes in the current marketing, trying to detect the opportunities that those themes represent and establishing strategic actions that should be taken by the Group and by each one of the companies.

II. OBJECTIVES

The main objectives of the Conference were:

1. Review of the current situation of the marketing of Low Deliveries products, in relation to the League Tables publication and the technical development of these products.
2. Review the last events on marketing in a restrictive environment, knowing of the last experiences the countries have had, and discussing the suggestions made in BATUKE's document: ' Aide Memoire '.
3. To determine the area needs in courses for the development and training of the marketing personnel and knowing the courses planned by Millbank.
4. To get to conclusions on the strategic planning roll in marketing, as part of the planning process of the company.
5. To discuss Mike Heath's document on "Pricing/Value for Money Brands". getting to conclusions and recommendations on this theme.
6. Review the obtained progress in relation to the development of the Sales' Force, in the same terms dealt with in the prior conference.
7. Apply the experience and the use of strategic thinking in the Marlboro Case in Mexico, recognizing that what is happening today in Mexico can happen in any other country. Marlboro, as the Market Expansion Document states it, is the originator or responsible of the competitive weakness of the BAT Group.

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8. Know the BAT Marketing Policies and strategies, the sales results in the area during the last year, as well as the main strategies that the competition has followed in the area.
9. Review plans and strategies of the Virginia International brands from BATUKE and the U.S. Blend International Brands from BWIT.

III. MARKETING LOW DELIVERY PRODUCTS

1. Impact of League Tables.

A presentation of some of the conclusions to be included in a report concerning League Tables was given, starting with a brief history of their development.

In summary, the main points raised during the presentation were as follows:

Summary of the Case Studies from Operating Companies

a) Pre-Positioning

It is of prime importance to be placed as lowest or next to lowest brand in the league table if there has been no publication to date.

The examples both in the case studies and elsewhere are numerous: Silk Cut in the UK, R6 and Krone in Germany, Kent and Hallmark in Australia, Kent and Boule d'or (fortuitously) in Belgium, Capri (Extra Low and Extra Smooth) in New Zealand.

It may also be important to be placed at the lowest end of the projected tar bands, groups or consumer recognisable segments.

b) Distribution and Support

Pre-positioning will only be of longer term benefit if the brand is both available and visible when the league table is published.

In New Zealand we see the penalty paid for lack of sufficient product to meet demand, poor distribution and the absence of advertising and merchandise support: the Capri brands rapidly increased sales on publication of a league table which put them in 1st. and 2nd. place, but very soon declined for lack of support and distribution.

c) U.S.P.

Brands with a strong USP tend to sustain share longer. The USP is very often of a technological nature as seen in the U.S.A. with Vantage (cross-flow filter) and Doral (baffle filter);

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Australia with Hallmark (dual filter) or Switzerland with Select (Magnesium silicate/carbon SELEX 4 filter) and recently Barclay in the U.S.A. (grooved filter). The USP can also, of course, be less tangible as with Kent.

d) Acceptable Smoking Characteristics

Except in the short term, products which have noticeably poor smoking characteristics rarely achieve success. Hence, Ransom (original product) in Australia and Embassy Extra Mild in U.K., despite appearing as lowest brand, did not benefit in the longer term. The acceptability need not be restricted to satisfaction since the "wrong" taste (e.g. Gauloise Filter, a dark air cured in the German Blended Market) may also cause rejection.

e) Media Coverage of League Table Publication

The effect of the publication appears to be directly proportional to the level of media coverage given. This is clearly demonstrated in the Australian Case where the league table was given much more exposure in Victoria State than in the rest of the Country. The resulting sales of the same lowest tar brands were much higher in Victoria than the other states and persisted longer.

f) Subsequent Publications

The second time around, the impact is rarely as great as the first, and often a non-event unless it attracts sufficient publicity.

However, if there is a change in format which has consumer appeal, or another well respected and authoritative third-party publishes the subsequent league table, the impact may be as significant as the first publication. An example of such a publication having both these advantages is the table published by Dr. Gori in Newsweek and other media. The table was reproduced in terms of safe numbers of cigarettes that could be smoked per day (i.e. instant appeal with no data interpretation for the consumer) and the authority was the U.S. Cancer Institute, a well respected third party. Another example of the first type is the combination league table (tar, nicotine, CO, and NO) where a single number represents an otherwise confusing mass of data e.g. Herzfeld in Switzerland.

g) Low Tar Brand Families

Many of the most successful low tar brands use the league table position of their ultra low tar versions to support the mild image of the family.

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This strategy is used in many markets and is characterised by Silk Cut in the U.K. where the bulk of sales come from the 9 mg PMWNF King Size Brand, which has good taste and flavour attributes and is just acceptable to the health conscious full flavour smoker.

However, the eye-catching top of the league table shows no less than four versions of Silk Cut King Size tagged with ultra low and extra mild (both with and without substitute) in 3rd., 4th., 5th. and 6th. position, all accounting for very low sales compared with the 9 mg Silk Cut King Size parent.

h) Perceived Mild - Vulnerable or Not?

When deliveries are revealed in a 'first time' league table, it is often suggested that a perceived mild brand will suffer if its deliveries do not match its previous stage.

This effect obviously varies from market to market and is dependent on the interest and publicity given to the table.

i) Increased Usage with Low Tar Cigarettes

There has always been a popular theory that lower deliveries to higher consumption.

However, this appears to be unpredictable and is subject to many indefinite variables, not least of which is the inability to accurately measure consumption patterns before and after a change from full flavor to low delivery cigarettes. Only gross indications can be used such as total sales and incidence data but the latter is also often inaccurate.

In practice, it is believed that smokers become accustomed to a diet of cigarettes per day in terms of both the habitual ritual and satisfaction. Thus, after a period of acclimatisation, a combination of compensation and relaxation to their original routine probably produces a consumption very similar to that before the change from full flavour to lower tar.

j) Coverage of Brands

Very often, the first table only includes the larger volume, better known brands. The 'pick-up' for analysis is normally 6-9 months before publication. In these circumstances, brands can be listed highest or lowest by default or new launch low tar offers may be omitted either because of mis-timing or low volume and hence low recognition to the group organising the table publication.

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k) Negative Effects

The impact of league tables and subsequent growth of the low tar segment is often slowed down or declines during periods of repeated high price rises or severe economic depression.

A number of reasons can cause this decline and range from a consumer demand for value for money (maximum satisfaction for his money) to lack of materials or machinery to continue manufacture of the low tar brands, which are usually or more elaborate technical specification than normal full flavour brands.

l) Post League Tables

Government in those countries who have had league tables for longer periods and where their impact has declined, tend to concentrate on the anti-social aspects of smoking as an alternative. The themes used include sidestream and its alleged harmful effect on passive smokers, nuisance aspects in public places, stale smell and discoloured furnishings in the home, the unattractive smell of smokers breath and clothes and the fire hazard associated with smoking.

2. Conclusions from the Conference

a) Perceived Mild Brands: Can They be Affected with a Table Publication?

Depends on how the brand mildness is perceived in relative terms to the other brands, with which they will be represented on the table publication.

b) Does a Lower Delivery Brand imply Higher Rate of Consumption to the Consumer coming Down from a Higher Delivery Brand?

No. Maybe in terms of individuals you can have some examples of this but in global terms there is no correlation between consumption and reduction in deliveries.

c) The Dynamics of the S & H Subject in the Area, and the Impact the Action or Reaction of a Company on a Market May Have on One or More Other Markets in the Region Requires a Very Quick and Constant up dating of Developments for all Companies.

The speed required can only be achieved through direct communication between associated companies in Latin America.

d) Can League Tables be used as a Marketing Weapon, as Means of Attacking Competition, and not only as a Reaction Measure to Competition Initiatives?

There is no one single answer to this question. As a principle

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yes, but subject to local conditions. However, it was the general consensus that which ever is the case on any given market, all companies must have an established plan and be ready to take action on an objective target date, and then depending on the market conditions of that given moment, keep the option open to postpone the action to new identified target dates in the future. In the interim period between action target dates, a continuous process of updating of plans must take place.

- e) In the case of Market where Circumstances Point to the need of Taking Action with League Tables, does this Action Pose The Risk of Preempting Government Actions in Anticipating media Restrictions?

Yes, this is a possible price that will have to be paid. Therefore the decision of taking this action should take this into account then. Before the actual action is taken, the Company must be sure that the final balance is not going to give a negative end result.

3) Product Development

- a) Carbon Monoxide

A presentation describing methods of reducing carbon monoxide deliveries indicated that there is no simple answer, but a combination of design features are used.

The design requirement is to minimise CO but maintain tar deliveries. The best measure of this effect is the ratio of CO:tar deliveries.

i.e. Decrease CO

Maintain Tar

Filter Ventilation

Lower filter pressure drop

Moderate paper permeability

Higher blend nicotine

Lower density (expanded tobacco)

Lower Stem levels

Lower Puff number

Normal ratios of CO:tar are around 1 but can be reduced to 0.3 if all the above measures are taken. In practice, the most important features are filter ventilation and low filter pressure drop. With designs giving low CO:tar ratios below 0.6 however, the cigarettes tend to lack draw resistance and may therefore be unacceptable.

- b) CSF Filters

The design of this filter allows the use of very low filter pressure drop without the lack of draw resistance experienced with certain low CO conventionally designed products.

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A consumer product test is currently in progress and is intended to establish if there is a preference for this filter compared to conventionally designed low CO:tar ratio cigarettes.

c) Externally Moulded Filter Tips

A spin-off from the spin moulding technique used for CSF filters is a technique which allows decorative moulding to a depth of about 1mm. The moulding can be used as a brand identifier and a recently developed cork paper which is thermo-mouldable has been used for this purpose. Samples were distributed showing brand names, motives, rings, cross hatching, etc. It is intended to develop the technique such that motives or patterns can be coloured gold within the moulding.

Comments: There was a moderate level of interest in the technique. The B&WIT representatives requested samples of a crest pattern with gold in the moulding, for further evaluation.

d) Rationalisation

The following objectives/strategies, which were reproduced from B.A.T. (U.K. & E.) plan, were presented as a guide.

• Facts & Assumptions

Production Flexibility and profitability are influenced by the number of different specifications in manufacture.

• Objectives Strategies

1. To minimise the number of versions of any brand commensurate with market needs and importance.
2. To minimise the number of components used to construct the product range.
3. To ensure that new developments do not result in the addition of new stock items unless really necessary.

The PDT should act as a focal point for ensuring that these objectives are progressed.

Comments: It was agreed that it was necessary to rationalise as far as possible, but caution was expressed that the process did not eventually compromise the product range.

e) Filter Ventilation

The importance of the future requirement for filter ventilation on fullflavour brands in the 12-15 mg PMWNF range was discussed. The advantages were presented as:

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1. The only route to gas phase reduction.
2. Maintenance of smoke balance, taste and impact.
3. Flexibility for rapid change.

It was stressed that in the more sophisticated markets, our competitors already use ventilation at these delivery levels.

It was agreed that the best technique is to use the Hauni Max SL on-machine laser, which perforates the filter of the finished cigarette. The only alternative for 'invisible' filter ventilation is the use of zone perforated tipplings, which requires 'skip gap gumming' and porous plugwrap.

IV. MARKETING IN A RESTRICTIVE ENVIRONMENT

Omar Díaz presented "Venezuela's Experience", the post-media ban advertising situation in that market.

It was agreed that the following summary of lessons is useful to the rest of Delegates.

1. Restrictions should always be regarded as a possibility.
2. Avoid accelerating/delay imposition of restrictions.
3. Develop alternative media before ban.
4. Gear agencies/media for restricted advertising environment.
5. Develop early brand identifiers.
6. Be consistent in brand communications.
7. Develop early corporate image.
8. Explore non-traditional treatments for static media.
9. Gear up Sales' Force for changing role (quantity/quality)
10. Adapt merchandising/promotional teams to new requirements.
11. Close relationship with media/government.

Advertising expenditure in Venezuela has remained at the same level as pre-ban, although cost per thousand has gone up as television disappeared.

Comment was made that advertising agencies should be directed now to regard secondary media in its own right, specially while broadcast is available.

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Print and outdoor media were regarded as prioritarious and should be tied up before a ban.

Again it was reminded that advertising campaigns must be transferable to "static" media such as print and outdoor. In relation to the 'Aide Memoire' document, it was insisted on the importance that the recommendations stated in it have. Some additional comments were made by the group.

That in trademark diversification several attempts have been made and it was agreed that small companies find it difficult because of limited resources.

Along with sponsorships, these activities were regarded as important for the future of our business. It was recommended that the key brands should be registered in applicable or feasible product classifications. BWIT offered ad. agency counsel in this area to delegates.

V. STAFF TRAINING AND DEVELOPMENT

1. Courses Organized by Millbank.

The following Marketing courses, organized by Millbank, will take place during 1984:

- Early 1984: Marketing Management Course.
- Early 1984: Field Sales Management Workshop.
- Mid 1984: Market Research Course.

2. Regional Market Research Course

It was agreed that this will be held in Mexico City during January 1984. This course will be in Spanish and will be coordinated by Mexico with help from Millbank. This course is intended for executives who know the basis of research.

3. Sales Force Organization

Brasil confirmed that they are prepared to receive executives from this area who would benefit from studying first hand the current sales force structure of Souza Cruz. It was agreed that it would be preferable if this visit was made by a group of executives and not on an individual bases.

Thus R.W.B.B. will coordinate, in conjunction with Souza Cruz, this visit. As a first step he will ascertain the actual number of participants.

4. Sub Functional Managers Meeting

After reviewing the results of the last three meetings held -

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Advertising, Research & Sales - it was agreed that the following meetings will be held in 1984:

Sales Managers - Guatemala City - First Quarter 1984.
Advertising Managers - Mexico - Mid 1984.

Brasil expressed interest in being kept informed on these meetings.

VI. STRATEGIC PLANNING IN MARKETING

In this part of the conference, an external speaker presented the background and present techniques of the Strategic Planning, as part of an up-dating process for all delegates.

The above, taking in account that the Strategic Planning is a very useful tool for the Marketing Area and, as a fact, the strategic thinking is a quality that distinguishes the Marketing people.

It was concluded that in these days, in which most of the countries face serious economic problems and that their cigarette markets are very affected, the Marketing people play one of the most important rolls in the Company, and that the use of strategic planning techniques help them optimize the use of its resources and efforts.

That is why the marketing importance in the company's planning processes is greater each time even arriving, sometimes, both rolls to become just one.

VII. PRICING/VALUE FOR MONEY BRANDS

Delegates received a copy of the document "Aspects of Cigarette Pricing" last October. A shortened version will appear in the Market Expansion Strategy Document which will be issued in May and this was circulated to delegates by Ian Hacking.

BAT Co. Marketing Department recognises that pricing strategy is a market specific consideration requiring individual market formulation rather than a global approach. There is, however, an increasingly urgent need for Operating Companies to consider this pricing strategy in the context of declining total market volumes and the emergence of lower price competition. Delegates agreed but asked whether Millbank was prepared to accept a lower return, probably for the foreseeable future. Mr. Stewart indicated that this was the case and that Mr. Crichton had encouraged the G.M.'s of Central America to aim for increased Market share at their meeting in January.

Mr. Hacking presented the background, assumptions, policy and overall strategies. The policy is:

1. Counter competition activity and meet changing consumer needs for value-for-money offers when it can be shown that failure to provide

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such offers would probably be detrimental to the company's market position and profitability in the longer term.

2. All companies should have value-for-money offers fully prepared in order to counter competition moves immediately.
3. Operating companies should resist (whenever possible on an industry basis) the contract manufacture of own label or generic cigarettes.

Souza Cruz has recently concluded a ten year strategic distribution study. They do not see multiple and key account concentration and buying power being a significant factor in this period. All delegates agreed.

Delegates agreed that Philip Morris is most unlikely to launch very cheap cigarettes if they are dominant already at the low price end of the market. BAT's overall share is some 75% in Latin America and we do not wish to lower our margins unless market demand significantly slides in the future or in response to competitive activity. There was discussion as to whether preemption could be necessary in the light of solid information gained about a competitive plan. Delegates were not convinced that this was a wise move granted reaction could take place very quickly.

Delegates agreed that if there is a reasonable change to hold pricing policies for mutual benefit through an Industry Agreement, this should still be sought despite P.M.'s move in Venezuela.

VIII. REVIEW OF SALES FORCE DEVELOPMENT

A review was made of the progress achieved and of the most significant areas for all companies, in the development of their sales operation.

As each company spoke, it was clear that all involved have been working toward the further training of their sales personnel in order to enhance the productivity and improve professional standards. It was expressed that one of the best ways of training is to have market visits in other countries, as Venezuela and Costa Rica did, by sending their people to Brasil and Mexico to experience at first hand their system and how they function in the sales operations.

Following is a brief outline of the major areas in which each country is working toward the improvement of their Sales Force.

1. The representative of Brasil informed that they have done a study - A 10 Year Look at Distribution - and have concluded that they will continue to concentrate in servicing on the Traditional Retail Trade. Moreover, Brasil has made available their training material and are willing to receive personnel from other countries.
2. Honduras is involved in a pilot study to see if working on a commission basis is feasible. Furthermore, they are intensifying

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the time spent on training and are using material from Venezuela.

3. Costa Rica has included their Promotional and Merchandising division under Sales and have moved to a commission basis for the salesmen, receiving approximately 70% of salary and 30% commission; the results of this change have been that the salesmen spend more time on the field, and their motivation and commitment is stronger. Also, the agreement with the competition to work on a Credit to Cash basis is being eliminated, since the competition is stopping this procedure due to their decrease in market share. Costa Rica has decided to give emphasis to the Traditional Retail Trade.
4. Argentina based on the outcome, from a study made recently on their Distribution System, has decided to continue with Third Party. In the training area, they have developed a program for personnel at all levels to improve professional skills.
5. Nicaragua, as in other countries, is also intensifying its training activities. However, they are faced with a limiting factor, due to the Foreign Exchange problem they are facing, which inhibits them from sending their personnel to benefit from course and market visits abroad.
6. The Canary Islands, after having spent the time structuring their sales organization, which includes a commission base system for salesmen, are currently concentrating their efforts at improving productivity.
7. Chile has structured their sales operations through the formation of Independent Distribution companies (3 companies have already been formed); and are systematically eliminating distribution through Third Party. Through this change, they have obtained financial advantages and an improved productivity. To increase even further productivity, they are experimenting with the use of portable computers for their salesmen; they have agreed to pass on to other countries any relevant information as to the progress and benefits of this project.
8. Salvador is studying the possibility of merging their Promotions and Merchandising division under Sales. They too are working at training their personnel.
9. Panama is working at improving their methods and system through training in order to optimize sales and productivity.
10. Mexico's first objective is to increase productivity. They have acquired a Training Manager who will focus his attention on the development of their staff in key areas; furthermore, a scheme for sales force motivation is being formed to stimulate personnel through films and conferences.
11. Guatemala continues with its training program and is striving to decrease their turnover.

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13. Venezuela's major emphasis has been and will continue to be on training. In addition, they are structuring their sales organization with a view to cope with changes in the Retail Trade (as increase importance in Multiple and Key accounts occurs).

Conclusions:

The importance of training and improvement of professional standards is shared by all and should continue to be an area of high priority. Although communication has improved over the last year, the point was made that Marketing Directors should give this area special attention, and insure that stronger bonds and communication among Sales Managers exist in order to promote the cross fertilization of experiences and ideas.

IX. MARLBORO IN MEXICO

The delegates received the Marlboro Case before the meeting, which was prepared by Mexico's team, which was complemented during the conference with a presentation of its advertising campaign by the Maqueda Gibert Advertising Agency and by a videotape provided by BWIT.

After this, the delegates were splitted in three work groups to discuss the case and get to conclusions and recommendations, which are listed as follows:

GROUP A

1. Factors which more contributed to the development of Marlboro in Mexico.
 - a) Prior brand awareness.
 - b) Consistency of approach.
 - c) Economic Climate.
 - d) Youth.
 - e) Raleigh/International Potential.
 - f) Product Quality.
2. Marlboro in the next 10 years, if its present situation keeps stable.
 - a) Market Leader: Marlboro Family.
3. Short term strategies to stop Marlboro.
 - a) International Category Concentration.
 - Revamp Kent and Viceroy.
 - Possibilities of new styles.
 - Product.
 - SOV.

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4. Medium/long term strategies.
 - a) Multi Prod. Attack.
 - * Lucky Strike Filter - Youth/Value.
 - * JPS.
 - * Low Delivery International.
 - * Kool.
5. Strategies in front of price liberation.
 - a) Competition.
 - * A second line international brand.
 - * Chesterfield/L&M.
 - b) La Moderna.
 - * Hold Pall Mall in reserve for value for money offer.
 - * Hold Raleigh price.

G R O U P B

1. Factors which more contributed to the development of Marlboro in Mexico.
 - a) Quality Product/package.
 - b) Consistent advertising/strong image.
 - c) Spill over international/U.S. advertising.
 - d) Heavy investment.
 - e) Lack of strong image competitor - young appeal.
2. Marlboro in the next 10 years, if its present situation keeps stable.
 - a) Absolute dominance of international segment: 90%+.
 - b) SOM: 18 to 25%.
3. Short Term strategies to stop Marlboro.
 - a) Build on strengths: Raleigh, Viceroy and Kent.
 - b) Introduce 10's packs of main brands.
 - c) Research young smokers.
4. Medium/long term strategies.
 - a) Bracket Marlboro with distinct brand offerings.
 - * Premium price: Pall Mall/JPS.
 - * Lower price international: Newport/Old Gold.
 - * Youth appeal: Kool.
 - * Competitive full flavour: Lucky Strike.
 - * Low Tar offering: Barclay.

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b) Alternate packs of existing brands:

- Viceroy 100's.

c) Product modifications.

- Kent: In line with image.
- Viceroy Lights: Competitive with Marlboro Lights.
- Lights versions: Raleigh.

GROUP C

Ted Parrack gave his group's conclusions and recommendations with the following speech:

The problem that a lot of companies have is focusing on brands rather than smokers. It is very easy to talk about brands' positions and brands' packing size and brand advertising, but those are only relevant if they are meeting the needs of the specifically identified smoker target body. So we think that the first question that next go for that matter, any market should ask itself, is what are the needs of their smoker consumer. No, that is not one consumer, that is many groups of consumers. For example, in the United States, we did a study of smoker needs and our smoke market broke-down into nine distinct smoker populations, each of which had its own attitudes and beliefs in life styles, and some excuse of age and sex that went with them; but they were secondary to the needs' steps. What we found was that there was a strong correlation between what attitudes people have and what brands they chose to smoke. We all believe that. It isn't fact true. So the first question to ask it is need not to be a research project, it is what are the needs of the various groups of smokers in your market. Those are not groups by age or by sex, but by attitudes, social habits and images. And by images I just mean those ideas the consumers chose to associate themselves with. A cigarette product is a badge people wear and it expresses something about that wearer to the people around them and it says: here's't I am, here's't I want to be. Tony Sandefur calls that "the me I want to be".

There is a lot of clues that tell you what images are effective in the market, not just what cigarette brands so well, but brands in categories that deal with similar needs. I would ask in any market that I came to for the first time, what advertising sells clutching, what advertising sells beer, what advertising sells cosmetics, what advertising sells cars, what records the people listen to, what movies do they see, what television programs are the most popular. After an expert in the market, which is really anybody who lives here and is in our business, answers those questions, you begin to get a picture of what motivates people.

The second question is that if you are going to get a profile of the image needs of your smokers, divided-up as separately and descreet as

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you can, the next question is of your existing brands. Which brands meet which needs and, since we are talking about established existing brands in the market place, they have districts, just like people have districts, they've personalities. The issue then becomes what smokers needs are met by the brands we've got now. That means a certain number of positions in your market place are currently occupied by brands that you already sell. The next question obviously is what needs are not met by the brands I currently sell? I would next ask, are any of those needs possible to meet with my current brands, because those are my properties, that's what I got in my bank, are slight, no major, slight modifications in the presentation of my brands going to expand the number of people they appeal to, because that says I can take an existing brand, an existing property like Raleigh or Viceroy or the other brands in the market place, and include more people in its appeal. When I've looked at that issue, there would then be gaps in the market place where I don't have a brand. Those, in my judgement and our judgement as a group, represent the new product priorities of the company, whether they'd be local brands or international brands. The final question is then, do brands that exist within the group, whether they would be U.S., international brands, brands sold in other countries they've been successful or British international brands, have images that meet the needs of those smokers our current brands don't reach. When you've exhausted that option, you've identified true new product needs, where a brand needs to be created. The feel a consumer needs it is not met by your existing brands, by the international brands offered by BAT or BWI or by other companies of the group. Since none of us is expert in the Mexican market, but the people who work here is really the people who live in the market and control it, that can best answer those questions. And that would be that list of questions that I would recommend we consider as the way you examine the needs of any market and to set-up priorities of established brands, their line extensions, the introduction of international brands and the development of new products.

Marlboro would probably sit in three or four of those groups, as it does in the United States. What we've found to be the most useful strategy is, rather than attempt to develop one brand that confronts Marlboro on all three of those dimensions, is to look at a brand that could meet one of those three dimensions and focus on that, more narrow lead than Marlboro does; let me give you an example: In the market where Marlboro has already grown to a high share level, one of the needs that Marlboro met when it began to grow was to be a brand that trend setters chose as a way to identify themselves as being different from the crowd.

X. INTERNATIONAL BRANDS

1. Overview of BAT Marketing Policies and Strategies.

a) Mr. Heath's Talk

Mr. Heath stressed to the delegates the needs for unity of purpose amongst the various elements of BAT's tobacco marketing

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and for the needs of leadership and authority, backed by faith and goodwill. He suggested that the Marketing Director had four major challenges: first, a strategic grasp of the market and company needs combined with vision; secondly, to develop a new skill of contingent planning, particularly with BAT's high market share in Latin America and with competitive aggression; thirdly, to achieve a higher productivity from every dollar spent and lastly, to plan all his activities in a better, more professional way.

He suggested that the environment meant that only the fittest would survive. By fittest, he meant those Marketing teams which know the consumer better than competition; which employed the most skillfull image management of International brands; which gained the highest efficiency and productivity in the manufacture of lower priced brands; and which engendered innovation from, and skillfully managed, R&D expertise to produce product concepts.

After the discussions on international brands, Mr. Heath stated that the operating companies' performance in the segment was unsatisfactory. Despite economic conditions suppressing demand for international brands in 1982, Philip Morris was much better placed in the segment to exploit the upsurge with Marlboro; their placement of second-line price brands; B&H 100's; and Galaxy/Merit. BAT's medium priced local brands could be vulnerable and Mr. Heath stated that the days of multiple launches in a year had passed.

Mr. Heath expressed concern at the tendency of many companies to schedule too many new brand launches resulting in inadequate resources (advertising support, merchandising space, field-force time) being given to ensure the success of the really critical key brand launches. The most difficult decision facing marketing directors is to determine which single option is their top priority. He asked all the L.A. Marketing Directors present to re-consider his international brand priorities and to decide which brands (one new, and one existing where relevant) really are his top priorities and to advise this priority to Millbank (writing to I.G. Hacking) together with a supporting rationale, copying correspondence to E.T. Parrack (BWIP) and D.E. Beecroft (BATUKE).

2. International Brands Sales in Latin America.

Mr. Ian Hacking presented a sales analysis of International Filter Brands' performance in the region (see attached appendix No. 1). Total free world volume declined by 0.6% in 1982 compared with 1981. Philip Morris was the only big manufacturer to show overall volume growth due to its U.S. domestic market growth of some 3%. Each major manufacturer had volume decline outside the U.S. due primarily to the steep market decline in Germany and in U.S. exports.

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Total sales in Latin America in the period 1977/82 have outperformed the overall free world rate of volume growth but 1981 were poor years. International Filter Brands' sales in Latin America have steadily grown in the period but at a slightly lower rate than in the free world in total. In 1982 BAT's volume was 7.2 billion compared with 4.8 billion in 1977. The purchase of Kent and the growth of the Viceroy family in Chile, Mexico and Panama are the reasons. At 31% of BAT's total U.S. International Filter Brands' sales, Latin America is the single biggest region.

BAT's segment share was only 20.6% in 1982 (18.1% - 1977). The segment represented 35 billion in 1982. In no subsegment of length, strength of menthol is BAT's share over 50%. BAT held only 17% of the Long/King Size subsegment and 14% of the full flavour subsegment in 1982. BAT's overall, sales weighted, market share in the region is some 75%.

Marlboro is by far the leading brand holding 43% of total volume in 1982. Viceroy at 11% is number two despite not being marketed in Argentina and Brasil and having negligible sales in Colombia. Kent sold the same volume in 1982 as in 1977 but its segment share has dipped to 7%.

Because of the difficult trading conditions, Marketing Department in Millbank is forecasting an average annual growth rate of some 3.1% for U.S. International Filter Brands in the period 1983-87 in the free world. This compares with 9.6% average per annum in 1977-81 and a poor year in 1982 of minus 4%. At 3.1% the segment would still outperform the projected growth of local brands by three times.

3. Competition Strategies.

Each one of the delegates presented the main strategies followed by the competition, during last year, in his country.

In order to give this information in a more uniform and objective form, it was asked to all delegates to fill a questionnaire.

In Appendix No. 2, all questionnaires given to all delegates are attached.

4. Batuke International Brands.

D. Beecroft and Paul Viner, BATUKE's delegates, made a presentation on plans and strategies for the John Players Special brand.

This presentation included the trademark background as well as sales history, where you can see that the brand got a volume of 11761.4, representing a growth of 107.% over 1981. The highest contribution of its increase is in the U.K. Domestic market.

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General BATUKE's strategy for JPS is the following:

- a) To reposition JPS to attack competitive international brands in Latin America, Far East and Middle East.
- b) To provide a longer term replacement for B&H SF in Virginia Markets.
- c) To attack blended markets, primarily Latin America, with American blends.
- d) To concentrate marketing support behind 84mm. King Size Box.

It is the delegates opinion that the above strategy gives a good opportunity for the area markets, since it is possible that JPS is the international brand that has the best possibilities to confront Marlboro.

Additional to this strategy, which allows developing JPS with an American blend, D. Beecroft underlined that philosophy of BATUKE in accepting certain flexibility in the product design, in order to make adequate to the needs of each market.

The presentation included Brand Communication Strategy in the packaging design, advertising, sponsorship activity and promotion/merchandising aspects.

At short term, the activity in key area markets is the following:

- BRASIL and CHILE

- 84mm. box blended
June 1983
International Campaign
Pricing Alongside Marlboro

- MEXICO

- 80mm. box blended and 90mm. box (TT) blended.
February 1984
International Campaign
Pricing alongside Marlboro (80) and B&H (90)

- COLOMBIA/PARAGUAY

- 80mm. box blended
April 1984
International Campaign
Pricing Alongside Marlboro

The markets as Argentina, Venezuela and Center American Countries are considered as opportunity markets.

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The Lights version possibilities were seen as very positive by the group, considering that it widens the future perspectives of the brand. The shown design pleased everyone.

The BATUKE's delegates presented the packs for the Players and Raffles brands launched by Philip Morris recently in the American Market, with the clear intention to block the JPS strategy, since their designs are very similar to those of JPS. It was agreed that the delegates take an immediate action in order to ensure that the brand and design register is up-dated in all countries.

5. BWIT new Organization and Orientation

T. Sandefur presented the new thinking and philosophy with which BWIT works currently. This includes its mission, operative objectives, product strategies, market and brands, as well as its new organization strategy.

In the brand strategy aspect, he indicated that BWIT brands have been divided in two groups: Strategic Brands and Tactic Brands.

The strategic brands are those established and maintained by BWIT in all countries under a similar positioning, product design, packing design, marketing strategies and copy platform.

BWIT is responsible to assure that these brands strategies are well defined and faithfully executed in all countries. The Individual Associate Companies should be responsible for recommending executional modifications deemed necessary to optimize the agreed strategy in their markets.

Currently, the following are considered strategic brands: Lucky Strike, Kent (all family), Barclay and Kool.

Tactic Brands are those in which BWIT keeps a more flexible policy, in a way that the brands strategies can be adapted to the specific needs of each market.

Presently are classified as tactic brands: Viceroy, Pall Mall, Raleigh, BelAir, Newport, and the rest of the available brands which had not been underlined as strategic.

Finally, T. Sandefur showed the new BWIT organization charts, making special emphasis in the Operative Committee functions, as well as to T. Whitehair's function as Area V.P. for Latin America/Far East and who will be the person with whom all Associate Companies with communicate in BWIT. Mr. Whitehair, depending on the discussed subject, will turn it to the appropriate person within BWIT organization.

The delegates opinion is that these changes are very favorable and will surely benefit all the Group.

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6. U.S. International Brands Strategies & Plans.

T. Parrack presented, in brief form, the general policies and strategies for the main BWIT international brands:

a) Viceroy

Brand Positioning:

Viceroy will be positioned as the best tasting, most satisfying U.S. International brand family for adult smokers who perceive themselves as socially adept, affluent and discerning.

Strategy:

1. During 1983, one worldwide communications package for the Viceroy family will be developed and implemented.
2. VICEROY's user image will be specifically portrayed in aspirational terms consistent with the maturity of the franchise and its leadership position in many markets, exploiting the brand's image of being a well-established popular U.S. international brand.
3. VICEROY's prime prospect will be a male, 25+ years of age, urban, middle and upper middle class full-flavor smoker. He will be more intellectual in his approach to life than physical, socially outgoing and his desire for smoking satisfaction will take precedence over any personal concern. VICEROY Lights will satisfy prime prospects' need for a milder cigarette.
4. Retail price parity by brand style will be maintained versus the leading U.S. International brands, except in those markets where VICEROY is BWI's price brand.
5. VICEROY Parent and Lights will be targeted against competitive U.S. International full-flavor and lights brands, primarily Marlboro and Marlboro Lights.

Product Strategy:

1. Provide an american blend product in both parent and light versions superior to competition.
2. Set strength of taste and T&N levels as appropriate to local market conditions, but maintaining a full-flavor, average strength stance with T&N levels in line with competition, especially Marlboro (and, for the milder version, Marlboro Lights).
3. Use standard cigarette length and circumference in line with pack style and major competition.

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Packaging Strategy:

Maintain current VICEROY designs worldwide in the near term to minimize franchise erosion.

Changes in label graphics to provide worldwide consistency in package design will be made only after new family imagery is produced and in place and such changes are demonstrated to be superior to current.

Use cork tipping for VICEROY parent and rich lights charcoal filter. Cork tipping will be tested for VICEROY lights and, if acceptable, will replace white tipping where applicable.

Advertising Strategy:

Develop and field creative to convince prime prospects that VICEROY is the best tasting, most satisfying U.S. International brand family for adult smokers who perceive themselves as socially adept, affluent and discerning.

b) Lucky Strike

Brand Positioning:

Lucky Strike is the best tasting, most satisfying U.S. International cigarette delivering the ultimate in smoking satisfaction for physically and mentally dominant males.

Strategy:

1. Lucky Strike will be positioned in the mainstream of the U.S. International full-flavor segment competing directly against Marlboro, Camel and Winston.
2. A central image campaign will be available for lead markets use in third quarter of 1983.
3. Retail pricing will be at parity with the leading U.S. International leader in each market while achieving a defined variable profit margin per thousand by market.

Product Strategy:

1. Provide an American blend product superior to competition.
2. Set strength of taste and T&N levels as appropriate to local market conditions, but maintaining a full-flavor, average strength stance with T&N levels in line with competition, especially Marlboro.

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Packaging Strategy:

1. Standardize large "Round 'O'" package for all styles which communicates the brand's heritage, uniqueness, masculinity and individualism.
2. Employ package copy appropriate to local legal and technical requirements.
3. Adopt LSMFT clausung for all Lucky Strike Packaging.

Advertising Strategy:

Convince young adult male smokers that Lucky Strike is the best tasting, most satisfying American full-flavor cigarette for physically and mentally dominant males. This position will be supported by Lucky Strike's product smoking quality and image presentation.

c) Kent

Brand Positioning:

The Kent family will be positioned as the definitive range of mild, satisfying cigarettes for concerned men and women who perceive themselves as intelligent, independent and successful.

This represents a family approach versus the separate brand style positionings currently in place.

Strategy:

1. The Kent family of products will comprise BAT's priority entries in the emerging mild/low 'tar' U.S. International segments.
2. A new brand positioning will be implemented in lead markets in the 3rd. Quarter 1983 for regional expansion in the 4th. Quarter 1983. The current separate brand positioning will be maintained until that time.
3. The consolidated family positioning will include new advertising, line extension packaging refinements and product refinements.
4. Local and International media advertising will continue to support the brands.
5. Major competition is mild, lights U.S. international brands and, in the future, ultra low 'tar' brands depending on the segment development of each international market.

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Product Strategy:

1. The Kent family of products will be positioned in T&N definition and smoking character as the definitive range of mild, satisfying cigarettes and reflect the brand's mild/low tar positioning in local markets relative to competition.

The product objectives for the Kent Line are to achieve consistent smoking character across all styles at tar levels appropriate to each style's competitive segment and to achieve preference versus competition among franchise and prime prospect smokers.

Packaging Strategy:

Consistent with the development of a family positioning, Kent line extensions (lights and ultra lights) are being developed with the objective of marketing a Kent family of brand styles with extensions related to the parent in terms of "family look" but connotative of progressively lower delivery levels.

Advertising Strategy:

Kent's creative strategy is to develop new copy to convince prime prospects that Kent is the mild, satisfying brand range for intelligent, independent, successful adults. This position will be supported by Kent's equity of being the world's leading mild U.S. international brand family.

d) Barclay

Brand Positioning:

Barclay will be positioned as the only cigarette that delivers the summary pleasures of smoking at ultra low 'tar' levels.

Strategy:

1. Barclay will be launched in high potential markets ("Priority Markets") where the brand can achieve a segment leading volume position.
2. Priority markets will be defined as those wherein manufacturing source must have capability to produce Barclay's essential smoking characteristics and use the Actron technology; have a lights/ultra segment representing five percent or more of total volume; and where significant investment funds are available to introduce the brand and sustain it in the post introductory period.

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3. All aspects of product, packaging and advertising will conform, as closely as is legally possible, to the original U.S. version.
4. Legal protection for the trademark, filter concept, and advertising copy is now and will continue to be sought in as many as markets as practical.
5. Major competition is mild, lights, U.S. international brands and, in the future, ultra low tar brands depending on the segment development of each international market.

Product Strategy:

1. Barclay will use the Actron filter worldwide.
2. With the exception of the U.K. market, the first application of the Actron technology in any market will be the commercial launch of Barclay.
3. Blends will be developed that, in combination with the Actron technology, deliver Barclay's high taste characteristics worldwide.
4. 'Tar' deliveries will be managed against local consumer needs in a range of 1-3 mg. worldwide.

Packaging Strategy:

1. Barclay will employ U.S. domestic packaging graphics on all styles, worldwide, without exception, subject only to local legal requirements.
2. Cork tipping to be used worldwide.

Advertising Strategy:

Barclay man imagery will be used, from launch, in all markets where permitted. Creative will convince prime prospects that only Barclay offers the combination of rational satisfaction from its ultra low 'tar' component, sensory satisfaction through its high taste component, and ego satisfaction through its attractive/vivid imagery.

e) Pull Mall

Brand Positioning:

Pull Mall will be positioned as the choice of upscale smokers who demand a premium quality, distinctive brand, offering the highest prestige of all mainstream U.S. International full-flavor cigarettes.

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Strategy:

1. Due to higher brand priorities, BWI will work with and coordinate Operating Company activities for the development and management of the Pall Mall positioning.
2. Achieve a premium price for all Pall Mall styles relative to competitive U.S. international brands where market conditions allow.
3. Target Pall Mall against competitive U.S. international full-flavor brands.

Expenditure Strategy:

No major IBS expenditures are budgeted for 1983 other than BWI's role in coordinating Associate Company activities.

Advertising Strategy:

For the short term, BWI will work with and coordinate Associate Company development and execution of a new advertising campaign in support of the brand family positioning. Long term, BWI will assume central responsibility for the development and management of Pall Mall's image as the most prestigious, premium quality U.S. international brand.

Product Strategy:

1. Provide an American blend product superior to competition.
2. Set strength of taste and T&N levels as appropriate to local market conditions, but maintaining a full-flavor, average strength stance with T&N levels in line with competition, especially Marlboro (and for Plains superior to Camel Plains).

Packaging Strategy:

1. In the long term, utilize the new Group Standard design for Pall Mall filters worldwide.
2. Retain the current design for Plains.
3. Use cork tipping.

f) Kool

Brand Positioning:

The Kool Brand family will be positioned as the brand (at any 'tar' level) for young adult-trend setters who desire the refreshing taste sensation unique to Kool'

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Strategy:

1. The Kool family will be positioned primarily in image, not product, terms. The brand's international development depends on association of Kool with the leading edge of trends among hedonistic young adult smokers. This will be accomplished through the brand's association with music in traditional and non-traditional forms of communication to the prime prospect.
2. The objective of the marketing strategy is to make Kool the leading U.S. international menthol family in all established menthol markets and to position Kool to create and lead the menthol segment in markets where it is not yet a major factor.
3. Line extensions of Kool Parent, specifically Kool lights and Kool ultra, will be introduced as required by market conditions. Kool milds will be restricted to U.S. Military and U.S. caution notice markets.
4. Kool's prime prospect will be male (not to the exclusion of females), 21-30 years old, urban, hedonistic, socially active and aware of and wanting to participate in new trends.
5. Retail pricing will be at parity with the leading U.S. international.

Product Strategy:

Field products worldwide which match Kool's unique U.S. taste characteristics.

Packaging Strategy:

Field package designs that are identical to U.S. Domestic Kool.

Contract manufacture and general export Kool Super Lights will undergo a pack and name change to become Kool Lights. Kool Super Lights will continue to be marketed in Japan because of the special circumstances of that market; until such time as the Super Lights pack and the name can be changed to Kool Lights.

Advertising Strategy:

Utilize the "Music" property to convince prime prospects that Kool is the only brand for young adult trend-setters who desire the refreshing taste sensation unique to Kool.

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As part of his presentation, Ted Parrack gave a wide explanation of BWIT Line Management description, attached as Appendix No. 3, and in which the main qualification factors of the international brands are presented in an objective way, in relation to its Product Image, User Image and Focus of Sales.

B. Telling continued with the international brands presentation, establishing the opportunity available to develop in an international level the menthol cigarettes category, and how the Kool brand offers a great potential to achieve it.

Additionally, the Kool campaign rationale was presented, after which M. Wurmser presented the adaptation made to this campaign for Panama's market. This campaign satisfied the delegates, who judged it as excellent.

The delegates will consider, in their future brand strategies, the possibilities that Kool can offer in their markets.

As part of the theme of International Brands, Ted Parrack presented the Viceroy campaign, International Man, prepared by BWIT. Eventhough the campaign was conceptually considered as appropriate by the interested delegates, the performances were rejected since the James Bond Style used in the past was considered as inappropriate since it was incredible and not real. Moreover, it was an advertising reprise of 12 years ago.

It was agreed that BWIT prepares new performances and that, in a parallel way, Mexico and Panama who are the main users develop an alternate campaign with the Mexican Advertising Agency O&M. T. Parrack will send to Mexico, as soon as possible, the brief used by the Gray Advertising Agency, so it can be taken as basis for the brief given to O&M. All this activity will be coordinated with B. Telling.

Finally, B. Telling presented a promotional video-tape of the Olympics wich will celebrate in U.S.A. in 1986, and which is being negotiated. The delegates rejected the possibility of sponsoring it, considering that it has no interest for their countries and the production has no attractiveness.

XI. CLOSING THE CONFERENCE AND CRITIQUE

It was the delegates' opinion that the conference met its objectives, so it can be considered as a success.

The participation of 25 delegates, representing 14 countries, permitted that the experiences contributions were greater.

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Mr. Heath's attendance was considered as very productive and relevant, judging that it will be very convenient if he could attend future conferences.

It was agreed to ask Venezuela if it could be the Host Country for the MMC 84, which will be celebrated in March. At the moment of writing these minutes, O. Díaz confirmed officially the acceptance of Mr. P.J. Rombaut so Bigott hosts the next MMC 84, in March.

The delegates agreed that the next conference's structure should be:

- First Day: Millbank Input.
- Second Day: Area matters.
- Third Day: International Brand Strategies.

Finally, comments were made in relation that Millbank is responsible for coordinating these meetings, with the collaboration of the Host Country.

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JGSN'mjsh.
May 1983.
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INTERNATIONAL FILTER BRANDS

LATIN AMERICA

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FREE WORLD

1982

THE BIG THREE'S PERFORMANCE

	<u>% CHANGE</u> <u>V. 1981</u>		<u>% CHANGE</u> <u>V. 1981</u>
FREE WORLD	(0.6)	US MARKET	(0.3)
BAT GROUP	(2.7)	US SALES	(5.3)
		REST OF WORLD	(2.3)
PHILIP MORRIS	0.7	US SALES	3.0
		REST OF WORLD	(1.2)
R.J.R.	(0.4)	US SALES	2.4
		REST OF WORLD	(10.3)

TOTAL MARKET DECLINED FOR FIRST TIME

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FREE WORLD

TOTAL SALES BY REGIONS

(BILLIONS)

	<u>1977</u>	<u>% OF TOTAL</u>	<u>1982</u>	<u>% OF TOTAL</u>	<u>ANNUAL AVE.</u> <u>% GROWTH</u>
LATIN AMERICA	298	11.2	323	11.4	+ 1.6
NORTH AMERICA & CARIBBEAN	687	25.8	699	24.6	+ 0.3
EUROPE	709	26.6	712	25.0	+ 0.1
ASIA	736	27.6	835	29.4	+ 2.6
MIDDLE EAST/AFRICA	234	8.8	274	9.6	+ 3.2
	2664	100	2843	100	+ 1.3

STEADY GROWTH IN LATIN AMERICA UNTIL 1981

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FREE WORLD

INTERNATIONAL FILTER BRANDS

(BILLIONS)

		<u>1977</u>	<u>%</u>	<u>1982</u>	<u>%</u>
FREE WORLD	U.S.	161.0	55.3	222.8	58.2
	U.K.	130.3	44.7	160.3	41.8
		-----	-----	-----	-----
	TOTAL	291.3	100.0	383.1	100.0
LATIN AMERICA	U.S.	26.7	97.4	35.1	98.3
	U.K.	0.7	2.6	0.6	1.7
		-----	-----	-----	-----
	TOTAL	27.4	100.0	35.7	100.0

U.S. BRANDS GREW BY 38% IN FREE WORLD 82/77
BY 31% IN LATIN AMERICA 82/77

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LATIN AMERICA

U.S. INTERNATIONAL FILTER BRANDS

(BILLIONS)

1977

1982

	<u>FREE WORLD</u> <u>TOTAL</u>	<u>LATIN</u> <u>AMERICA</u>	<u>FREE WORLD</u> <u>TOTAL</u>	<u>LATIN</u> <u>AMERICA</u>
BAT	17.6	4.8	23.2	7.2
P. MORRIS	84.2	12.4	145.5	24.8
R.J.R.	42.1	3.1	52.8	3.1
OTHERS	17.1	6.4	1.3	-
	-----	-----	-----	-----
TOTAL	161.0	26.7	222.8	35.1

BAT BOUGHT LORILLARD INTERNATIONAL MID 1977

P.M. BOUGHT L & M INTERNATIONAL MID 1978

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LATIN AMERICA

U.S. INTERNATIONAL FILTER BRANDS
REGIONAL IMPORTANCE TO BIG THREE

	<u>1977</u>	<u>1982</u>
	<u>L.A. AS %</u>	<u>L.A. AS %</u>
	<u>OF TOTAL</u>	<u>OF TOTAL</u>
B.A.T.	27.3	31.1
P. MORRIS	14.7	17.0
R.J.R.	7.4	5.7

BAT'S 1982 SPREAD WAS:-

EUROPE	25.7%
ASIA	20.0%
MID. EAST/AFRICA	16.5%
N. AMERICA/CARIBBEAN	6.7%

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LATIN AMERICA

U.S. INTERNATIONAL FILTER SEGMENTS

(BILLIONS)

	<u>1977</u>	<u>BAT % SHARE</u>	<u>1982</u>	<u>BAT % SHARE</u>
R.L.K.	21.5	14.2	30.7	17.1
E/L	5.2	34.1	4.4	45.3
	—	—	—	—
	26.7	18.1	35.1	20.6
F/F	19.9	16.2	27.2	14.2
MILD	6.8	23.7	7.9	42.6
	—	—	—	—
	26.7	18.1	35.1	20.6
MENTHOL	0.7	19.4	0.7	33.0
NON-MENTHOL	26.0	18.1	34.4	20.4
	—	—	—	—
	26.7	18.1	35.1	20.6

EXTRA LENGTH DECLINE IN ARGENTINA
BAT HAS INCREASED SHARE OVERALL

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LATIN AMERICA

MAJOR MARKETS FOR U.S. INTERNATIONAL BRANDS

(BILLIONS)

<u>MARKET</u>	<u>1977</u> <u>VOLUME</u>	<u>1982</u> <u>VOLUME</u>	<u>AVE. % CHANGE</u> <u>PER ANNUM</u>
ARGENTINA	7.5	8.3	+ 2.0
MEXICO	2.4	7.9	+26.9
COLOMBIA	4.7	5.2	+ 2.0
ECUADOR	3.0	2.7	(2.1)
CHILE	0.4	2.4	+43.2
BRAZIL	1.3	1.1	(3.4)
BOLIVIA	0.5	0.7	+ 7.0
PERU	0.9	0.7	(5.2)
PANAMA	0.4	0.7	+ 8.2
PARAGUAY	0.9	0.7	(5.2)
OTHERS	4.7	4.7	-
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TOTAL	26.7	35.1	+ 5.6

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LATIN AMERICA

MAJOR MARKETS FOR U.S. INTERNATIONAL BRANDS

	<u>1977</u>		<u>1982</u>	
	<u>% SHARE OF MARKET</u>	<u>BAT'S SEGMENT %</u>	<u>% SHARE OF MARKET</u>	<u>BAT'S SEGMENT %</u>
ARGENTINA	20.3	14.0	25.4	7.1
MEXICO	5.1	29.8	14.9	29.9
COLOMBIA	16.0	9.5	17.5	11.3
ECUADOR	75.2	-	75.0	-
CHILE	4.4	94.2	26.1	90.1
BRAZIL	1.1	62.4	0.8	12.3
BOLIVIA	35.2	-	64.0	-
PERU	26.3	0.8	18.5	-
PANAMA	46.4	58.7	66.3	67.5
PARAGUAY	50.2	28.2	43.3	58.9
OTHERS	10.0	3.5	8.7	11.6
	-----	-----	-----	-----
TOTAL	9.0	18.1	10.9	20.6

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LATIN AMERICA

U.S. INTERNATIONAL FILTERS 1982

(MILLIONS)

	<u>VOLUME</u>	<u>ANNUAL AVE. % GROWTH 77-82</u>	<u>BAT % SHARE OF SEG. 82</u>	<u>TREND OF BAT SHARE</u>
PANAMA	656	+ 8.2	67.5	+
VENEZUELA	313	-19.8	41.2	-
EL SALVADOR	98	+28.5	19.4	-
COSTA RICA	77	- 7.0	28.6	+
GUATEMALA	71	+ 3.1	33.8	-
HONDURAS	13	-10.1	96.0	+
NICARAGUA	0	N/A	-	
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	1228	- 3.2	53.5	(53.4 IN 1977)

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LATIN AMERICA

THE MAJOR U.S. INTERNATIONAL BRANDS

(BILLIONS)

	<u>VOLUME</u>	<u>1977</u> <u>% OF</u> <u>TOTAL</u>	<u>VOLUME</u>	<u>1982</u> <u>% OF</u> <u>TOTAL</u>	<u>VOLUME</u> <u>TREND</u>
MARLBORO	8.9	33	15.2	43	+
VICEROY	1.7	6	3.7	11	+
CHESTERFIELD	-	-	3.0	9	+
L & M	3.5	13	2.6	7	-
KENT	2.6	10	2.5	7	=
LARK	1.7	6	2.4	7	+
WINSTON	2.4	9	1.8	5	-
PARLIAMENT	2.3	9	1.1	3	-
OTHERS	3.6	14	2.8	8	-
TOTAL	26.7	100	35.1	100	

MARLBORO HAS STRENGTHENED ITS POSITION

VICEROY IS NO. 2 AND IS NOT MARKETED IN ARGENTINA OR BRAZIL

KENT HAS KEPT ITS VOLUME DESPITE PROBLEMS IN ARGENTINA AND COLOMBIA

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INTERNATIONAL BRANDS

COMPETITION STRATEGIES

QUESTIONAIRES RECEIVED FROM THE DELEGATES

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INTERNATIONAL BRANDS

Competition Strategies

COUNTRY COSTA RICA

	1 9 8 2	
	<u>% SH</u>	<u>% Var.</u>
TOTAL INTERNATIONAL BRANDS	2.95	33.32
OWN INTERNATIONAL BRANDS	1.0	34.62
COMPETITION INT. BRANDS	1.95	32.65
MAIN INTERNATIONAL BRANDS (3)		
VICEROY (4)	0.88	29.09
L & M	0.36	- 12.94
MARLBORO	1.59	51.14
TOTAL MARKET (Million cigarettes monthly average)	181.10	- 1.41

NEW INTERNATIONAL BRANDS LAUNCHED IN 1982 (Own & Competition)

BRAND STRATEGIES

NOTE: The growth shown in the table is due principally to contraband into Panamá. This movement sparked up during the 81/82 period as the Colon devaluation resulted in a 50% difference on consumer price between Panamá and Costa Rica. Both Viceroy and Marlboro have benefited from the situation.

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INTERNATIONAL BRANDS

Competition Strategies

COUNTRY SPAIN (CANARY ISLAND MARKET)

1 9 8 2

	<u>% SH</u>	<u>% Var.</u>
TOTAL INTERNATIONAL BRANDS	44.26	+ 2.2
OWN INTERNATIONAL BRANDS	6.03	+ 0.6
COMPETITION INT. BRANDS	38.23	+ 0.4
MAIN INTERNATIONAL BRANDS (3)		
WINSTON LSFT H.L.	18.8	+ 0.3
MARLBORO LSFT H.L.	3.8	+ 1.2
BENSON & HEDGES KSFT H.L.	2.6	+ 0.2
TOTAL MARKET (Million cigarettes monthly average)	311.4	- 2.5

NEW INTERNATIONAL BRANDS LAUNCHED IN 1982 (Own & Competition)

<u>BRAND</u>	<u>STRATEGIES</u>
WINSTON S.C.	Brand imports changed to local manufacture to
WINSTON H.L.	maintain price in view of Peseta devaluation
CAMEL H.L.	" " " "
CAMEL S.C.	" " " "
MARLBORO H.L.	" " " "
LARK H.L.	" " " "
H.B. S.C.	" " " "
BENSON & HEDGES H.L.	" " " "
JUBILEE	New brand. Price advantage.

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END LINE MANAGEMENT

	<u>PALL MALL</u>	<u>VICEROY</u>	<u>RALEIGH</u>	<u>LUCKY STRIKE</u>	<u>BARCLAY</u>	<u>KOOL</u>	<u>KENT</u>
PRODUCT IMAGE	<u>PREMIUM QUALITY</u> <u>SMOOTH/REFINED</u>	<u>MAINSTREAM U.S. INT.</u> <u>FILTER SATISFACTION</u>	<u>REAL TOBACCO</u> <u>SATISFACTION</u>	<u>SUPERIOR QUALITY</u> <u>FULL-FLAVOR SATISFACTION</u>	<u>ULTRA ULTIMATE</u> <u>SATISFACTION</u>	<u>MENTHOL</u> <u>SATISFACTION</u>	<u>MILD</u> <u>SATISFACTION</u>
USER IMAGE	<u>MATURE, MALE</u> <u>URBAN</u> <u>UPSCALE +</u> <u>++ EDUCATION</u> <u>PRESTIGE-ORIENTED</u>	<u>MALE</u> <u>URBAN</u> <u>MIDDLE CLASS +</u> <u>+ EDUCATION</u> <u>WANT VALUE FOR MONEY</u> <u>SOCIAL</u>	<u>MALE, YOUNG</u> <u>MIDDLE CLASS-</u> <u>INDEPENDENT</u> <u>PHYSICAL</u>	<u>MALE</u> <u>MIDDLE CLASS</u> <u>PHYSICAL/MENTAL</u>	<u>MALE</u> <u>URBAN</u> <u>UPSCALE</u> <u>POWER</u>	<u>YOUNG</u> <u>URBAN</u> <u>MIDDLE CLASS +</u> <u>+ EDUCATION</u> <u>TREND-SETTER</u>	<u>MATURE</u> <u>URBAN</u> <u>MIDDLE CLASS +</u> <u>+ EDUCATION</u> <u>INTELLECT</u>
FOCUS OF SALES	<u>SMOOTH/PREMIUM U.S. I.B. FOR UPSCALE SMOKERS</u>	<u>U.S. I.B. FOR MATURE, DISCERNING ADULTS</u>	<u>U.S. BRAND FOR EMERALD MEN</u>	<u>ULTIMATE SATISFACTION FOR PHYSICALLY & MENTALLY DOMINANT MEN</u>	<u>ULTIMATE ULTRA FOR THE UNCONFORMING</u>	<u>"COOL" SMOKE FOR TREND-SETTERS</u>	<u>THE DEFINITIVE MILD SMOKE FOR HEALTH-CONSCIOUS ADULTS</u>