

PRODUCT ACTIVITY

1. Volume/Velocity of New Products -

- a) Current new product introductions at an annual rate of 24 brand styles appear to be at or near maximum level the industry can physically launch into test market.
- b) Greater levels of new product activity would be restricted by:
  - . trade attitudes
  - . consumer indifference/confusion

The market place (large outlets) stock from 85 -100 styles and new brand/brand styles will displace existing products but not necessarily on a 1:1 ratio in the immediate future. Ten years ago only 50-60 brands were in distribution in large outlets on the average.

- c) The emphasis on new products will shift back to new brands from brand line extensions. This is based on the trend to hi-fi products.
- d) It is estimated that 12 new brands - each available in regular and menthol and 4 extensions will be placed in test market for 28 new "kinds" of cigarettes each year through 1981. After that the pace will slow, unless technological breakthroughs occur.
- e) These 28 new "kinds" or brand styles includes any break through technology cigarettes or simply those based on today's knowhow. Success rates will not increase in proportion to increased activity.
- f) Only 3 of the 28 entries will succeed after being introduced nationally.
- g) Successful new brands will make full distribution more difficult to maintain on some products and distribution will decline further on lesser brands.
- h) The 3 successful brand styles' cumulative effect per year through 1981 will result in 10% of industry sales in that year unaccounted for by today's entries.

2. Extensions or New Brands by Segments -

- a) It is estimated that 75% of all new entries will be health oriented and 70% stem from a technological breakthrough.  
It is also felt that companies will place entries into viable segments in which they are underdeveloped.  
Attempts will be made to create new market segments through new brand names. Following success will come brand line extensions.

- b) Nearly all new brand entries will be launched both in reg.

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and in menthol versions.

3. WHERE (BY SPECIAL SEGMENTATION) WILL ACTIVITY OCCUR

- A. The Major thrust will be in health areas. Not only will filtration be a consideration, so will selective gas reduction.
- B. For purposes of definition the core group made the following category descriptions:

<u>Name</u>	<u>Delivery in MGS of Tar</u>
Ultra Low	5 or less
Real	6-12
Moderate	13-15
Perceived HI FI	15+

- C. Within the NIFI area "real" NIFIs will garner the most activity in the next five years.
- D. During this five year period, all categories will drop on sales weighted delivery averages of mg of tar per year for a total of from 1-3 mgs. over the period.
- E. Selective gas phase reduction will be favored in both real and moderate NIFIs - as opposed to across the board reductions as with charcoal.
- F. Entries will be primarily 84mm in length but, at the end of the five year period, brands will be toward more 99mm launches. Both regular and menthol will be launched simultaneously.
- G. The remaining 25% of the entries will likely be characterized as:
- Price Brands- both in high and low
  - Packaging related for cosmetics or protection or convenience tied in with some other new feature.
  - Race (Black) or age directed but not sex segmented
  - Age directed for special consumer needs
- H. It is felt to be unlikely that competitors will place much emphasis in activities behind
- Fad brands (because of economics)
  - New flavors/sensations because of past disappointments
  - Coupons - at least as B+W uses them. However new "coupon" schemes for continuity may be attempted.
  - Imagery - in so far as it serves as the total reason for product selection
  - Regional Brands because few or no important regional differences exist that could be exploited in a new brand launch.

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EXTERNAL FACTORS (cont'd)

6. LIKELY IMPACTS (cont'd)

Other effects - No major impacts on Marketing Strategy are felt to result from action in the Medical Profession or the Education System. While the Medical community is an adversary, no change in their impact is likely to occur. In some cases, Doctors recognize the harmful effects of quitting. The Education system will continue to be an adversary as well. Little change is likely to occur from their action except on young smokers.

7. LIFE STYLES

The impact of working women, changes in leisure time etc., have already been included in assumptions.

8. ECONOMY/INFLATION

There will be no economic impact on cigarette marketing traceable to inflation. Double digit inflation is unlikely but cyclical activity will undoubtedly continue. It is also assumed that no drastic changes in leaf prices, petroleum prices and vital agricultural products, i.e. food, will occur. Also prominent on less than 10% inflation is restrained government spending.

Unemployment will impact on the industry and it will impact unevenly on brands and company's depending on their profiles. For each 1% over 5% unemployment, consumption will drop 2% ... or unemployment is inversely correlated to consumption on a 2:1 ratio. Brands with young or black or poor profiles, (where the economy has been weakest lately) will be affected accordingly. With the unemployment rate appearing more favorable than projected, it is estimated that this pool of people will be fluctuating in the area of 5 to 7% of population over the next 3 years.

9. RAW MATERIALS AVAILABILITY

The market will continue to trend toward Hi Fi products, gas phase reduction, and/or other innovative products. This will create shortages of both specific materials and equipment needed to produce and sell these products.

The industry will need new/modified material and equipment at an increasingly accelerated rate in order to meet rapidly changing marketing requirements. Shortages of critical materials:

- . paper
- . special filter materials/ingredients
- . appropriate leaf types
- . equipment

will affect the ability to enter or grow in emerging segments and sub-segments.

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