

per MARLBORO ANALYSIS

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MARLBORO ANALYSIS

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MARLBORO ANALYSIS
OBJECTIVE

GOAL: TO REVIEW EXISTING KNOWLEDGE ABOUT MARLBORO

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MARLBORO ANALYSIS
OUTLINE

I. HISTORICAL REVIEW

- A. What Marlboro Did
- B. Why Marlboro Was Successful
- C. Principles Based on Case Studies

II. MARLBORO'S STRATEGY TODAY

- A. Product Acceptance
- B. Positioning Philosophy
- C. Allocation of Resources
- D. Role In The Company's Brand Portfolio

III. CONSUMER PROFILE

- A. Demographics
- B. Value Structures

IV. POTENTIAL OPPORTUNITIES

- A. Product Trends
- B. External Events
 - 1. Social Acceptability
 - 2. Price Sensitivity
- C. Consumer Trends

V. SUMMARY/CONCLUSIONS

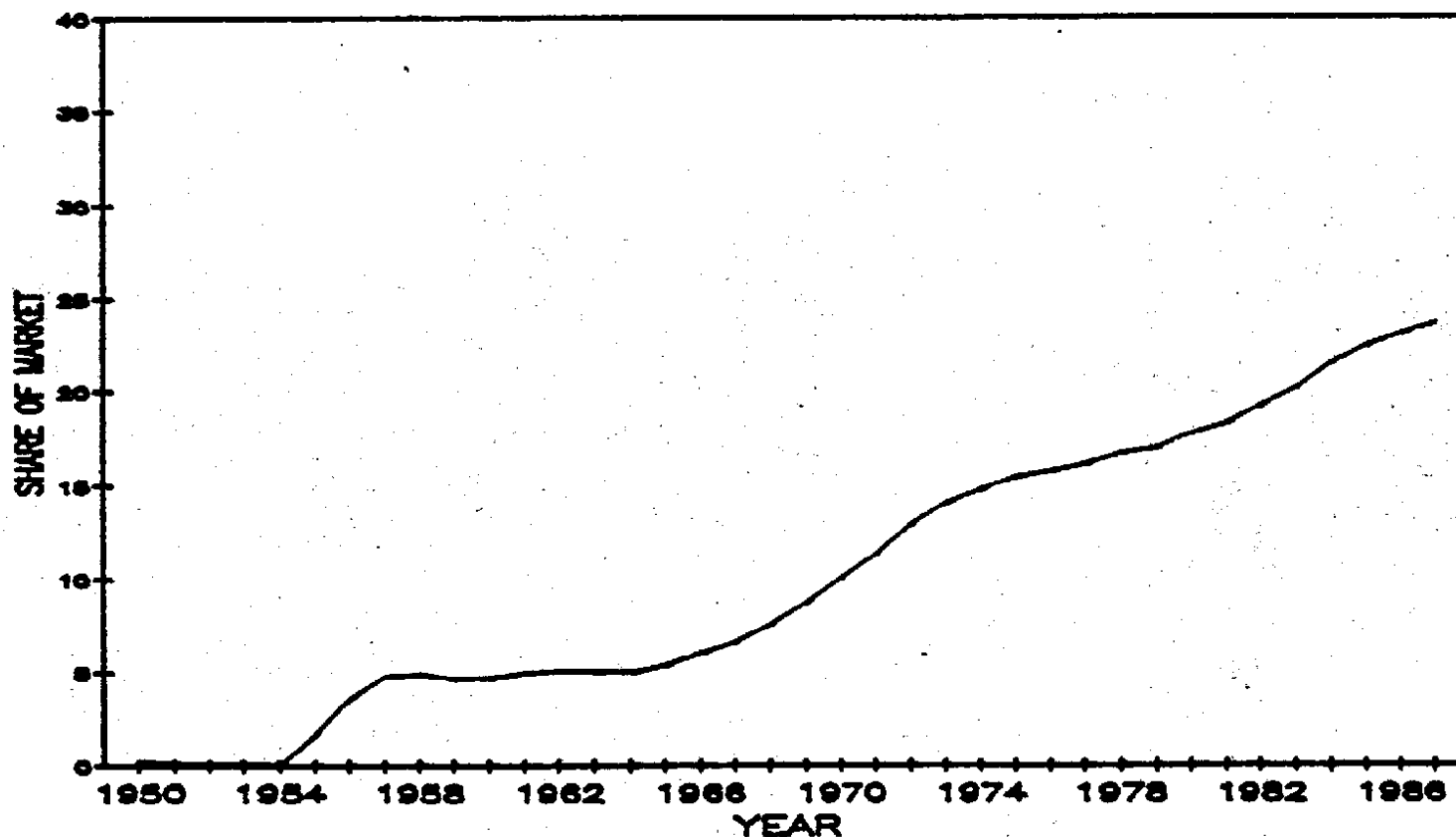
INSTRUMENTAL ANALYSIS

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MARLBORO ANALYSIS
HISTORICAL REVIEW

Today Marlboro is the #1 Brand in the market with 23.6% share and growing by almost 1 share point per year. What did it do?

MARLBORO SHARE OF MARKET



MARLBORO ANALYSIS
HISTORICAL REVIEW

The following reviews Marlboro's strategies in three periods:

- Before the repositioning in 1955
- Getting it right: 1955 to 1965
- 1965 to Present

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MARLBORO ANALYSIS
HISTORICAL REVIEW

Before 1955, Marlboro was an upscale, premium priced brand featuring three styles:

- Plain End
- Ivory Tip
- Beauty Tip (Red)

Gee, Dad, you always get
the best of everything
...even

Marlboro!



A2
1950

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MARLBORO ANALYSIS
HISTORICAL REVIEW

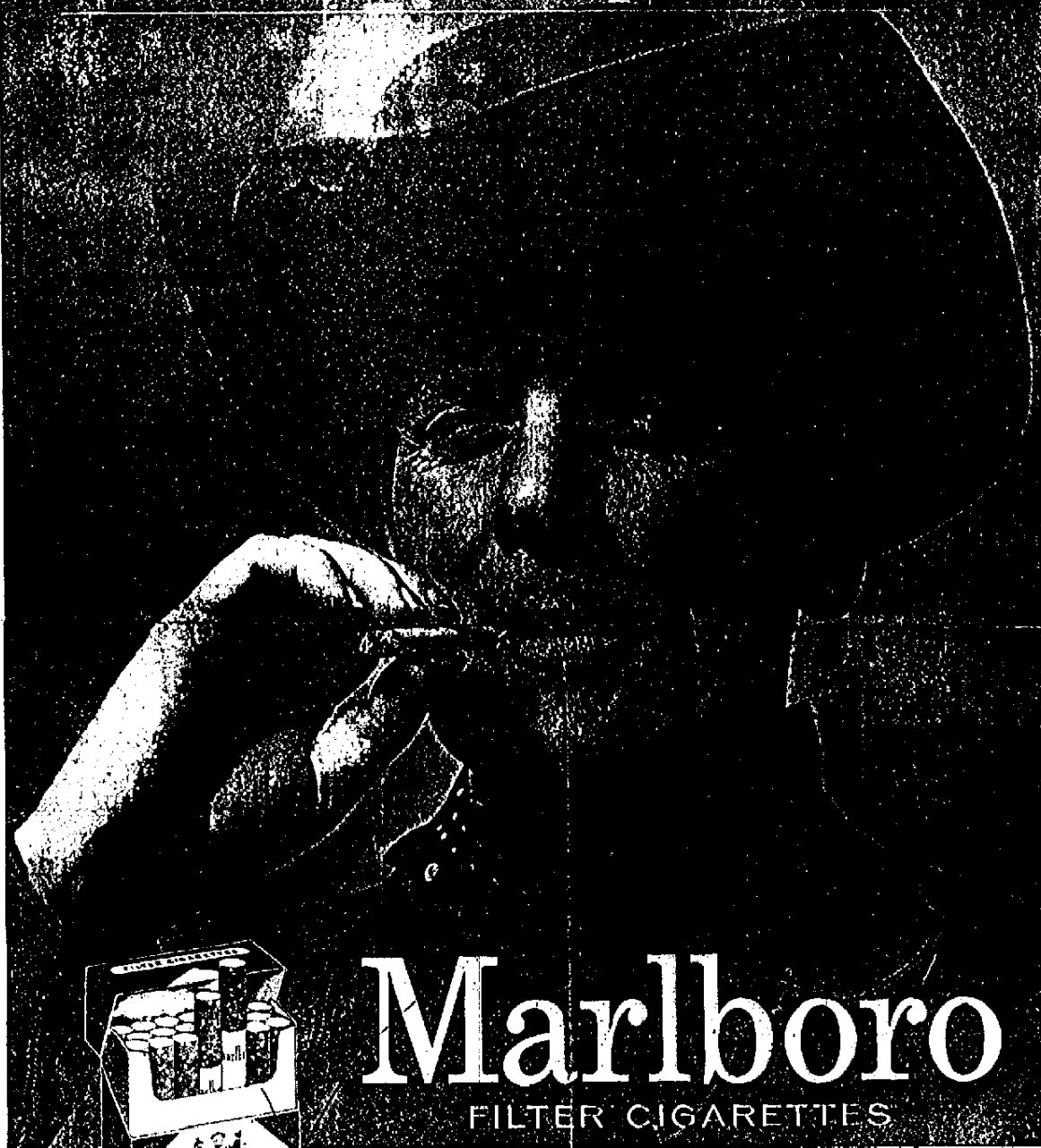
Marlboro was reintroduced in 1955 in a box, with the soft pack added in 1958. All advertising featured a "Marlboro Man" and "Flavor".

From 1958-65 they experimented with different types of "Marlboro Men." Each wore a tatoo suggesting he was a man of adventure, mystery, and romance.

By 1966, their advertising positioning had become virtually identical to that of today.

The Minneapolis Star
May 3, 1955

New from Philip Morris



Marlboro

FILTER CIGARETTES



NEW
FLIP-TOP
BOX

Firm
to keep
cigarettes
from
crushing.
No tobacco
in your
pocket

POPULAR
FILTER PRICE
1 MAY 1955

The new easy-drawing filter cigarette that delivers
the goods on flavor. Long size. Popular filter price.
Light up a Marlboro and be glad you've changed to a filter.

(MADE IN RICHMOND, VIRGINIA, FROM A NEW PHILIP MORRIS RECIPE)

A3
1955

52288 7686

Filter

The filter works good
and draws easy.
The good taste comes through
without huffing and puffing.

Flavor

Thank a new recipe for the
man-size flavor.
Makes it easy to change
to a filter cigarette.



Marlboro
THE FILTER CIGARETTE IN THE FLIP-TOP BOX

People expect
Marlboro to cost
more. They don't.

It's a mistake
to think that
Marlboro cost
more. They don't.

Marlboro
THE FILTER CIGARETTE IN THE FLIP-TOP BOX

52288 7687

A4
1956

Where there's a Man...



The cigarette designed for men that women like

there's a Marlboro



The Marlboro Filter, often
the world's most effective filter material
for cigarettes. This warm-
touched photo shows the
premium cigarette in just one
Marlboro exclusive Schol-
tate Filter.

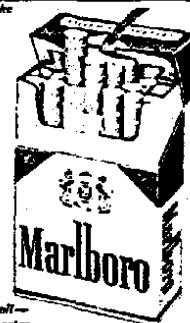
—with a filter that delivers a smoke
of surprising mildness

YOU GET A LOT TO LIKE... FILTER, FLAVOR, FLIP-TOP BOX

(From a prized recipe of the world's great tobaccos)

*argony
April, 1958*

Sturdiest box of all—
with exclusive self-starter



A5
1958

52288 7688

New improved Marlboro filter



*Marked improvement in Marlboro filter
does not disturb famous Marlboro flavor*

Improved filter, plus a significant break-through in cigarette engineering, places Marlboro among the leading filter cigarettes in mild smoke delivery. And the latest published information from impartial outside sources, reports Marlboro's position.

*Marlboro
cigarettes
released 1958*

A6
1958

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You get a lot
to like with
a Marlboro

—the filter
cigarette with
the unfiltered
taste

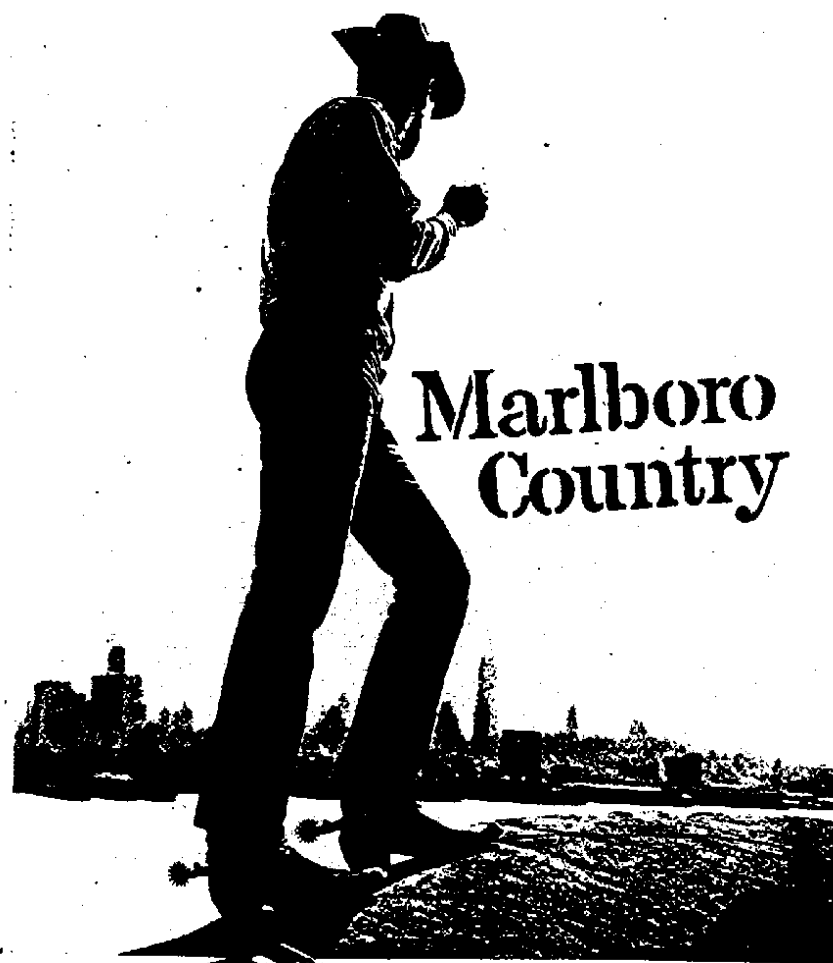


*King-size soft pack or Flip-Top box
—both have the exclusive Selectate filter*

*Why don't you settle back
and have a full-flavored smoke?*

James Dean 1955

A7
1961



Marlboro Country



Remember 1955? That's when Marlboro came to town. All of a sudden, New Yorkers had a flavor cigarette with a filter on the end. Today the whole place is Marlboro country —land of the filter cigarette with the unflavored taste. If you're looking for the flavor, you'll find it here.

NY Herald Tribune 11/62

A8
1962

52288 7691



Wherever there are men who like a filter smoke with character—that's Marlboro country. The character of the smoke comes from a rich breed of tobaccos—aged for years to suit Marlboro's famous Richmond, Va., recipe.

The exclusive Selectate Filter doesn't tame the taste. You get a lot to like.

Marlboro

The filter cigarette
with the
un-filtered taste

Pack or box. Take your choice.

Life - February 1, 1963

A9
1963

52288 7692



You get a lot to like
with a Marlboro—
filter,
flavor,
pack or box.

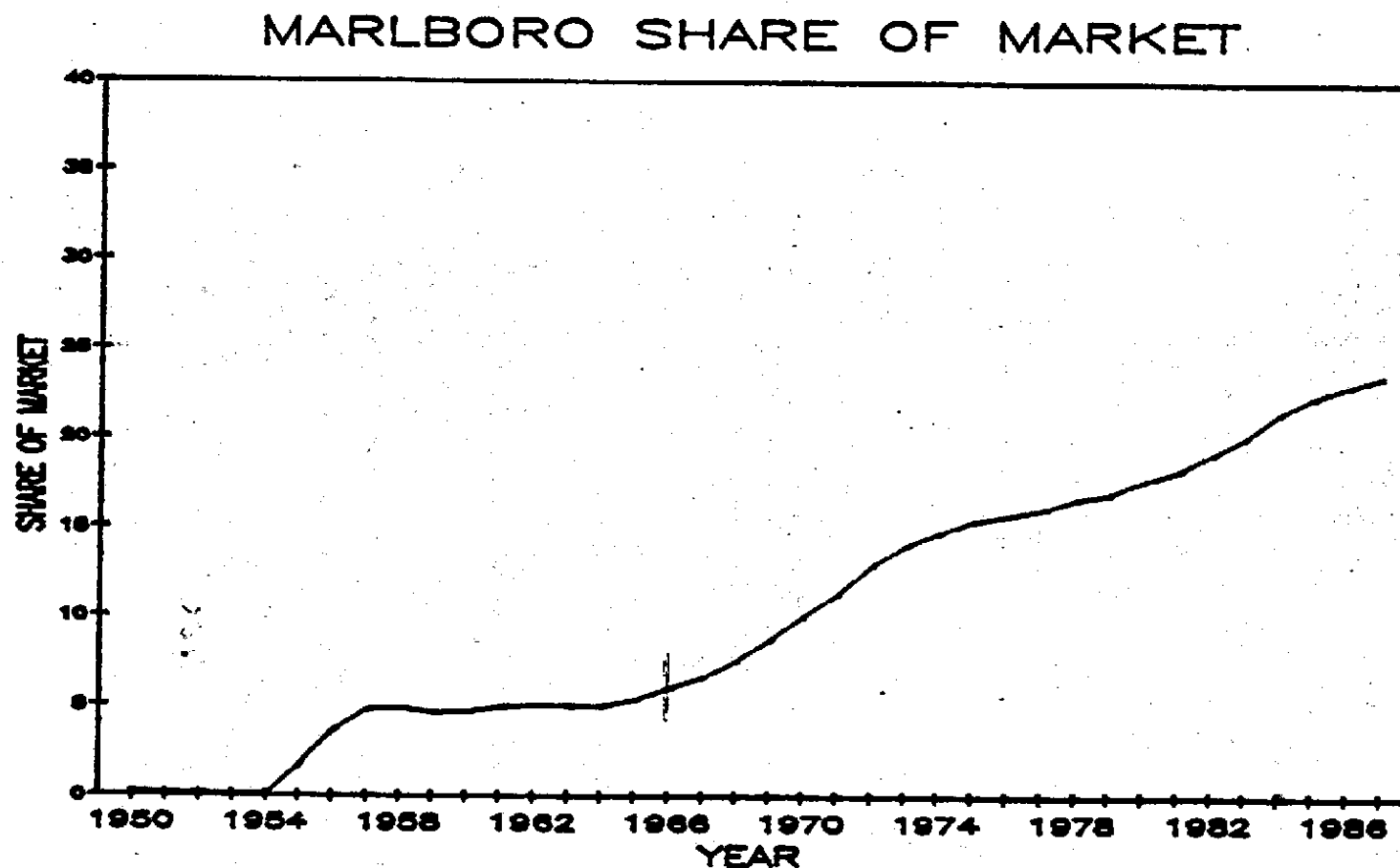
Come to where the flavor is. Come to Marlboro Country.

A10
1966

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MARLBORO ANALYSIS
HISTORICAL REVIEW

In the mid 60's, Marlboro's share began to grow and it's built steadily to the 23.6% it currently has.



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MARLBORO ANALYSIS
HISTORICAL REVIEW

Detailed case studies have been completed for all major brands to determine why they were successful. Several themes or principles were always present.
Successful brands:

- Appeal to YAS
- Have "good" products
- Capitalize on external events
- Address changing values/lifestyles
- Leverage/demographic growth sectors

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
EXTERNAL EVENTS

Large numbers of smokers are concerned about social unacceptability in all demographic groups, however, greater concern is expressed by older smokers. Marlboro smokers concern over social acceptability is lower than average.

	TOTAL	
	<u>SMOKERS</u>	<u>YAS</u>
	38.1% <	32.1%
	59.3 <	51.5
	51.7 <	47.1
		<u>MARLBORO</u>
		34.2%
		52.7
		41.8

More acceptable if not smoke
Lot of people object to smoking
Interested in less offensive cigarette

Source: 1988 SIRS

MARLBORO ANALYSIS
HISTORICAL REVIEW

SUCCESSFUL BRANDS HAVE "GOOD" PRODUCTS

Every brand had product differentiation but they were positioned on positive benefits. Examples are:

<u>BRAND</u>	<u>PRODUCT</u>	<u>POSITIONING</u>
Pall Mall	Extra Length	Smooth/Mild
Winston	Filter	Taste
Marlboro	Box	Masculinity/Flavor
Salem	Menthol	Refreshing

In addition, each brand was smoother/lighter than the brand it replaced...easier to acquire a taste for them.

MARLBORO ANALYSIS
HISTORICAL REVIEW

SUCCESSFUL BRANDS CAPITALIZE ON EXTERNAL EVENTS

The success of Winston/Salem was helped by:

- Rising tide of S&H Publicity
- Growth of TV...from 9% HH in 1950 to 87% in 1960
- The sense of prosperity/good times of the 50's.

New filter cigarette!

WINSTON

brings flavor back to filter smoking!



**FINER
FILTER!**

**FINER
FLAVOR!**

**KING SIZE,
TOO!**

Winston tastes good — like a cigarette should!

■ Winston is the new, easy-drawing filter cigarette real smokers can enjoy! Winston brings you real flavor — full, rich, tobacco flavor. Along with finer flavor, you get Winston's finer filter... it's different, it's unique, it works so effectively! Winstons are king-size, too, for extra filtering action. Try a pack of good-tasting Winstons!



WINSTON ...the easy-drawing filter cigarette!

1954 - College Magazine

A11
1954

669L 88225

In judging a modern filter cigarette...

IT'S WHAT'S UP FRONT THAT COUNTS



"Winston has got it," says Garry Moore, "because Winston's got a secret! It's **Filter-Blend**—fine, mild tobaccos specially processed for filter smoking!"

"A cigarette without flavor is like a world without women. Who wants it?" says the star of Winston's television hit, "Eye Got a Secret." "After all, if you don't get flavor... you're missing the whole idea of smoking!"

"Winston sure has got flavor. Because

in ahead of Winston's pure white, modern filter is Winston's own exclusive **Filter-Blend**... bright, clear tobaccos specially processed for filter smoking. **Filter-Blend** makes Winston the best tasting filter cigarette you can buy. Try Winston!"



America's best-selling filter cigarette!

WINSTON TASTES GOOD

LIKE A CIGARETTE SHOULD!

1958 - Life, Look, Ebony, Post

A12
1958

00LL 88275

MARLBORO ANALYSIS
HISTORICAL REVIEW

SUCCESSFUL BRANDS ADDRESS CHANGING VALUES/LIFESTYLES

Winston's strengths became weaknesses (vs. Marlboro) in the turbulent 1960's.

- War protests, Sit-ins, the Chicago 7, Race riots.
- Winston on wrong side of generation gap.
- Marlboro's heroic idealism a good fit to YAS values.

Come to where the flavor is.
Come to Marlboro Country.



Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

TIME 10-13-75

Marlboro Red
or Longhorn 100's
you get a lot to like.

A15
1975

52288 7702

MARLBORO ANALYSIS
HISTORICAL REVIEW

SUCCESSFUL BRANDS LEVERAGE GROWTH SECTORS AMONG YAS

They position toward wants held by demographic groups that are growing as a percentage of YAS.

- Pall Mall leveraged smooth/mild during 1940's when females were a growth sector of YAS.
- Marlboro used masculinity in the 1960's...the only decade when men were increasing in the YAS mix.
- Kool/Newport "recognized" The Black Market through special marketing programs in the 1960's/70's.

MARLBORO ANALYSIS HISTORICAL REVIEW

SUMMARY

Marlboro was not a very successful new brand. It did no better than L&M or Viceroy in its first few years.

It took Marlboro nearly 10 years to refine the famous cowboy campaign. Since 1965, they have consistently used the same positioning.

The dynamics of Marlboro's growth are not new. Every major brand in the past 50 years has built its success on YAS using similar principles:

- Differentiated product. Positive Positioning.
- Capitalized on external events.
- Addressed changing values/lifestyles.
- Leveraged wants of demographic growth sectors.

These ideas will be examined in today's market in Section IV.

STANDARD TODAY

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MARLBORO ANALYSIS
CURRENT STRATEGY

This section covers Marlboro's broad strategies in today's market in terms of...

- Product
- Positioning
- Allocation of resources
- Role in PM brand portfolio

MARLBORO ANALYSIS
CURRENT STRATEGY

Marlboro currently markets 13 different styles, however, most of their business is due to the FF 85's (Soft/Box) and the Lights 85's (Soft/Box).

Every style of Marlboro skews YAS. Their SOS among smokers 18-20 is about 2 1/2 times larger than it is among total smokers.

<u>MARLBORO STYLE</u>	<u>SHARE OF SMOKERS</u>		<u>INDEX</u>
	<u>TOTAL</u>	<u>AGE 18-20</u>	
FF 85	<u>9.9</u>	<u>26.2</u>	265
FF 100	2.6	6.5	250
LIGHT 85	<u>6.2</u>	<u>16.3</u>	263
LIGHT 100	3.0	7.1	237
ALL OTHERS	<u>0.8</u>	<u>3.0</u>	<u>375</u>
TOTAL	22.5	59.1	263

Source: Tracker 1986/87

MARLBORO ANALYSIS
CURRENT STRATEGY

All Marlboro styles are growing...in total and among ages 18-20, especially the Lights styles. However, the Lights gain much of their business from Marlboro FF.

<u>MARLBORO STYLE</u>	<u>GROWTH RATE*</u>	
	<u>TOTAL</u>	<u>AGE 18-20</u>
FF 85	+ 3.7	+ 6.3
FF 100	+10.4	+18.0
LIGHTS 85	+35.2	+12.5
LIGHTS 100	+41.9	+26.5
TOTAL	+17.5	+14.4

Source: Tracker

* SOS in 1986/87 ÷ SOS 1983/84

MARLBORO ANALYSIS
CURRENT STRATEGY

On the basis of blind product testing...

- Marlboro, Winston, and Camel FFK are equally acceptable to YAS. They also have similar taste characteristics.
- However, Marlboro Lights is more acceptable to YAS than Winston or Camel Lights. It is:
 - Smoother
 - Milder
 - Not as Harsh
 - Not as Strong

Overall, the taste differences between FF and Lights are larger for Marlboro than for Winston/Camel.

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MARLBORO ANALYSIS
CURRENT STRATEGY

However, Marlboro has perceived product advantages over Winston. In the 1988 Strategic Issues Research Study:

ASSOCIATED WITH MARLBORO

- Highest Quality
- Fresh Taste
- Pleasant Taste
- Smooth

ASSOCIATED WITH WINSTON

- Strong Taste
- Harsh
- Bitter
- Long Lasting Aftertaste
- Dry Aftertaste
- Stale

MARLBORO ANALYSIS
CURRENT STRATEGY

PM's positioning philosophy was summed up in a speech to the ANA Conference in 1980 by James J. Morgan, Executive VP, PM USA.

"Our philosophy is very simple and practical.

1. Create a brand image or personality that relates to the most important characteristics of the product, and,
2. In every aspect of presenting that product to the public, utilize a consistent, single-minded marketing application of that image."

"In doing so, each ad, each week of ads, each month of ads, each year of ads, contribute to an ever increasing awareness of what the product stands for."

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MARLBORO ANALYSIS
CURRENT STRATEGY

They follow this philosophy in all aspects of marketing Marlboro...including the presentation of line extensions.

- Marlboro Reds
- Marlboro Longhorn 100's
- Spirit of Marlboro in a low tar

Come to Marlboro Country.



SURGEON GENERAL'S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, And May Complicate Pregnancy.
FAMILY HANDY MAN

A16
1986

52288 7713

Marlboro Lights

The spirit of Marlboro
in a low tar cigarette.

Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

NEWSWEEK
SEPT. 22, 1975

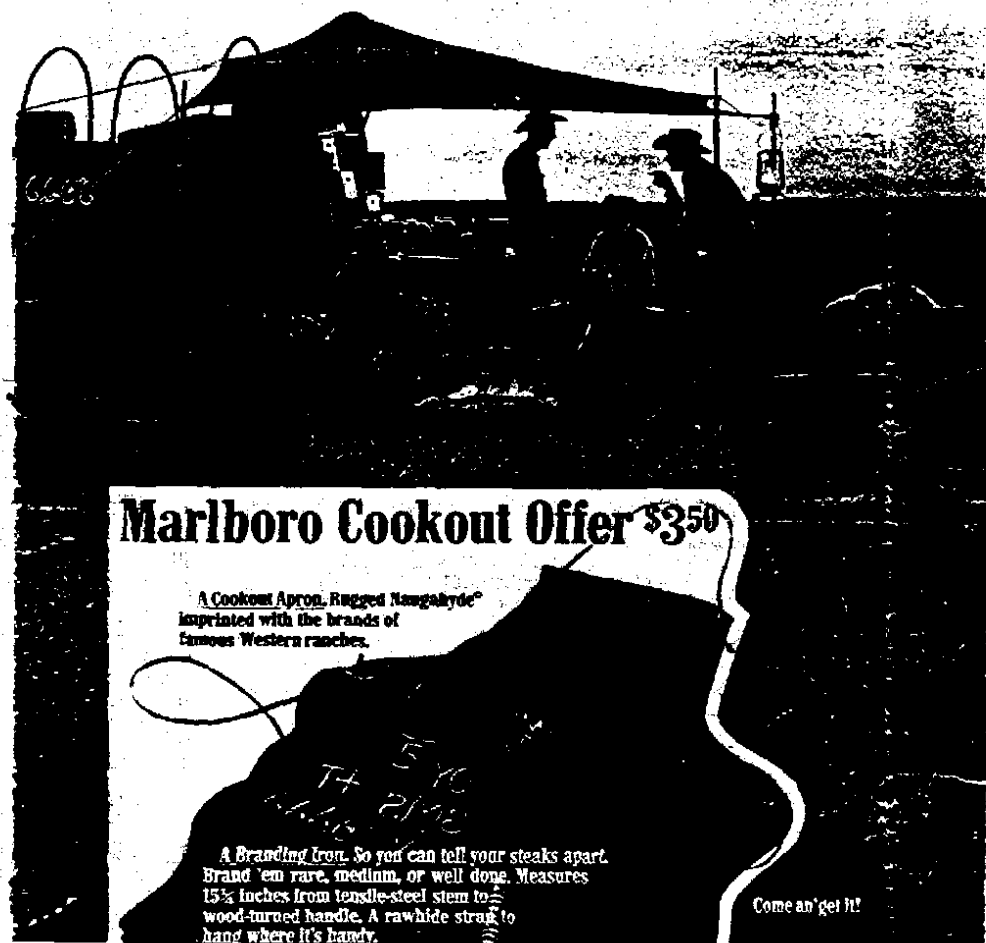
A17
1975

52288 7714

MARLBORO ANALYSIS
CURRENT STRATEGY

Morgan also said "We believe that our brand sales promotion programs must be a faithful extension of the brand personality we have created through advertising."

- Cookout Apron
- Range Jacket
- "Trail Scrip"



Marlboro Cookout Offer \$350

A Cookout Apron. Rugged Naugahyde[®] imprinted with the brands of famous Western ranches.

A Branding Iron. So you can tell your steaks apart. Brand 'em rare, medium, or well done. Measures 15 1/2 inches from handle-steel stem to wood-turned handle. A rawhide strap to hang where it's handy.

Come an' get it!

Marlboro Cookout Off

Win a Marlboro Cookout Offer of \$350. See how. Measure. Put your cowboy hat on. And count down a back of Marlboro. Please send me 1 Marlboro Cookout Offer of \$350.

NAME _____
 ADDRESS _____
 CITY _____
 STATE _____
 ZIP _____
 Come to where the flavor is. Come to Marlboro.

A18
 1971

52288 7736



The Range Jacket from Marlboro.

Just \$21.00 (plus tax and shipping and handling charges from any back or box of Marlboro.)

It was back in the 1930's that denim was introduced to the West. And it caught on with cowboys because it stood up to hard work and raw weather on the open range.

The Range Jacket from Marlboro. A Wrangler® jacket made of rugged, pre-laced denim. And a woolen liner that can be worn alone as a vest. Or, buttoned in to help shut out the cold.

100% wool. 15% rayon.

Come to where the flavor is. Come to Marlboro Country.

The Range Jacket from Marlboro.

Mail to:
Marlboro Range Jacket, P.O. Box 688, Barre, Vt. 05642
Enclosed are two self-addressed manila envelopes and a Marlboro Range Jacket. Please send me () Range Jacket. If I do not receive it, please send me a Marlboro Range Jacket. This jacket is guaranteed. To allow for this shrinkage, please order one size larger than your normal size.

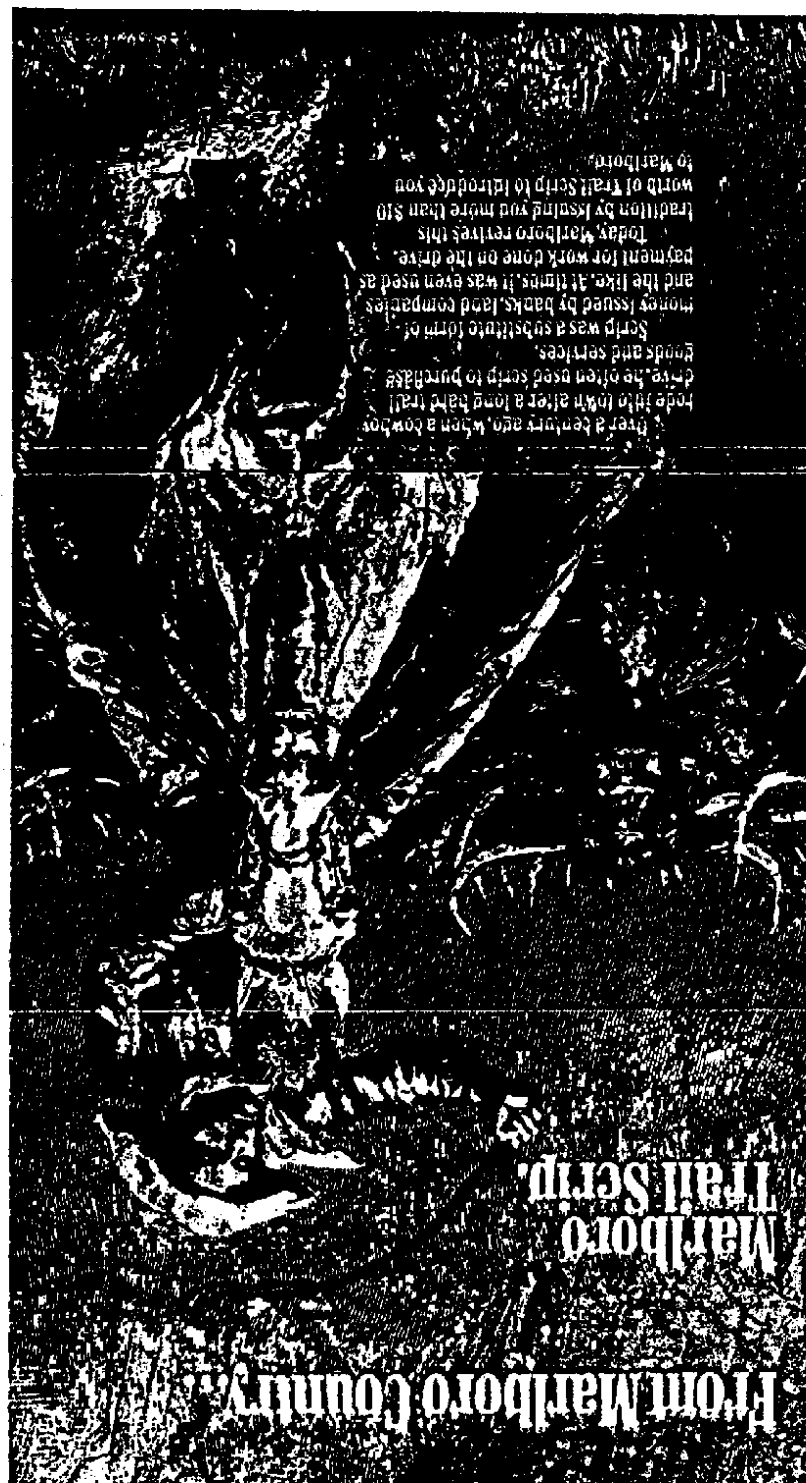
☐ 34 ☐ 36 ☐ 38 ☐ 40 ☐ 42 ☐ 44 ☐ 46

Name _____
Address _____
City _____ State _____ Zip _____

Offer is available only to persons aged 21 years of age. Send check or money order only. No cash. No stamps. Please allow 4-6 weeks for delivery. Offer ends 12/31/74. © 1974 Philip Morris Inc. 10 mg "tar," 1.2 mg. nicotine av. per cigarette. FTC Report Mar/74

A19
1975

52288 7717

A20
1987



A21
1987

52288 7719

MARLBORO ANALYSIS
CURRENT STRATEGY

Their positioning philosophy extends to their allocation of marketing resources.

- They spend very little on promotion...and what little they do spend is designed to contribute to the Brand's image.
- In addition, their promotions are less "impactful".

MARLBORO ANALYSIS
CURRENT STRATEGY

Marlboro spends much less on promotion than Winston or Camel and they gain less incremental business from each dollar spent.

- Marlboro's share of dealt volume in 1987 was 3%. On a per stick basis, Winston/Camel spent more than 12 times as much as Marlboro on promotion.
- Short-term incremental business from promotions for Marlboro is lower than Winston's or Camel's.

<u>BRAND</u>	<u>% DEALT VOLUME</u>	<u>% INCREMENTAL TO BRAND</u>
Marlboro	3.0%	25.2
Winston	22.7	29.7
Camel	7.3	32.0

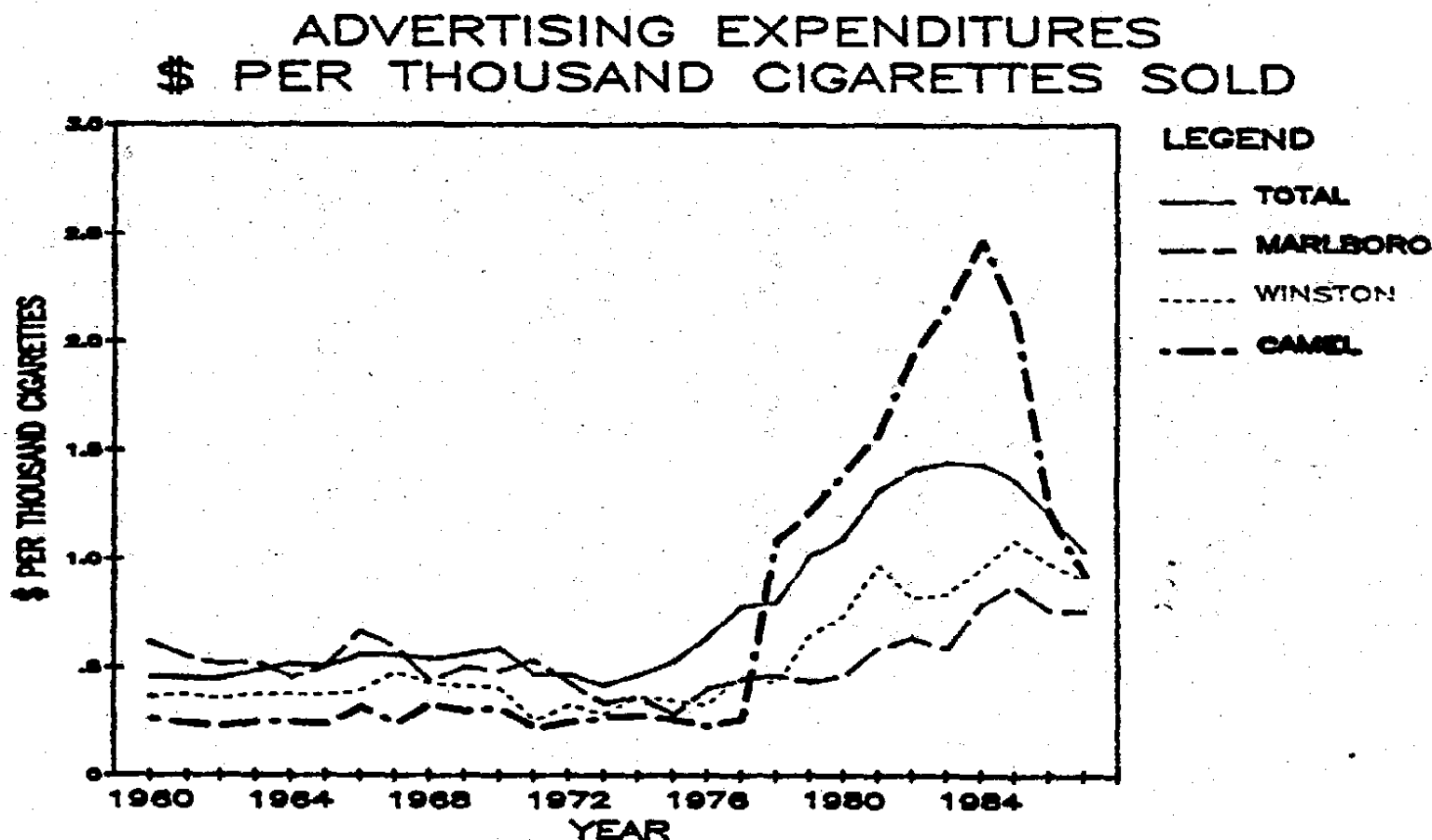
Source: Tracker Diary, March-December 1987

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MARLBORO ANALYSIS
CURRENT STRATEGY

In total, Marlboro spends more on advertising than any other brand in the market...over \$100 MM in 1987.

However, its spending per thousand has been lower than average and less than Winston/Camel for 10 years.



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MARLBORO ANALYSIS
CURRENT STRATEGY

Allocation of Marlboro's advertising by media varies by year. In 1986/87, Marlboro's mix (vs. Winston/Camel) was:

- Higher in magazines
- Lower in OOH

	<u>PERCENT OF BRANDS ADVERTISING (1986/87)</u>			<u>TOTAL</u>
	<u>MAGAZINE</u>	<u>NEWSPAPER</u>	<u>OOH</u>	
ALL BRANDS	42.1	17.7%	40.2%	100.0%
Marlboro	54.3	12.6	33.1	100.0
Winston	26.8	4.0	69.2	100.0
Camel	42.8	3.0	54.2	100.0

Source: Media Department

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MARLBORO ANALYSIS
CURRENT STRATEGY

Factors other than spending level and type of media are important in understanding Marlboro's advertising strategy, they...

- Spend a lot on production
- Have a large pool of executions
- Greater use of multiple page executions.
- Have broader media lists than Winston/Camel, covering..
 - Information magazines
 - Female magazines
 - Upscale books

MARLBORO ANALYSIS
CURRENT STRATEGY

The pattern in their marketing strategy is to emphasize the Brand Image--quality, consistency, breadth of coverage, rather than maximizing efficiencies, targetting and short-term impact.

This is a strength, because the benefits of spending in earlier years probably carry over to the current year giving them an enormous positioning equity.

Marlboro is an extremely profitable brand. They spend a much lower percentage of gross sales on marketing than other brands. Because of the brand's size, these levels of spending give them a continuous presence everywhere they want to be.

MARLBORO ANALYSIS
CURRENT STRATEGY

Marlboro is the fuel that makes P. Morris run. It provides them with...

- A steady supply of YAS
- Profits to finance strategic programs

New brand efforts are always dedicated to the same brand image principles that Marlboro follows and always draw their business from Marlboro. This applies to:

- V. Slims
- Merit
- Players (Orig.)
- PM Blues

CONSUMER PROTECTION

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MARLBORO ANALYSIS
BRAND PROFILE

The next section describes Marlboro's strengths and weakness versus Winston and Camel. It covers:

- Demographic skews/trends
- Value structures/wants

MARLBORO ANALYSIS
BRAND PROFILE

The main demographic skews are based on sex, occupation, and age. All three brands skew male and downscale.

The chief difference is age. Marlboro appeals to YAS (224) while Winston (44) and Camel (78) do not.

GROUP	MARLBORO		WINSTON		CAMEL	
	SHARE	INDEX	SHARE	INDEX	SHARE	INDEX
Total	22.0%	100	11.0%	100	4.1%	100
Male	26.6	121	13.2	120	6.6	161
Female	17.0	77	8.6	78	1.4	34
White Collar	21.1	96	9.8	89	3.3	80
Blue Collar	30.3	137	13.6	124	5.6	137
18-24	49.9	224	4.8	44	3.2	78
25-34	28.9	131	8.7	79	4.0	98
35-49	16.5	75	14.7	134	3.6	88
50 PLUS	7.4	34	12.4	113	5.1	124

Source: Tracker 1985-87

MARLBORO ANALYSIS
BRAND PROFILE

Trends in performance were measured by comparing share of smokers in 1986/87 to 1983/84. This corresponds to an average three-year growth rate.

- Marlboro has grown by about 18% in all demo groups.
- Winston's has lost share fastest among YAS. It actually grew among smokers 50 plus.
- Camel has lost about 8% in all groups.

GROUP	GROWTH RATE		
	MARLBORO	WINSTON	CAMEL
Total	+ 17.5%	- 4.4%	- 8.0%
Male	+ 16.1	- 4.4	- 8.5
Female	+ 19.9	- 5.1	- 9.7
18-24	+ 21.8	-17.0	- 7.5
25-34	+ 19.6	-17.3	-12.8
35-49	+ 21.5	- 4.2	- 6.5
50+	+ 14.4	+ 4.7	-11.3

Source: Tracker

MARLBORO ANALYSIS
BRAND PROFILE

Marlboro's total growth in share of smokers is due to the aging process not an increase in the appeal of the brand.

<u>EXAMPLE</u>	<u>SMOKERS</u> <u>1986</u>	+	<u>NEW</u>	-	<u>QUIT</u>	=	<u>SMOKERS</u> <u>1987</u>	
Industry (MM)	49.9		1.0		1.5		49.4	} = 22.6%
Marlboro (%)	21.4%		60.6%		7.8%			
Marlboro (MM)	10.7		0.6		0.1		11.2	

It gained 1.2 points in SOS during 1987 simply because its share of new adult smokers is greater than its share of quits. In fact, Marlboro has lost on the basis of switching for many years.

MARLBORO ANALYSIS
BRAND PROFILE

The same process drives growth in all demographic groups. For example: within the 25-34 age group:

- Smokers who turn 25 replace smokers who turn 35
- Marlboro gains more on the "front door" than it loses out the "back door"

As a result, Marlboro's demographic growth reflects loyalty more than increasing appeal to that demographic group. Their "appeal" is not increasing because it steadily loses on a switching basis.

MARLBORO ANALYSIS

BRAND PROFILE

Marlboro's future profile will be largely determined by two factors:

- Who it attracts (Age 18)
- Who it keeps

FUB ATTRACTION

Tracker indicates that Marlboro's share of smokers age 18-20 was 61% in 1987. It attracts a very broad cross-section of smokers in this age group. The main reason given by smokers for choosing Marlboro is...

"Because everyone else smokes Marlboro."

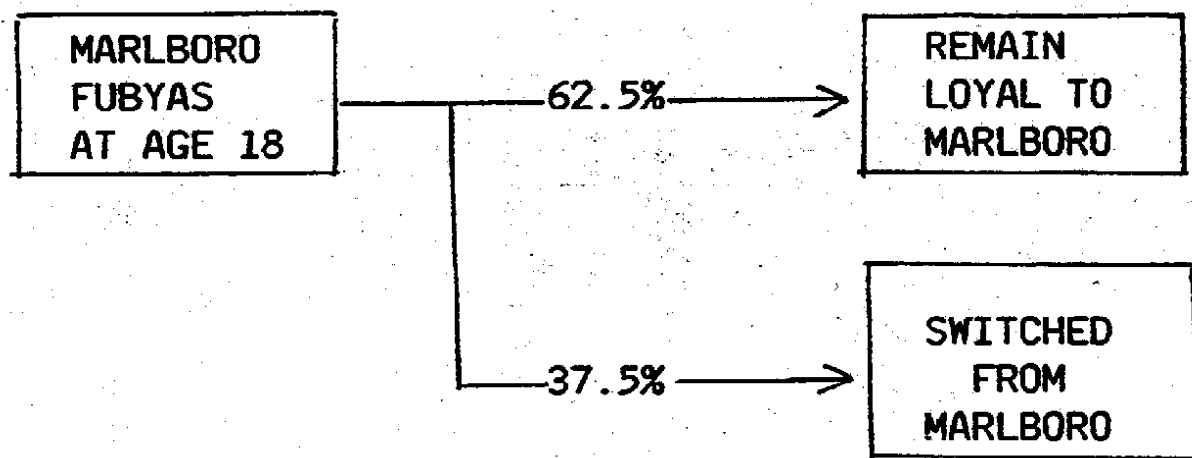
LOYALTY

Whether a smoker stays with Marlboro or switches away is largely determined by age 26. Among all smokers who started on Marlboro and eventually switched away, 89% did so before age 26.

MARLBORO ANALYSIS
BRAND PROFILE

The following profiles smokers who are currently 18-25 and originally chose Marlboro as FUB, comparing loyalists vs. switchers:

- Demographics
- Values
- Product wants



MARLBORO ANALYSIS
BRAND PROFILE

The Marlboro loyalist is more likely to be single and male. The brand has a more difficult time holding females and those who marry.

There is no difference based on age or socio-economic status.

<u>GROUP</u>	<u>LOYAL</u>	<u>SWITCH</u>
Male	58.3%	39.8
Female	41.7	60.2
Age:		
• 18-20	19.3	12.5
• 21-24	59.4	65.8
• 25	21.3	21.7
MARITAL STATUS		
• Married	32.2	41.3
• Single	65.3	48.7
EDUCATION		
• HS or Less	82.6	76.7
• Some College	17.4	22.4
INCOME		
• \$25M or Less	71.3	74.6
• More than \$25M	22.4	22.3

Source: 1988 SIRS

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MARLBORO ANALYSIS
BRAND PROFILE

Marlboro switchers tend to stay within PM...moving to brands such as V. Slims, B&H, and Merit. If Marlboro cannot hold a smoker, these flanker brands tend to get them.

<u>BRAND</u>	<u>BRAND SWITCHED TO</u>	
	<u>%</u>	<u>INDEX*</u>
Winston	11.1	70
Camel	6.0	102
Salem	12.5	97
Newport	22.2	388
Kool	4.6	56
V. Slims	10.7	203
B&H	8.3	114
Vantage	3.1	63
Merit	11.4	180

Source: 1988 SIRS

* Index vs. SOS (Ex-Marlboro)

MARLBORO ANALYSIS
BRAND PROFILE

While the switchers disproportionately choose 85 MM/Box Products, losses to the Menthol, 100 MM, and low tar styles of other brands are also large. These types of products are a less natural fit with the Marlboro image.

<u>CATEGORY</u>	<u>CATEGORY SWITCHED TO</u>	
	<u>%</u>	<u>INDEX*</u>
Non-Menthol	50.7	96
Menthol	49.3	105
85 MM	48.8	120
100 MM Plus	51.2	97
FF	41.1	112
LT	58.9	93
Soft Pack	67.3	89
Box	32.7	186
Low Price	3.1	48

Source: 1988 SIRS
Index vs. SOS (Ex-Marlboro)

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MARLBORO ANALYSIS
BRAND PROFILE

Even though there is no difference between the loyalists and switchers in terms of age and socio-economic status, the switchers have older, more goal-oriented attitudes. The loyalists have younger, live for today attitudes.

MARLBORO ANALYSIS
BRAND PROFILE

ATTITUDE

Ambitious person can always achieve goals
Have made progress toward goals
View job as a career

LOYAL

76.1%

SWITCHER

85.8%

34.6

50.4

31.9

45.0

Little influence over what happens
Not wise to plan too far ahead
Dreams can come true

31.2

20.2

34.8

18.3

68.8

55.2

Belonging/fitting in important
Most important concern is being accepted

36.4

21.1

23.5

8.3

People think I'm unconventional
Like to be outrageous
Important to find sensation/excitement

37.5

21.1

35.6

18.9

39.8

20.9

Source: 1988 SIRS

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MARLBORO ANALYSIS
CONSUMER PROFILE

The Marlboro switcher is more price sensitive, however, this difference is due to a low price sensitivity of the loyalist.

- Loyalists are way below average on price sensitivity.
- Switchers are similar to total smokers.

<u>ATTITUDE</u>	<u>LOYALIST</u>		<u>SWITCHER</u>
Spending money on cigarettes bothers me	48.5	→	60.1
Use coupons for cigarettes	27.3	→	51.4
Want brand that is lowest cost	31.0	→	54.9
Cigarette prices rising at cost of living	31.8	←	16.4
Buy in convenience store	33.3	←	22.4
No matter how expensive, never switch	51.7	←	35.0

Source: 1988 SIRS

MARLBORO ANALYSIS
BRAND PROFILE

The product wants of loyalists are a strong, rich taste which Marlboro provides. Other brands fits the wants of switchers better than Marlboro.

<u>PRODUCT WANT</u>	<u>LOYALIST</u>	<u>SWITCHER</u>
Lot of tobacco taste	53.2%	← 34.3%
Rich tobacco taste	56.1	← 37.9
Strong tasting	41.1	← 18.6
Fresh taste in mouth	62.1	→ 77.2
Lot of menthol taste	4.8	→ 44.7
Light tobacco taste	40.4	→ 59.1
Low T&N	46.1	→ 68.8
Pleasant taste in mouth	72.4	→ 83.3
Pleasant aroma	53.9	→ 72.8
Lowest cost	31.0	→ 54.9

Source: 1988 SIRS

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MARLBORO ANALYSIS
BRAND PROFILE

SUMMARY

Marlboro is large and growing in all demographic sectors. It skews male, downscale, and YAS. While Marlboro is growing in all demo groups, this does not indicate that its appeal is increasing in these groups.

The driving force behind Marlboro's growth in all sectors is their ability to attract and hold YAS. As a result, their large shares at the "front" door are eventually transferred to older groups.

The primary value structures of loyalists and switchers are summarized below:

LOYALIST SKEWS

Male/Single
Live For Today/YAS MINDSET
Less Price Sensitive

SWITCHER SKEWS

Female/Married
Goal Oriented/Older MINDSET
Product wants are:

- Light taste/low tar
- Pleasant taste/aroma
- Menthol taste
- Low price

DOCUMENT
OF SUBMISSIONS

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES

Before discussing potential opportunities/strategies to counter Marlboro, a summary is provided to:

- Recap Marlboro's strengths
- Establish a context to assess opportunities

MARLBORO ANALYSIS

POTENTIAL OPPORTUNITIES

1. Positioning

A clear, well established brand image achieved through 20 years of consistent presentation of marketing executions.

2. Consumer Appeal

Brands' appeal/growth is based on attracting and retaining YAS. The key segment is 18 year old smokers who are:

- Single/male
- Have YA/Live For Today Values
- Low Sensitivity to Price
- Like The Taste Of Marlboro

As long as Marlboro's image appeals to this "type" of smoker, the brand will grow.

3. Consumer Weakness

While it attracts all types of YAS, there is a greater tendency to switch away for:

- Females/married smokers
- Those who have goal oriented/older attitudes
- Smokers whose product wants are not consistent with Marlboro.

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES

4. Resources

Marlboro is very profitable and has the resources to defend any perceived threat.

5. Historically every major brand has had the same strengths and weaknesses that Marlboro has. The brands that replaced them took advantage of changing circumstances and used an indirect approach. They...

- Used unique product. Positively positioned to consumers.
- Capitalized on external events/technology.
- Took advantage of consumer trends
 - wants of growth sectors
 - value/lifestyle change

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES

The last section describes potential new opportunities presented by changes in...

- Product preferences
- External events
- Consumer trends

In each case, a perspective is provided on whether a change works in favor of Marlboro or against it.

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
PRODUCT

There are two key changes in the types of products smoked by smokers 18-20:

- Menthols have declined and most of this decline is due to females.
- Box products have grown in SOS...among both men and women.

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES

<u>CATEGORY</u>	<u>SOS AMONG AGES 18-20</u>					<u>NET</u>
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	
Menthol	30.9	29.6	28.4	26.7	24.5	- 6.4
● Males	22.7	24.3	24.3	21.8	22.2	- 0.5
● Females	39.2	35.4	32.6	32.2	26.9	-12.3
BOX	36.3	40.3	45.7	45.8	48.0	+11.7
● Males	37.6	39.3	43.0	45.0	46.2	+ 8.6
● Females	35.0	41.5	48.4	46.7	49.9	+14.9
FULL FLAVOR	57.0	53.7	54.8	55.5	53.4	- 3.6
LOW TAR	42.2	44.7	43.7	43.4	44.1	+ 1.9
KINGS	68.3	68.2	67.1	69.5	67.1	- 1.2
100 PLUS	30.9	30.3	31.4	29.4	30.3	- 0.6

Source: Tracker

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
PRODUCT

The menthol and box trends appear to work in favor of Marlboro. In fact, all of Marlboro's growth among smokers 18-20 has been among females.

<u>BRAND</u>	<u>SOS AMONG SMOKERS 18-20</u>					<u>NET</u>
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	
Marlboro	51.0	52.2	55.1	57.5	60.6	<u>+ 9.6</u>
• Males	57.7	55.5	58.7	61.6	60.0	<u>+ 2.3</u>
• Females	44.2	48.6	51.3	52.9	59.8	<u>+15.6</u>

Source: Tracker

However, as discussed earlier, Marlboro tends to lose females to switching.

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
EXTERNAL EVENTS

External events and technology can create wants for products not currently available. While such products often address perceived negatives for existing brands, they should be positively positioned to attract FUBYAS. Two issues are discussed:

- Social acceptability/restrictions
- Rising prices

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
EXTERNAL EVENTS

The social acceptability of smoking has declined in the total population as well as among smokers.

<u>ACCEPTABLE TO SMOKE</u>	<u>PERCENT</u>	
	<u>1982</u>	<u>1987</u>
Total population	46	34
Total smokers	80	67

Source: Yankelovich Monitor

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
EXTERNAL EVENTS

Large numbers of smokers are concerned about social unacceptability in all demographic groups, however, greater concern is expressed by older smokers. Marlboro smokers concern over social acceptability is lower than average.

<u>ATTITUDE ABOUT SMOKING</u>	<u>TOTAL SMOKERS</u>	<u>YAS</u>	<u>MARLBORO</u>
More acceptable if not smoke	38.1%	← 32.1%	34.2%
Lot of people object to smoking	59.3	← 51.5	52.7
Interested in less offensive cigarette	51.7	← 47.1	41.8

Source: 1988 SIRS

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
EXTERNAL EVENTS

YAS are more likely to be exposed to smoking restrictions at home and at work, however, they seem less resistant to them.

<u>SMOKING RESTRICTED</u>	<u>TOTAL SMOKERS</u>	<u>YAS</u>	<u>MARLBORO</u>
At Home	8.4%	→ 12.2%	10.9%
At Work	44.0	→ 57.5	47.4

Source: 1988 SIRS

<u>ATTITUDE ABOUT RESTRICTIONS</u>	<u>TOTAL SMOKERS</u>	<u>YAS</u>	<u>MARLBORO</u>
Restrictions have gone too far	47.8%	← 41.1%	46.8%
Smokers get 2nd class treatment	35.6	← 30.1	33.6
Avoid places with restrictions	57.9	← 49.5	58.6
More aware because of restrictions	44.7	← 33.0	39.0

Source: 1988 SIRS

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
EXTERNAL EVENTS

Brands that address the social acceptability of smoking have the potential to succeed against Marlboro. However...

- Potential is larger in older age groups
- It will be important to position brands positively

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
RISING PRICES

Increases in the price of cigarettes and the growth of price promotion are major recent changes in the market.

- In the past, Marlboro has been less impacted by this trend.
- However, in the future rising prices do represent a potential threat to Marlboro.
 - Against a suitably positioned low price entry, Marlboro's higher price would be a weakness.
 - Higher prices could reduce smoking incidence...particularly among YAS.

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
CONSUMER TRENDS

Consumer trends are divided into two sections:

- Demographic
- Values/Lifestyles

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
DEMOGRAPHIC TRENDS

Major demographic trends that are well known are the growing importance of:

- Females
- Downscale
- Blacks/Hispanics

The analyses of successful brands in the past indicates the wants of these demo groups may be leverageable today. In addition, two other trends may be relevant:

- Growth in singles lifestyles
- Increased tendency of YA to live at home

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
DEMOGRAPHIC TRENDS

	<u>% 25-29</u>	
	<u>NEVER</u>	<u>MARRIED</u>
	<u>1970</u>	<u>1985</u>
Males	19.1	38.7
Females	10.5	26.4

Source: US CENSUS

	<u>% 18-24 LIVING AT HOME</u>			
	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1985</u>
Male	52	54	54	60
Female	35	41	43	48

SOURCE: AMERICAN DEMOGRAPHICS

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
DEMOGRAPHIC TRENDS

Marlboro seems well positioned against the wants of downscale singles...and those that live at home. These demographics are associated with loyalty to Marlboro.

Marlboro is well developed among Hispanics, but weak among blacks.

The growing importance of females could be a potential weakness of Marlboro since it:

- Fails to leverage their wants
- Has lower brand loyalty among females

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
BRAND PROFILE

Each year since 1971, Yankelovich has interviewed about 2,400 people, measuring:

- Values/Attitudes
- Demographics
- Smoking Behavior

The values/attitudes questions are clustered into about 50 "trends" and each consumer is classified as being on-trend, neutral, or anti-trend.

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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
BRAND PROFILE

All values/attitudes included in the Yankelovich monitor have been analyzed in order to determine those which represent the best potential opportunities for RJR.

Three concepts are more important than other values/attitudes because they are growing and because they appeal to key strategic targets.

- Need for Self Sufficiency
- New Romanticism
- Responsiveness to Fantasy

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
BRAND PROFILE

DEFINITIONS:

A. Need for Self Sufficiency

"The active concern about being self reliant in today's world. Feel a lack of control over their lives. Express a need to engage in activities that instill self confidence."

B. New Romanticism

"A desire to restore romance, mystery and adventure to life. A feeling that modern life tends to be more dull and routine than life in earlier times, and that it needs more sparkle and excitement."

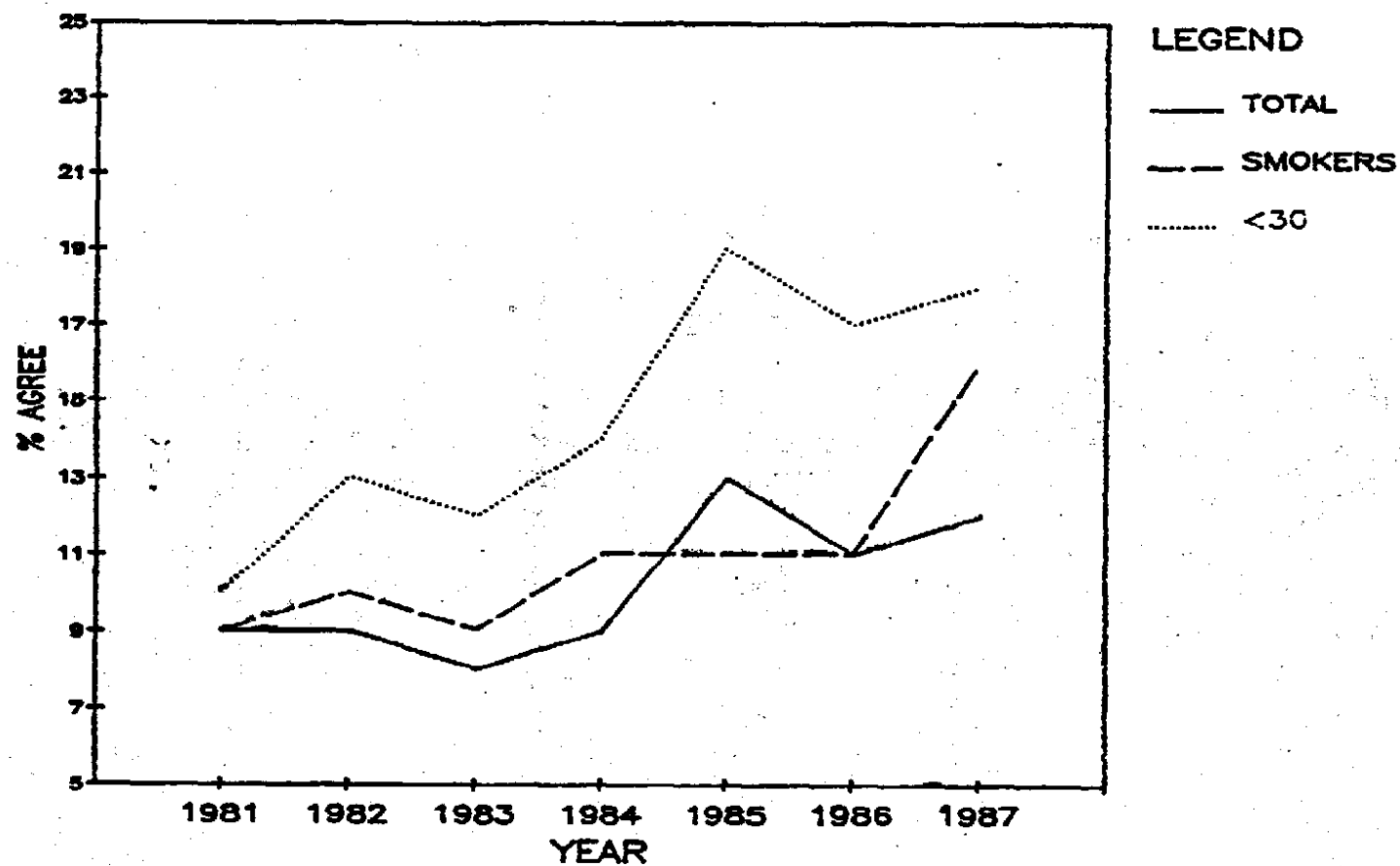
C. Responsiveness to Fantasy

"The desire or need to transcend or escape daily life by imagining and/or participating in unusual or out-of-the-ordinary experiences."

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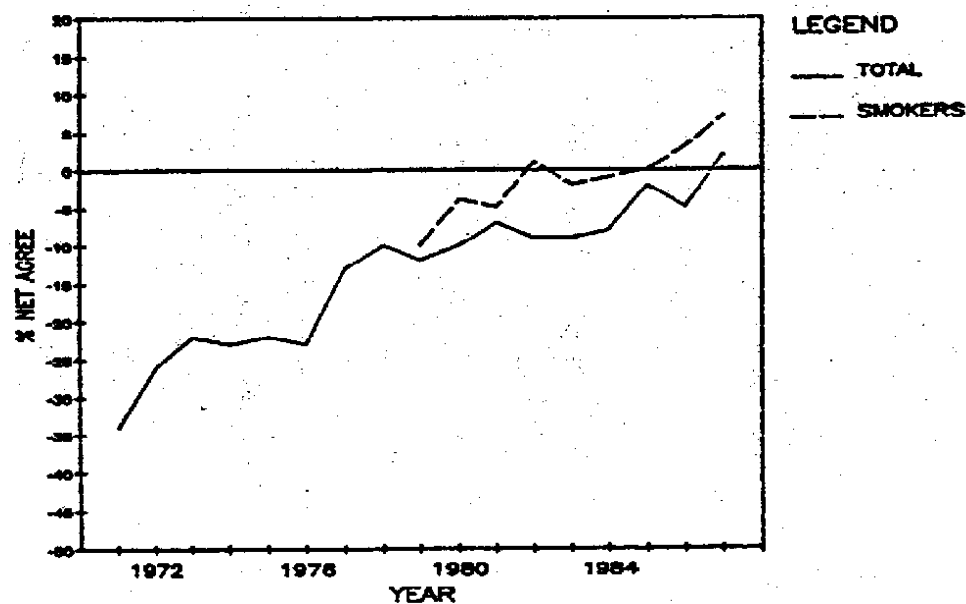
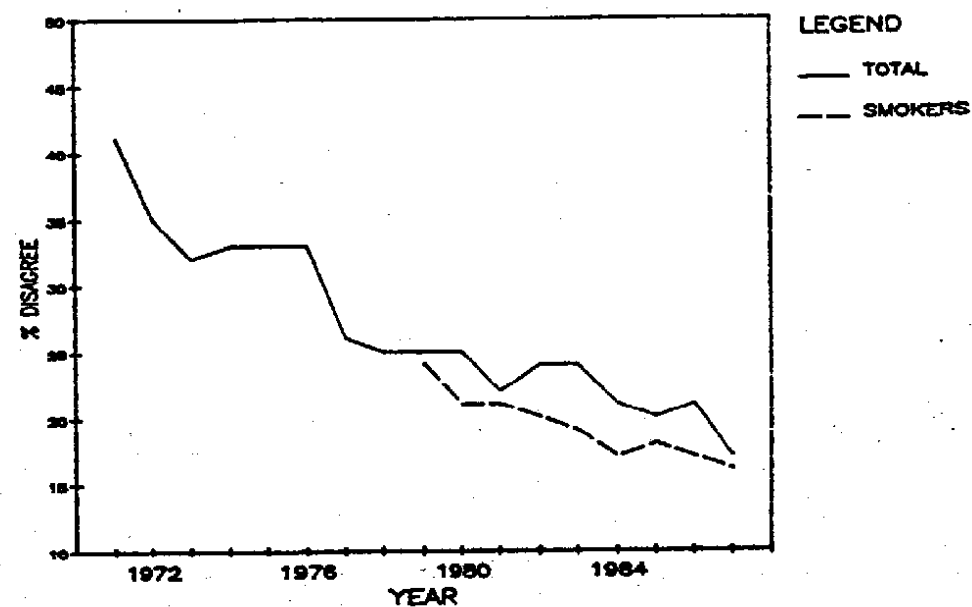
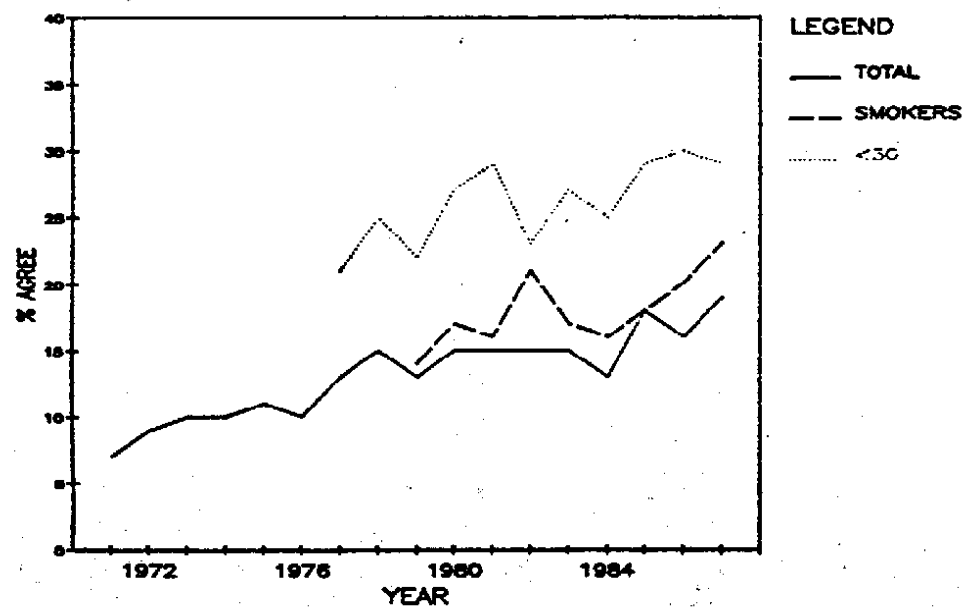
NEED FOR SELF SUFFICIENCY

NEED FOR SELF SUFFICIENCY
YANKELOVICH



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NEW ROMANTICISM



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MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
BRAND PROFILE

APPEAL TO STRATEGIC TARGETS

All three values have stronger appeal to smokers than non-smokers and they leverage key demographic sectors:

- Downscale
- Ethnics
- Age under 30
- NE/West Coast
- Marlboro Smokers

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
BRAND PROFILE

VALUES/ATTITUDES SUMMARY

Consumers feel a lack of control over their lives, especially within key segments: downscale, ethnics, and ages under 30. This results in a growing:

- Need for Self Sufficiency
- Interest in New Romanticism
- Responsiveness to Fantasy

These concepts are appealing to smokers in general, especially to smokers of competitive brands. The ideas are consistent with the heritage of RJR brands... and therefore potential opportunities.

MARLBORO ANALYSIS
POTENTIAL OPPORTUNITIES
SUMMARY

Changes in the marketplace that could favor or work against Marlboro include:

- Declining preference for menthols among smokers 18-20
- Growing importance of females, downscale, ethnics, singles and YAS who live at home
- Changes in consumer values that cause them to be more materialistic and more receptive to:
 - Self Sufficiency
 - New Romanticism
 - Fantasy

MARLBORO ANALYSIS

SUMMARY

Marlboro is a large brand with a well established image and the resources needed to defend against any perceived threat. Its liability is its inability to adapt to change.

The heart of its strength is its ability to attract and retain YAS. Loyalty is particularly strong among single males who have YA/live for today attitudes.

If Marlboro continues to be positive to these brand loyalists, it will continue to grow. They will not be vulnerable to direct competition unless consumer trends cause its image to become out-of-touch. No major flaws have been discovered, however,

- Marlboro seems too serious
- The 50's are being leveraged in other categories
- Stereotypes seem out

The wants of females/blacks/older smokers may be leverageable since they are growth sectors. In this case, it is the wants that are important, not the group itself.

Finally, social acceptability and price constitute possible strategies to compete with Marlboro. In these cases, it will be necessary to position entries toward positive product benefits.