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NOTE

TO: Raul Matamoros
FROM: David Newberry
DATE: 10 September, 1992
REF: DGN/JSV/dn-364
CC: D. Bedding
C. Costa
RE: RYO AND PIPE TOBACCOS

Please find attached my initial brief on RYO and Pipe Tobacco products. I believe it would now be appropriate to reconvene a second meeting on this subject along with David Bedding in order that we can agree further course of action.

Regards

DAVID NEWBERRY

Enc.

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TOBACCO

BRANDS

BATUKE market the following tobacco brands as part of the company's product portfolio:-

Roll-your-own -	Golden Virginia
Pipe -	Gold Block
	St. Bruno
	Three Nuns
	Capstan

These brands are predominately sold in Duty Free markets and therefore they are packed in outers containing five packets (tins for Three Nuns) of 50g.

BACKGROUND

Pipe Tobacco Market

In 1991 the UK pipe tobacco market was worth £130 million and it was estimated that there were over 750,000 pipe smokers. This market has shown a decline of approximately 9% over 1990 and it is envisaged that this trend will continue, albeit at a slower pace.

The market is dominated by two companies, Imperial Tobacco Limited (Liverpool Trading Division) who have a market share of 35.5 % and Gallaher who have over 50% of the market.

Imperial Tobacco Company's key players are St Bruno, Gold Block, Capstan Medium Ready Rubbed, Players Medium, Three Nuns, Walnut and Whiskey Ready Rubbed. St Bruno is their leading brand with approximately 20% of the market and it is available in both a ready rubbed version and a flake. Their number two brand is Gold Block which was re-launched with a new pack design in February 1992 in order to improve the brands visibility on shelf and to strengthen the brands image as the aristocrat of pipe tobaccos.

Gallahers key brands are Condor, Benson & Hedges Mellow Virginia, Rich Dark Honeydew, War Horse, Bandman, Escudo Navy, John Cotton's mixture and Sobraine. They also market Clan which is supplied by Niemeyer in Holland who are now owned by Rothmans International. Under the terms of sale, Gallaher retain the right to sell Niemeyer brands in the UK which also includes Holland House.

Condor is the number one brand in the UK with over 25% of the market and this is spread over Long Cut, Ready Rubbed, Mild Blend and Aromatic which was launched in the summer of 1991. The aromatic sector now accounts for almost 15% of all sales and Gallahers Clan has approximately 90% of this sector giving it a 10% share of the total market. It is the fastest growing tobacco in the UK market and it is now UK's third best selling pipe tobacco brand.

Benson & Hedges Mellow Virginia holds 4th place in the market share stakes and the pack has also recently been re-designed.

Rothmans markets over 30 types of tobacco including Dunhill, Craven, Erinmore, Murrays and

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John Sinclair. Erinmore is Rothmans leading brand and it is the eighth best seller in the UK with a stable market share.

Imported brands now account for over 15% of the market (including Clan) and two importers have established a significant following in the UK. Austran and Sieta who market Amphora tobacco which is manufactured by Douwe Egberts Van Nellen in Holland and Scandinavik from Denmark. The other large importer is John Soloman Inc, now part of Swedish Tobacco, who market the leading international brand Borkum Riff.

Another key trend in the UK pipe tobacco market is the growth of 50g pouches. This is led by Clan and it has also been supported by festive packs (2 x 25g) of various brands which offer price discounts.

Summary of Market Leaders

1	-	Condor	25%
2	-	St Bruno	20%
3	-	Clan	10%
4	-	B&H Mellow Virginia	
5	-	Gold Block	

RYO

It is estimated that there are some 2 to 2½ million RYO smokers in the UK and this figure includes 10% women. Sale of RYO tobacco fell by 1.8% in 1992 and it is assumed that consumption of RYO will continue to fall.

For many years the market has been dominated by Imperial Tobacco's Golden Virginia and Gallaher's Old Holborn. It is estimated that Golden Virginia has a 53% market share and it has been heavily supported during 1992 with the ongoing "craftsmanship" advertising campaign.

On the other hand, Old Holborn has a market share of approximately 40% and it has been well supported by promotions and the "artefacts" advertising campaign during 1992. With the three other main brands Amber Leaf, launched in the summer of 1991, Samson and B & H Rolled Gold, Gallahers account for approximately 44.5% of the total market.

Between both IITL and Gallahers, 98% of the market is covered leaving only 2% for the others. These include continental blends such as Gauloises, Duma and Van Nellen from Austran and Seita and Twin Select and Twin Menthol from John Soloman. Douwe Egberts also market the Dutch RYO Tobacco Drum which is particularly popular amongst the younger smokers.

R.J. Reynolds has also entered the RYO market with Dorchester which is offered as a price proposition in a 25g pouch.

Market Leaders

1.	Golden Virginia	53%
2.	Old Holborn	40%
3.	Amber Leaf	
	Samson	
	B.H Rolled Gold	

UK Duty Free Listings**PIPE**

Condor Long Cut	250g
Condor Rubbed Out	250g
Erinmore Flake	250g
Erinmore Mixture	250g
St Bruno	250g
Gold Block	250g
Balkan Sobraine Smoking Mixture	250g
Dunhill Standard Mixture Medium	250g
Mellow Virginia Rubbed Out	250g
Three Nuns	250g

PIPE TOBACCO GIFT PACK

Erinmore Smokers Kit	250g
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FOREIGN

Amphora Aromatic	250g
Clan Aromatic	250g
Macbarens Mixture	250g

CIGARETTE TOBACCO

Golden Virginia	250g
Old Holborn	250g 400g
Drum	250g
Samson	250g

LICENSING AGREEMENT

The trademarks for all these tobacco brands are owned by Imperial Tobacco Company, UK and the rights to use these marks were granted to BATCo under a 1976 licence. Under this agreement BATCo have an obligation to merely use the mark "upon or in relation to goods manufactured by or for 'us' in accordance with the standards of quality approved by Imperial from time to time".

DESCRIPTION OF BRANDS

Golden Virginia

Packaging	-	50g Pouch
Type	-	A roll-your-own tobacco
Blend	-	A fine cut of bright Virginia leaf
Description	-	A mellow hand rolling tobacco

Capstan Medium Navy Cut

Packaging	-	50g Pouch
Type	-	Ready rubbed pipe tobacco
Blend	-	A straight Virginia with a "nutty" flavour
Description	-	Capstan Medium Navy Cut contains high grade Virginia which has been matured and mellowed in the wood. The tobacco offers a medium smoke which is smooth with plenty of taste.

Gold Block

Packaging	-	50g Pouch
Type	-	Ready rubbed pipe tobacco
Blend	-	A cut plug of Virginia and burley tobaccos which are specially sweetened
Description	-	Gold Block is one of the classics among English pipe tobaccos, enjoying a reputation for quality, taste and aroma. This tobacco is a blend of choice Virginias with some burley added to give a blend of both light and medium brown coloured strands which are broad cut for slow cool smoking.

Three Nuns

Packaging	-	50g Tin
Type	-	Rope pipe tobacco
Blend	-	It is a disc tobacco which features a perfectly balanced blend of Virginia around a case of exotic dark Perique.
Description	-	Three Nuns is a very distinctive tobacco, mild to the taste yet full of character, with a dark Perique centre surrounded by a light golden binding. The tobacco leaves with the Perique in the centre are fed into a machine which spins it into a tight 'rope' which is wound onto a large spool. The rope is then thinly sliced into discs - each one a perfectly balanced blend.

St Bruno

- Packaging - 50g Pouch
- Type - Ready rubbed tobacco
- Blend - St Bruno is a blend of Virginia tobaccos, some flue-cured and some air-cured the slow natural way that brings out the deep brown colour. It is a rich, dark tobacco with full satisfaction where the course cut means an exceptional cool and slow-burning smoke.

CURRENT FRANCHISE

These RYO and pipe tobaccos have a franchise which is almost exclusively based on UK nationals and therefore the BATUKE Duty Free market for these products is based solely on purchase by these consumers. Distribution is therefore restricted to those outlets where there is a significant traveller profile of UK nationals.

Marketing Objective

The marketing objectives for these brands are as follows:-

1. To ensure full distribution is achieved in all Duty Free outlets where there are significant numbers of UK travellers.
2. To maximise the sale of these products by encouraging purchase of the full tobacco allowance of 250g per person.
3. To match or to offer superior retail pricing to that of other UK competitor based tobacco products.
4. To ensure easy recognition of these brands in-store.
5. To maximise impact of product on-shelf.

MARKETING STRATEGY

The marketing strategy for all the tobacco brands follows a similar format except Three Nuns.

Three Nuns

Three Nuns has been established as BAT's premier pipe tobacco which differentiates it from the UK Imperial version which is ready rubbed and packed in a pouch. This positioning for Three Nuns in Duty Free is to be upheld in order that we have a brand which can be marketed against competitor premium tobacco brands such as Dunhill. On account of this it will remain as a rope tobacco which is packed in a tin, with its own distinctive presentation.

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Gold Block / St Bruno / Capstan Medium Navy Cut / Golden Virginia

The marketing strategy for these brands is as follows:-

1. The design of the pouch and the outer should follow the Imperial version as closely as possible to ensure easy product recognition.
2. The colours used should also follow the Imperial versions but some versatility will be given to the outers to ensure impact on-shelf.
3. The quality of the packaging materials must be equal or superior to that of the Imperial version.
4. The type of packaging materials, eg, cellophane wrap, heat-sealing, pouch does not need to follow Imperial design as these issues do not impact on brand recognition. Decision on type of packing format will depend on quality/cost advantages of each version but it must be ensured that the consumer is sufficiently reassured that the high quality standard is maintained.
5. Blend and smoking quality must reflect a similar standard and type to that of the Imperial version but they need not be identical. The policy is to offer either an equivalent or superior smoking quality to that of the domestic version which should reflect the environment in which the product is purchased.
6. The product will be sold in 50g pouches as opposed to 25g pouches due to the nature of the Duty Free buying environment, eg, spirits and cigarettes are all sold in larger pack sizes.

FUTURE ACTION**Three Nuns**

Three Nuns will remain as current but will be subject to review in 1993.

Gold Block / St Bruno / Capstan Medium Navy Cut / Gold Virginia

A project will be initiated to achieve 2 key objectives.

1. To revamp the packaging design of these products to ensure that the BAT versions achieve a design match to that of the Imperial version whilst maximising impact on-shelf.
2. To introduce these brands in a heat-sealing pouch which offers the brands a better presentation and improved financial savings on overall production costs.

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PROJECT TEAM

The Project Team will comprise:-

- D. Newberry - Responsible for development of new packaging designs , ,
- D. Bedding - Responsible for introduction of heat-sealing pouches

TIMETABLE

- October 1992 - Approval from SET to proceed
- December 1992 - Sizes for pouches and outer boxes to be confirmed
- February 1992 - New designs to be confirmed
- April 1992 - Artwork to be available
- June 1993 - New packaging materials to be available
- July 1993 - Production of new versions

Introduction of new versions will depend on expiry of current material stocks and therefore this timetable needs to be confirmed.

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