

File - China *Mr. P. M. Adams*

BRIEFING NOTE *Marketing* **P.A.**

PHILIP MORRIS IN CHINA

28 AUG 1992

COMPANY SHARE

• BAT, the leading foreign cigarette Company in China is 3 times the size of PM, No. 2 in the market. In 1992, BAT's dominant share, estimated at 54.3% of total cigarette imports, relates to that of PM of 16.6%.

• In 1991 and, more particularly, 1992 BAT has significantly outperformed PM in share growth. In 1991, BAT's share grew 3.9 share points (to 49.0% of share) compared to PM's 2.4 share points (to 17.2%) in the imported segment. On the back of a strong performance by 555, BAT's share growth in 1992 is expected to further outstrip PM's performance, increasing by 5.3 share points to 54.3%. In 1992, due mainly to a softness in Marlboro, PM's share is expected to decline by 0.6 share points to 16.6%.

BRAND PERFORMANCE

• While a portfolio of three major brands (555, KENT, and HILTON) contribute to BAT's dominance in China, Philip Morris' business is heavily dependent on Marlboro, which brand accounts for 89% of total PM volume.

• As a result of continuing strong growth in 1992, 555 has now become the No.2 imported brand with a share of imports of 14.9% for the year to date to July, compared to Marlboro which will have eased to a share of 13.5% for the same period. Hilton remains the market leader in the imported segment growing to an estimated 26.2% for the YTD.

PRICING

• In the China market 555 has consistently been able to retain a premium retail price to Marlboro and, therefore, more prestige.

• There was a shortening of supply of PM's brands to the market in the first half of 1992. It remains to be seen whether this has been a deliberate strategy following PM's increased sensitivity to exports having been chastised by the CNTC for supply irregularities or whether it has been the result of stock mismanagement. As a result, the price of Marlboro KS box (not the soft cup) showed an increase in the period of shortage to the premium level of that of 555 HKDNP stock, although the brand as a whole lost share. However, with the resumption of increased supply Marlboro's price is showing signs of slowly dropping back to its lower level.

SALES BY CHANNEL

• As CNTC outlets act as a showcase to Chinese smokers, BAT has ensured that 555's price is positioned at the premium end and above the free market price. This deliberate strategy is designed to enhance performance in the free market where the volume is significant. PM adopt a different approach, whereby Marlboro positioned in price both well below 555s price and below the free market price, has achieved brand leadership in the channel. Despite this, with three key brands BAT will still sell half as much again as PM, with a corporate share estimated at 27% in 1992 (compared to 18.8% for PM).

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- Marlboro is also the largest selling brand in China Duty Free outlets (border shops, etc.) because of the brand's popularity outside China (e.g. Hong Kong).

COMMUNICATION SPEND AND AWARENESS

- Although BAT significantly increased communication spend in 1992, it is estimated that Philip Morris still spends as much behind Marlboro (more than US\$20 million) as BAT for its four major brands (555, Kent, Lucky Strike and Hilton).
- With heavy support behind its global "Cowboy" campaign, PM has been able to achieve more awareness of Marlboro advertising than BAT for 555 and Kent (e.g. 88% for Marlboro in Guangzhou compared to 42% for 555 and 36% for Kent). Whilst advertising awareness for 555 has recently increased through outdoor and P.O.S. activities, with the introduction of the new international campaign, a further increase in advertising awareness may be anticipated.
- BAT's communications spend, although focussing on above-the-line, attach more weight than PM to outdoor and P.O.S. signages. As a result, 555 has a more competitive outdoor presence than Marlboro, the spend for which PM totally concentrate on electronic media.

ORGANISATION STRUCTURE

- A Philip Morris vice-president (W.S. Wong), based in Hong Kong, runs both the China domestic (CNTC and duty-free) and export businesses (as well as Taiwan). Wong reports to Bill Webb in Hong Kong.
- Philip Morris China Division has five sales offices in China and a small marketing department in Hong Kong. Both sales and marketing functions look after the domestic (CNTC and duty-free) business only. Philip Morris also has a regional marketing services department (also based in Hong Kong) to provide marketing support to all markets in the Asian region.

Information on performance, pricing and organisation structure are attached.

F. Chong
28 August 1992

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SALES & SHARES

	EST. 1992		1991		1990	
	Mn.	%	Mn.	%	Mn.	%
<< TOTAL CHINA >>						
B.A.T.						
SE355	10942	16.3	8068	12.8	4571	10.5
KENT	5747	8.6	5652	9.0	4877	11.2
HILTON	18145	24.0	13894	22.0	9679	22.2
Others	3690	5.5	5310	5.2	519	1.2
TOTAL B.A.T.	36514	54.34	30924	49.0	19646	45.1
P.M.I.						
MARLBORO	9842	14.8	9720	15.4	5913	12.6
PARLIAMENT	222	0.3	98	0.2	78	0.2
MONTEREY	645	1.0	925	1.5	330	0.8
Others	543	0.5	139	0.2	130	0.3
TOTAL P.M.I.	11152	16.6	10883	17.2	6451	14.8
TOTAL CHINA	67200	100.0	63100	100.0	43538	100.0

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SALES & SHARES

<<EXPORT>>	EST. 1992		1991		1990		XIAMEN: CNTC		EST. 1992		1991		1990	
	Mn.	%	Mn.	%	Mn.	%	Mn.	%	Mn.	%	Mn.	%	Mn.	%
B.A.I.	8672	15.3	6183	11.6	3085	8.8	B.A.I.	600	50.0	600	50.0	438	32.0	
SE555	5345	9.4	5216	9.7	4127	11.8	SE555	600	50.0	600	50.0	321	23.0	
KENT	15300	26.9	12836	24.0	8303	23.7	KENT	600	50.0	600	50.0	609	45.0	
HILTON	3074	5.4	2820	5.3	259	0.7	HILTON	1200	100.0	1200	100.0	366	100.0	
Others							Others							
TOTAL B.A.I.	32393	57.0	27055	50.8	15774	45.0	TOTAL B.A.I.	1200	100.0	1200	100.0	1366	100.0	
P.M.I.	7672	13.5	7540	14.1	3965	11.3	P.M.I.	-	-	-	-	-	-	
MARLBORO	114	0.2	44	0.1	78	0.2	MARLBORO	-	-	-	-	-	-	
PARLIAMENT	625	1.1	900	1.7	301	0.9	PARLIAMENT	-	-	-	-	-	-	
MONTEREY	341	0.6	135	0.2	130	0.4	MONTEREY	-	-	-	-	-	-	
Others							Others	-	-	-	-	-	-	
TOTAL P.M.I.	8752	15.4	8619	16.1	4474	12.8	TOTAL P.M.I.	-	-	-	-	-	-	
TOTAL EXPORT	56830	100.0	53430	100.0	35051	100.0	TOTAL X/MC/NTG/SEZ	1200	100.0	1200	100.0	1366	100.0	

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SALES & SHARES

<< CNTC >>	EST. 1992		1991		1990		<< DUTY FREE >>		EST 1992		1991		1990	
	Mn.	%	Mn.	%	Mn.	%	Mn.	%	Mn.	%	Mn.	%	Mn.	%
B.A.T.														
SE555	686	13.0	429	9.3	240	8.4	B.A.T.	383	25.2	856	22.1	810	19.0	
KENT	120	2.3	157	3.4	120	4.2	SE555	282	7.2	279	7.2	309	7.2	
HILTON	103	1.9	200	4.4	218	7.7	KENT	142	3.6	258	6.6	549	12.9	
Others	516	9.8	408	8.9	169	5.9	HILTON	90	2.4	82	2.1	91	2.1	
TOTAL B.A.T.	1424	27.0	1194	26.0	747	26.2	Others	1467	38.4	1475	38.0	1759	41.2	
							TOTAL B.A.T.							
P.M.I.														
MARLBORO	870	16.5	780	17.0	498	17.5	P.M.I.	1400	35.9	1400	36.1	1450	34.0	
PARLIAMENT	100	1.9	53	1.1	-	-	MARLBORO	8	0.2	2	0.1	-	-	
MONTEREY	20	0.4	23	0.5	29	1.0	PARLIAMENT	-	-	2	0.1	-	-	
Others	-	-	-	-	-	-	MONTEREY	2	D.1	4	C.1	-	-	
TOTAL P.M.I.	990	18.8	856	18.6	527	18.5	Others	440	36.2	1403	36.3	1450	34.0	
TOTAL CNTC	5270	100.0	4590	100.0	2851	100.0	TOTAL P.M.I.	3900	100.0	3380	100.0	4270	100.0	

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RETAIL PRICE PER 200'S

	1992		1991		1990		1992		1991		1990		1992		1991		1990			
	HK\$		HK\$		HK\$		FEC		FEC		FEC		RMB		RMB		RMB			
	<< DUTY FREE >>		<< CNITC >>		<< FREE MARKET >>		<< CNITC >>		<< FREE MARKET >>		<< FREE MARKET >>		AUG'92		1991		1990			
	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991	1990	1992	1991	1990	1992	1991	1990	1992	1991	1990
B.A.T.																				
SE555 K	70	70	70	65	68	66	60	60	65	60	70	66	66	60	65	50	50	70	50	70
KENT K SC	70	70	70	65	57	57	54	54	53	54	55	57	57	55	53	49	49	55	50	55
KENT K BOX	75	75	75	70	57	57	-	-	53	50	58	57	57	-	50	50	-	58	50	-
KENT DL SC	75	75	75	70	59	59	55	55	50	48	58	59	59	55	50	48	-	58	50	58
KENT DL BOX	75	75	75	70	59	59	-	-	51	-	44	59	59	-	51	-	-	44	-	44
HILTON K	40	40	40	35	38	38	36	36	34	31	44	38	38	36	34	31	31	44	31	44
HILTON SL	45	45	45	40	40	40	38	38	34	32	44	40	40	38	34	32	32	44	32	44
P.M.L.																				
MARLBORO K	70	70	70	65	57	57	54	54	64	58	59	57	57	54	64	58	58	59	58	59
MARLBORO K BOX	70	70	70	65	57	57	-	-	69	-	56	57	57	-	69	-	-	56	-	56
MARLBORO 100S	75	75	75	70	59	59	55	55	59	55	56	59	59	55	59	55	-	56	-	56
PARLIAMENT 100S	75	75	75	70	59	59	55	55	59	55	56	59	59	55	59	55	-	56	-	56
MONTEREY 100S	40	40	40	40	36	36	33	33	27	27	38	36	36	33	27	27	-	38	-	38

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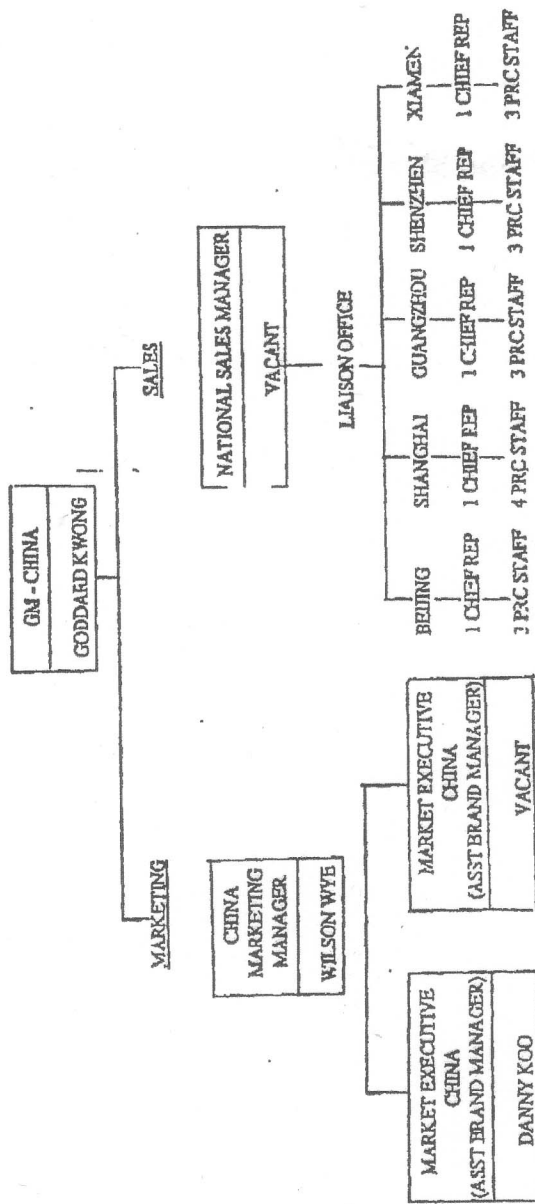
LIST PRICE (HK\$/CASE)

	1992	1991	1990		1992	1991	1990
<< DUTY FREE >>				<< CNTC >>			
B.A.T.				B.A.T.			
SE555 K	2200	2050	1900	SE555 K	1500	1500	1500
KENT K SC	2050	2050	1900	KENT K SC	1300	1300	1300
KENT K BOX	2050	2050	-	KENT K BOX	1300	1300	-
KENT DL SC	2100	2100	1950	KENT D. SC	1350	1350	1350
KENT DL BOX	2100	-	-	KENT DL BOX	1350	-	-
HILTON K	1000	1000	950	HILTON K	850	850	850
HILTON SL	1050	1050	960	HILTON SL	900	900	900
F.M.I.				F.M.I.			
MARLBORO K	2050	2050	1900	MARLBORO K	1300	1300	1300
MARLBORO K BOX	2050	2050	-	MARLBORO K BOX	1300	1300	-
MARLBORO 100S	2100	2100	950	MARLBORO 100S	1350	1350	1350
PARLIAMENT 100S	2100	2100	1950	PARLIAMENT 100S	1350	1350	1350
MONTEREY 100S	950	950	-	MONTEREY 100S	850	850	950
XTAMEN: CNTC				<< EXPORT >>			
B.A.T.				B.A.T.			
SE555 K	1950	1850	1850	SE555 K	2050	1950	1950
KENT K SC	-	-	-	KENT K SC	1700	1800	1800
KENT K BOX	-	-	-	KENT K BOX	1700	1800	-
KENT DL SC	-	-	1550	KENT DL SC	1700	1850	1850
KENT DL BOX	-	-	-	KENT DL BOX	1700	-	-
HILTON K	-	-	-	HILTON K	950	950	950
HILTON SL	1020	1000	1000	HILTON SL	1000	1000	1000
P.M.I.				P.M.I.			
MARLBORO K	-	-	-	MARLBORO K	1950	1850	800
MARLBORO K BOX	-	-	-	MARLBORO K BOX	1950	1850	-
MARLBORO 100S	-	-	-	MARLBORO 100S	1950	1850	1800
PARLIAMENT 100S	-	-	-	PARLIAMENT 100S	1950	1850	1800
MONTEREY 100S	-	-	-	MONTEREY 100S	750	750	750

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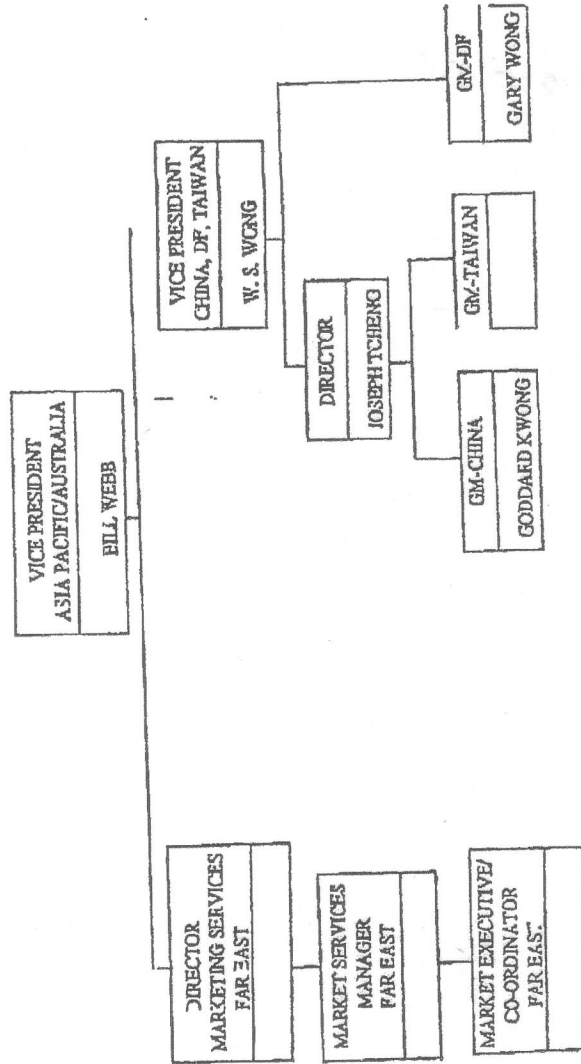
PHILIP MORRIS ASIA INC. - CHINA DIVISION



AUGUST 26, 1992

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PHILIP MORRIS ASIA INC.



N.B. PMI RELY HEAVILY ON LEO BURNETT FOR MARKETING INPUT, PARTICULARLY SPEND PROPOSALS A-T-L, E-T-L

AUGUST 20, 1992

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