

As Listed

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cc: R. Guile

On Monday and Tuesday of this week we visited with the Marketing Research and Product Evaluation Divisions of Philip Morris. The Philip Morris beliefs about the cigarette industry that we can learn from are as follows:

1. 80/20 Image Product

A consumers perception of a cigarette is based 80% on Pack/Image and 20% on taste. If this is true it follows that product adjustment should follow strategic positioning of Pack/Image.

2. Brand Loyalty

Relative to other products, cigarette brand loyalty is very high. On a scale of 1-10 - if Pepsi brand loyalty is a 4, cigarettes are a 10. For this reason, market share direction momentum once established is very difficult to influence. For example, the reasoning that you can gain 2 points from 4 point Brand A by making Brand B taste like A is very weak. If this were so, you could get half the Marlboro market by duplicating the product.

Big chunks of market share are gained by having a product associated with a social attitude. The timing for gaining this share coincides with the attitude shift. For example, a brand the German people (after WW2) associated with was a new guiltless non German cigarette.

3. Product Adjustment Magnitude

Within "Acceptable Taste Limits" the size of a statistically significant taste change that can be made to a cigarette without affecting consumer acceptance is larger than generally believed. Examples:

- a) 20% shift from imported to domestic lamina.
- b) A one time 3mg - 4mg tar shift in Winston.
- c) Consumer tests using wide variations of product put in a smokers brand pack.

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4. Cigarette Attributes

There are as many as 70 attributes of a cigarette of which Philip Morris in their consumer analysis uses 10. However 2 will usually explain 70 - 80% of total cigarette taste variation. In the final analysis the most important question is does the consumer like one product more than another? Philip Morris considers a consumer preference response of 55-45 to this question as "Excellent".

5. Philip Morris Resources

Philip Morris have extensive in-depth resources available that we can and should call upon to help define and solve specific opportunities.