

INTERIM MARKETING PLAN

- STATE EXPRESS 555

VIETNAM

1995

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MARKETING

1) VOLUME

A) Total Domestic Cigarette Volume

(Billions)	<u>1993</u> (Actual)	<u>1994</u> (Estimate)	<u>1995</u> (Forecast)	<u>1996</u> (Forecast)	<u>1997</u> (Forecast)
Total Market	36.0	37.6	39.3	41.2	43.2
% Change	N/A	+4.4%	+4.5%	+4.8%	+4.9%
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LOCAL MANUFACTURE	29.0	30.1	31.3	33.0	34.8
% Change	N/A	+3.8%	+4.0%	+5.4%	+5.5%
S.O.M.	8.06%	80.1%	79.7%	80.1%	80.6%
**					
TOTAL IMPORTED	7.0	7.5	8.0	8.2	8.4
% Change	N/A	+7.1%	+6.7%	+2.5%	+2.4%
S.O.M.	19.4%	19.5%	20.3%	19.9%	19.4%

\* Local manufacture includes R.P.M., P.M.L and BATCO local manufacture.

\*\* Imported volume information supplied by BATUKE Singapore.

The total Vietnamese cigarette market is underdeveloped and will continue to experience annual growth of between 4.5% and 5.5% throughout the plan period. Directly linked to economic growth volume expansion is anticipated to remain highly skewed towards major metropolitan areas.

Rapid change within the various price segments can also be anticipated as the increasingly affluent and discerning metropolitan consumer seeks to reflect their improved circumstance and status.

The aspirational and quality attributes associated with the international segment will ensure growth that will outperform general industry expansion.

B) BAT Vietnam Volume and Share Objectives. (1995)

The primary objective will be to achieve and maintain "Made in Vietnam", (M.I.V.), S.E. 555 sales volume of 50 millions per month within three months of launch.

In addition, while a level of cannibalisation, of current "export" volume is inevitable, it is essential that the achievement of M.I.V. volume objectives will enhance total S.E. 555 in market sales volume, irrespective of source.

BATCO's future J.V. aspirations, in Vietnam, will largely depend upon the achievement of contractual volume objectives together with international brand segment domination.

301651230

(Millions)	1993 (Actual)	1994 (Estimate)	1995 (Forecast)
BAT/Vietnam	-	-	550 <i>560.</i>
BATCO/IMPORTED	812	1021	1015
% Change		+25.7%	-0.6%
TOTAL BATCO	812	1021	1565
% Change	-	+25.7%	+53.3%
S.O.M.	2.3%	2.7%	4.0%
*S.O.S.	11.6%	13.6%	16.2%

\* 95 RPM - PMI M.I.V. volumes estimated at 300 + 600 millions respectively.

C) S.E. 555 Volume (All packings)

(Millions)	1993 (Actual)	1994 (Estimate)	1995 (Forecast)
BAT/VIETNAM	-	-	550
BATCO IMPORTED (ALL)	747	946	945
% Change	-	+26.6%	-
TOTAL S.E. 555 (ALL)	747	946	1495
% Change	N/A	+26.6%	+58.0%
S.O.M.	2.1%	2.5%	3.8%
** S.O.S.	10.7%	12.6%	15.5%

\* Volumes supplied by BATUKE Singapore

\*\* RPM & PMI MIV volumes for 95 estimated at 300 and 600 millions respectively.

2) BRAND FOCUS

The initial focus will exclusively be upon S.E. 555 with particular emphasis upon the number of key issues that require to be addressed with urgency.

- a. The negative quality perceptions of "Made in Vietnam".
- b. M.I.V. and imported S.E. 555 in market quality and performance within the competitive set.
- c. The exploitation of initial and ongoing communication opportunities within a restricted market.
- d. Presence marketing within the key Convenience and Horeca Channels, (Refer trade marketing).

- e. The identification of S.E. 555 consumer franchise/brand essence.
- f. The design, implementation of G.C.S.
- g. The implementation of an annual consumer segmentation study.
- h. The identification of potential markets outside of the major population centres of Saigon and Hanoi.

Only when these pressing issues have been addressed can we widen our sphere of focus to include the identification of opportunity for other international or Regional brands.

Negative quality perceptions of "Made in Vietnam"

This is not an unusual emotive response but of particular concern within an emerging country where consumers have real reason to mistrust local manufactured goods. Initially identified in Project Mercury this problem is compounded by our inability to communicate reassurance and added value through "traditional" mass media.

For that reason we are developing an innovative "infocommercial" campaign for both print and electronic media based upon technology transfer and stringent "international" quality control.

The campaign which will target major metropolitan areas will emphasise:

- the importation of quality materials from England.  
(container painted to International Campaign)
- the importation of technically advanced machinery.  
(container painted to International Campaign)
- the construction of a special and separate manufacturing unit.
- the importation of highly skilled "foreign" technicians.
- the imposition of stringent "international" quality control measures designed to achieve and maintain "English" quality standards.
- the extensive training and development programmes designed to achieve slow but progressive transfer of technology, international skills and competitiveness to Vietnamese employees in an attempt to leverage the attainment of international quality into national pride!
- In conjunction with the "official" launch functions Vinataba will ensure that appropriate Government officials will inspect the "new manufacturing" facility and quality control systems, (additional media opportunities).

301651232

- Utilising Vinaraba's official contacts we will also seek to run brand identification "public interest" notices in both electronic and print media, (under the guise of "recognise the real product" as against the many counterfeit offers).

One can easily envisage the continuity of this campaign and all the attendant publicity and national pride that could be generated if we leverage it successfully.

Full campaign to be costed and established together with an appropriate research programme to measure awareness and impact by mid October.

#### M.I.V. Price Positioning

The original proposal was to position MIV 555 at either parity with or at a slight premium to imported product. (Quality reassurance!)

However, a market visit and a close look at the "Dunhill" experience demands that we revisit this key issue.

Imported product is subject to "daily fluctuations depending upon availability and consumer demand. For that reason wide spread consumer pricing was observed, (10,000 to 11,500). Sub wholesalers "claim" a current margin of 1000 per pack on imported 555, simplistically buying at around 9000 and selling either directly to consumers or on selling to street hawkers at 10,000. Street hawkers then add between 500 to 1500. These are considerable margins compared to local product where 300 is the entire margin on high priced brands and spread throughout the distribution chain. The high margins on illegal product are justified on the grounds of risk.

RPM were faced with the same situation when establishing Dunhill MIV price positioning. They decided to position at 10,000 however imported product predictably discounted downwards to between 9000 and 9500, (they have the margin to sustain this). Dunhill MIV with all the negative quality perceptions was effectively "dead in the water" at 10,000. Rothmans will either have to restrict imported product or reduce their MIV pricing. It could be argued that we could attempt to compensate by ensuring similar or greater trade margins will available on MIV product however,

- it would create a dangerous precedent that would be difficult to adjust later and
- the wholesale channel is very complex and it would be difficult if not impossible to ensure that adequate margin would be passed on to the correct levels.

In recognition of accepted wholesale and retail margins on legal product and in anticipation of inevitable discounting of illegal product we believe that the initial price position should be 9000. This should be confirmed following the introduction of Marlboro, rumoured to be positioned as low as 8000.

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## PRODUCT QUALITY

This will remain a key issue to ensure that we do not compound the negative consumer perceptions of Made in Vietnam with in market product degnegration. However, this issue is not confined to MIV. Personal observation revealed that the standard of in market visual presentation of imported 555 is poor. In addition a considerable number of faults were noted, that would have a direct negative impact upon product freshness and performance.

The amount of handling associated with imported distribution coupled with the requirement of frequent concealment has produced a standard of visual presentation that is inferior to local manufacture, (particularly the brand Vinataba).

Legal MIV 555 will be subject to reduced handling which will measurably improve in market quality and visual presentation. However, this will not address the problems experienced by imported stock which will require vigorous examination and careful monitoring.

These improvements anticipated in MIV product quality will therefore assist to reassure consumers harbouring negative perceptions of local manufacture.

Ex-factory P.Q.R.S. protocol will be implemented immediately.

Ex-market P.Q.R.S. protocol (including MIV and imported competitive set) to be implemented from January 1995.

MASQ protocol (including MIV and imported competitive set) to be undertaken during the second quarter 95. Earlier implementation complicated by the complexities of masking.

## 555 BRAND ESSENCE

In short we know very little about 555 in Vietnam other than it would appear to have captured a reasonable franchise and volume is progressive. Clearly we must identify 555's consumer franchise and fully understand their needs.

Obviously demographics, motivations, aspirations and lifestyles must be established. In addition, we require to understand what sets 555 apart, it's attributes and heritage, why people buy, where they buy and how often they buy. We also need to establish price sensitivity, (price/value), within both the core franchise and considering groups together with their views on "Made in Vietnam".

3) Research

<u>Project</u>	<u>Objective</u>	<u>Timing</u>
Mercury IV	Pre launch communication study	October 94
Retail Census	Establish number of outlets by trade classification, volume and location	HCMC Oct 94 Hanoi Dec 94 Nominated area Jan 95 Nominated area Feb 95 Nominated area Mar 95
Retail Audit	Distribution and volume	HCMC Nov 94 Hanoi Jan 95 Nominated area Feb 95 Nominated area Mar 95 Nominated area Apr 95
SE 535	Establish Consumer franchise	Jan 95
Mercury V	Post launch study of MTV awareness, perceptions, campaigns and product	Jan 95
G C S	HCMC and Hanoi potential extension to 3 provincial markets	Commence from Jan 95
MASQ (VA)	MTV versus competitive set and imported competitive set (CPT)	April/May 95
MARS II	Post launch study of MTV Mariboro	June 95
MASQ (VS)	MTV Mariboro versus imported and Lucky Strike CPT	Aug 95

Trade Marketing and Distribution

The requirement to achieve and maintain MTV volume objectives within three months of launch dictates that, at least in the short to medium term, the primary physical distribution responsibility will be with Vinataba Saigon. Indeed, their dominant market position, (50% S.O.M.), and the complex, multi-layered but influential wholesale structure is such that any premature move into direct distribution would be ill advised.

We have a "window of opportunity" while the market remains underdeveloped. Total market volume, especially the international segment, will expand significantly as local disposable incomes improve. Competitive pressures from both international and local manufacturers will increase rapidly as market knowledge and expertise is acquired. Wholesale and retail trade channels will become more sophisticated and discerning with the latter channel increasing in size, volume and influence. Further restrictions in

301651235

communications should be anticipated along with a potential tightening in market access for "export" volume.

For these reasons trade marketing strategies should not be constrained by current volume restrictions placed upon local manufacture. We must vigorously pursue strategies designed to achieve and sustain measurable competitive advantage. Accordingly, total in market volume, irrespective of source, channel presence marketing, market intelligence and share of the international segment should be the primary measures of achievement.

### Key Issues

The identification, classification and management of the multi layered wholesale distribution system.

The identification, classification, management and presence marketing domination of the underdeveloped and itinerant convenience channel, (will require two stages):

- 1) Metropolitan Saigon and Hanoi and
- 2) Major provincial centres where demand can be established.

The identification, classification, management of the numerically large Horeca channel.

Presence marketing domination of key metropolitan Horeca outlets, (major volume and awareness opportunity for legal product).

Recruitment, training and Development, (always a key issue but particularly so in Vietnam).

### a) Local Manufacturers

There are four state owned factories, (Vinataba), and approximately thirty independant provincial producers of various size. The four state Vinataba factories dominate the market and will produce around 22 billion cigarettes in 1994, (73% share of domestic manufacture and 59% of total market). The Saigon factory is by far the largest accounting for 50% of all domestic volume, (40% S.O.M.). Independant manufacturers generate around 8 billion cigarettes, (21.2% of S.O.M.) and generally compete on price and passing off! (refer SSS, 333 and other major brand clones).

In line with the "market forces" directive the four state owned manufacturers have been encouraged by Government to compete. To that end they have all established National networks with the Saigon factory demonstrating most success, (volume up by more than 16% in 94). BATCO's manufacturing agreement with the Saigon factory together with RPM contract with THANG LONG and PMT's venture with VINH HOI are further expressions of this new competitive position.

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**B) The "Vinataba Saigon" Wholesale Channel**

Vinataba Saigon services the 44 provinces in Vietnam through approximately 1000 wholesalers. These wholesalers, who must be licenced by Government, vary in size from small rural operations to very influential metropolitan based organisations.

During October and November each year all wholesale customers must present to the Saigon factory their volume requirements for the following year. Once evaluated and approved contracts are entered into committing each wholesaler to a monthly volume allocation, (by brand). Payment and receipt of these goods must be effected by the 20th of the month in question and all transactions are on a cash before delivery basis.

It is from these contractual agreements that the Saigon factory base their production plan which for all intents and purposes is their business plan.

Wholesalers cannot purchase volume above or below the agreed contractual amount without first obtaining written permission. There are no volume related considerations and the same ex factory price is applied to all wholesalers large or small. Wholesalers compete on price, (volume and margin), or extend credit facilities to attract and retain business.

Most wholesalers, and Vinataba Saigon for that matter, own retail outlets as well, thus enjoying the full benefit of what are small trade margins.

Product is then on sold through a series of sub distributors and it is at this level that "imported product" enters the wholesale chain. These sub distributors, who are also retailers in their own right then supply either smaller sub distributors or direct to the retail channel, (Key presence marketing targets). It is not unusual for stock to pass through three or more "wholesale layers" before ending up in retail.

Individual margins at each level are very difficult to establish, (a mystery to Vinataba as well!). However, market forces would appear to result in reasonable consumer price stability with domestic manufacture. Gross margins, based on ex factory and consumer pricing, are between 4.5% and 5.3% depending upon the brand. All this is in stark contrast to "imported" pricing where wide fluctuations were noted in consumer prices, (555 from 10,000 to 11,500). In addition retail margins on imported product at the sub distributors level were found to be between 11% and 13%. To place that in perspective sub distributors "claimed" to buy 555 at 9000 and sell at 10,000, (the ex factory price of the Vinataba brand is 5700 with a general consumer price of 6000 with the margin shared within the many distribution layers!).

The entire system is passive, paternalistic, unfocussed, inefficient and opportunistic by nature. It is recognised that we can only achieve and maintain a competitive advantage by controlling our own physical distribution. However, until we have acquired the knowledge, skill and capability we must take care not alienate the wholesale structure. It is worth noting that Vinataba Saigon largely share our concerns.

C) Retail Channels

Two separate channels have been identified namely convenience, which includes itinerant street hawkers, and Horeca. An early Pilot audit undertaken in January indicates that the retail universe is skewed 80% convenience. However, personal observation together with Vinataba's confirmation would indicate that the Horeca channel is at least equal numerically if not larger.

The convenience channel is underdeveloped both numerically, (by product of recent political and economic history) and in sophistication. Heavily dominated by street vendors SSS distribution is of little concern. Product visibility however, outside the central commercial district where it is displayed openly is not good due to the requirement in the those areas to conceal illegal product.

The immediate challenges within this trade channel will therefore be universe identification and classification, product visibility, (legal product will assist), and point of sales merchandising.

The Horeca channel would appear to be numerically far larger, and because of the illegal nature of SSS and the permanence associated with this channel, distribution is non-existent.

Immediate challenges are therefore distribution of legal product, universe identification and classification, and presence marketing domination of target outlets.

1995 Trade Marketing Objectives and Strategies

While initial volume targets dictate that we utilise the Saigon factory wholesale system (on which we can exert geographical control), we can only achieve and maintain a measurable competitive advantage if we control our retail distribution and presence marketing activities.

Obviously this will be a progressive programme within target retail channels and markets but before exploring options it is perhaps helpful to review the magnitude of the task in front of us.

The identification and classification of the retail universe.

The identification and, classification and evaluation of the current wholesale chain.

Physical distribution and presence marketing in the numerically significant Horeca channel.

Presence marketing within convenience and key sub distributors, (the assumption being that distribution within these channels is not a problem).

301651238

The monitoring/evaluation of wholesale distribution coverage, pipeline duration and stock condition.

The identification and implementation of suitable recruitment training and development programmes together with the procurement of associated equipment.

The identification, implementation and management of a suitable universe management system.

These activities will be carried out in Saigon, Hanoi and at least one other major provincial center during 1995 and irrespective of which of the following options are adopted will require to be funded.

1. BAT Vietnam recruits, trains, develops and employs its own trade marketing structure. Obviously this is the most preferred option as we would retain direct control with all the benefits of focus and productivity.
2. We encourage, incentivise or even fund the recruitment of suitable trade marketing personnel through Vinataba Saigon. BAT Vietnam would train and develop and seek to manage.
3. Identify and appoint a third party, (Inchcape, SUTEL, etc) to undertake this activity on our behalf. Indeed some limited format along these lines will be required to, at least, undertake initial launch merchandising.

The key issue is therefore whether and to what extent we view Vinataba Saigon as our long term business partner.

They have co-operated openly and have expressed keen interest in our distribution, skill transfer and assistance to make the transition into a market economy.

Their consumer marketing is still very basic and trade marketing structure non-existent (20 representatives nationwide managing wholesale and undertaking quasi research projects).

At this stage everything is open to negotiation, however, the extent and speed with which we can influence them remains unknown.

The option of appointing and possibly funding a third party is discounted. We would not retain control and it would most likely cost as much.

The favoured option, in the short term, is that BAT Vietnam set up their own structure which could/would in time be transferred to any future expanded joint venture. It is recognised that this option will have a significant impact upon BAT/Vietnam compliment and operating costs.

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1995 Target Markets

The two major markets where significant consumer demand for international brands have been identified as follows:

1. HO CHI MINH (Saigon) - CAN THO - VUNG TRIANGLE  
(-/- 10 million population and increasing)
2. HANOI - HAIPONG CORRIDOR  
(-/- 7 million population)

Secondary target market identification is a 95 objective but will most likely include large provincial centres such as:

DA NANG  
(-/- 2 million population)

Obviously there will be "pockets" of distribution and consumer demand in most provincial areas, however, the magnitude of the task in front of us in Saigon and Hanoi will limit activity during the first half of 95.

Retail universe and channel information is unavailable, (another mystery to Vinataba). Even allowing for the inhibiting influences of the current political and economic environment it will be significant numerically if not in quality. A comparison of culturally similar markets in close geographical proximity would indicate a retail outlet per head of population of between one in 200 to one in 400. The combined retail universe within Hanoi/Saigon is therefore conservatively estimated to be around 40,000 outlets. However it could be significantly higher depending upon Horeca.

A rough calculation based upon SE555 volume into Vietnam would support a universe assumption of at least this size:

Monthly volume	- say 85 millions
Hanoi/Saigon share	- say 68 millions, (80%)
Estimated retail	- say 40,000
∴ Average weekly volume per outlet:	- 1700 cigarettes

This is possible however it does suggest that either the universe is larger than estimated or Hanoi/Saigon share of total business is overstated.

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### Retail Universe Identification/Classification

As stated earlier we require to implement immediately a programme of universe identification, classification, evaluation. It is envisaged that a very simple volume based evaluation model will be utilised and while the method of identification is simple it will require significant IT resource and support.

### Trade Marketing Activity and Call Cycles

It is envisaged that trade marketing personnel will be engaged to undertake the following tasks:

- 1) Retail universe identification
- 2) Presence marketing in both Convenience and Horeca channels
- 3) Presence marketing in the key sub distributors channel
- 4) Initial distribution of legal MTV within Horeca.

It is the 4th objective that will have the greatest impact upon numbers and progressive universe expansion. Current 555 is illegal and not stocked within this channel. It remains to be seen whether consumer demand will ensure continuity of distribution following the initial drive. Should we require to "manage" distribution within this channel on an ongoing basis it will have a major impact upon call cycles and structure. We have taken the assumption, (perhaps incorrectly), that consumer demand will sustain distribution following a period of consolidation.

### Manpower Planning

Manpower requirements will largely hinge upon our requirements to control physical retail distribution. As previously stated this would appear not to be a problem within convenience however Horeca may impact on manpower, obviously presence marketing call cycles are much extended compared to Distribution. (However, assuming that we are not tied to distribution then the following cycle planning assumptions are likely to apply).

Assumption - Total Hanoi/Saigon universe = 40,000.

Assumption - All outlets will require regular attention however 40% high quality and 60% low quality call frequencies (16,000 + 24,000)

Assumption - Representatives will average between 20 -25 calls per day.

Assumption - We will achieve 5-5 productive days per week.

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- Assumption - A call cycle of once every two weeks for high quality calls and once every 4 weeks for standard calls. (This is most likely to be extended).
- The average T.M. territory will be between 330-440 calls (110 high quality 220 standard quality).
  - We could need between 90 to 120 representatives to service 40,000 outlets.

The limiting factors that will initially inhibit universe expansion will be our ability to recruit, train and develop equip and possible fund the T.M. division. Assuming our programme can attract and handle 10 to 15 people per month thus our universe would develop as follows:

	Universe Calculated @ 10 additional people per month and an average <u>Territory size of 350</u>		Universe Calculated @ 15 additional people per month and an average <u>Territory size of 400</u>	
	<u>People</u>	<u>Universe</u>	<u>People</u>	<u>Universe</u>
November 1994	10	3,500	15	6,000
December 1994	20	7,000	30	12,000
January 1995	30	10,500	45	18,000
February 1995	40	14,000	60	24,000
March 1995	50	17,500	75	30,000
April 1995	60	21,000	90	36,000
May 1995	70	24,500	100	40,000
June 1995	80	28,000		
July 1995	90	31,500		
August 1995	100	35,000		
September 1995	110	38,500		
October 1995	114	39,900		

Assuming that the universe and the recruitment, T&D programme is as planned, (it won't be) we will be in a position at the end of the first quarter to meaningfully project manpower needs. Full call cycles will have been established and a retail universe of some substances will have been established.

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*19 September 1994*

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