

**GOLDEN VIRGINIA
UK COMMUNICATIONS STRATEGY
JUNE 15TH 1998**

THIRD DRAFT

HISTORIC SITUATION

1.1 Historic Situation

	1993	1994	1995	1996	1997
RYO					
UK Market					
Size (Tonnes)	4210	4405	5135	6010	6645
Growth/decline %	3.8	4.6	16.6	17	10.6
Golden Virginia					
sales (Tonnes)	1970	1880	2260	2875	3460
GV					
growth/decline %	(5.7)	(4.6)	20.2	27.2	20.3
Share of market %	46.8	42.7	44	47.8	52.1
Old Holborn					
sales (Tonnes)	1400	1220	1420	1545	1585
OH					
growth/decline %	(7.6)	(12.9)	16.4	8.8	2.6
Share of market %	33.3	27.7	27.7	25.7	23.9
Drum sales (Tonnes)	400	705	785	810	835
Drum					
growth/decline %	175.9	76.2	11.3	3.2	3.1
Share of market %	9.5	16	15.3	13.5	12.6

1.2 Narrative Summary

The UK RYO market is undergoing a boom. After experiencing steady decline (along with other tobacco products) during the Eighties and early Nineties, the trend reversed in 1993. The changed impetus came from Europe. There RYO taxation is at much lower levels. Primarily European brands began to be imported in some quantity into the UK and (illegally) resold, to such an extent that Drum, for Trade Mark reasons not legally sold in the UK, achieved a near 17% of UK consumption. Initially UK manufacturers controlled the amount of stock they made available in France and Belgium - because of the different domestic market pricing structures, to substitute "European" for Domestic duty-paid sales incurred margin loss. However, with the growth of illegal imports hastening the decline in the Domestic duty-paid market, UK manufacturers chose to free supply to compete on the same playing field. As a result, low price product increasingly entered the UK from Europe, selling at c. half the Duty-Paid price. New RYO users entered the market from the cigarette market, and volume grew. Now more than 70% of UK consumption is sourced from Europe. Golden Virginia has been the major beneficiary of this new dynamic.

The market lacks complexity.

Historically the market was a duopoly, Golden Virginia and Old Holborn holding c. 90% of the market between them. This still holds largely true, although now the Old Holborn franchise has been split between Old Holborn and Drum. These three brands still account for c. 90% of market. The only other significant player is Samson.

The only product segmentation is the perception of there being "light" brands (Golden Virginia, Amber Leaf, Cutters Choice), and "dark" brands (Old Holborn, Drum, Samson).

In the Duty-Paid market there is no real price segmentation: Golden Virginia and Old Holborn are at price parity, newer entrants to the market (Amber Leaf, Cutters Choice) operate at a slight, but not significant, discount. Because of the cheap imported sector (to which 90% of RYO smokers have exposure) price discounting in the Duty-Paid sector is no longer used as a promotional mechanic.

Old Holborn seems to have ceased all promotional activity. Golden Virginia advertises on poster at a low level; the brand is active with a database reaching about a third of RYO smokers

Amber Leaf has been relaunched in May 1998. The 12.5g is packed: tobacco plus free papers, and still retails at £1.89 (therefore economy). There is a claimed £2.5 mn ATL support (in "style" magazines?), plus promotional support across the range of pack sizes. A 25g pack has been introduced into Belgium. Gallahers therefore seem to have given up on the dark sector, and are attacking the growing light sector = GV.

2. SWOT ANALYSIS

2.1 Strengths

The best known RYO brand

Dominant and growing brand share in growing market

Good quality perceptions amongst both users and non-users

Product qualities akin to cigarettes

Strong distribution

Sales Force strength

Reasonable advertising awareness for RYO

Effective below-the-line activity

Distinctive (if fussy and retrusive) logo

2.2 Weaknesses

(Consumer understanding dated)

Strategy as stands defined in 1993 under very different market conditions and understanding

Tainted by non-users negative image of RYO

Lack of clear integrated strategy

Lack of clear brand positioning

Lack of differentiated brand values

Reliant on uncontrolled CHOD

No defence to possible "mild" or "American" attack

Ownership by cigarette manufacturer

2.3 Opportunities

Grow brand and RYO market by targetting cigarette users

Develop and own (clearly differentiated?) and motivating brand values

Improved ATL campaign

More focussed (?) BTL activity

Minor distribution gains

Develop (& launch?) GV Mild

2.4 Threats

Closure of Benelux CHOD

Opening of Benelux to cigarettes

Loss of differential taxation

Tar & Nicotine labelling

"Mild" attack

Own Label ?

Drum/Samson/Others at low price

3. KEY STRATEGIC OBJECTIVES

3.1 Overall Long Term Mission

To continue to grow Golden Virginia's share of UK consumption

3.2 Specific

- a) To actively build on the existing market dynamics by encouraging cigarette smokers to at least dual with RYO
- b) To grow profitability of the Belgium CHOD

Five year plan (Tonnes)

	<u>1998/9</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/3</u>
UK D/P					
Belgium					
Luxembourg					
TOTAL					

4. MARKET POSITION

4.1 Product

Category definition

The brand competes in the premium branded sector of the Roll Your Own Tobacco category

Product Attributes

A light coloured, mild, smooth, fresh smoking sensation

4.2 Price

To be at least parity with the leading premium brands

(However, research will be conducted, firstly, to ascertain what premium the brand can command in the Belux CHOD, secondly, what premium the brand can command in UK Duty-Paid).

5. Golden Virginia's Target Consumer Group

5.1 Their identity as Category Users

The cigarette consumer has a different profile to the RYO user. However, as the profile of the RYO user has not changed during these recent years when new (dual) users have been entering the market, it is a reasonable assumption that the cigarette users most likely to convert to at least a dual useage with RYO are those whose profile is most similar to current users.

Our target consumer is therefore primarily male, in the 25-44 age group, demographic category C2D.

He will be a light user of RYO.

The male bias is borne out by the fact that while 21% of cigarette users dual with RYO, 31% of men cigarette smokers dual whereas only 11% of female cigarette users do so.

It is also the case that dualism amongst cigarette users is broadly spread across the cigarette price segmentation: 25% of low/ultra-low users dual with RYO, but equally 20% of mid-price users and 21% of premium users also dual with RYO.

(Importantly, brand communication to male consumers may also be appropriate for women if we choose values motivating to both sexes).

5.2 Their Personal and Social Values

The current RYO tobacco consumer is most likely to be from a low income group (below £20k p.a.), more than likely works full time (30+ hours per week) as a craft/tradesman, manual or shop worker. He may also be unemployed or a student. Or housewife. Unless currently studying, he left school at 16 or below.

He is likely to be living with his partner, but less likely to be married. He has between one and four children. He lives in a flat, terraced or semi-detached accommodation which is rented either privately or more likely through the council.

His & his family shop mainly in discount multiples such as Netto, Aldi, Kwiksave, and Asda, but also use their local grocer, primarily for reasons of price and convenience.

He is a tabloid reader, likes going to the pub or listening to music and watching TV.

He likes inexpensive recreation: fishing, walking, reading, and DIY.

He tends to be conservative in his outlook, modest in his pleasures and generally environmentally aware.

He is value conscious, and generally take a rational approach to expenditure.

He has a personal pride, looks for self improvement and is somewhat independent by nature

5.3 Their Smoking experience

We know the category has negative imagery the potential user has to overcome: traditional older working class (Andy Capp), marginal to society (jailbird), macho (John Wayne), and drugs and rock 'n' roll. But these first two image clusters are becoming less relevant with the democratisation of RYO. New attributes appearing (despite brand marketing) are: self-confidence, anti-establishment, unpretentious, cool & stylish.

Smokers have also to overcome the "hassle" factor when entering the market

It is a rather solitary, or at least very personal habit. The paper is licked. It is not a thing you can hand round to your mates. They in turn can hand round their tailor-mades, so the RYO smoker is (unless with other RYOers) socially ostracised.

Despite this, the smoker nevertheless enters the category, initially and primarily for economy reasons. His smoking costs him less money. He make his cigarette to the size he wants. Part of the smoking time is the making time. His roll-up goes out when he puts it down, so there is less waste - he can light up again when he wants. He is not paying for packaging, convenience (or advertising?).

Having made the transition, the smoker finds other benefits and justifications for the continued use of RYO.

There is the quality of the product: fresh, no additives/preservatives, real tobacco.

There is the element of control mentioned above, elaborated to skill or art in the making. He makes it the way he wants: size, weight, consistency, even the blend of tobacco.

There is the element of pride in independence, of self sufficiency. Of having made his own choice despite social pressures.

The making has its own ritual, and the ritual can bring with it its own pleasure and relaxation. It can enhance the quality of his free time.

And thus a sense of satisfaction and pride derived from all the above benefits.

6. Brand Position

6.1 Positioning

Whenever or wherever I choose to roll my own (which I am choosing to do more frequently) I like to smoke Golden Virginia because it gives the taste and smoothness that satisfies, and helps me feel comfortable to be rolling my own.

6.2 Promise

?????

6.2 Rational/Physical Support

Golden Virginia is a well respected brand of long standing; the Benson & Hedges of its market

Golden Virginia is a quality product in terms of its tobacco, consistency, moisture and freshness. You can touch, smell, see and taste its quality.

Golden Virginia has an appealing colour and taste - the brand most similar to tailor-made Virginia tobaccos

Golden Virginia is good value

6.3 Emotional Product Support

Golden Virginia is smoked by an increasing number of my contemporaries

Golden Virginia is sensual

Golden Virginia champions the good things in Roll Your Own:

- pride and self-worth
- independence
- relaxation
- skill
- choice

Golden Virginia is honest, sincere and has no pretensions

Golden Virginia has warmth

Golden Virginia treats me with respect

7. Desired Consumer Response

7.1 Overall

" I am comfortable being a Golden Virginia smoker. I have always respected the brand, but it was always part of a category that I was not sure about entering: It seemed anti-social, and I did not want to bother with the hassle it entailed. Golden Virginia helped me understand the good things about rolling my own. I now positively enjoy preparing and smoking my own Golden Virginia cigarettes, and know it is saving me money"

7.2 What do they currently think and feel about the brand

Consumers have an awareness and respect for the brand: They know it is a long-established, honest, quality brand. But for a non-user of RYO, it has recently not spoken to them in a way that appeals to them: it has talked of an antiquated craftsmanship that is not relevant today, it has depicted its smokers in a way that may be true, but is neither appealing, nor one they really want to be associated with, nor is completely true any more. Therefore it has never been really relevant to them. There has never been an incentive, other than economy, to overcome the hassle and fading stigma associated with RYO and to experiment with the brand to see if they like it and the process it requires of them

7.3 What do we want them to feel about the brand

Comfortable to be associated with GV because it encompasses the good things about RYO that in the past was associated with so many negatives. Pleased that it was through Golden Virginia that they were able to discover the pleasures of rolling their own cigarettes. Satisfied because it has helped them to enjoy an experience they hesitated to try in the past

7.4 What do we want them to think about the brand

Confident that it gives good value. Convinced that it is the best product they could have chosen to maintain their smoking satisfaction. But at a much better price.

7.5 What do we want them to do when next choosing RYO

Choose Golden Virginia rather than Old Holborn, Drum, Samson

7.6 What do we want them to think and feel about themselves when they choose Golden Virginia

Confident, independent, proud.