



NUST Institute of Management Sciences

MBA – RESEARCH THESIS

***Is Cannibalization of Own Brands a
Real Threat? A Case Analysis of
Benson & Hedges and Dunhill in
Pakistan***

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**I dedicate this thesis to
My Loving Parents**

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ABSTRACT

Dunhill was launched in the premium brand category in December 2005 by Pakistan Tobacco Company (PTC). Dunhill is British-American Tobacco Company's (BAT) well renowned international brand. Dunhill has been well received by consumers primarily due to its unique fresh taste and exceptionally smooth smoke.

Benson & Hedges is the largest selling cigarette brand in the premium brand category. This brand has capitalized on its strong equity based on consistently superior quality.

The presence of two tobacco brands in the same premium category can cause cannibalization. Cannibalization refers to the decrease in sales of an existing brand due to the introduction of a new brand offered by the same company. The purpose of this study is to analyze whether Dunhill cannibalizes Benson or Hedges or not.

The report contains hypothesis regarding cannibalization, a survey along with its results followed a schematic diagram for the theoretical framework for a successful premium tobacco.

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GLOBAL TOBACCO INDUSTRY

Tobacco is the sixth largest market of the world. Although it is considered as a controversial industry, but its contribution towards the economy has always been quiet healthy especially in under developed and developing countries.

Thus section will basically cover the following areas of the tobacco industry:

History of Tobacco

Within 150 years of Columbus's finding "strange leaves" in the New World, tobacco was being used around the globe. Its rapid spread and widespread acceptance characterize the addiction to the plant *Nicotina tobacum*. Only the mode of delivery has changed. In the 18th century, snuff held sway; the 19th century was the age of the cigar; the 20th century saw the rise of the manufactured cigarette and with it a greatly increased number of smokers. At the beginning of the 21st century about one third of adults in the world, including increasing numbers of women, used tobacco. Despite thousands of studies showing that tobacco in all its forms kills its users, and smoking cigarettes kills non-users, people continue to smoke, and deaths from tobacco use continue to increase.

Types of Tobacco

Manufactured cigarettes consist of shredded or reconstituted tobacco processed with hundreds of chemicals. Often with a filter, they are manufactured by a machine, and are the predominant form of tobacco used worldwide. Bidis consist of a small amount of tobacco, hand-wrapped in dried temburni leaf and tied with string. Despite their small size, their tar and carbon monoxide deliveries can be higher than manufactured cigarettes because of the need to puff harder to keep bidis lit. Cigars are made of air-cured and fermented tobaccos with a tobacco wrapper, and come in many shapes and sizes, from cigarettesized cigarillos, double coronas, cheroots, stumpen, chuttas and dhumtis. In

reverse chutta and dhumti smoking, the ignited end of the cigar is placed inside the mouth. There was a revival of cigar smoking at the end of the 20th century, among both men and women.

Kreteks are clove-flavored cigarettes. They contain a wide range of exotic flavorings and eugenol, which has an anaesthetizing effect, allowing for deeper smoke inhalation. Pipes are made of briar, slate, clay or other substance – tobacco is placed in the bowl and inhaled through the stem, sometimes through water. Sticks are made from sun-cured tobacco known as brus and wrapped in cigarette paper.

Male, Female and Youth Smoking Rate

Smoking has been portrayed by its sellers as a manly, masculine habit, linked to health, happiness, fitness, wealth, power and sexual success. In reality, it leads to sickness, premature death and sexual problems.

Almost one billion men in the world smoke – about 35 percent of men in developed countries and 50 percent of men in developing countries. Trends in both developed and developing countries show that male smoking rates have now peaked and, slowly but surely, are declining. However, this is an extremely slow trend over decades, and in the meantime men are dying in their millions from tobacco. In general, the educated man is giving up the habit first, so that smoking is becoming a habit of poorer, less educated males.

China deserves special mention because of the enormity of the problem. Comprising over 300 million male smokers, this huge market is, according to Philip Morris, “the most important feature on the landscape.”

About 250 million women in the world are daily smokers. About 22 percent of women in developed countries and 9 percent of women in developing countries smoke tobacco. In addition, many women in south Asia chew tobacco.

Cigarette smoking among women is declining in many developed countries, notably Australia, Canada, the UK and the USA. But this trend is not found in all developed countries. In several southern, central and eastern European countries cigarette smoking is either still increasing among women or has not shown any decline.

The tobacco industry promotes cigarettes to women using seductive but false images of vitality, slimness, modernity, emancipation, sophistication, and sexual allure. In reality, it causes disease and death. Tobacco companies have now produced a range of brands aimed at women. Most notable are the “women only” brands: these “feminized” cigarettes are long, extra-slim, low-tar, light-colored or menthol.

The overwhelming majority of smokers begin tobacco use before they reach adulthood. Among those young people who smoke, nearly one-quarter smoked their first cigarette before they reached the age of ten.

Several factors increase the risk of youth smoking. These include tobacco industry advertising and promotion, easy access to tobacco products, and low prices. Peer pressure plays an important role through friends’ and siblings’ smoking. Other risk factors associated with youth smoking include having a lower self-image than peers, and perceiving that tobacco use is normal or “cool”. Many studies show that parental smoking is associated with higher youth smoking.

While the most serious effects of tobacco use normally occur after decades of smoking, there are also immediate negative health effects for young smokers. Most teenage smokers are already addicted while in adolescence. The younger a person begins to smoke, the greater the risk of eventually contracting smoking caused diseases such as cancer or heart disease.

The highest youth smoking rates can be found in Central and Eastern Europe, sections of India, and some of the Western Pacific islands.

Cigarette Consumption

Global consumption of cigarettes has been rising steadily since manufactured cigarettes were introduced at the beginning of the 20th century. While consumption is leveling off and even decreasing in some countries, worldwide more people are smoking, and numbers of smokers are increasing.

The numbers of smokers will increase mainly due to expansion of the world's population. By 2030 there will be at least another 2 billion people in the world. Even if prevalence rates fall, the absolute number of smokers will increase. The expected continuing decrease in male smoking prevalence will be offset by the increase in female smoking rates, especially in developing countries.

The consumption of tobacco has reached the proportions of a global epidemic. Tobacco companies are cranking out cigarettes at the rate of five and a half trillion a year – nearly 1,000 cigarettes for every man, woman, and child on the planet.

Cigarettes account for the largest share of manufactured tobacco products, 96 percent of total value sales. Asia, Australia and the Far East are by far the largest consumers (2,715 billion cigarettes), followed by the Americas (745 billion), Eastern Europe and Former Soviet Economies (631 billion) and Western Europe (606 billion).¹

Health Risks and Deaths

Tobacco is packed with harmful and addictive substances. Scientific evidence has shown conclusively that all forms of tobacco cause health problems throughout life, frequently resulting in death or disability.

¹ World Health Organization, Annual Report 2005

are at far greater risk of heart disease, strokes, emphysema and many other fatal and non-fatal diseases. If they chew tobacco, they risk cancer of the lip, tongue and mouth.

Women suffer additional health risks. Smoking in pregnancy is dangerous to the mother as well as to the foetus, especially in poor countries where health facilities are inadequate.

Maternal smoking is not only harmful during pregnancy, but has long-term effects on the baby after birth. This is often compounded by exposure to passive smoking from the mother, father or other adults smoking.

While tobacco kills millions more than it helps, research is underway examining any possible health benefits of nicotine and also trying to find a safe use for tobacco, particularly in the field of genetic modification. The aim is to produce vaccines or human proteins for medical use, or even to clean up soil that has been contaminated with explosives.

Passive Smoking

The first conclusive evidence on the danger of passive smoking came from Takeshi Hirayama's study in 1981 on lung cancer in non-smoking Japanese women married to men who smoked. Although the tobacco industry immediately launched a multimillion dollar campaign to discredit the evidence, dozens of further studies have confirmed the link. Research then broadened into other areas and new scientific evidence continues to accumulate.

A complex mixture of chemicals is generated from the burning and smoking of tobacco. As a passive smoker, the non-smoker breathes "sidestream" smoke from the burning tip of the cigarette and "mainstream" smoke that has been inhaled and then exhaled by the smoker.

The risk of lung cancer in nonsmokers exposed to passive smoking is increased by between 20 and 30 percent, and the excess risk of heart disease is 23 percent.

Children are at particular risk from adults' smoking. Adverse health effects include pneumonia and bronchitis, coughing and wheezing, worsening of asthma, middle ear disease, and possibly neurobehavioral impairment and cardiovascular disease in adulthood.

A pregnant woman's exposure to other people's smoking can harm her foetus. The effects are compounded when the child is exposed to passive smoking after birth.

Cigarettes kill half of all lifetime users. Half die in middle age – between 35 and 69 years old. No other consumer product is as dangerous, or kills as many people. Tobacco kills more than AIDS, legal drugs, illegal drugs, road accidents, murder, and suicide combined. Tobacco already kills more men in developing countries than in industrialized countries, and it is likely that deaths among women will soon be the same. While 0.1 billion people died from tobacco use in the 20th century, ten times as many will die in the 21st century. Maternal smoking during pregnancy is responsible for many foetal deaths and is also a major cause of Sudden Infant Death Syndrome.

Passive smoking in the home, workplace, or in public places also kills, although in lower numbers. However, those killed do not die from their own habit, but from someone else's. Children are at particular risk from adults smoking, and even smoking by other adults around a pregnant woman has a harmful effect on a foetus.

Cost of Tobacco to the Economy and to the Smoker

The tobacco industry uses economic arguments to persuade governments, the media and the general population that smoking benefits the economy. It claims that if tobacco control measures are introduced, tax revenues will fall, jobs will be lost and there will be great hardship to the economy.

But the industry greatly exaggerates the economic losses, if any, which tobacco control measures will cause and they never mention the economic costs which tobacco inflicts upon every country.

Tobacco's cost to governments, to employers and to the environment includes social, welfare and health care spending, loss of foreign exchange in importing cigarettes; loss of land that could grow food; costs of fires and damage to buildings caused by careless smoking; environmental costs ranging from deforestation to collection of smokers' litter, absenteeism, decreased productivity, higher numbers of accidents and higher insurance premiums.

The economic costs of smoking to smokers and their families include money spent on buying tobacco, which could otherwise be used on food, clothing and shelter, family holidays or a car.

As smoking kills a quarter of all smokers in their working years, smoking deprives the smoker's family of many years of income. Smokers also suffer loss of income through illness. Following a smoker's premature death, a partner, children or elderly parents can be left destitute.

Family members of smokers lose income through time taken looking after smokers when they are sick, and time lost taking them to hospital. In some developing countries a hospital visit can take days.

Smokers also have to shoulder higher health insurance premiums, and many other miscellaneous costs, such as increased wear and tear on their home, as well as increased fire risk.

Growing Tobacco

Tobacco is grown in over 125 countries, on over 4 million hectares of land, a third of which is in China alone. The global tobacco crop is worth approximately US\$20 billion, a

small fraction of the total amount generated from the sale of manufactured tobacco products.

Tobacco is grown on less than one percent of the world's agricultural land, and on a wide variety of soils and climates. Since the 1960s, the bulk of production has moved from the Americas to Africa and Asia: land devoted to tobacco growing has been halved in the USA, Canada and Mexico, but has almost doubled in China, Malawi and United Republic of Tanzania.

The production of tobacco leaves has more than doubled since the 1960s, totaling nearly 7 million metric tons in 2000. The greater use of fertilizers and pesticides, as well as the increased mechanization, that have produced these higher yields are environmentally damaging. The problem does not end with growing tobacco: the processes used in curing tobacco leaves cause massive deforestation.

There are millions of tobacco farmers worldwide. The tobacco industry exploits them by contributing to their debt burden, while using their economic plight to argue against efforts to control tobacco. In the USA, the bond between the tobacco industry and the tobacco farmer finally is beginning to break down, and partnerships are developing between the farmers and the public health community.

Manufacturing Tobacco

Each year, over five trillion cigarettes are manufactured. China is by far the largest cigarette manufacturer, followed by the USA. Chinese cigarette production increased from 225 billion cigarettes annually in 1960 to 1.7 trillion a year in 1995, a seven-fold increase. The economic value of tobacco products is vast, totaling hundreds of billions of US dollars a year. Very little of this money is spent on tobacco itself. More is spent on paper, filters, and packaging than on tobacco.

Nearly 2 million people are employed in the manufacture of tobacco products, two-thirds of whom are working in China, India and Indonesia. Job losses which would result from a reduction in tobacco consumption are estimated to be fairly small. Technological advances in both farming and manufacturing have a much larger impact on jobs than tobacco control efforts.

Hundreds of chemicals are added to tobacco in the manufacture of cigarettes. Additives make smoke easier to inhale into the lungs and allow for less tobacco to be used in each cigarette. Today's cigarettes are highly engineered, exquisitely designed "nicotine delivery devices".

Besides using less tobacco per cigarette, the composition of the cigarette is also changing. Manufacturers are using more reconstituted tobacco, which makes it easier to add chemicals and to include leaf stems and dust which had previously been discarded.

Tobacco Companies

Philip Morris is the world's largest transnational tobacco company, whose Marlboro brand is the world leader. In 1999 the company had sales of over US\$47 billion. However, excluding the US domestic market, BAT sells the most cigarettes worldwide and has the largest network in the most countries.

The tobacco industry is a mixture of some of the most powerful transnational commercial companies in the world. Tobacco companies, which frequently merge, own other huge industries and run an intricate variety of joint ventures.

State tobacco monopolies have been in decline since the 1980s. About 7,000 medium to large state-owned enterprises were privatized in the 1980s and a further 60,000 in the 1990s after the collapse of the former Soviet Union. From the late 1990s, the IMF has pressurized countries such as the Republic of Korea, the Republic of Moldova, Thailand and Turkey to privatize their state tobacco industry as a condition of loans.

The remaining monopolies represent a combined consumption of 2 billion cigarettes or 40 percent of the world's total cigarette consumption. Since the early 1990s, the cigarette companies have massively increased their manufacturing capacity in developing countries and Eastern Europe.

Tobacco Trade and Smuggling

Tobacco trade is big business, for both the raw material (tobacco leaves) and the finished product (manufactured cigarettes).

Brazil is the largest exporter of tobacco leaf, and the Russian Federation and the USA are the largest importers. Some countries that grow tobacco, such as the USA, also import foreign tobacco as well as exporting their own tobacco leaves. Interestingly, the USA exports approximately the same amount of tobacco that it imports. Because US tobacco is popular globally, and tends to be more expensive than tobacco from other countries, the value of US tobacco leaf exports are about double that of the same quantity of imports.

Manufactured cigarettes are also traded globally. Again, the USA is the largest exporter of manufactured cigarettes, accounting for nearly 20 percent of the world total. Japan is the largest importer of cigarettes.

According to government reports, 846 billion cigarettes were exported, but only 619 billion were reported to be imported. Statistics such as these provide a sense of the size of the cigarette smuggling problem.

China is quietly emerging as a significant cigarette exporter, increasing from virtually no exports in 1980 to over 20 billion cigarettes exported in 2001, worth about US\$320 million. In 2005 the value of China's export trade in cigarettes is predicted to be US\$600 million.

Between 300 and 400 billion cigarettes were smuggled in 1995, equal to about one third of all the legally imported cigarettes. Cigarettes are the world's most widely smuggled legal consumer product. They are smuggled across almost every national border by constantly changing routes.

Cigarette smuggling causes immeasurable harm. International brands become affordable to low income consumers and to image conscious young people in developing countries. Illegal cigarettes evade legal restrictions and health regulations, and while the tobacco companies reap their profits, governments lose tax revenue.

Some governments are now suing tobacco companies for revenue lost due to smuggling activities allegedly condoned by the companies. Measures needed to control smuggling should include monitoring cigarette routes, using technologically sophisticated tax-paid markings on tobacco products, printing unique serial numbers on all packages of tobacco products, and increasing penalties.

Smokers' Right Organizations

The tobacco industry has long appreciated the importance and difficulty of mobilizing smokers to speak out on behalf of smokers' rights. Consequently the tobacco companies have investigated ways that they could "stimulate" the development of groups of smokers, so as to have the support, or at least the appearance of support from smokers and other "natural or third party allies".

There are fewer than two dozen smokers' rights organizations in the world and all are in the developed world. The tobacco industry documents illustrate that while many of these organizations purport to be independent of the tobacco industry, at least some are dependent on company funding.

At the request of Philip Morris the public relations firm of Burson-Marsteller formed the National Smokers Alliance, a smoker's rights group, in 1993. Philip Morris initially provided the National Smokers Alliance with \$4 million in seed funding. Documents

show that Philip Morris formed similar groups throughout Europe. These “grassroots” groups, with their facades of “independence” from the industry, allowed them to do and say things publicly that tobacco companies could not.

Tobacco Control Organizations

The tobacco control network is committed and far-reaching. The World Health Organization’s Tobacco Free Initiative (TFI) is conducted from headquarters in Geneva and the regional and national offices around the world. There is now a WHO Focal Point on Tobacco or Health in all countries, and the TFI is supported by a number of other international agencies such as Unicef, the World Bank, IARC and the UN Foundation.

The non-governmental organizations (NGOs) highlighted on this map are those whose remit is 100 percent tobacco related. There are dozens more international NGOs which address tobacco control as part of their activities, ranging from the World Medical Association to Consumers International. Academia is also a valuable partner, as many universities carry out research and promote policy initiatives in tobacco control.

There are also many national tobacco control organizations whose impact is not restricted to that country but also felt worldwide. These include ASH in the UK, ThaiHealth in Thailand, and the Campaign for Tobacco Free Kids in the USA. In addition, many national NGOs work part time on tobacco issues.

Numerous other partners include organizations involved with women, youth, environment, law, economics, human rights, religion and development.

Most tobacco control organizations are seriously under funded given the scope of the tobacco epidemic. The better financed, such as ThaiHealth, are funded by a percentage of tobacco tax.

Smoke Free Areas and Advertising Bans

Banning smoking in public places is a sound public health measure to protect the health of nonsmokers.

The issue of workplace bans is primarily one of labor legislation to protect the health of workers, who are exposed to passive smoking for long periods during their work shifts, whether this is in public or office buildings, restaurants or public transport.

Workplace smoking bans are effective in reducing exposure to passive smoking. Smokers who are employed in workplaces with smoking bans are likely to consume fewer cigarettes per day, are more likely to consider quitting, and quit at a greater rate, than smokers employed in workplaces with no or weaker policies.

A total ban works better than a partial ban. Most airlines are now smoke-free and the global trend is towards a safer, cleaner indoor environment in the home and in public and work places.

The tobacco industry denies that advertising plays a role in encouraging people to smoke or increasing the amount smoked, but the research suggests otherwise. As governments acknowledge the harm caused by tobacco and the need to discourage its use, restrictions and outright bans on tobacco advertising are becoming common. Partial restrictions are notorious for leading to other forms of marketing supplanting the restriction. Because of the shift of marketing dollars from one medium to another, the evidence suggests that comprehensive bans on all forms of tobacco promotion can be effective in reducing tobacco use, while partial restrictions have limited or no effect.

Cigarette packaging plays an increasingly important role as advertising restrictions is implemented. Packet design plays an important role in establishing brand imagery and competing for potential customers. Many countries are advocating plain packaging. Some also propose the banning of certain words such as “Light” or “Mild” as these may convey the impression that the cigarettes are less harmful or contain fewer harmful constituents.

Quitting Tobacco

The main dangers of smoking decrease when smokers quit, even in those who have smoked for 30 or more years.

Smokers move through stages in relation to quitting: of precontemplation, contemplation, readiness then action, followed by maintenance or relapse. Many move through this cycle several times before they finally quit, while others report they found it easier to quit than they expected. These stages are influenced by increased costs from tax increases or reduction of smuggling, illness in the smoker, family or friends dying from tobacco, the media, health profession, bans on promotion, creation of smoke free areas and, while most smokers still quit on their own, availability of support and treatment.

There are now techniques to assist those who want to quit smoking, although these are not available in all parts of the world: social support, clinics, quit lines, internet sites; skills training; nicotine replacement therapy (NRT) and other pharmaceutical treatments.

If interventions only focus on prevention of initiation, and do not address cessation, then 160 million additional smokers will die before 2050.

Projections by Region

The tobacco industry predicts a global expansion of the tobacco epidemic in the next few years. The increases in consumption lie principally in the developing nations, while consumption in the industrialized countries will be static or in decline.

In all the countries surveyed, the biggest growth between 1998 and 2008 is expected to be in Zimbabwe, followed by Côte d'Ivoire, Brazil, Morocco, Venezuela, Pakistan, United Republic of Tanzania and Bangladesh.

The greatest decline is expected in New Zealand, followed by the UK, South Africa, Hong Kong, Australia, Singapore and Finland.

In Africa, only the South African market is expected to decrease.

In the Americas, growth in Latin America is expected to compensate for declines in the USA and Canada, with the greatest increases in Brazil, Venezuela, Mexico, Peru, Chile and Uruguay.

In Europe, the forecast is mixed, with increases in some markets and decreases in others. The biggest increase is expected in Norway, and the greatest decline in the UK.

In the Middle East region, the highest growth is expected for Morocco, followed by Pakistan and Tunisia. No country in this region is expected to experience a decline in consumption.

In South East Asia, Bangladesh will see the highest growth, followed by Thailand, while consumption remains static in India.

In the Western Pacific, Vietnam tops the growth charts, while New Zealand, Hong Kong, Australia and Singapore show the greatest decline.

This transfer of the epidemic from rich to poor countries, with its health and economic consequences, is one that developing countries can ill afford. As long ago as 1986, the World Health Organization predicted that the differential in wealth between rich and poor countries would widen further as a result of tobacco, leading to compromise in sustainable development. These projections are not inevitable; tobacco control interventions can make a difference.

Future of Tobacco Industry

Future predictions are by their nature speculative but some things are certain: the tobacco epidemic, with its attendant health and economic burden, is both increasing and also shifting from developed to developing nations; and more women are smoking.

The industry is consolidating, and also shifting from the west to developing regions, where there may be less government control and public debate about the role of transnational tobacco companies.

The future looks bleak; the global tobacco epidemic is worse today than it was 50 years ago. And it will be even worse in another 50 years unless an extraordinary effort is made now. Several countries have already shown that smoking rates can be reduced. These successes can be reproduced by any responsible nation, but only through immediate, determined, and sustained governmental and community action. The future epidemic depends on understanding of the issue, and policies, politics and actions taken today.

INTERNATIONAL TOBACCO PRODUCTS MARKETING STANDARDS

11 September 2001

Definitions¹

The following definitions are provided to assist in the interpretation of these Standards.

Term used in these Standards	Explanation
adult	A person who is at least 18 years old, except where legal requirements or voluntary undertakings entered into by the Participants specify a higher minimum age for the lawful sale, purchase, possession or consumption of tobacco products, in which case the term "adult" means a person of at least that minimum age.
advertisement	Any communication by or on behalf of a Participant to consumers which has the aim of encouraging them to select one brand of tobacco products over another.
promotional event	An event or activity organised by or on behalf of a Participant with the aim of promoting a brand of tobacco product, which event or activity would not occur but for the support given to it by or on behalf of the Participant.
sponsorship	Any public or private contribution to a third party in relation to an event, team or activity made with the aim of promoting a brand of tobacco product, which event, team or activity would still exist or occur without such contribution.
tobacco products	Manufactured cigarettes, cigars, cigarillos, pipe tobacco, fine cut tobacco, and pre-formed tobacco rolls.
youth	Any person who is not an adult. The term also includes the plural.

¹ Pakistan Tobacco Company Annual Report, 2004.

The parties subscribing to these Standards (the "Participants") wish to record their belief that tobacco products should be marketed in a responsible manner and that reasonable measures should be taken to ensure that the promotion and distribution of tobacco products is:

- Directed at adult smokers and not at youth, and
- Consistent with the principle of informed adult choice

These Standards should be observed in both their letter and intent.

In subscribing to these Standards, the Participants wish to encourage:

- All others who manufacture or market tobacco products to join them as Participants; and
- All others who are associated with the manufacture, sale, distribution or marketing of tobacco products to embrace the principles of these Standards.

The practices of the Participants should not be less restrictive than these Standards unless required by law, but any more restrictive legal requirement or voluntary undertaking shall take precedence over these Standards.

The Participants should incorporate these Standards into their own internal codes.

The Participants intend to support the comprehensive incorporation of these Standards into national laws.

These Standards do not apply to the relationship between Participants and their suppliers, distributors or other trade partners, although those parties are encouraged to comply with the Standards in any dealings they have with consumers.

The Participants shall take reasonable measures to prevent third parties from using their tobacco product brand names or logos in a manner which violates these Standards.

❑ These Standards are not intended to prohibit the use of any trademarks as brand names or on packaging.

❑ A Participant shall comply with these Standards as quickly as possible, as and in any event no later than 12 months from the date that it subscribes to the Standards or, where existing contractual provisions prevent earlier compliance, in any event by December 31, 2002, provided in all cases compliance is not in breach of relevant laws. The timetable for compliance with the Sponsorship Standards is set out in paragraphs 17 and 19.

Content Standards

1. The following Content Standards are intended to cover all communications by or on behalf of a Participant to consumers which have the aim of encouraging them to select one brand of tobacco products over another. Certain communications associated with sponsorship activities are subject to separate requirements set out in paragraph 19.

2. No advertisement shall:

- be aimed at or particularly appeal to youth
- feature a celebrity or contain an endorsement, implied or express, by a celebrity
- depict any person under or appearing to be under 25 years of age
- suggest that any of the following is enhanced by smoking:
 - sporting or athletic success,
 - popularity,
 - professional success, or
 - sexual success, or
- suggest that most people are smokers.

3. All new advertisements published or disseminated after subscription to these Standards, including renewals and replacements of existing advertisements, shall contain a clearly visible health warning except those which:

- appear on point of sale material the advertising display area of which is smaller than 250 square centimeters,
- are, either individually or in deliberate combination with other advertisements, smaller than 25 square centimeters and are placed on promotional merchandise, or
- until December 1, 2006 are used at and connected with sponsored activities

Media Usage Standards

4. Print:

4.1 No advertisement shall be placed in any printed publication unless there is a reasonable basis upon which to believe that

- (a) at least 75% of the readers of such publication are adults, and
- (b) the number of youth who read it constitute less than 10% of all youth in the country of circulation.

4.2 No advertisement shall be placed on the packaging or outside cover of a magazine, newspaper or similar printed publication intended to be read by consumers.

4.3 Reasonable measures shall be taken to ensure that no advertisement is placed in printed publications adjacent to material that particularly appeals to youth.

5. Outdoor and Billboard:

No advertisements shall be placed on any billboard, wall mural or transport stop or station which:

- is located closer than 100 meters from any point of the perimeter of a school attended predominantly by youth, or
- either individually, or in deliberate combination with other such advertisements, exceeds 35 square meters in total size.

6. Cinema:

No advertisement shall be displayed in a cinema unless there is a reasonable basis upon which to believe that at least 75% of the audience is adults.

7. Television or Radio:

No advertisement shall be placed on television or radio unless and until:

- (a) each person seeking access to the channel or programme on which such advertisement is placed provides verification that he or she is an adult, and
- (b) the broadcast is restricted to countries where such advertisements are not prohibited by law.

8. Internet:

No advertisement shall be placed on the Internet unless and until:

- (a) each person seeking access to the Internet site on which such advertisement is placed provides verification that he or she is an adult, and
- (b) access is restricted to those countries where such advertisements are not prohibited by law.

9. Video, Audio and Computer:

No electronic advertisement shall be incorporated within any video or audio cassette, compact disk, digital video disk or similar medium unless reasonable measures have been taken to ensure that the intended recipients of the item are adults. For the avoidance of doubt, Participants may distribute video or audio cassettes, compact disks, digital video disks and similar media provided that the contents, cover, packaging and means of distribution comply with these Standards.

10. Product Placement:

There shall be no direct or indirect payment or contribution for the placement of tobacco products, advertisements or items bearing tobacco brand names, within the body of any:

- motion picture,

- television programme,
- theatrical production or other live performance,
- live or recorded performance of music,
- commercial film or video,
- video game, or
- any similar medium

where such medium is intended for the general public.

Promotion and Event Standards

11. All activities and communications concerned with:

- promotional offers
- promotional events
- promotional items, or
- sampling

shall comply with the Content Standards.

12. Promotional Offers

12.1 Promotional offers and programs for specific brands which appear on the package, at the point of retail sale, by mail or through other communications shall be directed only to adults and, unless prohibited by law, only to smokers.

12.2 Reasonable measures shall be taken to ensure that youth and (unless prohibited by law) non-smokers are excluded from direct mailing lists.

12.3 Participation in promotional offers by the general public will be conditional upon evidence of age eligibility and (unless prohibited by law) confirmation of smoker status.

12.4 Where promotional offers permit an adult smoker to be accompanied by other persons at a third party event or in an activity, such other persons shall be adults.

13. *Promotional Events:*

Each Participant shall ensure that only adults are allowed access to promotional events.

14. *Promotional Items:*

14.1 No advertisements shall be placed on:

- items where those particular items are marketed to, or intended to be used predominantly by, youth, or
- shopping bags.

14.2 No advertisement larger than 25 square centimeters - either on its own or in deliberate combination with other advertisements - shall be placed on any items (other than on items with a smoking-related function) which are to be sold, distributed or offered to the general public.

14.3 Any item of clothing which is offered for sale or distribution by or on behalf of a Participant shall only be offered in adult sizes.

15. *Sampling:*

Reasonable measures shall be taken to ensure that:

- (a) sample tobacco products are not offered to youth or to non-smokers
- (b) samples are only offered in a segregated area access to which is restricted to adults
- (c) personnel employed directly or indirectly by Participants to offer sample tobacco products or to conduct promotional activities
 - (i) are at least 21 years of age, and
 - (ii) verify the age and (unless prohibited by law) smoker status of those to whom the samples and promotions are offered, and
- (d) unsolicited tobacco product samples are not distributed, either directly or through a third party, by mail.

Sponsorship Standards

16. Sponsored Events

No sponsorship shall be provided for:

- an event or activity which bears a tobacco product brand name, unless there is a reasonable basis upon which to believe that all persons who compete, or who otherwise take an active part, in the sponsored events or activities are adults, or
- a team or an individual which bears a tobacco product brand name, unless all persons sponsored by Participants are adults.

17. As from December 1, 2006, no sponsorship shall be provided unless:

- (a) there is a reasonable basis upon which to believe that attendance at the sponsored event or activity will comprise no less than 75% adults, and
- (b) there is a reasonable basis upon which to believe that the sponsored event or activity will not be of particular appeal to youth, and
- (c) the Participant does not anticipate that the sponsored event or activity will receive exposure, other than as a news item, on television or radio or the Internet, unless such exposure complies with these Standards, and
- (d) success in the principal activity associated with the sponsorship does not require above-average physical fitness for someone of the age group of those taking part.

18. Sponsorship Advertising

All individuals authorized to bear tobacco product advertisements, logos or brand names at sponsored events or activities shall be adults.

19. All forms of advertising associated with or ancillary to sponsorship shall comply with the provisions of these Standards. The following are excluded from these Standards until December 1, 2006:

- on-site signage at sponsored events
- incidental television and radio broadcasts of sponsored events

- applications of trade marks or logos to people or equipment participating in sponsored events.

Packaging, Sales and Distribution Standards

20. Cigarettes shall not be sold or distributed to consumers in packages containing fewer than ten sticks.

21. Fine cut tobacco shall not be sold or distributed to consumers in pouches smaller than 10 grams.

22. No incentive or materials shall be provided to support the sale of cigarettes in single sticks.

23. All cigarette packs and all primary packaging for other tobacco products shall carry a clearly visible health warning.

24. All cartons and bundles offered for sale duty-free shall carry a clearly visible health warning.

25. Reasonable measures shall be taken to prevent youth having access to cigarettes in vending machines.

Youth Access and Minimum Age Restrictions

26. *Youth Access:*

The Participants shall make sustained efforts, in co-operation with governments and other regulatory agencies, customers and others to prevent youth having access to tobacco products. They shall also seek ways in which to reinforce and give effect to measures that will prevent youth having access to tobacco products.

27. *Minimum Age Restrictions:*

The Participants are committed to the enactment and enforcement of minimum age restrictions for the lawful sale or purchase of tobacco products in every country in which their tobacco products are sold. The Participants support efforts by appropriate authorities, manufacturers of tobacco products, distributors and retailers to ensure the effective enforcement of such restrictions.

BRAND EQUITY

Brands represent enormously valuable pieces of legal property, capable of influencing consumer behavior, being bought and sold, and providing the security of sustained future revenues to their owner. The value directly or indirectly accrued by these various benefits is often called brand equity.

A basic premise of brand equity is that the power of a brand lies in the minds of consumers and what they have experienced and learned about the brand over time. Brand equity can be thought of as the "added value" endowed to a product in the thoughts, words, and actions of consumers. There are many different ways that this added value can be created for a brand. Similarly, there are also many different ways the value of a brand can be manifested or exploited to benefit the firm (i.e., in terms of greater revenue and/or lower costs).

For brand equity to provide a useful strategic function and guide marketing decisions, it is important for marketers to fully understand the sources of brand equity, how they affect outcomes of interest (e.g., sales), and how these sources and outcomes change, if at all, over time. Understanding the sources and outcomes of brand equity provides a common denominator for interpreting marketing strategies and assessing the value of a brand: The sources of brand equity help managers understand and focus on what drives their brand equity; the outcomes of brand equity help managers understand exactly how and where brands add value.

Towards that goal, we review measures of both sources and outcomes of brand equity in detail. We then present a model of value creation, the brand value chain, as a holistic, integrated approach to understanding how to capture the value created by brands. We also outline some issues in developing a brand equity measurement system. We conclude by providing some summary observations.

Measuring Sources of Brand Equity

Two particularly important components of brand knowledge are brand awareness and brand image. Brand awareness is related to the strength of the brand node or trace in memory as reflected by consumers' ability to recall or recognize the brand under different conditions. Brand awareness can be characterized by depth and breadth. The depth of brand awareness relates to the likelihood that the brand can be recognized or recalled. The breadth of brand awareness relates to the variety of purchase and consumption situations in which the brand comes to mind. Brand image is defined as consumer perceptions of and preferences for a brand, as reflected by the various types of brand associations held in consumers' memory. These associations range along a number of different dimensions, such as their strength, positivity, uniqueness, and abstractness. Strong, favorable and unique brand associations are essential as sources of brand equity to drive consumer behavior.

According to a customer-based brand equity perspective, the indirect approach to measuring brand equity attempts to assess potential sources for brand equity by measuring consumer mindset or brand knowledge. The indirect approach is useful in identifying what aspects of the brand knowledge may potentially cause the differential response that creates brand equity in the marketplace. Because any one measure typically only captures one particular aspect of brand knowledge, multiple measures need to be employed to account for the multi dimensional nature of brand knowledge: Brand awareness can be assessed through a variety of aided and unaided memory measures that can be applied to test brand recall and recognition; brand image can be assessed through a variety of qualitative and quantitative techniques. We next review several these various approaches.

Brand Personality

Another useful set of measures to assemble the brand profile is brand personality. Brand personality is the human characteristics or traits that can be attributed to a brand. Brand personality can be measured in different ways. Perhaps the simplest and most direct way is to solicit open-ended responses to a probe such as:

"If the brand were to come alive as a person, what would it be like, what would it do, where would it live, what would it wear, who would it talk to if it went to a party (and what would it talk about)."

Brand personality also can be assessed more quantitatively through adjective check-lists or ratings. Aaker offers a five factor scale of brand personality:

- 1) **Sincerity** (e.g., down-to-earth, honest, wholesome, and cheerful),
- 2) **Excitement** (e.g., daring, spirited, imaginative, and up-to-date),
- 3) **Competence** (e.g., reliable, intelligent, and successful),
- 4) **Sophistication** (e.g., upper class and charming), and
- 5) **Ruggedness** (e.g., outdoorsy and tough).

Awareness

Brand awareness is related to the strength of the brand in memory, as reflected by consumers' ability to identify various brand elements (i.e., the brand name, logo, symbol, character, packaging, and slogan) under different conditions. Brand awareness relates to the likelihood that a brand will come to mind and the ease with which it does so given different type of cues.

Several measures of awareness of brand elements can be employed. Choosing the appropriate measure depends on the relative importance of brand awareness for consumer behavior in the category and the resulting role it plays to the success of the marketing program for the brand. For example, if research reveals that many consumer decisions are made at the point-of-purchase where the brand name, logo, packaging, and so on will be physically present and visible, then brand recognition and visual awareness measures will be important. If research reveals that consumer decisions are mostly made in other settings away from the point-of-purchase where the brand elements are not physically present, on the other hand, then brand recall and verbal measures will be more important. As a cautionary note, even though brand recall per se may be viewed as less important when consumer decisions are made at the point-of-purchase, consumers' brand

evaluations and choices will still often depend on what else they recall about the brand given that they are able to recognize it there.

Recognition

In the abstract, recognition processes require that consumers be able to discriminate a stimulus, a word, object, image, etc. as something they have previously seen. Brand recognition relates to consumers' ability to identify the brand under a variety of circumstances and can involve identification of any of the brand elements. The most basic type of recognition procedures gives consumers a set of single items visually or orally and asks them if they thought that they had previously seen or heard these items. To provide a more sensitive test, it is often useful to include decoys or lures items which consumers could not have possibly seen. In addition to "yes" or "no" responses, consumers also can be asked to rate how confident they are in their recognition of an item. There are also a number of additional, somewhat more subtle recognition measures that involve "perceptually degraded" versions of the brand. In some cases, the brand element may be visually masked or distorted in some way or shown for extremely brief duration. For example, brand name recognition could be tested with missing letters. These additional measures can provide more sensitive measures of recognition than simple "yes" or "no" tasks.

By applying these direct and indirect measures of brand recognition, marketers can determine which brand elements exist in memory and, to some extent, the strength of their association. One advantage to brand recognition measures versus recall measures is that they can be used in any modality. For example, because brand recognition is often visual in nature, visual recognition measures can be used. It may be difficult for consumers to describe a logo or symbol in a recall task either verbally or pictorially but much easier for them to assess the same elements visually in a recognition task. Nevertheless, brand recognition measures only really provide an approximation as to potential recall ability. To determine whether the brand elements will actually be recalled under various circumstances, measures of brand recall are necessary.

Recall

Brand recall relates to consumers' ability to identify the brand under a variety of circumstances. With brand recall, consumers must retrieve the actual brand element from memory when given some related probe or cue. Thus, brand recall is a more demanding memory task than brand recognition because consumers are not just given a brand element and asked to identify or discriminate it as one they had or had not already seen.

Different measures of brand recall are possible depending on the type of cues provided to consumers. Unaided recall on the basis of "all brands" provided as a cue is likely to identify only the very strongest brands. Aided recall uses various types of cues to help consumer recall. One possible sequence of aided recall might use progressively narrowly defined cues such as product class, product category, and product type labels to provide insight into the organization of consumers' brand knowledge structures. For example, if recall of the Porsche 944 a high performance German sports car in non-German markets was of interest, the recall probes could begin with "all cars" and move to more and more narrowly defined categories such as "sports cars," "foreign sports cars," or even "high performance German sports cars." For example, consumers could be asked: "When you think of foreign sports cars, which brands come to mind?"

Other types of cues may be employed to measure brand recall. For example, consumers could be probed on the basis of product attributes (e.g., "When you think of chocolate, which brands come to mind?) or usage goals (e.g., "If you were thinking of having a healthy snack, which brands come to mind?"). Often, to capture the breadth of brand recall, it may be important to examine the context of the purchase decision or consumption usage situation. For example, consumers could be probed according to different purchase motivations as well as different times and places when the product could be used to see which brands came to mind (e.g., different times of the day, days of the week, or times of the year; at home, at work, or on vacation). The more that brands have strong associations to these considerations, the more likely it is that they will be recalled when they are given those situational cues. Combined, measures of recall based

on product attribute or category cues as well as situational or usage cues give an indication of breadth of recall.

Besides being judged as correctly recalled, brand recall can be further distinguished according to order, as well as latency or speed of recall. In many cases, people will recognize a brand when it is shown to them and will recall it if they are given a sufficient number of cues. Thus, potential recall ability is high. The bigger issue is the salience of the brand – do consumers think of the brand under the right circumstances, e.g., when they could be either buying or using the product? How quickly do they think of the brand? Is it automatically or easily recalled? Is it the first brand recalled?

Image

Brand awareness is an important first step in building brand equity, but usually not sufficient. For most customers in most situations, other considerations, such as the meaning or image of the brand, also come into play. One vitally important aspect of the brand is its image, as reflected by the associations that consumers hold toward the brand. Brand associations come in many different forms and can be classified along many different dimensions. Consistent with the laddering concept described above, it is useful to make a distinction between more "lower level" considerations related to consumer perceptions of specific attributes and benefits versus more "higher-level" considerations related to consumer responses and their judgments and feelings toward the brand. There is an obvious relationship between the two levels as consumers' responses typically are a result of perceptions of specific attributes and benefits about the brand. We next consider both types of associations.

Brand Performance

Brand performance relates to the ways in which the product or service attempts to meet customers' more functional needs. Thus, brand performance refers to the intrinsic properties of the brand in terms of inherent product or service characteristics. How well does the brand rate on objective assessments of quality? To what extent does the brand satisfy utilitarian, aesthetic, and economic customer needs and wants in the product or

service category? The specific performance attributes and benefits making up functionality will vary widely by category.

Brand Imagery

The other main type of brand meaning involves brand imagery. Brand imagery deals with the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' more psychological or social needs. Brand imagery is how people think about a brand abstractly rather than what they think the brand actually does. Thus, imagery refers to more intangible aspects of the brand.

Brand Judgments

Brand judgments focus upon customers' own personal opinions and evaluations with regard to the brand. Brand judgments involve how customers put together all the different performance and imagery associations for the brand to form different kinds of opinions.

Brand Feelings

Brand feelings are customers' emotional responses and reactions with respect to the brand. Brand feelings also relate to the social currency evoked by the brand. What feelings are evoked by the marketing program for the brand or by other means? How does the brand affect customers' feelings about themselves and their relationship with others? These feelings can be mild or intense and be positive or negative in nature.

CANNIBALIZATION

Cannibalization is a phenomenon that results when a firm develops a new product or service that steals business or market share from one or more of its existing products and services. Thus one product may take sales from another offering in a product line. Although the idea of cannibalization may seem primarily negative, it also has some positive implications. In the evolving world of E-commerce, some companies are intentionally choosing to cannibalize their retail sales through bargain-priced online offerings.

Positive and Negative Aspects

Having a new product take sales away from an existing product is not usually an attractive situation for a firm. Clorox, for example, saw sales of their bleach products suffer when they introduced laundry detergents with bleach as an added ingredient. A new Subway sandwich franchise can cannibalize sales from another franchise just two miles down the street. Other examples of the power of new products to harm companies or even entire industries are everywhere.

In this case of cannibalization, a firm will need to reduce the benefit calculated for a new product by the amount of the existing product benefit lost. However, firms need to recognize that cannibalization is not always avoidable. After all, competing companies might have entered the market with a similar product and taken these sales anyway, even if the new product had not been introduced. Cannibalization can even occur before a new product is introduced. In fact, some experts claim that a pre-announcement for a new product can cannibalize the sales of an old product in a prior period.

While cannibalization may seem to be very negative, several researchers have found that truly innovative firms are sometimes willing to sacrifice or cannibalize their prior investments. In fact, this may be a type of growth strategy. Professors Chandy and Tellis state that as digital-imaging technology replaces film cameras, Kodak could lose billions of investment dollars in their film-based technologies—including plants and photo

development processes. If firms like Kodak try to preserve the value of their investments, they can risk making themselves obsolete. The best strategy is to embrace the new technology and make new products like digital cameras.

Some experts argue that organizations should encourage cannibalization. By encouraging competition among their stand-alone business units, companies could create a climate in which risk taking and new ideas were both rewarded and valued. Having a future market focus and abandoning an old product as soon as a new one comes along can benefit overall profits.

Some firms currently encourage the act of cannibalization and forced obsolescence. According to business writer Jerry Useem in an article for *Fortune*, Jack Welch refers to General Electric's Internet business units as "destroy-your-business.com," while Andy Grove talks about a "valley of death," and Harvard Business School's Dr. Christensen calls the concept "survival by suicide."

Changes in Internet upstarts are threatening to overturn successful technologies and business models of the past. Remaining competitive in this rapidly evolving business environment may mean destroying the value of past investments—factories, relationships within a supply chain, or commitments to a certain way of doing things. It may mean actively working to depress share price and profitability, even if these actions may go against a manager's training or beliefs.

The Internet is making cannibalization a common phenomenon. As an example, Pet Smart, like Barnes and Noble and Toys 'R' Us before, launched an online venture as a separate company. With this launch, they cannibalized sales at their brick and mortar stores, in some cases pricing online goods lower than those in their stores. Other retailers are following similar strategies with Web-based versions of their retail stores. Bank One launched a completely virtual bank, Wingspan Bank.com, with more attractive rates than Bank One. Changes in financial measures are necessary to embrace cannibalization. In fact, return on investment measures may not be appropriate in the new economy.

In the trend toward intentional cannibalization, entrepreneurial companies often prevail through excellent innovation. Small firms are seen as quick and nimble and better able to take the risks necessary to develop radically new product and service innovations. In the future, they may surpass the larger firms with greater research and development capacities and financial resources.

Does Cannibalization Affect Product Line?

Durable goods manufacturers often design product lines by segmenting their markets on quality attributes—attributes that exhibit a “more is better” property for all consumers. Since products within a product line are partial substitutes, and consumers can self-select the products they want to purchase, multiproduct firms have to carefully consider the cannibalization problem in designing their product lines. Research has analyzed the cannibalization problem for a monopolist who faces consumers who differ in their quality valuations. If lower-quality products are sufficiently attractive, higher-valuation consumers may find it beneficial to buy lower-quality products rather than the higher quality products targeted to them. That is, lower-quality products can potentially cannibalize higher-quality products. The cannibalization problem forces the firm to provide only the highest valuation segment with its preferred (efficient) quality. All other segments get qualities lower than their preferred (efficient) qualities. When the cannibalization problem is very severe, the firm may not serve some of the lowest-valuation segments.

However, not much is known about how and when the cannibalization problem affects product line design in an oligopoly. Also, consumers may differ not only in their quality valuations but also in their taste preferences. The objective of this paper is to fill these gaps by examining whether the cannibalization problem affects a firm’s price and quality decisions in a model with consumer differences in quality valuations, as well as in their taste preferences, in both monopoly and duopoly settings. The paper addresses questions such as the following. With both types of consumer differences, should a firm, even a monopolist, provide efficient quality only to the top segment? Are there conditions under which other segments can also get their preferred quality levels? If so, how do consumer

and firm characteristics affect the likelihood of different segments getting their preferred qualities? How does competition affect the firm's choice of qualities?

A model is developed in which the market is made up of two segments, with one segment valuing quality more than the other. Consumers in the two segments can have different taste preferences (transportation costs). Firm locations in the two segments may also be different. The paper begins with an analysis of the monopoly case. I find that when both segments are fully covered, the standard self selection results of the high-valuation segment getting its preferred quality and the low-valuation segment getting less than its preferred quality do hold. Interestingly, when both segments are incompletely covered, under some conditions, the monopolist's price and quality choices are not determined by the cannibalization problem. In these cases, the monopolist finds it optimal to provide each segment with its preferred quality. Thus, the equilibrium quality levels in a second-degree price discrimination situation resemble the third-degree price discrimination solution.

The model then considers the case of two firms competing in the market, each offering two products one for the high-valuation segment and the other for the low-valuation segment. Here also both types of outcomes are possible, depending on consumers and firm characteristics. Under some conditions, the cannibalization problem does not affect the firms' price and quality choices, and each firm provides each segment with that segment's preferred quality. Each firm finds it optimal to serve both segments. When these conditions do not hold, only the high-valuation segment gets its preferred quality.

An interesting insight from the analysis is that as the taste preferences of the low-valuation segment become weaker (their "transportation cost" becomes lower), the more intense competition in the low-valuation segment makes it more attractive for the high-valuation consumers to buy the products meant for the low-valuation segment. This worsens the cannibalization problem, and the low-valuation segment may not get its preferred quality. On the other hand, when the taste preferences of the high-valuation segments are sufficiently weak, more intense competition in the high-valuation segment

reduces that segment's incentives to buy the product meant for the low-valuation segment. This mitigates the cannibalization problem and makes it more likely for the low-valuation segment to get its preferred quality.

Similarly, when firms are less differentiated in the low-valuation segment, stronger competition between the firms makes the cannibalization problem worse, and the low-valuation segment may not get its preferred quality. When the differentiation between the firms is sufficiently weak in the high-valuation segment, the high-valuation segment is more likely to be better off buying the product meant for it. As the high-valuation segment's incentives to buy the lower-quality product are reduced, the low valuation segment is more likely to get its preferred quality.

DEMOGRAPHICS OF TOBACCO IN PAKISTAN

Despite the decline in tobacco use in America and Europe, there has been an increasing rate of 1.7% of smoking in the developing countries. Pakistan is one of those countries where this rate is quiet high. According to the projections of World Health Organization, regional increase for cigarette consumption in Pakistan in 2008 as compared to 1998 would be +35.9%; Second highest in the Middle East region after Morocco. This percentage, however, is likely to reduce as the major tobacco companies in Pakistan have voluntarily agreed to follow *'International Tobacco Product Marketing Standards'*.

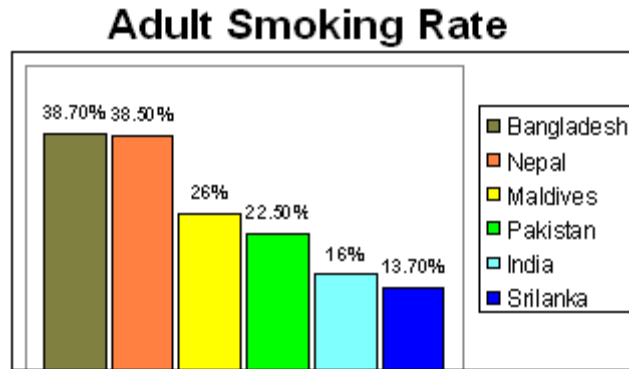
Tobacco is a 'Rabi' crop. Federal Bureau of Statistics of Pakistan has shown a negative trend of 2.3% in growing tobacco during the year 2004 and 2005. About 45,000 hectares area is devoted to grow the tobacco crop and 86,000 metric tons of tobacco was produced last year.

Area Production of Tobacco Crop¹					
Crops	2003-04		2004-05 Provisional (July-March)		% Change In production
	Area (000 hectares)	Production (000 tons)	Area (000 hectares)	Production (000 tons)	
<i>Tobacco</i>	<i>46</i>	<i>86</i>	<i>45</i>	<i>84</i>	<i>-2.3</i>

The number of cigarette consumption per person per year in Pakistan is 564. It is estimated that 22.5% of the adult population smoke. About 36% of male adults and 9% of

¹ <i>Ministry of Food, Agriculture and Livestock; Federal Bureau of Statistics</i>

female adults are addicted to smoking. This figure is one of the highest in Asia. However in South Asia this figure is quiet moderate.



Source: Data taken from 'Tobacco Atlas'

The ratio of cigarettes export to cigarettes import is exactly 1:10. Approximately 400 million cigarettes are being exported and 4,000 million cigarettes are being imported every year. However, in the case of tobacco leaf, exports are much higher than imports. Pakistan imports 180 metric tons of tobacco leaves and 2446 metric tons of tobacco leaves are exported every year.¹

Pakistan is among the leading producer of tobacco leaves. But only 0.3% of agriculture land is devoted to tobacco farming.²



¹World Health Organization

²The Tobacco Atlas, 2005

Cigarettes are the world's most widely smuggled legal consumer product. They are smuggled across almost every national border by constantly changing routes. Cigarette smuggling causes immeasurable harm to the economy. International brands become affordable to low income consumers and to image conscious young people in developing countries. It is quiet difficult to find the exact routes of smuggling. In Pakistan, cigarettes are smuggled mostly through Cyprus and Dubai.

Tobacco is considered as a controversial industry. But its contribution towards economy has always been quiet healthy. Cigarette companies in Pakistan pay a big chunk of their revenue as taxes. It can be seen that more than 60% of their revenue goes into government taxes, which is a healthy sign for the economy¹.



¹ *Pakistan Tobacco Company, Social Report 2004*

BRITISH AMERICAN TOBACCO & PAKISTAN TOBACCO COMPANY

BRITISH AMERICAN TOBACCO (BAT)

British American Tobacco is the world's most famous international tobacco group, with brands sold in 180 markets around the world. They produce high quality tobacco products to meet the diverse preferences of millions of consumers, and work in all areas of the business – 'from seed to smoke'. BAT's operations began in 1902, and they have enjoyed over 100 years of truly multinational operations. BAT's companies are committed to providing consumers with pleasure through excellent products, and to demonstrating that they are meeting their commercial goals in ways that are consistent with reasonable societal expectations of a responsible tobacco group in the 21st century.

British American Tobacco is operating in more countries than any other. It does business in 180 countries, with a global market share of 15.1 per cent. With over 300 brands in their portfolio, they make the cigarette chosen by one in seven of the world's one billion adult smokers. BAT's goals are not only to continue creating long term, sustainable shareholder value, but also to lead the tobacco industry in demonstrating corporate social responsibility and wider accountability. The products are risky and industry can be seen as controversial. The products are legal, no governments or serious campaigners seek prohibition, and about a billion adults choose to smoke worldwide.

Through 100 years of operations, they have built a strong international reputation for high quality tobacco brands to meet consumers' diverse preferences. BAT holds strong market positions in each of its regions and has leadership in more than 65 markets. The Group has over 80 factories in 64 countries, processing some 660 million kilos of leaf and

producing over 800 billion cigarettes a year. Today, BAT is acknowledged as one of the world's leading Fast Moving Consumer Goods companies. They acknowledge the significant responsibilities that the business entails, and are working hard to demonstrate how they are carrying them out.

PAKISTAN TOBACCO COMPANY (PTC)

Pakistan Tobacco Company (PTC) is a subsidiary of British American Tobacco (BAT), which is the second largest international tobacco group in the world. PTC had been a top blue chip company until the mid 1990s when performance started to waver, market leadership was lost and rumors began spreading about factory closure and shareholders pulling out. A radical solution was needed, and the way forward was established in a 16-hour meeting of all managers and union officials, where concerns were raised and openly discussed.

Pakistan Tobacco Company Limited (PTC) was incorporated in 1947 immediately after partition when it took over the business of the Imperial Tobacco Company of India. PTC is the first multinational company of Pakistan. It has come a long way from being just a small warehouse at Karachi port to one of the largest tobacco Company in Pakistan. The rapid expansion had transcended PTC into an institution that is proud of its endeavors for introducing innovations and breakthroughs in Pakistan. PTC is proud of its heritage and for being a company that derives its strength from its lone-term presence in Pakistan and from sharing learning's from BAT's global experiences. PTC is the first multinational to set up its business in Pakistan. It has been a leader in benchmarking innovative brands and marketing campaigns, which brought a whole new competitive edge to Pakistan's business world. PTC is proud of our reputation for manufacturing high quality cigarette brands.

The mission statement of PTC envisions itself as being the '**1st choice for everyone**'. It has continued to relentlessly pursue its medium-term Mission of:

“Transform PTC to perform with the speed, flexibility and enterprising spirit of an innovative, consumer-focused company”

The vision of PTC comprises of the following:

- Regaining volume and value leadership by positioning viable brands in all consumer relevant segments
- Driving world class standards in products processes and services through passionate, skilled and confident people
- Striving to meet stakeholders expectations
- To establish a focused, segmented and differentiated brand portfolio
- Create a winning corporate culture with focus on Vision, Mission and Values
- Restructure PTC's cost base to become competitive locally and globally
- Drive consumer-focused operational excellence

Guiding Principles

The Guiding Principles describe key characteristics of the organization, which they aim to nurture.

- **Strength from Diversity** reflects the cultural mix within the Group and a working environment where employees' individual differences are respected and enjoyed. It also reflects its aim of harnessing diversity - of people, cultures, viewpoints, brands, markets and ideas - to create opportunities and strengthen performance.
- **Open Minded** reflects openness to change, opportunities and new ideas, including ways of addressing regulatory issues and the changing expectations in society. They seek to be active listeners, genuinely considering others' viewpoints and not prejudging.
- **Freedom through Responsibility** reflects the devolved nature of the Group and the belief that decisions should be taken throughout the organization at the appropriate level, as close to the consumer as possible, and that decision makers should accept responsibility for their decisions.

- **Enterprising Spirit** has been a characteristic of the business through a century of operations. It is reflected in its ability to grow the business and its value within many challenging environments, through the confidence to seek out opportunities for success, to strive for innovation and to accept considered risk-taking as part of its way of working.

Throughout the BAT world, PTC is often mentioned and recognized as a leading company for its many successful initiatives.

Structure

Pakistan Tobacco Company is a subsidiary of British American Tobacco (BAT) Company, and over 50% of PTC's stock lies in the hands of BAT. Such an environment leads to PTC having a closed organizational structure. Policies at BAT greatly influence those at PTC.

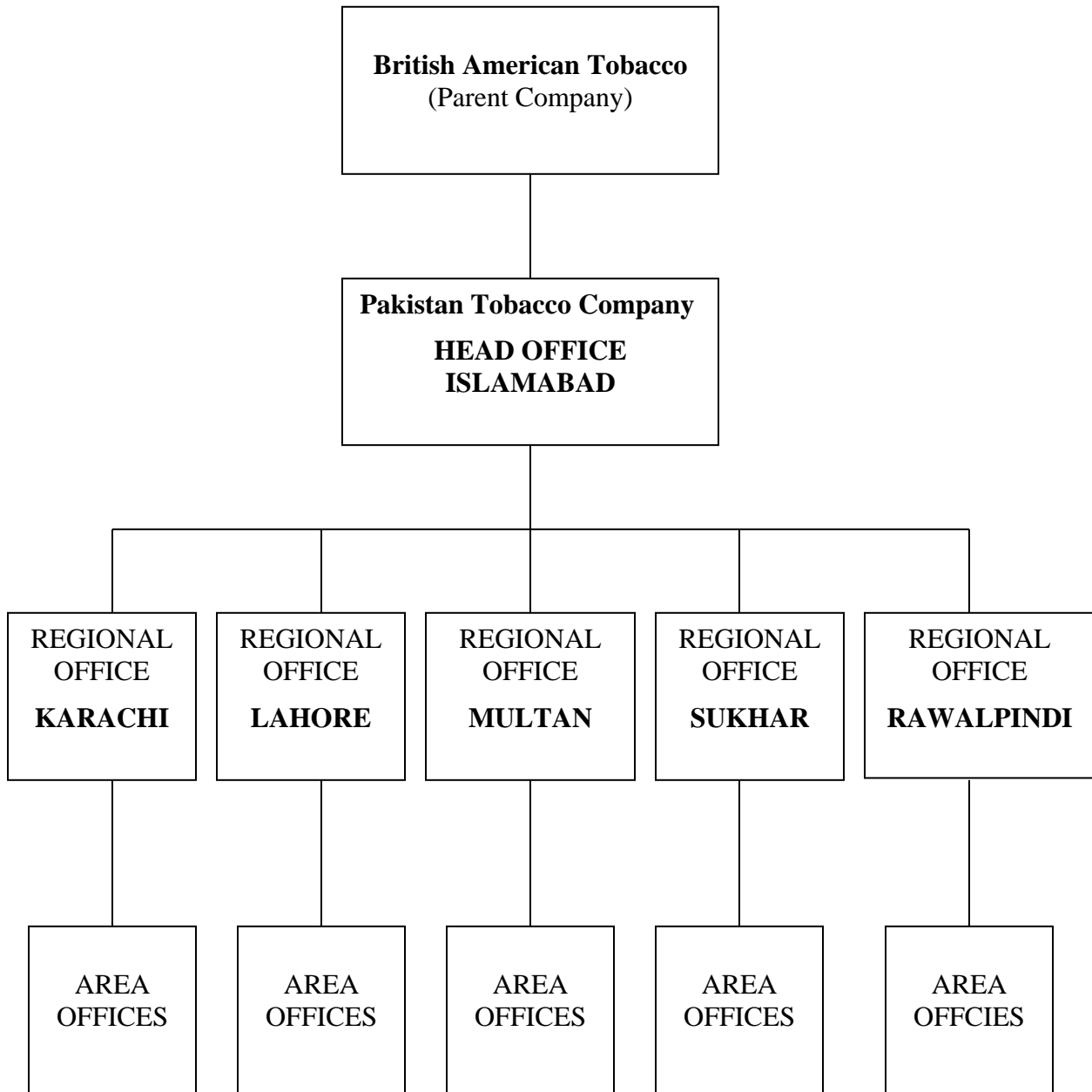
PTC's headquarters are located in the Evacuate Trustee Building in Islamabad. It has besides this, five regional offices. These are in Lower Sindh (headquartered in Karachi), Upper Sindh (headquartered in Sukkur), Multan (headquartered in Multan), Punjab (headquartered in Lahore), and the Northern region, (headquartered in Rawalpindi). These in turn have five Area Offices in each of these regions. The Area Offices report to the Regional Offices, and these report to the Head Office. It has two factories for production in Pakistan; one is in Akora Khattak, and the other in Jhelum.

Old Mechanistic Structure:

PTC had a centralized organizational structure, and was a flat organization with a wide span of management (control). It was a mainly mechanistic organization, with set and standard operating procedures. There was little room for maneuvering and flexibility, but this by no means hampers creativity, within the organization. This was also good in a sense as it lead to greater empowerment of the Managers at the Regional Offices. Empowerment however lied mainly in the top managerial tiers. PTC had only 3 managerial tiers in its organizational structure, and promotions were slow and far apart.

New Organic Structure:

Now there is a great development of personal skills, through cross-functional attachments. Courses at PTC are developed and conducted with a view to enhance the managerial competencies desired by BAT.

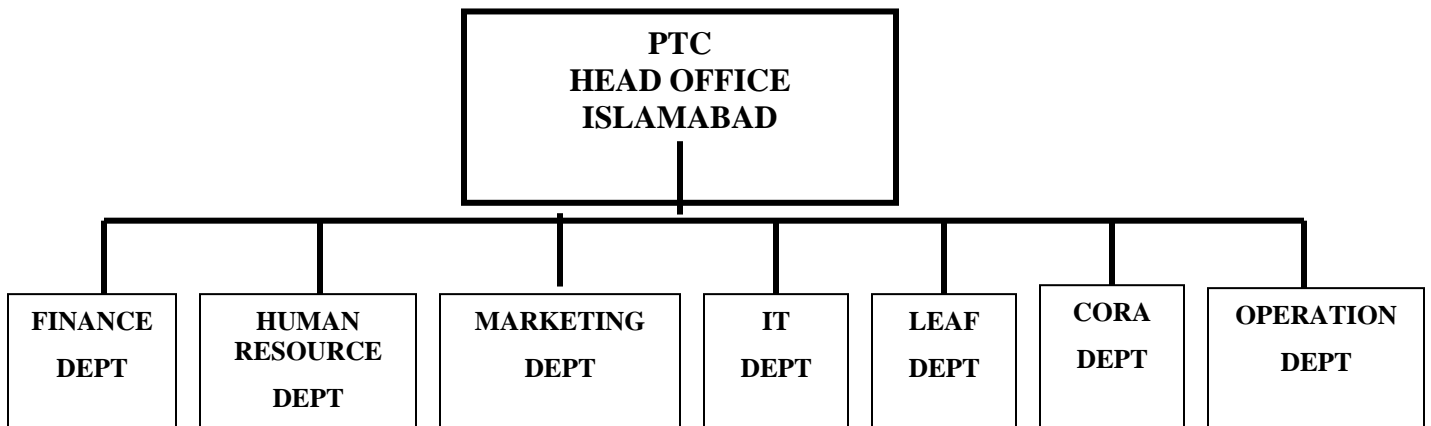


Source: HR Dept., PTC Islamabad.

Departmentalization

There are seven departments in all. Within each department there are different sections. The departmentalization of the organization is aiming at the better performance and leading towards the efficiency.

1. Production
2. Finance
3. Human Resource
4. Marketing
5. Information Technology
6. Leaf
7. CORA (Corporate & Regulatory Affairs)



Source: HR Dept., PTC Islamabad.

Why PTC Came To Pakistan

PTC is the first multinational company of Pakistan and is a subsidiary of British American Tobacco, one of the largest tobacco companies in the world. When BAT entered Pakistan, to appeal to the general public and not arouse any anti-foreign feelings, BAT in Pakistan became PTC. BAT decided to enter into the Pakistani market through PTC due to the following reasons:

- **Declining Demand for Tobacco in the West:** In the mid-twentieth century, Tobacco firms worldwide faced a declining demand schedule due to the increased general awareness about the harmful effects of smoking. When demand dropped, sales dropped, ultimately resulting in a decline in the companies' profits. The decline in smoking in North America, especially the United States, has been offset by a strong push from the large tobacco companies to find converts in the developing world.
- **Anti-Tobacco Regulations in the West:** As tobacco control is tightening in the West, transnational tobacco companies are becoming more active in developing countries. The result is that tobacco use is declining at the rate of 1.5% in the West but at the same time it is increasing at the rate of 1.7% in the developing countries. While the anti-tobacco movement in the USA helped lower cigarette sales, Big Tobacco, the largest US companies: Philip Morris, R.J. Reynolds and Brown and Williamson, as well as the British American Tobacco Co., have continued to expand overseas. They have flooded the markets in Asia and Eastern Europe with advertisements, promotional products and cut-price brands designed to encourage new smokers.
- **Favorable Conditions:** To maintain profits and ensure survival of their businesses, tobacco firms started to explore international markets such as Russia, Africa, and Asia etc. These countries were underdeveloped and boasted of all the factors useful in making up a conducive environment for a thriving and affluent tobacco industry. There was poverty, dissatisfaction, and illiteracy. Pakistan too had similar conditions and so BAT entered, in the form of Pakistan Tobacco Company. The conditions here turned out to be fairly attractive not only from the

demand side, but from the supply side as well. Tobacco production i.e. supply for PTC's product is also quite high.

- **Importance of Foreign Investment for Pakistan:** Moreover, when BAT came to Pakistan, foreign investment was valued highly. There was a lot of government support especially for PTC would provide employment to lots of people, not only inside the firm but farmers too who would grow the tobacco. With the environment so inviting, BAT could hardly resist the opportunity.
- **High Revenues:** Tobacco has the largest yield of any crop in the country and employs some 1 million Pakistanis. Yields in Pakistan are about twice those for neighboring countries largely due to the extension services provided by the industry. This offers a great advantage to PTC despite the fact that quality has been low in previous years due to problems related to climate and soil and is improving only now and that too, only gradually. Last year PTC enjoyed Rs. 2.2B profit after tax. PTC is also the highest tax payer in Pakistan.
- **Location Economies:** Tobacco is grown mainly in the North West Frontier Province (NWFP) and Punjab. Flue-cured and burley tobaccos are used primarily in higher-quality cigarettes. Oriental varieties (known locally as White Patta) are used in low-quality cigarettes and for chewing tobacco. Dark air-cured varieties are largely used for filler, while light air-cured varieties are used primarily for traditional Pakistani tobacco products. Area was forecast to increase in response to stronger demand and better prices from cigarette manufacturers. Vegetables and sugarcane compete with tobacco and farmers have started inter-cropping tobacco to increase returns.
- **High Tobacco Consumption:** MY 2005 tobacco consumption is forecast to increase to 81,200 MT as a result of increased demand for tobacco products. An estimated two-thirds of the tobacco produced in Pakistan is utilized for cigarettes and the remainder for other tobacco products. Although, no official data on

cigarette consumption is available, however, by using sales as a proxy, 2004 consumption increased to 51.7 billion pieces-or about 10 percent over 2003 sales of 46.9 billion

- **Revenues for Government:** Pakistan's tobacco industry has been a traditionally dependable source of government income, contributing some 27.5 billion rupees per year - the equivalent of 4.4% of Pakistan's GDP. According to independent estimates, the Pakistani government collected over \$300 million in tobacco tax in 1990, slightly more than a tenth of the government's total revenue earnings that year. But what the socially responsible companies like PTC is contributing in the social sector and the excise duty to the government exchequer is commendable.

Currently, there are about 24 companies manufacturing cigarettes in Pakistan. Two of the largest--Lakson Tobacco Company and Pakistan Tobacco Company--account for 52 and 41 percent of total cigarette production respectively. Indeed, PTC's coming to Pakistan can be said to be a very good move, so much so that the company has realized location economies. The reasons for the move have also been very much comprehensible. There was demand, production potential, a supportive environment; basically someone certainly had a credible foresight.

Brand Portfolio

Premium Brand:

Pakistan became the first market in the BAT group to launch the 'Gold Standard' pack of Benson & Hedges (B&H), which not only appeals to consumer aesthetics but also served to distinguish the brand from illicit versions available in the market. Dunhill is a high quality brand from illicit versions available in the market.

These brands are produced by best available tobacco for upper class of the society. These brands price above Rs 60 and thus lay in premium brand category. The strategy used for these brands is "Focused Differentiation".

High Category:

John Player Gold Leaf is considered to be the high quality benchmark of PTC. This brand is priced at Rs. 23 (10 Pack) and Rs. 43 (20 Pack). The strategy used for this brand is “Differentiation”.

Medium Category:

The brands in this category belong to the medium segment. The brands are concentrated in specific pockets. These brands price between Rs. 20 to Rs. 30 e.g. Pall Mall, Capstan and Wills. Tobacco of these cigarettes is a little hard. The strategy used for this brand is a combination of “Low Cost Leadership & Differentiation”.

Low Medium Category:

Gold Flake is PTC’s drive brand in the low category by virtue of opt singular potential for growth in a market where 80% of the business resides at and below Gold Flake’s price point. This brand is priced at Rs. 9 (10 Pack) and Rs. 15 (20 Pack).The strategy used for this brand is “Low Cost Leadership”.

Low Category:

Embassy, amid stiff competition form ultra- low category brands, maintained its position as the third largest volume brand in Pakistan. This brand prices below Rs 15 and is low category. These cigarettes are for lower income groups and tobacco of these cigarettes is very hard. The strategy used for this brand is “Low Cost Leadership”.

PTC enjoys a strong consumer led portfolio of international, regional and national brands. Their goal is to fulfill the consumer needs for quality and satisfaction by providing brands to suit their preferences. PTC’s brand portfolio is highly developed, has a high degree of brand awareness acceptability, and preference and loyalty.

Pricing

CATEGORY	BRAND	(10 PACK) (RS)	(20 PACK) (RS)
<i>PREMIUM</i>	Dunhill	----	85
	Benson & Hedges	30	60
<i>HIGH</i>	John Players Gold Leaf	23	43
<i>MEDIUM</i>	Capstan	15	30
	Pall Mall	15	30
	Wills	12	23
<i>LOW MEDIUM</i>	Gold Flake	9	15
<i>LOW</i>	Embassy Kings	N/A	N/A

SURVEY & ANALYSIS OF DUNHILL

Introduction

This research was undertaken by me, the student of Nust Institute of Management Sciences as a partial fulfillment of the Masters of Business Administration degree program. The purpose of research was to study the demographics, important brand elements, cannibalization effect and promotional efforts done by Pakistan Tobacco Company to promote its premium tobacco brand Dunhill.

Problem Statement/ Objectives of Research

The purpose of this study is to analyze premium cigarette brands (Dunhill and B&H) by evaluating their important brand elements and brand equity and to check the cannibalization effect.

Limitations of Study:

Following are some of the limitations of the study:

- This study will provide an insight to the area of premium tobacco brands, which is a less focused area of research in Pakistan. It would help in establishing the baseline data regarding the area of Islamabad and Rawalpindi. It will also encourage students to carry out further research in this field.
- Due to time and resource constraints, the study was restricted to a small sample size. Therefore the research cannot be generalized as a representation of the entire country.

- Language of the instrument (English) was another limitation. Although the sample selected understood the language but once the study is carried out in the country, the results might change due to language barrier.
- Only four elements of a premium brand i.e. demographics, important brand elements, cannibalization effect and promotional efforts are selected.

Time Frame

The data was gathered from April 2006 to May 2006.

Locations

The locations chosen to collect the data are:

- NIMS, Rawalpindi
- Lalkurti, Rawalpindi
- Morgah, Rawalpindi
- Total Petrol Pump, Rawalpindi
- Jinnah Super Market Islamabad
- Super Market, Islamabad

Study Type

The study is both descriptive and quantitative.

Sample Size

A total of 57 respondents from Rawalpindi/Islamabad participated in the survey. In Rawalpindi, the survey was conducted by me and 37 samples were taken. In Islamabad, close friend of mine, Ammar, helped me in getting the remaining 20 samples.

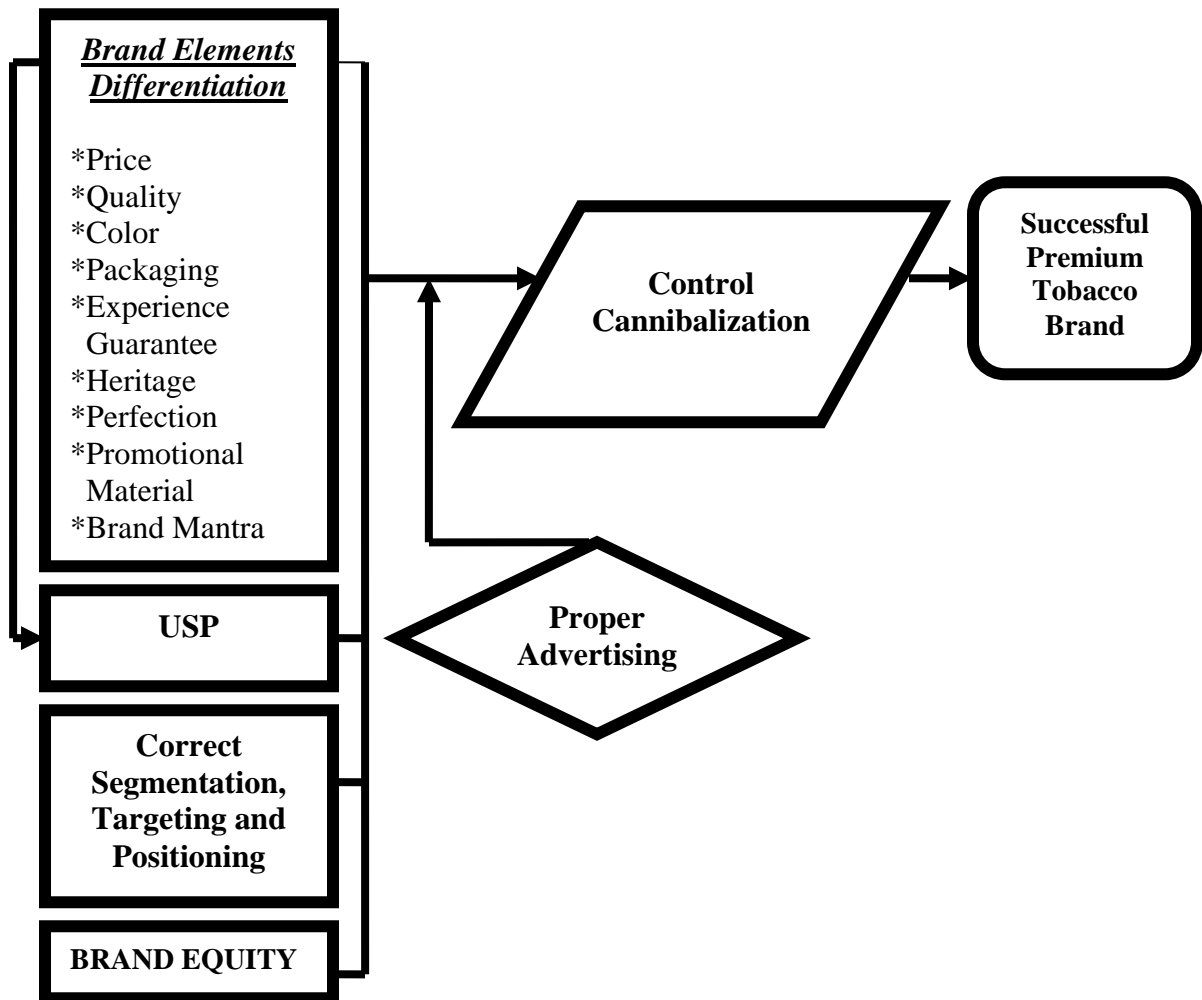
Data Collection

Primary data was collected through questionnaire and secondary data was collected through previous researches, through my friends in Pakistan Tobacco Company and through library and internet search.

Tool for Data Analysis

In order to analyze the gathered data and to sequence it, MS Excel was used. MS Excel helped in tabulating the data and clearly defined the results in percentages and arranged them in the form of graphs and tables.

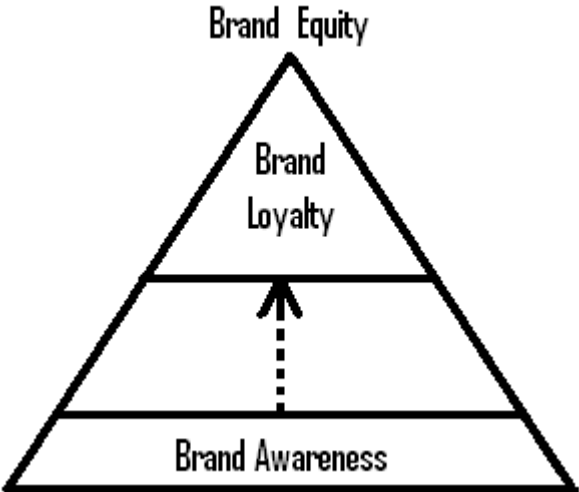
SCHEMATIC DIAGRAM FOR THE THEORETICAL FRAMEWORK FOR A SUCCESSFUL PREMIUM TOBACCO BRAND



Types & Nature of Variables Used

<u>VARIABLE NAME</u>	<u>TYPE</u>	<u>DESCRIPTION & REASONS</u>
<i>Brand Elements Differentiation</i>	Independent	<p>These are the brand attributes, characteristics and situations that differentiate one brand from another. More important is the way brand management utilizes Differentiators. By definition, a Differentiator will be an attribute or condition not easily duplicated by competitors. They are often barriers to market entry for potential competitors. They can also be called competitive advantages. Sometimes Brand Personality and/or Positioning will evolve out of Differentiation. Just as often the Brand Personality or the Position will become the Differentiator. Some of them are:</p> <ul style="list-style-type: none"> • Price • Quality • Color • Packaging • Experience Guarantee • Heritage • Perfection • Promotional Material • Brand Mantra <p>Brands are built on the basis of important brand elements. In order to make Dunhill stand out, special focus is needed on its brand elements.</p>
<i>Unique Selling Proposition</i>	Independent	USP comes once you analyze all of your brand elements and once you find something unique in your brand.
<i>Correct Segmentation, Targeting & Positioning</i>	Independent	<p>Dividing the market into logical & profitable segment, targeting it & positioning is perhaps the most important task for any successful brand.</p> <p>A particular product, service or company may</p>

		<p>serve multiple market segments, but each segment should be analyzed individually. There are differences between segments based on needs, traditions, structure, and buying cycles. All of these need to be considered when establishing a brand identity. Markets and submarkets should meet three basic criteria:</p> <ol style="list-style-type: none"> 1) Can it be identified and profiled so messages can be efficiently directed toward it 2) Is it large enough to generate enough revenue to be worthwhile, and 3) Does the market desire the benefits the product or service delivers? <p>In the realm of Positioning, brand management isn't the final arbitrator. Customers and prospects actually Position the brand in their collective consciousness based on multiple impressions, experiences and values. A brand's Position is relative to the market segment, the competitive environment, and the efforts made by brand management to Position the brand.</p> <p>Brand management can direct a brand toward a particular Position through its Differentiators and its Personality. Normally, the Position will be defined in terms of "attributes" - those factors important in customer and prospect buying decisions.</p>
<p><i>Brand Equity</i></p>	<p>Independent</p>	<p>This is a relatively new measurement concept of assigning a dollar value to a brand. It helps determine the actual value of a business. Many elements can be considered in valuing a brand. Those listed below define the assets most used to establish brand equity.</p> <p>Brand Loyalty: This asset combines characteristics associated with Image (Brand Loyalty, Name Awareness) and Impact (Customer Life Value and Price Premium).</p> <p>Brand Awareness:</p>

		<p>This is the spectrum of Awareness, Recognition and Preference and also measures relative confidence and commitment on the part of market segments. Brand Personality and Differentiators, as they are communicated along with the name; also play a part in establishing a brand's equity.</p> 
<p><i>Create awareness Through proper Advertising</i></p>	<p>Moderating</p>	<p>Advertising plays an important role in creating awareness about the brand. The reason for making it a moderating variable is because of its effects on the variance.</p> <p>These are the measurements of a brand's ability to rise above the static of the marketplace and carve out a position in the collective minds of prospects and customers. It has to do with communication programs and the extent to which the product or service fulfills the promises of those programs.</p> <p>Awareness: Within each market segment, what percent of buying influences are even aware the product exists? Awareness is usually determined through unaided recall.</p> <p>Recognition: Similar to awareness, recognition is usually determined through added recall, usually a list of products from which research respondents pick those they recognize.</p>

		<p>Relevance: This is a measure of the importance of the product or service to respondents' life style or work. In B-2-B environments, the relevance of both the product category and the product are important in determining the type and tenor of promotional programs. Also issues of price elasticity, distribution channels and sales approaches can be realistically developed once relevancy is determined.</p> <p>Preference: In research, asking a customer an open-ended question like "Which supplier's product do you prefer?" will suffice if the respondent doesn't know who is doing the research.</p> <p>Loyalty: Here we want to determine what activities would have to take place before customers would switch from their existing supplier. The best way to ascertain this information is through in-depth interviews and through industry observation. For any product category, loyalty can be relative</p>
<i>Control Cannibalization Through Managerial Expertise</i>	Intervening	Brands in the same category can cannibalize. This variable surface between the time the I.V start operating to influence the D.V and the time their impact is felt.
<i>Successful Tobacco Brand</i>	Dependent	Our ultimate objective is to build a successful premium tobacco brand in the strict regulations

Hypothesis

On the basis of the above discussion, the following hypothesis is formulated for testing:

<i>H0: Dunhill does not cannibalize B&H</i>

Questionnaire Development

Based on previous studies and faculty guidance, a structured questionnaire was developed. The respondents were asked to respond to the questionnaire basically comprised of close ended questions. A pre-test questionnaire was conducted in March 2006 to determine whether the future respondents could respond to the questions or not. The results of the pre-test suggested some changes in the questionnaire design and structure and ultimately a new amended questionnaire was developed.

Questionnaire Design

The questionnaire comprises of total 12 questions divided into four main categories:

- a) Consumer Demographics Questions
- b) General Tobacco Branding Questions
- c) Specific Branding Questions About Dunhill
- d) Dunhill Promotion Analysis Questions

SURVEY & ANALYSIS OF DUNHILL

1) Your age:

- | | |
|--|--------------------------------------|
| <input type="checkbox"/> Under 18 Years | <input type="checkbox"/> 18~25Years |
| <input type="checkbox"/> 25~35 Years | <input type="checkbox"/> 35~45 Years |
| <input type="checkbox"/> 45 Years& Above | |

2) Monthly Income Bracket:

- | | |
|---|---|
| <input type="checkbox"/> Less than Rs. 10,000 | <input type="checkbox"/> Rs. 10,000~20,000 |
| <input type="checkbox"/> Rs. 20,000~30,000 | <input type="checkbox"/> Rs. 30,000~40,000 |
| <input type="checkbox"/> Rs. 40,000~50,000 | <input type="checkbox"/> More than Rs. 50,000 |

3) For how long have you been smoking?

- | | |
|--|-------------------------------------|
| <input type="checkbox"/> Less than 2 Years | <input type="checkbox"/> 2~5Years |
| <input type="checkbox"/> 5~10 Years | <input type="checkbox"/> 10~15Years |
| <input type="checkbox"/> 15 Years & Above | |

4) Why do you smoke Dunhill? (Select more than one, if required)

- | | |
|--|---|
| <input type="checkbox"/> Brand Loyalty | <input type="checkbox"/> Brand Image |
| <input type="checkbox"/> Taste | <input type="checkbox"/> Type of Tobacco used |

5) Which need is fulfilled by smoking Dunhill? (Select more than one, if required)

- | | |
|--|--|
| <input type="checkbox"/> Fulfillment | <input type="checkbox"/> Achievement |
| <input type="checkbox"/> Satisfaction | <input type="checkbox"/> Image Enhancement |
| <input type="checkbox"/> Peer Pressure | <input type="checkbox"/> Addiction |

6) In your opinion, which is the most important brand element of Dunhill? (Select more than one, if required)

- | | |
|--|---|
| <input type="checkbox"/> Coloring | <input type="checkbox"/> Packaging |
| <input type="checkbox"/> Tagline | <input type="checkbox"/> Labeling |
| <input type="checkbox"/> Logo & Symbol | <input type="checkbox"/> I have no idea |

**7) In your opinion, which brand element of Dunhill should be changed/modified?
(Select more than one, if required)**

- | | |
|--|---|
| <input type="checkbox"/> Coloring | <input type="checkbox"/> Packaging |
| <input type="checkbox"/> Tagline | <input type="checkbox"/> Labeling |
| <input type="checkbox"/> Logo & Symbol | <input type="checkbox"/> I have no idea |

8) If given a choice, which Dunhill would you like to smoke?

- | | |
|--------------------------------|--|
| <input type="checkbox"/> Local | <input type="checkbox"/> International |
|--------------------------------|--|

9) If given a choice, which Dunhill pack would you buy?

- | | |
|--|------------------------------------|
| <input type="checkbox"/> Standard Pack | <input type="checkbox"/> Long Pack |
|--|------------------------------------|

10) Which other brands do you smoke other than Dunhill? (Select more than one, if required)

- | | |
|---|--|
| <input type="checkbox"/> Benson & Hedges | <input type="checkbox"/> Imported Premium Brands |
| <input type="checkbox"/> Other Local Brands | <input type="checkbox"/> I only smoke Dunhill |

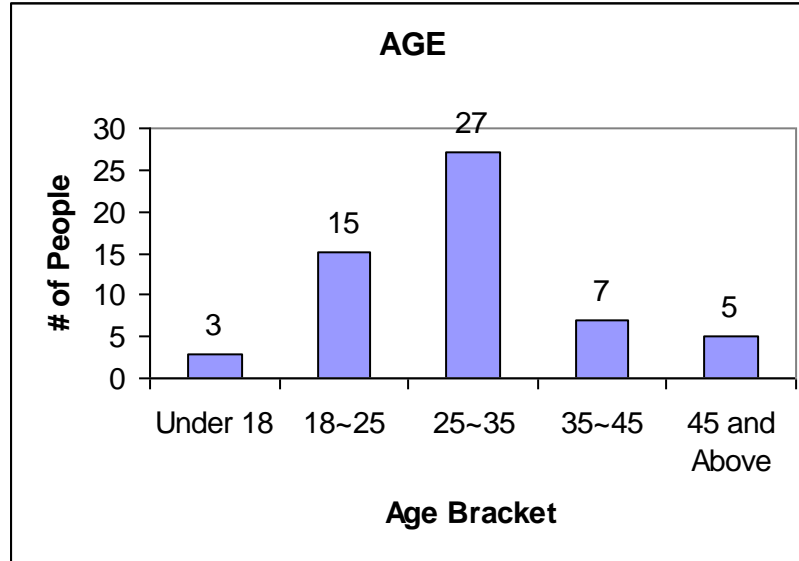
11) How did you know about Dunhill? (Select more than one, if required)

- | | |
|---|--|
| <input type="checkbox"/> Billboards | <input type="checkbox"/> Newspaper |
| <input type="checkbox"/> Neon Sign (At Point of Purchase) | <input type="checkbox"/> Magazine |
| <input type="checkbox"/> PTC Website | <input type="checkbox"/> Annual Report |
| <input type="checkbox"/> Anti Tobacco Publication | |

12) Do you recall Dunhill's Print Ad?

- | | |
|------------------------------|-----------------------------|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No |
|------------------------------|-----------------------------|

1) Your age?

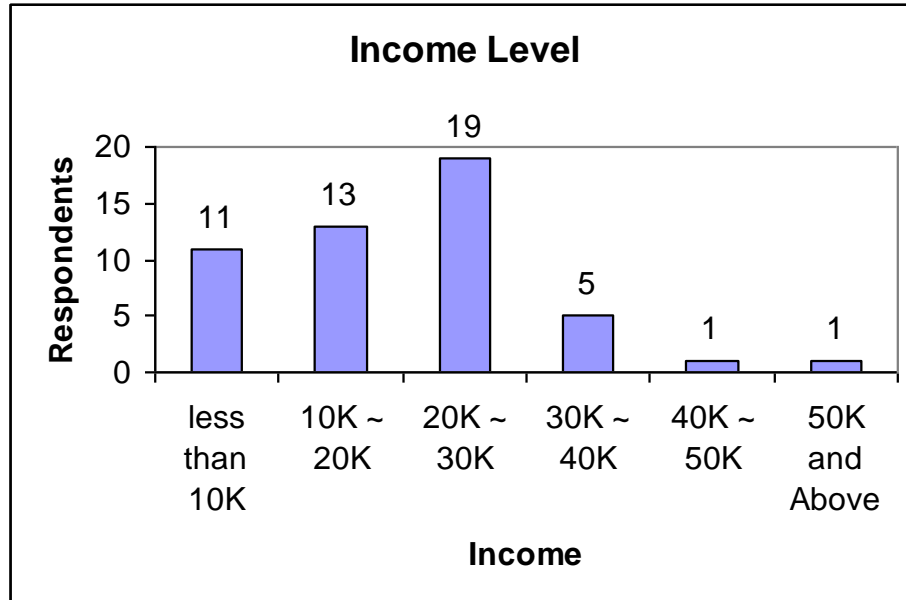


Age	# of People
Under 18	3
18~25	15
25~35	27
35~45	7
45 and Above	5

It can be seen from the survey results that majority of the respondents lie in the age limit of 18 ~ 35 years. The smoking habit which develops at the age of adulthood continues till one gets old.

Tobacco companies in Pakistan claim that they don't sell cigarettes to under 18 in order to get comply with the International Tobacco Marketing Standards. But due to lack of proper checks both by the government and the tobacco companies, cigarettes are sold to underage children openly. Underage youngsters' participation in this survey proves that it is easy for them to buy cigarettes from the retail outlets without any proper check.

2) Monthly Income Bracket?

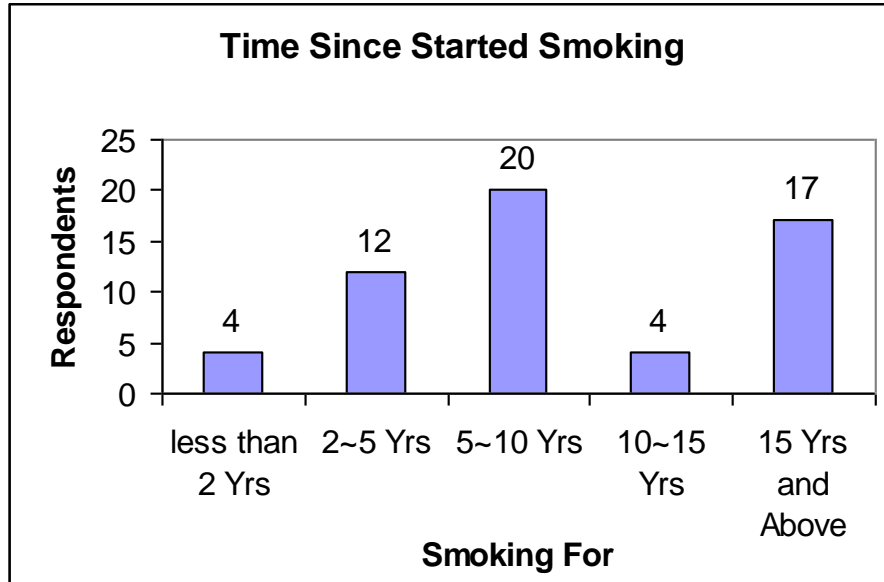


Income	# of People
less than 10K	11
10K ~ 20K	13
20K ~ 30K	19
30K ~ 40K	5
40K ~ 50K	1
50K and Above	1

Majority of the respondents lie in the income range of Rs.10,000~Rs. 30,000. From this information, it can be inferred that Dunhill is usually smoked by young executives and mid career professionals. However a large percentage of respondents have income below Rs.10,000/month. This segment basically represents college and university students who smoke tobacco for style and peer pressure.

PTC believes that Dunhill is usually smoked by mid career professionals and top management people. Due to the limitation of the scope of the study and a small sample of respondents, their claim cannot be verified.

3) For how long have you been smoking?

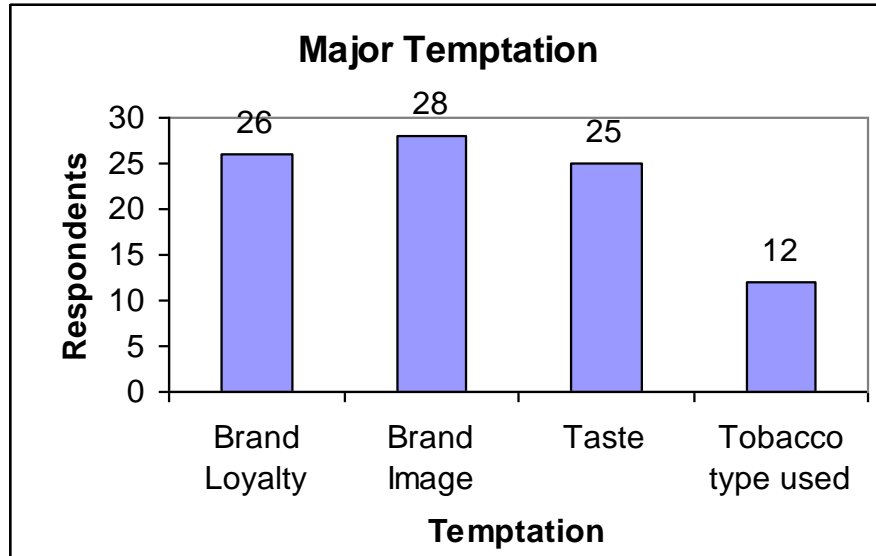


Smoking for	Respondents
less than 2 Yrs	4
2~5 Yrs	12
5~10 Yrs	20
10~15 Yrs	4
15 Yrs and Above	17

Smoking is an addiction. It only increases with the passage of time. As the sample contains majority of respondents who are 18~35 years old, no wonder maximum respondents have been smoking for more than 10 years or so.

The sample also contains some *Early Days* smokers who have been smoking for less than two years. All of the underage smokers lie in this category.

4) Why do you smoke Dunhill?



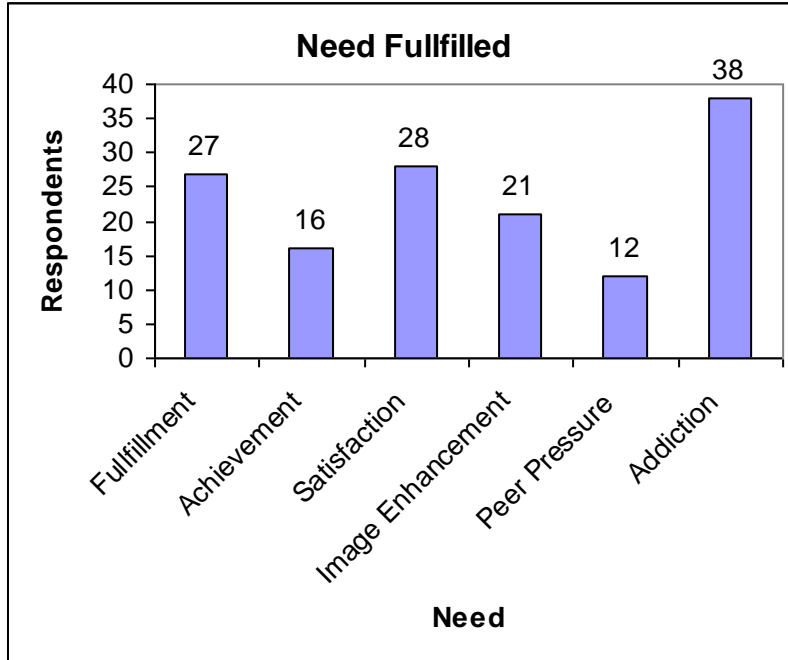
Temptation	Respondents
Brand Loyalty	26
Brand Image	28
Taste	25
Tobacco type used	12

According to the latest survey done on brand loyalty, 92% smokers are brand loyal in the developed countries. This percentage, however, is lower in the under developed world.

The main purpose of this question is to trace out the temptation why people prefer a particular brand, in general, and why they smoke Dunhill, in particular.

Interesting thing to note here is that brand loyalty is not the only element people consider while using a particular brand. Brand image and taste of a particular brand also contributes to a better brand loyalty. A good percentage of people also care about the type of tobacco used in a particular brand.

5) Which need is fulfilled by smoking Dunhill?

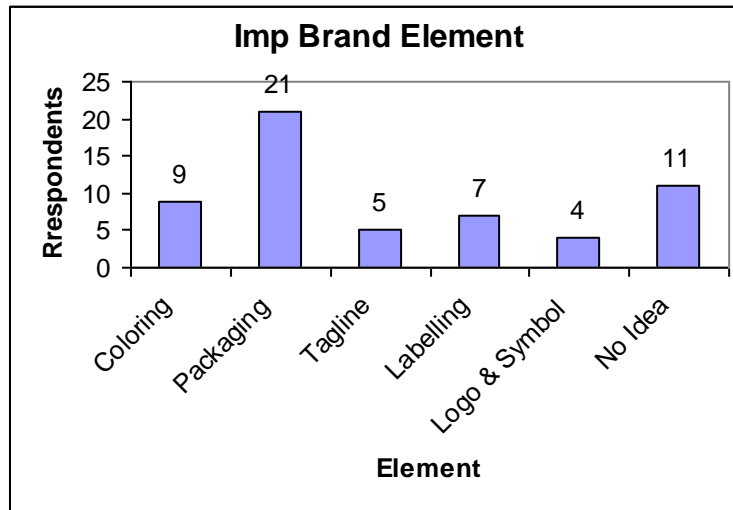


Need	Respondents
Fulfillment	27
Achievement	16
Satisfaction	28
Image Enhancement	21
Peer Pressure	12
Addiction	38

This question tries to trap the fulfilled needs of the smoker. Everything happens for a reason and smoking is no different. The survey results show that addiction is not the only need which is fulfilled by smoking cigarettes. Smokers feel the sense of satisfaction, achievement and fulfillment by smoking cigarettes.

For youngsters, peer pressure and image enhancement are the main reasons of smoking.

6) In your opinion, which is the most important brand element of Dunhill?



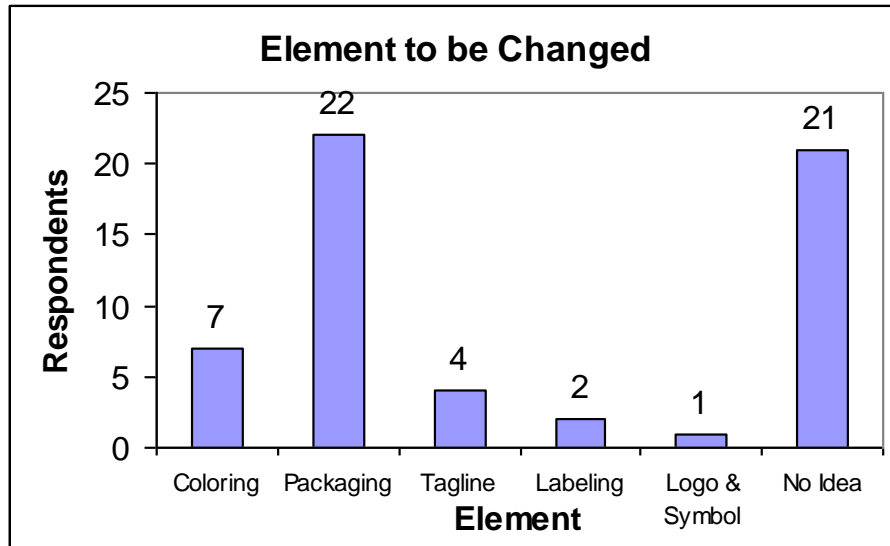
Important Brand Element	Respondents
Coloring	9
Packaging	21
Tagline	5
Labeling	7
Logo & Symbol	4
No Idea	11

According to the well known marketer Jack Trout, marketing is all about making brands not products. Cigarette brands enjoy a great percentage of brand loyalty. Therefore it is very important to know the different brand elements people prefer and value.

In case of Dunhill, the most important thing for customers is its packaging. Since they are paying the premium price, they want to have the exclusive feeling. For that, coloring, tagline, labeling, logos and symbols also play a vital role.

Almost 20% of the respondents have no idea about the branding aspects of Dunhill. It can be inferred that they buy Dunhill because of brand loyalty and Dunhill presence in their evoked sets.

7) In your opinion, which brand element of Dunhill should be changed/modified?

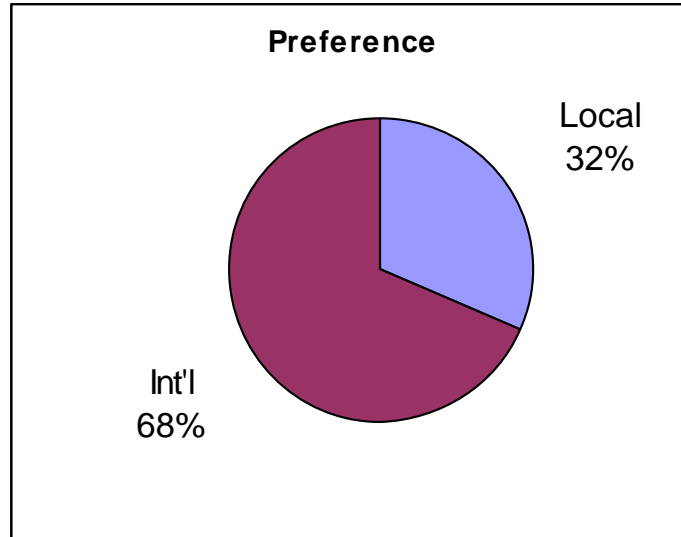


Element to be Changed	Respondents
Coloring	7
Packaging	22
Tagline	4
Labeling	2
Logo & Symbol	1
No Idea	21

This question is meant for the informal feedback by the respondents regarding the Dunhill's brand elements they want to be changed or modified. Unfortunately, more than 40% of the respondents had no idea about branding and its technicalities.

Due to their affiliation with the old international long pack, they want to change the packaging of the brand.

8) If given a choice, which Dunhill would you like to smoke?

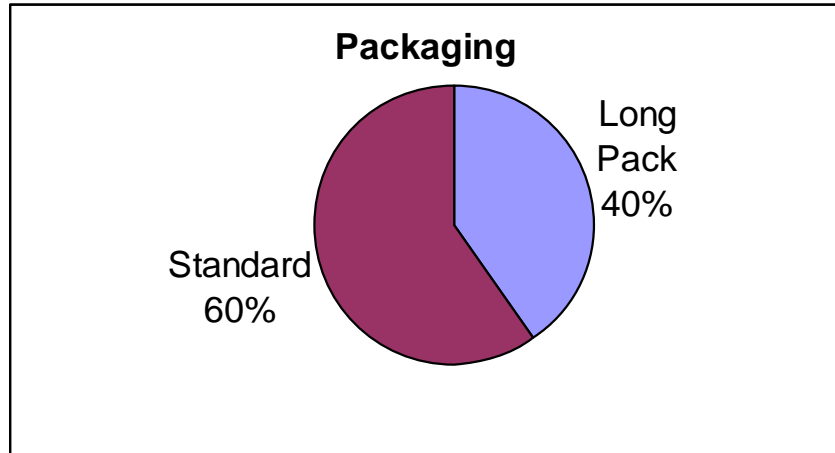


Preference	Respondents
Local	18
International	39

As discussed earlier in this report, cigarettes are the world's most widely smuggled legal consumer product. They are smuggled across almost every national border by constantly changing routes. Cigarette smuggling causes immeasurable harm to the economy. International brands become affordable to low income consumers and to image conscious young people in developing countries. It is quiet difficult to find the exact routes of smuggling. In Pakistan, cigarettes are smuggled mostly through Cyprus and Dubai.

PTC is also suffering huge revenue losses due to smuggling. Imported Dunhill is available in the market with almost the same price. Due to inclination of Pakistani consumer towards imported products, imported Dunhill is still preferred over the local one.

9) If given a choice, which Dunhill pack would you buy?



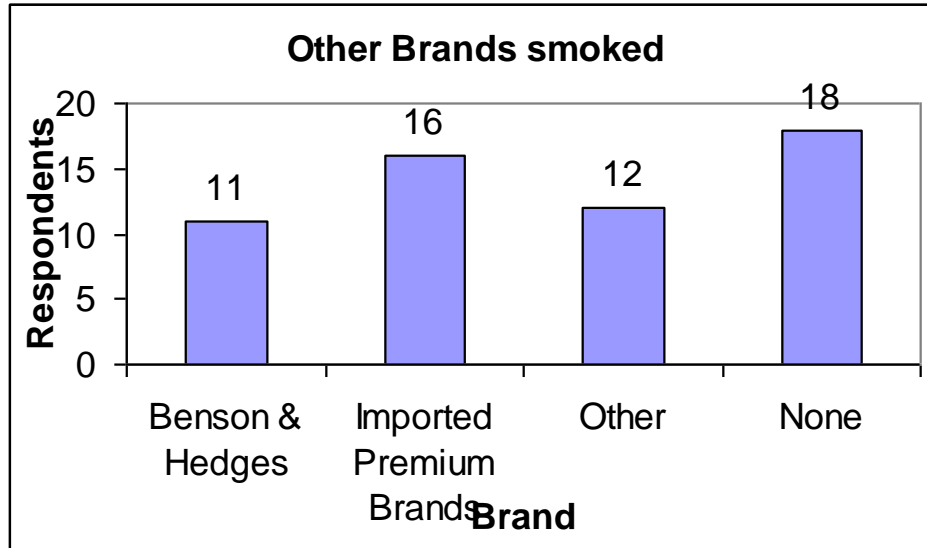
Packaging Respondents

Long Pack	23
Standard	34

Before its arrival in Pakistan, Dunhill was known for its long packing. When PTC introduced local Dunhill, many Dunhill smokers did not accept its standard packaging. The survey results also show that more than 40% Dunhill smokers still prefer the long traditional pack over the standard pack.

The remaining respondents like standard packaging because it can easily fit into the packet. The new attractive color scheme also contributes towards the liking of the standard pack over the traditional one.

10) Which other brands do you smoke other than Dunhill?

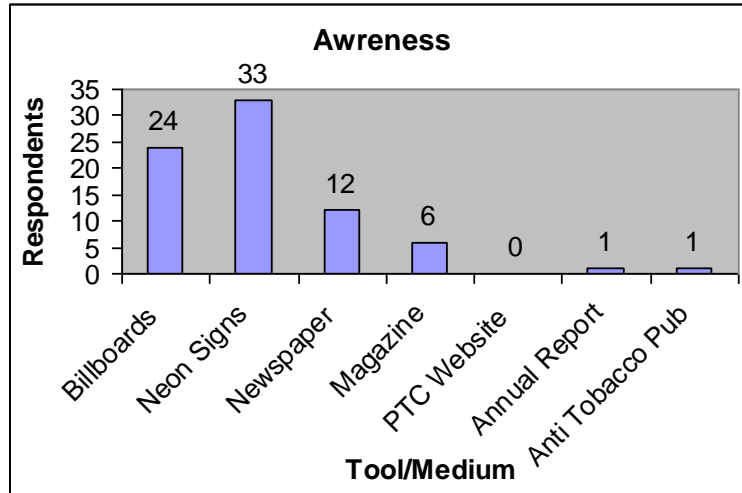


Other Brands Used	Respondents
Benson & Hedges	11
Imported Premium Brands	16
Other	12
None	18

Cannibalization of related products is the nightmare for any organization. It not only hurts the brand but also lower the revenues of the company sharply. PTC must have had some serious doubts about the cannibalization of B&H and Dunhill before the launch of Dunhill.

The results of the survey are however hopeful for PTC. Only 11 respondents smoke B&H and it happens when they don't find Dunhill. However the inclination towards the other imported and local brands is quiet high.

11) How did you know about Dunhill?

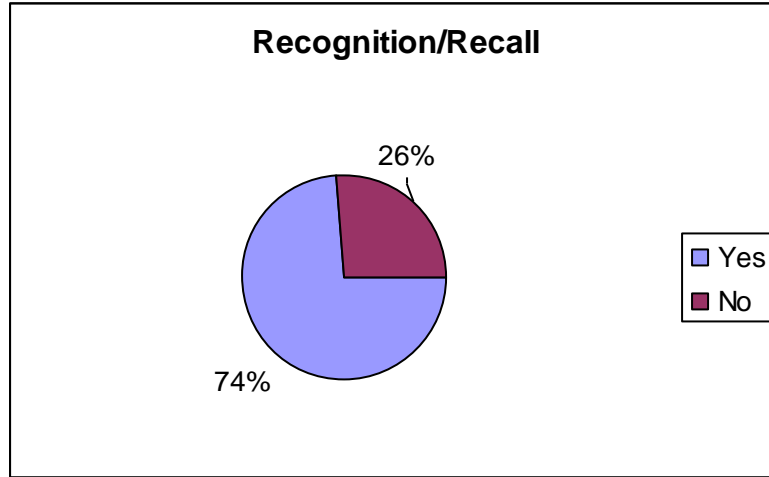


Awareness	Respondents
Billboards	24
Neon Signs	33
Newspaper	12
Magazine	6
PTC Website	0
Annual Report	1
Anti Tobacco Publication	1

Marketing is not about products. It's about creating the right perception into the minds of the customers. Advertising plays a very important role in creating the right image and perception. Tobacco being a highly regulated industry faced many advertising and promotional related challenges (discussed earlier in International Tobacco Marketing Standards).

It can be seen from the above survey results that billboards, newspapers and neon signs at the point of purchase are the main sources of awareness of Dunhill.

12) Do you recall Dunhill's Print Ad?



Recognition/Recall Respondents

Yes	42
No	15

Every advertising penny will go vain if the target audience do not recognize and recall your message. Since tobacco companies are operating in high regulations, therefore they must spend each penny wisely.

Since PTC is very proud of its advertising campaign of Dunhill (The Mona Lisa Theme). They claim that it was one of the successful campaigns in Pakistan. Therefore it is important to check whether the campaign was successful or not.

It can be seen from the survey results that almost 80% of the respondents recognize and recall Dunhill's ad and hence their claim is verified.

DEDUCTION & CONCLUSION

Cannibalization is a phenomenon that results when a firm develops a new product or service that steals business or market share from one or more of its existing products and services. Thus one product may take sales from another offering in a product line.

Having a new product take sales away from an existing product is not usually an attractive situation for a firm. In case of cannibalization, a firm will need to reduce the benefit calculated for a new product by the amount of the existing product benefit lost. However, firms need to recognize that cannibalization is not always avoidable. After all, competing companies might have entered the market with a similar product and taken these sales anyway, even if the new product had not been introduced. Cannibalization can even occur before a new product is introduced. In fact, some experts claim that a pre-announcement for a new product can cannibalize the sales of an old product in a prior period.

Dunhill was launched in the premium brand category in December 2005 by Pakistan Tobacco Company (PTC). Benson & Hedges is the largest selling cigarette brand in the premium brand category in Pakistan. B&H has capitalized on its strong equity based on consistently superior quality.

Apparently it seems that the presence of two tobacco brands in the same premium category could cause cannibalization. Based on the study and conducted research, following are the main points that would help in getting the result correct:

1. Different Target Market:

Although B&H and Dunhill lie in the same premium brand category but their target market is different and well defined.

2. Price & Pack Difference:

Price difference between the two brands is noticeable. 20-pack of Dunhill costs Rs. 85 whereas the same sticks pack of B&H costs Rs. 60. Also Dunhill is available in 20-pack only unlike B&H which is available in 10-pack as well.

3. Brand Mantra & Unique Selling Proposition:

USP and brand mantra of both the brands are different. B&H is focusing on '*Uniqueness*' (One & Only) whereas Dunhill's focus is on '*Perfection*' (Perfectionists in Tobacco).

4. Managerial Expertise:

PTC's managerial expertise and proper advertising play an important role in differentiating Dunhill and B&H.

Based on the above facts and survey results, the formulated hypothesis is thus proved:

<p><i>H0: Dunhill does not cannibalize B&H</i></p>

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