Marketing Plan

Phillip Morris USA

Marlboro Cigarettes

**Situation Analysis**

 This situation analysis starts with a snapshot of the current environment in which Phillip Morris USA finds itself by providing a brief SWOT (strengths, weaknesses, opportunities, threats) analysis. After this overview, the analysis probes ever-finer levels of detail: industry, competitors, company and consumers.

SWOT Analysis

Altria Group is the parent company of four leading tobacco companies: Philip Morris USA, U.S. Smokeless Tobacco Company, John Middleton, and Philip Morris Capital Corporation. For more than 180 years, Altria has built on some of the best-known cigarette, smokeless tobacco, and cigar brands around the globe, with Marlboro being their largest and most popular selling cigarette brand in the U.S. for a little over 30 years. Marlboro accounts for about 86.6% of the company’s volume and holds a market share of 42% across the nation. According to Altria Group’s Market line report (2012), “The strong brand of image its products such as Marlboro facilitates customer recall and allows Altria to penetrate new markets and consolidate its presence in the existing ones” (Altria Group, Inc., 2012). Although Altria holds as one of the top iconic cigarette company’s nationwide with various strengths and opportunities in the market, they constantly need to be aware of their market and analyze what weaknesses and threats their company faces.

Due to the large popularity of Altria’s Marlboro brand, this is clearly one of the parent company’s biggest strengths in the cigarette market. In addition to Marlboro’s large contribution of company sale’s volume and retail market share, the brand held a ranking of being 53rd out of 500 of the most valuable global brands list in 2012 by a world leading valuation consultancy. Marlboro holds a very strong revenue generation capacity because of their diverse selection of cigarette varieties such as Marlboro Menthol, Lights, Reds, Blend 29, and many others, which appeal to an array of consumers both male and female. The Marlboro brand generally holds authority in the US cigarette market because of its acquired brand equity over the past 30 years.

Altria attained a strong position in the U.S cigar and pipe tobacco market segment by acquiring John Middleton in 2007, a prominent manufacturer of machine-made cigars. Their principal brand is Black & Mild, which is the second largest selling machine-made cigar in the US and is the best-selling five-pack cigar package, holding a retail market share of about 29.5% according to their 2011 fiscal year report. Since the acquisition of John Middleton, revenues in the cigar segment of Altria grew from $15 million in 2007 to $567 million in 2011, leading to significance growth in the company’s profits. Altria holds numerous cigar and pipe tobacco brands in their portfolio, some of which include Middleton’s Cherry Blend, Gold & Mild, and Kentucky Club. Altria appeals to a large market in the cigar and pipe tobacco segment, which enhances their substantial ability to generate revenues.

Altria’s strong stance in the US tobacco market allows for tremendous bargaining power in the company. With a retail tobacco market share of 49% and a large distribution network and sales force, Altria has opportunities to raise its resources of various tobacco products. Their development of strong business relationships and partnerships with farmers, suppliers, trade partners, distributors, and retailers enables Altria to “produce high-quality tobacco products and also benefited Altria in the key areas of cost, quality, service and compliance” (Altria Group, Inc., 2012). Altria’s significant position in the tobacco market allows for an enthralling competitive advantage as well as strong bargaining power.

In addition to Altria’s compelling strengths in the tobacco market, the company faces some weaknesses. While Altria is one of the largest distributors of tobacco in the US, they are bound to face a variety of tobacco related litigations. “As of February 2012, Altria faces legal issues relating to 78 cases on individual smoking and health, 18 cases under the lights/ultra lights class actions, seven cases under the claims litigations, one case under cost recovery actions, and one case for price issue” (Altria Group, Inc., 2012). Seventeen of these cases out of 51 had verdicts who favored the plaintiffs, of which 14 unfavorable verdicts reached a resolution. Philip Morris USA paid claims totaling $359 million as of February 2012. These payments increase expenses of the company and result in a decline of profitability.

Another weakness faced by Altria includes a high debt burden. “The company’s debt increased at a compound annual growth rate of 53% from $2,385 million in FY2007 to $13,089 million in FY2011” (Altria Group, Inc., 2012). Altria’s interest and other debt expenses increased at CAGR of 56%, from $205 million in FY2007 to $1,216 million in FY2011. The increases in interest and debt expenses in 2011 were due to raised interest costs on tobacco and health findings, and liabilities to long-term notes. These debts faced by Altria result in a decreased ability to obtain financials to fund capital expenditures related to future growth and restricts working capital for operations management (Altria Group, Inc., 2012).

Altria Group has been in the process of taking on several opportunities to enhance its operational efficiency, which include a cost reduction program, manufacturing optimization program, and integration/restructuring programs. “As of FY2011, the company recorded total pre-tax asset impairment and exit costs of $223 million for this new cost reduction program in the cigarettes segment ($175 million), smokeless products segment ($36 million), cigars segment ($4 million) and general corporate ($8 million)” (Altria Group, Inc., 2012). Since FY2007, Altria has reported a total savings of $1,355 million. They have also experienced cost reductions from its tobacco and service company subsidiaries by reducing their work force in 2012 and estimate to save up to $400 million by the end of 2013 by decreasing their expenditures.

Altria’s manufacturing optimization program took effect in 2007. PM USA addressed cigarette sale declines and increases in federal excise taxes in 2009 by ceasing production at one of their manufacturing facilities in North Carolina and in turn consolidated their cigarette manufacturing capacity in their Virginia facility in the same year. By 2011, the North Carolina facility was completely decommissioned. In Altria’s restructuring and integration programs, the company simplified corporate, manufacturing, and sales/marketing services functions in connection with the integration of UST. They also plan to restructure company-wide costs due to declining US cigarette volumes.

The growth in popularity of smokeless tobacco products in the US gives Altria a great advantage in the tobacco market from the acquisition of USSTC. USSTC offers popular brands such as Skoal, Husky, and Copenhagen and contributed to Altria’s offerings in the smokeless snus category. Altria’s retail share of 55.1% in the smokeless tobacco market is driven mostly by its two top brands, Copenhagen and Skoal. There is opportunity to penetrate the smokeless tobacco market by building on the strength of Altria’s brands and utilizing the global recognition and brand loyalty of Marlboro to promote their Marlboro snus selection.

The demand for cigars in the US has been on the rise due to marketing efforts to promote this product as a symbol of luxury and success. Cigars are very popular among upper class and high income families. “According to industry estimates, the consumption of large cigars in the US increase 233.1% from 2000 to 2011” (Altria Group, Inc., 2012). Because of Altria’s subsidiary John Middleton and the popularity of their cigar brands, Altria has an extensive advantage in enhancing their revenues from a growing cigar demand in the US.

Altria faces a variety of threats in the tobacco market, which include an increase in excise taxes, falling cigarette volumes, counterfeit cigarettes and a growth in illicit trade. Federal, state, and local excise taxes have been on a considerable rise in the past ten years. In 2009, the Federal tax on cigarettes went from 39 cents to $1.01 per pack. “During 2010-11, eight states in the US increase their cigarette excise taxes, as a result, the mean state tax increased from $1.34 in 2009 to $1.46 in 2011” (Altria Group, Inc., 2012). This increase in tax on cigarettes enables consumers to substitute products for cheaper cigarette products, which in turn would distort the tobacco market. Additionally, due to government debts and economic downfalls, these excise taxes are more likely to increase in the future. These increases in expenses for tobacco companies will have an impact on their profitability in the long run.

Volume sales and consumption of cigarettes in the US have been declining for a period of time and is expected to continue. “According to industry estimates, from 2000 to 2011, the consumption of cigarettes decreased 32.8% from 435,570 million in 2000 to 292,769 million in 2011” (Altria Group, Inc., 2012). This is mostly due to growing health concerns related to smoking cigarettes in that it leads to cancer, heart disease, and many other fatal health issues. Due to these concerns, the number of people who quit smoking cigarettes is increasing, leading to an obstruction in tobacco companies’ revenues from cigarette sales.

There has been an increase in the availability and vending of contraband and counterfeit cigarettes in the international market, with Marlboro being the most counterfeited cigarette brand world-wide. In addition to revenue losses, counterfeit cigarettes are unsafe and could also hurt the reputation of the company. “According to the Intellectual Property Rights (IPR) Seizure Statistics by Customs and Border Protection (CBP) Office of International Trade, the number of IPR seizures in 2011 increased by 24% to 24,792 in 2011 from 19,959 in 2010” (Altria Group, Inc., 2012). If there is an increase in the number of illicit cigarettes sold, this could deprive Altria of many potential consumers, and also reduce a lot of revenues for the company.

Industry Analysis

 The tobacco industry consists of the vending of cigarettes, cigars, cigarillos, loose tobacco, and chewing tobacco. The market value is obtained through the retail selling price and applicable taxes of these products. The tobacco market experienced growth over the past couple years and is forecasted to accelerate in the next five years based on analysis of increasing revenues and compound annual growth rates. Cigarettes are the tobacco industry’s biggest contributors to revenues holding 37.2% of the market’s aggregate value and 59.5% of the market’s total value (Tobacco Industry Profile, 2013).Globally, the Asian-Pacific region accounts for most of the tobacco market value with 47.8%, while the U.S. accounts for 19.1% (Tobacco Industry Profile, 2013). Altria holds a lead position in the tobacco industry with a 41.8% market share, which is more than 30% of its competitor’s market shares.

 As new technology progresses in our country, there are increases in the threat of substitutes for tobacco products; such alternatives include electronic cigarettes. Electronic cigarettes are vaporing devices that look like real cigarettes and give the sensation of smoking tobacco through a water vapor/nicotine liquid solution and turns to smoke when inhaled. The more popular these products become, the more it will hurt the tobacco market in the long run and gradually decrease consumption of regular cigarettes.

 Because smoking is known to cause various health issues, government feels it is necessary for regulation in the tobacco industry. Government related organizations such as the Centers for Disease Control and Prevention have held anti-smoking campaigns and provide information to consumers about the health risks related to smoking (Tobacco Industry Profile, 2013).

Competitor Analysis

 Altria Group Inc. faces a wide variety of competition in the tobacco industry, especially from their top two competitors: Imperial Tobacco Group PLC and Reynolds American Inc.

Reynolds American Inc. is a leading tobacco company involved in the manufacture and sale of tobacco products such as cigarettes and smokeless tobacco. They are the parent company of five other tobacco companies which include R.J. Reynolds Tobacco Company, American Snuff Company LLC, Santa Fe Natural Tobacco Company Inc., Niconovum USA Inc., and R.J. Reynolds Vapor Company. They are headquartered in Winston-Salem, North Carolina and operate primarily in the US. Key brands of Reynolds American in the cigarette variety include Camel, Pall Mall, Kool, Salem, and Natural American Spirit, and brands in the smokeless snus variety include Grizzly and Kodiak.

 RAI has a variety of strengths in the tobacco market, which include a strong foothold in the growing smokeless tobacco market, a growing popularity of Camel and Pall Mall cigarettes in the declining market, and a resilient brand portfolio. In the US, smokeless tobacco is becoming of high popularity in contrast to the declining cigarette market. RAI is the second largest smokeless tobacco products manufacturer among the US, of which their primary products include Grizzly, a popular value-priced moist snuff brand, and Kodiak, a more premium brand snuff. According to RAI’s Marketline report, “Grizzly has secured a strong position due to RAI’s promotion and pricing strategies, which took advantage of the opportunities arising out of the growing price-conscious consumer base, the negative attributes associated with cigarettes, and less regulation” (RAI Marketline, 2012). Their foothold in the smokeless snus market gives RAI great bargaining power as well as increases revenues for the company.

 RAI’s premium and value cigarette brands, more specifically Camel and Pall Mall, have remarkably high market shares in their respective categories. “Camel, the premium brand of the company in the US, had retail cigarette market share of 8.5 share points in 2012…Pall Mall’s market share was 8.6% in 2012, as a result of the brand’s position as quality product for a value price” (RAI Marketline, 2012). Their market shares have gradually increased since 2012, with Camel gaining 8.7 share points and Pall Mall gaining 8.9 points. Camel and Pall Malls brand recognition enable revenue and volume growth opportunities for Reynolds American.

 Because RAI has extraordinarily strong brands and a variety of consumer segments, they are able to meet an array of consumer needs. RAI’s trusted quality brands such as Camel, Pal Mall, and Kool, are among the top-selling cigarette brands in the US. Camel has an assortment of different flavors which include Crush and Bold, which appeals to different groups of consumers. Due to the company’s brand awareness and lead in the market, they are able to have consistency in their revenues along with various growth opportunities.

Imperial Tobacco is a premier international tobacco company that manufactures, markets, distributes, and sells an assortment of tobacco products including cigarettes, cigars, fine-cut tobacco, smokeless snus, rolling papers, and filter tubes. Additionally, Imperial provides logistics and distribution services for tobacco and other products. They are headquartered in Bristol, UK and operate primarily across the European Union, which includes key markets in France, Germany, Spain, and the UK. They also have market presence across Eastern Europe, Africa, the Middle East, the Asia-Pacific region, and various other non-European countries.

 The key strategic brands of Imperial Tobacco include Davidoff, John Player Special, Gauloises Blondes, and West. Brands under their fine-cut tobacco and rolling paper categories include Golden Virginia, Drum, and Rizla. They are also in the business of selling Cuban cigars under the brand names Cohiba and Montecristo.

 Imperial Tobacco holds a strong position in the tobacco market along with a versatile set of brands and products in their company portfolio, giving them tremendous advantage over other large tobacco companies. In the company’s 2012 fiscal year they reached cigarette volumes of 336.6 billion. They hold a prominent cigarette market position in the UK, with a market of 45%, and holds significant market shares in Germany, France, Ireland, Poland, the Ukraine, and in other non-European countries. Their strong position increases customer loyalty and boosts revenues for the company, leading to continuous purchases in their products and power to expand into new geographies and product categories.

 Imperial’s large variety of brands and products and strong presence in international markets allow for significant growth opportunities and ability to meet consumer needs. For example, “Gauloises Blondes is Imperial’s best-selling cigarette brand, with annual volume sales of 32 billion in 2012. The brand is marketed across more than 70 markets worldwide and delivered volume growth of 11% during FY2012…” (Imperial Marketline, 2012).Because of their large presence in international markets, this leads to stronger brand equity in their products and their consumer loyalty provides consistency in generating revenues.

Company Analysis

 Altria’s success of their significant premium brands such as Marlboro, Skoal, and Copenhagen are what constantly keep the parent company driven to prosper. In addition to their quality products, Altria is so successful because they keep in mind their missions and values in every aspect of their business. As stated by Martin Barrington, the CEO of Altria, “Our mission, values, and core strategies help us deliver these strong results” (Altria Group, Inc., 2012).

 Taken directly from Altria’s website, the company’s mission is “to own and develop financially disciplined businesses that are leaders in responsibly providing adult tobacco and wine consumers with superior branded products” (Altria Group Website, 2012).Through their mission, they planned out goals for both Altria and its subsidiaries, which are to: invest in leadership, align with society, satisfy adult consumers, and create substantial value for shareholders.

 Along with every company’s mission is a set of values which guide them on how to pursue their goals. Altria believes in integrity, trust, and respect, having a passion to succeed, executing with quality, dwelling on creativity, and sharing with others.

Through Altria’s strong brand equity, market position, success of their premium brands, and drive to incorporate their values into every aspect of their business, they are granted much opportunity to reach their goals.

Customer Analysis

 Altria’s demographics consist primarily of both adult men and women, ages 18+.

 Based on the Altria’s variety of brands and products, they appeal to a cohort of adult consumers. Cigars are aimed toward the luxurious and successful lifestyle, while cigarettes and smokeless snus could appeal to an array of consumers. Cigarettes come in a variety of flavors such as menthol, classic, and lights, which could be really for anyone. The packaging on certain cigarette packs is also what could appeal to certain crowds as well.

**Market-Product Focus**

This section describes the marketing and product objectives for Marlboro Cigarette Products and the target markets, points of difference, and positioning of its cigarettes in stores.

Marketing and Product Objectives

Philip Morris USA is headed by Altria Group’s Mission statement, as well as Altria's Code of Conduct, and is says that they are dedicated to marketing their products responsibly by building brand loyalty with adult smokers while taking steps designed to limit reach to “unintended” (underage) audiences. In the United States, the leading cigarette brand is Marlboro. “They design their marketing programs to enhance brand awareness, recognition and loyalty among adult smokers. They want adult smokers of their brands to purchase their brand consistently; and compete for adult smokers of competitor brands to switch to their brands to grow their market share.” (Philip Morris USA)

Philip Morris has practices in place intended to reach their loyal customers as well as potential new ones all the while limiting communication with and to unintended audiences. These are detailed in three areas below:

* Current markets: Current markets will continue to grow and thrive by continuing to push consumer loyalty as well as product recognition. In addition, store sales will be maintained and grown by the product placement in stores and the amount of product placed in certain areas.
* New markets: Philip Morris plans to expand Marlboro Cigarettes to more adults by playing
* New products: Philip Morris is now introducing the new Marlboro Electronic Cigarette, giving consumers the same great product is a new, more modern way. (Philip Morris USA)

Target Markets

At the federal level, for example, the U.S. Food and Drug Administration (FDA) regulates Philip Morris and its products. Cigarettes are also regulated by the Alcohol and Tobacco Tax Trade Bureau, which designates tobacco classifications and enforces tax and permitting laws. At the state level, for example, the state attorneys general enforce the tobacco settlement agreements with the largest cigarette manufacturers.

The Marlboro cigarette brand began in England in 1847 and was initially targeted at female smokers. This was advertised as a way to keep women slim and curb their appetites. Unfortunately, advertising to this market segment was not successful, so in the 1920's Marlboro was re-targeted to female smokers in the United States. In this campaign it was stressed that Marlboro was a 'mild' cigarette. These efforts continued into World War II when the brand was eventually taken off the market.

Soon after, Marlboro changed its strategy and created the cowboy image named the “Marlboro Man.” The Marlboro Man was created to target the average working class man in order to give them a sense of dominance, strength and masculinity during this time when there was a changing of sexual roles in society. This advertisement of the “Marlboro Man” depicts an image of manliness. The cowboy image depicts traits of fearlessness and admiration, traits that the white working class males were trying to store and maintain.

Today, Marlboro cigarettes are not advertised in media outlets due to advertising inconsistences and laws. These agreements fundamentally changed how cigarettes are advertised, marketed and sold in the United States. They include a variety of restrictions on the sale and marketing of cigarettes, including prohibiting:

* Use of cartoons in advertising, promotion, packaging or labeling of tobacco products;
* Most outdoor advertising, including billboards and stadium ads;
* Most transit ads;
* Paid product placement;
* Brand name sponsored concerts; and
* Distribution of merchandise with cigarette brand names and logos.

The primary target market for Marlboro cigarettes are adults, 21 years of age and older, looking for a mature smoke.

Points of Difference

The “points of difference” – characteristics that make Marlboro products different and unique from other cigarettes—fall into several important areas:

* Unique taste and convenience: Marlboro products are said to have the best quality and taste of tobacco. No known competitor offers the same flavors or is as trusted as Philip Morris because of the company’s age.
* Packaging: Marlboro cigarettes are packaged very discretely, allowing smokers to carry a very distinguished pack that is not easily recognizable as cigarettes.
* Age: The amount of time the company has been relevant allows consumers to develop a loyalty to a brand they think will always be around.

Positioning

Marlboro products are not endorsed in movies, television shows or other public entertainment media. The policy since 1990 has been both to refrain from paying for product placement and to decline all third-party requests to use, display or reference their cigarette brands, products, packages or advertisements in any movies or television shows or other public entertainment media.

Marlboro cigarettes are positioned near the counter at grocery stores and other supermarkets. In order to buy a pack, the clerk must ID the purchaser and personally give the box of cigarettes to him. Recently, cigarettes have been positioned lower and lower behind the counter in order to be hidden from view from children who are shopping alone or with a parent. In order to purchase cigarettes, the consumer must already know about them (be a loyal customer) or be able to see over the counter towards the bottom of the display.

Unfortunately, the fact that they do not engage in too much product placement does not mean that Marlboro cigarettes are never advertised in other ways. Some producers and directors of media choose to depict the brand in their work without permission from Philip Morris. But the company cannot fully retaliate because of federal and state trademark laws, as well as the United States Constitution, that protects freedom of expression and the "fair use" of trademarks in works such as movies and television shows.

Future Plans

Philip Morris’s future depends in large part on its Marlboro cigarettes. Marlboro cigarettes account for more than two-thirds of the firm's operating profit, but in recent years some younger smokers have been attracted to competitors' products. Marlboro, as a brand, stands on its own in its field and within the competition. Moving forward the brand sees no need to expand its image or re-evaluate it’s direction as long as the brand’s loyalty remains adherent in the field. As a brand, Marlboro will continue to sell it’s Menthol brand, Light brands and Ultra Light brand of cigarette to young men and women.

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