

Philip Morris International (PMI)

The tobacco industry is one of the most profitable and deadliest industries in the world. The global cigarette business alone is valued at \$559.9 billion USD.¹ The World Health Organization estimates that tobacco use could kill 1 billion people during the 21st century, with the majority of those deaths occurring in developing countries.² Over the last decade, the international tobacco market has been dominated by 5 major transnational tobacco companies (TTC), China National Tobacco Company (CNTC), Philip Morris International (PMI), British America Tobacco (BAT), Japan Tobacco International (JTI) and Imperial Tobacco.

PMI, the world's largest publically trade tobacco company, operates in approximately 160 countries and reported \$6.3 billion USD in profits in 2009.³ PMI, a U.S.-based corporation, only sells its products outside the U.S. PMI was separated from its parent company, the Altria Group, in March 2008, in part to protect the company from increased U.S.-based regulation and litigation.⁴ Although PMI and Altria are now legally separate companies, PMI's leadership remains largely the same as it was under Altria.

PMI's International Profitability

PMI is one of the most profitable publically traded companies in the world and is currently valued at \$100.9 billion USD.⁵ According to the company's 2009 annual report, PMI held a 15.4% share of the international cigarette market outside the U.S and excluding the Chinese market, a global market share of 26%.³ In 2009, PMI reported that overall volume and net earnings were down due to the global economic downturn and contractions in developed markets.

- In terms of volume, PMI's overall volume was down in 2009 compared to 2008 by 0.7% to 864 billion sticks.³
- Profitability was also down in 2009 from \$6.9 billion USD to \$6.3 billion USD.³
- In 2009, PMI returned \$10 billion USD to its shareholders.⁶
- PMI saw the most growth in the Latin America and Canada Region in 2009 where cigarette volume was up 4.4% (103.8 billion sticks) and operating companies income increase by 28.1% to \$666 million USD.³
- PMI's presence also grew in the Asia region (includes Australia and New Zealand). Cigarette volume increased 1.1% to 226.204 billion sticks and operating companies income increased 18.4% to \$2.4 billion USD.³
- PMI's largest region by volume, Eastern Europe, Middle East and Africa, fell by 1.4% to 289.8 billion sticks in 2009. PMI's operating companies income (or profits before interest and taxes) was also down in 2009 by 14.6% to \$2.7 billion USD.³
- PMI's cigarette volume was down 3.3% in the European Union to 253.3 billion sticks. Operating companies income was down 4.9% to \$4.5 billion USD.³

PMI's Presence in Emerging Markets.

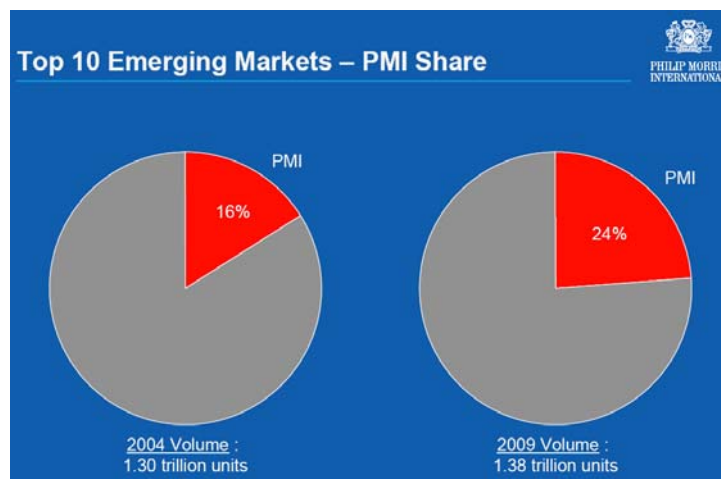
Despite the current economic climate, PMI is still gaining ground in emerging markets.³ According to Euromonitor International, in 2008, PMI had a market share of over 50% in 13 markets and a market share of over 30% in 36 markets. Twenty-one of the 35 markets are emerging markets. PMI also had a share of over 20% in 12 additional markets including Russia and Japan.⁷

PMI's Top 10 Markets, 2009⁸

Country	Volume (billion sticks)	% of country's market share
Russia	101	26%
Japan	57	24%
Italy	47	52%
Turkey	45	44%
Indonesia	43	25%
Pakistan	33	43%
Ukraine	32	37%
Argentina	31	72%
Germany	30	35%
Philippines	25	32%

Note: Highlighted are considered emerging markets
Source: Euromonitor International, 2010.

- By volume, seven of PMI's top ten markets are emerging markets (Russia, Turkey, Indonesia, Pakistan, Ukraine, Argentina, and the Philippines).⁷ According to JP Morgan, in 2007 approximately 64% of PMI's cigarette volume and 43% of its profits were derived from emerging markets.⁹
- Since 2004, PMI has increased its market share in the world's top 10 emerging tobacco markets (excluding China) by 6%, from 1.30 trillion sticks sold in 2004 to 1.38 trillion sticks in 2009. The top 10 emerging markets (excluding China) include Russia, Indonesia, Ukraine, Turkey, India, Brazil, Philippines, Egypt, Vietnam and Pakistan. PMI is the market leader in three countries –Indonesia, Ukraine and Turkey –and holds the number two spot in five of the other listed emerging markets.⁶



Source: 2010 CAGNY presentation

To make up for declining sales in developed markets in Europe, PMI is focusing heavily on emerging markets, especially in China, Bangladesh, India, Indonesia, Russia and Vietnam.¹⁰

“I am confident that emerging markets will continue to be a key contributor to our income growth going forward as both we and the economies of these markets are in a much stronger position today than in the previous crises to withstand any potential downturn.”

-Louis Camilleri, CEO (2008)¹⁰

PMI Focuses on Strengthening Top International Brands

PMI owns 7 of the top 15 cigarette brands in the world. PMI's international brands (*Marlboro*, *Merit*, *Parliament* and *Virginia Slims*) account for 75% of its 2008 shipment volume.¹¹

International brands increase a tobacco companies' sales volume globally by promoting such brands to younger smokers. As one tobacco industry strategist reported, it is important for international brands to win “high penetration among young adult smokers, as success in this segment confirms a brand's image as ‘younger’ and ensures longer-term usage of the brand by those consumers.”¹² To increase sales of its deadly product, PMI launches variants of its top brands specific to key emerging markets.

- **Russia:** In 2008, PMI was the leader in the premium cigarette segment promoting its premium *Marlboro* brand with racecar promotions and *Marlboro MxTronica* clubbing experiences and the *Virginia Slim Uno* brand in “under-exploited venues, such as beauty parlors and nail salons.”¹³ Despite the economic down turn and consumer down trading that occurred in 2009, PMI continues to prosper in the Russian market because of its strong portfolio in all cigarette segments.⁶
- **Philippines:** In order to compete with local manufacturers, PMI targets Filipinos with lower-priced cigarettes in sachet-like packs of 5 and 10 sticks, making its premium brands more affordable.¹⁴
- **Mexico:** In Mexico, premium brands such as *Marlboro* made up 62.8% of the market in 2009,¹⁵ in part due to consumers up trading to heavily advertised and more expensive brands.¹¹

PMI is Aggressively Re-inventing Marlboro

PMI's global brand *Marlboro* is the world's top-selling international cigarette brand, accounting for about 36% of the company's total 2009 shipment volume.¹ In February 2009, PMI's Chief Financial Officer predicted that the “re-invigorated *Marlboro* will enable [PMI] to compete very effectively across both mature and emerging markets.”¹⁶ Due to PMI's renovation of *Marlboro*, including launches in many low and middle-income countries, the brand achieved a 4.3% volume growth in Asia and double digit growth in North Africa in 2009.⁶

- **High nicotine product in Indonesia:** PMI introduced a new brand in 2007, *Marlboro Mix 9*, a variant of a kretek cigarette sold in Indonesia that delivers higher nicotine than a regular *Marlboro*. An estimated 90% of smokers in Indonesia use kreteks.¹⁷ This new *Marlboro* is intended to acquaint consumers with the global *Marlboro* brand and introduce them to traditional *Marlboro* cigarettes.¹⁸
- **Launch of quick-nicotine-fix products:** In 2008, PMI test-marketed in Turkey its *Marlboro Intense* – a “mini” cigarette engineered to deliver the same amount of nicotine as a regular-length *Marlboro*, but in a substantially shorter cigarette for a quicker smoke.

PMI launched the *Marlboro Intense* in nine markets in 2008.¹⁶ The company envisions worldwide demand for the quick-nicotine-fix product based on anticipated increases in smoke-free indoor environments forcing people outside for hurried smoking breaks.¹⁹

- **Menthol cigarettes in Asia:** In 2008, PMI launched *Marlboro Black Menthol*, in “masculine” premium black packaging in Japan.²⁰ The brand was the “most successful launch ever” of a PMI brand in Japan, and the company quickly followed up with the launch of *Marlboro Black Menthol One* (a 1 mg tar variant) in 2009. By the end of 2009 the brand franchise had a 1.3% market share.²¹

Exporting Marketing Techniques Perfected in Developed Countries

Many of the marketing techniques created and perfected in developed markets are now being used in emerging markets where tobacco control regulations are weak. For example, PMI is recycling the marketing technique of “low-tar” products in markets throughout the world, despite the finding by U.S. courts that such claims are fraudulent and mislead consumers about the health dangers of tobacco products.²² Nonetheless, PMI is increasing its market share in several markets through the sale of new cigarettes that claim to deliver lower tar levels and smoother taste, including markets in Brazil, Japan, Korea, and Kuwait and four Eastern European countries: Kazakhstan, Romania, Russia and Ukraine.²³

- The *Marlboro Filter Plus* and *Flavor Plus* innovation first introduced to the Korea market in 2006 has since been launched successfully in nearly 40 markets. PMI claims that the cigarette’s “innovative tobacco based filter system” enhances the flavor of the 1mg tar derivative.²⁴
- *Marlboro Gold Touch* (6mg tar) and *Fine Touch* (4mg) are marketed as slightly slimmer, “lower-tar” cigarettes. The brands were launched in Moscow, Russia in July 2009 and by December 2009, the premium brand had gained 0.5% of the market. Over half of the brand’s smokers in Moscow are between the ages of 18 and 25.⁶

PMI is also aggressively targeting women and girls throughout the world to increase its sales in new markets where tobacco use by females is currently low.

- PMI has introduced slim and superslim cigarettes in the form of *Marlboro Gold Eagle*, *Virginia Slims Uno*, and *Muratti Gold Slims* in Eastern Europe, Japan and Greece. PMI has also introduced Indonesia’s women to the first superslims kretek, a product named *A Revolution*, which is sold in a package that resembles a lip stick tube.^{20, 25}
- In Japan, *Virginia Slim* cigarettes are a key to PMI’s success among female smokers. In 2009, PMI marketed the brand to women by collaborating with Japanese fashion designers to offer exclusive promotions.²¹ One such promotion for *Virginia Slim Duo* included a cigarette lighter in the shape of lipstick designed by the fashion brand *Sly*.²⁶

Corporate Social Responsibility

To increase goodwill among policy makers and the public and to counter tobacco control efforts, PMI participates in a wide range of “community investment” initiatives across the globe. PMI engages in so-called socially responsible activities while simultaneously manufacturing a product that is responsible for disease, disability and ultimately death of its customers. In 2009, PMI reported engaging in 392 “corporate social responsibility” efforts in about 46 countries, ranging from contributions for education and disaster relief efforts to funding medical services for tobacco farmers.²⁷

- In 2009, PMI donated over \$5 million USD to the Putera Sampoerna Foundation in Indonesia for education projects.²⁸
- \$2.7 million USD was given to Washington State University for a project to enhance rural livelihoods in Malawi.²⁸
- The total amount of 2009 corporate contributions disclosed on PMI’s website was \$22.7 million USD (a mere fraction of PMI’s 2009 net revenues of \$25 billion USD.)^{3, 28}

PMI’s “community investments” to selected countries in 2009 (USD)²⁸	
Indonesia	\$6,764,673
Russia	\$2,125,179
Philippines	\$1,199,740
Mexico	\$502,188
Pakistan	\$381,510
Brazil	\$370,492
China	\$246,798
Poland	\$196,244
Thailand	\$183,919
Ukraine	\$126,253
Vietnam	\$98,275

Future Outlook

PMI dominates the international cigarette industry and, while developed markets are contracting, PMI is making up for the loss by aggressively targeting emerging markets with their deadly products. According to Euromonitor International, PMI considers markets in Bangladesh, Iran, Pakistan, Vietnam, India and China to be “untapped sources of future high volume sales”⁷ and therefore essential to the company’s growth internationally. PMI made a step in penetrating Pakistan’s market by acquiring Larkson Tobacco in 2007 increasing its market share from 1% to 44%.²⁹ Other recent purchases include Rothmans, Benson & Hedges of Canada in 2008. PMI also announced its plans to acquire 100% of Protobaco in Colombia in 2009, and the company will merge Philip Morris Philippines with market leader Fortune Tobacco Company³ increasing the its market share in the Philippines to over 70%.³⁰

PMI is also looking to increase its profits through sales of smokeless tobacco products worldwide. In Europe, the company is gaining knowledge about the smokeless tobacco market including the snus market by partnering up with market leader Swedish Match. PMI also acquired Swedish Match South Africa in 2009.³

Overall, unless strong tobacco control regulations are put in place in emerging markets, PMI will continue to expand globally and profit from addicting consumers to its deadly products.

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