

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



CLEARING THE AIR

Philip Morris International's Smoke-Free Future

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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WRITTEN CASE

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Philip Morris International's Smoke-Free Future

In the early 2010s, Philip Morris International (PMI) were between a rock and a hard place. The leader in tobacco products, leading an industry that was being pulled out from underneath them. As the trends changed, the tobacco industry was fighting for its very existence, and PMI recognised this. Being squeezed for every sale, every market, every right to sell their tobacco products, the big tobacco organisations, including PMI, knew their current market position was not tenable. Something had to change, PMI had to change.

The question for the management, however, was not when this change was going to take place, but how...

A Critical Situation for the Tobacco Industry

The general consensus from smoking has shifted greatly in previous decades. Even from the beginning of the 20th century, we have seen a seismic shift in the view of smoking cigarettes and tobacco - from the famous 'Marlboro Man' to the view of smoking as one of sophistication, elegance, and social acceptance¹. The lens on smoking has shifted to the more health-conscious view that we see today in the 21st century, emphasising the true dangers of smoking to one's health, and the active push to deter adults and adolescents alike smoking cigarettes. As the true extent of the dangers of tobacco have been laid bare, including 4.9 million tobacco-related deaths per year globally as of 2007² and the acceleration of issues such as lung cancer, governments and regulators across the globe have moved to try and curb tobacco use. Swift regulation on the sale (including taxing) and advertising of tobacco, as well as the push for visual health warnings on packets and outlawing of smoking in various public spaces in most Western Countries, for example in bars and restaurants except for designated smoking areas, have further pushed the tobacco industry into code red as it fights for its place in the market.

¹ <https://www.news24.com/health24/Medical/Stop-smoking/News/9-reasons-why-many-people-started-smoking-in-the-past-20180703-3>

² https://web.archive.org/web/20090207100241/http://www.wpro.who.int/media_centre/fact_sheets/fs_20070529.htm

Exhibit 1. The Marlboro Man

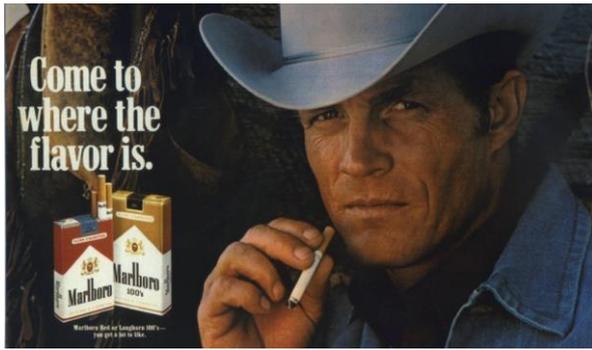


Exhibit 2. Marlboro Package



As the perceptions of smoking has changed across the globe, we have seen an almost exponential decrease in the number of smokers in the developed world. For example, in the United States, the prevalence of smoking fell from 51.9% in 1965 to 21.9% among men in 2011, and from 33.9% to 16.5% for women in that same time period³. In the United Kingdom, the percentage of smokers among the population has reduced from 51% in men and 41% in females respectively in 1974 to only 22% in men and 19% in women in 2013⁴. However, although the rates of smokers in the developed world are falling, the number of tobacco users in the developing countries is increasing⁵.

The tobacco industry has long challenged and stifled tobacco control through a myriad of tactics, including lobbying, partaking in CSR initiatives, and weakening legislation⁶. This could be what we would define as the wounded animal, finding any means for survival. However, the players in the industry recognise that this means of what can only be described as guerilla warfare is not a sustainable means of survival. The changing shift from the general population to move away from smoking cigarettes to other alternatives can be seen in tobacco shops and convenient stores across the globe. Smokers are moving from traditional manufactured and hand-rolled cigarettes to different forms of consumption such as electronic cigarettes, first introduced into the U.S. in 2007, and with growing popularity every year. With this in mind, it was time for tobacco companies to reposition themselves with an alternative to the traditional tobacco and cigarette product which have decreased in popularity over the decades.

One of the tobacco companies to be most impacted by the trends of the tobacco industry was Philip Morris International. The organisation recognised the need to reposition themselves in the context of the changing market away from tobacco and cigarettes and derive a new and unique place in the market. But how could this be possible for the undisputed world leader in the market of tobacco products?

Who is Philip Morris International?

Philip Morris International (PMI) is a prominent Swiss-American tobacco manufacturing company. It is one of the “Big Tobacco” companies that strongly influences the market and the way that the whole industry behaves, setting an example. The company originally was founded by Philip Morris in 1847 in London,

³ <https://www.atsjournals.org/doi/full/10.1513/AnnalsATS.201308-258PS>

⁴ <http://ash.org.uk/wp-content/uploads/2016/06/Smoking-Statistics-Who-Smokes-and-How-Much.pdf>

⁵ https://web.archive.org/web/20091108181404/http://www.wpro.who.int/media_centre/fact_sheets/fs_20020528.htm

⁶ <https://www.who.int/tobacco/resources/publications/Tobacco%20Industry%20Interference-FINAL.pdf>

who was a tobacconist and an entrepreneur that sensed the exponential trend of smoking that was prevalent in higher circles of society and was considered a sign of social status.

Subsequently in 1902 and 1919 the company was incorporated in New York under the name of “Philip Morris & Co. Ltd., Inc.”. Its current version, Philip Morris International Inc., derives from the name of its international division, which in 1987 became a banner and an operating company of Philip Morris Companies Inc⁷.

In terms of brands, PMI is internationally renowned for its Marlboro brand. The company operates in three different segments, which you can see in **Exhibit 3** on the following page– low price, mid-price, and premium & above. Apart from Marlboro and its different varieties, other prominent brands are Parliament, Chesterfield, Muratti, and Philip Morris:

Exhibit 3: PMI Brand Portfolio



Despite the current change of strategy and positioning of the company, PMI has a strong performance in the world’s top 15 cigarette brands, by owning 6 out of 15 brands, which is an impressive achievement on its own⁸:

Exhibit 4: PMI Brands, Cigarette Ranking 2019



⁷ <https://www.pmi.com/who-we-are/key-milestones>

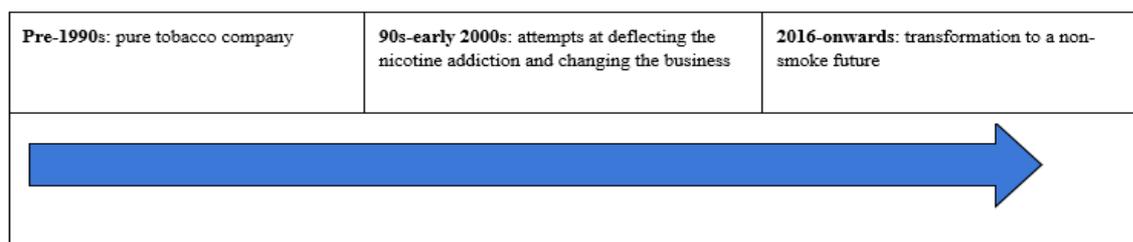
⁸ <https://seekingalpha.com/article/4376081-philip-morris-14minus-20-upside-on-this-excellent-tobacco-business>

As noted in the previous section, in this case the figures and data from the tobacco industry and the consumer trends fared against PMI. The company was at crossroads, it had to change in order to stay relevant in the market and continue to maintain its high profit margins and shareholder value. At the beginning of the new millennia, a famous report written by Jacque Drope for the Tobacco Free Initiative (an initiative that was sponsored by the World Health Organisation), which outlined that the future of the tobacco industry was grim⁹. PMI at the time was faced with a multitude of lawsuits in the United States and other countries, where the company operated, and to exacerbate the situation, nicotine was exposed as an addictive substance, which has negative health impacts. In addition, the report revealed that big tobacco companies were smuggling their production in different countries. All these findings spurred an international outcry among the public and even the avid smokers were troubled by these findings. PMI decided to adopt a corporate reputation & communication strategy that was not antagonistic, which was very rare in the tobacco industry – it was called “Philip Morris in the 21st Century – PM21”. The campaign aimed to improve the corporate image and reputation of the company by focusing on CSR initiatives such as charity donations to tackle hunger, or disaster relief, or domestic violence prevention. But still the company did not manage to make meaningful transformations during this initiative. However, faced with the development of electronic cigarettes and the increasing healthy lifestyle of people, not to mention the downgrading image of the smoker as unsophisticated and bad smelling, the corporation had to change.

The turning point of Philip Morris happened in 2016 when the company officially redefined its business vision: “Our business vision is to replace cigarettes with less harmful, smoke-free products as soon as possible.” It was a bold move that meant that the organisation was moving away from cigarettes and other combustible products towards healthier alternatives that were smoke-free. By this move PMI made an important statement to the tobacco industry and set an example for others to follow. It aims to shift at least 40 million of its consumers to adopt smoke-free alternatives to cigarettes.

However, this transformation began long before the official business transformation in 2016, when PMI invested heavily in technology and smoke-free product concepts and developed an R&D facility in Neuchatel, Switzerland in 2009. And finally, in 2014 they introduced a revolutionary concept called IQOS, which spearheaded the change. This changed the fortunes of the company and prompted the official change of the business model and its vision.

Exhibit 5: Positioning Transformation of PMI



⁹ https://www.who.int/tobacco/publications/industry/ets_pm_.pdf?ua=1

The Solution: IQOS

The summer 2014 was rich with interesting events: Rafael Nadal won his ninth Roland Garros defeating the Serbian Novak Djokovic in the final, Germany won its fourth FIFA World Cup beating Argentina 1-0 in the final played in Rio de Janeiro (Brazil) thanks to a goal by Mario Götze, Felipe of Borbone was crowned King of Spain under the name Felipe VI. While all these occurrences were taking place, Phillip Morris International (PMI) finally came up with a product to counteract the crisis caused by the wave of interest in healthy lifestyles and by the always more frequent negative associations to the figure of the smoker.

It was June 26th when PMI launched its latest disruptive innovation: IQOS. This product was initially introduced in the Italian, Swiss and Japanese markets, with the intention of selling it also in other countries in the next few months.

IQOS (**Exhibit 6**) consists of an electronic device in which a specific type of cigarette, called Heets (**Exhibit 7**), to be inserted. This cigarette contains tobacco and nicotine exactly as any other kind of cigarette, but what makes IQOS fundamentally different from the traditional tobacco products is that the electronic device warms the tobacco, rather than burning it. The first resulting benefit is that this mechanism allows the smoker to avoid the unpleasant smell of cigarettes after having smoked, which is generally the consequence of the combustion created by the common lighters. Moreover, the Heets are available also in several flavours, such as menthol or tea, which could be appreciated by somebody who prefers something different from the strong taste of tobacco. An image of the complete kit is presented in **Exhibit 8**.

Exhibit 6: IQOS



Exhibit 7: Heets



Exhibit 8: IQOS in use



Once the user has smoked, they remove the Heets and simply discard it in a bin, and put the IQOS back into its box, which doubles down as a charger. In this way, the device will be ready for when the user desires to smoke another Heets.

It should be noted that this kind of product creates addiction exactly as any other kind of cigarette due to the presence of nicotine. It is not something comparable to a normal electronic cigarette, which emanates only steam. This is why PMI made it crystal clear

that non-smokers should not use it and why the package of Heets displays the usual warning messages about the negative consequences of smoking. However, since tobacco is not burnt and due to a lower presence of chemical elements, PMI claims that smoking with IQOS is considerably less unhealthy than smoking the traditional cigarettes or cigars.

IQOS then accommodates the desire for healthier lifestyles and restores the unsophisticated and bad smelling stereotype of the classical smoker. To provide a glimpse of this change in stereotype, compare **Exhibit 9** with the Marlboro Man (**Exhibit 1**) - from daring to a sense of luxury.

Exhibit 9: IQOS Sophistication



The Case Questions

IQOS represented the main solution found by PMI to face the decrease in sales of traditional cigarettes due to the shift towards healthy lifestyle and the bad reputation of the smoker. However, it was still a product created and marketed by the leader in the tobacco industry, the owner of staple brands like Marlboro, L&M and Chesterfield. Therefore, it seemed to be a paradox for PMI to take the distance from the tobacco products, while it has always been considered the emblem of such a sector. The organisation had to carefully consider how to bring IQOS to market, while also respecting the various stakeholders, such as partner stores and manufacturers. As a consequence, two important questions were posed when it came to determine how to launch IQOS:

How can PMI position IQOS in such a way as to move away from the perception of a traditional smoking product to their new identity of more healthy smoking? At the same time, how can PMI safeguard the traditional relationships with stakeholders, especially distributors?

The Timeline – PMI Brand Transformation

Exhibit 10: Timeline of PMI Brand Transformation

