Quality Growth: Focused on the Right Brands

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Peter Corijn: Firstly, "Hi". Hi is our new West campaign. West is all about creating inspiring connections. So what better way than just to say, "Hi," to somebody. It also has additionally benefits, but actually it works in just about any language all over the world.

What are we doing on brands? We're trying to create much stronger brands. How do we do that? First of all, by strengthening our portfolio. We're reducing complexity massively. You'll see that we're going beyond 50%. We are migrating brands, very successfully so. We have 55 migrations, out of which 30 have been completed.

We're building brand equity. We have a drumbeat of initiatives, lots of innovations and we have very strong campaigns, global campaigns that we also roll out faster. That leads to quality growth. Growth in Specialist Brands is becoming a bigger part of our total business, and we want to see that increase.

Before we go to where we want to go, it's maybe also good to take a step back on where we were. Here are a couple of statistics. We used to have 15 Growth and Specialist Brands; we've brought that down to 9. I should say, all these statistics are for the Imperial Tobacco division, but of course, the principles apply throughout the business.

We had 250 brands, we're now down to 200, but we will bring that down to 125. The same with BMUs, we will cut it in half. Major reduction of SKUs. Number of agencies, 235, now we have 1, and we'll stick to 1. Number of digital platforms, 180. We've brought that down significantly to six. Initiatives are more than halved and we are going to continue to do that.

Of course, as a result, the net revenue in our Growth Brands is up from £50m to £59m in the first half of the fiscal. We want to get that even to £75m in a couple of years.

First of all, what are these Growth Brands? Growth Brands are the brands with our strongest consumer appeal. Brands that already have the strongest equity and that we can expand globally. We have created what we call chassis, and I'll tell you more about that in a second. In the West chassis you have L&B, Bastos, News and West. JPF has JPS, Parker and Simpson, and Fine, Davidoff and we have Gauloises.

What is a chassis? Well, actually, a lot of people are doing this. Axe is called Lynx in the UK, but it's the same brand. Why are they not changing it? Why are they not changing that? Because Lynx is the market leader and it's a big brand name. But everything else is the same.

The Vauxhalls you see on the streets of England, or in the UK, they are called Opel in the rest of the world. If you open the hood, it's exactly the same thing. The steering wheel may be on the right or the wrong side of the car, but otherwise it's the same car. We're doing the same thing. We're harmonising those brands and chassis as far as we can.

Here are some of the benefits. For instance, now we use the same design language throughout the chassis. You notice the speech bubble everywhere. Speech bubble, conversations, connections. That has a lot of benefits. Rather than having to make four different designs, we can just have one. Rather than four meetings with the lawyers on whether it's right or not, we just have one, etc. We say it is a tremendous agility and tremendous productivity that comes from it.

We've done the same with one of our Specialist Brands, Golden Virginia and Drum, are now one chassis. As you know, we have a very successful snus business with Skruf. We have Rizla, the world's leading rolling paper brand, Gitanes and there is Style.

That leads to a portfolio transformation. As you can see, the importance of the Growth and Specialist Brands keep going up, and we will get to, in the next couple of years, to 75; that is our goal. There are a lot of benefits that, obviously, come from a more concentrated business.

We moved to one agency. After a pitch, we decided on Proximity BBDO, one of the best agencies in the world. What are the benefits? Well, you get much more disciplined equity. Our 235 agencies really mean 235 opinions, especially when it comes to creativity. That's not right if you want to have global brands. Then on top we had major time and money savings. In the bargain we saved £3m and we have better cash flow because our payment terms were better with Proximity that with all the other agencies.

There is consistency. There is better quality. It's still an agile set up because markets do have contact points, so we can still do the right thing for a local consumer.

We have a new operating model, John already outlined that and that's been very good for us. Not only do we build brands, but now have also created the process that allows us to do that better. We have far more agility. We have savings. Moving to the operating model saved over £13m. On top we had discipline on equity. I'll give you one example. For instance, a couple of years ago, if you went into the markets, different markets, you would see different executions of the West packaging.

Why? Because we were much decentralised and every market could decide whether they would take the new design or not. That's just not right. Especially, because in some markets, you had all three of them at the same time, according to when different initiatives would come in. Now we have one design all over the word, there's a global platform.

I have to do one disclaimer, later in the presentation; you will see a white pack. So don't say, "Peter, you're not as disciplined as you say you are." But it's only because we are doing a migration and it's an intermediate step. The end goal is never in doubt. Again, we get stronger brands that way.

We streamlined our initiatives. We used to have 272, now we have 100 and we're going to take that down. When we say fewer, we really mean it. Bigger, obviously now we have more scale. You have scale, with scale comes cost benefits. That's obvious. Last, but not least, we have stronger initiatives. The initiative for it has more than doubled, in terms of success.

Imagine that you're a car manufacturer and this is a tremendous new piece of technology in lighters. How would you talk about it if you were Volvo? You would say something, "This is an incredibly safe thing." You see a lot of proof on how safe Volvo and how good Volvo is for your family. If it was Audi, you wouldn't talk about safety, right? The same lighter, but you would say it is technology. Another proof that we have German technology, *Vorsprung Durch Technik*. BMW would say it's all about the joy of driving.

We do the same thing. When we do initiatives, they have to build the brand. They have to say something about what the brand stands for.

This also leads to simplification. I would like to invite Marcus to take you through a couple of case studies on how we deal with that.

Marcus Diemer: Thank you very much, Peter. My name is Marcus Diemer. I'm the Portfolio Director at Imperial.

Peter has already said we have had a lot of growth in Specialist Brands, which is perfectly set up to meet consumer needs. But, unfortunately, we have a lot of Portfolio Brands as well, which really make our lives unnecessarily complex. Alison said the brand building story, the whole journey, started in 2010. Actually, the portfolio journey started in 2013. The clear target was to prioritise better. Come up with a strategy and implement the strategy to better prioritise and deploy our resources.

That's really what we have done over the last couple of years. I would like to take you on this journey now, over the next 15 minutes or so, and just, step by step, talk you through what we have done.

It all started with our belief. We need fewer, bigger and stronger brands today. We have given ourselves this metric, which is not just an extra metric; it's very important to us because it really demonstrated quality growth. Quality growth, for us, means growing with the right brands. Clearly, focusing on the right brands with the right execution, enables consolidated and consistent investments, drives simplicity for retailers, but for our own sales teams as well and delivers economies of scale and cost benefits. It's absolutely critical for sustainable performance in the future.

Once you focus, you clearly start to simplify the brands, which actually have a lower strategic and commercial value to our business. We have a directional target here as well, we want to cut by half, not just brands. We've already made some progress, we have achieved 20%. But also the BMUs. BMUs are very important because, actually, that's a brand market unit. A brand in a given market, and that's really where we operate.

Let me start to talk you through the bits and pieces we have already done in our simplification journey. What we usually do, we go out into the markets and really look to find a select set of focus brands. Then we have a couple of other brands that we manage for cash. What doesn't qualify for focus, what doesn't deliver the cash, it's a simplification candidate. Once we have identified the simplification candidates, we consider three options, which you see here on the slide.

The first one is a divestment option. Typically, smaller segments which are declining, non-strategic. For instance, we sold our pipe chain and snuff brands in fiscal year 15. The second one is delisting. What we're doing here is, we are taking our value diluting SKUs. We have already removed 20%, with very limited commercial impact, I must say. If you translate the 20% into a share impact, we're talking about three basis points year on year.

Last, but not least, we migrate Portfolio Brands into Growth Brands. Absolutely critical. We have completed 38 migration cases to date. Increased our Growth Brand volume by 25%, and we continue. I believe this is an area of a lot interest, so let me go a bit more into our migration journey and what we have done so far.

Why do we migrate? Two key reasons. First, to simplify and second, to create scale in our Growth Brands. It's absolutely critical that you have a very disciplined process as well. Disciplined process is a joined exercise between group and end markets. From a group side, we share best practice and we instil discipline. One the end market perspective, it's all about execution, therefore we really need the local buy in. At the end of the day, it sounds all technical, but people deliver this agenda.

What does a great success look like for us in migrations? Migrations must deliver three things. A high initial success rate, which is defined as the amount of consumers retained and acquired post to migration. The second one is an improved trajectory versus the initial placement of share uplift. Thirdly, a return on investment. Return on investment, we review as part of our five year business case model before we are going into a go or no go decision.

The key migration benefits are very much in line with our focus benefits, so I don't need to read them out one by one. With one stand out, migrations are great initiatives for brand building. Let me give you a couple of examples on that one. First of all, something we did in France. We migrated a brand Fortuna to News. The objective here, clearly was, to combine regional brands to create national scale. Keep in mind, 2014, before we started, Fortuna had a share of 2.5%, roundabout, very much centred in the south. News share of 5.8%, very much centred in the north of France.

After the execution, after the migration, we have 9% share. We have one brand, number four nationwide, and it continues growing. This has actually been a bit of a risk here, on migration. Just for the simple reason that there was very limited overlap between these two brands. Fortuna, Spanish heritage, very much thriving on a colourful, vibrant personality against News, a bit more the cooler urban brand, more the rational choice.

What we did is, we created the best of both equities. We came up with a new range. You see that in the middle of this visual here, the red range, we call it News Fortuna, which deliberately kept some of the important design elements and the Fortuna blends as well. A riskier migration, but still delivered with a 98% success rate.

Second example. In Spain, where we migrated Brooklyn to West, the new objective here was different. To shift from the predominantly local portfolio to an international portfolio, which is actually reflecting a consumer trend. The want for big international brands that we see in many markets. With that one here, we have not only maintained our current consumers, we've really provided a platform for growth. We added 90 basis points on. Today we're on 3.1% share. We are tracking this success rate, at the moment, at 100%.

Last, but not least, Poland, which is actually a good example for market clean up. We actually did a consolidated approach. Take four brands into one. One migration case is still ongoing. To significantly get BMUs and SKUs out of the business, in order to drive focus. With the focus, again, we were able to bring up Parker and Simpson from 1% to 8% share, giving it critical scale in a very competitive environment.

I would consider this, actually, as a risky migration as well. It seems very simple to take two smaller brands into one, but the complexity behind it is very significant. Again, this has been delivered with 100% success rate.

Clearly, this is good progress. It was not easy, from the start, I must say though. At the beginning it was more the group push. Now we have moved more to a market pull. That helps us, with the right capabilities, with the right confidence, to actually go further and do more. It all started with a simplification plan, now it's moved onto a full enter and transformation agenda.

We looked at brands, BMUs, at the beginning. We are now becoming much more granular. We're looking at SKUs because we know complexity culminates in SKUs, not just in brands. We are doing this across the business as a collaborative effort with different departments and drive this through three work streams.

The first work stream we call, internally, Grow the Head, because it's all about maximising the potential for our core assortment. This is absolutely critical. Sales uplift here is absolutely critical to drive further and go harder when we go into the Cut the Tail exercise. As I said, so far, we have taken out SKUs which were actually below, or dropping below, a commercial threshold. Now we are really looking, from an optimal assortment perspective, to select out and single out much more.

We are also looking into the specifications, into the non tobacco materials. For instance, in the way we produce, to harmonise across manufacturing. Last, but not least, once we have delivered all of this, we want to make it stick. Let's make it sustainable in order to make the right launch choices, to avoid that complexity returning.

Let me now provide a bit more context on each of these areas. First of all, the Grow the Head, very much started with a simple insight. In many markets we actually have too many SKUs and can't always fit all of them on the shelf. Secondly, we don't always prioritise. The visual on the screen shows you a real life example from one of our two pilot markets at the moment.

We very clearly have too many SKUs. We don't always prioritise. Therefore we said, not simplification, but now defining the optimal assortment. Once we have defined the optimal assortment, we drive the optimal assortment and gain distribution. The way we do that, we simply take stuff off the shelf. Replace stuff that doesn't sell with stuff that does sell. That, again, creates a knock on effect through better on shelf availability, better visibility and retailers really like that.

As I said, we have two pilots ongoing. I'm not going into too much detail. What I can say is, it's a very, very promising start. It helps us, internally, to build the belief that poor information is certainly not the predominant source of top line growth. A simple portfolio is the answer.

The reason for that is very simple. Again, it creates a win win for all stakeholders. It becomes much easier for consumers to shop. Much easier for retailers to stock and stock manage, which actually means more money and less working capital. Easy for our sales force to focus and to activate. Last, but not least, the outcome from here is, stronger brands, better equity and lower cost.

Lower cost is actually the key word that leads me onto the second work stream, which is Cut the Tail. Essentially, Cut the Tail is a manufacturing overlay to our portfolio and assortment strategy. It's all about driving costs out, which is not easy. It needs to be managed out. It's not coming out of the blue. Clearly, the way we do that, we want to remove, as I said before, SKUs below scale and increase the synergies, the efficiencies across the rest of our portfolio. Really looking into design elements, non-tobacco material and the way we produce.

Knock on opportunities are significant. Better productivity. Obviously, the whole organisation and footprint benefits. You'll hear more about that in a second. Walter and Titus are going to go into more detail. It all culminates into more monetary invests, this is critical to make all of this sustainable.

In summary, focus on simplification enables quality growth. Our clear portfolio priorities are investment choices, continues simplification, so we continue to migrate. But we go further, as I said, with our ambitious transformation plan, to realise savings and growth opportunities. On one stand to make it sustainable, is absolutely critical, because if you're not sustainable, you're not going to win. That means we need to have a new mind-set, new governance and more discipline around all of that.

Let me sum it up. We strongly believe we can grow anything, but not everything and not everywhere. With that, I'll hand back on to Peter.

Peter Corijn: Thank you Marcus.

What we also do, since we are about brands, we drive the consumer as boss culture. We go out, and you'll recognise some of the faces in this room, we go out and we sell. We stand behind the counter, we go with sales reps and we do that all over the world, because that's where the action is. We also pick up very interesting things on how to activate our brands.

Where does it all lead to? It will lead to a stronger portfolio. We have seen the results. In the first half of the year, we were up 80 basis points. If you exclude Syria and Iraq, which I think is fair given the sad conditions the region experiences, the volume is up 4.7% and the revenues are up 12.5%. So it's working. As I said we want to continue to drive that to over 75%.

In summary, a stronger portfolio. Certainly a less complex one, which makes us more agile and drives productivity. We're building brand equity. We have great campaigns out there. We're activating to consumers and that will lead to quality growth.

Thank you.