

Big Tobacco's Still Puffing

Oct 5, 2008

-By Mike Beirne



It was 2004, and Brown & Williamson's marketing department had a runaway hit on its hands. For six years, the tobacco brand had been hosting battle-of-the-DJ events at nightclubs in major cities, and B&W was about to go even bigger. That year's turntable battle, called the Kool Mixx, would be a 14-city tour. Limited-edition packs of cigarettes, adorned with splashy renderings of hip-hop artists and gyrating dancers, were sold nationally at retail. Field teams distributed "Soundtrack to the Streets" CDs and CD-ROMs, and the HouseOfMenthol.com hosted mixing software and an online DJ competition. B&W had plugged into the downtown vibe in a way that most brands only dream of, and the house was on fire.

Then suddenly, the needle skipped off the record. While young urbanites were doing their thing on the dance floor, a team of attorneys general from New York, Illinois and Maryland had been strutting their own stuff—before a judge. The lawyers alleged that Kool Mixx was violating the terms of the sweeping Master Settlement Agreement (MSA) by targeting predominantly African-American youth and cinching the deal with free branded merchandise. R.J. Reynolds—which acquired B&W that year—settled, admitting no wrongdoing. Kool Mixx and all its merch limped off the scene.

Hear a few anecdotes like this—and there are enough of them out there—and it's easy to conclude that being a cigarette marketer these days must, well, stink. There he is, ensconced in a cushy office at one of the Big Three—Philip Morris USA, R.J. Reynolds or Lorillard. He's got millions of dollars in his budget, but what can he do with it? At first, Kool Mixx appeared to stay within the boundaries of the MSA: Events took place at bars that kept anyone under 21 out on the sidewalk. The Web site was (according to the rules, anyway) restricted to adult smokers. But the Mixx got nixed anyway.

Which was only the latest set of handcuffs to be snapped on. Today's cigarette marketer can forget the fantasy of using major media outlets. TV ads for tobacco have been illegal since 1971, and the MSA pretty much snuffed out everything else—branded merchandise, the use of cartoons (translation: Joe Camel), outdoor billboards, concert sponsorships and paid product placement. With his arsenal of ad weaponry almost wholly confiscated, the cigarette marketer has got to be one of the most frustrated pitch people in the business, right?

Actually, no.

Ask Bob Elmer, who worked as marketing manager on Salem and Camel from 1995 until 2000. "We were told as young marketers coming into R.J. Reynolds that you're not going to be able to do TV or radio, but [if you] come here, we'll give you a lot of responsibilities," Elmer recalled, adding: "If you can sell tobacco and think of innovative ways to do it, you'll be able to sell anything."

Call it a case of regulation being the mother of invention. Hemmed in on all sides by laws and settlements that have effectively eliminated the advertising and promotional options that most marketers take for granted, tobacco marketers have responded by focusing both money and creative energy on the handful of things they still can do legally. The results may not make the kind of creative splash that a Super Bowl spot will, but in some cases big tobacco has so successfully rewritten its playbook that it has become a model for other industries to follow. What's more, in an age where Web 2.0 is supposedly the final word in cutting-edge marketing, tobacco brands have found success with surprisingly old-school methods—specifically, event-based marketing and database analysis, albeit punched up via e-mail. If it's not exactly sexy, the stuff works. And according to execs like Elmer, it's still left the tobacco marketer with plenty of creative challenges to meet.

"There was never a lot of younger people saying, Oh gosh, I wish we could do TV," said Elmer, now vp-client services for Engauge Direct, a data analytics company in Austin, Texas. "We knew the rules. We knew what we could and couldn't do—and we were going to do it smartly."

The need to do things smartly has never been more acute. Though the MSA brought down pages of restrictions, the antagonism directed toward tobacco marketing has only intensified in the years since.

Back in 1998, the MSA settled lawsuits filed against five tobacco companies by 46 states and five U.S. territories seeking to recover the cost of Medicaid funds used to treat people with smoking-related illnesses. Today, anti-tobacco activists are pushing for oversight of the industry

by the Federal Drug Administration, which could bring even more constraints like banning menthol cigarettes (flavored smokes are more likely to lure kids, foes say) and print ads (Philip Morris and RJR as a matter of company policy have chosen not to advertise in consumer publications). Tobacco opponents also want to stop the use of discount promotions such as buy-one-pack/get-one-pack-free. They're also out to bar store signage from using imagery and logos, enlarge smoking hazard warnings on packaging, and limit the messaging on direct mailings smokers receive to just black and white text. If that's not enough, there are efforts in Massachusetts and San Francisco to ban the sale of cigarettes in drug stores and in retail outlets with in-store health clinics.

For cigarette brands, this obviously seems like a lot of red tape—but anti-tobacco forces say this is just the beginning. "The industry has created the impression that they've had massive amounts of marketing tools taken away from them," said Matthew Meyers, president of the Campaign for Tobacco Free Kids. "But the restrictions on them are modest at best."

In response, tobacco brands have poured more money into their marketing budgets. Since the MSA, marketing spending by major tobacco companies almost doubled from \$6.7 billion to \$13.1 billion in 2005, according to the latest report from the Federal Trade Commission. Spending on promotional allowances for retailers and wholesalers, coupons, direct mail, public entertainment and point of sale had grown fairly steadily between 1998 and 2001 before tapering off through 2005. FTC figures also show that, during 2001 through 2005, spending on price discounting increased 24% to \$9.7 billion.

Prohibition Equals Innovation

These dollar allotments clearly show the path that tobacco brands' marketing departments have beaten—away from traditional mass advertising to one-on-one communication strategies like experiential and direct marketing. And they've done well at it—so well that brands in other categories have been borrowing many of their tactics.

For instance, as a fresh-faced college grad of the mid 1990s, Elmer traveled the country to scout out the hippest bars and nightclubs as part of RJR's drive toward experiential marketing. He helped stage outreaches like billiard tournaments and his first big assignment, "Salem Orb.e." During 2001, RJR sought to recast Salem from the menthol brand that your aunt smoked to one that can cruise in the nightlife world. Salem Orb.e was like American Idol a year ahead of its time, sponsoring talent competitions at clubs in New York and Philadelphia that featured singers, dancers and standup comedians—some whom to this day tout winning the thing on their online biographies. Hip hop mogul Russell Simmons even served as a judge during the finals.

Today, promos like these have become standard (among the brands promoted by direct marketing in bars this year were Marlboro Smooth, Marlboro Virginia Blend and Marlboro 72). A common on-premise tactic is arming field teams with digital cameras. A brand rep will snap a photo of bar patrons, take their names and e-mail addresses, then invite the group to send their friends a digital photo of their party in progress. The photo arrives sporting the brand logo; meanwhile, the company has secured a list of names and e-mail addresses for its direct-marketing database, which will be mined later on when it's time to advertise new products and promotions.

Web-enabled components of such outreach are just a new twist on a tactic that tobacco brands like RJR and PM have been using since the 1980s, when they pioneered the practice of name-gathering at clubs and bars. Today—no matter the brand—it's a favored strategy. "Our company started when a lot of this tobacco stuff was happening on-premise, and we realized that these techniques are not exclusive to tobacco," said Sarah Eck-Thompson, co-founder and COO of All Terrain, a Chicago event-marketing shop, which started 1998 and carries such clients as Diageo, Bacardi, Turi Ten, Heineken USA and Anheuser-Busch.

Tobacco companies were also at the forefront of influencer marketing or, more specifically, cultivating bartenders and club owners to advocate their products. Those influencers, by nature of the job, interacted with hundreds of people daily. Now, marketers use the same tactic to enlist personal trainers, salon operators and anyone who, because of their occupation or personality, has a network of people that values their opinions. All Terrain used this tactic when it staged Stoli Prom for Chicago lesbian, bisexual, transgender community during 2007. The owners of gay hotspots were enlisted into the Prom committee, instantly elevating their status among their brethren who were stoked for a chance to bring a date to the prom they never had. The Prom committee members consequently became advocates for Stoli.

Event-based marketing like this—be it inside or outside of bars—is another critical component of direct outreach. PM, for example, adds names to its smoker database via sweepstakes and promotions, including getaways to the Marlboro Ranch in Arizona or VIP seats to an Indy event through Marlboro Racing (auto racing is the lone holdout in the otherwise restricted area of sports sponsorships). The cigarette maker also activated "Flavor Chase," an online and text messaging sweepstakes that offered prizes every minute of every day during June and July.

"Events play a consistent role in reinforcing the brand value of Marlboro," said Greg Mathe, spokesman for the Altria unit. "Our Ranch doesn't have a tremendous amount of reach—a couple hundred people go through the program a year—but it's a very connected and intimate one-to-one experience. Marlboro Racing is a broader program, and both play a role in reinforcing a new product or a brand we want them to be aware of. That's where we see a connection with smokers on a name-generation basis."

Making a List

Important as direct outreach has become, however, it can't replace the core importance of the customer database—which, of course, many promos exist to feed in the first place. The reasoning is simple enough. If cigarette marketers can't create new users the way other brands can, they have to fight over the pool of existing ones. As a result, tobacco brands both zealously guard their existing smokers even as they look for ways to poach the smokers of other brands.

Contrary to the contentions of anti-tobacco groups, which allege that databases exist for the purpose of encouraging smokers to smoke more, Elmer said that the databases exist primarily to, in effect, move the existing chips around the board. "Getting our smokers to smoke more was never an avenue we were presented with," the Camel vet said. "It was about winning smokers from other brands."

Tobacco companies contacted for this story (with the exception of Lorillard, which did not respond to interview requests) declined to comment in much detail about their databases, which have become a kind of marketing holy of holies. The database of Philip Morris-owned Marlboro alone is about 25 million smokers strong.

RJR had a four- or five-year head start on PM when it started building its database of smokers (an all-inclusive roster that includes those who use competitors' brands) during the early 1980s. The Reynolds American unit won't disclose how many names are in its database but, said RJR spokesman David Howard, "When it comes to direct marketing to consumers, we sort of are the gold standard in this area. We go to great lengths to communicate in depth with our consumers. It's something that works, and it's an effective, responsible way for us to communicate."

And RJR's been doing plenty of that. For the relaunch of its Camel label, RJR tapped its database to send buy-one-pack/get-one-free coupons for Camel Lights, as well as literature with two coupons for free tins of Camel Snus, chewing tobacco marketed as an option for smokers in social settings where they can't light up. Meanwhile, Lorillard, maker of leading menthol smoke Newport, concluded its Newport Pleasure sweepstakes last month, which dangled trips to Las Vegas for 25 winners to play in the Newport Blackjack Tournament. Newport also sends its Newport Pleasure Goods catalog to smokers, who can redeem UPC codes for merchandise like iPod Shuffles, digital cameras, Bluetooth, and prepaid gift-cards from the Discover Network.

The Direct Route

When it comes to tobacco brands' use of database marketing, the distinguishing trait isn't so much that its practices are cutting-edge, so much as they're simply unrelenting. If the nature of database gathering hasn't changed all that much, what has changed is the degree to which cigarette brands appear to rely on it.

According to John Cummings of John Cummings and Partners—an Armonk, N.Y.-based firm that has been tracking direct mail activity since 1993 through a service called DBM/Scan—most CPG companies do what he calls "level-one marketing." That means, a brand will send literature to customers for a brief period and then disappear. "We made it into the program for a year or two, but then [the mailings] just stopped," he said. "You get a new brand manager who says, 'Forget it—I want to put more emphasis on retail support and trade marketing.' And they'll take money out of direct marketing."

Not so with tobacco. "We have people on our panel who have been getting mail from the same cigarette brand for 10 years or more," Cummings said. DBM/Scan data is proprietary, so Cummings declined to provide numbers. He did say that RJR is more aggressive with e-mail than PM and Lorillard. For its part, however, Lorillard has been more active with digital this year than it was during 2007, according to Cummings.

Another notable trait of tobacco databases is that cigarette brands have anchored their direct-marketing strategy on consumer behavior, while the majority of the database marketing world is delving into psychology. According to Janet Rubio, president of Engauge Direct, most direct-marketing tenets come from the world of catalog marketers who are driven to collect as much demographic information they can get their hands on and then overlay it with enhancement data,

all in the hopes of gleaning some kind of insight into the consumer. However, cigarette makers can isolate consumers of their brands from smokers of competitive brands and tailor mailings simply based on usage. Simply put, it allows marketers to do more with less.

For example, RJR will send a smoker of PM's Marlboro brand a set of coupons for RJR's Camel brand, seen as a parallel product; Camel smokers will receive coupons to try Camel Snus, based on the knowledge that they already like the Camel brand name, and so on. Meanwhile tobacco companies can keep tabs on a smoker's product usage, and see if he or she switched brands because coupons are traceable by person.

"What's interesting to me about the tobacco industry and the alcohol marketers out there is their ability to market to people who barely identify themselves," said Rubio. "They may not know that this person works in this industry, or has this much income. But the [tobacco marketers' database] is built less on how people describe themselves and more on how they behave; what they've done, and what actions they've taken. That is a huge distinction between the world of direct marketing that came out of the catalog business and the world that came from people who were forced to change the way they market because of limitations with the law or by ethics."

Imitation Is Flattery

As the forces of both ethics and legislative restrictions increase, that forced change in thinking may well have to evolve even further. But for now, brands in other industries have taken more than a few pages from tobacco's marketing playbook. While cigarette companies have been practicing direct marketing longer and mailing more paper than anyone else, companies like Kraft, Proctor & Gamble, and Unilever have caught on and are sending more e-mails, said Cummings. For all brands, direct-marketing spending is projected to increase 3.4% to \$176.9 billion this year, and event marketing is projected to jump 23% to \$21 billion, according to the Jack Meyers Business Report. "We truly believe that database is the new marketplace," said Rubio. "What is interesting is [that] the tactics that the tobacco guys have used for years are really the tactics that are emerging."

Meanwhile, down in Austin, Bob Elmer can personally relate to what tobacco marketers have to deal with these days—though from a pleasant distance. About the growing list of restrictions, injunctions and activist demands sure to mount as time goes on? "It's an ongoing battle," he said.