

Philip Morris International Inc (PMI) in the Philippines

Overview of tobacco use in Philippines (estimates)

- 34.5% of adults (age 18+) smoke tobacco.¹
- Over half of adult males (57%) and 12% of adult females smoke.²
- 40% of adult males are daily smokers, averaging 13 cigarettes per day.³
- Among youth (age 13-15), 17.5% currently smoke cigarettes (male 23%; female 12%).⁴
- 8% of youth currently use tobacco products other than cigarettes.⁵

Overview of PMI in the Philippines

- “The Philippines is one of PMI’s major markets.”⁶
- PMI’s affiliate in the Philippines is **Philip Morris Manufacturing Inc (PMPMI)**, established in 2001.
 - PMI has been present in the Philippines since 1955 when it licensed La Suerte Cigar and Cigarette Factory to distribute its products.⁷
 - In 1993 Philip Morris Philippines was established to manufacture PMI’s brands in country.⁸
 - In 2000, PMI took over the distribution of its products in the Philippines.⁹
 - PMI invested \$300 million USD in its manufacturing plant in Tanauan, Batangas which produces cigarettes for the Philippines and exports to the rest of the Asia Pacific region. In addition to producing cigarettes, the plant also performs all leaf-related agronomy, logistics, planning and buying functions for the region.¹⁰
 - The Tanauan plant has the capability of producing 40 billion cigarettes a year.¹¹
- PMI continues to expand in the Philippines and in 2003 it acquired four local economy brands from Sterling Tobacco Corp.: *Bowling Green*, *Miller*, *Bowling Gold* and *Stork*.¹²
- PMI’s brands in the Philippines now include *Marlboro*, *Philip Morris*, *Bowling Gold*, *Miller*, *Bowling Green* and *Stork*.¹³
- PMI is the market leader in the Philippines and 95% of its market share by volume is made up of *Marlboro* brand sales which sold 26 million sticks in 2007.¹⁴
 - “In the Philippines, the total cigarette market increased 5.1% [in 2008]. Our shipment volume increased 4.9%, due mainly to the continued strong performance of *Marlboro*.”- PMI 2008 Annual Report¹⁵

Table 1: Company Market Shares (by Global Brand Owner) - Retail Volume - %

	2003	2004	2005	2006	2007
Philippines					
Cigarettes					
Philip Morris Cos Inc	33.2	34.6	34.2	33.8	34.4*
Japan Tobacco Inc	22.8	23.3	23.7	22.1	20.2
British American Tobacco Plc	10.2	10.8	10.6	9.7	10.6
Reynolds American Inc	-	9.8	8.7	7.7	8.1
Fortune Tobacco Corp	5.2	5.3	5.4	5.1	6.2
Mighty Corp	3.7	4	4.8	4.2	4.7
La Suerte Cigar & Cigarette Factory	7.2	4.3	1.6	1.1	2.4
Imperial Tobacco Group Plc	0.4	0.4	0.4	0.4	0.6
Gallaher Group Plc	4	2.1	0.5	0.6	-
RJ Reynolds Tobacco Holdings Inc	10.1	-	-	-	-
Reemtsma Cigarettenfabriken GmbH	-	-	-	-	-
Others	3.2	5.3	10.1	15.3	12.9
Total	100	100	100	100	100

Sources:

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*Marlboro's market share in 2007 was 32.8%

Changes in the Cigarette Market

- Since 2003, PMI has achieved a 12.4% increase in sales by volume from 24 billion sticks in 2003 to 27.3 billion sticks in 2007.

Table 2: PMI Volume Growth in Philippines, 2003-2007

	2003	2004	2005	2006	2007
PMI Cigarettes (Retail Volume, billion sticks)	24.0	25.3	25.3	25.9	27.3

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Market Targets

- As tobacco prices increase in the Philippines, PMI targets Filipinos with cheap cigarettes in 5-10 stick packs.
 - In the Philippines, 70% of cigarette sales are in single stick sales.¹⁶
 - Chris Nelson, managing director of Philip Morris Philippines Manufacturing Inc. (PMPMI) stated, "If you want to be competitive in the Philippines, you should be on the lookout for the changes in consumer [patterns]." To compete with lower-priced brands, PMPMI launched sachet-like packs with 5 and 10 sticks to make its premium brands more affordable.¹⁷
- Menthol cigarettes constituted 55% of the cigarette market in 2007.¹⁸
 - Menthol cigarettes are generally considered feminine but with such a large market share, menthols have become the cigarette of choice for Filipinos due to their taste appeal.



- Menthols appeal to young professionals because they are associated with “fresher” breath, eliminating one of the perceived drawbacks of smoking.¹⁹
 - PMI competes in this sector with *Marlboro Menthol Lights* and is expected to launch new products to remain competitive in the menthol sector.
- Examples of Advertising, Promotion and Sponsorship (preliminary list: country teams and grantees need to complete)
 - Concert: Eraserheads August 2008 (Filipino band)²⁰
 - People had to sign up on Marlboro’s “Red List” (a mailing list) to get tickets to the reunion concert
 - Promotion was in violation of the 2008 tobacco regulation law
 - A Marlboro airport smoking lounge in Boracay²¹



- Point of Sales display in a Filipino supermarket²²



Industry Interference

- Corporate Charitable Donations
 - In 2008, PMI donated over \$1.5 million USD to charity groups in Philippines.²³
 - Over \$670 thousand USD went to Philippine Band of Mercy, an organization that provides services and health care to children with cleft palates.²⁴

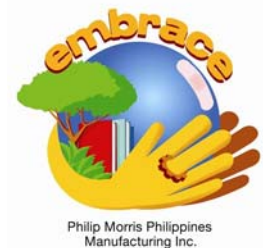
Table 3: PMI Charitable giving in Philippines

Organization	Project Name	US\$	Giving Area
Philippine Band of Mercy	Cigarette Butt Litter Campaign	49,201	Rural Sustainability
Philippine Band of Mercy	Sustaining the National Social Development Fund Y5	196,802	Human/Social Services
Philippine Band of Mercy	Support to Capacity Building Programs of RHRDC	49,200	Human/Social Services
Philippine National Red Cross	Disaster relief for Typhoon Mina	7,541	Disaster Relief
Philippine National Red Cross	Disaster relief for Typhoon Fran	45,310	Disaster Relief
Jamie V Ongpin Foundation	Cooperative Organizing & Capability Program	34,632	Hunger and Extreme Poverty
Philippine Band of Mercy	Support for the poor	375,940	Hunger and Extreme Poverty
Knowledge Channel Foundation Inc	Proficiency measures for quality education 2008	733,191	Education
American Chamber Foundation Philippines Inc	Additional development fund for child labor study	15,000	Rural Sustainability
Total		1,506,817	

Source: PMI 2008 charitable giving. Available from

<http://www.philipmorrisinternational.com/global/downloads/CI/List%20of%20charitable%20contributions%202008.pdf>

- Other Corporate Social Responsibility (CSR)
 - PMPMI was honored by the Philippine Business for Social Progress (PBSP) group that celebrates CSR in the Philippines.²⁵
 - PMPMI sponsors Brightleaf Agriculture Journalism Awards.²⁶



- There is no indication on awards' website that it is sponsored by PMPMI except for a photo in the "About The Awards" section that shows the banners with award logo with "Philip Morris" above it and the PMI logo.²⁷
- Among the categories for submissions are, "Tobacco Story of the Year" and "Tobacco Photo of the Year."

In Country Management

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¹ World Health Organization (WHO). World Health Survey: Report of Philippines. Geneva: WHO; 2003 [cited 2008 Feb 11]. Available from: <http://www.who.int/healthinfo/survey/whsphi-philippines.pdf>.

² WHO, 2003.

³ WHO, 2003.

⁴ Centers for Disease Control and Prevention (CDC). Global Youth Tobacco Surveillance, 2000-2007. CDC Morbidity and Mortality Weekly Report. 2008;57(SS-1); 1-28.

⁵ CDC, 2008.

⁶ Phillip Morris International Philippines homepage. [cited 2009 April 23]; Available from: <http://www.pmicareers.com/COUNTRY/phl/about.asp>

⁷ PMI Philippines homepage

⁸ PMI Philippines homepage

⁹ PMI Philippines homepage

¹⁰ PMI Philippines homepage

¹¹ Euromonitor International, (database online). London: Euromonitor; c2008 - (updated 2008 Nov). Local Company Report- Philip Morris Philippines Manufacturing Inc.

¹² Euromonitor Local Company Report, 2008

¹³ Euromonitor International, (database online). London: Euromonitor; c2009 - (updated 2008 Nov). Industry reports: Cigarettes- Philippines.

¹⁴ Euromonitor International (database online). c2009.

¹⁵ Philip Morris International (PMI). 2008 annual report. New York: PMI; 2009. Available from: <http://investors.philipmorrisinternational.com/phoenix.zhtml?c=146476&p=irol-reportsannual>.

¹⁶ Philippines market still very positive. Tobacco Reporter Magazine. Feb 2008. Available from http://www.tobaccoreporter.com/home.php?id=119&cid=4&article_id=10777

¹⁷ Philip Morris sees smokers' shift to cheaper cigarettes. abs-cbnNEWS.com. Oct 29, 2008 <http://www.abs-cbnnews.com/business/10/29/08/philip-morris-sees-smokers%E2%80%99-shift-cheaper-cigarettes>.

¹⁸ Euromonitor Cigarette Report, 2008.

¹⁹ Euromonitor Cigarette Report, 2008.

²⁰ Ayson J. Philip Morris comes clean- release details on Eraserheads reunion concert. PhilMusic.com. 2008 Aug 12 [cited 2009 April 23]. Available from: <http://philmusic.com/main/content/view/179/7/>

²¹ Taken by Yul Dorotheo

²² Taken by Yul Dorotheo

²³ Philip Morris Corporate Charitable Donations. 2008. Available from: <http://www.philipmorrisinternational.com/global/downloads/CI/List%20of%20charitable%20contributions%202008.pdf>

²⁴ Philippine Band of Mercy homepage. [cited 2009 April 23] Available from: <http://www.philbandofmercy.org/index.htm>

²⁵ Philippines Business and Social Programs. A better life: stories of corporate social responsibility. 2008 July 18 [cited 2009 April 23]. Available from: <http://pbsp-abetterlife.blogspot.com/2008/07/philip-morris-manufacturing-philippines.html>

²⁶ Brightleaf Agriculture Journalism Awards homepage. 2009 [cited 2009 April 23]. Available from: <http://www.brightleafawards.com/index.html>

²⁷ Brightleaf Agriculture Journalism Awards- about the awards. 2009 [cited 2009 April 23]. Available from: <http://www.brightleafawards.com/about.html>