Portfolio Management Optimisation DF Data & Solutions COE, April 2023

Introduction

Aim to create a single scoring methodology to assess the potential opportunities to improve the product range across all DF locations globally

Currently there isn’t a single consistent way to measure the current product range in each location.

Majority of effort today is on driving new product launches throughout the year, as well as running the DFPO (SKU rationalisation) process once a year ahead of KIS.

Outside of this only the top locations are focused on, meaning there is potentially value left on the table that could be captured through range optimisation.

Scoring Approach

Four measures are considered to calculate the overall score for each location

We will score each location by taking the average score across 4 measures:

1. Current Range :

A measure of the currently active PMI SKU range. Largest volume SKUs and a combination of SKUs contribution well to category growth and those being margin accretive and categorized as green, vs. the opposite SKUs being categorized as red.

1. Category Segments

A measure of the number of PMI SKUs in each SKU segment vs competition. The percentage of PMI SKUs in each segment are plotted against the competition percentage of SKUs. The R² is taken as the score (i.e. how similar the range is spread across the category segments).

1. Passenger Mix

A measure of the ideal segmentation of SKUs based on PAX. Results from PARIS are used to plot PMI share of market vs the “ideal” share of market, based on passenger domestic preference.

1. Location Cluster

A measure of the segmentation of similar DF locations. A similar approach to the category segments measure, but instead of vs competition, it is vs. the SKUs across the cluster of DF locations that are like the focus location. The aim of this approach is to keep the methodology simple, consistent and scalable across all DF locations, that is easy to continuously update and monitor progress.

Scoring Methodology

Combination of flagging specific SKUs and correlations between current range and comparison ranges are used to calculate each score

1. Methodology to score part A An individual flagging approach of SKU performance is used to calculate the score

A graph with different colored stripes

Description automatically generated

Colours represent location scores from 0 (red) to 10 (green), based off percentage green & red flagged SKUs.

Score calculation: (# green – 2\*# red) / total # SKUs = score between -200% and +100% Scaled to get a final score between 0 and 10.

1. Methodology to score parts B-D:

The correlation R² comparison of the two ranges is directly used as the score

A graph of a graph of a graph

Description automatically generated with medium confidence

Global Summary

Target is to score every DF location in the same way, so we can analyse the global view & identify locations with the greatest improvement potential

Example global heat map | Enables us to zoom-in and focus on the priority locations Each location will be plotted on a heat map, so we can clearly understand the global view.

A map of the world with different colored dots

Description automatically generated

Ability to zoom-in to each location and target ourselves improvement levels for the locations with the greatest potential opportunity.

Initially we will deep-dive into Zurich, as an example use-case.

Current Range

Zurich score for the current PMI range is 6.97 out of 10

SKU comparison | Each bubble represents an individual product

A diagram of circles and lines

Description automatically generated

Detailed breakdown | Current product range

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Flag | Brand | SKU | Volume | Growth | Margin |
| 🟢 | Marlboro | Gold (3.5) Ks Rcb 400 Transparent Bundle | 8.0 | 12.6% | 87.1% |
| 🟢 | Marlboro | Gold (3.0) Ks Rcb 240 | 6.5 | 58.4% | 88.3% |
| 🟢 | Marlboro | Gold (3.5) Ks Rcb | 5.6 | -4.8% | 88.4% |
| ⚪️ | Marlboro | Vibe Beyond Ks Box C Transparent Bundle White | 3.7 | 56.3% | 88.4% |
| ⚪️ | Marlboro | (Red Fwd) Ks Box 400 Transparent Bundle White | 2.8 | 52.9% | 87.1% |
| ⚪️ | Muratti | Ambassador Ks Rcb Transparent Bundle White | 2.5 | 72.6% | 89.1% |
| 🟢 | Chesterfield | Original (4.0) Ks Box 240 Special Outer | 2.3 | - | 84.0% |
| ⚪️ | Marlboro | Gold (3.5) Ks Rcb 600 Special Outer | 2.1 | 960.9% | 85.9% |
| 🔴 | Chesterfield | Original (4.0) Ks Box Transparent Bundle | 2.1 | -1.6% | 84.0% |
| ⚪️ | Marlboro | (Red Fwd) Ks Box 240 | 1.9 | 89.0% | 88.3% |
| ⚪️ | Philip Morris | Quantum Blue Ks Rcb 240 Transparent Bundle | 1.8 | 78.9% | 89.2% |
| ⚪️ | Marlboro | (Red Fwd) Ks Box White | 1.8 | 53.9% | 88.4% |
| ⚪️ | Philip Morris | Quantum Blue Ks Rcb | 1.3 | 43.7% | 89.2% |
| 🟢 | Marlboro | Beyond Blue (2.0) Ks Box C White | 1.2 | - | 88.4% |
| ⚪️ | Marlboro | (Red Fwd) Ks Box 600 Special Outer White | 1.1 | 61.1% | 85.9% |
| ⚪️ | Philip Morris | Quantum One Ks Rcb 240 Transparent Bundle | 1.0 | 92.7% | 89.2% |
| ⚪️ | Philip Morris | Quantum One Ks Rcb | 0.9 | 62.4% | 89.2% |
| ⚪️ | L&M | Blue Label (5.0 Cwb) Ks Rcb Transparent Bundle | 0.8 | - | 88.1% |
| ⚪️ | Marlboro | Menthol (2.0) Menthol Ks Box | 0.7 | 113.8% | 88.3% |
| 🟢 | Marlboro | Gold (3.5) Ks Rcb (Promo) | 0.2 | - | 88.4% |
| ⚪️ | Marlboro | Red 3.5 Ks Box (Promo) White | 0.1 | - | 88.4% |
| 🔴 | Marlboro | (Gold 3.0) Ks Rcb 600 | 0.0 | -99.6% | 85.9% |

Notes:

1. 2022 FY volume (M sticks)

2. Avg monthly revenue '22 vs '21 (%)

3. 2022 FY margin %

Category Segments

Zurich score for the current PMI range vs the category segments is 7.68 out of 10

Comparison of SKU segmentation | PMI range vs competitor range

A graph of different types of lines

Description automatically generated with medium confidence

Correlation between lines, R² = 7.68

Detailed breakdown | Split by the category segments

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Flavour | Taste | Thickness | Length | PMI SKUs | PMI SKU % | Comp. SKUs | Comp. SKUs % | SKU % Delta |
| Regular | Full Flavour | Standard | King Size | 8 | 36.4% | 47 | 45.2% | -8.8% |
|  |  |  | 100's | - | - | 4 | 3.8% | -3.8% |
|  |  | Super Slim | 100's | - | - | 4 | 3.8% | -3.8% |
|  |  |  | Longer than KS | - | - | 1 | 1.0% | -1.0% |
|  |  | Slim | 100's | - | - | 3 | 2.9% | -2.9% |
|  | Lights | Standard | King Size | 8 | 36.4% | 20 | 19.2% | 17.1% |
|  |  |  | 100's | - | - | 1 | 1.0% | -1.0% |
|  | Ultralights | Standard | King Size | 2 | 9.1% | 8 | 7.7% | 1.4% |
|  | 1mg | Standard | King Size | 1 | 4.5% | 1 | 1.0% | 3.6% |
| Menthol | Full Flavour | Super Slim | 100's | - | - | 3 | 2.9% | -2.9% |
|  |  | Standard | King Size | - | - | 2 | 1.9% | -1.9% |
|  |  | Slim | 100's | - | - | 1 | 1.0% | -1.0% |
|  | Lights | Standard | King Size | 1 | 4.5% | - | - | 4.5% |
| NTD | Full Flavour | Standard | King Size | - | - | 5 | 4.8% | -4.8% |
|  | Lights | Standard | King Size | 1 | 4.5% | - | - | 4.5% |
| Menthol | Full Flavour | Standard | King Size | - | - | 3 | 2.9% | -2.9% |
| Caps |  |  | 100's | - | - | 1 | 1.0% | -1.0% |
|  | Lights | Standard | King Size | 1 | 4.5% | - | - | 4.5% |
|  |  |  |  | 22 | 100.0% | 104 | 100.0% | - |

Notes:

1. Count of active PMI SKUs

2. Percentage of PMI SKUs in each segment (%)

3. Count of active competitor SKUs

4. Percentage of competitor SKUs in each segment (%)

5. Difference between PMI SKU % and competitor SKU %

Passenger Mix

Zurich score for the current PMI SoM vs the ideal segments SoM based off the mix of passenger domestic category sales is 9.78 out of 10

Comparison of SoM segmentation | PMI SoM vs PAX-driven “ideal” SoM

A graph with blue lines and white text

Description automatically generated

Correlation between lines, R² = 9.78

Detailed breakdown | Split by the category segments

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Flavour | Taste | Thickness | Length | PMI SoM | Ideal SoM | SoM Delta |
| Regular | Full Flavour | Standard | King Size | 45.4% | 42.6% | -2.7% |
|  |  |  | 100's | 0.1% | 5.3% | 5.2% |
|  |  | Super Slim | 100's | 4.3% | 2.7% | -1.7% |
|  |  |  | King Size | - | 0.2% | 0.2% |
|  |  | Slim | King Size | - | 1.4% | 1.4% |
|  |  |  | 100's | 1.3% | 0.6% | -0.7% |
|  | Lights | Standard | King Size | 33.6% | 29.9% | -3.7% |
|  |  |  | 100's | 0.0% | 2.9% | 2.9% |
|  |  | Slim | King Size | - | 1.1% | 1.1% |
|  |  |  | 100's | - | 0.4% | 0.4% |
|  |  | Super Slim | 100's | - | 1.0% | 1.0% |
|  | Ultralights | Standard | King Size | 3.2% | 4.2% | 1.0% |
|  |  |  | 100's | - | 0.7% | 0.7% |
|  |  | Super Slim | 100s | - | 0.2% | 0.2% |
|  | 1mg | Standard | King Size | 1.1% | 0.4% | -0.7% |
|  | Regular Subtotal |  |  | 89.0% | 93.5% | 4.5% |
| Menthol Caps | Full Flavour | Standard | King Size | 4.8% | 2.3% | -2.5% |
|  |  | Slim | King Size | - | 0.3% | 0.3% |
|  |  |  | 100's | - | 0.1% | 0.1% |
|  |  | Super Slim | 100s | 0.7% | 0.3% | -0.4% |
|  | Lights | Standard | King Size | 1.4% | 0.8% | -0.6% |
|  |  | Super Slim | 100's | - | 0.2% | 0.2% |
|  |  | Slim | King Size | - | 0.2% | 0.2% |
|  | Menthol Caps Subtotal |  |  | 6.9% | 4.2% | -2.7% |
| Menthol | Full Flavour | Standard | King Size | 0.2% | 0.4% | 0.2% |
|  |  |  | 100's | - | 0.1% | 0.1% |
|  |  | Super Slim | 100's | 0.2% | 0.3% | 0.1% |
|  | Lights | Standard | King Size | 0.7% | 0.2% | -0.5% |
|  | Menthol Subtotal |  |  | 1.1% | 1.0% | 0.1% |
| NTD | Lights | Standard | King Size | 2.8% | 0.4% | -2.4% |
|  | Full Flavour | Standard | King Size | - | 0.2% | 0.2% |
|  | NTD Subtotal |  |  | 2.8% | 0.6% | -2.3% |
|  | TOTAL |  |  | 99.9% | 99.3% | 0.5% |

Notes:

1. Volume share of market of PMI SKUs

2. Volume SoM of ideal SKUs in each segment, from PARIS analysis that calculates domestic SoM, weighted by PAX

3. Difference between PMI SoM and ideal SoM. Totals <100% due

Location Cluster

Zurich score for the current PMI range vs the category segments across similar DF locations is 8.28 out of 10

Comparison of SKU segmentation | PMI range vs clustered DF locations

A graph of different types of data

Description automatically generated with medium confidence

Similar locations to Zurich, based on PAX mix, brand family mix and geographical location: Basel (92.4%) • Vienna (85.9%) • Florence (85.8%) • Barcelona (85.0%) •

Correlation between lines, R² = 8.28

Detailed breakdown | Split by the category segments

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Flavour | Taste | Thickness | Length | PMI SKUs | PMI SKU % | Cluster SKUs | Cluster SKUs % | SKU % Delta |
| Regular | Full Flavour | Standard | King Size | 8 | 36.4% | 95 | 49.2% | -12.9% |
|  |  |  | 100's | - | - | 6 | 3.1% | -3.1% |
|  |  | Super Slim | 100's | - | - | 7 | 3.6% | -3.6% |
|  |  |  | Longer than KS | - | - | 1 | 0.5% | -0.5% |
|  |  | Slim | 100's | - | - | 2 | 1.0% | -1.0% |
|  | Lights | Standard | King Size | 8 | 36.4% | 44 | 22.8% | 13.6% |
|  |  |  | 100's | - | - | 1 | 0.5% | -0.5% |
|  |  | Slim | King Size | - | - | 2 | 1.0% | -1.0% |
|  |  | Super Slim | 100's | - | - | 1 | 0.5% | -0.5% |
|  | Ultralights | Standard | King Size | 2 | 9.1% | 14 | 7.3% | 1.8% |
|  | 1mg | Standard | King Size | 1 | 4.5% | 2 | 1.0% | 3.5% |
| Menthol | Full Flavour | Standard | King Size | - | - | 3 | 1.6% | -1.6% |
|  |  |  | 100's | - | - | 1 | 0.5% | -0.5% |
|  |  | Super Slim | 100's | - | - | 2 | 1.0% | -1.0% |
|  | Lights | Standard | King Size | 1 | 4.5% | 1 | 0.5% | 4.0% |
|  | Menthol Subtotal |  |  | 1 | 4.5% | 7 | 3.6% | 0.9% |
| NTD | Full Flavour | Standard | King Size | - | - | 3 | 1.6% | -1.6% |
|  | Lights | Standard | King Size | 1 | 4.5% | 1 | 0.5% | 4.0% |
|  | NTD Subtotal |  |  | 1 | 4.5% | 4 | 2.1% | 2.5% |
| Menthol Caps | Full Flavour | Standard | King Size | - | - | 3 | 1.6% | -1.6% |
|  |  | Super Slim | 100's | - | - | 1 | 0.5% | -0.5% |
|  | Lights | Standard | King Size | 1 | 4.5% | 2 | 1.0% | 3.5% |
|  | Menthol Caps Subtotal |  |  | 1 | 4.5% | 6 | 3.1% | 1.4% |
|  | TOTAL |  |  | 22 | 100.0% | 192 | 100.0% | - |

Notes:

1. Count of PMI SKUs in Zurich

2. Percentage of PMI SKUs in each segment (%)

3. Count of SKUs in cluster (i.e. Basel, Vienna, Florence & Barcelona)

4. Percentage of cluster SKUs in each segment (%)

5. Difference between PMI SKU % and cluster SKU %

Overall Score

Overall, Zurich’s score of 8.18 is strong with only minor finetuning opportunities to improve

A) Current Range : A measure of the currently active PMI SKU range 6.97

B) Category Segments : A measure of the number of PMI SKUs in each SKU segment vs competition 7.68

C) Passenger Mix : A measure of the ideal segmentation of SKUs based on PAX 9.78

D) Location Cluster: A measure of the segmentation of similar DF locations 8.28