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MARKETING

Leader Of The Packs

Marlboro is still smokin' at 50, thanks to buzz marketing

On Nov. 5, carefully selected invitation-only crowds of a few hundred people each will gather in 49 cities around the country for a glitzy, star-studded birthday bash. In New York, audiences will listen to rocker Lenny Kravitz. In Chicago, they'll hear pop from John Mellencamp. And in Miami they'll be dancing to Marc Anthony.

What's all the fuss about? Marlboro cigarettes. The smokes as we know them turned 50 this year, and to wrap up a year of promotions and parties, Philip Morris USA Inc. and parent company Altria Group Inc. () have pulled out the stops.

There may be a cloud of condemnation hanging over cigarettes, but the companies nonetheless have plenty to celebrate. Long the U.S. market leader, Marlboro has been hitting all-time highs this year. Despite the sharp advertising restrictions agreed to by cigarette marketers in 1998 and a dramatic rise in state excise taxes since 2002, Marlboro is galloping ahead of the competition. The brand, which commands an average $3.28 per pack, now owns more than 40% of the market, up more than 21/2 percentage points in as many years. That surge has driven a broader gain for Philip Morris overall, which also makes Virginia Slims, Parliament, and other brands, and added significantly to the company's profits, possibly more than $200 million a year.

Marlboro became one of the world's most valuable brands the old-fashioned way -- traditional mass marketing. For decades, Chicago ad shop Leo Burnett burned Marlboro into the consumer psyche with TV, magazine, and billboard images of freedom and cool personified by the rugged, horse-riding, Stetson-wearing cowboy.

But if Marlboro got to the top using an old tool kit that's now restricted, it's holding on to that spot with a blend of tactics for the new age: so-called "buzz" marketing at live events and bars that spur Internet chatter and sign-ups for promotional offers; a Web site where smokers sign up for a chance at discounts and bling; plus a healthy dollop of price promotions and direct mail. Philip Morris does not disclose how much it spends promoting the brand, but the company says it has been spending less on marketing in general each year. That's in contrast to the rest of the industry. In 2003, more than $15 billion was spent on marketing cigarettes in the U.S., according to the most recent data from the Federal Trade Commission -- a 21% jump over 2002.

One hot spot in Marlboro's marketing is a growing database of 26 million smokers to whom it sends everything from birthday coupons to the chance to attend events like November's birthday concerts. Indeed, Marlboro isn't just a brand, it's an exclusive club for its devotees, who wouldn't miss an opportunity for a discount and often feel victimized by social pressure and no-smoking laws. The average consumer, for instance, might even have missed Marlboro's birthday altogether: The only mass-market evidence of it was two two-week runs of cigarette packaging featuring a special anniversary cover and some signs in stores.

FREE DRINKS

But to those in the loop, it has been much more of a celebration. A special booklet of 50 Marlboro prizes -- everything from a Zippo lighter to a live quarterhorse -- was mailed to the Marlboro faithful. Some of the prizes can be bought with Marlboro Miles earned on each pack bought. Others are awarded by sweepstakes. Marlboro arranges special trips to a ranch it owns in Montana, where vacationers are showered with gifts, eat five-course meals, drink for free, and enjoy massages, snowmobiling, horseback riding and the like, all on the company tab.

Such extravagance builds loyalty that's hard for rivals to dent. "I'd never smoke another brand of cigarette," says Michael Thomsen, a 30-year-old pack-a-day smoker from Wake Forest, N.C., who runs his own home-repair business. Thomsen got a ranch trip for his birthday last year and has also won breakfasts out, and a day at the races in Richmond, Va. He is waiting to hear if he won a ticket for one of the concerts.

Built by company field reps who stake out bars, as well as through Internet sign-ups and calls to an 800 number, the Marlboro database populates events with smokers who often feel under siege in an increasingly smoke-free world. Marlboro's Outwit The West contest taps that mindset perfectly. Part scavenger hunt, part trivia game, it is all about the American West, Marlboro's marketing home turf. Teams of four compile answers, and the winners get $1 million. "A whole online community sprung up around it, and I made a lot of friends from it," says Eric Reynolds, 26, a systems administrator who lives in Longview, Tex. He didn't win the prize.

Antismoking advocates may find it ironic that Philip Morris has become a more deft and efficient marketer as a result of the legal settlement that sought to hobble the cigarette makers. Back in 1998 the Master Settlement Agreement (MSA) with the state attorneys general ended tobacco advertising in most of its traditional forms. But by forcing Marlboro to go viral, be aggressive in retail stores, and be more creative in its media plan, it put the company on a successful path now being followed by every marketer from General Motors () and Audi to AXE deodorant. Today, all kinds of companies are pursuing similar viral marketing campaigns that draw consumers into brand communities. Marketing expert Dave Balter, founder of BzzAgent, a Boston-based public-relations company, and author of *Grapevine: The New Art of Word-of-Mouth Marketing*, says tobacco ad restrictions have forced a sell job that is more effective in the media-saturated world.

Marlboro can well afford to scoop smokers up with high-priced rewards. Even after the cost of defending the myriad lawsuits against it, the tax bite the government takes, and the billions tobacco companies are paying to states for medical costs under the MSA, cigarette makers can charge a high enough price to earn a healthy profit. Merrill Lynch & Co. () analyst Christine Farkas expects operating margins for the company overall to reach 28% next year, from 26% in 2004, as net income grows to an estimated $11.4 billion on $66.3 billion in sales in the U.S. and abroad. That's twice the current operating margin of well-run companies like General Electric () and ExxonMobil () and also well beyond Procter & Gamble's () 19% margin this year.

Contests and rewards may keep smokers loyal, but to add new acolytes, marketing experts say some low-tech means of persuasion are also important -- most notably in-store promotions, price cuts, and other deals. According to the Federal Trade Commission, of the $15 billion in tobacco marketing in 2003, some 80% was spent on discounts and incentives to retailers. "The ballgame's in the store," says Marvin E. Goldberg, a marketing professor at Penn State.

Marlboro is winning that one, too. Coney Elliott, who runs 22 Kent Kwik Convenience Stores in and around Midland, Tex., pays $5.50 less for a carton of Marlboros than a carton of Camels. He has agreed to a deal that gives Philip Morris 66% of his cigarette shelf space and, he estimates, about 80% of the tobacco display at his local Wal-Mart () is also Philip Morris. Marlboro is by far the dominant brand in his market, but he says Philip Morris also offers him a better deal than competitors, including R.J. Reynolds.

Health experts are gratified at the lower levels of smoking in the U.S. these days, but they and others still have plenty of criticism for Marlboro's tactics. In its pending RICO case against the company and others, the Justice Dept. has argued that Philip Morris knowingly marketed to underage people in its database, a charge the company denies.

Rivals are unhappy too, and complain that the ad restrictions leave them with little chance of closing Marlboro's lead. R.J. Reynolds Tobacco Co.'s Executive Vice-President of External Relations Tommy J. Payne says his company uses some of the same direct marketing tactics as Philip Morris, but the mass market restrictions still hurt. "If you have 50% of the domestic market and the ability of your competition to react to that [is limited], you don't have to have a Harvard MBA school degree to know who benefits," he says. "It's the bigger brand." And Marlboro is growing despite the fact that Philip Morris has self-imposed a tougher restriction on ads than the law requires, volunteering to keep ads out of magazines altogether. If the tactics are unpopular, it's in no small part because they're working so well.

By Nanette Byrnes in New York