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## Philip Morris' Global Race

**Freed from Altria, Philip Morris International CEO Louis Camilleri is pushing hard to boost global sales before U.S.-style tobacco restrictions spread**

By [Nanette Byrnes](#) and [Frederik Balfour](#)

Louis C. Camilleri rarely shows his joy. But stepping into the role of CEO of the newly formed Philip Morris International ([PM](#)) (PMI) last March put him in a mood to celebrate. Gone from his life were the 129 active lawsuits of the U.S. business, which would remain under the banner of Altria Group ([MO](#)), where he had been CEO for six years. Instead of worrying about the slow death of the U.S. tobacco industry—spiraling taxes, smoking bans, and antismoking ads featuring body bags and black lungs—he could focus on new places to sell cigarettes from a sleek new operating base overlooking Switzerland's Lake Geneva and the Alps of Savoie. "This is the job I always wanted," Camilleri, 54, told staff. "I just had to break up the company to get it."

Unbound from Altria, Camilleri has poured his energies into ramping up sales in overseas markets where smoking is still a growth industry and a tobacco exec isn't viewed as a social pariah. Over the past year he has launched seven new variations on Marlboro alone, including Marlboro Black Menthol in Japan and a super-slim variant in Russia and Eastern Europe. He inked a deal with Stockholm-based Swedish Match to market smokeless tobacco worldwide. His biggest coup: the August launch of Marlboro in China, home to a third of the world's 1 billion smokers, through a joint venture with China National Tobacco. That helped sales jump 13% in 2008, to \$26 billion, while profits rose 14%, to \$7 billion, despite a worldwide recession. "If these guys were in any other industry," notes analyst Christian Eddleman of Argus Research, "theirs would be pointed to as the way to execute a long-term strategy."

But the forces that dogged Camilleri in the U.S. increasingly threaten to cramp his freedom overseas. On the first anniversary of the Marlboro maker's split, Camilleri faces a complicated landscape, with rising anti-tobacco pressures and a familiar set of adversaries. He's racing to sell more cigarettes in more countries around the world. Just as Altria was spinning off PMI to get away from U.S. liabilities and other issues, billionaires Michael Bloomberg and Bill Gates pledged \$500 million to fund antismoking campaigns in emerging markets. Meanwhile, governments in developing nations are gradually coming around to the view that tobacco use should be discouraged through smoking bans, tax hikes, and marketing restrictions. In a world connected by the Internet, Camilleri knows he can't escape being cast in a harsh light for selling what he concedes is "a very harmful product," one the World Health Organization says will kill 5.4 million people this year.

Such restrictions arguably make it more critical for Camilleri to strike fast. Marlboro is the only true international cigarette brand. But while it holds a 42% share in the U.S., PMI has less than 16% of the global market, so there's room to grow. Camilleri is unapologetic about hawking a product known to cause cancer. He's not trying to woo new smokers, he says, just encourage existing ones to switch to higher-quality cigarettes.

Born in Alexandria, Egypt, in 1955, a product of British boarding schools and the University of Lausanne, Camilleri joined Philip Morris in 1978. He's sold cigarettes ever since, spending the first 18 years of his career in overseas markets before coming to New York in 1996 as chief financial officer. As CEO, he sold off Miller Brewing in 2002, renamed the company Altria a year later, and spun off Kraft Foods ([KFT](#)) in 2007, moves that many say were aimed at leaving behind the taint of tobacco. Camilleri, though, says he loves what he does: "It's a great job. It's a fun job as well." A longtime smoker himself, Camilleri has quit just once, three years ago when he had a cold. He took it up again after three months "for no real reason other than that I enjoy it." Quitting, he says, "wasn't that difficult."

With his boxy suit jacket and thick glasses, Camilleri comes off in his first interview since the split as more like a reserved accountant than one of the bad boys of Big Tobacco. Colleagues say he can often be found in his office, poring over dense reports for hours while smoking his signature Marlboro Ultra Lights—something he can't do in New York, where the city's smoking ban means he has to stand outside to light up. "He spends an enormous amount of time alone," observes one recently departed exec, adding that Camilleri seems to prefer sending back material with written comments to meeting with the person who wrote it. Board member Steven Wolf, former chief of US Airways ([LCC](#)), says Camilleri "knows market share in countries you and I have never heard of."

## "SOCIALY RESPONSIBLE"

Camilleri doesn't deny the moral challenges of selling cigarettes in the 21st century. PMI pays a premium to attract top talent, analysts say, and the CEO travels by corporate plane for security. Camilleri concedes that smoking causes disease and acknowledges growing pushback against his life's work. The tobacco chief claims to welcome curbs on advertising so long as they don't crimp his ability to market directly to adults. In his eyes, PMI cleaves to a higher moral standard than some competitors. The company doesn't mark its Formula One cars with the Marlboro logo, he notes, nor does it advertise on the back cover of magazines. Others do. "[We're] being very socially responsible in a rather controversial industry," he says.

What angers him is that none of this is acknowledged in public-health circles, that his company is left out of the tobacco debate while fast-food operators are allowed to comment on obesity issues. Critics focus on smoking rates. What about the dangers of counterfeit products and lost tax revenue if the industry is pushed underground? "If I shut down all the factories tomorrow," says Camilleri, "people aren't going to stop smoking." Instead of trying to "actually reduce the harm caused by smoking," he argues, activists are trying to "demonize the tobacco industry."

For a sense of why, head to Indonesia, where PMI has grown quickly in recent years. Unlike many parts of the world, the country has no laws restricting the sale of tobacco products to minors. And PMI's higher moral standards are hard to spot as its tobacco advertising is ubiquitous. In Jakarta, the Marlboro man rides his horse across giant billboards advertising Marlboro Mix 9, a machine-rolled cigarette with tobacco and cloves that mimics the popular local kretek cigarettes. Marlboro-sponsored kiosks dot street corners. Camilleri's local brands are hawked through nighttime TV ads, many of which equate smoking with romance and a life of adventure. PMI products are plastered on umbrellas, storefronts, and billboards on roads from the terraced rice paddies of Java to the jungles of Sumatra. As it did in the U.S., the company runs adult-only events like the "Marlboro X2 Red Racing Experience"—complete with young women in slim satin outfits twirling oversized white umbrellas boldly marked Marlboro. In 2007, PMI had \$2.7 billion of sales in Indonesia and spent \$220 million on marketing and related costs.

In a country of 237 million, where almost a third of the population is under 15, nearly 50 million people smoke. According to a recent study funded by the Bloomberg-Gates initiative, smoking rates are rising fastest among the young, with rates among Indonesian males age 15 to 19 up 139% between 1995 and 2004. Data tracker Euromonitor International predicts 10% more Indonesians will take up smoking by 2012.

Arista Nanda Permatasari, 16, shows why the market holds such potential. On a break from Jakarta's upscale High School No. 6, Arista runs to a brightly colored cart parked just outside the schoolyard to buy a pack of Marlboro Reds for 75 cents. Tens of thousands of such vendors dot the country, many of whom also sell gum and sugary sodas. A little later, Arista, wearing knee socks, a baby-blue uniform, and braces, settles into a leatherette sofa at the nearby QNET café to gossip with friends, drawing deeply on a cigarette. "It's cool to smoke Marlboros," she explains. Kretek cigarettes, a mixture of two-thirds tobacco and one-third clove, are still the smoke of choice for most Indonesians, especially men, but machine-rolled Western cigarettes have an aura of glamour. Arista, who began smoking at 15 when her older sister gave her a Marlboro menthol, knows from anti-tobacco programs in her school that smoking is unhealthy. "I will try to stop," she says, "maybe when I'm 17."

Camilleri claims no prize in Arista. The divorced father of three, one of whom is still in high school, says if he had the chance to talk to Arista and her friends he'd "tell them exactly what I told my kids and continue to tell my kids: I don't think they should smoke." Camilleri says his kids don't smoke.

But to health advocates, much of what PMI does in Indonesia seems at odds with Camilleri's stated position. The company has invested heavily in promoting its local brands, which make up 84% of its Indonesian sales, through rock concerts and sponsored sports events. "We felt it was very important that we not lose our competitive edge in any way," Camilleri explains. While he says the company supports broad marketing restrictions, he's not about to let others profit from Indonesia's growing tobacco addiction. He doesn't want a repeat of Kazakhstan. A decade ago, PMI dropped TV ads, only to lose its No. 1 spot. "We put ourselves at a huge competitive disadvantage," he says. "That is something I'm not willing to repeat."

Without pause, he rattles off evidence of PMI's success in Indonesia: 360,000 retailers carrying its products, the 60,000 contract workers employed to make them. The company bought local kretek maker PT HM Sampoerna for \$5.2 billion in 2005, which has since helped it grow from less than 10% of the cigarette market to nearly 30%. PMI now makes its own Marlboro-branded kreteks along with regular cigarettes, and built a new \$220 million factory outside Jakarta that opened last fall.

One person who's fighting Camilleri's aspirations in Indonesia is a law school graduate named Dina Kania. At 24, she has taken up the anti-tobacco cause through the Jakarta-based National Commission for Child Protection. Armed with an undisclosed amount of cash from the Bloomberg/Gates grants and training by U.S. activists, she's now trying to curb advertising while mobilizing public support for an advertising ban.

## **AN UPHILL BATTLE**

The year Altria bought Sampoerna, Kania traveled to the company's annual meeting in a New Jersey facility to voice her worries to Camilleri. Over the years the meeting had become an endurance contest of sorts, with Camilleri taking question after question from activists, some covered head to toe in black chiffon to symbolize death. When Kania got to the microphone, he told her she should be glad his company was purchasing Sampoerna because it would behave ethically.

Four years later, Kania says just the opposite is true. She argues that PMI has increased competition and has infused cigarette marketing with youthful themes. "PMI is so creative and aggressive it makes the other companies do the same things," says Kania. "They raised the stakes."

Kania acknowledges that she's fighting an uphill battle—her own brother took up smoking at 15—but she can already point to at least one victory. In July, PMI was forced to pull all promotional materials for one of its Sampoerna brands out of an Alicia Keys concert in Jakarta after Kania brought it to the attention of Keys' handlers. The singer threatened to pull the plug on the event unless the cigarette maker backed out.

Kania and her counterparts around the globe get guidance from the anti-tobacco forces that spent decades whittling down the U.S. markets. Her mentor, Matthew L. Myers, has battled the industry for decades. He is administering much of the Bloomberg/Gates money through his Washington-based group, the Campaign for Tobacco-Free Kids. So far, they have made 178 grants worth \$125 million in 38 countries. Unlike his wealthy benefactors, who decline to comment on individual company actions, Myers seems to relish the chance to face off anew against his old nemesis on the global stage, targeting the concerts as a blatant practice of a double standard. "Philip Morris has been diabolically brilliant in the way it markets Marlboro," says Myers. Its focus on emerging economies, he adds, "has the potential to be one of the most devastating actions impacting public health." While there have been some gains over the past year, with public smoking bans in such unlikely spots as Beijing and Amsterdam, it's hard to battle the prowess of PMI.

Camilleri brings decades of experience to the tobacco wars. To tap into markets like Russia, he's focused on bringing out new products that have a youthful air. The last thing he wants is for his marquee brand to

become known as "Dad's smoke." He compares Marlboro to brands like Nike ([NKE](#)) and Apple ([AAPL](#)), which rely on peer influence: "One of the key consumer engagement theories is brand ambassadors, right? People associate themselves with [the attributes of] those individuals." New cigarettes, he adds, can have a halo effect that reinvigorates the "brand family."

If his product were anything other than cigarettes, Camilleri might be hailed as a role model in how to build a global business. He spent years courting Chinese ministers to strike his deal to distribute Chinese brands into foreign markets in exchange for the right to make Marlboros for the mainland market, and has built a powerhouse brand in Marlboro. Although the stock is down 26% since the split, analysts like Argus's Eddleman remain optimistic. "This is the way to build an international market," he says. "But there's always a whiff of brimstone when it comes to Philip Morris."