



It's Not Your Father's Marlboro

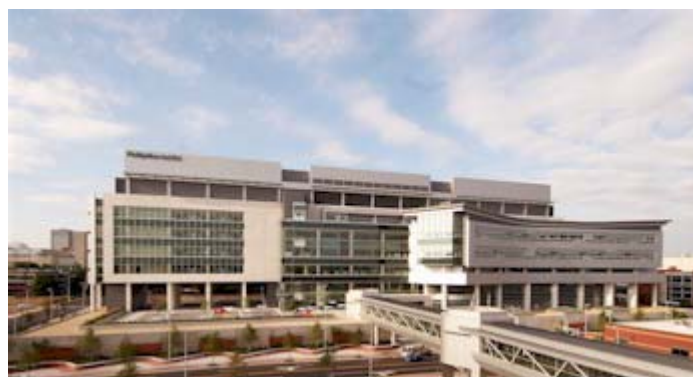
At the Center for Research and Technology in downtown Richmond, Philip Morris USA is reinventing the tobacco industry. In the pipeline: smokeless tobacco products and, hopefully, cigarettes that cause less harm.

By James A. Bacon

Dr. Richard Solana is a big wheel at Philip Morris USA. As senior vice president of research & technology, he is overseeing a doubling of the research budget for the \$17 billion-a-year tobacco giant that entails the recent construction of the \$350 million Center for Research and Technology in downtown Richmond and filling it with some 500 scientists, engineers and support staff. To a remarkable degree, the future of the company is in Solana's hands: Philip Morris is looking largely to this non-smoker to develop new tobacco-related products -- less harmful, if possible -- to compensate for the steady erosion of cigarette consumption in the United States.

But you'd never imagine how senior Solana is in the Philip Morris organization from

walking past his nondescript office on the fourth floor of the research center. The space measures 10 feet square, with barely enough room for a desk and bookcase. The office does offer a view of downtown Richmond,



The Philip Morris Center for Research and Technology

but it provides no privacy whatsoever. Solana has no antechambers, no gatekeepers, no prim receptionists to fend off visitors. Anyone can walk by, peer through the plate glass wall into his office and practically read what's on his computer screen.

Rather than receiving minions ushered in and out of his presence, as one imagines senior Fortune 500 executives normally do, Solana

manages by wandering around. Draping his jacket over the back of his chair, he's often out and about, practicing the kind of collaborative culture he preaches. As he told the *Richmond Times-Dispatch* last October, scientists, engineers and product developers shouldn't spend too much time behind a desk. "A bunch of your day should be spent interacting with other people."

Philip Morris has long been known as highly secretive.

That's not surprising given the super-competitive nature of the cigarette business, not to mention the ceaseless litigation, bad press and intense loathing that many people feel for the company. But hunkering down behind moats and walls does not

promote the open exchange of views that are a prerequisite for creativity. The company is determined to forge a new corporate culture.

Innovation is the new imperative at Philip Morris USA. Parent company Altria is positioning its faster-growing international tobacco business for a spin-off and is restructuring operations to move manufacturing capacity for overseas sales abroad.

That leaves the domestic tobacco company with access to a doleful U.S. market where cigarette sales are declining 2 percent annually in a political climate restricting how it can market, whom it can sell to and even where people are allowed to light up.

Like a smoker who puffs his cigarette down to the nub, Philip Morris aims to extend the life of the shrinking cigarette market as long as it can. The company has articulated a two-pronged strategy. The first pillar of future profitability is to expand beyond cigarettes into other still-growing tobacco niches such as cigars, snus and moist snuff in what CEO Michael Szymanczyk calls the company's "adjacency strategy".

Philip Morris, which has built immense revenues by managing a relatively small number of cigarette brands, is moving aggressively into new tobacco-related businesses. In 2006 the company also started test marketing Taboka, a smokeless and spitless tobacco contained in small, permeable pouches and inserted in the mouth. Taboka was inspired by a product known in Sweden as snus, which now surpasses cigarettes there in popularity among males. Last August the cigarette giant began test marketing Marlboro Moist Smokeless Tobacco, a competitor to U.S. Tobacco's Copenhagen and Skoal brands. Then late last fall, Altria paid \$2.9 million to buy cigar-

Philip Morris didn't exactly look to Colonial Williamsburg for its architectural inspiration. This is the cafeteria.



maker John Middleton. The market for machine-made cigars grew 4 percent annually between 2003 and 2007, according to *Seeking Alpha* columnist Todd Sullivan.

The other strategic priority is to research ways to reduce the harm caused by tobacco use, coupled with a call for the federal Food and Drug Administration to regulate the manufacture and marketing of tobacco products. Currently, there is no testing regimen in place to determine whether one product is less risky than another. Given Philip Morris' history of downplaying the health risks of tobacco, the imprimatur of the FDA would give its health claims credibility that the company could never achieve on its own.

New product development is all very hush-hush, so PMUSA won't talk specifics. Likewise, the company won't discuss, other than in the vaguest terms, how it plans to make cigarettes less unhealthy. But its media affairs officers are delighted to de-

scribe how the Center for Research and Technology has been designed to stimulate creativity and innovation.

The interior of the 475,000-square-foot building is light and airy. Offices and cubicles are small, while public spaces are commodious. The layout entices people into holding their meetings out in the open. Common areas like the cafeteria and the library aren't walled off from other functions -- they invite people to mingle and interact. Chess boards built into tables send the message, "Get out of your cubicle!" Open spaces are adorned with chalk boards or white boards, and chairs are scattered around so anyone can pull together an impromptu meeting.

In an otherwise imposing and institutional looking building, there are touches of whimsy. Colorfully decorated tot-sized chairs, the product of some creativity seminar, appear randomly throughout the building. G-rated graffiti (much cleaner than you'd read in a college bathroom

stall) is scribbled on the blackboards.

At Philip Morris, packaging is a critical competency, as evidenced in the product launch of Marlboro Snus. Competing products require refrigeration to stay fresh. A Philip Morris packaging innovation solves the problem with a hermetically tight seal. To open peoples' minds to other possibilities in packaging, a display on the fourth floor headlined "Inventables" provides a wide array of material and packaging innovations, all small enough to hold in your hand. You can stand there and marvel at oil-absorbing fabrics... color-changing, translucent panels... moisture-activated micro-capsules... samples of microscopic surface sculpting and precision micro-hole drilling...

The technology center also boasts conference rooms and lecture halls with state-of-the-art displays. Of greater import than the technology itself, however, is the use to which it is put. "We invite outside experts to come and share their learning," says senior manager of media affairs Steve Callahan. The idea, he explains, is to bring in fresh perspectives.

A location in the Virginia Biotechnology Research Park, adjacent to Virginia Commonwealth University's medical campus, will be conducive to the exchange of insights -- and that was part of the logic of locating there, as opposed to a remote corporate campus. "We're work-

ing to connect folks," says Bob Skunda, president of the biotech park. As the Research Center fills up, he says, he expects that Philip Morris will contribute to the flow of ideas.

If innovation occurs at the intersection of different disciplines, cultures and viewpoints, Philip Morris is setting itself up for success in other ways. Not only is the company recruiting a wide range of scientific disciplines, the research center brings together scientists, engineers, market researchers and marketers under the same roof. It's considerably easier pulling together collaborative teams when the players are work in the same building.

Philip Morris also makes much of the fact that it is recruiting scientists from around the world. The research center is already one of the most cosmopolitan workplaces in the Richmond region, with employees from East Asia, South Asia and Europe adding to the traditional Virginia ethnic mix of whites and African-Americans. A small sign of the times: A bathroom sign entreating employees to wash their hands is written in four languages: English, Spanish, French and... Chinese.

Like the bathroom sign, it's the little things that tell the story of a new spirit of openness. Time was when Philip Morris facilities invited their employees to smoke. Conference room chairs came equipped with ashtrays. No

longer -- at least, not in the research center. In the open areas, there's not an ashtray to be seen. If employees want to light up in-doors, they are restricted to a number of small rooms.

The research center has been open only a couple of months, and it's still hiring -- the staff at present is only two-thirds of the eventual complement -- so it's too early to tell if it will deliver on Philip Morris' high expectations. But it's certainly generating excitement in the Richmond region, and beyond.

Bob Skunda, who markets the biotech park of which the research center is a part, says the mere presence of Philip Morris enhances the park's credibility. Philip Morris is bringing world-class scientists to Richmond. "The Center has helped us promote the park far and wide," says Skunda -- not just in the Mid-Atlantic region but as far away as Israel. "They see the name Philip Morris. That validates us."

-- January 29, 2008

Read more articles about Richmond's biotechsector at www.richmondbiosynthesis.com.