

**PHILIP MORRIS USA****INTER-OFFICE CORRESPONDENCE**

120 PARK AVENUE, NEW YORK, NY 10017-5592

TO: Section Sales Directors

DATE: January 25, 1993

FROM: Mike Szymanczyk

SUBJECT: BasicAllowance Structure

As you all know, one of our key objectives for early 1993 is rapidly increasing retail distribution of Basic to a minimum of 60%. In order to ensure that Basic is competitive in the market place we are making the following changes to the allowance structure effective 2/8/93:

- 50¢ / carton off-invoice to wholesale.
- 80¢ / carton off-invoice to wholesale if the wholesaler agrees to pass-on to retail as a Retail Feature Allowance.
- 5¢ / carton monthly allowance to wholesale for administering the Retail Feature Allowance.

In order to facilitate the change in the allowance structure, Basic shipments will be suspended during the week of 2/1/93. During this time, you will need to go into the warehouses of all Direct Accounts to conduct a physical count of all Basic inventory. Upon completion of the count, you should issue a check to the customer for 85¢/carton on all inventory. You should also contact Richmond Customer Service informing them that the count has been completed and that the account is authorized to resume ordering Basic. You may also place an order at this time. Procedures and materials are attached.

To ensure that Basic remains competitive, you are authorized to continue paying the 80¢/carton Retail Feature Allowance to retailers on product shipped from wholesale to retail prior to 2/8/93. No retail payments may be made after February 28.

This information is being communicated to all Philip Morris Direct Accounts via a mailgram. Our assessment of the market place indicates that Basic will be competitive as reflected in the chart below which outlines current Deep Discount pricing and allowances.

	<u>Basic</u>	<u>Monarch / Best Value</u>	<u>ATC Private Label</u>	<u>GPC</u>
List Price	\$6.54	\$6.54	\$6.54	\$7.54
Wholesale Allowance	.50	.50	1.35	1.00
Retail Feature Allowance	.80	.80	--	--
Handling Allowance	<u>.05</u>	<u>.05</u>	<u>--</u>	<u>--</u>
Net	\$5.19	\$5.19	\$5.19	\$6.54

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### Distribution Priorities

To clarify our distribution goals, I've outlined below guidelines you can use in prioritizing your accounts:

- 1) Basic should be in distribution and competitively merchandised when the store carries one or more Deep Discount brands and does not carry a PM Private Label
- 2) Basic should be in distribution and competitively merchandised even when a PM Private Label is carried if any one (or more) of the following conditions currently exists:
  - the store stocks 3 or more Deep Discount Brands (including a PM Private Label)
  - the store does not competitively price or merchandise our Private Label
  - PM's Private Label does not represent 50% of the Deep Discount volume in the store
- 3) Basic may not need to be in distribution when a PM Private Label is carried and all of the following conditions exist:
  - a) there is only one competitive Deep Discount Brand
  - b) PM's Private Label is competitively priced and merchandised
  - c) PM's Private Label represents at least 50% of the store's Deep Discount volume
- 4) Basic may not need to be in distribution when a PM Private Label is carried and currently represents at least 60% of the store's Deep Discount volume regardless of the number of Deep Discount brands in distribution.

Good Selling.

MS:DH

cc: RVP's

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