

INTERNAL CORRESPONDENCE

TO: S. McGillicuddy

DEPT.:

C.C. to: C.S. Rudge

FROM:

SUBJECT:

FROM: T. Downing/tr

DATE: February 19, 1976

SUBJECT: Price Sensitivity, Economic Considerations (Vila)

Conclusions

- Serious economic setbacks will affect the tobacco industry in total - a peak unemployment of over 9% cost the industry 1 1/2 to 2% in total volume in 1974 - 75.

	Peak Unemployment	Peak Inflation
Actual 74 - 75 Statistics	9%	12.7

- The economy should improve through the third quarter of 1977, when the next slowdown should begin - lasting through 1978 and part of 1979.

Source of Forecast	Unemployment 78	Inflation 78
Data Resources	7%	8 - 7%
U.S. Economic	12%	over 10%
Wharton	9%	5%

- Efforts directed at those segments which are most affected by economic diversity - the young and blacks - will be disproportionately (will lose share) when the economy rises.

Background and Data Limitations

This report is based on that originally proposed for the 1975-76 study.

- Some of the data for specific brands and segments are either not readily available, unstable, or not collected frequently enough.

The type of data collected in the Switching Study would be the only source for brand and segment consumption and incidence - but

- Only limited consumption and incidence data has been run out by segments.
- Consumption and incidence data for brands is based on small sample sizes (which means there is a lot of period to period variation in the data), and, in the case of KOOL, does not adequately reflect usage by brands.
- Because it is run twice a year, it is rather sensitive to short term effects or not coincident with economic changes.

Therefore, the data has been used - this reflects incidence & consumption.

- Only gross economic indicators are available on a demographic basis - unemployment data is the only economic variable that could be found on the same demographic breakout (age) for which brand data was also available.

- The analysis has three major elements:

- Unemployment data by age and race (quarterly) which shows a significant upturn in latter half of '74, peaking in '75. It should again be pointed out that there may be other better measures of the economic well being of consumers (such as real spendable earnings - which declined over the entire period of early '73 to early '75) but they are not available by demographic breaks.
- Industry sales
- Percent of smokers by age group and share trend charts for ten major brands/styles which clearly fall into two major categories - youth oriented vs. older age skew.

Discussion

Unemployment data by age and race (quarterly) shows a significant upturn in latter half of '74, peaking in '75. It should again be pointed out that there may be other better measures of the economic well being of consumers (such as real spendable earnings - which declined over the entire period of early '73 to early '75) but they are not available by demographic breaks. Although unemployment has subsided some, it has not back down to the 4th quarter '74 level, let alone the pre-recession level.

- There was a general levelling of cigarette industry sales during mid '74 to mid '75.

Two industry charts (2 & 3) are shown - the long term - which shows overall effect economy and anti-smoking pressure. The short term chart points out the basic trend changes and when the industry hit its low point (MQ75) - which coincides with highest unemployment.

- Chart 4 shows the percent of smokers by age for ten selected brand/styles which include the extreme age skews - from the youngest to the oldest.
- If a brand held its share (or maintained its trend) it was affected as the industry in total was. However, the youth oriented brands were affected disproportionately - losing share in a market that was growing less rapidly.

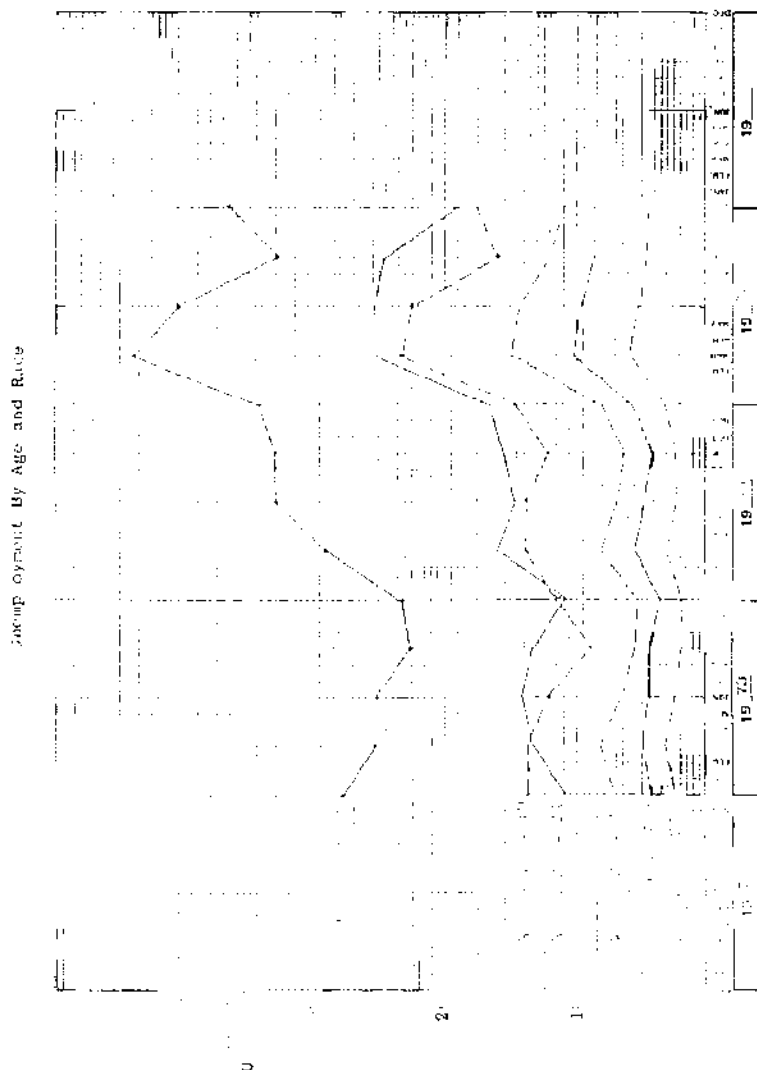
For the four youth oriented brands/styles (Charts 5 - 8), there was a clear share trend break in the latter part of '74 - (3 months ending October) which coincides reasonably well with the increase in unemployment. For the 12 months following the trend break, the economic impact is estimated at the following levels:

Impact Beyond Overall Industry Effect

KOOL 84	-	-3.3%
KOOL Milder	-	-3.1%
KOOL Longs	-	-2.4%
Marlboro	-	-2.2%

This impact was calculated by extending the pre-October '74 trend and comparing it to where the brand actually was in March '75 (adjusting for 120's as well).

- The KOOL style - with the oldest and young white smokers, were hit by the high unemployment during the period and the trend.
- The KOOL style - probably hit by the trend somewhat more than the other brands, but its share trends were not as bad as the economic impact on the other brands. The KOOL style is a youth oriented brand, and the trend was as young blacks, and young whites to be growing more rapidly.
- For the older brands (KOOL 84 - 141), share trends were not as bad as the trend in late '74 - early '75 change in the economic climate. All show continuing or slightly improving share trends.



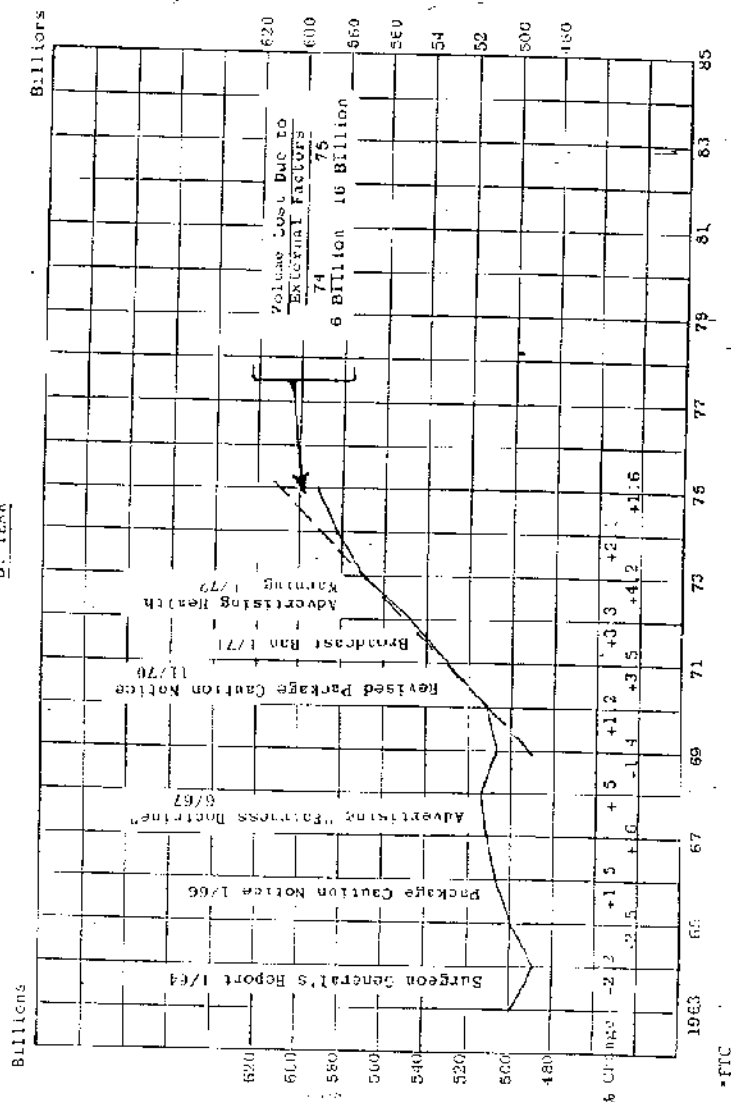
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SMALL ADVERTISING, INC. BOSTON, MASSACHUSETTS

SMALL ADVERTISING, INC. BOSTON, MASSACHUSETTS

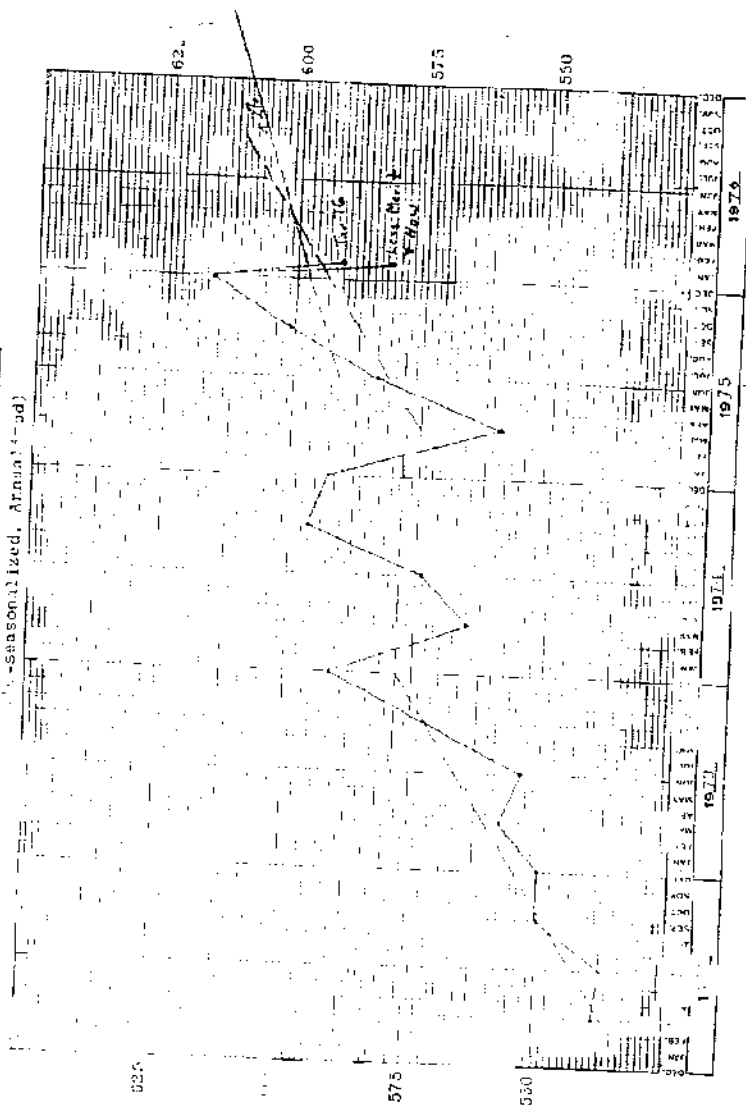
INDUSTRY CIGARETTE SALES BY YEAR



NO. 10 THE PAIN IN
NO. 11 THE PAIN IN
NO. 12 THE PAIN IN

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Quarterly Industry Cigarette Sales 1972-75
 (Seasonalized, Annualized)



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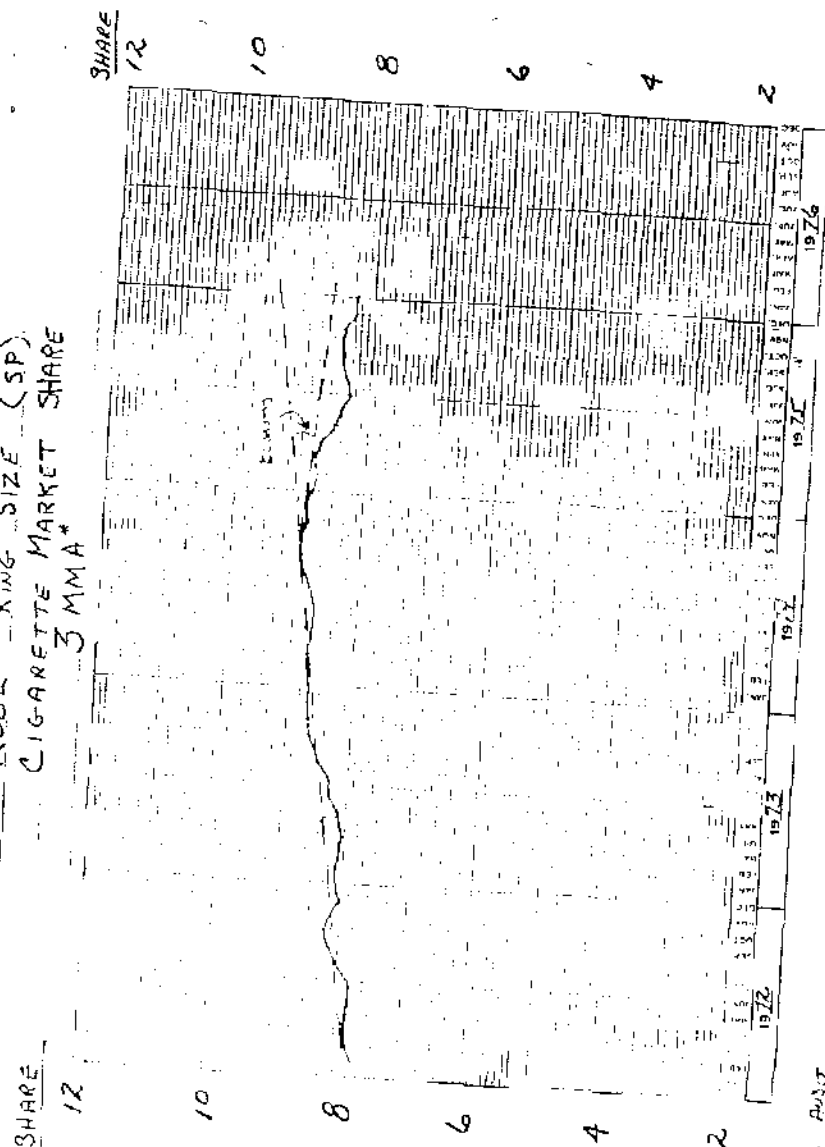
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Percent of Smokers by Age for Selected Brands

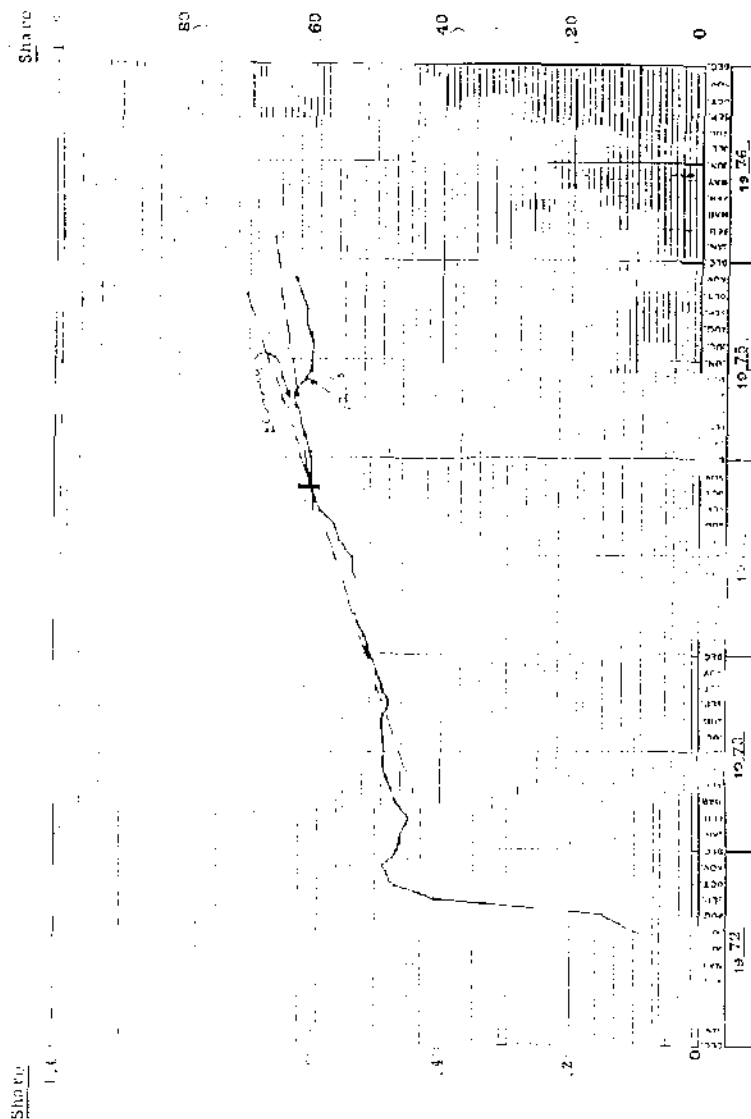
<u>Youth-Oriented</u>	<u>16-25</u>	<u>26-40</u>	<u>41 & Over</u>
KOOL 84	42	30	28
Marlboro	48	37	15
KOOL Milds	50	37	33
KOOL Longs	33	33	34
<u>Older Age Skew</u>			
Vantage	14	37	49
Salem	21	33	46
BELAIR	9	33	58
VICEROY	12	40	48
RALEIGH	8	36	56
Winston	23	44	33

KOOL - KING SIZE (SP)
 CIGARETTE MARKET SHARE
 3 MMA*

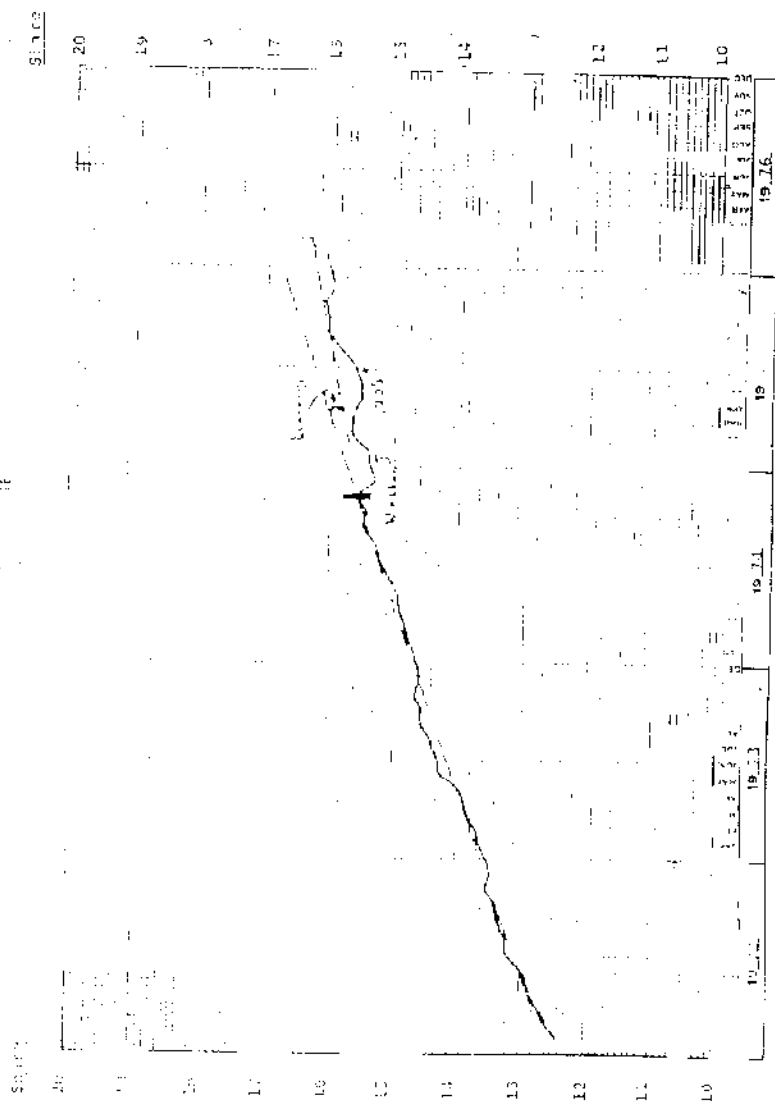


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ROUL KLIDS
Capare
100% of Share



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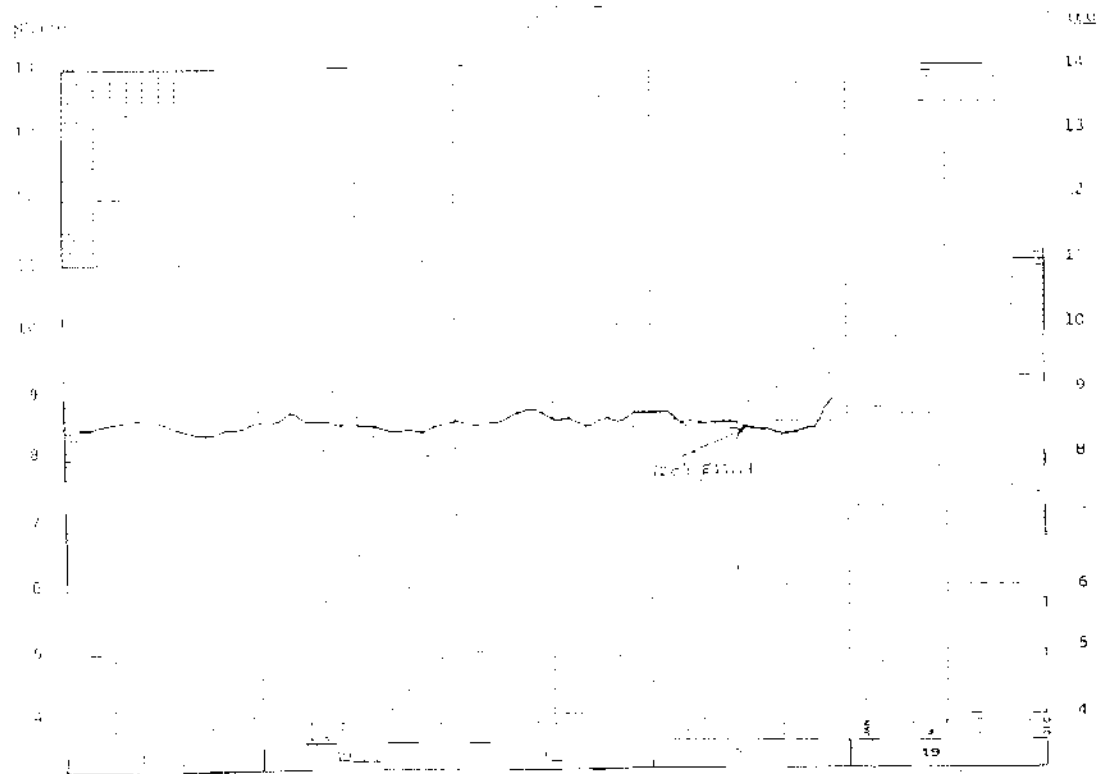


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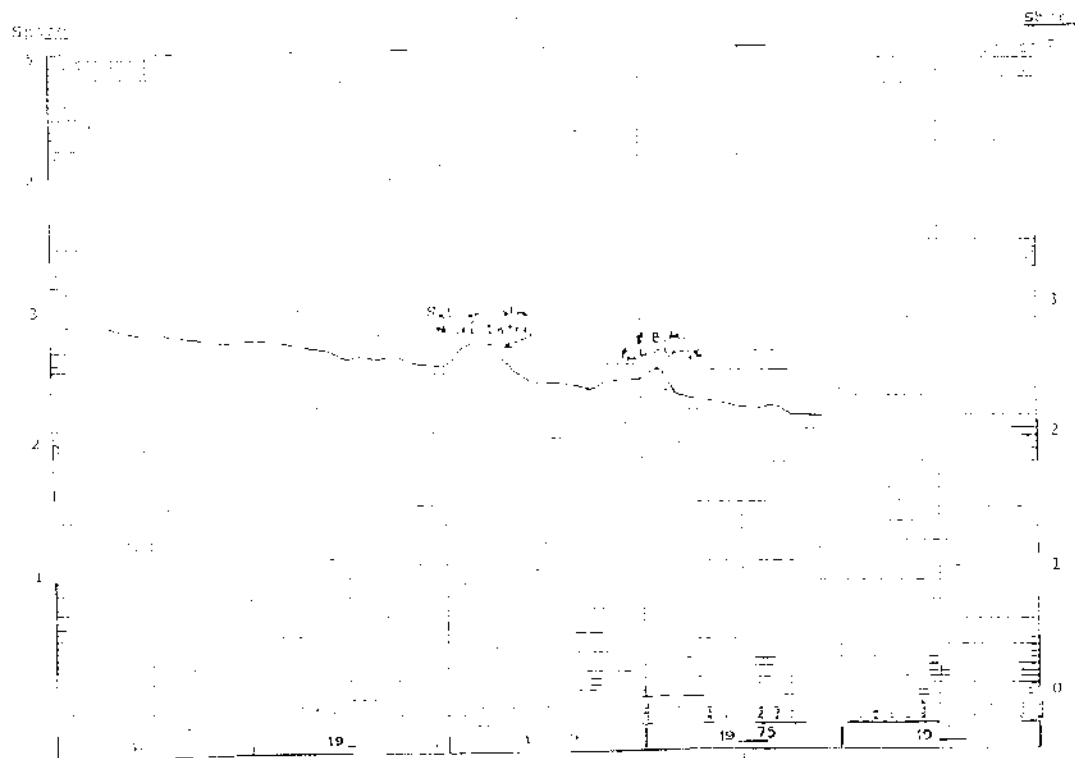
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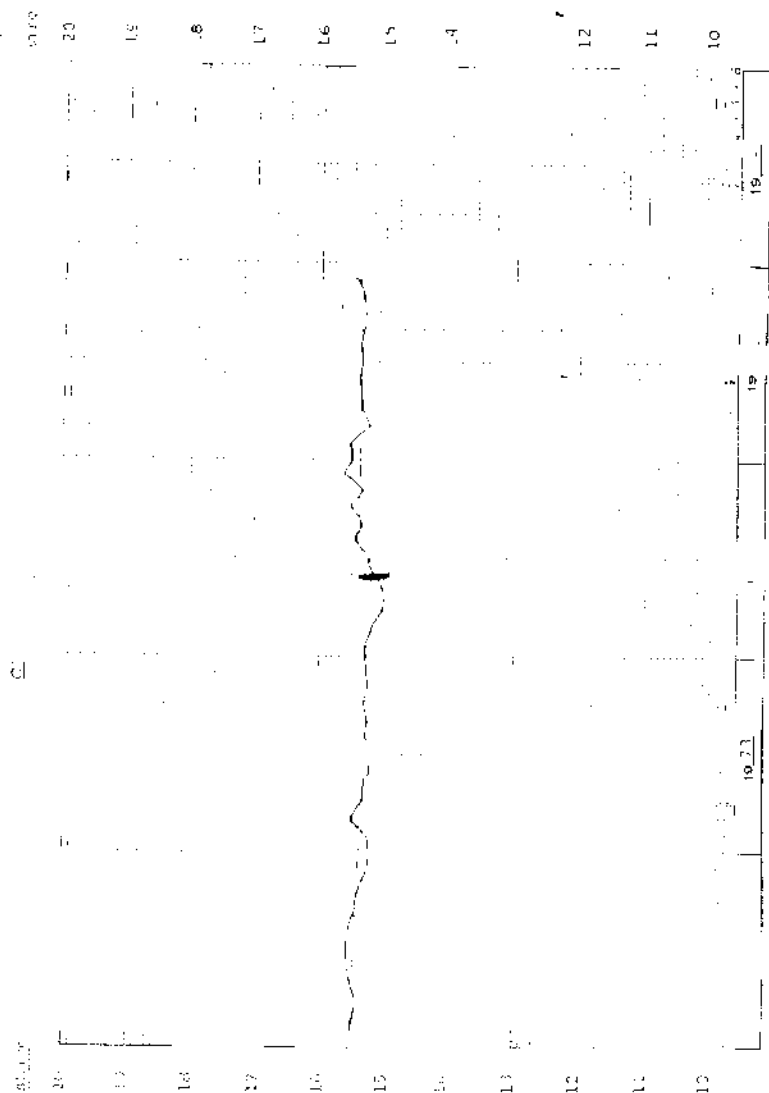
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