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January 7, 1991

TO: Mr. J. C. Schroer

FROM: D. N. Iauco

SUBJECT: MARKETING DEPARTMENT REPORT - WEEK ENDING JANUARY 4

• CAMEL/SALEM BUSINESS UNIT

Shipment Performance - CAMEL

| | <u>December</u> <u>Month</u> | <u>1990</u> <u>Actual</u> | <u>Variance</u> <u>Versus L.E.</u> | <u>% Change</u> <u>Versus YA</u> |
|----------|---------------------------------|------------------------------|---------------------------------------|-------------------------------------|
| MM Units | 1690 | 22704 | (501) | 12.2 |

QS Packaging

Project QS (99's) packaging is being finalized subject to initial review with Mr. Johnston, you and me. Final comps will be available on 1/10/91, and immediate Management's approval will be sought.

SALEM

Shipment Performance - SALEM

| | <u>December</u> <u>Month</u> | <u>1990</u> <u>Actual</u> | <u>Variance</u> <u>Versus L.E.</u> | <u>% Change</u> <u>Versus YA</u> |
|----------|---------------------------------|------------------------------|---------------------------------------|-------------------------------------|
| MM Units | 2178 | 32009 | (652) | (2.0) |

SALEM Product - Concept Screen

While it is believed that SALEM's positioning exploratory will ultimately be driven by psychographic wants, the Brand has recently screened a number of product concepts among both menthol (Black and General markets) and non-menthol smokers. The objective of this test was to better understand which product benefits/points of difference are most appealing to different target smoker groups.

A range of product benefits were explored from heavy to no menthol emphasis, per se. While there were no clear winners, several concepts were more consistent in their appeal to smoker groups. These included a cigarette with:

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- Smooth, clean taste
- Adjustable menthol levels
- International flavors
- Natural menthol delivery
- Less smoke and smell

This learning will be incorporated into a second screen of selected smoker mindsets this month to assess the degree of fit between specific product benefits and smoker mindsets.

Special Markets Research - Tracking

Final recommendations for tracking the Menthol, Regional and Exchange Initiative Programs were reviewed with Ed Blackmer and each of the Initiative BU's for 1991. The initiative tracking programs have undergone some modifications versus 1990 which has eliminated two million dollars from the cost of tracking these programs. Importantly, this significant savings was made without jeopardizing historical information trends or critical information learning for the BU, while eliminating "nice-to-know" information. All modifications were agreed to, and the new tracking programs will be implemented immediately.

• VANTAGE/NOW/MORE

Shipment Performance

| | | <u>Week</u> | <u>YTD</u> | <u>Vs. L.E.</u> | <u>Vs. YAG</u> |
|---------|----------|-------------|------------|-----------------|----------------|
| VANTAGE | MM/Units | 185.7 | 12,468 | (350.0) | (5.4) |
| MORE | MN/Units | 80.5 | 5,097 | (27.9) | (8.9) |
| NOW | MM/Units | 79.7 | 4,994 | (32.9) | (1.8) |

Comments: Individual brand volumes reflect Company management of year-end shipments and do not indicate negative acceleration of 1990 trends.

Significant Activities

Advertising

NOW's Heavy Spending Test in Dallas and Denver was initiated this week. Media space was purchased in regional ROP, supplements and magazines. OOH space was assigned for April 1 executions. The test will run until September, 1991, and will assess NOW's ability to increase performance via concentrated media expenditures.

Retail Promotion

Manufacturing is currently inserting 4.0MM VANTAGE "self liquidator" carton inserts which should appear in market (80%) by 2-1-91. This program is designed to generate franchise smoker names while providing added value to loyal VANTAGE smokers.

Project QC

TPT results have been received by BID and will be presented 1/10/91 to B. U. Initial perceptions are that QC is not a strong "stand alone" proposition.

Other

The NOW Brand Team is meeting this week in San Francisco at the offices of Age Wave, Inc. The purpose of this meeting is to provide insight to the Brand on NOW's 50+ smokers. The information provided by Age Wave will be used in NOW's program development for franchise and competitive smoker efforts.

• SAVINGS BUSINESS UNIT

Performance

Volume - For 1990, RJR experienced a 24% increase in Savings Segment volume versus 1989 due to the significant growth on DORAL and Private Label, as well as the introduction of STERLING. Both CENTURY and MAGNA exhibited volume declines for 1990 versus the previous year.

| | 1990 | vs. 1989 | |
|-----------------|--------------|---------------|-----------|
| | MM | MM | % |
| Branded Savings | 27,746 | +3,297 | +13.5 |
| Private Label | <u>3,119</u> | <u>+2,724</u> | <u>--</u> |
| Total Savings | 30,865 | +6,021 | +24.2 |

Nielsen Share - Topline results for November showed RJR increased slightly in overall share, October to November. This was due primarily to the introduction of STERLING, as well as gains among RJR private label brands, offsetting losses on DORAL and CENTURY. For the year-to-date, RJR's Savings share is up significantly with gains on DORAL, Private Label, and MAGNA.

| | November 1990 | Versus Oct. 1990 | November YTD | Versus YAG |
|-----------------|------------------|---------------------|-----------------|---------------|
| Branded Savings | 6.15 | -.01 | 6.00 | +.49 |
| Private Label | <u>.86</u> | <u>+.05</u> | <u>.53</u> | <u>+.44</u> |
| Total Savings | 7.01 | +.04 | 6.53 | +.93 |

DORAL

Performance

Volume - DORAL's 1990 volume was up versus year ago by almost 20%, with nearly all product styles showing significant gains. The FFLT non-menthol products remain the Brand's two largest styles.

| <u>1990</u> (MM) | <u>vs. 1989</u> | |
|---------------------|-----------------|----------|
| | <u>MM</u> | <u>%</u> |
| 22,496 | +3,625 | +19.2 |

Nielsen Share - Topline results show share softness for the Brand during November as strong Savings Segment activity which included new brand entries as well as heavy year-end competitive couponing, negatively impacted DORAL. For the year, the Brand remains significantly above year ago levels.

| <u>Nov.</u> <u>1990</u> | <u>vs. Oct.</u> <u>1990</u> | <u>Nov.</u> <u>YTD</u> | <u>vs. YAG</u> |
|----------------------------|--------------------------------|---------------------------|----------------|
| 4.87 | -.11 | 4.77 | +.54 |

An advertising creative meeting with the BBU head will take place on Friday (1/4). Primary topics include a review of focus group results that took place in mid-December in Nashville, TN. In addition, next steps will be discussed with a preliminary timetable established for creative development and research of image-enhanced advertising for DORAL. As part of this process, one-on-one interviews with franchise and competitive savings-oriented smokers are scheduled to begin late the week of 1/14. The purpose of these interviews is to get more in-depth information on how smokers perceive DORAL. These results are due the last week of January.

An initial report on the alternative pricing test is due in mid-January. This test looks at DORAL's performance under different pricing scenarios. Final results and a brand perspective on potential strategic implications is due in mid-April. This mid-April timing also coincides with other testing on the brand including Merchandising, additional pricing tests, potential new packaging, as well as the image-enhanced advertising (as mentioned in previous point).

• STERLING

Performance

STERLING's total 1990 shipments were 811MM units which was 39MM units below the 850MM units forecast on 12/7/90.

STERLING's November Nielsen share was .23 which represents a .11 increase versus the November period.

| <u>October 90</u> | <u>November 90</u> | <u>Difference</u> |
|-------------------|--------------------|-------------------|
| .12 | .23 | +.11 |

Activities

Efforts to develop 1st Quarter retail promotions to support STERLING are well underway. Field Sales surveys have been distributed to all Sales Area offices. Each Sales Area has been allocated a retail budget for 1st Quarter programs. The surveys will allow each area office to determine the items/quantities which will be required to implement these programs within the prescribed budget. The objective is to allow each Sales Area to customize the promotion thereby increasing overall program effectiveness.

Development of an action plan to move through retail product dated August 1990 versus returning to PRO is currently underway. Shelf life was extended on 200+ MM units of STERLING that is currently located at either Bonded warehouses or CDC (not cold storage). Instead of returning this product as "outdated" prior to being officially shipped and incurring a negative financial impact of -\$2.5MM, the Brand is pursuing options to sell through this product at retail. A plan will be available by the end of January for implementation in February/March if necessary. It is hoped that this product will sell through during 1st Quarter without a special program.

Focus groups were held this week in Nashville to review Phase II advertising concepts for STERLING. This learning will provide further direction regarding the evolution of the "Dollars and Sense" campaign.

• MARKETING SUPPORT

PROMOTION

Boston Test Market

SALEM Slim Lights Program - POS art/mechanicals were turned over to Production last week for this program. The offers are a free make-up mirror or brushes with 2-pack purchase. All program elements are on schedule for a DTS of 2/15.

WINSTON Turtleneck Program - POS art/mechanicals were turned over to production last week. Consumers will receive a free turtleneck with carton purchase. All elements are on schedule for a DTS of 2/15.

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Field Operations have planned to field the following Local Leverage Program in the first 6 months of 1991:

- Bike Week 1991 - Daytona
- Spring Resort - SASA
- Mardi Gras - New Orleans
- The President Riverboat Grand Opening - Davenport, IA
- Summer Resort - SASA, NASA
- Miami GT - Miami
- Miami Grand Prix - Miami
- New Orleans Grand Prix - New Orleans
- Watkins Glenn GT - New York

DIRECT MARKETING

The Direct Marketing Group implemented national Multi-Brand Direct Marketing volume programs this week to a total of 502M competitive smokers. These smokers, who are responders to prior Multi-Brand efforts, received a continuity offer of six \$1.00/carton coupons.

This week's mailings featured the core WINSTON, SALEM, CAMEL and VANTAGE brands as well as MORE, NOW and DORAL. Estimated promoted volume delivery from these mailings is 151MM units.

Smokers participating in MAGNA's field marketing/retail redemption programs for premiums (top twenty markets) have mailed in 90,000 MAGNA packs to date. The proof of purchase programs offers smokers the opportunity to save MAGNA seals to obtain MAGNA premiums such as lighters (2 seals), MAG Lites (8 seals), and car stereos (50 seals).

• BUSINESS INFORMATION

Sales Research

The 1991 Fact Book was issued to Field Sales on December 21. This book contains key statistics on cigarette sales trends for each major category of retail outlets. It is used as a reference book by the Field when preparing Sales presentations to retailers. The book consolidates data from MSA, Nielsen, Tracker and the BID Price Survey into a single document.

The results of the survey of Savings Segment Merchandising Conditions was presented to the Savings Segment Task Force. The survey was conducted by Chain Account Managers with the objective of identifying the predominant merchandising methods for Savings Segment brands in chain retail outlets. The survey showed that consolidation of Savings brands in a single section of the carton merchandiser is the predominate method in self-service carton outlets. PCD's are used extensively

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for Savings brands in pack outlets. The results of this survey will be used as input in the refinement of Savings Segment Merchandising strategies.

HORIZON

Recent share figures for HORIZON remained flat at .79%. Although some franchise smokers continue to hold coupons, this share figure suggests relative stability since there have been no HORIZON promotions since August, 1990. However, some future declines may be expected as coupons are diminished and when the Brand loses its secondary position at retail.

New Technologies

Final results from the Project XB benefit screening study were presented to the Brand team the week of December 18. Learning from this research will be used to develop preliminary definitions of "prime prospect" group and product configuration.



D. N. Iauco

cc: Mr. E. J. Fackelman
Mr. D. B. Fishel
Mr. Y. W. Ford, Jr.
Mr. R. R. Gordon, Jr.
Mr. T. C. Griscom
Mr. G. R. Gunzenhauser
Mr. D. K. Isbister
Mr. J. W. Johnston
Mr. W. W. Juchatz

Mr. A. A. Lyon
Mr. G. W. McKenna
Mr. L. M. Newlin
Mr. M. B. Oglesby, Jr.
Mr. T. W. Robertson
Mr. R. M. Sanders
Mr. A. J. Schindler
Mr. R. S. Schmalfeldt
Mr. K. L. Verner
Business Unit Heads