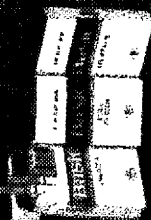


2001 Continuity - Plan



Creative Platform: "The Basic Corner Store" (Aug/Sep '01)

- ♦ Umbrella theme for 2001 Basic Catalog
 - ♦ Builds a mutually rewarding relationship between consumer and brand
 - *rational and emotional connection*
 - *provides consumers with added-value*
 - ♦ Conveys brand character
 - *warm and inviting "place"*
 - *adult smokers "shop" for genuine, down-to-earth items*
 - *made of honest-to-goodness homespun quality*
 - *relates to everyday lives*

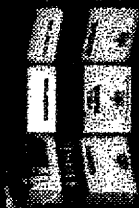
Delivery Vehicles:

- ♦ Retail, Direct Mail, Advertising

A twist on current progs —> Rebate very Compelling Idea

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2001 Continuity - Plan



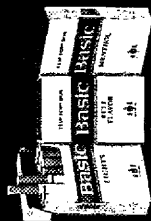
Creative Platform: "Special Rebate Offer from Basic" (Apr/May '01)

- ♦ Equity overlay at retail
- ♦ Consumers receive \$10.00 for 10 UPCs
- ♦ Provides added-value to consumers
- ♦ Builds loyalty
- ♦ Name generation tool

Delivery Vehicles:

- ♦ Carton inserts, Retail POS

2001 Continuity - Challenges



- ◆ Connect and build relationships with consumers through excellent customer service

While we have some work to do, opportunity is to.

- Find way to measure and track good customer service

- ◆ Build awareness of Basic continuity program → Reduce print
→ limited retail visibility
Increasing awareness is a challenge
- ◆ Increase continuity participation
→ Get more qualified consumers
→ Find interesting items - consumers relate to.
- ◆ Continue to make catalog special, so that it remains a reward rather than

become an entitlement



Work to do, but opport.
to meas | track
gd cust serv

↑ awareness = challenge
w/ ↓ print
limited retail visib

↑ participation
- get more qualified
- interesting items w/ appeal

2079149685

2001 Continuity - Challenges



- ♦ Connect and build relationships with consumers through excellent customer service
 - *Find way to measure and track*
- ♦ Build awareness of Basic continuity program
- ♦ Increase continuity participation
- ♦ Continue to make catalog special, so that it remains a reward rather than become an entitlement

2079149686

6



Nancy Lund 8-30-00



1st Catalog!

Most extensive continuity offering yet!

2079149687

Order No. 016-1130-00

Show Items

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2079149687

"Best Things" Catalog



Program Overview

- ♦ Duration: 7/1/00 - 2/28/01 (8 months)
- ♦ No. Items Offered: 10
- ♦ UPC Range: 55-320
- ♦ Delivery Vehicles: Retail Take-1s, Carton Inserts, Direct Mail, and Advertising

Learnings to Date

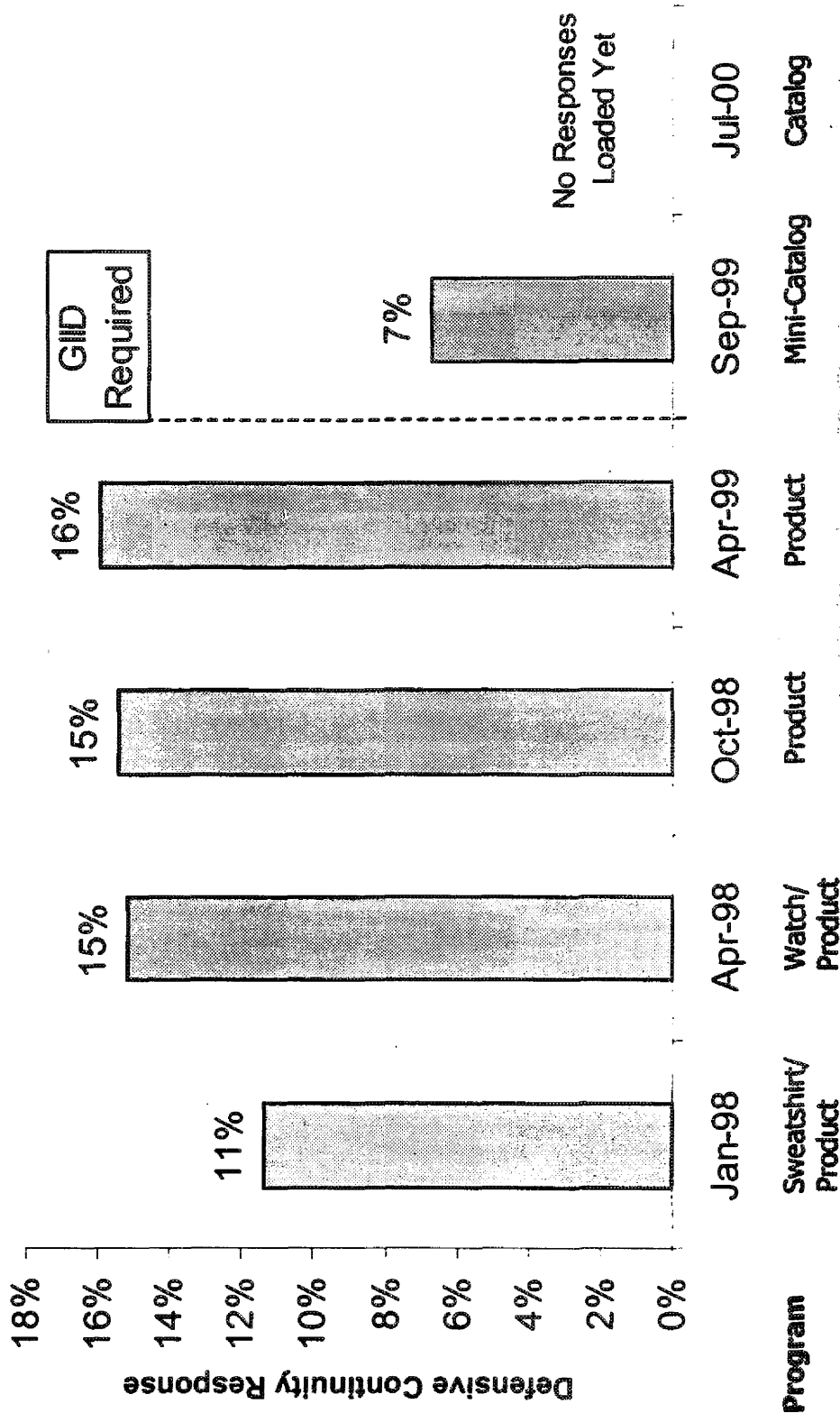
- ♦ Initial eligible rate has increased to 75% (vs. 57% "Camping")
- ♦ To date, popular items are:
 - \$10 Off Carton Coupon
 - Midnight Car Coat
 - Shakespeare Fishing Kit



GIID Continuity Impact



GIID requirement adversely affected continuity response, as expected



Source: Bro Continuity Response Report 8/23/00

Nancy Lund 6-30-00

Had lot of
wps
Nicer items
cost more

-CHART

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2079149690

2000 Continuity - Key Learnings



- ♦ Consumers really like \$10 off carton coupon
 - *Camping (Sep '99): Most popular item (32% of all orders)*
 - *Mar/Apr '00: 75,400 respondents out of a planned 31,800*
- ♦ Consumers "spent" more UPCs per order than previous Basic programs
 - *Camping (Sep '99): 2.4 IPO and 347 UPO vs. '98 program average of 1.4 and 132, respectively*
- ♦ Consumers don't understand/don't like new GIID requirements
 - *Camping (Sep '99):*
 - *43% of total responders initially ineligible*
 - *7% of DM Defensive responded*

2000 really exciting year for Basic continuity
→ Increased # offerings
→ Bigger + Better!

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2079149692

2000 Continuity - Overview



Objective:

Increase continuity offerings

"Camping" Sep '99-Mar '00

Offered camping-themed items through direct mail

Mar/Apr Bounceback

Offered \$10 off carton coupon for 60 UPCs to provide smokers with additional value

Jul/Aug Catalog

Offered continuity collection epitomizing Basic adult smoker lifestyles

Nov/Dec Bounceback

Offered \$10 off carton coupon through carton inserts, for 60 UPCs behind Holiday theme

2079149693

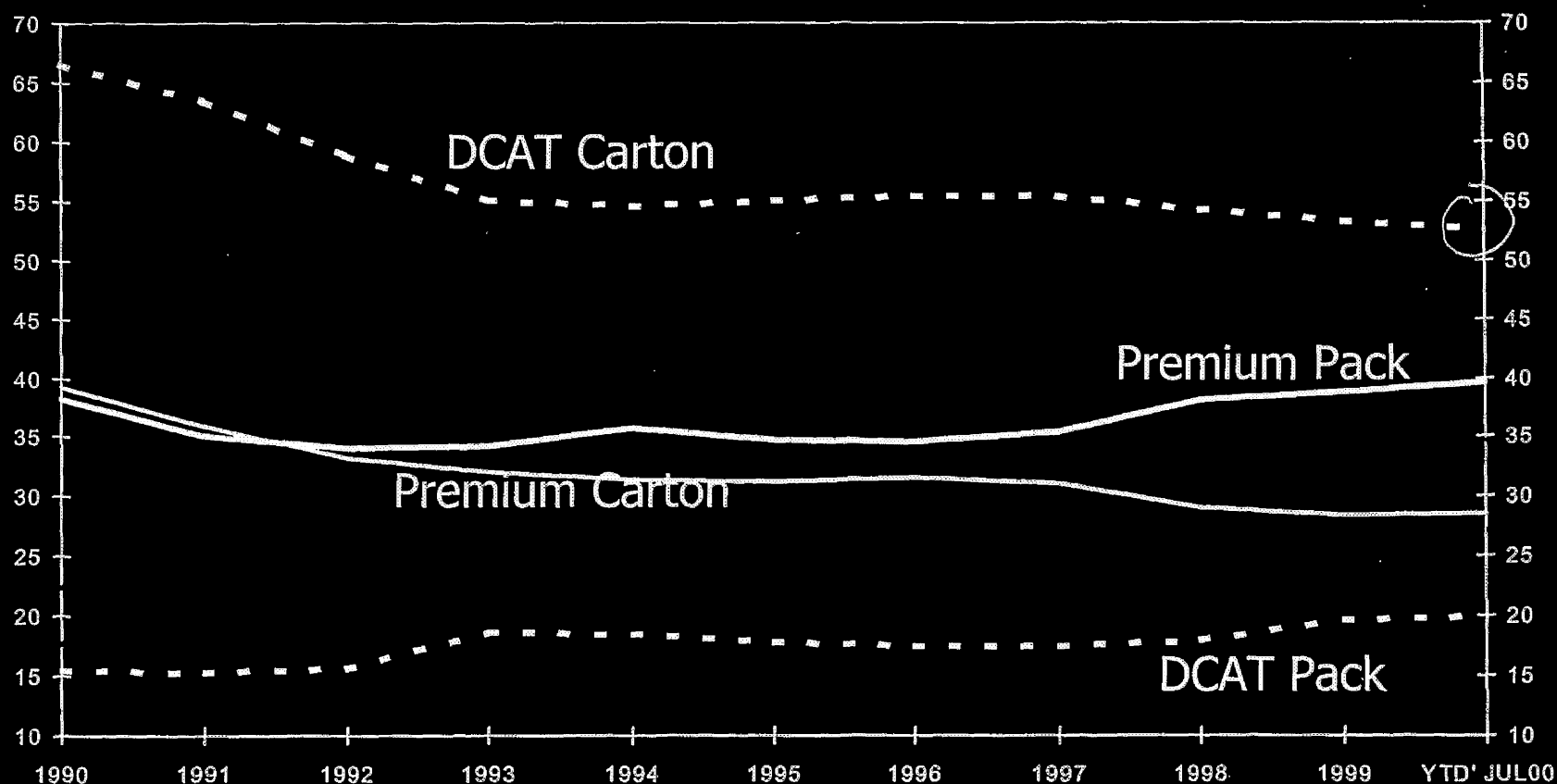
1

Nancy Lund 8-30-00



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DCAT vs. Premium Purchase Trends - Pack/Cartron/Both



Source: CTS Smoker Tracking- Totals by Year/YTD Y/E 7/00



What's the benefit to doing this?

2079149695

- ① provide better value behind ctn pricing where majority of dsc purchase made

Chart

~55% of dsc smokers buy by the ctn

whereas

~30% of prem smokers buy by the ctn

- ② We're armed to better address competitive activity, particularly in Low & aces.

i.e. If Dorl comes in at \$555/0.55, var pricing allows

us to meet Dorl at least on ctns

- ③ Reduces pack gap vs. Marl & Basic becomes less competitive w/ Marls on pack basis.

- May of Marl purchases are by pk, so this is good for both brands

- ④ This allows us to do something special for our head 3 customers.

Couple of Issues ...

- This could be difficult for the FSF to execute.
b/c they're unable to disseminate btwn # pks vs # cons
sold in a store
 - Only knows total units sold in a store
- pricing becomes more confusing to consumers.

Next Steps

- Markets already tried this in level E → need to analyze how it worked
- Identify potential financial ~~tsu~~ + trade issues

Finally, I'd like to end the retail portion of the show, by
talking about 1 more tactical plan overlay —

Variable Pricing → What is it?

- Var. Pricing provides flexibility in a store to decrease the budgeted Price
on a carton by decreasing the budgeted value on a pack

Chart ~~Var. pricing gives stores the option to apply better price discounts.~~
~~Chart shows that dist. ctn purchases are @ \$5.50, while~~
~~premium ctn purchases are @ 3.89.~~

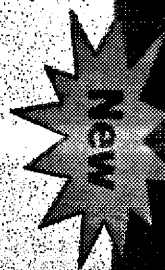
For ex: Ctn \$4.50 + Prc \$.45

→ Ctn budgeted to \$5.00 → prc 354

Stores still working off the same budget

but they have the option to apply better prices to ctns if needed

Variable Pricing



Variable Pricing: allow flexibility to buy down carton price by additional \$1.00, while decreasing buy down value per pack by \$0.10

Benefits

- Better value behind carton pricing where majority of discount purchases are made
- Flexibility to address competitive activity, particularly in area's of strength
- Reduces gap vs premium per pack
- Point of distinction for trade

Issues

- Execution
- Pricing becomes more confusing

Next Steps

- Review results of Marlboro Level 3 program
- Discuss with Finance and Trade Marketing



Another practical overlay we'd like to consider is Variable Pricing

→ Stores flexibility to buydown ctn price + \$1.00
by decreasing buydown value per pack by 10¢
→ Stores = same budget → better ctn prices

\$4.50 → \$5.50
\$4.5¢ → 3.5¢

2079149700

#1
Chart

① DCAT
SALES AND
Ctn purch
② Ireland
③ Marl
are pl
purch
SO good
for Marl
④ Something
Special
for LEV3
Customers

Variable Pricing



2079149701

Variable Pricing: allow flexibility to buy down carton price by additional \$1.00, while decreasing buy down value per pack by \$0.10

Benefits

- Better value behind carton pricing where majority of discount purchases are made
- Flexibility to address competitive activity, particularly in area's of strength
- Reduces gap vs premium per pack
- Point of distinction for trade

Issues

- Execution
- Pricing becomes more confusing

Next Steps

- Review results of Marlboro Level 3 program
- Discuss with Finance and Trade Marketing



Benefit #1 - We can provide better value behind Ctn pricing
Important b/c discount Smkrs are Ctn purchasers

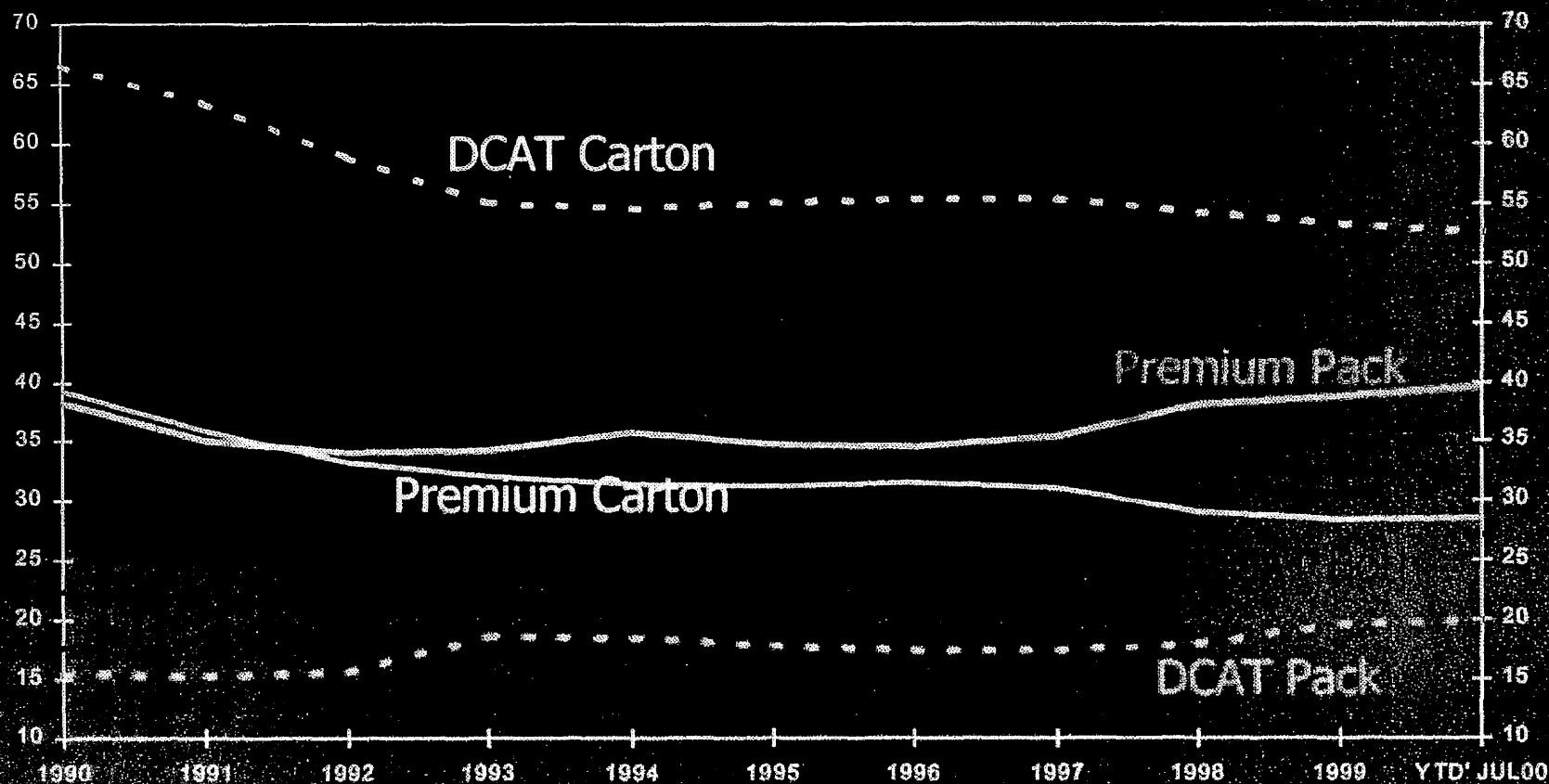
2079149702

55% off DCHT
buy by
the
Ctn

→

→
30% off
prem smkrs
buy by
the Ctn

DCAT vs. Premium Purchase Trends - Pack/ Carton/ Both



Source: CTS Smoker Tracking- Totals by Year/YTD Y/E 7/00



This is an example of some geo's that are "problem" areas
 let's look at N. Dakota, for instance

- 3rd tier has 100% distrib in this state — eyebrnds are raised
- the discount category is growing up 0.9 ppts ^{vs pct us}
- Merlb share is flat — slightly growing — could be concerning
- PM share is down fairly dramatically by 1.3 ppts

This is a state we'd mention

Methodology

Geos should be evaluated based on sh. perf, specifically

- DWT growth —
- Month Sh Loss
- 1m Sh Loss

If deat is growing while Month 1m losing, 3rd tier brands are fueling the deat growth.

- Monitor monthly 1m perf on these geos vs. the "Baseline" to ID "problem" geos

Deploy prod promo - is geo perf falls below the baseline.

pm perf
in geos
vs
baseline

pm
perf in
geos falls
below
baseline



Deploy

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2001 Retail - Third Tier Contingency Plan



Plan Methodology

- ♦ Evaluate geographies based on share performance:
 - *Discount Category Growth*
 - *Marlboro Share Loss*
 - *PM Share Loss*
- ♦ Monitor monthly PM performance vs. "Baseline" to identify "problem" geographies
- ♦ Deploy product promotion if performance trend falls below baseline



A 2nd Geographic Defense Program address growth among ~~the~~
3rd tier brands.

2079149708

In conjunction w/ Merb, this contingency plan would serve to
help defend PM Basic share in geographic where 3rd tier is
strong or growing.

The idea is to build an inventory of B8G2 - put them in cold storage -
to be used in a meat's Comp basis vs Dual, as we deem necessary.

A pretty rich B Ctn - G 12-Ctn free offer would hopefully
compel consumer purchase. ~~the Ctn offer~~

This ~~offer~~ would be deployed to 2 geo for a duration of 6 mos each

At an estimated cost of Trade
Secret
Informa
tion
Redacted with expected 30 million stlks
needed, this plan is a bargain

First, we'd like to add a Geographic Defense Prog - to defend share where needed

2079149709

The 1st plan is behind NYS

- As you know, we're no longer able to price promote in NYS.
- And we're under-developed as it is w/ ~ 3.1% som
So the area in general needs attn.
- Further, of the core deat brands, Dorad is strongest
- Finally Ape + Monarch have taken list price reductions w/ other deat brands.
- All of these factors further cloud our ability to compete in NYS

So in order to defend Basic's volume, we propose a B842F pret offering in our top 5 packages over the Feb → Dec period.

At a cost of Trade Secret Information Redacted we'd be able to move 202 million sticks which accts for 26.3% of NYS volume

2079149710

- No longer able to price promote
- Under-divlp'd @ 3.1% Som
- GPC + Monarch have taken list price reduts
- Dural - Strongest disc't brand.

- Factors handicuff us + ability to
compete in NHS

→ Overlay a Geographic Defense Program - to defend shore where needed
#1 - NYS

2079149711

2001 Retail - New York State Plan



Objective: Defend Basic's volume in New York State

Strategy: Deliver price support to adult discount smokers via product promotions

Plan: B8G2F (92,000 deals per month)
Top 5 packings

Timing: February - December 2001

Budget:

Trade
Secret
t
Infor
mation
Redac
ted

Promoted Volume: 202M sticks
(63% of NYS volume moved)

* NOTE: Exploring viability of off-invoice/off-label in lieu of product promotions

22



Complutis discussion of core retail plan

- Straight forward plan
- And has a lot of substance

But as marketers, esp here at PM, we just shouldn't be doing our jobs, if we weren't continually assessing the market place + creating plans as needed

Furthermore, the industry + competitive arena is a dynamic one. We need to be constantly on our toes. And as the leader — proactive

So we've devised some New Tactical Plans to overlay onto the 2001 retail plan.

2079149714

Shut off projector

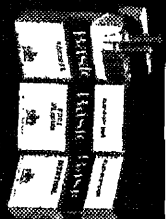
Set up Tactical Retail Plan

Sue → budget details later
But forecasted PV is 16.6 B

2079149715

2001 Retail Plan

2079149716



Promoted Volume:

<u>2001</u>	<u>2000</u>	<u>Chg</u>
-------------	-------------	------------

Promoted Units:	16.6B	15.7B	900MM
-----------------	-------	-------	-------

% Promoted:	78%	73%	+5 pts
-------------	-----	-----	--------



2079149717

Sue will take you through the budget breakout later
but I will tell you that in 2001, we've
forecasted PV of 16.6 B units.

Which is an increase of 900 million over
this year

Shut off projector
Set up tactical Plan

2079149717

2079149718

- Will price promote continuously through the yr.

will promote in NKL accs 4x during the yr

in Feb

Jun

Aug

Oct

to support these big ideas

- In alternative mos, we will continue to meet the competition in NKLT stores

This is a Schematic of the 2001 retail plan.

~~Aside from retaining all price promotions at the start of big needs programs,~~
this plan duplicates the 2000 plan.

In reading across the plan, we've continued to dissect the plan into 2-month windows to support need & exciting program initiatives over the course of the yr.
- let me give you a preview of these initiatives, which will be discussed in greater detail later.

- Jan. - Is a continuation of this yr's Nov/Dec '00 \$10 bb.

- Feb/Mar - Will be Basic Branding at retail. Our Best Things catalog ends in Feb. So we wanted it to end w/ a bang w/ a layering another program on top of it.

- Apr/May - Is an exciting idea - the Rebate - It's a ^{new} twist on the ~~eventually~~ day we've used continuity, \$10 for 100's.

- Jun/Jul - Is a coming back for the 3rd yr in a row w/ a Suleaps. This year's idea is a Layering Suleaps.

- Aug/Sep - Our 2nd year w/ a Basic Catalog

- Oct/Nov - New Pelley launch

- Dec - Holiday Fin \Rightarrow ShowCase new Pelley

- Continuous price - RL
- Size of equity building prog's - 2 mos ea → topline
- Price promote NAL to seed new prog's
- No price → NAL inc

2079149720

Order No. 016-1130-00

+ Direct Mail
+ Advertising

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2001 Retail Plan



Month	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Theme	HOLIDAY	BRANDING		BRAND w/REBATE		SWEEPSTAKES		CATALOG		NEW PACKAGING		HOLIDAY
RL	Price Promotion →											
NRL		Price Promotion				Price Promotion		Price Promotion		Price Promotion		
NRL TOB. STORES	Meets Comp	Price Promotion	Meets Comp	Meets Comp	Meets Comp	Price Promotion	Meets Comp	Price Promotion	Meets Comp	Price Promotion		Meets Comp



Our objective in 2001 remains "Grow Basic's share of the Discount City"

In terms of the fundamental plan, we're working off an adage

"If it's not broke - don't fix it"

Which for us means "If it works - don't change it"

As I've already explained, continuous price is working very well for us. So this will be our retail plan in 2001

Specifically, we'll price promote in RL all yr long. And in NRL for 4 months

We'll also maintain our NRL Tab me program.

In terms of price-off value to consumers, we'll continue w/ \$4.50 / \$4.45 through February, & then increase to, \$5.00 / \$4.50 for the remainder of the year.

An important pt-of-diff for Basic - are our equity overlays to price. Since they help generate news & excitement behind the brand, we will continue w/ these value-added promotions. we've found that

Finally, we will continue to invest in & build equity thru in-store visibility by applying the new progressive merch principles to Basic - thru placement & the look of POS

If it's not broken - don't fix it
If it works - don't change it

} → Ankur - Share ↑ APR 1, 2, 3
NR

2079149723

Order No. 016-1130-00

→ Generate needs & equipment
Pt. of difference

→ Apply progress. match principals thru placement & look of pos

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2001 Retail Plan



Objective: Continue to grow Basic's share of Discount Category

Plan:

- ♦ Continuous price promotion

Duration:

- RL: All year
- NRL: 4 months
- NRL tobacco store meets comp - 8 months

Value:

- \$4.50/\$0.45 (Jan-Feb)
- \$5.00/\$0.50 (Mar-Dec)

- ♦ Strengthen brand equity through value-added promotions
- ♦ Invest in and build brand equity through in-store visibility
 - *Progressive merchandising*



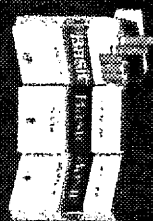
Historical IPO and UPO



	Sep 99 Camping	Apr-98	Jan-98	Aug-97	Mar-97
<i>Item Description</i>	<i>Sleeping bag Radio Flashlight Coupon</i>	<i>Watch Coupon</i>	<i>Sweatshirt Coupon</i>	<i>Jacket, Lantern Coupon</i>	<i>Cooler Army Knife Coupon</i>
<i># of Items Offered</i>	4	2	2	4	3
<i>IPO</i>	2.4	1.4	1.3	1.5	1.4
<i>UPO</i>	347	144	121	204	143
<i>Avg UPC</i>	153	110	110	124	108
<i>Duration (wks)</i>	32	22	18	22	20



2000 Continuity - Program Comparison

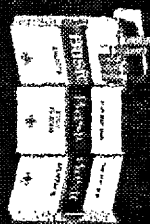


	Sep '99 "Camping" Mini Catalog	Mar/Apr '00 \$10 OFF Carton Coupon	Jul/Aug '00 "Best Things" Catalog
Mail Receipts	102,333	75,399	196,219
Total Valid Orders	85,829	69,635	173,507
No. Items Offered	4	2 (Single or Double)	10
UPCs Redeemed (M)	30,075,130	7,200,551	58,406,482
IPO	2.4	1.8	3.0
UPO	350 60-120	108	448
UPC Range	(Single - Double)	60-270	55-320
Avg. UPC Value	60	153	167
Avg. Cost per UPC			
Duration (mos.)	7	8	8

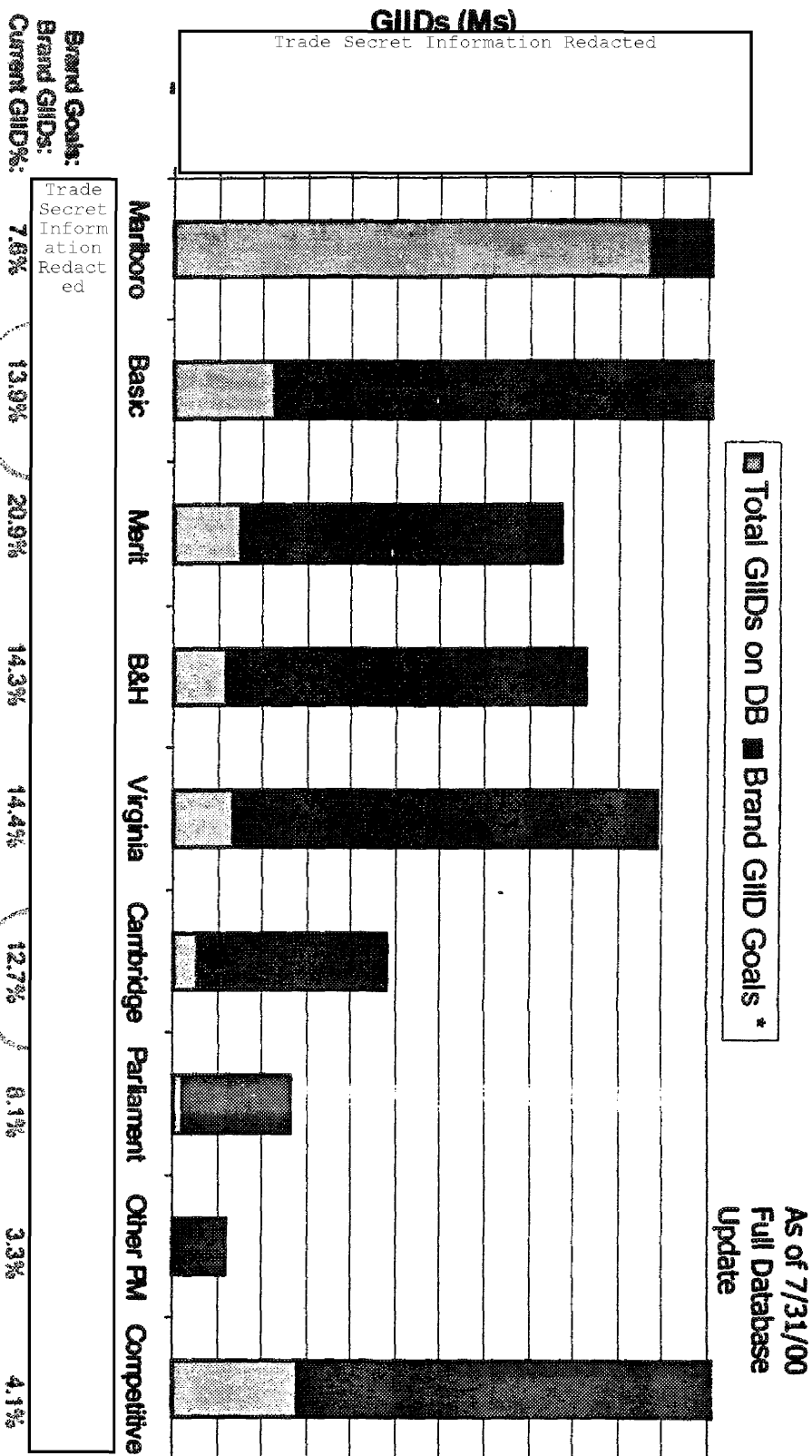
Trade
Secret
Information
Redacted



Unique GIID Capture Across Brands



◆ Basic and Cambridge are Average performers in achieving Brand GIID goals



* 80% of Database Base

Let's start by taking a look at Basic's 2000 Continuity Prog

We did some extra things this yr by offering more
\$10 ctn cpn bb's thru retail and
w/ our 1st Catalog

In Mar/Apr we offered a \$10 ctn cpn bb for 60 UPC
to provide added-value

We will offer the same bb offer in Nov/Dec behind our
Holidays Theme at retail

In Jul/Aug → a momentous time period for us!

- We offered consumers our 1st Catalog ever
behind the BTIL theme

- the ^{tone +} items epitomized their lifestyle

- + items ranged from 55 UPCs (frame) to
320 UPC's (fishing kit)

Therese

2079149728

~~Now I'm going to talk to you about Basic Continuity~~

2079149729

2000 was an extremely exciting year for Basic Continuity, because we had more going on than ever!

- Our camping-themed mini-Direct Mail catalog, which dropped in Sept '99, ended in March this yr. It offered prod + continuity + camping related items
- In Mar, we offered a \$10 off chn opn to cons in exch for 100 WPCs, to provide addtl value @ retail
- In Jul, we offered our 1st Continuity Collection via a catalog. Includes items that relate to our cons. lifestyles
- Warming up in Nov/Dec, we'll again offer \$10 bb thru chn inserts, behind our Holiday theme

2000 Continuity - Overview



Objective:

Increase continuity offerings

"Camping" Sep'99-Mar'00

Offered camping-themed items through direct mail

Mar/Apr Bounceback

Offered \$10 off carton coupon (fir) 60
UPCs to provide smokers with additional value

Jul/Aug Catalog

Offered continuity collection epitomizing
Basic adult smoker lifestyles

Nov/Dec Bounceback

Offered \$10 off carton coupon through
carton inserts, for 60 UPCs behind
Holiday theme

