



PHILIP MORRIS

U.S.A.

120 PARK AVENUE, NEW YORK, N.Y. 10017-5592 TELEPHONE (212) 880-5000

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Mr. James G. Hertel, Jr.
Group Vice President, Client Management
Spectra Marketing Systems, Inc.
33 W. Wacker Drive
Suite 650
Chicago, Illinois 60606

Mr. Michael Pailas
Vice President, Client Service
Information Resources, Inc.
30 Old Kings Highway South
Darien, Connecticut 06820

This letter serves as Philip Morris U.S.A.'s authorization to IRI and Spectra Marketing to conduct an updated Cigarette Brand Loyalty Analysis. The following letter outlines the project design, methodology and expected timing for this analysis, as well as confirmation of all costs.

BACKGROUND

Philip Morris previously examined cigarette brand loyalty using IRI's single-smoker household panel over a 52-week period ending April 1989. Loyalty distributions were analyzed across the top Philip Morris and R.J. Reynolds brands, segmenting each brand's consumer franchise based on actual share of purchases. Brands examined were as follows:

PM Brands	RJR Brands
• Marlboro	• Winston
• Merit	• Camel
• Virginia Slims	• Salem
• Benson & Hedges	• Vantage
• Cambridge	• Doral

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Each brand franchise was divided according to share of total cigarette purchasers allocated to the brand as follows:

Percent of Total Cigarette Purchases Allocated to Brand	Loyalty Group
0-10%	Extremely Non-Loyal
11-50%	Non-Loyal
51-90%	Loyal
91-100%	Extremely Loyal

In addition, purchasing behavior of the total cigarette category was examined for each loyalty group to yield profiles based on cross purchasing, dealing patterns and loyalty to competitive brands, incorporating the demographic characteristics of each group.

PROJECT DESIGN

While the original analysis provided significant learning to Philip Morris, the results were found to be inactionable since the study did not identify mechanisms to reach the selected smoker groups.

Therefore, Philip Morris believes the integration of Spectra's micro-merchandising system with the IRI single smoker household panel will identify key demographic and lifestyle characteristics for geographics (i.e. zip codes) which contain the various consumer groups. This will provide PM with the necessary direction in designing local marketing programs (both retail incentives and direct marketing) to reach select smokers.

The new Loyalty Analysis will serve to update the original study, but with the following key modifications:

- The expanded IRI household panel should be utilized to provide the additional household purchases available for the New York, Chicago, Los Angeles, Boston, Atlanta and Pittsburgh markets.
- The brand list should be expanded to include additional classifications found in Attachment I.
- Incorporating a static sample, brand loyalty should be examined for the total year of 1989, 1990 and year-to-date 1991. A quarterly trended analysis should also be conducted for First Quarter 1989 through Third Quarter 1991.
- Cigarette purchasing profiles should be provided for each loyalty segment, including cross purchasing and dealing patterns.
- All loyalty profiles should be linked to Spectra's micro-merchandising system to provide lifestyle characteristic clusters for each segment at the Total U.S., state and zip code levels.

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METHODOLOGY

IRI will determine analysis brands/aggregates for all items found in Attachment I. For each item, IRI will examine trended loyalty levels by quarter, from First Quarter 1989 through Third Quarter 1991. Brand loyalty groups will then be formed based on a static sample for 1989, 1990 and year-to-date 1991. Cross purchasing and dealing patterns will be provided for both the quarterly and annual data.

IRI will provide Spectra Marketing the coded panel data for integration with Spectra's Segmentation Analysis. Spectra will then link the consumer panel to a lifestyle/lifestage matrix and analyze the resulting consumer groups, consumption patterns and causal data for each brand.

TIMING

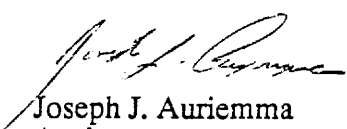
IRI will present the initial results of the loyalty analysis no later than October 21, 1991 with the integration of Spectra's micro-merchandising system available during the week of November 25th.

COSTS

Philip Morris will apply IRI's 1991 analytic credits [Trade Secret] to the Loyalty Analysis. The remaining cost to IRI is to be an additional [Trade Secret]. The agreed cost to Spectra Marketing is [Trade Secret]. Therefore, Philip Morris' total billable cost for the Loyalty Analysis Update is [Trade Secret].

We look forward to working with you on the Loyalty Analysis Update. Please feel free to call if we can be of any assistance.

Sincerely,

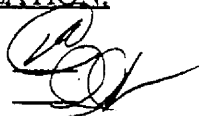

Joseph J. Auriemma
Analyst
Promotion Analysis

cc: Roy Anise - Philip Morris
Dave Beran - Philip Morris
Ellen Fitzgerald - Philip Morris
Tom Saloun - Philip Morris

Jim Findley - IRI
Rod Roden - IRI
Rick Schrager - IRI

AUTHORIZATION:

R. Anise
D. Beran



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