FOIA Number: 2008-1524-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Office of Science and Technology Policy

Series/Staff Member: Jerold Mande

Subseries:

OA/ID Number: 13035

FolderID:

Folder Title:
Tobacco Industry Documents [3]

Stack:	Row:	Section:	Shelf:	Position:
S	66	4	4	3

Minnesota Office of the Attorney General
Hubert H. Humphrey III

TO:	Officials Concerned About Federal Tobacco Policy	DATE:	April 13, 1998
FROM:	Luanne Nyberg, Senior Public Health Advisor Minnesota Attorney General's Office	PHONE:	215-1533 (Voice) 297-4036 (Fax) 297-7206 (TTY)

SUBJECT: **Details on Minnesota Document Depository Opening**

We have fought long and hard to bring all the internal tobacco industry documents containing secrets about tobacco industry wrongdoing into the public light. Today, we come one step closer to obtaining that goal as the Minnesota Document Depository opens to the public. The vast majority of the 26 million pages of documents in 11,500 boxes include tobacco industry documents that have never before been made public.

The document depository is run by SMART Legal Assistance and will be open from 8:00 a.m. to 8:00 p.m Monday-Friday. There are computers with a database prepared by the industry for public use, and 15 viewing areas in which one can review the actual documents and request copies. The records will be held in closed stacks requiring the assistance of a SMART employee. For directions and additional information on depository protocol please call 1-800-526-8886.

Unfortunately, despite their power to do so and the express authorization of the court, the tobacco companies still refuse to disclose the following to the public:

1) The 39,000 allegedly "privileged" documents recently released to us for use in our trial
2) The 4A indices-- a detailed, computerized roadmap through the millions of pages in the maze that the industry created for its own use
3) The seven million pages of internal BAT Group documents in the Guilford Depository
4) Documents which the tobacco industry has placed in the non-formula "trade secret" Category I
5) All court filings designated by the industry as "confidential" or Category I

The industry has also not released more than 100,000 documents for which they still claim privilege.

07/16/98 16:30 FAX 002
07/16/98 17:09 FAX 007

MARKETING INNOVATIONS, INC.

SCARBOROUGH HOUSE, BRIARCLIFF MANOR, N.Y. 10510, USA • PHONE (914) 762-5050

Brown & Williamson

Project Report August, 1972

Marketing Innovations Suggestions:

At the last meeting we were asked to come up with ideas for a "youth" cigarette...product or packaging.

Today we show you a sketch of "His and Hers Togetherness" cigarettes...ten masculine King Size cigarettes and ten feminine slims - in the same box.

His and Her jewelry, clothing and other items are growing in popularity...perhaps a cigarette capitalizing on this trend would find a ready market.

680073463

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: W DATE: 09/27/13

BROWN & WILLIAMSON TOBACCO CORPORATION
LOUISVILLE, KENTUCKY 40201
INTERNAL CORRESPONDENCE

TO MR. R. A. PITTMAN
DEPT.
C.C. TO MR. R. L. Broecker
" " " R. T. Henderson
" " " C. E. Smoot
FROM MR. R. L. JOHNSON /lb
DATE February 21, 1973
SUBJECT

Here is a list of conclusions based on Wave XIII and the latest Black Study. Only conclusions on which we plan to take action are listed.

CONCLUSIONS

1) KOOL Longs' female effort appears to be working. From studies dating back from 11/69 to the present, total KOOL as well as both KOOL 84mm and KOOL 99mm have shown growth. KOOL Longs' growth is averaging 20%, while Salem Longs growth is averaging only 13%. Concurrently, the segment appears to be growing at 11% per year over the past three years based on jobber data. In terms of female menthol longs smokers, KOOL Longs' female franchise is averaging 26% growth while Salem Longs are averaging 11%. Also, KOOL Longs have increased their female skew over the last three years. Salem's 99mm female skew has declined directionally. (See Appendix IA, IB, IC)

2) KOOL Milds' smoker profile appears to parallel KOOL most closely. High filtration products skew more female and so do high filtration menthol brands. However, KOOL Milds have a directionally masculine skew. Also, KOOL Milds have not been successful in improving KOOL's vulnerability to other menthol cigarettes in brand switching. Wave XIII shows that KOOL Milds gain almost without exception from KOOL 84 and competitive full taste 84mm products. (See Appendix IIA, IIB)

3) KOOL has shown little or no growth in share of users in the 26+ age group. Growth is from 16 - 25 year olds. At the present rate, a smoker in the 16 - 25 year age group will soon be three times as important to KOOL as a prospect in any other

680135996

TRIAL EXHIBIT 13,820

broad age category. A less lopsided growth pattern appears for KOOL when examining users of the product by sex. (See Appendix IIIA, IIIB)

4) KOOL's racial make-up appears to be stabilizing with over 30% of the brand's volume going to Blacks. Growth is coming from Blacks and whites as well. Whereas in the general market, growth is with 16 - 25 year olds, with Blacks growth is among 35+ year olds.

The growth of KOOL among Blacks is due to both the 84mm product and the 99mm version as well. Softness seen with males under 35 is of concern. This is not of grave proportion, however, because of the data having only directional significance according to Marketing Research.

KOOL spends 17.7% of its budget against Blacks who comprise about 10% of the adult population. Thus KOOL's AI among Blacks is 177. KOOL's CPM with Blacks is calculated by a budget chargeable directly to Blacks of $2,929,000 divided by sales to Blacks of 15.463 billion units. Thus, the CPM figures out to $.19/M. With the general market it's $.28/M in 1973. (See Appendix IVA, IVB, IVC)

RECOMMENDATIONS

1) Because of the success of the "Lady Be Cool" campaign in behalf of KOOL Longs in female magazines, deviations from the basic approach should not be attempted at the present time. It is felt the inclusion of a KOOL Milds offering would alter the approach proven successful.

2) Because KOOL Milds appear to parallel KOOL performance, it is recommended that we continue to offer this product with generic KOOL. In copy this would employ further use of the mortise. In media it would be advertising against the generic target audience. No special media program against older smokers, women or markets of high filtration development appears to be justified.

KOOL Milds' availability has not stopped the perplexing problem of the brand being vulnerable to other menthols. Generic advertising with copy aimed at menthol competitors has failed to remedy the situation. Because of this, it is recommended that the agency develop new copy for testing ... copy which arrests this vulnerability.

3) KOOL's stake in the 16 - 25 year old population segment is such that the value of this audience should be accurately weighted and reflected in current media programs. As a result, all magazines will be reviewed to see how efficiently they reach this group and other groups as well.

4) KOOL now uses virtually all known vehicles that reach Blacks effectively and efficiently. Despite the low CPM with Blacks it is recommended that we add only interior transit in 12 new markets. The annual cost would be $160,716. With this additional transit effort, KOOL will cover the top 25 markets in terms of absolute numbers of Negroes.

Black-directed copy should feature both styles because of the growth of each KOOL product. Also, KOOL Milds should be mortised because of its higher performance with Black users than the population as a whole.

R. L. J.

Appendix IA:

ACTUAL NUMBER OF SMOKERS

	KOOL 99			SALEM 99		
	Total	Male	Female	Total	Male	Female
11/69	94	42	52	200	62	138
5/70	112	42	70	233	77	156
11/70	135	49	86	282	91	191
5/71	139	49	90	257	88	169
11/71	147	59	88	277	104	173
5/72	155	71	84	267	80	187
11/72	161	57	104	290	100	190

Appendix IB:

% MALE/FEMALE

	KOOL 99		SALEM 99	
	Male	Female	Male	Female
11/69	45	55	31	69
5/70	38	62	33	67
11/70	36	64	32	68
5/71	35	65	34	66
11/71	40	60	38	62
5/72	46	54	30	70
11/72	35	65	34	66

Appendix IC:

12 Mo. Moving Total for MF 99

	Jobber Share	% Chg. vs. Year Ago
11/69	5.24	
5/70	5.68	
11/70	6.46	+ 23.3%
5/71	6.48	+ 14.1%
11/71	6.44	- .3%
5/72	6.65	+ 2.6%
11/72	7.03	+ 9.2%

Appendix IIA:

KOOL 84 % LOSSES

	11/69	5/70	11/70	5/71	11/71	5/72	11/72
Competitive 84 MF	- 1.9	- 1.0	- 2.0	- 2.4	- 1.8	- 3.0	- 2.8
Competitive 99 MF	- 4.1	- 2.6	- 3.2	- 3.5	- 3.1	- 1.1	- 2.6
TOTAL	- 6.0	- 3.6	- 5.2	- 5.9	- 4.9	- 4.1	- 5.4

Appendix IIB:

Demographics by Sex

	M	F
Menthol 84	54	46
KOOL 84	$\boxed{62}$	38
Menthol Hi-Fi 84	40	$\boxed{60}$
KOOL Milds	$\boxed{52}$	48
KOOL Longs	35	$\boxed{65}$
High Filtration	39	$\boxed{61}$

Appendix IIIA:

TOTAL KOOL

SHARE OF USERS BY AGE

Wave		16 - 25	26 - 40	41+
I	11/66	3.0	4.2	4.1
II	5/67	3.5	4.3	4.4
III	11/67	3.8	4.1	4.2
IV	5/68	3.8	4.1	4.3
V	11/68	4.4	4.1	4.1
VI	5/69	4.3	4.6	4.0
VII	11/69	4.3	4.8	4.2
VIII	5/70	6.6	4.4	3.9
IX	11/70	7.4	4.6	4.1
X	5/71	8.4	5.2	4.4
XI	11/71	9.4	5.3	4.4
XII	5/72	8.8	4.4	4.1
XIII	11/72	10.8	4.5	4.2

Appendix IIIB:

TOTAL KOOL BY STYLE

SHARE OF USERS BY SEX

		MALE				FEMALE			
Wave		Milds	84	99	Total	Milds	84	99	Total
I	11/66	-	3.8	-	3.8	-	4.2	-	4.2
II	5/67	-	4.3	-	4.3	-	4.0	-	4.0
III	11/67	-	4.0	-	4.0	-	4.2	-	4.2
IV	5/68	-	4.4	-	4.4	-	3.9	-	3.9
V	11/68	-	4.8	-	4.8	-	4.4	-	4.4
VI	5/69	-	4.9	-	4.9	-	4.7	-	4.7
VII	11/69	-	5.1	.5	5.6	-	3.9	.9	4.5
VIII	5/70	-	5.1	.5	5.6	-	3.8	1.1	4.9
IX	11/70	-	6.7	.7	7.4	-	4.3	1.3	5.6
X	5/71	-	6.4	.6	7.0	-	4.0	1.3	5.3
XI	11/71	-	6.7	.7	7.4	-	4.3	1.3	5.6
XII	5/72	-	5.9	.9	6.8	-	3.9	1.3	5.2
XIII	11/72	.3	6.1	.7	7.1	.4	4.5	1.7	6.6

Appendix IVA:

	Black Study of 6/68	Black Study of 4/71	Black Study of 12/72
Adult Blacks	14,100	14,700	15,000
x			
Incidence	.59	.59	.56
=			
Black Smokers	8,319	8,673	8,400
x			
Consumption/Year	6,032	6,032	6,240
=			
Black Market Volume	50,180	52,315	52,416

KOOL's Share of Users	14.4%	27.4%	29.5%
KOOL Black Volume	7,226	14,334	15,463
KOOL Total Volume	29,646	42,086	49,535
KOOL White	22,420	27,752	34,072
KOOL % Black	24.4%	34.1%	31.2%

2/2/73

Exhibit VI

RJR

~~CONFIDENTIAL~~

See page 1 first and second paragraph. See page 7, second paragraph.

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: W DATE: 09/27/13

RESEARCH PLANNING MEMORANDUM

ON

SOME THOUGHTS ABOUT NEW BRANDS OF CIGARETTES FOR THE YOUTH MARKET

502987357

SOME THOUGHTS ABOUT NEW BRANDS OF CIGARETTES FOR THE YOUTH MARKET

At the outset it should be said that we are presently, and I believe unfairly, constrained from directly promoting cigarettes to the youth market; that is, to those in the approximately twenty-one year old and under group. Statistics show, however, that large, perhaps even increasing, numbers in that group are becoming smokers each year, despite bans on promotion of cigarettes to them. If this be so, there is certainly nothing immoral or unethical about our Company attempting to attract those smokers to our products. We should not in any way influence non-smokers to start smoking; rather we should simply recognize that many or most of the "21 and under" group will inevitably become smokers, and offer them an opportunity to use our brands.

Realistically, if our Company is to survive and prosper, over the long term we must get our share of the youth market. In my opinion this will require new brands tailored to the youth market; I believe it unrealistic to expect that existing brands identified with an over-thirty "establishment" market can ever become the "in" products with the youth group. Thus we need new brands designed to be particularly attractive to the young smoker, while ideally at the same time being appealing to all smokers.

Several things will go to make up any such new "youth" brands, the most important of which may be the image and quality – which are, of course, interrelated. The questions then are: What image? and What quality? Perhaps these questions may best be approached by consideration of factors influencing pre-smokers to try smoking, learn to smoke and become confirmed smokers.

Table I attempts to define some of the more important effects expected or derived from cigarette smoking by pre-smokers, "learning" smokers and confirmed smokers. If this incomplete, subjective, simplistic analysis is even approximately correct, there are sharp, perhaps exploitable, differences between pre-smokers, "learners" and confirmed smokers in terms of what they expect or derive from smoking. Let us examine these differences.

For the pre-smoker and "learner" the physical effects of smoking are largely unknown, unneeded, or actually quite unpleasant or awkward. The expected or derived psychological effects are largely responsible for influencing the pre-smoker to try smoking, and provide sufficient motivation during the "learning" period to keep the "learner" going, despite the physical unpleasantness and awkwardness of the period.

In contrast, once the "learning" period is over, the physical effects become of overriding importance and desirability to the confirmed smoker, and the psychological effects, except the tension-relieving effect, largely wane in importance or disappear.

The common thread binding the three groups together appears to be the fact that smoking of cigarettes offers and provides a desired mechanism for coping with the stresses of living, which may range from boredom to high tension and from fatigue to high arousal and hyperactivity. Once this mechanism has been experienced and used, physical and psychological habit patterns are firmly established and become self-perpetuating.

TABLE I

EFFECTS EXPECTED OR DERIVED FROM CIGARETTE SMOKING

	Pre-Smoker[1]	Learner[1]	Smoker[1]
I. PHYSICAL EFFECTS			
A. Nicotine Response	0	-	++
B. Sensory Effects			
1. Irritancy-Harshness	0	—	-
2. Flavor	+	-	+
3. Other Mouth Feel - Dryness, Astringency, etc.	0	—	[illegible]
4. Visual - Pack, cigarette and smoke attributes	0	+	++
C. Manipulative Effects - Handling, lighting, puffing, holding, ashing, extinguishing	-	-	++
II. PSYCHOLOGICAL EFFECTS			
A. Group Identification - Participating, sharing, conforming, etc.	+++	+++	0
B. Stress and Boredom Relief - Buys time, valid interruption, bridges awkward times and situations, something to do, etc.	+	++	+++
C. Self-Image Enhancement - Identification with valued persons, daring, sophisticated, free to choose, adult, etc.	++	+++	-
D. Experimentation - Try something new, experiment, etc.	+++	+++	0

1+ = positive

0 = none

- = negative

If the above analysis is approximately correct, then the basic theme for promoting any cigarette to any group should aim, directly or indirectly, at the desirability of using a given brand as a mechanism for coping with stress. Brands tailored for the beginning smoker should emphasize the desirable psychological effects of smoking, also suggesting the desirable physical effects to be expected later. Happily, then, it should be possible to aim a cigarette promotion at the beginning smoker, at the same time making it attractive to the confirmed smoker. The information and outline in Table I then may be used as a basis for arriving at some specifications for new "youth" brands and for determining how they should be promoted.

<u>I. PHYSICAL EFFECTS</u>

Having identified these as highly desirable to the confirmed smoker but largely unknown, unpleasant, awkward and/or undesirable to the pre-smoker or "learner", the effort here should be to affect a compromise to minimize the undesirable effects while retaining those which later become desirable.

A. <u>Nicotine Effects</u> - Nicotine should be delivered at about 1.0-1.3 mg./cigarette, the minimum for confirmed smokers. The rate of absorption of nicotine should be kept low by holding pH down, probably below 6.

B. <u>Sensory Effects</u>

1. <u>Irritancy-Harshness</u> - The beginning smoker and inhaler has a low tolerance for smoke irritation, hence the smoke should be as bland as possible.

2. <u>Flavor</u> - The flavor of tobacco smoke is initially foreign, and not pleasant. One cultivates a taste for smoke much as one learns to like olives or dry wines. Perhaps, as in the case of taste of water, there is no really "good" flavor, only degrees of "bad" flavor. Thus for the beginning smoker the cigarette smoke should have a

moderate level of blended tobacco flavor, but should be as free as possible from strong, unpleasant flavors such as steamy flavor, etc. A "tar" delivery of 12-14 mg/cigarette should provide the desired flavor level.

3. Other Mouth Feel - The smoke should be "bland" with respect to astringency, hotness, dryness and the like. Again, the theory is that any mouth effect is new and different, hence should be as bland and free of obvious negatives as possible.

4. Visual - The package and cigarette should be pleasing to the eye, as will be discussed further below. The amount and density of exhaled smoke should be such as to be clearly visible and not thin or scanty. A tar level of 10-14 mg/cigarette should meet this requirement.

C. Manipulative Effects - Carrying, opening and using the package should be convenient. The cigarette should be as long as possible, probably 100 mm, to facilitate lighting. The rod should be reasonably firm, and a moderately soft, round filter tip should be used. The draft resistance prior to and during smoking should be as low as practical and should not exceed VANTAGE specifications. The product should require, thus, minimum effort and care to handle and use.

II. PSYCHOLOGICAL EFFECTS

These are the expected or derived gratifications which influence a pre-smoker to try smoking and which sustain the beginning smoker during the largely physically awkward and unpleasant "learning to smoke" phase. These effects also largely determine which brand the pre-smoker will experiment and learn with.

A. Group Identification - Pre-smokers learn to smoke to identify with and participate in shared experiences of a group of associates. If the majority of one's closest associates smoke cigarettes, then there is strong psychological pressure, particularly on the young person, to identify with the group, follow the crowd, and avoid being out of phase with the group's value system even though, paradoxically, the group value system may esteem individuality. This provides a large incentive to begin smoking. If this be true, then the same effect strongly influences the brand chosen, it likely being the popular, "in" brand used by ones close associates.

Thus a new brand aimed at the young smoker must somehow become the "in" brand and its promotion should emphasize togetherness, belonging and group acceptance, while at the same time emphasizing individuality and "doing ones own thing."

B. Stress and Boredom Relief - The teens and early twenties are periods of intense psychological stress, restlessness and boredom. Many socially awkward situations are encountered. The minute or two required to stop and light a cigarette, ask for a light, find an ash tray, and the like provide something to do during periods of awkwardness or boredom, and afford a little "time-out period" when confronting a stressful situation. Smoking also gives one something to do with the hands, eyes, etc. and something to talk about in a situation where otherwise one might simply have nothing to do or say.

This desirable attribute of smoking should be strongly emphasized in promoting a new youth brand.

C. Self-Image Enhancement - The fragile, developing self-image of the young person needs all of the support and enhancement it can get. Smoking may appear to enhance that self-image in a variety of ways. If one values, for example, an adventurous, sophisticated, adult image, smoking may enhance ones self-image. If one values certain characteristics in specific individuals or types and those persons or types smoke, then if one also smokes he is psychologically a little more like the valued image. This self-image enhancement effect has traditionally been a strong promotional theme for cigarette brands and should continue to be emphasized.

D. Experimentation - There is a strong drive in most people, particularly the young, to try new things and experiences. This drive no doubt leads many pre-smokers to experiment with smoking, simply because it is there and they want to know more about it. A new brand offering something novel and different is likely to attract experimenters, young and old, and if it offers an advantage it is likely to retain these users.

There is another psychological factor which did not readily fall into Table I, but which may be quite important. That category might be called "Anti-Establishment Attitudes". It does not enter into the decision to start smoking but may strongly influence the brand chosen. Today more than ever, young people tend to reject whatever is accepted by the "over-thirty" establishment, which includes their parents. If "Brand 30+" is the accepted "in" brand with the establishment, it is likely that many young smokers will almost automatically reject that brand and start with something else. They will more likely start with "Brand 20+" which is both the "in" thing with their closest age group and the "out" thing with the "over-thirty" group. Probably in todays market, WINSTON is the "Brand 30+" and Marlboro is the "Brand 20+". Happily, the Marlboro will eventually age out of its "in" position with youth, as WINSTON appears to have already done. Now is the time to launch the next brand to become the "in" cigarette with the next generation as Marlboro ages from "in" to, hopefully "out and over-thirty" status, hence becomes something for youth to avoid.

A final psychological factor which also did not fall readily into Table I involves smoking-health attitudes. The smoking-health controversy does not appear important to the group because, psychologically, at eighteen, one is immortal. Further, if the desire to be daring is part of the motivation to start smoking, the alleged risk of smoking may actually make smoking attractive. Finally, if the "older" establishment is preaching against smoking, the anti-establishment sentiment discussed above would cause the young to want to be defiant and smoke. Thus, a new brand aimed at the young group should not in any way be promoted as a "health" brand, and perhaps should carry some implied risk. In this sense the warning label on the package may be a plus.

at the youth market should have. At this point, it will be useful to summarize what has been said, in admittedly general terms:

<u>Product Quality Factors</u>

1. Moderate level of nicotine (1.0-1.3 mg/cigarette) delivered at pH (5.8-6.0) to favor slow absorption.
2. Moderate level of blended tobacco flavor ("tar" of 12-14) free of undesirable (e.g. steamy) flavors.
3. Bland, soft, moist mouth-feel, with minimal irritancy, harshness, astringency, possibly very lightly mentholated.
4. In "standard" range of diameter and firmness, with resilient filter or mouthpiece, probably 100 mm in length.
5. Different package type or packaging material, perhaps containing fewer cigarettes, therefore less bulky.
6. Some visible novelty or difference in product or package to set apart from conventional cigarettes, ideally in direction of greater manipulative convenience for beginning smoker.

<u>Product Image Factors</u>

1. Should emphasize participation, togetherness, and membership in a group, one of the group's primary values being individuality.
2. Should be strongly perceived as a mechanism for relieving stress, tension, awkwardness, boredom, and the like.
3. Should be associated with doing one's own thing to be adventurous, different, adult, or whatever else is individually valued.
4. Should be perceived as some sort of new experience, something arousing some curiosity, and some challenge.
5. Should be different from established brands used by the over-thirty and perhaps even over-twenty-five groups. Must become the proprietary "in" thing of the "young" group.
6. Should not be perceived as a "health" brand.

The enumerated <u>Product Quality Factors</u> should be easy to achieve, except those requiring some ill-defined novelty. The <u>Product Image Factors</u>, of course, describe a promotional approach, and it is most likely that the name and appearance of the product will have become crucial in establishing the desired image. The name may be the most important factor, determining the appearance of the package and summarizing the image to be promoted.

Ideally, the name chosen should have a double meaning; that is, one desirable connotation in [illegible] language and another in the jargon of youth. A current example may be Kool, which reads as "cool" [illegible] in youth jargon, and also literally connotes a refreshing physical sensation. Another way of approaching the name or image would be to choose one which evokes different but desirable responses from different age groups. Thus the Marlboro Western theme suggests independence, clean air, open spaces and freedom to the youth group, while at the same time suggesting the "good old days", hard work, white hats over black hats, and the like to the older generation. In passing, it is interesting to note that Marlboro is a distinguished, dignified English name, and there is a certain inconsistency in equating this image with the West.

A careful study of the current youth jargon, together with a review of currently used high school American history books and like sources for valued things might be a good start at finding a good brand name and image theme. This is obviously a task for marketing people, not research people.

Assuming that at some point marketing people will establish a name and image for a new youth brand, and assuming that the thoughts on product quality factors expressed above are approximately correct, then Research and TPD should be able to provide the product needed. Most of the product specifications defined are achievable with present technology. Those which require new technology would appear to be (1) control of irritancy and related mouth-feel factors to produce a bland smoke, and (2) creation of some useful, demonstrable novelty in filter, mouthpiece, package or other aspect of the product system.

Our Company needs to take advantage of the opportunity to market new youth brands of cigarettes. The thoughts expressed here may provide a preliminary agenda for discussions between Research, TPD, Marketing and Management, aimed at more precisely defining what we could ultimately make and promote. It is hoped that such discussions will soon ensue. Meanwhile, it becomes appropriate for Research to seek ways to control smoke irritancy and to seek to create novel, useful cigarette systems.

Claude E. Teague, Jr.
February 2, 1973

:jhb

STATE OF MINNESOTA

Office of the Attorney General

WWW.AG.STATE.MN.US

TO: Jerry Mande

White House

Location

DATE:

PHONE:

FAX: 202-456-6027

FROM: Doug Blake

~~Thomas F. Pursell~~

~~Senior Counsel~~

445 Minnesota St., #1400

St. Paul, MN 55101-2131

PHONE: (612) 296-7~~[illegible]~~ 2306

FAX: (612) 297-4036

TTY: (612) 297-7206

SUBJECT:

DETERMINED TO BE AN ADMINISTRATIVE MARKING

INITIALS: M DATE: 09/27/13

~~CONFIDENTIAL~~ FACSIMILE

NUMBER OF PAGES (including cover page):

COMMENTS:

FOR TRANSMISSION PROBLEMS, PLEASE CALL FAX OPERATOR: Brenda at (612) 296-1799

OR RECEPTIONIST AT: (612) 296-7575

The information contained in this Fax is intended only for the use of the individual or entity named above. If the reader of this Fax is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are requested to (a) refrain from examining the materials, (b) immediately notify the sending person of the mistake, and (c) abide by any instructions of the sending person regarding the return of the document(s).

AG:109567 v1

DETERMINED TO BE AN
ADMINISTRATIVE MARKING
INITIALS: (W DATE: 09/27/13

RJR ~~SECRET~~

No. ~~386 By~~ 08

Declassification

STRATEGIC RESEARCH REPORT

February 29, 1984

TO: Mr. G. H. Long
Mr. M. L. Orlowsky
Mr. H. J. Lees

FROM: Diane S. Burrows

YOUNGER ADULT SMOKERS:

STRATEGIES AND OPPORTUNITIES

COPY LIST

Mr. L. W. Hall, Jr.
Ms. S. A. MacKinnon
Mr. G. W. McKenna
Mr. J. T. Winebrenner
Mr. J. R. Shostak
Mr. E. J. Fackelman
Ms. E. N. Monahan
Mr. J. R. Moore
Dr. J. L. Gemma
Mr. G. Novak
Mr. G. T. Baroody
Mr. D. F. Pearson

bcc: A. M. Curry
G. J. Totterdale
R. A. Lloyd
T. J. Rucker
W. K. Neher
C. G. Bethea
R. J. Harden (2)
J. Whaley

PUBLISHED BY THE MARKETING DEVELOPMENT DEPARTMENT
R.J. REYNOLDS TOBACCO COMPANY, WINSTON—SALEM, N.C. 27102

50192 8462

TRIAL EXHIBIT
12,579

RJRT Form 7364 — 10/81

B. Growth Sectors Within Younger ~~Adult Smokers (Cont.)~~

- The dominant trend in the younger adult smoker market over the last 50 years has been the rising importance of females. Because of this, the major "first brands" have been overdeveloped among males only during their periods of decline. Marlboro has become overdeveloped among younger adult males only after 1975, when its share was softening among younger adult female smokers.

- One key to Marlboro's success in capturing the Baby Bubble appears to be that it attracted more 18-year-old smokers than WINSTON, within the younger adult smoker market. That is, it was clearly a "first brand", with relatively lower switching appeal.

C. Out-Of-Touch Competitors

In every case, the major younger adult brands have been succeeded by a competitor's brand positioned to be significantly different from the predecessor. The softening/decline of the major younger adult brands seems linked to an inability to "stay in tune with the times" as well as a new competitor "started in tune with the times" at its introduction/repositioning. While the real criteria for being "in tune" are probably the mesh between imagery and/or product and the wants of younger adult smokers of the times, demographics are a useful tool for identifying the likelihood of that mesh.

- Pall Mall became out of touch with younger adult smokers' product wants when it failed to effectively react to the filter boom of the 1950's. WINSTON fit those wants.

- WINSTON was the victim of subtle shifts which may have been transparent or seemed transitory at the time.

  - WINSTON's light-hearted campaign fit well with the mindset of the 1950's, but did not fit as well with the rising tide of intense younger adult rebels as Marlboro did in the 1960's.

  - WINSTON's campaign had a slightly female slant and so did its franchise. In the 1960's, younger adult females were losing importance and males were gaining -- a better fit for Marlboro.

  - WINSTON's popularity among older smokers may have made it difficult to maintain an exclusively younger adult identity during the 1960's, when that want was most extreme.

- Kool found itself "too Black" in the 1970's as younger adult Whites were rapidly regaining market importance.

50192 8501

C. Out-Of-Touch Competitors (Cont.)

- Marlboro's advertising/positioning seems to have become less in touch with the demographic trends within younger adult smokers of the late 1970's and 1980's and, perhaps, their mindset.
  - Younger adult female smokers were the key growth sector in the 1970's and 1980's.
  - Today, Marlboro's younger adult male smokers do not have an above average interest in masculine imagery versus all younger adult males.
  - Philip Morris may have recognized Marlboro as vulnerable. Marlboro's disproportionate switching losses to Virginia Slims and Merit tend to feed Marlboro's losses back to PM. The campaign modifications on these brands may shorten the lines of supply.

D. Product Delivery/Communication

- Throughout the succession of "first brands", younger adult smokers have moved to "milder" products.
  - Pall Mall promised "mildness" based on its length.
  - WINSTON, as a filter product, would be seen as milder than nonfilters.
  - In the 1960's, Marlboro was "milder", i.e., significantly lower in tar, than WINSTON, as was advertised by the FTC. Today, Marlboro is still rated milder/smoother than WINSTON by younger adult smokers and is preferred.
  - Kool and SALEM could be seen as milder because of their menthol.
  - Newport is perceived as milder/smoother than Kool.
- Successful "first brands" have used positive product messages.
  - Pall Mall emphasized milder smoking "pleasure".
  - WINSTON "Tastes Good" despite its filter.
  - Marlboro is "where the flavor is", although historically and presently smoother than WINSTON.
  - Newport speaks to smoking "pleasure".

50192 8502

YOUNGER ADULT FEMALE SMOKERS

Opportunity Analysis

Younger adult female smokers have been a driving force behind industry growth during the last half century as they have become more likely to smoke at age 18 and, over time, spread in importance within older age brackets.

	% IMPORTANCE AMONG 18-YEAR-OLD SMOKERS		
	1960's	1970's	1980-83
Males	62	53	51
Females	38	47	49

Source: 1983 SDS

Younger adult females are continuing to gain importance among younger adult smokers, due to their stronger incidence trend versus younger adult males. Based on government reports in recent years expressing alarm at increased smoking among teenage girls, younger adult females are likely to continue to slowly gain importance, although external factors such as social acceptability and price may affect the outlook.

	INCIDENCE AMONG YOUNGER ADULTS 18-24				
	TOTAL	MALES		FEMALES	
	%	%	INDEX	%	INDEX
1980	32.7	33.7	103	31.7	97
1981	31.7	31.6	100	31.8	100
1982	29.4	28.8	98	30.1	102
1983	29.0	28.8	99	29.3	101

Source: MDD Tracker

Key differences in wants between younger adult female smokers and other smokers were identified in the 1983 SDS.

KEY WANTS/CONCERNS OF FEMALES 18-24

	VS. TOTAL SMOKERS	VS. TOTAL 18-24
Belonging/Fitting In	+	-
Moving Up in World	+++	No Difference
Powerlessness	++	++
Style/Dress	+++	+++
Savings/Value	++	+++
Health/"Tar"	+	+++
New Male/Female Roles	+++	+++
Social Acceptability	+	+++
Smoking Problems	+	++

Mangini Exhibit #1

Plaintiffs' Exhibit 1035
Date 5-8-97
WILLIAM C. LABORDE
REGISTERED PROF. REPORTER

Mr. C. A. Tucker

Presentation to RJR I

B of D — 9/30/74

Marketing Plans

Presentation

50142 1310

1975 MARKETING PLANS PRESENTATION
HILTON HEAD
SEPTEMBER 30, 1974

CHART #1
OBJECTIVE IN 1975

OUR PARAMOUNT MARKETING OBJECTIVE IN 1975 AND ENSUING YEARS IS TO REESTABLISH RJR'S SHARE OF MARKETING GROWTH IN THE DOMESTIC CIGARETTE INDUSTRY.

CHART #2
OPPORTUNITY AREAS

WE WILL SPEAK TO FOUR KEY OPPORTUNITY AREAS TO ACCOMPLISH THIS.

THEY ARE:

1- INCREASE OUR YOUNG ADULT FRANCHISE.
2- IMPROVE OUR METRO MARKET SHARE.
3- EXPLOIT THE POTENTIAL OF THE GROWING CIGARETTE CATEGORIES.
4- DEVELOP NEW BRANDS AND LINE EXTENSIONS WITH NEW PRODUCT BENEFITS OR NEW PERSONALITIES.

FIRST, LET'S LOOK AT THE GROWING IMPORTANCE OF THE YOUNG ADULT IN THE CIGARETTE MARKET. IN 1960, THIS YOUNG ADULT MARKET, THE 14-24 AGE GROUP, REPRESENTED 21% OF THE POPULATION.

CHART #3
YOUNG POPULATION SKEW

AS SEEN BY THIS CHART, THEY WILL REPRESENT 27% OF THE POPULATION IN 1975. THEY REPRESENT TOMORROW'S CIGARETTE BUSINESS. AS THIS 14-24 AGE GROUP MATURES, THEY WILL ACCOUNT FOR A KEY SHARE OF THE TOTAL CIGARETTE VOLUME -- FOR AT LEAST THE NEXT 25 YEARS.

CHART #4

P.M. & B&W

SHARE BY AGE

BOTH PHILIP MORRIS AND BROWN & WILLIAMSON, AND PARTICULARLY THEIR FAST GROWING MAJOR BRANDS, MARLBORO AND KOOL, HAVE SHOWN UNUSUAL STRENGTH AMONG THESE YOUNGER SMOKERS. IN THE 14-24 AGE CATEGORY, PHILIP MORRIS HAS A 38% SHARE AND B&W A 21% SHARE. BOTH COMPANIES HAVE SIGNIFICANTLY LOWER SHARES IN THE REMAINING AGE CATEGORIES.

WITH STRONG YOUNG ADULT FRANCHISES AND HIGH CIGARETTE BRAND LOYALTIES, THIS SUGGESTS CONTINUED GROWTH FOR PHILIP MORRIS AND B&W AS THEIR SMOKERS MATURE.

CHART #5

P.M., B&W, & RJR

SHARE BY AGE

IN SHARP CONTRAST, OUR COMPANY LINE SHOWS A PATTERN OF RELATIVELY EVEN STRENGTH AMONG ALL AGE GROUPS AND STRENGTH IN THE 25 AND OLDER CATEGORIES, WHERE WE EXCEED BOTH COMPETITORS.

CHART #6

SHARE BY AGE

WINSTON & SALEM

VS.

MARLBORO & KOOL

OUR TWO MAJOR BRANDS, WINSTON AND SALEM, SHOW COMPARATIVE WEAKNESS AGAINST MARLBORO AND KOOL AMONG THESE YOUNGER SMOKERS. WINSTON IS AT 14% IN THE 14-24 AGE GROUP VERSUS MARLBORO AT 33%. SALEM IS AT 9% VERSUS KOOL AT 17%. AGAIN, OUR BRANDS SHOW COMPETITIVE STRENGTH IN THE 25 AND OLDER AGE GROUPS.

THIS SUGGESTS SLOW MARKET SHARE EROSION FOR US IN THE YEARS TO COME UNLESS THE SITUATION IS CORRECTED.

CHART #7

STRATEGY

THUS, OUR STRATEGY BECOMES CLEAR FOR OUR ESTABLISHED BRANDS:

1- DIRECT ADVERTISING APPEAL TO THE YOUNGER SMOKERS WHILE
2- BEING TRUE TO THE BRAND'S BASIC PRODUCT ATTRIBUTES (E.G., TASTE FOR WINSTON, REFRESHMENT FOR SALEM) AND
3- WITHOUT ALIENATING THE BRAND'S CURRENT FRANCHISE.

CHART #8

NEW WINSTON AD CAMPAIGN

FOR WINSTON, WE'VE FOLLOWED THIS STRATEGY IN DEVELOPING THE NEW "CANDID" ADVERTISING CAMPAIGN WHICH BROKE SEPTEMBER 16. IT IS ESPECIALLY DESIGNE TO APPEAL TO YOUNG ADULTS WITH:

- SIMPLE STRAIGHTFORWARD COPY
- BELIEVABLE PEOPLE WITH CHARACTER
- STRONG PRODUCT SELL WITH REAL TASTE EMPHASIS

RESEARCH HAS SHOWN THAT AMONG YOUNG ADULTS, THE NEW WINSTON ADS GENERATE TWICE AS MUCH RECALL AS ANY PREVIOUS WINSTON CAMPAIGN AND ARE 40% MORE PERSUASIVE COMPARED TO THE MARLBORO CAMPAIGN.

CHART #9

SALEM IMPROVED AD CAMPAIGN

FOR SALEM, SIGNIFICANT IMPROVEMENTS HAVE BEEN MADE IN THE ADVERTISING, DESIGNED FOR MORE YOUNG ADULT APPEAL UNDER ITS GREENERY/REFRESHMENT THEME.

THESE INCLUDE:

- MORE TRUE-TO-LIFE YOUNG ADULT SITUATIONS.
- MORE DOMINANT MALE VISUALS.
- A GREATER SPIRIT OF FUN!
- GREATER USE OF WATER AS A REFRESHMENT SYMBOL.

RESEARCH HAS SHOWN THESE CHANGES HAVE MEASURABLY IMPROVED THE ADS IN TERMS OF:

- GREATER RECALL
- GREATER REFRESHMENT PLAYBACK
- MORE YOUNG ADULT APPEAL - TRIAL HAS INCREASED FROM 24% TO 31% IN THE UNDER 35 AGE GROUP FOR THE KING SIZE.

EFFORTS TO IDENTIFY AN EVEN STRONGER CAMPAIGN ARE BEING AGGRESSIVELY PURSUED BY TWO ADVERTISING AGENCIES AND AT LEAST ONE NEW CAMPAIGN IS ANTICIPATED TO BE MARKET TESTED IN EARLY 1975.

<u>CHART 10</u>
SALEM BOX
ADVERTISING

FURTHER YOUNG ADULT EMPHASIS IS BEING PLACED THROUGH THE SUCCESSFUL SALEM BOX "DENIM" CAMPAIGN. RESEARCH HAS SHOWN:

- SALEM BOX PROFILE IS YOUNGER WITH 57% OF USERS IN THE 18-34 AGE GROUP VERSUS 41% FOR SALEM KING.

<u>CHART #11</u>
CAMEL FILTER
ADVERTISING

CAMEL FILTER CONTINUES TO SHOW VITALITY IN THE MARKET, GROWING ABOUT 50% FASTER THAN THE INDUSTRY - UNDER ITS CURRENT "NOT FOR EVERYBODY" CAMPAIGN.

50142 1314

- ADVERTISING AWARENESS HAS INCREASED AMONG PRIME PROSPECTS -- YOUNG ADULT MALES.
- FAVORABLE CONSUMER ATTITUDES TOWARD THE BRANDS HAVE INCREASED.
- THE BRAND HAS INCREASED ITS SHARE PENETRATION AMONG THE KEY 18-24 MALE AGE GROUP -- FROM 1.8 TO 2.1% -- A 16% INCREASE.

<u>CHART #12</u>
NEW PROGRAM
FOR CAMEL FILTER

STARTING IN JULY 1974, A NEW MARKETING PROGRAM WAS PUT INTO TEST MARKET -- TARGETED AT YOUNG ADULTS AND DESIGNED TO BE EVEN MORE COMPETITIVE AGAINST MARLBORO IN TERMS OF:

- NEW "MEET THE TURK" ADVERTISING CAMPAIGN.
- NEW MARLBORO-LIKE BLEND IN THE PRODUCT.
- SIGNIFICANTLY INCREASED AD SPENDING.

ALSO A NEW PACKAGE DESIGN WITH STRONGER YOUNG ADULT MALE APPEAL IS BEING DEVELOPED AND WILL BE TESTED IN EARLY 1975.

WE RECOGNIZE "MEET THE TURK" HAS POTENTIAL PROBLEMS DUE TO THE GREEK-TURKISH WAR. A BACK-UP CAMPAIGN IS BEING DEVELOPED IN THE EVENT THIS BECOMES A SERIOUS PROBLEM.

<u>CHART #13</u>
VANTAGE

VANTAGE WITH ITS FAST GROWTH RATE COULD BE OUR WINSTON OF TOMORROW. UNLIKE THE TRADITIONAL PATTERN OF OTHER LOW TAR AND NICOTINE BRANDS, VANTAGE HAS SHOWN THE ABILITY TO ATTRACT:

- SIGNIFICANT NUMBERS OF NORMAL FLAVOR FILTER SMOKERS. ALMOST 50% OF THE BRAND'S NEW BUSINESS COMES FROM NORMAL FLAVOR FILTER SMOKERS COMPARED TO ONLY 20% FOR OTHER LOW TAR AND NICOTINE BRANDS.
- NEW AND YOUNGER SMOKERS. FIELD SALES REPORTS VANTAGE HAS POCKETS OF STRENGTH ON COLLEGE CAMPUSES (E.G., IN THE BOOK STORE AT HARVARD SQUARE, VANTAGE IS AMONG THE TOP 10 SELLERS, 15TH NATIONALLY).

AD SPENDING HAS BEEN INCREASED IN 1975 WITH MORE TARGETED EFFORTS AGAINST YOUNG ADULTS TO MORE FULLY EXPLOIT THIS POTENTIAL.

CHART #14

MEDIA

WE HAVE ALSO INCREASED OUR MEDIA EFFORTS TOWARD YOUNG ADULTS FOR OUR BRANDS.

THESE INCLUDE:

- INCREASED ADVERTISING INSERTIONS IN TRADITIONAL YOUNG ADULT MAGAZINES LIKE SPORTS ILLUSTRATED, PLAYBOY AND MS.
- HAVE ADDED NEW YOUNG ADULT SPECIAL INTEREST MAGAZINES LIKE ROAD AND TRACK AND MOTORCYCLING.
- EXPANDED OUTDOOR WITH SELECTIVE LOCATIONS FOR MAXIMUM YOUNG ADULT EXPOSURE -- E.G., POSTERS IN GREENWICH VILLAGE AND IN AREAS WITH LARGE COLLEGE STUDENT POPULATIONS.

CHART #15

SPECIAL EVENTS

WINSTON

EACH OF OUR MAJOR SPECIAL EVENTS IS DIRECTED AGAINST YOUNG ADULTS.

NASCAR, WITH WINSTON, REACHES 8 MILLION SPECTATORS WITH 63% OF THESE UNDER 35 YEARS OF AGE.

OUR PARTICIPATION TAKES 2 FORMS:

- THE WINSTON CUP/WINSTON WEST SERIES WITH 55 RACES PRIMARILY IN THE SOUTHEAST AND CALIFORNIA.
- THE MODIFIED SPORTSMAN WITH 60 RACES IN THE NORTHEAST AND MID-WEST.

THUS, NASCAR GIVES WINSTON NATIONAL COVERAGE.

IN RODEOS, WE PROMOTE WINSTON IN OVER 600 EVENTS REACHING 12 MILLION SPECTATORS WITH 57% UNDER 35 YEARS OF AGE -- IN THE MID-WEST AND WEST.

CHART #16

SPECIAL EVENTS.

CAMEL FILTER

FOR CAMEL FILTER, WE HAVE DEVELOPED A NEW STRATEGY. WHILE CAMEL CANNOT MATCH THE MEDIA DOLLARS SPENT BY MARLBORO, THE BRAND WILL HAVE PINPOINTED EFFORTS AGAINST YOUNG ADULTS THROUGH ITS SPONSORSHIP OF SPORTS CAR RACING AND MOTORCYCLING. SPORTS CAR RACING REACHES 300,000 SPECTATORS -- 85% UNDER 35 YEARS OF AGE -- AND IS PRIMARILY ON THE EAST AND WEST COASTS.

CHART #17
SPECIAL EVENTS
PROMOTIONAL
ACTIVITIES

MOTORCYCLING, A NEW SPECIAL EVENT SUCCESSFULLY TESTED IN 1974, WILL HAVE 26 RACES REACHING 400,000 SPECTATORS WITH AN ESTIMATED 90% UNDER 35 YEARS OF AGE. THIS EVENT WILL BE IN THE MAJOR POPULATION CENTERS SUCH AS CHICAGO, LOS ANGELES, SAN FRANCISCO, AND HOUSTON.

SINCE SPECIAL EVENTS ARE A RELATIVELY NEW AND DIFFERENT TYPE OF ACTIVITY FOR US, I WOULD LIKE TO REVIEW THE NATURE AND EXTENT OF OUR PROMOTIONAL ACTIVITIES IN THEM.

FIRST, WE HAVE HEAVY INVOLVEMENT AT THE EVENT SITE, PERMANENT BILLBOARD ADVERTISING, AND BRAND EXCLUSIVITY AT CONCESSION STANDS. WE SELL OUR BRANDED, EVENT-RELATED ITEMS, SUCH AS WINSTON HATS, SHIRTS, AND JACKETS. WE HAVE TIE-IN BANNERS AND PASTERS WITH STRONG BRAND IDENTIFICATION AND BRAND COMMERCIALS OVER THE PUBLIC ADDRESS SYSTEMS.

WE HAVE STRONG PRESS OUTREACH THROUGH WIRE SERVICES, LOCAL PRESS AND SPECIAL INTEREST PUBLICATIONS.

FOR EXAMPLE, AT THE WINSTON WESTERN 500, THE RACE WITH HEAVY MENTION OF WINSTON WAS IN NEWSPAPERS HAVING A CIRCULATION OF 10 MILLION AND ON A 2-HOUR RADIO PROGRAM REACHING 30 MILLION PEOPLE.

OUR SALES FORCE WORKS RETAIL STORE TIE-INS TO THE EVENT WITH PRODUCT DISPLAYS AND PASTERS.

501421319

OUR WINSTON #1 AND CAMEL FILTER GT CARS ARE DISPLAYED IN SHOPPING CENTERS IN MAJOR MARKETS. THE WINSTON #1 CAR HAS RECEIVED OUTSTANDING ACCEPTANCE RECENTLY ON THE STREETS OF NEW YORK.

LASTLY, WE USE NEWSPAPER AND PROGRAM ADVERTISING FOR IMAGE ASSOCIATION BETWEEN THE BRAND AND THE SPORT.

YOU MIGHT LOGICALLY ASK "WHAT DOES ALL OF THIS MEAN IN TERMS OF SALES?" OUR RESEARCH INDICATES THAT AMONG RACING FANS, WINSTON'S SHARE OF SMOKERS IS 67% GREATER THAN AMONG NON-RACING FANS. AMONG RODEO FANS, WINSTON'S SHARE OF SMOKERS IS 50% GREATER THAN AMONG NON-RODEO FANS. WHILE WE DON'T HAVE DIRECTLY COMPARABLE DATA FOR OUR NEWER CAMEL FILTER SPECIAL EVENTS, OUR RESEARCH INDICATES A DRAMATIC INCREASE IN PURCHASE RATE AMONG FANS ATTENDING.

OTHER PROGRAMS HAVE BEEN DEVELOPED TO REACH YOUNG ADULTS WHERE THEY WORK, PLAY AND WHERE THEY PURCHASE THEIR CIGARETTES. FREE-ON-PACKAGE TRIAL INDUCEMENT PROMOTIONS ARE BEING USED IN HIGH TRAFFIC, YOUNG ADULT PACKAGE OUTLETS SUCH AS CONVENIENCE STORES. SEVEN MILLION TRIAL UNITS WILL BE SOLD IN 1975. WE WILL HAVE PERMANENT COUNTER DISPLAYS IN 35,000 OUTLETS CATERING TO YOUNG ADULT PACKAGE PURCHASES.

FINALLY, SUCCESSIVE WAVES OF COUPONING WILL BE TESTED IN 1975. BY WAY OF EXPLANATION, WE WILL SELECT A SPECIFIC MARKET OF YOUNG ADULTS. THESE PEOPLE WILL BE GIVEN SUCCESSIVE WAVES OF COUPONS GOOD FOR A SUBSTANTIAL PRICE REDUCTION ON A CARTON PURCHASE. WE WILL THEN TRACK THIS GROUP TO DETERMINE THE AMOUNT OF SWITCHING TO OUR BRAND. THE STRATEGY HERE IS TO TAKE THESE CONSUMERS "OFF THE MARKET" FOR THEIR REGULAR BRAND LONG ENOUGH TO CONVERT THEM.

OUR SPECIAL MERCHANDISING DIVISION IS IN ITS SECOND YEAR WITH ITS SUCCESSFUL WHOLESALE OPERATION OF PREMIUMS AT BEACHES AND SPECIAL EVENTS THROUGH A SEPARATE SALES FORCE AND A MOBILE STORE. WE ANTICIPATE SELLING OVER A MILLION ITEMS IN 1975 -- A MILLION "WALKING BILLBOARDS" FOR OUR BRANDS.

WE WILL CONTINUE OUR SPECIAL SAMPLING PROGRAMS ON BEACHES, RESORT AREAS AND SPORTS ARENAS IN MAJOR METRO MARKETS -- WHERE THERE ARE LARGE CONGREGATIONS OF YOUNG ADULTS.

RESEARCH WILL BE DONE IN 1975 TO DETERMINE EFFECTIVENESS OF SAMPLING 4's, 10's, PACKS, AND MULTIPLE PACKS.

CHART #18
KEY OPPORTUNITY
MAJOR METRO

ANOTHER OPPORTUNITY IS IN MAJOR METROPOLITAN AREAS.

CHART #19
RJR OPERATION METRO
MAJOR MARKET TREND
SHARE

THIS CHART SHOWS OUR TOTAL COMPANY PERFORMANCE BY CITY SIZE. THE CITIES LISTED ON THE BOTTOM OF THE CHART ARE IN DESCENDING ORDER OF POPULATION - - STARTING WITH NEW YORK, LOS ANGELES AND CHICAGO, AND ENDING WITH ALBUQUERQUE AND SAN DIEGO. THE STRAIGHT DOTTED LINE IS OUR AVERAGE SHARE OF MARKET IN THE TOTAL U.S. THE RED LINE SHOWS OUR ACTUAL SHARE OF MARKET FOR EACH CITY VERSUS OUR AVERAGE U.S. SHARE; THAT IS, OUR SHARE IN NEW YORK, LOS ANGELES, AND CHICAGO, IS MUCH BELOW AVERAGE AND OUR SHARE IN THE SMALLER CITIES IS ABOVE AVERAGE. THE SOLID BLACK LINE SHOWS THAT, AS THE SIZE OF CITIES DECREASES, OUR TOTAL RJR SHARE OF MARKET INCREASES.

CHART #20
POPULATION
CONCENTRATION

THE TREND IS OF SPECIAL INTEREST TO US. BY THE YEAR 2000, SOME 70% OF THE PEOPLE IN THE UNITED STATES WILL LIVE IN ONLY 12 URBAN CENTERS, WITH HALF OF THE POPULATION CONCENTRATED IN 3 CENTERS.

CHART #21
% U.S. INDUSTRY

LOOKING AT THE THREE LARGEST METROPOLITAN AREAS -- NEW YORK, CHICAGO, AND LOS ANGELES, WE FIND THAT OUR VOLUME IS WELL BELOW THAT OF THE INDUSTRY (16.2% INDUSTRY VS. 12.0% RJR). AND, IF NEW YORK,

CHICAGO, AND LOS ANGELES ARE REMOVED FROM RJR VOLUME, THEN OUR NATIONAL SHARE WOULD BE 33.5% RATHER THAN THE CURRENT 32.0%.

IN ORDER TO TAKE ADVANTAGE OF THIS BUSINESS BUILDING OPPORTUNITY, WE HAVE ESTABLISHED A MAJOR METROPOLITAN PROJECT. ITS PURPOSE IS TO IMPROVE OUR SHARE OF MARKET IN METROPOLITAN AREAS WHERE WE HAVE BEEN TRADITIONALLY WEAK.

CHART #22
METRO ORGANIZATION

ORGANIZATIONALLY, WE HAVE ESTABLISHED MARKETING DEVELOPMENT MANAGERS FOR NEW YORK, CHICAGO, AND LOS ANGELES. THESE MANAGERS ARE RESPONSIBLE FOR MARKETING PLANS ON ALL OUR BRANDS IN THEIR ASSIGNED METRO AREAS.

THE MARKETING DEVELOPMENT MANAGER CONCEPT BECAME A REALITY IN JULY OF THIS YEAR AND, TO DATE, WE HAVE SEEN SOME MOST ENCOURAGING PROGRAMS.

CHART #23
METRO ACTION
PROGRAMS

WE HAVE SUBSTANTIALLY INCREASED OUR VENDING DISTRIBUTION THROUGH THE ESTABLISHMENT OF AREA VENDING MANAGERS WHO ARE RESPONSIBLE FOR AND PAY CLOSE ATTENTION TO VENDING. WE HAVE IMPLEMENTED THE SALESMAN "RIDE WITH VENDOR" PROGRAM TIED TO BONUS PLACEMENT PAYMENTS ON SALEM SUPER AND VANTAGE. THESE PROGRAMS HAVE BEEN MOST SUCCESSFUL. WITH VANTAGE, WE HAVE INCREASED VENDING DISTRIBUTION FROM 38% TO 55% OF THE MACHINES PLACED OR COMMITTED.

TO FURTHER INCREASE OUR VENDING DISTRIBUTION, WE WILL BE WORKING WITH THE TRU-CHECK COMPUTER SYSTEM IN 1975. TRU-CHECK IS AN ORGANIZATION THAT PROVIDES COMPUTER PRINT-OUTS ON BRAND PLACEMENTS IN VENDING MACHINES -- A LABORIOUS MANUAL PROBLEM FOR VENDORS. THIS COMPUTER SERVICE PROVIDES THE VENDOR WITH SUBSTANTIATION FOR RECEIVING PAYMENTS FROM CIGARETTE MANUFACTURERS. TRU-CHECK'S SERVICE IS NATIONAL (210,000 VENDING MACHINES), BUT THEIR STRENGTH IS IN THE NORTHEAST WHERE OUR VENDING DISTRIBUTION TRADITIONALLY HAS BEEN WEAK.

WITH TRU-CHECK, WE CAN LOCK A MINIMUM OF SEVEN OF OUR BRANDS INTO VENDORS' MACHINES, INCREASING OUR DISTRIBUTION, AND PREVENTING OUR COMPETITORS FROM REMOVING OUR BRANDS WITH THEIR VENDING OFFERS.

CURRENTLY, WE HAVE AN AVERAGE OF 5 BRANDS IN THE MACHINES TRU-CHECK SERVICES. THEREFORE, WE WILL IMMEDIATELY PICK UP APPROXIMATELY 2 BRANDS IN EACH OF THE 210,000 MACHINES.

WITH OUR VENDING MANAGER'S INVOLVEMENT, WE FEEL WE CAN INCREASE THE NUMBER OF VENDING MACHINES FROM 210,000 TO 310,000 -- WITH ADDITIONAL PLACEMENTS FOR US.

LOCALIZED PROMOTIONS

CHART #24
METRO ACTION PROGRAMS

WE HAVE DEVELOPED CUSTOMIZED LOCAL PROMOTIONS INCLUDING A PUERTO RICAN SWEEPSTAKES, HARLEM BASKETBALL TEAM SPONSORSHIP AND A FLOAT IN THE AFRO/AMERICAN DAY PARADE -- ALL IN NEW YORK CITY!

IN LOS ANGELES, WE ARE INVOLVED IN THE SPONSORSHIP OF A BEACH VOLLEYBALL LEAGUE AND THE WATTS SUMMER FESTIVAL CONCERT.

WITH A SHELF DISPLAY PAYMENT TO THE HIGH VOLUME NON-SELF-SERVICE STORES, OUR BRANDS ARE NOW ON DISPLAY TO CONSUMERS. THIS FURTHER FACILITATES AN EFFICIENT REORDERING SYSTEM AT STORE LEVEL, THUS REDUCING OUT OF STOCKS. WE ANTICIPATE EXPANDING THIS PROGRAM TO 10,000 RETAIL OUTLETS IN 1975.

AND LAST, BUT NOT LEAST, WE'VE JUST PUT UP OUR WINSTON "SUPER WALL" DISPLAY -- A GIGANTIC PAINTED WALL ABOUT THE SIZE OF A HALF-ACRE ON AN 8TH AVENUE BUILDING IN NEW YORK CITY. IT MAY WELL BE THE LARGEST PAINTED SIGN IN THE WORLD!

CHART #25
INCREASED MEDIA SPENDING--METRO

IN 1975, WE HAVE INCREASED OUR MEDIA SPENDING IN THE MAJOR METRO AREAS -- BY 9% FOR WINSTON, 24% FOR SALEM AND 33% FOR VANTAGE.

CHART #26

METRO MEDIA SPENDING
RJR VS. COMPETITION

ASSUMING COMPETITION SPENDS THE SAME PERCENT OF THEIR BUDGET IN THESE MAJOR METRO MARKETS IN 1975 AS IN 1974, WE WILL CONTINUE TO OUT-SPEND THEM. WINSTON AT $8.2 MILLION VERSUS $6.7 MILLION FOR MARLBORO; $7.4 MILLION FOR SALEM VERSUS $5.2 MILLION FOR KOOL; AND $2.5 MILLION FOR VANTAGE VERSUS $2.3 MILLION FOR TRUE.

FURTHER, WE ARE CONDUCTING BLIND PRODUCT TESTS TO DETERMINE IF THE CONSUMER TASTE PREFERENCES FOR CIGARETTES DIFFER IN MAJOR METRO AREAS, WHERE WE HAVE TRADITIONALLY BEEN WEAK. TEST RESULTS WILL BE AVAILABLE IN DECEMBER OF THIS YEAR.

THE RESULTS ACHIEVED IN OUR METRO MARKET EFFORTS TO DATE INDICATE CLEARLY THAT OUR MARKETING EFFORTS MUST BE CUSTOMIZED AND LOCALIZED TO MEET THE REQUIREMENTS OF THE INDIVIDUAL MARKETS AND THE CIGARETTE PREFERENCES OF THE CONSUMERS IN THOSE MARKETS.

ADDITIONALLY, THIS REQUIRES US TO GIVE LOCAL FIELD SALES MANAGEMENT BOTH RESPONSIBILITY AND FLEXIBILITY IN DEVELOPING THESE PROGRAMS. OUR 1975 PLANS RECOGNIZE THESE REQUIREMENTS.

CHART #27

KEY OPPORTUNITY
GROWTH CATEGORIES

ANOTHER KEY OPPORTUNITY TO INCREASE OUR SHARE IS TO EXPLOIT THE POTENTIAL OF GROWING CIGARETTE CATEGORIES -- NAMELY, THE 100MM'S, LOW "TAR" AND NICOTINE CIGARETTES AND THE BOX PACKAGE STYLES.

THE 100MM'S ARE UP 9% IN VOLUME IN 1974 OVER 1973 HAVING ACCOUNTED FOR ALMOST ONE-FOURTH OF ALL CIGARETTES SOLD AFTER ONLY 7 YEARS ON THE MARKET.

<u>CHART #28</u>
WINSTON SUPER KING

NOW THAT WE HAVE A NEW CAMPAIGN FOR WINSTON, SPECIAL ADS FOR THE WINSTON SUPER KING SIZE HAVE BEEN DEVELOPED. A HIGHER QUALITY PACKAGE HAS ALSO BEEN DEVELOPED AND WILL BE TESTED. AS YOU KNOW, THE MENTHOL VERSION HAS BEEN REINTRODUCED WITH A NEW PACKAGE, NEW BLEND, AND NEW ADVERTISING.

<u>CHART #29</u>
SALEM SUPER KING

FOR SALEM SUPER KING WE HAVE JUST INTRODUCED A NEW ADVERTISING CAMPAIGN IN WOMEN'S MAGAZINES. THE CAMPAIGN TIES IN STYLISH EXTRA LENGTH WITH PROVEN HIGH INTEREST FASHION APPEAL AND ENDORSED BY BIG NAME DESIGNERS SUCH AS BILL BLASS, RALPH LAUREN, AND CALVIN KLEIN. THE CAMPAIGN THEME IS "FOR MORE OF A WOMAN, MORE OF A SALEM."

ROSE WELLS, OUR FASHION CONSULTANT, HAS DONE A TREMENDOUS JOB. SHE HAS EXTENDED THE FASHION TIE-IN TO RETAIL STORES AND CONSUMERS. AT SOME 50 FASHION SHOWS WITH BIG NAME DESIGNERS, SALEM FASHION ADS ARE PROMINENTLY DISPLAYED. FASHION EDITORS ARE CONTACTED AND PRODUCT IS SAMPLED.

ALSO, SHE EXPECTS TO ARRANGE SOME 50 WINDOW/IN-STORE DISPLAYS FEATURING THE SALEM ADS WITH FASHIONS. ALREADY SHE HAS HAD DISPLAYS IN BLOOMINGDALE'S,

FILENE'S, I. MAGNIN, AND OTHER TOP DEPARTMENT STORES.

CHART #30

LOW "TAR"/NICOTINE

THE FASTEST GROWING CATEGORY IS LOW "TAR"/NICOTINE CIGARETTES. WE HAVE ALMOST A THIRD OF THAT CATEGORY AND WE WANT MORE.

FOR VANTAGE, WE ARE CONTINUING A MOST SUCCESSFUL AD CAMPAIGN AND AS WE'VE MENTIONED BEFORE, WE'VE INCREASED MEDIA SPENDING. ALSO, WE'VE ADDED A HEAVY DIRECT MAIL COUPON PROGRAM IN THE TOP URBAN MARKETS IN '75.

FOR DORAL, TWO NEW BACK-UP CAMPAIGNS ARE BEING TESTED, POSITIONING THE BRAND MORE SHARPLY AS A LOW "TAR" AND NICOTINE CIGARETTE. A NEW BLEND WITH LOWER "TAR" AND NICOTINE TO FIT THIS STRATEGY IS ALSO BEING TESTED.

FOR WINSTON LIGHTS, SEPARATE ADS ARE BEING DEVELOPED UNDER THE NEW "CANDID" THEME FOR PLACEMENT IN MEDIA AIMED AT HIGH POTENTIAL AUDIENCES, FEMALE AND URBAN, AND BACKED UP BY HEAVY SAMPLING IN THE MAJOR METRO MARKETS.

ANOTHER GROWTH CATEGORY IS THE BOX STYLE -- UP 10% FROM 1973 TO 1974 AND PRESENTLY DOMINATED BY MARLBORO. YOU ARE FAMILIAR WITH THE WINSTON AND SALEM BOX MARKETING PROGRAMS. BOTH ARE INCREASING THEIR SHARE OF THE BOX MARKET.

50142 1326

IN ADDITION, A CAMEL FILTER BOX WILL BE TEST MARKETED IN 1975.

(PAUSE)

TO BETTER COMPETE WITH MARLBORO AND KOOL IN THE KING SIZE CATEGORY, WE ARE PRESENTLY BLIND TESTING REVISED/IMPROVED BLENDS. FOR WINSTON KING THIS WILL BE A HIGHER pH FACTOR LIKE THAT FOUND IN MARLBORO AND FOR SALEM, HIGHER pH AND POSSIBLY SLIGHTLY HIGHER MENTHOL LEVEL. THESE REVISED BLENDS WILL HAVE TO BE ACCEPTABLE TO OUR CURRENT FRANCHISE AS WELL AS BE MORE COMPETITIVE.

(PAUSE)

AS YOU KNOW, THE REGULAR NON-FILTER CATEGORY CONTINUES TO DECLINE SHARPLY. WITH CAMEL REGULAR HAVING INCREASED ITS SHARE OF THE CATEGORY TO 64%, ITS ADVERTISING HAS BEEN DISCONTINUED WITH THOSE MONIES REALLOCATED TO GROWING BRANDS IN GROWING CATEGORIES.

CHART #31

KEY GROWTH OPPORTUNITIES

WE HAVE REVIEWED THE NEW AND IMPROVED PROGRAMS FOR OUR ESTABLISHED CIGARETTE BRANDS DESIGNED TO:

- INCREASE OUR YOUNG ADULT FRANCHISE.
- IMPROVE OUR METRO MARKET SHARE, AND
- EXPLOIT THE POTENTIAL OF GROWING CIGARETTE CATEGORIES.

CERTAINLY, THOUGH, WE DON'T EXPECT THESE PROGRAMS TO BE AN "OVERNIGHT" PANACEA AGAINST MARLBORO AND KOOL, WHICH HAVE ACCOUNTED FOR 93% OF INDUSTRY GROWTH IN THE LAST 5 YEARS.

<u>CHART #32</u>
KEY OPPORTUNITY
NEW BRANDS

NEW BRANDS AND/OR LINE EXTENSIONS WITH NEW BENEFITS OR NEW PERSONALITIES AND WITH DIRECTED APPEAL TO YOUNGER SMOKERS OFFER THE QUICKEST OPPORTUNITY TO COMBAT MARLBORO AND KOOL. .

<u>CHART #33</u>
NEW BRANDS

Birmingham
New Orleans

Dallas-Ft. Worth
Portland

THREE NEW BRANDS BEING TESTED IN 1974-1975 SPEAK DIRECTLY TO THIS OPPORTUNITY. THEY ARE:

1. SALEM EXTRA - A HIGH MENTHOL LINE EXTENSION AIMED AT KOOL.

2. WINCHESTER CIGARETTES - AN 85MM FILTER AND MENTHOL, POSITIONED TO CAPITALIZE ON THE YOUNG APPEAL OF THE WINCHESTER EQUITY -- AIMED AT MARLBORO AND KOOL -- AND

3. MORE - A 120MM FILTER AND MENTHOL VERSION -- A NEW CONCEPT, A NEW CATEGORY IN SMOKING, AIMED AT MALE SMOKERS AND AGAINST MARLBORO AND KOOL.

YOU ARE FAMILIAR WITH THE TEST MARKET PROGRAMS FOR SALEM EXTRA AND WINCHESTER.

"MORE" IS PRESENTLY BEING TESTED ONLY IN OKLAHOMA CITY TO GET INITIAL PRODUCT REACTION. EXPANSION TO OTHER TEST MARKETS IS PLANNED FOR EARLY NEXT YEAR

50142 1328

WITH THE MENTHOL VERSION BEING TESTED ALONE IN ONE O THESE MARKETS.

CHART #34

ADDITIONAL NEW PRODUCTS

ADDITIONAL NEW PRODUCT PROJECTS ARE IN VARIOUS STAGE OF DEVELOPMENT. THESE INCLUDE A 100MM CIGARETTE WIT QUALITY PACKAGE AND IMAGE APPEAL TO INCREASING AFFLUENCY, CAPITALIZING ON THE GROWING 100MM CATEGOR

A FEMALE CIGARETTE IN REGULAR AND MENTHOL 100MM STYL IS BEING DEVELOPED TO GIVE THE COMPANY AN ENTRY IN THE GROWING CIGARETTE MARKET FOR WOMEN.

THE 120MM "MORE" PRODUCT IN A WHITE PAPER WRAP IS AN ALTERNATIVE.

ANOTHER NEW BRAND OPPORTUNITY IS A CIGARETTE WHICH GIVES COOLNESS WITHOUT THE TASTE OF MENTHOL. MANY SMOKERS HAVE EXPRESSED A DESIRE FOR COOLNESS BUT DISLIKE THE MEDICINAL TASTE OF MENTHOL. THIS PROJEC PROVIDES AN OPPORTUNITY TO EXPAND THE GROWING MENTHO CATEGORY IN A UNIQUE WAY.

ALSO, OUR TOBACCO DEVELOPMENT PEOPLE ARE WORKING ON A UNIQUE FILTER WHICH DELIVERS LOW "TAR" AND NICOTIN WITH GOOD FLAVOR. THIS FILTER PROVIDES AN OPPORTUNI TO REPLACE OUR CURRENT FILTERS ON OUR ESTABLISHED BRANDS, IF DEEMED NECESSARY.

50142 1329

LASTLY, WE ARE WORKING ON A CIGARETTE IN WHICH 95% T 98% OF THE NICOTINE HAS BEEN REMOVED FROM THE TOBACC AND SMOKE. THE MARKET FOR A NEW CATEGORY OF NICOTIN FREE CIGARETTES COULD BE DEVELOPED IN THE SAME MANNE THAT SANKA DEVELOPED THE DECAFFEINATED COFFEE MARKET

THIS COMPLETES OUR SUMMARY OF ACTIVITIES PLANNED FOR OUR CIGARETTE BRANDS, HOWEVER, BEFORE GOING ON, I WOULD LIKE TO DISCUSS OUR PLANS FOR A NEW SMOKING PRODUCT.

THE IMPORT CATEGORY IS THE ONLY SEGMENT OF THE SMOKING TOBACCO BUSINESS SHOWING VITALITY. TO CAPITALIZE ON THIS OPPORTUNITY, A RJR IMPORT PIPE TOBACCO - ZÜR WAS INTRODUCED IN TEST MARKETS THIS MONTH. THESE TEST MARKETS ARE:

DAYTON, OHIO
DES MOINES, IOWA
ROCHESTER, NEW YORK
ALBANY, NEW YORK.

ASSUMING FAVORABLE TEST RESULTS, ZÜR WILL BE EXPANDED NATIONALLY IN SEPTEMBER OF 1975.

OTHER RJR SMOKING TOBACCOS AND OUR CHEWING BRANDS WILL RECEIVE ONLY LIMITED MEDIA SUPPORT AS WE HAVE FOUND THAT THE MOST EFFECTIVE MEANS OF PROMOTING THESE BRANDS IS THROUGH OUR SALES FORCE IMPLEMENTED PROMOTIONS.

NEW OPPORTUNITIES NOT BUDGETED

CHART #35
NON-BUDGETED OPPORTUNITIES

IN ADDITION TO THE NEW PRODUCT OPPORTUNITIES JUST DISCUSSED, THERE ARE OTHER GROWTH OPPORTUNITIES BEING DEVELOPED. THEY ARE:

1. TOBACCO PRODUCTS DIVISION (NON-CIGARETTE)
2. FUTURE DISTRIBUTION OPPORTUNITIES
3. AUTOMATED CHECK-OUT -- RETAIL STORES

<u>TOBACCO PRODUCTS DIVISION (NON-CIGARETTE)</u>

AN OPPORTUNITY EXISTS FOR THE ESTABLISHMENT OF A TOBACCO PRODUCTS MARKETING DIVISION THAT WOULD ENCOMPASS THE OPERATIONS OF EXISTING RJR SMOKING, CHEWING AND LITTLE CIGAR BRANDS.

THIS DIVISION WOULD UTILIZE ALL SERVICE FUNCTIONS OF THE COMPANY (MANUFACTURING, PURCHASING, FINANCE, ETC.) AND THUS WOULD BE FREE TO CONCENTRATE ON NON-CIGARETTE TOBACCO MARKETING OPPORTUNITIES. IN 1975, THESE OPERATIONS ARE FORECASTED TO ACCOUNT FOR APPROXIMATELY $57 MILLION IN NET SALES AND RETURN ABOUT $11 MILLION IN OPERATING PROFIT BEFORE TAXES.

THE PURPOSE OF A SEPARATE DIVISION WOULD BE TO DIRECT ATTENTION TO THE SINGULAR MARKETING PROBLEMS AND OPPORTUNITIES REPRESENTED BY RJR'S NON-CIGARETTE TOBACCO PRODUCTS (INCLUDING RJR PRODUCTS MANUFACTURED BY OUR SUBSIDIARIES THAT HAVE SALES POTENTIAL IN THE U.S.). A SEPARATE MARKETING DIVISION WOULD ELIMINATE THE PRESSURES OF CIGARETTE MARKETING NEEDS AGAINST OUR NON-CIGARETTE PRODUCTS AND WOULD CONSOLIDATE THE FINANCIAL CONTRIBUTION OF THESE NON-CIGARETTE BRANDS AGAINST SPECIFIC MARKETING PROGRAMS AND AGAINST PERTINENT PROFIT GOALS.

FUTURE DISTRIBUTION OPPORTUNITIES

IN RECENT YEARS, A NUMBER OF SMALLER DISTRIBUTORS HAVE EITHER CURTAILED OR LIQUIDATED THEIR OPERATIONS. IT IS FELT THAT THIS TREND WILL CONTINUE. WHEN THIS OCCURS, IT LEAVES THE CIGARETTE MANUFACTURER WITH A DISTRIBUTION GAP.

ACCORDINGLY, WE HAVE TOTALLY REVIEWED OUR OPERATIONS IN PUERTO RICO WHERE WE DO OUR OWN DISTRIBUTING AND HAVE TAKEN THE FOLLOWING STEPS TO EXPAND THIS PROGRAM:

1. WE WILL MOVE INTO HAWAII WITH OUR OWN OPERATIONS IN EARLY 1975 - BECAUSE OF A LACK OF SERVICE AND DISTRIBUTION FACILITIES THERE NOW.
2. MANHATTAN - WE ARE ADDING SEVEN MEN TO PROVIDE EVERY-OTHER-WEEK COVERAGE AND TO ASSURE FULL-LINE DISTRIBUTION.
3. RESORT AREAS (EAST AND WEST COAST) - COMPANY CREWS (PART TIME HELP) WILL BLITZ THESE AREAS WEEKLY DURING THE SEASON. IN A TEST IN '74 $150,000 OF PRODUCT WAS SOLD IN A 12-DAY PERIOD AT MYRTLE BEACH.
4. TOURIST ROUTES (I-95) EVERY-OTHER-WEEK COVERAGE OF HIGH VOLUME OUTLETS -- AGAIN TO PROVIDE FULL-LINE DISTRIBUTION.

AUTOMATED CHECK-OUT -- RETAIL STORES

THE GROCERY TRADE IS AGGRESSIVELY PURSUING THE OBJECTIVE OF AUTOMATED CHECK-OUTS. THE DRUG TRADE IS EXPECTED TO FOLLOW CLOSELY. BY THE LATE 70'S THESE AUTOMATED CHECK-OUTS WILL BE OPERATIVE IN SUFFICIENT NUMBERS TO HAVE A PROFOUND AFFECT ON THE MARKETING OF CONSUMER PRODUCTS. THE IMPORTANCE TO RJR IS EXEMPLIFIED BY THE FACT THAT GROCERY STORES ALONE ACCOUNT FOR NEARLY ONE-HALF OF ALL CIGARETTES SOLD TODAY.

RJR HAS BEEN DEEPLY INVOLVED IN THIS ACTIVITY FOR THE PAST YEAR - AND CURRENTLY DISPLAYS THE UNIVERSAL PRODUCT CODE ON ALL CARTONS - THE FIRST CIGARETTE COMPANY TO DO SO. ON-GOING STUDIES ARE CONSIDERING THE IMPLICATION OF THE AUTOMATED CHECK-OUT AS IT RELATES TO THE HIRING AND TRAINING OF OUR FIELD SALES FORCE. SALES COVERAGE, COMPUTER TO COMPUTER ORDERING AND INVENTORY CONTROL, AND CIGARETTE PROFITABILITY AT RETAIL.

MOST IMPORTANT, HOWEVER, ARE THE IMPLICATIONS FOR CIGARETTE MERCHANDISING. THE AUTOMATED CHECK-OUT PROBABLY WILL MEAN THE REMOVAL OF ALL CIGARETTES FROM THE CHECK-OUT AREA. THUS, WE WILL HAVE TO DEVISE NEW METHODS FOR MERCHANDISING PACKAGED CIGARETTES IN THESE IMPORTANT OUTLETS. THE MAIN THRUST OF OUR EFFORT WILL BE IN THIS AREA.

501421333

BUDGET CHART

NOW LET US LOOK AT OUR 1975 ADVERTISING AND PROMOTION BUDGET. WE HAVE BUDGETED $143.1MM TO COVER 1975 MARKETING PROGRAMS. THIS IS AN INCREASE OF $13.2MM OR 10.2% OVER THE 1974 BUDGET OF $129.9MM.

IN PREPARING THE BUDGET FOR 1975, WE WERE FACED WITH INFLATIONARY INCREASES OF FROM 8 TO 10 PERCENT IN THE COST OF ADVERTISING SPACE AND PROMOTION MATERIALS.

FACED WITH THESE COST PRESSURES, WE WERE ABLE TO HOLD THE OVERALL BUDGET INCREASE TO 10 PERCENT AND YET STILL PROVIDE $14.7 MILLION FOR THE NATIONAL INTRODUCTION OF ONE NEW CIGARETTE BRAND, $5.8 MILLION FOR NEW CIGARETTES BRAND TESTING (INCLUDING MORE AND UP TO FOUR OTHER NEW BRANDS), AND $600,000 FOR THE NATIONAL INTRODUCTION OF ONE NEW PIPE TOBACCO BRAND.

IN REVIEWING THE CHANGES IN SPENDING ON OUR EXISTING CIGARETTE BRANDS:

- THE WINSTON BUDGET IS REDUCED $2.6MM DUE TO 1974 BEING AN UNUSUALLY HEAVY SPENDING YEAR IN WHICH WE INTRODUCE A NEW NATIONAL AD CAMPAIGN.
- THE SALEM BUDGET, WHILE REDUCED BY $300,000, STILL PROVIDES FOR THE NATIONAL INTRODUCTION OF SALEM EXTRA IF TEST MARKET IS SUCCESSFUL.
- THE REDUCTION OF $800,000 IN THE CAMEL BUDGET REFLECTS OUR DECISION TO DISCONTINUE MEDIA SUPPORT OF THE CAMEL REGULAR BRAND EXCEPT FOR A SMALL TEST IN FIVE AREAS OF THE COUNTRY.

-- DORAL WILL SPEND THE SAME IN 1975 AS IN 1974.

-- VANTAGE IS THE ONLY EXISTING CIGARETTE BRAND SHOWING A BUDGET INCREASE. THE $2.8 MILLION INCREASE ENABLES VANTAGE TO MAINTAIN ITS SECOND-HALF 1974 MEDIA SPENDING RATE.

-- WE PLAN TO WITHDRAW ALL SUPPORT OF WINCHESTER CIGARS AFTER THE FIRST QUARTER OF 1975 ASSUMING WINCHESTER CIGARETTES GO NATIONAL. MEDIA SUPPORT WAS DISCONTINUED IN JULY OF THIS YEAR. THIS MOVE REDUCES THE BUDGET BY $3.6MM.

AS YOU CAN SEE, THE MAJOR EMPHASIS IN OUR 1975 BUDGET IS IN THE NEW CIGARETTE BRAND AREA (BOTH TESTING AND ACHIEVING NATIONAL DISTRIBUTION).

WE FULLY RECOGNIZE THAT WE ARE PROPOSING A VERY AMBITIOUS MARKETING PROGRAM, PARTICULARLY IN THE <u>NEW PRODUCT</u> AREA. BUT IT IS EQUALLY EVIDENT THAT SUCCESSFUL NEW PRODUCTS ARE KEY TO THE FUTURE GROWTH OF R. J. REYNOLDS TOBACCO COMPANY.

MARKETING OBJECTIVE

1975

RE-ESTABLISH OUR SHARE OF MARKET

GROWTH

IN THE DOMESTIC CIGARETTE INDUSTRY

RJM 067322

500746977

KEY OPPORTUNITY AREAS FOR GROWTH

1. Increase Our Young Adult Franchise.
2. Improve Our Metro Market Share.
3. Exploit The Potential Of The Growing Cigarette Categories.
4. Develop New Brands And Line Extensions.

PERCENT OF POPULATION
BY AGE

Age Group	1975
14-24	27
25-34	19
35-49	21
50+	33

SHARE OF SMOKERS

BY AGE

1974

	14-24	25-34	35-49	50+
P. MORRIS	38%	24	17	14
B & W	21%	14	15	15

SHARE OF SMOKERS

BY AGE

1974

	14-24	25-34	35-49	50+
RJR	27	34	30	31
P. MORRIS	38	24	17	14
B & W	21	14	15	15

RJM 067326

50074 6981

SHARE OF SMOKERS

BY AGE

1974

	14-24	25-34	35-49	50+
WINSTON	14%	17	12	10
MARLBORO	33%	14	6	4
SALEM	9%	9	10	9
KOOL	17%	6	5	4

STRATEGY FOR ESTABLISHED BRANDS

1- DIRECT ADVERTISING APPEAL TO THE YOUNGER SMOKERS WHILE

2- BEING TRUE TO THE BRAND'S BASIC PRODUCT ATTRIBUTES (E.G., TASTE FOR WINSTON AND REFRESHMENT FOR SALEM) AND

3- WITHOUT ALIENATING THE BRAND'S CURRENT FRANCHISE.

NEW WINSTON "CANDID" ADVERTISING CAMPAIGN

ESPECIALLY DESIGNED TO APPEAL TO YOUNG ADULTS WITH:

- SIMPLE STRAIGHTFORWARD COPY
- BELIEVABLE PEOPLE WITH CHARACTER
- STRONG PRODUCT SELL WITH REAL TASTE EMPHASIS.

IMPROVED SALEM ADVERTISING

- MORE TRUE-TO-LIFE YOUNG ADULT SITUATIONS.
- MORE DOMINANT MALE VISUALS.
- A GREATER SPIRIT OF FUN!
- GREATER USE OF WATER AS A REFRESHMENT SYMBOL.

RJM 067330

50074 6985

SALEM BOX ADVERTISING

STRONG APPEAL TO YOUNG ADULTS

SALEM BOX PROFILE IS YOUNGER WITH 57% OF USERS IN THE 18-34 AGE GROUP VERSUS 41% FOR SALEM KING.

CURRENT CAMEL FILTER ADVERTISING

STRONG PERFORMANCE AMONG YOUNG ADULTS

-- UNDER ITS CURRENT "NOT FOR EVERYBODY" CAMPAIGN,

- ADVERTISING AWARENESS HAS INCREASED AMONG PRIME PROSPECTS -- YOUNG ADULT MALES.
- FAVORABLE CONSUMER ATTITUDES TOWARD THE BRAND HAVE INCREASED.
- THE BRAND HAS INCREASED ITS SHARE PENETRATION AMONG THE KEY 18-24 MALE AGE GROUP -- FROM 1.8 TO 2.1%.

NEW MARKETING PROGRAM

FOR CAMEL FILTER

AIMED AT YOUNG ADULTS AND DESIGNED TO BE EVEN MORE COMPETITIVE AGAINST MARLBORO IN TERMS OF:

- NEW "MEET THE TURK" ADVERTISING CAMPAIGN.
- NEW MARLBORO-LIKE BLEND.
- SIGNIFICANTLY INCREASED AD SPENDING.
- NEW PACKAGE DESIGN.

VANTAGE

SHOWING YOUNG ADULT APPEAL

UNLIKE THE TRADITIONAL PATTERN OF OTHER LOW "TAR" AND NICOTINE BRANDS, VANTAGE HAS SHOWN THE ABILITY TO ATTRACT:

- SIGNIFICANT NUMBERS OF NORMAL FLAVOR FILTER SMOKERS.
- NEW AND YOUNGER SMOKERS.

AD SPENDING HAS BEEN INCREASED IN 1975 WITH MORE TARGETED EFFORTS AGAINST YOUNG ADULTS.

INCREASED MEDIA EFFORTS TOWARD YOUNG ADULTS

- INCREASED ADVERTISING INSERTIONS IN TRADITIONAL YOUNG ADULT MAGAZINES.
- ADDED NEW YOUNG ADULT SPECIAL INTEREST MAGAZINES.
- EXPANDED OUTDOOR WITH SELECTIVE LOCATIONS FOR MAXIMUM YOUNG ADULT EXPOSURE.

SPECIAL EVENTS PARTICIPATION

WINSTON

- NASCAR - REACHES 8 MILLION SPECTATORS -- 63% UNDER 35 YEARS OF AGE.

- RODEOS - OVER 600 EVENTS REACHING 12 MILLION SPECTATORS -- 57% UNDER 35 YEARS OF AGE -- IN MID-WEST AND WEST.

SPECIAL EVENTS PARTICIPATION

CAMEL FILTER

- SPORTS CAR RACING - 10 RACES REACHING 300M SPECTATORS -- 85% UNDER 35 YEARS OF AGE -- PRIMARILY ON EAST AND WEST COASTS.

- MOTORCYCLING - 26 RACES REACHING 400M SPECTATORS -- ESTIMATE 90% UNDER 35 YEARS OF AGE -- IN MAJOR POPULATION CENTERS THROUGHOUT THE UNITED STATES.

SPECIAL EVENTS: PROMOTIONAL ACTIVITIES

1. EVENT SITE PARTICIPATION (TRACK, ARENA, ETC.)
   - PERMANENT BILLBOARD ADVERTISING
   - BRAND EXCLUSIVITY AT CONCESSION STANDS
   - SALE OF BRANDED, EVENT-RELATED ITEMS
   - TIE-IN BANNERS AND PASTERS
   - BRAND COMMERCIALS OVER PUBLIC ADDRESS SYSTEMS

2. PRESS OUTREACH

3. RETAIL STORE TIE-INS WITH PRODUCT DISPLAYS AND PASTERS

4. WINSTON #1 CARS AND CAMEL FILTER GT CAR (DISPLAYED IN SHOPPING CENTERS IN MAJOR MARKETS NEAR RACE SITES, INCLUDING NEW YORK CITY, FOR 50 WEEKS DURING THE YEAR).

5. TIE-IN NEWSPAPER AND PROGRAM ADVERTISING FOR IMAGE ASSOCIATION BETWEEN BRAND AND SPORT.

KEY OPPORTUNITY AREAS FOR GROWTH

1. INCREASE OUR YOUNG ADULT FRANCHISE.

2. IMPROVE OUR METRO MARKET SHARE.

3. EXPLOIT THE POTENTIAL OF THE GROWING CIGARETTE CATEGORIES.

4. DEVELOP NEW BRANDS AND LINE EXTENSIONS WITH NEW PRODUCT BENEFITS OR NEW PERSONALITIES.

RJM 067339

50074 6994

50074 6995

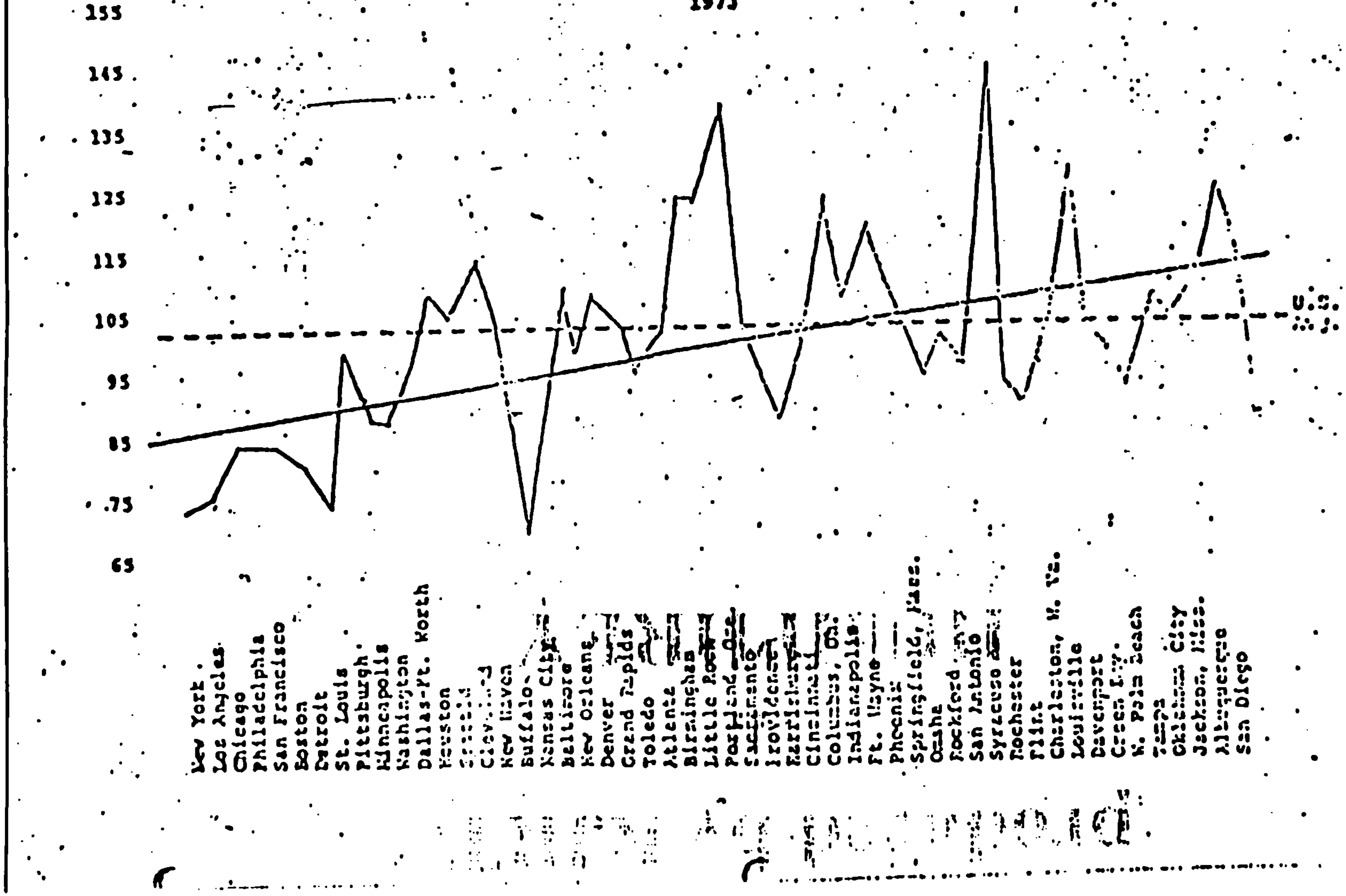
RJM 067340

R. J. REYNOLDS TOBACCO COMPANY

OPERATION METRO

MAJOR MARKET SHARE TREND

1973



NOTES

POPULATION CONCENTRATION IN METRO MARKETS

BY YEAR 2000:

- 70% OF U. S. POPULATION WILL LIVE IN 12 URBAN CENTERS.
- 50% OF U. S. POPULATION CONCENTRATED IN 3 URBAN CENTERS.

% U.S. INDUSTRY AND RJR 1973 VOLUME

	INDUSTRY	RJR
NEW YORK	7.1%	4.9%
CHICAGO	3.4	2.7
LOS ANGELES	5.7	4.4
THREE MARKET TOTAL	16.2%	12.0%

IF NEW YORK, CHICAGO, AND LOS ANGELES ARE REMOVED FROM RJR VOLUME, THEN OUR NATIONAL SHARE WOULD BE 33.5% RATHER THAN THE CURRENT 32.0%.

RJM 067342

500746997

METRO MARKET PROJECT ORGANIZATION CHART