

BRAND MARKETING REVIEW

PURPOSE

- PROVIDE AN OVERVIEW OF PRODUCT LINE STRATEGIES ON A NEAR AND LONG-TERM BASIS.
- PROVIDE AN UPDATE OF THE STATUS OF EXISTING BRAND FAMILIES' MARKETING OBJECTIVES, STRATEGIES AND ACTION PLANS.

INDIVIDUAL BRAND PRESENTATIONS WILL COVER THE FOLLOWING:

- I. KEY ISSUES
- II. PERFORMANCE REVIEW
- III. POSITIONING/CREATIVE STRATEGY
- IV. PRODUCT QUALITY
- V. MARKETING EXPENDITURES
- VI. MEDIA
- VII. PROMOTION
- VIII. SPECIAL EVENTS
- IX. SPECIAL MARKETS
- X. BUSINESS BUILDING
- XI. STRATEGIC ACTION SUMMARY

STRATEGIC MARKETING OVERVIEW

A. PRODUCT LINE KEY ISSUES

1. PRODUCT PERFORMANCE

KEY BRAND STYLES ARE NOT CONSISTENTLY OFFERING COMPETITIVE PRODUCTS TO SMOKERS

WINSTON	-	FF85; FF100; FFLT85
SALEM	-	FFLT85; FF85
CAMEL	-	FFLT100; FFLT85
VANTAGE	-	FFLT85; FFLT100

IN THE AGGREGATE, THESE BRAND STYLES ARE PROJECTED TO ACCOUNT FOR 52% OF TOTAL 1984 VOLUME.

2. CONSUMER SHARE TRENDS

THE RJRT CONSUMER SHARE TREND HAS NOT DEMONSTRATED VITALITY (SINCE LATE 1982) DUE TO:

- THE ONSET OF PRICE PRESSURE
- LACK OF PENETRATION OF YOUNGER ADULT SMOKERS (IN FACT, THIS IS A CONTINUATION OF A HISTORICAL TREND), E.G.:

	<u>SHARE OF 18 YR. OLD SMOKERS</u>	
	<u>1965</u>	<u>1981</u>
	<u>%</u>	<u>%</u>
RJRT	45.1	19.3
PM	17.4	59.7

- USER PERCEPTIONS OF KEY BRAND FAMILIES - WINSTON, SALEM, CAMEL -
EITHER LACK A CONSISTENT FOCUS, ARE IN THE PROCESS OF IMAGE TRANSITION, OR HAVE
CONFLICTING IMAGERY/PRODUCT PERCEPTIONS.
- DEMOGRAPHIC PROFILE OF CORE BRAND FRANCHISES (WINSTON/SALEM) ARE OLDER AND MALE (WINSTON)
CAUSING GREATER THAN AVERAGE QUITTING AND GENERIC SWITCHING LOSSES.

KEY ISSUES IMPACT

WHILE THE COMBINED EFFECTS OF PRODUCT PERFORMANCE, LACK OF YOUNGER ADULT SMOKER PENETRATION, AND THE DEMOGRAPHIC COMPOSITION OF PRODUCT LINE USERS SERVED TO INHIBIT THE TOTAL REALIZATION OF MEETING OR EXCEEDING VOLUME POTENTIAL, THE SINGLE LARGEST FACTOR WHICH CAUSED BELOW AVERAGE VOLUME PERFORMANCE WAS PRICE PRESSURE.

PRICE PRESSURE LED TO A BASIC DISLOCATION OF CONSUMER BEHAVIOR, EXACERBATING THE NEGATIVE INFLUENCES OF THE ABOVE FACTORS AND REDUCING THE EFFECTIVENESS OF MARKETING STRATEGIES/ PROGRAMS TO DEMONSTRATE POSITIVE RESULTS.

THE NATURE OF 1983 BRAND VOLUME LOSSES REFLECTS THE MAGNITUDE OF VULNERABILITY THERE WAS TO THESE PRESSURES:

<u>% MSA VOLUME LOSS '83 vs. '82</u>	
WINSTON SALEM	-13.0
CAMEL VANTAGE	-10.4
MORE NOW	- 7.6

B. STRATEGIC OVERVIEW

FOUR STRATEGIC CONSIDERATIONS ARE SIGNIFICANTLY IMPORTANT IN SHAPING OVERALL PRIORITIES AND MARKETING STRATEGIES:

(1) TIMING/CATEGORY OF OPPORTUNITY

- TIMING

ESTABLISH OBJECTIVES/STRATEGIES BY THE FOLLOWING TIME FRAMES:

- SHORT-TERM - 1984
- INTERMEDIATE-TERM - 1985
- LONG-TERM - 1985 AND BEYOND

- CATEGORY OF OPPORTUNITY

● EXISTING BRANDS

CORE BRANDS - WINSTON/SALEM

PRIMARY CONTRIBUTION FOR THE SHORT AND INTERMEDIATE-TERM, AT MINIMUM, IS TO PROVIDE A SOLID AND VIABLE MASS VOLUME BASE FOR THE ENTIRE PRODUCT LINE.

OPPORTUNISTIC GROWTH BRANDS - CAMEL/VANTAGE

BROAD-BASED SHARE GROWTH OVER TIME

TARGETED MARKET APPEAL BRANDS - MORE/NOW/CENTURY/BRIGHT

BRANDS WITH WELL-DEFINED MARKET NICHE IN TERMS OF DEVELOPING SHARE GROWTH

- NEW BRANDS - STERLING/AA
- OPPORTUNITIES - PROPOSITIONS WHICH CAN BE IDENTIFIED TO MEET MARKETPLACE NEEDS AND OFFER SIGNIFICANT STRATEGIC BENEFITS TO STRENGTHEN THE SHARE AND VOLUME NEEDS FOR THE FUTURE GROWTH OF THE TOTAL PRODUCT LINE.

(2) PRODUCT QUALITY

● SHORT-TERM

THE NEED TO RAPIDLY DEVELOP TECHNICAL IMPROVEMENTS AND CONSISTENCY OF PERFORMANCE TO EXISTING PRODUCTS MAKING THEM MORE COMPETITIVE.

● LONGER-TERM

THE ABILITY TO APPLY TECHNOLOGICAL ENHANCEMENTS TO PRODUCE SUPERIOR PRODUCTS AND/OR CREATE NEW MARKET OPPORTUNITIES.

(3) DEMOGRAPHIC PROFILE OF PRODUCT LINE

- IN THE SHORT AND INTERMEDIATE-TERM ENSURE EXISTING BRANDS ARE POSITIONED AND MARKETING IN A MANNER WHICH CAPITALIZES ON ALL OPPORTUNITIES TO INCREASE SHARE OF YOUNGER ADULT SMOKERS AND/OR FULLY MAXIMIZES TOTAL SMOKER GAINS.
- FOR THE LONG-TERM, DEVELOP NEW BRAND OPPORTUNITIES TO REDIRECT THE DEMOGRAPHIC ORIENTATION OF THE PRODUCT LINE.

(4) PRICING

- EXPLOIT PRICING STRATEGIES IN THE SHORT AND INTERMEDIATE-TERM WHICH WILL PROVIDE INCREMENTAL VOLUME OPPORTUNITY.

SUMMARY OF BRAND MARKETING OPTIONS

	Short-Term (1984)	Intermediate-Term (1985)	Long-Term (1985 & Beyond)
Existing Brands			
	A. <u>Core Brands</u> WINSTON, SALEM	WINSTON, SALEM	WINSTON, SALEM
	B. <u>Opportunistic Growth Brands</u> CAMEL, VANTAGE	CAMEL, VANTAGE, STERLING	CAMEL, VANTAGE, STERLING Younger Adult Smoker Brands
	C. <u>Targeted Market Appeal Brands</u> MORE, CENTURY, NOW, BRIGHT	MORE, CENTURY, NOW, BRIGHT, Project DS, Project DB	MORE, CENTURY, NOW, BRIGHT, Savings Segment Brands Project AA, Project DS/DB
New Brands	STERLING	Project AA	Project MG
Opportunities	1. Project DS 2. Project DB 3. Imagery Line Extensions of Select Existing Brands	1. Savings Segment Brands 2. Younger Adult Smoker Brand (Non-Menthol) 3. Younger Adult Solo Menthol Brand 4. Male/Female Brand	1. Technology Driven Brands 2. Price Segmented Brands (Premium Priced)

Strategic Assessment of Short/Long-Term Priorities

- Short-Term - 1984

● Currently Planned

A. Existing Brands

	<u>Objective</u>	<u>Strategy</u>
1. WINSTON	Volume	Maximize volume base through efficient use of resources.
2. SALEM	Volume/Share Growth	Maximize volume base/continue reorientation of demographic user base towards younger adult smokers.
3. CAMEL	Share Growth	Opportunistic business building to deliver incremental volume against broad user base.
4. VANTAGE		
5. MORE	Share Growth	Selective and efficient marketing approach against well-defined market niches.
6. CENTURY		
7. NOW		
8. BRIGHT	Hold Share	Reassess brand opportunity.

B. New Brands

1. STERLING	Build Share	Develop awareness and trial/conversion.
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- Opportunities

A. New Brands

Objective

Strategy

1. Project DS

Incremental Volume

Recapture and retain price sensitive smokers through name brand price approach.

2. Project DB

Incremental Volume

Provide competitive younger adult smoker opportunity through price-oriented "imagery" supported brand entries.

 (a) Solo Non-Menthol

 (b) Solo Menthol

B. Existing Brands

1. Imagery Line Extensions

Share Growth

Explore strategies for line extending certain established brands offering greater demographic targeting for brand family leading to incremental share growth.

- Intermediate Term - 1985

A. Existing Brands

	<u>Objective</u>	<u>Strategy</u>
1. WINSTON	Volume	Maximize volume base/strengthen demographic appeal.
2. SALEM	Volume/Share Growth	Maximize volume base/continue reorientation of demographic user base towards younger adult smokers.
3. CAMEL	Share Growth	Opportunistic business building to deliver incremental volume against broad user base.
4. VANTAGE		
5. STERLING		
6. MORE	Share Growth	Selective and efficient marketing approach against well-defined market niches.
7. CENTURY		
8. NOW		
9. BRIGHT	Build Share	Basis product and marketing reevaluation determine optimal future course of action.
10. Project DS/DB	Maintain Volume	Ensure brands are competitively positioned to maintain a strong volume opportunity.

B. New Brands

1. Project AA	Build Share	Develop awareness and trial/conversion.
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- Opportunities

- A. New Brands

- Objective

- Strategy

- 1. Savings Segment Brands

- Volume

- Establish a full line of price-oriented products to establish comprehensive profitable leadership (trade and consumer) of "savings" segment.

- 2. Younger Adult Smoker Brands

- Share

- Introduce superior products with technological enhancements to the 18-24 year old smoker group to develop share growth against younger adult smokers.

- 3. Younger Adult Smoker Solo Menthol Brand

- Share

- Establish a menthol entry offering appeal to younger adult smokers to counter Newport growth.

- 4. Male/Female Brand

- Share

- Establish entry in "value-added" younger adult smoker category through unique prestige/stylish positioning.

- Long-Term - 1985 and Beyond

A. Existing Brands

Objective

Strategy

1. WINSTON	Volume Stabilization	Efficient/effective use of resources directed against consistent consumer focus to sustain volume.
2. SALEM	Share Growth/Volume	Concentrate on building younger adult smoker share of market while maintaining solid volume base.
3. CAMEL	Share Growth	Sustain growth.
4. VANTAGE		
5. STERLING		
6. MORE	Share Growth	Selective and efficient marketing approach against well-defined market niches.
7. CENTURY		
8. NOW		
9. Project AA	Share Growth	Selective and efficient marketing approach in proportion to marketing opportunity.
10. BRIGHT		
11. Project DS/DB/Other Savings Segment Brands	Volume	Maintain competitive position in marketplace.

B. New Brands

1. Younger Adult Smoker Brand (Non-Menthol)	Share Growth	Develop awareness, trial and conversion.
2. Younger Adult Smoker Brand (Solo Menthol)		
3. Male/Female Brand (Prestige/Stylish)		

● Opportunities

Objective

Strategy

1. Technology Driven Brands

Share/Volume

*Apply technological opportunities in the following order of priority (as appropriate and feasible):

(1) Product benefit aimed at mass smoker market.

(2) Product benefit aimed at younger adult smoker market.

(3) Product benefit offering sociability values.

(4) Product benefit aimed at "concerned" segment smokers.

*Should technology be available prior to 1985 or 1986 - an appropriate product would be developed and launched earlier.

2. Price Segmentation

Profit/Share

Assess opportunities to differentiate either existing products or new products through a premium pricing strategy.

C. 1984 BRAND MARKETING STRATEGIES

1. THE 1984 SHARE AND VOLUME OBJECTIVE IS:

	<u>1983</u>	<u>1984</u>	<u>DIFF.</u>
SHARE	31.47	33.29	+1.82
VOLUME	187.5	195.0	+4.3%

2. 1984 BRAND VOLUME OBJECTIVES ARE:

	<u>1983</u>	<u>1984</u>	<u>% CHANGE</u>
WINSTON	71.0	67.7	-4.7
SALEM	48.3	48.7	+0.8
CAMEL	27.2	28.1	+3.3
VANTAGE	22.0	22.9	+4.0
BRIGHT	2.4	3.5	+45.8
MORE	9.1	8.9	-2.2
NOW	4.1	4.1	NC
CENTURY	2.2	5.3	+140.9
DORAL II	<u>1.2</u>	<u>.8</u>	<u>-33.3</u>
TOTAL	187.5	190.0	+1.3

1984 INCREMENTAL VOLUME OBJECTIVES

STERLING	5.0
DS (20% U.S.)	<u>1.4</u>
TOTAL	6.4

3. TO ACHIEVE 1984 OBJECTIVES, MARKETING STRATEGIES AND PLANS HAVE BEEN RESTRUCTURED
TO SIGNIFICANTLY IMPROVE THE ACTUAL VOLUME OUTCOME FOR THE YEAR.

EACH BRAND FAMILY'S 1984 MARKETING EFFORT IS DEDICATED TO POSITIVELY IMPACT THE BASELINE TREND - WHICH ON AN OVERALL BASIS IS PROJECTED AT 2% TO 4% BEHIND 1983, CURRENTLY.

A. RESOURCE ALLOCATION

INDIVIDUAL BRAND MARKETING BUDGETS HAVE BEEN REVISED TO REFLECT THE MOST TARGETED AND EFFICIENT USE OF FUNDS TO MEET INDIVIDUAL VOLUME OBJECTIVES AND ESTABLISH A "WAR CHEST" FOR ADDITIONAL MARKETING ACTIONS ABOVE AND BEYOND THOSE CURRENTLY PLANNED.

<u>BRAND</u>	<u>1983 TOTAL</u>	<u>1984 TOTAL</u>	<u>% CHANGE</u>
WINSTON	78.7	90.6	+15.1
SALEM	85.8	84.2	- 1.9
CAMEL	94.2	102.9	+ 9.2
VANTAGE	67.3	80.0	+18.9
MORE	40.0	50.0	+25.0
NOW	24.8	27.0	+ 8.9
BRIGHT	86.7	21.1	-75.7
CENTURY	<u>69.3</u>	<u>63.3</u>	<u>- 8.7</u>
TOTAL	546.8	519.1	- 5.1

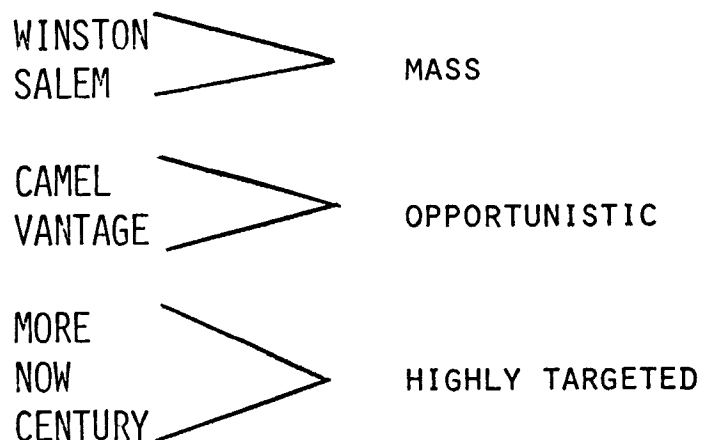
- RESERVE OF \$ 72MM IS AVAILABLE FOR INCREMENTAL PROGRAMS.

INITIAL EFFORTS IN THIS AREA INCLUDE:

- WINSTON/SALEM DIRECT MAIL COMPETITIVE SMOKER COUPONING PROGRAM - 1ST QUARTER
 - WINSTON/SALEM STREET INTERCEPT COUPON ACTIVITY - MARKETS - 1ST/2ND QUARTERS
 - SALES DISTRIBUTED COUPONING - MARCH-DEC.
 - JANUARY ROP MULTI-BRAND COUPON - 1ST QUARTER
- ADDITIONAL PROGRAMS ARE UNDER DEVELOPMENT FOR 2ND AND 3RD QUARTERS.
 - FUNDING FOR PROJECT DS WILL BE SOURCED FROM THIS RESERVE.

1984 OVERALL STRATEGIC FOCUS

- ESTABLISH PRODUCT DEVELOPMENT PRIORITIES WHICH REFLECT OPPORTUNITIES AGAINST KEY VOLUME AND GROWTH BRAND STYLES.
- MAXIMIZE VOLUME RETURNS FOR ALL BRANDS, PARTICULARLY IN THE SHORT-TERM (1984), THROUGH EFFICIENT AND EFFECTIVE USE OF MARKETING RESOURCES.
- SINGLE-MINDED BRAND MARKETING STRATEGIES WHICH CLEARLY FOCUS ON BUSINESS OPPORTUNITIES.
- RESOURCE ALLOCATION PRIORITIES ACROSS THE PRODUCT LINE MUST PROVIDE A BASIS FOR INDIVIDUAL BRAND FAMILIES TO REALIZE OPTIMAL DEMOGRAPHIC AND GEOGRAPHIC POTENTIAL.



- ADVERTISING STRATEGIES WILL ADDRESS CRITICAL COMMUNICATIONS NEEDS IN TERMS OF BRAND APPEAL AND LONG-TERM POSITIONING OPPORTUNITIES.

- 1984 SPENDING STRATEGY

CORE BRANDS

- WILL UNDERSPEND RELATIVE TO VOLUME CONTRIBUTION
- HEAVY EMPHASIS ON ADVERTISING VERSUS PROMOTION FROM BRAND-CONTROLLED EXPENDITURES STANDPOINT
- WILL RECEIVE HIGHEST PRIORITY FOR INCREMENTAL CORPORATE VOLUME PROMOTIONS
- WILL STRESS EFFICIENCY
- WILL EFFECT BROAD-BASED, HIGH VISIBILITY MARKET PRESENCE FOR MAXIMUM VOLUME RETURN.

OPPORTUNISTIC
GROWTH
BRANDS

- WILL OVERSPEND RELATIVE TO VOLUME CONTRIBUTION
- TARGETED RESOURCE ALLOCATION AGAINST DEMOGRAPHIC AND GEOGRAPHIC OPPORTUNITIES
- AWARENESS AND TRIAL GENERATION WILL DRIVE MEDIA/PROMOTION STRATEGIES

TARGETED
MARKET
APPEAL
BRANDS

- WILL OVERSPEND RELATIVE TO VOLUME CONTRIBUTION
- HIGHLY CONCENTRATED DEMOGRAPHIC AND GEOGRAPHIC SPENDING

<u>CORE BRANDS</u>	<u>1984 BRAND-CONTROLLED EXPENDITURES</u>	<u>% DOLLARS OF TOTAL BRAND-CONTROLLED</u>	<u>% SPENDING TO VOLUME INDEX</u>
	(MM)		
WINSTON	90.6	18	51
SALEM	84.2	16	46
SUBTOTAL	174.8	34	57
<u>OPPORTUNISTIC GROWTH BRANDS</u>			
VANTAGE	80.0	15	133
CAMEL	102.9	20	143
SUBTOTAL	182.9	35	138
<u>TARGETED MARKET APPEAL BRANDS</u>			
MORE	50.0	10	200
NOW	27.0	5	250
CENTURY	63.3	12	400
BRIGHT	21.1	4	150
SUBTOTAL	161.4	31	250
GRAND TOTAL	519.1	100	

- MEDIA SPENDING BY TYPE

	<u>1983</u>		<u>1984</u>		<u>% CHANGE</u>
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	
MAGAZINES	106	36	115	40	+8
SUPPLEMENTS	26	9	33	12	+27
NEWSPAPER	64	21	42	15	-34
O-O-H	<u>102</u>	34	<u>92</u>	33	-10
TOTAL	298	100	282	100	-5

(B) PROMOTIONAL EFFECTIVENESS

BRAND PROMOTION STRATEGIES HAVE BEEN REVISED TO REFLECT A MORE VOLUME-ORIENTED APPROACH AT THE CONSUMER LEVEL EMPHASIZING -

- MULTIPLE PURCHASE
- COMPETITIVE TRIAL
- LESS CONCENTRATION ON IMAGE PROMOTIONS AND SAMPLING
- A STRONGER MIX OF NATIONAL AND GEOGRAPHICALLY TARGETED EVENTS
- DEFENSIVE AND OFFENSIVE PROGRAMS
- INCREASED USE OF DIRECT MARKETING FROM A CORPORATE AND BRAND PERSPECTIVE
- GREATER EFFICIENCIES

(c) OTHER STRATEGIES

- TARGETING
- PRODUCT QUALITY
- REGIONALIZED MARKETING
- SPECIAL MARKETS
- BUSINESS BUILDING
- REFINEMENT OF POSITIONING/CREATIVE STRATEGIES

1984 BRAND MARKETING PLANS

- I. KEY ISSUES
- II. PERFORMANCE REVIEW
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