

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.

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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.

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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 DESIGNED 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.

CHART 10
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.

CHART #11
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.

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- 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.

CHART #12
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.

CHART #13
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.

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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.

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.

CHART #17
SPECIAL EVENTS
PROMOTIONAL
ACTIVITIES

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. 50147 7376

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.

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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.

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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,

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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.

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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.

CHART #28
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.

CHART #29
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.

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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.

CHART #32

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.

CHART #33

NEW BRANDS

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

CHART #34
ADDITIONAL NEW
PRODUCTS

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

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

A FEMALE CIGARETTE IN REGULAR AND MENTHOL 100MM STYLE
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 PROJECT
PROVIDES AN OPPORTUNITY TO EXPAND THE GROWING MENTHOL
CATEGORY IN A UNIQUE WAY.

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

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LASTLY, WE ARE WORKING ON A CIGARETTE IN WHICH 95% TO
98% OF THE NICOTINE HAS BEEN REMOVED FROM THE TOBACCO
AND SMOKE. THE MARKET FOR A NEW CATEGORY OF NICOTINE
FREE CIGARETTES COULD BE DEVELOPED IN THE SAME MANNER
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

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

CHART #35
NON-BUDGETED
OPPORTUNITIES

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

TOBACCO PRODUCTS DIVISION (NON-CIGARETTE)

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.

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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.

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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.

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.

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- 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 NEW PRODUCT AREA. BUT IT IS EQUALLY EVIDENT THAT SUCCESSFUL NEW PRODUCTS ARE KEY TO THE FUTURE GROWTH OF R. J. REYNOLDS TOBACCO COMPANY.

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