

Sustaining the Winston Light Box King SOM Growth Trend

Facts

Based on previous In-House Research, Winston Lt Box is the second largest Growth Style for RJRT (CLHP is first).

Demographic data supports this style has a high relevance to 21-34 year-olds.

2003 VAP in Pack Outlets "fanned the flame" on WLB growth.

Pack Outlet VAP is currently not a future option available to the Winston Brand.

Ideas

Run Winston Light Box "Style-Specific" Product Ads in targeted publications (could be fractionals, etc.).

Segment Direct Mail (i.e. Marlboro Lt Box at identified age demographic) for higher "Value" pack coupons only.

Tailor WLB-specific Continuity and/or SLO's to this target (e.g. Tower records, G-Shock watches, Ron Jon's Surf Shop, etc.).

Incorporate Bounceback Coupon in Lt Box pack graphic (if this group doesn't save coupons, maybe they'll trade-in the empty pack?).
Would require a promotional cylinder for the Pack.

If Pack UPC's are utilized for Continuity Program, offer a higher "Redemption Value" for Lt Box UPC's.

Segment occasional mini-sweeps to Lt Box only (e.g. "hot" Concert Tickets, South Beach Getaway for 4, etc.).

Direct Mail Product (vs Coupons) to Lt Box Adult Smokers in allowable States.
Obviously, frequency would have to substantially change due to cost.

Winston Pack Onserts as a Source of Name Generation

Winston's Coverage of Active Mailing List (AML) varies widely on a State-to-State Basis based on the DMG Metrics Report.

High - **Kentucky** = 79.4% (263,992 AML names of 332,366 Tracker names)

Low - **Maine** = 10.4% (39,061 AML names of 373,912 Tracker names)

Winston's % Coverage of Franchise Smokers is considerably lower than Doral, and marginally lower than Camel, thus creating a major opportunity.

Brand	% Franchise Coverage
Winston	42.6
Camel	44.8
Doral	65.5

"Inside Carton" Printing has been utilized before and should be re-introduced based on upcoming cylinder changes.

This tactic alone will not address the opportunity based on historical contacts. (Sept YTD results yielded only 27.4K incremental names for RJRT corporate)

Pack Printing is under evaluation for communication of 1-800 and Website, also to be incorporated in the new cylinder changes.

CTS Standees will be placed in early 2004 providing an opportunity to reach approximately 1.5 MM smokers.

Pack Onserts can provide an additional Name-Generation Opportunity, especially when considered for Franchise support.

Recommended Test Methodology:

1) Vary Onsert Message to determine Optimal Cost/Benefit Ratio

Message 1 - Communicate "Value" of DM Flow (similar to CTS Take-One)

Message 2 - Offer Meaningful Additional Incentive for Smoker Name

2) Vary Onsert Distribution by High SET vs Low SET State

Only Load Onsert Product in Pre-Selected Bonded Warehouses

3) Vary Retail Targeting of Onsert Product

Target 1 - Direct Onsert Product to Wholesaler(s) that primarily service CN/GS outlets in specified geographies.

Target 2 - Allow Onsert Product to follow current Distribution Channel Product Flow in specified geographies.

4) Place Pack Onsert on 4 Core Styles for Test (FFKing-SP&Box, LtKing-SP&Box)

Individual Brand Style Velocities minimize any future Product Management issues.

Limited Production of 2 weeks of volume also minimizes Product/Test Liability.

5) Recommended Test Timeframe - 2Q 2004

Coverage of AML by State

September 2003

	AML	Tracker	% Coverage
<i>Total</i>	10,397,728	41,545,730	25.0%
Alabama	205,504	789,369	26.0%
Alaska	10,927	0	0.0%
Arizona	142,295	623,186	22.8%
Arkansas	132,410	332,366	39.8%
California	552,297	3,656,024	15.1%
Colorado	142,116	581,640	24.4%
Connecticut	90,469	373,912	24.2%
Delaware	29,284	166,183	17.6%
District of Columbia	0	124,637	0.0%
Florida	801,314	2,617,381	30.6%
Georgia	304,567	747,823	40.7%
Hawaii	12,181	0	0.0%
Idaho	35,461	207,729	17.1%
Illinois	518,012	1,911,104	27.1%
Indiana	361,259	623,186	58.0%
Iowa	131,152	207,729	63.1%
Kansas	109,009	540,094	20.2%
Kentucky	263,992	332,366	79.4%
Louisiana	192,886	498,549	38.7%
Maine	39,061	373,912	10.4%
Maryland	120,093	581,640	20.6%
Massachusetts	128,661	955,552	13.5%
Michigan	453,804	1,911,104	23.7%
Minnesota	158,119	457,003	34.6%
Mississippi	121,094	373,912	32.4%
Missouri	342,377	1,163,280	29.4%
Montana	25,471	41,546	61.3%
Nebraska	52,618	166,183	31.7%
Nevada	86,384	415,457	20.8%
New Hampshire	35,285	290,820	12.1%
New Jersey	181,989	872,460	20.9%
New Mexico	47,159	249,274	18.9%
New York	412,244	2,617,381	15.8%
North Carolina	429,053	2,160,378	19.9%
North Dakota	22,567	0	0.0%
Ohio	744,615	2,160,378	34.5%
Oklahoma	167,666	789,369	21.2%
Oregon	130,521	457,003	28.6%
Pennsylvania	620,104	2,326,561	26.7%
Rhode Island	26,168	124,637	21.0%
South Carolina	168,445	249,274	67.6%
South Dakota	28,983	249,274	11.6%
Tennessee	362,297	1,287,918	28.1%
Texas	631,032	3,032,838	20.8%
Utah	47,884	166,183	28.8%
Vermont	16,563	0	0.0%
Virginia	251,935	664,732	37.9%
Washington	122,704	1,038,643	11.8%
West Virginia	115,528	872,460	13.2%
Wisconsin	254,119	1,163,280	21.8%

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Wyoming

18,050

0

0.0%

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DMG METRICS - September 2003

Coverage of AML

	AML	Tracker	% Coverage
Total 21+ Smokers	10,397,728	41,545,730	25.0%
Total RJR Franchise	3,802,815	8,807,695	43.2%
Winston	724,981	1,703,375	42.6%
Camel	1,228,674	2,742,018	44.8%
Doral	1,387,269	2,118,832	65.5%
Salem	370,109	1,163,280	31.8%
Eclipse	9,632	0	0.0%
V/M/N	72,762	373,912	19.5%
All Other Brands	9,388	706,277	1.3%
Total Competitive	6,594,913	32,738,035	20.1%
Marlboro	543,089	14,998,008	3.6%
Newport	417,918	4,113,027	10.2%
Basic	221,612	1,495,646	14.8%
Kool	196,434	1,246,372	15.8%
Virginia Slims	177,350	1,080,189	16.4%
GPC	110,719	830,915	13.3%
Misty Slims	104,885	581,640	18.0%
Pall Mall	88,319	290,820	30.4%
Benson & Hedges	79,026	623,186	12.7%
All Other Brands	4,655,561	7,478,231	62.3%
Age Range			
21-24	811,681	4,196,119	19.3%
25-34	2,236,654	8,641,512	25.9%
35-49	3,945,811	15,704,286	25.1%
50+	3,403,582	13,003,813	26.2%

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2004 Winston Brand Business Management - Marlin Building-Block Maximization Strategy

In order to maximize both Efficiency and Effectiveness, the Winston BU proposes a new and unique Model for the monitor/control and implementation functions of our Business.

Our proposed tool, the Marlin Building-Block Maximization Model, correctly assumes that responsiveness (and therefore effectiveness) varies by Geography as it relates to the SOM effects of Pricing and Direct Mail, our two Major Business "Levers" for 2004.

Since our SOM is measured on a Marlin Building-Block basis, we propose managing the Winston Business from this fundamental source of information.

Proposed Methodology:

- 1) Rank 38 Marlin Building-Blocks in Volumetric Importance.
- 2) "Group" Marlin Building-Blocks in a Four Quadrant Matrix:

<u>1</u> Low Pricing Responsiveness High Direct Mail Responsiveness	<u>3</u> High Pricing Responsiveness High Direct Mail Responsiveness
<u>2</u> Low Pricing Responsiveness Low Direct Mail Responsiveness	<u>4</u> High Pricing Responsiveness Low Direct Mail Responsiveness

- 3) Devise Winston Business Strategy to fit each of Four(4) Quadrants:

Strategy Examples:

- Quadrant 1: Maximize Direct Mail Efforts via Increased Frequency and Name-Generation. Do not implement increase in Discounting Denominations due to Low Responsiveness.
- Quadrant 2: Consider Program (Pricing & DM) Moves only after other Quadrants are addressed. These States do not respond to either "Lever" in comparison with other States. Consider shifting DM Resources to Higher Responders.
- Quadrant 3: Maximize DM Resources prior to Pricing (to benefit from DM Efficiencies). Implement Pricing moves to supplement Max DM Plan (if needed).
- Quadrant 4: Identify Causals for Low DM Responsiveness. Implement new Pricing if DM issues cannot be adequately addressed.

- 4) Since Marlin Building-Blocks are ranked Volumetrically, Business and Budget considerations must be taken under advisement to determine the "Depth" we may reach in a given Quadrant. Said differently, a business decision must be made on MBB's that are Low Volume Contributors and therefore cannot alter the SOM outcome.

Z-man:

Create 5th Bucket - "Unsuves"

- Hold these states out, they don't fit anywhere.
- This can/will work.

- Need a couple months to generate DM data.

- start with AML % of Tracker, but use Industry Vol for State.

- Penetration % x % Industry Vol by State
"Reach"
- Create 1st shot & check back.

sanity
check
with
steve Ziffa.
Pig it!
- Outlying
Factors?
- Limitations
Absolute or
Directional?

Marlin Building Blocks - Base Winston % of Business

<u>Rank</u>	<u>MBB</u>	<u>% of Base Winston</u>
1	FL	7.3
2	OH	7.1
3	NC	6
4	NTX	5.3
5	NCA	4.3
6	GA	4.2
7	PA/WV	4
8	MI	3.8
9	TN	3.8
10	KY	3.8
11	VA	3.7
12	IL	3.6
13	IN	3.6
14	NY	3.2
15	SC	2.6
16	AL	2.3
17	ME/NH/VT	2.1
18	DC/DE/MD	2
19	MA	1.8
20	WI	1.7
21	LA	1.7
22	AZ/NM	1.6
23	ID/OR	1.6
24	OK	1.5
25	MN	1.5
26	MS	1.5
27	CT/RI	1.4
28	WA	1.4
29	CO	1.3
30	NJ	1.2
31	MT/ND/NE/SD/WY	1.1
32	AR	1.1
33	NV/UT	1
34	IA	0.9
35	NY METRO	n/a
36	STX	n/a
37	SCA	n/a

12/31/03

* - Pull AIM Volume to determine Sept. Winston Performance
AIM shipments Jan thru August vs. Month of December

✓ - 1st Qtr, 2nd Qtr, 3rd Qtr - by month, split by Box vs. SP AIM Trends · Winston Base, SP, Box
Total, Pack, TC, CTS

- Under Indexed Mail File vs. Volume by State
Carlos

✓* - Find out Leigh's perspective on all of this. Get Leigh up with Michelle & I. ~~Monday~~

* - Check with Don F. on Coupon Redemption timeline. When do you see effect of
DM in Marlin SDM? Time Lag (Consumer lag vs. VAP (MB)).

✓* - Jeff Jaudes - Retailer Coupon Redemption

Eric V. [unclear]

[unclear]

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- Impact of DM on Shipments - Analysis by next week.

- Shipment Trends? Don't know if this is very telling.
- 2 mos. of SOM data
- Custom research - Nov. 19th quantifying ^{'Franchise} SOR lift & IPV. High vs. Low Redeemers.
^{'Comp.}
- What if Oct. is down \downarrow .15?
- What do we execute? Geo pricing?
- What is the explanation of this performance.
Shipments vs. AIM volume - with Don F.
- Directional Redemption data for Sept.
- Wholesale Inventory shifts?
- IPV gauge on DM - see Gary Hicks on this.
- See Leigh Y. on shipment data.

* More [REDACTED] going forward.

11/9/03

2004 Winston Pricing

Objective: Generate sustainable profitable volume

	<u>2002</u>	<u>2003 (Sept LE)</u>	<u>2004</u>
SOM	4.6	4.5	4.5
MAM (\$MM)	409	342	418

Plan impact:

	<u>Rate Increase</u>	<u>Max DM</u>	<u>Diff</u>
confirming → IPV (MM)	720	1014	294
Spending (\$MM)	85.5	45.3	(40.2) Reserve
SOM	.19	.26	.07
Top rate	\$11.50	\$10.00	

Rationale:

- Efficient/Targeted
- Flexible (contingency plan follows)

2004 Winston Pricing
Total Spending

	<u>2003</u>	<u>2004 Plan</u>	<u>Diff vs 2003</u>	<u>Diff vs Increased Rates</u>
Equity	\$ 78.3	\$ 38.0	\$ (40.3)	\$ 4.6
<u>Pricing</u>				
BSGSF Cost	41.5	-	(41.5)	-
MAM Impact	59.3	-	(59.3)	-
Pricing Promotion	-	-	-	-
SMS	8.2	-	(8.2)	-
Total VAP	<u>109.0</u>	<u>-</u>	<u>(109.0)</u>	<u>-</u>
Direct Marketing	36.5	106.0	69.5	42.1
Discounting	596.2	590.8	(5.4)	(86.9)
Sub-total	<u>741.7</u>	<u>696.8</u>	<u>(44.9)</u>	<u>(44.8)</u>
Total	<u>\$ 820.0</u>	<u>\$ 734.8</u>	<u>\$ (85.2)</u>	<u>\$ (40.2)</u>
 Pricing /Contingency Reserve		\$ 40.2		

2004 Winston Pricing
Spending Per Carton

	<u>2003</u>	<u>2004 Plan</u>	<u>Diff vs 2003</u>	<u>Diff vs Increased Rates</u>
Equity	\$ 1.03	\$ 0.52	\$ (0.51)	\$ 0.06
<u>Pricing</u>				
VAP	0.55	-	(0.55)	-
MAM Impact	0.78	-	(0.78)	-
Pricing Promotion	-	-	-	-
SMS	0.11	-	(0.11)	-
Total VAP	<u>1.44</u>	<u>-</u>	<u>(1.44)</u>	<u>-</u>
Direct Marketing	0.48	1.46	0.98	0.58
Discounting	7.87	8.15	0.28	(1.20)
Sub-total	<u>9.79</u>	<u>9.61</u>	<u>(0.18)</u>	<u>(0.62)</u>
Total	<u>\$ 10.83</u>	<u>\$ 10.13</u>	<u>\$ (0.69)</u>	<u>\$ (0.55)</u>

2004 Winston Pricing

Max DM Plan:

Direct Marketing:

Increase frequency (9 to 12 mailers)

Increase # coupons per mailing

- Retention from 2 to 4
- SOR/Competitive from 4 to 6

	<u>Original Plan</u>	<u>Max DM Plan</u>	<u>Diff</u>
Total (\$MM)	69.8	109.7	39.9
IPV	1,497	2,311	814
Cost/M IPV	49	49	--

Catalina Expansion:

- 10 Cycles, competitive triggers only
- \$3/ctn

	<u>Original Plan</u>	<u>Max DM Plan</u>	<u>Diff</u>
Total (\$MM)	1.4	6.8	5.4
IPV	40	200	160
Cost/M IPV	34	34	--

2004 Winston Pricing

Contingencies:

1. CTS Promotion

- \$2/ctn
- 458,000 offers, quarterly

<u>IPV (MM)</u>	<u>Cost (\$MM)</u>	<u>Cost/IPV (\$/m)</u>	<u>SOM</u>
65	\$4.2	\$70	.02

2. Geographic Pricing Moves

- 13 State model
 - Covers 52% of brand's current volume, 53% of AML
 - Shown in 2003 to contribute to trend stabilization (with VAP and limited DM)

	<u>National</u>	<u>Plus</u>	<u>Max</u>
Current	7.50	8.00	10.00 (+ \$0.50 vs. balance)
Revised	7.50	9.00	11.00 (+ \$1.50 vs. balance)

<u>IPV(MM)</u>	<u>Cost (\$MM)</u>	<u>Cost/mIPV</u>	<u>SOM</u>
310	\$33.5	\$110	.08

- IPV based model
 - \$11.00 top rate
 - Solve for share
 - Has potential to deliver same share more efficiently (potentially more states)

Conclusions

- Projected IPV from Pack buyers (includes pack AND carton coupons) is half of the IPV generated by a VAP promotion @ 3.5 MM offers
 - 25 MM vs. 50 MM
- Lack of strong DM coverage in specific states affects the IPV distribution
- There are also differences in the composition of franchise / competitive buckets
 - VAP average was at 67% franchise, 33% competitive
 - DM split varies across the states