

# SECTION OPERATIONS REPORT



SECTION MANAGER:

\_\_\_\_\_  
W. H. LOTT

HEADQUARTERS:

\_\_\_\_\_  
DALLAS, TEXAS

MONTH:

\_\_\_\_\_  
JANUARY, 1987

Form #3311  
PM USA  
POS NO. 13121

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## I. MARKETING CONDITIONS

Player's/Cambridge -- We recently closed a distribution gap in a major convenience store chain in West Texas, Toot-N-Totum. They picked up the regular packing on Cambridge plus also utilized a BV display. Even though they are 50 stores, they are a major influence in the Amarillo market.

Overall, Cambridge Regular distribution is at 74% and the Menthol distribution is at 67%. We continue to push both Cambridge and Players and we are in the process of reviewing its distribution in the high generic markets, i.e., Oklahoma.

We were able to gain the sales figures for the 4th quarter for Consolidated Wholesale of Oklahoma City. Of the 3,148 cartons sold of value products, Cambridge represented 40.9% of those sales. This is an indication of our most recent sales reps push.

Thru the first month of January our sales were down 7.4%. When comparing our population index, we are still at 150% BDI for the first time in many months. The state of Oklahoma is up 2.3%. This is an indication that the overall economic slide in Oklahoma has bottomed out. In split portions of Texas, we were down 11.6 but this is mainly due to Southland's minuscule purchases over the last two months. Therefore, when Southland resumes normal ordering patterns, our overall sales will improve drastically.

Industry -- The only major industry factor we see is the fact that many of the large direct accounts are failing to participate in price increase and inventory maintenance programs. We are currently developing a visual to discuss these programs with targeted accounts during the upcoming business review presentations.

## II. MAJOR COMPETITIVE DEVELOPMENTS

American -- Recently American has cancelled their test of Generic pricing on Lucky Strikes and they are going to utilize their same strategy as in other parts of the U.S. of placing \$2 off coupons on their products. The reason is that the Generic pricing did not enhance sales or product image.

They are planning a new brand launch March 1st for Pall Mall Lights. We are in the process of gaining sell sheets, etc.

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Brown & Williamson -- Recently introduced a new carton rack contract which is attached. We feel at this time that it will have little impact on our current Plan A contract.

They continue to promote their test brand Falcon with coupons and dump bins and are paying retailers, for their trouble, 15¢ a carton.

No real comments concerning their Eli Cutter test in Tulsa.

Liggett & Myers -- Mainly pushing Total and class A generic cigarettes. Utilizing coupons and B1G1F's. Class A generics is a generic cigarette and is developing very little sales.

Lorillard -- Using a sport bag with a carton purchase to promote Newport. Very little appreciable sales gains or losses in the market.

R. J. Reynolds -- Recently introduced a new counter display contract as per attached. In Oklahoma City they are utilizing their part-time merchandisers to change out their counter displays with their new Doral Ultra Lights and Full Flavor. They are gaining good inventory on both carton racks and all Value Centers.

Heavily promoting with \$1 off coupons. They are also placing counter displays on behalf of Doral with payments ranging from \$6 to \$18 for a large fixture with an \$18 per store bonus.

They have recently dropped their sponsorship of the National Rodeo Association. We are attempting to get further details. This might be an opportunity for Marlboro to participate either in this Rodeo Association of the next strongest. Details to follow.

R.J.R. is losing rapport with Southland Corporate due to the grass roots big dollar approach to the Southland Divisions, i.e., offering more money for counter displays than offered at Corporate.

Generics -- Generics continue to show an increase in most of the Section. The majority of all generically priced cigarettes are utilizing coupons on both packs and cartons. It appears different programs are being offered to different customers. For example, B&W has offered Affiliated (Amarillo) a package amounting to \$11,000 to stock 6 generic packings. Affiliated refused the offer. The buyer at Affiliated reports moving approximately 3,000 cartons of Sur fine product

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(Liggett). Quarterly rebates amount to \$15 - \$19 thousand.

### III. TRADE CLASSES

Distributors -- Overall, most distributors survived 1986 with few problems. Unfortunately, some of the houses experienced financial problems due to the TDC bankruptcy. It appears that one of TDC's major houses, Consolidated of Oklahoma City, has the worst of its financial problems behind them. Product inventory and flow are now more than acceptable.

Over the next couple of months we can envision further support from our distributors on behalf of Marlboro product movement. Formal recommendations will be made to the MIST group.

Wholesale Grocers -- Recently, Grocery Supply has reorganized with many new decision makers. We have an I.D.P. presentation scheduled the 2nd week in September at which point and time we will meet with the new executive staff.

Supermarkets -- Furr's of West Texas continues to grow. They recently added 4 new stores; 2 of which PM package fixtures were installed. This account is a prime candidate for our Series 2,000 and they are interested in possible carton fixture placements.

Safeway, Dallas recently opened a new Food Emporium format which is unique within the Safeway organization. It is an upscale format and they are merchandising both packs and cartons on one large R.J.R. flex rack.

Safeway, Oklahoma City is closing its Tulsa distribution center and all cigarettes will be distributed from Oklahoma City.

Convenience -- Wag-A-Bag of Oklahoma was sold to the oil Company, Derby. Circle K's in Tulsa are selling new stores to replace the Fina Serve stations that they bought.

Git N Go - AM, Jim Liles placing test carton fixture set up in Tulsa. RJR is also setting up a test store, we will monitor.

E-Z Mart - Attached is AM, Jerry Wylie's proposal for combination price value center as requested by E-Z Mart. This appears to be an excellent opportunity.

Quik Trip - AM, Jim Liles' meeting with Ron Sutter resulted in verbal agreement to keep AG fixture and

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worked out POG adjustment to our benefit. We will finalize POG's the week of 2/2/87.

7-Eleven, North Texas - Attached please find correspondence of 7-Eleven North Texas' counter display changes. AM, Jan Kirby did an excellent job on negotiating and following up on this program. RJR and American displays have been discontinued in 7-Eleven North Texas. This reduces R.J.R.'s visibility to zero in these locations.

Howdy Doody, Denton (20 stores) - Howdy Doody and NT Distributors has been sold to an individual. We have no details at this time but are in the process of following up on the new owners.

APSI Gulf - Lloyd Ashbaker has approved the low profile M-4 and the BV display for all stores. AM, M.T. Hopson is following up on the details.

7-Eleven, Oklahoma City - Finalized negotiations with Mr. Brown. He has resumed placement of Philip Morris overheads.

Mass Merchandisers -- Nothing new to report.

Drug -- Nothing new to report.

Wholesale Clubs -- Nothing new to report.

Service Stations -- Nothing new to report.

Vending -- Standard Vending of Amarillo has agreed to utilize DataVend and will formally sign the contract within two weeks. AM, Jill Richmond is in the process of renegotiating the brand line up which we expect to obtain at least 2 new placements per machine.

Tentative appointments have been made for the last week in February to present DataVend to Ballard Vending (1,100 machines) and Dallas Cigarette Service (580 machines). New York Office personnel and Regan Smith will assist in the presentations.

#### IV. SSM KEY ACCOUNT CONTACTS

Southland Corporate

Contact: Bill Shrader

I attended a meeting with Gerry James where various topics concerning FVB were discussed. As of this writing, all details were accepted with FVB being the Generic brand.

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Skaggs Alpha BetaContact: Ron Wangsgard

Attended a meeting with New York personnel, Rich Medwar, Les Olson and Barry Baker. Topics discussed were our participation in the game-a-rama. All details were discussed and agreed upon with our participation beginning at the end of February. We also discussed Skaggs Alpha Beta utilizing our series 2,000 racks which Ron stated he will follow thru in the near future.

Safeway, Oklahoma CityContact: Dwaine Foxworthy

We discussed various merchandising programs and we were able to have a new package plan-o-gram approved for the Safeway stores. This will greatly enhance our presence on the package fixtures.

Fleming, Oklahoma CityContact: Dick Keeney  
John Reed

We made a merchandising presentation to an IGA meeting of 23 store managers and owners. Since they are co-presentors of the V/S of Oklahoma City, we are working together with the IGA stores on behalf of selling more VS product prior to tennis week.

ConsolidatedContact: J.J. Lehman

We had an excellent meeting with Mr. Lehman at which point and time we realized that his cigarette business is stable and the financial crisis is nearly over. Inventory looked good and our shipments both to Consolidated and in turn to retail are consistent.

Toot N TotumContact: Dallas Snyder

Met with Dallas Snyder with the key principal of their cigarette supplier, McCarty Hull. We discussed many business opportunities and especially Generics and our Cambridge. As of this writing, we have gained approval for distribution of Cambridge.

Ray BelleContact: Steve Hill

I briefly met with Steve to discuss business and review their inventories. He mentioned to me that their business has picked up tremendously since the new company purchased them.

V. MERCHANDISING PROGRAMS

Plan A -- We continue to improve our share-of-fixture in our Plan A accounts. Currently we have 95% of potential plan A accounts signed to a plan A with an average row

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per fixture of 82 in category 1 and 70.5 in category 2. After review of our chain accounts, we are currently averaging 82.9 with a potential of 83.6.

Given the merchandising fixture universe as it stands today, we continue to maintain a high level of compliance. However, we feel proper brand packing distribution must be properly allocated. Therefore, in February we will be realigning carton racks to ensure that there is enough available space for Marlboro.

The following is a chronological history of our Plan A successes in our major chain accounts:

	10/85	3/86	1/87
ACCOUNTS	22	22	22
STORES	852	840	932
TOTAL ROWS	53761	62964	77231
AVERAGE ROWS	63.1	75.0	82.9
AVERAGE INV.	315	375	414

Plan A-1 -- As discussed in New York the first week in February, we are in dire need of flexible generic displays with an increased allocation of 10-fold for 30 carton bins. We have realized numerous opportunities to place these bins in convenience stores. Unfortunately, we are unable to take advantage of these opportunities because of the limited number of displays available. As identified in previous reporting, we have now realigned the ship to points for the A-1 which will increase our overall utilization.

C/I -- Nothing new to report.

AV's/AG's -- We continue to increase placements of these fixtures. We are in the process of working with New York for selected accounts regarding utilization of security shields for AG's, i.e., largest account in Section 52, Tom Thumb.

Carton Merchandising Programs -- We have signed 7-11 North Texas to the new M-5. We are waiting for delivery and placements should be made in February. The plan-o-grams that were created puts Philip Morris in an extremely favorable position which eliminated R.J.R. from the counter.

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After account by account analysis with Area Managers,

84.2% Potential Stores Penetrated  
 66.2% Primary Locations  
 24.0% With Add-on Shelves

BV's/BG's -- Continued sales emphasis has been placed in this area. During this month we have added 46 displays in addition to signing Toot-N-Totum to a Plan BV. One of the most apparent results of our Plan B sales program study is that it effects our ability to be able to make proper penetration on behalf of the BG/BV. The placement of a Plan B in any given account may in fact be mutually exclusive.

Plan R -- Nothing new to report.

PM Carton & Package Fixtures -- Our penetration on behalf of PM carton and pack fixtures continues to be stymied by R.J.R.'s heavy emphasis in this area to maintain their dominance. However, progress is being made.

We have placed 2 3X2 islands in Safeway in Denison, TX. We have placed our 44th PM carton fixture recently and 120 of the PM package fixtures.

The 18 module low profile spinner has been approved for a presentation to Furr's. A fixture has been ordered to be delivered for this presentation. AM, Jill Richmond feels strongly that with the high probability of Furr's approval of the 7-shelf carton merchandiser, we will be able to gain the spinners in all stores.

Overhead Package Fixtures -- Reynold's continues to offer exceptional payments to accounts where we have overhead package fixtures, i.e., Big Saver of Oklahoma City has been offered \$1,000 to allow R.J.R. to replace our fixture. Regardless of this fact, progress is steady within the Section.

During December, 40 overhead placements were made. In addition, Gary Thornton was able to solidify the contract to place the PM overhead fixture in 7-11 Oklahoma City with Bill Brown.

#### VI. SECTION ACTIVITIES

In December we cycled 72 out of 80 territories at 90%+; 69 of these territories were cycled at 96%+. Our call rate for December was 7.1 true, 11.3 regular and 13 max.

Special emphasis on POS was continued during December. As a result, 626 pieces of additional POS was placed in

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the Section. In addition, during December we averaged 196.8 pieces of temporary pieces of POS per sales rep.

During December, Division 52-07 began testing store sales utilizing the C.I.P. coupons. This program has continued through January and early indications are that the program is a total success and will be continued. Further emphasis and results will be forwarded when completed.

C.I.P. -- During January additional emphasis was placed with each member of Section 52 personnel on the utilization of C.I.P. coupons. Utilization has increased from an average of 4 per day (7,370 in December) to 9.5 a day or 15,189. We have identified 4 divisions that are not on target with expectations and are in the process of providing additional training to improve this.

TRAC is in the final stages of completion. Area Managers have identified excellent opportunities through the use of the Key Indicators of Productivity Chain Opportunity Worksheets. This program has proved to be a viable asset in identifying opportunities, follow through and overall assessment of the Area Manager.

VII. SALES SERVICES -- Nothing new to report.

VIII. SALES DEVELOPMENT

The materials for the I.D.P. presentations were not as professional as in previous years. To date, we still have not received the I.D.P. presentation boards which should be delivered today. We feel overall that the program will be well accepted by our customers as a result of positive presentations by our Area Managers.

IX. MEDIA -- Nothing new to report.

X. ASSOCIATIONS AND CONVENTIONS

I attended my assessment training at Las Colinas. The week's activities were well prepared and through the exercises, I was able to learn how to assess and report on the qualities and trends of candidates for SAM's.

TAP/TAN -- The aggressive attack by the various smoking organizations at grass roots continues with a heavy emphasis throughout Section 52. In Tulsa, Oklahoma, the battle to put in an obtrusive smoking ordinance which totally restricts the rights of the individual smoker continues on a heated front. The Tobacco Institute is working steadily to build up a defense against this ordinance.

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In Longview, Texas, a front has begun to place a smoking ordinance in the city. To date, there has been one planning meeting which resulted in a study being done by the city council to determine if there is a need for a smoking ordinance. DM, Fred Spencer attended this meeting with a number of other PM employees and distributors and the city council was caught totally off guard that there would be any resistance at this point. As a result of Fred and his group, the smoking ordinance decision was postponed and has gone to a committee appointed by the council.

IX. SSM MISCELLANEOUS COMMENTS

The Q.A.R. is a viable tool for all levels of management to use, however, as a result of the averages including contingency calls, we are unable to draw a meaningful analysis from this report. Our primary business and emphasis is and will continue to be in our daily coverage accounts. This is where we need and must have viable information concerning distribution and accomplishments by our sales reps.

We would recommend that the contingency calls be pulled from the primary analysis and included on a supplemental analysis. In this manner we could draw a meaningful cross index to our daily accomplishments in our primary calls and what we will achieve in the contingency calls.

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