

## Current Business Situation

### Overview

Marlboro is the largest brand in the industry with twice the share of its nearest competitor. Its' established packings are the dominant leaders in their respective product categories.

During 1988 Lights has been the primary source of growth for the brand, along with the newly introduced Marlboro Menthol. Red and Gold are stable. Box packings in all Marlboro brand families are especially vital, and have demonstrated an ability to grow outside traditional box markets.

Marlboro is the number one brand in all markets except Hawaii. Regionally the brand's biggest challenge is to stabilize Red and increase Lights growth in Region 5. Offensively, Regions 2 and 3 offer potential for substantial share and volume gains. Here the brand is slightly underdeveloped but retains growth momentum; volume contribution from these Regions total nearly 30% of U.S. Menthol has developed well in Region 2 and 4 while Region 3 is an area of opportunity with high menthol category share.

Marlboro is growing in all trade classes. Performance in chains over \$2MM (+1.1) is exceptional, considering the brand's below average share level (18.9) in these outlets. The rate of share increase (+0.6) is below average in chains under \$2MM, in which Marlboro already enjoys a high share (30.7) relative to other outlets.

Distribution and out of stocks are stable although there are specific areas by packing and trade class that we believe can be improved. Inventory share growth is generally keeping pace with Marlboro's sales share growth. In chains over \$2MM (carton outlets) sales growth is particularly strong and inventory shares are lagging. Pack inventory in these outlets has been identified as an area for greater attention in 1989.

In 1988 Marlboro made share gains among total smokers and all key segments except Hispanic smokers. Research is underway to better understand this group and how they relate to Marlboro. We will continue to monitor this group during the coming year.

Marlboro Menthol is building a smoker base very similar demographically to Parent: young, white, and predominantly male. Like the non-menthol packings, Lights Menthol skews more female than Full Flavor. The franchise has come from Kool, other Marlboro packings, Newport and Salem.

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Total Marlboro drew 33% of its' in-switchers from new smokers in 1988 as in previous years. Switching within the brand remained at 23%, most of it moving down in tar to Lights. Outswitching decreased slightly compared to last year. Marlboro lost its "fair share" of 20% to Price Value, about even with last year. Switching to Winston and Camel remained constant, while losses to Merit decreased for the second year in a row. Ultra lights packings accounted for 15% of Marlboro outswitchers in line with previous years.

Detailed analysis of each of these topics appears on the following pages.

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I. Current Business Situation

A. Share

Marlboro continues to show steady growth in both direct sales and consumer takeaway, up +0.9 versus 1987 in MSA and Nielsen measures. Continuing on the current trend the brand will reach forecast of 24.8 to 24.9 by year-end.

- o The continued vitality of the brand stems from the strength of the Lights packings, and from this year's Menthol introduction. Lights contributed 2/3 of Marlboro's share growth in the past 12 months, Menthol 1/3. Red leveled off in 2nd quarter of 1987 following a fourteen month period of growth. Gold has shown no significant national movement up or down for the last several years.
- o In general, box packings have contributed a disproportionate part of Marlboro's growth. Red's stability has been due to the box offsetting the soft pack's decline. Similarly, box now accounts for 39% of Lights 85 business but supplied 70% of its growth since 1987. Box is 31% of Lights 100's sales and contributed 71% of its increase.
- o Menthol has shown considerable growth since the national launch of the lights packings and the reformulation of Full Flavor. The two Menthol Lights packings now account for 55% of the brands menthol volume. Full Flavor is up 65% since the reformulation.

Marlboro Market Share  
12MM

<u>Packing</u>	<u>MSA (July)</u>				<u>Nielsen (June)</u>			
	'88	'87	'86	Change 88 vs 87	'88	'87	'86	Change 88 vs 87
Red	12.1	12.1	11.9	--	10.2	10.1	9.9	+0.1
Gold	2.8	2.9	2.8	-0.1	2.9	2.9	2.9	--
Lts 85's	6.4	5.9	5.3	+0.5	5.3	4.9	4.5	+0.4
Lts 100's	2.7	2.6	2.4	+0.3	2.8	2.6	2.4	+0.2
Menthol	0.5	0.2	0.2	+0.3	0.4	0.2	0.2	+0.2
TOTAL	24.5	23.6	22.6	+0.9	21.6	20.7	20.0	+0.9

	<u>July '88 YTD</u>	<u>July '88 YTD</u>
Menthol	0.74	0.73

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B. Regional Share/Development

- o Marlboro is the number one selling brand in all trading areas except Hawaii, where it ranks third behind Kool and Benson & Hedges.
- o Marlboro is best developed in Regions 1 and 7. Red has SDI's of 129 and 124 in Regions 1 and 7 respectively, while it is 15% to 20% below national average in 3, 4, and 5. Lights 85's has a slight skew to 1 and 7. Likewise it is much closer to average in the rest of the country. Gold and Lights 100's are strongly skewed to Regions 5, 6 and 7 (SDI 130+). In this sense they more closely resemble one another than they do their king size counterparts.

Marlboro Regional Share  
12MM Ending July 1988 (MSA)

<u>Packing</u>	<u>Total U.S.</u>	<u>Region</u>						
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Red	12.1	15.5	12.3	10.4	10.3	9.7	11.6	15.0
Gold	2.8	2.1	1.7	2.4	1.7	4.0	4.1	5.0
Lights 85's	6.4	7.1	6.2	6.0	6.5	6.2	6.1	6.8
Lights 100's	2.7	1.9	2.0	2.3	2.4	3.8	3.6	3.7
Menthol	0.5	0.3	0.6	0.4	0.7	0.5	0.5	0.4
TOTAL	24.5	26.9	22.8	21.5	21.5	24.3	25.8	30.8

Marlboro SDI  
12MM ending July, 1988

<u>Packing</u>	<u>Region</u>						
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Red	129	102	86	85	81	96	124
Gold	74	60	84	60	142	145	179
Lights 85's	111	97	94	102	97	95	106
Lights 100's	70	74	85	89	141	133	137
Menthol	68	114	85	149	108	97	74
TOTAL	110	93	88	88	99	105	126

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o Marlboro Menthol is best developed in Region 4, as it was prior to the full flavor reformulation and launch of Lights Menthol. Market share is comparable across all regions, although less strength exists in Regions 1 and 7. More distinct share variations exist at the trading area level which are discussed in the following section.

Region:	<u>U.S</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
<u>YTD July 1988 MSA</u>								
Menthol	0.7	0.6	0.8	0.7	1.0	0.8	0.7	0.6
<u>Nielsen YTD July 1988</u>								
Menthol	0.7	0.6	0.8	0.7	0.9	0.8	0.7	0.6

o Marlboro Menthol has made considerable in-roads in a number of geographic markets. The chart below identifies the markets where the total brand had at least a 1.0 share of market before and after the February 1988 launch.

<u>Before</u>		<u>After</u>	
<u>1987</u>		<u>YTD July 1988</u>	
<u>Market</u>	<u>Share</u>	<u>Market</u>	<u>Share</u>
Grand Rapids	1.31	Grand Rapids	2.03
Flint-Saginaw	1.00	Toledo	1.72
		Flint-Saginaw	1.60
		Columbus	1.40
		Dayton	1.29
		Hawaii	1.27
		Detroit	1.23
		Green Bay	1.12
		Buffalo	1.07
		Albuquerque	1.06
		Peoria	1.06
		Corpus Christi	1.04
		Houston	1.03
		Ft. Wayne-S Bend	1.01
		Cleveland-Akron	1.01
		Pittsburgh	1.01
		Johnstown	1.00

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C. Share Change

- o Marlboro has enjoyed strong growth in Regions 1, 2, 3 and 7 and average growth in Region 4. Regions 5 and 6 show lower than average growth and are of concern and interest to us.
- o Lights and Menthol are the key packings driving the brand's growth. Red is stable in all Regions except 5, where severe economic downturn and heavy price/value growth may have had greater influences. This trend in Region 5 still shows no sign of leveling. It should be noted that Nielsen share data for 3 months ending July show a more widespread softness in Marlboro Red. We are watching this very carefully to determine its extent and find correlating factors in the marketplace.
- o Menthol share change is consistent across all regions (+0.5) on a YTD basis.

Marlboro Regional Share Change  
July '88 vs. July '87 12MM

<u>Packing</u>	<u>Total U.S.</u>	<u>Region</u>						
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Red	--	-	+0.1	-	-	-0.3	-	-
Gold	--	-	-	-	-	-0.1	-	-0.1
Lights 85's	+0.5	+0.7	+0.5	+0.6	+0.4	+0.3	+0.3	+0.6
Lights 100's	+0.2	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.2
Menthol	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.2	+0.2
TOTAL	+0.9	+1.1	+1.0	+1.0	+0.8	+0.3	+0.6	+0.9

YTD July 1988 vs. YTD July 1987

Menthol	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
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D. Volume Contribution

- o Despite low share development, Regions 2 and 3 offer significant volume potential as they contribute volume that is disproportionately high relative to share development. Each contributes as much business as Region 7, where Marlboro has its highest share.
- o Region 3 may offer a particular opportunity for Marlboro Menthol given its significant volume contribution, high level of menthol category development and its below average brand share development.

Marlboro % Volume Contribution  
12MM July '88

<u>Packing</u>	<u>Region</u>						
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Red	19.9	16.9	14.7	13.3	11.4	8.5	15.2
Gold	11.4	10.0	14.3	9.4	20.2	12.9	21.8
Lights 85's	17.0	16.1	15.9	15.8	13.7	8.5	12.9
Lights 100's	10.8	12.5	14.8	13.6	19.9	11.9	16.4
Menthol	10.5	18.8	14.4	23.3	15.4	8.6	9.0
TOTAL	17.0	15.4	15.0	13.7	14.0	9.4	15.4

YTD July '88

Menthol	11.7	18.8	15.4	21.1	14.7	8.5	9.7
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E. Share of Category

o Marlboro continues to lead in all its established categories with approximately twice the share of its nearest competitor. In each case except Menthol, Winston is number 2.

Leading Packs by Category Segment  
12MM ending July

<u>Category</u>	<u>Top Packings</u>	<u>1988 Share of Industry</u>
FF NM King (21.15)	1) Marlboro Red	12.1
	2) Winston	5.0
	3) Camel	1.2
		18.3
FF NM 100 (8.76)	1) Marlboro Gold	2.8
	2) Winston	1.6
	3) B & H	0.9
		5.3
FL NM King (15.98)	1) Marlboro Lights	6.4
	2) Winston Lights	2.2
	3) Merit	1.3
	4) Vantage	1.2
		11.1
FL NM 100 (12.19)	1) Marlboro Lights 100's	2.7
	2) Winston Lights	1.4
	3) Merit	0.8
	4) Doral	0.8
		5.7
Total Menthol (27.6)	1) Salem	7.4
	2) Kool	6.0
	3) Newport	4.3
	4) B & H	2.0
	5) Virginia Slims	1.5
	6) Doral	0.8
	7) Merit	0.6
	8) Generics	0.6
	9) Marlboro	0.5
		25.7

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- o With Red and Gold overall share trends flat, their shares of category are relatively stable at 57% and 32% respectively. Their shares of full price category are up slightly, however, as full price competitors have declined.
- o Gold 100's represents an opportunity given it's low share of category relative to other Marlboro packings.

Marlboro Share of Industry Segment

<u>12MM Ending July</u>	<u>Red Share of Mkt FF NM 85</u>	<u>Red Share of Mkt FF NM 85 (Full Price)</u>	<u>Gold Share of Mkt FF NM 100</u>	<u>Gold Share of Mkt FF NM 100 (Full Price)</u>
1988	57.2	60.2	32.1	37.9
1987	57.1	59.5	33.0	37.4
1986	55.9	57.8	32.8	35.7

- o The Lights packings have widened their leads within their respective categories, total and full price. Lights 100's lags Kings because of its relative newness, however, it continues to gain.

Marlboro Share of Industry Segment

<u>12MM Ending July</u>	<u>Lights 85's Share Flavor Low NM 85</u>	<u>Lights 85 Share of Flavor Low NM 85 (Full Price)</u>	<u>Lights 100 Share of Flavor Low NM 100</u>	<u>Lights 100 Share of Flavor Low NM 100 (Full Price)</u>
1988	40.6	45.5	22.4	29.0
1987	36.6	41.6	20.9	26.6
1986	33.7	38.3	19.5	23.8

- o The introduction of Lights Menthol and relaunch of Full Flavor Menthol have increased Marlboro's share of the Menthol category to 1.8 on a 12MM basis, and 2.7 YTD.

<u>12MM Ending July</u>	<u>Marlboro Menthol Share of Menthol Filter</u>
1988	1.8*
1987	0.8
1986	0.8

\*YTD = 2.7

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- o Marlboro box accounts for 52.5% of all box sales. The slight decrease in share of category from 1987 to 1988 was the result of several box introductions, including Benson & Hedges Lights, Capri, Merit Ultra Lights and Newport Stripes. Marlboro's performance drives the category and is generating box strength in areas that were previously weak. Of the top 30 growth markets for Marlboro box between 1985 and 1988, 16 had category SDI's well below average.

<u>12MM Ending July</u>	<u>Box Share of Total Box</u>
1988	52.5
1987	53.1
1986	52.0

#### F. Trade Class Performance

- o With nearly half Marlboro's sales in packs it naturally enjoys its highest share in outlets under \$2MM, which sell predominantly by the pack. The brand does especially well in chains under \$2MM. Shares are accordingly lower in outlets over \$2MM. Nearly identical sales patterns are developing for Menthol.

#### Marlboro Share by Nielsen Trade Class 12MM Ending June, 1988

<u>Packing</u>	<u>Total U.S.</u>	<u>Chains +2MM</u>	<u>Chains -2MM</u>	<u>Indep. +2MM</u>	<u>Indep. -2MM</u>
Red	10.2	8.5	14.8	7.8	11.6
Gold	2.9	2.8	3.5	2.3	2.9
Lts. 85	5.3	4.4	8.3	3.9	5.7
Lts 100	2.8	2.8	3.5	2.2	2.5
Menthol	0.4	0.3	0.7	0.5	0.5
TOTAL	21.6	18.9	30.7	16.7	23.2

#### June '88 YTD

<u>Packing</u>	<u>Total U.S.</u>	<u>Chains +2MM</u>	<u>Chains -2MM</u>	<u>Indep. +2MM</u>	<u>Indep. -2MM</u>
Menthol	0.7	0.4	0.9	0.6	0.7

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- o Marlboro has continued to grow in all trade classes, but most rapidly in chains over 2MM where it is less developed. The extra growth is from Red and Gold. Lights and Menthol are growing at the national rate.
- o The brand is performing below national average in chains under \$2MM due to declines in Red and Gold of -0.3 share points each. This coupled with the previous point may reflect a shift in purchase patterns for Red/Gold from smaller to larger stores. The Lights packings are growing extremely well, however, partially offsetting Red and Gold losses.
- o Marlboro growth is also below average in Independents over \$2MM. However, in this case Red and Gold are growing; it is Lights that is under-performing.

Marlboro Share Change by Nielsen Trade Class  
12MM Ending June, 1988

<u>Packing</u>	<u>Total U.S.</u>	<u>Chains</u> <u>+\$2MM</u>	<u>Chains</u> <u>-\$2MM</u>	<u>Indep.</u> <u>+\$2MM</u>	<u>Indep.</u> <u>-\$2MM</u>
Red	+0.1	+0.3	-0.3	+0.2	----
Gold	----	+0.1	-0.3	+0.1	----
Lts. 85	+0.4	+0.4	+0.6	+0.2	+0.5
Lts. 100	+0.2	+0.2	+0.3	+0.1	+0.2
Menthol	+0.2	+0.1	+0.3	+0.1	+0.2
TOTAL	+0.9	+1.1	+0.6	+0.7	+0.9

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# G. Distribution and Out-of-Stock

- o Marlboro's weighted distribution is over 90% in all outlets except independents -\$2MM, where distribution runs -6 to -10% lower on all packings. These tend to be very low volume outlets with limited space. Distribution on all packings is best in chain outlets.
- o Total Red distribution has remained steady at 94% and Lights holds at 91%. Although not shown below, Marlboro 25's distribution has slipped 6 points to 55% over the past 12 months. This has not affected total Red or Lights distribution and we hypothesize that customers by-and-large purchase 20's as an alternative. We are exploring means of holding 25's distribution in the face of the increased pressure placed on Menthol.
- o Aggregate out-of-stocks average 3 to 4% for Marlboro, bringing weighted effective distribution below 90% for most outlets. Lights 85 runs higher OOS rates in chain outlets, suggesting that it may need more inventory to keep up with its sales rate of growth. Similarly, Gold's higher OOS in chains +\$2MM correlates with its growing sales in that trade class.
- o Menthol out-of-stocks appear to be running slightly higher than Parent. Considering the level of menthol promotional activity and corresponding volatility of sales we should expect this to settle out over time.

## Marlboro Nielsen Distribution

3 Months Ending June

Packing	Total U.S.		Chains +\$2MM		Chains -\$2MM		Indep. +\$2MM		Indep. -\$2MM	
	WTD	EFF	WTD	EFF	WTD	EFF	WTD	EFF	WTD	EFF
Red	94	91	95	92	98	94	92	90	89	86
Gold	87	83	90	85	89	87	85	82	79	75
Lts. 85's	91	86	93	87	93	88	90	88	82	78
Lts. 100's	91	87	93	89	93	88	91	88	83	78
Total Menthol	77	71	77	70	89	83	82	76	67	62
TOTAL	92	88	93	89	95	91	90	88	84	81
Change vs. YAG	--	-1	-1	-1	-1	-1	+1	+1	-1	--
Men FF	82	66	81	66	98	70	86	71	74	57
Men Lts 85's	73	67	73	66	79	78	77	76	63	56
Men Lts 100's	74	76	73	76	84	94	81	80	61	69

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## H. Inventory

- o Marlboro's total inventory share is 12.5, up +0.8 from a year ago. Visible inventory share is roughly equivalent except in Independents under \$2MM where it is lower.
- o Share of inventory indexes 58 against share of sales. While it is unlikely that this number will ever reach 100 for a growth brand the size of Marlboro, it is critical that the gap be closed. Hence, inventory growth must be pushed ahead of sales growth. In the last 12 months inventory share grew +0.8 while sales share grew +0.9. Inventory gains (+1.1) exceeded sales gains (+0.6) in small chains, the key trade class for Marlboro.

### Nielsen Marlboro Inventory Shares 12MM ending June 1988

	<u>Total</u> <u>U.S.</u>	<u>Chains</u> <u>+ \$2MM</u>	<u>Chains</u> <u>- \$2MM</u>	<u>Indep</u> <u>+\$2MM</u>	<u>Indep</u> <u>-\$2MM</u>
Total Inventory Share	12.5	11.1	16.8	10.2	12.5
Visible Inventory Share	11.8	11.1	16.7	10.2	11.4
Sales Share	21.6	18.1	30.7	16.7	23.2
Inventory Sales Ratio	58	59	55	61	54
Inventory Share Change vs. '87	+0.8	+0.8	+1.1	+0.7	+0.7
Sales Share Change vs. '87	+0.9	+1.1	+0.6	+0.7	+0.9

- o Analysis of Supermarket data reveals that Marlboro's pack inventory is extremely low relative to share of pack sales. While carton inventory and sales are more balanced. This suggests that Marlboro probably suffers pack out-of-stocks, which will not show up in Nielsen as long as the carton rack has product. As many Supermarkets have high pack volume, increasing Marlboro pack inventory has a high potential benefit in maintained or accelerated sales. (See Trade Class Objectives.)

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# I. Demographics

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Marlboro's profile depicts a primarily young and male brand, with a high proportion of Hispanic smokers and a low proportion of Black smokers.

## Total Marlboro Profile

	<u>%</u>
Male	<u>61</u>
Female	39
18-24	<u>31</u>
25-34	<u>37</u>
35-44	18
45-54	7
55+	7
White	<u>92</u>
Black	<u>2</u>
Spanish	<u>6</u>

- o The individual segments of the Marlboro franchise are demographically diverse making Marlboro several distinct entities. Marlboro Red is strongly male. Low tar and 100's length both introduce female skews; at the opposite of Red is Lights 100's which is predominantly female. The two 100's franchises contain a higher percentage of older smokers than Red or Lights Kings. The latter has a lower median age than Red (27.2 vs. 28.9), raising an interesting question; at what point will it be so much younger that it is obvious to our consumers, and what effect will this have on Lights and Red?
- o The result of Marlboro's diversity is that we must speak to several audiences. This requires an umbrella approach to the brand coupled with targeted tactics aimed at the specific packings.

## Marlboro Smoker Profiles vs. Categories

	<u>%</u>	<u>Red index vs. cat.</u>	<u>%</u>	<u>Gold index vs. cat.</u>	<u>%</u>	<u>Lts. Kings index vs. cat.</u>	<u>%</u>	<u>Lts. 100 index vs. cat.</u>
Male	<u>73</u>	107	42	111	<u>62</u>	102	36	103
Female	27	84	<u>58</u>	94	38	97	<u>64</u>	98
18-24	<u>32</u>	400	<u>31</u>	620	<u>36</u>	400	<u>29</u>	414
25-34	<u>36</u>	164	<u>32</u>	200	<u>38</u>	136	<u>33</u>	174
35-44	<u>22</u>	79	<u>18</u>	67	<u>16</u>	57	<u>16</u>	64
45-54	6	37	<u>12</u>	55	6	40	<u>12</u>	57
55 +	4	17	7	23	6	29	<u>10</u>	34
White	91	102	90	103	93	100	92	98
Black	2	33	3	38	1	33	1	67
Spanish	7	117	7	148	6	150	7	175

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c Marlboro posted share increases among total smokers and most of its key segments: men, women, and age groups up to age 44. The fastest growing segments continue to be the younger smokers. The declines among Spanish smokers are consistent over the last 2 years, but not statistically significant due to the size of the sample. While not cause for immediate concern, we will monitor this group to determine if a definite trend is developing. Qualitative research is underway to investigate Hispanic attitudes toward Marlboro, particularly among the young segments. Results will be available shortly.

Total Marlboro Share of Smokers  
P.M. Tracking Study

	<u>1988</u>	<u>1987</u>	<u>1986</u>
Total Smokers	<u>24.1</u>	<u>23.3</u>	<u>22.9</u>
Male	<u>29.3</u>	<u>28.3</u>	<u>27.4</u>
Female	<u>19.0</u>	<u>18.4</u>	<u>18.3</u>
18-21	<u>60.5</u>	<u>57.8</u>	<u>56.6</u>
22-24	<u>49.3</u>	<u>46.0</u>	<u>42.5</u>
25-34	<u>32.0</u>	<u>30.4</u>	<u>29.7</u>
35-44	<u>19.2</u>	<u>18.6</u>	<u>17.9</u>
45-54	<u>11.1</u>	<u>11.5</u>	<u>11.1</u>
55-64	<u>9.2</u>	<u>7.7</u>	<u>8.0</u>
65+	<u>5.8</u>	<u>5.9</u>	<u>5.8</u>
White	<u>25.5</u>	<u>24.5</u>	<u>23.9</u>
Black	<u>5.9</u>	<u>5.9</u>	<u>5.4</u>
Spanish	<u>28.7</u>	<u>29.8</u>	<u>30.5</u>

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- o Although the data available to date is limited, Marlboro Menthol appears to be skewing male, extremely young, and White. Differences between Full Flavor and Lights are noteworthy. Although not unexpected, Lights skews female; Full Flavor male. Full Flavor skews to incomes under \$30M, Lights skew over \$30M. Both packings skew heavily to the 18-34 year old group.

Marlboro Menthol Smoker Demographics

N = 76\*

	<u>Total Marlboro Menthol</u>	<u>Menthol Full Flavor</u>	<u>Lights Menthol</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Male	57	67	40
Female	43	33	60
18-34	83	83	83
35+	17	17	17
White	95	91	100
Black	5	7	-
Under \$30M	54	59	37
\$30M+	46	35	57
No College	67	67	60
College	33	28	37
A	33	25	45
B	39	41	27
C	13	16	7
D	15	19	7

\*Note the small sample size

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- o The limited switching data available indicate that Marlboro Menthol is drawing a substantial number of Kool smokers, followed by Newport and Salem. Still, 20% of the in-switchers are from another Marlboro packing. This should be perceived as a positive given that in the past these smokers might have left the franchise for a competitive menthol brand.

#### Marlboro Menthol In-Switching

Switching to Marlboro Menthol from:

Base:	76
	%
Kool	21
Marlboro	20
Newport	17
Salem	12

- o Competitive outswitching decreased slightly from 5.4% to 5.2% of the franchise in 1987. Both years are well below the 1985 figure of 7.0%.
- o For the total industry Price Value took 20% of all switchers. Marlboro's losses to PV were proportional to the industry's. Winston, Salem and Camel gained slightly more smokers than they gave up to Marlboro. Losses to Merit have fallen off sharply since 1985 (10% to 5%).

#### Marlboro Out Switching P.M. Switching Study

Switching from Marlboro to:	1987	1986	1985
	%	%	%
base:	339	332	419
Other Marlboro	25%	16%	23%
Price/Value	20	19	14
Winston	10	8	10
Camel	5	4	6
Merit	5	8	10
Virginia Slims	5	6	5
Salem	4	4	4
Newport	4	5	3
B & H	4	5	4

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- o Although Red and Lights give up a greater number of smokers to PV, Gold loses a much higher proportion of its outswitchers to value brands. (We hypothesize that an interest in value may have influenced Gold smokers toward their brand in the first place.) Doral and Cambridge and the major beneficiaries of Marlboro outswitching to Price/Value.

# Marlboro Switching 1987

<u>From:</u>	<u>To:</u>		<u>Cambridge</u>	<u>Doral</u>	<u>Generics</u>	<u>Other</u>
	<u>Price</u>	<u>Value</u>				
	<u>1988</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Marlboro	20		4	6	5	5
Red (161)	17		3	6	5	3
Gold (52)	34		8	12	8	6
Lts (119)	17		5	4	6	2
Menthol (7)	--		--	--	--	--

- o More than half of Marlboro outswitchers move down the tar spectrum. Lights catches a fraction of these; most leave the brand to completing low tars or ultra lows. Approximately one quarter of Marlboro outswitchers move to full flavor products, direct competitors of Red and Gold.

# Marlboro Outswitching by Tar Level

Switching from Marlboro to:

	<u>1987</u>	<u>1986</u>	<u>1985</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Comp Full Flavor:	24	21	29
Comp. Low Tar	35	48	36
Comp Ultra Low	15	12	14
Red/Gold	9	4	5
Marlboro Lights	16	12	15

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- o In terms of age and sex, Marlboro Menthol appears closest in smoker profile to Newport. However, an important difference is that 40% of the Newport franchise is Black compared with 5% for Marlboro Menthol. Compared to the category overall, Marlboro is also more male, younger and White. This skew towards White smokers represents opportunities for forward action detailed in the 1989 plan.

# Marlboro Menthol Smoker Profiles Vs. Category & Competitors

1988

	<u>Total Menthol Filter</u>	<u>Total Marlboro Menthol</u>	<u>Total Newport</u>	<u>Total Salem</u>	<u>Total Kool</u>
N=	5577	76	824	1761	991
Men	41	57	53	39	59
Women	59	43	47	61	41
<u>Age</u>					
18-34	41	83	83	39	47
35+	59	17	17	61	53
<u>Race/Ethnic</u>					
White	87	95	50	82	67
Black	8	5	40	14	28
Spanish Speaking	5	--	10	4	5

## J. Switching

- o Marlboro's biggest source of smokers continues to be smokers with "no previous brand," roughly half of whom are starting smokers. In 1987 this group contributed 33% of Marlboro in-switchers. Internal Marlboro switching is the second largest component. (Note the apparently abnormal figures for both in 1986). Over the last 3 years more in-switchers have come from competitors Winston, Salem, and Camel.

## Marlboro-In-Switching P.M. Switching Study

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Switching to Marlboro from:			
base:	362	344	390
No previous	33%	44%	30%
Other Marlboro	23	17	24
Winston	7	7	5
Salem	7	4	4
Camel	4	3	2
B & H	4	1	3

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