

File: Horizon

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TO: L. Suwarna/S. Reich DATE: April 24, 1991
FROM: John L. Illes
SUBJECT: Horizon Market Checks - Dallas and St. Louis

During the week of April 15, I spent three days in Dallas and St. Louis reviewing RJR's Horizon and the market in general.

Horizon began Dallas and St. Louis retail test market activity in April, 1991. Four lights packings, KS/100's regular and menthol, have been introduced. The brand differs from the Atlanta test market with the addition of the two king size packings and, we suspect, lower vanillin levels to increase smoke-ability. Some minor packaging changes have also been made such as the DBA style and closure design.

Dallas

Throughout the Dallas area, price value activity was high. The Texas state excise tax of \$0.41 per pack has increased the attractiveness of lower priced products.

Pricing was fairly constant around Dallas with few exceptions. The table below presents representative carton and pack pricing. Please keep in mind that more and more retail accounts, primarily C-stores, have gone to three pack pricing to provide consumers with a volume oriented price point at less than carton quantities.

	<u>Carton</u>	<u>Pack</u>
Full Margin	\$17.49	\$2.15
Price Value	\$15.39	\$1.89
Sub-Generic	\$13.39	\$1.50

Coupons were well evident in all price tiers. Some examples are as follows:

Kent/True/Newport/Old Gold	\$0.50/pack
Doral	\$0.30/pack
Magna	\$0.40/pack
Sterling	\$6.00/carton

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Horizon: RJR employed an extensive direct mail campaign prior to launching Horizon. The direct mail pieces included questionnaires, etc. to heighten smokers' awareness of cigarette smoke odor. After the issues' awareness had been elevated, consumers began receiving two free packs in the mail. Consumers could also call a toll free number to obtain more free product. Surprisingly, no reports of free pack or money off coupons have been reported by any direct mail participants or retailers.

Regular and 2F1 Horizon product was evident in most of the stores that we visited. Distribution appears to be concentrated in non-ethnic parts of the city where Horizon's product proposition is more relevant. While Dallas is the major portion of the test market, Horizon was reported as far west as Ft. Worth as far north as Denton and as far east as Tyler and Texarkana. With the exception of Ft. Worth, these areas would be considered C/D counties with low population densities and don't appear to be good Horizon markets.

Trade reaction to Horizon was neutral to negative. Most reported 2F1 movement but little repeat business. Retailers did say that many people did not like the taste and/or smell with a few customers returning product because they disliked it so much.

In both the Dallas and St. Louis markets, RJR is running a Horizon mystery shopper program where retail clerks will win \$10.00 for wearing a Horizon button and \$50.00 if they ask the mystery shopper if they've tried Horizon. Both money awards are paid on the spot via check and a like amount is paid to the store at the end of the program. The mystery shoppers were out and we spoke with several store clerks that had won some money. As you might expect, news of "winners" travels fast and many store clerks were excited about the program.

Throughout the Dallas test market, we didn't observe any outdoor or print advertising. I read through The Dallas Morning News Sunday paper and numerous general interest and women's magazines without finding any Horizon advertising. Leo Burnett has been asked to monitor regional issues for any Horizon advertising.

St. Louis

In contrast to Dallas, the St. Louis test market had both outdoor and print advertising. The creative style used was the same as that in the Atlanta test market. As in Dallas, consumers received Horizon direct mail pieces offering free packs. One retailer said some of her customers were receiving one free carton every Monday. We had heard this from consumers in Atlanta as well.

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Horizon distribution was just getting underway but most retailers had both 2F1's and regular pack product. Some stores did carry cartons usually as part of a headquarter "force-out". Trade reaction to Horizon was similar to that in Dallas. Retailers had little repeat business as consumers didn't care for Horizon's taste or smell. Also, as in Dallas, the abundance of competitive 2F1's and couponed product provided consumers with many attractive product alternatives.

Pricing in St. Louis is about \$2.00 less per carton than Dallas due to lower state and county excise tax rates. Some local communities impose a excise tax which increases pricing variation throughout the region.

Horizon appeared in areas well outside of St. Louis with stores as far as 25 miles from downtown St. Louis. With office buildings and factories spread throughout the St. Louis area, this strategy appears more relevant than that which was reported in the Dallas test market. Also, we visited one account near the Illinois border that had Horizon. Cross border cigarette sales are big business with the high Illinois state excise tax.

Summary

The Horizon Dallas and St. Louis test markets differ in the use of outdoor and print advertising in St. Louis. Some different direct mail may have been used in each market although we haven't been able to document this difference.

The Horizon market potential appears to be very limited as was projected by the Atlanta Horizon ad pack. Follow-up market checks will be required to monitor both brand performance and trade/consumer reactions.

Please let me know if you have any questions or comments.

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