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PHILIP MORRIS USA

WEEKLY POSTING

Month Ending February 28, 1993

HIGHLIGHTS

State of the Business

Industry volume for February of 28.3 billion units was 2.2 billion units (7.3%) lower than last February. Principally the continued depletion of excess inventory and some affect on going rates due to higher federal and Massachusetts excise taxes contributed to the lower volume.

For the same reasons **PM-USA volume** for the month of 9.8 billion units was 1.8 billion units (15.5%) lower than February 1992. In addition, last year we were shipping Merit Ultima (677 million units) for national launch. We also curtailed Basic shipments (300 million units) in preparation for its relaunch with new product graphics. This month's volume was below Original Budget by 1.6 billion units (14.4%) with the loss concentrated in premium brands. Discount brands continue to be higher than forecasted. PM's share for the month was 34.5%, down 3.3 points vs. last year. The lower share reflects the weakened premium category, excess inventory depletion and lower Basic shipments. Year-to-date, volume is 0.7 billion units below forecast, PM's share of 36.2% is slightly higher (+0.1) than last year.

Hourly Employee Voluntary Separation Program

A total of 471 hourly employees met the February 19th deadline for participation in the Richmond VSP. Separations under this program are effective Monday, March 1st. The number of employees was slightly higher than the anticipated acceptance rate of approximately 430.

January Cash Flow

PM-USA's after-tax cash flow through January 30th was \$8.2 million which was \$227.1 million above last year primarily due to various changes in assets and liabilities. Receivables increased \$118.6 million vs. last year due to differences in the timing and terms of the fourth quarter buying programs offered to the trade. The \$81.3 million increase in Accounts Payable was due to timing of checks clearing during the month. January capital spending was \$28.7 million which was \$30.8 million below budget and \$18.0 million more than January of the prior year. The unfavorable variance to budget was due to changes in timing of projected spending on the Cabarrus Manufacturing Project.

Product Liability

Legislation to reform tort law has passed in Mississippi and Texas. The Mississippi Governor signed the bill into law while the Texas bill awaits Governor Richards approval. Both bills precluded suits against manufacturers of products with known risks. These laws are a culmination of several years of work by business tort reform coalition.

Incidence of 99¢ Pricing/Price Gap

Incidence of 99¢ pricing declined to 20% after the recent list and FET increases, but is now escalating, up to 24% of total stores as of February 15th. The retail pack price gap between Deep Discounts and Marlboro is 9¢ (6.3%) higher than it was September 28, the last survey prior to the October price increases.

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Preliminary MSA Shipments (millions) - February, 1993
 Timing and size of trade programs distort volume.

TOTAL VOLUME	February Volume	February Vol. % Change 93 vs 92	YTD Vol. % Change 93 vs 92	February Market Share	February Share Diff. 93 vs 92	YTD Share Diff. 93 vs 92
PM-USA	9,785	(15.5)%	(7.0)%	34.5	(3.3)pts	0.1pts
RJR	10,319	(1.0)	(7.9)	36.4	2.3	(0.3)
B&W	3,231	18.6	24.0	11.4	2.5	2.65
Lorillard	2,188	(15.4)	(17.9)	7.7	(0.7)	(1.0)
American	2,098	(1.9)	(13.5)	7.4	0.4	(0.5)
Liggett	<u>708</u>	<u>(36.7)</u>	<u>(30.4)</u>	2.5	(1.2)	(0.9)
Industry	28,334	(7.3)%	(7.2)%			

PREMIUM VOLUME	February Volume	February Vol. % Change 93 vs 92	YTD Vol. % Change 93 vs 92	February Market Share	February Share Diff. 93 vs 92	YTD Share Diff. 93 vs 92
PM-USA	6,167	(32.7)%	(25.8)%	39.7	(1.9)pts	1.8pts
RJR	5,308	(30.0)	(39.8)	34.2	(0.3)	(5.7)
B&W	809	(30.3)	(8.4)	5.2	(0.1)	1.4
Lorillard	2,061	(17.3)	(16.7)	13.3	2.0	2.0
American	981	(25.7)	(27.2)	6.3	0.3	0.2
Liggett	<u>193</u>	<u>(29.3)</u>	<u>(2.4)</u>	1.2	0.0	0.4
Industry	15,523	(29.4)%	(29.0)%			

DISCOUNT VOLUME	February Volume	February Vol. % Change 93 vs 92	YTD Vol. % Change 93 vs 92	February Market Share	February Share Diff. 93 vs 92	YTD Share Diff. 93 vs 92
PM-USA	3,618	50.0%	59.6%	28.2	0.1pts	2.6pts
RJR	5,011	76.4	80.4	39.1	6.0	7.7
B&W	2,422	55.0	47.6	18.9	0.7	0.2
Lorillard	127	33.3	(30.0)	1.0	(0.1)	(1.4)
American	1,116	36.5	3.9	8.7	(0.8)	(3.3)
Liggett	<u>515</u>	<u>(39.1)</u>	<u>(38.2)</u>	4.0	(5.8)	(5.7)
Industry	12,812	49.4%	46.0%			

Competitor's premium volume was down 31% compared to 1992, with Reynolds premium volume down almost 40%.

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PM-USA INITIATIVES

<u>BRAND</u>	<u>INITIATIVES</u>	<u>GOAL</u>	<u>TIMING</u>
Merit	The first of five direct mail programs was sent to 946,000 Merit and competitive smokers, with the "Lighter Side of Movies" theme to maintain communication established with smokers from previous recontact programs and develop an on-going relationship with new "promotional response" smokers. The program offers B2G1F pack, \$2.50/ctn or 5 packs and carton coupons of different values (\$2, \$3, & \$4).	Test different coupon values to Merit smokers to learn if they are being over subsidized and would continue to purchase the brand using lower value coupons. Reinforce current Merit smokers and reduce alternate purchases; increase alternative purchases among competitive smokers, and promote brand loyalty.	Mailed February 25
Virginia Slims	In 17 key markets, a Virginia Slims FSI ran in Sundays newspaper offering price off coupons along with an order form for the V-wear continuity program. A one page cover encouraging readers to check magazines for the details of the V-wear program ran in the balance of the U.S.	Support the V-wear continuity program, reward VS smokers and build incremental volume.	Sunday, February 21
Cambridge	As a proactive program to competitive smokers who have previously smoked Cambridge, a direct mail piece was sent to 930,00 smokers which included four coupons plus an additional coupon for one pack to the Doral group, in addition to a response mechanism for a free lighter when mailing back the questionnaire. As a defensive program to Cambridge smokers, a direct piece was utilized which included four carton coupons with graduated expiration dates designed to control purchase behavior.	Build volume. Retain existing volume.	February 25 February 25

COMPETITIVE INITIATIVES

<u>BRAND</u>	<u>INITIATIVES</u>	<u>GOAL</u>	<u>TIMING</u>
B&W	The company has increased its support of its deep discount brands, as evidenced in maximum volume retail accounts. Use of \$2 coupons on GPC is up 10% to 26%, offset by a decrease in use of \$1.50 coupons (-7%).	Partially offset the price increases which occurred in Oct., Nov., and the January FET.	As of 2/8/93
Camel (RJR)	RJR has sent out a Camel game to all retail accounts with the new Camel Cash catalog. The game includes dice and cards and is placed in a box which looks like a pack of Camels.	To compete with MAT and increase awareness.	Current

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