

SECTION OPERATIONS REPORT

**PHILIP
MORRIS**

SECTION MANAGER:

C. E. EVARKIOU

HEADQUARTERS:

SAN DIEGO, CALIFORNIA

MONTH:

MARCH 28 - APRIL 28, 1987

I. MARKETING CONDITIONS

Inventory levels are now back to normal after fluctuating widely during the first quarter. Many of our largest accounts placed virtually no orders during January and February due to heavy inventory purchased in December. March we were up +1.2% but our YTD is still down -11.0%.

Most accounts participated fully in our first quarter Inventory Maintenance Program with no real problems observed. Many indicated a little more lead time would have been helpful, indicating RJR gave them 7-10 days notice of their program.

Cambridge Lights and Players distribution levels continue at the same level as in the past. Division Managers are expressing some concern that Cambridge coupons are getting to be in short supply, as Cambridge sells considerably slower without the coupon.

II. MAJOR COMPETITIVE DEVELOPMENTS

American has announced the introduction of Pall Mall Red Filter and 100's in Southern California, Phoenix, and other selected areas. Sell in sheets have been sent to Region Office. Both packings are priced at popular prices with first shipments on 4/20/87.

American will be testing Malibu in three packings in 13 states beginning 4/20/87. Sell sheets were sent to the Region Office.

Brown & Williamson will be introducing Falcon as a generic priced branded product on May 4. This will be a National introduction of four separate packings.

Most direct accounts took advantage of B&W's March inventory load in. The primary attraction to this offer was reported to be 45 day extended terms. All brands were included in the offer except for Kool and Kool 100's.

To date sales on Magna in Las Vegas have been very slow. \$1.00 off coupons are used on some displays due to very little movement.

There have been a number of rumors that RJR's sales force will no longer call on accounts selling under 100 cartons per week.

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R.J. Reynolds announced in a circular dated 4/2/87 that they have sold four smoking tobacco brands to John Middleton, Inc.: Prince Albert, Carter Hall, Royal Comfort, and Apple. This circular was sent to the Region Office.

Palisade Wholesale in San Diego now assembles all RJR pack promotions including free packs, incentives, etc. for RJR's San Diego sales force. Palisades is paid \$11.00 per case for assembling promotional units. This is different from Flaks-Ponca in Albuquerque, which performs the same service but reports they are paid 6 1/2% (twice normal discount) with 30 day terms.

Mild Seven from Japan Tobacco Co. has only limited distribution in independent accounts in San Diego, but is now carried in one chain, Alpha Beta. This brand continues to be very slow in sales.

L&M S/R's are introducing a branded generic in Arizona by the name of "Total" in king size filter and menthol.

L&M S/R's have been working "Frontier" in New Mexico, a branded generic. With \$2.00 off coupons the product is \$1.00 less than other generics. Sales have been very slow to date.

Furrs Supermarkets in New Mexico now carries "West" a branded generic from Park Ave. Tobacco Co. This product is \$1.00 less than other generics. It is too early to evaluate sales.

III. TRADE CLASSES

Vega Wholesale now services Indian outlets in Las Vegas formerly supplied by Mutual Tobacco. Vega previously averaged 250 cases weekly and this will add about 150 cases weekly of PM product.

The Paiute Tribal Store in Las Vegas applied for direct listing this period. In the past this high volume outlet has been serviced by a tobacco distributor and there appears to be no advantage to PM to place them on direct. Consequently we recommended that the application should be denied.

Volner Distributing in El Centro, California is in the process of going out of business. The current owner stated he is not making any money and decided he should close. Our Credit Department has been advised. El Centro is about 100 miles east of San Diego and while this may inconvenience our S/R there, retailers will be serviced by other wholesalers. Desert Wholesale in Yuma, 70 miles from El Centro, will benefit from this. They were previously losing sales to

McLane Sunwest, which recently began servicing Desert Wholesale's two largest customers: The Shay Oil chain and the Indian Smokeshop in Yuma. McLane Sunwest continues to be very aggressive in this market.

The Price Company continues to both open new locations and build larger warehouses adjacent to existing ones. In the past most of their warehouses were about 100,000 square feet but the new locations are 130,000. Warehouses in San Diego and Colton, CA are relocating in June and August.

A.M. Lewis continues to make changes due to their declining sales. Ted File, V.P. Marketing, has left the company, Dave Ashby, V.P. Marketing and Division Manager has also left. Dan Howard, V.P. and Division Manager in San Diego is now headquartered in Riverside. He recently indicated there will be many more changes in the near future.

7-Eleven announced they will open a new Western Region office in San Diego on June 1, overseeing four division on the West Coast.

The Costco warehouses located in this section in Las Vegas and Riverside continue to do only marginal business.

Stater Bros. recently inquired about going on direct. AM Wilson supplied them with all details necessary for them to be given direct listing status. They presently buy from Core Mark and they have asked us to keep this information confidential so that Core mark does not find out until they have decided if they will actually apply.

Furrs recently closed five stores in El Paso as part of their consolidation.

Pace membership stores have begun construction of warehouses in Cathedral City (Palm Springs) and San Bernardino, CA.

IV. SSM KEY ACCOUNT CONTACTS

McLane Sunwest

Ralph Evans - Harvey Johnson
Van Parrish - Terry Kailey

Business review presentation with Bill Garry from NYO. Discussed promotions with Circle K and various customer service problems. This company continues to be very cooperative in all areas.

Fleming (Associated Grocers) Tom Boothby - Frank Mazza

Business review presentation with Bill Garry from NYO. This account was down 6% for 1986 and we discussed the need for them to have their retailers properly merchandise the cigarette category. We will be participating in their trade show 6/13 and 6/14.

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V. MERCHANDISING PROGRAMS

A. Carton Merchandising Programs

The Merit Seacoaster A-1 display is being well accepted by chains. This appears to be an excellent promotion.

The Virginia Slims Slimshop Hip Bag display appeared to be an excellent promotion but displays are showing only moderate sales. Retailers feel this is due to the fact that so many offers are made to smokers at the store level that little interest is shown to "mail in" offers. The incentive appeared to be excellent, a logical brand tie in, but the results have been poor.

No changes in any Plan 'A' contracts this month.

B. Pack/Counter Displays

The B&H Lighter display has been well received by retailers and consumers. The 40 unit displays generally sold out in 4 to 5 days, and all shipments were utilized.

Although the lighter case was an excellent incentive, we did experience problems with retailers removing lighters from the cases and selling them with other Bic lighters. It was felt that printing B&H advertising on the side of the lighter would prevent this.

C. Vending Program

Area Manager Pignato will be converting Canteen Vending in Tucson to DataVend on 5/1/87. This account has 230 machines.

D. PM Fixtures

After repeated presentations approval was gained from Piggy Bank in El Paso to replace RJR overheads with PM's. We will gain 16 new locations. At the present time we are having difficulty getting 6 ft. racks.

Placement of CMSII Carton Fixtures in Super X Drugs should begin in May. This will be a test as their present volume is only about 250-300 cpw. We will be monitoring their volume closely and working with them to improve participation on various promotions.

West Coast Project

Nothing new to report this month with chains. We are continuing to convert Smittys with six stores completed, commitments from five more. Most all stores should be converted by late May.

We are developing a special color for Basha's, the first rack should be installed in May.

Bayless "may" test two stores in May.

Frys may test one store in May.

Stater Bros. still will not commit one way or the other but a favorable decision does not look likely.

We are continuing to convert Vons to System 2000 low profile fixtures as directed by Los Angeles.

VI. SECTION ACTIVITIES

Marlboro Country Concerts were conducted by San Diego and Phoenix this reporting period. The VIP buffets held at the arenas prior to the concert were very successful and our customers were very appreciative. The "thank you" parties after the concerts for our sales force were also much appreciated. All phases of the Marlboro Country Talent Round Up and concerts were extremely professional and generated considerable goodwill towards the Marlboro brand.

On April 11 and 12 many members of our sales force worked at the Phoenix 200 C.A.R.T. races supporting Marlboro activities. Marlboro presence was excellent throughout the weekend and sampling activities were very successful. This event gives us an excellent opportunity to entertain and socialize with major customers and we feel Marlboro greatly benefits by this outstanding exposure. This is one of our most successful sporting endeavors.

The Merit Merchandising Program was very well received at retail in both chains and independents.

We have had excellent acceptance at retail to the Marlboro lighted open/closed signs. DM's have suggested improving visibility by placing Marlboro advertising on the back side of this item as well.

DM's report good acceptance to the electrostatic security shield signs. These items have a much better "shelf life" than shelf talkers. The signs stick well to glass but frequently do not stay on plexiglass unless taped.

The Skaggs/Alpha Beta Gamera Saverama promotion continues to be a success as all store managers have been extremely cooperative.

Participation in the IGA National Brand Parade at selected A.M. Lewis accounts has been very limited. Only three stores participated.

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On April 17, 18 and 19 SSS Vaillancourt and various S/R's from Phoenix assisted in various sampling and sweepstakes activities at a Mexican Rodeo. Activities were essentially the same as at the fiestas and race events. Marlboro visibility was good but the number of people in attendance was very light.

VII. SALES SERVICES

Low Profile Plan B header cards are being shipped separate from regular materials and in many cases are not being received until the last week of the cycle.

Several DM's have suggested ongoing permanent p.o.s. for Cambridge such as a large poster with a round blank area for pricing. This would help support our selling efforts.

VIII. SALES DEVELOPMENT

No comments this month.

IX. MEDIA DEVELOPMENTS

A surprisingly high number of people noticed the ads/coupons on Virginia Slims Ultra Lights that mistakenly appeared in Southern California. Retailers noted quite a number of requests for the brand.

X. ASSOCIATIONS/CONVENTIONS/MEETINGS

During the week of March 29 MPA T. Pecanic attended a seminar in Richmond, VA.

On April 8 I held a meeting with selected managers from Albuquerque, Phoenix and San Diego to discuss the Jacob Albright meetings. To date we have had excellent success with gaining support from industry personnel at the Jacob Albright meetings. Appointments have been made with nearly all legislative personnel and "committees" of personnel to visit them have been made. It appears at this point that this program will be very effective in getting our point to elected personnel.

On April 22 and 23 I held management and S/R meetings to discuss the restructuring of the sales force, Famous Value Brands and other subjects. Director Region Sales Jim Kuhlman and Assistant Director Region Sales Monty Faulk

presented various portions of the meeting.

Two additional personnel from Section 73 attended the S.A.M. Assessment Center in Dallas this period.

SSS R. Vaillancourt accompanied 15 section 73 personnel in visiting our Richmond, VA factory on 4/7, 8 and 9.

SSS Vaillancourt and AM Wells attended a Mobil Dealership meeting in Phoenix, AZ on 4/22/87.