

DRAFT

June 12, 1984

TO: L. W. Hall, Jr.

FROM: E. J. Fackelman

SUBJECT: STRATEGIC RESEARCH

The following will provide you with the joint perspective of Jim Gemma, Ellen Monahan and myself regarding the input received on "Strategic Research" from Marty Orlowsky and John Winebrenner.

In general, our feeling is that many of the issues raised are ones which need to be addressed by MDD in total with additional input from Brand Marketing. Some issues are strategic while others are of a more tactical nature. As a result of a careful review of Brand's thoughts and some careful MDD soul-searching, we believe that before we launch into anything, we need to go far beyond John's memo and this one. As an ongoing approach to managing the RJRT business, Brand and MDD must systematically and periodically discuss information needs and issues. Specifically, we all need to join forces to determine what issues have not been addressed, how important it is to address them, and what we will do with information once we get it. Only when we prioritize and establish likely pay-off will we be running the business of RJRT, MDD, and Brand Management effectively.

The remainder of this document specifically addresses the questions raised regarding this topic.

Specific Issues

1. "Have we identified all of the issues? (LWH)" The answer to this question

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is that we have not. In fact, John's note did not reference the largest issues currently facing the Company:

-- Pricing

-- Younger Adults

-- Distribution

-- *Special Markets (primarily Black and Hispanic)*

-- *Product Line Positioning*

2. "To what extent can we address these issues through our existing systems?

(LWH)"

a. "Much of our Strategic Research is too general and too unrelated to the cigarette market to be of specific use to us. (JTW)"

-- Each year we fold available learning into the Future Lifestyles presentation. This learning comes from a broad variety of sources including Yankelovich, VALS, the Naisbitt Group, input from our suppliers and our own scanning for trends. This review eliminates the necessity for our end-users to do this individually. It's purpose is to provide a consolidated perspective of consumer and external forces and identify their broad impact on RJRT.

As you know, MDD was instrumental in suggesting and designing a system to apply this type of research to individual brand needs via the Established Brands Positioning Process. This system takes broad concepts like upward striving and determines their specific application to individual brand families.

b. "Much of our tactical research is very brand specific. (JTW)"

-- In the case of TRACKER and other ongoing consumer information systems, their purpose has been to capture information which will provide key trend data which has been deemed essential to monitor the health of our brands. It has been primarily used to understand what has happened historically in order to assist in predicting future trends. A good example is the Younger Adult Smoker issue that is facing RJR. Without the TRACKER data base, it would not have been possible to identify the Company's weakness and determine its likely affect on future company performance. It may be true that we are not gathering all information we need in TRACKER or in our other systems, but the solution to the problem is not in designing mega-database systems. The solution is to identify the issues which need to be addressed. This is a joint responsibility of Brand Marketing and MDD. Once the issues are defined, MDD can then gather information required to fully analyze, understand and address them.

c. "I often feel that we do not have adequate consumer tracking data to give a diagnostic understanding of many phenomenon and changes that are occuring in the marketplace. (JTW)"

-- "Smokers are trending toward 100mm styles and away from 85mm styles."

John is correct, we don't know the underlying reasons for this

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phenomenon. However, we do have reasonable hypotheses such as the need for value, the disproportionate growth of female smokers, etc. If this is a major issue, we can launch a program designed to answer the question. Before we do, however, let's decide on how important the issue is and if it's worth the resources.

-- "Smokers are trending away from low tar brands, specifically Moderation and Concerned segment brands."

Again, we don't have any definitive reasons why this is occurring. However, we do have some sound theories. The most reasonable is the proliferation of lower tar line extensions of brands in other segments. This has reduced the supply of switchers from other segment brands by allowing smokers to switch to a lower tar level within their brand family. Here again, we could launch a diagnostic program if this issue were deemed sufficiently important.

-- "Social pressures are bearing down hard on smokers these days, but we don't really know how these pressures impact on their smoking habits in terms of where, when and how much they smoke."

We do have a good understanding of this issue based on two years of studies designed to examine these issues. Additionally, more tactical research, which Brand is not aware of, has been completed to support Public Affairs and Public Issues. Of course, each year as in the past, we will modify the Smoking Attitudes Study to

cover new or unresolved issues.

-- "I would suggest we develop an ongoing monitor of smoker attitudes and behavior covering a large sample of smokers. (JTW)"

o "Smokers' attitudes toward smoking and how they are changing"

-- We have a large base of information on the topic from the Smoking Attitudes Studies.

o "What type of cigarettes (100mm vs. 85mm, box vs. soft pack, menthol vs. NM) are preferred by smokers and their reasons for this preference" -- We have some information on this topic.

This area can certainly be addressed via custom research if deemed important.

o How important is tar and nicotine in the selection of a cigarette brand? -- This issue varies by smoker, of course. Some smokers are driven by T&N considerations and this decides their choice of a concerned or moderation brand. For other smokers, more traditional user or product imagery is of primary importance and T&N considerations are of secondary importance.

All smokers of course are T&N conscious in the sense that this determines level of strength and taste impact. Modifying their traditional T&N tastes requires a motivation for change. For most smokers, this has been the alleged health concerns.

o What does quality mean to a smoker? -- This issue was the focus

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of a study completed a few years ago by the Consumer Research Group.

- o What does value mean to a smoker? -- Strategic Research completed a conceptual review of this topic in the 1983 External Influences Study. Additionally, some information is available from individual brand work completed by CENTURY, and DORAL and from the 1983 Segment Description Study. If the topic is worth further explanation, we could launch a program to pull all available information together.

- o What is the relative importance of image versus product factors in selecting a cigarette brand? -- We attempted to resolve this in the 1979 Segmentation Study. That study via conjoint analysis, traded-off image versus product factors. The attempt was unsuccessful because of smokers' reluctance to admit their desire for imagery. More recent research -- the 1981 and 1983 Segment Description Studies and individual brand research studies -- have led us to believe that both factors are important, relevant and non-separable. For a brand to be successful, both the imagery and the product must be consistent. Both are necessary for success.

With respect to John's suggestion of an ongoing smoker monitor, this has the same problems associated with it that any ongoing system has -- what are the issues. We would all be better off to decide on a hierarchy of issues than to launch yet another

large data-base collection device. All of the individual questions raised by John can best be answered with available information or incorporated into existing research vehicles.

2. (Reminder (II of JTW note) to be completed by JLG and ENM.)
3. "What are implications regarding cost/benefit relationships? (LWH)"

There is probably no need to dramatically expand our dollar outlay to answer the questions John has asked. Many of these answers can be provided through manipulation or consolidation of existing in-house information. The largest cost will be in manpower. Before we commit substantial MDD time, it would seem best that the Senior Managers of MDD sit down with John and Marty to prioritize these issues and determine some priorities. We, as a department, have limited priorities and must use them efficiently.

4. "What are the implications regarding MDD responsibility? (LWH)"

With respect to this question, the senior MDD managers need to convene to discuss area responsibility. In some cases, we are issuing redundant reports (e.g., Younger Adult Smokers, Black Smokers). In other cases, we may have misplaced responsibility (e.g., support to R&D Bio-behavioral and Public Issues within Strategic Research). Finally, we need to ensure that we build in internal MDD, cross-area input into all tracking programs to ensure we are collecting the correct basic consumer information.

5. "What are the implications regarding manpower needs? (LWH)"

At this time, it is almost impossible to address this issue. However, if we eliminate MDD redundancy, and if we can agree with Brand on issue priority, then we should be able to meet everyone's needs within our existing headcount allocation.

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cc: Dr. J. L. Genoa

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