

AA BOARD PRESENTATION
R.J. REYNOLDS BOARD OF DIRECTORS
FEBRUARY 21, 1985

GOOD MORNING, AND THANK YOU FOR THE OPPORTUNITY TO OUTLINE
DETAILS OF R.J. REYNOLDS' LATEST CIGARETTE DEVELOPMENT -- RITZ,
A NEW BRAND FAMILY THAT WILL ENABLE US TO EXTEND THE CONSUMER
APPEAL OF OUR PRODUCT LINE.

RITZ WILL BE A NEW PREMIUM QUALITY 100 MILLIMETER CIGARETTE
AVAILABLE IN BOTH MENTHOL AND NON-MENTHOL. OUR OBJECTIVE IS TO
DEVELOP A NEW BRAND WHICH WILL BECOME THE NEW STANDARD FOR
STYLISHNESS IN THE INDUSTRY.

WHAT SETS RITZ APART FROM OTHER STYLISH BRANDS IS ITS UNIQUE
PROPOSITION -- THE FIRST CIGARETTE TO BE CREATED IN ASSOCIATION
WITH A FASHION DESIGNER. NO ORDINARY DESIGNER, I MIGHT ADD, BUT
THE WORLD'S MOST PRESTIGIOUS AND MOST RECOGNIZED DESIGNER, YVES
SAINT LAURENT.

RITZ WILL COMPETE IN THE STYLISH SEGMENT WHICH IS NOW THE THIRD LARGEST SEGMENT AND COMPRISES ELEVEN PERCENT SHARE OF THE TOTAL CIGARETTE MARKET. WHILE REYNOLDS TOBACCO IS REPRESENTED IN THE STYLISH SEGMENT WITH BOTH MORE AND STERLING, THE VOLUME IN THE SEGMENT IS CONTROLLED BY PHILIP MORRIS WITH THEIR BENSON AND HEDGES AND VIRGINIA SLIMS BRANDS. THESE TWO COMPETITIVE BRANDS COMBINE TO REPRESENT SEVENTY-SEVEN PERCENT OF THE STYLISH VOLUME.

IN PROBING FURTHER INTO THIS SEGMENT TO DETERMINE THE OPPORTUNITY FOR RITZ, WE FOUND THAT FEMALE SMOKERS COMPRISE SEVENTY-SIX PERCENT OF THE STYLISH SEGMENT. AND, THIS REPRESENTS A SIX PERCENT INCREASE IN FEMALE STYLISH SMOKERS OVER THE LAST THREE YEARS. IT WAS CLEAR THAT STYLISH SEGMENT BRANDS INHERENTLY APPEAL TO FEMALE SMOKERS.

A KEY REASON FOR THIS APPEAL IS INDICATED IN OUR RESEARCH OF WOMEN SMOKERS. WE FOUND THAT FASHION AND STYLISHNESS ARE TWO PRIMARY INTERESTS AMONG WOMEN. THE CONSIDERABLE GROWTH IN SALES OF COSMETICS AND FASHION MAGAZINES CONFIRM THIS INTEREST.

FURTHER, RESEARCH INDICATES THAT WOMEN ARE EXTREMELY CONSCIOUS OF THE IMAGE THEY PROJECT TO OTHERS, AND THE REINFORCEMENT OF A PRESTIGIOUS, ELEGANT IMAGE IS VERY IMPORTANT.

AN EXAMPLE OF THIS IS THE POPULARITY AND SALES GROWTH OF HIGH IMAGE DESIGNER CREATED PRODUCTS, FROM CLOTHING TO PERFUME. THESE PRODUCTS ARE PERCEIVED TO BE HIGHER QUALITY, SOPHISTICATED, STYLISH AND PRESTIGIOUS, PRIMARILY DUE TO A FASHION DESIGNER ASSOCIATING HIS NAME, EXPERIENCE AND REPUTATION WITH THE PRODUCT.

WE NEXT NEEDED TO DETERMINE WHICH FASHION DESIGNER REPRESENTED THE BIGGEST OPPORTUNITY FOR THE BRAND. IN QUALITATIVE RESEARCH, WE FOUND THAT YVES SAINT LAURENT WAS CONSISTENTLY SEEN AS EITHER AMONG THE BEST OR THE BEST FASHION DESIGNER IN THE WORLD.

HE SCORED WELL ABOVE CALVIN KLEIN, RALPH LAUREN AND OSCAR DE LA RENTA BECAUSE OF HIS REPUTATION AS BEING AT THE TOP OF HIS FIELD FOR THE PAST TWENTY-SIX YEARS. HE BEGAN HIS CAREER AT THE HOUSE OF DIOR AND LAST YEAR WAS HONORED IN A TWENTY-FIVE YEAR RETROSPECTIVE OF HIS WORK AT THE METROPOLITAN MUSEUM OF ART -- THE FIRST LIVING FASHION DESIGNER TO BE RECOGNIZED IN THAT MANNER. HE IS CLEARLY REGARDED AS THE "KING OF FASHION."

OUR RESEARCH CONFIRMED THAT PRODUCTS WHICH CARRY HIS NAME
COULD HAVE TREMENDOUS OVERALL APPEAL AS WELL AS SOPHISTICATED,
PRESTIGIOUS IMAGE AND QUALITY PERCEPTIONS.

IN A POSITIONING EVALUATION STUDY, WE FOUND THAT RITZ, WITH
THE YVES SAINT LAURENT ASSOCIATION, WAS PERCEIVED AS JUST AS
FEMININE AS VIRGINIA SLIMS YET MUCH MORE SOPHISTICATED AND
PRESTIGIOUS.

RITZ WAS ALSO PERCEIVED AS BEING FOR MORE INDEPENDENT, SELF
CONFIDENT WOMEN THAN VIRGINIA SLIMS.

AS A RESULT OF THIS RESEARCH, WE SIGNED A LICENSING AGREEMENT
WITH THE YSL ORGANIZATION IN LATE 1983.

AS I STATED PREVIOUSLY, OUR OBJECTIVE IS TO DEVELOP A NEW
BRAND WHICH WILL BECOME THE STANDARD FOR STYLISHNESS IN THE
INDUSTRY. THE PRIME PROSPECT FOR RITZ CAN BE DESCRIBED AS
FASHION-CONSCIOUS FEMALE SMOKERS AGED EIGHTEEN TO THIRTY-FOUR.

THE MARKETING ELEMENTS OF THE BRAND WERE DESIGNED TO PROVIDE
REINFORCEMENT THAT RITZ IS A CIGARETTE THAT COMPLEMENTS THE
FASHIONABLE SELF-IMAGE AND EXCITING LIFESTYLE OF THIS FEMALE
SMOKER.

THE NAME RITZ WAS CHOSEN BECAUSE IT INSTANTLY COMMUNICATES THE BRAND'S PROPOSITION -- INHERENT PRESTIGE, SOPHISTICATION AND STYLE. IT IS EASY TO PRONOUNCE AND HAS HIGH APPEAL AMONG FEMALE SMOKERS. THE RITZ NAME ACHIEVED THESE OBJECTIVES AMONG 90 PERCENT OF THE FEMALE SMOKERS TESTED.

THE PACKAGE WAS DESIGNED IN KEEPING WITH OTHER YSL PACKAGING DESIGNS BEARING HIS FAMOUS LOGO. QUANTITATIVE TESTING VERIFIED THAT THE PACKAGING IS STYLISH, ATTRACTIVE, MODERN, UNIQUE AND HIGH-CLASS. THE PACKAGE, WHILE COMMUNICATING ALL THESE UPSCALE, POSITIVE PERCEPTIONS, WAS ALSO SEEN AS A PACKAGE THAT YOUNGER ADULT FEMALE SMOKERS FELT COMFORTABLE CARRYING.

THE ADVERTISING FOR RITZ RANKS AMONG THE MOST STRIKING AND LUXURIOUS EVER CREATED BY REYNOLDS TOBACCO.

THE ADS COMMUNICATE THAT ALL OF THE INHERENT PRESTIGE AND STYLE CONSUMERS HAVE COME TO EXPECT FROM OTHER YVES SAINT LAURENT PRODUCTS IS NOW AVAILABLE IN NEW RITZ. THE ADVERTISING USES YVES SAINT LAURENT'S PERSONALLY DESIGNED FASHIONS THROUGHOUT THE CAMPAIGN. THE HEADLINE IS "LA CIGARETTE RITZ, THE FIRST LUXURY CLASS CIGARETTE CREATED BY YVES SAINT LAURENT."

IT CONFIRMS TO THE SMOKER THAT RITZ SETS NEW STANDARDS FOR SMOKING. AS YOU CAN SEE, THE VARIOUS CAMPAIGN EXECUTIONS REPRESENT A SPIRITED, OPULENT LIFESTYLE. THE STORYTELLING QUALITIES OF THE VISUALS ALSO SUGGEST ROMANCE, MYSTERY AND INTRIGUE.

WHILE THE ADVERTISING CONCLUSIVELY COMMUNICATES THE LUXURY IMAGE FOR RITZ, WE ALL KNOW THAT THE BEST MARKETING EFFORTS CAN BE FRUITLESS IF THE PRODUCT DOES NOT DELIVER TO CONSUMER TASTE PREFERENCES.

THE RESEARCH AND DEVELOPMENT TEAM AT REYNOLDS TOBACCO WORKED EXTREMELY HARD TO DEVELOP A PRODUCT WHICH MEETS THE HIGH QUALITY IMAGE ESTABLISHED BY THE ADVERTISING. BOTH RITZ NON-MENTHOL AND MENTHOL STYLES ARE RATED SUPERIOR VERSUS BENSON AND HEDGES LIGHTS AMONG OUR TARGET SMOKERS, EIGHTEEN TO THIRTY-FOUR YEAR OLD FEMALE LOW TAR SMOKERS. RITZ WAS CONSISTENTLY RATED HIGHER THAN BENSON AND HEDGES ON IMPORTANT PERFORMANCE ATTRIBUTES SUCH AS TOBACCO TASTE, RICHNESS OF TASTE AND MENTHOL TASTE.

EVEN THE PRODUCT'S APPEARANCE REINFORCES THE PROPOSITION.

THE PAPER IS PURE WHITE AND WITHOUT WATERMARKS. THE TIPPING CARRIES THE YSL LOGO AND TWO COPPER BANDS CONTAINING EITHER A BRICK OR A TURQUOISE COLORED BAND.

WE PLAN TO PLACE RITZ INTO TEST MARKET ON MARCH THE FOURTH IN 4.7 PERCENT OF THE COUNTRY. BUT THIS WON'T BE AN ORDINARY TEST. RITZ, WITH ITS PRESTIGIOUS, STYLISH IMAGE AND ITS ASSOCIATION WITH YVES SAINT LAURENT, PRESENTS A UNIQUE MARKETING OPPORTUNITY. WE WILL TEST RITZ AT TWO PRICE LEVELS. IN ATLANTA AND WASHINGTON STATE, RITZ WILL BE PRICED EQUAL TO OTHER STANDARD 100MM BRANDS AND IN MEMPHIS AND OKLAHOMA CITY, IT WILL BE PRICED AT A PREMIUM PRICE. THIS STRATEGY WILL TELL US WHETHER THE MARKET IS WILLING TO BEAR AN ADDITIONAL COST FOR THIS LUXURY CIGARETTE.

I MIGHT ADD THAT THE ENTIRE RITZ PROPOSITION WAS TESTED IN A TOTAL PROPOSITION TEST IN JULY, 1984. WHILE THE RESULTS WERE EXTREMELY POSITIVE, THE TEST INDICATED THAT SOME MINOR MODIFICATIONS TO THE MARKETING ELEMENTS WOULD ENHANCE THE OVERALL APPEAL OF THE BRAND. THE MODIFICATIONS HAVE BEEN ADDRESSED AND COMPLETED.

A VARIETY OF MEDIA VEHICLES WILL BE USED DURING THE TEST MARKET PERIOD TO COMMUNICATED RITZ'S STYLISHNESS AND PRESTIGIOUS IMAGERY. THE VEHICLES INCLUDE FEMALE MAGAZINES, SUNDAY SUPPLEMENTS, FASHION SECTIONS OF NEWSPAPERS AND OUT-OF-HOME MEDIA.

OUR PROMOTION PLAN CALLS FOR RETAIL AND MEDIA ACTIVITY TO GENERATE HEAVY TRIAL AMONG TOTAL SMOKERS AND PARTICULARLY AMONG PRIME PROSPECT FEMALE SMOKERS DURING THE TEST MARKET PERIOD. MATERIALS HAVE BEEN DESIGNED TO BE CONSISTENT WITH THE BRAND'S PROPOSITION. FOR EXAMPLE, RITZ SAMPLE 10 PACKAGES WILL BE DISTRIBUTED BY WOMEN DRESSED IN OUTFITS DESIGNED BY YVES SAINT LAURENT. IN ADDITION, WE HAVE PLANS FOR MEDIA DELIVERED COUPONING EVENTS AND BY-ONE-GET-ONE-FREE OFFERS.

THE INTRODUCTION OF RITZ WILL GIVE US AN OPPORTUNITY TO BROADEN OUR STYLISH SEGMENT APPEAL. RITZ WILL PROVIDE A LEVEL OF SOPHISTICATION, ELEGANCE AND STYLE NOT CURRENTLY FOUND IN BENSON AND HEDGES OR VIRGINIA SLIMS. IN ADDITION, RITZ WILL PROVIDE AN IN-MARKET LEARNING EXPERIENCE TO HELP IN DETERMINING THE FEASIBILITY OF PREMIUM PRICING IN THE CIGARETTE MARKET.

THANK YOU FOR YOUR ATTENTION. I WOULD BE HAPPY TO ANSWER
ANY QUESTIONS YOU MIGHT HAVE.

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