8/23/84

External Forecast

The Marketplace

o Industry Volume

After losses in 1982 and 1983 due to the January 1, 1983 8¢ Federal Excise Tax increase, Industry volume is expected to decline slightly in 1984 and show further slight declines throughout the forecast period. Industry volume is unlikely to return to its pre 1982 growth rates due to:

- o more aggressive state tax increases,
- o more intense efforts to make smoking socially unacceptable,
- o continued pressures regarding alleged health hazards,
- o continued restrictive smoking legislation, and
- o continued unemployment, especially among blue collar workers.

In this environment, competition to hold or gain volume through share increases is likely to be intense.

	Actual	1985 Operating Plan			
	1983	1984	1985	1986	1987
Billion Of Cigts.	595.9	593.0	592.0	591.0	590.0
Adjusted % Chg.	-3.9	-1.0	- .1	- .2	- .1

o Smoking Population

The total number of smokers over the forecast period is expected to remain about flat. A population increase of about 8 million people (18+) during the next four years will be offset by a decline in smoking incidence. This decline in smoking incidence is a continuation of the long term trend.

Rate per day over the forecast period will resume a slow long term increasing trend, as the smoking population ages into heavier consumption age groups.

These factors -- lower incidence, a stable smoker population, and a slow increase in usage per smoker -- will continue to enforce intense competition for the key smoker groups.

Other smoker demographic trends during the forecast period show:

- The smoking age population will continue to grow with all of the increase occurring in the 25 and older age group. The number of males and females 18-24 will actually decline. The 35-49 age group will increase at the fastest rate (+3.6%/year average), followed by the 25-34 year olds (+1.7%/year). The 50+ group will increase only .7%/year.

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- Geographically, growth in population will continue in the South and Southwest, with declining or no growth population in other areas of the country. Smoking incidence should remain highest in the Northeast, North Central, and Southeast. The Pacific/Mountain area will have the lowest smoking incidence.

- Among the minorities, Hispanics will increase 34% from 1980 to 1990. This is considerably faster than the projected Black growth (+17.1%) and overall population growth (+9.7%) over the same ten year time period. As a result, Hispanics will comprise 7.8% of the total population by 1990 - up 1.4% from 1980. It should also be noted that the growing Hispanic population is becoming less concentrated regionally than in the past.

Market Segmentation

o Background

One of the most dramatic changes affecting strategic planning at RJR in recent years was the adoption in 1980 of a Brand Family marketing philosophy. As a result of the adoption of the Brand Family marketing philosophy, in 1981 a new approach was taken to understand the structure of the Domestic cigarette market. This approach utilizes behavioral data to define segments and consumer attitudinal research to understand the consumer and brand dynamics within each of the segments. As a result of this approach, a better understanding now exists of why brand families cluster as they do and therefore what benefits they offer smokers.

o Definition of Segments

It was determined that a segment of brands should consist of those brand families in competition with each other for attracting consumers with similar wants by providing relatively similar end benefits.

o Segment Formation

Switching behavior was analyzed to determine which brand families have high degrees of switching interaction. If two brands have high switching interaction, then they tend to provide similar end benefits. Based on these interactions, and judgments regarding brand positioning, the segmentation listed in the following section was developed. With the completion of customized segmentation research,the driving motivations were determined. This information along with external, Industry and competitive information aids in developing RJR marketing strategies.

o Market Segments

Seven brand family segments have been defined using the approach described above. These segments and the major brand families within them are noted in the following table:

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Segments	Major Brand Families	Segment Share (1983)	Historical Share Trend
Traditional	Pall Mall Lucky Strike	6.1%	Decline
Virile	Marlboro WINSTON CAMEL	39.8%	Growth
Coolness	SALEM Kool Newport BRIGHT	19.4%	Decline
Stylish	Benson & Hedges Virginia Slims MORE Players STERLING	11.2%	Growth
Moderation	Merit VANTAGE Tareyton Parliament	10.7%	Decline
Concerned	Kent Carlton True NOW	9.4%	Decline
Savings	Generics CENTURY New DORAL	3.3%	Growth

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o Traditional Segment

The Traditional Segment is the oldest of the seven segments -- in terms of both the ages of brand families within it and of the smokers it attracts. The Traditional segment is the sixth largest segment, accounting for 6.1 percent of the market. This segment has declined over the past three years, having lost 1.2 share points in that period, and is projected to decline even further in the future.

Key Segment Information:

-- 1983 Share of Market: 6.1%

-- Share Point Change 1980-1983: -1.2 Share Points (MSA)

-- Brand Family 1983 Share of Segment:

	Percent
Pall Mall	68
Lucky Strike	17
Chesterfield	8
Old Gold	5

-- Major Companies' 1983 Share of Segment:

	Percent
American	85
Liggett & Myers	8
Lorillard	5
Philip Morris	2
RJR	0

-- Style Development:

	Year 1983 Percent	Share Point Change 1980-1983
Non-Menthol	100	+1
Menthol	0	-1
70/85mm	84	+1
100+mm	16	-1
Non-Filter	75	-3
Full Flavor	18	-1
Fuller Flavor Low Tar	7	+4

-- Demographics:

Male/Female:	66/34
-35/35+:	8/92

-- Driving Motivations:
- o Authenticity
- o Good Reward

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o Virile Segment

The driving motivation of smokers in the Virile Segment is for masculine imagery and a desire to "fit in" and be accepted by their peers. This segment is the largest of the seven segments and has shown modest share growth through 1982, but declined in 1983 primarily due to new entries in the Stylish Segment and growth of the Savings Segment. In the future, the Virile Segment is expected to show slight growth. Brands in this segment, although different in their positionings, are similar in their male skew, and their virile user imagery.

Key Segment Information:

-- 1983 Share of Market: 39.8%

-- Share Point Change 1980-1983: -.1 Share Points (MSA)

-- Brand Family 1983 Share of Segment:

	Percent
Marlboro	51
WINSTON	30
CAMEL	11
Raleigh	3
Viceroy	3
L&M	2

-- Major Companies' 1983 Share of Segment:

	Percent
Philip Morris	51
RJR	41

-- Style Development:

	Year 1983 Percent	Share Point Change 1980-1983
Non-Menthol	99	NC
Menthol	1	NC
70/85mm	76	-2
100+mm	24	+2
Non-Filter	5	-1
Full Flavor	65	-6
Fuller Flavor Low Tar	29	+6
Ultra Low Tar	1	+1

-- Demographics:

Male/Female:	65/35
-35/35+:	51/49

-- Driving Motivations:

o "Fit in"
o "Masculinity Reinforcement"

o Stylish Segment

The Stylish Segment is the third largest of the seven brand family segments, currently accounting for 11.2 percent of the market. It has grown by 2.2 share points over the last three years, and is expected to grow further in the future. The driving consumer wants of smokers in this segment are varied and encompass stylishness, prestige, femininity, and uniqueness. The brands in the segment have different positionings, but they are similar in their female skew, their smokers' desire for a stylish, sophisticated look and extra length configuration. Philip Morris dominates this segment with a 77% share. RJR is represented by MORE (14%), as well as our latest entry, STERLING, which was introduced in early 1984.

Key Segment Information:

-- 1983 Share of Market: 11.2%

-- Share Point Change 1980-1983: +2.2 Share Points (MSA)

-- Brand Family 1983 Share of Segment[1]:

	Percent
Benson & Hedges	44
Virginia Slims	23
MORE	14
Players	6
Satin	4
Eve	3
Saratoga	3

-- Major Companies' 1983 Share of Segment:

	Percent
Philip Morris	77
RJR	14

-- Style Development:

	Year 1983 Percent	Share Point Change 1980-1983
Non-Menthol	56	NC
Menthol	44	NC
85mm	5	+3
100+mm	95	-3
Full Flavor	48	-17
Fuller Flavor Low Tar	42	+ 7
Ultra	10	+10

-- Demographics

Male/Female:	24/76
-35/35+:	41/59

-- Driving Motivations:

- o Modern, Stylish, Sophisticated imagery
- o Avoid traditional masculinity

[1]Based on 1983 data, therefore, does not include STERLING volume in 1984.

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o Coolness Segment

The brands in this segment have historically appealed to consumers' desire for coolness and the avoidance of hot, harsh tobacco taste. Beyond addressing these benefits, brands in this segment employ different positionings, product types and user imagery to attract smokers. RJR's SALEM is the leading brand in this segment. This segment, which is the second largest of the segments, has declined slightly in share of market in recent years, but it is projected to hold share in the future.

Key Segment Information:

-- 1983 Share of Market: 19.4%

-- Share Point Change 1980-1983: -1.4 Share Points (MSA)

-- Brand Family 1983 Share of Segment:

	Percent
SALEM	42
Kool	37
Newport	15
Belair	4
BRIGHT	2

-- Major Companies' 1983 Share of Segment:

	Percent
RJR	44
Brown & Williamson	41
Lorillard	15

-- Style Development:

	Year 1983 Percent	Share Point Change 1980-1983
Non-Menthol	0	NC
Menthol	100	NC
85mm	66	-4
100+mm	34	+4
Full Flavor	61	-3
Fuller Flavor Low Tar	35	+1
Ultra Low Tar	4	+2

-- Demographics:

Male/Female	48/52
-35/+35:	51/49

-- Driving Motivation: Elimination of a smoking problem: hot, harsh, dry taste

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o Moderation Segment

The Moderation Segment is the fourth largest of the seven brand family segments, currently accounting for 10.7 percent of the market. This segment has declined slightly over the past three years and is expected to continue its decline in the future. The driving motivation of smokers in this segment is a desire for smoking enjoyment and, at the same time, a desire for low tar. Brands within this segment have positioned themselves primarily as "low tar/good taste" entries. Philip Morris has the leading brand in the segment with Merit (41%). RJR's VANTAGE is number two, with a 34% share of segment.

Key Segment Information:

-- 1983 Share of Market: 10.7%

-- Share Point Change 1980-1983: -.8 Share Points (MSA)

-- Brand Family 1983 Share of Segment:

	Percent
Merit	41
VANTAGE	34
Tareyton	11
Parliament	10
Lark	3

-- Major Companies' 1983 Share of Segment:

	Percent
Philip Morris	51
RJR	34
American	11

-- Style Development:

	Year 1983 Percent	Share Point Change 1980-1983
Non-Menthol	89	NC
Menthol	11	NC
85mm	60	- 4
100+mm	40	+ 4
Full Flavor	11	- 5
Fuller Flavor Low Tar	72	- 5
Ultra Low Tar	17	+10

-- Demographics:

Male/Female:	48/52
-35/35+:	41/59

-- Driving Motivations: Compromise between: Positive aspects of smoking and lower tar levels.

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o Concerned Segment

The Concerned Segment is the fifth largest of the seven segments, currently accounting for 9.4 percent of the market. This segment has declined by 1.8 share points over the last three years, and is expected to continue to decline in the future. This segment is comprised of brands which are smoked by consumers who are most concerned about reducing the tar and nicotine content of their cigarettes. Lorillard is the major company in the segment. RJR is represented by NOW.

Key Segment Information:

-- 1983 Share of Market: 9.4%

-- Share Point Change 1980-1983: -1.8 Share Points (MSA)

-- Brand Family 1983 Share of Segment:

	Percent
Kent (incl. Golden Lights)	41
Carlton	21
True	15
Barclay	10
NOW	7

-- Major Companies' 1983 Share of Segment:

	Percent
Lorillard	58
American	21
Brown & Williamson	10
RJR	9
Philip Morris	1

-- Style Development:

	Year 1983 Percent	Share Point Change 1980-1983
Non-Menthol	82	+ 1
Menthol	18	- 1
85mm	51	- 9
100+mm	49	+ 9
Fuller Flavor Low Tar	30	- 3
Ultra Low Tar	70	+ 3

-- Demographics:

Male/Female:	39/61
-35/35+:	22/78

-- Driving Motivations: o Seeking lowest tar cigarettes.

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o Savings Segment

The Savings Segment is currently the smallest of the segments accounting for 3.3 percent of the market and has shown significant growth over the past few years. This segment is expected to continue to grow in the future. The Savings Segment includes Generics (both plain white pack and private label), CENTURY, Richland, and RJR's most recent entry new DORAL, introduced nationally in July, 1984. This segment includes brands whose primary and overriding end consumer benefit is some form of savings or value. In the case of generics, this savings is delivered via 20 cigarettes for a lower price. CENTURY delivers savings and value by providing 25 branded cigarettes at an equivalent or slightly higher pack price (but lower per cigarette than other branded 20's). RJR's new DORAL family is priced competitively with Generics.

Key Segment Information:

-- 1983 Share of Market: 3.3%

-- Share Point Change 1980-1983: 3.3 Share Points (MSA)

-- Brand Family 1983 Share of Segment[1]:

	Percent
Generics	87
CENTURY	11
Richland	2

-- Major Companies' 1983 Share of Segment:

	Percent
Liggett & Myers	87
RJR	11
Brown & Williamson	2

-- Style Development:

	Year 1983 Percent
Non-Menthol	80
Menthol	20
85mm	58
100+mm	42
Full Flavor	7
Fuller Flavor Low Tar	82
Ultra Low Tar	11

-- Demographics:

Male/Female: 55/45
-35/35+: 28/72

-- Driving Motivations: o Savings and Value

[1]Based on 1983 data, and therefore does not include new DORAL volume realized in 1984.

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External Forecast

Consumer Environment

o During the forecast period, smokers will continue to be a minority of the population and will continue to be under increased pressure at work, at home, and in social situations to not smoke or to alter their smoking behavior. This pressure is a result of the belief that cigarette smoking affects the longevity of smokers, the belief that passive smoke affects the longevity of non-smokers and that smoking itself is more and more socially unacceptable. As a result, the image of the smoker will continue to deteriorate in the U.S. and will subsequently continue to produce declines in the incidence of smoking.

o As with overall lifestyle, the continued rising consumer cost of cigarettes will also affect smoking patterns. This economic pressure will produce fewer new smokers and will encourage smokers to restrict their rate of cigarette consumption. As a result, smoking incidence is expected to decline and the increase in the per day usage rate is expected to be less than in the past.

o Analysis of key style preference trends shows the following:

- Non-filter brands will continue to decline in share of market, representing 5.4% in 1987. Share of filter styles will increase slightly from a 1983 share of 93.2% to about 94.6% in 1987.

- Among filters, the trends over the forecast period will tend to be stable. Brands with tar levels of 16 mg.+ accounted for about 41% of cigarette volume in 1983 and are expected to remain at about that level throughout the forecast period. Brands with tar levels of 7-15 mg. accounted for about 42% of sales in 1983 and are expected to increase slightly over the forecast period to 45%. Should one or more of the larger brands (e.g., SALEM Kings) reduce tar back into the 15 mg. range, the size of this tar range could increase dramatically. The stability of the 0-6 mg. tar group (at about 10%) reflects the slowing of new brand introductions in this tar range.

- Share of 100mm cigarettes is expected to grow from a 1983 share of 38.1% to a 1987 share of about 42%. Share of 85mm cigarettes is expected to decline from a 1983 share (55.1%) to a 1987 share of about 52%.

- Menthol brands will continue to hold a relatively stable share level at about 28% of the market. The non-menthol filter market will grow slightly.

	Actual	Projection			
	1983	1984	1985	1986	1987
Non-Filter	6.8	6.2	5.8	5.6	5.4
Filter	93.2	93.8	94.2	94.4	94.6
16+mg	40.9	40.0	39.8	39.6	39.6
7-15mg	41.8	43.6	44.1	44.7	45.0
0-6mg	10.5	10.2	10.3	10.1	10.0
85mm	55.1	54.1	53.5	53.0	52.5
100+mm	38.1	39.7	40.7	41.5	42.1
Non-Menthol	65.2	65.6	66.0	66.1	66.3
Menthol	28.0	28.1	28.2	28.3	28.4

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Competitive Environment

o In 1980, RJR halted a two-year decline in share of market and gained share in 1981 and 1982. In 1983, however, RJR experienced a share loss, down 2.08 share points to 31.47%. This decline can be traced to the following causes. First, RJR experienced a disproportionate amount of quitting and reduced consumption in response to higher cigarette prices. The demographic profile of our franchise is such that they tend to be somewhat more price sensitive than other smokers. In addition, RJR's share loss appears to have been disproportionately affected by the trade adjusting inventories downward in response to reduced consumption levels. The 1983 share loss also reflects the effect of intensive competitive new brand activity, specifically Players, Satin, and Benson & Hedges Deluxe Ultra Lights. Finally, the most significant single factor impacting our business has been the price related growth of Generics. Although 1983 was a difficult year for RJR, we expect our share to increase in 1984 and to increase moderately in the future.

o Philip Morris

Philip Morris remains the greatest long-term threat to RJR. In 1983, the company's share was 34.41%, up 1.56 share points versus 1982. This compares with a gain of 1.02 share points to 32.85% in 1982. Philip Morris' increase was due almost entirely to Marlboro and the introduction of Players. The 1983 share for Marlboro (20.16%) was up .93 share points versus 1982 as compared with a ten year average share point gain of .71 share points. However, part of Marlboro's growth came from the introduction of Marlboro Lights 100 Box. Benson & Hedges 1983 share (4.93%) increased .21 share points versus 1982 due to the introduction of Deluxe Ultra Lights styles. The gain compares with a ten year average share point gain of .13 share points. Merit's 1983 share (4.36%) was down .14 share points in 1983 as compared with a five year average share point gain of .28 share points. Merit's losses occurred despite a dramatic change in their advertising campaign. The 1983 share for Virginia Slims (2.52%) was up only .03 share points versus the previous year. This compares with a ten year average share point gain of .12 share points. Players generated .66 share points for Philip Morris in 1983 although its current performance is considerably poorer. All remaining Philip Morris brands (Parliament, Cambridge, and Saratoga) lost share.

Demographically, Philip Morris is strongest among younger adult smokers. In terms of segments, the company's strength is in the Virile, Stylish, and Moderation Segments.

Geographically, Philip Morris has a strong share of market in each of RJR's five sales areas. The company's performance is weakest in the North Central and South Atlantic sales areas. The South Atlantic is RJR's strongest geographic market. Philip Morris is highly developed in metro markets and least developed in rural areas.

Philip Morris has accelerated sales force activity toward converting competitive smokers and has taken several steps to improve its persistent out-of-stock and distribution problems.

Philip Morris' stated goal is to grow one share point per year. The company appears to have enough underlying momentum to achieve its objective in 1984.

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Over the period in which prices were increased in conjunction with the F.E.T., Industry volume declined about 4-5% while Philip Morris volume remained about flat. This would suggest that Philip Morris' younger franchise is somewhat less price sensitive than the balance of the industry, leaving them with considerable price flexibility.

o Brown and Williamson

In 1983, Brown & Williamson's share was 11.50%. Despite heavy promotional and advertising spending, Brown & Williamson continued its long-term decline losing 1.87 share points in 1983. This compares with a ten year average share point loss of .63. All established Brown & Williamson brand families (Kool, Raleigh, Viceroy, Barclay, and Belair) lost share. Raleigh and Belair showed large losses to Generics. Despite heavy support throughout the year, the Kool brand family declined 1.04 share points to 7.17%. This compares with a ten year average share point loss of .43 share points. Raleigh's 1983 share (1.34%) was down .26 share points in 1983 as compared with a ten year average share point loss of .14 share points. The 1983 share for Viceroy (1.16%) was down .22 share points versus year-ago, in line with its ten year average share point loss (-.20 share points). Belair's 1983 share (.82%) was down .18 share points versus 1982. This compares with a ten year average share point loss of .08 share points. Barclay's 1983 share (.97%) declined .20 share points versus 1982. In response to substantial share losses to Generics and to CENTURY's introduction, Brown & Williamson introduced Richland 25's in September, 1983, which generated only .05 share points for the year.

Geographically, Brown & Williamson is strong in metro areas, with a concentration of strength in predominantly Black metro areas. In terms of segments, Brown & Williamson's strength is in the Coolness Segment. The company is continuing to lose share in each of RJR's five sales areas. The North Central sales area continues to be Brown & Williamson's best market followed by the Mid-Continent and South Atlantic sales areas.

Over the past several years, BAT has attempted to rejuvenate Brown & Williamson by finding new brands and line extensions and heavy advertising and promotional support. The company is currently attempting to reduce its costs and improve its profitability. Cost reduction measures include shifting all cigarette production to the company's more modern and efficient plant in Macon, Georgia. Older, less productive manufacturing facilities have been closed. Brown & Williamson has also reduced its headquarters staff by about 5%.

o P. Lorillard

Lorillard's share peaked in 1980 at 9.63%. It dropped to 9.05% in 1981 and 8.55% in 1982. However, the company's 1983 share (9.14%) was up .59 share points versus 1982 moving Lorillard up to fourth place among the six manufacturers with American dropping to the fifth position. The 1983 Federal Excise Tax increase related price pressures had a relatively small impact on Lorillard due to Newport's continued growth and the company's less price sensitive franchise. The growth of Newport (+.40 share points to 2.82%), particularly among younger Blacks at Kool's expense, and the introduction of Satin (.42%), in early 1983, positively impacted Lorillard's 1983 share. All other major Lorillard brands showed share declines.

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During Lorillard's growth years in the 1970's, the company successfully penetrated the younger adult market via strong image advertising ("Alive with Pleasure") for Newport. Newport's share continues to grow from 1.61% in 1979 to 2.82% in 1983. During the 1970's Lorillard exploited the equities of the Kent and True brand families due to the rising demand for lower tar cigarettes. However, since 1980, with the increased competition in the low tar segment, Lorillard's low tar strength has declined. Kent and Kent Golden Lights which had a combined share of 5.03% in 1980 dropped to 3.90% in 1983, down .15 share points versus 1982. The 1983 share for Kent Golden Lights (1.21%) was down .11 share points versus 1982 despite the 1983 package and name change from Golden Lights to Kent Golden Lights and a new advertising campaign. True, which had a share of 1.77% in 1980, dropped to 1.40% in 1983. Triumph's 1983 share (.16%) also declined significantly from .40% in 1980. Satin's 1983 share (.42%) was positively influenced by heavy promotional efforts throughout the year.

Demographically, the company continues to have its greatest strength among female, older, and Black smokers. Only among Black smokers (through Newport) is the company showing any growth. In terms of segments, Lorillard's strength is in the Concerned Segment. Like Philip Morris, Lorillard is strong in the metro areas of the Northeast but weak in rural areas. The North Atlantic sales area continues to be Lorillard's best market followed by the North Central sales area. The company is weakest in the Mid-Continent and Pacific/Mountain sales areas.

Given Loew's (the parent company of Lorillard Tobacco) corporate philosophy of viewing its operating subsidiaries as investments that must deliver a satisfactory return, Lorillard will probably continue to emphasize profitable share growth and will continue to watch the Savings Segment for possible opportunities. If Lorillard decides to enter the Savings Segment, it will probably extensively test market the brand prior to national introduction to ensure that the brand will meet profit objectives consistent with Loew's expectations.

Rather than looking extensively to new brands for share growth as in past years, Lorillard has recently concentrated on revitalizing declining or flat established brands. In early 1984, Satin's packaging and advertising were changed to depict a more upscale image and in mid-1984 True's advertising campaign was dramatically changed. Additionally, to capitalize on the strength of the Newport brand, Lorillard nationally introduced Newport 100's Box and Newport 100's Box Lights in mid-1984.

o American

In 1983, American slipped to fifth place among the six manufacturers as Lorillard moved into the fourth position. American's 1983 share (8.64%) was down only slightly (-.15 share points) versus 1982. This compares with a ten year average share point loss of .68 share points. Higher cigarette prices in 1983 caused by the Federal Excise Tax increase had a negligible impact on American due to their less price sensitive demographic profile. For the same reason, Generics have also had a limited impact on American. Lucky Strike was the company's only brand showing a share gain, due to the expansion of Lucky Strike Low Tar Filters. All other major American brands continued to decline in share.

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Lucky Strike's 1983 share (1.04%) was up .11 share points versus 1982 due to the national expansion of Lucky Strike Low Tar Filters. This gain compares with a ten year average share point loss of .10 share points. The 1983 share for Pall Mall (4.15%) was down .13 share points versus 1982 as compared with a ten year average share point loss of .47 share points. With Pall Mall, American accounts for 85% of the Traditional Segment. Carlton's 1983 share (2.01%) was down .07 share points versus year-ago despite heavy promotional activity and the test market introduction of Carlton Slim Deluxe 100's Box Filter and Menthol. Tareyton's 1983 share (1.22%) was down .04 share points versus the previous year. This compares with a ten year average share point loss of .20 share points.

Since 1966, American has focused most of its attention on diversification away from the cigarette business. In 1983, non-tobacco acquisitions represented 42% of American's operating income. Reduced media expenditures and little new brand activity in the cigarette business indicate that the company is not willing to make a substantial commitment to reverse the company's long-term decline. Rather, American is "milking" its tobacco operations to finance its diversification program.

Because of their "milking" strategy, American is unwilling to enter the expensive and risky new brand arena. Their last national introduction was in 1975 with Talls. In 1983, the company continued to focus on the less expensive introduction of line extensions rather than launching new brand families.

o Liggett & Myers

In contrast to American, Liggett has exhibited a renewed interest in the cigarette business since being acquired by Grand Metropolitan in 1980. In 1981, Liggett gained share for the first time in 17 years. The growth continued in 1982 with the company gaining .32 share points to 2.87%. In 1983, the trend continued, increasing 1.95 share points to 4.82%. This increase is almost entirely due to the growth of Generics, sustained by the gradually increasing price differential -- upwards of $2 per carton at retail -- between branded and generic products. All other Liggett brands showed share losses, except Eve.

With a 1983 share of 2.92%, Generics' were the tenth largest brand and accounted for 87% of the Savings Segment. Generics' share increased 1.97 share points versus 1982 and continued to grow in 1984. Eve's 1983 share gain (+.10 share points) to .37% may be partially due to heavy promotional activities throughout 1983. L&M, Chesterfield, and Lark continued to show share losses despite promotional activities during the year.

Since 1980, Liggett has concentrated on producing products for market niches that it felt were too small or unprofitable to interest its much larger rivals. Consequently, Liggett has focused on Generics and private label brands (Epic and Bronson), as well as brands targeted at Hispanic populations (Dorado and L&M Superior). Additionally, Liggett introduced an intermediate priced brand, Stride, into test market in June, 1984. Furthermore, to implement its market niche strategy, Liggett is using a regional marketing approach.

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