

December 7, 1991

TO: J. W. Johnston
J. C. Schroer

FROM: L. J. Beasley

RE: WINSTON Winners Club

At the risk of being a pain in the ass --- I am taking one more opportunity to recommend that we proceed with the WINSTON Winners Club in two sales areas.

Before I provide the rationale, I want you to know the easy route would be for me to accept the decision. It is certainly safer than taking the risk of implementing a program and having problems. And, of course, if the program turns out to be extremely successful, I can always say "Management" would not proceed. But I have challenged every person who has ever reported to me with this statement: "Don't use the excuse that Management told you to do something; your job is to ensure the right thing is always done with the Brand." So here goes...

First, putting aside the execution issues, is it the right thing to proceed with the WINSTON Winners Club in two sales areas? YES. Here's why:

- Franchise retention goals will likely not be met if we do not. WINSTON has the most price-sensitive smokers, and we continue to see franchise softness even with the WRAP. Next year WINSTON's volume goal requires that we hold all franchise smokers (after aging losses) and achieve significant switching gains. While doing \$3.00 and \$4.00 carton coupons must be done, it does not give franchise smokers a reason to stay with WINSTON beyond that purchase. WINSTON Winners does.
- Research has shown the most effective promotion program includes a mix of all vehicles. Recent research models have shown that to optimize short-term volume the best option is a mix of more than just retail promotion. If we keep only the LF competitive program and the franchise program in two sales areas, that is \$20MM in direct marketing. That only represents 9% of WINSTON's promotion spending in 1992. This seems about the right mix.
- WINSTON Winners Club will strongly establish WINSTON's new positioning of quality, innovation and leadership. We can give real credibility to WINSTON's positioning. I know Lou Gerstner wants to know what we are doing to address quality, strengthen brand positioning and hold market share. What better program to address all of these than the WINSTON Winners Club.
- We know through marketing intelligence and past history that Philip Morris will attack the WINSTON franchise through direct marketing. We need a defense. While we can use the money to mail coupons, that is no defense. The consumer holds all the coupons and use both. More importantly, it does not give them a reason to stay with WINSTON beyond that purchase. WINSTON Winners does.

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- We still have \$18MM we can set aside for flexible retail coupon defense (\$4MM from other sales area direct marketing programs, \$4MM from direct marketing competitive program, and \$10MM held in advertising for campaign launch).

Now about the execution issues.

Jim, you are exactly right. The track record for execution at this Company is poor at best. I know the risk: we do it wrong and we have damaged the Brand further. I believe, because the need is so important, if the organization was challenged to excellence we could live up to it. Consider these factors:

- We have a new WINSTON Team that is focused and strong.
- We have new, strong Direct Marketing personnel.
- We have significantly reduced the initial mailing to only six live offers.
- When in the past top Management has challenged the organization with a major goal, it has happened.

I ask you to reconsider your decision. We will proceed with the test as approved unless I hear otherwise.


L. J. Beasley

LJB:srh

cc: J. R. Shostak
D. N. Iauco