

APPENDIX A: Tobacco Marketing Expenditure Categories

The Federal Trade Commission (FTC) issues reports on annual cigarette and smokeless tobacco marketing expenditures, which are based on data from the major tobacco manufacturers. This report uses the same categories of tobacco advertising and promotion expenditures as the FTC reports and includes expenditures for both cigarettes and smokeless tobacco. It counts as point-of-sale marketing expenditures all advertising and promotion expenditures that occur at the point of sale or that have a significant impact on the retail environment. Utilizing the FTC's descriptions, these categories are as follows:

Point-of-sale: Point-of-sale advertisements.

Price discounts: Price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers, including off-invoice discounts, buy downs, voluntary price reductions, and trade programs.

Promotional Allowances Retail: Promotional allowances paid to cigarette retailers in order to facilitate the sale or placement of any cigarette, including payments for stocking, shelving, displaying and merchandising brands, volume rebates, incentive payments, and the cost of cigarettes given to retailers for free for subsequent sale to consumers.

Promotional Allowances Wholesale: Promotional allowances paid to cigarette wholesalers in order to facilitate the sale or placement of any cigarette, including payments for volume rebates, incentive payments, value added services, promotional execution, and satisfaction of reporting requirements.

Promotional Allowances Other: Promotional allowances paid to any persons other than retailers, wholesalers, and full-time company employees who are involved in the cigarette distribution and sales process in order to facilitate the sale or placement of any cigarette.

Retail-Value-Added Bonus Cigarettes: Retail value added expenditures for promotions involving free cigarettes (*e.g.*, buy two packs, get one free), whether or not the free cigarettes are physically bundled together with the purchased cigarettes, including all expenditures and costs associated with the value added to the purchase of cigarettes (*e.g.*, excise taxes paid for the free cigarettes and increased costs under the Master Settlement Agreement).

Retail-Value-Added Non-Cigarette Bonus: Retail value added expenditures for promotions involving free non-cigarette items (*e.g.*, buy two packs, get a cigarette lighter), including all expenditures and costs associated with the value added to the purchase of cigarettes.

Coupons: All costs associated with coupons for the reduction of the retail cost of cigarettes, whether redeemed at the point of sale or by mail, including all costs associated with advertising or promotion, design, printing, distribution, and redemption.

The FTC has used these categories of marketing expenditures since its report for 2002. Prior to 2002, price discounts and promotional allowances paid to retailers, wholesalers, and others were grouped together under the “promotional allowance” category. When comparing spending between years, this report is careful to count the same categories of spending in each year.


The latest FTC reports on cigarette and smokeless tobacco marketing expenditures, for 2007 and 2008, can be found at:

Cigarette report: <http://ftc.gov/os/2011/07/110729cigarettereport.pdf>

Smokeless tobacco report: <http://ftc.gov/os/2011/07/110729smokelesstobaccoreport.pdf>

APPENDIX B. Tobacco Company Merchandising Agreements with Retailers

Tobacco companies spend billions of dollars, and convenience stores are more than willing to take it, to ensure that tobacco products are heavily advertised, prominently displayed, and cheaply priced in stores. Through contracts or merchandising agreements, tobacco companies are able to motivate retailers to display, promote, and advertise tobacco products, keep the price of cigarettes low and keep the convenience store dependent on them.



Starting price of Camel cigarettes + Camel SNUS: **\$11.10**

- \$1.91 off in-store discount on Camel cigarettes
- Free SNUS with any Camel purchase manufacturer coupon
- \$2.00 off Camel cigarettes manufacturer coupon

= FINAL PRICE: \$3.46

Minneapolis, MN 55407-3634

Register:3 Transaction#1447432
7/30/2010 3:57:12 PM Adam H.

1 CAMEL MN SILVER BX SINGLE	7.06
1 W208-CAMEL PK (NT)- MN	-1.46
1 9R09-CAMEL PK (NT)- MN	-0.45
1 Manufacturer Tax	-2.00
1 CAMEL SNUS FROST SINGLE	4.04
1 Manufacturer Tax	-4.04
Sub. Total:	\$3.15
Tax:	\$0.31
Total:	\$3.46

This image shows how store discounts (for which stores get reimbursed from tobacco companies under their promotional contracts) and coupons provided directly to consumers by the tobacco companies can reduce the price paid on products to **one-third** of the original price.

It appears that these price incentives and promotions are used by the major tobacco companies to reduce the impact of tobacco tax increases.¹

Promotional offers on cigarettes

are used by all categories of smokers – especially young adults, women and African Americans – with 35 percent of smokers using promotional offers every time they saw one.² According to a U.S. Tobacco Retailer Survey, conducted by Wells Fargo, tobacco companies’ ability to control price, or “pricing power”, has “remained healthy.” As one tobacco retailer put it, “most of the big boys have started putting in deeper discounts, which in effect have negated the price increases.”³

Interviews with retailers illustrate how meticulous a merchandising agreement could be:⁴

“They come in and say I want 45% of your space...they say I will provide the rack/bin and I will pay you 35 cents a pack for a year...you have to maintain the right percentage of their product, put up signage and keep track of your cartons which they pay for.”
(Independent convenience store owner)

“They send a diagram that show where the signs should go.” (Franchise convenience store owner)

“Philip Morris has different contracts for different levels for different volume. More volume, the better the contract – the more money you get. Buydowns, percent of display area and placement of display are part of the contract. Some contracts last 30 days, others quarterly, still others last longer. Marlboro is the most demanding.” (Independent convenience store owner)

Tobacco companies carefully cultivate and train sales representatives who are responsible for explaining the options and opportunities to retailers, negotiating the contracts and enforcing them. According to a Philip Morris sales manual, working out merchandising agreements with retailers is one of the most important aspects of a sales representative’s jobs:

“One of the more important parts of your job is merchandising PM’s brands effectively to gain optimal product exposure and effective in-store advertising visibility. The more visible our products are to consumers, the more sales we make. Effective merchandising helps the retailers, attracts new customers to our brands and makes you successful in performing your sales mission.”⁵

Research and real-world experience indicate that tobacco companies used contracts and merchandising agreements successfully to control the retail environment. One study, based on a national sample of retail outlets, found that about two-thirds of retailers participate in at least one cigarette company incentive program and most retailers participate in multiple incentive programs. Convenience stores were the type of store most likely to participate in cigarette company incentive programs. In the study, stores that participated in incentive programs had nearly twice as many marketing materials as those that did not. Stores with incentive programs were also more likely to feature the company’s brands on the top shelf, a highly prized location in the store.⁶ Another study found that 62 percent of stores had received slotting/display allowances from tobacco companies and that the allowances received for tobacco products were higher than those received for candy, snack foods, and soft drinks.⁷

Convenience stores make a lot of money off merchandising agreements with tobacco companies. In fact, these agreements are considered essential to a store’s survival. Retailers have noted that buy-downs are important because they bring more customers into the store and stimulate sales.⁸ One convenience store owner notes, “We usually have a buydown going on all the time. It rotates around different brands and different companies.”⁹

Statements submitted by the National Association of Convenience Stores (NACS)^{*} to the United States District Court for the District of Columbia in the U.S. government’s lawsuit against the

^{*} The National Association of Convenience Stores (NACS) is now known as The Association for Convenience and Fuels Retailing.

major tobacco companies¹⁰ provide further evidence of the high value assigned to these agreements, not just by tobacco companies, but by the convenience stores themselves:

“The majority of NACS members have retail merchandising agreements with at least one cigarette manufacturer and many have more than one agreement. . . . Those with merchandising agreements derive significant revenue from such agreements.” (NACS Submission at 4)

“A major component of all Retail Merchandising Programs is the buy-down provision. All Retail Merchandising Program contracts contain buy down provisions, whereby each tobacco manufacturer reimburses retailers for selling its cigarettes at discounted prices. . . . The buy-down provisions are integral to the convenience store business. Cigarette sales typically constitute a large percentage of a store’s revenue, 45% in the case of Ricker Oil Company. Buy-down provisions are essential to the continued viability of a convenience store’s cigarette sales.” (NACS Submission at 11)

“The convenience store business model is dependent on the sale of high-margin, high impulse items at the point of sale as well as competitive pricing on cigarettes.” (NACS Submission at 12)

All of these promotional efforts are undertaken to boost sales for tobacco companies and grow their bottom line. It is true for cigarettes as well as smokeless tobacco and flavored cigars that appeal to kids. The following quotes from industry publications illustrate this point.

“One thing boosting sales is the promotional efforts of tobacco companies. Manufacturers frequently offer special pricing on two- and three-packs. ‘Snuff comes in five-packs, and we sell a lot of five-packs,’ said Metzinger. Some promotions include free trial pack of snus with a purchased package of cigarettes.”¹¹

“Cigars are still well behind chew, Audet said, but the segment is plowing forward because of the suppliers’ active and insistent strategies. Suppliers, Audet said, **have been offering 50-cent buydowns and plenty of buy-one-get-one and buy-two-get-one deals, all of which have positively impacted overall category sales.**”¹²


“‘The cigar contracts have a clause in place where, if you grow their business, the money that changes hands grows accordingly, so it has evolved as kind of a dual partnership,’ Monaco said.”¹³

¹ Pierce, JP, et al., “Tobacco Industry Price-Subsidizing Promotions May Overcome the Downward Pressure of Higher Prices on Initiation of Regular Smoking,” *Health Economics* 14:1061-71, 2005. Chaloupka, F, et al., “USA: Price Cuts and Point of Sale Ads Follow Tax Rise,” *Tobacco Control* 8:242, 1999.

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- ² White, VM, et al., "Cigarette Promotional Offers: Who Takes Advantage?" *American Journal of Preventive Medicine* 30(3):225-231, 2006.
- ³ Wells Fargo, *Tobacco Talk--U.S. Tobacco Retailer Survey*, January 25, 2012.
- ⁴ Feighery, EC, et al., "How tobacco companies ensure prime placement of their advertising and products in stores: interviews with retailers about tobacco company incentive programmes," *Tobacco Control*, 12, 2003.
- ⁵ Lavack, AM & Toth, G, "Tobacco point-of-purchase promotion: examining tobacco industry documents," *Tobacco Control* 15:377-384, 2006.
- ⁶ Feighery, EC, et al., "Retailer participation in cigarette company incentive programs is related to increased levels of cigarette advertising and cheaper cigarette prices in stores," *Preventive Medicine* 38(6):876-84, 2004.
- ⁷ Feighery, E, et al., "Retail Trade Incentives: How Tobacco Industry Practices Compare With Those of Other Industries," *American Journal of Public Health* 89:1461-1604, October 1999.
- ⁸ Henriksen, L, et al., "Effects of youth exposure to retail tobacco advertising," *Journal of Applied Social Psychology* 32(9):1771-1789, 2002.
- ⁹ Lavack, AM & Toth, G, "Tobacco point-of-purchase promotion: examining tobacco industry documents," *Tobacco Control* 15:377-384, 2006.
- ¹⁰ National Association of Convenience Stores Submission dated May 15, 2011, *U.S. v. Philip Morris USA, Inc., et al.*, No. 99-2496 (GK) (U.S. DDC).
- ¹¹ "Seizing Smokeless Opportunities," *Convenience Store Decisions*, February 24, 2011.
- ¹² Bush, J, "Driving OTP Sales," *Convenience Store Decisions*, November 3, 2011.
- ¹³ Bush, J, "OTP Makes Strong Push for More Shelf Space," *Convenience Store Decisions*, August 26, 2011.

APPENDIX C. Excerpts from Cigarette Company Sales Training Manuals on Point-of-sale Marketing

These excerpts illustrate extent to which tobacco companies control tobacco product price, placement, and promotion at the retail level.



RETAIL LEADERS 2000

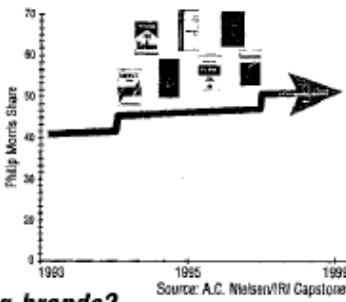

Start with Solid Merchandising Principles

Let's See...
The Foundation of Retail Leaders 2000

<u>CORE PRINCIPLES</u>	<u>CORE BENEFITS</u>
1. Put best selling brands in best locations	} <i>What Your Customers Want</i>
2. Use best selling brands to build store traffic	
3. Build brand value - point-of-sale and brand news	
4. Increase return on investment	} <i>What You Want</i>
5. Prevent cigarette access to minors	

Build a Successful Partnership Based On...

- **Similar Needs / Wants**
We both want to satisfy adult smokers' preferences
- **Similar Strengths**
Our strength is in our brands



Philip Morris Share

Source: A.C. Nielsen/TRI Capstone

What are your best selling brands?
What do your adult smokers want?

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PLAN CR - LEVEL "D" VALUE GRID

- Maintain an Industry Carton Fixture(s) in 100% of the Carton Fixture Space that is no less than 3 feet wide. The Carton Fixture Space must be in the #1 NSS location or the #1 SS location within the line of sight of the store's staff.
- Merchandise PM USA domestic cigarettes beginning on the top shelf, and continuously thereafter, until the PM USA occupied space is equal to the PM USA Share of the Carton Fixture Space, subject to the 90% rule. Post an authorized PM USA sign, and only a PM USA sign, at the top of the Industry Carton Fixture(s). Permanent competitive signage may be placed on the Retailer Choice areas of the Industry Fixture(s).
- Maintain an Industry Front-Faced Pack Fixture(s) in 100% of the Pack Fixture Space that is no less than 3 feet wide. The Industry Front-Faced Pack Fixture(s) must be in the #1 NSS staffed location at the transaction area or the #1 SS location within the line of sight of the store's staff, as designated by PM USA.
- Merchandise PM USA domestic cigarettes beginning on the top shelf, and continuously thereafter, until the PM USA occupied space is equal to the PM USA Share of the Pack Fixture Space, subject to the 90% rule. Post an authorized PM USA sign, and only a PM USA sign, at the top of the Industry Front-Faced Pack Fixture(s). Permanent competitive signage may be placed on the Retailer Choice areas of the Industry Fixture(s).
- Maintain PM USA permanent interior signs in the #1 sign locations. PM USA signs shall be the only permanent interior or exterior cigarette signs. Notwithstanding the foregoing, other manufacturers may place permanent signs on the Retailer Choice area of any Fixture.
- PM USA counter displays shall be the only permanent counter displays in the store.

Specific Elements

- If the retailer chooses to maintain any temporary counter/checklane display, the retailer must maintain a Marlboro display in the #1 counter/checklane display location. If the retailer merchandises any temporary premium brand counter/checklane display, the retailer must maintain a PM USA premium brand counter/checklane display in the #3 counter/checklane display location. If the retailer merchandises any temporary discount brand counter/checklane display, the retailer must maintain a PM USA discount brand counter/checklane display in the #1 discount counter/checklane display location.
- If any other manufacturer's temporary counter displays offer product in a self-service manner, the retailer must maintain the PM USA counter displays in a self-service manner in the line of sight of the store's staff consistent with applicable law.
- The retailer must utilize PM USA-supplied inventory storage cabinets. They must be located at the bottom of the fixture, placed horizontally across the entire Carton Fixture Space, and leave at least 38" of vertical merchandising space.
- PM USA will supply all fixtures or they may be retailer-owned.

Common Universal Values

- Maintain 2 "We Card" or equivalent signs.
- Accept PM USA new brands as recommended by PM USA.
- Keep all space allocated to PM USA on fixtures, displays, and promotions fully stocked with appropriate PM packings. Rotate PM cartons and packs on a "first in, first out" basis and remove any uneatables.
- Maintain distribution on PM B&W/private label or other designated brand. If any B&W/private label brand is present.
- Maintain adequate distribution and inventory of PM USA brand packings to satisfy local market demand, subject to the approval of PM USA.
- Retailers who choose to accept PM USA consumer promotions agree to prebook additional inventory for shipment prior to the promotion, offer PM consumer promotions to consumers only, and assemble PM promotion displays and POS as required.
- If retailer chooses to maintain an OPM, it must be PM USA-supplied or retailer-owned. On PM USA-supplied OPMs, feature either permanent cigarette signage provided by PM USA or any non-branded, non-tobacco signage retailer chooses. On retailer-owned OPMs, feature either permanent cigarette signage provided by PM USA or any non-tobacco signage retailer chooses.
- Submit velocity reports verifying the store's cigarette sales by brand and packing. In a format satisfactory to PM USA, and authorize cigarette supplier(s) to provide PM USA, on request, shipment data of PM USA products to retailer.
- The retailer may post any temporary or permanent price call-outs from any cigarette manufacturer in any location provided these price call-outs do not obstruct PM USA signs or cigarettes. The retailer may place temporary or permanent channel strips from any cigarette manufacturer within the channels of any fixture provided those channel strips do not obstruct PM USA cigarettes or signs and are not placed immediately below PM USA cigarettes or signs. The retailer may post any temporary signs from any cigarette manufacturer in any location provided these signs do not obstruct PM USA signs or cigarettes.

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Program Details

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The information on this Value Grid is a summary of selected terms provided for convenience. You must refer to the Retail Leaders contracts which set forth all of the terms of the Retail Leaders Program.

2000

RETAIL LEADERS

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MORRIS
U.S.A.

RETAIL LEADERS 2000 & MARLBORO PRICE PROMOTIONS

Retail Leaders Participation Level	Growth Funds (Approximate)	National Marlboro Price Promotions
Level E	7 weeks	Yes
CPL 3** (terminates June 30, 2000)	3.5 weeks for 6 months ending 6/30/00 or until terminated	Yes
Base CPL*, CPL 1&2*, Levels A,B,C, and D	Not Available	Yes
Plan PM	Not Available	Approximately 83% of the full schedule
*Base CPL, CPL 2 & CPL 3 accounts are eligible as Retail Leaders for National Price Promotions until June 30, 2000 or their contracts are terminated, whichever comes first		
**CPL 3 accounts can earn and spend Growth Funds until June 30, 2000 or their contracts are terminated, whichever comes first		

Growth Fund 2000 - Policy

- Level E and CPL 3 (CPL 3 only until June 30, 2000) accounts qualify for a Growth Fund budget.
- Growth Funds in 2000 are intended for Marlboro price promotions only.
- **Growth Fund promotions are budget-based.** Commitments with accounts must be based on a quantity multiplied by the allowance rate not to exceed the budget balance amount known at the agreed upon time of execution.
- Growth Funds are intended for use as follows:
 - Promotion of Marlboro brand styles of cartons, packs, and/or multi-packs only.
 - Extension of a national Marlboro price promotion.
 - Increase in the amount of a Marlboro price promotion via an increase to the allowance not to exceed the national Marlboro price promotion allowance for the period as stated in the Monthly Sales Promotion Planner by more than 10¢ per pack or \$1.00 per carton.
 - Support of Every Day Low Price (EDLP) promotions provided one of the following three conditions are met:
 1. Account stops EDLP at least one week before the start of a nationally scheduled price promotion, thereby resuming normal premium brand pricing;
 - or
 2. Account reduces EDLP by at least the amount of the price promotion allowance of the nationally scheduled Marlboro price promotion stated in the Monthly Sales Promotion Planner.
 - or
 3. Account stops EDLP for 3 consecutive weeks in the first half of the year (January 1 - June 30, 2000) and 3 consecutive weeks in the second half of the year (July 1 - December 31, 2000).

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Growth Fund

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2000

RETAIL LEADERS

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The Fixture Process Checklist

The following is a checklist of activities required to complete a successful fixture installation.

- ☐ Qualify the account using Retail Leaders program guidelines. (e.g., minimum of 50 CPW to qualify for Retail Leaders).
- ☐ Recommend the size of the cigarette department using the Merchandising Guideline Matrix.
- ☐ Visit the account to discuss the recommended department size and location for fixtures, and measure the available space.
- ☐ Select the proper fixtures and shelves for the account. Use the Uniflex Cabinet Calculator and Fixture Guide for Third Party Installations (supplied on the diskettes included with your Fixture Process Manual).
- ☐ Create the Plan-O-Gram (POG) and fill out the Installation Work Order (IWO) in *presented* status for presentation to the account.
- ☐ Revisit the account to agree on a final POG.
- ☐ Submit the POG to your Section Fixture Logistics Manager (SFLM) and finalize your IWO in *ordered* status. The SFLM will process your IWO and send the POG to Madden.
- ☐ Fixtures will be installed within **45 days from the date Madden accepts the IWO**.
- ☐ Installation dates can be viewed in Field Sales Invoicing (FSI) after acceptance from Madden.
- ☐ You will receive a hard copy confirmation from Madden when your IWO materials have been shipped from the Madden warehouse bound for a designated TPI depot.
- ☐ Twenty-four hours prior to installation, the retailer will receive a phone call from TPI to confirm materials and the installation date with the retailer.
- ☐ Twenty-four hours prior to installation, you will receive an Octel confirmation date of installation from your TPI agent.
- ☐ TPI Agent completes the installation and has the retailer sign the IWO.
- ☐ On your next scheduled store visit, verify and update the POS/Fixture Screen in SFA.

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Retail Materials

2000

RETAIL LEADERS

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Merchandising Items

Marlboro POS - An asterisk (*) next to an item indicates that the item can not be placed at retail in Minnesota, Mississippi, Florida, or Texas (Continued)

Item	POS#	KIT#	Total Area (Square Inches of Graphic Only)
"Pull/Please Use Other Door" Decal *	01005	57810	28
"Billy Salute" "Open/Closed" Sign *	01006	57811	221
Lit Pricing Sign - Large	81910	Not Available	793
Lit Pricing Sign - Small	81911	Not Available	440
Fade In/Fade Out	77416	Not Available	677
Edgelit Sign	91005	Not Available	1176
Backlit Sign	91007	Not Available	1075
Open Neon *	91058	Not Available	369
Cigarette Neon	69680	Not Available	560
Illuminated Menu Board *	08655	Not Available	468
Illuminated LED *	12297	Not Available	499

Metro Marlboro POS

"Billy Salute" "Open/Closed" Sign *	88386	88255	221
"Billy Salute" Jumbo See-Through Door Decal	07220	57404	1148
"Billy Salute" Metal Signs (3 signs)	07218	57402	376
"Billy Salute" See-Through Door Decal	07221	57405	483

OPB POS**Window Door Decals**

VS	Open Order	23903	72
VS Menthol	Open Order	23905	72
Merit	Open Order	23902	72
B&H Menthol	Open Order	88496	72
Parliament ¹	Open Order	22756	72

Metal Signs

VS	Open Order	76697	187
Parliament ¹	Open Order	22760	386

Parliament Multi - Level Lit Sign ¹	15272	Not Available	324
Parliament Full Flavor Mobile ¹	15068	96407	Center Graphic: 77 Top Graphic: 9
Parliament Full Flavor Sequential Neon ¹	15271	Not Available	Overall Display Area: 148 308

¹(Only Available in Key Parliament Markets)

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Fixtures and Permanent POS

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2000

RETAIL LEADERS

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Merchandising Items

OPB POS (Continued)

Item	POS#	KIT#	Total Area (Square Inches of Graphic Only)
Counter Flats			
VS	Open Order	10675	185
B&H Menthol	Open Order	90093	135

Basic POS

Double Sided Window Pricer - Small	12980	95208	500
Double Sided Window Pricer - Large	00432	12301	876
Basic Corrugated Plastic Sign	12894	95207	1536

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Fixtures and Permanent POS

Questions & Answers (cont'd.)

40. What are high visibility items and at what Level are they required?

- At least one high visibility item is required for all Level E accounts.
- High visibility items are Point-of-Sale signs selected from a list for placement in contracted Retail Leaders accounts (subject to availability and the restrictions of local law):

These are items currently listed for Retailer Selection.

- | | |
|----------------------------|--------------------|
| ✓ Cigarette Neon | ✓ Fade In/Fade Out |
| ✓ Vertical Window Pricer | ✓ Edgelit Sign |
| ✓ Horizontal Window Pricer | ✓ Large Lit Pricer |
| ✓ Pump Topper | ✓ Small Lit Pricer |

- PM USA headquarters may designate additional items that fulfill this requirement.

41. What should I do if I find a retailer selling promotions to other retailers or products in non face-to-face transactions (mail order, internet, etc.)?

Cease all promotions with the account and pay only for promotional product sold to legal age adult customers in face-to-face transactions.

42. What happens to an account if I find Philip Morris product intended for foreign markets being sold at a store?

Domestic sales of cigarettes manufactured by PM USA for export (or manufactured by or for entities related to PM USA for sale outside the United States) infringe PM USA trademarks and damage PM USA's goodwill. Retailers who sell cigarettes manufactured by PM USA for export (or manufactured by or for entities related to PM USA for sale outside the United States) will be ineligible for participation in the Retail Leaders Program and in PM USA consumer promotions, and, effective 1/1/00, will remain ineligible for participation in the Retail Leaders Program for twelve (12) months following the retailers' discontinuation of such sales.

43. What should I do if an account splits their store down the middle by building a wall and wants to contract with PM in one store and with other tobacco companies but not PM in the other store?

The account manager must require that Retail Leaders contract values are in place in the entire store. The contract states that accounts who divide one store literally or in effect must fulfill the requirements of the Retail Leaders program for the entire undivided store.

Module 2, Lesson 4
Job Aide: Selling vs. Execution

The 3 P s	Selling	Execution
Product Availability: <i>Ensuring that adequate products are available in each account for consumers to purchase.</i>	<ul style="list-style-type: none"> ♦ Analyze store data to determine which brands are selling in each account and which brands present the greatest opportunity for growth. ♦ Demonstrate the financial benefits of proper inventory levels to retailers, and work with them to ensure that proper inventory levels are maintained. ♦ Make sure that the right brands are in distribution in each account. ♦ Ensure that enough product is on hand to prevent out-of-stocks. ♦ Sell new brands. 	<ul style="list-style-type: none"> ♦ Fill displays. ♦ Rotate stock. ♦ Identify out-of-date product. ♦ Check the inventory; if low or out-of-stock, ask the retailer to order additional product.
Promotion: <i>Ensuring that our brands are properly promoted at retail.</i>	<ul style="list-style-type: none"> ♦ Educate retailers about the financial and business-building benefits of our promotion programs. ♦ Sell the right RJR promotions, in the right quantities to grow RJR share. ♦ Sell the right RJR pricing strategies to grow RJR share. ♦ Evaluate the success/failure of promotions for future planning. 	<ul style="list-style-type: none"> ♦ Place current pricing information for promotions; verify that the correct pricing is displayed. ♦ Place promotion-specific displays with proper point-of-sale advertising. ♦ Place coupons and/or VPR stickers for promotions. ♦ Ensure that promotions are displayed in a timely manner.
Presence: <i>Ensuring that a brand's image and message are properly and consistently communicated to consumers.</i> "Big Brand Presence"	<ul style="list-style-type: none"> ♦ Determine which brands should be displayed (priority brands). ♦ Sell the appropriate permanent/temporary displays and merchandisers in the appropriate locations. ♦ Sell permanent advertising pieces, such as clocks and neon signs, in an appropriate position to impact RJR presence. 	<ul style="list-style-type: none"> ♦ Place and maintain permanent and temporary displays with correct point-of-sale advertising and price communication. ♦ Place and maintain merchandisers. ♦ Install and maintain permanent signage, such as clocks and neon signs.

Pricing Strategies

Pricing strategies are a key tool for maintaining RJR share. In this section, you will learn about the following three pricing strategies:

- ❖ *DORAL Ceiling or Savings Pricing Strategies*
- ❖ *Full-Price Gap Strategies*
- ❖ *SALEM Pricing Strategies*

These strategies are designed to avoid share losses by defending RJR's business against competitive discounting. When used effectively, these strategies will be the foundation on which we build future business-building efforts.

The importance of managing the price relationship between RJR full-price and competitive brands at retail cannot be underestimated. These relationships are based on sophisticated statistical models, and when executed properly, have proven to be successful at defending our business and maintaining our share. Our purpose, simply stated, is to *prevent RJR smokers from switching to competitive products due to their price promotions.*

"In fact, we know that managing price gaps within your accounts will have a greater and more immediate impact on our share than any other retail activity."

It is important to understand that these strategies are defensive in nature and are designed to protect our business, not to grow our business in the long term.

RJR Brand Styles and the Gap

RJR full-price brands are sensitive to the branded savings category. This means that RJR full-price smokers are more likely to switch to branded savings products, such as GPC or BASIC, if the gap between the full-price brands and the savings brands goes beyond 35 cents per pack or \$3.50 per carton. Therefore, if the branded savings competitor is discounting, we want to discount also as a defensive measure to keep the gap at 35 cents, plus or minus a nickel.

Non-Self-Service Method: An attendant issues cigarettes. Non-self-service is the less effective of the two merchandising methods but is still more desirable than no visibility of our products at all.

The main reason or **advantage** for offering this method of behind-the-counter or non-self-service merchandising is maximum security to minimize stolen product, or where local ordinances prohibit self-service.

The **disadvantages** of non-self-service merchandising are:

- ◆ Limits promotional moneys. (retail display allowances)
- ◆ Limits visibility and exposure.
- ◆ Reduces potential sales and profits.
- ◆ Increases customer inconvenience.
- ◆ Does not necessarily use cigarettes as a traffic builder.
- ◆ Requires clerk time and labor.
- ◆ Does not eliminate internal pilferage.
- ◆ Dilutes the impact of impulse purchases.

Merchandisers

Merchandisers are units that hold cartons and packs. RJR offers a complete line of carton and package merchandisers to meet a particular retail account's specific merchandising needs. Merchandisers are available in various sizes, styles, and capacities. Merchandisers can also be called fixtures.

Displays

Displays are vehicles used to gain additional exposure: **P**resence. All displays should be placed in a preferred location to display product, which aids in developing brand awareness, promoting consumer trial, and providing an opportunity for impulse sales. Displays can be free-standing on the floor and counter or placed as an attachment to a package merchandiser. Displays are also available in various sizes, styles, and capacities that can be placed according to the retail outlet's needs.

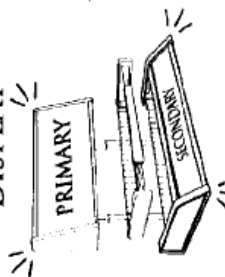
You should review all of the available display and merchandising brochures.

MERCHANDISING/PRESENCE LEVEL I

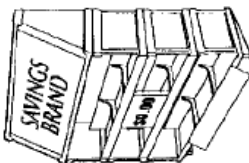
REQUIREMENTS

- 1 Full Price Display
- 1 Savings Display
- 40 Pack Facings Minimum
- Share of Signage No Less Than RJR SOM
- Lighted Signage

PRIMARY FULL PRICE DISPLAY

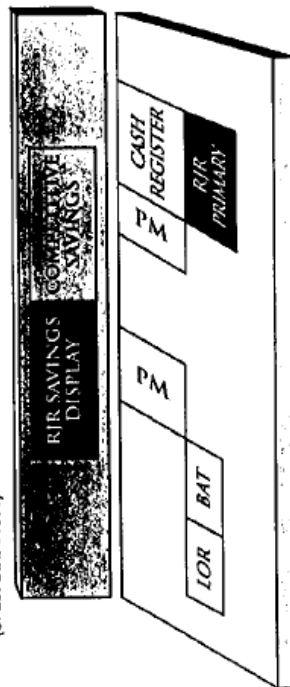


DORAL COUNTER DISPLAY



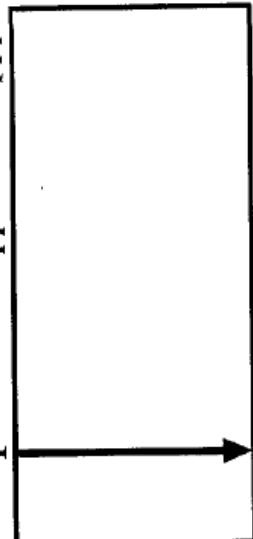
- 2 - 40 Pack Tray System III Display
- Enhanced Lighted Top Sign
- Enhanced Lighted Tray Kit (SPEC. DIA. #1801)

- Doral 9 - Tray Counter Display
- Enhanced Top Sign
- Non-Illuminated
- Item #484001



RETAIL ACCRUAL PROGRAM LEVEL I

MERCHANDISING/PRESENCE



RETAIL
ACCRUAL

I
EDLP
DISADVANTAGED
10c

II
EDLP
PARITY
20c

III
RJR - EDLP
EXCLUSIVE
25c

LEVEL I, II OR III MERCHANDISING/PRESENCE IS THE KEY
TO ENTRY INTO THE TOTAL PROMOTIONAL PACKAGE

RDA
MERCHANDISING/
PRESENCE
PROGRAM

+

CONSUMER
DOLLARS
RETAILER ACCRUAL
PROMOTIONS
• Partners Promotions
• Co-Operative Retail
Program
NATIONAL WORKPLAN
PROMOTIONS
FULL PRICE/SAVINGS
DISCOUNTING

=

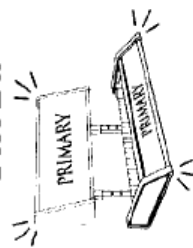
A
COMPLETE
RETAIL
PACKAGE
FOR OUR
PARTNERS

MERCHANDISING PRESENCE LEVEL III

REQUIREMENTS

- 2 Full Price Displays
- 1 Savings Display
- 40 Pack Facings Minimum
- Share of Signage/Pack Facings Significantly Greater than RJR SOM - Share of Market
- Only Two Manufacturers Participating in Programs

PRIMARY FULL PRICE DISPLAY



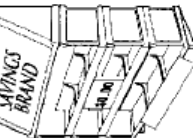
- 1 - 40 Pack Tray System III Display
- Enhanced Lighted Top Sign
- Enhanced Lighted Tray Kit (SPEC. DIA. #1802)

SECONDARY FULL PRICE DISPLAY

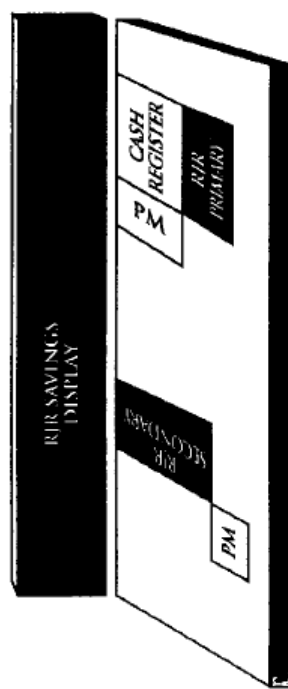


- 2 - 40 Pack Tray System III Display
- Enhanced Lighted Top Sign
- Enhanced End Caps (SPEC. DIA. #1800)

SAVINGS DISPLAY



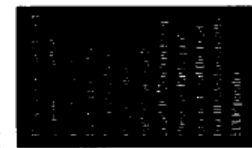
- Doral 9 - Tray Counter Display
- Enhanced Top Sign
- Non-Illuminated
- Item #484001



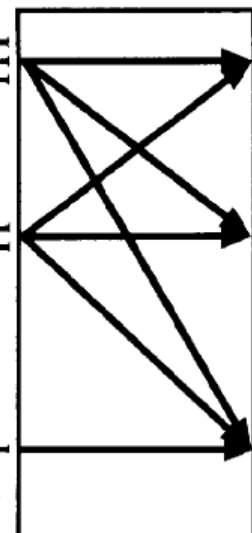
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RETAIL ACCRUAL PROGRAM LEVEL III

MERCHANDISING/PRESENCE



III



RETAIL ACCRUAL

I EDLP
DISADVANTAGED
.10¢

II EDLP
PARITY
.20¢

III RJR - EDLP
EXCLUSIVE
.25¢

LEVEL I, II OR III MERCHANDISING/PRESENCE IS THE KEY TO ENTRY INTO THE TOTAL PROMOTIONAL PACKAGE

CONSUMER
DOLLARS

RETAILER ACCRUAL
PROMOTIONS
• Partners Promotions
• Co-Objective Retail Program
NATIONAL WORKPLAN
PROMOTIONS
FULL PRICE/SAVINGS
DISCOUNTING

RDA
MERCHANDISING/
PRESENCE
PROGRAM

A
COMPLETE
RETAIL
PACKAGE
FOR OUR
PARTNERS

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