

DEADLY ALLIANCE



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How Big Tobacco and Convenience Stores Partner to Market Tobacco Products and Fight Life-Saving Policies



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Partner to Market Tobacco Products and Fight Life-Saving Policies**

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EXECUTIVE SUMMARY

As other forms of tobacco marketing have been restricted, tobacco companies increasingly have focused their marketing of cigarettes and other tobacco products at the point of sale – in convenience stores, gas stations and other retail outlets. In the first 10 years after the November 1998 legal settlement between the states and the tobacco companies (1999-2008), tobacco manufacturers spent more than \$110 billion – 92 percent of their total marketing expenditures – to advertise and promote cigarettes and smokeless tobacco products in the retail environment, according to the latest data from the Federal Trade Commission.

As a result, convenience stores and other retail outlets today are saturated with tobacco products, advertisements and promotions. Big Tobacco has taken over convenience stores to ensure that tobacco products are advertised heavily, displayed prominently and priced cheaply to appeal to both current and potential tobacco users, including impressionable, price-sensitive kids.

This report details how convenience stores and other retail outlets have become the dominant channel for marketing and selling tobacco products in the United States. In exchange for billions of dollars in direct payments, price incentives and other inducements, they have become veritable marketing arms of the tobacco companies.

Unfortunately for the nation's health, point-of-sale strategies have proven highly effective at helping tobacco companies market and sell their deadly and addictive products. As the scientific evidence summarized in this report shows, these strategies help tobacco companies achieve the same marketing goals they have always had: Entice kids to start using tobacco, build brand loyalty and discourage quitting among current users, target minority communities and portray their harmful products as acceptable and appealing.

Convenience stores have also become essential partners with the tobacco industry in fighting public policies – especially tobacco tax increases – that are proven to reduce tobacco use and its devastating toll. With tobacco companies discredited in the public eye and viewed as a political negative for elected officials linked to them, convenience stores have become a key front group for the tobacco industry in these policy battles.

The powerful alliance between Big Tobacco and convenience stores deals a double blow to efforts to reduce tobacco use, which remains the leading cause of preventable death in the United States. It is the primary means for marketing tobacco products that kill 443,000 Americans and cost the nation \$193 billion in health care bills and lost productivity each year. And it has helped to thwart proven public policies that reduce tobacco use, improve health, save lives and reduce

health care costs for employers, workers and taxpayers. The result of this alliance is more kids smoking, fewer adults quitting, more tobacco-related death and disease, and higher health care costs for everyone.

In short, the tobacco industry and its convenience store allies are making a killing by making deadly and addictive tobacco products all too convenient.

Specific findings of this report include:

Point-of-sale marketing is more valuable than ever to tobacco companies, ubiquitous in stores and highly effective at reaching current and potential tobacco users. Tobacco companies utilize point-of-sale strategies, including detailed merchandising agreements with retailers, to promote, place and price tobacco products to make them most appealing and maximize sales. Marketing at the point of sale allows tobacco companies to reach shoppers right when they can immediately buy specific products or brands. It builds brand recognition, creates positive feelings toward tobacco products and motivates people of all ages to “buy now,” which stimulates tobacco use and undermines attempts to quit. The ubiquity of tobacco products and marketing also sends a message to kids that that tobacco use is common and acceptable.

Point-of-sale marketing is very effective at reaching and influencing kids. While other forms of tobacco marketing have been restricted, convenience stores, gas stations and other retail outlets remain places where kids are certain to see tobacco advertising and promotions, often near their schools and playgrounds. These stores are the same places kids and adolescents go to buy candy, sodas and afterschool snacks, making them highly effective venues for marketing to kids. In fact, research has found that two-thirds of teenagers visit a convenience store at least once a week. Studies have found that cigarette marketing is more prevalent in stores where adolescents shop frequently and that tobacco advertisements and product displays are often placed at young kids’ eye level or near candy. In addition, tobacco company documents show that the companies have targeted convenience stores, grocery stores and other tobacco vendors near schools and playgrounds in an effort to attract young smokers.

The massive amount of tobacco advertising and promotion at the point of sale hits its mark. Studies show the more cigarette marketing teens are exposed to in retail stores, the more likely they are to smoke. Price discounts are especially effective at influencing kids, leading to increases in initiation, experimentation and regular smoking.

Tobacco companies target minority and lower-income communities with point-of-sale marketing. The tobacco companies have a long history of targeting minority communities, and they have taken advantage of the greater density of convenience stores and gas stations in lower-income and minority neighborhoods to do so. Their marketing strategies have included price discounts, promotional giveaways, heavy product placement and culturally tailored ad content at

retail locations, both indoors and out. Numerous studies have documented the disproportionate amount of advertising in low-income, minority communities. These studies have found more exterior tobacco advertising in retail outlets in these communities, more advertising of price discounts, and a higher density of tobacco-selling retailers near schools in minority or lower-income communities.

The tobacco industry and convenience stores collaborate to oppose public policies that reduce smoking and other tobacco use, especially tobacco tax increases. Because of their negative reputation, tobacco companies know that policy makers don't want to be seen as doing their bidding. So they enlist neighborhood stores and store associations to oppose tobacco control policies. Particularly on tobacco taxes, retailers are the voice of the tobacco companies – their front group. Tobacco companies aggressively communicate with retailers, urging them to become more involved in the legislative process, supplying them with the tools and information to do so, and providing them with financial support.

In 2011, the New Hampshire Legislature reduced the state cigarette tax based on a “report” issued by the New Hampshire Grocers Association, which contained little evidence except for materials produced by other tobacco industry allies. Convenience stores have distributed tobacco industry flyers urging opposition to tobacco tax increases, and one Georgia grocery store in 2010 even placed an anti-tobacco tax message on cigarette receipts – with a clear statement that the message was “Paid for by Altria Client Services on behalf of Philip Morris USA.”

Tobacco companies and convenience stores overstate the harm to retailers caused by tobacco control policies. Research shows that convenience stores are not affected by tobacco control policies – including tobacco tax increases – to the extent that they and the tobacco industry claim. Recent studies have found that the number of convenience stores does not decline after cigarette tax increases, and neither does overall tobacco retail employment. People who quit or cut back on tobacco purchases will still spend their money on other products. In addition, retailers recognize the declining trend in tobacco sales, which means they can and have made adjustments to compensate.

Elected officials should adopt policies – especially higher tobacco taxes – that reduce tobacco use and counter the influence of point-of-sale advertising and price promotions. Increasing the tobacco tax is a win-win-win for states – a health win that will reduce tobacco use and its devastating health effects, a financial win that produces significant new revenue and reduces health care costs, and a political win that polls show is supported by large majorities of voters across the country. The new revenue can also be used to fund tobacco prevention and cessation programs. Other policies can also reduce the impact of point-of-sale marketing, such as licensing and zoning policies that regulate the number, type, location and density of tobacco retailers.

THE IMPORTANCE OF THE RETAIL ENVIRONMENT

No one knows the importance of the retail environment better than tobacco companies. For years, the industry has recognized how critical retail stores, particularly convenience stores, are to reaching current and potential customers, including children, and growing industry profits.

Point-of-sale marketing has grown in importance to the industry as it has faced restrictions on other forms of marketing as a result of the 1998 legal settlement between the states and the tobacco industry (the Master Settlement Agreement). Additional restrictions were imposed by a 2009 federal law, the Family Smoking Prevention and Tobacco Control Act (2009 Tobacco Control Act), which gave the U.S. Food and Drug Administration (FDA) authority to regulate tobacco products and marketing.

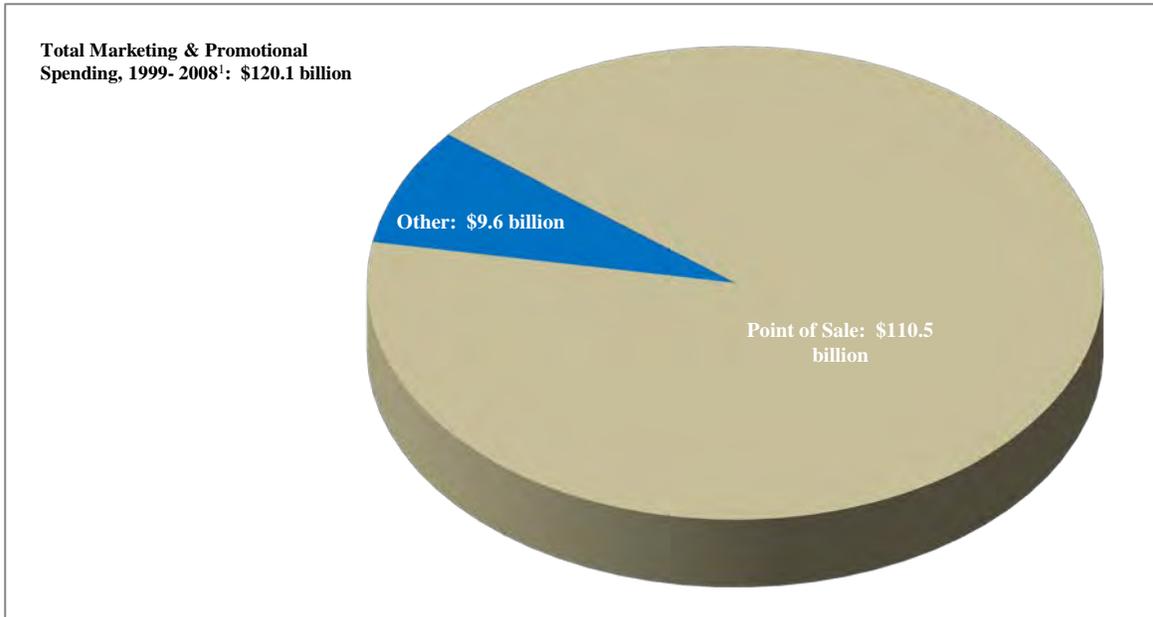
The Federal Trade Commission (FTC) issues reports on annual cigarette and smokeless tobacco marketing expenditures, which are based on data from the major tobacco manufacturers. The FTC's reports show that the point of sale is by far the tobacco industry's dominant marketing channel today, and that it has grown in importance since the 1998 tobacco settlement.¹ According to the FTC's latest reports:

- In the first ten years after the 1998 tobacco settlement (1999 to 2008), tobacco manufacturers spent more than \$110 billion – 92 percent of their total marketing expenditures – to advertise and promote cigarettes and smokeless tobacco products in the retail environment.*
- From 1998 to 2008, annual tobacco company spending in the retail environment increased by 81 percent (from \$5.4 billion to \$9.8 billion).



*Point of sale marketing expenditures include the following categories for both cigarettes and smokeless tobacco products: point-of-sale advertising, price discounts; promotional allowances to retailers, wholesalers, and others; coupons; and retail value added – bonus and non-bonus. See Appendix A for a description of these categories.

- In 1998, the tobacco companies spent 78 percent of their marketing budget in the retail environment. In 2008, the latest year included in the FTC reports, tobacco companies spent 93 percent of their marketing budget – \$9.8 billion out of \$10.5 billion – in the retail environment.



The retail environment is critical for tobacco companies because it allows them to communicate directly with consumers, especially when tobacco ads are prohibited on television, radio and billboards and increasingly scarce in magazines. Convenience stores are also vital to tobacco company sales. In 2010, more than half of all cigarettes sold were sold at convenience stores.²

Marketing at the point of sale allows tobacco companies to reach shoppers right at the place where they can immediately buy specific products or brands. This type of marketing builds brand recognition, creates positive feelings towards tobacco products, and gives people of all ages and smoking status – heavy or light smokers and even experimenters – a reason to “buy now.” This stimulates tobacco use and undermines quit attempts. The ubiquity of tobacco products and marketing also creates a norm for kids that makes tobacco use seem common, acceptable and even cool.

Tobacco companies compete against one another at the point of sale for shelf space and consumer loyalty. This competition creates a massive amount of marketing at point of sale, which is good for both tobacco companies and convenience stores because it drives up total tobacco sales.³

The tobacco industry recognizes that influencing consumers at the moment of purchase is a key strategy to drive sales. Where tobacco products are located in stores, how they are packaged, how they are advertised and promoted, and how they are priced, especially in the types of stores that

youth frequent, is the result of careful planning. Tobacco companies invest huge sums to make sure their products and advertisements are noticed, are purchased, and then purchased again.

The tobacco companies' own words demonstrate that promotion and visibility at the point of sale has been a major goal for more than 30 years. According to an R.J. Reynolds internal document:

“Simply stated, the point of purchase is where the action is – it’s the retail environment, it’s a specific location in a store, it’s a product display and its in-store advertising. Importantly, and perhaps not so obviously, the point of purchase is also in the mind of the prospective consumer.”⁴

The tobacco industry’s laser-like focus on convenience stores is apparent in an R.J. Reynolds internal memo that lays out a strategy to capture more of the convenience store market.⁵

*“Based on the growth of cigarette sales in convenience stores, their targeted demographic appeal and the threat posed by Philip Morris in these outlets, **RJR should take an aggressive stand in developing merchandising and promotional programs for convenience stores.**”*

*“**RJR should make convenience stores the Company’s number one priority for the placement of permanent POS (point-of-sale) and should consider increasing the amount of a permanent POS that is earmarked for these outlets.**”*

*“Convenience store outlets are showing significant growth and are increasing in importance as outlets for cigarette sales. **Furthermore, they represent the single most effective outlet for reaching younger adult smokers.**”*

The objective of point-of-sale marketing is to promote, place, and price tobacco products to make them most appealing and maximize sales. It includes tobacco advertisements and other branded items such as shelving units, counter mats, and shopping baskets that are located inside, outside, and on the property of convenience stores, drug stores, gas stations, and other retail sales outlets.

Point-of-sale marketing also includes promotional expenditures, which are tobacco company payments to retailers to display the company’s brands, ads and related materials prominently, in specific store locations or on “good” shelving space (known as slotting allowances). Tobacco industry documents note that “eye level is buy level” so companies pay careful attention and spend large sums of money to ensure that tobacco products are placed where they will be seen.⁶ These promotional materials are often coordinated with current advertising campaigns to promote the images and appeal of specific tobacco products.⁷

Finally and perhaps most importantly, point-of-sale marketing includes price discounts paid to retailers and coupons and multi-pack discounts (e.g., buy two packs get one free) for which retailers are reimbursed. Each of these promotional strategies makes tobacco products cheaper and more accessible to consumers, especially kids. In 2008, tobacco companies spent far more on discounting strategies – \$7.5 billion – than any other category of marketing, demonstrating its importance in enticing new customers and keeping current ones.⁸

TOBACCO COMPANIES SPEND BILLIONS TO SATURATE CONVENIENCE STORES

Walk into any convenience store, and it won't take long to spot advertisements, branded materials and product displays designed to push the sale of tobacco products. Several studies have documented the increasing pervasiveness of tobacco advertising and promotion in retail outlets. For example, the average store features 15 to 25 tobacco product advertisements and multiple shelving units full of cigarette cartons and packs.⁹ Displaying multiple shelves of cigarettes is often done to create a “powerwall” of branded imagery that makes tobacco products more visible, more attractive, and more alluring.¹⁰ In one survey, 80 percent of retail outlets had interior tobacco product advertising, 60 percent had exterior tobacco product advertising, and over 70 percent had tobacco product functional items, such as display racks, counter mats, entrance and exit signs, and change cups.¹¹



Image and content are the result of research conducted by the Association for Nonsmokers-Minnesota, www.ansrmn.org.

Recent stories in the convenience store trade publications, *Convenience Store News* and *Convenience Store Decisions*, confirm that saturating the convenience store with tobacco ads and highly visible tobacco products continues to be an important tobacco industry strategy:

“A change in the tobacco company’s strategies has led Brazie [director of retail marketing for a chain of tobacco stores] to adapt new cigarette sets in the convenience stores and Smoker Outlet sites. ‘We had 8 feet of cigarette packs and 10 feet of cartons in

our Smoker Outlet sites. We are adjusting our sets to provide more room for new opportunities in OTP [other tobacco products].”¹²

“C-store [convenience store] operators should also look to increase the visibility of their smokeless products, Bishop suggested. ‘Presentation along the back bar has become more critical, especially since June of last year when self-service merchandising displays were restricted or banned in non-age-regulated environments,’ he said. ‘Finding good visible space on the back bar is also important because out of sight is out of mind. If the customer doesn’t see it, they aren’t likely to buy it or even ask for it. It also helps speed of service.’”¹³

Tobacco companies spend billions of dollars to ensure that tobacco products are heavily advertised, prominently displayed, and cheaply priced in stores. Convenience stores are more than willing to take these payments. Each company has its own retailer incentive, or merchandising program, which is often formalized in contracts or merchandising agreements with retailers. These contracts are often tailored to individual stores and convenience store chains.¹⁴

When describing merchandising programs and the impact on retailers, a senior vice-president of sales for Philip Morris USA explained, “What we’ve done is to compensate retailers for doing the right thing for their business which is also the right thing for our business.”¹⁵



The tobacco companies often strong-arm retailers into signing contracts to ensure that retailers promote their products effectively and adhere to specific advertising and promotion plans developed by the tobacco company. Tobacco companies use these contracts to secure prime display space (at the end of an aisle, at eye-level, or on the countertop), define the amount of advertising to be displayed, and establish price and promotional incentive programs. Retailers are paid specific, negotiated amounts of money for entering into contracts with tobacco companies. According to a Philip Morris sales manual, “we pay the retailer for performance on our behalf.”¹⁵

Price incentives and promotions are often part of the contracts between tobacco companies and convenience stores. Tobacco companies offer retailers volume-based discounts, “buy two, get one

free” specials, and buy downs which are used to place existing inventory on sale. In exchange for being able to offer these discounts and buy downs, retailers are expected to place tobacco products and advertisements in high profile locations, use special displays provided by the company, and display special prices and deals prominently.¹⁶

Through these contracts, 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. Stores are routinely audited by the companies and noncompliant stores are punished by withdrawal of price discounts and other promotions.

See Appendix B and C of this report for more information on these merchandising programs and examples of contracts with retailers.

CONVENIENCE STORES: WHERE KIDS AND TOBACCO MEET

There is strong evidence that point-of-sale marketing is very effective at reaching and influencing kids. Convenience stores are the places that kids and adolescents go to buy candy, sodas and afterschool snacks, and as a result kids are regularly exposed to tobacco advertising. Two-thirds of teenagers visit a convenience store at least once a week.¹⁷ The volume of tobacco brand imagery and product placement in convenience stores helps portray tobacco to kids as normal and even appealing.

Both the tobacco industry and the convenience store industry are keenly aware of their customer base and share the common goal of targeting young people.

Conveniently Aligned	
<u>Tobacco Industry:</u>	<u>Convenience Store Industry:</u>
<p>“Today’s teen-ager is tomorrow’s potential regular customer and the overwhelming majority of smokers first begin to smoke while in their teens.”¹⁸</p>	<p>“We chose to focus on teens because of their strategic position as the next generation of shoppers. If the convenience industry can connect with them now, we will be laying a foundation for building lifelong loyalty.”¹⁹</p>

Knowing that convenience stores are the key to increasing tobacco sales, it is not surprising that tobacco advertisements in convenience stores, gas stations, and other retail stores have become ubiquitous. It is also not surprising that much of this promotion is conducted in stores and in

ways that make it highly visible to kids. Tobacco advertising and promotion is more common at convenience stores and gas stations compared to pharmacies and grocery stores.

- A 2009 survey found that convenience stores had four times as many tobacco ads as pharmacies and grocery stores.²⁰
- A study of retail outlets in California found that about 85 percent of retailers had tobacco ads within four feet of the counter, nearly 50 percent of tobacco retailers had tobacco ads at young kids' eye level (three feet or lower), and 23 percent had cigarette product displays within six inches of candy.²¹
- Another survey found that stores where adolescents shop most often have more than three times the amount of cigarette advertisements and promotional materials outside of the stores and almost three times more materials inside, compared to other stores in the community.²²

In addition, tobacco company documents show that tobacco companies have targeted convenience stores, grocery stores and other tobacco vendors near schools and playgrounds in an effort to attract young smokers. Internal R.J. Reynolds memos demonstrate the focus on young people, and while tobacco company executives would argue that their discussion of “younger adults” was referring to those older than 18, it is clear that they defined “young adult” broadly to include school-age youth. For example, an R.J. Reynolds supervisor instructed regional sales representatives to implement promotional programs in stores frequented by young adult shoppers. The memo said, “those stores can be in close proximity to colleges or high schools or areas where there are a large number of young adults frequenting the store.”²³



Tobacco companies also know that when it comes to kids, price is paramount. Their own documents reveal their concern about tobacco taxes, as well as their knowledge that price increases reduce youth smoking. After a year of tax and price hikes and a corresponding reduction in teen smoking, Philip Morris Executive Jon Zoler stated, “We don’t need to have that happen again.”²⁴ As described previously, a huge part of tobacco marketing involves price discounting. Through direct payments to retailers, incentives, coupons and other pricing strategies, tobacco companies are able reduce prices to offset tobacco tax increases and make tobacco products more affordable for kids and low income smokers, who are most price-

sensitive. The cigarette companies' spending on price promotions amounts to a discount of about 50-cents per pack.²⁵

IT WORKS: POINT-OF-SALE TOBACCO ADVERTISING AND PROMOTIONS IMPACTS KIDS

The massive amount of tobacco product advertising and promotion at the point of sale hits its mark. It is clear that such displays and promotions have an especially powerful impact on kids.

- A 2009 review of point-of sale promotions found that among youth, there is a significant association between exposure to point-of sale advertising and smoking initiation, susceptibility to smoking, beliefs about the availability of tobacco and beliefs about smoking prevalence.²⁷
- A 2007 study in the *Archives of Pediatrics and Adolescent Medicine* found that the more cigarette marketing teens are exposed to in retail stores the more likely they are to smoke. Specifically, researchers found that increasing the types of advertising in stores would result in an 11 percent increase in the number of teens who try smoking.²⁸
- A 2009 study in *Tobacco Control* found that more frequent visits to stores selling tobacco and greater awareness of cigarettes sold in stores increase the likelihood of teenagers being susceptible to initiating, experimenting, or becoming current smokers.²⁹
- More visits to stores per week increases smoking initiation among teens. In fact, a 2010 study in *Pediatrics* found that the odds of initiation more than doubled for teens who visited a store with point-of-sale tobacco ads at least twice a week.³⁰

In sum, the ubiquity of [the companies'] marketing increases young peoples' perceptions of the prevalence of smoking ('everyone is doing it'), normalizes smoking, and connects positive imagery (sex appeal, popularity, peer approval, success, and independence) with smoking, all of which work together to encourage youth smoking initiation and continued consumption.

– U.S. District Court Judge Gladys Kessler
*Final Opinion, United States v. Philip Morris*²⁶

In addition, pricing strategies used to make tobacco products cheaper lead to increases in youth initiation, experimentation, and regular smoking.³¹ According to the 1994 U.S. Surgeon General's report, *Preventing Tobacco Use Among Young People*, the use of coupons makes cigarettes more affordable and affects new users by encouraging them to smoke more, moving from the trial stage to becoming a regular smoker.³²

These scientific findings are reflected in smoking levels. High school smoking rates are higher in areas with higher densities of stores that sell tobacco products than in areas with lower densities.

- A 2008 study in *Preventive Medicine* found that current smoking was significantly higher at schools in neighborhoods with the highest density of tobacco retailers than the smoking rate at schools in neighborhoods without any tobacco retailers.³³
- A 2006 study of Chicago youth found that youth who lived in neighborhoods with the highest density of tobacco retailers were 13 percent more likely to have smoked in the past month than those living in neighborhoods with the lowest density of tobacco retailers.³⁴
- Similarly, several studies have found that tobacco retailer density is associated with experimental smoking among high school and middle school students.³⁵

Point-of-sale marketing also encourages purchases and makes it harder for smokers to quit. It has been found to increase average retail tobacco product sales by as much as 12 to 28 percent.³⁶ Cigarette pack displays at retail outlets stimulate impulse purchases among smokers. In addition, smokers trying to quit commonly experience urges to purchase cigarettes when confronted with these displays, suggesting that cigarette pack displays undermine intentions to quit among established smokers. One study found that 25 percent of the surveyed smokers had made an unplanned purchase of cigarettes in the last 12 months as a result of seeing point-of-purchase tobacco product displays.³⁷ Another found that one out of five cigarette purchases at a store with tobacco product displays was unplanned.³⁸

“Overall, our results provide evidence that restricting point-of-sale advertising will discourage youth from trying smoking and policies that increase cigarette prices and/or restrict price-based promotions will have a long-term positive impact by preventing youth from moving farther along the smoking uptake continuum towards regular smoking.”²⁸

TOBACCO COMPANIES TARGET MINORITY AND LOW-INCOME COMMUNITIES WITH POINT-OF-SALE MARKETING

Lower-income, minority communities face a barrage of tobacco advertising at the point of sale. One reason is because these communities typically have more convenience stores and gas stations compared to more affluent, white communities. Another reason is because tobacco companies have a long history of specifically targeting minority communities.

Cigarette companies have undertaken aggressive advertising campaigns targeted at minority and low-income populations. As discussed earlier, tobacco advertising campaigns



include price discounts, culturally tailored ad content, promotional giveaways, and heavy product placement at retail locations both indoors and out. The disproportionate amount of advertising in low-income, minority communities has been well-documented.

- A comprehensive review of the literature, published in 2007, found that there were 2.6 times more tobacco advertisements per person in areas with an African-American majority compared to white-majority areas.³⁹
- A study of tobacco advertising in six Boston neighborhoods found that exposure to tobacco advertising was more intense in neighborhoods with more children, with significant African-American and Hispanic/Latino populations, and with low socioeconomic status.⁴⁰
- Another study, based on data collected in Los Angeles, found that compared with white neighborhood thoroughfares, African-American and Hispanic neighborhoods contained greater tobacco ad density, and all minority neighborhoods contained greater tobacco ad concentration along the roadsides.⁴¹
- A study of retail outlets in California found that the number of cigarette ads per store and the proportion of stores with at least one ad for a sales promotion are increasing more rapidly in neighborhoods with a higher proportion of African-Americans.⁴²

- A survey of convenience stores in Oklahoma County found that there were significantly more point-of-purchase tobacco ads in low-income and minority neighborhoods than in better-educated, higher-income, predominantly white neighborhoods.⁴³

Studies have also found that there is more *exterior* tobacco advertising in retail outlets in predominantly minority, low-income communities than in non-minority, higher income communities.⁴⁴ A 2010 study in the *American Journal of Health Promotion* compared characteristics of storefront tobacco advertisements in a low-income, minority community and a high-income, nonminority community. It found that the low-income, minority community had more tobacco retailers and advertisements were more likely to be larger and promote menthol products.⁴⁵ Additionally, point-of-sale ads in minority communities are more likely to advertise a cheaper price on cigarettes or provide better buy-one, get-one deals than in more affluent white communities.⁴⁶

Alarming, research suggests that tobacco-selling retailer density near schools is higher in minority and lower-income communities.⁴⁷ A recent study of neighborhoods with high schools in California found that as the proportion of African-American high school students rose, the proportion of advertising for menthol cigarettes increased, the odds of a Newport promotion were higher and the cost of Newport cigarettes was lower.⁴⁸

TOBACCO COMPANIES ENLIST CONVENIENCE STORES TO OPPOSE TOBACCO CONTROL POLICIES

Big Tobacco not only uses convenience stores to promote and sell their deadly products, but also to oppose policies like increased tobacco taxes that prevent kids from smoking and encourage smokers to quit. Because of their negative reputation, Big Tobacco knows that

We recommend that retailers get engaged with their legislators and governors—and stay engaged.

– Bruce Gates, Senior Vice President, Altria Client Services
“The Cutting Edge,” CSP Magazine, July 2011

policy makers don’t want to be seen as doing their bidding. Therefore they enlist neighborhood convenience stores and store associations to oppose policy change. Particularly on taxes, retailers are the voices of the tobacco companies – their new front group.

This relationship is the result of a carefully orchestrated tobacco industry strategy.

In the mid-1980s, a member poll by the National Association of Convenience Stores (NACS) revealed that “many do not believe that tobacco will remain as a major category” and “some key [convenience store] industry executives are personally opposed to the [tobacco] product and have banned or restricted smoking in their facilities.”⁴⁹ Recognizing that the convenience store

industry would be useful allies on tobacco-related legislation, the tobacco industry strategized how to develop an alliance. In memos titled, “Convenience Stores: Issue and Strategy Discussion” and “Convenience Store Industry: Coalition Activity Plan,” the tobacco companies planned to convince the convenience store industry of the importance of tobacco products. The tobacco companies developed relationships not only with retailer associations, but retailers themselves, in order to involve them politically.⁵⁰ In a strategy document on cigarette excise taxes, they blatantly stated, “Use businesses affected by cigarette excises to convince government and the public that increases in tobacco excise taxes are harmful and unfair.”⁵¹

In 2001, when Washington State voted on a ballot initiative to increase the cigarette tax by 60 cents, voters’ pamphlets included a statement opposing the initiative supposedly prepared by the Korean Grocers Association and the Washington Association of Neighborhood Stores. It was soon revealed, however, that the author of the document was Brendan McCormick, Director of Media Relations for Philip Morris USA, and that the company was only using the two groups to cover up its own actions against the ballot initiative.⁵² Voters passed the tax increase overwhelmingly.

Providing financial and coordinating assistance enables the tobacco industry’s messages to filter through retailers to policymakers and stop or stall tobacco control policies – a relationship that continues to work today. Tobacco companies communicate aggressively with retailers, urging them to become more involved in the legislative process. They supply them with the tools and information to do so and provide them with financial support.

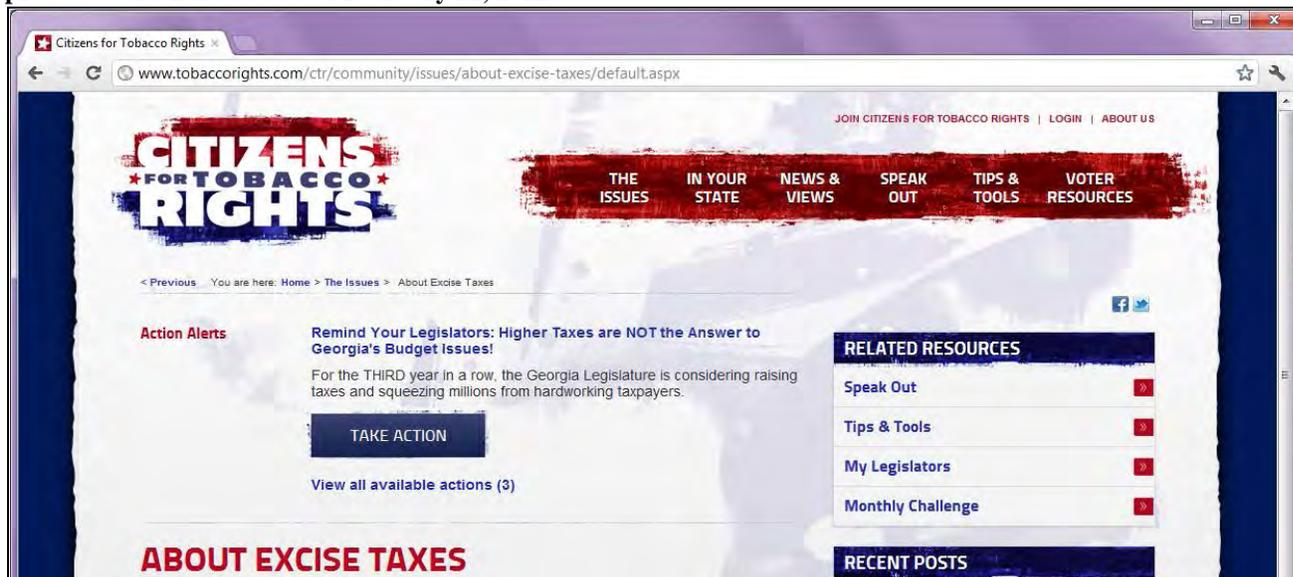
The NoCigTax.com website is maintained by R.J. Reynolds. This page, directed specifically to retailers, provides reasons to oppose tobacco tax increases. Screenshot accessed February 21, 2012.



Altria (parent company of Philip Morris USA) has two websites to engage the pro-tobacco side. TobaccoIssues.com includes this page directed to tobacco retailers. Screenshot accessed February 21, 2012.



The tobacco subsidiaries under Altria – Philip Morris USA, John Middleton and U.S. Smokeless Tobacco Company – teamed up for this website, to encourage and teach smokers to get involved in the legislative process. Screenshot accessed February 21, 2012.



With or without explicit help from the tobacco companies, retailers and associated groups are doing their bidding. Recent examples include:

- Philip Morris USA and R.J. Reynolds have provided “major funding” for Californians Against Out-of-Control Taxes and Spending, a group opposing an initiative to increase California’s cigarette tax that will be on the June 2012 ballot. Members of this opposing group include the California Grocers Association, California Retailers Association, and the Neighborhood Market Association.⁵³ In the first three months of 2011, Philip Morris USA

spent \$1.2 million on the campaign against the tobacco tax increase – more than twice as much as public health advocates spent supporting the measure.⁵⁴

- In Georgia, receipts for cigarettes at a Kroger grocery store carried messages against the 2010 cigarette tax increase proposal. The messages were “Paid for by Altria Client Services on behalf of Philip Morris USA.”⁵⁵

Altria also provided support for an anti-tax rally involving Americans for Tax Reform, Americans for Prosperity, and the Conservative Leadership Coalition.⁵⁶

J.Galloway, AJC, 3/16/2010

- In Maryland, R.J. Reynolds placed flyers in convenience stores to oppose a 2011 tobacco tax increase proposal.
- In 2011, the New Hampshire legislature passed a decrease in the tobacco tax based on a “report” issued by the New Hampshire Grocers Association. The report contained little evidence except for excerpts from news articles and claims by known industry allies such as the Heartland Institute and Americans for Tax Reform.

- Similarly, Philip Morris USA has provided their own anti-tax handouts for convenience stores to distribute. The two-sided flyer to the right is from Utah in 2008.
- In California, the Neighborhood Market Association, whose political action committee receives funding from Philip Morris USA, actively opposes local tobacco retailer licensing proposals.⁵⁷

By using front groups and alliances, the tobacco industry has been able to mask its real intentions – thwarting policies that would reduce their profits – behind false ones such as supporting small businesses. If the tobacco industry truly sought to boost small business, it wouldn't lock retailers into promotional contracts that limit their autonomy.

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It's not fair to raise taxes on already burdened taxpayers.

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EFFECT OF TOBACCO CONTROL POLICIES ON CONVENIENCE STORES

Research shows that convenience stores are not affected by tobacco control policies – including tobacco tax increases – to the extent that the tobacco industry and its allies claim. In addition, retailers recognize the declining trend in tobacco sales, which means they can and have made adjustments to compensate. In fact, NACS (the Association for Convenience and Fuels Retailing, formerly the National Association of Convenience Stores) suggested that 2009 might

TI-NACS study conducted last year did not demonstrate that excises have much effect on convenience stores sales of cigarettes, beer and gasoline.

– Tobacco Institute, Convenience Store Industry: Coalition Activity Plan, September 2, 1987

be a good time for stores to expand – despite the fact that 14 states, Washington, DC and the federal government increased cigarette tax rates in 2009.⁵⁸

Health economists from the University of Illinois at Chicago looked at the impact of increased tobacco taxes on convenience store

density from 2000 to 2009 and found a small *positive* association.⁵⁹ That is, the number of convenience stores actually increased with increasing tobacco tax rates. Clearly, tobacco taxes are not putting convenience stores out of business. A 2010 NACS report on the state of the convenience store industry noted a 35 percent growth in “single stores” (non-chain stores) since 2001. This trend occurred during the same period when 47 states and the District of Columbia increased their cigarette tax rates more than 100 times.⁶⁰

Those results reinforced the findings from an earlier study, which found that declines in cigarette consumption from tobacco tax increases had little effect on employment in the overall retail sector, and any changes in the convenience store sector are offset by increases in other retail sectors.⁶¹

Earlier studies have found that even if smoking were entirely eliminated in the United States, the net economic effect on each state would be positive, with more jobs created as well as other increases in productive economic activity.⁶² State-specific studies in Virginia, New Hampshire, and Texas found that cigarette tax increases would have created or saved thousands of jobs.⁶³ In the New Hampshire report, the researcher found that 180 new jobs would have been created in the retail sector from a \$1.00 per pack increase in the cigarette tax, even considering any potential loss in sales to consumers from neighboring states with higher tax rates.⁶⁴ The money not spent on tobacco products would be spent on other products and services, some of which are produced in-state. This would boost the state economy and allow in-state businesses to hire more employees.⁶⁵

The tobacco and convenience store industries ignore the fact that people who quit or cut back on tobacco purchases will still spend their money on other products, so those dollars will not be lost to retailers entirely. For instance, when Washington state increased its cigarette tax by \$1.00 per pack in May 2010 (second quarter of 2010), gross business income for gas stations, including convenience stores, actually increased by 17.3 percent and 8.6 percent in the second and third quarters compared with the same periods the previous year.⁶⁶

Retailers understand that reduced sales of one product means increased sales of other goods. As business owners, they understand the importance of diversifying the products that they offer.

The threat of invasive legislation is not something we lose sleep over. Ultimately we're working on growing our other sales so that we're not so reliant on selling tobacco.

*– Kyle McKeen, president and CEO of ALON Brands USA, the largest licensee of 7-Eleven in the U.S.,
“Smokeless Sales Show Promise,” Convenience Store Decisions, June 21, 2011*

POLICY SOLUTIONS: TOBACCO TAX INCREASES ARE A WIN-WIN-WIN FOR STATES

Tobacco control advocates, the tobacco industry and retailers all agree on one thing: Tobacco tax increases reduce tobacco use. The difference is that tobacco control advocates know that is a positive outcome, while the tobacco industry believes it is a negative one. And as shown earlier, retailers can continue to thrive as tobacco sales decline and lives are saved.

In reality, increasing the tobacco tax is a win-win-win for states. It is a win for public health because it will reduce tobacco use and its devastating health effects. It is a win for state budgets because, despite declines in tobacco consumption, it will produce significant new revenue and reduce health care costs. Finally, as state and national polls show, it is a political win for policy makers, as large majorities of voters across the political spectrum and around the country support tobacco tax increases. The new revenue can also be used to fund tobacco prevention and cessation programs. Tobacco tax increases could also be a win for retailers, who could break their unhealthy alliance with tobacco companies while earning profits from other goods.

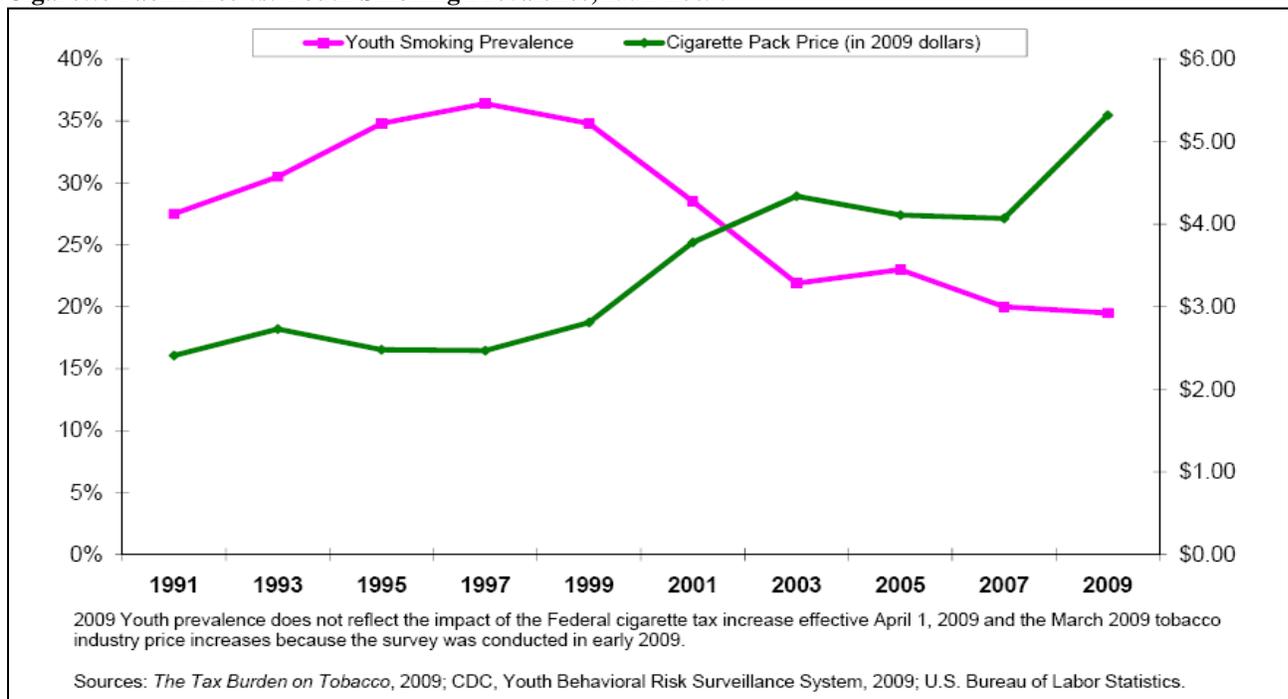
WIN #1: A Health Win

Tobacco tax increases prevent kids from starting to smoke, encourage smokers to quit and save lives and health care dollars. Each year, 443,000 Americans die from tobacco use – the leading preventable cause of death in the country. Every day, nearly 4,000 kids try their first cigarette, and another 1,000 kids become regular smokers.⁶⁷

Studies have shown that for every 10 percent increase in the price of cigarettes, youth smoking declines by approximately seven percent, smoking among pregnant women falls at a similar rate, and overall consumption declines by about four percent.⁶⁸

The chart below shows just how strongly youth smoking prevalence is related to cigarette pack prices. As prices climbed in the late 1990s and early 2000s, youth smoking rates declined. But as the price leveled off and even decreased between 2003 and 2005 (along with reduced funding for tobacco prevention programs in many states), progress in reducing youth smoking stalled, and youth smoking rates even increased in 2005.

Cigarette Pack Price vs. Youth Smoking Prevalence, 1991-2009.



The Campaign for Tobacco-Free estimates that if every state increased its cigarette tax rate by 50 cents per pack to counteract the 50-cents per pack discount from the cigarette companies’ price promotions, more than 850,000 kids will be prevented from becoming addicted adult smokers, more than 700,000 adults will quit, and more than 460,000 lives will be saved. If every state increased its cigarette tax rate by \$1.00 per pack, 1.7 million kids will be prevented from becoming addicted adult smokers, 1.4 million adults will quit, and more than 900,000 lives will be saved.

WIN #2: A Budget Win

Despite what the tobacco industry and its allies claim, every single state that has raised its cigarette tax rate significantly has generated dramatic new revenue despite the declines in

[W]e sympathize with small business owners, but they have to think that in this case they are selling death. It may be legal, but it’s selling death. [I find] it very difficult to be sympathetic under these circumstances.

– Lowell (MA) Board of Health Chair, December 1998⁶⁹

smoking that occur as a result of the price increase. This is simply because the increased tax per pack brings in more new state revenue than is lost from the related reductions in the number of packs sold and taxed in the state.

The higher revenue levels enjoyed by those states that significantly increase their cigarette tax rates persist over time, while

the health care savings from the related declines in smoking grow rapidly. Revenues from

tobacco taxes will drop over time, and that is a good thing for public health. But these declines will be gradual and predictable, so states can easily adjust for them. In fact, state tobacco tax revenues are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can vary considerably each year because of nationwide recessions or state economic slowdowns. In sharp contrast, large drops in tobacco tax revenue from one year to the next are quite rare because of the addictive power of cigarettes.

Evidence shows that the state that increases its tobacco tax collects the most revenue, not its neighbors. Evading state taxes by buying cigarettes over the Internet or other mail order purchases has become more difficult due to state agreements with the major common carriers and payment companies. A 2010 federal law, the Prevent all Cigarette Trafficking (PACT) Act, prohibited the delivery of tobacco products through the mail and placed further restrictions on Internet sales. States can also take other steps to maximize tobacco tax revenue, such as implementing high-tech tax stamps to reduce counterfeiting and smuggling.

States will realize even more revenue if they also increase the tax on other tobacco products (OTPs), to deter children from experimenting with these products and encourage smokers to quit rather than switch to a lower-cost option.

Tobacco tax increases will produce other economic benefits. State budgets will gain from the declines in smoking and consequent drop in smoking-caused health care costs. Each year in the U.S., smoking-caused disease results in \$96 billion in health care costs, much of which is paid by taxpayers through higher insurance premiums and government-funded health programs such as Medicaid. Indeed, higher Medicaid costs are one of the reasons states are facing budget difficulties. By reducing smoking, tobacco tax increases will reduce smoking-related health care costs.

The Campaign for Tobacco-Free Kids estimates that nationally, if each state increased its tobacco tax by \$1.00 per pack, it would reduce immediate health care costs by billions of dollars and long-term health care costs by more than \$58 billion. In the first five years, health care costs would decline just from fewer smoking-caused heart attacks and strokes and fewer smoking-affected births. Overall health care savings would grow over the lifetimes of the smokers who quit or kids who never start smoking because of the \$1.00 increase.

WIN #3: A Political Win

State and national polls show that large majorities of voters of both major parties and virtually all demographic groups support increasing tobacco taxes and candidates who vote to support them. Not only do voters support significant tobacco tax increases, they far prefer tobacco tax increases to other options for balancing budgets, such as other tax increases or cutting programs such as health, education and transportation.

Tobacco companies and their allies will say and do anything to oppose tobacco tax increases, including creating front groups and recruiting retailers to parrot the industry's false claims. However, that doesn't change the fact that the tobacco industry and retailers know that tobacco tax increases will reduce tobacco use.

POLICY SOLUTIONS: POINT-OF-SALE POLICIES

Reducing the impact of point-of-sale marketing is part of a comprehensive strategy to prevent kids from using tobacco and reduce overall tobacco use. The 2009 Tobacco Control Act included significant restrictions on how tobacco products are sold and marketed in stores. The law established a nationwide prohibition on tobacco sales to children under 18, required photo ID checks for sales to anyone appearing under 27 years of age and provided for tough federal enforcement and penalties against retailers who sell to minors. The law also prohibited:

- The sale of candy and fruit-flavored cigarettes
- Self-service displays of cigarettes and smokeless tobacco (except in adult-only facilities)
- Non-tobacco gifts with purchase, such as T-shirt, hats and lighters
- Use of misleading terms such as "light" and "low-tar" that falsely imply some cigarettes are less harmful.

The law also requires large, graphic health warnings on cigarettes and restricted tobacco ads to black-and-white text only at the point of sale, outdoors and in magazines with significant youth readership. But these provisions are on hold pending resolution of lawsuits filed by tobacco companies. The law also directed FDA to develop regulations that would restrict tobacco advertising near schools and playgrounds.

In addition to these specific provisions, the law granted the FDA the authority to further restrict tobacco marketing to the extent allowed by the First Amendment to the Constitution. It also gave state and local governments new authority to regulate the time, place, and manner (but not content) of tobacco advertising, consistent with the First Amendment, and preserved the authority of states and localities to adopt other measures to reduce tobacco use.

At the state and local level, in addition to increasing tobacco taxes, implementing comprehensive smoke-free laws, and ensuring sufficient funding for tobacco prevention programs, point-of-sale regulation has become an emerging core strategy to reduce tobacco use. More detailed information on point-of-sale issues and solutions is available at www.countertobacco.org.

Licensing and Zoning Policies

Licensing and zoning policies impact how and where tobacco products are sold through the number, type, location, and density of tobacco retailers. They provide local and state governments effective opportunities to protect their citizens from the harmful effects of tobacco and limit youth exposure to tobacco.

Licensing and zoning rules can limit retailer locations and put restrictions on product sales methods and placement. These policies can require all retailers to register their businesses and set zoning restrictions to prevent future tobacco retailers from setting up shop near schools, playgrounds or other youth-frequented places. The requirements for obtaining and maintaining licenses can also include provisions that specifies where, how and what types of tobacco products are sold and can even prohibit the redemption of coupons.

Restrictions on Point-of-Sale Marketing, Advertising and Promotions

Advocates need to raise awareness of the problem by documenting the ubiquity of advertisements and promotions at the retail level. Once awareness of the point-of-sale problem has been raised in the community and among policy makers through store audits, localities can consider policies to restrict all advertising without regard to its content (a “content neutral restriction”) and/or restrict the time, place, and manner (but not content) of tobacco advertising.

In January 2012, Providence, Rhode Island, enacted an ordinance to ban the redemption of coupons for tobacco products and cigarettes, prohibit multi-pack discounts on any tobacco product and prohibit the sale of tobacco products other than cigarettes with characterizing flavors.⁷⁰ Both the City Council and the mayor recognized how these promotional strategies make tobacco more attractive and accessible to youth.⁷¹ Not surprisingly, the major tobacco companies, a cigar association, and the National Association of Tobacco Outlets quickly filed a lawsuit against the city.⁷²

Point-of-Sale Health Warnings

Point-of-sale health warnings are meant to ensure that both smokers and non-smokers are well aware of the many specific health effects of cigarettes and other tobacco products. This counter-advertising mechanism involves placing written and pictorial warnings of the health impacts of tobacco usage in a retail environment, together with information about cessation services.

To date, three localities have taken action on point-of-sale health warning signs: New York City, Philadelphia, and Jefferson County, AL.

- New York City’s Board of Health in September 2009 required that health warnings and cessation information be placed near the cash register or near the tobacco product display

everywhere tobacco is sold in the city. In June 2010, the regulation was challenged in court by Philip Morris, R.J. Reynolds and Lorillard, the three largest U.S. tobacco companies, as well as a convenience store trade group. In December 2010, the New York City regulation was struck down by a federal judge. According to a January 3, 2011 news update from the Public Health Law Center, “Judge Jed S. Rakoff of United States District Court in Manhattan wrote that although the regulation was well-intentioned, it violated federal law. He said that under the Federal Cigarette Labeling and Advertising Act, only the federal government has the legal authority to regulate the advertising or promotion of cigarettes, and in his view, the signage at issue related to the promotion of cigarettes.” New York City is currently appealing the decision.

- In September and October 2011, Philadelphia’s Board of Health held two meetings on a proposal to require tobacco health warning signs at the point of sale, but no decision has been made.
- Jefferson County, AL, has begun a program in which tobacco retailers have voluntarily agreed to post health warnings in their stores. The United Way of Central Alabama and the Jefferson County Department of Health worked together to create warnings based in part on the new graphic warnings that will be required by the 2009 Tobacco Control Act.⁷³

Raising Tobacco Prices through Non-Tax Approaches

Raising the price of tobacco products is the most potent strategy for reducing overall tobacco consumption. When prices go up, fewer kids start using tobacco and more adults try to quit or reduce consumption. Raising tobacco prices is also a public policy that can garner broad public support, especially when monies raised are funneled back into tobacco control or other health programs.

Increasing cigarette excise taxes is the most direct way to raise prices and reduce consumption. However, there are additional strategies to increase the price of tobacco products. It is important to use multiple methods to keep prices high because tobacco companies can easily undermine a single pricing policy with discounting.

Non-tax approaches to raising cigarette prices include:

1. ***Strong tobacco product minimum price laws*** set a floor price for tobacco products, prohibiting tobacco products from being sold for less than this price. Setting a floor price can counteract industry-supported discounts. As of December 31, 2009, 25 states (including Washington, DC) had minimum price laws, with a median markup at the wholesale level of 4 percent and a median markup at the retail level of 8 percent.⁷⁴
2. ***Prohibiting price discounting/multipack offers*** prevents tobacco companies from discounting prices at select stores, select areas, or at select times (e.g., around the time of a

tax hike). This eliminates the industry's ability to target discounts to reach consumers when they are particularly price-conscious.

3. ***Increasing retailer licensing fees*** will likely force retailers to pass on their additional costs to the consumer, thereby raising cigarette prices. These fees should be used to improve enforcement and monitoring of these stores.
4. ***Mitigation fees***, such as cigarette butt litter mitigation fees, increase the overall cost of tobacco products and are used for a specific purpose, not for general revenue. By themselves, these fees may not be large enough to significantly impact tobacco use, but they can help offset industry strategies to reduce price in addition to the primary benefit of reducing litter.
5. ***Disclosure or sunshine laws*** to require tobacco companies to disclose the amount of money they provide for price discounting to retailers for a specific geographic area, such as a city or a state.

Restricting Product Placement

Product placement restrictions – full or partial – require storing tobacco packages out of view of the customer, often under the counter, in closed drawers or covered cabinets.⁷⁵ While no government in the U.S. has yet implemented this policy, other countries including Australia, Iceland, Thailand and much of Canada have prohibited tobacco product displays in the retail environment.

CONCLUSION

As this report demonstrates, the point-of-sale has become the dominant channel for the marketing of deadly and addictive tobacco products in the United States. Such marketing provides the tobacco industry with a highly effective way of enticing kids to start using tobacco, encourage continued tobacco use and discourage quitting among current users, target minority communities and portray tobacco products as appealing and acceptable.

In addition, convenience stores have become essential partners with the tobacco industry in fighting tobacco tax increases and other policies to reduce tobacco use.

This powerful alliance between Big Tobacco and convenience stores poses a serious threat to efforts to reduce tobacco use, the leading cause of preventable death in the United States. It is critical that elected officials reject the influence of these special interests and take action to protect our nation's children and health instead. They should do so by adopting policies that include tobacco tax increases, restrictions on tobacco marketing and the other point-of-sale tobacco control policies described in this report. Such actions are critical to continued progress and eventually winning the fight against tobacco use.

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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

Image and content are the result of research conducted by the Association for Nonsmokers-Minnesota, www.ansrmmn.org.

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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- 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.
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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

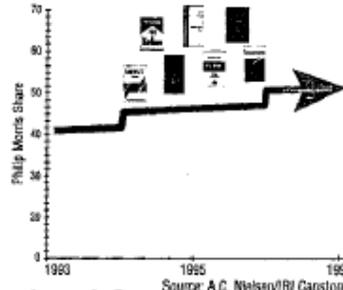
Let's See...
The Foundation of Retail Leaders 2000

<u>CORE PRINCIPLES</u>	<u>CORE BENEFITS</u>
<ol style="list-style-type: none"> 1. Put best selling brands in best locations 2. Use best selling brands to build store traffic 3. Build brand value - point-of-sale and brand news 	<p style="font-size: 2em;">}</p> <p><i>What Your Customers Want</i></p>
<ol style="list-style-type: none"> 4. Increase return on investment 5. Prevent cigarette access to minors 	<p style="font-size: 2em;">}</p> <p><i>What You Want</i></p>

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/IRI 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 contiguous 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 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 contiguous 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 shall maintain PM USA signs (including additional signs) at the top of the fixture, and at the bottom of the fixture, and shall place the signs 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 unsaleable.
- 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.

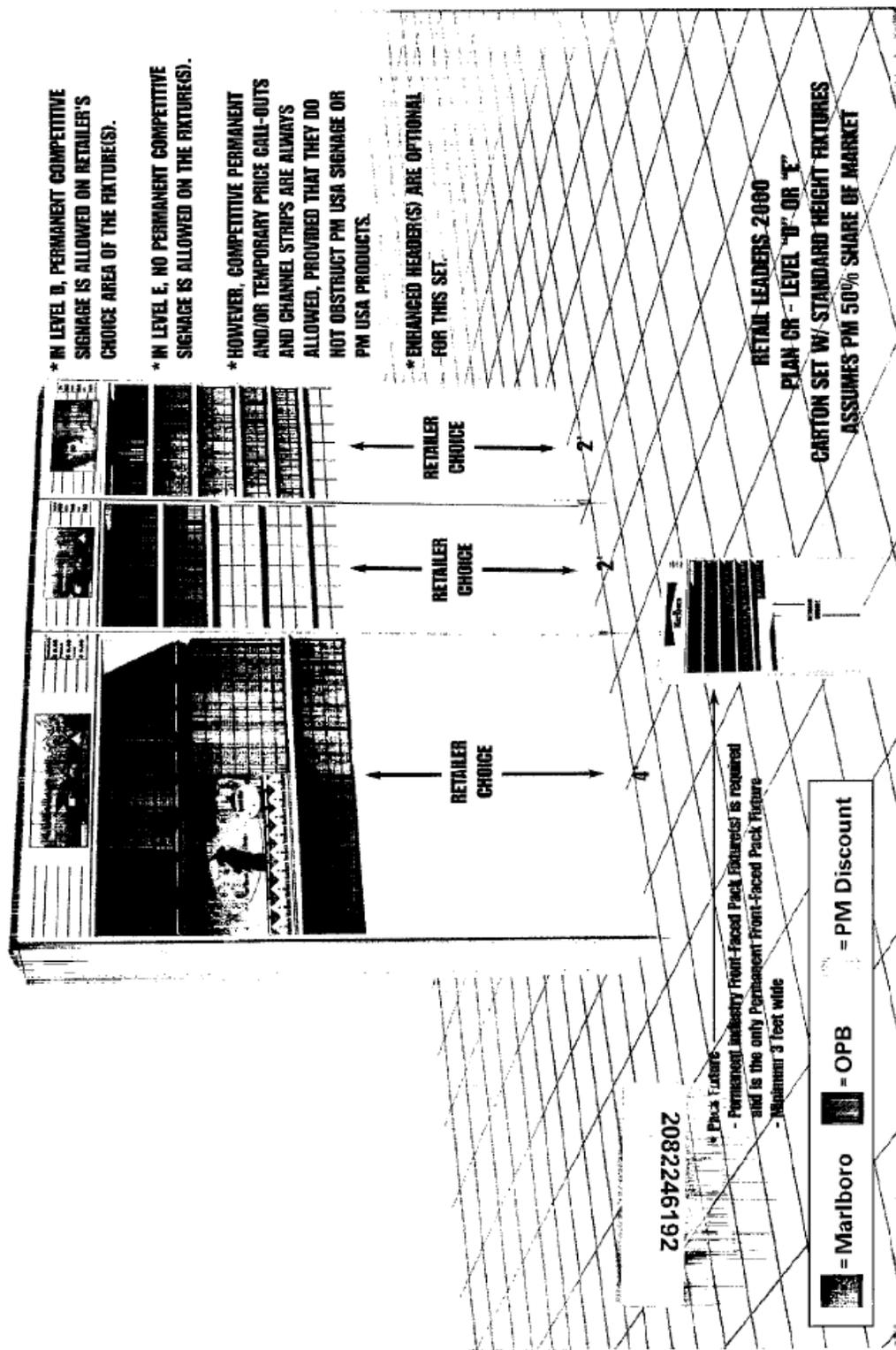
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ORIGINAL

Program Details

4

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

PHILIP
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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ORIGINAL

Growth Fund

4

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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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)

2000

RETAIL LEADERS

PHILIP
MORRIS
U.S.A.

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

2082246280

ORIGINAL

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
<p>Product Availability: <i>Ensuring that adequate products are available in each account for consumers to purchase.</i></p>	<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.
<p>Promotion: <i>Ensuring that our brands are properly promoted at retail.</i></p>	<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.
<p>Presence: <i>Ensuring that a brand's image and message are properly and consistently communicated to consumers.</i></p> <p>"Big Brand Presence"</p>	<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.

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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

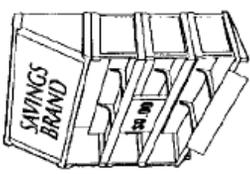
- 1 Full Price Display
- 1 Savings Display
- 40 Pack Facings Minimum
- Share of Signage No Less Than RJR SOM
- Lighted Signage

PRIMARY FULL PRICE DISPLAY

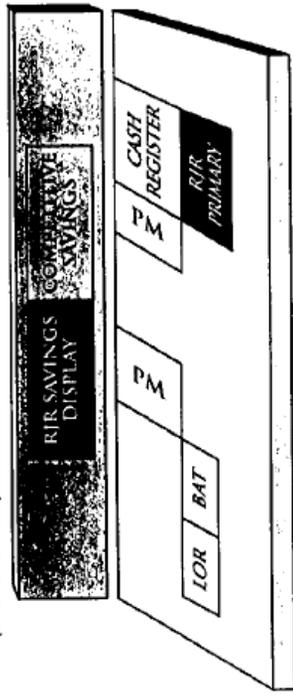


- 2 - 40 Pack Tray System III Display
- Enhanced Lighted Top Sign
- Enhanced Lighted Tray Kit (SPEC. DIA. #1801)

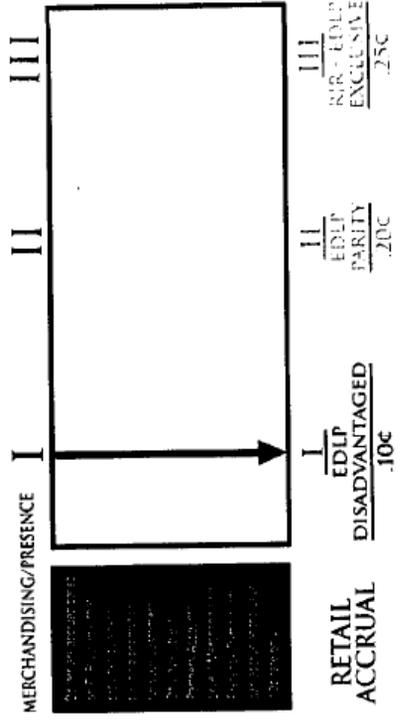
DORAL COUNTER DISPLAY



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



RETAIL ACCRUAL PROGRAM LEVEL I



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

CONSUMER DOLLARS

RETAILER ACCRUAL PROMOTIONS

- Partners Promotions Program
- Co-Operative Retail Program

NATIONAL WORKPLAN PROMOTIONS

FULL PRICE/SAVINGS DISCOUNTING

RDA MERCHANDISING/PRESENCE PROGRAM

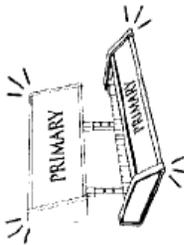
A COMPLETE RETAIL PACKAGE FOR OUR PARTNERS

MERCHANDISING PRESENCE LEVEL III

REQUIREMENTS

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

PRIMARY FULL PRICE DISPLAY



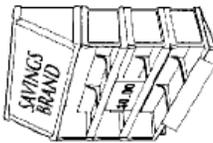
- 1 - 40 Pack Tray System III Display
- Enhanced Lighted Top Sign
- Enhanced Lighted Tray Kit (SPEC. DIA. #1802)

SECONDARY FULL PRICE DISPLAY



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

SAVINGS DISPLAY



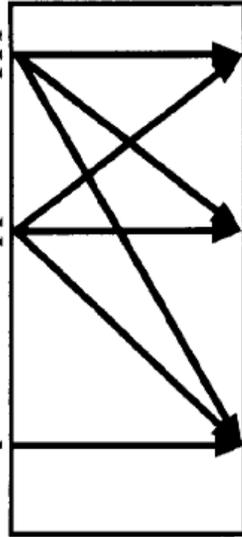
- Doral 9 - Tray Counter Display
- Enhanced Top Sign
- Non-Illuminated
- Item #484001



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RETAIL ACCRUAL PROGRAM LEVEL III

MERCHANDISING/PRESENCE



RETAIL ACCRUAL
I
EDLP
DISADVANTAGED
.10¢

II
EDLP
PARITY
.20¢

III
RJR - EDLP
EXCLUSIVE
.25¢

LEVEL 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 Program
• Co-Operative Retail NATIONAL WORKPLAN
FULL PRICE/SAVINGS DISCOUNTING

=

A COMPLETE RETAIL PACKAGE FOR OUR PARTNERS

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