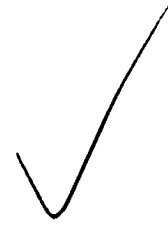


EXACT COPY

January 21, 1980

Mr. W. D. Hobbs  
Mr. E. A. Horrigan, Jr.  
Mr. G. H. Long  
Mr. C. G. Tompson  
Mr. G. B. Whitaker  
Mr. J. T. Wilson



Re: ANALYSIS OF CIGARETTE PRICE - UPDATE

In March, 1979, we published a report titled, "Analysis of Cigarette Price." The report was prepared by Dr. John McCann (currently a professor at Duke University and previously a consultant with Data Resources, Inc.). Since the publication of the report, Field Sales performed several National Pricing Surveys. These data have been incorporated into this report, which was expanded to show the trend of cigarette pricing at different outlets in the five areas of the United States. Complete retail pricing backup data are available at the state, total U. S., and RJR Division and Region levels.

Highlights

- Cigarette retail prices continue to climb, more than doubling since 1964. However, when adjusted for inflation in the economy, cigarette retail prices have continued the decline begun in 1971.
- Manufacturers' price increases over the last year have been taken at a rate lower than cost of living increases; thus, inflation adjusted manufacturers' prices are declining as they did in the period 1964 - 1974. Manufacturers' prices continue to increase the percentage they hold of the retail price.
- State taxes have begun to climb but still not at the rate of inflation. They continue to make up about a quarter of the retail price.
- Trade margins have also continued to climb but in "real" dollars have not kept up with the cost of living. Increases in this price component have been lower than the others so that its percentage of the retail price has begun to decline.

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- It appears that margin levels are not related to state tax levels (and thus cost to retailer). Geographically, price and state tax are highest in the North Atlantic Area and lowest in the South Atlantic Area. However, trade margins are highest in Mid-Continent and lowest in North Central Areas. State tax does appear to determine levels of retail pricing, since those states with high tax rates (Connecticut, Florida, Massachusetts) have the highest retail prices, and those with the low taxes (South Carolina, Kentucky, North Carolina) have the lowest retail prices.
- Convenience stores continue to have the highest retail prices, while super stores and discount stores remain consistently lowest in pricing.

Uziel Frydman  
Marketing Research Department

UF:gj

Attachment

cc: Mr. R. A. Emken  
Mr. N. W. Glover  
Mr. D. W. Grout  
Mr. G. R. Gunzenhauser  
Mr. J. F. Hind  
Mr. C. A. Martin  
Mr. C. C. Standen  
Mr. J. B. Stuart  
Mr. C. A. Tucker

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