

Consumer Satisfaction Measurement

CSM 4th Quarter, 1996

Prepared by Anita Scism

Consumer & Sensory Product Area

Market Research Department

For: CSM team meeting

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OBJECTIVES

Objective

Provide a measure that can be used to track consumer perceptions of RJR product quality over time -- Consumer Satisfaction Measure (CSM).

- How does an RJR brand perform relative to itself over time?
- How does an RJR brand perform relative to its key competitive product?

Definition of Quality

How well the cigarettes are made (i.e., construction elements -- not taste).

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METHODOLOGY

NOTE: CSM reflects opinions of the respective UB smokers based on their experiences with the product they have purchased themselves from retail outlets during the past year. THIS IS NOT A PRODUCT TRIAL.

Telephone interviews are conducted over a quarterly period

N=		N=	
200	Winston K	200	CAMEL Lts 85
200	Marlboro K	200	Marlboro Lights 85
200	CAMEL K		
200	SALEM Lts	200	DORAL family
100	Newport Lts	200	Basic family
100	Marl. Lts Men	100	GPC family

(NOTE: This brand array will change slightly in 1997)

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RATING SCALE



100	- the very best
90	- excellent
80	- very good
70	- quite good
60	- fairly good
50	- indifferent
40	- not very good
30	- not good at all
20	- poor
10	- terrible
0	- the very worst

Respondents first rated their brand for overall quality -- all aspects including taste.

Next, they rated specifically the construction quality -- how well made the cigarettes were.

This report is based % 90+ ratings on construction quality.

Although this report includes both individual and rolling quarter data, it should be noted that the rolling 3 quarter aggregate is the more robust statistical comparison.

Additionally, open ended questions probed

- quality related problems with UB
- impact of problems on switching behavior
- contact with cigarette manufacturers

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Consumer Satisfaction Measurement - Summary Table

Satisfaction with Product Construction Quality

% 90+ Ratings

	Current 4Q-96		Latest 3 qtr Aggregate	
Winston K	74.0		76.1	
Marlboro K	80.0	<i>nsd</i>	78.9	<i>nsd</i>
Camel K	80.4		78.6	
CAMEL Lts	75.0	<i>nsd</i>	75.7	<i>nsd</i>
Marlboro Lts	76.2		76.6	
SALEM Lts Lts	79.0		78.5	←
Newport Lts	80.0	<i>nsd</i>	76.3	←
Marlboro Menthol Lts	73.2*		71.7	←
DORAL family	71.5	←	68.0	←
	↑		↑	
Basic family	63.5		60.3	
	↑		↑	
GPC family	52.6		50.7	

Arrows indicate the direction of advantage

--- indicates directional due to small base size

* base size too small for comparison

nsd = no significant difference

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FULL FLAVOR NM 85

Product Construction Quality

During 4th quarter, there were no significant differences in how WINSTON and CAMEL smokers rated the construction quality of their brands versus how Marlboro smokers rated Marlboro's construction.

Also, on an aggregate basis WINSTON, CAMEL and Marlboro smokers rated their products' construction quality similarly.

% 90 + Ratings

	2Q 96	3 Q 96	4 Q 96	Aggregate (3 qtrs)	Previous Aggregate
WINSTON K	77.5	76.9	74.0	76.1	77.2
Marlboro K	79.0	77.8	80.0	78.9	78.3
CAMEL K	74.5	81.0	80.4	78.6	79.5

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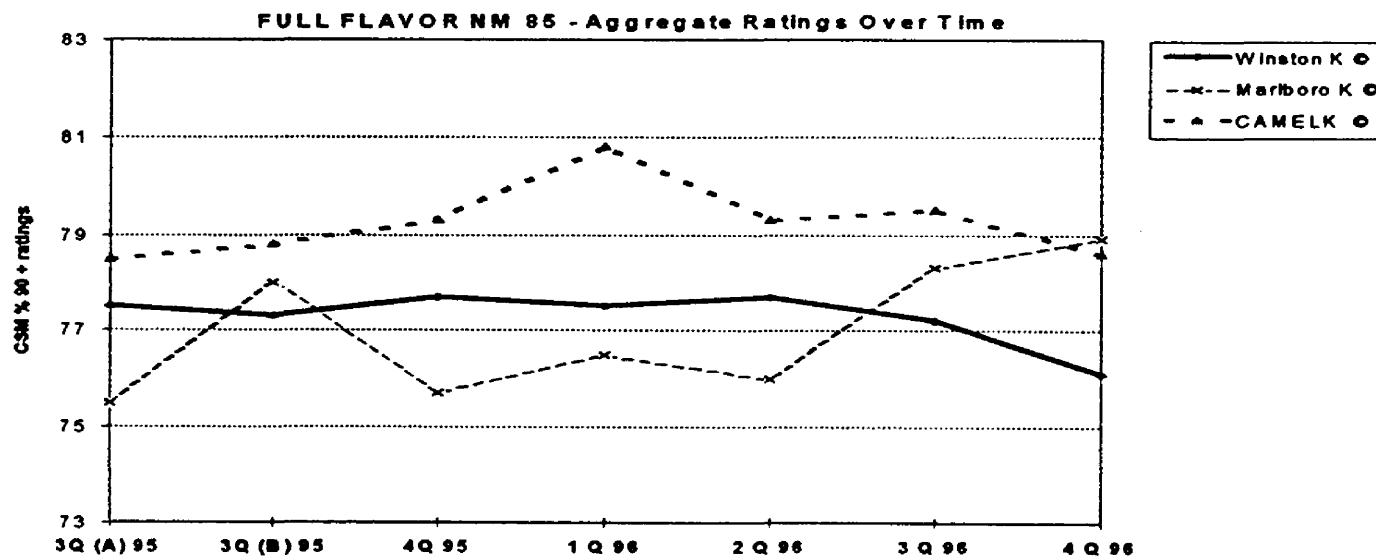
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FULL FLAVOR NM 85 - AGGREGATE OVER TIME

Below illustrates the aggregate rating movement over time for the product construction quality of Full Flavor Brands.

% 90 + Ratings

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
Winston K ©	77.5	77.3	77.7	77.5	77.7	77.2	76.1
Marlboro K ©	75.5	78.0	75.7	76.5	76.0	78.3	78.9
CAMELK ©	78.5	78.8	79.3	80.8	79.3	79.5	78.6



© indicates a 3 quarter aggregate

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FF NM 85 PROBLEMS EXPERIENCED

During 4th quarter, about 13% of the full flavor smokers interviewed had encountered a construction problem in the past 6 months. However, less than one percent -- 0.5% -- actually contacted a manufacturer to complain.

	TOTAL SMOKERS INTERVIEWED #	HAD CONSTRUCTION QUALITY PROBLEM IN PAST 6 months #	CONTACTED MANUFACTURER ABOUT A PRODUCT PROBLEM * #	DESCRIPTION OF PROBLEM
<u>4Q - 96</u>				
WINSTON	200	30	0	
Marlboro	200	28	2	<i>stems; defective filter</i>
CAMEL	199	18	1	<i>loose filter</i>
TOTAL FULL FLAVOR	599	76	3	
<u>Aggregate (latest 3 qtrs)</u>				
WINSTON	599	65	0	
Marlboro	612	78	5	<i>stems; filter; box seal;</i>
CAMEL	599	68	1	<i>filter</i>
TOTAL FULL FLAVOR	1810	211	6	

* taste mentions not included

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FFLT NM 85

Product Construction Quality

There was no significant difference in how CAMEL and Marlboro smokers rated their respective brands for product manufacturing quality. This was true for both 4th quarter individually and the 3 quarter aggregate.

% 90 + Ratings

	2Q/96	3 Q/96	4Q/96	Aggregate (3 qtrs)	Previous Aggregate
CAMEL Lts	75.0	77.1	75.0	75.7	77.0
Marlboro Lts	73.5	80.3	76.2	76.6	75.4

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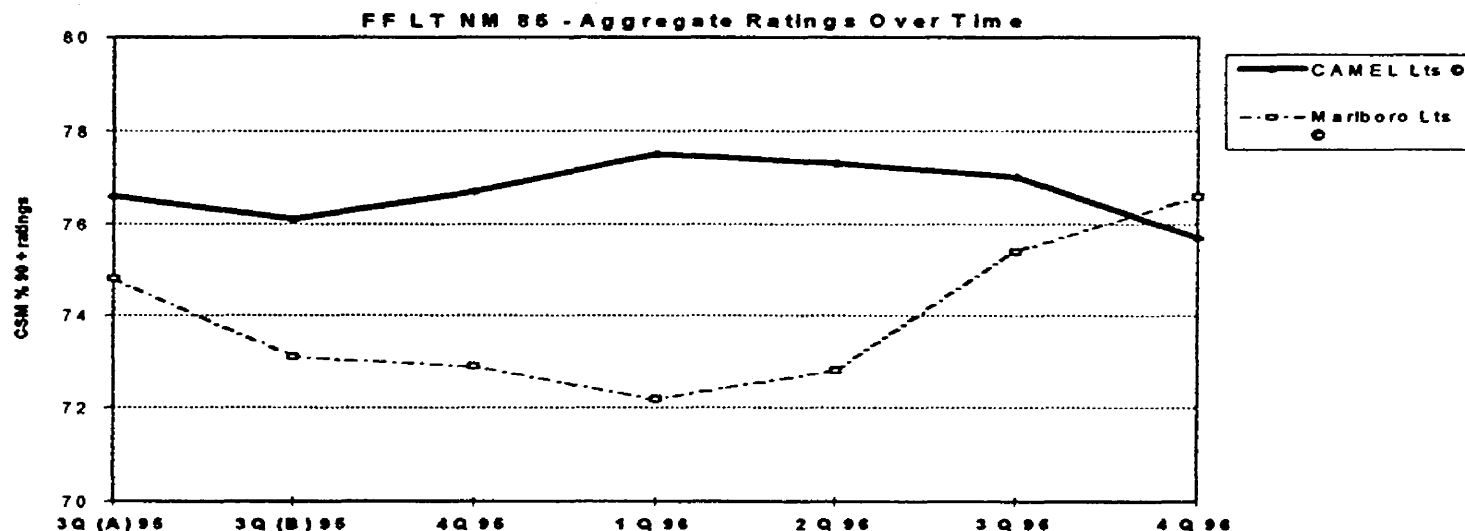
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FF LT NM 85 - AGGREGATE OVER TIME

Below illustrates the aggregate rating movement of FFLT brands since CSM began.

% 90 + Ratings

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
CAMEL Lts ©	76.6	76.1	76.7	77.5	77.3	77.0	75.7
Marlboro Lts ©	74.8	73.1	72.9	72.2	72.8	75.4	76.6



© indicates a 3 qtr aggregate

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FFLT NM 85 PROBLEMS EXPERIENCED

While roughly 9% of the FFLT smokers interviewed had encountered a construction problem in the past 6 months, only 0.25% actually complained to a manufacturer.

	TOTAL SMOKERS INTERVIEWED #	HAD CONSTRUCTION QUALITY PROBLEM IN PAST 6 months #	CONTACTED MANUFACTURER ABOUT A PRODUCT CONSTRUCTION PROBLEM * #	DESCRIPTION OF PROBLEM
4Q - 96				
CAMEL	184	20	1	<i>holes in paper & loose filter</i>
Marlboro	210	16	0	
TOTAL LIGHTS	394	36	1	
AGGREGATE (3 qtrs)				
CAMEL	576	67	2	<i>holes in paper & loose filter, mashed pack</i>
Marlboro	608	58	0	
TOTAL LIGHTS	1184	125	2	

* taste mentions not included

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MENTHOL - LIGHTS

Product Quality Construction

During the Fourth Quarter of 1996 there was no significant difference in how SALEM Lights smokers rated the quality of SALEM construction versus how Newport smokers rated their Newport. This was also true for the 3 quarter aggregate.

Although SALEM ratings appear higher than Marlboro Menthol, due to the smaller base size* for Marlboro, arrows are used only to show directional comparisons.

% 90 + Ratings

	2Q/96	3Q/96	4Q/96	Aggregate (3 qtrs)	Previous Aggregate
SALEM Lts	79.7	76.7	79.0	78.5 ←	78.5 ←
Newport Lts	71.0	78.0	80.0	76.3	75.7
Marlboro Lts Ment *	64.2	76.9	73.2	71.7	72.0

* The base size for Marlboro Menthol was only 159 vs over 600 for SALEM.

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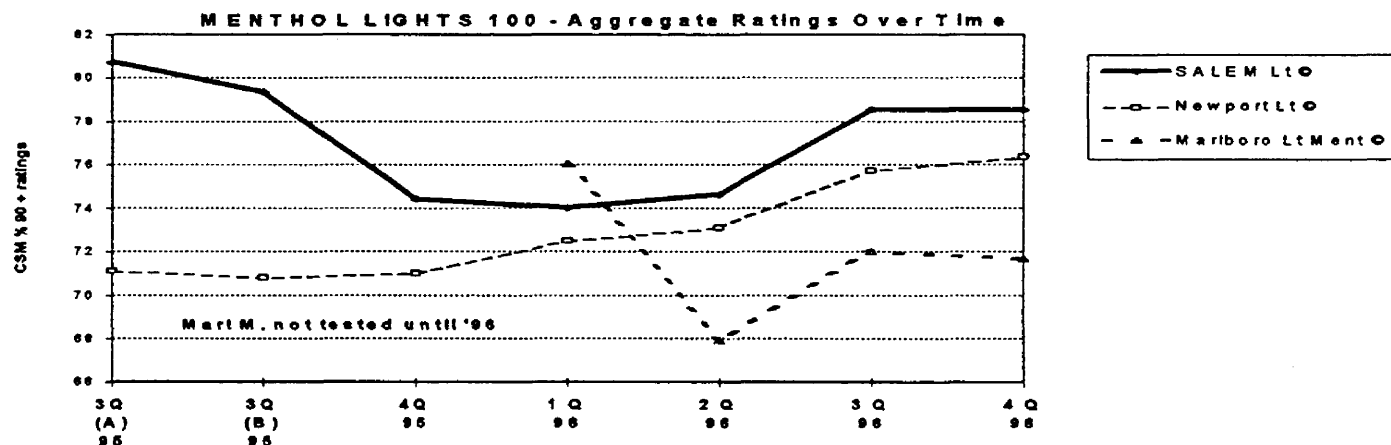
MENTHOL LIGHTS - AGGREGATE OVER TIME

Below illustrates the aggregate rating movement of Menthol brands since CSM began.

% 90 + Ratings

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
SALEM Lt©	80.7	79.3	74.4	74.0	74.6	78.5	78.5
Newport Lt©	71.1	70.8	71.0	72.5	73.1	75.7	76.3
Marlboro Lt Ment©				76.0	67.9	72.0	71.7

NOTE: Marlboro had extremely small base sizes



© indicates a 3 qtr aggregate

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MENTHOL LIGHTS PROBLEMS EXPERIENCED

Although around 13% of the Menthol smokers interviewed had encountered a construction problem in the past 6 months, however, less than 1% complained to a manufacturer.

	TOTAL SMOKERS INTERVIEWED #	HAD CONSTRUCTION QUALITY PROBLEM IN PAST 6 months #	CONTACTED MANUFACTURER ABOUT A PRODUCT PROBLEM * #	DESCRIPTION OF PROBLEM
4 Q - 96				
SALEM	200	27	2	1 filter; 1 loose tob.
Newport	100	13	0	
Marlboro M	41	3	1	filter
TOTAL MENTHOL	341	43	3	
AGGREGATE (3 qtrs)				
SALEM	604	69	3	filter; 2 loose tob
Newport	300	40	0	2 taste
Marlboro M	159	15	2	filter,
TOTAL MENTHOL	1063	124	5	

* taste mentions not included

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SAVINGS

Product Quality Construction

As has frequently been the case since CSM began, during 4th quarter DORAL smokers rated the construction of DORAL significantly higher than Basic and GPC smokers rated their respective brands. Also, DORAL was rated higher than competition on an aggregated basis.

(Also, Basic smokers rate their brand higher than GPC smokers)

% 90 + Ratings

	2Q/96	3Q/96	4Q/96	Aggregate (3 qtrs)	Previous Aggregate
<u>family</u>					
Basic	55.5	61.9 ←	63.5 ←	60.3 ←	58.5 ←
	↓		↓	↓	↓
DORAL	67.5	65.0	71.5	68.0	65.5
	↑	↑	↑	↑	↑
GPC	50.4	49.1	52.6	50.7	50.7

Arrows indicate a significant advantage

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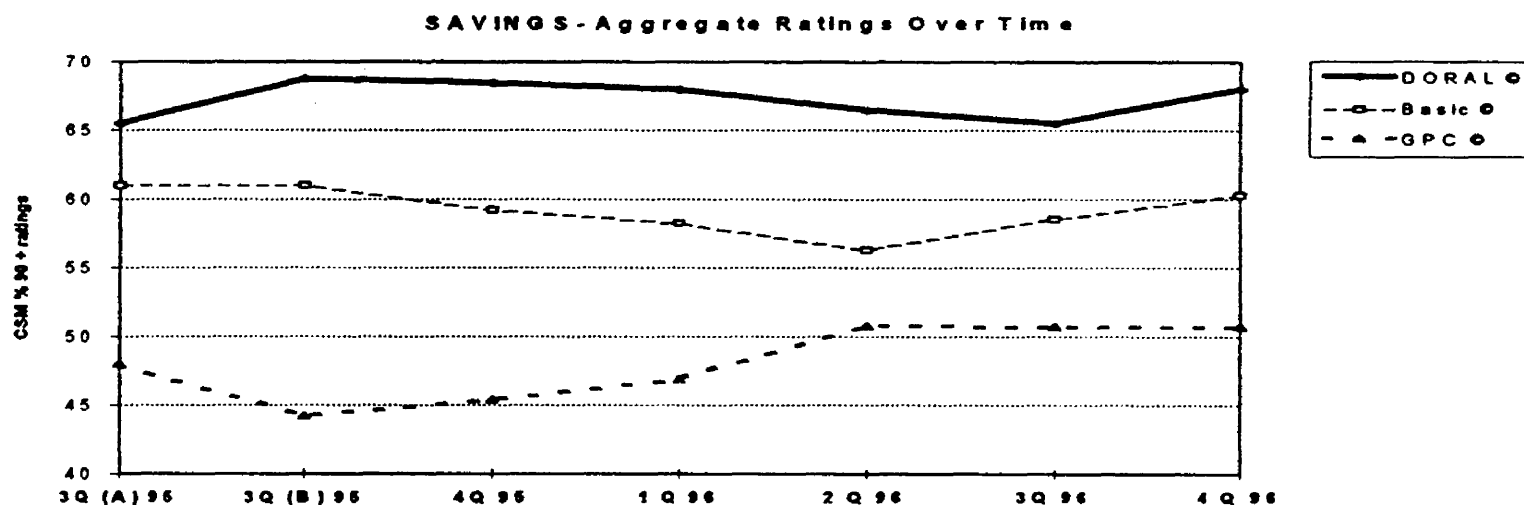
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SAVINGS - AGGREGATE OVER TIME

Below illustrates the aggregate rating movement of savings brands since CSM began.

% 90 + Ratings

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3Q 96	4 Q 96
DORAL ©	65.5	68.7	68.4	67.9	66.4	65.5	68.0
Basic ©	61.0	61.0	59.2	58.2	56.3	58.5	60.3
GPC ©	48.0	44.2	45.4	46.9	50.8	50.7	50.7



© indicates a 3 qtr aggregate
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SAVINGS PROBLEMS ENCOUNTERED

Roughly 12% of savings smokers had encountered a problem in the past 6 months. Although about 3-4% contacted a manufacturer about the product, none of those problems dealt with construction problem.

SAVINGS families			
	TOTAL SMOKERS INTERVIEWED #	HAD CONSTRUCTION QUALITY PROBLEM IN PAST 6 months #	CONTACTED MANUFACTURER ABOUT A PRODUCT PROBLEM * #
4 Q - 96			
DORAL	200	26	0
Basic	200	24	0
GPC	152	19	0
TOTAL SAVINGS	552	69	0
AGGREGATE (3 qtrs)			
DORAL	600	71	0
Basic	602	69	0
GPC	448	50	0
TOTAL SAVINGS	1650	190	0

* taste mentions not included

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PROBLEMS ENCOUNTERED

In terms of the number of problems encountered, RJR and competition were not significantly different. The table below illustrates that the types of problems were also similar.

	<u>RJR</u>	<u>Competitive</u>
Total Interviews - 4Q 96	983	903
Total Construction problems	60	47
EXAMPLES OF PROBLEMS		
<u>CIGARETTE INTEGRITY</u>	36	32
<i>Stems</i>	16	14
<i>Paper has holes in it</i>	5	8
<i>Filter falls off/loosely attached</i>	7	5
<i>Loose Tobacco - falls out end</i>	8	5
<u>PACKAGING</u>	4	1
<i>Mashed or damaged packs / cartons</i>	2	1
<i>Packs not sealed well</i>	1	0
<i>Cigarettes are upside down</i>	1	0
<u>BURN CHARACTERISTICS</u>	10	3
<i>Burns too fast</i>	7	3
<i>Goes out too soon</i>	3	0

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PROBLEMS: SAMPLE QUOTES

Below is a sample of some actual comments made concerning problems -- both about construction as well as other issues.

TYPICAL PROBLEMS EXPERIENCED IN PAST 6 MONTHS

<u>TOPIC</u>	<u>COMMENT</u>
Box	The box is hard to open.
Burn	Cigarette would not stay lit.
Carton	They are never put in the carton well. (P) The packs are put in the carton too loosely.
Carton	Occasionally, I will find one in the pack that is turned upside down.
Filter	It had some thick silver paper under the filter. (P) It did not belong there.
Filter	The cigarettes had pinholes in the top of the filter.
Length	They were not cut to the correct length.
Moisture	There is moisture in the pack.
Out of Stock	Stores don't have my favorite brand available.
Out of Stock	It's hard to find them at a lot of stores.
Package	I really can't get the pack open.
Package	The package seems like its already been opened sometimes.
Package	The inner lining of the pack was intermixed with the cigarettes and mangled.
Paper	The paper always runs.
Price	The prices are too high.
Smell	They gave off a bad smell.

(P) indicates interviewer probed issue further

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CONTACTS TO MANUFACTURERS

As in previous quarters, RJR and Competitive companies experienced similar contact rates from their consumers. Also, as in past audits, the vast majority of those dealt with promotional items. Only 4% of RJR's contacts were actually related to a product problem.

	<u>RJR</u>	<u>Competitive</u>
Total Interviews 4Q 96	983	903
Total Contacts to Manufacturers	188	111

REASONS FOR CONTACT

Order New Promotional Item	71%	76%
Ask about items not received	6%	4%
SUBTOTAL PROMOTIONS	77%	80%

Complain about a product problem	4%	6%
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Other	19%	14%
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SWITCHING BEHAVIOR

Of the 1886 total interviews, 43 respondents (or 2.3 %) indicated they had changed usual brands during the past year.

- Construction Quality was mentioned as the reason for switching by only 1 person.
- Price accounted for almost 50% of those who switched.
 - 33% of all the respondents who had switched had gone from full priced brands to a savings brand.
 - Price discounting on other brands contributed to the remainder.
- Promotions contributed an additional 6% to switching
- Taste and other reasons were responsible for the remainder.

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REASONS FOR SWITCHING

Below are some sample quotes consumers gave for switching.

Reason	Comment
Price	The cigarettes I used to smoke cost too much and the ones that I smoke now are cheaper. There's really no other reason.
Price	Dorals are cheaper.
Price	I changed because of the price and promotions of my new cigarettes.
Price	I changed to GPC because they were cheaper and I had coupons for them
Promotions	I changed because Camels had a promotion that I liked.
Taste	Marlboro had a medium cigarette, and Marlboro had a nice smooth taste. (P) My husband and I wanted to switch to a low tar cigarette without losing flavor and taste, and Marlboro seemed to be the best alternative.
Taste	I changed my usual brand because they are too strong and leave an unpleasant odor.
Other	I just change every once and awhile.
Other	My husband smokes regular Marlboro, so if I ran out it was easier just to smoke his.
Other	I was tired of them. (P) I wanted to try something different.
Other	They were taken off the market so I had to find another brand of cigarettes to smoke.

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CONCLUSIONS

Over 75% of RJR smokers interviewed rated the construction quality of their cigarettes either excellent or the very best (90+).

- There was no significant difference in the quality ratings of RJR full flavor consumers (WINSTON & CAMEL) and Marlboro Smokers.
- FFLT consumers -- CAMEL and Marlboro smokers perceived their brands to be equally well made.
- There was no significant difference between SALEM and Newport smokers.
- As in previous quarters, DORAL continues to maintain higher quality ratings among its franchise than either Basic or GPC among their respective smokers.

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IMPLICATIONS

Based on this data, RJR continues to manufacture products with high construction quality. Continued vigilance is needed to maintain this high standard.

While construction problems are occasionally noticed by smokers, these are experienced at similar rates by both RJR and competitive smokers. No one problem was more unique to RJR than competition.

Construction problems are not a key catalyst in switching. Instead price, promotions, and taste remain the main reasons behind smokers changing usual brands.

As the savings category increasingly draws full priced smokers, RJR may have an opportunity to leverage DORAL's higher quality perceptions in order to attract smokers interested in switching because of cost.

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Next Steps

1997 schedule

Jan 10 - Mar 31	Wave 1 interviewing	April 30	Wave 1 report
Apr 1 - Jun 30	Wave 2 interviewing	July 30	Wave 2 report
Jul 1 - Sep 30	Wave 3 interviewing	Oct 30	Wave 3 report
Oct 1 - Dec 30	Wave 4 interviewing	Jan 98	Wave 4 report

NOTE: 1997 report format will include comments sorted by brand

Option: Conduct followup interviews with switchers

- Competitive smokers

Can they be converted to RJR?

- RJR smokers

How can we preserve loyalty or smokers who recently adopted RJR brand?

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APPENDIX

Attached are comparisons of ratings for:

Overall Quality	versus	Product Quality
all aspects <u>including taste</u>		Construction Only

Although the overall and product ratings usually followed the same pattern over time, in most instances the construction quality was rated higher than the overall evaluation.

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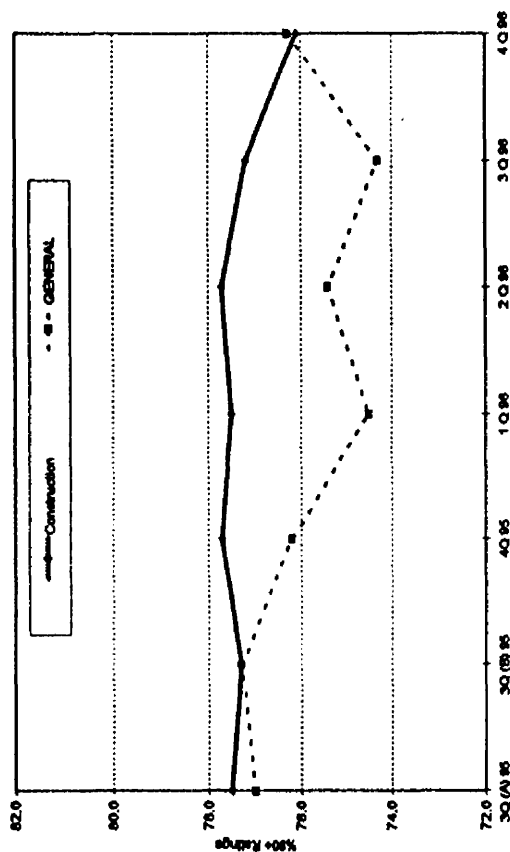
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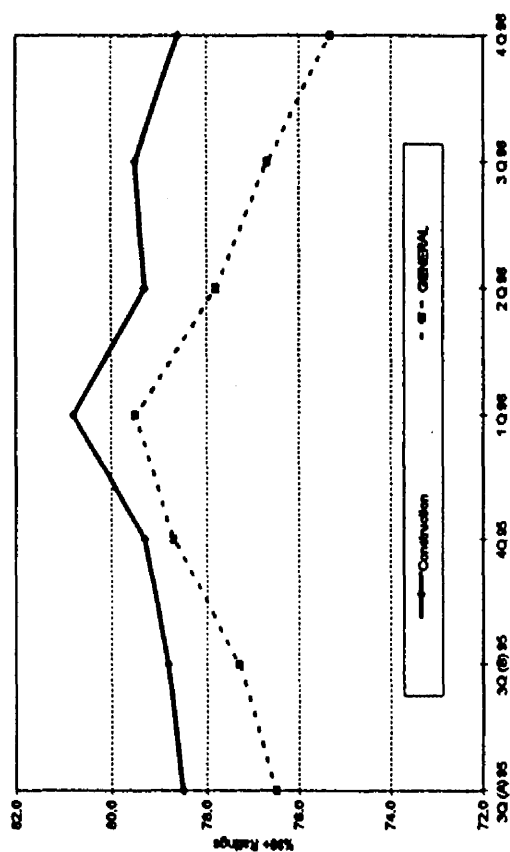
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Full flavor smokers

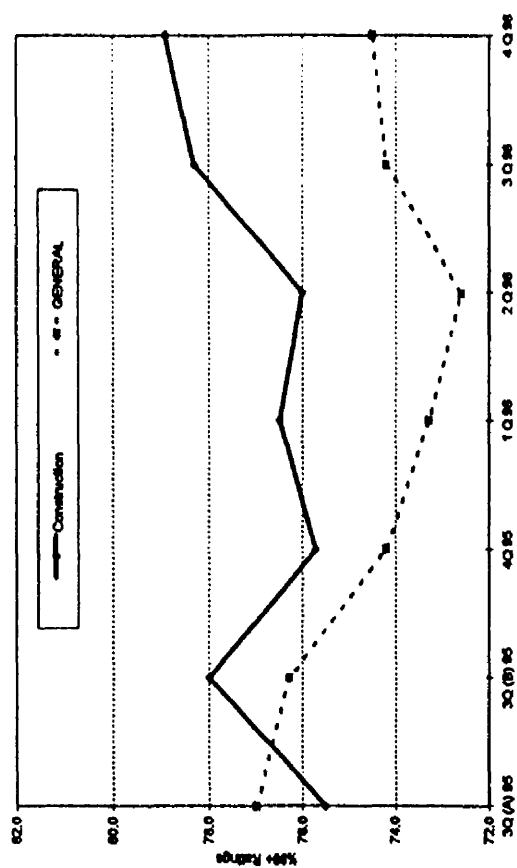
WINSTON KING



CAMEL KING

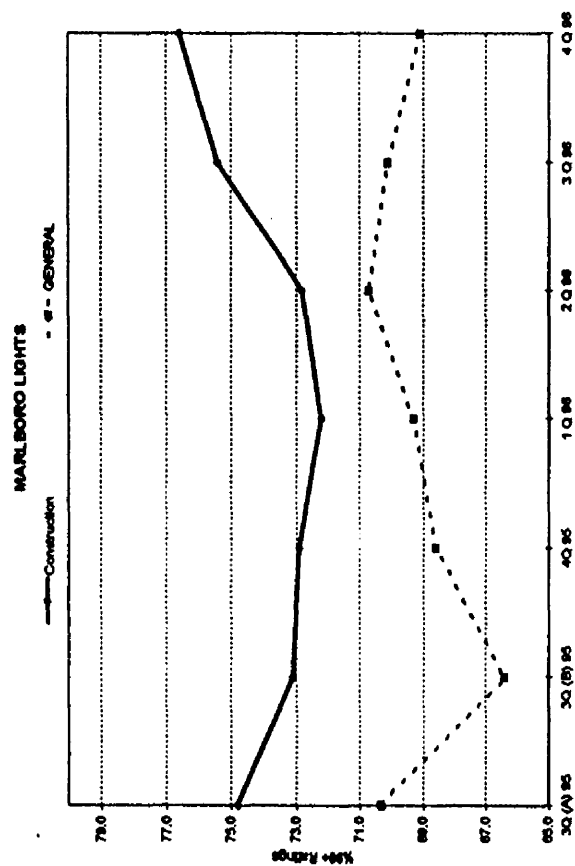
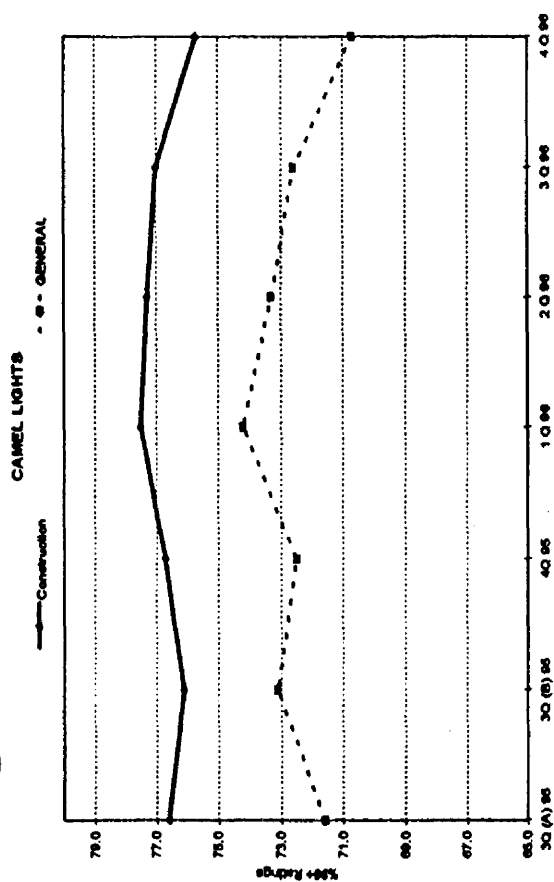


MARLBORO KING



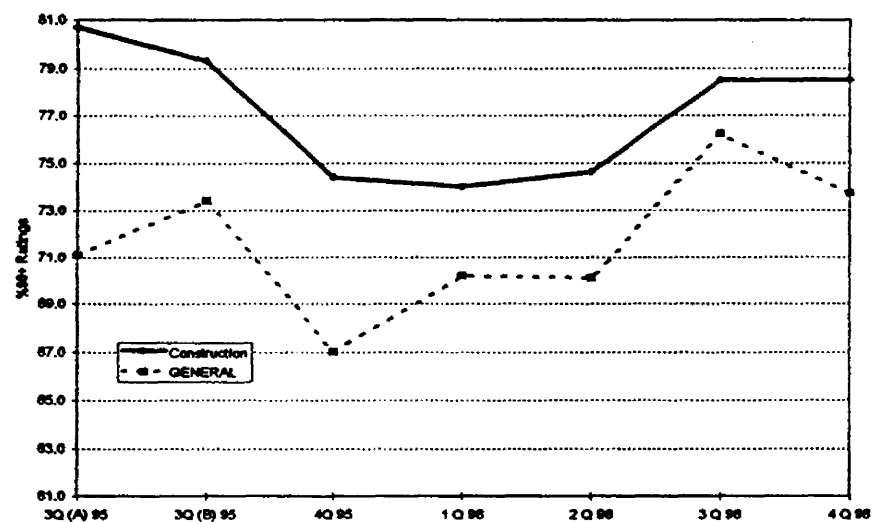
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FFLT smokers

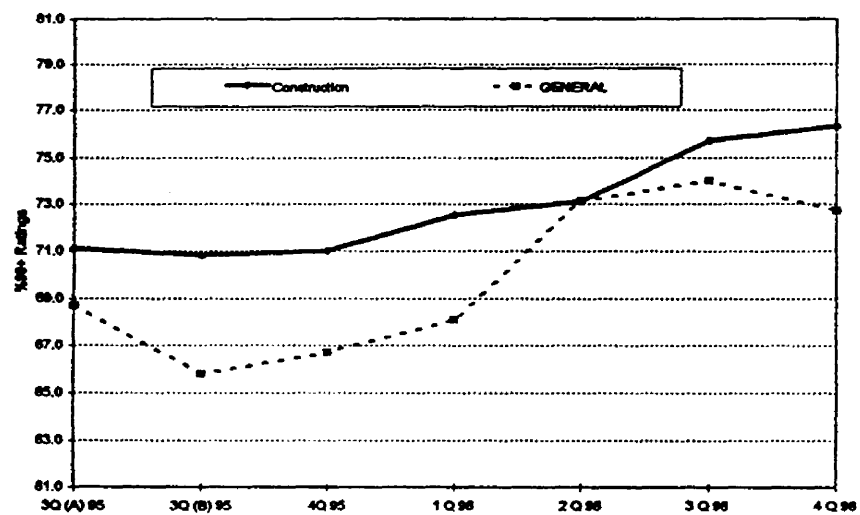


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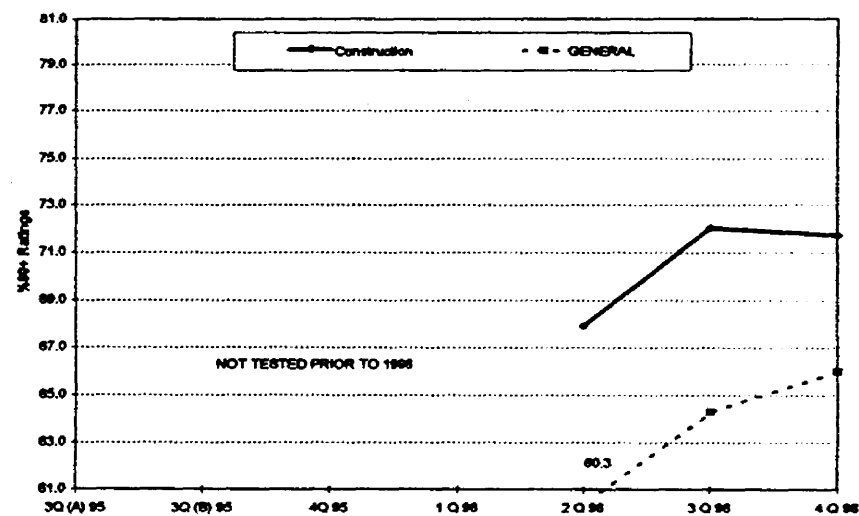
SALEM LIGHTS

FFLT MENTHOL

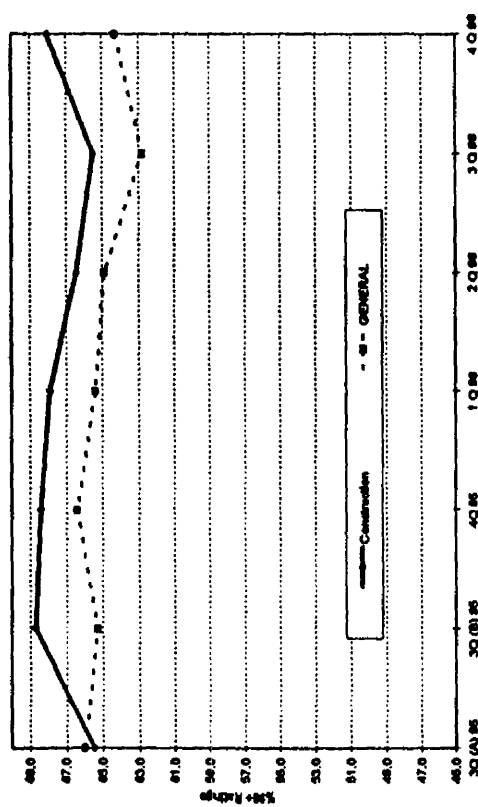
NEWPORT LIGHTS



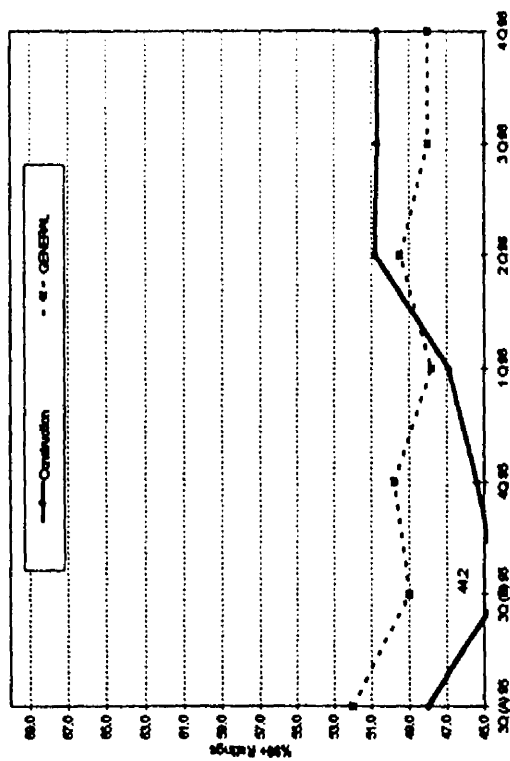
MARLBORO MENTHOL - LIGHTS



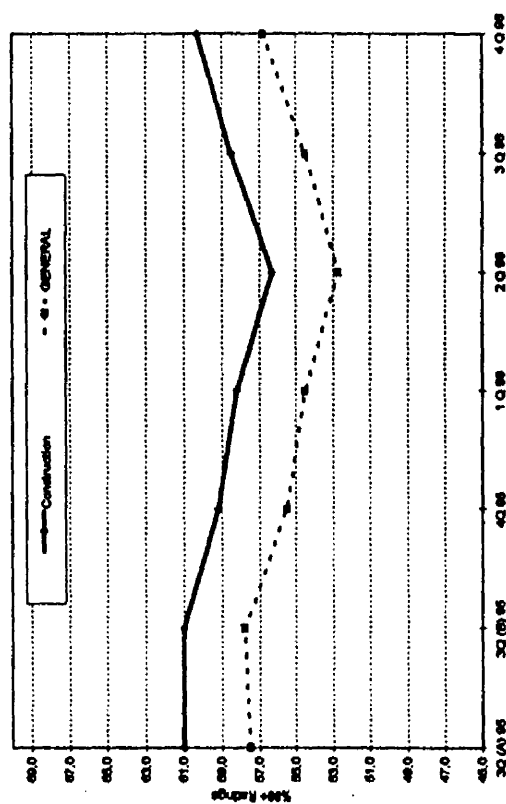
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QPC FAMILY



BASIC FAMILY

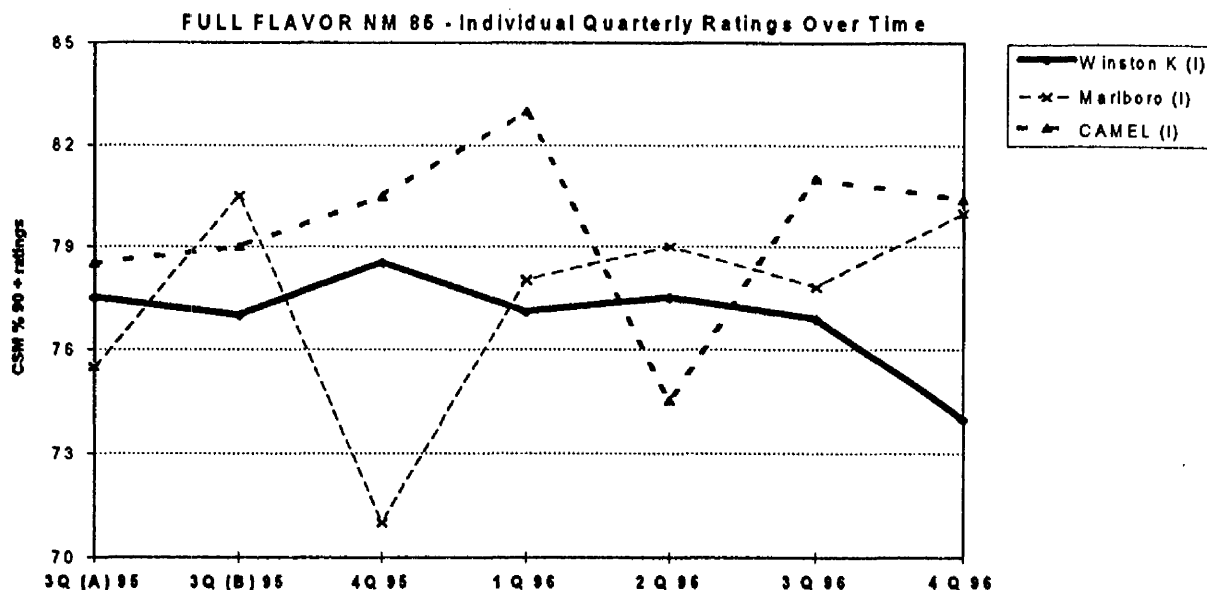


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FULL FLAVOR STYLES

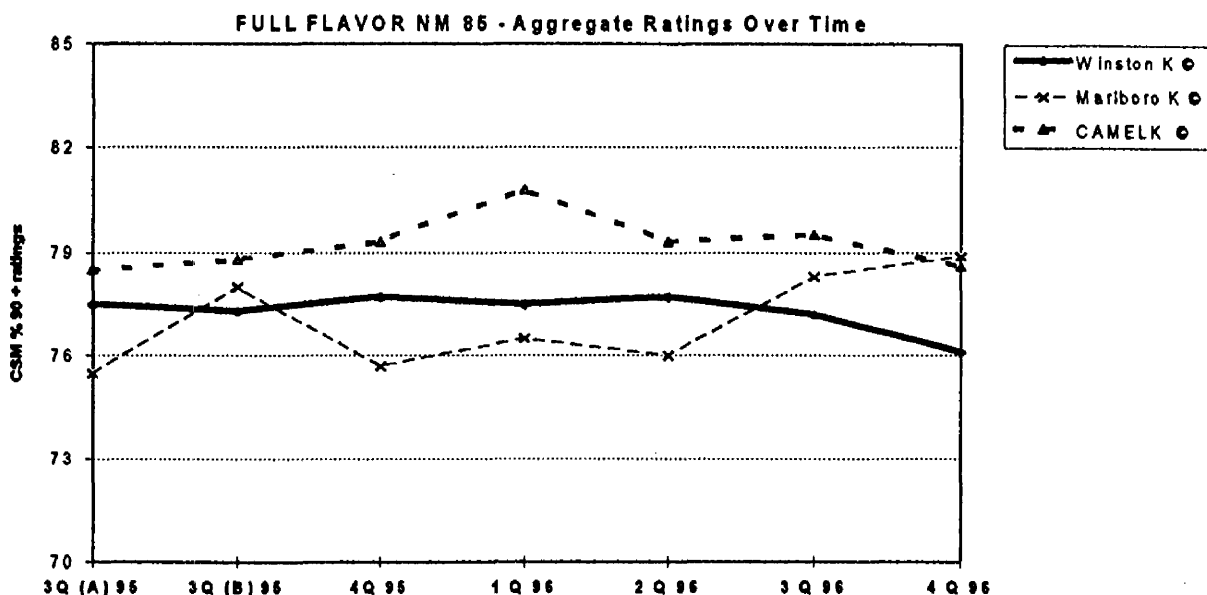
by individual quarter

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
Winston K (I)	77.5	77.0	78.5	77.1	77.5	76.9	74.0
Marlboro (I)	75.5	80.5	71.0	78.0	79.0	77.8	80.0
CAMEL (I)	78.5	79.0	80.5	83.0	74.5	81.0	80.4



by aggregate 3 rolling quarters

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
Winston K ©	77.5	77.3	77.7	77.5	77.7	77.2	76.1
Marlboro K ©	75.5	78.0	75.7	76.5	76.0	78.3	78.9
CAMELK ©	78.5	78.8	79.3	80.8	79.3	79.5	78.6

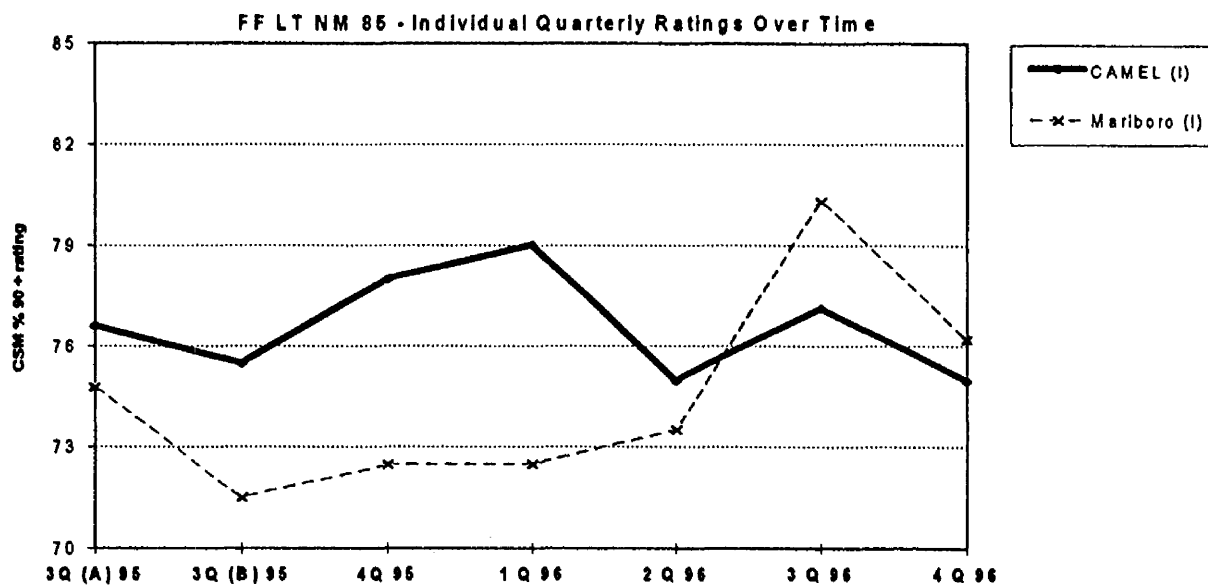


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FFLT STYLES

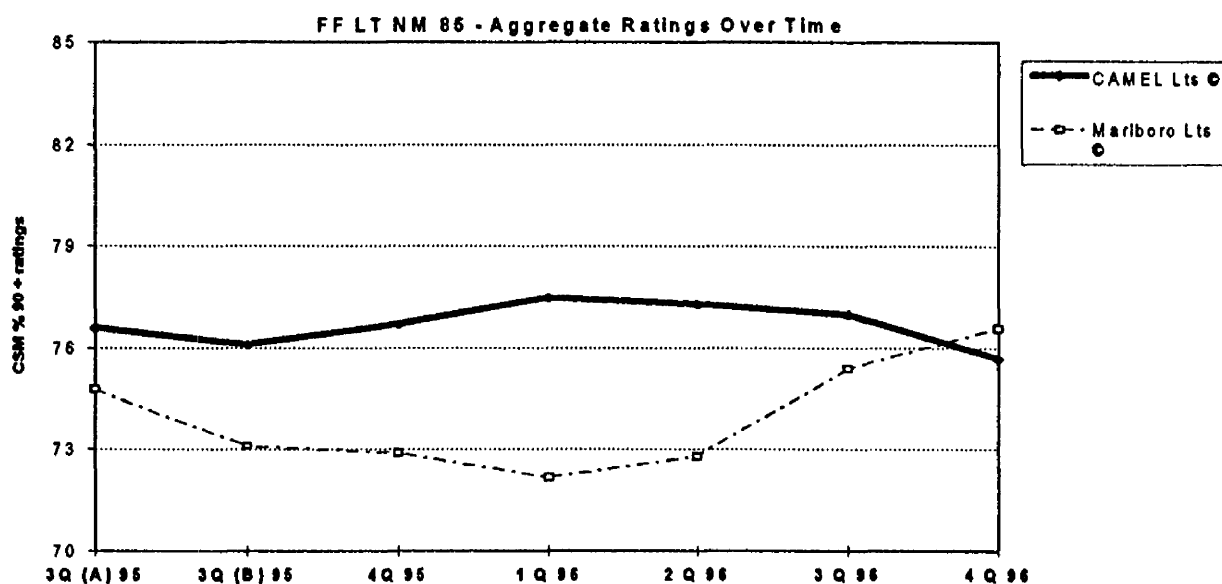
by individual quarters

	3Q (A) 95	3Q (B) 95	4Q 95	1Q 96	2Q 96	3Q 96	4Q 96
CAMEL (I)	76.6	75.5	78.0	79.0	75.0	77.1	75.0
Marlboro (I)	74.8	71.5	72.5	72.5	73.5	80.3	76.2



by aggregate 3 rolling quarters

	3Q (A) 95	3Q (B) 95	4Q 95	1Q 96	2Q 96	3Q 96	4Q 96
CAMEL Lts ©	76.6	76.1	76.7	77.5	77.3	77.0	75.7
Marlboro Lts ©	74.8	73.1	72.9	72.2	72.8	75.4	76.6

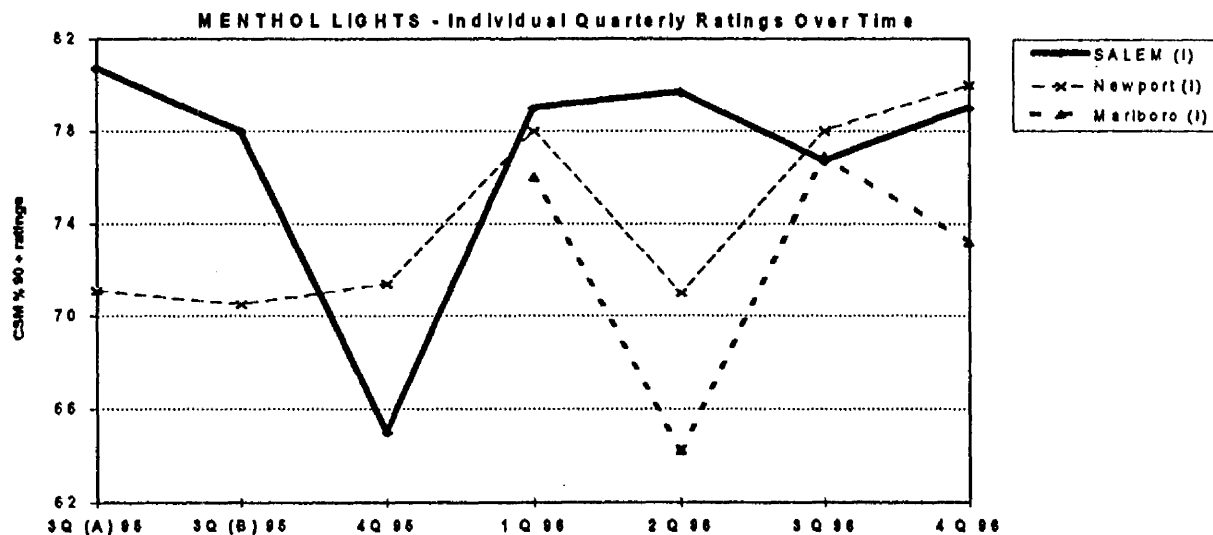


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MENTHOL

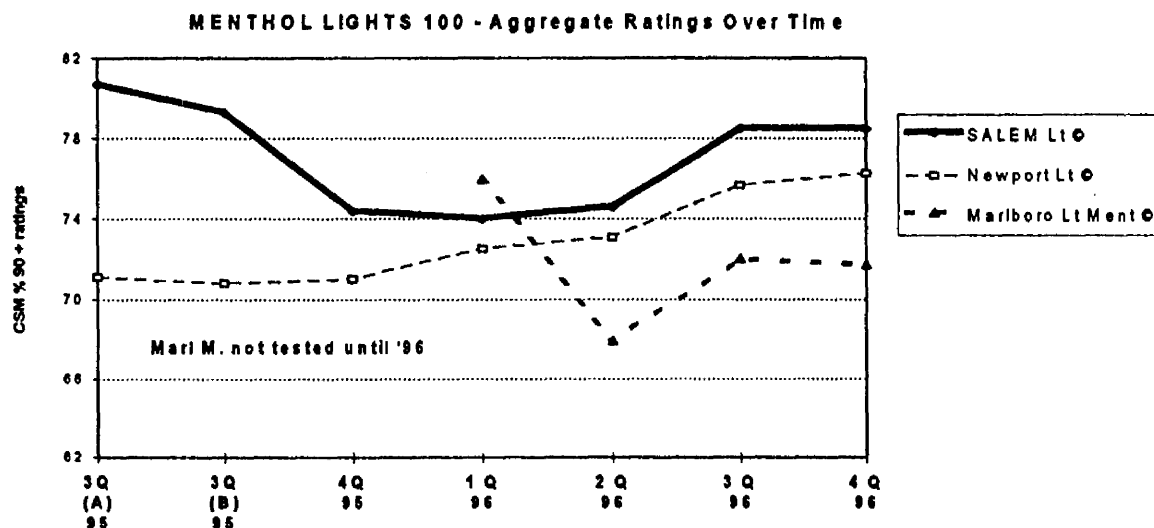
by individual quarter

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
SALEM (l)	80.7	78.0	65.0	79.0	79.7	76.7	79.0
Newport (l)	71.1	70.5	71.4	78.0	71.0	78.0	80.0
Marlboro (l)				76.0	64.2	76.9	73.2



by aggregate 3 rolling quarters

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3 Q 96	4 Q 96
SALEM Lt ©	80.7	79.3	74.4	74.0	74.6	78.5	78.5
Newport Lt ©	71.1	70.8	71.0	72.5	73.1	75.7	76.3
Marlboro Lt Ment ©				76.0	67.9	72.0	71.7

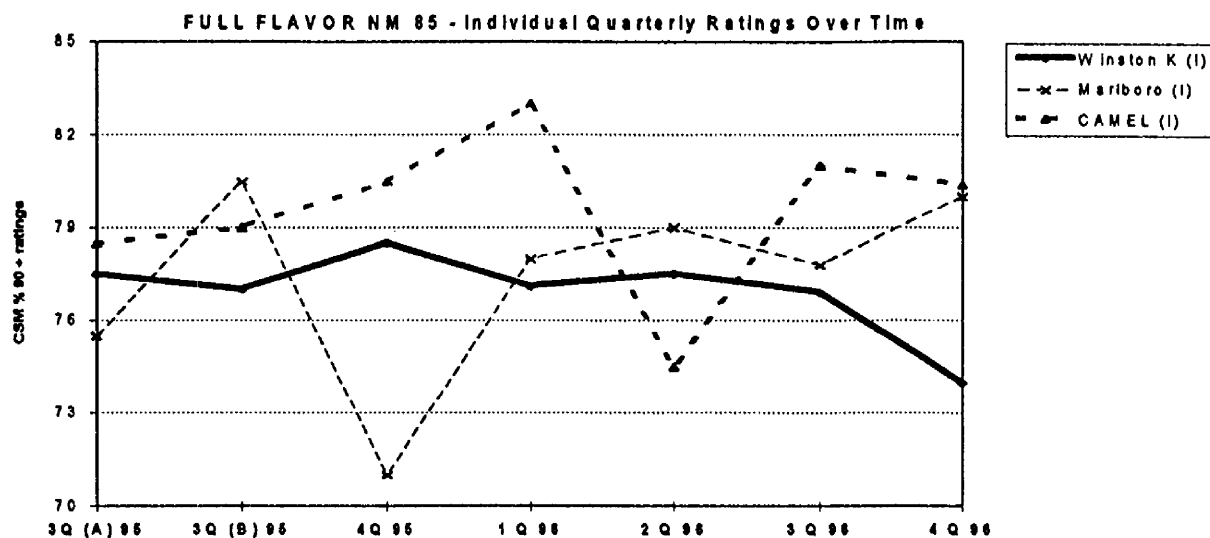


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SAVINGS

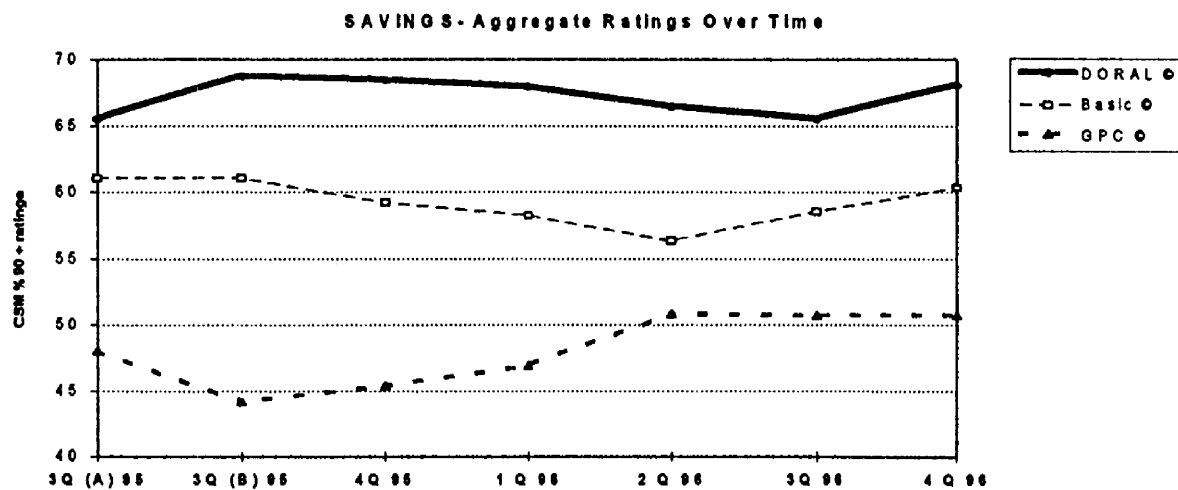
by individual quarter

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3Q 96	4 Q 96
DORAL (I)	65.5	72.0	67.7	64.0	67.5	65.0	71.5
Basic (I)	61.0	61.0	55.5	58.0	55.5	61.9	63.5
GPC (I)	48.0	38.6	48.3	54.7	50.4	49.1	52.6



by aggregate 3 rolling quarters

	3Q (A) 95	3Q (B) 95	4Q 95	1 Q 96	2 Q 96	3Q 96	4 Q 96
DORAL ©	65.5	68.7	68.4	67.9	66.4	65.5	68.0
Basic ©	61.0	61.0	59.2	58.2	56.3	58.5	60.3
GPC ©	48.0	44.2	45.4	46.9	50.8	50.7	50.7



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