

Demonstrative 16: Documents Regarding R.J. Reynolds' Understanding of the Need To Market to Adolescents

U.S. Exhibit 17,570

Exhibit Number	Bates Number	Document Title	Document Date	Quote or Example
U.S. Ex. 20,672	501113724-3730	The Youth Research Institute Study Regarding Cigarette Smoking Among 7,521 High School and College Students in 80 Cities Throughout the United States, October – November, 1959: Summary of Findings; Author is William Esty Company	December 1959	The youth research institute study regarding cigarette smoking among 7,521 High School and College Students in 80 cities throughout the United States, October - November, 1959.
U.S. Ex. 48,855	501410405-0430	Teenage Marketing and Media Study-1968/1969 Basic Magazine Report on Demographic Characteristics of Teenage Boys (12-17) In the Average Issue Audiences of Major Magazines	March 17, 1969	This report is a copy of the Brand Rating Index on the brand preferences patterns of teenage boys (12-17) and presents detailed data on brand preferences for a total of 355 brands within the teenage boy audiences of 36 magazines. (at 0413)
U.S. Ex. 20,628	500347108-7111	Summary of Decisions Made in MRD-Esty Meeting, on April 7, 1971, Concerning Spring 1971 NFO Tobacco Products Survey	April 7, 1971	Age breaks for the questionnaire are 14-15, 16-17, 18-20. Although it's stated that the lower age limit for the profile of young smokers is to remain at 14, minutes note that "Cards are to be punched" for respondents aged 13 and younger "to provide a count, by year, of the very young smokers..." (at 7108)
U.S. Ex. 78,782	502987357-7368	Research Planning Memorandum on Some Thoughts About New Brands of Cigarettes for the Youth Market	February 2, 1973	"We should not in any way influence non-smokers to start smoking; rather we should simply recognize that many or most of the '21 and under' group will inevitably become smokers, and offer them an opportunity to use our brands." (at 7358) "Realistically, if our company is to survive and prosper, over the long term, we must get our share of the youth market." (at 7358)
U.S. Ex. 20,648	500724265-4313	R. J. Reynolds Tobacco Company Winston Box Marketing Plan	November 1973	Gives percent of 14-20 year old smokers smoking Marlboro box and Marlboro soft pack. Their preference is definitely for the box. Not so for those 21-24. (at 4273)
U.S. Ex. 23,051	501166152-6153	Cigarette concept to Assure RJR a Larger Segment of the Youth Market	December 4, 1973	Proposes development of a new RJR "Youth-appeal brand..." (at 6152)

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U.S. Exhibit 17,570

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U.S. Ex. 21,865	500487414-7416	April Screening	March 15, 1974	Plan to screen 6,500 families and break respondents into two groups - 14-17 and those 18 and over. Requests a report on ... “Smoking Incidence and Brand Preference”—ages 14-17.” (at 7415)
U.S. Ex. 67,921	500574161-4170	Memo on “What causes smokers to select their first brand of cigarette?”	July 3, 1974	Examines age of initiation (17 & under to 25 & over), reason for initiation, brand selection . . . “For legal reasons, we have been unable to directly survey smokers under 18 years of age (as will be shown most smokers begin smoking regularly and select a usual brand at or before the age of 18). Therefore, much of our information is drawn from secondary sources and we have to hypothesize to a considerable extent as to what causes initial brand selection because no comprehensive study we know of has directly addressed this issue.” (at 4161) “The discussion which follows will cover the age at which people generally start smoking, their initial reasons for smoking, the brands they initially select for regular use and their reasons for selecting that brand.” (at 4161) “The incidence of smoking among people 16-24 years of age is 40%.” (at 4162)

Demonstrative 16: Documents Regarding R.J. Reynolds’ Understanding of the Need To Market to Adolescents

U.S. Exhibit 17,570

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U.S. Ex. 21,609	500746950-6976	1975 Marketing Plans presentation - Hilton Head	September 30, 1974	<p>“Our paramount marketing objective in 1975 and ensuing years is to reestablish RJR’s share of marketing growth in the domestic cigarette industry.” (at 6951)</p> <p>Four key opportunity areas are listed, the first of which is “Increase our young adult franchise.” (at 6951)</p> <p>“First, let’s look at the growing importance of the young adult in the cigarette market. In 1950, this young adult market, the 14-24 age group represented 21% of the population.” (at 6951)</p> <p>“As seen by this chart, they [the 14-24 year olds] will represent 27% of the population in 1975. They represent tomorrow’s cigarette business. As this 14-24 age group matures, they will account for a key share of the total cigarette volume—for at least the next 25 years.” (at 6951)</p> <p>Noting Philip Morris’ and Brown & Williamson’s strong brand share among 14-24 year olds, the script states “With strong young adult franchises and high cigarette brand loyalties, this suggests continued growth for Philip Morris and B&W as their smokers mature.” (at 6952).</p> <p>The document goes on to state that “Our two major brands, Winston and Salem, show comparative weakness against Marlboro and Kool among these younger smokers... This suggests slow market share erosion for us in the years to come unless the situation is corrected.” (at 6952)</p> <p>“Thus, our strategy becomes clear for our established brands: 1- Direct advertising appeal to the younger smokers while 2- Being true to the brand’s basic product attributes (e.g., taste for Winston, Refreshment for Salem) ...” (at 6953)</p>

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U.S. Exhibit 17,570

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U.S. Ex. 48,452	500796928-6934	R.J. Reynolds Tobacco Company: Domestic Operating Goals	November 26, 1974	“Primary goal in 1975 and in ensuing years is to reestablish RJR’s share of growth in the domestic cigarette industry.” (at 6928) Would do this by increasing our “Young Adult Franchise” “14-24 age group in 1960 was 21% of population; in 1975 will be 27%.” (at 6928)
U.S. Ex. 68,722	503542726-2729	Product Research Report: Share of Smokers by Age Group From John M. Wallace to T. L. Ogburn, Jr.	October 30, 1975	An annual update of trends in share of smokers by age, beginning with 14-17year olds. RJR and Philip Morris exhibited growth in most age groups, while Winston did have a decline in the 14-17 year old group. (at 2726)
U.S. Ex. 48,071	500234050-4051	Share of Smokers by Age Group	August 12, 1976	Annual update of share of smokers by age group. “Winston King’s share among this 14-17 year age group is off two points for the second year in a row.” (at 4050). “From a corporate standpoint, Philip Morris posted a 4 point gain among 14-17 year old smokers (RJR and B&W each lost 2 points).” (at 4051).
U.S. Ex. 67,997	502420391-0394	Early Warning System Input - Reasons for Smoking, Initial Brand Selection, and Brand Switching	October 25, 1976	“Over 50% of male smokers start smoking regularly before 18, and virtually all by 25.” (at 0391) “Women start later (only 1/3 before 18), but four out of five have started by 25.” (at 0391).
U.S. Ex. 89,195	504068686-8719	External Forecast	Circa 1976	Discusses smoking age population trends, including those 14-24 (which will decline). (at 8687)
U.S. Ex. 71,049	503745123-5137	Letter to Edward L. Wier, Executive VP of RJR International, from G. H. Long, VP of Marketing	March 16, 1977	Summarizes discussions of a series of meetings from March 1-15. “we must ascertain <u>what makes young smokers click!</u> [emphasis in original] We simply do not have information in this area, and the marketing company that gets the handle on this subject may be able to develop a positioning breakthrough for the future. My thoughts cover: what are motivational psychological factors that make 18-25 year old <u>male and females</u> smoke....” [emphasis in original] (at 5126)
U.S. Ex. 48,844	501380878-0889	Share of Smokers by Age Group	October 31, 1977	Annual update of trends in share of smokers by age group.

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U.S. Exhibit 17,570

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U.S. Ex. 67,963	501850001-0077	Market Research Report SB “Fisherman II” and “Hidden Camera II” Placement Recall Tests	April 30, 1979	Want to appeal to “younger adult male smokers without alienating women.” (at 0002)
U.S. Ex. 66,293	500117304-7309	Teenage Smokers (14-17) and New Adult Smokers and Quitters	February 1, 1980	Presents extensive data on “The Teenage (14-17 age group) Market.” (at 7305) [note that “market” is not a term that is consistent with the statement in this document that the report “It is not designed to be used as a tool for developing marketing strategies for this population group.” (at 7304)]
U.S. Ex. 66,323	501232617-2622	November NFO Market Structure, Switching and Demographic Profile Analysis	April 8, 1980	“There are two important sources of <u>growth for a brand family: New, young adult smokers and smokers who switch brand families</u> As older smokers are replaced by smokers who are 18 years of age, those brands which have high acceptability to young adults (Marlboro, Newport) inherently grow.” (at 2618) [emphasis in original]
U.S. Ex. 60,645	503748558-8558	MDD Report on Teenage Smokers (14-17)	July 22, 1980	Memo conveys data on market share among Teenager Smokers (14-17)
U.S. Ex. 50,446	503777034-7035	Memo from Diane Burrows to Dick Nordine	August 20, 1980	Shows incidence of smoking among those 17-19. (at 7034)
U.S. Ex. 21,566	500686301-6313	Younger Adult Smokers	October 23, 1980	“P. Morris continues to gain share among the 14-17 year old age group. . . .” (at 6302)
U.S. Ex. 68,730	519190996-0998 and 5006905490-5534	Teenage Smokers (14-17) and New Adult Smokers and Quitters	November 14, 1980	According to the memo the report on Teenage smokers (14-17) is the third report on the subject and updates previous reports to include Spring 1980 in the data. (at 0996)
U.S. Ex. 71,122	80M00084-0084 Also 503418281	press clipping from New York Times: <i>Teen-Ager Smoking is Found to Decline</i>	January 15, 1981	Report on drop in Teen smoking.
U.S. Ex. 68,733	519190999-0999	1982 Black Market Report	November 12, 1982	Includes those under 18 years of age.

Demonstrative 16: Documents Regarding R.J. Reynolds' Understanding of the Need To Market to Adolescents

U.S. Exhibit 17,570

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U.S. Ex. 20,709	503011368-1369	Marketing Implications of the NBER Models	September 27, 1982	Young adult males are highly sensitive to price - suggest 1/2 packs (10s) marketed to beginning smokers who will double consumption as they mature. The NBER report covered price sensitivity of teens under 18. (at 1368)
U.S. Ex. 52,223	518488105-8198	Younger Adult Smokers: Strategies and Opportunities From Diane Burrows to G.H. Long, M.L. Orlowsky, and H.J. Lees	February 29, 1984	<p><u>“Younger adult smokers have been the critical factor in the growth and decline of every major brand and company over the last 50 years. They will continue to be just as important to brands/companies in the future for two simple reasons: The renewal of the market stems almost entirely from 18-year-old smokers. No more than 5% of smokers start after age 24. The brand loyalty of 18-year-old smokers far outweighs any tendency to switch with age.”</u> [emphasis in the original] (at 8108)</p> <p>“‘First Brand’ strategies appeal to 18-year-old smokers rather than switchers ages 19-24.” (at 8112)</p> <p>There is considerably more in this document showing the focus on 18 year olds and the greater importance of 18 year olds than switchers. See summary page 8120 and prior three pages.</p>

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U.S. Exhibit 17,570

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U.S. Ex. 68,734	519191001-1006	Younger Adult Lifestyle Discussions with Outside Consultants	1984	<p>“The seriousness of RJR’s problem in the younger adult smoker segment is evident from share of smoker data, which shows the gap between Philip Morris and RJR share of 18-24 year old smokers to have doubled since 1979. Philip Morris captured a 58% share of 18-24 year old smokers in 1983, compared to RJR’s share of 21% among the same age group.” (at 1001)</p> <p>“Given the importance of younger adult smokers to recapturing RJR’s leadership position within the industry, efforts are underway on a complete and comprehensive analysis of the younger adult smoker segment. Objectives of these efforts are to identify the key segments among younger adult smokers, as well as the motivations and lifestyle characteristics.” (at 1001)</p> <p>Proposes setting up a discussion group among ‘outside experts’ who have been or are involved with marketing to or researching younger adults.</p> <p>Prompted by the slippage in RJR’s share of the 18-24 year old market.</p>
U.S. Ex. 49,017	502033156-3157	Strategies and Segments	April 13, 1984	<p>Discusses an idea suggested by “Younger Adult Smoker Opportunity Analysis.”</p> <p>“Attract a smoker at the earliest opportunity and let brand loyalty turn that smoker into a valuable asset.” (at 3157)</p>
U.S. Ex. 66,350	501893936-4129	Presentation: Marketing Workshop for Law Department	July 18, 1984	<p>“Younger Adult smokers provide a ‘First Brand’ Advantage”</p> <p>“The steady influx of 18 year old smokers causes the pre-existing market to shrink in share value. Any brand which is underdeveloped among 18 year old smokers must achieve net switching gains just to break even.” (at 3954)</p> <p>“‘First brands’ do not need switching gains to grow and can afford some switching losses. By capturing 50% of 18 year old smokers, Marlboro gained .8 share or smoker points in 1983 without need to attract a single brand switcher.” (at 3954)</p>

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U.S. Exhibit 17,570

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U.S. Ex. 29,849	507542209-2280	Analysis of The Virile Segment	circa 1985	Largest segment, key to younger adult market. “A strategy to displace Marlboro as the FUBYAS [First Usual Brand Young Adult Smokers] brand leads to an appeal to a ‘working class’/ ‘present oriented’ mindset.” (at 2242)
U.S. Ex. 68,118	504605615-5626	Proposed Development and Evaluation of Young Adult Smoker Panel in One Test Market/City for On-Going Consumer Marketing; Advertising Research Utilization	August 1985	“RJR Marketing Development management has determined younger adult smokers (viz., 18 to 20 + years of age) to be a key marketing/positioning target for RJR” (at 5616).
U.S. Ex. 68,171	505642018-2047	Research for Winston and Camel Alternative Advertising	August 30, 1985	Contrasts a “switching gains strategy” focused on 21-34 year olds and a “brand adoption strategy –directed toward 18-24 male competitive smokers.” (at 2020) [If a switching gains strategy gets people to switch, then a brand adoption strategy must get people to start.]
U.S. Ex. 20,848	512679728-9807	Youth 1987 Prepared for RJR Macdonald Inc by the Creative Research Group	June 8, 1987	Surveyed young people in the following age categories: 15-17, 18-21, and 22-24. The focus of the study was on lifestyles and attitudes and smoking behavior. “The purpose of the research is to provide marketers and policymakers with an enriched understanding of the mores and motives of this important emerging adult segment which can be applied to better decision making in regard to products and programs directed at youth.” (at 9734)
U.S. Ex. 51,714	513482841-2905	Input to the Long Term Strategic Plan for 1988-90	circa 1987	“RJR needs to improve performance among YAS in order to ensure it can continue to meet volume/earnings goals in the future.” (at 2899)
U.S. Ex. 51,219	507531192-1258	Market Dynamics	1988	“ <u>Aging</u> is the result of new 18 year old smokers replacing older smokers who quit.” [emphasis in original] (at 1211) The chart shows that aging is far more important than brand switching. Aging “explains about 75% of all movement in SOM.” (at 1212)

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U.S. Ex. 68,427	516411608-1846	Consumer Research Summaries Annual Report	1988	Summarizes research done by the company in countries around the world. A study in Canada was designed to see if the advertising used in the U.S. could be used in Canada. “The motorcycle and especially the dragster struck many as being directed to young (i.e., teens) males.” (at 1652)
U.S. Ex. 68,240	507194783-4815	R. J. Reynolds Tobacco Company Hispanic Focus Group Research Hispanic Agencies’ Creative Exploratory. Final Report	October, 1988	Six groups in L.A. with 18-24 year old males, 60% of whom were 18-20. (at 4785)
U.S. Ex. 68,939	507194846-4878	R. J. Reynolds Tobacco Company Hispanic Focus Group Research Los Angeles Creative Exploratory for Winston, Camel, Magna, and Salem. Final Report	November 1988	Six focus groups done in L.A. with 18-20 year old males. (at 4847)
U.S. Ex. 68,248	507197996-8052	R. J. Reynolds Tobacco Company Hispanic Focus Group Research Creative Exploratory in Houston March 15-16, 1989.	April 1989	Five groups, two with 18-20 year olds and three with 21-26 year olds (primarily 21-24 year olds) (at 7998)
U.S. Ex. 66,468	507205654-5677	Consumer Research Report: Share of Smoker and Purchase Pattern Behavior Among Younger Adult 18-20 and 21-24 Smokers	April 27, 1989	Includes data on brand share for each company among the 18-20 & 21-24 year olds. (at 5656)
U.S. Ex. 51,177	507364504-4504	memo	October 9, 1989	“Not everyone over the age of 16 smokes cigarettes. Not everyone who smokes, smokes Reynolds brands. However, almost everyone over the age of 16 owns or operates some type of motor vehicle.” (at 4504) Suggests marketing tie in with a major oil company, where coupons are given with RJR brands that can be used to purchase gasoline. (at 5404) “This savings would benefit young people with part time jobs” (at 4504)

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U.S. Ex. 68,245	507252220-2226	Sales Research Report Management Summary Young Adult Smokers' Retail Shopping Patterns	December 18, 1989	The objective was to "Determine the relative importance of convenience outlets, supermarkets and all other retail outlets to the sale of cigarettes to younger adult smokers." (at 2221)
U.S. Ex. 68,310	509042462-2469	Advertising Research Proposal (BID #90-33201) Perception Tracking Study 1990 – Winston, Salem, Camel, Vantage and Magna	1990	Proposal to collect data on perceptions/awareness of ads for RJR cigarettes. (at 2464) Due to the focus on younger targets, the Camel sample will only sample from the 18-20 group (250) and the 21-24 group (250). (at 2464) NOTE: this oversamples the younger group.
U.S. Ex. 29,989	509160676-0679 Also 521895591-5594	Review of Age Categories Used to Evaluate Camel's Performance	February 25, 1991	"CAMEL is targeted toward an 18-24 year old male action standard.... The cost of obtaining 18-20 year old smokers for product tests is considerably higher than that for obtaining smokers from other age categories. While it has been well established that a smoker's age is related to the smoker's product perceptions, age differences in perceptions may be minimal for contiguous age groups." (at 0676)
U.S. Ex. 20,789	507798137-8230	U.S. Cigarette Market in the 1990's	June 21, 1990	"Cigarettes are the most brand loyal category in the U.S." (at 8141) "The category rarely attracts new users over age 24. The majority become regular smokers before age 18, but are 'new' to our 18+ market at age 18." (at 8142) "[A]ny brand which appeals to adult smokers 18-24 establishes a preemptive brand loyalty." (at 8142) "The combined effect of starting and quitting...." (at 8144) "Preemptive loyalty among adult smokers 18-24 is critical to long term business success." (at 8145)

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U.S. Ex. 74,367- U.S. Ex. 74,371	FTC0024136-4151	Presentation on RJR Smoker Trends and Brand Positioning Opportunities	July 16, 1990	<p>“<u>Fundamental Dynamics</u> “Cigarettes most loyal brand category” “Longevity of brand usage –50% of smokers use only three brands in lifetime.” “Decision to smoke ... 66% of all new smokers by age 18.” (at 4138) (Found at U.S. Exhibit 74367) “<u>Implications for 90’s:</u> Preemptive loyalty among 18-24 year olds --Critical to long term brand vitality as consumption increases with age. --Net switching gains are difficult to obtain.” (at 4139) (Found at U.S. Exhibit 74367)</p>
U.S. Ex. 52,789	521895591-5594	Consumer Research Proposal (BID #91-13112) Review of Age Categories Used to Evaluate Camel’s Performance	February 1991	Proposes that a wider age range could be sampled in their research since it is costly to recruit 18-20 year old samples. Proposes “to determine the best age category to use to minimize the use of 18-20 year old smokers while insuring accurate product guidance to the 18-24 year old target.” (at 5591)
U.S. Ex. 68,353	509731790-1796	In-Store Advertising Effectiveness	October 15, 1991	Study to determine relative effectiveness of various locations in supermarkets and convenience stores for gaining consumer awareness. “The checkout area is clearly the most effective” (at 1791)
U.S. Ex. 66,513	514502241-2262	Consumption. Ages 12-17. Un-Weighted	August 11, 1992	SAS printout of analysis of smoking variables among 11 to 19 year olds.