

GLOSSARY

Retail Environment Terms

Buy downs: Payments made to retailers, either in cash or as off-invoice allowances, to encourage the retailer to reduce the price of tobacco product currently held in inventory. A discounted price is passed on to the consumer.

Cooperative Merchandising Agreement: A form of aggressive relationship marketing between the tobacco company and retailer. Through a contractual arrangement, the retailer is provided payments and in return, the tobacco company is able to dominate the store with its brands in terms of how much shelf space is given to the product, the placement of the product on the shelves themselves, placement of the shelving and displays, placement of point-of-sale tobacco advertising within the store, and special promotions. Generally, the agreement is an “exclusive” agreement, which prohibits the retailer from having agreements with other tobacco companies. Phillip Morris’ Retail Leaders Program is an example of a Cooperative Merchandising Agreement. RJ Reynolds and other tobacco companies have filed a suit to have this Program discontinued. US Tobacco had a similar program which helped it dominate retail shelf space for smokeless tobacco. A US district court found the program to be illegal.

Functional Items: Tobacco advertisements imbedded on an object which has a practical function, such as a change cup holder, clock, basket, push/pull sign, sign posting store hours, floor mat, etc.

Gift with Purchase: The offer of a free gift with the purchase of the tobacco product. The gift may be something like a cigarette lighter or a food product.

Loss Leader: When a product is promoted and sold with no-profit margin or a loss because it entices customers into the store who end up making other purchases.

Multi-pack purchase: Special tobacco promotions that originate with the tobacco company in which packs of cigarettes are sold at a discount as two packs of cigarettes for the price of one or three packs of cigarettes as the price of one. May be described as “two for ones” or “three for ones” by retailers.

MVP Customer: Special discount prices are given to preferred customers in conjunction with other non-tobacco specific club programs such as the Safeway Club Program.

Point-of-Sale Advertising: Also known as point-of-purchasing advertising. This form of advertising includes interior and exterior advertising placed at the retailer location. The advertising may promote product and/or price. It includes traditional forms of advertising such as signs, but non-traditional forms of advertising such as banners, flags, pump-toppers, sandwich board signs and functional items.

Premium-Brand Cigarettes: More expensive cigarettes that have a higher consumer brand loyalty and are often the top sellers in the industry.

Promotional Allowances: Payments made to retailers to facilitate sales. Payments may be made for premium shelf space (e.g., slotting fees), or for trade allowances which include volume discounts and price reductions.

Pull Advertising: Traditional media advertising, radio, television, print and billboards. The purpose of “Pull” advertising is to pull the consumer into the store to purchase the product. Due to the increasing number of electronic and print media outlets, pull advertising is viewed as losing its effectiveness.

Push Advertising: Marketing tools that “push” the consumer into making a purchase decision once they are in the retail environment. These methods include special promotional pricing, gifts with purchase, etc.

Relationship Marketing: An increasingly important marketing trend in which the manufacturers of a product develop a direct relationship with the retailer (think Wal-Mart and Cigarettes Cheaper!) or a direct relationship between the manufacturer and the consumer (think tobacco company merchandise catalogs and customer mailing lists for tobacco company newsletters.)

Self-Service Display: The open display of tobacco products in a manner that is accessible to the general public without the assistance of the retailer or employee of the retailer.

Shelving: Permanent, non-moveable displays for merchandise, such as tobacco products.

Rebates: Payments made in cash or as off-invoice allowances to retailers who have achieved specified volumes of tobacco sales.

Retailer Value Added: A term that is used to describe a bonus item such as additional product (e.g., buy one pack, get one free) or a gift (e.g., buy two packs, get a lighter) that is bundled with the cigarette product and sold as a single unit.

Slotting Fee: Payments provided to tobacco retailers for prominent placement of the product.

Two for One with Purchase: Special promotions in which two packs of cigarettes are offered for the price of one.

Value-Brand Cigarettes: Lower-priced cigarettes that often have a lower consumer brand loyalty.

Volume Discounts: Tobacco companies provide discounts on the cost per carton of cigarettes to retailers for achieving a specified sales volume. This may be in the form of buydowns or rebates. Typically, this ranges from reimbursing the retailer retrospectively at \$0.30 to \$0.50 per carton of cigarettes sold.