

Dakota unable to get ahead of the pack

Marlboro leaves newcomers with little room to breathe

By GREG HASSELL
 Houston Chronicle

When R.J. Reynolds unveiled Dakota cigarettes six months ago, it chose "Where Smooth Smokes" as the slogan for the new brand.

But few things have been smooth for these smokes.

The brand's introduction was marred when anti-smoking groups howled in protest over Reynolds' early plan to market Dakota to young women with blue-collar jobs and little education. The marketing plan called the women "virile females," and the campaign was dubbed "Project VF."

Although the outrage has calmed to a simmer, sales in Houston — one of two test markets for Dakota — are not setting the world afire.

"We haven't seen a demand for them," said Jerry Court, manager of City Wide Wholesale Foods, a Houston distributor. "We don't sell enough of them to worry about."

For every two cartons he sells of Dakota, Court sells 4,000 cartons of Marlboro regular. And that is not counting the 12 other varieties of Marlboro.

"It's selling, but it is a very slow mover right now," said Greg Cobos, assistant manager of GSC Distributing Cos. "Every time we get a new product like this, it will sell quite a bit at first. Then it will slow down to almost nothing."

Abraham Ganim, a partner in B&G Tobacco & Candy Co., called the Dakota sales "fair" — "not the greatest in the world."

The best news for Reynolds comes from Stop N Go, the chain that owns 497 convenience stores in Houston. Of the 150 cigarette brands that Stop N Go carries, Dakota is No. 75 in sales.

"It's doing better than any new cigarette has done in recent times," said Chris Brewster, Stop N Go

senior vice president. "In that context, it has been quite a success."

Tobacco distributors in Nashville Tenn. — the other test market — report mixed results. Some say Dakota is garnering a respectable share of business, while others say Dakota has captured less than 0.2 percent of the market there.

For its part, Reynolds refuses to discuss Dakota.

"We are still testing Dakota in Houston and in Nashville," said Reynolds spokeswoman Deirdre Dyer. "That's the only comment we have."

'Now Dakota is going head-to-head with Marlboro, and it will get killed.'

Jack Trout
 marketing strategist

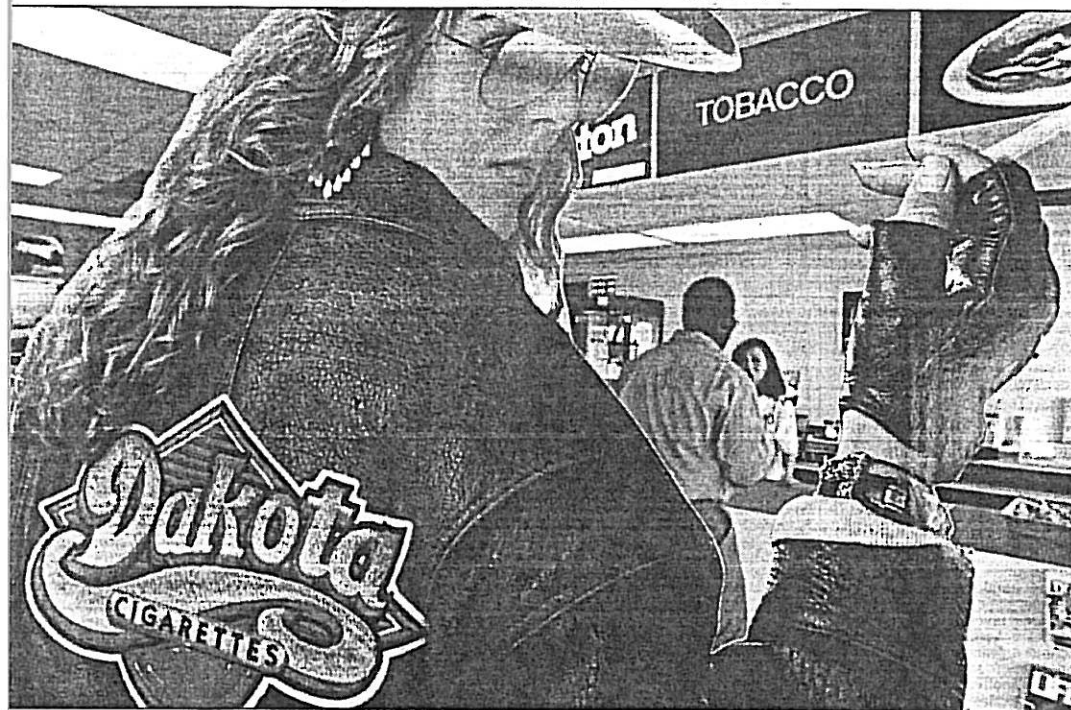
Despite such reticence, Reynolds is aggressively promoting its newest brand. Print and billboards ads for Dakota are commonplace in Houston and Nashville. Reynolds has introduced a slew of premiums — such as T-shirts, lighters, even disposable cameras — that are given away to Dakota buyers.

Reynolds also has backed away from the virile female theme in its advertising. Dakota ads are as likely to feature men as women. But that has blurred Dakota's image and could make it harder to sell.

Adweek magazine reports that an overwhelming majority of Dakota smokers are men. Quoting informed sources, Adweek says the men buying Dakota outnumber their female counterparts by a 4-1 margin.

"Now Dakota is going head-to-head with Marlboro, and it will get

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A life-size cutout of a leather-jacketed woman, above, urges customers at a Circle K on Tidwell to give the new Dakota cigarette a try. In an effort to achieve name recognition, R.J. Reynolds also is using a neon-lit billboard, right, just outside downtown to emblazon the name on the mind of the public.



Photo above by John Davenport; photo at right by David Fahleson



Source: Maxwell Consumer Reports

Chronicle

diversified companies as more projects become multifaceted.

"Bechtel provides one-stop shopping for just about every aspect of the construction industry," says Michael Lawson, West Coast bureau chief of Engineering News-Record, an industry trade publication.

Bechtel learned valuable lessons in the 1980s, including an appreciation of the need to control growth. No matter how good business gets in the 1990s, the company's white-collar work force probably won't again exceed 25,000, says Riley Bechtel. And he insists that the company's heightened interest in smaller projects in the 1980s as "mega-projects" waned isn't a temporary phenomenon.

Although the company that built the San Francisco Bay Bridge, Bay Area Rapid Transit trains, the Hoover Dam and the Alaska Pipeline has become scrappier, it has not become conservative. It's still heavily involved in gigantic and unusual projects, such as the Eurotunnel between France and England, and it's pushing into a potpourri of new

work for the National Aeronautics and Space Administration includes a study on the production of oxygen on the airless moon by processing lunar rocks.

In addition to providing air for moon settlers, Bechtel might be able to condense the oxygen into liquid form and use it to help propel rockets launched from there to Mars.

Bechtel faces more competition in the Far East than ever, but that didn't stop it from landing an \$11.5 million contract with the Hong Kong government in April to help plan the first phase of the \$16 billion Hong Kong Airport Works Project.

The contract is for a collection of related infrastructure projects, including a new international airport for greater Hong Kong, two major harbor crossings, expressways and a passenger rail system. Bechtel hopes its participation will grow with the project, a common occurrence. If so, the Hong Kong project could become the company's biggest undertaking since 1975, when it began overseeing the development of Jubail, a Saudi Arabian city with a population today

refinery.

Overseas opportunities extend beyond the Soviet Union and Hong Kong. The unification of Western Europe in 1992 and the erosion of communism in Eastern Europe is expected to lead to big deals on that continent.

Bechtel peaked in 1983 with revenues of \$14 billion. Then the roof caved in. Revenues plummeted to less than \$4.5 billion in 1988.

That same year, Bechtel finally began seeing new signs of life. For the first time since 1983, the dollar value of new contracts exceeded the previous year's total, rising from \$3.5 billion to \$4.5 billion. Better yet, the value of projects ordered exceeded the value of work done for the first time in eight years.

Bechtel underscored its turnaround last year by reporting its first annual increase in revenues in six years — from \$4.5 billion to \$5.1 billion — and posting an increase in new construction work for the second year in a row. Bechtel says it's doing even better this year, although the company won't elaborate.

Dakota

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Trout & Ries, a marketing strategy firm in Connecticut. "To say, 'We are a terrific new men's cigarette,' get out of here. It will never work."

The fortunes of Dakota demonstrate a fundamental limitation for tobacco companies wanting to introduce products. New cigarettes must compete in a shrinking market. Largely because men are smoking less, cigarette sales have dropped from a peak of \$26.5 billion in 1989.

Women and minority groups are the only population segments smoking more than in the past. But tobacco companies can't pitch their products directly to those groups without producing a furor.

Earlier this year, Reynolds tried to introduce Uptown, a cigarette aimed at black smokers. Vigorous protests compelled Reynolds to scrap the idea.

"The traditional approach to marketing — selecting a segment of the population as potential buyers and then going after it — is no longer acceptable for cigarette companies," Trout said. "All that does is cause the anti-smoking people to go crazy."

The Women vs. Smoking Network, the group that first obtained information about Project VF, says it will dog Dakota every step of the way.

"It provides us with a continuous

target," said Anne Marie O'Keefe, a member of the group's board of directors. "If they go national with Dakota, that will provide us with a national target."

With opposition like that, there is little doubt that Virginia Slims would flop if it were introduced today, Trout said.

In fact, no new brand of regularly priced cigarette has been successfully introduced since the federal excise tax on cigarettes doubled in 1983. Only new generic brands, which offer lower prices, have won the approval of a significant number of smokers.

"The market trend is for generics," said Ganim, the Houston-based tobacco distributor. "That is what people are really going for."

Whatever the obstacles facing new, full-priced cigarettes like Dakota, Reynolds needs to persevere and turn its latest brand into a winner.

Reynolds rushed the smokeless Premier cigarettes onto the market in 1988, when it was crushed by unfavorable consumer response. Uptown never even made it to the store shelf. And the flagship Reynolds brands — Camel, Winston and Salem — have slipped in recent years.

To make matters worse, archrival Philip Morris is snapping up more of the market every year. Its Marlboro brand accounts for one of every four cigarettes sold in the United States. The rugged Marlboro cowboy has been riding through ads since 1954, and he remains untouched by the controversies that have rocked Da-

kota and Uptown.

"Marlboro has done a masterful job," Trout said.

Despite its blunders, R.J. Reynolds has the weapons to fight back.

"They have spectacular distribution of their products and a good history of supporting their products," said Emanuel Goldman, a tobacco analyst for PaineWebber. "Plus they have a good management team in place now."

RJR Nabisco, Reynolds' parent company, was the target of a fierce takeover war in 1989, with Kohlberg Kravis Roberts emerging victorious after it agreed to pay \$24.7 billion for the giant corporation. The new management team installed by Kohlberg Kravis has stopped the decline of the Camel, Winston and Salem brands, said John Maxwell, a tobacco analyst with First Wheat Securities.

"The new management group is doing the right things," he said.

There remains plenty of room for success for a well-run tobacco company. Last year the American tobacco industry sold \$35.8 billion worth of cigarettes. Dakota needs only to haul in a very small portion of that to become a winner.

"R.J. Reynolds would consider Dakota worthwhile if they got just one-half of 1 percent of the cigarettes sold in the test markets," said Allan Kaplan, an analyst with Merrill Lynch Research. "That would tell the Reynolds people they could go forward with Dakota and bring it out nationally."

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