

RESTRICTED

TO: SEE DISTRIBUTION  
FROM: K. LING

DATE: APRIL 11, 1992

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TRIP NOTES

Area - Buffalo, New York  
Date - 4/9/92

1. Objective

- To investigate the opportunity of selling BATUKE products to the Canadian visitors.
- To evaluate the opportunity of increasing the visibility of BATUKE products in this area.

2. Major Traffic Area

- Due to the relatively lower tax and more favorable price in various products in the U.S. border area, numerous Canadians will drive across the border daily for shopping. In addition, there are also a lot of Canadians who will cross the border for sight-seeing and visiting.
- In Buffalo and its vicinity, there are 4 major gateways.

- \* Peace Bridge
- \* Rainbow Bridge
- \* Queenston Bridge
- \* Lewiston Bridge

3. Sales Channel

At present, all products flow through mainly 4 legal channels and be available to those Canadian visitors.

- Stores in the Indian Reservation Area
- Border Shops near the gateway area (U.S. Tax paid)
- Duty free shops on the border
- Wholesale Clubs

a. Indian Reservation Area

Many stores, being owned and managed by the local Indians, were established like small franchises in these areas. Appendix A showed a list of these stores in the area. These stores mainly supplied tobacco/cigarettes, gasoline, gold ornaments and jewelry. All tobacco/cigarette products sold inside the area do not require any sales tax or state tax, which results in the selling price to be very attractive.

b. Border Shops

These shops are operated by the local people near those gateway areas. Since the duty and tax in Canada is so high, the U.S. duty and tax paid products will always be viewed as a bargain to the Canadians.

c. Duty Free Shops

These shops are operated by Ammex Inc. on the U.S. border. For each gateway area, there are 2 to 3 duty free shops. The sales format in each shop is either self service or catalog sales. For the catalog sales, each customer has to pre-pay their goods in the store and then pickup their merchandise in a special area prior to departing U.S. border.

d. Wholesale Clubs

In nearby area, they have BJ's, Pace, Sams and Price Clubs. Each weekend or holiday, these outlets are filled with Canadian customers.

4. Price and Products

a. Indian Reservation Area

Appendix B shows a price list of various cigarettes being sold in these tobacco stores. The price may vary between stores in the range of U.S. \$0.25 to U.S.\$0.50/carton.

- Most Canadian cigarettes were being sold between U.S.\$16.00 to U.S.\$18.00/carton without any discount or promotion.

- All American cigarettes have a list price between U.S.\$12.00 to U.S.\$15.00/carton. However, the competition between these American manufacturers are fierce and they undercut each other by offering high coupon value. The net price of each carton can be as low as U.S.\$6.50.

- SEFK was being sold in only one outlet with a price of U.S.\$12.75 per carton. Our price is almost the cheapest in comparison to those Canadian cigarettes. There is a brand named "Marco" from Switzerland selling at U.S.\$11.20/carton.

b. Border Shops

These shops offer a wide range of American and Canadian cigarettes. American manufacturers also undercut each other by offering coupons. SEFK was not being sold in these shops. In average, Canadians are around 25% of their total customers.

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c. Duty Free Shops  
 SEFK was not being sold in these shops. JPS International and KS were available. The prices of both JPS versions and other import cigarettes are as follows:

|                       | <u>Per Carton</u> |
|-----------------------|-------------------|
| JPS International     | U.S. \$13.95      |
| JPS KS                | \$13.95           |
| Dunhill International | \$13.95           |
| Silk Cut              | \$13.95           |
| Rothman KS            | \$14.95           |
| Players Light         | \$14.95           |

d. Wholesale Clubs  
 The variety of Canadian cigarettes were very limited. BATUKE products were not available in these outlets. Prices are as follows:

|                                   | <u>Per Carton</u> |
|-----------------------------------|-------------------|
| Du Maurier                        | U.S. \$18.57      |
| Pyramid 100's                     | \$13.54           |
| Pyramid KS                        | \$13.27           |
| Other Full Price Cigarettes KS    | \$17.91           |
| Other Full Price Cigarettes 100's | \$18.24           |
| Other Generic Cigarettes KS       | \$16.16           |
| Other Generic Cigarettes 100's    | \$16.44           |

#### 5. Awareness

- Around the border area, the Canadian manufacturers have erected a lot of billboards and signages to advertise their brand.

- Both inside and outside these shops in the Indian Reservation area, the American manufacturers have a lot of displays and banners in promoting their brands.

- SEFK does not have any kind of display, promotion or advertising in these areas.

#### 6. Distribution

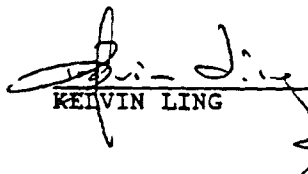
Except duty free shops, our sales are distributed by our agent BIT through one wholesaler, Frank Atea, in this region. Most of Frank's business is in the Indian Reservation Area. 50% of our SEFK's were estimated to be sold to one store in the Reservation Area and 50% were sold to the transit operators. In March, 1992, our sales to Frank were 300 cases.

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7. **Recommendations**

At present, we are not in any position to compete with those American manufacturers in the traditional market. However, there are rooms for us to develop in the Indian Reservation Area. In those shops inside the Recreation Area, there are different types of Canadian customers. One is the Canadian brand loyalist and the other type will simply purchase the cheapest brand. Most of the latter type will purchase American cigarettes. There is also one type that will buy the cheapest brand which is comparable to their Canadian cigarettes. These customers should be our target group. At present, our SEFK was being sold in only one store in the Area. If we can expand the distribution in the Area, I believe our sales to these stores can be expanded to 250 to 300 cases per month. In addition, our low retail price in comparing to the Canadian cigarettes should attract a certain quantity of customer.

In order to accomplish the above, I propose BIT to assign an additional manpower, on a trial basis for 3 months, to merchandise and promote our products in these Reservation Areas.

  
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KEVIN LING

Distribution

Mr. A.D.G. Pereira  
Mr. R. Brentnell  
Mr. S. Facey  
Mr. C. Figuereido  
Mr. J. Potheary  
Mrs. L. Previati  
Mrs. E. Howard

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APPENDIX A

List of Stores in the Indian Reservation Area

| <u>NAME</u>           | <u>ADDRESS</u>                        |
|-----------------------|---------------------------------------|
| Seneca Hawk           | Rt. 5 & 20, Irving NY                 |
| OJ's Smoke Shop       | Box 83, Steamberg NY - 14783          |
| Highbanks Campground  | Box C, Steamberg NY - 14783           |
| Seneca Service Mart   | Rte. 5 & 20, Irving NY - 14081        |
| Triple J's 1          | Rte. 5, Irving NY - 14081             |
| Triple J's 2          | Box 326, Irving NY - 14081            |
| PM Smokeshop          | 357 Milestrip, Irving NY - 14081      |
| Seneca Nation Bingo   | Rte. 5, Irving NY - 14081             |
| Darren's Bear Claw    | 11048 S. Western, Irving NY - 14081   |
| B & W Store           | Rte. 438, Irving NY - 14081           |
| Wolf's Run            | Rte. 438, Irving NY - 14081           |
| Roseine's             | Rte. 438, Gowanda NY - 14070          |
| Iroquois Smoke Shop   | Rte. 438, Gowanda NY - 14070          |
| Randy's Smoke Shop    | 1325 Upper Mt., Lewiston NY - 14092   |
| Smokin Joe's          | 4900 IndianHill, Lewiston NY - 14092  |
| Smokin Joe's 5        | 2323 SaunderSett, Sanborn NY - 14132  |
| Smokin Joe's B        | 2293 SaunderSett, Sanborn NY - 14132  |
| Jay's Place           | 5446 Walmore Rd., Lewiston NY - 14092 |
| Mike's Trading Post   | 2342 Printup Rd., Sanborn NY - 14131  |
| JR's Smoke Shop       | 1583 Upper Mt., Lewiston NY - 14092   |
| Hank's Smoke Shop     | 5861 Garlow Rd., Lewiston NY - 14092  |
| The Hawk              | 2421 Upper Mt., Sanborn NY - 14132    |
| Smokin Joe's 4        | 2422 Upper Mt., Sanborn NY - 14132    |
| No Blanket            | 2400 Upper Mt., Sanborn NY - 14132    |
| Jan's Smoke Shop      | 383 Bloomingdale, Basom NY            |
| The REZ               | 986 Bloomingdale, Basom NY            |
| - 3rd Pending Opening |                                       |
| Cheifs Pit Shop       | 429 E. State, Salamamco NY            |
| Cheifs Pit Stop TOO   | 469 Wildwood, Salamamco NY            |
| Senaca Smoke & Crapt  | Broad St., Salamamco NY               |
| Seneca                | Broad St., Salamamco NY               |
| Ronen's               | 316 Center St., Salamamco NY          |
| 64 Main St.           | 64 Main St., Salamamco NY             |

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APPENDIX B

Indian Reservation Area - Price List

|                             | <u>Per Carton (US\$)</u>  |
|-----------------------------|---------------------------|
| SEFK (Code: SSBN, AAMD)     | 12.75                     |
| Du Maurier - all stypes     | 18.65                     |
| Rothman KS                  | 17.55                     |
| Craven A KS                 | 17.55                     |
| Export A KS                 | 16.90                     |
| Matinee King                | 16.90                     |
| Belvedere                   | 15.50                     |
| B&H 100's                   | 15.90                     |
| B&H KS                      | 15.90                     |
| Macdonald                   | 15.90                     |
| Marco (from Switzerland)    | 11.20                     |
| <br>                        |                           |
| Vantage Light               | 16.40                     |
| Marlboro KS Medium          | 10.07 (3 for \$30.20)     |
| Pyramid                     | 6.50 (with \$3.00 coupon) |
| Montclair 100'S             | 8.55 (with coupon)        |
| Basic KS                    | 7.20 (with coupon)        |
| Basic 100's                 | 7.55 (with coupon)        |
| Other U.S. Blend Reg. Price |                           |
| - 100's                     | 15.35                     |
| - KS                        | 15.10                     |

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