

EXTENSIONS OF REMARKS

R.J. REYNOLDS STILL TARGETS OUR YOUTH AND YOUNG ADULTS

HON. HENRY A. WAXMAN

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, July 30, 1997

Mr. WAXMAN. Mr. Speaker, I rise today to share with the Members of this House an article that appeared in the May 28, 1997, edition of the Cleveland Free Times concerning R.J. Reynolds' new strategy to lure young people to smoke Camel cigarettes.

Given the retirement of Joe Camel, you may have thought that RJR was going to put an end to its promotional campaign aimed at our kids. But this Cleveland Free Times article discloses that R.J. Reynolds has developed a multimillion-dollar cigarette marketing campaign that targets bars and clubs frequented by youth and young adults. The goal of the program is to create an alternative marketing campaign and cigarette distribution network that operates under the radar. The campaign's targets include clubs—some of which are all-age concert clubs—and coffee houses. In exchange for cash, these bars and clubs give RJR exclusive rights to promote and sell Camel cigarettes in their establishment. As part of this promotion strategy, RJR-paid personnel mingle in the clubs to associate Camel cigarettes with what is cool.

This insightful Cleveland Free Times article gives us fair warning that the tobacco industry will continue to use its own particular marketing genius to target our kids. This must be foremost in our mind as we begin to consider tobacco legislation and how we can best achieve our goal of reducing the deadly toll exacted by tobacco on the people of our country.

Mr. Speaker, I ask that the full text of the article be printed in the RECORD so that my colleagues may have an opportunity to read about RJR's club marketing strategy.

CAMEL CLUBBING

(By Mark Naymik)

They do not wait in lines, show IDs, pay cover charges or purchase concert tickets to gain access to Cleveland's most popular bars and clubs. Once inside these venues, they are treated like low-budget celebrities, sometimes drawing a small crowd, several handshakes, and admiring nods from bar and club staff members.

They are Cleveland's Camel Club kids, a small group of twenty-something clubgoers, including Twig, Sheff, Ma-Ma, Frankie Boy and Don Vega, as they are known.

On most nights, these fashionable men and woman, each armed with a black canvas bag filled with Camel cigarettes, slip in and out of more than thirty area bars and clubs, from the Grog Shop, a small East side concert club, to the Phantasy, Lakewood's industrial-music dance club, to Ufia, Cleveland's largest gay club located on the West Side. Their job: blend in with the bar and club patrons, make friends with the bar staff and offer smokers free Camel cigarettes, R.J. Reynolds' premium brand.

These Camel Club kids should not be compared to those candy-striped cigarette girls or miniskirt-clad alcohol peddlers, who attract a lot of attention but can be more annoying than effective in enticing bar patrons to try their product. Camel Club kids look like they belong. They are R.J. Reynolds' ambassadors of cool. And they are the front-line workers in a relatively new, multimillion-dollar cigarette marketing campaign known as the Camel Club Program.

The goal of the Camel Club Program—beyond the obvious aim to increase sales of Camel cigarettes—is to create an alternative marketing campaign and cigarette distribution network, one that will not be affected by changing federal regulations or the scores of tobacco-related lawsuits clogging the courts. In other words, R.J. Reynolds wants to create a sales program that no longer relies on Joe Camel, obnoxious giveaways and promotions, or even vending machines to move its smokes.

Cleveland is only one of about a dozen cities in which R.J. Reynolds has begun to market its cigarettes through bars and clubs frequented by the twentysomething smoking crowd.

A *Free Times* examination of the Camel Club Program in Cleveland reveals that R.J. Reynolds already has a near monopoly on the sale of cigarettes in most of Cleveland's bars and clubs that cater to young crowds. R.J. Reynolds created this monopoly by spending more than \$120,000 on marketing agreements with club owners, who, in turn, give Camel Club kids exclusive access to their establishments. R.J. Reynolds also has targeted coffeehouses—havens for young smokers—and concert clubs that feature all-ages shows.

MONEY FOR NOTHING

Several months ago, representatives from R.J. Reynolds and KBA Marketing, the young and progressive Chicago-based marketing firm that manages the Camel Club Program, came to Cleveland in search of trendy bars, restaurants, coffeehouses and concert clubs. About forty area nightspots made the scouting team's hit list.

Next, KBA hired two Cleveland clubgoers with a knowledge of the city's nightlife scene and rented for them an office in the Bradley Building in Cleveland's Warehouse District. These clubgoers became KBA's Cleveland "city managers." Their job was to contact club owners on the hit list and sign them to a one-year contract giving R.J. Reynolds exclusive rights to promote and sell Camel cigarettes in their establishments.

By mid-February, the city managers easily signed thirty bars and clubs to the program. Bar and club owners would have been foolish not to sign. First, R.J. Reynolds offered them cash, between \$1,000 and \$18,000, depending on the club's size and traffic flow. For instance, the Drip Stick, a sleepy coffeehouse in the Warehouse District, received \$1,000, while the Odeon, a concert club that features local and national rock and alternative acts, received \$17,800, according to club industry insiders. R.J. Reynolds puts no restrictions on how the money can be used.

On top of the cash, R.J. Reynolds agrees to supply the bar owners with Camel beverage napkins, ashtrays, personalized matchbooks and bar paraphernalia like neon lights, a marketing tactic similar to promotions tra-

ditionally done with beer and liquor products through local distributors. R.J. Reynolds also buys regular full-page advertisements in an entertainment publication in each city to collectively promote the clubs and helps in the printing of expensive glossy flyers featuring their concerts and special events.

After the city managers signed the Cleveland bar and club owners to a contract, they arranged a meeting with staff members of each venue to outline what they would get out of the program.

Every bar or club staff member who smokes receives free Camel cigarettes, usually a couple of packs, each time a Camel Club kid visits. The staff receives Camel promotional items like Zippo lighters, MagLite flashlights, T-shirts and hats. In return, R.J. Reynolds expects these bar staffers to promote Camel cigarettes by smoking Camel products while they work, and by displaying individual Camel cigarettes behind the bar. "You notice more people asking to purchase cigarettes from you, increasing your tips," the city managers are supposed to tell the bar staff at their orientation meeting, according to KBA marketing materials.

DEATH OF VENDING MACHINES

Another goal of the Camel Club Program is the elimination of vending machines, which display competitors' cigarettes, such as Philip Morris' Marlboro brands. To do this, KBA's city managers encourage bar and club owners to discontinue selling cigarettes in vending machines, and instead, exclusively sell Camel cigarettes displayed in small lighted kiosks placed behind their bars. Nearly all of the bars and clubs in the program have placed Camel kiosks, which hold forty packs of cigarettes, behind their bars. Here, too, R.J. Reynolds' sales pitch was hard to refuse: Eliminate the cigarette and vending machine distributors—the middle men—and pocket more cash.

Using vending machines, bars and clubs earn roughly between 25 and fifty cents on a pack of cigarettes that retails in the machine for about \$2.75. R.J. Reynolds charges the clubs \$1.52 per pack. So clubs that sign on with R.J. Reynolds can earn 97.5 percent profit on a pack of cigarettes that retails for \$3 behind the bar. That's \$60 profit every time they empty a kiosk. R.J. Reynolds also offers better service than traditional vendors. The Camel Club kids are on call to service the kiosk at all hours. If, for example, the club runs out of cigarettes in the middle of a concert, the bar manager can call one of the club kids, who will deliver fresh packs immediately.

If a bar owner has a pre-existing contract with other cigarette companies and vending machine distributors, R.J. Reynolds expects the bar's owner to request from the vending machine operator that it "convert the top 11 columns" of the machine to Camel brands.

New FDA regulations that will take effect later this summer prohibit all bars, clubs and restaurants that serve patrons under 21 from selling cigarettes in vending machines. By getting club owners to agree now to sell Camel exclusively, R.J. Reynolds is effectively locking out other cigarette makers from entering the bar when the regulations take effect.

THE "UNDER THE RADAR APPROACH"

KBA launched the Camel Club Program in late 1994 in Chicago, and quickly introduced

• This "bullet" symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.

it into New York, Dallas and Los Angeles. The Camel Club Program's style has a lot to do with KBA and its founder, Kevin Berg, a former club owner.

Berg does not hire "suit and tie" corporate types; he hires men and women who have nightclub experience and who are on the cutting-edge of fashion and pop culture. People with such experience and style are easily accepted into the club scene and carry far more "credibility" than the often stiff corporate cigarette representative.

Twig, for instance, on a recent visit to the Odeon concert club, wore thick, black-rim, retro-styled glasses, a leather coat that hung below his waist, wide-leg blue jeans, and red shoes. His demeanor was relaxed, as he made little effort to distribute the cigarettes. He gave a few packs of Camel cigarettes to Odeon staff, laughing with them as if he were an old fraternity buddy. He then took a seat for the show. During a recent visit to the Brillo Pad, a dimly lighted lounge with a soothing beat, Camel Club kid Don Vega walked behind the bar and served himself an orange juice, passed a few packs of cigarettes to friends and the bartender, played a game of chess with the owner, and left.

Being associated with a "cool" scene is the image R.J. Reynolds wants to build. "By operating in the nightlife scene, the objective is to directly reach trend influencers, the people that start and maintain trends. Our association with trend influencers * * * will have a lasting impact on clubgoers who will begin to associate Camel with what is 'cool,'" reads KBA's marketing material.

KBA believes by using the Camel Club kids and "interacting with the club patrons using a low-key, under the radar approach, is our best way to establish that we understand and are a part of the scene."

Once in the scene, Camel Club kids, who are paid hourly and typically work 4 to 6 hours a night, try to convert smokers to Camel by offering smokers fresh, full packs of Camels in exchange for their remaining non-Camel cigarettes. In return, the smokers are supposed to fill out an address card, known as the "name generation" card, which is passed back to R.J. Reynolds.

According to KBA's marketing plan. "This personal approach to selling is designed to, if executed effectively, convert the smoker to Camel and show the adult smoker that Camel is 'cool' by the way we establish this subtle interchange."

KBA declined to comment for this story and instead, asked R.J. Reynolds to respond to the *Free Times*. R.J. Reynolds did not contact the paper before deadline.

BIG HAIR AND BUBBLE GUM

If R.J. Reynolds' stated goal is to influence trendsetters and be associated with "cool," one has to wonder why KBA city managers targeted and signed Club 1148, a discotheque in the Flats.

Club 1148 is anything but hip, the only trendsetters that hang out here are those left over from the '80s. On a recent Saturday night, for example, hairsprayed women in tight frosted jeans flounced around the dance floor as bare-chested men in vests watched form the sidelines. Many of the club's smokers chewed gum while they took long, rehearsed drags on Camel cigarettes.

So why is R.J. Reynolds paying Club 1148 \$5,000 for the right to distribute its cigarettes? The answer may lie in the club's demographics. The club is open to 19-year-olds. And while KBA marketing materials state its goal is to "convert adult smokers at least 21-years-old," R.J. Reynolds needs to influence existing young smokers because they are less brand loyal, and therefore, more willing to try and then possibly stay with Camel cigarettes.

Reaching young smokers is perhaps the same reason R.J. Reynolds is interested in coffeehouses, which attract young smokers. Coffeehouses are far more trendy than Club 1148.

The clubs that receive the most money from R.J. Reynolds are the concert clubs, including the Agora, Peabody's DownUnder, Grog Shop and the Odeon, which often feature all-ages shows. It also invests heavily in promoting bands on behalf of these venues. Club tie-ins and joint sponsorship of bands are the cornerstones of the Camel Club Program. This is R.J. Reynolds' way of reinforcing the message that it is supporting the "scene."

"Camel events are the single most important way that we leverage our relationship with [Camel Club Program] venues," says the KBA marketing plan.

Dan Kemer, senior director of advertising and marketing for Belkin Productions, the concert promotion company that owns the Odeon, says the Camel Club Program helps promote artists he wants to showcase. "It's another good marketing tool . . . the biggest bonus to us is the program helps get the word out on the street," says Kemer about the additional advertising dollars and printed flyers he receives through the program.

Asked if he thought R.J. Reynolds could reach minors by promoting all age-shows, Kemer says he uses the program to tie into events that appeal to an older population, like the recent Me'shell Ndege'ocello concert.

"It's a great program for us," says Kathy Simkoff, who runs the Grog Shop on Coventry and received \$7000 from R.J. Reynolds. She says the Camel Club Program's primary goal is to help clubs with promotion, not distribute cigarettes to patrons. Simkoff says the Camel Club kids have been "very careful" not to distribute cigarettes to minors attending concerts and she often does not know they are in the club.

"They don't get in your face like the Jagermeister girls," she says, referring to hired models who troll Cleveland bars, pushing the sweet alcoholic Jagermeister shooter.

Similarly, John Michalek of Peabody's DownUnder, an all-ages concert club in the Flats which reportedly received \$9,000 from R.J. Reynolds, says the program helps him promote shows and he "has not seen any problems" with the distribution of cigarettes to minors.

But anti-smoking groups see the Camel Club Program as a campaign to attract underage smokers.

"R.J. Nabisco's Camel Club Program is just another strategy to seduce young people both over and under the age of 18 to use their deadly product, and is another indication as to why independent oversight of tobacco industry advertising and promotion is essential," says Lucinda Wykle-Rosenberg, research director for INFAC, a national corporate watchdog organization. INFAC is currently sponsoring a boycott of products made by R.J. Reynolds—which owns Nabisco foods—because of its cigarette marketing campaigns. Wykle-Rosenberg says the Camel Club Program is a campaign to get around anticipated regulations.

What has long upset this group and other dedicated anti-tobacco groups are the alarming death rates associated with smoking and the rate of addiction among teenagers. The Centers For Disease Control says 400,000 Americans die every year from tobacco-related diseases, and has reported that smoking rates for students in grades 9-12 increased from 27.5 percent in 1991 to 34.8 percent in 1995. A 1996 University of Michigan study released in 1996 showed smoking among high school seniors has increased to

the highest level in 17 years. And it is the demographic group, anti-tobacco advocates worry, that is attracted to such campaigns as the Camel Club Program.

"It's the Camel blitz," says one local bartender and Camel Club Program participant, who does not smoke. "The Camel kiosks are everywhere."

Editors' note: In the spirit of full disclosure, we want to point out that the *Free Times* has run cigarette ads periodically. But as Mark Naymik's piece demonstrates, our business policy to accept such ads has had no impact on our editorial policy.

Area bars and clubs participating in the Camel Club program include: Agora, Euclid Tavern, Grog Shop, Peabody's DownUnder, U4iA, Odeon, Phantasy Complex, Club Visions, Whisky, Wilbert's, 6th Street Under, Galaxy Lounge, Brillo Pad, Club 1148, Edison's Pub, Lincoln Park Pub, Treehouse, Market Avenue Wine Bar, Red Star Cafe, Literary Cafe, Firehouse Brewery, Uptowne Grille, Hi & Dry, The Last Drop, La Cave du Vin, The Humidor, The Drip Stick, Rhythm Room.

SOCIAL SECURITY

HON. LEE H. HAMILTON

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, July 30, 1997

Mr. HAMILTON. Mr. Speaker, I am inserting my Washington Report for Wednesday, July 30, 1997 into the CONGRESSIONAL RECORD:

THE OUTLOOK FOR SOCIAL SECURITY

The aging of America is a significant factor in the growth of federal spending. Not only do we have more people in the population over 65, we also have a slowdown in the growth of the workforce. The proportion of the U.S. population that is elderly will increase dramatically in the second and third decades of the next century, as the baby boomers—those born between 1946 and 1964—retire. As these population shifts occur, the federal budget increases automatically because it is the principal source of income support and medical care for older people.

Federal programs that serve older people—Social Security, Medicare, and parts of Medicaid—have replaced national defense as the dominant category of federal spending, with the federal government now spending well over twice as much on older Americans as we spend on national defense. Social Security now constitutes the major source of income for most retirees. Covering more than 95% of the labor force, Social Security is an immensely popular program.

The Social Security program is currently in good financial shape, but the long-term changes in the workforce will place a major strain on its ability to pay full benefits for the baby boomers' retirement. So fundamental questions are being asked about whether the Social Security system should be sustained, reduced, or even replaced.

DIFFERENT APPROACHES

There are four broad approaches for bringing financial balance to the future of Social Security.

One approach is to have some combination of benefit cuts and tax increases that would restore long-run financial balance without changing the system in fundamental ways. Benefits can be cut by lowering the amounts paid each year or by raising the normal retirement age. For example, under current law the normal Social Security retirement age will be raised from 65 to 67 by the year 2027; some are suggesting that this transition