Introduction to philip morris international business marketing essay

Philip Morris International (PMI) is an independently owned and operated tobacco company that spun off from its former parent company the Altria Group (MO) on March 28th, 2008. Philip Morris is the world's largest producer of tobacco products, holding 15. 7% of the global market excluding the United States.

While international sales continue to grow for Phillip Morris, domestic sales revenues have been in decline as Altria struggles to cope with higher state tobacco tariffs and the tobacco industry's negative image in the United States. The newly independent Philip Morris International will sell tobacco products in international markets while Altria will maintain its own domestic operations. In addition to selling Marlboro branded cigarettes, the world's highest volume cigarette brand, PMI also has seven of the top ten brands by volume global such as L&M, Philip Morris, Bond Street, Chesterfield, Parliament, Lark, A Mild, and Morven Gold throughout Europe, South America, and Asia.

Philip Morris International's tobacco products include traditional cigars and cigarettes as well as smokeless products such as snuff and chewing tobacco. Although Philip Morris International is headquarted in New York, NY, all of its operations are conducted internationally though its operation center located in Lausanne, Switzerland.

Recently, tobacco companies operating from within the United States market have faced significant challenges. As a result, Altria saw value in a split the between its domestic and international segments. Under a single company model, when either the domestic or international segment has a downturn in sales revenue, the other segment would be under pressure to increase sales and decrease expense to offset this weakness on the other side of the business. the company revenue and expense on the balance sheet. This was the case prior to the spin off, and Altria itself inherited both the domestic and international risk. From the shareholder’s perspective, separated segments allows investors to allocate their capital according to which market they see as the most lucrative based on that market’s risk profile. Besides that, the reason behind the spinoff of PMI from Altria Group was to allow shareholders to profit more directly from tobacco revenue. As a result of the spinoff, every shareholder of Altria received, for every share of Altria held, a share in the new independently traded and unaffiliated Philip Morris International. Another reason is in its mainland which is USA, smoking increasingly become unpopular. PMI has to circle the globe to rustle up smokers.

In addition to providing service to about 15. 7% of the global tobacco market, PM also owns seven out of ten of the top selling international cigarette brands. PM comes into contact with two distinct customers when marketing its cigarettes – the value consumer and the discriminatory consumer. Value consumers are more concerned with the price of the tobacco products, whereas discriminatory consumers are concerned with where the tobacco was grown and the quality of the product they are purchasing.

PM, for the most part produces tobacco for the discriminatory consumer, but does maintain a portfolio of three value company brands (Bond Street, Red and White, and Next branded tobacco products) that operate globally. To meet the needs of its discriminatory customers, in addition to owning globally recognized branded cigarettes such as Marlboro, L&M, Philip Morris, and Chesterfield, PM owns local brands such as A Mild and Diji Sam in Indonesia, Diana in Italy, and Assos in Greece to take advantage of established brands as opposed to marketing new brands in some regions.

While international tobacco growth in both emerging and developed markets flourished over the past five years, the domestic tobacco market has been under severe pressure. On one hand, both private and public litigation against tobacco corporations in the United States from the early 1990s has hindered Altria's possibilities for growth. In addition, Altria has paid more than $74 billion in damages to settle past lawsuits. As media and public interest groups have increased their lobbying efforts against big tobacco, states have increased their tax rates (New York State has recently increased its tax on cigarettes from $1. 50 to $2. 75) on cigarette products.

In nearly all of the countries in which PM operations, PM's products are subject to various local excise taxes. Not only do these taxes add costs to PMI's operations, but if PMI passes on the taxes to the consumer by raising prices, PMI's higher end products become harder to sell. In some cases, higher prices because of taxes also result in new, low-cost competitors, including counterfeit products at a lower price to the consumer. In all cases, when taxation of tobacco related-products increases, PMI's revenue suffers.

Philip Morris International holds a 15. 4% share of the global tobacco market excluding the United States. Its main competitors are British American Tobacco (15. 4% market share), and Japan Tobacco International (7. 2% market share). Despite the fact that these are the three largest companies in terms of revenues and number of cigarettes sold internationally, they only account for 38% of the global market. One reason for this is the large number of small, domestic tobacco companies, which can retain a sizable share of their local markets without accounting for a statistically significant percentage of the overall global market. Secondly, the political climates in some countries prohibit the free entry of international companies. One example is China, where the over 1. 7 trillion cigarettes smoked annually are manufactured and sold almost exclusively by the state-owned China National Tobacco Co.. The Chinese market accounts for nearly 30% of global cigarette consumption, making China National Tobacco the largest tobacco company in the world. However, it's not generally included in the data on international tobacco companies since it's considered a state monopoly.

Geoffrey C. Bible, chairman and chief executive of Philip Morris Cos oversees the world's largest tobacco company, arguably the most reviled corporation in America. In the U. S., where more than 400, 000 people die annually from smoking-related diseases, it could be said that Bible's company, with its 50% market share, is to blame for the often agonizing deaths of some 200, 000 smokers a year. So how can Bible, of all people, speak so passionately about an individual's obligation to society?

That, of course, is a dilemma that each of Philip Morris' 144, 000 employees must wrestle with. Rarely has an industry or a corporation been so deeply vilified and so thoroughly discredited as Big Tobacco and its biggest player, Philip Morris (MO). Few employees have escaped the loathing heaped on their company. Almost all have faced The Question, the inevitable inquiry laced with accusation that sooner or later always gets asked–at the PTA, a dinner party, or Little League: ” How can you work for a company that kills people?”

It’s not a question that is easily answered. Execs at Philip Morris tend to frame their response in self-righteous, almost combative terms. Cigarettes, they will tell you, are lawful products that any adult should have the right to buy. It is a matter of freedom of choice, no different from the right to own a handgun, drink a martini, or eat a Big Mac. But probe a little deeper and it becomes clear that their attitudes are far more complex and that many at Philip Morris make a difficult peace with the company’s mission.

Indeed, Philip Morris is a company fraught with contradictions. In the past year, it has spent $100 million to persuade kids not to smoke. By the end of this year, it will have paid nearly $8. 5 billion to reimburse states for the cost of treating smoking-related illnesses. But visit the company’s New York corporate headquarters, where 8 of the top 12 executives are smokers, and it’s clear that tobacco infuses the entire culture. Philip Morris received the only exemption to New York City’s sweeping ban on smoking in the workplace. Ashtrays are built into the granite walls outside the elevator bank at every floor and also hang above the urinals in the men’s rooms. Conference tables hold wooden boxes filled with Philip Morris cigarettes, and the scent of tobacco lingers in the broad, carpeted halls.

The contradictions extend to the company’s uneasy relations with the outside world. Although widely despised, Philip Morris is one of the world’s most generous corporations, annually contributing $60 million in cash and

$15 million in food to fight hunger and domestic violence and to support the arts. Its employees give up to $5 million a year to charities.

None of that, of course, has silenced the company's critics, who insist the harm done by the company's products taints all else. " At every opportunity, this industry has fought legislation that might have saved lives," asserts Matthew Myers of the Campaign for Tobacco-Free Kids. " Their executives have lied about what they knew. And to a degree unmatched by any other industry that makes products that can harm people, they have gone after children."

For years, the sound and fury of the debate over the industry's products and tactics all but silenced the company and its executives. Bible became a corporate recluse as his company retreated into itself, creating a self-defensive culture to wall itself off from attack. The tobacco giant shut down virtually all outside communication. It was as if Philip Morris, one of the world's largest and most powerful corporations, with sales of $74. 3 billion last year, had all but disappeared.

Even Philip Morris' own employees felt cut off–and ill-equipped to defend the company against attack. Although they collect some of the biggest paychecks in the industry and enjoy lavish benefits, employees responding to a massive in-house survey last year brought to the surface some surprising complaints. They made it clear they wanted senior managers to step up efforts to improve the company's image and to communicate more openly.

That’s not something Bible will accept passively. In his years at Philip Morris, he has consistently shown a willingness to move aggressively to build up the company. As head of overseas tobacco operations from 1987 to 1990, he championed the purchase of local cigarette companies in former communist countries, a risky move that has allowed the company to build a commanding position in Eastern Europe.

With its reputation–and its stock price–in shreds, Philip Morris recently embarked on an unprecedented campaign to rehabilitate its image. As part of that effort, it allowed BUSINESS WEEK behind the corporate veil for a series of candid interviews with managers of its far-flung operations.

Bible finds himself leading Philip Morris during the most tumultuous period of its 97-year history. Asked if he would have preferred to pilot the company in a less contentious era, Bible turns wistful. ” Life ain’t like that, mate,” he muses, between puffs on a Marlboro Light Menthol. ”’Into each life some rain must fall. And too much has fallen in mine.’ Ever hear that tune by the Ink Spots? It’s the luck of the draw, isn’t it?”

No one, however, could ever have anticipated the typhoon that has engulfed him and his embattled employees. In the last year, with litigation threats looming, Philip Morris stock has fallen by half, lopping $83. 2 billion off its stock market value. That sum exceeds the total market cap of such companies as Mobil (MOB), Hewlett-Packard (HWP), and Eli Lilly (LLY). In Bible’s own words, his beloved company has become ” the dog of the Dow.”

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Bible’s most formative experiences, though, took place far from the corporate halls of Philip Morris. He speaks movingly of the five years he spent, from 1959 to 1964, working for a U. N. relief agency that helped Palestinian refugees in the Middle East.

Next to Bible is Paul W. Hendrys. As tall and lanky as his American counterpart, Hendrys is chief executive of Philip Morris International Inc. At 52, he is a passionate consumer of his company’s products, having smoked since 19. Yet, Hendrys says, he has quit some 20 times over the years, often for a few weeks or months, before restarting.

Overseas markets have become the critical avenue for growth. The company has only a 14% share outside the U. S., where higher percentages of people smoke, where nonsmokers are far more tolerant of the habit, where opposition is less organized, and–most important–where consumers are less litigious.

To exploit those markets, Hendrys has been refining a strategy he hit on almost 20 years ago, when he joined the company as a regional-sales director in Germany. Back then he used a savvy maneuver to outflank Reemtsa, his former employer: When Reemtsa tried to spark a price war by lowering the cost of West, its Marlboro-lookalike brand, Philip Morris introduced its L&M brand as the cheaper alternative. The move protected

Marlboro’s premium pricing, while smashing competition at the lower end. It also helped push Philip Morris’ market share in Germany, the largest European smoking market by far, to 41%, up from just 10% in 1980.

Now, Hendrys’ primary objective is to duplicate that success throughout the world as a way of offsetting the decline in smoking in the U. S. ” The American market is a big market, but we’re talking here about a world market of 5. 2 trillion cigarettes,” he says, at international headquarters in Rye Brook, N. Y. ” And I tell you, we will take our fair share.”

Could anything stop Philip Morris’ worldwide campaign? Protective governments remain a problem, and there is always the possibility that a strong antismoking movement could emerge. Hendrys is trying to use the experience in the U. S. to head off such a movement. The company now has 83 youth prevention programs in 55 countries outside the U. S., sometimes over the opposition of local competitors. ” We don’t want kids to smoke because it exposes us to attack as an industry,” says Hendrys.

It’s also true, though, that Philip Morris dominates the high end of the market with its premium brands, cushioning it against any drop-off in smoking by kids. And if kids don’t start smoking, where will Philip Morris get its future customers? Hendrys figures he can keep stealing share in a fragmented global marketplace.

PESTLE Analysis

– Political Forces

- The laws regulated by the governments against the cigarette companies and cigarettes advertisements, since early 90s.

- Increasing tax rates on cigarettes especially in U. S. and Western Europe

- The government engages in several media and education campaigns to highlight the dangers of smoking.

– Economic Forces

- Increasing buying power of the consumers in developing countries

- Incremental costs of alternative marketing strategies

- Compensation expenditures

- Shrinking old markets in developed countries

- Growing new markets in developing countries

– Social Forces

- Developing social awareness against harm of cigarette

- Campaign against cigarettes

- Tobacco industry has a negative image due to the very nature of its business which is causing addiction and death.

– Legal Forces

- The barriers against outside producers in China, Korea, Taiwan, Japan

- Health warnings are required by law on all the cigarette packets.

– Technological Innovations

- Tobacco companies are introducing innovative new products like smoke free cigarettes, flavored cigarettes, sweet smelling cigarettes, shorter and more intense cigarettes

- Research on cure for cancer

- Decreasing costs due to the development of new technologies

- Comprising new advertisement methods through internet

- Extensive research is carried out by tobacco companies into the harmful effects of smoking

– Environmental Legislation

Smoking in public places is either banned or restricted in most parts of the world

Philip Morris International has managed to retain their leadership in the market so far on the strength of their sustainable core competencies and distinctive capabilities. However the market in the developed countries is already mature. It remains to be seen how far their core brand will take them given the restrictions on advertising. Philip Morris International is moving into the emerging markets by alliances and acquisitions. They are taking advantage of the fact that smoking bans and advertising restrictions are still relaxed in some countries. However it won’t be long before restrictions will apply in these countries too. To overcome this Philip Morris International has come up with a range of innovative products. However yet again advertising them is a problem. The reason for the tremendous success of Philip Morris comes down to their extremely robust brand, the fact that they are the largest manufacturer in the world and have an extremely strong financial position, which enables them to acquire companies and form alliances.

The major key player, which the tobacco industry needs to be concerned about, is the government of the country that the organization is operating in. Philip Morris has realized this and has taken the decision to spin-off Philip Morris international from the main Altria group (Philip Morris, 2008). This frees it up from the US regulations and litigations and gives it more freedom to focus on their products. There is concern from regulatory bodies that the statelessness of PMI will mean that it is not answerable to anyone. (Connell, Wall Street Journal, 2008). However the organization will still have to operate within the limits imposed on the tobacco industry in general.

The tobacco industry tries to protect itself from litigation by documenting the harmful effects of smoking and giving effective warnings on cigarette packs. However the threat of litigation is always a concern in the US and the organization has to ensure that they do not get caught up in any litigations.

The regulatory bodies, pressure groups, NGOs and the media can make things very difficult for the organization because of the potentially fatal products that they manufacture. These stakeholders have to be kept happy. Philip Morris International does this by involving themselves in a series of charitable programs. They sponsor research into the harmful effects of smoking. They project an image of being extremely concerned about youth smoking and have taken measures to prevent the young from smoking. Restaurants, pubs were the first to feel the effect of the smoking ban in public places however they are powerless to prevent this.

The future strategy would be to market a range of smoking concepts each targeted at different foreign populations. PMI plans to target the huge population of China. Marlboro’s move into China will take years, but it could ultimately be the biggest piece of the story for investors.