

Corporate strategy: british american tobacco

[Business](#), [Strategy](#)



British American tobacco is one of the world's renowned multinational organizations that has managed to create a strong corporate brand name and has through various products across the many markets created strong product brands. The success of the company can be attributed to many individual factors though all of them condense to form the company's strategic corporate policy.

A corporate strategy can be said to be a culmination of all the other strategies such as marketing, expansion, etc integrated into one with the single goal of achieving the company's mission, vision and objectives.

The corporate strategy adopted by any organization thus gives a general direction of where the company is headed in the long term and in the near future. In this paper, we discuss the corporate strategy adopted by British American Tobacco since the year 2003. Specifically the paper discusses the initiatives adopted by the company in recent times and compares them to theoretical models proposed by modern management experts and learned in class.

In addition the paper looks the company's environment in terms of competition and proposes additional models and theories that the company can adopt in the face of increasing awareness of corporate social responsibility and anti-smoking legislation.

Company overview The parent company is located in the UK with 47 other factories operating outside the UK spread out globally in 40 countries. There are also associate companies with a global presence. Its tobacco products

are sold in over 180 countries with varying market shares with the highest being over 50%.

The company employs over 3.5 million people globally. According to the 2007 financial year report, the company has other 16 associate factories in 10 countries. Globally, according to the company's website, it enjoys over 17% dominance in the market and over 60% in the UK market through its various brands. The company has over 300 brands in its portfolio and among the major product brands in the global market are Dunhill, Lucky Strike, Kent, and Pall Mall.

This paper discusses BAT's corporate strategy and looks at how its strategy has positioned it in the market in reference to the prevailing business environment and competition. Vision statement: "Our vision is to lead the tobacco industry through growth, productivity and responsibility". This is further expounded by the company's goals generalized as "Our goals are to grow our brands and the value of the business, to improve productivity and to embed the principles of corporate responsibility around the Group".

Mission statement:

Our goal is to create long term value for our shareholders by consistent achieving of superior quality returns from the manufacture and marketing of tobacco products and to remain the world's leading tobacco company as measured by market share, by commitment to quality, and by our own ability to meet the needs and interests of our customers, our employees and the communities in which we operate in. The company's growth strategy has four main pillars which were unveiled in 1995 as growth, productivity, responsibility and winning organization.

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In the path of growth the company has utilized several strategies that we can attributed to the success of the company in the journey towards achieving its goal. Over the past five years for example, the goal of increasing shareholder value was most exemplified with the increase in investment returns by 294% according to the current company CEO, Paul Adams. By combination these specific company values with the company's goals, we get an idea of where the company is headed to. As of the company's annual report of 2007 presented in November revenue was ?

7, 312m representing a 1% increase from the previous year's and profit from operations was? 2, 304m representing a 19% rise form the previous financial year. To achieve this and the company's long-term objectives and other endeavors the company has visualized a growth path that will seemingly keep in on the way to achieving its vision. Again, the fact that there is empirical evidence of the success of the company as shown by the increase in investors returns in the last five years, there are specific strategies that this paper discusses as the drivers behind the implementation of the company's strategy.

According to the report from the Guardian newspaper the growth of the company's stock market performance is as shown below (Obtained from <http://www.guardian.co.uk/business/britishamericantobacco>) Strategic fit of the company Drucker (2008) defines strategic fit as the matching of the mission strategies of an organization to its internal structure and external environment. In this context, we limit our study of the company to corporate social responsibility, strategic alliances and mergers and acquisitions and

look at how they have played the role in achieving the company's set goals mission and vision.

Strategic alliances In the business world, alliances are either formed by competitors or complimentary industry in order for the involved companies to strengthen their position in the market or achieve some common objective such as fighting competition and reducing costs. As such, BAT has been using its international presence to forge alliances with a number of players in the tobacco industry in various markets. In the recent past BAT entered into an agreement with one of its competitors, Phillip Morris International to manufacture and distribute some of the company's brands in specific markets.

On another case, BAT has entered into agreement with Imperial Tobacco to manufacture and distribute some of Imperial's brands in Africa such as Embassy brand. Such alliances have enabled the involved partners to concentrate their efforts in specific markets while at the same time having their bands represented. Though this idea may seemingly appear to be benefiting Imperial Tobacco only, it on the other hand helps BAT to fully employ its resources in such markets. Mergers and acquisitions

Earlier this year the company acquired Danish conglomerate Skandinavisk Tobakskompagni (ST) for? 2. 01bn. This is in addition to the taking over of another Turkish manufacturing company, Telkel for ? 860m. Now, such acquisitions are meant to expand the operations of the country and presence in the global tobacco market. Currently holding 15% of the total global market, the vision of becoming the global leader in the manufacture of tobacco products looks achievable.

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According to the company vision as to lead the tobacco industry through growth, productivity and responsibility, the idea of forming mergers and acquiring already existing companies in new markets not only indicates the financial strength of the company but the ability of the management to identify potential growth opportunities in making of such decisions.

The acquisition of ST was according to the company's CEO made in order to acquire a new market segment of the non smoking market as oral tobacco, Fielder & Lundgren owned by ST. This non-smoking tobacco is aimed to be introduced into markets where there are strict regulations.

This comes in the wake of increased pressure from health organization bodies calling on the restriction or total banning of smoking in certain areas. Therefore, the company is strategically positioning itself in the non-smoking market by acquiring already established brands in the market with strong brand names and subsequent strong brand equity.

Corporate responsibility In October this year, BAT was included among the top leaders in the field of corporate responsibility reporting by a leading corporate social responsibility consultancy firm, Salter Baxter, a move that has received a lot of criticism.

The company still insists that its inclusion in the list is in recognition of its strong policies in corporate social responsibility as spelt out in the company's corporate ideals of operating responsibly. Michael Prideaux, the company's director of Corporate and Regulatory Affairs says that " If a business is managing products which pose health risks, it is all the more important that it does so responsibly". BAT's corporate responsibility agenda is articulated

in three directions as environmental management, globalization and human rights and regulation and lobbying.

Similarly, the company's health and science department is involved in researching into the development of less harmful products. This is most necessary as health reports have continuously highlighted the dangers of smoking and the devastating effects it has on non smokers through second hand smoke. According to the World Health Organization report on global smoking released earlier this year, it showed that the number of smoke related deaths in the US alone for 2007 were in excess of half a million.

When faced such glaring facts, the company has had to give its fair contribution in educating the public and more so warn their target market of the dangers of consuming their products. Through as ironical as may seem, BAT has gone ahead and introduced a science website [http://www. bat. com/science](http://www.bat.com/science) that delves into research findings on the dangers of smoking and related issues. Again the company has complied with stringent regulatory measures put in place to protect the public from exploitation by players in this industry such as BAT. PEST analysis

This analysis seeks to identify the political, economic, socio-cultural and technological factors affecting a given company in this case BAT. Political This pertains to how the company is structured in order to comply with the government policy in the country of operation. Given that BAT is a multinational company with its brands in about 190 countries, it has had to comply with diverse government policies that have varying effect on the operations of the company. Its operations in Russia are at the moment facing

a great threat after being targeted by the country's consumer rights agency, Rospotrebnadzor.

Early September this year, Gennady Onishchenko, director of Rospotrebnadzor accused BAT of “misleading consumers” and infringing on their rights on the basis that the company was marketing its products as less harmful specifically targeting the light and super light brands. This is just one of the many political challenges that the company facing.

Other instances that are worth highlighting the tough taxes imposed on tobacco and tobacco products in many countries. Economic factors The company operates generally in large scale to produced around 850 billion cigarettes a year among other tobacco products.

Economics of scale have thus favored the company and contributed greatly in achieving the growth that the company desires. In addition to this, presence of the company in many markets cushions the company from making losses in case of decreased sales in on market that may be caused by a variety of factors.

Socio-cultural factors The culture of smoking as a fashion statement is the greatest driver in sales for tobacco companies in general. Unfortunately, the same idea is being used in campaigning against smoking which is greatly affecting sales for BAT and other tobacco based companies.

On the other hand, there are some traditional believes and practices that profess the goodness in smoking of unprocessed tobacco leaves thereby denying the industry a huge chunk of the market. Technologic factors A lot of

research is being directed towards analyzing the harm of tobacco and more so tobacco smoke.

As such BAT and players in the tobacco industry are constantly faced with the challenge of improving their manufacturing and processing units in order to comply with the requirements of reducing the harmful content of tobacco.

SWOT analysis This test seeks to analyze the external and internal environment of BAT.

It is one of the methods that Drucker (2008) proposes for analyzing organizations.

Strengths

- Strong leadership and planning has enabled BAT to recognize threats and thereby partnering with other players for mutual benefit. This aspect as a strength has been the driving force behind the strategic alliances, mergers and acquisitions as discussed earlier.
- BAT recognizes that “customer is king” through market research and subsequent product innovation to identify the selling trend in the market.
- BAT as a group has interests covering different regions and categories thereby enabling it to have more stable cash flow prospects.
- It has a portfolio of brands meeting demands for upscale, mid-scale and economy tobacco consumers covering a wider market segment.
- International experience; diversified portfolio, great locations for major factories in tobacco producing regions and superior quality products also make count as some strengths of the company.

Weaknesses

- The company has failed to alienate itself from the legal tussles pertaining to smokers suing the company for damages obtained from consumption of the company's products. BAT has suffered a lot legal battles in courts where the company has been forced to compensate consumers for damages. As such the company has become an easy target for legal " bounty hunters".
- Its presence in many markets presents a management challenge in that a lot of resources are utilized in the harmonization of organization's policies and strategies.

Opportunities

- With BAT's experience in operations, there are numerous opportunities in spreading operations over in new markets such as the most recent one targeting the Scandinavian market.
- As a dominant brand in the UK market, BAT has the opportunity of influencing the market to have benefit through strategic decisions such as being the price setter.
- The company's experience in research and development of less harmful tobacco products presents the company with an opportunity to market her brands as the less harmful alternative to relatively harmful brands in the market.

Threats

- The tobacco industry is faced with strict environmental laws which increase costs of production and impact on the general productivity of the players.
- The increased awareness on the dangers of smoking may lead to contraction of the market for the industry.
- Increased deaths and illnesses from tobacco use are rapidly decreasing the market for the industry.

A report by the Guardian says of BAT “ it needs to recruit at least 750, 000 new smokers each year to replace the ones who have died from their habit (smoking)”.

Political uncertainties in foreign markets are forcing BAT to withdraw operations such as in North Korea and Burma where the company has already withdrawn from the markets. Competitor analysis There are two main competitors for BAT in the UK market: Gallaher Group and Imperial Tobacco Gallaher Group It is the fourth largest manufacturer of tobacco products in the global market. It has its headquarters in Switzerland and it operates in 80 countries around the world.

The company owns Benson & Hedges and Silk Cut Cigarettes brands among many others. The company reported a 5. 0% increase in net sales as of 2006 to stand at ? 2. 74 billion. In this market it faces competition with BAT and Imperial Tobacco. Due to stiff competition in the UK market, its share volume in the market has been on a decline while its international operations are on the rise. In 2006, it distributed over 18. 8 billion cigarettes in the UK market. Imperial Tobacco The company has its headquarters in Bristol and is second to BAT in the UK market and fourth in the global tobacco market.

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The company prides itself in top of the range brands and is has the best two selling brands in the UK as Lambert and Butler and Richmond. Other brands in the market are Embassy, Escort, Camel, Drum, Windsor Blue etc. It dominates the fine cut market with a market share of about 63% as of last year. The company reported net revenue of ? 8. 69 billion for the 2007/08 financial year with increase in profits in excess of 30%. The company has adopted a corporate strategy very similar to BAT and thus poses the greatest threat in the market.

It recognizes its core objectives as sales development, cost optimization and efficiency improvements and effective cash management. Success or failure of these strategies is further evaluated through key performance indicators which have been identified as earnings per share, total shareholder returns, cash conversion rate, cigarette market share, volumes, operating margin and productivity. The company's shareholder returns have increased by 106% in the last three years surpassing FTSE expectations by 74%. Its growth path according to the company's official website is as below.

The growth in financial strength of the company and the ability to gain investor confidence shows that the company is set to offer even more competition to BAT. Comparing this growth path with that of BAT, then it will be probably a matter of time before BAT loses out its market position in the UK.

The future of BAT The prevailing economic crisis is presenting financial and management problems to many businesses. The ability to survive the crisis and move on will be used greatly assess the strength of many businesses

and indicate investor and consumer confidence levels. As it is, the current situation for BAT is not promising.

The company is being accused of targeting the youth in their marketing efforts and thereby losing consumer confidence and criticism from various quarters. Negative reports such as "as BAT's main product, cigarettes, is so deadly that just to maintain its 15% global market share, it needs to recruit at least 750,000 new smokers each year to replace the ones who have died from their habit" carried in the Guardian do not do any good to the company. This was in addition to being accused of targeting teenagers in international markets such as Nigeria and Brazil. Therefore, it would seem that the company has to reconsider its marketing strategies.

Developing a new marketing strategy and adopting strategic means to "sanitize" the corporate brand name will prove essential in the way forward in markets where the company is losing ground and facing criticism. Again, the company has not been according to accusations very keen on following some of the rules and regulations governing the tobacco market in different markets. Other concerns for BAT affect the whole industry. The World Health Organization (WHO) has been spearheading the fight for tobacco use citing the numerous health problems and deaths emanating from the habit.

In 2007, WHO claimed that if the current smoking trend continues, the world will contend with 10 million deaths annually as a result of tobacco use. In addition WHO reports that smoking causes 61% of all TB illnesses globally (Hooper, 2004). Companies such as BAT again have been forced to limit their marketing strategies by regulation such as the banning of

public advertisement of cigarettes or romanticizing or fashioning smoking in any manner.

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