Opportunity for cigarette companies report example

Business, Company

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Executive Summary

The tobacco industry is slowly decreasing in developed countries like the United States due to increased limitations on advertising, health warnings, high taxation, anti-smoking campaigns, among other factors. Cigarette companies are losing billions in efforts aimed at reviving the tobacco industry in developed countries as tobacco control efforts from government, health organizations, and other allied organizations intensify. However, there is still an opportunity in the global market as undeveloped and middle class countries the industry is booming. Emerging markets are performing remarkably better than local markets because; most local markets are decreasing forcing companies to lower their prices in an attempt to recover the poor sales and support their operations. Today, multinational cigarette companies like Philip Morris, who have the highest global market share, collect more revenue from their international markets compared to the local U. S market.

Cigarette companies can be assured of continued growth in revenue and cigarette consumption developments from the previous years to endure over the next four years. However, there is still strong protest against the globalization of cigarette companies and the tobacco industry. This is because most of the emerging markets are still reluctant on implementing tobacco control regulations due to the high tax and employment the tobacco industry is offering. Additionally, most emerging markets are still not aware of the health issues surrounding the tobacco industry. I tend to agree with the protestors because multinational cigarette manufacturers are increasing their international markets where there are no advertising restrictions, smoking zones, health warnings, among other tobacco control measures, thus posing a global health threat. The following paper aims at explaining why globalization is a significant factor for the success of cigarette companies. Moreover, it will explain why protestors argue that regulations and/or Legislations should be put in place so as to constrain such globalization by cigarette companies.

The tobacco industry is under attack in most developed countries as regulators and associated organizations increase pressure on cigarette smoking. Health and environmental issues are top of the agenda in countries like the United States, where large cigarette companies are counting losses on a daily basis with decreasing sales (Pampel, 2009). Big companies are spending enormous sums of money in trying to advertise their products with a mounting pressure from numerous restrictions on advertising, packaging, and use of their products. The tobacco control policies have reduced local market smokers leading to reduced sales that cannot support the operating costs of most companies. However, globalization is changing the future of most of these cigarette companies as emerging markets increase tremendously (Yach & Bettcher, 2000). Developing and middle class countries are thriving markets for cigarette companies that have been performing remarkably well for the past five years. This has been attributed to the international move to trade liberalization, enabled by trade treaties such as the WTO’s (World Trade Organization) single package. Furthermore, the international market is set to develop constantly with increased revenues and sales over the next six years. To understand why globalization is extremely valuable for the future of cigarette companies, it is relevant to review the current state of globalization in the tobacco industry.

Globalized Cigarette Companies

Big cigarette companies like the Philip Morris, SEITA, Rothmans, among others have already globalized their products to emerging markets. Domestic companies have implemented mergers as strategies of entering the new markets a move that has seen the reduction in global and local companies operating in the market. Increased corporate mergers in the tobacco industry have resulted in four international cigarette companies dominating 50% of the world cigarette industry. Philip Morris and British American Tobacco hold the largest shares with 16% each, followed by Japan Tobacco with 11% and lastly Imperial tobacco with 6%. The outstanding market share is held by China National Tobacco Company with 39% (Pampel, 2009). Because of this international concentration, it is easier to track the movement of revenues from cigarette sales through borders because shareholders require companies to reveal their financial statements publicly. Regardless of changing currency rates, lack of standard regional structures, and variances in reporting phases, it is possible to total revenues of the companies. World cigarette sales are estimated to be over 5 trillion annually with the above companies cashing in more than 19 billion USD, in the foreign market (Yach & Bettcher, 2000). The globalization of the tobacco industry is projected to increase constantly with continued merges all over the world. For instance, the Chinese Tobacco Administration announced a three stage plan to enlarge its operations internationally. The first step involved launching marketing networks and cigarette factories, the second step involved capital investments in foreign enterprises and the third step involved the establishment of mergers and acquisitions (Glynn, Seffrin, Brawley, Grey & Ross, 2010). Despite the steady globalization of cigarette companies, there are still few local market operations that do not have a promising future for most cigarette companies. In brief, cigarette companies still operating in domestic markets need to realize and adopt what other companies have already done in entering the emerging markets and globalizing tobacco trade.

Profits from Trans-national Markets

The globalization of cigarette companies has resulted in increased margins with record of even 20 billion USD in 2008, all from the foreign market. Such returns do not signify a transfer of wealth among regions, or required virtual transfer and shipment of money the domestic base of transnational; they nonetheless would not have been in the physical transfer or shipment of money from one authority to another. Only a few companies report earning based on each country especially in small markets and countries (Glynn et al., 2010). However, there are some countries with the highest level of cigarette consumption globally. China is the largest consumer of cigarettes with 38% while other countries like Italy, Korea, Turkey, Ukraine, Brazil, United States, Indonesia, japan, and India account for about 3. 5 trillion cigarettes. The link between cigarette sales and profits repatriated is not steady across countries. For instance, Philip and Morris Cigarette Company reports 46% revenue from OEDC (Organization for Economic Co-operation and Development) countries while the non-OEDC record profits of around 54% mainly because; they are developing countries (Yach & Bettcher, 2000). However, they still manage to increase their profits from money across borders, allowing their increased development. For instance, Philip Morris has recorded increased earnings from cigarette sales in developing or the non-OEDC nations between 2004 and 2010 (Torrin, 2012). From the table below, it is evident that cigarette all the cigarette companies are doing better in terms of sales in the foreign market considering that the local market is in the United States. Moreover, America has the lowest percentage of cigarette consumption, which simply means cigarette companies need to globalize to secure a successful future.

Revenues for Governments

Tobacco is among the biggest industries in the world and is equally valuable in the development and growth of an economy. Most of its benefits come from revenues collected by governments various forms that include; one is in excise taxes collected at the point of sale by cigarette companies and forwarded to governments. Second is through commercial income tax collected from tobacco sale profits. The third is profit sharing among merged corporations in different regions. Thus, to illustrate the impact of the tobacco industry in the world economy, it is relevant to measure the economic activity related to the tobacco industry (Pampel, 2009). Tax incomes reported by large cigarette companies surpasses the GDP according to a World Bank Report. Most developing countries highly rely on the tobacco industry for economic growth in taxes, employment, and international trade. Because of this, most of the countries have not adopted many tobacco control regulations like the developed countries have adopted (Torrin, 2012). Emerging markets have minimal restrictions on the production, sale, and use of cigarettes, which provides a good environment and opportunity for local companies to expand and grow in the future.

International Trade

International trade has significantly advanced over the last decade as closed markets have opened as a result of pressure from international trade organizations. Most countries like India and Pakistan have been closed markets with state owned cigarette companies that monopolized over the domestic markets. However, as they looked to join the World Trade Organization (WTO), the organization mounted pressure with an aim of opening up the markets for international trade. Moreover, they were forced to privatize the state-owned to eliminate the monopoly in foreign markets.

Again in 1994, China increased all taxes on imported tobacco that resulted in increased cigarette retail price. When trying to enter the WTO, allied members pushed China to reduce taxes that resulted in a report that it would reduce its taxes on imported tobacco (Pampel, 2009). In brief, international trade positively opened up closed markets that had been dominated by state and private owned cigarette companies allowing companies to expand and globalize.

Furthermore, multilateral agreements on investments have equally favored the globalization of the tobacco industry. Most developed countries have many tobacco control regulations that hinder most cigarette international tobacco trade. However, through joint-multilateral agreements such as the multilateral agreement on investment, cigarette companies can expand into the international market easily. Such agreements mean tobacco regulations will be internationally standardized, unlike individual country control efforts. This means that international trade is set to evolve presenting a better opportunity of expanding in foreign markets (Yach & Bettcher, 2000).

Protestors argue that legislation and/or regulations should be put in place so as to constrain such Globalization by Cigarette companies. The reason behind this uproar is related to global health care. Tobacco use has been scientifically proven to be a health threat and constant use can lead to dependence or addiction (Torrin, 2012). Cigarette companies seek to make profits in the global markets making their products universal and developing the concept of a global smoker. The global smoker poses a significant threat on global healthcare based on health related issues that result from the smoking of cigarettes. According to the World Health organization, over 80% of global smokers live in the middle and low income countries (Torrin, 2012). It is estimated that over five million people die annually as a result of smoking cigarettes or exposure to cigarette smoke.

Furthermore, cigarette companies continue to deny that smoking cigarettes is addictive and harmful to one's health. This is contradicting given the awareness companies claim to offer smokers with even evidence that has not been analyzed like the documents presented in the Minnesota case (Glynn et al., 2010). The minimal analysis reveals the fraud covered up by companies with their knowledge. It is evident that cigarette companies are not willing to accept the harmful effects associated with cigarette smoking, and are continuously trying to cover up numerous loops holes that could expose them. Big multinational cigarette companies like Philip Morris are well-established within the global and local markets and have the necessary resources to defend themselves when faced by protestors.

Tobacco control efforts are powerless in the face of cigarette brand control. Numerous countries depend appreciably on the tobacco industry for economic development and do not consider tobacco control as a priority in the budget (Yach & Bettcher, 2000). Even international agencies within the United Nations organization find it challenging to prioritize and budget for tobacco control measures. Moreover, middle and low income countries are reluctant in implementing tobacco control laws due to the high returns and benefit the industry bring in the economy. However, this has led to increased deaths and health issue in these countries threatening their health care.

In my opinion, I agree with the protestors since globalization of cigarette companies will result in a global epidemic threatening health care (Glynn et al., 2010). It is evident that cigarette smoking is causing more harmful effects to society and the environment than positive things. Cigarette companies need to develop novel strategies in marketing, and establish their products globally. However, there is still opportunity for the cigarette companies in the international market, but it will be determined by the strategies they will adopt in expanding in emerging markets.

Summary

In conclusion, globalization is significant for cigarette companies in securing a brighter future. Cigarette consumption and sales have decreased in high income countries while, in middle and low income countries, sales have been increasing. Companies are increasingly entering emerging markets through mergers and acquisitions in a move to increase sales, and make up poor sales in most domestic markets like the United States. These companies have been preforming positively over the last five years with profits exceeding those of from domestic markets. Moreover, international trade has developed over the years opening up closed markets and privatizing state-owned companies promoting globalization of cigarette companies. Again, most countries depend on the cigarette industry for revenues and have no reduced tobacco control restrictions that promote globalization of cigarette industries. In brief, globalization is providing opportunities for cigarette companies to expand in the future through opening up of markets and reduced tobacco control efforts in foreign markets. However, there is still rising pressure from protestors to enhance regulation to constrain globalization of cigarette companies as they pose an epidemic threat to health care unless they apply new strategies.

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