

Internship Report

On

British American Tobacco Bangladesh



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To

Ms. Afsana Akhtar
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Subject: Submission of an Internship Report on British American Tobacco Bangladesh Ltd.

Dear Mam,

I am, the students of BRAC Business School like to present an Internship Report on British American Tobacco Bangladesh Ltd. To complete this Report Paper I have gathered some information as I find. According to your valuable advice I did a survey on Employees, Clients and Manager of British American Tobacco Bangladesh Ltd. The remaining data I got from their own websites, Annual Report and the meeting I attended working there. I really have learned a lot and gained valuable experience while working and preparing this internship report.

If you need any further clarification for any part of this Internship Report, I am eagerly always ready to provide any kinds of information regarding this Internship report on British American Tobacco Bangladesh Ltd.

Yours Sincerely,

(Istiak Uddin ADI)

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Acknowledgement

My acknowledgement begins by thanking my Supervisor Afsana Akhter, who has provided me with suggestions for making this Final Internship Report and also provided me with the format for preparing this report. I would like to show my warm-hearted gratitude to the Supply Chain department of British American tobacco Bangladesh Ltd; which has provided me with great deal of information, adequate data and lastly cooperated me for the accomplishment of this report successfully. Finally, last but not the least, I would like to thank each and every Staffs of the different supply chain section of BATB specially Mr. Masud Uddin Bhuiyan (Manager manufacture services), for his kind assistance regarding the report Without whom it would not possible for me to complete this difficult task, I got all necessary guideline, cooperation, advice from them to complete this complicated task. I am very much thankful to British American Tobacco Bangladesh Ltd, its management, especially employees of Supply Chain for their cordial support to prepare this difficult study with important information and data.

EXECUTIVE SUMMARY

As a well renowned successful industry British American Tobacco Bangladesh has proved its standing in counting prominent industry in Bangladesh. It plays a great significant role in Bangladeshi economy. As we know British American Tobacco Bangladesh is one of the largest multinational companies in the country and has been operating for over 100 years more than 180 markets around the world.

Corporate and regulatory affairs are responsible for maintaining the process and internal communication is a part of that. Internal is responsible for communicating corporate projects, events, achievement; providing counseling service for cross functional teams and generating positive shift in employee comprehension of company objectives and directions. It helps to ensure that the employee at all levels have an understanding of the business and are able to engage and inspire individuals them to deliver winning performance.

With all its quality services and commitments the industry has won many hearts and as well as the confidence of the consumers over them. In business analysis at different situation BATB has to go under different strategies.

The best companies around the world are discovering a powerful new source of competitive advantage. It's called supply-chain management and it encompasses all of those integrated activities that bring product to market and create satisfied customers. The Supply Chain Management Program integrates topics from manufacturing operations, purchasing, transportation, and physical distribution into a unified program. Successful supply chain management, then, coordinates and integrates all of these activities into a seamless process. It embraces and links all of the partners in the chain. In addition to the departments within the organization, these partners include vendors, carriers, third party companies, and information systems providers.

Within the organization, the supply chain refers to a wide range of functional areas. These include Supply Chain Management-related activities such as inbound and outbound transportation, warehousing, and inventory control. Sourcing, procurement, and supply management fall under the supply-chain umbrella, too. Forecasting, production planning and scheduling, order processing, and customer service all are part of the process as well. Importantly, it also embodies the information systems so necessary to monitor all of these activities.

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Chapter 1: The Organization

1.1 Introduction

British American Tobacco is a leading tobacco group, with brands sold in around 180 markets. We employ more than 55,000 people and with over 200 brands in our portfolio, we make the cigarette chosen by one in eight of the world's one billion adult smokers.

Founded in 1902, our Group of companies traded through the turbulence of the 20th century, including wars, revolutions and nationalizations. The Group was first listed in 1912, and today we are one of the top 10 companies listed on the London Stock Exchange and feature in the Fortune 500. We have also had a secondary listing on the JSE Limited in South Africa since 2008.

They hold robust market positions in each of our four regions- Americas; Asia-Pacific; Eastern Europe; Middle East and Africa; Western Europe- and we are leaders in more than 60 markets. Our approach to marketing is second to none in our industry, in brand building, innovation and responsibility. Our companies adhere strictly to the high standards of our voluntary marketing principles.

In 2012, our subsidiaries enabled governments worldwide to gather more than \$30 billion in duty, excise and sales taxes on our products, more than seven times the Group's profit after tax.

They play a significant role in local communities around the world. In many countries we are a top employer and the company of choice for people in all areas of our business. We have 44 cigarette factories in 39 countries. In addition to cigarettes, we cigarillos, roll your own and pipe tobacco.

They are also proud of their Research & Development facilities, where our people are striving to reduce the harm associated with tobacco products.

With our geographic diversity, strong brands, talented people and proven strategy, the Group is well placed to achieve further success. In particular, we are confident that our investments in both innovative cigarette products and next-generation nicotine and tobacco products will help us drive.

1.2 History

BAT Bangladesh began its operations in the sub-continent in 1910 as Imperial Tobacco Company Ltd. After the Partition, Pakistan Tobacco Company (PTC) came into existence with its head office in Karachi in 1949. PTC's East Pakistan office at that time was situated in Armanitola, Dhaka and ultimately moved to Motijheel, Dhaka. After independence, Bangladesh Tobacco Company Pvt. Limited was formed in 1972 with British American Tobacco holding majority shares. In March 1998, Bangladesh Tobacco Company changed its name and identity to British American Tobacco Bangladesh pronouncing its common identity with other operating companies in the Group. British American Tobacco Bangladesh is one of the oldest and largest multinational companies operating in Bangladesh. The British American Tobacco Group holds 65.91% share in the Company. The Government of Bangladesh owns 26.57% through several of its agencies, while 7.52% is owned by other shareholders.



We are a public company listed on the Dhaka and Chittagong stock exchanges. The Board of Directors has nine members – a Non-Executive Chairman, four Non-Executive Directors and four Executive Directors. We are also a leading business organisation in the industrial sector employing more than 11,000 people directly and a further 60,000 indirectly as farmers, distributors and suppliers. We have business contracts directly with approximately 45,000 registered farmers who produce high quality tobacco leaf.

1.3 Products/Services offerings

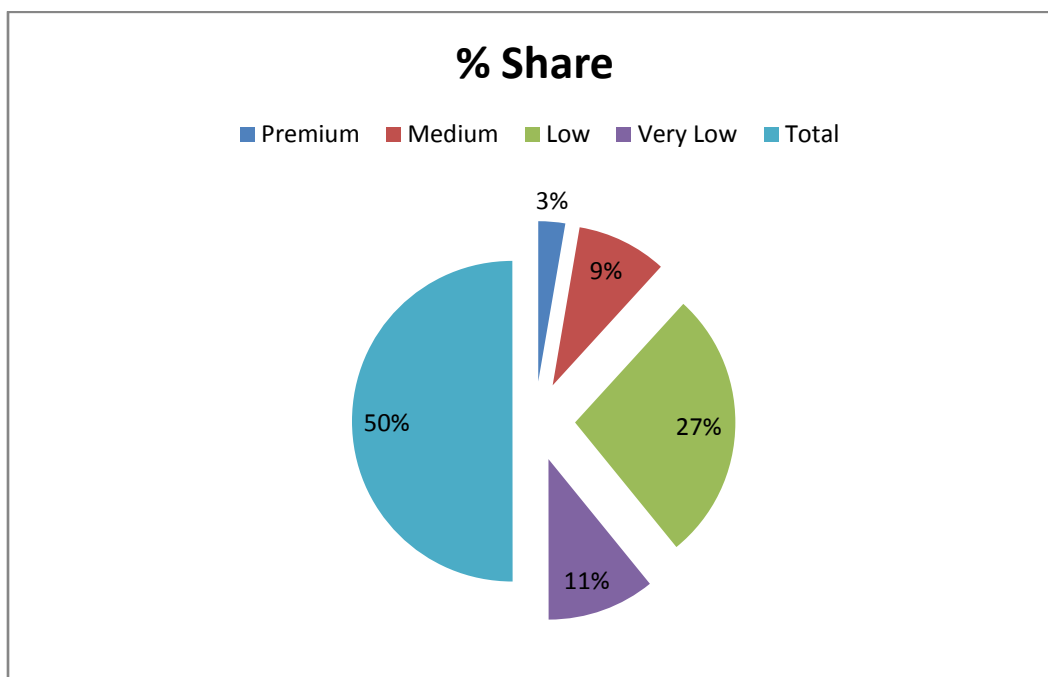
British American Tobacco Bangladesh has been present in Bangladesh for a very long time and it is still doing its business dominantly with four of its key drive brands i.e.

Benson & Hedges, John Player Gold Leaf, Pall Mall and Star. Among the competitors, Dhaka tobacco's "Navy" gives good competition to Star into the Taka 1 segment. The other brands present in the market are:

Bangladesh Cigarette Market : Major Brands					
Company		Dhaka	Nasir	AbulKhair	Akiz
Segment	BAT				
Premium	Benson & Hedges Lights, Benson & Hedges Full Flavors, State Express 555				
Medium	John Player Gold Leaf, Pall Mall Full Flavors, Castle, Pall Mall Lights, Pall Mall Menthol, Capstan Filter				
Low	Star Filter, Scissors Filter	Navy, Royal Special Legend	Asian	Marine	Gold Hill
Very Low		K2, Red & White Five Star, Surma	Nasir Gold, Top Ten	Sun Moon	Wilson

- The Cigarette industry is segmented into the following:

Segment	% Share
Premium	5.4
Medium	18.17
Low	54.68
Very low	21.75
Total	100



Premium



Launched in 1997, Benson & Hedges (B&H) maintains our dominance in Premium segment and drives the growth of Premium price segment in Bangladesh market. Within a short time Bangladesh became a leading B&H market across the British American Tobacco world. Although the price of B&H was unilaterally increased in 2004, B&H remains a successful brand in our portfolio. BAT Bangladesh was the first market to launch the new pack of B&H at the beginning of September 2005. In 2008 B&H has achieved 3 billion stick volume marks for the first time.

Medium



Launched in 1980, John Player Gold Leaf is one of the highest selling brands of our Company - dominating the High price segment. In 2005, we launched three flavoured Limited Edition Product and Packs under the 'Taste the World' campaign, which were extremely well received by consumers. In July 2006, three Limited Edition Product and Pack (LEPP) were launched under the campaign 'Blender's Choice'. BAT Bangladesh launched John Player Gold Leaf Smooth in December 2008. The new cigarette with its enhanced filtration and perforated long filter is geared to offer smokers a smoother smoking experience with a full bodied flavor.



Pall Mall is the first Global Drive Brand launched in Bangladesh on 19 March 2006. Pall Mall Lights was the first brand to unleash a mainstream Lights segment, while Pall Mall Menthol tapped into a latent Menthol segment. As the first brand to offer a range of product choices,

stylish beveled edge packs and designer sticks, Pall Mall was able to create particular appeal to the ASU30. Pall Mall Smooth was launched in Bangladesh market in June 2009

Low



Star, launched 40 years ago, is still a dominant brand in this segment. Currently it is the highest volume generating brand for the Company. At the same time, the cigarette sticks carried a new look with brighter paper and bi-color dye. Executive Summary:

Very Low



BAT Bangladesh launched Pilot on 11 October in the lowest segment of the country's cigarette market. Insignificant presence in Very Low segment prompted BAT Bangladesh to launch a Tk 1 brand in the segment, which accounts for nearly half of the country's cigarette market. BAT Bangladesh does not participate in the *birisegments*.

1.4 Structure of the organization

The structure is much decentralized with the parent company retaining authority for overall strategic direction of the Firm and financial control. BATB operates in the operates in the following functional areas:

- Operations (Production and Supply Chain) a
- Leaf
- Finance
- Human resource
- Marketing (Brand and Trade Marketing- Demand Chain)
- Legal & Company Secretarial
- Information Technology
- Corporate & Regulatory Affairs (CORA)

Overall activities of the company are governed by the "Board of Directors" and Executive. The "Board of Directors" is composed of 10 members headed by a chairman. Chief Executive of British American Tobacco Bangladesh is called the "Managing Director" who is normally appointed by "BAT Holdings". Managing Director of the company is the chairman of the executive Committee. This committee includes the head of all the functional departments.

The decision making infrastructure is participatory to a very high extent. All the plans and decisions that are made are communicated from the top level of the organization and the decisions are made after discussing the issue with the related authority and the grass root level. Every possible input from every relevant level of workforce is taken before getting into any decision.

1.5 Core Business Activities

BATB's core business is to manufacture and market cigarettes. In addition to this, the company also exports tobacco and vegetables. The main activities taking place in the business are:

- Tobacco Leaf Growing: There are registered farmers who grow the tobacco in the regions of Kushtia, Chittagong and Rangpur.
- Leaf Processing: The leaf is processed in two factories; the green leaf threshing factory where the stem is separated from the leaf and the Dhaka Factory (Primary Department) where the leaf is cut to make it ready for production.
- Cigarette Manufacturing: The cut tobacco is sent to secondary manufacturing department or the Dhaka Factory where it is combined with wrapping materials to make the final product. The factory runs in three shifts for 24 hours to give a daily production of around 60 million sticks.
- Distribution: The product is sent out to various distribution houses across the country. The distributors work with the BATB trade marketing team ensuring distribution to all retail outlets in the country.
- With ever increasing number of outlets (currently, this is one of the major challenges the company faces.
- Brand Activities: With the ban on promotion activities, the company has to look towards innovative ways of communicating their brands to the cigarette consumers.

1.6 Corporate Social Responsibilities

"Success and responsibility go together" is the philosophy that has driven British American Tobacco Bangladesh over the years. They are the number one taxpayer in the tobacco industry of Bangladesh. One of their core business philosophies is doing business in the most ethical and socially acceptable manner. They are taking forward their commitment for contributing in the development of the country through their endeavors in the various social, economic and environmental sectors of the country.

◆Dishari:

Dishari- basic IT education centre has been initiated by BATB to contribute to the promising IT sector of the country which is a thrust sector of the Government. The education centre is aimed at providing basic computer education to those who can less afford it.

◆Afforestation:

British American Tobacco Bangladesh initiated this well recognized program to create mass awareness of the need for afforestation with the free sapling distribution program in 1950. Today, after more than two decades, they have contributed more than 50 million saplings to the country's afforestation initiative.

◆Community Services Initiative in leaf growing areas:

Thousands of Bangladeshi farmers are benefiting from British American Tobacco Bangladesh's Community Services Project which has recently kicked off. It reaches out to support nearly 25000 farmers (and their families) who are closely linked with their Way of life. The initiatives taken under this project are: Education Assistance, Primary Health Care Support, Malarial Prevention, Sanitation Support, Commercial Afforestation, Compost Pits, Green Manuring, Neem Decoction, and Vegetables Growing.

1.7 Corporate & Regulatory Affairs CORA

“Our Strategy for building sustainable shareholder value is based on growth, productivity, responsibility and being a winning organization. CORA’s particular focus is on responsibility.”

-----Michael Prideaux, Director, Corporate and Regulatory Affairs

British American Tobacco is .1 responsible companies in a controversial industry. A major part of helping it to be seen that way is the responsibility of Corporate and Regulatory Affairs (CORA). Our job is to reassure those stakeholders who directly or indirectly influence our business that British AmCr1Ca11 Tobacco is achieving its commercial objectives in a manner consistent with reasonable social expectations of a responsible tobacco company in the 21st century.

As society's expectations of corporate responsibility change, they are changing some of the ways to address stakeholder concerns. They are engaging in constructive dialogue with a wide ran-c of stakeholders - including governments and their agencies, the media, business partners, employees, investors, non-governmental organizations (NGOs) and local communities - about all aspects of our product. Our social reporting process lends transparency and accountability to this process.

■ CORA Strategy:

CORA wants to achieve

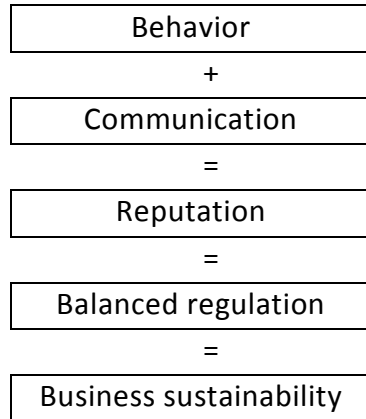
To drive recognition as a responsible tobacco company, thus improving long term business suitability.

This can be achieved by developing constructive engagement With those stakeholders who directly or indirectly influence the license to operate to reassure them that the company is meeting the commercial objectives ill a transparent manner, consistent with reasonable public expectations for a responsible tobacco company.. CORA thereby delivers tangible business benefits in the two key -area-,

- Proactive reputation management

➤ Proactive regulation management

CORA strategy in a nutshell



◆ **Proactive reputation management**

Managing reputation effectively means understanding the stakeholders’ expectations. To do that CORA needs to internalize these expectations and initiate organizational change as appropriate in order to respond to them.

Finally, they need to develop effective two-way communication with the stakeholders and show how the company is responding.

A continuous process of understanding, responding and communicating is the Key CORA reputation management capability.

◆ **Proactive regulation management**

In order to effectively manage regulation, the regulatory environment needs to be anticipated and proactively advocate company views.

Where necessary (as a last resort), they may also need to litigate to ensure that tobacco regulation balances the preferences of consumers with the interests of society, establishes an open-minded approach to harm reduction as a policy and ensures that the business can compete and prosper.

In BAT Bangladesh CORA roles are clustered within these three sections: • Regulatory

- Regulatory Affairs
- Corporate Social Responsibility

➤ Corporate Communication

Regulatory Affairs section is responsible, among others, to promote sensible tobacco regulatory environment, to advise marketing on compliance with applicable external and internal standards, and to support Top Team's engagements on excise and other industry regulation issues. Today, perhaps more than ever, stakeholders expect BAT Bangladesh to use the company's economic strength for broader social goals and to demonstrate environmental responsibility, to support the communities, and to behave with transparency and accountability.

The Corporate Social Responsibility section oversees BAT Bangladesh's corporate social investment initiatives such as afforestation, various programs in leaf' growing areas, corporate donations and IT education. In addition, the section also manages the Company's social reporting process.

Meanwhile, the Corporate Communication section works closely with Regulatory Affairs and Corporate Social Responsibility to manage the communication of key messages to the external and internal stakeholders of the Company. This team is also responsible for managing the company's corporate brand.

1.8 SWOT Analysis

SWOT analysis is done to find out the factors important to the operation of a business in the environment, both internal and external. The internal factors help to find out the strength and weakness; the threats and opportunities can be comprehended by scanning the external environment. The SWOT analysis of the cigarette industry is given below:

■Strength:

ω Because of high regulations, high cost and high entry barriers, new entrants are discouraged, which is good for the current and already established market players.

ω As they are not allowed to go for public promotion, the tobacco companies can use their resources for other purposes. Like BAT is investing for and increasing their filed force.

■ Weakness:

ω Dealing with a product which is sensitive in may issues.

ω Cannot promote their products using public media vehicle.

ω A high volume but low value industry

■Opportunity:

In Bangladesh, tobacco market is pretty strong. Among the sale of all tobacco products, 68% is Bidi and the rest 32% is cigarette. But with the up gradation of purchasing power and good economic condition, high rate of migration from Bidi to cigarette is also expected. Even now; the migration rate is good enough to sustain the cigarette industry. Total no even if reduce, but the migration will make it sustainable. The cigarette market depends not on increasing number of customers, but on switching to cigarette brands.

■Threat:

ω Increasing amount of awareness among the consumers about the health hazards

ω Increasing number of regulations and laws imposed by the government about smoking and selling cigarettes.

Chapter 2: Job

2.1 Nature of the Job

In my three months of Internship period I have been working on a project at British American Tobacco Ltd. The project was related to manage the different contractors as BATB has a huge list of contractor to manage their work both factory and corporate side. I also have to communicate with the labors in different issues.

2.2 Specific Responsibilities of Jobs

I have to work under minimal supervision deployed to help oversee the Supply Chain Management function in the Unit within the Department. I will be assisting the Senior Supply Chain Management officer in the department in Planning and coordination of Supply Chain Management activities in areas such as:

- Procurement, warehousing, distribution, disposal of stores and equipment, Inventory and stock control in accordance with the laid down government regulations and procedures.
- Preparation and Processing of Tender documents/Quotations for the organization as per the laid down procurement processes. Also preparation of agendas for adjudication by the tender committees and assisting in implementation of decisions thereof.
- Preparation of periodic and annual Supply Chain Management reports/returns.
- Any other duties as may be assigned by the Principal Investigator or head of Supply Chain Management officer in the department.
- Planning delivery timetables
- Ensuring stores have enough stock
- Making sure suppliers have enough stock to meet demand
- Overseeing the ordering and packaging process
- Monitoring stock levels
- Tracking products through depots to make sure they arrive at their destination
- Overseeing arrival of shipments

2.3 Aspect of the Job

Since I worked for the Supply chain department, most of my jobs were supply chain related. My daily jobs were gathering information about the value chain and how this value added and destroy. Being the leading tobacco industry in the market, BATB counts Dhaka Tobacco Industries as its major competitors. However, BATB does not take them as major threat. My job was to collect information about value chain in B&H. When I collect information about value chain first of all I need to know what value chain is. My supervisor give me clear information what is value chain. Then I start my project. I need to know value chain of B&H so I went primary manufacturing department (PMD), Secondary manufacturing department (SMD), Warehouse department, procurement department, in BATB. When I wanted to know supportive activity in value chain I went marketing department, HR department, Service & training department.

First of all I want to know inbound logistics what is raw materials in Benson Hedges. Then I collect Information about operation in B&H so I need to go primary manufacturing department and secondary manufacturing department. I went PMD and SMD and collect information. Then I want to know outbound logistics, how B&H finally distribute to the distributor. Here some time value add and sometime value destroy my work find out what is happening. Then my work is finding out how BATB add value their marketing department. After all this primary activity done I was trying to find out other supportive activity value chain. When I was collected supportive information I was need to go HR department, procurement, information technology department.

Every day I collect information and my line manager check all this information. Then he gives some feedback. When I said my line manager lots of sector value destroyed he noted my point then he sent me that department to say where value destroyed. I also collect lots information in local newspapers, The Daily Star, The Financial Express, for instance. After collecting, these news and information were then provided to the supply chain department.

2.4 Recommendation

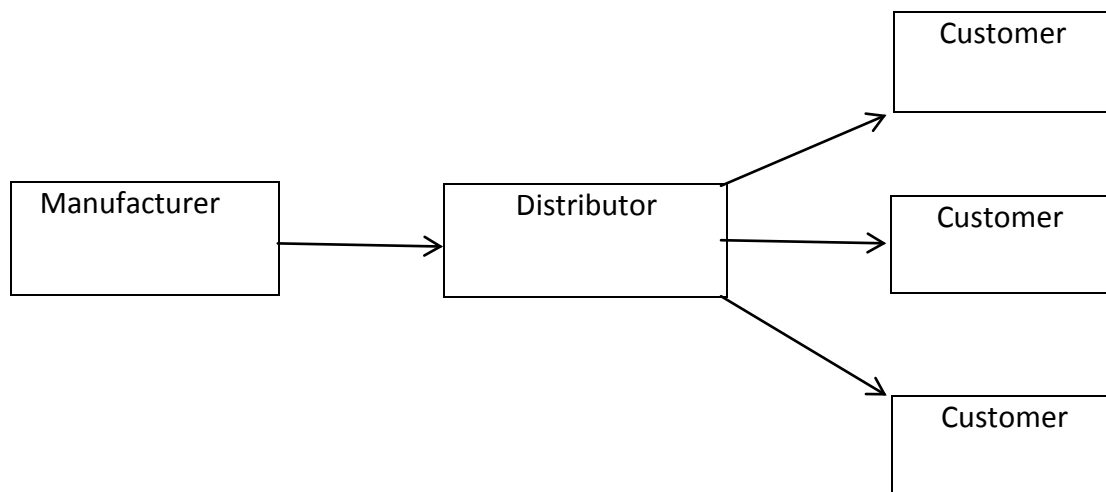
Value destroy is one of the biggest drawback of BATB. At lots of sector value destroy like inbound logistics B&H raw materials comes from comes out side from the country as a result some time when demand increase B&H they don't provide raw material properly here lots of value destroy

Chapter 3: Project

3.1 Summary

Producing a product or service and making it available to buyers requires building relationships not just with customers but also with key suppliers and resellers in the company's supply chain. At supply chain department there are different distribution channel. Distribution channel means a set of interdependent organization that help make a product or service available for use or consumption by the consumer or business users. The company's effective product flow depends on the channel behavior.

Horizontal conflicts occur among firms at the same level at the channel. For instance, some ford dealers in Chicago might complain that the other dealers in the city steals sells from them by pricing too low or advertising outside their territories.



A vertical conflict between different levels of the same channel is even more common. For example, Goodyear hard feeling and conflict with its premier independent dealer channel when it begun selling through mess-merchants dealers.

BATB

Producer



Wholesaler

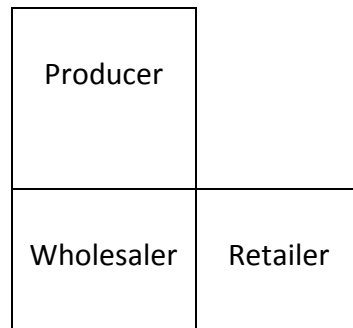


Retailer



Consumer

Conventional Marketing
Channel



Consumer

Vertical Marketing System

At British American Tobacco Bangladesh they follow more conventional Marketing channel. As they have divided the market in different territory. In each territory they have wholesaler who are appointed locally. Those wholesalers have the products directly from the company. The wholesaler duties are to make sure the retailer having the products at right time and right amount.

3.2 Objective of the study

The purpose of the study is to find out where the value add and destroy in B&H. I see lots of sector value destroy like inbound logistics B&H raw materials comes from comes out side from the country as a result some time when demand increase B&H they don't provide raw material properly here lots of value destroy. My purpose to find this problem and try to find out solution. On the other side in operation sector they reuse wastages tobacco it's add lots of value they have a modern machine. In B&H they use FROTOS FOKI machine it is very high quality machine. It adds lots of values some time it destroy value my study to find out where this value destroys. In distribution sector how efficient they are how much value they add to find out. Here if any value destroys find out why value destroys here. In marketing sector how they create efficient marketing in B&H. BATB also give proper training their employee how they give training how much value add if here any value destroy to find out. And other supportive activities in value chain how create value find out.

I also hope to carry out a broad based and in depth study that will throw up fresh and interesting perspectives to the issue and try to arrive at and provide logical and practical solutions and recommendations that could definitely help value chain in British American Tobacco.

3.3 Scope

The study was limited to the permanent employees of British American Tobacco Bangladesh. No comparison or analogy has been drawn taking other BAT companies or other tobacco companies in Bangladesh. The survey respondents were asked questions about the tools and services driven by BAT Bangladesh's CORA Communications team. Other forms of organizational communication were not taken into consideration.

3.4 Statement of the Problem

Business around us is becoming competitive day by day. Innovation is also playing a vital role in shaping up the business around us. Even if we consider our own country Bangladesh has seen expansion of its middle class, and its consumer industry has also grown. In December 2005, four years after its report on the emerging "BRIC" economies (Brazil, Russia, India, and China),

Goldman Sachs named Bangladesh one of the "Next Eleven", along with Egypt, Indonesia, Vietnam and seven other countries.

Like other industries tobacco industry is also experiencing growth over the last years. It has been seen that in Developing countries the number of smokers are higher than the developed countries. The tobacco industry is mainly driven by young population growth and innovative value chain strategy.

This research will find out the important factors affecting value chain strategy B&H and will also investigate BATB performance against its competitors. This research will also expose the expected service level of the most important factors of BATB customers

Questionnaires

- To have an understanding on value chain Strategy of BAT Bangladesh.
- To identify relative marketing initiatives taken by BATB and implementation of those activities
- Assessment tools for the value investment of BATB.
- To gain an understanding on the tobacco industry and on the competitive market scenario.
- To understand the different functions of BATB
- To identify B& H inbound logistics like raw materials, quality control.
- To have an Idea how operation work B&H created for BATB.
- To get an idea how outbound logistics actually work B&H in BATB
- To understand Brand awareness measurement procedure
- To develop and understanding and implementing the different marketing strategies and activities of BATB performed all over the country.

3.5 Limitations

Although while conducting the survey, the employees of BAT provided great support but there were some unavoidable problems that worked as limitations.

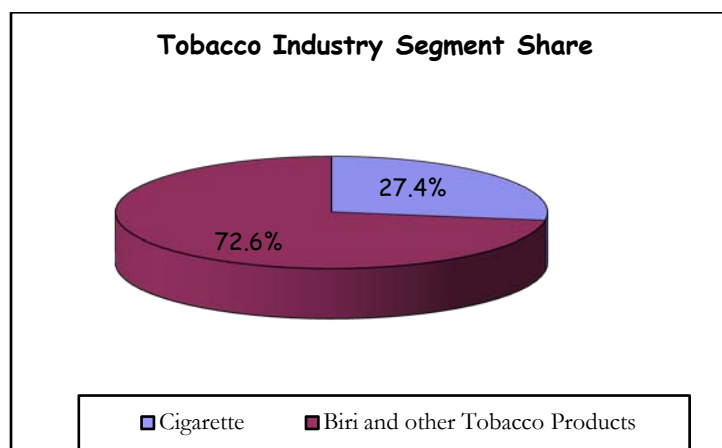
- ◆ Conducting the survey proved to be a bit difficult as it included both the management & non-management workers. The management employees' part was manageable as they more or less were able to comprehend the questionnaire. Although they were not willing to sacrifice much time for the survey but they answered by understanding the essence of the survey.
- ◆ Though some questionnaire was sent outside Dhaka, but the number was not substantial, so the survey results are biased towards the employees of the Dhaka Head office to some extent.
- ◆ But with the non-management workers, it was a bit difficult to make them understand the scale and rating, and in some cases, they gave wrong ratings.
- ◆ Getting the factory workers in the working hours was a bit difficult, so I had to wait for the road show. I was able to attend only one road show as others were scheduled in the night shift.

3.6 Background of the Industry:

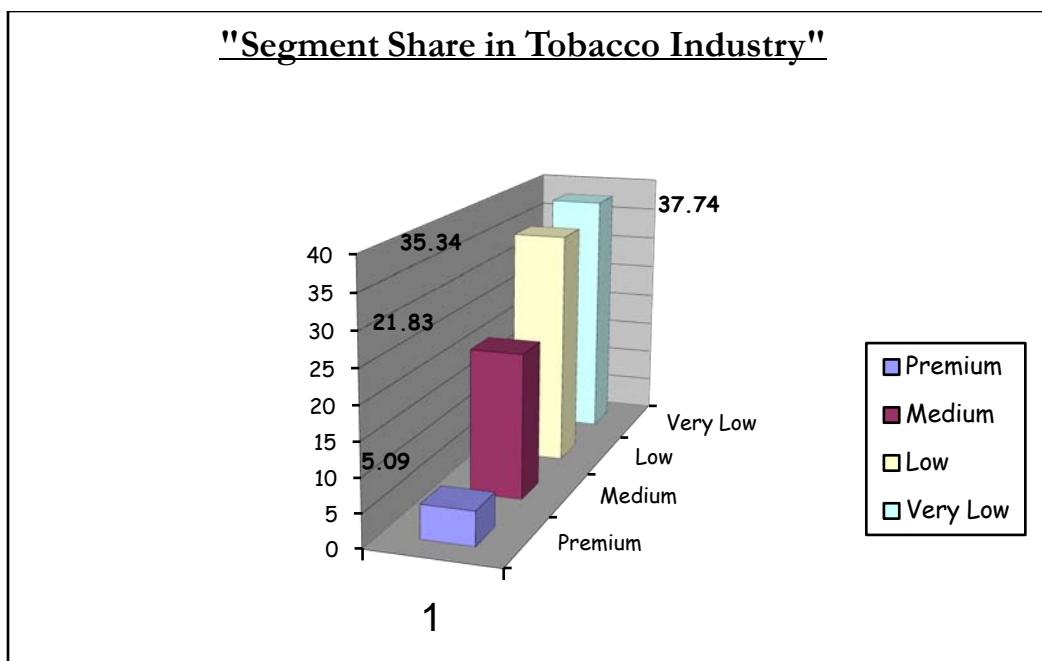
3.6.1: Nature of the Industry & Industry Segmentation:

One of the oldest industries of Bangladesh is the tobacco industry where most of the market share is owned by the British American Tobacco Bangladesh. The basic economic traits in the tobacco industry are as follows:

Market Size: Total tobacco industry is segregated into two broad categories: Cigarettes and other tobacco related products like, Biri, Chewing tobacco (Jarda), Pipe tobacco etc. Dominating segment is the Biri, Jarda segment. Around 72.6%¹ population who takes some kinds of tobacco products smokes Biri or takes other forms of tobacco products. Cigarette Market consists of the rests 27.4%. Industry trend indicates that cigarette segment is increasing gradually, as up trading from Biri and other tobacco products to cigarette is taking place.



Market Segment: The tobacco industry is divided into *four-market* segment: *Premium, medium, low and very low*. Very low is the most potential segment in volume terms, as this segment is the stepping-stone for up gradation from Biri to cigarette segment.



Analysis: From the above graph it is clearly visible that the very low segment has the highest potentiality with a segment share of 37.74%, compare to premium segment of holding 5.09%, medium share 21.83% and low segment share 35.34%.

Customers: Mostly Adult male, Urban, Semi-Urban and Rural.

Scope of Competitive Rivalry: National. Different tobacco related products including cigarettes by different local companies are also available in the local markets in different geographic locations in Bangladesh. Major players in the industry are competing more in the entire national market in Bangladesh.

Stage in the Growth Cycle: In the tobacco industry, cigarette market is at "Growing Stage" as switching tendency from Biri to very low segment is increasing gradually. Biri market and other tobacco products are in saturation and declining stage respectively.

Market Growth Rate: Market size of the industry indicates market growth rate. The industry growth depends entirely on the country economy and the amount of disposable income of the population. Tobacco Industry growth rate is 1-2% annually. But this year (2012), cigarette market growth rate is about 8-9% and it is expected to continue in the coming year as well.

Number of Rivals and their relative sizes: In Bangladesh Tobacco industry, there are more than 100 companies playing around. **British American Tobacco Bangladesh** is the market leader in all

segment of the market with 47% volume share and 70% value share, followed by *Dhaka Tobacco Industries, Alpha Tobacco and AbulKhair Tobacco*.

COMPETITIVE SCENARIO

	BAT	DTI	Alpha	AK	Nasir
Vol. Share (est. 2000)	47%	17%	5%	6%	5%
Trading Profit 99 (Tk. Min)	476	100	21	71	N/A
Maximum Trade Margin	20%	67%	72%	67%	40%
Sales Force	960	630	440	250	260

These companies in the industry are competing among themselves both domestically and nationally. Apart from all the tobacco companies, one external threat is very active in the market and that is transit products (smuggled one) that particularly compete in the premium and super premium segments.

Product characteristics: The products can be classified as a *Fast Moving Consumable Goods* (FMCG) with a highly personalized characteristic due to variant consumer choice (Full flavored Virginia, US Blends, and Low delivery), brand preferences (Brand Image) and the affordability of the brand.

Distribution Channels: Large companies in the industry usually have their own control on distribution. In some cases, large as well as small companies have retailers channel to access the buyers. In the cigarette industry, as market is huge, it is not economically feasible and manageable to have access to the ultimate consumers directly. In most of the cases, distributors are playing the vital role between the companies itself and its targeted smokers/consumers.

BAT Bangladeshis not an exception. It has 60 distributors operating all over the country bridging the gap between the two extreme parties. Though distributors are independent yet, BAT

Bangladesh monitors and control their activities by having company representatives attached to each one of the distributors.

Degree of Differentiation: Consumer tastes and preferences are not static. It changes over time and experience. Brand image and internalization matters a lot. To capture the target market and to sustain the existing one, tobacco companies need to survey continuously about their product quality and taste whether it matches with the expected level of satisfaction. The market leader BAT Bangladesh conducts consumer product tests time to time and changes the blends of its' brands according to the consumer need.

Resource Requirement: High technology, skilled human resources and experienced management team with high managerial and technical competencies.

Ease of Entry and Exit: High capital requirements make entry and exit difficult. Moreover, stringent government regulations are there for setting up new tobacco companies in the industry.

Economies of Scale: High. As a capital-intensive industry, product quality and consistency are key factors for success in the business. So, achieving economies of scale and capacity utilization are very significant economic factors.

Learning and Experience Curve Effect: High. It is especially important for those companies competing in the upper segment in the market to achieve *economies of scale* and also competing with the *international brands* in the market. Consumer tastes, preferences and choices are continuously changing. *For instance*, a shift towards low delivery of cigarette is completely new in Bangladesh cigarette industry. To meet the recent changes in consumer demand, technological changes are required. Therefore, scale of economy can only be possible through learning and experience.

Capacity Utilization: Required to achieve low cost production efficiency.

Industry Profitability: Above par. But this is possible, only when the firms are cost focused, and the market is price sensitive.

3.6.2 Competitive Scenarios in the Cigarette Market:

Michael Porter's five forces model of competition is very useful in analyzing the competitive situation, and the strength of the competitive forces in the industry.

The rivalry among competing sellers:

The main rivalry in the Industry is among the major competitors, which consist of domestic manufacturers and to some extent transit products in the premium price segment in the market. *Price and quality* are the major determinants of rivalry among competitors.

The other reasons behind rivalry are:

- Demand by ASU 30 smoker group (Adult smoker under 30) for new product innovation like, low delivery and US blended cigarette.
- International brand image.
- *Low switching cost* among buyers especially in the low segment, as different brands are available.

Therefore, rival firms in the industry are likely to approach for licensing agreement with international manufacture for international brands. Moreover, the industry growth rate is in increasing trend due to tremendous potential in the lower price segment of the industry, where consumers are in the trend of up trading themselves from Biri to cigarette. Rivalry in this particular segment is very intensive in terms of price rather than quality.

Substitutability:

There are as such no substitutes for cigarettes in the industry. But price, quality, performance, perceived value of the product and brand image are the key factors for brand substitution.

In the *premium price segment*, quality and brand image are key aspects for the substitution. Due to high brand loyalty among consumers, it is very difficult for the competing firms to enjoy substitutability effect in this segment.

In the *mid-price segment*, the key for the substitution is the cost as well as price. Better product availability in terms of quality and cost creates extensive competition for substitution. Therefore, product with more and new attributes can create product substitution in this segment.

In the *very low and low price segment*, readily available and attractive priced substitute creates competitive pressure by placing ceiling on the prices. However, firms need to find out ways of cost reduction to be profitable.

Entry Barriers:

Entry barrier is a strong force in the industry as the industry is very attractive in terms of growth and profitability.

The main barriers for potential entry are:

- *Government's lawful barrier/restrictions* for setting up new tobacco industry.
- *Huge capital investment and extensive R&D requirements.*
- *Ample resource requirements.*
- *Access to technology and specialized know how.*
- *The experience of learning and experience curve effects:* lower unit cost is a result of experience in producing the product in a large quantity.
- *Economies of scale:* high economies of scale in manufacturing make new entry costly and risky.
- *Brand image, preferences and customer loyalty.*

Possible way of entering into this industry is through merger or acquisition or strategic alliances through licensing with international manufacturer.

Power of Suppliers

- The power of suppliers over the firms that depends on outsourcing of raw materials including *tobacco leaf, wrapping materials, filters, cigarette papers* and so on, is not so significant.

As cigarettes are classified as *Fast Moving Consumable Goods* and produced all over the world, all the firms have the leverage to choose the *wrapping materials* from anywhere in world.

Tobacco for *medium and low price segment* cigarette is grown in Bangladesh and is capable of fulfilling the entire industry demand. 18-20% tobacco for *premium priced* cigarette is also grown in Bangladesh and around 80% high quality tobacco is imported from different tobacco growing countries.

Therefore, suppliers tend to have less leverage to bargain over price and quality.

Power of Buyers:

The bargaining power of buyers is high in this industry as:

- Buyers are *well informed* about different brands available in the market.

In the low-priced and very low priced segment, buyers have high bargaining power as different brands are available and they can choose according to their taste and preferences. But in the *medium priced segment*, quality, price and availability of substitutes are key factors for substitution. In Bangladesh, mid segment is entirely dominated by *JPG* and no other substitutes are available.

Buyer's bargaining power will intensify in this segment subject to the availability of other competing mid segment brands. In the *premium segment*, consumers' high brand loyalty neutralizes their bargaining power.

3.7 EVALUATION OF BATB's SUPPLY CHAIN DEPARTMENT

British American Tobacco Bangladesh has a supply chain which facilitates the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers. This Supply chains exist in both service and manufacturing department. To evaluate the performance of the supply chain department we have to evaluate:

- 1. Inbound Logistics**
- 2. Production**
- 3. Outbound Logistics**
- 4. Marketing**
- 5. Human Resource**
- 6. Research and Development**

3.7.1 Inbound Logistics:

Inbound logistics is the most fundamental element of business operations for a manufacturing firm, involving the processes of receiving, storing and distributing raw materials for use in production. At British American Tobacco Bangladesh for different brands raw materials are collected domestically and also being imported from outside Bangladesh.

For the premium brands like Benson and Hedges, Benson and Hedges Lights and Switch raw materials come from outside the country. For those products raw materials are imported mostly from Brazil, Mexico so on. Other hand for the medium and low brands raw materials are collected from the different part of Bangladesh. They have huge Leaf operation center at Kushtia, Chittagong where leafs are cultivated for the cigarette production.

BATB procurement department follows strict measures to maintain quality parameters. Any type of product is quarantined whenever any dissimilarity in these parameters is detected. For example every single raw materials used for Benson & Hedges are imported. Benson & Hedges uses 100% Virginia tobacco which is a world class blend. The tobacco is imported from Brazil, Argentina, Mexico and West Indies. The white cigarette paper is a special type of paper which is imported from Malaysia. The filter comes from Japan. The glue, used for wrapping the cigarette paper, is imported from Spain. The ink, used for printing on the cigarette paper, is imported from France. There is also a golden wrapper inside the packet which helps keep the cigarette still. This wrapper is also imported from France.

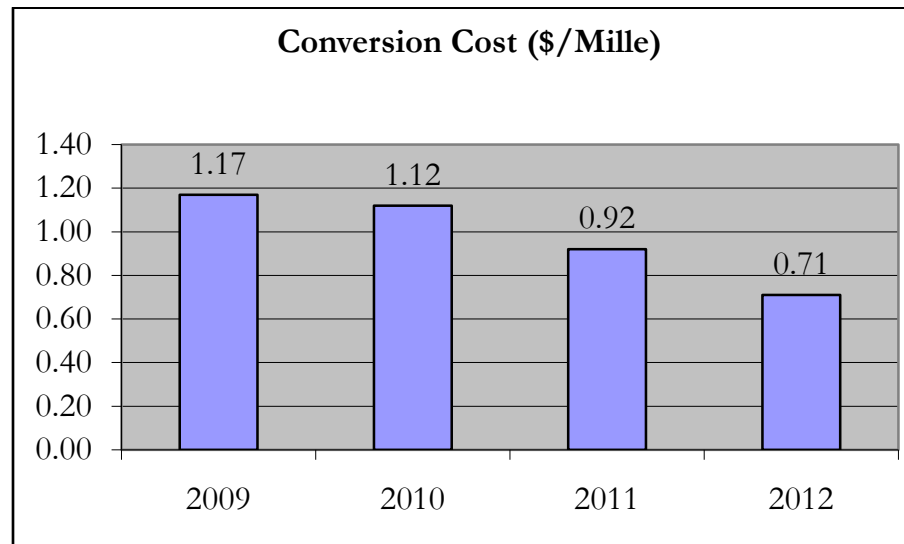
3.7.2 Production:

MISSION:

“We delight our consumer with superior quality product through most flexible operation, and minimum cost at all times.”

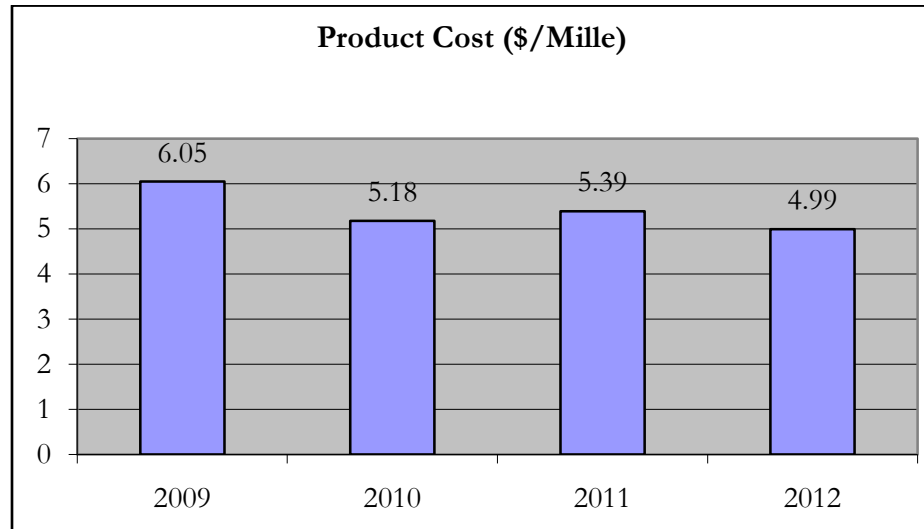
BATB’s production department has been renamed as Operations and Manufacturing Department. In order to support the mission, this department is performing successfully the following activities:

- Product harmonization.
- Meeting international quality standards.
- Competitive position of EH&S in the group (Achieved 3.4 on scale 4.0).
- Low cost producer.
- Conversion cost Tk.43 per mille against Tk.43 per mille.



Analysis: From the above graph it is evident that conversion cost is in declining trend over the past few years. Even 3 years back it was \$1.17/mille but now it has been reduced to \$.71/mille almost 40% reduction in costs that indicates BATB’s performance in this ground.

- Product cost Tk.296 per mille against Tk 300 per mille.



Analysis: Looking into the trends of product costs year on year, it is visible that **BATB** is striving to reduce its costs. In 1998, product costs/mille was \$6.05 but in recent year 2012, it managed to reduce costs \$4.99/mille, almost 18% reduction.

STRATEGIC INTENT--Manufacturing:

- Clear core ideology.
- Benchmark focus at every level.
- Employees with skills to meet the most competitive performance in the region.
- Clear objectives / challenge / KPI for management and shop floor employees.
- Continuous improvement environment/no comfort zone.

Teams +Processes + Resource Allocation = Effective Results.

STRATEGIC DRIVERS -

- Improve productivity.
- Continuous Quality Improvement.
- Supply Chain Management.

- Achieve MRP II Class A - in new checklists. (Strategic Planning, Planning & Control, People & Team, Continuous Improvements and New Product Development).
- Human resources development.
 - Strategic thinking
 - Leadership and
 - Team building.
 -
- Technical development.
 - Effective Go Cost program.
 - Technology effectiveness.

QUALITY STRATEGY:

To generate an integrated process of quality to exceed consumers' expectations that includes all managers/workforce, suppliers, distributors and systems.

Quality Focus:

- Continuous quality improvement.
- Smoking Quality.
- Physical, Chemical, Packaging aspect
- Systems & Process (QUEST).
- Consumer complaints.
- Vendor development/partnership.
- Effective training on Key Quality Methods.

Backward vertical integration:

BATB has developed some local suppliers as its *valued business partner* to have wrapping materials by giving order on monthly basis. Most of its suppliers deliver raw materials on '*Just in time*' basis, usually less than a day, for using in its' production line. BATB usually has one-year contract with these suppliers where prices are settled for that period. It also has agreement to have *safety stock* of raw materials for 1.5 month, work in progress material for 7 days and finished materials for 7 days. For better resource management, suppliers are well aware of sales forecast and manufacturing plan of the company for next 18 months through direct link with BATB's computer terminals. Technical helps are always extended to the suppliers in case they ask for it.

KANBAN system of inventory control is a benchmark within **British American Tobacco's** operating companies. In **BATB**, only 4 hours raw materials are available in the factory premises and thus benefiting the company by releasing working capital, reducing inventory level and opening up the spaces.

Leaf Performance:

MISSION:

“To exceed consumer’s expectation by providing quality tobacco at a competitive cost.”

LEAF OBJECTIVES:

- Organize Cultivation
- Quality Improvement
- Procure required quantity as per forecast
- At a Competitive Price
- Import Substitution
- Export
- Corporate Image Enhancement

CHALLENGES:

- Adjustments with the Sales and Operations Planning (S&OP)
- Storage
- Arable Land Limitation
- Weather
- Unethical Competition.
- Price Sustenance
- Quality Improvement

STRATEGIES (Based on forecast):

- Industrial requirements
- Seedbed and plantation program
- Crop registration and agreement
- Crop inputs and logistics
- Seed Planning.

LEAF OPERATION:

British American Tobacco Bangladesh, among one of the few operating companies in BAT has got its independent leaf operation: leaf growing and processing. Three regions in Bangladesh namely Kushtia, Manikganj and Chittagong grow highest quality leaf due to favorable climatic condition.

The leaf growing is managed through about 11,500 BATB registered farmers, who grow tobacco leaf in their lands with the financial and technical support from the company. The leaf processing operation is done in the *GLT* (Green Leaf Threshing) plant located at Kushtia. GLT runs for 5 months of the year during the leaf buying and processing time. The hourly throughput (ideal) is 7,500 kg per hr, which cover both domestic and export requirements.

Company's Leaf Department is working side by side with the farmer to achieve the tobacco-growing target and fulfill the local demand as well as the export market in order to achieve highest international quality of tobacco. Leaf planning is done on 30 months forecasted volume. The process of cultivating and growing tobacco includes:

- Seed bed management.
- Field practices (Newly Developed Agriculture Practices).
- Mature harvesting.

- Barn management (Development in the Tobacco curing equipment).
- Curing management (Tobacco curing after harvesting).
- Grading.
- Hygiene & Sanitation (Social development process and environmental awareness).

Growing policies - EH&S:

BATB follows I.C.M.S, to minimize the dependence of Agro-chemical and optimize chemical fertilizer for best practices.

Integrated pest management:

Pest Management has become an increasing concern for Leaf department. Although BATB is not directly involved in the cultivation but due to its deep involvement in the tobacco growing process, it is the company's responsibility to create awareness and manage pest control among the growers. This process includes:

- Make farmers understand for pursuing alternative crop rotation practices to reduce/avoid the use of agrochemical.
- Selecting appropriate agrochemicals.
- Continuous Training
- Continuous monitoring of environmental impact.

Future Challenges:

Cost is an important factor in the supply chain. To be competitive in terms of costs, Leaf Departments planned some activities/actions like, rearranging warehouse facility, substituting imported quality tobacco with locally produced tobacco considering the quality parameters etc. In order to maintain costs at certain level and for further cost minimization following programs has been identified:

- *Improvement of barn capacity* by increasing barn utilization and efficiency through technological innovation considering the costs of the manufacturing.
- Striving for *continuous quality improvement* in order to substitute the imported grade by local grades for the premium brands.
- *Increasing employee productivity* in Green Leaf Threshing Plant to keep the tobacco-processing cost competitive.
- *Ensuring buying cost* of the tobacco without hurting farmers (VBP's) by helping them increasing the overall growing yield significantly.
- *Managing Logistics and Warehouses* in such a way that total costs involvement will be minimized.

LEAF SOCIAL:

BATB's leaf department is actively participating in social works and thus enhancing companies' corporate reputation. Their activities are scattered mainly in the leaf growing areas with a target group of their valued business partners (farmers).

Activities on Focus:

- **Forestry Education Program**—to educate future generation between the age group of 7-10 years.
- **Health and Hygiene**—to educate VBP's regarding sanitary toilet and develop healthy environment for better health and housekeeping and reduce risks of occurring different diseases. Around 92% VBP's erected Sanitary Toilets.
- **Primary education and Literacy**---100% VBP's children are going for primary education and 100% VBP's know how to sign their names. As such, it is supporting Government program "Education for All". Around 99% children of VBP's is school going.
- **Family Planning**---Its creating basic concepts and awareness through motivational activities.
- **Safety**---To ensure VBP's safety, BATB arranged leaf payment through bank account for faster and dependable payment system.
- **Afforestation**---It's a continuous improvement process that gained momentum since 1985.

3.7.3 Outbound Logistics:

The movement of material associated with storing, transporting, and distributing goods to its customers.

British American Tobacco Bangladesh (BATB) extends all across Bangladesh. They have their head office and factory located in Dhaka. There are three leaf regional offices located in Banderban, Kushtia and Rangpur. They have six regional marketing offices all over Bangladesh. The six metro markets are Dhaka, Khulna, Mymensingh, Bogra, Sylhet, and Chittagong.

Distribution is done with the help of authorized dealers. BAT does not take their products directly to the market. There are 52 authorized distributors that distribute the products to 510,000 outlets approximately.

Distribution is divided into three categories. They are: Retail Store, Retail Cash and Carry, and Bazaar Cash and Carry. The distributors use their own vehicles, covered vans, cycle vans, etc to distribute the product. And in the passive outlets, the areas are very close to the river, where vehicles cannot go, they supply the product through boat.

Channel of Distribution

Regional Go-down: There are five regional go-down throughout the country to fill every regional demand just at the time of need, and to overcome various uncertainties related to physical distribution of products, every regional go-down is directly controlled by separate Regional Manager to face the regional physical distribution challenge.

Carrying Contractor: They are the party engaged in the physical movement of cigarettes from head office go-down to regional office go-down. Normally they are the truck owners who take all the risk and responsibilities of physical movement of goods between two warehouses.

Distribution Warehouse: All distributors have their own warehouse, where cigarette can be kept safely while not degrading its product quality. Distributors buy the cigarette from BATB and from that point ownership and all responsibilities of the products go under the distributors.

Internal Carrying Agent: They are like carrying agent but carry small volume of products. Normally they are local truck owners. They carry products from, regional go downs to distributor warehouses. They also take all the responsibilities and risk engaged in physical movement of products.

Opening Stock at Distributors' Office: A part from the warehouse, every distributor also maintains another stock at their office. This stock is for maintaining any change in market demand instantly. Dealers sometimes sell cigarette through their counters to face special situation.

Delivery Van: All the delivery vans are owned by the dealers to assure the supply of cigarette on the door of wholesalers, cash & carries and retailers just according to their demand. There are two types of delivery vans. One is Scooter van and another is Rickshaw van.

Cash & Carry: They are businessmen who sell cigarette directly to consumers and at the same time they sell cigarette to the retailers.

Retailers: Retailers are at the end of the physical distribution system of cigarette selling products directly to the consumer.

The distribution chain shows how the product goes from the factory to the hands of the consumers. It all starts with the factory where the tobacco is turned into cigarette and packaged. The cigarette comes out of the factory as a finished good and is kept in the company's warehouse. Then the tobacco product goes to 6 regional depots. From the depots, the authorized distributors take it to their distribution warehouse. Then from the distribution warehouse the distributors use their own vehicles to get it to the market.

3.7.4 Marketing

Product: BATB's has a wide variety of brands in its product line. It has *international premium quality* (centrally managed) brands like, *Benson & Hedges* (B&H) both full-flavored and lights, and *SE555*; *Value for money* (regionally managed) brands like, *John Player Gold Leaf* (JPGL) both full-flavored and lights, and *LONDON*; and *Domestic Value for money* (locally managed) brands like, *Star filter and plains*; *Scissors filter and plains*; and *Capstan*.

Among its brand, BATB pays royalties for B&H, SE555 and LONDON. For all international brands BATB needs to consult with *IBG* (International Brand Group) in London. No decision can be taken without their due permission. Even for advertisements and promotions every bits and pieces are guided by *IBG guideline*.

BATB has developed the capability of producing all its international brands, previously those were used to import from BAT UK operation at Southampton factory. BATB brands are available in three types of *SKU's* (Stock Keeping Units): *Hinge lit* (HL), *Soft-Cup* (SC) and *Shell and Slide*. All international brands and Capstan are available in *20s HL* pack. It has *10s 'Shell and Slide'* pack on Star and Scissors and *20s Soft Cup* pack on Star. Plain brands are available in *10s Shell and Slide* pack version.

Price: Competitive price is being offered by BATB while keeping pace with the competitions. BATB products are available in the entire *price segment* of the market except the very low segment. As around 87-90% of the total cigarettes are sold in sticks rather than whole pack, price segmentation has been done on the basis of *per stick price*.

In the premium segment at Tk.3 per stick, the parent products are *Benson & Hedges and State Express 555*, with line extension of *Benson & Hedges Lights*. These international brands have excellent product image with a segment share/ volume share of 99.7%.

In the medium price segment at Tk.2, *John Player Gold Leaf* is the bread and butter for the company with international image in both Full- flavor and Lights version. It has a 100% volume share in the market.

In the Low price segment at Tk.1 plus, the brands are *Capstan filter, King Size LONDON, Star filter, Scissors Filter, Star Plain and Scissors plain*. These brands have a volume share of 35.34% declining from 56.37%² market share due to tough competitors.

Products are reached to the ultimate consumers through its designated distributors. BATB has 60 distributors all over the country. These distributors supply BATB products to the retailers under the supervision of Territory officers (TO's) of the company. For 60 distributors there are 40 TO's working in their respective territory.

Entire Bangladesh has been divided into six geographic regions headed by 5 Regional Managers (RM's). These regions are Dhaka Metro, Dhaka Outer, Chittagong, Khulna, Sylhet and Rajshahi. Regions are again divided into 12 strategic areas and headed by 12 Area Managers (AM's). Under each Area Manager, there are Territory officers who are responsible for their defined territory. Therefore, companies' managers are continuously monitoring the performance of one or several distributors and ensuring effective distribution to all the district markets.

BATB has classified the types of outlets in 3 categories: *Grocery, Convenience* and *HoReCa* (Hotel, Restaurant & Café). The distributors cover groceries and convenience outlets, whereas HoReCa channels are covered by company designated HORECA managers to promote premium brands only in the Metropolitan cities of Bangladesh.

Major sales are done through *Cash & Carries*, small mobile outlets who buy directly through distributors. Small retail outlets also take BATB's product from some major retail stores in the wholesale bazaar (like Mowlobazar of old Dhaka), where all the trading takes place for all kinds of consumable goods. These wholesalers buy cigarettes from different distributors. BATB never encourages this particular channel, as this particular channel is very hard to monitor and control.

Distributors of BATB are perceived as '*valuable business partner*' of the company. Therefore, they are also engaged in various company programs like training and development, different workshops as part of continuous improvement initiatives.

Promotion: BATB has strict CORA guidelines for promoting its brands. Apart from CORA guidelines, there are strict *IBG guidelines* for promoting international brands. For such kinds of brands, advertisements and promotional activities are the same all over the operating companies of British American Tobacco. Again from a legal point of view, under company act 294 (B), BAT cannot run any promotions directly to its ultimate smokers like any other company.

In Bangladesh, television advertisements are banned in local broadcast television. Now a days, other private channels like ETV, Channel Eye, ATN Bangla are used to advertise BATB brands. Other promotional campaigns for Benson & Hedges, State Express 555 and John Player Gold Leaf are done in other medias like Magazines, Newspapers, Billboards and through entertainment shows like sponsoring concerts. *Branded outlets* for JPGL and Star are now a common type in the market to promote that particular brand. Other merchandising materials for promoting brands are: branded in-store cabinet, street cabinet, desktop, light-box, canopy, sunscreens and so on. There are also cycle based promotions for outlets like poster, dangler,

bunting, sticker, trade letter, consumer lift-let dispenser and so on. These materials are temporary merchandising materials for promoting a particular brand on that particular cycle.

3.7.5 Human Resource

MISSION:

“Embedding a winning culture where people always strive to excel”

WHAT WAS BEFORE?

Earlier in BATB there exist two groups of people: *Management and Non-management/Union*. There were always mistrust between these two groups. Union always disagreed with the management decisions instead of cooperating with them for the betterment of the company as a whole. These two groups were busy in a tag of war with almost anything. A common understanding into any issue was very uncommon. Nothing could be decided without negotiation. *Win-lose* situation was very common in place of *win-win* situation.

All sorts of development efforts of human resource were confined into management level; non-management-unionized employees were focused only to technical training. Lack of business sense; communication gap, trust & forward visibility in sharing company plan and strategic direction were regular phenomenon for BATB that contributed to become a high cost base manufacturing operation in the region.

How company was affected?

Due to lack of coordination between two groups, BAT Bangladesh was recognized as a high cost base manufacturing operation in the MESCA region.

WHAT HAS BEEN CHANGED SO FAR AND HOW?

BATB now values its people as *Human Capital*. In 22nd November 2012 MRP II Audit, BATB achieved CLASS A in ‘*People and Team Development*’ with benchmark recognition among BAT companies. To be in this position, it had gone through extensive training programs including different skills development programs for improving individual performance as well as group performance as a whole. The company started to reshape its structural set-up by removing barriers from early 2009.

Actions Taken:

- *Introducing Open-office concept.* All offices were brought into a single location and all offices were made open.
- *Introducing common dining facility:* Managers and employees started using the same dining facility at the same time.
- *Same Uniform:* Same uniform for everyone has been introduced throughout the company to give the importance of shop floor employees as part of one organization without any discrimination.
- *Open Discussion with MD:* Managing Director of the company initiated meetings with all levels of employees where issues were/are discussed openly.
- *Family Day Concept:* A Family Day concept emerged where all members of the organization both management and non-management participate along with their family members and enjoy throughout the day.
- *Reward and Recognition:* To motivate employees at all level, BATB introduced recognition and reward system like, *Champions* for a specific month for doing something extraordinary. As a result people are becoming more open and interactive and participative to grab the title. This has generated a positive competition among the employees.
- *Winning in our world (WOW):* For driving the WOW program throughout the company, the main drivers are Trust, Commitment and Achievement—core values of the company. For these values,

BATB has a very good corporate reputation for excellent management practices. These WOW values are clearly defined and employees, management & Union all are continuously striving to achieve these values.

3.7.6 IT:

There was a time, when IT department acted as a supporting function as part of finance department. But now, IT department has been expanded with its own identity with the vision of driving business through IT.

A *core objective* of IT is to explore IT opportunities in the business to increase the pace of regular business activities. In the last MRP II Audit, IT of BATB has been recognized as Benchmark within BAT companies. Within BATB, all functional activities are accelerated with IT solutions. The important benchmark achievement is the solution named *DATA WAREHOUSE*, a 'Decision Support System' that integrates all the systems and data for making appropriate decisions across the company.

3.7.7 Research & Development:

Research & Development is an ongoing process for BATB. As it is operating in a controversial industry, anti-smoking lobby always put pressures on the company. Today's smokers are becoming alert and desire to have something with a lesser amount of Tar & Nicotine percentage. To maintain certain level of these two elements, BATB is continuously striving to achieve a desired level in its blends. *Lights* is a kind of variety with less number of puffs.

Moreover, consumer preferences are changing. To meet the demand of their tastes and preferences *Product Development Manager* and *Blender* are trying to develop new blends and even to improve the current blends proactively. *BATB Research Lab* is equipped with latest equipment's like 'Smoking Machines' that measures the puff numbers/minute.

3.8 Problem Analysis

Problem areas of **BATB** both in terms of external and internal aspects are as follows:

MAJOR PROBLEMS

Strategic Problems

- *Brand Portfolio:*
Consumers in Bangladesh are very price sensitive. Cigarette Industry is of no exception. Around 87-90% cigarettes are sold on stick and market segmentation has done also on the basis of stick price. BATB brands do not exist in all the existing market segments. In those vacant segments, BATB does not have any product available and therefore, it is always under potential threat of new product entry in the market.
- *Operating in very low segment:*
Market has great potential (volume terms/value terms) in the very low segment. But it is not economically viable for BATB to operate in this segment and earn reasonable profit after paying excise. As competitors are well known for unethical practices in terms of excise payment, they are making profit by operating in this segment and capture both volume and value share without facing any competition from the industry leader.
- *Increasing Excise:*
Excise management is always a big concern for BATB. There is a continuous pressure for increasing excise demand from the government. BATB has to manage the excise structure and put constant pressure for not making any excise structure change, which has direct effect on pricing of its' brands.
- *Increasing Transit (smuggle) brands & Counterfeits:*
According to *Retail audit*, major competition faced by BATBin its premium segments from transit Marlboro (around .03%). There was a time when BATB used to face competition with its own BAT companies cigarette brands. These brands are not duty paid therefore, they are available in comparatively cheaper price compare to BATB's brands. Sometime, counterfeits of some of the major brands of BATB like JPGL, SE555 and Star or Scissors filters are available in the market. This has become a serious concern for the company as the quality of the counterfeits is very low and thus deteriorates company's reputation.
- *Industry Shifts:*

Even till 2010s smokers preferred to smoke plain brand cigarette with a very strong and hard taste. During 90s the smokers' preference started shifting towards full flavored Virginia cigarettes with lower delivery and king size filter cigarette. Today's industry is experiencing a fundamental shift in its business. Now smokers want to smoke lower delivery cigarettes and therefore, preference for lighter cigarette has been increased. To meet this industry demand, new technology in the industry with huge capital investment is essential for overall industry success.

- *Potential threat for loss of market in terms of Value share:*

The cigarette market is very price sensitive. In the early 2010, BATB had to reduce the price of its mid segment brand JPGL due to loss of sales, a result of the price increase by 2.5% in early 99's. To stabilize the situation, BATB had to increase its sales volume to optimize its value share. Lots of cost reduction initiatives were taken to balance the circumstances; like usage of *raw materials, administrative costs, production costs etc.* In future, such kind of threat is always there for BATB.

Operational Problem:

- *High Manufacturing Costs:*

Increasing Manufacturing cost is one of the key issues for the Operation department BATB's product costs, conversion costs and material costs are higher than the other operating companies of British American Tobacco and also higher than the region (MESCA) average.

3.9 Alternative Strategies

In order to resolve BATB's problem, the following alternative approaches can be undertaken to boost up its long-term performance.

Brand Portfolio

Alternative 1: BATB has the resources available and thus, can fill up its vacant segments when it will experience potential threat from new entry in the market.

Pros:

- No need to invest money right now behind this matter. Rather can invest in other potential projects.
- Management time can be utilized in some other sector.
- No guarantee that new brands in those vacant segments will be a success.

Cons:

- Competitors can act proactively and launch new product category while having collaboration with some other international competitors.
- Competitors will have the opportunity to grasp the potential value and volume share of those segments and consequently BATB will lose the opportunity.

Alternative 2: BATB can start thinking proactively to have its presence in every available market segment so that in future if any competition comes in BATB will be in an upper hand position.

Pros:

- BATB will grab volume and value share in those segments before anyone else.
- Competitors/international competition will have hard time to establish their brands.
- As *Dark Market* is coming up, it will be easier for the company to establish new brands in those segments rather than launching during 'Dark Market'.

Cons:

- There is no guarantee that it will be successful in launching brands in those segments.
- Time, money and energy can be a total wastage.

Operating in Very low Segment:

Alternative 1: BATB can think of operating in the very low segment, as it is a very potential segment in terms of volume.

Pros:

- It will be able to take the opportunity of grasping the market share with its quality products as industry trend indicates up-trade of smokers from 'Biri' to Cigarettes.

Cons:

- In short term, BATB might have to sacrifice profits to establish its brand in the portfolio, as after paying excise it is not economically viable for the company.

Alternative 2: There is no need for BATB to consider operating in the very low segment, and it should be happy with its existing brand portfolio.

Pros:

- It won't lose money and will be able to maintain its profit growth.

Cons:

- Competitors are and will be capitalizing BATB's absence in the segment and will continue grabbing the market share in this huge potential segment.

Increasing Excise:

Alternative 1: BATB can lobby and maintain good relationship with the Govt. officials for stable excise payment. On this issue, the company can take proactive role suggesting different excise slabs in order to demonstrate win-win scenario. This was done in the past and thus resulted positive outcome for both government and the cigarette industry. *For instance, As per BATB's recommendation, tax-stamps have been implemented for cigarette industry to increase the revenue of the government.*

Pros:

- Good relationship will help the company to operate successfully in future.
- Excise stability will give the company additional cash its hand.
- Successful roll out of tax stamp will enhance competition within the industry.

Alternative 2: Excise is not a matter of concern.

Cons:

- Need to pay huge amount of money for excise.
- BATB will be paying taxes, irrespective of what its' competitors are doing. As such BATB will be the looser in terms of cash management.

Increasing Transient/Counterfeits:

Alternative 1: BATB can lobby with the Govt. and law enforcing agencies by keeping good relationship with the government bodies, launching anti-smuggling campaign for promoting the negative impact of smuggling in the country economy and suggesting alternatives for controlling the smuggling. Furthermore, the company can influence Govt. to put more restrictions to discourage counterfeits.

Pros:

- Govt. will get more excises, as smuggled ones are not duty paid and thus will get more revenue from the company.
- BATB will be able to sell more and grab market share if no transit brands are available.
- It will be able to retain its reputation in terms of quality standard if there are no counterfeit products.

Alternative 2: No need for BATB to take measurable steps in this regard.

Cons:

- Company reputation will hamper for counterfeit products.
- Govt. won't get excises for smuggled products.
- In the premium level, the company will face competition where BATB has almost 100% market share.

Industry shifts:

Alternative 1: The essence of "**fortify and defend**" is to make harder for firms to enter and for challengers to gain ground. Therefore, company can do extensive research in order to identify the potential long-term growth in the lights segment. It can also create a state of readiness within the company for different low delivery cigarette for different price segment. The company can launch brands on trial in the test market as a part of niche strategy to identify customer group for low delivery smoke quality.

Pros:

- Building new capacity ahead of market demand to discourage competitors from adding capacity of their own.
- Proactively respond to the industry shifts and taking necessary measures proves BATB's leadership in the cigarette industry.

Cons:

- More money involvement in research and development.

Potential loss of market in terms of Value share:

Alternative 1: BATB is the market leader in Bangladesh cigarette market and its *premium* (B&H, SE555) and *value for money* (JPGL) brands are perceived as international and high quality product. Therefore, company need to continue "**Stay-on the Offensive Strategy**" focusing on its key brands.

Pros:

- Will help for costs reduction in each value chain activities.
- Quality enhancement.
- Proactively taking market initiatives to increase market growth.

Cons:

- Involvement of more research & development.
- More capital investment.

Alternative 2: BATB can be defensive in nature rather offensive to tackle such matter.

Pros:

- Savings from research & development

Cons:

- Competitors will utilize the opportunity.
- The company will act as follower not the leader of the industry.

High Manufacturing Costs:

The costs of cigarettes are related with production capacity. BATB can put more emphasize on large volume to capture economies of scale in its running operations.

Pros:

- Economies of scale will reduce costs base on per unit basis.

Union Management relationship:

BATB should be committed towards:

- Dual Commitment of Company & Union.
- Retain and Extend mutuality in terms of trust, influence, dignity, and integrity.
- Sustain environmental belief on 'One family one team'.

Pros:

- Union morale will be stronger than before.
- Union will not act as barrier in case of any change for the betterment of the company.
- Union leader will act as catalysts between the management and the union.

3.10 Recommendations

There is nothing called best solution. Looking at BATB, in market the company is in the best position and enjoying the market leadership. Following recommendations can be made to support the company's overall strategy for further enhancements of its operations in this country:

- *Continuously monitor 10 years strategic plan and its execution phases year on year to have an overall balanced planning inline with the market demand and its responses, and find out whether plans are aligned with the global corporate strategies or not.*
- *Identify opportunities and build on strengths*
- Brand portfolio should include brands in different price segments to fill up the gaps (eg. at Tk. 2.5, 3.5 and even introducing super premium brand).
- Should think seriously for operating in the very low segments.
- Should continuously monitor and reshuffle its strategic and tactical brand portfolio as per the industry trend. *For instance*, can think of giving effort behind SE555.

- BATB should try to achieve the economies of scale in order to reduce cost of production per unit. Production Planning should be more focused on utilizing the entire productive asset in the production floor.

- It can think of focusing on unrelated business diversification.

- BATB should outsource its daily administrative activities and put concentration more on its business development activities.

- BATB should continue to enhance its corporate images by continuing different social activities and introducing new promotional campaigns like YSP (Young Smoking Prevention).

- Should maintain strong relationship with its suppliers and customers.

3.11 Implementation Plan

Implementing strategy entails converting the organizations strategic plan into action and into results. And thus it is the most difficult task of strategic management. The managerial task of implementing and executing the chosen strategy requires assessing what it will take to make the strategy work and to reach the target performance on schedule. The managerial skill here is being good at figuring out what must be done to put the strategy in place, execute it proficiently, and produce good result.

Role of every manager in implementing and executing the strategic plan:

Successful implementation can be a part of cooperation and collaboration of different levels of managers across the company. The top management of BATB should continuously reinforce and cascade down its mission, vision and strategies across the company and transform each and every one within the company into manager in his/her area of concentration for overall development and widening the business line.

Identify the task to be completed:

- *Formulate plan of actions for potential unfocused market segment and act proactively to grab the existing opportunities.*
- *Allocate more funds for R&D.*
- Continuously striving for *innovative strategies* to have edge over competitors and ready to take any challenges.
- Continuously motivate employees to retain their morals and to capitalize their team effort to achieve company mission on time.
- Re-fresh *WOW program* to sustain the '*Change Management Program*'.
- Up-gradations of required machineries for coping with the increasing market demand.
- Lobbying and keeping good relationship with the Govt. for effective implementation of '*tax-stamp*'.
- Find out cost occurring activities in the supply chain and try to fix up the problem by finding cost effective methods.
- Implement IT strategies by supporting all functions with Information Technology (IT) and creating new arena to add velocity in the respective business process.

- Develop training programs with a training calendar throughout the organization based on individual, functional and corporate needs to improve three key areas i.e. knowledge, skills and attitude.
- BATB has to transform its core competence '*unique managerial skills*' in to a distinctive competence with more refinement so that this becomes a competitive advantage for the company.

- BATB need to increase morals of its front-line management, Trade Marketing & Distribution by offering them quick career growth, as they are the key contact people between the consumers and the company.

Personnel responsible for the tasks:

- *Operations Managers:* One of the major KSF in cigarette industry is technological advancement. The introductions of high-speed machineries can breakthrough production capacity per day and help the company to gain economies of scale by reducing costs /mille. Moreover, operation manager is responsible for streamlining the production process to reduce costs and save time and enhance employee productivity.
- *Planning & Logistic Manager:* The planning and logistic manager has the crucial responsibility of maintaining smooth operation in the whole supply chain activities in a cost effective manner. Supply chain scopes starts from leaf planning and logistics to finished product distribution to the customers. All the processes involved need to be rearranged if necessary and must be cost effective to increase the profitability and velocity in the overall supply chain activities.

- *Shifts/Plant Manager:*
 - *Allocate substantial resources in the potential high growth sector.*
 - *Monitoring production as per 'Master Production Schedule' (MPS).*
 - *Concentrate on TQM for zero defect strategy*

- *Demand/Marketing Manager:*
 - *To forecast accurately about the market demand*
 - *To execute aggressive promotional campaign to attract potential users.*

- *To monitor distributor's performance for achieving the company's overall S&OP (Sales and operational planning) target.*
- *Product Development Manager:* For satisfying consumers/smokers according to their desired needs, it is very important for product & development managers to proactively take the steps of developing new blends and new brands. The product manager should be ready with 'Off the shelf' brands so that whenever market requires, the company can launch /introduce new brands in the market. One of his core responsibilities is to change the product design and look to enhance quality and attractiveness.
- *Brand Manager:* Brand managers are the custodians of BATB brands. Through research and development on consumers, competitors and media, they need to find out consumers' needs and wants and try to satisfy those by getting aware of market demand in developing varieties of brands for different price segments.
- *Human Resource Manager:*
 - *Attract the brilliant graduates by offering competitive compensation packages.*
 - *Provide continuous training and development for human resource development.*
 - *Arrange 'WOW refresher' program for sustaining core values of the company.*
 - *Giving recognition to managers and employees for being change agents, result oriented, and customer focused.*
- *Environment, Health & Safety Manager:*
 - *Safety manager should continue to provide safety precautions to prevent any hazardous event in the factory and to ensure human life in order to prevent any kind of disruption in the production floor.*
 - *He should look into different safety precautions like:*
 - Premises & housekeeping
 - Electrical, mechanical hazards
 - fire protection & prevention etc.

3.12 Contingency Plan

In any planning process, contingency plan needs to be incorporated for what if scenario. Even the best plan may fail. There is no guarantee that specific plan(s) will work out as planned. Thus, the need for a contingency plan arises.

In the BATB's strategic plan, focal points are its volume share and profit margin. To have higher volume share and incremental profit margin, some key assumptions are:

- *Growth in the premium segment.*
- *Up-trade from Biri to low brand cigarettes.*
- *Change in Cigarette:Biri consumption*
- Increase in value share.
- Steady economic growth of the country.
- No increase in the current tax structure.

If any of the above assumptions change due to external forces, there is a possibility that BATB will not be able to achieve its targeted plan.

Therefore, the **contingency plans** are recommended as follows:

Cigarette Export in the international market(s):

Growth in the *premium* and *mid segment* contributes higher profitability margin. BATB is recognized by the corporate Head Office for the leading candidate within the region for exporting cigarettes. As a result BATB might consider exporting its premium and mid segment brands in the international market and earn foreign exchange for the company as well as for the country.

Diversification:

As cigarette industry is a controversial industry, the company might think or diversifying to unrelated products like ITC (Indian Tobacco Company) and expand its business horizon.

Out source the Manufacturing of lower brand:

The lower brands of BATB are produced in the low productive machine and the current employee cost for BATB is Tk. 26,000 per month. With strategic alliance with the local manufacturer, BATB can produce these brands with much cheaper cost. This will enhance the profit margin of the company as well as well increase the sale volume due to reduction in the retail price.

New style of brands in the portfolio (Low delivery and US blend cigarette):

As the tastes and preferences of the consumers are shifting towards low delivery cigarette, the company can gear up its resource and technology and be at the state of readiness so that demand can be created in the market. BATB can even think proactively for US blend of cigarettes to compete with international competition 'Marlboro' by Phillip Morris.

It is therefore, suggested that a proper study should be carried out to identify each of the contingency plan. Once the study is done, company should be prepared to implement the plans within the shortest possible time.

3.13 Conclusion

BAT has ensured value addition at every stage of the supply chain. BAT must further focus on price, quality and performance of their product lines and brands to stay competitive in the industry. Although people are becoming more aware of the health hazards of smoking, but customers who smoke on a regular basis face tremendous difficulty in giving it up. Moreover, the increasing activities of anti-smoking lobbyists will not have much effect on the regular smokers. Still, BAT should contribute extensively on research and development for better variety of tobacco leaves that will be less injurious for health and more cost effective for the customers. On account of advancement in microbiology, BAT should involve scientists more frequently to come up with a variety that eliminates the harmful qualities of tobacco and only the useful qualities are available for consumption. This can trigger a complete revolution and can be sold as some product of great herbal value

3.14 Reference

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