

British American Tobacco (BAT)

Overview

The tobacco industry is one of the most profitable and deadly industries in the world. The global cigarette business alone is valued at \$559.9 billion USD.¹ The World Health Organization estimates that tobacco use could kill one billion people during the 21st century, with the majority of those deaths occurring in developing countries.² The international tobacco market is dominated by five major transnational tobacco companies (TTC), China National Tobacco Company (CNTC), Philip Morris International (PMI), British American Tobacco (BAT), Japan Tobacco International (JTI) and Imperial Tobacco, all of which focus on selling their lethal products in markets around the world. BAT is a London-based transnational tobacco company (TTC) and ranks third among TTC market leaders, behind China National Tobacco Company and Philip Morris International. BAT operates in over 180 countries, more than any other tobacco company in the world.³

International Profitability

BAT is the second most profitable publicly traded tobacco company in the world behind PMI. It is currently valued at \$80 billion USD.⁴ In 2009, BAT generated £2.9 billion (\$4.8 billion USD) in profits after taxes.⁵ The company reported 907 billion sticks in cigarette volume sold worldwide, down by 1% from 2008.⁵ According to tobacco market analysts at Euromonitor International, BAT held a 12.7% retail volume market share in cigarettes worldwide in 2009 and a 20.7% volume share of the global market (excluding China).⁶

BAT Regional Growth in 2009⁵

Region	Volume	Change in Volume from 2008	Operational profits*	Change in Profits from 2008
Africa and Middle East	127 billion sticks	11%	£724 million (\$1.17 billion USD)	41%
Asia-Pacific	185 billion sticks	3%	£1.15 billion (\$1.85 billion USD)	24%
Western Europe	123 billion sticks	6%	£994 million (\$1.61 billion USD)	31%
Americas	151 billion sticks	-6%	£1.19 billion (\$1.92 billion USD)	13%
Eastern Europe	131 billion sticks	-4%	£409 million (\$660 million USD)	-13%

- In 2009, BAT's best performing region was the Africa and Middle East region. BAT reported £724 million* (\$1.17 billion USD) in operational profits, a 41% increase from 2008. Cigarette volume in the region increased by 11% to 127 billion sticks in 2009.⁵
- The Asia-Pacific region was BAT's largest region by volume in 2009, which increased by 3% to 185 billion cigarettes. Profits from the Asia-Pacific region increased 24% for

* Adjusted operational profits are prior to taxation and adjusted for corporate restructuring, settlements, amortization, disposal of businesses/trademarks, and charges from associates/joint ventures.

an operational profit of £1.15 billion* (\$1.85 billion USD). In 2009, 26% of BAT's total volume was sold in the Asia-Pacific region.⁵

- The Western Europe region experienced a 31% increase in operational profits for a total £994 million* (\$1.61 billion USD) in 2009. Volumes in the region also increased by 6% to 123 billion sticks. This growth was primarily due to BAT's acquisition of Denmark-based Scandinavian Tobacco, which operates in 14 countries worldwide.⁵
- In the Americas region, BAT experienced a 6% decline in volume to 151 billion sticks in 2009, but the region saw operational profits grow by 13% to £1.19 billion (\$1.92 billion USD).
- BAT also saw a 4% decline in volume and a 13% decline in profits in the Eastern European region; these drops were attributed mainly to increased taxes and economic recession. However, BAT still earned £409 million* (\$660 million USD) in operational profits and produced 131 billion cigarettes in 2009 in the region.⁵

Presence in Emerging Markets

Nicandro Durante, BAT's Chief Operating Officer, recently highlighted BAT's strength against its competitors in emerging markets. He described BAT as having the "best exposure to developing markets" of all publicly traded TTCs which gives the company an advantage because emerging markets are "likely to be more resilient than developed markets."⁷

BAT's exposure to developing markets



Source: Durante, 2009

Like its competitors, BAT is shifting its focus toward emerging markets. Populations in emerging markets are expected to grow, leading to increased smoking among young adult populations - the tobacco industry's main consumer target. Also, as income continues to rise in developing countries, consumers may switch to higher-priced premium brands of cigarettes, leading to greater profits from emerging markets for TTCs like BAT.⁶

- BAT predicts that it is better positioned to profit from emerging markets than global market leader PMI. In 2009, 77% of the BAT's total volume and 60% of its total profits were attributed to gains in developing markets compared to 68% and 48% of PMI's total volume and profits respectively.⁷ Key developing markets that are targeted by BAT include Egypt, Russia, and Eastern Europe.⁶

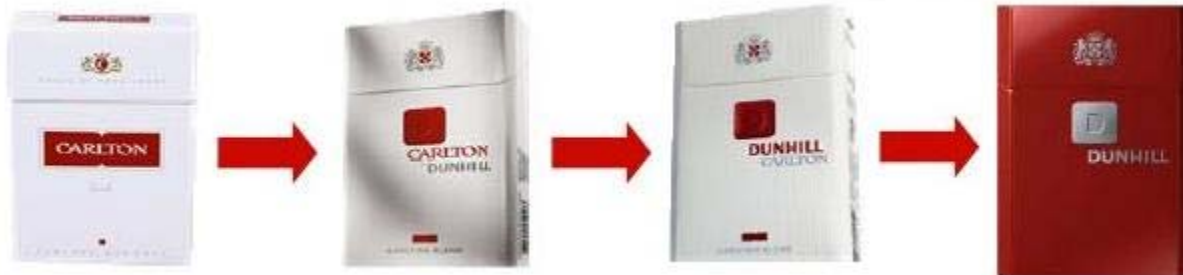
- In Latin America, BAT dominates the market and has held approximately 55% of the cigarette market since 2003.⁸ Important markets in the region include Brazil (86% market share), Chile (98%), Venezuela (90%), Peru (76%) and Costa Rica (66%).⁶
- BAT has dominated the African cigarette market since the early 20th century. Over 90% of cigarette sales in Ghana, Malawi, Nigeria, Sierra Leone, Zambia, Kenya, Mauritius, South Africa, Uganda and Zimbabwe are attributable to BAT.⁹
- BAT's recent acquisitions of tobacco companies Bentoel in Indonesia and Scandinavian Tobacco in Denmark are expected to strengthen BAT's access to the emerging Indonesian and Eastern European markets.¹⁰⁻¹¹ The 2008 Tekel acquisition in Turkey increased BAT's market share fivefold to 34%.¹²

Global Branding Strategy

International brands increase a tobacco company's sales volume globally because of their appeal to younger smokers. As one tobacco industry strategist reported, it is important for international brands to win "high penetration among young adult smokers, as success in this segment confirms a brand's image as 'younger' and ensures longer-term usage of the brand by those consumers."¹³ BAT's strategy for international growth is based on its four Global Drive Brands (GDBs): *Dunhill*, *Kent*, *Lucky Strike*, and *Pall Mall* which account for 26% of their volume worldwide.⁶ In 2009, these four brands increased the company's total volume by 6%.⁶ To increase sales, BAT launches variations of these top brands in key emerging markets.

- *Kent*, BAT's largest premium brand, is marketed as the "modern way to smoke." In 2009 more than 61 billion *Kent* cigarettes were sold in over 70 countries.⁵
- Of the four GDBs, *Pall Mall* contributes the most to volume increases because of its popularity in the lower price segment. 68 billion *Pall Mall* cigarettes were sold in 2009, a 10% volume increase from 2008. New variations of the *Pall Mall* brand contributed to its growth. In 2009, BAT launched *Nanokings*, a slim king size cigarette featuring the *Pall Mall* logo on the cigarette stick, in Eastern Europe and the special *Pocket Edition* of *Pall Mall* in several key markets including Turkey and Mexico.^{5,14}
- One strategy that BAT uses to strengthen more expensive premium international brands is to shift local brands to its GDBs. This shift or migration is done by gradually changing the packaging design of familiar local brand packaging to more recognizable elements of the GDB packaging over a period of time. The 2009 migration of *Carlton* to *Dunhill* in Brazil led to a transfer of 8 billion sticks to the *Dunhill* brand. In 2009, BAT also successfully shifted sales of 4 billion sticks from the local *Boots* brand in Mexico to *Pall Mall*.^{6,15}

Brand Migration: Carlton to Dunhill



Source: Letti, 2009

Marketing Techniques

Many of the marketing techniques created and perfected by the tobacco industry in developed markets are now being used in emerging markets where tobacco control regulations are weak. For example, the fraudulent marketing campaign of “low-tar” tobacco products is now being recycled from the U.S. and other developed markets to developing countries throughout the world. In 2006, a U.S. Federal Judge found that tobacco companies knew for decades that there were no health benefits from smoking “low-tar” cigarettes, yet they continued to aggressively and falsely market such products to reassure smokers that their “low-tar” cigarettes were less harmful than higher tar cigarettes in order to sustain profits.¹⁶ Today BAT continues to deceptively promote sales of cigarettes that claim to deliver lower tar levels.

- Tobacco companies, such as BAT, get around laws prohibiting the use of misleading terms such as “light” and “low-tar” with the use of color-coding to signify low-tar cigarettes to smokers.
 - In 2005, Ukraine banned the use of misleading terms on tobacco packaging. Tobacco companies subsequently launched or relaunched 180 brands between 2006 and 2008 many of which used cigarette pack designs colored to indicate “light” and “low-tar” cigarettes. Examples include BAT’s *Pall Mall Superslims Silver* (replacing *Pall Mall Ultimate Lights*) and *Viceroy Blue* (replacing *Viceroy Lights*).¹⁷
- In Russia, the *Kent Nanotek* cigarette line is marketed with sleek packaging and “activated charcoal filters,” a term shown to lead consumers to believe the new technology makes the cigarettes less harmful.¹⁸⁻¹⁹

BAT employs aggressive marketing strategies to promote smoking in target populations such as youth, women, and the poor.

Marketing to Women

- BAT’s premium superslim brand, *Vogue*, is an annual sponsor for the Kinotavr Film Festival, the largest outdoor Russian film festival held in Sochi, Russia. In 2009, BAT launched fashion-forward cigarette pack designs created by renowned well known French artists for the *Vogue Les Ephemeres* brand in order to appeal to female smokers.²⁰⁻²¹
- BAT is attempting to develop the superslim cigarette segment in Brazil using the *Vogue* brand. After the 2009 launch of brand variants such as *Bleue* and the scented *Aroma* line, *Vogue* sales increased by 55% selling 34.6 million sticks in the first half of the year.^{15,22}
- *Kent Nanotek*, the first slim cigarette to be marketed in Egypt, targets high-income female smokers. For the product’s launch in 2009, wealthy consumers were invited to a party for dinner and drinks.²³

Targeting Youth

- In 2009, BAT launched *Kent HD*, a *Kent* product with a “forward-looking” style, evoking perceptions of the brand as “modern” and “innovative”. The marketing of *Kent HD* and *Nanotek* is especially appealing to youth and young adult populations.⁵
- *Lucky Strike Nites*, menthol cigarettes sold in Latin America, are designed to be attractive to the late night party crowd. Black packaging with details that glow in dance club lighting are advertised with tag lines such as “Fiesta de Noctámbulos” (Nightlife Party).²⁴ In Brazil, *Nites* helped to increase *Lucky Strike* sales by 14% between 2008 and 2009.¹⁵

- In Africa, BAT heavily targets youth by sponsoring concerts and promoting the sale of single cigarettes which are cheaper than 20 stick packs and more accessible to youth. In 2008, BAT internal reports stated that *Benson and Hedges* music festivals across Africa caused a 29% increase in market shares among young, affluent, urban smokers.^{25, 26}
- BAT employees use the popular online social networking site, Facebook, to promote cigarette brands, BAT events, and other products to young adults. Search terms for the company and for popular brands ‘Dunhill’ and ‘Lucky Strike’ had more than 500 search results on Facebook.²⁷

Profiting from Low-Income Communities

- BAT targets low-income African communities with gifts to high performing cigarette distributors, frequent giveaways at sponsored music concerts, and contests for extravagant prizes that require purchasing cigarettes. Gifts such as cars, large sums of money, motorbikes and television sets greatly appeal to Africans living in poverty. These tobacco promotions provide incentives for youth to start smoking and adults to smoke more.²⁸
- In Malawi, BAT produced shows to promote *Pall Mall* cigarettes from 2007-2008. The *Pall Mall* Embassy show offered a grand prize of one million Malawi Kwacha (\$7,255 USD), which is forty-two times the average income for the country.²⁸
- In Indonesia, BAT (known as Bentoel) targets low-income populations with brand messaging for its hand-rolled kretek brand, *Sejati*, that promote a sense of pride earned from hard work and emphasize themes of daily survival.²⁹

Engaging in “Corporate Social Responsibility”

To improve its image and weaken tobacco control efforts, BAT engages in “community investment” initiatives, while simultaneously causing the disease, disability and ultimately death of its customers. In 2009, BAT reported £14 million (\$22.7 million USD) in so-called corporate social responsibility (CSR) expenditures toward charitable projects such as youth smoking prevention, sustainability, preserving biodiversity, disaster relief, and the elimination of child labor in tobacco farming.⁵ These efforts do little to address the root causes of social problems and often result in the exploitation of the communities involved.

- BAT claimed to tackle underage smoking in Russia through youth smoking prevention (YSP) programs.⁵ However, studies show that tobacco company-sponsored YSP programs do not reduce smoking, but instead encourage youth smoking.³⁰⁻³²
- BAT sponsors Jua Kali, the annual East African exhibition for local craftspeople, in order to gain publicity, advertise its products, and meet local politicians.³³⁻³⁴
- BAT co-founded the Eliminating Child Labour in Tobacco Growing Foundation (ECLT) in 2000 as a CSR effort rather than taking meaningful action to eradicate child labor. BAT contributed \$2.3 million over four years to fund ECLT development projects that were generally unrelated to child labor while earning \$40 million USD from unpaid child labor in Malawi within the same time period.³⁵
- In Kenya, BAT claims to support local farmers and their families by providing loans for seeds, pesticides, and fertilizers. However, many of these farmers suffer from the health hazards of tobacco growing and often end up in debt to BAT.²⁸
- BAT’s Indonesian subsidiary, Bentoel, donated 115,000 food packages to 86 foundations and orphanages in Malang in 2009.³⁶ Bentoel’s main factory located in Malang produces many of its deadly brands.³⁷

- BAT awarded the Albino Souza Cruz state primary school with a \$100,000 rolling grant to improve school facilities. The school is named after the founder of Souza Cruz, BAT's subsidiary in Brazil.³⁸
- In 2007, Souza Cruz contributed \$14.9 million Reals (\$8.4 million USD) to CSR activities supporting educational programs, youth engagement, and the environment while subsequently contributing to the 200,000 annual deaths due to smoking in Brazil.³⁹⁻⁴⁰

Future Outlook

According to John Daly, BAT's Asia-Pacific Director, the company's 2009 acquisition of Indonesia's Bentoel marks "an excellent strategic opportunity to enter the very large and growing Indonesian kretek market and will provide a platform for future growth."⁴¹ BAT's 2008 acquisitions of Tekel and Scandinavian Tobacco will increase its market share in the emerging Eastern European market, where prices and tobacco consumption are rising. BAT, like many other tobacco companies, is pursuing opportunities for profit in the smokeless tobacco market. In 2008, BAT saw growth in the Swedish market through Fiedler & Lundgren, a subsidiary of Scandinavian Tobacco and the manufacturer of snus.⁴²⁻⁴³

As the TTC with the greatest presence in emerging markets, BAT plays a major role in contributing to tobacco deaths in the developing world. The company has a record of avoiding government regulations,⁴⁴ targeting specific populations such as women, youth, and the poor and engaging in alleged CSR activities to gain public support. As governments increase regulation of cigarettes and cigarette advertising, BAT will continue to respond with creative means of promoting its deadly products. Strong tobacco control policies will be critical to prevent the countless future deaths caused by BAT's expansion into emerging markets.

Appendix: Relevant Websites

General BAT website

<http://www.britishamericantobacco.com/>

Find more information about BAT's global performance from the company's annual report:

<http://www.bat.com/annualreport>

BAT Board of Directors:

http://www.bat.com/group/sites/uk_3mnfen.nsf/vwPagesWebLive/DO52ADFJ?opendocument&SKN=1

BAT Management:

http://www.bat.com/group/sites/uk_3mnfen.nsf/vwPagesWebLive/DO764EM6?opendocument&SKN=1

BAT Headquarters:

British American Tobacco p.l.c.
Globe House
4 Temple Place
London
WC2R 2PG
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BAT Group websites in countries around the world can be found here:

<http://www.bat.com/global>

Additional locations and contact information for BAT offices are listed by country:

http://www.bat.com/group/sites/uk_3mnfen.nsf/vwPagesWebLive/DO52GC8F?opendocument&SKN=1

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