



## STRATEGIC FOCUS

## Philip Morris International: effects of its external environment

Employing over 75000 people, Philip Morris International (PMI) is the leading international tobacco company in terms of market share. The firm's product line features seven of the world's top 15 brands, including Marlboro, which is the top-selling cigarette brand on a worldwide basis. PMI sells products in over 160 countries, holds about a 16 per cent share of the total international cigarette market outside the United States, and has the largest market share in 11 of the top 30 cigarette markets, excluding the US market. PMI continues to develop its brand portfolio to serve different needs of different customers and as a means of stimulating sales of its products.

As is true for all firms, the strategic actions (see Figure 1.1) PMI is taking today, and will take in the future, are influenced by conditions in its external environment. The challenge for a firm's strategic leaders (including those at PMI) is to understand what the external environment's effects are on the firm today and

to predict (with as high a degree of accuracy as possible) what those effects will be on the firm's strategic actions in the future.

The regulations that are a part of the *political/legal segment* of PMI's general environment (the general environment and all of its segments are discussed in this chapter), affect how PMI conducts its business in its current markets. In general, the regulations regarding the selling of tobacco products are less restrictive in emerging markets compared to the more established markets in industrialized markets. Nonetheless, PMI must be aware of how the regulations might change in the markets it does serve, as well as those it may desire to serve in the future, and must prepare to deal with the conditions created by any changes that take place. Aware of the possible effects of the political/legal environment on its operations in the future, PMI has made the following public pronouncement: "We are proactively working with governments and other stakeholders to advocate for a comprehensive, consistent and cohesive regulatory framework that applies to all tobacco products and is based on the principle of harm reduction." Encouraging all companies competing in the tobacco industry to develop products with the potential to reduce the risk of tobacco-related diseases is part of the harm reduction principle.

PMI predicts cigarette consumption will not continue in its markets. In this respect, PMI anticipates that changes will occur in the *socio-cultural segment* of the general environment and that fewer people will be willing to risk disease by consuming tobacco products. Anticipating this possibility, PMI recently formed a joint venture with Swedish Match AB, the world's largest seller of smokeless tobacco, to market smokeless tobacco worldwide. Leveraging PMI's marketing prowess and its strong global presence across multiple markets, this approach seeks to kindle long-term growth based on less dangerous smokeless tobacco. As a measure of the effects of the *physical environment segment* of the external environment, PMI states that it is strongly committed to the "promotion of sustainable tobacco farming, the efficient use of natural resources, the reduction of waste in (its) manufacturing processes, eliminating child labour and giving back to the communities in which (it) operates".

The *global segment* of the general environment also affects PMI's strategic actions. To pursue what it believes are opportunities to sell additional quantities of its products, PMI recently acquired companies in Colombia, Indonesia and Serbia to establish a