

# Fwd: UKS31638

*by 12b4 Four*

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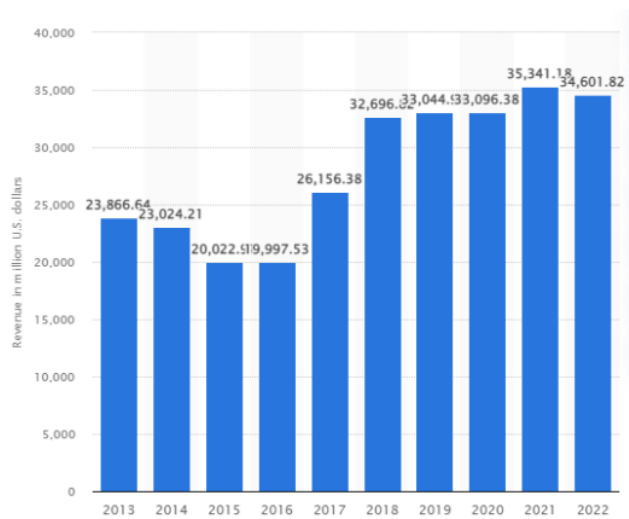
# Management and strategy (The growth of British American Tobacco)

## 1. Introduction

The strategy is the most important driving force for a company that guides the activities of the entity towards growth and provides a competitive edge against its competitors. Business strategy making is the combination of all the decisions, actions and policies that an organization undertakes to achieve its long-term goals. In this report, the business strategy of the British American Tobacco will be studied extensively with the help of different models and frameworks. The business strategy adopted by British American Tobacco to grow its business will be studied extensively. The strategy that British American Tobacco should adopt to increase its market penetration in the globalized market will be studied in this report. In the environmental analysis, the different forces that are affecting the growth of British American Tobacco will be studied with the help of different models. In the capability analysis section of this report, the capability of the company which is giving it an edge over its competitor and helping it to grow will be analyzed in this report. At the end of the report, a strategy option will be recommended with the help of the study done in this report.

### *Introduction of the organization -*

British American Tobacco is a British multinational company that manufactures cigarettes, tobacco products and other nicotine-related products. The company was established in 1902, the company is headquartered in London and the company is the biggest company in the World that manufactures tobacco in terms of net sales. The company operates in around 180 countries around the world and it is listed on major stock exchanges around the world. The company earned a revenue of 34.6 Billion USD in 2022 (Bat.com, 2023).



**Figure 1 - Revenue of BAT across the world in Million USD from 2013 to 2022**

(source - statista.com)

***The situation that the company wants to address*** - The organization wants to increase innovation in its product manufacturing with the help of the research and development of its product. As per the website, the company wants to provide sustainable growth to all the stakeholders involved with the company by making the products of the company less harmful to the people consuming the products. The company wants to become a futuristic company with the development of sustainable products. This will help the company to stay competitive in the future by increasing its sales and market penetration.

***Purpose of the work***

In this report, the strategy adopted by the company in terms of product development and product innovation will be studied. The strategy that the company has adopted to provide sustainable growth to the stakeholder by working on product innovation to increase market diversification will be studied in this report. The strategy that the company should adopt to increase the quality of its products and to make them less harmful to consumers will be studied in this report.

***Current challenges of the organization***

The company identified that the product of the company is harming the health of the consumers which the company wants to address with the help of a better product development strategy (Bat.com, 2023). British American Tobacco understands that most of the consumers of the products are youths. Consequently, the company wants to make its

product safer for the youth to consume which will provide more value to its products. This entire process will result in value enhancement for its stakeholders.

## **2. Environmental analysis**

### ***Pestel analysis of British American Tobacco on the UK market***

#### ***Political -***

The political scenario of the UK is increasingly becoming complex for British American Tobacco with the increase in the taxation of its products in various markets. The Government is imposing high taxes on the product of BAT to make the public quit the use of tobacco products which is the biggest challenge for the company. The company should make a proper strategy based on product development to counter the political nature of challenges that it is facing in recent times. Most Governments are running awareness drives to increase awareness of people about the harmful implications of tobacco products (Scollo and Branston, 2022).

#### ***Social -***

The social environment of the company is very complex as on one hand the addictive nature of the products of the BAT has established a big customer base in the UK which is loyal to the products of the BAT due to the addictive nature of the tobacco products as it contains Nicotine (Nyakutsikwa *et al.*, 2021). The biggest customer base of the company is the youth who have become addicted to the use of the products of the company and have become the biggest source of revenue for the company. On the other hand, the increase in the awareness of the people in the UK in recent years is a big challenge that the company has to face shortly. The people and youths have started to accept the health complications of the use of tobacco products which the company has to counter with proper research and development in its products.

#### ***Technological -***

The tobacco company is experiencing new technological inventions in the last decade in the UK. British American Tobacco company has also integrated technology such as vaping devices and e-cigarettes which do not contain tobacco instead they contain vapours and Nicotine (Kock *et al.*, 2021). These products of the company are also increasing in popularity. The company should try to integrate new technology into its other products which will help the company to decrease the health implications of its product and generate value for its stakeholders and products.

### ***The key uncertainty drivers***

***The health of the consumers and awareness of people*** - The global health of consumers of the products of British American Tobacco and the increasing awareness of the people is an uncertainty that is guiding the business. In the last few years, governments, schools, colleges and other entities have worked hard to increase the awareness of the people towards the bad implication of consuming tobacco. The people have started to understand the health issues associated with tobacco consumption which can affect the company's growth and efficiency.

***Regulations and taxation of the product of BAT*** - Global bodies such as the World Health Organization and the governments of the countries are working to reduce the use of tobacco by spreading awareness. The Governments are imposing more and more taxation on tobacco products with each passing year, which can have a big implication on the revenue generation of British American Tobacco (Flor *et al.*, 2021).

### ***SWOT analysis***

***Opportunities*** - The research and development program that the company has started to make the product less harmful for the consumers is the biggest opportunity for the company to make the products of BAT less harmful and more sustainable in future. The brand name of the company which is one of the most popular tobacco companies across the globe is also a big opportunity to tap into in the future. The product diversification with the integration of less harmful products such as vaping devices, non-combustible tobacco products and e-cigarettes will help the company to serve health-aware customers (McKelvey and Halpern, 2019).

***Threats*** - The company is facing severe threats from the regulations of the Government from across the globe due to the harmful nature of the product. This is the reason which led the company to be ejected from China. The ban on celebrity endorsements of the products and the advertisement of the product is also a big threat the company is facing (Ling *et al.*, 2022). The social acceptability of the products is also decreasing which is a threat the company is facing at present.

### ***Porter's five force model***

***Porters five Force model***

<b>Competition in the industry</b>	<b>High</b>
<b>The threat of new entrants</b>	<b>Low</b>
<b>Bargaining power of the customers</b>	<b>Low</b>
<b>Bargaining power of the suppliers</b>	<b>Low</b>
<b>The threat of substitute products</b>	<b>High</b>

**Table 2 - Porters Five force model for BAT company**

(Source - self-Made)

#### ***Competition in the industry -***

There is stiff competition in the tobacco industry from big players such as Philip Morris International, China's national tobacco company, and the Altria group. There is also a small manufacturer of the product which is increasing the competition in the industry. The big companies are also investing a high amount in the research and development of their products.

**Threats of new entrants** - The industry is highly regulated and the big companies with the help of economies of scale are managing the uncertainty of the business and the product innovation. New companies have to make big investments to survive in this industry which is highly regulated and highly competitive.

**Bargaining power of the customers** - The bargaining power of the customer is low due to the addictive nature of the products of the industry (Gearhardt and DiFeliceantonio, 2023).

**Bargaining power of the suppliers** - The suppliers of the company are the farmers who grow tobacco crops. Tobacco farming is regulated in various countries by the government, however, as the crop is profitable a lot of farmers engage in tobacco farming which decreases the power of the suppliers in comparison to British American tobacco.

**The threat of substitute products** - As awareness is increasing about the use of tobacco products people are trying to shift to an alternative such as nicotine patches, nicotine gums etc. The switching cost is also low as the price of Nicotine is less compared to tobacco which is a big threat which the company can address only with the help of research and development of the product.

### **3. Capability analysis**

***The capability of the organization in terms of Value Chain***

The biggest capability of the BAT is the vision and technological capabilities of the organization to work on developing products that are less harmful to consumers (Cigarro 2022). The company has invested 350 million pounds every year towards the creation of new ways to use the products to make them less harmful for the users. The company with the help of its technological capabilities wants to make 50 million users by 2030 who will use non-combustible tobacco which will be less harmful to their health.

#### ***VRIO analysis of the value chain***

**Valuable** - The technological capabilities of the company are valuable for the company as it adds value to the products of the company. The company's reputation and brand awareness of the brand also adds value to the brand. The value of the stakeholders of the company is also valuable for the company as it helps the company to innovate and produce new solutions to increase the value of the stakeholders. This provides a competitive advantage to the company (Domashenko and Burnakova, 2021).

**Costly to imitate** - The technological capabilities of the company that the company uses to innovate its product to make it less harmful for its consumers and to provide diverse products as per the needs of the customers is costly to imitate for the other companies. The market reputation of the company is also costly to imitate for others. This provides a lesser advantage to BAT in comparison with its competitors. The value which the company associated with its stakeholder is not rare as most of the competitors of BAT work for the value enhancement of their stakeholders.

**Rare** - The technological capabilities of the company are rare as most of the companies in the tobacco business do not make investments in research and development and product innovation with the help of technological capabilities. The positive market reputation of the users is also rare for the company which will provide a competitive advantage to the company over its competitors in the long run. The value the company associates with its stakeholders is not rare as most of the competitors value their stakeholders and work for their value addition.

**Organized to capture value** - The technological capabilities of the company are organized to capture the value for the company. The positive market reputation and the brand awareness of the company are also organized as it has been gained after years of the company serving its customers. The value which the company associated with its shareholders is also organized as the company has strategized its growth to increase the value of the stakeholders associated with the company.

<b>VRIO analysis</b>					
<b>Capabilities of BAT</b>	<b>Valuable</b>	<b>Costly to imitate</b>	<b>Rare</b>	<b>Organized to capture value</b>	<b>Competitive advantage</b>
<b>Technological capabilities</b>	Yes	Yes	Yes	Yes	High competitive advantage
<b>Positive market reputation and brand awareness</b>	Yes	Yes	Yes	Yes	High competitive advantage
<b>Value to the stakeholders</b>	Yes	No	No	No	Less competitive advantage

**Table 3 - VRIO analysis of the value chain capabilities of BAT**

(Source - Self-Made)

#### **Competitive implication aligning to strength and weakness**

**Competitive implications aligning to strengths** - The company is the market leader in terms of sales and revenues in comparison with the other tobacco companies. The technological capabilities and amount of investment the company can make to innovate its products is the biggest strength of the company. The company has a well-established supply chain which is also a big strength for the company to serve the demand for its products.

**Competitive implications aligning to Weakness** - Due to the increase in the regulation and taxation of the Government the prices of the products are inflating for the end users which is a big disadvantage for British American Tobacco. The company cannot advertise to the public to promote its products and the innovations to the general public are the biggest weakness of the company.

#### **4. Proposed strategy and conclusion based on the SWOT analysis**

##### **Business level strategy**

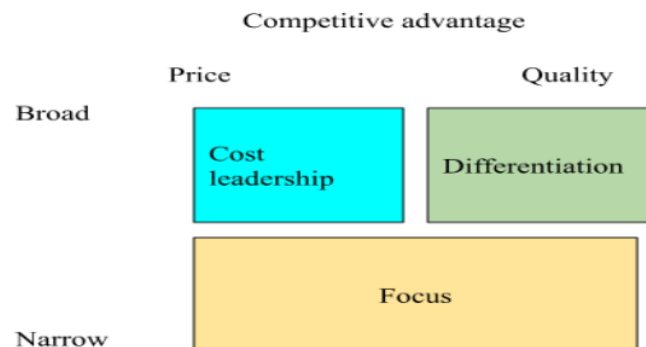
With the application of Porter's generic strategies, the business-level strategy of BAT is discussed.



**Cost leadership strategy** - The company can try to decrease the cost of its products by integrating the suppliers which will help the company to decrease the effect of taxation on its products and the cost issues faced by its customers. This will help the company to increase the customer base of its products. The new and innovative products that BAT is offering should also be priced low to capture the market easily and increase the value of its stakeholders. The company should also try to reduce the production costs of the products which will help in lowering the cost of the products and increasing the revenue of the company.

**Product differentiation strategy** - The company is making huge investments to find new non-combustible tobacco products which will offer safer products to the customers. This will provide the company leverage over its competitors with the help of new and innovative products. The company should integrate new scientific research to find new ways to use tobacco which will be harmless to consumers. The products with new different product features will help the company to increase its customer base and handle government regulations effectively.

**Focus strategy** - The company should follow a focused strategy which is focused on providing low-cost and less harmful products to low-income people and the youth (Guindon *et al.*, 2019). By focusing on low-income groups and youth the company will grow its revenues and also enhance the brand perception of its products with the help of innovative and less harmful products.



**Table 3 - Porter's generic strategies**

(Source - Self-Made)

#### **Corporate level strategy**

The corporate-level strategy of BAT will be discussed with the help of the Value chain framework.

**Support activities**

Infrastructure - The company has a well-established infrastructure which helps to carry out its primary activities of the company. The company has invested 750 million GBP in 2022 in its infrastructure to help the company carry out its business. The company is also building up its infrastructure in small countries such as Bangladesh to increase its market penetration.

Human resource management - The company considers the human resource as the key driver of their vision and mission hence the company follows a systematic approach to recruit a workforce which can help the company to achieve its strategies.

Technology development - The company is making huge investments in technology which will help the company to develop innovative products that will solve the challenges faced by the company (Robichaud *et al.*, 2020).

Procurement - The company follows a sustainable approach with the partner of its supply chain and the suppliers. The company takes care of human rights and labour issues in its procurement process(Aminu 2020).

**Primary activities**

***Inbound Logistics*** - Inbound logistics plays an important role in importing raw materials to support the sales of the product in different countries.

***Operations*** - The company has well-established factories and production units to convert raw materials into final products.

***Outbound Logistics*** - The outbound logistics of the company play a vital role by exporting required raw materials to its production units in different parts of the world.

***Marketing and Sales*** - The company has adopted a responsible marketing approach to market its products as they are harmful. The company has a well-established network of retailers and wholesalers which help the company to carry out its sales activities.

**Conclusion**

In this report, the business strategy adopted by British American Tobacco is studied extensively. It is found that the company is trying to develop its products to make them less harmful to consumers. The company has adopted responsible marketing of its products to save the youths and Children from getting negatively impacted by these advertisements. It is recommended that the company should develop innovative and less harmful products and sell those products at low cost to increase the brand reputation and market penetration of British American Tobacco.

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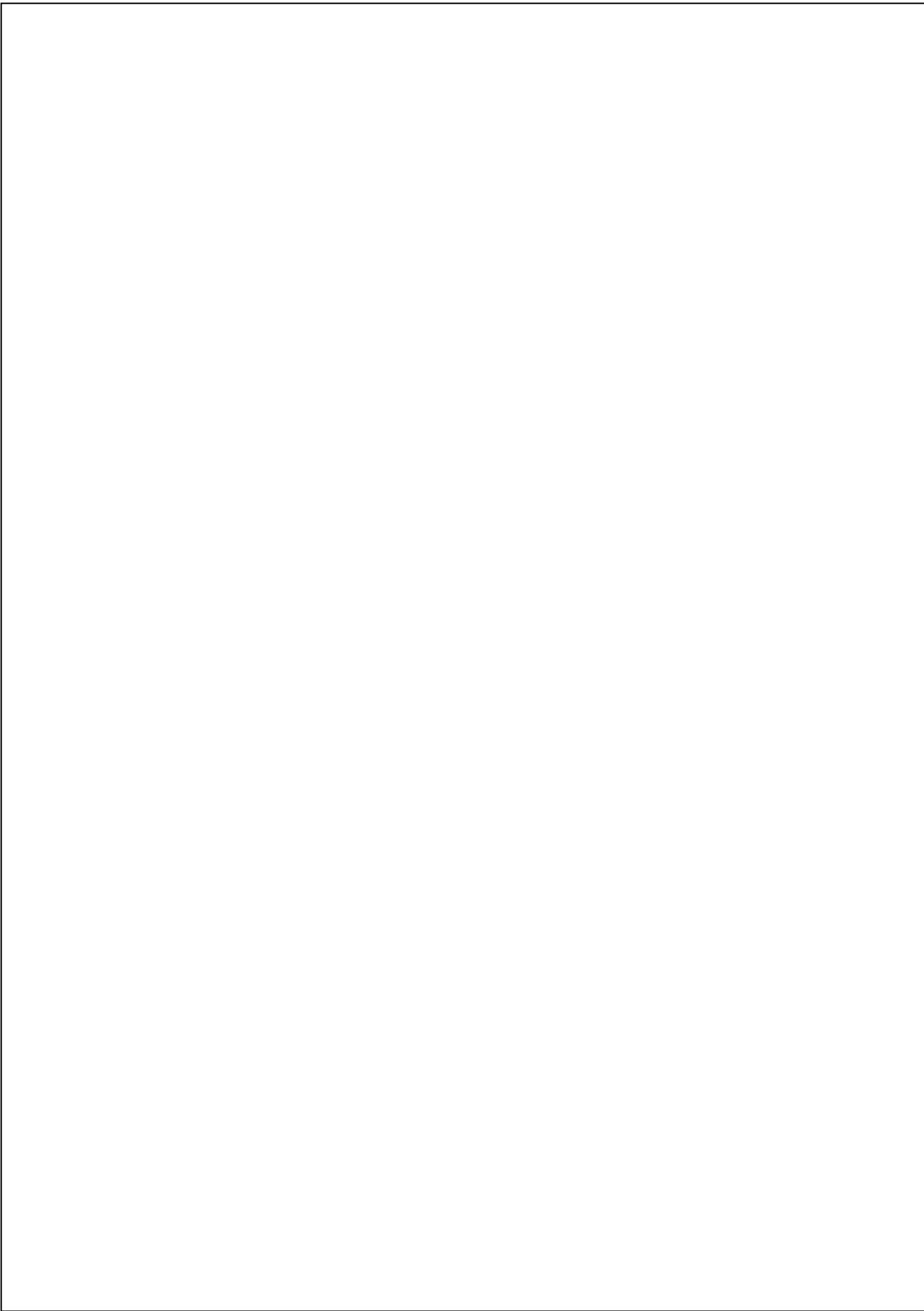
## Appendix

<i>Porters five Force model</i>	
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<i>Bargaining power of the suppliers</i>	<i>Low</i>
<i>The threat of substitute products</i>	<i>High</i>

**Table 2 - Porters Five force model for BAT company**

(Source - self-Made)

PESTLE analysis of British American Tobacco in the UK market	
Political	<ul style="list-style-type: none"> <li>• Taxation by the government</li> <li>• Awareness is driven by the Governments</li> </ul>
Economical	<ul style="list-style-type: none"> <li>• The per capita income of the UK is 49420 PPP which means the high disposable income of the people.</li> <li>• The GDP growth of the Uk in 2022 was 4%</li> </ul>
Social	<ul style="list-style-type: none"> <li>• People are more aware of the health implications of tobacco products.</li> <li>• The addictive nature of the company's products is making people addicted.</li> </ul>
Technological	<ul style="list-style-type: none"> <li>• Vaping devices and E-cigarettes.</li> <li>• Non-Combustible tobacco products.</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Strict consumption laws for customers below 18.</li> <li>• Strict laws for the company for the advertisement of the products.</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• Toxic chemicals in cigarettes are harmful to the environment.</li> <li>• The farming of tobacco and the use of pesticides are harmful to the soil.</li> </ul>



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