

**The Company** - PM is “a large business organization that has several business divisions and several product lines within each division. ... The business strategy needs to reflect changing environments and emphasis must be placed on developing business systems that allow for continuous improvement” (Peter/Donnelly, Jr., page 6). PM is a global consumer products company and currently sells more than 3,000 items in 4 different divisions: cigarettes, beer, food processing and financial services. Acquisitions are key to PM’s strategic growth and its “success of growing these companies is legendary” (Peter/Donnelly, Jr., page 540). PM has been able to fund numerous acquisitions through its high-margin tobacco products (company dependent), although with recent developments the company is forced to reposition to effectively deal with declining tobacco income (product liability lawsuits, anti-smoking sentiment, potential FDA ban and extinction of smokers). Their low-priced, high-volume quality product business performance has allowed PM to provide dividend increases for the 24<sup>th</sup> consecutive year and they will generate cash of more than \$21 billion; hence their nickname – The King of Cash. As an employer, they are a good company to work for – one of the 100 Best in America – because they **care enough about their employees** to give them great benefits and a **free carton of cigarettes per week**; yet they say, “we are committed to the highest standards of ethics and fairness in all of our activities” (Peter/Donnelly, Jr., page 539), *seemingly* a contradiction in terms: moral high ground pitted against public perception: the image of the company versus the essence of the business; they may or may not want to separate themselves from all the ethical hubbub because controversy causes publicity.

**The Products** – Tobacco: Domestic, International, Discount, Low-Tar and Lower Tar Segments; (largest cigarette company in U.S.); Beer: Second largest beer brewer (U.S.); Food Processing: Second largest food processor (U.S.); Third largest food marketer in Europe; and Financial

Services (PM Capital Corporation). Utilizing the BCG Model, it appears that PM is loading its boat in cash cows: domestic tobacco (includes military sales) and beer (both low growth, high market share, high profit margin) ... time to hold share! The Stars are clearly the Discount brands (market share has risen from 11% in 1989 to 25% in 1990, and is expected to double in the next five years; PM market share is 17%) and International Tobacco (PM market share up from 6.7% in 1989 to 7.6% in 1990, with Marlboro being the leading exporter. PM sales second behind the Chinese government) ... build share! Low-, Lower- and Ultra-Tar products are Question Marks: the Low Tar segment accounted for 57.4% of the market (55.5% of U.S. sales); the Lower Tar segment accounted for 11.3% of the market (increased growth); and the ultra-low category is rapidly expanding but PM lost market share during 1990 ... time to build share or harvest. PM is determined to compete in every major cigarette category, yet doesn't appear to have a handle on this segment. Perhaps PM needs to remember that cigarette sales are elastic and to take another look at their strategy stating its brands competing in these segments must be able to achieve market share positions at least commensurate with its non-low tar cigarettes. Food Processing products are dogs: sales are stagnant; they are not large sources of cash yet they have a loyal following (Kraft is a strong brand) ... time to harvest: increase short term cash flow and maximize earnings! There is not enough information on financial services to comment. Products in the pipeline: PM's #winning strategy involves growth by acquisition of cash cows (looking at Heinz, Cadbury Schweppes and BSN); cash cows that remain in the same markets. PM targets cash cows and they have the deep pockets to do it. Acquisitions will remain a stronghold of PM's product line and market segment because they've been very successful at selection, management, execution and profitability.

**The Markets** - PM enjoys the tobacco, beer, and food markets (what I call “guilty pleasure” markets), and obviously feels they are worth staying in because of big profits: no sign of alternative market entry; no plans to diversify. Tobacco acquisitions are very limited so sights are set on packaged goods. The tobacco industry is a mature market with a majority of growth from low-tar, but mostly came from overseas (something to consider is overseas litigation – is it less a threat than U.S.?).

**Ethics** - I think PM gets around the ethical issues of smoking and drinking (detrimental to your health) by having a reputation as a great employer who well informs the public of the dangers associated with their products. PM launched a multi-million dollar advertising, trade relations and family education program to increase public awareness and enforcement of minimum age purchase restrictions. In their view, they “regard smoking as a voluntary lifestyle decision” (Peter/Donnelly, Jr., page 550), which is very similar to the stand taken by the fast food industry, gambling, caffeine and high fructose corn syrup industries (processed foods are unhealthy). Consumers should understand the dichotomy between business and ethics: PM is offering products that challenge ethics; however, the choice is yours. Consider the Lipitor debate.

**Conclusion** - I think PM will be just fine doing what they’re doing – stay the course – go after those cash cows – it’s working very well for them. Kraft just came out with a great Twitter campaign for their popular Mac & Cheese product, which shows evidence of brand managers’ involvement (part of PM’s solution for stimulating the food division – page 546). As far as cigarettes go, I don’t think they’ll ever go away: the industry’s lobbying effort is too strong, consumers are too addicted to the nicotine, there is a huge cultural association and basically there is big business on all sides: prevention, sales and kicking the habit (Chantix, Nicoderm). Simply put ... guilty pleasures reap gigantic profits.

## APPENDIX A

### PM SWOT ANALYSIS

#### STRENGTHS

- Legendary reputation of success
- Formed on its own, not as a result of the Tobacco Trust
- Global Consumer Products Company (big business)
- Big Business means Big Money
- Big Money means ability to diversify and acquire other businesses
- Broad-based operations
- Strong and growing returns
- Low-prices, quality products
- Tobacco, their largest market, is a high-margin product
- Demand for tobacco is price elastic
- Military sales of tobacco products
- Increased market share in tobacco products
- Leading cigarette company
- Second largest beer brewer
- Second largest food processing company
- Third largest food marketer in Europe
- Discount tobacco brands
- MARLBORO as a GLOBAL brand
- Globally diverse management
- Early international involvement

#### WEAKNESSES

- Broad-based operations challenge and demand strategic management
- Tobacco as a product – healthy consequences
- Dependent on tobacco as a product
- Possible cannibalization of higher-margin premium brands
- Forced to license the sale of international duty-free sales because the markets were closed to imports
- Tax evasion practices
- Processed foods are not price elastic

## **OPPORTUNITIES**

- Further diversification through acquisition and/or brand reinvention
- Further diversification in alternative markets
- Domestic and International penetration
- Licensee growth
- Grow publicity by rallying and lobbying (i.e., Hong Kong petition)
- Introduction of low-fat and fat-free Kraft cheese and cheese products
- Introduction of Kraft high-end artisanal/gourmet cheese product line
- Put PM brand marketing to work (campaign)
- Product liability litigation (campaign)

## **THREATS**

- Competition
- Licensees
- International levies and taxes
- International control of prices for imports
- Budget brands of cigarettes
- Product liability litigation
- Declining cigarette industry
- Slowing processed food sales
- Anti-smoking sentiment
- Potential FDA ban
- Smoking ban in public places and places of employment
- Smokers become extinct
- Health related issues (smoking, high-fat and processed foods)
- Surgeon General reports
- ETS: environmental tobacco smoke (secondary smoke)