THE EFFECTS OF ECONOMIC LIBERALIZATION ON BAT (K) LIMITED

A project presented to the graduate faculty of the School of Business Administration United States International University - Africa

In partial fulfillment of the requirements for the Degree of Master of Business Administration

by

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NAIROBI JULY, 1996
DECLARATION

This is my original work and it has not been presented anywhere.

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ACKNOWLEDGMENT

This piece of work contains lots of thoughts and ideas of a great many people without whose support it would have lost direction. I sincerely acknowledge their relentless efforts and invaluable contributions to this effort. My sincere gratitude and appreciation is to all the staff of BAT (K) whom I interviewed, for their support, cooperation and assistance given to me during the study.

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My special thanks and appreciation also go to my wife who offered much hope when the going was quite rough.

Finally. I thank the Lord for giving me the strength and wisdom to persevere through, not only through this project but also in life in general.
ABSTRACT

The purpose of this study was to find out how BAT has been affected by the liberalization of the economy. Economy liberalization has witnessed the proliferation of more competitors in every sector. Scaling down to Tobacco industry, the number of participants in the domestic market went up steadily following the outlawing or review of some laws which formerly created a monopolistic kind of market.

The study was carried out by analyzing data collected from employees (of BAT) through face-to-face interviews. The researcher paid visits to the company premises and interviewed a cross section of respondents who were drawn from every department. Information received from these people was supplemented by further readings from BAT library, Newspapers, Magazines and Journals.

Data collected was analyzed in line with the objectives of the study. Both qualitative and quantitative methods of data analysis were used.

The findings of the study have demonstrated beyond reasonable doubt that economic liberalization steps so far undertaken have increased the environmental turbulence within the Tobacco Industry (which commands 10 billion shillings of the total economy). Even though BAT's market share has been marginally "eroded," there has been other negative consequences as regard to the company's both short-run and long-run strategies. For example, BAT in the wake of current and potential competition has adopted a rigorous cost cutting policies as demonstrated by staff reduction measures and contracting out of non essential activities within. Year to year growth in profits has gone low among others.

In success therefore, the study demonstrates how BAT has reorganized itself towards maintaining unfailing customer satisfaction all through.
DEDICATION

Every bit of this work has been completed through God's power and guidance. I therefore thank him for his mercies and generosity. I dedicate this study to my loving wife without whose support, patience and encouragement, I would not have completed it successfully. May the Almighty bless her abundantly.
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1.0 INTRODUCTION

Economic liberalization is a term which today is hardly skipped by any publication which is economic oriented. This is by no accident but rather it portrays that economic liberalization, as process is having profound effects whose consequences transcend to every member of our society. Concisely, economic liberalization is "setting the economy free" from the government control, that is forces of demand and supply dictate on what is to produced by whom, the price, quantity to be produced among others.

At this point, it's beneficial to understand why liberalization is being carried out. Principally, the wave of democracy that swept all the continents led to the disintegration of the Soviet union, bringing forth the much desired and longly awaited for, end of the cold war. Strategic importance of some states henceforth depreciated" as there was no longer a big threat to world Superpower, United States. Formerly economic and aid especially to developing countries was flowing without conditions. After the end of the cold war, the same aid now became a bitter pill to swallow (yet it was the mainstream of economic survival for these countries) as it was dispensed upon tight conditions among them good governance and liberalization of the economy.

It's suffice to appreciate that economic liberalization leads a country to a capitalistic economy, which is in contrast with command and mixed economies, reputation. For purposes of clarity, it's ideal to highlight the differences among these:

i. Command economy is where the government controls what is to be produced by whom, how much, the means of doing so among others. That is the state controls prices and quantities of all goods and services. Example was in the Soviet Union before the onset of democracy.

ii. Free market economy: This is where liberalization eventually leads an economy to. In this scenario, market forces of demand and supply determine what is to be produced how much, by whom among others. The government role is purely regulatory (when the excess of free market arise as income distribution). A model of this in the United States.
Mixed Economies: This is a mixture of the above. Since, 1991, the Kenya Government has therefore liberalized the economy partially as a scheme to get foreign aid. There are quite a number of sectors which have been left to the private sector. Key among them is their exchange rate. The value of the shilling vis-a-vis other foreign currencies is now determined by forces of demand and supply.

Similarly the Government's industry protective policies have been scrapped and this supplemented by imports licensing relaxation has lead to stiff competition in the domestic market. (Both from within and without). Monopolistic laws have been scrapped (that is why Mastermind Tobacco company is giving BAT of the run for it's money). The fact that the Central Bank of Kenya no longer fixes the value of the shilling means that long-term forecasting by companies is even more riskier. The above changes, among other have therefore changed wholly, the environment within companies are carrying out business. The message to all organizations is simple, loud and clear. That they must throw away managers who are too strong minded to adapt to the changes lest they (organization) disappear to oblivion. In the midst of the above, how is BAT fairing? Has this challenge of liberalization affected the company in any way? Has liberalization brought with it "blessings or curses" to the company? This research aims at throwing more light on the above questions.
1.1 BACKGROUND OF BAT & ECONOMIC LIBERALIZATION

This study comprehensively addresses two issues, that is BAT as a cigarette manufacturer and economic liberalization (as a process which the country is undergoing). The study further tries to reflect the connection between the issues to of concern. This is because BAT as a company operates within the Kenyan economy therefore is an external environment factor which BAT has to try to adopt to. In other words BAT has to achieve a matching of its activities with the "TUNES OF THE ECONOMY".

The British American Tobacco (BAT) is a public limited company with its headquarters and factory along Likoni Road (in Industrial Area, Nairobi). It is a subsidiary of the British American Tobacco group of companies whose operations expand to every continent. In Kenya, BAT is pre-occupied with the manufacturing and distribution of Tobacco products. Its main brand names include SPORTMAN, EMBASSY, CHAMPION, 555 and SWEET METHOL.

BAT has a green leaf processing (G.L.T) factory at Thika, where the raw tobacco is processed before it (Tobacco) is transported to the main factory in Nairobi. Tobacco for use in cigarette manufacturing is sourced from within and without.

Locally BAT has contracted farmers who sell their produce to BAT alone. This is in areas like Embu, Meru, Malakisi and Subakuria.

Since BAT started its operations in Kenya (1902) it had been operating in a closed economy". Closed economy is usually characterized by a lot of state control on what is to be produced, by who, how much, when, etc. One of the distinctive features of such an economy is the presence of monopolies. Soon after independence, the Government had the basic problem of alleviating poverty. One of the avenues open to the government to solve this problem was creation of employment through industrialization of the country.

The approach pursued by the Government towards industrialization was through protection. That is, it encouraged many investors to come and invest locally. The attraction was that they were to get ready market for their goods and services (Elsewhere this strategy has been called the young Industry argument").
To guarantee this market, the Government had laws which forbid setting up other industries say the Tobacco sector, be besides other measures which blocked out imports from other countries (example through tariff and quotas which were imposed against any product from outside that was locally produced.

However, come the 90's the country had not yet industrialized. The "young" industries of 60's had not matured" and were still calling for more state protection to survive. With the fall of communism and its resultant end of the cold war, the emphasis of dispensing aid was shifted from strategic consideration to good governance (which detailed freedom of speech, to secure, the life sustaining foreign aid, had to introduce both political and genomic reforms. Economic reforms carried out have been specially prescribed by IMF and World Bank through the Structural Adjustments Programs (S.A.P.). They are aimed at opening up c economy to outside competition. This has been done through outlawing of monopolistic rules, the flotation of the Kenya shilling, thus resulting in floating exchange rate, the diversities of Government from non-strategic segments of the economy, the withdrawal of subsidies by the state from such items as foods among others.

For, BAT, this scenario witnessed the proliferation of competitors brands in the local market either imported or produced locally. Another cigarette manufacturer, Master Mind Tobacco Company (MTK) was set up locally. The study therefore analyze the changes brought forth by liberation of the economy have affected BAT.
1.2 STATEMENT OF THE PROBLEM

Economic liberalization is having profound effects throughout the country. BAT is no exemption. It's day to day operations have been affected by the said process. This research is therefore very crucial as it gives an insight as to how the company has restructured itself in order to survive this storm.

It's true that it's sales and consequently profits have been effected in some way as other players in the Tobacco sector set in. So how has the short term and long term decision making changed? What about internal Operations as regards production facilities, employee matters - essentially, how has the company readdressed its cost function? This is crucial because the onset of competition has panic sent companies reducing their lost functions hoping that this will end the misery, but this has not taken them far other more crucial issues are overlooked. New policies have New policies have sprung up like total quality management. How has BAT reacted to this? Has it adopted this to new management practices? The overridden rationale of this research is therefore to find out how BAT has been affected and much more crucial how it's affect altering it's operations so that it remains afloat for days to come.
1.3 OBJECTIVES OF THE STUDY

The environmental turbulence brought forth by liberalization has gross effects on the Organization's (BAT's) operations. Concisely this study aims at satisfactorily meeting the following objectives:

1. To investigate how the increase in competition has altered the company's market share profits and sales.

2. To find out the structural and how the same changes have affected employees.

3. The research will also investigate what the company is further doing to make it remain the number 1 cigarette manufacturer, not only in Kenya but also regionally.
1.4 IMPORTANCE OF THE STUDY

For BAT, the research findings, which were done without any subjectivity will expose how the turbulent their environment is. This is highly beneficial in that the company will re-align its decision making in line with the turbulence levels. Also quite profound in this analysis is the critical assessment of how sustaining in the long-term the policies that the company has embarked on are. For example, to what extent is the cost cutting strategy currently in use give or save the company from competition threats? It's also expected that weaknesses in the Company (if any) will be highlighted. This is a good realization because competitors usually maximize on such "loopholes" to expand their strategies. Inherent in this research is this crucial of how the staff are motivated by all the changes however, radical or mind this (changes) could be. It's a point worth alot of emphasis that influence as a management expertise should be in existence to motivate employees. This is this only drive that couple make employees to do all within their limits to propel forward BAT's canoe in this error characterized by 'every storm". Excessive use of authority usually leads to unmotivated staff. Therefore, in whole BAT is to gain alot from this study.

To the society in general more benefits would arise from this research. To other companies which are operating in the current environment, the findings of this study will also apply to them. For example, decision making in the turbulent conditions as a concept cannot go unemphasized in any company. The generalization arrived at in this work cannot be limited within the environs, of BAT alone, rather they transcend to every single business entity of the day. The public at large, who are the stakeholders of the company, they will realize where there company is heading to. A critical examination of the current position of the company, profit wise, among others and correlating this to the viability of their strategies for the future, will surely indicate where the company is heading to. This is highly necessarily in that the public would only wish to invest where the rates of return are not only high but look to remain so even beyond the horizon. The stakeholders of the company cannot therefore afford to ignore the findings of this research.

The research's importance also extends to the academic circles. Firstly, the research gives me the chance to exercise my ability in carrying out a successful research work. All along, I have learned quite a deal about various aspects of life. My competence is therefore being tested.
This is a challenge which I do positively accepting that much success in this exercise means that at least I have learned something valuable. Shortcoming in this duty will drive me back to my drawing board to re-access my strategies. Therefore, from a personal point of view it's very aspiring.

Beyond my personal circles, the research work will be read by other students. Mistakes (if any) found therein would serve as an example to them, that is, not to repeat. If it's good piece of work then it can give an insight to others as to what constitutes a good research. Also ideal is that this paper may serve as one of the articles under literature review which one in future could peruse if researching on similar or related topic. Moreover, given that this is purely as academic exercise, opting to undertake research paper puts the instructor on the payroll, that is it creates employment to the one imparting knowledge to me.
2.0 LITERATURE REVIEW

Economic liberalization leads a country to a capitalistic state. In such a situation the government hardly determines what being produced nor the price. Prices/quantities of various goods and services are determined by forces of demand and supply. The government's role is purely regulatory, when excesses of capitalistic economic set in (according to John M. Barron and Gerald J. Lynch in their book Economics Third Edition).

That although firms face similar cost curves, different firms sell their products under different constraints. Firms have very little control over prices at which they feel their products. These firms, prices takers must take as given the market price for their product. Their output decision has no significant effect on the market price. For this to work, (that is price taking) there must be a large number of firms selling similar product and buyers must have complete information about the various selling prices of competing firms. Consequently, therefore the price taking indicates a high degree of competition so much so that it is often alternatively referred as perfect competition.

In reality however, it's purely abstract to find a perfect competition market in the world. It's true that liberalization will lead a country to a capitalistic setting, but should be appreciated that we cannot have a pure capitalistic economy. Quoting the Times Magazine (February 5th - 11th) even the United States, the champion of democracy and capitalism (always these are 2 twin bedmates where it is inconceivable to find one and miss the other) in the world, as substantial public control of the economy exists. According to the Economic Review, (December 1995), the government of Kenya has liberalized the economic but among others, carrying out the following reforms:

i) Outlawing laws and regulations which gave some organization monopoly status in the economy. For example, BAT was for a long time the only licensed cigarette and tobacco manufacturer in Kenya. The Kenya Government had given such organizations such uncompetitive environment with a view to industrializing the nation. When such laws are being enacted, the only conceivable song towards economic growth and development was through offering protection to the young industries. Partially, this held some logic. However, what remained and quite abnormal was that these so called young industries never matured.
They actually excelled in giving the nation products services of low quality and complemented with high prices. To date therefore, following those changes BAT (K) faces at least a competitor within the country (Mastermind Tobacco Company). The actual existence of this competitor (according to BAT’s quarterly magazines publication of September 1993) has transformed the growing and selling of tobacco plant. With both companies competing for this essential raw material, better services to the tobacco farmer became a bitter pill for BAT to swallow. For the first time the tobacco farmer had a choice of where to sell his/her tobacco. The actual economic effect of this unfolding scenario was erased in the cost of tobacco to BAT. This is of course, and to have the matching effect on the profits and loss account for BAT, thanks to the government liberalization actions

ii) Liberalizing the money markets, Forex - C (for more than two decades the government through he Central Bank of Kenya used to determine the value of the Kenyan shilling vis a vis International hard currencies according to CBK manual magazine February '96. This was a trend whose future could not last beyond the horizon. Donor pressure for opening up of the economy could not let the government continue fixing the value of it's currency directly. Therefore, in 1994 the shilling was plotted this implied that it's value was to be determined by forces of demand and supply. This move successfully eliminated quite a number of hustles. Earlier before the demand for the US ($) (dollar) was a bit high owing to the fact that so many people could afford to buy it. However, after floating of the shilling the value of the dollar appreciated (as reflected by depreciation of the Kenyan shilling). This in some way solved the problem of shortages of forex - C because the issue now at hand is quite free that is , buy as many dollars as one's pocket may allow.

Hand in hand with was the easy accessibility to import licences. Therefore, with forex - C and having no hustle to get import license, it has now become easier to buy products from any corner of the world. The above has profound effects on BAT. Firstly, the fact that the value of the shilling is determined by the forces of demand and supply brings in an element of uncertainty, one cannot foretell with actual
perfection of what the rates will be, say in the next five months. Long term planning as regards say buying of essential inputs like imported Tobacco becomes quite interesting. Similarly, proceeds received from cigarette export would will also keep fluctuating even if quantity sold remains constant. In other words long term planning as all become hard as this flotation of the shilling has brought a high degree of turbulence in the Macro environment.

BAT still (according to the daily 22/2.96 nation has suffered much due to this liberalization. Individual business men can now bring in cigarettes from all corners of thee world and sell in This has therefore, lead to the increase of imported cigarettes in the country. This certainly it's eats up on the BAT market share, thereby reducing it's total sales. Marlboro, Cameo, Rothmans, Dunihill, among others are some of the popular brands which Kenyans encounter on the shelves. This has more than given Kenyan smokers on a choice on what to smoke. This is a challenge which BAT has tried to undress to by manufacturing products of high quality. This is as according to the tobacconist new Magazine September 1995.

The liberalization of the economy has lead to intensified the competition in all sectors of the economy. Indirectly competition in the insurance industry has led to the companies operating therein to come up with tailor made services for their clients. Kenindia Insurance Company, in pursuit of customer satisfaction and gaining a competitive edge in the Kenyan market, has come up with a special policies for Kenyan non - smokers that is, non - smokers advantage. This a service that is highly, advertised on the electronic media. The consequences of this has been to reminded Kenyans of the "thorny" and unresolved issue of smoking and health. This can be viewed from BAT's perspective as another anti - smoking lobby group though it's not possible to state with a high degree of certainty how many people have given up smoking because of this. I would however be a great error to down play its effect on the number of people who are smoking. The above therefore portrays a negative impact on BAT's customers owing to competition activities from other non - Tobacco sectors of the economy.

According to Patricia M., Procuinier E., Elbert V Bourden, in their book ABRIDGED ECONOMICS, they highlight that one characteristic feature prevalent in any capitalistic economy is private property. This, they define as 'the idea that people have governmentally protected right to own things'.
This therefore means that individuals have a right to own and to do whatever they like with anything they own. In such a setup a person with some wealth can invest the wealth and receive income. With investments one can get a continuing, perpetual income. For example this happen when one has invested in bonds.

The government however sets in and arrests the situation through among other ways, progressive taxation. But how has this succeeded in redistributing income or wealth in Kenya? A look at the Kenyan roads reflect that flashy cars are on the rise, yet unemployment is in perpetual rise, many and many Kenyans cannot afford basic necessities of life.

Liberalization yes, has led to an upward trend in the level of economic growth, but over 80% of the wealth rests on 20% of the population. This sends mixed signals to companies operating in such environment. For BAT it has to rely on mass sales of its products to realize profits at the end of the day. However with disparity of income rising (where more Kenyans are becoming more poor) smokers have also absorbed this and translated the same in their purchases action. Therefore those people who could previously afford Sportsman have now moved to Champion (Sportman profit contribution is higher than that of Champion.) Similarly those who are smoking ten cents results to roll your own when they can't make ends meet. Also some smokers opt to shift to competitors product which are cheaper even though their quality is low.

It's in fact that one can't wholly blame this development on the growing income disparity gap as other factors like high inflation, high population growth rate, pursuit of projects which don't eradicate poverty, foreign aid burden also play a crucial role. What is accepted in that such problem are always associated with a liberalized economy. And since BAT deals with products targeted for mass sales, this development is not wholly a step in the right direction. Already the company is hopelessly trying to reduce the market share of Champion without passing over the difference to the competitors.

This analysis therefore means that income redistribution should be carried out to at least a fair level. Otherwise its only firms dealing with high value consumer durables that may have a reason to celebrate.
According to the Central's Bank December (1996) Economic Review, economic liberalization is to continue inspite of a few drawbacks here and there. "Back peddling" is not only too expensive and unrealistic, but more concisely out of touch and isolative. Liberalization is but one of the strategies which the country has banked on the steer ahead the country to industrial take - off stage. Organizations must accommodate short - run pains in order to reap by a far more proportion long - terms gains. The fact that liberalization has brought forth choice is a mixed blessing, which all should tactfully embrace. To the cigarette smoker, today he has alternatives. This gives him/her the much cherished veto (which BAT must win) to dictate on what should be produced or not through his purchases action decision). To organization operating therein (BAT inclusive) choice calls for effective utilization of resources available. The opportunity cost for any project being engaged must always be thoroughly calculated. To remain a float BAT must faithfully and religiously incorporate the marketing concept in it's plans all the time. (This concept advocates for thorough research to be done before producing any product. Thereafter the ideal product should be produced and distributed as efficiently and effectively as possible. This is the one and only way to get it right first time on issues pertaining to what customers accept as "Good Quality' business entities must realize that high quality is what the customer says / judges about a product but not the misguided principle of putting too many features in a product in the name of quality.
3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

A case study design has been used in the work. The choice of this particular design was greatly influenced by the relatively less time involved. This also goes hand in hand with low involvement of other sources, like money. The other driving factor behind my choice was that I work at BAT (K) Ltd. During the course of my duty I have vividly witnessed the company undergoing changes, thanks to economic liberalization therefore this study would expose intensively the extent to which the changes in the economic front are affecting my employer. There was a personal ego towards a more detailed understanding of the consequences of liberalization on BAT.

Another factor which positively influenced my choice for this design is that since I work at BAT gaining, access to my respondents was relatively easier and since I had some "sketchy" information on the company, it is highly possible to detect inaccurate response.
3.2 SAMPLING METHODS

My sampling method had to be the one which could avoid biased information. In this respect therefore I had to settle down to a kind of random sampling which could suit my needs. In order to get a fairly representative sample size, I used stratified sampling technique. My sample size was 75 respondents of whom 25 were drawn from senior management staff while the rest were junior employees. I used stratified sampling technique because in BAT, there are clear structures within namely marketing, Production, Finance, Cooperate affairs and leaf. Therefore from every department, I sampled out randomly 5 senior management staff and 10 junior employees. It is therefore through this technique that I was able to come up with my sample size of 75 respondents which was fairly representative and given that it was randomly chosen, it gave me a highly un-biased information.
3.3 DATA COLLECTION

My study being a case study, I was used a multiplicity of data collection methods. To get a fairly accurate and representative data, I got information from both senior employees and junior management staff. The main methods of data collection was through face to face interviews. I had a set of pre - set questions which I asked every respondent. It is important to highlight that the weight or content of every question varied with the degree of job description foe every respondent.

I had to book for appointments with the senior management staff while this was not necessarily the case with junior employees. In the interviewing session, I started by asking the pre - set questions. However at some occurrences I had lively discussions with some of the respondents. This was quite beneficial in that I was a be to get other valuable information even though I had not projected to get the same. While in such discussion, I noted down some highlights and immediately after the discussions went and complied good notes foe my list.

My data collection methods also involved informal discussion moments I had with some respondents, especially the senior employees. This usually took place during lunch break when I could join them and cunningly start the discussions.

My research objectives were diversified and this called for more methods of data collection. To verify some of the information given, I went up through the BAT library and read through books which had the necessary information. This was particularly done on weekends.

My data collection methods also involved observation. In this respect, while conducting my duty, I was able to identify what was actually happening in the trade. I was able to see the number of competitive brands in shop shelves and the relative space they occupied (vis - a - vis BAT's brands). Occasionally, I interviewed shop-keepers especially as information regarding competitors brands shelf - off take was concerned.

From the above, it is therefore quite clear that I used both primary data (received from face - to - face) interviews) and secondary data (from BAT's library where I read various books, journals among others.

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3.4 DATA ANALYSIS & PRESENTATION

I have used both quantitative and qualitative data analysis techniques. I used quantitative data analysis technique because some of the information I got could be visually displayed either in figures (tables) or through graphs. This is information as regards sales figure, market share figures, profits, etc. There was an added advantage in the use of this technique because it usually gives a better visual impression of the findings. Besides it is relatively easier to draw conclusions from such data.

The above does not however rule out the use of qualitative data analysis as certainly some information received was descriptive in nature. This is where I had to draw logical conclusions from. Therefore I did not skip this kind of data analysis.

Data presentation was through use of pie charts, line bar graphs some other diagrammatical presentation aides. This was supplemented by the use of descriptive format as and when the situation demanded so.

The use of the two data analysis technique made it easier to explain concisely and precisely some of the intricate issues under study.
4.0 RESEARCH FINDINGS

4.1 MARKETING CHANGES

One of the major effects of liberalization which hit hard on BAT was the establishment of Mastermind Tobacco company. As discussed elsewhere, they (MASTERMIND TOBACCO COMPANY) used market penetration pricing strategy (by coming up with low priced products) BAT had to react to this given that the average Kenyan consumer is highly price sensitive.

Champion is a brand that was launched for strategic reasons. It blocked the growth of Supermatch (Mastermind Tobacco Company) quite effectively. However this brought forth a paradoxical situation. BAT became its own competitor. Champion started to cannibalize Sportman (the key drive brand in BAT) yet its revenue contribution was far much less.

The brand marketing department has approached this issue in a number of ways aimed at striking a balance between Supermatch Vs Champion in one hand and Sportman Vs Champion on the other. One of the other major pre-occupation of this department today is to come up with key premium brands which shall arise high the flag of BAT.

In 1995, 555 brand was relaunched in the domestic market. Initially there was only one variant of 555 that is Filter Kings. However upon the relaunch, 555 international was introduced in the Kenyan market. This brand has a much bigger packet with extra long cigarettes and also has twin packs arrangement. Dubbed "the only choice for the discerning smoker" this cigarette was the first one of its kind to be marketed in Kenya on a large scale.

Still more on the 555, both of these variants now come from London to attain a consistency in quality worldwide (555 is the only international brand for BAT worldwide). Therefore it was in the interest of the parent company to iron out discrepancies as regards quality, packaging, taste, etc, on this brand. Also the production capacity at BAT could not match the quality specified for this brand. Consequently, both the two variants marketed in Kenya are imported from London. The relaunch of the 555 cigarette also witnessed an upward progression in prices.
Initially the retail price of a pack of 555 filter price today is Ksh. 60/= . The price was hiked by 50% and its retail price today is 90/= a packet. The price of the 555 international pack was put up at 100/= . Inspite, of this upward progression on prices, the market share of 555 (both variants) reflected a marginal increase on market share.

The success of this brand (555) was boosted by among others, the sponsorship of the Safari Rally by BAT at a total cost of 60 million shillings over 3 years. Consequently, the rally now is called 555 Safari Rally. It is projected that this action alone will increase public awareness of its existence and of course lay a fertile ground for its success in the market place.

Towards the end of last year (1995), the brand marketing department still left nothing to chance. It's true that Mastermind Tobacco Kenya doesn't have the resources to out-compete BAT in the market. Realistically, though, BAT can not just relax because of containing Mastermind Tobacco Kenya to manageable levels (BAT still controls over 90% of the total market for tobacco products). The concern for BAT today is to have stronger brands which have the strength of blocking away other effective multinationals like Philips Morris International. Consequently,

therefore, the brand marketing department relaunched Sportsman. Sportsman is the mainstay of BAT (K) Limited. Therefore every activity was and is still directed to making this brand more stronger. With its relaunch, the variants carrying this brand - name increased from 1 to 4.

The original Sportman Filter size (soft - cap) retained its features while the other variants introduced have the following features:
<table>
<thead>
<tr>
<th>BRAND</th>
<th>NEW FEATURES</th>
<th>PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPORTSMAN (PREMIUM)</td>
<td>Bright color (Orange) &lt;br&gt;Hidge - Lid pack (international pack) &lt;br&gt;which is more prestigious &lt;br&gt;A much more refined taste</td>
<td>42/= A packet of 20</td>
</tr>
<tr>
<td>SPORTMANS MENTHOL</td>
<td>A methanolated cigarette white filter &lt;br&gt;Hidge - lid pack &lt;br&gt;A much more smoother taste &lt;br&gt;An even appearing menthol linked color that is Green</td>
<td>42/= a packet of 20</td>
</tr>
<tr>
<td>SPORTSMAN LIGHTS</td>
<td>An attractive color of the package - Blue &lt;br&gt;A much lighter taste, feeling, etc. &lt;br&gt;Hidge - lid pack</td>
<td>42/= a packet of 20</td>
</tr>
</tbody>
</table>

The launch of the above variants in the market gave the consumer a choice in as far as their popular brand Sportsman is concerned. The launching of these variants, as reflected from the above table, witnessed a two shillings increment from the previous Sportsman. The re-launching of these variants went hand in hand with a change in the features of the old Sportsman. The logo was now shifted from the common head of a Horse to the twin peaks of Mount Kenya. Therefore there was also change in color on advertising feature so such as bill boards and distribution vehicles to black, (reflecting the two twin peaks of Mount Kenya) and red (shift the original orange color).

The advertising materials and messages of these new Sportsman variants emphasis more on the twin peaks of Mount Kenya. Several reasons account for this shift of emphasis.

It is true that Mount Kenya gives Kenya an identity mark from the rest of the countries. It is a land mark which is not found elsewhere. Every other Kenyan is a proud of this rare physical feature.
Therefore, the use of this feature highly identified Sportsman with Kenyans. Besides, to the outsiders, Mount Kenya is an distinctive feature which cannot be found elsewhere. Therefore it is highly likely that outsiders will sub-consciously perceive Sportman to be that unique product of Kenya with a highly unique features (just like the snow on top of Mount Kenya).

Beyond the above, Mount Kenya has a highly distinctive historical importance for all Kenyans. It was in the slopes of Mount Kenya that the Mau Mau movement operated from. Also after independence the Kenyan flag was raised there (being the highest point on Kenya soil). Therefore Kenyans have alot of attachment to it.

It is also important to highlight that Mount Kenya to Kenyans is no only a physical feature, but it is also
- a recreational centre
- a water catchment area

Therefore as much as it is to the interest of Kenyans to preserve this Mountain, it is also crucial for Kenyans to support this popular brand - Sportman.

Lastly, one of the greatest challenge for the marketers today is Brand erosion and fashionization. People/customers today want new things/product all the time. Companies are therefore forced to be quite fast on change through innovations among other ways. Therefore these changes on the Sportman features gave customers a new look at Sportman.

Still to counter any move by competitors, BAT has also gone back to electronic media advertising, specifically, both radio and TV advertising, has started again. This will eventually give BAT a upper hand in as far as public awareness and conviction of it's brands is concerned.

All these activities mentioned above have been carried out by Brand Marketing department to not only counter competition activities but also give customers quality. The motto is to get it right first time all time.
4.2 TRADE MARKETING PRIORITIES

The other branch of marketing is trade marketing departments. Just like other departments, it has spearheaded the reforms process (aimed at making BAT the benchmark manufacturer and supplier of tobacco products. Trade-marketing department has the sole responsibility of availing the products to the customer in the most cost-efficient and effective way. As the effects of liberalization continued to intensify, various distribution changes have been undertaken.

It has been realized that effective distribution and supply chain management are critical components of BAT’s mission to build category leadership by becoming a benchmark supplier to all customers at wholesale and retail level. To become the benchmark supplier means that BAT is regarded as setting the standards in our category for marketing and distribution excellence. It also means that customers come to BAT for help and advice on any issue related to the tobacco category. In achieving the above position, BAT has identified three objectives in distribution which will help it attain benchmark supplier status.

i) **AVAILABILITY**
Constant availability of BAT products to both consumers and customers is highly fundamental. BAT therefore, aims at continuously availing products to customers and consumers.
It has also ensured that the right Brands are in the right outlets in the right quantities and the right prices.

ii) **PRODUCT QUALITY**
BAT has raised that its products can only sell if they are of high quality in terms of product freshness, smoking quality, packaging appearance and physical product condition. Every effort is being directed at this.
iii) LOWEST COST

BAT today endeavours to guarantee availability and product quality in the most effective way. This has been done by increasing distribution efficiency and by minimizing product returns by supplying the right brands in the right outlets in the right quantities.

BAT still underscores the fact that it can achieve its distribution mission better through enhancement of partnership with its distribution partners. This has to be released through two elements:
- Category education
- Information exchange

By understanding their business, BAT is in a position to act as advisor to them on the tobacco category. This has helped in educating them about the potential of the tobacco category and how they can maximize their opportunities.

On the other hand, the exchange of information and in particular the provision by them (distributors of accurate brands off - take information has significant benefits to both partners. Accurate brands off - take information means that BAT can precisely meet customers requirements for its products. This ensures that customers do not overstock and therefore operate efficiently. This information also helps in giving BAT accurate sales forecast.

Besides meeting the above objective, the trade marketing department has carried out some structural adjustments aimed at cost reduction not only at the short run but more crucially in the long - term. Key among this is the contracting out of shipping. This entailed contracting out the duties of transporting cigarettes from the Nairobi factory and other deports to the dealers/distributors. BAT consequently enlisted other companies which specialize on transport to come and do this work. This change in policy has some economic rationale. In today's turbulent environment a company should identify its core services.

In BAT's case, its production of cigarettes. It was therefore ideal for the company to specialize in its main stay of business and actually specialize in it. Therefore all the fleet of lorries which used to ferry cigarettes were sold off. At the end of the day, BAT was able to save quite substantial amount by undertaking this exercise. The current transporter contracted by BAT is Transami.
Still on the cost - cutting, major reforms gone have even to the distribution vans. Initially these vans were big cars that is 1800cc. However the view of management is that even smaller vehicles that is Datsun 1200 pick ups can as will deliver the same benefits at a lower cost. Consequently, all distributions vans in future will be the small vans (except in situations where the geographical terrain militates against the use of such vehicles).

Still, it has been visaged that much savings could be released by leasing out the distribution vans from dealers in Kenya. BAT is of the option that this mode of operation is quite cost - effective therefore presumably by 1st of April, 1995 all the distribution vans will be hired from Toyota Kenya. Its projected that this move alone will give upto 30% cut on expenditure on motor running costs.

The company has also shifted its main emphasis on distribution. Previously over 80% of the total volume sold was done through an indirect way that is 

BAT - DEALERS - STOCKIST - RETAILERS

The above represents the normal flow of products from BAT to the trade.

It is suffice to describe how the supply chain of BAT looks like. BAT has appointed Dealers/Distributors who are the only ones legalized to purchase directly from BAT within Kenya. These dealers have exclusive territorial boundaries of which one is strictly bound to follow that is each dealer has his / her own region, geographically defined. It's expected that each dealer should only distribute cigarettes within that region only. Selling beyond one's region is highly discouraged. BAT has 48 dealer spread out in the country as a whole.

For each dealer (region) he has appointed his own stockist (wholesalers) within. The dealer sells to the stockists who in turn sell to retailers. Therefore the stockist are wholesalers who sell on behalf of the dealer.

The retailer in this supply chain has the option of buying from either the stockist or the dealer. )Traditionally the retailer used to buy only from stockists). However as the business environment become more turbulent example intensified competition, higher customers expectations etc) BAT had to change its mode of distribution. The existing mode had quite a number of drawbacks, key among them being that stock outs were very frequent.
Therefore, the current emphasis today is on DIRECT STORE DELIVERY. In this set up, the dealers are now supposed to sell 80% of their volume to retailers with the balance being sold through stockist. Previously the dealers only delivered stocks to the stockist. However, as of today they are required to have more distribution vans which sell directly to the retailers.

Several factors have necessitated this drastic change in the distribution policy:

1. With the onset of competition, it was found out than Mastermind Tobacco Kenya was able to sell in some outlets because there were some distribution gaps/vacuum left out by the initial distribution network. The stockists are general wholesalers who deal in quite a number of products. Therefore they handle at any given time to go around selling cigarettes to retailers. The retailers therefore have to close their shops to go and buy stocks. With competition coming in a new turn of events was introduced. The competitors were bringing/availing stacks to the retailers right at their door steps. Hence one did not require to close one's business to go and get stock as elsewhere BAT consequently had to charge for the better, thus its current emphasis on direct store delivery.

2. The old system of distribution also had problem of creating so many stock-outs in the trade. This of course resulted in a lost sales besides making consumers go for competitor brands (when BAT stocks were out of stock)

3. This new system of distribution will make dealers to even get richer. This is because of the fact that by selling to retailers, they not only get their commission (as they get when they sell to stackists) but still more they get the stockist margin (what the stockist gets by selling to the trade).

4. This system of D.S.D. also makes the dealers had little information as to what goes on the field. Therefore they could not collect come important information when it is due. It also used to take them longer period to notice any unusual development in the market. However, with D.S.D., it is projected that they (dealers) will forever be in touch with the retailers, thereby being in a strategic location to gather any relevant information.
To make sure that this system of direct store delivery actually works, BAT started another program that is the Bicycle selling program. The company purchased many bicycles and branded them Sportman, the company's popular brand. Every dealer was required to interview prospective candidates for this scheme. (This was in liaison with the dealer's BAT representative). The bike salesman are meant to be independent operating businessmen who are like former stockists.

They are supposed to buy from the dealer at the stockists price and sell to the retailers. Their salaries/wages is the difference between their price from dealers and their selling price to retailers. One important aspect of this program is that the more one sells, the more that accrues to one in terms of commission.

The program was initially kicked off in Nairobi and later to other parts of the country. Todate it is a major success and it is actually giving the company a major mileage on attaining its goals on D.S.D.

Still to support this scheme, the company's field force are also expected to work in favor of this scheme. They are actually supposed to spearheaded this scheme by picking stocks from dealers and selling to the trade

Although it's quite early to give a through and critical evaluation of the scheme, it is quite true that this project has achieved quite alot on D.S.D. The bike salesmen have access to even those areal where the stockists or the dealers couldn't venture. Though indirect the actual presence of the bike salesmen has introduced a high degree of competition between the stockists and bike salesmen. Consequently the otherwise dormant stockist have woken up, and they are equally aggressively selling to the few retailers available. This was the situation which BAT had all along been waiting for. Some changes have therefore arisen out. The more, the existence of the bike selling people. Stockist outs are becoming quite rare and even the intensified efforts of the bike salesmen are giving competitors really a run for their money.

Besides giving them cash incentives, BAT is committed to developing the bike salesmen by holding occasional training seminars for them.
It is from these training seminars that they acquire the necessary tips on how to achieve effective and efficient selling. They (bike salesmen) feel attached to the company because they realize that BAT is really out to successfully develop them. The number of the bike salesmen is growing day by day and so is the volume moved through this channel.
4.3 HOW LIBERALIZATION HAS AFFECTED BAT'S MARKET SHARES

The onset of the competition usually sends mixed signals to an existing company. Holding other things constant, the increase in the number of companies operating in a given environment normally reduces the market share for each of players (in the same environment.)

Since the colonial era, BAT has all along been the sole cigarette manufacturer in Kenya. However the desire to industrialize the country forced the Kenya Government to source for capital from without. This complemented by the spread of democracy (after the fall of the Soviet Union) made major donors to prescribe certain conditions before dispensing their otherwise "life sustaining" economic aid to other countries like Kenya. Key among these conditions was the liberalization of economy.

The unfolding of the above experience in the Kenya market witnessed the mushrooming of many companies. In the Tobacco industry, a new company sprung up that is Mastermind Tobacco Company (K) Ltd., This has been the major competitor to BAT since the early 90's (This does however appreciate the fact that the other foreign companies have a presence in Kenya through direct exports.

This research aims at finding out statistically, how the up - coming of competitors affected BAT (K) operations.

I have specifically zeroed down on this period (1991 - 19995) because its in this period that Mastermind Tobacco Limited gained momentum and actually began aggressive marketing of their products.

To analyze how BAT has been fairing this period, I was able to extract the following graph from BAT's books of accounts.

---|---|---|---|---|---

NB: ABOVE GRAPH IS EXTRACTED FROM THE ACCOUNTS FIGURES ON APPENDIX A
From the above graph one gets the following information:

- that profit was the highest in 1993
- that from 1991 to 1993, the company recorded successive increments in profits that is +30% (between 1991 and 1992) +101% (between 1992 and 1993).
- that in 1994 the company recorded -45% decline on profits (relative to 1993)
- that a marginal increment of profits was recorded in 1995 (+1.6 = relative to 1994).

In this analysis, net profits figures have been used to assess the overall performance of the company. It should however be appreciated that net profit figures by themselves are not comprehensively adequate in assessing the performance of a business concern, over a given period of time. At times, companies do sell out assets as a means of up-grading their financial position. Inspite of these short comings however, net profits do give a fairly acceptable rating of a company's performance. More often than not there is usually a high co - relation between volume of sales and net profits.

In this particular case, for example, turnover may not be fairly representative of BAT's performance because over half of the company's turnover belongs to the exchequer, thanks to the high taxation rate of Tobacco products.

The above trends could be explained from two dimensions. Economic liberalization brought forth direct competition (Mastermind Tobacco Kenya) and also led to instability within the Macro - economic environment. The establishment of Mastermind Tobacco Kenya had a formidable role in the negative turn of profits especially in 1994. This can be explained in both direct and indirect forms. Directly, Mastermind Tobacco Kenya inspite of it's size was able to curve for itself a fairly satisfactory market share relative to its operational capacity. That even though commanding estimated 9% of the 6.5 billion cigarette sticks market, this volume was more than enough to help the company (Mastermind Tobacco Kenya) breakeven. Also Mastermind Tobacco Kenya was able to hit hard on BAT in some areas. For example, in Western Kenya and parts of the Central Province. Mastermind Tobacco Kenya has succeeded more principally due to the low cost advantage of its products.
This in itself is a blow to BAT. Indirectly, the fact that Mastermind Tobacco Kenya came up with its popular brand (Supermatch) at a low price relative to BAT's Sportman called on BAT to come up with a strategy to counter this. This is because to most Kenyans who are below the poverty line, the driving factor to buying a product is price.

Supermatch (Mastermind Tobacco Kenya drive brand) was positioned against Sportman. BAT however was not ready to counter Mastermind Tobacco Kenya with Sportman, instead, Champion was developed to counter the otherwise growing Supermatch brands. The pricing of Champion was fairly in the level of that Supermatch. However, even though Champion checked effectively on the growth of Mastermind Tobacco kenya's brands, it however started to carnibalize Sportman, yet its revenue contributions were less (this is explained in details at a later chapter). This therefore could partially explain the negative turn of events on BAT's profits in 1994.

As mentioned earlier on liberalization brought forth a high level of turbulence in the macro-economic environment. This in itself has two effects, favorable and unfavorable. In 1993, BAT's profits were the highest. Relative to 1992, net profits increased by 10% yet the volume sold only recorded a marginal increment (less than +10%). This brings open the idea that the high increase on profits emanated from other circles, not increase in sales. This increase in profits can be easily traced from the instability in the Macro-economic front. During 1993, after a series of economic reforms, inflation figures were very high. The carry-over effects of the heavy spending which characterized the 1992 general elections were being felt. Companies gained alot from investing in treasury bills which were being floated by the Central Bank in a move to mop-up excess liquidity. BAT could not miss on this. Just like in any other inflationary period, prices of various goods and services kept going up. BAT could not miss on this. BAT during this period had a series of price increases, which generally translated to higher profits at the end of the year. To crown it all, the devaluation of the Kenya shilling meant the earnings from exports were quite higher than usual (export sales were high during this period coincidentally because there were political chaos in Southern Sudan and Somalia. Production of goods could not thrive in those countries effectively. Consequently, many products are exported, among them cigarettes and also BAT during this period reverted to leaseholding kind of investment. The main factory and offices were sold off to Barclays and then leased back, which means that there was more savings.
However, as the economy stabilized in 1994, BAT recorded a decline on profits. Other than the paradox of champion (as explained earlier), the other factor behind this trend was the rising costs of production within. Besides this, the other reason with a lot of "weighing" was the "strengthening" of the Kenyan shilling vis-a-vis other hard currencies. This aspect was compounded by the fact that domestic harvests of Tobacco was not good, thus necessitating imports at a period when forex - C was too expensive. This effectively increased the costs of production.

Mastermind Tobacco Kenya's influence within the Tobacco field was also crucial. Even though BAT contends the market share of Mastermind Tobacco Kenya is blow 5.5%, the actual share on the retail end is somewhat different. Mastermind Tobacco Kenya's brands availability has been recording a series of increments year after year. It's (Mastermind Tobacco Kenya) market share is projected (by independent analysis) to be higher than the figure as given by BAT. This therefore makes it extremely difficult to discount the extent to which Mastermind Tobacco Kenya's presence has negatively influenced BAT's activities. Another observation worth nothing is that liberalization more than drives firms from within and without towards international circles. With the acceptance of free market enterprise all over the world, it means that a firm has to go global as a way of safeguarding itself from attack in its domestic market. For example, BAT had now to think seriously on terms of exports (because it was clear other international competitors would set in either by locating locally, through agents or through direct exporting). Consequently BAT has been aggressively exporting its products, mostly in the PTA region. From this move, year by year exports earning have been increasing as supported by the following graph.
BAT'S EXPORTS EARNING (1991 - 1993) FIGURES IN Ksh. '000

NB: The above graph is extracted from the accounts figures given on appendix No. A
In an effort to feature beyond its boarders a firm could either be

1. International - whereby it has foreign presence but in a peculiar way. Under this classification, a firm adapts its products to the particular foreign market. Eventually therefore we have the same product in different foreign markets but with differing characteristics as in packaging, taste, etc.

ii. Global: This is where to the highest possible level a firm standardizes its products in all its foreign markets. This move is considered to be cost effective not to mention he familiarity with which customers accept a firm's product (now that the world has become a global village thanks to advancement in communication).

BAT in its drive towards exporting or featuring beyond Kenyan boarders has been much more global than international. This is as evidenced by its exports products (hereby Sportman brand available in Kenya is exactly the same brand in Somalia, Sudan etc)
COST FUNCTION

Economic liberalization has also affected BAT in as far as its cost function is concerned. Over the period 1991 - 1995 the amount spent on imported raw materials has reported a rapid increase (between 1992 and 1993) while a gradual increase of same has been recorded in as from 1993 - 1995. This is as supported by the following graphical illustration.
AMOUNT SPENT ON RAW MATERIALS (IMPORTED) IN 'OOOs

<table>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>COST IN MILLIONS</td>
<td>200</td>
<td>140</td>
<td>612</td>
<td>612</td>
<td>616</td>
</tr>
</tbody>
</table>
The rapid increase in raw material cost in 1993 (relative to 1992) is partially a direct result of the depreciation of the Kenyan currency during the same period. The depreciation was in part caused by the economic reform measures the Kenyan Government was undertaking by then, example, Forex - C liberalization decontrolling of interest rates charged by Commercial Banks among others.
4.4 PARADOX OF CHAMPION

It is well appreciated factor that though liberalization brought forth a domestic competitor, BAT is still strong and commands over 90% of the total domestic cigarettes market share, but the up-comming of Mastermind Tobacco Kenya brought a rather indirect effect, which today BAT is still trapped in.

Mastermind Tobacco Kenya used a market scheming entrance strategy, that is, came up with low priced products namely, Supermatch Kings & Supermatch Menthol, of the two, the former is the drive brand of Mastermind Tobacco Kenya and it targeted BAT's popular brand Sportman. To arrest the situation, that is to stop Supermatch Kings from getting much of Sportman's market share, BAT introduced Champion, strategically placed brand. Well Champion (which was as lowly priced as Supermatch Kings though of superior quality) actually contained Supermatch to manageable levels. However, the creation of Champion was turning BAT to be a competitor of its own. The profits contribution of Champion was far much less vis-a-vis Sportman, yet it continued assuming much of Sportman's market. BAT tried to scale down the volume of Champion relaesed to the market, but this actually didn't solve the problem. The volume of Champion more or so in rural areas even out matches that os Sportman. This drives us to one sound conclusion, that BAT is actually earning less than it could be earning had it not been introduced Champion as Sportman's market share could be more. But how could they do this yet a competitor had set in and was bound to capture Sportman's market shares (it is important to note that the Kenyan market is highly price sensitive and that's why "cheaper low quality" products are succeeding today).
The year to year growth of both Sportman and Champion more than supports the above assertion. As the below table and graph actually reflect.

**SALES VOLUME TREND OF SPORTMAN & CHAMPION FIGURES IN '000,000 (MILLION)**

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SPORTMAN'S SALES VOLUME</strong></td>
<td>2,059</td>
<td>2,542</td>
<td>3,110</td>
<td>2,918</td>
</tr>
<tr>
<td><strong>CHAMPIONS SALES VOLUME</strong></td>
<td>92</td>
<td>158</td>
<td>415</td>
<td>1,274</td>
</tr>
</tbody>
</table>

**SOURCE: BAT's ANNUAL BOOKS OF ACCOUNTS**

From the table, it's possible to deduce the year to year growth rate of both brands. Through calculation, the following growth rates are arrived at:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>1992</th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROWTH RATE OF SPORTMAN</strong></td>
<td>23%</td>
<td>22%</td>
<td>-6%</td>
</tr>
<tr>
<td><strong>GROWTH RATE OF CHAMPION</strong></td>
<td>71%</td>
<td>162%</td>
<td>206%</td>
</tr>
</tbody>
</table>

The figures given can comparatively be presented in a graph as follows:
GRAPHICAL ILLUSTRATION OF SALES VOLUME GROWTH FROM 1992 - 1994 (For Sportman & Champion)

**KEY**
- Sportman's growth trend
- Champion's growth trend
The above therefore presents one of the major drawbacks which BAT had to swallow basically due to the onset of competition in the local scenario. That it would be earning more if only it could get that VERY ELUSIVE FORMULA of reducing Champion's market share and transferring the same to sportman while Mastermind Tobacco Kenya, Supermatch volume at least remain constant if not decline.
4.5 HUMAN RESOURCE RESTRUCTURING

It's quite true that BAT cannot claim to be the best Tobacco company regionally because of containing Mastermind Tobacco Kenya. Mastermind Tobacco Kenya is no match for BAT given the latter enormous resource, trans-world exposure among others. This is a realization that has crept into the mind of BAT's strategists.

With the above in mind, BAT since 1992 adopted a new scheme in as far as manpower recruitment training and development was concerned. This was a move whose outright goal was to ascertain that BAT has the very best human resources. In the advent of tough competitors setting in (example Philip Mbris) then BAT would have one distinctive competence, that is, having well qualified and experienced staff. This is a move which was partially activated by the liberalization of economy, whereby BAT feels that an equally resourceful competitor may set in. This is quite a rational perspective of events especially if one takes note of the latest developments in Western countries as regards tobacco oriented companies.

According to the TIMES MAGAZINE (June 1995) there is a gradual decline in the market growth of Tobacco products in the Western countries developed nations. This is mostly out of the realizations of the negative health consequences of cigarettes. Anti-smoking lobbyists are on the increase day by day. Smoking is being reflected as a bad habit of which one should avoid at all costs. Consequently, there has been a new move towards discriminating against smokers. In many States in the United states and Canada, one can no longer smoke freely in public places. It's assumed by so doing, a smoker inconvenience non-smokers and actually pollutes the environment. Therefore, even in many other companies secluded areas have been set aside for smoking. This unconsciously discourages one from smoking given physical and psycological disturbance of moving up and down to smoke.

More on this, tough laws have been set in force to regulate cigarettes advertising. For example, Tobacco companies have to write in an exclusively visible format that cigarettes smoking actually KILLS on their packages. It was also last year (1995) that in Canada a move to make Tobacco companies stop using attractive packages (they were being required to pack cigarettes in plain white colored packages) was saved by the courts. As if this is not enough, Tobacco companies are nowadays being compelled to subscribe (in hefty monetary terms) towards the research(es) on a cure(s) for the dreaded cancer disease. Its equally believed that smoking causes cancer, However, Tobacco companies object to this idea and use the rationale that
even some chain smokers have neve been diagnosed to be suffering from cancer. Their argument is that there is no direct correlation between smoking and cancer.

However, it's generally agreed that if one has cancer cells then smoking will certainly aggravate the situation. Its only time that shall tell what actually causes cancer because intense research still continues. In the United States today, there is another lobby group which consists of among other former researchers with Philip Morris. This group has taken quite a hard-line policy against smoking by advocating for the total ban of cigarettes worldwide. They claim that nicotine like any other narcotic drug, addicts the victim (smoker in this case). They (with assistance of the senior doctors) want to prove to the world that NICOTINE, (one of the drugs in cigarette) is actually a drug with the disastrous health consequences like Marijuana and Cocaine. If they succeed in there mission, then smoking will be outlawed. Though this is an extreme view of events unfolding for Tobacco products, it nevertheless gives tobacco companies a pointer as to what the future holds for them. The size of these group is increasing day by day. Its in the late 1995 that the United States President sanctioned Tobacco giants in the United States for creating adverts which appeal more to children. Even though the Tobacco companies have one consolation (that is total banning of cigarettes smoking would add an extra burden to the United Stares in its own war against drugs; it's projected that such a move would sky rocket the prices of illegal production of cigarettes world-wide, thereby making illegal transactions of the same to the very lucrative) they are however forced by circumstances to re-design their operational strategies in as far as long-term survival is concerned. Consequently, some like Philip Morris have ventured in other areas of production, example foods. However their (tobacco companies) easiest and cost effective policy has been to shift their attention to the third world countries. They find it being relatively easier to operate in such environment because of a number of reasons. Firstly, and more paramount is the poverty records of the developing countries. Governments in the said countries are always in cash problems (they can hardly balance expenditures and revenues). Therefore they readily accept any company which may bring forth an extra income (though taxation) by investing within. Besides, its a well known fact that unemployment levels are now too high (actually heading to explosion levels) and host Governments would highly appreciate any investment that would generate employment.
Also public awareness about the side effects of smoking is quite low and so are the laws which govern tobacco advertising. More to this it has been alleged that Tobacco companies actually bribe Government officially in order to get access to cigarette advertising.

The above environment means that the developing world is the zone for the future expansion of the companies. Regionally, Kenya is seen as access point of entry to the otherwise expense market of East and Central Africa. This is a notion given more weighting by the recent regional co-operation of Kenya, Uganda, Tanzania and Rwanda/Burundi. Kenyan market also looks quite ideal given its influence on the preferential Trade Area countries. Its therefore only rational and timely for BAT to adopt precautionary measures which will make it remain a float in the event other Tobacco giants setting in (its actually speculated that quite a number of other foreign owned Tobacco companies are scheming on how to venture in the Kenyan market). In precautionary move, BAT identified one resource, that is human resource whereby if its properly recruited, trained and developed, then it will not only give it a competitive advantage but also a distinctive competence in manufacturing and distribution of tobacco products.

It’s important to highlight that this is quite an expensive move whose fruits may take quite some time to be enjoyed. But its nevertheless a well calculated issue whose time has actually arrived. Any mistake of under-estimating its strategic importance in future would generally be a very costly mistake, which BAT does not want to commit. Therefore while recruiting new employees, every effort is made to ascertain that they have the much needed job specifications. As for the existing employees, they are nowadays being taken through rigorous training aimed at updating them on the latest issues which may affect their output. Hand in hand with this the actual development of employees within the company. Those who reflect interest in certain careers and have supporting background (example education) are being developed to senior positions.

Another issue under human relations which is being incorporated in BAT is leadership. Leadership is the art of inspiring subordinates to perform their duties willingly, competently and enthusiastically. A leader is one who by example and talent, play a directing role and wields commanding influence over others. It has been realized that its only through influence that workers in an organizations can actually give their maximum output not to mention the creativity associated with it.
Therefore to have the very best personnel and maintaining of the same, there has been a significant shift from use of power and authority towards influence.

For clarity, it's important to distinguish among the three terms, influence, power and authority.

**INFLUENCE:**
This is the ability to make other people do something or behave in a particular manner on the basis of one's personal qualities or trust of character, personality or physique. Stated differently, influence can be defined as "the ability to inspire voluntary obedience, compliance or following. The use of influence in an organization creates a harmonious environment between managers and subordinates. And actually this is a great motivation factor. Therefore this is an issue that's being given a lot of emphasis today in BAT.

**POWER:**
Refers to the ability to force people to do something or behave in a particular way either by threatening to inflict suffering on them or by promising rewards or by manipulating them directly. Power therefore comes from owning or being in control of the instruments of:

a) Coercions, that is, all those things that can be used as instruments of violence to cause suffering, materially, emotionally or psychologically.

b) Rewarding anything that can be used to certify a person's material, emotional or psychological needs, wants and desires of money, material necessities, praises, etc.

c) Manipulation: Anything that can be used to get direct hold of another persons facilities and make him or her do things involuntary example witchcraft.

This (power) if used in an organization hardly delivers good outcomes and actually employees do just enough to keep them on the payroll. Its believed that as regards efficiency and effectiveness, use of power is highly inefficient, costly and wasteful, conflict - provoking, short - lived results. It mobilizes/taps only about 30% of people potential.
AUTHORITY
This refers to the recognized and accepted right to make decisions which others have accepted to obey or comply with. This acceptance can be used in any one or all the following:

i) Tradition: The sheer force of habit, established custom or practice. People accept to obey a manager without being forced simply because they have become used to obeying him/her.

ii) Profession: Recognition of technical expertise due to a person of profession or area of specialization. The person accepting to obey simply recognizes that it is the expert who is in a position to make the best decision on the matter and it is his/her own interest to follow the expert’s instruction. This kind of authority is also sometimes called Rational authority because it is based on calculated self-interest. It is based on the profession of expert knowledge and skills obtained through education training and practical experience, example, Engineers.

iii) Position: This comes from the position one holds in the hierarchy of an organization. It is the authority exercised by superiors on subordinates or seniors in an organization.

Use of authority is fairly alright. Its assessment as regards efficiency and effectiveness is as follows: Its reasonably effective and efficient. Its able to tap about 50% of people potential if well done. This contrast with influence evaluation whereby its highly effective and efficient if combined with good management. Its capable of tapping over 70% of people potential and producing long-lasting results achievements, etc.

The above discussion outlines clearly why BAT is introducing the concept of leadership in its managers/seniors working relationships. The researcher’s findings however encountered a rare occurrence. Organizations nowadays are becoming much flatter as regards hierarchical steps. This is aimed at streamlining every company activity. At BAT hierarchical arrangements are becoming even more taller for example, in marketing whereby more steps/stages of reporting have now been put to place.
PREVIOUSLY
Managing Director
Marketing Director
National Sales Manager
Divisional Sales Manager
Sales Representatives

TODAY
Managing Director
Marketing Director
Head of Trading Marketing
Regional Managers
Area Manager
Territory Representatives
Distribution Representatives

It's quite highly skeptical whether this system of organizational structure will actually bring BAT closer to its human resource vision or actually drive it further away. Its only time that shall tell.
1.6 LIBERALIZATION'S EFFECT ON GROWING OF TOBACCO

Before economic liberalization took root in Kenya, BAT (K) was the sole buyer of tobacco crop throughout the country. This therefore gave the company an upper hand in as far as price determination of the crop was concerned. Consequently as in other monopolistic settings, Tobacco farmers use to earn only marginal revenues. However with the springing up of other domestic competitor, tobacco farmers now had a choice where to sell to. The price of this raw material started appreciating. This therefore meant that BAT had to use more to buy the same quantity of tobacco than before. This of course was unfavourable news in as far as its cost function minimization strategy was concerned. The coming up of Mastermind Tobacco Kenya also introduced unfair practices in as far as tobacco buying was concerned. Mastermind agents could even buy from BAT's contracted farmers (which made it difficult for BAT to recover the loans it had advanced to the farmers through agricultural inputs like fertilizers, insecticides, etc).

An unstable environment characterized by wrangles had persisted all through until the Government introduced "The crop production and livestock (Tobacco growing and marketing) rules 1994. The act gazetted in July 1994 aims at controlling and monitoring the growing of tobacco within the country. The act compels all parties interested in joining the industry not only to be cigarette manufacturers locally but also to take a security interest in the growing of Tobacco. Tobacco growing is to be done under a sponsorship agreement where a farmer becomes contracted to a particular sponsor to whom he sells all his produce. This solves the problem of whom to sell the tobacco leaf to as a farmer can only contracted by one sponsor. Contravening this rule makes one guilty of an offence. This act is also assisting sponsors recover the loans they provided to farmers. In the past, some farmers had sold to their sponsors competitor to avoid loan payment.

The law is also helping alleviate the issue of stolen Tobacco. To assist in identifying the company to which a farmer is contracted, the law provides that sponsors keep records of their contracted farmers and that the sponsors identification mark should appear in Hessian bags. The mark serves as evidence of the ownership of the tobacco.
summary therefore the farmer at the last has a choice where to sell his crop through contracting). This element of choice is what usually gives companies nightmares because they have to offer the very best to get the crop. Unless both AT and Mastermind Tobacco Kenya form a cartel, the tobacco farmers will always and to gain from such trading environment. Its nonetheless a welcome to the tobacco growing act because while liberalization is welcome it does not mean circumventing the law or engaging in unethical business practices for competition as to be played out on level grounds.
0 CONCLUSION, DISCUSSION AND RECOMMENDATION

1 CONCLUSION

rom the findings of this research, it's quite possible to deduce the following: hat inspite of liberalization and its consequent after breed, that is, competition, AT today, commands over 90% of the total market of cigarettes in Kenya. That AT has been able to contain domestic competitors to manageable levels. However, is worth highlighting that BAT is no match to Mastermind Tobacco Kenya. In the words, BAT cannot measure its distinctive competence against a naturally weak "sparring partner". This is because BAT has an advantage in as far as capital ase, human resource, years of experience, exposure to international environment, to is concerned. The issue at hand therefore is that can BAT contain another equal-y 'powerful' company like say Philip Moris?

The liberalization of the economic environment means that any company can set in without restriction. Therefore its to large extent valid to argue that whatever BAT is loing today is an effort directed at a future competitor. Its true that within the vision of BAT, they can foresee a tough competitor setting in and giving them a run for heir money. The mounting pressure against smoking in the developed world makes Africa as the next best alternative for cigarette manufacturers. The above supplemented by Kenya's strategic importance as an access point to the vast East und Central Africa Market reflects it only a matter of time before an equally resourceful company gets established in Kenya. Besides an unconfirmed rumors have it that Philip Moris is already skimming on to get into the Kenyan market.

It is also true to argue that much as Mastermind in not a major threat to BAT, it has however significantly altered its profitability, more so when the issue of Champion is concerned (as highlighted in the findings).

Also in an effort tailored at improving efficiency at all levels within BAT quite far reaching changes have taken place.

Much as these changes have released considerable cost cutting it is an all together different scenario when we check at some employees. Work morale during the research interview period was quite low.

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is highly attributed to the fact that BAT policy makers have not involved all the employees in the change process. Consequently most of the respondents expressed uncertainty as far as regards the structural adjustments the company is undergoing. Job turnover is slightly higher, an element partially attributed to this change process.

It is also rational to argue or conclude that BAT has actually 'woken up'. It has instituted measures that would make it remain the benchmark manufacturer of tobacco products, in the event of more competition. Much as this is the case it is an observation that the company has to get right as concerns the major driving brands. His is illustrated by the fact that other successful cigarette manufacturers have not more than 5 key brands. However, in case of BAT, it can be rightly argued that it (BAT) suffers from brands proliferation (as it currently has more than 10 brands). His is an issue that deserves attention.

Lastly, tobacco farmers have been on the gaining end since liberalization lead to the emergence of a local competitor. This has however led to a more stressing problem that is availability of land is an issue that gives the tobacco companies a rather rough ride. Firstly, it has been found out that tobacco growing actually competes with food crops. Striking a favorable balance between the two must be addressed. Secondly, putting more land under tobacco is not consistent with Kenya's economic development as spelt out in the Government's Sessional Paper Number 1 of 1986 on Economic Management and Renewed Growth.
5.2 DISCUSSION

From the above findings and conclusion, it can be clearly argued that BAT (K) has two major forces which it has to counter or contain. Firstly and more short-run in nature is the fight against other competitors. Domestically we have the Mastermind Tobacco Kenya Company. Just across the border we have R. J. Reymolds who acquired interests in the Tanzania Tobacco Company. With the current moves towards regional co-operation (especially East African Co-operation and P.T.A.) it becomes quite evident that competition is bound to increase in intensity. On the other hand, such regional co-operation has the effect of bringing forth boundless opportunities to any company that systematically, consistently, efficiently distinctively and effectively address the notion of customer satisfaction. Such a company must be the one that defines quality from the shadows of the Total Quality Management (TQM).

Secondly, the other quite profound problem which is of long run in nature is the battle against anti-smoking campaigns. In BAT's view, it has not been scientifically proven that smoking causes lung cancer. BAT further argues that epidemiological studies (so far carried out on cancer) can only show statistical association between smoking and lung cancer. Amongst the reasons is that a factor or exposure is not the sole factor associated with chronic disease such as lung cancer. Outdoor air pollution, diet, industrial workplace exposures, genetic factors and radon, among things, have also been reported to be independent risk factors for lung cancer.

Further, BAT appreciates that statistical methods cannot establish proof of a casual relationships in an association. Epidemiology lacks a casual relationship in an association. Epidemiology lacks the means to prove that smoking causes cancer. At the best it can state that lung cancer is associated or a correlated with the smoking. Adding further to this argument, BAT supports the notion that despite years of cellular and molecular research, scientist still do not know the mechanism or way in which lung cancer is caused in humans. "The process by which normal cells become more cancerous and grow even more dangerous is undoubtedly even complicated has been discovered so far".

Much as we realize the above findings, it is paramount for BAT to realize that the anti-smoking lobbyist is gaining much momentum even.
In America, the issue at court has shifted from tobacco being a cause of cancer to the argument that NICOTINE (found in tobacco) is actually a drug, thus it causes addictions such as classification is "cunningly" aimed at putting Nicotine on same footing as other drugs like cocaine and Marijuana. They further propose that as cigarettes contain nicotine (which is addictive like other hard drug) they should be banned! So that what's the future of Tobacco Industry? Only time shall tell.
RECOMMENDATIONS

It is commendable effort that BAT has been able to contain Mastermind Tobacco Kenya to quite low levels. The glory that to day it (BAT) commands 90% of the total market share is in itself an exposition of its efficiency and excellence so far. However, this puts BAT on the receiving end should any new competitor located in Kenya, Uganda or Tanzania. Any other company with interests within will be directly attacking BAT's interest. As the saying goes, becoming number 1 is easier than remaining number 1. Even though currently BAT is still a giant, future strategies should be aligned with the current changes within the business circles.

Given that BAT has to its advantage 90% market share it should also be appreciated that it will receive 90% of the woes of other competitors. The 90% market share gives BAT quite distinct advantages among them good command of the distribution system, perfect product awareness and loyalty among others. This however posses a big challenge to BAT, that is, what is to be done to make BAT remain where it is. Firstly, it is eminent that the shrinking tobacco markets in the developed world will drive some other tobacco giant(s) to the Eastern Africa region. With Kenya's strategic importance as the gateway to this expanse market, it falls not below logical and rational arguments that proactive strategies should be in place (if they are not there) to counter any threat. Proactive strategies are long - run in nature and visionary. Such strategies are ideal in that they avoid throwing a company into a panic situation. Failure to have in place proactive strategies will lead a firm to result to reactive strategies in case of any threat. Such strategies (reactive) are not only expensive but also they put a business concern on a panic situation. Proactive strategies should be based on a company's S.W.O.T. analysis. BAT should seriously address those areas where weakness are apparent. By solving such ailments in time, BAT will only have a walk over in eliminating competitors that is customers and consumers will be too loyal to BAT to entertain any other products.

To attain the above and put strategies in place, it is paramount that managers should not fail the test of "harbouring" revolutionary ideas. This is essential because the environment within which to carry out business has changed drastically. Any changes which require to be done to remain effective and efficient must be implemented immediately. This is because the successful company of modern times is that which affects changes immediately and builds clout on that change before others join. Mangers in BAT must not only be faithful followers, but also champions and pioneers of modern business process are engineering ideals.
This is the only way out for future. Departure from what is tradition and 'the way we do things here' should be implemented. Champions of business process re-engineering are flexible to change and take forward no time in effecting it. This is the only way forward.

Another aspect which requires re-dress is the consumer. With the growing consumer awareness, it becomes imperative that the customers must be rewarded with quality producers. Every business concern with existence strategies in the 21st century and beyond should have a clause detailing how to get the ISO 9000 Certificate (if they don't have one). Acquisition of this quality standards assures everyone on the quality of a company's product. It should therefore be important that BAT should strive to join this exclusive club of quality conscious firms. Line in line with this issue of ISO 9000 is the implementation of total quality management within the whole process of BAT T.Q.M. starts and ends with the customer. Any activity being undertaken should receive consumer's certification. Quality must be defined within the customer's perspective. It will serve no purpose to have products with added features, spend a lot of money in convincing consumers to accept the features and eventually fail. It is always very cheap to institute changes which consumers are crying for as opposed to changes sanctioned by managers in galactic headquarters and then spending fortunes to sell out the changes to the consumers. This is all within TQM. A crucial factor which enables success of TQM is for manager's to depart from the traditional manager. Today's manager should actually be called a facilitator. Manager's role should not be to manage others but rather to facilitate the performance of other employees. Managers must strive to get the very best out of employees. This is attained best through use of teams (Quality Circles). Managers need to initiate and activate team - work in all areas of performance. Team - work however requires one with leadership skills. More to authority and power, managers must have the competence to use influence to get employees together and their contribution. It must be appreciated that it will serve no good purpose to form teams where the manager is more of a dictator than a facilitator. Managers need to learn how to make every employee contribute effectively to attain quality. This could be effectively realized through incorporating leadership in management. Leadership is the art of inspiring subordinates to perform their duties willingly, competently and enthusiastically. Leadership involves delegation of authority and use of rewards, not punishment, to reward. Implementation of all these in all BAT departments will help the company face the future with confidence.
Worldwide competitive pressures are demanding improvements of productivity and quality in all manufacturing companies. In response, many companies have implemented techniques popularized by the Japanese to reduce inventories, reduce cost, shorten manufacturing times and improve quality that is JIT (Just in Time). BAT to build its competitiveness should implement JIT. JIT is a manufacturing philosophy and strategy for growth, survival and excellence through improved productivity and quality. In its narrowest sense, JIT is a set of material movement techniques that result in only right material movement techniques that result in only the right material being at the necessary place at the necessary time. JIT is only common sense attention to detail and an overwhelming desire to excel. The objectives of JIT are:

- Streamlining the process to shorten the cycle times improve quality by eliminating the reasons for rejects, strive for lots sizes of one through short set ups, implement "demand pull" material movement, eliminate waste everywhere and make JIT a continuous improvement effort. "Waste" in the manufacturing environment is anything other than the minimum amount of equipment, materials, parts, space and workers time which are absolutely essential to add value to the product. The paybacks to BAT from JIT approach to productivity and quality are reduced inventories, savings in space, manufacturing cycle times reductions and permanent solutions to problems. These all mean lower manufacturing costs that yield more profit and a competitive advantage.

The other aspect which BAT ought to evaluate is changes in the environment, specifically, the effects of anti-smoking campaigns. Such changes are bound to shape the challenges which BAT could be facing. Thus this calls for the need to adjust to these changes to remain successful in future (example diversify).

Specifically, BAT needs to evaluate the battle against smoking on the following lines:
- What is the direction of change?
- What is the speed of change?
- What is the response capacity of BAT?
- What is BAT doing about this change?

As always to any other change, appropriate response to environmental change is key to future success. One must anticipate change and respond on a timely basis.
DEFINE QUESTIONS FOR FACE TO FACE INTERVIEWS

What is the current number domestic based competitors?

Since 1993, how has the market share (in total for BAT) behaved?

How about after year growth on volume. How about the % trend on year after year volume growth?

How has the profitability analysis looked like in the period under review (Profit after Tax)?

Is there any correlation of the trend above with the changes that took place on the Macro - Economic front?

How have changes within the Macro - economic front (read here as economic liberalization that is decontrol of Forex C, imports relation act) affected BAT marketing operation?

What are the laid down strategies to steer ahead the company in the wake of growing environmental turbulence. Specifically:-

(i) Which value(s) does BAT opt for to distinctively differentiate & dominate the market with?

(ii) Does the company have the appropriate operating model to support the value(s) in (i) above?

In a keen calculation of maintaining operational excellency and strategic dominance, many a business concerns have pursued various business ideals as propagated in the Commercial fraternity. Among them are TQM, Business Process re - engineering and just in time system. To what extent have the above been incorporated within BAT?
# REFERENCES

<table>
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<th>Location</th>
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# APPENDIX A

## FIVE YEAR SUMMARY FIGURES IN Ksh. '000

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<td>8,808,568</td>
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<td>5,080,114</td>
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<td>(89,726)</td>
<td>(40,067)</td>
<td>17,914</td>
<td>44,029</td>
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<td>DIVIDEND PAYOUT RATIO(%)</td>
<td>76.0%</td>
<td>62.0%</td>
<td>61.0%</td>
<td>79.0%</td>
<td>86.0%</td>
</tr>
<tr>
<td><strong>FOREIGN EXCHANGE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EARNED ON EXPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.$'000</td>
<td>16,671</td>
<td>14,549</td>
<td>13,993</td>
<td>12,603</td>
<td>7,495</td>
</tr>
<tr>
<td>Ksh.'000</td>
<td>797,309</td>
<td>735,013</td>
<td>701,985</td>
<td>393,291</td>
<td>196,483</td>
</tr>
<tr>
<td><strong>SPENT ON RAW MATERIAL IMPORTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.$'000</td>
<td>12,706</td>
<td>10,897</td>
<td>8,897</td>
<td>4,337</td>
<td>7,185</td>
</tr>
<tr>
<td>Ksh.'000</td>
<td>616,179</td>
<td>612,150</td>
<td>612,662</td>
<td>138,560</td>
<td>200,619</td>
</tr>
</tbody>
</table>

Note1: Dividends, earnings and net assets per share are calculated on 75,000,000 shares for all years.