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Internship Report

On

**“An Overview of British American Tobacco Bangladesh
(BATB)”**

Submitted To

Dr. Tanbir Ahmed Chowdhury

Professor

Business Administration Department

East West University

Submitted By

F. M. Anwarul Kabir

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Business Administration Department

East West University

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DR. TANBIR AHMED CHOWDHURY

Course Instructor

BBA Internship (BUS-499)

East West University,

Mohakhali, Dhaka.

Dear Sir

With due respect, gratitude and appreciation, I would like to present this report on "**An Overview of British American Tobacco Bangladesh (BATB)**", done under the Secondary Manufacturing Department (SMD) of **British American Tobacco Bangladesh**, as a partial fulfillment of Internship program for my BBA degree at East West University.

The internship program gave me the opportunity to put my socio-professional capacity to the test under several circumstances, to solve challenges associated with my academia and work. Preparing the report also gave me a comprehensive analysis and review of what I have learned throughout my BBA in EWU.

I have used three kinds of methods to gather information to do the analysis. The methods include documentation, interview and direct observation. In the analysis both primary and secondary data were used.

The best efforts were applied to match the theoretical concepts to complete this project with real life situation. The whole work was challenging and very much enjoyable. Should you need any clarification, I will be obliged to provide you with further information.

Sincerely Yours,



F. M. Anwarul Kabir





2002-2-10-127

Executive Summary

The internship report is on British American Tobacco Bangladesh, the market leader in cigarette manufacturing companies in Bangladesh. It is thought to be an ideal organization for the application of the knowledge that a graduate gains during his/her four years study period. In addition, as BATB is a company with diverse challenges of tobacco manufacturing industry, a graduate can also apply various theories and can be innovative.

This report has been organized into six major separate sections. First is the introduction part. In Part I, the objective of the study, scope & methodology, limitations and brief about BATB is discussed. In Part II, mission, vision, history of the company, brands, structure of the company, employee and union is discussed. Part 3 is the Industry analysis. In Part 4 the core functions of BATB which is discussed elaborately. The fifth part is the project part, which is the overview of SMD. Part 5 is the main project part of the report, which is the analysis of the functions of Secondary Manufacturing Division (SMD) of BATB. First of all, the overview of the manufacturing department is briefly stated. Then the process diagram of SMD is discussed. Other things like flowchart of SMD process, flowchart of making machine, packing machine is also discussed in this report. And finally the findings and recommendations part is also mentioned in brief.

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I would like to express my gratitude to my honorable faculty supervisor Dr. Tanbir Ahmed Chowdhury, Professor, Bachelor of Business Administration department of the East West University who has given me suggestions regarding the writing of this report and to go through the process, which has become an excellent way of understanding the topic of my internship. Basically in our academic life we got a lot of theoretical experiences about the business activities. I got a great pleasure whenever I saw those forms of business activities in my practical involvement. This gave me an opportunity to bridge my theoretical understanding with practical work in a meticulous way.

I would also express my gratitude to my organizational supervisor Mr. Zoinal Abedin, Technical Support Manager, SMD "BATB", Mr. Moniruzzaman Bhuiyan, Maintenance Manager Electrical, SMD "BATB" and Mr. Abdur Rahman, Technical Training Manager, "BATB", for giving me all sorts of logistics supports from initiation to final preparation of my report. I would also like to thank all the officials of the British American Tobacco who have given me support by giving their valuable time in my report writing process. Without their support it might not be possible to complete my report in this way.

Introduction...

British American Tobacco Bangladesh (BATB) is one of the pioneer cigarette manufacturers in the world. The company was formed at the turn of the 20th century with the objective of establishing a worldwide business. Today British American Tobacco sells the leading brands in over 30 markets covering 102 countries, has more than 200 brands worldwide, employs more than 55,000 people and produces some 2 billion cigarettes every day.

British American Tobacco Bangladesh Company Limited is one of the largest private sector enterprises in Bangladesh, incorporated under the Company's Act 1913 on 2nd February 1972. BAT has over the decades consistently invested in Bangladesh market through Bangladesh Tobacco Company (BTC). Thus BTC has always been on the business of manufacturing and marketing different brands that meet the standards found everywhere in the world.

BAT has a plan to build their business in three ways:

- Organic growth in their existing markets
- Quick and effective entry into new markets and
- Potentially attractive acquisition, joint ventures or other strategic alliances.

The merger of British American Tobacco with Rothmans International had been announced on 11th January 1999. This global merger was completed on 7th June 1999. This brings together the number 2 and 4 players which will boast a combined volume exceeding 900 billion cigarettes around the world with some 120,000 employees and a worldwide market share of 16 percent (Phillip Morris has a 17 percent share). The merger will help to attain in British American Tobacco's **vision of becoming the world's leading International Tobacco Company.**

The British American Tobacco Group is one of the world's leading international manufacturers of cigarettes, marketing its products in almost every country worldwide. It is the clear leader in a Competitive and fast moving business. The group consists of four tobacco subsidiaries, which are given below:

- British American Tobacco Company Limited, which produces cigarettes in over 45 countries for domestic and foreign markets in Europe, Australasia, Latin America, Asia and Africa.
- Brown & Williamson Tobacco Corporation is the third largest tobacco company in the US.
- British American Tobacco (Germany) GMBH is a leading cigarette company in Germany.
- Souza Cruz S.A. is the market leader in Brazil and a world leader in tobacco leaf export.

BAT subsidiaries operate in more than 90 countries employing around 173,000 people. Its aim is to grow its share in the world market and its profitability within the share- by offering more brands against competitors, and by running its business efficiently and well. With its current position and plans, BAT is heading towards obtaining its objective, which is to be the world's number one in tobacco industry.

British American Tobacco Co. Ltd.

British American Tobacco is the second largest Tobacco Company in the world. Based in London, UK, it operates in more than 50 countries with the strength of 100,000 employees and sells more than 250 brands in more than 180 markets worldwide. Tracing its heritage back to a joint venture formed by the Imperial Tobacco Company of the United Kingdom and The American Tobacco Company of

the United States in 1902, today's British American Tobacco Company was born.

Extent of operation of British American Tobacco Company is given below:

- America-Pacific (USA, Japan, South Korea)
- Asia-Pacific (China, Indo-China, Taiwan, South-East Asia, Australasia)
- Europe (50 countries including Russia)
- Latin America (Central & South America, Mexico, Caribbean)
- Africa (More than 50 countries)
- MESCA (Middle East, South & Central Asia)

Origin of the Report...

The report on the internship program of 3 months to British American Tobacco Bangladesh from 1 June, 2006 to August 31, 2006 is submitted on August 27, 2006 to the supervisor Dr. Tanbir Ahmed Chowdhury of the East West University.

Objective of the Study...

The general objective of preparing this report is to fulfill the requirement of Internship Program as well as to complete the BBA Program through gaining the practical job experience and view the application of theoretical knowledge in the real life. The report focuses on:

- i. To present an overview of British American Tobacco Bangladesh (BATB).
- ii. To analyze the industry.
- iii. To analyze the core functions of BATB.
- iv. To analyze the function of Secondary Manufacturing Division (SMD).

Scope & Methodology of the Study...

Scope

The study initially focuses on the factors related with the British American Tobacco Bangladesh. It draws attention to core and supporting functions of BATB. The study also focuses on the industrial analysis. Mainly this report focuses on the core functions of Secondary Manufacturing Division of BATB.

Methodology

- In this study, both primary and secondary data is used. The secondary data has been collected from the external sources, such as website, Journals and Newsletters. Moreover, the basic data about the BATB were collected from its Reports, Brochures, Newsletters and other available data sources.
- The following methods were used to collect the required information for the study:
 - Documentation:** Documentary information for the study includes written reports and administrative documents such as annual report, progress reports and internal documents.
 - Interviews:** The primary data was collected through interviews. The nature of the interviews conducted was both open-ended and close-ended. The respondent can answer in his or her own words.
 - Direct Observation:** Different issues related to Manufacturing Department have been collected through direct observation and interviews.

Limitation of the study...

The overall study was conducted considering a number of limitations. These are as follows:

- The major limitation of the study was confidentiality of the data. As part of the policy of British American Tobacco Bangladesh, some data could not be used to enhance the parameter of the analysis. Because of maintaining the secrecy, such data is important to the company's interest that's not revealed to the public.
- Limitation of time was one of the most important factors that shortened the present study. Due to time constraints, many aspects could not be discussed in the present study.

Organization Overview...

History of British American Tobacco...

1902: Imperial Tobacco Company of the United Kingdom and The American Tobacco Company of the United States formed a joint venture - the 'British-American Tobacco Company Ltd'.

1910: Operations extended to West Indies, India, Ceylon (Sri Lanka, East Africa, Java, Malaya (Malaysia) and Nigeria.

1911: British American Tobacco listed on the London Stock Exchange.

1914: Acquired Brazilian tobacco company -Souza Cruz.

1927: Entered the US market through purchase of Brown & Williamson.

1929: Rothmans listed on the London Stock Exchange.

1930s: Period of growth for both Rothmans International and British American Tobacco.

1960s/70s/80s: Period of diversification for British American Tobacco.

1976: Group re-organized under new holding company - B.A.T. Industries & BATUKE

1990s: B.A.T. Industries focus on tobacco & financial services.

1993: Rothmans emerges as pure tobacco company after reorganization.

1994: Reorganization of 4 tobacco companies within B.A.T Industries.

1995: Rothmans 100% owned by Richemont.

1998: British American Tobacco plc listed as a FTSE 100 company on the London Stock Exchange.

British American Tobacco Bangladesh...

British American Tobacco Bangladesh Company Limited is one of the largest private sector enterprises in Bangladesh, incorporated under the Company's Act 1913 on 2nd February 1972 and since then it has been the market leader in the country. Based in Dhaka the company has one packaging factory in Dhaka and one leaf-processing factory in Kushtia. The company currently employs more than 200 managers and 1300 employees. In its effort to create an international market for Bangladeshi leaf tobacco the Company has been exporting tobacco to markets in developed countries like UK, Germany, Poland, Russia and New Zealand.

Vision:

To extend our leadership through world-class performance.

Mission:

- Double the net revenue by 2005
- Growing our share of the total tobacco market
- Dominating key identified segments

In its brand portfolio British American Tobacco Bangladesh has a wide range of cigarettes for different consumer segments. Starting from Benson & Hedges (Lights & Regular), which tobacco's are currently imported from Europe and Brazil to locally produced International Brands such as State Express 555 and John Player Gold Leaf (Lights and Regular) and also National Brands like Capstan, Star family and Scissors family are members of the portfolio.

BATB strictly practices the industrial safety measures and is committed to conform to internationally accept environmental standards. All of the BATB areas are equipped with sufficient equipment, gears and water supply. BAT group head quarters recognized BATB's level of safety practices with awards. It has also

received the prestigious Environmental, Health and Safety Silver Award in 1998 and 1999 in a row for no lost time accident in any part of the company.

British American Tobacco Bangladesh is involved in various types of social activities. It is proactively involved in afforestation program in the rural areas of the country since 1980's. Every year it distributes amongst the farmer and other agencies over two million plants free of charge. Till now the company, has planted 32 million trees across the country. The company has been awarded Prime Minister Afforestation Award in 1993, Presidents Award in Agriculture in 1975, Sports Journalist Award and FAO Award in 1998. Besides this, the company is also involved in vegetable seed multiplication project, supports philanthropic organizations like Sandhani and other Social and Cultural groups.

At the end of 1993 the company adopted a change management program called MRP II, the acronym for Manufacturing Resource Planning, with the objective of becoming a world-class company with world-class systems, processes, products, and people. The strategy for "Partnership Excellence Program" is based on a clear understanding on meeting world-class performance and to achieve MRP II Class A. BATB conducted series of training for the vendors and the result was very positive in terms of quality and delivery improvements. Back in 1997, the organization was a Class C company. In 1999 it had achieved the status of Class B and in the year, 2000 the company was awarded Class A status which has made BATB the only member in BAT group to achieve A in four categories in one go. The categories are Strategic Planning, People and Team, Planning and Controlling, New product development, reducing lead-time. This year, the company is working on getting class A in Continuous improvement

The parent company of BATB is called BAT Co or British American Tobacco. They are the major shareholder of BATB. The operations of BATB are done according to BAT Co regulations and BAT Co looks after the management of BATB. BATB

management is trained by BAT Co and on many occasions BAT Co sends their own managers to work in BATB.

Different departments have different structure according to their function and responsibility. BAT maintains a modern organizational structure headed by Managing Director. Managing Director is the operational head and national sales manager. Head of every department carries out their functions with the help of line managers. Other positions of the organogram are directors, regional manager, secretary, assistant manager, area manager, territory officer, supervisor and other staffs. It has seven departments with two supporting departments.

The "Board of Directors" and Executive Committee (EXCO) govern the overall activities of the company. The Board of Directors is responsible for protecting the rights and interests of all shareholders and is held accountable for the overall management of the entity.

The British American Tobacco Bangladesh Board consists of eight Directors, comprising the Non-Executive Chairman, five other Non-Executive Directors and three executive Directors which include the Managing Director. The key functions of the Managing Director are clearly defined.

The Board meets at least 6 times a year and makes decisions on key matters. The Board is responsible for the overall system of internal control for the company and for reviewing the effectiveness of these controls. The system is designed to manage risks that may impede the achievement of the company's business objectives rather than to eliminate these risks.

Responsibilities for implementing the company's strategy and day to day operations are delegated to the Executive Committee, which meets monthly. The Executive Committee is chaired by the Managing Director. The other members

include the Deputy Managing Director and the functional heads of Human Resources, Corporate and Regulatory Affairs, Operations, Leaf, Brand Marketing, Trade Marketing & Distribution, Finance and Information Technology of whom three are Executive Directors.

The Board Committees are namely – Audit Committee & Board Compensation Committee, each of its own terms of reference play an important role in executing the responsibility of the Board.

History of British American Tobacco Bangladesh...

British American Tobacco Bangladesh Company Limited is a subsidiary of British American Tobacco and is one of the 68 countries in which BAT has manufacturing plants. It is one of the oldest and largest multinational companies operating in Bangladesh.

BATB started its journey as Imperial Tobacco Company Limited in the then undivided India in 1910. Its head office was at Calcutta and in 1926 a branch office was made in the Sales Depot of Moulovi Bazar and cigarettes were made in Carreras Ltd., Mungair, and Calcutta. Imperial and Carreras merged into a single company in 1943. At that time it used to produce Scissors 105, Passing Show, State Express 999 and Gold Leaf, locally. It also used to import State Express 555 from UK. Later on Imperial Tobacco Company Limited took up the name of British American Tobacco.

After the partition of India, Pakistan Tobacco Company was established in 1949 to meet the demand for cigarettes of whole of Pakistan. The monthly volume of sales in the former East Pakistan soon reached 40 million. The population of Dhaka was at that time a mere 0.25 million.. All the local cigarettes i.e. Capstan, Wills, Scissors, Passing show, Berkeley and Tiger were manufactured in Mouripur

Factory, Karachi, West Pakistan. And Tiger were manufactured in Mouripur Factory, Karachi, and West Pakistan. And sent to Bangladesh and sold there. Ardath F.T., The Three Churchman No. 1, Player's No. 2, Senior Service, Craven 'A' F.T., The Three Castles", Gold Flake, Player's Navy Cut, State were soon added to the list of top brands of cigarettes available along side the Express F.T. 999, State Express 555. These cigarettes used to come directly from London. the competition brands which were available then, were Abdullah ,Imperial preference, Cavander's STD, Virginia No. 10, Du-Maurrior F.T., De-Luxe Tenor, Orient, Montes, Gold Link & Jeep.

The sales Depot was separated from the cigarettes godown and shifted in 1954 to Omar Sons Building, Motijheel-now known as Red Cross Chamber. About that time there were about 2 or 3 buildings in whole of Motijheel Commercial Area. In 1965, the Sales Depot was upgraded to the status of the Branch Office and was shifted to ALICO Building, 18-20 Motijheel Commercial Area, Dhaka. The building (after the emergence of Bangladesh became the Head Office Of Bangladesh Tobacco Company Limited) was occupied by BATB till 1992.

26.18 acres of private land was requisitioned and acquisition between 1952-54 in Vhatiary, Fouzdarhat Area, Chittagong for PTC by the Government of the then East Pakistan . The first cigarette factory set up on the location, produced its first cigarettes which were King Stork in 10ss, in March 1954.

The second factory was set up in 1965, 30th June in Dhaka on a 16 acres of land on a 90 years lease that was purchased from the Cantonment Board. Following the 1965 war with India, the import of 'Tendu, leaves which were used as wrappers for hand made biris, was banned. This gave rise to huge demand for paper wrapped machine-made-cigarettes and a large number of cigarette Factories-in all about 19- were set up. Initially Capstan, Bristol, Scissors, Star were manufactured in Dhaka Factory and the Chittagong Factory produced Star

and Scissors. The monthly sale of cigarettes in East Pakistan in the 1970's reached 1200 million while the combined production capacity of the two Factories at Dhaka & Chittagong, was only 900 million.

The East Pakistan became embroiled in the struggle for achieving full Provincial Autonomy in 1970 and this eventually led to the civil war and emergence of independent Bangladesh on 16th in December, 1971. After Bangladesh came into being, all properties of Pakistan Tobacco Company Limited (PTC) were declared as "abandoned property" because the owners were citizens of a state which was engaged in war with Bangladesh after 25th March, 1971 and the ownership of the Company vested in the Government under the Bangladesh Abandoned Property (Control Management and Disposal) Order, 1972 (known as P. O. 16).

The new infant Government allowed the local and the expatriate British Management of the former PTC to continue to operate the Company and the reconstitution process was set in motion in 1972 by BAT.

The Marketing Department afterwards became no more than an allotment centre. Its role became limited to the allotment of whatever cigarettes that could be produced in the two Cigarettes Factories, to the Distributors. There was an acute shortage of skilled man power (the skilled employees had left for Pakistan), tobacco, Wrapping materials, spare parts and foreign currency.

All these except the foreign currency used to come from West Pakistan. BTC after exhaustion of the pre-independence stocks of tobacco and the Wrapping materials ran hand to mouth for a few years.

After independence of Bangladesh, import of hand-made biris and 'Tendu' leaves as wrappers for locally made biris, were allowed from India and low-priced paper wrapped cigarettes rapidly lost both grounds and the volume to biris due largely to economic hardship, scarcity of cigarettes-for want of tobacco, wrapping

materials and spare parts for the running of the Mollins Mark V makers and the M 2 and the Duplex packers. The sales volume came down to 550 million per month in 1972-73 from its early peak of 1,200 million of a year ago. As the Company fell into great crisis of foreign exchange along with management and technical support, the Company was compelled to develop its own resources particularly the raw inputs.

The proposed name of the company to be incorporated in Bangladesh to succeed PTC was Tobacco Company Limited (TC) and the Company operated under this name till 2.2.1972. TC sought permission from the Ministry of Finance on 28 December, 1971 and the Ministry of Industries (the Ministry) on 30 December, 1971 for permission to operate the bank accounts which were in the name of Pakistan Tobacco Company Limited (PTC).

The majority shareholders of British American Tobacco Company Limited of former PTC proposed to the Government, on 24 January 1972, that BAT be allowed to reconstitute Bangladesh Tobacco Company Limited as a joint venture company. The UK shareholders will have 2/3rd interest and the Government a 1/3rd interest in the Company. The business, assets, liabilities of the former PCT will be vested in BTC by authority of the Government. On 25.1.72 the proposal was granted.

The Bangladesh Tobacco Company Limited (BTC) was incorporated on 2.2.1972 as a private limited company with only three shareholders of Tk. 10.00 each-2 from BAT and 1 from the Govt.

On receipt of the Ministry of Industries 'letter dated 11th October, 1973 vesting the right of the assets of the former Pakistan Tobacco Company Limited located in Bangladesh into Bangladesh Tobacco Company Limited and the Directors capitalized those assets to the extent of Tk. 4,49,99,970 which added to Tk 30

capital already subscribed, amounted to Tk. 4,50,00,000. The first AGM was held on 27th August, 1974 in Motijheel.

As BTC has always been a part of BAT and over the years BTC has proved to be the perfect representative of BAT by manufacturing and marketing quality brands of cigarettes which met the standards of BAT. In recognition to its commitment towards BAT and the important role it played on BAT group, BTC was later named as British American Tobacco Bangladesh Company Limited (BATB).

Structure of BATB...

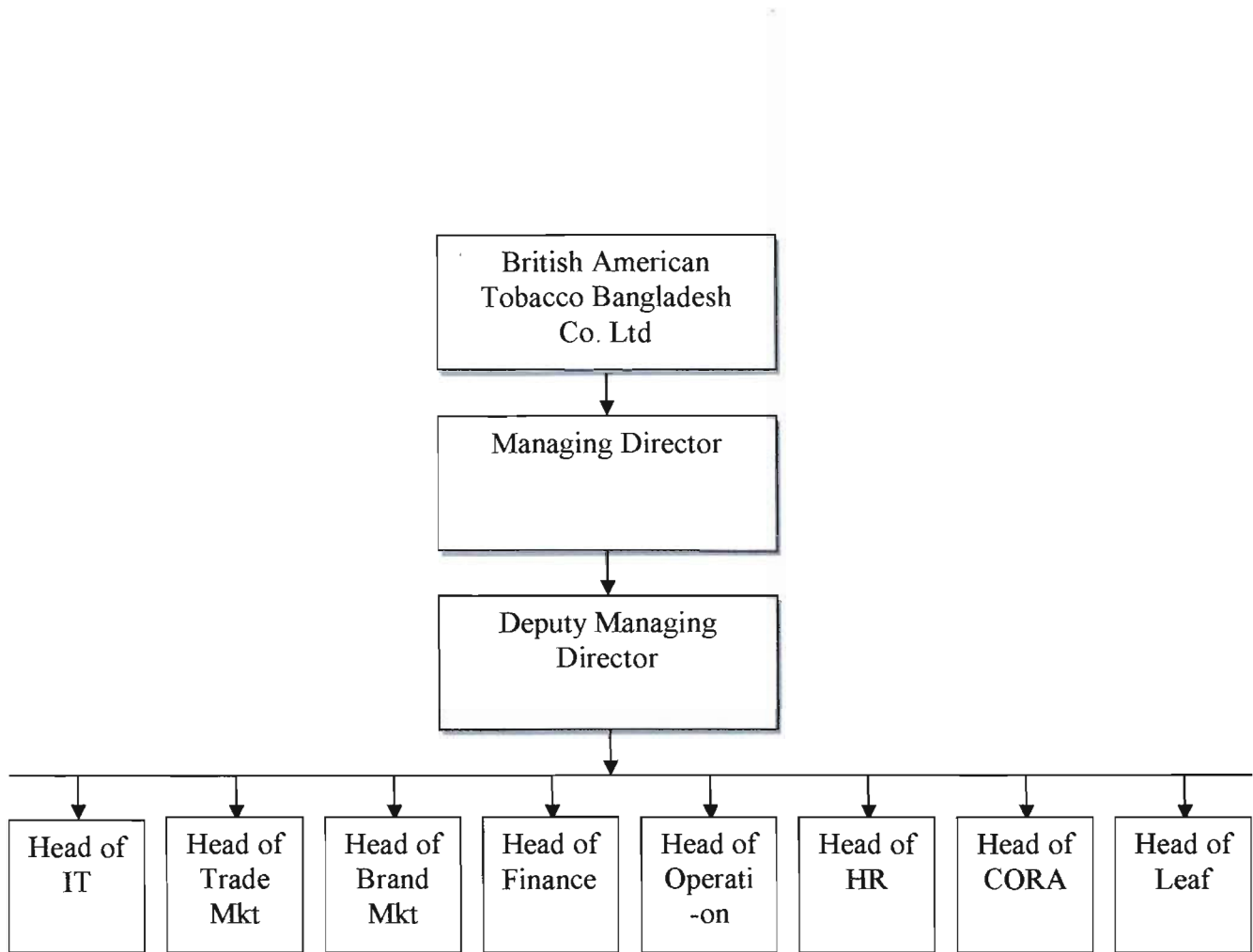


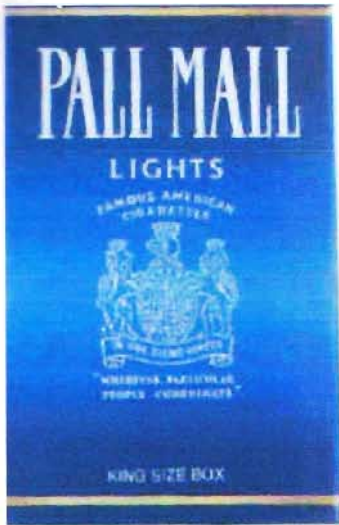
Figure 01: Structure of BATB

Brands...

Among BATB Brands some are centrally managed, some are regionally managed and others are locally managed. For management purpose, the brands have been categorized into two segments: Strategic Brands and Tactical Brands. Due to resource constraints and impossibility to support all the brands simultaneously, the company provides all its support to the strategic brand portfolio that has long term business potentiality.



Launched in Bangladesh in 1997, Benson & Hedges has come a long way with enormous growth (nearly 90% over 2001) and it stands as one of the largest B&H market in the world. In its continuous drive to uphold the premium-ness and superior image, B&H has gone beyond the cycle activities to engage directly with its consumer through exclusive events and direct one-to-one communication tools.



Pall Mall is a newly introduced brand in Bangladesh by BATB. Though the brand is very well known all over the world but our local people has the opportunity to taste this brand in the year 2006. Just after the introduction of this brand, it creates a high demand in the local market. People of other brands are switching to this brand because of its smoothness and comparatively cheaper rate. Within a few months this brand has captured a large portion of share in the market. It is now one of the driving brands of British American Tobacco Bangladesh.

State Express mostly known as 555 in Bangladesh is a highly reputed brand since 1980's. It has core customer groups those are not willing to smoke any other cigarettes than 555. Comparing to its quality and price it is no way less than the B&H but people who are willing to smoke a harder cigarettes mostly appreciate this brand. It is one of the most successful brands of British American Tobacco in Bangladesh since the time it has appeared.





JPGL, it all started in 1877, when John Player & Sons was established in Nottingham, England and their first tobacco brand was Player Navy Cut. The current trademark, lifebuoy with pictures of Sailor & Ship was created in 1891. JPGL came to Bangladesh in 1980 and from 1995 the success story began with the change of old pack to current red & White pack in 1995. JPGL reached 500 million sticks per month within 5 years after the change.

Employees & Trade Union...

The employees of BATB are dynamic, self-motivated and energetic to perform any assigned job, because they are selected on the basis of excellent academic background and experience. The workers are labeled as follows:

- Permanent.
- Temporary.
- Badli.
- Casual.

The trade union exists in the Dhaka factory and in Kushtia threshing plant. The management of the company is less hierarchical and thrives on challenging tasks. They are guided by the principles of the organization. Everyone in the company shows a winning attitude and horizontal form of the management encourages everyone in the company to share ideas and show leadership qualities. The management shares views and ideas so as to achieve the results according to the guiding principles.

Industry Analysis...

Industry Analysis...

For this part, five competitive forces model developed by Professor Michael Porter has been used.

Threat of Rivalry

Rivalry depends on mostly in terms of price and quality. International brand image, major competitors consists of domestic manufacturers are accounted for the rivalry. The industry is still growing opening the door of opportunity for augmented business as consumers are up coming from Biri to cigarette. Rivalry in this particular segment is very intensive in terms of price rather than quality

Market share of BATB and its competitors

Beside BATB, a number of the companies are engaged in manufacturing and marking cigarettes. They are:

- Dhaka Tobacco Company
- Alpha Tobacco Company
- Nasir Tobacco Company
- Abul khair Tobacco Company
- Sonali Tobacco Company

Moreover, there are also some foreign brands, which are either smuggled or imported illegally, which have been termed as transit brands. The most important brands in this category are Dunhill, Benson & Hedges, Marlboro, London etc. It is notable that recently Marlboro has started operating seriously in Bangladesh. The market share of BATB is around 51% in the Dhaka Metro. (Source: BATB , Marketing Department)

In the whole Country, the share of BATB is 41%, Followed by Dhaka Tobacco, which has a market share of 22%. Though BATB is holding the major market share in the Dhaka City as well as whole country, there are also other companies that are operating in the market. (Source: BATB Marketing Department)

The main brands of the competitors are as follows:

Name of the Company	Name of the Brands
Dhaka Tobacco	Five Star, Legend, Navy
Alpha Tobacco	Senor Gold
Sonali Tobacco	Five Five
Azizuddin Industry	Wilso Classic
Abul Khair Tobacco	Sun- Moon
Nasir Tobacco	Nasir Gold, Top-10

Table 1: Main Brands of Competitors

Although none of these companies have become a major threat to BATB, except perhaps Dhaka Tobacco, yet the presence of these companies signals that other companies can also join in this market.

The market leader is Gold Leaf of BATB (15%), followed by Star of the same company, which accounts for 11% of the market share. Then comes Navy of Dhaka Tobacco, which accounts for 7% of the market share.

Threats of Substitute

Price, quality, performance, perceived value of the product and brand image are the key factors for brand substitution. In the low price segment readily available and attractive priced substitute creates competitive pressure.

But in the mid-price segment the key for the substitution is the cost as well as price. Product with more and new attributes can create product substitution in this segment.

In the premium price segment quality and product image is the key for the substitution. Customers in this segment are brand loyal.

BATB has no threat for the substitute products as there are no substitutes in terms of cigarette with other product in the industry.

Threats of Potential New Entrants

Industry is safeguarded from the potential entrants due to government lawful barrier for setting up new tobacco industry, high capital investment, economies of scale, brand Image, and specialized know-how, existence of learning and experience curve effect, brand preference and customer loyalty. But the introduction of the operation of an international tobacco company like Marlboro in Bangladesh is really a big threat for BATB. This is an external threat over which BATB has no control. However, the company should take steps to increase its market share to combat Marlboro.

Bargaining Power of Suppliers

As the products are classified as Fast Moving Consumable Goods and produced in all over the world, all the firms have the leverage to choose the wrapping materials from any where in world. These materials are cigarette paper, aluminum foils, boards, filter papers, cellophane paper etc. Tobacco for medium and low price segment cigarette is grown in Bangladesh and is capable of fulfilling the entire industry demand. Tobacco for premium priced cigarette are also grown in Bangladesh and around 18 – 20% high quality tobacco is imported from different tobacco growing countries, where tobacco is surplus compared to its

consumption. Therefore, suppliers tend to have less leverage to bargain over price and quality.

Bargaining Power of Buyers

Low substitutes and a very close pricing of the competitors in the industry leave very low bargaining power for the buyers, especially in the low priced segment. But in the medium priced segment, quality and price are factors key for substitution and therefore, different brand preferences are available in the market and the market share of each competing rivals tend to shift in very significant margin. But it is not very relevant scenario for the premium segment, where most of the customers are loyal to their brands.

Core Functions of BATB...

BATB's Function...

BATB is a process-based organization, instead of having isolated departments the company has some support functions and some core functions. Typically the structure of the organization can be explained through the supply chain. In BATB it is called seed to smoke as the supply chain process.

The core functions of BATB are:

- Leaf
- Production
- Trade Marketing
- CORA.

Along with the core functions there are some support functions such as

- HR
- IT
- Finance

Core Functions...

Leaf Operations

Mission:

To exceed customer expectations by providing quality tobacco at competitive price.

The leaf department of BATB is responsible for Tobacco Growing, Production & Procurement, Green Leaf threshing and packing, leaf bending, leaf export and import. BATB procures almost 80% of their leaf from their own cultivation. The Leaf department is involved in cultivating and purchasing flue-cured tobacco. BAT does not own farmland nor does it employ farmers directly to produce the tobacco it uses for cigarette production. Instead, each year the company registers thousands of farmers along with their land, to grow and cultivate tobacco crop. The company provides seed, fertilizer, and other loans to the farmers throughout the crop season to ensure quality growth. At the end of the season BAT buys fixed quantities of tobacco from the farmers, paying rates based on the grade of the crop. Tobacco growing and buying activities are conducted throughout the country. The two main areas are Kushtia Leaf Division and Chittagong Development Area.

Green Leaf Threshing Plant (GLT)

The tobacco crop is processed at the Green Leaf Threshing (GLT) plant in Kushtia. The purpose of the GLT is to convert the tobacco into a form suitable for cigarette production. The tobacco is brought to a uniform moisture level and temperature. Initial blending of the different grades of tobacco takes place at the GLT. The processed tobacco is sized and packed before delivery to Dhaka factory.

The Leaf department makes an estimate of the quantity of tobacco that BAT will need to purchase for the based on the input of the Sales & Operation Planning

(SOP) committee. Based on these estimates the number of farmers and the amount of land, which will have to be registered, are fixed.

The leaf season begins in the month of July. At this time tobacco seedbeds are prepared to generate the seed that will be distributed to the farmers for cultivation. Plantation in the registered lands occurs during October and November. BAT provides the necessary fertilizer, pesticides, and other loans to ensure proper growth for the crop. Farmers use their own irrigation and plowing methodology to prepare the land. Harvesting and curing begins at the end of January and continues till March. Almost 100% of raw tobacco is 'flue' cured.

The buying process begins in mid-February and continues till the end of May. The farmers bring in their cured tobacco in the form of bales to the buying courts in the depots. The tobacco is graded according to set criteria and purchased at these sites. All relevant information is marked on the bales and stored at the depots till shipment to the GLT.

At the beginning of the season the various depots distribute registration forms to the farmers in its region. BAT strives to maintain an ongoing relationship with its registered farmers. Information on each farmer is maintained at the depots through in-house database software called Integrated Leaf System (ILS). On the basis of these records a decision is made on whether to register the farmer for the following crop season.

Buying courts are located at the depots. The farmers bring their tobacco to these sites in the form of bales on a specific day and time. At the buying courts the bales are graded, priced and weighed. After the tobacco is bought and graded it is stored in the depot godowns; each bale identified with its grade, weight, and price. These bales are stored in the depots and moved to the GLT when needed for processing.

Tobacco processing

The Green Leaf Threshing Plant in Kushtia is used to treat the raw tobacco and convert it to a form suitable for use in cigarette production. It is a seasonal factory operating for six months of the year, on two shifts per day. The remainder of the year is used to clean the machinery and make modifications as necessary.

Each tobacco leaf that is processed at the GLT is separated into four components- tip, lamina, stem, and by product. At the beginning of the process flow, tips of the tobacco leaves are cut off by a calibrated cutter. The leaves are then passed through the sand reel where foreign materials and dirt are separated. The tobacco leaves are then proceeds to the threshing line to separate the lamina from the stem by hitting the leaves. The separated laminas are then dried and the re-dried lamina is then packed at a temperature of about 43 Degrees Centigrade with approximately 12% moisture content for storage. The separated stem, meanwhile, moves to the stem dryer where it is re-dried for storage purposes and then sent to the stem packer. The moisture content level of the stem is brought to around 12% at the time of storage. By-products are sold to the outside contractors.

The GLT's main objectives are as follows:

- Separate Lamina from Stem
- Retain physical and chemical properties of the leaf.
- Removal of foreign materials.
- Conversion of bale to packed dry product capable of long storage.

After the tobacco is stored in the depots, it is brought to the godown at the GLT for processing. The GLT godown has a capacity of around 500 tons. The different 'buying' grades of tobacco are combined in fixed proportions to create 'packing' grades. The packing grades are further blended at Dhaka factory. This final blend goes into the different brands of cigarettes.

- Sales forecast are used to Determine Volume of Tobacco Needed for Crop Year
- Depots Distribute Farmers to Register Land with BAT to grow required Quantity for Tobacco Cultivation
- Records on Individual Farmers performances, loan Distributed In Terms of Fertilizer, Pesticide, Etc are Maintained by Integrated Leaf System (ILS)
- Tobacco Crop Planted by BAT Registered Farmers during October & November
- Harvesting & 'Flue' Curing Conduct from End January to March.
- Buying Begins In mid February And Ends Mid of May
- Farmers Bring Tobacco in Bales To buying Courts At Depots
- These Bales Are graded According to Maturity, Leaf position, Quality and Accordingly Priced; There are 27 such 'Buying' Grades
- Payment is Made in from of Bank Vouchers to farmers who make Cash withdrawal from Shonali Bank on Specified Dates
- Bales are Stored in Depots Godowns, Marked with weight, origin Grade and Priced
- Bales are Brought to Green Leaf Threshing (GLT) Plant in Kushtia as Needed for processing
- Tobacco of Different 'Buying Grades' are Blended in Set Proportions to from 'Packing Grades', this Packing Grades are Further Mixed During Cigarette Production at Dhaka Factory
- The GLT's Main Objectives are:
 - Separation of Lamina & Stem
 - Retention of Physical and Chemical Properties
 - Removal of Foreign Materials
 - Primary Blending
 - Conversion of Growers Bale to Packed Dry product at Uniform Moisture Content and Temperature

- Tobacco is Sorted and sent to Dhaka Factory as Required for Cigarette Production

Exports

Although the primary objective of leaf department is to ensure continuous supply of tobacco, leaves to export in a highly competitive world market as well. Exports of tobacco during 1997 generated more than two million dollars, with sales being made to UK, Hungary, New Zealand, Egypt, and the USA. In the year 2000 BATB made a profit of \$ 309,506 from leaf exports.

The various Advantages of leaf export are:

- Exports earn foreign exchange
- Exports help in attain favorable attitudes of Govt. and Public
- Helps to improve overall domestic quality
- Preferential corporate tax on export profit
- Inter group trading
- Handling of BAT and international Leaf dealers enriches Knowledge and Awareness.

Future challenges:

The cigarette market is growing and in order to sustain the current pricing of the products, more and more imported tobacco grades are being substituted by locally grown tobacco grades. This means that Leaf Department has to manage the future challenges to sustain competitive advantage and in order to do those following programs have been identified:

- Improvement of barn capacity. This means that barn efficiency & utilization has to be increased through technological innovation but without increasing the cost of manufacturing Barn.
- Green Leaf threshing plant is currently over manned. Employee productivity has to be improved so that tobacco-processing cost becomes competitive.
- Striving for continuous quality improvement is essential in order to substitute the imported grade by local grades for the premium brands.
- Leaf department has to ensure that the buying cost of the tobacco should not increase compare to the current buying pricing policy. But this does not mean that the farmer will lose any money in the overall process. In order to achieve that Leaf has to ensure that the overall growing yield has to increase significantly.

Production

Mission

We delight our customers with superior quality product through flexible operations

In order to support the mission, Production department is performing the following activities successfully:

- Support brand portfolio / new product launch.
- Availability/product harmonization.
- Quality/ meet international standards.
- System/ ISO 9002.
- Low cost producer.
- Competitive position of EH&S in the group (Achieved 3.4 on scale 4.0).

Backward vertical integration:

BATB requires most of its suppliers to deliver raw materials just in time for using on its production line. KANBAN system for inventory control for domestically produced or converted raw material is a benchmark within British American Tobacco's Operating companies. Only one-day stocks of raw materials are available in the factory premises. This reduction of inventory happened only for the long term contract with the suppliers for a period of 3 years, where price are settled for that period and suppliers are well aware of sales forecast and manufacturing plan for next 18 months through direct link with BATB's computer terminals. Technical helps are always extended to the suppliers in case they ask for it.

The prized tobacco from the GLT comes to the DF for further processing according to need. The first stage of production is known as PMD. *The Primary Manufacturing Department:* The primary manufacturing department (PMD) is responsible for further conditioning the domestic and important tobacco to make it ready for production. The tobacco passes through a set of integrated and regulated machinery whose purpose is to blend the different 'packing grades' in specified proportions, convert the bales into 'rag' suitable for use in cigarettes, and bring tobacco to a uniform temperature and moisture.

The PMD (Primary Manufacturing Division) process

The Primary Manufacturing Department (PMD) is responsible for further conditioning of the domestic and imported tobacco to make it ready for cigarette production. The tobacco passes through a set of integrated and regulated machinery whose purpose is to blend the different "Packing grades" in specified proportions, convert bales into "Rag" suitable for use in cigarettes, and bring tobacco to a uniform temperature and moisture.

Threshed lamina and stem are not of the size suitable for cigarette preparation. To make them suitable for cigarette making the following operation has to be performed.

- The bales of lamina which comes in a compressed form. Have to be 'opened'.
- Lamina has to be cut to a size suitable for cigarette making.
- Before cutting, the moisture content has to be raised to be a level, which is required so that excessive dust is not produced.
- After cutting, the moisture content has to be raised to a level, which is required for cigarette making.
- After the dryer stage, the temperature of the tobacco is bit higher. It has to be cooled down.
- The moisture content of the stem has to be increased to a level, which is required for cutter stage.
- Stems are to be cut to a very thin size.
- The 'fill value' of the cut stem has to be increased by applying sudden High Velocity Steam (in the HVST. Stage)
- After the HVST. Cut stem has to be dried to a level required for cigarette making.
- Apart from the above 'normal' functions, casing has to be added to some Air Cured Tobacco to increase the sugar content.

From the final product bin it goes to the SMD (Secondary Manufacturing Division) for further manufacturing.

SMD (Secondary Manufacturing Division)

The secondary manufacturing department (SMD) uses the tobacco that is blended and conditioned by the PMD along with wrapping materials to manufacture cigarettes. The PMD delivers its final processed tobacco to the Cut Tobacco Store (CTS). The CTS has a 50-ton storage capacity and the tobacco is stored there

typically for one and a half days before it is used. The SMD brings in the processed tobacco from the CTS as needed for production along with wrapping material.

There are three technologies that are linked with cigarette manufacturing.

SPU (Secondary production Unit):

This most advanced in terms of cigarette making technology .It produces 8000 thousands cigarette sticks per minute. This technology is mainly used for hinge lid packing. This is absolutely a hard linked machine which means there is no use of manual labor.

Nested Cell:

Nested Cell is the second best in terms of technology. It produces 5000 thousands cigarette sticks per minute. This technology is mainly used for Soft cup packing.

Conventional cell:

Conventional cell can take use of both hinge lid and soft cup. It produces about 250 cigarettes per minute.

Shipping

The finished cigarette stock is brought in from the holding room at the Secondary Manufacturing Department and kept at the shipping prior to delivery. The warehouse has a capacity of 260 million cigarettes. Trucks belong to outside contractors arrive daily to deliver the stock to the various Regional Trade Marketing Offices (RTMOs) around the country. The marketing department issues a daily shipping program specifying the stock that needs to be allocated. This information is processed by software to generate a truck allocation scheme.

Trucks going to Dhaka carry 2 million cigarettes per trip and those going outside Dhaka carry 3 million cigarettes per trip. Vat documents are sent along with the trucks.

Trade Marketing & Distribution

TM&D Mission:

To reach our target consumers in the most efficient and effective way by becoming the benchmark supplier to the trade within strategic channels in every market place where we do business.

The Trade Marketing and Distribution department identifies the areas in which best practice must be achieved to enable markets to meet the Trade Marketing and Distribution *objectives*, which are:

- Create an efficient entry barrier against international competition.
- Improve our benchmark supplier status to the trade pioneer among all FMCG companies.

Trade Marketing & Distribution Department has the responsibility to reach the ultimate consumers through *trade*, e.g. Retailer. The emphasis is not only on what volume is being sold to the retailers (Sell-In), but also on the volume sold out to consumers (Sell-Out). The mission of TM&D is *to reach the target consumers in the most efficient and effective manner by becoming the "Benchmark Supplier" to the trade within strategic channels in every market where they do business.*"

The Marketing Department and the Production Department activities are highly correlated. According to the needs of the Marketing Department, Production Department carries out the cigarette manufacturing. The marketing Department

forecasts the sales volume of the different brand cigarettes for the coming business year and based on this, prepare a marketing plan known as the Sales Operational Plan (SOP). According to the Plan, Marketing Department communicates the brand wise sales target for each month to the Production Department. Based on the SOP, Production Department sets its production schedule. The inventories of cigarettes are also evaluated at this stage to find out the actual output to be produced.

The British American Tobacco Bangladesh has a well-defined mission for the marketing and distribution of products, which is to reach the target consumer in the most efficient manner by becoming the benchmark supplier to the trade within the strategic channels in every market where the company operates. A well-organized trade marketing team is working continuously to make this mission successful; furthermore the whole country has been divided into six regions to perform the marketing activities efficiently. Moreover the regions are further spitted into 11 areas. Right now there are 6 regional managers, 12 area managers and 42 territory officers working under the Head of Trade Marketing. At present, there are 62 distributors involved with BATB who are responsible to make the products of the company available throughout the country.

TRADE MARKETING ORGANOGRAM (REGIONS)

Head of Trade

Regional Manager

Area Manager

Territory Officer

Distribution Channel

The Company sells their product to the distributors; in turn the distributors sell to the retailers and cash & carry as well. Cash & carry are nothing but wholesalers. Cash & Carry are needed because at times the retailers may not have adequate funds to buy the required quantity.

Regional Go-down: There are five regional go-downs through out the country to fill every regional demand just at the time of need, and to overcome various uncertainties related to physical distribution of products, every regional go-down is directly controlled by separate Regional Manager to face the regional physical distribution challenge.

Carrying Contractor: They are the party engaged in the physical movement of cigarettes from head office go-down to regional office go-down. Normally they are the truck owners who take all the risk and responsibilities of physical movement of goods between two warehouses.

Distribution Warehouse: All distributors have their own warehouse, where cigarette can be kept safely while not degrading its product quality. Distributors buy the cigarette from BATB and from that point ownership and all responsibilities of the products go under the distributors.

Internal Carrying Agent: They are like carrying agent but carry small volume of products. Normally they are local truck owners. They carry products from, regional go-downs to distributor warehouses. They also take al the responsibilities and risk engaged in physical movement of products.

Opening Stock at Distributors' Office: Apart from the warehouse, every distributor also maintains another stock at their office. This stock *is* for

maintaining any change in market demand instantly. Dealers sometimes sell cigarette through their counters to face special situation.

Delivery Van: All the delivery vans are owned by the dealers to assure the supply of cigarette on the door of wholesalers, cash & carries and retailers just according to their demand. There are two types of delivery vans. One is Scooter van and another is Rickshaw van.

Cash & Carry: They are businessmen who sell cigarette directly to consumers and at the same time they sell cigarette to the retailers.

Retailers: Retailers are at the end of the physical distribution system of cigarette Selling products directly to the consumer.

Distributors: The financial standing of the distributors, their reputation in the local region, and prior related business experience are some of the key criteria examined when a distributor is selected. The regional manager, supply chain manager and head of trade marketing prior to making a decision check the evaluation forms and field recommendations. After a distributor is selected, they issue a 'letter of intent' that specifies certain requirements of the company. After these requirements are satisfactorily fulfilled, a formal 'letter of appointment' is issued.

Distributors buy fixed volumes of cigarettes from BATB at a set price and resell to the retailers. The company closely monitors their activities and performance and ensures them to operate in the market at the highest standard. Distributors follow a work routine set by the company, generating paper work, and reports as required. Distributors are assigned a certain geographic region within which they sell their cigarettes. Different routes are assigned within the region that helps to sell their stock. Vehicles owned and operated by the distributors are responsible for carrying stock along these routes and selling it to the retailers.

Retail Outlet Classification

The British American Tobacco Bangladesh has classified all the retail outlets into three categories, these are - Convenience, Grocery and HoReCa

Convenience Outlet: All shops where consumers generally go without any purchasing intention fall in this category. The consumers like to buy product on impulse from this sort of outlets. These outlets generally maintain a limited product range and do not offer flexibility in prices.

Grocery: These are the outlets where consumers visit on a regular basis with a purchasing intention. They generally make a list of items before they will visit these sorts of outlets. These outlets typically offer variety in terms of product range and also flexibility in prices.

HoReCa: Shops like hotels, restaurants, and cafes are considered in this category. The prime characteristic of a HoReCa is that the shops must have a seating arrangement. It is assumed that consumers visit those shops with the intention to spend some time. These outlets range from small roadside cafes with seating arrangements to luxurious restaurants of fast food outlets.

CORA- Corporate Regulatory Affairs

CORA is the department which is responsible for upholding the corporate image of the company. Since BAT is in a controversial industry it is very much important for it to manage all its stakeholders as well as to manage the media. All these are done by CORA. It also looks after the legal aspects and taxation of BATB. CORA carries out different activities such as:

- Managing taxation and excise
- Looking after stakeholders interest
- Correspondence with media
- Maintaining government lobby
- Working towards development in the field of mal nourishment, poverty and cultural adoption
- Discouraging under aged i.e. under 18 smoking
- Managing external and internal communication
- Publicity management
- Selling the idea of socially responsible corporate business practices inside the organization
- Looking after the legal issues of BATB

Through projects and initiatives around the world BAT is committed to help to protect and improve the environment, support local employment and tertiary education, promote artistic and cultural activities and assist with disaster aid.

The Corporate & Regulatory Affairs Department (CORA) of the company is dedicated towards achieving the company's fifth strategic imperative, which is: *To be a responsible company in an industry seen as controversial*

Globalization and increased scrutiny of businesses by consumers and the general public mean that companies are today judged not only by the quality of products

that they produce but also the manner in which they carry out their business activities. It is therefore, an imperative that corporate bodies are responsible not just in their businesses but also in the social domain that they operate in. British American Tobacco's philosophy has been to be conscious corporate citizens wherever they operate, respectful of local cultures

The company recognizes that it manufactures a product, which carries significant risks. In this light, the company believes that only informed adults should use its products and that under-age persons should not smoke. It also believes that the company must act, behave and carry out its business activities in a manner accepted by society at large as responsible. This includes dissemination of the company's positions on issues.

The Corporate & Regulatory Affairs function is charged with driving reputation management to the heart of the business and ensuring the company's involvement as a leading development partner of the country.

The CORA Mission:

To proactively build strengthen relationships based on mutual benefit and trust with all our stakeholders and enhance our corporate reputation through visible responsible activities

Reputation management involves identifying and prioritizing the company's stakeholders and preparing and implementing plans to engage and communicate with these stakeholders.

In a competitive market, BAT wants adult smokers to choose its brands over those of its competitors. Advertising has two purposes – to maintain brand loyalty and to encourage smokers to switch brands. Advertising provides consumers with information to make choices. BAT believes that the use of tobacco products

should be an adult choice. Advertising programs, including promotional activities for tobacco products should be carried out in a responsible manner.

BATB has carried out significant activities for society such as Blood Donation Programs, Immunization programs. The afforestation program of BATB in Khustia, Chittagong and some other areas of Dhaka has made tremendous contribution to the environment.

Different Activities Carried Out by CORA:

Environment, Health and Safety:

Environmental issues, health and safety are high priorities for responsible companies, and British American Tobacco is no exception. BAT accepts their business operation impact on the environment, and they are committed to following the best international standards of environmental protection and to the principles of sustainable development. Their environmental management systems conform to international standards such as ISO 14001; in safety management, they have a zero target for accidents across our operations; and they are developing occupational health management from a sound basis already in place. In 1999, group expenditure on Environment, Health and Safety (EHS) was over £20 million.

Afforestation Programs (Globally)

In some countries, wood is burned as a fuel for tobacco curing or used for building curing barns, in the same way as it is used for other crops and building purposes. Since the 1970s, BAT has run ambitious afforestation programs, sponsoring and promoting the planting of 267,000 hectares of managed, renewable woodlands worldwide to date. The scale of these woodlands effectively makes British American Tobacco one of the world's largest tree-planters outside

the timber and paper industries. The aim is to provide a sustainable source of wood fuel for contracted tobacco growers who require wood, and to contribute to conservation and bio-diversity in developing countries.

Afforestation in Bangladesh

British American Tobacco Bangladesh began its afforestation program in 1980, to compensate for wood being burned as a fuel in tobacco curing. Due to the pressure on land for farming, farmers are at first reluctant to allocate land to trees, especially as they might not be able to harvest them for some years. British American Tobacco's solution was to plant fast-growing trees on canal banks, roadsides and railway embankments. To date, 710 kilometers of canal banks, 115 kilometers of roadsides, and 52 kilometers of railway embankments have been planted. Through commitment by dedicated company managers in the field, farmers' demand for saplings has increased to the point where over 3.5 million trees are planted annually. In 1993, British American Tobacco Bangladesh received the Prime Minister's Award for Afforestation. As a result of the company's afforestation activities, Bangladesh now has a wood fuel surplus of 80,000 metric tones.

Support Functions...

Human Resources

HR Mission:

Embedding winning culture where people always strive to excel.

To develop the most vital element of the organization which is the human resource BATB has put in a lot of efforts in responding to various changes and

problems through effective formulation and implementation of human resource strategies through the HR department.

- Bridging the gap between top level and lower level management:
- Improved performance through attractive reward system
- Strive for excellent management practice

From recruitment to selection and also from employee welfare to industrial relations, this department has to play an important role.

Recruitment and Selection

Recruiting the right person for the right job.

Training and Development

- Fighting employees obsolescence
- Prepare them for the future.

Personal Department's role

- Assist operating managers to identify employee's training need.
- Assist the Training managers to design and implement training programs.
- To carry out general skill development program.
- Management training on Industrial Relations.
- Monitor on the job training and training offered by the training programs.

Communication

- They try to create and maintain a communication channel between the management and the employees independent of union influence.
- Employee briefing session.
- Quality circle meeting.
- Direct written Communiqué.
- Discussion with the union.

- Open forum.
- Housing magazine.
- Annual report booklet for the employees.
- Training and motivation session

Compensation Management

- Employee services
- Workers' canteen
- Dispensary and medical treatment.
- Scholarship for employees' children.
- Uniform.
- Benevolent fund.
- PF loan.
- Retirement benefits.
- Long service awards.
- Personal Records and Statistics

Safety:

- Formation of department fire fighting team.
- Compliance to statutory requirements.
- Fire vigilance exercise and training.
- To liaison with government fire department.
- Organize mock fire drills.

Security:

- Employment of security staffs.
- Checking of all outgoing vehicles.
- Spot-check of goods truck.
- Physical checking of workers while leaving.

New HR Practices & Programs:

BATB now values its people as Human Capital. As a measure to that, BAT has taken extensive training programs, which include educational programs like English training, Computer literacy etc. In order to improve individual performance, different skill development programs are also in place. Teams are being formed to implement flexible work practice.

Removal of barriers:

Barriers, both physical and mental, were hindering the progress of the company. Company started removing barriers from early 1999. All offices were brought into a single location and all offices were made open. Managers and employees started using the same dining facility and the same uniform. Managing Director initiated Skip Level meeting with all levels of employees where issues are discussed openly. A Family Day was arranged where all members of the organization participated along with their family members and enjoyed throughout the day.

Reward system

BATB has introduced new Reward and Recognition system throughout the company to motivate the employees. Any employee, doing something extraordinary, is being selected as Champion for a specific month. As a result, people are opening up and trying to grab the title. This has generated a positive competition among the employees.

Winning in Our World

BATB has very good corporate reputation for excellent management practices base on Trust, Commitment and Achievement, which is the main driver to develop **WOW** (Winning in Our World) culture throughout the organization. The

WOW values are clearly defined and employees, management & Union all are continuously striving to achieve these values.

Achievement:

- a. **Vision:** We understand what each of us has to do.
- b. **Map:** We believe in our plan.
- c. **Consumer focus:** We live for our customers.

Commitment:

- a. **Confidence:** We expect to win.
- b. **Standards:** We keep raising our standards.
- c. **Drive:** We take personal responsibility.

Trust:

- a. **Teamwork:** We have trust in each other.
- b. **Support:** We learn from Each other.
- c. **Belonging:** We are proud of who we are.

There are certain guiding principles that center on the corporate principles of the company. The core asset of the company is a result of the four philosophies that the company adheres to in every management aspect of the organization:

Open Minded

It encourages within the organization to be able to maintain an environment where the managers can have open-minded approach to various strategic decision-makings.

Enterprising Spirit

The core asset of the organization will come from the enterprising spirit embedded in the minds of the managers, resulting from effective strategies.

Freedom through Responsibility

Managers at all levels work with freedom of responsibility in their areas of functioning.

Strength from Diversity

The company derives its drive for effective attainment of goals from the strength of Diversity

The departments' various activities cover setting criteria for the selection procedures. Interview techniques, training standards, etc. According to the BAT policy guideline, the department maintains the personnel through formulation policies on wages, fringe benefits, annual leave, training calendar, provident fund, performance appraisal etc. Remuneration is managed centrally and there is never any *negotiation* but *settlement*. It also settles with the trade union for Long Term Agreement (LTA) between management and workers and the 'collective bargaining agents'. The concept behind the industrial relations is always '*win-win*' situation.

Information Technology...

Mission:

'The mission BATB IT is to enhance BATB's competitive position by increasing operational efficiency and timely decision making through measurably better and more compatible information system, and by harnessing the most appropriate technology and implementing new business practices to enhance BATB's business effectiveness.'

Information Technology department was mainly acting as a supporting service for all the other functions of BAT. As the emergence of super information highway and other technological advancement made the business world more competitive,

BAT also made necessary adjustments towards the changes and in continuation with that process IT was made a separate department in February 2000. The head of IT is also a member of the executive committee and he is supported by the function support IT managers.

British American Tobacco Bangladesh IT department drives the demands of its business and processes. IT delivers comprehensive, timely, and relevant business information to decision makers wherever they are located. This will allow the organization the maximum ability and flexibility to identify new opportunities and quickly respond to competitive challenges.

Key Functions of IT

- Establishing and maintaining information and infrastructure architecture to support knowledgeable business users who incorporates IT into their decision making and of doing business, supported by specialist team who manages and seeks continuous improvement, outsourcing where possible.
- Resilient communication infrastructures that are flexible and are able to take new technical innovation to keep the cost down.
- To adopt global application convergence strategy that meets the local business requirements, and develop local applications where appropriate, outsourcing data processing where possible.
- To support the changing organizational structure and requirements, IT continues to make available innovative services and training.
- To develop application and promote the use of the group working tools as first choice of communications and to become center of excellence for group working.
- To develop and retain IT professionals.

Finance...

Finance department is responsible to evaluate the economic performance of the Organization. BAT strictly uses the budget as part of the strategic plan to go for operational activities. The company budget helps to measure its performance acting as a tool for feed forward and also for feed back. The company at the beginning of the year starts its operation with the budgeted sales, target, cost, investment and other financial activities. The company for control purpose evaluates its performance at the end of each month. It helps to give the actual information of cost, sales and other data and compares with the budget allocation or target. In this way it finds the variances, then find out the reasons and take necessary corrective action or review the budget. The overall responsibility of doing this goes to the Cost Accountant and Finance Director of BAT. The Finance department has its established strategic plan, normally the person involved are Finance director, company executive, Material Resource Planning Manager (MRP), Information Technology Manager (IT), Management Accountant and Financial accountant. Under Financial Accountant there are three accountant officers, Head Office accountant, Production accountant and Leaf Accountant. These three-account managers individually have Deputy Head Office accountant, Deputy Production Accountant and Deputy Leaf Accountant. Under these three Deputy Accountants three Assistant account officers work.

Finance Department audits the expenditure at a regular interval to ensure that rules and regulation are properly adheres the operation. External auditor also checks all the BAT Financial system and also prepares the annual financial report. If they find any deviation they report to the Chief executive for taking corrective action. The Auditors Inform the BAT Head Office and makes them visit the operating company to ensure the Management Control are directly administrated. Any new proposal is analyzed from the viewpoint of future

prospects of the plan, Profitability, Capital Investment and Shareholders wealth. Here the Finance department gives special consideration on the Return on Investment of the proposal. Detailed month wise cost analysis is done in detailed to access the variances. At each financial point's corrective action are taken to remain with in the budgeted plan.

Budget

The Budget process is done at BAT in two steps. First the former year annual report is taken as the base of the budget. And in the second step, top management with the help of financial department tries to integrate proposal of the next year, which have been already established. The proposals have been considered from the viewpoint of inflation of the currency, cost of living, and exchange rate prevailing in the country. By integrating the proposals the concerned authority figure out the costs involved. After that they add these costs with the former year Annual Balance sheet and thus formulate coming years budget.

There are various parties involved in making and executing the budget. Some of the parties are organization, Budget Committee, Negotiation, Issuance of guidelines, Initial Budget Proposal. As all the costing comes from various departments and units so the role of the organization as a whole is vital preparing Budget.

BAT always keeps a budget committee for each year and this committee is consisted of MD, National Sales Manager, Finance Director and Chief Accountant. This committee reviews the budget then either approves or adjust the same. BAT is not allowed to do any budgetary activities other than directed by the main Head Office.

Transfer Pricing Method

There is no special rule on transfer pricing at BAT. They use a mixed transfer pricing system in the company, there are two ways BAT do their transfer pricing. In production department they do cost based transfer pricing and in finished goods they do market based transfer pricing. Between two production units they set the pricing and for market based they set the pricing while distributing product to the wholesalers and retailers. The managers from each unit get the transfer pricing by negotiation and set the pricing after that the top management sets the transfer pricing and contribution margin. When the top management decides and especially after the negotiation they send the pricing to the senior managers after that the final report is structured on the base of final decision from the Finance Department.

Measuring and Controlling Assets Employed

In this part measuring and controlling is done under strict supervision of the finance department. Finance department takes necessary measures as per top management decisions. Major areas of assets employed are Cash, Accounts Receivables, inventories, Working Capital, Equipment Replacement, Disposition of Assets, Leased Assets, Idle Assets, Non current liabilities and finally Capital charges.

About account receivable, the company does not make any credit sales, the amounts depicted are from other sources. Leased holdings, land and building are depreciated over the life of the lease term.

Foreign Exchange Policy

Some tobacco is being exported to BATBs sister companies in overseas countries and there by it earns very limited amount of foreign exchange. For manufacturing

its product BATB needs lot of Raw Material i.e. tobacco and packaging materials which are not available in the country and so the company have to import those items by purchasing Foreign Exchange from the secondary exchange market. To keep the cost down of the secondary rate, the company makes the forward booking of the required amount for the individual letter of credit. And the Treasury Manager of the company finds the best solution to Hedge the currency market and accordingly the company negotiates with the foreign exchange rate with the Financial Banks. As a policy, BAT Bangladesh will engage in foreign exchange transactions through usual banking channels only: to meet the requirements of its (a) Normal commercial trading activity, and to manage and provide for (b) currency cash flows relating to this activity on up to a rolling 12-month basis. It will include specifically the following means:

- Imports through letters of credit (L/C) for working capital requirements and capital expenditure project.
- Remittances for payment of dividends, royalty and technical fees, expatriate staff allowances, constancy fees etc.
- Travel expenses.
- Training expenses
- Payment for institutional memberships and for publications.
- Payment of advertising, travel and other expenses which are permitted from the Export Retention Quota.
- Payments of principal, interest and financial charges in connection with any off-shore borrowing which may be in place from time to time.
- Exports.
- Forward cover for imports, remittance and exports are part of the policy guidelines.

This policy is issued by the EXCO. The Managing Director and Finance Director are authorized to jointly take decisions on matters arising in the course of business

not covered in this policy and report such decisions in the immediate next EXCO meeting.

Foreign Exchange Exposure

BAT exposure to foreign exchange is mainly imports and to lesser degree on scheduled remittances, i.e. for T&A fee, consultancy services, overseas training etc. BAT 's exposure to foreign exchange can arise at a variety of points. Normally exposure will arise on the opening of a LC for the import of Leaf, Wrapping Material, Capital Equipment, Spare parts etc. However, there is also commitment and exposure to foreign exchange risk in the following circumstances:

- A foreign supplier is contracted either by British American Tobacco Bangladesh or by Technical Services, BATCo to supply capital equipment.
- The fast moving spare procurement yearly schedule is agreed with Molins, Singapore.
- Scheduled payments for T&A fees.
- A purchase commitment is made by BAT Bangladesh for leaf, wrapping or spares to any overseas supplier.
- On contracting or placing an order overseas for consultancy services for machinery installation, computer software etc.
- When a promotional campaign is contracted or launched from outside the country.
- If an off-shore loan is negotiated.
- To a lesser degree, when overseas training plans are made out.

BAT Bangladesh will seek to take forward cover for all known commitments within the constraints imposed from time to time by the Bangladesh Bank or the government. For offshore commitments denominated in Taka, for instance

dividends and royalty, BAT Bangladesh will hedge the exchange rate only if requested to do so by the beneficiary.

In no circumstances will the company undertake a foreign exchange transaction that may violate the exchange control regulations of the country or attempt transaction that may be otherwise improper. Further, it is the company's policy not to take any speculative position or enter into any transaction with the intention of securing a gain in foreign exchange trading.

For the present, the company deals with any of the following banks for its foreign exchange transaction:

Foreign Banks	Exposure Limit
	Taka Mn.
American Express Bank Ltd.	300
ANZ Grindlays Bank plc	300
Standard Chartered Bank	330
Banque Indosuez	350
Society General	100

Table 2: Some Foreign Banks those deals with BATB.

[Accounting Department...](#)

Functions of the Accounting Department

The Accounting department of Dhaka Factory is headed by the production accountant. Under him are six Assistant Production Accountants working. The department has been divided into seven sections according to the job each of them performs.

Time Office Section

- Time keeping of the workers.

- Processing of the time cards
- Reporting to the HR Department for absenteeism.
- Reporting the overtime, shift allowance information to the wages section.
- Dealing with all leave information.
- Maintenance of the master pay roll
- Keeping records about promotions, new appointments, and dismissals for accounting purpose.
- Keeping records of the crew developments sheets from production.

Wages Section

- Payments of wages to the workers.
- Dealing with the allowances like smoking allowances, festival bonus, and annual bonus.
- Payment of the areas after the LTA.
- To inform the Head Office about the employees group insurance.
- Payment to the Badli and casual workers.
- Reporting monthly reports to the Head office and HOD of different departments.

Bills and Ledger Section

- All types of bill processing.
- Preparing trial balance and sending it to the Head Office.
- Keeping records of all fixed assets.
- Ledger posting of all records.

Cash Section

Deals with all sorts of cash receipts and payments e.g. PF loan and refund. Scrap selling, Waste paper selling, Selling of tobacco waste, Misc. payments.

R&RS Section

The section deals with the imported parts locally fabricated parts and the items those are bought against works order. The following are the functions:

- Costing of spare parts
- Budgeting for spare parts.
- Record keeping about the value and quantity of the spare parts.
- Processing the bills for these items.

Factory Office Section

- Productive reports
- Absenteeism reports.
- Machine downtime reports.
- Record keeping in connection with the excise.
- Preparing the excise reports.
- Dealing with the vats.
- Selling of wastage
- Maintaining the sales register.

Costing Section

- Leaf costing.
- Wrapping material costing
- Standard costing of product.
- Marginal costing.

Overview of SMD...

Overview of Manufacturing Department

The Manufacturing Department is responsible for making the cigarettes from semi-processed leaves, packing the final products and delivering them to the supply chain. The Manufacturing Department consists of Primary Manufacturing Department (PMD), Secondary Manufacturing Department (SMD) and the Primary Supply Chain (PSC).

The processed tobacco is then supplied to the SMD through tipper feeders to every individual maker machine according to the need of different brands. the process for the SMD has been described in an elaborate form in the following sections. The finished products from the packer machines are then supplied to the shipping go-down from where the products are marketed to the whole country.

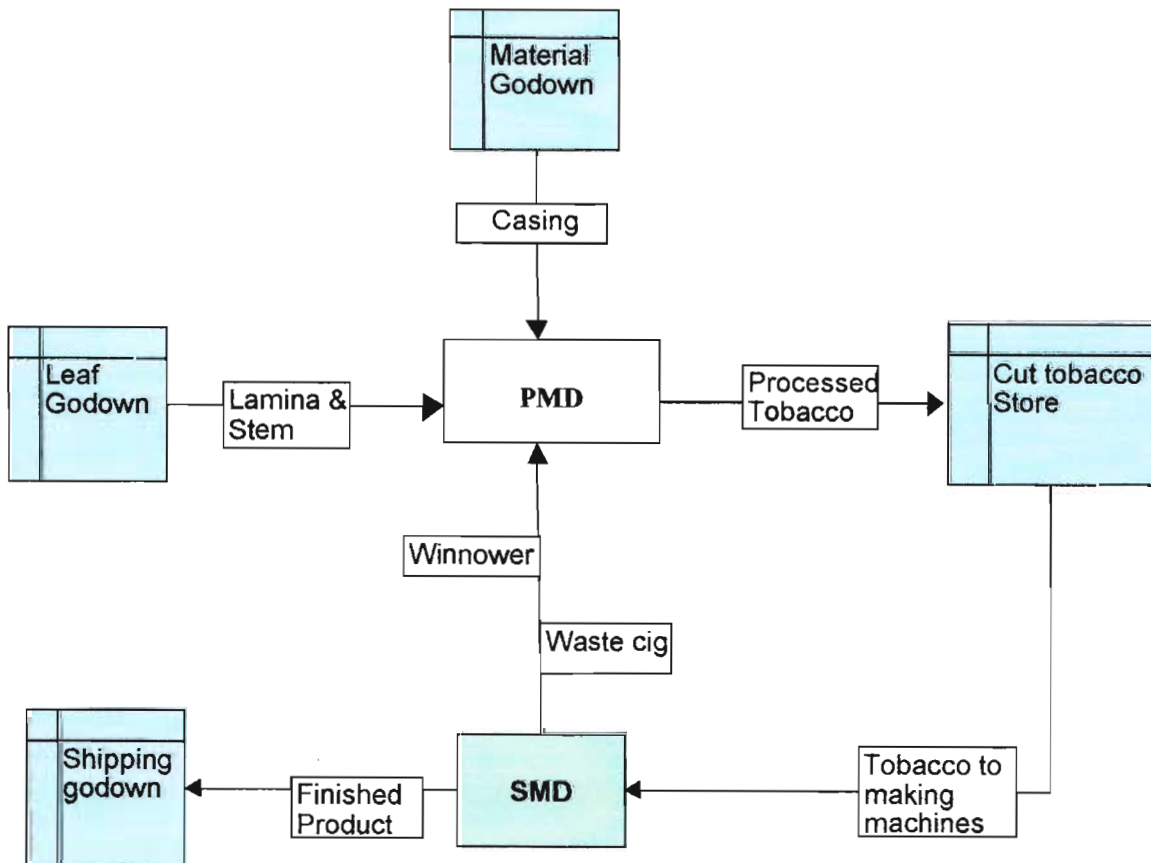


Figure 2: Flow chart of Manufacturing Process

Overview of SMD...

Mission:

To become the lowest cost provider of international quality product and services in BAT.

Objectives:

- To meet demand of all Stock Keeping Units (SKUs) as per market requirement.
- To minimize conversion cost while satisfying customer's requirements.
- To meet quality requirement as per brand Manufacturing Quality Index (MQI) targets.
- Maintain a safe and healthy work environment for all personnel.

Process Diagram

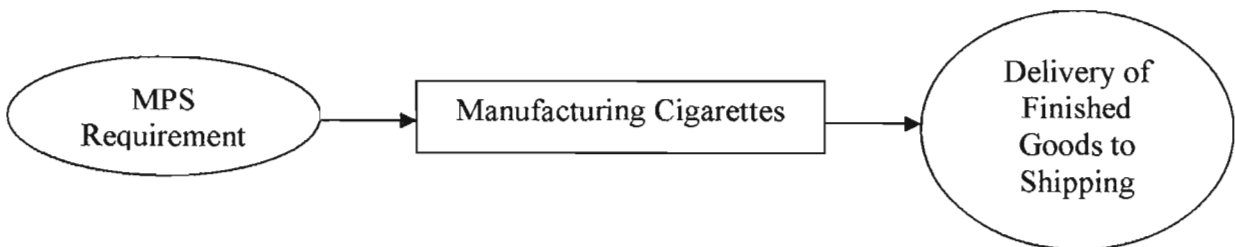


Figure 3: SMD BUSINESS PROCESS MAP

Secondary Manufacturing Department produces the Final products that are cigarettes in a totally packed form and makes ready for the CSC (Customer Service Center). As inputs for the final production all the raw materials (mainly coming from PMD, Material Warehouse and Filter Rod Department) enter in different machines in SMD. Mainly two types of machines are used in SMD, one is

hard link and the other is soft link. In hard link the cigarette making and packing take place in a single machine. Soft link machines use two different machines for making and packing, connected with tray filler and tray un-loader. The following raw materials are used in production from different sources:

- **CTS** from PMD. For this CTS casing is supplied from Material Warehouse.
- **Filter rod** from Filter Rod Department. The inputs of filter rods are obtained from Material Warehouse, which are:

Acetate tow

Glue

Tri Acetence

Plug wrap paper

- **Raw materials** from Material Warehouse. The raw materials are:

Cigarette paper

Corrugated Board Carton

Blanks

Soft cap

Aluminum foil

Glue

Tipping paper

Inner frame

Tear of ribbon

Cellophane wrapper

Outer pack

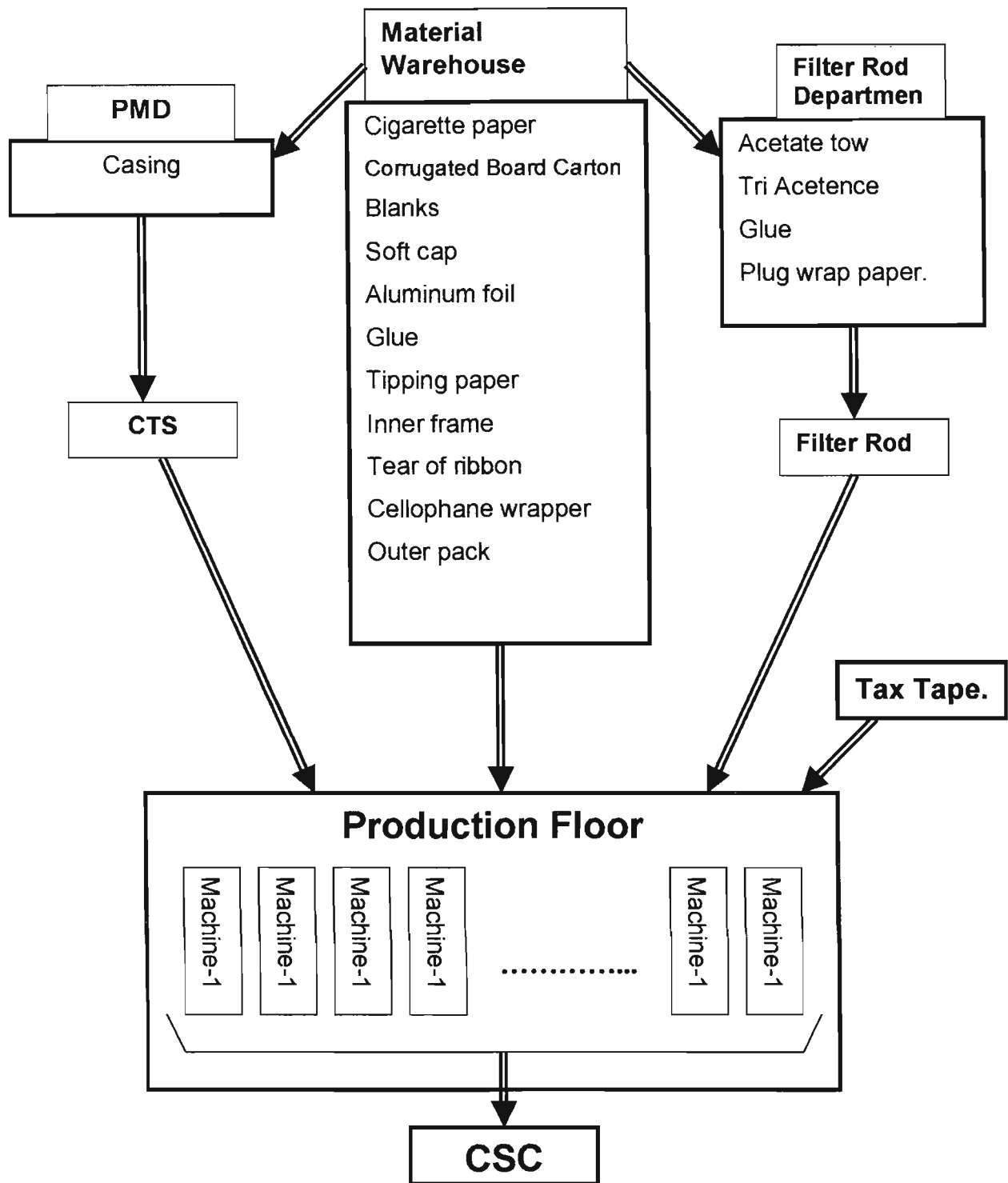


Figure 4: Flow chart of SMD process

Basing on the process and different phases of production, the SMD department is divided into four cells, Cell 1 to Cell 4. Cell 1 to Cell 3 consists of the new FOCKE, Decoufle, Passim and GDX2 machine complexes. Cell 3 also includes older version machines like Mark-9. Cell 4 is Filter Rod Department.

The processed tobacco, or CTS, is supplied to all the machines through Tipper feeder. There are mainly six tipper feeders for supplying CTS, with one totally dedicated to B&H. The CTS boxes are fed in the tipper feeders and according to the production requirement the CTS are passed to different machines through pipes.

Other raw materials for producing cigarettes come from the Material Warehouse and Filter Rod Department. Based on the daily production, a planning procedure is developed by SMD and delivered to the Material Warehouse and Filter Rod Department (FRD). The Material Warehouse and FRD supply the raw materials to each machine according to their needs.

Cigarette maker and packer are the old machines compare to the SPU machines. Gradually all the machines will be hard link, which means cigarette making and packing, will take place in the same machine.

Cigarette Manufacturing Process

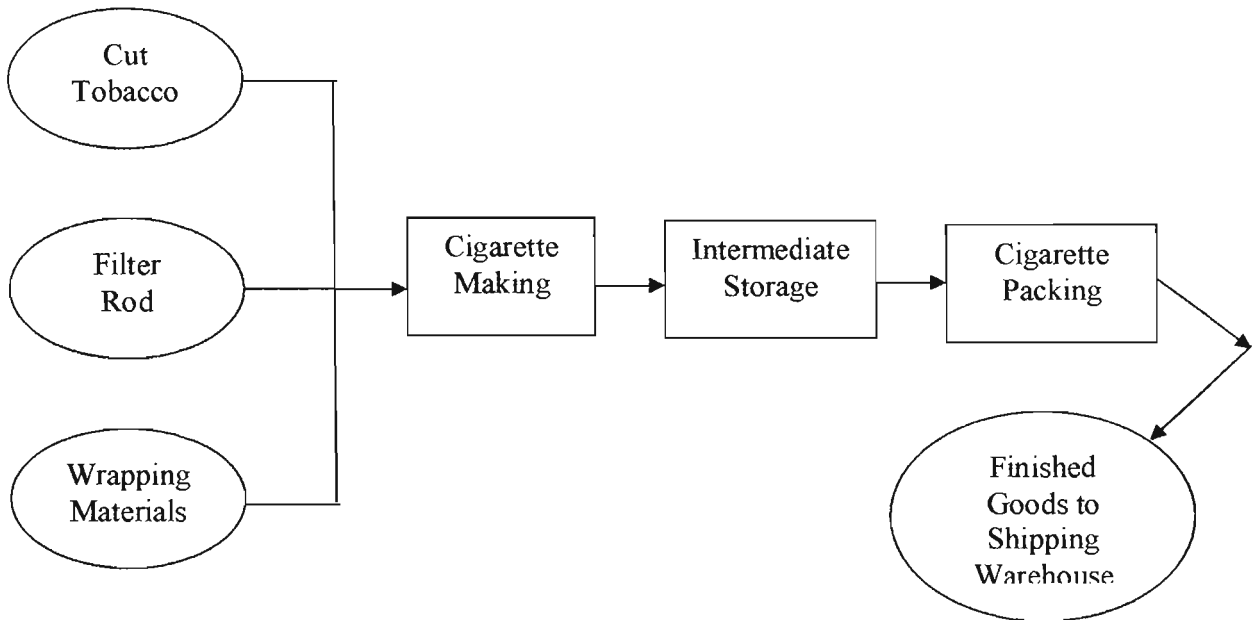


Figure 5: Cigarette manufacturing process

In the cigarette manufacturing process, processed tobacco, filter rod and wrapping materials are transferred to cigarette making division to make a complete cigarette. Complete cigarettes are then transferred to an intermediate storage to transfer the cigarettes to the packing machine. When cigarettes are transferred to the packing machine, it packs the cigarettes with blanks and wrappers and make a complete packet of cigarettes. Then the packets or finished goods are transferred to the shipping warehouse to make the final delivery to the market.

Flowchart of cigarette making machine:

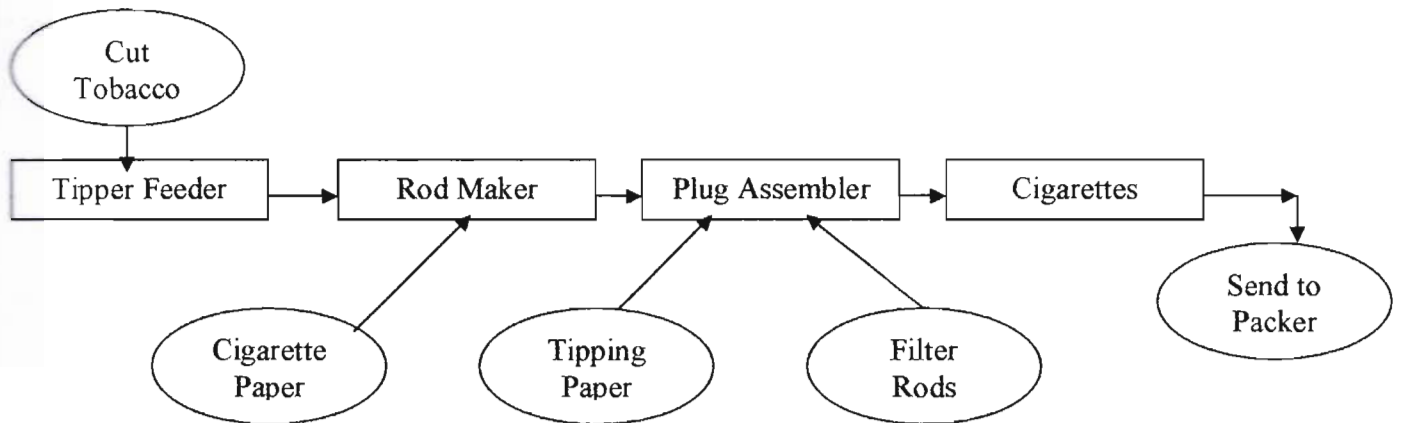


Figure 6: Flowchart of Cigarette Making Machine

Cut or processed tobacco from PMD comes to the tipper feeder machine via pipes. Tipper feeder then sent the tobacco to the rod maker machine where the tobacco is rolled up with cigarette paper. Rolled up tobacco rod is then transmitted to plug assembler machine where tipping paper and filter rods are assembled with the rolled up tobacco rod. Finally, complete cigarettes are sent to the packer for packaging.

Flowchart of cigarette making machine:

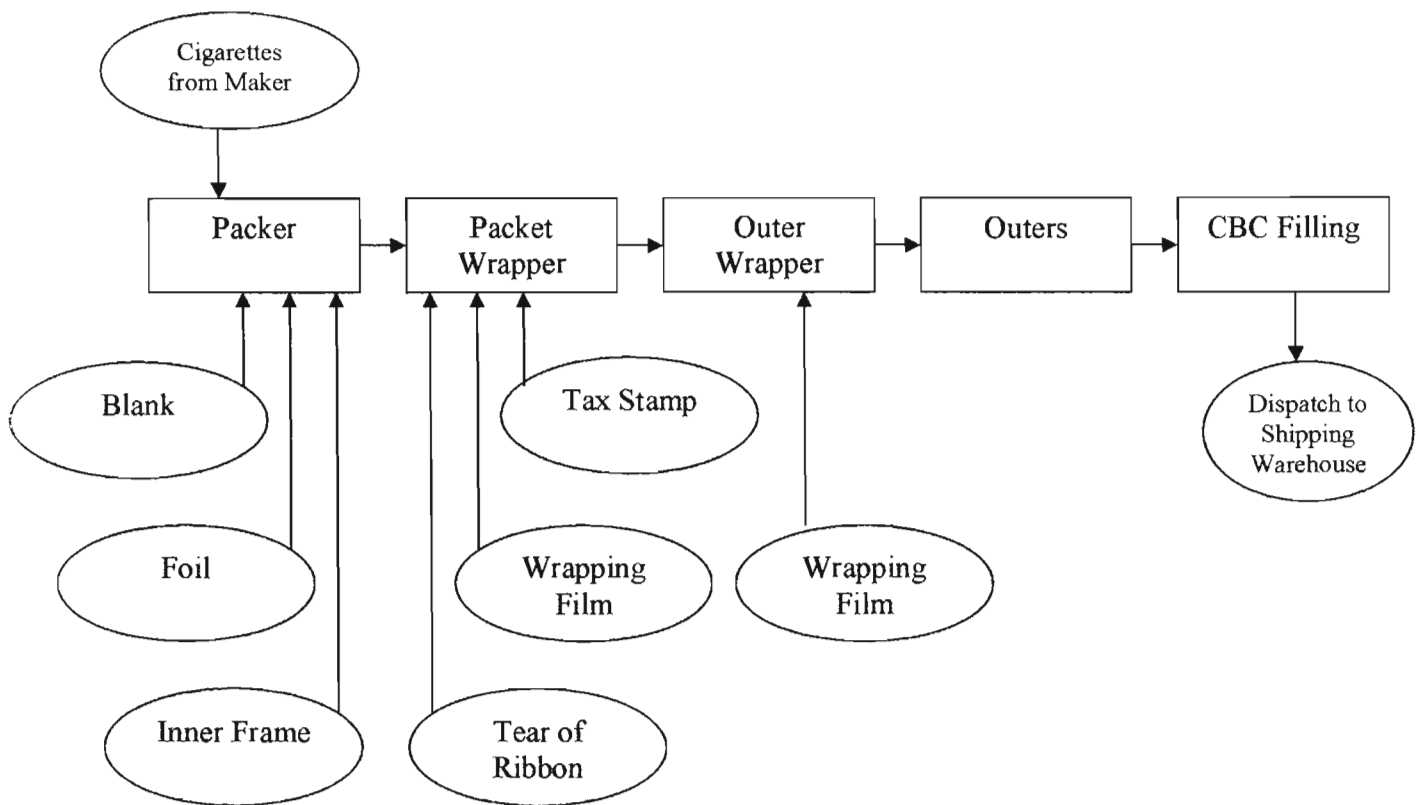


Figure 7: Flowchart of Cigarette packing machine

From the Maker machine cigarettes are transferred to the Packing machine. At first, cigarette sticks are placed to the inner frame which is the main paper structure. It is then wrapped with the foil paper and placed in the blank to make a complete packet. Blank is the outer frame which we can see. Secondly, packets are sent to the packet wrapper machine where tear ribbon, wrapping film and tax stamp are attached. Thirdly, it is sent to the outer wrapper machine to make a 10 packets wrapping and

then sent to outer machine. Finally, the packets are placed in CBC (Corrugated Box Carton) to make the final shipment to the warehouse.

Findings & Recommendations...

- **BATB is the leader in tobacco industry in Bangladesh. But to maintain their position they should try to assess the consumers demand to introduce a new brand in the market. Newly introduced B&H in 2006 is not accepted by the consumers and as a result market share of B&H has dropped significantly.**
- **Rise in price of JPGL has a negative response from the market. Consumers of JPGL are switching to other available brands which are less costly. As a result BATB is losing a fixed customer base of JPGL. BATB should try to follow the strategy of cost reduction in production rather than the strategy of increasing price to keep the customer base intact.**
- **As there are other competitors in the market, they are always looking for scopes to increase their shares in the market. BATB should always try offer better products at a reasonable cost so that the existing and new competitors don't get the chance to grab extra market share with better offerings.**
- **As the industry itself is controversial, BATB should participate in more social welfare to gain support from the local people and to reduce accusation against them.**

- **Recent studies revealed that there is a shortage of engineers in SMD of BATB. The numbers of engineers as team-leaders are about 50% of the original requirement.**
- **The career growth of the employees of the Production Department is comparatively less lo other departments like Marketing and HR. So employees of Production Department are sometimes de-motivated.**
- **New machine offers higher production within the same range of time. So BATB might try installing new machines to replace the older ones.**
- **Technicians, workers and other employees of Production Department those who are under the trade union sometime shows careless attitude to their assigned job. These types of workers are needed to be monitored carefully.**
- **Proper documentation is needed of the hardware and software that are being used in the Production Department. Lack of proper documentation creates less visibility of resources.**
- **Finally, the anti smoking campaigns are big threat to BATB's business. People are getting more health conscious nowadays. So BATB should look for a different industry to invest to stay in the business in the long run with a different product.**

Conclusion...

It is important to remember that though BAT is enjoying monopoly in the medium and high brand segment of cigarette and turn over is also high, it will face difficulty as people are gradually becoming health conscious. The negative correlation between health consciousness and smoking signals difficult time in near future. Anti smoking campaign is a big threat for BAT to run the business. They should look for different other areas to invest to hedge against possible loss that are likely to occur in near future. It will also help to minimize the risk through diversification of business.

BAT has recently achieved the certification of MRP II Class A, which recognizes that BATB is a World Class Company which is able to ensure world-class performance through the development of world class people. This particular certification will bring a remarkable change in the market standing of BATB. Moreover, BATB's latest business mission is to double its revenue in next five years, which is quite possible. But as mentioned earlier the implementation of existing anti tobacco campaign may create the barrier of achieving such target.

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