

the Vice-President of Marketing/Sales, Mr. Ronnie Kok and his assistance Mr. Tang Soon Tee.

I have also analysed the company's annual reports, newsletters and other printed pamphlets as secondary data to supplement the primary data to obtain more information for this study.

5. Overview of the Company: R. J. Reynolds Tobacco Bhd. Malaysia

5.1 Background & Its Business

R. J. Reynolds Co. was founded by Richard Joshua Reynolds in Winston-Salem, N.C., USA. The company began producing chewing tobacco in 1875. Camel cigarettes were introduced in 1913 with immediate success, paved the way for the company's future growth. With the introduction of Winston and Salem in the 1950's, Reynolds tobacco soared to the top of the filter tipped cigarettes market. The company started its international tobacco operation in the early 1960's and began setting up manufacturing operations and licensing agreements in key countries around the world.

Today, the company is the second largest manufacturer of cigarettes in the United State and one of the largest cigarette manufacturers worldwide. Reynolds Tobacco has about 12,000 full time employees.

R. J. Reynolds Nabisco, headquarters in Geneva, Switzerland is a premier worldwide consumer goods company, marketing products and services in virtually every country in the world. R. J. Reynolds Nabisco operates through subsidiary companies, each with its own sphere of activity. The following is a brief description of each of the subsidiary companies:

- **R. J. Reynolds Tobacco Co. USA**

It is the largest manufacturer of cigarettes sold in the United States of America. It manufactures more than 20 well known brands of cigarettes, smoking tobacco, chewing tobacco and little cigars.

- **R. J. Reynolds Tobacco International Inc.**

Direct RJR's tobacco operations outside the United States. The company manufactures brands in 10 countries, has licensed manufacturing agreements in 20 other countries and exports products from the United States to most countries around the world.

- **Nabisco**

Nabisco is an US\$8.3 billion multinational food business. Nabisco's brands include familiar household favorites such as Oreo, Snack Well's, Ritz, Life Savers and Planters. International Nabisco has strong market position in Canada, Latin America and Spain and a growing presence in Asia.

R.J. Reynolds Tobacco International, Inc. directs all of the company's tobacco operations outside the United States that is to the rest of the world. Globally, the operations of the company are geographically divided into four operating areas, each headed by a President / CEO.

<u>Area</u>	<u>Country / ies</u>
I	Europe
II	Canada
III	Latin America / Caribbean
IV	Asia Pacific

R. J. Reynolds Tobacco Co. Bhd. Malaysia

Malaysia falls under area IV and the operation of the company are run by a wholly owned subsidiary of R. J. Reynolds Tobacco International, Inc., R.J. Reynolds Tobacco Co. Sdn. Bhd. It was established in Malaysia in 1974. The company is engaged in the manufacture, import and distribution of several internationally famous brands of cigarettes, within Malaysia, Brunei, Labuan, Japan, Thailand and Hong Kong. It also derives limited revenues from the following activities: licensing of a chain retail music stores, tour and travel package licensing and apparel licensing. The manufacturing facilities of the company are located in Shah Alam Industries Estate; Selangor and RJRM Headquarter office is located in Bangunan John Hancock, Damansara Heights.

It has employed a total number of 1,000 plus employees at the manufacturing plant in Shah Alam, RJRM Headquarter office in KL and Tobacco Leaf Growers in Kelantan. The workforce is unionized staff where worker union has been formed to look after terms and condition for their employment and protect them from exploitation from the employer for grievances handling. However, the workforce in the RJRM HQ Office is not unionized and representing a number of 150 plus workers. The group markets its product under brand name of Salem families, MORE, Winston, Camel. RJR has 18% market share in Malaysia.

5.2 The product

Cigarettes are the main product and the Company manufacturers and sell many internationally reputable and well-established brands in Malaysia. In addition, the Company also manufactures and distributes several very popular local brands.

RJR Malaysia is the 2nd. leading cigarette manufacturer in Malaysia, with over 18% market share. It enjoys the best margins and highest returns in the industry of Salem's volume. Leading brands include Salem (9.9% share), Winston (5.2%), More (1%), and Camel (0.8%).

5.3 Company Philosophy - Social Responsibility

RJR Malaysia shares their benefits with Malaysians of all races and with the Government. They view their social responsibility in the context of managing effectively to ensure a healthy return to their shareholders on their funds, providing constant employment to their employees, and the payment of taxes to the Government. Below are some of the contributions made by RJR Malaysia.

(i) Contributions to Government:

The contribution of the industry to Government revenue totalled RM215 million in 1998 out of the industry's turnover of RM649.2 million.

(ii) Contribution to rural development:

Together with various Government organisations like Lembaga Tembakau Negara, MARDI and State Government Bodies, the tobacco manufacturers successfully introduced tobacco cultivation into Malaysia and thereafter participated in this rural development which now provides livelihood for over 300,000 people.

Such contributions include:

- The introduction of modern agricultural practices and the creation of a cash economy through the commercial cultivation of tobacco crop.
- The establishment of settlement schemes in Kelantan and Trengganu with State Government, Lembaga Tembakau Negara and the National Farmers' Organisation to stimulate rural development.
- Investment in research and development by sponsoring MARDI to increase the quality and yield of tobacco through various agricultural extension programmes/projects with farmers and curers. The primary objective is to assist them to achieve productivity improvement.

(iii) Contributions to technology:

The constant upgrading of the industry with new, modern and more productive techniques through employee training and development locally and overseas. New and up-to-date technology is introduced continuously at the farm, curer and manufacturer levels.

(iv) Contributions to the community:

The provision of employment by the industry in the manufacturing, trading and service sectors. In addition, the manufacturers spend over RM18 million a year on research, education, rural development, community contribution, etc. and donations to sport, culture and the arts.

5.4 Corporate Governance

I examined how the BOD formulates the strategic direction for the future of the enterprise in the long run; It's role in monitoring the performance of the management and also the limit to which the BOD recognises the responsibilities to those making a legitimate demand for accountability.

The set-up of Board of Directors governs the activities of the company. There are two types of directorship in RJR Malaysia i.e. Independent Non-Executive Director and Non-Executive Director. The Board is chaired by an independent Non-Executive Director, Mohd. Nadzmi Bin Mohd. Salleh. This has reduced managerial opportunism as the independent directors and chairman would be able to conduct he surveillance independently from the influence of top management. The directors' interest in the company is also made transparent to enhance the confidence of shareholders, as the company is a public listed company with 40% of shares floated in KLSE. The following Directors served on the Board of the Company since the date of the last report:

Dato' Mohd.Nadzmi bin Mohd.Salleh

Datuk Henry Chin Poh-Wu

Darryl Goon Siew Chye

Thomas A. McCoy

Leong Wai Hoong

Ronnie Kok Lai Huat

Jean-Luc Marius Perreard

Rick Thomas Caufield

Jarl Hakan Kulp

Since the end of financial year 97, no director of the Company has received or become entitled to receive any benefits (other than those disclosed as directors remuneration in the accounts) by reason of a contract made by the Company or a related company with the Director or with a firm of which the Director is a member, or with a company in which the director has a substantial financial interest, except for the professional fees amounting to RM26,400 payable to a firm in which one of the Company's Directors, is also a member.

5.5 Human Resource

The organisation is divided into 4 layers according to Hay's management:

- 1.Executive: Top Management, Senior Management, Middle Management and Junior Management
2. Confidential group : Finance, Personnel and Security
3. Unionised group
4. Temporary staff

The Human Resource policies of RJR Malaysia are :

1. To focus on core competencies
2. To reward the performers
3. To minimise staff turnover to less than 10% pr annum
4. To encourage creativeness and innovation in the organisation
5. To create the learning organisation
6. Lastly, to emphasise on core value and purpose of the organisation i.e. openness, honesty and teamwork

Indeed, the HR policies have contributed to the success of RJR Malaysia in this industry. Staff turnover for executive level is kept very low every year and this has helped to retain the expertise and organisation knowledge in the company. However, one of many problems facing manufacturing companies like RJR Malaysia has been the shortage of workers - many were not keen in an industrial environment and be dependant on productivity and overtime to supplement basic wages. In view of the power of workers, industrial relations have been identified as a major area for the HR department and top management to manage. Various benefit packages were tabled in order to avoid production upset

5.6 Manufacturing and Research & Development

Production Department will plan the production target based on the sales estimates yearly. With the production target, they will plan the machine capacity, manpower and material requirement and estimate the cost incurred. The yearly production plan is then broken down to monthly and weekly plan.

There are 4 major production processes:

- 1) Leaf processing
- 2) Filter making
- 3) Cigarette making
- 4) Cigarette packing.

Refer to the flow chart below.

(Note: quality inspection is carried out at every stage of each process).

LEAF PROCESSING

- Tobacco is conditioned in water to make it supple and pliable for further processing
- Different tobacco types are blend together
- Tobacco is cut into fine strands
- Moistening process
- Drying process - to remove all water
- Cooling process and flavouring

FILTER MAKING

- Compressed acetate tow is stretched and bloomed
- The tow is wrapped with plugwrap paper to form a filter rod
- The filter rod is cut into the required length
- Curing process (filter rods are left to be harden)

CIGARETTE MAKING

- Tobacco is wrapped by the cigarette paper and cut into the required length
- The tobacco rods are joined with the cut filter rods
- The tobacco/filter rods are cut into cigarette length

CIGARETTE PACKING

- Correct number of cigarettes is bundled with aluminium foil
- The cigarette bundles are packed into cigarette packs and then wrap in film
- The wrapped packets are then packed in display cartons, wrapped in film and packed into cases

The Product Development Department is directly responsible for the development of cigarette and their blending, which involve:

- I. Blends and blends specification
- II. New blends
- III. Cigarette specification
- IV. New cigarettes
- V. Casing and flavouring specification and production
- VI. Organising in-house voluntary smoking panel
- VII. Market survey/product test
- VIII. Indirectly monitor tobacco stores and ageing of tobacco

5.7 Financial Analysis

For the financial year ending 31 December 1998, RJR Malaysia' pre-tax profit was RM 101.6 million, down 24% from RM133.9 million the previous year. Turnover was down 1.2% from 649.2 million to RM641.6 million. Consequently, net profit decrease by 29% from 104.5 million to RM73.7 million. The reason for the loss is mainly due to the writing off of bad debts and the making of provision for doubtful debts.

5.8 Marketing/Sales

The Marketing and Sales Division is headed by the Marketing/Sales VP, is responsible for all aspects of marketing and sales of the company's product to the domestic market. The function of each section is summarised as follow:

1. Regional Sales Manager

Provide support on policy matters

Give support on distributors matters

Handle Bumi participation (30% of the volume)

Incentive for own salesmen and distributor staffs

Handle subsidy for distribution for losses they made

2. Product Manager

Launches of new brand

Changes of brand

Keep high profile of confidentiality & integrity

3. Distribution Sales Manager

Co-ordination of orders (freight & distribution)

Sales training

CID Operation

4. Duty Free Manager

This section is mainly responsible for planning, organising and implementing product control on duty free product. It also educates smokers the thrill of smoking cigars. The department also conducts product knowledge. Duty free shops are found in Brunei, Langkawi and Labuan airports.

The objective is to ensure smooth and effective functioning of the division, cost effectiveness with the objective of contributing to overall sale administration. Its activities involve planning, organising, implementation and control of marketing operation, advertising & promotion, the marketing division's budget. In summary, the marketing Department is a vital part of the Division as it provide the sales Operation the necessary supports and service required to achieve an edge in an ever competitive market place. Hence, the Sales Operations feedback and needs are constantly studied, analysed and scrutinized in order for this department to formulate plans and policies to equip the sales operation and with proper " bullets" to achieve the company's bottomline – more sales and more profit.

- **Distribution**

Distribution efficiency is crucial to RJR Malaysia sales and to maintain customer loyalty. The customers will switch to other brand cigarettes if they not able to get RJR Malaysia's cigarettes. Hence, if there is any shortage of particular brands cigarettes, the company will fill up the stock in a very short period by transferring from other state or increase the production 24 hours.

All the products are sold to distributors. Currently there are 40 distributors and 25 Direct Sales Operation in Malaysia. All distributors/DSO are buying the products on cash basis, there is not credit term granted to them. Therefore RJR Malaysia is a debt free company. The distributors/DSO will channel the product to retail level. The company will spend money on merchandising to help the retailer promote RJR Malaysia's product. The budget for merchandising is about RM7 million per year. RM4.7 million goes to making of merchandising units and RM2.3 million to support purposes. The popular merchandising units includes:

Special unit – popular in high class restaurants and supermarket

Standard unit – for good selling location with high sale e.g. coffee shops and restaurants.

Suspended dispenser – Mainly for supermarket

Table top dispenser – mainly for provision or coffee shops. These units are for those retailers who are lack space. It covers 99% of total merchandising units. The brands displayed on these merchandising units are Salem, Winston, Camel and More King Size.

The merchandising units provide the purposes as follows:

Secure display space

Increase the potential for consumer off-take

Create good PR with retailers

Ensure the freshness of the product