

7 Strategic Analysis & Recommendation

7.1 SWOT Analysis

Strength

1. Loyal customers and strong brand name: Smokers are generally loyal towards brand and taste of cigarettes. As compared to other competitors, RJR Malaysia's strong market position has created additional barriers for competitors to break the grip of RJR Malaysia in the market.
2. Domestic oligopoly: There are only 3 strong players in the local regulated market. Therefore, competition in the industry is limited to these few companies and provides RJR Malaysia more focus on defending its business against competition.
3. Experienced management: the top management is mostly expatriates from USA who have been in the industry for more than 20 years. Low staff turnover in executive level also helped to retain expertise and experience in running day-to-day business. MTC admitted that in fact high staff turnover was their main problem.
4. Strong financial position: RJR Malaysia records 25 consecutive years of profit statement. Its strong cash flow, as the sales are made in cash, provides RJR Malaysia with strong financial position which partly have been channelled to boost the image of the brands via indirect advertising for example in non-tobacco businesses like Salem Holiday Tour Travels, and sports.
5. Strong distribution network: RJR Malaysia has the strongest distribution network with over 65 of distributors and DSO nation wide, as compared to Rothmans with 100 and MTC with 52 distributors. The special sales force targeted at improving shelves positioning at retail shops has helped to increase visibility of RJR Malaysia products.
6. Effective communication with consumers: RJR Malaysia has never slowed down in its communication and advertising, especially in mass media. Comparison with MTC (which has Benson & Hedges Golden Dream programme & Bistro ads) and Rothmans (ads for brands like

Dunhill Accessories), indicated that RJR Malaysia is the regular sponsors for programme during golden hours and festive seasons. This helps to strengthen the image and message of brand communication to loyal customers to stick to RJR Malaysia products.

7. Focus on core brands & core business: Despite active brand stretching strategy adopted by RJR Malaysia, the company is clear of its direction and core business i.e. tobacco and cigarettes. The focus of marketing strategies is on the core brands i.e. Salem and Winston. All levels of employees are made understood of the company's direction and the purpose of brand stretching is not diversification.

8. Technological improvement

RJR Malaysia, although ranked no.3 in the world market, is known to be the leader in tobacco technology as compared to competitors like Rothmans and MTC (BAT). Many initiatives are carried out, for example reprocessing of tobacco leaf, new smokeless cigarettes are innovations from RJR Malaysia. On worldwide basis, RJR spends average of 210million on R&D, whilst competitors like MTC only allocates 350million for similar purpose. Emphasis on technological improvement and research & development has provided RJR Malaysia the advantage of product leadership in future.

Weakness

1. The Asean 's currency crisis has left bad impact to RJR Malaysia 's sale revenues. The company will have to pay more for the raw materials and they totally absorbed the additional cost without passing to the consumer. Furthermore the global tobacco price is fluctuate based on supply and demand rules. Bad weather causing the shortage of tobacco crops, its price shot up..
2. In line with the government policy to encourage health lifestyle, tobacco and alcoholic beverages always subject to high excise duty & income tax.

3. Faces a lot pressure on unionised workers especially during negotiation of new collective agreement. RJR Malaysia 's worker union renew their collective agreement once every twice year as per Industry Relation requirement. During the negotiation period, the factory productivity always low as the union want pressure the management agree their collective bargaining or their member will keep on showing slow movement attitude.
4. Weak in certain market segments e.g. non-menthol cigarette. RJR Malaysia is leading cigarette company in local market, for instance its Salem brand has market of 11%. This is only for one brand only, its non-menthol cigarettes brand Winston was not doing well as compare with Dunhill which has market share of 38%. Despite number of years and effort by marketing people to promote its non-menthol cigarettes, RJR Malaysia's still can not beat Rothmans's Dunhill brand.
5. Resistance to change in employee. As RJR Malaysia is the oldest cigarettes company in Malaysia, there are number of staff which have served with company more than 20 years, this is good for RJR Malaysia as employee turn over is lower in the industry. However as the staff is too long with the company and doing the routine work, they are comfortable with existing system and have resistance to change. Old staff found hard to unlearn the previous experience.

Opportunities

• Global Market

While the local industry is dominated by RJR Malaysia but it only acquire a very small percentage of the global market. Philip Morris is the largest tobacco company in the world with about 26% of the global market. The second largest player in terms of global market share is MTC's parent company, British American Tobacco Plc (BAT), which has 13%. Next is RJR with 7.5%, just half of BAT's, while RJR Malaysia has only 3%.

When talk about global market, I am referring to all markets except for China. China is a different story altogether. It is a huge market in terms of population but the Chinese National Tobacco Company (CNTC) which operates only in China has a monopoly over the Chinese market.

RJR Malaysia has a very experienced workforce. There is a high quality of labour and management. It has the capabilities of taking on more business especially for exports.

- **Emerging women workforce**

Our women workforce is increasing each year. Most of the women are now working. With the increasing work challenges, the women (or even men) are facing pressure and stress in the work place as well as at home. These had led to the increase of women market in the cigarette industry.

The women market will increase further and it is a good opportunity for RJR Malaysia to start thinking of how to capture this new segment of the market.

RJR Malaysia launched Salem Lights a cigarette, which has low tar, and nicotine is targeted for the women. The brand is still selling today and this has proved that the women market is promising and will increase in future.

- **Population growth**

The smoking population in Malaysia is about 2.7 million adults. With the population is growing each year and 3% increase in the number of smoker each year, RJR Malaysia which now the largest player in the local cigarette industry has greater opportunities to increase its market share further.

By investing in new technologies, improving quality and speed of the machinery, RJR Malaysia will gain in terms of effectiveness and efficiency, which will enable it to meet the ever-increasing demand.

- **Medical breakthrough**

Lung cancer can now be cured without harmful radiation and chemotherapy by using the most recent approved lung cancer drug endostatin Merlyn M.

Also, lung cancer surgery can now be performed with a minimally invasive technique. It offers patient a complete standard cancer operation with less postoperative discomfort, shorter hospital length of stay, and quicker return to full activities than following the usual chest incision.

Medical breakthrough for the cure of lung cancer will increase the cigarette demand. RJR Malaysia has the opportunity to increase its market share further. For its stable brands such as Salem, Winston, More and Camel, RJR Malaysia can increase its promotion aggressively to ensure the smokers do not switch brands and smoke more. RJR Malaysia can look into super low-tar and-nicotine cigarettes for the new smokers.

Threats

1. **Smuggling activities**

Smuggling of cigarette products from countries like Indonesia and Thailand is becoming serious in Malaysia, especially with the increase of excise duty by 194% from 1991 to 1998 and price of cigarette hike from RM2.70 to RM4.20 in the same years. In 1997, some 15-20% of cigarette sales in Malaysia was believed to have gone to black market, which accounted to RM500million of revenue and close to RM100million of tax revenue to the government. With the increasing trend in government duty, it is not difficult to believe that such activities will be compounded in near future. Especially with the depreciation of Indonesia Rupiah and Thai Baht

lately, the purchasing power of these smugglers has doubled. Brands like Gudang Garam is the most popular in the Malay market. Despite tight control imposed by custom department, smugglers are out there.

2. Weather change and monsoon seasons in East Coast: The main producers of tobacco leaves are from East Coast of Peninsular Malaysia. However, these areas are affected by monsoon seasons especially in year-end where floods may destroy the farms. The chain effect to low harvest is shortage of tobacco leaves hence lower the production of cigarette. The market leader is always is the one badly hit in the event of product shortage as in absolute sales figure, the lost in revenue is significant.

3 Government Duty

Duty increase on tobacco by 194% within 7 years affected the price hike by 55%. Coupled with inflated cost and competition, the business is getting tougher for RJR Malaysia to maintain its profitability.

4 Non-smoking policy

Policy to ban under age smoking, increasing health awareness and environmental moves has seriously threatened the existence of tobacco company in Malaysia. For example, it is compulsory now for the cigarette manufacturers to include health warning clause on the cigarette packs therefore with more restrictions imposed on the manufacturing, sales and consumption of cigarette, RJR Malaysia may expect stagnant market and higher operating cost in future.

5 Legal cases

In so far, although there is no legal suit against cigarette companies due to health reasons, such cases are common in developed countries. For example, currently there are USD3 billion worth of legal suits in US against various giant tobacco companies like RJR Malaysia, BAT and Philip Morris. Should this happen in Malaysia, the profitability, image and operation of the company would be under interrupted.

6 Aggressive brand stretching & brand switching programme in the industry

RJR Malaysia started with brand stretching activities with the introduction of Salem in music "Cool Planet". However, over the years, competitors have followed suit. For instance, Dunhill Accessories in Malaysia, Benson & Hedges into coffee and pub "Bistro", and Marlboro into personal items "Wild-wild West" and etc. In fact, more aggressive move on brand stretching especially from MTC to regain its market shares from Rothmans Malaysia via Bistro.

7 Total ban on indirect advertising

To major tobacco companies in the world, Malaysia is targeted as the place for indirect advertising. The government of Malaysia has implemented regulation to ban cigarette advertising in 1993, but not to indirect advertising. This means that advertising using the cigarette brand name without featuring the product itself is still allowed in this country. Other developed countries like Singapore, USA, Hong Kong and etc. had gone into total ban in cigarette advertising. Should the same regulation were to be introduced, RJR Malaysia may loose its ground of brand communication hence affect the overall marketing strategy.

7.2 Complementary on SWOT Analysis

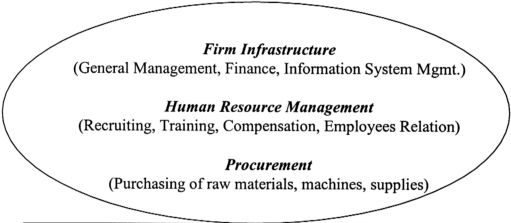
Corporate value-chain analysis (Internal Analysis)

Value chain for RJR Malaysia is given below:

Raw materials → Cigarette manufacturing → Finished goods store → Distributor → Retailer

RJR Malaysia centre of gravity is in the cigarette manufacturing and distribution. RJR Malaysia's strongest capabilities have always been in the downstream activities of product development, marketing and brand management as well as upstream activity of processing the tobacco leaf.

Figure below shows the corporate value chain for RJR Malaysia. It illustrates its internal value chain of activities.



Primary activities				PROFIT MARGIN
Inbound ↔ Logistics (raw materials handling and warehousing)	Operations ↔ (engineering, leaf processing, cigarette making, cigarette packing, quality assurance, product development.	Outbound ↔ Logistics (warehousin g, excise duties payment, insurance and distribution of cigarettes)	Marketing and Sales (advertising, promotion, channel relations)	

RJR Malaysia's primary activities starts with the inbound logistics (raw materials handling and warehousing), go through operations process in which cigarette is manufactured, and continue on to outbound logistics (warehousing, excise duties payment, insurance and distribution of

cigarettes), and finally to marketing and sales (advertising, promotion, channel relations).

For any two successive primary activities, RJR Malaysia generates values between them.

RJR Malaysia can get cheap printed materials such as packet blanks, display carton and cuppack labels for soft packs from its main supplier Central Malaya Printing which is about 20 kilometre from the manufacturing plant. Besides that, since the suppliers are nearby, it is possible for RJR Malaysia to practise JIT concepts to reduce inventory costs. Another example is Toyoma Aluminium Berhad who is another main supplier of wrapping materials such as aluminium foils, innerframe boards and propafilm. Toyoma Aluminium Berhad is located in Petaling Jaya.

In the manufacturing operation, the quality assurance team played an important role in getting all the packets out, free from defects. RJR Malaysia cigarettes are ranked among the top in terms of quality when compared to its competitors. Also, the product development department has continuously developed new and even the existing brand to suit the needs of consumers. Meanwhile the manufacturing department is forever chasing after cost and wastage reduction. All these contribute to the competitiveness gained by RJR Malaysia.

RJR Malaysia will sacrifice anything to ensure sufficient supply of cigarettes to all distribution channels. At times, when the demand is high, the manufacturing is operating 24 hours and good incentives are given to manufacturing employees if the production target is achieved. This normally happens especially before the yearly budget, when the distributors are buying a lot at the old price and they can keep and sell at the new price if there is a price hike or before festive seasons.

The marketing and sales consists of two teams that complement each other. Promotion on brand names is carried out aggressively and not forgetting sports sponsorships, which are contributions to the society. RJR Malaysia has very good relations with the relevant authorities namely the Customs, Sport and Culture ministry, Agriculture ministry and the Domestic ministry.

Several support activities, such as firm Infrastructure (general management, finance, information system management), Human Resource Management (recruiting, training, compensation, employees relation) and Procurement (purchasing of raw materials, machines supplies). These activities ensure that the primary value-chain activities operates effectively and efficiently

Resource-based analysis: How RJR Malaysia's resource give it competitive advantage

Competitive advantage, whatever its source, ultimately can attribute to the ownership of a valuable resource that enables the company to perform activities better or cheaply than competitors. RJR Malaysia possesses a range of resources that demonstrably yield it a competitive advantage in Malaysia cigarette industry. See the table below which is self -explanatory.

Resource		Competitive Advantage in Malaysia
Tangible	→ Freehold plant location → Second-hand machinery can be acquired at a cheaper price from other companies under the parent company RJR Malaysia International.	Low occupancy / machinery costs

Intangible	→	Brands reputation	→	Consumers' recognition especially Salem, Winston and More.
	→	Employee Loyalty	→	Most of the employees are of more than 10 years service. Those who were with RJR Malaysia since it first established in 1974 work until they retire.
Capabilities	→	Supplier Chain	→	Trustworthy suppliers and all of them are involved in the development of cigarettes to reduce cost.
	→	Product Development	→	Continuous research on new and existing brands.
	→	Managerial Judgement	→	Combination of veteran and young managers resulted in a dynamic team who are bringing new ideas/changes to RJR Malaysia and construct well conceived strategies.

Complementary to External Analysis

Threat of new entrants

New entrant will bring into the industry new capacity, a desire to gain market share and substantial resources to compete with existing players. The seriousness of the threat of entry depends on the presence of entry barriers in the industry and the anticipated retaliation from existing players in the industry. The potential entry barriers can be economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of size, government policy.

In the case of RJR Malaysia, currently there is no threat to entry by other competitors as the government is limited number of cigarettes producer. Besides RJR Malaysia, MTC, RJR and Philip Morris. It is unlikely to have other tobacco company in Malaysia as the market is too small to support five or more producers. Furthermore all international tobacco companies are already step into Malaysia market.

In the international market, RJR has market share of about 7.5 percent compare to Philip Morris and BAT (parent company of MTC) which have global market of 26% and 13% respectively. This give a signal that RJR Malaysia does not have a famous brand name in international market and its overseas marketing do not perform well. In Asia Pacific, RJR Malaysia has plant in China and Malaysia. Presently there is little awareness of heath and environmental problems in Asia and Asia is a giant cigarette market as it has half of the world's population.

Rivalry among existing firm

Intense rivalry in term of image, and sale volume is connected to the number of competitors in the industry, the rate of industry growth, product or service characteristics, lack of differentiation or switching cost, height of exit barriers and diversity of rivals. Cigarette companies are often based on price to achieve product differentiation. Between RJR Malaysia and other tobacco

companies there is intense rivalry as RJR Malaysia cigarette are priced similar with them. Generally, there are two pricing for premium and normal type cigarette. As the government increase the excise duty of cigarettes every year, there is difficult for RJR Malaysia to reduce the price of its cigarettes in order to maintain its profitability. As the Government keep on increasing the cigarettes excise duty every year, it has resulted in increase of smuggling activities.

In the international market, rivalry among tobacco producer is intense. Many of Asian countries have had national monopolies with barriers against outside producers. With the increasing of awareness of health, the growth of cigarette consumption is expected declining in future. Tobacco companies will have to fight even harder among themselves for a shrinking market. RJR Malaysia may have a little of years of an open playing field in region.

Threat of substitute product or services

Substitute limit the potential returns of an industry by placing a ceiling on the prices firm in the industry can profitably change . To the extent that switching costs are low, substitute may have a strong effect on an industry. There are currently strong substitutes for the nicotine type cigarettes. For instance, RJR Malaysia's Winston is close with MTC' Benson & Hedges, Rothmans's Peter Stuyvesant is equivalent to RJR's Salem. However smoker is very loyal to the cigarettes brands as they have build up the taste preferences.

Bargaining power of buyers

Buyers affect the industry through their ability to force down prices, bargain for higher quality or more services and play competitors against each other. A buyer is powerful if buyer purchase a large portion of the sellers product, alternative suppliers are plentiful because the product is standard or undifferentiated, changing suppliers cost little, a buyer earns low profits and is thus very sensitive to costs and service differences.

In the domestic market, the bargaining power of buyers is minimal as all cigarettes have a good cartel, they seldom undercut the price to promote their product. Despite the price of cigarettes keep on going up, these has not stop the smoker from quitting, in fact the revenue of cigarette company is growing due to price increase. Although switching to other brand cost nothing, the buyers seldom do it as they have hook up with the brand for too many years.

Relative power of other stakeholder

The other stakeholders are government, creditors, trade association, special interest groups and shareholders. The important of the stakeholder varies by industry. The Malaysia Government can influence RJR Malaysia business strategy. Over the past decade, the Government has implemented a number of tobacco control measures including raising taxes, banning smoking in most public places, and setting maximum limits for tar and nicotine in cigarettes. The Control of Tobacco Regulation Regulations in 1993 also prohibited all direct advertising. However, indirect advertising is still allowed.

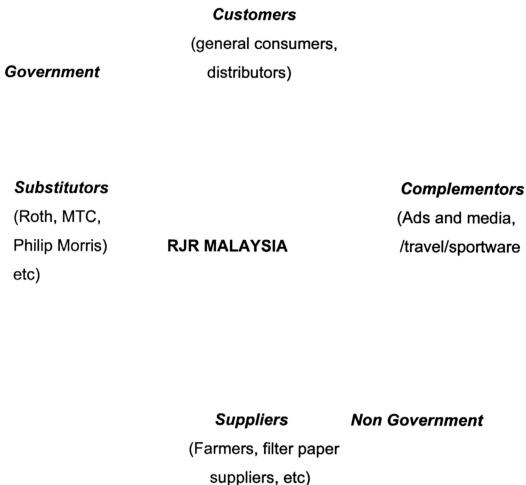
As a continuous effort to promote healthy lifestyle and to reduce the social ills due to consuming alcoholic beverages and smoking, Government has increased the import and excise duty on cigarettes and tobacco products.

In term of trade association, the members are considered co-operative compare to the petrol trade association. No there is promotion competition among its cigarette companies.

Attack from Medical Association which they called tobacco " a drug delivery vehicle", They have called for government regulation.

7.3 GAME THEORY

In order to analyse RJR Malaysia by using game theory, it is vital to start the analysis with the creation of value net for the organisation :



7.4 Complementary on Game Theory

Players :

Competitors, Substitutors & New Entrants

The competitors of RJR Malaysia are Rothmans & MTC. A new entrant to Malaysia tobacco market is Philip Morris, the world leader. These three companies serve as direct competitors to RJR Malaysia e.g. Winston versus Benson & Hedges (MTC) and Marlboro (PM). The substitutions are e.g. in

menthol product like Peter Stuyvesant and Kent (MTC). The local tobacco industry is focus more on brand switching and not new customers. Therefore, strategic positioning become vital as the competition turns stiffer. The players pointed out that that is one industry, which is insulated from price wars and in so far, all the competitors keep pricing close to each other. A hidden competitor to RJR Malaysia is smugglers from Indonesia. The country has faced serious cigarette smuggling activities mainly from neighbouring country because of high excise duty. Brands like Gudang Garam has stolen some 15-20% of cigarettes market in Malaysia. Together with other major tobacco companies, RJR Malaysia led the industry to co-operate with the Custom Department by providing fund and organised campaign to minimise such an activity.

Complementors

As the tobacco industry is a highly regulated market in Malaysia, the company has to rely very much on the complementors to carry out activities to complement the product and image of RJR Malaysia. The advertising agent and the media play one of the significant roles. For example, TV programmes that are sponsored by Salem have been aired frequently to enhance the image of Salem being cool and fresh. Other activity like Salem Holiday Travels is a complementor to the cigarette business. The aim is to enhance the image of stylish youth travelling with the ultimate goal of maximising the exposure of Salem cigarette. These complementary businesses, despite only contributed to single digit profitability of company's overall business, it has shown sign of greater brand awareness and increasing revenues. With this strategy, RJR Malaysia is now own 18% of cigarette market in Malaysia.

Distributors & customers

As the target for growth in this market is brand switching, RJR Malaysia embarks on massive market research in order to understand the consumer, his preferences and what he sees these brands will do for him. A good example is involvement of Salem brand in sports like tennis, a result of

understanding the customers and the ultimate gain to RJR Malaysia was increase in sales.

Suppliers

The suppliers e.g. leaf farmers, filter paper suppliers are major players to RJR Malaysia as well. Federation of tobacco controls the allocation of leaf and the import of leaf is also regulated. In that sense, there is nothing much that tobaccos company like RJR Malaysia is able to change. However, over the years of successful planters' incentive programme, RJR Malaysia has managed to increase its leaf allocation by 20% in 10 years. The planters' incentive programme to help farmers rebuild the farm after disastrous e.g. flood in Kelantan has also received good responses among the farmers group. This has made RJR Malaysia the priority company to the suppliers thereby reducing the chances of shortage in the market. Product shortage is a major threat for cigarette company as it creates chances for customers to switch brand.

Government

The tobacco industries are highly regulated every where in the world, including Malaysia. Over the past decades, the Malaysian government has implemented a number of tobacco control measures including raising taxes, banning smoking in most public places and setting maximum limits for tar and nicotine in cigarettes. The Control of Tobacco Products Regulations 1993 also prohibited all direct advertising. Various government bodies that can be identified as players in my analysis are :

- Federation of Tobacco Manufacturers - regulates and control the supply of raw materials for cigarettes manufacturing
- Ministry of Finance - determines the excise duty of tobacco leaf hence affect the price of cigarette sold and the profitability of the company
- Ministry of Health - influence the regulation to ban smoking practises in the society e.g. Smoking Places in Public, no cigarette sales to teenagers under 18 years old and etc.

- Department of Environment - Clean Air Act
- Ministry of Domestic Trade & Consumer Association - price control on cigarette sold in the market
- Department of Custom and Immigration - control and monitor cigarettes smuggling activities
- Government of Malaysia plays a very important role in the business where RJR Malaysia is in. For example, in 1993 when the government increases 100% on excise duty, the sales of cigarette in Malaysia has shrunk 4.3% in total. The limits impose by the government restricted the size of market in Malaysia, a saturated phenomenon. The question is how RJR Malaysia can change or influence government's involvement in this business. Over the decade, the company has put in a lot of efforts to lobby and build up the relationships with various influencing government departments. For example, RJR Malaysia contribution to technology and MARDI had provided RJR Malaysia an advantage edge in terms of supply and logistic of tobacco leaf. There are more initiatives like co-operation between the company and custom department to minimise cigarette smuggling.

Non-government Bodies:

Non government bodies like local consumer associations, women's clubs, local community organisation and etc. also posted strong objections to the existence of tobacco companies and sale of cigarette openly. Penang Consumer Associations for example has published some papers in internet and newspaper to create awareness and impact of second hand smoking on human health. Lets do not debate on the ethics of tobacco business itself, RJR Malaysia as a socially responsible company has made several attempts to help the society in overall in minimising social illness. It is the first company to response to the ban of selling cigarette to under-age teenagers whereby all the distributors of RJR Malaysia are educated and brainwashed on the legal and ethical way of selling cigarette. The company has also contributed funds for medical research in

cancer curing and also to the women's club in educating the mothers in issues like childcare, health aspect and etc.

From the analysis on the players involved in cigarette business, it is undeniably that RJR Malaysia has started its first step to be more involved in value net thereby in control of other players. I recommend that RJR Malaysia should play an active role in making strong tie between the players to generate the extra value out of the net as illustrated above. It should emphasise on strategic fit among all players involved. From the vertical link, for example the filter paper suppliers should be proactive in its research & development to minimise the health risk to the smokers hence add value to the consumers and the net as a whole. From the horizontal link, the complementors such as travel business, should capitalise on the brand name of Salem to block the entry of competitors from the same industry. This can be done not only via communication and advertising, but also the convenience and the "extra taste" that the complementors can offer.

On the government side, I foresee that stricter regulations on tobacco business will be imposed in years to come. Hence, all the ground works by RJR Malaysia today shall make a difference when more regulations and acts on banning smoking are written. For instance, future ban on indirect advertising for cigarette products is a threat to RJR Malaysia as the communication on the brand name may loose its ground. There are various suggestions here:

- (1) To co-operate with advertising industry to delay the implementation of this act
- (2) To set the example on discipline of communication cigarette brand name via indirect advertising
- (3) To emphasise on social responsibility and contribution to community so that the importance of RJR Malaysia existence is felt.

The same can be applied to the non-government bodies. From a different angle, strong tie with suppliers like tobacco leaf can make RJR Malaysia indirectly control the supply to the smaller players like MTC and Philip Morris. For example, incapability of small players to utilise reprocessed leaves give RJR Malaysia the advantages of controlling the supply of raw material and provide competitive edge to RJR Malaysia itself.

Added value

There are two option to change the added values: raise your own added value or lower that of others. Generally all the cigarette companies have similar type of added value such like contribution to rural development, community contribution such like donation to sport, culture and arts.

Cigarette companies are concentrating on marketing their few brands. They believe to focus on a couple of brands and do it properly. Brand proliferation is not necessarily a smart use of intellectual and physical resources. A lot of companies around the world are now focussing rather than diversifying. RJR Malaysia will continue to do what they have done and hopefully get better and smarter at it and learn more about the consumer.

RJR could learn from Philip Morris in US who has educated the children not to smoke. This strategy has build better image for Philip Morris and their sale has not declined. The industry is very clear about not marketing to consumer under the age of 18. RJR who use Camel brand to target at young smokers was aggressively attacked by industry health watchdogs, eventually the management have decided to pull out the relevant campaign.

The main challenge in the industry is to make smokers switch brands. That is the point the cigarette companies communication and that is a very difficult task. RJR Malaysia has established a high image by associated with tennis games. This is one of the marketing strategies by RJR Malaysia to have an edge over its competitors.

Rules

In game theory, rules determine how the game is played by limiting the possible reactions to any action.

- **Government set the price**

Government is the main rules setter in the tobacco industry. To Government, the single most direct and reliable method for reducing consumption is to increase the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use. The raising tobacco price is the best way to help Malaysians kick the habit.

As a continuous effort to promote healthy lifestyle and to reduce the social ills due to smoking, the import and excise duties on cigarettes and other tobacco products are raised in almost every yearly budget. In the 1999 Malaysian Budget, the import duty was raised from RM 28.6/kg to RM 40/kg (40% increase). The retail price of a 20s pack cigarette promptly shot up 30 cents to RM 4.20.

However raising the import and excise duty has a great impact on the smokers but not the manufacturers, as they will increase the tobacco product prices respectively. The price hikes is universal within the industry and leave no room for price war. The increased cost is passed on to consumers.

- **National Tobacco Board (Government) determines the local leaf allocation.**

National Tobacco Board (NTB), organised under the Ministry of Primary Industries has its headquarters in Kelantan with branches in all the tobacco producing states. Established under Laws of Malaysia Act III NTB Act, 1973, the NTB is responsible for controlling, regulating and developing the tobacco growing and curing activities.

The National Tobacco Board (NTB) who sets the minimum prices and quota of tobacco leaf to be purchased by each manufacturer every year controls the purchase of local tobacco.

Each manufacturer will project their leaf requirements and submit to NTB for quota allocation. In this manner, the industry's output is maintained to meet demand, thus keeping the price at competitive levels. This also eliminates the incidence of buffer stock, which will in turn affect the farmers' and curers' income when supply exceeds demand.

- **Limitation on advertising**

The Malaysian government limits the advertisement of tobacco products to print media only i.e. newspaper, magazines and printed posters.

The ban on other direct tobacco advertising has resulted in brand stretching. All the tobacco manufacturers started to explore opportunities to find non-tobacco products and other services that can be used to communicate the brand or house names, together with their essential visual identifiers. The principle is to ensure that tobacco lines can be effectively publicised when all direct lines of communication are denied. Together, the tobacco manufacturers have changed the rule of the game.

Brand stretching is the use of tobacco brand names on non-tobacco merchandise or services, used by the tobacco companies as a means of promoting cigarettes. The tobacco companies' rationale was brand stretching has nothing to do with the diversification of the tobacco industry. Most of the multinational tobacco companies already have separate divisions dealing with non-tobacco products. For example, RJR Malaysia has its Salem Holiday Travel to promote its brand Salem and Dunhill Accessories to promote Dunhill cigarettes. Philip Morris owns General Foods, which include many well-known brands such as Maxwell House, Kraft, etc. Another well-known brand, which has benefited from indirect advertising, is one of the cigarette brands, Marlboro. The Marlboro Classics range of clothing is designed to reflect the

"Wild West" imagery associated with the Marlboro brand. It was initially a loss leader for Philip Morris, but now it is gaining a place in one of the most top position in cigarette brand. Faced with the declining market share, MTC opened the Benson & Hedges Bistro in Kuala Lumpur and advertised the café on television. Two years later, sales of Benson & Hedges cigarettes had stabilised and the Benson & Hedges Bistro was one of the most frequently recalled TV commercials. Now, they are developing a range of coffee products also carrying the B&H logo.

RJR has its Salem Cool Planet advertising for its Salem cigarettes successfully.

The use tobacco brand diversification had effectively promoted the cigarettes for which the brand names, to the extent that the number of smokers in Malaysia is increasing by 3% per year.

- **Non-smoking Policy**

Over the past decade, the Malaysian government has implemented aggressive anti-smoking campaigns such as banning smoking in most public places.

These campaigns are good for the non-smokers, as they are not forced to inhale second-hand smoke anymore. However, the die hards would somehow find a place to light up their cigarettes. In some places where smoking is part of the pleasure of most of the customers, smoking area is separated from the non-smoking area. These measures are aimed at creating smoke-free environments.

Obviously, cigarette manufacturers are not comfortable with these non-smoking campaigns that will somehow affect their sales. However, the main challenge in the industry is to make smokers switch brands and the industry is very clear about not marketing to consumers under the age of 18.

So far, two players; RJR and Philip Morris have started to change the rule by supporting the government and recognising that smoking is bad. In 1996, they broke the stunning news, targeted at youths! RJR declared: "Smoking kills" and Philip Morris said " Nicotine is bad for you and you ought not to smoke, chew or dip."

These messages have effectively changed the perception of the public towards the cigarette manufacturers.

- **Maximum limits for tar and nicotine**

The government also sets the maximum limits for tar and nicotine for each cigarette. So far, there are no official checks on the actual content of tar and nicotine in a cigarette. However, all the cigarette manufacturers strictly follow this rule otherwise they will have to bear the consequences of heavy penalties.

- **Health warning on cigarette packets**

With the tougher government legislation, all cigarette packets must carry the health-warning clause. The fact that this is universal within the industry, all cigarette manufacturers must follow this rule.

- **Prohibition of cigarettes smuggling**

Bringing in cigarettes illegally from the neighbouring countries is prohibited. The relevant authorities have increased their patrol near the border to curb the illegal activities. The local cigarette manufacturers will benefit from this stricter action by the authorities; otherwise the major players will lose their market share.

Currently, the percentage of the market that consists of smuggled cigarettes is around 15-17%. An increase in the excise duty will make it more attractive to bring in cigarettes from neighbouring countries. The more profits that are available, the more people would take the risks to enjoy the profit.

The players must not leave the responsibility of preventing the smuggling of cigarettes solely to the authorities. They should change the rule of involving in the campaign or supporting it financially.

- **Others - Changing the rule**

Other than the one stated above, below are some recommendations on how the cigarette manufacturers can change other rules in the tobacco industry which has established in Malaysia for more than 30 years.

- **Cigarettes for women**

In Malaysia, there is no "cigarettes for women". Maybe the cigarette manufacturers think that the women market is too small and not worth investing in the cigarettes which has feminine imagery. However, with the women workforce getting bigger and the ever-increasing work pressure and stress at work and family, the demand of cigarettes among the women has actually increased.

In the last ten years, I seldom see women smoke but today, I can see a woman carrying a cigarette, puffing away by the roadside, in a restaurant, in the office, etc anywhere, anytime. The time has come for the cigarette manufacturers to change the rule and produce "femine" cigarettes for the women.

- **Caring for the farmers**

In Malaysia, most of the East Coast will encounter a monsoon at the end of the year. Unfortunately the major state i.e. Kelantan that grows tobacco is located in that part of the country. Instead of blaming the farmers for not providing the required tobacco leaf supply due to floods caused by the monsoon, the major players can change the rule by giving the farmers assistance. They can help the farmers by investing in tobacco leaf development

Tactics

- **To lift the fog:**

More often than not, the cigarette business is considered as "bad guy" in the consumer circle, as it is generally perceived that smoking causes various health problem like cancer not only to the smokers themselves but also to the second hand smokers, i.e. people surrounding. Although there is no concrete medical evidence on how smoking can cause cancer to human (as all the researches focus on animals as subject), perception (or rather the fact) that smoking is harmful has been there always. Unfortunately, RJR Malaysia has not done well to address this issue, especially on health and environment. It is therefore very important for RJR Malaysia to start to clear the fog though not within local (Malaysia) capability to disproof the harm of smoking to human health. My recommendation is that the company shall be more involved in funding related medical researches like curing cancer, activities to minimise heart-disease aim to create health awareness among the local community. The company can also consider proactive reduction in nicotine contents while able to maintain the "ohmm" effect of smoking. There may be some harmless substitutes to nicotine that are yet to be discovered. To that extends, more research and development on "smokeless" cigarettes should be carried out to reduce the impact onto the environment, especially before the implementation of Clean Air Act to be extended to smoking. The examples set by oil industry (although it is in not so environmentally friendly operation), these companies have constantly contributed to formulate the standard and transfer the knowledge on environment to the governments world-wide. This is the path for RJR Malaysia to pursue.

- **To thicken the fog**

The company should look at how to thicken the fog i.e. to increase the uncertainties among the government and the society to increase entry barriers to new entrants. This can be done through negotiation and good networking between RJRM Chairman and government

Scope

After players, added values, rules, and tactical possibilities, there is nothing left to change within the existing boundaries of the game. But no game is an Island. Games are linked across space and over time. A game in one place can affect games else where, and a game in one place can affect games tomorrow. You can change the scope of a game. You can expand it by creating linkages to other games, or you can shrink it by severing linkages. Either approach may work to your benefit.

Most of the multi-national tobacco companies already have separate divisional dealing with non-tobacco products. For example, Philip Morris owns General Foods, which include the well-known brands such as Maxwell House. RJR Malaysia has definitely enlarged the boundaries of the game by expanding into other non-tobacco business. For example RJR involved in apparel and travelling business. These diversification is related with brand-stretching, that is, the use of tobacco names on non-tobacco merchandise or service as a means of promoting cigarettes when face with a ban on direct tobacco advertising.

Peter –Stuyvesant Travel, Dunhill Accessories are the most frequent recalled TV commercial. RJR Malaysia using cigarette brand names for lifestyle product such as clothing, watches, luggage to communicate with the consumers. Another well-known brand, which has benefited from indirect advertising is the world's leading cigarettes brand, Marlboro. The Marlboro Classics range of clothing is designed to reflect wild west imagery associated the Marlboro brand. It was initially a loss leader for Philip Morris, the manufacturer of Marlboro, but is now the second-largest mail order in USA and there are 1,000+ Marlboro Classics stores through Europe and Asia. RJR Malaysia could enlarge the scope of the game by selling cigarettes through vending machine. This has been used in Japan. One of the ways to increase the market share is through consumer brand switching as