

STATISTICS ON CIGARETTE AND CIGAR EXPORT DISTRIBUTION

Manufacturer	S. Area ⁶		S. Area ⁷		Total	Market Share (100)
	Distributor	Sub-Distributor	Distributor	Sub-Distributor		
I.T.C. Ltd.	22	50	21	61	164	65
Carreras Ltd.	27	7	20	3	57	35
Gallaher Ltd.	9	-	2	2	13	35
Rothmans	9	6	10	12	37	105
Local ⁸	-	-	-	-	-	24

Source: Compiled by the writer.

⁶North area covers Perlis, Kedah, Perak, Penang, Kelantan, Trengganu.

⁷South area covers Johore, Pahang, Malacca, Terengganu, Selangor.

⁸The more popular ones are Chuan Hin Tobacco Co. Ltd. Batu Pahat, Joo Lee Tobacco Co. Ltd. Ipoh, Sun Han Tobacco Co. Ltd. Ipoh, and Chong Tobacco Co. Chongor.

Distributors and Agencies

The channels of distribution between the Malayan Tobacco Company and the Rothmans and Agencies in general are similar. The chains from the distributor to sub-distributor and from there to the wholesaler, stockists and retailers are nearly similar to Figure 1-2. In the case of the Agencies, the cigarettes are manufactured abroad with the Agencies like King Size Rby for Peterstyesant⁴ and Miller and King for Camel, Blandburgh and Salem, based in this country. The Rothmans is the only other foreign-originated cigarette manufacturer in Malaysia but manufactures and distributes only a limited number of brands⁵ compared to those of the Malayan Tobacco Company. The market share of the Rothmans is only 10% compared to that of the Malayan Tobacco Company which is about 65%. The number of distributors and sub-distributors of the foreign-originated companies are given in Table 1-1.

While the channels of distribution of the Rothmans and Agencies bear resemblance with that of the Malayan Tobacco Company, the detailed distribution system differ quite considerably. The classification of retailers is exclusively the Malayan Tobacco Company's. This classification is of great advantage to the Malayan Tobacco Company as explained in Chapter VI. For the Rothmans and the Agencies, the salesmen visit all the outlets and any outlets they choose, but since there are more than 40,000 outlets in the country, each outlet is visited less often by their "assignment salesman." Besides precious time is wasted on the unimportant outlets. As discussed in Chapter VIII, the Malayan Tobacco Company's salesmen have definite plan to call on definite outlets. This is more systematic and ensures better efficiency in servicing. As for the distributors' salesmen, they do more or less the same work and follow more or less the same Call route but their depth and width of distribution are poor compared to those of the distributors of the Malayan Tobacco Company. Obviously the Rothmans and the Agencies are at the moment concentrating on the urban areas.

⁴ Peterstyesant is now being manufactured by the Rothmans.

⁵ Rothmans King Size, Consulate, Peterstyesant, Sunhill.

NOTA

DOKUMEN ASAL

TIDAK TERANG.

NOTE

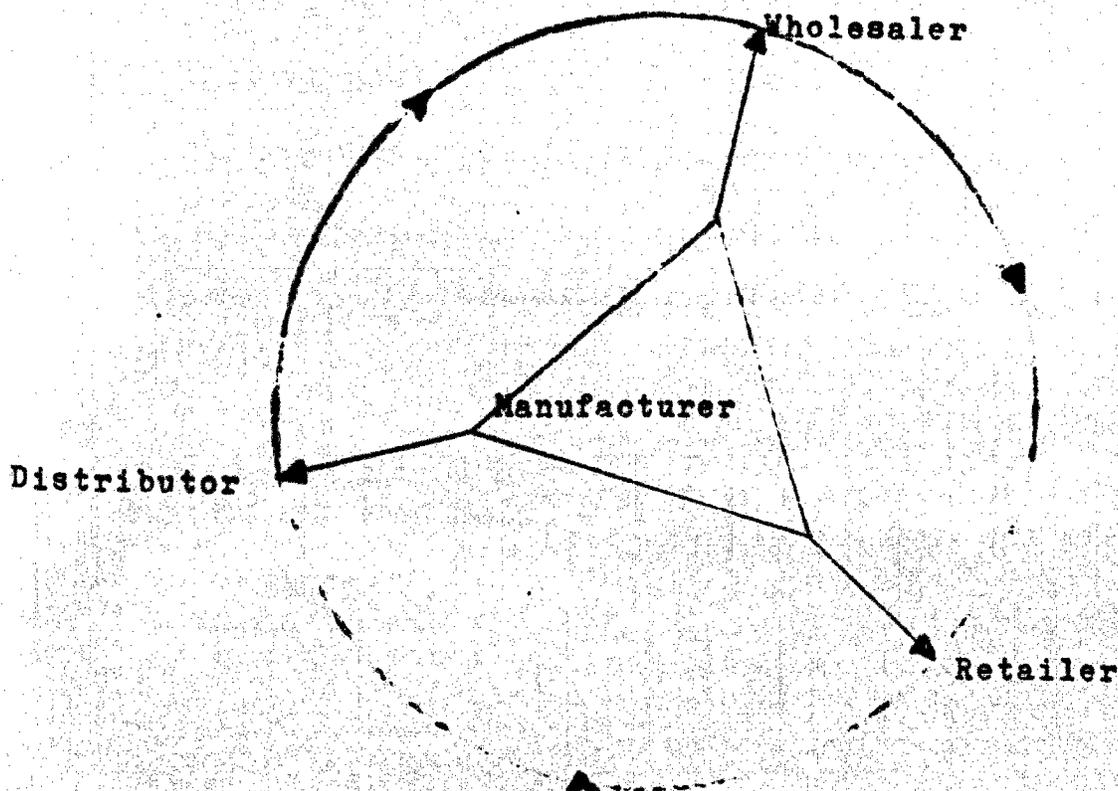
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NOT CLEAR.

The local manufacturers are usually small business-men manufacturing the lower category brands and some cheap which is rather unsystematic. As shown in Figure 9-1, they may sell direct to the retailers or follow the chain of distributors to wholesalers and retailers and from wholesalers to retailers. No commissions are paid to the distributor or other channels of distribution except for the immediate profits. The emphasis is to sell as much cigarettes as possible and not to service the retailers and serve the salesman to the retailers to check and change stocks. Apart from selling, the other eight-point call is out of the question. While the bigger companies do transactions strictly on cash terms, the local ones do give credit to retailers. Thus the bad debt expense is greater in the case of the local manufacturers than in the case of the foreign-originated companies.

FIGURE 9-1

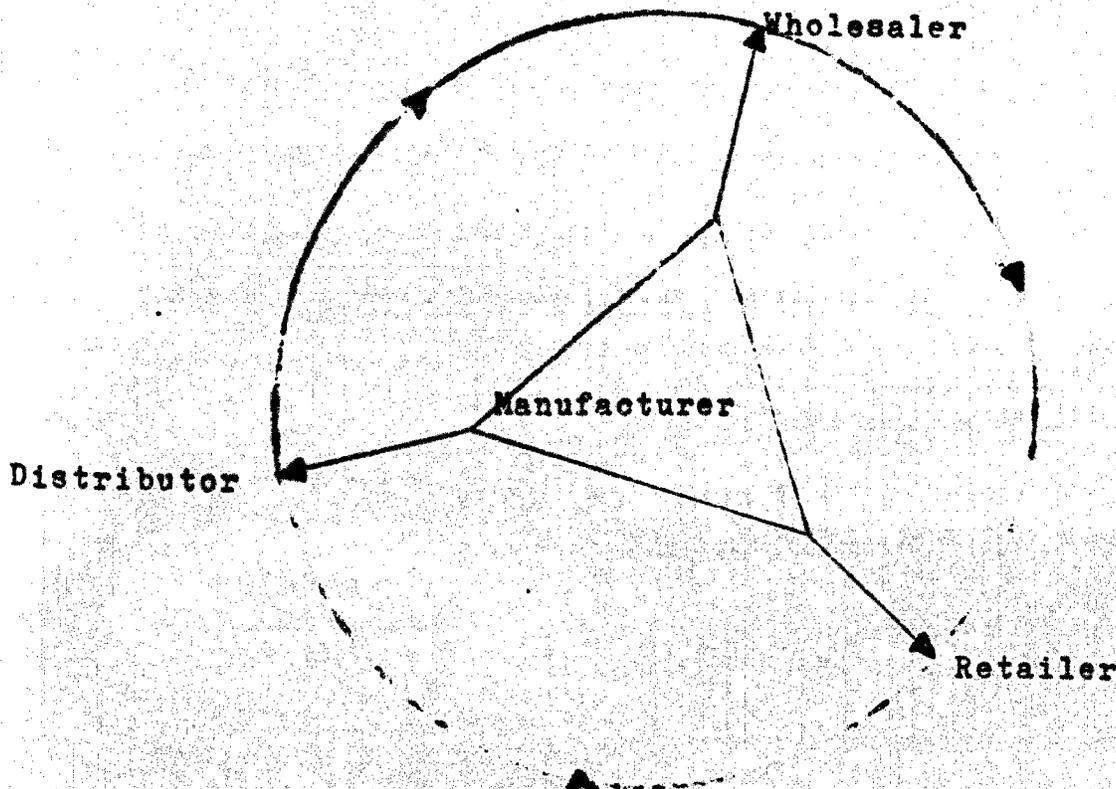
CHANNELS OF DISTRIBUTION - LOCAL MANUFACTURERS



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men manufacturing the lower category brands and some cheap
cigars. They have a similar kind of distribution system
which is rather unsystematic. As shown in Figure 9-1,
they may sell direct to the retailers or follow the chain
of distributors to wholesalers and retailers and from whole-
salers to retailers. No commissions are paid to the distri-
butees or other channels of distribution except for the
immediate profits. The emphasis is to sell as much cigarettes
as possible and not to service the retailers and serve the
consumers. There are no systematic visits by the manufacturers'
salesmen to the retailers to check and change stocks. Apart
from selling, the other eight-point call is out of the
question. While the bigger companies do transactions strictly
on cash terms, the local ones do give credit to retailers.
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FIGURE 9-1

CHANNELS OF DISTRIBUTION - LOCAL MANUFACTURERS



CHAPTER X

PROFITS COMMISSIONS AND ALLOWANCES

So far the functions of the different channels of distribution have been examined. In this Chapter, the various incentives provided by the Company to motivate the channels and activate the channel captains are discussed. These incentives may be in the form of:

- (i) immediate profits
- (ii) commissions
- (iii) cash-selling allowances
- (iv) delivery and on-freight allowances

Immediate Profits

The immediate profits are the profits derived in the first instance by making a sale, the profits being the difference between the cost price and the selling price. These immediate profits vary from channel to channel and from brand to brand. For a more detailed discussion of this, the immediate profits are further classified under:

- (i) the distributor's immediate profits
- (ii) the sub-distributor's immediate profits
- (iii) the retailer's immediate profits

The Price List in Appendix B shows the invoice price, list price, wholesale price per mille and the retail price per packet or tin of cigarettes. In the case of tobacco, the units are measured in lb., tin or pouch while in the case of cigars, they are measured in hundred, box or tin. The invoice price is the price the distributor gets from the Company; the list price is the price the sub-distributor gets from the distributor; the wholesale price is the price the retailer, stockist or wholesaler gets from either the distributor or sub-distributor and the retail price is the price the consumer gets from the final outlets¹. Thus the immediate profits of

¹May be retailers, wholesalers or stockists. See Figure 4-6.

TABLE 10-1

LEAF CIGARETTES

Brand Category	Brand	Packaging	Distributor's profit per mille	Sub-distributor's profit per mille	Manufacturer's profit per mille
A	Benson & Hedges Special FCTK	20HL	9%	10%	10.55
B	State Express 555 FCTK	10HL	8%	10%	10.70
C	Player's Gold Leaf FCTK	10KS	7%	10%	10.20
D	Embassy	10KS	6%	5%	10.75
E	Hough Rider	10KS	5%	5%	10.40
F	Signal	10KS	4%	5%	10.15

Source: Extract from Appendix B.

the distributor are the difference between the invoice and the list prices; those of the sub-distributor are the difference between the list and the wholesale prices; and those of the retailers, the difference between the wholesale and the retail prices.

To take a cross-section of the examples, the distributor, sub-distributor and retailer's individual profits for each of the selected brands are given in Table 10-1. These profits vary from brand to brand. For the higher category, they are more and for the lower category less.

Deferred Discretionary Commission

The deferred discretionary commission is the distributor's annual commission calculated monthly on a sliding scale and based on the distributor's performance with regards to the following factors: turnover, general standing, ordering, distribution to retailers, control of market stocks, record keeping and rendering, resourcefulness and good will with the trade. First, a commission based on the total turnover per annum is calculated. But the final sum will have to depend on the awards or penalties given to the "commission factors". The sales representative concerned submits a report monthly² regarding these "factor performance". A system of marking these factors is devised³ whereby weights are given to the factors and from this assessment, the original commission is added to or subtracted from, for the approval of the Board of Directors. When this is done, the final commission is remitted to the distributor concerned at the end of the Company's financial year.

The break down⁴ of the "commission factors" are:

(i) General standing:

- (a) Standing and recognition in local community
- (b) ~~Ability~~ and willingness to finance the Company's side of the business.
- (c) Ability and willingness to co-operate to the full with the Company's policies.

²This is based on the assignment salesman's reports and the representatives' own observation.

³It is regretted that the marking system is too private and confidential to be made available to the writer.

⁴See Appendix J.

- (ii) Ordering:
 - (a) Accuracy for market requirements
 - (b) Maintenance of required level of buffer stock
 - (c) Ability to anticipate change in demand
- (iii) Distribution to Retailers:
 - (a) Correct level of market stocks.
 - (b) Not too frequent "topping-up"
 - (c) Low proportion of retailers coming to shop for requirements.
- (iv) Control of Market Stocks:
 - (a) Good condition
 - (b) Good rotation, particularly with small volume brands
 - (c) Retailers' display
 - (d) Sub-distributors' display
- (v) Record Keeping and Rendering:
 - (a) Accuracy
 - (b) Promptness
- (vi) Resourcefulness:
 - (a) Selling ability
 - (b) Effort applied particularly with new brands
 - (c) Market information
 - (d) Maintenance of vehicles and advertising generally
 - (e) Ability to act in emergencies
- (vii) Goodwill with the trade:
 - (a) Salesmen's popularity.
 - (b) Ability to pacify retailers in times of difficulty to accept the Company's system and to demonstrate qualities of successful persuasion.

Against these sub-factors on the left-hand side are the squares. If a sub-factor is found unsatisfactory, a cross is placed on the square corresponding to it. If there are too many crosses, it means that the distributor's deferred discretionary commission has been heavily reduced, and in order to obtain a higher commission, he will have to work harder.

Sub-Distributor's Commission

The sub-distributor is not eligible for the deferred discretionary commission but he is given semi-annually, a flat-rate commission of 47½ cents per mille. Thus, his commission is based on only one factor, his turnover. This commission is given by the Company but remitted to the sub-distributor through the distributor concerned.

The retailer does not get any commission or allowances. All he gets is the immediate profit which, when compared with those of the distributor or sub-distributor, is much more per mille. But the distributor or sub-distributor has the advantage of higher turnover.

Cash-Selling Allowances

The cash-selling allowances are allowances paid to the distributor or sub-distributor for expenses incurred in their cash-selling and for the use of their vehicles. These allowances are paid monthly to the distributor who will in turn reimburse his sub-distributors. These allowances form only a certain percentage of the total expenses incurred by the distributor or sub-distributor, the precise percentage depends on the number of days a vehicle is used for cash-selling. To explain this further, an example is drawn from Appendix I.

Under the column marked "owner", the distributor or sub-distributor's name is inserted. The column "Particulars of Vehicle" is self-explanatory. The "Cash-Selling System" shows fractions, the numerator represents the number of cash-selling days, and the denominator, the number of topping-up days. From these fractions, the "MTC percentage" is derived.

The "Overhead Factor" consists of:

- (i) insurance of the vehicle.
- (ii) wage of driver plus 5% Employees Provident Fund.
- (iii) payroll tax (if any).
- (iv) license fee.
- (v) lubrication expenses.
- (vi) repairs.
- (vii) tyres and tubes changed.
- (viii) annual depreciation⁵.

⁵ Vehicles over 5 years old no longer have the depreciation element included in the overheads. Such vehicles must be painted neutral colour without carrying the Company's advertisement.

These overhead factors are calculated for each month and totalled up, for example, Van BN 5463 has a total overheads of \$293.73. As shown, in the "MTC Percentage" column, the Malayan Tobacco Company's proportion of overheads is 60% of \$293.73 which is \$179.27. The Company pays for the full cost of the petrol consumed and that is \$6.03. Therefore the total allowance received by the distributor for that vehicle is \$185.30.

If there are any tricycle box allowances, these are added to the other allowances. There are three rates here:

- (i) Rate A⁶ applies to the distributor's tricycle with peddlers.
- (ii) Rate B⁷ applies to the distributor's tricycle without peddlers.
- (iii) Rate C⁸ applies to the tricycles used by the sub-distributors.

The total allowances for all the vehicle used are then added up and a cheque for the amount remitted to the distributor who will reimburse his sub-distributors accordingly.

Delivery and On-Freight Allowances

In cases where the distributor or sub-distributor provides his own freight charges, the Company gives a delivery allowance, the rate of which differs quite considerably. This will depend on the quantity of goods carried, mileage travelled and type of vehicle used.

⁶For 5 days cash-selling, it is \$32.50 per week and for one day, it is \$16.50 per week.

^{7,8}Flat rate of \$9.00 per unit.