

CHAPTER I

INTRODUCTION

The cigarette industry in Malaysia today is a competitive one, and it is likely to become more competitive in the days ahead. Confronted by this competitive market, the Malayan Tobacco Company has not only enlarged its promotion budget, but has also intensified its distribution of the tobacco products.¹ Selling these products alone is hardly sufficient, the Company has placed great importance on service to the retailers and other channels of distribution. The Company's objectives, at all times, are to preserve the quality of the products and to guarantee consumer satisfactions. These goals are achieved by the whole distribution network, evolved through years of experience and modification to suit the changing times. This network so meticulously geared to meet competition and to establish company image, may be broken down into three constituent parts:

- (i) the controversial system of the outlet classification.
- (ii) the absolute importance of the distributors in the channels of distribution.
- (iii) the sales force of the Malayan Tobacco Company.

The strategic blending of these three factors has given the Malayan Tobacco Company a distribution formula which may be said to be well in advance - at least five years ahead - of the distribution systems of other firms, both inside and outside the cigarette industry in Malaysia. Such a highly developed distribution system cannot but offer interest to the academicians as well as the professionals.

Objectives of Study

This study attempts to analyse and appraise as objectively as possible the distribution network of the Malayan Tobacco Company and to highlight some of the more

¹This term covers the product line which includes cigarette in tins and packets, pipe tobacco and cigars.

controversial parts of the distribution network for discussion. This is a rather detailed treatment of the subject, the emphasis of which is on the practical side of distribution rather than on the theoretical aspect.

Scope of Study

This study covers only the territories under the jurisdiction of the Malayan Tobacco Company, that is, it does not consider the Malaysian States of Sabah and Sarawak, which come under the control of the Singapore Tobacco Company.²

Although the topic of the study is "Distribution" which automatically brings to mind the channels of distribution, the scope of the study really covers a much larger ground. It includes the functions of the "vehicles" of distribution,³ their work, remunerations and attitudes. It is thought that a brief description of the Malayan Tobacco Company's organisation and the factors influencing distribution are pillars on which the distribution system is built on. These are therefore discussed in Chapters II and III. The major part of the study is taken up by five chapters (IV to VIII) dealing with the channels of distribution proper. The remunerations, allowances and immediate profits of the distributors and sub-distributors are dealt with in great length. This gives an insight into the complex systems used by the Company to provide incentives and rewards to a very important link in the chain of distribution, the distributors.

There are many technical terms used by the Company. Some of these are familiar words yet having different meanings or connotations. To aid easier comprehension, the definitions of these words or terms are given in Appendix A. The important ones are further explained in the relevant section of the study.

Research Methodology

This study has been made possible through the writer's good fortune of being offered a vacation employment with the Malayan Tobacco Company for a period of three months from February to May, 1966. The writer was attached to the

²The Singapore Tobacco Company is wholly the subsidiary of the Malayan Tobacco Company. They have a common Chairman of the Board of Directors, Marketing Director and Advertising Co-ordinator.

³The sales force of the Company and the distributors.

Marketing Department but spent most of his time in the Sales Department. The training received has been an invaluable aid in gauging the working and organization of the Company. It has also provided the experience and the knowledge of the marketing structure and organization of the Company that are indeed essential in the presentation of this study. Much of the material are obtained from actual observation of, and working with, the Malayan Tobacco Company and distributors' salesmen. Informal discussions with them on the selling aspects have been of great help in tying up the loose ends. Several interviews with the Sales Manager have elicited some useful information, though rather scanty for an academic exercise. However, the Sales Manager and the salesmen were kind enough to allow the writer access into their less confidential files, from which much useful material have been extracted. Some reading up in the "Printer's Ink"⁴ and some Tobacco magazines⁵ has given a deeper insight into the cigarette business. This forms a solid foundation of the framework of Chapters II, III and XI.

The description and discussion of the Distribution System proper are based on the observation and study undertaken on the State of Selangor only. This by no means distorts the overall picture as the same system is practised in all the states throughout Malaysia. The system therefore truly represents the overall structure of distribution, except for a small and almost negligible variations between the urban and rural markets.

Limitations of Study

In a study of this nature, it is often difficult - quite understandable too - to obtain certain information, especially the detailed statistics which, in the opinion of the Management of the Malayan Tobacco Company, are strictly private and confidential. Here there is a conflicting interest between the objective of an academic exercise which is to present detailed facts and figures, and the need to preserve the Company's "secrets". At all events, a happy medium was struck whereby the Management was sympathetic enough to release facts and figures of a general nature.

⁴A magazine of advertising and marketing; Vols. 284 No. 4, 282 No. 2; Decker Communications Incorporation, New York.

⁵United States Tobacco Journal, published weekly at 40, Journal Square, Jersey City, New Jersey.

It must be emphasized that any policies and practices discussed in this study do not necessarily represent, though they may well be indicative of, those of the Company. The Management does not vouchsafe to take responsibility of the accuracy of the study in relation to the Company's policies. It must be stated quite categorically that any policies stated or discussed, any criticisms or comments made, represent only the writer's views, formed during his three months' association and working with, and close observation of, the Company.

Acknowledgement

This study would not have been possible without the co-operation of the Malayan Tobacco Company and the distributors' salesmen in Selangor. They readily explained their actual work and what are expected of them, and the purposes and uses of the various forms attached in the Appendix. To these salesmen, the writer would like to say a special word of thanks.

Thanks are due to Mr. Yeo Jui Kok, the Sales Manager of the Malayan Tobacco Company, for his "confidential" information and his generous assistance in allowing the writer access to his files. Thanks are also due to Mr. D.W. Stewart, the Personnel Manager of the Malayan Tobacco Company, for information on the organisation of the Company.

The writer wishes to express his gratitude to Mr. Chong Sin Jee, lecturer in the Division of Business Administration, Faculty of Economics and Administration, University of Malaya, for his invaluable guidance, advice and suggestions, and for taking a personal interest in this study.