

## CHAPTER IV

### THE NATURE OF DISTRIBUTION

With the opening of the modern factory in Kuala Lumpur, better and more up-to-date machines and techniques have been introduced with better trained staff to run the plants and supervise work. Quite naturally more and more brands are being manufactured locally. At the present moment, 23 brands of cigarettes are locally manufactured, while about the same number of brands are imported from the British-American Tobacco Company Group in the United Kingdom and the United States. All the tobaccos and cigars are still imported. But whether the cigarettes are imported or locally manufactured, they pass through the same channels of distribution before reaching the consumers.

#### Imported Tobacco Products<sup>1</sup>

In order that imported products may last the voyage to Malaysia and considering the intermediate lapse of time before they reach the consumers, they are specially packed and their moisture-content is specially controlled. These imports come in big ocean liners to Port Swettenham and Singapore (See Figure 4-1) and from there, they are unloaded and taken to and stored in the Malayan Tobacco Company and Singapore Tobacco Company godowns, respectively, till the time when they are required for distribution.

#### Locally Manufactured Cigarettes

These domestic cigarettes cover nearly 90% of the Company's total sales of cigarettes in the Malaysian market. Although these cigarettes are manufactured locally, about 97% of the leaf tobacco is imported from the United States, Canada, Rhodesia, India and Pakistan (See Map 4-1). Only about 3% of the leaf grown in Kelantan is used mainly in the lower category brands, for example, "Rough Rider", "Signal" and "Star".

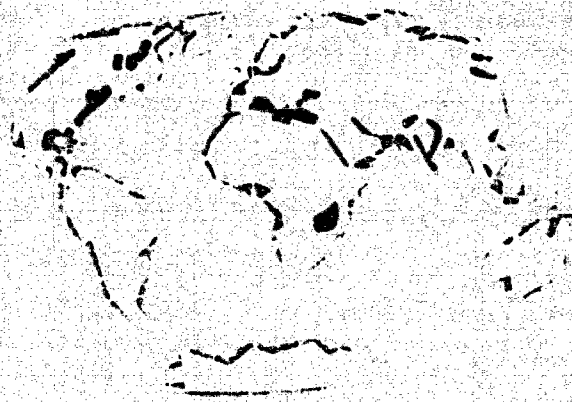
All the leaf tobacco, before being processed, is given a Freezing Chamber treatment lasting for about two weeks to destroy all bacteria. It is then stored in carefully

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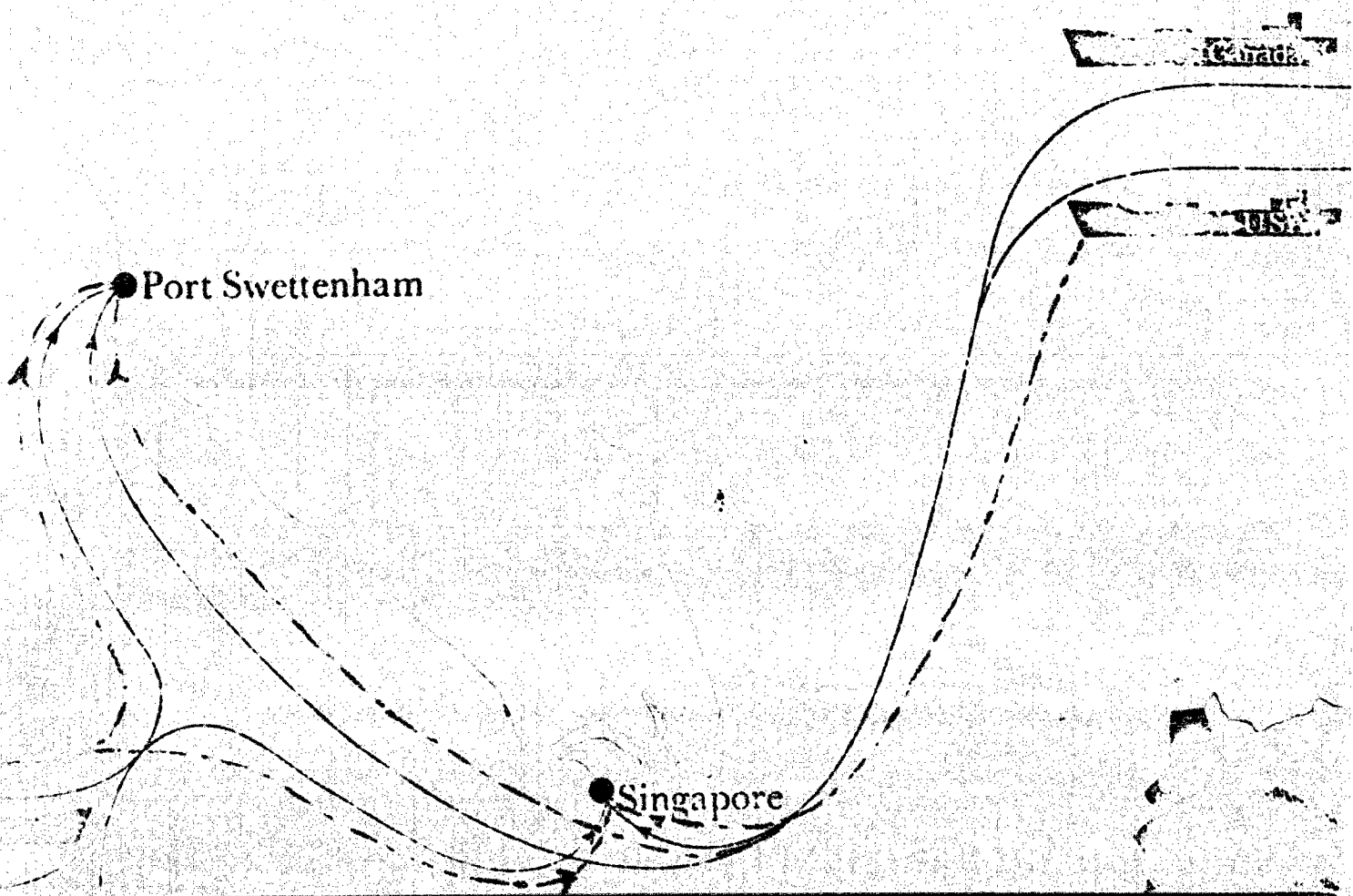
<sup>1</sup>Includes cigarettes, pipe tobacco and cigars.

W.D. & H.O. WILLS  
We bring the world's finest tobacco to you

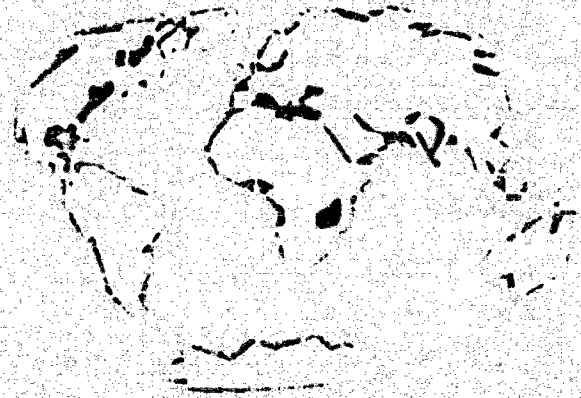
tab. leaf areas of the world



— Leaf Tobacco  
--- Imported Goods  
Journey



LEAF AND IMPORTED TOBACCO  
We bring the world's finest tobacco to America



— Leaf Tobacco

- - - Imported Tobacco

● Port Swettenham

● Singapore

Malaya

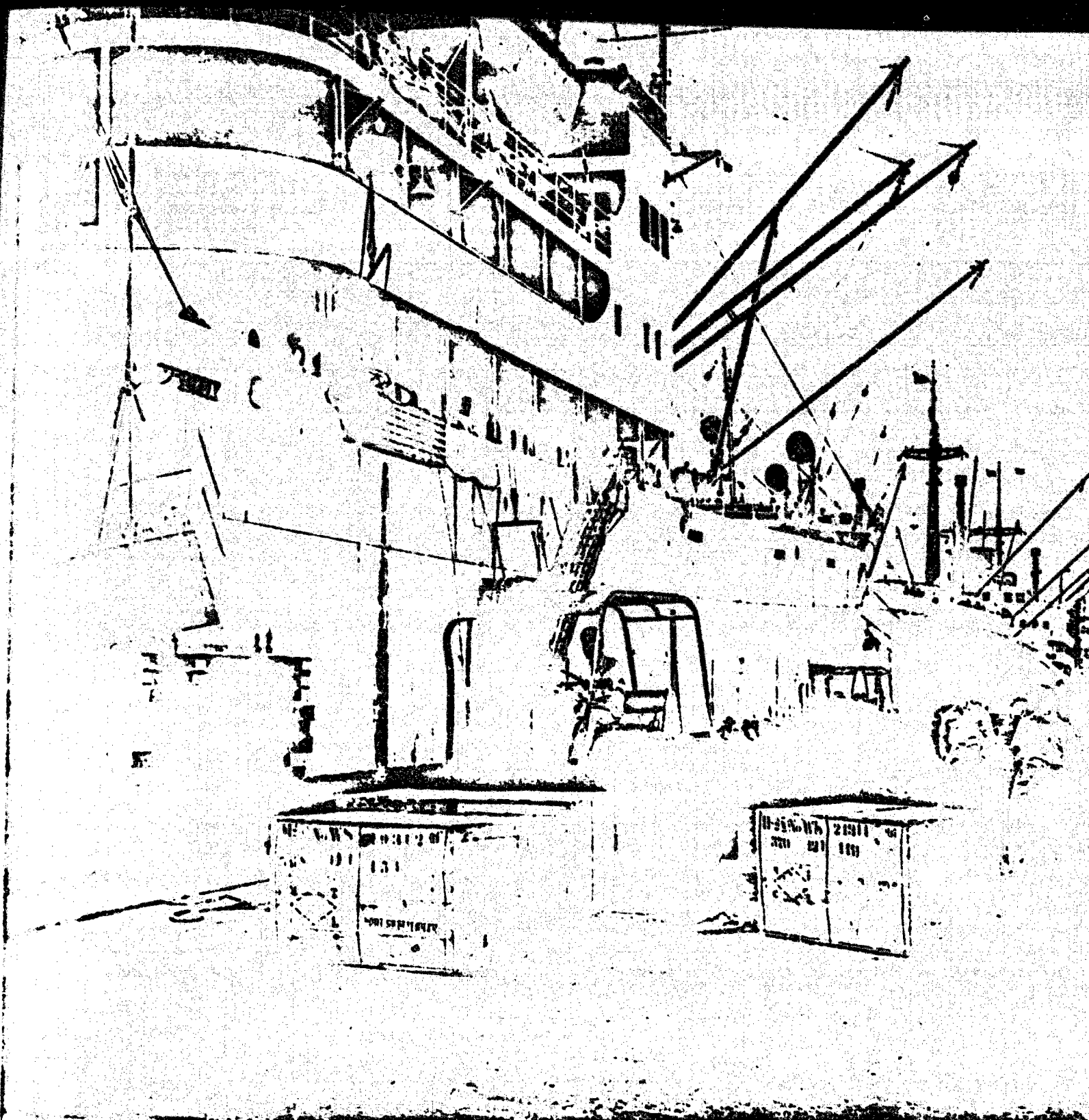
Sumatra



**Seedlings of fine tobacco being planted in Virginia, U.S.A.**



**A typical Canadian Tobacco farm.**

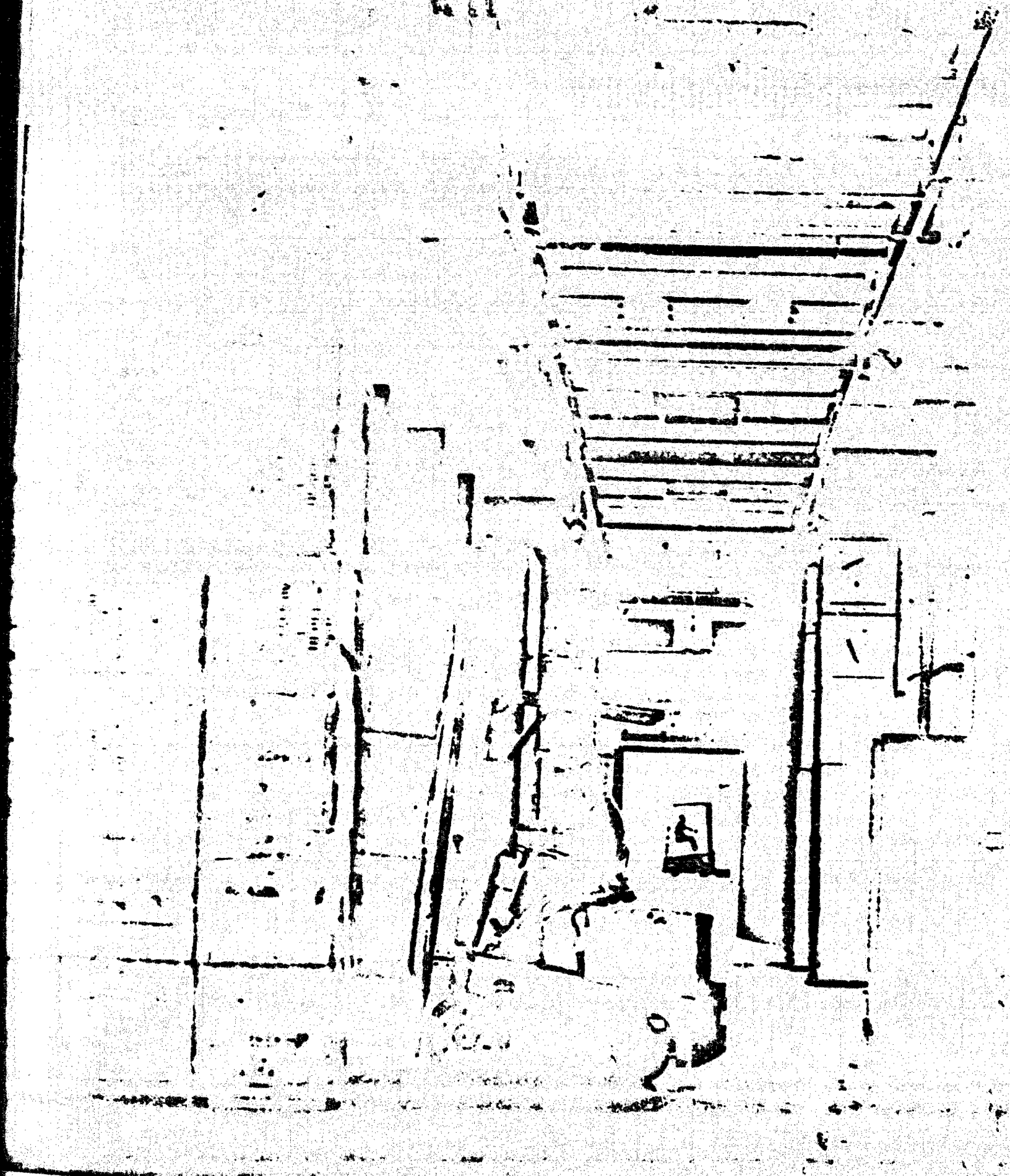


Company imports thousands of tons of tobacco each year into Singapore  
from Swettenham from the U.S.A., Canada, Southern Rhodesia, India  
Pakistan.

FIGURE 4-1

UNLOADING LEAF





At the end of its journey the tobacco is stored in carefully controlled conditions. This photograph shows the store at the Malayan Tobacco Company factory in Kuala Lumpur — one of the largest air-conditioned stores in Asia.

controlled conditions (See Figure 4-2). The leaf is then conditioned to make it soft and the different types of leaf are blended to a constant formula for each brand, thus ensuring continuity of quality. After conditioning the leaf, the tobacco is passed into machines which separate the stem from the lamina. Streams of air carry away the lighter leaf and allow the heavier stem to be removed. The tobacco then passes into cutting machines to produce the fine strands required for making cigarettes. These fine strands then pass through a heater where they are softened and then into a Cooler to be cooled. After this the fine strands of tobacco are tested for weight and moisture-content.

From the Primary Manufacturing Department, the tobacco is then taken to the Making Department and stored in a Controlled Room where the temperature and the humidity are controlled to the requirements specified. After twenty-four hours, the tobacco strands are taken out to be manufactured into cigarettes, using high speed automatic machines.

The manufactured cigarettes are again stored in the Controlled Room for at least another twenty-four hours before they are sent to the Packing Department. The packing machines are fitted with electrical devices which eject any faulty packets. The packets, each printed with a code number are wrapped in cellophane to give added protection. They are then packed in carton lots, bigger bundles and wooden cases to be taken to the Store Room until distributed by lorries or trucks to the distributors. These trucks (See Figure 4-3 and 4-4) go out to the different distributors on the same day of the week unless it is a holiday, in which case the trucks will go out on the following day. There are nine trucks consisting of one eight-tonner, six nine-tonners, one twelve-tonner and one fourteen tonner. Figure 4-5 shows an eight-tonner.

### Nature of Distribution

Distribution is the supply line which moves the right product in the right quantity at the right time to the right place where consumers can buy it at the right price. In order to achieve this, the Company relies on the distributors whose efficiency and readiness to co-operate with the Company are vital to the success of the Company's distribution policies. Distribution being highly exclusive - only 53 distributors in the whole country<sup>2</sup> - the selection of distributors is indeed no ordinary task. The domestic cigarettes and the tobacco products imported from the British-American Tobacco Company are kept in the Malayan Tobacco Company's store room until required

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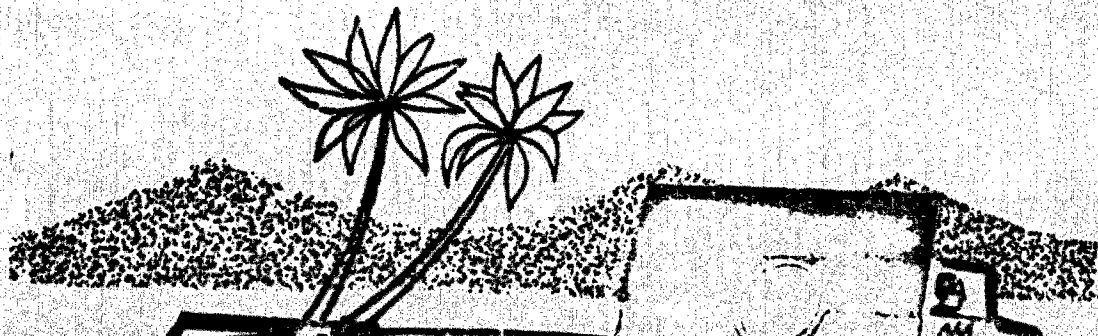
<sup>2</sup> excluding Sabah and Sarawak.

FIGURE 4-3  
GOLD LEAF TRUCK



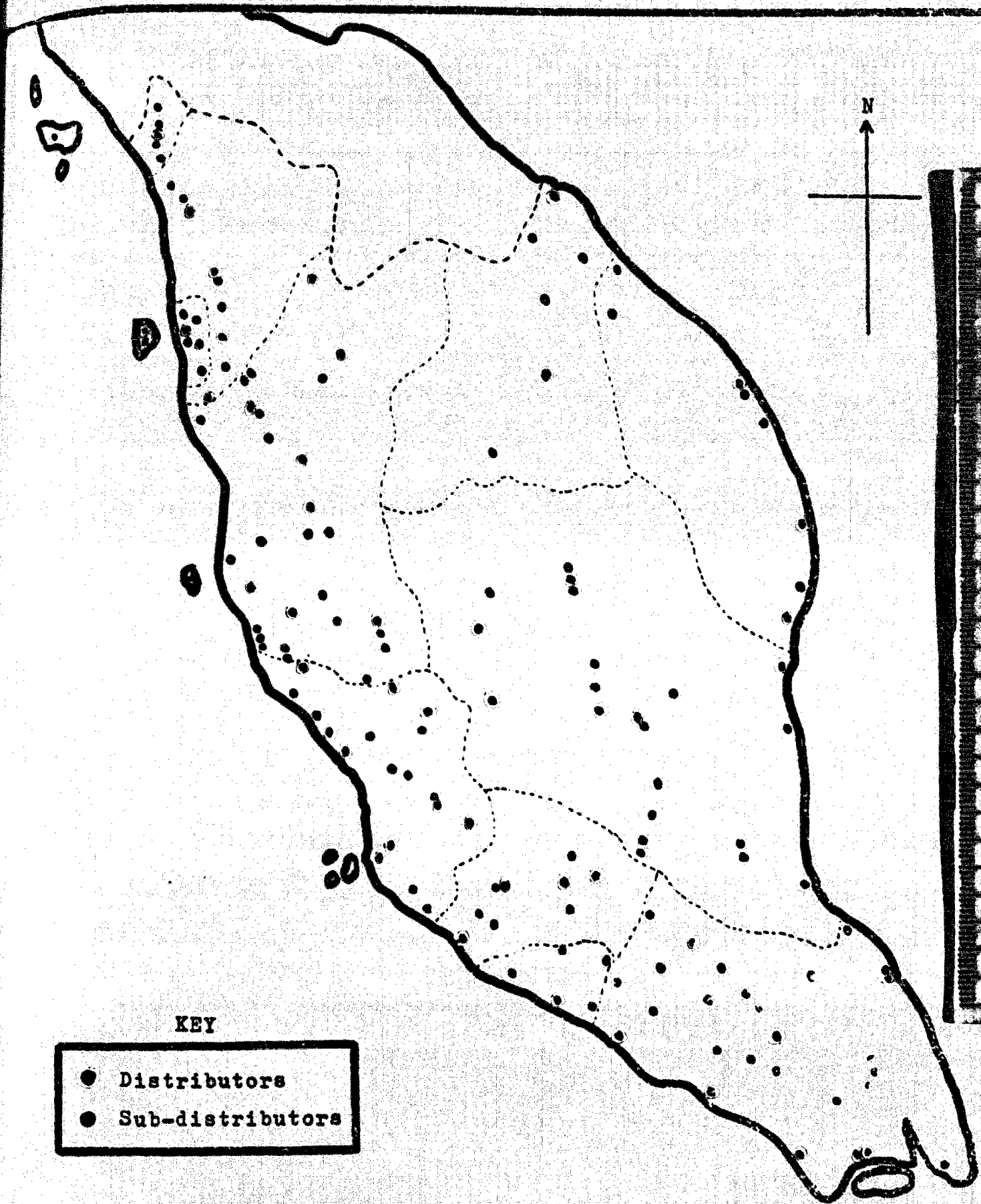
上圖為馬來亞煙草公司一輛用以輸送製成品予全馬各地代理商的送貨車之影。本公司及屬下各代理商的送貨車輛，在一年內川行超過二百五十萬英哩之路程。

本公司的分銷機構的優良效率，是由長年累月的經驗中得來的。本公司對所有代理商的存貨都經常加以點查調度，俾適應消費者的需求，這種服務贏得零售商及消費者的同聲讚賞。每週內，我們各地的代理商與超過四萬名的零售商接觸聯絡。





DISTRIBUTORS AND SUB-DISTRIBUTORS\*



KEY

- Distributors
- Sub-distributors

\* For the towns and names of the distributors and sub-distributors, See Appendix D.



by many millions of our cigarettes are delivered to distributors.

Figure 4-4  
LOADING CIGARETTES



An eight-ton Malayan Tobacco Company vehicle in Kuala Lumpur.

Figure 4-5

EIGHT-TONNER

for distribution. Every week the distributors send in Order Forms placing their orders one week in advance. In other words, the order this week will be the requirement next week. The orders are then despatched to the distributors on the same day of the week and as far as possible at the same time.

The distributors then cash-sell to the wholesalers, stockists and retailers once or twice a week at the wholesale price strictly on cash terms. Those distributors who make use of the sub-distributors to aid their distribution sell them at the list price. The sub-distributors in turn sell to the wholesalers, ~~stockists~~ and retailers at the wholesale price. The wholesalers and the stockists perform a useful function in the channels, for they supply the smaller retailers who lack working capital to be able to obtain a week's supply from the distributors or sub-distributors. These retailers get their supplies from the wholesalers or stockists at any time convenient to them, and because of their relationship with the stockists or wholesalers, are able to obtain the goods on credit. For this service, the stockists or wholesalers sell them at a price slightly higher than the wholesale price, the actual price depends on their relationship, goodwill and business understanding. Then from the wholesalers, stockists and retailers, the goods ultimately reach the final consumers.

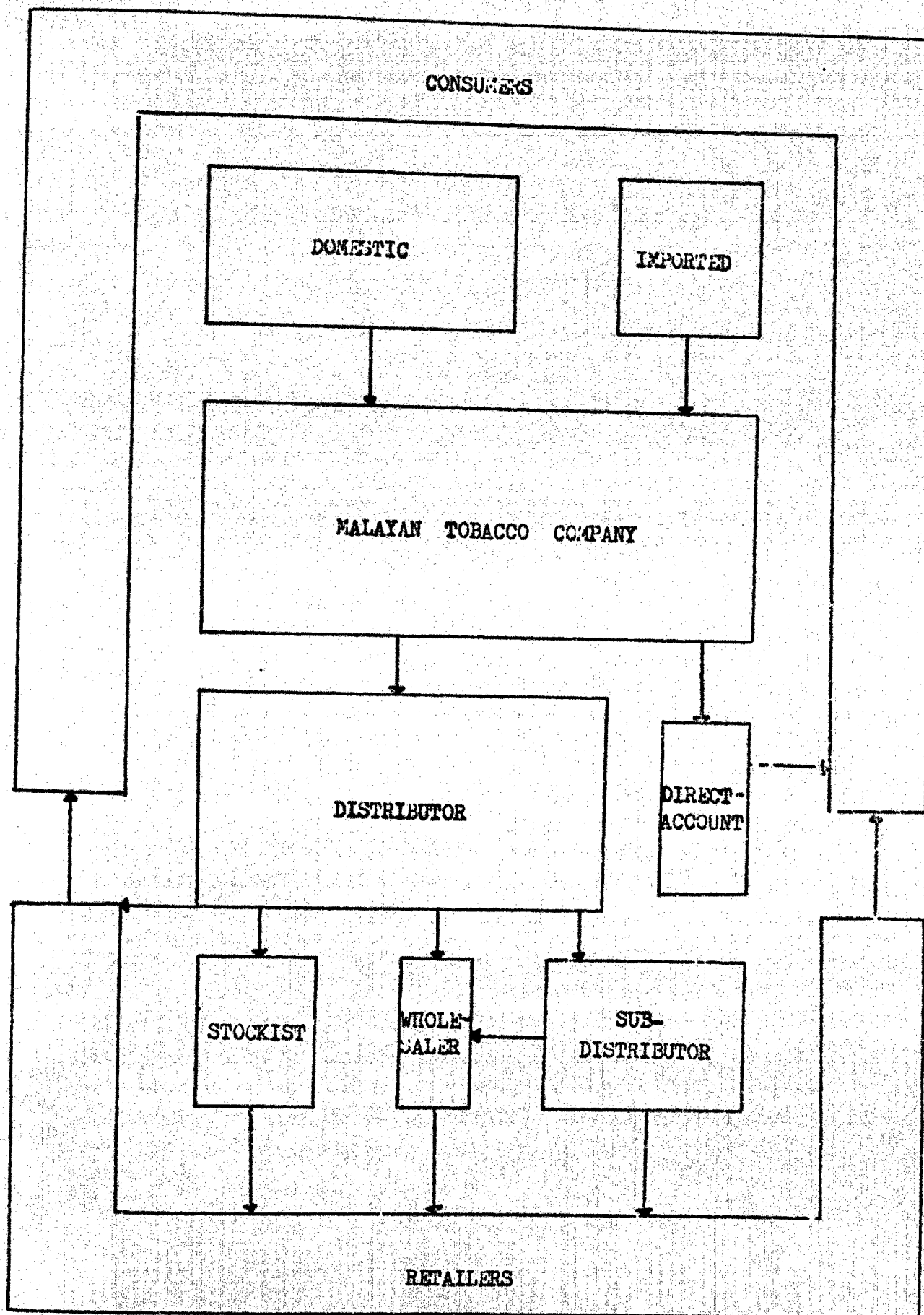
#### Criteria for Selection of Distributors and Sub-Distributors

From Figure 4-6, it is noted that the only channel through which the Company's goods reach the consumers is the exclusive distributors. The importance of these distributors therefore must be repeatedly emphasised, and their choice is indeed a very important one. Generally, the Company's criteria for selecting the distributors are :

- (i) a sound financial standing
- (ii) social prestige and leadership
- (iii) ability to co-operate with the Company

An average order per week in terms of cash for an average distributor is about \$50,000, for a big distributor it may exceed \$200,000. The despatch of the order by the Company is strictly on cash-on-delivery basis and unless a remittance for the amount ordered is received, the order will not be despatched. A few instances of such a discrepancy may antagonize the Company against the distributor concerned and bring about cancellation of the distributorship. This will necessitate a search for another distributor, thus causing a momentary interruption in the distribution. To avoid this onerous task, a distributor with a good financial support is a prerequisite for consideration as the Company's distributor.

FIGURE 4-6  
CHANNELS OF DISTRIBUTION





Social prestige and leadership in the community are favourable factors in the eyes of the Company. A title such as Sir, Dato, Tan Sri, or a local politician or councillor is a valuable achievement, which, if associated with the Company, will enhance its image and provide a source of influence and security regarding the cigarette business. Such an "accomplished" distributor will be able to exert influence directly or indirectly, in securing facilities for the Company's promotional activities. It must not be construed, however, that all the Company's distributors are "accomplished" distributors. Nevertheless, they are expected to be sociable in the community and to associate themselves with the prestige games<sup>2</sup> and functions<sup>3</sup> of the community.

Co-operation is necessary in any form or type of business or organisation. This is particularly so in competitive industries of which the tobacco business is one. Taking the Company's instructions and executing them promptly and efficiently, being attentive to the activities of the competitors, and hand in hand with the Company counter-balance or at least off-balance them, are tasks which demand stamina, initiative and foresight.

The choice of the sub-distributors is the responsibility of the distributors and not the jurisdiction of the Company, although the Company may express its opinions and offer advice in accepting, rejecting or cancelling the sub-distributors. There are many pros and cons in having this channel. These will be discussed in the next chapter. The criteria for their choice are still the same as those discussed above in relation to the distributor, but with more emphasis on co-operation. A sub-distributor's market is usually small and finance and social prestige are not very important factors. Co-operation is important for a bad sub-distributor's market affects the deferred discretionary commission of the distributor.

### Physical Distribution

The physical distribution refers to the geographical distribution of the distributors and sub-distributors. This is shown on Map 4-2. They are concentrated on the West Coast and sparsely spread out on the East Coast states of Kelantan, Trengganu and Pahang. For reasons of sparse population, low purchasing power of the population, poor communications and

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<sup>2</sup> For example, golf.

<sup>3</sup> For example, grand dinners and state functions.

difficult accessibility into the regions<sup>4</sup>, the physical distribution in these States has not been pushed further. Perhaps with the Rural Development picking up momentum in these areas, plans to improve and expand the physical distribution in these regions are being studied. However, at the present moment, there are 53 distributors and 111 sub-distributors in the mainland of Malaysia<sup>5</sup>. The names of the distributors and sub-distributors are given in Appendix D. It must be noted that some distributors do not have any sub-distributors while some have only one each.

### Distribution Objectives

Having selected the distributors and sub-distributors, it now remains for the Company to make clear to them the Company's distribution objectives. It is only through a comprehensive understanding of these objectives as defined and embodied in the term "distribution" that they may be achieved. Briefly, five steps are taken to achieve these objectives:

(i) The re-adjustment of the cash-selling schedule so that the distributors and the sub-distributors' salesmen have sufficient time with each retailer. The number of retail calls per day has been considerably reduced and cash-selling routes have been revised to economise time and efforts.

(ii) To impress upon the distributors the importance of the eight-point call which is expected to be done by their salesmen.

(iii) To train the distributors and the sub-distributors' salesmen to be "salesmen" instead of order-takers, that is, instead of just taking the retailers' orders; their work includes persuading and advising the retailers in their orders.

(iv) To equip the distributors and sub-distributors' salesmen with tools and stationary so that they will be more efficient and prepared for the eight-point call.

(v) To ensure that the distributors and the sub-distributors' salesmen are properly supervised so that work objectives are achieved.

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<sup>4</sup>These characteristics are discussed in Chapter III.

<sup>5</sup>The distribution in Sabah and Sarawak comes under the Singapore Tobacco Company at the moment of writing. Further political developments may make it necessary to bring the distribution in these two regions under the jurisdiction of the Malayan Tobacco Company.