

STRATEGIC MANAGEMENT (LCMB7003)

STRATEGIC ANALYSIS OF BRITISH AMERICAN TOBACCO



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1. INTRODUCTION

This report conducts a strategic analysis of how British American Tobacco (BAT) dealt with the central issues of its business model using strategic management models and theories to demonstrate how these were deployed in the emergent strategies to achieve a competitive advantage through its particular choice of strategic management. BAT is a global tobacco company that has been in operation for over a century. The company operates in over 180 countries and has a portfolio of more than 200 brands. However, like most companies, BAT has faced several challenges over the years that have threatened its competitiveness in the market.

2. BAT BACKGROUND

British American Tobacco (BAT) is a multinational tobacco company based in London, United Kingdom. The company was founded in 1902 and has since grown to become one of the largest tobacco companies in the world, with a presence in over 180 countries (Bat.com, 2023o). As of 2022, BAT had approximately 53,000 employees worldwide (Bat.com, 2022d) and a market capitalization of over £60 billion (Financial Times, 2023; London Stock Exchange, 2023). The company operates in a number of different markets, including Europe, Asia-Pacific, the Americas, Africa and the Middle East (Bat.com, 2023j). Despite the decline in the smoking industry in recent years, BAT remains a profitable company, reporting a revenue of £27.75 billion and a net income of £10.5 billion in 2022 (Bat.com, 2023a; Statista, 2023a; Wall Street Journal, 2023). In addition to traditional tobacco products, such as cigarettes and cigars, BAT has also expanded its portfolio to include new and emerging products such as e-cigarettes and tobacco heating products. The company's flagship cigarette brands include Dunhill, Lucky Strike, and Pall Mall (Bat.com, 2023p). However, BAT has faced criticism over its marketing

practices and the health effects of its products. The company has been involved in several lawsuits and regulatory issues over the years, particularly in relation to the marketing of its products to minors and the health risks associated with smoking (The Guardian, 2017; Eadie *et al.*, 2016).

Fig. 1: Summary of Financial Results for the Last Five Years

FINANCIAL RESULTS FOR THE LAST 5 YEARS					
Values are quoted in the stock's local currency: British pound.					
Income Statement:	31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018
	£ (Millions)	£ (Millions)	£ (Millions)	£ (Millions)	£ (Millions)
Revenue:	27,655.00	25,684.00	25,776.00	25,877.00	24,492.00
Operating Profit / (Loss):	10,523.00	10,234.00	9,962.00	9,016.00	9,313.00
Net Interest:	(1,641.00)	(1,486.00)	(1,745.00)	(1,602.00)	(1,381.00)
Profit Before Tax:	9,324.00	9,163.00	8,672.00	7,912.00	8,351.00
Profit after tax from continuing operations:	6,846.00	6,974.00	6,564.00	5,849.00	6,210.00

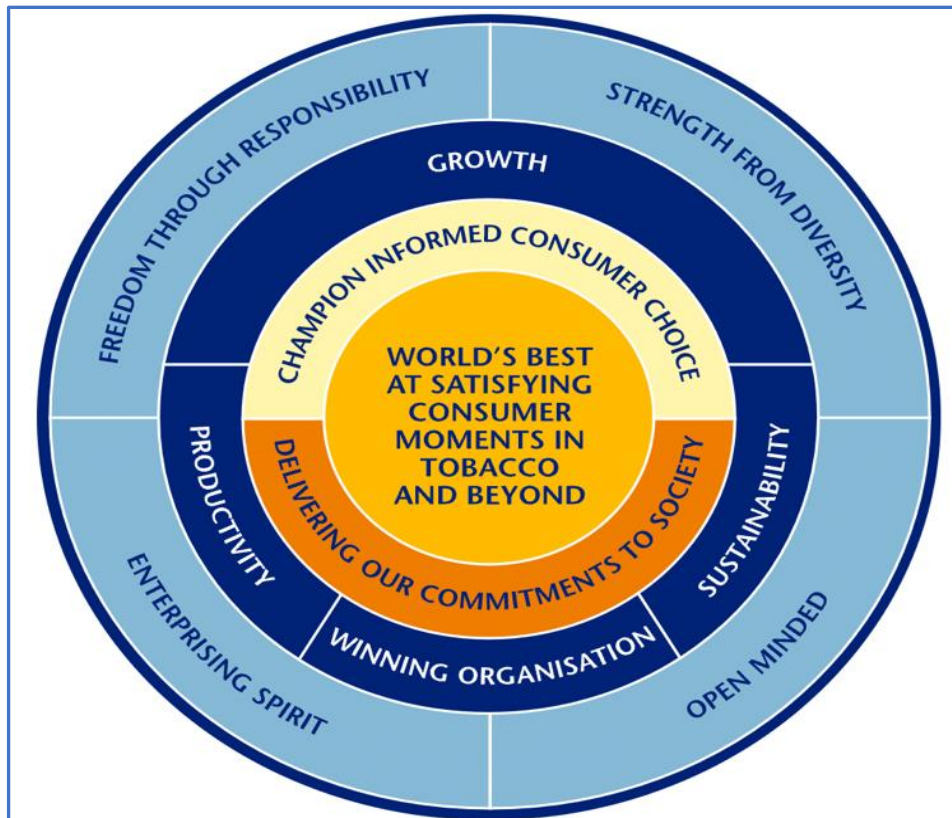
Source: Hargreaves Lansdown

2.1. Recent Major Events

In April 2019, Jack Bowles became the CEO of BAT, taking over from Nicandro Durante. More recently, in October 2020, it announced that Richard Burrows would step down as Chairman after the 2021 AGM and will be replaced by Luc Jobin (Bat.com, 2023aa). On 25th April 2023, it reached an agreement with the U.S. Department of Justice and the Department of the Treasury's Office of Foreign Assets Control over sanction breaches in North Korea (Bat.com, 2023b).

2.2. BAT's Mission and Objectives

BAT's mission is "To satisfy our consumers with high-quality products that deliver superior value while providing attractive returns to our shareholders" (Bat.com, 2023c).



Source: Bat.com

To achieve this mission, BAT has set several objectives as indicated in the diagram above (Bat.com, 2023q ; Mahmood, Zia Ud Din and Liaqat, 2022a) and explained below.

Build a sustainable business: BAT is committed to building a sustainable business that is both economically and environmentally responsible. This includes reducing the company's carbon footprint, conserving water resources, and improving the welfare of tobacco farmers (Bat.com, 2021c; Bat.com, 2022c).

Deliver shareholder value: BAT aims to deliver superior returns to its shareholders by growing its business and maintaining strong financial performance. This includes investing in research and development to create innovative products that meet consumer demand (Bat.com, 2023i).

Meet consumer needs: BAT aims to understand and meet the needs of its consumers by delivering high-quality products that provide superior value. This includes developing new products and improving existing ones to stay ahead of changing consumer preferences (Bat.com, 2020a).

Responsible marketing and distribution: BAT is committed to marketing and distributing its products responsibly, with a focus on preventing underage access to tobacco products and ensuring that its advertising is honest and accurate (Bat.com, 2022g).

Maintain leadership in the industry: BAT aims to maintain its position as a global leader in the tobacco industry by continuing to innovate and invest in its business. This includes developing new technologies and partnerships to stay ahead of the competition (Bat.com, 2023q).

Overall, BAT's mission and objectives reflect its commitment to delivering value to its consumers and shareholders while maintaining responsible and sustainable business practices (Mahmood, Zia Ud Din and Liaqat, 2022a).

3. MACRO-ENVIRONMENT ANALYSIS

This analysis will use PESTLE to evaluate the external factors and forces that influence the operations of BAT in the market but are beyond its control. These factors include economic, social, technological, political, legal, and environmental forces (Whittington, 2019).

A macro environment analysis enables BAT to understand the broader business environment in which it operates and identify opportunities and threats that may impact its growth and profitability. By analyzing these factors, BAT can develop strategies to mitigate the risks and take advantage of the opportunities (Bush, 2019).

3.1. PESTEL Analysis

Pestle analysis is a useful tool for assessing the external or macro-environmental factors that influence a company's operations. British American Tobacco (BAT) being a multinational enterprise, faces varied external forces that influence its business strategy in a given market (Bat.com, 2022b).

Political factors: BAT operates in various countries across the world. Therefore, it is subject to the political stability and regulations of those countries. The company's products are also subject to taxes and tariffs, which can significantly affect its profitability. For instance, the UK government has increased taxes on tobacco products, which negatively affects BAT's revenue in the UK (Gov.uk, 2023). Moreover, the company is subject to regulations and laws that govern the marketing and sale of tobacco products in various jurisdictions.

Economic factors: The economic conditions of the countries in which BAT operates have a significant impact on its operations. The company's revenues and profits are affected by

changes in exchange rates, interest rates, and inflation rates. For instance, BAT reported lower profits in 2020 due to the economic effects of the COVID-19 pandemic (Bat.com, 2021d; Reuters, 2020). Additionally, the company is subject to various economic sanctions and embargoes imposed on some of the countries such as Russia where it operates, which affects its financial performance (Office for National Statistics UK, 2023).

Social factors: The social factors that affect BAT include changing consumer habits and attitudes towards smoking, health concerns, and demographic changes. The company has responded to these changes by diversifying its product portfolio to include less harmful nicotine products such as e-cigarettes and heat-not-burn products (Bat.com, 2023t). However, BAT's tobacco products continue to be subject to negative public perception due to their adverse health effects (WHO, 2022a).

Technological factors: BAT is subject to rapid technological changes, particularly in the production and distribution of tobacco products. The company has invested heavily in research and development to develop new and innovative products such as e-cigarettes and heat-not-burn products (Bat.com, 2021a). Moreover, the company is also leveraging technology to improve its supply chain and distribution networks.

Legal factors: BAT is subject to various laws and regulations that govern the production, marketing, and sale of tobacco products. These laws and regulations include restrictions on advertising and marketing tobacco products, packaging requirements, and health warnings. For instance, the company was forced to remove its branding from cigarette packaging in the UK due to regulations aimed at reducing smoking (Gov.uk, 2016; European Commission, 2023).

Environmental factors: The production and consumption of tobacco products have significant environmental impacts. The company is taking steps to address these impacts by implementing sustainable production practices, reducing waste, and using renewable energy

sources. For instance, BAT has set a target to reduce its carbon footprint by 50% by 2030 (Bat.com, 2022h; Greenland, Lužar and Low, 2020).

4. MICRO-ENVIRONMENT ANALYSIS

Micro-environment analysis is the process of examining the factors that influence BAT's operations and performance within its immediate surroundings. The micro environment consists of factors that are directly or indirectly under BAT's control, such as its suppliers, customers, competitors, and other stakeholders (Barney and Hesterly, 2018).

4.1. Industry Life Cycle

The tobacco industry has gone through a well-defined life cycle that can be described in four stages: introduction, growth, maturity, and decline.

Introduction Stage: The tobacco industry began in the 16th century when tobacco was first introduced in Europe. During this stage, the tobacco industry was primarily focused on producing and distributing tobacco products for local consumption. The tobacco industry was largely unregulated during this period, and there were few barriers to entry. According to the Centre for Disease Control, the introduction of tobacco to Europe was a result of Christopher Columbus's voyage to America in 1492, where he discovered tobacco. The first known commercial crop of tobacco was grown in Jamestown, Virginia, in 1612 (swedish.org, 2023; Mishra and Mishra, 2013; Terrell, 2022).

Growth Stage: The tobacco industry experienced significant growth in the 19th century, marked by a surge in production and consumption of tobacco products. This period was characterized by rapid expansion and the introduction of new products, including cigarettes

and chewing tobacco. During the growth stage, prominent tobacco companies emerged and utilized various marketing and advertising tactics to promote their products (Wipfli and Samet, 2016). The industry's growth was enhanced by the invention of the cigarette rolling machine by James Bonsack in 1880. This machine enabled the mass production of cigarettes, making them more widely available and leading to increased consumption (Mulholland, 2022).

Maturity Stage: In the mid-20th century, the tobacco industry reached its maturity stage, which involved companies consolidating and focusing on brand differentiation and marketing efforts (McClellan et al., 2016). However, this period also saw increased regulation and a decline in smoking rates (Davies, 2020).

Decline Stage: The tobacco industry has been in decline since the late 20th century and this trend has continued to the present day. During this phase, the industry has encountered greater regulation and a decrease in demand for their goods (Moodie *et al.*, 2018). Additionally, the tobacco industry has been competing with alternative products like e-cigarettes and vaping. The decline stage of the tobacco industry can be attributed to the increased awareness of the health risks associated with smoking and the implementation of strict regulations on tobacco usage, advertising and sales. The emergence of alternative products such as e-cigarettes and vaping has also contributed to the decline of the tobacco industry (Ford *et al.*, 2019).

4.2. Porter's Industry Five Forces Analysis

The Five Forces analysis assesses an industry's competitiveness (Adamkasi, 2019). This report applies it to evaluate the impact on British American Tobacco.

Threat of New Entrants: The tobacco industry has high barriers to entry due to strict regulations and high costs. Existing firms have established strong brand recognition and

economies of scale, making it challenging for new entrants to compete. Therefore, the threat of new entrants is relatively low.

Bargaining Power of Suppliers: Suppliers in the tobacco industry have low bargaining power, as tobacco is readily available and there are many suppliers. However, in certain regions, such as Africa and Asia, growers may have more power. BAT is building stronger relationships with suppliers to mitigate this risk.

Bargaining Power of Buyers: Buyers have significant bargaining power in the tobacco industry due to a wide range of options and decreased demand. Companies are investing in non-combustible products to reduce reliance on traditional tobacco. High buyer bargaining power is a significant challenge in the industry.

Threat of Substitutes: The tobacco industry faces a risk of substitutes due to health concerns and regulations. BAT is promoting non-combustible products with reduced health risks to address this. However, the threat of substitutes remains high for the industry.

Rivalry Among Existing Competitors: The tobacco industry is fiercely competitive, with big companies like Philip Morris, Japan Tobacco, and Imperial Brands fighting for market share through product innovations and aggressive marketing. BAT acquired Reynolds American to boost its US market share, intensifying the competition among existing rivals.

The tobacco industry is highly competitive, and BAT faces obstacles from substitutes, strong competition, and buyer bargaining power. However, BAT's brand reputation, cost advantages, and expansion into non-combustible products like Glo provide some defence. Overall, the industry is experiencing a major shift, and BAT needs to be flexible to endure (Marketline Advantage, 2021; Statista, 2022; Marketline Advantage, 2022; Fern Fort University, 2023).

5. INTERNAL ANALYSIS

BAT operates in a tough, highly regulated industry, and faces various factors that impact its operations and profitability. These factors include;

Customers: BAT serves both individuals and businesses, with smokers as their primary individual customers. They must adapt to changing customer preferences, including a demand for reduced-risk products. Business clients include wholesalers and retailers who impact BAT's market share and revenue (Bat.com, 2023y).

Competitors: BAT faces a considerable challenge in maintaining its market position due to the significant resources and market presence of its competitors, Philip Morris International and Japan Tobacco International (Statista, 2023b).

Suppliers: B.A.T. relies on two types of suppliers worldwide: those who provide tobacco leaves for farming and those who offer non-agricultural materials, goods, and services. Strong relationships with these suppliers are essential for consistent material supply and profitability (Bat.com, 2023v).

Regulators: Regulations impact the tobacco industry, including BAT's operations and profitability, in areas such as labelling, marketing, and product development (Gov.uk, 2021; FDA.gov, 2023).

Technology: BAT invests in R&D to stay competitive and meet changing customer preferences, including developing reduced-risk products (Bat.com, 2022i).

5.1. BAT's Strategic Resources and Capabilities



Source: Bat.com

Analyzing resources and capabilities is a useful strategy to evaluate BAT's competitive strengths and determine if it can maintain a long-lasting advantage over its competitors in the market.

BAT has engaged in a number of activities which has contributed to its success not only at the headquarter in London but also globally by, recruiting competent, motivated and qualified employees, creating an effective management system, a viable and strong culture, developing unambiguous policies, decisions and regulations, and a conducive environment for working, with ability to adapt to any changes (Bat.com, 2023r; Bat.com, 2023f; Bat.com, 2023s).

Its Strength is derived from among others, a strong brand name which helps it to have a competitive advantage over rivals in the industry. It has investments across the globe including; Africa, Australia, Asia, North and South America and the Middle East among other

countries. Additionally, it has many operating units and the best distribution channels in the industry which has been a strength that has significantly helped it to dominate the market for a long time. Its ability to identify market segments is another strength (PRNewswire, 2020).

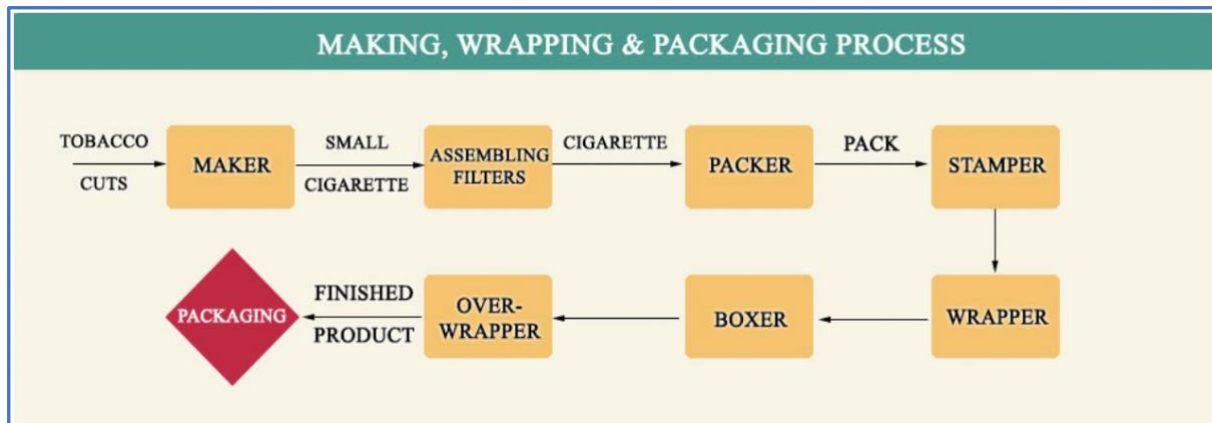
The company has various opportunities in emerging markets worldwide that it can leverage by introducing new brands, such as e-cigarettes. Additionally, it has established technological innovation centres. However, the company is currently dealing with legal challenges involving the use of child labour in Malawi and Indonesia, which could jeopardize its achievements (Kelly, 2016; Davies, 2020; The Guardian, 2019)

5.2. Value Chain Analysis

BAT operates across the entire value chain of the tobacco industry, from growing and processing tobacco to manufacturing and distributing tobacco products.

Tobacco growing: BAT operates in various countries, including Brazil, Zimbabwe, Malawi, and Bangladesh, where it grows tobacco. The company has implemented sustainable farming practices to ensure that the tobacco crop is grown in an environmentally friendly manner (Bat.com, 2023x). However, concerns have been raised about the use of child labour in some of these countries (Davies, 2020).

Processing and blending: Once the tobacco leaves are harvested, they are processed and blended to create the different types of tobacco used in cigarettes and other tobacco products (Saigon Tobacco, 2016; Curverid Tobacco, 2023). BAT has invested in modern processing facilities to ensure that the tobacco is processed efficiently and to high standards (Bat.com, 2023k).



Source: Saigon Tobacco

Manufacturing: The processed tobacco is then used to manufacture cigarettes, cigars, and other tobacco products. BAT has a number of factories across the world where it produces these products. The company has implemented quality control measures to ensure that its products meet the required standards (Bat.com, 2023k).

Distribution: Once the products are manufactured, they are distributed to retailers and wholesalers around the world. BAT has a sophisticated logistics network to ensure that its products reach their destination in a timely and efficient manner (Bat.com, 2023w).

Marketing and sales: BAT markets and sells its products to consumers around the world. The company has a strong brand and has invested heavily in advertising and promotion to ensure that its products are well-known and recognised (Bat.com, 2023m).

5.2.1. Primary Activities



Source: Bat.com

BAT's primary activities as a component of Porter's Value Chain framework, include;

Inbound logistics: BAT sources tobacco from more than 50 countries worldwide. The company has established partnerships with farmers and suppliers to ensure the availability of high-quality tobacco leaves. It also manages its supply chain efficiency to minimize transportation costs and reduce delivery times (Bat.com, 2023h).

Operations: BAT uses modern production technologies and processes to manufacture its tobacco products. The company's manufacturing facilities are located in strategic locations worldwide to minimize transportation costs and ensure timely delivery of products to customers (Bat.com, 2023j).

Outbound logistics: BAT distributes its products through a global distribution network that includes wholesalers, retailers, and other intermediaries. The company uses advanced logistics technologies to manage its distribution network efficiently, reduce delivery times, and optimize inventory levels (Bat.com, 2023v).

Marketing and sales: BAT invests heavily in marketing and advertising to promote its brands and products. The company uses various marketing channels such as television, print, and digital media to reach its target audience. It also engages in sponsorship activities such as sports events to enhance its brand image (Bat.com, 2023n).

Service: BAT provides after-sales services to its customers to ensure customer satisfaction. The company has established customer service centres worldwide to handle customer queries and complaints (Bat.com, 2023u).

5.2.2. Secondary Activities

The company's secondary activities include; procurement, human resource management, technological development, and infrastructure.

Procurement: BAT's procurement process involves sourcing raw materials and finished products from suppliers across the world. The company has a robust supplier management system in place to ensure the quality of its products (Bat.com, 2023w). BAT also invests heavily in sustainable sourcing to reduce the impact of its operations on the environment. For instance, BAT has committed to sourcing 100% of its tobacco sustainably by 2025 (Bat.com, 2021b). However, there have been concerns about the company's procurement practices, particularly in low-income countries. For example, in Malawi, BAT has been accused of exploiting small-scale farmers by buying tobacco at below-market rates (Leighday, 2020; Davies, 2020).

Human Resource Management: BAT is committed to creating a diverse and inclusive workplace. The company has implemented various policies to promote diversity and inclusion, such as providing equal opportunities for all employees regardless of their background (Bat.com, 2022f). BAT also invests in employee development programs to promote skills development and career advancement (Bat.com, 2023d). However, the company has faced criticism for its treatment of tobacco farmers in developing countries. For example, in Indonesia, BAT has been accused of using child labour to produce tobacco (Kelly, 2016).

Technological Development: BAT has invested heavily in technological development to improve its products and operations. The company has developed various tobacco heating products, which are marketed as a reduced-risk alternative to traditional cigarettes (Bat.com, 2023t). BAT also uses technology to improve its supply chain and distribution systems. For instance, the company has implemented a digital platform to manage its supply chain in real time. However, there have been concerns about the safety of BAT's tobacco heating products, as they still contain nicotine, which is addictive (Stella A Bialous and Glantz, 2018; Mallock *et al.*, 2019; Gale *et al.*, 2019).

Infrastructure: BAT has a vast global infrastructure to support its operations. The company has manufacturing plants, distribution centres, and research and development facilities across the world (Bat.com, 2023k). BAT also invests in infrastructure development in the communities where it operates, such as building schools and hospitals (Bat.com, 2023g). However, there have been concerns about the impact of BAT's operations on the environment (WHO, 2022c). For example, the company has been criticized for its use of water resources in drought-prone areas.

5.3. VRIO Analysis of Distinctive Resources and Capabilities

BAT's distinctive resources and capabilities can be analysed by examining the Value, Rarity, Imitability, and Organisation of its operations, products and services to create and maintain competitive advantage.

Value: BAT has several resources and capabilities that create value for the company, including its strong brand portfolio, wide distribution network, and extensive research and development capabilities. These resources and capabilities allow BAT to create differentiated products such as e-cigarettes and heated tobacco that appeal to a wide range of customers and expand into new markets and products through their resources and partnerships with retailers and wholesalers and maintain a competitive advantage in the market (Bat.com, 2020b).

Rarity: While BAT's resources and capabilities are valuable, many of them are not rare. For example, other tobacco companies such as Philip Morris International and Japan Tobacco International also have strong brand portfolios and distribution networks. However, BAT's extensive research and development capabilities may be considered rare, as it allows the company to innovate and develop new products like Vype and Glo, which other companies may not have the ability to create thereby giving them a unique position in e-cigarettes and heated tobacco markets. Their extensive operations provide economies of scale that smaller competitors struggle to match (Stella A Bialous and Glantz, 2018).

Imitability: Many of BAT's resources and capabilities are imitable, meaning that other companies can replicate them. For example, other tobacco companies can invest in research and development to create new products, and they can also establish distribution networks in different regions. However, BAT's strong brand portfolio may be more difficult to imitate, as it has taken years to build and develop (Bat.com, 2023v).

Organisation: BAT's resources and capabilities are well-organized and coordinated, which allows the company to leverage them effectively. For example, the company has a strong management team that is capable of developing and executing strategies that leverage its resources and capabilities. This success stems from its decentralised structure, adaptive culture, and socially responsible leadership which enables quick adaptation to market changes, innovation, and minimal damage to the company's reputation (Bat.com, 2023e).

Overall, BAT's VRIO analysis indicates that the company has several valuable resources and capabilities that allow it to maintain a competitive advantage in the market. However, some of these resources and capabilities may be imitable, which means that other companies can replicate them. To maintain its competitive advantage, BAT must continue to innovate and develop new resources and capabilities that are difficult to imitate.

5.4. SWOT Analysis

Refer to the Appendix for further analysis

The strengths and weaknesses of BAT as well as the existing threats it faces and the opportunities for growth can be analysed using the SWOT analysis framework.

Strengths:

Strong brand portfolio: British American Tobacco has a diverse and well-established brand portfolio, including global brands such as Dunhill, Kent, Lucky Strike, and Rothmans. These brands have a strong market presence and brand recognition in various countries (Bat.com, 2023p).

Wide geographic presence: BAT has operations in over 180 countries, which gives the company a broad geographic reach and a significant advantage over its competitors (Bat.com, 2023j).

Innovative research and development: BAT invests heavily in research and development, leading to the creation of innovative products such as tobacco heating products and e-cigarettes.

Strong distribution network: BAT has a robust distribution network that includes wholesalers, retailers, and distributors, ensuring that its products are available to customers worldwide (Bat.com, 2023z).

Weaknesses

Dependence on traditional tobacco products: Despite investing in innovative products, BAT still heavily relies on traditional tobacco products such as cigarettes, which face increasing regulatory pressure and declining demand.

Negative public perception: The tobacco industry has a negative reputation, and BAT has faced criticism for its marketing practices and the health effects of its products.

Limited diversification: While BAT has a diverse brand portfolio, its product range is still limited to tobacco and related products. The company's lack of diversification puts it at risk of market volatility and changing consumer preferences.

Opportunities

Growing demand for reduced-risk products: The global market for reduced-risk tobacco products such as e-cigarettes and tobacco heating products is growing, and BAT has an opportunity to capitalize on this trend.

Expansion in emerging markets: BAT can expand its operations in emerging markets where demand for tobacco products is growing, and the regulatory environment is less strict.

Increased focus on sustainability: Consumers are increasingly conscious of sustainability and social responsibility, and BAT can leverage this trend by investing in sustainable production and environmentally friendly practices.

Threats

Increasing regulatory pressure: The tobacco industry faces increasing regulatory pressure globally, which could result in stricter regulations and higher taxes.

Competition from alternative products: BAT faces competition from alternative products such as nicotine pouches, snus, and oral tobacco, which are gaining popularity.

Health concerns: Health concerns surrounding tobacco products could lead to declining demand and increased regulation, which could impact BAT's revenue and profitability.

Overall, BAT has a strong brand portfolio and a wide geographic presence, but faces challenges related to negative public perception, dependence on traditional tobacco products, and increasing regulatory pressure. The company has opportunities to capitalize on the growing demand for reduced-risk products, expand in emerging markets, and focus on sustainability. However, competition from alternative products and health concerns remain significant threats (Marketline Advantage, 2023; Faizaan, 2020; Majid, Tariq and Usman, 2017).

6. STRATEGIES TO SUSTAIN COMPETITIVE ADVANTAGE

To sustain its competitive advantage, BAT has implemented a range of strategies that include innovation, diversification, and geographic expansion.

Innovation Strategy: BAT has invested heavily in research and development to produce new and better products. Among the innovative products it has created are heat-not-burn and e-cigarettes, which cater to changing consumer preferences (Bat.com, 2022i). However, the regulatory environment for these products is difficult and their long-term potential is still uncertain. While these products could attract new customers, they could also cut into the sales of existing tobacco products, which would lower the company's overall revenue.

Diversification Strategy: BAT has diversified into non-tobacco businesses, such as vaping, oral nicotine, and cannabis products, to reduce its dependence on traditional tobacco products (Marketline Advantage, 2021). This strategy has helped BAT to expand its market share in emerging markets, but it also exposes the company to new risks and uncertainties. Moreover, diversification may dilute the company's core competency in tobacco products, making it difficult to maintain its competitive advantage.

Geographic Expansion Strategy: BAT has a strong presence in developing countries, where the demand for tobacco products is growing (Ash.org.uk, 2019). This strategy has enabled the company to increase its market share and revenue. However, it also exposes the company to geopolitical and regulatory risks, such as changes in tax policies, trade barriers, and health regulations.

BAT has implemented various strategies to maintain its competitive advantage. Although innovation has enabled the company to introduce new products and adapt to evolving consumer preferences, diversification and geographic expansion come with their own risks and uncertainties. Thus, BAT must find a balance between these approaches while prioritizing its expertise in tobacco products and pursuing new growth prospects. Furthermore, the

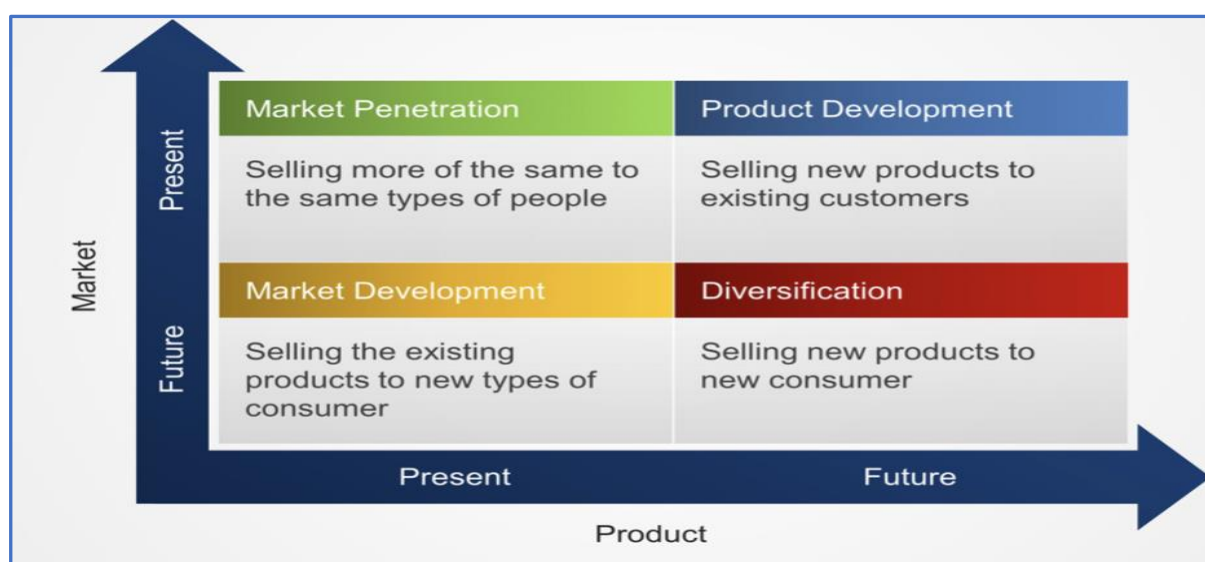
company must stay alert to the changing regulatory landscape and public health concerns to ensure its long-term viability (Robichaud, Seidenberg and Byron, 2019; Mahmood, Zia Ud Din and Liaqat, 2022b; Crosbie, Eckford and Bialous, 2019).

7. GROWTH STRATEGIES

BAT's growth strategies can be analysed using various strategic frameworks such as Ansoff Matrix, International Strategies, and Entry Mode Strategies.

7.1. ANSOFF Matrix

The Ansoff Matrix can be used to identify growth opportunities for BAT's tobacco products in existing and new markets through various strategies such as market penetration, product development and diversification.



Source: SlideModel.com

Market Penetration: BAT has been focusing on increasing its market share in the countries where it already operates. The company has been achieving this by introducing new and innovative products, improving the quality of its existing products, and enhancing its distribution network. For example, the introduction of a new cigarette brand, "Glo," in Japan in 2017, helped the company increase its market share in the country (Bat.com, 2022e).

Product Development: BAT has been investing heavily in research and development to come up with new products that cater to the changing needs and preferences of its customers. The company has been launching new products such as e-cigarettes and heated tobacco products to cater for the growing demand for alternative tobacco products. For example, the introduction of "Vype," a range of e-cigarettes, helped the company tap into the growing demand for alternative smoking products (Bat.com, 2018; Bloomberg, 2018).

Market Development: BAT has been expanding its presence in new markets through strategic acquisitions and partnerships. The company has been focusing on emerging markets such as Asia, Africa, and Latin America to tap into the growing demand for tobacco products in these regions. For example, the acquisition of Reynolds American Inc. in 2017 gave the company access to the US market, where it had previously struggled to gain a foothold (Bat.com, 2017; Kollwe and Glenza, 2017; Reuters, 2017).

d) **Diversification:** BAT has been diversifying its business by entering into new industries such as healthcare and consumer goods. The company has been leveraging its expertise in nicotine and tobacco to develop new products such as nicotine patches and gum. For example, the acquisition of Twisp, a South African e-cigarette company, in 2017 helped the company diversify its product portfolio and expand its presence in the African market (Reuters, 2019; Bat.com, 2019).

7.2. International Strategies

BAT's international strategy is centred on expanding its market share in both developed and emerging markets, as well as developing and introducing new products and brands using various strategies.

Global Standardisation Strategy: BAT has been following a global standardisation strategy, where it offers the same products and marketing strategies across all its markets. This strategy has helped the company achieve economies of scale and reduce costs. For example, its use of a consistent brand image and messaging across different countries has helped the company establish itself as a leading global tobacco brand (Bat.com, 2022g).

Multi-Domestic Strategy: BAT has also been following a multi-domestic strategy, where it tailors its products and marketing strategies to local market conditions. This strategy has helped the company adapt to the local tastes and preferences of its customers. For example, the introduction of "Lucky Strike Click and Roll" in the United Kingdom and Spain, a cigarette brand with a flavour capsule that can be clicked to change the taste, helped the company cater to the local market's demand for flavourful cigarettes (Bat.com, 2023o).

Transnational Strategy: BAT has been following a transnational strategy, where it combines the benefits of global standardisation and local adaptation. This strategy has helped the company achieve a balance between global efficiency and local responsiveness. For example, it developed flavoured cigarettes with lower tar and nicotine content to cater to consumers' preferences in Asia (Bat.com, 2022g).

7.3. Entry Mode Strategies

Another growth strategy BAT has been using is entry into foreign markets through strategic routes such as;

Joint Ventures: BAT has been entering new markets through joint ventures with local companies. This strategy has helped the company overcome the regulatory hurdles and cultural barriers that exist in new markets. For example, a joint venture with I.M.U. Enterprise Ltd in Myanmar in 2013, helped the company gain access to the country (Bat.com, 2013).

Acquisitions: BAT has been acquiring local companies to gain a foothold in new markets. This strategy has helped the company gain access to the local distribution networks and customer base. For example, its acquisition of TDR, the leading tobacco company in Croatia, in 2015, gave the company an established distribution network and access to a new customer base in the country (BBC, 2015; Bat.com, 2015).

Greenfield Investments: BAT has also been setting up its own manufacturing facilities in new markets. This strategy has helped the company achieve greater control over its operations and reduce costs. For example, its construction of a new cigarette factory in Myanmar helped the company enter the country's growing tobacco market (Bat.com, 2023; Financial Times, 2013).

8. GREEN STRATEGY AND CORPORATE SOCIAL RESPONSIBILITY(CSR)

Recently, BAT initiated a Green Strategy and Corporate Social Responsibility program. Although the company's efforts in both areas are commendable, a thorough analysis of the strategies indicates that there are some possible areas for improvement.

The Green Strategy primarily focuses on reducing the environmental impact of BAT's operations, including reducing carbon emissions and water usage. While this is important, it is worth noting that the core business of producing and selling tobacco products remains inherently harmful to public health, and therefore the focus on reducing environmental impact is not enough to address the negative social impact of tobacco use. BAT's Green Strategy does not address the fundamental issue of the harmful effects of smoking, which is a significant drawback (WHO, 2022b; CDC, 2022; NHS, 2022; Gov.au, 2019).

Topic	Goals and targets	Metrics
H Harm reduction	£5bn by 2025 in revenue from New Categories	New Category revenues (£bn)
	50m by 2030 consumers of our Non-Combustible products	No. of consumers (millions) ♦
E Climate change	Net Zero by 2050 across our value chain - comprising Scope 1, 2 & 3 greenhouse gas (GHG) emissions	Scope 1 & 2 (market based) CO ₂ e emissions (thousand tonnes) ♦
	50% CO₂e emissions reduction by 2030 across our value chain - comprising Scope 1, 2 & 3 GHG emissions ¹	Scope 1 & 2 CO ₂ e emissions intensity (tonnes per £m revenue) ♦
	Carbon neutral operations by 2030 comprising Scope 1 & 2 GHG emissions	% Scope 1 & 2 CO ₂ e emissions reduction vs 2020 baseline
		Scope 3 CO ₂ e emissions (thousand tonnes) including biogenic emissions and removals ♦
Circular economy	<1% waste to landfill by 2025	% waste sent to landfill from direct operations
	100% packaging reusable, recyclable or compostable by 2025	% packaging reusable, recyclable or compostable
		% markets selling Vuse and glo with Take-Back schemes
Biodiversity & ecosystems	No gross deforestation of primary native forests in our tobacco, paper and pulp supply chains	% sources of wood used by our contracted farmers for curing fuels that are from sustainable sources ♦
	Net Zero deforestation by 2025 of managed natural forests in our tobacco, paper and pulp supply chains	% paper and pulp volumes that is certified as sourced sustainably ♦
Water	35% less water use by 2025	% reduction in water withdrawn vs 2017 baseline
	100% operations sites Alliance for Water Stewardship certified by 2025	% operations sites Alliance for Water Stewardship (AWS) certified

Source: BAT Annual Report 2022

BAT's Corporate Social Responsibility program emphasises community development, philanthropy, and employee welfare (Bat.com, 2022a). While these initiatives are valuable, they do not address the core ethical issue of selling a harmful product (Greenland, Lužar and Low, 2020). The company's social responsibility should involve addressing the harm caused by its products, but it does not do enough in this regard (Bialous and Glantz, 2018). The company could do more to address the negative social impact of tobacco use, such as investing in smoking cessation programs or contributing to public health initiatives (Evans-Reeves, Lauber and Hiscock, 2022; Brink, Glahn and Kjaer, 2022; Hiscock *et al.*, 2020).

Additionally, BAT's Green Strategy and Corporate Social Responsibility program lack transparency and accountability. The company does not provide detailed information about the progress of its sustainability efforts, and it is not clear how the company is measuring its impact on the environment or society. Furthermore, the company's efforts towards sustainability and Corporate Social Responsibility are not independently audited, which raises questions about the accuracy of the company's claims (MacKenzie, 2018).

9. CONCLUSION

After conducting a strategic analysis of British American Tobacco (BAT), it is evident that, the company has had to navigate several challenges to maintain its competitive advantage in the global market. The PESTEL and Porter's Five Forces analyses revealed the external and internal factors that have impacted BAT's operations. Additionally, the company's distinctive resources and capabilities were evaluated through the VRIO analysis, highlighting the value, rarity, imitability, and organization of its strategic resources and capabilities.

10. RECOMMENDATION

Based on the strategic analysis of BAT, the following recommendations are suggested to enhance its competitiveness and ensure its long-term success;

Diversify the product portfolio: BAT should continue diversifying its product portfolio to reduce its dependence on tobacco products. The company can invest in emerging markets and explore opportunities in the cannabis industry.

Focus on innovation: BAT should continue to invest in research and development to create innovative products that meet the changing needs of consumers and regulatory requirements. This will help the company to maintain its competitive edge and remain relevant in the market.

Strengthen corporate social responsibility initiatives: BAT should continue to strengthen its corporate social responsibility initiatives, especially in the areas of sustainability, health, and safety. This will help to enhance the company's reputation and build consumer trust.

Emphasize employee development and retention: BAT should invest in employee development and retention strategies to attract and retain top talent. This will help the company to maintain its competitive edge and achieve long-term success.

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12. APPENDIX

B.A.T SWOT ANALYSIS	STRENGTH	○ Strong brand portfolio ○ Global presence ○ Financial stability ○ Innovation and Research capability
	WEAKNESS	○ Dependence on tobacco products ○ Limited diversification ○ Regulatory challenges ○ Negative perception of tobacco industry
	OPPORTUNITIES	○ Expansion into emerging markets ○ Diversification into non-tobacco products ○ Growing demand for e-cigarettes and vaping products ○ Investments in reduced-risk products
	THREATS	○ Increased regulations on tobacco products ○ Health concerns and negative perception of the tobacco industry ○ Competition from other tobacco companies and new market entrants ○ Political instability in some markets