

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor thesis**

**Tabacco Industry – Case of Philip Morris**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Economics  
Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Yerdenova Diana

Economics and Management

Thesis title

**Tabacco Industry - Case of Philip Morris**

### **Objectives of thesis**

The objective of the thesis is to analyse tobacco industry in the World on the example of the main and the most strongest producer – Philip Morris, particularly common trends in tobacco industry, current financial situation in the company and understand the level of impact of restrictions on tobacco in different countries.

### **Methodology**

Literary research (meta analysis)  
Statistical methods  
Financial statements and report analyses  
SWOT analysis  
PEST analysis  
Descriptive analysis  
Case study

### **Schedule for processing**

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September 2014- November 2014 – Literary research analysis and approval of theoretical background research  
December 2014- January 2015 – Analytical and practical part conception and approval.  
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**The proposed extent of the thesis**

40 pages

**Keywords**

Tobacco industry, Philip Morris, financial reports, market share, SWOT analysis, globalisation of industry, PEST analysis.

**Recommended information sources**

1. Gately, I. (2007). Tobacco : a cultural history of how an exotic plant seduced civilization. New York: Grove Press. ISBN 978-08-021-9848-8.
2. Jennings, M. (2010). Business : its legal, ethical, and global environment. Mason, OH: South-Western Cengage Learning. ISBN 978-05-384-7054-4.
3. Pampel, F. (2009). Tobacco industry and smoking. New York: Infobase Publishing. ISBN 978-14-381-1903-8.
4. Philip Morris. (2014). Official webpage. [ONLINE] Available at: <http://www.pmi.com/rus/pages/homepage.aspx>.
5. Proctor, R. (2012). Golden holocaust : origins of the cigarette catastrophe and the case for abolition. Berkeley: University of California Press. ISBN 978-05-209-5043-6.
6. Snell, C. (2005). Peddling poison the tobacco industry and kids. Westport: Greenwood Publishing Group. ISBN 978-02-759-8239-3.

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Electronic approval: October 6, 2014

**Ing. Martin Pelikán, Ph.D.**

Dean

## **Declaration**

I declare that I have worked on my bachelor thesis titled "Tabacco Industry – Case of Philip Morris" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 16.03.2015

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Diana Yerdenova

## **Acknowledgement**

I would like to thank Ing. Maier Tomáš, Ph.D., for his advice and support during my work on this thesis.

# Tabákové odvětví – případ společnosti Philip Morris

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## Tabacco industry – Case of Philip Morris

### **Abstrakt**

Hlavním cílem bakalářské práce je analýza společnosti Philip Morris jako světové jedničky na tabákovém trhu a analyzovat její provozní činnosti z hlediska finanční výkonnosti. Tato práce je rozdělena do čtyř hlavních kapitol. První kapitola je metodologie, která poskytuje přehled o metodách a bibliografických zdrojů pro spuštění tohoto výzkumu. Druhá kapitola se zabývá přehledem situací na světovém tabákovém trhu. Třetí kapitola zkoumá činnost společností Philip Morris International na tabákovém trhu. Poslední kapitola je zaměřena na přehled činnosti korporace, finanční ukazatele společnosti a shrnutí poznatků tohoto výzkumu.

### **Abstract**

The main aim of Bachelor's thesis is to investigate Philip Morris as a global leader in the tobacco market, and analyze its operational activities from the perspective of their financial efficiency. This thesis is divided into four key chapters. The first chapter is methodology section which provides an overview of the methods and bibliographic sources used for running this research. The second chapter deals with the overview of the global tobacco market. The third chapter investigates Philip Morris International's activities on the tobacco market. Last chapter focuses on an overview of the corporation's activities, the company's financial indicators and a summary of the findings of this research.

**Klíčová slova:** tabákový trh, korporace, Philip Morris, trendy na trhu, finanční ukazatele, dynamika vývoje

**Key words:** tobacco market, corporation, Philip Morris, market trends, financial indicators, dynamics of development

# Contents

1	Introduction .....	7
1.1	Aims and objectives .....	7
1.2	Methodology .....	8
2	Literature overview .....	9
3	The overview of the Global Tobacco Market.....	17
4	Philip Morris as a major corporation on the global tobacco market .....	29
4.1	General overview of the corporation.....	29
4.2	Financial indicators and dynamics of development .....	31
5	Analysis results.....	41
6	Conclusion.....	45
	References .....	47
	Table of figures .....	49

# 1 Introduction

## 1.1 Aims and objectives

The main aim of my research is to investigate Philip Morris as a global leader in the tobacco market, and analyze its operational activities from the perspective of their financial efficiency.

The key goals to be reached within the framework of the aim set are to analyze the global tobacco market, its current condition and conjuncture, key competitors, market trends, products, dynamics of trade, etc.; investigate the activities of Philip Morris International on the global tobacco market from both quantitative and qualitative perspectives; run the financial analysis of Philip Morris International's activities based on the company's reports; evaluate the corporation's major advantages and drawbacks based on the results of the financial analysis; evaluate which factors affect the company's financial activities in the most positive and negative ways; and provide my own recommendations for improving the situation.

In the course of my research, I will test several hypotheses which will help fulfill the aim and reach the goals set.

Hypothesis 1: the global tobacco market is currently experiencing a significant slowdown due to the anti-tobacco campaigns run by both public and private organizations.

Hypothesis 2: in the near future, the tobacco market will tend to grow through the domestic markets of developing countries, namely through major corporations' investment in those markets.

Hypothesis 3: Philip Morris is the leader on the global tobacco market thanks to the company's activities in the United States, while it loses to competitors on foreign geographical markets.

Hypothesis 4: Philip Morris International will be likely to continue holding the leading position on the global tobacco market in the near future thanks to the company's effective management policies.

Based on the results and findings of my analysis, I will draw the respective conclusions with regard to the current tendencies of development of the global tobacco

market, Philip Morris International's place on it, and the corporation's further prospects in terms of the expected expansion of its activities. Also, I will provide my own vision with regard to how the situation can even further be improved for the corporation in order to strengthen its global leading positions.

## **1.2 Methodology**

The main methods I will use for running my research will include statistical analysis, analysis of financial statements, SWOT analysis, PEST analysis, descriptive analysis, and analysis of case studies. All those methods will be used in their tight interconnection in order to reach a deeper understanding of the topic, draw comprehensive conclusions, and elaborate valuable recommendations.

My thesis will be conditionally divided into four key chapters. The first chapter is this Methodology section which provides an overview of the methods and bibliographic sources used for running my research. The second chapter will deal with the overview of the global tobacco market, its main parameters, tendencies, etc. The third chapter will investigate Philip Morris International's activities on the tobacco market. In the first subsection of this chapter, I will provide an overview of the corporation's activities, and in the second subsection, I will analyze the company's financial indicators. Finally, the fourth chapter will provide a summary of the findings of my research.

## 2 Literature overview

Analyzing the tobacco industry is a task which requires thorough analysis of the current trends in this sector in different geographical regions of the world, investigation of the main driving and restricting factors affecting the level of production and trade in the field, identification of the main competitors struggling for market domination, their key competencies and disadvantages, financial indicators and ratios in their current state and dynamics, forecasting future development of the market based on the current indicators, and so on.

Taking into consideration the aim and goals of my research, well-thought methodology is required in order for the findings to be correct and relevant, and for the results of the analysis to match the goals set.

For the purpose of writing this thesis, I will use a wide range of research methods and bibliographic sources, as the topic requires deep understanding and analysis.

The literature sources I will use for writing this thesis will include publicly available print publications and online resources. Print publications will include different books and articles investigating the tobacco industry in its different aspects, providing valuable data on the current state of the industry worldwide, statistical research information, and so on. Thus, print publications will include mainly secondary data related to analysis of the industry based on the primary data collected by the respective authors and researchers. Inter alia, such bibliographic sources will include the following publications: Gately, I. (2007). *Tobacco : a cultural history of how an exotic plant seduced civilization*, Jennings, M. (2010). *Business : its legal, ethical, and global environment*, Pampel, F. (2009). *Tobacco industry and smoking*, Proctor, R. (2012). *Golden holocaust : origins of the cigarette catastrophe and the case for abolition*, Snell, C. (2005). *Peddling poison the tobacco industry and kids*, Poling, J. (2012). *Smoke Signals: The Native Takeback of North America's Tobacco Industry*, Wang, J. (2007). *Market-building as State-building in China's Tobacco Industry*, Benson, P. (2011). *Tobacco Capitalism: Growers, Migrant Workers, and the Changing Face of a Global Industry*, Rabinoff, M. (2006). *Ending the Tobacco Holocaust*, Foreman, L., & McBride, W. (2013). *Policy Reform in the Tobacco Industry: Producers Adapt to a Changing Market*, Codry, H.V. (2001). *Tobacco: A Reference Handbook*, and so on.

Internet sources will be mainly used in order to gather the most up-to-date information, namely statistical data, regarding companies involved in the tobacco industry, and performance of the industry as such. For instance, a major web source I will use for my research will be the official web-site of Philip Morris Company. I will use the descriptive data provided on that web-page in order to analyze the activities of Philip Morris, the corporation's market advantages and drawbacks, priorities of strategic development, tactics of operative activities, etc. At the same time, I will be able to collect valuable data from the aforementioned web-site based on the statistical reports published by the company, which cannot be accessed in a way other than via the Internet.

Statistical research will represent one of the main methods of analysis I will use in order to run my investigation. Statistical research will be required for analyzing both the general trends in the tobacco industry worldwide, and particularly the dynamics of activities and market performance of Philip Morris. I will use the available statistical data on the tobacco market in order to track the dynamics of the abovementioned market's development, changes in the dominating trends in the field, and so on. That information will also be useful in order to identify the key players of the tobacco market based on the volumes of production, levels of revenues or profits, etc. Thus, based on this information I will be able to identify the key competitors functioning on the tobacco market worldwide. As for statistical data on Philip Morris and the corporation's activities, I will equally use them in order to understand the dynamics of the company's development, shares of different products in the overall structure of sales, etc. Statistical research will be the backbone of my analysis, and will provide the basic data required for undertaking further steps of analysis.

I will use analysis of financial statements and reports in order to see the current financial situation of Philip Morris, and see the dynamics of changes in its key financial indicators in recent years. This is crucial in order to see how the company's profitability and financial soundness change with the course of years, and what factors predetermine such changes. Analysis of financial statements and reports will include both analysis of basic figures, for instance, such as dynamics of total revenues, level of equity or liabilities, and analysis of basic groups of financial indicators such as liquidity, profitability, financial stability, market ratios, and so on. They will allow understanding the corporation's current position against the possible claims of its creditors, ability to

repay debts in the short- and mid-term perspectives, level of stability in the conditions of market metamorphoses, and so on. A particularly important aspect of analysis here will be the indicators of profitability demonstrating the company's ultimate ability to generate profits from its activities.

In order to investigate the weak and strong sides of activities run by Philip Morris on the tobacco market, I will use the method of SWOT analysis, aimed at identifying the strengths, weaknesses, opportunities and threats of a particular company. Based on the SWOT matrix approach and proceeding from the data on Philip Morris presented on the corporation's official web-site, I will describe the core competencies of Philip Morris, i.e. those fields where the company has the greatest advantages, experience or expertise, and those fields which it could effectively boost and promote in the current conditions of the external market environment. On the other hand, I will also identify the main weaknesses of Philip Morris, i.e. those particularities of the corporation's activities which lead to deterioration of its market position, or do not allow further expanding its current activities. Also, I will analyze the main opportunities and threats of Philip Morris, i.e. the key driving factors of the external market environment which precondition the level of effectiveness of the corporation's activities, and possible vectors of further development and expansion of its geographical, product or customer coverage. Opportunities include those sectors or favorable conditions which may contribute to the corporation's efficient development in the future, while threats represent those factors which may potentially harm the company, decrease its level of profits, or make the company lag behind its competitors.

PEST analysis will be applied in order to analyze the external environment of Philip Morris company's activities more in detail. Such analysis will include investigation of the main political, economic, social and technological factors beyond the corporation's direct control, which affect the activities of Philip Morris. PEST analysis is required to obtain the complete picture of external factors and events shaping the conditions in which Philip Morris runs its business activities. Analysis of political factors will include actions of governments, legislation in the field of production of and trade in tobacco, trade restrictions, tariffs, some special laws and regulations, labor legislation, and so on. Economic factors include dynamics of interest rates, economic growth of particular regions, changes in exchange rates, etc. Social factors include aspects related to the population's level of health, age structure, and so on. Finally,

technological factors include the level of technological progress in particular regions, technologies applied, research and development activities, etc. Complex evaluation of all those groups of factors will allow building up a relevant picture of the environment in which Philip Morris carries out its market activities.

Descriptive analysis will be another key methodological basis applied in the course of my research. It will provide description of the main particularities of activities performed by Philip Morris, conditions of work, and prospects for the subsequent development. Among other methods, descriptive analysis will involve the historical method aimed at investigating the history of Philip Morris corporation's development, and the comparative method aimed at comparing the activities of Philip Morris with the activities performed by the corporation's main market competitors.

Finally, in addition to the abovementioned analysis methods, I will also use case studies in order to investigate particular business cases related to corporate activities performed on the tobacco market. Such case studies will include particular business strategies or operative tactics, campaigns and other events or actions run by Philip Morris or other corporations performing their activities on the same market. Case studies will allow more deeply understanding the particularities of the tobacco market, and identifying the main trends existing in the corporate sector in this field.

Analysis of literature sources will play a key role in my research, as it will provide the main descriptive and statistical data which will further be used for carrying out my analysis. Therefore, I would like to provide a brief overview of the key bibliographic sources I will use for the purposes of this thesis.

In his publication *Tobacco : a cultural history of how an exotic plant seduced civilization*, I. Gately describes the main trends in the global tobacco industry in the XX and XXI centuries. The author gives an overview of the industry's historical course of development, investigates the key driving factors affecting such development, and so on. A particularly important aspect of this research is the identification of the essential factors driving the population to purchase tobacco-related products. In order to prove his findings, I. Gately describes particular case studies of effective production and marketing campaigns run by major tobacco companies.

The publication of M. Jennings called *Business : its legal, ethical, and global environment* generally deals with a wide range of different business aspects related to

different fields of business activities. A particularly important chapter for my research is the one dedicated to development of the global tobacco industry. In this chapter, the author describes the overall particularities of the tobacco industry, and its chronological development. A particularly important focus is made on the ethical rules prevailing in the tobacco industry, and how this correlates with the moral principles of society. M. Jennings also stresses on the role of advertising and marketing activities in promotion of tobacco and tobacco-related products.

F. Pampel's book called *Tobacco industry and smoking* is dedicated to a broad overview of the main aspects inherent of the tobacco industry. Namely, the author analyzes different branches of this production sector, types of products offered by tobacco manufacturers on the market. The researcher pays particular attention to the specificities of the production process, and geographic location of the world's major tobacco production facilities. An aspect analyzed by F. Pampel, which is particularly important to me for the purposes of this research, relates to statistical data with regard to production of tobacco and related products. The author gives comprehensive details regarding the trends of production in this field in recent years, and investigates the main trends across different geographic regions and companies.

R. Proctor's publication *Golden holocaust : origins of the cigarette catastrophe and the case for abolition* mainly deals with the negative effects caused by use of tobacco for consumers, and the author mainly focuses on interaction between manufacturers of tobacco products and public authorities of different states involved in regulations of the respective field of production through legislative and supervisory measures. In the researcher's opinion, the state should undertake all necessary and reasonable steps for the purpose of restricting use of tobacco by the population. Namely, R. Proctor believes that efficient measures in this field can include high excise duties on cigarettes, prohibition of television and other advertising for any tobacco-related products, age restrictions for sales of cigarettes, etc.

Similarly to R. Proctor's book, the publication of C. Snell called *Peddling poison the tobacco industry and kids* mainly deals with the issue of negative health effects provoked by smoking, and the ensuing necessity for the government to restrict production, promotion and distribution of cigarettes and tobacco-related products. According to the researcher, production of tobacco and related products leads to deterioration of the overall level of the population's health, due to which the state is

required to make additional expenses for the purpose of providing health services. As a result, the state loses more than it would lose through reduced budgetary proceeds due to restriction of tobacco production and sales.

J. Poling's research provided in his publication *Smoke Signals: The Native Takeback of North America's Tobacco Industry* particularly focuses on the trends actually existing in the tobacco industry of North America. The author stresses our attention on the tobacco industry of the United States and Canada. J. Poling provides an overview of the general tendencies prevailing in the industry, and gives statistical data on the recent development of those tendencies in the respective regions. Also, J. Poling considers the major corporations involved in the sphere of tobacco production, and overviews the overall level of competition in the industry based on the essential external factors, especially taking into consideration actions undertaken by public authorities of states for the purpose of restricting tobacco consumption.

J. Wang's publication *Market-building as State-building in China's Tobacco Industry* particularly analyzes the case study of the Chinese tobacco production industry. The author provides statistical data with regard to the recent trends in the sector in China, and stresses that China is very rapidly improving its positions in the overall level of tobacco production on the global scale. According to J. Wang, in the near future, China will be the major global producer of tobacco and all related products, which is due to a wide range of factors. Thus, China has the required natural resources and production facilities, and moreover, the country has cheap workforce which could be effectively used in tobacco production processes.

P. Benson's publication called *Tobacco Capitalism: Growers, Migrant Workers, and the Changing Face of a Global Industry* deals with the global trends in the tobacco industry. The researcher shares his findings in the field of the tobacco industry, namely in terms of interaction between different players involved in the sector. The author gives a broad overview of the main statistical indicators demonstrating development of the tobacco industry in recent years. Based on the statistical analysis run, P. Benson provides his forecasts with regard to the future development of the tobacco industry, growth in the level of competition on the global scale, changes in the overall structure of demand, etc.

The publication of M. Rabinoff *Ending the Tobacco Holocaust* investigates the measures which can be undertaken by public authorities of different countries with the

aim to suppress increase in tobacco consumption by the population. Namely, the author provides an overview of case studies dealing with the restriction imposed by tax authorities and other competent bodies of different states on manufacturers of tobacco, cigarettes and other related products. The author stresses on his opinion that production of cigarettes worldwide should be stopped, even despite possible economic and financial losses for national economies.

L. Foreman's and W. McBride's publication *Policy Reform in the Tobacco Industry: Producers Adapt to a Changing Market* deals with the steps undertaken by major tobacco production corporations in order to avoid restrictions and negative regulations imposed by legislative and supervisory authorities. The authors provide case studies of the world's major tobacco producers, which demonstrate how different companies can adapt to the changing global production environment in different ways. Another particularly important aspect investigated by the researchers is the changing trends in the global tobacco industry, and ways which could be used by companies with the aim to adapt to them. L. Foreman and W. McBride focus on different tactical measures and long-term strategies which could be undertaken by different companies based on their particular market position and other conditions.

H.V. Condry's publication *Tobacco: A Reference Handbook* deals with the widest range of issues connected with the tobacco industry worldwide and in different regions of the world. The author investigates how the tobacco industry has changed with the course of time, and points out the major milestones in its transformation. Also, H.V. Condry gives valuable statistical data demonstrating the trends and patterns in development of the tobacco industry, based on which he stresses on particularly important factors shaping development of the sector. The researcher also gives an overview of major producers of tobacco and related products by countries and companies.

The official web-site of Philip Morris corporation will be used for the purpose of obtaining data on Philip Morris, the company's history, particularities of management and corporate structure, personnel employed, corporate values and culture etc., i.e. all those aspects which to a large extent precondition any corporation's efficient functioning on the market, and ways of implementation of its policies. Also, the web-site provides valuable statistical data regarding the corporation's market performance. Statistical reports and financial statements presented on the web-site will be used for

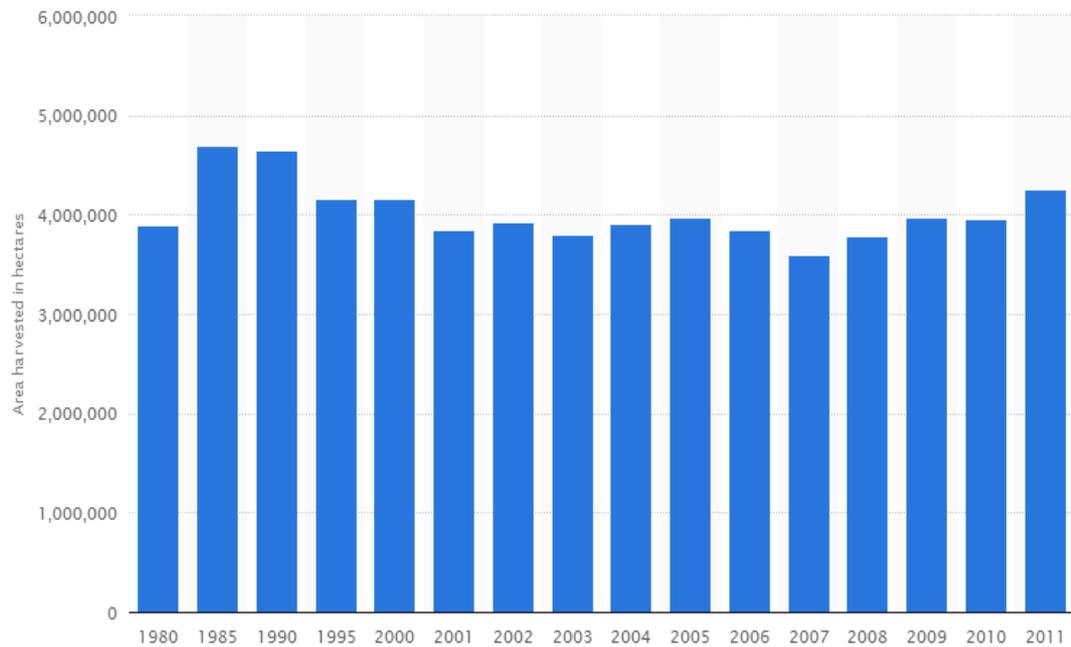
investigating the company's financial position and level of competitiveness on the global market in the dynamics for recent years.

### **3 The overview of the Global Tobacco Market**

The global tobacco market is very important to analyze, as this sector is on the one hand a very important industry for many countries around the globe, but on the other hand, it represents a significant threat to human health, and many people do not support development of the tobacco industry in any form. In this essay, I would like to consider development of the global tobacco market, the most recent trends in the industry on the global scale, the world's major tobacco producers by countries and corporations. Based on the findings of my research, I will try to forecast further development of the global tobacco industry, and provide my own vision with regard to the obstacles it may face. Such analysis is very relevant as of today, since the industry of tobacco on the global scale is an important field of foreign trade and cooperation for many states.

The tobacco industry covers the entire range of activities comprising growth, preparation for sale and the subsequent distribution of tobacco and tobacco-related products around the globe. Therefore, this industrial sector covers a wide range of activities and processes which may technologically differ, and the tobacco market is quite complex in terms of its internal cooperation links (Linda Foreman, William McBride. *Policy Reform in the Tobacco Industry: Producers Adapt to a Changing Market*, p. 32). When analyzing the global tobacco market, it is therefore worth paying attention to its different aspects.

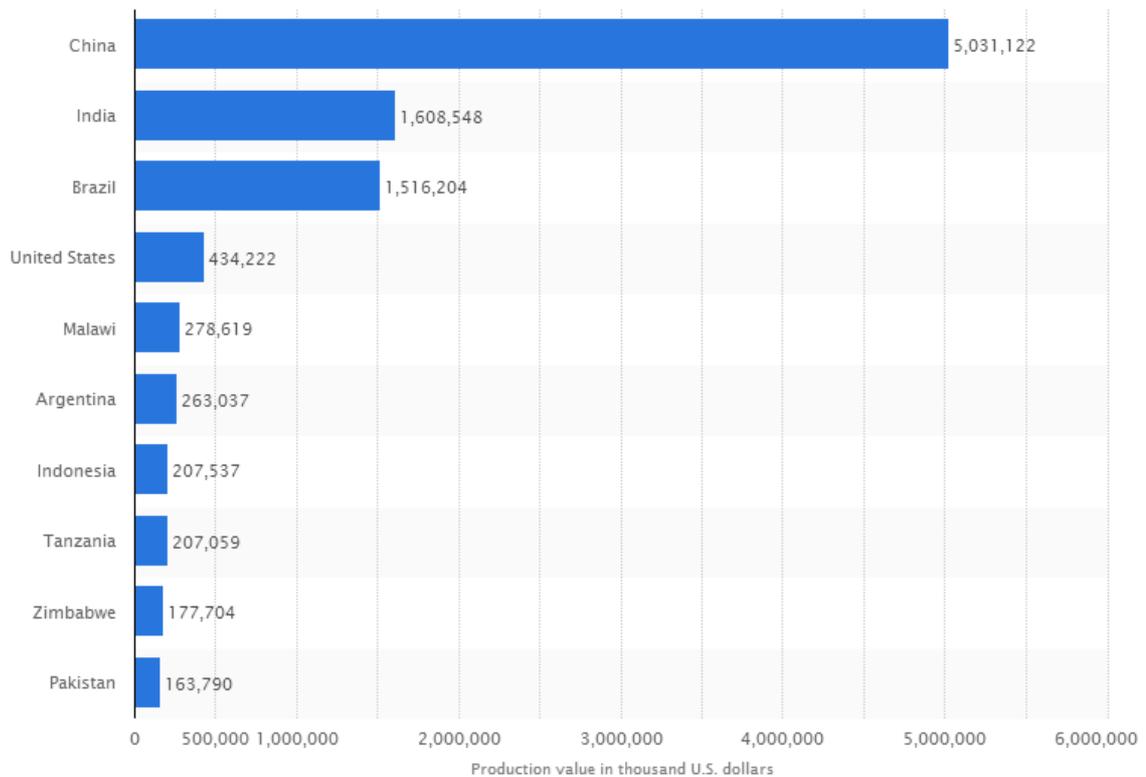
**Figure 1: Global area of harvested tobacco in 1980-2011 (in hectares)**



**Source: Statista.com. *Statistics and facts about the tobacco industry*. [online]. [cit. 2014-05-20]. Available from: <<http://www.statista.com/topics/1593/tobacco/>>.**

Figure 1 above depicts the dynamics of change in the total area of harvested tobacco around the globe in the period from 1980 to 2011. As of 2011, the total land area used for cultivation of tobacco amounted to slightly over 4,000,000 hectares, which figure had only twice been exceeded in the previous years on the abovementioned timeframe. Overall, it can be stated, that there has recently been a positive trend in growth of the total area covered by tobacco on the global scale. This testifies that the tobacco market is constantly expanding, and thus requires increased amounts of raw materials, for which purpose larger volumes of tobacco are cultivated each year.

**Figure 2: Top 10 countries worldwide based on tobacco production value in 2011 (in 1,000 U.S. dollars)**



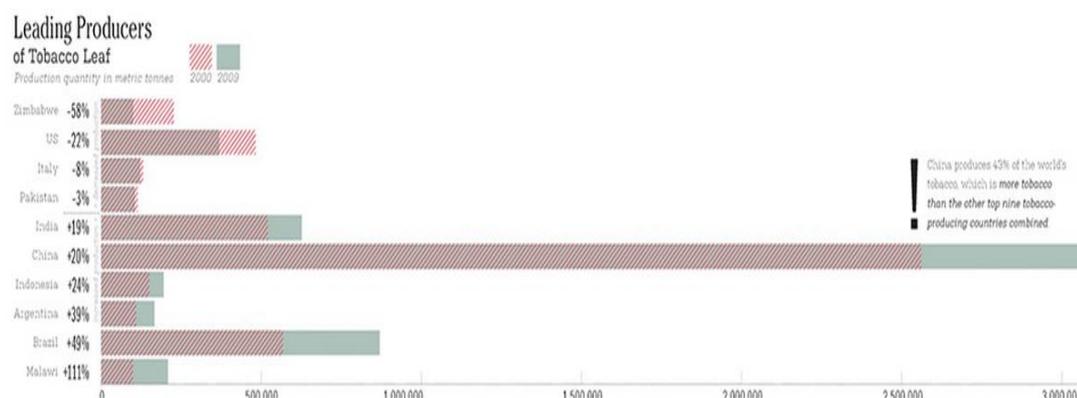
**Source: Statista.com. *Statistics and facts about the tobacco industry*. [online]. [cit. 2014-05-20]. Available from: <<http://www.statista.com/topics/1593/tobacco/>>.**

As we can see from Figure 2 above, the top 10 countries in terms of tobacco production are located in different regions of the world. China leads the list, accounting for an overwhelming majority of produced tobacco volumes in terms of its value. In 2011, China produced tobacco for over 5 billion US dollars, while its main market competitors, India and Brazil, produced approximately 1.6 and 1.5 billion US dollars of tobacco, respectively. The rest of the world's top producers of tobacco accounted for considerably smaller shares in the global industry market.

It is worth noting that China's success on the global tobacco market is not accidental, and is due to the favorable economic and investment conditions arranged for the industry by the state's government. This sector of production has rapidly been developing in recent years in China thanks to the vast modernization programs implemented, use of up-to-date equipment, and active involvement of foreign investors

placing their production on the Chinese territory. For such foreign investors, this opportunity is beneficial thanks to the low costs borne for the local workforce, and the local territory's vast abundance in resources. Moreover, the conditions of doing business in China have recently been substantially improved, and therefore companies seeking transfer of their production to other countries can effectively choose China for those purposes. (Junmin Wang. *Market-building as State-building in China's Tobacco Industry*, pp. 53-54).

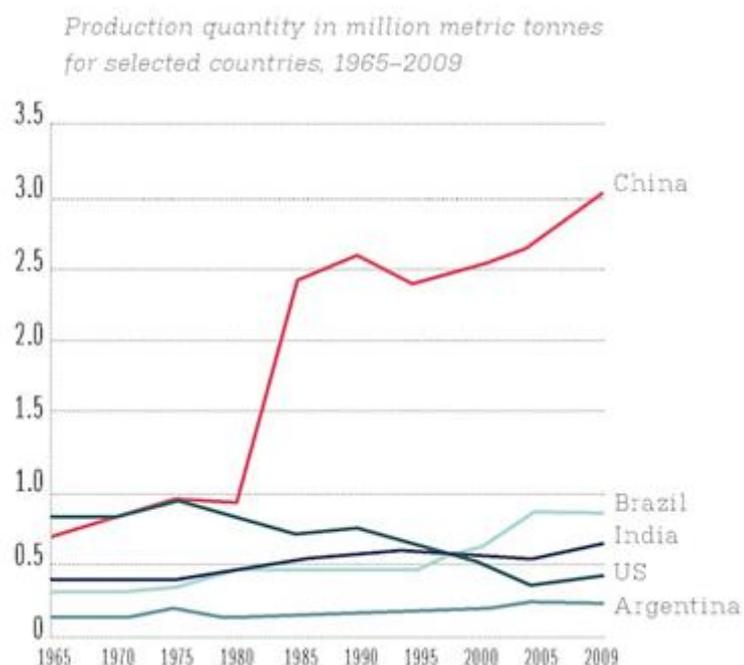
**Figure 3: Leading producers of tobacco leaf in the world in 2000-2009 (in metric tons)**



**Source:** Tobacco Atlas. *Countries*. [online]. [cit. 2014-05-20]. Available from: <[http://www.tobaccoatlas.org/industry/growing\\_tobacco/countries](http://www.tobaccoatlas.org/industry/growing_tobacco/countries)>.

Figure 3 above testifies the previous findings concerning China's leading positions on the global tobacco production market. In terms of the physical volumes of tobacco leaf production, China accounts for the greatest share on the global market. The country produces 45% of the total tobacco leaf volumes on the global scale, and in aggregate accounts for a greater amount of production than all other countries in the top 10 altogether. The overall level of tobacco production in terms of its physical volumes in China grew by 20% in 2009 as compared with 2000, which testified considerable growth in the country's tobacco industry. Other top producers of tobacco leaf accounted for considerably smaller shares on the global market.

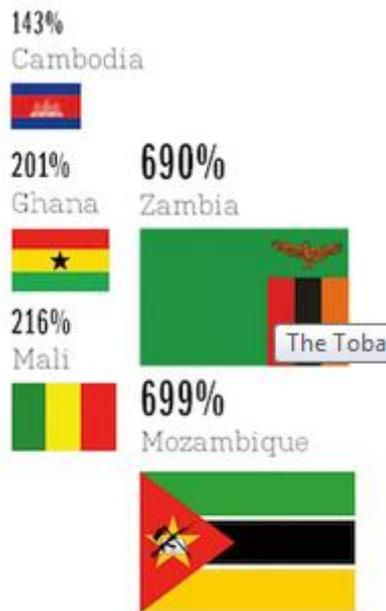
**Figure 4: Dynamics of tobacco production in the world's major manufacturing countries in 1965-2009**



Source: Tobacco Atlas. Countries. [online]. [cit. 2014-05-20]. Available from: <[http://www.tobaccoatlas.org/industry/growing\\_tobacco/countries](http://www.tobaccoatlas.org/industry/growing_tobacco/countries)>.

Figure 4 above depicts the dynamics of growth in tobacco production in the world's leading countries in the sector. As we can see, China reached the highest growth pace in the period from 1965 to 2009, while other major global tobacco producers preserved their level of production nearly at the same level, or only attained slight growth. This situation can first of all be explained by the Chinese government's actions aimed at increasing the inflow of investment in the field of tobacco production from foreign funding sources. The US survived the greatest downfall in terms of the absolute production volumes due to the American corporations' expansion to foreign markets where production and distribution is more profitable for them thanks to the higher level of cost-efficiency. Brazil's success is also worth mentioning, as the country has recently been able to reach great results in the tobacco sector on the global scale (William Barnett. *The Global Tobacco Industry*, p. 14).

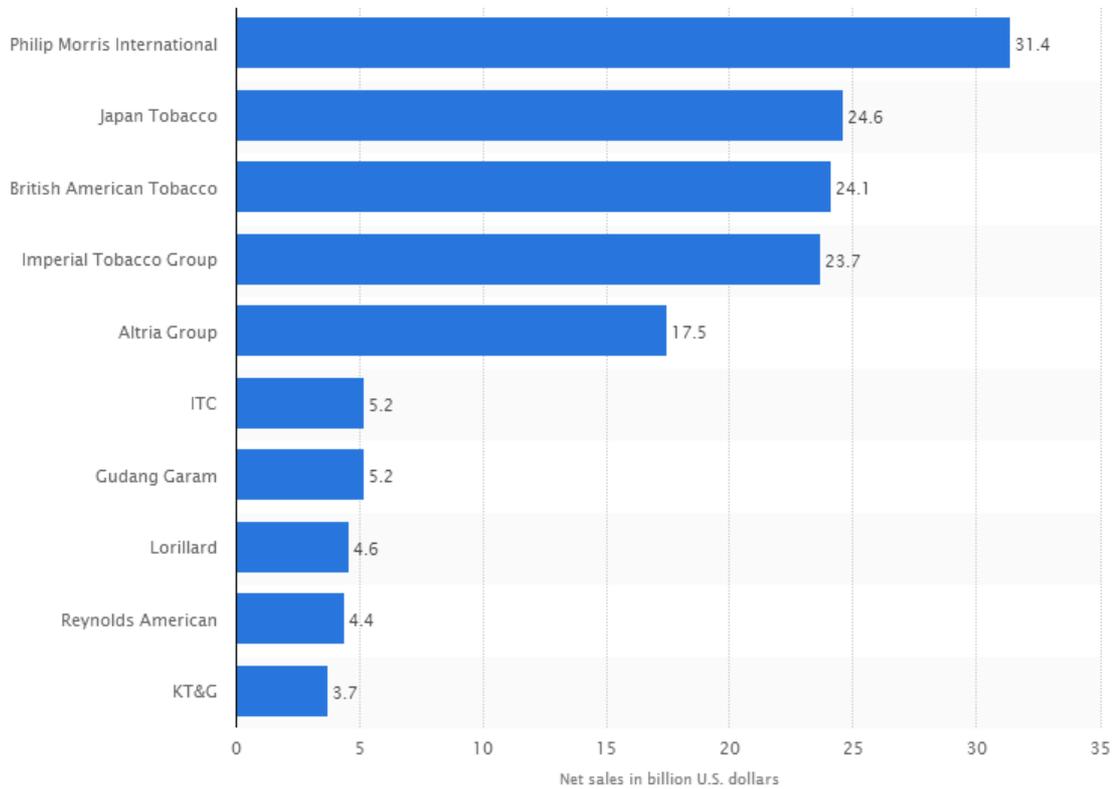
**Figure 5: Countries with the most rapid growth of the tobacco market (in 2009 as compared with 2000)**



Source: Tobacco Atlas. Countries. [online]. [cit. 2014-05-20]. Available from: <[http://www.tobaccoatlas.org/industry/growing\\_tobacco/countries](http://www.tobaccoatlas.org/industry/growing_tobacco/countries)>.

However, the greatest relative growth of the tobacco market has recently been demonstrated by countries accounting for considerably smaller absolute shares on the global scale, which can be seen from Figure 5 above. Thus, the highest growth rate was demonstrated by Mozambique: 699% in 2009 as compared with 2000. Zambia nearly equaled this result, while the growth rate of Cambodia, Ghana and Mali varied from 143% to 213%. In my opinion, such dynamics can be explained by expansion of the tobacco market, and search of new production and distribution territories by major international corporations running their activities in this field.

**Figure 6: Leading 10 tobacco companies worldwide in 2012, based on net sales (in billion U.S. dollars)**



**Source: Statista.com. *Statistics and facts about the tobacco industry*. [online]. [cit. 2014-05-20]. Available from: <<http://www.statista.com/topics/1593/tobacco/>>.**

Figure 6 above demonstrates the leading corporations on the global tobacco market in terms of the net sales indicator. Despite the market structure by countries, the leading corporation is American Philip Morris International, with 31.4 billion US dollars of net sales as of 2012. Japan Tobacco, British American Tobacco and Imperial Tobacco Group had their net sales varying from 23.7 to 24.6 billion US dollars in 2012, while other major companies accounted for overall smaller shares. The situation with the domination of Philip Morris can be explained by the fact that the company operates a great number of facilities abroad, namely in China, and therefore its production results can partly be accounted for as results of Chinese enterprises, while the group of companies has its headquarters in the United States.

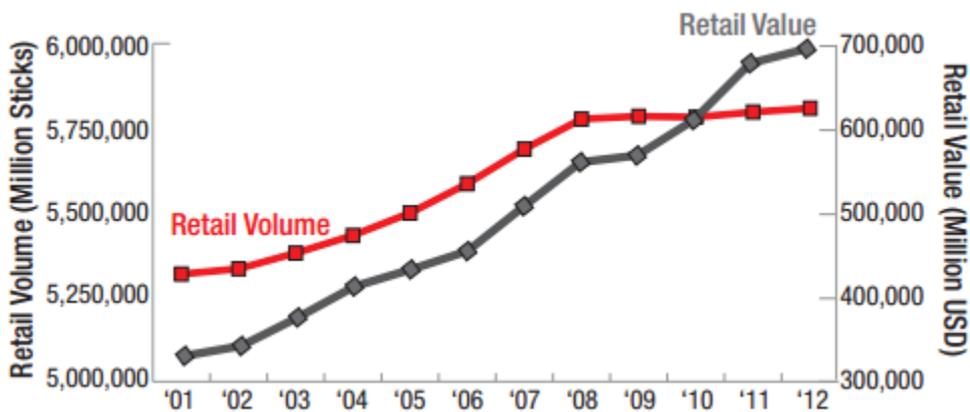
**Figure 7: Structure of the global tobacco market production by products in 2010**



Source: Tobacco Atlas. Countries. [online]. [cit. 2014-05-20]. Available from: <[http://www.tobaccoatlas.org/industry/growing\\_tobacco/countries](http://www.tobaccoatlas.org/industry/growing_tobacco/countries)>.

Product structure of the global tobacco market is demonstrated on Figure 7 above. As we can see, production of cigarettes accounts for almost 92% in the total structure of tobacco market production, with the total volume of 610 billion US dollars as of 2010. Smokeless tobacco, other smoking tobacco and cigars account for considerably smaller shares of slightly less than 3% in the total volume of production worldwide. Thus, the cigarette market accounts for the greatest share in the global tobacco industry, and therefore it is worth analyzing it more in detail.

**Figure 8: Dynamics of the global cigarette market in 2001-2012**



Source: Global.tobaccofreekids.org. *The Global Cigarette Industry*. [online]. [cit. 2014-06-10]. Available from: <[http://global.tobaccofreekids.org/files/pdfs/en/Global\\_Cigarette\\_Industry\\_pdf.pdf](http://global.tobaccofreekids.org/files/pdfs/en/Global_Cigarette_Industry_pdf.pdf)>.

Figure 8 above depicts the dynamics of the global cigarette market in the period from 2001 to 2012. Obviously, the market has been lately surviving some positive tendencies, and the overall level of production, both in terms of retail volume and retail value, has constantly been growing. This testifies that the overall level of cigarette consumption around the globe is constantly increasing, and manufacturers can produce higher volumes of cigarettes, which production finds its demand among actual and prospective consumers. Another trend to be noted is that the retail value is growing at a higher pace than the retail volume. This can to a large extent be explained by the increased level of taxation and excise duties applied to production of cigarettes in different countries around the globe (Linda Foreman, William McBride. *Policy Reform in the Tobacco Industry: Producers Adapt to a Changing Market*, p. 175).

**Figure 9: Top 5 cigarette exporting countries in 2010 (in billion U.S. dollars)**



Source: Statista.com. *Statistics and facts about the tobacco industry*. [online]. [cit. 2014-05-20]. Available from: <<http://www.statista.com/topics/1593/tobacco/>>.

Figure 9 above shows the leaders of the global cigarette market in terms of the aggregate volumes of exports. In 2010, Germany was the world's greatest exporter of cigarettes, with the total volume of exports amounting to over 180 billion US dollars.

Interestingly enough, the second and third countries were the Netherlands and Poland respectively, i.e. those states which do not rank among the world's greatest producers of tobacco. This can be explained by the fact that those countries' domestic consumption is considerably lower than the level of cigarette production currently existing.

**Figure 10: Top 10 cigarette markets, by physical volume of production**

<b>COUNTRY</b>	<b>RETAIL VOLUME, 2012 (MN STICKS)</b>
China	2,477,932.2
Russia	374,135.8
USA	287,120.6
Indonesia*	203,116.4
Japan	197,484.5
India	102,127.2
Philippines	100,547.1
Vietnam	99,687.4
Turkey	95,332.3
South Korea	88,989.1

\*excluding hand-rolled kreteks

Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

In terms of the overall production structure, the cigarette market is somehow similar to the general tobacco market structure. China holds the dominating position on the market in terms of the physical production volumes, while all other producing countries significantly lag behind. This can be explained by the fact that the cigarette market accounts for the greatest share in the global tobacco industry, and therefore such structure is obviously preconditioned by the existing market conjuncture.

Based on the findings of my research, it can obviously be stated that the global tobacco market is constantly growing, and those tendencies have been considerably

prevailing in recent years. The cigarette market plays an essential role here, as cigarettes stand for the greatest volumes of production on the global scale, and therefore predefine the overall trends in the tobacco industry. Prospects for the near future look quite bright, as the tobacco market is actively expanding both its geographical coverage, and the volumes of production. China will obviously remain the world's absolute leader both in terms of the physical volumes of tobacco production and the absolute monetary value of production (William Barnett. *The Global Tobacco Industry*, pp. 69-70).

In my opinion, another trend that should be expected in the near future is increase in the total area of land used for tobacco cultivation through expansion to the territories of less developed countries with favorable conditions for such agricultural activities. The positive examples of Mozambique and Zambia previously described in this essay testify that African countries have a great potential for the subsequent development of the tobacco market. An essential role here is played by the favorable climate conditions and the abundance in cheap workforce, which is sought by most manufacturers.

However, there may be obstacles preventing the rapid growth of the global tobacco market. Thus, as of today, most countries around the globe, especially developed states, tend to restrict the level of tobacco consumption among the population, which is due to healthcare reasons. For this purpose, governments tend to establish higher excise duties and taxes, in order for the prices for tobacco to rise. Consumers are therefore forced either to spend more on cigarettes (thus contributing greater amounts of funds to state budgets) or to reduce their consumption, thanks to which the state subsequently reduces its expenditures for healthcare. However, in my opinion, such measures undertaken by public authorities will not considerably hinder further development of the global tobacco market, only slightly slowing down the level of growth.

### **Summary**

The global tobacco market is a sector which covers the entire range of cultivation, production and distribution processes with tobacco and tobacco-related products. Production of cigarettes accounts for over 90% in the total production structure worldwide. China holds the dominating position on the global tobacco market, considerably overcoming its competitors. The most rapid growth pace on the international tobacco

market is demonstrated by African countries such as Mozambique and Zambia. However, the major shares on the global market are held by American, Japanese and British tobacco corporations. In the near future, further growth of the global tobacco market should be expected. However, tobacco manufacturers will be likely to face some considerable difficulties due to the restrictive policies implemented by many states for reducing tobacco consumption among the population, thus reducing the level of state expenditures on healthcare.

## **4 Philip Morris as a major corporation on the global tobacco market**

### **4.1 General overview of the corporation**

Philip Morris International is one of the world's major transnational corporations running its activities on the global tobacco market. The company was established in March 2008, when a spin-off occurred from the parent corporation Altria Group which had been performing its activities on the international tobacco market since 1985. Starting from 2008, Philip Morris International has been running its activities as a completely independent corporation, with its own organizational and management structures, strategies and policies implemented, staff employed, etc. As of today, the company controls 15.7% of the international tobacco market outside the United States in terms of aggregate sales.

The corporation's headquarters are currently located in New York, the United States, and its operations center functions in Lausanne, Switzerland. The company operates 53 production facilities around the globe, and its products are sold in over 200 countries worldwide. 91,000 employees constitute the staff of Philip Morris involved in different kinds of production, management, accounting, audit and other operations required to ensure the company's normal functioning and successful results on the market.

The corporation's tobacco products are sold on the international market under different bands. Seven out of the fifteen global top tobacco brands belong to Philip Morris International. In general, all products of Philip Morris International are conditionally divided into international and local brands. International brands enjoy a high demand worldwide, and are sold in different countries, while local brands are only popular in particular countries or groups of countries, and therefore are mostly sold within such limited market.

Philip Morris International's most popular global cigarette brand is Marlboro. The brand is so popular that the corporation has implemented an own architecture for Marlboro aimed at maximizing customer satisfaction, and thus the company's profits generated through the sales of products of this brand. Thus, as of today, all Marlboro products are

divided into three categories: Marlboro Flavor (products for adult smokers seeking the most favorable flavor satisfaction), Marlboro Gold (cigarettes with smooth tastes), and Marlboro Fresh (differentiated refreshing tastes). Also, differentiation of the Marlboro brand is made for particular local markets, for instance, products under the brand Marlboro Advance are sold in Malaysia, Marlboro W-Burst – in Japan, and Marlboro Kretek Mint – in Mexico.

L&M is another key international brand of Philip Morris International which overall ranks the third in terms of foreign sales around the globe. Bond Street, Parliament, Philip Morris, Chesterfield and Lark also belong to Philip Morris International's most renowned and globally popular cigarette brands.

The most popular local cigarette brands of Philip Morris International include Sampoerna A, Dji Sam Soe and U Mild in Indonesia, Fortune, Champion and Hope in the Philippines, Diana in Italy, Optima and Apollo-Soyuz in Russia, Morven Gold in Pakistan, Boston in Colombia, Belmont, Canadian Classics and Number 7 in Canada, Best and Classic in Serbia, f6 in Germany, Delicados in Mexico, Assos in Greece, and Petra in the Czech Republic and Slovakia.

In addition to cigarettes, Philip Morris International produces other tobacco products, including cigars, smokeless and chewing tobacco. Thus, the company owns major bands in those industries such as Interval, Petterøes, and so on.

The company has its production facilities in Europe, Asia, the Americas, Africa and Australia. This allows effectively reaching the local customers on all of the world's continents. Significant funds are yearly allocated to research and development programs not only for the purpose of developing tobacco products with new parameters, but also in order to reduce the negative health effects caused by smoking.

The corporation positions itself as a responsible manufacturer of tobacco products, and tries to bring all the required information about the negative effects of smoking to the attention of its customers. For this purpose, the company regularly prepares press releases, holds presentations and various other events. At the same time, Philip Morris International implements large-scale activities aimed at reducing the harm caused by its products by using technologically new processes and ingredients.

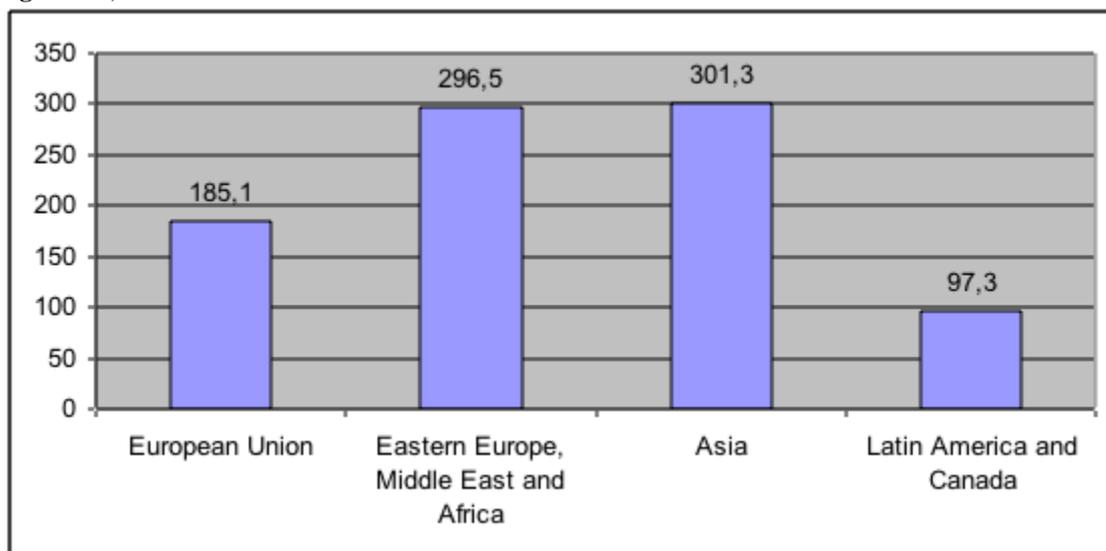
As the corporation also positions itself as an environmentally and socially responsible tobacco manufacturer, it takes part in various environment protection programs, and also often acts as a sponsor of major international sports competitions. This helps not only promote the brand value, but also build an image of a brand caring about its customers (*Materials of Philip Morris International website*).

Having investigated the key basic aspects of Philip Morris International's activities on the global tobacco market, in the next chapter of my thesis, I would like to focus particularly on the company's financial indicators and their dynamics in recent years.

## 4.2 Financial indicators and dynamics of development

The financial indicators reached by Philip Morris on the international tobacco market are predefined by its effective activities around the globe. The company conditionally divides the global market into four key segments, with operational strategies developed separately for each such segment with an aim to maximize the financial results reached on it. As of today, such segments are as follows: European Union; Eastern Europe, Middle East and Africa; Asia; and Latin America and Canada.

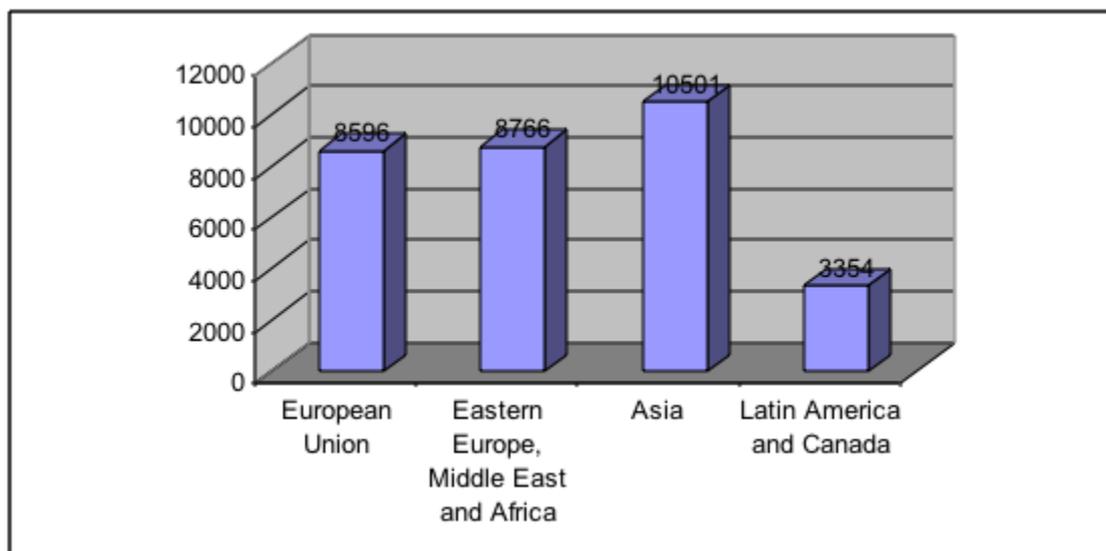
**Figure 11: Physical volume of Philip Morris International's production by regions, in billion units of cigarettes, as of 2013**



Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 11 above depicts the breakdown of Philip Morris International’s physical volume of production by the world’s regions as of 2013. As we can see from the chart, the regions of Asia and Eastern Europe, Middle East and Africa share almost the same value of this indicator. In 2013, 296.5 billion cigarettes were produced in Eastern Europe, Middle East and Africa, while Asia accounted for 301.3 billion cigarettes. At the same time, the physical volumes in other geographical regions were considerably lower. In the European Union, this figure amounted to 185.1 million cigarettes, while the volume of physical production of cigarettes in Latin America and Canada made up only 97.3 billion units. Such figures can be explained by several key factors. First of all, the volume of production is not necessarily predefined by the capacity of the local market, but rather heavily depends on the costs of sale in each particular region. In Asia, Eastern Europe and Africa, such production costs are significantly lower than in the European Union or Canada due to the lower cost of workforce, and the less strict requirements to environment protection. Therefore, Philip Morris International tends to transfer the greatest part of its production facilities to those regions for the purpose of minimizing its costs, and thus raising the level of generated profit. On the other hand, those markets are very dynamically developing, and therefore they ensure a significant share of demand for Philip Morris International’s products.

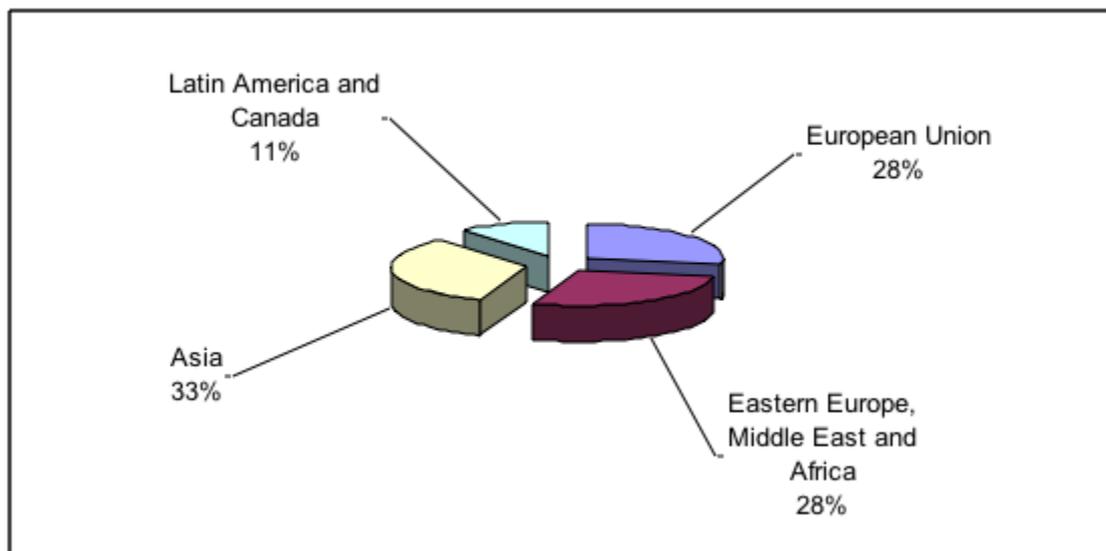
**Figure 12: Philip Morris International’s net revenues by regions, in million US dollars, as of 2013**



Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 12 above demonstrates the breakdown of Philip Morris International's net revenues by the world's regions as of 2013. The chart clearly shows that the Asian region ensures the highest amount of the corporation's profits on the global tobacco market. Thus, in 2013, the company generated over 10.5 billion US dollars from its sales in Asia. The European Union and Eastern Europe, Middle East and Africa reached almost the same figures of net profits in 2013: almost 8.6 billion US dollars, and slightly less than 8.77 billion US dollars, respectively. At the same time, net revenues generated in Latin America and Canada significantly lagged behind, and only amounted to slightly over 3.35 billion US dollars. This testifies that the Asian region currently yields the greatest profits to Philip Morris International.

**Figure 13: Philip Morris International's net revenues by regions, in million US dollars, as of 2013**



Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

As Figure 13 above illustrates, Asia accounts for 33%, i.e. 1/3, of Philip Morris International's net revenues generated in 2013. The shares of the European Union and Eastern Europe, Middle East and Africa are nearly equal, and make up approximately 28% each, while the share of Latin America and Canada only amounts to 11%. Therefore, it can definitely be stated that, despite the difference in the shares of different regions, all those regions play an important role in the profit-generation activities of Philip Morris International.

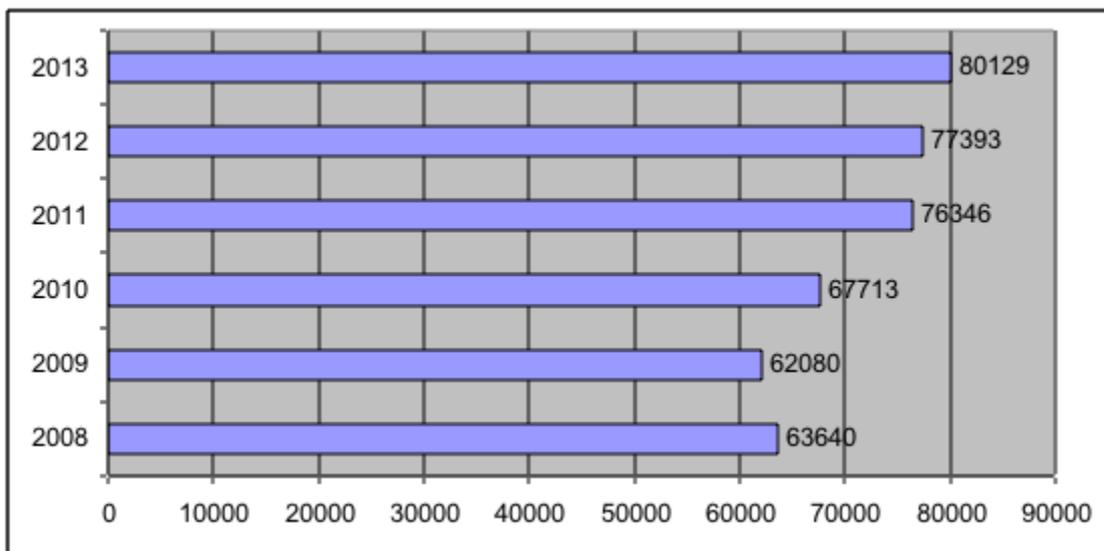
**Table 1: Philip Morris International's key financial indicators in 2008-2013**

	2008	2009	2010	2011	2012	2013
Net revenues	63640	62080	67713	76346	77393	80129
Cost of sales	9328	9022	9713	10768	10373	10410
Excise taxes on products	37935	37045	40505	45249	46016	48812
Gross profit	16377	16013	17495	20419	21004	20807
Diluted earnings per share, USD	3.31	3.24	3.92	4.85	5.17	5.26
Cash dividends declared per share, USD	1.54	2.24	2.44	2.82	3.24	3.58

Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Table 1 above demonstrates the dynamics of Philip Morris International's key financial indicators in the dynamics for 2008-2013. I would like to analyze them more in detail below in order to track the dynamics and trends in Philip Morris International's activities in recent years.

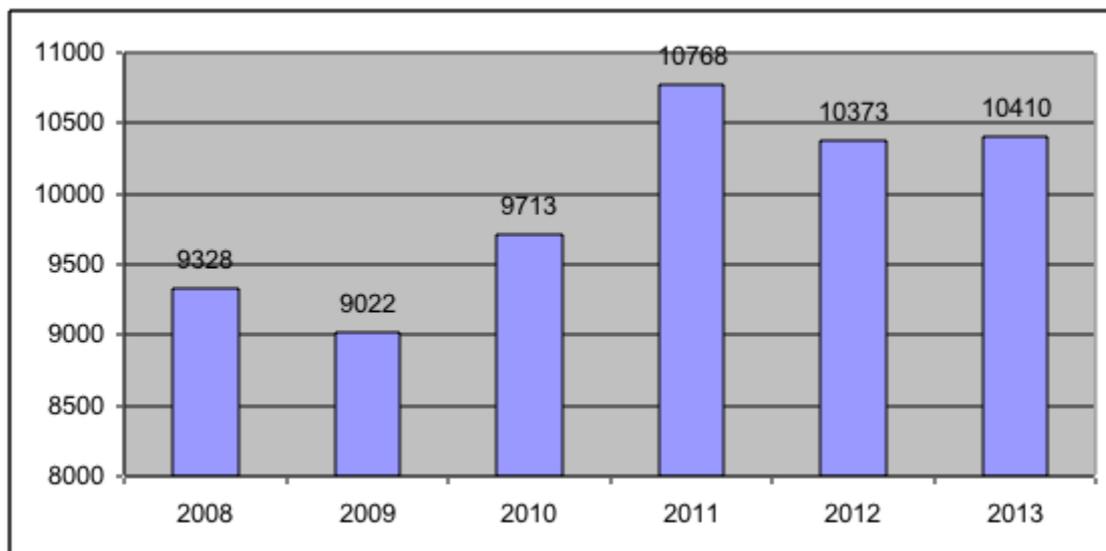
**Figure 14: Dynamics of Philip Morris International's net revenues in 2008-2013**



Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 14 above demonstrates how Philip Morris International's net revenues changed in the period from 2008 to 2013. As we can see, negative dynamics existed only in 2009, while in other years, the dynamics of changes remained positive, with gradual increase reached in the level of total net revenues generated on the market. Thus, in 2009, the figure of net revenues dropped by 2.5% to 62,080 million US dollars. This can be explained by the consequences of the 2008 global financial and economic crisis, and stagnation of the global economy. As the purchasing power of the world's population considerably decreased with the occurrence of the global crisis, sales of tobacco products worldwide dropped, and therefore the revenues of tobacco companies decreased as well. Thus, this dropdown in the net revenues of Philip Morris International is quite understandable. Already starting from 2010, the company has been gradually improving its indicator of net revenues, which reached its peak value in 2013, when its figure amounted to 80,129 million US dollars. As compared with 2008, the corporation's net revenues grew by almost 17 billion US dollars, i.e. by 25.9%. This proves that the company's business activities in the analyzed period were very effective, and Philip Morris International was able not only to maintain, but also to further improve its financial results.

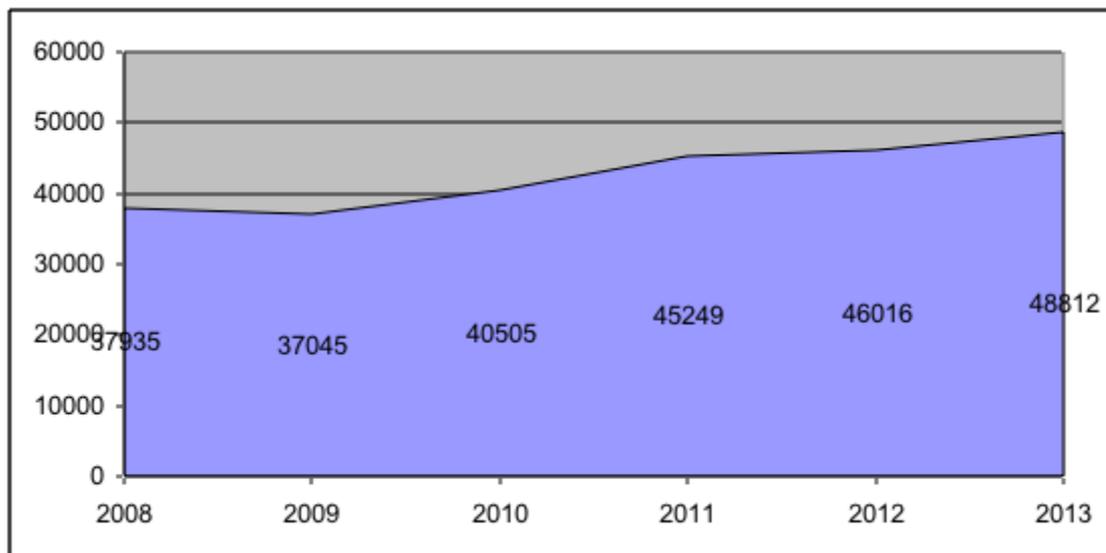
**Figure 15: Dynamics of Philip Morris International's cost of sales in 2008-2013**



Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 15 above illustrates the dynamics of Philip Morris International's cost of sales in 2008-2013. As we can see, there haven't been any stable or single-vector dynamics in the analyzed period. In 2009, the level of cost of sales decreased as compared with the previous year. This can be explained by the overall decrease in the intensity of Philip Morris International's activities due to the consequences of the 2008 global financial and economic crisis. In the next two years, the level of cost of sales rose, and reached its peak value of 10,768 million US dollars in 2011. In the next two years, the figure of cost of sales decreased and remained relatively the same, amounting to 10,373 million US dollars in 2012 and 10,410 million US dollars in 2013, respectively. In the light of continued growth of the company's net revenues, such dynamics of the cost of sales in 2012-2013 can definitely be considered positive. Such positive figures were reached thanks to the wise policies implemented by the company in the field of research and innovative technologies, and thanks to its comprehensive management practices among all departments and business activities.

**Figure 16: Dynamics of Philip Morris International's excise taxes on products in 2008-2013**

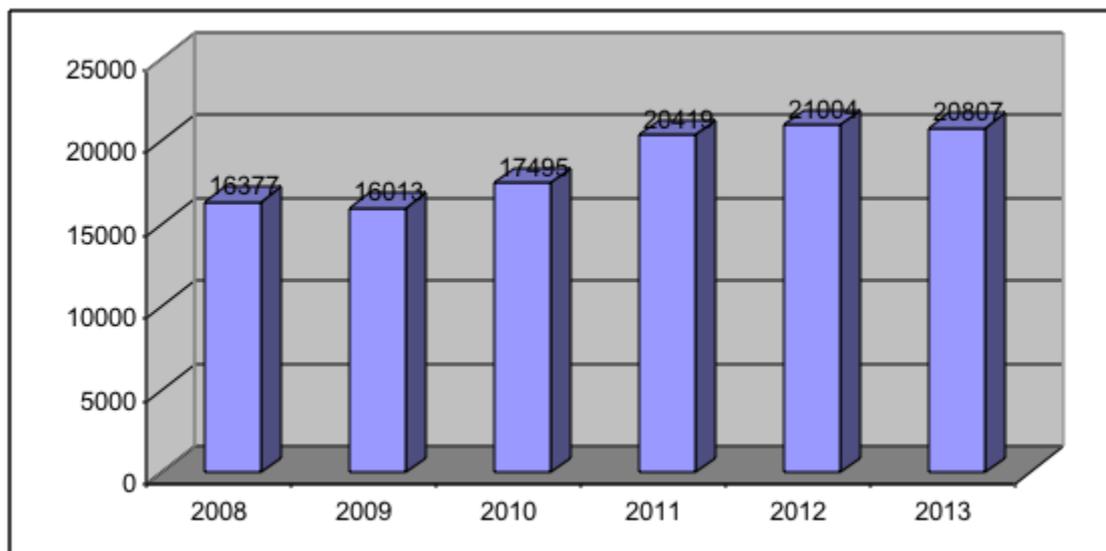


Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 16 above depicts the dynamics of excise taxes paid by Philip Morris International on its products in the period from 2008 to 2013. The excise taxes are imposed on cigarettes represent the greatest source of the corporation's expenses which it is forced

to pay. As we can see from the chart above, the dynamics of changes of the excise taxes paid by Philip Morris International remained overall stable in the analyzed period, with the only dropdown in 2009. As it has already been stated earlier in this chapter, in 2009, Philip Morris International experienced a slowdown of its activities due to the consequences of the 2008 global financial economic and financial crisis. Due to this, the number and value of the corporation's products sold substantially decreased. This led to a decrease in the level of excise taxes paid. However, during the next years, as the levels of production started growing again, the company started paying higher values of excise taxes. The highest figure of excise taxes paid by Philip Morris International reached in 2013 amounted to 48,812 million US dollars.

**Figure 17: Dynamics of Philip Morris International's gross profit in 2008-2013, in million USD**

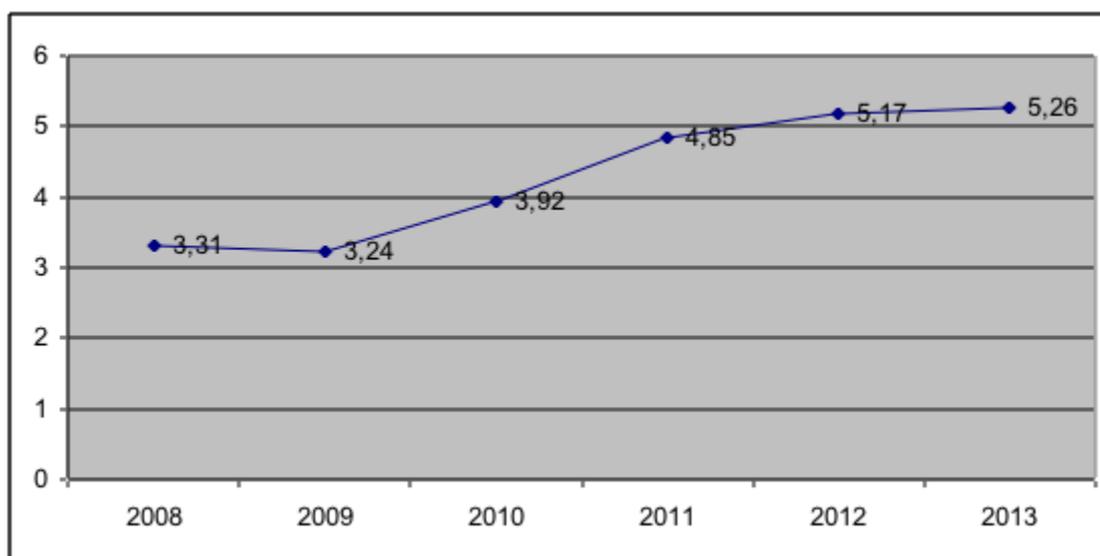


Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 17 above shows the dynamics of Philip Morris International's gross profit in the period from 2008 to 2013. As we can see from the chart, those dynamics remained relatively stable in the analyzed period, and generally correlate well with the dynamics of net revenues shown above. The only decrease occurred in 2009, when Philip Morris International's gross profit fell down as compared with the previous year, which was caused by the negative effects of the 2008 global financial and economic crisis. However, already in 2010, the corporation's gross profit increased by over 9%, and reached 17,495

million US dollars. In 2012, the gross profit indicator reached by the corporation showed its peak value in the analyzed period: it amounted to 21,004 million US dollars, which was 28% higher than in 2008. Nevertheless, the positive tendency interrupted in 2013, when the company's gross profit decreased for the first time since 2009. Its figure made up 20,807 million US dollars, which showed a 1% decrease as compared with the previous year. Overall, this is a negative sign for the company's financial results, and it indicates the need for the corporation's management to undertake measures in order to remedy the situation.

**Figure 18: Dynamics of Philip Morris International's diluted earnings per share in 2008-2013**

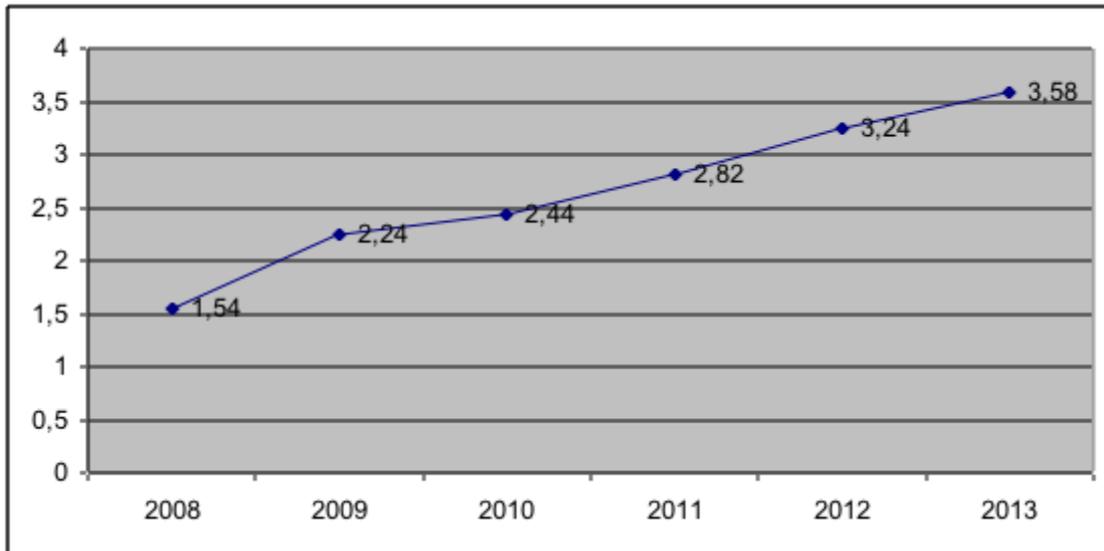


Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <http://www.pmi.com/eng/pages/homepage.aspx>.

Figure 18 above illustrates how the dynamics of Philip Morris International's diluted earnings per share changed in the period from 2008 to 2013. As we can see from the chart, these dynamics have lately remained very positive for the corporation. Thus, in 2013, the value of this indicator reached its peak amount of 5.26 USD per share, which showed an increase by almost 59% as compared with the first year of the analyzed period. Overall, the curve shown above correlates with the dynamics of Philip Morris International's net revenues and gross profit. The positive tendencies are particularly good for the company's financial position and the level of investors' interest in it. The high value of earnings per share means that investors are more likely to invest in the company for the purpose of

gaining profits, and its overall position on the market thus becomes even more stable. If the company is able to maintain such positive dynamics in the near future, this will play an essential role for maintaining and further expanding Philip Morris International's leading positions on the international tobacco market.

**Figure 19: Dynamics of Philip Morris International's cash dividends declared per share in 2008-2013**



Source: Philip Morris International. *Home page*. [online]. [cit. 2014-06-10]. Available from: <<http://www.pmi.com/eng/pages/homepage.aspx>>.

Figure 19 above depicts the dynamics of Philip Morris International's cash dividends declared per share in the period from 2008 to 2013. As we can see, in contrast to the previous financial indicators' dynamics, the progression of the corporation's dynamics of dividends declared per share remained stable throughout the entire analyzed period. Even in 2009, after the global financial and economic crisis had occurred, the company continued stably increasing the level of dividends paid to its shareholders. This testifies Philip Morris International's responsible position with regard to its investors, and helps promote the corporation's image and brand around the globe. The peak value of dividends declared per share was reached by the corporation in 2013, when its figure made up 3.58 USD per share. This was 2.3 times higher than the same value in 2008. Such tendencies are definitely positive for the corporation, and prove its effective financial results reached in the course of business activities worldwide.

Thus, it can obviously be stated that Philip Morris International's financial results have remained stably positive in recent years, and their positive dynamics contribute to the company's leading position on the global tobacco market. If the company continues maintaining such stable positive dynamics in the near future, it will be able to further expand its activities on the global tobacco market, thus even strengthening its leading positions.

## **5 Analysis results**

The results of my analysis show that the global tobacco market is constantly dynamically developing. Obviously, this means that there is an ever-growing on the products of the tobacco industry. Thanks to such positive dynamics of the market conjuncture, tobacco manufacturers are able to expand their activities both in terms of the geographical territories covered and the financial earnings received.

As of today, the global leader in terms of the volumes of tobacco produced is China. The country not only holds the leading position in terms of production and sales of tobacco products, but also demonstrates the most rapid growth pace as compared with other global tobacco market leaders, namely India, the United States, Brazil, and Argentina. However, the most rapid growth overall is shown by developing African countries, namely by Zambia and Mozambique, where the year-by-year tobacco market growth is as high as over 600%. This is due to the fact that major transnational corporations running their activities on the global tobacco market tend to move their production facilities to countries with the lowest cost of production, and therefore they have lately started actively exploring the tobacco markets of African countries for the purpose of maximizing their sales performance.

The product most widely sold on the international tobacco market is cigarettes. Cigarettes in aggregate account for almost 90% of the total sales on the market, while the share of chewing tobacco, smokeless tobacco, and other non-cigarette products is significantly lower. This predefines the overall development vectors of the global tobacco market, and the vectors of tobacco manufacturers' further activities destined to reach expansion in the international arena. Both the retail value and the retail volume of the global cigarette market are constantly growing, which means that cigarette manufacturers are able to expand their customer base.

The biggest exporter of cigarettes is Germany, which is followed by the Netherlands and Poland. The United States only holds the fourth position in terms of the global cigarette exports. At the same time, in terms of the physical production, the US is the third country worldwide, lagging behind the Russian Federation and China.

However, the American corporation Philip Morris is the global leader on the tobacco market in terms of the volumes of sales of tobacco products. The company is the absolute leader on the global scale in terms of sales of products, and its main competitors are Japan Tobacco, British American Tobacco, and Imperial Tobacco Group which have lately been demonstrating slower results of growth.

Philip Morris International has been running its commercial activities on the global tobacco market since 2008, when a spin-off occurred from Altria Group, an American tobacco corporation which had existed on the market since 1985. As of today, Philip Morris International controls 15.7% of the international tobacco market outside the United States in terms of sales. The company produces all kinds of Tobacco products, with the main focus being made on cigarettes sold worldwide under different brands.

The company offers both international and local brands to the market for the purpose of satisfying the demand of all customers. Philip Morris International's most renowned international brand is Marlboro, the global leading cigarette brand in terms of the amounts of sales. Other international brands of the corporation include Bond Street, Parliament, Philip Morris, Chesterfield and Lark. The corporation's most popular local cigarette brands are Sampoerna, Dji Sam Soe, U Mild, Fortune, Champion, Diana, Optima, etc.

When investigating the financial aspects of Philip Morris International's activities on the global tobacco market, I have discovered that Asia accounts for both the greatest share in terms of the aggregate physical production and net sales of the corporation, while other regions, namely the European Union, Eastern Europe, Middle East and Africa, and Latin America and Canada significantly lose in terms of those indicators. In my opinion, those figures are quite understandable and can easily be explained by Philip Morris International's global strategy.

The corporation is making efforts to reach the maximum performance of sales on the global market. For this purpose, it tends to locate its production facilities in countries with the lowest cost of manufacturing, at the same time taking into account the infrastructure of logistics and the total cost of transportation. Based on evaluating and balancing those parameters, Philip Morris International locates the greatest part of its production facilities in developing countries with the lowest cost of manpower. In this

case, the best alternatives are offered by Asian countries such as China or the Philippines. Workers are quite qualified there for the required production processes, and the overall level of wages is very low. Therefore, the transportation costs obviously cover the expenses Philip Morris would otherwise incur by locating production facilities in developed states. Moreover, in Asian countries, the environmental regulations are much less stringent than, for instance, in Western Europe. Thanks to this, the corporation further spares substantial amounts of funds. Finally, the markets of Asian countries consume significant volumes of cigarettes as well, and therefore Philip Morris seeks to spread its influence over the Asian region in terms of control over the regional market by locating its production facilities in Asian countries.

However, if we take a look at the structure of Philip Morris International's sales around the globe, we will see that the European Union stands quite close to Asia. This is due to the fact that the purchasing power of the EU member states' population is significantly higher than in developing states, and therefore the level of sales is substantially higher there. Philip Morris International effectively acts on the European cigarette market, mostly importing its tobacco products manufactured in Asia.

Thanks to its effective management and well-implemented operational activities, Philip Morris International has lately been able to demonstrate constantly positive indicators of its activities on the global tobacco market. Thus, the company was able to quickly recover its growth after the negative consequences of the 2008 global financial and economic crisis, and already showed positive net revenue dynamics in 2009-2013, reaching its highest ever value of over 80 billion US dollars in 2013.

At the same time, the findings of my analysis show that, in addition to increasing the level of total revenues, Philip Morris International is able to maintain its costs of sale at a stable level, or even to slightly reduce it. This results in the company's fast-growing net profits. In my opinion, the corporation is able to reduce its costs of sale thanks to the well-elaborated management policies implemented both on the top level and on the level of subsidiaries and business units. In fact, the organization of production and sales processes in Philip Morris International adopts a very balanced approach to the location of production facilities and sales outlets, and the networks of retailers on different continents are proven sellers which effectively promote the company's products to the local market.

Thanks to the constant re-evaluation of its current operational processes and thanks to the new technologies developed within the corporation, Philip Morris International is able to effectively manage its costs, and thus to maximize profits from its activities.

Another particularly important finding of my analysis is how Philip Morris International deals with its shareholders and investors. The dynamics of the corporation's diluted earnings per share have lately remained stable, even without any slowdowns in the crisis period. This means that the company is very attractive for investors, as it constantly demonstrates positive dynamics in terms of the growth of its market value. At the same time, the level of dividends per share also demonstrated uninterrupted growth dynamics in the period from 2008 to 2013, which only further testifies the effectiveness of the corporation's market activities and its attractiveness for investors.

In my opinion, the findings of my research allow thinking that Philip Morris International has all the prerequisites to continue maintaining its leading positions on the global tobacco market in the near future. On the one hand, this is preconditioned by the overall positive growth dynamics on the market, and thus by the ever-growing demand for tobacco products among the population around the globe. On the other hand, the company itself runs very effective managerial policies, and is able to reach top market performance. I believe that Philip Morris International should focus more on the African tobacco market in the near future, as African countries have recently demonstrated the greatest growth of their domestic tobacco production and sales. By actively exploring this regional market, the corporation will be able to even further strengthen its positions in the international arena.

## **6 Conclusion**

The global tobacco market has lately been constantly growing both in terms of physical production and the aggregate amounts of sales. The global leaders on the tobacco market have been able to expand their activities thanks to the positive market conjuncture. In those conditions, Philip Morris, the US major corporation running its activities on the tobacco market, has recently been able to maintain its stable leading positions, overcoming its key competitors such as Japan Tobacco, British American Tobacco, or Imperial Tobacco Group.

Philip Morris International has been running its activities on the international tobacco market since 2008. The corporation has the highest volumes of production and sales reached through the implementation of operational activities across all continents. In the structure of the company's production, the Asian region accounts for the greatest share on the global market. At the same time, Asia also accounts for the greatest share of sales, together with the European Union. However, it should be noted that the market of African countries has reached the highest growth in recent years, and Philip Morris International will be likely to expand its activities through emerging markets in the near future.

The analysis of Philip Morris International's financial indicators reached in the course of its activities shows that the corporation has been able to maintain positive dynamics across all major parameters in recent years. For instance, in the period from 2008 to 2013, Philip Morris International reached stable figures of total revenues, and even was able to reduce its cost of sale. Moreover, the corporation has lately been able to maintain stable levels of diluted earnings per share and dividends per share, which testifies that the company's activities are effective, and it is attractive to investors in financial terms.

In the course of my research, I have tested the hypotheses stated in the beginning of my thesis.

Hypothesis 1 can be disapproved. The global tobacco market is not experiencing any slowdown. To the contrary, it has lately been demonstrating stable positive growth dynamics in terms of both the physical volume of production and the aggregate volume of sales. Obviously, the restrictions implemented in certain states within the framework of

healthcare programs do not significantly affect the performance parameters of the global tobacco market.

Hypothesis 2 can be confirmed. Indeed, the global tobacco market has been lately been demonstrating positive growth dynamics, and is expected to further expand in the near future according to expert estimates. Such growth will be mainly boosted through developing states, namely in the African region, where the fastest market growth has recently been reached. Major transnational corporations will be likely to play an essential role in those processes by installing their production facilities in developing countries and making significant investment in them.

Hypothesis 3 can be disapproved. Philip Morris is indeed the leader on the global tobacco market. However, its global leading positions are achieved through the corporation's consistently effective activities in all geographical regions, both on the domestic American market, and on the markets of foreign countries. Thus, Philip Morris is able to maintain global leadership through its effective strategies of global development, and wins competition across most geographical regions.

Hypothesis 4 can be confirmed. Indeed, Philip Morris will be likely to continue holding its leading positions on the global tobacco market in the near future. This will mainly be ensured thanks to the company's wise strategies implemented on the global scale, and the well-thought strategic decisions developed and implemented on the level of the corporation's management.

Thus, I believe that the aim of my research has been fulfilled, and its goals have been reached.

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## Table of figures

Figure 1: Global area of harvested tobacco in 1980-2011 (in hectares).....	18
Figure 2: Top 10 countries worldwide based on tobacco production value in 2011 (in 1,000 U.S. dollars).....	19
Figure 3: Leading producers of tobacco leaf in the world in 2000-2009 (in metric tons)...	20
Figure 4: Dynamics of tobacco production in the world's major manufacturing countries in 1965-2009.....	21
Figure 5: Countries with the most rapid growth of the tobacco market (in 2009 as compared with 2000).....	22
Figure 6: Leading 10 tobacco companies worldwide in 2012, based on net sales (in billion U.S. dollars).....	23
Figure 7: Structure of the global tobacco market production by products in 2010.....	24
Figure 8: Dynamics of the global cigarette market in 2001-2012.....	24
Figure 9: Top 5 cigarette exporting countries in 2010 (in billion U.S. dollars).....	25
Figure 10: Top 10 cigarette markets, by physical volume of production.....	26
Figure 11: Physical volume of Philip Morris International's production by regions, in billion units of cigarettes, as of 2013.....	31
Figure 12: Philip Morris International's net revenues by regions, in million US dollars, as of 2013.....	32
Figure 13: Philip Morris International's net revenues by regions, in million US dollars, as of 2013.....	33
Figure 14: Dynamics of Philip Morris International's net revenues in 2008-2013.....	34
Figure 15: Dynamics of Philip Morris International's cost of sales in 2008-2013.....	35
Figure 16: Dynamics of Philip Morris International's excise taxes on products in 2008-2013.....	36
Figure 17: Dynamics of Philip Morris International's gross profit in 2008-2013, in million USD.....	37
Figure 18: Dynamics of Philip Morris International's diluted earnings per share in 2008-2013.....	38
Figure 19: Dynamics of Philip Morris International's cash dividends declared per share in 2008-2013.....	39