Customer Relationship Management

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Executive Summary

The tobacco industry is a quite mature industry where direct distribution and customer relationship management play key roles in the companies performance due to their impact on perceived quality of products and services delivered, that ends up driving clients’ commitment. The overall market in Reunion is shrinking (1,013,269 in 2000 to 786,505 in 2003 – in thousands sticks) and on top of that British American Tobacco (BAT) is losing market share (50.8% in 2000 to 41.8% in 2003). In this scenario, BAT decided to implement some organizational changes and to invest in better understanding its customers, primarily retailers, through their current assessment of BAT’s initiatives overall impact on their businesses.

First, a very detailed survey was conducted to identify drivers of satisfaction and sources of value related to the most relevant areas of interaction between BAT and its customers, evaluate their level of influence on the relationship and help predict customers’ future behaviour. A satisfaction-profit chain was drawn and the results showed clearly opportunities for improvement, but also areas where BAT had a competitive advantage over competitors that should be maintained.

Second, we analyzed BAT’s performance according to i) its effectiveness in providing basic distribution services, ii) the consumer-facing activities in place, and iii) the support and incentives offered to customers by the trade marketing and distribution representatives. Those are three important areas where BAT should continuously deploy efforts and develop new initiatives, in order to build commitment and loyalty from its retailers.

Lastly, we make some recommendations for decision-making regarding customer relationship management based on the findings and analysis previously done. More importantly, BAT will be able to allocate resources in a more efficient way and to take strategic initiatives due to regular serious assessment of drivers of value creation in its relationship with trade customers.
1. Introduction

British American Tobacco was rated as the number one tobacco company in Reunion in terms of customer relationship in a survey carried in 2003. This result is considered to be a remarkable success because the company had put in place its own distribution structure only at the start of 2002.

In this paper we will analyze the degree to which the company met the drivers of trade relationship and how it compares with the main competitors in the industry. Based on these insights, we will formulate a number of recommendations that can contribute to the company’s future strategy.

2. Background

British American Tobacco (BAT) set up a marketing office in the French Overseas Territory\(^1\), La Reunion, at the start of the 1990s. Prior to that, for the past 20 years that it has been selling its brands in the country, it relied exclusively on a third party distributor, called Rebel, for sales and promotion. When the office was set up, BAT did not take over the distribution and focused only on strengthening the marketing and communication of its brands. The organization structure was very lean and this was generally kept unchanged for the following 10 years\(^2\).

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\(^1\) La Reunion is considered as a ‘D.O.M’ (‘Departement d’Outre Mer’) and forms an integral part of France

\(^2\) Refer to Exhibit 1 in the appendix for the initial organization structure
In 2000, the company started to seriously consider integrating vertically into the distribution of its products\(^3\) for a number of reasons:

a) The new third-party distributor was not performing up to expectations. In 1997, BAT had terminated its contract with its historical distributor, Rebel, and Sodisco, a subsidiary of Altadis\(^4\), was appointed.

b) The cigarette market in Reunion was becoming increasingly competitive ever since Rebel, the outcast distributor, launched a low-price brand in 1998 and started a price war that destroyed the profitability of the three main players, BAT, Philip Morris and Altadis, during that year. At the end of the price war by the end of 1998, the market showed signs of stability again, but consumers were becoming increasingly price conscious as excise taxes on tobacco kept increasing.

c) The Loi Evin, which was promulgated in the 1990s to limit advertising of tobacco and alcohol, restricted severely the marketing and promotional opportunities to the end consumer. As a result, good distribution and sound relationship with the retail trade was becoming increasingly important to maintain market share in a mature cigarette market.

2.1 Move to Direct Distribution

In January 2002, BAT started with its own distribution in the two main channels, namely:

- **Convenience**: is made up mainly of small retail shops that comprise the bulk of the retail universe. This channel accounts for more than 90% of cigarette sales in the country.

- **HoReCa**: consisting of hotel, restaurants, and cafes. This represents less than 3% of volume but is a key channel for brand presence and communication.

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\(^3\) Exhibit 2 shows the industry value chain

\(^4\) Previously known as SEITA, the ex-French monopoly; changed name to Altadis since merger with ex-Spanish monopoly, Tabacalera
The Grocery channel, made up of supermarkets and hypermarkets and accounting for less than 10% of the total volume, continued to be serviced by Sodisco. Moreover, all the sales administration and invoicing stayed with the latter company.

Not all the outlets in each trade channel are visited. Instead, only those that achieve a certain level of sales are covered by the distribution representatives\(^5\). The rest of the outlets can purchase from wholesalers or cash & carries\(^6\).

### 2.2 New Organization Structure

The BAT organization evolved considerably as a result of integrating into direct distribution. The following main changes were noted:

- Appointment of 3 Area Managers who were responsible for managing a team of 13 Distribution Representatives (DRs) and 4 Trade Marketing Representatives (TMRs). The difference in roles between the DRs and the TMRs is that the former are responsible mainly for sales and delivery, whereas the latter are primarily accountable for merchandising and promotional support\(^8\).
- A full-fledged finance department was set up, whereas previously this was carried with the assistance of the regional office based in South Africa.
- A Human Resources Manager was appointed to take care of the revised job classifications, salary scales, labour relations etc. We note that the number of employees

\(^5\) BAT’s policy is typically to visit the proportion of outlets that account for 70-80% of volume in a market

\(^6\) Exhibit 3: structure of the distribution coverage

\(^7\) Exhibit 4: shows the new organization structure

\(^8\) This includes support to retailers in terms of proper shelving of brands in the cigarette dispensers, placement of permanent (in-store cigarette dispensers) and temporary communication materials (posters etc.). In addition, the TMRs are to advise the retailers on how to develop the cigarette category and can also supervise promotional activities.
almost tripled, with almost half of the new distribution representatives coming from the ex-distributor.

- A Trade Development manager was appointed to coordinate the trade marketing, distribution and brand marketing activities. In addition, he was responsible for managing the trade loyalty programme and all retail promotions.

2.3 New initiatives at Retail

Coinciding with the start of the direct distribution, the following initiatives were put in place:

- Trade loyalty programme in order to strengthen the commitment and loyalty of retailers in the increasingly competitive market. This is in line with the company’s strategy of developing its stance in terms of relationship marketing.

- Trade magazine and launch of an information website to promote the company’s corporate image, given that awareness of BAT as a company was relatively low.

3. Customer Relationship Assessment (CRA)

3.1 Objectives

In 2003, a Customer Relationship Assessment (CRA) survey was carried in order to evaluate the Business-to-Business relationship between BAT and the retail trade. More importantly, it was going to provide a measure of success for the new operating structure, given the heavy investments that had been made on the move to Direct Sales Delivery.

More specifically, the following survey objectives were set:

a) To measure the performance and the perception of BAT as a supplier

b) To compare BAT’s performances against its closest competitors
c) To identify specific improvements that would strengthen customer relationships

### 3.2 Methodology

The CRA survey followed a standard methodology that is adopted within the BAT Group and is based on the WalkerInformation proprietary model. This model is designed to provide an underlying causal framework for assessing a company’s relationship with its retailers as well as to derive the key drivers of retailers’ commitment to the company.

The model assumes that the desired behaviour of retailers stems from their commitment to a company and its products/services. Commitment in turn is driven by various attitudes or opinions retailers hold of the company, which develop out of their specific experiences with the company and its products/services.

![Figure 1: CRA model ‘tree’](image)

- **Behaviour/Intentions** – likelihood to continue, recommend, purchase new or additional products or services from BAT.
- **Commitment** – commitment to BAT; the extent to which it would make a lot of difference if the company could not buy from BAT.
- **Customer Attitudes** – perceived value, price, overall quality, key images of interest.
• **Customer Experiences** – ordering, delivery, invoicing, retail support, merchandising, products, promotional support.

Customers’ perceptions and experiences will provide an avenue to determine BAT’s leverageable strengths and areas for improvement in relation to scores given to competitive companies.

Finally, the CRA model derives the impact of all variables on customer commitment and loyalty to BAT, facilitating prioritization of actions during the deployment stage.

**Survey Design:**

This survey was carried in 2 phases, namely:

• **Qualitative:**
  
  An exploratory phase was undertaken with the aim to i) get a better understanding of the market, ii) to validate the choice of the benchmark companies, and iii) to define the critical product and service attributes on which BAT and comparative companies would be evaluated. This qualitative phase was carried in face-to-face with selected retailers through an open discussion style.

• **Quantitative:**
  
  This was carried in face-to-face by qualified interviewers with a defined questionnaire. During the interview process, the name of BAT as the client was never revealed to guarantee unbiased results. The questionnaire design was based on the standard BAT methodology and incorporated the findings from the qualitative phase. The interview was carried with
respondents who had decision-making authority in the tobacco category (i.e. owners, managers, supervisors).

**Sample structure (quantitative):**

The survey covered all the 3 trade channels with a total sample of 325 outlets. Within the Convenience channel, petrol stations were considered separately as they represent a growth segment in a channel that is generally declining in size. The split in number of outlets was as follows:

- Convenience (excluding petrol stations): 156
- Petrol Stations: 59
- Grocery: 35
- Horeca: 75

### 3.3 The Satisfaction-Profit Chain

Based on the survey methodology as described in the CRA ‘model tree’ in figure 1 above, a satisfaction-profit chain was derived. In particular, we note that the model follows the following structure:

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9 Exhibit 5 shows the detailed sample structure by channel and geographic location
The actual results achieved across the 3 channels for BAT Reunion are shown in Exhibit 6 in the appendix.

4. Analysis

Now we will proceed to analyse the extent to which BAT has been able to achieve superior relationship with retailers under its new operating structure. This is a crucial indicator for the company’s competitive advantage given the changing market conditions as discussed earlier (namely, the market getting more competitive, low-price brands growing, and limited advertising and promotional opportunities). In our analysis, we will dissect the following 3 aspects, which combined, give a measure of BAT's overall performance:

a) Its effectiveness in providing the basic distribution services, i.e. ordering, delivery & invoicing
b) The impact of its consumer-facing activities in building the retailer’s cigarette business. Under the Loi Evin, limited Below-The-Line communication and promotional activities are allowed at point of sale level. Tobacco companies compete for retail space with the placement of cigarette dispensers\textsuperscript{10} as permanent merchandising materials. Temporary materials are also placed, such as posters (of limited size) depicting product-related communication. Some limited consumer promotions are also carried such as ‘buy 2 packs-get a lighter’.

c) The quality of support and incentives offered to retailers through the combined efforts of BAT’s trade marketing representatives and distribution representatives: i) Support ranges from basic advice on inventory management to more value-added services such as achieving optimal shelf-display and providing useful information to develop the retailer’s business; ii) Rewards and incentives are mainly attributable to the trade loyalty programme launched in 2002.

Combined, these 3 aspects allow the assessment of the ‘overall quality’ of BAT’s performance at retail. We then need to cover 2 more steps to evaluate the overall commitment and loyalty of retailers to the company, as follows:

- taking ‘overall quality’ together with ‘profit’ and ‘image’, we obtain the overall ‘value’ of its relationship with retailers, and
- finally, combining the effect of ‘value’, ‘profit’ and ‘image’, we can judge the commitment and loyalty of retailers

4.1 BAT’s effectiveness in providing the basic distribution services:

As stated above, we will evaluate BAT’s performance in the following attributes (or ‘process areas’ as defined previously in figure 2):

\textsuperscript{10} Referred to as in-store furniture in the CRA survey
In our analysis, we will take two axes in consideration, namely: i) significance of the attribute, and ii) the performance rating. We will evaluate BAT’s performance by considering the percentage of respondents who have evaluated BAT on the top 2 levels of a 5-point scale\textsuperscript{11} versus its competitors. As such, we consider that any rating below ‘excellent/very good’ or ‘strongly agree/agree’ do not constitute a superior point of differentiation.

4.1.1 Overall performance across the 3 channels

The CRA model reveals that the impact of the three basic distribution services does not have a significant effect on the overall quality of the relationship with retailers. However, our observation is that these 3 attributes must not be interpreted as being of no importance, but instead that retailers consider these services as the minimum level for BAT to deliver. As such, this is the point of entry in the retailers’ esteem, and puts the company at point of parity with the other tobacco companies. Bad performance at this level would definitely be devastating to the company’s reputation and it would be difficult to aspire to build relationship through more value-added activities to foster retailers’ loyalty.

\textsuperscript{11} Depending on the nature of the questions, the 5-point scale was either:
- Excellent: 1, Very Good: 2, Good: 3, Fair: 4, Poor: 5, or
- Strongly Agree: 1, Agree: 2, Neither-nor: 3, Disagree: 4, Strongly disagree: 5
So, even if these attributes are not significant to building the relationship, we will analyse whether there are any gaps that need to be addressed in each channel.

4.1.2 Grocery channel

There are no serious gaps in BAT’s performance versus its two competitors that have been surveyed:

- In terms of delivery, we note however that PMI is slightly better than BAT. This arises mainly due to Sodisco’s lower performance on the ‘time’ factor for delivery whereas PMI delivers its products more quickly once an order is passed, and is more punctual in its delivery.

- Probably related to the above issue, we also note that in the ‘Ordering’ attribute, the retailers need to contact BAT more frequently than it does with PMI (frequency of phone calls). The other elements of the ordering service such as accurate order-taking, frequency of visits, etc. are comparable to the competitors if not better.

- Retailers are also more satisfied with BAT on invoicing and payment terms than with competitors. Although this is a good result, we do wish to flag one criterion where good performance is less desirable, namely credit terms; in this respect 29% of retailers have given BAT an excellent/very good rating vs. 8% to PMI and 24% to Rebel. The question that we pose here is whether BAT is not being too generous with the retailers.

4.1.3 Convenience channel

In this channel, invoicing and payment terms are considered to have a significant impact on the overall quality of relationship with the trade and also contribute to enhancing trade loyalty, whereas ordering and delivery services are not.

12 Recall that for the grocery channel, BAT is still using the third-party distributor, Sodisco
Overall, BAT is judged to have better invoicing and payment terms than its competitors. However, similar to the point raised for the grocery channel, we note that BAT is better than PMI and Rebel on credit terms. Although this can help BAT develop its product range in Convenience, the question again is whether as the market leader, BAT needs to resort to better credit terms to be competitive. Is it not better to resort to other levers of relationship and loyalty such as merchandising and promotional support? We will come back to this point in our final recommendations.

4.1.4 Convenience – Petrol Stations

Petrol stations have been given a specific evaluation as they represent the only growth segment in the Convenience channel. The cigarette volume generated by this sub-channel is on the rise as the concept of retail shops within service stations develops further. Already the major players such as Elf, Shell and Caltex have some prominent stores in the larger stations, and they are now moving to expand among smaller franchisees.

BAT's basic distribution services again do not have a significant impact on trade relationship and loyalty. However, a few points that we noted are:

PMI has a slightly better rating than BAT on delivery services. Although this is not a large difference, the concern for BAT is that it needs to be at least as good as the competition in this growing segment of the market. The main issues here are in responsiveness to emergency deliveries and more importantly merchandising on the shelves at time of delivery.
• For invoicing and payment, we note again that BAT is better in terms of credit terms, and somehow it might need to look into its overall credit policy again in order to ensure an optimal working capital management.

4.1.5 HoReCa channel

Like for the grocery channel, the basic distribution services are not considered as significant attributes in building relationship and loyalty of retailers. Indeed, criteria such as merchandising support and materials are considered more important as HoReCa owners do not rely on cigarettes as a main source of revenue but more as a convenience service to their customers. Nevertheless, they do highly value any services that can attract more consumers in their outlets with, for example, promotional activities; however, these are constrained by existing regulations. We do have a few observations:

• Ordering and delivery services are evaluated to be below PMI’s. The main issue for ordering is that the BAT representative is harder to contact than PMI’s, thus necessitating more frequent calls from the retailer.

• Another point that stands out is that BAT achieves only 17% of excellent/very good rating on product merchandising onto shelves on delivery; given the crucial nature of optimal brand presence in the HoReCa channel for brand building purposes, this situation needs to be addressed.

• For invoicing and payment, we identify the same point as for the other channels – is BAT not being too generous with retailers in terms of credit?
4.2 Impact of Consumer-Facing Activities on Trade Relationship

Consumer marketing strategy and action plans have a fundamental role in the relationship management with retailers, who should be viewed as clients in this context. There is a circular feedback process between marketing decisions and retailers’ satisfaction and performance. Both do importantly impact each other thus making constant assessment and adjustments not only necessary but even critical for the business, as complementary and joint initiatives are very likely to increase “the size of the pie” to generate greater return for all.

First of all, it is important to understand some of the findings that can be drawn from the extensive Customer Relationship Assessment survey (CRA) done in the year 2003. Four areas of interaction between BAT and its clients are relevant from a consumer marketing perspective. Those are:

i) Products/Brands

ii) Temporary Merchandising Material (i.e. point-of-sales material placed on a temporary basis, e.g. for a communication or promotion drive)

iii) Permanent Merchandising Material (i.e. point-of-sales material placed for a long duration, especially in-store cigarette dispensers)

iv) Promotional activities to end consumers

Products/Brands have a significant effect on perception of overall quality and trade commitment, and BAT scores quite well on this item comparatively to the competition. Temporary Merchandising Material and Permanent Merchandising Material are not as significant for overall quality evaluation but it is worth noticing that BAT perceived position is ahead of competition for the first one and approximately the same for the second one.
Nonetheless, it is true that there is room for improvement in both areas so as to strengthen the proximity and importance of BAT’s products to their retailers. Regarding Promotional Support aimed at end consumers, it is not considered very important by retailers. It is thus not a priority for development on BAT’s side, though showing a low current performance by retailers’ assessment in the survey. To sum up, the critical issues identified in the CRA survey for improvement where brand management can play a key role are Products/Brands, Temporary Merchandising Material and Permanent Merchandising Material.

4.2.1 Products/Brands

BAT currently holds a portfolio of eight distinct brands of cigarettes (see Table 1) within which the main brands are Lucky Strike, Gladstone, Benson&Hedges, Winfield and Dunhill. Each brand is supported by a unique strategy that entails a specific product positioning, price, distribution and promotion. Having a variety of brands and package sizes allow for a greater shelf space, a larger bargaining zone for negotiation with clients and a broader reach of end consumers segments. Moreover, in a mature industry as is the tobacco industry, it is not surprising that having innovative new products is a high impact element of differentiation as revealed by the survey with retailers. Being knowledgeable about this, brand managers at BAT should leverage on new products development so that no market opportunities are missed in favour of competitors. Product innovation come mostly from revamping a brand by changing package design and offering other pack sizes. Limited editions featuring special scenes on the packages, for instance, can be collectibles and may boost product’s turnover from time to time. The popularity of BAT products with customers is quite high as the variety of brands in its product range is also rated quite high - this indicates two factors of relevance that should be carefully maintained. The quality and attractiveness of product packaging and
the way new brand launches are handled are also considered strengths of BAT, where marketing insights and decisions are decisive for keeping a leading position in the market and assuring an overall high quality perception of the brands by clients. The only channel where BAT has an opportunity for improvement of brand perception is the Convenience channel, where implementing a better control is required on the consistency of their product quality and freshness at the point-of-sales.

Table 1 - Main brands in the tobacco industry in La Reunion

<table>
<thead>
<tr>
<th>Premium</th>
<th>BAT</th>
<th>PMI</th>
<th>Altadis</th>
<th>Rebel</th>
<th>Ah-Sing</th>
<th>JTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Price</td>
<td>- Dunhill</td>
<td>- Lucky Strike - Benson &amp; Hedges - Peter Stuyvesant</td>
<td>- Marlboro - Philip Morris</td>
<td>- Fine 120 - YSL</td>
<td></td>
<td>- Camel Winston</td>
</tr>
<tr>
<td>Mid-Price</td>
<td>- Gladstone - Rothmans</td>
<td></td>
<td>- Gauloises Blondes - Gauloises Brunies - Royale - Gitane</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value-for-money</td>
<td>- Golden American - Winfield</td>
<td>- Chesterfield - L&amp;M</td>
<td>- Brooklyn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Price</td>
<td></td>
<td></td>
<td></td>
<td>- Maryland - Rallye - President</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2.2 Temporary Merchandising Material

In the tobacco market, distribution and promotion are very much linked, since legal constraints end up narrowing down the scope of possible promotional activities to end consumers. Clearly, successful product performance in terms of turnover is strongly positively related to point-of-sales presence. Both channels penetration and brands visibility
(shelf space and promotional material) are a function of the established relationship with retailers, which in turn relies also on the merchandising material provided and the promotional support given. The main concerns here are with the appropriateness of the temporary materials relative to the in-store space, their effectiveness in increasing sales and the quantity of materials supplied. Retailers’ present evaluation of BAT’s actions regarding temporary merchandising materials shows areas for improvement. More specifically, they are concerned with how well they fit into their stores, having sufficient point-of-sales materials and their effectiveness in increasing sales. Petrol stations and convenience shops should be a priority for BAT’s marketing team to work with. They should probably adapt or even develop specific merchandising materials that better suit these channels’ needs, in terms of type of material, communication and format, focusing on sales conversion effectiveness.

4.2.3 Permanent Merchandising Material

As with the temporary merchandising material, the most significant aspects of the permanent materials are the adequacy to the stores and their impact on sales. They are relatively more important for grocery stores than for the other channels. Further to that, the availability of in-store furniture and the quality of permanent materials are considered very important and have high impact on the relationship with the clients. Today’s performance of BAT in delivering these materials is rather low but very close to the level supplied by its closest competitor Philip Morris. Having identified this opportunity for improvement, BAT should take advantage of its local market leadership and its extensive knowledge about competition and trends to create new types of display that will fit their clients better (optimal size and ease of use) and to provide higher quality materials.
4.2.4 Promotional Support to End Consumers

This is viewed as of lower impact in creating value for the relationship and commitment of clients. It is still important to evaluate more closely what could be done to improve in this area, as brand managers at BAT can develop new ideas for consumer promotions that suggest differentiated approaches. Knowledge about the overall current market situation and future trends, added to information collected from constant market research, puts BAT in a somewhat powerful position that can be leveraged by offering consulting recommendations on how to continuously improve their businesses in partnership, according to their expectations and needs. Promotions such as giving away a free gift with two packs of cigarettes or a bonus for a free coffee offer a direct benefit for consumers and are relatively easy to implement, besides generating a stronger “emotional” link with BAT’s brands. Those initiatives will also improve the relationship with its clients once retailers view consumers’ promotions as an investment from BAT’s part to push sales volume.

4.3 Quality of Support and Incentives to Retailers

Two attributes are relevant in evaluating BAT’s performance in this area, namely:

i) Quality and relevance of advice and services in such areas as inventory management and shelf display optimization (referred to as ‘merchandising and promotional support’ in the survey)

ii) Attractiveness of rewards and incentives offered directly to retailers and their effects in building retailers’ loyalty to BAT (referred to as ‘promotional support to retailers’ in the study)
4.3.1 Merchandising and promotional support

This attribute was measured by studying different characteristics: frequency of visits, listening and being responsive to client’s requests, providing useful information to improve clients’ business, usefulness and helpfulness of visits, providing advice on storage of products, easiness to get into contact with staff, having the authority to take decisions, and finally, providing advice on merchandising display. These features were rated differently according to each channel (convenience stores, HoReCa and grocery stores).

**Convenience Stores:**

This aspect was rated second important (0.13) in terms of contribution to loyalty after quality of product (0.25). Overall, BAT has outperformed its competitors, Philip Morris and Rebel. The percentage of excellence was rated 33% for BAT, whereas Philip Morris and Rebel each achieved 25% respectively.

However, when we study the different features mentioned above, we find that BAT was either not constantly rated to be the highest (see figure 2) or else the absolute score achieved still leaves room for improvement. Indeed, BAT was outperformed by the frequency of visits by Philip Morris, which is the most important aspect in terms of impact on loyalty (see figure 3).
Figure 2

Merchandising and promotional support - convenience stores

- Giving you advice on your merchandising display
- Having the authority to take decisions, solving problems quickly
- Being easy to contact when you need him/them
- Giving you advice on how to store products and rotate them in order to keep them fresh
- Usefulness/helpfulness of visits
- Providing useful information to improve your business
- Listening to your requests and being responsive
- Frequency of visits
- Overall

<table>
<thead>
<tr>
<th>Service</th>
<th>Rebel</th>
<th>Philip Morris</th>
<th>BAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giving you advice on your merchandising display</td>
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<td>36.6</td>
<td>44.7</td>
</tr>
<tr>
<td>Having the authority to take decisions, solving problems quickly</td>
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<td>36.6</td>
<td>41.5</td>
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<td>Being easy to contact when you need him/them</td>
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<td>37.4</td>
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<tr>
<td>Giving you advice on how to store products and rotate them in order to keep them fresh</td>
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<td>34.6</td>
<td>41.5</td>
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<td>Usefulness/helpfulness of visits</td>
<td>30.9</td>
<td>36.6</td>
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<td>Providing useful information to improve your business</td>
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<td>Listening to your requests and being responsive</td>
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<tr>
<td>Frequency of visits</td>
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<td>24.5</td>
<td>33.1</td>
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<tr>
<td>Overall</td>
<td>24.5</td>
<td>31.8</td>
<td>33.1</td>
</tr>
</tbody>
</table>

Figure 3

IMPACT

- Giving you advice on your merchandising display
- Having the authority to take decisions
- Being easy to contact when you need him/them
- Giving you advice on how to store products and rotate them in order to keep them fresh
- Usefulness/helpfulness of visits
- Providing useful information to improve your business
- Listening to your requests and being responsive
- Frequency of visits

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Giving you advice on your merchandising display</td>
<td>0.02</td>
</tr>
<tr>
<td>Having the authority to take decisions</td>
<td>0.04</td>
</tr>
<tr>
<td>Being easy to contact when you need him/them</td>
<td>0.12</td>
</tr>
<tr>
<td>Giving you advice on how to store products and rotate them in order to keep them fresh</td>
<td>0.19</td>
</tr>
<tr>
<td>Usefulness/helpfulness of visits</td>
<td>0.25</td>
</tr>
<tr>
<td>Providing useful information to improve your business</td>
<td>0.31</td>
</tr>
<tr>
<td>Listening to your requests and being responsive</td>
<td></td>
</tr>
<tr>
<td>Frequency of visits</td>
<td></td>
</tr>
</tbody>
</table>

22
From that, we can recognise some areas for development in terms of Merchandising and promotional support for convenience stores:

- Frequency of visits (31%)
- Listening to clients’ requests and being responsive (39%)
- Providing useful information to improve clients’ business (38%)
- Usefulness/Helpfulness of visits (35%)

**HoReCa:**

In this segment, merchandising and promotional support ranked first (0.27) out of only two aspects in terms of contribution to loyalty. The second being invoicing and payment (0.05). Looking closely at the merchandising and promotional support (see figures 4 and 5), we notice that overall, again, BAT has outperformed its competitors. However, taking a closer look at the different features we notice that BAT was outperformed by Rebel in terms of listening to requests and being responsive, and on giving advice on storing products. Furthermore, BAT is very closely rated to Philip Morris in terms of frequency of visits.
Figure 4

**Mechandising and promotional support - HoReCa**

- Having the authority to take decisions, solving problems quickly: 
  - Rebel: 43%
  - Philip Morris: 44%
  - BAT: 47%
- Being easy to contact when client needs him/them: 
  - Rebel: 39%
  - Philip Morris: 41%
  - BAT: 41%
- Giving clients advice on your merchandising display: 
  - Rebel: 24%
  - Philip Morris: 29%
  - BAT: 33%
- Giving clients advice on how to store products and rotate them in order to keep them fresh: 
  - Rebel: 35%
  - Philip Morris: 41%
  - BAT: 41%
- Listening to clients' requests and being responsive: 
  - Rebel: 38%
  - Philip Morris: 33%
  - BAT: 33%
- Usefulness/helpfulness of visits: 
  - Rebel: 31%
  - Philip Morris: 27%
  - BAT: 29%
- Frequency of visits: 
  - Rebel: 24%
  - Philip Morris: 25%
  - BAT: 25%
- Providing useful information to improve clients' business: 
  - Rebel: 18%
  - Philip Morris: 24%
  - BAT: 25%
- Overall: 
  - Rebel: 24%
  - Philip Morris: 25%
  - BAT: 25%

**Figure 5**

**IMPACT**

- Having the authority to take decisions: 0.08
- Being easy to contact: 0
- Giving clients advice on your merchandising display: 0.08
- Giving clients advice on how to store products and rotate: 0.15
- Listening to clients' requests and being responsive: 0.16
- Usefulness/helpfulness of visits: 0.21
- Frequency of visits: 0.22
- Providing useful information to improve clients' business: 0.24

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Thus, the areas of development in terms of merchandising and promotional support for the HoReCa segment are:

- Providing useful information to improve clients’ business (42%)
- Frequency of visits (27%)
- Usefulness/helpfulness of visits (31%)
- Listening to requests and being responsive (33%)
- Giving clients advice on storage and rotation (35%)

Grocery stores:

Finally, in terms of the grocery stores segment, again BAT has outperformed its competitors in the overall rating of the category. However, its competitors have outdistanced BAT in terms of having the authority to take decisions, listening to requests and being responsive, being easily contacted, frequency of visits, usefulness of visits and providing advice on storage. (See figure 6)

Thus, the areas for development for this segment are similar to the ones mentioned above with a focus on frequency and the helpfulness of visits.
### Merchandising and promotional support -Grocery

<table>
<thead>
<tr>
<th>Service</th>
<th>BAT</th>
<th>Philip Morris</th>
<th>Rebel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giving client advice on how to store products and rotate them in order to keep them fresh</td>
<td>35.3</td>
<td>30.8</td>
<td>35.5</td>
</tr>
<tr>
<td>Usefulness/helpfullness of visits</td>
<td>29.6</td>
<td>35.8</td>
<td>40.0</td>
</tr>
<tr>
<td>Being easy to contact when client needs him/her</td>
<td>12.2</td>
<td>13.3</td>
<td>45.0</td>
</tr>
<tr>
<td>Frequency of visits</td>
<td>25.8</td>
<td>29.6</td>
<td>32.3</td>
</tr>
<tr>
<td>Listening to clients’ requests and being responsive</td>
<td>35.3</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Providing useful information to improve clients’ business</td>
<td>32.3</td>
<td>32.3</td>
<td>40.0</td>
</tr>
<tr>
<td>Having the authority to take decisions, solving problems quickly</td>
<td>35.5</td>
<td>35.5</td>
<td>38.9</td>
</tr>
<tr>
<td>Giving clients advice on your merchandising display</td>
<td>31.3</td>
<td>31.3</td>
<td>42.1</td>
</tr>
<tr>
<td>Overall</td>
<td>32.3</td>
<td>32.3</td>
<td>43.3</td>
</tr>
</tbody>
</table>

4.3.2 Promotional Support to retailers

Promotional support to retailers includes motivating clients to recommend brands to consumers, either through offering bonus and incentive schemes to retailers, and helping clients build their business through BAT’s activities, or by rewarding clients for their loyalty and motivating them to support their brands. In this respect, the main initiative launched was a Trade Loyalty programme, which is described below.

**Trade Loyalty Programme**

The Trade Loyalty programme was initiated in order to strengthen the commitment and loyalty of retailers in the growing competitive market. The programme was launched when the implementation of a new Direct Sales Distribution system had just started. Prior to that, only
short term tactics were used to motivate the retailers such as “one shot” promotions. Besides, at that point in time, Philip Morris had already introduced a loyalty programme of its own, which was well perceived by retailers.

As such, there was a strong need for BAT to be proactive and re-assert its market leader position in the retailers’ mind. The Loyalty Programme was launched with the goal to build positive awareness of BAT, to increase retailer cooperation in implementing trade strategies, and finally to secure business in key outlets and strengthen BAT’s leadership position on the market.

The Trade Loyalty Programme was part of a three-scope long-term strategy:

- **Informing the retailers**: by developing tools of communication to meet their targeted needs. This was done through two media: a regular magazine, and internet. A monthly newsletter became an informative and at the same time entertaining tool, that gave the opportunity to communicate about different BAT brands and announce various events. In addition, the website offered an innovative and complementary instrument compliant with BAT’s long-term strategy.

- **Stimulating customers**: by creating trade incentives with an on-going challenge to gain commitment on both quantitative and qualitative aspects of the business. This was done through a Service Card that allowed for identification and stimulation of customers as well as a possible future use as a payment card.

- **Reinforcing customer’s loyalty**: by setting up a Business Club for the 500 top retailers providing professional and personal offers adapted to their expectations. This Business Club included a one year personal card giving
access to professional and personal offers in partnership with several companies. For example, an insurance protection plan against vandalism and burglary was offered with a discount on the premiums. This card could be possibly renewed depending on the member’s performance in terms of sales and cooperation on merchandising and communication instructions.

Overall the performance of BAT in this field exceeded that of its competitors. However, there were some areas of development recognised for each channel. We shall discuss this in more details next.

**Convenience stores**

As seen in figure 7 below, the performance of BAT in the following three attributes are the most impactful on retailers’ loyalty, but are still relatively close to Philip Morris’ performance.

- Rewarding clients for their loyalty (36%)
- Motivating clients to support BATs brands (31%)
- Helping clients build their business through BAT activities (26%)

We note, nevertheless, that the **significance** of promotional support to retailers is **very low** in the overall Convenience channel.
Figure 7

**Promotional support to retailers - convenience**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Rebel</th>
<th>Philip Morris</th>
<th>BAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivating clients to recommend brands to consumers</td>
<td>11</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>Offering clients bonus and incentive schemes</td>
<td>8</td>
<td>31</td>
<td>37</td>
</tr>
<tr>
<td>Rewarding clients for their loyalty</td>
<td>10</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>Helping clients build their business through BAT activities</td>
<td>9</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Motivating clients to support BAT brands</td>
<td>13</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td>Overall</td>
<td>3</td>
<td>22</td>
<td>29</td>
</tr>
</tbody>
</table>

**HoReCa**

In this channel, as seen in figure 8, the areas of development are similar to those in the previous channel, in addition to one major area which includes helping clients build their business through BAT activities.

- Offering clients bonus and incentive schemes (41%)
- Rewarding clients for their loyalty (33%)
- Motivating clients to support BAT brands (33%)
- Helping clients build their business through BAT activities (23%)

This last point refers more specifically to BAT’s ability in helping to drive more traffic in by for example holding special events at the level of bars and night clubs. However, the legal framework severely restricts this nowadays.
Figure 8

Promotional support to retailers - HoReCa

- Motivating clients to recommend brands to consumers: 10% Excellent/Very Good for BAT, 28% for Rebel, 15% for Philip Morris.
- Motivating clients to support BAT brands: 10% Excellent/Very Good for BAT, 28% for Rebel, 18% for Philip Morris.
- Offering clients bonus and incentive schemes: 23% Excellent/Very Good for BAT, 33% for Rebel, 23% for Philip Morris.
- Helping clients build their business through BAT activities: 10% Excellent/Very Good for BAT, 24% for Rebel, 29% for Philip Morris.
- Rewarding clients for their loyalty: 15% Excellent/Very Good for BAT, 30% for Rebel, 33% for Philip Morris.
- Overall: 18% Excellent/Very Good for BAT, 26% for Rebel, 33% for Philip Morris.

Grocery Stores:

Finally, as seen in figure 9, BAT has outperformed its competitors in this channel by quite a large margin. Thus, it is important to continue supporting their clients in order to gain their loyalty.
5. Analysis of ‘Value’ & ‘Behavioural’ drivers

Now that we have covered quite extensively BAT’s performance in the core relationship attributes, we would complete by evaluating their impact on the retailers’ assessment of the value of the relationship and their subsequent loyalty level to the company.

5.1 Value of the Relationship

As shown in Exhibit 6, there are 3 drivers that influence the value of our relationship to retailers, namely:

i) Overall quality

ii) Profit

iii) Image
Overall quality:
This is influenced by the nine core attributes that we dissected in 3 areas, namely basic distribution services, consumer-facing activities, and support to retailers. In terms of overall quality, BAT leads its competitors with an excellent/very good rating of 37% vs. 28% for PMI and 20% for Rebel. It is thus clear that BAT is the preferred supplier in the tobacco category in terms of overall quality of service and support. However, to obtain a more holistic measure of BAT’s overall standing as a supplier in the Fast Moving Consumer Goods (FMCG) industry, we would advise that in the next CRA, comparison is also made to some large FMCG suppliers, such as Coke or the local beer company (Brasseries Bourbon).

Profit:
Overall profit is evaluated to be low by retailers with less than 20% giving an excellent/very good rating. This is understandable as profit margins have declined in recent years as excise duties rose and reduced the size of the pie available for sharing between the manufacturers, distributors and retailers. Currently approximately 75% of every euro spent on cigarettes goes to the government. Nevertheless, compared to the other competitors, BAT is slightly higher (17% vs 14% for PMI). This is likely to be influenced by the fact that BAT sells the leading brand, Gladstone (25% market share), and is also the market leader (43% market share). Comparatively, PMI has 28% market share, with the bulk of its sales coming from Marlboro (20% share).

Image:
The attributes for the company’s image give a mixed view. On the one hand, BAT is well perceived by retailers as being more innovative than PMI or Rebel, most probably due to the stream of new products introduced on the market and for coming forward with a well-designed
trade loyalty programme. However, although it achieves 71% of approval (strongly/agree) rating in terms of having motivated people, this is comparatively lower than PMI (78%) and Rebel (76%). This is an area that needs to be improved given that people, like brands, are BAT’s greatest assets, and as market leader, it must set the tone for the rest of the market.

In the same line, the degree of trust that retailers have in the company must be improved as currently we are almost at parity with PMI. Again as market leader, we need to lead in this area and be truly recognized as the company of reference to retailers.

Value:

The three measures, Overall Quality, Profit and Image all have a significant impact on the Value of our relationship with the trade. In fact, image is the most significant (0.28) whilst Profit and Overall Quality are almost at parity. This finding reinforces the importance of managing BAT’s corporate image with retailers.

In terms of the overall Value, BAT leads PMI and Rebel, with an approval rating of 50% vs. 46% and 37% for the other two respective players.

5.2. Commitment to BAT

The ultimate level for evaluating BAT’s relationship with retailers is to see how committed and loyal they are to the company. As indicated in Exhibit 6, this is driven by the following factors (also referred to as ‘behavioural drivers’) listed in order of significance:

i) Value

ii) Profit

iii) Image
It is principally the Value of the relationship and Profit which significantly impact on the retailers’ future behaviour. The results indicate that retailers are highly committed to tobacco companies (more than 80% of strong approval), and that it would matter a lot if their products could not be stocked. This shows that although the margin on cigarettes is not very high, they do act as an important category for retailers, especially in convenience. However, they do not plan to increase their share of budget on cigarettes (less than 25% of strong approval) as cigarettes already tie in a significant portion of their working capital.

5.3 Loyalty to BAT

As per the CRA methodology, a loyalty analysis is carried by matching the commitment criterion to the behavioural parameter in a 2x2 matrix (Exhibit 7 in appendix). This shows that 77% of retailers are highly committed and would like to continue to use BAT as a supplier. The conclusion of the research agency is that more than three-quarters of the retailers are ‘truly loyal’ to the company. However, we have not been able to verify the exact statistical methodology used to reach this conclusion on ‘true loyalty’. In fact, one observation that we have is that the loyalty analysis matrix matches two measures which are very similar in the way they are evaluated by retailers, namely commitment and behaviour.

Alternatively, we have tried to match the following factors on a Loyalty Segmentation matrix:

i) Behavioural loyalty: determined by ‘Commitment’ to relationship

ii) Attitudinal loyalty: determined by ‘Value’ of relationship
We chose to use the ‘commitment’ criterion to reflect ‘behaviour’ because the question\(^{13}\) in the questionnaire relates more to the retailer’s future purchase behaviour of the supplier’s products.

For the ‘attitudinal’ aspect, we have chosen to take the ‘value’ criterion, because the way the question\(^{14}\) is formulated in the questionnaire allows for an element of cognition and affection in the respondent’s answer, given that relationship value is also significantly influenced by the company’s image in the mind of the retailer.

We considered the % of approval ratings obtained in the upper portion of the scale, and obtained the following results for BAT:

- Behavioural loyalty (Commitment): 85%
- Attitudinal loyalty (Value): 50%

Using the above results, we can derive the following matrix:

\[\begin{array}{c|c|c}
\text{High} & \text{Latent Loyalty} & \text{True Loyalty} \\
\text{Low} & \text{No Loyalty} & \text{Inertia} \\
\end{array}\]

\[\begin{array}{c|c|c}
\text{Low} & \text{Behavioural loyalty (Commitment)} \\
\text{High} &  \\
\end{array}\]

\(^{13}\) Question asked: ‘Would you say your outlet is committed to supplier X’ – strongly agree/agree/neither/nor/disagree/strongly disagree

\(^{14}\) Question: ‘Would you say the value of your relationship with supplier X is …’ – excellent/very good/good/fair/poor
As such, from the theoretical framework, we can actually conclude that BAT is still in between a state of ‘Inertia’ and 'True loyalty’. The fact that the result shows a high degree of behavioral loyalty is not surprising given that we can expect retailers to be committed to selling a supplier’s products as long as those are in high demand and generating sufficient profits - indeed the retailer’s self-interest seems the dominating motive here. However, retailers are likely to adjust their purchase behaviour in function of consumer demand. In fact, this has already been seen in recent years with the rapid progression of Rebel in the market; as the latter’s products gained critical mass, retailers were very much willing to buy them and their stated commitment to Rebel grew. To reduce this type of opportunistic behaviour from retailers, it would be important for BAT to build further the attitudinal loyalty dimension in order to secure their true loyalty. This will be achieved by building on the determinants of relationship value, i.e. the overall quality of the relationship, the company’s image, and profitability. These are covered in our recommendations in the next section.

6. Recommendations

In our recommendations, we would be focusing on the areas for improvement on the different drivers of ‘Value’ of BAT’s relationship with trade retailers.

6.1. Overall Quality:

To recapitulate, the overall quality of BAT’s relationship is influenced by the nine core attributes that we dissected in 3 areas, namely:

i) Basic distribution services: ordering, delivery, invoicing & payment

ii) Consumer-facing activities: quality of products, permanent merchandising, temporary merchandising, and promotions to consumers
Quality of support and incentives to retailers: merchandising & promotional support, and promotions to retailers

6.1.1. Basic Distribution Services

As we saw earlier, the basic distribution services do not have a significant impact on the quality of BAT’s relationship with retailers. Instead, they represent the minimum level of service that must be provided and we need to ensure that we are at least at point of parity with key competitors. BAT’s performance in this area is generally comparable to that of Philip Morris and Rebel and even better in several cases. Nevertheless, some areas that can be improved namely:

i) In the grocery channel, the time span between ordering and delivery needs to be shortened, and punctuality respected with respect to time of delivery. The BAT’s representative in Horeca must be easier to contact for ordering and delivery purposes.

ii) Merchandising on the shelves at time of delivery is relatively poor in the HoReCa channel as well as in service stations. Given that the first channel is important for building the equity of strategic brands, and that the second is growing rapidly, special attention must be dedicated to ensure that our brands are prominent at point-of-sale level.

iii) BAT obtains consistently better rating on credit terms across all channels. Although this adds to the quality of the relationship, if we do wish to flag that from a financial point of view, this result may be less glorious. As such, we recommend that BAT carries a review of its credit policy to retailers in order to ascertain whether to change it or not in the interest of optimizing working capital management.
6.1.2. Consumer-facing activities

In terms of significance, quality of brands was rated first, followed by permanent and temporary merchandising, whereas consumer promotions were not judged to significantly impact on the quality of BAT’s relationship with retailers. Our recommendations will cover the significant attributes as follows:

i) Quality of Brands: BAT is already well rated on this criterion, and as such it is important for the company to maintain this lead as it can definitely translate into a sustainable competitive advantage over time. In this respect, product innovation for example in terms of packaging or pack sizes, must be continued.

ii) Permanent merchandising is one area where BAT must invest further in order to develop a competitive advantage over its closest rival Philip Morris. Currently, BAT is dominated by Philip Morris in the petrol stations and grocery channel. Moreover, its absolute rating in the Horeca channel is not very high although it is better than Philip Morris. Our recommendation is therefore to invest in quality in-store cigarette furniture tailored to the needs of the respective channels.

iii) BAT fares generally better than competition in Temporary merchandising. Points that require improvement relate more to the design of the temporary point-of-sale materials which need to be better adapted to the space available, especially in petrol stations. We recommend BAT to design more modular-type of temporary materials that can be adjusted to available in-store space.
6.1.3. **Quality of Support and Incentives to Retailers**

The quality of support to retailers is a significant attribute in determining the level of BAT’s relationship with the trade, and as such any area for improvement must be urgently addressed. In particular, we note that BAT’s level of service in the petrol stations requires substantial improvement, given that it is currently exceeded by Philip Morris and Rebel in that sector. In the grocery channel as well, it fares worse than competition on a number of the sub-criteria for merchandising and promotional support. As a result, our recommendations are as follows:

i) The petrol stations channel must be given serious attention given that it is growing and as such cannibalizing volume away from other channels (the tobacco market being overall in decline in Reunion). Presently, BAT is at a competitive disadvantage in this channel given that it achieves lower performance not only in quality of support but also in permanent merchandising and shelf display. We recommend that petrol stations be considered as a priority for improvement by BAT.

ii) The frequency of visits of BAT’s trade marketing representatives is also one area which needs to be revised quite substantially, especially because it has a significant impact on the overall service level. In particular, BAT is worse than competition in all channels except Horeca where it has a slight lead over Philip Morris.

iii) The quality of advice and the attention given to clients requests are also areas that require improvements. Retailers perceive the visits of BAT’s trade marketing representatives as not being very useful to them. As a result, we recommend that appropriate training be given to the representatives so that they can provide better value to the retailers. We also recommend BAT to go into the provision of more value-added
services such as category management, which can allow a closer relationship to develop with key retailers.

iv) Although BAT fares better than competition on promotions and incentives directed to retailers in Convenience and Horeca, they seem to want even more. However, this attribute is not significant in impact on relationship quality in overall Convenience, and ranks third in order of importance in Horeca. As such, we recommend that in the Convenience channel, BAT considers re-focusing its trade loyalty programme to the high volume retailers and the growing petrol stations channel. We question whether it is necessary to keep as much as 500 outlets under the elaborate ‘Business Card’ concept. The ‘Service Card’ concept can also be streamlined. In order to carry this, we recommend that BAT carries an analysis of the profitability of the customers currently benefiting from the trade loyalty programme, and evaluate to what extent it is obtaining a return on its investment based on the incremental sales generated through cannibalization from competing brands. In Horeca, BAT must consider to propose activities that the owners will consider to be more business building in nature; for example, the company can offer the services of a team of DJs to the best outlets that stock its brands, display them in a visible way, and make the effort to propose them to consumers instead of competing brands (note however that these services will be offered with no specific brands associated given the legal restrictions).

6.2. Image

The company’s image has also a significant impact on the retailer’s perception of the value of their relationship with BAT. We saw the attributes that influence the image dimension are i)
understanding of retailer’s business; ii) care for retailers; iii) fair treatment to retailers irrespective of size; iv) have motivated staff; v) a company that can be trust; vi) having new ideas that work. Although BAT ranks slightly better than its competitors overall, it lags behind on the attribute ‘having motivated staff’. The causes of this comparative lack of motivation among BAT’s field force needs to be investigated – in this respect, the regular personnel survey\(^\text{15}\) that the company carries to evaluate the morale and satisfaction level of its personnel can be used as base. We recommend that an open and honest communication style be used to discuss any possible sources of frustration. Expectations must be managed properly, and as such improvements carried where possible; where the employees’ demands are judged not realistic, this should be clearly stated.

6.3. Profit

We saw earlier that in absolute terms, all tobacco companies scored relatively low on this criterion. In relative terms, BAT is better than its competitors. Given the stringent financial targets set every year to BAT Reunion by its headquarters, it is not realistic to consider increasing the retail margin. This is even less realistic considering that excise taxes increase regularly, thus growing the government’s share of the pie.

To maintain its lead, we recommend that BAT puts in place a category management plan to show more clearly to retailers that the margin obtained from cigarettes per square feet of space utilised is higher than most of the consumer products that they sell.

\(^{15}\) This survey called ‘Your Voice’ is usually carried on an annual basis.
7. **Strategic considerations and resource allocation**

To complement our recommendations, we wish to address two strategic considerations that BAT Reunion is currently evaluating, namely:

i) Merging the trade marketing representatives team with the distribution representatives team to create one single field force entity

ii) Expanding its direct sales delivery system to also include the grocery channel

We see value in the creation of a single field force team. Given the relatively weak performance of BAT in ‘merchandising and promotional support’ as seen earlier, we believe that having one team will remedy the issue of poor frequency of visits. The necessary training needs to be provided to the team to improve on the quality of advice offered and the contribution to develop the retailer’s business. Nevertheless, there are implications in terms of the amount of time that the representatives would spend in an outlet to appropriately do the shelf merchandising and provide valuable advice such as category management, given that they also have a sales objective to achieve\(^\text{16}\). As a result, we propose that all these dimensions be studied carefully before going forward with this project.

We consider the integration of direct delivery into the grocery channel not to be a priority at this stage. There are minor timing issues in the provision of the basic distribution services in that channel, but these can be remedied quite easily. In the event that a single field force team is

\(^{16}\) Recall that currently only the distribution representatives sell products. The trade marketing representatives generally do not sell but act more as merchandisers and advisors to the retailer.
created for the convenience and horeca channels, we propose that a dedicated trade marketing representative be kept for the grocery channel.

To sum up this paper, we recommend that BAT Reunion prioritizes its resource allocation in the following way in order to grow the value of its relationship with retailers and bring them to show ‘true loyalty’ to the company:

a) Increase resources in:

- Investment in in-store cigarette dispensers. In this respect, we recommend that BAT prioritizes its spend by especially investing in areas where it is behind the competition, in particular in petrol stations and the grocery channel.

- Continue with product innovations by working on the packaging especially; for example, with the introduction of limited edition packs for the strategic brands.

- Training and development of the field force team so that they provide enhanced value to retailers during their visit. The motivation aspect can also be improved by for example creating a performance-related incentive scheme for the representatives.

b) Decrease resources in:

- The trade loyalty programme given its relatively low overall impact on relationship quality in the convenience channel. As such, we recommend a more focused strategy for the loyalty scheme in order to optimize on the return to investment.

As final point, we also suggest that BAT Reunion includes a leading non-tobacco FMCG company in the next customer relationship assessment to have a broader evaluation of its relationship level with retailers.
Acknowledgement:

To Mr Philippe Delorme, Trade Marketing & Distribution Manager – British American Tobacco Reunion, for his valuable collaboration on this project

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