

a) How to manage / control
b) Cost effective.

INTERNATIONAL SALES AND DISTRIBUTION CONFERENCE

1. INTRODUCTION

Prior to entering into detailed examination of the proposed direction, methodology and structure of the Conference, we consider important to mention some relevant concepts in the sales and distribution area:

1.1 THE IMPORTANCE OF SALES AND DISTRIBUTION

The sales and distribution area is of growing strategic importance due to the following key factors:

- Consumer purchasing habits and preferences are in constant evolution:
- Trade influence over consumer habits and manufacturer practices is increasing rapidly as a result of channel evolution, internationalisation, concentration of business and technological progress.
- Recognition by manufacturers of the importance of the sales and distribution area is generating increasing competitive activity in this area.

The consequences of this situation for manufacturers are impacting on costs and structures. To be successful in this complex environment requires full understanding of the process in order to most efficiently allocate resources.

1.2. THE ROLE OF SALES AND DISTRIBUTION

From consideration of the many and diverse tasks involved in the sales and distribution activity, the following two areas are fundamental in establishing a real competitive advantage:

- Guarantee of availability at point of sale with the right brands, volumes, prices, timing, at the lowest operational cost, limiting competitor space:
- Maximising selling out opportunities through the best product display, optimum positioning of p.o.s. material and competitive utilisation of consumer and trade promotional tools.

2. BAT OBJECTIVES AND THE ROLE OF THE CONFERENCE

BAT key objectives in the sales and distribution area are to achieve competitive advantage with cost effectiveness to generate share and profit growth.

Based on these objectives, the Conference should allow a revision of the key elements of sales and distribution, with the aim to improve BAT efficiency in the sector. The Conference should be the ideal forum for definition of areas where BAT Group companies should co-operate much closer in the future, through capitalising on the Group's wide and diversified experience.

502590699

3. THE CONFERENCE STRUCTURE

3.1 CONTENT

The Conference content should be relevant, applicable to all participants, and serve to identify current and future problems and opportunities, providing participants with solutions to meet BAT current needs and to help prepare for future challenges.

3.2 FORMAT

Topics should follow a logical and integrated sequence.
Group best practices should be used as a basis for discussion and evaluation.
Relevant experiences of non BAT companies should also be used.

3.3 METHODOLOGY

The methodology should guarantee full participation, to facilitate establishment of guidelines and conclusions and to stimulate and motivate participants to act on the main findings.

After each activity, participants will take part in groups to discuss and select the best solutions to the issues presented, according to each company's realities. This will be followed by open discussion, with all participants, with the objective of recommending a single guideline for each issue identified.

To conclude the Conference these directions should be organised and structured in order to allow participants to make recommendations to the TSG.

4. PROPOSED DIRECTION FOR THE CONFERENCE

The proposed direction for the Conference is fully related to the complete sales and distribution cycle, focusing the consumer, the trade, the establishment of an adequate organization model and the discussion of the relevant issues related to the area.

The sections of the Conference are described below:

SECTION 1 - CONSUMER / TRADE

Evaluation and agreement on the ultimate consumer and trade wants and identification of main future trends:

SECTION 2 - BAT POSITION

Analysis and conclusion on both BAT and competition positioning within the scenario identified in the previous section:

502590700

SECTION 3 - ORGANIZATION MODEL

Recommendation of appropriate and cost effective sales & distribution organization models;

SECTION 4 - RELEVANT ISSUES

Presentation, discussion and conclusion on the most relevant issues related to the area.

SECTION 5 - GUIDELINES

Agreement of guidelines and directions for the sales and distribution area to be used by the operating companies;

5. PROPOSED PROGRAMME

A description of each section, objectives and activities, is presented below:

SECTION 1 - Ultimate consumer and trade wants and future trends;

Objective

- To give participants an in depth view of current consumer behavior, priorities, variables that affect purchasing behavior, both positively and negatively, as well as a forecast of how this behavior could change in the future.
- To give participants an in depth view on how trading environment is developing world-wide to meet consumer wants and how consumer wants will affect trade development in the future.

Activities

- Nielsen will present the results of market research covering the current situation of both consumer and trade wants, as well as forecasting major future changes in this area.
- This research will be carried out in 4 or 5 countries

- **Relevant points to be covered by the research:**

- a) **Consumer (current and future)**

- Key variables that affect consumer purchasing behavior - Channel evolution, price, product quality, product availability and quality of retail services, affecting the definition of where, what, when and how to buy;
 - Changes in purchasing behavior influencing trade activities and organization;
 - Trade Marketing activities influencing consumer purchasing behavior;
 - Impact on consumers of the amount of stock on display, including analysis of brand positioning on the shelves, number of facings, location of the sheive etc... ;

502590701

b) Trade (current and future)

- Availability of retail services
 - Concentration of trade
 - Channel evolution and customer wants
 - International / National key account strengths
 - Brand and inventories availability
 - State of development of Information Technology (scanning)
 - Availability and use of communication at the point of sale
- Results should address developed and developing regions, however, the presentation should avoid analysis of individual countries.

SECTION 2 - BAT's position within the consumer and trade scenario identified in the previous section;

Objective

- To diagnose how well B.A.T. and main competitors sales & distribution line up with the previously presented scenario, and the extent to which they are preparing for the future.

Activities

- An analysis of consumer and trade expectations with regard to their suppliers and the way they see both B.A.T and competition.
- The exploration of this theme will be made based on research to be carried out in the same 4 or 5 countries of the previous section. A common methodology will be used, which will be developed with the cooperation of external consultants together with the existing experience of the Group.
- The analysis of results, which should address the identification of threats and opportunities, will be carried out by the group of representatives of the operating companies, who will define the best format for presenting results to participants.

SECTION 3 - Recommendation of appropriate and cost effective sales & distribution organization models;

Objective

- The presentation of organization models which will have the aim to help operating companies to identify cost effective solutions to increase competitiveness, based on the previously analysed consumer and trade scenario. These models should help participants to select adequate and cost effective sales and distribution systems and to identify ideal operational structures. Particular emphasis should be given in this section to the following important issues:
 - √ establishment of trading policies
 - √ dealing with trade concentration:
 - √ call routing and territory coverage maximising sales opportunities

502590702

- This section should stimulate participants to analyse the effectiveness of their own organization models and motivate them to use the knowledge acquired in order to seek improvements.

Activities

In depth analysis of existing organization models presented by one of the operating groups, utilising, as a basis, Group best practices and the best practices of successful external FMCG companies.

Learning from successes and failures of BAT companies within this context could serve to reinforce the importance of establishing adequate sales and distribution systems and structures to guarantee cost effective solutions and competitive advantage.

SECTION 4 - Presentation, discussion and conclusion on the most relevant issues related to the sales and distribution area.

Objective

To present to participants the most relevant issues that have to be managed by the sales and distribution area, in order to stimulate discussion and reach conclusions as to the directions that should be followed by the Group.

Activities

The issues indicated below have been considered as of key importance for the area. In line with the Conference proposed format and methodology, emphasis should be given to the use of Group best practices and, where relevant, experience of non BAT companies should also be considered.

- Human Resources
- Pricing and Credit
- Wholesale / Retail trade relations
- New Technics in Trade Marketing
- Merchandising
- Technology
- Information Systems

One operating company should be responsible for developing the programme for each of the themes and should consult other companies in order to present the best examples in use.

Description of the main issues related to the sales and distribution area:

502590703

Themes	Issues
Human Resources	Efficiency of recruitment, development, training and motivation of sales and distribution team; Job Descriptions / Appraisals;
Pricing and Credit	Utilisation of pricing and credit as efficient tools to guarantee trade and consumer satisfaction. Management of the gap between the factory price and the retail price;
Wholesale / Retail trade relations	Development of trade programmes at both the wholesale and retail levels to expand business opportunities;
New Technics in Trade Marketing	Category Management ; Direct Product Profitability ; Space Management ;
Merchandising	How to attain efficiency / competitive advantage through the use of merchandising activities, particularly in a scenario of increasing communication restrictions. How to manage the growing pressure by retailers to maximise return on space allocation; Efficient utilisation of retail outlet classification;
Technology	Technology applied to product and service quality aimed at maximising efficiency and accruing enhanced corporate image;
Information Systems	Systems to help monitoring and evaluation of key performance variables, own and competition;

SECTION 5 . To agree guidelines and directions for sales and distribution to be used by the operating companies;

Objective

Based on the conclusions and guidelines established in previous sections, this activity is destined:

- To select the main issues
- To establish a scale of priorities
- To ratify main conclusions and guidelines

Activity

Team work involving all participants. The final product of this activity should be a recommendation of guidelines to the TSG.

502590704