

RESTRICTED

TOBACCO DIVISION BOARD OF MANAGEMENT

Thursday 13th May 1976

Present: Mr. P. Sheehy (Chairman)
Mr. C.G. Bowra
Mr. B.P. Garraway
Mr. N.W. Goddard
Dr. S.J. Green
Mr. R.St.C. Walmisley
Mr. P.L. Wright

In attendance: Mr. B.G. Pearson (Secretary)
Mr. H.A. Morini (D.124 - 5 & D.127 - D.131)

Absent: Mr. C.H. Stewart Lockhart
Mr. I.B.D. Bluett

Also attended: Mr. G.L. Dennis (D.116 - 9 & D.126)
Mr. D.S. Dunbar (D.116 - 9 & D.123)
Mr. A.M.S. Elliot (D.122-123)
Mr. R.F. Gilderdale (D.122 - 123)
Mr. G. Lambert (D.123)
Mr. M.R. Noakes (D.123)
Mr. P.J.H. Rackham (D.122 - 3)
Mr. T.J. Tice (D.123)

GENERAL MANAGEMENT/EMPLOYEE RELATIONS

D.116 Management Manpower Planning

Four functional Directors outlined plans for Millbank owned staff over the next 10 years including extra men of general management calibre.

Mr. Bowra reported numbers reducing from 59 in 1976 to 20 in 1985. This entails 12 anticipated early retirements and 4 redundancies. There is no need to rely on overseas nationals but it is intended to have 2 - 3 in Millbank on a swap basis. One recruitment is possible if a Germany slot can be found.

Mr. Garraway reported that requirements can be met, with 11 early retirements and 3 redundancies. Younger men with potential have been identified and they will be developed. Overseas nationals will come to Millbank on a swap basis. Two or three recruitments are planned in order to introduce different background knowledge.

Mr. Walmisley reported 45 Millbank owned now, reducing to 25, with some early retirements but no redundancies. Five men have been identified for the future. The age distribution is unsatisfactory but 12 men have been recruited in the last six years.

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It is estimated that 10 - 12 recruits will be needed over the 10 years to meet requirements after 1985. Because junior jobs overseas are disappearing faster than top jobs, some development jobs with overseas companies must be created and there may be questions of costs. There is no need to rely on overseas nationals but there may be some swapping, including with ELT and B&W.

Mr. Sheehy reported in Marketing 47 Millbank owned staff reducing to 28 over the 10 years. Four have been identified as GM potential. The department will be short of people by 1985 and overseas nationals will be required for some Millbank jobs; these are mainly required from the larger and more important companies, from which countries it is most difficult to recruit for international staff.

It was noted that these plans were based on a mixed retirement age but Mr. Dunbar reported that when a man joins the UK pension fund his retirement age becomes 61. This should not affect the plans materially but Mr. Dunbar will consider the effect.

There was another discussion on integrating R&D management more into the Group with a view to transfers to other functions or general management. It would be easier if men were recruited into R&D as initial training with different degree disciplines. Dr. Green will give this further consideration.

In general, it was agreed that:-

1. The flow out of functions into general management must be better planned so departments have sufficient warning.
2. Opportunities for swaps must be encouraged, especially for men between 30 and 40, and every effort will be made to obtain the commitment of the No.1s concerned.
3. The possibility of transfers from R&D to other functions will be borne in mind.

Consideration was then given to Mr. Dennis's paper of 27th November 1975.

It was agreed that, to achieve more multinational staffing, it is important to identify early overseas nationals with potential. This is a responsibility of the Territorial & Functional Director concerned and should be reviewed periodically with the individual.

(Mr. Dunbar)

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D.117 General Management

The following lists were considered and brought up to date:-

1. General management succession plans - Mr. Wright will give further consideration to succession plans for the Brazil Tobacco and Diversification Divisions.
2. General management candidates list - the next list should include identified local nationals.
3. Potential coordinators list.

(Mr. Wright
Mr. Dunbar)

D.118 Millbank-Employee Involvement

Reference: note 21.4.76.

It was agreed in principle that there is a need for an examination of the ways in which employees can become more involved in the circumstances surrounding their jobs and environment in Millbank, including relationships within and between departments, but not the actual running of the company. Before the proposed project group is set up, Messrs. Bowra, Garraway and Green and Miss Brook should prepare a paper setting out clearer definitions and report to TEC by mid-June.

(Mr. Bowra
Mr. Garraway
Dr. Green
Mr. Dunbar
Miss Brook)

D.119 Personnel Department

Reference note 3.5.76.

Approval was given to the note setting out both the proposed purpose and role and the organisation of the Tobacco Division Personnel Department.

(Mr. Dunbar)

D.120 STR Distribution

Reference: note 28.4.76 and TEC minute T.48 of 4.5.76.

It was agreed that Mr. Sheehy review, with the directors concerned, the forced distribution of STRs in Grade 16 and above; also, that this practice should be adopted in the future.

(Mr. Dunbar)

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D.121 SMP 5

Mr. Sheehy will discuss with individual Directors the programme for the three hours to be devoted to the Tobacco Division at SMP5 in November.

D.122 QUARTERLY PERFORMANCE REVIEW

- Notes:
1. Market share figures, unless otherwise stated, are for the latest quarter average available and the corresponding quarter average last year.
 2. PAT = Profit After Tax in £ terms before replacement adjustment.

North America

U.S.A. - B&W Tobacco Volume is holding but market share is dropping. Kool is still growing but other brands are falling. Management changes have been made in marketing department. Product development is being reviewed and existing and new blends are being examined. Trading Profit is up 6.1% in \$ (16.3% in £) due to a price increase. PAT for the year is expected to be about the same as last year in \$.

Vita is closing its New York plant and may reduce its loss this year. The possibility of selling parts of the business is being examined.

Kohl budgeted PAT for the year is up on last year.

Gimbels sales are up and margins are improving.

Canada Market share is down to about 37% but new brands have been introduced. The budgeted PAT for the year is substantially up on last year.

Australasia

Australia Market share is steady but Philip Morris will soon overtake. Although PAT for the 12 months to October 1975 was over the previous year the company is still weak.

New Zealand Budgeted PAT for the year is up but there is still a liquidity problem and price increases do not cover replacement costs.

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Europe

Benelux In both Holland and Belgium, market share is down. The budgeted PAT for the year is substantially up in Holland but a loss in Belgium is partly due to heavy redundancy payments; the combined result is slightly better than break even.

Cigars The budgeted PAT for the year shows a loss converted into a good profit which could be doubled next year with new machinery.

Switzerland The total market is continuing to fall and domestic market share is down from 18.2% to 17.2%. Budgeted PAT for the year is down in £ (and worse in S.Frs.)

I.E.D. Volume is down 7.8% on last year and 14.5% on budget; this is largely due to reduced transit trade to West Africa but this is now improving again. The latest revised budgeted PAT for the year is substantially up on that shown in the booklet and on last year.

Germany Market share has improved from 29.2% to 29.4%. Budgeted PAT for the year is up on last year, partly due to the price increase and partly the exchange rate; the budgeted figure will be achieved.

Finland Volume is 7.4% below budget and market share has dropped from 27.4% to 25.0% due to a price war. PAT for the year will be higher than budgeted, due to a larger and earlier price increase than anticipated.

Denmark Budgeted PAT for the year is substantially up. Mr. Elliot will circulate a copy of the pricing agreement reached with the government.

Division H.Q.

The main improvement is profit on leaf sales, partly in £ terms, partly offset by reduced royalties from the Philippines. International advertising is below budget. Department expenses are down through reduced inflation. It is hoped that there will be an improvement on the budgeted loss for the year.

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Latin America

Costa Rica Market share is up from 67.4% to 71.8% and budgeted PAT for the year over double last year although the price increase was later and smaller than originally budgeted.

Guatemala Volume is 27.1% over last year and market share is up from 50.1% to 53.6%. The cigarette business is still unprofitable but leaf exports are expected to increase the PAT for the year and it is hoped that the excise structure will be revised in 1977. No price increase in the period under review.

Panama Volume is down 3.4% on last year and market share is down from 56.8% to 53.6%. Budgeted PAT for the year is also down. Marketing problems have not yet been overcome.

Salvador Although volume is down, budgeted PAT for the year is over double last year due to a price increase. The economy is weak owing to a poor coffee crop.

Argentina Although short of manufacture, PAT after replacement might break even over the year. Jockey Club 12's made a good start at 38 million in March. The latest price increase was 103% overall, 143% for Jockey Club. SAPRA has little prospect of making a profit and the policy is still to sell the company when a buyer can be found.

Venezuela Volume is 28.3% over last year and market share is up from 18.6% to 21.4%. It is now very unlikely that Bigott will get their budgeted price increase this year. PAT for the year is expected to break even.

Brazil Latest market share is 82% but inflation is increasing to 4% per month and total market growth has slowed to 1% for three months. PAT for the year is expected to be down on budget but up on last year.

Peg Pag losses are expected to be heavier than shown.

Suvalan should be included in future.

Chile In spite of 169% so far this year, price increases are insufficient to make any profit. Import duties are being reduced and imports are starting to come into Chile.

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Mexico Market share is down from 69.5% to 66.6% but budgeted PAT for the year is over double last year.

Honduras Total market has increased by 3% over last year. Market share is over 96% but Philip Morris have recently introduced Baronet. A price increase was received in December although budgeted for October. PAT for the year is expected to be well up on last year.

Nicaragua Steady sales and market share at 96%. A price increase was received during the second quarter. PAT for the year is expected to be well ahead of last year.

Africa

South Africa The volume increase of 16% over budget is largely due to pre-budget buying. There is optimism over blend changes. Budgeted PAT for the year is down due to a late smoking tobacco price increase, increase in corporation tax and local devaluation. The budgeted PAT for the year is below the actual PAT for the first six months because of an expected drop in volume following the large cigarette retail price increase in April and deferred advertising expenses.

Willards' budgeted PAT for the year shows a loss changed to a profit and continuing better results are expected.

Central Africa Profits are up following reduced packaging costs. Carlton volume is 17.0% over budget and 16.1% over last year.

Nigeria Volume is 18.7% over last year and market share is up from 82.6% to 84.4%. The market is still not fully supplied but production difficulties are gradually improving. Budgeted PAT for the year is down because a price increase has been refused and because of an increase in corporation tax.

Mauritius Budgeted PAT for the year is up because it had previously been decided to hold prices against Rothmans but it had now been agreed to increase prices. PAT after replacement is low but the position against Rothmans will have to be considered before a further price increase.

Caribbean

Jamaica Volume and share are down and budgeted PAT for the year shows an increased loss. The new cut-price brand has not yet been approved by government and Mr. Gilderdale will keep TEC informed.

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Asia

Hong Kong There are signs that the total market may be growing again and market share is up from 46.8% to 48.5%.

Indonesia Volume is 27.2% below budget and 20.7% below last year while market share is down from 32.6% to 27.1%. It is hoped that government will reduce excise concessions to competition but the timing is uncertain. Further details are elsewhere in these minutes.

Malaysia Market share is up from 69% to 73% and budgeted PAT for the year is substantially over last year.

Singapore Volume is down 9.2% on budget and 12.3% on last year, while market share was down to 32% in April. Budgeted PAT for the year is down on budget but up on last year. Marketing strategy is under urgent review.

Banladesh Volume is up 10.5% on budget and 16.1% on last year but market share is down from 65.5% to 63.5%. A second dividend has been received.

Pakistan Budgeted PAT for the year is substantially higher than last year but still heavily dependant on leaf exports.

India Total market and market share are both down on last year but there are some signs of improvement. Budgeted PAT for next year is substantially higher but is suspect. For further details, see elsewhere in these minutes.

Summary

Indications for the second half year are perhaps a little more optimistic than shown in the note of 7.5.76.

There are signs of decreasing inflation and increasing profits. However the Chairman emphasised that for long term growth a more positive trend in market share was more important than an immediate improvement in profits.

(Mr. Rackham)

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D.123 Productivity

Mr. Lambert gave a presentation on progress so far in establishing definitions and measurements of productivity, with some examples, and this was followed by a discussion. It was agreed that this is a key area in the effectiveness of the business; that it can lead to improvements by acting on trends within a company and, with suitable caveats, between companies; that it could help managers improve efficiency in the use of people and investment; and that it could help TDB on investment decisions.

It was agreed that it warrants further investigation and development of techniques and that for this purpose Mr. Lambert will pursue investigations with the Europe and Latin America teams.

(Mr. Lambert)

(Mr. Rackham)

D.124 Chairman's Report

Mr. Sheehy reviewed the principal activities since the last TDB meeting.

D.125 Financial Director's Report

Mr. Garraway reviewed:-

1. The Group borrowing position.
2. Following the BAT/TST merger, the need to sell TST holdings in Canada, Australia, India, Malaya, South Africa, and Trinidad.
3. The proposed reorganisation at B&W so that B&W Industries will become the holding company.

D.126 Indonesia

Mr. Verkerk reported.

Indonesia is reasonably stable politically and economically. There is no immediate prospect of Indonesian shareholding.

Of the cigarette market, 60% is local Kretek manufacture. Of the white cigarette market, 42% is by Chinese manufacturers and BAT 27%. Owing to excise discrimination, aimed at maintaining employment, the white section is down and BAT is losing share. It is hoped that recent approaches to government will reverse the trend but this is uncertain. It is

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impossible to get agreement with other foreign manufacturers on pricing or a joint approach to government. Frequent changes in government policy preclude accurate forecasting.

Progress in the new leaf development areas is good and this leaf is being used increasingly in place of imported.

Profit results this year show a profit on an historical basis but a loss on a replacement basis. It is hoped to break even next year on a replacement basis.

Casual labour is being reduced but productivity is low because the company is not allowed to close one of the two factories.

Present members of expatriate management are needed except that the marketing director will be available next year. Succession to the top is assured if an expatriate No.1 is maintained until 1984 - 1985.

D.127

U.S.A.

Mr. Garraway reported on a visit to ELT. There is a continuing improvement in management style which is becoming more participative. The finance management has not become as involved as one would hope but this will improve on Mr. Chaffe's retirement in early 1977.

The stockpile will have surplus stocks of 21.5 mn lbs at 30th June 1976. Plans to reduce this as quickly as possible are constantly under review.

ELT is reviewing the capacity of the processing plants.

The sale of unwanted properties is difficult because the buildings are old and the market is depressed.

D.128

Germany

Mr. Garraway reported on a visit.

Although a stagnant cigarette market is forecast over the next 10 years, by reductions in labour and other methods there will be substantial cash surpluses over the period.

A scheme is being prepared to expand the present 27% stake in Horten in stages to 37%, 44% and possibly over 50%.

The number of Winekrugers will be expanded.

Interverna will also research other possible diversification.

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D.123 USA/Canada

Dr. Green reported:-

1. Arrangements made regarding Schweitzer patents.
2. Efforts to improve blends and other product qualities in B&W - a note has been circulated.
3. Group research conference - a note has been circulated.
4. Research and product development in Canada. This will be discussed privately at Hot Springs if possible.

D.133 Latin America

Mr. Wright reported on a trip.

Panama is politically strong, left oriented. There has been some nationalisation but foreign investment generally is encouraged. Market share is down again and top management changes will be reviewed during the next visit in October.

Costa Rica has a democratically elected, left oriented, government. Taxation is expected to increase. Market share is increasing and profits are good.

Nicaragua is politically stable. The company is well run and profitable.

Chile is politically stable and the 341% inflation in 1975 is forecast to fall to 190% in 1976. Discussions are continuing on Decree Law 600 which requires BAT to invest the equivalent of the present investment, some US\$ 15 million.

Brazil A proposal to reorganise the capital so as to reduce our voting rights below 50% has been dropped as there is no compelling reason or benefit at present.

Argentina Reports on the political and economic situation will be circulated. Company morale is good, the management team is impressive, and they are optimistic regarding the future economy of the country and the company. Price control has been lifted; price increases may reduce consumption and solve capacity problems. Philip Morris are reported to be interested in two Reemtsma companies one of which holds the licence for Kent: BAT will try to negotiate the Kent licence on behalf of CNT.

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Paraguay Sr. Eo seems to be sticking to his price but contacts are continuing.

Ecuador Consideration will be given to a Philip Morris proposal that we take over the running of a PM factory and make Kool to compete with Salem.

D.131 India

Mr. Goddard reported on a visit.

The political situation is stable and the economic situation promising.

A revision of the excise structure has permitted some price increases and decreases.

Industry sales have been static for some years and competition is barely making profits. ITC share is steady at 47.5% and VST at 26%. Sales volume is expected to pick up this year and ITC share could be near 50%.

Production quality is unsatisfactory and blends are being examined. Establishments are being reduced by 1,500 to 8,300 by March 1978.

The Foods Division should break even this year.

The Hotels Division is expected to become profitable.

The paper board project costs have escalated but ITC's commitment is being limited.

VST is doing well but leaf prices have increased and it may be dangerous to increase the Charminar retail price. PAT is unlikely to exceed last year's figure.

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