

The Battalion Bulletin

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Welcome to the first Battalion Bulletin!

by Ulrich Herter

Over the past two months you will all have been made aware of Project Battalion through our roadshow and video presentation programme. In addition, some of you will have been interviewed directly by a senior Battalion Team Member accompanied by a representative from our external consultants, Bain & Co. We have also conducted a separate series of interviews to examine in detail our marketing activities. This Bulletin is by way of an interim communication to bring you up to date, provide some feedback on the Project so far and provide an outline of where we go from here.

As you know, Project Battalion is divided into three stages. The Definition Phase, completed last April, during which we defined the scope and structure of the Project and, in broad terms, determined how to carry it out; the Diagnostic Phase, in which we were to make an assessment of where the strengths and weaknesses of our organisation lie, examine the activities of other world-beating companies in various specific areas and begin tentatively to map out the decision-making processes; and the Blueprint Phase, in which we design the changes which will take us closer to our goal of regaining the lead in the world tobacco market within the next 10 years.

The Diagnostic Phase is now nearing completion and this Bulletin is intended to help explain what it has involved. Over 50 'broad picture' interviews have been completed, not including a series of in-depth discussions between members of marketing departments all around the Group. In addition, we have received invaluable feedback from the operating company presentations.

This fact-finding exercise will give us an accurate picture of the problems which are inherent in our current structure and which have to be addressed. For the final answers to these problems, however, we must await the outcome of the Blueprinting Phase, which will be beginning shortly and which will be finished before the end of the year.

Over the coming months, a considerable amount of work will be going on as the various Battalion Teams sift the data from the Diagnostic Phase and consider what and where we need to change. There may not be so much visible activity as during the Diagnostic Phase, but please do not be concerned that Battalion has lost momentum. Nothing could be further from the truth.

As you will see, this edition of the Bulletin takes the form of a series of questions and answers which explain these issues and outline the concerns which have surfaced most regularly over the past weeks. If there are questions that it leaves unanswered, please feel free to make use of our dedicated Battalion fax 'hotline': 44-171-630-2747.

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Many thanks to all of you who have contributed to Battalion so far. We may return for more: further staff will become involved over the next few weeks, although probably not to the same extent as during the Diagnostic Phase. The main objective here will be to sound out different ways of managing those areas of the business identified as being of concern, or in which, following careful analysis of best practice around the world, it is felt we are not as efficient or effective as we might be. Project Battalion has high ambitions and its successful conclusion depends on our total commitment to a shared vision. As all of us within the BAT Group of companies would expect the level of commitment, so far, has been superb.

The most difficult stages are yet to come, but I know that, with your continued co-operation, the ability to create a fully cohesive organisation, which will really help us to realise the vision, is within our grasp.

This is the first of a series of Bulletins which will be issued during the rest of the Project's timetable.

Q *What is the Battalion mission?*

Quite simply, to design an organisation which will allow us to operate as a cohesive tobacco company. The Project's aim is to achieve the greatest possible degree of delegation with absolutely clear accountability.

Q *What is the scope of Battalion?*

Project Battalion is intended to deliver an organisational structure which allows management to make the decisions necessary to achieve their objectives in the quickest and most efficient way.

Battalion is not simply about establishing a Tobacco Board. In fact, this could be said to be a relatively minor aspect of the exercise. It is also about ensuring that the key decisions and activities that yield us competitive advantage, or that have the potential to do so, are undertaken *effectively* across the Group.

Q *What does being the world's number one cigarette company mean?*

In the first instance, being number one means selling more cigarettes on a global basis than our competitors. As more focused brand, trade marketing and manufacturing strategies develop, we will enter a virtuous circle of rising value share as well as rising volumes.

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Q *Is it envisaged that our growth comes at the expense of Philip Morris or our other competitors?*

The world tobacco market is big enough for both ourselves and Philip Morris to grow and thrive. Both groups together currently account for just 25 per cent of total world cigarette sales. This leaves three-quarters of the market, or nearly 4,000 billion cigarettes, in the hands of ex-government monopolies and other smaller, often national, companies. As we become better organised and more focused, with a commitment to excellence in every aspect of our operations, we expect to win share from all our competitors.

Q *Is the Project on schedule?*

Yes. The Diagnostic Phase was due to finish at the end of July. In fact, we are a little ahead of our planned timetable. However, given the complexities of our present Operating Group structure, the end-November date scheduled for finalising the Blueprinting Phase represents a tough target.

Q *What was the aim of the Diagnostic Phase?*

The Diagnostic Phase set out to compile a picture of where we are now; how we perceive ourselves and what, in organisational terms, stands between us and our objective.

Q *How was this achieved?*

Our activities were divided into six areas and each one assigned a leader or 'Driver'. Each Driver appointed a Drive Team, generally composed of senior management from all the Operating Groups. The Teams were entrusted with the task of analysing a specific aspect of our organisation and, within that function, coming to some conclusions as to where our strengths and weaknesses lay. The six Drive Teams were Marketing, Production (including Leaf, Manufacturing and Research and Development), Legal, Finance and Information Technology, Corporate Affairs and Human Resources.

Strategically, the Diagnostic Phase also started the process of identifying, function by function and process by process, what we have to get right in order to realise the vision of becoming the world's number one tobacco company.

We also began an examination of how other world-class companies operate in certain specific areas.

In addition, Battalion Team Members conducted over 50 'broad picture' interviews with key managers around the Group. There was a remarkable degree of consistency in the views expressed by the interviewees. The output of these meetings was refined into a 'factbase', which provides a 'snapshot' of the current state of our organisation, how we see ourselves, what we are doing right and what we are doing wrong.

Finally, we began to 'map' a number of key strategic decisions in the Group - decisions which, if taken effectively and with the right supporting information, would put us one step ahead.

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The input to the Blueprinting Phase will also include worldwide 'best practice' comparatives and decision mapping processes. At every stage of the redesign one key concept will guide the Teams and that is to achieve the greatest possible degree of delegation with absolutely clear accountability. The design must ensure that managers at all levels are able to make their optimum contribution to the business, within an understood strategic framework.

Q *How will the Teams' activities be co-ordinated during the Blueprinting Phase?*

Neil Withington, the Legal Driver, has also been appointed Project Manager working directly with the Director of the Project, Keith Dunt. Neil has been given the task of ensuring that there is a timely input from those Teams dealing with the Group's other functions (Corporate Affairs, Finance, Legal, Human Resources and IT) to the deliberations of the key Marketing and Operations Teams. This means an immediate response is guaranteed as and when a contribution from these areas of process management is needed.

The other functional teams, meanwhile, are moving ahead with detailed Blueprinting programmes of their own and this will ensure they are in a position to deliver common elements across the Group to the Operations and Marketing Drivers when called upon to do so.

The role of the Project Manager is vital, firstly, because no single aspect of our operations can be viewed in isolation and, secondly, because, the work of a particular Team inevitably must be influenced almost daily by developments elsewhere in the Project.

Q *How are the 'best practice' comparatives being compiled?*

With the help of Bain & Co. our management consultants, we aim to complete our examination of other successful companies as soon as possible. This 'benchmarking' process will allow us to compare our draft structure with that of other successful FMCG international companies. The purpose of benchmarking is not to replicate the structure of these companies. Far from it. Instead, by looking at how other international companies operate, we will ensure that no potentially suitable solution or problem is overlooked.

From this we should be able to produce a comprehensive picture of how our tobacco operations should be changed in order to compete more effectively in today's markets, while maintaining the important competitive edge that we derive from the strength of our own unique culture.

Q *What is the time scale for the Blueprinting Phase?*

We intend to have a final Blueprint to present to the CEC by the end of November so that any changes we need to make can be implemented as early as possible in 1996. This was the original timetable.

Q *How has the Battalion presentation been received?*

Reaction to the Project has been very positive. We have been consistently

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impressed by the commitment and enthusiasm of the Group's managers and there appears to be an awareness throughout the Group, even in those markets where our companies enjoy a substantial market share, that this is an idea whose time has come.

Q *On the basis of the early output from the Diagnostic Phase, what were felt to be the major factors working in our favour?*

We have not yet completed analysing the output in detail, but so far we can say that there is a widespread conviction that we have the brand portfolio, the people, the expertise and, most important of all, the collective will to allow us to become a much more effective organisation.

Q *In these early results, what was perceived to be our biggest obstacle?*

In general, people believe that our objective demands a more long-term, more co-ordinated and consistent global strategy than we currently have or, more importantly, than our current structure permits. The results of the Diagnostic Phase also suggest that we lack strategic clarity. This will be addressed.

Q *What can I contribute to the Blueprinting Phase?*

Some of you will be approached for your views on a particular aspect of the Group's operations.

Throughout this period it is crucial that our ongoing operations do not suffer. We must all take responsibility for ensuring that they do not.

Lastly, certain Team Members might need your support with their day-to-day responsibilities. Please help them in any way you can.

Q *How much do our other international competitors know about Battalion?*

It would be naive to assume that our competitors are not aware of Battalion's existence. However, Battalion is a commercially sensitive initiative, so please exercise discretion.

Q *When will the next Battalion communication be?*

It is our wish to communicate as often and as openly as possible. There will be a Battalion communication, of one sort or another, every month. In the meantime, please feel free to contact us on the dedicated Battalion fax (44-171-630-2747) if there are any questions you want to raise. We will continue to welcome your ideas and contributions.



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