

Case of British American Tobacco in India, 1906 – 2004

“We recognize that our business starts with our consumers and our brands. It’s not about encouraging people to start smoking or to smoke more, but about meeting the preferences of adults who have chosen to consume tobacco, and differentiating our brands from their competitors”

By British American Tobacco (BAT)

The case of British American Tobacco (BAT) can be regarded as a remarkable example for foreign companies investing in India under the Foreign Direct Investment (FDI) policy. In fact it is also a case, which will influence the young Indian entrepreneurs in managing their business according to the demand and condition of time. In an emerging economy like India it is very important to look at the various dynamics of market, before investing. In most of the cases internal and external factors are responsible for the success or failure of a company. But in the case of BAT, they have controlled and satisfied both the factors of market in a certain manner that has made them the indisputable ruler of tobacco market. Within a period of 65 years (1906-1970) the company has dominated a vast and dynamic market like India completely and has enlarged its business from cigarette to other related areas first and different areas next. As a result they have invested areas like manufacturing, selling, and leaf purchasing by the year 1910. And for the further expansion of business they have invested in cigarette factories, printing factories, brands, selling and distribution, hotels and exports by the year 1975. *(Refer Exhibits 1-4 for investment details of BAT from 1910-2004)* But, at the same time the birth of BAT is also equally interesting.

The formation of BAT is also an equally interesting story like the business of the company in India. BAT was formed in the year 1902, by merging of two companies, Imperial Tobacco Company (ITC), of Britain and American Tobacco Company (ATC) to stop the self-damaging exercise among them. Buck Duke (James Buchanan Duke; the

founder of ATC) became the first director of the company with his company holding a majority of 67% shares of BAT. The real story started much before in the year 1890, when Duke captured Ogdens of Liverpool and started a tobacco war in Britain. Imperial Tobacco took the war in turn to the markets in America. This led to price-cutting by both the giants of tobacco business. Huge Price cutting and discounts led to shrinking of bottom lines of both the companies and as compromise they finally came to agree that they shall not encroach each other's domestic market and that they shall not fight in other foreign markets. Indeed, formation of BAT was an outcome of these developments and this new entity was to market cigarette products outside UK and USA.

BAT entered the Indian market in 1906; it invested in all most all the areas of tobacco business by the year 1970. From trading BAT quickly graduated to manufacturing of cigarettes, setting up a cigarette factory in Monghyr, Bihar in 1907 through Peninsular Tobacco. In another five years it invested in local leaf processing and leaf growing. Subsequently, it steadily invested in several related areas of cigarette business like printing and packaging, duplex board, tissue paper, aluminium foil, cigarette-rolling machine, fibreboard container and filter rods. *(Refer Exhibit 5 to view a detailed report on the investment of BAT in various related areas of Tobacco)*. Finally it has started the tobacco business all over the country and for the convenience of the company and the people, consuming tobacco they have set up regional centers and business offices in different locations. Through these offices they are able to diversify the whole business process of tobacco. *(Refer Exhibit 6 for the detailed list of ITC business locations)*

BAT has started its own manufacturing unit first and later expands the production unit. In the year 1912 BAT set up a unit for purchase, distribute and trade of tobacco leaf. It also substituted the imports of cigarette paper by investing in manufacturing paper in the year 1950. Further it has invested in duplex board and aluminum foil by 1963. The subsidiary of BAT, ITC started exporting in the year 1971 and in 1990 it has set up the International Business Division (IBD) to export different kinds of commodities.

Over time, they have also entered to other fields like hotels, marine products, exports, agri-business, and retailing. Around 1960-70s when many of the foreign companies were decided to wind up operations in India, BAT started investing heavily. In the year 1977 ITC, the subsidiary of BAT set up Triveni Handloom. During 1981 ITC invested 95 million in Ashok Paper and in 1979 it promoted Bhadrachalam Paperboard. But inspite of all these businesses BAT had been investing heavily in cigarette till 1975. (*Refer Exhibit 7 for the investment of BAT/ITC in different businesses*).

For the current study BAT case was selected from 51 foreign companies that have invested in India prior to 1991. Among the many foreign companies in India, BAT seems to show some interesting business activities that many others firms can learn from it. The case of BAT has been selected on the basis of different parameters, through which the historical location and financial condition of BAT can be identified in a particular framework of time, which further leads the company towards a futuristic orientation to different objectives.

In this process they have invested in main business, invested in subsidiary companies and other related business and in government securities and trade investments. BAT also invested in the value chain of its business by developing and promoting subsidiary, associate and joint venture partners.

BAT in India

In the year 1906 BAT started its business in India, with its first factory in 1907. But immediately after that it has started investing in complimentary part of cigarette. As a result it had invested in all the complimentary parts by 1970. With investment in various sectors they have started capturing government and local management. During the initial period BAT was selling its brand through Dominion Tobacco, but in the year 1910 it set up its own selling unit in India as Imperial Tobacco Co. of India Ltd. But in the later part the name of the company has changed to I.T.C Ltd and further to ITC Ltd in 2001. In the process of Indianization BAT has also decreased its equity from 100% in 1953 to 32.5% in 2002-03. (*Refer Exhibit 8 for the change of ownership from BAT to ITC, 1953-2004*) Further in this process they have also kept most of the Indians, as their top managers. As of today, there are only two BAT executives in the Company's Board of Directors.

By the year 1947 BAT had 121 Indian managers comprising 44% of the management. This tendency develops because of the expensiveness of the British managers after the Second World War, and through this also they could able to satisfy the local people & government. Abdul Rub Sardar Hussain was the first to be inducted as covenanted Indian Assistant on 1, September 1934. The last Englishman, Tonny Drayton, left in September 1979.

Looking at the Indian condition the company has started updating itself. It has institutionalized pension plan in the year 1964. Around the same period Tata Company also implemented pension plan in the country. After independence most of the foreign companies decided to wind up operations in India but BAT has invested heavily. During that period BAT has invested in the areas like Textile, growing & processing of tobacco leaf etc.

ITC/BAT also seemed to have played its role in building the newly born independent India in generating employment in the country. It has started some handloom mills as the subsidiary unit of ITC at Kanpur as head office and Saharanpur as production center, and a showroom at Varanasi. Almost 1800 local people were employed in this process. BAT also invested in the areas like paper, paperboard and hotels later.

FDI and BAT

BAT came to India through the help of FDI policy and started investing in tobacco first and in the related areas later. It has followed the policy of FDI and the five year plans to satisfy government and to make the road clear for itself to the Indian market. In spite of the problem in ownership it has performed a consistent growth in Indian market. With the direction and various regulations of Indian government BAT has reduced the percentage of the ownership in ITC and included local ownership. It has performed well in terms of market share, profit before depreciation interest and tax (PBDIT), and profit after tax (PAT) (*Refer Exhibit 9 for trend in sales, PBDIT and PAT*).

Looking at the Indian condition the senior managers & executives were decided that they will go for investing in all the related areas of tobacco. Started a factory in 1907 the company was invested almost all the related areas of tobacco by the year 1970. Post-independence India was just like a fresh and newly emerging market for them, for that they have started experiment in that market. by Looking at the various dynamics of the market.

By 1953, BAT had reorganized its business holdings and added to its asset shares of its competitors like Vazir Sultan and All India Tobacco In the post independence period ITC, the subsidiary of BAT has invested in main business as well as in the complimentary business. ITC has invested in the complimentary business mostly during the 1960s-1970s. And by 1975, BAT held all its business interests through ITC Ltd. Finally by 2002; BAT bought all its businesses in India under a single entity, Tobacco (manufacturer) India. With the increasing number of Indians in management, it could also be able to satisfy the government and the local management. Due to the Indian managers in ITC, it lobbied with the Indian government for the continuation of cigarette and tobacco business in India.

Given the nature of its business and the worldwide opposition to tobacco, the company has successfully managed to create a system by which the local managers and stakeholders to guard the business. Although throughout the world due to FDI many companies have started their business in various parts of world, but among them some are able to maintain the pace and space for their business. Among those successful companies ITC/BAT is a live one. Due to FDI countries like India has changed their rules and regulations for the foreign companies but companies like ITC/BAT adopt itself according to the changed conditions. (*Refer Exhibit 10 for the detailed activities of ITC*) Does this imply that “*Change is the Unchangeable law of nature*” and if you want exit accordingly; you have to adapt yourself according to the changing nature or time.

BAT & Indian market

To capture the Indian market ITC/BAT has made some experiments. These experiments include (a) marketing (b) sales (c) social responsibility. Much before BAT came to India, the business of leaf tobacco was quite prevalent in India. BAT did not have it easy to capture the Indian market. But much of the production and selling was local. Only a few people used granulated tobacco. Looking at the condition BAT set up tobacco re-drying machines at various places and set up a business unit named as Indian Leaf Tobacco in 1912. And finally it has set up its first selling unit as Imperial Tobacco Co. of India. From the early years BAT has started encouraging and supporting art, sport, weaving, farming and the other social development activities. It has also been associated with several community based development projects. Recently ITC has started a programme for the farmers of India, which can serve up to 600 farmers from nearly 10 villages within a radius of 5 km.

During the period some of the companies like Imperial Tobacco, Dominion, Arcadian, and Peninsular Tobacco are there in market. But BAT worked for the procurement of the leaf tobacco and building awareness among the people for the granulated tobacco.

In the year 1908 it had set up tobacco re-drying machines in Shahpur and Khajauli and later one at Dal Singsuai in 1912. A new business unit was set up in the year 1912 for the purchase, distribute and the trade tobacco leaf. It was named as Indian Leaf Tobacco Division (ILTD) and subsequently became a part of ITC Limited. It has started advertising of its products in various ways.

As a part of marketing & advertising strategy it has implemented selling units in India as Imperial Tobacco Co. of India Ltd, and has started giving free samples in the range of 50,000 - 100,000 cigarettes per district per month. It has organized lucky dips and cigarette shies in regular stalls, weekly haats and occasional meals were also being organized to popularize cigarette smoking.

BAT has launched an aggressive campaign to promote its Benson & Hedges brand. In Bombay (now Mumbai), young people with black and gold t-shirts roam the city's streets distributing free packets of cigarette at bars, colleges and even playgrounds. The company has also organized rock concerts with popular local performers where its logo is prominently displaced.

(Source: Country Case Studies: India, October 1998)

After the ban on cigarette advertising the company had engaged itself in the promotional campaigns by sponsoring several art, music and sport activities and later it has started its own retail outlets for selling of products as Lifestyle. To advertise the product, expand the business and to capture the whole Indian market ITC has started investing in various other fields. Those sub fields helped ITC for its brand promotion and to adopt itself according to the market and societal mechanism.

Approach towards Market

BAT has applied a different kind of approach towards the Indian market. It has started capturing the minds of the Indian people and government. It has invested in sectors like Textiles, tobacco leaf processing and leaf growing, export etc. The company has steadily invested in its main business initially but during 1960-70s investment in related areas are mostly been undertaken. The movement of the company from one sector to other makes it very live in the market.

As a part of its business approach ITC/BAT has started investing in areas like developmental sector and employment for the Indian youth and has ingeniously integrated its objectives with the India's national objectives.

This emotional attachment of BAT with India and its people gave the company a higher rate of growth and able to fulfill various characteristics, which may play a vital role in the long run for the development of the firm. These approaches can play a vital role in market for the betterment of business activities. But the only thing is to follow these approaches in a regulated/specified manner. All these approaches are in a teleological order. In the case of BAT, they have followed it in a specified manner but the same manner may not be applicable for all companies.

Through these business approaches BAT/ITC perform other business in support of its main business, and it has not only invested in the core/main business but also invested in the related areas like the areas by which the goals of both the firm and the host country will be achieved.

BAT was engaged in various other businesses with its main business as cigarette manufacturing. It has started its business as a cigarette manufacturer but in course of time it has moved into various components of cigarette. The movement of BAT may be regarded as a strategic move from the historical perspective of business. Apart from cigarette it was also engaged in other kinds of business. This engagement with different kind of businesses placed the company in such a position, which can be visualized from the larger framework of business. If we will put BAT in that framework of business then it will occupy its place according to business it has performed and characteristics. The structural location and functional identification may be regarded as the factors which were responsible for the establishment of BAT, later ITC in a dynamic and vibrating market like India. But whatever may be the case, the story of BAT and BAT to ITC is really interesting and the path traveled by the company is an example for the young entrepreneurs.

Questions

1. What were the problems in the early years of operation in India?
2. Why did BAT begin its manufacturing in India in the early 1900s?
3. How did the company invest its limited resources in the Indian market?
4. What have been major direct investment strategies of BAT?
5. Does it make sense to invest in areas other than the areas of core business?

Exhibit 1 BAT Investment and Shareholding Pattern, 1910s

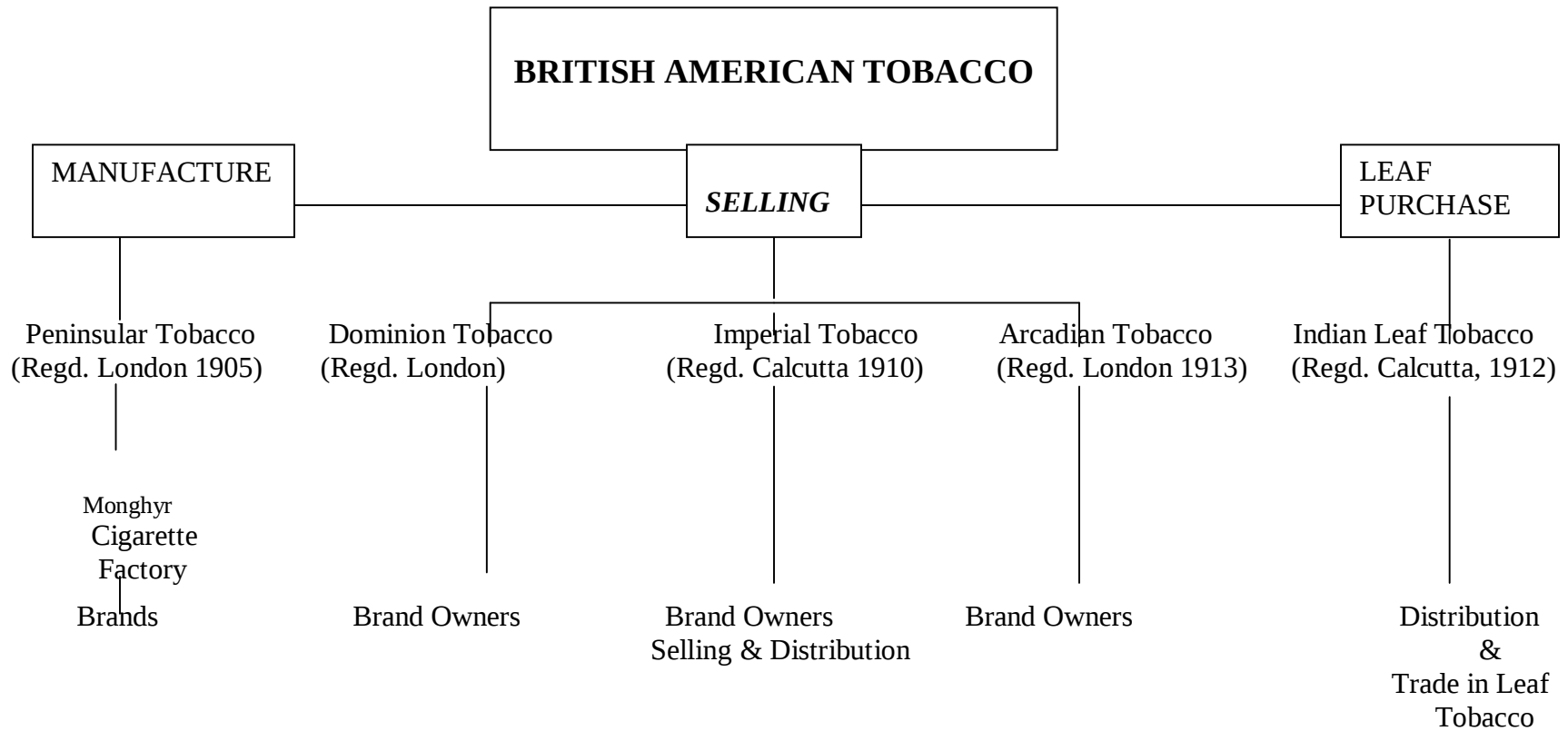


Exhibit 2 BAT Investment and Shareholding Pattern, 1953

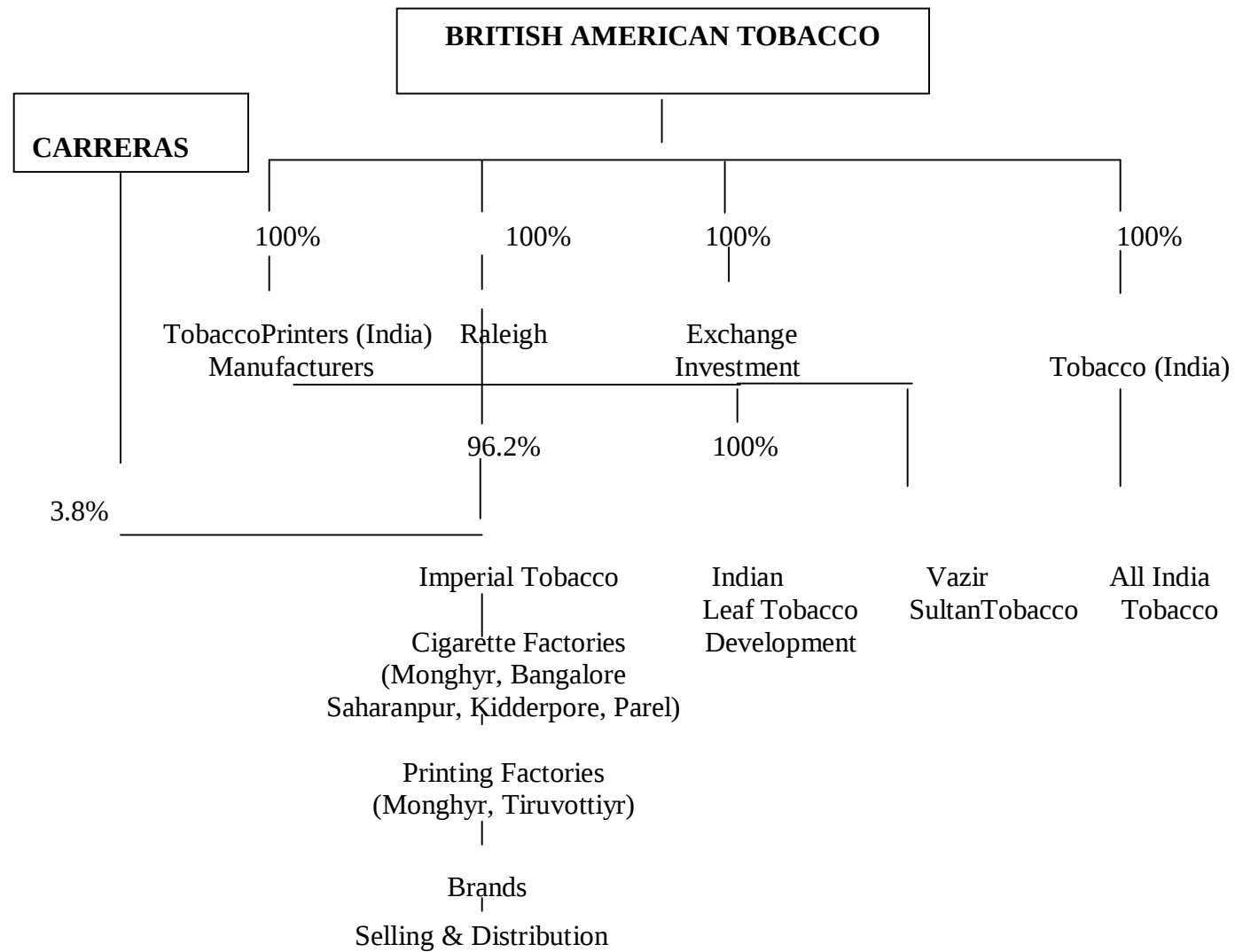


Exhibit 3 BAT Shareholding and Investment Pattern, 1975

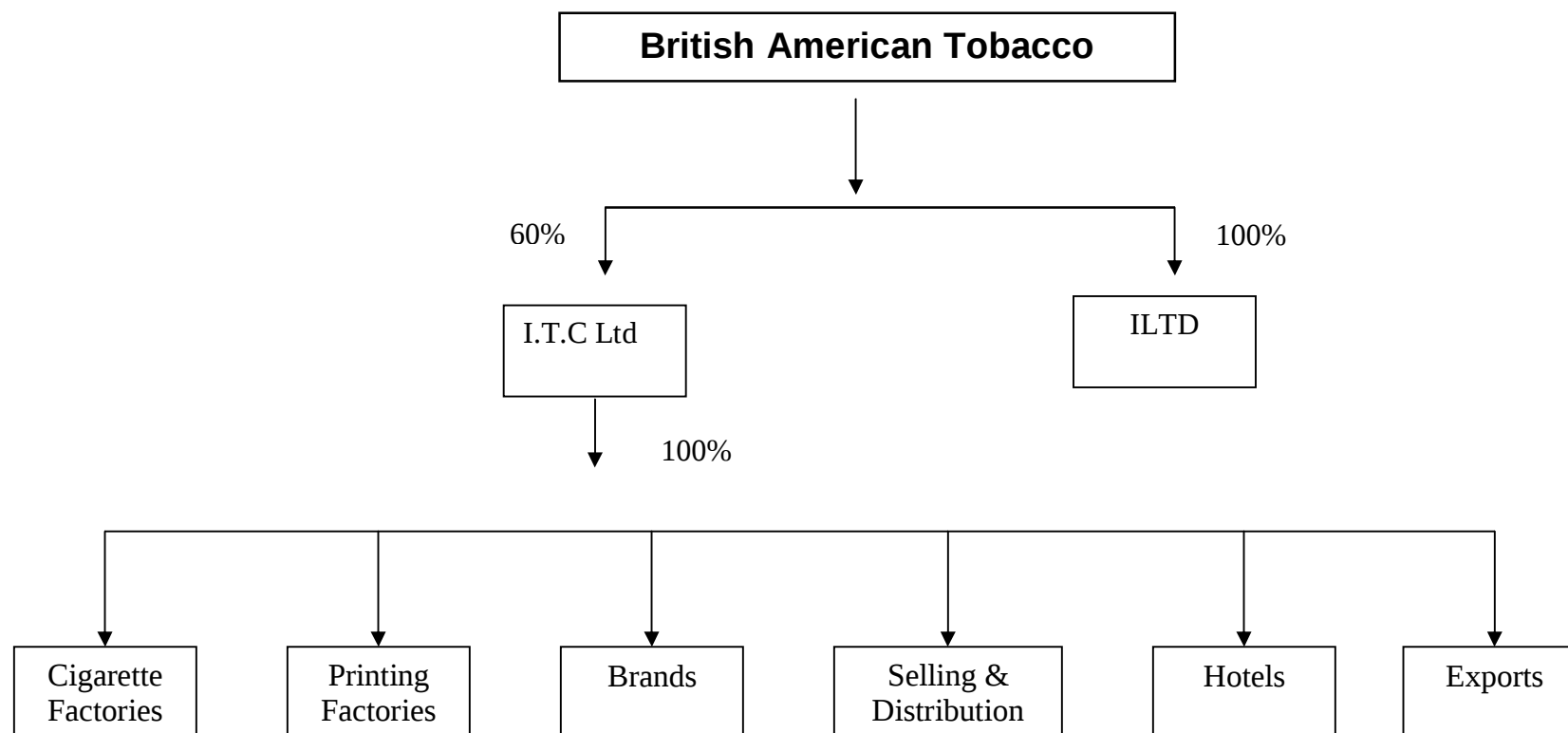


Exhibit 4 BAT Investment and Shareholding Pattern, 2004

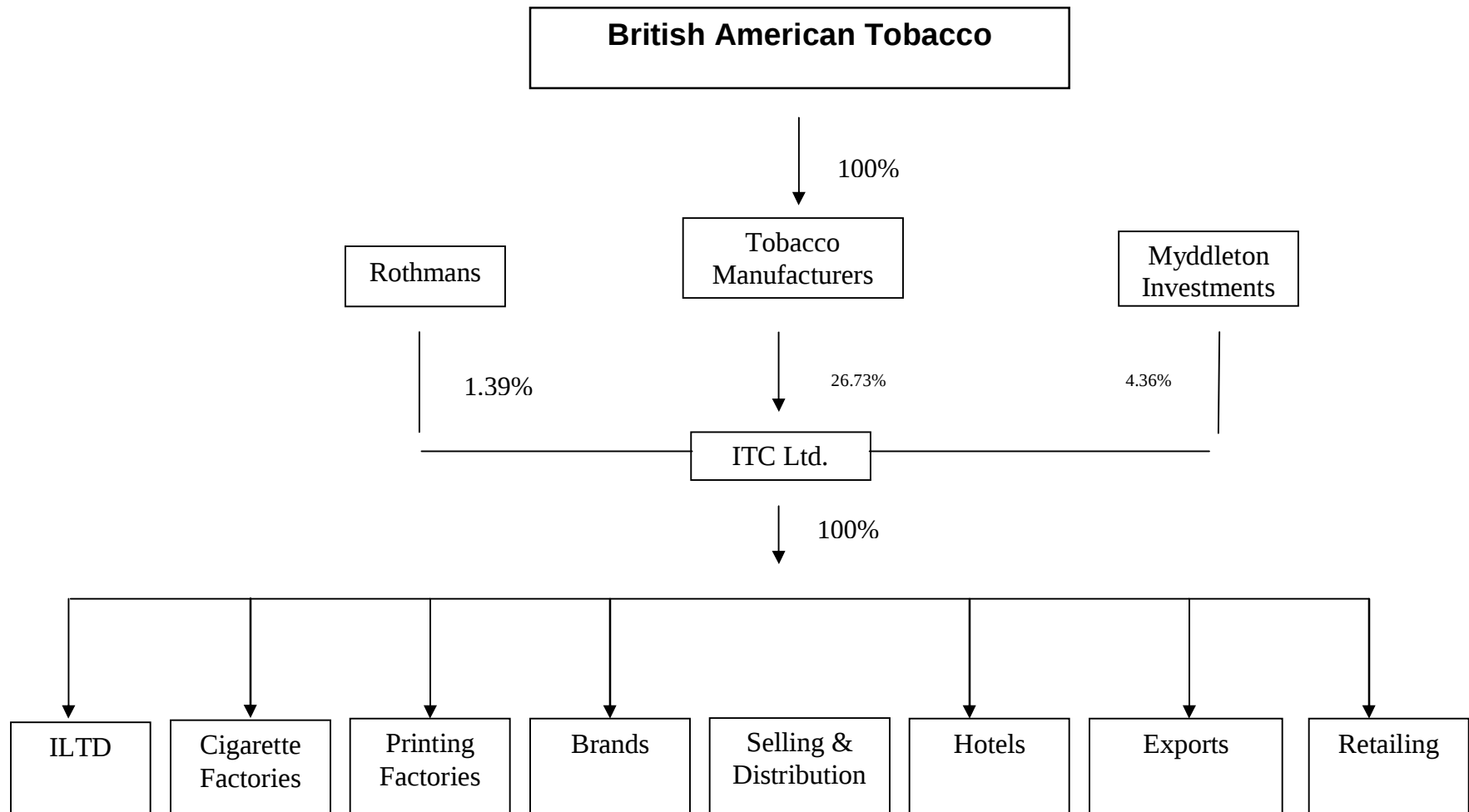


Exhibit5

Year	Cigarette		Tobacco Leaf	Printing and Packaging	Duplex Board	Paper	Aluminum Foil	Cigarette Making Machine	Fiberboard Container	Filter Rods	Exports	Agro- business
	Selling	Mfg.										
1906												
1907												
1912												
1925												
1939												
1944												
1954												
1960												
1963												
1969												
1971												
1990												
2004												

Exhibit 6

Branch Location of Different ITC Businesses

Business Function	Locations
Cigarette	
Sales Branches	Jullundur, Delhi, Kanpur, Patna, Jalpaiguri, Gauhati, Ahmedabad, Jabalpur,
Cigarette Factories	Saharanpur, Monghyr, Kidderpore, Parel, Bangalore, Bangalore(N),
Printing & Packaging	Monghyr, Tiruyottiyur
Tobacco	
Production	Kidderpore, Parel, Saharanpur, Monghyr, Bangalore
Marketing	Calcutta, Bombay, Delhi, Madras, Patna, Gauhati, Ahmedabad, Jabalpur,
District Offices-Marketing	Bombay(W), Calcutta(E), Delhi(N), Kanpur©, Madras (S)
Research	Bangalore
Tobacco Leaf	
Main Offices	Calcutta, Guntur, Mysore
L. P. Plants	Anaparti, Chirala
Research	Hunsur, Rajahmundry
Leaf Buying & Handling	Andhra, Gujarat, Karnataka
Life Style Retail Outlet & Stores	
Retail Outlet	New Delhi
Stores	<i>Club Stores:</i> New Delhi, Kolkata, Gurgaon, Bangalore, Coimbatore,
Design & Technology	Haryana

Source: ITC Ltd., Annual Reports, 1955–2004

(Exhibit 7) BAT/ITC Investments in Different Businesses: ITC Annual Report 1955-2004

Year	Main Business	Complementary	Others
1955	35.5	0.41	2.97
1956	109.3	0.06	9.49
1957	113.1	0.06	11.22
1958	83	1.36	7.34
1959	83.9	1.33	3.24
1960	86	0.37	7.25
1961	127	0.34	12.18
1962	129.5	0.32	4.25
1963	87.7	0.29	4.31
1964	91.4	0.27	0.63
1965	149.1	0.24	2.7
1966	156.7	0.22	1.08
1967	166.7	0.19	1.23
1968	180.7	0.73	1.13
1969	202.2	0.71	1.19
1970	219.8	2.98	0.68
1974	257.4	1.08	0.79
1975	310.1	1.11	0.99
1976	363.1	1.126	1.526
1977	445.3	1.061	1.518
1978	533.3	28.086	1.517
1979	575.1	39.005	1.607
1980	598.8	38.97	2.336
1981	656.9	42.17	3.263
1982	759.1	42.3	4.4
1983	1891.5	74.7	162.5
1984	1930.2	56.6	466.7
1985	1980.8	57.8	482.1
1986	2289.3	88.9	482.5
1987	2362.2	94.21	378
1988	2524.3	101.21	12.5
1989	2638	101.3	0.4
1990	2988	131.3	371
1991	3509.9	366.51	371.3
1992	4535.8	472.2	371.7
1993	5622.8	840	280
1994	7119	1995.1	565.8
1995	8297.9	2536.6	779.2
1996	9436.4	2660.9	779.1
1997	12741.5	3260.6	275.2
1998	14386.3	3895.8	273.1
1999	17183.1	9845.7	1019.6
2000	21454.9	10113.6	26.7
2001	26680.8	10310.8	26.3
2002	40818.5	8308.4	62.6
2003	44156.1	7071.8	6738.1
2004	50546.8	9178.2	19257.9

Exhibit 8

ITC Equity Holding, 1953 – 2004

Year	Foreign	Institutional	Indian Public	FII	GDR	NRI
Until 1953	100%	--	--	--	--	--
1954-64	94%	--	6%	--	--	--
1964-69	94%	1%	5%	--	--	--
1969-74	75%	10%	15%	--	--	--
1974-76	60%	18%	22%	--	--	--
1976-84	40%	30%	30%	--	--	--
1984-85	38%	32%	30%	--	--	--
1985-86	31%	32%	36%	--	--	--
2002-03	32.5%	38.38%	14.9%	9.62%	3.09%	0.7%

Source: ITC Ltd., Annual Reports, 1955-2004

Exhibit 9

Annual Sales of ITC and its Competitors, 1991–2003

(In million INR)

Year	Asian Hotels Ltd.*	Bharat Hotels Ltd.*	Hotel Leelaventure Ltd.*	Indian Hotels Co. Ltd.*	E I H Ltd.*	G T C Industries Ltd.*	R D B Industries Ltd.*	Ruchi Soya Inds. Ltd.**	Sun Paper Mill Ltd.**	Godfrey Phillips India Ltd.***	V S T Industries Ltd.***	I T C Ltd.***	Total Market	ITC's Share
Dec-91	310.9	255.4	213.3	1562.8	901.6	2525.7		353.5		5325.2	4298.6	22864.9	38611.9	59.22
Dec-92	330.5	348.4	329.9	2032.2	1267.5	2480.1		987		7005.9	5421.1	29721.7	49924.3	59.53
Dec-93	411.6	416	512.4	2381.4	1616.1	2667.3		1245.4		6943.2	6063.3	37441.1	59697.8	62.72
Dec-94	570.1	467.4	726	2937.2	2098.7	2952.4	15.9	2391.9		6712.3	5708.4	42138.2	66718.5	63.16
Dec-95	893.2	631.6	835.1	3725	2745.3	4001.1	275.9	3385.5	394	7523.4	6396.3	45603.6	76410	59.68
Dec-96	1350.2	814.9	1246.1	5243	3988.3	6394.9		6962.8	507.6	7843	6104.7	51351.6	91807.1	55.93
Dec-97	1660.4	937.6	1309	5768.2	4447.2		204.4	9616.3		8772.3	5682.4	58687.7	97085.5	60.45
Dec-98	1500.6	910.5	1143	5956.5	4372.7	5108.2	179.6	13071.1		10146	6473.7	68509.3	117371	58.37
Dec-99	1355.6	671	1216.8	6032.8	4422.3	3797.6	149.5	17251.3	458.2	10471.7	7054	75992.4	128873	58.97
Dec-00	1158.8	665.3	1220.3	6186.8	4229.4	4148.7	192	19212.3	467.1	10826.3	7463.8	79719.4	135490	58.84
Dec-01	1166.3	660.3	1225.1	7067.7	4795.1	4627	197	25949.9	561.4	9925	7563.7	86997.5	150736	57.72
Dec-02	926.6	557.5	866.4	6001.5	3759.9	3626.6	231.8	28404.5		9447.4	6807.8	98491.6	159122	61.9
Dec-03	1066.6	745.9	1344.2	5852.4	3840.9	3342.6	166	34092.3		10802.2	6683.6	110284.1	178221	61.88

Source: Centre for Monitoring Indian Economy

- * refers to hotel business
- ** refers to packaged food business
- *** refers to cigarette and tobacco business

Exhibit 10 ITC Ltd., Mission, Scope and Contents of Activities and Accomplishment, 1969–

NATIONAL ECONOMIC POLICIES	ACTIVITIES	INDUSTRIES' PRODUCTS
1. <i>Employment-Livelihood</i> § Educated – uneducated § Urban – Rural § Direct – Indirect 2. <i>Investment & Development</i> § Core § Priority Areas § Overcome Shortages § Backward Area Development 3. <i>External Resources-Conservation</i> § Earning Foreign Exchange § Bilateral Trade § Self Reliance § Self Sufficiency 4. <i>Economic Activity – Competition</i> § Promoting Small-Medium Scale § Promoting Ancillaries § Promoting Self-employment § Employment 5. NATURAL RESOURCE UTILIZATION § Rural § Sea –2000 Mile Coastline 6. <i>Public – Consumer Service</i> 7. <i>Domestic Resources – Exchequer</i> § Direct Tax Revenue § Indirect Tax Revenue	1. <i>ITC Ltd – Division</i> § ITC-HO-HQ as Investor – Central Services § ITC –India Tobacco Division § ILTD – Indian Leaf Tobacco Div. PPD-Packaging Printing § Real Estate & ITC Centre § Information Services – Electronic Data Processing – Computers § Marketing & Exports & Imports § GLT § Machine Construction § Technical Training Centre § R & D – Integrated Research Centre-Bangalore § Rajamundry Agronomic Research Auto Analysis–Experimental Farms § Hissar-Agronomic – Experimental Farms § Welcome D Group Hotels § Garments (Entrepreneurial Dev.) § Mehfil (Pan Masala – Dry Pan etc.) 2. <i>Wholly-Partly Owned Subsidiaries</i> § Delhi & Orient Tobacco Ltd § All India Tobacco Ltd. § Finance Investments Ltd. § Sage Investments Ltd. § Summit Investments Ltd. § ITC US Ltd. § HIMEC Ltd – Mktg-Import-Investment-Export-Consultancy § CS-Calcutta Cold Storages 3. <i>Companies Promoted</i> § Bhadrachalam Paper Boards Ltd. § Tribeni Handlooms Ltd. § Tufftools Ltd (Later sold) § CPA Consultants share registrars § Travel House Ltd. § Coronet Hotels & Supplies Ltd (not activated) 4. <i>COMPANIES-ACQUIRED-INVESTED IN</i> § Roll Print § India Cements (2) § Ashoka paper (4) § Coates of India (Inks) § Alfit Corp. (sold out later to partners) § Surya-Tobacco-Negotiated-1980 5. <i>ANCILIARIES</i> § 144 Units § Shopping Arcades	1. <i>Tobacco</i> § Cigarettes § Leaf § Exports § Machine Const 2. <i>Packaging</i> § Printing § Flexibles § Systems § Inks (Invest) 3. <i>Paper</i> § Board § Papers § Pulp (Ashoka) 4. <i>Tourism</i> § Hotels § Travel Trade § Specialty § Restaurants § Overseas Hotels 5. <i>Marine PS</i> § Fish Exports § Prawn Exports 6. <i>Real Estate</i> § ITC Centre § Housing 7. <i>Construction Materials</i> § Cement 8. <i>Services</i> § Information (Export) § Share Registrars § Marketing § T & D § R & D § Cold Storage 9. <i>Entrepreneurial</i> § Carpets-Exports § Garments-Export § Tools Export 10. <i>Marketing</i> § Tea § Tobacco 11. <i>Agro-based</i> 12. <i>Soya-Beans</i> 13. <i>Development</i>