Competitive Advantages of Giants in the Global Cigarette Industry after the 1980s

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Multinational enterprises (MNEs) play an important role in development of economic globalization. There is a vast amount of literature on MNEs. Much of previous literature has revealed that foreign direct investment (FDI) can be critical to development of MNEs (Lall, 1995; Caves, 1996; Jones, 2005), that MNEs entail the competitive advantages of ownership and location as their motives to internationalize (Dunning, 1977, 1979, 1993), and that there is a trade-off relationship between global integration and local responsiveness in shaping MNE strategies to compete around the world (Doz, 1980; Porter, 1986; Barlett, 1986; Ghoshal, 1987). The nature of the advantages that MNEs can use to internationalize varies depending on regions and industries where they play. Furthermore, recent research has argued that the host country characteristics, such as market conditions, business systems and institutions, influence the degree of strategic and organizational characteristics of MNEs (Harzing and Sorge, 2003; Fortanier, 2007; Kraemer and van Tulder, 2009), and that the responsiveness to the local contexts becomes more significant than global integration in the global economy (Meyer et al., 2011). In addition, MNEs that can manage and leverage the experience and capabilities in host countries produce the differential resource accumulations and thus the competitive advantages according to their respective historical paths (Doz and Prahalad, 1988; Jones, 2005; Manning et al., 2011).

The cigarette industry is the typical one that has been developed by MNEs (Cox, 2000). Competition based on economies of scale between cigarette manufacturers has been keen and resulted in an oligopoly since the early industry life cycle (Tennant, 1950; Alford, 1973; Chandler Jr., 1990). The more the global economy develops, the more leading cigarette manufacturers expand around the world. Global cigarette consumption has increased especially in developing countries for the last few decades. Cigarette production noticeably shifted from the western to the eastern part of Europe between 2000 and 2010. The cigarette giants, Philip Morris International (PMI), British American Tobacco (BAT) and Japan Tobacco (JT), which hold about 68 per cent of the world cigarette markets (excluding data on

Chinese cigarette manufacturers) in 2009, briskly enter into such countries through merger and acquisition (M&A).

By making a comparative analysis of the three-pronged investment of the cigarette giants, this research aims to examine what are the competitive advantages of the big three in the global cigarette markets. In addition, by exploring the history of the big three, this research attempts to clarify how their competitive advantages that led to differences in their strategies have been created.

This study explores the competitive advantages of the cigarette giants by examining their annual reports on production, marketing and management after 1985 when JT was privatized. First, by exploring that their production strategies depend on local responsiveness or global integration, this paper aims to show different patterns of the advantages emerged among the giants. More concretely, by exploring geographical dispersion of manufacturing factories, productivity and R&D activities of the giants, this paper tries to clarify their motives to internationalize. Secondly, by comparing the number and share of their global brands, operating profit margin and promotion activities among the giants, this paper attempts to show their positions in the global cigarette markets. Thirdly, by investigating their business structure and the number and ratio of management with different nationalities and external management experience, this paper indicates the extent of their local responsiveness and global integration. By comparing the three-pronged investment of the giants, this research found the fact that JT is in a position to relatively require global integration while BAT is under the strongest pressures for local responsiveness, and that PMI puts itself in a multifocal position.

In addition, this research discusses how their competitive advantages that determined the differences in such strategic positions emerged by exploring the archival records of the giants. Especially, this paper focuses on historical development of JT which has retained an integrated product strategy in the global economy.

JT's history in Japan dates back to 1898, when the government formed a monopoly bureau to sell domestic leaf tobacco. In 1905, the government extended this monopoly to all tobacco products and to the salt business in Japan. In 1949, the monopoly bureau in Japan was incorporated as Japan Tobacco and Salt Public Corporation (JTS) to support the stable supplies and tax revenues for the government. In 1981, the first changes to the Japanese monopolies and public corporations were proposed to the government and the relevant legislation passed three years later. As a result, in 1985, JT was founded and took over the business operations and assets of JTS. Although the government monopoly was abolished, the government as a largest shareholder still influenced the corporate governance of JT. As a result, the government participation in JT built a high entry barrier against overseas rivals for the Japanese tobacco market.

After the privatization of 1985, JT that has been faced with maturity of the domestic market since the 1970s took a positive attitude toward M&A in order to obtain its access to the local distribution channels around the world. For example, in 1992, JT acquired Manchester Tobacco to manage the first experience and capabilities in host country. JT acquired the non-US operations of R.J. Reynolds to establish Japan Tobacco International (JTI) as an overseas division of JT in 1999, and also acquired Gallaher in 2007. Moreover, JTI embarked on vertical integration into the tobacco leaf supply chain in 2009. Thus, JT obtained globally well-known cigarette brands through the M&A, and rapidly grew as one of the big three in the global cigarette industry.

The JT's history shows that the characteristics of ownership advantages depending on the home market allowed JT to increase its spread of international markets. As a result, the integrated strategic and organizational characteristics of JT imply that of an international company rather than that of multinational or transnational companies (Robinson, 1984, 1997).