STRATEGIC RESEARCH OF YUNNAN CIGARETTE ENTERPRISES’ MULTINATIONAL OPERATION

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EXECUTIVE SUMMARY

Tobacco industry is the pillar industry of Yunnan province, it plays a vital role in Yunnan’s economy. Yunnan cigarette enterprises are the leader of domestic market. With the economy developing, the opening of domestic cigarette markets has attracted other foreign competitors.

As we know, nowadays China’s cigarette enterprises are protected by tobacco monopolization system. The major competitors to Yunnan cigarette enterprises are Shanghai tobacco group, Hunan tobacco group and Guangdong tobacco group. If the tobacco monopolization system is abolished in the future, Yunnan cigarette enterprises (YCE) will face challenges from domestic and foreign competitors.

Now there are only a few researches about Yunnan cigarette enterprises multinational operation, instead, they have been emphasizing more on how to improve Yunnan cigarette competitiveness and how Yunnan’s tobacco industry strengthen their leading position in domestic market after China joined the WTO. Because of the lack of systematic research about how YCE can learn from multinational tobacco giants about their success, I want to find some strategy for Yunnan cigarette enterprises to go for multinational operation.

In recent years, Yunnan cigarette industry came up with an integration trend, multinational operation to Yunnan cigarette enterprises is necessary and significant. Emphasizing Yunnan enterprises as a group to expand the oversea market is not only foresight but also a practical significance.

1. INTRODUCTION

Since 1998, the domestic cigarette market tends to be balanced and the supply-demand relationship change from demand exceeds supply to oversupply. Due to the supply-demand relationship change, market mechanism showed a strong restrain affect. The local government established some tobacco exclusive institution to protect their local cigarette enterprises. The regional protectionism leads to market segmentation, imperfect competition restrict the development of Yunnan cigarette enterprises. Yunnan tobacco lost intrinsically its raw material advantage, geographical advantage and technological advantage. Fortunately, the domestic tobacco industry reformation and international tobacco marketing brought a new chance to Yunnan cigarette enterprises. In 2008, merge and restructuring become a new trend, after restructuring as Hongyunhonghe tobacco group and Hongta tobacco group the Yunnan cigarette enterprises improved their comprehensive strength.

Yunnan province is located in the southwest border of China, because of adjacent to the Southeast Asian countries it has a
geographically advantage. Especially the Mekong River, the most important river in South-Asia flowing through China, Myanmar, Laos, Thailand, Cambodia and Vietnam, it offers a vast market over 450 million South Asia population. China – ASEAN trade zone program and Mekong sub-regional economic cooperation offers a great chance for Yunnan cigarette enterprises to sell their products around its province such as Laos, Myanmar etc.

With a view to its own development of Yunnan, after a long time of development, Yunnan tobacco industrial foundation and economic strength leads ahead of other industry, the tobacco industry plays an important role in Yunnan’s economy. It plays a key role to sustain Yunnan’s and its growth. As a result, YCE is not only to further enhance the competitive advantage in the domestic market, but also to actively participate in international competition to expand the market, through multinational operation to expand its raw material and geographical advantages, they constantly need to improve their own competitiveness in the global tobacco market to make a contribution to Yunnan province economy.

**RESEARCH OBJECTIVES**

- How the multinational tobacco enterprises go for transnational operation?
- What are their successful experiences?
- What kind of reference and enlightenment Yunnan cigarette enterprises can get from the tobacco giants?

**RESEARCH SIGNIFICANT**

China is the world's largest cigarette producer and consumer the cigarette production and sales occupy one third of the world cigarette production and sales. YCE production and sales occupy 20% of domestic market. In the past years, China tobacco focus on establishing a larger cigarette enterprises, larger market and famous brands, Yunnan cigarette enterprises also spend a lot of its resources on domestic competition. Now there are only a few researches about Yunnan cigarette enterprises multinational operation, instead, they have been emphasizing more on how to improve Yunnan cigarette competitiveness and how Yunnan’s tobacco industry strengthen their leading position in domestic market after they joined the WTO. Because of the lack of systematic research about how YCE can learn from multinational tobacco giants about their success, I want to find some strategy for Yunnan cigarette enterprises to go for multinational operation. In recent years, Yunnan cigarette industry came up with an integration trend, multinational operation to Yunnan cigarette enterprises is necessary and significant. Emphasizing Yunnan enterprises as a group to expand the oversea market is not only foresight but also a practical significance.

**2. LITERATURE REVIEW**

To support this research, this section reviews the concepts or theories and related research as following:

- **Globalization**
  Globalization is the worldwide trend of business expanding beyond their domestic boundaries. Globalization means that the world is becoming one connected economy in which companies do business and compete anywhere and with any-country can become a competitor. Consequently, companies can no longer afford the luxury of assuming that success in their home market equates to the long-term profitability—or even survival.

  Companies that remain “domestic-only” market—that is, companies that do business only within their own country—are already falling behind their multinational competitors.

- **Multinational company**
Multinational management is the formulation of strategies and the design of management systems that successfully take advantage of international opportunities and respond to international threats. Successful multinational managers are executives with the ability and motivation to meet the beat the challenges of multinational management.

Multinational management takes place in the multinational company. The multinational company is broadly defined as any company that engages in business functions beyond its domestic borders. This is a broad definition, which includes all types of companies, large and small, that engage in international business. Most multinational companies, however, are also multinational corporations—the companies are publicly owned through stock. Most often, the largest multinationals are all public corporations. Smaller multinational companies are often privately owned, but many of their business activities may be conducted outside their own country. Smaller, nonpublic multinational companies are also becoming increasingly important as it becomes more common for smaller organizations to compete globally.

- **Models of multinational enterprises**
  The new agenda emphasizes dynamic issues. It highlights the uncertainty that is that is generated by volatility in the international business environment. To cope with volatility, corporate strategies have to be flexible, and flexibility can be achieved by several means. New dimensions of corporate strategy therefore have to be recognized. Efficient information processing is crucial to cope with the resultant increase in the complexity of decision-making. This has important implications for the organizational structure of the MNE, and for the motivation of its managerial employees. The new agenda spells out these implications in a rigorous fashion.

3. **COMPETITOR ANALYSIS OF GLOBLE CIGARETTE MARKET**

- **The current situation of tobacco industry**
  Today the world tobacco market is controlled by several major multinational tobacco companies and the trend become increasingly apparent. Philip Morris International Inc., British American Tobacco Company, Japan tobacco Inc., and Imperial tobacco these four of the world's largest tobacco companies take the share of 70% in international market (except China market). In 2013, the world cigarette market keep on growth state, about 67.6 million cases of cigarette sale legally. The vast majority of cigarette consumption decreased compared to the developed countries, but most of the cigarette consumption in developing countries continues increase. Eastern Europe, the Middle East and Africa (23.7 million cases), Asia (23.64 million cases expect China), EU (9.65 million cases). Some countries and regions of cigarette sales is larger, China (47.5 million cases), the United States (5.46 million cases), Russia (6.84 million cases), Japan (3.852 million cases), Indonesia (6.166 million cases), India (2.34 million cases). This is the main world cigarette consumption, among that the cigarette production and sales of China is the largest in the world.

- **The analysis of domestic tobacco companies controlling the market**
  Under the multinational tobacco enterprises global strategy ambitions, there are still many companies controlled by the domestic market in Asia. For example, the Thailand tobacco monopoly company owns 80% of Thailand market share. South Korea KT&G Corporation owns a 70% market share. The Lebanon tobacco monopoly company owns more than 75% of the market share. Iran tobacco companies own a 67% market share.
In fact, even in Europe the earliest invasion areas by multinational enterprises still have many market shares of countries controlled by local cigarette company. The Danish skandinavisk Tobakombo owns 96.6% market share. The Slovakian International Tobacco occupies most of the domestic market.

- The internationalization strategic analysis of multinational tobacco giant
In the world of cigarette, three major multinational tobacco companies (Altria, BAT and Imperial Tobacco) hold the unchallenged dominance. In 2013, the FT Global 500, listed these three tobacco companies as respectively under the world ranking 31st, 55th and 253rd, these three companies control 51% of the market share. The multinational tobacco companies can achieve today’s success not by accident, but through a long term systematic comprehensive implementation of internationalization strategy to achieve their goal. The international tobacco giants’ internationalization strategies mainly consist: Mergers and Acquisitions restructuring, Strategic Focus Shift etc.

Through the hundred years of evolution of the world tobacco industry and its constant development, we now find multinational tobacco companies, they do not mainly depend on exports and foreign investment to grab share overseas, through mergers and acquisitions to expand scale and be stronger. Imperial Tobacco group through transnational merger and acquisition in 10 years, from annual average cigarette sales is about 40 billion regional companies and now it is the third largest tobacco company. JTI also didn’t depend on cigarette export and now it is the fourth largest tobacco company, through investing $7.8 billion acquisition of Reynolds Tobacco Company in the United States in 1999 to be one of the tobacco giant.

4. STRATEGIC ANALYSIS OF YUNNAN CIGARETTE ENTERPRISES MULTINATIONAL OPERATION

- Motivation analysis of YCE multinational operation
  - The pressure of international competition
  - Domestic competitive pressures
  - Experiences multinational operations

- Strategy of entry international market
Enter ways of YCE go for multinational operation should concrete from the following analysis:

1) Export
It is the primary way of multinational business, exports can be defined into direct and indirect export.

2) License
License is the licensor sign the license agreement with licensee to use the patent, proprietary technology, equipment, process, trademark or other intellectual rights of this licensor. The licensee can production and sales the licensor’s products, the licensor will take some profit from the licensee’s sales profit. Ways of license including: exclusive license, sole license, simple license and resell license, etc.

3) Contract agreement
Contract arrangement is also called non-equity arrangement, this way is all kinds of joint venture based on the contractual management. It is widely used as an international market enter way since the 1970s, in, the enterprise no equity investment in the host country enterprise, but by the non-equity investment control of the host country enterprise
technology, management, sales channels or some other resources. Contractual arrangements including manufacturing contract, engineering project contract, management contract, labor export contract and so on.

4) Direct investment
Direct investment means that by control the host country enterprise equity participate the host country enterprises’ production, operation and management directly, direct investment is the senior way of transnational operation, it is also a mature mark of enterprises transnational operation, but direct investment take a high risk and inflexible, it is hard to management.

➤ Measures
1) Decide target international market
According to the multinational operation strategy of China national tobacco monopoly bureau, YCE international target market is developing country, mainly concentrated in Europe, Central and South America, Southeast Asia. By maintaining existing general export brand, strengthen the monitoring of the target market. On this basis, actively looking for direct investment opportunities, achieve the goal of open oversea cigarette factory. Only in this way can achieve in the true sense of transnational operation, further control of a specific target market and cultural infiltration, also can guarantee of protected the technical secret and product quality. In addition, enhance the proprietary controllable network construction. After nearly 20 years simple way of export process, the YCE in some of the target market had a certain sales network and brand foundation, in order to achieve the future goals, its controllable sales network set up is important. Because, even after successful set up overseas factory, without their controllable sales network, the products seemed to lack of support channel, it will be a disadvantage for go further.

2) Seeking for government support
When YCE multinational business entering the international market, often faces some policy barriers are difficult to solve by themselves, so need to seek government support actively.

3) Human resources management
During the process of the an enterprise growth, human factors are always essential factors, widely absorbs international talents, and actively implement diversified human resources management, strengthen the enterprise talent team construction, it is very important practice and experience in multinational tobacco companies implement oversea strategy.

4) Risk management
In the process of transnational operation, every multinational tobacco companies will inevitably encounter from market, politics, law, management, technology, culture and other potential risks. So, the company established a set of relatively complete mature risk prevention system from organization, mechanism and management, etc.

5. CONCLUSION
This research is work for analysis Yunnan cigarette multinational operation strategy, in my opinion as the leading cigarette enterprise of China, YCE should try shifting their focus from domestic market to international market instead of compete with domestic rivals. YCE
should try to allocate their resource such as raw material, technology and capability to international market.

Location factor is very important in international competition, based on the analysis of international cigarette market competition, development potential, culture environment, market characteristic, and actual situation of YCE, YCE should focus on developing countries such as South-Asia. Achieve marketing, manufacturing, research & development integration operation. A under controlled, stable sales network and channel is the foundation of YCE to expand the international market. The oversea selling network can be set through direct-investment, merge, acquisition and joint venture.

Refine the target market consumer, try to cooperate with international tobacco giants to improve YCE’s multinational operation.

➤ **Recommendation**

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