

On the Value Chain of Chinese Tobacco Industry Companies

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Abstract

With the gradual implementation of various commitments by Chinese tobacco companies after their "WTO accession", coupled with market penetration and the entry of foreign tobacco companies, my country's tobacco industry companies have faced unprecedented competition and challenges. China is currently one of the few countries in the world that implements a tobacco monopoly system. Compared with multinational tobacco groups, the competitive disadvantage of my country's tobacco industry companies is mainly reflected in the ability to control costs. Cost management is an important part of business management. This article uses value chain analysis tools and combines the characteristics of Chinese tobacco industry companies to construct a value chain model of my country's tobacco industry. Use value chain theory to examine the competitiveness of tobacco industry companies, and then propose corresponding competitive strategies. It is of great significance to the improvement of the management level of my country's tobacco industry.

Keywords

Tobacco Industry Company; Value Chain Analysis; Competitive Strategy.

1. Introduction

American scholar Michael Porter first proposed the concept of "value chain" in his book "Competitive Advantage". He pointed out: The value chain refers to the collection of a series of production or services that occurs in the process of designing, producing, selling, sending and assisting its products in order to meet the needs of customers. All the activities in these collections can pass through one Value chain to show [1]. According to the relationship between the company's production and operation activities and value creation, Michael Porter divides all activities into basic activities and auxiliary activities. The basic activities directly create value for the company. This part of the activities is most obvious in the manufacturing process. Including internal and external logistics, production operations and marketing, etc.; auxiliary activities can provide auxiliary support for basic activities, which are reflected in production and non-production links, including procurement of raw materials, technology research and development, human resource management, etc. . However, not all activities can add value to an enterprise. Therefore, a reasonable combination of enterprise value chains is of great significance for enterprises to enhance their competitiveness and maximize value creation.

2. Value Chain Model of Tobacco Industry Companies in China

According to the industrial structure, my country's tobacco industry can be divided into three levels, namely upstream, midstream and downstream. The upstream, as the foundation of the entire tobacco industry, represents the supply of raw materials required by tobacco industry companies to produce a series of products such as cigarettes; the midstream, as the core link of the tobacco industry, is composed of numerous manufacturing companies, including manufacturing and products; downstream; It represents the marketing link of the product,

which is an important link that connects the tobacco industry with consumers. In addition, my country's tobacco industry implements a unified leadership and monopoly management system, which is one of the few countries in the world that implements this system [2]. Because the tobacco industry has an important impact on the country's finances and taxation, the policies and behaviors implemented by the government will also affect the value formation of the tobacco industry. Based on the above, according to Michael Porter's value chain theory, the value chain model of my country's tobacco industry company is constructed as shown in Figure 1.

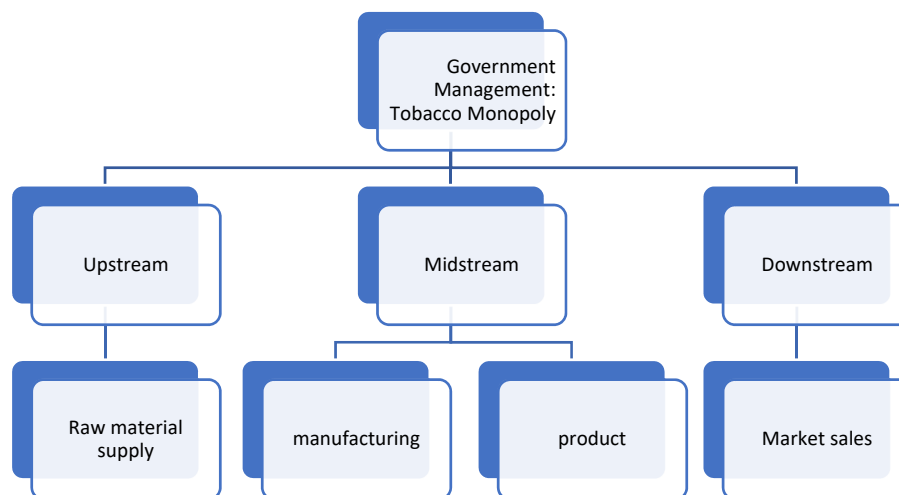


Figure 1. Value chain of tobacco industry companies

3. Analysis of Tobacco Industry Company Value Chain in China

3.1. Raw Material Supply

The raw materials required by tobacco industry companies to produce a series of products such as cigarettes mainly include tobacco leaves, filters, and materials required for filters, such as cigarette paper, tow, and packaging. Among them, tobacco leaves a larger proportion, accounting for about 45% of the total cost. Therefore, I take tobacco leaves as the main research object.

My country has a vast territory and different ecological conditions, making it a "big tobacco country." There are a wide range of tobacco leaves, a wide variety of varieties, and ample supply. In my country, in addition to several common types of tobacco such as flue-cured tobacco, burley tobacco, and oriental tobacco, we also plant rare tobacco leaves such as Maryland, which can fully meet the production needs of domestic cigarette manufacturers. In recent years, my country has actively promoted the "quality, regionalization, and standardization" of tobacco planting, and provided professional technical guidance for tobacco farmers, which has significantly improved the quality of tobacco leaves, and some tobacco production areas have even reached the international advanced level. At the same time, my country's tobacco leaves have a comparative advantage in production costs, which has improved my country's competitiveness in terms of quality-price ratio [3], resulting in a significant increase in the export volume of tobacco leaves.

At present, about 98% of the tobacco raw materials needed by my country's tobacco industry companies to produce cigarettes and other products are supplied domestically, and only about 2% are dependent on imports. My country's domestic tobacco leaves are supplied by the China Tobacco Leaf Purchase, Sales, Supply and Marketing Company under the State Tobacco Monopoly Administration, and the supply channels are stable; international tobacco leaves are supplied by the China Tobacco Import and Export Corporation and are unified to the outside

world. Although there are many tobacco industry companies in my country, the annual demand for tobacco leaves is basically can be satisfied, and the price is relatively reasonable.

Anglo American is the world's second largest cigarette manufacturer and a truly multinational tobacco company, involved in various upstream industries such as tobacco leaf production, processing, and trade. About 72% to 75% of the tobacco leaf raw materials needed to produce global cigarette products are supplied by itself, while the remaining 25% to 28% of the tobacco leaves come from the three major international tobacco leaf distributors, namely Global Tobacco Company, Demeng Tobacco Company and Continental Tobacco Company. Japan Tobacco Company is the only company in Japan that legally purchases domestic tobacco leaves, but the price of tobacco leaves in Japan is relatively expensive, and domestic tobacco production is also declining year by year. Large tobacco leaf dealers come to supply. Through the above analysis, it can be judged that my country's tobacco industry companies have a greater competitive advantage in the supply of raw materials.

3.2. Manufacturing

While the level of production equipment of my country's tobacco industry companies continues to improve, the level of production technology has also been significantly improved by improving the accuracy of quality control and reforming production processes. Taking the tobacco leaf consumption of a single box of cigarettes as one of the technical level indicators as a measurement standard, the tobacco leaf consumption of a single box of cigarettes has been declining year by year, which means that some key cigarette companies have reached the international leading level.

However, due to the deficiencies in the industrial economic policy design and the tobacco organization system, the resulting local protection and local blockade have blindly expanded the production capacity of cigarettes, and the production capacity of a large number of cigarette industrial enterprises has not been fully utilized. The average utilization rate of production equipment in national cigarette industry enterprises is only 54.6%, and the situation of idleness is serious. In addition, due to the impact of decentralized operations, a considerable number of cigarette industry companies have extremely weak profitability and should have been merged or closed long ago. However, these companies are still operating normally under the protection of the local government's administrative protection. This will greatly reduce the overall competitiveness of my country's tobacco industry companies.

3.3. Products

My country has a wide variety of cigarette products and a considerable output. The statistical chart of China's cigarette output from 2015 to 2019 is shown in Figure 2. In terms of price, the main raw material supply for cigarettes produced by my country's tobacco industry companies comes from domestic sources. Domestic tobacco leaves are of good quality and low price. Therefore, my country's cigarettes have a strong competitive advantage in terms of price.

However, the safety performance of cigarette products in my country is relatively poor. Harmful substances in smoke are mainly contained in tar. In recent years, my country has been working hard to reduce the tar content in cigarettes in order to improve the safety performance of products, but there are still certain differences compared with international cigarette products. In addition, although there are many brands of cigarette products in my country's tobacco industry, the degree of concentration is quite low. Most of them are regional brands, and there are very few brands that can be circulated across the country.

3.4. Market Sales

3.4.1 .Large total consumption

Most of the cigarette products of my country's tobacco industry companies are sold domestically, and there is almost no relatively fixed international target market. Even so, my

country is still deservedly the world's largest consumer of tobacco. Calculating from indicators such as population, per capita smoking, and overall smoking rate, we can see that the overall smoking rate of my country's population will not change much in the next few years, and due to factors such as the increase in the adult population and the conversion of some drought-smokers to cigarettes, the whole country The consumer demand for cigarette products may also increase slightly.

3.4.2. Stable sales network

Tobacco products produced in China or imported by the National Tobacco Import and Export Corporation must be managed and sold by tobacco companies in all provinces, cities, and counties under the China National Tobacco Corporation. In August 1994, the State Tobacco Monopoly Administration proposed the idea of establishing a national cigarette sales network. Since then, the cigarette sales network has developed rapidly and has formed a cigarette sales network system with full coverage of urban and rural areas and standardized operation.

3.4.3. There is no stable international market

A considerable part of the cigarettes used for export in my country are produced by foreign brands, while the exported cigarettes of its own brands are mainly famous and high-quality cigarettes such as Zhonghua and Hongtashan [4]. The export destinations are mainly some countries and regions around my country. In a real sense, the cigarette products produced by my country's tobacco industry companies do not yet have a relatively fixed international market.

4. Competitive Strategy Proposal of the Tobacco Industry Company

Through the above analysis and research of "raw material supply", "manufacturing", "product" and "marketing" in the value chain of tobacco industry companies, it can be found that the competitive advantages of my country's tobacco industry companies are at the two ends of the value chain. In other words, the two links of "raw material supply" and "market sales", while "manufacturing" and "products" located in the middle of the value chain are at a competitive disadvantage [5]. To improve the competitiveness of my country's tobacco industry companies, they should strive to overcome their own shortcomings, and at the same time transform their existing competitive advantages into competitive strength. To achieve this goal, a targeted competitive strategy must be formulated [6].

4.1. Product Competitive Strategy

4.1.1. Adhere to low tar and low harm

Taking the road of low tar and low harm has a bearing on the survival of my country's tobacco industry companies. Nowadays, the promotion of the safety of smoking has become an unstoppable development trend. Therefore, if the tobacco industry companies want to continue to survive and develop, they have to follow the trend.

4.1.2. Research and develop hybrid products

With the acceleration of the internationalization of the domestic market, the influx of a large number of foreign cigarettes has made the form of the domestic cigarette market more and more severe. In order to alleviate this situation, it is necessary to further strengthen the development and research of mixed cigarette products [7]. Fully meet the needs of domestic consumers and increase the market share of domestic cigarette products. It is also conducive to the implementation of the international development strategy of the tobacco industry to meet the needs of foreign consumers.

4.1.3. Development of curative cigarettes

Chinese herbal medicine resources are unique and precious wealth of our country. With the deepening of the international understanding of Chinese medicine and Chinese herbal medicine

and the increasing public health awareness, Chinese tobacco industry companies can seize the opportunity to develop and produce "curative" cigarettes. In this way, this unique product can be used to compete with multinational tobacco companies in differentiated competition to seize international market share.

4.1.4. Implement brand strategy

With the increasing level of people's consumption, the tobacco consumer market has become increasingly mature. Price will no longer be the main influencing factor in the cigarette consumer market, and brand expansion will emerge suddenly and become the main driving force for the survival and development of my country's tobacco industry companies. The first thing to do is to integrate various domestic cigarette brands, expand the scale of the brand, and greatly reduce the brand. Secondly, focus on the cultivation of some strong brands and big brands, and eliminate those with weak competitiveness and poor profitability. Finally, we must strengthen brand management and reasonably categorize cigarette brands. For example, cigarette brands can be divided into three categories: regional brands, national brands, and international brands. Cigarette brands are divided into three levels for management.

4.2. Market Competition Strategy

Through the above analysis of the value chain of tobacco industry companies, it can be seen that China Tobacco Industry Corporation's market is basically located in the country, and has been affected by historical and cultural factors for a long time. Chinese cigarette consumers have developed a preference for smoking flue-cured cigarettes [8]. My country's tobacco market is huge, accounting for about one-third of the global market share. With the deepening of the global integration process, participating in global competition is crucial. Therefore, the market competition strategy suggests that while consolidating and stabilizing the domestic tobacco market, gradually join the competition in the international tobacco market. There are several ways to join the competition in the international tobacco market:

4.2.1. Export products

Use the target market strategy to export cigarette products with strong Chinese symbols such as "Great Wall" and "Double Happiness" to the global Chinese market; adopt a product differentiation strategy to export my country's unique "curative" cigarettes to the international market.

4.2.2. Cross-border operations

Actively develop bilateral and various forms of cooperation with multinational tobacco companies to achieve the goal of cultivating and developing global core brands in my country, and using the cigarette sales network of multinational companies can enable Chinese cigarette brands to gain a competitive advantage and seize international market share.

After the competitiveness of my country's tobacco industry companies has been enhanced through the above methods, further measures such as equity participation, mergers or acquisitions of foreign tobacco companies can be adopted to enable my country National Tobacco Corporation to grow into a truly international tobacco company.

4.3. Other Suggestion

In order to strengthen the overall competitiveness, while implementing the above-mentioned product competition strategy and market competition strategy, it is necessary to correspondingly increase the industrial concentration and carry out structural optimization and adjustment within the industry. In addition, the government should also make certain adjustments as early as possible to the industrial policies and organizational systems of fiscal and taxation that restrict the development of my country's tobacco industry companies.

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