

Diversification in the tobacco industry

The following tables represent a sequel to the organizational profiles of the six American cigarette manufacturers published in the December 1983 issue of the *New York State Journal of Medicine* (83; 1324-1332) and updated in *The Cigarette Underworld* (Secaucus, NJ, Lyle Stuart, 1985). The earlier tables listed the subsidiaries, US cigarette brands, advertising themes, advertising agencies, and sponsorships and promotions. Also noted were figures on overall advertising expenditures.

Cigarettes are by far the most advertised product in society. More than \$2.7 billion is spent each year in the US by the six tobacco companies to promote cigarette smoking. In addition to maintaining or increasing overall cigarette sales, advertising creates social acceptability for the product and helps reinforce complacency of those who do not smoke (or do not yet smoke) and who may not be fully aware of the negative economic and health impact of smoking.

In spite of the belief that there is a powerful "anti-smoking" effort, the fact remains that cigarette manufacturers control virtually all of the contemporary imagery and terminology of smoking and continue to be successful in staving off major legislative measures that will adversely affect profits.

Some health professionals believe that criticism of tobacco companies for promoting cigarette smoking should be tempered because they have become conglomerates that are diversifying into non-tobacco products and services. By encouraging such diversification, it is reasoned, health professionals can help expedite the phasing out of smoking while tobacco companies can have an opportunity to replace the resultant lost revenue.

Such a belief on the part of individuals working to eliminate smoking may be misguided. In fact, the percentage of total profit accounted for by tobacco sales is still the highest of all sources of revenue for tobacco companies. The figures for all but the two lowest ranking cigarette makers (American Brands and Grand Metropolitan USA) are especially striking. Whereas tobacco sales account for 70.9% of the net sales of Philip Morris, tobacco profits account for 93.8% of the company's total profits. For Loews, whose tobacco sales are just 25.5% of total sales, cigarette profits account for 64.4% of the company's total profits. (Table I)

Thus it is wrong to conclude that in the foreseeable future the diversification strategy of tobacco companies includes decreasing the investment in cigarette manufacturing. Indeed, RJ Reynolds whose tobacco profits account for 79.5% of total profits (versus sales of 59.2% of total sales) has opened a \$1 billion cigarette manufacturing facility in Tobaccoville, North Carolina. Philip Morris has similarly expanded its facilities.

Although cigarette sales in the United States have flattened in recent years, they are not declining substantially, and profits have risen to record levels. The US still has the highest per capita cigarette consumption, and sales are more than double what they were 30 years ago at the time of publication of the first studies implicating cigarette smoking as a major cause of lung cancer. Even were domestic cigarette profits to slip, they would be more than made up for by the dramatic growth in cigarette sales in developing nations, where tobacco companies have been welcomed by numerous governments.

Perhaps the most important strategic aspect of diversification is one that is seldom discussed: geographic expansion. This tactic has been best applied by defense industry contractors, which have established weapons-related research and manufacturing facilities in numerous cities throughout the US, effectively integrating into the local economy. Congressional opponents of an arms build-up are hard-pressed to vote for cuts in defense spending for fear of causing loss of jobs in their communities.

A trend in the tobacco industry is to acquire companies in non-tobacco-growing states (and countries) that manufacture popu-

lar consumer products such as soda and candy. Executives of these seemingly disinterested and unrelated companies then take the lead in the local business community in opposing legislative restrictions on public smoking or tobacco advertising, which could reduce cigarette sales. This occurred in San Francisco with RJ Reynolds' Del Monte subsidiary.

In Table II that follows is an attempt to illustrate the diversity of holdings of the tobacco industry. Presented on a state by state basis, the table provides an opportunity to identify the tobacco interest that may help explain the success of the tobacco lobby in such seemingly non-tobacco states as New York.

However, this table represents only the tip of the iceberg of the network of supporting industries and services connected to the tobacco industry. These include thousands of farmers, tobacco distributors, food stores, drug stores, shipping companies and port authorities that are involved in the transport of tobacco (eg, Maersk Line, NY; Sea-Land, NJ; American President Lines, VA, GA; United States Lines, NJ), tobacco flavoring manufacturers (eg, International Flavors and Fragrances, NY; Bell Flavors and Fragrances, IL), banks and transfer agents (eg, Morgan Guaranty Trust, Manufacturers Hanover Trust Co, NY), chemical companies that manufacture herbicides and pesticides (eg, CIBA-Geigy, NJ, NC), cigarette lighter manufacturers (eg, BIC, CT; Ronson, NJ; Scripto, GA), paper and container manufacturers (eg, Kimberly-Clark, PA; Union Camp, VA; International Paper, NY), and cellophane makers (eg, Mobil). Nor do the tables include American holdings of foreign tobacco companies such as Imperial Group, which owns Howard Johnson's and Peoples Drugs.

Nor can the tables include another important aspect of diversification: the presence of public figures and leaders of other unrelated corporations on the boards of directors of tobacco companies. The board of RJ Reynolds includes Vernon E. Jordan, Jr, former director of the National Urban League and Juanita M. Kreps, former Secretary of Commerce in the Carter administration. A former Secretary of Defense in the same administration, Harold Brown, sits on the board of Philip Morris along with executives of Citibank and Bankers Trust Company. Former Vice-President Walter Mondale has joined the board of CNA Financial, division of Loews.

Also not included in the table are the numerous cultural organizations funded in part by tobacco companies (and co-sponsors of tobacco company-controlled sporting events) as part of the strategy for creating social acceptability for smoking. A partial list of such sponsorships is included in the organization profiles published in the December 1983 issue of the *Journal*, as well as in other articles in this issue.

Although on the whole diversification by the tobacco industry (which began around the time of the early scientific reports indicting smoking as a cause of death) has been profitable, the proportion of profit derived from the sale of tobacco has always been and remains the foundation of these companies. Even in instances in which diversification has not been profitable—as in the case of Philip Morris' Miller Brewing Co and Seven-Up—the high visibility and large advertising budgets on television (where cigarette ads are banned) for products made by these companies has helped to insulate tobacco profits by buying immunity from journalistic scrutiny into the practices of cigarette advertisers. In this regard, the significance of RJ Reynolds' announced purchase of Nabisco Brands Inc for \$5 billion is that Reynolds will become the leading national advertiser—spending \$1 billion a year in the mass media. An analysis of the mass media will be the subject of a future table. The following tables were based on research by Michael Wroblewski, a student at Adelphi University.

—Alan Blum, MD

TABLE I. Financial Review of the American Tobacco Industry, 1984
(source: annual corporate reports)

	American Brands, Inc	BATUS, INC	Grand Met USA	Loews Corp	Philip Morris, Inc	RJ Reynolds Industries, Inc	United States Tobacco Company
Employees	74,000	61,800	10,408	29,000	68,000	97,551	3,476
Cigarette Market Share¹ (approximate)	8.1%	11.2%	5.9%	8.4%	35.2%	31.3%	—
Net Sales (in millions)	\$6,995.2	\$6,211.1	—	\$5,603.3	\$13,813.7	\$12,974.0	\$443.8
Tobacco Sales (in millions)	\$4,229.0	\$2,264.1	—	\$1,430.8	\$9,801.7	\$7,685.0	\$380.2
% Tobacco Sales of Net Sales	60.4	37	—	25.5	70.9	59.2	85.6
Total Profit* (in millions)	\$892.2	\$729.2	\$181.4	\$437.2	\$2,280.2	\$1,619.0	\$172.1
Net Profit	\$414.1	\$313.5	—	\$328.6	\$888.5	\$843.0	\$83.7
Tobacco Profit (in millions)	\$496.7	\$427.8	\$96.3	\$281.9	\$2,140.8	\$1,288.0	\$168.6
% Tobacco Profit of Total Profit	55.7	59	53	64.4	93.8	79.5	98

* Total profit is defined as operating income—net sales less operating expenses. It does not include income after the payment of interest or taxes and other non-operating expenses.

¹ Source: *US News and World Report* Oct 22, 1984: 49.

TABLE II. Tobacco Company Holdings in the United States

State	American Brands, Inc	BATUS, Inc	Grand Metropolitan USA	Loews Corporation	Philip Morris, Inc	RJ Reynolds Industries, Inc	United States Tobacco Company
Alabama			Diversified Products (fitness products); Quality Care, Inc (home health services)			RJR Archer-Filmco (plastic film wrap)*	
Alaska			Nine permanent pipeline pump-station accommodation camps			*	
Arizona		Breuners (home furnishing stores); Saks Fifth Avenue (department stores) (SFA)	Quality Care	Loews Paradise Valley Resort; Loews Ventana Canyon Resort	†	*	
Arkansas			Quality Care			Del Monte-Morton Frozen Foods (processing plant)*	
California	Bell Brand Foods, Inc; Taylor Food Products, Inc	Breuners; SFA	Children's World, Inc (157 child care centers in 10 states); Diversified Products (manufacturing facility); Inter-Continental Hotel, San Diego and San Francisco; Pepsi-Cola San Joaquin Bottling Co; Express Foods (cheese plant); Quality Care		Aliso Viejo Co; Jack G. Raub Co; Miller brewery; Mission Viejo Co; MVC Escrow Corp; MVC Financial Corp; Mission Viejo Realty Group, Inc; Ventura Coastal Corp; Warner-Jenkison Land Co	Aminoil (operations of fices, oil and gas facilities)* ¹ ; Beaulieu Vineyard; Del Monte Corp (and research facility); Del Monte Frozen Foods, Inc; Heublein Spirits (processing facility); Heublein Wines; Inglenook Vineyards; International Grocery Products; US Dry Grocery and Beverage Products	
Colorado			Children's World; Quality Care		Highlands Ranch Real Estate Development	Aminoil (operations of fice) ¹ *	
Connecticut		SFA; Gimbels (department stores)	Quality Care		†	Del Monte, Specialty Grocery Products; Heublein Spirits & Wine Co; Heublein Spirits (processing facility); International Vintage Wines*	Corporate headquarters; Babco Associates, Ltd; Honduran Cigar Imports, Ltd; United States Tobacco International, Inc

Delaware					State of incorporation for 15 US and overseas subsidiaries ^a	
Florida	Pinkerton's (private security)	SFA; Ivey's (department stores)	Quality Care	Loews Theatres	Miller distributor and warehouse; Southern Gold Citrus Products, Inc	Del Monte Banana Co; Del Monte World Wide Fresh Fruit operating unit*
Georgia		Brown & Williamson Tobacco (tobacco facility); SFA	Atlantic Soft Drink Co (bottlers and distributors); Express Foods (whey protein processing plant); Quality Care		Miller brewery and can-making facility	Del Monte Soft Drink Unit Headquarters (Canada Dry, Sun-kist, Hawaiian Punch)*
Hawaii						
Idaho			Quality Care			Del Monte farmland* Boise Truck & Equipment Inc* Skolniks Bagel Bakeries*
Illinois	James B. Beam Distilling Co; The Franklin Life Insurance Co; Wilson Jones Co (office products)	Marshall Field's (department stores); SFA; Thimbles (fashion specialty stores)	Alpo Petfoods, Inc (processing facility); Children's World; Quality Care	CNA Financial Corp		Tobacco facility
Indiana			Quality Care	Loews Theatres	Koch Label Co (beer labels) †	*
Iowa			Quality Care			*
Kansas		SFA	Quality Care			*
Kentucky	American Tobacco Co (tobacco facility); James Beam distillery	SFA <i>Corporate headquarters</i> ; Brown & Williamson Tobacco Co	Express Foods Group USA, Inc (dairy-based food ingredients); Atlantic Soft Drink Co; The Pinkerton Tobacco Co (chewing tobacco); Quality Care	Lorillard (tobacco facility)	Tobacco facilities (two)	Kentucky Fried Chicken (and training center; approximately 4,500 US stores, of which about 1,000 are company owned); Zantigo Mexican Restaurants; Tobacco facility*
Louisiana		SFA	Inter-Continental Hotel, New Orleans; Quality Care		Miller distributor and warehouse	Aminoil (operations of office, natural gas processing plant) ¹ *

Maine				Quality Care			*
Maryland		SFA		Children's World; Quality Care			Del Monte, Specialty Grocery Products (processing plant)*
Massachusetts	Acushnet Co (golf equipment)	SFA		Inter-Continental Hotel, Boston; Quality Care	†		*
Michigan	Sugar Beet Products Co	SFA; Thimbles		Children's World; Quality Care	Plainwell Paper Co, Inc		Heublein Spirits (pro- cessing plant)*
Minnesota		Thimbles		Alpo Petfoods, Inc (processing facili- ty); Children's World; Quality Care			Zantigo Mexican Res- taurants*
Mississippi				Alpo Petfoods, Inc (processing facili- ty); Quality Care			*
Missouri		SFA		Quality Care	The Seven-Up Co; Taylor Group, Inc		Zantigo Mexican Res- taurants*
Montana							Aminoil (land inter- ests) ¹ *
Nebraska				Alpo Petfoods, Inc (processing facili- ty)			*
Nevada		Breuners; SFA		Quality Care			Aminoil (land-geother- mal leases) ¹ *
New Hampshire							*
New Jersey	Corporate office	Gimbels; SFA; Thimbles		Corporate headquar- ters; Scanticon Corp (video con- ferencing); Qual- ity Care	Loews Glenpointe Hotel; Loews The- atres	■	Del Monte (frozen food plant); Sea-Land Corp (container ship- ping) ² *
New Mexico				Alpo Petfoods, Inc (processing facili- ty); Quality Care	†		Aminoil (land-geother- mal leases) ¹ *
New York	Corporate headquar- ters; American Ci- gar; American To- bacco Co; MCM Products, Inc (cut- lery, light bulbs, auto products); Pinkerton's, Inc (private security service); Sunshine Biscuits, Inc; Swingline, Inc (of- fice products)	Batus Retail Group; Gimbels; SFA		Carillon Importers (liquor); Intercon- tinental Hotels Corp; Inter-Conti- nental Hotel, NYC; Quality Care; The Pad- dington Corp (li- quor)	Corporate headquar- ters; Loews Ho- tels; Loews The- atres; Loews Re- presentation International, Inc (reservation ser- vice for about 300 hotels); Lorillard Tobacco Co; Bu- lova Watch Co	Corporate headquar- ters; Miller brew- ery and glass- making plant (Fulton and Sen- nett)	Canada Dry Corp ³ ; Del Monte Franchise Bev- erage Products; Ser- vice Systems Corp (restaurant and vend- ing machine ser- vices) ⁴ *

WPBN-TV and
WTOM-TV, Inc

North Carolina	Golden Belt Manufacturing Co (printing and paper-foil lamination for product packaging)	Brown & Williamson tobacco facility and export leaf processing facility; Ivey's	Atlantic Soft Drink Co; Liggett & Myers Tobacco Co and facilities; Quality Care	Lorillard (tobacco facility)	Miller brewery and can-making facility; tobacco facility	Corporate headquarters; RJR Archer, Inc (packaging); RJ Reynolds Development Corp; RJ Reynolds Tobacco Co and tobacco facilities*	Henry, Leonard & Thomas, Inc; Mastercraft Pipes, Inc
North Dakota						Aminoil (operations of office and natural gas processing plant) ¹ *	
Ohio	The Andrew Jergens Co (body lotions)	Appleton Papers; SFA	Children's World; Quality Care	Loews Theatres	Miller brewery (not in use)	RJR Archer-Combibloc, Inc (aseptic packaging); Filmco (plastic film wrap);* Skolniks; Zantigo	
Oklahoma			Quality Care			Aminoil (operations of office and natural gas processing plant) ¹ ; Aminoil Marketing, Inc ¹ *	
Oregon		Frederick & Nelson (department stores)	Quality Care		Miller distributor and warehouse; Oregon Freeze Dry Foods, Inc	Bear Creek Corp (retail mail order of fruit and garden plants; parent company of Harry & David, and Jackson & Perkins Co); Aminoil (land-geothermal leases) ¹ *	
Pennsylvania	Case WR Sons Cutlery Co	Appleton Papers, Inc (pulp and paper mill and converting plant)	Alpo Petfoods, Inc; Quality Care			Skolniks Bagel Bakeries*	House of Windsor, Inc
Rhode Island			Quality Care			*	
South Carolina		Ivey's	Atlantic Soft Drink Co; Inter-Continental Hotel, Hilton Head Island; Quality Care			*	
South Dakota						*	
Tennessee			Atlantic Soft Drink Co; Quality Care	CNA (administrative facility)		*	National Pen & Pencil Co; tobacco facilities (three)

Texas	Southland Life Insurance Co; Perma Products Co, Inc	Marshall Field's; SFA	St Anthony Inter-Continental Hotel, San Antonio; Inter-Continental Hotel, Houston; oil and gas exploration; Quality Care	Loews Anatole Hotel, Dallas; Loews Theatres	Miller brewery and can-making facility†	American Independent Oil Co ¹ ; Aminoil International, Inc ¹ ; Aminoil (operation offices and natural gas processing plant) ¹ ; Aminoil USA, Inc ¹ ; Skolniks*	
Utah					Miller distributor and warehouse	Aminoil (land-geothermal leases)*	
Vermont			Express Foods (whey protein processing plant)			*	
Virginia	American Tobacco Co (tobacco facility)	Brown & Williamson Tobacco Co (tobacco facility); Thimbles	Children's World; Quality Care	Lorillard (tobacco facility)	Tobacco facilities (seven); engineering center; research facility†	Del Monte-Morton Frozen Foods (processing plant)*	Tobacco facility
Washington		The Crescent (department stores); Frederick & Nelson	Children's World; Quality Care		Miller distributor and warehouse	*	Ste. Michelle Vinters Inc
West Virginia			Quality Care			*	
Wisconsin	Master Lock Co	Appleton Papers, Inc (pulp and paper mill); Gimbels; Thimbles	Quality Care		Miller Brewing Co (brewery and can-making facility); Waterloo Malting Co, Inc; Nicolet Paper Co; Wisconsin Tissue Mills	Del Monte, Specialty Grocery Products (processing plant)*	
Wyoming						Aminoil (oil production and land) ¹ *	
Washington, DC			Willard Hotel	L'Enfant Plaza Hotel		Dental Care of America; Skolniks*	

¹ Continental Equity Investments, Inc; Philip Morris Asia Inc; PMCC Leasing Corp; Philip Morris Credit Corp; Philip Morris Europe SA; Philip Morris Export Corp; Philip Morris Industrial Inc; Philip Morris International Finance Corp; Philip Morris Limited; Philip Morris Marketing SA; Philip Morris Overseas, Inc; Philip Morris Services, Inc.; Seven-Up International, Inc.; The Seven-Up Co; Wisconsin Tissue Mills, Inc. Divisions of other tobacco companies are also incorporated in Delaware.

² Sold in October 1984.

³ Sold in June 1984.

⁴ Moved to Georgia in 1985.

⁵ Sold in January 1985.

* Indicates Kentucky Fried Chicken retail outlets.

† Indicates site of company owned bottlers of Seven-Up.

■ In May 1985, purchase of Nabisco Brands, Inc, Parsippany, NJ, for \$5 billion announced by RJ Reynolds Industries, Inc. Nabisco has 69,700 employees and in 1984 had a net income of \$309 million on revenues of \$6.25 billion. The company makes more than 300 food products, including Almost Home Cookies, Barnums Animal Crackers, Chips Ahoy!, Fig Newtons, Lorna Doone, Mallomars, Oreo, Graham Crackers, PREMIUM Saltines, RITZ crackers, Uneeda Biscuit, Mister Salty Pretzels, Cream of Wheat, Dromedary Dates, Milk-Bone Dog Biscuits, Shredded Wheat, Baby Ruth, Chuckles, Sugar Daddy, Life-Savers, Beech-Nut Gum, TUMS, Pine Brothers Cough Drops, Fleischmann's Margarine, and Planter's Peanuts. Reynolds will become the largest consumer products company and by far the top national advertiser in the US — spending more than \$1 billion a year in advertising.