

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE  
STATE HIGHER EDUCATIONAL ESTABLISHMENT  
“KYIV NATIONAL ECONOMIC UNIVERSITY NAMED AFTER  
VADYM HETMAN”**

Faculty of International economics and management

International management Department

Field of Study 07 Management and administration

Specialty 073 Management

**Educational and Professional Programme  
«INTERNATIONAL MAMAGEMENT»**

Modes of Study: distance

**MASTER’S THESIS**

Modern development strategies of Philip Morris International

(full title according to the order on approving the titles of the Master’s theses)

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**Kyiv 2022**

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**APPROVED  
Head of the Department**

Mykola O. Burmaka

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2022

**INDIVIDUAL TASK**

student Daria Pivtorak

Modes of Study (full time, part time or distance)

To prepare Master's thesis

Title: Modern development strategies of Philip Morris International

The title is approved by the order of the Rector «    » 2022 №     

Master's Thesis is based on the materials of

<b>Plan of Master's Thesis</b>	
<b>Section 1</b>	Theoretical fundamentals of business strategies (Title of the Section)
<b>Section 2</b>	Philip Morris International business strategies background (Title of the Section)
<b>Section 3</b>	Philip Morris International business strategies

(Title of the Section)

<b>Object of Research:</b>	Business strategies of the company Philip Morris International
<b>Subject of Research:</b>	Modern development business strategies of Philip Morris international
<b>The objective of Master's Thesis:</b>	Study of theoretical foundations, essence of business strategies, aspects of Philip Morris International business strategies
	development, analysis of PMI further development

### Tasks to be accomplished to meet Thesis objectives

<b>In Section 1</b>	To characterize the essence and structure of business strategies, to analyze the formation of business strategies, to identify classification of strategies by company levels
<b>In Section 2</b>	To investigate development and formation of Philip Morris International, The formation of business strategies, to analyze the effectiveness of development strategies of Philip Morris International by key financial indexes
<b>In Section 3</b>	To analyze current issues and challenges of Philip Morris International business development and develop some ways to reach goals and strategies of Philip Morris International development

**The task is prepared  
Supervisor**

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**The student received the  
task**

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«\_\_\_\_\_» \_\_\_\_\_ 2022

## метадані

Заголовок

**Modern development strategies of Philip Morris International.docx**

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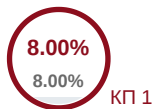
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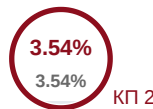
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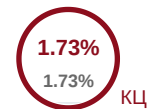
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**ACADEMIC SUPERVISOR'S REVIEW  
OF MASTER THESIS**

by the Student at the Faculty of International Economics and Management  
MBA program "International management"

**Daria Pivtorak**  
(name, surname)

Title: "***Modern development strategies of Philip Morris International***"

1. Evidence of learning in accordance with the objectives of the assignments (0-5 points) – 5 points
2. Depth of critical analysis (0-10 points) – 8 points
3. Effectiveness of argumentation/analysis (0-10 points) – 10 points
4. Accurate and coherent use of quantitative tools and language (0-20 points) – 17 points
5. Compliance with master thesis written requirements (0-5 points) – 5 points
6. Compliance with writing master thesis's schedule (0-5 points) – 5 points
7. Attendance (0-5 points) – 5 points
8. Published research work/Thesis (0-10 points) – 10 points
9. Positive aspects of the thesis: *the author has characterized the essence and structure of business strategies, analyzed the formation of business strategies, identified classification of strategies by company level. She has investigated development and formation of Philip Morris International, analyzed the effectiveness of development strategies of Philip Morris International by key financial indexes, current issues and challenges of Philip Morris International business development and developed some ways to reach goals and strategies of Philip Morris International development.*
10. Negative aspects of the paper: the diploma hasn't had any relevant inaccuracies
11. Total Supervisor's Grade of Master Thesis: 65 points

Academic Supervisor: ass. professor, PHD in economics

(position, academic degree)



(Signature)

Zhevago Alina V.  
(Name, Surname)

"4" February 2022 p.

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## INTRODUCTION

*Actuality of theme.* Business strategy is a strategy of business units that determines the direction of action to ensure competitive advantage in a particular area of the organization

The strategic objectives of the company's independent divisions are part of the corporate planning process.

A business strategy defines what the company needs to do to reach its goals, which can help guide the decision-making process for hiring as well as resource allocation. A business strategy helps different departments work together, ensuring departmental decisions support the overall direction of the company.

Philip Morris International (PMI) is a leading international tobacco company and its products are made exclusively for adults who would otherwise continue to use cigarettes or other nicotine-containing products. The main mission of the company is to offer adult smokers the best choice. Philip Morris' main goal is to completely replace cigarettes with smokeless alternative products that emit less harmful substances (RRP products).

*The purpose and objectives of the study.* The purpose of the thesis is to study the theoretical foundations, formation and implementation of business strategies, research of business strategies of Philip Morris International, emerging problems, suggestions of the ways to achieve goals and strategies of Philip Morris International development

To achieve this goal, the following *tasks* were set:

1. Describe the nature and structure of the components of business strategies;
2. Analyze the formation of business strategies;
3. Highlight Development of business strategy development levels
4. Classify strategies by company levels
5. Investigate the Historical Aspects of Philip Morris International Development
6. Investigate the formation of Philip Morris in Ukraine

7. Describe the main goals of the company Philip Morris
8. Analyze Philip Morris International by key financial indexes
9. Explore ways to develop Philip Morris International and marketing tools that can be used to achieve goals

*The object of research* is Business strategies of the company Philip Morris International.

*The subject of the study* is Modern development business strategies of Philip Morris International International.

*Research methods.* The following methods were used to solve the tasks: comparative method (to analyze the performance of Philip Morris International), the method of theoretical analysis (used in the study of works, scientific articles and monographs), tabular and graphical methods (used to present and evaluation of the collected data).

Theoretical, methodological and practical significance of the obtained results. The paper generalizes the characteristics of business strategies in general and Philip Morris International's development strategies in particular, highlights the features of Philip Morris 'development as a leader in the tobacco market, generalizes aspects of the problems of tobacco companies' development and Morris for a detailed analysis of the results of the enterprise.

*The information base of the research* is the works of domestic and foreign scientists, data from statistical yearbooks, information and analytical bulletins, official publications and methodological materials of Philip Morris International.

## CHAPTER 1 THEORETICAL FUNDAMENTALS OF BUSINESS STRATEGIES

### 1.1 The essence of business strategy and its formation

A business strategy is a description of actions and decisions which company plans to take to achieve its goals. A business strategy determines what a company needs to do to achieve its goals, which can help manage the decision-making process regarding coordination of all the resources. Business strategy helps different departments to work together and provides support for the department's decisions in the overall direction of the company. [1]

Business strategy is a strategy of business units, which is aimed directly at specific competitive advantages in a specific sphere of organizational activity.

The main components of business strategy are shown in the chart 1.



Chart 1.1 Components of strategy

*Source: developed by the author based on [2]*

Strategic objectives of the company's independent divisions are part of the corporate planning process. Tasks that need to be addressed at the level of individual SBUs can be different: growth, preservation of the existing situation, use source of income, withdrawal of previously invested funds, the creation of new business.

The allocation of resources as an element of business strategy is relevant if the SBU deals with a certain number of goods and markets. This approach, taking into account the scale of activities, copies the process of allocating resources at the

corporate level. For optimal allocation of resources within the SBU, it is necessary to analyze and assess the attractiveness of markets (market segments, niches) and competitive position [2].

Strategic efforts are largely determined by strategic objectives. There are two alternative directions of SBU development in relation to existing products. This is an increase in sales or increase the efficiency of production and sales.

When the market is saturated, usually the focus on sales growth turns into a strategy to increase production efficiency. As growth prospects decline, the task of strategic management is to find new products and new markets to support the pace of business development [2].

Goal for business is to choose the right target group of consumers and meet their needs better than competitors. When analyzing the target group of consumers, it is necessary to identify their main problems or unmet needs at first. Each selected "deficit" can be a factor of success, if you solve this problem better than a competitor.

Goals in relation to competitors are formulated on the basis of competition analysis, in the process of which competitors, their goals, strengths and weaknesses of competitors are determined, a competitive strategy and a model of behavior on the strategy of competitors are developed.

Competitors can be divided into four groups: direct competitors (firms that offer similar goods and services to the same groups of buyers), indirect (firms that offer different products to the same category of consumers), commodity (firms that offer the same products to different consumer groups), implicit (firms of different profiles).[2]

Creating a competitive advantage is the last element in the development of the SBU strategy, which provides an answer to the main question of business strategy: how to achieve an advantage over direct competitors within the strategic group.

Six main valuable components of business strategy are known. They contain [3]:

### 1. Business goals and business vision

A business strategy is all about helping to achieve their business goals. you can make clear guidelines for what needs to be done in your business strategy and who is responsible for performing each step with a clear business vision.

### 2. Core values

Business strategy makes managers and core departments take decisions on what the business should and shouldn't do, according to the core values of the organization. Core values help stay ll the departments with the same goals.

### 3. SWOT analysis

SWOT analysis means strengths, weaknesses, opportunities and threats of the organization. This analysis is part of every business strategy because it allows company to rely on its strengths and use them to its advantage. Company is also aware of possible weaknesses or threats.

### 4. Tactics

Many business strategies formulate functional details on how company managers should operate to maximize efficiency. Responsible for tactics managers understand what needs to be done and saving time and effort.

### 5. Resource allocation plan

Business strategy includes where to find the resources needed to complete the plan, how the resources will be allocated, and who is responsible for it. In this context, company will be able to see where you need to add additional resources to complete your projects.

### 6. Measurement

Business strategy also includes a way to monitor the company's performance and evaluate its effectiveness against the goals set before implementing the strategy. This will help the business meet deadlines and goals, as well as budget issues.

There are several reasons a business strategy is important to an organization:

Planning - A business strategy helps you identify the key steps that need to be taken to achieve your business goals.

**Strengths and Weaknesses:** The process of creating a business strategy allows the company to identify and evaluate the strengths and weaknesses of the company, so that managers can implement a strategy that optimizes strengths and compensates or eliminates weaknesses.

**Efficiency** - a business strategy allows the company to efficiently allocate resources to future business activities, which automatically increases the company's efficiency. It also helps you plan ahead, assign tasks, and move forward with your project goals.

What is more, there are significant differences between the development of corporate strategy and business strategy, which covers the management of a particular area of activity of the organization and is formed at the level of independent business units. Business strategy is based on actions and approaches that ensure the success of a particular activity and gaining a strong long-term competitive position. The difference between corporate and business strategy exists only in a diversified organization. For an organization engaged in one activity, these types of strategies coincide because the organization's strategy is developed for one activity.

Planning at the level of business units for diversified organizations is considered basic. This approach was developed in the late 60's pp. specialists of General Electric and the consulting firm McKinsey and was implemented in the structure of General Electric in 1970. It was one of the most diversified companies in America: it conducted production and economic operations in almost 32 industries, which created problems of efficient centralized leadership of it. In this situation, General Electric carried out a radical reorganization. For operational management and control, the existing structure was maintained (170 branches, grouped into 50 branches, which, in turn, were 10 groups according to the usual hierarchical scheme), and to predict the future of the organization, all activities were divided into 43 independent economic units that could act as separate, isolated from each other. they were called strategic economic centers.

The basis for this decision was the system of "planning-programming-budgeting" (PPB), which was introduced by the US Department of Defense. R. McNamara and J. Hitch developed a new approach to forecasting the state of the environment. In contrast to the previous practice, when the forecast was made by each functional service, based on their own interests, in the PPB system the external environment was divided into "fields of strategic objectives". In the process of further implementation of these ideas in General Electric, each market segment corresponded to a certain strategic economic center (SGC). As the experience of the 1970's and 1980's shows, the concept of the SHC influenced the formation of management and planning systems in large corporations in the United States, Europe, and Japan.

In recent years, there has been a growing trend towards decentralization of large organizations, which cover various forms of activity and various types of business. Independent business units created in them have direct relations with consumer groups, are part of the whole body of the organization, although much smaller in size, independently determine (within agreed conditions) their strategy, implement it independently and are responsible for the results of their activities. Development of business strategy for independent business units and independent highly specialized organizations is carried out similarly (Chart 1.2).

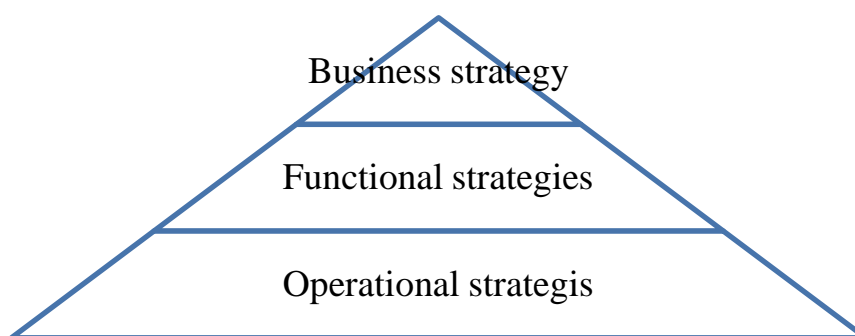


Chart 1.2 "Development of business strategy development levels"

*Source: developed by the author based on [4]*

In the future, to characterize the peculiarities of the methodology for developing the strategy of independent business units, we will use the term adopted in strategic management - strategic business center (SBC).[5]

Strategic economic spectrum - an independent organizational unit (branch, plant or other profit center), which can be established accounting for income, expenses, investments and which is responsible for developing strategic positions of the organization in a particular market segment. The term independent business center is used as a synonym for the concepts - business unit, independent business unit, type of activity.[6]

The process of strategy development consists of similar stages of strategic choice at the corporate level.

Recently, the development of business strategy is increasingly associated with the problems of competition, because the goals of survival prevail over other goals that determine the long-term behavior of the organization. The current strategy can be considered effective if a tangible and stable competitive advantage is provided, and ineffective if there is a weakening of competitive positions.[6]

The answer to the following questions must be found: where the organization has the best chance to win the competition; what product characteristics are able to attract a buyer more than a competitor's products; how to neutralize the actions of competitors? In a broader sense, business strategy should be focused on combining strategic efforts in different functional areas to achieve a specific goal, so it serves as a basis for the formation of functional strategies. The strategies of the organization, which are the means to achieve its goals, at the same time act as a goal for a specific functional space, and functional strategies are the means to achieve them.[6]

Business management is based on the development of a strategy, its adaptation to the specifics of the company and its implementation. A company's strategy is a comprehensive management plan that should strengthen the company's position in the market and ensure coordination of efforts, attract and satisfy customers, compete successfully and achieve global goals. The process of developing a strategy is based on a thorough study of all possible directions of development and activity and consists in choosing a general direction, markets to be developed, needs to be served, methods of competition, attracted resources and business models. In other words,

strategy means a company's choice of development path, markets, methods of competition and business.[6]

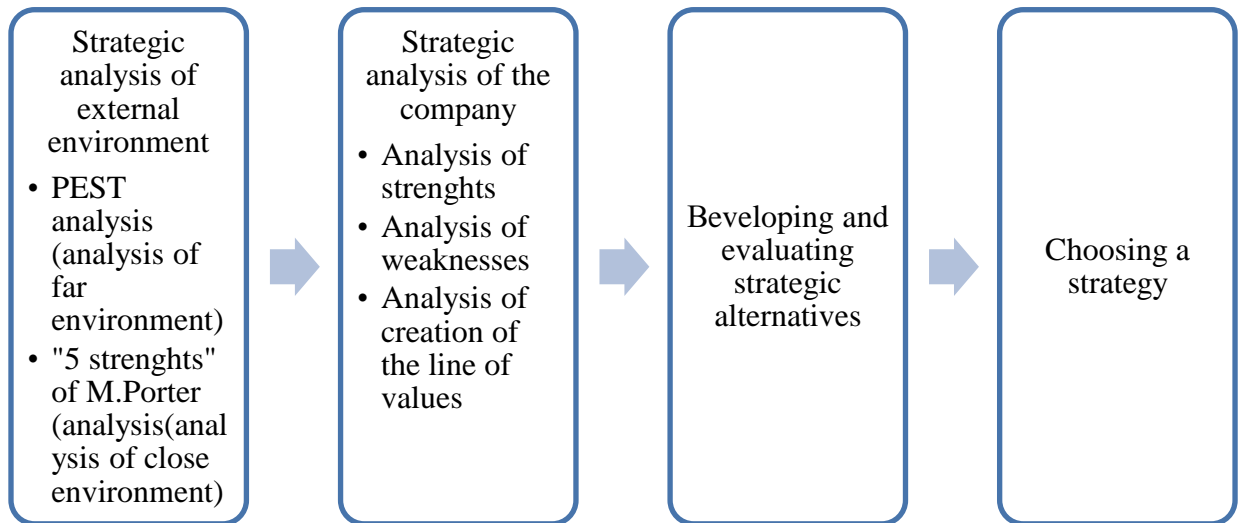


Chart 1.3 Process of defining the company's strategy

*Source: developed by the author based on [6]*

Strategy is a rather vague concept. Generally, any kind of thinking with a “broad scope” is called a strategy. This is actually a more complicated thing. There are three levels of strategy to consider:[6]

- 1) Functional strategy - value creation activities.
- 2) Business strategy - how to deal with competitors, tactics.
- 3) Corporate strategy - what activities should we participate in?

Functional strategy is those operational methods and value-adding activities that management chooses for their business.

Business strategy is the plans for battling competitors in the industry in which the company is currently operating. Business strategy is at a higher level than functional strategy, but there is undoubtedly a link between how a company operates and how it competes.[7]

The strategy can be developed in the following areas:

- 1) Company strategy / strategic planning;
- 2) Brand strategy;
- 3) HR strategy;
- 4) Management strategy;

- 5) Marketing strategy;
- 6) Customer relationship management strategy;
- 7) Product strategy;
- 8) IT strategy;
- 9) Strategy in the field of logistics.

Strategy development is mostly meaningless if it is not combined with the subsequent implementation of a single management cycle. It is not without reason that Japanese experts have introduced the term "policy" half a century ago, which encompasses strategy in the form of goals, supplemented by a description of the means to achieve these goals and methods of measuring results.

The two most well-known techniques that claim to be called Integral Strategic Management Systems are Hoshin Kanri and the Balanced Scorecard (BSC). The most famous implementation of the BSC, patented under the name BSC, tends towards horizontal integration, and all variants of "Hoshin Kanri" - towards vertical (consistent translation of strategic goals into specific performance actions).[6]

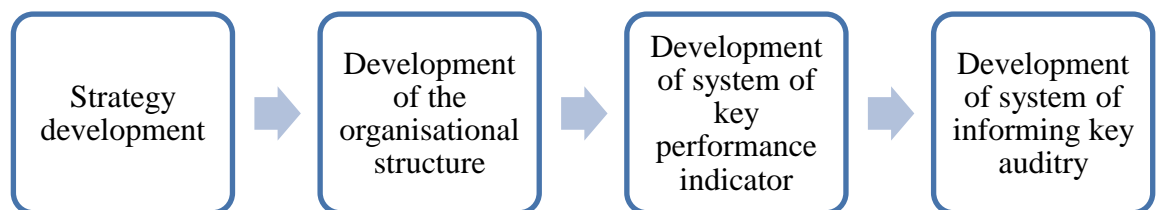


Chart 1.4 Strategy development methodology

*Source: developed by the author based on [6]*

The concept of a business model (business model) is closely related to the concept of strategy - this term denotes a way of making a profit from the activities of companies. Formally, the business model of a company is connected with the economic component of the strategy, with the income-costs-profit ratio, with the actual and planned income from the sale of the company's goods, with the strategy of competition, with the cost structure, income level, profit streams and return on investment.[8] The company's business model is designed to ensure the

effectiveness of the strategy in terms of making a profit. Consequently, the concept of a business model is narrower than that of a business strategy. The strategy defines the way the company competes and conducts its business (without touching on specific financial results and the consequences of competition), and the business model, based on the indicators of profit and costs obtained as a result of this strategy, ensures the viability of the company. The long term in its business line and stable satisfactory earnings indicate that the company has a successful business model that confirms the profitability and viability of its strategy. The business model of unprofitable enterprises and newcomers to the market (for example, new electronic companies) is questionable: they must demonstrate at least minimal positive results and thus prove the viability of the companies and the prospects of their strategies.[6]

The business model shows how the economic component of the company's strategy, i.e. the ratio of income-costs-profit, ensures the viability of the entire enterprise.[9]

The development, implementation and implementation of the strategy are the priority tasks of management, therefore there is always a demand for managers who are able to actively shape the future of the company. Managers develop strategy and are responsible for choosing a company's business model.

Table 1. Comparison table of industry business system, business model and company strategy

Options	Business model	Company strategy
Essence	The way business is organized in the industry	Company development direction
Orientation	Creating value for the consumer and turning it into profit for the company	Building a sustainable competitive advantage
Analysis accents	Analysis of the industry and industry business system, trends and scenarios for their development	Analysis of the external and internal environment of the company, competitive analysis
Uniqueness	It can be either typical for the industry or innovative	Unique for company

*Source: developed by the author based on [6].*

## 1.2 Classification of strategies by company levels.

Management strategies, first of all, are divided according to management levels into general corporate, business strategies and functional strategies. Taking into account the intensive development of decentralization and self-organization processes in modern organizations, one should also take into account the development strategies of teams, groups and employees on which the success of the development and implementation of strategic plans depends.[7]

According to the levels of the hierarchical structure of the company, all strategies are divided into four groups (Chart 5)

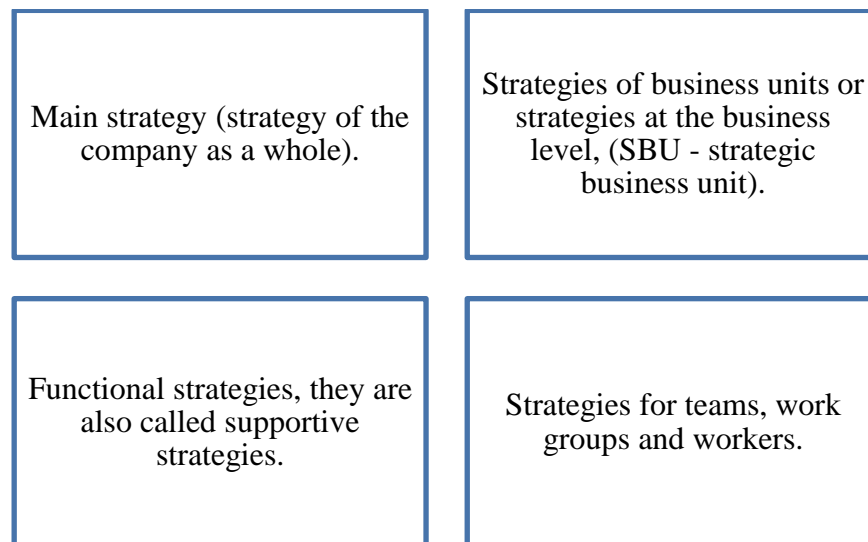


Chart 1.5 Company strategy groups

*Source: developed by the author based on [7]*

### 1. Main strategy, corporate.

This strategy describes the development of the organization as a whole, is formulated at the highest level and is mandatory for all divisions of the organization, regardless of their degree of autonomy and decentralization. An organization can maintain its integrity and develop successfully only with an effective main strategy. It describes the general data of the company's development, for example, the total profit, summed up for all divisions, the total sales.[10] Only for the most important, key types of business and strategic business units can their main characteristics of

the results of activities be given, for example, sales volumes, profitability, the contribution of the business unit to the overall results of the company.

The main strategy should also provide synergies. Synergy is the most important characteristic of complex systems, meaning that when various departments and business units of a company interact, the total result exceeds the sum of the simple effects from their activities. For example, a company acquires a distribution network, which results in a sharp increase in its sales, several business units that previously did not have access to new customers. The overall result is significantly higher than the sum of the profits of the distribution network and the business units if they operated separately from each other.[7]

Therefore, the main strategy is not the sum of the strategies of its divisions, as they sometimes try to develop in practice, but a synthesis of the development strategies of the division, on the basis of which a new level of development should be achieved.

The development of this strategy is the most difficult task of strategic management. It is necessary to determine the combination and scale of activities, compile a so-called portfolio of business types, select markets, determine the main priorities, formulate a key ideology, select and assign managers to key positions.

## 2. Strategies for business lines or strategies for business units.

These strategies are developed when the company has independent types of businesses and autonomous or semi-autonomous strategic business units. A business unit is a division of a company that carries out a full cycle - marketing, production, sales, and, in some cases, research and development.[17] Business units have great independence, their managers independently determine strategies for production, pricing and sales, incentives and recruiting, and production development. In various companies, restrictions may be imposed on certain decisions made by SBU managers. In general, SBU is a company within a company, but nevertheless, even in conditions of its maximum autonomy, the following restrictions on its independent decisions must be observed. SBUs cannot independently:[7]

- 1) change the type of activity, production profile,

- 2) sell equipment and technologies,
- 3) take loans in excess of the restrictions established in the company (for example, in the amount of more than 10% of the total value of the assets of the SBU),
- 4) to dismiss the head of the SBU and key managers.

The development strategy of each SBU should also be developed taking into account the main strategy of the company.

### 3. Functional strategies

The purpose of these strategies is to ensure that the strategies of the business units and the company as a whole are carried out. When developing them, general corporate objectives and, at the same time, the objectives of the development of divisions as a whole are taken into account. Many companies mistakenly believe that it is possible to dispense with the development of these strategies and be limited to the main strategy and strategies of the business units. But in this case, the goals and objectives set in them "hang in the air", since it is unclear who is responsible for what, what tasks need to be solved in the first place, how to coordinate the implementation of tasks.

These strategies are most often classified according to the functional divisions of the company. Another approach is related to the classification of them according to general types of activities. For example, in this form: marketing strategy, financial strategy, innovation strategy, production strategy, social strategy, organizational change strategy, environmental strategy. It should be noted that the strategy-based approach for functional units is more specific, since it is clear who is responsible for the development and implementation. In addition, each functional unit develops an innovative strategy, a strategy for organizational change, social and others. Marketing strategy should be developed by the marketing department, but it is unclear who should develop social, innovative and a number of other strategies and be responsible for their implementation. It should also be borne in mind that every strategy must be innovative. Functional strategies are low-level strategies and should be as specific as possible. In all cases, it is necessary to develop strategies for the

development of functional units. It is advisable to consider the classification of strategies by type of activity separately from functional strategies.[11]

#### 4. Strategies for teams, work groups and workers

The experience of strategic management has shown that the company's strategy will be effectively implemented only when the general strategic goals of the upper level are transformed into the strategic goals of employees of the lower levels, on which the implementation of strategies depends.

In a bureaucratic approach, the strategy is determined by the upper management level and mechanically transferred to the lower management levels. At the same time, the problems of linking the development strategy of the company as a whole, the strategy of its subdivision and the development strategy of groups, teams and the employees themselves are not solved. This approach leads to a strategic gap when strategic goals are set by management, but strategies are ineffective due to the lack of links between the strategic goals of the upper and lower levels of the company and the interest of employees of lower levels in achieving them. Strategic management involves ensuring the relationship between the strategic goals of all levels of company management. In Fig. Figure 1 shows the relationship of a functional manufacturing strategy to the strategies of two manufacturing sites, workers, workgroup and team, created to address quality improvement issues and introduce a new process.[12]

The importance of fourth-level strategies is currently increasing in connection with the development of self-management and self-organization in companies, when the center of gravity of managerial actions and decisions is shifted to the network structures of the team, work groups and directly to the employees implementing the strategies.

The classic approach to identifying strategies depending on the nature of the company's development includes dividing strategies into 3 groups:[13]

- 1) growth strategies, including strategies for concentration, vertical integration, diversification,
- 2) stabilization strategies,

3) defense strategies, including strategies for harvesting, turning, divesting, bankruptcy, liquidation.

This classification is currently widely used in strategic management training systems. But modern conditions require a different approach. The range of strategies should be expanded to take into account the new strategies applied in recent years and the multipurpose nature of the basic strategies. It is necessary to take into account the possibility of using a strategy of the same type, for example, diversification, reengineering and others, not only for the growth of the company, but also for its stabilization or for protection. This approach makes it possible to flexibly use certain capabilities of individual strategies and meets the real conditions of their application. Thus, reengineering is often carried out in successful companies to ensure growth and in troubled companies in order to increase their resilience. Distressed companies can, as a result of diversification, without receiving additional profits, increase their stability in the market.

1. Growth strategies are aimed at expanding market activities, increasing the company's assets, and increasing investment volumes. In many cases, the company's management deliberately chooses growth strategies associated with a high level of risk, since no one can guarantee that the rapid increase in goods and services will bring the expected profits in a highly competitive environment.[18]

Depending on the rate of development of the company (the rate of growth of its profits, sales, assets), there may be:[13]

1) The strategy of super-growth or hyper-growth, these include companies that have been gaining high rates of development for 10 years and achieve total sales of more than \$ 1 billion 4 or occupy a dominant position in the market.

2) A dynamic growth strategy, when the company is included in the group of leading companies in terms of development rates, but does not occupy a dominant position. A prerequisite is exceeding the average growth rate of the market and accelerating the rate of development

3) The strategy of leapfrogging (leap), when the company suddenly increases the pace of development for a short period of time.

4) The strategy of moderate growth means the adaptation of the company to the average growth rate of the market.

5) The strategy of slow growth means an increase in the economic potential of the company, the rate of its development is below market opportunities and the average rate of growth of the market.

6) The strategy of slowing growth, when there is an increase in economic indicators of profit, sales, assets in absolute terms, but at the same time the growth rates of these indicators in comparison with previous periods are decreasing. Such a strategy can be associated both with the exhaustion of the company's capabilities, and with a decrease in the potential for market development, its achievement of maturity and saturation.

2. Strategies for stabilization, protection and survival are aimed at maintaining a market niche and market share. In these conditions, the main task is to find internal reserves and profitable market opportunities with minimal levels of risk.

3. Downsizing strategies have the main goal of minimizing the costs of the company for the types of business that cause it losses. Under these conditions, the company's profits are minimal, profitability is low, and most often it incurs losses. The task of managers is to radically change the company, completely reorganize it, change the types of activities, switch to strategies 1 or 2. If this fails, then the task is set to exit the market with minimal losses when the business is closed.

The growth, stabilization and contraction of the firm can be implemented in various ways through strategies of the next level:[7]

1) Concentration - an increase in the volume of production of basic products or services. Variants of this strategy are possible: horizontal concentration based on the acquisition or opening of companies producing the same products, concentration based on market development - increasing market share, increasing the company's market rating, concentration based on product development - improving its quality, increasing the product family;

2) Integration (direct and reverse), sometimes called vertical integration, means the growth of a company's control over consumers and suppliers, through the

acquisition or creation of companies located at the top and bottom of the production and distribution chain. If top-level companies are acquired or created, for example, consuming its products or services, this is called direct integration or, for example, a metallurgical plant acquires a car manufacturing plant. If downstream companies are acquired or created, this is a reverse integration strategy. For example, a company acquires a firm that supplies semi-finished products;[15]

3) Diversification - involves the production of goods and services that differ from its basic. Distinguish between coherent and incoherent diversification. A coherent diversification strategy means the production of new goods and services, directly or indirectly similar to the basic ones. Disjointed diversification means the production of goods and services that are completely unrelated to the company's core business. An example of incoherent diversification: An engineering equipment company opens a food production facility. Disjointed diversification is also called conglomerate. If a company expands its production into new areas, but its goods and services remain close to the basic ones, one speaks of concentrated diversification;

Comprehensive Quality Management (TQM) is a company's development strategy based on promoting the quality of products and services as the main goal and priority criterion for assessing the effectiveness of development. The quality improvement strategy permeates the entire company from management to ordinary performers. Each innovation is evaluated, first of all, from the point of view of its impact on the growth of the quality of products and services. The quality level is monitored daily. The main task of the company's personnel in TQM conditions is the transition to a zero scrap rate. The company is developing a complex system of internal planning, control and regulation of product quality at all stages of its creation, from the selection of suppliers to deliveries to customers. Continuous training of personnel is carried out and quality audits of the entire company and its divisions are periodically carried out;[14]

Repositioning strategy - based on changing the position of the product in the minds of consumers through advertising, changing some of its properties and prices. As a result, the product moves from one segment to another. This strategy reflects

the principle of moving to higher positions in a new segment. If a product cannot achieve leadership in its segment, it can become one of the leaders in new segments;

Customization, provides for an increase in the value of the product by linking it to the individual needs and characteristics of consumers. Customization takes many forms. So, it can be carried out in the form of attracting consumers to participate in the production of a product or service, by individually selecting the components of a product or service, attracting them to the design of the final product;[19]

Reengineering - provides for the complete redesign of an existing business. All products and services, business processes, and management functions are audited and questioned. The main goal is to create new, more efficient production, sales and management system. Unlike modernization or innovation, which affects individual subsystems of a company, reengineering fundamentally changes its appearance. It should be noted that many companies cannot get the effect of its use, since they do not risk making radical changes, and partial reengineering is not effective enough. But even some of the results are impressive. For example, instead of 10 - 15 days for the delivery of products from the date of receipt of the order, many companies after reengineering have reduced this time to 3 days, dramatically reduced costs. After successful reengineering, companies can become market leaders;[8]

Restructuring - a change in the internal structure of a company, first of all, due to the release from unprofitable and non-core industries, the elimination of redundant links in management. As a result of restructuring, as a rule, the number of employees is reduced by 20 - 40%, new owners and managers often come, a new structure is created, a company that is simpler, more economical and productive;

Termination of investments (extraction of residual profits) - this strategy is based on the termination of investments in the development of the company and its divisions, profits are made from the company and it is prepared for sale, reorganization or liquidation. Such a strategy is applied in conditions when it is difficult to compete and the company loses its market position, there is no opportunity to attract investments;[15]

Mergers - this strategy is based on the merger of companies. This strategy is often the only way out for an inefficient company to avoid bankruptcy. But often this strategy takes the form of takeover or takeover, when one company with the aim of eliminating a competitor acquires his controlling stake and deprives him of independence. The problem of hostile takeovers is acute in the global economy, when transactions and financial transactions are concluded at dramatically increased speeds in the context of electronic communications. A merger from an acquisition is distinguished by the voluntary nature of the decision of both parties. Takeovers, on the other hand, are considered unethical means of competition;[13]

Bankruptcy - this strategy is used by companies in difficult financial situations, when the company cannot fully pay off its debts, it is besieged by creditors. In this case, in world practice, the recognition of bankruptcy means the possibility of obtaining a deferment through the court payment of debts and freezing of creditors' claims for a certain period, sometimes up to 3 years, which gives the company an opportunity to get a respite and improve its efficiency. An example of this strategy is the bankruptcy of the famous aircraft manufacturer Douglas in 1966, which the company was forced to implement due to an acute shortage of funds, although it had large orders for the production of 409 aircraft;

Liquidation is the last stage of an organization's life cycle. Upon liquidation, the company is completely deprived of assets, ceases to operate, and the debt of creditors is paid. The liquidation strategy makes sense for companies in conditions when it is more profitable to create a new production than to invest in the reorganization of unprofitable ones.[14]

In existing approaches to the classification of strategies, third-level strategies (integration, diversification, restructuring, and others) are classified either as growth strategies, or protection or stabilization strategies. But in reality, many of the third-level strategies are multipurpose. [1 7]They can be used both for the growth of the company and for strategies of protection or reduction. The most versatile in this sense are diversification and reengineering strategies that can be applied in any environment.[9]

It would be wrong to believe that there is always only one way to solve strategic problems, by choosing strategies of one type. I. Ansoff, in the principles of strategic management, cited the multielement hypothesis, which rejects the assumption that one component of management, be it key managers, structure, culture or system, is the main condition for success. On the contrary, the company's success is the result of interaction and complementarity of several key elements (although under certain conditions one or more components may prevail over others).

The classification of strategies is also carried out according to the functional types of activities of the firm:[13]



Chart 1.6: Classification of strategies by functional activities of the organization

*Source: developed by the author based on [13]*

Product strategy (product-market, production) - determines which products, in what volumes will be produced and for which markets.[20]

Strategy of technology development determines the choice of types of technologies, calculation of capacity requirements, the level of their competitiveness, ways of their development and improvement.[21]

Resource strategy determines what types of resources will be used, the requirements for the amount of resources, alternative possibilities for their use, the composition of suppliers and quality control of the supplied materials and raw materials, ways of saving resources and their other technical and economic characteristics.[22]

Innovation strategy - determines the innovation policy of the organization, what innovations and in which divisions of the company will be developed and implemented, the timing and costs of their development and implementation.[23]

Logistic strategy - determines the general logistics model of the company, the optimal routes for the supply of its resources and delivery of goods to customers, the most effective options for storing stocks and goods, and intra-plant transportation.[24]

Marketing strategy - defines the principles of development and sale of goods and services, pricing policy, relationships with customers, behavior in relation to competitors, advertising and promotion of goods and other characteristics that provide the company with the most successful sales and growth.[25]

Sales strategy is closely related to marketing strategy and it is developed for sales departments of the company, defining for them the volumes and schedules of sales, prices, discounts, after-sales services and other factors affecting sales.[16]

Research and development strategy defines the choice of key areas for the development of new products and services, strategic alliances for joint development, targets for new products and their life cycles.[26]

Financial strategy determines the methods of attracting and the volume of attracted financial resources, the ratio between equity and borrowed capital, the main indicators of the efficiency of financial and economic activities, principles of cash flow management, settlements with creditors and other key financial characteristics.[27]

Investment strategy - determines the sources of investment resources, the nature of financing investment projects, investment directions, distribution of

investment resources between the company's divisions, investment return indicators, economic results of investment processes.[16]

Public Relations strategy is aimed to create a positive image of the company in the public consciousness through the participation of the company in activities aimed at social progress, support of low-income segments of the population, production of goods and services that meet those declared in advertising characteristics.

These strategies are aimed at developing the internal potential of the company, strengthening its factors that ensure market success. A number of these strategies can be detailed. So, for example, sales strategy and marketing strategy determine the nature of the company's behavior in relation to competing leaders:[13]

- 1) the strategy to become a leading leader means the company's striving to take the first place among competitors,
- 2) strategy of entering the group of leaders, the company seeks to enter the group of the first 10 or more companies (depending on the number of competitors in the market), but does not seek to dominate the rest of the leaders,
- 3) the strategy of following the leader or leaders, means that the company copies the actions of the leaders and maintains relatively small sales volumes in comparison with the leaders,
- 4) strategy of maneuver, the company, keeping a trade secret, is preparing a sudden release of a new product or service, which should bring it to the market leader,
- 5) strategy of stable market position or market equilibrium, the company seeks to maintain the existing position and market equilibrium. The rationale behind this strategy is that the pursuit of leadership can trigger violent responses from competitors (changes in pricing, advertising, and other actions) and disrupt market stability.

To sum up, business strategy means strategy of business components and its goal is to influence directly at competitive advantages in an exact sphere of organizational activity.

## CHAPTER 2. PHILIP MORRIS INTERNATIONAL BUSINESS STRATEGIS BACKGROUND

### 2.1 Historical aspects of Philip Morris International development

Philip Morris International (PMI) is a leading international tobacco company with products sold in more than 180 countries around the world. In 2017, the company owned 28.0% of the global cigarette market, excluding China and the United States. PMI has a strong and diverse range of brands led by Marlboro, the world's best-selling international brand, and the third most popular L&M brand. The company owns 6 of the 15 most popular international tobacco brands in the world.

Along with the manufacture and sale of cigarettes, PMI is engaged in the development and commercialization of Potentially Reduced Risk (“RRP”) products. The company's global mission is to encourage all adult smokers to switch to products that are less harmful to their health than regular cigarettes. The company invests heavily in the development of innovations that have the potential to significantly reduce the risk of smoking-related diseases, and in 2015 one of these products under the IQOS brand was launched on the Russian market. [28]

The history of the world famous company in our time dates back to the moment when Philip Morris opened his only store selling tobacco and cigarettes in 1847 in London on Bond Street.

After Mr. Morris's death, his wife Margaret and brother Leopold inherited the business. In 1881, the company became famous. Leopold Morris and Joseph Grunebaum form Philip Morris & Company and Grunebaum, Ltd. In 1885, these partnerships ended and the company was renamed Philip Morris & Co., Ltd.[28]

The company spiraled out of the control of its founding family in 1894 when William Curtis Thomson and his family took over. Under Thomson, the company was honored to supply tobacco products to the royal court of Edward VII, and in 1902 it was registered as a corporation in New York by Gustav Eckmeyer. The company was owned by a half English founder and half American partners. Since 1872, Eckmeyer imported and sold English-made cigarettes, being the only representative of Philip Morris in the United States.

1919 was a turning point for the company. It was commemorated by the addition of the crown emblem to Philip Morris, the Philip Morris Company in the United States was acquired by a US-owned firm, and the new corporation was incorporated in Virginia under the name Philip Morris & Co., Ltd., Inc. By the end of the next decade, the company began manufacturing cigarettes at its factory in Richmond, Virginia; and in 1924 the Marlboro brand of cigarettes appeared, which later became one of the most famous brands of the company.

After gaining a strong position in the United States, the management of Philip Morris Incorporated decided to distribute its products all over the world. In 1954, Philip Morris (Australia) Ltd was established, and a year later, the international division of Philip Morris Overseas, which became Philip Morris International in 1961.

This opened up wide horizons for an impressive expansion of sales markets through licensing agreements and a rapid increase in the number of branches of the company around the world. In 1963, our first branch in Europe, Swiss Fabriques de Tabac Reunies, was established. Further more.

By 1972, Philip Morris International had sales of 113 billion pieces; by this time, production and distribution had been established in many markets around the world. For distribution on the territory of the former Soviet Union, the company's

specialists developed cigarettes based on American bags, and by 1977 access to the sales market, located behind the "Iron Curtain", was opened.[28]

Since its inception, Philip Morris International has worked hard to establish itself in a wide variety of countries and regions around the world, including Central and South Africa and Japan. Between 1981 and 2005, sales increased from 249 billion cigarettes to 805 billion. In proportion to these indicators, the operating profit of the company also increased.[28]

In the 1990s, tightly controlled Eastern European markets opened up for entrepreneurship, and Philip Morris acquired controlling stakes in several factories in Lithuania, Russia and Poland. At the same time, construction began on new factories in cities such as St. Petersburg in Russia and Almaty in Kazakhstan.

Today, Philip Morris International products account for almost 15% of the global cigarette market.

In 2014, PMI launched the IQOS device, an electronic tobacco heating system using HeatControl™ technology. Consists of holder and charger. To use IQOS, special tobacco sticks are required, which are sold separately. The system heats the tobacco stick to a temperature of no more than 350C °. The absence of the combustion process allows to reduce the level of emitted harmful substances by an average of 90–95% (lower than in cigarette smoke) [29]. However, the use of IQOS is not harmless and does not eliminate the health risks associated with tobacco consumption.

In 2015, PMI launched sales of Solaris e-cigarettes in Spain and Israel [30].

In September 2016, the construction of a tobacco stick factory in Bologna (Italy) was completed. The amount of investment in construction amounted to 500 million euros [31].

In 2016, PMI began preparations for a global transformation of its business, intending to completely abandon the production of cigarettes in favor of alternative ways of consuming nicotine - smokeless products [32].

In 2017, PMI filed an application with the US Food and Drug Administration (FDA) for pre-marketing approval for an IQOS device, along with an extensive dossier of scientific documentation [33] On April 30, 2019, following a thorough and comprehensive review of the submitted documentation, the FDA considered IQOS's presence in the US market to meet public health goals and confirmed the possibility of selling the IQOS device and three types of sticks in the US [34].

In 2018, PMI announced the launch of the IQOS MESH electronic cigarette, a device that uses mesh vaporizers and VEEV cartridges with pre-filled liquid [35].

In 2020, PMI received approval from the FDA to market the IQOS system as a reduced exposure tobacco product in the United States. Thus, PMI's IQOS Tobacco Heating System is the first and so far the only tobacco heating system to receive FDA approval as an exposure modification order [36].

The FDA concluded that the available scientific evidence suggests that IQOS can have a positive impact on the health of the general population, including smokers and currently non-tobacco users [36].

The issuance of this authorization obliges PMI to conduct post-market surveillance and research of the IQOS system. This is to determine whether a product continues to meet public health goals, including an assessment of the likelihood of youth using IQOS [36].

In January 2020, PMI entered into an agreement with KT&G, a leading South Korean manufacturer of tobacco and nicotine products. The agreement allows PMI to commit to distributing KT&G smokeless products outside of South Korea to provide adult smokers with more options to switch to smokeless alternatives to cigarettes. [37]

In August 2020, PMI introduced a new KT&G product - lil™ SOLID - to the Russian market. The product is similar to other smokeless devices developed by PMI, but it has a number of technical and visual differences, such as: size, weight, duration of use, the number of such sessions in a row and the presence of a heating element in the form of a rod made of ceramic material. The device uses the DUAL HEAT technology, which heats the tobacco from the inside to 350 ° C [37]. lil SOLID weighs 84 grams and has a microUSB port. Fiit sticks are used instead of HEETS [38]. The device is similar to the IQOS 3 MULTI, but it is enough for 4 sessions of use in a row and 20 sessions in total, and the IQOS 3 MULTI is designed for 10 sessions in total.

A distinctive feature of the development of the domestic tobacco industry is the high share of production by multinational companies, which import almost all raw materials from other countries. Thus, today the market of domestic productive forces nominally has 27 tobacco factories, but the main producers in the Ukrainian market are still enterprises that receive foreign investment.[38]

Today, the tobacco market is actively developing and companies operating in it invest large amounts of money in the study of tobacco products and in their own innovation. Thus, due to large investments, the factories were modernized and technically re-equipped, which allowed to ensure the production of tobacco products that meet international quality criteria. The modern tobacco market is represented by a variety of tobacco products, tobacco heating systems, cigarette formats by diameter, tar and nicotine content, types of filters and cigarette paper. It is advisable to consider one of the largest tobacco transnational companies with a branch in Ukraine - Philip Morris International.

Philip Morris International (PMI) joined the Ukraine Forum in 1994 and was represented by PJSC Philip Morris Ukraine (FMU) and Philip Morris Sales and Distribution LLC (FMSD). The company has a modern factory in Kharkov, which produces many international brands, Ukrainian and foreign. FMU also has PMI branches in Armenia, Georgia and Moldova.

In 1994, an investment agreement was signed with JSC Kharkov Tobacco Factory and it acquired a 51% stake in JSC Kharkov Tobacco Factory.

In 2003, the company began construction of new factories in the village. Dokuchaevsky, Kharkiv region, Kharkiv region, operating since May 2006. 900 people are involved in the production and more than three hundred people provide the infrastructure through contractors. [39]

PJSC Philip Morris Ukraine is part of Philip Morris International Corporation, the first international tobacco company to sell products in more than 160 countries. Philip Morris from Ukraine is appointed by PJSC in Kiev and has nine regional offices in different countries. A new production plant was opened in Kharkov. Ukraine produces several brands, both domestic and export. These include Chesterfield, Bond Street, Marlboro, L&M and Parliament.

In 2003, the company began construction of new factories in the village. The Kharkiv Communist District, Kharkiv Oblast, has been active since May 2006. [39]

In 2016, Ukraine became the seventh market where Philip Morris presented its revolutionary IQOS product based on the innovative HeatControl technology. Since then, the company has been moving towards a smoke-free future. In the future, he plans to stop producing cigarettes.[40]

In October 2019, the Antimonopoly Committee fined Philip Morris Sales and Distribution and Philip Morris Ukraine UAH 370 million and UAH 810 million, respectively, for violating competition in the tobacco distribution market.

In April 2021, the Court of Appeal overturned the decision of the first instance court and canceled the fine for companies in the total amount of UAH 1.2 billion.

In 2010, the company "Philip Morris Ukraine" received a net profit of UAH 1.083 billion. In 2011, this indicator amounted to UAH 1.12 billion.[40]

In 2020, Philip Morris Ukraine increased its net profit by 5% compared to 2019 - up to UAH 2.73 billion.

Its assets for the year increased by 18% - to UAH 11.51 billion, and retained earnings - by 55.5%, to UAH 7.79 billion.

The amount of taxes paid to the budgets reached UAH 23.5 billion.

In 2021, the company took 18th place in the list of "100 largest private companies in Ukraine" by Forbes magazine with a profit of UAH 332 million.[40]

The company owns the most popular brand of cigarettes in the world - Marlboro. 7 of the 15 most popular brands in the world belong to this particular corporation, including L&M, Chesterfield, Philip Morris, Parliament and Virginia Slims.[41] The economy segment of the company consists of the brands Bond Street, Red & White and Next, and Philip Morris also owns several important local brands in the countries with which tobacco factories are most closely associated. Diana in Italy, A Mild in Indonesia and Delicados in Mexico. They also produce cigarettes such as A Hijau and Dji Sam Soe in Indonesia, Optima and Apollo-Soyuz in Russia, Morven Gold in Pakistan, Boston in Colombia, Best and Classic in Serbia, f6 in Germany, Assos in Greece, Petra in Czech Republic and Slovakia. The company also produces other tobacco products. They are successfully developing their activities in this direction and have recently acquired Swedish Match in South Africa, as well as leading shredded tobacco companies - Interval in France and Petterøes in Norway.[41]

Let`s Consider in more detail the brands represented by the company.

Table 2. The most important PMI cigarette brands

Parliament	<p>The brand is in the premium price category for those who always strive for excellence.</p> <p>Philip Morris founded a solid and successful brand to this day in 1931.</p> <p>For the manufacture of the Parliament brand of cigarettes, the company uses only the highest grades of tobacco.</p> <p>The main feature of this brand of cigarettes is a special filter-mouthpiece that provides cooling of the smoke [42].</p>
Marlboro	<p>The brand is in the premium price category for those who always make bold decisions.</p> <p>Marlborough is a brand of cigarettes produced by Philip Morris International since 1924. Marlboro is the world's best-selling cigarette brand</p>

Table 2 continuation

	<p>In 1924, Philip Morris launched the Marlboro brand with the slogan "Mild As May". At that time, filter cigarettes were mainly intended for women, so there was a red strip around the filter to hide traces of lipstick. The filter was named "Beauty Tips to Keep the Paper from Your Lips".</p> <p>Marlboro cigarettes are widely known throughout the world thanks to a powerful advertising campaign and significant charitable investments in motorsport, in particular, financial support since 1997 of the Ferrari Formula 1 team [43].</p> <p>The emblem of cigarettes bears the Latin expression Veni, vidi, vici, authored by Julius Caesar</p>
L&M	<p>The brand is in the middle price category for those who are open to new experiences. The first letters of the names of two friends and founders of the world famous Liggett &amp; Myers company - John Liggett and Smith Myers are encrypted in the name of L &amp; M cigarettes..</p>
Bond Street	<p>The brand is in the middle price category, for those who choose consistently high quality.</p> <p>The founder of Philip Morris owned a boutique on Bond Street in London. 1902 was the year that Albert, King of Belgium, one of the great admirers of the Morris company, bestowed the title of royal tobacco seller on the boutique. Since then (by the way, the very first name of the brand was "Old Bond Street") cigarettes with this name have gone through a long and distinguished period of development of conquering new markets. In the mid-90s, a rebranding process took place - a new, fresh design and solid packaging appeared. In 2006, a new "premium" version of the Bond Street Special was launched, and in 2009 it was discontinued [44]</p>
Philip Morris	<p>The brand is in the low price category, for those who enjoy every day on the way to their dreams.</p>

*Source: developed by the author based on [42], [43],[44].*

The new smokeless alternatives belong to the RRP (Reduced Risk Products) category and are designed exclusively for adult smokers. In 2014, Philip Morris launched a revolutionary product - IQOS tobacco heating technology. Today, millions of consumers have switched to smokeless nicotine-free products without

tobacco tars. During operation of the device, the pressed tobacco product ("stick") is heated and aerosols containing nicotine and other chemicals are released, which are consumed by smokers by inhalation through the mouth.

Instead of the traditional smoking of tobacco, which is present when smoking regular cigarettes at a temperature of 600-900 degrees, the IQOS system heats tobacco without burning.

The main disadvantage of cigarettes is that when cigarettes are lit, about 7,000 chemical compounds are released, which affect the health of the smoker and cause secondhand smoke. In the tobacco vapor (aerosol) of heated tobacco, carbon monoxide contains no more than 2% of the amount that is released during the combustion of a cigarette [45]. When tobacco vapor (aerosol) is formed, the tobacco combustion process is absent, therefore it does not contain tar, which are present in cigarette smoke [45]. However, the use of IQOS is not harmless and does not eliminate the health risks associated with tobacco consumption. According to the World Health Organization, IQOS is an example of heated tobacco products.

PMI studies show that the level of excreted harmful substances (excluding nicotine) in IQOS aerosol in comparison with cigarette smoke is on average 95% less, but the use of IQOS does not exclude health risks [45].

PMI studies show that switching completely to IQOS is less harmful than continuing to smoke cigarettes; IQOS aerosol does not affect the air quality in the room and stains the teeth significantly less than cigarette smoke if the teeth are already coated with cigarette smoke, then switching to IQOS will not reduce their darkening.

## 2.2 Philip Morris International development practices analysis

One of the most important Philip Morris strategies is RRP product promotion strategy.

Philip Morris' main goal is to completely replace cigarettes with smokeless alternative products that emit less harmful substances (RRP products). The company's products are made exclusively for adults who would otherwise continue to use cigarettes or other nicotine-containing products. The main mission of the company is to offer adult smokers the best choice. Philip Morris International develops and tests products that allow the use of nicotine without harmful smoke, and which, at the same time, will be acceptable to consumers. Since 2008, the organization has invested more than \$ 8.1 billion and employed more than 400 top scientists, engineers and technicians [45]

It is worth noting that HEETS are divided into 2 lines - HEETS Regular and HEETS Dimensions. HEETS Regular is positioned in the Premium-Medium price category, ie on the verge of the premium and middle segments, while HEETS Dimensions is an exclusively premium product based on the price and method of communication about it.

The company recently analyzed the purchasing power of consumers and offered the market a new device - a new system for heating tobacco used with sticks at a lower price. This device was quickly spread in the market, especially in the cities of expansion.

As the main problem that was the barrier to buying the IQOS system was the price, a new product was offered to the market, which gained market share of 3.5% in almost a year. Another line device in 2020 by the company Philip Morris became lil SOLID[46]. It is a tobacco heating system in a convenient all-in-one format. This is the second line supporting the brand's main mission - to completely replace

cigarettes with the best alternative for those who continue to smoke. The lil SOLID line is represented by two devices: lil solid and lil 2.0.[46]

Lil devices differ in low cost in comparison with IQOS devices, but at the same time they have the same high-quality assembly and cool technical characteristics. The main features of the device are the ability to use it several times in a row without recharging, good autonomy, convenience and intuitive use. With all this, devices are being sold with an acceptable price tag for a wide range of smokers.

To use the lil device, you will need special tobacco sticks, produced under the HEETS and Fiit brands.

Inside the lil SOLID 2.0 there is a built-in heating element in the form of a needle. When you insert the drain, this "needle" goes right into the center of the drain and heats the tobacco from the inside.[46]

The main and only competitor in the market of RRP sticks is a product from the company "British American Tobacco", Neo, which is designed for the heating system of tobacco from a competitor - Glo.

Consequently, the most important business strategy of Philip Morris development is developing alternatives to smoking and make less risks from cigarettes.[47]

Table 3. 2020 and 2021 Year Indexes

2020 Full-Year HIGHLIGHTS	2021 Nine Months Year-to-Date HIGHLIGHTS
Reported diluted <i>Earnings per share</i> of \$5.16, rose up by 11.9%;	Reported diluted <i>Earnings per share</i> of \$4.48, rose up by 14.9%;
Adjusted diluted <i>Earnings per share</i> of \$5.17, down by 0.4%; increased up by 7.0% on an organic basis	Adjusted diluted <i>Earnings per share</i> of \$4.72, rose up by 20.4%; increased up by 15.8% excluding currency

Shipments of cigarettes and tobacco-heated products decreased by 8.1% (reflecting a decrease of 11.1% in cigarette shipments and an increase in shipments of heated tobacco by 27.6% and 76.1 billion units); Based on 7.9% less compatibility	Shipments of cigarettes and tobacco-heated devices volume increased up by 1.5% (reflecting shipment of cigarettes volume decrease by 1.6%, and shipment of heated tobacco devices volume increased up by 27.9% to 69.6 billion units)
Market share for PMI heated tobacco products in IQOS markets, excluding the U.S., increased up to 6.1%	Market share for PMI heated tobacco products in IQOS markets, excluding the U.S., increased up by 1.3 points to 6.9%
Net revenues decreased down by 3.7%; down by 1.6% on an organic basis	Net revenues increased up by 9.7%;
Operating income of PMI increased up by 10.8%; up by 15.3%, excluding currency	Adjusted net revenues IN PMI up by 7.3% on an organic basis
Adjusted operating income increased up by 4.6% on an organic basis	Net revenues from smoke-free products accounted for 28.6% of total adjusted net revenues
Adjusted operating income margin of 40.8%, up by 2.4 points on an organic basis	Operating income increased up by 14.4%; up by 10.1%, excluding currency
Increased the regular quarterly dividend per share by 2.6% to an annualized rate of \$4.80	Adjusted operating income up by 14.5% on an organic basis
Total IQOS users at year-end estimated at approximately 17.6 million, of which approximately 12.7 million have switched to IQOS and stopped smoking usual cigarettes	Adjusted operating income margin up by 3.0 points; up by 2.8 points on an organic basis

*Source: developed by the author based on [47]*

Thus, Philip Morris International is a progressive company seeking a better future by investing billions in low-risk product research.[48]

"Our business reported another strong quarterly result that exceeded our expectations, with a reduced profit of \$ 1.58 per share, an 8.5% increase without currency," said CEO Jacek Olczak. The continuation of IQOS's excellent performance for 2021 has led to an increase in total shipments and net organic income of 2.1% and 7.6%, respectively, and has been further strengthened by a steady increase in the share of our burning products. corrected with a reduced EPS forecast for and represents a neutral increase in currency from 13% to 14% despite continued supply of equipment. "The global shortage of semiconductors is affecting our ability to meet customer demand for IQOS." Despite equipment constraints that

growth rates may continue in the first half of 2022, the 2021-2023 growth targets confirm our confidence.

The company works in good faith, cooperates with government agencies, the media and regulatory authorities, publishes receipts and tax payments.

Analyzing the calculations of the above indicators, we can conclude that the company uses the available resources quite efficiently. Given some aspects of the external environment, such as the emergence of the first competitor in the low-risk segment or the limitation of quarantine opportunities, companies need to analyze ways to optimize existing negative factors and create more alternatives. other unforeseen environmental factors [47]

The main goal of Philip Morris' development strategy is to align the evaluation and planning process for each stage of the market with the organization's ultimate goals, to analyze its effectiveness and to take into account environmental factors. This confirms the importance of choosing the right development strategy for further growth of the organization and development in the local market.

Assumptions for the entire annual forecast for 2021. The forecast assumes that: [47]

1. Continuous gradual improvement of the overall working environment with the potential variability associated with the duration and impact of pandemic-related mobility constraints in key primary markets;

2. The limited supply of IQOS devices due to the persistent global semiconductor shortage, with limited inventory and device availability, is thus lowering IQOS user growth, which PMI prioritizes for those using IQOS running devices; 2021 ILUMA will be launched in some markets now in the second half of 2022;

3. A slight recovery in PMI performance from free activity in the fourth quarter, following a slight improvement in the third quarter, with intercontinental and Asian travel still highly concentrated;

4. Estimated total international industrial volume growth, excluding China and the USA, approx. + 1%, a decrease from approx. -1% to + 1% previously;

5. Total cigarette and heated tobacco shipment volume growth at PMI by approx. 1% to 2%, compared to the previous recent flat growth of +2%;
6. Tobacco-heated ships are about 95 miles away;
7. Adjusted net revenue growth of approx. 6.5% to 7% organically compared to the previous range of 6% to 7%;
8. Increase in adjusted profit margin by approx. 200 points on an organic basis;
9. Incremental commercial investment in the second half of 2021 was about \$ 300 million compared to the previous half year, down from about \$ 300 million to \$ 400 million previously;
10. about 11 billion. USD of operating cash flows to the current commercial market and subject to capital requirements at the end of the year;
11. Construction costs around \$ 0.6 billion compared to previously around \$ 0.8 billion; • Tax-efficient, exclusive events for tax purposes, approx. 22%;
12. No significant effect on share repurchases;
13. No significant impact is reported on Fertin Pharmaceuticals A / S or Vectura Group plc.

Design author Philip Morris aims to maintain a leading position in the market, increase cigarette sales and successfully achieve a salable activity

Table 4. Philip Morris International SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Has brands in every price segment of the market</li> <li>It is a manufacturer of 7 of the 15 most popular cigarette brands in the world</li> <li>Occupies the world cigarette market</li> <li>Stable competitive position</li> <li>High business profitability</li> <li>Highly qualified management and opportunities to use the experience of foreign specialists.</li> <li>Production needs are provided by land and production areas by 100%</li> <li>Extensive distribution network.</li> </ul>	<ul style="list-style-type: none"> <li>There is almost no possibility of conducting advertising campaigns</li> <li>State control</li> <li>Insufficiently wide range</li> <li>Strong control of the parent company</li> <li>High dependence on foreign suppliers of equipment and materials.</li> <li>Dependence on exchange rate fluctuations.</li> <li>Dependence of product prices on the size of excise tax rates.</li> <li>Legislative prohibition to advertise the products of enterprises</li> </ul>

Table 4 continuation

<p>Offices and representative offices of companies in all regions of Ukraine.</p> <p>Most companies are affiliates of international corporations.</p> <p>6. Using a number of world-renowned brands</p> <p>Reliable sales system</p> <p>Reliable suppliers</p>	
Opportunities	Threats
<p>Increasing market share due to the acquisition of small national producers</p> <p>Attracting customers from the main competitor "British American Tobacco"</p> <p>Reduction of state intervention in the market</p> <p>High entrance barriers</p> <p>Expansion of markets due to market growth</p> <p>Reduction of resource prices</p> <p>Increasing the number of consumers through marketing activities.</p> <p>Receipt of production orders for other markets around the world</p> <p>Withdrawal of competitors from the industry</p>	<p>Anti-tobacco campaign</p> <p>Increase in taxes and fees, both on imports and on the production of cigarettes</p> <p>Rising excise taxes</p> <p>The emergence of a substitute product</p> <p>Price wars</p> <p>The emergence of new technologies in competitors</p> <p>Failures in the supply of raw materials and supplies</p> <p>Political instability</p> <p>Negative changes in the exchange rate</p> <p>Refusal of banks to provide long-term loans</p> <p>Unstable legal framework.</p>

*Source: developed by the author based on [49], [47]*

As a result, the main conclusion of the SWOT analysis is the expansion of the assortment presented by Philip Morris on the market.

Philip Morris' strengths include the rapid development of scientific and technical support, the correct analysis of the market and the introduction of a new type of tobacco product on the market, which currently occupies almost a third of the total market share.

The company uses leading systems for internal data processing, the best Business Intelligence platforms, uses artificial intelligence in manufacturing plants and the latest technologies for development.

In addition, despite the fact that the company is a leader in Ukraine and Russia, in the EU it ranks second in market share. This means that PMI needs to conduct

qualitative research in different markets and differentiate consumers of the entire cluster, which at this stage is a rather weak side of the company.[48]

RMI can conduct online or offline campaigns aimed at adult consumers of nicotine-containing products in order to switch them to less harmful alternatives, which opens up opportunities for development and new points of contact for the consumer for the organization.

It is clear that the legislature will impose certain regulatory restrictions as the market share of smokeless products increases. That is why it is important to properly build the communications of the RRP brand and company, so that there are real grounds for further development of this area.[46]

One of the threats is the launch of a new competitor product that will be lower in price. As demand for tobacco heating systems is not elastic, with increasing prices, consumers will not buy the same amount of sticks. This is an important component in the process of analyzing the competitive advantages and threats to the company.

It is worth noting that illegal trade is the main aspect of reducing the volume of tobacco products in the legal market. Over the past 4 years, the volume of illegal products exported to other countries has grown rapidly.

Price as a leading element of marketing strategy must maintain a balance between the desire of the state to receive revenues from the calculation of tobacco excise taxes, on the one hand, and the purchasing power of the population on the other.

Therefore, according to the analysis of Philip Morris' strengths, weaknesses, opportunities and threats, it is important to note that the company is very competitive in today's market. A comparison of the competitiveness of different areas of Philip Morris and competitors is shown in Chart 2.1

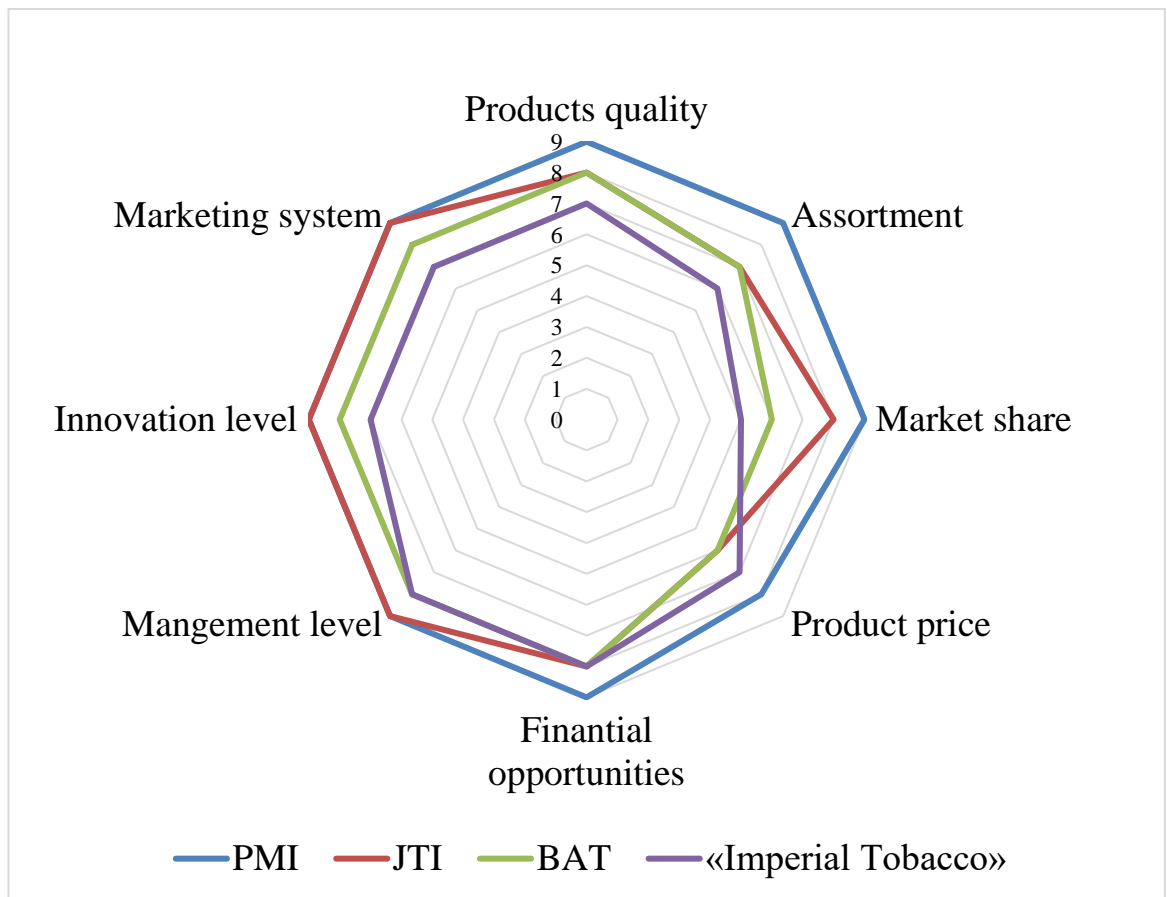


Chart 2.1 - Radar of competitiveness of the company PMI

*Source: developed by the author based on [49]*

So, the company Philip Morris International has very strong performance compared to competitors. Philip Morris' product quality, financial capabilities, product range and marketing system are stronger than its competitors, so the company has more development opportunities. Philip Morris is a leader in its market, but for continuing to have this position it is necessary to go on with successful marketing campaigns, new product developments and business strategies.

## CHAPTER 3. PHILIP MORRIS INTERNATIONAL BUSINESS STRATEGIES

### 3.1 Current Issues and Challenges in Philip Morris International

The tobacco market in the world is one of the most dynamic and highly competitive and at the same time one of the most regulated. The industry has no established trends, and each business decision of a player is quickly reflected in market share and financial performance of a company. This is also due to the fact that the tobacco market is controlled by four global manufacturers: Philip Morris, JTI, Imperial Tobacco and BAT. Their total market share is 98% of total production of tobacco products.

Currently, the tobacco market is characterized by a gradual decline in absolute terms (pieces), due to both an increase in the tax burden on cigarettes and a change in consumer habits. According to manufacturers, cigarette sales are falling every year. However, for several years now, the tobacco industry has been called one of the most effective reserves for filling the state treasury.

Consider the example of Ukraine. As for Ukraine, the state has recently raised excise tax rates several times a year, explaining that due to the high cost in Ukraine, the level of smoking will decrease. And at the same time the share of illegal products will decrease. [50]

A stumbling block in the tobacco industry is the issue of introducing the institute of minimum retail and wholesale prices for tobacco products. Yuriy Rylach states that such initiatives contradict Ukraine's obligations under the association agreement. "The introduction of such minimum prices not only contradicts the freedom of pricing, the essence of the provisions of the Tax Code of Ukraine on maximum retail prices, but also provides, in fact, anti-competitive advantages to some producers," he said.

Oleg Strekal, Corporate and Legal Director of Imperial Tobacco in Ukraine, Moldova and the Caucasus (Azerbaijan, Georgia, Armenia) agrees with his colleague and notes that in Europe minimum prices are prohibited by European Court decisions. "The Cabinet of Ministers took into account these arguments and prepared a bill to abolish the provision on minimum prices and amended the Tax Code of Ukraine," said Oleh Strekal.

Also price wars are important problem. The biggest price war in Ukraine was in 2015-2016. However, the position of the industry on the price issue is heterogeneous. In particular, Oleksandr Kohut, Director of Corporate Affairs at JTI Ukraine, believes that by competing for market share, cigarette manufacturers keep prices for some brands low at their own expense. In the declarations of the maximum retail price cigarettes cost was UAH 8.50 per pack - and this was despite the fact that the share of indirect taxes in the price of a pack was at least UAH 10.22. Such price wars could last indefinitely, because there were no mechanisms that make them impossible.

At the same time, as before the increase in the excise tax on tobacco products, manufacturers continued to accumulate stocks of finished products with declared low retail prices, hoping to sell them as long as possible during 2016. The issue of implementing the MRC should not be the subject of discussions, as such a rule is enshrined in the current version of the Tax Code of Ukraine. Implementation of this norm will lead to an increase in tax revenues, which depended on the price of a pack of cigarettes - VAT, the ad valorem component of the excise tax, 5% tax on the sale of excisable products. [50]

Oleg Strekal, director of corporate and legal services at Imperial Tobacco in Ukraine, Moldova and the Caucasus, notes that according to the estimates of the State Fiscal Service of Ukraine, the losses of the state budget in the VI quarter of 2015 due to price wars in the tobacco industry amounted to UAH 400 million. "And provided that the current situation is maintained this year, our state budget is underpaid no less than 1.5 billion hryvnias. For a country that is experiencing an

extraordinary economic and financial crisis and is also fighting on its territory, this amount, to put it mildly, is not a drop in the ocean, " [50]

In addition, the increase in taxes leads to an increase in trafficking through illegal means - through smuggling and counterfeiting.

The tobacco black market is a problem with many components, including criminal gangs that control the production of counterfeit cigarettes, smuggling and large-scale tax evasion. With lenient criminal penalties, ineffective border controls, insufficient arrests, and large differences in excise tax rates in neighboring countries, the problem of illicit trade will become more acute.

It is estimated that more than 480 billion illegal cigarettes are sold worldwide each year. This figure consists of smuggled, counterfeit or tax-free cigarettes.

Cigarettes are one of the most common goods on the illegal market. This is due to high profits, a relatively simple production process and the mobility of equipment, as well as a low level of detection of illegal production and relatively lenient sanctions against violators.[51]

Illegal trade causes great damage to the budgets of many countries. Losses from non-payment of taxes on tobacco products in the world reach about 40 billion pounds. We consider illegal trade to be a major threat to our business.

However, some governments are not even aware of the seriousness of the problem of illicit trade and do not recognize its dependence on excise tax rates.

Counterfeit cigarettes It is often almost impossible to distinguish counterfeits from original products. Another problem is "twin cigarettes" (when criminals imitate the original design with some changes). For example, the brand "State Express 555" can be completely copied by counterfeit manufacturers, but the numbers have been changed to 999. Consumers may think that this is just a new version.[51]

Not only are counterfeit products of poor quality and bad taste, but they can also be more dangerous to health than the original products. They do not comply with the strict regulations of legal producers regarding the levels of tar, nicotine and carbon monoxide and, in addition, may contain prohibited ingredients.

JT spokesman Gintautas Dirgella stressed a certain market trend: "The problem of the illegal tobacco market is directly dependent on the fiscal policy of the state, because most of the cost of a pack of cigarettes (about 70%) are taxes smuggling and counterfeiting. "[51]

If a large consignment of cigarettes enters the black market during transportation, organized tobacco smuggling occurs. By smuggling cigarettes that are in the wholesale chain of distribution channels and are not yet taxed, tobacco smugglers can avoid all taxes.

The root of the problem is that the losses from smuggling are borne by the state budget, not by tobacco growers and wholesalers who control distribution channels. Tobacco growers and wholesalers even benefit from the illicit trade: they profit from the initial sale of tobacco products; when smugglers supply the market with cheap cigarettes, prices fall and, therefore, demand increases. The profits from cigarette smuggling are huge. It is believed that such trade is as profitable as drug trafficking, only the punishment for cigarette smuggling is much milder.[52]

Weaknesses in the transportation system: The lack of a safer system for transporting cigarettes allows smugglers to sell a large number of cigarettes on the black market without taxes and duties.

Price differences in different countries: Price differences are a significant factor influencing illicit trade. But with large-scale cigarette smuggling and transit tobacco smuggling, the price difference does not play a significant role. For example, in the Scandinavian countries with high taxes and cigarette prices, tobacco smuggling is a rare phenomenon.

Duty-free sales: The presence of a large volume of duty-free tobacco products in international trade creates opportunities for smuggling.

Lack of resources: Most countries do not devote the necessary resources to strengthening tobacco tax control until they have a serious smuggling problem. It is difficult to destroy smuggled goods, it is much easier to take measures to prevent the emergence of these networks.[52]

Weak controls and lenient penalties: Smuggling usually thrives in countries where trafficking is very tolerant. In addition, in many countries, the illicit trade in tobacco products is not considered a serious crime and the penalties for it are much weaker than for the smuggling of drugs and firearms. Tobacco smuggling attracts many because it carries huge potential income and has been able to be caught, fined and / or imprisoned. In March 2000, the UK government announced a series of measures to reduce smuggling, such as the introduction of a mandatory duty mark and an increase in the number of customs officials.

Another problem in the development of Philip Morris International is price wars with competitors. Such price wars arise between world giants such as Philip Morris International, British American Tobacco, JTI, Imperial Tobacco, and local producers.

The essence of price wars is to lower the price in a certain segment and reach a larger audience of consumers. The problem is that the company's next step is for competitors to lower prices as well, forcing the company that started the war to lower the price further. Such price wars can last quite a long time, which is reflected in the profits of companies.

Other risk factors are:[53]

1. Political factors that affect the activities of tobacco companies are possible changes in the legal regulation of tobacco sales, increase in excise tax rates, the gradual approximation of legal standards to European ones.

2. The economic factors include the negative dynamics of the exchange rate, reducing the purchasing power of consumers.
3. Social factors include the change of values in society, the promotion of a healthy lifestyle.
4. Technological factors include development of low-risk products, development of new production technologies, innovations in information technologies.

### 3.2 Ways to reach goals and strategies of Philip Morris International development

Development of long-term plans for the development of the organization is one of the most important areas of business at the organizational level. Rationale and choice of business strategy are one of the most responsible management decisions made by the company's management.

The business planning process includes three main phases, which are described in the Chart 3.1

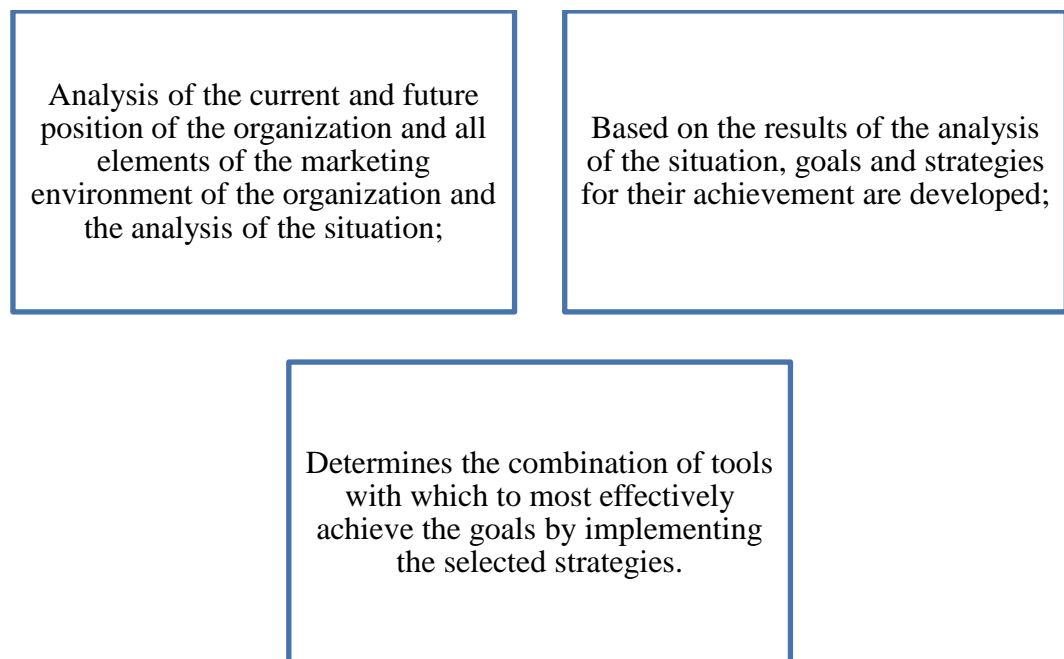


Chart 3.1 – Main phases of Philip Morris International development

*Source: developed by the author based on [54]*

If a company wants to improve its position in the market without losing to competitors, it must have a well-formed business strategy. This helps the company reach a new level of customer service and market.

The basis for the development of development strategy and strategic management of the enterprise is long-term planning, ie the choice of promising areas of economic activity.

Business development strategy planning - the process of justification and selection of development goals, appropriate allocation of resources, development and implementation of programs to achieve selected goals, including the issuance of tasks to executors and control over their implementation. Under the condition of correct planning there is a choice of ways of long-term economic development of the enterprise and directions of its activity.[54]

Market conditions require a new approach to the enterprise, which should be aimed at using new efficient technologies, ensuring the production of competitive products and expanding its range.

In this regard, the purpose of this marketing strategy program is to develop the capacity of the organization "Philip Morris International" through increasing production capacity, introduction of new and modernization of existing technologies, which will increase the technical equipment and efficiency of production capacity.

The main directions of development of production potential of "Philip Morris International" and increase of economic efficiency of its activity can be realized in the following ways:[55]

technical re-equipment of production due to modernization of equipment, improvement of existing technological processes, introduction of new equipment and modern highly efficient technologies;

increasing the production and economic capacity of liquid products, increasing its competitiveness by improving consumer properties, effective communications and reducing the cost of its production;

The list of tasks and activities should be organizational and administrative. That is why, to simplify the management and organizational decisions of the organization, it is proposed to make an additional column indicating the status of specific activities or tasks. It is proposed to use three levels of readiness, where 1 is full readiness of the task, 2 - partial readiness, and 3 - which means that the task was not put into practice and remained at the level of the idea.

It is also proposed to create a consolidated file that will indicate which departments are encouraged in certain tasks on the way to implementing the steps of marketing strategy. Thus, the company will have a clear status and will be able to track the performance and contribution of each department in the process of implementing the strategy. It also provides a clear understanding of areas of responsibility and eliminates force majeure that may arise due to misunderstandings.

To this end, once a week, department heads are encouraged to meet and formally review overall progress from the previous week and plan for the next.

It is worth noting that the program of creating a marketing strategy includes projects that are of paramount importance for the company, allow you to reach a new quality technological and economic level that meets modern market requirements.

It implements projects aimed at the reconstruction and modernization of existing industries, the creation of new projects to maintain consumer awareness, as well as to study the economic situation at the enterprise and in the country.

The company is invited to consider the dynamics of economic purchasing power by city and segment consumers by the maximum amount they are willing to pay for the product offered by the company. This is an important factor that affects both marketing and pricing strategy of the enterprise.

The purchasing power of the average monetary income of the population by territories reflects the potential opportunities of the population to purchase goods and is equivalent to the average monthly monetary income of the population. An important aspect in this case is that the indicator is calculated cumulatively from the beginning of the year.[55]

In this case, it is advisable to analyze the price offers of competitors and calculate how "Philip Morris International" has a favorable or unfavorable position in terms of price.

It is also proposed to determine the level of consumer awareness in specific regions about the product from the company and, accordingly, based on the results to draw conclusions about the strength of the brand or Brand Power in different parts of the country. Having determined a normal level of awareness, it would be logical to suggest additional activities in those cities where it is insufficient.

Companies are encouraged to analyze the consumer's path from the outset, when he only learns about the product before the final purchase of the tobacco heating system and to anticipate what problems the consumer may face.

One of the leading and relatively cheap methods of consumer communication test is Fast Forward, is analysis of consumer behavior in real conditions. Fast Forward is a powerful marketing tool to increase the efficiency of the company. It is advisable to implement this method with the help of brand consultants who inform about the product at points of sale and collect feedback after informing consumers.[55]

By considering each step towards creating a strategy as a separate project, you can get a better result in the context of brand awareness in the market and increase the company's market share along with sales. Having a separate project aimed at creating a microsite, ie a website dedicated to the brand, the organization has the opportunity to strengthen communication. The basic mechanics may be to offer consumers to scan the corresponding QR code leading to a given site. This mechanic will help you understand the actual number of consumers who are interested in the product and calculate the conversion, starting with those consumers who scanned the QR, ending with those who reached the final page.

Indicators can be analyzed for different periods, thus determining in which seasons. months and days of the week the point of sale is visited by the largest number of consumers. This will allow to make additional activities in these periods and to influence consumer awareness.

If the company is able to set up targeted advertising, you can analyze the Click-through-rate - CTR. CTR is defined as the ratio of the number of clicks on a banner or advertisement to the number of impressions, measured as a percentage.

For example: an ad unit was shown 100 times and clicked 20 times. Its CTR means 20%. The value of this indicator will make it possible to understand how well the company understands the target audience to which it targets communication.

Each step taken should be reflected in the project implementation statistics together with its main characteristics: the number of people involved, the impact of each and the total amount of time spent.

Thus, it is proposed to implement these recommendations in order to more accurately assess the situation in today's market and the correct formation of marketing strategy.

The steps that have been successfully implemented and given the best result, based on the indicators obtained, should be listed separately as indicators to pay attention to, because they have affected the image and performance of the organization in the market.[55]

It should be noted that the proper implementation of each step will be able to provide companies with additional variables in the process of analyzing alternative strategies and choosing the best option.

After conducting in-depth research and careful planning of each step to implement the marketing strategy, approved by the company's management, the company can begin to implement the chosen option on the market.

Conventionally, all stages of the strategy can be divided into 3 groups: first, there is a market study, secondly, the development of a strategy based on the data obtained and thirdly, the implementation of the strategy. Consider in more detail the stages included in each of the groups.

The first stage in the implementation of the strategy for Philip Morris International is to conduct an in-depth audit of the tobacco market and consumer behavior in it. This stage involves the finalization of the purpose of the organization, the use of basic research and analytical tools.

With this stage, the Ukrainian branch can be helped by the main development center located in Lausanne, Switzerland. This stage also involves the use of classical tools of strategic analysis, such as SWOT-analysis, CJ and others. Here is the definition of the exemplary composition of the parameters of the macro- and micro-marketing environment.[55]

Following the example of Philip Morris International, it used the Consumer Journey tool to track key consumer steps toward purchasing an IQOS tobacco heating system. It was found that the main stages in the consumer path are the following steps: "Learn", "Try" and "Buy".

It is worth noting that when a consumer enters the first stage of "Learn", he does not yet know the key benefits of the product, so the company focuses communication on the basic benefits of products, addressing the solution of a particular consumer need for nicotine-containing products.

The next stage is focused on the process of testing the product by the consumer. The company focuses on how to use the heating system and gives consumers the opportunity to try it themselves.

The purpose of the last stage is to bring the consumer to the final purchase of the heating system after he has tried it in use.

This Consumer Journey matrix was used by Philip Morris International in three different territorial units, as consumer tastes and purchasing power vary depending on the place of residence. The first area covered by the CJ matrix is the city of millions, the area with the highest income levels. The next territory is medium-sized cities, with average purchasing power of consumers and the last expansion cities with low incomes.

Thus, the management of the organization identifies the most significant trends in the external and internal environment: the main directions of the market and key methods of analysis.

It was found that in the cities with a population of millions, of all consumers who participated in the survey in cities with a population of millions, 27.5% are at the stage of "Learn" and "Try" and 45% at the stage of "Buy". It should be noted

that the company analyzes which tobacco-containing products were a priority for consumers before buying Philip Morris International products.[55]

In small towns, the Try stage is almost twice as much in demand as the Learn stage. This is an interesting aspect of the study, which shows that consumers in small towns are less responsive to the functional benefits of the product, which could be learned in the first stage.

The "Buy" stage, as in the cities of millions, occupies almost half of the survey results, 48%. In conclusion, it can be noted that consumers have become more favorable to buy goods immediately, without going through the previous stages of "Learn" and "Try".

Subsequently, the data collected by the company is carefully checked to verify the accuracy of the information. The process of in-depth market audit is completed by defining forecasting tools in case of a crisis in the market.

The next stage of marketing strategy involves situational analysis, assessment of market potential and the actual stability of the company in the market. Given the experience of quarantine restrictions, Philip Morris International considers possible changes in business plans in crisis situations and assesses the real potential of market segments. Based on analyzes the management draws conclusions on the definition of key competencies in the field of tobacco marketing and the possibility of their further use in a crisis.

Thus, with the unstable situation in the country, the company analyzed offline and online sales. It turned out that with the onset of quarantine restrictions, online sales have almost doubled, so the company decided to update the product page on the official website and add more features to the "About Products" section.

Also, it was found that medium and small cities do not have the opportunity to buy goods immediately, but are willing to pay for it in installments. Thus, the company faced the task of creating mechanics and terms of payment for goods in installments.

The third stage of business strategy development involves adjusting the strategic objectives in accordance with the contingency plans that were considered

during the second stage. At this step, the company's strategic department forecasts changes in the system of strategic goal setting in a crisis and declining demand for tobacco products. The main questions at this stage: which targets of the company should be abandoned and which, on the contrary, will need to be used. After that, the company structures the targets of the strategic plan for marketing tobacco products.

The fourth stage is the development of alternative marketing strategies. This step is the analysis and optimization of the existing customer base. It is worth noting that the main value of Philip Morris International is customer focus, so customer loyalty is one of the most important competitive advantages of the company in a crisis.

The wide variety of marketing offers and their low cost, which are characteristic of the modern market, have now ceased to be the determining factors in consumer decision-making. The great efforts of employees and technological features of products or services, attractive advertising campaigns and seasonal discounts give only a short-term effect due to the rapid copying of their competitors. Thus, the process of technological alignment and the inefficiency of the price competition method have provided a powerful impetus to revise the previously used business strategy focused on the product and develop a customer-oriented approach, which has become a new way of competition in today's market.

Whereas previously the main competitive advantages of companies that guarantee them a leading position in their segment were low costs, large market share, high quality product or service provided, now the most important thing is to focus on the needs of their customers and their service.

Based on data from a number of marketing studies, more than 90% of customers who leave a company due to poor service will never return to repurchase a product or service from a company that has lost its reputation.

An additional negative consequence of customer dissatisfaction is negative feedback. A dissatisfied customer usually tells an average of 16 other people about his negative experience of contacting the company. In turn, to restore the company's

reputation in the eyes of an existing or potential customer requires at least 12 positive reviews.

At this stage, the company needs to analyze the main directions of development of customer loyalty programs in a crisis. Given the fact that for millionaire cities and other expansion cities, the company has a different communication platform and different activities, the customer service department needs to pay attention to the correct implementation of loyalty marketing programs in accordance with geolocation.

The company actively asks consumers for their opinion about the service and the product, using digital means. The main tool with which the company maintains relations with consumers is Viber-bot and Instagram. One of the questions is the following "How likely would you recommend our service to other adult consumers of nicotine-containing products?". The company provides answer options from 1 to 10, where 1 - definitely would not recommend, and 10 - on the contrary, would recommend with pleasure. Next, the company analyzes the results and calculates the NPS - Net Promoter Score, where people who indicated 1-6 are detractors with a negative customer experience, those who indicated 7 or 8 - are neutral to the product or company, and 9-10 - those who are loyal customers of the company. This way the company can understand how strong its loyal customer base is and how it can be increased. You can see a clear distribution of values on the graph.

The company also selects alternative terms for loyalty programs. Philip Morris International offers discounts under the "Give Friends Discounts" program.

No less a priority is the analysis of trends in consumer demand for nicotine-containing products in branded stores, kiosks, supermarkets and online. Analyzing the prospects of CC and RRP products by consumers is one of the most important steps at this stage. As it was analyzed that consumers in small supermarkets are interested in heating systems, the company has developed special information materials indicating exactly where you can buy a tobacco heating system in the city.

Subsequently, the company conducts research on its own pricing policy in the market and identify pricing trends of major players. Regarding sales policy, in this

stage the company analyzes the key problems and delays in working with suppliers and opportunities to optimize sales channels. Because the company operates under the B2C scheme, it organizes the delivery of tobacco heating systems by mail. After analyzing consumer feedback, the company realized that one of the barriers was delays in sending mail carriers. That's why the company created its own post office, which still operates in cities with a population of millions and works seven days a week. Thus, the company managed to solve the problem and increase customer loyalty and positive brand feedback.

The final aspect is the analysis of advertising and the creation of a correct matrix of communications in accordance with the company's division of countries into regions and addressing important consumer communications.

Because of the different aspects of the product and different percentages of emotional and functional content in communication are important for different areas, the company creates appropriate communication tools according to the matrix for cities- millions, medium and small cities, choosing the appropriate visual materials and messages for the planes of communication.

For example, the company created the "Meet" campaign, analyzing that consumers in medium and small cities are quite attached to their hometown. Each visual material of the Meet campaign consisted of a "Meet IQOS in" message and a photo of the landmark or landmark of the city where IQOS is now available for sale. Thus, people associated the tobacco heating system with their own city, easily reading the communication.[55]

It also solves the problem of "banner blindness" until the consumer feels and experiences communication emotionally. Consumers delayed this communication, which raised the brand's awareness of expansions and small cities.

The fifth stage involves a comparative analysis of alternative strategies and assessment of the risks of implementation and resource provision of the current marketing strategy. At the next stage there is a final choice of marketing strategy, specification of strategy goals and analysis of possibilities of combining elements of different variants of strategies considered above.

The next stage is the development of a specific plan and program of anti-crisis measures in case of their occurrence. Here, the management of the organization is engaged in defining the functional objectives of marketing activities, based on marketing goals and dividing the marketing strategy into separate programs of activities with clear performance indicators and time period.

At the stage of strategy implementation the analysis and optimization of strategically significant business processes for the organization takes place. Typically, these are all processes that affect market share, increase sales, and regulatory restrictions on the sale or advertising of tobacco products.

Philip Morris International carefully monitors the database of communication planes and collects analytics from consumer feedback, transforming their quality feedback into a specific value from 1 to 10 to understand the degree of service of the company.

Thus, for all previous stages, the company identifies key marketing business processes in a crisis, developing clear regulations and action plan in specific situations.

The final stage is the actual implementation and further analysis of the chosen business strategy. This stage involves the construction of organizational models for marketing strategy, identifying their advantages and disadvantages. Also, organizations need to implement methods of marketing control at the regional level, determining the main indicators of the effectiveness of the strategy.

Thus, after the communications test. With price offers, loyalty programs, micro-moments and discounts in various strata, the company forms its ultimate competitive advantages based on test results and begins to implement the chosen business strategy.

The other business strategy is to convince smokers to use only reduced risk products. Its main campaign is “Unsmoke Your World” and “Unsmoke Your Mind”. Its message is not starting smoking if you don’t smoke, if you smoke – quit, if you don’t quit – change. With reduced risk products smoker obtains less harm, so it is better to change conventional cigarettes to RRP products.[57] Science and

technology have made the development of unique products possible in the last few decades. While not dangerous, numerous independent studies have shown them to be the best alternative to smoking cessation, and a growing number of leading health authorities around the world confirm these results.

The estimated 1.1 billion smokers worldwide are not just statistics. These are our relatives, friends and neighbors. PMI campaign Unsmoke your mind says, that people deserve the best choice. By recognizing the role that a reliable, science-based, tobacco-free product can relieve these men and women who do not quit smoking and nicotine, we can work together to create a tobacco-free future for all.[56].

Coupled with existing anti-smoking policies to prevent smoking commencement and promote smoking cessation, these alternatives could play an important role in addressing global public health challenges related to smoking. However, in order for this to happen sooner, we need to regulate and support civil society.[58]

Thus, business strategy, which includes marketing, market analysis and consumer behavior, is a complex mechanism consisting of specific stages, which allows the company to understand step by step how to act in today's market, how consumers react to changes and how strengthen brand strength and consumer loyalty at each step in the implementation process.

After final research, the company draws conclusions about further plans for the long term and begins full implementation of the strategy in order to grow, develop and reach a larger market share.

I would also like to highlight the mission of Philip Morris International. PMI is building the future on non-smoking products, which is a much better choice than smoking cigarettes. Their vision is that these products will one day replace cigarettes. The most important PMI vision points are described in the Table 5.

Table 5. Philip Morris International vision

Non-smoking life	It is not always easy to quit cigarettes and enjoy a non-smoking life. But what is life without smoking? It is about building a culture where people are encouraged to take cigarettes out of life.
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Transformation	PMI will be much more than just a cigarette company. PMI wants to change society and ensure a better smoke-free future. To make our vision a reality, PMI transforms and builds our entire future on a range of non-smoking products
Regulation	Develop regulatory guidelines that support the replacement of cigarettes with non-smoking alternatives.
Sustainability	Our approach to sustainability is to create long-term value while minimizing the negative externalities associated with our products, operations and value chain.

*Source: developed by the author based on [59].*

Philip Morris International Values are:[60]

1. Trust
2. Cooperation
3. Integrity

Trust, cooperation and integrity are core values that embody PMI's commitment to the company, shareholders, business partners and colleagues. They lead as individuals and collectively as a society. You are on PMI every day and everywhere. PMI fulfills this obligation regardless of the challenges and pressures it faces in its business. To ensure the prosperous future of PMI, it is important to act honestly and sincerely, and to act in full compliance with the law and our own guidelines.

To sum up, there are different directions, in which company Philip Morris International implements its business strategies. They are various marketing tools as “Learn”, “Try”, “Buy”, Viber-bot and social media pages development, campaign “Unsmoke your world” and sustainability campaign. All of them are tools which help company build right business strategy. Philip Morris International performs great in comparence with its competitors and has good financial results. These things show, that Philip Morris International has right business strategy and management of the company prioritizes right directions for further development.

## CONCLUSION

Business strategy as a strategy of business units determines the direction of action to ensure competitive advantage in a particular area of the organization. Business strategy is important for organizations because it helps to identify helps you identify the key steps need to be taken to reach business goals ... Business strategy allows to allocate all the resources effectively and control all the business activities.

Components of a business strategy are vision, business objectives, core values, SWOT analysis, tactics, resource allocation plan and measurement

Development of business strategy for independent business units and independent highly specialized organizations is carried out similarly. Development of business strategy development levels include: operational strategies, functional strategies and the highest stage is business strategies.

The process of developing a strategy is based on a thorough study of all possible directions of development and activity and consists in choosing a general direction, markets to be developed, needs to be served, methods of competition, attracted resources and business models. So, strategy means a company's choice of development path, markets, methods of competition and business.

Philip Morris International Inc. (PMI) is a Swiss-American multinational cigarette and tobacco manufacturing company, with products sold in over 180 countries. Philip Morris International is a leading international tobacco company, with a diverse workforce of around 71,000 people who hail from every corner of the globe. Phillip Morris International is a global leader in the development of heated tobacco products and has stated its ambition to deliver a smoke-free future by the development and marketing on non-combustible tobacco products.

PMI sells over 130 brands. Its cigarette portfolio is led by Marlboro, the world's best-selling international cigarette. Marlboro is complemented in the premium-price

category by Parliament and Virginia S. Leading mid-price brands are L&M, Philip Morris. Leading international brands include Bond Street, Chesterfield, Next, and Red & White.

Brand message of a company -is delivering a smoke-free transformation. People should not use any nicotine-containing product; nicotine-containing products are addictive and not risk free. And Philip Morris International, does not want people to use any of our products. Delivering a smoke-free transformation is the biggest shift in the history of Philip Morris International. This transformation has been many years in the making, and thanks to the imagination and perseverance of thousands of people at PMI, company has developed smoke-free products that are better alternatives to cigarettes. Smoke-free alternatives have a role to play in public health. While it's best to quit cigarettes or never start smoking, smokers who don't quit have a right to choose better alternatives. Society needs the right regulation to support those better choices.

PMI is committed to being a great employer and a good corporate citizen. PMI strives to be environmentally and socially responsible. PMI is dedicated to fighting the illegal cigarette trade.

PMI is building s future on smoke-free products that are a much better choice than cigarette smoking. Indeed, its vision is that these products will one day replace cigarettes. Smoke-free life - Giving up cigarettes, and enjoying a smoke-free life, is not always easy. But what is a smoke-free life? It's about building a culture where people are encouraged to remove cigarettes from their lives. Transformation - PMI will be far more than a cigarette company. We want to change society and deliver a better, smoke-free future. To make our vision a reality we are transforming and staking our entire future on a line of smoke-free product. Regulation - Propose regulatory policies that encourage the replacement of cigarettes with smoke-free alternatives. Sustainability - Creating long-term value while minimizing the negative externalities associated with our products, operations, and value chain is our

approach to sustainability.

Trust, collaboration, and integrity are the core values that embody PMI's commitment to society, shareholders, business partners, and colleagues. They guide us as individuals and collectively as a company. They are with PMI every day and everywhere. PMI honors this commitment regardless of the challenges and pressures it faces in conducting its business. Acting with integrity, honesty, and in full compliance with the law and our own policies is indispensable in securing a prosperous future for PMI.

Philip Morris International has very strong performance compared to competitors. Philip Morris' product quality, financial capabilities, product range and marketing system are stronger than its competitors, so the company has more development opportunities. There are different directions, in which company Philip Morris International implements its business strategies. They are different marketing tools as "Learn", "Try", "Buy", Viber-bot and social media pages development, campaign "Unsmoke your world" and sustainability campaign. Philip Morris is a leader in its market, but for continuing to have this position it is necessary to go on with successful marketing.

## ABSTRACT

My master thesis consists of an introduction, 3 sections, conclusions, a list of sources with 60 links and applications.

The thesis is devoted to study aspects of business strategy development of the company Philip Morris International.

The object of the study is the essence of business strategy.

The subject of the study is theoretical and methodological principles of the business strategies of Philip Morris International International.

The purpose of my master thesis is to systematize approaches to defining business strategies and identifying Philip Morris International business strategies.

In the first section I made research about the essence of business strategies, identify classification of strategies by company levels and analysed formation of business strategies.

In the second section, I investigated formation of the company Philip Morris International and its development strategies, and analysed key financial indexes of PMI.

In the third section, I made analysis of Philip Morris International issues and challenges and the ways how Philip Morris International can reach goals

Keywords: business strategy, formation of business strategy, components of business strategy, Philip Morris International development, marketing strategy, PMI SWOT analysis.

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**МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ  
КИЇВСЬКИЙ НАЦІОНАЛЬНИЙ ЕКОНОМІЧНИЙ УНІВЕРСИТЕТ  
ІМЕНІ ВАДИМА ГЕТЬМАНА**

**ФАКУЛЬТЕТ МІЖНАРОДНОЇ ЕКОНОМІКИ І МЕНЕДЖМЕНТУ**

**ГЛОБАЛЬНА ЕКОНОМІЧНА ІНТЕГРАЦІЯ:  
СТРАТЕГІЧНІ МОТИВАЦІЇ, ФОРМАТИ,  
НАЦІОНАЛЬНІ ІНТЕРЕСИ**

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## **BUSINESS STRATEGY DEVELOPMENT**

A business strategy is a description of actions and decisions which company plans to take to achieve its goals. A business strategy determines what a company needs to do to achieve its goals, which can help manage the decision-making process regarding coordination of all the resources. Business strategy helps different departments to work together and provides support for the department's decisions in the overall direction of the company. [1]

Business strategy is a strategy of business units (SBU), which is aimed directly at specific competitive advantages in a specific sphere of organizational activity.

The main components of business strategy are shown in the chart 1.

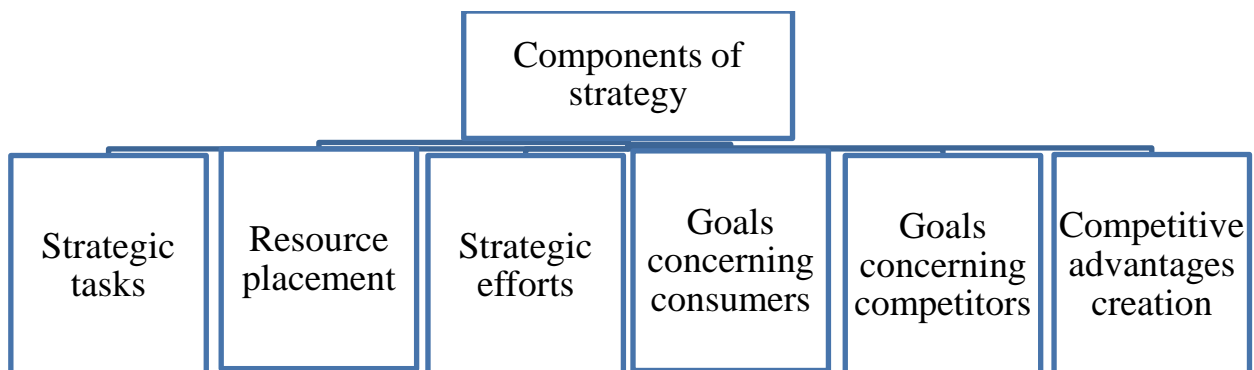


Chart 1 Components of strategy

*Source: developed by the author based on [2]*

Strategic objectives of the company's independent divisions are part of the corporate planning process. Tasks that need to be addressed at the level of individual SBUs can be different: growth, preservation of the existing situation, use source of income, withdrawal of previously invested funds, the creation of new business.

Six main valuable components of business strategy are known. They contain [3]:

1. Business goals and business vision - A business strategy is all about helping to achieve their business goals. you can make clear guidelines for what needs to be done in your business strategy and who is responsible for performing each step with a clear business vision.

2. Core values - Business strategy makes managers and core departments take decisions on what the business should and shouldn't do, according to the core values of the organization. Core values help stay ll the departments with the same goals.

3. SWOT analysis - SWOT analysis means strengths, weaknesses, opportunities and threats of the organization. This analysis is part of every business strategy because it allows company to rely on its strengths and use them to its advantage. Company is also aware of possible weaknesses or threats.

4. Tactics - Many business strategies formulate functional details on how company managers should operate to maximize efficiency. Responsibe for tactics managers understand what needs to be done and saving time and effort.

5. Resource allocation plan - Business strategy includes where to find the resources needed to complete the plan, how the resources will be allocated, and who is responsible for it. In this context, company will be able to see where you need to add additional resources to complete your projects.

6. Measurement - Business strategy also includes a way to monitor the company's performance and evaluate its effectiveness against the goals set before implementing the strategy. This will help the business meet deadlines and goals, as well as budget issues.

Development of business strategy for independent business units and independent highly specialized organizations is carried out similarly (Chart 1.2).



Chart 2 “Development of business strategy development levels”

*Source: developed by the author based on [4]*

To sum up, business strategy means strategy of business components and its goal is to influence directly at competitive advantages in an exact sphere of organizational activity. Business strategy is based on operational and functional strategies and are aimed at developing the internal potential of the company, strengthening its factors that ensure market success.

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### **ПРОСУВАННЯ БІЗНЕСУ У СОЦІАЛЬНИХ МЕРЕЖАХ В УМОВАХ ДІДЖИТАЛІЗАЦІЇ СВІТОВОЇ ЕКОНОМІКИ**

На сучасному етапі діджиталізація має багато різних аспектів, котрі впливають на світову економіку. Діджиталізація керується технологіями. Цифрові інновації створюються на основі нових цифрових технологій: інноваційних варіантів використання, що керуються, з одного боку, відомими компаніями, а з іншого-стартапами та венчурним капіталом. Саме стартапам вдалося досягти вибухового, експоненціального зростання, оскільки вони використовували цифрові технології абсолютно по -різному і пропонували своїм