

Carsyn D'Aquino & Brian Chiaradio

Professor Strickling

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Final Strategic Analysis of Philip Morris International

Introduction

Philip Morris International (PMI) is a global tobacco leader transitioning toward a “smoke-free future.” Founded in 1847, PMI has built its legacy on iconic brands like Marlboro but now places heavy emphasis on reduced-risk products (RRPs) such as IQOS and Zyn nicotine pouches. Throughout this semester-long research project, we have analyzed PMI’s external and internal environments, examining how its resources and capabilities interact with industry conditions. This final paper integrates those findings, corrects prior analytical gaps, and offers strategic recommendations for PMI and its investors.

STEEP Analysis

A STEEP analysis is a strategic tool used to examine the macro-environmental factors that impact a company or industry. It evaluates five key areas: Social, Technological, Economic, Environmental, and Political. The social aspect looks at changes in consumer behavior, lifestyle, and public attitudes, while the technological factor considers innovations that affect products and operations. The economic component examines financial conditions like inflation and market trends, whereas the environmental factor focuses on sustainability issues and climate regulations. Lastly, politics involves government policies, laws, and international trade regulations.

Companies like Philip Morris use STEEP analysis to identify potential risks, challenges, and opportunities in their industry. By understanding these external forces, businesses can anticipate regulatory changes, adapt to shifting consumer preferences, and explore new technological advancements. For example, Philip Morris has had to respond to stricter tobacco regulations by investing in smokeless alternatives like IQOS. Additionally, economic trends, such as inflation and changing disposable incomes, influence pricing strategies and market expansion. The analysis helps businesses make informed strategic decisions, ensuring they remain competitive and sustainable in an ever-evolving environment.

STEEP Analysis	
Social Trends	- Declining Smoking Rates: Many countries see fewer people smoking due to health awareness and government regulations. More consumers are switching to smokeless alternatives like e-cigarettes and heated tobacco products (e.g., IQOS, which Philip Morris developed). - Rising Health Consciousness: More people are concerned about fitness, diet, and avoiding harmful substances. This pressures Philip Morris to diversify into less harmful products or face declining sales. - Changing Public Opinion on Nicotine: While cigarettes are widely criticized, some consumers view nicotine alternatives as acceptable, especially with the idea of "harm reduction." Philip Morris promotes its heated tobacco products as better alternatives to smoking, trying to shift public perception
Technological Trends	- Development of Smokeless Tobacco Products: Philip Morris invests heavily in reduced-risk products (RRPs) like IQOS. This aligns with the trend of moving away from

STEEP Analysis	
	traditional cigarettes toward heated tobacco and e-cigarettes. - AI and Big Data in Consumer Analysis: The company uses artificial intelligence to track consumer preferences, personalize marketing, and comply with regulations. This helps them understand which products are gaining popularity and adjust strategies accordingly. - Automation in Manufacturing: New automated production lines reduce costs and improve efficiency. Philip Morris invests in robotics and AI-powered quality control, making cigarette and alternative product production more precise and cost-effective.
Economic Trends	- Inflation and Rising Costs: Tobacco prices have risen due to inflation, taxes, and higher production costs. Philip Morris must adjust pricing while keeping products affordable for customers. - Shifting Consumer Spending: As disposable income fluctuates, some consumers cut back on cigarettes or choose cheaper brands. Philip Morris

STEEP Analysis	
	has introduced budget-friendly options while also expanding premium product lines for those who can afford them. - Emerging Markets Growth: While smoking rates in Western countries are dropping, markets in Asia, Africa, and Latin America still have high demand. Philip Morris is expanding in these areas to maintain profitability.
Environmental Trends	- Tobacco Farming's Environmental Impact: Growing tobacco uses a lot of land, water, and chemicals, leading to deforestation and pollution. Philip Morris is working on more sustainable farming practices to reduce its impact. - Push for Eco-Friendly Packaging: Governments and consumers demand less plastic and more recyclable packaging. Philip Morris is testing biodegradable filters and sustainable packaging materials to meet these expectations. - Carbon Emissions from Production: The company faces pressure to reduce emissions from factories and supply chains. They are investing in cleaner energy and improving logistics to

STEEP Analysis	
	make operations more environmentally friendly.
Political Trends	- Stricter Tobacco Regulations: Many governments are increasing taxes on cigarettes, restricting advertising, and banning flavored tobacco to reduce smoking. Philip Morris must constantly adapt its strategies to stay compliant. - Legalization of Alternative Nicotine Products: Some countries are approving heated tobacco and e-cigarettes, creating new opportunities. Philip Morris lobbies for favorable regulations while expanding its alternatives like IQOS. - Trade and Tariff Policies: Tariffs on tobacco imports and exports impact Philip Morris, especially in international markets. The company must navigate global trade laws to keep supply chains running smoothly.

The STEEP analysis was created as a strategic tool to help businesses assess external factors affecting their industry. It breaks influences into Social, Technological, Economic, Environmental, and Political categories, enabling companies to identify risks and opportunities. In the Philip Morris STEEP analysis, we highlighted trends like declining smoking rates, advancements in smokeless tobacco, rising inflation, stricter regulations, and environmental concerns. This helps businesses adapt by shifting strategies, innovating products, and navigating

regulations. For Philip Morris, it means focusing on reduced-risk products, compliance with laws, and expansion into emerging markets to stay competitive.

Philip Morris faces challenges and opportunities shaped by social, technological, economic, environmental, and political factors. Declining smoking rates and health awareness push the company toward smokeless alternatives like IQOS. Technological investments in reduced-risk products reflect its shift from traditional cigarettes. Economic pressures from inflation and taxes impact sales, requiring pricing adjustments and market expansion. Environmental regulations on waste and packaging demand sustainability efforts. Politically, advertising bans and plain packaging laws force marketing adaptations. To stay competitive, Philip Morris must continue innovating alternative products, adopting sustainable practices, and navigating regulations.

Five Forces Analysis

A Five Forces Analysis is a strategic tool used to assess the competitive forces within an industry. It examines five key factors: Competitive Rivalry, Threat of New Entrants, Bargaining Power of Suppliers, Bargaining Power of Buyers, and Threat of Substitutes. Competitive rivalry looks at how intense competition is among existing companies. The threat of new entrants considers how easy it is for new businesses to enter the market. Suppliers' bargaining power measures suppliers' influence over pricing and the availability of materials. The bargaining power of buyers reflects how much customers can demand lower prices or better products. The threat of substitutes evaluates whether alternative products could replace existing offerings.

This analysis is used to identify industry strengths and weaknesses, assess profitability, and develop competitive strategies. Businesses use it to understand market pressures and adjust pricing, innovation, or expansion plans accordingly. For a company like Philip Morris, this helps determine how factors like strict regulations, competition from smokeless alternatives, and shifting consumer preferences impact its position in the tobacco industry.

Five Forces Analysis		
Competitive Rivalry: <u>High</u>	Philip Morris competes with major global tobacco companies such as British American Tobacco, Altria,	<u>Impacts</u>

Five Forces Analysis		
	and Japan Tobacco International. The market is saturated, with declining cigarette consumption pushing companies to innovate. The rise of smokeless alternatives, including e-cigarettes and heated tobacco products like IQOS and Vuse, intensifies competition. Additionally, price wars and brand loyalty programs create strong competition within the industry	- Must invest heavily in marketing, product innovation, and brand differentiation to maintain market share. - Increased focus on reduced-risk products (RRPs) like IQOS to stay ahead of rivals.
Threat of New Entrants: <u>Low</u>	Strict government regulations, high capital costs, and legal barriers make it difficult for new companies to enter the tobacco industry. Health warnings, advertising bans, and high taxes further discourage new entrants. Additionally, established companies like Philip Morris benefit from strong brand recognition, economies of scale, and long-term supplier relationships, making it hard for newcomers to compete.	<u>Impacts</u> - Low risk of new competitors entering the market. - Can maintain dominance by continuing to expand alternative nicotine products and brand influence
Bargaining Power of Suppliers: <u>Moderate</u>	Philip Morris relies on tobacco farmers, packaging suppliers, and technology providers for its products. While tobacco farming is concentrated in key regions (e.g., the U.S., Brazil, and	<u>Impacts</u> - Suppliers have limited bargaining power, as Philip

Five Forces Analysis		
	Africa), the company sources from multiple suppliers, reducing dependence on any single one. However, sustainability pressures, labor costs, and climate change could affect supply chains.	Morris can switch sources if needed. - Rising environmental and labor regulations could increase costs in the long term.
Bargaining Power of Buyers: <u>High</u>	Consumers have many alternatives, including traditional cigarettes, heated tobacco, e-cigarettes, and nicotine pouches. As smoking rates decline and health concerns grow, consumers are more selective and demand safer and innovative nicotine alternatives. Additionally, retailers and distributors, such as convenience stores and supermarkets, can negotiate prices and demand higher margins.	<u>Impacts</u> - Must offer competitive pricing and loyalty programs to retain customers. - Needs to invest in alternative nicotine products to attract health-conscious consumers.
Threat of Substitutes: <u>High</u>	The biggest challenge for Philip Morris is the growing availability of nicotine alternatives. E-cigarettes, nicotine patches, gum, and even non-nicotine wellness products (like herbal smoking alternatives) threaten traditional tobacco sales. Additionally, public health campaigns and smoking bans encourage people to quit smoking altogether, reducing	<u>Impacts</u> - Must expand its reduced-risk portfolio (IQOS, nicotine pouches, and e-cigarettes) to compete with substitutes. - Needs to emphasize harm reduction and innovation to

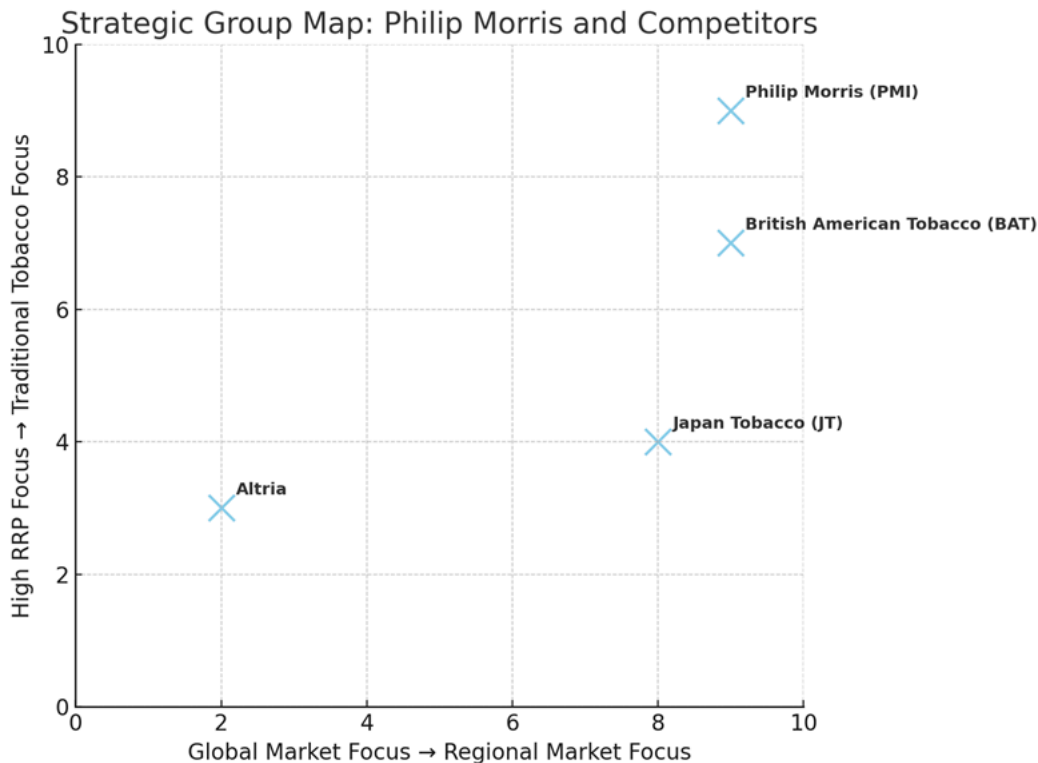
Five Forces Analysis		
	demand for Philip Morris's products	retain customers switching away from cigarettes.

The table visually represents Philip Morris's competitive position using Porter's Five Forces framework, showing the impact of competitive rivalry, new entrants, supplier power, buyer power, and substitutes on the company. It was created by first analyzing industry trends, regulations, and market conditions affecting Philip Morris. Each force was assessed based on its intensity and influence on the company's operations. Next, relevant data on competition, consumer behavior, supply chains, and regulatory barriers was gathered from industry reports and company sources. The forces were then categorized as low, moderate, or high based on their impact on the company.

The tobacco industry's overall profit potential is mixed, shaped by intense rivalry, rising substitutes, and empowered consumers. Firms like Philip Morris face strong competition from established players and alternative nicotine products such as e-cigarettes and pouches, driving up innovation costs and reducing margins. Buyer power is high, pushing PMI to invest in loyalty programs and harm-reduction branding. However, the threat of new entrants remains low due to strict regulations and capital barriers, and supplier power is weak thanks to diversified sourcing. While the traditional tobacco segment is increasingly unattractive, the smoke-free and reduced-risk product space offers renewed profit opportunities for firms willing to adapt, making the industry selectively attractive for innovation-driven leaders like Philip Morris.

Strategic Group Analysis

We generated a strategic group map plotting geographic scope (regional vs. global) and product focus (traditional tobacco vs. RRP). Philip Morris sits in the top-right quadrant, clearly leading the global RRP race against competitors like BAT, Altria, and Japan Tobacco.



With its IQOS warm tobacco system, Philip Morris (PMI) leads the RRPS and has global market access, as seen by its placement in the upper right quarter. Due to emphasizing both traditional and electronic cigarettes, the bar is marginally low on the Y-axis (Vuse, Glo). Although Japan Tobacco (JT) operates internationally, its primary focus in Asia is on hot tobacco and traditional cigarettes. While its vapor has a stake in Juel, Altria still focuses primarily on the United States and mainly depends on traditional cigarettes.

To establish itself as separate from rivals, Philip Morris is a leader in low-risk product innovation and international market expansion. BAT is a major opponent because it is the nearest competitor in the RRP region, especially in the e-cigarette market. While Japan Tobacco remains strong in Asia, Altria trails in terms of global access and low-risk approach with RRP. To maintain its competitive edge over BAT and new rivals, PMI should prioritize future innovation in goods and development in the emerging countries in its future strategy.

Internal Analysis: VRIO and Value Chain

VRIO Analysis

Resource/ Capability	Valuable	Rare	Costly to Imitate	Organized to Capture Value	Performan ce Metrics	Competitiv e Implication
Strong Global Brand	X	X	X	X	Market Share, Brand Equity	Sustained Competitiv e Advantage
IQOS & Smoke-Fre e product portfolio	X	X	X	X	% Revenue from RRPs, Market Penetration	Sustained Competitiv e Advantage
Global Distributio n Network	X		X	X	Reach in 180+ markets, Revenue per region	Temporary Competitiv e Advantage
Supply Chain Efficiency	X			X	Gross Margin, inventory turnover	Competitiv e Parity
Regulatory Affairs Expertise	X	X	X	X	Product Approvals, Regulatory Complianc e	Sustained Competitiv e Advantage
R&D in Reduced Risk Products	X	X	X	X	R&D Spend, Patent Filings, Product Innovation	Sustained Competitiv e Advantage
Strategic Partnership s	X	X		X	Licensing Income, U.S. Market	Temporary Competitiv e Advantage

					Expansion	
Data-Driven Marketing	X	X		X	Customer Acquisition Cost, Customer Retention	Temporary Competitive Advantage
Financial Strength	X			X	Free Cash Flow, ROIC, Net Debt / EBITDA	Competitive Parity
Diversified Portfolio	X			X	Revenue Diversification, Risk Mitigation	Competitive Parity

PMI's most powerful assets are its strong brand, innovative smoke-free portfolio (notably IQOS), and deep regulatory expertise—all of which are valuable, rare, hard to imitate, and well-leveraged. These resources directly impact firm performance. For example, smoke-free products accounted for 36.5% of net revenues in 2023, and PMI's ROIC remained around 34%, indicating exceptional capital efficiency (PMI, 2024). IQOS adoption has surpassed 27 million users globally, demonstrating the value of sustained R&D investment. On the other hand, while supply chain efficiency and financial health are crucial operationally, they do not differentiate PMI enough to deliver a lasting advantage, indicating competitive parity. This analysis shows PMI must protect and invest in its unique assets while addressing areas vulnerable to competition.

Value Chain Analysis

Value Chain Activity	PMI Execution & Differentiation	Impact on Performance
Inbound Logistics	Diverse supplier base: sustainable sourcing initiatives	Stable input prices, reduced environmental risk
Operations	High-tech manufacturing for	Product quality and cost

	IQOS and tobacco heating units	efficiencies
Outbound Logistics	Strong distribution networks, partnerships with retailers, and governments	Timely delivery, regulatory compliance
Marketing and Sales	Targeted campaigns, digital platforms, premium branding	Brand loyalty, growth in RRP
Service	Customer support for IQOS, feedback collection through apps	High customer satisfaction
Technology Development	\$2 billion annual R&D in RRP and product innovation	Product differentiation, patent protection
Procurement	Centralized procurement, focus on ESG-aligned suppliers	Risk management, cost savings
Human Resources Management	Global talent programs, training for regulatory and tech teams	Skilled workforce, innovation
Regulatory Affairs	In-house regulatory teams manage relationships with governments and align product standards	Faster market entry, risk mitigation
Corporate Infrastructure	Executive leadership focused on “smoke-free future”, risk, finance, and legal functions integrated	Strategic alignment, resilience in a regulation-heavy industry

With innovation, compliance, and emphasizing customer experience, the operation of PMI performs a near-integrated value chain. For example, PMI's commercial strategy includes technological development and regulatory matters, which are particularly important because the company changes low-risk products (RRPs) from combustible tobacco. The firm is different in a traditional market for its customer-focused strategy, displayed by digital interactions and customized IQOS support. Additionally, PMI's sourcing and procurement practices support the objectives of quality assurance and stability, and ensure that infrastructure and human resources that strategic leadership has been implemented across the board. By supporting the primary target of PMI to create a "smoke-free future", these skills set up a company for long-term success despite changing customer preferences and regulatory challenges.

Recommendations

We advise Philip Morris International (PMI) to keep doubling down on R&D innovation to stay ahead of rivals like British American Tobacco and maintain leadership in reduced-risk products (RRPs) like IQOS and Zyn, based on the integrated internal and external analysis. PMI should focus on making a concerted effort to enter emerging regions, especially those in Asia, Africa, and Latin America, where smoking rates are still high and there is a rising consumer desire for alternatives. PMI must also enhance its environmental, social, and governance (ESG) standards by boosting its efforts in sustainable sourcing, eco-friendly packaging, and emissions reduction to satisfy ever-tougher regulatory requirements and attract ESG-conscious investors.

Conclusion

Philip Morris International is situated at the intersection of opportunity and risk. It is well-positioned to handle an external environment characterized by intense rivalry, threats of replacement, and regulatory pressure because of its strong internal resources, particularly its brand strength, R&D, and regulatory expertise. Despite the limited profit potential of the business, PMI's unique approach and innovation pipeline present an engaging growth story. To secure PMI's leadership in the next nicotine economy, management and investors should concentrate on maintaining innovation, growing market presence, and enhancing ESG performance.

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