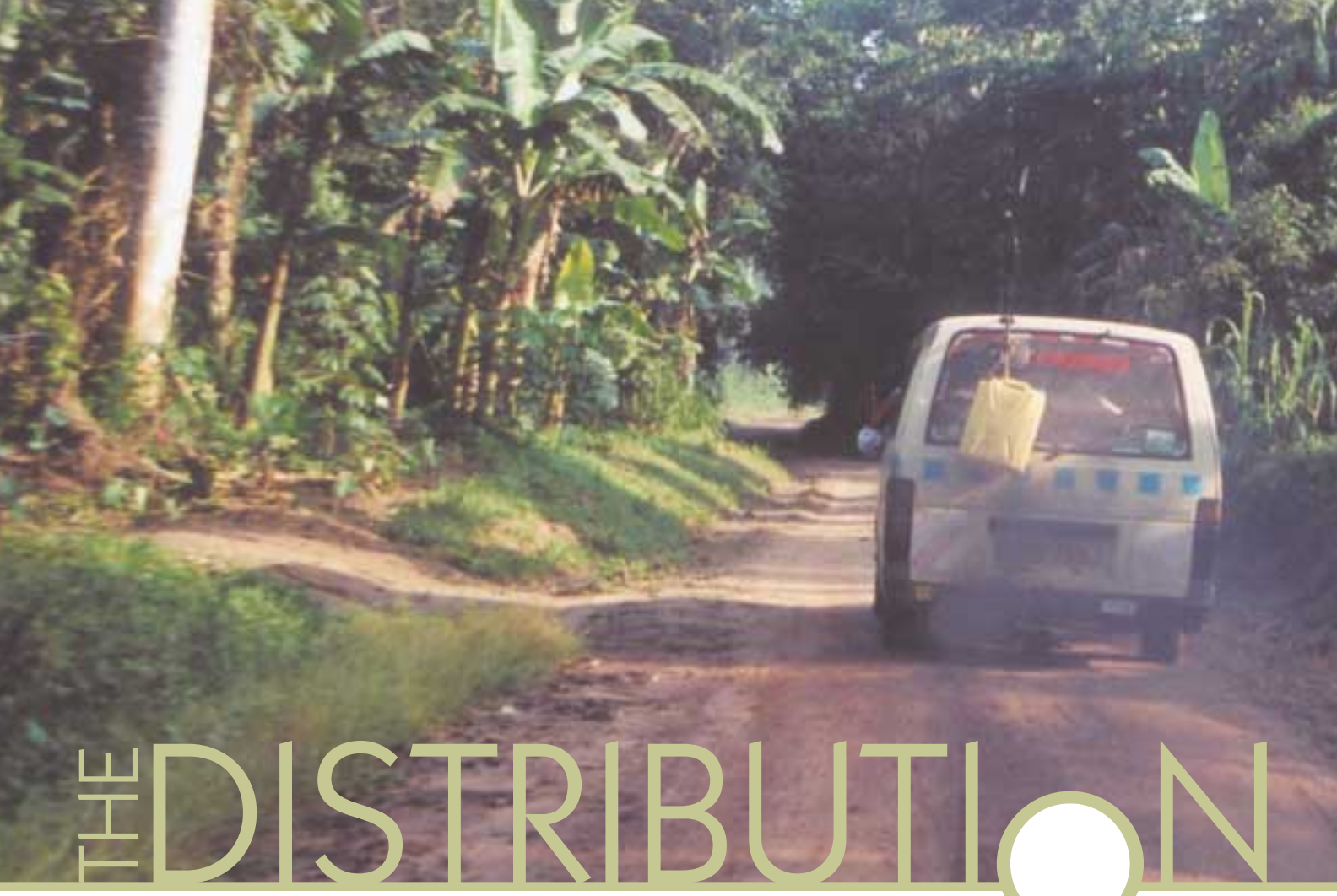


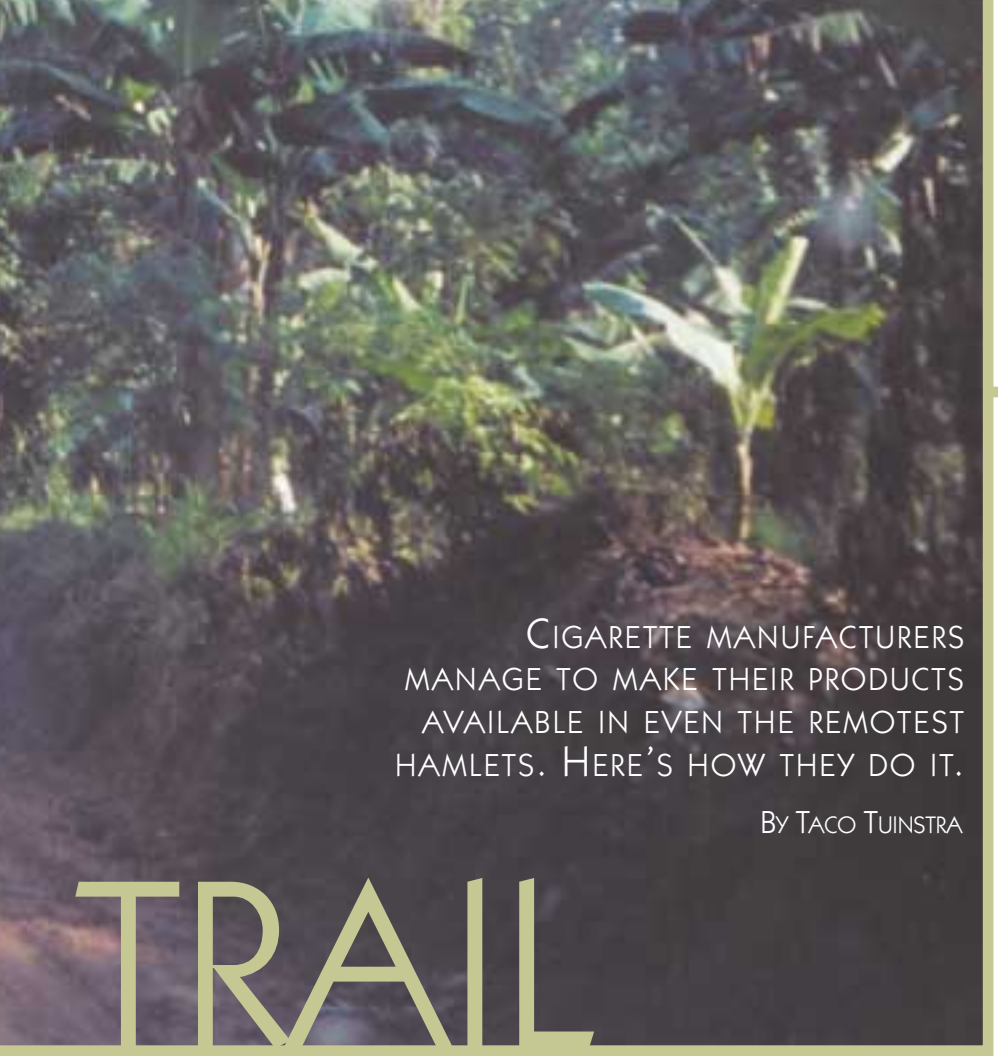
THE DISTRIBUTION

The distribution of cigarettes is a daunting task in the best of circumstances. There are issues of logistics, pricing and inventory management. And then there is the never-ending fight for "real estate" on the store shelf, where tobacco companies must vie not only with competing cigarette brands, but also with other fast-moving consumer goods, such as candy and batteries.

If distribution is a challenge in developed countries with sophisticated financial systems, enforceable contracts and functional infrastructures, imagine the task of supplying wholesalers and retailers in places where all monetary transactions take place in cash; where paved roads are the exception; and where written agreements are about as valuable as the paper they're printed on. Imagine having to worry about the personal safety of your staff.

For cigarette distributors in the First World, these additional concerns may be merely academic, but for distributors in many other markets, they are real, everyday issues. With the cultural and economic domination of the West, it's easy to forget that the majority of the world's people—and smokers—live in developing countries, and that a large proportion of global cigarette production is being distributed in circumstances that are far from ideal.

Despite such challenges, tobacco companies and their distributors somehow manage to make their products available in even the remotest markets. A rural village in the middle of nowhere may have few amenities, but there is a good chance



TRAIL

CIGARETTE MANUFACTURERS MANAGE TO MAKE THEIR PRODUCTS AVAILABLE IN EVEN THE REMOTEST HAMLETS. HERE'S HOW THEY DO IT.

BY TACO TUINSTRA

that the local shop will carry the natives' favorite brands.

THE LAND. How do cigarette manufacturers pull it off? To find out, *Tobacco Reporter* traveled to Uganda and traced a batch of cigarettes as it made its way from a factory in Jinja, at the source of the Nile, via distribution centers in Kampala and Masaka to the town of Kalangala on Buggala Island in Lake Victoria. From there, the cigarettes were dispersed to several of the smaller Ssese islands, many of which can be reached only by canoe.

We chose Uganda because the issues encountered by distributors there are representative of those encountered throughout East Africa. As in neighboring countries, distributors in Uganda must cope with often poorly maintained roads, a lack of credit, and in some areas, ethnic conflict and banditry. The local cigarette market is small (1.4 billion sticks) and the travel times long, creating issues of viability.

Like many of its neighbors, Uganda is coming to terms with a troubled past. Before independence from England in 1962, it was a prosperous and cohesive country. Winston Churchill referred to it as the "pearl of Africa," but by the mid-1980s, Uganda lay shattered and bankrupt, broken by tribal animosity, nepotism, corrupt politics and military tyranny.

In addition to murdering 300,000 of his people and impoverishing many others, the infamous dictator Idi Amin made Uganda a laughingstock, declaring himself king of Scotland and challenging the Tanzanian president to a boxing match, among other antics. (Amin recently passed away peacefully, after years of comfortable exile in Saudi Arabia.)

Under the more pragmatic—and less bloody—guidance of President Yoweri Museveni, Uganda has slowly started to make a comeback. The economy has been growing in recent years and Uganda has had some success combating AIDS, making it a favorite among Western donors hungry for an African success story.

But critics contend the benefits have yet to trickle down to ordinary people, including smokers. Economic growth has also been offset by population growth, and unemployment remains high. Those who work typically support a large network of unemployed relatives. One local cigarette distributor, for example, has eight wives and 40 children. While nobody goes hungry—Uganda must be one of the most fertile countries on earth—it remains a poor place, and smoking is very much a luxury pastime. More than 90 percent of cigarette sales are per stick.

MANUFACTURING. With a market share of 88 percent, British American Tobacco is Uganda's undisputed cigarette market leader. BAT entered Uganda in 1948, when it purchased the East African Tobacco Co. Amin nationalized BATU in 1972, and like many other businesses confiscated during that period, the company languished until it was denationalized in 1984.

In the 1990s, BATU embarked on an investment program, modernizing the primary and secondary departments of its Jinja factory. Although many improvements were made, the factory remains low-tech and low-speed by international standards. Its equipment includes Mark-8 and Mark-9 cigarette makers, a 3000 AMD packer and a Marden Edwards overwrapper. Frank Ariyo, head of manufacturing, says BATU is doing the best it can with its existing equipment. "We have reached a level that we cannot go beyond," he says.

The factory has a three-shift annual capacity of 2.4 billion sticks, but utilizes only 60 percent, operating five days per week at two shifts. Jinja manufactures local bestsellers such as Safari and Sportsman. The company also exports small volumes of cut rag to Rwanda. The Jinja factory is a significant contributor to the local economy. The plant employs 112 people, many of whom support extensive families. BATU is also one of Uganda's largest taxpayers.

From Jinja, BATU distributes cigarettes to all of Uganda. While some

Photos: Taco Tuinstra

Workers at British American Tobacco's Jinja factory load boxes of cigarettes into a waiting truck. After they've finished, Ugandan policemen inspect the cargo against the invoice delivery note, and then seal the truck to prevent illegal diversion. Only the distributor at the other end is allowed to remove the seal.

areas are more challenging to supply than others, cigarettes are available throughout the entire country, including the volatile north. The company works with 20 distributors, who in turn work with third parties. Traveling on trucks, vans, motorbikes and even bicycles, the cigarettes eventually end up in the country's remotest corners.

LAY OF THE LAND. Crispin Achola, BATU's head of marketing, ticks off the challenges his staff must contend with—security, infrastructure and, ultimately, viability. "Uganda is a cash economy," he says. "Our financial system was destroyed during the war 15 years ago, and has yet to be rebuilt. Even today, all transactions take place on the quid pro quo principle—I give you, you give me."

As a result, distributors and traders carry substantial amounts of money, often millions of shillings, making them attractive targets for robbers. To minimize their risk, insurance companies require bigger cigarette transports, such as trucks and vans, to be escorted by armed guards. "The decision on whether or not to hire security depends on the size of the shipment, on how much value is being carried," says Achola.

While robbery can occur everywhere, some areas present an added security risk. In the lawless north, for example, a bizarre group of child warriors, known as the Lord's Resistance Army, frequently attacks locals and travelers. The east is occasionally affected by unrest in neighboring Congo.

In such areas, maintaining a low profile is the best strategy. "You don't want to advertise that you are carrying money or something else of value," says Achola. "A big red Sportsman truck is a sitting duck in the north. For this reason, cars supplying high-risk areas are unmarked. They also change delivery routes and times frequently. Our distributors will even use taxis or public transportation to avoid standing out."

Needless to say, all those security precautions greatly increase distribution expenses. Costs are further inflated by Uganda's long distances (measured in time) and high fuel prices. The country is landlocked and petroleum must be trucked in from

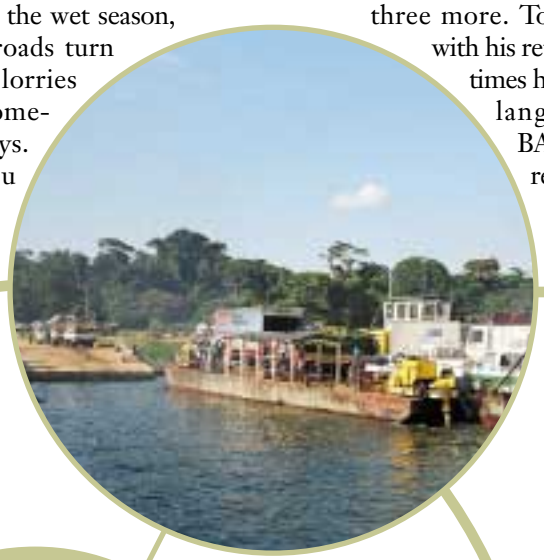
Kenya. "Basically, we must spend fuel to get fuel," says Achola. In June, regular gasoline sold for the equivalent of US$0.90 per liter ($3.24 per gallon) in Uganda, but the price fluctuates wildly.

If the price of fuel goes up, a distributor may decide his business is no longer viable, in which case BATU must explore alternative ways to get its cigarettes to market. "We might arrange for a fuel rebate or make more fuel-efficient means of transportation available," says Achola. "Instead of using a truck, the distributor can move his products by motorcycle or moped."

Due to its patchy infrastructure, travel times in Uganda are often longer than a look at the map might suggest. By African standards, Uganda's paved roads are in good condition. However, fewer than 2,000 kilometers of the country's network are paved, according to the CIA's *World FactBook*. (Britain, a country of comparable size, has more than 370,000 kilometers of paved road.) Soon after leaving the main roads, Ugandan drivers have to contend with potholes, stranded fellow motorists and other obstacles, adding to travel times and vehicle maintenance expenses.

In the dry season, dust is a problem, while in the wet season, many rural roads turn to mud and lorries get stuck, sometimes for days. Even if you don't get stuck, less fortunate road users can still slow you down. A bogged-down lorry tends to delay all traffic, as most roads are only single-tracked. A heavy rainstorm will also wash away bridges.

Away from the main cities, language becomes an issue. In addition to English, which is the official language, there are some 18 local languages in Uganda. The area that will be supplied on this trip alone is home to six different languages. Patrick Matte, BATU's manager in charge of the area, says he speaks two of them and can "get by" in three more. To communicate with his retailers, he sometimes has to rely on the language skills of BATU's local representatives. ▶



Getting around in Uganda can be a challenge. In the cities, motorists must contend with congestion, pollution and a general ignorance of (or deliberate disregard for) traffic rules. In the rural areas, there are potential hazards such as potholes, fallen trees, and sometimes wildlife. The ferry between the mainland and Buggala Island sails only if there is enough traffic and fuel.

These challenges, combined with the small size of Uganda's cigarette market, obviously raise questions of viability. Only 7 percent of the population smokes and incidence is flat. Uganda's recently enacted ban on public smoking is expected to further curb growth. Nevertheless, Achola insists that there is money to be made, even on small volumes. "Uganda is a profitable market for BAT," he says.

JINJA. In the loading dock of the Jinja factory, meanwhile, two policemen look on as workers carry boxes of cigarettes into a truck. After the truck has been loaded, they carefully inspect each box, recording serial numbers and checking them against the invoice delivery note. Once they are satisfied that everything is in order, the truck is sealed to prevent diversion. "What goes in on one end must come out at the other," explains Ampeire Andrew, who is responsible for scheduling the transports. "Only the distributor at the other end may remove the seal."

Armed with rifles, the policemen will escort the truck as it delivers cigarettes to depots in Kampala and Masaka. From there, the product will be further distributed on pickup trucks, motorbikes and bicycles.

The road that connects Jinja with Kampala and Masaka is relatively smooth, but for someone used to the comparatively disciplined driving in western Europe or the United States, traffic can be somewhat bewildering. Drivers must share the road with livestock, suicidal *matutu* (minibus) drivers and oversized trucks of questionable roadworthiness. Vehicles are invariably overloaded and breakdowns are common. It's not unusual to see a pickup truck designed to hold two occupants in the cabin transporting 25 passengers in its bed.

(Committed to corporate responsibility, BATU prohibits its drivers from carrying people in areas not designed for that purpose. While this measure unquestionably contributes to road safety, it doesn't always make the company's drivers popular with local people, for whom hitchhiking is a way of life.)

The prevalence of farm animals, and to a lesser extent, wildlife, requires drivers to be alert at all times. Although popular belief considers running over a chicken an omen for good luck (for everyone but the chicken), doing so could result in lengthy negotiations with the owner about compensation, leading to delays. Hitting a wild monkey does not raise such issues, but can still damage your vehicle.

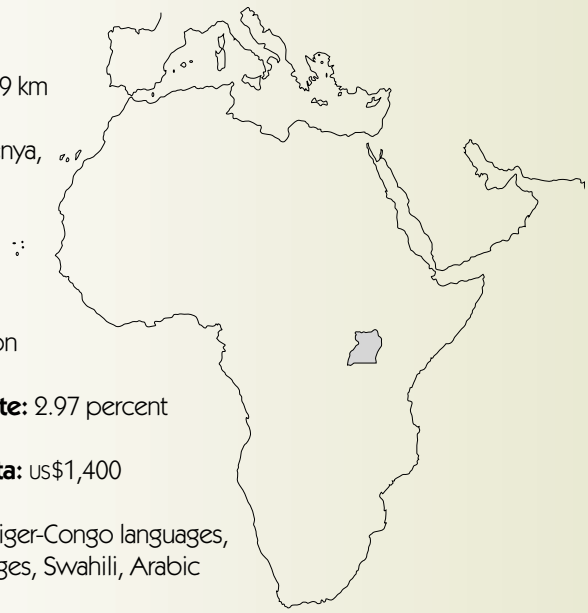
The trip to Kampala progresses smoothly, and amazingly, we encounter only one traffic accident. A lorry driver has miraculously managed to *flip* his vehicle—a remarkable feat considering the size of this truck—and hessian bags of uncertain contents are sprawled alongside the road.

In Uganda and other parts of Africa, people lay tree branches on the road to caution motorists of upcoming accidents. This site was also marked by a "Stop Police" sign, but someone had run it off the road. Traffic police are seriously underfunded in Uganda. According to one expat driver, the only people who have to worry about tickets are those with vehicles that cannot outrun the rickety police cars—drivers incapable of speeding in the first place.

MASAKA. By the time the transport reaches Masaka, it is getting dark and the trip comes temporarily to a halt. Traveling at night is not advisable because there is little street lighting and many drivers reportedly believe they save fuel by turning off their headlights. The plan is to supply tobacco shops in Masaka in the morning and then continue to the Lake Victoria landing site for the ferry to Buggala Island.

When morning comes, however, it is pouring, and for the first few hours, nothing happens. Part of downtown Masaka has turned into a raging river. "It is pointless for our drivers to go out when it rains," explains Rogers Dennis Kisekka, BATU's local sales and distribution representative. "In the city, traffic is slow, so shopkeepers stay in bed. For shop owners in the rural areas, selling cigarettes is often a side-business. Many are farmers first, and when it rains, they must tend to their crops."

Uganda at a glance:



Area: 236,040 km^2

Paved highways: 1,809 km

Neighbors: Congo, Kenya, Rwanda, Sudan and Tanzania

Coastline: none

Population: 26.4 million

Population growth rate: 2.97 percent

Annual GDP per capita: us$1,400

Languages: English, Niger-Congo languages, Nilo-Saharan languages, Swahili, Arabic

Ethnic groups: Baganda, Ankole, Basoga, Iteso, Bakiga, Langi, Rwanda, Bagisu, Acholi, Lugbara, Batoro, Bunyoro, Alur, Bagwere, Bakonjo, Jopodhola, Karamojong, Rundi, non-Africans, and others

Source: CIA *World FactBook*

The Masaka Tobacco Store serves 652 outlets in four districts—Rakai, Masaka, Sembabule and Kalangala. The operation has two vans, four motorbikes, three bicycles and a staff of 14. BATU requires its distributors to maintain three to four days of stock. The company supplies most of its distributors weekly, who, in turn, supply their wholesalers and retailers daily. "We order according to market requirements, plus the required buffer," says Kisekka.

For security reasons, the store is located close to a bank and across the street from a police station. It is also permanently guarded by an off-duty police officer.

Kisekka says the Masaka Tobacco Store has been fortunate, and there have been no serious incidents recently. One year ago, however, one of its motorbike riders was roughed up in the swamp while returning from the Lake Victoria landing site. "The robber was hiding in the bush," says Kisekka.

As the town awakes, drivers and riders start to arrive at the tobacco store, wearing heavy raingear. Later, when they stop to distribute at various points of sale, they'll inspect the stocks and, while they're at it, also take note of how competitors' products are moving.

In Masaka, BATU faces strong competition from a local brand called Supermatch. Supermatch sells in the same price segment as BAT's Safari brand, but is King-sized, giving smokers more "bang for their buck."

Because incomes are low, Ugandan consumers tend to go for quantity rather than quality. "Smokers like Safari, but end up buying cheaper brands, even if the taste is bitter," concedes Kisekka. "Some competitors also supply shop owners with cigarettes on credit, which we are not permitted to do. We drop off our product in the morning and pick up cash in the afternoon."

After supplying Masaka, it's off to Lake Victoria, a distance

The cigarette truck from Jinja stops at distribution depots in Kampala and Masaka. From there, the products are further distributed on vans, mopeds and bicycles. For security reasons, the larger transports are accompanied by armed guards.

of perhaps 40 kilometers (25 miles), but with prevailing road conditions, still a good hour's drive. The rain has stopped, the car's cabin heats up, and the windows come down. An encounter with a knee-deep pothole full of water changes everybody's mind. Wiser and wetter, the travelers continue their journey in a steamy cabin with the windows rolled up.

Officially, the ferry to Buggala sails three time a day. In reality, it goes whenever there is sufficient traffic—and fuel. On past occasions, the ferry's fuel supplies have run out altogether, sometimes for as long as a month. When that happens, regular users have no choice but to source the fuel themselves. "Because the ferry is run by the government, we are in effect subsidizing a public service," says Kisekka. "But what can we do? Ceasing deliveries is unacceptable."

Today, there is fuel. But, at departure time, not enough traffic has gathered to justify the trip, and the ferry remains docked. The delay gives one traveler an opportunity to examine the vessel, talk to other waiting passengers—and reconsider the crossover.

Although the trip should take only 45 minutes, Lake Victoria is notorious for its sudden storms, and the ship has seen better days. The ferry is of a roll-on, roll-off type, but, according to a frequent passenger, one of its ramps has been in disuse ever since a truck slid off it and disappeared into the water. Because of this, drivers are now forced to back their vehicles onto the ferry on the remaining ramp, making for a chaotic boarding process.

When the boat finally does push off—two hours late—a fully loaded minibus comes racing up the docking ramp. Eyeing the large number of passengers in the bus, the ferry captain decides to turn around and pick up the latecomers, further delaying the journey.

BUGGALA. Located off the northwestern shores of Lake Victoria, Buggala is the largest of the 84 Ssese islands. It escaped the ravages of Uganda's civil wars and remains largely unspoiled, with pristine beaches and crystal-clear water. While mainland Uganda has been mostly cut clear, Buggala still boasts a healthy rainforest: As soon as you disembark from the ferry, you're in the jungle.

The islands' inhabitants, the Basese, form a distinct tribal group, with their own language, culture and folklore. While nobody knows their exact number—there are probably more monkeys than people on the island—the local cigarette market is large enough to justify a supply trip every fortnight. To replenish vendors who run out of cigarettes between supply trips, BAT relies on a local stocker.

Undeterred by potholes and huge puddles, Kisekka pilots his pickup truck through the jungle, occasionally sending villagers and their livestock scurrying for cover. Because the ferry arrived late, he drives as fast as conditions allow—perhaps 40 kilometers per hour. There are some 38 cigarette outlets to supply, and although Buggala is by no means huge, the

In addition to supplying 38 cigarette outlets on Buggala, BAT's local sales and distribution representative is always looking for opportunities to move his product into new markets. Native fishermen supplement their incomes by ferrying people and goods between Buggala and other Ssese islands. BAT uses their services to ship its cigarettes to markets that could otherwise not be reached.

absence of paved roads makes it a challenge to get around. It takes another hour to get from the ferry landing site to Buggala's main city, Kalangala.

While moving rapidly, Kisekka takes enough time to make small talk with each of his shopkeepers—a prerequisite for remaining in touch with the market. Sportsman, a middle-priced cigarette, has been selling well this week, indicating a good catch for local fishermen who might otherwise be buying less-expensive brands.

Nevertheless, Kisekka is bit troubled by today's brisk sales, because they suggest the local stocker is not going around as much as she should be. One vendor suggests he speak to a local businessman, a retired major in the Ugandan army, who owns a truck and distributes soft drinks on the islands. This man could easily take on the additional business, and Kisekka agrees to see him in the morning.

After the Kalangala outlets have been replenished, Kisekka heads for the beachfront. There are no ferries, but local fishermen supplement their incomes by shuttling people and goods between the islands—a good opportunity for BAT to extend its reach beyond Buggala.

When Kisekka reaches the landing site, a large wooden canoe just happens to be loading up. A boatman wades through the water, carrying passengers on his shoulders from the shore to the boat. After all are seated, one passenger gets handed a yellow jerry can to help scoop out water entering through a hole in the boat's bottom.

Eager to make the most of his trip, the boat owner examines Kisekka's cigarettes and buys several cartons, which he will sell on the islands. What's more, he expresses an interest in doing regular shipments for BAT. His boat calls on Buggala every Tuesday and Thursday, and stops at several smaller islands—including ones that BAT didn't service directly before.

As the sun starts to set, Kisekka reflects on a productive workday: Not only has he replenished his existing customers, but also he has made an agreement with the boat operator, who will make BAT products available on a regular basis in new markets.

But now it's time to find a place to spend the night. The fact that Buggala has no electricity, and thus no street lighting, makes Buggala's bumpy roads even more treacherous after dark. Tomorrow will be another day, full of challenges for Uganda's cigarette distributors—and perhaps, another opportunity to extend the supply chain just a little bit farther. TR