THE BUSINESS JOURNAL

Publisher
Douglas W. Copeland, Jr.

Editorial

Editor
Mark Sutter
Executive Editor
Justin Catanoso
Associate Editor
Lloyd Whittington
Design Editor
Dale Edwards
Reporters
Matt Evans
Steve Ivey
Michelle Cater Rash
Laura Youngs
Intern
John Harrison

Washington Bureau
Kent Hoover
Research Director
Stephanie Nickell

Advertising

Director of Advertising
Timothy C. Harris
Advertising Promotions Coordinator
Grace Johnston
Advertising Account Managers
Laura Cicerone Busse
Bill Ingram
Tammy Tierney

Administration

Business Manager/Circulation
Pat Fromen
Business Assistant
Donna Takase
Circulation Assistant
Pat Epley
Circulation Sales
Gary Marschall

Production

Production Director
Debbie Forrest O'Connor

Greensboro Office
100 S. Elm St., Suite 400
Greensboro, NC 27401
Phone: (336) 271-6539
Toll-free: (800) 723-2977
News fax: (336) 370-2899
Advertising fax: (336) 370-2900
General fax: (336) 574-3607
Winston-Salem Office
305 W. Fourth St. Suite 2B
Winston-Salem, NC 27101
Phone: (336) 725-1163
Fax: (336) 725-1154
triad.bizjournals.com

The Business Journal is a publication of
American City Business Journals Inc.
120 West Morehead Street,
Charlotte, NC 28202
Ray Shaw, Chairman

Reprints
Scoop ReprintSource
(800) 767-3263, ext. 307

NORTH CAROLINA
Press Association

COMMENTARY

Tobacco Road faces new dose of challenges

VIEWPOINT
ANDREW BROD

These are not the best of times for the tobacco industry. President Obama just signed legislation that would place tobacco products under the regulatory purview of the Food and Drug Administration. Among tobacco manufacturers, Richmond-based Altria Group, which owns Philip Morris, supported the bill. The Triad's tobacco companies, Reynolds American and Lorillard, opposed it.

But there's more. Gov. Bev Perdue wants to raise the state tax on a pack of cigarettes by a dollar, up from the current 35 cents. That's on top of the recent increase in the federal excise tax. The governor also approved a bill that will ban smoking in all public restaurants and bars.

Even for an industry that's worn a target on its back for years, this is a lot to digest. What are the implications for the tobacco industry?

The answer depends on whom you ask. Altria clearly thinks that FDA regulation will be good for Philip Morris, which sells more cigarettes in the U.S. than all other companies combined. Altria appears to be hoping that its powerhouse Marlboro brand is so firmly ingrained in consumers' minds that new restrictions on marketing will act like a caution flag in a NASCAR race, preventing smaller companies from overtaking the leader.

Not all the news is bad for Reynolds American and Lorillard. The law does not ban menthol cigarettes, as was urged by anti-tobacco groups. The two companies' Salem, Newport and Kool brands account for more than half of all menthol sales.

Ironically, tobacco regulation could backfire in a way. In addition to regulating advertising and promotion, the FDA will closely regulate nicotine levels and ban various flavorings believed to attract young smokers. If these measures limit companies' ability to differentiate their brands on the basis of quality, they'll have no choice but to compete on price. That will drive prices down, encourage more smoking, and at least partly counteract the government's efforts to reduce smoking.

As for the new cigarette taxes, don't fret too much for the tobacco companies. To be sure, the tax hikes will raise the price smokers pay, and that will reduce cigarette purchases and cut into the bottom line. But the cut won't be deep because tobacco's addictive nature implies that decreases in consumption will be small. Smokers do cut back when prices rise, but not by much.

The expansion of North Carolina's smoking ban is clearly bad news, however, because it's a reflection of the ongoing decline in smoking, the increasing assertion of rights by nonsmokers, and the shrinking importance of tobacco in the state economy.

In the 1970s, roughly 40 percent of Americans smoked; now just over 20 percent do. The output of the nation's cigarette factories has declined by 40 percent over the last 30 years. In the last 20 years, employment in tobacco manufacturing has fallen 48 percent in North Carolina. Tobacco manufacturing employs only 0.3 percent of North Carolina's work force, and tobacco farming employs even less.

North Carolina is still the nation's top producer and exporter of unmanufactured tobacco, and tobacco is still the state's leading crop. But tobacco accounts for only about 7 percent of the state's farm income. The big money is in chickens, hogs and turkeys, which generate over half of all North Carolina farm receipts.

The recent developments are just the latest changes forced upon the tobacco industry. It will survive. But because our society and economy have changed as well, fewer of us outside that industry have a stake in its survival.

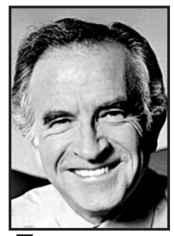
ANDREW BROD *is the director of UNCG's Center for Business and Economic Research and a member of The Business Journal's Editorial Board of Contributors. Reach him at (336)334-4867 or AndrewBrod@uncg.edu. An archive of Brod's columns is available at http://cber.uncg.edu.*

How to handle crisis situation at the top level

The recent leadership decapitation of N.C. State University is deeply unsettling for at least two reasons. First, the tree was diseased at the top. Second, it begs the question of how stakeholders can protect institutions when the chiefs are involved.

Here's a recap. Alleged influence peddling gave then-First Lady Mary Easley a high-paying faculty job. Revelations and executive opacity felled the chancellor, provost, trustees chairman, and Easley. UNC system president Erskine Bowles dropped the guillotine saying the evidence "…made me literally sick."

N.C. State's debacle also mirrored a disturbing corporate trend. One-third of CEO's are being eliminated for not being forthcoming with their boards according to a 2008 Booz Allen survey. That's a 20 percent jump from five years earlier.



VIEWPOINT
RICK AMME

So, what do insiders and outsiders do to avoid being sandbagged by leaders? This is hard. Violation of trust is at the core. Speaking generically, it's kind of like being had by a deft embezzler who creates a paper trail so convincing that you don't know anything's wrong until the money is gone. Some ideas:

• Mandatory CEO-board disclosure. Senior executives must inform boards and boards must demand it. Since Enron and Sarbanes-Oxley, the days of board rubber-stamping are supposed to be long gone. Clearly they are not. This is a two-way communication that CEO's should initiate and in which boards must participate: all board members. Case in point: N.C. State's Board of Trustees chairman was part of the Easley coziness, and Bowles ejected him.

• The board as crisis team. If there is a possibility that top executives are part of the problem then those executives should not be in charge of fixing it. Example: In 2008 the CEO of a financial organization I know wanted to reassure stakeholders after huge subprime losses. Unfortunately he had been in command when the disastrous real estate policies were in place. Ultimately the board decided the most persuasive way to signal change was to expel the CEO and CFO. In this case, the board managed the crisis.

• Crisis consultants engage board members. This is a note to me and to others who do what I do. In a handful of situations, I sadly came to realize that I was shuffling Titanic chairs because the very person who hired me to help, usually the chief executive, was the problem. I was hamstrung because I answered to that individual alone and did not have a relationship with a higher authority to develop alternatives that might involve eliminating or at least counterbalancing the chief executive.

This is tricky business here, but outside consultants like me cannot resolve disputes when we are beholden to the troublemakers. The board can be a kind of court of last resort and liaison should be established at the beginning under certain circumstances.

• PR insiders become "reporters." How do you suppose the PR staff at N.C. State feels? They were probably doing all they could to protect the university while the place was falling around their ears. Yet how could they have prevented it if the chancellor was involved? I suggest staff PR teams maintain loyalty without drinking the institutional Kool-Aid. Often former journalists themselves, they should act as internal reporters. Ask penetrating questions to try to avoid being hung out to dry. Difficult but not impossible!

Leadership failure at the top rolls like a wave across many and it is darned tough not to be swept away.

Rick Amme is President of Amme & Associates, a media/crisis management company in Winston-Salem. He is also a member of the Business Journal's Editorial Board of Contributors.