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Optimizing the IQOS Retail Experience Across Third Party Channels:

Enhancing Digital Third- Party Sales Tool

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## Abstract

This project targets the performance disparity between PMI-managed and third-party IQOS retail outlets in Portugal, primarily concentrating on improving digital sales assistance capabilities throughout the partner network. Studies incorporating expert interviews, customer feedback, and on-site observations indicate a major underuse of current sales tools stemming from complicated interfaces and time limitations, leading to a 40-point disparity in NPS scores between direct and partner retail sites. The thesis creates an improved digital sales instrument that simplifies customer engagement by means of intuitive benefit representation, automated computations, and customized conversion routes. Leveraging insights from behavioral economics and principles of guided selling, the solution combines calculations for financial, environmental, and health benefits, while also including tracking of achievements and certification programs to encourage ongoing adoption. The execution adopts a phased plan over 12 months, starting with a pilot project in Lisbon and then extending throughout Portugal. Starting with an investment of €108,720 and yearly operating expenses ranging from €80,592 to €94,984, the upgraded tool has the potential to facilitate the transition of as many as 9,649 smokers to IQOS, resulting in €2.961 million in extra annual revenue while instituting uniform sales support strategies within PMI's retail framework.

**Keywords:** digital sales tool, retail optimization, guided selling, Philip Morris International

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## **Disclaimer**

Although a Non-Disclosure Agreement (NDA) was signed with Philip Morris International (PMI), significant challenges emerged during the project execution. The PMI team received a directive from their legal department that severely restricted their ability to share any proprietary data. Multiple attempts to obtain data validation or confirmation of assumptions met with limited success, as the PMI team was often unable or unauthorized to verify even basic operational assumptions. The lack of access to internal data and the difficulty in obtaining confirmation of the analytical frameworks substantially impacted the development of a fully data-driven strategy. Despite these significant constraints in information sharing and validation, the project aims to provide a comprehensive and insightful analysis by leveraging publicly available information, market research, and the limited guidance obtained from the PMI team. The resulting analysis and recommendations should be interpreted within the context of these substantial data access limitations.

# **The Challenge: Transforming IQOS's Third Party Retail Experience**

IQOS faces a pivotal challenge in scaling its retail presence while maintaining the premium brand experience that defines its direct retail stores. The current model presents a strong contrast. While PMI-operated stores deliver exceptional customer experiences with NPS scores exceeding 70, third party locations significantly underperform with NPS around 30. This disparity becomes particularly critical considering that retail touchpoints operating through partner channels generate 99% of PMI's total Heated Tobacco revenue in Portugal. Direct retail stores have established themselves as showcases of the IQOS brand experience, offering comprehensive product education, personalized service, and premium store environments. These locations, primarily concentrated in Lisbon and Porto, successfully embody IQOS's sophisticated brand positioning and effectively convert traditional smokers to smoke-free alternatives. However, their limited geographic reach constrains IQOS's ability to serve customers across Portugal effectively. Third party partnerships present a compelling opportunity for expansion, offering broader market coverage and customer accessibility. However, these channels currently struggle to replicate the high-quality experience of direct retail stores. Variable service quality and inconsistent product knowledge create an uneven customer experience landscape. Additionally, available sales tools designed to enhance customer interactions often remain underutilized, further widening the experience gap.

## **Executive Summary**

PMI's IQOS encounters a significant obstacle in providing uniform customer experiences throughout its partner retail network in Portugal. Although PMI-managed stores reach Net Promoter Scores (NPS) over 70, partner sites average merely 30, resulting in a notable performance disparity. This gap is especially worrying since partner channels account for 99% of PMI's heated tobacco income in Portugal.

By conducting an in-depth analysis that combines expert interviews, field observations, and customer surveys, the study reveals that the insufficient use of digital sales support tools significantly hinders partner performance. The current sales tool encounters notable adoption obstacles because of complicated interfaces, restricted time resources, and inadequate engagement motivators.

To tackle these issues, an improved digital sales tool has been created that focuses on operational efficiency and user involvement. The solution includes simplified benefit representation that emphasizes financial, ecological, and health benefits, user-friendly customer profiling to direct tailored conversion routes, and automated calculations needing little manual intervention. Monitoring achievements and certification initiatives promote ongoing engagement, while incentives tied to performance sync with organizational goals.

The execution plan adheres to a structured 12-month schedule, starting with three months dedicated to establishing the technical infrastructure and developing training. A two-month trial launch in 20 chosen Lisbon outlets allows for controlled experimentation prior to a five-month gradual rollout throughout the partner network. The last two months concentrate on enhancement driven by operational input.

The solution necessitates a starting capital expenditure of €108,720, along with yearly operational expenses ranging from €80,592 to €94,984. Financial forecasts indicate attractive returns across three adoption scenarios. The conservative outlook (0.1% conversion) estimates an extra annual income of €2.28M, whereas moderate conversion (0.25%) might yield €5.71M, and optimistic adoption (0.5%) could result in €11.41M in supplementary annual revenue.

Aside from immediate financial gains, the upgraded sales tool fosters lasting value by improving customer experience uniformity, boosting operational effectiveness, speeding up the shift to smoke-free alternatives, and reinforcing competitive advantage. By simplifying customer engagements while preserving full functionality, the solution offers a viable framework to boost sales efficiency throughout PMI's partner network. The integration of user-friendly design and organized motivation systems tackles existing adoption obstacles while reinforcing PMI's wider strategic goals.



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## List of Abbreviations

<b>BAT</b>	British American Tobacco
<b>B2B</b>	Business-to-Business
<b>B2C</b>	Business-to-Consumer
<b>BLI</b>	Base Location Index
<b>BSC</b>	Balanced Scorecard
<b>CAGR</b>	Compound Annual Growth Rate
<b>CC</b>	Cigarettes
<b>CRM</b>	Customer Relationship Management
<b>DTE</b>	Direct-to-Employee
<b>EU</b>	European Union
<b>GDPR</b>	General Data Protection Regulation
<b>HPHCs</b>	Harmful and Potentially Harmful Constituents
<b>HT</b>	Heated Tobacco
<b>HTU</b>	Heated Tobacco Units
<b>KPI</b>	Key Performance Indicator
<b>LAS</b>	Legal Age Smoker
<b>LPM</b>	Location Performance Modifier
<b>NPS</b>	Net Promoter Score
<b>P1</b>	Heated Tobacco Consumables
<b>P4</b>	Heated Tobacco Device
<b>PMI</b>	Philip Morris International
<b>POS</b>	Point of Sale
<b>RRP</b>	Reduced-Risk Products
<b>VAT</b>	Value Added Tax

# **Group Part: Optimizing IQOS's Third Party Retail Network: A Strategic Analysis and Implementation Framework**

## **Synopsis**

Philip Morris International (PMI) is currently implementing a strategic shift towards smoke-free products, with IQOS serving as its primary heated tobacco product. In Portugal, IQOS functions via a five-level retail partnership framework, producing €374 million in yearly revenue. Nonetheless, a notable performance disparity is present between PMI-operated stores (NPS >70) and partner locations (NPS ~30), emphasizing the necessity for systematic enhancement of the third-party retail network.

## **Main Difficulties**

The main experience gap appears as a 40-point NPS disparity between PMI-run and partner outlets, along with varying service quality among partner sites. Partner involvement with current sales tools is still restricted, and significant employee turnover at partner sites exacerbates these issues.

Operational restrictions create extra challenges, as time constraints greatly influence the quality of customer service. Constraints of physical space affect brand representation, and intricate multi-brand settings generate conflicting priorities. These problems are worsened by a lack of training and support systems within the partner network.

## **Suggested Resolutions**

A thorough structure that integrates three essential elements:

The Location Performance Modifier (LPM) assesses competitive dynamics and market potential by considering store density and the appeal of the location. This advanced metric modifies performance expectations according to local circumstances, guaranteeing equitable assessment across various retail settings.

The Minor Infrastructure Proximity Screening promotes responsible retail placement by methodically assessing closeness to facilities aimed at youth. This element aids in achieving brand protection goals and upholds PMI's dedication to ethical marketing.

The Customer Satisfaction Score employs normalized Google Review data to deliver an even evaluation of service quality. This measure allows for uniform performance monitoring throughout the retail network, considering differences in review quantity and trends.

The efficient digital platform showcases an easy-to-use interface for smooth functionality, enhanced by built-in progress monitoring and rewards based on performance

## **Execution Plan**

### **Schedule and Stages**

The implementation of the Partner Evaluation Model lasts 18 months, starting with a three-month preparation stage and a subsequent six-month pilot in Lisbon. The nationwide implementation spans six months, ending with a three-month optimization period to enhance system efficiency.

The implementation of the Sales Tool adheres to a 12-month timeline, commencing with three months dedicated to foundational work and a two-month pilot phase. A five-month gradual rollout guarantees organized implementation, succeeded by two months of refinement and stabilization.

The Partner Evaluation Model necessitates a CAPEX of €177,040 along with an annual OPEX of €81,424. The Sales Tool requires a CAPEX of €108,720 and yearly OPEX of €80,592, along with incentives that depend on the scenario.

In the conservative scenario of 0.1% conversion, the initiative yields an extra annual revenue of €2.28M, starting with first-year earnings of €234,014, which increase to €519,774 in the following years.

The moderate case of a 0.25% conversion generates extra yearly revenue of €5.71M, resulting in first-year profits of €1,256,700 and ongoing annual profits of €1,542,460.

In the positive outlook of a 0.5% conversion, the extra yearly revenue amounts to €11.41M, leading to initial year profits of €2,961,175 and recurring annual profits of €3,246,935.

## **Strategic Advantages**

The execution provides better consistency in customer experience and boosts operational efficiency throughout the network. It enhances IQOS's competitive advantage, simultaneously speeding up PMI's journey towards a smoke-free future. The structured partner development framework guarantees lasting enhancement in retail performance.

## **Individual Part: Sales Tool Revitalization**

The analysis in Chapter 2 revealed significant operational challenges in PMI's partner retail network, particularly regarding service consistency and customer engagement. With NPS scores in third party locations lagging significantly behind PMI-operated stores, the need for enhanced operational support is clear. The customer survey further highlighted specific pain points, including rushed service interactions and inconsistent product education, while expert interviews revealed substantial underutilization of existing digital tools.

While Chapter 3's Partner Evaluation Model provides a systematic framework for assessing retail performance, addressing the identified service quality gaps requires practical tools that support daily operations. The behavioral patterns observed in the analysis - including high visit frequency among new users and limited time for customer interactions - demand solutions that can enhance service delivery within existing operational constraints.

This chapter develops a comprehensive enhancement of IQOS's digital sales tools, directly addressing the challenges identified in the earlier analysis. Through careful integration of behavioral economics principles and guided selling approaches, solutions are created that balance sophisticated functionality with practical usability. These enhanced tools complement the partner evaluation framework while providing immediate support for customer engagement and conversion effectiveness.

The chapter progresses from theoretical foundations through practical solution development, ensuring that proposed enhancements address both immediate operational needs and longer-term strategic objectives. This structured approach creates tools that can drive meaningful improvement in customer experience while acknowledging the practical constraints of partner operations.

## **Theoretical Framework**

The theoretical framework establishes key principles from digital sales systems, guided selling approaches, behavioral economics, motivation theory, and gamification elements that inform the development of an enhanced sales tool. These foundations provide structured guidance for addressing the operational challenges identified in partner locations.

### **Digital Sales Support Systems**

Sales enablement technology, as defined by Olanrewaju et al. (2022), is a dynamic capability that aligns multiple company resources to enhance customer journey and improve sales productivity. Similarly, digital sales tools in retail, also known as digital sales support systems, encompass a range of technologies and platforms that aid retail salespeople in engaging customers, streamlining processes, and optimizing sales outcomes. These tools leverage data, analytics, automation, and user-friendly interfaces to support tasks such as inventory management, customer relationship management (CRM), point-of-sale transactions, and personalized marketing strategies, thereby transforming traditional retail operations through integrated digital solutions that enhance efficiency and customer experiences (Hänninen, Smedlund, and Mitronen 2018; Fischer, Seidenstricker, and Poeppelbuss 2022).

Sales tools play a crucial role in improving sales, customer satisfaction, and overall profitability by offering sales professionals timely access to vital information and resources (Olanrewaju et al. 2022). By providing sales teams with the appropriate tools, companies can increase deal closures, enhance customer relationships, and base decisions on data for inventory, staffing, and marketing strategies (Brown, Johnson, and Wilson 2024). Their importance becomes even more evident as businesses move towards consultative sales strategies, focusing on creating customer connections and providing knowledgeable advice (Wenzel, Faisst, Burkard, & Buxmann 2012). These methods require comprehension of customer requirements and the skill to customize

solutions efficiently, which is aided by sales tools that collect customer data and monitor relationship development (Jefferson 2021; Salz 2018).

Sales tools not only assist in customer engagement but also play a crucial role in managing channels. They make interactions more efficient across various sales channels by offering a central platform for data and communication, resulting in better customer satisfaction and cohesive operations. This coordination doesn't just boost sales but also improves overall customer satisfaction (Sommella & Sorrentino 2023). Sales tools assist businesses in building customer loyalty and promoting repeat purchases by offering self-service features, personalized recommendations, and improved customer support (Brown, Johnson and Wilson 2024.; Chaffey and Ellis-Chadwick 2019).

Enhancing customer experience is a key objective of sales tools, and their impact is multifaceted, spanning consistency, personalization, and education. Consistent service delivery is critical in creating seamless omnichannel experiences. Quach et al. (2020) emphasize that omnichannel integration provides customers with a unified journey, ensuring that their interactions across physical and digital channels are aligned. Personalization capabilities offered by advanced sales tools further enhance customer satisfaction and loyalty. Tyrväinen, Karjaluoto, and Saarijärvi (2020) argue that personalization is a cornerstone of customer engagement in omnichannel retail. By leveraging data analytics and machine learning, these tools tailor product recommendations, promotions, and messaging to individual customer preferences. This not only increases the likelihood of purchase but also fosters a deeper emotional connection with the brand. The study highlights that customers who receive personalized experiences exhibit a 20% higher likelihood of repeat purchases compared to those who do not (Tyrväinen, Karjaluoto, and Saarijärvi 2020).

Educational support is another significant benefit of retail technology, transforming stores into environments where customers can learn about products. Chaney, Lunardo, and Bressolles

(2016) illustrate how interactive in-store displays and guided tutorials not only improve customer understanding but also build trust in the retailer. For example, customers engaging in digital kiosks that provide detailed product specifications and use cases are more confident in their purchasing decisions, which leads to higher satisfaction and fewer product returns. Educational initiatives also position retailers as thought leaders in their industries, enhancing their reputation and legitimacy.

### **Guided Selling Approaches and Recommendations**

Guided selling approaches combine interactive tools and structured methodologies to enhance customer engagement, simplify decision-making, and effectively address objections (Lavoye, Mero, and Tarkiainen 2021; Balaskas et al. 2021; Mounaim, Knidiri, and Tamer 2021). These approaches are critical in retail environments, particularly for complex products (Uwaoma et al. 2023) like heated tobacco devices, where customers often need additional guidance to understand product benefits and make informed decisions (Appendix 4).

Interactive tools have emerged as powerful enablers of personalized customer engagement by tailoring recommendations and providing dynamic guidance. Decision-support systems, for example, use customer input such as preferences, purchase history, and product familiarity to generate targeted suggestions. These systems significantly enhance customer confidence in purchase decisions by simplifying complex choices and reducing cognitive overload (Lavoye, Mero, and Tarkiainen 2021; Balaskas et al. 2021).

The psychological principles underpinning guided selling emphasize trust, relevance, and perceived value as critical factors in influencing customer behavior. Research consistently demonstrates that personalized recommendations tailored to individual preferences enhance trust and loyalty, as customers perceive them as more relevant and credible (Hossain, Akter, and Yanamandram 2020; Yang and Garnier 2022). For example, suggesting a specific IQOS

product based on a customer's smoking habits not only meets immediate needs but also fosters a sense of care and understanding.

Behavioral economics principles like loss aversion and social proof are especially effective in retail guided selling. Framing a recommendation around what the customer stands to lose such as health risks or financial costs, if they continue using traditional cigarettes can be more compelling than simply highlighting potential benefits. Social proof, such as emphasizing that "most customers prefer this option," further strengthens the persuasive appeal by leveraging peer influence (Yang & Garnier 2022; Uwaoma et al. 2023).

Guided selling techniques are essential for overcoming customer objections by equipping sales staff with structured frameworks for handling common concerns. These frameworks allow sales representatives to respond confidently to objections such as cost, usability, or product efficacy, using data-driven insights and personalized messaging (Balaskas et al. 2021; Hossain, Akter, and Yanamandram 2020). For example, an interactive tool could dynamically provide cost savings comparisons over time to address financial objections or present scientific evidence of reduced toxins to tackle health-related doubts.

Real-time tools, integrated with AI, enhance this process by adapting responses based on customer input during the interaction (Mounaim, Knidiri, and Tamer 2021; Lavoye, Mero, and Tarkiainen 2021). For instance, if customers express concern about the usability of an IQOS device, the tool could generate a step-by-step demonstration or suggest a simpler product variation. These adaptive systems ensure that sales conversations remain fluid and responsive, ultimately increasing conversion rates.

Additionally, objection-handling modules often use visual aids to strengthen their arguments (Hossain, Akter, and Yanamandram 2020; Islam and Rahman 2016). For example, showing a side-by-side comparison of traditional cigarette costs versus IQOS savings over twelve months

or illustrating environmental benefits through waste reduction charts can alleviate concerns and build confidence in the product. This structured approach not only addresses immediate doubts but also reinforces the customer's belief in the product's value.

User acceptance is often the most critical determinant of successful technology implementation. Puri and Ranjan (2011) identify perceived usefulness, ease of use, and relative advantage as key drivers of acceptance. Tools that demonstrably enhance job performance and are intuitive to use reduce resistance and foster engagement. For instance, Fisher, Gallino, and Netessine (2020) found that tools enabling faster decision-making and improved customer interactions significantly enhance user satisfaction, leading to higher adoption rates.

Ease of use is particularly important in retail environments with high employee turnover. Tools with intuitive interfaces and minimal learning curves are more likely to be embraced by employees, reducing training time and costs. Savastano et al. (2019) stress that relative advantage how the new tool compares to existing practices is a decisive factor. Employees must perceive the tool as offering significant benefits over current methods to invest time and effort in its adoption.

### **Customer Profiling**

Building on these guided selling principles, customer profiling techniques provide essential insights into optimizing initial customer interactions and personalizing the sales approach. Research in consumer behavior and sales psychology highlights the predictive value of initial customer responses during sales interactions. Screening questions designed to allow customers to express their primary motivations and concerns can significantly enhance engagement and predict behavioral outcomes (Hall, Ahearne, and Sujana 2015). A meta-analysis found that intention and self-prediction questions positively influence subsequent consumer behavior by making customers more invested in their responses (Wood et al. 2015).

Additionally, tailoring sales presentations to align with customers' self-identified priorities known as motivation-aligned selling creates stronger emotional connections and enhances purchase likelihood. Studies suggest that adaptive selling behavior, which customizes the sales approach based on customer cues, improves both customer orientation and objective sales performance (Franke and Park 2006).

Moreover, Santini et al. 2016 demonstrated that customers are more receptive to messages aligned with their stated preferences, even when multiple benefit categories are presented. This underscores the importance of sequencing benefits based on customer priorities to establish trust and credibility. By leading with a customer's primary concern, sales representatives can maximize the impact of their presentation before introducing complementary benefits.

### **Health and Environmental Benefits of IQOS**

Effective sales tool development requires not only understanding how to engage customers but also mastering the core product benefits that drive conversion. This section examines the scientifically validated advantages of IQOS that form the foundation of compelling sales conversations.

#### **Health Benefits**

Studies have consistently shown that IQOS significantly reduces exposure to harmful toxins compared to conventional combustible cigarettes. Unlike traditional cigarettes, which rely on combustion, IQOS heats tobacco to a lower temperature, thereby minimizing the production of harmful and potentially harmful constituents (HPHCs). Research indicates that IQOS aerosol contains noticeably lower levels of harmful toxins, such as carbon monoxide, tar, and polycyclic aromatic hydrocarbons (Haziza et al. 2016a; Mitova et al. 2019). For example, Haziza et al. (2016a) demonstrated a reduction of 90–95% in major toxicants in IQOS aerosol compared to cigarette smoke. Furthermore, Schaller et al. (2016) found that the reduction in HPHCs was

consistent across various studies, highlighting IQOS ability to deliver nicotine efficiently while significantly reducing harmful chemical exposure. This reduction not only decreases the risk of smoking-related diseases but also positions IQOS as a viable alternative for smokers seeking less harmful options. The harm reduction potential of IQOS has been substantiated through extensive research, including both independent and PMI-conducted studies. A clinical study compared biomarkers of exposure among IQOS users, traditional smokers, and non-smokers. The results indicated that individuals switching entirely to IQOS exhibited a significant reduction in biomarkers of exposure to toxicants, approaching levels observed in non-smokers (Haziza et al. 2019).

Additionally, Lüdicke et al. (2019) conducted a 6-month randomized clinical study that evaluated the impact of switching to IQOS on biomarkers of potential harm. The study revealed that switching to IQOS resulted in favorable changes in biomarkers associated with oxidative stress, inflammation, and cardiovascular risk, further validating its harm reduction potential. Mitova et al. (2016) emphasized that these reductions were consistent across diverse demographic groups, ensuring the applicability of findings across populations. Independent evaluations, such as those conducted by Bentley et al. (2020), have supported these findings by confirming lower toxicant emissions and reduced biological impact compared to traditional smoking. This alignment between independent and PMI-led research strengthens the credibility of IQOS as a harm reduction tool.

The health benefits of IQOS play a crucial role in motivating smokers to switch from traditional cigarettes. One of the key drivers of this behavior is the perception of reduced harm, which resonates strongly with smokers seeking alternatives to combustible tobacco. Studies such as Zanetti et al. (2019) have shown that health concerns are a primary factor influencing smokers' decisions to switch to IQOS, with many users citing lower perceived health risks as a significant motivator. Additionally, customer communication highlighting reduced exposure to harmful

toxins has proven effective in fostering trust and encouraging behavior change. Schaller et al. (2016) emphasized the importance of transparent messaging about IQOS's harm reduction potential, as this empowers consumers to make informed decisions. By addressing health concerns directly, IQOS enhances its appeal as a credible alternative for smokers who are reluctant to quit entirely. Haziza et al. (2016b) further noted that smokers who switch to IQOS often report improved health perceptions, such as reduced coughing and better respiratory function. These subjective improvements, coupled with scientific evidence, create a powerful narrative that drives conversion.

### **Environmental Impact**

One of the most pressing environmental issues related to smoking is the accumulation of cigarette butts, which are the most commonly littered item worldwide. Traditional cigarette filters are composed of non-biodegradable materials like cellulose acetate, taking years to decompose and releasing harmful chemicals into the environment. IQOS addresses this issue by eliminating cigarette combustion and replacing disposable filters with a reusable device and tobacco sticks (Mitova et al. 2019; Zanetti et al. 2019). Zanetti et al. (2019) emphasize that IQOS significantly reduces the volume of waste generated compared to traditional cigarettes. Each tobacco stick produces less residual waste, and the device itself is designed for long-term use, avoiding the constant generation of non-biodegradable waste associated with traditional smoking. Additionally, studies such as Bentley et al. (2020) note the importance of reducing cigarette butt pollution in urban and marine ecosystems, where toxins from discarded filters leach into water supplies and harm wildlife.

The environmental benefits of IQOS extend to its packaging design, which generates less waste than traditional cigarette cartons. Traditional cigarette packaging often includes multiple layers of material, including foil, plastic, and paper, most of which are not recyclable. IQOS packaging, in contrast, is streamlined to minimize material usage and optimize recyclability

(Schaller et al. 2016). Mitova et al. (2016) highlight the reduction in packaging waste as a key factor in IQOS' environmental advantages. For instance, the compact and reusable nature of IQOS devices reduces the need for excessive packaging, compared to the constant replenishment of disposable cigarette packs. Additionally, PMI has introduced sustainable initiatives aimed at further reducing the environmental footprint of IQOS packaging by using biodegradable or recyclable materials (Lüdicke et al. 2019).

Educating customers about the environmental benefits of IQOS is a critical component of its sustainability strategy. Visual tools, such as infographics and dynamic dashboards, play a pivotal role in raising awareness about the reduced environmental impact of using IQOS. These tools showcase data on waste reduction, emphasizing metrics like fewer cigarette butts littered and lower carbon emissions from reduced tobacco combustion (Mitova et al. 2019; Haziza et al. 2019). Studies like Schaller et al. (2016) demonstrate the effectiveness of visual aids in communicating complex environmental data to customers, making the benefits tangible and actionable. For example, showing the cumulative impact of switching to IQOS, such as "X cigarette butts saved from landfills," helps build a narrative that resonates with eco-conscious consumers. Similarly, Bentley et al. (2020) argue that highlighting environmental benefits through visual representation strengthens customer loyalty by aligning product use with sustainable values.

### **Behavioral Economics in Tool Adoption**

Successfully implementing digital sales tools requires more than just robust functionality—it demands careful consideration of the psychological factors that drive sustained adoption and engagement. This section explores key behavioral economics principles that influence tool utilization and user motivation.

### **Motivation Theory**

The successful adoption and sustained use of sales tools depend heavily on understanding the role of motivation in influencing employee behavior. Both intrinsic and extrinsic motivators play critical roles in shaping engagement, while incentive systems have been shown to significantly impact sustained adoption and performance (Deci, Koestner, and Ryan 2001; Puri and Ranjan 2011). Intrinsic and extrinsic motivators are foundational to encouraging sales tool adoption. Intrinsic motivation arises from an individual's inherent interest or enjoyment in using the tool, driven by the satisfaction of mastering new systems, contributing to personal development, or achieving meaningful work goals (Deci, Koestner, and Ryan 2001; Nguyen et al. 2023). Deci, Koestner, and Ryan (1999) highlight that intrinsic motivation is linked to higher levels of creativity, persistence, and satisfaction, making it a crucial element for driving engagement with complex tools such as sales support systems. Similarly, Tamilmani et al. (2019) suggest that intrinsic motivation plays an even greater role in environments where employees have substantial autonomy and decision-making capacity.

Extrinsic motivators, on the other hand, involve external rewards such as financial bonuses, promotions, or recognition for tool usage and performance (Puri and Ranjan 2011; Eggert and Serdaroglu 2011). Research by Puri and Ranjan (2011) demonstrates that extrinsic rewards can create immediate behavior changes, such as increased tool adoption during rollout phases, though their long-term effectiveness often requires reinforcement. Importantly, balancing intrinsic and extrinsic motivators is critical. Over-reliance on extrinsic motivators without aligning them with employees' intrinsic goals can lead to diminished engagement once the rewards are removed (Deci, Koestner, and Ryan 2001; Nguyen et al. 2023).

Savastano et al. (2019) emphasize that motivation systems should aim to combine intrinsic satisfaction such as mastering the tool and feeling more effective in daily tasks with extrinsic rewards like bonuses and recognition programs. This dual approach ensures that employees find both immediate and lasting value in using the tool, driving sustained engagement.

Incentives play a pivotal role in encouraging the consistent and effective use of sales tools. Leitz (2017) highlights that well-structured incentive systems can motivate employees to not only adopt new tools but also integrate them into their daily routines. Financial incentives, such as usage-based bonuses or performance-linked rewards, are particularly effective during initial implementation phases when employees may be reluctant to change established behaviors. Eggert & Serdaroglu (2011) further demonstrate that these rewards can significantly boost performance by aligning employees' efforts with organizational goals.

However, the design of incentive systems must account for long-term sustainability. Extrinsic rewards must be periodically re-evaluated to prevent diminishing returns, a phenomenon observed when employees become desensitized to predictable rewards over time (Deci, Koestner, and Ryan 1999; Gerow et al. 2013). This highlights the importance of integrating non-financial incentives, such as skill development opportunities or career advancement prospects, into the system. For example, recognition programs that publicly acknowledge high-performing employees or award "expert user" badges can sustain motivation beyond financial rewards (Cerasoli, Nicklin, and Ford 2012).

Progress tracking systems also enhance the impact of incentives on sustained tool adoption. Nguyen et al. (2023) suggest that providing employees with real-time feedback on their performance such as metrics on tool usage and sales conversion rate reinforces a sense of accomplishment and promotes continued engagement. By showing employees how their efforts directly contribute to organizational success, such systems increase the perceived value of the tool and align it with personal and team goals.

Tyväinen (2020) emphasizes the importance of aligning incentive systems with employees' broader sense of purpose and achievement. Tools that integrate features highlighting employees' contributions to customer satisfaction or organizational success provide a deeper level of motivation, ensuring consistent engagement over time.

## **Gamification Elements**

Gamification, the use of game design principles in non-game contexts, has emerged as a powerful tool to drive sales staff engagement and tool adoption. By integrating progress tracking systems, achievement rewards, and competition dynamics, gamification motivates employees to adopt and use sales tools effectively. Its success lies in its ability to leverage psychological triggers, fostering both individual and team motivation (Tamilmani et al. 2019; Nguyen et al. 2023).

Progress tracking systems are one of the core elements of gamification, allowing employees to visualize their efforts and measure their progress toward specific goals. These systems provide real-time feedback on metrics such as tool usage rates, conversion success, and overall sales performance, creating a sense of accomplishment (Nguyen et al. 2023; Gerow et al. 2013). According to Nguyen et al. (2023), visual dashboards displaying key metrics motivate employees by making their contributions visible and tangible, which aligns with their intrinsic need for mastery and self-improvement.

Achievement systems, such as digital badges or levels, further enhance engagement by rewarding employees for reaching milestones. Tamilmani et al. (2019) highlight that achievement systems tap into employees' intrinsic motivation by providing recognition for their efforts and building a sense of pride. For example, employees might earn a badge for completing a specific number of tool-assisted sales or unlocking advanced tool features. Deci, Koestner, and Ryan (1999) argue that such systems are particularly effective when paired with opportunities for professional growth, as they create a clear connection between tool usage and personal development.

Additionally, the use of cumulative scoring systems fosters sustained engagement by encouraging employees to continuously strive for higher levels of performance. Gerow et al.

(2013) note that employees who perceive ongoing rewards for consistent tool usage are more likely to integrate the tool into their daily routines. This creates a virtuous cycle, where the sense of progress and accomplishment reinforces the behavior.

Gamification leverages key psychological triggers, such as social comparison and achievement motivation, to create an engaging and competitive environment. Competition dynamics, such as leaderboards or team-based challenges, motivate employees by appealing to their desire for recognition and status. Puri and Ranjan (2011) found that employees are more likely to adopt new tools when they see peers excelling, as this creates a sense of healthy competition.

Social comparison, particularly when implemented through transparent leaderboards, enhances engagement by making individual performance visible to the team. Employees are motivated not only to improve their own performance but also to contribute to the overall success of their team (Cerasoli, Nicklin, and Ford 2012). For example, Nguyen et al. (2023) demonstrate that team-based gamification elements, such as group challenges or collaborative targets, encourage camaraderie while maintaining a competitive edge.

Reward systems based on competition dynamics are most effective when they incorporate personalized goals. Tamilmani et al. (2019) emphasize that employees perform better when challenges and rewards are tailored to their specific skill levels and preferences. For instance, a sales tool could create customized achievement pathways for junior versus senior employees, ensuring that all staff feel appropriately challenged without becoming overwhelmed.

Furthermore, psychological triggers such as immediate feedback and variable rewards heighten engagement. Deci, Koestner, and Ryan (1999) note that immediate recognition of accomplishments, such as earning a badge after a successful tool-assisted sale, reinforces positive behaviors. Similarly, introducing an element of unpredictability, such as surprise

bonuses or hidden achievements, maintains excitement and encourages employees to explore the tool further.

Savastano et al. (2019) highlight that integrating gamification into existing sales tools can transform routine tasks into engaging challenges, reducing the monotony often associated with data entry or customer profiling. By shifting the focus from obligation to enjoyment, gamification fosters a more enthusiastic and motivated workforce.

## **Solution Development**

Drawing from the theoretical frameworks outlined above, this section applies key strategies to enhance the IQOS sales tool, directly addressing the operational challenges identified in Chapter Two. The solution development focuses on creating practical features that align with both theoretical best practices and real-world operational constraints.

### **Tool Functions and Visualization**

The revitalized IQOS sales tool integrates four core sections into a cohesive platform designed to support personalized customer conversations while maintaining consistent message delivery. Responding to insights from expert interviews regarding time constraints and survey data showing rushed customer interactions (Chapter 2), the tool prioritizes speed and ease of use. Through its Financial Benefits, Environmental Benefits, and Health Benefits sections, the tool enables sales representatives to present a compelling conversion narrative tailored to individual customer priorities.

To ensure optimal engagement, the tool begins with a guided customer profiling approach as proposed by Wood et al. (2015). This initial interaction helps sales representatives understand customer priorities while maintaining a natural conversation flow. Through a carefully crafted screening question, the tool determines the most effective path for benefit presentation (Appendix 10):

“What matters most to you when considering alternatives to traditional cigarettes?”

- “I’m interested in understanding the health implications of different smoking options”
- “I want to know how this choice might affect my monthly expenses”
- “I care about reducing my environmental impact”

Based on the customer's response, the tool automatically prioritizes the most relevant benefit path while maintaining access to comprehensive information. This approach ensures that conversations begin with the customer's primary concern while allowing for a complete presentation of all benefits.

The financial calculation interface (Appendix 11) serves as a comprehensive tool for analyzing the cost implications of switching from traditional cigarettes to IQOS. The interface begins with input fields for current smoking habits, where users can select their tobacco brand from a dropdown menu and specify their weekly consumption. The system automatically calculates and displays their current annual cigarette expenditure based on these inputs.

Based on the selected cigarette brand, the tool provides tailored TEREА recommendations that match the user's current smoking preferences, displaying compatible variants. The interface then offers device selection options among the IQOS portfolio, presenting both the device cost and the recurring cost of TEREА sticks. These inputs generate an annual cost projection for the IQOS alternative.

The system then automatically produces a detailed financial analysis across two key dimensions. First, it generates a four-year projection of cumulative savings, clearly showing how the financial benefits increase over time as the initial device investment is offset by lower recurring costs. Second, it calculates a device amortization period in weeks, helping users

understand exactly when their initial investment will be recovered through reduced weekly expenditure.

The environmental impact section (Appendix 12) translates personal consumption patterns into tangible environmental metrics, focusing on waste reduction through cigarette butt elimination. This visualization connects individual behavior change to broader environmental benefits.

The section presents a four-year projection of cigarette butts prevented from entering the environment, with both absolute numbers and weight calculations in kilograms. Supporting imagery of water pollution caused by cigarette butts provides emotional resonance to the numerical data, making the environmental impact more immediate and relatable.

The health benefits section (Appendix 13) presents information in a clean, educational format focused on three key areas of improvement when switching from cigarettes to IQOS. The section opens with an important health context statement, emphasizing that while quitting tobacco entirely remains the best choice for health, switching to heated tobacco products can reduce exposure to harmful compounds compared to continuing cigarette smoking.

The tool then presents three core health benefits in distinct, easy-to-read panels. The first panel highlights "Reduced Exposure to Harmful Compounds," explaining how IQOS's heating rather than burning approach reduces exposure to harmful chemicals compared to traditional cigarettes. The second panel focuses on "Improved Respiratory Function," noting that users frequently report better breathing and decreased coughing within weeks of switching. The final panel addresses "Better Oral Health," emphasizing reduced tooth staining and improved oral hygiene compared to conventional cigarette smoking.

These four sections work together to create a comprehensive yet flexible sales narrative. Addressing the service speed and consistency challenges identified in Chapter 2, sales staff can

prioritize different sections based on customer interests and concerns, while maintaining access to supporting data across all benefit categories. The tool's modular design allows for natural conversation flow while ensuring consistent message delivery across all customer interactions.

A detailed user journey map illustrating how these four sections integrate into the complete sales interaction process can be found in Appendix 14, demonstrating the logical flow from initial customer contact through to conversion.

**Calculation Methodology and Database Architecture**

The sales tool's calculations rely on a comprehensive backend database and interconnected formulae designed to minimize manual input while maximizing accuracy and reliability. This section details the underlying data structure and calculation methodologies for each component.

Corporate	Brand	Intensity	Approximate Price	Matching IQOS TEREA
<b>Philip Morris International</b>	Marlboro Red	Full Flavor	5.33 €	Terea Amber, Terea Russet
	Malboro Gold	Light	5.33 €	Terea Yellow, Terea Warm Fuse
	Marlboro Silver	Ultra-Light	5.33 €	Terea Silver, Terea Soft Fuse
	Chesterfield Red	Full Flavor	5.30 €	Terea Amber, Terea Sienna
	Chesterfield Blue	Light	5.30 €	Terea Yellow, Terea Soft Fuse
	L&M Blue	Light	5.30 €	Terea Yellow, Terea Warm Fuse
	L&M Silver	Ultra-Light	5.30 €	Terea Silver, Terea Soft Fuse
<b>Imperial Brands</b>	West Red	Full Flavor	5.30 €	Terea Amber, Terea Sienna

*Exhibit 1: Sales Tool Database*

The tool's foundation is a comprehensive cigarette brand database containing essential information for all calculations. The database is structured with the following key fields:

- Corporate Entity: Organizes brands by tobacco company (e.g., PMI, JTI)
- Brand and Variant: Specific product identifiers (e.g., Marlboro Red, Chesterfield Blue)
- Intensity Level: Categorization of product strength (e.g., Full Flavor, Light, Ultra Light)
- Price: Current market price per package
- Matching IQOS TEREAs: Recommended TEREAs variants based on intensity matching

A secondary database contains IQOS-specific information:

- TEREAs Options: Complete range of available variants
- Intensity Levels: Numerical scale (1-9) corresponding to traditional cigarette strengths
- Taste Profiles: Categorization of flavor characteristics
- Device Options: Available models with current pricing

The dashboard provides a clear financial comparison between current cigarette consumption and IQOS usage. For cigarette costs, the system calculates total annual expenditure by multiplying the package price by weekly consumption and number of weeks per year. Considering a smoker purchasing 10 packages (20 Cigarettes each) weekly at €5.30 per Package:

- Example:  $€5.30 \times 10 \times 52 = €2,756.00$  per year

For IQOS costs, the calculation includes both recurring TEREAs purchases and the one-time device investment:

- Example:  $(€4.80 \times 10 \times 52) [T] + €29 [Iluma One] = €2,525.00$  per year

The system projects financial benefits across a four-year horizon, beginning with first-year savings. The first year displays the simple difference between annual cigarette and IQOS costs and in the subsequent years it adds previous year's savings plus the annual difference between cigarette and TEREAs costs.

Additionally, the Payback Period of the Device cost is calculated by dividing Device cost by weekly cost difference of Cigarettes and TEREAs

Taking the environmental impact into account, the tool translates consumption patterns into tangible environmental metrics with the annual cigarette waste which is calculated with the number of weekly packages times the number of cigarettes per package (20) and times 52 to calculate the savings per year.

- Example: 10 packages weekly produce 10,400 cigarette butts annually

For the weight impact the number of cigarette butts are converted into kilograms.

- Example: 10,400 butts equal 2.08 kg of waste (Total Cigarette Butts  $\times$  0.2 grams  $\div$  1000)

To maintain accuracy, the database requires regular updates of:

- Current market prices for cigarettes and TEREAs
- Available device models and pricing
- New brand entries and matching recommendations
- Any regulatory changes affecting pricing or availability

This detailed calculation methodology ensures consistent results across all user interactions while maintaining flexibility to accommodate market changes and product updates. The system's reliance on backend databases rather than manual inputs reduces the potential for error while speeding up the consultation process, directly addressing the time constraint challenges identified in Chapter 2.

### **Incentive Structure for Tool Adoption**

Given the low tool adoption rates identified in Chapter 2, the successful implementation of the enhanced sales tool requires a carefully balanced incentive structure that promotes consistent usage while ensuring data integrity. This structure combines financial rewards tied directly to

verifiable sales outcomes with non-financial recognition programs that foster long-term engagement and professional development.

The financial incentive system focuses on rewarding successful tool utilization that results in measurable sales outcomes. The primary commission structure enhances existing sales compensation of 30% for a device sale (Appendix 2) by applying two additional percentage points when sales are completed through the tool, directly linking tool usage to increased earning potential. This enhancement ensures that sales representatives see immediate financial benefits from incorporating the tool into their sales process.

To further motivate exceptional performance, a conversion rate multiplier system assigns escalating rewards based on partner performance quartiles. Sales representatives in the lowest-performing quartile of conversion rates in tool usage receive a 1.0x multiplier on their tool-based commissions, while those in the third quartile are awarded a 1.2x multiplier. Representatives in the second quartile benefit from a 1.5x multiplier, and the top-performing percentile earns a 2.0x multiplier. This tiered system incentivizes continuous improvement and recognizes exceptional results in a fair and measurable way.

Drawing from motivation theory and gamification principles, the enhanced sales tool incorporates two core recognition elements designed to drive engagement and sustained performance improvement. This focused approach emphasizes achievable recognition mechanisms that create meaningful motivation while remaining practical within a third party retail environment.

Following Cerasoli, Nicklin, and Ford 2012 recommendations for professional development structures, an expert certification program establishes a clear pathway for professional development through three distinct levels of expertise. Starting with basic tool proficiency, sales representatives can advance to become certified experts through demonstrated mastery of the

system. Each certification level requires completion of specific performance metrics and practical assessments, ensuring that recognition reflects genuine capability rather than mere participation. The program begins with Bronze certification, awarded for consistent tool usage and basic proficiency across all three benefit paths. Representatives achieve Silver status by demonstrating enhanced conversion rates and innovative application of tool features. Gold certification recognizes comprehensive mastery, including the ability to handle complex customer scenarios. This progression creates a clear development path while establishing certified experts as valuable resources within their retail environments.

Complementing the certification program, the achievement dashboard serves as each user's personal hub for tracking progress and accomplishments. Through intuitive visualizations, representatives can monitor their performance across key metrics including conversion rates by benefit path, customer satisfaction scores, and tool utilization patterns. This real-time feedback creates a continuous improvement loop that motivates enhanced performance. The dashboard emphasizes personal growth by highlighting individual achievements and progress toward certification levels. Implementing Tamilmani et al.'s (2019) gamification principles, special recognition badges acknowledge significant accomplishments such as exceptional customer satisfaction scores and innovative application of benefit paths. These achievements provide tangible evidence of growing expertise while encouraging exploration of the tool's capabilities.

Given the historically low usage rates identified in Chapter 2, these two elements work together to create sustainable engagement without requiring direct control of retail operations. By focusing on professional development and achievement tracking, the system drives improved performance through intrinsic motivation rather than external controls. The combination of clear advancement pathways and real-time performance visibility ensures that representatives remain engaged with the tool while continuously developing their skills.

## Takeaways and Further Implication

### Takeaways:

- Enhanced tool significantly reduces complexity while maintaining comprehensive functionality
- Minimal input requirements support time-efficient operations and ease of use
- Integration of behavioral economics principles drives improved user engagement
- Achievement tracking and certification programs create sustained motivation for adoption
- Revised calculation methodology ensures consistent and accurate benefit presentation
- Incentives successfully aligns individual performance with organizational objectives

### Implications:

- Continuous technical support critical for maintaining tool effectiveness
- Regular training programs needed to ensure consistent utilization across partner network
- Future development should focus on deeper integration with existing systems
- Opportunity to expand analytical capabilities for enhanced customer insights
- Success requires ongoing refinement based on user feedback and performance metrics

The enhanced sales tool design directly addresses critical barriers to adoption while introducing features that drive sustained engagement. Through careful integration of behavioral economics principles and guided selling approaches, the solution balances comprehensive functionality with operational practicality. These enhancements, supported by a structured incentive system provide the framework for improving sales effectiveness across the partner network. The combination of technical improvements and motivational elements creates a practical solution for enhancing customer interactions while acknowledging the constraints of partner operations.

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## Appendix

### Appendix 2: PMI x NOVA Field Trip, 3rd of October 2024

The field trip conducted on 3rd October 2024 provided comprehensive insights into PMI's retail tactics and operational dynamics in Portugal, examining the complex ecosystem of sales channels, product strategies, and market challenges across diverse geographical locations including Sintra, Lisbon, Cascais, and Bragança.

#### Product Portfolio Analysis

The ILUMA series represents PMI's most advanced heated tobacco offerings:

- Product Range: ILUMA One, ILUMA, and ILUMA Prime
- Price Range: €29 - €79
- Consumables: TEREA Smartcore at €4.8

Entry-Level Device:

- LiL SOLID Ez: €9
- Compatible with Fiitz consumables
- Designed to facilitate transition from traditional cigarettes

Vapor Segment PMI offers two primary devices:

- VEEV One: €7.99 (Customizable pod-based system)
- VEEV Now: €7.50 (Fully disposable device)

Product Performance Metrics

- Illumina Device Series: 80-90% customer retention rate
- Sales Composition:
  - Consumables: 65%
  - Devices: 30%
  - Accessories (e.g., ashtrays, cleaning kits): 5%
- Sustainability Initiatives: Collaboration with external companies for recycling efforts
- Heated Tobacco margins are significantly higher than margins of cigarettes

## **Market Demographics and Consumer Insights**

### Consumer Segmentation Young Adults (18-21):

- More receptive to IQOS products
- High interest in poly-usage (multiple product types)
- Key target for innovative marketing strategies

### Mature Consumers (40+ years):

- 1.1. Higher resistance to transitioning from traditional tobacco
- 1.2. Require more personalized conversion approaches

### Product Preference Trends Flavor Preferences:

- Cigarette-like flavors more popular
- Mint flavors show lower consumer appeal

## **Retail Tier Structure**

### Direct Retail Tier

- 25 points of sale
- Represents 1% of revenue
- Flagship stores setting brand standards
- Located in strategic, high-traffic urban areas
- Delivers premium IQOS customer experience

### Partner Retail Tier

- 114 IQOS Partner locations
- Contributes 3% of revenue
- Comprehensive product portfolio

- Critical for customer acquisition and retention

#### Vending Machines

- Functional role in product accessibility
- 24/7 product availability
- Focused on consumables and cigarettes
- Cost-effective operational model
- Significant regulatory compliance challenges

### **Competitive Landscape**

#### Market Dynamics

- Consumables: Most stable income source
- Traditional Tobacco Stores: Primarily transactional
- IQOS Stores: Emphasize experiential marketing
- Competitive Differentiation: Enhanced customer experience and service model

### **Operational Challenges and Market Context**

#### Geographical and Regulatory Challenges Location Limitations:

- Sintra: Low pedestrian activity
- Proximity to schools impacting store positioning

#### Market Risks:

- Illegal tobacco product circulation
- Strict advertising regulations

#### Mitigation Strategies:

- Collaboration with law enforcement
- Use of certified detection methods (e.g., trained dogs)
- Indirect marketing techniques via CRM tools

#### Partnership Ecosystem Partner Economics:

- Typical profit margins: Approximately 5%
- Incentive Structure:
  - €3 bonus per new customer signup

- Additional sales incentives

#### Support Mechanisms:

- Digital resources (price calculators, customer platforms)
- Tax deductions
- Customer data collection tools

### **Operational Infrastructure**

#### Store Network

- Lisbon Presence: Approximately 12 IQOS stores
- Customer Engagement Technologies:
  - "Experience Walls" for interactive product demonstrations
  - Comprehensive service model

#### Service Challenges Device Management:

- Identified inefficiencies in cosmetic repairs
- Complications in device replacements
- Need for streamlined service processes

### **Regulatory Environment**

#### Portugal's regulatory framework aims to:

- Balance adult consumer access to tobacco products
- Implement strong public health measures
- Reduce smoking prevalence
- Mitigate harmful tobacco use effects

#### Regulatory Observations:

- Stricter control and monitoring due to PMI's market position (Non-Level Playing Field)
- Comprehensive oversight of point-of-sale operations

### **Digital Sales Support System**

#### Sales Tool Features

- Standardized sales process support

- Sophisticated savings calculator
- Customizable cost comparison functionality
- Financial incentive system

#### Sales Incentive Structure

- Base commission: 30% per device sale
- Additional 2 percentage points for tool-completed sales

#### Challenges and Opportunities

- Location-specific evaluation required
- Need for systematic assessment of store positioning
- Focus on digital platform enhancement
- Continuous improvement of partner engagement strategies

Create age-specific marketing strategies

#### Appendix 4: Expert Interview with Joao Norte (PMI), 06.11.2024

**Nova-Team:** From your perspective, what are the primary goals PMI has for its retail performance across both PMI-operated and partner stores?

**Joao Norte (PMI):** Okay, I would say the main one is the acquisition. Of new consumers to the category, which we used to call LAS, Legal Aged Smokers. That would be the main one.

And also, especially in partners, ensure our programs, tools, trading, swaps to consumers in the category.

**Nova-Team:** How would you characterize the main differences between PMI-operated and partner stores?

**Joao Norte (PMI):** Yeah, this is like a personal view, but I would say it's close to the reality for most of us. I would say that the main difference are the people, because in direct operation, the people works for PMI, they receive the information at the first time. We can communicate with any limitation, without any limitation. And at the partner, the focus are not just in PMI products.

They have different categories. Even in tobacco, they work with our tobacco brands, but also with competition. And then there are lucky games, you know, like raspadinhas and money games. There are magazines, a lot of things. So the focus and the people are the main difference for me.

**Nova-Team:** Okay. And what specific metrics do you use to measure the retail performance?

**Joao Norte (PMI):** Yeah, the LAS sales number, so acquisition in absolute numbers. And also some numbers related with engagements with our tools, like digital tools. We have points, tasks to do, we can manage that as well. And also the volume, it's called CPW, carton per week. And it's not about performance, but about segmentation, the number of tobacco units that some specific partner sells. Let me give you an example, it might be easy to understand.

If I have a partner that sells, let's find it something like 500 cartons per week, this would be a priority to address, maybe to put there some authors to activate and to talk with those consumers as we saw in our visit to a partner. And it will be prior to anyone else that sells half of that. You know, if I only have resources for one, I will use this criteria. There are more consumers there, so I will focus on that.

**Nova-Team:** And also how do you measure the customer satisfaction? I think it's NPS, right?

**Joao Norte (PMI):** Yeah, it is the main one.

**Nova-Team:** Can you describe the typical customer feedback difference between channels? So what maybe do they say as root causes or what is the main difference from a customer perspective?

**Joao Norte (PMI):** I would say the personalization in direct retail would be the major difference. And also, especially that when if we are comparing, okay, this is not just for partners, for channels in general, and the type of service as well. Because in direct retail, brand retail, I

will say brand retail to make it easy, in brand retail and also in partners, you have all the service, all the tools.

And in direct retail, the tobacconist in general, you don't. So I would say the main difference are there. And also in the personalization, the time for the service.

**Nova-Team:** Okay. Can you maybe like, again, just talk a little bit about the NPS? Like, what is the main differences? And what is the main reason behind the difference?

**Joao Norte (PMI):** Yeah, I would say one thing important for the NPS perspective is to see it like a trend. You shouldn't see something like this is the right for this week or for this month or for this point of sale per se. You should see it as a trend. How are we evaluating among the year or among the channel or something like that. Always using a considerate quantity of data to take out some good insights from that. And focus on the difference. Yeah, I think it's especially where I say the personalization and also the type of service that we have there. But I can ask the main difference on the scripts to my colleagues if you feel the need of it. But it will be something like that. Okay, let me just point that. Thank you. I will just write that and I will send you back.

**Nova-Team:** Okay thank you. We've observed that customers seem less satisfied with partner store layouts. Which aspects of the store environment do you find most problematic? In this case, when we talk about partner stores, we mean third party in general. So not ICOS partner, but like indirect retail, just to clarify. Partner store layouts. And first, maybe can you confirm that and which aspects do you think are the most problematic when it comes to third party owned stores?

**Joao Norte (PMI):** You mentioned one thing that maybe I forget before, and I think it is important, especially in the first impact, which is the visibility, because it's really different. And if you enter in a classic tobacconist or a petrol station, gas station, you will feel that difference

with a great impact in comparison with brand retail. If you enter in our store, it's like smooth, clean, cozy, not so messy. And if you enter in a classic tobacconist, especially in the Lisbon area, which has a high cost in square meter, they will have anything, things in over and other things, different categories, not so well organized, especially in indirect retail. And probably this visual impact will take a place in the first impact. So I would say it makes sense, not only for that, but also for that reason, especially in the first impact. Did you ask for the service or anything else or just a general idea?

**Nova-Team:** Okay, and your last question for this category, I think you already also tapped into that, in what areas, what are the areas in which you see untapped potential for third party own stores?

**Joao Norte (PMI):** Yeah, I would say that maybe this is a controversial one. But I think you deserve and it is important for you to have this perspective. I think one of the things there are still to explore, at least in general or for the majority of them, it is how to do the math well. And this math is really reliable with the reality of their business, because I don't know if you remember, Yannick, when we were in one of the point of sales, we spoke about it. They have a lot of stuff with occupying most of the space, they don't win money from that. And some of them are not able to see it. So they have stock without rotation, it's money stopped there and they don't see it in the businessman perspective or woman or whatever. So I would say some of the potential is to make them understand how can they get money and being there a truly partnership with which have benefit for both sides. Beside the visibility, the service and all that we mentioned before, I would say this one would be also an area of potential to be explored. And we try, but there are a long journey to do that in my perspective.

**Nova-Team:** I see, I see. All right, thank you. Then let's jump into the next category. In your experience, what are the biggest challenges that partners or third parties face in delivering a consistent customer experience?

**Joao-Norte (PMI):** Yeah, I would say the human resources challenge would be one of them because we are in full employment situation right now and it's hard to wire, especially we focus people, keeping them, training them. Then the rotation is really high, especially in key accounts, petrol stations, but not only. And having this mindset of investment to probably pay a little bit more to ensure that I have the best person and he is satisfied and will be compromised with my goals. I would say this is a challenge. Also the competition, let me just read it again because I'm not sure if you mentioned this. Okay, that one is more for us than for the partner. I would say one thing to manage is with some legal probably change. Maybe we could have a different situation, you know the VMOs, the vending machines of tobacco, especially in coffees, there are some doubts in the future about it and if there are some legal changes on that, we could have in the tobacco industry a lot of increase in the footfall. And they need to be prepared to address it. Another point is the change of the variants with CFP, consumer flavour ban, some of the mentol variants just went out. So the consumer pattern changed and they need to adapt and be focused and do their best to give that answer to their consumers. And so I would say be flexible and be aware of those changes. It's really important to address that difficulty. And I would say there are the main ones. The business is changing. And let me just add another thing because most of them, they win a lot of money with the lucky games. But the trend for that is to be more and more digital, you know, like bet click and all that stuff. So if they don't do the math as they should and they are focused on the things because tobacco will be always sold in person for legal reasons. So I would say they should be aware of that, do the math, focus on the things that can get money to them. And adjust their business and their space for that.

**Nova-Team:** OK, I think you also tapped into the next question slightly, but maybe just to sum it up. What are the most common service issues you observe in partner locations? So what would you say is the main thing they are doing wrong when it comes to the customer satisfaction?

**Joao-Norte (PMI):** Yeah, about the locations in specific, I would say I'm not sure if there are more issues besides the ones that we mentioned before. Yeah, maybe there are another one, which is the time to do some of the tools that we have, because the programs that we have, because some of them takes time and especially in the ones with a lot of footfall, they are not so available to do it or happy to do it because if some swap takes five or ten minutes, there are a lot of tickets to sell and things that need to be put aside. And I would say that will be the beside the ones that I mentioned before, that would be also a challenge.

**Nova-Team:** OK, thank you. What is the difference in the staff training between direct retail and indirect retail?

**Joao-Norte (PMI):** Yes, so there are a lot of difference. In direct, in brand retail, everyone who works with us receive a train and continuous training about PMI rules, legal approach, products extensively. Also, the consumer centric mindset, the tools, how to work with and also on other things related with leadership, communication, commercial approach, a lot of stuff. Now, what we are doing with IQOS partners, we provide, and this is quite new, it began this year, a training related with some of these topics, with commercial approach, with structure, with contents as well. We try to close the gap between those channels, especially this year and in IQOS partners. For indirect retail in general, it's quite different.

They receive directly from the sales team the main topics, how the products work, some metrics and points of focus. But that's it. It's not even comparable.

**Nova-Team:** OK, I see. Then let's jump into the next category. PMI probably has specific design guidelines for the retail spaces for the third parties. Could you maybe let us know what the essential elements of these guidelines are on each partner level, how should it look like? How can it look like?

**Joao Norte (PMI):** Yeah, yeah. So I would say one of the main ideas is when you enter in a IQOS partner, you should breathe IQOS and not at least in the tobacco category, because competition could be there and it will be there. But in the visual elements, you need to breathe IQOS. So you need to, as a customer, when you enter in the IQOS partners, you need to recognize that IQOS is there and not other tobacco competition brand. Also, there are some specific elements. I don't know the name of all of them, but you need to have the space, the central panel communication, the headliners in the back walls, the disposers. And also, I don't know the name in English, it's really specific in Portuguese, the top parts over the disposables. We call it sanca in Portuguese and it's really hard to translate. But, you know, it's like sometimes you have some space between the top of the disposables and the roof. And that's that point. And other places with communication, and it depends, it's the floor. You maybe have some floor stickers and you could have that in contract or not. It depends. And the experience area, like we saw in Sintra, the IQOS partner, there were experience area where the activation team could work directly with consumer. They are there for it. It could be bigger or lower. It depends the space you have. But in the IQOS partners, you need to have that area for guidelines.

**Nova-Team:** Okay. And what would you say of these elements? What are the key elements that really impact the customer experience?

**Joao Norte (PMI):** Okay, that's an interesting one because I will tell you the official PMI answer. I'm not so sure about it, or at least at the level that PMI thinks. I would say the headliners, the headers elements would be the most important because they are aligned with our point of seeing. So it would be the ones with more communication. Maybe if you have a small digital, it could be by the digital effect. It could be important as well. I would say those ones are the top ones. My thoughts are especially in the impact, if it's lower or higher, not in the ones that are more important. Because probably you saw this, the tobacconist, they have more

and more things in the balcony. So what is behind that, it's harder to understand. So my thoughts are especially on that.

**Nova Team:** Okay. And how do partners adapt or modify the recommended layout? Because probably it's not always possible to have the same in each store.

**Joao Norte (PMI):** Yeah, there are guidelines and we try to respect them. And when the guidelines are made, they are made taking into consideration the number of disposers they have, the back walls they have, the number of shelves. And so we try to respect them. And in general, it works that way. The commercial force works with them on that and makes the change. The principal rule here is to have from top to bottom the main brands that we have. We start with Eated Tobacco on the top and then we go down with Marlboro, the most powerful brand, and then Chesterfield, etc. And if it is our space, the competition is just on the bottom.

**Nova Team:** I see, yeah. Which design elements are the most challenging for partners to implement? Like where are the major issues where stores often say, okay, that's hard for us to put into our store?

**Joao Norte (PMI):** Yeah, I would say the space because there are a lot of reference SKUs right now and some of the spaces are really tight. So I would say the space is the biggest challenge right now.

**Nova Team:** During our field visit, I think it was the last store, we've kind of felt like the device seller seemed misaligned with the IQOS premium positioning we usually have.

So maybe looking into store categorization, how do you currently evaluate and categorize retail partners? Do you have like metrics or is it only based on the salesperson?

**Joao Norte (PMI):** This is about the indirect retail in general, not only IQOS partners, right? Yeah, about everything. Okay.

I'm not sure if we have any tracker about space or number of disposers in indirect retail. It might be a criteria, but I think there are not the main ones. So I would say the ones that we spoke before. So CPW sales, LAS sales would be the prior.

**Nova Team:** So if a store has a lot of LAS sales, then it probably is more likely to become like to climb up the limit?

**Joao Norte (PMI):** Oh, okay. No, no. Let me clarify. So I understand better the question now. You need to check the space as well. So it's more probably the answer to your question is yes, but not only if you sell a lot, but you don't have conditions to have the furniture and those elements that we spoke before.

It's not possible. There are metrics that you need to fix and that part is important as well.

**Nova Team:** So it's mainly about sales and the possibility to really have the space?

**Joao Norte (PMI):** Yeah. And also the wellness of the owner and the staff is important as well, because you can sell a lot, you can have a fantastic space, but if you are not aligned with us and it's not important for you, you are not willing to do the service and the programs, it will not work fine. So you are a good device seller, but not a partner.

**Nova Team:** Okay. And like below that, it's probably about sales, like whether you're a device seller or a consumable seller.

**Joao Norte (PMI):** Yeah, especially that sometimes there are potential, but the owner for some reason doesn't want to be a device seller because he thinks it's not worth it. But in general, I would say 98% of the times we can convince them because they can get a lot of money by selling the devices. And so I would say, yes, that's the main difference.

**Nova Team:** So what the key criteria are to determine the property and the retail pyramid would be those three to four things. So it would be like the... Okay. Have you experienced cases where stores moved up or down the pyramid and what drove these decisions? Like, especially driving down would be maybe interesting. Yeah.

**Joao Norte (PMI):** Well, sometimes, yeah, it happens and not so much for down and depends of the categories from partner to device and general device sellers. I would say it might happen if someone are not available to keep the contract conditions, like the space, the visibility, the, you know, not exclusivity, but the main area of visibility, like I said before. So that would be a reason. Sometimes stores are sold to another owner and maybe the strategy of him can change. But I would say that it didn't happen so much. But especially from device sellers to consumable sellers, sometimes it happens because the results are not okay. We call to that point of sales group a long tail, you know, because the cost that we have with licenses, visits, time from our people and also the hardware are not worth it for the alias that they bring to the tobacco category. So in that case, it would be a decision from us, especially not for them. But yeah, it happens and those are some of the reasons.

**Nova Team:** Do you have like minimum requirements in each category? So for example, I don't know, a device seller should at least have this and this number of sales or should at least have this number of space available for us?

**Joao Norte (PMI):** Yeah, especially in sales for the device seller. Like you said, I'm not sure of the number and I'm not sure if I know it. I could give you. But yeah, it is. It changes. It depends on the average, the time you are. But yeah, we have that requirement. Okay. Is it also dependent on locations, for example? For the device seller, not so much for a partner. It makes sense because if you have a partner in the other side of the street, you need to evaluate if both of them deserve or make sense to have that kind of investment in both of them. You evaluate and it might be a yes. It's not a mandatory no, but you need to take into consideration the

representation on some ecosystem. With direct retail as well, with brand retail as well. But it happens. We have IQOS partners in the same ecosystem, in the same shopping, for instance, that we have a store of brand retail because smokers are especially there in the tobacco. So it might be a benefit for you to have an IQOS partner there and activate and communicate more.

**Nova Team:** We saw that you use a sales tool to support partner stores. Maybe first question would be in which tiers of the pyramid do you use it? Do you use it in all of them or is it only for IQOS partner or is it also for device sellers? And then maybe just describe the main features and use cases and how it supports the sales in the partner environment.

**Joao Norte (PMI):** Yeah, there are different systems. Most of them and most of the tools in that system are the same for everyone. One of the systems are related with the sales and the register of them. And it's the same for everyone, the benefits are the same. And then we have like DTE, Digital Trade Engagement Tool, which is called Open. And then it changes from, there are some specific topics that are available for IQOS partners for instance, not for different retailers, training categories. But most of them, even the gamification program are there for everyone.

**Nova Team:** Okay, can you maybe give us like what are the main features of it? For example, I think we looked at one which was where you could calculate how much money you save throughout a year when you switch from cigarettes to IQOS.

**Joao Norte (PMI):** Yeah, that one is one of the examples. There are also some, you know, like a daily quiz with some questions related with the content that are important for us right now. It's like a way to engage them and make them understand better some important news or things to take into consideration for us. There are also parts related with the benefits, you know, the

money they get from the sales and how they are performance. And yeah, I would say that those are the main areas.

**Nova Team:** How are they incentivized? I think you told us that there's like vouchers, for example, for the quiz gamification. Is there anything else like incentivized, for example, if they make a sale using the calculation tool, where do you save the money when you switch?

Do they get like, I don't know, a little bit of incentives when they use it or they don't make a sale?

**Joao Norte (PMI):** No, to use that calculator or anything, they don't. It's just like it is a tool for you to understand better, but they get money when they sell even both for LAS or LAUs (Legal Age Users). So they receive money for those sales.

**Nova Team:** For the sales, but it doesn't depend whether they use the tool or not. So it's just when they register a sale, they get the incentive. I think it was a survey also, then they get more money, right?

**Joao Norte (PMI):** Yeah. If they answer to the daily quiz that I mentioned before, they receive some points and then they can change their points for those vouchers, but not for using the tools by themselves. Actually, a different one, and goes more close for what you were saying, is with the training in IQOS partners, the special program training for IQOS partners, they receive points as well. And with those points, they can sum and change by vouchers. In that specific case only. Okay, perfect.

**Nova Team:** Yeah, thank you. When we were at the store, I think Antonio said that some of the stores barely use the sales tool, even though it would help them a lot. And what barriers do you observe in the sales tool adoption? Why do they not use it or what could maybe make them use it more?

**Joao Norte (PMI):** Yeah, I would say the same that I said before, related with the focus and be available to do the met. Because I would say that are the main reason. Obviously, our workforce team can do the difference by pushing them with a diplomatic approach and make them understand our benefits, can simplify the benefits, I would say. But yeah, I would say that the biggest barrier are in this.

**Nova Team:** Do you also use the tools for the direct retail? So the same or is it a little different?

**Joao Norte (PMI):** Not the same. We don't have the same platform. We use some different examples, but the questions are easier for us on that. When LAS comes to our store and it is available to change, we will convince them with the benefits. We don't need to do the met as much as in the direct retail. Because if he comes to one of our stores, there are some will at least of him to make the change and we can convince and we can try there or in the ecosystem in the streets and it's easier for us.

**Nova Team:** What feedback do you receive from the third party source about the tools? Do they like it? Do they see any potential where it could be made maybe easier to use or anything else? Are you meaning tools like swaps or trade bins or those kinds of products? I mean the sales tools. So for example, like the calculation calculator for example.

**Joao Norte (PMI):** Oh, yeah, yeah. Yeah, yeah. For that one in specific, I think the feedback is nice for the ones that use it. But when general feedback about our platforms, they are not so easy to use as some of the competition tools because we ask for more more contacts or clicks. We are more defensive even on that. They tend to simplify more to make easy, easy payments, you know, and that one is one of the one of the feedbacks of improvement for us.

**Nova Team:** Maybe when the customer journey between the two like the third party stores and the PMI on stores, where do you see the biggest gaps in the customer journey? So the whole

process in the store where it's like the biggest difference between the two stores or where it's like where the third party stores performing worse, like hardly worse compared to PMI on stores.

**Joao Norte (PMI):** Okay. Well, I would say it's two main reasons. One, because the difference is really you can see it very well, which is about the information of the consumer, explain all the benefits and how the product works with safety information. And the other one, because it's really important to make us available to do something about it, it is when you register the sales. If you register, we can do an onboarding call and work with those consumers to understand if they are okay, if there are any doubts to recommend to visit a brand retail store or anything else. If they don't do the register and sometimes it happens, we really focus on that. It would be impossible to contact the consumers and make this happen.

**Nova Team:** Okay. Do you maybe have like a rough number of how many people register when they buy third party on store?

**Joao Norte (PMI):** I'm not sure the actual numbers, but in general, it will be in indirect retail, I would say something between 60 and 80, 85 maybe percent in brand retail would be 90 percent or more. Okay. I see. So there's something like that, like a gap of maybe 20 percent or something. It is different among different points of sales in indirect retail, like petrol stations are in general lower register rates because they don't have time or even the consumer are not so available to do it.

**Nova Team:** Maybe one more thing would be like, what is, you probably also have like indirect retail stores that are performing super good on the same level and some are not. And also when it comes to the NPS, so the customer satisfaction, there are probably also third parties that are really good and some that are really low. What would you say are the main differences between those when you maybe think of examples?

**Joao Norte (PMI):** Okay. I would say the difference, yeah, they apply the ones that you mentioned and it might be without a positive correlation between them. You could have a lot of sales and not so good experience measured by NPS. I would say, yeah, that's one of the parts we can have all the situations, to be honest, and with different patterns. And the other question, sorry, was about the difference between.

**Nova Team:** Yeah. Why do you think do some have more customer satisfaction than the others, for example?

**Joao Norte (PMI):** I would say the main topic, it's related with people, the staff approach. This is the biggest difference from point to point. Even in brand retail, it's more close to the gap, but the main difference are people, information, empathy, willing of help. This is the main reason.

**Nova Team:** Okay. But do you think that this is due to them being more motivated from themselves or does this have to do with some trainings that they got?

**Joao Norte (PMI):** Both, but motivation is really important because for the satisfaction or even the effectiveness of the sale, you don't need to know everything. But if you are motivated and you give the main topics, then the sale might happen. So you can do the difference with that. So I would say motivation and the main topics knowledge are the most important on that.

**Nova Team:** So incentivizing those bad performers could be an option to improve?

**Joao Norte (PMI):** It could. Actually, it's one of the main tasks of our teams in the indirect retail channel. It's not so easy as it might appear because they tend to rotate a lot. Sometimes they are not really focused on that and sometimes the incentives are not shared by the owners. So we can ask them, we can be nice, but they are not getting money from that. It depends. We always try for the shared incentives, but sometimes our owners are not available for that. And yeah, we need to negotiate that to have more impact or potential impact.

**Appendix 5: Expert Interview with Antonio Machado (PMI), 18.11.2024**

**Nova-Team:** So, yeah, I think we can just jump into it. Julian, do you wanna take over? Yes, so the first questions are about the performance gap between the PMI operator stores, so the direct retail stores, compared to the third party stores as device sellers or also the consumable sellers, for example. And the first question is, from your perspective, what are the primary goals of PMI for the retail performance across both the PMI operator stores, but also the partner stores? When we speak about partner stores in the interview, we mean like all the third parties, basically. So indirect retail, I think it's in PMI called, right?

**Antonio Machado (PMI):** Okay, just one thing. In terms of partner stores, I know what you're meaning, okay? All stores are like our partners, but we have a category in which we say, like the partner store, that's not a random partner, one that has more engagement with us.

**Nova-Team:** Yeah, we know the pyramid, but when we speak about partners here or third party, it's about like all the third parties, so all stores that you are overlooking, basically, not only the IQOS partners.

**Antonio Machado (PMI):** Okay, so let me think. So first, what are the primary goals Philip Morris asked for its retail performance across PMI operated and partner stores? So basically, our goal is to sell machines, to convert people, that's our main goal. And the way we do it, it is like, for instance, in the PMI operated, we focus more on aspects that in general, the device, the partner stores are not willing to do or it's very difficult. For instance, guided trials, okay? That's something that we usually do on our operator stores. In our partner stores, it's very difficult, okay? Then the primary goals is to convert, okay? To convert consumers. In terms of the partner stores, we focus on engagement, our company with them in order for them to obtain more knowledge about our products. In our operated PMI stores, we don't need that because they already know everything about, or at least almost everything about our stores. So in order to, I'm just speaking and thinking, but in order to boost retail performance in our partner stores, we tend to focus more on engagement, on upskilling the staff, okay? In order for them to try to

boost sales, okay? Whereas in our PMI operated stores, the upskilling of our staff is something that it's normal. We have like a big, big training sessions, et cetera. So I don't know if I'm answering right or not.

**Nova-Team:** Yes, it's good. I think it's, yeah, I think it's a good direction. Yeah, and I think you already also touched on the next question, like the main differences, but maybe you can elaborate a little bit on what you already said and add some stuff for the main difference between the PMI operated and the partner stores.

**Antonio Machado (PMI):** So the one thing, one thing I can already say, so the visibility. Visibility in our partner stores, it's sometimes a bottleneck, okay? Sometimes it's very difficult to have a good visibility. Why is that? Because we can either talk about a small point of sale in the middle of nowhere, whereas in our operated stores are more, tend to have bigger spaces, okay? The standard visibility across all the PMI operated stores in our partner stores, it's very difficult because it's the complexity of each points of sales doesn't allow us to have like a standard approach. We try to do, but like, imagine you can go to, I have 50 points of sale, you can go to 30 of them and you find some specific things that are completely different from each other. Whereas the PMI operated store, you don't find that. You find the PMI standard basics. So visibility, also the services that we have in our partner stores are not, we have just a few services compared to PMI operated stores. For instance, the guided trial, just a few points of sale of my territory have guided trial. I think like, it's not even 10%. It's like, I have like four points of sale with guided trial and I have 50 points of sale. So do the calculations, it's not even 10%. Regarding, for instance, the lending service in which you give a device to a consumer that doesn't want to buy the device in advance. He use it for a few days and then he can either buy it or not. That service, I only have in one point of sale. So other main difference is the services that we have. In our direct store, we have everything. The swaps, you have a broken machine,

you can go there and you change it. You can lending of devices, guided trials. We have everything on that. In our partner stores, it's very specific because the majority of my points of sale wouldn't even use these kinds of services. So visibility, services, another big difference is that we have a proactive approach to the consumer in order to try to convert them into our products on the partner stores. In the PMI operated, it's a reactive approach, always. They stand there, people go and then they will start the conversation. In the partner stores, you will try to buy a Chesterfield or a Marlboro and sometimes, that's our goal, the retailer try to sell a machine, okay? Also, so basically I think visibility, the services included, the approach, if it is a reactive or a proactive approach. And I think basically that's also another detail, for instance, is the way we treat a customer in our PMI operators, it's different from partner stores. They usually tend to have like a standard approach and more specific regarding the person's specificities. For instance, if it is like a Marlboro red guy, in our stores, they are upskilled enough to try to see what is the best tobacco to sell, either tobacco to sell. In others, it's more, it's difficult. So I think the approach to the client, it's much more like detailed oriented on the PMI. I think those are the main buckets.

**Nova-Team:** Okay, thank you so much. What specific metrics do you use to measure retail performance? Like probably something financial, but also something for like customer satisfaction.

**Antonio Machado (PMI):** Okay, so the specific metrics to measure the retail performance, so the sales, okay, that's a big one. When we talk about sales, we try to see two types of sales, the sales to new users, the LAS, as we usually say, that is our main focus. And also the sales as it is to a person, either a new consumer or not, okay? That is very important. Why is that? Because a lot of times we see, for instance, a point of sale that is selling a lot to new customers, and that sells a lot to customers that are already in our category. So when I see that, I try to focus a little bit more on the proactive approach of the staff, because it can be a sign that explain the data. A

lot of times, imagine, if I see that, probably the staff is not oriented to try to convert people. So try to see the sales to new consumers or to the consumers that already have a device. That is something that I always do. To see if the registration rate is also something important. In my territory, it's not a big pain in the a\*\*, but in other points of sale that has like key accounts, a lot of new people enter, new staff rotating. A big turnover, that is a pain point in my area. In my area, not, but it's still, I try to see it. So sales, so registration rate. What, also, other thing, I try to see if they, no, I was going to say something to you, but it's not the retail performance as it is. Also, other thing, other thing that we usually do, okay, is try to see the overall purchases, the tobacco services, the clients, retailers, are due to either heated tobacco or tobacco as it is, the conventional tobacco. We cannot see exactly what is the purchase, what are the purchase and what are the grosses, et cetera, but try to see the general picture. I do that in three to three months, just to see if the sales of the tobacco, not the machines, but the tobacco is increasing or not. And imagine, for instance, that I have a point of sale that are selling a lot of tobacco to a lot of conventional tobacco, but sells just a few machines. That is something that it will be on my priorities, okay, because that's something that maybe the staff are not engaged into our products, et cetera. So I think, yeah, sales, the purchases they do of the tobacco, and also the registration rates. I think those are the three most important.

**Nova-Team:** All right. And now looking at the customer side, what is the typical feedback that you obtained from the customers for the different store layouts?

**Antonio Machado (PMI):** The feedback of the final consumer to the store layouts?

**Nova-Team:** Yeah, like the store layouts and the stores in general, like what do they like about, for example, direct retail, indirect retail, you can also there differentiate between the three, like the high cost partners, device sellers and consumer sellers, whatever you, where you have like some input.

**Antonio Machado (PMI):** Like, that is a good question. I don't normally speak to the final consumer regarding that. Okay, what I can say, but that is just, just a single feedback of one consumer. One or two consumers, they say that our visibility is very good, okay, and it make us, make them almost want to buy products. I will give you an example. I had, I have like a traditional tobacconist store, very small, and I put in there two big, I'm not remembering the name in English, but two big shelves to put the tobacco. And with the communication, with even the lights, okay, some three or four clients were saying, oh, that is much good, they feel the desire just to see, to try to experiment the products. In that question, I cannot give you a correct feedback. It's just a simple feedback I obtained, but, sorry.

**Nova-Team:** No, no worries, that's totally fine, and also good. We did a little survey, and then, I mean, I think it's quite obvious, but like customers decided that they like the store layout of direct retail more than for indirect retail, so like the design and everything, which aspects, since you are working a lot with the indirect retail, are the most problematic when it comes to indirect retails for the store layouts?

**Antonio Machado (PMI):** Yeah, so, I would like to show you a picture, but imagine, do you have pictures of our shelves? Yes. Yeah, okay, there is, imagine, you have the other, okay, which is the top shelf, as you say, with only communication, nothing more, then you have the machines, and right below the machines, you have also other communication. That communication, it's always like, a lot of times you cannot see it because it's not glued, so it's completely like, a lot of times, imagine, in eight points of sale that I visit, sometimes in three, I will try to see the communication, and I cannot see it because it's not glued, so it's something that we are working on, but it is, it passed one year, and it's still the same. Okay. Yeah. So that is something. Other things that are, for instance, the floor stickers, the floor stickers that we use, a lot of times are completely, especially in the winter, completely with dust, with so ugly, and then it starts to completely vanish, okay, whereas the direct retail, it doesn't happen. In direct

retail, as I'm thinking, they don't have it. I think they don't have it, but that is something that the consumers will, of course, don't appreciate. And basically, I think it's that. The other things I, for instance, in the partner stores, a lot of times what happens is a lot of players are trying to fight for the space on the balcony, for instance, and in terms of our shelves, that is not the big problem, because it's more or less standardized, but in terms of the balcony, you can see like a Christmas tree. A lot of players putting materials over the other material, et cetera, and it doesn't effectively communicate with the consumer. It's just completely nice around. So I think that is something that you will not ever see in the direct retail store, because it's one player, okay, fighting for the space, only one.

**Nova-Team:** Okay. So I think we already touched up on the question 1.6, so we can skip this, I think. Yeah. And also the second chapter. Yeah, I think we can quickly go through. I hit the two that we'd already touched on. So in your experience, what are the biggest challenges that partner stores faces in delivering a consistent customer experience? Is it like, I think you already touched, for example, on the human resource turnover for some of them?

**Antonio Machado (PMI):** Yeah, yeah. Okay, so turnover. Turnover, what that translates? Basically, I have to upskill the staff, I have to make sure they learn all the materials, they go proactively to our open, which is our retailer webpage, in which they access like activities in order to boost their knowledge, et cetera. So that is like some job that I have to train every single time a person goes away. So that is the turnover. Then there's something that is very important. Sometimes, and I mean, sometimes it's like, I don't know, 30%, 20% of my points of sale, the staff doesn't gain any incentives. There is not incentive scheme accepted for the owner to give to the employees if they sell our machines, okay? And because of that, a lot of those, more specifically, those points of sale, they don't care about consumer experience. They don't even proactively approach, nothing because they don't receive incentive scheme, okay? Incentive schemes, some owners want to give to the employees, others not. We have an incentive scheme,

and basically it's them, they choose to give or not to the employees. That will affect the consumer experience more. Let me see. The most important, they don't, they say that they don't have time, a lot of times. They don't work only for Tabacquera, for Philip Morris. They work for the multiple variety companies. CTT, which is like the mailbox company, okay? A lot of purchases from Vinted, et cetera. They don't have time to really go to the whole journey with the consumer. They have a lot of things to do. So I think that is the most important one. They don't have time, basically that, okay? Time, incentive schemes, and turnover, the big ones.

**Nova-Team:** So, I mean, you probably have like, when it comes to a store in a specific tier, I think probably the most specific is for the IQOS partner, but do you have like design guidelines for the retail spaces? And like, how do they look like? For example, is there anything specific a device seller should have that a consumable seller doesn't have to have? Or for example a partner store, or how does that differ throughout the stores?

**Antonio Machado (PMI):** Yeah, so imagine, in our PMI-operated stores, you have, for instance, something that you don't see in our partner stores, which is like, in the balcony, all our machines that you can touch it, feel it, et cetera, okay, all the vapes, all the tobacco, which mockups that you can feel it, okay, that doesn't happen in our partner stores. I think the touch side, okay, you will not see in our partner stores, okay? Other thing that is like, it's different because in our partner stores, you are not only communicating the heated tobacco, but we are also communicating our combustion products, Marlboro, Chesterfield, et cetera, okay? So regarding the guidelines, we have also always to take in consideration those two things, whereas in our PMI stores, they only focus on the tobacco that sits. So basically, one, it's the, as I said, the machines, you can touch it and feel the mockups, et cetera, in our stores. You cannot in our partner stores, in general. Then, like, like the guidelines for partner stores, it depends a little bit on what is the segmentation. If it is a point of sale that is segmented for only putting materials for Delia, I will only put materials for Delia. If it is for Delia and Marlboro, I will put it, okay?

There is a segmentation that varies depending on the point of sale, okay? And that segmentation, it comes from back office. In the PMI stores, it only have, has one segmentation, which is the heated Tobacco. Sometimes they focus on specific launches of the heated Tobacco, but that's it. I think in our partner stores, it depends on the segmentation that is imposed from the back office, okay? And that translates into different materials. It can focus on heated Tobacco, it can focus on Marlboro, on VEEV, okay? Whereas in our PMI product stores, it only focus on heated Tobacco and VEEV. That's it. I don't know if I answered well, but...

**Nova-Team:** Yeah, I think that's something we can work with. That's totally fine. Thank you. And like, when you, for example, you want to acquire a new store or you are like in negotiations, how do they, when you have like, okay, perfect, a perfect IQOS partner store, for example, would look like this and that. How much is this usually like then modified in the end or like based on where the partners currently are? Because I think it's always, it probably differs a lot between, even between IQOS partners, because just all stores are different in indirect retail.

**Antonio Machado (PMI):** So when I'm seeing a new point of sale that I want or to begin to work with or to pay more at the end of the day, what I usually take into consideration is the performance, okay? If it is like, I will say two answers. One, if it is a new point of sale and the other, if it is a point of sale that I already work with. So if it is a point of sale that I already work with, I will try to see what is the sales, okay? If it is a point of sale that, okay, if it's showing a lot of sales, I will, I can, I have more justification to increase a little bit of the contract. Also, other key elements in any negotiation, it is the visibility, okay? Am I contracting for some too big shelves, okay? Some, how many shelves on my, like in Phillip Morris, we don't, how you say? I don't contract shelves. I contract our big, I don't know how to say in English. Imagine, when you saw, when you were with me, you saw that big container, as I must say, with a lot of shelves, okay? That is our, do you understand? Okay, so in Tabaquera, we contract that as a whole and then some shelves, we can let it go to our rivals, okay? But when, for instance, I have

some points of sale that they do not have the biggest sales, but they have a lot of that shelves, like three in one point of sale. Okay, I'm not, I will pay a little bit more for the visibility side, okay? So when I'm trying to, when I'm negotiating, I will see sales, okay? I will see visibility and basically is that, okay? If, imagine that the point of sale is not delivering the sales I wanted to. At the end of the year, okay, I can say, oh, and it doesn't have to be at the end of the year, okay? After three months, I can go, oh, but really, it's very difficult for me to justify this because you're having just a few sales, okay? And compared to the other points of sale of my territory, okay, you are very below, okay, in terms. And I can revise with them, okay? But imagine, imagine, for instance, that it doesn't have a lot of sales, okay? But in order for me to have justification, I can try to have more visibility, okay? And I will not decrease the contract, the money, but I need to have more visibility, okay? So I try to work with these two big elements, sales, okay, and visibility. There are points of sale that doesn't give us a lot of sales, but they have big visibility. And the other is, it can be the opposite. And also, but when I put the visibility, I will assume that the sales will try to be bigger, okay? That is our main logic applied. But I think the two biggest things is that sales and visibility.

**Nova-Team:** Okay. Yes, perfect. So, looking at the store categorization currently, we know the IQOS-pyramid with all the different layers. So, what key criteria do you consider when determining a store's appropriate tier in the retail pyramid and what are the criteria per tier? So, basically, what are the criteria that a consumable seller has to meet or what are the criteria that an IQOS device seller and then an IQOS partner has to meet?

**Antonio Machado (PMI):** So, in order to be a device seller, they must respect some aspects. First of all, they have to have a stock of our products, okay? Yeah. If they don't have the stock, one, two, three, four months, I have four or five points of sale that I had to stop the contract and they become consumable sellers, okay? Stock is very important. It's a must. They have to, when we have our visibility shelves, okay, the structure, when we have our structure, they have to put

the sequences of the products according to our guidelines, okay? If they don't do it, if they put the combustible products in the top shelves, okay, that is a reason to exclude them to become a device seller, okay? They have to, the visibility must have to be according to our guidelines. Some specificities, we can close our eyes, et cetera, and work with them, but the big ones, they cannot, if not, they will. So, the stock of our products, the visibility. Also, when we are talking about the stock of our products, I'm not talking only about the machines. There are contracts with points of sale that you pay less, but the mandatory SKUs are less, the quantity are less than others, okay? But there is always a contract and according to the number of SKUs, they have to have it. If not, there is no goal. Other thing, and it will be, I'm not lying, but I forgot something, and that is we have like contracts in that we don't pay, okay? We don't pay, but if they, there are contracts we don't pay, usually it is in our first, it's a new point of sale. We don't have history, so we don't pay for one year and we let's see, okay? So, there are also those points of sales, but once again, even though there is not contracted, we evaluate always the stock of our products, the visibility. If it doesn't meet any of these criteria, it doesn't, it's not worth it to be a device seller. In terms of consumable sellers, it's not in my territory. It's in my territory, but it's not seen by me, it's by other team members. Basically, I think he has also contracts, okay? Some that he doesn't pay, others he pays. Of course, the money, it's usually less than the device sellers, okay? A lot of times, consumable sellers are points of sale that have a lot of bad history or in terms of stock. Sometimes they were previously device sellers and they became consumable sellers because they didn't have stock of our products, machines, etc. They didn't have the sales performance that justified to be a device seller. A lot of times, engagement with our PMI, with Tavakera, some promoter that was with them was very rude, so they cut relations. Sometime later, a person of our team started to see them, but in terms of consumable sellers, usually small points of sale with problems of financial issues, low productivity, performance, etc. that doesn't justify. If it is like a big one, imagine, I will give you an example. There is a

big one that is in a big supermarket. He had complicated issues with Tabaqueira. Now, a team player of mine is reaching him, he is working with them as a consumable seller. In a few months, he can become a device seller. Why is that? Because the frustrations, the engagement that were completely destroyed, it's now turning back to normal with our colleagues. So, basically, I think that are the main requirements in order to be a consumable seller or a device seller. Stocks, sales, visibility.

**Nova-Team:** Okay, and then also probably a little bit with location. So, you would only have like one IQOS partner in a location or something like this. So, there's no cannibalization or something like this?

**Antonio Machado (PMI):** Yes, yes. That is an important aspect. I have indeed two or three points of sale that are very near of each other. I try to, if I have the conditions, if it is a consumable seller, okay, the owner is proactive, etc. I try to have every single one in my territory, because of our goals, objectives, etc. But we don't focus a lot on the location in order to cut an opportunity for someone to become a device seller. Okay, we don't usually do that. If it is like a consumable seller, that the people are very engaged with the vocation, no worries. We can put it as a device seller. Maybe we will not offer them money at the beginning. We will see if the sales start to become cannibalized or not. But we usually don't apply that logic. It makes sense, but when you want to grow, grow, grow, you don't look at the specific things. If it is a point of sale, okay, that didn't work, we will put them as a consumable seller.

**Nova-Team:** So let's go into the next category into the sales tool. So basically, when we were at the, I think it was the first store, the Icos partner store, we were in the field trip with you. You showed us like their sales application or sales tool, where they could, for example, calculate the savings when switching to IQOS within a year. Can you describe the key use cases and main features of the tool and how does it support sales in the partner environment?

**Antonio Machado:** So I'm going to be completely honest. I gave that example because they have access to it, all points of sale, all device sellers in our country, and I think also consumer sellers, but in my territory, they don't use it a lot. Okay. Yeah. That is something that I try to focus, but basically it is a cost, a savings cost calculator tool. What that does, imagine that there is some brackets. Okay. First question, what is the price of the tobacco that clients currently use it? Oh, it's Marlboro, it is 0.6. Okay. You will put that 5.6. How many cigarettes you consume a day? 20. Is it like a pack? Oh yeah, it's a whole pack. Okay. 20. And then basically it also asks what is the tobacco that you're trying to sell to the customer. 90% of the times they will try to put the fit because it's much lower and it will be a bigger impact. Okay. In the perception. And basically the tool does like a calculation of how much would you save in a whole year. Before that application was available in the websites of the tobacco to the retailers, a lot of times some retailers would do that math in a, with a calculator. Okay. So basically that's something that's not being used a lot. Okay. As I, as I wanted to, but also they have that, that thing to, in order to try to do sales, but also they have like our application when they submit, submit a device that they sell that they sold, they will see like a, um, um, a list of every single, uh, machine that they sold, which is good for them to, to try to see which, which one is selling more or not, but try to, to have like, uh, uh, I don't know. I think that can be like a motivational tool sometimes. Okay. You did 20, 20, you sold 20. So in those two, two months, I expect 20 plus 10%. Okay. So organizational, uh, it can also have, uh, be good to support, but in terms of the, the, your question, that tool that I described to you, it appears in every single, uh, open, but it's not used as we wanted to. Okay. And also something, a lot of times they don't even know it, which is like a big pain point. Okay. Because it's a very good tool. Okay. And it's very easy to use. It's like a, you can use it also with the calculator, but, but I think that, uh, I think I have to try to, to, to show them more.

**Nova-Team:** Is there like anything, any like similar tool that, for example, to support sales? Because I think this is probably like for a sales strategy, for example, you speak to a client and then want to convert them. Do you have similar like sales strategy tools that support the client or is it only tool basically that directly supports the sale?

**Antonio Machado (PMI):** Yeah. Like here's the, that is the, the, in terms of money, in terms of the money, the savings, it's the most important one. The, the strategy in order to try to obtain sales is try to, uh, uh, to have that same logic, but without numbers. So, oh, do you know that you're smoking Marlboro? If you go to this, you will, uh, save a lot by at the end of the year. You know that. So this is the 99% of my points of sale, uh, already talk about the, the, the savings, um, issue, which is the most important, the savings aspect, but they will not quantify it. This, um, calculated tool will quantify it will become more, uh, uh, solid, uh, more solid, uh, argument, but they don't use it a lot. So in order to, to, to sell a machine, you will 90% of the times say about the money that you save and also the big three advantages of e-tobacco. So no, uh, smoke, no smell, just a, just a bit of smell. Um, and also, uh, it's more cleaner, it's more cleaner version. You don't take like the ashes everywhere. And so if they, they, in every sale, they, they will focus on these four aspects, the three advantages of e-tobacco, no smell, no smoke, no ashes. And also the money, the money is not quite quantified only with that tool. And they will not use it a lot.

**Nova-Team:** But for the, for the other benefits, they probably also have like a little sales sheet on the website or on the tool they use, which like lists everything that they can just run in the, when they are on a sales talk, basically they can just say, okay, these are the advantages. Yes.

**Antonio Machado (PMI):** They, they, they, they say this, those three big, big ones, and then they will try to, uh, they will receive some objections a lot of time. Oh, I tried that. And it was like, it smelled like horrible. Oh, I tried that and I tried and it doesn't, it didn't satisfy me. Okay. And they will work with that. Oh, it didn't satisfy. Oh, but to which, uh, which variants were

you using? Oh, I was using, uh, I don't know, a silver, which is a silver, uh, which is very light. Okay. But he smokes a Marlboro, which is very big flavors. So the retailer will say, okay, but do you know that you didn't like, because you try a soft one, try to, to, uh, other also, they, they will say sometimes like, oh, do you know your perfume, your perfume with this heated tobacco, it lasts longer. So this, uh, aspects of being like a negotiable person, they use it a lot. Okay. Besides those three, it depends on what the person you're interacting with will say, uh, but that, that happens a lot.

**Nova-Team:** Yeah. Okay. Thank you. Um, and what are the, like the, I mean, you already said that they barely use the tool or it's not as used as much as you would like to, what are the barriers? Why don't they not use it? And what is the general feedback from the staff about the tool? Like what are maybe, why don't they use it? What are the issues with that?

**Antonio Machado (PMI):** They, they, they will always, but always say, I don't have time. That's like 90.999999% okay. They don't have time. Other thing, I think they don't even know it, even though I'm speaking sometimes say, oh, do you know what's that blah, blah, blah. Yeah. Yeah. Yeah. And then they, they will, uh, so they don't know the existence and then they don't have time. Um, those are the, the, the big ones, because here's the thing. One thing that I try to, to do to my, all my points of sale is focus on imagine that one, that we are, we are saying the calculation tool when, when I'm speaking with them, I know that they will say, I don't have time. I don't know the existence. I don't have blah, blah. What I will say, okay. Just focus on a sentence. Okay. Um, a general sentences, uh, regarding the, how much you will save in a year. Imagine just use the simple line. Oh, do you know that a guy that, uh, consumes, uh, that spends five years in tobacco, if it's moved to the tobacco, it will save more than €300. Okay. Those just lines that they, they can use it. Okay. It's much more efficient because with our tools, they have to open the, the, um, the platform that they have to, Oh, what is the, how much you spend today?

Okay. How much that is, it takes time. So basically I think that it takes time and they don't know the existence.

**Nova-Team:** Okay. Okay. Um, yeah, thank you. Um, so I think we, we can jump to the last question basically. Um, what distinguishes high-performing partner stores from others? So what would you say to like the best third party stores do better than the others? What is like the main difference between them?

**Antonio Machado (PMI):** So first of all, sales, of course. Um, when I'm talking about sales, I'm talking about registration sales, registered sales. I'm not even talking about the non-registered because that doesn't, it doesn't even count. So, uh, registered sales, also the, um, the, the availability of our machines and also of our, our tobacco, um, by far those two aspects. So sales, um, SKU availability, our machines and our tobacco, and also, um, almost as important as the other two aspects, but less important is the engagement they have with me and with, uh, with Tabaquera as, uh, as a company that translates, for instance, in weekly accesses to our platform or, uh, uh, weekly, uh, purchases, uh, machines from our platform. Of course it is our platform, but it is not as directly, we cannot sell it directly, but you can do purchases from our, uh, uh, platform. So these things, engagement, sales and SKU availability are the most important points by far that distinguish. Okay. Okay. But what are the reasons for example, for the sales?

**Nova-Team:** Is it because they have great location, a high foot traffic environment, or is it because they have a very tidy, good looking store? Or for example, if the staff is incredibly motivated to do sales?

**Antonio Machado (PMI):** Yeah. So, um, in terms of the reasons behind the performance of the sales, if I have two sites from the most important to least important, first one is the location. Um, big location in a mall, uh, expects a lot of a high footfall. So it will translate more into


sales. Um, also for instance, um, not in terms of location, but the key accounts, the key accounts, uh, tend to have, uh, a lot of sales, not, not always, but they have to usually have good sales because of, because of the traffic, not in terms of the location itself, but it is like, uh, uh, uh, uh, uh, petrol station. So, uh, I will say location and traffic. Okay. Or the first one is the, the footfall. Okay. Uh, the best footfall he can, he can either do, he can either be because of the location or the, if it is for instance, a petrol station or a supermarket. Okay. It can be in a strange location, but if it is inside of a, an account, it will be good. So, um, high footfall, the visibility, um, I'm not so sure. Um, the visibility is, is important. Okay. If I don't have a good visibility, uh, I will say, uh, for instance, I have a point of sale. I will try to give you a, give you examples. It's much easier. I have one point of sale that it is, it's, uh, you can feel it. The, the GTI, the Japanese, so it's camel, camel, camel, boom, boom, boom everywhere. Okay. They have like an experience wall just interacting. They, they have like, uh, that is only one point of selling my whole territory. My, the focus on my machines are much less. Okay. I am the most famous in, in our market. So I will have sales despite their visibility, but I know that it's impacting. Uh, but it's not the most important thing when compared for instance, to, to the, to the location that enables high football. So high footfall visibility. Okay. Uh, my machines have to be, uh, on the top shelf on the very, uh, hotspots in the point of sale that will make a difference. And, uh, third, okay. It's the, um, it's a proactive approach of my, of the stuff. Okay. I think that is the, the logic. Um, and, uh, sorry, the, the proactive approach, I think it will become second. Okay. I think it will become second.


**Nova-Team:** Perfect.


## Appendix 10: Sales Tool - Initial Question

### IQOS Sales Tool Mock

What matters most to you when considering alternatives to traditional cigarettes?

 I'm interested in understanding the health implications of different smoking options

 I want to know how this choice might affect my monthly expenses

 I care about reducing my environmental impact

# Appendix 11: Sales Tool – Financial Benefits

Select Tobacco Brand:  
Marlboro Red

Select Device:  
Iluma Pro - €79.00

Packages per Week  
5

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**Current Costs**

Price per Package:	€5.33
Annual Cost:	<b>€1385.80</b>

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**TEREA Alternative**

Equivalent Terea:  
Terea Amber Terea Russet

Price per Package:	€4.80
Selected Device:	Iluma Pro
Device Cost:	€79.00
Annual Cost:	<b>€1248.00</b>

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**Financial Benefits**

Year 1 Savings:	€58.80
Year 2 Savings:	€196.60
Year 3 Savings:	€334.40
Year 4 Savings:	€472.20

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**Payback Period**

Device Amortization:	<b>30 Weeks</b>
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# Appendix 12: Sales Tool – Environmental Benefits

## Environmental Benefits

Switching to heated tobacco products can help reduce environmental impact compared to traditional cigarettes.



- **Reduced Cigarette Butt Waste**  
IQOS heated tobacco units are disposed of whole, reducing the environmental impact of scattered cigarette butts.
- **Lower Carbon Footprint**  
The heating process produces less smoke and ash compared to burning tobacco, resulting in reduced air pollution.
- **Sustainable Packaging**  
IQOS devices and accessories are designed with recyclable materials where possible, supporting environmental sustainability.

## Environmental Impact 🗑️

<b>Packages per Week</b>	<b>Cigarettes per Year</b>
<input type="text" value="5"/>	<input type="text" value="5200"/>

Environmental Benefits	
Cigarette Butts Prevented	<b>5,200</b>
Waste Reduction	<b>1.04 kg</b>

\* Calculations based on average cigarette butt weight of 0.2 grams  
 \* Switching to heated tobacco products can significantly reduce environmental waste

## Appendix 13: Sales Tool – Health Benefits

### Health Benefits of Switching

While the best choice for your health is to quit tobacco use entirely, switching to heated tobacco products can reduce exposure to harmful compounds compared to continuing to smoke cigarettes.

#### → Reduced Exposure to Harmful Compounds

IQOS heated tobacco products have been shown to reduce exposure to harmful chemicals compared to traditional cigarettes, as the tobacco is heated rather than burned.

#### → Improved Respiratory Function

Users often report improved breathing and reduced coughing within weeks of switching from traditional cigarettes.

#### → Better Oral Health

Reduced tooth staining and improved oral hygiene compared to traditional cigarette smoking.

## Appendix 14: Sales Tool – Customer Journey

