

Cover Page
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Root Cause Analysis of Retail Experience Gap in third party channels

Optimizing the IQOS Retail Experience across third party channels

Program: Master in Management

Personal Part: Problem Deep Dive

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Abstract

This work project addresses the performance gap between PMI-operated and third party IQOS retail stores in Portugal, where NPS scores differ by 40 points. Through comprehensive analysis of retail operations and customer experience, two integrated solutions have been developed: a data-driven partner evaluation model and an enhanced digital sales tool. The partner evaluation model employs location-based metrics and customer satisfaction scores to systematically assess store performance, while the revitalized sales tool supports consistent service delivery and customer conversion. Implementation across PMI's Portuguese retail network could drive conversion of up to 9,649 smokers to IQOS, generating €2.961million in additional annual earnings.

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 faces a critical challenge in scaling its retail presence in Portugal while maintaining the premium brand experience across its extensive third party network. Currently, PMI-operated stores consistently achieve Net Promoter Scores (NPS) exceeding 70, while partner locations average only 30, creating a concerning 40-point performance gap. This disparity becomes particularly significant given that third party locations generate 99% of PMI's heated tobacco revenue in Portugal.

Through comprehensive analysis combining expert interviews, customer surveys, and field observations, two fundamental issues emerge: inconsistent partner evaluation methods and underutilized sales support tools. The historical approach to partner assessment lacks systematic evaluation frameworks, while existing digital sales tools face significant adoption barriers due to complex interfaces and time constraints.

To address these challenges, an integrated solution comprising two key components was developed. First, a data-driven Partner Evaluation Model employs location analytics, customer satisfaction metrics, and regulatory compliance factors to systematically assess store performance. This model enables objective tier classification while accounting for local market dynamics. Second, an enhanced digital sales tool streamlines customer interactions through intuitive benefit visualization and automated calculations, directly addressing current adoption barriers.

The implementation strategy follows a carefully phased approach over 12-18 months, beginning with a controlled pilot in Lisbon before expanding across Portugal. The initial capital investment of €285,760 encompasses both solutions' development and deployment, with annual operational costs ranging from €95,799 to €176,404 depending on conversion success.

Financial analysis demonstrates compelling returns across all adoption scenarios. Even under conservative projections (0.1% conversion rate), the solutions generate €234,014 in first-year earnings, growing to €519,774 in subsequent years. The optimistic scenario (0.5% conversion) projects first-year earnings of €2,961,175, increasing to €3,246,935 annually thereafter. Beyond financial returns, the solutions create sustained value through enhanced customer experience, improved operational efficiency, and accelerated progress toward PMI's smoke-free vision.

These solutions directly support PMI's strategic objective of accelerating smoke-free conversion while establishing systematic frameworks for managing partner performance. The combination of enhanced evaluation capabilities and streamlined sales support provides a foundation for consistent service delivery across PMI's retail network, essential for maintaining brand integrity during market expansion.

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List of Abbreviations

BAT	British American Tobacco
B2B	Business-to-Business
B2C	Business-to-Consumer
BLI	Base Location Index
BSC	Balanced Scorecard
CAGR	Compound Annual Growth Rate
CC	Cigarettes
CPW	Cartons Per Week
CRM	Customer Relationship Management
DTE	Direct-to-Employee
EA, AU & PMI DF	East Asia, Australia, and PMI Duty-Free
EU	European Union
GDPR	General Data Protection Regulation
HPHCs	Harmful and Potentially Harmful Constituents
HT	Heated Tobacco
HTU	Heated Tobacco Units
JTI	Japan Tobacco International
KPI	Key Performance Indicator
LAS	Legal Age Smoker
LPM	Location Performance Modifier
NPS	Net Promoter Score
P1	Heated Tobacco Consumables
P4	Heated Tobacco Device
PMI	Philip Morris International
POS	Point of Sale
RRP	Reduced-Risk Products
SSEA, CIS & MEA	South and Southeast Asia, Commonwealth of Independent States, Middle East, and Africa
TCE	Transition Cost Economics
TCO	Total Cost of Ownership
VAT	Value Added Tax

1 Problem Deep Dive

After a comprehensive analysis of IQOS's current retail landscape, this section examines the critical performance gap between PMI-operated and third party stores. The deep dive focuses on understanding both the systemic challenges and their root causes to lay the groundwork for effective solutions.

The 40-point difference in Net Promoter Scores between PMI-operated stores (>70) and partner locations (~30) reveals a significant opportunity for performance improvement. This chapter employs a systematic approach to analyze the factors driving this gap, combining expert interviews, quantitative analysis, and customer insights to develop a comprehensive understanding of current limitations and improvement opportunities.

By examining key operational metrics, customer feedback, and partner capabilities, specific areas requiring intervention are identified while also considering the practical constraints of partner operations. This detailed analysis provides the foundation for developing targeted solutions in subsequent chapters.

1.1 Structure of Analysis

The Problem Deep Dive starts by quantifying the core challenge. Particularly, the significant experience gap is reflected in NPS scores and other key performance metrics. This foundational understanding sets the stage for an examination of two critical areas requiring transformation.

First, the existing store categorization model will be evaluated, examining how the current approach to partner classification may contribute to performance variations. Finally, the sales tool ecosystem is being investigated, too understand both its potential and current adoption challenges.

This structured analysis enables to:

- Quantify the extent of performance disparities
- Identify specific operational pain points
- Understand systemic barriers to excellence
- Reveal opportunities for improvement
- Build foundation for solution development

Each focus area combines quantitative metrics with qualitative insights from field observations and expert interviews, providing a comprehensive view of the challenges facing IQOS's third party retail network.

1.2 NPS Definition

As the NPS gap between PMI-operated and partner stores has been identified as a critical performance issue, understanding its definition and measurement methodology provides essential context for analyzing this disparity.

The NPS is the primary KPI used by PMI to measure the performance of its stores, reflecting customer loyalty and satisfaction (Appendix 1). Given its importance in evaluating store performance, NPS will be further defined and discussed in the following sections to provide clarity on its role in PMI's operational strategy. NPS assesses how likely customers are to recommend a company on a scale from 0 to 10, categorizing respondents as promoters (9–10), passives (7–8), or detractors (0–6) (Reichheld 2003). This metric is pivotal for understanding customer experience and driving improvements across PMI's retail network.

1.3 Problem Identification

This analysis identifies key root causes driving the performance gap between PMI-operated and third party stores. The framework shows how human factors, and operational constraints combine to create the observed NPS gap, setting the foundation for a detailed assessment of these challenges. This systematic approach allows to understand both immediate drivers and underlying challenges that need to be addressed.

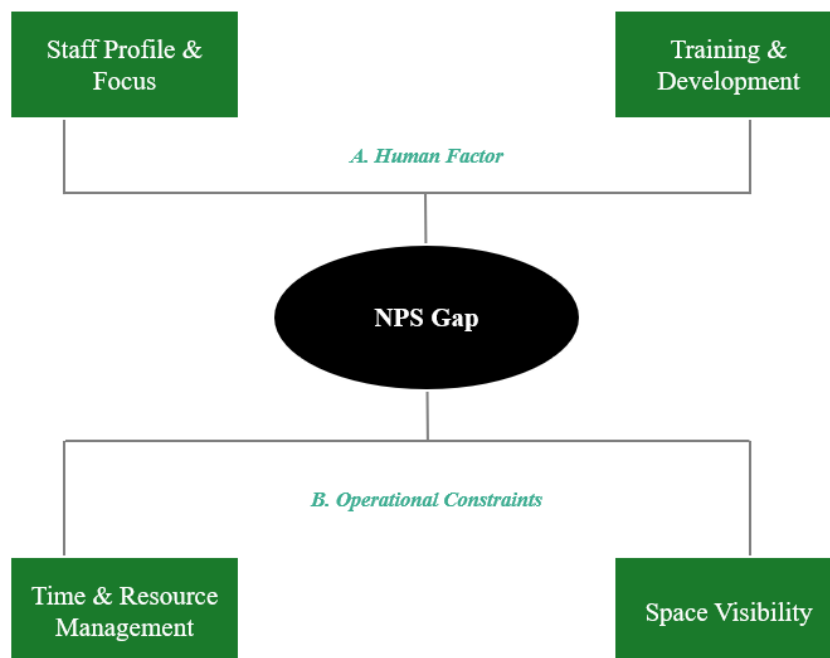


Exhibit 1: NPS Root Cause Tree

The NPS shows consistent and substantial differences across retail channels. While PMI-operated stores maintain NPS scores above 70, third party locations typically achieve scores around 30. This gap cannot be attributed to isolated incidents but represents a systematic difference in service delivery and customer experience, creating a critical strategic challenge

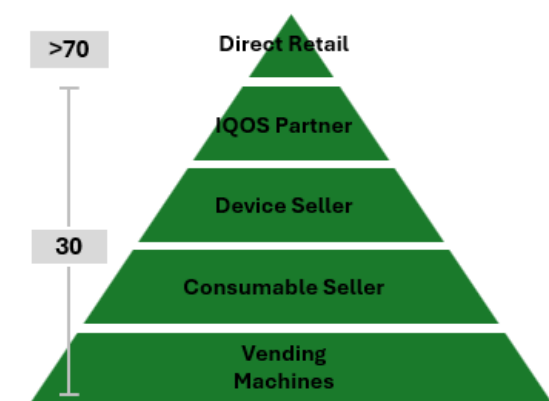


Exhibit 2: PMI NPS Gap between Tiers

for IQOS's market expansion and brand consistency. This disparity affects stores that contribute to 99% of total sales, impacting IQOS's ability to deliver a premium brand promise at scale (Appendix 1; Appendix 2).

Customer engagement metrics provide further evidence of this performance gap. Registration rates, crucial for customer follow-up and onboarding, show significant differences between channels. Direct retail achieves registration rates exceeding 90%, while third party locations struggle to maintain rates between 60-85%, with particularly low performance in high-traffic locations such as petrol stations. This significantly impacts IQOS's ability to nurture customer relationships and ensure proper product adoption. Service delivery quality presents an equally concerning pattern. PMI-operated stores deliver comprehensive, personalized service with a dedicated product focus. In contrast, third party locations face significant challenges with time constraints and competing priorities, resulting in reduced service quality and shorter customer interactions (Appendix 3).

Sales performance data reveals additional concerns. Despite generating substantial revenue, partner locations show reduced conversion rates and limited ability to deliver comprehensive product education (Appendix 3).

1.3.1 Human Factors

Direct observations and expert interviews reveal two critical dimensions of the human factor challenge that significantly impact IQOS's ability to provide consistent customer experience across its retail network.

PMI-operated stores benefit from dedicated staff focused solely on IQOS products and customer experience. The single-brand focus allows them to develop deep product knowledge and maintain consistent service standards. In contrast, third party store employees must divide their attention across multiple product categories, from tobacco products to lottery games and

magazines, diluting their focus on IQOS customer experience. This fragmented attention span creates challenges in maintaining the premium brand experience IQOS tries to deliver (Appendix 3). The situation is particularly challenging in key accounts like petrol stations, where high staff turnover creates a continuous cycle of knowledge loss and retraining. As noted by PMI's Retail Supervisor: " We [PMI] are in a situation of full employment right now, and it's difficult to hire, especially when we focus on people, keeping them, training them. The rotation is really high, particularly in key accounts." (Appendix 3). This constant turnover impacts service consistency and also creates significant operational inefficiencies, as new staff must repeatedly be trained on IQOS products. The disparity in staff capabilities is further amplified by significant differences in training approaches. PMI-operated store staff receives continuous, comprehensive training covering products, legal requirements, consumer-centric mindset, and commercial approaches. This extensive training enables them to provide personalized service and handle complex customer interactions effectively (Appendix 3). The third party partners, however, receive only basic product knowledge from sales teams, creating a substantial expertise gap. The limited training scope affects their ability to effectively communicate product benefits, handle customer concerns, and deliver premium brand experience. In third party locations, staff typically receive only a basic overview, covering product functionality, metrics, and focal points. This limited training creates a significant knowledge gap compared to training provided in direct retail (Appendix 3).

A promising development is the recent introduction of a structured training program for IQOS partners in 2024, aiming to close this gap. This new initiative includes commercial approach training, structural guidance, and content development, showing PMI's commitment to addressing the human factor as a root cause. However, the challenge remains particularly challenging for broader third party stores, where limited training continues to impact service quality and customer experience (Appendix 3)

1.3.2 Operational Constraints

Beyond human factors, operational constraints in partner locations create systematic barriers to delivering a premium IQOS experience. These constraints emerge primarily in two critical areas that directly impact customer satisfaction and service quality.

Partner stores face substantial challenges in allocating sufficient time and resources to IQOS customer service. The multi-category nature of these locations creates constant competition for staff attention and time resources. This is particularly evident in high-traffic locations where staff must balance IQOS-specific services with other retail responsibilities. An example is the implementation of IQOS service programs, such as device swaps or product demonstrations, which typically require 5-10 minutes of dedicated customer interaction. This time constraint often leads to reduced customer interactions and compromised service quality, particularly during peak business hours when staff prioritizes quick transactions over comprehensive customer support (Appendix 4).

The physical environment of partner locations presents another significant operational hurdle. In high-cost areas, particularly in urban centers like Lisbon, space constraints severely limit the ability to create the desired premium retail experience. As observed in field visits and confirmed by retail supervisors, partner stores often struggle with messy environments that contrast with the clean, organized aesthetic of PMI-operated locations (Appendix 3). The visibility challenge is particularly noticeable in traditional tobacconist shops and petrol stations. As PMI supervisor Joao Norte describes: "When you enter a classic tobacconist or a petrol station, you will feel that difference with a great impact in comparison with brand retail. If you enter our store, it's smooth, clean, cozy and not so messy" (Appendix 3). The competition for limited shelf and display space creates additional complications, with multiple brands and product categories competing for prominent positioning. While PMI provides specific guidelines for product placement and brand visibility, the practical implementation often falls short due to these space

constraints. Unlike PMI-operated stores that maintain a focused brand environment, partner locations must balance IQOS visibility with other product categories, often resulting in compromised brand presence and reduced impact of marketing materials. In terms of display areas, the arrangement is often cluttered with overlapping materials from multiple brands, resulting in ineffective communication with consumers. (Appendix 3).

1.4 Analysis of Core Improvement Areas

Based on the identified human factors and operational constraints, core improvement efforts will focus on two key practical areas: store evaluation frameworks and sales tool functionality. These areas present the greatest potential for enhancing service delivery and customer experience across partner locations.

1.4.1 Store Evaluation

To understand improvement opportunities in store evaluation, first the existing framework and operational approach need to be examined. This analysis will reveal both the foundational strengths of the current system and identify critical gaps that need to be addressed.

PMI's current approach to store categorization follows a hierarchical pyramid structure, with categorization decisions primarily driven by sales performance and basic operational capabilities. This traditional model, while providing clear segmentation, may not fully capture the complexity of customer experience delivery. The retail pyramid consists of five tiers, from vending machines at the base to direct retail at the apex. Each level represents increasing requirements for product range, service capabilities, and partner commitment (Appendix 3). The determination of a store's position within the retail pyramid relies on three fundamental factors that combine quantitative metrics with qualitative assessments. These criteria form the basis for both initial categorization and potential tier movements, though the emphasis remains primarily on measurable performance indicators. As highlighted in expert interviews, while

consideration is given to multiple factors, sales performance typically drives the primary decision-making process. Sales metrics serve as the cornerstone of store categorization, with particular emphasis on two key indicators. Cartons Per Week (CPW) volumes provide insight into overall store performance and market penetration, while Legal Age Smoker (LAS) acquisition rates measure success in customer conversion. Historical sales trends offer context for performance evaluation (Appendix 3). As one supervisor notes, "If a store has a lot of LAS sales, then it probably is more likely to climb up the limit" (Appendix 3). Beyond sales metrics, physical infrastructure requirements play a crucial role in determining tier placement. This includes available space for product display, with particular attention to premium positioning and brand visibility. Stores must demonstrate the ability to implement required fixtures and maintain them according to PMI standards. Location characteristics, including foot traffic and market positioning, also factor into the assessment. The third pillar of categorization focuses on partner commitment and operational capabilities. This includes a willingness to provide the full range of services, demonstrated through consistent program participation and stock management. Staff availability and dedication to the IQOS brand play crucial roles, as does the partner's overall alignment with PMI's objectives (Appendix 3). As expressed in expert interviews, "You can sell a lot, you can have a fantastic space, but if you are not aligned with us, you will not be a partner." (Appendix 3).

While the existing categorization model provides a clear operational framework, it demonstrates notable gaps in capturing retail performance. The heavy reliance on traditional metrics like CPW and LAS sales overlooks crucial qualitative aspects of customer experience delivery. Expert interviews reveal a potential disconnect between current categorization criteria and actual customer satisfaction, as high sales volumes do not necessarily correlate with positive customer experiences, as measured by NPS. The current measurement system struggles to effectively capture the complexity of retail performance. Registration rates vary significantly

between channels (90% in direct retail vs. 60-85% in partner locations), indicate systematic service delivery differences. However, these variations are not adequately reflected in the categorization criteria. As one supervisor notes, "It is different among different third party POS, petrol stations have in general lower register rates because they don't have time or even the consumers are not available to do it" (Appendix 3).

The model notably lacks integration of customer experience metrics in its evaluation framework. While NPS scores show dramatic differences between PMI-operated (>70) and partner stores (~30) (Appendix 1), these indicators play no formal role in store categorization. The absence of experience metrics is particularly problematic given that "the personalization in direct retail would be a major difference" (Appendix 3) yet this crucial factor remains unmeasured in partner evaluation.

Current categorization criteria fail to adequately account for location-specific challenges and opportunities. As highlighted during field observations, proximity to minor infrastructure such as schools represents a particular concern for store positioning and requires systematic evaluation (Appendix 2).

While location impact is acknowledged it is not consistently important for all tiers



Exhibit 3: Registration Rates

(Appendix 3). This is particularly relevant when considering proximity, such as evaluating whether having multiple partners in close proximity is justifiable. Despite this recognition, the model lacks a systematic approach to incorporating these factors. High-traffic locations like shopping centers or transport hubs may require different evaluation criteria than standalone street locations, yet the current model applies uniform metrics across all contexts. The current system's upgrade and downgrade mechanisms lack clear execution protocols, creating

uncertainty in tier transitions (Appendix 3). While downgrading decisions primarily stem from performance issues - "from device sellers to consumable sellers, sometimes it happens because the results are not okay" (Appendix 3) - the process lacks standardized intervention steps before status changes occur. This reactive approach often results in abrupt transitions rather than managed evolution of store capabilities.

Partner motivation emerges as a critical challenge in implementation, particularly regarding investment in service quality and infrastructure. As noted by retail supervisors, "Sometimes there is potential, but the owner for some reason doesn't want to be a device seller because he thinks it's not worth it." (Appendix 3). The misalignment between PMI's premium positioning goals and partner business priorities often results in resistance to category upgrades, even when sales metrics suggest potential for advancement.

The existing monitoring system shows significant gaps in tracking and evaluating ongoing performance. While basic sales metrics are consistently tracked, broader performance indicators often go unmonitored. This limited monitoring capability makes it difficult to identify improvement opportunities and support needed interventions before performance deterioration necessitates tier changes (Appendix 3).

1.4.2 Sales Tool

The second focus area requires a detailed examination of PMI's digital sales support system. Through analysis of the current tool's features and implementation challenges, key opportunities for enhancing both partner operations and customer experience can be identified.

PMI's Sales Tool serves as a platform for partner sales support and engagement across the retail network. The system aims to standardize sales processes, and support customer conversion efforts across all device sellers and above in the retail pyramid. While the tool offers extensive functionality, its primary purpose is to enhance the effectiveness of partner sales interactions.

The platform integrates several key features designed to support different aspects of the sales process. The primary sales support tools include a sophisticated savings calculator that enables partners to demonstrate concrete financial benefits to potential customers. This calculator provides customizable calculations based on current cigarette consumption and prices, comparing them with potential costs of switching to IQOS. Through clear visualization of long-term cost advantages, partners can effectively communicate the financial benefits of switching to IQOS (Appendix 2; Appendix 3; Appendix 4).

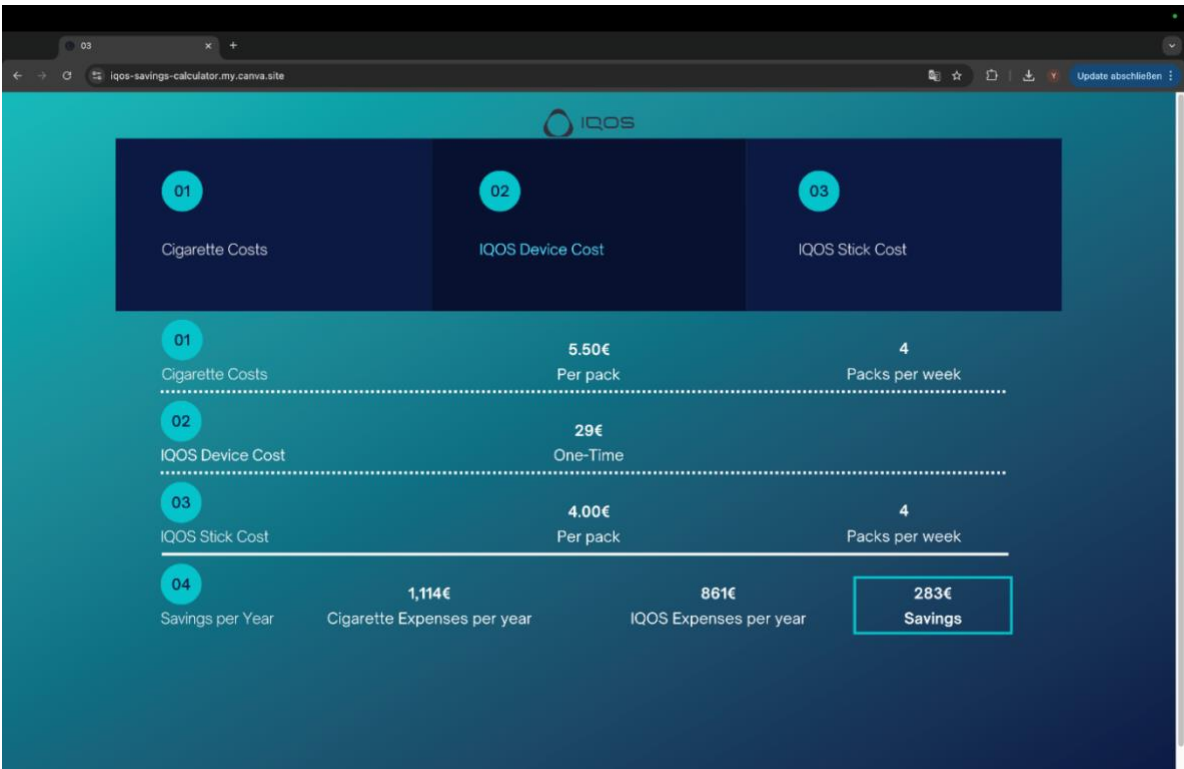


Exhibit 4: Current IQOS Sales Tool Visualization Example

The educational component of the platform centers around a comprehensive daily quiz system that serves as both knowledge assessment and learning tool, featuring product-related questions. The system regularly updates its content to reflect current promotions and product launches, ensuring partners remain informed about developments and offerings. Performance tracking capabilities form another crucial aspect of the platform's functionality. The system includes robust sales registration functionality that allows for detailed monitoring of both individual and

store-level performance metrics. Through comprehensive historical data tracking and trend analysis, the platform enables partners to monitor their progress and identify areas for improvement over time. The tool is designed to integrate seamlessly with daily operations, accessible to all qualifying third party stores through a dedicated platform. While most features are universally available, certain advanced functions are restricted to higher pyramid tiers (Appendix 3). As noted by retail supervisors, "There are different systems. Most of them and most of the tools in that system are the same for everyone. One of the systems is related to the sales and the registration of them" (Appendix 3). IQOS partners receive access to additional training categories and specialized content, reflecting their enhanced role in the retail network. The platform's incentive system is designed to encourage consistent engagement across multiple dimensions. Partners can earn points through active participation in daily quizzes, which accumulate towards voucher redemption opportunities. IQOS partners benefit from additional rewards for completing specialized training modules, reflecting their enhanced responsibilities. The system also tracks and rewards direct sales performance, creating a comprehensive motivation framework that aligns partner activities with PMI's strategic objectives (Appendix 2; Appendix 3).

Time constraints emerge as the primary barrier to tool adoption across partner locations, with retail supervisors frequently highlighting the challenge of limited time as a nearly universal issue. This challenge is particularly critical in high-traffic locations where staff must balance multiple responsibilities. The time required to access the system, input data, and utilize features like the savings calculator often conflicts with immediate service demands, leading to reduced tool engagement. The tool's interface and operational requirements present significant usability challenges compared to competitor solutions (Appendix 2; Appendix 3). Expert interviews reveal that "Our platforms are not so easy to use as some of the competition tools because we [PMI] ask for more contacts or clicks" (Appendix 3). This complexity is particularly evident in

the savings calculator function, where multiple data entry steps contrast with competitors' streamlined approaches. Partners express a clear preference for simpler, more intuitive interfaces that better align with their operational pace. A fundamental barrier to adoption lies in insufficient training and awareness (Appendix 3). As noted by a PMI supervisor Antonio Machado speaking about the sales tool, "I think they don't even know [the tool], even though I'm sometimes speaking about it" (Appendix 3). This knowledge gap persists despite regular communication efforts, suggesting systemic issues in tool introduction and ongoing training support. The situation is intensified by high staff turnover in partner locations, as mentioned in the human factor chapter, creating a continuous need for basic tool education. Direct comparison with competitor tools reveals significant usability gaps. Partner feedback consistently highlights that competitor platforms offer simpler processes and require fewer interaction steps. This competitive disadvantage affects both adoption rates and user satisfaction, potentially impacting overall partner engagement with the IQOS brand. The current incentive system fails to effectively drive tool adoption and consistent usage. While they earn points for engaging in quizzes and other activities, redeemable for vouchers, there are no direct incentives tied to using core sales support tools such as the savings calculator. This disconnect between tool usage and financial rewards creates a critical motivation gap, as tools like the calculator are intended solely for better understanding without offering any associated incentives (Appendix 3).

Partners struggle to recognize the tool's value proposition, particularly given the time investment required for proper utilization. The absence of clear demonstrations linking tool usage to improved sales performance undermines adoption motivation. Expert interviews reveal that even when partners acknowledge potential benefits, they often perceive the required time investment as disproportionate to potential returns, especially in high-traffic environments where immediate transactions take priority. The tool's integration into daily operations remains

problematic, with partners finding it difficult to incorporate usage into their existing workflows (Appendix 3). This challenge is particularly evident in busy periods, as noted by supervisors: "They don't work only for Philip Morris. They work for the multiple variety companies. They don't have time to really go on the whole journey with the consumer" (Appendix 3). The need to manage multiple systems and responsibilities creates natural resistance to adding another layer of complexity to routine transactions. The tool's adoption challenges directly affect customer experience quality. When partners opt not to use available features like the savings calculator, opportunities for enhanced customer engagement and education are missed. This creates a ripple effect where the tool's potential to improve customer experience remains largely unrealized, contributing to the persistent gap between PMI-operated and third party store performance.

1.5 Survey Deep Dive

To complement insights from expert interviews, a survey was conducted to gain a deeper understanding of performance gaps from a customer perspective. The detailed questionnaire, designed to analyze customer loyalty and satisfaction among IQOS users in Portugal, can be found in Appendix 5.

The primary objective of this survey was to examine how retail experiences in third party stores influence customer retention and satisfaction. By focusing on these partner locations, the survey aimed to identify the key drivers of customer loyalty and assess the role of in-store service quality and interactions in shaping customer perceptions. Notably, the analysis excluded IQOS Boutique Stores, which are operated directly by IQOS, to ensure the results reflected the unique dynamics and challenges of third party retail environments.

1.5.1 Methodology

To ensure the survey’s relevance and validity, two screening questions were implemented. Participants were required to confirm they live in Portugal, as the survey exclusively targets Portugal, furthermore participants had to confirm they are IQOS users. If a respondent answered “no” to either question, the survey automatically ended to maintain the integrity of the study.

The survey was designed to capture data from a statistically significant sample size. Using the confidence interval formula the following parameters were applied:

- Confidence Level: 90%
- Margin of Error: 5%
- Population Size: 10,320,000 (Portugal’s total population) (Statista 2024)
- Population Proportion: 20.9% (smokers in Portugal) (GATED 2024)

Based on this, the minimum sample size required to meet statistical reliability and scientific constraints was 181 participants (Appendix 6).

1.5.2 Demographics Analysis

The survey sample demonstrates a balanced gender distribution, with 93 male and 100 female respondents, ensuring that the findings reflect insights from both key user groups. The age distribution highlights a strong presence of younger adults, particularly in the 18–30 category (89 respondents), followed by 69 respondents aged 31–40.

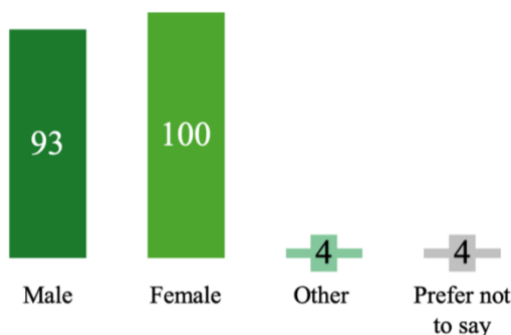


Exhibit 5 Gender Distribution Survey

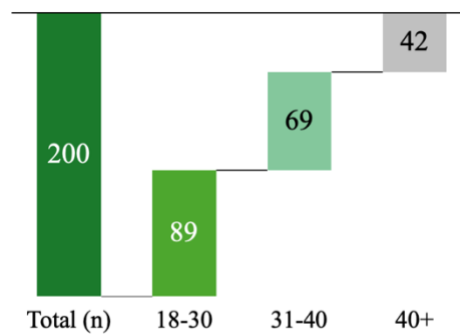


Exhibit 6: Age Distribution Survey

1.5.3 Survey Insights

The majority of respondents are relatively new users, with 69% having used IQOS for a year or less. This reflects a growing customer base likely in their early adoption phase. A smaller portion (24% respondents) have been using IQOS for 12 to 24 months, while only 6% respondents have more than 24 months of experience. This distribution indicates that most customers are still exploring the product and ecosystem, emphasizing the importance of early-stage

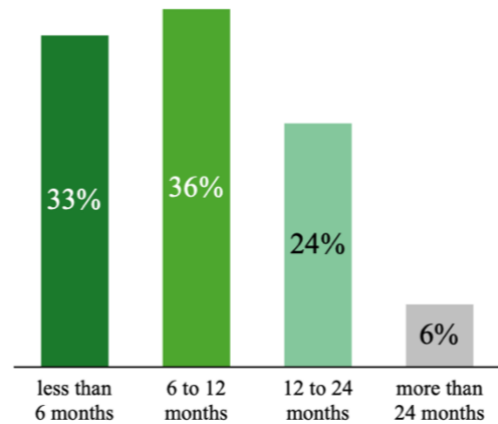


Exhibit 7: Survey IQOS Length of Usage

customer engagement to drive loyalty.

Over half of the respondents (52%) visit IQOS points of sale (POS) primarily to purchase consumables, reinforcing the importance of ensuring product availability and efficient transactions. Maintenance-related visits, such as troubleshooting or repairs, account for 21%, indicating a significant need for knowledgeable and responsive service staff. Visits for advice (13%) and exploring new products (15%) reflect opportunities to further engage customers with personal recommendations. However, the distribution of responses

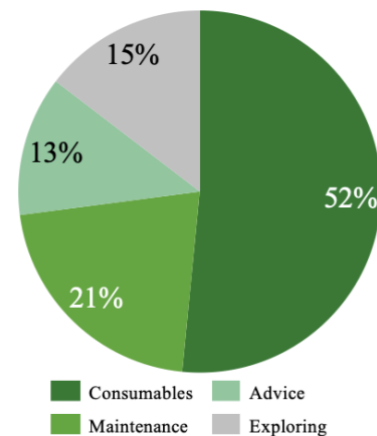


Exhibit 8: Survey Reasons for Visiting IQOS Stores

to this question suggests potential misunderstanding. Given the frequency of visits required to purchase new consumables (TEREA sticks), the distribution was expected to show a much higher proportion of consumables-related visits, potentially upwards of 90%.

Customers visit POS' frequently, with 40% of respondents visiting weekly and 33% respondents visiting monthly, indicating a high-touch relationship with IQOS retail locations. However, a smaller segment visits less often, with 16% of respondents coming in every few months and 11% respondents visiting rarely. These patterns highlight the critical role of consistent

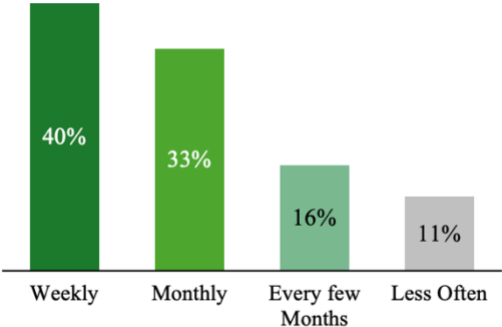


Exhibit 9: Survey Point of Sale Visit Frequency

service quality and the need for strategies to retain and reengage less frequent visitors. This underscores the importance of implementing a systematic evaluation model that can help identify and address service consistency issues across the partner network.

Customers rated the speed of service at 2.22 out of 5, reflecting dissatisfaction with waiting times and efficiency. This metric underscores the importance of streamlining operational processes and



(1 = Very Dissatisfied, 5 = Very Satisfied)

Exhibit 10: Survey Rating of Speed of Service at POS

ensuring that staff can provide timely assistance without compromising quality. An enhanced digital sales tool could significantly improve service speed by automating routine tasks and providing quick access to essential information.

The highest-rated metric, Satisfaction with Staff, achieved an average score of 3.13 out of 5.

While this indicates relatively better performance compared to other areas, the score still falls short of optimal satisfaction levels. Customers expect



(1 = Very Dissatisfied, 5 = Very Satisfied)

Exhibit 11: Survey Satisfaction with Staff

staff to be approachable, knowledgeable, and engaging - areas that require further investment in training and support, which could be effectively addressed through an advanced digital sales tool providing real-time guidance and product information.

The survey revealed key insights into how customers perceive service at IQOS POS. The most frequently reported attribute was “Rushed” (104 responses), followed by “Unhelpful” (66), which highlights significant areas for improvement. Positive traits like “Helpful” (42) and “Knowledgeable” (51) were less commonly noted, signaling an opportunity to enhance staff training and service delivery. A notable segment (47) described their experience as “Neutral,” reflecting variability in customer interactions.

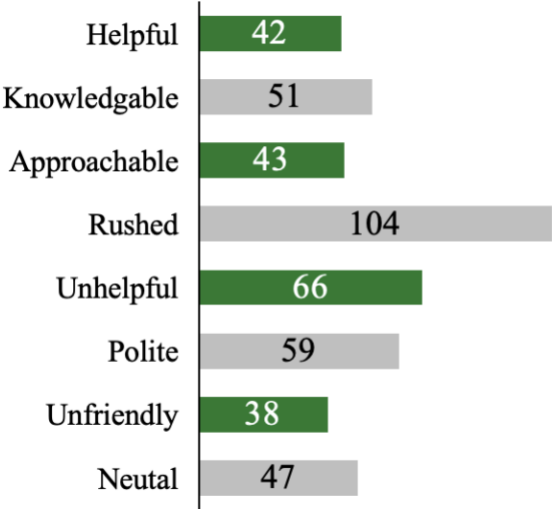


Exhibit 12: Survey Customer Perception of Service Attributes

The average rating for overall service quality was 3.03 out of 5, indicating moderate customer satisfaction. While this suggests a baseline level of acceptance, there is clear room for improvement to elevate customer experiences at



(1 = Very Poor, 5 = Excellent)

Exhibit 13: Survey Service Quality Satisfaction

third party IQOS stores, where consistency in service delivery remains a challenge

With an average score of 2.36 out of 5, the likelihood of customers revisiting IQOS POS after their last experience is relatively low. This metric serves as a critical indicator of customer loyalty and highlights the urgent need to address pain



(1 = Not Likely, 5 = Very Likely)

Exhibit 14: Survey Likelihood of Revisit

points that prevent repeated visits, such as rushed or unhelpful service.

The customer survey strongly confirms the operational challenges identified through expert interviews, particularly regarding service consistency. In addition the predominantly early-stage customer base (64% < 1 year usage) combined with high visit frequency (76 weekly visitors) creates a critical window for experience optimization through enhanced digital capabilities.

The revealed service patterns point to clear opportunities for digital tool improvement. With 13% of visits focusing on advice and 21% on maintenance, the current underutilization of the digital sales tool has become particularly problematic. The low speed of service rating (2.22/5) directly correlates with observations about tool complexity and time constraints, suggesting that streamlined digital processes could significantly improve both operational efficiency and customer satisfaction.

Customer feedback reveals a concerning disparity between service expectations and current digital support. While staff receive relatively higher satisfaction scores (3.13/5), the prevalence of "rushed" service experiences (104 responses) and low revisit likelihood (2.36/5) indicate that current tools fail to adequately support efficient service delivery. The high proportion of maintenance-related visits (21%) particularly highlights the need for improved digital support in complex service interactions.

1.6 Takeaways and Further Implications

Takeaways:

- Significant performance disparity between PMI-operated (NPS >70) and third party stores (NPS ~30)
- Current sales tool shows substantial underutilization despite potential benefits
- Time constraints and complex interfaces limit tool adoption across partner network
- High proportion of new users combined with frequent visits creates particular urgency
- Partner evaluation lacks systematic framework for driving improvement

Implications:

→ Need for integrated solution addressing both structural oversight and operational support

→ Opportunity to enhance customer experience through improved digital tools

- Critical importance of addressing time constraints in tool design
- Requirement for simplified interface to encourage consistent usage
- Importance of aligning incentives with operational realities
- Need for systematic partner evaluation framework to drive service consistency

The analysis identifies two critical intervention points: partner evaluation systems and sales tool functionality. Current evaluation methods lack systematic frameworks for driving improvement, while available digital tools fail to effectively support daily operations. These findings point toward the need for integrated solutions that address both structural oversight and operational support mechanisms. The combination of expert insights, quantitative metrics, and customer feedback provides a comprehensive foundation for developing targeted interventions, which will be detailed in subsequent chapters. The clear identification of root causes enables focused solution development aimed at closing the performance gap while acknowledging the practical constraints of partner operations.

2 Impact

The implementation of the Partner Evaluation Model and enhanced Sales Tool represents a significant investment in PMI's retail network optimization. This section analyzes the financial implications across three conversion scenarios, examining revenue potential, implementation costs, and return on investment timelines. The analysis demonstrates how different market responses affect the overall financial viability of these solutions.

2.1 Revenue Projections

The comprehensive analysis and solution development presented in previous chapters culminates in a detailed assessment of expected business impact. Building on the structured implementation approach outlined in Chapter 5, this section quantifies the potential benefits of enhanced retail operations while acknowledging implementation costs and risks. Through careful consideration of market conditions and historical performance patterns, realistic scenarios for improvement in both financial and operational metrics.

The implementation of the Partner Evaluation Model and enhanced Sales Tool represents a significant opportunity to drive IQOS adoption among traditional cigarette smokers in Portugal. By improving customer experience consistency and supporting more effective sales interactions, these solutions directly contribute to PMI's strategic objective of accelerating smoke-free conversion.

The Portuguese market presents substantial conversion potential, with a total population of 10,320,000, of which 18.70% (1,929,840 individuals) are current cigarette smokers. These individuals have an annual revenue potential of €2.3 Billion in the unrealistic case of converting 100% of Portugal's current Cigarette Smokers. Based on detailed market analysis and historical

conversion patterns, three potential conversion scenarios resulting from the implemented solutions are projected:

Conservative Scenario (0.1% Conversion)

A modest 0.1% conversion rate would result in 1,930 smokers transitioning to IQOS. With an annual customer value of €1,183, based on average daily consumption of 15 TEREA sticks, this scenario generates an additional annual revenue of €2.28 million. This represents the minimum expected impact from the successful implementation of both solutions.

Moderate Scenario (0.25% Conversion)

A moderate conversion rate of 0.25% would lead to 4,825 smokers adopting IQOS. This middle-ground scenario, reflecting improved customer experience and more effective sales processes, would generate €5.71 million in annual revenue. This target aligns with observed conversion rates in markets with similar retail optimization initiatives.

Optimistic Scenario (0.5% Conversion)

An aggressive but achievable 0.5% conversion rate would result in 9,649 smokers switching to IQOS, generating €11.41 million in annual revenue. This scenario represents the full potential of the solutions when operating at peak effectiveness, supported by consistent customer experience across the retail network and optimized sales interactions.

Beyond immediate financial returns, these solutions create sustained value through:

- Enhanced customer experience leading to stronger brand loyalty
- Improved operational efficiency across the retail network
- Accelerated progress toward PMI's smoke-free vision
- Strengthened competitive position in the heated tobacco market

The measurable impact of these initiatives extends beyond pure financial metrics, contributing to PMI's broader strategic objectives while creating a more robust and effective retail ecosystem.

2.2 Cost Projections

The implementation of both solutions requires significant investment in technical infrastructure, operational support, and ongoing maintenance. This section provides a detailed breakdown of both capital expenditure (CAPEX) and operational expenditure (OPEX) requirements for each solution, based on comprehensive quotes from an IT consultancy (Appendix 7; Appendix 8).

2.2.1 Partner Evaluation Model

The Partner Evaluation Model requires an initial capital expenditure of €177,040, encompassing comprehensive development across multiple domains. The largest components include backend development (€46,200) for essential data processing capabilities and advanced features (€42,000) for sophisticated analysis tools. Frontend development (€37,800) and infrastructure setup (€25,200) complete the core technical implementation.

Operational expenses for the evaluation model total €81,424 annually, covering technical infrastructure maintenance, essential service level agreements, and ongoing training programs. This includes regular system updates, performance monitoring, and comprehensive staff training to ensure effective utilization of the evaluation framework.

2.2.2 Sales Tool

The Sales Tool implementation requires a capital investment of €108,720, with major allocations to backend development (€43,400) and frontend development (€36,400). The streamlined infrastructure deployment (€12,600) and thorough project management (€16,320) ensure robust implementation while maintaining cost efficiency.

Annual operational costs for the Sales Tool amount to €80,592, excluding scenario-dependent incentive costs. This covers technical infrastructure, service agreements, and training programs. Additional incentive costs vary by scenario, ranging from €2,878 to €14,392 annually, scaling with conversion success.

2.3 Overall Impact

The financial analysis employs a conservative 30% margin assumption, supported by market data showing 24% margins for premium cigarettes in Portugal (Euromonitor 2024b). This modest increase accounts for heated tobacco's tax advantages while remaining cautious about other cost factors. This approach aligns with PMI's strategic focus on converting traditional smokers to heated tobacco products, where margins are known to be higher (Appendix 2).

The analysis demonstrates compelling returns across all scenarios (Exhibit 29):

In the conservative scenario (0.1% conversion), first-year earnings of €234,014 grow to €519,774 in subsequent years, reflecting the impact of one-time implementation costs. The moderate scenario (0.25% conversion) generates first-year earnings of €1,256,700, increasing to €1,542,460 annually thereafter. The optimistic scenario (0.5% conversion) produces the strongest results, with €2,961,175 in first-year earnings growing to €3,246,935 in following years.

These projections indicate that even under conservative assumptions, the combined solutions generate positive returns in their first year of implementation, with significantly enhanced profitability in subsequent years as initial capital investments are recovered and only operational costs remain.

			Incentive		
	CAPEX	OPEX	0.1% Scenario	0.25% Scenario	0.5% Scenario
Evaluation Model	177 040	81 424	-	-	-
Sales Tool	108 720	80 592	2 878	7 196	14 392
Sum	285 760	162 016	2 878	7 196	14 392

	0.1% Scenario	0.25% Scenario	0.5% Scenario
Conversion Value	2 282 229	5 705 572	11 411 144
Margin	30%	30%	30%
Pre CAPEX Earnings	684 669	1 711 672	3 423 343
Evaluation Model	177 040	177 040	177 040
Sales Tool	108 720	108 720	108 720
Earning after CAPEX	398 909	1 425 912	3 137 583
Evaluation Model	81 424	81 424	81 424
Sales Tool	80 592	80 592	80 592
Incentive Cost	2 878	7 196	14 392
Earnings after OPEX	234 014	1 256 700	2 961 175
Earnings Year 1	234 014	1 256 700	2 961 175
Earning from Year 2	519 774	1 542 460	3 246 935

Exhibit 15: Overall Impact Calculation

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Appendix

Appendix 1: Key Takeaways Gathered in Meetings with PMI

- Revenue Insights: IQOS generates €374 million annually in Portugal
- Regulatory Impact: Strict youth access prevention measures constrain brand-building efforts in certain retail settings.
- Operational Structure: PMI leverages a hierarchical "Pyramid of Partners" model to optimize retail network performance (see Exhibit 10).
- Key KPI: NPS remains the central metric for evaluating customer loyalty and store success.
- Store Performance: PMI-operated stores report NPS above 70, reflecting strong customer satisfaction.
- Partner Performance: IQOS third party locations have a lower NPS of approximately 30, highlighting opportunities for improvement through standardized practices.

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 3: 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 4: 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 Tabacalera, 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 footfall. 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 5: Survey Questionnaire

1. What is your age group?
 - a) 18-30
 - b) 31-40
 - c) 41+

2. What is your gender?
 - a) Male
 - b) Female
 - c) Other
 - d) Prefer not to say

3. Do you currently live in Portugal?
 - a) Yes
 - b) No

4. How long have you been an IQOS user?
 - a) I am not an IQOS user
 - b) Less than 6 months
 - c) 6 months to 1 year

- d) 1 year to 2 years
 - e) More than 2 years
5. How often do you visit IQOS point of sales?
- a) Weekly
 - b) Monthly
 - c) Every few months
 - d) Rarely
6. Which of the following best describes your primary reason for visiting an IQOS point of sale?
- a) Purchasing TERREAS
 - b) Troubleshooting or repairs
 - c) Product recommendations or advice
 - d) Exploring new products
 - e) Other (please specify)
7. On a scale of 1 to 5, how would you rate the overall quality of service you receive at IQOS Point of Sales?
- Scale from 1 (Very Poor) to 5 (Excellent)
8. How would you describe your most recent experience with the staff at an IQOS point of sale?
- a) Helpful
 - b) Knowledgeable
 - c) Approachable
 - d) Rushed
 - e) Unhelpful
 - f) Polite
 - g) Unfriendly

h) Neutral

i) Other (please specify)

9. How likely are you to revisit an IQOS point of sale based on your most recent experience?

- Scale from 1 (Very Likely) to 5 (Very Unlikely)

10. On a scale of 1 to 5, how satisfied were you with the speed of service during your last visit?

- Scale from 1 (Very Dissatisfied) to 5 (Very Satisfied)

11. How likely are you to recommend visiting an IQOS point of sale to a friend or family member?

- Scale from 0 (Not Likely) to 10 (Extremely Likely)

Appendix 6: Sample Size Calculation for Survey

To determine the appropriate sample size for the survey, the following parameters were used:

- Confidence Level: 90%
- Margin of Error: 5% (0.05)
- Population Size: 10,320,000
- Population Proportion: 20.9% (0.209) — the proportion of smokers in Portugal

The formula for calculating the sample size for an infinite population is:

$$n_{infinite} = \frac{Z^2 \cdot p \cdot (1 - p)}{E^2}$$

Where Z is the z-score corresponding to the desired confidence level (1.645 for 90%), p is the population proportion (0.209), and E is the margin of error (0.05). Substituting the values:

$$n_{infinite} = \frac{(1.645)^2 \cdot 0.209 \cdot (1 - 0.209)}{(0.05)^2}$$

$$n_{infinite} \approx 224.67$$

$$n_{finite} = \frac{n_{infinite}}{1 + \frac{n_{infinite} - 1}{N}}$$

To account for the finite population size, the calculation is adjusted using the following formula:

$$n_{finite} = \frac{224.67}{1 + \frac{224.67 - 1}{10,320,000}}$$

$$n_{finite} \approx 181.04$$

Where N is the population size (10,320,000). Substituting the values:

Thus, the minimum required sample size for the survey is approximately 181 participants.

$$n_{finite} = \frac{n_{infinite}}{1 + \frac{n_{infinite} - 1}{N}}$$

Appendix 7: Proposal for Cost of Evaluation Model



bracketlab GmbH, Fürst-Pückler-Str. 16, 50935 Köln

Example ABC

Proposal

A240149

Date

15.12.2024

Valid until

29.12.2024

Sample Proposal for the Development of a Data-Driven Store Ranking Tool

Dear client,

thank you for the great discussions so far! Based on our conversations, we have prepared an offer for the technical implementation of the store-ranking tool.

This offer covers the development of a comprehensive, data-driven solution that evaluates and ranks stores based on location-specific performance factors. By incorporating variables such as accessibility, competition density, and store type, the tool provides a clear and actionable overview of store performance. Additionally, it enables advanced features such as heatmaps, interactive maps, and custom analysis tools to identify growth opportunities and optimize decision-making.

The billing is based on the actual effort of our design, business, and development teams. Naturally, this effort will be documented in detail and made available for your review. Should it become apparent that this estimate will deviate significantly from the target sum due to new insights or requirements, we will inform you promptly.

1 person day (PD) corresponds to 8 working hours. The price per person day varies depending on the position.

The invoice will be issued upon project completion. The payment term is 14 days.

Please note that this is a sample offer created as part of a university project. It is not intended to be accepted and serves solely as a rough guideline, with all prices being purely illustrative.

Position	Quantity	Unit	Price	Total
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1. Backend Development

Database Design and Setup	6.00	PD	1,400.00	8,400.00
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Setup and optimization of an SQL database that will store all relevant shop data, such as shop coordinates, store types, and district information. Ensures consistent and scalable data architecture.

- Structuring database tables for shop, location, and competition data.
- Validating and cleaning scraped data for accuracy.
- Setting up regular update mechanisms for incoming datasets.

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Position	Quantity	Unit	Price	Total
Data Scraping and API Integration	12.00	PD	1,400.00	16,800.00
<p>Development of a solution to retrieve and update store location data through web scraping and API calls. This includes extracting relevant data points such as store coordinates, types, and district information from online sources and ensuring automated updates for real-time accuracy.</p> <ul style="list-style-type: none"> - Developing web scraping scripts to extract shop data (coordinates, store types, and districts) from specified websites. - Implementing error handling mechanisms to ensure data consistency and prevent failed extractions. - Setting up APIs or scheduled processes for automated data updates from third-party sources. - Ensuring integration of scraped and API-retrieved data into the backend database. 				
Backend Logic Implementation	10.00	PD	1,400.00	14,000.00
<p>Developing the backend logic for calculating the Location Performance Modifier (LPM). This will include defining and processing factors like public transport accessibility, competition density, and retail location type.</p> <ul style="list-style-type: none"> - Implementing data processing functions for calculating LPM. - Weighting and normalizing factors. - Ensuring seamless integration with the database. 				
API Development	5.00	PD	1,400.00	7,000.00
<p>Creating APIs for the communication between frontend and backend systems, enabling data retrieval, search filters, and detailed store analysis.</p> <ul style="list-style-type: none"> - Endpoints for data retrieval (e.g., filtering by store types and districts). - Secure data exchange and API documentation. - Optimization for future feature expansion. 				
Subtotal				46,200.00

2. Frontend Development

Core UI and Search Functionality	12.00	PD	1,400.00	16,800.00
<p>Development of the frontend interface, providing a user-friendly layout for shop data visualization. The core features include search and filter options to navigate through store types, districts, and relevant data.</p> <ul style="list-style-type: none"> - Creating a visually appealing frontend structure. - Implementing search and filter options for store types, districts, and other attributes. 				

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Position	Quantity	Unit	Price	Total
<ul style="list-style-type: none"> – Ensuring responsiveness and usability on multiple devices. 				
Store Detail View Developing a detailed view for individual stores, displaying relevant information like competition density, nearby transport stations, and other key performance factors. <ul style="list-style-type: none"> – Creating an expanded window for individual store data. – Displaying all key details (competitor count, nearby transport hubs, store type). – Integration of dynamic content retrieval via backend APIs. 	4.00	PD	1,400.00	5,600.00
Heatmap and Visualization Integration of heatmap functionality to display performance metrics for individual stores. This includes graphical representation of geographical factors (e.g., competition and infrastructure density). <ul style="list-style-type: none"> – Heatmap creation for store locations and performance. – Integration of geospatial data for accurate visualization. – Development of an intuitive display interface for location insights. 	11.00	PD	1,400.00	15,400.00
Subtotal				37,800.00
3. Advanced Features and Analysis Tools				
Interactive Store Map Development of an interactive map to display store locations, competitor stores, and nearby infrastructure (e.g., train stations, metro access). This feature mirrors a custom "Google Maps" for the client. <ul style="list-style-type: none"> – Integration of mapping services (e.g., Leaflet, Mapbox). – Displaying store and competitor locations dynamically. – Overlay of infrastructure data (e.g., metro stations, transport hubs). – Development of tooltips and interactive elements for detailed insights. 	19.00	PD	1,400.00	26,600.00
Custom Analysis Tools Implementation of an analysis dashboard that allows users to conduct tailored analyses by selecting specific factors (e.g., competition density, infrastructure quality) to evaluate store performance and opportunities. <ul style="list-style-type: none"> – Development of customizable filters and analytics tools. – Processing user-selected factors in real-time. 	9.00	PD	1,400.00	12,600.00

Position	Quantity	Unit	Price	Total
<ul style="list-style-type: none"> – Visualizing results dynamically through charts and heatmaps. 				
Report Export Functionality	2.00	PD	1,400.00	2,800.00
<p>Enabling CSV and PDF export options for detailed store and district-level reports, allowing users to generate and download data for offline analysis.</p> <ul style="list-style-type: none"> – Development of CSV and PDF export mechanisms. – Integration of selected filters into export functionality. – Ensuring clear and structured report formats. 				
Subtotal				42,000.00
4. Infrastructure and Deployment				
Environment Setup and Deployment	6.00	PD	1,400.00	8,400.00
<p>Setting up development, testing, and production environments for the backend and frontend systems. Deployment will be managed through a cloud infrastructure, ensuring stability, scalability, and security.</p> <ul style="list-style-type: none"> – Configuration of development, staging, and production environments. – Deployment of backend and frontend applications to a cloud provider (e.g., AWS, Azure). – Ensuring environment scalability for future growth. 				
Monitoring and Security	5.00	PD	1,400.00	7,000.00
<p>Implementation of monitoring tools to ensure system stability, performance, and security. This includes error logging, resource tracking, and basic security measures.</p> <ul style="list-style-type: none"> – Setting up monitoring tools for API, database, and frontend performance. – Integrating error logging and alerts for quick issue resolution. – Implementing security measures like API rate limiting, authentication, and encryption. 				
Backup and Maintenance	7.00	PD	1,400.00	9,800.00
<p>Developing mechanisms for regular backups and ensuring ongoing system maintenance post-deployment. This includes regular updates, bug fixes, and performance optimizations.</p> <ul style="list-style-type: none"> – Setting up automated backups for database and application data. – Developing maintenance routines for performance monitoring and optimization. 				

Position	Quantity	Unit	Price	Total
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- Addressing issues and bugs as needed after launch.

Subtotal **25,200.00**

5. Project Management and Testing

Project Coordination	12.00	PD	1,360.00	16,320.00
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Coordination of the entire project lifecycle, ensuring alignment with client requirements, timelines, and quality standards. This includes regular progress updates and meetings.

- Defining project milestones, deliverables, and timelines.
- Organizing sprint planning, reviews, and retrospectives.
- Regular communication and status reporting with the client.

Quality Assurance and Testing	5.00	PD	1,360.00	6,800.00
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Comprehensive testing to ensure the system meets functional and non-functional requirements. This includes unit testing, integration testing, and user acceptance testing (UAT).

- Development and execution of unit tests for backend and frontend components.
- Integration testing to ensure seamless interaction between systems.
- User acceptance testing (UAT) to validate end-to-end functionality.
- Bug fixing and system optimization based on test results.

Documentation	2.00	PD	1,360.00	2,720.00
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Creation of comprehensive project documentation, including technical specifications, API documentation, and user manuals to ensure smooth handover and future maintenance.

- Technical documentation for backend logic and database structure.
- API documentation for developer reference.
- User manuals for system usage and report generation.

Subtotal **25,840.00**

6. Service Level Agreement & Maintainance

System Availability: Ensuring a system availability of 99.5% outside of planned maintenance windows. This guarantee does not cover the availability of third-party systems but applies exclusively to systems under our control.

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Position	Quantity	Unit	Price	Total
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Response Time for Support Requests: Response times of up to 4 business hours for critical system outages and up to 24 business hours for non-critical inquiries. Business hours are Monday to Friday, 9:00 AM to 5:00 PM, excluding public holidays in North Rhine-Westphalia, Germany.

Maintenance and Updates: Regular maintenance and system updates will be performed to continuously improve the security, stability, and performance of the system. Maintenance windows will be scheduled in coordination with the client to minimize operational disruptions.

Technical Support: Provision of a dedicated technical contact person who is available via phone and email.

Costs: The costs for the SLA are 10% of the final project sum per year.

7. Running Costs

All additional running costs are not subject of this offer and have to be paid by the client directly. bracketlab will consult the client in the selection of these services and leverage the existing IT infrastructure. These costs include, but are not limited to:

Server Hosting

Costs for hosting backend, database, and frontend services on platforms like AWS, Azure, or Google Cloud.

Estimated: EUR 50–300/month

API Costs for Live Information

Fees for accessing third-party APIs to retrieve live data (e.g., Google Maps, location analytics, transport data).

Estimated: EUR 100–500/month

Database Management

Costs for managed SQL databases and regular backups.

Estimated: EUR 30–200/month

Data Storage and Bandwidth

Expenses for storing map data, reports, and analytics, as well as data transfer for maps and reports.

Estimated: EUR 30–150/month

Monitoring and Logging

Tools like Datadog, Sentry, or CloudWatch for monitoring application performance and logging errors.

Estimated: EUR 20–150/month

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HRB 111868
Finanzamt Köln-West
USt-IdNr.: DE357398316

bracketlab GmbH, Fürst-Pückler-Str. 16, 50935 Köln

Position	Quantity	Unit	Price	Total
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Domain and SSL Certificate

Registration for a custom domain and an SSL certificate for secure communication.

Estimated: EUR 1–10/month

7. Annual Training Program

Implementation of comprehensive training programs to ensure effective usage of the evaluation system across all management levels and regional teams. These programs include initial training sessions for new staff and regional managers, quarterly refresher courses and update training, as well as the development and maintenance of training materials. Both virtual and in-person training sessions are offered to cater to the diverse needs of the teams.

Estimated: EUR 2,000-4,000/month

Total net	EUR	177,040.00
VAT (19.00 %)	EUR	33,637.60
Total gross	EUR	210,677.60

We are very much looking forward to your response.

Best regards,

Lukas Wike,
Head of Sales

Appendix 8: Proposal for Cost of Sales Tool

bracketlab 

bracketlab GmbH, Fürst-Pückler-Str. 16, 50935 Köln

Example ABC

Proposal	A240150
Date	15.12.2024
Valid until	29.12.2024

Sample Proposal for the Development of the IQOS Savings Calculator Tool

Dear client,

Thank you for the great discussions so far! Based on our conversations, we have prepared an offer for the technical implementation of the IQOS savings calculator tool.

This offer covers the development of a user-friendly tool designed to assist retail staff in guiding customers from traditional cigarettes to the IQOS system. The tool will feature personalized savings calculations, ecological and health benefits, and tailored product recommendations. It will provide a responsive and intuitive interface, dynamic calculations, and integration with PMI's data systems to ensure accuracy and up-to-date information.

The billing is based on the actual effort of our design, business, and development teams. Naturally, this effort will be documented in detail and made available for your review. Should it become apparent that this estimate will deviate significantly from the target sum due to new insights or requirements, we will inform you promptly.

1 person day (PD) corresponds to 8 working hours. The price per person day varies depending on the position.

The invoice will be issued upon project completion. The payment term is 14 days.

Please note that this is a sample offer created as part of a university project. It is not intended to be accepted and serves solely as a rough guideline, with all prices being purely illustrative.

Position	Quantity	Unit	Price	Total
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1. Backend Development

Database Design and Setup	8.00	PD	1,400.00	11,200.00
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Design and implementation of a centralized database to store all necessary data for the tool, including cigarette prices, Teria-Flavor details, user preferences, and environmental/health study data. The database will be designed for scalability and integration of future updates like new products, brands, and price adjustments.

- Structuring database tables for cigarettes, IQOS products, user preferences, and environmental/health data.
- Ensuring data consistency and scalability.
- Mechanisms for easy integration of new products and pricing adjustments.

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Position	Quantity	Unit	Price	Total
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- Optimizing the database architecture to handle large-scale deployments across thousands of retail locations.

API Development and Integration	16.00	PD	1,400.00	22,400.00
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Development of APIs for dynamic data retrieval and interaction with PMI systems. This includes APIs for cost and benefit calculations, as well as automated data updates.

- Building APIs for fetching and processing data from the database.
- Integration with PMI systems for real-time data updates.
- Implementing security measures for API calls (e.g., encryption, authentication).
- Optimizing API performance to ensure stability under high user demand.

Logic for Savings and Benefits Calculation	7.00	PD	1,400.00	9,800.00
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Development of algorithms to calculate cost savings, ecological benefits, and health improvements based on user inputs. The logic will be designed to dynamically adapt to new data such as pricing or product updates.

- Implementing calculations for cost savings based on smoking habits and preferred brands.
- Algorithms for ecological benefits (e.g., reduced cigarette butts) and health improvements.
- Validating calculation accuracy across various user scenarios.

Subtotal				43,400.00
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2. Frontend Development

User Interface Design	12.00	PD	1,400.00	16,800.00
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Design and implementation of a responsive Progressive Web App (PWA) interface optimized for tablets. The interface will provide an intuitive and user-friendly experience for retail staff to input customer data and visualize savings and benefits dynamically.

- Designing a responsive UI for tablets and other devices.
- Creating clear and interactive visualization of savings, ecological, and health benefits.
- Ensuring accessibility and usability for retail staff with minimal training.

Interactive Features	4.00	PD	1,400.00	5,600.00
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bracketlab GmbH, Fürst-Pückler-Str. 16, 50935 Köln

Position	Quantity	Unit	Price	Total
<p>Development of dynamic features for personalized customer interactions, such as entering smoking habits and receiving tailored recommendations. The tool will dynamically adjust results based on user input.</p> <ul style="list-style-type: none"> – Building input forms for customer data (e.g., cigarette brand, weekly usage). – Implementing real-time adjustments of results based on input. – Prioritizing benefits (cost, ecology, health) based on customer preferences. 				
Secure User Login	10.00	PD	1,400.00	14,000.00
<p>Implementation of a secure login system to restrict access to authorized retail staff. This ensures the system is used only by intended users and secures sensitive data.</p> <ul style="list-style-type: none"> – Developing a secure login mechanism with role-based access control. – Implementing password encryption and session management. – Ensuring compatibility with PMI's existing user management systems. 				
Subtotal				36,400.00
3. Infrastructure and Deployment				
Environment Setup and Deployment	4.00	PD	1,400.00	5,600.00
<p>Setting up development, testing, and production environments for the backend and frontend systems. Deployment will be managed through a cloud infrastructure, ensuring stability, scalability, and security.</p> <ul style="list-style-type: none"> – Configuration of development, staging, and production environments. – Deployment of backend and frontend applications to a cloud provider (e.g., AWS, Azure). – Ensuring environment scalability for future growth. 				
Monitoring and Security	2.00	PD	1,400.00	2,800.00
<p>Implementation of monitoring tools to ensure system stability, performance, and security. This includes error logging, resource tracking, and basic security measures.</p> <ul style="list-style-type: none"> – Setting up monitoring tools for API, database, and frontend performance. – Integrating error logging and alerts for quick issue resolution. – Implementing security measures like API rate limiting, authentication, and encryption. 				

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Position	Quantity	Unit	Price	Total
Backup and Maintenance	3.00	PD	1,400.00	4,200.00
Developing mechanisms for regular backups and ensuring ongoing system maintenance post-deployment. This includes regular updates, bug fixes, and performance optimizations.				
<ul style="list-style-type: none"> - Setting up automated backups for database and application data. - Developing maintenance routines for performance monitoring and optimization. - Addressing issues and bugs as needed after launch. 				
Subtotal				12,600.00

4. Project Management and Testing

Project Coordination	8.00	PD	1,360.00	10,880.00
Coordination of the entire project lifecycle, ensuring alignment with client requirements, timelines, and quality standards. This includes regular progress updates and meetings.				
<ul style="list-style-type: none"> - Defining project milestones, deliverables, and timelines. - Organizing sprint planning, reviews, and retrospectives. - Regular communication and status reporting with the client. 				
Quality Assurance and Testing	3.00	PD	1,360.00	4,080.00
Comprehensive testing to ensure the system meets functional and non-functional requirements. This includes unit testing, integration testing, and user acceptance testing (UAT).				
<ul style="list-style-type: none"> - Development and execution of unit tests for backend and frontend components. - Integration testing to ensure seamless interaction between systems. - User acceptance testing (UAT) to validate end-to-end functionality. - Bug fixing and system optimization based on test results. 				
Documentation	1.00	PD	1,360.00	1,360.00
Creation of comprehensive project documentation, including technical specifications, API documentation, and user manuals to ensure smooth handover and future maintenance.				
<ul style="list-style-type: none"> - Technical documentation for backend logic and database structure. - API documentation for developer reference. - User manuals for system usage and report generation. 				
Subtotal				16,320.00

5. Service Level Agreement & Maintenance

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Position	Quantity	Unit	Price	Total
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System Availability: Ensuring a system availability of 99.5% outside of planned maintenance windows. This guarantee does not cover the availability of third-party systems but applies exclusively to systems under our control.

Response Time for Support Requests: Response times of up to 4 business hours for critical system outages and up to 24 business hours for non-critical inquiries. Business hours are Monday to Friday, 9:00 AM to 5:00 PM, excluding public holidays in North Rhine-Westphalia, Germany.

Maintenance and Updates: Regular maintenance and system updates will be performed to continuously improve the security, stability, and performance of the system. Maintenance windows will be scheduled in coordination with the client to minimize operational disruptions.

Technical Support: Provision of a dedicated technical contact person who is available via phone and email.

Costs: The costs for the SLA are 10% of the final project sum per year.

6. Running Costs

All additional running costs are not subject of this offer and have to be paid by the client directly. bracketlab will consult the client in the selection of these services and leverage the existing IT infrastructure. These costs include, but are not limited to:

Server Hosting

Costs for hosting backend, database, and frontend services on platforms like AWS, Azure, or Google Cloud.

Estimated: EUR 50–300/month

Database Management

Costs for managed SQL databases and regular backups.

Estimated: EUR 30–200/month

Data Storage and Bandwidth

Expenses for storing map data, reports, and analytics, as well as data transfer for maps and reports.

Estimated: EUR 30–150/month

Monitoring and Logging

Tools like Datadog, Sentry, or CloudWatch for monitoring application performance and logging errors.

Estimated: EUR 20–150/month

bracketlab GmbH, Fürst-Pückler-Str. 16, 50935 Köln

Position	Quantity	Unit	Price	Total
Domain and SSL Certificate				
Registration for a custom domain and an SSL certificate for secure communication.				
<i>Estimated: EUR 1–10/month</i>				
7. Annual Training Program				
Costs for ongoing training and certification programs to maintain high tool adoption rates and effective usage across the partner network. Includes monthly certification courses and advanced training, the development and updates of training materials, the creation of a virtual training platform and content, as well as training tracking and certification management.				
<i>Estimated: EUR 3,000-5,000/month</i>				
Total net			EUR	108,720.00
VAT (19.00 %)			EUR	20,656.80
Total gross			EUR	129,376.80

We are very much looking forward to your response.

Best regards,

Lukas Wike,
Head of Sales