



Farmer's Gold—New Bags! New Size! Improved Blends!

Tobacco Business

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INTERNATIONAL

2014 REWIND/ 2015 FAST FORWARD

FROM TBI'S TOP 50
TOBACCO OUTLETS

2014

2015



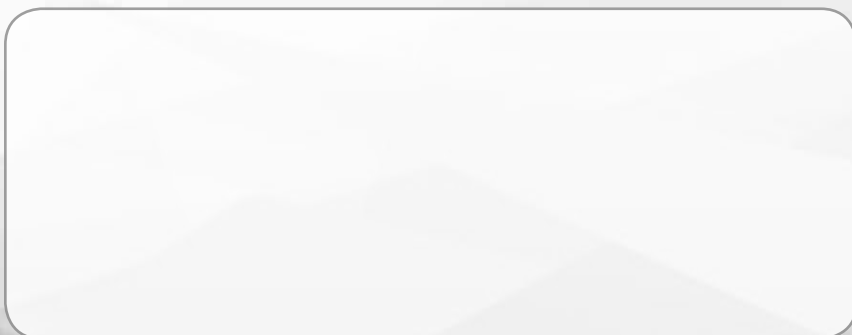
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Competing With the Vape Shops

TPC 2015 Preview

TBI's E-Cig China Tour

Cigar Sense: Lounging Large





The Genius of Option 3

The proposed Food and Drug Administration (FDA) deeming regulations on all tobacco products have been announced and, since then, commented upon by the industry. Had the decision been solely the FDA's, absent the public and legislative pressures foisted upon the agency, it's not unreasonable to believe that extending control over the plethora of other tobacco products (OTP) would have occurred. The Family Protection and Tobacco Control Act (FPTCA) was written specifically with cigarettes as the focus. The tobacco category was tarred (no pun here) with the same brush without regard to scientific-based risk continuums associated with different methods of tobacco use. However, a unique codicil of the act specifically prohibited the outright ban of all tobacco products (including menthol), and of reducing nicotine levels to zero.

Despite prohibiting the ban of all tobacco products, the inconsistency of the act provides for protocols allowing the equivalent of "death [of tobacco] by a thousand cuts." As it turns out, this is especially true for OTP. It could be argued in court that the nearly-impossible to impossible FDA rules, protocols and regulations effectively constitute a ban, which, per the act, is illegal. It's a fact that no predicate product against which to verify new product substantial equivalence even exists for the electronic tobacco category because the category did not exist prior to February 11, 2007. This alone testifies to the dated covenants of the FPTCA. To be decided: when do impossible-to-meet standards become a de facto ban? At this time, an option 3 doesn't exist. The FDA properly maintains that they must follow the written letter of the law. Given the agency's angst historically and the length

of time that it took to get the law enacted, there may be little FDA desire for wiggle room. In reality, the kind and extent of the options required may be beyond FDA control.

ENTER OPTION 3

Consider that each tobacco product category is uniquely experienced by a wide range of demographic and psychographic profiles. Assembling all elements of legal nicotine usage could theoretically establish a grid of the varying degree of risk and population impact, but it could never be scientifically verified. Scientifically quantifying the impact on the total population by the various tobacco categories is likely an impossible, expensive dream akin to proving that the earth is flat.

In the absence of a third option, the only way out of the conundrum—short of absolutely nothing at all happening as in the situations with menthol and substantial equivalence—is legislative mitigation of the FPTCA. It was designed and enacted with cigarettes in mind and unless it's now true that "one size fits all," which it's not, then FDA, the industry and the legislators need to go back to the drawing board to craft *reasonable* regulations addressing each tobacco segment. The genius of option 3 heads off "death by a thousand cuts" which, if challenged in court as a de facto ban on tobacco and is ruled to be so, would render FDA mute just as in the case of declaring electronic-cigarette-delivered nicotine a tobacco product and not a drug." Option 3 is advantageous to all stakeholders. We look to FDA to assume a leadership role.

Write your legislators,

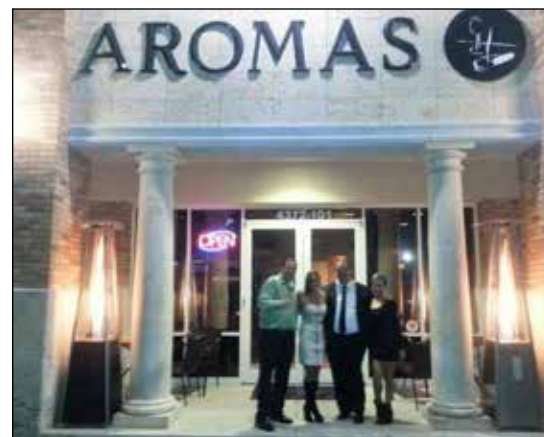
A handwritten signature in black ink, appearing to read "Ed O'Connor". The signature is fluid and cursive, with a long horizontal stroke at the end.

This letter originally appeared in the July/August issue of TBI. We are reprinting it in our TPC 2015 show issue as a call to action for the industry.

CIGAR SENSE

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Aromas in Jacksonville, Florida stakes its claim as the largest smoking lounge south of Philadelphia. Here's how it went beyond selling stogies to old fogies, capturing a "premier nightlife" personality.



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Innovation will drive the category's growth, participants agreed.



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Chuck Horvath's Cigar Station relies on product expertise, savvy web marketing and consistent pricing to tailor its selection of cigars and craft beers to its blue-collar clientele.



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Vapor Trendspotting

White House to Lift Cuba Trade Embargo

Opening trade with the country will allow travelers to bring Cuban cigars home.

The White House has announced plans to open a U.S. embassy in Havana and loosen trade and travel restrictions on Cuba very soon. Over time, President Obama has said that he will work with Congress to lift the full trade embargo. These policy changes will enable U.S. citizens traveling to Cuba to use their credit and debit cards in the country and to be able to legally bring home up to \$100 in the prized Cuban cigars that have long been illegal stateside.

The changes in relations between the two countries came in the aftermath of an intercession by Pope Francis, the Catholic Church's first Latin American pontiff. Shortly after private meetings between Cuban and American delegations were held at the Vatican and in Canada, an unusual, 45-minute telephone conversation between Obama and Cuban leader Raul Castro took place. Next, Cuba released Alan Gross, an American sentenced to 15 years in prison in Cuba for his efforts to expand

Internet access for Havana's Jewish community. He was accused of undermining the Cuban state.

The U.S. and Cuba also arranged a parallel prisoner exchange of three Cuban intelligence agents for a U.S. intelligence asset who has been imprisoned for more than 20 years, according to administration officials. Cuba also agreed to release 53 people whom the U.S. considers political prisoners, some of whom have already been released, the officials said.

"Neither the American nor Cuban people are well served by a rigid policy that's rooted in events that took place before most of us were born," Obama said in a statement about the exchange.

"Opening the door with Cuba for trade, travel and the exchange of ideas will create a force for positive change in Cuba that more than 50 years of our current policy of exclusion could not achieve," agreed Senator Richard Durbin, an Illinois Democrat.

While many elected officials agreed that the proposed policy change is long overdue, some criticized the move, including several members of the Cuban American exile community in Florida. Senate Foreign Relations Chairman Robert Menendez, who will leave office in January, reportedly warned that it "sets an extremely dangerous precedent" that "invites dictatorial and rogue regimes to use Americans serving overseas as bargaining chips."

According to *Bloomberg News*, Menendez, whose parents were among many who fled Cuba during Fidel Castro's reign, sees the action as vindicating brutal behavior by the Cuban government. "I fear that today's actions will put at risk the thousands of Americans that work overseas to support civil society, advocate for access to information, provide humanitarian services, and promote democratic reforms," he told *Bloomberg News*.

New NYC Store for Davidoff

Davidoff of Geneva plans to open a new luxurious flagship store in iconic lower Manhattan.

Set to open in the spring of 2015, Davidoff of Geneva's new shop will be situated at the newly renovated Brookfield Place on the Hudson River across from the World Trade Center. The store will cover nearly 2,000 square feet and feature a walk-in hu-

midor modeled after a tobacco-curing barn, as well as a large lounge space adorned with Dominican artist Polibio Díaz's photography.

The look of the exterior of the store will also be bold, featuring a 40-foot tall "Davidoff of Geneva—since 1911"

facade of onyx and lights. "This space will provide the ultimate luxury cigar experience to all who visit," says Jim Young, president of Geneva North America, who notes that the store will be Geneva's third New York City location.



Shareholder Vote for Reynolds & Lorillard

Reynolds American and Lorillard will hold a shareholder vote on the proposed \$27.4-billion merger between the two companies on Jan. 28. A closing date for the merger is expected in the first half of 2015 after the Federal Trade Commission (FTC) conducts its antitrust review. In August, the FTC requested further information on the merger and the planned divestiture of several brands to Imperial Tobacco Group plc.

Washington Seeks E-Cig Tax

Washington Governor Jay Inslee pushes for a statewide tax on vapor products.

Gov. Inslee is seeking a statewide tax on electronic cigarettes and vapor products. The tax is expected to be significant because Washington has one of the higher tobacco taxes. Inslee is looking for ways to make some money for his state while getting credit for protecting the public's health. However, many addiction and tobacco experts argue that access to electronic cigarettes and vapor products is actually a boon for public health.

Washington is not be the first state to push for a tax on vapor products. Hawaii, Indiana, Kentucky, New Jersey, Oklahoma, Oregon, Rhode Island, South Carolina and Vermont have all considered or are considering such a tax. Meanwhile, New York, Michigan, Ohio and North Carolina have enacted some type of tax aimed at electronic cigarettes, vapor products or the nicotine sold for their use.

Kretek Names Central Region Sales Director

Kretek International has named Jay Kloepfer as central region sales director. Kloepfer joins Kretek from Tantus Tobacco, succeeding newly promoted Kretek National Director of Field Sales Steve Lucas in the regional manager position. He will be responsible for business development and retail growth of Kretek brands from the Canadian border to Texas and Oklahoma, working with Kretek distributors and broker networks in that region.

"Kretek's ongoing growth in new retail sectors of tobacco and e-vapor

products, as well as ventures in wine and general merchandise categories will be enhanced by Jay's experience and team leadership," says Lucas. Kloepfer will oversee the efforts of a recently expanded team of key account managers, along with the coordinated efforts of CROSSMARK and JMK sales brokerages for Kretek, which is the exclusive importer and marketer of Djarum and Cuban Rounds Cigar brands, Voodoo and EZ-Cig e-vapor products, DjEEP lighters, Nuvino Wines and VirMax performance products.

HIGHLIGHTS

TPC 2015 Breaking Records

By December, registration for the January 28-29 show had already surpassed prior years'.

Tobacco retailers and suppliers are registering in record numbers for the 2015 Tobacco Plus Convenience Expo. The annual event will kick off on January 27 with an opening reception at the Westgate Las Vegas Resort & Casino. The trade show, which will be held at the South Hall of the Las Vegas Convention Center, will be open the following two days.

Participants from more than 50 countries are slated to attend the event to meet with manufacturers, wholesalers and distributors, and to browse the show floor. Both days of the show will feature roundtable discussions. For more on the Tobacco Plus Convenience Expo, see our show preview story on page 62.



Bill Supports “Distinguishing” Premium Cigars

Language in congressional reports is encouraging, but those in the cigar industry must continue to push, reports the CRA.

Legislative efforts following a two-year joint campaign that began with the refiling of H.R. 792 and S. 772 have culminated in a message from the U.S. Congress to the FDA that premium cigars should not be regulated.

This effort, first addressed by the House of Representatives Appropriations Committee last spring when FDA Commissioner Margaret Hamburg was questioned about the issue, evolved into the inclusion of language in the committee’s funding report for FDA. The year-end marathon session of the U.S. House of Representatives and U.S. Senate that resulted in the “Cromnibus” budget package ended with the retention of language that specifically focused on the regulation of premium cigars, reports the Cigar Rights of America (CRA), which stated that the language is as follows:

“Regulations: The Committee is encouraged that FDA has provided options for a way forward on distinguishing between premium cigars and other tobacco products in its recently proposed rule *‘Deeming Tobacco Prod-*

ucts To Be Subject to the Federal Food, Drug, and Cosmetic Act, as Amended by the Family Smoking Prevention and Tobacco Control Act; Regulations on the Sale and Distribution of Tobacco Products and Required Warning Statements for Tobacco Products’ (Docket No. FDA-2014-N-0189). In particular, the Committee notes that FDA is considering excluding premium cigars from the scope of this proposed rule through Option 2. The Committee believes this could be a viable solution, given that the Family Smoking Prevention and Tobacco Control Act makes little mention of cigars throughout the legislation, and there is even less evidence that Congress intended to focus on the unique subset of premium cigars. The Committee notes that premium cigars are shown to be distinct from other tobacco products in their effects on youth initiation, the frequency of their use by youth and young adults, and other such behavioral and economic factors.”

Premium cigar industry veterans expressed the hope that the report

language is an expression of the true congressional intent not to see premium cigars regulated by FDA. The language sends a message to FDA that premium, handmade cigars are a unique product undeserving of draconian regulations that could decimate the industry.

“Although this language is a positive step forward, as we prepare to enter the 114th Congress, it does not eliminate the need for an unambiguous congressional exemption for premium cigars from FDA oversight so manufacturers are able to plan for the future of their businesses,” warned a statement by CRA. “Going into the 114th Congress that will be sworn in on January 6, 2015, CRA will continue to meet with members of congress and their staff with a resounding message that the existing regulatory proposal would cripple the premium cigar industry and that there needs to be a legislative exemption granted to protect premium cigars at all levels from the consumer to the manufacturer.”



Westminster Gives Up Plan to Ban all Tobacco Sales

Residents of the Massachusetts town protested the move, stopping a proposed ban.

Faced with an outright ban of all tobacco sales, the people of Westminster protested and convinced politicians to drop the idea. In a 2-1 vote, the Westminster Board of Health killed its proposal to ban all tobacco

sales, the first such proposal in the U.S.

Voting to drop the proposal were board members Ed Simoncini and Peter Munro, while board chairwoman Andrea Crete voted to keep it, lo-

cal media report. The vote to drop the proposal came after a public hearing drew more than 100 attendees, who came to protest the effort. A week later the board decided to withdraw the proposal from consideration.

Vaping May Be Reducing Youth Smoking

Survey data shows that youth smoking has reached a new low.

At the same time that youth smoking reached a new record low, youth use of vapor products grew, according to the National Institute on Drug Abuse (NIDA)'s Monitoring the Future survey concerning cigarette and vapor product use by youth. From 2011 to 2014, past-month smoking by high school seniors dropped by 27 percent, according to NIDA. The results of the survey call in to question concerns by anti-smoking advocates that vaping is a "gateway" to traditional smoking.

Dr. Michael Siegel, a longtime anti-smoking advocate and professor at the Boston University School of Public Health who has long argued against the gateway theory, says that the survey results support his thinking on the

matter. "[T]hese national data suggest that electronic cigarettes may actually be serving as a deterrent to smoking by diverting kids who might otherwise try smoking over to a non-tobacco nicotine product."

Furthermore, Dr. Wilson Compton, the deputy director of NIDA, has expressed reluctance to argue that e-cigarettes are acting as gateway products to cigarettes due to a lack of research to back up the claim. Clearly, as American Vaping Association's Gregory Conley asserted, the survey results suggest that more research is needed to understand youth e-cigarette use.

"No use of vapor products by youth is obviously the ideal, but we do not live in a perfect world. Importantly, there re-

mains no evidence that e-cigarettes are acting as gateways to real cigarettes," said Conley. "In fact, this study and others suggest that the availability of vapor products may have stopped many youth from becoming smokers over the last three years.

"Our understanding of youth e-cigarette use is constrained by the fact that the survey only looked at past 30-day use, which prevents researchers from distinguishing between regular users and experimenters. Additionally, surveys should begin asking regular users of e-cigarettes whether they are using nicotine or nicotine-free devices, as this distinction is critical to forecasting the public health impact of youth choosing vaping over smoking."

E-Vapor Legislation on the Way?

Nineteen state bills to regulate vapor products have been pre-filed for introduction.

Nine states pre-filed a total of 19 bills related to vaping for introduction in 2015, according to TMA. Since only 16 states permit pre-filing, the association expects many more bills to be introduced this year.

"Taking the ratios of 9:16 and applying this to all 50 states, minus those that have already enacted similar legislation on taxation (2), sales restrictions to minors (37), vaping area restrictions (9), among other issues (17), we would expect 2015 to result in nearly 100 e-vapor bills and end with all 50 states banning such sales to minors," states a report released by TMA in December. "Relative to combustible products, the federally unregulated e-vapor market has expectedly led the states to implement their own control policies, which have thus far focused on including e-vapor products in area smoking restrictions and in their availability (via minimum age sales restrictions)."

Next on the horizon will be taxation, the association predicts. Currently only Minnesota and North Carolina have enacted excise taxes on e-vapor. The former did so with an OTP-style wholesale price model that is particularly onerous for disposables and rechargeables. The latter chose a milliliter basis, which is a good deal less favorable, on a puff-by-puff basis, to e-liquids. "As one would expect, the pre-file in Virginia is like the one in North Carolina while states with less influence by tobacco interests are migrating towards the Minnesota model," reports TMA.

The State Attorneys General are being pressured by Representatives Waxman (D-Calif.) and Pallone (D-N.J.) and Senator Durbin (D-Ill.) to have e-vapor products included in the voluntary Master Settlement Agreement. However, these efforts have been described as "unconstitutional," as a rewrite of the MSA's definition of a tobacco product,

and "illogical" given that neither this market nor the independent companies in it existed in 1998 when the MSA was agreed upon. TMA, therefore, suspects "that e-vapor products will be targeted in state legislation for what appears unlikely with regard to the MSA (e.g. marketing and advertising restrictions especially) and separately with regard to taxation as opposed to an MSA escrow fee and more like the NPM equity fees."

While the FDA's Center for Tobacco Products' proposed draft "Deeming Regulations," released in April of 2014, addressed the issue of selling to minors to some degree, noted the TMA's statement, many of the other "control elements remain with state legislatures and need not await federal policy-making. Only 11 states have *not* enacted any e-vapor laws at all: Alaska, Maine, Massachusetts, Michigan, Montana, Nevada, New Mexico, Oregon, Pennsylvania, Texas and Wisconsin."

BREAKING NEWS FROM THE TMA

The following are excerpts from harm reduction, tobacco regulation and other tobacco-related news.



Farrell Delman,
President, TMA

ON THE FDA...

...The Food and Drug Administration's (FDA) Center for Tobacco Products (CTP) issued **warning letters** to six online retailers for selling "not substantially equivalent" products across state lines.

...FDA continues to review **tobacco product marketing applications**. In November 2014, 24 substantially equivalent (SE) orders and six not substantially equivalent (NSE) orders were issued, while companies withdrew 17 SE reports from the review process.

...*The New York Times* reported on Swedish Match North America's (SMNA) **modified-risk tobacco product** (MRTP) application that requests FDA to remove two smokeless warning labels and say that SMNA's snus presents lower health risks than cigarettes. The newspaper said that SMNA is raising a broader question

of whether the regulation of tobacco products should align with the degree of harm presented by a given product, an issue that has split the public health community, with some arguing that replacing one harmful tobacco product with another is wrongheaded, while others are apparently endorsing strategies to distinguish the "cleanest, least harmful" methods of nicotine delivery, even if doing so might result in dual use.

...In a November letter, U.S. House Speaker John Boehner, House Majority Leader Kevin McCarthy and Chair of the Energy and Commerce Committee Fred Upton asked that FDA change the **grandfather date for proposed deeming regulations** (DR) for currently unregulated tobacco and e-vapor products from February 15, 2007 to either April 25, 2014 (the date the DR proposal was published) or to the effective date of the final DR. The letter was addressed to Health and Human Services Secretary Sylvia

Burwell and cited concerns that the proposed grandfather date would create "unnecessary regulatory burdens" and discriminate against unregulated products, making it virtually impossible for current e-cigs to claim substantial equivalence to a predicate product. Commenting on the request, Professor Michael Siegel of Boston University's School of Public Health expressed agreement and noted that he would go further, asking that FDA not require new product applications for any products, as the new product application requirement will stifle innovation and make it difficult for newer, potentially safer products to enter the market.

...CTP is establishing a **public docket** (FDA-2014-N-1936-0001) inviting interested parties to submit by April 15, 2015 "comments, supported by research and data, regarding e-cigarettes and the public health."

...CTP said it launched two **new national advertisements** as part of

its The Real Cost media campaign: 1) "Contract" builds on the message of loss of control due to addiction and emphasizes that cigarettes are addictive though they may give "the illusion of control;" and 2) "The 7,000" says that a smoker inhales a "toxic mix of more than 7,000 chemicals" with every cigarette smoked.

...Following the U.S. and Indonesia's deal to keep the U.S. **ban on clove cigarettes** in exchange for a promise of resolving certain trade issues, the Office of the U.S. Trade Representative released a memorandum of understanding. The document outlined four areas of agreement including the U.S. agreeing to refrain from "arbitrarily or unjustifiably" discriminating against Indonesian cigars and cigarillos in light of the FDA's proposed deeming regulations for currently unregulated tobacco products.

...FDA reported issuing 16 **notifications to retail stores** across the U.S. found to be selling tobacco products that CTP determined to be not substantially equivalent (NSE) for sale—Star Scientific Incorporated's Stonewall and Ariva products—and encouraged the retailers to contact their sources to discuss options for inventoried products subject to an NSE order.

...*Forbes* contributor Sally Satel, who writes about medicine and culture, calls **Swedish Match's FDA application for modified-risk tobacco product** for its General snus a "test of the FDA's

sincerity in its pledge to allow the data to guide the policy." She notes that if FDA approves the application to allow the company to "showcase its relative safety for smokers," more smokers might make the switch in what would be a "great boon for public health" as demonstrated in Sweden, which has the lowest rate of smoking-related diseases in Europe.

...**Swedish Match CEO Lars Dahlgren** told *Reuters* that its FDA MRTTP application, which argues that snus presents less risk of diseases like lung and oral cancer, is "an essential part of [its] strategy" and "could potentially be an important catalyst" for its snus in the U.S. The company's profits have slid over the last two years due to discount snus competition in Sweden. Swedish Match's chief scientist Lars-Erik Rutqvist noted that the "conversations with FDA are far better than with the EU," which bans snus sales except in Sweden, because "[i]n the EU it was all political, [but in] the FDA it has been about science."

...For the first time ever, CTP issued a **warning letter to a manufacturer** (King Mountain Tobacco Company Incorporated of White Swan, Washington) and placed two companies (Dk Distributors of Fort Lauderdale, Florida and Lit Distributor of Jacksonville, Florida) under an "import alert" for their reported failures to pay user fees to support FDA tobacco regulatory activities.

ON OTHER TOBACCO NEWS...

...Noting the increased likelihood of a Republican-controlled Congress giving U.S. President Obama fast-track negotiating authority on the **Trans-Pacific Partnership Agreement (TPPA)**, *Forbes* contributor John Brinkley says that when Congress drafts the fast-track bill, it could demand that the tobacco industry be excluded from TPPA's dispute settlement chapter. He argues that this is the right thing to do because there is "nothing good about tobacco," but that it will not happen because the industry "still has the power to strike fear into the hearts of lawmakers." Some, including Republican Senator Mitch McConnell of Kentucky, who is set to become the Senate majority leader, argue that the tobacco industry should not be discriminated against in the TPPA negotiations and that a tobacco "carve-out" would set a dangerous precedent.

...In Australia, where the sale of e-cigs containing nicotine is illegal, the Intergovernmental Committee on Drugs, which provides drug-related policy advice to ministers, is hiring consultants to develop a discussion paper on the marketing and use of electronic nicotine delivery systems. Work on the discussion paper is expected to start in February 2015, with the final document to be released within months afterward, and for consultants and ministers to discuss

regulatory options by the end of 2015.

...Writing in the *Journal of Law and Medicine*, Dr. Marilyn Krawitz of the University of Notre Dame Australia's School of Law in Fremantle, Western Australia called for legalizing the sale of e-cigs and regulating them under national law. She argued that the current ban on nicotine-containing e-cigs has led to uncontrolled purchases of poor quality devices from foreign websites, while depriving the government of tax revenue that would be generated if they were made and sold domestically.

...In China, the world's largest cigarette market, the State Council released the **Ordinance on Restricting Smoking in Public Spaces** in November for public consultation. The ban will outlaw smoking in all indoor and certain outdoor public places, require manufacturers to print written and graphic health warnings covering at least 50 percent of the surface area of tobacco product packs, curtail smoking scenes in movies and TV shows, and prohibit tobacco advertising, promotion and sponsorship.

...At its regular meeting on November 19, the Westminster, Massachusetts board of health voted 2-1 to drop its controversial proposal to ban the sale of all tobacco products and e-cigs to anyone regardless of age.

...Phoenix, Arizona-based cigar and pipe tobacco maker **Prime Time International** and its related companies said that it entered into

an asset purchase agreement with a new financial backer, which allows the company to finalize its exit from Chapter 11 bankruptcy. The company reported that it will "continue to operate its businesses in the ordinary course, and will emerge stronger and more competitive," as it implements "an aggressive 2015 trade plan."

ON THE CIGAR INDUSTRY...

...In what is reported to be the first study to examine **markers of health among cigar smokers** in the U.S., a study of 25,522 Americans led by FDA CTP epidemiologist Jiping Chen and published in *Cancer Epidemiology, Biomarkers & Prevention* reports that the amount of a carcinogen called NNAL in daily cigar smokers was as high as the level in daily cigarette smokers. Cigar smokers also reportedly had higher levels of cotinine, cadmium, lead and NNAL than nonsmokers, with those who stopped smoking cigarettes and picked up cigars having significantly higher levels of cotinine and NNAL. The findings suggest that cigar smokers may be breathing smoke particles into their lungs even when they think they are only puffing and not inhaling.

...If the **Cuban embargo is lifted** by Congress, the U.S. cigar industry may possibly fall under pressure from Cuban cigars. "It's a non-event at this point," says Dan Carr, CEO of General Cigar, who estimates that a

traveler could only bring in two Cuban cigars at the \$100 ceiling on legal purchases and not have the right to resell them. That equates to a small sum relative to the estimated \$6.7 billion U.S. cigar market. Imperial's sales of Cuban cigars globally brought in just \$43.9 million in net profits based on its global sales relationship with Cubatabaco. Under new trade normalization rules that President Obama announced after the U.S. and Cuba exchanged prisoners on December 17, licensed U.S. travelers to Cuba will be authorized to import \$400 worth of goods, including up to \$100 worth of tobacco products and alcohol combined.

...Greg Zimmerman, secretary of the **International Premium Cigar & Pipe Retail Association** and proprietor of The Tobacco Company, a Pennsylvania-based retailer, said the easing of the decades-long U.S. trade embargo on Cuba is "something that the industry has been looking for[ward to] for a lot of years." However, he added, "there will be a lot of legal battles ahead" over old trademarks from Cuba that are no longer exclusive to the island, as cigar makers expropriated by Fidel Castro in the 1950s and early 1960s continued to use their trademarks on cigars made with tobacco they started growing in the Dominican Republic and other countries, creating a situation where the same cigar marks are produced in both Cuba and elsewhere. **TBI**

Vaping Market: Where We Stand

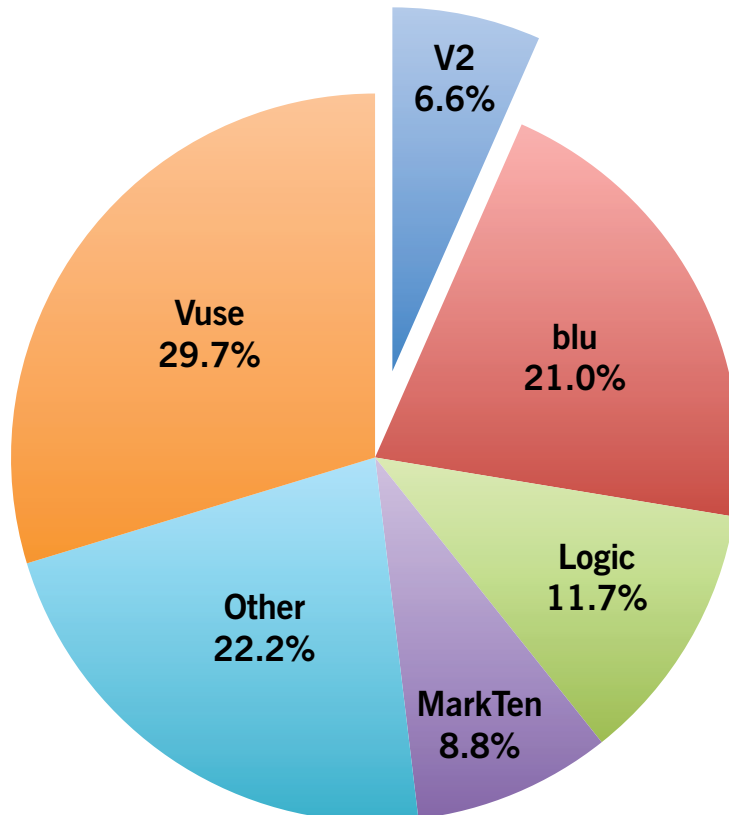
To make the most of the opportunity that vapor products represent, retailers will need to adapt with this growing category.

When change is coming fast and furious, as it is in the vapor industry, it can be hard to keep up. However, retailers who make the effort to invest, and invest well, in meeting the needs of the rapidly changing vapor market will likely reap the benefits in the years to come. As David Sweanor told attendees of Wells Fargo's recent conference on the category, "At least one person in

this room will become a billionaire because of this product; we just don't know who yet."

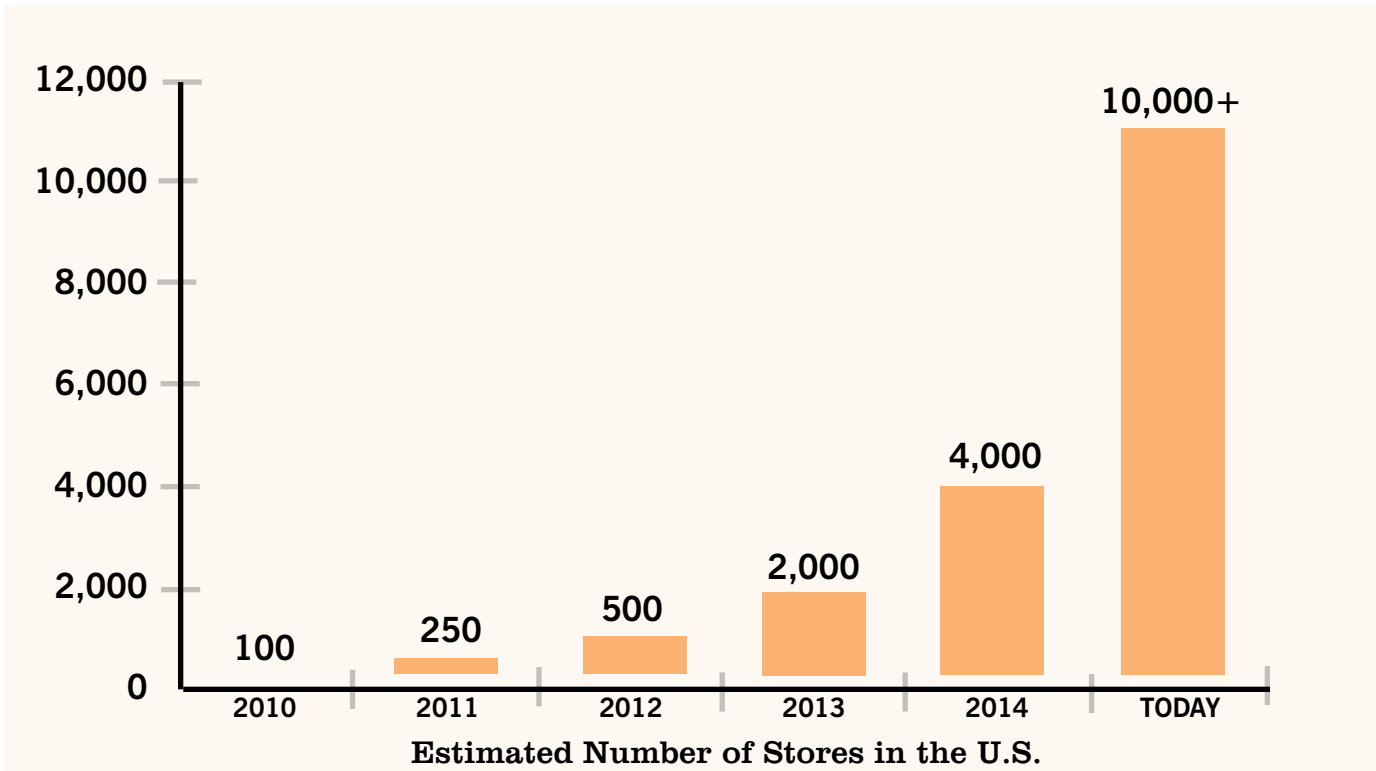
Of course, smart investors always do their homework, which means staying current on the latest industry developments. *TBI* hopes that the charts and statistics below may help you chart a course for the vapor category in your store. **TBI**

U.S. Retail Market Share Snapshot
(October 2014)



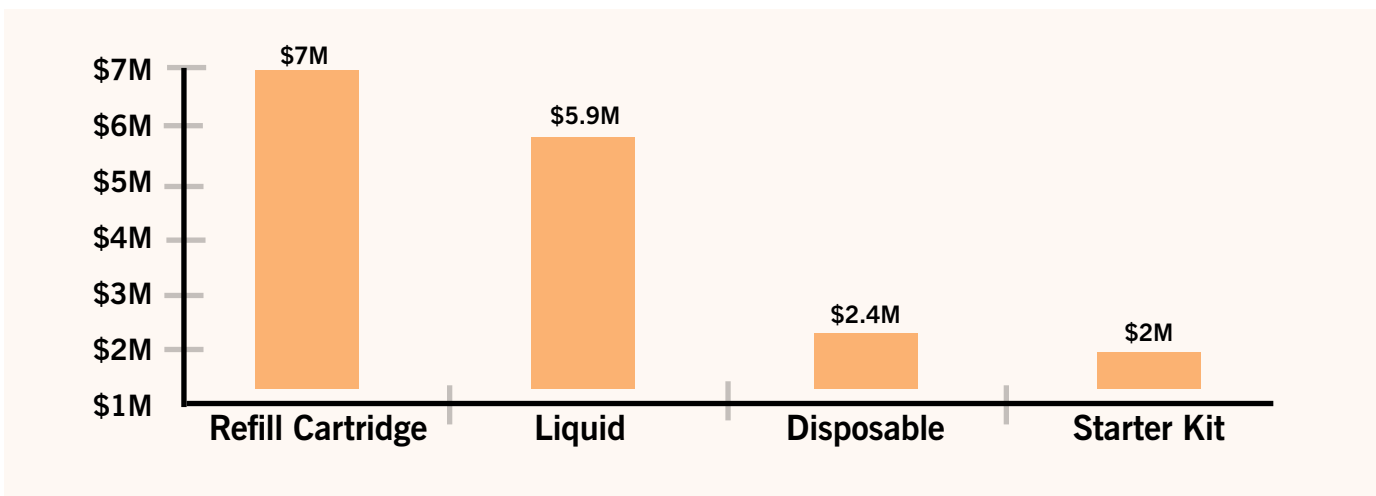
Market share continues to shift, but powerful brands like V2, blu, Logic, MarkTen and Vuse still dominate.

Vape Shops: A Growing Retail Channel



Tobacco outlets will need to find ways to compete with the growing vape shop retail channel—or to get into the vapor-only retail game themselves.

Sales Volume by Vape Category (As of June 2014)



E-liquid, once virtually nonexistent, is taking a growing share of the vapor market.

CIGAR SENSE



Catering to a New Cigar Generation

Aromas in Jacksonville, Florida stakes its claim as the largest smoking lounge south of Philadelphia. Here's how it went beyond selling stogies to old fogies, capturing a "premier nightlife" personality.

By Renée Covino



If you take away only one thing after visiting Aromas cigar lounge in Jacksonville, Florida, it will be this: the cigar lifestyle is alive and well with young adults/the young at heart in northern Florida.

"This is not your father's cigar bar," Aromas Cigars, Wine & Martini Bar proudly bellows on its website. In business since 2003, expanding with a liquor license in 2006, and doubling its square footage to 4,800 in 2008, Aromas flags its place on the stogie map as "the largest cigar bar in the southern United States," meaning south of Philadelphia, according to Marshall Gray, retail manager.

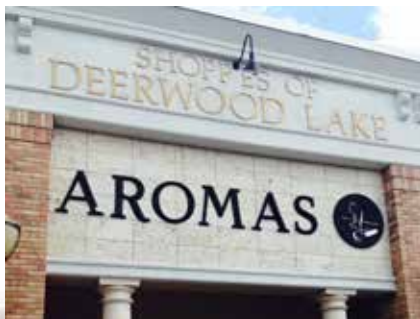
While its size is impressive, that is secondary to its constantly evolving effort to "stay ahead of the cigar curve,"

as Gray puts it, and to keep a new cigar generation on its toes, literally (there is now a dance floor at Aromas, one of the many experiences it offers customers).

When it opened in 2003, Aromas only offered beer and wine and the crowd was older, with a lot of "power smoking" going on, according to Gray. Then, after it got its liquor license and could take over the entire building in an upscale retail shopping plaza in southside Jacksonville, "We could see the crowd getting younger and it evolved more into selling a cigar lifestyle and cigar-related experiences," he explains.

So Aromas Cigars, Wine & Martini Bar is now a culmination of multiple distinct operations and experiences, all working in unison to bring the customer the ultimate in what it calls the "tobacciana lifestyle."

CIGAR SENSE



First, the Aromas main bar (which often highlights live musicians on stage) features more than 100 vodkas, over 50 tequilas, 50 scotch and whiskey selections and nearly 150 rums.

Close by is the humidor, or what Aromas refers to as the “tobacco mecca,” boasting brands such as Opus X, Diamond Crown, Ashton, Arturo Fuente, Graycliff, Romeo y Julieta, as well as top brands from General Cigar and Altadis.

The wine cellar, next to the humidor, features more than 300 wine varieties with vintages dating back to the 1960s.

All of that is present in the first room alone under the Aromas roof.

A private room is reserved for the members of Club Robusto, Aromas’ cigar club. Club members utilize their electronic key fob to access entry to a cigar oasis of stone flooring, plush leather seating, membership humidor lockers and a private bar boasting Louie XIII, Deleon Anejo Tequila and other \$100-plus-per-shot adult beverages.

Just beyond Club Robusto, the Beer House at Aromas provides customers with more than 200 beers to choose from, ranging from local brewery selections to unique beers from all parts of the world. The Beer House features a unique LED-lit ice bar: a six-inch-wide flume of ice flowing down the full length of the bar,

meant for patrons to set their frosty adult beverage upon.

The Beer House opens up to the Ultra-Lounge, featuring a laser light show on the dance floor and a thumping sound system, as well as couch seating with coffee tables, go-go dancers and an old-school-nightclub light and fog effect.

Aromas even has three distinct outdoor seating areas for customers to kick back and relax.

But an expanded building with distinct venues is not solely how Aromas has stayed vibrant with a vibrant cigar generation. Here are some of the merchandising and marketing ways in which Aromas appeals to its hip, ever-evolving cigar clientele:

Big, Bad Ring Gauges—It used to be that 60-ring-gauge cigars were the biggest ones that Aromas would carry—“Then we caught on to the trend emerging in massive cigars,” Gray tells *Tobacco Business International*. So now it carries cigars like CAO’s 80x6—“a beast,” as Gray refers to it. He also mentions stocking a lot of 7x70 cigars from Drew Estate.

Females = Flavors—Aromas expanded its flavor line specifically for its female clientele, which is steadily increasing in size, says Gray. “Now we have almost the complete Acid line, we have Javas from Rocky Patel, CAO flavored lines...and we take flavored requests. Basically we

are catering more to the ladies with a nice assortment of flavored cigars,” he adds.

Beefing up Boutiques—Aromas is continually expanding its smaller boutique lines so that it’s not all about “the 800-pound gorillas in the humidor,” he tells *TBI*. “We want to support the little guys, too, plus we get customers now at least once a day who come in specifically looking for what’s new and asking what ‘interesting’ cigars we brought them. I sell a ton of Montecristos and a ton of Romeos and those big brands are always good to us, but there is definitely more of a calling now for boutique cigars to satisfy on-trend customers,” Gray relays.

Perfect Pairings—Aromas is in the process of developing a cigar/liquor pairing menu. “We are taking influence from Corona [Cigar Company] in Orlando,” Gray maintains. He mentions that even without the menu, Aromas has done well pairing Quesada cigars with Oktoberfest beers and Kentucky Fire-Cured cigars with smokier scotches. “A general pairing rule of thumb is that the shade of tobacco on the cigar should match the color of the drink. So a real dark, oily cigar and white wine is never going to taste good,” Gray offers. “Of course, my general rule is ‘drink what you like, smoke what you like and have a good time.’ But we are recognizing that a pairing menu would satisfy a lot of

good customers now.”

Stogie Fest!—Aromas loves its events, but its biggest multi-vendor event that is gaining traction and attraction is Stogie Fest held in early March. It pairs up local liquor distributors with a bunch of different cigar vendors, charging \$50 for regular admission and \$75 for VIP admission, the latter including a party the night before in Club Robusto, an earlier admission time the day of the event, plus bigger samples and better deals, according to Gray. The event includes live music, a barbeque grill, samplings and tastings all under a 1,200-square-foot tent that is set up in the parking lot.

“The event brings in new customers and exposes more people to the cigar aficionado lifestyle,” says Gray. “It’s an excellent sales event for us and our vendors, and it’s so good to see the vendors get together all in good fun and good nature. In this industry, all of the local reps from the different companies know one another and everyone is friendly and gets along with one another. Generally speaking, it’s a very happy industry, which is also good for business and the event.”

Drinking Trends—Aromas tries to stay ahead of the drinking curve, as well as the cigar curve, because the two go hand-in-hand when it comes to the cigar lounge concept. Right now, “The bourbon industry is exploding—there are actually bourbon shortages,” says Gray. “We try to see that coming and then increase our offering. Right now, that means increasing our bourbon offering and even going back to classic cocktails somewhat...[like] Manhattans and Martinis. We are paying homage to the past because that’s what’s working in drinking trends lately.”

All Smokers Welcome—Along with trend awareness comes open acceptance, especially for all smokers, who nowadays do not have much choice when it comes to places to smoke. And so, Aromas does not discriminate against cigarette smokers just because it is bannered a “cigar lounge.” According to Gray, “We try to accommodate all smokers; we even have hookah smokers in here.”

MEMBERS ONLY

Part of running a hip cigar lounge is running a hip cigar club that makes members feel pretty special with exclusive deals and privileges. Aromas customers looking for an ultra cigar experience are invited to join the iconic store’s Club Robusto (currently 80 members strong) through two types of membership:

- **The Corporate plan for \$2500:** membership for up to five people of the same corporation with a renewal fee based on current membership rates. Corporate memberships may take advantage of corporate monthly billing and are allowed three free guest passes per member per month.

- **The Individual plan for \$1200:** membership for one person with a renewal fee based on the same current membership rates. Individual members are billed annually and are allowed two free guest passes per month.

Membership of Club Robusto includes:

- Full access to all Club Robusto locations
- Humidified private cigar locker with engraved nameplate
- Ten-percent discount on all purchases (excluding sale items)
- Access to subscriptions of *Cigar Aficionado*
- Use of Club Robusto for meetings or events
- Guest privileges (free passes per month)
- Private cigar, wine and spirit tastings
- Weekly poker tournament for members and their guests
- No cover charge for members and one guest
- First option for sponsorship at the Aromas Charity Golf Tournament
- Invitation to the annual private party for members
- Calendar of outstanding events
- Free cigar each month



Entertainers at Heart—“Let us entertain you,” is Aromas’ unspoken motto. In addition to the typical comfortable couches and TVs tuned to sports channels that most cigar lounges offer, the iconic store/bar also features waitresses dressed in what Gray calls “traditional cocktail attire: fishnets and corsets,” as well as a dance floor with DJ-manned music and even free dance instruction on Sundays. “We capture folks that want to dance and the ones that don’t want to get up at all—and everyone in between,” Gray says.

EXPANSION ITCH

So with all this evolution and entertainment, can Aromas expand even further? Physically in its current Jacksonville location, the answer is no, according to Gray. “Other than outdoor seating, there’s nowhere else to go here,” he says. “But we are always looking for opportunities to grow the business elsewhere—another store in the same city, another store somewhere else...we are always putting our feelers out there.” **TBI**

Pipe Popularity *Offers* Potential

More young people are taking up pipe smoking.

By Erik Stokkebye

According to an October 2014 report by ABC News, pipe smoking is becoming increasingly popular among young adults. The media outlet said that pipes are shedding their stodgy image and attracting the same hipsters who appreciate specialized coffees, artisanal cheese and microbrew beers—and they are now trending toward higher-end tobaccos.

I believe it! This year I have held 35 to 40 pipe events across the country, and I see young guys coming in wanting to learn how to smoke a pipe or reporting that they started a few months ago. This is definitely a trend. I can think of a few possible reasons for their interest. Young people probably like the social aspect of pipe smoking—getting together in groups and chatting about the blends and pipes. Another reason could be that their grandfathers smoked pipes and their memories of these pipe-smoking relatives could make it a cool retro thing to do. Finally, pipe smoking is still a reasonably inexpensive way to enjoy a

smoke, once you get past the initial pipe purchase.

In any event, after a steeply declining trend of pipe smoking, it's good to see a bit of the reverse trending. The younger pipe-smoking adult is probably not a hard puffer with several bowls a day, but rather an occasional smoker when the time and place are right, such as at a social gathering.

I also think that these young men will not look to buy their tobacco and pipes in mass-market outlets, but will rather look to tobacconist shops for guidance and meaningful help when starting out.

This, of course, represents an opportunity for the tobacconist stores to excel as experts in the category. For that reason, it's important to have a “pipe guy” behind the counter who can steer this customer in the right direction, and to have a proper assortment of tobaccos and pipes.

Don't miss out on this potential opportunity.

Cheers!



Handling the Vape Shop Heat

By Renée Covino

Traditional tobacco stores have a variety of opinions and strategies regarding their vape shop competition.

Ouch! The heat from vape shops is on for tobacco outlets and smoke shops that are dabbling (or more) in the e-vapor arena. While some consider it a temporary force of doing tobacco business today, others see it as a serious threat. Still more don't quite know what to think, so various strategies are emerging and evolving.

Generally speaking, vape shops appear to be winning in assortment and education, while traditional tobacco shops have a more successful stake in desirable price points and brand-name recognition. However, tobacco outlets are soaking up the vape knowledge as fast as they can, and some are already testing the vape-only concept themselves.

Here are some competitive vapor views, as reported from a few chains in the traditional tobacco channel:

On the "Hard to Compete" Side: Delta Distributors, dba Discount Tobacco Outlet based in Andalusia, Alabama, finds itself competing with vape shops in "certain highly populated markets," reports Chris Jones, director of operations. "We have seen growth decline [in the e-vapor category] in those markets; it is still growing, but not as much," he says. "We have found

it hard to compete with those places as they are more set up to let customers sample and also repair devices and purchase replacement parts for devices." Furthermore, the chain has been struggling to allocate the category space and knowledge needed while being able to provide the same level of service to its traditional tobacco customers.

On the "Bad Business Model" Side: Despite all of this, Discount Tobacco Outlet is keeping a positive outlook because from Jones' perspective, vape shops are "a temporary business model that will eventually go away" with increased government regulation. "We have found a lot of these places are mixing up their own liquids, essentially acting as a lab, and with most of them being single-store operators with low investment, they are willing to risk the liability that goes along with this," he tells *Tobacco Business International (TBI)*.

On the "Question Mark" Side: Tobacco Outlet Plus (Kwik Trip), based in LaCross, Wisconsin, is holding its ground and observing the new vape shop channel for the moment. "They are hard to compete against because they have so much more to offer and a better knowledge of the product," notes



Terry Schmitz, zone leader. His stores mostly sell “Big Tobacco” e-cigs, and mostly through coupons. “We just this last year got into the vape business, so I can’t say we are losing business to the vape shops,” Schmitz admits. “We are learning, and this is the hard part of the business—there are so many new products and so many new terms to learn.”

On the “Challenging” Side: The e-vapor focus at Klafter’s in New Castle, Pennsylvania has been about trying to grow the category within the story in a “manageable fashion,” says Randy Silverman, president. “The challenges are to determine the brands and items we carry, to ensure that we have adequate stock and to educate our salesforce,” he tells *TBI*. “We believe that we can be extremely competitive with vape-only shops both on price point and selection.” It is hard for Klafter’s to quantify whether it is losing volume to vape shops since the category continues to grow, Silverman reports. He observes that “Due to the newness of the category, it is still evolving, and the customer base seems to shop in multiple stores looking for new products.”

On the “If You Can’t Beat ‘Em, Join ‘Em” Side: After watching closely, Klafter’s saw some logic in joining the vapor shop competition with a store of its own: last April it opened a vapor-only store next to one of its existing stores in Erie, Pennsylvania. The new shop is bannered as “vapor friendly.”

“Our goal was to see whether we could create a standalone business,” says Silverman. He reports a “steady growth” in the store since it opened. Nevertheless, there are challenges, and they are not too different from those faced by traditional tobacco stores: keeping up with the constantly changing technology, managing the diverse brands of juices and maintaining a knowledgeable staff, he explains.

“Like the premium cigar category, vapor consumers are very passionate about vaping and expect more from the sales staff than they may get from a typical tobacco outlet,” Silverman reports. “However, tobacco outlets still have great opportunity for sales in the vapor category.”

And so, during the new year, Klafter’s will continue to look for other locations for standalone vapor stores, while also expanding the vapor category in its

existing tobacco outlet stores.

On the “Joining From a Different Angle” Side: Puff Super Value in Mill Hall, Pennsylvania is another traditional tobacco store that has already made the leap into vape-only, albeit from a more conservative stance. “We have one shop set up partially as a vape-only shop; it is attached to our tobacco shop in another room,” explains Brad Mahoney, partner in the business alongside his father, Paul. “We wanted to experiment with the idea but we will not go vape-only entirely because you never know what may happen with government regulation,” he says. “Besides, diversity brings in more consumers.”

On the “Customer Base” Side: While Mahoney believes his traditional stores compete against vape-only shops, he is confident that the customer base is distinct. “I think we mostly get customers that want to convert or supplement their cigarette habit,” he says. “We don’t cater to the people looking to build their own mods and the ones that have a really advanced knowledge of vapor. We have so many more products than a vape shop, so we are more for the beginner vaper.” **TBI**



Takeaways From the 2014 E-Cig Forum

Held by Wells Fargo, November's vapor industry conference drew dozens of executives and investors.

From the FDA's proposed deeming regulations to the growth of vapor product sales and a shift from cig-alikes to vapor/tanks/mods (VTMs), the topics of discussion at this year's vapor industry conference were many and varied. Wells Fargo's Bonnie Herzog led off the meeting, noting that her research estimates that the retail vapor industry topped \$2.5 billion in 2014, a jump of about 40 percent from last year's \$1.8 billion.

Herzog also noted that while there has been merger and acquisition activity in the sector, the industry still boasts hundreds of companies competing in the U.S. and globally. "We expect consolidation to continue as compliance costs increase and as the category continues to be embraced by entrepreneurs and Big Tobacco," she told attendees.

READY, SET...INNOVATE

Representatives from both factions who participated in the event noted that innovation will play a big role in driving the industry's growth. Representatives

from pure-play vapor companies like Logic and Mystic, which established themselves as leading brands relatively early on, discussed launching innovative products to keep up with the evolving category.

"With our new Logic Pro Advanced Vapor Systems, we have really rounded out our portfolio," Miguel Martin, president of Logic, told attendees. "When we looked at the landscape of open-system [vapor devices], it was important to us that we give consumers not what everyone else had, but where we believe they are going."

Making the Logic Pro system compatible only with the company's pre-filled, vacuum-sealed, e-liquid, disposable capsules enables the company to ensure quality and consistency, explained Martin. "As we progress in this regulatory environment, we think that having this type of composition and construction versus loose liquid will be very important."

Mistic, which already offers the Mistic and Haus lines, is also in the process of introducing a new product, noted Todd Millard, COO. After early success with its electronic cigarette line, Mistic broke into the personal vaporizer product

market with the launch of Haus in April of 2014. Now the company has a new debut.

"We placed a big bet on open systems and now the next bet we are placing is the Mistic Bridge, a transition from a full vapor unit to a cig-alike unit," explains Millard. As the name suggests, Mistic Bridge is meant to fall somewhere between the company's e-cigarette (Mistic) and personal vaporizer product (Haus) on the vaping device spectrum. It is a refillable tank, similar to those used in personal vaporizers, but which fits onto cig-alike batteries like a cartridge.

"You can put whatever liquid you want in there," says Millard, who says the device will retail for \$14.99. "If you are a Mistic consumer you can continue to choose to buy Mistic e-liquid...or not. This is a consumer need that is not being met. The Mistic Bridge is compatible with existing products like blu and MarkTen."

The product represents a departure from the traditional "razor blade" model that most e-cigarettes rely on—selling a device at cost or near-cost with the hope of capturing a repeat customer for blades, or, in this case, cartridges.

Both Logic and Mystic are pure-play



Joe Murillo, president of Altria's Nu Mark LLC



Counterfactual Consulting and Advocacy's Clive Bates



Wells Fargo's Bonnie Herzog welcomes Murillo



Herzog with Miguel Martin, president of Logic



International Vapor's Nick Molina

vaping product company—a distinction that Martin feels may afford a competitive edge when regulation hits. “We have no legacy risks,” he points out. “We do not run television and radio ads, nor print ads outside of trade publications, and we don’t do any sampling. Our business model is not predicated on any practices that I think will come under pressure from regulatory authorities.”

BIG TOBACCO ENTERS THE FRAY

Joe Murillo, president of Altria Group’s NuMark, argued that it is Big Tobacco that will have the edge in the vaping category’s future. “We have been able to immediately take advantage of our parent company’s supply chain, as well as some of their product technology,” noted Murillo, who likened the current competitive field as akin to the first or second inning of a baseball game. “Altria has leadership in each tobacco category in which it operates and we expect to do nothing less at NuMark, but it will take time. Consumers are still choosing and making tradeoffs, in terms of products—nothing is quite hitting the mark yet in terms of taste, performance and battery quality. The channels are still working themselves out and regulation is only at the beginning.”

Murillo also expressed hope that research efforts will yield significant product improvements in the near future. “I have worked on any number of new products at Altria, a number of which we were hopeful would be reduced-exposure products,” he says. “During all of that time, I have never seen consumers adopt or be interested in a product the way they are in vapor. The bottom line is that we are in investment mode, trying different things, hearing from retailers and consumers, and formulating a plan. Having a robust pipeline is essential.”

Brice O’Brien, EVP of Vuse, agreed that innovation will be key, noting that consumer interest in alternatives to traditional cigarettes has been swelling. “Back when we started to explore things like ‘heat-not-burn’ we got a lot of interest, but consumers just weren’t ready to make the tradeoff,” he says, referring to early research and development efforts by parent company R.J. Reynolds that resulted in the failed launch of its Eclipse product. “Taste satisfaction, consistency, [and] reliability were all showstoppers for consumers. We knew the products had to change. We needed to design a product that was satisfying and simple and easy to use.”

Since Eclipse’s demise, however, consumer demand for alternative products has grown and research has progressed. As a result, Reynolds has announced plans to introduce a new heat-not-burn product, dubbed Revo, in February. The product, which uses a carbon tip that heats tobacco after being lit, will retail for about \$6, says O’Brien.

When asked about the future potential of open-system vaping, O’Brien expressed concerns about the safety of products that require consumers to handle liquid nicotine. “I think of them as exposed nicotine systems,” he says. “Using an e-juice that contains nicotine brings issues like poisoning, ease of use and tampering into play. We chose a number of years ago to go with a closed system, one that is tamperproof and that uses proprietary technology that only works with Vuse.”

By the end of this information-packed event, one thing was clear: at this stage of the vapor industry’s growth trajectory, no one can be certain what the vapor devices of the future will look like. However, everyone in the vapor space is doing his or her utmost to find out. The bottom line? It will be an interesting year! **TBI**

2014 REWIND/ 2015 FAST FORWARD

By Renée M. Covino

FROM


TBI'S TOP 50
TOBACCO OUTLETS

2014



2015





***Tobacco Business International* announces its industry's Top 50 retailers, some of which press the replay button on their 2014 business issues, as well as jump ahead to their 2015 perspectives.**

Reflecting back can often facilitate moving ahead. As 2014 came to a close, top tobacco outlet retailers did both, providing insight regarding last year's positive and negative business issues, which, in turn, led to forging forward with ideas and expectations for this new year.

Generally speaking, the vapor category and government intervention were the most commonly mentioned topics (positive and negative, respectively) of the year, with each retailer putting their own individual business spin on those and a variety of other top-of-mind issues.

Here are some "rewind" and "fast-forward" viewpoints from top-level tobacco retailers that range in size from seven stores to more than 120.

2014'S POSITIVE MOJO

What was the best news/business issue top players had all year?

As expected, many mentioned the growth of the vapor category, including Brad Mahoney, partner (along with his dad, Paul) of Puff Super Value based in Mill Hall, Pennsylvania, now with 16 stores. "We remodeled most stores to fit a larger variety of vapor products," he reports. "Although, we didn't change our focus totally away from the core tobacco products in case of vapor regulation."

Wild Bill's Tobacco with 56 stores in Clawson, Michigan also made room for vapor growth, which was part of its overall chain growth. "We improved our business in 2014 by expanding eight stores—some doubled and even tripled in

TOP 50

size—by taking over the empty units next door,” explains Justin Samona, director of operations. “Our ‘superstores’ have allowed us to put [in] additional registers for quicker checkout lanes. With the bigger stores, we are able to increase the size of our walk-in humidors and add a cigar lounge.”

And as far as the vapes go, Wild Bill’s launched three ‘Mr. Vapors’ inside select stores; Samona reports that his company’s “Mr. Vapor section of the store is now just as good, if not better, than any specialty vape shop in the country.” (See Electric Alley for more on how traditional tobacco outlets are competing in the vape category.)

Since Wild Bill’s does not just sell vape products, it is able to offer juices and hardware brands such as Innokin, Smoktech and Kanger at much cheaper prices than a specialty vape shop, Samona reports. “We offer our customers only authentic pieces and only American-made liquids,” he says. “We have also partnered up with some of the best boutique juice brands to have their product sold exclusively at Wild Bill’s, giving us a great competitive advantage over vape shops.” All staff members have also gone through extensive training programs specifically dedicated to electronic cigarette products. “Having a knowledgeable staff is key to retaining existing customers and gaining new ones in any business,” Samona adds. “For these reasons, we have not and will not lose market share to any vape shop,” he opines.

Beyond the positive vibes surrounding vapor, Tobacco Central dba Low Bob’s based in South Bend, Indiana with 122 stores, was very excited to kick off its Low Bob’s Loyalty Reward Program, “and the customers shared in our excitement,” according to Frank Davoli, director of marketing. “What a great way to show our appreciation to our loyal customers,” he tells *TBI*.

Hi Times Liquor Mart/Smoker’s Outlets

in McCook, Nebraska with seven stores enjoyed converting many of its tobacco shops into a convenience store business model/layout. “We have been adding liquor, alcohol and wine into our previous tobacco outlets to entice more customers to shop at our stores,” says Nick Nothnagel, president and owner. “And that’s not only beer, wine and liquor, but actually offering an expanded selection of snacks, drinks and daily consumer-needed products as well. The products that are helping us grow are value-added products that people can purchase with their tobacco needs.”

2014’S CHALLENGING MOMENTS

On the flip side of the coin, there was plenty that kept our industry’s top players awake at night last year.

“As always, the legislative front,” was Davoli’s most concerning issue for 2014. He defined this as “unfair taxation on e-cig and vape products, including smoking bans and advertising restrictions. We must continue to be vigilant and fight for our rights,” he says.

Nothnagel got a bit more specific, although he shared the same sentiment. “The most concerning issue for me as a tobacconist and entrepreneur purchasing and selling tobacco is the overabundance of government regulation in selling tobacco to adult consumers. I run a legitimate wholesale and retail operation purchasing many forms of tobacco—my business model is aimed at selling adult products to informed adults,” he says. “That being said, government regulation on smoking and/or consuming a legal tobacco product is becoming more and more illogical.”

The thing he fears the most is the government taxing legal products and regulating adult consumers. “Tobacco will try to be taxed to death, but this will only fuel black markets on cigarettes and state ‘border jumping’ that will deplete state tax

“WE WILL
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OUR CUSTOMERS.”

TOP 50

budgets,” he says. “Those state tax budget shortfalls will only increase the state tax budget for the next year on cigarettes and tobacco, leading to yet another state tax budget shortfall. A never-ending cycle is spinning due to illogical ideas at the state level where no one really knows how to run a business or even a budget.”

The Affordable Care Act (also known as “Obamacare”) and increased taxes

were also on Mahoney’s list of bad and potentially bad news.

Thinking about the challenges of the vapor category and specifically, how e-juices are being manufactured, is a top-of-mind concern for Phil Metzinger, vice president of specialty beverage and tobacco operations for Brookshire Brothers (Tobacco Barn) based in Lufkin, Texas with 48 stores. “What are the standards

that must be met? I am very concerned about the large group of people making e-juice in their kitchen sinks and then packaging and selling it,” he tells *TBI*. “This is a huge liability to the industry.”

And as good as vape products were for retailers like Tobacco Outlet Plus (Kwik Trip) in La Cross, Wisconsin, with 39 stores, there is still the challenge of keeping up with the “ever-changing products,” according to Terry Schmitz, zone leader. Still, “the loss of the cigarette business—it just keeps declining and it’s hard to fill that void,” remains his biggest concern.

A totally different void is being felt by Delta Distributors, dba Discount Tobacco Outlet based in Andalusia, Alabama, with 21 stores. “My most concerning issue was having to eliminate our UST contract because we could not merchandise chewing tobacco in the storefront that was accessible to customers, even though we are an ‘adult only’ facility,” explains Chris Jones, director of operations. “Moving this category behind the counter was impossible considering the size of our set, plus we feel we lose our core principal as a tobacco store if basically every product we carry is placed behind the counter.”

But that’s not to say he doesn’t struggle with e-cigs and vapes, too, which are out in front. “We are also having to evolve with the growth of the vapor category in adding new brands/SKUs, which is causing a space issue in our stores,” says Jones. “We are also trying to figure out how to properly merchandise this category so that it is all in one space in the store and not on separate racks, which takes up counter space. The different sizes and the many new SKUs that are coming out every day have made it hard to come up with a dedicated fixture for this category.”

And amidst all these legislative and category woes, there was only one retailer who mentioned an obvious foe in 2014: competition. “With discount dollar stores bringing in tobacco, combined with most

QUICK CATEGORY TAKES

Some of TBI’s Top 50 players were asked to “think quickly” and name a word or phrase that, in their mind, currently summarizes key categories in the market best. Here are a few of their off-the-cuff responses:

Cigarettes—“maintain the decline,” “declining business,” “still the bread and butter in profitability,” “Marlboro,” “declining,” “key”

Smokeless Tobacco—“a good customer driver,” “steady to growing,” “growing,” “U.S. Tobacco,” “steady,” “growth”

E-Cigarettes—“in a state of flux,” “a declining category,” “opportunity,” “blu,” “changing trends,” “evolving”

Vapes—“constantly evolving,” “an exciting category with many new changes, but I love the excitement of the category,” “stay on top of it,” “Lotus,” “rapidly expanding,” “questions”

Premium Cigars—“continued growth, but too many brands,” “still a good business, but doing business in the northern states...there have been some tough winters lately and [thus] causing a decline,” “variety and presentation are the keys to success,” “PK Cigar,” “niche,” “strong”

Non-Premium Cigars—“my cigarillo prediction: 9 for 99 cents,” “the b/2 and b/3 are great, but no GP [gross profit] margin for the retail stores,” “increasing sales at the cost of reducing gross profit,” “Global Tobacco,” “seasonal,” “hope to see stabilization”

RYO Tubes, Tobacco and Little Machines—“still a very strong category,” “still a good category and will be for some time,” “very strong,” “Republic Tobacco,” “evolving,” “still kicking”

Hookahs—“more of a niche category,” “just investigating the category, but looks to be very interesting, and at the same time, spooky,” “steady growth,” “Haze,” “geographical,” “no”

Pipes—“requires more product knowledge,” “do well with pipes, but not our forte,” “flat,” “Yellow-Bole,” “slow growth,” “no”

Tobacco Accessories—“not one of my favorites, but still important,” “OK, but could be better,” “many opportunities exist—great GP driver,” “Santa Clara,” “minimal,” “growth”

TOP 50

retailers selling cigarettes at lower prices due to manufacturer programs, the level of competition noticeably increased in 2014,” reports Randy Silverman, president of New Castle, Pennsylvania-based Klafter’s, with 15 stores.

THROUGH THE 2015 LOOKING GLASS

While no tobacco outlet retailer is equipped with a crystal ball, plenty have envisioned good, bad and indifferent business outlooks for 2015.

Davoli is one who is looking forward to a great year, expecting continued growth and increased market share, although he does anticipate increased costs in health care and insurance.

Mahoney agrees and recognizes his Puff Super Value business is “right on the employee threshold number of Obamacare, which is an obvious cost increase,” he says. “The cost increase is concerning for small

business owners of 50 or 60 employees because it is such a large number. The government still hasn’t exactly laid down the final plan, so we are waiting around to see where we stand with Obamacare.”

Positively speaking, Mahoney believes his business will continue to grow in 2015, especially in the e-cig/vapor category. His biggest fear is the state/federal government imposing new taxes and new regulations on vapers. “But the good news is, our industry always adapts to government regulations and taxes,” he tells *TBI*.

Wild Bill’s plans to continue to test the waters of its Mr. Vapors section, adding it in three to five stores in 2015. “We will continue to add vape lounges and have monthly vaping contests and sales,” says Samona. “We are creating a true vaping experience for our customers.”

Nothnagel has very little interest in R.J. Reynolds (RJR) for 2015; in fact, he has eliminated RJR products in all locations.

“Their new EDLP program is not a fit for my retail sites,” he says. “We are a tobacco outlet, and being competitive and selling products to adult consumers at the lowest prices available is exactly what we do. RJR wants us to raise the prices to a Pall Mall and compete with their brand, thus cutting our maximum opportunity cost and profit.” His wish is that R.J. Reynolds will become a retail business partner of his again, but for 2015 he is not holding his breath.

Meanwhile, Metzinger has a positive Big Tobacco outlook for 2015. “The contract structure for Philip Morris has opportunities for growth—cigarettes still drive the train,” he tells *TBI*. “Introduction of limited-risk products in 2015 may be a game changer,” he adds.

Generally speaking, “There are so many entities against the tobacco business that we have to fight and stand up to,” rallies Schmitz. “But we the tobacco business will survive, we just need to be willing to make many changes and understand that we have to adapt to whatever happens in the market.”

Instead of looking through a crystal ball, Silverman has pressing industry questions on his mind. He feels the answers to them might possibly shape the year, namely:

- How will the FDA handle the spectrum of nicotine issue?
- How will the merger of RJR and Lorillard impact RJR’s contracts and the other manufacturers?
- What will Imperial Tobacco (Commonwealth/Altadis) do with the brands they are acquiring?
- Will individual counties and/or cities be able to enact their own excise taxes similarly to how Philadelphia instituted a \$20 per-carton tax to fund its schools?
- Will major manufacturers continue to offer programs to drive the retailers’ margins down?

Only time—the months of 2015 and perhaps beyond—will tell. **TBI**

TOP-TO-TOP COMPARISON

Compared to 2014’s list, here’s how the tobacco outlet industry’s Top 50 chains add up for 2015:

- In 2015’s list there are 2,265 total stores, versus 2,223 total stores in 2014’s list, a slight increase of nearly two percent (which is in keeping with last year’s increase and the prior year’s increase)
- No chain is new to this year’s list, although some chains’ places have shifted
- 15 chains (30 percent) have increased their store count by at least one store since the 2013 survey; six (12 percent) have increased by more than one store
- Nine chains (18 percent) saw store declines; six (12 percent) reduced their count by only one store
- 26 chains (52 percent) have stayed the same in store count
- 82 percent of *TBI* Top 50 chains have either kept a consistent store count or increased it; this is down more than 10 percent from last year’s 94 percent

THE 2015 *TBI* TOP 50 ROSTER

THE TOP 50 TOBACCO OUTLET CHAINS OF THE YEAR, BY STORE COUNT (AS OF 12/31/14):

- **Smoker Friendly International**, Boulder, Colorado; 850 total authorized dealer locations, 86 of them company-owned under The Cigarette Store Corporation
- **Admiral Discount Tobacco**, Coopersville, Michigan; 173 stores
- ***Tobacco Central dba Low Bob's**, South Bend, Indiana; 122 stores
- **Tobacco Superstores Incorporated**, Forrest City, Arkansas; 87 stores
- **Wild Bill's Tobacco**, Clawson, Michigan; 56 stores
- **Smokers Choice**, Rock Hill, New York; 53 stores
- **Discount Smoke Shops**, St. Louis, Missouri; 50 stores
- ***Brookshire Brothers (Tobacco Barn)**, Lufkin, Texas; 48 stores
- ***Tobacco Connection/Big Smoke**, Nampa, Idaho; 48 stores
- **Cheap Tobacco**, Cincinnati, Ohio; 44 stores
- ***NBS Incorporated**, Parkersburg, West Virginia; 40 stores
- **Kwik Trip (Tobacco Outlet Plus)**, LaCross, Wisconsin; 39 stores
- **Smokin' Joes**, Waymart, Pennsylvania; 31 stores
- **Smoke Shop Incorporated**, Dyer, Indiana; 29 stores
- ***CLTS Incorporated/Dot Discount/Cigarette City**, Newark, Delaware; 27 stores
- ***Collett Enterprises Incorporated**, Seymour, Indiana; 27 stores
- **Tobacco Plus Discount Outlet**, Crowley, Louisiana; 22 stores
- **A&K Wholesale (Discount Tobacco Outlets)**, Murfreesboro, Tennessee; 22 stores
- **TRO of North Carolina Incorporated (Tobacco Road Outlets)**, Lakeview, North Carolina; 22 stores
- ***Smokes 4 Less**, Poughkeepsie, New York; 21 stores
- ***Delta Distributors/Discount Tobacco Outlet**, Andalusia, Alabama; 21 stores
- **Smoke 'N' Go (Cheap-O-Depot)**, Abbeville, Louisiana; 21 stores
- **Gateway Marketing, Incorporated/Tobacco Station USA**, Texarkana, Arkansas; 20 stores
- ***Kocolene Marketing (Smokers Host)**, Seymour, Indiana; 20 stores
- **TBM Management**, Pearl River, Louisiana; 19 stores
- **Puff Discount Cigarettes Incorporated**, Mill Hall, Pennsylvania; 19 stores
- ***Cigaret Shopper**, Brewer, Maine; 19 stores
- **Fast Lane Discount Tobacco**, Lovely, Kentucky; 18 stores
- ***Smokin' Joe's Tobacco & Liquor**, Davenport, Iowa; 18 stores
- **Cox's Smokers Outlet**, Louisville, Kentucky; 18 stores
- **William & Taylor Tobacco**, Mullins, South Carolina; 17 stores
- **Louisiana Discount Tobacco (Discount Tobacco Outlet)**, Shreveport, Louisiana; 17 stores
- **Tobacco Road Incorporated**, Jermyn, Pennsylvania; 16 stores
- **Tobacco Shoppe/Save-A-Lot**, Bowling Green, Kentucky; 16 stores
- ***JC's Cigarette Outlet**, Elizabethtown, Kentucky; 16 stores
- **Puff Super Value**, Mill Hall, Pennsylvania; 16 stores
- **Ross-Lab Marketing Incorporated (Nothin' Butt Smokes)** Lubbock, Texas; 15 stores
- ***Klafter's Incorporated**, New Castle, Pennsylvania; 15 stores
- **Puff-n-Snuff Incorporated**, Lock Haven, Pennsylvania; 14 stores
- **Tobacco Depot**, Tampa, Florida; 13 stores
- **Dirt Cheap Cigarettes & Beer**, Fenton, Missouri; 13 stores
- **Bo's Smoke Shop**, Elizabethtown, Kentucky; 12 stores
- **Tobacco Discount**, Picayune, Mississippi; 12 stores
- ***MGN Tobacco**, Raleigh, North Carolina; 11 stores
- ***Redi-Mart Tobacco**, Elizabethton, Tennessee; 11 stores
- ***Truax 2**, Salem, Oregon; 11 stores
- **Saver Group Incorporated**, Campbellsville, Kentucky; 11 stores
- **Town Crier Incorporated**, Mandeville, Louisiana; 10 stores
- ***Blue Ridge Tobacco**, Winston-Salem, North Carolina; 8 stores
- ***Hi Times Liquor Mart/Smoker's Outlets**, McCook, Nebraska; 7 stores

**Smoker Friendly authorized dealer*

By Dr. Fred Jordan

Cigarette Packaging: PLAIN AS DAY

What does the EC's new Tobacco Products Directive mean for manufacturers?

On April 3, 2014, the European Commission published an updated version of the Tobacco Products Directive (2014/40/EU), effectively repealing 2001/37/EC. The newly adopted directive covers ingredients, labeling and packaging, including traceability and security features, cross-border distance sales, e-cigarettes, and herbal products for smoking. The overall purpose of the revision is to standardize the appearance of all tobacco packs in order to reduce the number of youth smokers, improve public health and curb or eliminate the trade of fake cigarettes.

To that end, the directive introduces a number of technical specifications for the “layout, design and shape of tobacco packaging.” These provisions require that each unit packet and any outside packaging carry a specific health warning combined with a color photograph, which must cover 65 percent of both front and back sides of the packaging. In addition, tobacco packaging can no longer include elements or features that promote tobacco products or their consumption. Lastly, each packet must be made of carton or other soft material and have a cuboid shape.

For traceability purposes, the directive furthermore mandates that Member States add a “unique identifier” to each unit packet. This marking will allow

Member States, manufacturers, and any person involved in the supply chain of tobacco products to track and accurately record the current and past locations of the tobacco products sold on the European Union market.

Finally, to combat the trade of illicit tobacco the directive requires that all unit packets of tobacco products carry a “tamper-proof security feature, composed of visible and invisible elements.” The purpose of the security feature is to “facilitate the verification of whether or not tobacco products are authentic.”

While the European Union hopes that these requirements will improve overall public health and reduce the number of fake cigarettes, it is fair to say that manufacturers of tobacco products are left with very little leeway in terms of packaging design and branding (e.g. colors, imagery, corporate logos and trademarks). In addition, they have extremely limited packaging surface to include the unique identifier and security feature imposed by the directive, or any other element required by national legislation (e.g. tax stamps, national identification marks, price marks).

While design specifications and traceability measures would be difficult to change or manipulate, the choice of security feature is broader.

Indeed, because the security feature may include both visible and invisible elements, it would therefore seem to be in the manufacturers’ best interest to select an invisible one that would not only comply with the directive but also increase the amount of design and branding surface.

Very few large-scale, covert security features are deployed in the tobacco industry today. Some use microscopic particles (taggants), some invisible inks (digital tax stamps), and others the varnish coating (Cryptoglyph). This last process adds a pseudo-random pattern of invisible micro-holes (60 microns) into the standard varnish layer. Non-intrusive and totally invisible, these micro-holes cover the entire surface of the packaging without changing its design. Unlike most covert anti-counterfeit technologies available on the market today, this invisible security feature can be detected by a smartphone. This solution is therefore an encouraging first step in achieving compliance with the Tobacco Products Directive.

Dr. Fred Jordan is CEO of AlpVision, a leading product authentication and brand protection company headquartered in Switzerland.







By Edward O'Connor

WINDOW on the WORLD

East meets West in a tour of China's vapor industry.



China, a vast land, over 3.6 million square miles, a population of over 1.4 billion or roughly five times that of the United States. A world market consuming more steel than the U.S., Europe and Japan combined, home to more than 1,000 electronic cigarette manufacturers and marketers located predominately in the Pearl River Delta within China's youngest, and perhaps most vibrant, city. In 1980, Shenzhen was a rural Southeast China farming area located just 20 miles from Hong Kong. It was chosen by Deng Xiaoping as an incubator in which the seeds of China's economic reform were to be nurtured. Just 35 years later Shenzhen resounds as a bustling commercial powerhouse with 10 million

residents—a “window on the world” of electronic vapor and cigarette production.

Tobacco Business International/Vapor Consortium International visited China in October of 2014 with the purpose of gleaning insight and a better understanding of the electronic product along with the issues and opportunities governing mutual American/Chinese industry relationships. Today, virtually all vapor and electronic cigarette products are produced in China. Surprisingly, more than 70 percent of that product is shipped overseas, the U.S. being the dominant market for those goods. Culturally and habitually, the Chinese market is heavily oriented toward cigarettes. The health and harm-reduction component of the

electronic product has yet to take hold. Jomo Technologies General Manager Lu Nanfang Robinson told *TBI/VCI* about China's "first vape shop," established by his company—a contemporary and handsome facility resembling a pharmaceutical shop versus one selling electronic cigarettes and vapor devices.

Supplementing its electronic product sales, the store offers a variety of GNC health-type items. In China, the Chinese tobacco monopoly controls the sale of all tobacco products.

a nascent concept here and worldwide, offering huge opportunities to establish recognized popular brands. This may seem an opportunity for the "Bigs" only. However, in reality, we live in a niche world. The gigantic Chinese market, a frontier for vapor device penetration, represents opportunities for companies of all sizes and, certainly, for American distribution partners. "Build it there, sell it here; build it there and sell it there." The idea strikes at the commercial importance of Chinese/American mutuality. Agreed, redundant!

Consider the prediction that the next decade or two will see electronic nicotine delivery surpass that of traditional cigarettes in the U.S., the development a \$90 billion, 540 billion Chinese yuan market. As the Chinese market, with five times the population of the U.S. and a greater consumption per capita of cigarettes, develops, the opportunities are seismic.

It's more difficult for the Chinese to secure a visa to the U.S. than for Americans to secure a visa to China. The Chinese must present themselves for interview at the American Embassy in China. Americans can obtain a Chinese visa on the Internet, no personal interview required. Prior to mid-November 2014, entrance visas to both countries were valid for one year. However with the new mutual trade overtures and easing of tariff restrictions that President Obama announced in conjunction with the Chinese on November 10 came a reciprocal agreement on a 10-year visa for tourism and business, is anticipated to facilitate across-nation commerce. Can you see the future?

The visit to China took *TBI/VCI* to eight top electronic product manufacturers in Shenzhen. Wherever we went, we were greeted cordially by the manufacturers. It was not uncommon for the Chinese to request their picture be taken with the visiting Americans.

Factories pay special attention to battery safety, utilizing state-of-the-art panels to voltage test batteries and to assess battery life under varying conditions of temperature and humidity.



Innokin employs rigorous product quality control, including battery safety inspections.

The manufacturing process is largely organized using an assembly line. Component parts are sourced from subcontracted factories. Following exhaustive incoming quality control, the components are assembled and component assemblies are tested and retested along the fabrication line, subsequently joined together like a mechanical puzzle. The final product is laser'd with a brand logo and marked with the fabrication lot, information which can be used to identify the production batch in the event of a product failure. This allows the factory to pin down the source of the problem, concluding the failure as individual or batch-related. Automation is slowly being built into the fabrication lines, but for the foreseeable future, fabrication will remain a people-intensive assembly line process.

We noted the extensive quality control



Chinese vape shop Jomo Technologies supplements its electronic product sales by offering a range of health-care products.

However, electronic cigarettes and vapor devices are not categorized as tobacco, which means that Shenzhen is free to practice dynamic and entrepreneurial electronic product development sans regulation by the government.

Given the value of brand cache, branded mod-type vapor devices exist largely as



Cindy O'Connor with locals



stations throughout each factory. Cheung Siu Choi, business development director of Kanger Tech, showed us the dedicated quality control laboratory and equipment that ensures the finished goods to be of high quality.

While it may take a year to completely redesign an item, product iterations such



as minor changes in circuitry, cosmetics and packaging do change the product life cycle of an existing item to no more than three to four months. Facilitating these changes, Cheung Siu Choi commented on the numbers of engineers required to sustain product development, noting that each factory employs between seven and 20 engineers.

General Manager Edward's Feellife



Automation is under way, but manual labor remains the primary method of manufacturing.

Biological International Company is a major supplier of e-juice and electronic product components. Edward spoke of the desire to have the Feellife product become broadly recognizable and branded. Their low-key, behind-the-scenes supplier market posture is widely respected and recognized within the electronic product market, but lacks cache within the distributor and

reseller customer community. Purity standards and clean-room disciplines are meticulously followed by Feellife, assuring ISO quality standards for their e-juice sold to their broad array of customers.

The factories visited represent top-ranked companies within the Shenzhen electronic product community. There is strong interest in developing effective partnerships with American distribution.

To this end, TPC 2015 and Vapor Expo International have modified the educational format of both shows to include roundtables that seek to partner Chinese technology with American distribution. Designated "Distribution 101," the program will debut at TPC 2015 and ideally become a staple program at succeeding shows.

Counterfeit and knocked-off designs plague Chinese e-cig manufacturers, as well their distributors and buyers. Trust issues occur and distributor relationships break down when faux-branded or knocked-off designs are introduced to the retail market by unscrupulous counterfeiters at deeply discounted prices, leading area distributors to believe their Chinese suppliers are selling directly to their customers. The solution to this dilemma, for both manufacturers and distributors, rests in part with stronger mutual trust grounded in specific and agreed-upon relationships between the two parties. Distribution 101 seeks to promote resolution. **TBI**



TBI/VCI's Ed O'Connor with Edward, Jr. and Newsteel Media's Arlen Luo

Thanks to the following companies for their hospitality and contributions while a guest in China and for providing a glimpse of a "Window on the World"

Feellife Bioscience
International Co. Ltd.



JOMO
Technologies Co. Ltd.



Shenzhen SMACO
Technology Limited.



Shenzhen IJOY
Technology Co. Ltd.



Shenzhen Kanger
Technology Co. Ltd.



Innokin
Technology Co. Ltd.



Shenzhen Kamry
Technology Co. Ltd.



TPC 2015

Tobacco Plus
Convenience Expo



Welcome to TPC 2015!

The Tobacco Plus Convenience Expo
opens in Las Vegas on January 28.



Each year, manufacturers, retailers and wholesalers gather with the hope of sharing insights, doing business, learning about industry news and—of course—browsing a vast array of tobacco and tobacco-related products. This year's Tobacco Plus Convenience Expo promises to deliver all that and much more. A poolside gala reception kicking off the festivities on January 27 will be followed by two full days of browsing exhibits showcasing tobacco and tobacco-related products and accessories, including a wide array of e-cigarettes on the massive trade show floor. Many of these exhibitors will offer show deals exclusive to TPC.

Both days of the show will also feature roundtable discussions geared toward helping retailers boost profits (see sidebar below). Attendees will have plenty of opportunities to network with their peers, too. For the sixth consecutive year, TPC 2015 will host a cigar bar/lounge, a comfortable retreat where attendees can gather for informal meetings or to simply to take a break while enjoying a complimentary beer, wine or soft drink.

GATHER 'ROUND

TPC invites you to attend two roundtable discussions hosted by industry experts.

Integrating Premium Cigars for Profit!

Moderated by former Drew Estate President/CEO Steve Saka, this roundtable will help retail attendees explore how adding premium cigars to their product mix—or expanding their selection of premium cigars—can boost profits. Saka, the master cigar blender credited with the creation of the Liga Privada brand, will offer his expertise on the topic and guide the discussion.



Distribution 101

Given the seismic growth of the electronic product business, this roundtable will explore the need to establish product distribution networks between the U.S. distributor community and Chinese manufacturers of vaping products. Participants will share insight on overcoming the challenges presented by distance, cultural differences and effective communication between product manufacturers.



The discussion will be hosted by Ed O'Connor, publisher of *Tobacco Business International* and *Vapor Consortium International*, who recently visited China to meet with major Shenzhen-based Chinese producers. O'Connor, along with Chinese colleague and Beijing resident Arlen Luo, publisher of eight English/Chinese translated magazines and associate publisher of *Vapor Consortium International*, will moderate the roundtable.



TPC 2015 SCHEDULE

Las Vegas Convention Center
South Hall 3
January 28-29, 2015

Tuesday, January 27

Opening Reception • 6–8 p.m.
(Westgate Las Vegas Resort & Casino, tickets required)

Wednesday, January 28

Registration Opens for Exhibitors • 7 a.m.

Registration Opens for Buyers • 8:45 a.m.

Exhibit Halls Open • 9 a.m.

Roundtable Discussion Groups • 11 a.m.
(Rear of Exhibit Hall)

Exhibit Halls Close • 5 p.m.

Thursday, January 29

Registration Opens for Exhibitors • 8 a.m.

Registration Opens for Buyers • 9 a.m.

Exhibit Halls Open • 9 a.m.

Roundtable Discussion Groups • 11 a.m.
(Rear of Exhibit Hall)

Awards Ceremony 2015 • 3 p.m.
Best New Tobacco Product
Best New Tobacco Accessory
Best New Non-Tobacco Product
Best New Vapor Product

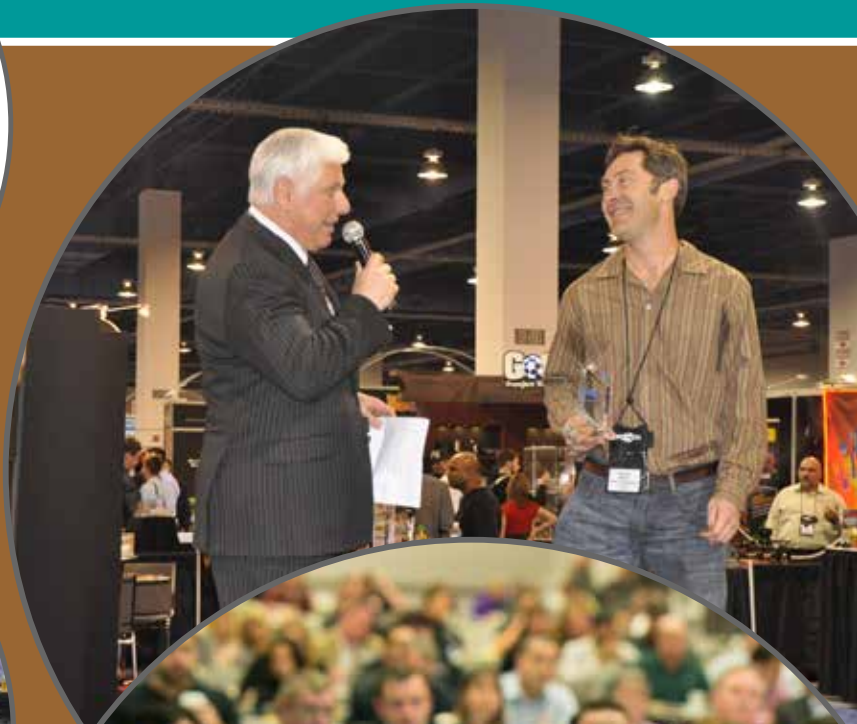
Exhibit Halls Close • 5 p.m.

*For more information about TPC 2015, contact Reuter
Exposition Services at 888-737-3976 or info@reuterexpo.com.*



TPC 2015

Tobacco Plus
Convenience Expo




What Happens in Vegas... **Isn't**
Necessarily
What
You
Think

10

**Things to do in Vegas
that **DON'T** involve
gambling, drinking
or dining.**

Whether you're just not the gambling type or you've simply had your fill, there are plenty of activities, adventures and sights to enjoy during your downtime in Sin City. We've culled through the hundreds of area attractions to get you thinking, but if none of these appeal to you, be sure to check out lasvegas.com and vegas.com.



THE LINQ'S HIGH ROLLER

Still holding the title of Tallest Observation Wheel in the World, the High Roller may also have the best view of any Ferris wheel. You'll enjoy looking down at the Las Vegas Strip and valley from this lofty 500-foot-high perch—and you'll have plenty of time for photos, thanks to the wheel's gentle (aka slow) movement. Allot 30 minutes plus wait time for this experience, and be forewarned that you'll share a spacious cab with at least 20 other people.

1

WHERE: The LINQ Hotel and Casino (located between Flamingo Las Vegas and The Quad, across the street from Caesars Palace)

WHEN: Open daily noon–2 a.m., but try for sunset

HOW MUCH? \$19.99

2



RED ROCK CANYON

This area, designated as Nevada's first National Conservation Area, is visited by more than one million people each year. Providing a respite from a town geared toward entertainment and gaming, Red Rock offers 195,819 acres that encompass a 13-mile scenic drive, more than 30 miles of hiking trails, rock climbing, horseback riding, mountain biking, road biking, picnic areas and nature observing.

WHERE: 17 miles west of the Las Vegas Strip on Charleston Boulevard/State Route 159

WHEN: Opens at 6 a.m., closing time varies

3



BELLAGIO GALLERY OF FINE ART

Always a crowd pleaser, the Bellagio's current show, "Fabergé Revealed," does not disappoint. Featuring the famous craftsmanship and jeweled luxury the doomed Russian imperial family was known for, this is a collection of more than 200 elegant objects by the celebrated jeweler to Russian Czars Alexander III and his son and successor Nicholas II, including four Imperial Easter Eggs.

WHERE: Bellagio Hotel and Casino

WHEN: 10 a.m.–7:30 p.m.

HOW MUCH? Starting at \$17

4



VEGAS INDOOR SKYDIVING

This facility uses a vertical wind tunnel to generate enough wind to support the weight of an average adult so that you can suit up in flight gear, enter the tunnel and...fly! The entire experience will take about an hour.

WHERE: 200 Convention Center Drive

WHEN: 9:45 a.m.–8 p.m.

HOW MUCH? Starting at \$75

5



**EL LOCO AT ADVENTUREDOME
IN CIRCUS CIRCUS**

Only serious rollercoaster lovers need apply—riders experience twists, turns and drops as they ascend 90 feet before dropping over and under to experience a 1.5 vertical-G force.

WHERE: Circus Circus Hotel and Casino

WHEN: Monday–Friday 11 a.m.–6 p.m.,
Saturday 10 a.m.–midnight,
Sunday 10 a.m.–9 p.m.

HOW MUCH? \$29.95
(includes admission to the Adventuredome)

6



SHARK REEF AT MANDALAY BAY

If you've always wanted to get up close and personal with a shark, this is your chance. You will also have an opportunity to pet sting-rays and lock eyes with a Komodo dragon.

WHERE: Mandalay Bay Hotel and Casino

WHEN: Sunday–Thursday 10 a.m.–8 p.m.,
Friday–Saturday 10 a.m.–10 p.m.

HOW MUCH? \$16.95

7



BIG APPLE COASTER

This loopy coaster features drops, turns and barrel rolls—you won't even notice that you're traveling from inside a Vegas hotel out over the strip and back again.

WHERE: New York-New York Hotel and Casino

WHEN: Sunday–Thursday 11 a.m.–11 p.m.,
Friday–Saturday 10:30 a.m.–midnight

HOW MUCH? Starting at \$14

8



SIEGFRIED AND ROY'S SECRET GARDEN AND DOLPHIN HABITAT

The Mirage has long been the home of this mini zoo that is home to the famous duo's white tigers and bottlenose dolphins. You get a great look at the tigers as they playfully wrestle each other and at the dolphins swimming around in endless play.

WHERE: Mirage Hotel and Casino

WHEN: Monday–Friday 11 a.m.–4 p.m., Saturday–Sunday 10 a.m.–4 p.m.

HOW MUCH? \$19.95

CIRQUE DU SOLEIL

If you've ever been to a Cirque du Soleil show, you know the score. If you haven't, let's start by saying that these fanciful exhibits of acrobatic showmanship have been so popular that there are now at least seven shows running simultaneously in Vegas alone—and most of them sell out regularly. They're hard to describe and each is unique and wonderful in its own right, but "O" at the Bellagio is a great entrée for a Cirque du Soleil newbie who wants to see what all the fuss is about. Veteran viewers might prefer "Zumanity," which looks to bring a touch of Vegas's sensuality to the Cirque experience, or one of the music-themed shows, such as "Beatles Love" or "Michael Jackson One."

WHERE: Bellagio, New York-New York, and Mirage Hotel and Casinos (respectively)

WHEN: Nightly

HOW MUCH? Starting at \$69

9



10



SKY JUMP LAS VEGAS

Depending on how you feel about heights and the sensation of falling, leaping off a huge tower on the Las Vegas Strip may or may not be appealing. However, if you manage it here, the payoff will be a great view of the Las Vegas Strip and the respect of your peers, friends and family forevermore.

WHERE: Stratosphere Casino, Hotel & Tower

WHEN: 10 a.m.–1 a.m.

HOW MUCH? Starting at \$119.99

“Fill ‘Er Up!”

Chuck Horvath’s Cigar Station relies on product expertise, savvy web marketing and consistent pricing to tailor its selection of cigars and craft beers to its blue-collar clientele.

From the outside looking in, the world of information technology is about as safe a place in the job market as there is in our economy. So what led someone with 28 years of experience in a booming specialty field to throw in the towel for a startup cigar store?

For Chuck Horvath, walking away from a career in IT to open a cigar store was about following his passion. “I got tired of information technology, and the timing seemed perfect,” says Horvath, recalling his emotions and motivations when he left his IT job at media giant Universal Music Group back in 2010. “I had been smoking cigars since 1990 and always wanted my own shop. In fact, I tried to make a go of it back in 2005, but my partner at the time couldn’t raise the capital to do it. So when I lost my job at Universal I decided to go for it on my own.”

Horvath’s seemingly risky venture has proven to be a hit. He is the president and owner of C&L Entertainment & Leisure, which owns Cigar Station, a cigar store/lounge located in Spring Hill,





Tennessee that specializes in craft beers. He is also a partner in Battleground Smokes and Spirits, a cigar lounge and wine bar located in Nolensville, Tennessee that features live bands. Horvath serves as the only full-time employee at Cigar Station, where he's responsible for virtually every aspect of running the store. "My wife is a director for the company, and she'll help out when I'm in a bind, and I also have two part-time employees, but otherwise it's just me," he says. "I do everything." That includes everything from waiting on customers and all of the ordering at both stores to keeping the store in shape.

Cigar Station is a relatively small venue, with an 800-square-foot interior, a 500-square-foot enclosed deck and an even smaller open-air deck. However, despite its size, the location's unique look and highly focused inventory help make a strong statement. "Despite appearances, the building is only eight years old," says Horvath of the store's vintage look. The original owner had modeled the gas station after a 1947 plan, complete with era-specific fuel pumps. "It was something he put in for Spring Hill, and it lasted as an ice cream store for about nine months, and then I moved in, and ever since then it's been a cigar store," says Horvath.

FIND PREMIUM PRODUCTS THAT YOUR CUSTOMERS CAN AFFORD

The aptly named Cigar Station boasts more than 400 different cigar facings and over 120 different craft beers, plus a wide variety of torch lighters, cutters, humidors, pipes and pipe tobacco. "Some of our most popular facings include Perdomo, EPC, Asylum, Arturo Fuente, Crowned Heads, Nestor Miranda, Drew Estates, Room 101 and Camacho," says Horvath, who advises retailers to tailor assortment to their customer base. "I've been carrying American Spirit [cigarettes] as well, but the profit margins on cigarettes just isn't enough, and I'm not that kind of store."

His own experience as a customer influences his business purchasing decisions. "I've been smoking for a long time and I feel that I'm a pretty good judge of cigars," explains Horvath, describing his buying approach. "I can fit a profile to most of my customers and I owe a lot of that to attending IPCPR shows, getting to know all of my reps and vendors, and most importantly smoking the product. I won't put something in the store I haven't smoked. That's not to say everything in the store has to be something that I like because I do carry certain facings that I don't care for, but they sell. I do choose everything and I think it works because taste- and profile-wise, I'm a good judge of what makes a good or bad cigar."

Knowing his customers and what those customers want is what helps Horvath curate the collection of specific products he carries. "Spring Hill is a relatively small town of 30,000 people and it's a down-to-earth, largely blue-collar community in farm



country,” he explains. “Lots of people moved here because of the nearby Saturn [Parkway General Motors Manufacturing] Plant, so that’s who I keep in mind when I market my store and my cigars. I’m selling to blue-collar workers. There just aren’t a lot of white-collar workers here, so it doesn’t make much sense to have \$25 sticks on shelf; that’s not what they’re looking for.

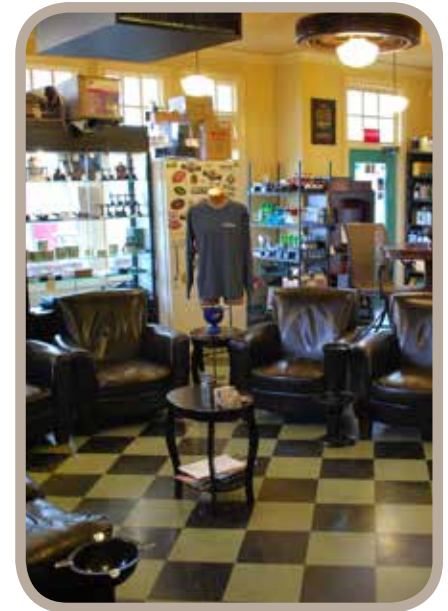
“They’re middle-class people; their focus is on taking care of their family,” he adds, “but they still want to enjoy the good things in life so I keep my sticks in the \$7 to \$8 range, which is very affordable for them. I do have higher-end stuff because my customers do at times celebrate special events in their lives, and when they do they’ll venture out and buy higher-end sticks, but I try to keep pricing down for them. In this business, it’s all about selling sticks.”

USE AMENITIES AND EVENTS TO SUPPORT YOUR VALUE PROPOSITION

In addition to products and pricing, Horvath is savvy about appealing to customers through his store’s design. There are four distinct areas of the store itself: the front deck with high-

top tables and chairs, the inside seating “lounge” area, and two outside decks (one enclosed and one heated). “Our lounge has four big leather chairs, a three-position couch, a high-top table with chairs around it, a 52-inch TV and state-of-the-art air filtration and ventilation,” he says. “Plus we’ve got 25 humidor lockers that we rent out to customers. It’s comfortable, it’s convenient, and it’s high quality without being snooty, just like our products.”

While Horvath acknowledges that trendy products can attract attention, he sees his customers as more interested in brands they know and in getting a solid value. “For the most part, the manufacturers in my store deliver good products, and that’s what my customers want,” he offers. “They don’t want trends, they want good product. When a manufacturer comes out with something new and innovative, that’s great, but I’m not looking for it. My customers are not true aficionados, they’re just looking for good quality and something that tastes good. They’re not opposed to trying something that may be slightly different or new, and for that I rely on my vendors and IPCPR to educate me about what new stuff my customers



should try. That's how I make sure the store doesn't become stale."

LEVERAGE THE POWER OF THE INTERNET AND EVENTS

Horvath is intrigued by the thought of using TV and radio for advertising and marketing. "I've always thought about doing radio commercials, and of course it would be awesome to do TV because I've been here for a while now and we still have people come in and say they didn't know we existed," he notes. However, his expertise with IT and his limited budget make it a lot easier—and more cost-effective—for him to leverage the power of the Internet and social media. The web has proven very effective, giving him a lot of bang for his buck. The store's website (cigarstationtn.wix.com/cigar-station) was built using Wix, a popular DIY website-building service, and Horvath has also made full use of social media hotspots like Facebook, Twitter and YouTube to post product-related comments, insight and videos, and to drive traffic to regularly scheduled events at his store.

Ironically, the most old-fashioned marketing method of all—physical outdoor signage—has proven to be the

most problematic in Horvath's marketing arsenal. "Spring Hill has a city law for small businesses that prohibits signs out by the road; you can only have one out for 90 days of the year," he explains, noting that when he unwittingly exceeded that limit in the past he heard about it from town officials. "That's obviously not enough, especially when you want small businesses like this to succeed in your town, but they just don't want signs cluttering up the road."

Instead, Horvath supplements his Internet promotional efforts with loyalty-building efforts. He regularly holds events at Cigar Station, including monthly "smokers and steak" nights, a TV drama series showing, a weekly movie, and football showing three times weekly. "We try hard to get as many people as we can to each event and we also do private parties," he says.

To reward regular customers and convert new attendees into returning customers, Horvath uses Echo Daily, a customer-reward program, and its built-in email promotion tools to award customers points for every \$1 spent. Once predetermined point levels are reached, customers are rewarded with discounts. Additionally, Horvath gives

discounts to people who text the store by cell phone.

Horvath has enjoyed great success so far: his reputation as a local tastemaker and a reputable business owner landed him Spring Hill's Most Likeable Business of the Week award back in 2012. But even with smart marketing and great products, he remains concerned about the state of the local economy. "This whole year has been extremely weird; I can't put [my] finger on it," he comments. "Even the talking heads on TV can't figure it out."

"I was just listening to a discussion on a major media outlet and they were trying to specify why the Black Friday and Small Business Saturday sales numbers were so low if the economy is on the rise. But they can't because it's not just one thing," he says. "People are cash poor right now—that's what I feel and see, and that's how my customers are acting. It's not just tobacconists though. People aren't going out and supporting restaurants, bars or grocery stores either. It's everybody. I talk to the other small businesses in the area and they are feeling the same thing, but at the end of the day, I just have to keep selling cigars. That's the name of the game: to just find a way." **TBI**



BIC Launches Zombie Lighter

BIC has launched a new lighter series featuring designs from AMC’s hit show “The Walking Dead.” The eight lighters bear images of zombies and “The Walking Dead” logo, appealing to dedicated fans who have followed the characters’ journey through five seasons of the zombie apocalypse. AMC’s “The Walking Dead” is the highest-rated show on television among adults age 18 to 49.

“AMC’s ‘The Walking Dead’ is television’s most popular show, and we’re thrilled to be able to offer officially licensed BIC ‘Walking Dead’ Special Edition Series Lighters to retailers,” says Keith Last, brand manager of lighters for BIC Consumer Products USA. “The fan base for ‘The Walking Dead’ is incredibly engaged, and consumers are sure to seek out this series at retail in order to show off their loyalty to the show and its characters.”

Lighters in the BIC Special Edition “Walking Dead” Series are made in the U.S. and have a suggested retail price of \$1.89. BIC USA, 800-546-1111 ext. 2461, biclighter.com



Moist With Muscle

CN Smokeless Company has introduced Klondike Premium Moist Tobacco 6-Pack Tubs, a product that looks to eliminate the mess and hassle of traditional tubs with the convenience of six pre-packed, always-fresh cans. Klondike tubs are available in long cut wintergreen. CN Smokeless, cnsmokeless.com



Mistic: Bridging a Vaping Gap

The new Mistic Bridge is, as the name implies, an innovation that offers a “bridge” between disposable vaping products and personal vaporizers or vapors/tanks/mods (VPMs). It is basically a refillable tank, similar to those used in personal vaporizers, that fits onto cig-alike batteries like a cartridge, enabling vapers to use any e-juice flavors available for VPMs in the convenient size of an e-cig. What’s more, the Bridge works with multiple brands, not only Mistic products. For example, it will fit a blu eCig or MarkTen battery. Mistic, misticcigs.com

Accessorize With Davidoff

Davidoff has introduced an exclusive limited edition range of accessories to celebrate the Chinese Year of the Sheep, and to complement the recently introduced limited edition Year of the Sheep Cigars. The line includes an elegant porcelain ashtray designed by Chinese designer Chen Jiang, prestige lighters and unique custom-made scissors.

These elements reflect the very qualities that those born under the sign of the Sheep possess. Belonging to the element of wood, the Sheep is a craftsman, artist and devotee of beauty who fashions a world of harmony and aesthetic pleasure; for in the Sheep's eyes, happiness is other people's happiness. All these limited edition accessories celebrate the personality of this distinctive sign.

"The zodiac sign of the Sheep has many common values with Davidoff," says Charles Awad, senior vice president of marketing and innovation for Oettinger Davidoff AG. "The appreciation for craftsmanship and the sense of refinement and style, which brings joy to others, are at the heart of everything Davidoff believes in."

Year of the Sheep—Davidoff Porcelain Ashtray

Davidoff sought out the Chinese designer Chen Jiang to come up with a concept for a new collection of Chinese celebration and occidental luxury. Like any craftsman in any discipline at Davidoff, it is the time that Chen Jiang has invested in his art—18 years in the fields of design research, furniture and lighting for prestigious international brands—that makes his work special.

This oversize Davidoff porcelain ashtray is made in Limoges, the heart of the French porcelain industry, and delicately decorated with a mix of 12-percent gold, gray and red colors, along with twisted and tapered surfaces that evoke the horns of the Sheep.



Year of the Sheep—Davidoff Prestige Lighters

The base of Davidoff's new prestige lighters is made of one piece of brass and the tank is part of the lighter's body, ensuring that there are no leaks or plastic tank. The brass is cut into the exact shape of the lighter and the lid is split up from the body, ensuring a perfect fit and unique match. The lighters are available in palladium with a design of horizontal lines, or in a gilded finish with an accolade design. They arrive in an elegant red pouch immaculately tailored with the Year of the Sheep design.



Year of the Sheep—Davidoff Special Edition Scissors

Finally, the Davidoff Special Edition Scissors are forged from stainless steel and gold-plated, then decorated with a stylish laser marking inspired by the Year of the Sheep. The large blades can be used to cut cigars with a head gauge of up to 23mm by 58-ring-gauge not just with ease, but with precision.



Oettinger Davidoff AG, davidoff.com



The Art of the Humidor

Each of these four handmade mirror humidors by Daniel Clément is a piece of art, made of marqueterie de verre. The motifs have been created exclusively by the artist and will never be replicated. In creating them, Daniel Clément was inspired by the mirror marqueterie of Miami, mixing geometric shape and colors. Each of the tiniest pieces of glass were meticulously cut and assembled—a craft that requires exceptional thoroughness, creativity and time.

The inside of the humidors are varnished okoumé wood, specially chosen to preserve the individual flavor of each cigar. Every Davidoff humidor is equipped with a self-regulating system. This unique development creates or absorbs humidity as required and automatically guarantees the consistent quality of the cigars that it protects. The humidors have a capacity of between 190 and 250 cigars. Davidoff, Davidoff.com

Davidoff Honors Winston Churchill

Launched in December, the new Davidoff Winston Churchill cigar honors the world's most iconic cigar aficionado: Sir Winston Churchill. "The aim was to craft this new range of exceptional cigars as uniquely diverse as the man who inspired them," explains a spokesperson for the company.

This exclusive cigar range from Davidoff is composed of a new characterful blend. It is crafted with tobaccos coming from four different countries. It took time, patience and perseverance to create these fine cigars, and to deliver these exceptional blends with the complex character and refined sophistication that aficionados expect from Davidoff. The blend maintains the expected refinement and elegance of a Davidoff cigar, while pushing particular palate stimulations and flavors further. Strength of the blend is medium-to-full with a wide palette of exciting flavors and aromas. The cigars are adorned with a beautiful shiny and oily wrapper with a slight reddish touch. Due to the different Seco tobaccos, the cigars deliver an excellent, even burn and a firm white ash.



Petit Corona (4x41)

The Winston Churchill Petit Corona is the shortest cigar in the range. Due to the smaller ring gauge and size, this cigar feels stronger and delivers less pronounced flavor nuances in the body. Beautiful pepper flavors together with dark coffee and toasty notes dominate. Available in boxes of 20 Petit Corona cigars.

Robusto (5x52)

The strength is slightly decreased and the flavors are more overt. The complexity of this cigar is more amplified and the flavors more pronounced. Leather and dark coffee flavors take a front role with a creamy aftertaste. Available in boxes of 20 Robusto cigars.

Churchill (6.875x47)

In this majestic format, the aromas are more pronounced, the flavors are multiple and the nuances of the different tobaccos are more independent. The body of the cigar is very present, and the mouthfeel of the smoke delivers beautiful flavors of chili pepper and cedar wood in the beginning, leather and roasted flavors in the second third, and finishes off with creamy and nutty notes. Available in boxes of 20 Churchill cigars.

Toro (6x54)

Carrying the largest ring gauge in the Winston Churchill range, this is a grand cigar from the first spicy, leathery, woody notes through the creamy, sweet influences of the Mexican binder to the final triumphant mix of flavors, courtesy of the Nicaraguan filler tobaccos from Esteli and Condegas. Available in boxes of 20 Toro cigars.

Davidoff, Davidoff.com



Swisher's Un-Sweet Cigarillos

Swisher International has introduced new Swisher Diamonds Cigarillos, the un-sweet Swisher. These cigarillos offer a smooth, rich—but not sweet—taste created by Swisher's master tobacco blenders.

Swisher Diamonds cigarillos are available in a two-count resealable pouch at three popular price points: 99¢, \$1.49 and non-priced "Save on 2." Released to limited markets in January, Swisher Diamonds will be available for shipment to stores nationwide beginning Feb. 1, 2015. Swisher International, 800-874-9720.

Drew Debuts “Pappy Van Winkle”

Miami, Florida-based Drew Estate announced an exclusive manufacturing agreement with Pappy & Company, as well as the new “Pappy Van Winkle’s Family Reserve” premium handmade cigar. This new cigar will be produced at Drew Estate’s Estelí, Nicaragua factory in partnership with Pappy & Company, the family-owned merchandise division of Old Rip Van Winkle Distillery, producers of legendary whiskeys including Pappy Van Winkle bourbon.

The Pappy Van Winkle’s Family Reserve cigar is a long-filler, premium cigar made by hand in very small batches. This historic cigar will feature a robust Ecuadorian habano wrapper and well-aged Nicaraguan filler tobaccos personally selected by Drew Estate Co-Founder Jonathan Drew. The strength level of the Pappy Van Winkle’s Family Reserve cigar will be medium-plus, which will allow both new smokers and experienced aficionados to enjoy the blend. “It’s a well-rounded, sophisticated cigar with body and a hearty expression,” says Drew. “Drew Estate is known for passion and innovation, and making premium cigars is our *raison d’être* [reason to be]. The Pappy Van Winkle’s Family Reserve premium cigar is truly a showcase of our passion for cigar-making.”

The partnership between the Van Winkle family and Drew Estate will allow people to experience a flavor combination that is unique and will remain consistent through time.

The final blend is the perfect complement to any Van Winkle spirit, but Drew Estate’s favorite match with the Pappy Van Winkle’s Family Reserve cigar is the Van Winkle Family Reserve rye. The spice notes from the rye bring out the pepper and graham cracker notes in the cigar. Drew Estate, drewestate.com



Gold Never Gets Old



M&R Holdings has reintroduced Farmer’s Gold Pipe Tobacco with a new look, new size and enhanced blends. Now available in a new 6-ounce, safety-sealed bag, as well as the traditional 16-ounce bag, Farmer’s Gold Pipe Tobacco comes in Red, Menthol Green, Gold and Natural. The tobacco blends are premium tobaccos and guaranteed to be 100 percent fresh. The 6-ounce bags are packaged 36 bags per box, while the 16-ounce size is packaged 24 bags per box. M&R Holdings, 800-451-5729

Vapor Trendspotting

There's a lot happening in the vaping world these days. Here's a look at some of the industry's emerging trends—and what we can expect in the future.

By Jennifer Gelfand

The news that Oxford Dictionary named “vape” the word of the year only serves to underscore the fact that interesting and exciting developments have been and continue to take place in this growing category. The past year saw a flurry of activity in the vapor world, including long-awaited proposed deeming regulations from the FDA, a consumer shift from e-cigarettes to vapors/tanks/mods (VTMs), and Big Tobacco definitively moving into the category.

As Bonnie Herzog told attendees of Wells Fargo's annual vapor conference, “This industry has staying power and will continue to be disruptive.”

The vapor shop retail channel continues to expand, across both the U.S. and the worldwide market. “I've been told that there are 30,000 [vape shops],” says Nick Molina of International Vapor Group. “I think the number is actually between 15,000 and 20,000, which is still pretty astounding.”

Many predict that innovation will drive future growth and determine the eventual winners in the marketplace. “This is like the first or second inning,” says Joe Murillo of Nu Mark, Altria's vapor arm. “The consumer is still making tradeoffs; nothing is quite matching [traditional cigarettes] yet in terms of taste, performance, and battery function.”

Still, like most in the industry, Murillo

EIGHT INDUSTRY-SHAPING TRENDS SPOTTED IN 2014*

1. Vapor/tanks/mods (VTMs) gained momentum over rechargeable and disposable cig-alikes, with a slight bias toward closed systems that leverage the razor/blade model;
2. Big Tobacco entered in a big way, using its deep pockets to drive trial and awareness;
3. Vape shops soared in popularity by luring customers with a plethora of hardware/liquids and the ability to educate consumers;
4. Proposed deeming regulations were announced, providing some clarity on what to expect;
5. Flavors went mainstream, with nearly all leading vapor companies now offering flavors, including some who initially opposed them;
6. Consumer brand loyalty continues to increase, although it remains well below that of combustible cigs;
7. Innovation is creating less-commoditized products; and
8. M&A activity is continuing to build.



*Courtesy of Wells Fargo's Bonnie Herzog

is optimistic that both the distribution infrastructure and product quality will continue to improve. “The channels are still working themselves out and regulation is only just beginning,” he says. “However, I have worked on any number

of new products at Altria—a number of which we were hopeful would be effective reduced-exposure products—and I have never seen consumers adopt a product or be as interested in a product as they are in vapor.” **TBI**