



JTI Debuts a New Design for Wave

Tobacco Business

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The Tobacco Innovation Game: **BASES LOADED**

BEYOND e-cigs and vapor devices, NEW tobacco technologies are STEPPING UP to the plate with POWER. Will reduced-harm products and OTHER innovations change up the COMPETITIVE FIELD?

ALSO IN THIS ISSUE

2015 Vapor Expo Preview

The Dark Side of Taxation

**Uhle Tobacco
Company's Journey**



Father's Day 2015... Now 115 Years Old



Father's Day turned 100 years old on June 20, 2010. Sonora Smart Dodd, often referred to as the "Mother of Father's Day," was 16 years old when her mother died in 1898, leaving her father, William Jackson Smart, to raise Sonora and her five younger brothers on a remote farm in eastern Washington. In 1909, Sonora heard a Mother's Day church sermon inspiring her to propose that fathers receive equal recognition, lending credence to the old saying, "Behind every good man there's a good woman."

With the assistance of her pastor, the Spokane, Washington YMCA and the Ministerial Alliance, Sonora's idea became reality. The first Father's Day was celebrated in 1910. Dodd suggested her father's birthday, June 5, be established as the day to honor all fathers, but to allow more time to prepare the Alliance decided on the third Sunday in June.

We dedicate this issue to fathers and to the women who made the day possible.

No special occasion would be complete without a celebratory cigar. And while passing out cigars to all of you is what we'd really like to do, logistically it's just not possible.

So we've done the next best thing. Enjoy "Unforbidden Fruit," Renee Covino's article on Cuban cigars appearing in the March/April issue of *TBI* (p. 30) with comments by Dick Dimeola, a premium cigar expert and long-time friend of the cigar industry, Victor Vitale, Marshall Gray and other cigar aficionados. Don't have a hard copy? Your cigar article is available to you on tobonline.com.

For those of us excited about the dynamic growth of the electronic nicotine (c-cig and VTM) markets, be sure to check out this issue's Electric Alley column (p. 42) along with our profile of the innovative vapor company PAX Labs (p. 66). Finally, don't miss Michael Gelfand's Trench Marketing column on Milwaukee's renowned Uhle Tobacco Company (p. 76).

Enjoy—and men, hug the ladies in thanks for originating your special day!

Best to you and good selling,

A handwritten signature in black ink, appearing to read "Ed O'Connor". The signature is fluid and cursive, written over a white background.

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Fewer legal sales won't necessarily mean lower smoking rates.

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A Guide to New and Popular Products

Davidoff to Debut Tampa Flagship Shop

The 5,000-square-foot store will be the company's largest in the world.

Davidoff of Geneva USA plans to cement its commitment to the Tampa Bay area with a new "Davidoff of Geneva—since 1911" store in late 2015. Situated in the MetWest International Retail Village, the 5,000-square-foot store will be the largest Davidoff flagship store in the world—and the company's first licensed flagship store outside of Las Vegas, Nevada. Davidoff of Geneva USA will open the new location in partnership with Jeff and Tanya Borysiewicz, successful owners of Orlando-based Corona Cigar Company.

To create a destination in the Cigar City, "Davidoff of Geneva—since 1911" will feature a completely humidified

store filled with premium cigar retail space, multiple lounges both indoor and out, private lockers, and an elegant full-service bar serving premium alcoholic beverages.

"We are delighted to open a new 'Davidoff of Geneva—since 1911' store in our home market," says Jim Young, president of Davidoff of Geneva North America. "We are particularly excited to do this in partnership with Jeff and Tanya, who have been outstanding Davidoff partners for quite some time. They know how to provide consumers with a premium retail experience, they know our entire product portfolio, and they know our company."

Tampa, with its rich cigar history, is a fitting home for the venture, adds Jeff Borysiewicz, president of Corona Cigar Company. "We're thrilled to expand our retail operations and to serve cigar enthusiasts in the Cigar City of Tampa," he asserts. "We look forward to creating the ultimate cigar experience in a community with such a long history of cigar manufacturing and rich cigar culture. It's an honor to be partnering with Oettinger Davidoff, the global leader in premium cigars and luxury cigar stores, and it is exciting to be building upon the legacy that Zino Davidoff started over 100 years ago."



Mistic Returns to the Raceway

Company plans to continue racing sponsorships it began in 2014.

Value-priced electronic cigarette maker Mistic has decided to continue to serve as co-primary sponsor for the No. 11 car piloted by KVSH Racing's Sebastien Bourdais for the 2015 Verizon IndyCar Series. The company will also retain its associate sponsorship of the SH Racing Rallycross No. 7 Ford Fiesta ST car for the 2015 Red Bull Global Rallycross (GRC) season. Both sponsorships began in 2014. "While traditional tobacco historically has dominated auto racing in the past, we have since become a prominent sponsor within the IndyCar and GRC circuits as e-cigs and vapor products continue to replace smoking," says John Wiesehan Jr., CEO of Mistic. "These platforms have enabled us to build awareness for our Mistic and HAUS brands among adult smokers as significant alternatives to traditional tobacco."

At IndyCar and GRC racetracks during 2015, adult smokers will be able to visit the Mistic/HAUS kiosk and engage with members of the Mistic Pit Crew to learn more about the company's products. Fans will also have the opportunity to ride in virtual race simulators and compete against driver Sebastien Bourdais in mock competitions.

Last year Bourdais finished 10th in the championship with three poles, a win at the Honda Indy Grand Prix of Toronto, and a seventh place finish at the Indianapolis 500. He is a four-time series champion with 32 career wins, 49 podiums and 33 poles.

"We are thrilled to continue our relationship with Mistic for the 2015 IndyCar and GRC series season," says James "Sulli" Sullivan, KVSH Racing partner and principle at SH Racing Rallycross. "Our teams are coming off solid seasons and are poised to continue their success this year, which promises to be very exciting with IndyCar's newly designed aero kits and a host of new venues at GRC races."

Featuring racing at a combination of superspeedways, short ovals, road courses and temporary street circuits, the Verizon IndyCar Series offers its international lineup of drivers the most diverse challenges in motorsports. The top point scorer is crowned the series champion and receives a \$1 million bonus.

The Red Bull Global Rallycross Series features extremely diverse tracks consisting of combinations of dirt and tarmac, as well as other various obstacles. The HAUS GRC car will produce more than 600 pounds of horsepower and can accelerate from 0-60 mph in 1.9 seconds.



HIGHLIGHTS

Washington Legislators Target E-Cigarettes

A new bill would give Washington the nation's toughest laws regulating e-cigarettes.

Proposed regulation in Washington state would require retailers to have a special license to sell e-cigarettes, manufacturers to list all ingredients in e-juices, would ban non-tobacco-flavored vaping products and would tax e-cigarettes at the same rate as other tobacco products (OTPs). As a result, consumers would pay a 95 percent tax on the items compared to the standard sales tax they now pay for e-cigarettes and e-juices.

"Every time we raised the price of cigarettes we reduced youth smoking," said the bill's sponsor, U.S. Representative Gerry Pollet (D-Seattle), who views vaping as an effort by the tobacco industry to create a new generation of nicotine addicts. "It's not safe, it's highly addictive and you don't know what else is in it," he charges.

His proposal spurred hundreds of vapers and e-cigarette storeowners to testify against the bill during a public hearing on March 16 in Olympia, Washington. Consumers who testified shared their stories about transitioning from traditional cigarettes to vaping, many painting e-cigarettes as "a life-changing intervention." They protested the proposal, noting that making e-cigarettes harder to find and less appealing due to flavor limitations might force some consumers to return to cigarettes and dissuade other smokers from switching.

Retailers also protested the proposal. While some are expressing willingness to adopt a licensing process, all expressed concern over the idea of eliminating flavors and invoking a huge tax hike. Andy Kibler, owner of Olympia Vapor in Tumwater, reportedly referred to the proposal as "an atom-bomb approach to something that could be done with a little more finesse."

Cigarette and Tobacco Tax Report

States continue to propose tax hikes, but many are shot down.

In the first quarter of 2015, 19 state legislatures were pondering bills to raise cigarette and/or tobacco taxes. While 23 states introduced such bills last year, only Vermont actually enacted a tax increase on cigarettes of 13 cents per pack.

The following is a look at some of the bills currently being considered at press time:

Alabama: Increase cigarette tax by 32.5 cents per pack (House Bill 45)

California: Increase the cigarette tax by \$2 per pack (Senate Bill 591)

Kansas: Increase the cigarette tax by \$1.50 per pack and raise the tobacco products excise tax to 25 percent (House Bill 2306)

Kentucky: Add 60 cents to the state's cigarette tax rate and also increase the tobacco tax rate to 40 percent (House Bill 132)

Maryland: Raise the cigarette tax by \$1 per pack and increase the tobacco tax rate to 76 percent on most tobacco products except premium cigars, which would remain at 15 percent (Senate Bill 37 and House Bill 108)

Mississippi: A 50 cent per-pack increase in the cigarette tax rate (House Bill 81)

New Jersey: Tax little cigars at the same tax rate assessed on cigarettes (Assembly Bill 1308); tax tobacco products at 90 percent of the wholesale price and increase the tax on moist snuff to \$2.25 per ounce (Assembly Bill 1944 and Senate Bill 1213)

New York: Raise the cigarette tax by \$1.65 per pack (Senate Bill 2687); raise the tax on moist snuff to the higher of 95 percent or \$3.63 per ounce (Senate Bill 702)

North Dakota: Increase the cigarette and little cigar tax by 44 cents per pack and raise the tobacco products tax to 50 percent; increase the tax on moist snuff to \$2.72 per ounce and the chewing tobacco tax to 73 cents per ounce (House Bill 1421)

Ohio: Increase the cigarette tax by \$1 per pack and increase the tobacco product tax to 60 percent (House Bill 64)

Oklahoma: Raise the cigarette tax by \$1 per pack and impose an additional tax on all tobacco products equal to 100 percent of the current tax rate (House Bill 1719)

Oregon: Raise the cigarette tax by \$1 per pack (House Bills 1719 and 2555); increase the cigarette tax by \$1.25 per pack (House Bill 2066); increases the current cigarette tax from \$1.31 per pack to \$3.13 per pack (House Bill 2166); raise the cigarette tax by \$1.50 per pack and increase the OTP tax to 81.25 percent (House Bill 3053)

Pennsylvania: Enact a new tax on tobacco products at 65 cents per ounce (House Bill 199)

Rhode Island: Raise the cigarette tax by \$1 per pack (Senate Bill 375 and House Bill 5732)

Vermont: Raise the cigarette and little cigar tax by \$1.25 per pack and increase the tax on moist snuff to \$3.33 per ounce (House Bill 265)

Virginia: Raise the cigarette tax by \$1.70 per pack, the tax on roll-your-own tobacco to 60 percent, and the tax on loose-leaf tobacco to \$1.26 for every four ounces (House Bill 1590)

Washington: Raise the cigarette tax by 50 cents per pack (Senate Bill 5729) and raise the OTP tax to 110 percent (Senate Bill 5808)

West Virginia: Increase the tax on cigarettes by 50 cents per pack; increase the tax on cigarettes by \$1 per pack and raise the tobacco products tax rate to 50 percent (House Bills 2559 and 2634, Senate Bill 534)

Wyoming: Raise the cigarette tax by 65 cents per pack and increase the OTP tax rate to 46 percent (House Bill 173)

Tell Your Story in *TBI*

Would you like to see your store profiled in *TBI*? Or maybe you'd like to share your point of view or see a particular topic covered in our magazine. If so, we'd like to hear from you at tobonline.com/contact.



Study Addresses Whether the Legal Purchase Age for Tobacco Should Be Raised

NATO's Tom Briant counters the findings of a study on the impact of raising the legal purchase age for tobacco products.

A recent study by the Institute of Medicine (IOM) makes the case that raising the minimum legal age to purchase tobacco products "will likely prevent or delay initiation of tobacco use by adolescents and young adults." The study was an outgrowth of the Family Smoking Prevention and Tobacco Control Act, which required the FDA to convene an expert panel to look into public health implications of raising the minimum age to purchase tobacco products and report back to Congress.

The IOM study focused on determining the public health impact of raising the minimum legal age to 21 and to 25. In a recent report on the study results, the IOM stated that "The impact of raising the MLA [minimum legal age] to 21 will likely be substantially higher than raising it to 19. However, the added effect of raising

the MLA from 21 to 25 will likely be considerably less."

According to the study models, there would be a 3 percent decrease in prevalence of tobacco use among today's teenagers in adulthood if the MLA were raised to 19, a 12 percent decrease if raised to 21, and a 16 percent decrease if raised to 25.

In response to the IOM study announcement, NATO's Tom Briant noted that the problem of underage tobacco use will continue to persist until there is a credible effort to change the willingness of adults of any age to legally buy and then provide tobacco products to underage youth. "While the Institute of Medicine study states that raising the legal age to 21 will substantially reduce the number of 15- to 17-year-olds who begin to smoke or use tobacco products, doing so does not address the

issue of those minors who rely on family members or other people age 21 or older to obtain cigarettes and tobacco products," he pointed out.

A press release by NATO on the topic stated that if a higher legal age is enacted, the same outcome will arise with 18-, 19- and 20-year-old adults who currently use tobacco products. That is, these young adults would likely turn to adults 21 or older to purchase tobacco products for them.

The NATO press release also pointed out that adults should have the right to choose for themselves whether they want to purchase legal products, including legal tobacco products. Since adults aged 18, 19 and 20 can vote and serve in the military, they should be allowed to exercise their right to choose what legal products they desire to purchase and use.

AWMA Changes Name to Convenience Distribution Association

New moniker better describes what the organization does, says the association.

Rob Sincavich, president of Wheeling, West Virginia-based Team Sledd and the 2015 chairman of the American Wholesale Marketers Association (AWMA), has announced that the AWMA Board of Directors approved changing its name to the Convenience Distribution Association (CDA). The new name more effectively describes what the organization is all about, says Sincavich.

"It is who we are. It is what we do," he explained. "We distribute convenience products in varying retail formats and store sizes. We distribute convenience products institutionally. When we talk to our government representatives, they will know who we are and what we do. It makes sense."

The board also endorsed a wide-ranging program of enhancements to the association that include:

- Increased emphasis on government affairs, including the launch of a sophisticated online State Advocacy Center;

- Beefed up industry affairs and member engagement efforts, supported by the hiring of two industry veterans: Steve Shing, formerly with GSC Enterprises, as vice president of member engagement, and David Dresser, formerly of Core-Mark International, as vice president of program development;

- Increased collaboration with a wide range of other industry associations in an effort to improve the efficacy of programs and encourage supply chain collaboration and efficiency;

- The establishment of a series of "communities" designed to allow collaboration and learning, both at person-to-person gatherings and through a

new custom-built online portal;

- Establishment of a Manufacturer Advisory Council designed to get greater input from manufacturer partners;

- New emphasis on digital content delivery to members, allowing the association to provide more information to members, and to make that content more readily available.

The name change will be phased in over the next few months according to Scott Ramminger, the association's president and CEO. "While the AWMA name has served us well, it has presented some challenges. Every time we go to Capitol Hill we have to explain who it is we represent," he says. "Convenience Distribution Association is pretty clear. While we were making other changes, it was a great time to get the name right."

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...

...U.S. Rep. Bill Posey (R-Florida) has introduced a bill to amend the Federal Food, Drug, and Cosmetic Act to “clarify the **Food and Drug Administration’s jurisdiction over certain tobacco products**, and to protect jobs and small businesses involved in the sale, manufacturing and distribution of traditional and premium cigars,” with the bill, which has 34 co-sponsors, referred to the House Energy and Commerce Committee.

...The FDA Tobacco Products Scientific Advisory Committee (TPSAC) has reviewed Swedish Match North America’s application, filed in June 2014, requesting that the agency approve 10 **General-branded snus products** as “modified risk.” Swedish Match failed to get permission for a new label stating that snus is addictive but substantially less risky than smoking, and seeks an exemption from a required health warning relating to oral cancer.

...FDA launched a new “**Harmful and Potentially Harmful Constituents**” (HPHCs) webpage with information on the preliminary HPHC list, industry reporting requirements and the agency’s efforts to communicate to the public about the “dangers of the chemicals and chemical compounds in tobacco products and smoke.”

...Center for Tobacco Products (CTP) Director Mitch Zeller announced changes in membership to the **Tobacco Products Scientific Advisory Committee**, including the resignation or termination of Chairman Jonathan Samet, Claudia Barone, Joanna Cohen and Suchitra Krishnan-Sarin, and the addition of three new members: Pebbles Fagan, Gary A. Giovino and Thomas E. Novotny. The changes follow U.S. District Court Judge Richard Leon’s July 21, 2014 ruling stemming from a 2011 lawsuit alleging conflicts of interest in certain TPSAC members, which requires the agency to reconstitute the panel and bars the use of TPSAC’s 2011 Menthol Report.

...Duke University cardiologist and

researcher **Dr. Robert Califf**, who is currently overseeing FDA’s drug, medical device and tobacco policy, has been named deputy commissioner of the agency, raising speculation that he may eventually be nominated to lead FDA after Commissioner Margaret Hamburg’s departure at the end of March.

...U.S. Sens. Jeff Merkley (D-Oregon), Richard Blumenthal (D-Connecticut) and Ed Markey (D-Massachusetts) met with FDA CTP Director Mitch Zeller in March to call on the agency to finalize without delay its **proposed deeming regulations** for currently unregulated tobacco products including e-cigs, to strengthen the proposed rules to address e-cig flavorings and marketing that they allege are designed to attract children, and to mandate child-resistant packaging for liquid nicotine.

...While keeping a bold-letter warning about suicidal behavior and other psychiatric side effects associated with **Pfizer’s smoking cessation drug Chantix**, FDA on March 9 outlined several updates to its labeling. These include a new



warning about its potential interaction with alcohol in light of reports of unusual or aggressive behavior when drinking while taking it despite information from several studies and analyses by Pfizer that found no difference in psychiatric problems between people taking Chantix and other smoking cessation treatments. However, FDA also said that Pfizer's research did not examine all types of psychiatric problems and had limitations that prevented regulators "from drawing reliable conclusions."

ON OTHER TOBACCO NEWS...

...In a study published on PLOS ONE, researchers at Duke University and the University of Connecticut report that L-menthol, the **menthol isomer** added to cigarettes, appeared to inhibit smoke-induced irritation in mice, making it easier to inhale smoke and increase the dosage of nicotine.

...A new congressionally-mandated

report from the National Research Council and Institute of Medicine states that while there is insufficient evidence to draw firm conclusions, limited evidence suggests that **demand for illegal cigarettes** would not change significantly from new regulations that modify cigarettes, such as lowering nicotine content or making other changes in product design, formulation and packaging.

...FDA Center for Tobacco Products will hold the final in a series of three workshops on "**Electronic Cigarettes and the Public Health**" on June 1-2, 2015 at the Marriott Inn and Conference Center at the University of Maryland University College (UMUC) in Hyattsville, Maryland. CTP intends to "gather scientific information and stimulate discussion among scientists about" e-cigs, with a focus on the impact of e-cigs on population health, addressing topics including: 1) prevalence and patterns of use; 2) impacts on the use of current tobacco products; 3) uptake of

e-cigs by non-users of tobacco products; 4) health effects of e-cigs in non-users; and 5) knowledge, attitudes, beliefs and perceptions about e-cigs. For more information, write to workshop.CTPOS@fda.hhs.gov.

ON HARM REDUCTION...

...Professor Michael Siegel of Boston University's School of Public Health said Nate Miley, a member of the Board of Supervisors for Alameda County, California, became the first public policy maker to **publicly back vaping** as a strategy to combat cigarette smoking by attending the ribbon-cutting ceremony for the opening of a new vape store. At the opening of "Ready, Set, Vape" in Castro Valley, Miley acknowledged the controversy surrounding e-cigs but stressed his support for an intervention that helps smokers get away from cigarettes.

...A study by Lorillard researchers

Rana Tayyarah and Gerald Long that examined the vapor from blu eCigs and SKYCIG's e-cigs in comparison to smoke from Philip Morris USA's Marlboro Gold and Imperial Tobacco's Lambert & Butler cigarettes found that the e-vapor contained mostly glycerin and/or propylene glycol, that the aerosol nicotine content was 85 percent lower than the nicotine in cigarette smoke, and that **harmful and potentially harmful constituents** (HPHCs) in mainstream cigarette smoke were 1,500 times higher than levels in e-cig HPHCs. Commenting on the findings, Professor Michael Siegel noted that they add to the growing body of evidence that e-cigs are "orders of magnitude safer than tobacco cigarettes" and should put an end to e-cig opponents' assertions that vaping is no safer than cigarette smoking. Also commenting on the same study, Jacob Sullum of *Reason* magazine said given the data, "Anyone who implies that e-cigarette vapor is about as dangerous as tobacco smoke

cannot be taken seriously."

...A study by BAT scientists and University of Louisville Professor Brad Rodu analyzed levels of **hydrazine in various smokeless tobacco products** (STP) including snus, chewing tobacco, moist snuff and dry snuff, sold in the U.S. and Sweden. Findings showed that the compound, which is on FDA's list of HPHCs, is not prevalent in the STPs on the market today, and "in the minority of cases where hydrazine might possibly be present, the levels are substantially lower...than those reported previously."

...A newly released 20-page document by **Clive Bates of The Counterfactual** blog provides an overview of e-cigs and the types of e-liquids that consumers use. The document offers evidence countering "half-truths" disseminated by vaping opponents, and sets out four tenets: 1) E-cigs provide a satisfactory alternative to smoking and will displace cigarette use in the consumer market for

recreational nicotine; 2) E-cigs reduce risks to health by 95-100 percent among those who switch and pose negligible impacts on bystanders; 3) E-cigs are a market-based public health phenomenon that does not rely on public spending, coercion, prohibition, taxation, fear or stigma; and 4) The risks of harmful unintended consequences like gateways to smoking are low and unsupported by evidence thus far.

...In an opinion piece on CNN, Marc Scribner of the Competitive Enterprise Institute writes that the U.S. Department of Transportation, which plans to issue a rule by the end of April to **ban e-cig use aboard aircraft**, does not have the authority to regulate vaping even if it argues that it is interpreting "smoking" to cover e-cig use. He cited a statement by the U.S. Supreme Court that an "agency may not bootstrap itself into an area in which it has no jurisdiction" by stretching the language of a statute. **TBI**

MERGERS and MARKET SHARE

In the cigarette category, a large merger is edging toward fruition.

With the Reynolds American/Lorillard merger looming on the horizon, there's much speculation about how the deal will pan out in terms of shifts in the competitive landscape. While the deal awaits final regulatory approval, industry observers are optimistic about its future, with Wells Fargo's Bonnie Herzog rating the probability of Federal Trade Commission (FTC) approval at 90 percent.

"An overwhelming 98 percent of retailers expect the FTC to approve the deal, with some retailers expecting minor modifications or additional brand divestitures since several believe it will be challenging for Imperial to maintain share," wrote Herzog in a recent report on the merger, who notes that the biggest potential issue has been whether Imperial and some of the smaller manufacturers will be able to effectively compete with the newly created entity. "Despite this hurdle, we believe...negotiations are progressing towards ultimate FTC approval of the deal as is or with very minor modifications to ensure Imperial will have a fighting chance."

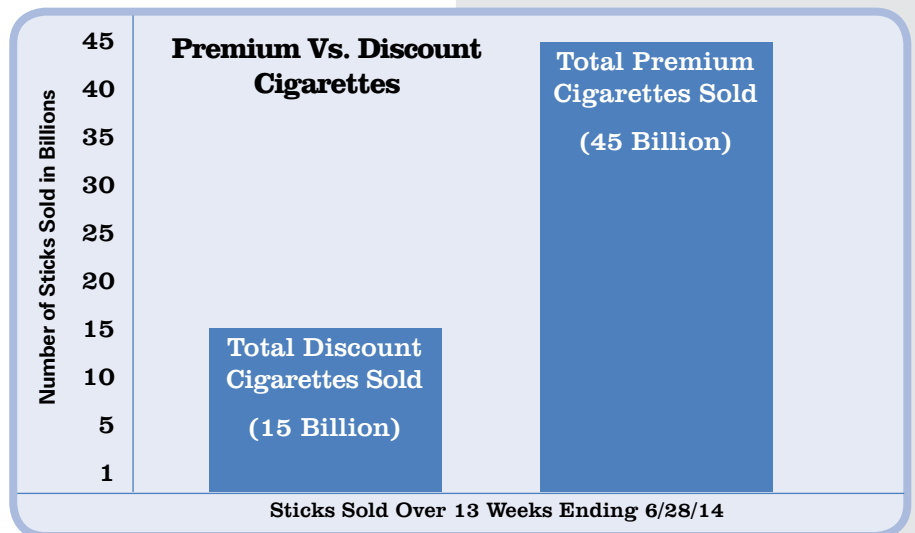
One key consideration by FTC of relevance to retailers is the potential impact of Reynolds adding Newport to its Every Day Low Price (EDLP) retailer program on shelf space constraints for Imperial. "The majority of our retailer contacts do not expect the FTC to require changes to Reynolds' EDLP for the deal to be approved and expect Newport's growth will accelerate if added to this

program," notes Herzog.

Currently, the deal calls for Winston-Salem, North Carolina-based Reynolds American to purchase Greensboro, North Carolina-based Lorillard for \$27.4 billion. The combined entity would retain the Newport, True and Old Gold brands, while selling Winston, Kool, Salem and Maverick brands to Imperial Tobacco for \$7.1 billion. The real coup for Imperial, however, would be acquiring Lorillard's blu e-cigarette brand. Imperial would also acquire Lorillard's manufacturing, R&D and headquarters in the transaction, which would become part of a new U.S.-based subsidiary for the UK-based company, located in Greensboro.

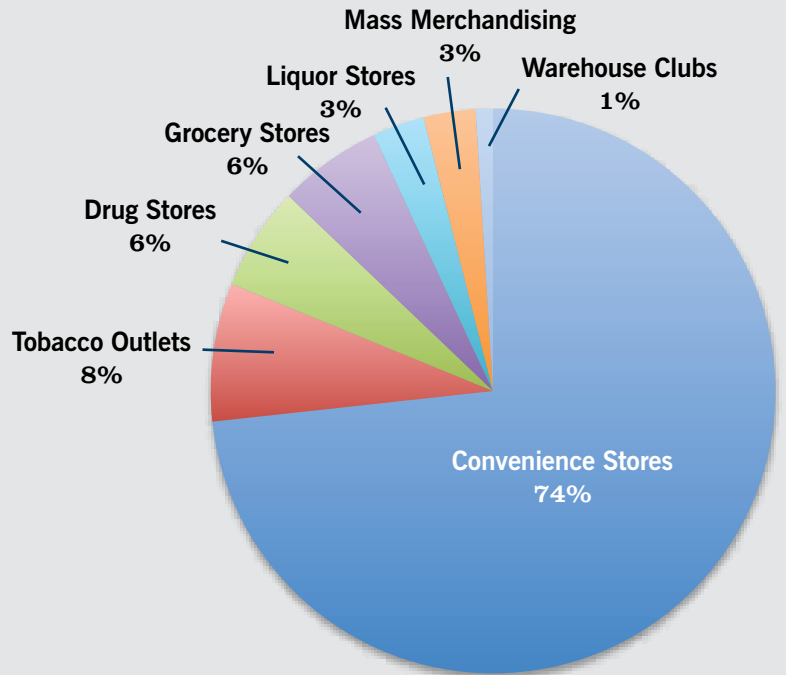
With business going on as usual while the industry awaits a decision from FTC, here's a look at cigarette market share by retail channel:

85%
of retailers
BELIEVE Reynolds' EDLP program will make it **MORE DIFFICULT** for Imperial to compete **POST MERGER.**



PREMIUM CIGARETTE VOLUME BY TRADE CLASS

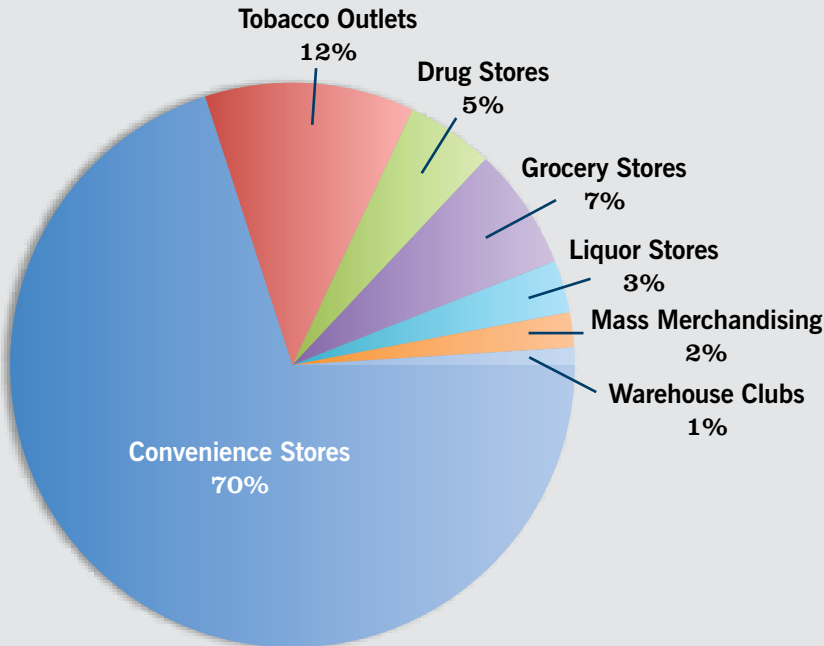
(Data for 13 weeks ending 6/28/14)



C-Stores still account for the vast majority of premium cigarette sales.

Source: Management Science Associates

DISCOUNT CIGARETTE VOLUME BY TRADE CLASS



Source: Management Science Associates

CIGAR SENSE



Banking on Cigars

The decorated bank building from the 1800s might be the pull that gets so many passersby to walk into James and Sons Tobacconists, but it's the investment in excellent stogie sales practice that yields the high customer return.

By Renée Covino



It's hard not to notice something special is going on at James and Sons Tobacconists in Sarasota Springs, New York even before you walk in the door. The door itself is a magnificent work of art—more than 6 inches thick of solid wood with ornate carvings and hand-carved antique brass hinges—attached to an equally magnificent façade belonging to an old bank building dating back to 1866 that opens to antique wood floors, 8-foot windows, marble floors in the main showroom and tin ceilings throughout.

“The building sells my business,” owner Jim Kommer tells *Tobacco Business International (TBI)*, but he's being modest. For the nine years that James and Sons has been in operation, Kommer, along with his wife and (as the banner implies)

two sons involved in the business, continually strives for practices to improve it.

Like his customers, Kommer was drawn to the building when he spotted it more than a decade ago (at the time it was a ladies' boutique) and felt it “reeked of a cigar shop.” As luck would have it, the store became available for rent shortly thereafter so Kommer signed the lease and ran with the old-world theme.

“We added to it with antique pedal cars on top of display areas, carving out a lounge with an old Cuban style and another one in an old English style,” he says. “We wanted people to catch on to the nostalgia going back to the days when cigar smoking was readily acceptable. We get a lot of people who want to just breathe it in;

CIGAR SENSE



they tell us it smells good in here and the whole atmosphere reminds them of their grandfather or their father and the ‘good old days.’ We get that all the time. It’s really a unique place and it feels good that they can get those memories just from walking into our store.”

But in addition to its old bank façade and overall old-world appeal, James and Sons has learned a trick or two of the trade that enables it to bank on its cigar business. Here are a few tips that Kommer is happy to share with tobacco retailers looking to elevate their cigar game:

Bet on boutiques—Boutique cigars are “what we focus on and what seems to work for us,” Kommer explains. “We carry the big-name brands, but we almost do it reluctantly.”

CIGAR SENSE



So what does Kommer like about boutique brands? “There’s a lot of passion in boutiques and I want to support those guys—that’s what it’s all about to me. And more importantly, they have very good cigars. And I don’t steer people wrong. I tell them exactly what I like and why I like it. It takes a little bit to get the more obscure boutiques in people’s hands, especially the older guys who are used to Punch, Cohiba and the like—they get glazed over at times, but then they try it and come back and tell me they’re so glad they tried it and what else can I recommend.”

When James and Sons Tobacconists first started out, Perdomo wasn’t very big but it was a boutique line the store carried. “Now it’s the No. 1 selling cigar in our store,” Kommer relays. “Now it’s

HUMI-HIGHLIGHTS

A walk-in humidor is often one of the best assets a cigar retailer can invest in. Making it notable and noteworthy often takes the cigar-shopping experience up several notches. How to do that successfully varies by store and what it chooses to highlight. Here are three humidor personalities which stand out:

A true cigar vault—James and Sons Tobacconists in Sarasota Springs, New York had the perfect space already carved out for a humidor in its former bank building from the 1800s—an old bank vault. And actually, there are two of them: a main vault right inside the door, about 8 feet by 15 feet, and an “old records vault” around the back of the building, according to store owner Jim Kommer. Both vaults still work; Kommer had the combination changed, but he leaves the vault doors open for old-world effect. While a separate and larger cedar-lined humidor is utilized for cigar stock, the two bank vaults are utilized as storage locker humidors for members with about 60 lockers total. Best of all, the bank vault humidors serve as great conversation pieces and add flair to the store.

A million and counting—Cigar King in Scottsdale, Arizona takes advantage of its industrial location in a serious humidor way. While the store’s large walk-in humidor impressively stocks oodles of hard-to-find premium cigars, perhaps its most impressive feature is a sign that hangs in the humidor telling customers that if they don’t see what they’re looking for, they should just ask. That’s because across the parking lot in a nondescript

building is the “warehouse humidor”—a building that is actually a huge humidor filled with row upon row of industrial racks holding cigar boxes. According to owner Mitchell Hirsh (also known for his high-end watch business, pens/men’s grooming accessories sold at Cigar King, and an online cigar business), the warehouse humidor boasts over 1 million cigars—and yes, often customers are invited to walk across the parking lot and pick up whatever they can’t find in the store. It is a memorable experience as excellent Yelp reviews attest.

Humid in the desert—Cigarbox by FreyBoy Tobacco in Las Vegas, Nevada is another humidor-noteworthy cigar store located in an industrial area (this one between the Las Vegas Strip and the city’s downtown area). Its pristine humidor with every stick in its place is the first statement to customers that it goes the extra mile for humidor perfection. But beyond appearances, Cigarbox’s store humidor (as well as its secondary “stock” humidor in the back) both overcome their desert locale by switching up the humidity based on the season and generally keeping it in the low-to-mid-60s (which, it maintains, is the sweet spot for cigar longevity). The store also makes customers aware of its advanced water-purification system in an effort to overcome the bad perception of Vegas water and the “film effect.” The humidors’ blowers and system were also picked for the way they could be maintained and controlled, avoiding fluctuation in humidity, according to a company spokesperson.



**“WE’RE VERY BLESSED
WITH OUR BUSINESS. WE STRUGGLED
FOR A WHILE IN THE DOWN ECONOMY, BUT
OUR CUSTOMERS STOOD BY US AND WE
CERTAINLY WANT TO GIVE BACK TO THEM.”**

a sought-after brand—I don’t [even] have to mention it. It’s grown over the years...it is an exceptional line of cigars.”

Raffle-dazzle them—It’s not uncommon in the cigar business to invite a vendor in, roll an event around it and offer customers a buy three cigars, get one free promotion or something similar. “But ‘free’ really doesn’t do well for our cigar business,” Kommer believes. He got the idea from one boutique vendor to raffle away a flat-screen television as the event hook instead of offering free cigars, and it did “extremely well,” according to Kommer. Now he is sold on the raffle idea above any other promotion. Be it a TV, an iPad or a Bose stereo system, Kommer promotes the raffle event: “For every so many cigars purchased, the customer gets a raffle ticket for the hot item. The two or three boxes of cigars that the vendor gives us at the event we are now able to sell, and it covers the cost of the raffled product I buy,” Kommer explains. “It’s a win-win for all involved and it drums up more excitement than anything we have done previously.”

Make it a true event—What’s more, the cigar events that James and Sons Tobacconists organizes are “true events” as Kommer sees them, with

live music, local entertainment and bourbon or scotch tastings sponsored by a local liquor store. Instead of closing at 10 p.m. the store typically stays open until midnight or 1 a.m. on an event night. “Customers absolutely love these nights and can’t wait for the next event since we added music,” he says.

Let there be lounge choice—Cigar customers come to cigar stores expecting lounges and, often, club membership benefits, but one size doesn’t fit all in this department, Kommer learned. That’s why James and Sons offers large public and private seating areas as well as various levels of memberships, which feature discounts, private lounge access and private humidor lockers. The private back lounge features large leather armchairs, wooden end tables, an old brick fireplace, large flat-panel TVs with Bose surround sound and a DVD player. The exclusive Black Diamond Club is the latest lounge addition, located upstairs from the James and Sons main store. This is where the Cuban Lounge and English Lounge are found, which offer a “proximity card,” meaning members have 24/7 access.

Love your locals—James and Sons Tobacconists is not only family-run, it’s

community-focused, always looking for new and fun ways to give back to its community. “We’re very blessed with our business. We struggled for a while in the down economy, but our customers stood by us and we certainly want to give back to them,” says Kommer. In addition to throwing customers/members a big holiday party, the cigar retailer put together a special cigar-tasting night certificate that is available to local charities to include in their charity auctions, raffles and giveaways. The recipient of the certificate is entitled to the following:

- One cigar per person in the party (up to eight people);
- Access to the Private Members Lounge which includes the aforementioned secluded back room with large leather chairs, two flat-screen televisions, a DVD player and library, wireless Internet, wireless printer, and a fax machine;
- One-on-one cigar expertise from a store employee who will walk the party through the tasting.

Regarding giving back to the community, Kommer adds that “We’re always trying to upgrade and come up with something else to involve the community. It really works...people take notice of this.” **TBI**



The Power of Pipe Club Camaraderie

A pipe club can be a great way to boost sales.

By Jennifer Gelfand

If you've been trying to figure out how to bring more pipe smokers into your store, it may be time to consider starting a pipe club. Retailers who host cigar clubs or cigar events understand the important boost their businesses receive by offering a social environment where aficionados can share their passion for great cigars. Pipes are no different—there's something compelling about sharing a passion for pipes and tobaccos with friends and peers.

As a retailer, you have the hardest part of launching a pipe club covered: the perfect venue for such a gathering. Your store can serve as a friendly, easy-to-find environment with plenty of tobacco from which to choose. Now all you need to do is follow a few steps to get a thriving pipe club going:

1) Set a Date and Time

It might sound premature, but it's hard to get people excited about something that doesn't actually exist yet. So go ahead and set a time for your first meeting, preferably soon enough that it's worth putting on the calendar

but far enough in advance that you have time to promote it. Six to eight weeks should do the trick.

2) Spread the Word

You'll need to go beyond the obvious move of posting a sign in your store for your communication efforts. If you have a customer email list, send out an invitation to your list and encourage your pipe-smoking customers to bring their friends. A good inexpensive way to get the word out is through social media. Create a Facebook Group that interested customers can join to find out about meetings. Be sure to encourage them to invite their pipe-smoking friends to join. Other great options are pipe forums hosted by websites like pipesmagazine.com or pipesmokersforum.com.

3) Plan Your First Meeting

Make sure your store looks welcoming and inviting, and that there is adequate seating for the crowd you anticipate. If you aren't sure how many to expect, place chairs in small groups so that those who attend can congregate without sitting among empty chairs. Consider

providing snacks and beverages and/or a promotion on pipe tobacco. You may also want to ask one of your vendors to sponsor the event by offering product samples or a special discount.

4) Be a Good Host

When the day is at hand, greet your new pipe club members at the door. Be prepared to facilitate conversation by asking attendees about their favorite tobacco and where they most often enjoy their pipe. Also be sure to have flyers with the date and time of your next meeting available to hand out.

4) Keep Your Pipe Club Growing

Once you have held a few events, the pipe club should take on a life of its own. However, you'll still need to keep the ball rolling by holding meetings regularly and updating your social media sites. Posting comments and photos is a great way to continue the momentum of your group's growth, as is asking questions to get feedback from fellow pipe smokers about the group and about when you meet. It's best to find a time and date that works well for everyone. **TBI**

The Hasty Taxman Cometh

By Renée Covino

Minnesota and North Carolina already tax e-cigs, and 14 other states have introduced bills to follow suit, but lawmakers are being accused of not fully grasping the industry or the true effects of their proposals.

The e-cigarette taxman waits for no one, not even the federal government. While the FDA still considers a national approach to regulating electronic smoking and vapor devices, several state and local governments are pressing ahead with their own agendas for taxation, mostly racing to regulate them as a new source of desperately-needed revenue. But as more states attempt taxation, more are questioning their hasty actions and faulty reasoning in an attempt to thwart them.

Minnesota led the charge in 2012 placing a tax on e-cigarettes that is 95 percent of the wholesale cost. Distributors in that state are required to pay the tobacco tax or risk losing their license. Retailers must purchase e-cigarettes from distributors licensed by the state and are expected to “collect and remit sales tax on e-cigarette sales,” according to the Minnesota Department of Revenue.

For the e-cig/vape user, the Minnesota tax effectively doubles the price of the product, according to Thomas Briant, the executive director of the National Association of Tobacco Outlets (NATO). “A standard e-cigarette in Minnesota is now \$14.99 to \$16.99, but in states without a tax they are \$6.99 to \$7.99,” Briant tells *Tobacco Business International (TBI)*. “So that gives you an idea [of] what a 95 percent tax rate does.”

Last year, 11 states looked at taxing e-cigs, including North Carolina, where the bill was met with opposition from groups like Americans for Tax Reform. In a letter to the Senate Finance Committee, Grover Norquist, president of Americans for Tax Reform, stated “Imposing additional taxes on these innovative products will chase business out of the state and onto the Internet, which is already a significant market to e-cigarettes and vapor products.” Norquist also cited studies showing that electronic cigarettes stand to improve

“There is no evidence-based justification that supports imposing this brand new tax on vapor product retailers and their customers.”

health and prevent disease.

“The imposition of new taxes on innovative products that reduce smoking and people’s dependence on tobacco cigarettes is misguided and will impede proven harm-reduction methods,” he added.

Nevertheless, North Carolina became the only state last year to adopt a bill to tax e-cigs. The Old North state taxes e-cigs much more modestly than Minnesota—it assesses a tax of 5 cents per milliliter of nicotine solution. This “results in a much lower tax on e-cigarettes, about 5 to 10 cents per single disposable e-cigarette, because each sealed nicotine cartridge has about one-half to one milliliter of nicotine solution,” Briant explains.

This year 14 states have bills in place attempting to tax e-cigarettes: Hawaii, Indiana, Kentucky, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oregon, Vermont, Virginia and Washington. According to Briant, eight of these states are proposing to tax e-cigarettes using the current state OTP tax rate—applying a percentage of the wholesale price as Minnesota has done. Four states are looking to tax each milliliter or milligram of nicotine liquid as North Carolina has done.

But two states are attempting to apply the state cigarette tax rate to e-cigarettes. “I don’t know how they would do that administratively,” Briant tells *TBI*. “The products are completely different—20 cigarettes in a pack versus one e-cigarette...it’s really odd. They’re trying to set the same tax on apples and oranges when they’re two different things.”

Meanwhile, strong opposition is coming out against all states

considering e-cig/vapor taxation, no matter the proposed tax formula, in an attempt to bring to light some of the misinformation and faulty reasoning, as many opponents see it. In March, the American Vaping Association submitted written testimony to the New Hampshire House Finance Committee opposing Governor Maggie Hassan’s proposal to impose a new tobacco excise tax on the sale of vapor products as part of the 2016-2017 budget. In his testimony, Gregory Conley, president of the American Vaping Association, writes in part:

“There is no evidence-based justification that supports imposing this brand new tax on vapor product retailers and their customers.

“Discouraging the use of vapor products by adult smokers is not sound policy.

“Thousands of smokers in New Hampshire will make a quit attempt this year. Regrettably, among those using traditional and often state-subsidized therapies like the nicotine patch or gum, approximately 93-97 percent will be smoking again within one year.

“If this tax is enacted, jobs and public health in New Hampshire will suffer. More smokers will continue to smoke and those smokers who do try vapor products will be more inclined to purchase them online or out of state.”

Similar sentiment recently came from a health official in Ohio. American Council on Science and Health Executive Director Gilbert Ross, M.D., says that Ohio’s e-cig tax bill will hurt taxpayers more than it will help.

“The purpose of this harmful, destructive and counterproductive proposal is to attempt to extort money

from addicted smokers and those who have quit smoking by switching to vaping and e-cigs,” he said in *Heartlander Magazine* recently. “So there’s that. The concept that e-cigs should be taxed at such an exorbitant rate is exactly the wrong reason to do this from any point of view.”

He went on to say that switching to e-cigs will be reduced by this “ridiculous tax,” bringing harm to Ohio’s smokers who want to quit. His prediction is that they will keep on smoking and that “over half of them will die prematurely from it.”

What’s more, Ross foresees that with such a tax in place, many vapers will find a way to buy vapes without paying the tax. “Out-of-state and Internet retailers and black markets will thrive, and will seek no identification to check age, nor will they pay taxes,” Ross said in *Heartlander*.

Forbes also recently published an opinion column from Scott Drenkard of the Tax Foundation citing several “faulty reasoning” points regarding Governor Gary Herbert of Utah’s recent blog post on “8 facts about e-cigarettes and their effect on public health,” which purports to explain why the governor has included new taxes on the products in his most recent budget proposal.

“States need to carefully consider whether they tax e-cigs or not, and *how* they tax e-cigs so adults are not discouraged from transitioning to e-cigs from combustible cigarettes,” concludes NATO’s Briant. “As many studies have shown, e-cigs are significantly less harmful than combustible cigarettes and tax policy should not discourage adults from trying e-cigs in place of traditional cigarettes.” **TBI**



The Tobacco Innovation Game: BASES LOADED

By Renée Covino

BEYOND e-cigs and vapor devices, **NEW** tobacco technologies are **STEPPING UP** to the plate with **POWER**. Will reduced-harm products and **OTHER** innovations change up the **COMPETITIVE FIELD**?

Refined vapor products, an e-cigarette that better replicates the combustible smoking experience, heat-not-burn cigarettes, snus and other tobacco products potentially classified as lower-risk, even new gadgets for smokeless and new sizes for cigarillos—tobacco innovation is alive and actively playing ball in 2015.

All this is happening as cigarettes take steps back. According to Nik Modi, managing director of RBC Capital Markets, cigarette volumes are expected to continue declining at the same rate as in the past—about 3 percent—and promotional activity is likely to be lower. He and other industry experts look to category innovation as viable, growing facets of the market.

“We have long believed technology will play a pivotal role in shaping the future of the tobacco industry,” states Bonnie Herzog, beverage, tobacco and convenience store analyst at Wells Fargo Securities.

Meanwhile, some health officials are backing the new ideas; one health-consulting firm recently



even decided to back a Big Tobacco company that it believes to have big ideas. In March, Maryland-based Pinney Associates entered into a partnership with Reynolds American units Niconovum USA and R.J. Reynolds Vapor Company. Pinney Associates CEO John Pinney said that Reynolds' commitment to invest in reduced-harm products convinced the health firm to enter into the partnership because "If we can help Reynolds accelerate a market transformation away from combustion cigarettes, then our collaboration with them should [help prevent] death and disease while helping them realize their business imperatives," reported the *Winston-Salem Journal*. One particular area of focus for Pinney is to correct consumers' misperception that

nicotine is a serious health risk, according to the company.

Refined e-cig/vape devices—Advanced-generation electronic smoking devices have hit the scene fast and furiously, especially since many consumers found fault with or did not come back to some of the initial products. Both cig-alikes and mod vapor devices continue to have room for improvement.

Regarding traditional e-cigarettes, some experts say that the early models did not deliver enough nicotine to satisfy a smoker's cravings and so in recent months, several companies have ramped up nicotine levels in their e-cigarette brands. For instance, blu

eCigs upped the nicotine output of its latest device by about 50 percent and Altria's MarkTen e-cigarette increased its nicotine concentration by about 65 percent, according to industry reports. Blu reportedly increased its nicotine concentration and incorporated a larger battery to produce higher heat.

NJOY uses a pharmaceutical ingredient in a new version of its device that it reports will increase vapor absorption in the lungs and elevate nicotine delivery to about 70 percent of a cigarette.

Some traditional e-cig companies are unveiling new mod products, perhaps to solve their earlier model inefficiencies with certain customers. CIGR8, based in Las Vegas, recently launched a product



Vuse uses a “vapor delivery processor” that communicates up to 2,000 times a second with a smart memory chip to monitor and regulate each puff.

called the CIGR8 EZ Mod, which offers a “longer battery life and increased vapor production,” with a suggested retail price of under \$40, according to the company. The product comes with a rebuildable atomizer/coil, a USB charger, a 4ml refillable glass tank and an organic cotton wick. CIGR8 Sales Director Peter Basham says the EZ Mod is “easy to use and easy on the pocketbook.”

R.J. Reynolds Vapor Company recently completed the final wave of national expansion for its Vuse Digital Vapor Cigarette, which is praised to be on a more advanced track to solve the vapor inconsistency found in basic e-cigs. Vuse uses a “vapor delivery processor” that communicates up to 2,000 times a second with a smart memory chip to

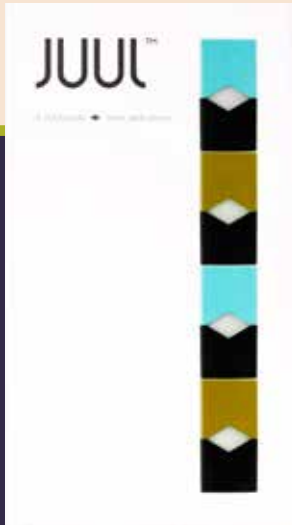
monitor and regulate each puff, counting down the puffs and creating “the perfect puff” every time, according to the company.

From the vaporizer realm, Vapor Corp. (which oversees “The Vape Store” retail chain, in addition to its manufacturing/distributing arms) is releasing down the pipeline a patent-pending vaporizer with a biometric fingerprint-locking system that will allow people to use their “unique set of biometrics to lock and unlock their vaping devices,” Jeff Holman, CEO tells *Tobacco Business International (TBI)*. “This will prevent unwanted users, especially children, from using the product. Vapor Corp. is proud to be one of the first companies to tackle this problem head-on, in an

effort to better protect our children. This kind of personalized vaporizer perfectly demonstrates how ubiquitous biometrics is becoming across all industries and verticals, including the vaping world.”

PAX Labs (formerly Ploom, a trademark which was recently acquired by JTI along with several patents) has brought new personal vaporizer innovation to market with its next-generation PAX 2, building on the success of PAX, which sold well over a half-million units and is “impressive, given the price point is typically around \$250,” according to Herzog.

The original PAX has been described by industry bloggers as the “iPhone of vaporizers,” and now PAX 2 expects to surpass that with major performance



“IT’S NOT GOING TO BE A ROUND TUBE WITH A GLOWING TIP. IT WILL BE A REALLY BEAUTIFUL OBJECT WITH A TON OF CORE TECHNOLOGIES IN IT.”

improvements, such as a 30 percent longer battery charge, faster heating up and a 25 percent reduction in size. It also claims to be more durable and easier to clean than the original PAX. A lip-sensing technology was developed “where the device knows when you have it in your mouth and can adjust [the] power setting [to] be more dynamic and energy efficient,” says Adam Bowen, CTO. He also describes some “hidden features and functionality that we built in, just because we have several engineers who are dreaming this stuff up and want to make the product really engaging and fun. So there are some modes and functionality that’s built into the product that isn’t even in the manual, but we know this is going to surprise and delight

our consumers if they discover them.”

At press time, PAX Labs also unveiled what it describes as a “fundamentally different” e-cig and e-liquid platform. In the works for years, according to the company, the product uses the nicotine salts found in tobacco leaves rather than free-base nicotine, which is what most products on the market use.

“The vast majority of consumers who try e-cigarette products are dissatisfied with them, there’s no doubt about that,” asserts James Monsees, CEO of PAX Labs. “So what we’re trying to do is really close that gap [between what people want and what the industry has to offer] and this is the product that’s going to do that. It is a product that’s ultimately going to change the nature of the e-cigarette

industry.”

In short, PAX’s e-cigarette product aims to better replicate the combustible smoking experience than current e-cigs on the market. It also looks different than existing products, notes Monsees. “Packaged in sleek, stylish hardware that is convenient and practical, JUUL represents a major step in this new and constantly evolving industry,” he notes.

Herzog says she is “encouraged by PAX’s expected e-cig lineup, which sounds like a differentiated product and not just another ‘me too’ product.” She adds that she believes that “Innovation is crucial to drive momentum in the vapor category.” (For more on PAX Labs, see feature story, p. 66)



iQOS consists of a Marlboro-branded tobacco heat stick, as well as a pocket-size charger and a heating element.

Category innovation has also come in the form of hybrid devices. As recently reported in *TBI*, the Mystic Bridge is a refillable tank, like the one used in personal vaporizers, that fits onto cigarette-like batteries like a cartridge. This allows users to vape any e-juice in the convenience of an e-cig.

Heat-Not-Burn Sticks—This is being labeled as the next innovation by analysts like Modi because “It gives smokers a better experience than e-cigs,” he says. He does recognize, however, that “Taste is the problem with these products currently.”

Specifically, these products are slender, tube-like devices that give users as much nicotine as the real thing by heating, not burning, tobacco, say the Big Tobacco companies who make them, such as Philip Morris International and Reynolds American. The main distinction between them and e-cigarettes, which use liquid nicotine, is that heat-not-burn devices contain real tobacco. While these “safer” cigarettes are not new (Philip Morris says it spent about \$2 billion since 2008 developing such alternatives, reported the *New York Times* recently), the newest versions claim to be more technologically advanced.

Philip Morris actually created a series of products which will be released over time. iQOS is the first and has already

rolled out nationally in Italy and Japan. Additional markets are slated for 2015 and beyond. iQOS consists of a Marlboro-branded tobacco heat stick, as well as a pocket-size charger and a heating element. Its second heat-not-burn product is termed Platform 2; it is reportedly undergoing clinical studies and will launch as a pilot in cities in 2016. It contains a capsule of pressed carbon that burns, but is separated from the tobacco stick portion of the cigarette-like design.

Like Philip Morris, Reynolds had an early heat-not-burn product, Eclipse, which first launched in the mid-1990s with minimal success. Now its new Revo—a cigarette that uses a carbon tip that heats tobacco after being lit—hit the market in February. The brand was launched with a marketing campaign that let smokers know it’s different and harder to use than a traditional cigarette, but that they should “stick with it because it’s totally worth it,” according to Brice O’Brien, company spokesperson. Revo will reportedly cost about the same as a premium pack of regular cigarettes, which varies across the country but averages around \$6.

Scientific studies are underway and early reports show that there is far less cell damage with heat-not-burn devices than with combustible cigarettes.

The heat-not-burn initiative has also

given way to other innovative ideas such as an inhalable nicotine spray marketed by British American Tobacco, which late last year won approval from British drug regulators.

Modified-Risk Snus?—Right at press time in April, the industry received news that the Food and Drug Administration’s Tobacco Products Scientific Advisory Committee (TPSAC) concluded that Swedish Match North America’s (SMNA) General brand snus should not be allowed to carry modified-risk tobacco product (MRTP) warning labels. While snus is not a new tobacco innovation per se, the classification of it as an MRTP would be enormously novel, and would set the stage for many new innovations to come.

SMNA submitted applications for 10 General snus products, a move which many industry experts believed would potentially pave the way for the first FDA approval of an MRTP and set a precedent for companies seeking to make similar claims. While FDA is not bound by TPSAC’s recommendations, it typically follows the committee’s advice.

In a preliminary review of SMNA’s application on the FDA website, the agency did state that there was no evidence of an association between snus and lung cancer or chronic obstructive



pulmonary disease. But it said that it had concerns about the company's proposed softer warning because a number of studies found associations between snus and pancreatic cancer, heart attacks, stroke and diabetes.

The cigarette and e-cigarette industries, some of which are also developing MRTPs, have been closely following the progress of the SMNA application, the first to be reviewed by FDA since it gained authority to regulate tobacco in 2009. SMNA requested to remove warning labels about mouth cancer, gum disease and tooth loss, and replace a warning that smokeless tobacco is not a safe alternative to cigarettes with one that says its snus is less risky than cigarettes. The company believed it had a strong case, as snus use in Sweden has risen over the past 30 years, during which time the country's smoking rates have fallen to the lowest in Europe. SMNA and some researchers attribute much of the decline to smokers switching to snus.

But now the TPSAC vote is a setback, with any potential future positive outcome from modification to the current application or a re-application likely to be delayed for another 18- to 36-plus months, according to a statement made by Nomura.

Nomura also said that it was unlikely that the first MRTP application was going to get "everything correct" given the ambiguity of the FDA guidelines around the applications, but SMNA and other companies can learn from the latest development and "adjust accordingly."

Nomura noted that others might have

a better chance of success if they apply only for modified-risk status—it said that SMNA might have impeded its MRTP application by not separating it from the application for a warning label change.

Miscellaneous Newsmakers—It doesn't take a new tobacco category these days to get innovation attention. Accessories and gadgets are still a sweet spot, including FLASR based in Atlanta, which manufactures pocketsize portable spittoons, targeting moist snuff users. The company said that it recognized the need for more discreet and convenient disposal of moist tobacco by-product and in 2012 introduced the FLASR 4-ounce pocketsize portable tobacco flask with unique bottle designs and a "revolutionary" Thumb-Lok Twist Cap, innovation that "virtually

eliminates the risk of spills and leaks," says Everett Dickson, CEO.

In the past six months the company has gained more widespread recognition with several major marketing partnerships, including the Championship Bull Riding Tour, NASCAR driver Reed Sorenson, and Tommy Baldwin Racing (TBR).

Beyond gadgets, can the well-established cigarillo change its stripes? Trendsetta USA based in Miami is betting it can. The company just introduced Extendos by Splitarillos, which at 8.5 inches long is double the length of a standard 4.25-inch cigarillo.

"In the last 25 years there have been three major innovations that have reinvigorated the machine-made cigar business and have the industry forever: the introduction of flavors designed to give the adult consumer a variety of taste profiles to choose from, the foil-wrapped cigars replaced the industry standard cellophane wrap to lock in freshness, and the traditional five-pack box of cigars was replaced by the resealable pouch to lock in taste and freshness," Bill Schoep, senior vice president of sales, tells *TBI*. "We feel Extendos is the fourth such industry innovation."

Standard cigarillos are reportedly made by halving the 8.5-inch product to create multiples. "By simply omitting the process, we've recognized an opportunity that some 100-year-old companies didn't see," Schoep adds. "It's a direct response to tobacco enthusiasts' request for a product that allows them to enjoy twice as much from one cigarillo with less frequent relighting." **TBI**



DARKS

The DARK SIDE of TAX HIKES

**Smuggling,
theft and thriving
illicit trade
are the side
effects of state
tax hikes.**

By Jennifer Gelfand

Every day, hundreds, if not thousands, of commuters emerging from the dark and gritty New York City subway are confronted with the reality of illegal cigarette sales. “Marlboros, Marlboros, Marlboros...get your Marlboros here,” murmur the seedy-looking sellers of black market cigarettes who lurk in train stations, subway stops and other places where commuters are likely to pass by.

What’s more, those individual sellers are just the tip of the proverbial iceberg—organized criminals have taken cigarette trafficking a lot further, opening small corner shops to use as fronts for

the sale of large quantities of contraband cigarettes. In fact, experts report that more than 60 percent of cigarettes in New York state are illegal. In some cases, the contraband cigarettes were stolen from wholesalers or retailers, but most cases involved cigarettes purchased in a lower tax state and brought to New York, where New York State’s \$4.35 per-pack excise tax plus the city’s \$1.60 per-pack levy creates a lucrative environment for illegal activity.

“Penalties for trafficking in cigarettes are weak while the incentive to smuggle is strong,” notes New Tobacco Road, a website dedicated to chronicling black

WIDE



market activity. “Smugglers purchase tobacco products in states with lower taxes, transport them up I-95 to states with higher tax levies, then sell them on the black market, reaping huge profits and robbing states of legitimate tax revenues. The risk versus the reward is heavily weighted in favor of reward.”

Generally, state law enforcement departments lack the necessary tools to combat cigarette trafficking. Furthermore, smuggling tobacco is largely treated as a minor crime, with penalties that aren’t severe enough to deter criminals. “Because officials are faced with many other important law-enforcement

missions, cigarette trafficking is often lower on the priority list, competing for scarce resources,” alleges New Tobacco Road.

While states suffer the loss of tax revenues due to smuggling, retailers also lose out. As the availability of illicit cigarettes grows, legitimate businesses lose sales to black market competitors selling cheaper cigarettes illegally. “If you’re an honest retailer, you’ve got a lot to lose,” Jeff Smith III, an industry leader who represents the Virginia Wholesale Distributors Association, told New Tobacco Road.

As Richard Marianos, retired assistant

director of the Bureau of Alcohol, Tobacco, Firearms and Explosives, points out, the rise in black market activity also exposes America’s youth to tobacco use. “It is well-known that crooks don’t care about the rules, the law, or our children,” he notes. “They care about the profits they reap from illegal tobacco trade.”

BEYOND THE BIG CITY

The black market problem is not exclusive to New York. According to the Mackinac Center for Public Policy’s annual analysis of estimated cigarette smuggling rates, after New York’s 58 percent, the most inbound cigarette

DARK SIDE

smuggling takes place in Arizona (49.3 percent), Washington (46.4 percent), New Mexico (46.1 percent) and Rhode Island (32 percent). As taxes rise, so does criminal activity. In other words, it's not a coincidence that New York's cigarette excise tax has increased by 190 percent since 2006 and black market trade in the state jumped by 62 percent during the same period. During 2013, Illinois' smuggling rate increased the most, with black market cigarettes going from 1.1 percent of the market in 2012 to 20.9 percent of the market in 2013—that hike followed a state excise tax increase of \$1 per pack enacted in mid-2012.

Conversely, outbound cigarette smuggling (where lower-taxed cigarettes are purchased to sell in higher-taxed states) was highest in New Hampshire (28.6 percent), Idaho (24.2 percent), Virginia (22.6 percent), Delaware (22.6 percent) and Wyoming (21 percent).

SOLVING SMUGGLING

What's to be done to curb the craziness? "Rampant smuggling can be thwarted to a degree by cutting taxes, improving law enforcement operations, or both," suggest Mackinac Center report authors Michael D. LaFaive and Dr. Todd Nesbit. "We strongly suggest the former route. Higher excise taxes are the root of the problem so lower ones should be at the forefront of a solution."

“Smugglers purchase tobacco products in states with lower taxes, transport them up I-95 to states with higher tax levies, then sell them on the black market, reaping huge profits and robbing states of legitimate tax revenues.”

Other measures that may help include boosting public awareness of the problem and creating tougher penalties, note the authors of *New Tobacco Road*, who feel that strong deterrents are desperately needed. "States need to create tougher penalties for cigarette trafficking and provide law enforcement with more resources and more incentives to make stopping cigarette smuggling a priority." Retailers can also help by monitoring local activity and writing their legislators to support tougher laws in the wake of incidents reported in the media.

Such is the case with the 2015 study just released by the Mackinac Center for Public Policy, pointing to the continued flood of tobacco smuggling along I-95, which has been dubbed the "New

Tobacco Road." And now, there has been an eruption of smuggling in the Chicago and St. Louis area where local jurisdictions have slapped new, huge tax levies on cigarettes.

A SAMPLING OF SMUGGLING ACTIVITY

In New York state, a tobacco strike force is cracking down on illegal cigarette smuggling and sales. Below are a few examples of the criminal activities that they have investigated.

OPERATION TOBACCO ROAD

In June of 2014, Samir Ramadan pled guilty to corruption charges in a massive cigarette smuggling operation allegedly led by his brother Basel Ramadan. The brothers, who lived next door to each

DARK SIDE



“It is well-known that crooks don’t care about the rules, the law, or our children. They care about the profits they reap from illegal tobacco trade.”

other, reportedly used business fronts in Virginia to purchase cigarettes wholesale and sold them untaxed in New York City at a pace of roughly 20,000 cigarettes a week, the indictment states. Records suggest the ring sold 1.37 million cartons of untaxed cigarettes between December 2008 and May 2013, generating more than \$10 million in profits. The charges allege that the operation cheated New York state out of \$80 million in cigarette tax revenue.

FLEEING FRAUDSTER

In May 2013, Najd Khalil, his two brothers and four other suspects were

arrested in a pre-dawn raid of Providence, Rhode Island convenience stores in which federal agents and state police seized \$100,000 in cash, four vehicles and a large amount of illegal cigarettes.

A federal indictment stated that the group bought more than 30,000 cigarette cartons from a Sam’s Club in Virginia using phony corporate accounts for businesses that didn’t exist, moved the cigarettes to Rhode Island and sold them at full retail price, evading more than \$1 million in sales tax and pocketing huge profits.

Convicted of transporting contraband cigarettes, food stamp fraud, money

laundering and Social Security fraud, Najd Khalil later tried to flee the country, but was apprehended.

BLACK MARKETER IN THE BRONX

In May 2014, Bronx resident Mouhamadou Konate, 41, was arrested for the possession and transportation of untaxed contraband cigarettes. The New York State Department of Taxation and Finance seized black plastic garbage bags stuffed with 997 cartons of Marlboro, Newport, Parliament and Kool brand cigarettes bearing Virginia stamps. **TBI**



ARE YOU READY *for* Vapor Expo International?

Opening on June 17, this second-annual, two-day event will feature more than 200 vapor product suppliers and exciting educational seminars.

In June, vapor category manufacturers, distributors, wholesalers and retailers will gather for a not-to-be-missed industry event. Vapor Expo International (VEI) is the “premiere trade show that continues to bring the world of vapor together for two days to meet, do business and learn what to expect as the vapor phenomenon continues to expand across the globe,” says Ed O’Connor, president of TMG International, owner of *TBI*, *Vapor Consortium International* and the Tobacco Plus Convenience and VEI shows.

In addition to a jam-packed trade show floor showcasing every type of vapor product and accessory on the market today, the event will also feature peer networking opportunities

and educational seminars where attendees can learn about the latest regulatory developments and trends affecting the category.

A State of the Industry presentation will open the show, with two industry experts offering their perspectives on where the category is today and where it’s headed. Wells Fargo’s Bonnie Herzog will kick off the session, addressing:

- **E-Cigarette Sales Trends:** A look at the latest sales data, the category’s prospects for Big Tobacco versus smaller contenders, and other market trends;

- **The Retail Landscape:** How will traditional channels, such as tobacco shops and c-stores, and the up-and-coming vape shops carve up the market?





Vapor Expo International



- **Cig-alikes vs. Tanks:** Cig-alikes are viewed as an easier transition for smokers, but tank-style vapor devices offer economy—will one format prevail?

- **Tax Trends:** Will the federal and/or state governments begin taxing e-cigarettes—and if so, how?

Troutman Sanders' Bryan Haynes will follow that overview with a look at the e-cigarette regulatory environment, including an update on FDA proposals and state regulatory initiatives. An accomplished trial lawyer who has served as lead counsel in state and federal courts around the country, Haynes' practice focuses on representing tobacco manufacturers, distributors, retailers and suppliers in all aspects of their businesses, including regulatory compliance, FDA requirements, administrative disputes involving a federal or state governmental entity, commercial agreements and tobacco taxation matters.

Day two of the show will feature a Vapor Industry Overview Panel discussion focusing on the latest regulatory developments, product innovations and the evolution of the manufacturing and retail landscapes, as well as other market trends shaping the exploding vapor category. Representatives from the top electronic cigarette associations, including SFATA, TVECA and AEMSA, will offer their perspectives and address questions about the future of this exciting category.

TBI hopes to see you at this year's VEI, which promises to be even bigger and better than last year's hit show. For more information or to register for attendance, visit vaporexpointernational.com. **TBI**



INDUSTRY EVENT



PAX Labs: *Dedicated to Innovation*

How a California company plans to revolutionize the vaping category.

By Jennifer Gelfand

“If we don’t innovate, we won’t succeed,” is the mantra of the management team behind PAX Labs, a manufacturer of premium vaporizers. It’s a fitting maxim for a company founded by two Stanford University students who met while pursuing master’s degrees in design. Chatting during a smoking break at school, James Monsees and Adam Bowen began ruminating on the many faults of traditional cigarettes and how they might improve that centuries-old design.

That conversation led to the launch of Ploom, a company dedicated to finding a better option for smokers. Ploom went through the usual gyrations plaguing technology startups, including Chinese-made e-cigarettes beating its first product to market, difficulty raising funds, and a first product that failed to win consumers over. However, its founders persevered and, in 2012, unveiled the PAX. Similar to other personal vaporizing devices in that users take in nicotine and flavor in the form of vapor, the PAX allowed smokers to continue using traditional tobacco by placing it in a stainless steel bowl built into the loose-leaf vaporizer, which uses heat-not-burn technology.

“The PAX 1 was a huge success,” says Bowen. “We’ve sold well over half a million of these





vaporizers and for good reason: they have a lot of powerful technology built into them underneath a sleek exterior.”

Now, the company—which recently changed its name from Ploom to PAX Labs—has followed up with a second-generation product: the PAX 2. “It’s a dramatically improved version of the PAX product,” says Monsees, who notes that the company took customer feedback on the PAX to heart when designing its successor. “We captured as many consumer insights as we possibly can and all of that information has been rolled into a dramatically improved product in PAX 2.”

The \$280 PAX 2 is 25 percent smaller, lasts 30 percent longer and heats up faster than its predecessor. “We simplified the assembly of the product so that it only has one moving part, which is a button,” says Bowen. “That means it will be a lot easier to maintain and clean. It will also be more durable.”

Many of the new features were things that customers had been clamoring for, but some were things that PAX Labs simply thought they should have. “For example, we developed a lip-sensing technology where the device knows when you have it in your mouth and can adjust [the] power settings [to] be more energy efficient,” explains Bowen. “It’s also just a lot tighter- and clearer-looking than PAX 1.”

“Size or format, cig-alikes, tanks, mods—they all lack the nicotine experience that comes from a cigarette. So in our R&D we were laser-focused on solving this one aspect, and we did it.”



James Monsees and
Adam Bowen co-founded
PAX Labs



JUUL features:

- Liquid-to-wick cartridge system
- Small battery with a high discharge rate—200 puffs per day
- Internal temperature regulation
- Ease of use: simply insert JUULpod into JUUL and draw
- Battery charges two times faster than the average e-cigarette
- Indicator light communicates battery life and pull strength
- Unrivaled patented technology
- USB charger with magnetic contact
- Available in four flavors: tabaac, miint, fruit and bruule

AN E-CIG ENTRY

This PAX 2 won't be the only innovation to come out of PAX Labs this year, according to the company's founders, who are promising to launch a game-changing e-cigarette. "It's a new category for us, one that we've been working on for years," says Bowen. "It's an e-cigarette but one that's fundamentally different and better than anything on the market."

As a smoker himself, Bowen has tried hundreds of e-cigarettes, hundreds of e-liquids and has been frustrated with them all.

This Spring, PAX Labs debuted a new e-cigarette, JUUL, unveiled with much fanfare by the company, which describes it as "the only alternative smoking product that delivers a nicotine experience truly akin to a cigarette, with two times the nicotine strength and three times the vapor quality of leading competitive products."

PAX's Bowen had been promising a revolutionary e-cigarette product for several months, paving the way by recounting his own frustration as a smoker trying to find a satisfying e-cigarette experience. "Size or format, cig-alikes, tanks, mods—they all lack the nicotine experience that comes from a cigarette," he told participants in a recent conference call hosted by Wells Fargo. "So in our R&D we were laser-focused on solving this one aspect, and we did it."

After extensive research on the e-cigarette

market, PAX Labs concluded that using pure nicotine rather than tobacco leaf was the problem. "You don't find free-base nicotine in nature...what you find are nicotine salts, which is a nicotine complex mixed with organic acids to form a salt," Bowen explains. "This was a huge discovery. We were then able to reverse-engineer what's going on in nature, adapt it and turn it into a proprietary nicotine salt technology that works perfectly in our e-cigarette platform."

Shortly after that call, PAX Labs released JUUL, an e-cigarette that uses nicotine salts found in leaf tobacco, rather than free-base nicotine, as its core ingredient. "There is a huge, unsatisfied demand for a product like JUUL," says Monsees. "The most conservative estimate is that 60 percent of smokers have tried e-cigs. That's more than 24 million smokers; however, only about 2.4 million became regular e-cig users, as most consumers returned to combustibles. That's a huge gulf between what consumers want and what the industry has been able to offer, until now. JUUL is the product that smokers want. Smokers will try it and keep it, because it delivers the satisfaction they demand."

Bowen is equally enthusiastic about the product's potential. "It's fundamentally different from what's currently on the market—a night-and-day experience," he says. "We're going to introduce in the very near future the first meaningful and really viable alternative for smokers." **TBI**



Get Your Vape Game On

Are you ready to get your share of the VTM market?

By Norm Bour



There's no denying it. The world of vaping is revolutionizing the tobacco landscape—which means your business needs to adapt to thrive in the evolving world of tobacco retail.

VYING FOR THE VTM MARKET

As you probably know, the new vapor market is becoming known as the VTM market, which stands for vapors, tanks and mods. That includes e-cigarettes (e-cigs) or cig-alikes, vaping devices that are more mechanical in nature, and the world of e-liquids.

Wells Fargo Securities projects that this new market will generate \$3.5 billion in annual sales in 2015, up from \$2.5 billion in 2014, and that it will grow to be a \$10 billion market by 2018. By 2025, the VTM market could exceed conventional tobacco. What's more, profit margins on hardware are excellent, and the margins on e-liquids are even better.

Already, vape-only shops are springing up across the country, competing with traditional tobacco outlets and smoke shops for nicotine consumers. Though the industry lacks metrics due to its newness, it

is estimated that there are 6,000 to 8,000 brick-and-mortar locations nationwide. That's a huge jump from an estimated 1,500 to 2,000 shops in 2013. More and more outlets and smoke shops are also finding success pursuing the category, as evidenced by the two examples to follow.

PURSUING PROFITS

In 2014, Chad Love bought a Wytheville, Virginia-based smoke shop that had been a staple in the community for years. After rebranding the shop to Blue Ridge Smoke and Vapor, he investigated his options to



increase the shop's profitability. Tobacco products sold well, but the margins were getting tighter each year.

So Love remodeled and converted about half the store to vaping products. He added a tasting bar and engaged an entirely new crowd. He also supported loyal smokers who were trying to quit smoking and converted many of them to vaping. Education was a key component and instead of just to selling them, he empowered his long-time smokers.

"We had many customers who smoked for decades and were never able to kick the habit," Love said. "Patches and gums didn't work, but vaping did. The result was that we gained a loyal following that was appreciative as well."

According to Love, vape revenues are increasing by about 20 percent every month. As this volume increases, they are devoting more retail space to vaping hardware and e-liquids.

"Initially about 20 percent was vape, but now



we're almost at half and growing," he said.

Blue Ridge Smoke and Vapor primarily caters to beginners; sales are equally distributed between hardware and e-liquids. They don't get into expensive mods and mechanical devices since their customers aren't looking for high-end products.

TIME FOR A CHANGE

Pipe Palace in Seattle, Washington began as an antique shop in 1969. One of its customers offered to sell custom and historic smoking pipes, which ultimately became more profitable than the antiques.

Owner Debbie Hopgood seized the opportunity and converted Pipe Palace to a smoke shop. She recently added vape products, working together with her manager Lola Dangerzone.

"We recognized these were innovative products, but had no idea they would change the industry," Dangerzone recalls of the store's decision to start selling NJOY products.

Dangerzone says Pipe Palace would like to offer products that are "hip, cool and inviting." Their inventory has shifted to

about 85 percent tobacco and 15 percent vape products. The percentage of space devoted to vape products is growing; of their vape product inventory, e-liquids are the hottest sellers.

While Dangerzone does not plan to offer fancy mechanical devices or mods, Pipe Palace will continue to focus on starter kits and e-liquids.

Pipe Palace is known for being innovative and eclectic, with a solid collection of briar and Meerschaum pipes, lots of t-shirts and, of course, their staple of tobacco and now vaping products. In addition to regular and loyal customers, they also get a lot of tourist traffic because the shop is located close to major attractions—the Seattle Museum and the Seattle Aquarium.

EMBRACING THE FUTURE OF VAPE

As these examples show, tobacco shops are well-positioned to segue into VTM sales. The bottom line? Making the transition takes time and commitment, but pays off handsomely for those who make the investment. **TBI**

Norm Bour is the founder of VapeMentors, which offers online educational programs, services and resources for anyone in the vape space, including vape shops, online stores and e-liquid brands. He's also host of "Vape Radio," a podcast series that interviews the masters of vape and thought leaders in the vape world. To learn more about VapeMentors resources, contact him at norm@VapeMentors.com.



Why an Excise Tax on Cigarettes Won't Work

Fewer legal sales won't necessarily mean lower smoking rates.

By Michael D. LaFaive and Todd Nesbit, Ph.D.

The Washington State Legislature appears again poised to go to the cigarette excise tax well. A proposal to hike the state's excise tax by another 50 cents to \$3.52 per pack would exacerbate an already large smuggling problem and offer little in the way of gains to public health.

We have created a statistical model to measure the degree to which cigarette smuggling occurs in most of the United States. Through 2013, our model reported that Washington had the third-highest smuggling rate among 47 states. Our estimate shows that, of all the cigarettes consumed in Washington that year, 46.4 percent were obtained as a result of tax evasion or avoidance. The state's smuggling rate would be four points higher if we did not subtract out cigarette smuggling exports going to Canada.

We are not the only team of scholars to tag Washington state with a very high smuggling estimate. On February 19, the National Research Council and the Institute of Medicine released its own state-by-state smuggling estimates in a report titled "Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Contest, and Lessons from International Experiences," in which they estimate Washington's smuggling rate for 2012 at 45.5 percent.

In other words, two groups of analysts working independently made nearly identical smuggling estimates. Even if both are off by 10 or 15 percentage points, Washington still has a rampant problem that could get even worse. The state's own smuggling estimate for 2013 was 32.9 percent of the total market.

To measure the future impact of adding 50 cents per pack onto the state's existing tax, we reran our model at the higher rate. It reports that smuggling will leap to 52.5 percent of the total market, moving Washington into second place among smuggling states behind only New York state, whose smuggling problems are exacerbated by New York City's municipal excise tax of \$1.50 and its proximity to tobacco state Virginia.

Perhaps more instructive is that the model is informing us that Washington is getting dangerously close to the point at which revenues from a higher excise tax will turn negative. We estimate that the higher excise tax will only raise about 3.3 percent or \$13.5 million more than it does now due to a drop in legal paid sales of 11.4 percent.

It is worth noting that the state's own estimates aren't too different. They estimate new revenues of \$18 million to \$20 million in the year following the hike and a legal paid sales decline of 9.5 percent.

As a large percentage of Washington's population lives along the Interstate-5 corridor, it does not strain credulity to suggest that large amounts of illicit cigarettes are being trucked up from Oregon, which maintains an excise tax of just \$1.31 per pack. We also suspect that Washington's busy port system facilitates the illegal transit of untaxed smokes, but our model is not yet designed to measure that.

We do recognize that supporters of such tax hikes for health reasons are well-intentioned, but evidence suggests

that illicit sources of smokes may be undermining their goals.

In 2004, economist Mark Stehr published a paper that suggested up to 85 percent of the change in legal paid sales of cigarettes may be attributed to tax avoidance or evasion rather than to people ending their smoking habits.

The authors of a 2014 study, "Do Higher Tobacco Taxes Reduce Adult Smoking?" published in the peer-reviewed *Journal of Economic Inquiry*, are skeptical as well. They write: "Considering all the evidence, we conclude that there is insufficient justification for the widespread belief that raising cigarette taxes will significantly reduce cigarette consumption among adults—even young adults."

The reasoning behind this is simple: people turn to illicit markets for cheaper (and, we argue, sometimes more dangerous) alternatives and those who still smoke have a strong preference for doing so. Lawmakers should never confuse a decline in legal paid sales with a decline in smoking rates. The former need not lead to the latter, especially to the degree that health advocates hope.

By opposing a further cigarette excise tax increase, Washington legislators will avoid forcing residents to accept substantial increases in lawlessness in exchange for modest reductions in smoking rates. **TBI**

Michael LaFaive is director of fiscal policy with the Mackinac Center for Public Policy in Midland, Michigan. Todd Nesbit, Ph.D., is a senior lecturer in economics at Ohio State University and a member of the Mackinac Center's Board of Scholars.



Best of Both Worlds

Milwaukee's venerated Uhle Tobacco Company shows that old-school values and modern technology can thrive together.

Surely you've heard the old axiom that says, "If it ain't broken, don't fix it." Well, that's the approach brothers Jeff and Jim Steinbock took when they purchased Milwaukee's renowned Uhle Tobacco Company from its founder, and that kernel of wisdom continues to be the gift that keeps on giving today.

"I was hired by Jack Uhle, who was a friend of our father's, in 1974. I was 19 at the time and my brother Jim had been working here since 1972," recalls president Jeff Steinbock. "The store had

already been in operation for more than 40 years and it got to be a passion for us, so we purchased it from Jack in 1982."

Uhle Tobacco Company was a successful, well-established business then, and remains so today. "We love dealing with our customers; they're very loyal," says Steinbock. "We've actually got a number of customers who've been coming into the store for more than 40 years, including a World War II vet who comes in every Saturday." Asked why his customers are so loyal, Steinbock says it boils down to having great products and

providing exceptional service. "We take a lot of pride in the pipe tobacco products that Jack developed. He always strove to make his tobacco a superior product, and it still is today."

A RICH HISTORY

Uhle opened his store back in 1939, and it has remained a single store in downtown Milwaukee ever since. However, some things have changed. Back when he first opened, Jack Uhle sat in the front window of the store repairing pipes and handblending pipe tobaccos



Uhle Tobacco Company's Jeff Steinbock

for his customers. Since then, of course, Uhle has retired. The business also moved two blocks away to a downtown location many decades ago. But aside from those changes and the addition of some key technology in the past five years, the operation largely looks, feels and smells the same as it ever did, and that's not likely going to change anytime soon.

Landmarks like Uhle's are often imitated, but as Steinbock points out, you can't make something authentic with a can of paint. "This is it—the one and only," he says. "Of course, over the years we have considered franchises or opening other locations because the opportunities

have been there. But we never did it, and we don't regret it because this is a very unique store. It's an old-school tobacco shop whose flavor can't be duplicated in some strip mall.

"Uhle's has a very welcoming personality, but it is not new and shiny," he says. "There's lots of old wood everywhere, and we've got a smoking lounge but it doesn't have a TV. It has a sign that says, 'members only,' and we'll often have new customers ask us how to become members, to which we always say, 'You just bought a cigar—you're in.' And while they might not know anyone when they walk in there, [when] they come

out...they do. It's a regular community with lots of lively conversation."

That camaraderie coupled with a focus on customer service is critical for the store's success. "We try to be as welcoming as possible, which is hugely important because of competition we get on the Internet," notes Steinbock. "We've got to be good in this area; you have to focus on service."

While Uhle's continues to sell a wide array of tobacco products, including pipes, pipe accessories, lighters, cigarettes, vaping products and chewing tobacco, it primarily focuses on premium cigars and pipe tobacco. "With cigars, we have



Steinbock at the cigar counter with his son, Dave Steinbock



our own private label, which is made by Camacho, which we sell for around \$4 a stick, and we sell a ton of those,” he notes. “So the range for our cigars is from around \$3 to \$30 a stick.”

PROGRESSING FROM PIPES

“Originally, back in the 1970s we were more focused on pipe tobacco, but since then cigars have grown and pipe tobacco has not,” explains Steinbock. “That’s a national thing. We still move good poundage in pipe tobacco, and we still handblend and package it like we did in 1959, but customers are interested in cigars a lot more now.”

Quality and consistency are key to building a cigar customer base, notes Steinbock. “Obviously, I was around during the mid-1990s cigar boom, and there was a lot of inferior product in the market at that time. But today the product you see is the best I’ve ever seen, and that’s across the board. You can’t

introduce a mediocre cigar now and hope to make it. Competition between manufacturers has gotten so tough, which means consumers are now getting the best cigars they’ve ever had. You see a little innovation now and then, such as variations in sizes, because everybody is constantly searching for the next new thing. But quality remains the key driver.”

Aside from cigars, the vape category is also becoming a trend, he adds. “I’ve also seen a lot of interest in vaping products from cigarette smokers. I wouldn’t dedicate half my store to it, but it’s a nice little niche and I’d rather have it as a small niche than not have it at all and end up sending someone down the street to get it elsewhere.”

HAPPY CUSTOMERS ARE THE BEST MARKETERS

As a time-honored tobacconist in Milwaukee, Uhle’s continues to benefit



from generations of customers passing on the store's traditional brand values to the next generation, which has given the store a strong reputation across all relevant age and income demographics. "We don't have a typical customer," says Steinbock. "We get guys from college all the way up to 90-year-olds, and they come to us from all walks of life. So we don't have a specific target audience."

Reputation apparently speaks for itself, and according to Steinbock, it does so much better than advertising in a newspaper. "Online advertising has clearly taken over from print, and we

haven't done print advertising in any form for years," he says. "I remember we used to spend a ton on advertising in the Yellow Pages, and now we don't spend a dime on it because it just doesn't pay. We tried advertising in local media and newspapers but we received poor results, so we've moved past the old ways now. The best method of marketing for any store these days is to cultivate an email list, create a Facebook presence, and build a website."

While Steinbock admits to being far less than hands-on with today's technology, he is more than savvy enough

to know how it benefits his business and is quick to empower his employees to harness its power for the store's benefit. "Just because I own the place doesn't mean I have all the answers. Some of the best ideas come from people who are behind the counter, and we have younger people here who have a lot more knowledge about technology, the Internet and social media than I do. So I rely on them all quite heavily.

"We put a POS [point-of-sale] system in place about four years ago, and it's been great," he says. "Lots of the old-school ways [in which] we conduct business



are still effective, but with a POS system we're no longer flying by the seat of our pants. Now we know exactly how many Fuentes, Macanudos and Perdomos we sold today, last week or last month. Now we can tell what's moving and what isn't, so it eliminates a lot of guess work."

SOCIAL MEDIA MAVEN

As for leveraging the power of the Internet, Steinbock is a firm believer in new media. "Whenever we plan our in-store events, that goes up on Facebook, and we send emails to our regular customers and do everything we can once a customer is in the store to capture their email address," he says. "If you go through each [situation using] the old way of doing business it can get bland, so you've got to come up with new ways to promote events and get customers excited."

All of the effort, however, would be wasted without properly trained employees. "You have to work with new employees and

get them as knowledgeable about product as possible," notes Steinbock. "That's particularly important here at Uhle's because we don't have a walk-in humidor, we have cases, and that requires much more hands-on customer service."

According to Steinbock, it's imperative that your employees be able to talk to your customers to find out what they like—and what they don't like—and what they've already tried. "The competition from the Internet is fierce, but the advantage to the way we retail cigars is it delivers more service and deeper knowledge. With our way, you're not just ringing up sales, you're actually suggesting and building future sales."

An important aspect of the knowledge he and his team impart to his customers comes from staying abreast of industry trends and potential regulatory actions from the local, state and federal governments. "IPCPR and NATO are good sources of information for us, and I do a lot of additional reading. I also

listen closely to the salesmen that come in because they have lots of information about what's hot and what's not," he says.

And staying on top of the industry might be what keeps Uhle's going for another century. "We've never seen more challenges to our business from the government," he says. "That's a dark cloud hanging over the industry. We don't know what they'll do to us. I think as a retailer, you have to dovetail your efforts and connect with the industry—even your competitors."

"The fight has to come from all of us," says Steinbock. "And I mean from all of us together, not as individuals. We have to get consumers motivated to respond to these things, too, if we're going to survive. It's not going to get better, but we can stop it from getting worse. It's not insurmountable in terms of fighting it, but we have to be smart and work with our competitors on this or we all lose." **TBI**

Arango Adds New Lines

Arango Cigar Company has purchased the assets and exclusive U.S. distribution rights of Sheffield Exchange and will now be the distributor for Gawith Hoggarth TT and Wilsons & Company (Sharrow). This latest acquisition falls in line with Arango's expanding portfolio, giving smokers many more selections of high-quality European tobacco products and accessories.

Gawith Hoggarth blends over 50 fine pipe tobaccos favored by discriminating smokers. The mixtures range from traditional English and aromatic mixtures to ready-rubbed, plug, flake and even rope tobaccos. The company is managed by the original founders' third-generation family members.

Arango's Wilsons (Sharrow) inventory includes 16 nasal snuff selections that incorporate flavors such as menthol, eucalyptus, camphor and spearmint, as well as vanilla, raspberry, strawberry, cherry, apricot, lemon, rose and lavender. The Dr. Rumneys Selection is one of Wilsons' most popular blends. This well-respected company predates America as a nation, where it has gained popularity with snuff connoisseurs.

"Gawith Hoggarth traces its beginnings to the mid-1800s, while Wilsons was established in 1737," notes Michael Gold, Arango's president. "Both companies have earned and maintained the tobacco world's acclaim based on their uncompromising dedication to quality of their time-honored secret recipes. We at Arango look forward to broadening their availability throughout the U.S., and will continue to provide knowledgeable customer service and a prompt, one-stop shopping convenience."

The wholesale prices for Gawith Hoggarth pipe tobaccos range from \$44.75 to \$51.50 for their 17.6-ounce bulk boxes. Wilsons' nasal snuffs are packaged 12 tins per sleeve, and wholesale for \$33. Gawith Hoggarth and Wilsons inventory are now available for immediate shipment from Arango Cigar, which will showcase both lines at the Arango pavilion at the 2015 IPCPR show. Arango Cigar Company, Northbrook, IL, 800-222-4427



Powerful Packaging

Drew Estate announced that it will now offer its Liga Privada Papas Fritas cigar in a newly designed 50-count box. These new boxes will replace the 4-count tins/28-count boxes that the Papas Fritas line was previously offered in and will, as a result, reduce the single-cigar retail price to \$5.25 MSRP from its previous price of \$6.40. "Papas Fritas has been a good choice for any Liga Privada fan looking for a short smoke," says Drew Estate President Michael Cellucci.

"We needed something for fans of Papas Fritas who already had plenty of tins and wanted a better value, so now we're offering the cigar with no tin. The tins will now become a collectors' item and the Papas Fritas will be a little more budget-friendly. It's a win-win."

The Papas Fritas is part of Drew Estate's Liga Privada Unico Serie, which features unique blends within the Liga Privada brand family. The Papas Fritas utilizes a Connecticut Broadleaf Maduro wrapper, Brazilian Mata Fina binder, and Nicaraguan and Honduran filler tobaccos. The small 4.5x44 cigar sports Drew Estate's signature fantail. Drew Estate, drewestate.com



JM Tobacco’s Corojo Nicaraguan

JM Tobacco has introduced a Corojo wrapper to its value-priced JM’s Nicaraguan 100 percent tobacco, handmade premium cigar. “Our new line extension for the JM’s Nicaraguan premium cigar is for heavy hitters who can handle a brawny smoke,” says Anto Mahroukian, president of JM Tobacco. “The cigar features a Corojo wrapper and is full-bodied. It is equally full-flavored thanks to its powerful all-Nicaraguan filler.” The company has been a leader in premium and value-priced cigars since 1996 and offers several top-quality cigars at affordable prices.

The JM’s Nicaraguan line appeared at last year’s IPCPR show. It is a handmade Cuban sandwich, with an all-Nicaraguan filler and maduro-fermented Connecticut broadleaf binder. This year, the Corojo wrapper takes its place alongside the original Sumatra and Maduro frontmarks. The Corojo offers a robust break to the original Nicaraguan’s creamy, mild-to-medium smoke.

The Corojo and Nicaraguan follow JM Tobacco’s focus on value, with an MSRP of less than \$5. Like all JM Tobacco offerings, the punch-cut Corojo comes in eight traditional shapes from the 5.5x42 Corona to the 6.75x62 Gordo Grande. The original Nicaraguan and Corojo are presented 50 cigars to a box, except for the large-girth Gorditos, Gordos and Gordo Grandes—their boxes hold 24. Mahroukian explains, “All the box art, graphics and text [are] now unified throughout our portfolio, varying only in their color combinations for easy identification. The MSRPs for all JM’s lines are also identical. We’ve made it easy for retailers and smokers to identify our individual products.” JM Tobacco will show the Corojo-wrapped Nicaraguan at JM’s IPCPR booth (No. 12619), and the cigars will be ready for shipping immediately after the show. JM Tobacco, 888-377-2667, jmtobacco.com



Introducing OCB Organic

Republic Tobacco, the nation’s largest RYO/MYO distributor, has introduced OCB Organic Hemp Cigarette Papers nationwide. The paper is chlorine-free, 100 percent organic with 100 percent natural Arabic gum. It is ultra-thin, giving smokers a slower burning, full-bodied cigarette with minimal ash. Packaging is printed with vegetable inks on recycled cardboard. Available in 1.25, single wide and king size slims, 24-leaf booklets will initially be offered as a 99 cent pre-priced consumer offer.

OCB Organic Hemp Cigarette Papers are packed 24 booklets per box with 40 boxes per case. A three-tier counter display is available for merchandising, as well as prepacked bowl displays. POP support includes door decals, posters and corrugated signs. Republic Tobacco, 800-288-8888

New Entry for La Pluma

Manahawkin, New Jersey-based La Pluma Cigars has launched Principia, an exciting new cigar that will join the company’s already successful releases, Origin of Species and Rights of Man, debuted in 2014. The Principia features a medium- to full-bodied, full flavor blend with chocolate and coffee notes, with a San Andres wrapper and a Nicaraguan binder and filler.

All three cigars were inspired by New Jersey-based actor and entrepreneur Jonathan Maccia’s love of science, literature, film and art. Maccia worked for many years at one of New York City’s most highly regarded cigar shops and went on to visit dozens of cigar shops during his travels and studies as an actor. The communal experience of smoking cigars and trading stories with friends, both new and old, sparked his desire to create his own cigar brand in 2013.

“Our first and second cigar releases are called Origin of Species (referencing the book by Charles Darwin) and Rights of Man (referencing the book by Thomas Paine),” Maccia explains. “I’m enormously inspired by those two books and men—both in Charles Darwin’s writing on evolution and Thomas Paine’s belief in equal human rights for all.” La Pluma Cigars, laplumacigars.com





S&M Debut

S&M Brands, one of Virginia’s largest privately held growers, manufacturers and distributors of premium and innovative tobacco products, debuted Carnal Ecstasy at the 2015 Tobacco Plus Convenience Expo. S&M Brands offers Carnal Ecstasy in all of its LEX12 product categories of cigars in regular and wide, e-liquids and vapor products. The Carnal Ecstasy line adds eight new retail SKUs in addition to the 105 retail SKUs S&M Brands added in 2014.

“We are treating the LEX12 brand line as a whole new growth category in the industry,” explains Steven Bailey, president of S&M Brands. “Our LEX12 products have enjoyed accelerated traction at the wholesale and retail levels, showing growth in sales and profitability per unit.”

S&M Brands has been developing Carnal Ecstasy over the past two years to perfect the velvety sweet aroma of apricot blended with savory touches of a fine after-dinner drink. The entire line is designed to appeal to its current customer base as well as the next generation of smoking enthusiasts. All LEX12 products are distinctively packaged in premium embossed tins with modern, colorful graphics. S&M Brands, SMBands.com



Swisher Sweets’ Tastes of the Tropics

Swisher Sweets has added two tropical tastes to its new line of Finest Fusion Mini Cigarillos: Tropical Storm and Island Bash. Tropical Storm offers a refreshing blend of citrus and raspberry, and Island Bash is a fusion of fruit punch and watermelon. These Finest Fusion Mini Cigarillos join the Swisher Sweets Mini Cigarillos line (original, blueberry and grape) in a redesigned, resealable three-count foil pouch. All of the mini cigarillos are available in a buy two, get three price promotion. Swisher International, 800-874-9720



Trending With Trendsettah

Trendsettah USA has introduced two new flavors of its signature Splitarillos cigarillos: 18k Gold, made with a honey-maple syrup base, and LOUD, an ultra-sweet flavor.

“The ultra-sweet LOUD flavor profile is the equivalent of adding French vanilla creamer to your coffee—a smooth, sweet experience,” says Bill Schoep, senior VP of sales at the company, which makes its products in the Dominican Republic. “18k Gold offers a unique flavor with its hints of honey and maple syrup. We’re confident that our customers will enjoy these new experiences and we look forward to continuing to offer innovative flavor profiles.” Trendsettah USA, trendsettah.com



Extendos Extension

Lifestyle brands manufacturer Trendsetah USA has introduced Extendos by Splitarillos. At 8.5 inches long, Extendos are double the length of a standard 4.25-inch cigarillo. “We created Extendos as an innovative lifestyle product aimed at the progressive consumer,” says Bill Schoep, senior VP of sales at the company. “It’s a direct response to tobacco enthusiasts’ request for a product that allows them to enjoy twice as much from one cigarillo.”

Extendos are sold two to a pouch and will be introduced in OG Sweet (the signature flavor of Splitarillos) and a new ultra-sweet flavor profile, LOUD. As Schoep points out, “The cigar industry has seen three major milestones in the last 10 years: the introduction of a variety of flavors that appeal to our adult consumers, foil-wrapped cigars to assist in freshness, and the resealable pouch. We feel Extendos [will be] the next industry breakthrough.” Trendsetah USA, trendsetah.com

Winning Raves for Wave

JT International U.S.A. has introduced the latest Wave packaging, featuring a new tactile feel. The new Wave design will be available in the existing Kings and 100s size in all five popular Wave styles—Full Flavor, Menthol, Menthol Green, Blue and Silver.

JTI International, 800-896-4612, wave-value.com, wavecigarettes.com

