

Swisher's Royal Gold Cigars division debuts Gold Strike handmade cigars

# Tobacco Business

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INTERNATIONAL

## ROLLED OVER

*But NOT Gone*



### ALSO IN THIS ISSUE

TPC 2014 Preview—What's in Store for Vegas in January?

Missouri Meerschaum's Makeover

Introducing TB's Newest Column:



—An E-Cigarette Report

# Take Me Out to the Trade Show, Take Me to TPC...



**H**ow does that song go? "Take me out to the ball game, take me out with the crowd. Buy me some peanuts and Cracker Jack, I don't care if I never get back..." Now try this: "Take me out to the trade show, take me to TPC. We'll buy e-cigs and RYO, I don't care if we never go home." By gosh, I think you've got it!

If you want to see the Red Sox play the Yankees in Fenway Park, a highly valued event, get your tickets early. The same goes for Tobacco Plus Convenience (TPC) 2014, January 29-30 at the Las Vegas Convention Center. Register early at [www.tobaccoplusconvenienceexpo.com](http://www.tobaccoplusconvenienceexpo.com) for the "best seats in the house."

Before you hop in the car, get on your horse or head for the airport, let's plan to have "fun," and lots of it. Having fun at a trade show requires you to get around to all of the exhibits with your buying plan. Take advantage of the special, unique and different offerings and the great show specials. This is your opportunity to make the most of your best and limited asset—your shelf space. Trade shows represent a huge cost for business-to-business (B2B) marketers: your suppliers. They need to make their trade show investment pay off for you. This requires rolling out their best deals and looking forward to the opportunity to personally greet, meet and spend time learning about your item needs.

Mike Thimmesch, Skyline Exhibits' director of customer engagement, has this to say about attending, exhibiting or advertising at a trade show:

"It might seem that in a hyper-connected world, a trade show is a rather quaint idea—like a flea market or drive-in movie. The fact is, trade shows command a huge presence in the marketing realm." Consider the following statistics and how the importance of TPC 2014 benefits you:

- The top two sales-related objectives at trade shows are related to relationship management and engagement. Above all else, exhibitors want to meet with existing and prospective customers—that's you. You are the main event. (Source: CEIR, Changing Environment Study)
  - The No. 1 reason for attending (not exhibiting) at trade shows is to see new products. 92 percent of trade show attendees say they are looking for new products. It's been the No. 1 reason for 25 years! (Source: CEIR, The Role and Value of Face to Face). Likely, that's you too.
  - Business-to-business exhibitions were 39 percent of B2B marketing budgets in 2011, the largest amount of any other marketing channel.
  - The number of shows conducted has held steady over the past several years, demonstrating the resilience of trade shows. (Source: The Spend Decision: Analyzing How Exhibits Fit Into the Overall Marketing Plan)
- And that's how you benefit! Exhibitors' personal commitment and financial investment in you insures the value of your attendance.

Value and highly valued events are even more important today in a high-tech world where high-touch is diluted by our arms-length connectedness. Come on out to the TPC 2014 trade show. This is your personal invitation. If you're going to Fenway to watch a Sox/Yankees game, be sure to get your tickets early.

Best to you,

**CIGAR SENSE**

**Cigar Sense: Cigars from the IPCPR Show 26**  
 From limited edition to limited production; from golf-inspired to pipe-inspired; from charities with heart to celebrities with passion, there was a little something for every stogie lover at the recent premium cigar show.

**FEATURES**

**Electric Alley: Raising the E-Cig Bar 34**  
 Welcome to *TB's* first regular column on issues surrounding the "electric" world of electronic cigarettes. This debut column updates readers on AEMSA's efforts on e-liquid standards and fostering industry dialog with the FDA.

**Cover Story: Rolled Over, But Not Gone 38**  
 For all intents and purposes, the big roller machine business lived a short, profitable life; but actually, there are still a few stragglers "operating" (non-commercially) as clubs now. And then there are those who turned their focus around.

**TPC Preview 46**  
 A look at the exciting events and educational seminars that will take place at the TPC show in January 2014.

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 The world's oldest corncob pipe manufacturer is back in growth mode.

**Event Highlight: Huffing and Puffing with IPCPR 58**  
 July's 81st IPCPR Show in Las Vegas had strong elements of both "work hard" and "play hard."

**Hot-Rodding in Ohio 62**  
 An Ohio RYO/MYO company navigates the windy roads of regulation.

**Trench Marketing: Living the Dream at The Pipe and Pint 70**  
 Selling boutique cigars and craft brews is easy when your customers can't wait to tell you what they want.



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## e-Swisher Announces Poker Partnership

The company is named the “Official e-Cigarette of the World Series of Poker.”

Through an exclusive two-year agreement with Caesars Interactive Entertainment, Jacksonville, Florida-based e-Swisher was named the “Official e-Cigarette of the World Series of Poker,” the largest, richest and most prestigious gaming event in the world. The Rio All-Suite Hotel & Casino in Las Vegas hosted the 2013 World Series of Poker from May 29 to July 15 and had a record 480 poker tables spread throughout the convention center.

As the Official e-Cigarette of the World Series of Poker, e-Swisher had on-site signage during the event, in-

cluding in the VIP Players’ Lounge and outdoor smoking area, signage during the ESPN broadcast, an online presence at [www.wsop.com](http://www.wsop.com), and social media mentions on the World Series of Poker’s Twitter and Facebook pages. The company, which makes a line of both e-cigarettes and e-cigars, also held a social media contest for players and spectators to win e-Swisher playing cards and poker sets.

In addition to the live action this summer, the WSOP event will be televised on ESPN in the fall.

“Because of e-Swisher e-cigarettes,

poker enthusiasts no longer have to excuse themselves from the table to have a smoke, whether at a casino, a local retail poker room or the neighbor’s weekly poker game,” explains Ed Denk, director of marketing for Swisher International. “Our partnership with the World Series of Poker helps to reinforce this with amateur and professional poker players alike.” In 2012, adds Denk, the World Series of Poker attracted 74,766 entrants from 101 different nations and awarded more than \$222 million in prize money.

## FDA Sets Deadline for Proposed OTP Regulations

FDA WATCH

The Food and Drug Administration (FDA) says it will announce proposed OTP regulations by October 2013. The recently released updated version of the agency’s “Unified Agenda” states that the FDA’s Center for Tobacco Products (CTP) intends to issue a Notice of Proposed Rulemaking on other products that fall within the definition of tobacco products under the *Family Smoking Prevention and Tobacco Control Act*.

Such products may include cigars, pipe tobacco or electronic products such as electronic cigarettes and electronic cigars. At present, the FDA only regulates traditional cigarettes, roll-your-own (RYO) tobacco products and smokeless tobacco products.

The extent of the proposed OTP regulations will not be known until the proposed rule is made public, at which point manufacturers, wholesalers, retailers and trade associations will have a period of time to submit written comments about the proposed regulations. As always, after the comment period closes, the FDA will review all of the comments and may make changes to the proposed regulations based on the comments submitted before finalizing the regulations for other tobacco product categories. As of now, there is no deadline for the FDA to finalize regulations on products such as e-cigarettes, cigars and pipe tobacco.

## UPCOMING INDUSTRY EVENTS

**AWMA Summit & Business Exchange**  
September 9-12, 2013  
Westin Kierland  
Scottsdale, Arizona

**SFATA’s Fly-In to Washington**  
Washington, D.C.  
October 3-4, 2013  
[info@sfata.org](mailto:info@sfata.org)

**NACS Show**  
October 12-15, 2013  
Georgia World Congress Center  
Atlanta, Georgia

**Tobacco Plus Convenience Expo**  
January 29-30, 2014  
Las Vegas Convention Center

## FDA WATCH

### Online E-Cig Ban Just a Rumor

Confronted with allegations that it plans to ban e-cigarette sales online, the FDA denies any discussion of the matter.

In August, talk of the Food and Drug Administration's plan to ban online sales of electronic cigarettes sent ripples of alarm across the nascent industry. But the FDA quickly denied discussing any possible regulations.

"The FDA did not raise or weigh in on potential regulatory options—including any potential restrictions on e-cigarettes or any other particular product category," said Mitch Zeller, director of the FDA's Center for Tobacco Products, referring to the listening sessions that prompted the claim. "Any details about the agency's intent to regulate additional categories of tobacco products will be made publicly available to all interested parties at the same time, through the issuance of a proposed rule."

According to the FDA, it frequently meets with members of the tobacco industry, public health groups and other stakeholders to better understand any concerns or questions they may have. Part of that effort has included listening sessions with e-cigarette companies, but thus far no determinations about regulation of the sector have been made.

### e-Swisher's Road Trip

Vapor tour visits 10 cities in three states

e-Swisher, the Jacksonville, Florida-based e-cigarette and e-cigar division of Swisher International, took its e-cigarettes and e-cigars on the road this summer, visiting county fairs, outdoor festivals, rodeos and concerts throughout Ohio, Pennsylvania and Florida. The company's road trip will run from July 27 through September 28, stopping at key events where its team of "e-Swisherettes" will provide e-Swisher gear, coupons and samples to qualified guests. Event-goers will be able to find a respite from summer heat in the tour's oversized, inflatable misting tent, visit a photo booth to send greetings from a tropical locale, and enter a "Miami Weekend e-Scape" sweepstakes for a chance to win a trip to Miami.

Remaining tour dates and stops are:

- Sept. 6-8 – Carlisle Sports & Outdoors Nationals in Carlisle, PA
- Sept. 13-15 – Ford Fun Weekend in Jupiter, FL
- Sept. 20-22 – Marine Flea Market & Seafood Festival in Palm Beach, FL
- Sept. 26-28 – Gulf Coast Jam in Panama City, FL

Online fans and followers of e-Swisher can virtually participate in the tour via Facebook and Twitter ([www.facebook.com/eSwishereCigs](http://www.facebook.com/eSwishereCigs) or @e\_Swisher) through photo sharing, contests and online entry into the e-Scape sweepstakes.

## HIGHLIGHTS

### Smoker Friendly Hires New GC

Ken Kramer has joined the Cigarette Store Corp.—Smoker Friendly & Gasamat Oil Corp. of Colorado—as general counsel and vice president of administration. Kramer has acted as the organization's outside legal counsel for the past 20 years and will now join the company full-time.

Born in Brooklyn, New York, Ken Kramer has had an extensive legal career in public practice in the fields of corporate governance, real estate leasing, property tax, commercial lending, condemnation, representation of associations, landlord/tenant disputes and commercial litigation. He is a member of the American Property Tax Counsel, the American Bar Association, the Colorado Bar Association and the Denver Bar Association. While in law school, he served on the Barrister's Cup Moot Court Team and the University of Denver College of Law's National Moot Court Team and Jessup International Moot Court Team. He has also written several articles dealing with property tax issues and has lectured to and for a variety of organizations on property tax issues.



## FDA Warning: Promoting RYO as Pipe Tobacco is Off-Limits

**FDA WATCH**

**Letters to manufacturers and one retailer warn against promoting and selling RYO tobacco as “pipe tobacco.”**

The Food & Drug Administration (FDA) has issued warning letters to three tobacco manufacturers and one tobacco retailer for promoting or selling illegal cigarette or RYO tobacco products labeled as “pipe tobacco.” The move suggests the agency is seeking to close a “loophole” that the industry resorted to after SCHIP raised the tax on RYO tobacco from \$1.10 per pound to \$24.78 per pound in 2009.

Tobacco critics claim that manufacturers and retailers are misbranding the products to avoid paying the higher federal taxes that currently apply to RYO tobacco, but not to pipe tobacco.

As one of the letters stated:

*“We note that under the ‘Pipe Tobacco’ section of your website, you present graphic images of the product brands...which are promoted or labeled as ‘pipe tobacco’; however, the overall presentation of these products strongly suggests that they are intended for use in a cigarette. Specifically, in your ‘Pipe Tobacco’ section of the website, you promote these product brands for sale with cigarette-injector machines or as part of roll-your-own starter packages or starter kits, which include tobacco, cigarette tubes and a cigarette machine. This presentation suggests that your products are intended to be used to make cigarettes with the cigarette machines and cigarette tubes with which you promote them. Because the overall presentation of your products, which consist of loose tobacco, suggests that they are intended for use in cigarettes, they meet the FD&C Act’s definition of ‘cigarette tobacco.’”*

If the FDA violations are not addressed, the retailers and manufacturers warned may face sanctions that include monetary penalties, seizure of the product, no-tobacco-sale orders and criminal prosecution.

The FDA letters also cited other violations of the agency’s tobacco regulations, including the use of prohibited cigarette flavorings and banned terms such as “light” that imply some cigarettes are less harmful.

## ECO-CIGS C-Store Sales Make Big Leap

**C-STORE CORNER**

**Nielsen data shows revenue grew 164 percent in the first half of 2013.**

Riding the rapid growth of the electronic cigarette category, ECO-CIGS’ monthly U.S. convenience store sales rose 164 percent in the first half of 2013, according to a new report by Nielsen. That significant jump far surpassed the segment’s overall sales growth of nearly 36 percent for the same January through June timeframe.

“In the first six months of this year, we’ve focused on expand-

ing our distribution network and growing the number of stores carrying our products,” says Tony Vecchie, ECO-CIGS senior vice president of sales and distribution. “It’s gratifying to see our hard work and the hard work of our distributors and retail partners pay off in increased sales. Looking ahead, we believe we’ve taken the steps to continue growing through the end of 2013 and beyond.”

## Drew Estate Snaps Up the Heavenly Cigar Company

**The manufacturer of the ACID cigar line has added Heavenly’s brands and inventory to its repertoire.**

In June, Drew Estate, Inc. acquired Naples, Florida-based Heavenly Cigar Company. As a result of the acquisition, Drew Estate will take ownership of all of Heavenly Cigar’s brands and its current inventory; the company will also take responsibility for all future sales and marketing activities.

“We are extremely excited about this acquisition and look forward to building the Heavenly Cigar brand further across the U.S.,” says Michael Cellucci, president of Drew Estate, who says no changes are currently planned for Heavenly’s assortment of premium cigar products.

“We believe that with our expertise and innovation we have the ability to fully realize the potential of the Heavenly line of products,” Cellucci added.



## Rocky Mountain Holds Fourth Annual Cigar Festival

Held in August, the event drew thousands.

Boulder, Colorado-based Smoker Friendly's Rocky Mountain Cigar Festival took place at the Millennium Harvest House in Boulder on Saturday, August 24, 2013. The Rocky Mountain Cigar Festival, now in its fourth year, is a celebration of the premium cigar industry attracting more than 1,500 consumers and over 80 vendors within the premium cigar, craft beer, micro-distillery, fine wines and lifestyle arenas.

Premium cigar vendors included Padrón, Perdomo, Drew Estate, Liga Privada, Tatuaje, Casa Magna, La Aroma de Cuba, La Flor Dominicana, Ashton, Nat Sherman, Camacho, Joya de Nicaragua, Padilla, Oliva, Cain, Gran Habano, Villiger, Rocky Patel, Gurkha, Brick House, Saint Luis Rey, CAO, H. Upmann, Montecristo, Kristoff, Asylum,

Diamond Crown, Room 101, Debonaire, Ortega, Plasencia, Outlaw, Iconic Leaf, Ventura Cigar, Esteban Carreras, C&C, JM Dominican, Black Label, Core Zero, Providencia, Havana Time, and Bloodline.

Craft beer was featured from the likes of Oskar Blues, Left Hand Brewery, Bristol Brewing Company, Fate Brewing Company, Breckenridge Brewery, Walnut Brewery, Sanitas Brewing Company, Boulder Beer, Asher Brewing Company, Buffalo Beer, and AC Golden.

Wine and spirit vendors included Breckenridge Distillery, Patrón Tequila, Peach Street Distillers, Pyrat Rum, Feisty Spirits, Ultimat Vodka, Woody Creek Cellars, Blue Nectar Spirits, RJR Spirits, Redstone Meadery, Slim Lizzy's Cocktail, Black Canyon Distillery, and

J&L Distilling Company.

Lifestyle vendors included *Cigar Snob Magazine*, *Cigar Press*, Colibri, S.T. Dupont, Harley Davidson, Tommy Bahama, Xikar, Armored Humidor Systems, Operation: Cigars for Warriors, Lighters Direct, Boveda, General Snus, The Cigar Authority, Wicked Audio, e6 Energy, 4th Generation Pipe Tobacco, Front Range Anglers, Smokey Mountain, Colorado Premium Cigar & Pipe Retailers Association, *White Owl*, *Boulder Lifestyle Magazine*, *Smoke Magazine*, *Tobacco Business*, Social Smoke, Grassroots Radio, J. Hilburn Custom Clothier, Santa Fe Natural Tobacco, True Kustom Motorcycles, Angel of Billiards, Boulder County Republicans, Havana Manor, Cigars on Sixth, Casa De Palma, The Robusto Room, and The Clip Joint.

## Senate Seeks Top Tax Increases for "Parity"

Bill seeks substantial tax increases on cigars, pipe tobacco, RYO tobacco, chewing tobacco, moist snuff and snus.

Senate Bill Number 826 proposes tax increases on cigarettes, taxed cigars, pipe tobacco, RYO tobacco, chewing tobacco, moist snuff and snus (see table for tax increase amounts). Bill 826 would propose to tax on an estimated per use basis "any other product that has been determined by the FDA to be a tobacco product based on the agency's authority under the *Family Smok-*

*ing Prevention and Tobacco Control Act*," says Tom Briant, executive director of NATO; a tax level equivalent to the federal tax on cigarettes.

The bill was introduced by five senators: Senator Harry Reid (D-Nevada), Senator Richard Blumenthal (D-Conn.), Senator Tom Harkin (D-Iowa), Senator Frank Lautenberg (D-N.J.), and Senator Richard Durbin (D-Ill.).

Bill 826 would also require manufacturers to affix a "unique identification marking" on any package containing tobacco products before the product is released for sale in the U.S. This marker must include a unique serial number or tracking code so that the product can be tracked and traced by federal authorities in order to curb the illegal trafficking of cigarettes and tobacco products.

Product	Current Federal Tax Rates	Proposed Federal Tax Rates
Cigarettes	\$1.01 per pack	\$1.95 per pack
Little Cigars	\$1.01 per pack	\$1.95 per pack on little cigars weighing up to 4.5 pounds per thousand
Pipe Tobacco	\$2.8311 per pound	\$49.55 per pound
Chewing Tobacco	50.33 cents per pound	\$10.37 per pound
Moist Snuff	\$1.51 per pound	\$25.91 per pound
Roll Your Own	\$24.78 per pound	\$49.55 per pound
Snus Single Unit	\$24.78 per pound	9.75 cents per pouch or single unit

## BREAKING NEWS FROM THE TMA

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



Farrell Delman,  
President, TMA

### ON HARM REDUCTION...

...Out of 300 smokers participating in a clinical trial of the safety and efficacy of e-cigs, 8.7 percent quit smoking as a result of participation, reports Dr. Riccardo Polosa, MD, accompanied by Dr. Michael Siegel of Boston University's School of Public Health. Seventy percent of those who quit did so using the e-cig itself, while another 10 percent reduced daily cigarette use by more than 50 percent.

...Chester, England-based e-cigarette retailer E-Cig Cavern says it supports the UK Medicines and Healthcare Products Regulatory Agency's (MHRA) efforts to regulate e-cigs given the availability of e-liquids made in factories with "severely lacking" health and safety standards. The retailer also voiced concerns that both the "pharmaceutical industry and the MHRA have direct, financial interest" in seeing e-cigs removed from the market.

...University of Louisville Prof. Brad Rodu said the UK MHRA's proposal to regulate e-cigs as medicine "is likely to limit or eliminate the availability of

these popular and far safer smoking alternatives" and will only encourage smokers to continue smoking, "making the UK government a culpable enabler of this deadly habit," while adding that "[t]he only consolation is that there will be five to ten million British e-cigarette users in 2016, a formidable political force that may not tolerate a regulatory barrier to the continued supply of these life-saving products."

...*The Economist* reports that e-cigs "have provoked criticism from all sides." Health lobbyists worry that the device may encourage higher nicotine consumption or make smoking socially acceptable again; pharmaceutical companies object to consumers using e-cigs—instead of the nicotine patch or gum—to cut down on cigarette smoking; governments lose revenue from taxes on tobacco products, and "real" cigarette smokers hold "vapers" in contempt because "fake puffs are naff," and that "overly strict regulation could snuff out a new industry with the potential to save smokers from a lot of harm."

### ON THE FDA...

...The FDA has updated its web page on **Guidance, Regulations and Compliance** with lists of downloadable "Rules and Regulations" and "Guidance" documents sortable by type, title and date.

...On July 18, the FDA's Center for Tobacco Products (CTP) held a public workshop and webcast on the "Electronic Submission of Tobacco Product Applications and Other Information;" visit [www.tma.org](http://www.tma.org) to see the webcast.

...The FDA CTP sent a **warning letter** with reference number RW1300087 to [www.adilacoffee.com](http://www.adilacoffee.com), stating that some of the cigarettes offered at [www.adilacoffee.com](http://www.adilacoffee.com) are adulterated because they are promoted as modified risk products with no FDA order permitting such promotion, while the sale of clove cigarettes on the website violates a provision against characterizing flavors.

...The FDA issued a notice (OMB Control Number-0910-New) soliciting public comments, until September 3, on "Copy Testing of FDA's General Market



**Youth Tobacco Prevention Campaigns.”**

...On June 25, the FDA announced issuing **Substantial Equivalence (SE) Marketing Orders for Lorillard Tobacco Co.’s Newport Non-Menthol Gold Box and Newport Non-Menthol Gold Box 100s**. The agency concluded that while the new products have different characteristics than the predicate product offered by LO, the new lower nicotine and non-menthol products do not raise questions of public health. The FDA said it denied the marketing of four others (names not released by law) through the SE pathway, withdrew 136 SE Reports at the request of the applicants, and refused to accept 20 SE Exemption Requests because the manufacturers did not meet the requirements for the exemption. Lorillard Chairman/President/CEO Murray Kessler said LO is “proud to be the first company...to begin marketing these new products in the U.S. through the FDA’s substantial equivalence pathway” and “intends to introduce its new products to adult non-menthol smokers in the near future.”

...Arguing that while **menthol products currently on the market** may not be an issue, Stifel Nicolaus analysts write that FDA’s approvals of two non-menthol additions to the Newport line that used a predicate menthol variant with higher nicotine levels that is no longer on the market suggests that bringing new menthol line extensions to market may prove difficult. The analysts cited FDA’s “conclusions and recommendations” language in its approval: “...menthol added as a characterizing flavor to cigarettes compared to equivalent cigarettes without menthol...supports the premise of an increased likelihood of initiation, level/severity of dependence, and/or decreased likelihood of cessation success” suggesting that the converse is an easier path and that launching a menthol variant places a burden on applicants to prove the negative—that

such a product would not enhance initiation, increase addiction, or reduce cessation—at a time when the data surrounding menthol appears to be at a stalemate.

...At its June 25 media briefing, **FDA Commissioner Margaret Hamburg and CTP Director Mitch Zeller** explained that the two SE approvals and four NSE (not substantially equivalent) orders came from the 500 regular SE applications, and that CTP coordinated well across FDA in its decision-making. At its subsequent industry briefing with Dr. David Ashley, director of the CTP Office of Science, Zeller said CTP intends to issue more SE decisions on a “periodic basis” in a “consistent, transparent and predictable manner,” but did not indicate timeframes or number of approvals/denials to be expected at one time. It is, however, giving priority to the regular SE applications over the 3,500 provisional applications for products already on the market about which Dr. Ashley said FDA’s reviews have commenced and that use of LIP paper, as was the case in the Newport Gold Box decisions, did not increase HPHC concerns.

...The FDA updated its “**Tobacco Product Marketing Orders**” page, listing the number of SE Orders issued to date (2), number of NSE orders issued to date (4), SE report withdrawals (136), copies of the FDA Order Letters, and the number of Refusal To Accept (RTA) letters for Exemption Requests (20). Among the reasons given for NSEs were lack of predicate validation and inadequate information on design features, the types of tobacco used, and HPHCs/added chemicals being present in higher quantities than in the predicate with inadequate confirmation that the product was no more harmful than its predicate.

...In a separate notice the same day, the FDA announced the availability of grant funds to support the **Center for**

**Tobacco Products’ Building Research Capacity** in the Global Tobacco Product Regulation Program with the agency saying it intends to accept and consider a single source application for award to the World Health Organization (WHO) to coordinate and promote research efforts relating to tobacco control regulations in foreign countries that will directly inform and support FDA’s exercise of its regulatory authority over tobacco products in the U.S. The FDA expects to provide up to \$1 million in funding in FY13 and anticipates the possibility of additional funding of up to \$1 million per year for four more years until FY17 depending on the program’s successful performance and the availability of funding.

...Goldman Sachs analysts said they expect the **FDA to begin issuing updates** on key pending issues “in the near term” as June 22 marks the four-year anniversary of the *Family Smoking Prevention and Tobacco Control Act*.

...In an analysis published in the *American Journal of Preventive Medicine*, John Kraemer from the Georgetown University School of Nursing & Health Studies says that when the FDA develops new cigarette warnings, it can survive a **First Amendment challenge to the labels**, which are most likely to be analyzed by courts under the rational basis review and intermediate review, if the agency depicts actual health consequences of smoking, avoids images that could be interpreted as opinions instead of facts, and provides clear evidence of the labels’ impact on smoking rates themselves or for the causal mechanism by which they reduce smoking.

...The FDA’s Solicitation Number FDA-SOL-13-1116875, posted on fbo.gov, seeks a vendor to **mine commercial shipping data** going back to 2007 to identify any oddities that might indicate illegal sales or trafficking in cigarettes

and smokeless tobacco products.

...The FDA sent a **warning letter** to Alaa Farah of Al's Tobacco, LLC in Little Rock, Arkansas, saying his smokeless tobacco products offered on his website, www.alstobacco.com, are misbranded since they do not carry any required warning label statements.

...The FDA sent a **warning letter to Swedish Match North America**, citing that its General snus tobacco products offered at its "General Original Lounge Adult Only Smokeless Tobacco Sampling Facility" at the Kentucky Speedway on June 28, 2012 were misbranded under the *Federal Food, Drug and Cosmetic Act*. The company failed to include the required warning statements for smokeless tobacco product advertisements in the "Jet/Set/Go! With General Snus" promotion at a Dallas *Maxim* Splash Pool Party. The FDA also sent warning letters to support@smokinforfree.com and support@get-cheap-cigarettes.com, stating that both companies' cigarettes offered on their websites were adulterated under the *Federal Food, Drug and Cosmetic Act*, as amended by the *Family Smoking Prevention and Tobacco Control Act*, as they were promoted with descriptors like "Light" and "Super Light," without an FDA order in effect that permits such promotion.

## ON OTHER MATTERS...

...At the 18th round of negotiations of the Trans-Pacific Partnership Agreement, which took place in Malaysia July 15-24, the U.S. was expected to push for the inclusion of an Investor-State Dispute Settlement clause, which would allow foreign companies to challenge decisions that may be unfavorable to their investments in other countries, and could potentially open the door for multinationals to begin a third international dispute on Australia's plain packaging law, when Australia is already fighting disputes on the

PP legislation in the World Trade Organization and through the Hong Kong Bilateral Investment Treaty.

...In a letter to newly confirmed U.S. Trade Representative (USTR) Michael Froman, the Campaign for Tobacco-Free Kids, American Heart Association, American Lung Association and American Academy of Pediatrics asked the USTR to propose language at the July 15-24 Trans-Pacific Partnership (TPP) negotiations to enable TPP nations to have their **tobacco control measures** exempted from possible TPP constraints.

...Prof. Michael Siegel of Boston University's School of Public Health said that **Lorillard's April 2012 acquisition of blu eCigs** along with Altria and Reynolds American's recent announcements that they are entering the electronic cigarette market means that all three major tobacco companies in the U.S. are "now officially in the business of harm reduction," adding that he believes the category will benefit in the long run by their entry given that "Big Tobacco" can devote a substantial amount of resources, previously unavailable, to market e-cigarettes, raise public awareness about the product, and conduct "important research into the safety and effectiveness of electronic cigarettes that can help inform the development of rational public policy regarding these products."

...According to Wells Fargo's analysis, U.S. retail/online **sales of e-cigs** are expected to approach \$2 billion by year's end in 2013 and \$10 billion by 2017, with e-cigarette margins nearing the mid-40 percent range by 2017 compared with current conventional cigarette margins of about 40 percent, as the LO, RAI and MO entries potentially catapult the category's growth and drive the total conventional cigarette and e-cig profit pool by 7 percent compounded annual

growth over the next decade.

...Scottsdale, Arizona-based e-cigarette company **NJOY's CEO Craig Weiss** said that the firm raised \$75 million in financing from investors, including Napster founder and entrepreneur Sean Parker and Homewood Capital founder Douglas Teitelbaum who will join NJOY's Board of Directors, and added that the funds will be used for marketing, clinical trials, R&D, and global expansion.

...*PC Magazine* contributor Ibrahim Abdul-Matin said that the e-cigarette category is "poised to explode," and suggests that "big tobacco companies" invest in a vast infrastructure to capture their "**e-waste**" to prevent landfills from piling up with this refuse.

...*Advertising Age* reports that major cigarette companies in the U.S., whose **media spending** declined by 97 percent through 2011 since peaking at \$932 million in 1985, are poised to once again become one of the largest spenders as their entry into the "burgeoning" e-cigarette market presents them with the prospect of returning to certain media, including television. However, this opportunity could be short-lived given potential regulation of the category by the FDA, which Reynolds American CEO Daniel Delen believes is "imminent."

...Florida-based **White Cloud Electronic Cigarettes** launched two new menthol-flavored e-cigarettes, Iced Berry and Zero K, bringing the total number of flavors the company offers to 19.

...Atlanta, Georgia-based e-cigarette company FIN Branding Group will launch nationally on cable channels a new TV commercial titled "Rewrite the Rules" that aims to illustrate that "**vaping**" is acceptable in public places like bars, restaurants, bowling alleys and offices where regular cigarettes are prohibited. **TB**

# CIGAR SENSE



## Cigars from the IPCPR Show

From limited edition to limited production; from golf-inspired to pipe-inspired; from charities with heart to celebrities with passion, there was a little something for every kind of stogie lover at the recent premium cigar show.

By Renee M. Covino

**D**id you catch a whiff of the latest cigar passion at the world's largest premium tobacco trade show—the IPCPR (International Premium Cigar & Pipe Retailers Association) Convention—held in Vegas this July? Whether you were stogie-seduced in person or just wished you were, here is a recap of some of what romanced show-goers and what is helping to shape industry trends:

### **CORDOBA & MORALES AND GOLF-THEMED STICKS**

There's a new cigar maker intending to make waves on the fairways. Two cigars in Cordoba & Morales Cigars are specifically named for the start and



finish of a round of golf: the Front 9 Connecticut (touted "a medium-body cigar that starts with a lot of spice and black pepper that then mellows down with notes of wood, nuts and black tea") and the 19th Hole Maduro (said to be

"a true medium-body cigar with a dark chocolate wrapper that looks mean, but, when lit, reveals the flavors of nutmeg, cocoa and spices").

"Cigars and golf are a great marriage," says owner Emille Mustafa Cordoba. "I looked into many companies and nobody had a direct tie-in, so I developed the Front 9 Connecticut to start and the 19th Hole Maduro to finish."

### **DAUGHTERS & RYAN AND THE PIPE SMOKER'S CIGAR**

Daughters & Ryan unveiled the "mystique of Perique"—the 1881 Perique cigar from Tabacalera Incorporada constructed with an Indonesian (Java) wrapper, Filipino (Isabela) binder and



a Brazilian, American (Perique) and Filipino filler. “This cigar is robust and full-bodied and will add a new bold cigar profile to the Tabacalera line,” says Mark Ryan, owner of D&R Tobacco. The introductory release will be in two sizes, a Torpedo and a Petit Torpedo.

“It’s a pipe smoker’s cigar,” adds Doug Grove of commercial sales, explaining that outside of the pipe world, not too many are familiar with Perique tobacco. “I think we can pull in a lot of guys who are pipe smokers and who occasionally smoke a cigar to become cigar smokers with this.”

## JC NEWMAN CIGAR COMPANY AND THE “AFFORDABLE AMERICAN”

Just because economic times aren’t as grave as they were a couple of years ago doesn’t mean the value-priced cigar isn’t still in vogue—it very much is—and J.C. Newman Cigar Co. is fulfilling that niche with a new brand. Made in the last operating cigar factory in Cigar City (in J.C. Newman’s headquarter town of Tampa, Florida), El Reloj is said to incorporate old world tradition and popular tobacco blends at a value price (MSRP is \$2.99 a stick).

“When it was built in 1910, the El Reloj factory became the focal point of the community,” explains Eric Newman, president. “Most people didn’t own clocks and watches—they would rise in the morning, eat, go to school, go to work, and go to bed—all from the hourly chime. We wanted to honor our iconic building with a one-of-a-kind cigar made in our Tampa factory.”

What also makes it unique is the “short-aged tobacco that can’t be used in regular premium cigars; we blend that with Nicaraguan, Dominican and Honduran tobacco and put a nice, flavorful wrapper on it. So for the price, customers are getting really good, aged tobacco,” says Shanda Lee, vice president of marketing.

## LEGACY BRANDS BY VICTOR VITALE AND ARMAND ASSANTE/ LIMITED PRODUCTIONS

Legacy Brands by Victor Vitale is all about “ultra-premium boutique” cigars and limited productions. “There’s been some controversy on what the definition of ultra-premium boutique is—to me, it’s very small production and products that are handled with scrutiny,” says Vitale. “I put my name on it, so there’s a lot of

scrutiny and quality control; that’s not to say they’re any better, but it’s what I specialize in. The tobacco and the product [are] very, very limited.”

Vitale’s cigar distribution company only deals with “appointed merchants,” that is, “I appoint specific retailers to become merchants for these products and by doing that, I have to meet a certain production,” he explains to *TB*. “And with cigar smokers, there are passionate people and consumption people—this is more about passionate people. I’m trying to create the right romance for the people with cigar passion.”

And that’s what passionate cigar aficionado/film actor Armand Assante was drawn to when he finally decided (after years of requests) to attach his name to a product—the Ora Vivo Armand Assante cigar by Victor Vitale.

“I was not unfamiliar with [Victor’s] cigars when we decided to do this,” Assante explained from the IPCPR show floor. “But I tested a lot of blends first, then I was in Serbia last summer testing more and more tobacco and I smoked the Tortuga and said ‘this is a great cigar’ and we sealed the deal slowly. I wanted something a little sweeter than what we had originally. And that’s what I loved



about Victor—he’s from the old school whereby he’s involved in the production from beginning to end. We created this and it is monitored all along the way.”

The Tortuga 215 Reserva cigar is the latest in the Tortuga line that Assante refers to—and it is actually being sold now as a boxed set with the Ora Vivo Armand Assante cigar (both are also sold separately, of course).

Both brands will sell between \$8 and \$10 a stick and be available in four sizes. They are both manufactured in the company’s factory in Honduras, which is geared toward limited production, not to be confused with limited edition, as Vitale explains.

“Limited production is when it’s ready, it’s *ready*—all the components have to make sense in order for it to be ready—as opposed to limited edition where you run out of the raw materials to make it: you found the black pearl of the sea and can’t get it anymore,” he says. “I’ve made limited edition before and have it now, but the Tortuga is a reserva and the Ora Vivo is limited production, which are similar.”

### OPERATION CIGARS FOR WARRIORS AND RETAILERS WITH HEART

Aligned and sharing IPCPR booth space with Drew Estate, Operation

Cigars for Warriors is a non-profit organization with a mission to send cigars to deployed troops in combat zones. The organization has created a worldwide network of stores designated as cigar and cash donation drop-off locations—from small individual donations to large corporate gifts. Recently, Operation Cigars for Warriors developed a program called the Power of One, whereby “we ask people to send us one dollar or one cigar on a monthly basis, and that grows into 100 and then into 1000, and so on,” explains Tim Morris, forums director.

In fact, retailers with just one store “are our bread and butter—the individual mom-and-pops are the core of this

**“In fact, retailers with just one store are our bread and butter—the individual mom-and-pops are the core of this organization. We don’t look at them in terms of financial power, we look at them and see they have heart; they believe in the military.”**

organization,” Morris explains. “We don’t look at them in terms of financial power, we look at them and see they have heart; they believe in the military.”

Cigar retailers interested in maintaining a donation center can go to [www.cigarsforwarriors.net](http://www.cigarsforwarriors.net) for more information.

## **TABLE 36 AND NATIONAL SMOKE A CIGAR DAY**

Did you know March 6 was declared National Smoke a Cigar Day just this year? In response to the increase in smoking bans, burdensome taxes and the threat of federal over-regulation, relatively new cigar manufacturer based in St. Louis, Table 36 Cigars, made the date to play on its name (3/6) after a smoking ban hit in its city to “register protest at what we believe to be misguided, yet targeted, attacks against brothers and sisters of the leaf,” says Bob Atchisson, president. On that date especially, cigar enthusiasts are encouraged to heed the call to “light ‘em up!” in shops, on patios and at curbsides nationwide.

For seven years, Atchisson and a group of fellow cigar enthusiasts met regularly at a local steakhouse with a standing reservation at its number 36 table. Atchisson explains that Table 36 Cigars then became the name of the cigar

company he started a year ago because “we wanted to replicate that feeling of ‘come right in, sit down, and make the night your own with a cigar.’ Then the smoking ban hit us in St. Louis and we lost the ability to meet at the original table 36—so we wanted to do something because we know this is not exclusive to us, it’s happening everywhere in the country.” So now, National Smoke a Cigar Day is gaining fame on its Facebook page. And with enthusiasts as far away as Puerto Rico, Berlin and even New Zealand expressing interest in participating, plans are underway for next year “to re-brand March 6 as International Smoke a Cigar Day,” says Atchisson.

Fellowship was Table 36’s first cigar offering and billed as “medium-bodied, but decidedly cheated to the fuller side of the spectrum.” It is produced in cooperation with Alec Bradley at the famed Raices Cubanas factory in Honduras and offered in four sizes. Next up and seen at the show is Table 36’s Integrity, with pure Nicaraguan flavor and handcrafted at Plasencia Cigars in Esteli, also in four sizes. The cigar had limited availability starting in May; its wide release was right after the show in August. Finally, stay tuned for Table 36’s The Peacemaker, available starting in October.

## **TORAÑO FAMILY CIGAR COMPANY AND LIMITED EDITIONS**

Not since 2008 has Toraño had a limited edition cigar, but now it is making way for the Exodus Finite 2013: a limited edition cigar that is part of a new line that will replace its former Tribute line, according to Carlos Llaca-Toraño, director of operations.

“Finite is going to be our new limited edition franchise—the next cigar might be a Master Finite—and we will only have three sizes with a thousand boxes of each size. That’s all we’re doing and it’s such an elegant blend,” he says.

Why hasn’t the company done a limited edition since 2008? “When we make a limited edition it is because we found such select tobacco that is not in high supply—so we can only make limited runs,” he continues. “So for us to do that, [we need] to set aside time to play with it, [and] if we did that every year, how limited is that? So once it is done, there is no more tobacco we can access. We did the Tribute in 2003, 2004 and 2008, and now Finite is our next foray. We do limited editions only when we have very special tobaccos set aside that can really produce something that is outstanding for us.” **TB**

# Raising the E-Cig Bar

Welcome to *TB*'s first regular column on issues surrounding the “electric” world of electronic cigarettes. This debut feature updates readers on how the AEMSA is improving e-liquid standards, as well as facilitating responsible industry dialog with the FDA.

By Renee M. Covino

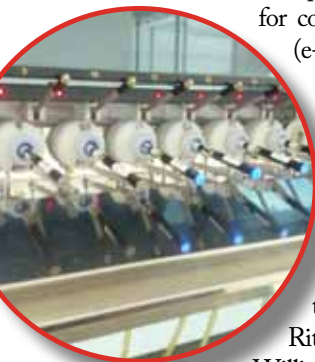
Can e-cigs get any higher? They can and they will if recent dynamic support has a say—and apparently, it does—even with the U.S. government.

The exploding arena of electronic cigarettes is backed by a few solid industry associations, one of which—the American E-Liquid Manufacturing Standards Association (AEMSA), now almost a year old—is helping to raise the e-cig bar for consumers, manufacturers (e-liquid manufacturers directly), e-liquid labs, and potentially for FDA review.

With AEMSA ([www.AEMSA.org](http://www.AEMSA.org)) embarking on its one-year anniversary this October, Lou Ritter, president, and Linc Williams, secretary, recently gave *Tobacco Business* exclusive insight and updates, reporting that the association's

founding goals have not only been met, but some also “stretched” beyond initial expectation:

- Since its inception in October 2012, AEMSA's first-version e-liquid standards were set and published as a role model for the industry—but they are already being updated to next-version (late 2013) standards. “When we first initiated the effort, we were extremely happy to see that not only did the first original [e-liquid] manufacturers embrace the idea, but they unilaterally agreed that if they did not have to improve their operations, then their standards weren't high enough,” explains Ritter. In June, the association, with the help of FDA feedback and industry experts, began updating its standards, says Williams. “Our standards are a living document, they will always be ever-evolving,” he maintains.



As published on its website, AEMSA's current standards include six sections under Verifying the Nicotine Content; six under Ensuring the Quality and Safety of Ingredients in the E-Liquid; nine under Clean, Sanitary and Safe Preparation of Products; five under Safe Packaging and Delivery of Products, and three under Transparency into the Monitoring and Verification Process.

- This summer, the association wrapped up final inspections with its current membership (12 members and 18 labs), now able to claim AEMSA certification; members all met every standard through scheduled and unscheduled inspections. Additionally, each bears the AEMSA standards seal, which was granted trademark protection this summer as well.

- Non-members are also benefitting from AEMSA's "mentor protégé program," which is "absolutely free" for other e-liquid manufacturers for the purpose of raising their standards, according to Ritter. "We've created an opportunity for them to work with a mentor at AEMSA to give them guidance on lab, equipment, ingredients and materials standards free of charge. They don't pay dues until they've become a full member. It's something we offer to raise more standards throughout the industry—those that haven't done it yet can learn from those who have already accomplished it."

- AEMSA moved forward to set a regulatory example and be heard. The association upholds that it was created right from the start to bring "real science" to the industry and to "promote and advocate real manufacturing practices" in light of impending regulatory issues. "We wanted regulators to see there are responsible manufacturers out there operating with stewardship on their own; we wanted to be able to advocate an industry role model to



the regulatory arena as well as the regular market," says Ritter.

"We had heard from regulators and political bodies that one of their industry concerns [was] related to the manufacturing process and the quality of products, so we took that as an opportunity to directly address their concerns, showing that there are standards out there and cost-feasible ways to make a verifiable product," adds Williams.

And when he says "directly address their concerns," he is referring to the fact that the association moved forward in getting the FDA's ear to listen.

In fact, AEMSA met with the FDA not once, but twice so far in 2013. On March 21, 2013, AEMSA held its first "Listening Session" with the FDA, introducing the governmental agency to its structure, membership, mission, standards, science behind the standards, and how the standards are applied by members in their facilities through scheduled and unscheduled inspections.

"Even though we know there are a lot of unknowns in the future of this process, we feel very satisfied that the FDA embraced our Listening Session with relevant and

pertinent questions," begins Ritter. "They were engaged by the material we presented, and we feel confident the FDA is making an effort to learn more about [e-liquids and e-cigs]."

Another plus from AEMSA's perspective is the fact that 30 FDA representatives were present for the March meeting. "We weren't expecting that many," says Williams. "We got a good feeling, too, because their questions were engaging, not adversarial—they wanted to learn more information, and that is always a great sign from any governmental agency. The questions showed they were absorbing it and considering the possibilities of it—it was a very positive sign and reflective of its new leadership under Mitch [Zeller]."

AEMSA then returned to the FDA for a second Listening Session on July 12, 2013. It brought a representative collection of sample hardware products (examples of the most common spectrum, according to the association) and presented on the evolution, application(s) and contributions these products make towards efficacy. Product samples were made available for FDA representatives to see in both sealed packaging (as sold) and open for hands-on, direct viewing.

AEMSA reports that the FDA panel for the second meeting was comprised of approximately 20 representatives from various departments. The session was scheduled for one hour and lasted just shy of two hours. Once again, Williams reports, "we found FDA representatives interested and engaged in the material. Their questions were relevant, thoughtful and substantive." **TB**

*Future Electric Alley columns will cover other emerging electronic cigarette industry associations, including the Smoke-Free Alternatives Trade Association (SFATA) and the Tobacco Vapor Electronic Cigarette Association (TVECA).*



# ROLLED OVER

*But NOT Gone*



**For all intents and purposes, the big roller machine business lived a short, profitable life; but actually, there are still a few stragglers “operating” (non-commercially) as clubs now. And then there are those who turned their focus around.**

**By Renee M. Covino**

**I**t has been more than a year since the large RYO machine business was essentially steamrolled over—but not quite to its death.

As most are aware, the flattening blow came in July of 2012 when a federal highway bill signed by President Obama broadened the term “tobacco manufacturer” to include retail operators of commercial RYO machines (likened to the size of a large appliance, such as a refrigerator and costing upwards of \$30,000 each).

Basically, the new law required those retailers (many of whom got into business only months before solely to operate the machines) to obtain a federal manufacturer’s permit, post an appropriate bond, and be responsible for paying federal excise taxes on the cigarettes produced by the machines. In other words, those “in-store machine-rolled” cigarettes would be taxed at the same rate as branded smokes, essentially wiping out huge profit for retailers and huge savings for consumers—and ultimately, wiping out the short-lived RYO machine retail channel.

Of course, not everyone was devastated, least of all Big Tobacco, which (unofficially) was said to have been the backer of the transportation bill rider for obvious competitive reasons.

#### **MIXED EMOTIONS**

And then there were the competing retailers—both from the tobacco outlet channel and the convenience channel—who revealed mixed emotions.

Many displayed the sentiment of “good riddance.”

“We never had them and now they’re gone—you bet I’m glad about that,” states Randy Drott, owner of Town Crier, based in Louisiana.

“They’re gone; thank God they’re gone for good,” says Terry Schmitz, zone leader of Tobacco Outlet Plus, a division of Wisconsin-based Kwik Trip Inc.

“We never had them and I was surprised they were around as long as they were,” adds Shon Ross, vice president of Texas-based Nothin’ Butt Smokes.

Other retailers were relieved that they didn’t get involved in a venture they

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once considered. “We were looking at it, but we never pulled the trigger,” relays Frank Armstrong, president of North Carolina-based Blue Ridge Tobacco.

“We were close, really close—we were days within putting money down on the machines and then the news came out,” adds Mike Gripp, vice president at Iowa-based Smokin’ Joe’s Tobacco & Liquor (formerly Cigarette Outlet).

Many of those retailers in the tobacco channel who did venture into rolling machines took a hit when the law changed. “We were doing well in the business but were forced out by government regulations,” says Billy Grantz, owner of Kentucky-based Cox’s Smokers Outlet.

Cheap Tobacco in Ohio and Smokers Outlet/Wild Bills Tobacco in Michigan also reported doing big RYO machine business in some stores before the strict regulations hit.

But no matter the good, bad or indifferent emotion attached to the big roller business, none of the retailers queried by *Tobacco Business* in an industry survey late last year believed it was ever coming back—at least not in its previous form. Some even ventured to speculate on why the concept was squashed.

As one put it, “It’s highly unlikely we will see rolling machine businesses again—RJR spent enough to keep that from happening.”

But Bryan Haynes, a partner in the law firm Troutman Sanders, which represents all segments of the tobacco industry, tells *Tobacco Business*, “It is not a dead industry.” He adds, “It is my understanding, and there’s a level of

common knowledge out there, that there are individuals who have been using the machines for ‘non-commercial’ purposes and for their own personal use, and so, in that sense, there is still some level of interest in using the machines.”

## GONE CLUBBING

The street terminology for these businesses is “private membership clubs,” and when pressed further, Haynes agrees that “yes, I believe there are clubs out



there whereby individuals are using the machines [non-commercially].”

Tobacco Roll in Clifton Park, New York is one retailer making membership available to its customers. Before the harsh law went into effect last summer, Tobacco Roll was operating quite profitably as a big RYO machine retailer. Even after the blow came, it still kept its doors open—it was one of the few places that decided to go for what some

call the “club loophole”. Those who do so essentially bypass the law imposed on retailers that own the machines (thereby making them cigarette manufacturers), by instead allowing customers to buy tobacco from the retail side of the business and fostering a “club” that rents the machine. Since these retailers no longer own the machine(s), they cannot be considered manufacturers.

It is important to note that in its guidance document dated October 2012, the federal Alcohol, Tobacco Tax and Trade Bureau (TTB) references these clubs and puts forth that it is “extremely unlikely” that these non-profit organizations are exempt from excise tax liability and associated Internal Revenue Code obligations (see sidebar, *RYO Machines According to TTB*).

Nevertheless, customers of Tobacco Roll are currently buying tubes and tobacco from the store and, with a \$15 annual membership to Freedom Club, renting out the big machines and rolling a carton of cigarettes for \$40.65, according to an employee at the store. The store also sells cigars, pipes and other tobacco.

It was reported in the area’s local *Times Union* paper last October that to solidify the non-profit aspect of the club, Tobacco Roll planned on donating the relatively low proceeds from the machine rentals to local schools or charities. But when *Tobacco Business* tried to confirm this with the store owner, he would not come to the phone.

Beyond finding out about clubs through retailers, consumers can also go to websites touting roll-your-own clubs such as the MYO Smokers Club and the

# ROLLED OVER

But **NOT** Gone

## RYO MACHINES ACCORDING TO TTB

In its guidance document, “Cigarette-Making Machines and Other Tobacco Product Machines Made Available for Use by Consumers,” the federal Alcohol, Tobacco Tax and Trade Bureau (TTB) states the following:

- The person who makes a machine available for consumer use is the person liable for the federal excise tax on the tobacco products produced.
- A common business affected by the new federal law is the retailer who makes cigarette-making machines available for the use of its customers.
- A person who sells a machine directly to a consumer at retail for a consumer’s personal home use is not making the machine available for commercial purposes and, therefore, not a cigarette manufacturer, if the machine is not used at a retail location and the machine is designed to produce tobacco products only in personal use quantities.
- A person who does make available a roll-your-own machine to consumers for the purpose of manufacturing cigarettes will need to obtain a TTB permit to act as a cigarette manufacturer, file federal excise tax returns and pay the applicable excise taxes, pay a special occupational tax, obtain a bond, and comply with the federal record keeping, reporting and inventory requirements.

**Regarding “Clubs”:** The TTB guidance document also references the change in federal law applying to those who have formed “non-profit” membership clubs in an attempt to find a loophole in the above and avoid paying the federal excise tax as well as avoid complying with the permitting, bonding, recordkeeping, reporting and inventory requirements. It states: “Based on TTB’s current understanding of these scenarios and the applicable law, it is extremely unlikely that TTB will conclude that these [non-profit] organizations are exempt from excise tax liability and associated IRC [Internal Revenue Code] obligations.”

SOURCE: TTB Notice on RYO Machines, October 2012



MYO Club. The MYO Club, found at [myoclub.org](http://myoclub.org), says that it is a “non-profit social club formed by people who share a common interest in making cigarettes using whole leaf tobacco.” The MYO Club explains on the website that it “rents space in local tobacco shops where members can meet, shred and blend organic whole leaf tobacco and use the club’s equipment to make

cigarettes for their own personal use and consumption.”

### ROLLING TO A DIFFERENT BEAT

Of course, unlike Tobacco Roll, most big RYO machine retailers took the money they made and left the business. But there is also another route that Tobacco Road smoke shop in Bethel Park, Pennsylvania undertook—one even

# ROLLED OVER

But **NOT** Gone

**“I remodeled the store a bit; I made it more cigar-friendly and started having events... essentially, we turned it into a smoking facility and I’m hoping we will get a lot of people in here, especially by the wintertime, to watch TV, smoke and have a nice experience.”**

less traveled than the one Tobacco Roll is on. Instead of being forced out of the business or turning to the club situation, it reinvented itself.

Owner Roy Albert got in the RYO machine business fairly early—by April of 2010—so by the time the hard regulations hit in July 2012, all three of his machines had been paid off for months (the first two cost \$26,500 each and the third was \$31,000). He was churning all profit and didn’t need to worry about paying the equipment off.

At first, Albert actually considered going the club route. He spent \$6,000 with an attorney, he says, to create the “Southfield Social Club,” but when he was seeking out places in the township

where it could be zoned, he realized that he didn’t want “to throw good money after bad.”

So instead, he took his point-of-sale (POS) terminal database of over 6,000 consumers and marketed to them a little differently. “I remodeled the store a bit; I made it more cigar-friendly and started having events. I put in furniture that faced the humidors, I put another TV in, and I also expanded the e-cig line,” Albert tells *TB*. “Essentially, we turned it into a smoking facility and I’m hoping we will get a lot of people in here, especially by the wintertime, to watch TV, smoke and have a nice experience.”

Albert admits his business has gone down 60 percent since his RYO

machine went away, but “we’re starting to make some of it up on e-cigs, the e-liquid and with cigars,” he says.

Even though Tobacco Road went into business for the RYO machine profit, Albert had the foresight to make it a full-service tobacco shop, which is why he is still in business today, he says. “We sold then, as now, RYO tubes, tobacco, premium cigars, machine-made cigars, e-cigs, candles, incense, shisha, hookah, and branded cigarettes, too. The only difference is, back then, I sold everything else cheap because my profit was clearly in the RYO machines. Now I’m looking to make profit like everyone else in full-service tobacco.” **TB**



## Missouri Meerschaum: *Keeper of the Corn*

The world's oldest  
corncob pipe  
manufacturer is back  
in growth mode.

By Jennifer Gelfand

Imagine this: you're a happily retired Certified Public Accountant with an on-again, off-again penchant for pipe smoking. One night, while you're reading the newspaper, you spot an ad for a general manager position leading the most prominent business in your area—the Missouri Meerschaum Company. You aren't seeking work, but this particular job intrigues you.

That, in a nutshell, is how Phil Morgan found himself charged with

running the Missouri Meerschaum Company, the famed Washington, Missouri manufacturer of tobacco-smoking pipes. "I wasn't actively looking for work, but this was a 144-year-old company with a great heritage as the world's oldest and largest manufacturer of corncob pipes," he says. "It was very attractive."

### BUILDING ON A LEGACY

Morgan joined Meerschaum in 2008 at a pivotal time in the company's long



history. Not immune to the economic downturn plaguing the country, Meerschaum was grappling with declining sales and dated equipment. “It wasn’t so much that it was in trouble as that it needed attention right away,” recounts Morgan, who was also faced with learning the business—literally from the ground up. “We are very vertically integrated, meaning that we own our own 150-acre farm where we grow the corn we use to make our pipes,” he explains. “That was the No. 1 thing for me—learning about growing this corn, which is a special hybrid bred specifically for corncob pipes.”

Prior to Morgan’s joining, the

company had been struggling to maintain the integrity of the hybridization—which was essential for the larger-in-diameter, harder interior ring corncob that Meerschaum relies on to make the corncob pipes for which the company is famous. Resolving that issue took two years, largely because corn is, after all, an annual crop. “If we hadn’t gotten that right, nothing else would have mattered,” says Morgan.

Next on the agenda was marketing, an area that had been badly neglected. The company hadn’t advertised, attended trade shows, or done any marketing at all for 10 years. Ramping up its advertising and promotional efforts



Missouri Meerschaum's  
Phil Morgan





had an immediate positive impact, notes Morgan. “Things like putting ads in trade journals like *TB* and updating our packaging really paid off,” he reports. “Today, rather than declining, our sales are actually growing.”

#### TAPPING A TREND

While Morgan credits the company’s efforts to boost corncob production and ignite sales through marketing programs for much of that increase, he has also witnessed something of a pipe-smoking trend among young adults. “More and more young men are picking up the habit of pipe-smoking again,” he reports. “I see it in pipe clubs that have shows in cities like St. Louis, Kansas City and Richmond. And the people you see coming into the hobby as collectors, smokers, or both are often younger guys in their 20s and 30s.”

Now that the fundamentals are in

### THE MEERSCHAUM STORY

The corncob pipe was born when a local Washingtonian approached Dutch-American woodworker Henry Tibbe to ask if there was a way to use his woodworking tools to make a smoking pipe from a corncob. Tibbe applied himself to the task and managed to do just that. The pipes, which were relatively inexpensive and provided a cool smoking experience that enabled smokers to experience the true flavor of the tobacco, were a hit. Soon he was selling so many corncob pipes out of his woodworking shop that he quit making anything else. In 1872, that humble shop officially became the Missouri Meerschaum Company, which, over time, grew to be the biggest employer in the town.

“Corncob pipes became extremely popular in the late 1800s and early 1900s,” reports Morgan. “In fact, at one time there were five corncob pipe companies within the county, all offshoots of Missouri Meerschaum, which at its peak was shipping 25 million pipes a year.” Over time, pipe-smoking began to taper off and sales began to decline, bottoming out in the early 2000s. Today, however, Meerschaum is back in growth mode, says Morgan, who notes that the company is now shipping 700,000 pipes a year. “Last year, we were running out of corncobs, so I had to turn orders down,” he says, adding that this year’s crop production is looking strong. “Keeping an adequate supply of corncobs is our No. 1 challenge going forward.”





place, Morgan is turning his attention to packaging and to building on the 17 varieties—14 corncob and three hardwood—of pipes that the company currently offers. “We’ve updated our packaging to make more of an impact at the retail level, and we’re also looking to bring back a design from the past—the bulldog—as well as to launch a new design we came up with a month ago,” he says, noting that the pipes retail for between \$4 and \$15.

Ultimately, Morgan’s goal is to bring the company back into the preeminent position it once held in the tobacco sector. “When we started going to trade shows again, people would tell me, ‘I didn’t know you were still in business,’” he says. “Well, we have been in business for 144 years and we intend to be in business for another 144 years.” **TB**

## CORNCOB PIPE 101

*An accountant by trade, Phil Morgan had to learn everything there was to know about making corncob pipes very quickly. Here he shares that wisdom:*

“After we harvest the corn, we bring it to our corn crib area, shell it and sell the grain, which can be used to make tortillas and things like that. After we shell the corn, we bring cobs to our three-story plant and store them on the second and third floor for two years to let them dry out thoroughly.

“You want them as dry as possible because we need the woody ring—the middle of a cob is soft pith, the next layer is a woody ring as hard as wood—to be as dry and hard as possible. After two years it is about ideal.

“Once the ring is dry enough, the cobs come down in chutes to the first floor production area. There, they are sawed into sections, each about two inches. The next step is boring the tobacco hole, where you drill and shape that section of cob to the pipe bowl. About one-third of our pipes are turned by hand on a lathe, just like you would do with woodworking, and the rest go to turning machines that we patented back in the 30s and 40s that shape the cobs into a pipe bowl.

“After the bowl is shaped, what happens next depends on whether the bowl will be coated or uncoated. Some pipe-smokers prefer a natural corn; the ones left in a natural state smoke cooler. But most are coated with a plaster-based substance by hand after they are shaped, sanded smooth, and then given a light coating of lacquer. That is where the name Missouri Meerschaum came from: Meerschaum is a German word that means ‘sea foam.’ A true Meerschaum pipe is made of a porous clay that comes from Turkey that can be carved. One of the characteristics of those pipes is that they smoke very cool, and you get the true taste of your tobacco. Our founder discovered that corncob pipes had similar characteristics, so he called them Missouri Meerschaums.

“After the bowl is coated and the lacquer is applied, the stem hole is drilled. At that point it goes into the finishing room, where the stems are assembled and attached. It doesn’t take long to make an individual pipe—it’s growing the corn that takes the time.”

# Huffing and Puffing with IPCPR

The 81st Annual IPCPR Convention & International Trade Show, held in Las Vegas in July, had strong elements of both “work hard” and “play hard.”

By Renee M. Covino

IPCPR President Curt Diebel encouraging attendees to join or help form local state premium tobacco/cigar associations.



The IPCPR show is the world's largest premium tobacco trade show.

Toraño's Carlos Llaca-Toraño, director of operations (on left), and Charlie Toraño, president, are cousins.



Mike Ditka urged his audience to get “excited about life” because “you have the venue for it.”



This summer's IPCPR show had its serious “legislative fight” side. It also had its playful “let's party and puff” side. And of course, there was the passionate “learn what makes us burn” side.

The “work hard, play hard” mentality was all rolled up into one at the 81st Annual IPCPR Convention & International Trade Show, held in Las Vegas at The Venetian & Sands Expo Convention Center in mid-July. The world's largest premium tobacco trade show, which took place for five days, boasted more than 1,400 booths and 300-plus exhibitors.

Serious session topics covered possible FDA regulation, social media best practices, and credit card processing and issues. At the IPCPR Annual Meeting and Breakfast, the association's continuing efforts to support the industry through programs and legislative advocacy was discussed.

Since January, the IPCPR has been promoting two bills to help distinguish premium cigars apart from other regulated tobacco: H.R. 792, which was announced

as having 120 co-sponsors in the U.S. House of Representatives at show time, and S. 772, which had 10 co-sponsors in the senate. While this is strong support, the IPCPR urged that it needs more help from its membership and that “slackers need to get with the program.” Those members that haven't yet done so were reminded to contact local senators and house members of congress to let them



Drew Estate's distinct ACID cigars are handmade in Nicaragua where the tobaccos are cured in “aroma rooms.”



“At least we're in this together.”

## EVENT SPOTLIGHT



Recovering from a back injury, Drew Estate Founder Jonathan Drew and his wife, Marielos Baltodano-Drew, still had plenty to smile about.



Guests at the Toraño Family Cigar Company's nightclub party.



Bold cigars are "back with a vengeance," according to Davidoff's Camacho brand.



Fort Worth retailers Scott Thompson and John Ost made time to party with drinks and stogies.



Retailers from Edward's Pipe & Cigar Shop in Colorado at the Venetian Hotel's The Opium Room, courtesy of Toraño Family Cigar Company and Bacardi.



The J.C. Newman Cigar Company/A. Fuente Cigar Company booth was set to resemble a typical street in Ybor City, the historic cigar manufacture neighborhood in Tampa, FL.



This cigar cake was in honor of Charlie Toraño's birthday, which happened to be the very night of the Toraño event at Tao.



Mid-Carolina Distributors' Scott Whitaker (left) and his uncle, Tobacco Road Outlet's Andy Whitaker came to the show looking for value cigars in the \$3 to \$7 price range.



Julia Beacham and Paul Hoge of Tobacco Outlet Products hold up one of the company's newest candle flavors: Hippie Love, reportedly popular now with baby boomers and the younger generation alike.



Harry Preston and Shanda Lee of J.C. Newman Cigar Company hosted a well-attended booth.



Film star and cigar aficionado Armand Assante promoting the Ora Vivo Armand Assante cigar at the Victor Vitale booth.



Doug Grove, Yuan Ongpin and Mark Ryan manned the D&R Tobacco booth, located just inside the front entrance of the show.



## IPCPR Trade Show 2013

know that this legislation will protect their small business, the jobs it provides, and the premium cigar industry in their state.

Another important IPCPR issue is to help establish state associations and councils—currently there are 34, but the goal is for all 50 states to be individually represented by a premium tobacco/cigar group. Again, membership attendees at the show were encouraged to "join or help start one" and "take the bull by the horns in keeping our industry safe from over-regulation and extinction."

A fun show session, which was limited to the first 200 attendees, coupled bourbon tasting

and cigar pairing. The bourbon was provided by Tatoosh Craft Distillery and the cigars were provided by J.C. Newman Cigar Company.

Other notable elements of fun and indulgence could be found at show booths: Vato Cigars lured show-goers into their space with chocolate-covered bacon; Miami Cigar offered out La Aurora Rum; General Cigar's booth featured a golf simulator and a Lamborghini, and Fantasia Tobacco Hookah Company brought a two-story booth with an abundance of neon lights and leggy models.

Celebrities with cigar passion brought their excitement to the show, too; for example,

renowned football coach Mike Ditka spoke at a breakfast meeting and endorsed Davidoff's Camacho brand while film star Armand Assante partnered and appeared at the booth with Victor Vitale on behalf of Legacy Brand's (by Victor Vitale) new Ora Vivo Armand Assante cigar.

One retailer brought his pipe and cigar passion to the IPCPR show for the 50th time and hence qualified himself as a celebrity in his own right—for David Berkebile, president of Georgetown Tobacco in Washington, D.C., this year marked his 50th attendance at an IPCPR show. **TB**



# Hot-Rodding IN OHIO

**An Ohio RYO/MYO  
company navigates  
the windy roads  
of regulation.**

**By Jennifer Gelfand**

**I**n many ways, Great Midwest Tubes is a testament to the power of perseverance. When last we checked in with this Ohio cigarette tube company launched in 2008, it was grappling with the aftermath of the much-heralded passage of SCHIP. Many predicted the demise of the RYO and MYO categories after SCHIP raised the federal tax rate on tubes from .09 cents to .25 per carton of 200 tubes—but not John Ewald, Great Midwest’s general manager at the time.

“There will always be people who will

continue to roll their own cigarettes because it will continue to be a viable, lower-cost option to manufactured cigarettes,” he told *TB* back then.

More recently, the RYO/MYO category suffered a second blow when the rapidly growing in-store rolling machine business was regulated right out of existence, as state after state and, ultimately, the federal government ruled that retailers who allowed customers to roll cigarettes in their stores would be classed as manufacturers and expected to comply



with the applicable federal laws pertaining to cigarette manufacturers as administered and enforced by the Alcohol, Tobacco Tax and Trade Bureau (TTB), the Internal Revenue Service, and the U.S. Food and Drug Administration (FDA). Once again, industry observers predicted this would be a death blow for the RYO/MYO category.

### KEEP ON ROLLING

Yet Great Midwest has not only survived, but continues to thrive, Ewald told *TB* recently [Editor's Note: John Ewald left Great Midwest Tube at press time. Neil Wagoner is now the General Manager of Great Midwest Tube.] "The operation has

grown substantially since the last time we spoke and it continues to grow," he says, admitting that the path is not always easy. "There were so many machines out there when that legislation went through that were all affected by it," he said. "And a lot of people [RYO customers] did go to fourth-tier cigarettes, so our growth has not been at the same pace as it was when those machines were rolling. But our sales are continuing in a positive direction."

Like many in the industry, Great Midwest's growth has also been hampered by the FDA's inaction on the many new products for which it has received applications for approval. Of the approximate 4,000 products seeking FDA approval under substantial equivalence provisions (which allow tobacco companies to market new products if they can prove they are similar

enough to products already on the market), the FDA has only approved two Lorillard non-menthol products. Great Midwest, which manufactures its tubes in Cincinnati, is among the many manufacturers with new products awaiting approval.

"We have several new private label products tied up with the FDA waiting for approval," said Ewald, who pointed out that the products are basically the same as those currently on store shelves except for the name and packaging. "Under FDA regulation even if I take the same tube I am making and selling now—such as our Hot Rod flagship brand—and put it in a new carton, it is deemed a new product even though just the carton is the only new thing about it."

### MORE CHALLENGES AHEAD

Great Midwest continues to await the approval of all the new products in its pipeline—which are otherwise ready to

**“Increases are not what they were when everyone was jumping into the in-store RYO machines, but things are steady.”**



launch. In the meantime, it is in the midst of launching Hot Rod pipe tobacco, a new product in a category as yet unregulated by the FDA.

However, already this new product is under legislative attack. In May, five U.S. Senators introduced Senate Bill Number 826, which would “impose tax parity” on other tobacco products (OTP) such as cigars, pipe tobacco, RYO tobacco, chewing tobacco, moist snuff and snus. For pipe tobacco, this translates to a proposed increase in the current federal tax rate from \$2.83 a pound to \$49.55 a pound. Needless to say, manufacturers and industry associations are fighting the legislation through grass roots campaigns.

“We put a card inside all our products manufactured over two months telling people

to contact their representatives, bring the bill to their attention and ask that they vote against it,” said Ewald. “We also have information on our web site about how to get in contact with your senator. I know a lot of people don’t want to get involved, but we try to stay on top of things that will be catastrophic to a lot of people. Everybody needs to work together to be sure that this bill doesn’t [pass].”

#### **FUTURE FOCUS**

Great Midwest has also expanded production of its line of 100s tubes, which are selling nicely. “We have had 100s tubes for a long time, but we were marketing them very selectively,” explains Ewald. “We increased production on the regular (full), smooth (slightly), and menthol 100s

to make that line available to everyone. We’ve seen a 100 percent increase of sales as a result.” Going forward, Ewald remains optimistic, despite the hurdles the company has had to skirt around and those on the horizon. “Increases are not what they were when everyone was jumping into the in-store RYO machines, but things are steady,” he says. “And we are a small, American-owned company that makes products in the U.S. and works closely with our accounts—which gives us the ability to out-serve our competitors. We can manufacture and have product anywhere in the U.S. within 10 days, while people who wait for overseas shipments can take as long as four to six weeks to deliver. That’s our edge.” **TB**

# Living the Dream at The Pipe and Pint

Selling boutique cigars and craft brews is easy when your customers can't wait to tell you what they want.



**F**or some tobacconists, working in their own stores can sometimes be a hard slog, but for others it's a dream job. Take Larry Christopher, president and owner of The Pipe and Pint in Greensboro, North Carolina, who says he always wanted to own a pipe shop and tobacco store. "I started smoking pipes and cigars in college, and every time I went into a shop I would think how lucky the person was who got to work there all the time," he says. "I love the allure of the products, the packaging, the aromas..."

Christopher finally realized his dream of becoming a tobacconist after spending a few years at home working around an entirely different aroma. "My wife and I had our daughter a few years after I received my graduate degree, so I stayed at home for about two years and in that period, when I wasn't changing diapers, I had a lot of time to think about what I really wanted to do," he recalls. "Since I smoked pipes and cigars at the time and tended to look for higher-end products, I saw that there was a need for a place where people could buy these products, and owning a shop seemed like the best thing I could do."

Christopher opened the original The Pipe and Pint

**“Everything is hand-rolled. We specialize in what we call ‘boutique’ cigars. I don’t even bother to carry the larger brands like Macanudo or Punch.”**

in a nondescript strip mall back in 1998. “I was successful there, but it was barely 1,000 square feet, and I quickly outgrew it. Then about three years ago I moved into our current location, which is 1,850 square feet,” he explains. “It’s a standalone building in Greensboro, and it’s pretty unique. It was an arts-and-crafts-style house built in 1925 that had been zoned commercially. It had [an] industrial commercial feel with ugly carpet[ing] and acoustic tiles, but when I bought the building and tore all of that stuff out, the original beauty of the structure was revealed.” Today, The Pipe and Pint boasts burnished hard pine floors and vintage tin ceilings that work well to complement the tastemaker approach for which the store has become widely known.

#### **A THOUSAND FACINGS, NONE MACHINE-MADE**

“We carry premium cigars, but nothing that’s machine-made,” says Christopher. “Everything is hand-rolled. We specialize in what we call ‘boutique’ cigars. I don’t even bother to carry the larger brands like Macanudo or Punch.” Instead, he carries smaller production products such as Fuente Fuente Opus X, Lost City, Arturo Fuente, Don Carlos, God of Fire, La Flor Dominicana, Paul Gamarian, Fuente, Padron and Ortega. “We were one of the first five My Father lounges in the U.S.,” he says, “so people still know to come here to find their Nat Shermans, Sealys, San Latonos, Viajes, Casa Fernandezes and La Polinas. We have 1,000 facings.”

But The Pipe and Pint, as its name implies, offers more than just cigars. “We carry pipes, pipe tobacco and accessories, as well as another hobby of mine that worked its way into the product mix: specialty beer,” says Christopher. “The majority of my sales are the tobacco side, but the beer and wine are a healthy corollary.”

#### **PICKING THE LOW HANGING FRUIT**

The idea for introducing beer and wine came indirectly from Christopher’s wife, who is a wine aficionado.

Christopher would order cases of wine for her that would end up sitting in the middle of his store’s floor for days before he’d remember to take them home, and after enough customers asked whether the wine was for sale, he started thinking about combining the two product categories.

“The demographics for the person who’s interested in high-end craft beers and tobacco is almost identical,” he says, “but I only figured it out when people started asking for it, and it’s worked well ever since. Cigars and wines and pipes and craft beers are all affordable luxury products, so the people who want a \$10 cigar are the same people who’ll want a \$12 beer. These are people who have disposable income and want to enjoy affordable luxuries—mostly folks who are probably 45-50 years old,” he says. “What makes it work is that it’s all sold for off-premises consumption, meaning it’s all taken home.”

Surprisingly, none of The Pipe and Pint’s success can be attributed to clever advertising because Christopher doesn’t do any, at least not in the traditional sense. Rather than spending money on print or broadcast media advertising, he focuses his energy on creative promotional events and social media initiatives to spread the gospel about his eclectic product mix.

“During my first couple of years in business I ran ads in the local newspaper. I paid them \$100 a week for a little ad and I’ll bet I didn’t have more than five people over the course of the year that came in as a result. Instead, a lot of people would come in and say their buddy told them they should come check out the shop, so I learned quickly that word-of-mouth is a lot more important than a newspaper ad,” he says. “You have to earn that everyday. You can’t give away the farm, but you can be nice to people, and that’s really all it takes.”





### ROOT, ROOT, ROOT FOR THE HOME TEAM

One longstanding, successful promotion that's worked well for The Pipe and Pint for the past six years is Cigar Night at NewBridge Bank Park where the local Greensboro Grasshoppers baseball team (the Single-A South Atlantic League affiliate of the Florida Marlins) plays. "Once a month we hold Cigar Night at the ballpark," reports Christopher. "Different companies come in to work with us and sponsor each one, and it's a huge success promotion-wise with existing customers and potential ones. They really enjoy it. For me it's just additional work, but it pays off in the long run as goodwill with whatever company is sponsoring it."

Customers generally enjoy a nice evening out and take home a package of cigars. "It works for me in the long run because over time your customers get to be your friends, so it's like going to a ballgame with 50 friends," explains Christopher. "We have a good time, and that relationship part of the business, especially in this business, is critical. The rapport you can build

with people at this type of event is really important. You don't develop that by selling cigars from a catalog."

Christopher used to do even more promotional events, but now that his store has a base of loyal customers, he finds he's been able to relax his marketing efforts a little. "I'm fortunate to not have to work as hard as I once did, but I still like to do cigar events where companies come in and we run a promotion for a day or a week on their products," he says. "I've eliminated smaller industry standard promotions, and the ones [that] I [actually] do, I will turn into big events. For instance, in November of this year, the Garcias are coming. We'll have a weekend around their visit. On the Saturday of the event I'll have a catered picnic, the Garcias will sign autographs, and we'll have 750 people during the course of the day."

### WORK WITH YOUR CUSTOMERS AND REPS

Christopher believes that the most important customer is the one standing in front of you, so he works hardest to promote products in the store. "It's



all word-of-mouth," he explains. "We'll offer a 10 percent discount on a box of cigars, and I'm not shy about giving away [a] product when I think a customer will like it. But I do it well enough in advance so that word gets out through the grapevine, and I count that as my advertising. I'd rather give someone a \$5 cigar and get his or her honest feedback than spend it on advertising to the general public. When someone gives you something these days with no strings attached, that's odd. But that's how you get qualified feedback and demonstrate genuine goodwill."

Another way he leverages the grapevine is via social media channels like Facebook, which he has largely turned over to his right-hand man, Pete Pike. Pike's tenure at the store evolved naturally, notes Christopher. "Pete was a customer of mine at the original store, which I ran by myself. He had the same calling for this business as I did, and I recognized that. His love of the product is unmistakable. He'd come in, smoke a cigar, we'd talk, and

finally when he told me he wasn't happy in his current job, it became apparent that he should come work with me... within a month, he was [working for me] full-time."

Pike manages the store's website and contributes a regular cadence of posts via Facebook. "He'd like to do more computer-related promotions, but it looks easy from the outside," says Christopher. "Once you get in here and see the busy reality of day-to-day business with customers, you realize that it's hard to devote as much time as you'd like to it. But it really does extend the business."

The most important thing retailers can do, advises Christopher, is to build relationships. "That applies to customers on a daily basis as well as your suppliers," he says. "I hear from a lot of reps that so many of the relationships they have with shop owners are adversarial, and I don't see that as a good thing. It's a lot easier to work with someone than it is to work against them. I just come to work everyday and do the best job [that] I can, and it's working—knock on wood." **TB**

# BAT Sees Potential— Albeit Small—in E-cigs

## Excerpts from British American Tobacco CEO Nicandro Durante's performance report

*The following remarks were taken from the company's mid-year report.*

### **How has the company performed over the first half of the year?**

Very well. Despite the fact that we are facing a very difficult economic environment, forex headwinds, and some industry decline in some markets around the world, we have delivered our high single-digit EPS growth as per our strategic metric. The GDBs are growing. Our market share is very robust; pricing is also very solid. So it was a very good first half of the year.

### **Industry volumes seem to be coming under pressure. How do you see this developing over the year?**

2013 has been a very tough year, as I said before, because of the current economic climate that we are facing. Industry is declining around 2.5 percent to 3 percent. Our volume—underlying volume for the first half—if you exclude one-off trade inventory movements in Brazil and the GCC and leap year is 2 percent. We are having a better performance than the industry because we are growing market share.

## **BRANDS & MARKETS**

### **How are you performing in your T40 markets?**

The performance in top 40 markets has been very good. We are growing market share—a strong market share growth. And more importantly, we are growing market share where it matters. If we look at our share in our premium segment, it's growing 0.7 percentage points. And I mentioned, I think, that some months ago in the same interview with you guys, [I talked] about some markets that we were facing some headwinds in, such as Indonesia and South Korea, and I'm very glad to say that we are doing very well in both markets [now]. You look at South Korea—we have eight months of consecutive share

growth, and in Indonesia we have stabilized market share; it's starting to grow again on the back of [the] outstanding performance of Dunhill Kretek.

### **And how are your GDBs performing, and will they continue to grow faster than the rest of your portfolio?**

Well, the GDBs, the underlying performance of the GDBs in the first half, is 3.5 percent. In a market that is declining [by] 2.5 percent to 3 percent, it's a very solid performance. It's not all on the volumes; it's also on the share sides. Out of the four GDBs, three out of four are growing market share strongly: Dunhill, Lucky and Pall Mall. And the share on Kent is stable. It is a very solid performance. I see the GDBs outperforming our portfolio in the coming years on the back of our innovation pipeline.

### **Illicit trade seems to be accelerating. What's behind this?**

Well, every time that you see a deterioration of the economic situation; every time that you see unemployment going up [and] disposable income coming down, there is an opportunity for illicit trade to settle. Some of the markets have seen substantial growth of illicit trade.

But on the flipside, we also see markets in the world in which illicit trade is coming down, which is good news; places like Canada, like Pakistan or like Mexico. Overall our reading is that illicit trade is going up 1 percentage point on a global base, which is a very relevant number, but is within the historical figure.

### **Do you see this as a threat to the industry, or as an opportunity for it?**

I see this as an opportunity for BAT, no doubt about that. There is consumer interest on the e-cigarette segment. But it's a very small category. If you look at Western Europe, for example, that's the biggest market outside the United States. The size of e-cigarettes

is 0.5 percent to 0.8 percent of the overall tobacco segment. So it's very small, but it is something that, as I said, consumers are demonstrating interest in. So we want to play there. And we are playing there—we launched in [the] UK our e-cigarette brand Vype. We have big hopes for the product. It's a very good product. If you look at our competition in the market, I think that we have a superior product. And this is part of our long-term strategy to manage this category. Two years ago, we created Nicoventures. Last year we bought CN Creative. So that's a category that we want to play in, and we think that we have all the tools that we need to win there.

But let's put it into perspective: it's a very small segment. I don't think there's going to be a huge source of profitability for the organization in the coming years. But that's something for the future, and we want to play there.

## **REGULATION & EXCISE**

### **What impact is plain packaging having in Australia? And do you see this kind of regulation spreading?**

Well, the only country that has implemented plain packaging regulation has been Australia. We know that [the] UK and New Zealand have decided to postpone implementation until having the hearing at the WTO. And I know, as well, that Ireland is drafting regulation to submit to the Parliament next year. But so far, the only country that has introduced plain packaging regulation is Australia. Let's look at Australia after seven, eight months that it has been introduced. The impact so far has been none. The industry has been declining [at] the same rate that it usually declined [at] before. The only thing that I'm seeing there might be some down-trading. But that's something that we saw in Australia before, more as a result of the competitive pricing in Australia in the ultra-low segment, than anything else. So the impact in Australia, so far, from my point of view is none.

### **How are you feeling about the full year?**

We have delivered a very good first half of 2013. I think that we are in a good space. Our brands are growing, our market share is very strong, as I said, not only overall market share, but premium share; that's quite important for our business. And I think that we're in a good place to deliver a high EPS growth according to our strategic metrics. **TB**



### Developing Dr. Shisha

In July, Daughters & Ryan announced a premium line of Burley-Molasses Shisha tobaccos. This new addition to the company's family of Dr. Shisha hookah tobaccos is made up of six fusion blends. Each features a U.S. blend of Burley, flue-cured Virginia and Oriental tobaccos for

a rich tobacco flavor with a molasses casing and U.S. blend tobaccos that all combine with the intense fusion flavors to produce six blends: Under the Bleachers (chocolate, cherry and raspberry), The Fox's Reach (black grape and cherry), Newton's Dreams (apple and caramel), Drive-In Memories (cola, rum and lime), Mellow Evening (cappuccino and caramel), and Car Hop Serenade (root beer and vanilla ice cream). These high-quality fusion blends are made with the finest Burley, Virginia and Oriental tobaccos, none of which contain colors or dyes.

All Dr. Shisha fusion blends are available in 100-gram tins and one-pound tubs. "The incredible value of our Dr. Shisha family will ensure fast turn, high profit, and customer loyalty," said Mark Ryan. "The Dr. Shisha family of fusion blends continues our tradition and reputation for excellence and Daughters & Ryan, Inc. remains committed to fulfilling customer requirements for both quality and price." D&R Tobacco, 919-284-2058, Gloria@daughtersandryan.com



*Antaño*  
1970  
**Big Bull 760**



### Building Strength for Antaño

Estelí-Joya de Nicaragua, maker of the authentic Nicaraguan puro, introduced a new vitola for its popular brand Antaño 1970 at the 2013 IPCPR trade show in Las Vegas. Antaño Big Bull 760 is a 7x60 cigar—a new entry in the trending large ring formats. "Antaño was born 13 years ago as a result of Joya's vision to push the boundaries of strength and power, and for all these years we have consistently delivered that," says Dr. Alejandro Martínez Cuenca, master and owner of Joya de Nicaragua. "Now we are satisfying the overwhelming demand from our hardcore Antaño lovers for a larger cigar, one that packs even more muscle. But be forewarned: this is not a cigar for everybody, it's for those who can withstand a long-lasting and powerful smoke."

The Antaño Big Bull 760 is a full-bodied, spicy, robust smoke made with 100 percent Nicaraguan tobaccos. Packed in the legendary Antaño 1970 box of 20 cigars, the Big Bull 760 will retail at a price of \$9.95 per stick, and will ship in September 2013.

Antaño and all Joya de Nicaragua brands are distributed in the USA exclusively by Drew Estate Ltd. Estelí-Joya de Nicaragua, info@joyacigars.com

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### Expanding ECO-CIGS

ECO-CIGS Electronic Cigarettes has expanded its product line to include the new ULTRA King XL, an innovative new soft filter e-cigarette that gives adult tobacco consumers the size, weight and feel they expect from a traditional cigarette, including a “real” cellulose filter. The ULTRA’s filter is a unique solution to the common leaking problems of most soft-tipped products on the market today.

Each ULTRA King XL delivers approximately 200 puffs (equal to one pack of traditional cigarettes) and lasts up to 35 percent longer than regular king-sized e-cigs. ULTRA King XLs come packaged two per flip-top box, a familiar and convenient package that extends the traditional smoker experience.

ECO-CIGS ULTRA King XLs are available in 2.4 percent nicotine strength and both tobacco and menthol flavors. ULTRA King XLs come 10 packs to a carton and 20 cartons per case. ECO-CIGS, 855-326-2447, ext. 106, [tony@eco-cigs.com](mailto:tony@eco-cigs.com)



### Going Red with Game

Game by Garcia y Vega has announced an innovation in cigarillos: “FoilFresh Red.” This natural leaf cigar featuring a light mild taste was introduced in response to increasing consumer demand for small natural leaf cigars. A great complement to the recent launches of Game Silver, Black and Gold, Game Red Cigarillos are filled with aged aromatic tobacco and combined with a Connecticut Shade wrapper for a “slow, smooth and sweet” sophisticated smoking experience, says a company spokesperson. The FoilFresh packaging guarantees that Game Red Cigarillos are as fresh as the day they were made. Game is supporting the launch with two consumer-focused promotions, including the Game 2-for-99-cents pouch and 79-cent singles. Swedish Match, [www.SwedishMatch.com](http://www.SwedishMatch.com)

### A Fourth for “Finite”

Toraño Family Cigar Company is releasing just 3,000 boxes of Exodus Finite (MSRP \$8 to \$9), their latest boutique cigar. The cigar is a true puro, not seen from Toraño for many years. Handmade in Nicaragua, Finite contains only Nicaraguan tobaccos from four different growing regions with diverse flavor profiles. Finite’s blend combines an all-Nicaraguan filler of Esteli, Condega and Ometepe tobaccos, a Jalapa binder, and Habano-seed Jalapa wrapper. “Although the wrapper and binder are both grown in Nicaragua’s Jalapa region, the wrapper is shade-grown viso and comes from a higher priming, whereas the binder is sun-grown seco and is among the first leaves picked,” explains Bruce Lewis, vice president of sales and marketing. “This blending gives the medium-bodied Finite its well-balanced character, one that hints of roasted nuts, complemented by a raisin-like sweetness. The finish is long and features a cedar note.”

Finite comes in three sizes: 4.875x52 Robusto, 6.25x52 Toro and the popular 6x60 BFC. It joins the company’s legendary Exodus Trilogy, which began in 2001 with Toraño Family’s flagship cigar, Exodus 1959. “The original Exodus 1959 (Gold band) is one of the industry’s best known brands and still one of our top sellers,” says President Charlie Toraño. “Its name commemorates the legendary Cuban cigar families’ 1959 flight to freedom. The Toraños were one of those families.” Toraño, [www.torano.com](http://www.torano.com)





### A Reasonable Red

Red Value Pipe Blend is the full-flavor blend in the new VPB family of tobaccos from Daughters & Ryan, Inc. The VPB series represents a full range of pipe tobaccos and the Red VPB was developed to give adult customers a choice of a quality, full-flavor tobacco for a reasonable price. The Red VPB is available in 8-ounce and 16-ounce bags, as well as in 5-pound and 25-pound bulk packaging in Red (full-bodied), Blue (smooth blend), Green (cool blend) and Yellow (Oriental style, bulk only). D&R Tobacco offers a 100 percent product guarantee on VPB and maintains a reputation for delivering high quality tobaccos for the lowest prices possible. D&R Tobacco, 919-284-2058, Gloria@daughtersandryan.com



### Introducing Azan

Roberto Pelayo Duran is introducing his newest venture: “Roberto Duran Cigars.” Roberto Pelayo Duran began his life’s work in his homeland of Havana, Cuba supervising cigar manufacturing, then went on to assemble and manage distribution of all Cuban cigar brands for Asia and Canada for The Pacific Cigar Company Ltd. Most recently, he contributed to the new global brand marketing strategy for Dunhill Cigars as a consultant. Roberto is now introducing a brand of cigars that offers the same quality, construction and detail of those he supervised while in Cuba.

Roberto Duran’s first release, “Azan,” holds a unique chapter in Cuban cigar history. Azan is the only Cuban cigar brand founded by Chinese immigrants. In 1928, Kwan Ben Sen (Domingo Azan) and his brothers started producing handmade cigars in Manicaragua, a province of Villa Clara in Cuba, and built one of the most successful tobacco brands in the center region of Cuba. “We are fortunate to revitalize Azan as the great-granddaughter of Domingo Azan, Maria Isabel Alvarez Azan, stands proudly with the Roberto Duran team,” says Duran.

The Azan cigar brand offers two lines, White and Burgundy, with the White being the premium of the two. The White premium line features a long filler that combines specially selected leaves from Jalapa and Estelí in Nicaragua and from Matafina in Brazil. The wrapper is a very fine Ecuadorian corajo, which contributes to a distinctively sweet, medium-flavored cigar. The Burgundy line is a medium-taste cigar featuring a selection of the finest tobaccos from Nicaragua wrapped in a naturally medium, dark brown wrapper from Ecuador.



### Export 'A's Sleek Slide-and-Shell

Export 'A' has an updated, sleeker pack design that gives this super premium cigarette a new look. Artfully crafted for a natural, smooth taste since 1928, Export 'A' cigarettes are made from premium Virginia leaf tobacco for a great balance of taste, strength and smoothness with no added flavors. The brand is supported with a 100 percent product guarantee, as well as generous trade incentive programs. JTI USA, 888-976-4085, [www.exportacigarettes.net](http://www.exportacigarettes.net)



### Borkum Riff Breaks Out New Blends

Borkum Riff Blends are now available in the U.S. in Vanilla Cavendish, Honey & Orange, and Special Mixture N°8. Borkum Riff, which played a large role in introducing aromatic pipe tobacco to

U.S. consumers in the 1960s, now comes in eight blends total, including Original, Bourbon Whiskey, Cherry Cavendish, Cherry Liquor and Black Cavendish.

The company is also introducing a new Borkum Riff Limited Edition pipe tobacco available in a 3.5-ounce tin. The blend is called 11° North with Trinidad Rum, and will only be produced once in limited quantities. Borkum Riff 11° North is primarily a Virginia/Cavendish blend, with tobaccos selected from four different continents. Genuine Trinidad rum has been added, together with citrus and other fruit flavors. Scandinavian Tobacco Group Lane, 800-241-2038, [www.stgpipe.com](http://www.stgpipe.com)



### Lane Legends Return

Five popular Lane Bulk blends are available for the first time in a half-decade: Hazelnut, Black Raspberry, HG-2000, LL7 and HGL, reports Scandinavian Tobacco Group. The blends have been brought back due to repeated requests from wholesalers, tobacconists and consumers, says Leonard Wortzel, brand manager for pipe and RYO at STG Lane. "Every trade show I attended I heard the same request: 'Bring back Hazelnut.' [and] 'Bring back HGL.'"

One of the blends, HGL, stands for Herman G. Lane, Lane Ltd.'s founder. According to company lore, Herman's personal everyday smoke at the old factory in Manhattan was an extremely strong Latakia blend, the aroma of which would overpower anyone in his office. Herman created HGL so he could have the Latakia he desired without offending those around him.. Scandinavian Tobacco Group Lane, 800-241-2038, [www.stgpipe.com](http://www.stgpipe.com)



## Announcing Voodoo Hookah Accessories

Kretek International announced several new additions to its lineup of Voodoo Hookah products. Joining Voodoo traditional hookahs and new e-hookahs are a full line of 20 shisha flavors with matching flavors in Voodoo Steam Stones. The 20 exotic flavors are divided into four pre-packed collections of tropical and blended fruit, berries, citrus and coconut. Flavors include Guava Sunrise, Chill Berry and Wet Kiss Mango. Each flavor combo is created to deliver the perfect balance of top quality hookah tobacco and natural ingredients for hookah lovers.

Voodoo Steam Stones are 100 percent natural mineral complexes selected for flavor and moisture absorption. Steam stones produce no smoke and contain no nicotine, but deliver all the exotic flavor of shisha.

“Our goal with Voodoo Shisha and Steam Stones is to take this traditional form of tobacco enjoyment forward to current adult tobacco users who are looking for relaxation and an escape from the increasing regulation of the cigarette marketplace,” says Kretek Marketing Director Rick Chandler. “Our Voodoo now encompasses a wide range of electronic, hookah, and smoke-free tobacco products and accessories.” The Voodoo brand also includes hookah charcoal, hookah torch lighter and the fast-growing Voodoo disposable e-hookah in eight flavors with 800 puffs. Voodoo offers products created to ensure the most enjoyable smoking experience possible. Voodoo’s goal is to provide the best products and accessories at the very best prices. Kretek International, [www.voodoohookah.com](http://www.voodoohookah.com), 800-358-8100, [salesinfo@kretek.com](mailto:salesinfo@kretek.com)



## Styling from Sapphyre Hookah

Sapphyre Hookah is an exciting new line of flavored electronic hookah from ECO-CIGS. With a rich metallic finish, Sapphyre Crystal tip and 600 puffs of zero-nicotine flavor, Sapphyre Hookah e-cigs appeal to a wide range of adult customers—and delivers the quality, margin and value retailers expect from the Sapphyre brand.

Sapphyre Hookah comes in eight great flavors, including Blueberry Mint, Mango Tango, Green Apple, Strawberry Fields, Peach Passion, Grape Explosion, Watermelon Heaven and Chocolate Mint. Each Sapphyre box includes five each of four flavors at a MSRP of \$8.99. ECO-CIGS, 855-326-2447 (x106) or [tony@eco-cigs.com](mailto:tony@eco-cigs.com)



## Bringing Back Hustler & Spider

Kurt A. Kendall, founder of 7-20-4 Cigars, has added two regular-production additions to his portfolio of resurrected brands. Both are handmade, 100 percent tobacco boutique premium cigars, entirely separate from his existing 7-20-4 premium line. Both are parejos only and are crafted at Tabacos de Oriente in Danli, Honduras, with five years of aging on their tobaccos, plus six months on the finished cigars. Neither contains ligero, relying instead on the other tobaccos in the blends to gain their power. Their triple-capped heads prevent unraveling, and they are entubado-bunched, which avoids uneven burn and tight draws.

The "Hustler" is presented in a high quality Spanish cedar box (\$270 MSRP), with nine cigars in each of the three compartments: 5.5x52, 6.5x58 and 6x54. Kendall is



also adding 10-cigar packs which retailers can use for single stick sales or to replenish stock. A five-pack presentation is also offered only in the 4.25x40 Hustler Dog Walker, which the company describes as "petite barber pole." The dual wrapper combines a robust Brazilian Mata Fina with a moderating Ecuadorian-grown Connecticut Shade leaf. The Jamastran and Jalapa filler is held in a Costa Rican binder. Kendall says the smoke is "medium-bodied, with the spiral wrapper providing a visual emphasis to its swirl of complex flavors and aroma."

"Spider," Kendall's latest cigar, originated in the 1930s in his home state of New Hampshire. Formerly released in a limited number of New England smoke shops in 2011, it comes in a 6x52 shape that retailed for one silver dime back in the '30s. The MSRP for today's edition is \$220 per humidor of 20. The presentation is a strong selling point—a furniture-grade Spanish cedar humidor with an etched glass lid featuring the Spider logo. Vintage Cigar Distributors of New England, 603-965-4493



## Striking Gold

Swisher International and its new premium cigar division, Royal Gold Cigars, have launched Gold Strike handmade cigars, the first of four lines to be introduced by Royal Gold Cigars in the next few months. With three cigars in each package, Gold Strike is available in two popular formats: Churchill (7x48) and Toro (6.25x50). They are packaged in Swisher's innovative, sealed-fresh pouches that are re-sealable to keep each cigar as fresh as the first.

Handmade in Esteli, Nicaragua by master cigar rollers, Gold Strike cigars offer consumers a pleasing, medium-bodied, premium cigar experience at an affordable price. The \$6.75 to \$6.99 per pouch suggested retail price makes Gold Strike affordable to the widest possible segment of cigar smokers.

Gold Strike cigars are now available through all major tobacco product and convenience store distributors, independent cigarette/tobacco outlets, convenience stores, smoke shops, and wherever tobacco products are sold. Swisher International, 800-874-9720