

# TOBACCO BUSINESS

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ROCKIN'  
CIGARS  
WITH  
ROCKY  
PATEL

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**NATO'S GUIDE**  
TO FIGHTING  
LOCAL REGULATION

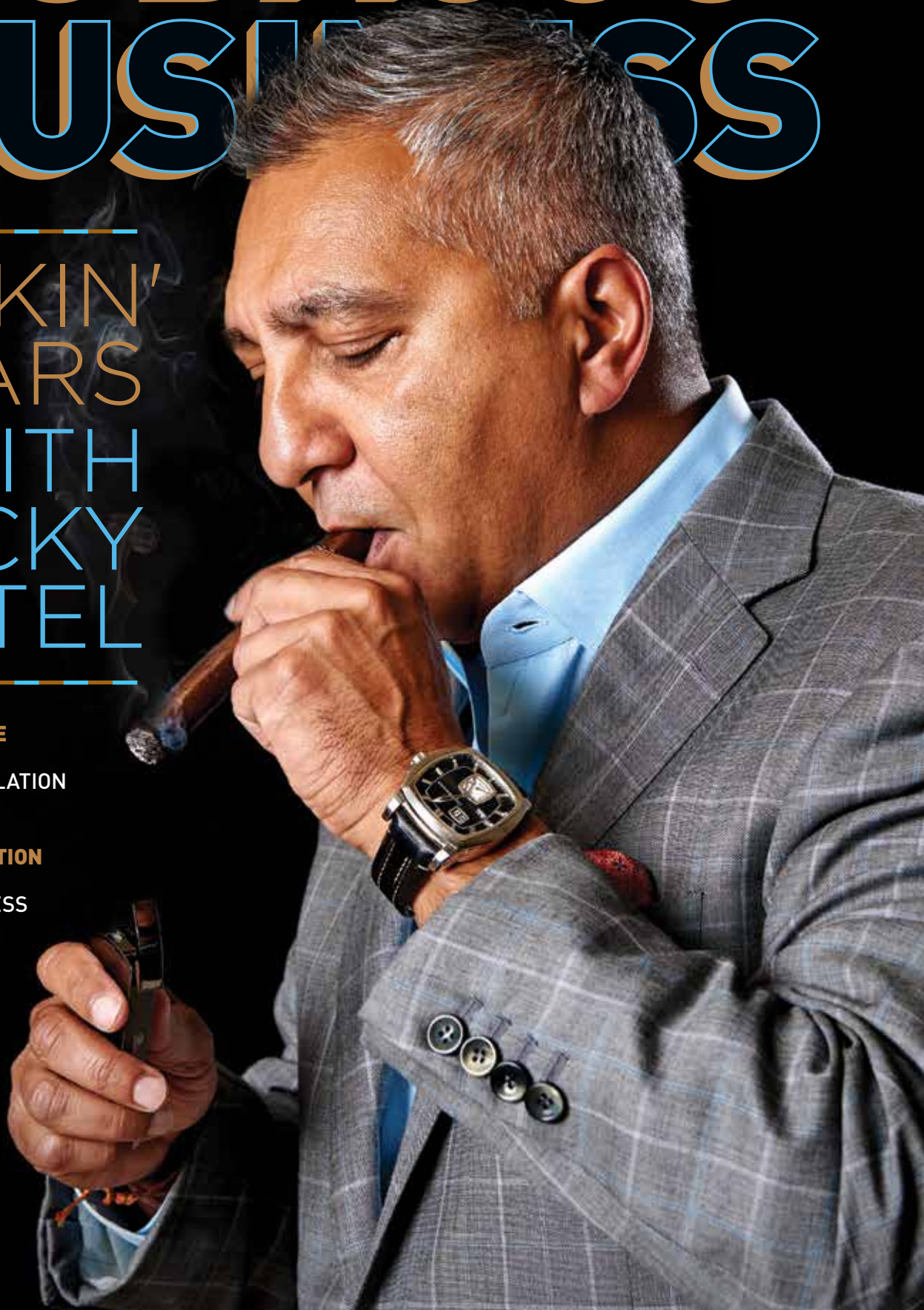
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**WHAT A NEW**  
**ADMINISTRATION**  
MEANS FOR  
YOUR BUSINESS

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**WINNING**  
**STRATEGIES**  
FROM A  
WISCONSIN  
RETAILER

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# Ushering in a New Era



2017 marks a new year, a new era of exciting times for Kretek International's Tobacco Media Group (TMG) and more specifically, for *Tobacco Business* magazine. For many years TMG has successfully led the market in helping specialty tobacco manufacturers and retailers increase their sales and market share, with groundbreaking publications and trade shows. In the new year, this will not change. However, you will see a renewed commitment from TMG to become an industry leader and partner to all in the tobacco industry.

When I was first approached about the opportunity to join the company, I was naturally drawn to the possibilities and potential for growth that I saw in these brands. I've spent 15 years working in the publishing and media industry, including the magazines *Tobacconist*, *Pipes & Tobacco*, *Vapor Voice* and *Cigars & Leisure*. My vision for this publication is simple: we will provide you—the manufacturer, the retailer, the CEO, the employee, the entrepreneur—with the tools and information you need to break new ground. How will we do this? With a reinvigorated print publication, a renewed focus on our digital initiatives, including a revamped website and active social media presence, and a trade show that will be a must-attend event.

This change has already begun, and you can see what an amazing job the TMG team has done with the debut of a refocused and refreshed *Tobacco Business* magazine. The magazine's editorial team will continue to be led by Jennifer Gelfand and Renee Covino; Dana Collins will

oversee the magazine's design and Lea Edmondson will keep us all in line as the general manager, as well as assist with sales. Also new to the magazine is Antoine Reid, who will be responsible for expanding our presence on the web and through social media.

An important goal for us here at TMG and Kretek International is to provide you with real-time, relevant news coupled with compelling industry stories and outstanding visuals. It's also a major goal of ours to provide a focused, targeted distribution, larger than any other trade publication in the industry. Reaching 100 percent of your target market through our publication and trade shows will provide you with new business leads and increase your reach.

Most importantly: we are here for you. Consider us your best business tool, your ultimate business partner, your own platform and soundboard that will help you to reach other industry professionals and retailers.

I welcome you to join us on this new, fantastic journey and grow with us as we move forward in a very exciting direction. I look forward to meeting many of you at this year's Tobacco Plus Expo (TPE) show in Las Vegas on January 25-26. If you have any questions or comments, please email or call me on the number below.

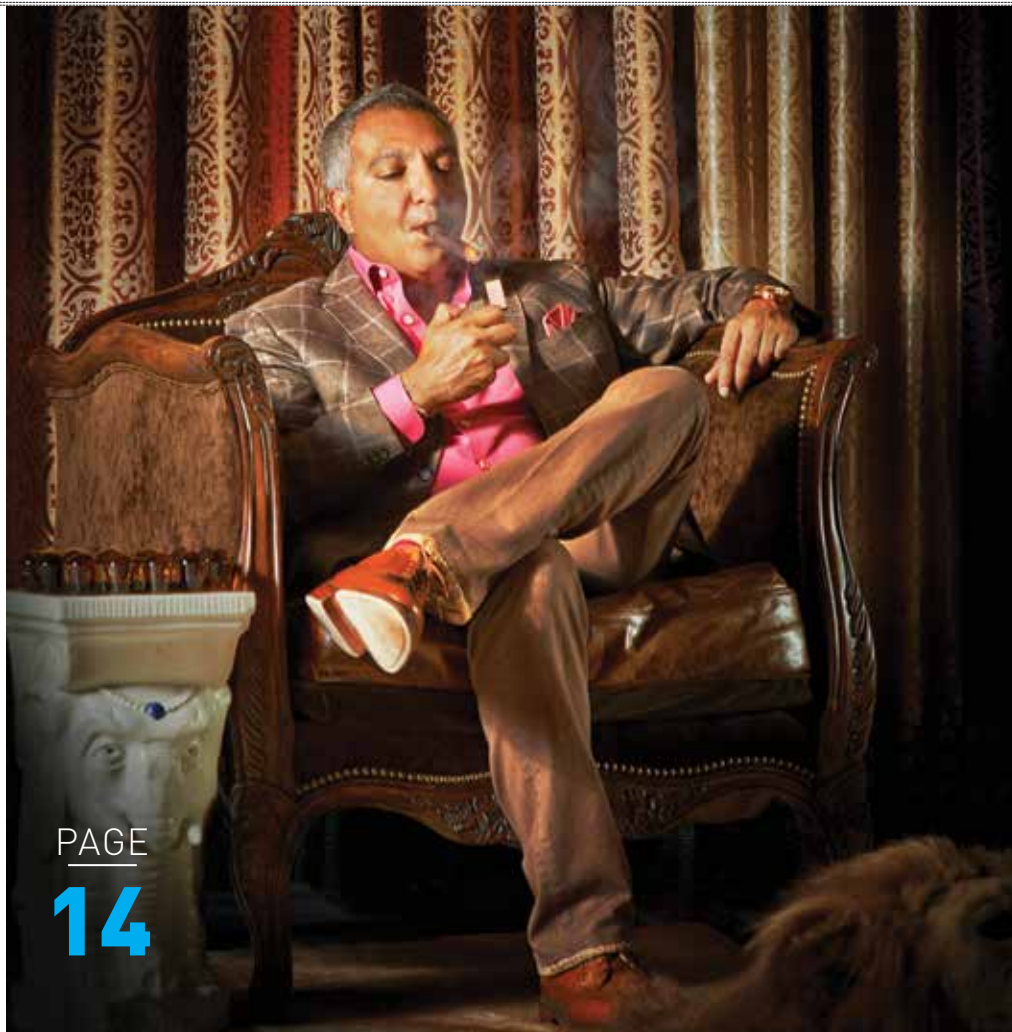
Happy New Year!

Ben Stimpson  
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**My vision for this publication is simple: we will provide you—the manufacturer, the retailer, the CEO, the employee, the entrepreneur—with the tools and information you need to break new ground.**





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# A New Day in Washington, D.C.

**The new administration and newly elected congressional leaders are an opportunity for our industry.**

ON NOVEMBER 8, APPROXIMATELY 128,389,674 Americans exercised their civic duty, and cast a vote for their preferred candidate to lead the United States. Awaiting Donald J. Trump are questions of assembling a government, national security, campaign promises on healthcare reform, infrastructure development, immigration, tax, trade—and that's just on the initial “100 days” agenda. However, also prominent on the president-elect's transition site is the topic of regulatory reform.

During these closing moments of the current administration, the U.S. Food and Drug Administration (FDA) is rapidly releasing “guidance” documents and planned implementation regulations for newly deemed tobacco products, with items such as ingredient listing and substantial equivalence guidelines and mandates. The agency is pressing to ramp up regulation, especially in light of the election outcome.

Obviously this is not the only federal agency rushing to issue the proverbial “midnight regulations,” nor is it a unique circumstance to this administration. Every president and federal agency leaps at the opportunity to leave their lasting mark, and to develop their legacies. Congress is also rapidly moving legislation to block such regulatory actions, especially on measures that dramatically affect the national economy.

Measures such as the Regulatory Reform Act under the bipartisan leadership of Congressman Bob Goodlatte (R-Va.) and Congressman Colin Peterson (D-Minn.) seek to establish sound procedures for regulations that have greater than a \$100 million economic impact. Cigar and other tobacco product regulation would fall within that.

The Trump transition has already released a statement noting, “Regulatory reform is [a] cornerstone of the Trump administration, and the effort will include a temporary moratorium on all new regulation...and a thorough review to identify and eliminate unnecessary regulations that kill jobs and bloat government.”

It is also reassuring that during his service in the U.S. House of Representatives, Vice President-elect Mike Pence served as a co-sponsor of H.R. 1639, calling for a premium cigar exemption from FDA overreach. Additionally, we look forward to carrying our message to the nominee for Secretary of Health and Human Services, Congressman Tom Price of Georgia, who was also a former co-sponsor of premium cigar exemption legislation.

Cigar Rights of America looks forward to working with the new administration on remediating the threat federal regulation poses to the premium cigar industry and building upon the work of the last five years with the message that this is a clear case of regulatory overreach that goes well beyond the congressional intent of the original Tobacco Control Act.

With the change in White House leadership also comes uncertainty about actions in Congress. Now that the House and Senate have passed a Continuing Resolution to fund the government through April of 2017, there may well be an omnibus budget package more in the image of the new leadership on both ends of Penn-



**Regulatory reform is [a] cornerstone of the Trump administration, and the effort will include a temporary moratorium on all new regulation... and a thorough review to identify and eliminate unnecessary regulations that kill jobs and bloat government.**



In that event, we will need cigar voters across the nation to petition their members of the House and Senate in support of exemption language that prevents FDA from advancing their draconian proposals, as approved by the U.S. House of Representatives Appropriations Committee on April 19, 2016. The U.S. Senate will be of special concern in the event of this action, and we will keep our cigar brethren informed of any such need for outreach to Congress, or The White House.

Fortunately for the cause of cigar politics—and due largely to the groundwork laid by CRA and the International Premium Cigar & Pipe Retailers Association—there is a foundation and established network of advocates in the U.S. House of Representatives and U.S. Senate.

In 2017, there will be 145 returning co-sponsors of H.R. 662 in the House of Representatives and 20 returning members of the U.S. Senate who are current co-sponsors of S. 442, calling for exemption from FDA oversight. We also look forward to working with new members of Congress, and initiating our education in their offices as to why we are different, and undeserving of the treatment being plotted by the federal bureaucracy.

In the continuing effort to build cigar smokers into a true political constituency, CRA announced a program known as “Path to 435.” This initiative seeks to have a designated cigar advocate for each congressional district in America as a point person who personally knows his or her congressman and senators and can speak and act on our collective behalf—as a constituent—as a local (cigar) voter. There is to be a statewide CRA advocate that will work with volunteers throughout their given state as we become more of a force in our nation’s politics.

We are pleased to note that with the new Congress, we have over 100 congressional districts identified and over 20 statewide chairs that will be our foundation in

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2017 with the new House of Representatives and Senate. This will assist with outreach for membership growth, petition promotion, and outreach to elected officials.

The election did not just mean change in Washington, D.C. The people spoke on issues at the state level, as well.

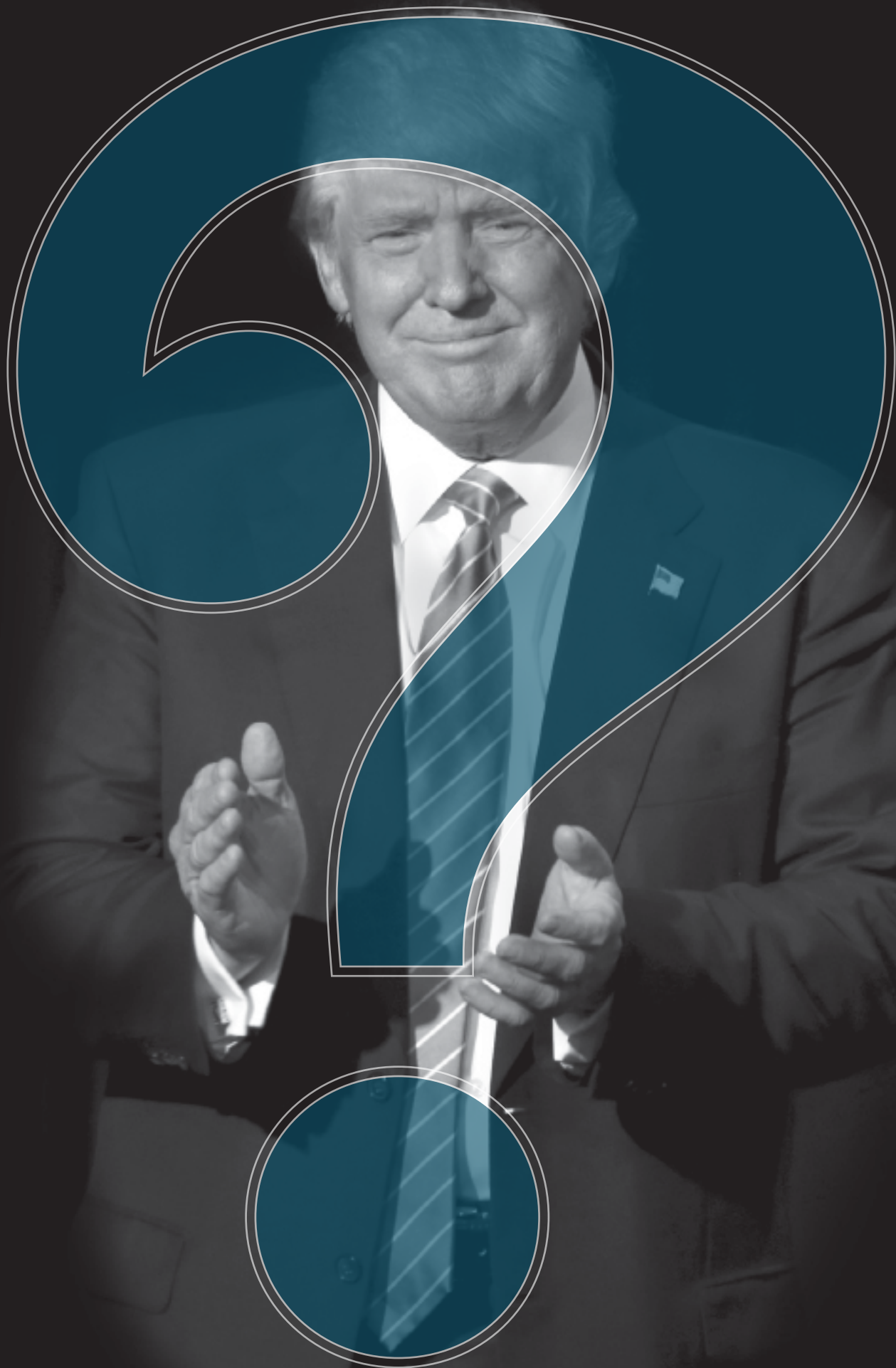
It is great to report that measures to raise tobacco taxes, specifically on cigars, were defeated in Colorado, Missouri and North Dakota. It is unfortunate that a related measure passed in California, despite the efforts of the consumer and retail tobacco community in the state, and tens of millions of dollars spent by tobacco business interests in a repeated attempt to defeat such a tax increase. The impact of this tax increase will surely demand legislative attention, as the state learns of the error made on election night.

It’s hard to believe, but 2017 will soon be upon us. With that, dozens of state legislatures will be going into session through the nation. Smoking ban bills will no doubt be filed in a collection of states, tax increases filed in others.

As in Washington, we will each need to remain vigilant in our efforts to be “citizen advocates” to protect our passion for great cigars and for the freedom to enjoy perfectly legal tobacco products from the actions and agenda of the nanny state. Stay informed by visiting [CigarRights.org](http://CigarRights.org). **TBI**



*J. Glynn Loope is executive director of Cigar Rights of America.*



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# New Administration Expectations

Will the new president and his cabinet be a friend to the business of tobacco? As with any new force in office, there is hope.

BY RENÉE COVINO

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# The state of tobacco under a Trump presidency is like a smoke-filled room—not exactly a clear picture. But as we embark on a new political era, hope is clearly present, along with some cynicism and reality.

Shortly after the election, political commentator and reporter David Gregory stated that tobacco and convenience store retailers “will welcome what comes out of a Republican Congress and this Republican president,” although he did not get specific.

Generally speaking, the hopefuls point out that Trump is, ultimately, a business man, and expect that he will get behind the mom-and-pop retailers and manufacturers that exist in the sector. The cynics point out that he is a proud nonsmoker who may look the other way and/or get behind Big Tobacco as the ultimate beneficiary of current and pending legislation and regulation.

Boutique cigar maker and icon Rocky Patel is hoping for “executive relief” for the smaller players, noting that they are “somewhere on that list of what needs to be saved. Otherwise, tens of thousands of jobs will be lost in this industry, including all the ancillary work—FedEx shipping jobs, printing jobs, advertising jobs, everything associated with making and selling cigars and it will be a chain effect,” he tells *Tobacco Business International*, hoping his plea won’t fall on deaf ears. “And it’s not just the U.S.; jobs will be lost in the Dominican Republic, Honduras and Nicaragua—300,000 jobs are possibly affected there.” (See interview, p. 26)

From the other opinion corner, premium cigar maker Ernesto Padilla isn’t holding his breath for Trump to save tobacco in its currently regulated state.

“Hitler didn’t like tobacco and neither does Trump,” he states, somewhat in jest. “I don’t think there are any indicators right now that things will change for us. I just don’t see it. If

there is any regulation Trump will be in favor of, it will be tobacco.” But Padilla also recognizes that the new regime “may not be as harsh as Hillary would have been.”

## FDA Picks and More

Meanwhile, industry news about Trump and tobacco has swirled around a mostly hopeful sentiment regarding FDA picks and the support of innovation.

StatNews.com reported in November that even though it had been less than a year since Dr. Robert Califf took over as the commissioner of the FDA, the agency was already facing post-election upheaval, with public health advocates bracing for a “seismic shift” as Trump and his advisors, including Newt Gingrich, reportedly believe that the agency has long been a barrier to innovation.

At press time, President-elect Trump was reportedly considering naming Jim O’Neill, a Silicon Valley investor and pro-innovation libertarian, as FDA Commissioner. In the past, O’Neill has called for eliminating the FDA’s mandate to determine whether new medicines are effective before approving them for sale.

O’Neill also expressed disdain for the FDA’s regulatory process while serving as principal associate deputy secretary at the Department of Health and Human Services (HHS) during the George W. Bush administration.

Regarding the HHS, secretary nominee Tom Price was outlined as a pro-vape and tobacco supporter by the *Vaping Post*, which noted that as a conservative Republican and orthopedic surgeon for almost 20 years before joining Congress, Price voted against the Tobacco Control Act in both 2008 and 2009. It







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also reported that he was in favor of bills in 2012 and 2013 which would have exempted large, hand-rolled premium cigars from FDA regulation and user fees. The report concluded that if named into position, Price is likely to take his anti-Obamacare deregulatory fervor into FDA tobacco regulations as the HHS cabinet member that oversees FDA.

### Industry Urgency

Referencing Trump's promise to "drain the swamp," Americans for Tax Reform filed a petition in mid-December urging him to deliver a familiar message to Surgeon General Vivek Murthy: "You're fired!"

The group suggested that Murthy be replaced by a senior public health official "who actually cares about tobacco harm reduction and saving lives." Americans for Tax Reform further emphasized that the growing body of evidence suggests that vapor products are less harmful than cigarettes and could "save millions of smokers' lives, billions of tax dollars, and represent the greatest advancement in public health in generations."

Also around press time, Republican lawmakers sent a letter to Vice President-elect Mike Pence to repeal e-vapor deeming rules set by FDA in August 2016. U.S. Senator Ron Johnson of Wisconsin, chairman of the Senate Homeland Security and Governmental Affairs Committee, and Duncan Hunter of California urged the new administration to "protect thousands of small-business owners, employees and consumers from the FDA's overreach" by repealing or suspending FDA's "burdensome" deeming regulation over e-vapor products.

R Street Institute sent a similar letter to Vice President-elect Pence, endorsing the prompt rollback of the August 2016 deeming regulations for electronic vapor

products, noting that the Institute shares many of the concerns of the two lawmakers in the letter mentioned above. R Street also encouraged the new administration to consider ways to improve the regulatory framework for e-vapor products to allow the industry to compete in the U.S. marketplace, while also looking at the issue from a perspective that includes due consideration of the public health impact.

Boston University School of Public Health Professor Michael Siegel also called on the administration to support e-vapor and the thousands of small businesses that are likely to close their doors due to FDA's deeming regulations. He said that the Trump presidency has a "historic opportunity" to adopt a "sensible regulatory strategy," and to "undo the damage that the FDA's vaping products policy has done."

Does Siegel believe these efforts will have some effect on Trump? "One might argue that it is unlikely that an administration would completely repeal an agency regulation that is already in force," Siegel said in his online tobacco blog this November. "However, President-elect Trump does not seem timid about threatening to completely repeal other health statutes and regulations, so I don't see any reason why he would be reluctant to do that with the FDA's ill-advised e-cigarette regulations."

Beyond the e-vapor world, the cigar industry has hope for its lawsuit against FDA, filed by the Cigar Association of America, the International Premium Cigar and Pipe Retailers Association, and Cigar Rights of America, which, among other things, states that FDA's deeming rules that subject premium cigars to the same regulatory regime as other tobacco products is "arbitrary" and "capricious" and violate the Administrative Procedure Act (APA). That suit is set to begin at the end of July 2017. **TBI**

PREMIUM  
CIGARS

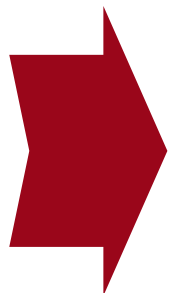
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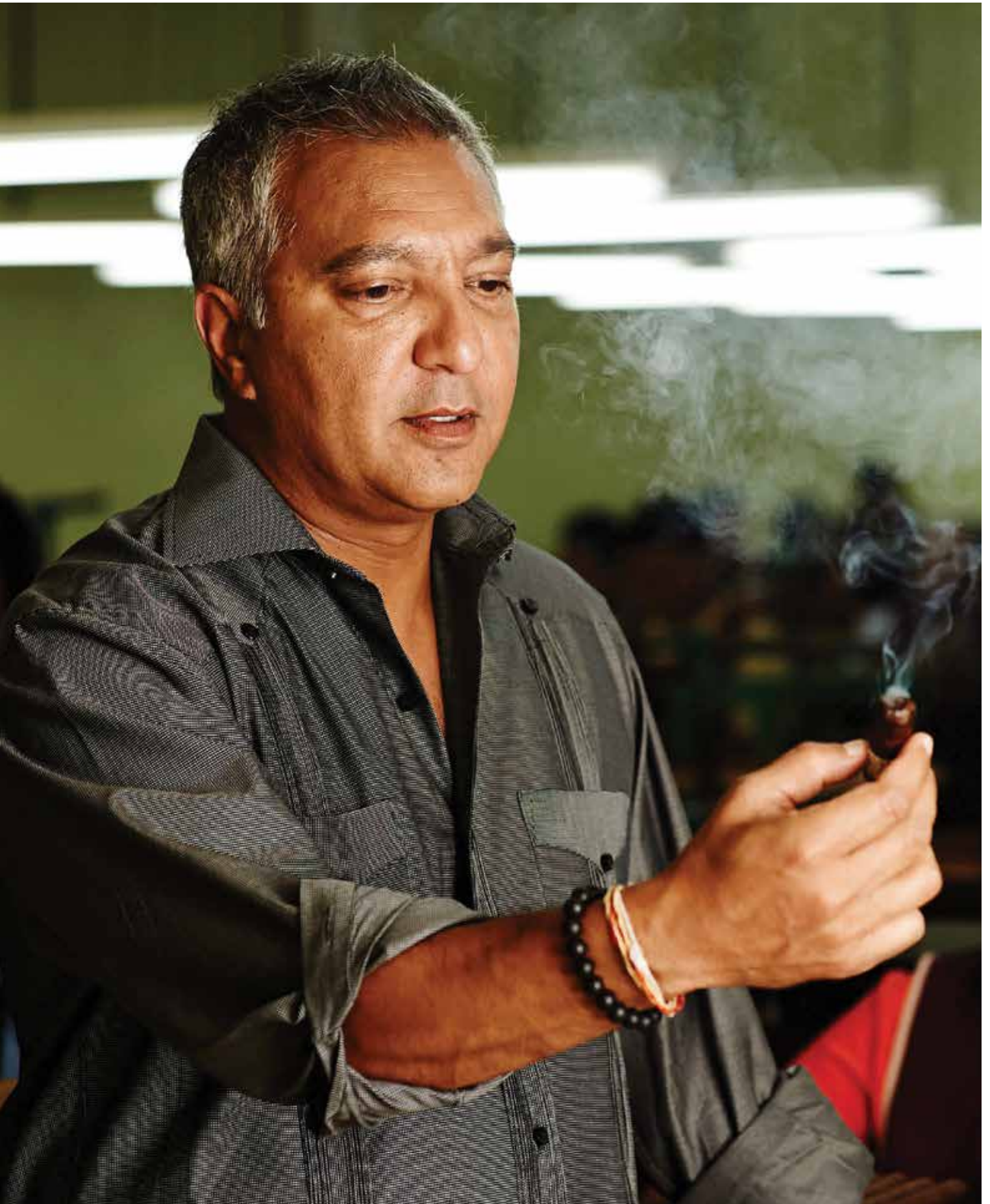


CIGGARR  
CROCK  
ROLL

**2017 REVELATIONS FROM ROCKY PATEL**

*TBI* talks regulation transition, the new political administration, finding cigar utopia and more with a rock-solid tobacco personality who clearly rolls with the times. BY RENÉE COVINO





In the premium cigar arena, **Rocky Patel** is a “rock-and-roll” superstar for his rock-solid business stance, as well as his roll-with-the-punches business acumen. This steady force in a turbulent tobacco world brought his namesake brand to heights unseen by most boutique cigar manufacturers, survived the cigar boom and its aftermath and is now rolling with federal cigar legislation and the subsequent industry transition, striving for compliance even as he continues to fight for the industry.

Along the way, he continues to touch mom-and-pop tobacconists and cigar consumers on a one-on-one basis, personally taking to the road for more than 300 days yearly to get his cigars and cigar message across to a loyal and growing fan base. Recently, a passionate Patel weighed in on some hot-button tobacco topics while visiting with *TBI* on his travels. Hence, we present five sets of “Rocky Revelations” for these tobacco times: ➡

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## FDA REVELATIONS

**TBI:** What is top-of-mind for you concerning the FDA?

**Patel:** Some of the mass market [cigar] companies are proposing that we [premium cigar companies] go through testing, such as carbon monoxide testing and a few others, but we feel that we should absolutely not have to do that. We are made differently, the humidity is different, the combination of tobacco is different, the climate is different, there are changes that take place from year to year and you never have the consistency in that kind of mapping with premiums. Plus, we don't have cigars from 10 years ago that people can link to, it's cost-prohibitive.

We would rather say to the FDA that our cigars are "substantially equivalent" and they don't present a public health hazard to the population because nothing is that different from cigars made pre- and post-2007. They're the same size, have the same amount of tobacco and there's no harmful effect. They need to come up with a different ruling for us. The burden is on the FDA to show that premium cigars create a significant health problem. There's no data, they have no evidence that the benefit of the deeming rules outweigh the detriment to the industry. There's no demonstrative science, just

arbitrary and capricious regulations that are not relevant because they don't rely on any data.

We are working with the Office of Management & Budget (OMB) to show them this and that they have no evidence of any public benefit with what they're doing. It's clear that they just intend to be prohibitionists; they're just trying to wipe all tobacco off the face of the market. Even though we are finally working with the OMB, we fear they are absolute strict prohibitionists.

People are complaining that soldiers can't get cigars in Afghanistan and Iraq. I believe Mitch Zeller said that it's a soldier's job to shoot, not to smoke, so that's the kind of mentality we are dealing with.

**TBI:** What stage are you in with the FDA? What communication have you had?

**Patel:** A few months ago, we filed a lawsuit, that is, our industry associations—Cigar Rights of America, the Cigar Association and the IPCPR—are all three suing the FDA on the compliance side because much of the deeming regulations are arbitrary and ambiguous.

FDA told us we had 90 days in which to get substantially equivalent cigars out (by August 8), but they didn't give us guidance as to what

"substantial equivalence" is. All we knew is that it had to be similar to products created before 2007. So now we're going to the OMB and pushing them, saying we need clarity and we want them to understand how these laws actually impact the premium cigar segment.

It makes no sense. They're not showing any health benefit to society by doing this and the detriment in cost to our industry totally outweighs any benefit they're trying to claim. The government does not understand our business, and they're not trying to intelligently make educated decisions on their rules and rulings.

However, we have totally started the processes to be compliant, even beyond what we have to do. First off, if you're a domestic manufacturer, you have to register your products with the FDA. Then, in February, everybody has to come up with an ingredient list to the FDA. We also started product registration—we started it, but we don't have to do it because we are not a domestic manufacturer.

There's a bill pending presently in Congress for premium cigar exemption because we are not habit-forming, nor are we a product that is consumed by youth. We managed to get that bill out of the House and now we are cautiously hopeful that we could get it out of the Senate

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who support the anti's, and also with those who support Big Tobacco, so we have things working against us, but we are hoping to somehow have that moved. Also, we are dealing with a new [political] administration.

**TBI:** Have the deeming regulations and announcements hurt you, sales-wise?

**Patel:** So far, nothing has affected our sales.

Most retailers know Rocky Patel to be compliant and to follow all guidelines and rules. We are a brand that can withstand the regulation. It will be very burdensome and costly, and will definitely affect our margins and profit, but at the end of the day, we will be compliant.

But retailers need to know that if they do have companies that are not compliant, all of that product could be confiscated with fines associated with it, so they need to filter through that and see who will be around to be compliant. I think there will be a cleansing in the industry; only the strong will survive at this point, unless something fundamental changes.

A lot of retailers are in la-la land. They're in a fantasy. They don't have a clue or care to have a clue, and they assume this is no big deal.

Others have gotten involved to investigate what a manufacturer needs to do to be compliant. They're smart enough to take a closer look to see who has the financial capability to withstand this.

## TRUMP REVELATIONS

**TBI:** What about the new administration? Do you expect that will have a positive or negative effect?

**Patel:** We're hopeful that we can get executive relief with the new president-elect and his cabinet. We are hopeful that the present regulation and the entire U.S. economy changes and that we are somewhere on that list of what needs to be saved. Otherwise tens of thousands of jobs will be lost in this industry, including all the ancillary work—FedEx shipping jobs, printing jobs, advertising jobs and everything associated with making and selling cigars. It will be a chain effect. And it's not just the U.S. Jobs will be lost in the Dominican Republic, Honduras and Nicaragua—300,000 jobs are possibly affected there.

What's good is we got a new president, and that's certainly good for the industry. We're hopeful.

**TBI:** Do you expect the sale of Cuban cigars to become a reality in this country under the new regime?

**Patel:** The recent hype of the past two years got everybody excited, but nothing is going to come out of it. Obama let people traveling to Cuba come back with \$100 worth of Cuban cigars, but that doesn't allow us as cigar makers to go in and farm or make cigars. It's even less likely that this president is going to follow that trend. If anything, we will probably have those loopholes again.

All that hype—it's just hype.

## BOUTIQUE BRAND REVELATIONS

**TBI:** Is Rocky Patel still considered a boutique brand?

**Patel:** We still call ourselves a boutique company because everything we do is done with the cottage industry in mind, with art in mind, with strict quality controls and with special aged tobacco just like when we were a smaller company. We took our original plan and concept and brought it to a bigger scale. We're still a hands-on, vertically integrated company. We've just done it larger. But as far as our passion, hard work and time invested, that's all still the same.

**TBI:** What do you think will happen to other boutique companies if the regulation stays as it's written now?

**Patel:** There are probably a lot of boutiques that will not survive. Competition is good for any industry, and that's why we're fighting so hard to protect this. We were small at one point, and we want to ensure fresh ideas come from new, small companies. I think that's healthy and that's why we're fighting so hard to push back regulation.

**TBI:** How do you keep the Rocky Patel "edge" going strong?

**Patel:** It's interesting you use that word as we have a cigar line called The Edge.

We think outside the box; we are very progressive in the way we do business. We work hard and play hard, and I wake up every day pretending that it's Christmas and New Year's. There's no difference to me between Monday, Saturday or Sunday. Every day is a work day, but also when we play, we do know how to have a lot of fun with good libations, food,

# R

sports, music, travel, dancing and, of course, fine cigars. We never forget to enjoy life, especially with friends and family. We are a very family-oriented company. We like to enjoy the fine things in life and we love to share them, while at the same time, being very driven and dedicated to our business with a strong work ethic.

## RETAIL REVELATIONS

**TBI:** What's your best advice for tobacco retailers embarking on 2017?

**Patel:** Overall, I think retailers in our industry need to grow up, and get more sophisticated. The competition is more severe, and I think they need to be cognizant of who their long-term partners will be, and look at the companies that are working with them by developing good, quality products, consistent products, by marketing them with advertising and events and promotions, and by making sure they will be compliant.

What matters should be the companies who are fighting for them to stay in business.

It's amazing how many tobacco stores still have no idea at all about what is going on with the FDA and the regulations that could put them out of business. They don't participate and they need to, whether it's getting the word to consumers, reaching out to Congress and senators or getting involved in local city council meetings. We can't even get many of them to join associations. It's imperative that retailers get involved in their local and state legislation. They need to realize that this is the cost of doing business now. They have to add this to their bottom line just like manufacturers have had to do.

**TBI:** Since retailers can't emphasize cigar innovation moving forward, what will they emphasize in 2017?

**Patel:** They should focus on core brands and emphasize core brands. Companies like ours previously introduced three new brands a year. Now, of course, we plan to be compliant and play by the rules, but we were able to release a number of brands before the August 8 deadline, so there will be some newness to highlight.

The year 2017 will not be a year of new products across the board, but companies like ours that had new products out before the August 8 deadline still have some innovation to offer.

I'm excited about our new lines, the Rocky

Patel Special Edition, the Rocky Patel 55, and we released our first Dominican cigar called the Dark Dominican. These were all released prior to August 8.

We actually managed to release 1,470 SKUs prior to the deadline, and we helped out quite a few companies. We probably helped another five or six cigar companies and several retailers on their private labels—we gave them grandfathered blends or we made them blends using our grandfathered product.

**TBI:** Are retail cigar events still relevant to the industry?

**Patel:** Cigar events are relevant, but overplayed. Too many people are doing events every week; you can't do that. That needs changing. We need to get more creative on how we do events. Maybe do something off-premises on a boat or yacht or take people out hunting, golfing or to a baseball game. There are other ways besides [in-store manufacturer events] to keep customers engaged and involved in premium cigars.

## CIGAR HEAVEN REVELATION

**TBI:** What does cigar utopia look like to you? Where is your favorite place to smoke and puffing on which cigar?

**Patel:** Ah, there are several. The first one that comes to mind is sitting on the patio of a house I rent in the Bahamas overlooking the ocean. I can also see myself sitting on a mountaintop with a great view and just relaxing and looking out over the world daydreaming and getting away from the hoopla and bustle and the phone and people.

Five years ago, I was in Africa in Serengeti, I love to smoke cigars in exotic places like this with no humans around. I was also on top of the foothills of Mt. Everest in India a couple of years ago. During the decade I was in Africa and India, the Rocky Patel Fifteenth Anniversary was my favorite cigar. I will be in the Bahamas in two weeks and right now my favorite is the Rocky Patel Twentieth Anniversary.

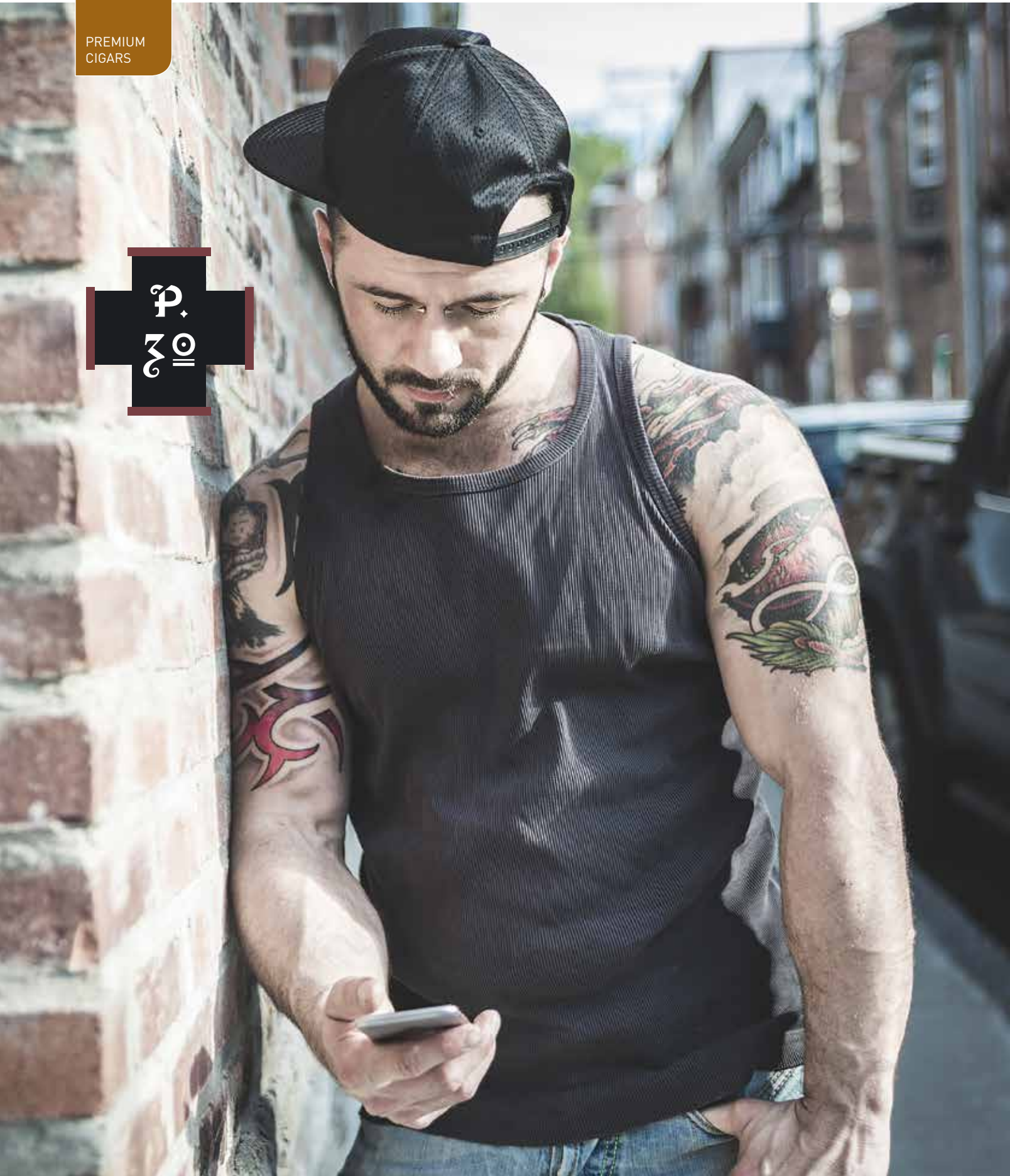
Ours are my favorite because we are dedicated to making great quality cigars with some of the best craftsmanship in the world. We strive for consistency cigar box to box. It's what we built our reputation on, having consistency of taste for a pretty vast variety of cigars. **TBI**







PREMIUM  
CIGARS





# THE REBIRTH OF AN APP



DREW ESTATE BREAKS NEW TECHNOLOGICAL GROUND  
WITH ITS DREW DIPLOMAT PROGRAM.  
BY ANTOINE REID





**IN ITS 20-YEAR HISTORY**, Drew Estate has produced more than 1,000 cigars, but its most impressive and impactful release may have come in the summer of 2016 with the new Drew Diplomat app. Available on iOS and Android devices, Drew Diplomat is more than just a mobile application built around Drew Estate. It's an extension of the Drew Estate brand that, much like its cigars, sets out to change and even challenge the status quo of the cigar industry. Drew Diplomat is a bridge that connects consumers with other fans of Drew Estate. Best yet, it transforms Drew Estate from a brand into a movement fueled by technology and social media.

It's important to understand that the story of Drew Diplomat doesn't begin when the app went live for consumers to download back in the summer of 2016. The app is a natural evolution of the company and its origins. Back in the late 1990s when the company first launched, cigar smoking was seen as a rich man's activity and was marketed as such. From the start, Jonathan Drew and the founders of the company wanted their cigars to be smoked by everyone. The company was able to bring in new consumers by embracing a wide range of consumers—rich and blue collar, young and old, men and women—equally and enthusiastically.

For two decades, Drew Estate has carried on in the spirit of being the rebels of the cigar industry. Rather than follow trends, the company set out to create products that spark new trends. This philosophy isn't limited to its popular cigars like ACID, Tabak Especial or Java by Drew Estate—it extends to its new app Drew Diplomat. The company has always rallied around its mantra "The Rebirth of Cigars" and has been hard at work over the years to build a community and subculture around it.

"Drew Diplomat is a place where our community, our subculture of people, are able to interact with our brands," explains Sam Morales, Drew Estate's director of marketing. "The app is a way for us to connect our most crazy consumers with our most crazy customers and really align the two together. It's a strategic advantage to join the program and to be a Drew Diplomat."

Joseph "Joey" Reichenbach adds: "Drew Diplomat is the evolution of all things Drew Estate. More importantly, it is about a culture where our customers are more like brothers, sisters and friends. I'm on Diplomat even more now than I'm on Facebook. It is a direct line between our company and the consumer, where we are listening and seeing what's going on with all the real hardcore Drew Estate fans."

Looking at the state of the cigar business as it is today, it's easy to see why an app like Drew Diplomat is crucial to the success of a company and brand the size of Drew Estate. You're starting to see integration, alignment and consolidation within the cigar sector, mostly influenced by anti-smoking legislation across the nation and increasing government regulation. Many large-scale manufacturers are purchasing retail establishments to increase their market footprint. However, as they've done in the past, Drew Estate is resisting this trend in favor of an alternative path toward success with the development of its Drew Diplomat program.

### **DREW ON DREW ESTATE**

The company has invested more than \$1 million in the development of the Drew Diplomat program and application. Technology is key to Drew Estate's business model and growth plan, and it stands to gain a great deal from its investment in the application because of



**This is what sets the Drew Diplomat app and program apart from others like it—it doesn't reward purchase loyalty; it rewards consumers for engaging with Drew Estate through social media.**

### A RETAIL FOCUS

The app already lists over 70,000 retail partners that sell Drew Estate's premium products connected to the app. The company hopes that the number of participating partners will increase as more retailers, especially those in the mass-market premium channel, begin to understand the power of this platform. The app itself appeals to consumers and encourages them to visit the brick-and-mortar stores that carry Drew Estate products such as ACID, Liga Privada, MUWAT, Undercrown, Joya and Balmoral, among many others.

Cigar smokers are encouraged to try all of Drew Estate's various cigar lines and app users are rewarded for posting about their smoking experience. This is what sets the Drew Diplomat app and program apart from others like it—it doesn't reward purchase loyalty; it rewards consumers for engaging with Drew Estate through social media. This "social loyalty program," a term coined by Drew Estate, taps into the social aspect of the cigar lifestyle and rewards cigar smokers for fully engaging with and exploring the Drew Estate brand. The app also features a virtual humidor that's more than a mobile inventory list for consumers. It also includes a wish list so that Drew Estate is able to see what consumers can't get enough of, what's in demand and also what limited releases the company should bring back. With this, Drew Estate is able to better plan its marketing initiatives and product releases for the coming year.

Another way the app benefits retailers is by putting an emphasis on Drew Estate events, many of which take place in Drew Estate retail locations. With an RSVP feature built into the app, the company is able to better prepare its salesforce and event host for those planning on attending the event. It also cre

the data, feedback and direct connection to its consumers that the Drew Diplomat app provides. While similar apps sell cigars directly to consumers, Drew Diplomat instead aims to drive fans of the Drew Estate brand into the stores of Drew Estate retail partners. Jonathan Drew, founder of Drew Estate, addresses the importance of brick-and-mortar retail stores to Drew Estate's overall success.

"Brick-and-mortar retail stores are one of the three fundamental pillars of the cigar business," Drew explains. "It is where the magic of the factory floor is communicated at the humidor level. At Drew Estate, we view brick-and-mortar retailers as key to the survival of our industry, so it's our priority to create platforms in 2017 that push our strategic partnership to new levels. The Drew Diplomat app keeps that spirit alive and pure. In 2017, expect to see Drew Estate go back to its roots, guerrilla-style, destroying everything in our path and aligning with our loyal brick-and-mortar customers to deliver an unparalleled experience to the consumer."

What interests Drew Estate more is the consumer feedback provided by the app. Since the app's launch nearly six months ago, more than 15,000 users have posted about 200,000 Drew Estate cigars that they are smoking. All of those cigar lovers logged in to the app provide Drew Estate with a better vision about what people think of its cigars and why they are smoking them. For example, Drew Estate has been able to tell that its Pappy Van Winkle Barrel Fermented cigar is three times more likely to be smoked on somebody's birthday than any other day in the month. Data like this helps the company focus its marketing efforts on various lines, as well as understand the buying habits and behaviors of its dedicated consumer base.



ates another data point for the company to study through the ability to see where its event attendees are traveling from for larger events like the company's annual "Barn Smokers" held in Connecticut, Kentucky and Florida. Building on the social aspect, users are able to add and follow other friends within the app, fortifying the community and subculture spirit that the Drew Estate brand is founded on. By emphasizing events and connecting users with one another, Drew Diplomat is another tool created by the company to develop a strong sense of connectivity and community within its loyal brand supporters.

Another special feature of the Drew Diplomat app is how users can earn points that can be redeemed toward giveaways and unique Drew Estate swag, such as one-of-a-kind art pieces created by the company's Subculture Studios. Drew Estate employs 40 full-time highly skilled, diverse graffiti artists and produces more unique art on a daily basis than any other cigar company on earth.

## THE ART OF BUSINESS

"I have been with Jonathan [Drew] since day one here in Nicaragua, first as his translator, then as his driver and now as an artist," says Jessi Flores, director of Subculture Studios in Nicaragua. "Subculture Studios is the pulse that artistically makes our brands come alive. We play off each other's strengths, and help each other with our weaknesses. We teach each other, learn and grow, but we also have fun. Drew Diplomat is the vessel that gets our art to the United States. It's like technology, art and cigars combined into something diabolical."

With Drew Diplomat, anyone who is on the app—including retailers, store clerks and consumers—has the chance to win one of 700 items that these graffiti artists have created. These are one-of-a-kind art pieces and personalized ashtrays, sneakers, apparel and more that are unique and will never be mass produced. With the app's growing user base, the need for the graffiti artists to produce these pieces is great and it helps Drew Estate to remain committed to its art initiatives by justifying its investment in employing these 40 graffiti artists.

In just six months, the response to Drew Diplomat has been so strong that Drew Estate already sees some of its competitors developing apps of their own. But the company isn't worried about possible competition in the app arena.

"The Drew Diplomat app provides a home for Drew Estate fans to interact with each other, sharing 'the force,' if you will. When Drew Estate started we were the antithesis to everything 'status quo' in the cigar industry," explains Drew. "Of course our competitors are watching, and they can replicate parts and pieces of the applications. What they can never replicate is our relationship with the consumers, so we are not afraid." **TBI**



To learn more about the Drew Diplomat program, visit [drewdiplomat.com](http://drewdiplomat.com).

“**The Drew Diplomat app provides a home for Drew Estate fans to interact with each other, sharing 'the force,' if you will. When Drew Estate started we were the antithesis to everything 'status quo' in the cigar industry.**”



## The Science—and Power—of Social Media

Think social media and investing in technology as a tobacco business is a waste of time? Think again. Technology and social media have been central to Drew Estate's business model and a source of its remarkable growth since the company launched. "Our technology investment is what sets us apart from our peers because our goals are different," says Jonathan Drew, founder of Drew Estate.

When developing its Drew Diplomat program and application, Drew Estate wanted to create an authentic social loyalty program that would help create intense connections and relationships with its consumer audience. By doing so, Drew Estate has been able to convert its consumers into brand ambassadors who each share the vision and passion for the brand.

"It's this organic, authentic, grassroots approach that really is the heart and soul of Drew Estate and what makes us different from everyone else," describes Morales, Drew Estate's director of marketing. "There's something to be said of authenticity, and social media is the most authentic form of editorial in existence. Drew Diplomat is no different than a lighter or a cutter—it's a tool. Our community uses it to stay connected together and to create a family."

Drew Estate not only invested in the development of the application, but also in a total technological overhaul of the company and how it integrates with the Drew Diplomat program. Both the data it derives from the application and the constant feedback and connection it gains with its consumers give the company a return on its investment that will secure its position as one of the pioneers and innovators of the cigar industry.





# Backed by Romance and Revolution

**Named after Ernest Hemingway and influenced by a Cuban-poet father who was imprisoned by Castro, Ernesto Padilla brings heart and soul to a boutique cigar company that has every intention of surviving FDA intervention. BY RENÉE COVINO**

Ernesto Padilla is no stranger to government adversity, which gives him and his boutique cigar company a unique perspective in these FDA-worrisome times.

It was the death of his father in 2000 that brought life to the Padilla Cigar Company in 2003. While it's common for small-batch stogie businesses to be backed by family tobacco roots, this one was built on a foundation of an extraordinary family history, soaked in romance and revolution. And yes, cigars were in the picture—literally.

“When he was arrested, the photographs in *Time* and such always showed him with a cigar; cigars and he were never far away, so it was a big part of his growing up and his culture,” recounts Padilla, owner and founder of Padilla Cigar Company, speaking about his Cuban-poet father, Herber to Padilla, who was imprisoned by the Fidel Castro regime in 1971 for speaking out and writing against the government. Herber to Padilla is often written about as Cuba’s “foremost modern poet.”

In 1979, when Ernesto was six years old, he and his mother, also a Cuban poet and artist, were allowed to leave their country for the U.S.; his father was not allowed to join them until a year later when he was exiled.

During the many years that Herber to was held captive and later put under house arrest by the Cuban government,

many friends and intellectuals wrote to Castro to release him. One of these was Ernest Hemingway, who Ernesto Padilla was named after by the creative parents who always encouraged him to follow an artistic soul.

Padilla started his career in the advertising world but was more fascinated with cigars and their history, much like his father was decades earlier. When his father passed, it was a natural transition for Ernesto to veer off into cigars as his business, creating a family brand in honor of his father (Ernesto’s brother, Carlos Padilla, is a silent partner in the Miami-based company).

Padilla Cigar Company named its first four cigars after significant dates in Herber to’s history. For example, The Signature 1932 was in honor of the year he was born, the Padilla Series ’68 (now discontinued) marked the year he published his first book. The newest cigar, the 85<sup>th</sup> Anniversary, was released before the August 8 deeming regulation deadline last year and is in honor of what would have been Herber to’s 85<sup>th</sup> birthday.

Padilla Cigar Company entered into a brave new FDA world with “eight cigar products grandfathered in,” something Padilla believes will carry them to survival, based on the way the rules are written now, and on expert legal counsel hired by the company. “It looks like grandfathered prod



## CIGAR SENSE

[ 01 / 02 | 17 ]

uct makes all the difference here,” he says. He guesstimates that if he tried to produce them today—meaning if they weren’t grandfathered products—“the lab costs [alone] would be around \$7.5 million for testing.”

While these predicate products are deemed safe, Padilla expects that 40-50 percent of the industry’s cigars will be gone, including, of course, some Padilla cigars that are not grandfathered in.

“I think the key now is to try to get as educated as possible as to what’s coming,” he says. “There are no stupid questions and there are no limits on questions. The first thing I did when we heard about the deeming regulations was spend \$4,000 on a three-hour conversation with an attorney, and it really opened my eyes.”

With a company headquartered in Florida, Padilla compares what he sees coming to the very scary weather patterns that sometimes hit the Sunshine State. “I live in Miami, and you’ve got to prepare for the hurricane,” he tells *TBI*. “You watch the tracking, you listen to the probability and you start going to Home Depot at least five days before. People who go at the last minute have no experience, they don’t realize that there will be nothing left at that point. When that hurricane hits our industry in three years, there will be panic; it will be interesting to see it in a sad way.”

Padilla is speaking not only about boutique cigar manufacturers, but also the numerous mom-and-pop retailers that sell a large majority of their cigars. “So many of my retailers are optimistic, and that’s because some are naïve and some are just ignorant,” he says candidly. “They are small business owners who really don’t know what’s going on. They’re not asking the right questions; they’re not asking anything.”

With 14 rocky years under his boutique cigar belt, Padilla has some additional points of industry wisdom and vision he shared with *Tobacco Business International*:

**Cigars are still a craft business.** It’s also a romantic business, says Padilla. “A lot of people pour a lot of heart and soul into it, and even if the government doesn’t care, it’s still a business run with a lot of passion. The government can’t take that away if we don’t let them.”

**Forget the new—focus on consistency.** The key to the romance of the industry will be to transfer the passion for newness to one of consistency, says Padilla. “I don’t like to hear that it’s not going to be exciting anymore. Look, ultimately, cigars are about consistency. Unlike wine, which has this vintage or that, we don’t specify the year because we try to make a certain cigar consistent forever; and even though it’s very challenging, with a tremendous amount of work going into it, that will be the name of the game. Consistency is the foundation of what we try to do and that’s exciting in its own way.”

Limited editions will undoubtedly go away under the new regulations, and Padilla is fine with that as a mea-

“**I think we’re going to see consolidation and a lot more streamlining. Cigar prices might go up a bit, and this will shrink the industry, but it will be a more professional one.**”



sure of discipline. The way he sees it, the oversaturated industry got a little lazy with limited editions—manufacturers, retailers and even consumers. “I would go into a cigar store with my father in the ’80s in Princeton, New Jersey, where we were living at the time, and he would walk in, get his cigar, and move on. Now it seems like we’re all bored with our lives and looking for that ‘new fix.’ Cigars are an accompaniment to life; they’re not your whole purpose in life. And retailers need to sell cigars, not a lifestyle. I don’t buy all that. We need to get back to consistency.”

**Streamlining is inevitable.** “If you ask Jonathan Drew why he sold his popular cigar brand, it really comes down to three letters—F, D, A,” says Padilla. “There are some companies like Drew Estate that saw the handwriting on the wall three years ago. Nobody was really talking about it then, but it was out there. “I think we’re going to see consolidation and a lot more streamlining. Cigar prices might go up a bit, and this will shrink the industry, but it will be a more professional one.”

He also recognizes that the weeding out will be a necessary industry evil because “we’re extremely saturated right now.”

Padilla Cigar Company itself had the opportunity to be purchased in 2009; the two brothers talked and decided to roll the dice, believing the family name and eight grandfathered products would prove to be beneficial.

**The next incarnation is now.** Padilla posits that the cigar industry is on the verge of its next incarnation. “It will become apparent that those that want to be in this industry will get serious.”

This will have a strong (negative) impact on big online retailers, he adds. “They’re going to have to get rid of a lot of their inventory because of warning label regulations. It’s not going to be worth it to take apart all their cigar inventory, they’re going to have to liquidate.”

It’s going to be a great time for the cigar consumer, he continues, but not so great for cigar brands.

Nevertheless, “it will be a totally different industry in a few years, and I plan to be around,” Padilla states on the record. “I’ve been through worse—namely, SCHIP followed by the Great Recession. So this is a bureaucratic slowdown, but not the end of cigars.” **TBI**

PREMIUM  
CIGARS



**BENEFICIAL**

**Alec Bradley Cigars'** partnership with  
Glenfiddich Whisky offers a marketing lesson  
for retailers. | **BY ANTOINE REID**



# PARTNERSHIPS



In the age of declining shelf space in tobacconist retail stores and increasing government regulation, it's never been tougher promoting tobacco products in the U.S. marketplace. While the traditional means of marketing a product—including print and online ads, press releases and social media—all still play a part, companies are finding ways to get creative and think outside of the box to get their products into the hands of consumers. Alec Bradley Cigars, a premium cigar manufacturer owned and operated by Alan Rubin, does that by promoting its cigars through special events with an unexpected partner: William Grant & Sons' Glenfiddich Whisky.

Rubin and Mitch Bechard, a Glenfiddich U.S. brand ambassador, first met at the Universal Whisky Experience show in Las Vegas over five years ago. It soon became evident that there were some similarities between the premium whisky and cigar brands that would make an ongoing collaboration beneficial not only to both companies, but also to consumers.

"Our territory managers and Glenfiddich ambassadors get along great. I think in this relationship, the consumer truly benefits," explains Rubin. "All of the Glenfiddich ambassadors truly believe in the Alec Bradley brand and, in turn, our territory managers all love Glenfiddich—what they do, who they are, their history and the quality of what they're producing. We're very confident in recommending each other's products. Truly, the consumer gets the ultimate benefit because we are so passionate about what we're doing together around the country."

These events are more than just a tasting and sampling of products; they are experiences that educate attendees about whisky and provide helpful tips on how to pair various Alec Bradley cigars with different Glenfiddich whiskies. Retailers and venues that have hosted one of these special Glenfiddich/Alec Bradley events have not only seen them packed with consumers eager to learn about and purchase the products, but have noted that they've driven much-needed traffic into their retail spaces.

"We've had calls from accounts that we've done pairing events with and they'll call us the next day to say, 'That's the best event we've done in years,'" says Rubin. "We're bringing consumers to the next level."

When seeking out a partnership that can benefit your brand, what's the key to teaming up with another company that can give yours a boost? According to Bechard, it's all about finding a partner whose outlook and goals align with yours. ➤





“The big thing for us is that we’re both family-run companies and that’s really important to us as brands. It makes it a lot more personal as brands and everything that we do together,” he says, noting that it’s important to find a partner that markets itself in a manner that is nontraditional and makes an impression.

“If you look at Alec Bradley as a company, they’re very maverick with their advertising and how they put products on the market,” explains Bechard. “We talk about how Glenfiddich is also very maverick. It’s the first single malt whisky to be marketed in the world. I think that’s a nice tie-in with what Alan [Rubin] does with Alec Bradley. It’s not your usual branding that you tend to see done with a cigar. That’s what’s nice about the partnership we have.”

Rubin acknowledges that it’s a challenging time for the tobacco industry, especially for those who work with premium cigars after the 2016 deeming regulations were imposed by the Food and Drug Administration (FDA). With many tobacco retailers having a limited amount of shelf space, finding creative ways such as these special pairing and tasting events is key to helping retailers move products. As you devise your marketing plans for the New Year, think of the special relationship between Glenfiddich and Alec Bradley and seek out your own partnerships to help get your products noticed and purchased by consumers. **TBI**

## A PROFITABLE PAIRING

Whisky and cigars is a pairing enjoyed by many consumers—a reason why scotch is being added to many retail stores and venues catering to cigar aficionados. According to Bechard, the U.S. is the biggest market for scotch whisky. Still, Bechard says there are plenty of people new to the world of whisky who attend tasting sessions, all in search of not just a new product but an entirely different experience than what they’ve already had. His secret to getting consumers hooked on anything you’re trying to sell? Be ready to teach and educate the consumer about all the facets of your product.

“What I love about doing tastings is that I’ll have somebody come to a session and one of the questions I’ll ask is, ‘Who here has never tried scotch whisky before?’” he says. “If it’s a group of about 14 people, then maybe four or five people will put their hands up. I’ve had the experience where years later, these same people will come up to me and will tell me about their whisky journey and I think that’s incredible. They will tell me how they didn’t like it when they first came to my tasting session but when they got a bit of knowledge about it, they enjoyed it and [continued to] go out and explore it years after that first tasting.”

# Lake Country Cigars: Thriving Under a Woman's Touch

**Event marketing and a focus on service is a winning combination for this Wisconsin shop.**

BY PETER BARRY



The success story of Mary Lynn Kane and her husband Don Kane, owners of Lake Country Cigars in Delafield, Wisconsin, is a study in the power of presentation as a fundamental of marketing. The story begins in 1992, when the Kanes were in a waiting room and came across one of the first issues of *Cigar Aficionado*. At that time Don Kane had been a sales engineer for a mechanical contractor for nearly 30 years, and Mary Lynn worked in business-to-business marketing.

“Actually, we just saw the pretty pictures and said, ‘This is beautiful; look at how they’re presenting smoking the cigars,’” says Mary Lynn Kane. “So we said, ‘Let’s go get one.’ We went and got one and, I would say, within a week and a half we both had our own humidors, and we were both buying our own cigars.”

Neither of the Kanes were smokers before that experience. Yet something clicked for both of them, changing the course of their lives.

“One of the things that we had talked about as we were smoking cigars was, ‘Wouldn’t this be a great business to

have in our life?’” she recounts. “And Don was getting sick of the business he was in. So I said, ‘I love small business, let’s go for it.’”

“We decided to open a store in the Lake Country area, which is a very affluent area where people have a lot of discretionary income. Space became available in a strip mall in a very desirable location, so we actually pulled the trigger about a year earlier than we wanted.”

The year was 1998 and, at the time, neither of them had any retail experience. Modeled their shop after a store that they had frequented.

“We had a soft opening, and then we went to the IPCPR show,” says Kane, who says that the \$8,000 the couple spent to stock their shop seemed like a big investment at the time. “It made us nervous because we’d already made our purchases for the humidor before we saw all the new products. As new business owners, you don’t know what you’re getting into.”

This is the part of the story where we tell you about the lean, early years, but the Kanes skipped that phase. “Early on



we projected that we would only do between \$700 and \$800 [in sales] a day," says Kane. "But it was unbelievable. Our first year we did over \$1,500 a day! It was crazy—we grew so fast."

Opening in Delafield turned out to be an ideal move, because the location draws from Chicago, Milwaukee, Madison and even as far as Minneapolis. In fact, some shoppers drive all the way from Indiana every year to stock up.

The Kanes found out early on that partnering with manufacturers would help their marketing dollars go further. "We started with snail mail and we still continue with it," says Kane. "Manufacturers help us with the ads. You wouldn't believe how small a percentage of our budget is for advertising because we get sponsors for the things we do: signage, products, everything—we get sponsors."

Mary Lynn Kane also brought her marketing background to bear in engaging customers through events, both in the shop and at external venues. "We got involved with a lot of different venues [local clubs and golf courses, etc.], and our off-site events grew very big," she explains. "And our in-store events, we de-

veloped those over the years to be some of the best attended, we think, in the country."

#### DATA-DRIVEN GROWTH

The couples' event marketing efforts also enabled the shop to create a database of customers, contacts and relationships. "We have nice cards for people to sign in, and then we have all their information," says Kane. "And people are willing to give it to us because we have a philosophy that if you help us with the marketing, you're going to get stuff in return."

The Kanes use a multi-pronged approach to reach their followers with news, announcements, and events. In addition to snail mail, they produce a [printed] newsletter every other month that goes to about 5,000 people, an email blast that goes out to about 8,000 people, a V.I.P. text program that goes out to 1,900 and a Facebook page with more than 1,900 friends.

The shop prides itself on going above and beyond to meet the needs of these loyal customers. "If people have requests, or we know that certain people like certain things that are hard to get, or sizes that are hard to get, or products that are back-ordered, we know those

people and we make sure that we keep a record of that so that we have a system to call them back," Kane explains.

All that effort translates into huge turnouts for their events, who, in turn, are rewarded with food and prizes. "If they show a text they received from us, they get something for free," she says. "Sometimes it's donated from outside of the industry, sometimes from within the industry. They might get a free beer or soda that night or a free cigar—although we can't do that anymore—or a free raffle ticket."

The Kanes recently bought several Echo Dots, the voice-controlled smart device being marketed by Amazon, to use as prizes. "We'll buy an item for \$40 and the way we present it [gets] people excited about it. We'll say, 'Buy a box, get a ticket,' and they do it."

#### EXCELLENCE IN EVENTS

Often, events are held in partnership with another local business, such as a brewery, coffee company or chocolate maker. "We do evening events with fine jewelry for guys to choose jewelry," says Kane. "Sometimes on Friday nights we have people who have un-

usual jobs come in and talk to people about their life, like a fighter pilot, or people who worked in foreign government. It makes people excited to come in."

Some events, such as the "100-Box Challenge," are annual. The store announces a date and offers a discount to hit a sales goal of 100 boxes in a day. "We give a discount, and people from all over are calling in, and we can get as many as 160 boxes sold in a day," explains Kane, who says the store also recently ran a "Build a Box" event. "We give a discount if customers select 24 cigars, and we have special boxes for them and they put them together. That's an amazing day."

Held on Christmas Eve, the "Customer Appreciation Party" is the shop's second biggest day of the year. The store stays open until 4 p.m., puts out a big spread and gives each customer a free cigar. "We give out 650 cigars every Christmas," says Kane. "People bring their families. It's become sort of a tradition."

"We do many things to make our customers understand and see that we care about them. We have to remind them, because I think sometimes in business if you don't tell them that you're giving them something, they don't get it because they just expect it."

Part of caring for customers involves being inventive. Like many cigar shops, Lake Country Cigars offers private memberships that come with a locker, discounts, members-only events and special access to certain offerings. But its members also enjoy a reciprocal program with other lounges across the nation.

Lake Country Cigars also offers beer in the store lounge and on its patio when the weather is nice, says Kane. "We're in a 'burb right outside of Milwaukee, and they only allow us a beer license. We have a tap from the local brewery and then the rest is all microbrew and craft beers that are changing all the time. We don't make a lot of money on our beer, but it keeps people here buying cigars."

### STAFFING SUCCESSES

The Kanes believe that training and motivating employees on strong service is critical to helping the store convert new customers into regulars. "They're very well trained and well compensated—that, I think, is very key," says Kane, who says the shop's incentive and profit sharing programs help motivate employees to upsell customers and remind them about upcoming events. "Employees who make money will help you make money. You can pay your employees less and think you're making more, but neither my husband nor I agree with that philosophy."

The store's Ladder of Satisfaction employee program helps its staffers understand how to build relationships with their customers. "The lowest rung is just walk-ins who may or may not ever come back," explains Kane. "We show our employees how to move those up to the next rung, and the next, and the top one, of course, is they have a customer who will not only recommend us, but will not go anywhere else."



### WORKING THE WOMEN'S MARKET

One of the ways Mary Lynn has made a name for herself in the cigar industry is through her outreach to women cigar smokers. She was a founder of Cigar Babes, a group that does fundraising work to support women working in the industry in places like Nicaragua and Honduras, and she's also a founder of the International Women's Cigar Society, which encourages the industry to take the women's market seriously.

Her passion for recognition and equality is reflected in the shop: "One of the things that women don't like is when they're treated differently. They want to be treated just like a regular cigar smoker. They're not asking for a cigar made for them, they don't want a pink label. They just want to be accepted. They enjoy cigars just like guys do, and for the same reasons."

"In order to be a cigar smoker as a woman, you have to be confident because you would be embarrassed if you weren't confident," she notes, adding that it's important to create an atmosphere where women feel welcome. "It's a big thing to put in your mouth and still look ladylike. There are a lot of guys that hang out together at these shops and, if a woman walks in, they're going to say the wrong thing. I'm sure you know what I mean."



**We do many things to make our customers understand and see that we care about them. We have to remind them, because I think sometimes in business if you don't tell them that you're giving them something, they don't get it because they just expect it.**



“We help our employees see the advantage of moving customers up the rungs and keeping them. When somebody comes in the store they’re introduced to everyone, they get a full tour. Typically they’ll get something for free. When they leave, they’re feeling like, ‘I’d like to come back.’”

A diverse employee base helps create a welcoming environment, she adds. “We have some employees who are elderly, we have women, we have young people. Typically they’ll have their own following. We had a Harley guy work here and all his Harley friends came in. We have a former law enforcement guy and he brings in the firefighters, the cops, the FBI agents. It’s pretty amazing.”

### ENGAGING CUSTOMERS

Forming a customer advisory board that meets four times a year has helped the Kanes, who are both in their 60s, stay current with product trends among young adult cigar smokers. “We put a lot of millennials on it,” explains Kane. “Of course we have others, too, but I like to hear from them because they just blow it up in terms of how to do things.”

Advisory board members fill out forms and are tasked with making surprise store visits, and are rewarded with perks. “People are dying to get on it because it’s fun, they get to know the inside-out of the business, and we share a lot of our strategies with them,” says Kane.

The multi-faceted marketing approach the Kanes have implemented sets a high bar for any retail shop, yet it’s their ability to stay focused on the reason they initially got into the business that may ultimately be the secret to their success. “In retail, today is the day, and the time is now. The sale is made when the customer’s here. So, we’re serious. But the ease and the lightness of the store is because it isn’t all about sales. That’s the coolest thing because I don’t think our customers feel that it is at all. I think they feel that it’s all about having a good time, and relating to each other, and enjoying it. Everything is packaged in a way that makes it nice for the customer. We just give them opportunities to buy.” **TBI**



### FIVE THINGS YOU’RE PROBABLY NOT DOING (BUT MAYBE YOU SHOULD)

The Lake Country Cigar shop has been a success since the day it opened, but 19 years later it’s still a success because of creative thinking and taking ideas beyond traditional boundaries. Here are 5 areas where you might be able to go “beyond” where you are today.

1.

#### Real Marketing

There are no shortcuts in marketing. To get a strong turnout for a cigar event, you’ll need to market it aggressively, ideally through multiple channels over time. “There’s a lot of work that we do on the marketing side that I think a lot of shops don’t do,” says Mary Lynn Kane. “And the reason they don’t do it is they don’t have marketing people to do it. If you have that, you can have a very successful business. But I think people that don’t have that shoot from the hip, and throw a sign up and say, ‘Let’s have an event.’ And only a few people know about it. I listed all the ways we hit our customers, and they even get a text message the day before to remind them. I mean, it’s a system. It takes a total system.”

2.

#### Have A Plan

It’s easy to get caught up in the daily challenges of running a business, but real growth takes time—and a strategy to reach your long-term goal. “Typically we have a five-year plan, and then we have a yearly plan, and in our yearly plan we look at it by quarter,” says Kane. “We see what we’ve done every month and say, ‘How are we going to keep these numbers?’ Because, at this point, after 19 years, it’s a lot harder to grow as fast as we did in the past. So we don’t rest on the day before, every day’s a new day.”

3.

#### Sponsorship for Promotions

Partnering with cigar manufacturers and other businesses helps minimize the expense of advertising. “We get sponsors for the things we do: signage, products, everything,” says Kane.

4.

#### Reach Out to Women

If your store isn’t inviting to women, you’re neglecting a huge market, says Kane. “I think that if you have a woman working at your store, that’s a really important thing because that does bring other women in,” says Kane. “We have an atmosphere here that’s not a ‘good ole boys’ club. Building a woman’s presence in your shop really depends on your shop culture.”

5.

#### Motivate Your Employees

“We have a number of incentive programs. We have a profit-sharing program, as I think most of the major stores do. That’s a very good thing, everybody wins. Depending on their hours, they get a percentage of the store’s profits. That can be an amazing extra. It makes them consider the upsell, consider selling lockers, consider reminding people of events. Employees who make money will help you make money.”



STG offers customizable shelf sign fixtures.

# Making the Most of OTP Sets

**Scandinavian Tobacco Group Lane is looking for ways to leverage market trends and help retailers realize the full potential of an underappreciated category.**

A FUNDAMENTAL SHIFT has been taking place across America's retail landscape—one that may afford opportunities in the OTP category. Consumers are increasingly seeking out upscale experiences—particularly in the convenience channel—whether that means opting for a premium cup of coffee rather than the standard diner-style brew or seeking out craft beer instead of the standard six-pack. This movement toward premium products translates to opportunity in other categories, says Leonard Wortzel, vice president, marketing and product development at Scandinavian Tobacco Group Lane.

That trend, in turn, dovetails nicely with other factors redefining the way retailers should approach the cigar category. “Right now about 85 percent of the OTP set is dedicated to relatively low-margin pre-priced cigarillos,” he points out. “There are more than 2,600 SKUs in the category, but 20 of them drive 43 percent of the volume. Yet, most retailers carry far more than 20 SKUs. The typical c-store, for example, carries 60. So you have an oversaturated category where a small number of products accounts for almost half the volume.”

At the same time, retailers who dove headlong into the vapor category are showing signs of pulling back, opening up shelf space for the taking.

The bottom line? The opportunity is ripe for a shift toward premium, higher-margin cigars that will give consumers access to better quality products and boost profits for retailers. “You need to be in pre-priced cigarillos, but

## VENDOR PROFILE

[ 01 / 02 | 17 ]



do you need 60 SKUs?” asks Wortzel, who notes that margins on step-up cigar brands like Macanudo and Punch can be nine times those of mass market cigarillos.

What’s more, consumer data shows that 70 percent of consumers who smoke very inexpensive large cigars do so only when they are unable to purchase premium cigars. For retailers, this represents a previously untapped opportunity. “Why not give this whole other set of consumers—cigar smokers who prefer large, premium cigars—the opportunity to get away from the pump and into the store?” suggests Wortzel.

To help retailers test the waters of this shift in mix of mass market cigars, STG Lane has designed merchandising units that enable retailers to present a selection of cigars representing price points ranging from 99 cents to \$7. The units can be customized to individual store needs, based on sales data that the company collects and analyzes for that purpose.

But how do retailers identify the right products to target for replacement? “We are the only OTP company that buys MSAI data across seven different categories that allows us to see both our volume and our competitors’ volumes down to the door level,” explains Bill Noah, STG Lane’s director of sales operations. “We can analyze the set to see what is selling and what is not in a trading area and use our Symphony planogram platform to work with retailers to maximize their sales and profits in the category.”



**We are the only OTP company that buys MSAI data across seven different categories that allows us to see both our volume and our competitors’ volumes down to the door level.**



Drawing data from more than 120 different wholesalers and coupling it with data the retailer provides, the company’s software is able to determine an appropriate merchandise mix for a store within a given zip code. “We can look at what is selling and how much retailers are making on a given product all the way from the state level down to individual zip codes,” he says. “We can tell you which products are selling best in all of the stores similar to yours across any channel or across your trading area.”

The company can use that analysis to help retailers develop a planogram that will maximize the profit potential of their entire OTP set. “The tools we have can essentially eliminate the guesswork out of OTP planograms,” says Noah. By crunching that data, the company helps its retail customers develop a planogram that will help them make the most of the shelf space they allot to OTP products. “It not only creates a more profitable set, but it can also reduce the cost of excess inventory.

“Most importantly, it enables you to create customer planograms down to the door level that are completely unbiased,” he says. “The data drives decisions around what items you should be keeping and which are performing poorly and may need to be replaced.”

Ideally, the result will be a win-win—a better use of shelf space for retailers and a mix of products that will please a wider range of customers. **TBI**

# VTA Conducts Viral Campaign

**Business owners and customers  
team up to save vapor.**



**Millions of  
people across  
the country use  
vapor devices  
as a safer  
alternative to  
tobacco, and  
in doing so  
support small  
businesses in  
every state.**



ADVOCATING ON BEHALF OF SMALL, mid-sized and large vapor manufacturers, wholesalers, retailers, and their customers, the Vapor Technology Association (VTA) recently concluded a viral social media campaign to push Congress to pass legislation to protect the burgeoning vapor industry. In the effort, more than 665 people and businesses supported a “Thunderclap” carrying the message “Vapor is under attack! Join the #WeAreVapor campaign and tell Congress to #SupportColeBishop!” to nearly 900,000 people across the country.

“The grassroots response to our message was tremendous,” says VTA National Legislative Director Tony Abboud. “Millions of people across the country use vapor devices as a safer alternative to tobacco, and in doing so support small businesses in every state. We want Congress to hear our message and act to support the Cole-Bishop Amendment, legislation that would amend the predicate date and demand that FDA implement battery standards to protect consumers, while continuing to regulate vapor products under the existing Deeming Regulation.”

Contrary to many ill-informed reports, the Cole-Bishop Amendment does not alter the FDA’s authority to regulate vapor products or any other newly deemed tobacco products, notes Abboud. Moreover, he adds, the Cole-Bishop Amendment does what FDA has failed to do by requiring FDA to implement battery standards within the next 12 months.

**According to VTA, the Cole-Bishop  
Amendment will:**

## **1. Save small and mid-sized vapor businesses:**

By amending the “predicate date” from February 15, 2007 to the effective date of the final deeming regulations, the Cole-Bishop Amendment will literally keep thousands of small and mid-sized businesses, and their tens of thousands of employees, in business.

## **2. Save lives:**

Vapor products have gained widespread consumer acceptance amongst smokers who have tried unsuccessfully over the years to quit. The Royal College of Physicians just completed a comprehensive review of relevant scientific research and concluded that e-cigarettes are no more than 5 percent as dangerous as tobacco cigarettes.

## **3. Address the issue of product safety:**

The Cole-Bishop Amendment requires FDA to implement a rulemaking on product standards for batteries within 12 months.

## **4. Protect youth:**

The Cole-Bishop Amendment will restrict youth marketing and youth access to vapor products by:

- Limiting newspaper, magazine or other print advertising of vapor products to adult publications;
- Requiring face-to-face sales, thereby banning self-service displays and vending machines, except at age-restricted venues;
- Requiring FDA to issue labeling regulations within 12 months to include “Keep Out of Reach of Children,” “Underage Sale Prohibited,” and accurate nicotine content.

## **5. Give the federal government the ability to enforce the law:**

The Cole-Bishop Amendment requires retailers to register their establishment, unless the retailer already is required to register under a state law or federal law.

For more information, visit [savevapor.org](http://savevapor.org). **TBI**

# CASAA: New Opportunities

**Expanding advocacy efforts beyond vaping to other harm-reducing methods can only help the cause.**

SEVERAL MONTHS AND A PRESIDENTIAL election later, we find ourselves in uncharted territory—not the place in which we found ourselves last August where the regulatory walls were going up and no one really saw a way out, but new territory where over-regulation shaped by anti-tobacco groups with agendas can perhaps be changed.

The future isn't just about what a Republican Congress (read: one more concerned about impact of regulations on businesses) and president can do for vaping. It is about the broader chance to do something greater—the chance to shift the conversation away from the subject of vaping and focus on larger harm-reduction issues that positively affect consumer health, while at the same time supporting a vibrant market for vaping and other harm-reducing products.

Those of us immersed in the vapor industry eat, sleep and breathe vapor (sometimes literally). Our world is vapor-centric, but it doesn't have to be that way. There are those who support overall harm-reduction efforts that include vapor, but aren't limited to that one product category. Overall, the vapor space has been very limited in its scope, but that is changing.

At the forefront is the Consumer Advocates for Smoke-Free Alternatives Association (CASAA). Founded in 2009, CASAA's core mission is to "raise awareness and protect consumers' rights to access reduced-harm alternatives to smoking." Julie Woessner, executive director, explained that CASAA "was created as an answer to the misinformation being shared by our government and members of the tobacco control community, and in response to FDA's aggressive attempt to remove vapor products from the market by categorizing them as unapproved drugs/drug-delivery devices."

To date, CASAA has largely been involved in advocacy efforts focused on vapor products because threats to consumer access have been greater. However, it's important to note that the roots of their mission are far broader. The organization has always been focused on tobacco harm reduction and on the recognition that smoke-free nicotine-containing products are inherently far less dangerous than smoking. This makes CASAA a

proactive leader in the vapor space.

Vapor products are one of the ever-growing tools in the tobacco harm-reduction toolbox, but there are more. When I spoke with Woessner about CASAA's initial focus on harm reduction, she told me that CASAA has always been committed to providing smokers (and nonsmokers) with honest information about low-risk alternatives to smoking so that they can make informed decisions regarding their health and lifestyle choices, and advocate for themselves.

The vapor space has had a difficult time building strong bridges with tobacco harm-reduction advocates or proponents of "quit or die," likely because they have had a difficult time seeing past the idea of vaping and its similarity to cigarette smoking (though it would be hard to argue today that vaping and cigarette smoking bear much resemblance to each other). Because the message has primarily been vapor first and harm reduction second, it has been relatively easy for detractors of vapor products to dismiss vapor as a "one-off" engineered by the big tobacco companies.

Now we have the opportunity to make the vapor fight about the bigger fight: tobacco harm reduction. Making this shift will require an acceptance by the vapor space of other alternative products without judgment, an acceptance predicated on the true meaning of harm reduction: that it's not about just one product.

CASAA's plans for 2017 include a new advocacy platform to increase member engagement opportunities and expansion of advocacy efforts to include new low-risk products. If the rest of the vapor space expanded their tent similarly, we could set the stage for a large-scale comprehensive effort to address outdated and illegal regulatory and legislative issues.

The deeming regulations that took effect in 2016 need changing. As of this writing, the predicate date remains the same and harm-reduction technology is frozen in time. If we are able to unfreeze the clock on innovation, we can greatly expand the potential for newer and better products. By embracing all low-risk alternatives, we increase our chances of success. By being inclusive, we stand to gain more allies. By being proactive, we give ourselves the head start we needed in 2009.



**The organization has always been focused on tobacco harm reduction and on the recognition that smoke-free nicotine-containing products are inherently far less dangerous than smoking.**



*Former executive director of SFATA, Cynthia Cabrera is an independent consultant at The Cating Group.*

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PRODUCTS

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# MEET VTA'S NEW STATE ADVOCATE

An interview with Vapor Technology Association's **JAKE BUTCHER**

BY JENNIFER GELFAND

In September, Jake Butcher, a seasoned vapor industry expert and state government affairs specialist, joined VTA as its state affairs manager, an appointment that VTA Executive Director Tony Abboud said signaled the association's commitment to fighting at the state level. "We cannot save vapor unless our industry is also prepared to fight at the state level," he asserted. "It's as simple as that. With the FDA's declaration that we are 'tobacco,' the state-level anti-vaping groups in coordination with their national counterparts are already planning their assault on our industry. We will combat their coordinated assault with our own multi-state coordinated strategy."

Butcher will lead the association's efforts to combat local legislation that would devastate small vapor businesses. It's a task with which he has ample experience, notes Cignot owner Victoria Vasconcellos, a leading industry advocate and the leader of the Smoke Free Alternatives Coalition of Illinois. "Jake is not only a pleasure to work with, he is truly gifted in the realm of legislative affairs," says Vasconcellos, who worked with Butcher to successfully advocate for the industry in Illinois. "He gets our business, he cares, and most importantly, his advice has always been spot on."

Recently, *TBI* caught up with Butcher to discuss his approach to advocacy at the state level. The following are excerpts from that interview. ➤

**TBI:** How did you get involved in the vapor industry?

**Butcher:** I originally became interested in the industry because I came from a long line of farmers and coal miners, and a lot of smokers as well. I have seen firsthand the challenges associated with trying to quit the use of combustible cigarettes, some successful and some not. Trying to quit that product is a daily struggle. This new innovative technology is a way to shift away from that product and improve health.

I've now been involved in the industry on the government affairs side for a few years. Our law firm represented an Illinois vapor association for a little over two years and we have enjoyed success addressing some of the issues that we are seeing nationally now. These were things that were not unique to Illinois, things that have been raised by opponents of the vapor industry across the country—flavor-ban legislation and efforts to add vapor products to the Smoke Free Illinois Act. We also saw efforts in the past year to increase the age to vape from 18 to 21, and overall an effort to treat vapor product in the same regulatory framework as combustible cigarettes.

**TBI:** More and more states and local municipalities are proposing those types of restrictions on vapor products. How will VTA approach advocating for the industry at the local level?

**Butcher:** A big part of this [fight] and a big part of what VTA is looking to do is about education. I think the biggest thing with policymakers, staffers, legislators and across the country in the various states is education and addressing these issues with that approach. Take any of the issues we have talked about—flavor bans, raising the legal age—there needs to be a uniform framework. Most would agree that a patchwork framework is ineffective and confusing. So that is one of the big things we are trying to address by working with these state groups across the country.

**TBI:** Currently, we have the new deeming regulations from the FDA and then we also have states enacting their own restrictions. How do you expect this to pan out? Will states continue to push their own agendas? Or is there any indication that now that there are

FDA rules, some of them may take a wait-and-see approach?

**Butcher:** That is yet to be seen. You have to remember that when the deeming regs came down, most legislatures were in the middle of their regularly scheduled sessions. I think now we may see more of an effort at the state level to treat vapor product like tobacco products. Anti-vapor advocates will push that—that vapor products are tobacco products and should be regulated as such. We just have a fundamentally different view of that than they do. There will be more research done, and we have to educate policymakers and lawmakers. That is why VTA has taken the steps [it has] in seeking to formalize the coordination of state activities.

**TBI:** What have you learned from your experience thus far? Do state legislators understand the industry? Are they willing to listen?

**Butcher:** It depends on the state and how much work we have done there to date. I would say it varies; some legislators are well informed and others we have to do more work on. A positive thing from my perspective is that we came across very few who are close-minded on this issue. At a minimum they are willing to listen and that makes the effort all that much more important. This is an industry that is undefined and in some respects fairly new, especially in terms of regulation. So getting our message out is critical.

Building relationships and educating is our next step, going in and providing background that decision makers can rely on. It requires a state-by-state approach. Various states have had bills advance to different levels. In some states where they are challenged for revenue, taxation is a big concern. In others, flavor bans are a big concern.

Some states have acted; others are, at least from our perspective, taking a serious look and not rushing to legislate. We are certainly looking to advocate against irresponsible tax policies. What the general assembly in Pennsylvania did is one that comes to mind. They were caught in a tough budget situation, although that's no excuse.

**TBI:** What can retailers do to help ensure that legislators understand the industry?

**Butcher:** One of the biggest things is form-

ing a common association to work together on advocacy. That is the biggest first step. What we are seeking to do with VTA is take a proactive approach to education and influencing policy at a state level. We have been fortunate in Illinois and some other states to band together and work together on a coordinated approach. Instead of one person contacting their legislators, you have several hundred reaching out in a coordinated manner.

Obviously it is important for every single shop to make contact with their legislators. I think that that one-on-one connection—bringing them in, inviting them into your shop and showing them what you do on a day-in and day-out basis to try to improve lives—is important. That would be my biggest advice: band together with other shops on common goals, whether that be against taxation or flavor bans; the principles are the same.

**TBI:** There is some concern that passionate individual advocates approaching legislators might do more damage than good. What's your view?

**Butcher:** Most legislators are not experts on the vapor industry. We are trying to take our expertise and distill it into a subset of information the legislators can absorb, distill down and use for public purposes. I think that presenting a coordinated, consistent message is important and [having] everyone communicating on the same or similar message. The issue is complicated and legislators who better understand our issues are more able to detail out the nuances in different arguments.

At the same time, I am not a fan of scripting. I am not for micromanaging. Don't get me wrong, I don't think there is anything wrong with a business owner approaching a legislator who represents where they live. The more people we have in the process, the better. A big part of this industry is grassroots grown, so the idea that they shouldn't reach out would be troubling. [It's] just the more coordinated and consistent we can be, the better.

That's why we are focused on getting ready and making sure the federal approach and the state approach are coordinated; we don't want to lose ground at the state level that we gained on the federal level and vice versa. State coordination is something that the industry [has] needed and I am excited to be a part of it.

For more information on VTA's advocacy, visit [Savevapor.org](http://Savevapor.org). **TBI**







# Vape Opportunity Knocks on Convenience's Door

**Top e-cig/vape manufacturers are stepping up technology and support for the convenience store channel to play more of a vapor role.** BY RENÉE COVINO

Can convenience stores take on a more sophisticated vape stance? What about a vape shop concept within? Sure, space is tight and streamlining is a must, but timing may be right for the convenience channel to attract more vape shop customers with a little help from e-cig/vapor manufacturers.

To back up a bit, at the National Association of Convenience Stores (NACS) conference in Atlanta this year, Wells Fargo tobacco and convenience store analyst Bonnie Herzog observed that manufacturers are increasingly becoming a key source of consumer insights for retailers, “which should benefit the convenience store industry as a whole,” she says. “C-store sophistication continues to expand as manufacturers increasingly focus on technology solutions to drive incremental sales at retail. Overall, we believe manufacturers continue to raise the bar to support strong sales growth for c-store retailers and are encouraged by the stepped-up innovation and technological sophistication that should support ongoing growth in c-store sales.”

She was speaking about top brands from key categories,

including tobacco/vapor, where the likes of Altria Group, Reynolds American and Logic reign. According to industry estimates, e-cigs remain a highly profitable business with operating margins averaging 36-38 percent versus 13-14 percent for conventional cigarettes—and this is with e-cigs taking up only 10 percent of tobacco’s share of c-store space and generating only 2-3 percent of industry revenues.

Altria Group beefed up its vapor lineup with MarkTen XL Bold, which, according to Wells Fargo, is reportedly helping the c-store channel realize “attractive” margins in the 30 percent range.

On the market since April 2015, MarkTen XL has been described as a better-performing product that features two times the liquid and battery life of previous MarkTen products.

Green Smoke, also an Altria brand, offers a zero mg nicotine version, unlike MarkTen. The catch is, it is still primarily an e-commerce brand, although Altria is currently testing it in a select few convenience stores.



Reynolds American has made significant investments in e-cig/vapor innovation (via the new RAI Innovations Company) ahead of the FDA's August 8 deeming regs deadline, also with the c-store in mind. "Most exciting," according to Herzog, was the company's presentation of the new Vuse Vibe platform, which launched in November across 25,000 retailers to start, before it goes national.

"Of all the e-cig/vapor innovations we reviewed at NACS, we thought Vuse Vibe was one of the most impressive and convincing about its ability to effectively address adult tobacco consumers' disappointments with current e-cig offerings in terms of taste, vapor quality and performance," says Herzog. "Vuse Vibe, for example, holds much more liquid than competitors at 2 ml versus 0.5 ml for the average e-cig, thereby delivering more vapor per puff, and producing a much longer-lasting effect and more satisfying smoke experience."

Vuse Vibe's target audience is explicitly those smokers who have tried vapor and have been disappointed—they seek the performance of the tank, but ease of a cigarette, according to Reynolds. This and the starting price per kit (\$19.99, battery included; cartridges are \$9.99 per two units) are clearly meant for the c-store to regain lost vapor customers.

Logic, which is now owned by Japan Tobacco and is the No. 4 e-cig player in the U.S. with about 12 percent retail dollar share of the market according to Nielsen, has recently been highlighting its "no spill" Logic Pro lineup, which features "smart" capsule technology, and its Logic LQD offering, which delivers e-liquid "precisely" and efficiently.

Logic President Miguel Martin is confident that there will continue to be a brick-and-mortar market for e-cigs, but it will likely be limited to the top four to five companies with "the wherewithal to survive [the] FDA" process, of which Logic intends to be one, he pledges. He added that he expects the rigor of the FDA process will go a long way toward building consumer confidence in the category from a trust and safety standpoint. Martin believes e-cigs have the potential to grow to 10-30 percent of the smoking market with significant economies of scale.

Another player that intends to survive the FDA process, and help c-stores with their vape image, is Mystic E-Cigs. After the NACS conference in November, it announced a strategic partnership with c-stores in mind, aligning with e-liquid manufacturer and distributor Cosmic Fog Vapors, designed to "engage the vape shop customer at traditional brick-and-mortar national retailers," a familiar theme gaining traction.

"We are seeing a resurgence of e-cigarette sales in the c-store channel, which is further indication that

smokers and vapers are still looking for alternatives to combustible cigarettes at traditional retailers," says John Wiesehan, Jr., CEO of Mystic. He believes that partnering with Cosmic Fog, "offering their products that have been available in the vape shop segment for years," will position Mystic very differently from the Big Tobacco players in the industry and help c-stores to expand their breadth of liquids intelligently, while targeting the customer that wants to find vape in the convenience space.

Cosmic Fog is also very big on social media marketing, something that Mystic expects will give leverage to c-stores in the vapor space.

Mistic recognizes that c-stores are "over-inventoried in a lot of e-cigarette brands," and are looking for ways to get rid of SKUs. "We're not looking to expand their SKUs or even the space, but to help them utilize the space more efficiently and shuffle out what isn't working," Justin Wiesehan, vice president of marketing for Mystic, tells *Tobacco Business International*. "We are looking to get creative in the ways [in which] we work with convenience stores."

As previously reported in *TBI*, Mistic released its 2.0 POD-MOD in late July, a system akin to the popular K-cup coffee machine experience; the Mystic 2.0 is a closed system with change-out flavor pods. The product was created to give "the experience, flavor profiles and vapor production that mod users are accustomed to, and also provide ease-of-use to cig-alike users who haven't upgraded because they didn't want to deal with the hassle of bottles and tanks," says Justin Wiesehan.

Certain cities may be especially ripe for these vapor concepts, according to research from the R Street Institute's Vapescore.org, an interactive database ranking 52 U.S. cities on their friendliness to vaping. It shows that the top three cities for vaping are Virginia Beach, Virginia; Tucson, Arizona; and Phoenix, Arizona, while the worst three cities for vaping are Chicago, Illinois; Boston, Massachusetts; and Minneapolis, Minnesota. C-stores in these areas may want to take note of their acute opportunities and challenges.

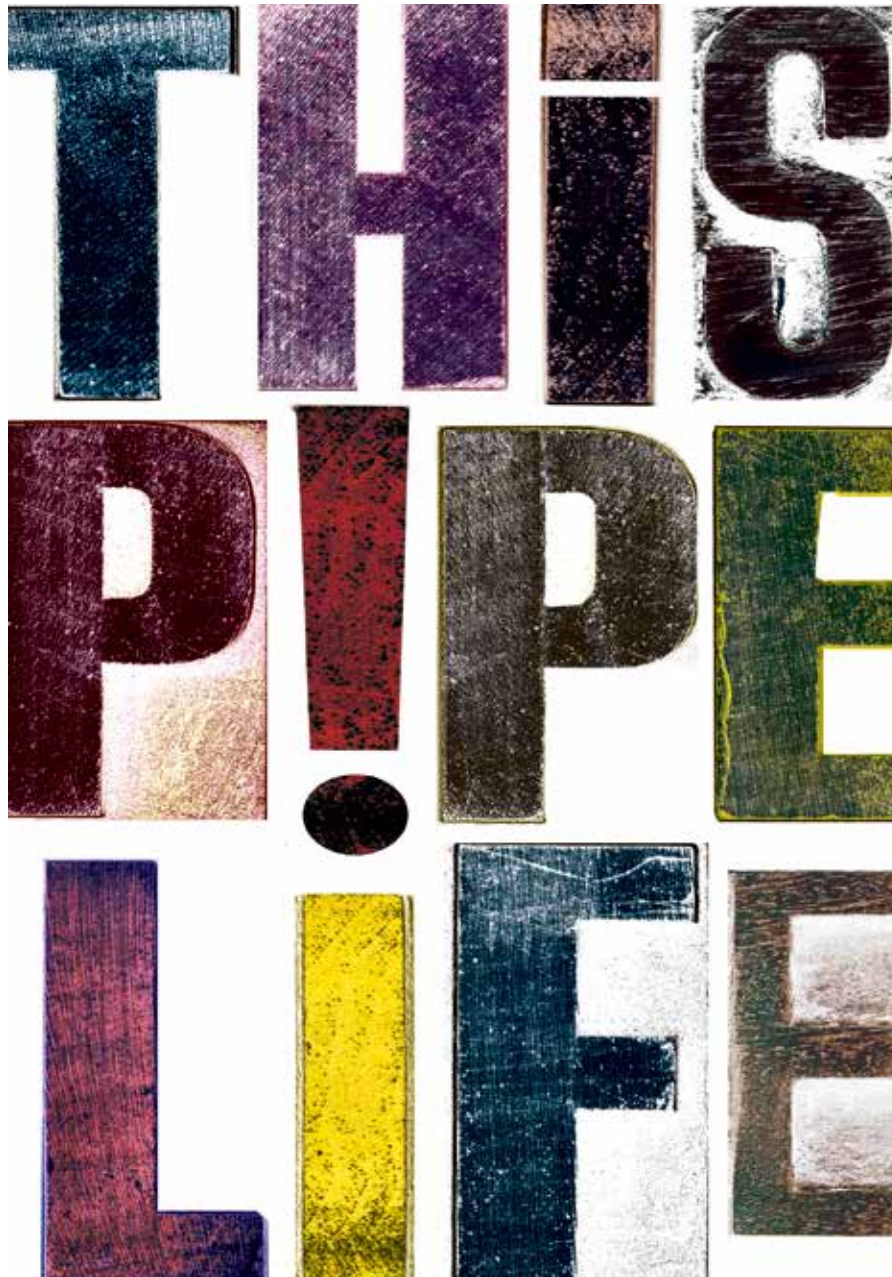


The most recent Nielsen numbers show that e-cig dollar sales are on the rise by more than 25 percent in the convenience channel, led by Reynolds' VUSE and Altria's MarkTen XL. VUSE is reportedly maintaining its dollar share leadership at just over 35 percent, versus roughly 17 percent for blu, its nearest competitor. MarkTen XL "continues to make inroads" from "distribution gains most likely driven by couponing," Herzog cited. "In a post-deeming regs environment, we expect competition to intensify." **TBI**

**We are seeing a resurgence of e-cigarette sales in the c-store channel, which is further indication that smokers and vapers are still looking for alternatives to combustible cigarettes at traditional retailers.**



PIPES





**THIS  
PIPE  
LIFE**

**Scandinavian Tobacco Group's** new online space for pipe smokers can also serve as a resource for retailers and their employees.



~BY ANTOINE REID





## INTERVIEW WITH LASSE R. PETERSEN

**TBI:** What reasons do you hear consumers giving for getting into the pipe lifestyle?

**Petersen:** There are several: 'My granddad or dad smoked and it seemed natural for me to pick up a pipe'; 'I wanted something to get me off cigarettes'; 'I saw a guy smoking [a pipe] and I thought he looked cool'; and 'My friend smokes [a pipe].'

**TBI:** Is pipe smoking still considered a male activity, or are more women getting into it?

**Petersen:** Predominately male, but I definitely see more women in the hobby as well.

**TBI:** What type of tobaccos are pipe smokers of today generally buying more of?

**Petersen:** It's really the same trend you see in the beer industry with craft beer or [in the] liquor industry with small batch whiskeys. Pipe smokers seem to really have embraced the diversity that has started to show up with a lot of choices on different blends from different manufacturers.

Pipe smoking may seem like a leisure activity enjoyed by generations gone by, but social media and the Internet are giving it new life and interest. In the spring of 2016, Scandinavian Tobacco Group Lane (STG Lane) set out to capitalize on this often-overlooked segment of the tobacco industry by launching a consumer-driven website named *This Pipe Life*. A home to all things related to pipe tobacco and smoking, *This Pipe Life* (thispipelife.com) offers both an education on the history of pipes and an online forum where pipe enthusiasts can interact. According to Lasse R. Petersen, brand manager of pipe tobacco and RYO at STG Lane, *This Pipe Life* is part of a much bigger movement within the tobacco industry.

"We have this megatrend going on right now, which is an attempt for the consumers to go back to the real product, back to the 'good old days,' before heavy machinery took over the world and everything [could] be created to look like everything [else]," said Petersen. "The so-called millennials are at the forefront of this trend, and I think this is part of a larger movement."

Launching an entire website around pipes geared toward a younger generation of smokers may seem like a risk, but for Petersen and those at Scandinavian Tobacco Group, it's a no-brainer. What sets *This Pipe*

*Life* apart from other dedicated pipe-smoker sites and forums is that the information and articles are all written for the people who are new to pipe smoking—which makes the site a perfect resource for tobacco retailers and their employees looking to get up to speed on the category.

"We decided to create a brand new community directed towards the person who does not know a lot about pipe smoking," explained Petersen. "We built *This Pipe Life* in a way that you, as a newcomer, can get an understanding of how big the community is, and that it is very much alive and active."

One of the goals of *This Pipe Life* is for the site to debunk the misconception that pipe smoking is a hobby intended for older generations. The site features articles, pipe tobacco education, community interaction in forums, a growing database of pipe clubs and events, and a mosaic of pictures from pipe smokers around the world that shows off not only the popularity of pipes, but the diversity of pipe smokers as well. If you ask Petersen if anybody really smokes a pipe anymore, he'll point you to the website as evidence that pipes and pipe tobacco are far from being dead in the industry, and that they are part of a tobacco category that still has a lot of excitement and activity going on. **TBI**



# Welcome to TPE 2017!

## What to expect at the Tobacco Plus Expo in Las Vegas

TPE 2017 promises to deliver exciting profit opportunities, as well as insights and tools that can help retailers, manufacturers and wholesalers alike thrive in today's challenging marketplace. Kicking off on January 25, this year's show will debut some big changes, including the introduction of a brand new, easily navigable trade show floor format.

Aimed at making the show more accessible and efficient for buyers, the new layout organizes exhibitors by category (tobacco, vapor, alternatives and general merchandise), enabling buyers to easily browse the product categories that most interest them. It also incorporates multiple experiential lounges where

attendees and exhibitors can sample products, share ideas or conduct meetings.

Also new to TPE are educational sessions (see sidebar, at right) covering everything from the latest regulatory developments to category-specific tips on marketing and sales. The show will kick off with "State of the Industry" and "FDA Regulation" addresses by Wells Fargo's Bonnie Herzog, Balvor's David Bishop, and NATO's Thomas Briant. (For an up-to-the-minute conference program, visit [TobaccoPlusExpo.com](http://TobaccoPlusExpo.com).)

"Now that NATO recently elected to focus its efforts primarily on fighting local anti-tobacco initiatives, the TPE is an excellent foundation

to communicate our message to the thousands of retailers that come to the show," says Briant, who will also host a roundtable discussion on helping independent tobacco retailers learn about current local, state and federal legislation, and how to respond to these threats. "Together we can prepare them with the tools and techniques necessary to succeed and thrive in this new tobacco era." Additionally, NATO will have a presence on the trade show floor, where attendees can visit to ask questions and share concerns with the association, says Briant.

For more information about attending or exhibiting at the show, as well as ongoing updates, visit [TobaccoPlusExpo.com](http://TobaccoPlusExpo.com). **TBI**

# TPE 2017

What: Tobacco Plus Expo  
 When: January 24-26, 2017  
 Where: Las Vegas Convention Center  
 How: [tobaccoplusexpo.com](http://tobaccoplusexpo.com)  
 Why: To build your business!

## TPE 2017 Conference Program

This year's show will feature an exciting lineup of expert speakers leading seminars on a broad range of top-of-mind issues, including:

### • Tobacco: State of the Industry

**Bonnie Herzog**, Managing Director—Beverage, Tobacco and C-Store Equity Research Analyst, Wells Fargo Securities  
**David Bishop**, Managing Partner, Balvor, LLC

### • FDA Regulatory Update: Perspectives, Guidance and Litigation Updates

**Tom Briant**, Executive Director, NATO

### • Realizing the Profit Potential of OTP: Premium Cigars, RYO and Smokeless

**Kelly Michols**, President, Scandinavian Tobacco Group/Lane USA  
**Frank Armstrong**, President, Blue Ridge Tobacco

### • The Future of Vapor

Moderator: **Schell Hammel**, Owner, The Vapor Bar; Board Member, SFATA

**Jacopo D'Alessandris**, President, E-Alternative Solutions/Swisher International

**Bryan Haynes**, Partner, Troutman Sanders, LLP

**Amy McCann Baddi**, President, SFATA Virginia; Owner, VA Vape Shop, LLC and Sweet Home Vapor Company

### • Boosting Your Bottom Line With Vapor Products, Accessories and the Alternative Market

Moderator: **Austin Hopper**, CEO, *The Vaping Advocate Magazine*; Managing Director, North America Gilla

**Tyler Goldman**, CEO, PAX Labs

**Tim Greene**, Category Manager, Smoker Friendly Glasswerks

### • How to Succeed in a Changing Market: The Way Forward for Tobacco Retailers

**Terry Gallagher**, President, Smoker Friendly

**Darren Collett**, Owner, Collett Enterprises

**Rocky Patel**, Rocky Patel Premium Cigar Company

**Jim Young**, CEO, Davidoff

### • Premium Cigars: Selecting the Right Cigars for a Successful Humidor Program

**Sergio Montolfo**, General Manager, Phillips & King

**Bill Holliday**, Senior Manager, Davidoff

**Nick Douglas**, Party Source

### • Fighting Back! How to Beat Local Legislation on Your Homefront

**Tom Briant**, Executive Director, NATO

**Matt Durand**, Manager of Government Affairs and Public Policy, Cumberland Farms

**Frank Armstrong**, President, Blue Ridge Tobacco

### • Tobacco Category: Still the Key to C-Store Profits

**Don Longo**, Publisher, *Convenience Store News*

**Anne Flint**, Senior Category Manager of Tobacco, Cumberland Farms, VP of NATO

**John Wiesehan**, CEO, Mystic



Bonnie Herzog



Jacopo D'Alessandris



Tom Briant



Tyler Goldman



Frank Armstrong



Bryan Haynes



Terry Gallagher



Darren Collett



Rocky Patel



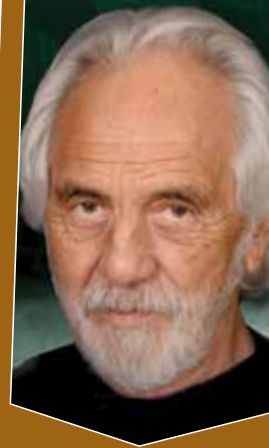
Jim Young



Sergio Montolfo



Charlie Minato



## DON'T MISS KEYNOTE SPEAKER TOMMY CHONG!

Tommy Chong of "Cheech & Chong" fame, who introduced his branded marijuana to the Washington market in 2016, will kick off Day Two of TPE 2017. The famous actor, writer and activist will share his insights on the alternatives marketplace at the Las Vegas Convention Center on January 26.

Visit [TobaccoPlusExpo.com](http://TobaccoPlusExpo.com) for more information about TPE 2017.



# Menthol and Local Flavor Bans

**Local governments are seeking to overstep their bounds with flavor bans.**

TWO LOCAL GOVERNMENTS IN California have adopted bans on the sale of flavored tobacco products that include a prohibition on the sale of menthol flavored products and menthol cigarettes. In the past, local governments have generally excluded menthol from a flavor ban and not banned the sale of menthol cigarettes. However, flavor ban ordinances adopted by the Santa Clara County Board of Supervisors and the Yolo County Board of Supervisors have included menthol as a banned flavor and do not permit the sale of menthol cigarettes.

Both of these ordinances apply to what is known as the unincorporated portions of the counties that generally include areas outside the legal boundaries of cities and towns. Besides the territorial limitations of the two ordinances, there is one difference between the Santa Clara County and Yolo County ordinances. The Santa Clara County ordinance allows flavored tobacco products—including menthol cigarettes—to be sold in adult-only tobacco stores, while the Yolo County ordinance does not contain this same exemption.

Both of the ordinances are scheduled to go into effect next year, with the Santa Clara County ordinance to go into effect on July 1, 2017 and the Yolo County ordinance to become effective on May 1, 2017.

Despite being informed that federal law preempts a ban on the sale of menthol cigarettes, the board of supervisors for both Santa Clara County and Yolo County proceeded to pass their respective flavor ban ordinances. When Congress passed the Family Smoking Prevention and Tobacco Control Act (the federal law that authorized the Food and Drug Administration to regulate tobacco products), a provision was included that prohibits a local or state government from banning the sale of menthol cigarettes.

Specifically, the federal law precludes any local or state

**Such a severe reduction in product sales will jeopardize jobs and possibly even force retailers out of business.**

government from adopting what is known as a “product standard” that is different from or in addition to federal product standards relating to cigarettes and tobacco products. Congress enacted the first product standard for tobacco products by prohibiting the sale of cigarettes with certain characterizing flavors, but allowing the sale of cigarettes with the flavors of tobacco or menthol.

In fact, rather than banning menthol flavored cigarettes, Congress directed the FDA to study the issue of menthol in cigarettes. The study was necessary because Congress recognized that a ban on menthol cigarettes could lead to the potential creation of a black market.

On average, the sale of tobacco products account for as much as 40 percent of in-store sales. Those retailers in Yolo County that sell tobacco products will be forced to remove literally hundreds of cigarette, cigar, pipe tobacco, smokeless tobacco and electronic cigarette products from their stores’ shelves if the flavor ban ordinances actually go into effect. Such a severe reduction in product sales will jeopardize jobs and possibly even force retailers out of business.

There is no question that a ban on the sale of flavored tobacco products will result in significant losses of tobacco product and cigarette sales by law-abiding retailers and will require law enforcement to devote more resources to respond to the likelihood of criminal behavior in trafficking of these legal, yet banned tobacco products.

The irony is that these ordinances do not cite any evidence that Santa Clara County or Yolo County retailers are selling flavored tobacco products to underage youth. Moreover, there is no data showing that prohibiting the sale of all flavored tobacco products will reduce youth access to tobacco products. In other words, the two ordinances do not offer any supporting information to justify such severe restrictions on the sale of legal tobacco products.

With the federal preemption issue being disregarded by both the Santa Clara County and the Yolo County Board of Supervisors, one probable scenario is that litigation will be considered that would seek to overturn the ordinances. At times, the judicial system needs to be relied upon to correct improper actions taken by local governments. **TBI**



*Thomas Briant is the executive director and legal counsel of NATO, the National Association of Tobacco Outlets.*



# Voters Just Said No to Colorado's Cig Tax Hike

**Amendment 72 was defeated in the election on November 8.**

Colorado residents rejected a ballot initiative aimed at increasing cigarette taxes in the state, with approximately 53 percent of voters rejecting the idea, according to *The Denver Post*.

Prior to the election, Smoker Friendly's Mary Szarmach wrote a compelling op-ed opposing the measure, which would have boosted the cigarette levy by \$1.75 per pack. Published in the *Daily Camera*, Szarmach's piece described the tax as potentially "disastrous for our business," referring to Smoker Friendly's 102-store chain of gas, tobacco and convenience stores.

"The last time we weathered a tax increase of this magnitude, we had to close 19 percent of our stores and lay off over 70 hard-working employees," she wrote. "Tax increases such as these also make for a less safe work environment. Break-ins and armed robberies have grown between 10 and 20 percent in other states where this type of tax increase has taken place."

According to Szarmach, Amendment 72 offers few guarantees that the \$315 million in

new tax dollars would be spent appropriately.

Furthermore, Szarmach went on, "most of the new revenue generated by this tax is dedicated to programs that have not even been determined. Fifty-one percent of new tax dollars fund grant awards where guidelines have not even been written. The lax oversight for hundreds of millions of dollars creates conflict of interest concerns," she wrote, adding that, while the more than \$1 billion that Colorado has already received from tobacco companies under the Master Settlement Agreement was earmarked for youth tobacco prevention and tobacco cessation programs, most of the money has been spent on unrelated government programs.

"Before Colorado locks hundreds of millions of dollars in new spending into the state's constitution, voters deserve to know which programs this money funds, and that it won't be wasted," she asserted. "Our state needs money for roads and schools, yet Amendment 72 does not dedicate a dime to these pressing issues."

## California Cig Tax Ballot Initiative Passes

Proposition 56 will raise the state excise tax on tobacco products, including electronic cigarettes.

**INTRODUCED FOR THE THIRD TIME** in 10 years, California's Proposition 56 finally passed—and by a wide margin (63 percent to 37 percent). The measure will boost California's cigarette excise tax by \$2 per pack, up from the current 87 cents per pack. In addition to cigarettes, the ballot measure also called for a hike in taxes on other tobacco products (OTP), including smokeless tobacco and cigars.

Electronic cigarettes are also included in the measure, which calls for vapor products to be subject to the same taxes that California currently imposes on other smokeless tobacco products, which will be raised in line with the \$2 per pack excise tax increase on cigarettes.

The bottom line? Taxes on e-cigarette liquid containing nicotine could be as much as 67 percent, raising the amount vapers pay for a standard 30ml bottle from \$20 to \$30.

California was one of the few states to pass a tobacco tax hike. Voters in Missouri, Colorado and North Dakota rejected similar ballot measures in the November 8 election.





# VTA Deems Deeming Regs Lacking

**The Cole-Bishop Amendment would force the agency to implement battery product standards.**

The Vapor Technology Association (VTA) recently addressed the FDA's inaction on public safety standards for vapor products, noting that there continue to be reports of e-cigarette batteries catching on fire. VTA National Legislative Director Tony Abboud slammed the FDA's deeming regulations—which treat vapor products as tobacco rather than the new technology that they are—as wholly inadequate to protect adult consumers.

“Over the course of the past year, there have been some highly publicized instances of e-cigarette batteries catching on fire, putting consumers at risk,” said Abboud. “This is particularly disconcerting to those in the vapor industry who strive to maintain the highest level of product integrity and are focused on driving technological innovations to make our products the safest they can be.”

Abboud went on to note that while there may be different explanations for these instances, the FDA's Deeming Regulation does nothing to address this issue. “Even worse, because the FDA's Deeming Regulation simplistically treats vapor products like tobacco cigarettes, rather than the new technology that

they are, the FDA will continue to put adult consumers at risk of harm or injury by what it claims are ‘defective’ products,” he said.

As of August 8, 2016, not a single change to any e-liquid, any device or device component—including batteries, software, electrical circuits, LED lights, or glass—can be made without going through the FDA's multi-year bureaucratic pre-approval *tobacco* application process, according to VTA. In other words, no matter how important an innovation is to product safety, consumer safety or, for that matter, public safety, FDA will place that safety innovation at the end of the incredibly long line of applications for keeping existing products on the market.

VTA supports the Cole-Bishop Amendment as a responsible way forward to protect consumers against faulty products. The amendment, which was included in the recent markup of the Agriculture Appropriations bill, not only protects children by restricting youth marketing and youth access to vapor products, but also provides strict standards for product safety in order to ensure the well-being of adult consumers. VTA notes that the Cole-Bishop Amendment:

- ★ Forces FDA to do what it has failed to do by requiring the implementation of new rules on battery product standards within 12 months; and
- ★ Gives the federal government the ability to enforce the law by requiring retailers to register their establishments with FDA (unless the retailer already is required to register under a state law or federal law).

“The FDA has had ample opportunity to address this issue, but has failed to do so,” said Abboud. “In stark contrast, members of the Vapor Technology Association have been active across the globe in developing international product standards that protect children and ensure the safety and integrity of vaping products used by adult consumers. The bottom line is the FDA continues to put consumers at risk from injury by battery explosion or fire by locking in technologies that will be antiquated in a short period of time and locking out the innovations that could perfect the operation of vapor products. Cole-Bishop is the responsible way forward.”



# Marijuana Approvals on the Rise

## Three states voted in recreational marijuana initiatives.

Voters came out in force to support legalizing recreational and medicinal use of marijuana in November. In California, Massachusetts, Nevada and Maine, voters approved recreational marijuana initiatives in what *The Washington Post* dubbed “the biggest electoral victory for marijuana reform since 2012, when Colorado and Washington [state] first approved the drug’s recreational use.” Arizona demurred, with 52 percent of voters saying no to a measure that would have legalized marijuana in that state.

Meanwhile, approvals for medical use of marijuana received a nod in Florida, North Dakota and Arkansas, while voters in Montana lightened restrictions on its existing medical cannabis law.

However, these victories for cannabis supporters may be temporary depending on how the new administration decides to handle marijuana. It’s unclear yet whether President-elect Donald Trump will follow President Obama’s hands-off approach to regulating weed. After all, Rudy Giuliani and Chris Christie, both of whom are currently under consideration for public posts in the new administration, are considered potential foes of marijuana going mainstream.

“The prospect of Rudy Giuliani or Chris Christie as attorney general does not bode well,” Ethan Nadelmann, executive director of the Drug Policy Alliance, told *The Washington Post*. “There are various ways in which a hostile

**Approvals for medical use of marijuana received a nod in Florida, North Dakota and Arkansas, while voters in Montana lightened restrictions on its existing medical cannabis law.**

## Washington: King Mountain Seeks Stay

King Mountain Tobacco Company, located on the Yakama reservation in Washington State, is seeking a stay in the U.S. District Court of Eastern Washington’s judgment asking the company to pay the U.S. Department of Agriculture \$6.3 million toward assessments on cigarette manufacturers under the 2004 Fair and Equitable Tobacco Reform Act, while awaiting a ruling on its appeal in the Ninth Circuit.

## Florida Court Awards Damages in Engle Progeny Case

The 17th Judicial Circuit of Florida has directed Philip Morris USA and R.J. Reynolds to pay \$450,000 and \$200,000, respectively, in punitive damages in an Engle progeny case. The ruling brings the total award to \$6 million.

## Swisher Verdict Reversed

The U.S. District Court for the Central District of California reversed its \$44 million judgment against Jacksonville, Florida-based cigar manufacturer Swisher International in a lawsuit filed by California-based lifestyle brands manufacturer Trendseth USA, for which Swisher manufactured cigars. Judge James Selna ruled that the plaintiff had failed to establish anti-trust liability on Swisher’s part, and agreed with Swisher’s argument that the jury reached its verdict without proper instructions on anti-trust laws.

## FTC Report Shows Cigarette Sales Decline

A recent Federal Trade Commission cigarette report shows that the number of cigarettes sold by major cigarette companies to wholesalers and retailers in the U.S. declined from 256.7 billion pieces in 2013 to 253.8 billion in 2014. The amount spent on cigarette advertising and promotion decreased from \$8.95 billion to \$8.49 billion; and spending on price discounts dropped from \$7.64 billion to \$6.76 billion during the period.

## Minnesota County Seeks Cigarette-Like Restrictions for Vapor Products

In a unanimous vote, the board of commissioners in Kandiyohi County, Minnesota decided to treat vapor products as conventional cigarettes. Effective January 1, 2017, use of the devices will no longer be permitted in public places where smoking is banned, including within 25 feet of entrances to public buildings. Sampling in retail outlets will also be prohibited as of January 1.

# Surgeon General Pushes for Vapor Regulation Policies

**Citing an increase in usage by young Americans, the surgeon general is advocating restrictions on marketing and higher taxes.**

In December, the U.S. surgeon general released a report calling surging e-cigarette use by children and young adults “a major public health concern” and recommending increased regulation and taxation of the products. The report noted that vapor product usage has overtaken cigarettes among young Americans, and expressed concern about a lack of information about the possible effects of such use.

“We know a great deal about what works to effectively prevent tobacco use among young people,” noted the report, which called for e-cigarettes to be incorporated into existing smoke-free price and tax policies to help prevent young people from accessing them. “Now we must apply these strategies to e-cigarettes.” The surgeon general urged local and state governments to take action by imposing higher taxes, raising the minimum age for vaping to 21, incorporating e-cigarettes into smoke-free laws and restricting marketing that encourages use among young adults.

Vapor advocacy groups were quick to denounce the report’s findings. “Like the surgeon general, VTA and its members are committed to the health and safety of children,” said Tony Abboud, national legislative director at the Vapor Technology Association. “VTA supports bipartisan legislation that will ensure the safety of vapor products, and will ensure vapor products do not fall into the hands of minors.

“What the surgeon general does not acknowledge with this announcement are the millions of adult Americans who rely on vapor products to switch away from smoking deadly cigarettes,” pointed out Abboud. “While there is no

credible evidence that vapor products are a ‘gateway’ to combustible cigarettes, there is scientific evidence that they provide these adult smokers with a safer alternative.”

Many agreed with Abboud, including the public policy group R Street, which said in a statement: “The long tradition of scientifically rigorous messages and reports from the U.S. surgeon general appears to have ended. The report focuses on youth experimentation and completely omits the opportunities for harm reduction these devices offer for adult smokers.”

The surgeon general’s report, however, contended that there is no evidence to support claims that e-cigarettes help people quit smoking. But it also conceded that there is a dearth of proof that young people who begin vaping move on to smoking traditional cigarettes. “More studies are needed to elucidate the nature of any true causal relationship between e-cigarette and combustible tobacco product use,” it said.

E-cigarette use has risen among young people, even as smoking rates have gone down, according to statistics from the Centers for Disease Control and Prevention, which has reported that use of e-cigarettes among U.S. middle school students rose to 5.3 percent from 0.6 percent between 2011 and 2015. Use of combustible cigarettes among U.S. middle school students reportedly fell to 2.3 percent from 4.3 percent over the same period. E-cigarette advocates point out that it is entirely possible that the products contributed to the decline in smoking.

The controversy is heating up at a time when Philip Morris International, maker of Marlboro combustible cigarettes, is

## JM Tobacco Names Grand Prize Winner

David Williams won the company’s “Strike Gold!” raffle. A new corporate name reflects the company’s extensive lineup.



JM TOBACCO INITIATED ITS “Strike Gold!” blackjack contest several weeks before the IPCPR show by mailing an envelope to every active IPCPR member. It contained a gold and black poker chip attached to a card with game rules and a list of prizes. During show hours, retailers brought their chip to JM’s booth and sat at a poker table. They played one hand of blackjack, which entitled them to a raffle ticket. When the winning ticket was drawn at the conclusion of the show, Dave Williams from San Francisco, California walked away with an Apple iPad Air 2 Gold tablet, valued at \$400.

“Dave wasn’t alone,” said Anto Mahroukian, JM’s president, who noted that Strike Gold! is conducted every five years, with previous games in 2006 and 2011. “Every player won a prize—swag like a JM T-shirt or cap. Even if they lost on the first hand, they received one of our premium cigars. This year, it was the all-tobacco, handmade JM’s Nicaraguan, available in the same eight shapes as all other JM cigars.

“We wanted all contestants to experience the quality and performance this value-priced cigar offers,” explained Mahroukian. “Its medium body and sweet, nutty flavor profile reflect the quality of its select Sumatra or Maduro wrapper, all-Nicaraguan blend and Maduro-fermented Connecticut broadleaf binder. The cigars are aged a full three years to add to the cigar’s sophistication.”

## PRODUCT PROFILE

[ 01 / 02 | 17 ]



1.

2.



1.

### BAHAMA MAMAS SIZE ROLLOUT

Blend Maestro Company is rolling out Bahama Mamas Cigars across the U. S. retail marketplace in filtered 100s and handmade Cigarillo, Corona and Robusto sizes. The Bahama Mamas brand is under new ownership and will be exhibiting at Tobacco Plus Expo (Booth 1045) in Las Vegas in January. Product rollout started in August of 2016 with Bahama Mamas 20-pack filtered 100s. Six flavors (full flavor, smooth, mint, cherry, rum, and vanilla) of filter 100s and the relaunch of larger sizes offer retailers a unique brand for smokers.

Bahama Mamas Cigars are also coming back in premium imported handmade sizes with flavor selection and adult smoker value in mind. The brand is backed with prepacked displays, trade advertising and age-qualified social media. Bahama Mamas 702-418-3700, sales@bmcllc.us

2.

### SWEDISH MATCH BROADENS REACH OF NICOTINE POUCH; ZYN WILL BE AVAILABLE IN A VARIETY OF FLAVORS ACROSS THE WESTERN U.S.

Swedish Match plans to expand distribution of ZYN, a "tobacco-free" nicotine pouch, throughout the western U.S. ZYN is now available for purchase in more than 4,000 stores in Arizona, California, Colorado, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington and Wyoming. The product will also be sold to all participating states in the U.S. through Northerner.com.

"ZYN's strong results in the introductory launch have consumers demanding it in more stores," explains Ryan Ganley, senior brand manager for ZYN, U.S. division at Swedish Match, which develops, manufactures, and sells a wide range of tobac-

co products including General, Longhorn, White Owl, Red Man, Fiat Lux, and Cricket. "Swedish Match is thrilled to bring such an innovative product to additional states in the U.S."

Describing ZYN as a "game changer," Ganley says that the pouch contains nicotine derived from tobacco leaves and food grade ingredients. ZYN is available in a variety of flavors, including cool mint, wintergreen, cinnamon, peppermint, spearmint and coffee. All flavors are available in two strengths of nicotine, 3mg and 6mg, so that users, who place the pouch under the upper lip, can have a "level of control over their experience."

"ZYN offers consumers a clean, discreet and convenient way to enjoy complete nicotine satisfaction," he notes. "It can be used anywhere without ever having to worry about refills or batteries." Swedish Match, ZYN.com



3.

### TRUE BLUE

The new blu Max uses the same proprietary Responsive Draw Technology employed by blu eCigs to enable the device to adjust to the rate of a consumer's inhalation, producing more or less vapor based on the intensity of his or her draw. A light on the tip of the product indicates the strength of the draw. The blu Max is available in five Xpress Kit flavor varieties with two pre-filled refills per pack at a retail price of \$12.99. The product also features an ergonomic mouthpiece, a proprietary connector for quick and easy refill changes, and a new "smart" liquid level indicator that signals when the remaining liquid gets low. Blu, blucigs.com

4.

### SWISHER SWEETS' OUTLAW MODE

Inspired by the rugged mindset of the modern-day outlaw, Swisher Sweets' Outlaws Cigars are available in three-count packages. Outlaws Natural Leaf Cigars blends include:

- Original—Combination of air-cured tobaccos encased in a bold broad-leaf wrapper;
- Double Barrel Rum—Enhanced by oak barrels and wooden casks for the perfect rum cigar;



- Honey Maple—Dedicated to the outdoors, this one-of-a-kind blend is unmistakably Swisher;
- Campfire—Blend of dark fire tobacco and a hint of marshmallow for a rustic experience;
- Peach Brandy—Inspired by bootleggers' aging peaches to create perfectly smooth Brandy.

Outlaws Cigars are rough-cut, hand-rolled cigars crafted in Honduras from sun-grown tobaccos. The result is a rugged cigar with a surprisingly mellow, sweet taste and an easy draw. Swisher International, Jacksonville, Florida, 800-874-9720

5.

### RACING AHEAD WITH SWEDISH MATCH

Leading moist snuff and chewing tobacco brands Longhorn, Red Man and Timber Wolf are engaging consumers across multiple touchpoints with *The Ultimate Race Day Giveaway*, which runs through April 26, 2017. Consumers can enter for a chance to win an exclusive, once-in-a-lifetime adrenaline rush, along with a guest—attending two of racing's top events in Indianapolis and Charlotte over a single day, with seats on a private jet to get from race to race. The grand prize includes two tickets to each race, hotel accommodations for two nights in each city, two seats on the private jet and more.



"The idea for *The Ultimate Race Day Giveaway* was inspired by the racing phrase 'Double Duty,' or the accomplishment of a racer competing and completing those two races in the same day," explains Tracy Vernon, associate brand manager for Moist Snuff.

Throughout the promotion, hundreds of weekly, monthly and instant prizes, including premium home theater upgrades, high-end grilling gear, outdoor essentials and more, will be awarded.

To drive awareness, excitement and engagement, *The Ultimate Race Day Giveaway* will be supported by a full range of dynamic and impactful Longhorn, Red Man and Timber Wolf marketing materials, including advertising, on-pack messaging, point of sale, direct mail, email, and more.

All marketing will drive consumers to any of the brand websites, where they get in the digital "driver's seat" of a race car and rev the engine for entry into the sweepstakes. If the car's tachometer reaches a certain RPM, participants receive a special double-entry into the prize drawings or possibly an instant prize. To drive deeper engagement with the program and portfolio brands, consumers are encouraged to enter daily for more chances to win.

It's off to the races with *The Ultimate Race Day Giveaway*, putting both retailers and consumers in pole position for an incredible ride. Swedish Match, LonghornSnuff.com, RedMan.com or TimberWolfSnuff.com

# GROWING GRASSROOTS RETAIL ADVOCACY

P.90

Still reeling from the impact of FDA deeming regulations, many retailers are now being hit with an onslaught of local regulations and ordinances. If you're one of them, here's how to fight back.

BY JENNIFER GELFAND

**THERE IS A PERFECT STORM** of circumstances that have led to an increase in the number of [tobacco-related] ordinances at the local level," Tom Briant, executive director of the National Association of Tobacco Outlets, told retailers participating in a recent webcast about local regulation affecting the industry. Briant went on to note that NATO expects to see 670 ordinances seeking to restrict or regulate tobacco sales by the end of 2016, as compared with just 248 five years ago in 2011 and 530 in 2015. (see chart)

Number of Local  
Tobacco Ordinances  
Passed Per Year

NUMBER OF  
TOBACCO  
ORDINANCES  
2016

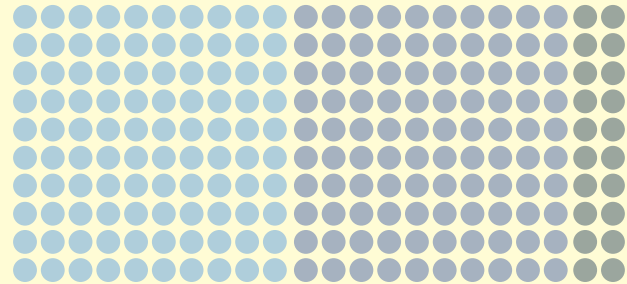
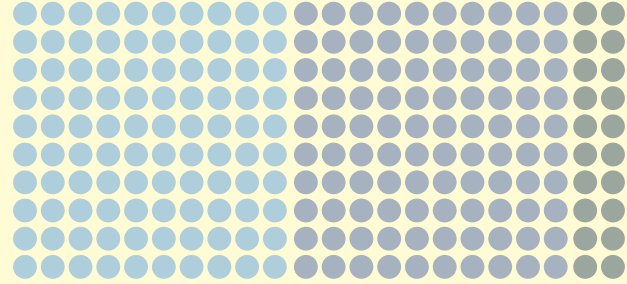
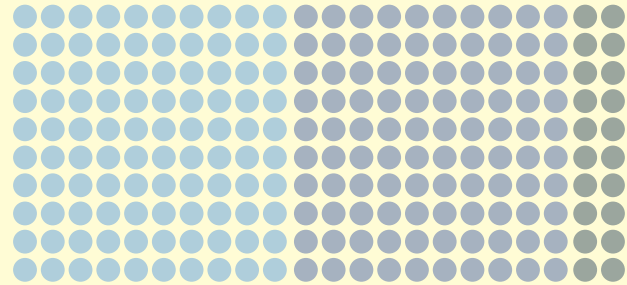
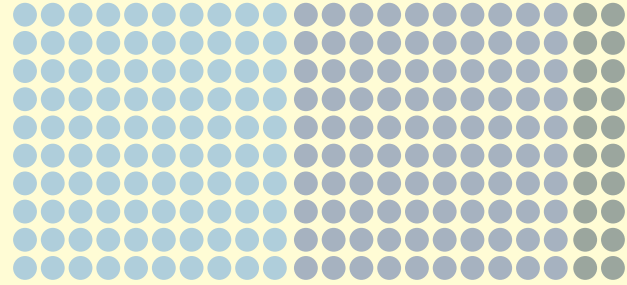
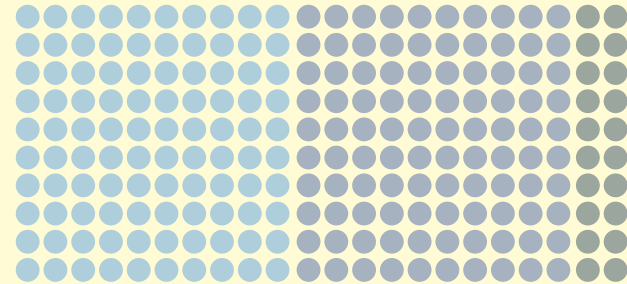
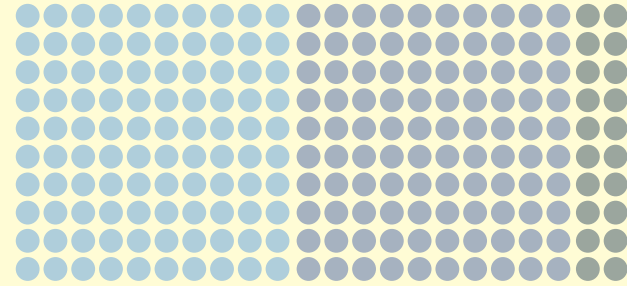
NUMBER OF  
TOBACCO  
ORDINANCES  
2015

NUMBER OF  
TOBACCO  
ORDINANCES  
2014

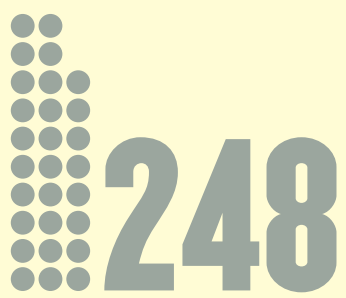
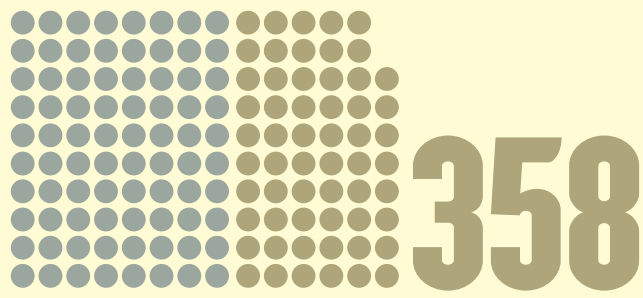
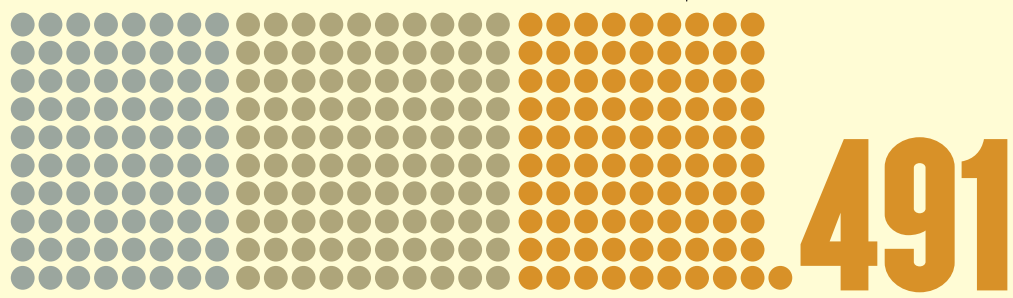
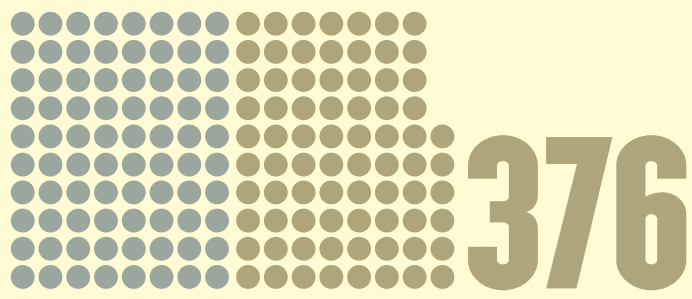
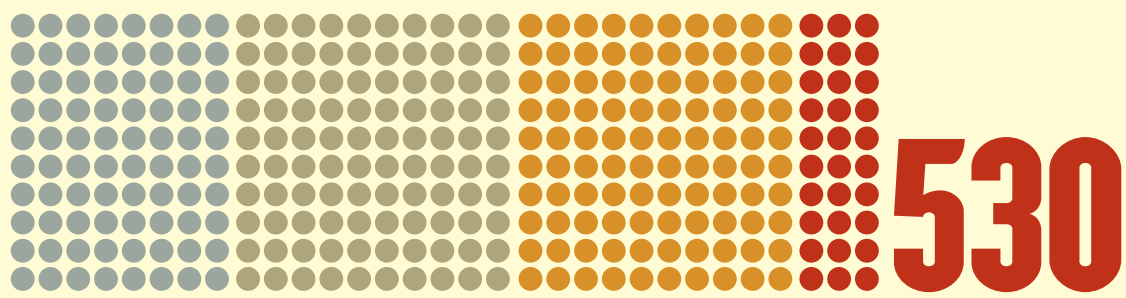
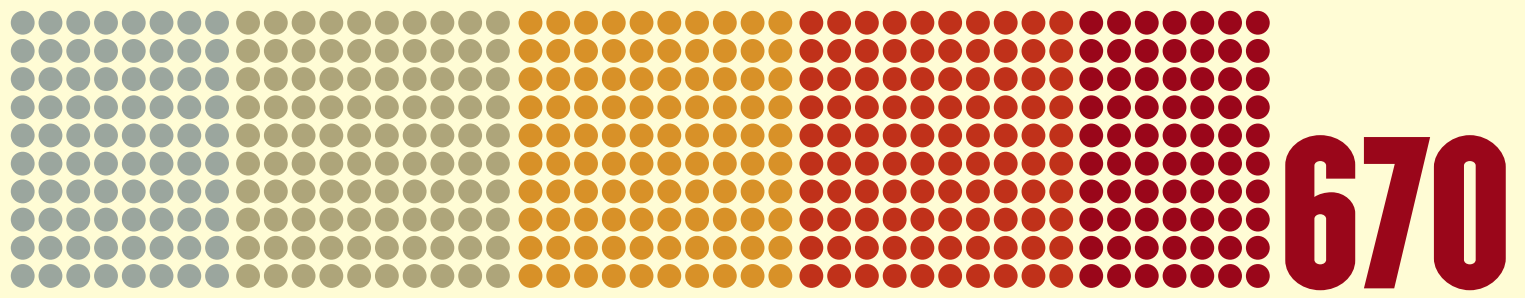
NUMBER OF  
TOBACCO  
ORDINANCES  
2013

NUMBER OF  
TOBACCO  
ORDINANCES  
2012

NUMBER OF  
TOBACCO  
ORDINANCES  
2011







Some of the forces coming together to bring on that storm include:

★ Federal funding through American Reinvestment and Recovery Act of 2009 added subsequent appropriations through Congress that awards grants to seek the adoption of local ordinances restricting or regulating tobacco products;

★ The FDA's decision to not ban sales of flavored tobacco products;

★ State legislators have not adopted Prohibition-type tobacco laws.

"Each of these circumstances have fueled the agenda of anti-tobacco organizations to shift attention back to the local level," explains Briant, who notes that anti-tobacco-oriented organizations frustrated by their inability to get state and federal bans and regulations passed are seeking to convince lower levels of government, such as local boards of health, city and town councils and county boards, to implement them.

"There are elected city councils and elected town boards that license retailers to sell restricted products such as tobacco," he explains. "In some states, such as Massachusetts, there are boards of health that are not elected but appointed by a city or town board, which have broad authority to adopt city or town regulations to protect the public health. And finally, there are elected county boards that generally cover areas of the county not located within the territorial boundaries of a city or town also in that county."

The regulatory measures these bodies seek generally fall into four categories:

1.

**Bans on Sale of Flavored Tobacco:** Thus far, FDA has opted against extending its ban on flavored cigarettes to other tobacco products, including cigars, vapor products and smokeless, and has also continued to exempt menthol products from its ban on flavored cigarettes. Local governing bodies, however, have taken up the charge, noted Briant.

"Bans on the sale of flavored products could force retailers to remove 70,000, 80,000 or even more tobacco product SKUs from store shelves, including flavored cigars, flavored smokeless tobacco, e-cigarettes and flavored vapor products, as well as virtually all pipe tobacco because all pipe tobacco is flavored," he says. "The result is that loyal customers will travel to a neighboring town to buy their favorite products—and their gas, snacks and beverage as well—resulting in further sales declines for retailers in the towns where such regulations are adopted."

Most, but not all, of the flavor bans being imposed at local levels exclude menthol, mint or wintergreen products.

However, two county boards in California have included menthol and similar products in their respective flavor bans.

**Raising the Minimum Age to Buy Tobacco.** "An increasing number of cities are raising the minimum age requirement to purchase tobacco to 19 or 21," reports Briant, who notes that this change represents a significant sales decline for retailers. "A [shift to a] minimum age of 21 will result in about a 3 percent decline in tobacco sales for an average retail store," he says.

**Setting Minimum Cigar Package Sizes or Minimum Cigar Prices:** Restrictions on package sizes or prices in the cigar category are another trend in localities implementing ordinances. "This is another reason that causes cigar products to come off store shelves, either due to the package size limitations or prices so high that cigar products are no longer sellable," says Briant, who notes that such ordinances generally ban the sale of packages containing fewer than three or four cigars or set a minimum price ranging from \$2 to \$5 per cigar. "They make the price per package so high that products become unsellable and consumers simply will not purchase them."

**Other Sales Restrictions:** Additional restrictions seek to prohibit sales of tobacco products within 500 or 1,000 feet of schools, playgrounds and churches; limit the number of licenses to sell tobacco that will be issued by a municipality; or ban advertising. "However, [the latter] violates the free speech protection afforded to advertising under the First Amendment of the Constitution and those generally are not upheld," notes Briant.

The good news? While more and more local ordinances are being proposed, many fail to be adopted. What's more, some previously adopted restrictions are being repealed. In Massachusetts, for example, several efforts to restrict sales and usage have been introduced with mixed success and, perhaps more notably, others are succumbing to appeal, including the city of Boston itself, which is reportedly rethinking the restrictions it passed in 2013.

The ordinances attempted in Massachusetts include the following:

**Bourne, MA:** Cigar regulations, did not proceed

**Holbrook, MA:** Flavor ban

**Plymouth, MA:** Age restriction increase to 21, did not proceed

**Somerset, MA:** Cigar pricing restrictions and flavor ban, did proceed

**Whitman, MA:** Cigar regulations and flavor ban

**Worcester, MA:** Cigar regulation and flavor ban, did not proceed.

2.

3.

4.

# Source of Access to Tobacco for Youth Users

(AMONG 15- TO 17-YEAR-OLD USERS OVER THE PAST 30 DAYS)

"Where do you get your tobacco?"

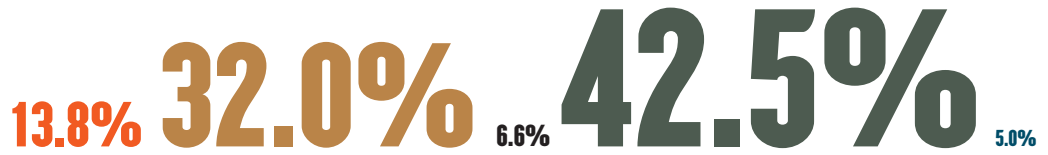
Bought myself

Gave someone else money to buy

Bought from someone/  
took from store or  
another person

Asked for or  
someone offered

CIGARETTES  
(N=533)



E-CIGARETTES  
(N=342)



CIGARILLOS  
(N=257)



HOOKAH  
(N=189)



SMOKELESS  
(N=154)



# Estimate suppressed because it is statistically unreliable; it is based on a sample size of less than 50, or the coefficient of variation of the estimate is larger than 30 percent.

## How to Win at the State Level

Despite these victories, the industry still routinely faces new local ordinances, warns Briant, who urges retailers to remain vigilant about representing their interests at the local level.

"Having local retailers participating in this effort to oppose local tobacco ordinances is crucial because local officials need to hear from local businesses," he says, noting that NATO can provide retailers with assistance to help engage with local officials effectively. "Local retailers have much more influence on the actions of city council, town or county board than outside industry members. Some retailers may even know local elected officials personally."

In contacting local officials, one key argument that NATO has been able to employ is research debunking the youth access argument often made by anti-tobacco advocates. Recent studies show that minors predominantly obtain tobacco products from "social sources" or family members and older friends, rather than retail venues, notes Briant, who adds that FDA now recognizes this due

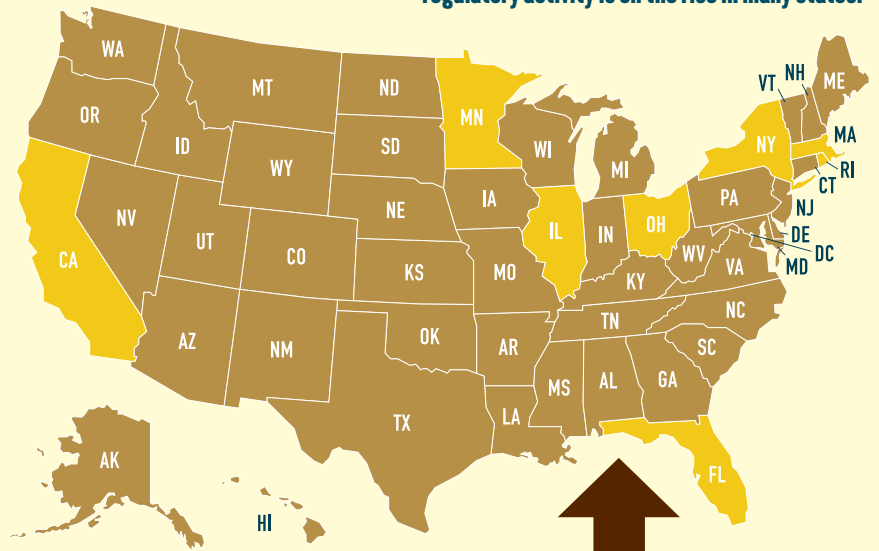
to results of a recent PATH study it sponsored. "Of the key arguments we can now provide with that information is the advent of social sources and how that impacts the access of underage youth to tobacco process.

"Initial findings of that study released last year show that minors rely on social sources 81.2 percent of the time for cigarettes, 79 percent for cigars and little cigars, and 76.8 percent for smokeless tobacco," says Briant (see youth access chart, above). "This is an issue anti's are aware of and choose to ignore because it is easier to lobby for more restrictive regulations than to change the behavior of adults so that they will not buy youths tobacco products."

Informing local officials about this finding can go a long way toward combating further restrictions on the sale of tobacco products, asserts Briant. "What local officials need to realize and be educated about is that further restrictions on sale of tobacco products will not reduce youth access to tobacco because most do not buy [them] in a retail store in the first place."

# The State-by-State Spread

As shown in the color-coded maps below, regulatory activity is on the rise in many states.



Depicted in blue are those states that have cities, towns or counties that have proposed or adopted higher legal age requirements (19 or 21) to buy and use tobacco. The two red states have adopted statewide minimum age laws—both restrict tobacco purchase to age 21 and up.

Eight states have cities, towns and counties where local bans or restrictions on tobacco use have been proposed or adopted.

NATO, which closely monitors all regulatory activity involving tobacco, proactively addresses proposed restrictions at the local level through its NATO Local Project. “NATO staff obtains a copy of the actual ordinance and we review the draft to find out exactly what restrictions or regulations are being proposed,” Briant explains. “We then find out which retailers are located there and all retail NATO members are sent an alert letting them know that one has been proposed; the terms of the ordinance; the names, address and emails of local elected officials; talking points to use as to why it should not be adopted; and the date, time and place of any public hearing on the ordinance so they know where they should be and what they should say. In many cases NATO will send its field staff into a city or county to personally visit retailers and help them contact local officials and prepare to testify at a public hearing.”

The association’s lawyers will also send formal comments to city councils or boards informing them that NATO represents retailers in the locality explaining the issues of adopting the regulations from their standpoint, says Briant, who urges retailers who hear about a local ordinance to call NATO’s toll free line at 866-869-8888.

“More than likely our monitoring services will have alerted us, but not always because sometimes proposals are made one day and a hearing is held the next day,” he says. “It’s also important to urge your adult customers to email and call their local officials because they will be affected; they will no longer be able to buy locally. Retailers and their adult customers need to attend the city or town public hearing and [be] contacting local officials to let them know that you are a local business owner and that, while you share their concern about underage youth not having access to tobacco products, the ordinance will only serve to [drive business elsewhere] and not solve the problem of social sources.” **TBI**

