

TOBACCO BUSINESS

DAVIDOFF'S
**JIM
YOUNG**

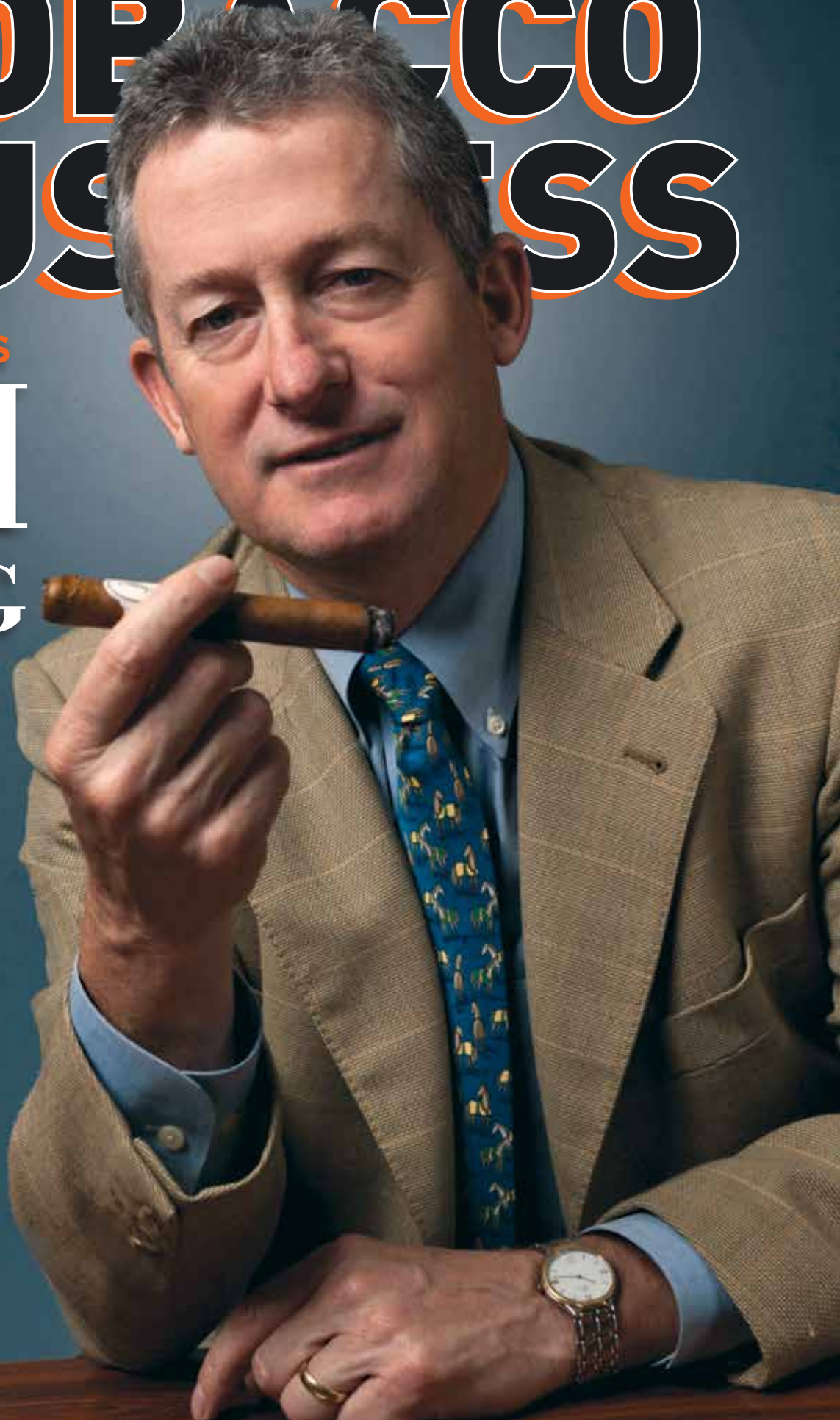
**ON WHAT LIES
AHEAD—FOR
THE INDUSTRY
AND HIS
COMPANY**

**TIPS FROM THE
TB TOP 50
RETAILERS**

**CASA DE
MONTECRISTO'S
RETAIL ROLLOUT**

**WHAT'S IN STORE
FOR TOBACCO &
VAPE SHOPS**

**HOW TO BUILD
A HUMIDOR
PROGRAM**



Motivate and conquer

One of the things I have realized, as have many of us, is that when you want something in business or in life it's not always as easy to achieve as some people make us feel it will be. It can be far more challenging. However, I have found that if you apply the right business strategies and remain consistent and disciplined, you have a much better chance at succeeding.

When there's as much change in the tobacco industry as we face today, reaching your business goals tends to be more difficult. What steps can we take as managers, business owners, CEOs and entrepreneurs to diversify our businesses so that we are not so dependent on the boom-and-bust cycle?

A few weeks ago, we held our annual TPE show in Las Vegas—and what a tremendous show it was. The latest premium cigars, vapor and alternative products were showcased over the two-day show, while vendors and attendees came together to kick off what will be a successful 2017. The feedback we received from the show's attendees and exhibitors has been very positive, including several vendors who reported making record sales at this year's show.

What made TPE 2017 such a success? The people. We had an amazing TMG marketing team, led by Ellie Hanson, as well as the support of Chris Price and his team over at Trade Show Logic. Everyone worked together behind the scenes, with one common goal, to create an amazing experience and provide a safe place for attendees and exhibitors to have fun and do business all under one roof. Ellie spearheaded the marketing campaign that reached vendors and retailers on a huge scale. Social media, email and digital marketing and advertis-

ing all played a big part in our overall success. Of course, products are a hugely important piece of the puzzle and ultimately determine the success you have, but if you employ great people and build a great team anything is possible. We also need other ingredients like goals, focus, great attitudes and ideas, but a great team is essential to making it work.

We'd like to encourage you to make plans now to attend next year's TPE show, to be held January 31-February 1, 2018. We've got a great recap and overview of this year's show in this issue of *Tobacco Business* (See page 26). Also, this issue focuses on some unsung heroes in the tobacco industry—the retailers who are the much-needed connection between the manufacturers and consumers. From the reveal of our annual Top 50 on page 12 to an insightful interview with tobacco retailer Richard Hoyt on page 20, our goal is to show you the people who don't often enough get the recognition and accolades they deserve. This issue also provides a look at Davidoff Cigars, a company that's helped define the premium cigar business both here in the U.S. and abroad. President of Davidoff North America, Jim Young, who's also on the cover of this issue, tells you how Davidoff went from a single retail store to a company with numerous cigar brands and retail stores spread across the globe (See page 44).

I would love to hear from you and gain your feedback about the TPE show and our magazine.



Please email me on benstimpson@tobaccobusiness.com

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Insights on Entrepreneurship

Shawna Williams, Drew Estate's western regional sales manager, has been working with Drew Estate since January 2016. During her first year with the company, Drew Estate has been going through a "rebirth," from the introduction of a new CEO, Glenn Wolfson, to the recent hire of David Lazarus as vice president of sales. In a move toward returning to its roots, the company also recently named Jonathan Drew the new president of Drew Estate.

As one of the leading premium cigar companies in the world, Drew Estate relies heavily on everyone within the company to help sell and promote its products. Williams works with other Drew Estate sales representatives to promote Drew Estate in Louisiana, Missouri, Kansas, Oklahoma, Texas, New Mexico, Colorado, Arizona, Nevada, California, Oregon, Washington, Arkansas and Hawaii.

"Drew Estate is one of the most beautiful success stories in our industry and I'm incredibly proud to be part of the team," says Williams. "There is a lot to love about Drew Estate, but first and foremost, I love the authenticity of the company. There is no marketing team sitting around in a boardroom, trying to figure out how to best grab the attention and sell to any particular group. It's real, it's a culture, and it's a lifestyle."

Williams sees Drew Estate as having a unique appeal as a brand that people can relate to. In many ways, the company embraced its underdog status to propel it to being a leader in the industry. "People said that Drew Estate would make a great traditional cigar when pigs fly," notes Williams. "Well, guess what? Pigs fly right off the shelf," she adds, referring to Drew Estate's popular Liga Privada Feral Flying Pig cigar.

Today, there's hardly a tobacconist in the U.S. market that doesn't sell a Drew Estate product. Part of Williams' goal as one of Drew Estate's sales managers is to get more retailers to carry its products, including its less traditional but popular infused cigars like ACID and Tabak Especial.

"These are truly premium cigars, handcrafted, expertly blended and perfected," Williams says. "No humidor is complete without them—this fact is getting harder and harder to deny. ACID is one of the best-selling cigar lines in the industry."

In addition to the ACID and Tabak Especial brands, Williams and her team market the company's other popular cigars, including Undercrown, Norteño and Herrera Esteli, to retailers. Williams says the key to her success in sales is educating retailers about Drew Estate and its many brands. "It's amazing to me how many people will say something like, 'I didn't know that Liga Privada was made by Drew Estate.' So, education—that's what it's about. My long-term goal in this position is to make sure we have an array of Drew Estate cigars in every humidor."

To get better insight into her approach to sales, *Tobacco Business* asked her about how she generates new leads, motivates her team and handles the obstacles she faces while promoting Drew Estate's various brands to retailers.

Tobacco Business: What's your favorite part about being in sales?

Williams: That I have the opportunity to travel and meet new people. Every day is different. I also love the comradery that I have with colleagues and with the customers who have become friends and partners over the years.

What are the biggest obstacles you encounter on a daily basis?

One of the biggest obstacles I encounter on a daily basis is one that affects us all: the need to adapt in an ever-changing market. There is a constant battle regarding state OTP taxes. The federal government is now regulating our humidors. Smoking bans, new legislation, propositions and the list goes on of different challenges and limitations just to enjoy a fine cigar and making a living in an industry we all love. We are constantly under attack—that's not going to change. We will preserve, but it's important that we all come together as cigar lovers and as an industry with one voice.

What is the key to building new business?

To me, the key to building new business is building partnerships. We are all in this crazy business together. Building relationships on mutual support—that's where it's at. Together we grow and succeed. Great business in general is often built on relationships, but I believe our industry takes it to another level. I feel that we are a family. When you build trust, give support, and show respect to one another, there is no limit to what you can accomplish.

How do you motivate people to get excited about the products you are selling?

First of all, I'm fortunate to say that it's not exactly difficult to get excited about the products that Drew Estate has to offer. However, I feel that the best way to get people excited is to convey your own excitement. It's contagious. Drew Estate has so many assets that draw and create a whole community of enthusiasts. My job in this aspect has never been easier. Drew Estate is always on the cutting edge, constantly creating new experiences that cultivate excitement.

As an example, at the Kentucky Barn Smoker, you'll learn firsthand about the creation of Drew Estate's incredibly unique Kentucky Fire Cured cigar. On Cigar Safari, you are completely immersed in the Nicaraguan culture, and the passion that brings you your favorite cigars. Use the Drew Diplomat app and you will be connected to cigar lovers from all over the U.S. You'll also easily be able to find Drew Estate retailers in whatever city you may be in. It's hard not to get excited about the incredible artwork that comes out of Subculture Studios, Drew Estate's graffiti studio.

What excites you outside of work?

Outside of work? Come on! I get to socialize, smoke the best cigars, sip fine wine and call it work. I really do spend most of my time working, though it's often hard to call it work. I'm truly blessed to have a career that I love. **TB**

To learn more about Drew Estate, visit drewestate.com. For details on the Drew Diplomat app, visit drewdiplomat.com.





New Beginnings for Drew Estate

**An interview with Shawna Williams,
Western Regional Sales Manager
at Drew Estate**

PHOTOS BY JIM COONTZ

NEW HIRES AT DREW ESTATE

Drew Estate's founder, Jonathan Drew, is returning to his roots. In a multi-year deal announced in early February 2017, Jonathan Drew took on an executive operating role at Drew Estate as its president. This promotion comes two years after the sale of the company to Swisher International.

"Jonathan Drew is a dynamic entrepreneur, respected tobacco man, and tenacious brand evangelist," says Glenn Wolfson, CEO of Drew Estate. "He is the original disrupter and I am excited to help build a team around JD that is raw, provocative and unafraid to challenge the mainstream and take risks. Jonathan Drew will reduce his travel and event schedule, instead focusing on the rebirth of Drew Estate with a conceptual lens toward brand building and team building."

"There's a lot to learn from areas outside of our main canvas at Drew Estate," Drew comments. "We will return to high-level curation, mixed media platforms, and true collaboration."

In another move to strengthen the company, Drew Estate announced that David Lazarus will assume the role of senior vice president of sales at the company. In this new position, Lazarus will be responsible for field sales, inside sales, key national accounts, in-store events and wholesale. He will report directly to Drew Estate's CEO, Glenn Wolfson. In addition, Sam Morales was recently promoted to director of marketing, and the company also brought in An Phan as traditional brand manager and Jaclyn Sears as a senior graphic designer.

Along with his business partner Marvin Samel, Jonathan Drew founded Drew Estate in 1996. It began as a small shop in the World Trade Center before evolving and growing into one of the leading premium cigar brands in the U.S. In 2014, Drew and Samel sold Drew Estate for an undisclosed sum to Swisher International.

Local Tobacco Ordinances:

What retailers need to know and do.

OVER THE PAST SEVERAL YEARS, anti-tobacco advocates have focused more of their attention and resources on proposing and lobbying for the adoption of local retail tobacco restrictions. The result is an ever-increasing number of ordinances that result in law-abiding retailers being forced to remove legal tobacco products from store shelves.

This shift in the emphasis to local issues is evident in the sheer number of local proposed ordinances per year. In 2011, 248 local tobacco ordinances were introduced and considered by city and county local governments. That number has increased exponentially to more than 700 local tobacco-related ordinances introduced during 2016.

Clearly, the agenda underlying many of these proposed ordinances is one of prohibition. This agenda can be seen in the kind of restrictions being proposed, such as flavor bans. It is important to note that these prohibition-type ordinances are aimed at adult tobacco use, not necessarily to prevent underage tobacco use.

For a number of years, the anti-tobacco groups have claimed that their efforts were to protect youth. However, that claim is now being used to support their efforts to ban the right of adults to buy tobacco products. This is where retailers and their adult customers need to become engaged to oppose these kinds of restrictions.

Local is All About Local: The importance of local retailers participating in an effort to oppose a tobacco ordinance is critical because local elected officials need to hear from their local businesses. Local retailers have their livelihoods at stake as well as their employees' jobs, and local elected officials have a duty to listen to the businesses located in their city or council. This is why retailers need to explain their concerns to their local representatives.

NATO Local Project: In 2012, NATO started the NATO Local Project, which monitors and helps retailers respond to local tobacco ordinances. If a retailer learns of a proposed retail ordinance, they should call NATO at its toll-free number of 866-869-8888. More than likely, NATO's monitoring services would have alerted the association about the ordinance, but that may not always be the case. NATO Local Project staff will send an alert to the association's retail members in that city or county which provides information on the ordinance, includes retail talking points, and the phone numbers and e-mail

addresses of local officials. Retailers should then contact local lawmakers to express their concerns about how the ordinance will affect their retail business.

Social Sources: One of the key arguments that NATO provides in response to a tobacco ordinance is information about social sources. A significant majority of underage youth relies on social sources such as family members, older friends and even strangers to obtain tobacco products. This is the issue that anti-tobacco advocates are fully aware of, but choose to ignore because it is so much easier to lobby for more restrictive local retail regulations than it is to change the behavior of adults so that they do not supply youth with tobacco products.

Even the FDA has now confirmed through a study sponsored by the agency that social sources are a significant source of tobacco for youth. The initial findings of this Population Assessment on Tobacco and Health study indicate that minors rely on social sources 81 percent of the time to obtain cigarettes, 79 percent of the time to get cigars or little cigars and almost 77 percent of the time to gain access to smokeless tobacco.

Customer Involvement: It is just as important for retailers to urge their adult customers to call and e-mail local lawmakers, because their rights will also be affected, especially if the ordinance proposes a ban on the sale of certain tobacco products. Finally, retailers need to attend the public hearing held on the ordinance and testify against the proposed restrictions.

Opposing local ordinances is all about local retailers contacting local officials and letting them know that they are responsible business owners, they share the concern about underage youth having access to tobacco products, but that the ordinance will only serve to negatively impact law-abiding retailers' businesses.

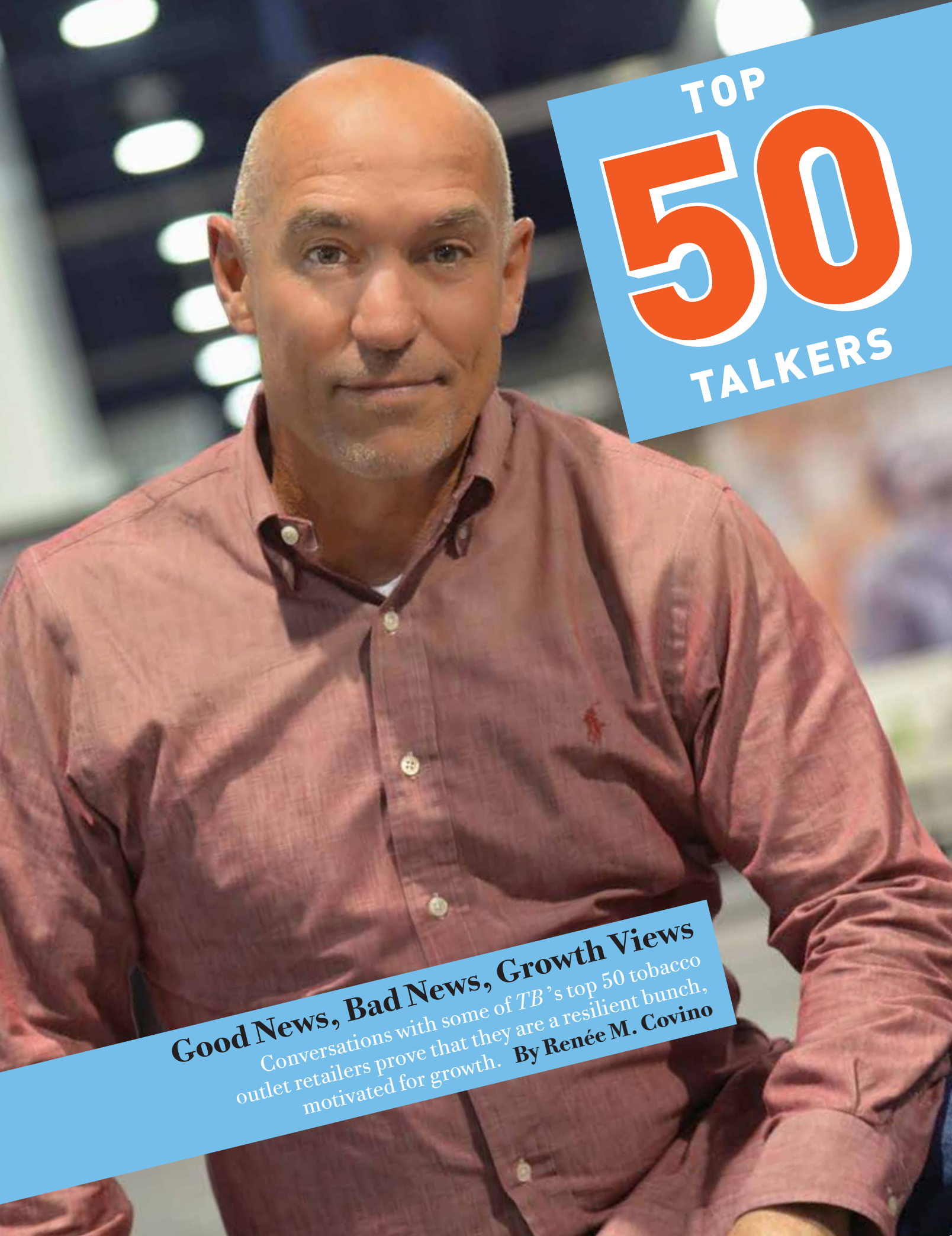
Moreover, it is imperative that retailers not wait until an ordinance has been proposed to contact their city council or county board members. Retailers should contact their local officials, invite them to visit their stores and, when they do, explain how their retail businesses works; discuss their dependence on tobacco sales for keeping their businesses afloat and for providing good jobs to local residents. Establishing a good relationship with local lawmakers and making sure that they understand the steps taken to prevent the sale of tobacco to minors are both key steps to take in order to preserve their business. **TB**



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.



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



TOP
50
TALKERS

Good News, Bad News, Growth Views

Conversations with some of *TB*'s top 50 tobacco outlet retailers prove that they are a resilient bunch, motivated for growth. **By Renée M. Covino**

Running a tobacco store today is no easy feat. Tax hikes; federal and state regulation and anti-tobacco agitation continue to stack the cards against the channel and its retail players higher and higher. The name of the resiliency game seems to be to hang on to the nuggets of good news in a sea of bad—and, even more importantly, hone the source(s) of growth potential for future viability.

Those with decades of experience who have weathered their share of harsh tobacco times (think SCHIP taxes) are best prepared, not only to cling to survival tactics, but to step out with a few fresh ideas. Naturally, they have a host of complaints and fears, but they focus more sharply on good news and positive action.

Hence, we present viewpoints from the top of the crop, tobacco outlet retailers from *Tobacco Business's* (TB's) just-released 2017 Top 50 list (see sidebar, "The 2017 TB Top 50 Roster"), comprised of retailers that range in size from eight to 852 stores/authorized dealers.

FIRST, THE GOOD NEWS

Good news may not be abundant lately, but every one of our top 50 respondents mentioned at least one good business vibration.

Growth in the form of a killer acquisition was the best recent news for the industry's top player, Smoker Friendly International. "When we consummated a deal with Fred Hoyland last year for his 13 Tampa-area Tobacco Depot stores, we purchased some great stores with great people, and have fully integrated them into our Smoker Friendly family," reports Terry Gallagher, Jr., president of the Boulder, Colorado-based chain, with a total of 852 authorized dealer locations.

The Florida stores boast a strong premium cigar focus, representing new territory for Smoker Friendly's corporate-run division, The Cigarette Store Corp., which also made the business decision to let go of some stores last year, according to Gallagher. "We exited Utah and sold two stores to Tobacco Connection out of Boise, Idaho," he says, referring to another top 50 player and Smoker Friendly authorized dealer. The idea is that Smoker Friendly is even more particular now about its growth.

Smoker Friendly continues to offer experience and expertise to retailers through its authorized dealer program, but the tobacco outlet icon is also leveraging a different kind of strategy epitomized by its acquisition of Tobacco Depot. "We think we provide a good exit strategy for the right type of established tobacco outlet chains looking for an out, and we're interested in more of those types of opportunities," maintains Gallagher.

Organic store growth is the best news reported by Rock Hill, New York-based Smokers Choice, which grew by five stores in 2016. Currently with 58 tobacco outlets, the company is building three new stores set to open over the next few months, says Doug Nolan, vice president. "We are also rejuvenating older stores with facelifts and increasing square footage where we can," he tells *TB*.

Wild Bill's Tobacco, which recently moved its headquarters to Troy, Michigan thanks to a new 60,000-square-foot warehouse that directly services its 66 stores, just opened its first store outside of Michigan, in the state of Ohio. The chain is also planning to open three or four more Ohio stores this year. "We will see how they do—if they do well, we'll expand even more into Ohio," says Justin Samona, chief marketing officer. "We did our homework—market research. Plus, with



THE 2017 TB TOP 50 ROSTER

The top 50 tobacco outlet chains of the year, by store count (as of 1/31/17):

01 | SMOKER FRIENDLY INTERNATIONAL,
Boulder, Colorado; 852 total authorized dealer locations

02 | ADMIRAL DISCOUNT TOBACCO,
Coopersville, Michigan; 173 stores

03 | TOBACCO CENTRAL DBA LOW BOB'S,
South Bend, Indiana; 122 stores

04 | THE CIGARETTE STORE CORP. (Smoker Friendly corporate stores),
Boulder, Colorado; 99 stores

05 | TOBACCO SUPERSTORES INC.,
Forrest City, Arkansas; 87 stores

06 | WILD BILL'S TOBACCO,
Troy, Michigan; 66 stores

07 | SMOKERS CHOICE,
Rock Hill, New York; 59 stores

08 | TOBACCO CONNECTION/ BIG SMOKE,
Nampa, Idaho; 53 stores

09 | BROOKSHIRE BROTHERS (TOBACCO BARN), Lufkin, Texas; 48 stores

10 | DISCOUNT SMOKE SHOPS, St. Louis, Missouri; 47 stores

11 | KWIK TRIP (Tobacco Outlet Plus, Kwik Trip Express, Kwik Star Express), LaCross, Wisconsin; 42 stores

12 | NBS, Parkersburg, West Virginia; 41 stores

13 | CHEAP TOBACCO, Cincinnati, Ohio; 40 stores

14 | SMOKIN' JOES, Waymart, Pennsylvania; 30 stores

15 | COLLETT ENTERPRISES, Seymour, Indiana; 29 stores

16 | SAVER GROUP, Campbellsville, Kentucky; 27 stores

17 | TOBACCO PLUS DISCOUNT OUTLET, Crowley, Louisiana; 24 stores

18 | CLTS INC./DOT DISCOUNT/CIGARETTE CITY, Dover, Delaware; 24 stores

19 | A&K WHOLESALE (Discount Tobacco Outlets), Murfreesboro, Tennessee; 23 stores

20 | TRO OF NORTH CAROLINA (TOBACCO ROAD OUTLETS), Lakeview, North Carolina; 22 stores

21 | SMOKE SHOP, Dyer, Indiana; 21 stores

22 | SMOKE 'N GO, Abbeville, Louisiana; 21 stores

23 | SMOKES 4 LESS, Poughkeepsie, New York; 20 stores

Toledo less than an hour away from our warehouse, it just made sense to expand in that direction.”

Beyond store growth and acquisition, good news was eked out of legislative defeats, election results and specific categories. “There was very little good news, except for the continued evolution of the vape segment, and federal and state election results,” says Bob Roberts, president of Smoke Em, based in Scottsdale, Arizona with nine stores.

For Collett Enterprises, state legislation also turned out to be good news. “The proposed state tax increase in Indiana was defeated last year, and that was a good thing,” Darren Collett tells *TB*. “However, we will fight the same battle again this year.”

Similarly, for Smoker Friendly, “the defeat of the excise tax increases in Colorado,” was happy news, Gallagher mentions. “With 50-plus stores in Colorado [under the corporate entity of The Cigarette Store] the proposed tax would have been a big liability to the business.”

Along the same lines, there were “no tax increases on cigarettes or tobacco products and hopefully none in sight for 2017,” adds Bill Grantz, owner and partner at 18-store chain Cox’s Smokers Outlet & Spirit Shoppes, based in Louisville, Kentucky.

Overall business gains in 2016 were another high point mentioned by top 50 players. “We saw a same-store sales increase of 4.7 percent over 2015, even with some new aggressive competition in our areas,” Grantz relays.

Likewise, a “2.5 percent increase of overall category sales with an increase in margin dollars” was the best news for Frank Armstrong, president of Blue Ridge Tobacco, based in Winston-Salem, North Carolina with eight stores. He reports that the overall 2016 increase was primarily the result of three stellar categories—imported cigars, which saw a 7 percent increase in sales; cigarette packs, which grew about 12 percent; and lottery sales, which were up about 6-7 percent.

Positive premium cigar sales were also on the good news radar for Town Crier, based in Mandeville, Louisiana with 10 stores. Owner Randy Drott reports making “up to \$1.99 a stick now,” which has really helped the chain’s profit margins.

For other top 50 players, where gains are not being realized, it’s the overall steady flow that has them upbeat. “We hung in there pretty good; business stayed pretty steady,” says Paul Mahoney, owner of Puff Super Value, based in Mill Hall, Pennsylvania, with 17 stores. Looking at his categories, “vapor kind of leveled off, but we still do a fair amount of business in it, the price of cigarettes is going wild, and RYO seems to be picking up more and more. I guess the best thing is RYO right now—it’s the strongest suit by far.”

At Dyer, Indiana-based Smoke Shop, where cigarettes are still king for all 21 stores, “the business leveled off, rather than declining as it has for the last 10 or 15 years,” reports Gary Tapley, owner. “Everything in the manufacturer contracts are written for the c-store/gas channel, but we offer what they can’t—if a customer wants a carton of Saratoga [cigarettes], for instance, we still can offer that.”

In summary of accentuating the positive in difficult times, Randy Silverman, president of Klafter’s, d.b.a. Smoker Friendly/Cigar Express, says that “some years we are faced with bigger challenges than in other years.



CATEGORY QUICKIES

It was “game on” for *TB*’s participating top 50 players, who were asked to quickly think of a word or phrase that currently best summarizes the core and ancillary categories in their tobacco chains.

Where does your business fit in comparison to their off-the-cuff responses?



CIGARETTES

Largest category/biggest contributor to profit
Still full-line
Dying
Still the biggest player in our stores
In decline
Declining in sales
Core
Shrinking as a whole
More customers subsidizing with vape
Relatively flat
Profitability continues to decline, but essential to drive traffic
Third tier—where it’s at

SMOKELESS TOBACCO

Increasing
Growing
Very competitive—c-stores getting into it more
Offer large selection
Up
Very steady
Solid
Steady, very competitive market
Manufacturers trying to build new brands and deal with continued tax hikes
Growth category
Growing category somewhat
Small portion of our business

E-CIGARETTES

Declining
Yesterday
The future with new technology
F-D-A
Declining somewhat but very good profit item
Evolving
Very small category with everyone switching to vapor
Dying category
Decreasing sales due to shift to vape
Still booming
A mess currently, but long-term potential with advanced technology and easing of regulations

VAPOR

Flat, not doing anything
Some potential through CBD
People already have equipment, so now it’s just juice
Down about 20 percent versus last year
Early adopters going back to combustibles
Waiting for new technology like heat-not-burn
As long as government allows it, it will grow
Where it’s all at
Changing
Huge category

Continues to grow even with the FDA regs and halt on innovation
Margins dropped on liquid and devices
More smokers switching with continued growth of sales
Potential growth category, depending on legislation
Customers wary due to shady retailers
Lots of variety

PREMIUM CIGARS

Exciting
Biggest growth potential
Promoting it better
Bit of a comeback
Great category
Steady and staying constant
Growing
Steady sales
More than 50 percent of our customers use us only for fill-in while waiting for online order to arrive
Growth category
Growing and opportunity
Exclusive gift packages by manufacturers help us grow sales
Steady, but unsure of what will happen with FDA regulations

LITTLE CIGARS

A must-have
Neither growing nor declining
Good performer
Holding their own
Cigarette taxes drive smokers to them
Up
Increasing in sales because taxes haven’t gone up
Strong
New York has killed them, they are taxed like cigarettes
Flat

May go away with FDA redefining
Pretty steady
Tough growth opportunity due to taxation

RYO TUBES, TOBACCO, LITTLE MACHINES

Growing
Potential
The gap between it and lowest priced cigarettes continues to widen
Electric machines staying steady
Good selection
The first thing customers look for when cigarette taxes go up
Way up
Still increasing in volume
Very profitable
Important
Continued steady business
New York customers can make their own for less than \$2 a pack versus the \$8 to \$12 a pack for brands
Relatively flat
Maintaining
Selling a lot this past year
Still seems to be solid, despite new taxes

HOOKAH

Nothing there
Don’t carry it
Little niche without growth
I don’t mess with it
Don’t need the image it gives off
Don’t sell it
Hardly deal with it
OK
Dying, although we still sell hookah tobacco and charcoals
Dropped more than 75 percent from two years ago
Opportunity there
Declining due to shift to vape

Very small portion of our business
Not a big mover

PIPES

Don’t carry them
Very small portion of business
Have them for those that want them
Only in our more upscale stores
A little bit
Sell some, not a lot
1 percent tops in our business
Upside
Steady, but nowhere near the powerhouse it once was
More customers switching to mechanical devices
Growth category
Growing young adult interest
Very small, dying out

TOBACCO ACCESSORIES

Always a good category
Great through loyalty program
A must-have that brings resources to the bottom line
Everyday lighters the biggest seller
Cigar smokers love the torch lighters
Can sell up to \$45, \$49 items
History, don’t sell much
Very good category
Mostly lighters and cigarette cases
2-3 percent of our business, that’s a lot
Ancillary
Great with continued category massaging—products must be changed up on a regular basis to keep with graphic trends
Best advertised through word-of-mouth
Additional sales op-

portunities
Declining due to no new products—opportunity for manufacturers
Steady, nothing crazy

CANNABIS

Not in our state yet
A greener pasture
Nope
We don’t and won’t
Don’t deal with it at all
Interesting
Not as taboo anymore
More socially acceptable
Future opportunity
Majority of consumers not offended by it anymore
Not sure what I think of this for our business

ALTERNATIVE ACCESSORIES

Significant growth already
Selling a boatload of pipes
Triple-digit market potential
If they make cannabis legal, then I’ll think about it
I can live without them
Had it a year ago, but got out because of legal problems
Margins
Staff is trained to ask customers to leave if they speak about using any device with an illegal substance
A lot more socially acceptable
Present opportunity
We have dedicated rooms that house these products
Something we will continue to expand on as cannabis develops in our business states

- 24 | DELTA DISTRIBUTORS, DISCOUNT TOBACCO OUTLET**, Andalusia, Alabama; 20 stores
- 25 | CIGARET SHOPPER**, Brewer, Maine; 20 stores
- 26 | SMOKIN' JOE'S TOBACCO & LIQUOR**, Davenport, Iowa; 19 stores
- 27 | PUFF DISCOUNT CIGARETTES**, Mill Hall, Pennsylvania; 18 stores
- 28 | FAST LANE DISCOUNT TOBACCO**, Lovely, Kentucky; 18 stores
- 29 | COX'S SMOKERS OUTLET & SPIRIT SHOPPES**, Louisville, Kentucky; 18 stores
- 30 | WILLIAM & TAYLOR TOBACCO**, Mullins, South Carolina; 17 stores
- 31 | LOUISIANA DISCOUNT TOBACCO (DISCOUNT TOBACCO OUTLET)**, Shreveport, Louisiana; 17 stores
- 32 | PUFF SUPER VALUE**, Mill Hall, Pennsylvania; 17 stores
- 33 | TOBACCO ROAD**, Jermyn, Pennsylvania; 16 stores
- 34 | TOBACCO SHOPPE/SAVE-A-LOT**, Bowling Green, Kentucky; 16 stores
- 35 | KLAFTERS, D.B.A. SMOKER FRIENDLY/ CIGAR EXPRESS**, New Castle, Pennsylvania; 16 stores
- 36 | ROSS-LAB MARKETING (NOTHIN' BUTT SMOKES)**, Lubbock, Texas; 15 stores
- 37 | KOCOLENE MKTG. (SMOKERS HOST)**, Seymour, Indiana; 14 stores



Collett Enterprises' Darren Collett runs 29 stores.

The year 2009, as an example, was when the SCHIP taxes were instituted, and that was tough. The good news for those years is just getting through them with your head above water—and 2016 was one of those years.”

THE FAMILIAR BAD NEWS

From the underside, there is plenty that concerns our industry's top players—primarily, as Gallagher notes: “the government at every level.”

He adds, “we continue to work with manufacturers, trade organizations, and our two in-house people working on government issues and government relationships, at all levels, every day. We are getting the whole organization behind whatever initiative is looming and most dangerous.”

Looking at what's in front of the company at the moment, Gallagher notes that a minimum wage increase at the state level passed in Colorado—“and that will certainly cost us a great amount of money annually,” he says.

For Klafters in Pennsylvania, a big challenge now looms overhead—the state implemented OTP taxes on all forms of tobacco (55 cents per ounce) and vapor (40 percent of the wholesale billing price), reports Silverman. “In addition, there was a \$10-per-carton state cigarette excise tax, making Pennsylvania's cigarette tax \$26 per carton,” he says. “Aside from the uncertainty of whether consumers will still purchase these products, due to this being a completely new tax, the state has been challenged on how to administer the tax, making it very difficult for wholesalers and retailers to implement.”

Mahoney agrees. “They're trying to choke us out,” he says.

In Indiana, “the strict vape law reduced the number of state-certified vape manufacturers to six,” says Col-

lett. “This created a situation that drove prices up by 50 percent.” Also weighing heavily on his mind are “health insurance increases of nearly 20 percent due to the ACA [Affordable Care Act].”

And, of course, beyond individual state concerns, the uncertainty pertaining to the issuance of the FDA deeming regulations looms large for Top 50 players. The fact that the regulations are being challenged in the courts brings some hope to retailers like Roberts, as does a new administration that could potentially cancel previous executive orders. But he and others are very cautiously awaiting their fate.

The way Armstrong sees it, the deeming regulations are already drastically stifling creativity, as far as new products and new ways to promote products are concerned. “When you do that to an industry, you will start to see an overall decline,” he says. “It's critical we figure out how to still have new innovations in the tobacco category.”

FOCUSING ON GROWTH VIEWS

Many resilient tobacco outlets are all too familiar with these big challenges and what can go wrong, so they opt, instead, to keep their eye on the good growth ahead.

Smoker Friendly remains on the lookout for new growth through acquisitions, and at press time it had just purchased a cigar store in Denver. In early February, the company completed the acquisition of Cigars on 6th, a premium tobacconist and cigar store. The company will continue to operate the store under its Cigars on 6th banner, but will introduce the Smoker Friendly brand of cigars into the store as well.

“The acquisition of this store is a great opportunity to continue to expand our footprint in the Denver market, and, more specifically, continue to grow our market

38 | TBM MANAGEMENT,
Pearl River, Louisiana;
14 stores

39 | PUFF-N-SNUFF,
Lock Haven, Pennsylvania;
14 stores

**40 | ◉REDI-MART
TOBACCO,**
Elizabethton, Tennessee;
14 stores

**41 | ◉JC'S CIGARETTE
OUTLET,** Elizabethtown,
Kentucky; 13 stores

42 | ◉SAVON,
Oneida, New York;
13 stores

43 | TOBACCO DISCOUNT,
Picayune, Mississippi;
13 stores

44 | ◉MGN TOBACCO,
Raleigh, North Carolina;
11 stores

45 | BO'S SMOKE SHOP,
Elizabethtown, Kentucky;
10 stores

46 | TOWN CRIER,
Mandeville, Louisiana;
10 stores

47 | ◉TRUAX 2,
Salem, Oregon;
9 stores

**48 | SMOKE EM, D.B.A.
SMOKE M,** Scottsdale,
Arizona; 9 stores

**49 | ◉BLUE RIDGE
TOBACCO,** Winston-Salem,
North Carolina; 8 stores

**50 | ◉FROEHLICH
ENTERPRISES,**
Barnesville, Ohio;
8 stores

◉Smoker Friendly
authorized dealer

◉Count is taken from 2016;
could not confirm store
count in 2017

in the hand-rolled cigar retail sector," says Gallagher. The company plans to maintain "the great premium cigar business that is established in this store" and its "unique neighborhood personality." Like Fred Hoyland in Tampa, Dan Dunne, the owner of the Denver cigar store, looked to Smoker Friendly when he was ready to exit the business.

The premium cigar category is on the growth map of other top players, such as Collett, who reports efforts are underway to put a bigger focus in the category moving forward. Roberts, too, is increasing premium cigar SKUs and employee education this year.

Smoke Em will also promote its vape expertise as a growth avenue "to compete with the vape-only stores, which hit our sales hard over the last 18 months," says Roberts. "We are careful to use only U.S. manufactured and sealed products. In addition, we repair tanks, coils and other components. Training of staff is critical so that the customer has the confidence that they are dealing with a reputable vape retailer."

Now that Cox's Smokers Outlet's cigarette sales are almost dead-even with its 2015 cigarette sales (which Grantz says he is very happy about), the chain has a host of growth categories—namely premium cigars and non-tobacco items such as beer, wine, liquor and alternative products. "We have increased our presence and broadened our selection of these non-cigarette products and added some of these categories to some of our stores that were not offering them before," he tells *TB*.

Even more radically, Smokers Choice has been "slowly converting its tobacco-only stores to carry a wide range of convenience items in order to increase foot traffic, as well as moving locations to a larger footprint to add new categories like beer, packaged food and food-to-go," according to Nolan.

The chain also started a new concept called MUNCHIES, a store-within-a-store selling beer and hot dogs. "Hot dogs, nationally, has seen a growth spurt in sales," says Nolan. "Carrying a good national brand hot dog like Nathans has increased foot traffic sales and given us the ability to meet the SLA requirements to obtain an alcohol license to sell beer. The increase in customer counts and GP growth will allow us to continue to open stores with larger footprints."

Improved technology in the form of point-of-sale (POS) systems and loyalty programs is another growth area for top 50 forward-thinkers. "As we move into 2017, we're looking to identify and pinpoint data on every category through new systems," says Armstrong. "We are looking to develop loyalty promotions for our customers."

Adds Silverman, "the best growth opportunities currently lie in participating in some of the scan data and loyalty programs that some of the manufacturers, such as Altria and R.J. Reynolds, has been offering. Participating in these programs have given us a way to help differentiate the price on some of the top-selling items." **TB**

TOP-TO-TOP COMPARISON

Compared to 2016's list,
here's how the tobacco
outlet industry's top 50
chains add up for 2017:

➤ The top 50 chains this year make up 2,258 total stores, versus 2,286 total stores in 2016's list, essentially a flat change (a decrease of 1.2 percent)

➤ Three chains from last year's list were sold and/or stores were sold off (Gateway Marketing, Inc./Tobacco Station USA, Texarkana, Arkansas.; Dirt Cheap Cigarettes & Beer, Fenton, Missouri.; and Tobacco Depot, Tampa, Florida.)

➤ 14 chains (28 percent) have increased their store count by at least one store since the 2016 survey; seven (14 percent) have increased by more than one store

➤ Seven chains (14 percent) saw store declines; three of those (6 percent) reduced their count by only one store

➤ 29 chains (58 percent) have stayed the same in store count, including two chains that appear on the Top 50 list for the first time

➤ 86 percent of *TBI* Top 50 chains have either kept a consistent store count or increased it—a percentage slightly greater than last year's by 4 percent

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EVOLVE

& GGO

When **Richard Hoyt** began managing his father's tobacco outlet business, he chose to play the evolution card. Now, he's considering shuffling a new, ancillary deck.

BY RENÉE M. COVINO



“Evolve or die,” they say. With fresh family blood in its veins since the early 2000s, a Top 50 tobacco outlet chain chose the former, incorporating drive-thrus as a competitive advantage and, more recently, changing its name to Smoke 'N Go. Now, at a time when continued evolution may be more important than ever in the channel, the chain is contemplating where to go from here, possibly into an alternative side business—a move that would represent a serious departure from its current culture.

Back when it was launched in 1991, this Southern Louisiana business founded by Fred Hoyt consisted of one store known as Cheap-O-Depot—the second tobacco store in the whole state of Louisiana. By 2000, there were seven stores in the chain. Next, in 2003, a totally new concept was introduced when Hoyt's son, Richard, joined the business and initiated a drive-thru era and a new name.

The concept was this: “Get your smokes on the go at Smoke 'N Go,” Richard Hoyt, vice president, tells *Tobacco Business* (TB).

Not only did the name fit the drive-thru idea, but store employees, after being polled, admitted they liked working for a business by the name of Smoke 'N Go a lot better than Cheap-O-Depot. They voted unanimously for the change, which was made, along with the incorporation of a drive-thru in every store company-wide by 2014.

DRIVE-THRU RESURGENCE

The concept certainly caught on with area smokers, who favor not having to be seen shopping for cigarettes. Across today's 21 Smoke 'N Go stores, 87 percent of customers opt to do business through the drive-thru versus shopping in-store (stores are quite compact, resembling outdoor “huts” or kiosks, ranging from 200 to 700 square feet, conducive to being serviced from a drive-thru window).

What's more, consumer technology has smoothed a resurgence; the drive-thru concept “got reinvented by the smartphone,” explains Hoyt. “Our drive-thru customers like the immediate gratification we provide, but

“**We try to run with the highest integrity, and we try to mimic the best policies of the Fortune 500 companies. I don't know of anyone else in our area that holds store employees accountable like we do.**”

previously, they would honk a lot. It was like the Wild, Wild West out there.”

Then the smartphone presence became universal and it “gave Millennials a downtime opportunity to play on their phones,” he says, remarking on how patient customers seem to be now, with heads down on their phones while waiting in the queue.

TOBACCO STORE WITH MORALS

Besides setting itself apart from competition with the drive-thru concept, Smoke 'N Go prides itself on being “a tobacco store with morals,” says Hoyt. This is perhaps most apparently recognized in employees, who are expected to be “ambassadors of responsible tobacco retailing,” he adds.

“On the one hand, we give them full-time work, a 401k, and paid time off; on the other hand, we provide them with uniforms, we drug test them, and we enforce a strict code. I tell them in the interview process that we are like the Disney World of tobacco: there are no visible tattoos allowed, no piercings other than one in each ear. We are very strict in employee appearance. We try to run with the highest integrity, and we try to mimic the best policies of the Fortune 500 companies. I don't know of anyone else in our area that holds store employees accountable like we do.”

Competitively speaking, Hoyt reasons that with a primarily combustible tobacco business, “the fight I'm fighting with category management is the same fight everyone else is facing. But when it comes to employees, that's where we go rogue.”

These high standards naturally trickle into customer service as well, with the idea that people who look the part and are treated well for it become the company's biggest advocates.

“We take care of the people who take care of our customers,” says Hoyt. “I was the only retailer at a recent trade show saying that I don't have trouble finding good people. Our tenure is maybe 13 years. We embrace our employees; they find a home here. So many of them

Smoke 'N Go Timeline

1991:

Fred Hoyt opens Cheap-O-Depot tobacco outlet; it is the second tobacco store in the state of Louisiana.

1993:

Four more Cheap-O-Depot stores open, officially classifying the company as a tobacco outlet chain.

2000:

Two acquisitions bring the total Cheap-O-Depot locations up to seven.

2002:

Richard Hoyt, Fred's son, joins the family business.

2003:

Father and son open up the first Smoke 'N Go concept, for a total of eight stores. The drive-thru era is born.

2004-2010:

The chain's growth goes into its highest gear. New stores are opened and competitor stores are bought out at the rate of two stores a year.

2011-2014:

Cheap-O-Depot locations are morphed into the new Smoke 'N Go concept, by either updating or moving locations to accommodate a drive-thru.

2015:

The 21st Smoke 'N Go location is acquired. From the chain's main office in Abbeville, Louisiana, stores "are about two hours [away] in every direction," says Richard Hoyt, vice president. "Within our radius, the market is saturated. That is our reason for slower growth."

2017:

The chain is currently looking to buy out a current competitor or two. It is also "sitting on 'Go' for new opportunities," says Hoyt. These include a possible separate business model for alternative items.

come to me with their personal issues; they consider this business their family."

And as much as employees respect Hoyt, he respects and puts a lot of faith in them. "We're big on [being a] team here. It's very much a family, and we let each of our store managers have control," he says. "If a hurricane comes, it's 'Do what you have to do.' If they don't feel safe, they can close the store—they are in control. We trust them. It's like we have a supervisor at every one of our stores."

Even on product matters, Hoyt admits a manager may make a better call than he. "They know our business. I go in and tell them that I think we're overstocked; and they'll tell me that that's not the case. I've been here 15 years, but some of them have been here longer—the longest is 35 years, and we have a handful that have been here 20 years. [So] I listen to them."

THE "C" WORD

But there is one area where employees and Hoyt clash: the idea of bringing this business over to the "C" word—cannabis. The state of Louisiana recently legalized the sale of medical marijuana and, as an ever-evolving entrepreneur, Hoyt can't not look at the business potential in cannabis accessories and more. But he also can't ignore the culture clash that it represents—something employees have been more than candid about.

"Part of the issue is that we run a company where we drug test—we built a team around being drug-free, so we find ourselves in a dilemma," Hoyt tells *TB*. "We didn't do anything around synthetic [marijuana] a couple of waves back when the state [legalized] it. As a family-run Christian business and with my dad in politics, that was an easy call. But now that it passed in medical and seems to be where the industry seems to be evolving, we don't want to miss out. We're evaluating it week by week."

He emphasizes that, naturally, none of the products he's evaluating for sale in his potential non-medical marijuana stores contain THC. Instead, they are glassware and CBD (cannabidiol) items.

Nevertheless, because a few veteran managers and employees told Hoyt that he has to choose between "these products or me," he's taking a cautious approach. Where managers are willing, he has put in some alternative items to see how well they do with present Smoke 'N Go customers.

So far, they're not really moving. "Maybe we've already abandoned that customer," says Hoyt. "It's like going into McDonald's and asking for a hot dog. It doesn't work."

Hoyt already had an inkling of that when he

tested vape products a few years ago. "We didn't want to get into vapor, but when the nail salon on the side of one of our stores put out a sign saying 'We carry electronic cigarettes,' we got into it by default."

Quickly, Hoyt learned that the drive-thru was a handicap to vape, just as it seems to be for alternative items. "All we have is one face behind the window. We don't have time to educate, nor the time to show them product because the queue is four to five cars deep—but that's what's working for us in the combustible tobacco business."

And when something is working with the business, "My dad has always told me to leave it alone," says Hoyt.

So now the question becomes "Does Smoke 'N Go stay intact and open a sister store across the street?" as Hoyt puts it. A store that has a "touchy-feely" aspect for vape items and alternatives? One that does not have a dress code, but rather, lets employees "walk the talk and look the part?" This is Hoyt's present thinking.

"We've built our business model around combustibles and now that's changing, so let's keep these 21 [products] up and running. There's no reason to stop that," he comments. "However, as products expand, so must our retail concepts."

LOYALTY PROGRAMS AND MORE

That doesn't mean the Smoke 'N Go locations will stop evolving as well, notes Hoyt, who is currently gathering knowledge on loyalty programs.

"My theory is that no new smokers are entering the market," he says. "They're already shopping my local c-store competitors. My plan is to have a loyalty program to go to war against my competition and have those customers shop my stores." Hoyt hasn't worked out the loyalty program details yet, but he recognizes that it needs to be "drum tight."

Last year, the chain invested in a FasTrax POS system and began scanning items at the register. "What drove that improvement is the new Philip Morris contract, where if you send them scan data they'll offset the cost of it," says Hoyt. "That has been huge for small mom-and-pops like us. It funded us to get into the 21st century, system-wise."

Hoyt and his father also recently took a road trip to visit other tobacco stores to network and explore ancillary ideas such as growler beers, fountain drinks and local business partnerships.

Since he climbed aboard his father's retail tobacco legacy, "Go" might as well be Hoyt's middle name, as he has kept the business moving in an evolutionary direction. And he doesn't plan on stopping now. **TB**



TPE'S ROUNDTABLE FORUMS

The category roundtable discussions were a big hit with attendees who enjoyed exchanging ideas on building a premium cigar clientele, the future of the vapor industry, protecting patents and more.

For more information about TPE and exhibiting in 2018, please visit TobaccoPlusExpo.com



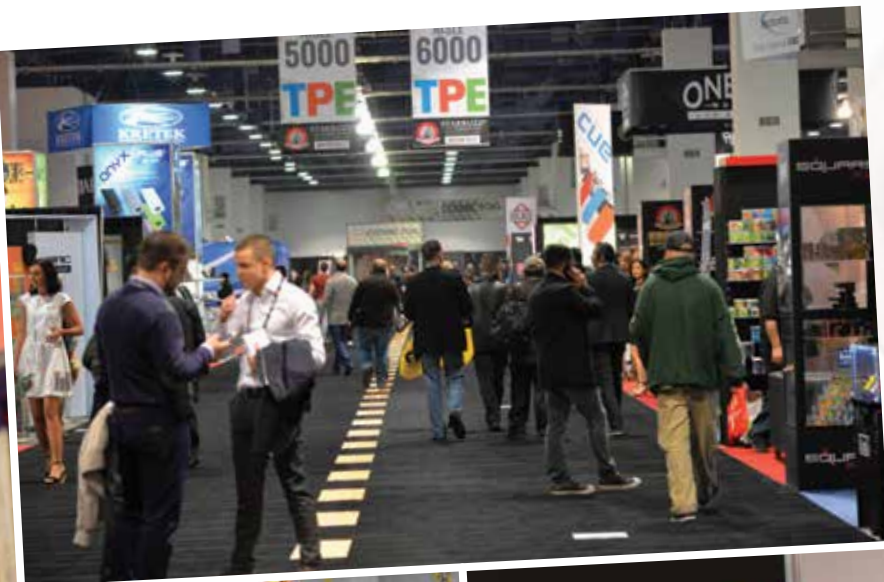
TPE

TOBACCO PLUS EXPO 2017

TPE 2017 wowed the industry with informative seminars, exciting speakers, a bustling trade show floor and lots of new features.

In January, manufacturers, wholesalers, distributors and retailers gathered in Las Vegas for the largest B2B tobacco industry event in America. This year's Tobacco Plus Expo drew twice as many attendees as the previous year and featured 250-plus exhibitors showcasing tobacco and tobacco-related products and accessories, including a wide array of cigars, vapor products and cannabis accessories. In addition to innovative, profit-boosting products, the two-day event offered a compelling lineup of educational sessions and category-specific roundtable discussions.

The pages to follow offer highlights from the show. ▶





STATE OF THE INDUSTRY

A look at where we stand and what to expect in 2017.

Bonnie Herzog, a leading tobacco analyst at Wells Fargo, kicked off the show by predicting a decline in cigarette sales volume of 3.5 percent for 2017 and continuing price increases from the major manufacturers. While not exactly upbeat, neither was the news surprising to industry veterans, who were already well aware that the category is in secular decline and were more interested in Herzog's prediction that consumers will be trading up to pricier brands.

"The price gap between premium and value brands has narrowed," she noted, adding that relatively low gas prices are giving consumers more spending power. "That protects downtrading pressure and encourages consumers to trade up to premium brands."

Herzog also praised Marlboro's mobile consumer app for building brand loyalty through regular communications with consumers. "A lot of retailers accept the coupons that consumer receive on the app, so it's a great way for them to build brand equity," she said.

UP WITH VAPOR?

In the vapor category, Herzog sees uncertainty taking a toll on growth. "I am still bullish on the category, but I think it will go through tremendous changes," she says, noting that it's still "early days" for the vape sector. "If you think about the fact that the global tobacco market is

\$900 billion and more than half of smoker shave tried vaping—that is the opportunity it represents."

However, it may take some time for that opportunity to play out, acknowledged Herzog, who noted that many retailers have been disappointed in the category's sluggish growth and are concerned about the regulatory environment. "Inventory overhang is a liability issue for retailers, who are being very cautious about adding new items," she noted, adding that products from long-established tobacco manufacturers such as Reynolds' Vuse and Altria's MarkTen are likely to grab share as smaller manufacturers struggle with FDA compliance. "The other concern is that innovation will be stalled and stifled under the deeming regulations, which is very frustrating."

ACING ALTERNATIVES

The latter is paving the way for a shift toward the next-generation products being developed by Big Tobacco, such as Philip Morris International's iQOs, which has already been rolled out in 20 markets outside the U.S. "They have filed a modified risk application with the FDA," said Herzog, who noted that PMI has already taken 5 share points from Japan Tobacco and other players in the Japanese market. "Of those smokers who have tried iQOs, 60 to 70 percent have converted either fully or predominantly. PMI will not be the only game in town, but they were the first mover and are leading."

Dubbing the coming market-share battle as "a global arms race," Herzog pointed out that British American Tobacco has a heat-not-burn entry called Glow, Japan Tobacco has Ploom and Reynolds is testing a heat-not-burn product called Core. "I think eventually all the big manufacturers will have a portfolio of these products," says Herzog. "Ultimately, we think that 30 percent of the developed market could shift to heat-not-burn technology."

WINNING BIG

WITH PHILLIPS & KING

Kretek International's Phillips & King booth held its annual prize drawing giveaway on Day Two of the show. TB congratulates the following winners:



TPE

BEST PRODUCT AWARD WINNERS





- (A)**
PRIZE:
PSYKO GIFT BOX
Darren Collett
Collett Enterprises
- (B)**
PRIZE:
CHONG'S CHOICE
Tom Kessler
Tom's Smoker Friendly
- (C)**
GRAND PRIZE:
ROLEX
Mohammed Alnachawati
Hachie Tobacco/Tobacco & Beyond

(D)
RETAIL RAFFLE WINNER
Richard Francisco of Chico's Smoke Shop won the TPE show's retailer drawing, taking home a check for \$3,000.



TPE BEST PRODUCT AWARD WINNERS

(E)
BEST NEW ALTERNATIVE PRODUCT
TC3 by Chong's Choice

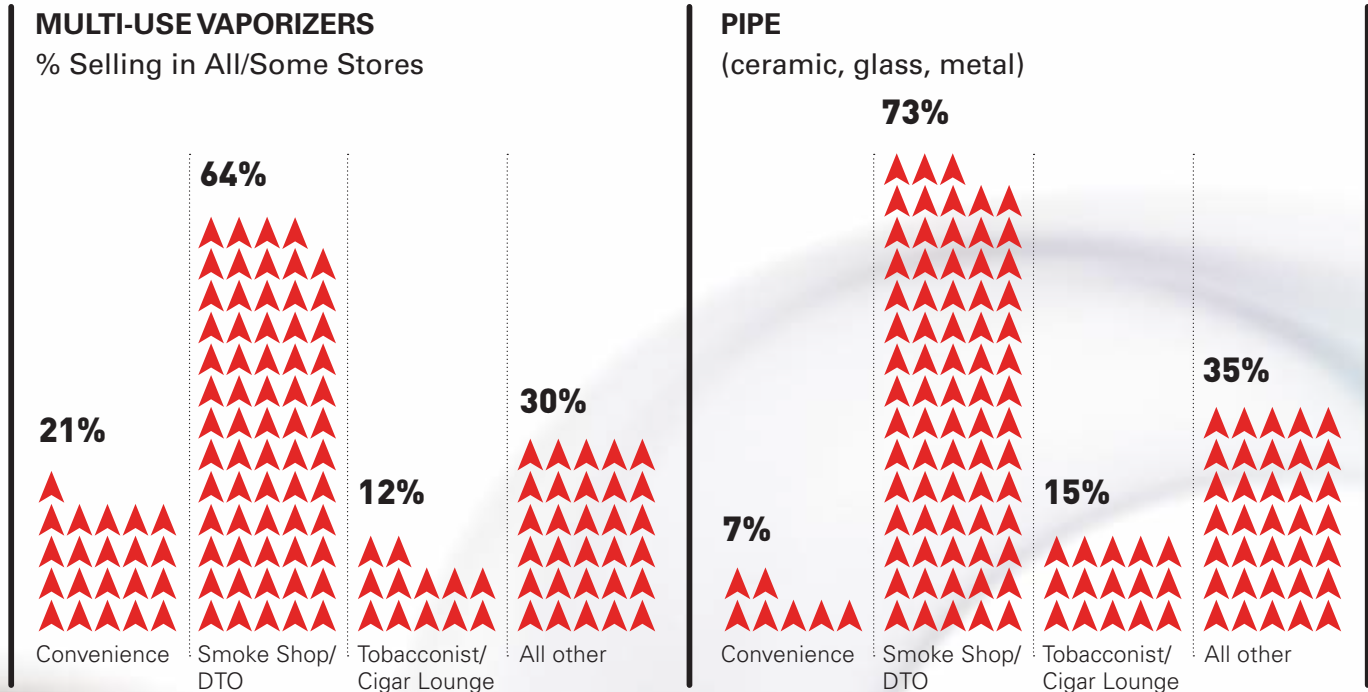
(F)
BEST PRODUCT INNOVATION
Cue Vapor System by E-Alternative Solutions

(G)
BEST NEW VAPOR PRODUCT
Solace Vapor Nicotine Salts, Brendan McDermott, Jomie Raymond and Ricardo Bolanos

(H)
BEST NEW ACCESSORY
LightBros Multitool by The Lighter Bro, Matt Dubberley

(I)
BEST NEW TOBACCO PRODUCT
Archetype by Ventura Cigar Company





Winning at Retail

“Thirteen percent of U.S. citizens currently use marijuana; 15 percent currently use cigarettes. I’m not necessarily suggesting selling the actual product, which is difficult for traditional retailers. Instead, explore selling accessories that support it.”

Balvor’s David Bishop offers tips on boosting store profits.

It’s every businessperson’s goal: bringing in more money at better margins. Drawing on a study co-sponsored by Tobacco Business and Convenience Store News, Balvor LLC’s David Bishop sought to offer tips on doing just that at TPE 2017. “Winning at retail is about doing a lot of things well, across marketing merchandising, operations and the supply chain,” he acknowledged. “But while there’s no single thing that will be a panacea, there are actions we can take as retailers and manufacturers.”

ulations are drawing a line in the sand.” If manufacturers are unable to bring new tobacco products to market, retailers will need to find existing products new to their stores to introduce. “Forty percent of our survey respondents reported expanding into handmade cigars,” said Bishop. “If you don’t carry premium cigars in your stores, that may be one to consider.”

1 Educate and Empower Your People. Skilled, well-informed employees are a boon to any business, but they’re even more crucial in tobacco retail, where a business can be devastated by a single age-verification transgression. While most retailers cover the basic age verification training, only 37 percent report assessing employees on their competency selling age-restricted products. “That should raise a red flag, because operating that way exposes your business to unnecessary risk and liability,” says Bishop.

3 Explore Alternatives. The marijuana tide has turned—today, 59 percent of Americans are in favor of legalizing marijuana as compared to 33 percent in 2001. “That’s an amazing evolution of public opinion,” said Bishop, who suggested that the number will continue to increase as younger Americans reach voting age. “Thirteen percent of U.S. citizens currently use marijuana; 15 percent currently use cigarettes,” he added. “I’m not necessarily suggesting selling the actual product, which is difficult for traditional retailers. Instead, explore selling accessories that support it.”

2 Evolve with the Times. “Retailers who adapt to and evolve around their surroundings are the most likely to survive,” noted Bishop, who pointed out that manufacturers are moving toward alternatives to combustible cigarettes—and retailers need to do the same. “New products are a retailer’s lifeblood, but the way we look at new products has to change because deeming reg-

4 Engage in Shaping Future Threats and Opportunities. “Advocacy gives you more control over the outcomes in areas of uncertainty,” noted Bishop, who urged retailers and manufacturers to monitor legislation and regulation and talk to legislators about their perspectives. “Whether it’s about increasing the purchase age to 21 or weighing a flavor ban, make your voice heard.”



"It is important that we deliver on our promises to manufacturers, and not always be looking for handouts from them."

—TERRY GALLAGHER, SMOKER FRIENDLY



"When you go to a store that looks sophisticated and is well merchandised and the employees cultivate a relationship—remember your name and what you like—you are going to keep going back."

—ROCKY PATEL, ROCKY PATEL CIGARS



Smoker Friendly's Terry Gallagher, Davidoff's Jim Young, Halfwheel's Charlie Minato, Rocky Patel Cigars' Rocky Patel and Collett Enterprises's Darren Collett

Succeeding in a Changing Market

In a wide-ranging discussion on succeeding in a changing market, five panelists offered tips on succeeding in a changing market.

THE PEOPLE FACTOR: Hiring well and incenting employees is critical to success at the retail level, noted Terry Gallagher, CEO of Smoker Friendly International. "It's the quality of the people that we hire that has given us the ability to succeed," he reported. Agreed Darren Collett, owner of the Collett Enterprises chain of tobacco stores: "You must empower your workforce to get involved in decision-making—sharing profits makes all the difference."

APPEAL AND INFORM: A clean, well-organized store where customers can count on being served by friendly, well-informed employees will always have an edge. "Employee knowledge—product knowledge is critical," noted Rocky Patel. "When you go to a store that looks sophisticated and is well merchandised and the employees cultivate a relationship—remember your name and what you like—you are going to keep going back."

EXPERIMENT WITH NEW CATEGORIES: "In this is wonderful dynamic industry, things that we did 20 years ago no longer work," said Collett, who urged retailers to continually adapt. "As an example, cannabis is more socially acceptable today. Five years ago, I never thought we would have accessories in our stores, but it's a new thing for us now—and if you aren't carrying them yet, believe me, they are selling."

PARTNER WITH YOUR SUPPLIERS: "One of the real anchors for our company has been to recognize that the consumer comes into contact with your brand at the retail environment, and we count on making that engagement positive," said Jim Young, president of Davidoff U.S.A., who says the tobacco outlet channel is an "emerging" player in the premium cigar category. "We look to be an indispensable business partner with our [retail] customers by having discussions about what is working and what is not and how to course correct. Once we have the insight, we work hard to help retailers develop their [cigar] customer base."

"One key of our company is the importance of building relationships with the manufacturers," agreed Gallagher. "That relationship is a two-way street. It is important that we deliver on our promises to manufacturers, and not always be looking for handouts from them. The growth of our company has come working with our manufacturing partners."

REMEMBER, IT'S ALL ABOUT THE CONSUMER: Ultimately, the end consumer should be at the center of everything retailers and manufacturers do, noted Collett. "From retail perspective, we are able to bring in new innovative products and get that sales information and customer feedback back to manufacturers. Our goal is the same: we are both trying to take care of that consumer." **TB**

OTP PIPES RYO

Kentucky Select Pipe Tobacco features U.S. flue-cured and burley tobaccos.



East Carolina RYO: Committed to Quality

Drawing on extensive experience in tobacco growing, blending and cutting, this local producer has forged a national presence.

BY JENNIFER GELFAND

IT ISN'T EASY BEING A SMALL TOBACCO company in an industry dominated by giants—so when you see a relatively small company operating out of Wilson, North Carolina thriving in today's turbulent marketplace, you know that they're doing something right. Such is the case for East Carolina RYO, founded in the heart of U.S. tobacco country in 2006.

After cigarette prices skyrocketed in the aftermath of the Masters Settlement Agreement, a handful of tobacco company and retail veterans came together to give smokers a reasonably priced alternative, recounts Andy Shango, one of the company's founders. "We decided to turn history back and see if people would go back to making their own cigarettes if it meant getting a much lower price," he explains. "That was the whole concept."

The company's original product, Kentucky Smooth, was a hit with smokers, who quickly embraced the roll-your-own trend and appreciated East Carolina RYO's commitment to quality and its ability to deliver value. "We were able to draw on the industry experience of our founders to put out one of the best products on the market on every level, from the smoking sensation to the quality of the tobacco we were buying," Shango says. "And because we were a small company we were able to have a very reasonable price."



Flavored Kentucky Select Pipe Tobacco is available in cherry, vanilla, whiskey, black Cavendish, natural and rum.



As the company evolved over the next decade, it continued to focus on delivering quality and value with its product lines. Today, its portfolio includes pipe tobacco brand Kentucky Select and the value brand Buckhorn, as well as cigarette tube and flavored pipe tobacco product lines. East Carolina RYO also ventured into the vapor division with its Puff line of e-cigarettes, but the company is currently taking a wait-and-see approach to that sector of its business, explains Shango. “The company still does some business, but we’re waiting to see what happens with the FDA before we decide where to go from here with it.”

Like many manufacturers, East Carolina RYO is closely monitoring developments through a lawyer in Washington, D.C. who provides weekly reports on regulatory news. “Right now everyone is asking questions, but no one has any answers,” says Shango. “Hopefully, there will be some clarity under the new administration.”

In the meantime, he and his partners plan to continue doing what they do best. “Our customers can count on quality and consistency—the products we sell them today will be the same tomorrow, in a month or in a year,” says Shango. “We have top-rated tobacco buyers who have been in this business a long time and [have] strict manufacturing and quality-control processes. We are in this business for the long haul. We will fight for our business and do whatever it takes to make the FDA happy with what we’re doing now and in the future.” **TB**



Our customers can count on quality and consistency—the products we sell them today will be the same tomorrow, in a month or in a year,



**PREMIUM
CIGARS**



Casa de Montecristo, Dallas

The image shows the interior of a cigar shop. In the foreground, there is a brown leather armchair. Behind it is a long bar with several wooden chairs. The bar has a counter with a computer monitor and a cash register. Above the bar, there are shelves with various bottles of liquor. Two large flat-screen TVs are mounted on the wall behind the bar. The ceiling has several pendant lights hanging from it. The overall atmosphere is warm and modern.

Casa de Montecristo: Creating a Cigar Retail Presence

With the opening of three new “ground-up” shops, this premium cigar brand is firmly committed to expanding its brick-and-mortar footprint.



The walk-in humidor at Casa de Montecristo by Prime Cigar & Whiskey Bar in Miami, Florida opened in June 2016.

Retail is inherently risky, so why is a successful cigar brand looking to do a whole lot more of it? “Ultimately, we want to be able to service more and more adult cigar smokers across the U.S.,” says Rob Maneson, general manager of Casa de Montecristo, who says the company’s retail shops have been remodeled with larger lounges to meet increasing consumer demand. “There are fewer and fewer places that adult consumers can smoke, relax and enjoy their cigars with friends and acquaintances. We believe our store model meets consumer needs and we want to expand it further to a broader base of adult consumers.”

TB talked with Maneson shortly after the company announced plans to open three new locations by July of 2017 in the cities of Tampa, Florida; Nashville, Tennessee; and Austin, Texas. The stores are a mix of company-owned stores and licensed-based partnerships with some of the top established premium cigar retailers in the country.

For example, the new Casa de Montecristo by Tampa Humidor represents a partnership with Mike Howe, one of the area’s top cigar retailers. Located on the popular South Howard Street in South Tampa, the store will feature a full liquor bar, lounge space and a well-stocked premium cigar humidor.

“**We look for established retailers who offer a great experience. These may be retailers who are looking to expand their existing foot print with new stores or looking to remodel their store to an upgrade.**”

The other two new stores are pure-play company ventures. Nashville’s new Casa de Montecristo will be a 3,200-square-foot store featuring a walk-in humidor, private patio space for 20 people and a full-liquor bar. Scheduled to open in April 2017, the store will be located in the Gulch area of Nashville—a fast growing neighborhood on the southwest fringe of downtown, featuring lively restaurants, bars, boutique stores, hotels and condominiums.

May of 2017 will see a Casa de Montecristo opening in the Davenport Village section of Austin, Texas, a city known as both a cultural mecca and an emerging business hub. The 3,800-square-foot store will feature a large walk-in humidor, bar and an outdoor patio space for cigar smokers living in a community that prides itself on “Keeping Austin Weird.” It will be the brand’s second location in Texas, where Dallas is home to a 4,300-square-foot location with an 800-square-foot walk-in humidor.

What these disparate locations have in common are growing populations and regulations that allow outdoor smoking patios, notes Maneson, who says the company is continuing to scout new locations but declined to offer specifics. Excerpts of his interview with *TB* follow:

PHOTO COURTESY OF CREATIVAS GROUP

The Casa de Montecristo in Dallas, Texas boasts a 800-square-foot walk-in humididor.



A Q&A with Rob Maneson, General Manager of Casa de Montecristo

TB: What is driving companies like yours to establish more of a retail presence?

Rob Maneson: We are expanding our footprint for a number of reasons, but ultimately we want to be able to service more adult cigar smokers across the U.S. The consumer experience is evolving, we have added lounge space and remodeled most of our stores in the last few years to keep up with consumer demand. There are fewer and fewer places that adult consumers can smoke, relax and enjoy their cigars with friends and acquaintances. We believe our store model meets consumer needs and we want to expand it further to a broader base of adult consumers.

How did you go about selecting these three locations for Casa de Montecristo stores?

When we began searching for new locations across the U.S. to expand, we looked at number of factors, including OTP taxation, ability to open with lounge space and bar, competition, population demographics and so on. The cities we selected having growing populations and are business friendly.

In partnering with a number of existing retailers, how do the partnerships work from an ownership standpoint? Will the stores carry Casa de Montecristo brands exclusively?

Since 2008, Casa de Montecristo has been partnering with retailers to allow the use of the Casa de Montecristo name. Previously this was run by Altadis U.S.A. In November 2016, we announced the new retail division (Casa de Montecristo), which will manage and operate our existing retail businesses, but also work to expand our licensed-based partner program in the future. Each

situation with each partner is unique. We work with our partners to meet their needs while ensuring that the stores have consistent décor, experience and other important details. The stores will carry limited exclusive products and host special events only for Casa de Montecristo retailers, among other things.

Your three new stores are “ground up” locations, but you also have also done license-based partnerships with existing retail locations.

What is the breakdown between those two formats and what is the strategy for the company’s retail presence going forward?

We have four licensed based partners and 16 company-owned stores. We are in the process of re-branding all our existing company-owned stores to Casa de Montecristo by the end of 2017, and all future new stores or acquisitions will be re-branded to Casa de Montecristo. Casa de Montecristo is a singular brand experience and approach we plan to take forward in all of our stores.

What do you look for in a retail partner?

We look for established retailers who offer a great experience. These may be retailers who are looking to expand their existing footprint with new stores or looking to remodel their store to an upgrade. We meet with them and discuss both of our goals for the future.

As more and more cigar companies open branded locations, how do you see the retail landscape evolving?

The market is changing, not just in the premium cigar category. I can’t speak to any other cigar company’s strategy, but we believe the brick-and-mortar channel is strong and will continue to grow. **TB**

PHOTO COURTESY OF PHOTO COURTESY OF TABACALERA USA



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DAVIDOFF

IN AMERICA: ONWARD & UPWARD

JIM YOUNG, PRESIDENT OF DAVIDOFF NORTH AMERICA, PROVIDES INSIGHT TO WHAT LIES AHEAD FOR ONE OF THE WORLD'S LEADING PREMIUM CIGAR BRANDS.

BY ANTOINE REID



Despite the impression you may get from reading tobacco industry publications and websites, not only is the premium tobacco industry still very much thriving and alive in the U.S., but America is still viewed as the top market for premium cigar makers. As a leader in the premium space, Davidoff Cigars owns a brand synonymous with luxury and quality with a motto to match: “Time beautifully filled.” For decades, Davidoff has been crafting some of the world’s best cigars, spawning popular brands like Zino Platinum, Camacho and Avo.

More recently, even as it continues building on that rich history and extending the reach of its legacy brands, Davidoff has been evolving, says Jim Young, president of Davidoff North America.

“I think people are often surprised at how multi-dimensional we have become as a company,” he says. “We were famous for expensive high-quality, mild-to-medium cigars and are perceived to be very limited by that.”

Yet, since its beginning, Davidoff has demonstrated that while not constrained by its history or success, the company remains committed to the spirit of adventure embodied by its founder, Zino Davidoff, whose parents laid the foundation for the family business when they opened a tobacco store in Geneva in 1911. Known as a great businessman, Zino Davidoff also had a reputation

for pushing the boundaries of cigar-making. His sense of adventure has been woven throughout the company’s history and his legacy is also evident in its dedication to producing memorable cigars, from the popular Escuro brand to the recent Yamasá line. From Zino Davidoff, the company’s leadership passed to Dr Ernst Schneider, who began overseeing Davidoff when it was acquired by Max Oettinger Co. in 1970.

Today, in leading Davidoff’s North American operations, Jim Young has quite the challenge set out for him—how will he and his colleagues stay on top of an industry that’s under attack by the Food and Drug Administration (FDA)? According to Young, it’s about having a clear vision moving forward, one that acknowledges the FDA’s new deeming regulations but also looks beyond them. Davidoff will comply with the provisions and stand with other cigar companies to help achieve legislative, regulatory and litigation breakthroughs, while also continuing to provide a compelling and memorable Davidoff experience for U.S. cigar enthusiasts.

“At our core, we are a premium cigar company, but with a complementary portfolio of premium cigar accessories—both owned and through our exciting new partnership with S.T. Dupont,” Young explains. “We also have an important and complementary cigarillo business, with Davidoff Cigarillos at the core of that.”



The U.S. market is the number one premium cigar market in the world and we do not see that changing—FDA or no FDA.



Davidoff vs. The FDA

Davidoff is among those cigar companies fortunate enough to have products that will be grandfathered into the FDA's plan. Its premium cigar portfolio covers all of the price points that will help it move forward. There are premium bundles under the Cusano brand, fresh-pack cigars for the convenience channel and private label brands for brick-and-mortar stores, as well as mail-order and distributor channels. Davidoff will also build on the momentum and growth it has seen over the past few years with its core brands—Davidoff, Camacho and Avo. At full view, Davidoff offers a full range of products in terms of price, origin and intensity for its appointed merchants and other tobacconists. It's also increased its retail footprint with new Davidoff-branded stores, licensed boutiques and Davidoff Lounges.

The FDA regulations have forced Davidoff on an unexpected and challenging course, but it's one the company doesn't plan to shy away from. "Davidoff of Geneva USA is absolutely determined to be in good shape on the other side of this FDA challenge and we will work with our industry colleagues and customers to get the best outcome possible for the entire premium cigar industry," says Young. "I truly am incredibly proud of my team, my colleagues and our partners in terms of how we have embraced the challenge."

Young and his team have adapted as best they can to the challenges set forth by the FDA in recent months. When asked how exactly the new regulations have changed how they do business, Young responds that first and foremost the FDA has forced those at Davidoff to learn firsthand what other previously regulated tobacco products and companies have been going through for years. Young and his team have spent an incredible amount of time trying to explain to the government and lawmakers the difference between cigarettes and premium cigars, a necessary step toward getting an exemption for premium cigars or regulation that makes sense.



Davidoff's Indispensable Business Partners

While important, FDA compliance is just one focus of Davidoff's overall mission and strategy going forward. Another important part of the company's marketing plan is nurturing strong relationships with its retail partners. Davidoff sees itself as an indispensable business partner to its customers, beginning with its appointed merchants. This has been part of Davidoff's marketing initiatives since 2012 and has grown more important in the years following.

"The Indispensable Business Partner program was born out of a study we conducted comparing the relative performance of our appointed merchants with the degree to which they executed key consumer activities such as events, merchandising, assortment, training and education, store look and its feel," Young says. "We found very compelling learnings out of that study and, in collaboration with our Retail Advisory Board, set about laying out our strategic priorities in terms of channel and customer development, aligning significantly increased resources, tailoring game plans by account and, finally, building a customer incentive program and a merchant recognition program—the Golden Band Awards, our version of the Oscars."

The Cigars of Past, Present and Future

In addition to working closely with its merchant and retail partners, Davidoff also has invested a lot of time and marketing efforts into its core portfolio. The company has clear strategies and plans in place for its Davidoff, Avo and Camacho brands, which include identifying each brand's message to consumers and determining how each brand will be marketed differently to continue to thrive in today's marketplace.

"We have done some important work on the balance of the portfolio and will continue to do that going forward," Young explains. "The FDA has disrupted some of those plans for now, but we have a portfolio that is stacked with very good cigars, produced under a set of standards admired and respected by the industry, our retailers and consumers."





While there is innovation in the works, Young says the industry will simply have to wait and see what Davidoff unveils in the future. Like most cigar makers, Davidoff raced to get new products onto store shelves ahead of the August 8 “lockdown” date last year and, during the first few months of 2017, has also made some introductions, including the January release of its Golden Leaf Limited Edition Mini Cigarillos and the Davidoff 702 series, a line of cigars that uses a popular wrapper from some of the company’s incredibly successful limited editions. Also, Camacho has just released new box-pressed line extensions that Young says have been very well received by consumers.

To help retailers sell its products, Davidoff will be offering breakthrough merchandising materials, including eye-catching temporary promotional displays for its product launches. It will also continue to host brand-themed events that offer consumers memorable experiences and unique opportunities to interact and engage with the brands they love. Coupling core brands with acquired cigars like Cusano and The Griffin’s, Davidoff currently has plenty of products on the market for retailers and consumers to enjoy, as well as a few surprises in store, says Young.

The Davidoff Experience

The final component in Davidoff’s marketing plan doesn’t involve an actual product but instead focuses on crafting an experience for its retail partners and its consumers. “Viewing our brands and consumer interaction with our brands as an experience rather than just as smoking [a product] has been at the core of our thinking and is expressed in our brand positioning and brand building activities, and will continue to be so,” asserts Young, who points out that since the early days of Zino Davidoff the company has evolved from a single retail store to a robust brand to an overall experience.

As a result, unlike many of its contemporaries, the company has some differentiators that may help it withstand the challenge of the FDA regulations. For example, Davidoff has five company-owned retail stores—three in New York City, one in Atlanta and one in Houston. It also has licensed “Davidoff of Geneva Since 1911” boutiques, including high-end bars in Tampa and Las Vegas. Davidoff also has a number of Davidoff cigar lounges with some of its appointed merchants and a licensing agreement with Blend Bar that gives the company a

presence in the cigar bar markets in Indianapolis, Nashville and Pittsburgh. These retail spaces and cigar lounges act as an extension of the Davidoff brand, offering cigar enthusiasts not only a place to buy its products but a place to fulfill the company’s overall mission statement, “time beautifully filled.”

“We are very open to discussing opportunities with partners like these for lounges and licensed boutiques,” says Young. “The key is the partner and his or her commitment to excellence, quality, and protecting the Davidoff brand.”

This philosophy extends to working with other brands as well, such as the recent partnership with S.T. Dupont, a French luxury manufacturer of lighters, pens, cufflinks, and leather goods. This matchup between premium cigar brand and luxury goods maker fits in with Davidoff’s overall branding because both brands are committed to being exceptional and offering consumers something memorable in terms of a product. More partnerships like this are possible, according to Young, as long as there is a complementary portfolio of products and strong commitment to quality.

The Road Ahead

While many companies in the premium cigar industry are trying to figure out their place in today’s marketplace, Davidoff and Jim Young seem to know exactly where they must focus their attention now—the future. “The U.S. market is the number one premium cigar market in the world and we do not see that changing—FDA or no FDA,” said Young. Abroad, Davidoff’s primary competitors are Cuban cigars, while in the U.S. it competes primarily with cigar brands based in the Dominican Republic, Honduras and Nicaragua.

With the number of products on the market after the rush last year to beat the FDA deadline, Davidoff faces a bigger challenge getting its products into retail stores and into the hands of eager cigar aficionados around the U.S. However, Young is confident that Davidoff will find innovative ways to continue to develop and grow its brands, navigate through the FDA regulations and fulfill its mission to provide incredible consumer experiences.

“Davidoff will come out the other side stronger than ever,” Young proclaims. “My vision for our business in the U.S. is to continue to engage with our partners to delight our consumers and to provide an exciting and fulfilling professional environment for our employees so that they can take the baton and keep it going for some time down the road. And, of course, we plan to have a lot of fun along the way.” **TB**





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Davidoff

LOUNGE

PHOTOS COURTESY OF OETTINGER DAVIDOFF AG



THE DAVIDOFF

THE PREMIUM CIGAR COMPANY LOOKS BEYOND PRODUCTS AND INTO NEW RETAIL SPACES AND EXPERIENCES TO GROW ITS BRAND. BY ANTOINE REID

**PREMIUM
CIGARS**

Davidoff Lounge at Club Humidor,
San Antonio, TX

EXPERIENCE



The increasingly harsh government regulations have challenged how every tobacco company in the U.S. marketplace conducts business, including Davidoff. Davidoff's portfolio of products is packed with popular brands like Camacho, AVO, Zino Platinum, Griffin's and Cusano. The company had big releases in 2016, including Camacho's Powerband, the Davidoff Yamasá, and a refreshed design for AVO. Now, with regulations thwarting new product releases, Davidoff is charging forward with a new initiative: to create memorable experiences for cigar aficionados through new retail spaces and special events.

"Our journey started in 2011 and 2012, [when] there was basically just a product," says Hans-Kristian Hoejsgaard, president and CEO of Oettinger Davidoff AG. "From there we focused on the brand, and now we're very much focusing on the experience. The experience can take many shapes and forms, but our first investment has been in our retail footprint in terms of opening more stores of our own. We also are supporting merchants by opening Davidoff lounges within or adjacent to their operations so that we can give that full brand experience."

In the past year, Davidoff's retail footprint has increased to include new flagship stores in New York, Houston, Tampa and Las Vegas. It continues to open high-end lounges, including its most recent lounge opening at Havana Phil's in Greensboro, North Carolina, where cigar smokers can fulfill the company's promise of "time beautifully filled." With enough SKUs on the market to keep cigar smokers satisfied for some time, the company is working to shift its brand's focus from products toward becoming a destination for those passionate about cigars. Just as much investment, thought and consideration go into launching a new product as launching a new retail space or lounge.

"It is very much about economies of scale. There is an urban environment that would justify an opening, but [it's also about] what is around that location. We know we have to be close to premium restaurants, we know we have to be close to other luxury brands," Hoejsgaard explains. "Sometimes you have to wait a bit longer for the right space—the footprint and co-tenancies must make sense because we are a luxury brand. We always say at Davidoff that luxury is about pleasure, so where are these locations that can provide those moments of pleasure?"

Jim Young, president of Davidoff North America, also notes that going beyond products has helped the company reach new customers. "We see in our stores sometimes a plumber and investment banker sitting in the same room



Davidoff Lounge at Havana Phil's in Greensboro, NC



Davidoff of Geneva since 1911 - Tampa in Tampa, FL



Davidoff Cigar Bar, Las Vegas, NV



Tobacco Shop of Ridgewood & Davidoff Lounge in Ridgewood, NJ

PHOTOS COURTESY OF OETTINGER DAVIDOFF AG



An aficionado has nothing to do with wealth. It is about what you appreciate, and I think premium cigars are really the democratization of luxury, because maybe the plumber can't afford it every day but he can certainly afford it once in a while.



chatting with each other. Why? Because they're in our environment and sharing that moment together."

With the broad appeal of Davidoff's brand, who exactly is Davidoff targeting? Even though it's a luxury brand, it's worked hard the past few years to create a diverse portfolio that has something to offer anyone interested in cigars. "Each of our brands has its own unique personality. We all know the biggest part of the market is the lower-priced cigars. We have Cusano, which is a great cigar and great value for the money. The boldness of Camacho is captured through its packaging, marketing and the smoking experience. AVO is a little bit more laid-back and sociable, intended for a group of friends enjoying a relaxing evening who will savor every note of that experience. I think we've spent quite a bit of time understanding and defining each of the brands and their unique roles. We've got something for everyone, for every occasion, and for every person who enjoys cigars."

Hoejsgaard takes it a step further, speaking of how such a diverse portfolio draws aficionados to Davidoff's brands and into its retail stores. "An aficionado has nothing to do with wealth. It is about what you appreciate, and I think premium cigars are really the democratization of luxury, because maybe the plumber can't afford it every day but he can certainly afford it once in a while. We are all aware of amazing friendships that have been made across social demographics because people have this appreciation for great cigars and wine."

While the U.S. Food and Drug Administration (FDA) may be working hard to slow new product releases, there's no sign that innovation and creating new experiences and retail spaces for Davidoff fans will cease any time soon. "With the FDA regulations, there will be a slowdown not in innovation but in terms of the speed at which we can bring new products to the market. With Davidoff being a global company, obviously there will be no change to the pace of innovation because we still have to feed Europe, Asia and everywhere else," comments Hoejsgaard.

"We are looking at our entire portfolio and, as things become clearer from a regulatory point of view, we can fine-tune how to continue to delight consumers with new offerings or bring back some of their favorites," says Young. "Our intent is to work hard to get the products that our consumers have come to love approved. While that may not be an easy thing to get done, that is our intention depending on how we get things clarified with FDA. Davidoff will always have great cigars. Some of them you may be familiar with, some of them we may re-familiarize you with. Regardless, we'll be here." **TB**



Hans-Kristian Hoejsgaard



12 Steps to a Hip Cigar Lounge

This Arizona tobacco outlet retailer also happens to have a knack for running a modern cigar lounge.

BY RENÉE COVINO

OPERATING A TOP TOBACCO outlet business does not necessarily go hand-in-hand with running a cool cigar lounge. Part of the trick is knowing where the differences and synergies lie.

Bob Roberts, owner of 13-year-old tobacco outlet chain Smoke Em, based in Scottsdale, Arizona, has also run Big Sticks Fine Cigars store and lounge in Mesa, Arizona since 2012. To him, a separately run stogie hangout is “a viable diversity” of the times, for which he has gleaned some common sense and creative steps along the way, recently shared with *Tobacco Business*:

1 It starts with a growing cigar business. This may seem obvious, but if you’re a tobacco outlet store with an expanded stogie business, it’s time to consider opening a cigar store and lounge, according to Roberts. Over the years, he gradually expanded his cigar lines and overall cigar focus—first came walk-in humidors, then came lounge seating in some stores. His overall cigar business has been growing for about five or six years, which is also right in line with the age of his cigar lounge.

2 Identify the potential in an existing, possibly failing, operation.

Roberts ultimately purchased nearby Big Sticks Fine Cigars lounge, commonly referred to as “Big Sticks,” because “our business strategy has always been to identify the tremendous potential in tobacco-related businesses that are failing because they are either mismanaged, or because the market isn’t being fully exploited,” not because it doesn’t have a good framework, he emphasizes. With Big Sticks, Roberts recognized that it had “good bones,” as he phrases it.

Put another way, Roberts doesn’t see the sense in starting a cigar lounge (or a tobacco outlet business, for that matter) from scratch. “Who would do that today? It’s so competitive,” he says. “We had the bones of the operation to build from at the get-go.”

And so, he watched the Big Sticks Fine Cigars business for a couple of years, studying it to the point of recognizing that he would be able to turn it around. The previous owner “was a cigar smoker, but not a retailer—he didn’t understand customer relations,” says Roberts.



“You have to have something different, and that’s service, and it applies even more so to a cigar lounge; it’s even a more personal relationship.”

3 Use the prior mailing list. If you’re going to inherit an existing business, make sure you inherit the mailing list that goes along with it. Most importantly, utilize it in the most opportune way possible. “We let existing customers know that the business was under new management, with an invitation to come in and try us [out], with our expanded selection and special deals,” relays Roberts.

4 Carve out a neighborhood business. It’s imperative to have relationships with cigar customers, “especially if you’re going to be a neighborhood business, which most cigar lounges are; they have a fairly small customer radius, which I learned from the tobacco business,” stresses Roberts. He also learned from his core business that you have to “service the heck out of customers” to stay one step ahead of the major competition, which he identifies as convenience stores.

“You have to recognize your customers when they walk in the door. In tobacco stores, you have to ideally have the cigarettes they smoke ready on the counter when they come in the door, because you’re asking them to make an additional stop. So you have to have something different, and that’s service, and it applies even more so to a cigar lounge; it’s even a more personal relationship.”

5 Invest in a manager/partner. Managers who are also business partners are part of the success of Smoke Em’s tobacco outlet stores, so Roberts was quick to make this same employee opportunity available in the company cigar store and lounge. What this basically means is that managers own about 20-30 percent of

the business; they get profit sharing every month and see an instant and immediate benefit for their efforts. What Roberts gets is an owner on the property who has a vested interest in giving good service, staying in touch with new industry products and services, and watching out for theft.

“It really is a good business model. It’s helped me manage the business and keep my perspective,” Roberts explains. “If I was managing the minutiae, I wouldn’t have the overall perspective I have—I’d be in stores putting out fires. I’m better at my role knowing the day-to-day stuff is taken care of by someone who cares.”

Likewise, when “you have an owner greeting a customer coming into the store, and that customer knows that they’re talking to an owner, it’s an important distinction,” he continues. “If they have a problem, they know it will get solved right there, rather than having to write a letter and waiting.” It makes for better training, too. “It’s training employees for the level of service and cleanliness that’s ultimately expected, because an owner is right there.”

An added piece of the manager puzzle for a cigar lounge is to find an owner partner with a “vast amount” of cigar knowledge—someone who can be friendly and knowledgeable, without intimidating or turning off novice customers, which make up about 40 percent of Big Sticks’ cigar clientele, according to Roberts.

Big Sticks found this person in Paul Buza, a veteran cigar retailer who had prior experience managing a Tinder Box store and all the connections that went with it, including cigar manufacturers and local reps. Roberts admits that finding just the right person to manage the lounge/cigar business was a big factor in its success.

CIGAR SENSE

6 Recognize that a premium cigar smoker is a completely different smoking animal. The way Roberts views it, cigarette smokers are smoking largely because they have an addiction. Cigar smokers, on the other hand, are doing it more for enjoyment. “There’s a social aspect—it’s relaxing and it gives you good flavor,” he says. “There’s a whole segment of the cigar-smoking population that wants to experience great blends, so you really have to stay on top of the business, which partly means having good relationships with all of the manufacturers you buy from.”

7 Get in on the cigar buzz. In other words, be tuned in to cigar social media and the various blogs that go along with it. “If something gets a lot of buzz on the blogs, we want to get it into [our stores],” Roberts states. “We like to be a forerunner in the industry, or at least, in the state of Arizona. We strive to get popular products first.”

Roberts further explains that cigar customers who frequent his lounge are very social-media-savvy, so Big Sticks not only gets the hottest cigars, but it gets them sooner. “There are about 65 cigar lounges in the Greater Phoenix area—it’s incredibly competitive and we have to be on top of it. Sometimes when you do that you get an exclusive, so we really keep our ear to the ground between social media and reps. [There are] some reps that we’ve had relationships with for 25 years—Paul [Buza], in particular, has served us well here. Our reps know we give their products fair trial and enthusiastic exposure to customers.” He estimates that 25 percent of the business is obtained by people responding to social media buzz. “They’re really cigar geeks,” he says.

“Halfwheel” is one of the obvious cigar blogs that Roberts and his lounge staff follow and “have a relationship with,” but there are some less formal blogs that are free-flowing and just as beneficial to business. In addition to Halfwheel.com, some of the online blogs that Big Sticks follows, in no particular order, include cigarsmoke.net, cigar-coop.com, thecigarauthority.com, cigarobsession.com, stogieguys.com, cigaraficionado.com, toastedfoot.com and blindmanspuff.com.

8 Do something more interesting with events. Rocky Patel recently told *TB* that retail cigar events are still relevant to the industry but are overplayed, and that to truly engage with the premium cigar customer, cigar retailers need to get a bit more creative than offering the same old bi-weekly or monthly deals inside the store. Roberts agrees—to an extent. “We agree, but continue to do such events due to the competition doing the same,” he reasons. However, he does think it’s important to “one-up” that by offering creative themes and venues such as craft beer pairings and value-added food elements like having local food trucks at the event.

Regarding the craft beer, Big Sticks has 12 varieties on tap, and at least half of those are from local breweries that are all too eager to partner up with the lounge at events.





Regarding the food trucks, Roberts explains that it's important to know your clientele when choosing a theme, especially when it comes to food.

"In our case, we have mostly a working-class clientele, and so food trucks with tacos or BBQ really attract people around here. They know our food trucks are good. [The trucks] park outside so it's easy—and we're supporting other local businesses, so that's good."

9 Walk a fine humidor rapport line. The biggest challenge inside the cigar lounge is sizing customers up before they walk into the humidor, then knowing when to get heavily involved in their purchase decision and when to back off, according to Roberts. "You have to train your staff how to do this—it's an art," he says. "You want knowledgeable people who don't intimidate your customers or make them feel stupid. So they have to get an instant rapport going without being overbearing, and that's a challenge."

10 Disseminate industry information. When Roberts or one of his staff attends an industry association conference or town hall meeting, or reads an industry-related article that he deems valuable in some way, he makes sure to "share the wealth" with managers, who then share it with co-workers. "It's not good enough to just know it yourself as the owner," he says.

11 If you want to make a change, get customer input, which might turn out to be a bigger contribution than you think. Last year, Big Sticks was forced to relocate to a new store, so Roberts took advantage of turning a 1,600-square-foot retail space into one that is now 4,500 square feet. But before he chose the location and built up the store, he shared the news and solicited the input of his customers. Much to his surprise, they had a lot to say—and contribute. The new store's humidor utilizes 60 percent of the old humidor's Spanish cedar that a skilled customer repurposed and rebuilt for Roberts—free of charge. "He saved us a lot of money, but also he saved some wonderful old wood [for us]," Roberts relays. "He builds and repairs cigar [humidors], so he had the skill set and he wanted a place to call his own. He really wanted this lounge."

Roberts adds that "if you speak out, you really get help from the people you are building the lounge for." Other customers came forward to help Roberts with the HVAC system and the plumbing.

12 Go big with multiple lounge conversation areas. When Big Sticks went bigger, Roberts was able to increase its number of lounge conversation areas to three—two segregated couch/lounge areas within the store, as well as a nine-stool bar area. Why is this important? "Sometimes cigar lounges can get a little clubby with the locals, and when outsiders walk in they are stared at and made to feel unwelcome," Roberts observes. "I've always felt that if you have the space, you should have at least two separate conversation areas so everyone has a spot. We try to be like a neighborhood bar for cigar smokers, but without the sense of exclusivity." **TB**





How to Launch a Successful Humidor Program

Interested in bringing premium cigars into your store? Here's how to get started.

By Antoine Reid

Tobacco leaves hang from the ceiling in Davidoff's flagship store in Geneva, Switzerland.

Whether you're an established tobacconist or a retailer interested in expanding your store's footprint, cigars and humidors are good investments. Despite government regulations impacting premium cigars, this category of tobacco hasn't slowed down and actually has the potential to boost your bottom line this year. If you're just getting started, begin with the most important factor: how to store the stogies you plan to stock. Before ordering even one box of cigars, you need to devote time and attention to a humidor, the box or room that will maintain a consistent level of humidity and ideal temperature for cigar storage.

The good news is that humidors come in different shapes and sizes, offering retailers of various backgrounds a lot of options in starting a humidor program. Let's say your business is primarily in spirits. While an entire room dedicated to cigars may not be wise, you can start with an affordable countertop humidor that can hold 100 or more cigars as an entry into this new premium market.

The topic of humidor programs is so important and relevant in today's marketplace that it was one of the focus sessions at this year's Tobacco Plus Expo in Las Vegas. Sergio Montolfo, general manager at Phillips & King, led a panel of retailers and manufacturers in discussing how different businesses can launch successful and profitable humidor programs. According to Montolfo, a strong program hinges on three important factors: space allocation, price point and flavor-profile offerings.

Also at the show, Nick Douglas, director of purchasing at The Party Source in Kentucky, shared his experience in building a humidor program for his company. "Our showroom floor is about 1,000 square feet, which includes a main floor and a premium room (a walk-in within another walk-in humidor)," explained Douglas. "It's gone through several different versions, from the countertop when it started back in 1989 and 1990 to a bigger walk-in, and then to what we now call the 'hallway'—a long, skinny-walk-in."

STOCKING STOGIES

Of course, setting up a humidor is only half the battle. How do you choose the cigars to display in your new humidor? For Douglas, it's all about achieving a good mix of both boutique and more established brands. "A lot of problems I've seen with other humidors is that many ignore the heritage blends. You always need to have your Montecristos and your Romeos. Those heritage brands are going to pay the bills and keep the lights on," he explained. "The problem I think some managers have is wanting to chase all the flavors and wanting to have every single blend out there. Make sure you have room for both in your humidor."



Party Source's humidor is prominently placed at the front of the store.

I think most have been indoctrinated to believe cigarettes are the worst thing in the world, but they don't perceive cigars in the same way. It doesn't have the same stigma.

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Deciding on which cigars are right for your humidor and store can be a very complicated, time-consuming process. Though it may seem like common sense, knowing what your customers are looking for is the best practice in choosing what to carry. You should only stock popular sizes you know will sell well. Panelists agreed that the best bet is to start out offering just one facing and letting the selection grow naturally from there. There's no need to offer every facing available for a particular line.

“In a perfect world, retailers would want to have a little bit of everything,” added Rick Charles, key accounts sales manager at Phillips & King. “They all realize that inventory control is an issue at the retail level. Keep it simple. Have a bit of every size and price points. Beyond that, let your customers guide you. They will let you know what they're looking for.”

RINGING UP A RANGE

Knowing what your customers are looking for, as well as what they're willing to spend on a cigar, is key to developing a successful program. As a retailer, it's perfectly acceptable to ask a customer what their budget is. Keep in mind that each customer will have a different definition of what's inexpensive and what's too costly. Making assumptions about those definitions may actually cut potential profits, which is why it's important to stock your humidor with a variety of cigars that are under \$10, mid-range, and high-end ultra-premium. Having a diverse collection of cigars at different price points and different flavor profiles and strengths will ensure you have something for every potential cigar customer.

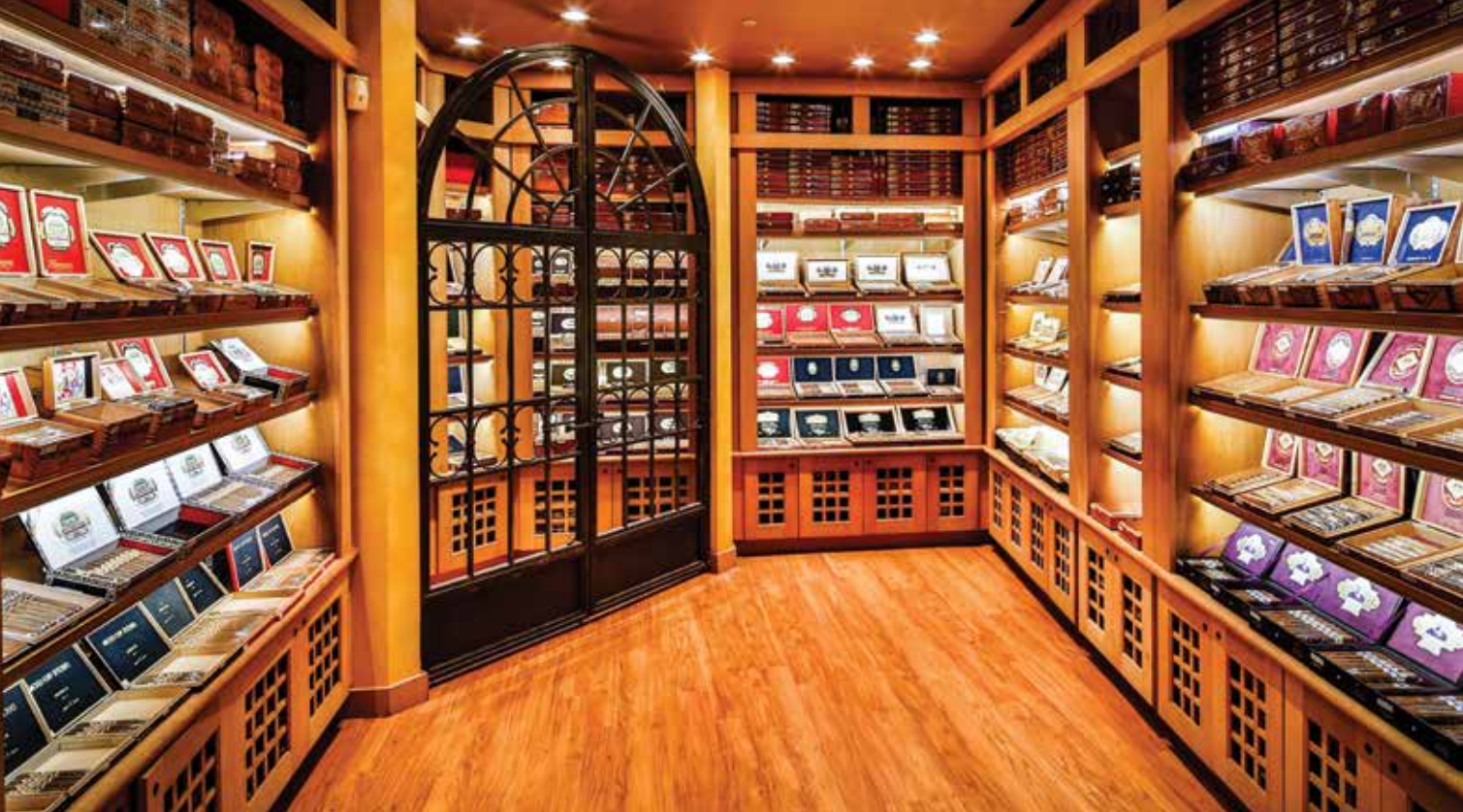
Also consider that different age groups will have different preferences. While your older clientele may be unwilling to try new things, that is usually not the case with millennials. “A lot of the younger millennials don't have

brand loyalty,” Montolfo reported. “They like to try different things, while the older smoker knows what they want.”

Douglas also noted that millennials are becoming a more important client base that his store and others need to start paying attention to. The key to any successful business is building and maintaining a loyal customer base, and the millennial crowd could bring in profits for years to come. “Millennials want to try everything. They're not brand loyal,” said Douglas. “I think most have been indoctrinated to believe cigarettes are the worst thing in the world, but they don't perceive cigars in the same way. It doesn't have the same stigma. Their flavor pallet has really gotten a lot broader so they want to find something else that tastes good, something else that goes with this whole experience. Build that relationship. Make everyone feel like they're your best customer. Give them that real experience.”

Part of that experience is making it easy for your customers to discover cigars within your business. When choosing the placement of a humidor within your retail space, consider the store's overall flow. You should guide your customer through the store based on your most popular merchandise and place your humidor in a high-traffic area next to products that you know are already popular.

“Traffic pattern is ultimately important,” explained Bill Holliday, vice president of sales at Davidoff. “Understand what your customers are looking for. The closer you can [place] your humidor to the register, the better. Having products that are identifiable, well-lit and that scream out is important—particularly if it's something brand new. Check out what the competition is doing. You want to be one step ahead of them at all times if you can afford it. If they only have wall units and you start a walk-in humidor, you're guaranteed to steal some of those customers, just from a perception standpoint.”



Let's change this to Las Vegas' Casa Fuente humidor has an elegant feel.

PAIRINGS ARE POPULAR

As another part of offering your customers an experience to push the sales of your cigars, consider pairing cigars with another popular product category in your retail store, like spirits. At The Party Source, Douglas says his store has worked hard to develop pairings between different spirit categories and cigars. When his store underwent a redesign, the humidor got a better placement near the main entrance—also near the bourbon selection, the store's most popular product category. Knowing that many customers are coming to the store to buy bourbon, the company placed the humidor along the path to the bourbon section to help drive traffic into the humidor. Moreover, the business used visual pairing to help customers pair cigars with the store's beer and whisky offerings. Cross-promoting cigars with your establishment's most popular non-tobacco products is an easy way to boost your overall sales.

Although regulations are currently curtailing innovation, there are plenty of cigars on the market to choose from. "While we can't come out with new brands, you'll probably see a lot of re-releases that have been discontinued or sold in the market previously," commented Charles.

Furthermore, in a challenging market, manufacturers are more interested than ever in partnering with retailers and getting their products into retail humidors. "The FDA is not going to take us out," said Holliday. "We want them to be our friend, we want to work with them, but you're still going to see manufacturers [being] aggressive and [doing] everything that they can to support the retailers because the goal of manufacturers and retailers is [to sell] more cigars." **TB**

Three Must-Haves for Building a Successful Humidor Program

When developing a humidor program, remember that first impressions are everything. The goal of any successful humidor program is to create returning clientele. Take these three factors into consideration before launching your humidor.

Space allocation. Start by calculating how much space you want to dedicate to the humidor. This could range from a 15-by-11-by-23-inch countertop humidor, which can hold up to 180 cigars, to a 6-foot single- or double-wide humidor that can hold 1,000 to 3,000 sticks. If you're going to carry more than 50 boxes or facings, your business should invest in building a walk-in humidor.

Price point. What you charge for a cigar depends on the customers who typically come into your store. You should have three different price points: inexpensive, mid-range, and high. Keep it simple—for your customers, and for you and your staff to become familiar with and maintain them all.

Flavor profiles. Your humidor should contain cigars that are mild-, medium- and full-flavored. Again, keeping it simple will smooth the transition into cigar sales—for you, your employees and your customers.



0 Brothers,

If you're a cigar smoker today, you know that the opportunities to smoke—in situations where you would normally socialize with friends—are few and far between. You also might agree that those are the best times to enjoy a cigar. The laws enacted, both nationally and locally, have served to isolate smokers by making it increasingly difficult to eat, drink and smoke in the same space. Yet, when people face stiffening odds, they tend to get creative.

And what better town to find an example of this than in America's unofficial home for underdogs, Philadelphia, Pennsylvania? It's here that two brothers in their early 30s have created a new model for a cigar business that is thriving and finding a new clientele for the industry.

As the old adage proclaims, sometimes the solution is right in front of you, and that was the case for brothers Michael and Andrew Cappelli, who had no experience in the cigar business until a few years ago. "Andrew and I had different careers; he was in the hospitality industry and I was in the construction industry," recounts Michael Cappelli. "I ended up moving across the street from a bodega-ish cigar shop. I thought it was a really cool place. My grandfather smoked cigars, my father smoked cigars, and I occasionally did."

Cappelli began frequenting the spot, enjoying the chance to socialize. "I could 'BYOB' my alcohol and have a cigar," he says. "The store had some character, but it was more like a convenience store with some cigars and cigar products. It wasn't much of an enthusiast's type of cigar destination place."

The bring-your-own-bottle (BYOB) feature is an important one here, because in Philadelphia the rules that

go along with a liquor license are very strict—and those rules definitely don't allow smoking. On the other hand, BYOB venues are a staple of Philadelphia's nightlife, and one growing in popularity.

Cappelli and another patron began chatting one day about how to make their favorite smoking spot even better. "We started taking notes; we started coming up with ideas [and] concepts," he explains. "As it became more realistic, I started to snoop around the building itself, seeing if it was mechanically possible. And a lot of things fell into place. With Andrew's background in hospitality, I saw it as an opportunity for us to be innovative in the cigar retail space."

This was in the second half of 2014, and from the beginning Cappelli had big ideas about the possibilities. "I had some money saved up, my brother had some money saved up. I said, 'Andrew, I think we've got a good concept here. I know our location is hands-down incredible and the rent is affordable. I think we should try to take this business over. There's an incredibly busy pizza place next door; if we do [well] with the cigar shop, we will get the pizza place [too].'"

They renamed the store "Cappelli Brothers Cigar Company" and renovated the interior, getting customized humidors from Newsham's Woodshop, another Pennsylvania-based company, which provided an attractive display space for cigars while leaving enough interior space for a full wet bar and 18 bar stools. The BYOB cigar bar area is on the street level, and there's a smoking lounge downstairs—Cappelli's Cellar.

Here's how the BYOB works: "You bring the bottle, you bring us your beers, [and] you'll never know you weren't



Where Art Thou?



I had some money saved up, my brother had some money saved up. I said, 'Andrew, I think we've got a good concept here.'



at a bar," he explains. "We do freshly squeezed fruit for cocktails, muddled herbs and bitters. All of our recipes are one-liquor cocktails, so if you bring in a bottle of vodka we'll send you to the vodka page showing recipes we've developed. It's \$5 for a cocktail, a \$15 corking fee on wines and liquors, and \$2 per beer. We'll save you about 30 percent on beer, and for high-end liquor the savings are exponential."

BUTTS IN THE SEATS

The first few months were slow, but the duo stuck to their plan. "We started leaning on our friends and family to come in and support us, which brought bodies in here—as I like to call it, 'butts in the seats,'" says Cappelli. "Then people start looking through our windows, seeing that we're busy."

In and around Philadelphia you find an interesting combination of pride, humility and a strong work ethic. The Cappelli brothers seem to have applied all those qualities in making a name for themselves.

"We are what I would call an 'experience-driven retail store,' which is something the entire retail industry—not just cigars, but retail in general—needs to start thinking about if they want to stay a brick-and-mortar [business]," says Cappelli. "We are not innovative from a cigar bar standpoint, we're just a normal cigar bar—we have cigars in a bar. We are innovative from a retailing standpoint. We offer coffee, tea and espresso. We do all Illy [brand] coffees, and high-end loose-leaf teas. We

even implemented hookah, which was more for the experience [than for sales]. A cigar guy might not like hookah, but when that same cigar guy sees four girls walk in and light up a hookah, they love hookah.

"You're going to pay a bit more per stick here, but you don't mind doing it because we're going to invite you into our store and we're going to show you what we know," he adds. "We will give you the best deal we can. If you want to sit down and experience what we're offering, we do feel that we are entitled to make a buck, and earn a buck."

THE GROWTH GAME

Once established, their business picked up quickly, helped by five-star reviews on Yelp and Google. The company's Facebook page grew very active. "We are in the center of the Washington Square West district of Philadelphia," says Cappelli. "It's a bustling part of town, a lot of nightlife. It's a very liberal section of the city, too; [it's called] the 'gayborhood.' We're proud to be part of this neighborhood and the diversity of it. We've worked hard to gain respect, and earn the LGBTQ community dollar, even though my brother and I are both straight guys."

The Cappelli brothers knew how to navigate the local scene, but finding their way into the cigar industry without any connections was an early obstacle—in part because the owners that preceded them had earned a reputation for ignoring their bills. "My brother and I



were viewed as tainted, and they didn't want to do business with us," says Cappelli, who overcame that hurdle through sheer perseverance. "We just kept calling until they answered. But I've got to give it to a few guys—Alec Bradley of Fuente and a boutique line called MBombay, out of California, manufactured in Costa Rica, got us some cigars to put on the shelf, even though we had very little money. We literally started this business by selling one and buying two more, selling two cigars and buying four more. It was that slow and tedious a process.

"Today we carry a nice amount of inventory and can sell boxes. We carry My Father, Tatuaje, A.J. Fernandez and we do two boutique lines, MBombay and Cordoba Morales. A lot of people have never heard of these cigars, and they set us apart from everyone else," he says.

The Cappellis are looking to establish relationships with their vendors, not just add more facings. "We don't sell boutique lines beside those two [I mentioned]. We're not interested in selling boutique cigars that are trying to flood the market. We're interested in selling boutique cigars that want to partner with us, that want to give us exclusive selling rights here in Philadelphia. We've found two, and we've done right by them, and they've done right by us."

BUILDING CONNECTIONS

"We're becoming a legit cigar shop here," says Cappelli. "We're one of two places in the city of Philadelphia, which is the fifth largest city in the country, [where you can legally] sit your butt on a bar stool and smoke a cigar. And we're proud to be able to say that—Cappelli

Brothers and Ashton. We're in great company."

The Ashton name is legendary in Philly, both as a cigar brand and as a high-end cigar bar. However, Cappelli clarifies that he and his brother are following a different path. "We look up to those guys; they're a Philadelphia cigar company. We're proud and humbled by the opportunity, and we're very friendly with them. We sell their cigars, but we don't try to be them. We want to create our own business through our own reputation. And we're willing to work very hard to do it."

APPEALING TO...EVERYONE

That attitude is reflected in the clientele they attract, which is much more diverse than your traditional cigar shop. "If you look [at our followers] on Facebook, our age group is from 25 to 45 and it's 50/50 women and men, which is probably unheard of in this industry," says Cappelli, who notes that the location is targeting young, upwardly mobile professionals of both genders. "We have a great female presence here. Many of them we've taught how to smoke cigars, [but] many already know, surprisingly. It's a very regular-looking place, not intimidating, so we get a lot of newcomers, and we're happy to guide them through the process of being interested in cigars to being an enthusiast. In the past two or three years, we must have 50 guys under our belt who went from just wondering about cigars [to enjoying] them regularly."

For now, the brothers are marketing their business primarily through social media, including Facebook, Twitter and Instagram. They also collect email addresses and send out weekly email updates. Thus far, the updates,

announcements and special events aren't built around evenings with cigar reps, though Cappelli Brothers Cigar Company does hold those on occasion. "We don't really go down that road," says Cappelli. "Those guys require big purchases. It's just not us." Instead they feature happy hour specials, guest bartenders, business card and cigar evenings, special drink nights, and free passes to local late-night clubs.

"I'm always open to ideas about how to get the word out about us," says Cappelli. "It's our toughest hurdle, and the one that we work at the hardest and really see the least amount of results. It's a game of inches when it comes to that stuff—getting people to know you. The competition in Philadelphia is fierce for nightlife. In this city, you better be on your A-game."

In a nod to typical cigar shops, Cappelli Brothers offers a membership for \$800 a year, which includes a cigar locker and discounts. Members get a 10 percent discount on cigars and other purchases.

While they do stock high-end cigarettes—including Nat Sherman and Dunhill—as well as roll-your-own, they no longer support vaping. That category became a casualty of a recently passed law in Pennsylvania that added a 40 percent tax to all vaping equipment and supplies, shifting it from a profit center to a non-starter. "We have eliminated all vapes since the Pennsylvania big tax has come in place," says Cappelli. "Vape products/vape juice was good retail; the markup was extremely high and in demand, so it was a core part of our business early on. But then we had to let our vape employees go. That's what that tax did for them."

PROFITING FROM PIZZA

As envisioned by Michael Cappelli from the beginning, the growing business took over the pizzeria next door. "To get around the smoking and eating laws in Pennsylvania, we deliver the food to the person. So the pizza place will sell you the food and, since [it delivers], [the staff] will deliver it here. You can sit down at the bar and eat here. The state really can't say where an individual [can have] their food delivered. It's pretty cool."

What's next for the Cappelli Brothers? "We're looking to grow the company," says Cappelli. "We have 80 percent of our business plan complete. If we finish that, you will see this company all over the city. We will replicate this model in about six locations."

But Cappelli is also watching the horizon and is ready to change his tune if the government continues to restrict cigar use and burden the cigar industry with taxes and regulations. "If the FDA continues to pressure the cigar industry and a tax for cigars gets passed in Pennsylvania like it did for vape, I will instantly shut this place down and turn it into a taco stand. I'm dead serious." **TB**

All Politics is Local



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.



“ALL POLITICS IS LOCAL” IS THE TITLE of the opening chapter in former Speaker of the U.S. House of Representatives Tip O’Neill’s biography. It has since become the operative term for anyone seeking office, or hoping to stay in public office, with the lesson “do not lose touch with your constituency.”

Since 2009, the mission and work of Cigar Rights of America in collaboration with associated trade organizations, has been to raise the level of activism and awareness on the necessity of the entire industry to be engaged in the legislative process. Since then, petitions to elected officials have been sent on dozens of local and state issues and nearly a half-million cigar patrons have let their voices be heard in opposition to federal regulation of cigars. But there is much more to be done.

I recall a day in 2006 when the Cigar Association of Virginia was fighting the first smoking ban in Virginia when I mentioned to the retail tobacconists of the commonwealth, “You now have to build politics into your job description.”

It’s not just about facilitating activism. It’s about building cigar consumers and, even to this day, building retail tobacconists and manufacturers into a true political constituency. Even for an industry as old as premium handmade cigars, playing an aggressive role in the legislative process is still a relatively new phenomenon. But let’s put this in context. With well over 100 premium cigar manufacturers, approximately 2,000 premium tobacconists and between three to six million consumers, those passionate for and reliant upon premium handmade cigars should be among the most sought after special interest groups in the nation.

A few years ago, I addressed the Tobacconists Association of America’s annual meeting, and noted that with their membership of retail enterprises alone, they easily represent at least two million cigar consumers. That is a special interest group worth building.

As we began this story, it was about being “local.” Well, even when discussing Washington, D.C., we are dealing with “local.” Members of the U.S. House of Representatives and U.S. Senate must earn your support for reelection, and that makes our collective voices important. 2017 represents a unique opportunity to “turn back the clock” on federal regulation, but it will take an unprecedented level of outreach to both ends of Pennsylvania Avenue to make that happen. At this early point in the year, it also marks the opening and, by now, middle stages of virtually every state legislature. All of this demands that we be ever more engaged at each level of the industry.

As of today within state capitols, bills impacting premium cigars on the tax front are pending in Kansas, Massachusetts, Minnesota, New Hampshire, New Mexico, Ohio and Oregon. State legislation on the enjoyment of cigars is pending in Virginia, Maine, Mississippi, Indiana and New Jersey.

CRA, as well as organizations such as IPCPR and the National Association of Tobacco Outlets, are engaged in grassroots outreach. When trying to galvanize the masses on legislation in areas ranging from Salem, Oregon to

Boston, Massachusetts, there is no such thing as too many emails, calls and requests for assistance or redundancy.

I was pondering this during the course of the new President’s Administration confirmation process in Washington. I went from office to office for the legislation to exempt premium cigars from FDA oversight. Every office was being inundated with calls and emails for and against nominees for the President’s cabinet. Staff at the front desks in each office could not keep up with the calls, with some noting “thousands” of messages, even after the offices had closed and voice mail turned on. A list of “yeas and nays” were constantly being tabulated if they were from the home district or state. I just kept thinking, I wish we could get that type of response with messages of “Protect the premium cigar industry. Get the FDA out of our humidors!”

The tools remain the same, whether attacking an issue in Washington D.C., your state capitol or city hall. Print this list, and put it on the wall of your office. It’s how we can win:

- 1 Visit the local office of each of your legislators, whether a city councilman, state legislator or member of Congress. Make sure they know your name, your business and that you have customers who vote.
- 2 Invite your local, state and federal politicians into your business for a Cigar Town Hall. Arrange for them to meet some of your customers; that’s how they will know you represent a true voting block.
- 3 Invite local media into your shop, to learn about your issue and to send a message to your legislators that your small business is being threatened by the actions of government (or can benefit from a given bill).
- 4 Print speaking points and issue briefs for your customers, and have them available at point of sale; put them in every bag that goes out the door.
- 5 Send email notices and links to petitions on legislation when you are promoting sales and events.
- 6 Arrange for a “Capitol Day” or “City Council Night” for your fellow tobacconists and patrons to highlight your issues and always “stack a room” if you’re being threatened by ordinances or legislation.
- 7 Calls are important. Make sure you and your patrons call the offices of your legislators at all levels, and follow up with letters and emails. It’s about volume, quality, and consistency.

What sparked some of this thought was reading a comment on social media from a gentleman who wished CRA (and I guess others) would “do more than petitions.” Well, this industry is still training its base to do anything at all, in defense of the passion we share for great cigars.

Now that H.R. 564 and S. 294 have been filed in Congress, calling for regulatory relief; now that there is an anti-regulation agenda on both ends of Pennsylvania Avenue and now that dozens of state and local bills are working for or against the interests of the industry and its customers, petitioning your government could not be more important. Now, however, petition means engagement as never before.

You can learn more about legislative issues pending in your state in the Legislative Action Center at www.CigarRights.org **TB**



Glynn Loope is executive director of Cigar Rights of America.



Boveda: In Control

After two decades, Boveda's two-way humidity control products are coming into their own in the tobacco and cannabis industries.

BY ANTOINE REID

When Boveda (formerly named Humidipak) was founded and launched back in 1997, the company focused on achieving quick successes in the cigar market. Nearly 20 years later, its products are now moving beyond the world of cigars and humidors into premium tobacco and cannabis.

Boveda is the inventor and patent holder for two-way humidity control aimed at preserving moisture-sensitive items, including cigars, wooden musical instruments, photos, various food products and documents. It's a simple product, available in packets, that precisely preserves the exact humidity atmosphere for any item that it's packaged with. Fans appreciate that it both aids in humidity control and is a no-fuss, zero-maintenance product that doesn't require activation or special storage. In a global market where adapting to the latest trends and products is key, Boveda's products have had massive success in a budding industry—herbal medicine.

When asked how Boveda decided to enter the herbal medicine category, Tim Swail, the company's co-founder and EVP of sales and marketing, responded that it was through interacting with its customers to discover this new use. "We had heard early on through customers that some of them were using our product to store their cannabis. They were going into their local tobacco stores and buying our products. At that time, we did not realize that managing the moisture in cannabis was as critical as it is, mainly because we were not intimately involved with cannabis or educated on the need for controlling the moisture for its efficacy."

In 2006, Boveda began to take a more serious approach to this alternative market in terms of exerting sales and marketing efforts. By the following year, the company was distributing products specifically targeting the medical cannabis space. Since then, Boveda has become the standard for packaging from cultivators to con



Boveda is a simple and inexpensive solution to the curing and packaging that adds tremendous value to customers.



sumers. Boveda holds the patents on two-way humidity control and offers multiple relative humidity (RH) levels for numerous industries and have done so for 20 years. For cigars, Boveda offers products that help maintain relative humidity levels of 65, 69, 72, 75 and 84 percent. Some of those levels are still used by cannabis users, but the RH levels of 62 and 58 percent are more appropriate for cannabis.

In 2011, after conducting research with industry experts, Boveda released a 62 percent product, which has become the preferred product for cannabis customers. Knowing customers have their preferences, the company also offers a lower RH level of 58 percent for cannabis users that is quickly becoming popular in this category as well.

While expanding its brand to include cannabis has proved to be a good move, it presents some marketing challenges. Online, you're likely to see Boveda marketing to those using its products for herbal medicine storage just as much as those using it for cigars. "Anytime you are marketing to such disparate demographic [groups], you will have differing views, especially in markets that can be polarizing in the social and political arenas," Swail explained. "We have had a few true cigar connoisseur customers comment about the cannabis messages, which we totally understand, but we have had the overwhelming majority of comments be positive with the national view becoming more pro-medical cannabis."

Understanding the needs of cannabis users, dispensaries and cultivators has helped the company build success in this emerging market. "Boveda provides a whole host of benefits for cannabis," Swail explains. "First, we maintain the ideal moisture content of the cannabis, creating an even playing field for all parties involved,

which means fairness in the transactions. No one pays too much or too little for the cannabis they are buying or selling.

"Second, by having Boveda included in the curing and packaging of cannabis, studies have shown [that] we hold the terpenes and trichomes within the flower, which are the properties that deliver the medicinal benefits, thus providing better medicine to the marketplace," he adds. "Third, Boveda provides the perfect stable environment to store the cannabis, protecting it from the harsh realities of the ambient wet/dry conditions (think of the differences in the climates of Seattle versus Denver). Preventing mold growth is a huge benefit to cultivators and dispensaries. Boveda is a simple and inexpensive solution to the curing and packaging that adds tremendous value to customers."

Even as the company continues to expand into the cannabis and cigar markets, there are exciting new products and patents in the works. While details cannot be revealed just yet, Swail hints at what's to come by saying that he sees Boveda as a technology and innovation company. "We are not resting with our current portfolio," he says. "The pace and the rigor at which we work at is only gaining momentum. Even after 20 years, the future looks very good for Boveda, and we are excited to be the global leader forging new innovations for our customers."

As more and more customers realize that Boveda solves problems that they've been experiencing for years, Swail expects Boveda to continue to grow. "We have a great market penetration and big growth in recent years. It will continue with more of our outward marketing campaigns and growth within the cannabis market," says Swail. "When customers have positive results, their word-of-mouth is a great multiplier." **TB**



PK > FWD:

Helping Retailers Leverage Alternative Accessories

Phillips & King International's new buying guide offers progressive retail stores one-stop-shop access to cannabis and vaping accessories.

As more and more states legalize marijuana use, there's no denying that the cannabis and vaping category is gaining momentum. Yet, even as new entries flood into the marketplace, retailers are struggling both to identify products with the most profit potential and to keep tabs on what's hot and what's not. To help buyers navigate this emerging growth category, Phillips & King International has launched PK>FWD, a monthly buyer's guide and website for forward-thinking retailers.

"Looking at the landscape of the industry and at the legalization taking place across the country, we wanted to make sure our customers have quick access to the accessories they may need to start stocking as more con-

sumers start dabbling in the category," explains Brittany Peloquin, marketing manager at Phillips & King International. "PK>FWD helps buyers minimize the risk of entering a new market by providing a comprehensive offering of products they can trust to help customer traffic and profits."

With more than a decade of experience serving the head shop industry, as well as doing business in the highly regulated and taxed tobacco category, P&K's buyers are uniquely equipped to help retailers navigate changes in the regulatory environment and tax policy, as well as stay on top of market trends. "Phillips and King has been in the tobacconist business for over 110 years," says Jason Carignan, CMO of



Kretek, parent company of Phillips and King. “We are a company people turn to for quality offerings. We know what sources to turn to, what products to sell, and what items are in demand at the consumer level. We’re excited to help our customers grow their businesses using our expertise and incredible selection of products they can count on.”

Drawing from a universe of more than 21,000 items, the first PK>FWD buying guide includes 1,300 products from top-selling brands like Formula420, PAX, Greenhouse, Chong’s Choice, Raw, Prima, Cornerstone Class, GRAV Labs and White Rhino. Its wide selection ranges from high-quality glass and vaporizers—including the Firefly 2—to everyday accessories like rolling papers, grinders, storage and humidification.

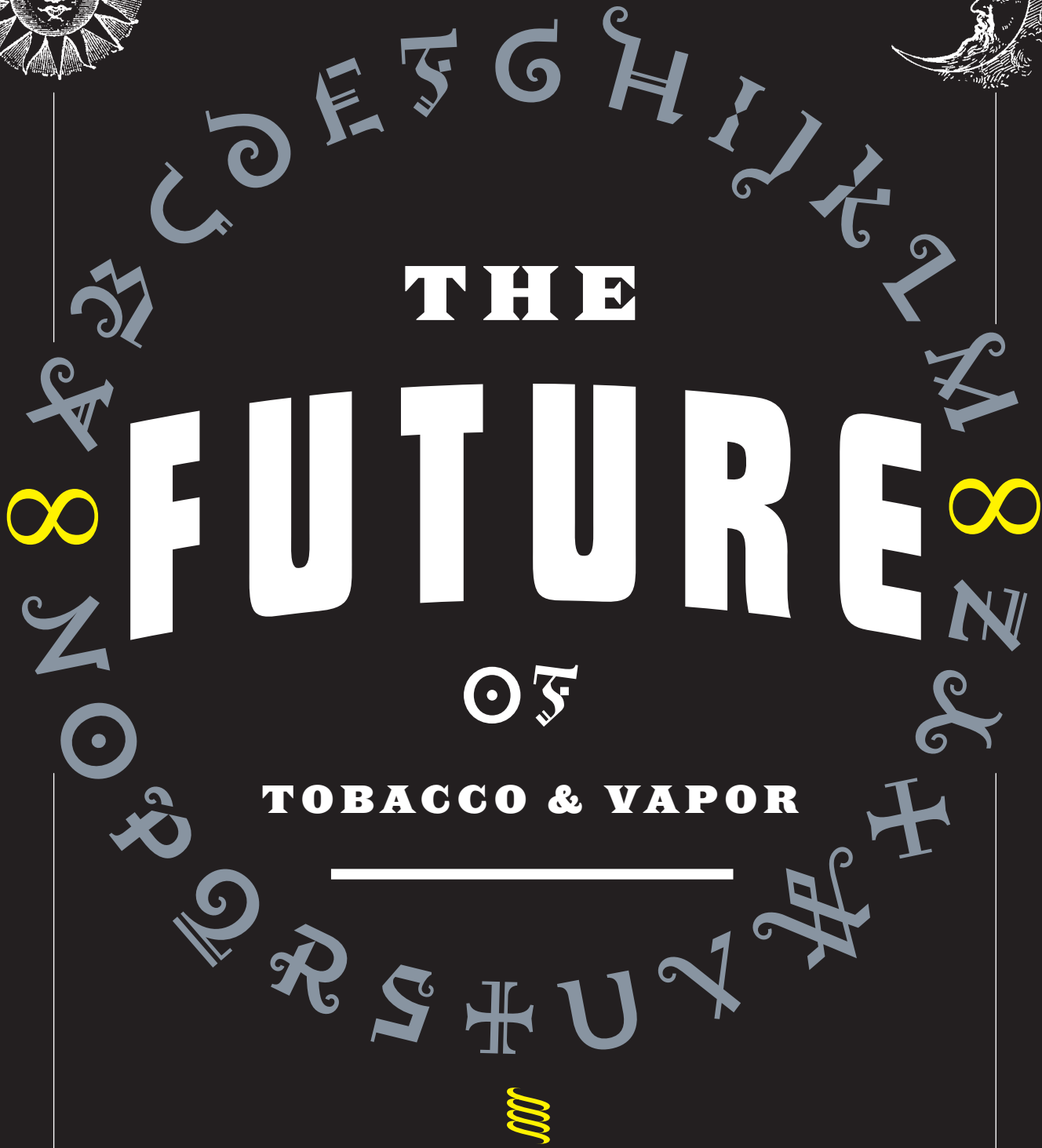
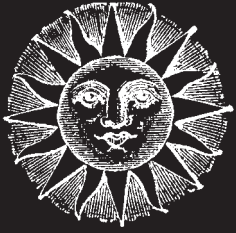
“We are constantly evaluating our product portfolio, making sure that we are presenting items that are interesting, eye-catching and useful to our customers—and to our customer’s customers,” notes Carignan. “PK>FWD makes it simple for retailers to find and sell items that will make a difference to their bottom line, in both traditional sectors and new markets.”

In addition to being a well-trusted, one-stop shop, PK>FWD is also committed to providing personal service, including online ordering capabilities; same-day, free shipping on qualifying orders; and more than 50 dedicated salespeople at the ready to assist with product orders and suggestions. **TB**



We are constantly evaluating our product portfolio, making sure that we are presenting items that are interesting, eye-catching and useful to our customers





THE
FUTURE

OF
TOBACCO & VAPOR

WILL DEEMING REGS BE THE DEATH OF THE \$1.4 BILLION VAPOR CHANNEL—AND IF SO, WHAT WILL THAT MEAN FOR THE RETAIL LANDSCAPE? *TB* TALKED TO INDUSTRY EXPERTS TO FIND OUT.

P.80

BY JENNIFER GELFAND



Friendly neighborhood vape shops staffed by mixologists may soon be as scarce as video rental stores.



“There is a possibility that there will be freestanding iQOS stores in the U.S. They look like mini Apple Stores.”

—BONNIE HERZOG,
WELLS FARGO

anyone lucky enough to get an FDA premarket tobacco application (PMTA) through,” acknowledges Hammel. “That’s what is so ironic about the situation. We early guys felt like this was a viable alternative for tobacco that we could be passionate about and not it will end up being right back to Big Tobacco, which is what we were so passionately steering people away from.”

Even if shops do opt to carry products made by the companies best equipped to navigate the PMTA process (i.e. Big Tobacco), the limited assortment likely to be available probably won’t stock a vapor-only shop sufficiently, noted Justin Wiesehan, VP of marketing at Mystic Electronic Cigarettes. “Can you really justify keeping a 1,500-square-foot store open to sell three brands?”

A HYBRID SOLUTION

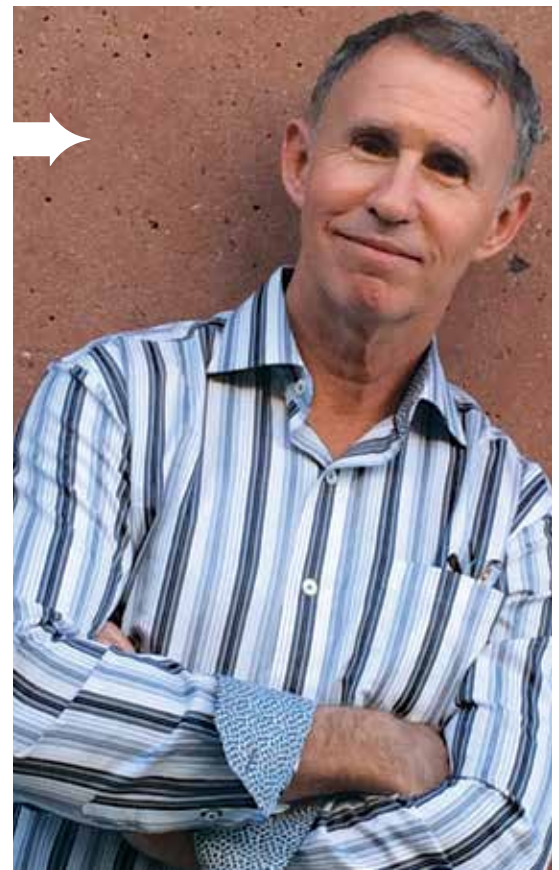
Ultimately, the consolidation Herzog and others see ahead spells opportunity for other retail channels that sell vapor products, primarily c-stores and tobacco outlets, as vapor store customers seek alternatives to the suppliers. “If you talk to distributors, they’re already seeing it,” says John Wiesehan. “Retail has transitioned to a hybrid model where selling tobacco, smoke and vape is more prevalent than vape-only stores.”

The upshot? Vape shops that want to survive will move into other categories of merchandise, such as traditional cigarettes or cannabis accessories, such as pipes and CBD. “Some of them are starting to look at other things,” says Bour. “The gateway to [cannabis] is CBD. A fair number of vape shops are carrying CBD, which will make for an easy transition to cannabis if and when the time does come.”

Meanwhile, tobacco outlets and c-stores can capitalize on the vapor store closures by expanding their selection of vapor products. “That’s one of the reasons we started working with Cosmic Fog,” notes John Wiesehan, who noted that the partnership couples Mystic’s strength in the mass-market retail channel with Cosmic Fog’s brand recognition among vapers. “The idea behind our partnership with Cosmic Fog is to give the vape shop consumer a recognizable brand that they’re used to seeing on a mass retailer’s shelves.”

“Five years down the road, you’ll walk into a store the size of a Walgreens and that’s where you’ll go for your vice of choice—alcohol, tobacco, CBD, cannabis. Everything will be highly taxed, but the store will be run professionally.”

—NORM BOUR,
VAPEMENTORS



As opposed to broadened assortments, another possibility is that specialty stores will emerge. These may be super vapor shops that emphasize service levels that c-stores and tobacco shops can’t emulate. “Consumer education is important in the vapor category and it’s something the vapor channel has done very well,” says David Bishop, managing partner of Balvor LLC. “At a time when mixing stations may be going away, offering that level of service may be the way those stores can survive.”

Branded shops, akin to a Nike or Apple store, are another possibility, noted Herzog, who pointed out that Philip Morris used iQOS flagship stores to introduce its heat-not-burn product to European consumers. “There is a possibility that there will be freestanding iQOS stores in the U.S.,” she notes. “They look like mini Apple Stores and they’re fascinating in the engagement and education of consumers.”

Of course, the fear is that rather than compromise on what they really want—the products they’ve come to enjoy—those consumers will turn to illicit sources and a black market will emerge. Instructions on mixing your own liquid and rigging up your own device are all over the Internet, so it’s not a huge leap to imagine vapers finding ways to access or reproduce their preferred product or a facsimile of it. The prospect of regulations fostering a black market or DIY activity that will, if anything, make vaping more risky is one of the many reasons many see the deeming regulations as overly onerous and dangerous to consumers.

But while there may initially be a period of illicit activity, most in the industry say that the legal marketplace will prevail over time.

As Justin Wiesehan notes, “Ultimately, price and convenience will win in this industry just like it does in every other industry. If people can go to a zzzc-store or any other store and get their a product that satisfies them for a reasonable price, they will do that.” **TB**

VAPOR PRODUCTS ELECTRIC ALLEY



Vapor Section in Wild Bill's, Westland Michigan



Mr. Vapor in Highland Michigan

Sister Vapor Checkup

Since the deeming regulations were finalized, you don't see tobacco outlets rushing to start up sister vape shops, but there are those that are keeping existing concepts going—with fingers crossed.

BY RENÉE COVINO

Oh, what a difference a year (and finalized deeming regulations) makes. The vape shop channel—once a growing competitive force for tobacco stores—is now reportedly struggling and shrinking, according to industry analysts (See "The Future of Retail," p. 80). Retailers would be considered crazy to entertain it as a separate subsidiary business today—or would they?

There are certainly no new reported vape shops being launched by the tobacco outlet channel, and there is at least one chain that was previously experimenting with a vapor store that has since shut it down. New Castle, Pennsylvania-based Klafter's (d.b.a. Smoker Friendly/Cigar Express) has turned its vape-only store into a traditional tobacco outlet, bringing the total number of outlets it operates to 16. While several factors contributed to that decision, for Klafter's it was Pennsylvania's new 40 percent tax on vapor that confirmed it was the right call.

A Stifling Tax

Enacted on October 1, 2016, Pennsylvania's new vapor tax requires retailers to pay a 40 percent floor stock tax on existing vapor inventory and a 40 percent tax on all vapor products purchased from that date forward. "This put many [vape] retailers out of business and is forcing consumers to buy online or in other states to avoid the ludicrous tax," says Randy Silverman, president of Klafter's. He adds that there is a lot of confusion and frustration for retailers and consumers alike—"unlike traditional cigarettes, it has been very difficult to establish good buying and inventory management practices."

Nevertheless, in other states, there are tobacco outlet chains still successfully operating separate vape-only shops, albeit with a cautiously optimistic attitude. One of those is Rock Hill, New York-based Smokers Choice, which has 59 tobacco outlets and three separate vape



Wild Bill's Tobacco in Westland Michigan

shops, the latter of which cater to a younger crowd, reports company vice president Douglas Nolan.

Dropped Margins

Nolan reports that “margins have dropped on liquid and devices, but more and more consumers are switching from smoking, so there has actually been continued growth of sales.”

In the areas where Smokers Choice operates, Nolan has not seen many vape stores closing. “The vapor trend is still growing, and has not even crowned yet,” he says. However, he has witnessed many stores that were previously mixing/supplying their own liquids that can no longer find or afford to purchase the replacement inventory needed from liquid suppliers. Many have sold out to investors with “deeper pockets for deeper inventory levels,” he reports.

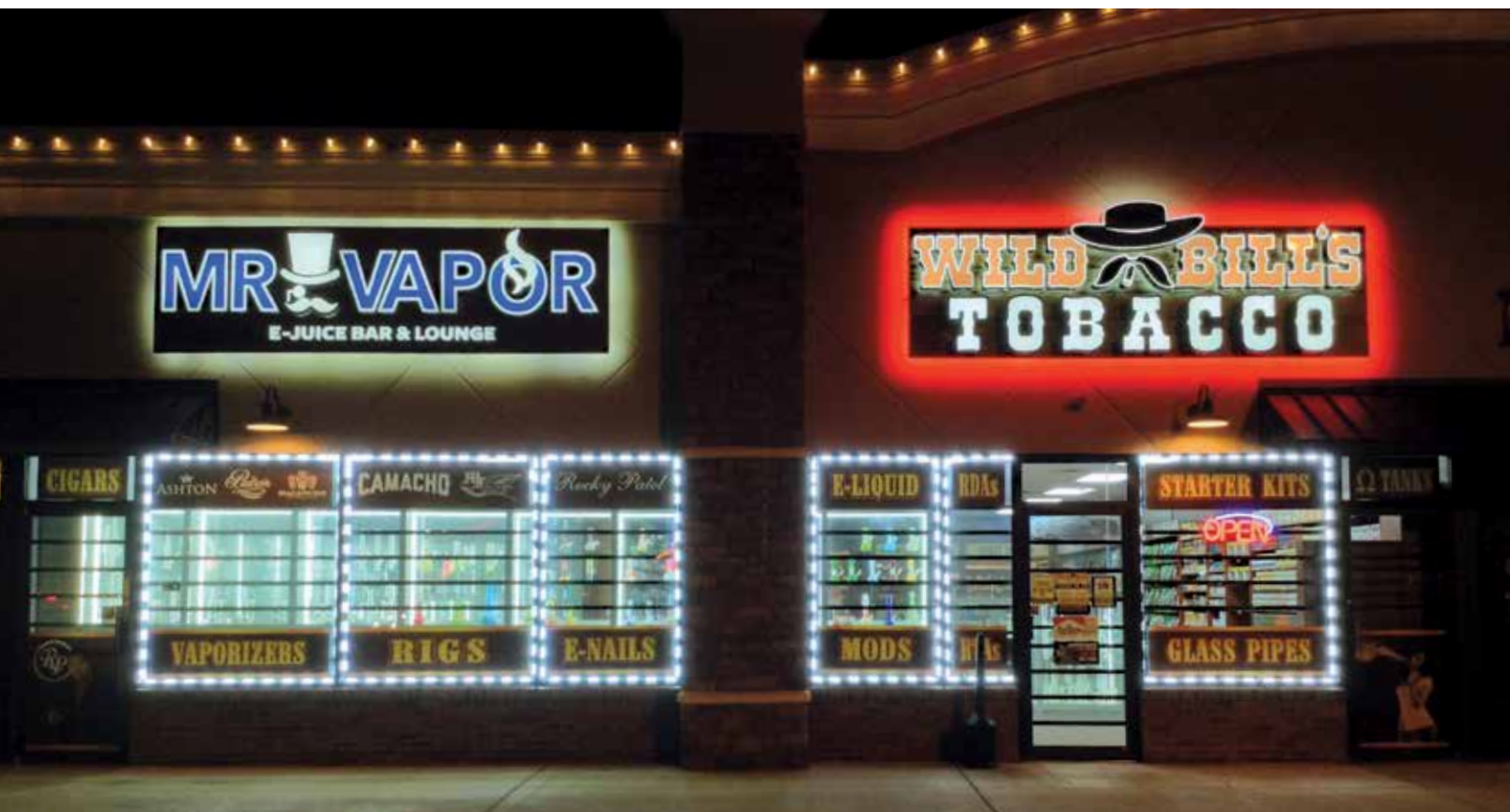
The vape shops run by Smoker's Choice are in a wait-and-see holding pattern, as are many independent vape shops in the chain's market area. “Store openings have levelled off, but business, so far, has not,” he tells

Tobacco Business (TB).

Troy, Michigan-based Wild Bill's Tobacco also invested in a sister vape shop business—its Mr. Vapor subsidiary concept, launched in 2014. While the Mr. Vapor store count has been reduced from 11 stores at peak to its current six stores, the chain also operates Mr. Vapor sections in all 66 Wild Bill's tobacco stores.

The Mr. Vapor business model hasn't changed significantly, but there have been some business updates since the deeming regulations were finalized. “Obviously, we can't sample anymore,” says Justin Samona, director of operations for Mr. Vapor and Wild Bill's. Mr. Vapor also dropped about a dozen liquids that had labels with questionably child-appealing flavors/labels.

On the positive side, the Mr. Vapor sister concept has learned how to be a survivor in a winnowing field. “We blow out product that's not selling,” says Samona. “Our competitors won't blow it out and take a loss, but we've learned that it's OK to take a loss for newer, fresh items that customers are asking for.”



Shared Enhancements

Mr. Vapor has also benefitted from the addition of three area managers, bringing the count up to seven total for the company. Each area manager has his or her own weekly and bi-weekly checklist to ensure that stores are properly staffed, internal and external theft is minimized, and inventory is up to snuff. “We added more overhead to corporate, but in the long run we’re going to make sure our stores are being run properly with more eyes and ears out in the field,” says Samona. The area managers oversee both the vape and tobacco stores, each with its own cluster.

Wild Bill’s/Mr. Vapor is also being enhanced by a new 60,000-square-foot warehouse in Troy, Michigan. Regarding the vapor stores, “in the past, we’d order liquids from boutique suppliers or other wholesalers; now we order everything in-house,” says Samona. “Also, our POS [point-of-sale] system communicates with all the stores, so we know exactly what’s selling on a day-to-day basis.”

Mr. Vapor stores also enhanced sales recently with special holiday flavors including cocoa mix, cappuccino and French vanilla around Christmastime, and pumpkin spice during Halloween/Thanksgiving. “The margins are appealing, and we were able to take requests from customers and work with juice makers to tweak them,” relays Samona.

Like many vapor stores, Mr. Vapor is in a cautiously optimistic holding pattern. “We’ll keep what we’ve got now and put our expansion efforts into Wild Bill’s,” Samona concludes. **TB**



Our competitors won't blow it out and take a loss, but we've learned that it's OK to take a loss for newer, fresh items that customers are asking for.

New Beginnings

A new administration could be good for the vapor industry.

The United States of America saw an unprecedented presidential campaign in 2016, and now President Trump has taken office. For the vapor industry, at least, it could potentially be a brave, new world.

The vapor space, from manufacturers down to retail vape shops, has been under constant threat. In the bright, early days of the e-cig world, most people assumed that saner heads would prevail—there was no way the FDA would ultimately issue regulations that would finish the industry. But then FDA issued the final deeming regulations and for those whom the full weight and understanding of those regulations had not been entirely clear, it was suddenly and unquestionably confirmed that the situation was dire. The decision about how to move forward was one that each business had to make.

Now, with a new administration firmly in place, talk that started after the election has blossomed into full blown strategic conversations about what we can realistically look forward to with regards to changing the deeming regulations or amending the Tobacco Control Act.

While everyone in the vapor supply chain is at risk, it is understood that manufacturers are first in the line of businesses affected by the FDA's deeming regulations, specifically because of the onerous Pre-Market Tobacco Application (PMTA) process. Relatively long-established vapor businesses have spent two or three years deciding which (legislative, business, legal) options to pursue in response to the FDA regulations.

Hometown Hero is an e-liquid manufacturer located in Austin, Texas. Interestingly, the company started in 2015, when many others were preparing to shutter their businesses or scale back significantly. I sat down with founder Lukas Gilkey to discuss the future, and how he dared to enter an industry that was fighting for its life. To follow are excerpts from that conversation:

Why did you start your company?

LG: I started Hometown Hero in early 2015 simply because I was unhappy with the products on the market in regards to quality and price. I knew I could make a better product in consistency and flavor, and hit a lower price point for consumers. The regulatory hurdles had distracted many competitors and I saw a massive opportunity to take market share while keeping a focus on what is important. By hiring dedicated specialists for our regulatory and

compliance needs, we were able to address those issues while focusing on our core business value to consistently provide a better product by giving the retailers/consumers the best value possible.

Aside from the FDA deeming regulations, what else do you think is a major stumbling block for the vapor industry?

LG: I would say our inability, as an industry, to overcome the negative press from detractors who wish nothing more than to see the e-cigarette space regulated to death, with no benefit at all to former smokers who now vape.

We are a veteran-owned company and donate a portion of our profits to Disabled American Veterans because we think it's important to give to those in need. It should be the same for FDA or CDC. Their anti-vapor positions and ideology make it hard for us to have faith that they will come to the understanding that their policies hurt businesses—but more importantly, they hurt smokers who want to switch over to a less harmful alternative. As a former smoker, it is disheartening to see this play out, especially when the science proves vapor products are a viable harm-reduction product.

What are your goals for Home Town Hero and the vapor industry?

LG: Focus on the big picture! The only way we will make it through the current regulatory crisis is to stand strong beside each other and work in unison. We support CASAA (Consumer Advocates for Smoke-Free Alternatives Association) and work with them closely to help secure a future for this industry and the companies currently in it. We hope others will strategically support the organization that resonates with them and collaborate with others.

New Administration, New Rules?

It says a lot about the human spirit and the drive to be an entrepreneur that a company like Hometown Hero would choose to open their doors at the height of the drama created by the issuance of the FDA deeming regulations, but it's not just them—other companies have doubled down to fight for their dreams rather than fold up their tents and go home.

Now, with a new administration in office, it is possible that the bet placed by Hometown Hero and others could pay off. President Trump and Congress could unwind some of the regulatory burden that vapor companies are saddled with. We can entertain a future where the deeming regulations are rolled back in some fashion and replaced with something more appropriate. Whether you are a Trump supporter or not, his campaign position that U.S. businesses are being stifled by over-regulation is one that speaks to the fundamental problem the vapor industry faces. With a willingness to look at regulation based on a risk profile (rather than treating vapor products as if they were equally as dangerous as combusted cigarettes), the industry stands a chance. Reasonable and proportionate regulations, proper product standards, and a public health mandate that includes true harm reductions embody that promise of a brave, new world. **TB**



Focus on the big picture! The only way we will make it through the current regulatory crisis is to stand strong beside each other and work in unison.



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

A portrait of Michael Giordano, a man with dark hair, wearing a blue blazer over a white shirt. He is looking directly at the camera with a neutral expression. The background is a blurred indoor setting with warm lighting.

Insights on Entrepreneurship

An interview with Quality Importers' Michael Giordano

INTERVIEW BY BEN STIMPSON

In the mid-1990s, the U.S. experienced a cigar boom. Michael Giordano noticed this growing market and decided to import some cigar accessories in hope of selling them online. When he realized that e-commerce presented challenges he wasn't expecting, Giordano teamed up with a local online retailer who picked up his inventory and got it to sell. Giordano and the retailer went on to form Quality Importers, which has since acquired popular products, including Palió, Cigar Caddy, Humidor Supreme, Stinky Cigar, Div Pro and HygroSet, to name a few. *Tobacco Business* talked with Giordano about tips on succeeding as an entrepreneur. Excerpts from that conversation follow.



No matter how hard you try, mistakes will happen. How you communicate and fix them is what determines your success or failure.



TB: How did you first know that you had an entrepreneurial spirit?

Michael Giordano: I was intrigued with how I could buy bubble gum by the case for 5 cents each [then turn around] and sell them for 10 cents at school. Some kids would say, “Hey, it says 5 cents on the gum” and I’d say, “Yeah, but this is a closed campus and if you want gum and didn’t bring any, you can get some for 10 cents right now.” I had a sense of urgency before I even knew what that term was. I was also very competitive.

What inspired you to start your own business?

The curiosity of whether I could do what the company I was working at was doing, [but] in a different industry, more efficiently.

What is the biggest lesson you’ve learned since running your own business?

No matter how hard you try, mistakes will happen. *How* you communicate and fix them is what determines your success or failure.

Would you have done anything differently?

Anything we think of changing or doing differently, we can do moving forward. Looking back, I think it’s been a wonderful journey. I really wouldn’t change a thing.

If you were somebody’s mentor, what would be the first thing you would teach or share with them?

I would first find out what it is they are having difficulty with, or listen to their plans or ideas, then share the questions I ask myself when confronted with a new opportunity. The philosophy of business and life are always incorporated into everything I do. Analogies are a priceless method of open-minded communication. When relayed appropriately, they are a great way to express a thought that is easily associated with the subject at hand.

What is your advice to someone who wants to start their own business?

I think back to when I was making this decision for myself. I was in my early 20s and renting some space in my parents’ house. I didn’t go to college, and I didn’t have a business plan. I had very little expenses and no family of my own at the time, so it was an ideal time to take the leap. I remember the feeling I had; I can best describe it as getting ready to walk a tightrope, looking down and watching the net get pulled away. There was something exciting about it, a competition of me versus myself.

For me, that is where risk tolerance was born. My advice to someone who wants to start their own business is to identify the end result you truly wish to achieve. Identify what you are truly willing to do to achieve it and trace the steps back to where you are right now before you risk one dollar of your hard-earned money. I find it helps to create an achievable perspective versus just putting your head down and charging forward. It’s the difference between working hard and working smart. **TB**