

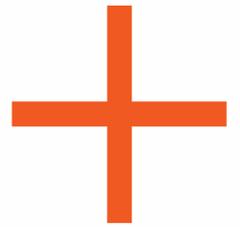
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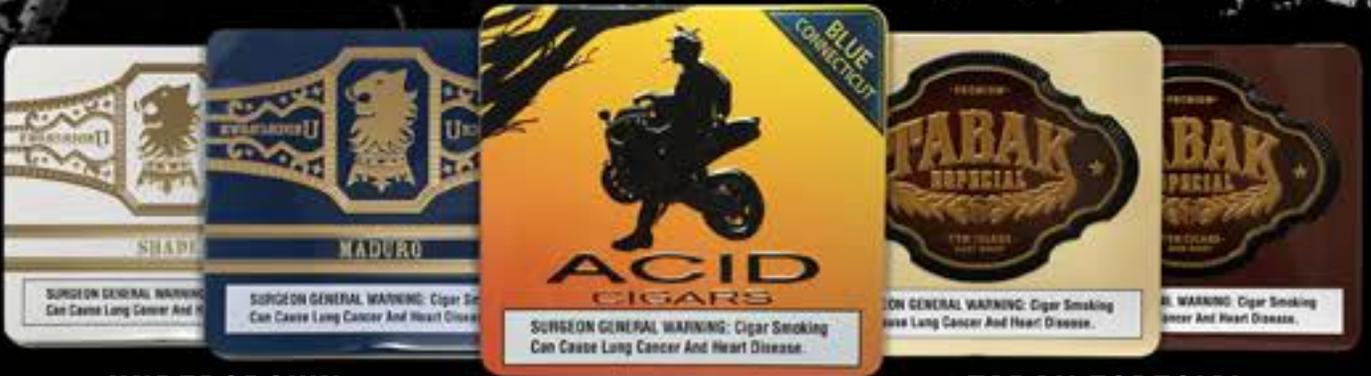


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As we gear up for another memorable spring, I can't help but notice that there is a huge comradery and togetherness vibe amongst everyone in the tobacco industry. Sometimes we are so blinded by everything happening in our day to day lives that we forget about taking time out to really enjoy our favorite cigar, pipe tobacco, vape juice or finest malt beverage to accompany the mood. If we decide to take that time and spend it with our peers, family or friends, then the rest of the year will only get better.

Of course, with new life that blooms every spring, we sometimes have to say goodbye to friends, family or industry greats who changed the world we live and work in every day. Don Bores, creator of *Tobacco Business* magazine and NATO, passed away at the end of 2016. Don had a vision of creating a way to help bring retailers and manufacturers together, with a determination to help the industry sell and enjoy tobacco products. We also saw the passing of the legend that was Avo Uvezian, a huge figure in the premium cigar industry who helped build the AVO brand, part of the Davidoff family.

If you attended this year's TPE Show, you'd be among the many to realize that vapor doesn't appear to be going anywhere anytime soon, despite government efforts and ordinances. The vapor industry is filled with innovators, forward thinkers and entrepreneurs who have valuable business lessons to share across all tobacco categories. From E-Alternative

Solution's Jacopo D'Alessandris to other business leaders like VMR CEO Jan Verleur and premium e-liquid manufacturer Rodney Jerabek. In addition to these stories, we have a great look at premium tobacco company Villiger, a company that's been in business for well over 100 years, making great hand-made and machine-made cigars, as well as pipe tobacco. If pipes are more your thing, you'll enjoy getting expert marketing tips from STG Lane's Leonard Wortzel and Smoking-pipes.com's Ted Swearingen.

Just as spring is a time for growth and celebrating all things new, take this as an opportunity to renew your business goals. What do you want to accomplish, what are your profit targets and what are some possible new revenue streams? Whatever you want to accomplish in 2017, know that *Tobacco Business* is going to continue to grow and become an indispensable source of great information to help you reach that next level. As always, we want to know how to help you. Please reach out with any questions, concerns and ideas for how *Tobacco Business* and next year's TPE Show can help your business grow and prosper throughout the year.



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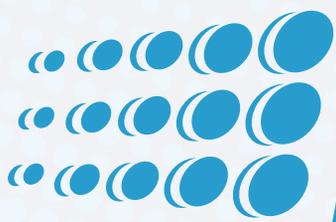
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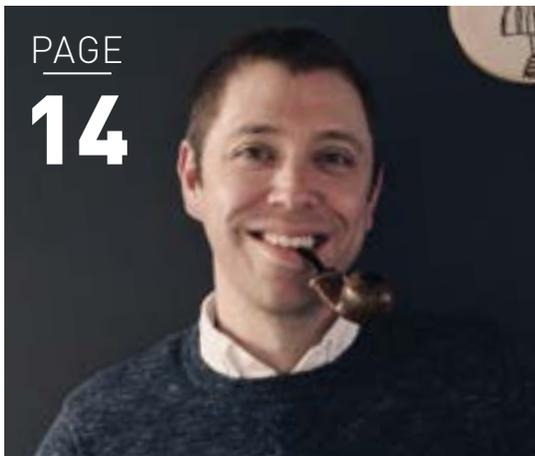
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Promoting Pipe Tobacco

An interview with Leonard Wortzel of Scandinavian Tobacco Group

INTERVIEW BY BEN STIMPSON

As you'll read in this issue of *Tobacco Business*, pipe tobacco is still very much a popular category for retailers. The challenge, however, is how to make pipe tobacco products even more appealing in today's market. Scandinavian Tobacco Group Lane Ltd. (STG Lane) is a company that deals with that challenge on virtually a daily basis.

Lane was founded in Dresden, Germany in 1890. Since its early days, it has specialized in the highest quality pipe and roll-your-own cigarette tobaccos. After Herman G. Lane, one of the founder's grandsons, immigrated to the U.S. in 1938, Lane Ltd. was re-established in Manhattan and began manufacturing pipe tobaccos in New York City. In 1983, production facilities were moved to Tucker, Georgia.

Today, Lane Ltd. is part of Scandinavian Tobacco Group, a company that specializes in pipe tobacco, RYO and premium cigar

products. Leonard Wortzel, vice president of marketing and product development, has spent years marketing pipe tobacco products, including STG Lane's memorable Pipa pipe tobacco starter kit that challenged how pipe tobacco was typically marketed and seen at the time of its release. *TB* met with Wortzel recently to talk about how one can successfully market pipe tobacco products today, and how to reach new pipe smokers in one of tobacco's oldest categories. The following are excerpts from that conversation.

Tobacco Business: What are your tips for building an effective marketing team?

Leonard Wortzel: The first rule is to hire somebody smarter than you. For us, I won't say that we've gravitated away from hiring people with a tobacco background, but we certainly expect a good marketer who can

bring a fresh look to the categories. In my case, these are products I've been staring at day in and day out for several years now. It's good to have somebody who hasn't had that initial exposure to tobacco as a market who can come in and look at it as a consumer [would] and be able to look at it in a different way. Beyond all of the other things you'd generally want in an employee, a lot of it is hiring somebody who can knock your company out of its complacency in the way you're used to looking at things.

How can retailers best promote and market pipe tobacco products to consumers?

It's a challenge because if you're new to the category, the product really doesn't explain itself. In an ideal world, you'll have a very knowledgeable staff. The No. 1 priority is making sure that people know you sell pipe



tobacco. You need to create an awareness that you're in the business of selling pipe tobacco. That's your primary challenge.

How can people put a new spin on pipe tobacco and get people excited about this product?

Part of it is not just reflecting the pipe smoker of the past, but the pipe smoker of today. The reality is that there's a completely new influx of pipe smokers who don't look anything like your stereotypical image of a pipe smoker. But that's not usually reflected in either the brands or in a lot of the marketing that's out there. It's usually all very old school. A lot of what you've got to do if you're catering to somebody who's just getting into the hobby is to show him or her that they're not alone. There are plenty of folks in that 21-30 age group that are really aging into this hobby.

Speaking of the new generation of pipe smokers, how do you go about reaching new customers and people who are interested in pipe smoking?

I think you've got to do some of it at the pure grass-roots level. Part of it is getting out to

pipe-related events because there are plenty of new pipe smokers there and people who are new to pipe tobacco who are really trying to get their heads wrapped around it.

What we've been trying to do at Scandinavian Tobacco Group Lane (STG Lane) is get outside of those pipe events and into cigar events where there's got to be a crossover, such as craft beer festivals, wine events and other areas where people are experimenting with different flavors. When they get into pipe smoking, they want to go onto forums and review sites, and that's another place where you can reach out to them as well. We've just kicked off social media to have a broader presence there in January. Just as with the imagery, you need to be reflecting the users who are coming into it. You also need to be speaking to them in the platforms they are truly comfortable using.

As a marketer, is it still important for you to reach retailers, or are you focusing on social media and online marketing to reach new customers?

The retailer is absolutely still important, so I don't think it's an either/or situation. One part

of it is filling gaps within retailers who should be carrying pipe tobacco, even if they don't think they should. We've got a lot of really good unbiased data that can show us where pipe tobacco is being sold, down to the zip code area. We can tell a retailer if pipe tobacco is selling really well in their area and which brands are performing best in their area. Or if they're already carrying it, [we can tell them] what opportunities they're missing out on by not carrying certain brands, whether it's our brand or someone else's. We firmly believe that in order to use this data properly, we have to use it in an unbiased way; we have to let the data show what the data shows.

What's the key to getting people excited about pipe tobacco?

A lot of that is getting more grass-roots and getting people interacting more with the tobacco itself. They need someone there to help them navigate through how to pack a pipe and how to manipulate a pipe. For us, it's not just about building awareness of the hobby, but supporting the grass-roots areas that are already out there, including the pipe shows and pipe clubs. **TB**

The Virtue of a Legislative Record

APRIL 15, 2011 MARKED a special moment in the political history of the premium cigar industry. It was the day U.S. Congressman Bill Posey of Florida filed the Traditional Cigar Manufacturing and Small Business Jobs Preservation Act for the first time. It was a spring day, almost five years ago to the day as I write this. He has done so now for four sessions of Congress.

What makes this act so unique is not just its purpose of protecting premium handmade cigars from draconian regulations proposed by the U.S. Food & Drug Administration, and not just to dramatize how the agency went well beyond Congressional intent in advancing the rule. It was that the very filing of the act marked the first time the premium cigar industry went on political offense.

Normally, and historically, the industry had to react to legislative threats. These ranged from local and state tax and smoking ban measures to the tax proposal to fund the federal State Children's Health Insurance Program (SCHIP), which served as an industry wake-up call.

April 15, 2011 was different. It was the day premium cigar makers said, "We are different. We don't deserve what they're planning—and we're not taking it lying down. It's time to make our case."

Since that day, 289 different members of the U.S. House of Representatives and 28 members of the U.S. Senate have signed legislation calling for an exemption for premium handmade cigars that meet a strict definition (over 60 of whom voted for the original Tobacco Control Act). More than 35 letters, either from individual members or joint letters, proclaiming support for this position have been sent to the former Administration, the new Administration and to multiple agencies within the federal government.

But what has been the result? Foes of this strategy say "not much," questioning the expense and time into the effort. I beg to differ for one major reason—it created a standing record of legislators upon which to build a network of advocates that now know that we are different. This network can work to ad-

dress issues well into the future, and can assist in conveying the serious concerns the industry has with the FDA regulatory process.

Without the process and strategy that has been executed over the last five years, we would not have known that the current Vice President of the United States, U.S. Secretary of Health & Human Services and White House Director of the Office of Management & Budget could be allies, by virtue of signing onto this legislation during their service in the House of Representatives. Without the strategy of the last five years, we would not have known that Democrats and Republicans alike could come together not on a "tobacco bill," but on a bill that has enabled the industry to articulate its small business, family-driven, artistic and cultural foundations.

This process has compelled the industry to also take a deeper look at itself. It has allowed for the accumulation of information virtually unrealized before on the economic significance of the sector, especially in key states such as Florida, Pennsylvania, Connecticut, Louisiana and Nevada, and the base of brand owners that are incorporated in California, Texas, New Jersey, Kentucky and Virginia.

It has allowed for the building of coalitions nonexistent before that April day of 2011, with special interests never before approached by the industry for political support ranging from chambers of commerce, retail merchants organizations, local governments, mayors, farmers, ports and truckers, just to name a few.

Conveying the threat of the regulations to members of Congress has also allowed for the discussion on the economic significance of the industry in the very economically and politically fragile region of Latin America, where investment and employment by the industry directly contributes to stability of governments and families alike.

Stories have long circulated about the effort to mitigate the threat of the SCHIP taxes. Rocky Patel and Jeff Borysiewicz have stated that they hit the halls of Congress, "talking to anyone willing to listen." It's come a long way since 2007.

Now, language has been included in four appropriations measures in the U.S. House of Representatives proclaiming that premium cigars are unique and that they are not what Congress intended when addressing tobacco control. In April of 2016, the House actually said, "None of these funds made available may be used to finalize, implement, administer or enforce the proposed rule...if such rule applies to traditional large and premium cigars." That's progress: Now we just have to get it through the Senate and off to The White House.

There are legislative measures that take years to work through the process, if you can call it that. Recently I had that discussion with some advocates for other causes—covering the elimination of the "death tax" and regulations on the energy sector, as well as the eternal debates on health care, education and tax reform. Premium cigars are now in that mix.

It all goes back to the proverbial Washington statement, "If you're not at the table, you're on the menu." Now that the premium cigar sector has a standing presence in the halls of Congress, it will always be "at the table."

The issue is patience. The level of nervousness and anticipation within the industry due to the impending rules is quite understandable. However, 2017 represents the most decisive moment since this journey began to protect this industry from the heavy hand of an unsympathetic bureaucracy.

Whether through the Administration, Congress or the courts, the virtue of a five-year legislative and advocacy movement will hopefully prove to be a most wise investment. **TB**



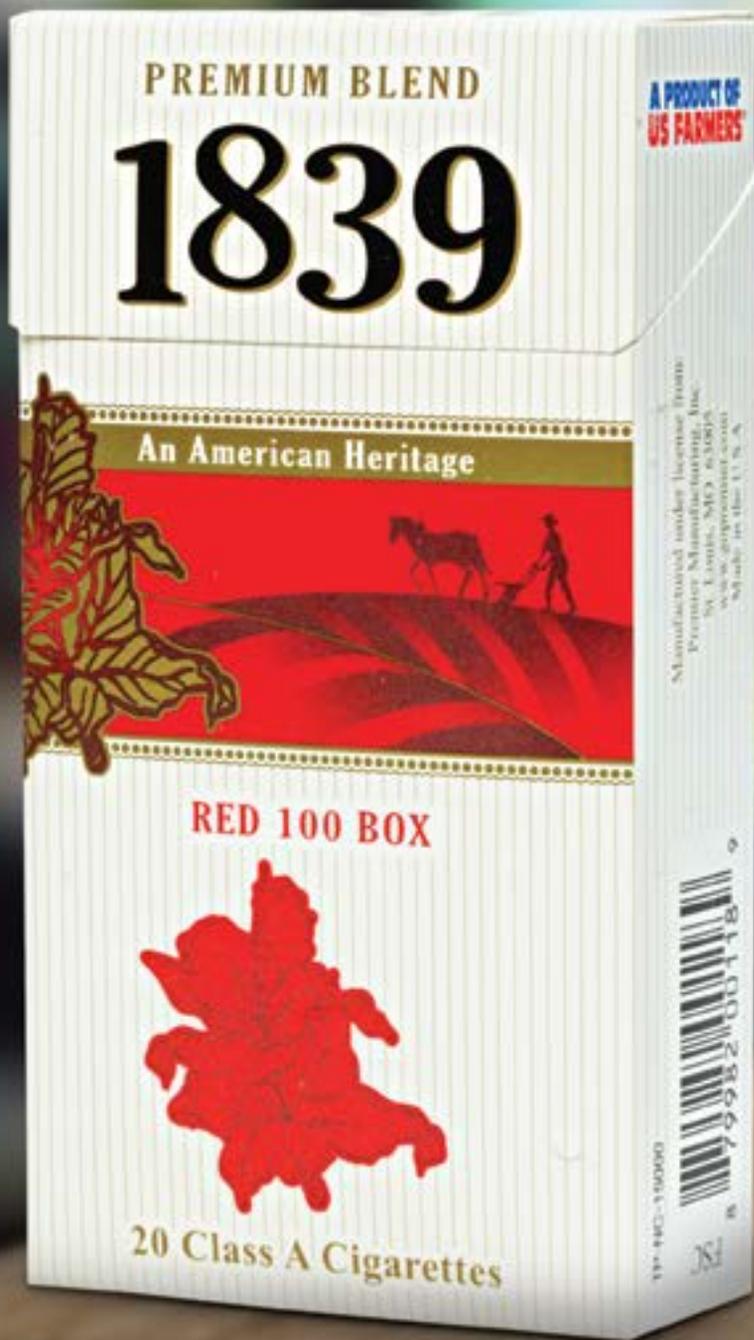
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The FDA's First Product Standard: NNN in Smokeless Tobacco



WHEN SPEAKING AT CONFERENCES in the past, Mitch Zeller, the director of the U.S. Food and Drug Administration's Center for Tobacco Products, has stated that product standards are the most powerful tool that Congress gave to the FDA to regulate tobacco products. A product standard allows the FDA to limit or prohibit an ingredient in a tobacco product or a constituent in tobacco smoke.

In 2009, when Congress passed the Family Smoking Prevention and Tobacco Control Act (FSPTCA), which is the law that authorizes the FDA to regulate tobacco products, Congress itself enacted the first product standard by prohibiting flavors in cigarettes other than tobacco and menthol. Now, the FDA has issued a proposed rule to establish the agency's first product standard. The proposed rule would limit the level of N-nitrosornicotine (NNN) in finished smokeless tobacco products to 1 microgram per gram (or 1 part per million) at any time through the product's labeled expiration date. The FDA classifies NNN as a harmful or potentially harmful constituent in tobacco products.

Under the FSPTCA, "smokeless tobacco" is defined as "any tobacco product that consists of cut, ground, powdered or leaf tobacco and that is intended to be placed in the oral or nasal cavity." This includes moist snuff, snus, dry snuff, chewing tobacco and some dissolubles. This means that this proposed NNN standard of 1 part per million would apply to each of these different kinds of smokeless tobacco products.

However, to clarify, the NNN in tobacco is naturally occurring and can be formed while being grown, cured, manufactured or sitting in its package in a wholesale warehouse or on a retail store shelf. In fact, the FDA recognizes the variability of NNN in smokeless tobacco products when it states the following in the proposed rule:

"NNN levels in tobacco can vary significantly from year to year, intra-year and farm to farm. Although tobacco plants inherently produce a small amount of NNN, a wide variety of factors can affect the final levels of NNN found in the finished tobacco product. These factors, which can either increase or

decrease NNN levels in smokeless tobacco products, include the tobacco type (e.g., dark air-cured tobacco, Bright leaf tobacco, Burley tobacco), growing conditions (e.g., geographic region, climate, rainfall), curing techniques (e.g., fire, flue, air, sun), production process (e.g., additives) and storage conditions (e.g., temperature, humidity, duration)."

Tobacco farmers and manufacturers have been working for many years to limit the NNN levels in smokeless tobacco products. With the FDA acknowledging that "[w]eather is a significant factor in NNN production," there is no means by which farmers and manufacturers can control the weather in an effort to comply with the proposed 1 microgram per gram limitation.

In the proposed rule, the FDA states that "an NNN level of 1.0 ug/g [1 microgram per gram] of tobacco has been achieved in some smokeless tobacco products sold in the United States," and then claims that the proposed standard "is thus achievable using current technology" for all smokeless tobacco products. The FDA further states that the agency "may consider a lower NNN level in the future."

To put this in perspective and understand how much 1 microgram per gram is, consider that 1 gram of sugar by volume equals one-quarter of a teaspoon. Now, on a very simplistic level, take one-millionth of a quarter of a teaspoon and that is the maximum level of NNN that the FDA is proposing for finished smokeless tobacco products.

Several manufacturers of smokeless tobacco products have submitted written responses to the FDA asking the agency to: (1) withdraw the proposed rule to allow for further consideration in light of President Trump's freeze on new federal regulations; (2) withdraw the proposed rule because it fails to adequately consider such basic issues as whether the proposed standard is even technically feasible for all smokeless tobacco

products and the economic impact on manufacturers and tobacco farmers; and (3) address the agency's apparent failure to consider the differences between various types of smokeless tobacco products.

Originally, the FDA planned to accept public comments on the proposed NNN product standard until April 10, 2017. However, after manufacturers requested that

the agency extend the comment period by an additional 75 days to allow more time to compile comments to address this complex issue, the FDA announced this week that the comment period has been extended by 90 days until July 10, 2017. NATO is planning to submit comments to the FDA on the NNN standard and its potential impact on retailers that sell tobacco products. **TB**



Thomas A. Briant is executive director of the National Association of Tobacco Outlets (NATO).



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OTP PIPES RYO



p14

Here's how **Smokingpipes.com** has used the power of websites and social media to make big profits on pipes and pipe tobacco. BY ANTOINE REID

UPLOADING PROFITS

Smokingpipes.com was founded in the year 2000 as a way to bring pipes and pipe tobacco to customers through an online retail medium. Despite regulations and a shrinking market, Smokingpipes.com remains a thriving business that brings the classic hobby of pipes to a new generation of pipe enthusiasts. One of the ways that Smokingpipes.com manages to stay on top of an industry often overlooked is its approach to marketing and branding. From the time its founder Sykes Wilford thought there was a profitable business in selling artisanal pipes while attending college at Vanderbilt to the day he launched the online e-commerce website, Smokingpipes.com has been anything but a traditional tobacco retailer.

Smokingpipes.com primarily sells pipes and pipe tobacco. Pipe tobacco is considered to be a low-margin product, while pipes are generally more favorably marked up for retail. Revenue-wise, the company sees roughly an even split between pipes and pipe tobacco. Unlike many tobacco businesses, the company first launched as an e-commerce website before branching out and starting its brick-and-mortar store based in Little River, South Carolina.



TB recently spoke with Ted Swearingen, chief operating officer at Smokingpipes.com, on the practices that made the business such a success, and what lessons other entrepreneurs can learn from the company.

SET YOURSELF APART

One of the things Smokingpipes.com did from its launch that was unique to online pipe retail was its introduction of the practice of selling pipes individually, a single SKU at a time, even if by all appearances one pipe was identical to another. “We took the time to photograph every pipe individually and sell them as unique individual products,” Swearingen explains. “That was something we did before anyone else that set us apart in the online pipe market that had a very positive impact on our pipe retail business.”

Another differentiator for Smokingpipes.com was the way it described its products to consumers. The company took product descriptions very seriously, often writing hundreds of words detailing why the pipe was not just a utilitarian object, but rather a work of art, even a high-quality work created by an artist. The company’s product description sought to contextualize each pipe, giving it a history and providing a narrative about pipe making that didn’t really exist in an online retail format before. By providing such detail and background on its products, customers are able to read and understand the time and effort put into a pipe’s creation and have a better idea of what they’re spending their money on.

ALWAYS STRIVE FOR QUALITY AND GREAT CUSTOMER SERVICE

Smokingpipes.com puts a great emphasis on quality and great customer service, two things Swearingen attributes to the company’s success. According to him, customers are both the most rewarding and the most challenging aspect of running any type of retail operation. Despite the challenges, Smokingpipes.com urges its employees to think of serving its customers, not necessarily selling pipes, as their top priority. “There is something magical about providing a service to customers, particularly when it’s a product you’re passionate about like pipes or pipe tobacco,” Swearingen says.

He describes randomly taking a call one day while in the office and speaking to a customer who was also new to pipe smoking. The customer asked questions about pipes and different blends of pipe tobacco. At the end of the call, the customer praised Swearingen for being helpful and taking the time to speak with him about pipes and the hobby.

“Customers are giving you their hard-earned money,” Swearingen points out. “They’re giving you their trust. Serving customers is a challenge—make sure you’re living up to their expectations, make sure you’re getting it right all the time, ensure operational improvements and make sure you always have the right amount of inventory so that your customers want to keep doing business with you.”

KNOW YOUR CUSTOMER

In addition to offering the best service possible to your customers, pipe retailers must also make sure they take the time to get to know their customers. Twice a year, Smokingpipes.com conducts a short, two-question survey on its website that customers can respond to in less than 30 seconds. The questions asked are: “From 1-10, how would you rate our service?” and “Would you recommend us to a friend?” The responses to these seemingly simplistic questions are key to how Smokingpipes.com gets to know its customers. The company’s employees read all of the responses and reach out to anyone who complains or offers a suggestion on how to improve their business or service.

“If you don’t know who your customer is, you don’t know who you’re selling to,” explains Swearingen. “You don’t know who’s really interested in buying products from you and you’re really just shooting in the dark. Know who your client is. All the way down to small mom-and-pop shops to the big online retailers, you have to know who your customer is and who you’re working with.”

Surveys, whether short or more in depth, are important to every business’s marketing plan. Surveys can provide insight into what type of service, product, promotions and discounts your customers are expecting from your brand. Based on responses gathered from a survey, you should either strive to meet your customers’ expectations or start looking for new consumers. Another way to get to know



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your customers is to monitor your website and determine how those customers are reaching and navigating your site. For example, if your business runs web banner ads on affiliate sites, Smokingpipes.com advises using a UTM code in the link attached to your banner. These simple codes are extensions of a custom URL that can be used with Google Analytics to tell you where your traffic came from and how visitors work their way through your website. This can help you refine your online advertising campaigns, as well as fix any glaring navigation issues with your website's pages and content.

INVEST IN YOURSELF

Smokingpipes.com also invests part of its profits back into itself, fueling the company's growth each year. This goes beyond putting money back into inventory and infrastructure improvements to encompass investing in employees who can help improve your company and brand.

A major focus of Smokingpipes.com is generating new content to promote pipes and educate consumers about the pipe-smoking lifestyle. Smokingpipes.com has a popular blog and is active on social media, posting high-quality images as well as videos, all of which the company creates in-house. This, Swearingen concedes, is a huge investment of time, money and human capital, but the company has found it well worth the cost.

"I think our blog is the best pipes and pipe tobacco blog on the Internet," Swearingen proclaims. "We publish more regularly than any other person or organization producing pipe web content for blogs."

Blogs and creating shareable content for your customers can help bring more of them to your store, whether it's a traditional brick-and-mortar store or a website. A blog, Twitter account, Facebook page or YouTube channel can be used to educate your customers on the products you sell, and get them excited and engaged with your brand. Those visitors to your blog or social media can then be converted

into long-lasting customers. However, cautions Swearingen, you must show consistent effort by updating your blog and social media pages regularly to build enough traffic to move the profit needle. Have conversations with your team about the type of content you can produce that can keep your customers engaged and interacting with your business.

TURN CHALLENGES INTO NEW OPPORTUNITIES

Like many tobacco retailers, Smokingpipes.com has been impacted by the FDA deeming rules but it hasn't let the new challenge slow the company down. Smokingpipes.com was compliant with the FDA rules within 90 days after they were first announced. Swearingen says that the company is in a good position to operate with the new regulations and now has turned its attention toward improving its business overall.

While the FDA will make it difficult and expensive to introduce new products to the industry, there are other ways to exercise creativity in a restrictive market. Smokingpipes.com has taken the FDA challenge as a chance to improve its website, from introducing an age-verification process to screen customers buying tobacco products to improving its website to offer a better customer experience.

"We are testing a whole new platform for our website," reveals Swearingen. "It's mostly going to look the same to everybody, but it'll be a responsive website design. It will make it very easy to browse on tablets and phones."

The bottom line? Taking challenging times as an opportunity to evaluate your business and find areas that need improvement can help you grow your business in difficult times. Whether it's refining your marketing plan or improving your website, there's always something in need of your attention. Improvements to your business can also be used as a way to show your customers that you're aware of their needs, listening to their feedback and are interested in providing excellent customer service. **TB**

GOING ONLINE

In a 2016 report released by business-to-business research firm Clutch, nearly 46 percent of U.S. small businesses are still operating without a company website. A third of the respondents to this survey said that they didn't have a website because it wasn't relevant to their industry or business.

Clearly, having an online presence in today's marketplace is what can set a retailer apart from its competition. According to Smokingpipe.com's Ted Swearingen, anyone who is running a brick-and-mortar store who wants to make the leap to online must be dedicated to their online business. "If this is something you'd like to do, you need to do it all the way and you're going to have to do it the right way," he warns. "You're providing the same kind of experience online that your brick-and-mortar customers have come to expect from you. There's nothing more irritating or annoying as a customer than going to an online retail site that doesn't work the way one expects it to work."

The retail market can be very competitive, so it's important to be fully committed before you jump into the online space. That doesn't necessarily mean breaking the bank on an extensive website with all the latest bells and whistles. A simple, but attractive page displaying your contact information, store location and basic information on the products you carry is a solid start—and a great way to attract new customers to your business.



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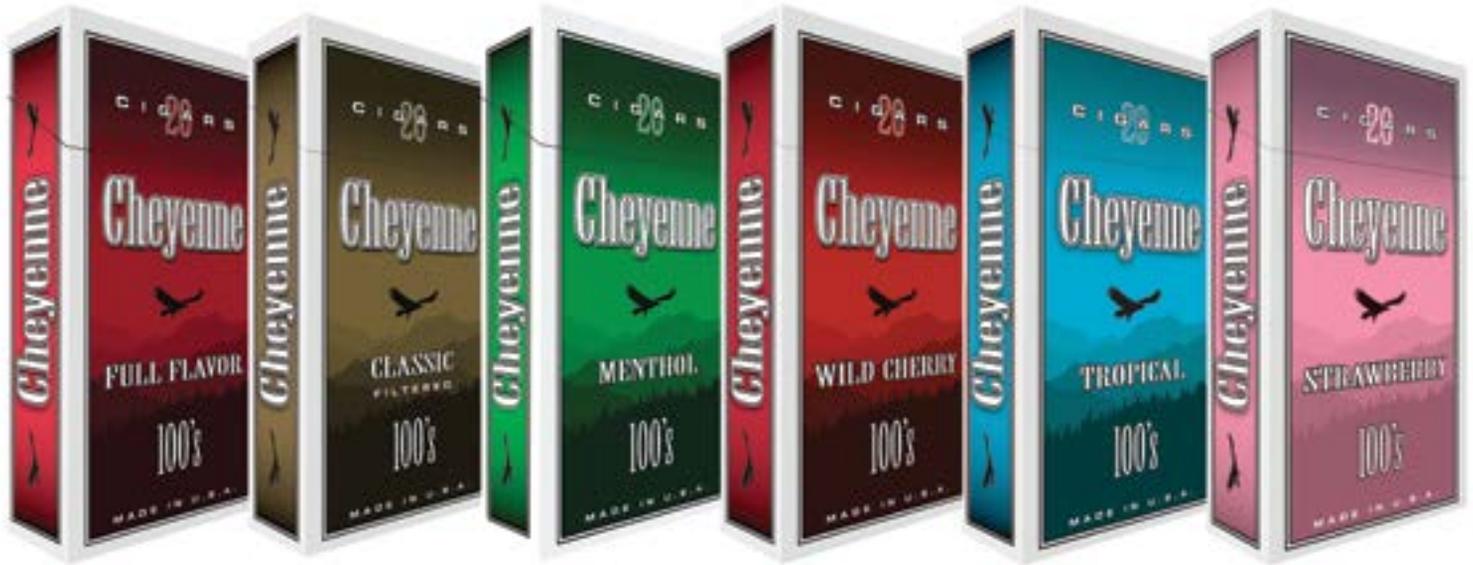


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Cheyenne Cigars: A Partnership Approach

This Grover, North Carolina-based manufacturer prides itself on listening to—and learning from—the customers and retailers it serves.

BY JENNIFER GELFAND

“We truly believe in providing the products that our adult consumers desire.”

A FEW YEARS AGO, WHEN CHEYENNE TOBACCO DECIDED to extend its line of filtered cigars, the company opted to take a novel approach. Rather than research consumer trends and make an educated guess about what would sell, the company went out and asked its customers to weigh in on what flavor they wanted to see next.

“We ran a campaign that allowed our consumers to select the next flavor they wanted to see on store shelves,” explains Jessica Fratarcangelo, marketing director. It proved a winning strategy. Tropical 100s ranked first in the vote and went on to become a strong seller for the company.

But the company, which prides itself on following the adage “the customer knows best,” didn’t stop with the top-ranking option. “While our Tropical

100s ranked No. 1 in that vote, we continuously got requests to launch the Strawberry too,” says Fratarcangelo, noting that Strawberry filtered cigars were introduced in February. “We truly believe in providing the products that our adult consumers desire, and that it’s great for retailers to bring in a product that already has instant demand.”

That customer-centric approach has been central to its operating philosophy since the company was launched in 2002, as *TB* chronicled in an article about the company’s history, “The Little Cigarette Company That Could,” in our November/December 2016 issue. Recently, we circled back to look more deeply into the company’s filtered cigar products in an interview with Fratarcangelo about Cheyenne Cigars. Excerpts from that conversation follow.

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TB: Cheyenne launched its first cigar in 2004, a few years after the company was formed. What was the thinking behind that introduction? What differentiated the product in the crowded cigar marketplace?

Fratarcangelo: Cheyenne saw a market need for a quality filtered cigar that was affordable for the adult consumer. While the brand selection then was much different than it is now, Cheyenne emerged as an early leader in the filtered cigar boom. We wouldn't say that it was always easy, but we had the foresight to know that our brand could help retailers increase their OTP sales. The combination of quality tobacco, expert manufacturing and great taste was what really set us apart.

How do your prices compare with those of other little cigar manufacturers? How concerned are little cigar customers about price?

Price is certainly a factor in a purchasing decision such as this. Over the years as Cheyenne has built the brand nationwide, we've paid careful attention to pricing in the market. While we've seen cheap brands come and go, most consumers are looking for consistency in taste, quality and pricing. While other brands may be priced lower, it is usually only temporary and doesn't offer the consumer the taste and quality they expect from a filtered cigar product.

Have you noticed any trends or changes in the cigar preferences of consumers over the last year? Any regional differences?

Overall, our Full Flavor, Classic and Menthol products are the leaders nationwide. We do see pockets of other favorites around the country, but throughout our history, it's remained relatively the same. However, as with many CPG products, consumers, now more than ever, expect choices and want to have a robust [number] of SKU variations to choose from. So, we have met that need with the addition of select flavors throughout the years. With all of our introductions, we go through a grueling process to choose the right tobacco blend to get the perfect taste for our customers. Quality must be impeccable and we don't cut corners.

What point-of-sale and sales promotions do you offer your retail partners?

We love our retailers! Therefore, we do everything we can to support them in their store environment by providing customized solutions that work for them. We're not about pushing an SKU that won't work in their market just because it is our latest offering. Rather, we tailor programs that work for their needs and support them with point-of-sale and email marketing. We also offer incentive programs to reward their loyalty and their business.

Where do you source the tobacco for your cigars? Where are they made? What distinguishes your production process from that of your competitors?

Our cigar tobacco is sourced from all over the world to ensure that our high-quality blend is at the peak of perfection each and every time. Our cigars are proudly made

in the U.S. at our facility in Grover, North Carolina. It is a small town outside of Charlotte that is home to about 600 residents, and we're very proud to provide careers with great benefits to the local community in an otherwise economically depressed region of North Carolina.

Some companies are in a holding pattern, taking a wait-and-see approach to product development while FDA regulation unfolds. Yet you introduced a new cigar in February. What's your view of how FDA regulation will impact the market? What are your biggest concerns, and what changes have you made to your plans as a result?

Our motto since the beginning has been to be as involved with regulatory affairs as much as possible. Helping to shape the way our future looks allows us to be proactive in our approach to products. Rather than "sit back and see what happens," we're right in the thick of it. We find that it's not only beneficial to our business, but it helps our wholesale and retail customers as well. For retailers who don't have the time or resources to invest in a regulatory team, it is a great added value that we provide.

FDA regulation will surely cause some brand consolidation in the marketplace. Unfortunately, the cost of doing business with [the] FDA will increase and we expect those costs to be passed along to the consumers at some point.

How involved are you in advocating for the industry? What advice would you offer to retailers who are looking to have a voice in Washington and/or the state level about regulations that will impact their businesses?

As I mentioned, we're very involved. It is important for retailers to be informed, even if they don't have the resources to advocate on their own behalf all the time. There are many industry associations that do a great job of keeping retailers informed through newsletters, seminars, webinars and lobbying opportunities. Even getting in touch with these associations at trade shows is helpful. Secondly, it is important to come together as one community. While each retailer has their own interests and challenges, presenting a united front is helpful to achieve common goals.

You now produce a range of filtered cigars. What's next for the company? What are your goals for 2017?

We have 12 styles (Tropical and Strawberry make 11 and 12, respectively). We have some exciting new consumer engagement plans on the horizon that will drive traffic to retail stores and we have plans to expand our distribution even further. While our goals change from year to year, our vision has remained a constant: provide profitable solutions to our industry partners and provide quality, affordable products to our adult consumers. Cheyenne was started as a team of four, and we maintain that entrepreneurial spirit to this day. We find this is a competitive advantage when working with our retail partners and will continue to operate this way in the years to come. **TB**



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ICT: Investing in Growth

Inter-Continental Trading USA's Shargio Patel shares his strategies for the future.

BY JENNIFER GELFAND

Inter-Continental Trading was among the many manufacturers who enjoyed a banner year at the 2017 Tobacco Plus Expo in January, where founder and president Shargio Patel told *TB* that business has been booming for his Mount Prospect, Illinois-based company, which manufactures and distributes a wide range of pipe tobacco, filtered cigars and cigarette tubes and accessories.

Founded in 2004, the company has been expanding on its additive- and preservative-free offerings, playing into a trend toward natural products. "While the filtered cigar segment continues to perform well," says Patel, "there is a missed opportunity with higher-margin, premium brands. When it comes to all-natural products, consumers are willing to spend a little extra, and Au Naturallé Filtered Cigars offer retailers a better return on those few inches of space."

In October, Inter-Continental Trading launched a loyalty points program that offers customers who regularly

“Repeat customers are the heart of our business.”

purchase its branded merchandise a variety of rewards. Point values can be found next to the UPC label on each bag of OHM, Au Naturallé and 752 Pipe Tobacco, 752 Filtered Cigars, as well as Shargio Tubes. Once sufficient points are collected, customers can log on to ictusainc.com and click the "Rewards" tab or "ICT Loyalty Points Program" banner. From there, they will be directed to a page showing the available merchandise, as well as three easy steps to redeem their points.

"Repeat customers are the heart of our business," says Patel, who explains that the program was developed to thank customers for their loyalty, and is just the first in a series of consumer-focused rollouts planned for ICT brands, and coincides with a website redesign.

Recently, *TB* connected with Patel to hear more about what's new with Inter-Continental Trading USA, and what his plans are for the company's future. Excerpts from that conversation follow.

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Tell us about the loyalty club you launched last year? What led to that? How does it work? What kind of reception has it received?

These days, brand loyalty seems to be a luxury and we wouldn't be where we are without the customers who will only buy our products. We launched the loyalty program as a way to have more of a connection with those customers and bring a little bit of fun to the category. Between the loyalty program and other promotions, it has increased the positive interaction between consumers and us.

When we spoke at TPE 2017, you mentioned doing a lot of business at the show. Was that across categories or are some performing particularly well for you?

All of our lines—pipe tobacco, filtered cigars and tubes—exceeded our expectations at the 2017 Tobacco Plus Expo. The OHM line of pipe tobacco has a large following, so our success at the show was attributed to both our existing clients and new customers getting more and more requests.

You introduced Au Naturallé cigars in 2016. What prompted you to launch a new cigar and pipe tobacco line?

With the demand for additive-free products continuing to grow, the Au Naturallé line fills a niche in the premium pipe tobacco and filtered cigar segments. On the busi-

ness side, it also offers retailers the opportunity of higher margins and a brand that gets away from the “me-too” products prevalent in the marketplace. It's been shown time and time again that consumers are willing to pay a little more for a product perceived as a higher quality.

What distinguishes it from OHM, 752 and the rest of the offerings currently in the marketplace? What are your plans for its future?

Au Naturallé completes our “Good, Better, Best” spectrum of product offerings. Where 752 fills the economy role and OHM has always been our flagship brand, Au Naturallé is the final piece that gives our customers a choice along all price points. There aren't any concrete plans in the works, but I believe Au Naturallé would allow us an opportunity for more exotic blends.

Your 752 brand of pipe tobacco and cigars is targeted at value-conscious smokers. How price-conscious are cigarette and cigar smokers?

Regardless of the market segment, there will always be consumers looking for a high-quality, value product and smokers aren't any different. Personally, I believe smokers are quality-driven first, then [price-driven]. That's how we approached 752—the best blends at an affordable price.

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U.S. manufacturing allows us to monitor both the raw materials and manufacturing process on a daily basis.
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What are your goals for this brand going forward? How do you distinguish it from competing brands?

We obviously want to see 752 grow and achieve the same success as OHM, so we are educating our client base and new customers on the line's benefits. We differentiate 752 with dynamic packaging and marketing identity, whereas typical generic products don't really stand out.

What distinguishes your cigarette tube offerings from those of your competition? How important is it that you continue to manufacture in America—and is that due to consumer preference, quality standards, or a combination?

One of the comments from our customers is the high degree of consistency from tube to tube, so I would say that it's a combination. U.S. manufacturing allows us to monitor both the raw materials and manufacturing process on a daily basis. Our customers know that products made in the U.S. offer a higher degree of quality, and having our factory here helps us maintain that quality while keeping costs down.

How concerned are you about FDA regulation? What changes have you made or do you plan to make to your business to prepare for the deeming regulations taking effect?

As a business owner, any increase in [regulation is] cause for concern, especially when there are still questions on the specifics. We were proactive in our approach for the last year, so we were fairly well prepared when the deeming regulations came to pass. The most important thing we've done is [educating] ourselves on the impact of the regulations on our products' lines. We have made sure that every facet of our operation is in line with the current rules and any potential regulations that may be on the horizon.

Our last article on the company reported on your expanded manufacturing facilities. Have you made any other operational changes/improvements since then?

A few short months ago, we moved our tube-making lines from a separate building to our current manufacturing facility. We now have our entire product line under one very large roof!

What are your plans for the remainder of 2017? Do you have any new product launches or promotional campaigns planned?

On the promotional side and new product launches, we are standing pat for the time being. We are waiting to see how the FDA regulations shake out and the effect they will have on the industry. **TB**



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Acing FDA Age Verification Rules

The FDA now requires retailers to card anyone under age 27— which can make selling online problematic. BY JENNIFER GELFAND

Since the FDA's deeming regulations went into effect on August 8, 2016, anyone selling tobacco products must verify that the purchaser is over 18 years old. In a face-to-face transaction, that sounds simple enough—just instruct your employees to verify your customer's age by asking for a government-issued photo I.D. (As the chart at right shows, most brick-and-mortar shops do that fairly well.) Online, however, it becomes much more difficult.

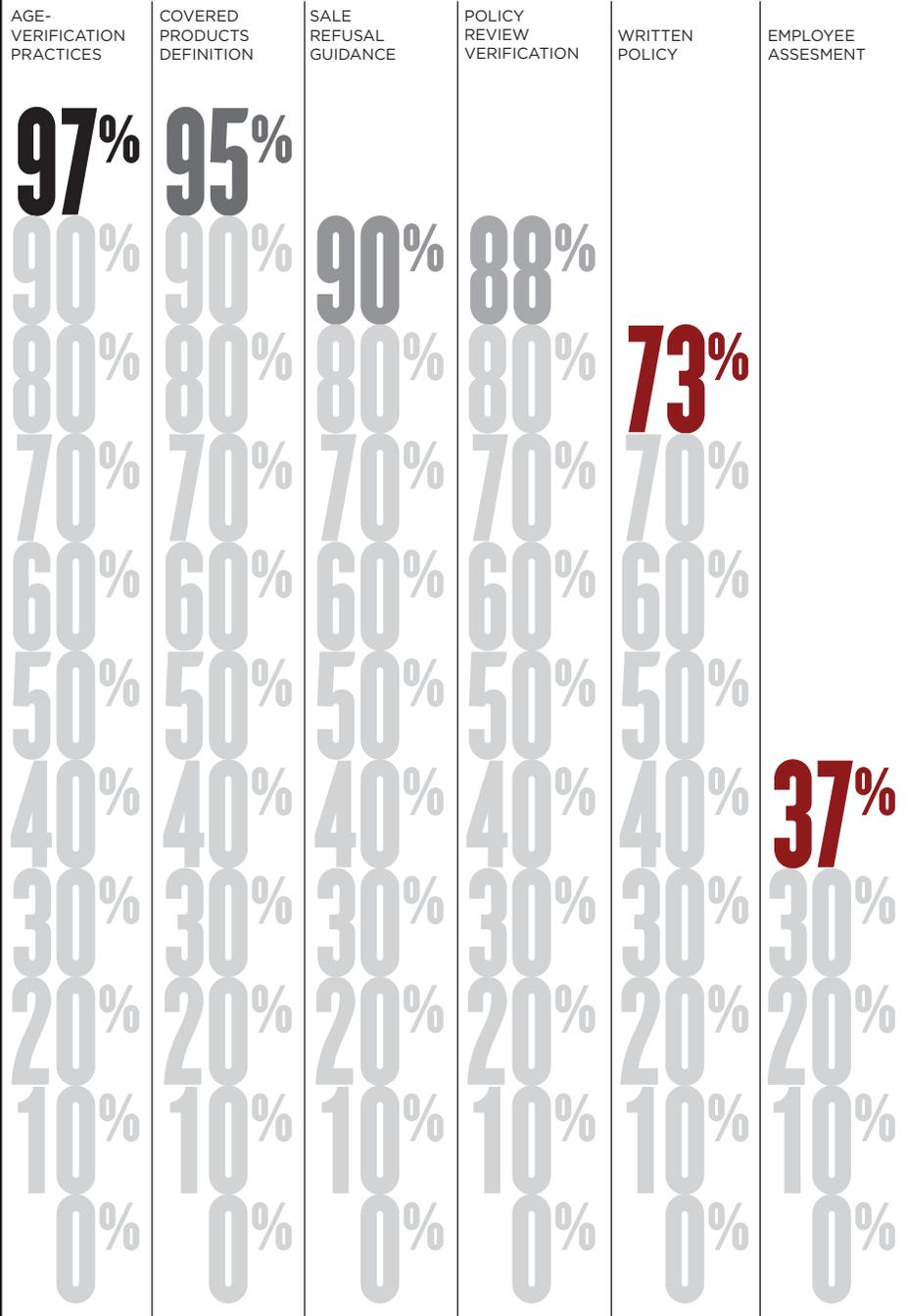
That's an issue that may well reshape the competitive landscape in vapor retail, where Internet retailers account for a significant percentage of overall sales. As Jacopo D'Alessandris, CEO of Darien, Connecticut-based E-Alternative Solutions, notes in our cover story on page 66, age verification is far more complicated and expensive to do over the Internet.

Those who primarily sell online initially tried to solve this issue by outsourcing to one of the many age-verification services that claimed to be able to streamline the process for both seller and customer. In theory, rather than having signed documents attesting to a buyer's age as well as a filed copy of their government-issued I.D., the third-party verification service would use software to cross-check a buyer's age against a database of personal information.

Unfortunately, in many cases the claims of third-party companies to be able to perform that check proved unfounded. As one shop noted in a website post directed at its customers, "The technology doesn't quite seem to be there to fully support proper age-verification techniques." That notice went on to detail the issues that the company had experienced with a top-ranked age-verification supplier, and to note that "the next-largest age-verification provider available only has a 60 percent match rate for age verification data."

Further complicating matters, some states have adopted their own more restrictive age-verification standards. For example, in California, online retailers are required to call customers after 5 p.m. to verify the order before shipping.

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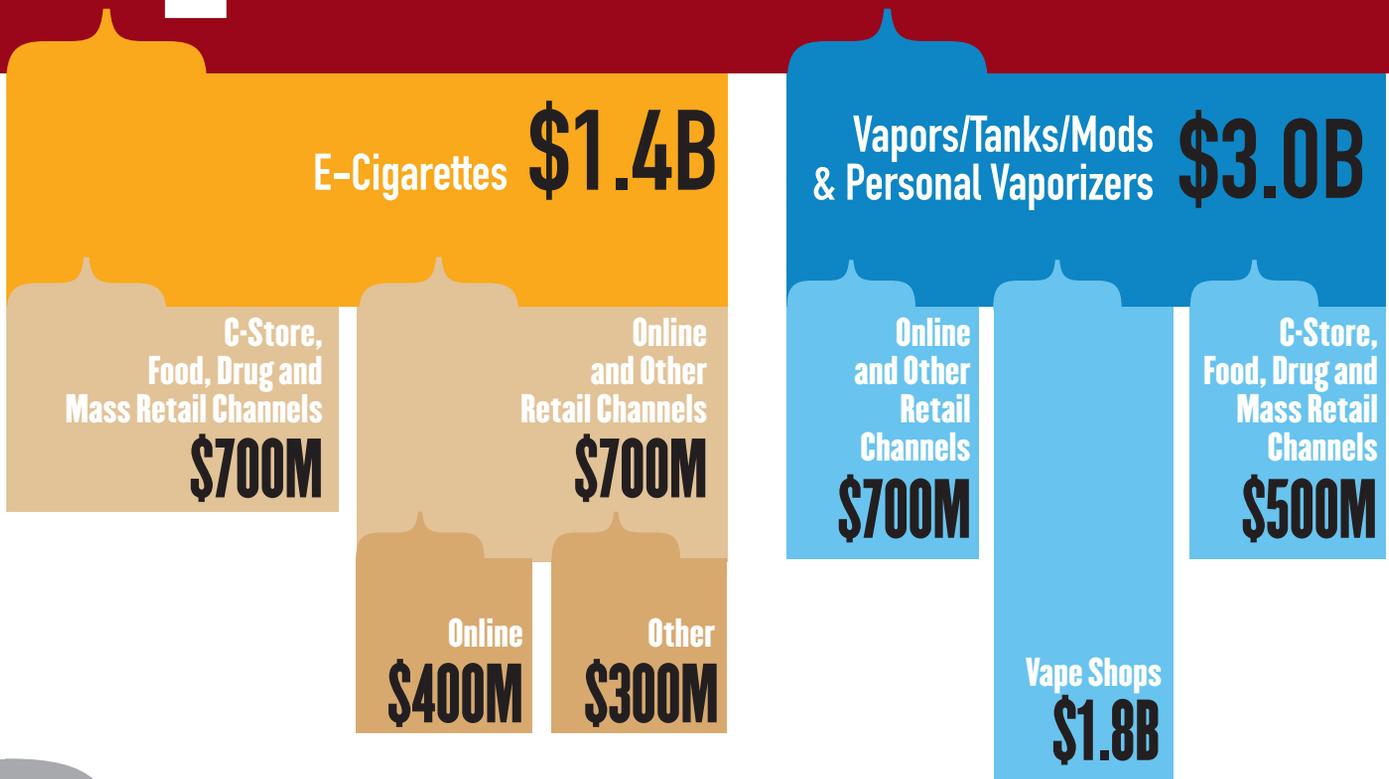
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VAPOR RETAIL SALES BY SECTOR AND CHANNEL

Online retailers, hit hardest by age verification requirements, currently account for more than \$1 billion in vapor product sales

2017 Vapor Market

\$4.4B



Source: Nielsen C-Store Database, Wells Fargo Securities, LLC estimates

While 97 percent of retailers have formal age-verification practices or policies, just 37 percent report assessing employees on their competency selling age-restricted products.

As with most FDA requirements, the challenge of meeting both national and state requirements is more difficult for smaller operations. Larger direct-to-consumer retailers like VMR have found ways to meet the age verifications, says founder and CEO Jan Verleur. But even those companies are sometimes stymied by local rules like the phone call requirement in California. “There are one or two states we don’t sell into because we can’t get through the checkout process,” Verleur admits.

At this point, the ability to navigate state restrictions on this and other tobacco-sale related matters has become as important as having a quality product. As Verleur notes, “We have grown very accustomed, as the nation’s largest online retailer of vapor products, to seeing every form of government interference at the state

level. We have had to make concession whether it be [for] Amazon nexus laws related to taxation, different tax rates built in for reasons or [the] Prop 65 regulation in California. To address different age requirements in certain states, we have built a flexible platform that enables us to tailor the online experience based on the region from which you access the site, so we are pretty set up for that now.”

And companies that sell vapor products online will need to be “set up.” The fine for selling vapor products to minors ranges from \$500 to \$600 for the first offense and can climb as high as \$6,000 for multiple offenses. The bottom line: Until online merchants find ways to navigate the federal and state age verification requirements, brick-and-mortar retailers will have a competitive edge in selling tobacco products. **TB**

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**OTP PIPES RYO
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P.34



ROLLING WITH THE TIMES

Hagerstown, Maryland-based Tobacco Road is all about adapting to the tobacco retail environment.

BY JENNIFER GELFAND

Remember the in-store RYO machine? All the rage about six years ago, the concept—retail shops where customers could roll their own cigarettes using high-speed rolling machines—was going to revolutionize tobacco retail. Customers would save significantly on the cost of their cigarettes, while the store owners would benefit from the higher margins that RYO machine stores could command.

At 2011's Tobacco Plus Expo, in-store RYO machine manufacturers were out in force, extolling the virtues of the idea itself, as well as the features (speed, quality, small footprint, financing plans) of specific models. Entrepreneurs raced to get into the game, with many investing tens of thousands of dollars to set up RYO stores.

John Temple was one of them. As an experienced retailer who already operated three liquor stores, he invested in two machines and charged one of his experienced employees, Arlene Harkraeer, to manage his new RYO venture.

Then came regulation. As *TB* reported in 2012, a provision tacked onto the federal highway bill that year designated retailers operating RYO machines as manufacturers, subjecting them to regulation and taxation that effectively wiped out both the customer savings and the retailer profit potential of the new channel. Some shops fought the law (and the law won), and some tried to work around it by redefining themselves as private clubs (with mixed success), but most folded their tents, taking a loss on the cost of those pricey machines.

Not Tobacco Road, says Harkraeer, general manager of the Maryland-based store. "The store had been built around having the in-store RYO machines and teaching people how to roll their own, and then within a month of us opening, the law changed," she says matter-of-factly. "Now those machines are beautiful shelves in our stores."

That kind of hit could easily derail a fledgling business, but Harkraeer and Temple were not to be deterred. "We really looked at how to define our customers' needs when it came to a variety of things—RYO, cigars and pipe tobacco," she explains, noting that RYO-related sales still account for 70 percent of the store's sales, largely because of the establishment's educational philosophy. "The way we advertise the store, customers come in looking to save money on cartons of cigarettes. We draw them in that way and then we talk to them about how to save money."

Tobacco Road's employees are experts at spelling out the math of off-the-shelf versus RYO cigarettes. "Let's say a machine is \$100 and your initial purchase of a bag of tobacco and tubes is \$15," says Harkraeer. "Depending on the brand, a carton of cigarettes can cost upward of \$70, so you're going to recoup the cost of that machine in a few weeks. From then on, a carton will only cost you \$15 to make."



Tobacco Road's Arlene Harkraeer

A SERVICE SOLUTION

In addition to expert advice on the ins and outs of rolling your own cigarettes, Tobacco Road prides itself on top-notch customer service. Employees greet regulars by name and take the time to help new customers learn how to operate a cigarette machine or find the right cigar. "Customer service is a No. 1 priority for us," says Harkraeer. "We are fortunate that we don't have a big rollover rate with employees, and we have managed to attract people who want to learn more [about the category] themselves and who are open to educating other people."

Since most customers are motivated primarily by price, Tobacco Road has found tailoring its assortment to its client base is a sensible approach. "We used to have a larger selection, but the longer product sits around the more it dries out," explains Harkraeer. "So now we listen to the feedback our customers offer us about brands and adjust accordingly. If someone tells us about a brand they like, we'll bring it in, or if they complain about a brand we've carried, we may stop selling it. It's all about having what your customers want and answering the questions they have."

Tobacco Road carries between 75 and 100 cigars ranging from \$2 to \$15 per stick, with a wider assortment during the busier summer months when cigar smoking ramps up due to better weather. Its cigar clientele ranges from regular cigar smokers to those who visit only on special occasions or in search of a gift. "When you have that kind of range, your employees need to know the basics about cigars," relays Harkraeer, who says that the company does well with the Ashton, Cohibas and Acid brands. "We are not experts, but we've learned a lot from our sales reps and our customers."

The store also attracts cigar smokers with regular

specials, including discounts on purchases of 20 or more cigars and promotions. "Our customers are very price-motivated; they will shop around and look for the best price," notes Harkraeer, who says that the shop broadcasts price promotions on all product categories in a monthly email it distributes to more than 3,000 subscribers who have signed up at any of the owner's four retail establishments. "The emails tell customers about what's going on in all [of] the stores—wine tastings at the liquor store, events at the bar, and promotions at the tobacco shop."

In addition to RYO and cigars, Tobacco Road does well with pipe tobacco and also sells other tobacco-related products, including six brands of e-liquid juice, e-cigarettes, mods and glass pipes. "We try to stay on top of what our customers want and need, and stay educated about new products and trends," says Harkraeer. "If someone wants to transition to vaping, we want to be able to help them with that. If they want to quit smoking, we'll encourage them and help them with that too, because even if they quit and stop coming back, they'll recommend us to other smokers." Tobacco Road also no longer sells product over the Internet, due to tougher requirements about age verification imposed by FDA regulation.

While regulations imposed by the FDA have impacted the company's business, Harkraeer is confident that Tobacco Road will be able to adapt and thrive going forward. "We will adjust, just as we have from the very beginning," she says. "For example, we stopped selling product on the Internet because age verification when you're shipping products got too complicated. Things happen and we switch it up, see what's needed, and get through. You have to be open to change. That's what tobacco retail is all about." **TB**



We are fortunate that we don't have a big rollover rate with employees, and we have managed to attract people who want to learn more [about the category] themselves and who are open to educating other people.



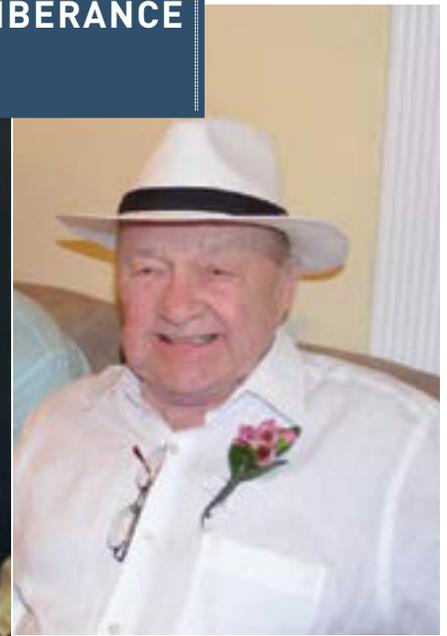
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Don with one of the *TB* "girls" at TPE.

Donald John Bores, 1934-2016

TRIBUTES TO DONALD JOHN BORES

Reflections on the founder of *Tobacco Business* and Tobacco Plus Expo

I first met Don Bores in 1998 in a hotel conference room in Pennsylvania, where he had summoned a handful of people to hear his vision for launching a tobacco magazine, trade show and industry association. I'll admit I went into that meeting thinking he was nuts.

It was a time when smart people were predicting the imminent demise of print. It was also a time when manufacturing and selling tobacco products was about to become exponentially more costly and complicated thanks to the Masters Settlement Agreement inked between Big Tobacco and state attorneys general. Yet, Bores's entire business model hinged on convincing companies operating on razor-thin margins to invest a significant portion of their meager time and resources into advertising in a magazine, exhibiting at a trade show and supporting a trade association.

Crazy, right? But Bores turned out to be the sort of man who could inspire a handful of people he had just met to follow him into a venture that sounded pretty dubious. It wasn't that he had polish. In fact, meeting Bores in person that first time, sporting his cowboy boots and one of the many hats he was partial to was not immediately reassuring. And it wasn't that he was a smooth talker—truth be told, his default demeanor was a tad gruff. In fact, I'm almost certain he pounded on the table at least once that day.

However, he knew his stuff. He had a firm grasp on the pressures, politics and players reshaping the tobacco market and, perhaps most important, what the industry needed to do about the changes taking place. He was passionate. He

was convincing. Those of us who walked into that meeting feeling skeptical walked out completely on board with Bores's vision.

And we were not alone. I'd already been in publishing for some time at that point and I knew how difficult it was to convince potential advertisers to commit to buying space in a new magazine—let alone pay for them up front. Yet, Bores pulled that off, pre-selling pages in a magazine, *Tobacco Outlet Business* (now *Tobacco Business*), which had yet to exist. Later, when it was time to launch an industry trade show, he would do that again, convincing 21 tobacco companies to pre-purchase two years of booth space.

It helped that Bores saw his venture as being about more than profit. As Bores told *TB* when we interviewed him for a story several years ago: "We were always profitable, but that isn't what it was all about. We wanted the industry and the tobacco outlet retail channel to prevail."

It also helped that he seemed to know everyone. Whether it was for marketing, circulation, sales, finance, trade show management, etc., Bores "knew a guy" he could call. (Or sometimes "a girl." Bores was not the most politically correct guy. Case in point, he referred to his all-female email editorial team, not a one of us under the age of 35, as "the girls," meaning that as a compliment—which is how we took it.)

Long after he sold the company, Bores continue to take an interest in our work and our lives. We would spot him in his cowboy hat and boots strolling the trade show floor at TPE or enjoying a cigar on opening night and we'd go over for a chat. He would ask about our families and share his latest business idea (he always

had one), as well as his take on what was going on in the industry, which was ever insightful. I will miss seeing his wide smile bloom from across the room as I headed over to say hello.

I know I'm far from alone in that. Don Bores will be sorely missed. Personally, I like to think that he's up there somewhere, relaxing, enjoying a good cigar and happy with the knowledge that he made a positive impact on the industry that he loved and the lives of the people in it.

—Jennifer Gelfand, Editor, *Tobacco Business*

NATO Remembers

In 2000, Don was one of the owners of *Tobacco Outlet Business* magazine (now *Tobacco Business*), and his prior experience in the tobacco industry gave him the foresight to dream of a national association for tobacco outlet stores.

Don's vision became a reality in 2001 when the National Association of Tobacco Outlets, now more commonly referred to as NATO, was formed. For the past 15 years, Don was a stalwart supporter of NATO and often praised others for NATO's phenomenal growth and success. However, without Don's vision and foresight, NATO may never have become a reality.

Through NATO, Don's determination to protect the right to sell and enjoy tobacco products was put into action. In many ways, NATO is a legacy to Don's resolve to have the retail tobacco segment of the industry become engaged in the fight to protect individual freedoms and liberties. NATO will continue to participate in the fight in memory of Don.

—Tom Briant, Executive Director, NATO



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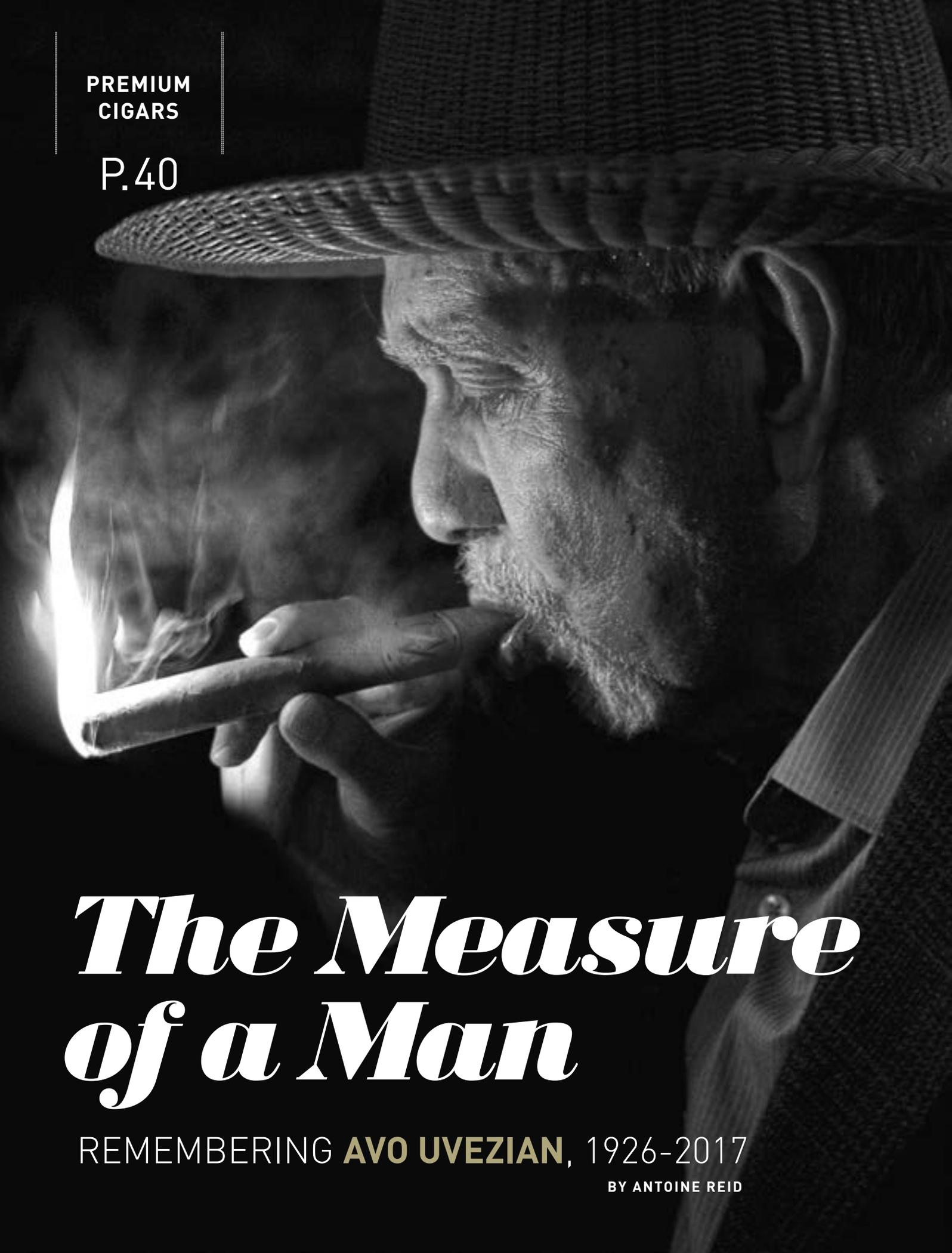


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A black and white, high-contrast photograph of a man wearing a wide-brimmed hat, looking down and to the left while holding a lit cigar. The lighting is dramatic, highlighting the texture of the hat and the man's facial features.

PREMIUM
CIGARS

P.40

The Measure of a Man

REMEMBERING **AVO UVEZIAN**, 1926-2017

BY ANTOINE REID

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The English churchman known for his energetic preaching and Latin poetry, once wrote, “If there be any truer measure of a man than by what he does, it must be by what he gives.” When looking back at the life of Avo Uvezian, it’s hard not to reflect on all that this man gave to the world, and the legacy he left behind. This was a man whose entire life was about giving—he gave his heart through his music, he gave his love of life through his family, and he gave his talent through his cigars. Avo Uvezian was a giving man, never asking for much in return, throughout his final days.

A LIFE OF MUSIC

Even though Uvezian passed away on March 24, 2017, his loss feels unreal. Whether you were a longstanding cigar smoker or simply someone in the tobacco industry who only saw Uvezian at the IPCPR show each year, Uvezian seemed larger than life and eternal. Uvezian was born in Beirut in 1926. He inherited his passion for music from his parents, exhib-

iting it from an early age. In his teens, he traveled to the Middle East as part of a jazz trio named Lebanon Boys. After touring, Uvezian became the official pianist to the Shah Reza Pahlavi of Iran. It was at the urging of the Shah that Uvezian immigrated to the United States in 1947, hoping to continue practicing and pursuing his music.

Once in New York, Uvezian studied classical piano and composition at the Juilliard School of Music. While serving in the United States Army, he developed an interest in cigars, a passion he pursued and explored throughout his adult life. After serving in the army, Uvezian continued to concentrate on his career in music, playing with some of the great jazz musicians in the ’50s and ’60s, and opening a restaurant and piano bar in Puerto Rico in the early 1980s. While managing the restaurant, Uvezian began to develop his own cigars and gave them to his patrons, who couldn’t get enough. Uvezian suddenly had an additional career path to pursue: a cigar connoisseur and manufacturer.

COMPOSING THE PERFECT CIGARS

What made Avo Uvezian unique was how he harmonized his love of music with his passion for cigars. When developing blends, he treated each cigar like a musical symphony, understanding that each part of the cigar—from the wrapper to the filler tobaccos—all needed to work well together to achieve harmony. He traveled to the Caribbean in search of the perfect tobaccos to use in his cigars. He also knew he needed great partners to help bring everything together.

In an interview conducted by Davidoff for his 80th birthday, Uvezian recounted how he traveled to Geneva for the christening of his daughter, and how having an expensive Cuban cigar during the trip inspired him to create his own quality brand. “On my very limited capital, I started making trips to the Dominican Republic for one year, studying, learning about tobacco, talking to growers, and the first factory they sent me to was Hanky [Hendrik] Kelner’s factory.”

In 1982, Uvezian partnered with master blender Hendrik Kelner and with his help,

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Avo [Uvezian] was my friend, a life mentor and a person unlike any other. I will miss him dearly.



Uvezian found the ideal tobaccos for his cigars. Early on, Uvezian tested 12 different blends before settling on a blend that would later become known as the Avo Classic. Uvezian, remembering the Cuban cigar he had smoked during his daughter's christening, also wanted to ensure cigar smokers could afford to enjoy the cigars that they created.

"I also [asked] Hanky, 'When you make cigars for me, what is the price?' When he gave me the price, I said, 'No, I don't like it. I want to pay you 10 or 20 percent more.' He said, 'What?!' I said, 'Hanky, if I bring my cigars only to the U.S. market, what would be the reason for somebody to buy an Avo when they haven't [even] heard of it?'" recounted Uvezian in the same interview.

AN UNFORGETTABLE LEGACY

Uvezian may be gone, but for those in the tobacco industry he will be remembered for his unique and sought-after cigars. Even Davidoff Cigars took over his brand in the mid 1990s; Uvezian's vision for a perfectly balanced and harmonized cigar continued to inspire and drive the brand forward. When speaking of why he decided to sell Avo Cigars to Davidoff, Uvezian's response speaks volumes as to why he will be remembered for years and decades to come:

"For me, in my life, in my piano playing, in anything that I do, quality is very important," said Uvezian. "When I travel, what I hear that pleases me more is, 'Oh, we love your cigars. We buy your cigars and we know that consistently it [sic] is good.'"

Scott Kolesaire, the brand manager of Avo Cigars, commented that "Avo [Uvezian] was my friend, a life mentor and a person unlike any other. I will miss him dearly."

Jim Young, president of Davidoff North America, added: "An evening with Avo was always an unforgettable evening of great conversation, laughter and warmth. Avo was incredibly energized by his engagement with the business and was constantly bringing new ideas to think about. We shall miss him deeply."

All of us will miss Avo Uvezian's passion for life and enduring personality. Like the perfect song, Avo Uvezian will be hard to forget. From his music to the cigars he helped create, his talent and gifts to the world will continue to entertain and enchant generations to come. **TB**



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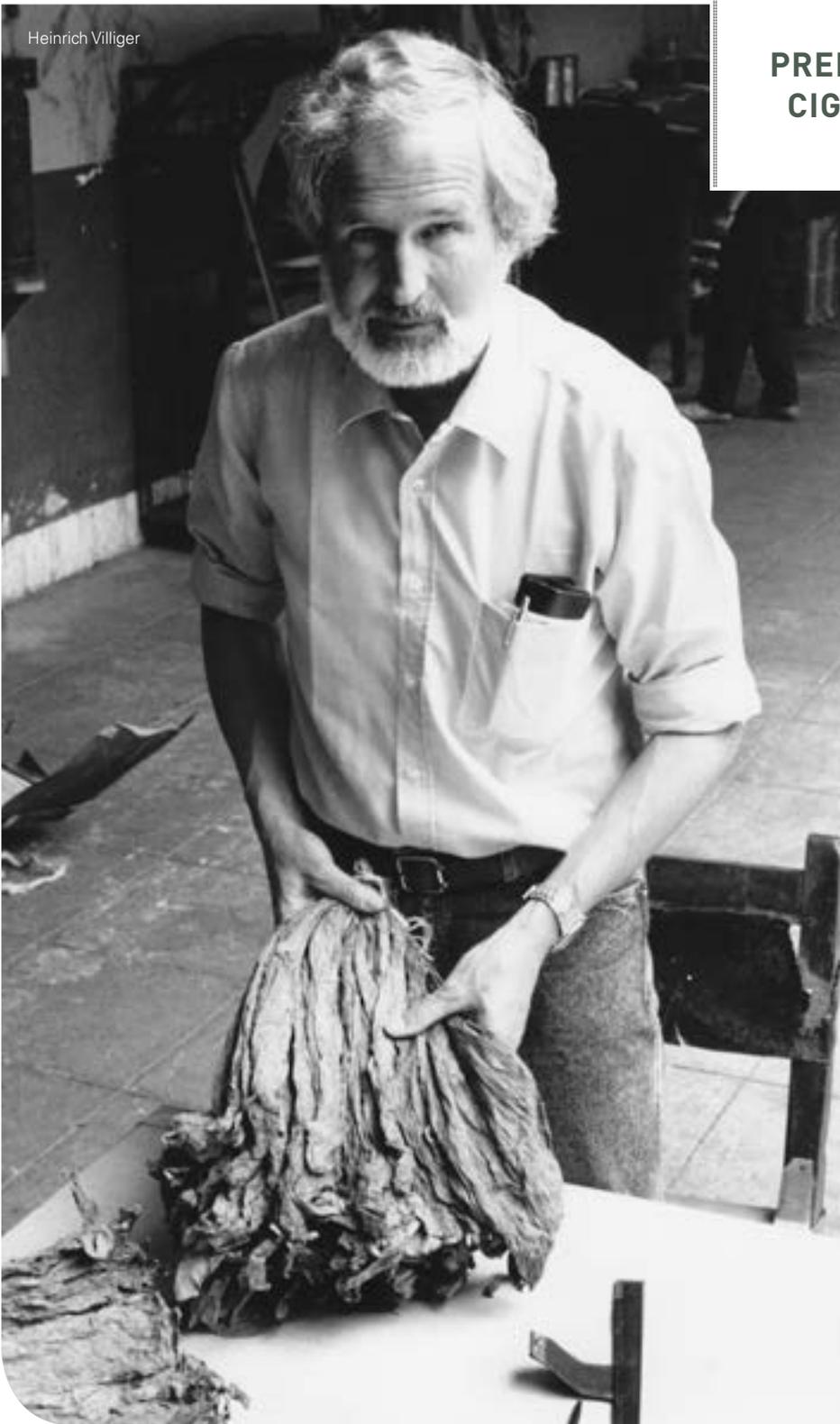
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Heinrich Villiger

PREMIUM
CIGARS



A Long-Term

P.46



Commitment

As Villiger Söhne AG enters its 129th year in business, the company reflects on its history and its dedication to the premium tobacco market and looks toward the future.

BY ANTOINE REID



In an age where tobacco companies are under the attack of increasing regulations and anti-smoking movements, any company that manages to beat the odds is impressive. Villiger Söhne AG, which dates back to 1888, has proven itself to be resilient and dedicated to not just cigars but to all premium tobacco categories. For much of its existence, the company was run by different members of the Villiger family, all innovators and entrepreneurs in their own way. Over the generations, Villiger has evolved and transformed, going from being a cigar manufacturer in Switzerland to an international company today with divisions around the world.

Today, Villiger remains as committed to tobacco as it was at its start. The company's portfolio is packed with a variety of products that are both machine and handmade, but above all, are made from premium, top-quality tobacco. From cigars and cigarillos to pipe tobacco, Villiger has something for every type of smoker in the market. To fully grasp the dedication and efforts made to establish Villiger as a global premium tobacco company, one must pay homage to the individuals who paved the way for the brand with over 129 years of history enriched in tobacco.

A FAMILY HISTORY IN TOBACCO

Villiger's story began in the Swiss town of Pfeffikon in 1888 when 28-year-old Jean Villiger founded his cigar company. When Jean died in 1902, just 14 years after founding the company, his wife Louise defied many stereotypes of the time by taking on the leadership role at Villiger. Wanting to continue what was built and inspired by his legacy, Jean expanded into the German and international markets, even as the world was engulfed in wars.

After World War I, Louise's sons Hans and Max led the company. As they continued to build on the legacy of their parents, Hans and Max brought new innovative ideas to the company's products and helped establish Villiger's European footprint and dominance with the development of products like Villiger Rillos, the first cigarillos with attached mouthpieces, and the ECO cig-

arillos, a then-innovative new type of filtered cigarillos.

In 1951, after receiving formal training in raw tobacco, Heinrich Villiger assumed control of his family's company and like those before him, he had a global vision for the company. Heinrich wanted Villiger to be an international company and known by many around the globe. He began purchasing Cuban tobacco for Villiger's Pfeffikon production facility and set the stage for Villiger to become the world's largest private purveyor of Cuban tobacco. He introduced the world to Villiger at the New York 1964 World Exhibition; he set up different divisions and distribution channels around the world to help spread Villiger's influence; he also continued to develop the company's product portfolio to expand it beyond machine-made cigars to include handmade cigars and pipe tobacco. Heinrich Villiger led the company for 65 years before stepping down in March of 2016—but the Villiger story was far from over.

A DIVERSE TOBACCO PORTFOLIO

Villiger is known for its machine-made tobacco products that carry the label of being premium. While there's sometimes a stigma attached to machine-made tobacco products, Villiger works hard to prove that one can make a premium product by machine. Only top-quality, premium tobacco is used in its machine-made products like the Export, a brand that incorporates over seven different tobaccos. The company puts its focus on quality and consistency, two characteristics that have helped its box-pressed Export brand find global success.

"Export is machine-made and a 70-year-old brand with nice, classical packaging and one that you will find all over the world," described René Castañeda, president of Villiger North America. "It's a product that can either be in the humidor or that can be sold at the counter in a display. It's a short, premium cigar, made for the person who doesn't want to spend \$10 on a cigar he or she just wants to smoke for 10 or 15 minutes." Export is available in three blends: Natural, Maduro and Brazil.

Villiger also has many premium handmade cigar products, the most popular of them being the Villiger San'Doro. This line has earned high ratings among the leading cigar magazines and websites. San'Doro is a super-premium cigar priced affordably between \$8 and \$10. This cigar is available in three different varieties: Claro, Colorado and Maduro, which is the strongest of the three blends. Oliva makes the Colorado and Claro





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Heinrich Villiger
Circa 1970



“**We need to make sure we have great products that are of great quality because there is no second chance. We need to make sure we have an excellent product from the start.**”

blends and the Maduro is produced in Villiger’s cigar factory located in Bahai, Brazil.

In addition to making premium machine- and hand-made cigars, Villiger also produces its own line of pipe tobacco. While pipe tobacco among a heavy cigar portfolio may be surprising, it fits well into Heinrich Villiger’s intent that the company be viewed not just as a cigar manufacturer but a premium tobacco company.

“When you look at us as a company, we give space and attention to pipe tobacco and you’ll see more efforts from Villiger to make people aware of it,” Castañeda explained. “We have the handmade and machine-made cigars and we have pipe tobacco. The cohesive message is that we are committed 100 percent to premium tobacco.”

IN FOR THE LONG HAUL

Today, Heinrich Villiger continues to be involved in the day-to-day operations of Villiger Söhne AG but, as in the past, a new generation of innovative and inspired leaders are carrying on the vision first set forth by Jean Villiger in 1888. Villiger has a new CEO, Robert Suter, and the North America division has a new president, René Castañeda. The company has undergone many changes in the past year but one thing remains—Villiger is wholeheartedly dedicated to premium tobacco and making top-quality products from it. From world wars to regulations in the European market, Villiger has faced its share of obstacles but it has yet to bow to any of them. Each challenge has inspired those at the helm of the company to rise to the occasion, innovate, and search for ways to improve itself. The FDA challenge is no different.

“Whatever we put into the market now is a long-term commitment and not just a flavor of the month,” explained Castañeda. “We need to make sure we have great products that are of great quality because there is no second chance. We need to make sure we have an excellent product from the start.”

Castañeda is a veteran in the cigar industry, having served as a product representative for many years before assuming the role of president of Villiger North America. Though he may not have the family name, he understands the work that must be done in order for Villiger to remain a formidable force in the tobacco industry. He, like those who have helped shape Villiger’s long history, also looks to those who came before him for inspiration and direction.

“Mr. [Heinrich] Villiger is the most passionate person about tobacco that I’ve ever met,” Castañeda declared. “Tobacco is his life. He is a firm believer that even with all the regulations and all the anti-tobacco movements in the world, that we as a company need to push forward [in] developing premium handmade cigars. He thinks that if anything goes wrong with the regulations, that handmade cigars have a better chance of surviving in the long term.”

LOOKING TOWARD THE FUTURE

Despite the FDA’s growing presence in the U.S. tobacco industry, Villiger remains dedicated to growing its presence here. The company has already faced regulations in the European market and has worked diligently on becoming compliant in order to continue serving its customers, and it plans to do the same here in the U.S. Castañeda reports that 70 percent of the company’s portfolio meets the requirements to be grandfathered into the FDA’s deeming regulations. When it comes to the company’s handmade products, Villiger is working through the substantial equivalence requirements ahead of time to ensure its products are available to its customers.

Castañeda and those at Villiger understand that while work must be done to secure its portfolio of products, it will not be successful without its key partners—the tobacco retailers. Customer service comes above all in Villiger’s marketing strategy going forward. The company’s sales representatives are constantly going through training sessions focused on Villiger’s many products. Sales representatives are also trained in how to carry out store events, another important marketing element for both retailers and consumers. The overall philosophy is if you are carrying Villiger products, then Villiger wants to help you in any way possible to make those products successful and profitable in your store.

“Here in the U.S. we’re trying to evolve and make sure we have a good foundation for our customers to have a good understanding of our company, its philosophy and our portfolio of products,” states Castañeda. “We want to show that we’re committed 100 percent from the beginning to the end.” **TB**



Villiger’s René Castañeda

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In Search of: Cigar Event "Wow" Power

Here's how forward-thinking retailers
plan on upping the ante on stogie happenings.

BY RENÉE M. COVINO

Privateer
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Ask top tobacco retailers to describe their current premium cigar business and you will hear words such as “growing,” “opportunity” and “comeback.” Ask about their cigar events, however, and many will report that while they can be closely tied to the state of the business, there is work to be done to make stogie happenings less staid and more relevant.

Recently, Rocky Patel told *Tobacco Business* that retail cigar events are a bit overplayed in the industry, meaning cigar retailers have an opportunity to “truly engage” with the premium cigar customer by moving beyond offering the same old weekly or monthly event deals inside the store.

LESS BUT MORE

For that very reason, Blue Ridge Tobacco based in Winston-Salem, North Carolina recently cut out its lackluster weekly events. “We started out in 2016 doing traditional cigar events every Wednesday, and typically, three people showed up,” says Frank Armstrong, president. “So now



Cigar events have definitely been played out. We still do them, but only during the warmer season at a few of our larger stores.



we make it monthly.”

But it’s not just a routine, boring event, notes Armstrong. He asks a cigar manufacturer to commit to doing featured promotions throughout the month, along with a cigar dinner at the end of the month. Excitement reportedly builds all month in-store for the featured brand.

While this Southern tobacco chain streamlined its events to monthly, a tobacco chain in the Northeast cut events to seasonally. “Cigar events have definitely been played out,” agrees Doug Nolan, vice president of Rock Hill, New York-based Smokers Choice. “We still do them, but only during the warmer season at a few of our larger stores.”

Randy Silverman, president of Klafter’s, d.b.a. Smoker Friendly/Cigar Express in New Castle, Pennsylvania, agrees that events can be “somewhat overplayed,” and “you don’t always get the benefit from them.” He plans to continue to do events, both in-store and out-of-store, but with considerable forethought moving forward.

“We started asking ourselves, ‘What are we trying to

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accomplish? Are we trying to get people in our stores? Are we trying to gain new customers from offsite events? Are we trying to show appreciation to our existing customers? Is the amount of time and money we are spending worth having one event? Typically, if we can adequately answer these questions, we will proceed with an event,” Silverman says.

Terry Gallagher, Jr., president of Boulder, Colorado-based Smoker Friendly and its corporate-run division, The Cigarette Store, concurs that “we all need to be more analytical and creative” with events. “I don’t disagree with Rocky, especially if you look at some who offer the same events to the same customers over and over—at what point do the events get ‘tired’ and when do customers and their wallets get ‘event fatigue?’”

Bob Roberts, president of Smoke em based in Scottsdale, Arizona, also agrees with Rocky Patel’s assessment of cigar events, but explains that he continues to hold such events “due to our competition doing the same. It takes a lot of imagination to do something different,” he tells *TB*.

THINK FOOD AND BOOZE

Two ancillary, yet complementary areas where Roberts and other tobacco retailers are looking to put their value-added event attention these days are food and booze. Alcohol is a logical pairing choice and a draw away from discounts, they say.

“Some people come to cigar events to get exclusive products, but mostly people come because there’s a deal, and in Arizona, you could go every Friday and Saturday to various events and get all cigars at a discount, but that doesn’t help with customer loyalty,” explains Roberts. “Some of my competitors have liquor licenses, so they’re doing pairings with scotches and they’re very educational. We have 12 craft beers on tap, and at least half are from local craft breweries, but we are also pairing beer and wine with cigars.”

Retailers who want to do well with events today need to go the extra mile, Roberts adds. “You have to do more of those kinds of events than just offering a cigar deal. You have to do something that gives you a leg up over the



We have more of a working-class clientele, so food trucks are a really good fit for us. We’ve done lobster, tacos and barbecue, which seem to attract a lot of people.





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You have to know your clientele. We have more of a working-class clientele, so food trucks are a really good fit for us.



competition. You have to do things that give customers an experience; you have to expand it beyond just coming in and getting a deal.”

Food elements are another creative value to add to events. For example, Roberts sometimes brings in local food trucks for his cigar happenings. “You have to know your clientele,” he says. “We have more of a working-class clientele, so food trucks are a really good fit for us. We’ve done lobster, tacos and barbecue, which seem to attract a lot of people. We’ve also done Asian cuisine, which is good, too. The trucks park right outside and it’s easy—it also supports other local businesses, which adds even more value.”

Blue Ridge Tobacco aims for higher-end, sit-down meals at its monthly cigar dinners, charging \$120 a plate,

which also includes a 25 percent coupon on cigar products purchased at the dinner. The first part of the event is in-store from 4 p.m. to 6 p.m., with recent participating cigar manufacturers, such as Bill Sherman of Nat Sherman, drawing a crowd to “chit-chat,” as Armstrong puts it. The dinner is then held off-site from 7 p.m. to 10 p.m. Fifteen customers signed up for the Nat Sherman dinner event; Armstrong considers this a “good-sized group.”

Nolan brings in food and drink to his limited cigar events with the intent of “catering to the local cigar clubs.” He reasons that if the FDA regulations stay as they are, seriously limiting new products, there will be a dramatic downturn to the industry. If there is no new cigar products to draw customers to events, creative food and drink may get them there.



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“ I think the festival has helped our manufacturer relationships and brand-building for both them and our Smoker Friendly stores in the Colorado market. ”

Tobacco retailers that actually sell booze in-store have a natural edge in switching gears with events. Bill Grantz, owner and partner at Cox’s Smokers Outlet & Spirit Shoppes based in Louisville, Kentucky, previously saw a decline in attendance in cigar event turnouts, “so we have moved in the other direction,” he tells *TB*, meaning with the spirits and craft beer side of the business as the focus, and the cigars as ancillary. “We have been more involved in ‘Buy Local’-type events,” which, he reports, are drawing crowds and increasing overall business, including cigars, even without pairings or event alignments.

Focusing in-store with cigars, Grantz has been partnering with “some of our premium cigar reps to run more in-store promotions such as ‘buy three, get one free’ to drive a higher ring per sale and move more sticks,” he says. Several years ago, the chain also rolled out a VIP

Customer Rewards program, allowing customers to accumulate points that eventually earn them Reward Dollars to use toward future purchases. The company initiated the concept for premium cigars, but its success with stogies inspired it to roll it out for all of its current categories.

GOING BIGGER

Not all tobacco retailers are streamlining events—the biggest tobacco outlet chain of all, Smoker Friendly International, puts on a number of “cool cigar events,” according to Gallagher, Jr., spreading them out among different stores. SFI is also part of a very large (and growing larger) cigar event: The Rocky Mountain Cigar Festival, held in August every year.

“I think the festival has helped our manufacturer relationships and brand-building for both them and our Smoker Friendly stores in the Colorado market,” Gal-

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“We teamed up with about seven or eight manufacturers—Rocky Patel is one—to fit our customers’ needs.”

lagger maintains. “I also think it has helped the overall premium market for all brick-and-mortar stores in the front range of Colorado because it brings a greater awareness to the lifestyle in the market.”

With these and all events, Gallagher believes that it’s imperative to approach manufacturer relationships as “always being a two-way street. The deals we offer at the events and more have to be good for both sides. I don’t think we have ever taken a heavy hand to leverage something from any manufacturing partner because we are in this business for the long haul.”

Another way to “go bigger” is to think outside the event box as Troy, Michigan-based Wild Bill’s Tobacco has done. The chain partnered with several cigar ven-

dors so that customers experience a “wow” presentation, similar to an event, every time they walk into the stores, thanks to special cigar gift boxes that are continuously on display.

“They’ll put maybe three or four cigars, with a cutter or a lighter, in a box with special pricing and packaging,” explains CMO Justin Samona. “We teamed up with about seven or eight manufacturers—Rocky Patel is one—to fit our customers’ needs. Many gift packs come with five or ten cigars, but we changed that to three with an accessory, and kept the price under \$50 for most of them.”

Wild Bill’s makes these gift boxes available year-round, many geared toward holidays and events such as birthdays, Father’s Day, Veteran’s Day, Labor Day and more. **TB**

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The Law on Labels

Noah Steinsapir, general counsel for Kretek International, offers a legal look at what the FDA's new warning label requirements mean for manufacturers and retailers.



For packaging, the warning must encompass no less than 30 percent of the two principal display panels of the product's packaging.



THE FDA'S DEEMING REGULATIONS are now in full swing, and several deadlines have come and gone since its implementation on August 8, 2016. Currently, the tobacco industry is working hard to comply with the imminent deadlines in connection to the FDA's new labeling requirements. Manufacturers/importers of cigars are required to submit a rotational warning plan in compliance with FDA regulations by May 10, 2017, and the new labels must be implemented and in commerce no later than May 10, 2018.

The material aspects of the new FDA warning plan are fairly straightforward. Manufacturers and importers of cigars must rotate six warnings:

1. **WARNING:** Cigar smoking can cause cancers of the mouth and throat, even if you do not inhale;
2. **WARNING:** Cigar smoking can cause lung cancer and heart disease;
3. **WARNING:** Cigars are not a safe alternative to cigarettes;
4. **WARNING:** Tobacco smoke increases the risk of lung cancer and heart disease, even in nonsmokers;
5. **WARNING:** Cigar use while pregnant can harm you and your baby; or **SURGEON GENERAL WARNING:** Tobacco Use Increases the Risk of Infertility, Stillbirth, and Low Birth Weight; and
6. **WARNING:** This product contains nicotine. Nicotine is an addictive chemical.

These rotated warnings must be permanently affixed to the cigar packaging and advertisements. For packaging, the warning must encompass no less than 30 percent of the two principal display panels of the product's packaging (a principal display panel being defined by the Deeming Regulations as the panels of the package that are most likely to be displayed, presented, shown or examined by the consumer) and no less than 20 percent of the total display area of the advertisement, with the caveat that the warning on advertisements appear in the upper portion of the advertisement within the trim area of the advertisement. The warnings have some other requirements such as font size, capitalization and color.

Although the rule is relatively straightforward, the industry still remains confused in connection with two looming issues: First, how will this warning coalesce with California's current Proposition 65 warning requirements? Second, how will the timing of selling through products with older warnings on them work?

PROP 65 VS. FDA WARNING

For Prop 65, certain industry groups are working to devise a plan. The purpose of California's Proposition 65 is to warn the consumer and the public at large that tobacco products contain toxic chemicals. The new FDA warning plan achieves California's objective and does so in a meaningful manner such that 30 percent of the principal display panels of the product's packaging will notify the consumer of the health warnings of the tobacco product. In terms of size and visibility, the FDA's rule goes above and beyond what is required by California's Proposition 65. Therefore, a proposed and reasonable outcome is that California determines that the additional Prop 65 warning is unnecessary, duplicative and may cause customer confusion in light of the new federal guidelines that require such a clear and conspicuous warning. In either event, hopefully the State of California will provide clarity in connection with this issue.

PRODUCTS ALREADY IN THE RETAIL PIPELINE

Another common concern is that the May 10, 2018 deadline for implementing the new warning scheme may create challenges in light of the fact that product can sit in a warehouse or on a retail shelf for extended periods of time. This may result in the sale of product without the adequate warning to the consumer after the May 10, 2018 deadline, which would not be the fault of the manufacturer/importer or the retailer. While the answer is not crystal clear yet, the Deeming Regulations appear to have considered this issue and provide a safe harbor to both the manufacturer/importer, as well as to the retailer. The manufacturer and importer appear to be allowed to introduce product without the current warning requirements into commerce up until May 10, 2018. They then have an additional 30 days after this deadline as a safe harbor to continue selling the last of the product.

In addition, retailers appear to be provided a safe harbor as long as the retailer purchased the product from a licensed manufacturer, the packaging contains some type of health warning, and the retailer has not altered the packaging. Both the FDA and the industry want to provide clear and conspicuous warnings so that consenting adults may make informed decisions. With time, the new FDA warning plan will be further clarified. **TB**





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EAS: ALL CUED UP FOR SUCCESS



JACOPO D'ALESSANDRIS, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF **E-ALTERNATIVE SOLUTIONS**, SHARES HIS INSIGHTS ON THE VAPOR MARKET'S UNCERTAIN PATH FORWARD— AND **HIS COMPANY'S INFOMERCIAL-FUELED STRATEGY** FOR NAVIGATING IT.

BY JENNIFER GELFAND







As any experienced vapor retailer can attest, the easiest way to bring cigarette smokers into the vaping fold is to educate them on vapor products. Vape shops, many owned by former smokers with a passion for vaping, excelled at this. Staffed by vaping enthusiasts informed about the latest products and trends and eager to share their expertise, these stores taught legions of newbies about the category over recent years.

Still, there are some 42 million smokers in the U.S., many of whom have yet to try vaping or, worse yet, tried an early-generation vapor product and found it a poor substitute for cigarettes.

Converting those consumers of combustible cigarettes into vapers represents a huge, albeit elusive, opportunity. But how to realize it?

Enter E-Alternative Solutions (EAS), the recently formed affiliate of Swisher International, which took the novel approach of investing in an infomercial campaign aimed at educating smokers about both vaping and the company's Cue Vaping System. The resulting 29-minute infomercial introduces "real people" who share their stories about how vaping has changed their lives, says Jacopo D'Alessandris, president and chief executive officer

of Darien, Connecticut-based E-Alternative Solutions.

"No other brand in this space has ever made this type of investment in a mass media television infomercial, not even Big Tobacco," says D'Alessandris, who explains that the campaign was inspired in part by the vapor store channel of retail. "We took inspiration from the success that vapor stores have had in educating customers about vapor—not only by showing the product, but by telling them how to use it and how it can change their lives. We took inspiration from that and asked ourselves, 'How can we do that on a mass scale?'"

Launched on February 27, the commercial introduces viewers to several former smokers who benefited from the switch to vaping, including a driver of a popular online ride sharing service who had been getting panned by customers because his car smelled like smoke, and a young woman who was a lot more interested in kissing her boyfriend because he traded in his cigarettes. In addition to promoting vaping in general through such stories, the infomercial showcases the convenience of the low-maintenance Cue system, which uses a cartridge technology to avoid the mess and hassle of open-system vaping devices. "The key



In an infomercial, because it is long-form media, you can really go into detail about explaining how to use this technology, why it is simple, and what the difference is between this and any other technology they may have tried, such as e-cigarettes.



message is that Cue is vaping made simple,” explains D’Alessandris, who notes that his company did a great deal of market research before choosing to partner with Digirettes, the creators of the Cue Vaping System (See sidebar: Cue 101).

SLOW AND STEADY TO WIN THE RACE

In that vein, EAS has been an anomaly in the catch-as-catch-can world of the U.S. vapor market, where companies new and old raced to compete for a foothold since the fast-growing category first emerged on the smoking scene. Rather than joining the contenders, EAS chose to study the market and bide its time while the technology and the regulatory climate around the sector evolved. “For the first year and a half, we culled the market looking at everything being done,” explains D’Alessandris. “We talked to entrepreneurs and established companies seeking technologies that really stood out.”

Meanwhile, of course, the fuzzy picture of vapor product regulation was also coming into focus. In fact, EAS brought the Cue Vaping System to market in the second quarter of 2016, shortly after the FDA deeming regulations were finalized. In Cue, EAS sought to offer

both convenience and quality in a device that would comply with FDA regulations.

“We saw that many smokers were intimidated by the vaping systems on the market and, at the same time, those who tried e-cigarettes weren’t satisfied with the experience,” explains D’Alessandris. “With Cue, people no longer have to mix vaping liquids—they can simply click the cartridge into the Cue and start vaping. And the amount of thick, warm, satisfying vapor that this product delivers is significantly better than what you get with an e-cigarette, so it satisfies both smokers looking for alternatives and also vapers looking for something simpler to use.”

In addition to Cue, EAS will continue to market its Liquid Soul e-liquid as it waits for the post-deeming regulation dust to settle. “What we see now is more and more discount tobacco outlets reconsidering their assortment,” says D’Alessandris, who says that he is confident about EAS’s prospects. “In a post-FDA deeming regulation world, there is a process which I call ‘cleaning’: retailers getting rid of the brands of companies who are not showing that they are invested in compliance, and moving to work with companies like us that have said from day one that we would work closely with FDA toward compliance.

ALL ABOUT CUE

- ▶ Closed-system vaping device that uses pre-assembled, disposable cartridges for no-mess, low-maintenance vaping;
- ▶ Available in four flavor categories—tobaccos, mints, desserts and fruits—and three nicotine levels (0mg, 3mg and 6mg);
- ▶ Smaller and lighter than a smart-phone and available in a variety of vibrant colors;
- ▶ Uses a sub-ohm vaporization technology. While most traditional e-cigarettes have a resistance of approximately 1.5 to 2.8 ohms, Cue's vaping system has a total measurable resistance of less than 1.0 ohm, which translates to more vapor production, more flavor and more satisfaction.



We are in a transition phase while people try to get rid of their old, non-complying inventory so they can take home compliant products.”

What does the future hold for the industry as a whole? *TB* recently spoke with D’Alessandris about his outlook for vapor and EAS. Excerpts from that interview follow.

When we last spoke, you seemed to feel the tobacco outlet/smoke shop channel was going to prevail over the vapor shop channel. How do you feel now?

We started to see a slowdown of vape shop openings even before the FDA Deeming Rule came out, and even closures in some areas where there were too many vape stores. That was in the beginning of 2016. The publication of the Deeming Rule accelerated this trend so that now our sales force reports store closings at a much higher rate on a weekly basis. We have also heard rumors of big chains that are on the brink of closing. Our projection is that in the next five years the number of vape stores will decrease by over 50 percent. Some of those will convert into discount tobacco outlets (DTOs), but many will just close shop.

What is driving that change?

We see at least five big issues affecting vape stores. First, the way the rule is written: every single combination of liquid containing nicotine constitutes a new tobacco product, so the shops relying on their own products would have to fight for each one they sell, which is financially impossible. Second, the free sampling that was a big part of the vape shop experience is no longer permitted. Third, the online restrictions have significantly increased and which many vape shops consider a key mechanism for generating awareness and sales. The new FDA rule is that you must check photographic identification for all potential purchasers below age 26, which is very complicated and expensive to do online. Fourth, FDA has ramped up enforcement actions with respect to ensuring restrictions are enforced to halt sales of vapor products to youth. In fact, FDA just sent several warning letters to vape shops and companies levying fines for selling vapor products to minors. That is a big focus of the FDA. And, finally, on top of that you see states like California taking action by implementing their own complex regulations. These are some of the reasons the business model of the vape store is really challenged in today’s highly regulated environment.

Do you think predictions that the deeming regulations will create a thriving black market are valid?

Absolutely, yes. There is no question. Smokers and the vaping community will do whatever it takes to continue to procure this alternative to smoking traditional cigarettes. If they can’t find options at retail, vape shops and DTOs, they will find a way online or by getting products from other countries. If the onerous Deeming Regulation remains unchanged, a thriving black market seems like an inevitable result.



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Think about Cue as a Keurig-type of model: the more devices there are in the market, the more replacement cartridges people will look to buy in stores.



Long term, how do you see the vapor category evolving?

The vapor market, broadly, is estimated to be a \$4.4 billion market. We see this market continuing to grow by between by 10-15 percent per year. However, we think e-cigarettes like the Vuse, Logic and blu will stay flat. The technology has limitations from a satisfaction standpoint, but it has a big enough consumer base that it will hold steady. We also see some type of open system continuing to exist in some shape or form. But we think the growth will come from new technology devices like Cue and JUUL—closed-system devices that are delivering a better experience in terms of satisfaction. But there is no question that the growth will come from the biggest market there is, which is current smokers looking for an alternative.

Where will heat-not-burn products like iQOS fit in?

While I have not personally tried iQOS, Altria's executives certainly seem excited about the potential of this category. From what I understand about the research performed by British American Tobacco and Philip Morris International, consumers seem receptive to these products as a replacement for traditional cigarette smoking. That said, it isn't clear whether any companies have filed PMTAs for heat not burn products in the U.S., so I suspect it will be quite some time before we see these products in the market here. When these products are released in the U.S., I predict significant cannibalization from cigarette sales will occur—especially as compared to vapor products, which offer flavor options that heat-not-burn products do not have.

Are you concerned about competing with heat-not-burn products?

Any product which can be utilized by smokers as an alternative to cigarette smoking is welcome in my opinion. I look at it as a good complement to what we are doing. My estimate is that by 2025, the combined total revenue of all the alternative products—heat-not-burn, e-vapor, closed systems like ours, and open systems—together will equal that of combustible [cigarettes]. That is the projection I am making.

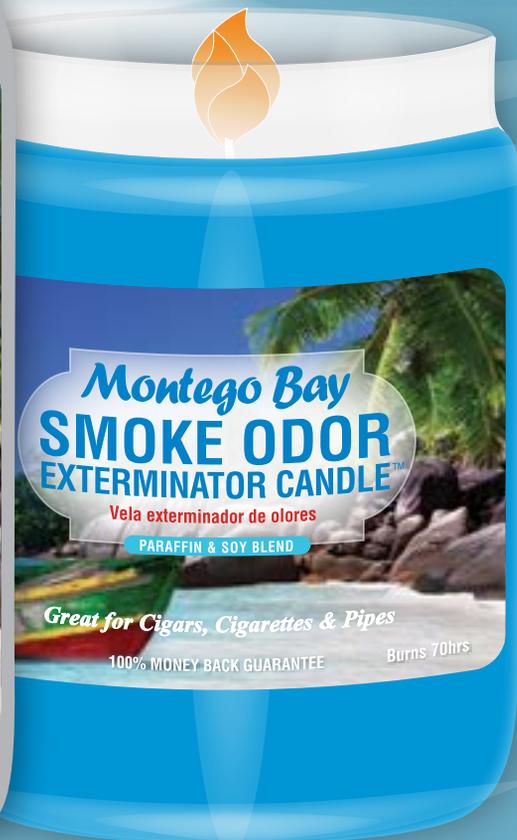
In marketing Cue, why did you choose to go the infomercial route? Why not a more conventional television campaign?

We are currently using an infomercial and not classic ads because we wanted to make education easy for consumers who are still looking for an alternative to combustible cigarettes. An infomercial is a great tool for that. Vapor stores have done well with educating smokers about vaping as an alternative, but we know that many consumers are intimidated by the look and the style of some of the vapor stores.

In an infomercial, because it is long-form media, you can really go into detail about explaining how to use this technology, why it is simple, and what the difference is between this and any other technology they may have tried, such as e-cigarettes. It is more than an ad; it is more like a television



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My estimate is that by 2025, the combined total revenue of all the alternative products—heat-not-burn, e-vapor, closed systems like ours, and open systems— together will equal that of combustible cigarettes.



show with a host who brings relatable people on who talk about their experiences and also visually demonstrate the product's features.

For example, one demonstration shows two glass boxes. In one we pull vapor from an e-cigarette, and in the other we pull vapor from a Cue system so that you can see how much more vapor Cue is delivering. This is a visual presentation of how a device like Cue can deliver much more thick, warm vapor than an e-cigarette. So the infomercial strikes a balance between emotional connections and presenting rational, hard facts about the product.

How does your campaign fit in with restrictions about making health claims about the benefits of vapor products?

FDA has not issued guidance with respect to vapor products specifically directly related to the use of television ads or any other media for that matter. That said, we voluntarily self-regulate our marketing practices very strictly. We do not make any cessation claims in our messages. Nor do we make any claims that vapor products are healthier than smoking. In fact, the only comparison we make to cigarettes relates to the fact that vapor products don't smell or stain your clothes. We are also very careful about when we broadcast and on what channel. The channel has to guarantee that at least 85 percent of their intended audience is made up of adults, and we primarily air it at night when kids are in bed.

Who is your core target audience for Cue?

The core audience is smokers looking for an alternative. There are a lot of them out there who have been dissatisfied by e-cigarettes or who are intimidated by vaping devices and vapor stores. This comprises the biggest population still out there that we want to reach. A secondary audience is the vaper himself or herself who is looking for a more convenient way of vaping.

How is the ad performing for you?

In these first few weeks the results have far exceeded our expectations. We are getting more people calling the 800-number or going online and buying the product than we anticipated. There are two metrics in the infomercial world. The first one is calls per \$1,000 spent: how many calls you get for every \$1,000 you spend on television. The second is conversion: how many of those who call actually end up buying. Our response rates have been very strong. Over time, we will start editing the infomercial into shorter versions. As you go shorter with the commercials, you tend to drive fewer people to website and call center and more to retail. That will be the second phase.

What do retailers need to do to maximize sales of your products? How are you helping them do this?

We have launched a national multi-million dollar infomercial campaign aimed at driving education, brand

awareness, and trial. Think about Cue as a Keurig-type of model: the more devices there are in the market, the more replacement cartridges people will look to buy in stores. Cue wants to make life simpler for consumers, and for retailers, too. We have a dedicated field sales force and category management team that will work with retailers to make the best usage of their e-vapor shelf and maximize profit.

We've talked about your infomercial, but what are you doing at the store level to help educate consumers?

We are working with our retail partners on different options. Every retailer is a little different. In some discount tobacco stores and even vape stores, you can work with clerks to educate them about the product and provide them with educational tools and leaflets. So we do that. With some less human-touch-based retail formats like c-stores, it is in point-of-purchase display material, leaflets and coupons. We are launching a mobile tour where we will have a Cue lounge truck that visits different festivals and Indy 500 and NASCAR races so people at those events can come into the mobile lounge and learn about the device, try it, and even buy it. Education is really the key component of our communication package.

Are you working on a next-generation product? Or is all innovation on hold now?

Because of the Deeming Rule, innovation is over when it comes to products on the U.S. market. The product we are selling now, Cue, was in commerce before the Deeming Rule, and there is no modification or innovation possible that we can do to it. So for now we are really focused on our PMTA process for existing products.

A company like Swisher had an edge over newer companies in coping with FDA compliance. Are you looking at acquiring competing companies that may be ill-equipped to navigate the regulatory environment?

EAS's relationship with Swisher is helpful in many ways. Since EAS was created two and a half years ago, my team and I spent months testing products and talking to entrepreneurs and established companies until we found Digirettes, which had the best technology on the market with Cue. That is why we put our resources behind it. Can there be others out there? Absolutely. Would we be interested in looking at those? Absolutely. However, if a product is in the market and that product wanted to continue to exist—barring any deadline change from the FDA—that product will need to go through all the testing [that] the FDA requires within the next one and a half years, which is a short time. With Cue, all of that has already started. So any new technology that hopes to continue to exist after 2018 will need to speed that process up. **TB**





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The Cannabis Conversations

TB talks with tobacco, vapor and c-store retailers about incorporating cannabis into the business.

BY RENÉE M. COVINO

Is the “C” word spoken in your store? Have you asked and answered the tough cannabis questions from a business perspective? *Tobacco Business* talked to several retailers who have.

Recently, these retailers discussed selling cannabis-related accessories, how best to merchandise the category, venturing into cannabis as a side retail business and more with *TB*. Compare your entrepreneurial thoughts to their varied viewpoints.

ALONG THE “GREEN” PATH

Smoker Friendly, based in the highly touted cannabis state of Colorado, has sold cannabis-related accessories for “a number of years” and continues to expand its offerings throughout the chain, according to Terry Gallagher, Jr., president. “We have a half-dozen co-branded stores as Smoker Friendly and Glass Werx, and we have a Glass

Werx program in the vast majority of our corporate stores (The Cigarette Store Corp.). In fact, we have a Glass Werx program that we can help other operators implement if they are not in the business in a big way, or at all. It is turn-key, and really does not cause any brain damage in what would be a new merchandise category for them.”

According to the category director for Glass Werx, Tim Greene, the CBD category has spiked in the last six months especially—not just in the vapor/oil form, but in lotions, too. “We’ll see how regulation plays out, but it’s definitely something that virtually every [Glass Werx] retailer is carrying in-store.”

As far as cannabis itself, “the glass category is really big for us—both imported and American glass, branded and our own brands,” Greene adds. “It all sells like crazy right now.” This includes higher-end glass items, although that is not the focus in downtown metro-area stores.

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The majority of our customers are not offended anymore; maybe five years ago many more were, but I think over the last two years that has changed.



“We had to realize that in the metro areas we are getting a lot of tourists, and they just want an accessory for the weekend, so 95 percent of the glass we sell there is under \$30 at retail,” he says. “In other areas, higher-end glass is hotter. You have to understand your market.”

Bill Grantz, owner and partner at Cox’s Smokers Outlet & Spirit Shoppes based in Louisville, Kentucky, has seen “tremendous growth” in cannabis-related items not only in sales, but with high-profit margins. Initially, the chain offered a small assortment of glass pipes in select stores, but then the company realized that there was more potential.

“Currently, we have stores with as much as 16 linear feet on a wall section, offering products such as glass, vaporizers, cones, grinders, etc.,” he explains. “We display these in 7-foot tall LED-lighted in-line glass cases, which we purchased from Lozier fixture company. The initial investment on the fixtures is a little tough to take, but they more than pay for themselves over time. This was a category that we were a little afraid to get into in the beginning as far as image, but with the legalization in other states growing, I think it’s becoming more acceptable.”

Troy, Michigan-based Wild Bill’s Tobacco has gotten so serious with the category that it has “dedicated separate rooms” in just about all stores that house vaporizers, glassware and other medicinal-use cannabis accessories.

“We are a medicinal-only state, but we’re hearing that in the next year or two we should be following other recreational states,” says CMO Justin Samona. “The majority of our customers are not offended anymore;

maybe five years ago many more were, but I think over the last two years that has changed. Plus, the people who aren’t interested don’t have to go into that room. It’s a closed-off, separate section of the store, and it’s actually been praised by city officials and law enforcement; they’re happy with how we’ve merchandised it.”

Some convenience stores are trying to stay ahead of the cannabis accessory curve, too, including Speedi Car Wash and Fuel in Flagstaff, Arizona. “In Arizona, where they’re trying to legalize recreational marijuana, we decided we need to be ahead, so we thought it best to bring in grinders and small glass pipes, even high-end ones that retail for \$300 each. We’ve sold two of the four of those that we took in,” says Jeremy Goerts, general manager. “We have that there to show customers we can bring that kind of stuff in. My people are well-trained to not call it a bong; it’s a water pipe. If a customer calls it a bong, I will correct them. We are selling water pipes, nothing more. It’s an eye-catcher, too.”

The word on the vape shop street is that the cannabis accessory business, and even cannabis itself, may be a good “fallback” business to change over to as vapor regulation and taxation get more intense. Lauren Mikulski, owner of Gone With the Smoke in San Francisco, admits that she is worried about her vape business declining because of taxation. “We actually conducted a survey in our stores and found that only 70 percent [of current customers] will continue to buy from us with the new taxes,” she reports. That unhappy news was enough to convince her to seriously explore venturing into the



cannabis business, including accessories. “We’re setting it up this year and hoping to switch over in 2018.”

CAUTIOUSLY OPPORTUNISTIC

There are also those retailers who lie in the middle of the road, cautiously treading into and around the category.

“We carry some of the traditional products that are considered tobacco accessories, but also are used for cannabis, such as papers, blunt wraps and cigarillos,” explains Randy Silverman, president of Klafter’s d.b.a. Smoker Friendly/Cigar Express in New Castle, Pennsylvania. “We are also carrying glass pipes and some of the other accessories that are associated with cannabis. We have been taking a more low-key approach with our merchandising, but as cannabis continues to be more acceptable, I foresee these types of products becoming more mainstream in our merchandising.”

Darren Collett, president of Collett Enterprises in Seymour, Indiana, sees that cannabis is “much more socially acceptable.” Therefore, “we have brought a small selection of accessories into some of our locations,” he tells *TB*. “We merchandise them in a very low-key fashion.”

Bob Roberts, president of Smoke em based in Scottsdale, Arizona, is keeping a close eye on cannabis and accessories as business opportunities. “Arizona is a medical cannabis state, but a referendum for recreational cannabis failed by only 15 percent,” he relays. “We believe customers can and will accept this segment [in] most of the cities we retail in.”



As cannabis continues to be more acceptable, I foresee these types of products becoming more mainstream in our merchandising.



“If and when they legalize cannabis in New York, we will do what is best for our company to grow with the times, no pun intended,” adds Doug Nolan, vice president of Rock Hill, New York-based Smokers Choice. “We will grow our product line to incorporate the latest and greatest to give every customer what they need, and most importantly, [to] help educate them to keep them coming back.”

HANDS OFF—FOR NOW

Of course, not everyone is giving the green light to “going green.” Randy Drott at Town Crier in Mandeville, Louisiana is one tobacco outlet retailer who won’t touch cannabis-related accessories or what he calls “dope paraphernalia,” because “you can get into trouble.” He says he looked into accessories for his chain of stores, “but once you do that, you’re walking a real tight, fine line on being a head shop, and that’s not us,” he explains.

“I don’t sell that stuff,” agrees Gary Tapley, owner at Smoke Shop, a tobacco outlet chain in Dyer, Indiana. “If they make [marijuana] legal, then I’d have to think about it. There are no marijuana stores in the state of Indiana. A lot of people sell a lot of that [accessory] stuff and make a lot of money, but I can live without it.”

Paul Mahoney, owner of Puff Super Value in Mill Hall, Pennsylvania, is another tobacco chain retailer that rejects the idea of cannabis-related items, due to a previous bad experience. “We don’t deal with it at all,” he relays. “We did a year or two ago in the synthetic area, but we had legal problems so we got out.” **TB**

VAPOR

VMB's

New

Directions

*Known for its V2 vape brand, **VMB** is balancing a move into the cannabis market with ongoing innovation in the vape sector. Vapor industry advocate and **VMB** CEO Jan Verleur shares his strategy for success in a post deeming regulations world.*

BY JENNIFER GELFAND

p80





Like many vaping enthusiasts, Jan Verleur has always been a tireless advocate for his industry. He spearheaded the launch of the SFATA trade association and is now a supporting member of the more recently formed Vapor Technology Association (VTA). He plays an active role in representing the vapor community in the media and he continues to push for relief from onerous industry regulation. But he's also a businessman who knows how to navigate changes in both the marketplace and the regulatory environment. So it came as little surprise that when the deeming regulation were finally released in May of 2010, he was a man with a plan.

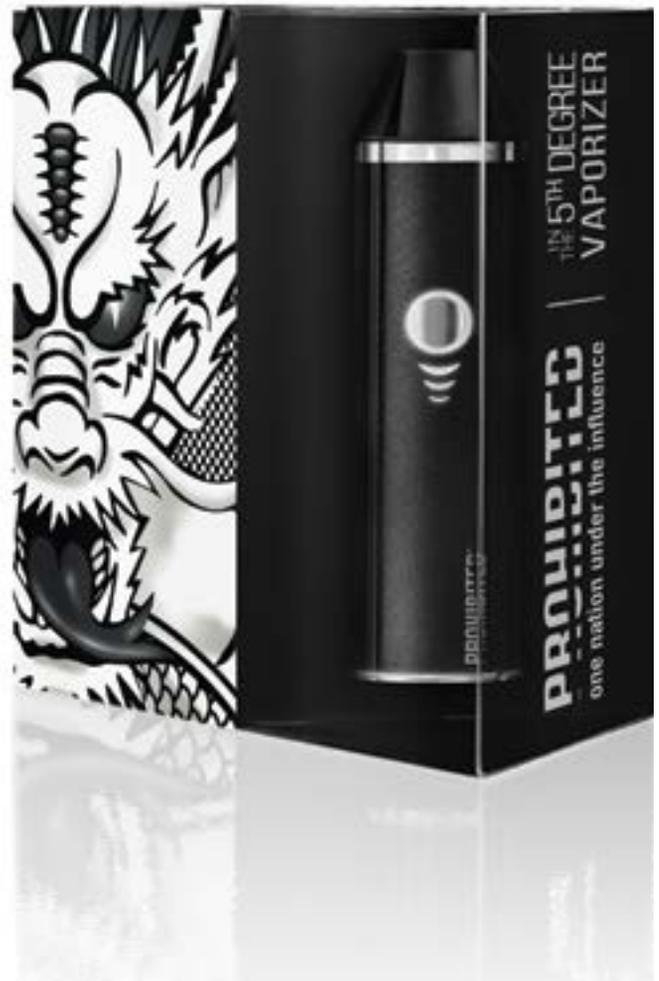
Like many in the industry, Verleur paved the way for the company to operate in the aftermath by bringing 150 prototypes to market before the August 8 deadline (more on that later). He also moved swiftly in a new direction. "We recently launched a secondary brand called Prohibited that's more centric to the cannabis space," he told *TB* recently. "One of the reasons we chose to work in that realm is because our primary market, domestic nicotine-based products and e-liquids, is facing enormous regulatory challenges, but the cannabis side is regulation-free. We decided it was a good time to enter that space with a new brand."

The company plans a family of products for its new Prohibited line, which has the tag line "One nation un-

der the influence," all of which are devices for vaping leaves and wax concentrates rather than products containing the herb itself. Also, mindful that the legality of cannabis still varies dramatically state by state, the company plans to forego Internet distribution—which accounts for the bulk of its profits with its V2 e-cigarettes and V2 Pro multi-function vaping devices—with Prohibited. "Prohibited is business-to-business (B2B) only, since the product is targeted for states that have legalized medicinal or recreational marijuana," says Verleur, who adds that the line was designed and will be marketed as a separate and distinct brand to protect it from regulation as a tobacco product by the FDA.

"If I were to launch a loose-leaf product under the V2 brand, you could make an argument [for FDA regulation] because V2 is an established nicotine brand and that market accounts for the majority of our revenue," says Verleur, who acknowledges that the FDA may still take issue with vaping devices marketed for cannabis. "There is always the concern that the FDA might overreach in that regard, but we feel we are on strong legal ground as it regards to Prohibited."

The first Prohibited product, called the 5th Degree and set to launch in April, will be usable with cannabis in wax, concentrate and flower form. Four additional products are planned for the line, 1st Degree, 2nd De-



gree, 3rd Degree and 4th Degree, adds Verleur, who notes that while the company is excited about entering a new market, it is by no means abandoning its traditional nicotine-based vapor business from an innovation and marketing standpoint. That's partly because the company's cannabis market strategy—i.e. not selling actual cannabis—foregoes much of the emerging category's profit potential.

“The vast majority of what makes up the MSRP of cannabis is actually the cannabis liquid, not the device,” explains Verleur. “We believe the space is an \$800 million category, but to the electronics manufacturer like me, the most we can achieve of that MSRP would be 20 percent—and that's without giving up a margin—and retailers in the head shop space are accustomed to a 50 percent margin.”

On the plus side, however, customers willing to shell out for costly herbs are less price-sensitive when it comes to the cost of the device they'll use to vape them. Also, the players in the space are relatively unsophisticated, which gives VMR, which has a wealth of experience in both vapor manufacturing and retail, a window of opportunity. “I can pick up share without much interference from competitors, other than Firefly and PAX, whereas in vapor I'm competing with Big Tobacco and the Goliaths,” says Verleur, who nevertheless remains committed to the vapor marketplace.

VMR'S VAPOR POSITIONING

After the FDA's deeming regulations were released in May of 2016, VMR CEO Jan Verleur issued a statement charging that the “all-or-nothing approach” that would “subject electronic vaporizers to an unnecessarily onerous approval process” threatened “to eliminate 99 percent of the electronic vaporizer industry.” Ironically, a year later, it's that very scenario that is paving the path for VMR's continued success.

Even as he argued vigorously against FDA regulations that would subject vapor products to the same restrictions and regulations as combustible cigarettes, Verleur also hedged his bets, working strenuously to bring a slew of prototypes onto retail shelves before the first deeming regulation predicate product deadline hit. Now that forethought is paying off. “Everything we are launching under the V2 brand between now and the end of 2018 are things that were actually precepted prior to the August 8, 2016 deadline,” he explains. “We rushed about 150 prototypes to market, many of them handmade because we didn't have time to complete the industrial tooling, in select stores in the same packaging it would ultimately be sold in. Now we'll be [rolling] those products out in the next few quarters and over the next year without having to undergo the PMTA process.”

VMR banked on getting those new introductions into continuous commerce before the August 8, 2016



The vast majority of what makes up the MSRP of cannabis is actually the cannabis liquid, not the device.





deadline, even in a limited number of stores, and the move is already paying off. That happy outcome is only likely to intensify as the vapor market goes through the post-deeming-regulation consolidation that experts are predicting. VMR is one of the largest players in the market and is also one of the few that plays in multiple segments. The company sells directly to consumers online, as well as across a broad spectrum of retail channels, and it has a wide range of products suitable for each market.

“Each market demands a different type of product,” explains Verleur. “Some compete with one another and others less so. For example, the c-store space doesn’t compete with the vape shop space, but the vape shop space competes with the Internet because \$100-\$200 fancy devices play well in an Internet environment where you can learn about how they work, and they also do well in a vape shop where there are experts on hand to tell you about the various devices and show you how they work.”

Like many in the industry, Verleur has seen contraction in the vape shop channel. Shops that relied on making their own product, unable or unwilling to navigate the FDA approval process, are shutting down. However, he doesn’t see the channel going away altogether, nor the vapor market overall declining. “The breadth of product will be reduced; stores will be limited to selling product from reputable companies that have gone through the regulatory process,” he predicts. “That will lead to less product offerings...for a company like VMR that is a magical thing because we are designing products that are perfect for that space. So we are looking forward to gaining market share.” **TB**

WHAT'S NEW FOR VMR IN VAPOR

Inspired in part by a bad e-cigarette experience, Jan Verleur launched VMR in 2010 as a technology company aiming to engineer a better vaping product than the makeshift devices dominating the market at the time. “We have always been an R&D-based company,” he recounts. “Having 40 engineers in the company has given us the opportunity to develop technology and build a substantial patent portfolio.”

Many of the new technologies VMR is bringing to market in 2017 are cartridge and accessory innovations for its S3 and S7 devices. “We built our V2Pro Series 3 as a cartridge-based product platform. So now we are launching a slew of new accessories for that product, including a ceramic P&G card that literally makes about three times the amount of vapor as prior cartridges and lasts for up to 40 fills,” explains Verleur. “We have 11 different cartridges launching for our S3 and S7 devices.”

While details on all the new launches are not public yet, Verleur says to expect cartridges with interchangeable coils allowing modifiable air flow support for citrus juice and PG/VG support.

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SPIRITS





Sizing *up* Spirits

Alcohol and tobacco are a natural pairing, as these three retailers who sell both can attest.

BY RENÉE M. COVINO

C

“Candy is dandy, but liquor is quicker” applies from a profit perspective, too. Selling spirits alongside cigars is a good way to diversify, resulting in add-on sales and margins, no matter which category is the dominant one. And if done right, it can beat candy as a complementary impulse purchase.

Here are three varying retail perspectives on the killer liquor/tobacco sales combination: ►



COX'S SMOKERS OUTLET: LEVERAGING LIQUOR

About 30 percent of the business across Cox's Smokers Outlet & Spirit Shoppes based in Louisville, Kentucky is now in liquor sales, according to Bill Grantz, owner and partner. The eureka moment for Grantz came in 1997, when a liquor store next to one of his tobacco stores went up for sale. He obtained a liquor license, knocked down a wall and started his first tobacco/liquor shop.

"I saw that cigarettes weren't going to be as profitable anymore, and liquor offered the sales we were needing and hoping for," he tells *Tobacco Business*. "The combination of the two worked well together for us."

Today, Grantz considers his 14 of 18 stores with liquor to be "more like convenience/liquor/tobacco neighborhood-type locations." He explains, "we have big-box competitors in liquor, but a lot of our stores have drive-throughs, and we're able to compete as more of an 'in-and-out' type retailer."

For reference, margins run about 20 percent in hard liquor, 25 percent in wine and 13 percent in beer.

Grantz cautions that every state is different on alcohol rules and regulations. "In our state, you can't sell alcohol below your cost, but the more you buy, the better price you get, so we run sales on alcohol based on special purchases we get from distributors, thanks to our multiple number of stores selling it."

Cox's creates its own in-house signage and typically promotes at least one liquor, one wine and one beer for four to six months, depending on what distributors are offering price-wise. "If they're wanting to move Yellow Tail wine, then they run an extra special promo on that, and we usually pass that on to customers," Grantz explains.

Grantz had to learn one lesson in alcohol sales the hard way, he says. "We started to run our rewards program, which we offer on cigars, with alcohol as well; we didn't know you couldn't do that here. We got cited and they gave us a warning, so we dropped alcohol out of the program."

Nevertheless, Cox's sells a lot of cigars and alcohol together, according to Grantz. "We see that a lot of bourbon lovers are also cigar lovers; we see a lot of basket-type sales where you get multiple purchases like this."

For that reason, the chain will hold some cigar events where it will have bourbon tastings, too, but those can't be in-store. In the store, it will hold "liquor and wine tastings all the time without cigars involved; we can taste indoors, but can't smoke indoors, even in a tobacco store," says Grantz. "We usually invite one of the liquor distributors in here for this. We generally have the tasting events twice a month and it's a lot more regular during holidays and Kentucky Derby time."

Cox's regularly merchandises some exclusive bourbons that are more than \$300. "We don't do a big volume in it, but we have some special stuff that we get our hands on and proudly display," Grantz reports. Like any other store that sells alcohol, Cox's "sweet spot" on 750 ml of bourbon is typically in the \$25 range, he adds.

Another avenue of opportunity for Cox's to get the word out about its liquor/cigar sales is through its membership in a local Louisville group that holds "Buy Local" events. "A few times a year, local businesses like ours are invited to promote our products and promotions, typically during the spring and summer time, where food and restaurant events will be incorporated," Grantz explains. "It has helped our image as a locally owned retailer versus some of our bigger corporate competition in the area."



LIQUOR SHOP DOUBLES AS CIGAR WHOLESALER

From the reverse-dominant perspective, Cedar Mill Liquor is a single liquor store in Portland, Oregon that sells cigars from its 32 feet of back-to-back wall cabinet humidors, but also doubles as a cigar wholesaler to other retailers in the area that want to incorporate cigars into their mix.

While the majority of its sales are in liquor (over 90 percent), premium cigars are here to stay and are growing for Cedar Mill. In fact, selling premium cigars in a liquor setting is a growing trend, observes Randy Guerra, owner of the business, which sends about 60 percent of its cigar sales out the “back door to other retailers.” The majority is to area liquor stores with humidors, he maintains.

The reason for the birth of the wholesale side of the business is in keeping with the growing liquor/cigar sales trend, according to Guerra—customer demand. “A lot of people now associate a luxury lifestyle with the pairing of scotch, cognac, bourbon and port with cigars—they are very naturally complementary products.”

Cedar Mill Liquor has offered premium cigars for sale since Guerra took over the store in 2002, but he has steadily expanded the stogie inventory and his wall of cabinet humidors to meet growing demand. The wholesale cigar business was born about five years ago, when Guerra realized the complementary business opportunity on a larger scale.

“There’s a certain amount of work to be done [when] dealing directly with cigar companies; we have to file quarterly reports on everything we purchase and sell,” he says. “We felt we could make it easier for our fellow liquor store owners. We knew we would have to do a certain amount of business to make it worthwhile, but



We usually invite in one of the liquor distributors for this. We generally have the tasting events twice a month and it’s a lot more regular during holidays and Kentucky Derby time.



we have a lot of business acquaintances, and we can save them money. The greater volume we buy in cigars, the better the price for us and our friends that are store owners. We get a lot of wholesale referrals every year, and that side just continues to grow.”

Currently, Cedar Mill Liquor has 27 active cigar wholesale accounts; two were just picked up early this year.

In cigars, “it’s not like it’s the ’90s again, but our sales continue to increase, and actually, with liquor [sales], too. Both have been pretty robust in the double digits.” That’s another reason they both go so well together lately, according to Guerra.

Cigars also offer much higher and more flexible margins—in the 30-40 percent range, sometimes even 50 percent range, Guerra reports. Distilled spirits, on the other hand, are “on consignment in the state of Oregon—they set the margin and every store is identical. With wine, we have some flexibility, with gross margins in the 20-40 percent range.”

The store has regular spirit tastings in-store, although Oregon regulations don’t allow Cedar Mill Liquor to advertise its tastings outside of the store. But word-of-mouth about liquor offerings spreads quickly, and that’s also been true on the cigar end, thanks to the store’s cigar “grab bags,” which consist of four cigars ranging in price from \$14.95 to \$24.95. Cedar Mill Liquor also offers multi-stick discounts—buy three, get 5 percent off; buy between six and 11, get 10 percent off; buy 12-19, get 15 percent off, and buy a full box of 20, get a 20 percent discount.

Cedar Mill also came up with a color-coded system so cigar customers could more easily decipher flavor profiles. Blue indicates “the most mild” cigar, then it goes “up the traffic light,” according to Guerra. Green is less

mild, but “still pretty mild; yellow is caution, being medium-to-full-bodied; and red is full-bodied,” he explains. It’s a dot system that the store puts on the cigar labels with a corresponding laminated information sheet made available in-store. “There are so many variables depending on what you had to eat or drink, but these are general guidelines and our customers love it,” he says.

The store does something similar with beer, whereby IPAs are labeled as a particular color, Stouts are labeled as another, etc. The wine is simply categorized according to varietals.

PARTY STORE HIGHLIGHTS HUMIDOR/SPIRIT TASTINGS

The Party Source is a standalone superstore in Bellevue, Kentucky that sells all the major components needed to throw a party, including, of course, the dynamic duo: alcohol and cigars.

Liquor sales, which constitute 50 percent of the store’s business, “give us the ability to do our cigar sales volume, thanks to liquor’s pricing and volume. They feed off of each other,” explains Josh Heaps, purchasing supervisor and humidor manager. “We have lower prices on cigars than the average cigar shop, thanks to the liquor. Economies of scale come into play here; we can run on lower price points and get higher volume on cigars.”

Liquor sales definitely run on lower price points and high volume, too, but it’s being squeezed by distributors doing fewer deals than they used to, according to Heaps. “Liquor gross margins are somewhere around 25 percent here,” he reports. And that’s partly because the store lies right up against the border of Ohio, which has gotten more competitive lately and gotten more aggressive on liquor pricing. Margins have also been squeezed by Kroger, another force in the Cincinnati backyard putting a lot of pricing pressure on local wine and liquor stores.

But The Party Source has a unique merchandising spin, with the operative word being “party,” which is further enhanced by combination liquor/cigar displays. “There’s uncaptured business out there, which we intend to attract somewhat with cross-merchandising,” says Heaps. As examples, the store humidor now features a facing of rotating liquors; there’s also a tasting bar right outside the humidor.

Inside the humidor at press time, an 18-year-old \$89 Don Pancho rum was being featured. “It’s an easy pairing with cigars, so we put it in there so we could easily talk to our customers about it,” Heaps explains. “Before that, there was a lower-priced rum that in just three weeks, myself and the other cigar guys sold about 30 bottles as add-on sales. We will leave the Don Pancho rum in there until something else captures our attention. We don’t just put anything in there; we put what we like and what sits well. We will put a new private-label bourbon in there soon; we are definitely trying to increase the transaction amount. They’re already typically buying \$50 worth of cigars, so adding a \$30 bourbon is a win-win. But the important thing is, we always make sure it’s something we like and enjoy ourselves. We have never broken that level of trust with them.”



As for the tasting bar right outside the humidor, “we usually do higher-end liquors and crafts,” he says. “If someone is on the fence, we grab them a half-ounce pour of it, and that often seals the deal.” The location often inspires cigar customers to purchase something unique on their way out of the humidor. Tastings are allowed any time of the day, but Kentucky law limits a total of four half-ounce samples per customer per visit. Stores like The Party Source used to be able to charge for bigger and more tastings, but not currently.

The Party Source also does weekly cigar tastings, teaming up with a local bar called The Beer Sellar. “Those tastings account for about 10 percent of our cigar sales for the year, and it’s only three hours of our day, once a week,” reports Heaps. The store puts together cigar-tasting bags ahead of time, consisting of three cigars for \$15.

“We start with that; we’re basically selling the cigars at our cost, but they get to try three cigars at a cheap price. Then we offer them deals on everything that night, so any full box they buy, they get five free cigars, 12 raffle tickets and other ‘schwag.’ It reduces their risk to try cigars, and our off-site partner can sell liquor.”

Heaps also partners with a local distillery in northern Kentucky, Second Sight Spirits—the owner is a loyal customer of The Party Source. So at the cigar events, the distillery owner samples products at the bar for free. If somebody likes a particular sample, he sends the product to the Party Source, where customers can purchase it. “We have to get creative with liquor sales like this,” says Heaps.

Cross-merchandising cigar events like this are a lot easier to manage off-site, Heaps explains. “We basically just show up with cigars. We get to focus on selling cigars and not the logistics of running the event. We don’t have to set up chairs and tables; we don’t have to clean up. So it’s a good deal for us and a great deal for our partners and customers.” **TB**



We start with that; we’re basically selling the cigars at our cost, but they get to try three cigars at a cheap price. Then we offer them deals on everything that night, so any full box they buy, they get five free cigars, 12 raffle tickets and other ‘schwag.’ It reduces their risk to try cigars, and our off-site partner can sell liquor.



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Monkey Shoulder's Triple-Play Appeal

The world's first triple-malt scotch boasts both a rich flavor and an interesting history.

BY ANTOINE REID

Meet Monkey Shoulder, the world's first triple-malt scotch. Its name refers to a temporary ailment named "monkey shoulder" that was suffered by maltmen after long, grueling hours of turning barley by hand to make scotch whiskey. While the scotch-making process has drastically improved since those bygone days, Monkey Shoulder's name pays homage to the rich history behind this unique new spirit.

"We love to invite everyone to try Monkey Shoulder, not only whiskey aficionados," says Sebastien Derbomez, Monkey Shoulder's U.S. ambassador. "It is a whiskey made by an award-winning family that has been making whiskey for more than 125 years. It's excellent neat, or you can have it on the rocks. We're trying to get more people into the category and more people drinking cocktails with whiskey in them that uses Monkey Shoulder."

A WHISKEY FOR A NEW GENERATION

Derbomez explains that the makers of Monkey Shoulder, William Grant & Sons, markets this spirit as being the face of scotch whiskey for a new generation of drinkers. For retailers looking for more luxury merchandise, Derbomez says that Monkey Shoulder is a great addition to any store shelf due to its premium quality and affordable price.

"It's an affordable blend of single malt," explains Derbomez, who notes that the company plays off of the name in packaging and marketing the product. "We've got this one packaging where the bottle is sitting in the middle of a cage and the cage's bars look forced open."

Monkey Shoulder is one of 20,000 products carried by The Party Source, located in northern Kentucky. In addition to a wide range of spirits, The Party Source is a Davidoff-appointed merchant and has a large walk-in humi-



dor. Nick Douglas, director of purchasing at The Party Source, chimed in on his store's experience with Monkey Shoulder, which has been a staple in his store.

"Monkey Shoulder is actually fantastic. It's a very well-rounded whiskey. I think one of the reasons it's a staple here is because it's such a great whiskey for the price. We're selling it between \$32 and \$35. If people are looking for an inexpensive type of scotch that's going to be easy drinking, Monkey Shoulder is a good way to go," commented Douglas.

A WHISKEY FOR CONNOISSEURS

Monkey Shoulder's packaging isn't the only thing that makes it a popular product. Its taste has won several big awards in recent years, including a Gold award at the 2011 International Wine & Spirit Competition and Double Gold at the 2013 San Francisco World Spirit Awards. Monkey Shoulder is 86 proof, has an ABV of 43 percent, and typically retails for \$30 to \$32 per 750 ml. This scotch whiskey has delicate floral notes with zesty citrus orange and soft, fresh fruit aromas. Monkey Shoulder has a sweet and rich vanilla taste with hints of brown sugar, creamy toffee, cinnamon and nutmeg.

The spirit's overall smooth and lingering sweetness also makes it well-suited for scotch-based cocktails, says Derbomez. "The beauty of Monkey Shoulder is that because of its flavor profile it's very versatile," he explains. "We love to play in the world of cocktails and you'd be surprised that Monkey Shoulder makes shockingly good cocktails. It's very driven with spices like cinnamon and vanilla, which come from the aging process. I haven't found anyone yet during all the sam-

plings and tastings I've done through my time with the brand that have turned around and said they don't like it. It's really approachable."

A WHISKEY FOR CIGAR PAIRINGS

Monkey Shoulder has become a favorite among mixologists and those who consider themselves single-malt purists. Along with it being a versatile drink, it also pairs well with cigars. Derbomez was a bartender and bar manager in Australia before working with Monkey Shoulder. In his bar, patrons were offered a cocktail menu that also paired the different drink options with a selection of premium cigars, a marketing tip he suggests to retailers who are also looking to leverage the two popular categories against one another in their stores. Monkey Shoulder goes great with many Robustos, according to Derbomez, who also named Partagas Serie D No. 4 as his favorite cigar to smoke while drinking this premium scotch whiskey.

Douglas also had some suggestions for retailers interested in cross promoting Monkey Shoulder with premium cigars. "Monkey Shoulder would be an excellent cigar malt for a couple of reasons. It's not in your face or so smoky that it's going to overpower a cigar. I think you could smoke a Connecticut with it, as long as it is a rather flavorful Connecticut. The sweetness you get from Monkey Shoulder would work great with it. I also think maybe a nice Habano would pair well with it. You'll have the smooth sweetness of the whiskey pairing and blending with the pepper notes of the Habano cigar."

When asked for a more specific pairing recommendation, Douglas suggested smoking Ventura Cigar Company's Sage Advice, one of the cigars in its Archetype series. **TB**

GINGER BREWSKY Recipe

Ingredients:

- 1 part Monkey Shoulder
- 3/4 part ginger syrup
- 3/4 part fresh lemon juice
- Beer (an ale or slightly dark beer works best)

Directions:

1. Add all ingredients other than beer to shaker
2. Shake well with ice
3. Strain into glass and top with beer

Special tip:

When topping this drink with beer, open the bottle and place your thumb over the end of it. Shake it and turn the beer upside down over the Ginger Brewsky and top it with a mousse beer spray by slightly lifting your thumb off the bottle. One bottle of beer should allow you to mousse four Ginger Brewskies. This move takes a bit of practice, but once mastered will make you the talk of any party.



A Taste of Success

Five Pawns' Rodney Jerabek explains how to take an idea from a dream to a viable business and product.

INTERVIEW BY BEN STIMPSON

Rodney Jerabek has had a long love affair with flavor. Having traveled extensively, Jerabek has a palate that has been refined by cuisines, wines and spirits experienced around the world. In 2012, he was approached by a businessman who was looking for someone to help him market a disposable electronic cigarette product. Before this meeting, Jerabek occasionally smoked a cigarette or cigar, but holding the product in his hands made him realize electronic cigarettes could bring about positive change in people's lives.

Jerabek went on to launch Five Pawns, a globally recognized, award-winning premium e-liquid brand. Five Pawns' handcrafted, small-batch, premium e-liquids play with the five tastes known to the human palate: sweet, sour, bitter, salty and savory. *Tobacco Business* spoke with Jerabek about Five Pawns and what inspired him to make the leap from branding and marketing to that of a premium e-liquid manufacturer.

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I guarantee [that] if you feel it, others will as well and that constitutes a potential market. No matter how big or small, that's a market that you can help grow and develop.



Tobacco Business: Why did you decide to start your own business?

Rodney Jerabek: I've always been an entrepreneur, but truth be told it was just after my father was diagnosed with a rare form of terminal cancer that I started Five Pawns. His particular form of cancer was not smoking related, but founding Five Pawns became my outlet. It became a way to divert my feelings of grief and fear and repurpose that energy toward helping others. I wanted to make my father even more proud than he already was, and prevent others from feeling the way I did. He was Five Pawns' biggest fan and got to see the success before we eventually lost a best friend, father and mentor.

When faced with obstacles and challenges, what motivated you to continue to push forward?

Again, I pushed forward to make my dad proud during his time with us. It also allowed us to involve him by listening to his guidance and working with one another. Since he's left us, the focus has shifted toward harm reduction and it's been extremely satisfying to see millions of people convert[ing] to this harm-reduction technology.

Yes, we have challenges and obstacles today due to regulation, but I'm still passionate about what this technology has the ability to do in a post-regulation era. I'm actually for reasonable regulation of our industry, and Five Pawns is confident about the pathway we're laying out to the FDA for our PMTAs

later next month. We're all in with this process and remain cautiously optimistic that we'll continue to deliver products to our consumers long into the future.

With so much competition in the vape industry, how do you manage to maintain market share among your competitors?

We just put the blinders on and do what we do best. We don't get caught up with what the competition is doing, and [we] focus our efforts on producing the best product we can with the best possible customer service to back it up. We've created a lifestyle brand and we're grateful that others appreciate our effort.

What's your advice to those who have a great idea for a product or business but who have no idea how to launch it?

Do your research. I remember when I first had the idea of launching Five Pawns. I didn't even tell my wife or family what I was working on for the first six months. I needed to believe enough in myself and my idea before I could properly sell it to others.

Branding 101 will also tell you that you need to have a story. Hopefully you don't need to fabricate one and it'll just fall into place. Your story will follow your journey and write itself as you go. I recognize [that] this isn't normal, but it can happen. Call it luck, call it intuition, call it timing...it happens when you follow your passion.

What's one mistake you see many businesses and entrepreneurs making and what advice would you give them on how to avoid this pitfall?

You need to know your strengths and weaknesses. Identify what good you can bring to the table and surround yourself with those that can bring what you can't. Create balance within your organization and build a strong team that only makes you better. Remember, you're only as good as those that you surround yourself with, and I'm grateful to [both] my immediate and extended Five Pawns family.

Many people have their keys to success. What are some of yours?

It started with my parents, and they've made me who I am. My wife and daughter have also supported me through what's been a very fun—but wild—ride. It's the people I've surrounded myself with who make my brand and me what and who we are today. They shape our future. I have incredible partners, employees and Five Pawns family members that make me a million times better than who I'd be on my own.

Knowing what you know now in business, what advice would you give to up and coming entrepreneurs?

Find something that you're passionate about and don't listen to others if they tell you that you're crazy. Follow your heart. I guarantee [that] if you feel it, others will as well and that constitutes a potential market. No matter how big or small, that's a market that you can help grow and develop. **TB**

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