

# TOBACCO BUSINESS

## REGIS BROERSMA

ON RE-ENERGIZING  
GENERAL CIGAR

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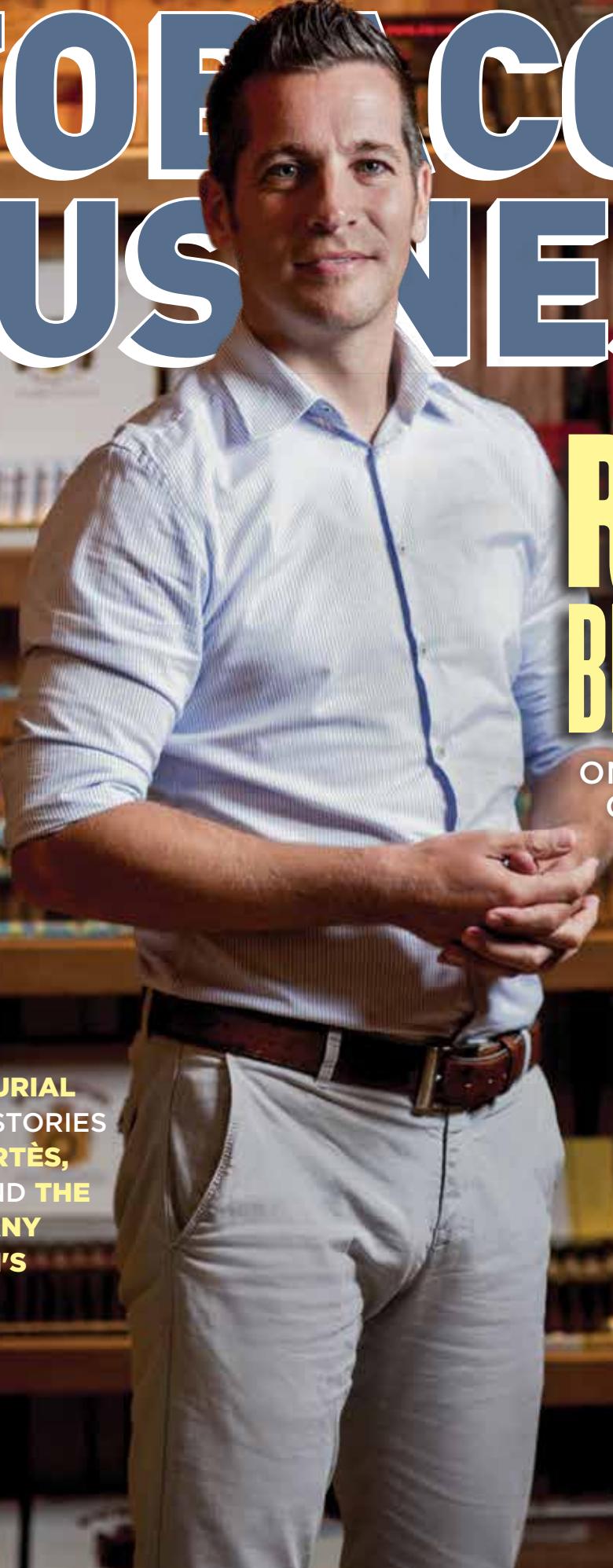
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WHILE YOU  
STILL CAN

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INSIGHTS  
FROM  
**IPCPR**  
**2017**

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**ENTREPRENEURIAL**  
**SPIRITS:** THE STORIES  
BEHIND J. CORTÈS,  
**OHSERASE AND THE**  
**CIGAR COMPANY**  
**& GENTLEMEN'S**  
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# Gearing Up for TPE 2018

I cannot believe that summer is nearly over! Where did the year go?

As I look back, this summer seems to have flown by faster than the last one. It has been nonstop action for *Tobacco Business* magazine and our Tobacco Products Expo (TPE) trade show. Why? Because we have been creating, innovating and upgrading our relationships with our retailer and manufacturer partners across the board to help equip you with real-time business news and important regulatory information—and to provide you with the tools that will ultimately help you sell more products and do more business.

We have been finalizing our keynote speakers and educational sessions for TPE 2018, which will be held at the Las Vegas Convention Center from Jan. 31, 2018 through Feb. 1, 2018. Day 1 will kick off with the super talented entrepreneur, Jonathan Drew of Drew Estate, who will serve as our keynote speaker. We continue to build momentum, sharing insight from an unbelievable panel of guests, including Kelly Michols from Scandinavian Tobacco Group, Rob Norris from Altadis U.S.A., Sam Morales from Drew Estate and Justin Tarbell from Ohserase. Similar to a TED Talk, our speakers and panelists will be sharing entrepreneurial skills and insights into how they have been successful in growing their businesses. Day 2 of TPE 2018 will focus on the leg-

islation and regulation impacting tobacco, vapor and alternative businesses. You will not want to miss this one as our professionals and government agency officials offer key insights to business owners regarding U.S. Food and Drug Administration regulation and many other issues.

For the rest of the TPE show, we have created the ultimate buying and selling arena. Imagine this: a show floor filled with pre-qualified buyers and sellers, all working together to achieve the same goal—to do some great business and get ahead of the game for the beginning of 2018. This is an event you do not want to miss. Register to exhibit or attend now at [tobaccoplusexpo.com](http://tobaccoplusexpo.com).

Let's work together to make the rest of 2017 something to remember. If we continue to put in the hard work, the result we strive for at the end of the day will always come—it's inevitable.

Best wishes,



Managing Director of TMG and *Tobacco Business*  
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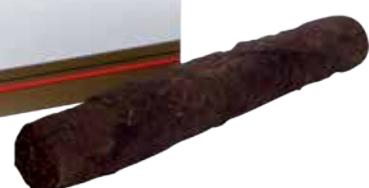
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# Marketing from the Outside

**Charles Awad, Davidoff's senior vice president and chief marketing officer, offers tips and advice on how to market appealing tobacco products to new customers.** INTERVIEW BY BEN STIMPSON AND ANTOINE REID

As Oettinger Davidoff AG's senior vice president and chief marketing officer, Charles Awad has the lofty task of marketing and promoting the Davidoff cigar brand across the world. Awad, who brought expertise marketing non-tobacco products to the role, introduced a unique perspective to the established cigar brand during the six years he's been overseeing the rejuvenation and relaunch of the company's core brands.

When Awad first came to Davidoff, he took the time to get to know the habits of cigar consumers from across the globe, to understand their needs and wishes as aficionados. He spent a year reworking Davidoff's brand proposition and brand innovation, and understanding the industry competition. In recent years, Awad's influence has been seen in the redesign and relaunch of the company's core brand, Davidoff, as well as Camacho and AVO. Awad reports that Davidoff has nearly doubled in size since 2012, and he believes there is still room for growth and progress.

*Tobacco Business* recently interviewed Awad to discuss Davidoff's evolution, how the company relies on consumers to shape its brands and his advice for other marketers in the tobacco industry.

**Tobacco Business: How would you define what makes a cigar premium?**

**Charles Awad:** First and foremost, a premium cigar is pertinent to the people behind its development. It is the work, dedication and the craft that goes into the cigar's creation at every level by these individuals that makes it so. A Davidoff cigar is a reflection of the quality and the attention to detail of the product. A team [that] utilizes the expertise from the master blenders, such as Eladio Diaz and Henke Kelner, among others, is integral but also at the growing stage with our agronomists, Manuel Peralta and [his] team.

The people involved in the process are experts, and they are helping to make sure that the wrapper that is used to finish the cigar has reached its absolute peak condition. When you examine the blending process, you have an outstanding blender with a palate that no one else has. Eladio Diaz is a magician as he is looking at

I look for people who are curious, ask the right questions and who listen to others.

these leaves and tries to compose an exciting and fulfilling taste experience. At the end of the day, that's what a chef would do as he blends ingredients.

**What has been the key to Davidoff's growth over the years?**

The team is one of the most important success factors. This includes the central team that basically does all the development and innovation work and the local team, led by Richard Krutick for the USA, who are there to carry on this innovation and make it a success in their markets. These teams across the globe have stepped up to the plate and done a great job engaging Davidoff's appointed merchants and tobacconists in different channels. They have been key in translating the central developments from our headquarters so that people understand what is garnering support and appreciation for our brands.

Also, the media has been very helpful over the past few years. Before I arrived, Davidoff was often viewed as just an expensive cigar. People didn't understand the company's great care and passion, knowledge of tradition and devotion to its products. All of these stories that *Tobacco Business* and other media are building about Davidoff offer a bit more depth and insight to what is behind the brand and what makes it so unique.

**When you look for people to bring in to help you market Davidoff and its brands, do you look for them to have cigar industry experience?**

Absolutely not. I'm not a heavy cigar smoker. I look for people who are curious, ask the right questions and who listen to others. Before my time, a cigar was blended for a Davidoff panel of people working within the company. They thought they knew what cigar aficionados wanted. But contrarily, experience showed us that being an expert aficionado and panelist offers a fairly one-sided approach to aficionados across the globe. At the end, you have to be in the shoes of what others want, not what *you* want.

We have moved to panels of smokers in Germany who are Cuban, Dominican and Nicaraguan cigar enthusiasts, a U.S. panel and an internal panel. They are now the ones calling the shots. My only reference is the con-

## **Charles Awad *Continued***

sumer's point of view. Taste is a personal matter. We look for cigars that manage to divide panelists. People may strongly love or strongly dislike cigars—we don't want in between. That is when you achieve big successes. We're looking for aspects that actually create innovative taste experiences deriving from the combination of various leaves. Our objective is to inspire cigar aficionados to open up their eyes and minds to new and diverse cigar experiences, to taste the huge variety of tobaccos growing in the wider world. This has happened in wines, coffees and whiskeys. It is now happening in the world of cigars across the globe. The consumer is ready to experience the wider world and move away from purely Cuban smokes.

### **How do you market your products to females differently from males?**

I think marketing to women is the wrong phrase. Female consumers don't want a defined feminine cigar; they don't want a slimmer cigar—they want a cigar. You market to women and men the same way. For those who are beginners and don't know much about cigars, you would take them along a cigar journey with a strong focus on education and would need to keep the conversation going. It is about taste education—everyone needs understanding of what cigars are about, what makes a great cigar and how to choose a cigar. Women will take the same journey as a man would with cigars.

### **What does it take to be a trendsetter?**

Innovation within our industry usually refers to the blends that are being rolled out. The first thing I look at are the stories we can tell. People, when they enjoy a premium cigar, need to dream—they're not just enjoying a blend. Technically, you can describe a cigar as a wrapper, a binder and a filler. But innovation has to go beyond the technical summary. For example, our Davidoff Winston Churchill line was rooted in going deep into who Winston Churchill [was], his various facets of character, how he enjoyed cigars and understanding what made him tick. We spent countless hours speaking with his great-grandson and people in the Churchill Foundation—that's where you get the inspiration for what the cigar should be. You have to go deeper. When you look at innovation, particularly within the cigar world, it is really about the stories behind the cigars and what inspired the master blender to blend such a cigar.

### **What advice would you give to other marketers in the tobacco industry that are trying to carve out a place for their products with everything that's going on today with the U.S. Food and Drug Administration (FDA)?**

Cigars are not just a product, so go beyond the product and look at experience. You cannot launch 20 cigars a month. Some of these new products are here for a year and then they are gone, which I don't think is a good thing.

People in the cigar world tend to enjoy smoking the classics, and there are a lot of classic cigars that are fantastic and need to see the light again. So in a world where we cannot innovate a lot on the product side as we used



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‘’

to, you will have a lot of opportunities to focus on what makes your current cigars great and to bring them back to the forefront. The FDA situation is an opportunity to focus on what is great and to get consumers to experience them again.

### **What are your goals for 2018 and onward for Davidoff and its brands?**

From a business standpoint, we aim to have more consumers include Davidoff in their repertoire. Some of the hurdles that hold us back from growing faster is value. A cigar smoker who spends \$15 or \$25 on a cigar does so occasionally. The opportunity is to grow the share of occasions and their repertoire. So instead of being the occasional cigar for a Sunday night with a best friend, our challenge is to make that Davidoff cigar the choice for many more occasions.

You can get a Davidoff cigar [for] between \$10 and \$20. When you look at \$20 for an hour of smoking pleasure, who would say this is a huge amount of money to pay for a cigar? I want to hear more people say, "I cannot believe how good this cigar is; I love this cigar experience; it was absolutely worth it!" There are lots of things people spend their money on that you ask if it's really worth it. An hour of time is ultimately an hour of luxury time—and as we often say at Davidoff—time that is beautifully filled. **TB**

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# Insights

Highlights and happenings from the International Premium Cigar & Pipe Retailers Association's 85th annual convention.

BY JENNIFER GELFAND

Spirits were cautiously high at July's annual gathering of cigar and pipe industry members. Keynote speaker Rudy Giuliani echoed the sentiments expressed by many in the industry when he told attendees, "The regulatory environment has never been better for the argument [this industry] needs to make."

Buoyed by a new administration that is pro-business and anti-regulation, the premium cigar and pipe industry is motoring forward. Dire predictions of the industry's demise under U.S. Food and Drug Administration (FDA) regulation have not come to pass, and there's building confidence that manufacturers and retailers alike will find ways to adapt, evolve and even thrive.

Despite this sense of resilience, there were notably fewer new product launches in 2017 than we've seen in previous years—in stark contrast to the record-setting number of IPCPR product launches seen last year while manufacturers raced to get products on the market before the FDA's August 8, 2016, deadline. Many manufacturers opted to take a wait-and-see approach this year, in the meantime devoting all their energy to keeping their existing products on the market by meeting a series of FDA deadlines.



PREMIUM  
CIGARS



# from IPCPR

However, a host of manufacturers did debut new offerings, and many more showcased reissues and/or size variants of existing brands (see “What’s New?” sidebar, p. 20). In some cases, “phantom” products released in a limited fashion in order to get on the market prior to last year’s deeming regulation deadline paved the way for brands showcased at IPCPR 2017. In others, companies simply opted to move forward with new launches in the hope that the industry’s efforts to modify or roll back premium cigar regulation will succeed or that they would be able to make a successful application for the product to remain on the market.

According to industry advocates working on the front lines of such efforts, there is good reason to hold out hope for those changes (See “Regulatory Review,” p. 14). “I don’t think the cumulative forces of politics and decision-makers within the administration have ever been more in our favor,” Daniel Trope, IPCPR’s director of federal government affairs, told show attendees. “I am optimistic.”

Many show exhibitors reported that it will be business as usual until the FDA tells them otherwise. “We are moving ahead with meeting FDA deadlines for submissions,” said D&R Tobacco’s Mark Ryan, who has

been working on registering 346 pipe tobacco blends with the FDA, but, like many of his peers, doesn’t believe it will be economically feasible to go through the full application process—estimated to run \$330,000 per SKU—if the current requirements stand. “We will meet the deadlines for registration, ingredient lists and warning labels and hope that something will change regarding the need for millions of dollars’ worth of [FDA] applications,” Ryan said. “I think [regulation] will be postponed until the point where people will forget about it. I don’t see them putting everyone out of business.”

Ryan is not alone in viewing the chances of the deeming regulations being relaxed or going away entirely as stronger than ever. “I think we will prevail,” said Craig Cass, president of Charlotte, North Carolina-based Tinder Box and outgoing president of the IPCPR. “I feel good about it.” ►

*The pages to follow offer highlights from the IPCPR trade show floor and conference seminars.*



## Premium Cigar Regulatory Review

What a difference a year makes. Last summer the industry was reeling in the aftermath of the FDA's deeming regulations, concerned that the demands being placed on cigar and pipe tobacco manufacturers would drive scores of companies out of business. Only those manufacturers whose pockets were deep enough to afford to meet the costly and onerous demands of FDA compliance would survive, leaving consumers with a handful of brands from which to choose.

This year, however, feels like business as usual, with the FDA more of a hazy mist than a looming thundercloud. What's changed? Nothing and everything, noted speakers at the IPCPR's Regulatory Compliance Update session. The FDA has been continuing its long, slow march toward oversight of additional categories of tobacco, and recent and upcoming milestones include deadlines for registering establishments (September 30, 2017), providing ingredient listings (November 8, 2017), submitting a cigar warning label plan (August 10, 2017) and submitting tobacco health documents (November 8, 2017). Manufacturers are having to invest time and energy into preparing to comply, and efforts to create new products are being hampered by regulatory hurdles.

However, the industry's defense efforts are making headway on several fronts. In January, Congressman Bill Posey (FL-R) sponsored a bill that would exempt premium cigars from FDA regulation. This marks the fourth

consecutive year that a bill like this has been presented, but this year the bill has an impressive 119 co-sponsors, and momentum seems to be building around both it and a similar bill currently before the Senate, which was sponsored by Florida Senators Bill Nelson (D) and Marco Rubio (R) and has 16 cosponsors, reported Daniel Trope, the IPCPR's director of federal government affairs.

### TAKING TO THE COURTS

Mindful that legislation in support of tobacco is a tough sell, the IPCPR joined forces with Cigar Rights of America and the Cigar Association of America to pursue additional avenues, including challenging the ruling in court. "We filed a lawsuit painting this rule as an example of regulatory overreach, job killing that was endemic in the previous administration," said Michael Edney, a partner with the law firm Norton Rose Fulbright, who credited the lawsuit for prompting an extension of the FDA's compliance deadline. "The process would be for the government to file an opposition brief and for us to have final arguments in front of a trial court to get a decision. But the new administration asked for a stay of that [process]. We agreed to the stay, and in exchange we received a 90-day extension."

What's more, Edney and others closely following the legal course believe the winds are shifting in the industry's favor. "The FDA and the Justice Department have



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the cumulative  
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and decision-  
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administration  
have ever been  
more in our  
favor."**

**—Daniel Trope,  
IPCPR**



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given firm commitment that they are going to consider making major changes or withdrawing [the ruling] entirely," says Edney. "We are cautiously optimistic that one of these pathways will work. One way or another we are hoping that we will be able to provide some relief for all of you [in the industry]."

#### **FORGING A FUTURE**

In the meantime, however, manufacturers and retailers must continue to contend with the regulations already in place, noted Tom Briant, executive director of the National Association of Tobacco Outlets (NATO). For manufacturers, that involves meeting all of the compliance deadlines, including being prepared to submit substantial equivalence (SE) reports that demonstrate a product is substantially equivalent to a product that was on the market as of February 15, 2007, by May 8, 2018, or submit premarket tobacco product applications (PMTA) by November 8, 2018. Products introduced to the market after the predicate date of February 15, 2007, will no longer be able to stay on store shelves unless the appropriate application is filed in advance of its respective deadline.

Having an application filed with the FDA will allow a product to be sold until May 8, 2019, if the product requires an SE report, or until November 8, 2019, if a PMTA is required. "If a company provides all of the documentation required and the FDA does not finish their review of that application by those 2019 dates, the

# **Davidoff Announces Golden Band Award Winners**

**Davidoff of Geneva USA bestowed its coveted Golden Band Awards on the trade show floor at IPCPR this year. Here are the categories and winners for 2017:**

- 1.** Best Davidoff Performance (Single Location)  
Maxamar Ultimate Cigars (Orange, Calif.)



- 2.** Best Performance (Multiple Locations)  
Corona Cigar Company (Orlando, Fla.)



- 3.** Davidoff Growth (Single Location)  
Cigars by Chivas (Pasadena, Calif.)



- 4.** Davidoff Growth (Multiple Locations)  
Davidus Cigars (Frederick, Md.)



- 5.** Davidoff Appointed Merchant of the Year  
Ambassador Fine Cigars (Phoenix, Ariz.)



- 6.** Best Merchandising  
The Cigar Shop of Biloxi (Biloxi, Miss.)



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## IPCPR *Continued*

FDA, in its sole discretion, will determine whether that product stays on the market," explained Briant. "Think about that for a second. The company complied with the FDA requirements, but the FDA, at the end of those time periods, can still tell that company they have to take their product off the market."

Briant also pointed out that the FDA does not have adequate staff to handle the thousands of new applications that will be coming its way—in addition to the 3,000 pending applications it has yet to get through. "We will see a situation that they are so backlogged that they cannot get through the applications, and the FDA will need to extend deadlines again or face the risk of additional litigation," he predicted.

### RETAIL RAMIFICATIONS

From a retail standpoint, Briant noted that the FDA has provided some guidance on what retailers need to do to comply with the ban on sampling tobacco products. "Essentially, free samples are not allowed unless there is an exchange of money," said Briant. Under that edict, marketing programs that involve coupons (as long as the coupon is for less than the purchase price of the item) and buy-one-get-one-free promotions are allowed, since money is exchanged. In the case of loyalty programs, where points are awarded for purchases and can be redeemed for free merchandise, Briant recommends designing the program so that the free merchandise credit can only be redeemed during a tobacco product purchase. "For example, if you offer a free cigar after the fifth cigar purchase, the customer would need to redeem that cigar when the fifth cigar was purchased or upon the purchase of a sixth or seventh cigar, so that the free cigar is provided during a purchase transaction," he explained.

Briant also warned the industry that additional regulations may well be forthcoming. "At the end of the 500-page deeming regulation document, the FDA states that it intends to adopt more regulations in the future, including a proposed clarification that would prohibit flavors in all cigars, including cigarillos and little cigars," he said. "Such a ban would certainly eliminate a lot of cigar products from store shelves."

### FUTURE FOCUS

Despite the many challenges ahead, when the question of how to move forward with so much uncertainty around what would and would not be permitted by the FDA was raised, the responses from legislation and litigation experts was reassuring. "The fact that there is a reconsideration of parts of the deeming rule by the FDA itself, along with the pressure from Congress and the outreach from the industry, really shows that there are some true trade winds behind our sails here," noted Trope. "The Trump administration is no friend of regulation, and I think that fits very well with us as an association and as an industry.

However, legislative change takes time, he added. "Things don't move quickly in government, regardless of the just nature of your cause—and in the meantime we all have to live under this regulatory regime." **TB**



## Rudy Giuliani: President Trump, Regulatory Ridiculousness and More

Keynote speaker Rudy Giuliani's wide-ranging presentation, *Principled Leadership in the Face of Change and Crisis*, won a standing ovation, in part because the former New York City mayor repeatedly referenced the "ridiculous over-regulation of cigars." As an avid cigar smoker, Giuliani ridiculed new restrictions on cigar smoking, pointing out that in the current environment, "I could get a ticket for sitting on a bench in Central Park and smoking a cigar, while the guy next to me can smoke a marijuana cigarette, and, by order of the mayor, the cop can't arrest him."

*For more insights the "Mayor of the World" shared about the current political environment, visit [TobaccoBusiness.com/RudyGiuliani](http://TobaccoBusiness.com/RudyGiuliani).*



## Meet the President: Kenneth Neumann

The International Premium Cigar & Pipe Retailers Association has named Kenneth Neumann, co-owner of Chicago's Neumann's Cigars & More, its new president.

Neumann, who will serve a two-year term, has said that advocacy is currently the association's primary responsibility. "We are on the front lines fighting for the rights of all members, big or small, to continue to sell a legal product to adult consumers," he said. "[The] IPCPR has a critical role to play in these challenging times. Leadership on the advocacy fronts—federal, state and local—is job one, given the governmental challenges. It is a high-stakes air war in Washington, but we cannot take our eyes off the incessant tax and restriction issues that are never-ending in state capitals and municipalities."



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# IPCPR 2017 Product Boxes



## What's New: Drew Estate

### 4x32 Tins

The company packaged some of its most popular cigars in 10-count tins. Cigar enthusiasts will be able to enjoy 4x32 versions of Acid Krush, Herrera Estelí, Liga Privada, Undercrown Shade, Tabak Especial, Kentucky Fire Cured and Larutan in 10-count tins. To help push these products, retailers can take part in a special incentive program, and they can also buy an attractive water tower display for their own store.

**Undercrown Sun Grown**  
Just when you thought there was nothing more to come from Undercrown after Shade, Drew Estate stepped up with Undercrown Sun Grown. This cigar contains Sumatra Ecuadorean tobacco, something Jonathan Drew says the company has been trying to secure for 15 years.

### Florida Sun Grown (FSG)

Drew Estate teamed up with Jeff Borysiewicz, owner of Corona Cigar Co., to introduce its Florida Sun Grown (FSG) line, which incorporates tobacco Borysiewicz has been growing in Florida.

### What's New (and Nearly New): Davidoff

#### Winston Churchill Late Hour

Davidoff's new Winston Churchill—The Late Hour is inspired by Sir Winston



Churchill and the time of day he did his best thinking and planning for how to run a country. When others were preparing for bed, Sir Winston Churchill was up planning and thinking, finding the night sparked his creativity and gave him inspiration, along with a cigar and glass of whiskey. This is a full-bodied cigar with a blend with robust flavors and aromas, including layers of black pepper, dark coffee, sweetness, old leather, wood and spices.

### Avo Syncro Ritmo

Inspired by the spirit and curiosity of the late Avo Uvezian, Avo Cigars is bringing a new cigar to market: Avo Syncro South America Ritmo. This release is completely different from the other cigars in AVO's portfolio, as it features a unique composition of Central American, Nicaraguan and Mexican tobaccos from Peru, Brazil and Ecuador. This is a complex smoke that's both exotic and as vibrant as its band art, reflecting diverse cultures from around the world.

### Zino Platinum Z-Crown

Packaged in coffin-style humidors, the Zino Platinum Z-Crown features filler tobaccos that were aged for eight years—and the cigars sat for an additional four years after they were rolled. This product will be available in two blends: One will have a Semilla 702 wrapper, Ecuadorean Sumatra binder, and filler tobacco from the Dominican



Republic and Nicaragua. The second will have a Dominican Semilla 253 wrapper, Ecuadorean Connecticut binder and filler tobacco from the Dominican Republic.

## What's New: S.T. Dupont

### S.T. Dupont 145th Anniversary Travel Case Humidor

To celebrate the company's 145th anniversary, S.T. Dupont showcased a humidor like no other. Designed to look more like a trunk than a traditional humidor, this three-and-a-half-foot-tall humidor is made from crocodile leather and features 72 Davidoff Oro Blanco cigars, a travel humidor, ashtray, cigar cutter and 1 Ligne 2 Le Grand S.T. Dupont Haute Creation.

### Conquest of the Wild West Collection

S.T. Dupont has a new line of accessories, pens, lighters and kits inspired by tales of the Wild West. Highlights from this collection are the Premium Ligne 2 lighter, which is adorned with a natural black lacquer that features a stylized bullet hole that cuts through the lighter's body, pens and lighters lined with diamonds, and a collection of items designed with wood and leather to mimic a gun holster.

### S.T. Dupont miniJet

S.T. Dupont has updated the miniJet lighter, an accessory that has been on the market since 2007.



This new version of the miniJet lighter is good for 20,000 lights, almost double the amount of most lighters. The miniJet lighter has a superheated torch flame that can stand up to strong winds, a rounded shape with thicker but smooth sides and a fitted trigger for easy handling.

## What's New: La Palina

### La Palina

#### Number Series LP #1

In addition to a bold logo with vibrant colors, the LP #1 features an Ecuadorean Sumatran wrapper covering a binder from Costa Rica and filler tobaccos from Honduras and Nicaragua. It will be available in boxes of 20 in Gordo, Petit Corona, Robusto and Toro sizes.

### La Palina

#### Number Series LP #2

Available in the same sizes as the #1, the LP #2 features a wrapper from Costa Rica with a binder from Honduras and filler tobaccos from Honduras and Nicaragua.

### La Palina

#### Fuego Verde

Released in March, the Fuego Verde jumps on the candela train, featuring a Honduran binder, Nicaraguan fillers and an affordable \$7.50 per stick price.



H. Upmann cigar, blended with Nicaraguan tobacco. Of all the company's releases, this cigar stood out with its teal-blue packaging and design. It will be available in three sizes and will be a regular addition to the H. Upmann lineup.

### Montecristo

Altadis' Montecristo brand is so popular the company had several new releases to talk about this year. The lead of those has been the Monte by Montecristo cigar, which is blended by AJ Fernandez. Monte by Montecristo is available in four sizes: a Toro, Corona, Robusto and Belicoso. It's a box-pressed, full-bodied cigar and will be a regular addition to the Montecristo brand.

### Aging Room Quattro

Earlier this year, Altadis USA announced it will begin to distribute Rafael Nodal's Boutique Blends. Boutique Blends' new release for the International Premium Cigar & Pipe Retailers Association (IPCPR) show was Aging Room Quattro, a follow-up to the F55 cigar that was released in 2013. It's the same blend but uses a San Andres Maduro wrapper that's been aged for 7-8 years.

—Antoine Reid

For more information about IPCPR product launches, visit [tobaccobusiness.com](http://tobaccobusiness.com).

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# Packed Full Of Insight

**After almost a decade in the pipe business, Missouri Meerschaum's Phil Morgan explains what retailers need to do to keep pipe enthusiasts coming back for more and how his company can help.**

BY ANTOINE REID

Missouri Meerschaum Co. has been in business for 148 years doing one thing: making corncob pipes. The company was the first—and is one of the last remaining—to commercially make corncob pipes in the United States. As anyone working within the pipe category can attest, selling pipes can sometimes be a challenge. From the outside, there may be a belief that pipes are a part of a past generation, but for a company like Missouri Meerschaum, which makes pipes and interacts with those who enjoy them and the hobby on a daily basis, that couldn't be further from the truth.

Years ago, Phil Morgan came across a help-wanted ad in the newspaper seeking a general manager for a corncob pipe company. Though he was retired, the new opportunity piqued his interest so much that he submitted his resume. Morgan has been the general manager at Missouri Meerschaum for nine years and still enjoys his job and being part of the pipe community.

"In the corncob pipe business, it's like any business," says Morgan. "You have all the headaches that you have in any business but ... it's corncob pipes! There's definitely a fun aspect to it, too."

#### **CREATING A DEMAND AND A FOLLOWING**

Having worked in the pipe industry for nearly a decade at a pipe company that's been in business as long as Missouri Meerschaum has, Morgan has learned a few things about the industry. The biggest lesson, he reports, is that it's now crucial to not only market to other businesses, but directly to consumers as well. That's partly because the pipe industry, as well as how you reach customers, has changed over the years—and in a good way. While most of Missouri Meerschaum's business comes through wholesalers, consumers increasingly play a pivotal role in helping drive the demand to their products.

"It's a very customer-orientated business, and you've

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got to have a relationship with your customer," Morgan explains. "It's not like you're just selling nuts and bolts and as long as they work people don't care about them. People in the pipe community care about their hobby. They care about the pipe makers and the pipes they make, and they care about their pipe tobacco."

Understanding the motivations of both pipe manufacturers and consumers is key to building those connections. Morgan explains that pipe makers and manufacturers aren't necessarily in the industry in hopes of becoming multi-millionaires. They're in the pipe business because they like the pipe community, and they are proud to be a part of it. Also, connecting directly to consumers is essential. Even though a majority of Missouri Meerschaum's business is done through wholesalers, advertising its corncob pipes to other businesses and to consumers is important. Morgan has found that more interest for its products can be created by reaching out to consumers who will go into the tobacco retail stores looking for their products. Once customers request the product, if the store doesn't carry Missouri Meerschaum's pipes, the owner will often reach out directly to the company to place an order, knowing there's interest and a demand for this one-of-a-kind product.

Another area where there has been a lot of positive change is with the pipe community embracing social media. Morgan says that over the years he's seen the undeniable impact

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\*Source MSAi June 2017

## **Missouri Meerschaum Continued**

YouTube, Facebook, Instagram and Reddit have had on bringing those in the pipe community together and getting them excited about the hobby. With the pipe business being so customer oriented, Morgan says other pipe makers and manufacturers are missing out if they aren't involved in some form of social media.

### **MORE CHOICES, MORE SALES**

For many pipe manufacturers, retailers play an integral part in promoting and selling pipes and pipe tobacco in their stores. The relationship retailers have with consumers is a valuable one, especially in helping those new to pipes get into the hobby. When asked how retailers can best serve those customers who aren't familiar with pipes and pipe smoking, Morgan brought everything back to the fundamentals of the hobby: the pipes.

"In my opinion, whenever someone comes in and they're a new pipe smoker, what retailers should be doing is helping them pick out a great-smoking pipe that doesn't cost a lot of money. This pipe is just for them to get into the hobby to see if they like it. That's where our corn-cob pipes are a big hit," Morgan explains. "If a new pipe smoker comes in, most retailers know it's really not fair to sell them an expensive pipe as their first one because they may not like pipe smoking. Sell them a corncob pipe, which is a great-smoking pipe, and teach them how to smoke the pipe. Don't just sell them the pipe and the tobacco—teach them how to smoke it, how to pack it, how to light it and how to clean it, and also let them know that if they're truly going to try pipe smoking they will need to have more than one pipe. Pipes must dry out in between uses. Convince them to buy two or three inexpensive pipes. That's where the corncob pipe fits in perfectly. If a retailer isn't doing that, they really should be."

In speaking with pipe consumers at trade and pipe shows, Morgan has found that many retailers aren't carrying enough different styles of corncob pipes. Many tobacco retailers take on only one or two styles, which isn't enough of a selection for consumers, in Morgan's opinion. Corncob pipes, like the ones made by Missouri Meerschaum, sell for as low as \$7. When consumers see the quality and price point of these corncob pipes, they're more inclined to buy more than one. Morgan says to be successful and serve the needs of pipe customers, retailers should be carrying four or five different styles of corncob pipes. Missouri Meerschaum can even help retailers figure out which styles of its pipes will be the most likely to sell most and quickest using sales data gathered from its wholesale and direct-to-consumer sales.

Also, educating new pipe smokers on how to correctly pack a pipe will ensure that new pipe customers have a good first pipe-smoking experience and that they become loyal customers who provide repeat business. While packing a pipe isn't difficult, many people new to pipe smoking do it incorrectly. Retailers should teach and show their customers that they need to pack the bowl of the pipe loosely on the bottom and a little firmer on top—but they should never jam the tobacco down into the bowl or press it down completely. **TB**

## **MISSOURI MEERSCHAUM— 148 YEARS OF PIPE MAKING**

Missouri Meerschaum Co. is the world's largest and longest-running manufacturer of corncob pipes. Based in Washington, Missouri, which is known as "The Corn Cob Pipe Capital of the World," Missouri Meerschaum's history dates back to 1869, when a Dutch immigrant named Henry Tibbe began making corncob pipes. A local farmer whittled a pipe out of a corncob and enjoyed it so much that he asked Tibbe, a woodmaker, to help make more. The farmer was so pleased with the results that Tibbe made and sold more corncob pipes from his woodworking shop. These pipes were so popular that they soon became his top-selling item, taking over his woodwork. Tibbe made the decision to devote his business full time to the production of these popular pipes.

The H. Tibbe & Son Co. became known as Missouri Meerschaum Co. in 1907. By 1925, there were close to a dozen different companies in the Washington, Missouri, area producing corncob pipes. Though corncob pipes are often produced in China, Missouri Meerschaum's pipes are viewed as the best quality and most authentic, continuing the production processes established by Tibbe decades ago. It's an American product that has gained the attention and following of some historic figures in American history, including General Douglas MacArthur, Mark Twain and President Dwight D. Eisenhower.

Today, Missouri Meerschaum is the only company remaining that produces corncob pipes with worldwide distribution.

If he had to do it all over again, Morgan says he would absolutely get involved in the pipe business and that he still has enthusiasm for what he does. "It's not just because of Missouri Meerschaum," he quickly points out. "It's because of the pipe community. The people that you meet in this community are really friendly and helpful people. It's a joy to be a part of the pipe community."

Morgan and Missouri Meerschaum remain committed to providing pipe enthusiasts with great-smoking pipes that are also affordable. The company also wants to keep things fun and fresh for its loyal customers, promising that there will be new styles of its corncob pipes released over time. Stay tuned.

## **IN THE BUSINESS OF CORN**

Missouri Meerschaum Co.'s pipes are only as good as the corncobs used to make them. By growing its own corn, Missouri Meerschaum is able to make many different styles of pipes from cobs that are heavy and thick like wood. Once the corncob has dried completely, it takes around three full days to create a pipe.

To make its pipes, the company grows its own special hybrid corn comprised of several old varieties of corn that produce a huge cob. While most farmers aren't concerned with the size of the cob, Missouri Meerschaum needs a large cob for its pipes. The company harvests the corn themselves, and after shelling it, the grain is sold and used for cornmeal or used to make whiskey. Missouri Meerschaum sells some of its grain to a local distillery that is using it to produce a new product called Pipe Corn Bourbon that it will launch soon.



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# NEW BEGIN

A photograph of two men in business attire standing in front of a large, industrial tobacco processing machine. The man on the left is wearing a brown plaid suit and has his arm around the man on the right. The man on the right is wearing a grey suit. They are both smiling. The machine behind them is complex, with various mechanical parts, a large white drum, and a stack of white boxes.

# TINGS



Justin and Eli Tarbell

After taking on retail and petroleum, the Tarbell family went back to its roots in search of inspiration for its tobacco business, **Ohserase Manufacturing**.

BY ANTOINE REID



For more than 400 years, tobacco has played a key role in the Iroquois and Mohawk Native American cultures. In the past, tobacco served as a ceremonial offering that was thrown into a fire. The smoke that rose as a result stood for thanksgiving and “good thoughts” directed toward the Creator. In addition, tobacco was smoked by Mohawk men and was credited with giving them good thoughts while they were debating and discussing important matters. As a third-generation Native American family, the Tarbells are carrying on the traditions of those who came before them as they shape and build their tobacco business, Ohserase Manufacturing.

## ROOTS IN ENTREPRENEURSHIP

To understand how the Tarbell family got involved with tobacco, one must look to its past. The earliest business owner in the family was Theresa Bear, the family’s matriarch. In 1953, she started her own business, The Bear’s Den Trading Post, located on the Mohawk reservation in upstate New York. Her business included a small Native American gift shop and two gas pumps. According to Justin Tarbell, the executive vice president of strategy and business development at Ohserase Manufacturing, Theresa was the inspiration for the company to venture into different businesses.

“Our grandmother, Theresa Bear, instilled a strong entrepreneurial spirit and work ethic into her family, which has been the foundation of the company’s growth,” says Justin Tarbell. “This spirit is still alive today, and we feel it is embodied in our company’s purpose statement: ‘To deliver excellence in the markets we serve.’ What drives the company today is our passion to be the best at what we do.” ►

## *Ohserase Continued*



**We believe that  
our all-natural  
Signal cigarette  
brand is an  
outstanding  
addition to  
any retailer's  
portfolio.**

“

Eli Tarbell, Justin's father, expanded the family's retail footprint by establishing two new convenience stores in the area. Building on the service and experience that Theresa started, Eli added diesel fuel and a family-style restaurant to the main retail store. He also focused on the brand's customer service, another attribute that runs through the Tarbells' various businesses in the present day.

Today, the Tarbells' businesses encompass three categories: retail, petroleum and tobacco. The family has a diverse array of properties within each category, including three convenience stores, a family-style restaurant, a Papa John's franchise, four Tim Horton franchises, a Comfort Inn & Suites hotel and a health club. The family's fuel wholesale and transport operation operates largely from its terminal in Buffalo, New York. Its tobacco division consists of a local tobacco wholesale company, Ohserase Manufacturing, that was launched in 2006. The name for the tobacco division was chosen in honor of Eli Tarbell, whose Mohawk name was Ohserase (pronounced o-se-la-se). The name translates to "new year" or "new beginning," something the family saw itself doing as they set out to bring high-quality, premium tobacco products to market that honored their Native American heritage. Brandon Tarbell, Justin's brother, currently serves as the president and CEO of all of the family's various companies.

### **HONORING ITS HERITAGE**

When Ohserase was launched, the Tarbells wanted to stay true to the spirit of their Native American heritage by producing an all-natural cigarette with a blend comprised only of tobacco and water. These cigarettes had to be devoid of additives and flavorings, but still deliver a rich, smooth taste and be made available at an affordable price. The result was the company's Signal cigarette brand.

"We believe that our all-natural Signal cigarette brand is an outstanding addition to any retailer's portfolio," Justin Tarbell explains. "Its smooth taste provided by a high-quality tobacco blend consisting of only tobacco and water, coupled with a reasonable price, has proven to be very popular with a wide range of consumers."

Ohserase's cigarettes, filtered cigars and pipe tobacco products are all manufactured on the St. Regis Mohawk reservation, located in Akwesasne, New York. The company has an 80,000-square-foot federally licensed manufacturing facility that is equipped with state-of-the-art equipment and is managed by an experienced and knowledgeable staff. The Tarbells emphasize that although they do use the latest and best manufacturing equipment available, the quality of the company's products comes from its dedicated quality assurance team.

"This is where the human touch comes into play for us," says Justin Tarbell. "Everything from incoming

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## *Ohserase Continued*



Justin, Eli and Brandon Tarbell

## **The Acquisition of Dean's Cigars and Pipe Tobacco**

In April 2017, Ohserase Manufacturing announced that it had purchased Dean's Cigars, Dean's Pipe Tobacco and Farmers Gold Pipe Tobacco brands. Dean Rouse founded M&R Holdings, based in Pink Hill, North Carolina. Rouse's variety of brands have gained a following in the filter cigar and pipe tobacco categories, earning a following and reputation that Ohserase acknowledged in a press release announcing the purchase.

"Dean's Cigars and Pipe Tobacco are very well-respected in the industry and a great fit for Ohserase Manufacturing. We both stress quality and outstanding customer experiences. In addition, our all-natural Signal cigarettes are a perfect complement to Dean's Cigars and Pipe Tobacco to allow customers to grow their sales profitability," commented Brandon Tarbell, CEO of Ohserase Manufacturing.

"We were immediately drawn to the Dean family of brands, as they embodied many of the attributes that we believe are critical to success in the industry," added Justin Tarbell, Ohserase Manufacturing's executive vice president of strategy and business development. "We believe the reputation, visibility and strength of Dean's products in the OTP market make it a perfect complement to our all-natural Signal cigarettes and can provide our customers with a diverse portfolio of outstanding products."

"I wanted to ensure Dean's Cigars and Pipe Tobacco would continue to be sold with the same high-quality standards that made us successful," said Dean Rouse. "Our customers have come to know and trust our products, customer service and people. I know the Tarbell family will continue to earn that trust with the quality of their operations."

The two companies will work jointly to integrate their efforts, and the operations will remain the same. The only change that is expected is an expansion of its sales and marketing team, which will focus on delivering outstanding customer experiences.



inspection of raw materials to verifying outbound orders and everything in between ensures our quality standards are being met. This human element is critically important to us consistently delivering high-quality products."

Ohserase partners with wholesalers and retailers to provide them with custom sales support tools. According to the company, their customer service approach is to listen rather than dictate to partners. In addition to the normal sales material support, Ohserase provides a money-back guarantee on its tobacco products. "Unlike many other tobacco companies, we stand behind our products 100 percent so that our customers can feel safe about their investment," he explains.

The ideal Ohserase retail partner is described as one that cares about the tobacco category and understands the unique attributes of the company's products, including its all-natural elements and its overall quality.

"Consumers tell us they enjoy the rich, smooth tobacco flavor of Signal cigarettes, and they know we only use tobacco and water in our blend. Retailers tell us they like the ability to offer their customers an alternative to major brands. These retailers understand that Signal is a quality product at an affordable price that still delivers attractive margins to their bottom line," says Justin Tarbell.

In an effort to expand its portfolio with new tobacco products that align with Ohserase's brand, the company recently acquired Dean's cigars and pipe tobacco (*see sidebar for more information*).

### **EMBRACING NEW OPPORTUNITIES**

Despite the increasingly onerous regulatory environment, Ohserase is undeterred in its efforts to remain competitive and to carry on the entrepreneurial spirit that was instilled in the family by its matriarch, Theresa Bear, and others. Going forward, the company will focus on both organic growth and external opportunities, always searching for ideas that can advance the company's position in the industry. The acquisition of Dean's serves as a great example of the company finding an opportunity that complemented its core values and allowed it to provide its customers with new products that fulfilled the needs of consumers.

Ohserase hopes the U.S. Food and Drug Administration's (FDA) recent announcement that it would be delaying the implementation of its deeming regulations is a signal that the agency and those currently in the government are becoming more insightful and fair when it comes to regulating tobacco products. Ohserase is committed to being fully compliant with the FDA's new regulations, but it is its dedication to customer service and its entrepreneurial mindset that the company is relying on to help it overcome any obstacles and challenges that lie ahead.

"Since the FDA has greatly restricted product innovation, we will remain guided by our core values and focus on customer service innovation," says Tarbell. "This type of innovation will come from companies that truly listen to their customers and work together to provide profitable, creative solutions. We will be the company that listens." **TB**

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# NNN: The FDA's Proposed Rule for Smokeless Tobacco

EARLIER THIS YEAR, THE U.S. Food and Drug Administration (FDA) issued a proposed rule to establish the agency's first product standard that would limit the level of N-Nitrosonornicotine (NNN) in finished smokeless tobacco products to one microgram per gram (or one part per million). The FDA classifies NNN as a harmful or potentially harmful constituent in tobacco products.

Under the Family Smoking Prevention and Tobacco Control Act, the FDA has the authority to adopt "product standards," which includes the authority to restrict or ban an ingredient in a tobacco product or a constituent in tobacco smoke. This NNN product standard would apply to all finished smokeless products, including moist snuff, snus, dry snuff and chewing tobacco.

However, to clarify, the NNN in tobacco is naturally occurring and can be formed while the tobacco is being grown, cured, manufactured or sitting in a 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:

"... 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 (*i.e.*, 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)."

With the FDA acknowledging that "weather 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 one microgram per gram limitation.

In the proposed rule, the FDA states that "an NNN level of 1.0  $\mu\text{g/g}$  [one microgram per gram] of tobacco has been achieved in some smokeless tobacco products sold in the U.S." and then claims that the proposed standard "is thus achievable using current technology" for all smokeless tobacco products. In fact, the FDA further states that the agency "may consider a lower NNN level in the future."

NATO submitted a set of comments in response to the proposed NNN rule and posed several important questions to the FDA. In these comments, NATO inquired about the FDA's technical basis for reaching the conclusion that current technology to limit the level of NNN in one kind of smokeless tobacco product is transferable to other kinds of smokeless tobacco products. This question has been asked because manufacturers need to understand that if existing technology used for one kind of smokeless product cannot be adapted to other smokeless tobacco products, then the NNN standard may not be met for these other products.

In the event that the FDA issues a final rule adopting an NNN product standard, and assuming that any number of smokeless tobacco products currently on the market do not meet the NNN product standard, then retailers who sell tobacco products would incur significant financial harm.

The financial harm caused by the NNN product standard would be serious because a number of brands within the smokeless category may not comply with the one microgram per gram standard. The financial loss from being unable to sell smokeless tobacco products cannot be replaced by selling other products when a store relies on the sale of tobacco products to remain profitable.

In the absence of technology to control the one factor that leads to the greatest variability of NNN levels in smokeless tobacco products, namely the weather, and due to questions of adapting current technology to other kinds of smokeless tobacco products, NATO has asked the FDA to give serious consideration to withdrawing the proposed rule until such time as it is technically feasible for all smokeless tobacco products to achieve any given level of N-Nitrosonornicotine. Such a withdrawal would alleviate the financial concerns that retailers have about the ability to sell smokeless tobacco products. **TB**

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



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# The International Implications for Regulating Cigars

## Over-regulation impacts economic and political stability in Latin America.

WHEN WE DISCUSS THE ADVERSE economic impact of government action against the passion for and production of great cigars—whether it is smoking bans, taxation, or the profound and detrimental effects federal regulation can have on the overall premium cigar industry—we discuss it in the context of the local cigar shop, the domestic supply chain or the corporations of manufacturers headquartered in locations ranging from Miami to Philadelphia.

Those manufacturers serve as the masterminds of blends, production, marketing and “selling the sizzle,” but there is another side of this equation that cannot be forgotten—the workers of Latin America who handle and orchestrate the production of those works of art, from the seedlings to the ship that delivers them to our shore.

This is where the federal regulation of cigars is most frightening. As Jorge Armenteros of Tobacconist University states, “We are living in a renaissance of cigar-making.” He’s right, as some of the greatest cigars in history are on the local shop shelves as we speak.

It’s a tribute to the creativity and innovation of new and old cigar-makers alike. It’s also a tribute to the nations of Honduras, Nicaragua and the Dominican Republic for not only having the natural environment for the production of great cigars, but having the workforce dedicated to the skill needed to produce outstanding cigars. That impact spans to the nations of Brazil, Ecuador, Mexico, Costa Rica and across the Atlantic to the Republic of Cameroon, where more than 3,000 farms and workers are producing prized tobacco.

Several years ago, I spoke to a group at the Nicaraguan Cigar Festival in Esteli, and I said, “I challenge any of you to smoke a cigar in the same way after you have looked into the eyes of these rollers, witnessed the care of their hands on that leaf and experienced the dedication and pride they have in their craft.” That’s an image I want every cigar enthusiast in America to have when they are enjoying that cigar among friends or alone on their back porch.

Now along comes the U.S. government with the threat of federal oversight and regulation of the industry—wanting, in many ways, to treat premium cigars more harshly than even the products that Congress actually told them to regulate. If regulation stems production by so much as a fraction, jobs critical to the stability of the Latin American economy will be at risk.

That’s why Cigar Rights of America has been diligent in communicating with the embassies of Latin America on the issue of federal regulation. Working together, a joint letter from the ambassadors to the U.S. from Honduras, Nicaragua and the Dominican Republic expressing their serious concerns about the regulations was sent to the U.S. Department of State, the U.S. Food & Drug Administration (FDA) and to offices of the Trump administration.

The letter notes, “If history is any precedent, some of the regulations that could be imposed by the agency would prove disastrous to the centuries-old cigar industry that provides over 300,000 jobs among our three nations and represents millions of dollars in export revenue. No regulatory measure should threaten such jobs and hence raise the

specter of political and economic consequences within our region.”

Then there are issues close to home. As the border issue began to make news cycles here in the U.S. and the implications and association with our issue of cigar regulation started to become clear, news spread that children in Honduras were being affected.

To highlight what this means, the ambassador of Honduras to the United States, the Honorable Jorge Alberto Milla Reyes, noted, “There are, indeed, international trade and economic implications with regulating cigars from Honduras and throughout Latin America. The government of Honduras values the investment and source of employment provided by the premium cigar industry and knows well how it provides

for over 35,000 families in Honduras and 300,000 in the region. We cannot underestimate how this contributes to the stability, especially at this time of concern over issues such as immigration and security.”

All of this informs us that this issue is bigger than most imagined. Major multinational corporations are used to playing this game. They are accustomed to courting the government for what they want, opposing what they do not and, most of the time, getting their way. The opposition groups have their tactics down to the push of a button in order to unleash their questionable science and distorted “facts” onto a mass media market more than willing to regurgitate their version of the issue.

Our side exists in a world of craftsmen, farmers and rollers with the hands of a Rembrandt or Picasso. They are not purveyors of nicotine, nor a harm to the public at large. Our world is one of camaraderie, fellowship, solitude and reflection—with our art in hand. That is a message to defend.

While we will not speculate on any judicial action, the ability of Congress to protect the industry is clear. They must advance the exemption language from regulations adopted on July 12, 2017, by the U.S. House of Representatives Committee on Appropriations and strive for a means to make that exemption permanent.

They need to hear from all sectors of the industry, as never before, that cigar manufacturers, retail and distribution channels, and consumers deserve and demand that premium, handmade cigars should not be subject to draconian federal regulations.

We are calling for every manufacturer, retail tobacconist and consumer in America to contact their two United States Senators and congressperson. Visit their district offices, call the local office and the Washington office, and voice your disapproval of the cigar regulations. Invite them to local cigar shops, and host a cigar town hall. Tell them to support HR 662/SB 441 and the actions of the House of Representatives Committee on Appropriations that call for “no funding for FDA actions against premium cigars.” Let’s make the rest of 2017 the turning point in this debate. **TB**



*J. Glynn Loope is executive director of the Washington, D.C.-based Cigar Rights of America.*

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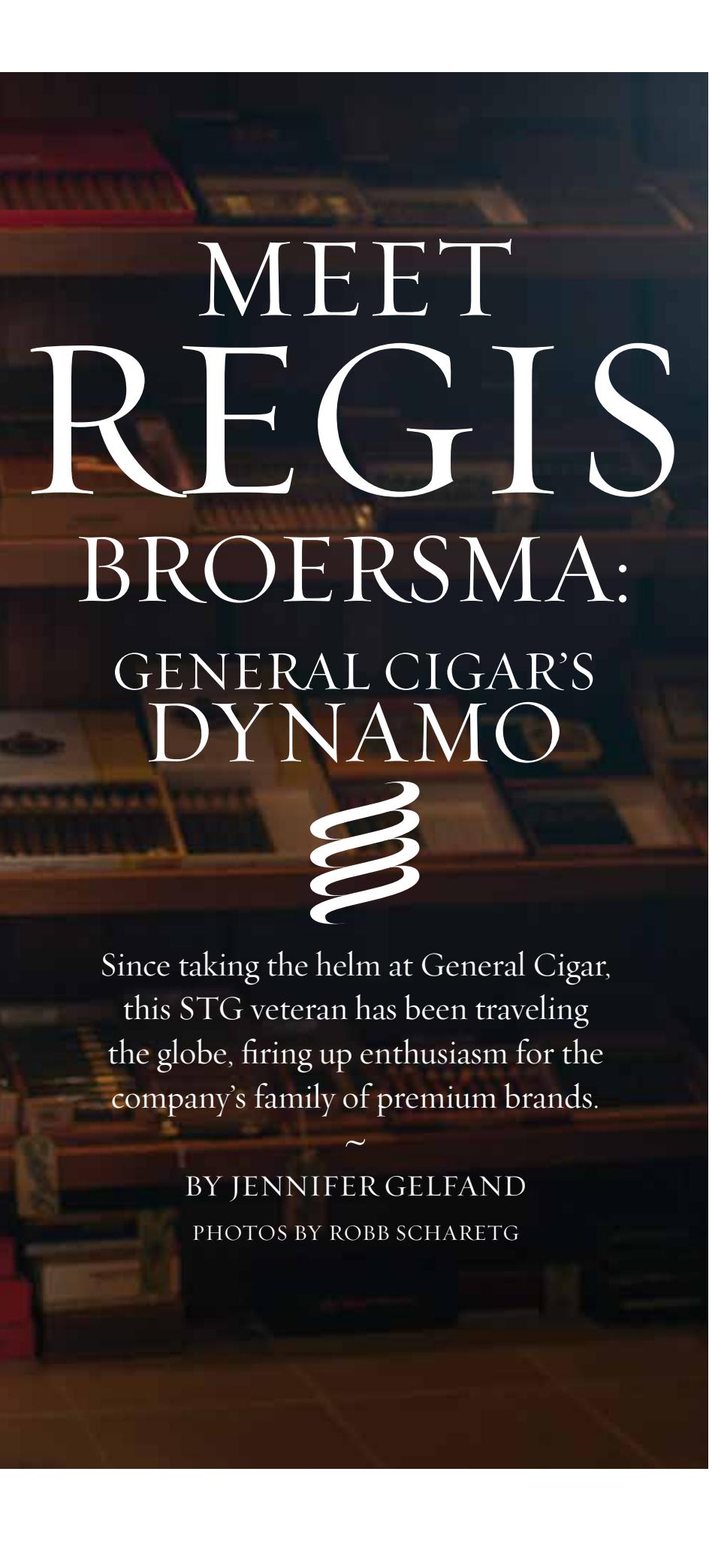


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# MEET REGIS BROERSMA: GENERAL CIGAR'S DYNAMO



Since taking the helm at General Cigar, this STG veteran has been traveling the globe, firing up enthusiasm for the company's family of premium brands.

~

BY JENNIFER GELFAND

PHOTOS BY ROBB SCHARETG

In the premium cigar business, where icons, legends and venerable family names abound, it can be hard for a relative newcomer to stand out. However, that hasn't been the case for Regis Broersma, the cigar industry dynamo who took the helm of General Cigar in 2015. Unlike many of his cigar industry peers, the 40-year-old didn't grow up in the business, nor did he come into it out of a love for cigars. In fact, he was not a cigar smoker at all when he joined Scandinavian Tobacco Group (STG), General Cigar's parent company, straight out of university in 2002—although he had fond memories of visits with a cigar-smoking grandfather in Holland.

"I did have a positive attitude towards cigar smoking, as I remember vividly that when I was a small boy visiting my grandpa he would always come home and light up a 'tuitknak' cigar," recalls Broersma. "He would wander off and enjoy the moment, overlooking the river from the window. He did not seem to hear my grandma chatting endlessly in the background. He always seemed to be satisfied and enjoying the moment when he had the cigar—although he was actually smoking what is now our competition."

Early in his career at STG, Broersma enjoyed both the people he worked with and the opportunity to learn about branding and taste preferences as he moved through 12 positions in six different countries. However, it wasn't until he was charged with managing the company's Hand Made Cigars (HMC) brand in the U.K. and then later in Germany that he became truly passionate about smoking cigars. "My interest in tobacco and hand-made cigars was sparked then, and when I visited our factory in [the] Dominican Republic, that is where I was sold," he says. "I became a Hand Made Cigar man."

Managing HMC helped prepare Broersma for his role as president of U.S.-based General Cigar—the premium cigar division STG has owned since it merged with Swedish Match in 2010—where he was charged with re-energizing the company's brand family—including stalwarts like Macanudo, Cohiba, Dunhill, CAO and Toraño. Coming into the post, Broersma wasted no time, embarking on a whirlwind tour of premium cigar shops across America, as well as visits to the company's factories.

He's kept up that dizzying pace ever since, listening, learning and representing the company in meetings with General Cigar's customers, retailers, distributors and stakeholders. Ask Broersma how he starts a typical workday and he'll tell you that it all depends on where he wakes up—or where he's headed. "A day in my life is sometimes just trying to get to a destination, sometimes working with one of our salespeople to visit local retailers and talk to our customers, or sometimes walking around the office or the factory for a 'good morning' and casual chat with people of all levels in the company," he explains. "Our main office is in Richmond, Virginia, in the center of the state, [and] our distribution network is in Hampton, Virginia (two hours away, near the coast); we have salespeople covering 50 states, an international team responsible for more than 60 countries worldwide, and three cigar-making and two box factories in [the] Dominican Republic, Nicaragua and Honduras, in addition to our tobacco growing [operations], so my workdays can be very diverse." ►

That commitment to engaging with the company's stakeholders is central to Broersma's management philosophy, he says. "I like to talk to the people in any location, as that is how you get the feeling about what is happening in the organization. I need to see those smiles to be sure we are on the right path."

By all accounts, his energetic approach to building his company's brands—and making a name for himself—in the American premium cigar market has paid off. Enthusiasm and excitement around General Cigar has been steadily building, and Broersma says the company has plenty of runway left to continue that trajectory. The future looks bright for General Cigar," he asserts. "We've hit our stride, and we're unstoppable. Our employees are empowered. Retailers and consumers are looking at the company and our brands in a new light. We've taken a leadership role in ensuring the category is well-positioned for the future. We'll continue to focus on partnering with retailers, maintaining the vitality of the category through innovation and [remaining] steadfast in our commitment to delivering the world's finest cigars. Now just sit back and watch us get it done."

*In the interview that follows, Regis Broersma shares his insights on premium cigars, the U.S. market, U.S. Food and Drug Administration (FDA) regulation and more.*

## ON GLOBAL TRENDS...

### You've worked in six countries. How do cigar markets compare globally? What have you learned from your international market experiences?

Having worked now in the U.S. (two times), the Netherlands (two times), the Czech Republic and Slovakia, Germany, the United Kingdom and Denmark, I have experienced the differences in consumer taste preferences and the way they are drawn to certain brands. Basically the difference with the U.S. is that many of the brands on the market have been made just for the U.S. market. In markets where Cuban cigars have been readily available, the consumer preference has shifted. In a market like Germany, the trends are very clear: Honduran, Dominican and Nicaraguan brands are winning against Cuban brands.

The U.S. brands are now being marketed and distributed in countries outside of the U.S. market, and cigar lovers in these countries are choosing to expand and try new tastes from brands that sell well in the U.S. Macanudo is a perfect example because the brand is growing very well outside of the U.S., competing and winning against Cuban cigars. It sparks the interest of our HMC team

to try something new, explore new tastes and deliver the unexpected. [It's the] same in other main cigar countries like Spain, Canada and France—all are markets where we are winning with our strong brands.

What I have learned most from my international experiences might not surprise you: Every country has its own uniqueness, its own culture, its own way of communicating and its own sense of design, brand connection and taste profile. What works for a Czech might not work for a German or for a Brit. With handmade cigars, we are in a unique position that we can tailor our cigars to those local needs, like we do in the U.S. I learned to adapt; I learned to listen and not presume that what works in one country will work in another.

### What current trends or preferences have you observed among cigar smokers?

I spend a lot of time visiting cigar shops and meeting with retailers and cigar smokers. What I'm seeing is a return to the classics. The proliferation of boutique brands is causing fatigue, and that's fueling a desire for tried-and-true brands, brands that the cigar smoker can count on. As a result of this shift, we have taken bold steps to redefine our classic brands.

Macanudo is a case in point. We modernized the brand's iconic logo last year and then launched Macanudo Inspirado Orange, which was previously only available outside the U.S. This new taste profile shifted the perception of the brand. Where Macanudo was once seen as a line of mild cigars, it now has a more Cuban-esque flavor profile, and retailers and cigar smokers have taken notice in a big way. We're enjoying double-digit growth on Macanudo as a result. With the expansion of the Inspirado franchise to include Inspirado Black and White, these new introductions are fueling a halo effect on the brand. Macanudo has its swagger back.

Where it makes sense strategically, we are reimagining the equities of our classic brands with a modern lens. Partagás 1845 is another example. We've made the brand more relevant to our retailers and consumers by updating the look and evolving the blends to feature the tobaccos and taste profiles that are most in demand among today's smokers.

Also, I do see a trend where the [brick-and-mortar] (B&M) community is looking for true partners. Partners that not only come in and try to make a sale but also help with sales, education, events, hard goods, merchandising, etc. General Cigar is there as that partner. In the past, we came away from being a partner, but now we are committed to working hand in hand with our retailers. When we changed our focus over the last two years, in the beginning I said that most retailers probably think, "Yeah,



yeah, sounds good, but let's talk again in six months." Now they see a new General Cigar, and we are back in a big way.

### Where do you personally enjoy smoking a cigar—and which cigars are you enjoying most these days?

I enjoy smoking the most in a social gathering—I am not a person who smokes a cigar when alone in a chair, thinking over the day and the world's problems. I enjoy smoking a cigar when I'm with like-minded lovers of handmade cigars—especially with people from my teams after being in the office, being in the field or being on a factory visit. I like that bonding aspect. We love handmade cigars, we love the moment, we share that passion for tobacco, and we appreciate the hard work and time that goes into making a handmade cigar. This can also be with people from the industry—competitors and our customers—or with consumers. It's about that shared passion and appreciation—and even better when I'm having my cigar with



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It's not just about selling a cigar into a shop—it's about putting the right programs in place to drive consumer pull at the retail level.

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a bourbon, a G&T or a Jack and Coke.

I am not a heavy smoker, so when lighting a cigar I tend to light up a more light-to-medium cigar in the morning and afternoon and a medium cigar in the evening. I like well-rounded and fermented tobaccos that make you taste all the flavors and all taste dimensions without being overpowered by a strong, bold taste. I do experiment a lot and smoke both our brands and competing brands. My favorites from our portfolio are Partagás Anniversario, Macanudo Inspirado White, CAO Pilon and Cohiba Macassar.

#### **ON FORGING A FUTURE...**

**Broadly, what do you see as the biggest challenges ahead for the company?**

#### **The biggest opportunities?**

I'm Dutch, so I'm very direct. That said, I'll start with the elephant in the room. The FDA is a challenge, for us and for the entire industry, but the tobacco industry has always had challenges and opportunities. Considering

our leadership position in the category, we believe that if we were to give up, the industry would decline. We're certainly not going to let that happen. Compliance is vital, and with our resources, the risk is mitigated. We are in a very unique position, having a vast library of amazing blends released before the predicated date of [Feb. 15, 2007]. We are focused on surprising and delighting our retail customers and consumers, and by doing so will ensure an exciting future for the category.

Brick-and-mortar is a focus for us. This is an important point of consumer entry into the category, and we are intent on creating and enhancing our partnerships with retailers to support the sale of our cigars. It's not just about selling a cigar into a shop—it's about putting the right programs in place to drive consumer pull at the retail level. There is a lot of opportunity to flex our marketing muscle and to leverage the people we have on the street: sales, marketing and brand ambassadors. I have empowered my team to

respond to retailer needs and to make decisions that allow us to support the brick-and-mortar channel. Building partnerships with our customers and driving excitement among cigar smokers is something my entire team is tasked with doing.

As far as my goals for 2017 and beyond, as demonstrated at this year's [International Premium Cigar & Pipe Retailers Association] (IPCPR) show, we are continuing to evolve the perception of General Cigar and are changing the way people see us. We've righted the ship and are no longer seen as the corporate giant people once thought we were. We're taking risks and evolving our brands and our culture. It's now about a one-to-one dialogue with our retailers and building connectivity with consumers. We're now known as a partner, an innovator and [a company] that works to protect the future of the premium cigar business.

**You brought Diesel Grind into the General Cigar family at IPCPR.**



**How does Diesel fit into the company's portfolio and what are your plans for marketing it?**

Diesel Grind came to us as a successful brand, and with that we have an opportunity right out of the gate. Diesel Grind adds an edge to our portfolio, one that opens the door to a new consumer for us. This is a brand for a bold smoker who wants a brand [he or she] can relate to. It's modern and unapologetic, and we see Diesel Grind becoming the cult classic in our portfolio. We're going to build the brand in ways that speak to that spirit.

Was it a risk? Of course it was. There is always friction between B&M and I/C, but I strongly believed that I/C could give something back to B&M, so we took a chance and tested the theory. This was a calculated risk, and it paid off for us. Diesel Grind is a brand sold online by our sister company, Cigars International (CI), and over the last decade the brand has continued to grow. By offering Diesel Grind to B&M, our retailers would get a brand that has proven itself already with strong demand from consumers. We added marketing power, this time from GCC [General Cigar Company] and CI combined, and gave it to B&M retailers with great margins.

At IPCPR, we showed that Diesel Grind is bigger and has better branding than a lot of the boutique cigars on the market. We also communicated that Diesel Grind gives retailers the chance to connect with a consumer base unlike that which we have with any other GCC brand. B&M can finally benefit from I/C. It could have been the biggest flop in GCC launch history, but the B&M community has grabbed the opportunity with both hands, and Diesel Grind was one of our biggest surprises at the IPCPR show. Our risk paid off.

**ON BUILDING BRANDS...**

**How do you go about creating and maintaining strong individual brand identities while operating within a larger entity?**

We have always taken an individual approach to marketing our brands, and my team and I are working to take this even further. CAO is a perfect example. When we took over the brand, people thought we'd change the blends or somehow disconnect with the brand's values. The opposite was true. We built a great team to support the brand.

They operated as a stand-alone unit, and we empowered Rick Rodriguez to lead blending

and gave Ed McKenna (director of marketing) the green light to take risks. The team used our access to tobacco to create blends that had never been seen before in the category. CAO continues to break boundaries. Just look at the Amazon Trilogy. Building on the cigar lover's expectations for new and exciting things from the brand, we introduced three blends with three different Brazilian tobaccos that were never available outside of Brazil. These cigars sold out immediately at IPCPR and [are] racing off the shelves in record time.

CAO is just one example. Each brand has its own distinct identity, and everything flows from that. Macanudo's tagline is "Evolution of an Icon," and that speaks to the modernization of the brand. With Punch, we're focused on the brand's Honduran heritage and leveraging Mr. Punch to connect with cigar lovers. La Gloria Cubana is the original boutique brand, and we're supporting the line with connections to the people who made the brand the success it is today. Cohiba is purely about luxury. Partagás speaks to those in the know, and we're working to contemporize aspects of the brand to increase its relevance to today's preferences. For Toraño, we're rebuilding the brand, working with Jack

Toraño to increase connectivity to the consumer base. For Hoyo, the focus is on craftsmanship and full-bodied flavors that complement the brand's Honduran roots.

In the end it is all about brand equity. I don't really care about the awareness of the name General Cigar. It's not what ignites a consumer or retailer. What I care about is that people know our brands. People don't have to know they all come from one company.

#### **ON ENTERING THE EVERYDAY MARKET...**

**You recently launched Cohiba Blue,  
a more economical cigar than pre-  
vious iterations in the franchise.**

**What was the thinking behind  
developing an "everyday" cigar?**

We decided to take a modern approach with Cohiba, just as we have done with brands like Macanudo and Partagás. Today, luxury is not just about exclusivity anymore. It's about inclusivity. Just look at the luxury automobile category and you'll see where the paradigm shift began. We took a page from that.

Where Cohiba had price points that made it slightly out of reach for some cigar smokers—we added Cohiba Blue to introduce the brand to a bigger group of cigar smokers. By giving greater access to the brand with a lower-priced offering—while still remaining in the premium priced segment—we increase the brand's relevance and connect more people with the brand. This path will likely lead more cigar smokers to upgrade to a higher-priced Cohiba cigar in the future. This will ultimately deliver dividends to the retailer. It all goes back to delivering cigars that the retailer can get behind and that can generate profits for them.

#### **What is your approach to reaching consumers who are continually bom- barded with marketing messages?**

The premium cigar business is built on relationships. This is true for retailers, and it is equally true for consumers. In this category, cigar smokers want personal connections to the brands they smoke. When a consumer goes into a cigar shop and is surrounded by a sea of brands, people make the difference. So we have recently made a significant investment by putting more people on the street to talk about our brands.

We assembled a group of people who embody the spirit of our brands and now have a team of seven brand ambassadors hitting cigar shops and special events. Each ambassador has a wide range of experience in the category, yet all share a common trait: a true passion for our cigars. Rick Rodriguez was handpicked by Edgar Cullman Sr. to study under the legends of the business, including



Benji Menendez, Ernesto Perez-Carrillo, Daniel Nuñez and Estello Padron. Yuri Guillen is the ambassador for La Gloria Cubana and studied under the very same tobacco men. He has been leading our cigar production for nearly 20 years and now spends one week every month at cigar shops across the country to spread the gospel of the brand.

Jack Toraño was practically swaddled in tobacco at birth and is our ambassador for Toraño. Sean Williams built his own cigar brand from scratch and has a serious passion for cigars. He's also a consumer of all things luxury and is the perfect person to represent Cohiba. On Macanudo, we have Laurel Tilley, a dedicated cigar smoker [and] former cigar shop manager who can talk

about everything from tobacco to motorcycles. Iris Hols is a refined lady who represents Macanudo in Europe and hails from our luxury Hajenius shop in Amsterdam. Rounding out the team is Justin Andrews, who has built his career in the cigar business and brings the hip millennial factor to the Time Flies and Diesel Grind brands.

We have taken the personal connection to another level by [ramping] up our collaborations with people who embody the ethos of our brands. Partnerships with Ernesto Perez-Carrillo for La Gloria Cubana [and] A.J. Fernandez for Hoyo deepen the connection to our brands, and Benji Menendez's influence on Rick Rodriguez was the catalyst for creating CAO's Amazon Trilogy.

CE

We ran and still are running two parallel paths: one being FDA compliance and the other being developing and winning—exciting the hearts and minds of the retailer and consumers.

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## ***Regis Continued***

The feedback we're getting on the brand ambassadors is very favorable. Retailers appreciate the engagement we're offering in their shops, and cigar lovers are following along on social media, learning not only about the brands, but checking in to see where the brand ambassadors will be next.

### **ON NAVIGATING FDA REGULATION...**

#### **How has the U.S.'s regulatory environment impacted strategic planning during your tenure at General Cigar?**

We're the swan above the water, paddling like hell underneath. With the FDA regulations, it's essential that we keep on developing the brand equities and keep our retailers and consumers excited about what's in store. Yes, it did change our strategic planning as it has put more restraints on us, but those are the boundaries we have to operate in for now—and we are.

One of the learnings we had when in Europe and when the TPD2 [revised EU Tobacco Products Directive] legislation hit us was that we focused solely on becoming TPD2 compliant. We forgot to innovate, to develop, to excite and to build. That caught up with us when we came out of the TPD2 compliance phase. I was committed to not letting that happen again. We ran and still are running two parallel paths: one

being FDA compliance and the other being developing and winning—exciting the hearts and minds of the retailer and consumers. It has put a tremendous pressure on our teams, but they pulled through and have done a fantastic job. And it is paying off. We live by dreaming big, getting shit done and having fun at the same time.

#### **Within the industry, there's talk that the regulatory environment will stifle development of new cigars and that the industry will consolidate as companies struggle to comply with FDA regulation. How will General Cigar continue to innovate and market under FDA regulation?**

As I mentioned before, we have a library of predicate cigar blends that is unmatched in the handmade cigar category. This library of FDA-compliant predicate cigar blends gives us all the resources that we need to keep on surprising our consumers and retailers. As far as marketing, our strategy is clear. We will continue to solicit feedback from brick-and-mortar retailers and will respond to the changing needs of the retail environment with the right new items. We'll leverage our feet on the street to support our brands at the retail level, and [we] will continue to deliver meaningful

experiences and engagements with our brands.

I do also believe that the flood of innovation each year has prevented companies and retailers from really building a sustainable and loyal consumer base. With the flood of innovations, brand loyalty has diminished. The first question a consumer asks when coming into a store is, "What's new?" There are hundreds of cigars in the store already, but the flood of innovation has taken away the attention from building a strong core of brands and driving continuous trial. Every strong company and industry needs a strong core, and GCC is providing that.

#### **What do you think the cigar market will look like in five years?**

I believe there will be consolidation in the marketplace, and the companies that consistently make quality cigars that meet retailer and consumer needs and build and support their brands will continue to thrive. It's all about brand equity and being relevant. GCC will assure that. **TB**

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*For more on General Cigar's new releases, which include Macanudo, CAO (Amazon Anaconda), Partagás, Cohiba, Foundry and La Gloria Cubana (Colección Reserva), see IPCPR Insights, p.12.*

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P.48



# Cub

*Exploring Cigar Country*



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AS ANYONE WITH MORE than a passing interest in cigars knows, the pendulum has been swinging back and forth for U.S.-Cuban relations in recent years. The diplomatic relations restored with much fanfare in 2014 were “canceled” earlier this year by President Donald J. Trump, who dubbed the previous administration’s policy a “completely one-sided deal with Cuba” that had to go. Fortunately, that doesn’t mean the door has shut for Americans looking to experience the country best known for its cigar-making tradition—or that it ever really will. However, travel to the biggest island in the Caribbean may become a lot more complicated.

The good news? First, while U.S. policy about travel to Cuba has changed, those changes have yet to take effect and will likely take many more months, if not longer, to be put into action. Second, rather than banning travel to Cuba outright, the new policy tightens already-existing conditions regarding who can travel and for what purpose—which means Americans determined to make their way to Cuba will probably still be able to find a way to visit legally (See sidebar: “Know Before You Go,” p. 50) long after they do come to pass.

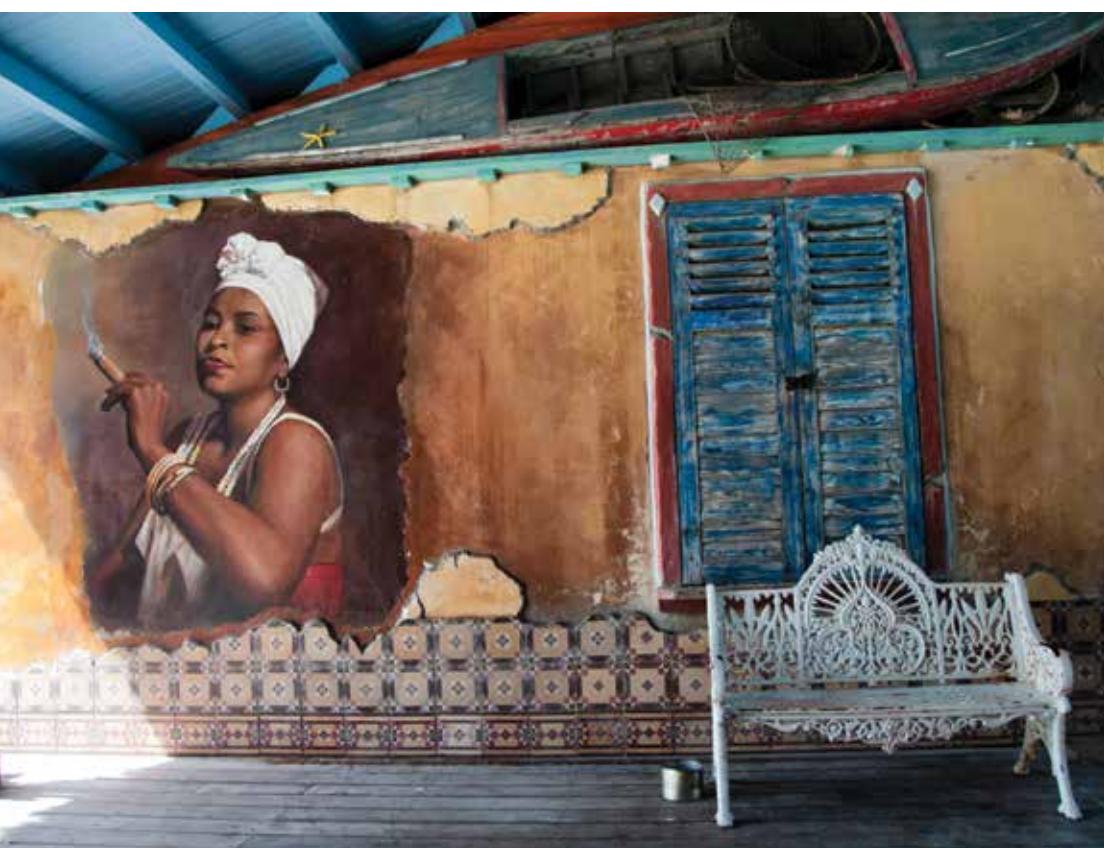
#### **Steeped in Cigar History**

Still, if you’ve yearned to experience the island’s legendary cigar-making culture up close and personal, now is the time to make your travel plans, say veteran visitors. “I’ve gone every year for four years now,” says David Garofalo, founder and owner of Two Guys Cigars, who says tourism is making an impact on both Havana and cigar-making in Cuba. “It’s changed dramatically during that time; every year you see more and more of an American influence. If you really want to experience Cuban cigar-making history and culture, the sooner you can go, the better.”

For decades, Cuba stood still while time marched on. That may be changing now, but recent travelers still describe time capsule-style scenery: crumbling baroque

CU:  
CUBA

BY JENNIFER GELFAND



buildings, classic American cars and billboards disseminating communist propaganda about the very regime that has preserved the country like a living history museum.

"It's like the 1950s there," says Craig Cass, owner of Tinder Box of Charlotte, who traveled to Cuba in December 2016. "And there are cigars everywhere you go—walking to get ice cream one day I was approached 50 times by people who wanted to sell me cigars."

Monthly salaries average around \$30 so Cubans are accustomed to looking for ways to supplement their incomes—and for anyone working in cigar-making, selling cigars on the side is the natural path. "A guy working in a factory takes a little home every day and spends a month making a box of cigars that he'll sell for a few months' pay," explains Garofalo, who says that buying on the street might not get you the best cigars, but it will warm your heart. "My friends ribbed me about paying \$100 for a box of cigars I probably could have gotten for \$80, but these people really need the money. Another time, I told someone who couldn't change a \$20 to keep the change, and he gave me a smile like it was Christmas."

Most discerning visitors, however, report that buying cigars on the street is a chancy affair. "You will see a lot of street merchants, some of whom will try to get you to buy the worst-quality cigars, made of shavings off the floor," warns Nicholas Syris, founder of LH Cigars, who has traveled to Cuba more than 50 times and has led group tours there. Syris says travelers need to vet their street purchases

carefully. "Cigar factory workers are allowed to take two cigars home a day, so they can choose to pack and sell those authentic cigars. But if you want to be sure of what you're getting, buy directly from the factories."

Even then, those who view Cuba as a mecca for cigar lovers may be surprised by what they find. Perhaps not surprisingly, reports suggest that the equipment in Cuba's cigar factories is just as charmingly antiquated as the streets and buildings in Old Havana.

### Mystique or Myth

"Visiting the factories in Cuba, if you've been to Nicaragua or [the] Dominican Republic, will be an eye-opener," says Syris. "They don't use a *bunchero rolero* [bunch roller] or any machinery whatsoever; they have one guy working by hand, start to finish. Having said that, the quality control is the worst I've seen in the world."

Cass, whose trip included visits to factories, agreed, noting, "If I had to give an analogy, comparing the factories in Cuba to those in Nicaragua is like comparing high school football to the NFL. It was like the Old West in terms of quality control and the way things were run. People were selling cigars right off the table. When we go through sorting rooms in Nicaragua or [the] Dominican Republic, the cigars being put in boxes all look the same. In Cuba, the variance is as wide as one to 10. I think we're all spoiled in the sense that we take fabulous construction for granted—we're shocked when we find a cigar that doesn't burn properly."

## Know Before You Go

**Bring Cash.** Credit and ATM cards are usually convenient—but not in Cuba, where American cards and cash are virtually useless. "The good news is that you'll pay for your hotel upfront, so you'll unload a lot of cash right away," notes Garofalo, who advises bringing enough cash to fund your entire stay. "Also, there's no crime."

**Consider Alternate Accommodations.** Cuba has a shortage of hotel rooms, and the "foreigner" room rates at top hotels like the Saratoga Havana and the Hotel Nacional are pricey (\$450-\$600). "Casa particulars"—private home rentals—are an economical and comfortable alternative that can be booked on Airbnb.

**Save on the Exchange.** As with most foreign countries, you'll need to exchange your cash for the local currency. Since there's a 10 percent surcharge on exchanging U.S. dollars, Mark Ryan of D&R Tobacco suggests converting your cash to Canadian dollars or euros at home so you won't have U.S. bills to exchange in Cuba.

**Lower Your Luxury Expectations.** "Enjoy Cuba and the cultural immersion it offers, and don't get hung up on Western luxuries," advises Ryan, who attended the annual Festival Del Habano in Cuba last year. "It's easy to forget that it is essentially a third-world country—it's not uncommon for there to be no seat on the toilet. You just have to roll with it."

**Watch Out for "The Hustle."** Taxi drivers, cigar rollers, bartenders—pretty much everyone you run into in Cuba is on the make, says Syris, who recounts bringing a tour group into a hotel bar and being asked for a per-person admission fee. "You have to recognize that these people work for \$1 a day; they can't live on that," he explains, noting that taxi drivers will routinely "forget" to turn on meters. "They work to be able to steal because if they don't steal, they don't eat. That's a mindset and mentality that you need to understand."

**Don't Forget Your Souvenir Money.** Thanks to a loosening on restrictions, Americans can bring unlimited amounts of goods back from Cuba, although you'll pay taxes on anything over 100 cigars or \$800 in value. Keep in mind, you are prohibited from reselling any cigars you carry home.

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## Cuba Continued

Another veteran visitor to the country, who declined to be identified, reported that 15 percent of the cigars coming out of any given factory there are unsmokable. “The cash flow there is so bad that they don’t have time to age out the tobacco after it’s brought in from the field,” he said. “So if you buy them direct while you’re there, you probably have to lay them down so that that aging can occur.”

There are, however, good-quality cigars being made in Cuba—you just have to find them. “You need to know where to buy,” says Syris. “The sanctioned cigar shops in Havana that have a master roller ambassador assigned to them creating custom blends are one of the best places.”

“My understanding is that the farmers keep a percentage of their tobacco and that some of the most spectacular cigars being made never make it to market—they’re sold privately,” adds Cass, who notes that the lack of consistency of product convinced him that, were the embargo to be lifted and American retailers to have access to Cuban cigars, their allure would be short-lived. “For a few months there would be a rush on Cuban cigars, but people would figure it out pretty quickly,” he says. “It would take several years for Cuban quality and volume to catch up enough to create a [healthy, sustainable] market.”

Yet strides are being made toward that goal, notes Garofalo, who says that the Cuban government invited his counsel after he critiqued the state of Cuban cigar-making facilities in a travel blog about his first trip. “They invited me back for the Habanos Festival, and they showed me that they were trying to improve their game,” he explained, noting that on his return trip he was quizzed on recommendations. “They took me to where they stored cigars and showed me a dehumidifier they had put in to get their moisture down to where it needs to be. They seem genuinely interested in improvements. You could see that they were trying to gear up to enter the U.S. market now that the embargo was being lifted.”

While Cuba might not entirely live up to its cigar-making reputation just yet, the tobacco being grown there is undeniably special. “Cuban tobacco is a unique-flavored tobacco, unlike anything else, and a wonderful component of a cigar,” says Garofalo. “The real magic will be when this ingredient becomes available to other manufacturers. That will be a big winner.”

What’s more, despite the quality issues, cigar lovers who visit Cuba universally rave about their travels and offer the ultimate endorsement: plans to go back. “Cuba’s attraction goes beyond a forbidden fruit mystique,” says Garofalo, who is hoping to attend the 2018 Habanos Festival in February. “Traveling there gives you a window into a whole different world—and it’s great to be able to smoke a cigar in public without anyone looking at you funny.” **TB**



Nicholas Syris (second from right) leading a tour stop at the tobacco farm of Hector Luis Prieto Diaz in Pinar del Rio.

### Is Travel to Cuba Still Legal?

Technically, tourist travel to Cuba has been prohibited for decades. However, in 2014, President Barack Obama loosened restrictions on travel to Cuba, allowing travel to the country as long as travelers applied for one of 12 categories of authorized travel and kept records of their travel schedules for at least five years afterward. This policy was practiced on an honor system under the previous administration but will be more strictly enforced if the provisions outlined by President Trump go into effect.

Trump’s policy will once again ban Americans from planning their own trips to Cuba, requiring them to travel through a licensed tour company under U.S. jurisdiction and be accompanied by a company representative. Furthermore, Americans will be prohibited from doing business with hotels and other businesses that are “under the control of, or act for or on behalf of, the Cuban military, intelligence or security services or personnel ... its affiliates, subsidiaries and successors.”

Since all the hotels in Cuba are state-owned and many are military-run, these requirements could curtail travel severely and make travel more challenging. What’s more, according to the U.S. Department of the Treasury, which licenses travel to Cuba, the new rules mandate that a “traveler’s schedule of activities must not include free time or recreation in excess.” This essentially means that travelers will be following government-approved itineraries, staying in preapproved hotels and participating only in sanctioned activities.

That said, the restrictions have yet to be put in place and, because they require the government to develop a list of Cuban entities with whom Americans are forbidden to do business, they will likely take time to enact and enforce. The upshot? If you act fast, you probably have time to sneak in a trip before the policy changes. After that, you’ll still be able to go to Cuba, but your trip will take longer to plan and you’ll have a lot less flexibility once you’re there.

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# CELEBRATING FAMILY VALUES

**Frederik Vandermarliere, CEO of J. Cortès, shares the business lessons he's learned from his family and reflects on what led to his company's successful partnership with Oliva Cigar.**

BY ANTOINE REID

**W**hen J. Cortès' acquisition of Oliva Cigar Co. was announced in July 2016, many were surprised. News of the coming U.S. Food and Drug Administration (FDA) deeming rule was just settling in, and the tobacco industry was still reeling. Acquisitions in any industry and business tend to lead to the same questions: What will become of the company being acquired? Will change be coming to the products that both retailers and consumers have come to know? Will the familiar faces behind the brand suddenly disappear? Many also wondered: Who exactly is J. Cortès, a company that has a strong presence in the European market but not one in the U.S.?

A year has passed, and much has changed in the tobacco industry, but one thing remains as it has always been: Oliva Cigar Co. Its cigars are still stocked by tobacconists in humidors across the nation, and the Oliva family remains present and actively participating in the brand. Plus, surprisingly enough, J. Cortès appears to stand behind the premium cigar company,

even with its own products still absent in the U.S., with the exception of Neos, a machine-made premium cigarette brand that is now being distributed by Oliva in the states. For Frederik Vandermarliere, CEO of J. Cortès, everything is going to according to plan, including J. Cortès' scarcity of products in the U.S. market in comparison to that of the company it acquired last year.

"In the U.S. market, the things that Oliva can still do within the premium segment are amazing," he explains. "Last year, I said to the team that we would do everything we can to change nothing—except the things they wanted to change."

## A HISTORY OF ACQUISITIONS AND EXPANSION

Understanding Vandermarliere's approach to business and the reason behind the acquisition requires at look at his family's history. In 1926, his grandfather, Maurits Vandermarliere, began to manufacture his own cigars



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## *J. Cortès Continued*

in the attic above his cigar shop in Moen, Belgium. He enjoyed providing people with a genuine smoking experience, a passion that inspired his business and made his cigars a hit among his customers. By 1936, demand for his cigars was outpacing his staff's ability to keep up and the space he was working with, so he opened a small cigar factory in the nearby village of Heestert.

Maurits Vandermarliere and his wife, Angèle, had eight children. Four of his sons—Marcel, William, Frans and Guido—and one of his sons-in-law, Raphaël Vercruyse, joined his cigar business, then called Ets. Vandermarliere NV. Each son had a different focus within the business, from buying tobacco to production to focusing on sales. In 1965, Guido, the youngest son, had joined the business, focusing on export and taking the business to the next level. With the early acquisitions of Neos Cigar in 1975 and of the TAF factory in 1979, the company suddenly had some brands to focus on, one of them being J. Cortès.

Guido worked on the branding of J. Cortès, which was not a big seller and was viewed as an old-fashioned product when it was acquired. Guido enjoyed leisure and traveling, and, after a trip to the French Riviera, was inspired by the pristine ocean's crystal-blue color and decided to apply it to the J. Cortès packaging. Many in the cigar industry cautioned against this move, saying that the blue color didn't fit with the industry's typical brown, white, green and red color schemes. Guido ignored the critics and carried on with the branding. The blue was a hit with consumers and helped the product stand out on the shelf, creating the company's first branding hit.

Guido continued to spearhead J. Cortès' expansion and growth. In 1986, the company opened United Tobacco Processing, a bobbin factory, in Sri Lanka. Business picked up and allowed them to upgrade their headquarters, which they moved to Zwevegem-Moen. J. Cortès had almost 2,000 employees worldwide and a strong presence in Belgium, Italy, France, Spain and the Netherlands, and their products were available in 80 countries. Business was good, but the company was not done expanding and growing. In 2005, Guido, like his father had before him, looked to his own son, Frederik, to help take the company into the future.

### **LESSONS LEARNED**

Coming into a company with almost 80 years of history could be intimidating, but Frederik Vandermarliere wasn't entering an unfamiliar business. This was a business defined and shaped by generations of entrepreneurs who also happen to be family members.

"The strongest part of a family business is the family, but [that] can be the weakest part at the same time," notes Frederik Vandermarliere, who says his father and his career are what motivate him today. While he currently holds the CEO role, the family plays a big part in the decision-making. Just as with earlier generations, the family invests its money in other ventures, including real estate and even a cookie company—but everything goes back to cigars.

"We now have a cookie company that is more than 130 years old that has a lot of heritage, a lot of passion—



(from left to right) Guido and Frederik Vandermarliere

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## J. Cortès Continued



(from left to right)  
Gilberto Oliva Jr.,  
Frederik Vandermarliere,  
and José Oliva

it's a pure indulgence, similar to cigars," Frederik Vandermarliere explains. "A cigar is a moment of relaxation—a chance to disconnect from the world. People will continue to enjoy cigars because they need that moment of relaxation and of disconnection."

Working with family can present its own challenges, but it also teaches some valuable business lessons. For example, partners need to have an understanding of one another, and good communication is key. Also, being able to separate business and family and not allow either to negatively impact the other is important. Frederik Vandermarliere describes a long-held family agreement in which any family member involved in the business agrees to sell their shares of J. Cortès back to the company after turning 65 if they have no child active in the business. Vandermarliere's father bought shares from one of his brothers in this way.

"We still have family parties and still get along. That is really fantastic—to have the combination of a successful business, buying out business partners who are family members and still having a good family relationship," says Frederik Vandermarliere.

### EXPANDING THE FAMILY

As CEO of J. Cortès, Frederik Vandermarliere is leading the company into the next generation with the lessons learned from his father and family over the years. In 2012, he got to know the Oliva family and saw synergy between that family and his own. Like the Vandermarlières, the Olivas have worked together as a family for generations and have a passion for tobacco. Though J. Cortès acquired Oliva, Frederik Vandermarliere sees it more as a partnership and joining of two similar families united by similar beliefs and values.

"I look for good partnerships among family businesses. The family values go above everything," he explains. "The good thing is that, through all the discussions we had, the respect was there, the understanding was there, and there was a common vision: to grow the business in the same way they had always done before."

It's been over a year since the acquisition was announced, and in the view of retailers and consumers, it has been business as usual. The Oliva branding remains unchanged, no one from the Oliva team has left, and the brand has retained its status. Frederik Vandermarliere says this was always the intent because this wasn't strictly a business move; it was about two families coming together with one common story. One factor, he says, will keep J. Cortès and Oliva growing and successful: passion.

"We have so much to do with Oliva that you can't do everything at once. In the U.S. market, the things that Oliva can still do within the premium segment is amazing. We need to focus on this at the moment," says Frederik Vandermarliere.

Though he is passionate about J. Cortès and its own products, Frederik Vandermarliere currently has no plans for J. Cortès in the U.S. market. He knows the company's European cigars would struggle to overcome the machine-made stigma within the U.S. Rather than try to launch products that wouldn't be a good fit, he has the utmost confidence in Oliva and their brands—and he wants them to remain the focus for now. **TB**





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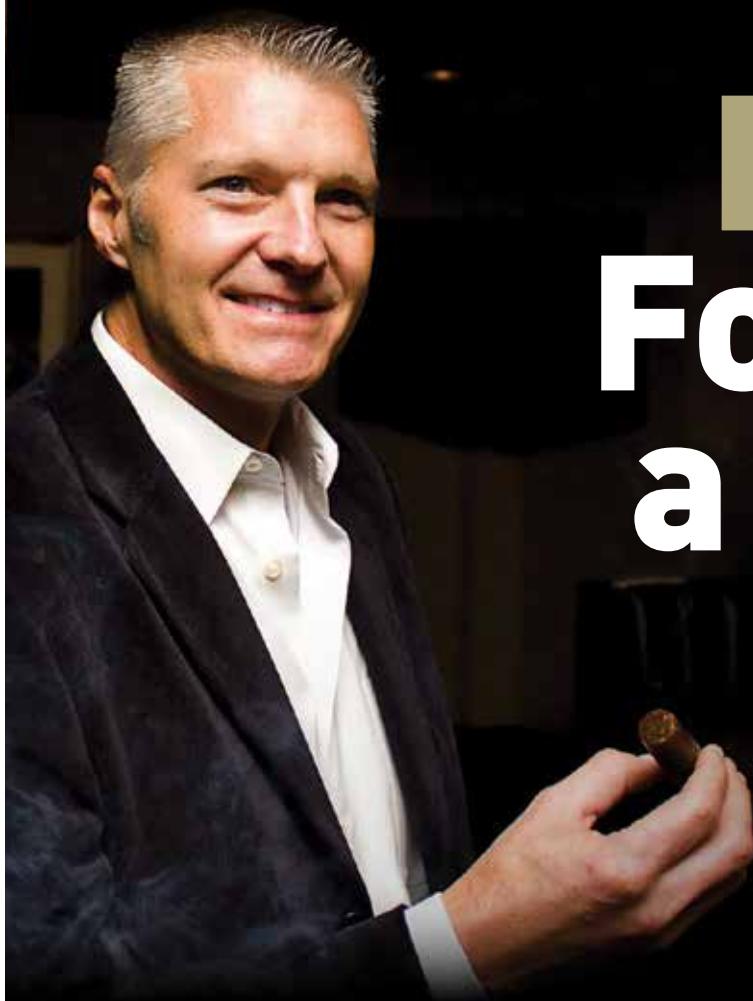
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# Kristoff: Following a Passion

Drawing on 13 years of experience in the premium cigar industry, Kristoff president Glen Case outlines how focusing on quality, consistency and availability of product can spark growth and new opportunities for any tobacco business.

BY ANTOINE REID

After 19 years spent working in the financial services industry, Glen Case was ready for a change. Spending six months working as an independent sales representative for several cigar manufacturers alongside his wife gave Case the idea to begin making his own cigars. Thirteen years later, Case still has a passion for the cigar industry and loves what he does. He also now has a successful cigar brand, Kristoff, named after his son Christopher.

Case's story goes well beyond Kristoff and its brands. As a leader of a successful boutique cigar company that continues to see growth, Case has valuable insight into what it takes for any tobacco business to thrive. It should be no surprise that much of his advice is founded on lessons learned while working in the financial industry—from how to handle any profits made to how to scale a business wisely. The foundation for all of his advice and lessons learned during his time spent working with cigars comes down to one simple word: passion.

"My passion for Kristoff stems from creating something out of nothing and the challenge to continue to

grow the business both nationally and internationally," Case explains. "It is not only the business aspects of running Kristoff that motivate me—it is the people I work with. We have a philosophy at Kristoff, which is that once you become part of the team, you are truly part of the family. I am blessed to be able to work with some of the best and smartest people I know."

## BUILD YOUR BRAND

When Case first started Kristoff, it was just him—and the brand he created was different from what exists today. In late 2004, Case launched Exclusive Cigars, which is still the legal entity of the company he runs today. The first successful blend, the Kristoff Original Criollo, put the company on the map and led to the decision to rebrand it as Kristoff Cigars. While the company now consists of 14 employees, Case remains front and center as the face of the Kristoff brand.

Case personally makes appearances at events to promote the Kristoff brand, and his face can often be seen in various advertising campaigns promoting the brands.

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## Kristoff Continued



He's also worked with his team to bring focus to the quality, consistency and availability of the Kristoff product. Over the years, the company has transitioned away from independent sales representatives and instead has in-house representatives who can focus more attention on building the overall brand. The company's marketing efforts include print media, as well as social media and in-store events to continually reach out to and engage with Kristoff's customer base.

In another move to control the brand and ensure consistency and availability, Kristoff established its own warehousing and logistics company, Exclusive Cigars Imports. With this company, Kristoff is able to handle his business's warehousing and logistics needs and also to provide similar services to other cigar manufacturers. All of these moves have helped Case build a strong brand and business model.

"Reinvesting back into your business is absolutely critical," explains Case. "It is analogous to the stock market: You need to be investing in it to make money, but knowing where to invest, or not to, is critical to your success."

### CALCULATE YOUR GROWTH

In order for a business to grow, Case says you need to have a plan for growth. Larger manufacturers can rely on scalability to spark growth. For example, larger manufacturers can negotiate more aggressive pricing on raw materials based on higher purchasing volumes. Kristoff, on the other hand, is a boutique company, which allows for a closer watch on quality and consistency. Smaller companies can also adapt quicker to changes in production and focus more on product development and marketing.

"I absolutely embrace the boutique manufacturer philosophy, but that does not mean we won't continue

**With Edgar Cullman's blessing, Ramón set forth the exacting standards required for Macanudo cigars, and these methods are still in play today.**

''

to grow the Kristoff brand," Case explains. "I believe we can continue to grow and still hold onto the things that define us as a boutique manufacturer. We will uphold the strongest quality control standards, draw testing every cigar, double and triple fermenting the finest tobacco available, [ensuring] optimal aging of our cigars and more."

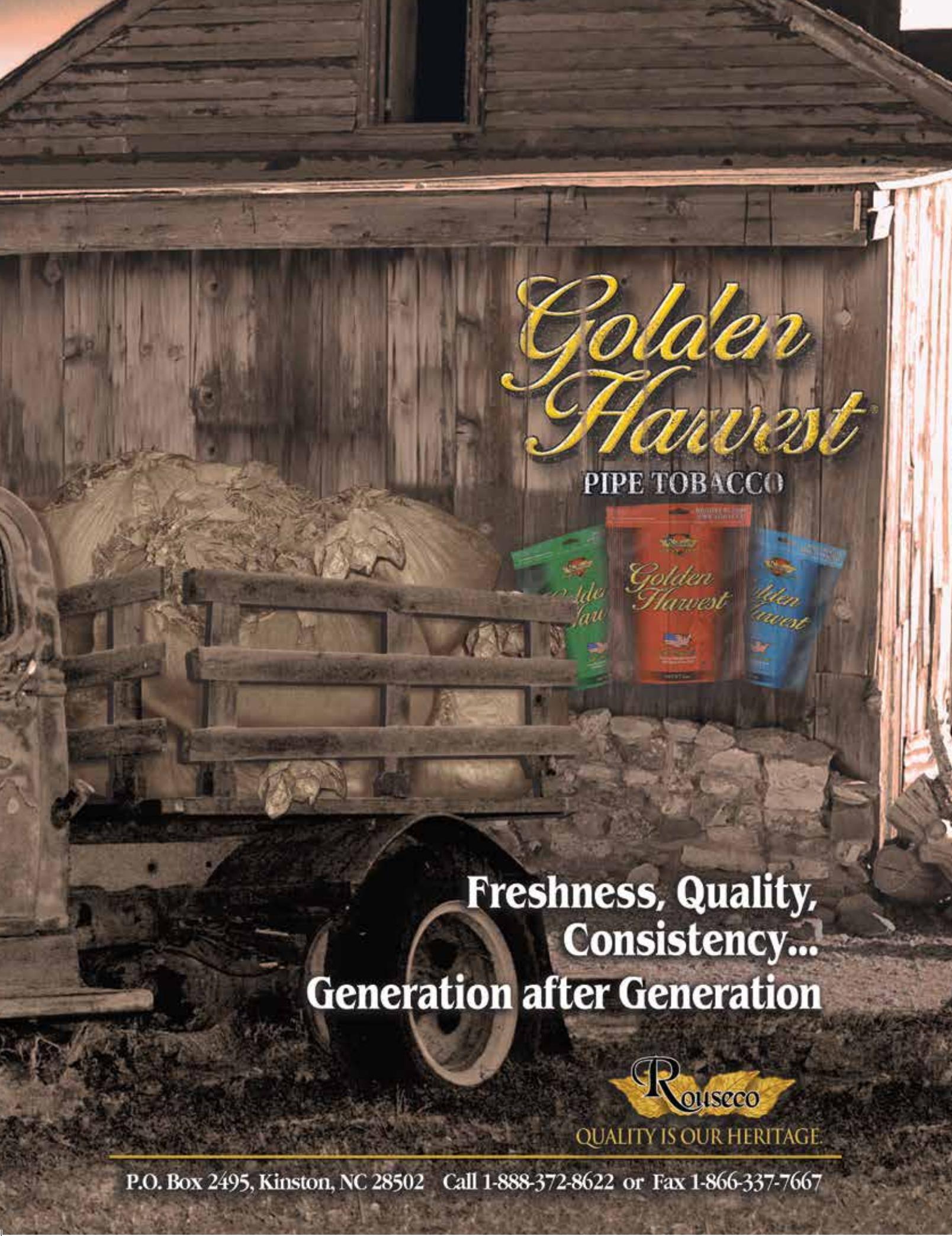
Having the capacity and infrastructure to accommodate growth is key, in Case's opinion. Every company should have a calculated trajectory for growth and the ability to adapt quickly to any changes that may impact that plan. "While forecasting sales is an art, not a science, there needs to be a disciplined approach to effectively [managing] growth and trying to stay ahead of the curve," Case advises.

Another part of growth is expanding your team. When choosing a new person to join the Kristoff team, Case looks for experience and expertise. If he's hiring a new sales representative, Case looks for someone who has sales experience and understands the demands of a sales position—but they do not necessarily need to have experience with the cigar industry.

"Just as important as experience is the honesty, integrity and work ethic of the individual," Case explains. "These are the characteristics that I hold near and dear to my heart, along with respect for others."

### PROBLEM SOLVER

In order to get more shelf space within retail stores, Case describes the role of the sales representative as that of a problem solver. It's the job of the sales representative to understand the concern or objection a retailer may have toward bringing in certain products and offer a solution. "If you knock down the barriers and stand behind the



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product, you can generally overcome most objections," Case explains.

For example, Kristoff sales representatives are often asked what products are new by retailers and consumers. While the company may not have anything that's necessarily new, it's rare for a retailer to carry every blend the company has to offer. This gives the sales representatives something "new" to sell. Kristoff's Original Maduro is the company's second blend and is also the company's top-selling product. For any retailer looking for a Kristoff product to start with, this blend is a product that could help expand the Kristoff footprint within a retail space.

Also, Case says that retailers must stand behind the Kristoff brand to help it find success within a store. To start, retailers are encouraged to carry a good representation of Kristoff's lines in both blends and vitolas. Retailers are viewed as partners, and Kristoff works with them to achieve success for both Kristoff and each store. Retailers can help support the brand and its products by holding cigar events and in-store promotions and by properly training employees on the products.

#### GET INVOLVED

When asked what factors play into the success of a tobacco business today, Case touches on the number of pre-predicate date products a manufacturer has to work with, as well as pending legislation. With the ongoing legislative efforts to get premium cigars exempted

from the U.S. Food and Drug Administration's (FDA) regulation, today's tobacco manufacturers have to grapple with a lot of uncertainty in the market. If there are no changes to the agency's deeming rules, success may come down to which companies can afford to get their products tested or receive full approval from the FDA to bring their products to market.

Case acknowledges that companies that launched after the predicate date of Feb. 15, 2007, will face a different set of challenges, but Kristoff and those who were established before can all do one thing: get involved in legislative and legal efforts to bring about change. "I personally would like to see more manufacturers get involved in the fight against the FDA, either by spending time on [Capitol Hill] to meet with members of the House and Senate, or [by providing the] financial support that is critical in fighting this battle," he says.

For Kristoff and Glen Case, the goal moving forward is simple—the brand will continue to grow beyond market rates and expand nationally and internationally. Achieving these goals, Case says, will come down to the three key elements of growth: quality, consistency and availability of product. In addition to managing the economics of your business and reinvesting in areas that will give you a great return, Case urges his industry peers to get out and start selling as the face of the company. He offers four tips (see sidebar) that can help anyone find success and viability in today's competitive marketplace. **TB**

## FOLLOW THE LEADER



Glen Case's top-four tips to being a successful leader:

**①** Understand your weaknesses, and surround yourself with people that are better and smarter than you to compensate for them. "I like to say, 'If you think you're the smartest person in the room, then you're in the wrong room,'" says Case.

**②** Always be open to suggestions and input from others. "Even though you think you have the best-thought-out plan or idea, I've found that getting others' perspective can never hurt—it often can help," he says.

**③** Always treat others with respect. "While this sounds like a pretty basic and fundamental concept, I've had the opportunity to work with others over the last 32 years who definitely did not embrace this concept," says Case. "There is no greater de-motivator than disrespecting someone you work with—or anyone for that matter."

**④** Lead with honesty and integrity, and instill those same attributes in your team. "Again, this seems pretty obvious; however, I've seen others intentionally do things that were unethical in an effort to try and get ahead or gain the upper hand—only to find themselves in a very compromising and failing position," Case explains.

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# THE LONE WOLF, REBRANDED

**The beauty of this cigar manufacturer, retailer and lounge operator lies in its ability to reinvent itself—a few times over.** BY RENÉE COVINO \* PHOTOS BY MAX S. GERBER

The mantra from the man who founded/rebranded the Lone Wolf Cigar Company in 2000 is that there's a lone wolf in everyone. "Regardless of race, religion or background, we are all the same; we are all in this alone," David Weiss tells *Tobacco Business*, who says the Lone Wolf brand epitomizes people's inner struggles. "We all feel like we are on a deserted island."

He adds, "I believe in the spirit of the lone wolf, but the survival backbone is friendship and community, which is why I'm building lounges." Lounges represent a new era for the company. ➤



## David Weiss Continued



### Leveraging Longevity

With roots that date back to 1893 (see sidebar, “124 and Counting”), the Lone Wolf Cigar Company is no stranger to rebranding and reinvention. The company operates as a trilogy—with manufacturer, retailer and lounge operator components. Since 2014—when the 3,000-square-foot retail space opened in West L.A., housing the Lone Wolf Cigar Lounge—the company embarked on its most recent rebranding phase. Today, it’s in a position to offer the expanded smoking space that smokers crave.

“I remember back when I was single and we only had the small store in Santa Monica; I would make it a point to invite other ‘lone wolves’ to the store’s little lounge on holidays like Christmas and Hanukkah,” recalls Weiss. “Those of us with no friends or family nearby would hang out and smoke cigars, and be alone together.”

The new lounge is now home to a lot more cigar camaraderie in “upscale vintage” surroundings that inspired a new logo and website, as well as the short- and long-term plan for more locations of its kind under the Lone Wolf banner.

### Great Global Goal

“My plan is to expand as a great luxury brand globally,” Weiss maintains. “Anywhere you go, you will be honored as a lone wolf—that’s my goal. I would say a

combination of company stores and franchises are likely in our future, with the expansion of our wholesale and distribution operations.”

Currently, there is another facility in California under negotiation that Weiss can’t comment on yet. He foresees expanding throughout California first—ideally with three to five new locations over the next three to five years. “It depends on the location, but our first focus will be on building multiple lounges,” he says. “We are also willing to open more boutique stores.”

Design elements of the West L.A. lounge—all done in-house, according to Weiss, who likes to get his “amateur builder” hands dirty—include a dropped ceiling, metal-welded furniture with brown leather touches, rich green walls, vintage door closers, metal windows, vintage books and an overall warehouse-district/downtown London/New York/Chicago vibe, circa 1910. “We took the handcrafted, squeaky-hinge approach,” he relays.

Weiss got his inspiration from pictures that he found of the original late-1800s store, with horses and buggies parked out front. “We wanted to create something more tangible and real in our iPhone-infatuated society,” he states.

Like many successful cigar lounge operators, Weiss is cognizant of creating a space where cigar smokers from all walks of life feel welcome, “from a Montana ranch crowd to the Four Seasons world. You launch more effectively

### 124 and Counting

There’s good reason why the Lone Wolf Cigar Lounge in West L.A. features turn-of-the-century (20th century) decor with modern conveniences. The Lone Wolf Cigar Company, based in Santa Monica, California, dates back to 1893, when it was established by Sargent E.E. Baracks as one of the first tobacco stores/newsstands on the West Coast.

It didn’t take on the Lone Wolf name until 1996, when it was re-established by cigar-loving celebrities Chuck Norris and James Belushi (Norris starred in the 1983 action film “Lone Wolf McQuade.”)

In 2000, it was re-established once again, by its current leader and founder David Weiss, formerly of the talent agency/corporate entertainment world.

Within the borders of the historic district in downtown Santa Monica, the flagship Lone Wolf Cigar Boutique keeps the 1893 spirit alive, with a high-end, vintage approach to selling cigars. Originally, this 1,000-square-foot location had a small lounge within. However, in 2006, rising anti-smoking regulation sentiment convinced Weiss “to make life easier for my landlord and neighbors,” by “canning the on-premise smoking” and keeping it just as a retail space.

In 2013, after a seven-year hunt for the “perfect lounge place,” Weiss found the single-tenant rustic building in West L.A. By late 2014, it had opened as the 3,000-square-foot second-store location, housing the private Lone Wolf Cigar Lounge.

And the Lone Wolf won’t stop there. Plans are to expand its lounges within the state and beyond.

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## David Weiss Continued



this way," he says. "And that's Four Seasons with more kindness. We are high-end and elegant but with warm sensibility. We treat everyone equally, from a contractor with dirt under his nails to someone in a four-figure suit."

### Lounge of the Future?

What does the Lone Wolf lounge of the future look like and how will it evolve? Weiss notices that real estate is shifting to more experience-driven retail, something that already fits perfectly with the Lone Wolf concept.

"We are here to offer more experience and [a] destination, not just things for sale, which is why I like lounges—there is more to do than just buy something," he says. "They have an incentive to purchase, yes, but ultimately we offer a great, comfortable, luxurious space."

Moving forward from a conceptual level, "we would love to offer additional and great pairings with alcohol and food, where legal," notes Weiss. "We can't do it in L.A., but where we can, we want to do culinary elements and spirits, beer and wine. The great part about cigars is the celebration behind them—deal signings, a child's birth, weddings—I would like to provide spaces for that."

Weiss sees great cigars, dark chocolate, fine cheeses and spirits in Lone Wolf lounges of the future. "We would like to see municipalities allow people to congregate in this fashion, getting smokers away from common areas of the buildings, taking them out of the shadows and making the feel free and comfortable. I have children and elderly parents, and I'm opposed to smoking in their faces; I want cigar sanctuaries."

That's why Weiss believes strongly in helping the new

legislative approach and not fighting against it. He also believes in supporting the green trend and more. "I'm a dad with two little kids, and I feel passionate about protecting our liberties and freedoms. But I'm just as passionate about those who don't want cigar smoke in their lives. If we don't protect non-smokers, we lose our rights. You have to really care about your neighbors, and that's why I stopped the [on-premise] smoking in Santa Monica—it was the right thing to do."

### A Grandfathered Manufacturer

From a manufacturing perspective, "we're a grandfathered brand, which puts us on a very fortunate list," says Weiss. "We were established in the mid-'90s, which is why we can expand from a regulation standpoint—it means we have an easier time with the accreditation process with the FDA. We have history and pedigree; now it's time to scale up."

By scaling up, Weiss means he is entertaining the idea of "strategic alliances with other great cigar people. It's tough to say now, but we're talking to a few different players about joining together for different aspects, wholesale primarily."

Regarding the FDA's intervention in the cigar business, Lone Wolf intends to "stay focused and follow the rules, whatever they are," according to Weiss. As a company, "we've already been through a lot of struggles: Proposition 10 in California, the raising of our taxes, the death of the cigar fad, the 9/11 market bubble, the housing crisis—there were and will be a lot of difficult times, but the lone wolf survives and thrives." **TB**

### The Working Wolf

Buying the Lone Wolf Cigar Company in 2000, after working there for three years at the rate of \$8 per hour, was "one of those serendipitous situations," says the re-established company's leader, David Weiss. "A job turned into an opportunity. I leveraged everything I had and bought it."

Weiss connected with the cigar camaraderie and the brand. "I loved the one-on-one part of the business, I loved the business, and I loved the people. After a few years of working there, I realized it fit perfectly with my personality."

Weiss maintains he is really "in the hospitality business; my conduit is cigars. Getting paid is part of life, but the reward comes from making people happy."

In his high school years, Weiss worked as a waiter. "It's where I get my hospitality and people skills from," he says.

He's so invested in his service to others that Weiss doubts he will ever retire. "Retirement is death to me," he tells *Tobacco Business*. "So if I can see this to the end, my goal is to open up in places I hope to visit. I'd love to have locations that are culturally interesting but where our hospitality makes it more reason to go there."

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# BUILDING AN OASIS IN CANADA

Toronto's new Cigar Company & Gentlemen's Barbershop  
is paving the way for a new concept in cigar  
smoking destinations.

BY JENNIFER GELFAND

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## Cigar Company & Gentlemen's Barbershop Continued



For Orion Armstrong, founder and CEO of Cigar Company & Gentlemen's Barbershop, cigar smoking isn't a hobby or occasional pastime—it's a lifestyle. That's why the entrepreneur and self-described "lover of the leaf" decided to start writing about cigars, specifically vintage cigars, for a luxury lifestyle magazine in his homeland of Canada.

"I was talking to the publishers about the fact that people just aren't describing and reviewing fine cigars in the same way that they do with other luxury items like wine," explains Armstrong, a commercial real estate developer and business owner who started chronicling his cigar experiences in *Preferred* magazine just for fun. "I began writing about my experiences as a vintage cigar collector and connoisseur, just reviewing cigars and sharing what I've learned."

Six years into writing about cigars as a pastime rather than a vocation, Armstrong saw a piece of property that inspired him to translate his passion for cigars into a new business. "I kept looking at this place, a property encompassing a 130-year heritage landmark in the heart of Toronto's Markham Village, and thinking, this would be an extraordinary venue for cigar events," he recounts. "I went to one of my partners and said, 'In Canada, we have the benefit of access to Cuban and non-Cuban cigars, but we don't have the kind of destination place for cigar smokers that you see in the U.S. and in Europe. I told him that I couldn't stop thinking about this property, and he said, 'I'm in.'"

From there, the concept snowballed, with the duo deciding that the end goal would actually be much larger—five locations in five years. "We pulled together a team of four partners with strong business acumen, all cigar lovers, each of whom brought different strengths to the table," says Armstrong, who has his sights set on opening locations in Montreal, Las Vegas, Chicago and New

York. "None of us wanted to compromise. We all believe that this industry, at least in our market, should not be transaction-oriented. It should be about delivering a phenomenal experience."

The result was an evolution of Armstrong's original vision for the property that first inspired him into a much more ambitious concept. "It's really three concepts in one—a traditional barbershop, a highly curated premium tobacconist and a 3,000-square-foot event space," he explains, noting that the combination suits both the historic location and the luxury experience he and his partners envisioned offering. "There is a surge in demand for this kind of gentleman's experience. Cigar smoking is a lifestyle indulgence; it is not a necessity like a roof over your head, food or clothes. It's important to recognize that an experience is what people really crave. We engineered our business model backward from there."

And Cigar Company & Gentlemen's Barbershop delivers just that. Incorporating a mix of Edwardian and modern aesthetics, the venue encompasses a custom walk-in Spanish cedar humidor, a vintage cigar room and an upscale barbershop outfitted with Belmont barber chairs in which patrons can enjoy a hot towel, straight-edge razor shave and grooming services.

The experience harkens back to 100 years ago, when cigars were purchased and smoked in barbershops, which served as a gathering spot and social forum for men, says Armstrong. "Cigars have a way of pulling people together," he says. "The walls between people come down in a way that no other experience quite offers."

### Making It Happen

Cigar Company & Gentlemen's Barbershop—which drew 400-plus cigar lovers for its grand opening early this summer—is relatively new, but the business has been in the works for some time. Like many parts of the

It's really three concepts in one—a traditional barbershop, a highly curated premium tobacconist and a 3,000-square-foot event space.

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## **Cigar Company & Gentlemen's Barbershop Continued**

U.S., Canada has strict regulations prohibiting cigar smoking in restaurants and businesses without special licensing, which Armstrong and his partners had to navigate. The project also required rezoning the area and going through an approval process for renovations of the historic building—and all of that was in addition to operational fundamentals such as curating the cigar selection and hiring experienced barbers able to deliver an appropriate level of service. Copious funds were invested—\$67,000 on wood for the venue's humidor alone—along the way.

"We have an entire selection of vintage cigars, rare royal reserves and cigars aged for 10 years," explains Armstrong. "But we also curated our selection based on every price range and flavor profile to make sure that people were given a great experience at every level."

The range of cigars offered is impressive, running from a \$1.87 cigarillo to premium cigars priced as high as \$2,500 and more. "We have a 1958 pre-embargo, 21-inch Partagas on display," says Armstrong. "We came into this with some really great connections, and I've been researching and adding boutique lines. I think I literally tasted every single cigar available at IPCPR this year."

The company has also invested in training employees with the cigar knowledge they need to guide cigar smokers on their purchases. "Being able to help cigar smokers evolve their palates is important," says Armstrong.

Expertise is just as key on the barber side of the business, he adds. "Getting quality barbers was a real challenge, although it helped that we are in a multicultural city," Armstrong notes. "We were able to hire people who had relocated here from all over the world—a barber who moved here from Paris and another who was a Syrian refugee."

### **Developing a Destination**

While both cigar sales and barbershop services will bring in revenue, Armstrong and his partners see events as a big part of the company's business model. "I think momentum is building on the wedding/groomsmen and special events side," he says. "Not everyone wants to go to a strip club; they like the idea of coming to a place where they can all have a hot towel shave, pick a cigar and enjoy it out on the patio together—it's the male equivalent of a group of women going to a spa."

"We're also really excited about several cigar events we'll be hosting, including an upcoming event with Rocky Patel," adds Armstrong, who ultimately envisions gala events akin to the VIP night the company hosted for its grand opening—which featured a scotch tasting, cigar-rolling demonstrations, a DJ and Latin dance performers—becoming a regular affair.

"We did not open this place to be a tobacconist; we opened to be a destination," he explains. "We want cigar smokers to be telling each other, 'When you go to Toronto, you have to check this place out.'" **TB**



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# All Eyes On: The Budding Opportunity

**As more states legalize cannabis, TB investigates the profit potential for tobacco stores and smoke shops.** By Renée M. Covino

Marijuana is top of mind. With tobacco businesses increasingly under pressure, is the Almighty Bud an answer to profit prayers? Is it just about ancillary opportunities or will marijuana eventually make it to tobacco-store and smoke-shop shelves? One thing is certain: More industry observers are joining the discussion.

"To me, the discount tobacco outlets have the biggest opportunity and upside—they are the tobacco superstores, the category killers where you find the broadest assortment," David Bishop, managing partner of Balvor LCC, in Barrington, Illinois, tells *Tobacco Business*. He recognizes that in states where recreational use of marijuana is now becoming legal, "we're seeing shifts in combustible products," and while there's "not huge crossover" in terms of dual usage, it does exist, and "the percentage of adults in the U.S. that use marijuana is getting closer to the percentage of adults that use cigarettes"—13 percent vs. 15.2 percent, respectively, according to Bishop. From a tobacco retailer standpoint, cannabis is an "extension of serving their core customers," Bishop maintains.

From the flip side, regarding the sale of combustible and edible cannabis products, "It will be an interesting opportunity, but I'm not sure most tobacco stores will be able to make that leap," says Don Stuart, managing director of Cadent Consulting Group in Wilton, Connecticut. The way he sees it, the one-stop shop for a total experience is the way of the retail world and what consumers want these days—and in cannabis, that is best-served by dispensaries. There is also the matter of obtaining state licenses to sell cannabis, as well as having the proper financial and security backup.

## The Accessories Piece

The most obvious "starter" opportunity for tobacco retailers is already happening: Tobacco stores and smoke shops are selling alternative accessories, especially in states that have recently legalized cannabis medicinally, recreationally, or both (see "Grass States" chart page 81).

Multi-use vaporizers and ceramic/glass/metal pipes were identified as emerging product segments in smoke shops/discount tobacco outlets by top industry sources; more specifically, 64 percent of smoke shops and discount tobacco outlets are now selling multi-use vaporizers, and a whopping 73 percent are now selling ceramic/glass/metal pipes, according to collective research from the 2017 State of Tobacco Retailing by Balvor LLC, *Convenience Store News*, *Tobacco Business Magazine*, Governing.com, and Balvor LLC analysis based on research from Gallup and the Pew Research Center.

This is all taking place while the consumer stigma against cannabis is weakening. According to the same research, 59 percent of consumers support the legalization of marijuana, and 63 percent live in states where it's legal for either purpose.

"Right now might be the best time for tobacco retailers to make money on accessories," according to Bethany Gomez, director of research for Brightfield Group, a cannabis-focused market research firm. "They don't have to outlay a lot of capital or apply for a license; they just try it with accessories. They have very little to lose stocking cannabis gear and advertising accordingly." Gomez believes that cannabidiol products are also helping to drive cannabis consumers to tobacco stores for those who have dabbled in that category.

Bishop believes that smoke shops and tobacco retailers have a much more favorable image with certain clientele that don't want to frequent head shops to get their alternative accessories. "From a generational standpoint, I do believe Gen Xers and [baby] boomers are probably more inclined to shop at tobacco stores for these types of accessories, whereas millennials and younger would probably have no reservations [shopping at head shops and dispensaries]."

So, in markets like Colorado, California, Washington and Oregon, where cannabis is legal for both medicinal and recreational purposes, "it makes very practical business sense for many tobacco outlets or smoke shops to seriously consider the accessories piece," Bishop advises.

## The Leaf Piece

Of course, the leaf piece is another matter.

Bishop believes the specific state and local markets will encourage or discourage the successful tobacco retailer from considering the cannabis business. "It's clearly a very market-specific business," and entrepreneurs will have to do their homework, he says.

Tobacco retailers setting their sights on any cannabis business "have to be comfortable with a certain level of uncertainty and be willing to take a calculated risk," states Bryan Meltzer, partner at New York-based Feuerstein Kulick LLP, a cannabis-focused law firm. "If the industry is moving forward in public support, I think some tobacco retailers have expertise that can probably be applied to the industry. It's a difficult question that really needs to be evaluated on a case-by-case basis."

It will also be advantageous for tobacco retailers to keep on top of emerging state policies related to cannabis in the states where they

# Grass States

After the presidential election last November, a *Time* magazine article said it was "a watershed year for weed." That's because after November, "nearly a quarter of the U.S. population lives in places where adult use [of pot] is legal."

California, Massachusetts, Nevada and Maine approved recreational marijuana, joining Colorado, Washington, Oregon, Alaska and Washington, D.C. Florida, North Dakota, Arkansas and Montana passed medical marijuana measures last November; 28 states now have comprehensive medical marijuana laws.

But upon checking into the newly passed recreational marijuana states, only Nevada was actually selling cannabis at press time. That's because "testing becomes a serious issue, and there's a delay [in] launch in many cases," says Bethany Gomez, director of research for Brightfield Group, a cannabis-focused market research firm. It takes about 18 months, on average, from the time a state passes legislation legalizing marijuana to the time of actual retail sales, according to Gomez. "But not everyone has all their ducks in a row, so sometimes it takes 12-18 months beyond that to ramp up and where you see the very fast growth," she adds. "As new growth facilities are approved and crops are harvested and they're operating at full capacity, this is a very significant ramp-up time. So, in California, the day after the election, you saw consumers going to [medical marijuana] dispensaries trying to buy, and they were not allowed." Gomez further runs down her perspective on some states:

- States with medical marijuana laws
- States that have removed jail time for possessing small amounts of marijuana
- States that have both medical marijuana laws and have removed jail time for possessing small amounts of marijuana
- States where marijuana is legal for adults and is taxed and regulated similarly to alcohol; state also has a medical marijuana law

**California**— "They have had medical marijuana for almost 20 years, but it wasn't finalized yet, so there are significant delays as that will be built into the recreational market. It's a very complicated process."

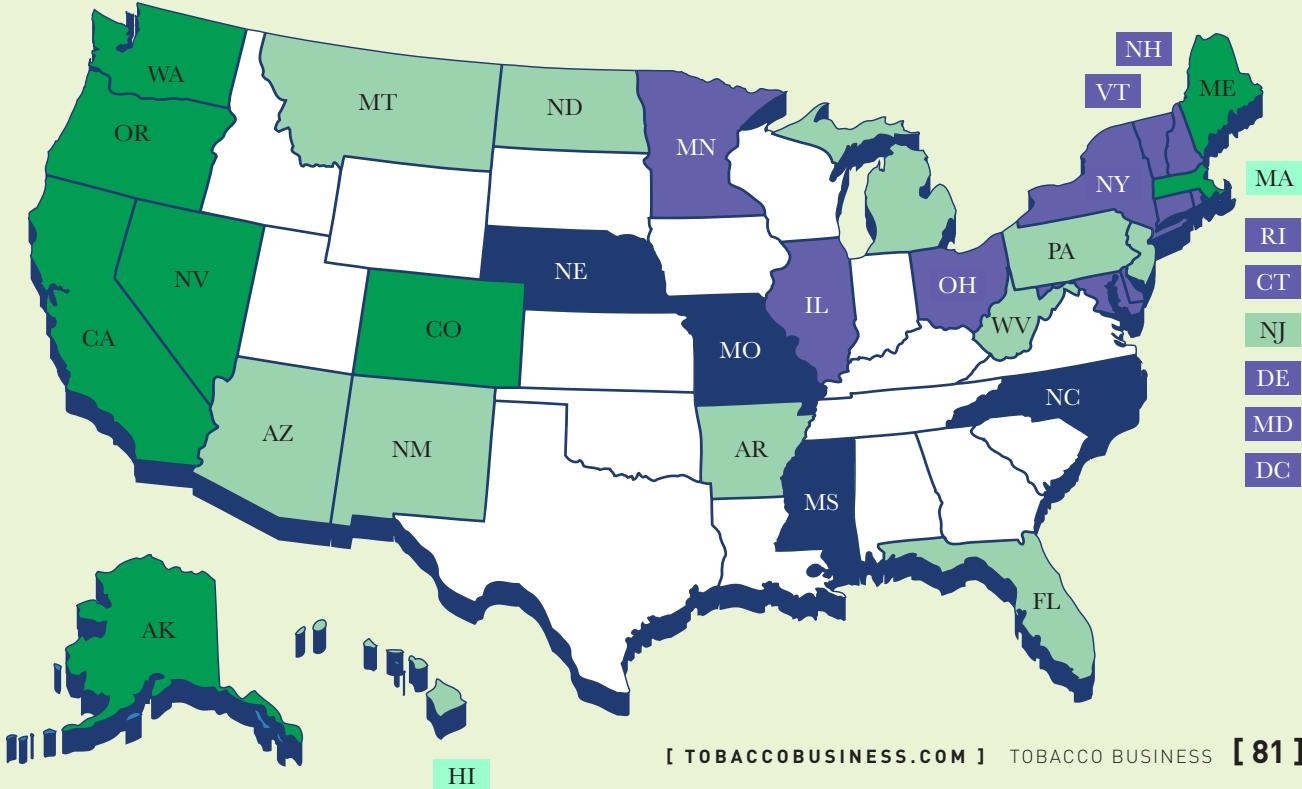
**Massachusetts**— "They're medical side is still ramping up, so they are in the infancy phase with recreational. They're dragging their feet, so in Massachusetts we are not expecting the recreational market [to] turn on as quickly as some of the others."

**Nevada**— "They are clearly not dragging their feet; they have been very transparent since they opened medical and now recreational. They are very business-friendly; they are looking for the tax dollars, jobs and revenue."

**Michigan**— One state people forget about is Michigan; it has a very strong medical market. If they do vote for legalization, it would probably be next year or shortly thereafter. It would be a good state for tobacco stores to look into because there's not much of a distribution network in place."

Other states with opportunities for tobacco/smoke shops looking to get into the cannabis industry include the newly legalized states like Massachusetts, she says. The established states of Colorado, Washington and Oregon are very established, and "there's not much opportunity there." Alaska is too small for opportunity, she adds.

As more states legalize, "states around them—especially now [on] the East Coast,—will see that being highly regulated is a better option than dealing with the black market," according to Bryan Meltzer, partner at New York-based Feuerstein Kulick LLP, a cannabis-focused law firm. He also expects that many eyes will be on California, slated to open for recreational business on Jan. 1, 2018. "It will be the biggest market, by far, so that's an important area to watch."



do business or operate lounges. "Colorado, for instance, is coming out with cannabis lounges that don't really exist in other states yet," Meltzer tells *TB*. "So, somebody who has a cigar lounge might be more equipped to understand how that side works, more than someone who has been a grower. It's dependent on the state and the business, where the opportunity lies."

For states that are just coming on to legalizing recreational marijuana, there are opportunities in "first mover advantage," according to Bishop. "For people already selling tobacco, we see [a] lucrative commercial opportunity where they can become known as that go-to source; they could potentially win. I'm thinking of aggressive smoke shops or tobacco outlets in states like California or Massachusetts."

Tobacco companies that start early and "make some sort of transition right away—it will be beneficial for them," agrees Jeffrey Zucker, co-founder and president of Green Lion Partners, a Denver-based business strategy firm focused on early stage development among firms in the cannabis industry. Recognizing that they'll "have to see what really merges with their skill set, there are some synergies and many opportunities," he says. Like Bishop, Zucker is quick to point out the states that recently legalized marijuana as those with the most opportunity for tobacco retailers. "People might overlook Maine, Massachusetts, Vermont—New England still has plenty of opportunity for the industry right now," he says.

The bottom line for tobacco shops considering the cannabis market might be viewed from the point of consumer usage moving forward, according to Zucker. "Tobacco use is going to continue to decline, while simultaneously we will see a growth in cannabis," he relays. "Tobacco retailers need to keep that in mind."

### On the Side?

One way that tobacco retailers may consider a side cannabis business is to literally operate it on the side—with a separate door. "It would help them manage the image issue and would be similar to how some states require stores to operate with separate doors to sell alcohol," says Stuart. Still, he doesn't quite see it. "Multi-unit ownership is inevitable in marijuana, and it's the American way. There will be a lot of people getting into the business, and there will be a lot of fallout. It might be the corner shop initially, but expectations for more consistent retail experiences will grow stronger as the industry grows." And again, Stuart envisions that need being fulfilled by dispensaries that grow to chain status.

A fully segregated side business "may be somewhat extreme," according to Gomez. She envisions cannabis accessories and cannabis products being sold in "display cases that are somewhat separate, rather than having them dispersed around cigars. I don't think it needs to be a full-on special room or space, but I wouldn't put them side-by-side with cigars," she states.

To get a feel for the cannabis business, Bishop thinks it's important for tobacco retailers to observe newly opened

dispensaries, particularly in states that have just legalized recreational use of marijuana, like Nevada. When Bishop was attending the IPCPR show in Las Vegas this July, he stopped into two dispensaries that were "quite interesting," and that "could have modeled their operations off of a really good tobacco shop and vice versa," he says. Both shops had a modern edge but with different twists. "One was more clinical white with glass, but bright," he explains. "The other was more techy with neon."

Bishop further describes the first as having a "doctor office format," whereby sales associates come out with clipboards to personally escort adult customers from a waiting area to a buying area. There were digital menu boards in the lobby. The second was like an Apple store: "very engaging, very casual and very high-tech," he says.

What he and tobacco retailers picked up upon observation—"I definitely learned about salesmanship there," he says. "It's similar to cigars—everyone is very passionate about what they're selling. They all have a reason to be there."

Furthermore, "It frankly impressed me how quickly these operators became adapted merchants and retailers," Bishop says. "And the entrepreneurial approach from signage to displays to customer service to layout is very interesting; you could make a parallel to Apple in that there is sparse merchandising, nice display cases and celebrated product—it's all about the star, and everything else is minimized. There's not a lot of clutter or signage anywhere. It's very engaging, dynamic—it's all very contemporary."

### Good Neighbors

From a reverse perspective, what does the dispensary community think of tobacco retailers and smoke shops selling cannabis accessories and possibly more? Do they see them as formidable competition?

"We don't even see them as competitors at all," says Derek Peterson, CEO and founder of Terra Tech, the first publicly traded marijuana company in the U.S., with medical dispensaries in California and Nevada. "We certainly sell merchandise like vaporizers, but it's less than a couple percent of sales. We merchandise them as convenience items. And with the current rules and regulations, smoke shops and such are not licensed to distribute cannabis. So, we're not really eating from each other's tables."

As Peterson puts it, the tobacco shop/dispensary store relationship is a complementary and synergistic one—akin to good neighbors.

"In fact, when I opened in Vegas, soon after, a few doors down, a smoke shop [opened] up. If I'm a smoke shop entrepreneur, I want to open up near a dispensary, with all our traffic going in and out on a daily basis. Cannabis-wise, they might have a couple dozen products, whereas I have hundreds, so I'll win that piece of business. They can't play in our world unless they go through the permit process. But right now, it's complementary because they drive traffic to us, too." **TB**



**It's similar to cigars—everyone is very passionate about what they're selling. They all have a reason to be there.**



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# Reading the Tobacco and Marijuana Leaves

**At the local and federal levels, attitudes about these two “very different” plants are shifting.**



SAN FRANCISCO RECENTLY voted to eliminate the sale of all flavored tobacco products starting in April 2018. Consenting adults will no longer be able to smoke shisha tobacco at a hookah bar, purchase menthol cigarettes, or obtain numerous types of cigars and other tobacco products. While the city is busy fighting the evils of tobacco, it has simultaneously created the Office of Cannabis so it can regulate and issue permits for recreational marijuana sales. The idea that marijuana is now legal in California for “recreational” use is somewhat of a charade. Anybody who has lived in California for the last 20 years knows that for all intents and purposes marijuana has been recreationally legal since the vote in 1996—since then, any 18-year-old with \$39 has been able to obtain the requisite medical marijuana card.

The Bay Area has long been at the forefront of legalizing marijuana. On a visit to the Bay Area, tourists traveling from Fisherman’s Wharf to Market Street pass numerous marijuana dispensaries. These offer the consumer marijuana in a variety of flavors, including marijuana-infused cherry gummies, brownies and chocolate-chip cookies, as well as flavored marijuana vaporizers. Ironically, all of these flavored candy and dessert-style products are legal (and will continue to be even after San Francisco’s new flavored tobacco ban) because the products contain marijuana, not tobacco.

This comparison is not meant to cast aspersions on the marijuana industry. To the contrary, the arguments that proponents provide in support of marijuana apply equally to tobacco products, flavored or not. If an informed, consenting adult who understands the risks associated with smoking marijuana chooses to do so (without causing risk to third parties—*e.g.*, driving while intoxicated), he or she should be permitted to do so. Similarly, if an informed, consenting adult chooses to smoke a menthol cigarette, go to a hookah bar or indulge in a grape-flavored cigar, he or she should be permitted to do so.

Having recently attended attorney conferences for both tobacco and marijuana, I witnessed the common criticisms and underlying principles shared by each industry. Ironically,

both industries reach out to both major parties hoping to gain support—the tobacco companies hoping for conservative allies, and the marijuana industry looking for liberal backing. One principle that both industries regularly cite, however, is the same: Preclude youth from using the products, inform adults, and then allow consenting adults to make their own decisions, flavored or not.

While politics on the local level have become increasingly anti-tobacco and more sympathetic to marijuana, politics on the federal level may be doing the reverse. With the advent of the Trump administration, the tobacco industry appears to have gained some friendlier ears. For example, the tobacco industry believes that President Trump’s appointees—Secretary of Health and Human Services, Tom Price, as well as the new commissioner of the U.S. Food and Drug Administration (FDA), Dr. Scott Gottlieb, and his nominee for solicitor general, Noel J. Francisco—will all be more willing to hear concerns in connection to the current federal regulatory scheme with regard to tobacco. Marijuana, on the other hand, has gained a potentially tough adversary in Attorney General Jeff Sessions. To be clear, neither tobacco nor marijuana have proponents in government. At best, each industry has a few individuals on both sides of the aisle who are willing to stand behind the individual liberty argument, among others.

By way of background, before his appointment, Secretary Price represented Georgia’s 6th Congressional District beginning in 2005; prior to that, he practiced as an orthopedic physician in Atlanta. While serving in Congress, Price voted against a 62-cent cigarette tax hike and against the Family Smoking Prevention and Tobacco Control Act (“Tobacco Control Act”). The Tobacco Control Act passed and gave the FDA the authority to regulate a host of tobacco products—and eventually led to its May 2016 deeming regulations. Now, in his new role, Secretary Price has oversight over the organization that is attempting to exert extensive regulation over the tobacco industry, the FDA—an authorization of power that Secretary Price voted against seven years earlier.

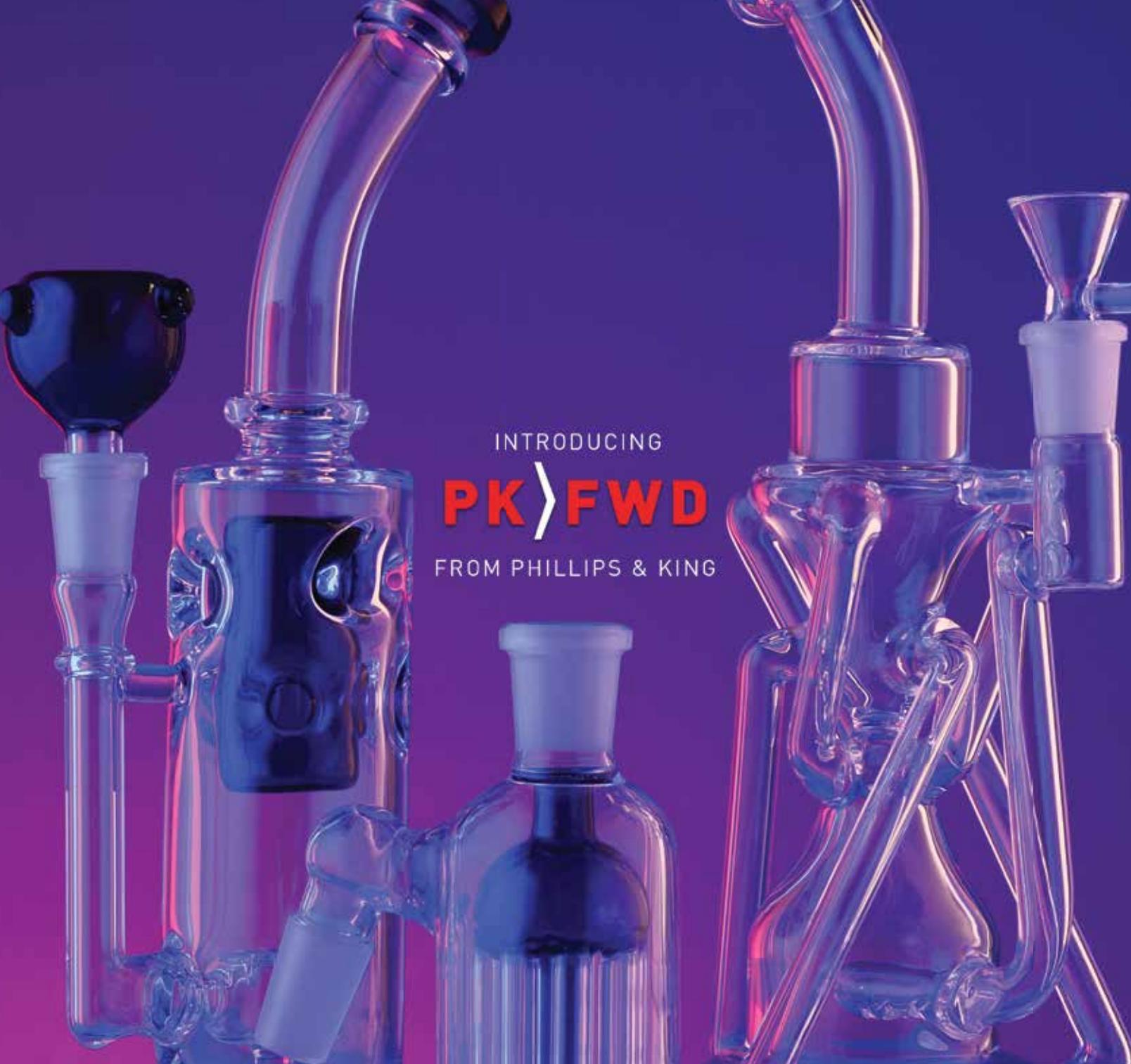
Similar to Price, FDA commissioner Dr. Scott Gottlieb authored a *New York Post* article in which he claimed that the FDA deeming cigars to fall under the Tobacco Control Act would be an overreach of the FDA’s power and would needlessly result in the loss of tens of thousands of jobs.

President Trump’s nominee for the position of solicitor general, Noel J. Francisco, is also no stranger to the tobacco industry. He was a partner at the Washington, D.C., powerhouse law firm, Jones Day, where he represented R.J. Reynolds on several matters. These included *Discount Tobacco City & Lottery Inc. v. United States* (holding that the FDA’s ban on the use of color and imagery in most tobacco advertising was grossly overbroad and violated the First Amendment) and *R.J. Reynolds Tobacco Co. v. FDA* (holding that the FDA’s final rule requiring manufacturers to display graphic health warning labels on the front and back of cigarette packaging violated the First Amendment).

Attorney General Jeff Sessions, on the other hand, has made several infamous quotes about marijuana, including that he felt marijuana was “only slightly less awful” than heroin. Sessions’ seemingly anti-marijuana view has left application of the Cole Memo—a memo issued under Attorney General Eric Holder that provided a guide for state marijuana dispensaries to sell marijuana and avoid federal prosecution—in doubt. At the same time, Sessions’ more recent comments appear to suggest the Cole Memo will stand.

Like the marijuana industry, the tobacco industry does not seek the elimination of tobacco regulations. To the contrary, most in the tobacco industry seek strong and principle-based regulations that prevent youth consumption but allow informed, consenting adults to make decisions on how they choose to live their lives. Unfortunately, as I follow each industry closely, it appears all we can expect on these issues is more politics and less informed and thoughtful dialogue about government interaction in these two industries. **TB**

*Noah Steinsapir is the general counsel for Kretek International.*



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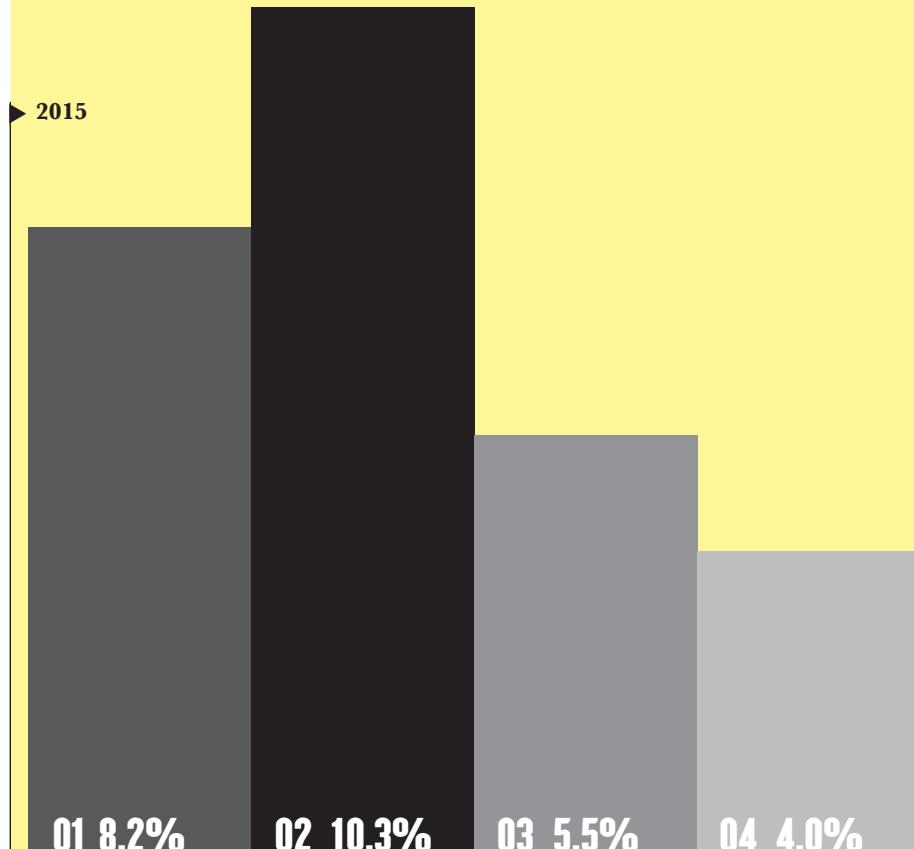
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## BY THE NUMBERS

### ANNUAL GROWTH OF VAPOR CATEGORY



# Vapor's Updated Voice

**When Wells Fargo Securities released its latest tobacco insights, some of it was a pleasant vapor surprise.**

BY RENÉE M. COVINO

The vapor category is still solid with tobacco retailers—but with some new twists. As competition heats up in the premium cigarette segment with heightened promotional activity, the e-cigarette/vapor world is, by contrast, thinner on hype—but still with a positive overarching sentiment, according to Wells Fargo Securities' latest Tobacco Talk retailer survey. Representing roughly 25,000 U.S. retail locations, tobacco retailers and wholesaler contacts voiced their opinions on a number of industry topics in the second of quarter 2017. Here are the key insights related to vapor products and e-cigarettes:

#### ■ Sales and sentiment in the vapor category is improving.

This is thanks to the fact that innovation is being driven by the top-tier players and also that the uncertainty surrounding the U.S. Food and Drug Administration's (FDA) deeming regulations is subsiding, according to Wells Fargo research.

After strong growth in 2015, last year showed declines and flat activity in the vapor category. But it was up 6.9 percent in 2017's first quarter and 4.1 percent in the second quarter, the research showed.

One retailer commented that his stores were witnessing "strong sales" and, as a side note, added that he hopes the "government stays away from enforcing regulations."

"I think the category has flattened out but [is] still increasingly slowly," reported another surveyed retailer.

"It's better but with [fewer] SKUs," stated another.

#### ■ The category is favoring major manufacturers; a narrower playing field is expected to improve quality and category management.

On the negative side, one retailer told Wells Fargo that they were "looking to get out of the e-liquid category," and another indicated that they had "made changes late last year

to liquidate all products that are not from a major tobacco company." Others said "no new brands," and "not expanding to independent companies, only Big Tobacco."

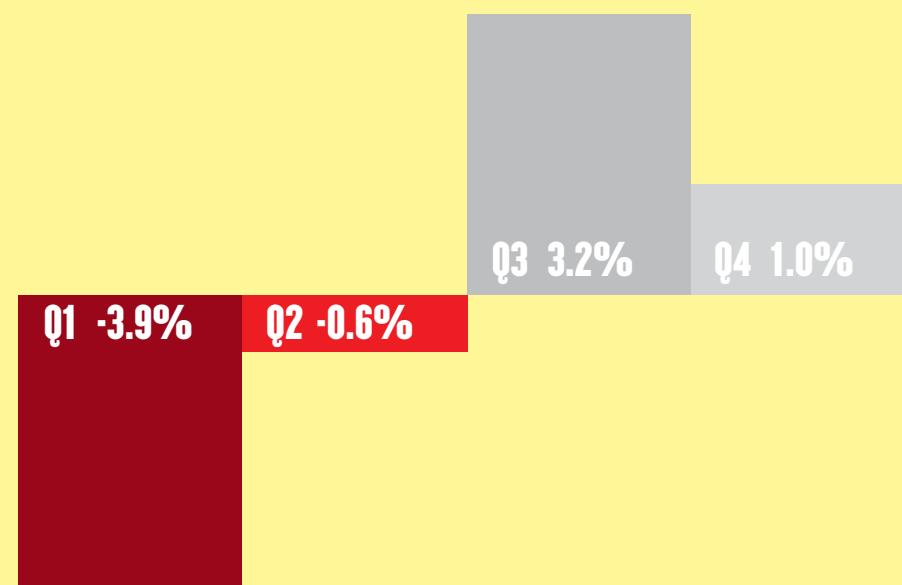
On the positive side, one retailer who has streamlined their business says, "The category still shows significant growth. We continue to keep inventory tight and make sure items turn." He adds that he is "getting rid of slow sellers quickly."

This is expected to contribute to improved growth and management in the category for the remainder of the year and moving forward.

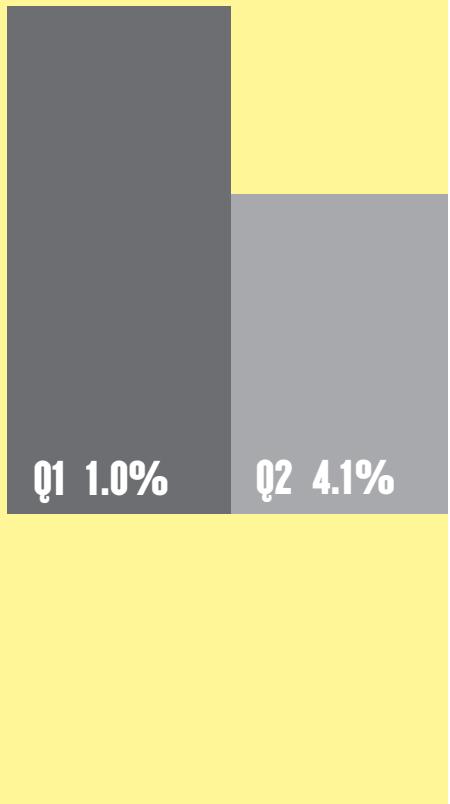
■ **Product quality is reportedly rising, with Vuse and MarkTen increasingly being named as the main contenders.** "The overall business is OK," stated one retailer. "Vuse is performing well, and the others are a hit-and-miss."

The way Wells Fargo analyzes it, retailers remain bullish on Vuse and MarkTen XL, while Logic is on the upswing given new

► 2016



► 2017



Source: Wells Fargo Securities, LLC

product introductions. Juul is reportedly doing well where it's available. Blu is "not keeping up," and Fin is having continuing struggles, according to the securities company.

**■ The revenue mix of e-cigs vs. VTMs/personal vaporizers shifts moderately toward rechargeables and away from VTMs.**

Wells Fargo puts this number at around 33 percent, up from 27 percent in the first quarter of 2017 and up from 22 percent in the fourth quarter of 2016. Meanwhile, sales of VTMs (or personal systems) have shrunk considerably, from 15 percent of sales in the fourth quarter of 2016 to 1 percent in the second quarter of 2017.

**■ Retailers remain concerned most about vapor manufacturer return policies.**

Despite that the vapor players are shrinking and streamlining their businesses, the industry is still at the beginning stage of ensuring retailers

don't get burned. Thus, retailers told Wells Fargo they are most concerned about vapor manufacturers not taking back returns. More than 68 percent of those surveyed said they were "very concerned" or "concerned" about this vapor business issue—the top concern of the survey.

The next biggest concern is the increased taxation imposed on the category—more than 57 percent named this in the "very concerned" or "concerned" columns.

In the "somewhat concerned" pile, more than 31 percent of survey respondents named the impact of the FDA's deeming regulations, so it is perhaps not as immediately pressing a business issue as previously thought. Tied to this in the "not concerned" category, more than 40 percent are not worried about e-cigarette manufacturers going out of business due to the deeming regulations. Nearly 40 percent are also not worried about traffic being lost to vape shops.

Interestingly, some retailers view the deeming regulations as a benefit to business, believing it will propel consolidation and strict retail

guidelines that may result in a higher percentage of customers coming back to the category.

**■ Retailers are most excited about the prospect of the reduced-risk industry.**

Altria's iQOS product was mentioned by name by several respondents as an exciting introduction. One mentioned it as a positive for the industry but also expressed concern for non-Big-Tobacco innovation.

"I like to hear that RAI and Altria are working on new innovations," he said. "My concern is that you hear little from the smaller, alternative players much anymore. We need them to keep the big dogs honest."

Wells Fargo reported that retailers are "broadly optimistic about RRP (reduced-risk products) to the tune of about 70 percent in favor, with a third planning to allocate additional shelf space to Altria for iQOS when it's commercially available, which the company believes will be as early as late this year or early next year. **TB**

## BY THE NUMBERS

1

### ADD A WALK-IN HUMIDOR

(% of respondents who report having a walk-in humidor)

The prevalence of walk-in humidors among more successful retailers suggests that cigar shops adding a walk-in humidor boosts sales.

TOP QUARTILE:

96%

SECOND QUARTILE:

90%

THIRD QUARTILE:

81%

BOTTOM QUARTILE:

77%

#### BISHOP'S TAKE:

"The fact that you have an absence of walk-in humidors in the bottom quartile suggests that adding one might strengthen their businesses."

87%

of cigar shop retailers have a website—but only half make updates at least once a month.

3

### ACTIVELY MARKET ON SOCIAL MEDIA

While 98 percent of retailers reported having a Facebook page, those with stronger sales tend to be more active on social media.

(% of respondents who reported having updated their websites within the last 30 days)

TOP QUARTILE:

86%

SECOND QUARTILE:

48%

THIRD QUARTILE:

41%

BOTTOM QUARTILE:

42%

#### BISHOP'S TAKE:

"A lot of companies build a website and then just leave it alone—but the top performers tend to be innovators who experiment and who take a more dynamic approach to social media," says Bishop, who also notes that a stagnant Facebook page is a missed opportunity. "If a consumer finds your website while searching the internet for a store, that digital storefront is your opportunity to give them a good first impression of your shop."

# How to Survive and Thrive as a Tobacconist Today

A recent survey of cigar shop owners suggests ways retailers can boost their business.

BY JENNIFER GELFAND

Why do some stores thrive while others struggle? While some factors, such as having a great location, are obvious, there are lots of more subtle reasons that can enable a retailer selling similar products in a similar type of store and location to outpace his or her peers. David Bishop, of Balvor LLC, recently designed a survey to identify those factors in the cigar shop retail channel.

Survey respondents were grouped in quartiles based on their average weekly sales per store, which varied dramatically across the quartiles. While the top quartile of retailers brought in a hefty \$26,608 in sales per week on average, the bottom quartile averaged \$2,062 in sales per week. (The third and fourth quartiles averaged \$12,000 and \$5,500, respectively.)

"Our assumption was that the top performers got to be top performers by doing something right," explains Bishop, who looked for commonalities among the top retail performers that were enabling them to deliver a standout performance. Here are the seven practices he identified as having the potential to boost your business:

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## Survey Continued

4

### ENGAGE CUSTOMERS WITH AN E-NEWSLETTER

(% of respondents who have an e-newsletter)

TOP QUARTILE: SECOND QUARTILE:

**78%** **83%**

THIRD QUARTILE: BOTTOM QUARTILE:

**83%** **44%**

#### BISHOP'S TAKE:

"Don't have a sign-up form if you aren't going to use it—and if you use it, make sure you use it in a way that you would want to be interacted with," advises Bishop, who notes that retailers who find that less than 20 percent of newsletter recipients are opening their emails should rethink what they're doing. "Retailers who do a good job get open rates of 40-plus percent. Something—wanting to know about upcoming events or promotions, for example—drew those customers to give you permission to contact them. Find out what it was and deliver on that."

5

### OFFER ONE-DAY SPECIAL DEALS

(% of respondents who reported offering one-day deals in the past 30 days)

TOP QUARTILE: SECOND QUARTILE:

**83%** **76%**

THIRD QUARTILE: BOTTOM QUARTILE:

**52%** **65%**

#### BISHOP'S TAKE:

"When you shop Trader Joe's or Costco, part of the attraction is that you never know what you'll find. So you don't necessarily want to have a specific cadence, once a week or every Friday; you want to surprise and delight your customers in that same way."

6

### HOST THEMED EVENTS

(% of respondents who reported running a themed event in the past 30 days)

TOP QUARTILE: SECOND QUARTILE:

**83%** **71%**

THIRD QUARTILE: BOTTOM QUARTILE:

**52%** **62%**

#### BISHOP'S TAKE:

"Experiment with drawing traffic to your store with themed events like live music or a party to celebrate an event like the Super Bowl or geared toward a customer segment, such as police officers or the military."

7

### OFFER KNOWLEDGEABLE, PERSONAL SERVICE

(% of respondents who described their personnel as "extremely" knowledgeable and service-oriented)

TOP QUARTILE: SECOND QUARTILE:

**78%** **81%**

THIRD QUARTILE: BOTTOM QUARTILE:

**57%** **50%**

#### BISHOP'S TAKE:

"You need employees who can do more than just get customers what they ask for. A tobacconist shop is like a wine shop; many customers who come in want to be guided to something new or to engage with an expert who can tell them what makes a cigar different—something they can then go and tell their friends."

#### PARTICIPANTS BY THE NUMBERS

The survey on which this article is based received responses from 110 cigar shop owners, most of whom reported weekly sales ranging between \$8,250 and \$14,950. To follow are additional statistics on the respondents.

#### NUMBER OF STORES

One Store: **76%**  
2 Stores: **9%**  
3-5 Stores: **7%**  
6-plus Stores: **8%**

#### WHAT ELSE THEY CARRY

(% of total respondents carrying category)  
Pipe/Cigarette Tobacco: **85%**

#### Tobacco Pipes: **85%**

Premium Cigarettes: **63%**

Rolling Papers: **48%**

Smokeless Tobacco: **42%**

Make-Your-Own Cigarettes: **42%**

Standard Cigarettes: **33%**

Alternative Pipes/Glassware: **5%**

#### HOW THEY REWARD REGULAR CUSTOMERS

(% of total respondents who have this type of program)

Loyalty Programs: **46%**

Membership Programs: **44%**

Clubs: **30%**

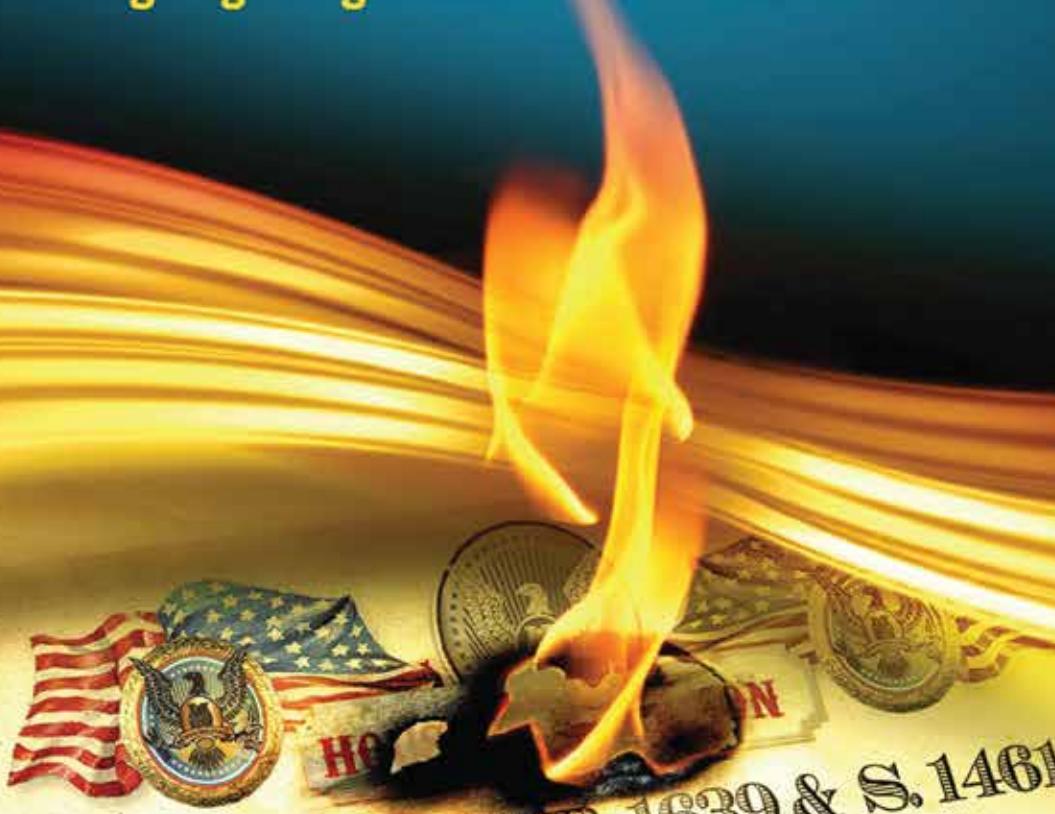


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# Try Something Different

**Retailers often rely on well-known brands that will sell, but taking a chance on something new or boutique can pay off, reports *Tobacco Business's* spirits writer.** BY NICK DOUGLAS

People should be a bit more adventurous and get out and try different brands. It's great to have a go-to smoke, whether it's a Partagás, a Macanudo or another brand. If it's a good cigar, it's a good cigar. But be willing to try something new and unfamiliar to you. You don't want to invest all your money in one product and then have it not sell well. It's almost always worth giving someone a chance to see how a product does. If a product has a good enough name behind it, people may buy it once, but will they come back and buy it a second time?

There are certain heritage brands we'll bring into The Party Source because we know they will sell. For example, I think A.J. Fernandez's popularity is getting to the point where a lot of people are willing to take the risk on anything he does. With his cigars, I don't need to try them; I just have his new products sent to us. However, for brands without that following or for those that are less well-known, you need to try it first and ask yourself if it's established enough and if it is worth taking a big risk on or if doing a smaller buy-in and letting it grow organically makes more sense.

The same applies to spirits. In talking with both of our liquor buyers here at the store the other day, I asked them what they know about Ron Barceló, a Dominican rum made from sugar cane juice. Neither of them knew much about it, having never tried it before. I immediately went to the shelf, cracked open a bottle, and we all sampled it. It was actually surprising how good it was for the price. I honestly think that it deserves a bit more credit than some of the ratings I've seen it given, because it's got a bit of complexity to it. It has a really nice nose on it—you get a lot of the barrel in the nose on it. It's sweet and spicy and has more than a touch of coffee to it. It reminded me of a Kahlúa: It wasn't a coffee additive flavor but had that sweetness and just a hint of that flavor. It isn't expensive at all—usually right around the \$20 mark.

Ron Barceló rum is very drinkable. It's good by itself, but it would be great in a cocktail as well. If you're looking for a substitute for Myers's dark rum, it would be a good choice. People usually use that as a float on top of their daiquiris or Bahama Mama-type drinks. I also thought a Painkiller cocktail would be the best way to use it—mix Ron Barceló, pineapple and orange juice, and a little bit of coconut cream.

It has a nice spice profile to it but with the sweetness, a nice maduro cigar with a little depth would go well with it. Try the new Oscar Maduro from Oscar Valladares with it. The Oscar Maduro has a candela leaf wrapped around the bottom half of the cigar. It's one of the best maduros I've had in a long time. It's rich, and it's got a lot of coffee and chocolatey notes to it. It's just an absolutely fantastic cigar. Warped's El Oso, a maduro line they have made in El Titan Bronze down in Miami or the new Mr. Brownstone from Esteban Carreras would also be good choices.

At its price point, a product like Ron Barceló is not a high risk, so it should be easy to get a customer back in the store to buy it a second time. Plus, you will have sold your customer a quality product at a great price, so now you've also gained their trust. If a cigar or spirit is good enough in quality, it will do well as long as you have floor presence and somebody who cares enough to get out into the aisles and help the customers. When the customer sees the excitement you have for a product, it's easy to make that sale.

With a smaller brand, if you let it grow organically, it will usually pay off. A lot of smaller companies are willing to offer you a deal or a better buy-in because they want to see their products on your shelves. They may even be willing to give you a free faceting in order to get you to buy more so they can win more shelf space in your store. When brand owners are willing to work with you to get a better floor presence, you may end up with some free product, giving you a better profit margin out of those cigars.

At The Party Source, we allow a lot of our facings to grow organically before we bring in a new size or product from a company.

One of the best things about being in this industry is being able to try everyone's products. There's so much variety, whether it be with spirits or with cigars. There are so many different options out there, yet people tend to get stuck in a rut and always smoke and drink the same thing. Be adventurous. See what else is available and learn what else might be interesting. **TB**

*Nick Douglas is the assistant humidor manager/buyer for The Party Source in Bellevue, Kentucky.*





ИМПЕРИАЛ  
БАРСЕЛО



# Carving Out Your Share in the Marketplace

**Sergio Montolfo, general manager of Phillips & King, shares what businesses and their leaders can do to grow their presence and customer base in a competitive market.** **INTERVIEW BY BEN STIMPSON**

There are two ways to get more business: win new business or get your existing customers to spend more. It is important to ensure that you do not focus on one at the expense of the other, as both are important for growing your customer base. This is something Phillips & King International, a distributor of tobacco, vapor and alternative products based in California, has been doing since 1906.

Sergio Montolfo, general manager of Phillips & King, has seen his company grow over the years in spite of challenges on the state and federal level and all the changes that have taken place in the markets his company deals with. Phillips & King looks at the 50 states as individual countries, each with their own set of regulations and compliance needs. In addition to understanding the requirements and challenges of different states, Montolfo also has to stay on top of the trends emerging from each industry.

In the Q&A that follows, Montolfo shares his views of how other tobacco-centric businesses and those working in the industry can stay ahead of the curve and grow their share and presence in the market. ➤

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**Tobacco Business: If you could go back to when you first started at Phillips & King, what advice would you give yourself?**

**Sergio Montolfo:** Master relentless focus: Find the most critical things the business needs for the next six months, make them the everyday focus of every person and hour you can spare, and cut out everything else to the point where it hurts at least a little. Only then will you have the focus you need.

**For tobacco businesses that need to grow their customer base on a budget, what advice would you give them?**

At Phillips & King, we have a lot of repeat business and feel we offer the most value with long-term retailers. However, we need to keep bringing in new business as well. Old business can falter if budgets change or people move on, so it is important to look for new opportunities. You need to start a relationship early, so that it is mature enough to deliver new business when your other work is completed. Grow your business with caution—this is the only way to minimize the risks and increase your chances for success.

**What has been the biggest challenge in expanding Phillips & King?**

How and when to expand your business are key decisions that every company must face eventually. Making the claim that we are a “one-stop shop” is a bold statement because you had better be able to back that up. The largest challenge we have had at Phillips & King is being able to adapt and maintain tax and compliance for all of the local state and city ordinances throughout the entire country.

Traditional retail across all industries is struggling in the modern

commerce environment. Our customers are at risk—that applies to small and medium businesses. We have the pleasure of being able to collaborate with local business owners in every state to identify ways to create sustainable strategies. We must help them create memorable in-store experiences that are irreplaceable by passive consumer online purchasing.

**During your tenure at Phillips & King, what's the leading factor to which you would attribute your successes?**

Perhaps the most important of the success factors is character. Self-discipline combined with honesty will open countless doors. Trust is the foundation of all relationships. When people know you and believe in you and are convinced that they can trust you to keep your word and do what you say you will do, they will feel that they are far more likely to get the things they want through you—to get the things they want, faster, sooner, easier and with greater certainty.

**How have your thoughts on running a successful business and being a leader evolved over the years?**

Keep looking ahead. Where do we see the company in five, 10, 20 years? Is what we are doing now in the interest of those goals? In addition, your people are your greatest asset—employees, customers and vendors. They are invaluable resources of information and ideas.

**How can businesses stay ahead of the curve and jump on something valuable before it becomes a trend?**

Put yourself in the right environment and around the right people [by] attending various trade shows globally, such as the TPE (Tobacco Plus Expo) coming up in January of 2018. These trade shows are great venues to discover upcoming products and trends, and [they're] a place to build relationships with people that are on the front lines. **TB**

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