

Putting Cigars in the Fast Lane

Five tips for getting the most out of this high-speed growth segment of tobacco By Renée M. Covino

REV YOUR ENGINES, tobacco category decision makers. Cigars are not only growing in the convenience channel, but they're accelerating at a faster and faster clip.

Is your cigar strategy set to the right speed?

Sheetz Inc. is just one convenience store chain on-trend with cigars and devoting more and more space to the segment, according to David "Woody" Woodley, executive vice president of sales and marketing for the Altoona, Pa.-based retailer, operating more than 540 stores throughout Pennsylvania, West Virginia, Virginia, Maryland, Ohio and North Carolina.

"We believe cigars will continue to grow, so we are going to continue to dedicate the space to the segment," Woodley told *Convenience Store News*.

If recent data is any indication, Sheetz is on the right track. Industry dollar sales for cigars were up in the low-to mid-single digits in 2015, up in the mid- to high-single digits in 2016, and up nearly 15 percent in 2017. Unit growth is even more impressive. Industry data shows that cigar units have been growing at double-digit monthly rates for several years and, according to market researcher Nielsen, cigar units grew 18 percent during the latest six months, while sales dollars grew by 17 percent.

"What is interesting is that the monthly cigar growth rate is accelerating over the last two years; it's actually growing by a faster and faster rate, in both units and dollars," noted Joe Teller, director of category management at Swedish Match, manufacturer of the White Owl and Game cigar brands.

Teller says the cigar segment is unique in that there is "abundant organic unit growth," compared to the typical declines seen in cigarette unit growth.

"The cigar category has been growing in all major classes of trade, but fastest in convenience stores," he said. "That means convenience stores are gaining market share of the cigar category."

No Time to Idle

With so much growth potential, this is no time to sit idly by. C-store operators can get the most out of the cigar segment by following these five tips:

1. Rev up the natural and rolled leaf subsegments

By far, the fastest-growing cigar subsegments currently are Natural Leaf (think Game and Dutch Masters) and Rolled Leaf (think Backwoods and Game Leaf), according to Teller. Woodley confirmed that natural leaf cigars are performing well for Sheetz, and more space is being dedicated to this subsegment.

For clarification, natural leaf cigars are mass-produced cigars with a tobacco leaf on the outside as a wrapper. The inside of the cigar is homogenized tobacco leaf (HTL), basically pulverized in a similar way to how paper is made. Rolled leaf cigars are made exclusively of tobacco leaf. They appeal to consumers because they have a more premium look than regular, mass-produced HTL cigars, yet are competitively priced.

According to Nielsen large c-store chain data, Natural Leaf grew 34 percent in dollars over the last six months, while Rolled Leaf grew 63 percent, far faster than other subsegments.

"Together, these two comprise half of all cigar category growth," stated Teller.

2. Go wide on variety

With so much activity in the cigar segment, c-stores are wisely ensuring there's adequate space with a large variety to choose from, said Teller. Woodley affirms that at Sheetz, the





chain has upped the SKU count and “set space to sells.”

3. Update regularly

Retailers should be much more vigilant now about updating their cigar assortments than in years past, Teller advised. Part of this strategy means keeping new products in stock, added Woodley.

4. Make limited-edition options part of the regular updates

Limited-time cigar products allow for continuous real-world testing of new and interesting flavors, the best of which end up becoming everyday cigars. This trend has become expected by c-store cigar smokers, who often come into the store more frequently expecting to find new and limited-time cigars.

5. Be sure to highlight foil resealable packages

Foil pouches represent about two-thirds of total cigar category volume, according to Nielsen large-chain convenience data.

“Cigar smokers make an average of 7.4 visits per month to c-stores to buy cigars, which is among the most frequent c-store consumers,” reported Teller, citing industry statistics. “The result is that the average cigar smoker spends

Growth Accelerating

(percent change in industry dollar sales)

2017	14.6%
2016	7.5%
2015	4.1%
2014	0.9%
2013	-0.1%

Source: Convenience Store News Industry Report, 2014-2018

29 percent more dollars per year at a convenience store than the overall average of all c-store shoppers.”

The bottom line is that c-store retailers are wise to cater to cigar smokers, who increasingly see the value of buying through the channel. Cigar consumers have become very loyal to c-stores that have the everyday variety, new limited-time products and fair prices they seek.

On the flip side, “there is a large downside risk to a retailer’s cigar unit and dollar sales if cigar smokers’ needs are not met,” concluded Teller. **CSN**

Premium Moves

Premium cigars are not necessarily a convenience store’s domain, but if upcoming legislative moves go a certain way, more stores may want to dabble in them. At the very least, it’s smart strategy to keep abreast of the latest legislative and regulatory action:

- Republican Senator Joni Ernst of Iowa became the 21st U.S. senator to co-sponsor S294 or the *Traditional Cigar Manufacturing and Small Business Jobs Preservation Act*, which was originally introduced by Florida Senators Bill Nelson and Marco Rubio. It seeks to amend the federal *Food, Drug and Cosmetic Act*, intended to exempt traditional large and premium cigars from regulation by the Food and Drug Administration (FDA).
- Meanwhile, a second bill, with language intended to exempt premium cigars from FDA regulation, was approved by the U.S. House of Representatives Appropriations Committee in mid-May. The FY2019 *Agriculture and Rural Development Appropriations Bill* would move the predicate date — also known as the grandfather date — for deeming tobacco products from Feb. 15, 2007 to April 25, 2014. The cigar industry applauded this move, with the Cigar Association of America, the International Premium Cigar & Pipe Retailers Association, and Cigar Rights of America issuing a joint statement saying the language in the bill addresses significant concerns that the premium cigar industry has maintained since the FDA’s deeming rule was proposed in 2014.

- As of press time, Republican Congressman Bill Posey sent a letter signed by 32 of his colleagues (31 Republicans and one Democrat) to Mick Mulvaney, director of the Office of Management and Budget, urging the federal government to extend the comment period to Sept. 23, 2018 for the advance notice of proposed rulemaking on premium cigar regulation, which was set to end June 25, 2018. In the letter, the legislators also asked for a delay in the implementation of new warning statement requirements on all packages and advertising related to premium cigars. Set to go into effect Aug. 10, 2018, the warning label requirements have been a highly contested point of friction between many manufacturers, retailers and the FDA since the announcement of the deeming rule affecting cigars in 2016.
- As the FDA accepts public comments on whether premium cigars should be exempt from agency oversight, J.C. Newman Cigar Co. revived its “Save Cigar City” campaign against cigar regulation in May. The company distributed 100,000 postcards to its network of retailers, which came preaddressed to the FDA and urge the agency to “exempt premium cigars from regulation and save J.C. Newman’s historic cigar factory in Tampa, Fla.” The company also hung a “Save this Factory” banner outside its factory, and relaunched its Savecigarcity.com website.