



Smoke signals

Cigars are often associated with words such as “enjoyment” and “luxury”, but for those within the industry there is a new buzzword looming large – “regulation”. *Chris Madden* looks at how cigar brands are addressing those imminent changes facing the market

When one thinks of cigars the dominant images are usually of celebration, often in an upmarket context.

But for those within the industry the new focus is on the less glamorous challenge of packaging restrictions. The cigar industry already faces the same concerns as the rest of GTR; traveller demographics around the world are changing and everyone is looking at how to capture the growing market of young shoppers.

However, while cigar producers are trying to adapt to the shifting landscape of travel retail and duty free, the rules of their own market are changing around them. The very look and feel of

cigar packets on the shelves of duty free stores could be set to change in some parts of the world as new rules lay out what tobacco packets can and cannot look like.

Some have expressed fears the coming changes will be devastating to small producers who cannot afford to create

specific packaging for parts of the world, while bigger producers are coming to terms with what the changes will mean for them.

Oettinger Davidoff senior vice-president and head of GTR Martin Kauffmann branded the changes to packaging “the biggest challenge of our times”.

A change of look

Cigars have a well-cultivated image.

At the mention of cigars one often pictures elegantly dressed smokers at weddings and anniversaries opening wooden boxes decorated with bright colours. The idea of luxury and enjoyment is enhanced by high-profile cigar smokers such as Sir Winston Churchill, who described smoking cigars as “an absolutely sacred rite”.

Indeed the author and poet Rudyard Kipling wrote a poem trying to choose between his betrothed



The Davidoff Yamasá range has been well received by aficionados



Oettinger Davidoff senior vice-president and head of GTR Martin Kauffmann

Main: Davidoff is one of the cigar brands looking to tackle the challenges posed by new regulations

Insets: Some feel regulations on the cigar industry, where many firms are family-owned, are unfair



and his cigar, in which he chose the cigar, declaring: "A woman is only a woman, but a good cigar is a smoke."

Packaging for cigars is a central component of this image, but it is one which is set to change in an important region of the world. The European Union (EU) Tobacco Product Directive Number 2, which came into force on 20 May 2016, requires cigar boxes to carry mandatory health warnings.

Kauffman explains: "This is of course the biggest challenge of our times. Our industry is particularly dominated by growing regulatory restrictions.

"For the first time we are also obliged to put a health warning inside the lids of cigar boxes. It strongly affects the domestic markets, but it affects the travel retail business in Europe as well and has created enormous complexity for cigar manufacturers, operators and retailers, coming at a high cost."

Challenging times

Companies have worked for two years to work out how to deal with the challenges posed by this change. Davidoff is one of the market leaders and has, Kauffmann says, experienced double-digit growth in the last year which gives it some leeway.

Kauffmann fears the changes will hit the cigar market harder than its larger cousin, the cigarette trade.

"The impact on the very small cigar manufacturer community – mostly family owned businesses – is of great concern and feels unfair," he explains. "The consumer profile, motivations and habits of cigar consumption are so very different to those of cigarette smokers, as a recent broad-based European study again proves."

His concerns are echoed by Thomas Gryson, export manager and travel retail co-ordinator at J Cortès and Oliva Cigars.

He adds: "The cigar market is performing well but has, of course, been affected by the new European regulation.

"We do everything we can to keep the international regulation at airports. Unfortunately, in some markets we see that the domestic rules, such as the restrictions included in the EU Tobacco Product Directive, also apply to the tobacco products at the airports."

From adversary to opportunity

The response from cigar manufacturers is to try and turn this latest challenge into a new prospect for the business.

"New restrictions encourage us to be more creative and flexible," says Royal Agio Cigars global travel retail manager Gertrude Stormink. "Fortunately, our company has a rich history and experience for over 110 years in the cigar world.

"Our owners believe in the future of cigars and invest in order to adapt quickly to the changes in legislation worldwide."

Kauffman agrees: "Davidoff is in a constant process of re-invention in order to anticipate and optimise our processes and business approaches so that we can absorb at least part of the incremental costs created by increased regulations.

"It remains a fact that cigar aficionados are open to paying a slightly higher price for a unique cigar experience."

This "experience" is key for cigar users.

Gryson believes the new rules will create more differentiation in the tobacco market and could allow cigars to stand out from the other products on offer.

"In some markets such as Norway and the UK we see separate tobacco corners which could create new opportunities for cigars," he enthuses.

"In other markets the plain packaging for cigarettes creates more interest in cigars and cigarillos."

He says retailers are installing humidors in some of the bigger airports which "increases the experience" for some travellers.

Some examples of this shift are already evident in the market. At the end





Balmoral Dominican Selection
Collection 12

of last year Travel Retail Norway, a joint venture between Heinemann and local provider Norse-Trade, opened a new Heinemann store at Oslo Airport.

The shop includes a “tobacco cave” where products are stocked in a dedicated area separate from the rest of the store. The markedly different look of the section, complete with humidor in the corner, gives tobacco shoppers a unique experience as they buy.

Trying something new

Opportunity leads to innovation and in this respect Davidoff is looking to build on the heritage which has made cigars such a success



The Flavor Collection by
J Cortès

FLAVORISM: an expression of cherry, chocolate, cappuccino, reserve, mango, jazz, vanilla and vanilla
J Cortès Flavor: info@heinemann.com www.heinemann.com



Some see cigars as a form of
affordable luxury

in the past. The brand has released its new range Davidoff Winston Churchill – The Late Hour.

The success of Davidoff’s Year of the Rooster range, which was created for the Chinese market, suggests a willingness by cigar buyers to try something new and it is a trend the brand is looking to capitalise on.

“Our aim is to offer aficionados unique and memorable experiences that delight them and are linked to a special moment,” Kauffmann explains. “Especially in duty free, uniqueness and differentiation is key. This includes special editions and packaging that cannot be found anywhere else.”

Royal Agio is looking to “capitalise on the gifting segment”, Stormink says, with a Balmoral Dominican Selection Collection 12 giftbox created for Chinese New Year among the top offers.

At J Cortès the team is focusing on pushing its Neos brand and Flavor collection.

“Since we have the brand Oliva on board we strive to list this premium handmade range in the leading humidors in Europe,” Gryson explains.

“It is possible that the machine-made cigars are suffering, but the demand for luxury products is obviously also the case for premium handmade cigars. There is a growing interest in handmade cigars, but the main factor is still the price and if the traveller can buy cigars cheaper at home or online there is no reason to buy it at the airport.”

Reacting to change

The challenges within the tobacco industry are causing problems. Earlier this year British American Tobacco announced it plans to move out of the cigar market after reviewing its global strategy.

Those still in the market are facing problems of their own with some retailers shifting their focus away from cigarillos, a move which Gryson says is “not positive” for J Cortès.

In the face of issues like this most brands are searching for new shoppers and corners of the market to build on. For Davidoff, Kauffman explains, this means trying to take advantage of more adaptable shoppers in the market.

“Our new approach of inviting cigar aficionados to ‘taste the wider world’ aims to reach cigar lovers who are open minded about new aromas and blends,” he says.

Like all sectors of GTR, cigar brands are looking to millennials and the Chinese market as potentially lucrative sources of revenue.

Stormink says: “Thanks to some interesting projects with airport retailers in Asia and Middle East, we have seen a good performance of our brands there.”

While the Chinese shoppers did not make the expected mark on the sector in 2016, Kauffman is optimistic that early signs for 2017 are more positive.

“Chinese traveller spending in the category did not bounce back as expected, which was disappointing,” he reflects. “On the other hand, we have seen the Middle East doing very well. However, in the mid and long-term the market trend is positive and there is no doubt that Chinese and also Russian consumers and travellers are coming back and spending more again. The first figures in 2017 support that notion.”

Gryson agrees: “The Americas and Asia are fast-growing areas. We expected a lot from the Middle East but the growth is less than we had expected.”

And how do the much-discussed millennials fit in? Cigars are a



The Balmoral Dominican range

form of affordable luxury, of the type we are often told millennials appreciate, but are these more health-conscious shoppers stepping in to the market?

Stormink says: “Younger shoppers are looking for gadgets and novelties. They are looking for something different, products they do not find in the domestic markets.

“Products which may interest them are cigar assortment boxes for gifting or personal use.”

The next generation of smokers

Kauffmann believes cigars are not tainted in young shoppers’ eyes in the way cigarettes are.

“A Davidoff cigar is an affordable luxury and accessible to a large proportion of younger people in their late 20s or early 30s,” he says.

“In general, we observe that premium cigars are seen as highly attractive as they enhance the quality of life, meaning they have nothing in common with the world of smoking cigarettes.

“Ranges like the Davidoff Discovery line and Davidoff Yamasá have been very well received by aficionados who were traditionally more focused on Cuban cigars and also by younger aficionados from the millennials generation and generally speaking, adventurers.”

While Gryson fears younger shoppers are travelling with lower budgets and spending less at the airport, he believes there is a “growing interest” in handmade cigars.

That growth will be vital for the market as it looks to ensure its position within the GTR channel.

On paper the opportunities and future for cigars in GTR should be bountiful as the product is already linked with experience and affordable luxury – two of the dominant trends in the market today.

But cigar producers will be hoping they can make those bonuses count as the very paper they wrap their products in is being changed before their eyes. **F**

New on the market

Davidoff’s new release is the Winston Churchill – The Late Hour range. The range contains tobacco aged for six months in Scotch single malt whisky casks – a first for the cigar industry.

Oettinger Davidoff senior vice-president and head of GTR Martin Kauffmann says: “Like other cigars in the Davidoff Winston Churchill line, The Late Hour is inspired by Sir Winston Churchill, one of the most celebrated cigar lovers in history. When most people were thinking of going to sleep, Sir Winston Churchill was thinking how best to run and inspire a nation.”

Royal Agio has drawn its focus onto gifting. Stormink says: “Following the trends in the travel retail market we are focusing on the gifting segment with our Balmoral Dominican Selection Collection 12 giftbox, which we offered as a Chinese New Year limited edition as well and our new exclusive Balmoral Private Collection 25.

“Apart from that the convenient five-packs of our Balmoral Dominican Selection line are appreciated by travellers to enjoy during special moments.”

Last year, to mark the brand’s 50th anniversary, Habanos SA released three Cohiba cigar lines. The first, Cohiba Medio Siglo, is a regular production cigar. The second, the Cohiba Majestuoso 1966, bears the official anniversary logo. The final set is the Cohiba 50 Aniversario, which is seven inches long and comes in a 50-count humidor.



European Union

Tobacco Product Directive Number 2

What is the European Union Tobacco Product Directive Number 2?

The directive will bring major changes to the sale of tobacco products within the EU. It is a piece of legislation handed down by the European Commission which entered into force on 19 May 2014 and became applicable within the EU on 20 May 2016.

What does it mean?

The European Commission has laid out 10 key changes which the directive will bring about for tobacco products sold in the EU.

- 1) Larger and mandatory pictorial health warnings
- 2) Ban on cigarettes and roll-your-own tobacco with characterising flavours
- 3) Replacement of tar, nicotine and carbon monoxide (TNCO) labelling
- 4) No more promotional or misleading packages
- 5) Mandatory electronic reporting on ingredients
- 6) Safety and quality requirements for e-cigarettes
- 7) Packaging and labelling rules for e-cigarettes
- 8) Monitoring and reporting of developments related to e-cigarettes
- 9) Possibility to ban cross-border distance sales
- 10) Measures to combat illicit trade

What does this mean for the cigar industry?

Cigars do fall under the directive's remit. But member states have some discretion when it comes to labelling rules for products, such as cigars, which are not currently used in significant quantities.

According to Article 11 of the Directive such products must still carry text warnings on the outside and the next most visible surface.

How has the cigar industry reacted?

According to the European Cigar Manufacturers' Association, with an annual consumption of about 6.3 billion pieces, cigars account for almost 0.8% of tobacco consumption within the EU. The average cigar smoker in the region smokes less than one-a-day, and they generally fall into the demographic of men older than 35.

The 20 companies represented by the association employ more than 5,100 people within the EU and more than 20,000 outside it. 12 of the companies are family-owned and seven are small and medium-sized enterprises. Cigars are produced in a wide variety and in small production runs.

For these reasons the association has argued that "cigars need to be treated differently from other tobacco products".

The association was part of a large number of organisations which lobbied and claimed some of the changes within the directive are "not necessary", pointing out that text warnings "sufficiently guarantee that the cigar smoker is well informed".