

Category Outlook

Cigars

The Cigar Category Will Transform in 2013

2013 will be a pivotal and potentially transformative year for the cigar category. The Food and Drug Administration (FDA) is expected to deem cigars subject to its authority, an action that could affect everything from packaging to flavoring to the ability to launch new products. For now, however, it is business as usual, and the cigar business is actually quite good.

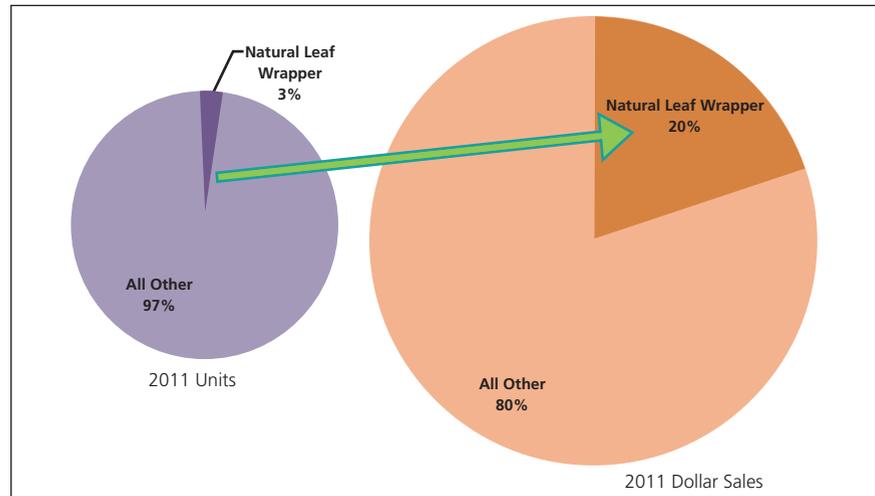
State of the Cigar Category

While some categories – such as cigarettes – are experiencing declines, total 2012 cigar volumes have held steady at 5.92 billion sticks.* Convenience channel cigars sales were \$2.3 billion in 2011, a growth of 2.3%, making the category the second fastest-growing segment in OTP.**

Single sticks continue to be the most popular format (36% of volume), followed by five-packs (27%).*** But all of the growth in is in the two- and three-pack sizes, which have increased 62% and 34% respectively. Flavored cigars are still vital to the category, commanding 46% of the volume.***

Key Trend #1: Size Does Matter

This is especially true in the tipped-cigar segment, where there has been no innovation of note for several years. Until recently, tipped-cigar smokers were limited to few brands, few flavors, and even fewer size options. Consumers, confronting ever-increasing smoking bans and restrictions, are faced with shorter and shorter smoking opportunities. And yet there were no conveniently sized flavored tipped cigars available.



That finally changed in September 2012, with the introduction of Captain Black Mini Tipped Cigars. Made with traditional pipe tobacco and 100% cigar filler, Captain Black Mini Tips answer consumers' need for a short, flavorful smoking experience.

Key Trend #2: A Cigar Is Not Just a Cigar

One of the challenges facing the cigar category in the convenience channel is commoditization: an overabundance of undifferentiated brands, all racing to be the cheapest cigar available. Consumers are faced with the same generic flavors and the same generic homogenized tobacco leaf (HTL) wrappers. With pricing under constant pressure, manufacturers are forced to compromise quality to cut costs. Meanwhile, profit margins for retailers and manufacturers suffer.

There is ample evidence that consumers are willing to spend a little more for a more premium experience. According to Nielsen Co., cigarillos with natural leaf wrappers account for just 3% of units, but 20% of dollar sales (see graph).

Enter Cubero, a cigarillo designed to satisfy consumer demand, and to help retailers generate a new source of profit. These unfiltered, natural-leaf cigarillos are a true premium smoking experience at an affordable price. Instead of single-note flavors, Cubero offers real blends that delicately combine different tastes. Blend #35, for example, combines rum with a touch of mint and sugar cane.

What Is Next?

To capture future growth, retailers will need to look beyond the litany of copy cat brands racing for the lowest price point. The category requires innovation such as Captain Black Mini Tips and Cubero, products created based on consumer needs, and designed to deliver incremental profit.

*TTB YTD July vs. 2011 YTD

** Nielsen Syndicated Convenience Tracking

***IRI 2012 YTD

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