by Barbara White Sax

The tobacco category seems to be plagued with woes, but retailers still managed to find some bright spots in the category last year.

Cigars were truly the shining star of the tobacco category last year. The category was up 13 percent in units and 17 percent in dollars, in 1996 according to John Maxwell, publisher of The Maxwell Report.

Driven by the chic image of cigar-chomping celebrities like David Letterman and Mel Gibson, and the success of Cigar Aficionado magazine, cigars are becoming more popular with younger consumers and with women. Industry estimates predict that more than 4 billion cigars will be sold in 1997, up an additional 10 percent.

The real category growth is coming from premium cigars, which sell from $1 to up to $20. The premium segment grew 30 percent last year. Drug stores have been trying to address this key growth segment as it relates to the channel's shopper. Premium cigars must be treated properly to maintain their freshness and chasing cigarettes. The regulation requires clerks to ask any customer purchasing cigarettes who looks younger than 27 for photo identification.

The regulations provide for warning letters and fines to stores caught not following the new rules. Fines can be as high as $15,000 for stores that are repeat offenders.

With serious consequences at stake, even retailers who have already been vigilant about selling tobacco to minors are making sure that their employees strictly enforce the rule.

**Cigarettes are flat**

Overall, retailers said the cigarette category has been flat. "Manufacturers have been promoting harder than ever before," one retailer said.

Buy-one-get-one coupons, on-pack promotions and cents-off coupons dominate the category.

While promotions are prevalent, retail prices have been increased about 50 cents a carton.

Few introductions were added to the category this year. R.J. Reynolds did launch a Camel menthol line was surrounded by what some consumer groups saw as a controversial advertising campaign aimed at African-American consumers. Manufacturers estimate that about 25 percent of all U.S. smokers smoke menthol cigarettes. African-American smokers tend to prefer menthol cigarettes.

The new Camel brand did well at one regional chain in the South. "Anything that is a new introduction does well," the buyer said. "Menthol is very strong in my market because of the ethnic mix."

For Illinois-based Walgreens, however, the introduction proved to be controversial. In March, the chain announced it was pulling the product out of its stores because it was not up to the chain's minimum sales performance standards. The brand had been under heavy fire by some in Chicago's African-American community who said the cigarettes are targeted at blacks. And the activists vowed to continue to keep up the pressure on other retailers selling the brand.

Camel is also rumored to be introducing Camel Red, a line extension that will be boro, sometime this year.

Some retailers are also planning to add Lorillard's new value brand, Maveric, to their assortments. Although value brands continue to be viable, the segment's share of the market actually dropped from 29.3 percent in 1995 to 28.3 percent in 1996, according to The Maxwell Report.

Branded cigarettes continued to be strong, accounting for over 71.2 percent of volume, according to The Maxwell Report. Publisher John Maxwell, said the top brand continues to be Marlboro, followed by Newport at No. 2; Doral in third place; GPC, a generic brand, holding the No. 4 spot and Winston still at No. 5. Camel has moved from the category. With child-resistant regulations on lighters now been developing new models that are difficult for children to operate but don't drive adult users crazy.

Fashion is also key to the category. As in other categories, such as back-to-school, consumers have proven that they are willing to pay more for a product with some uniqueness. Manufacturers have been increasingly adding new fashion products to their lines, and retailers are realizing that fashion products spark incremental sales and carry higher margins.

The moist snuff segment of the chewing tobacco category has had a modest rise in sales dollars—about 1.5 percent—according to Maxwell. But Maxwell said that U.S. Tobacco, maker of Skoal and Copenhagen brands, has lost share to less expensive brands. "The lower-priced brands are gaining share because they sell for half the price," he said.

Retailers do complain about problems getting the right merchandise into the stores. "With short-dated products, we can't warehouse it and the manufacturer don't have great distribution.
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And the sudden demand for premium cigars has made it difficult for some retailers to keep their shelves stocked. “We have had a lot of problems with out-of-stocks in the higher priced items,” one retailer said. “We also have had some problems with theft.”

Retailers wary of going the distance with millions of dollars of cigar inventory and the humidors needed to store it properly, have found that they can still ride the popularity of the products and maximize their category’s performance by adding a few higher-priced products and getting rid of slow movers.

New regulations, new headaches

One major tobacco-related issue for drug stores is the new federal government regulation, in effect since February, that seeks to curb people under 18 from pur-