



News from Las Vegas

The Annual Retail Tobacco Dealers of America show was at Las Vegas this year. While we attend this show and conference every year given its importance to our industry, by far this is our favorite host city. Without a doubt, it is the most cigar friendly city in North America. But unlike the past couple of years, the outlook this July was incredibly positive. This year's buzz included

- **The premium cigar market is showing signs of "plus" year over year business and the market in 2002 is expected to end stronger and higher than 2001.** The evidence presented to support this positive outlook was widespread but based on three main factors: 1) Shipments and imports into the US are finally increasing after 2.5 years of declines; 2) the rate that tobacco shops were closing their doors over the same period has stopped and most distributors reported opening more new accounts than they had in prior years; 3) consumers, who for the past three years had indicated they were smoking "less cigars than last year" are not saying this anymore as the decline in consumption has definitely stabilized and in some states beginning to increase again.
- **At the keynote breakfast roundtable, Cigar Aficionado editor James Suckling noted the improved quality of Cuban cigars.** He has traveled and visited cigar manufacturers all over the world extensively over the past ten years. This summer he saw and experienced first hand the

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The Team Expands

I am sure most of you have met the two newest members of our staff. Homer Luzuriaga (top) joined us in early summer. He wooed customers over the Fathers Day weekend with his passion for rolling cigar. Sean Gorden (bottom) worked for Hinds Brothers and has some great retail experience. He joined us in August.

Please join us in welcoming the two newest members of the Team.

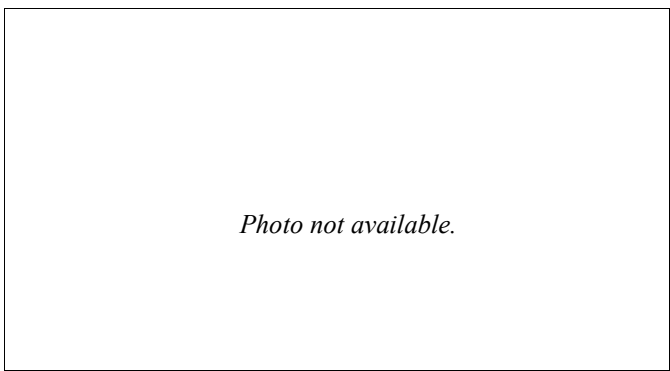


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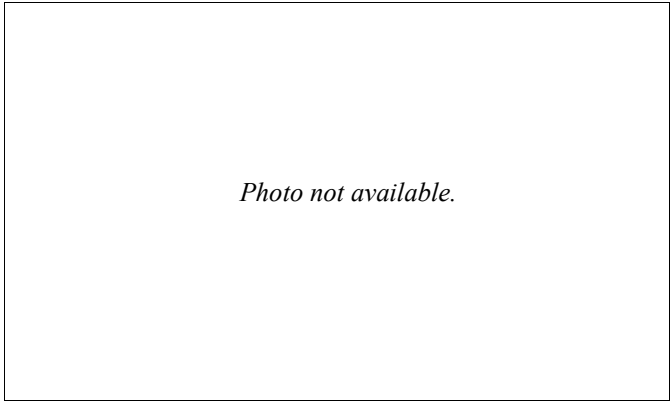


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Taste of the Kingsway

If you have some time this weekend, bring a big appetite and the family to this year's Taste of the Kingsway Festival. The Festival runs Friday, September 6 (from around 6PM on) and Saturday September 7 (from 10AM on). Bloor Street will be closed to all cars from Montgomery to Prince Edward. There is food galore to sample; many restaurants will set up outdoor licensed patios, and during Saturday there's a ton to do with the kids. Drop by the store and say hello to Homer and Sean.

Frequently Asked Questions

“I keep hearing about the high and numerous taxes that contribute to the selling price of a cigar in Canada. Can you please explain how this works and what these taxes are?”

Great question and we get asked it a lot. I hope the answer is not too confusing for you.

Lets begin in a factory in the Dominican Republic. The cigar manufacturer calculates his costs of raw tobacco (which he has either farmed himself or bought on the open market), his labor cost for rolling and making the cigars, and markup to cover marketing and administration expenses and his required profit to stay in business. He does this on the basis of lots of 1000 cigars. He then negotiates a selling price to a Canadian importer (companies like Bondele Cigar, Brigham, House of Horvath). Lets say it is \$1 US per cigar for a total of \$1,000US. The cigars are then shipped to Canada.

There are then several levels of Federal taxes, which are added to the importers cigar cost when the cigars arrive in Canada. First in order to clear customs, Canada Customs and Revenue calculates its value in CDN dollars using the current exchange rate – say 1.55. The \$1.55 cigar is then subject to excise tax – 65% - and duty – \$14.79 per 1,000 sticks. These taxes add \$1.02 to the importers costs. The importer then calculates shipping costs and his brokerage fees and suddenly his total cigar cost landed in Canada is \$2.76 CDN. The importer then calculates the margin he needs to pay salaries, warehouse costs, other administration costs. Assuming gross margins of approximately 35%, that cigar is priced at \$4.25 wholesale to Cigar Studio and other tobacco retailers.

However, before my distributor can ship us the cigars, the provincial government steps in. In Ontario, the Minister of Finance assesses

tobacco taxes as a percentage of the cigar’s “estimated retail price.” Their formula defines a “taxable price” of a cigar as its wholesale price times a multiplier of 1.22. Ontario then takes 56.5% of that number (prior to the budget in June of this year, they took 45%). So in the case described here, they take the cigar’s wholesale price of \$4.25 times 1.22 times 56.5%, providing the government with \$2.93 in provincial tobacco taxes. (This PTT is added to my invoice and remitted to the province on my behalf by the wholesaler). So I pay a total of \$4.25 to the wholesaler plus \$2.93 to the government (via the wholesaler) for a total cost to Cigar Studio of \$7.18.

Like any business, I have to pay rent, salaries, marketing and other admin expenses. So I mark that cigar up to a retail price of between \$10.25 and \$11.00 depending on the brand and size (lets say to \$10.60 for the purpose of simplifying the math). You select that cigar and then also pay 7% GST at the cash register (tobacco is now 8% retail sales tax exempt) for an out the door price of \$11.34.

So the next time your receipt from Cigar Studio totals \$11.34, the total Federal and Provincial taxes paid on that cigar are \$4.69 or 41% of the price.

Our industry frequently lobbies on the tax issue and I wish we could report that the government is lowering tobacco taxes. In the meantime, my commitment remains to be tough but fair on overheads and costs, while investing wisely in customer service, customer retention and relevant promotion and marketing programs. This will allow me to continue to price more aggressively than my competitors (many of you comment that our prices across the humidior are the some of the best in Ontario – thanks).

I hope this has shed a little light on a very taxing issue...

WHAT'S NEW IN STORE

Brand new items have begun to find their way onto our shelves. In addition, some older brands that were "in" during the boom years of 96 – 98, "out" during the adjustment years of 99 – 01, are now coming back again in 02 as the market inches forward again.

Cigars

Royal Jamaica Corona	\$9.65
Royal Jamaica Robusto	\$10.50
Punch Rothchild	\$15.75
Punch Grand Cru #2	\$29.25

Accessories

The Blazer "Tank" (the original)	\$85.00
Quantum Vortex Double Jet Lighter	\$175.00
Quantum Viper Single Torch	\$59.95
Czonka Cigar Survivor	\$45.00
Burlingame Golf Cigar Bag	\$49.00

Drop by to see these and other new items.

Scotch and Cigars at the Ontario Club

Back by popular demand, we are going back down to the Ontario Club for another evening of fine single malt scotches, dinner and cigars.

The date is Wednesday October 9 at 6:30. In addition to a full dinner, guests will receive 3 malts, specially chosen from our friends at the Companions of the Quaich. However we are very excited about the cigars as this event will feature three cigars from Indian Tabac. The Indian Tabac brand hails from Honduras and has been an incredibly successful cigar in both the US and CDN market for the past 5 years. Rocky Patel, President and CEO of Indian Tabac Cigar Company will be visiting us and will speak about the brand, and what makes Indian truly different than other cigars out there.

Tickets all inclusive are \$75 and available at the store.

Coming Soon: The Wesley Bober Collection

At the 1997 Tobacco Show in Cincinnati, I met Wesley Bober for the first time. He convinced me to carry his humidor series, which I was hesitant to do at the time because of the retail pricing. We did so and have been thrilled with the line's performance in the store. Everyone loves these humidors; they just don't like the price (\$750 and up). Wesley and I have worked together for over 6 years now and I have watched as his little company has become one of the most successful manufacturers and importers of luxury humidors and bar accessories in the US (see past issues of the Robb report).

In October, I will begin distributing his line of Bar Cabinets. The product will be featured prominently in the next 8 issues of the Robb report. The first item to arrive will be the Devon Bar Cabinet. Now having been in sales and marketing the majority of my working life, I have been accused of exaggeration and hyperbole in the past. Having said that, what I will say about the Devon line is that you have never seen anything like it anywhere, anyplace, ever. In store round or about October 7.

For a quick preview, go to www.cigarstudio.com and click on the Wesley Bober icon on the home page.

February Cuba Trip in the works

We are in the middle of pulling together details for a trip we are planning to Cuba during "Festival Week" at the end of February. The 7 day trip will run from February 23 until March 2. This is the time of year that the entire Island of Cuba celebrates "Tobacco" – (think Oktoberfest in Germany). The trip will be very focused on Cuban lifestyle and culture – cigars, music and rum. (If you want to sit on a beach for 7 days, don't come, as you will be disappointed). We hope to stay in Old Havana, visit parts of factories and the tobacco industry that tourists don't get to see, hear a lot of jazz and enjoy Cuban hospitality. A highlight will be attending the Final Dinner of the Cigar Festival. We will probably smoke a few cigars while we are there. We are getting prices now and are trying to get this all done for \$1,750 all-inclusive.

If you have any interest, let me know. So far there are a couple of customers interested and I think 6-8 would be a good number – we can all fit in one van.

Prices on Cuban Minis still at pre-budget levels

We still have quantities of Cuban minis, which we loaded up on in advance of the June budget and subsequent tax increase. So while quantities last, we are still holding prices at their pre-budget level. Combine this with the fact that tobacco is now PST (8%) exempt, your best value in a mini or club size is in one of the 14 different Cuban cigarillos we carry.

CIGAR AFICIONADO RATINGS

In the cigar rating section of the new Cigar Aficionado magazine, Nicaraguan cigars continue to dominate. Once again the **Padron** brand is at the top with the *Padron 1964 Anniversary Series* receiving the highest score, 92, of all cigars tested.

Another Cigar Studio favorite that did very well, is the **Ashton** Brand. The Ashton Corona scored an impressive 90. The judges write that Ashton “draws beautifully, burning with a fine aroma with notes of brown sugar, nuts and toast.” We have always loved this silky smooth cigar!

PIPE CLUB MEETING

On the first Saturday of each month, Adam organises an informal get together for our pipe customers. We call it the Kingsway Pipe Club and the next meeting is on Saturday, September 7. Our “headquarters” is the Crooked Cue on Bloor Street and we will be there from 12:30 – 3:30 on Saturday. Drop by and enjoy a bowl on us.

renewed emphasis on quality versus quantity in Cuba production (something that we first reported on in April this year when we sat with the General Manager of Havana House). Suckling also commented on the quality of the large ring Cuban sizes and the Edicion Limitada cigars, the best to come out of Cuba in years.

- The business is increasingly being dominated by the most professional, well financed, and customer-focused of manufacturers and distributors. Note I did not say the biggest as some of the most sought after brands are the boutique shops (e.g. Indian Tabac, Padron). These companies are operating very much like consumer package goods companies with consumer research, blend testing and strict quality control measures becoming their operating norm. They also understand they have strong competition amongst themselves for the consumer franchise (who can only benefit in this environment).
- The clouds on the horizon are twofold; 1) there remain questions about the impact that the current state of the economy will have on the industry. Pessimists argue that a weak economy will obviously hurt the market. Optimists say the absence of another 9/11 alone will mitigate against a weak economy while pointing to the evidence that cigar consumption is beginning to increase slightly. 2) Looming larger is the increasing activity of governments in our business as tobacco taxes keep creeping up, and local governments say we can't smoke anywhere, anymore. Strong and aggressive lobby activity is occurring on both these fronts.

And if you think it was hot in Toronto in July, during the 4 days I was there, the average daily temperatures were 39,42,41 and 38. Now that's smoking...

Business Hours

Mon – Wed: 10am – 7pm
Thu – Fri: 10 am – 8pm
Sat: 10am – 6pm
Sun: Noon – 5pm