

HOW Kum & Go ADDED A NEW REVENUE STREAM

Cuban Rounds Hand Made Cigars help convenience retailer develop a new segment

THE CHALLENGE

With the steady decline of cigarette sales each year, Kum & Go needed to create a new revenue stream to compensate.

THE SOLUTION

Cigar sales in particular are growing in the OTP category. Last year, convenience store cigar sales rose more than 13% to nearly \$3.2 billion during the 52 weeks ending Dec. 31, 2017, according to IRI, a market research company.

At Kum & Go, which operates 408 convenience stores in 11 states, both hand-rolled and machine-made cigar sales rose 9% over the past year to \$11.1 million, according to data collected by Nielsen.

While some experts predict cigars to rank among the highest gross profit OTP category this year, value-added cigar products, such as Cuban Rounds, can offer even more profit and customer-expanding potential.



THE PRODUCT APPROACH

Jodi Gehrts, senior category manager at Kum & Go, has been progressive in the Other Tobacco Products Category. She offers a mix of premium and domestic brands, but also likes to try new and innovative products. She notes that Kum & Go strives to be among the first in the market to provide new products customers will enjoy.

Kevin Klyczek, West sales director at Kretek International, shares how it works using handmade Cuban Rounds as an example: At an average retail price point between \$6 and \$7, these three- and five-pack products, when purchased at wholesale prices of about \$2 to \$3, can offer a whopping 44% profit margin.

This product is also growing in popularity across the industry. According to Nielsen, Cuban Rounds Fresh grew more than 250% in the 52 weeks ending August 11, 2018, compared to the same time period last year.

“Purchasers of Cuban Rounds might not exactly be cigar aficionados, but they’re still seeking quality,” Klyczek says. “They may be the occasional cigar smoker and want a premium, hand-rolled cigar on the way to the golf course or fishing boat, without having to stop at a premium cigar shop. A resealable pouch means they can use the remaining cigars over the weekend or even weeks later. It’s all about convenience.”

According to Nielsen data collected in August, Cuban Rounds ranked the ninth-fastest growing cigar brand at Kum & Go. With SKUs at \$6 to \$7 each, they generated more than \$100,000 over last year.

THE RESULTS

With lessons from Kretek International, here are five ways that value-added cigars like Cuban Rounds helped Kum & Go increase their OTP sales:

1 FOCUS ON THE BRAND NAME.

Expanding the specialty product category can pose challenges for managers because it can include many new, up-and-coming products that are still in their early growth phase. That’s why some category managers choose to focus on well-known, value-added products to boost OTP sales. In the case of Cuban Rounds, the brand name suggests quality and craftsmanship. “Most customers tend to buy a well-known value product before trying something more premium,” Klyczek says.

2 CONSIDER PROPER PLACEMENT.

As cigarette sales continue on a downward trajectory, some c-stores are making more room for cigars and other OTP products. When real estate gets tight, “innovation” sections offer the perfect place to expand shelves and space for products like cigar packs, according to Klyczek. Pack cigars are also thought of as “impulse” buys, especially among those purchasing wine and beer, so consider placing the promotional materials at or near the front checkout counter or close to alcohol products.

3 MERCHANDISE. MERCHANDISE. MERCHANDISE.

In addition to smart pricing, merchandising remains important for expanding the OTP category. “Traditional signage and promotions in the form of shelf talkers, window clings, hangers and more can rev up in-store merchandising, but don’t forget about advertising at the pump, too,” says Klyczek. Also, retailers could consider using existing flat-screen TVs with continuous signage as an effective promotion tool.

4 PICK PACKAGING THAT POPS.

Products with bright or attention-grabbing packaging are winners in the value-added, pack cigar category. Cuban Rounds in particular, boast bright orange packaging that can help draw eyes to the shelf. Or course, the re-sealable packaging itself remains a huge draw among convenience-seeking cigar buyers.

5 DON’T FORGET ABOUT LOYALTY REWARDS.

Loyalty reward programs can draw in specific customer groups, boost recurring sales and promote new or lesser-known products. “Customers seem to respond well to e-blasts that feature a new product or promotion every couple of weeks or once a month,” Klyczek says. Also consider social media to educate customers about loyalty programs for cigars and other OTP products.

As the tobacco category continues to change dramatically, convenience retailers who look to the future and focus on alternative products have the most potential to rise above their competition. The keys are choosing products wisely, pushing innovation and remaining smart about marketing and merchandising.

