



How to Start a Cigar Shop in Your State

DISCLAIMER: The information found below is for informational purposes only, we are not providing legal advice and, do not claim to be attorneys. All of the attached information can be used to guide a new retail tobacconist but, we heavily suggest you seek the advice of counsel prior to and during the process.

STEP 1: RESEARCH AND BUSINESS PLAN

Know Cigars

One of the most important parts of owning and operating a cigar shop in particular is to make sure you understand the products you are selling. There is a term used in law that explains certain industries and the standard customer it is called the '*sophistication of the consumer*'. When it comes to cigars, the standard consumer knows quite a bit about cigars, what they like and the terminology associated with the products. We suggest that any potential business owner makes sure that they are familiar with the products they will be selling as well as all of the terminology within the industry. You will be there to help guide cigar smokers and educate them on the products when they have questions.

Employees

In the same thread as knowing quite a bit about cigars you want to make sure, if you do plan to hire employees that they understand the products that they are selling. This may be difficult but, it is important to seek out candidates who will enjoy the work while also being able to provide guidance to the consumers. There are several processes that must be followed when hiring employees, be sure to do research into your states specifications and associated tax that must be paid when operating a business with employees.

A Local Guide

One of the more expensive parts of opening a business is the legal costs. These can range from ~\$100 an hour to upwards of \$500 an hour (plus a retainer in some cases) depending on the attorney and the region. But, even with the relatively high cost, a

legal advisor for your business can ease a lot of the hard situations that a fledgling business may face. An attorney that represents your business can usually help you with your startup in several integral ways such as: tax strategy, incorporation, liability management, insurances, permits, regulation compliance, trademarks, inspectors, and financial services. An attorney can help you build up your business and will know many ways to help you make more of a profit. One last point on attorneys and your business, in the US all lawyers must be fiduciaries, this means they legally must have your best financial interests in mind while giving you advice. This means that you can trust the attorney when they give you advice on how to operate your business. We heavily suggest when starting a business to speak with an attorney to guide you through the sometimes difficult process.

Business Plan

A detailed business plan has been attached to the end of this guide. It is imperative to have a detailed business plan when starting any business but, is especially important to retail tobacconists because of many factors. These factors include, legal complexities, competition, tough markets to break into, and profit margins. A detailed business plan will also ensure that all business partners know their role and are on the same page for the operations and all of the costs associated. We encourage anyone who is considering starting a retail tobacconist location to go through the attached business plan outline and fill it out. This will allow the future potential business owner to determine what they may need help on or, where to start.

Startup costs

The majority of the expenditures one will face while starting a cigar shop include real-estate, inventory purchasing, the in-store humidor, furnishings, branding and legal expenses. These associated costs can be daunting but, depending on the state you reside in and your business plan, these costs can be manageable. Many small businesses require help from either investors, small business loans or both. These options allow for more cash and resources to be available for the business which can really help early on. Determining the exact cost of entry to start a retail tobacconist location varies widely but ReferenceForBusinesses.com gave a rough number of \$93,000 plus an operating cost of around \$19,000 a month. This is a very rough estimate with assumptions that will not be applicable for all businesses. Every aspect of starting a business will change the capital needed to open and operate.

Know Your Market

When formulating your business plan, it is important to focus on a few key points. First, you must determine how you will fit into the local marketplace. Consider other businesses that will affect your growth or sales, as an example, if you are planning to open a store which sells cigars, and pipe tobacco make sure that there are no other

similar stores in your direct vicinity. There is the other major competition that many retail locations must consider and that is online shops. These online shops may be able to offer lower prices due to the fact that they do not have as much overhead as retail locations and, that they have the benefit of scaling on their side. When competing with the online retailers a business owner should consider their pricing when determining the price to the consumer. And, focus on what the online shops cannot do, be a resource to your customers. Help your customers find their new favorite cigar, answer questions and be helpful. This is where retail tobacconists will always beat out the online stores.

Next, you need to do a bit of market research. This part can be very tough but, you want to make sure that once you open that you will have customers. The old adage or 'build it and they will come' may be true in some communities but not suitable in others. You want to find a region that does not have retail tobacconists close while also having customers to come into the store. This can be a difficult task but, there are resources for you to consider. Doing a market survey of the region to determine where people purchase their premium tobacco, how far people are driving to their closest shop, and the costs at those shops. All of those factors can determine the region you may want to focus on. Another helpful tip is once you determine the region you want to set up shop, visit all of the other tobacconists in the area to see where you fit into the market.

STEP 2: HOW TO FORM THE LLC

If You Have an Attorney

This step will be very easy for those of you who plan to hire an attorney to aid you in the startup process. The attorney will ask you questions such as the address you plan to incorporate at, business name, managers, partners, statutory agent (Most likely your attorney) and depending on your state your tax information as the owner (as well as any other owners). With all of this information the attorney will be able to form the business in the way you would like done as well as get you a federal tax ID for your business. Once all of this is in place, the business can continue the process of getting ready to operate.

If You Do Not Have Legal Counsel

If you do not have legal counsel, not to worry there, are just some extra steps you must complete. Go to your state's website that handles business formulation. On the website they will ask you a series of questions as well as have you fill out differing amounts of paperwork depending on where you live and where you are incorporating. Next is to get your Employee Identification Number (Business Tax ID). This can be done on the IRS's website, where you will fill out the application and answer a series of questions that will aid in the review process.

STEP 3: RELATIONSHIP BUILDING AND INVENTORY

A very important aspect of operating a cigar shop is determining which products to carry in your store. There are several ways to determine which products will offer you the most sales but, we can help you with that. We encourage any new cigar shop owner to reach out to The Premium Cigar Association for help in how to fill the shelves of your business. We have the relationships that will be helpful to you.

Next plays into knowing your market when filling the shelves. It is important to consider who your customers will most likely be, and tailor your inventory to fit your market. An example of this would be if, your business is in a location that will have seasoned smokers coming in to shop perhaps you would carry different products then if you were to have your business in a college town where many of your consumers may only buy a few products a year. This is important to determine so you can start building your brand up while also meeting your market where they are.

For further relationship building opportunities, The Premium Cigar Association offers a unique chance to co-mingle with other retail members and industry leaders at our annual trade show. At this event our retail members will have the chance to speak with some of the biggest names in cigars while also getting exclusive deals on orders for your retail location. This event has led to many retail shops having close relationships with manufacturers, distributors and other retail tobacconists. Going to this event is the best way to take your growing business to the next level.

STEP 4: LEGAL PRESERVATION (TRADEMARKS, INSURANCE ETC.)

An important aspect of owning and operating a business is to protect it. There are several ways you ought to protect your business to ensure it will operate to the highest degree. First, make sure you meet the mandatory minimum requirements by your state for insurance your business must have. Most of these insurances will be to help your business if there is an incident and someone sues. Think of a situation such as someone slipping, falling and making a claim against your business. Most states require you to have insurance to cover your business in case this kind of situation arises.

Next is the protection of your intellectual property. This includes the name of your business, the logo and any merchandise that has your branding on it. You want to make sure that you place these protections early on to ensure you are covered for when your business grows. As stated above, we highly suggest that you speak with a small business attorney to help guide you through this confusing process.

STEP 5: FINANCIAL REQUIREMENTS

Banking Requirements

Your business will be required to have a bank account so, all the money you get through sales or loans will have a trackable place to be. Our biggest suggestion when choosing a bank to use for your business is to look into that bank's ability to help small businesses. There may be a local bank that is the right fit for you, just make sure they

have financial advisors on staff as well as access to small business loans that will be helpful to you.

Understanding Your Profits

Coming down to it, you are mostly starting a business for the same reason others are, to make money. We understand that but, with a competitive market like cigars it can be hard to understand where the profits are coming from and understanding the profit margins. These factors will change from business to business and, for that reason we suggest that you seek out the advice of a fiduciary to help you understand how much you can make from this venture, how to raise money, and what amount you should keep in the business.

STEP 6: REAL-ESTATE

Real estate will most likely be one of the most important decisions you make for your startup. This process can get confusing so, we suggest that you seek the guidance of either a real estate agent or an attorney. Choosing a storefront that meets all of your needs will be imperative to a successful business venture. You want to make sure that you will have the ability to operate the business you would like to while renting, if you choose to rent. Speak with the owner of the property and be forward about your intentions to ensure you are both on the same page. There may be property owners that do not want you to construct a humidor on the premises or, will not allow a smoke lounge in the building or, will not allow smoking outside of the business. These are all factors that will have to be discussed before a lease is presented.

The type of lease will also affect how your business will be able to operate. Under some leases you may only have certain rights to change the interior of the store, or you may have the responsibility of certain fixtures in your business such as AC/heaters. Reading through the entire lease and receiving guidance from a professional is a must for navigating the different types of leases and the intricacies inside.

STEP 7: WHAT YOU NEED TO KNOW IN YOUR STATE

Now that you know how to start your business, there are further regulations, licenses and permits you may need depending on the state in which you are starting your cigar shop. Attached below is the list of all associated regulations and licenses that you must comply with to operate. If you have any questions, we at The Premium Cigar Association are here to help. Please reach out via our website, premiumcigars.org if you have any questions.

BUSINESS PLAN OUTLINE

1. Statement of Purpose
2. Description of the business
3. Sales plan
 - a. Your market
 - b. Advertisements
 - c. Presentation
4. Competition analysis
 - a. Price analysis
 - b. Other locations close to you
 - c. Consider online sales as competition (Price matching)
5. Operations and employee plan
 - a. Management
 - i. Cost/pay
 - b. Management structure
 - c. Employees needed
 - i. Cost/pay
 - d. Real estate
 - i. Cost
 - ii. Location(s)
 - e. Benefits or retirement plan
6. Ownership structure and voting members
 - a. Agree on annual meeting/quarterly meetings
 - b. Decide on financial obligations for owners
 - c. What role will the owners play day to day or big picture
 - d. Voting powers
7. Profit and financial analysis/ Financial plan

- a. Loans needed
 - b. Associated banks
 - c. Balance Sheet
 - d. Financial timeline (breakeven)
 - e. Capital on hand
 - f. Investor relations/finding investors
8. Insurances
- a. Determine all insurances needed
9. Legal cure
- a. Determine liability
 - b. Protect intellectual property
 - c. Legal preservation through proper licenses and permits
 - d. Decide if you would like an attorney on retainer for your business (Highly suggested if you do not have extensive business experience)
10. Two-year timeline for your business, as detailed as possible