CLEARDEMAND

EBOOK • 2026 EDITION

Pricing Tobacco

Improving performance in the most challenging c-store category

ClearDemand • August 2026

PRELUDE

The Importance of Tobacco

Still the category that drives return trips

If you price tobacco for a convenience chain, you already know the job is more complex than it is in other categories.

Cigarette volume falls a little further every year, while state and local rules change on schedules you cannot always plan around. Meanwhile, tobacco shoppers are more price sensitive than they have been in a decade, and they are economizing rather than quitting. To boot, the products on your backbar keep turning over, with pouches and other alternatives taking the space cigarettes held for decades.

Any one of those is manageable in a vacuum. All of them at once is a balancing act.

Tobacco pricing is complicated because a single shelf price must satisfy four parties at the same time, and none of them consults the others. At ClearDemand we call them the four bosses: regulation, the shopper, category goals and metrics, and tobacco companies.

We will walk through them one at a time, then close with four corresponding strategies for managing all four together.
But first, let's talk a little more about tobacco's importance.

Tobacco still brings people through your door, and larger shifts in shopper behavior are increasing the basket size of those trips.

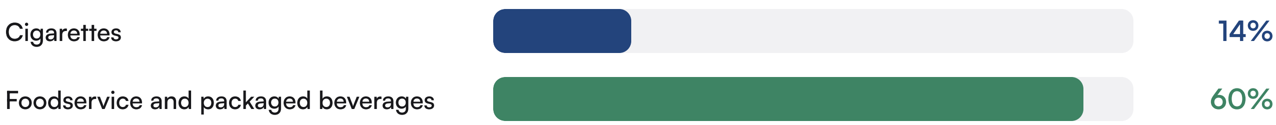
Cigarette dollar sales in convenience stores ran $50.7 billion over the most recent 52 weeks, down six tenths of a percent. Units fell 5.9% while price per unit rose 5.7%, which is the category in a nutshell: fewer packs, higher prices, roughly flat dollars. However, cigarettes still account for roughly 70% of total nicotine sales.

Overall, tobacco is still the top traffic driver to c-stores, with 50.6% of adult tobacco consumers stopping at a c-store daily against 34.4% for non-tobacco consumers, and increasingly those shoppers are using those trips to buy higher margin food and beverage products.

FIGURE 2

How thin is the cigarette margin next to the rest of the store?

Gross margin on cigarettes against foodservice and packaged beverages.



Source: Convenience Store News. Figures are approximate category averages.

That gap explains a great deal about where convenience retail is going. Stores are investing in prepared food, in beverage programs, and in everything that turns a stop into a destination. The line between convenience and grocery keeps blurring, and the profit inside the store is moving with it.

Tobacco's job in your store is the trip. Goldman Sachs framed it plainly: cigarettes have dropped in importance in dollar terms and carry much thinner margins, and the category remains important as a traffic driver. A shopper decides to stop for tobacco, and once inside they add the coffee, the energy drink, the sandwich. Those are the items earning close to 60%. Price the tobacco wrong and you lose the visit, along with every high-margin item that would have ridden along with it.

That is the case for taking tobacco pricing seriously, especially given the category's complexity today.

While the category is no longer the biggest thing in the store, it is still the thing that opens the door.

To navigate this environment effectively, you must master the four bosses.

Questions to ask as you read through

1. How do I capture additional sales and profit while the customer base shrinks?

2. How do I make sure I receive every buydown and rebate the tobacco companies offer?

3. How quickly do my cigarette and other tobacco prices adjust when buying behavior shifts?

4. Can I forecast sales, profit, and units across my full tobacco set?

5. How much of my team's week goes to changing tobacco prices?

6. Who holds the institutional knowledge that keeps my tobacco prices compliant?

SECTION 1

The Four Bosses

Ever-evolving and independent of one another

Boss 1: Regulation

State excise, minimum price laws, local ordinances, and now product registries. Your floor is set for you, and it moves.

Boss 2: The Shopper

Price sensitive, loyal to brand over store, and quick to leave when the price or the product is off.

Boss 3: Category Goals and Metrics

Your own plan, built on a product mix that is changing underneath it.

Boss 4: Tobacco Companies

Contracts, buydowns, and rebate programs that pay only when your price is exactly right.

Boss 1: Regulation

Consistently fluctuating state and local law

Along with alcohol and fuel, the price of tobacco is heavily influenced by government, and it is the category where the rules change most often.

Half the states and the District of Columbia impose a minimum price on cigarettes. Each one calculates it differently, starting from the manufacturer's list price and adding taxes, fees, and a presumed cost of doing business. The formula is public, it differs everywhere, and changes on a schedule the state sets rather than one you control.

Minnesota is one example among many, and it shows the shape of the pricing challenge.

FIGURE 3

How one state sets a legal price floor

Minnesota, one brand, one carton

	Manufacturer's list price	Base
+	Cigarette stamp fee and sales tax	$38.80
+	Non-settlement fee, where applicable	$5.00
+	Wholesale cost of doing business	$3.26
=	**Wholesale carton price**	Subtotal
+	**Retail cost of doing business, giving the legal floor**	8%

Source: Minnesota Department of Commerce, 2026 schedule.

That produces one legal floor, for one brand, in one state. Minnesota resets its sales tax component every January 1, so the arithmetic changes annually. Every other state you operate in runs its own version, on its own calendar.

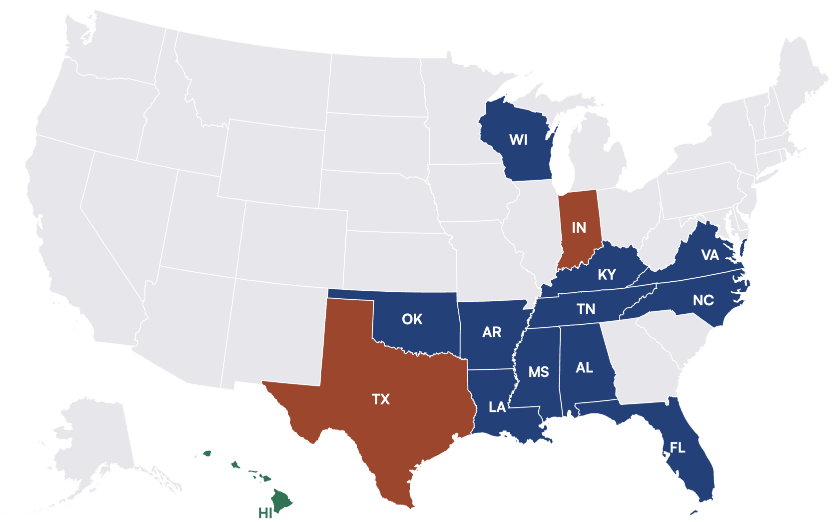
Local government adds a layer on top of that. Minneapolis set a minimum retail price of $15 per pack, prohibited price discounts and coupons on tobacco products outright, and later set a $25 minimum on e-cigarettes. In that city a manufacturer-funded discount cannot legally reach the shelf, which means a national program you are enrolled in is unusable across a specific set of your stores.

State vape registries are the newest layer, and they are recent enough that most retailers' pricing rules were built before they existed.

FIGURE 4

Which states require a vape to be on a government list before you can sell it?

Fourteen states run a registry. A product has to be on the list to be sold legally, and the states do not agree on what qualifies.



Sale requires FDA authorization
Restricted by country of manufacture
Disposables banned outright

Source: Public Health Law Center. Roughly 45 vapor products hold the FDA authorization these registries require.

One finding pulls this section into the next. Deep discount cigarette growth correlates strongly with high state excise taxes, and the West Coast and Northeast are declining faster than the Southwest and Midwest because of higher taxes and tighter rules. In high-tax markets, shoppers will even cross state lines to buy. Regulation sets the floor, and it materially moves your customers.

Boss 2: The Shopper

Price sensitive and more loyal to brand than store

That daily shopper is the most valuable and the most sensitive customer you have, because they see your price several times a week.

Higher prices have pushed the same customer to fewer sticks per day, to packs instead of cartons, and down a price tier rather than out of the category. They are not quitting. They are managing a budget.

Cigarettes sell in four price tiers: **premium**, **branded discount**, **discount**, and **deep discount**. Trading down means moving one rung down that ladder, and it is where most of the category's movement is happening.

The trade-down is broad. Nearly three-quarters of retailers surveyed across roughly 46,000 convenience locations reported deep discount cigarettes gaining share.

What that shopper is unlikely to do is accept a different brand. They are much more likely to change stores.

Read those two behaviors together and you have the shape of the risk. Your shopper will accept a lower tier, and they are unlikely to accept a substitute brand. Price the set wrong and they trade down inside your store. Stock the set wrong and they drive to somebody else's.

FIGURE 5

Will a tobacco shopper switch brand, or switch store?

Among adult tobacco consumers 21 and over. The two behaviors pull in opposite directions.

36%

would go to a different store if their preferred brand were out of stock

4 in 10

always buy the exact same brand, every time

Source: Convenience Store News, The Backbar Blueprint.

Poly-use complicates it further. A customer who buys cigarettes on Monday and pouches on Thursday responds to promotions in both categories, and pricing either one in isolation misreads what is happening to the basket.

Your prices are the core message this shopper reads several times a week. What do you want them to say?

Boss 3: Category Goals and Metrics

The shift that is driving a changing product mix and price

Boss 3 is your own tobacco category plan: the margin targets you commit to, the metrics you report against, and the space you allocate. It is the only boss you control, and because nothing forces you to change it, it is often the last one to move. Ask retailers what they expect this year and the picture is unambiguous.

FIGURE 6

What do retailers expect from tobacco in 2026?

Cigarettes against other tobacco products. These are stated retailer expectations, not measured results.

CIGARETTES

61% expect volume to fall this year, an 18-point jump from a year ago

44% expect dollar sales to decline

OTHER TOBACCO PRODUCTS

48% expect volume growth

45% plan to add OTP SKUs

38% plan to give the category more square footage

Source: Convenience Store News Forecast Study, 2026. Figures reflect retailer expectations rather than measured results.

Those numbers are plans, and retailers are purposefully rebuilding the backbar.

The financial result of that shift has already landed. Other tobacco products passed cigarettes on gross profit per store per month for the first time on record, in 2025.

> **Other tobacco products passed cigarettes on gross profit per store, per month.**
>
> FIRST TIME ON RECORD
>
> **2025**

Now set that against what your pricing rules were built to do. State minimum formulas, penny profit bands, brand parity floors, and pack-to-carton ratios all exist to solve a cigarette problem. Pouches and other alternatives arrive with their own tax treatment, their own state rules, and no equivalent rule set waiting for them.

A tobacco plan built when cigarettes carried the category's profit will keep protecting cigarette margin, keep measuring cigarette compliance, and keep spending the pricing team's hours on the cigarette set. When the mix shifts underneath that plan, the plan must change, or the P&L reports the gap the following quarter.

Boss 4: Tobacco Companies

Contracts, buydowns, and money you must earn twice

Manufacturers spend most of their promotional money inside your store, and they route it through the price you set.

FIGURE 7

Where does cigarette promotional spending actually go?

Total US cigarette advertising and promotion, and the share paid to retailers as price discounts.

TOTAL ADVERTISING AND PROMOTION

$8.01B

PAID TO RETAILER PRICE DISCOUNTS

$5.74B

71.7%

Nearly three quarters of everything the category spends is routed through the price you set, and none of it reaches you unless that price is right.

Source: Federal Trade Commission, Cigarette Report for 2022.

That is the part worth sitting with. You earn the margin once by pricing the item. You earn it a second time by proving you priced it exactly as the contract required.

Moreover, the requirements keep getting harder, and they differ from one manufacturer to the next.

Altria runs the most structured of them. Its Digital Trade Program sorts participating retailers into four tiers, and each tier unlocks higher stacked rebates in exchange for more technical capability: automated scan data at Tier 1, age validation technology at Tier 2, electronic age and identity verification at Tier 3, and loyalty segmentation at Tier 4. The terms now reach past pricing and into the register itself.

Reynolds and ITG Brands work differently. Reynolds focuses on volume-based rebates, multipack discounts, and validation-backed buydowns handled through data processors. ITG relies on flat data compliance and basic multipack functionality. Neither uses a tiered structure, which leaves you with three manufacturers, three sets of terms, three calendars, and one shelf price that has to satisfy all of them.

The pace has picked up as well. Major manufacturers moved from two price increases a year to three or four.

Loyalty-funded multipacks add another layer, because the discount attaches to a customer identity rather than to a product. The same item carries a different funded price depending on who is standing at the register.

Here is how the money goes missing

1. An allowance moves mid-cycle.
2. Say a loyalty buydown set at $2.60 becomes $2.80. A store still ringing $2.60 no longer matches the current program terms.
3. Nothing breaks. The register accepts the sale, the customer pays, and the rebate for that transaction pays at zero.
4. No exception report appears, because from the system's point of view nothing went wrong.
5. A month later somebody reconciles the statement, finds a number smaller than it should have been, and has no account of which items caused it.

> "My price was off by one penny, and I lost a $100,000 buydown."
>
> TOBACCO PRICING MANAGER, TOP 20 CONVENIENCE RETAILER

SECTION 2

Strategies for Tobacco Pricing

How to navigate the four bosses

Four steps. Each one answers a boss.

1

Simplify the pricing process

Answers Boss 3: Category Goals and Metrics

2

Achieve full rebate compliance

Answers Boss 4: Tobacco Companies

3

Forecast and optimize

Answers Boss 2: The Shopper

4

Localize prices

Answers Boss 1: Regulation

1. Simplify the pricing process

Answers Boss 3: Category Goals and Metrics

Remove the manual work, retire the spreadsheets, and put a rules engine between your strategy and your shelf. At minimum it must hold:

- Brand parity pricing
- Penny profit rules
- EDLP floors for deep discount prices
- Pack-to-carton and can-to-roll relationships
- Maximum non-promoted eligible price
- Federal and state regulations and minimums

2. Achieve full rebate compliance

Answers Boss 4: Tobacco Companies

Manufacturer funding must arrive as data rather than as a PDF, subtract from cost automatically, and surface its own mid-cycle changes. The system should support every buydown structure you have signed for, blended, balanced, reserve, and margin, along with purchase and sales-based allowances from multipack and loyalty programs.

3. Forecast and optimize

Answers Boss 2: The Shopper

Manufacturers use scan data to decide what to promote, and you need the same view. Price elasticity and market basket analysis show you where a cigarette price change moves the pouch beside it, and where a promotion is stealing from a product you already own.

4. Localize prices

Answers Boss 1: Regulation

The legal price and the right price are both local. Store-level elasticities and store-level compliance are the only way to hold both at once across a multi-state footprint.

CIGARETTE UNITS, LAST YEAR

–3.98%

None of this is theoretical. One 22-store chain in central New York saw cigarette units fall 3.98% last year and still expects the category to grow this year, because the work sat in the mix and the price rather than the volume.

Key Takeaways and Next Steps

What to take into your next pricing strategy session

Go back to the six questions you started with.

1. Can you capture additional sales and profit while the customer base shrinks?
2. Are you receiving every buydown and rebate the tobacco companies offer?
3. How quickly do your prices adjust when buying behavior shifts?
4. Can you forecast sales, profit, and units across the full tobacco set?
5. How much of your team's week goes to changing tobacco prices?
6. Who holds the institutional knowledge that keeps your prices compliant?

If you can answer all six without opening a spreadsheet, your tobacco pricing is in better shape than most operations we see.

If you cannot, the cause is usually structural. Four bosses cannot be governed from four systems. When competitive intelligence lives in one tool, base price in another, and promotions in a third, the seams between them are where compliance slips and funded dollars go unclaimed.

Competitive intelligence, price, and promotion running on a unified platform is what makes a category this complicated manageable at the pace the states and the manufacturers set.

Ready to take the four bosses on?

Talk to a ClearDemand expert

Bring us your hardest tobacco pricing problem. We will walk your state minimums, your buydown programs, and the places compliance is quietly leaking, and show you what one connected system does with all three. Request a demo.

Take the Pricing Maturity Assessment

Ten minutes gives you a read on where your pricing operation stands across the whole business, the gaps holding it back, and the specific next moves that close them. Take the assessment.

CLEARDEMAND

cleardemand.com

About ClearDemand

ClearDemand is the only platform that unifies competitive intelligence, price optimization, and promotion optimization in one system, purpose-built for grocery and convenience retail. We help regional operators put pricing, merchandising, and category teams on one plan, grow gross margin while holding KVI pricing compliance above 99%, and run pricing at national-chain scale without adding headcount. Recognized as an IDC MarketScape Leader in Retail Price Optimization (2025 to 2026), ClearDemand serves 30+ grocery banners.

AUTHOR

Matt Tansey

VP OF MARKETING

Matt Tansey leads marketing and market research at ClearDemand. This guide was built from NACS State of the Industry data, state minimum-price filings, FTC cigarette reporting, and manufacturer trade program documentation.

PUBLICATION

August 2026

Figures are current as of publication, with their source years stated inline. Every source is listed on the following page. The state registry count and the federal nicotine standard are the two items most likely to move between refreshes.

CLEARDEMAND

cleardemand.com

Sources

01 NACS, State of the Industry Report

02 Convenience Store News, Cigarette Category Shifts as Smokers Make Tradeoff Decisions

03 Convenience Store News, The Backbar Blueprint

04 Cigarette Minimum Pricing by State

05 Minnesota Department of Commerce, cigarette minimum price schedule

06 Minneapolis City Council tobacco ordinance

07 Public Health Law Center, state e-cigarette registry map

08 Altria Digital Trade Program overview

09 Altria loyalty program mechanics

10 Tobacco scan data incentive programs

11 CSP Daily News, Downtrading and the illicit e-cigarette market

12 Federal Trade Commission, Cigarette Report for 2022

13 C-Store Dive, Value is vital for tobacco sales

14 CStore Decisions, Cigarette consumers shift to fourth-tier brands

15 NACS Magazine, In-Store Sales Drive Growth

CLEARDEMAND

cleardemand.com