

## Costco Is Quietly Removing Tobacco From Most of its Stores

03/14/16 - 02:42 PM EDT

By Brian Sozzi

The Marlboro man continues to be quietly run out of warehouse club giant **Costco** ([COST](#) - [Get Report](#)) .

According to Costco, it will continue to phase out tobacco SKUs (stock keeping units) this year. The company began reducing the presence of cigarettes in some of its U.S. locations about three or four years ago, according to a Costco spokesman, but had not widely publicized its plans.

It dropped a hint of its actions on a call with analysts about its most recent earnings, when it said sales of tobacco products fell by a "low double digit" percentage as Costco "continues to eliminate tobacco SKUs from various locations."

Said a Costco spokesman when asked why there has not been an announcement, "We don't do releases at Costco, they are a waste of money."



Execs have made it a special focus to pull tobacco products from Costco's business center warehouses (which sell products tailored to local businesses), reducing the potential of large customers such as local convenience stores to have items delivered.

The decision, says the spokesman, is mostly business-related. "Tobacco is a very low margin business, tends to have higher theft and is labor intensive in some cases (due to local municipality regulations) -- further, we felt we could better use the space to merchandise other items," he said.

Costco doesn't believe tobacco will be pulled from all its warehouses "anytime soon," however. Of 488 U.S. Costco locations, 189 still sell tobacco.

Costco estimates that tobacco sales as a percentage of its total business is about a low-single digit percentage.

The company joins another big-name retailer that's recently reduced or eliminated the sale of tobacco products due to health concerns, as well as to free up space to sell higher-margin products.

On Oct. 1, 2014, **CVS Health** ([CVS - Get Report](#)) officially pulled all tobacco products from its stores after announcing the move earlier that February. "Ending the sale of cigarettes and tobacco products at CVS/pharmacy is the right thing for us to do for our customers and our company to help people on their path to better health," said Larry Merlo, president and CEO of CVS Health, said in a statement at the time. "Put simply, the sale of tobacco products is inconsistent with our purpose."

Costco's confirmation that it's phasing out tobacco products deals another blow to the beleaguered industry.

On Mar. 10, California state Senate passed legislation that would regulate electronic cigarettes and raise the smoking age to 21 from 18. The legislation is awaiting approval from California governor Jerry Brown. Ironically, about 31% of Costco's annual sales come from California.

Costco is a holding in Jim Cramer's [Action Alerts PLUS Charitable Trust Portfolio](#).

"CVS got rid of tobacco and it sure didn't hurt. But **Dollar General** ([DG - Get Report](#)) took a lot of share when it did. Costco doesn't sell anything it can't make money on so I don't question their decision but this could be another win for DG," said Cramer.

<http://www.thestreet.com/story/13494053/1/costco-is-quietly-removing-tobacco-from-most-of-its-stores.html>