



Glen Stubbe, Star Tribune

Perfect Ash owner Diana Petrich lit up a cigar. Behind her is Todd Brimer.

Premium cigar store flourishes in Lilydale despite high taxes, online competitors and the recession.

By **TODD NELSON**, Special to the Star Tribune

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Sometimes a cigar shop is just a cigar shop. With apologies to Sigmund Freud, however, that's hardly the case at Perfect Ash, a premium cigar and tobacco shop in Lilydale.

Perfect Ash owner Diana Petrich has created both an entrepreneurial refuge for herself and an oasis

where patrons can share in their often-frowned-upon indulgence.

Petrich has invested and innovated to turn around what had been a foundering, musty cigar and pipe shop in the former Diamond Jim's Club entertainment complex, now known as River Bluff Center. She spent \$40,000 remaking the shop, close to half of that on the new cedar-lined humidor alone. Renovations to the club space came in at \$80,000.

Last year's \$525,000 in sales represented a 250 percent increase since 2004, when Petrich used a home-equity loan to buy the shop after leaving 3M, where she had worked for 23 years. This year's revenue at Perfect Ash, which has two employees besides Petrich, is projected to reach \$565,000.

With the 2007 addition of the adjoining Lilydale Social Club, a private, members-only "bottle club," Perfect Ash is the only indoor establishment in the state, except for tribal casinos, where members can smoke cigars or pipes and drink a scotch or other alcoholic beverage. Officially, Petrich manages the club, which her husband, 3M chemist Mike Petrich, founded and owns.

Business has grown despite several obstacles. For example, she's had to contend with wholesale cigar taxes that doubled to 70 percent in 2005, a statewide smoking ban that took effect in 2007 and continuing competition from lower-tax neighboring states and tax-free online retailers. And then, of course, there was the recession.

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Petrich offers this example to illustrate the varying tax burdens: When she buys a \$10 cigar, she owes the state \$7 on it. In Wisconsin, the tax on the same cigar is capped at 50 cents. "Before I even sell that cigar, I have \$17 into that cigar and I haven't put anything, no profit, on it."

'Retired' from 3M

Petrich slyly hinted at her entrepreneurial future while still at 3M, where she was an information technology systems analyst. A framed statement on her office wall there said: "I will never retire from 3M."

"My managers used to walk in and say, 'You must really like working here,' and I just laughed," Petrich said. "What it really meant was I will never be here long enough to retire from 3M. Because I always knew that I had more to offer and that I wanted to do something on my own."

Petrich, who began enjoying an occasional cigar herself after she got into the business, was a leader in lobbying to exempt cigar stores from Minnesota's smoking ban, earning her an award from the International Premium Cigar and Pipe Retailers Association.

"They were going to make us nonsmoking," Petrich said. "It would be like going to a car dealership and not being able to drive a car."

Chris McCalla, legislative director with the International Premium Cigar and Pipe Retailers

Association, said higher-end shops like Perfect Ash have had to rely on private, cigar-friendly clubs to attract and keep loyal customers.

"Cigar shops have become destination locations across the United States, like barber shops or general stores," McCalla said. "She's quite a woman and that's quite a business. It's amazing how any retailer in Minnesota, or the other high-tax states, manage to keep their businesses running."

Perfect Ash patron and club member John Salisbury said the social experience that Petrich has created is what keeps him coming back.

"It reminds me of 'Cheers,' " said Salisbury, a retired stained-glass artist who made a number of pieces for the club. "You have certain characters always at the same place on a bar stool. There's such a diverse cross section of people: diesel mechanics, lawyers, entrepreneurs, retired guys and a great ethnic mix. Everybody gets along because we share a certain commonality, the love of the cigar, that transcends who you are."

St. Paul attorney Ryan Kaess, another longtime patron and club member, said a good amount of business and networking gets done at the club.

"Diana's created a place where guys want to go," Kaess said, while noting that the share of women customers also appears to be growing. "She knows what she's doing, she has a vision and that vision works. It's a unique business she's created and I'm not sure anybody else could have done it but her."

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The expert says:

Scott Taylor, professor of small business management at MnSCU's South Central College in Mankato, praised Diana Petrich for building her business model on a relationship-rich experience.

"Other retailers would die for the built-in connections you've been able to establish," said Taylor, also an instructor in a new Small Business Management Core webinar series (www.sbmprogram.com).

Petrich could find hidden opportunities to expand her business, Taylor said, by courting new women customers and hosting tasting events, perhaps with other premium product businesses.

Taylor praised the look and feel of the Perfect Ash website but said he believes it's holding her back. The Lilydale Social Club, for example, is underplayed, and that section would benefit from a description of amenities and the social advantages it offers. Overall, he said, the tone of the writing of the site should match that of a shop that calls itself Perfect Ash.

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