

INDUSTRY PROFILE

# Marijuana Stores

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## Industry Overview

Interest in the marijuana industry is soaring due to increased public acceptance and reduced regulation in US states as well as in countries around the world. The multibillion-dollar global industry is experiencing strong growth, though the newness of the market and variance in regulation across geographies creates major barriers to entry. The industry includes medical marijuana dispensaries and stores that sell marijuana for recreational use.

Investors and entrepreneurs are confident of the market's potential, but determining which business approaches are most viable is challenging. Legal and financial risk parameters are difficult to define, and industry data and analysis are minimal. Regardless, increased capital is flowing steadily into the industry. Startup resources including finance, logistics, software, and consulting are materializing rapidly.

Estimates of the number of marijuana-related businesses in the US range from about 13,000 to 18,000, according to Statista. No major companies dominate the industry. Global legal cannabis sales grew from \$10.2 billion in 2018 to \$14.9 billion in 2019 and is expected to hit \$42.7 billion in 2024, according to a 2019 report from ArcView Group and BDS Analytics. Marijuana was legal for medical use in 33 states and for recreational use in 14 states as of September 2019. The global market is growing rapidly, with estimated revenue of \$10.9 billion in 2018.

## Competitive Landscape

Demand is driven by demographics, public awareness of the marijuana plant's medicinal properties, and the desire for natural health treatments. Following decades of prohibition in the US, marijuana has gained greater public acceptance. **Baby boomers with health conditions** are driving medical marijuana sales, while recreational users include younger generations seeking a substitute to alcohol or other euphoric substances. Marijuana faces ongoing opposition due to **health and addiction concerns**, and the pros and cons of marijuana use remain widely debated.

### Paths to Entry

- Financial Resources
- Supply & Logistics Connections
- IT Systems for Accounting, Inventory, Security

### Barriers to Entry

- Wide Variance in Regulation
- Public Opinion
- Political Climate

### US Growth Markets

- Recreational: California, Colorado, Nevada, Oregon, Washington
- Medical: Arizona, Connecticut, Florida, Illinois, Maryland, Michigan, Minnesota, New Mexico, New York State, Ohio

### International Growth Markets

- North America: Canada, Jamaica
- Latin America: Uruguay, Chile, Colombia

- Europe: Czech Republic, Italy, Spain, Portugal, Germany

## Products, Operations & Technology

Retail marijuana stores sell cannabis products to adults primarily for medical use (about 70% of industry revenue), though recreational shops are increasing in number, according to ArcView Group. Products include different grades of dried plants and a variety of edibles, beverages, oils, tinctures, **sublingual sprays**, and topical products, as well as smoking or **vaporization paraphernalia**. Companies in this cash industry buy from marijuana growers and wholesalers, edible product manufacturers, and providers of real estate, security systems, and other support services.

The US marijuana store industry uses three primary operating structures:

- **Dispensary:** Retail outlet catering to medical patients, recreational users, or both. Many are mom-and-pop shops, but some have multiple retail locations. Medical dispensaries require physician referrals (similar to a prescription). In recreational (adult-use) states, laws are similar to those governing alcohol sales - stores sell to adults over 21 and have restricted hours.
- **Grower-Retailer:** Operators that grow and/or manufacture their own supplies. Companies may operate a network of retail and wholesale outlets in a given state, but are prohibited from interstate commerce. In some states, retail stores and cultivation sites must be stand-alone businesses.
- **Caregiver:** Dispensary operators are often called caregivers in medical use markets. Caregivers may have per-patient limits on inventory and referred patients are usually listed in patient registries or ID card programs. In some states, stores are not permitted and caregivers must operate out of their homes.

### Companies to Watch

No major companies dominate the industry, but some entities are beginning to establish a presence in multiple cities, states, or countries.

- **Pharmacann** - The vertically integrated cannabis firm has growing and retail operations in Illinois, New York, and Massachusetts. Pharmacann also has growth plans in Ohio, Michigan, and Pennsylvania.
- **Aphria Inc.** - The company is licensed to produce and sell marijuana in Canada. It also imports, produces, or sells cannabis in foreign markets including Germany, Italy, Lesotho, Malta, Australia, and the US.
- **Harborside Health Center** -- The largest dispensary in California, with locations in Oakland and San Jose. The firm generates \$35 million in annual sales, according to *Fortune*.
- **Tikun Olam** -- The largest supplier of medical marijuana in Israel and a leader in medical marijuana research. Tikun is known for top quality cannabis grades worldwide, and has joint ventures in Canada and the US.

### Technology

- **Security Systems** -- Marijuana stores often have large cash and inventory repositories on premises. Security systems must be sophisticated with high-tech features to prevent and detect thefts. In the US, states often dictate security features such as motion detectors, cameras, and perimeter alarms.
- **IT Systems** -- Dispensaries need basic **point-of-sale** transactional equipment. Stores may also use inventory management, logistics management, and **regulatory compliance** tracking software, as well as programs that track patient outcomes and consumer engagement.
- **Emerging Technologies** -- Dispensaries can connect with suppliers and other partners via **online platforms**. Ancillary business tools include telehealth portals, where patients can gain physician recommendations via video physician consultations, and **mobile applications** that locate stores and schedule home marijuana deliveries. Companies that grow or manufacture products may use advanced hydroponic or production automation equipment.

## Sales & Marketing

Cannabis products are marketed to **medical patients** for epilepsy control, pain relief, appetite stimulation, and control of nausea and vomiting. Medical studies have indicated that marijuana may be effective in relieving symptoms of HIV/AIDS, glaucoma, multiple sclerosis, and cancer. **Psychological effects** including anxiety reduction, euphoria, and sedation can positively or negatively influence therapeutic value, according to a study from the Institute of Medicine.

In US medical use states, sales are often limited to certain types of cannabis products for **specific patient groups**. Smoking marijuana is considered a crude THC delivery system that also delivers harmful substances, and is banned in some medical use markets. States including Tennessee and Texas only allow use of oils for specific medical purposes, primarily epilepsy. The oils are high in CBD (cannabidiol) and low in THC and do not produce a

"high" sensation.

Dispensaries in US states that allow recreational use depend on newspaper and billboard advertising, as well as event sponsorships and social media campaigns to attract consumers. **Mass-media advertising** is restricted; companies must ensure that the audience is local and consists of adults only. Store location is important in attracting new clients and competing effectively against any nearby competitors.

Establishing national brands of marijuana is challenging due to interstate commerce laws. To operate in multiple states, companies may set up partnerships or affiliates in each state in a model similar to **licensing**.

## Finance & Regulation

Marijuana stores typically need substantial **startup funds**. US marijuana companies are often backed by founders' savings and personal debt, but outside capital is becoming more widely available. A number of investor groups planned to allot between \$2 million and \$30 million to marijuana companies in 2018, according to a survey from Marijuana Business Daily.

Startup costs include real estate purchase or rental expenses and purchases of inventory, equipment, and support services. **Regulatory compliance** can be a major expense as laws change frequently, and states are setting increasingly large licensing fees. In the US, federal and state tax rates can create cash flow issues. Companies deal largely in cash because most federally regulated banks don't serve the industry due to the US government's classification of marijuana as an illegal drug.

### Cost of Business

- Startup expense: can exceed \$1 million
- Median annual operating cost: about \$600,000

Source: Marijuana Business Daily

### Regulation

#### Federal

The US federal Controlled Substances Act (CSA) classifies marijuana as a **Schedule I** substance. The CSA governs manufacture, distribution/trafficking, and possession of controlled substances and is enforced by the Drug Enforcement Administration (DEA). As a schedule I substance, marijuana can't be prescribed by physicians or covered by insurance plans. However, the CSA does not displace all state laws associated with controlled substances.

Federal laws impacting the cannabis industry are evolving. The administration has discouraged federal prosecution of medical marijuana distributors (since 2009), and the Department of Justice (DOJ) has deferred rights to challenge legalization laws in recreational use states based on state assurance of **strict industry regulation** (since 2013 under the Cole Memorandum). In 2014, Congress passed a spending bill amendment prohibiting the DOJ from using federal funds to go after state-legal medical cannabis and industrial hemp operations. In 2016 the DEA denied a petition to move marijuana from Schedule I to Schedule II status but permitted new entities to conduct research studies. New legislation is introduced frequently in Congress, including proposals to reschedule marijuana, ease restrictions on research, and reduce penalties for marijuana offenses. However, in 2018 the Trump administration rescinded the Cole Memorandum by issuing a new Marijuana Enforcement Memorandum allowing federal prosecutors to decide how to prioritize federal marijuana law enforcement.

Passage of the 2018 Farm Bill legalized domestic cultivation, production, and commercial development of hemp and hemp products (including CBD) and removed hemp from DEA purview, but the FDA still held the position that CBD should not be used in foods or supplements.

#### State/Local

Laws vary widely across US states, with different rules for who can grow, sell, or purchase marijuana. In states with retail markets, all dispensaries must apply for a **state operating license**. Some states and cities cap licensing approvals to limit the number of stores, and some medical use caregiver states do not permit retail storefronts. Cities and townships can issue laws (including dispensary bans) that counteract state legalization statutes. **Interstate commerce** is prohibited; products must be grown or manufactured in the state in which they're sold.

#### International

Outside the US, marijuana is legal or has been **decriminalized** in a number of places around the globe. Laws are in continuous flux, with new regulations ongoing in many nations. Countries with fully legal marijuana markets include Canada and Uruguay. Companies located in Canada, the Netherlands, the UK, and other nations have gained licenses to export marijuana to other countries. Canadian firm Tilray became the first Good Manufacturing Practice (GMP)-certified exporter in North America in 2016 and is shipping product to Australia, Europe, and Latin America.

## International Insights

### North America

**Canada** passed legislation to legalize recreational marijuana nationwide in June 2018, making it the largest nation and the first G-7 nation to legalize cannabis. Effective in mid-October 2018, the law allows authorized retailers to sell dried marijuana, oil, seeds, and plants; edibles and infused products will be introduced in October 2019. While the federal government sets possession limits and controls overlying cultivation, processing, packaging, and advertising rules, provinces are setting local guidelines including whether private dispensaries or government stores will sell the products. The Canadian recreational market will be worth an estimated \$6 billion annually, according to Marijuana Business Daily.

Medical marijuana has been legal nationwide in Canada for decades, but industry growth has prompted national and local governments to increase regulation of the industry. New equity investment opportunities were spurred by a 2014 law aiming to convert thousands of small-scale unlicensed growers into dozens of larger licensed growers that distribute mail-order prescriptions.

Though **Jamaica** is considered a mecca for marijuana use, the Caribbean island only recently decriminalized marijuana. The country is looking to create a legitimate commercial environment to replace the island's long-standing black market. The country passed medical marijuana laws and made possession of 2 ounces or less a ticketable offense in 2015, and it began licensing medical growers and retail businesses in 2017.

### Latin America

Several countries in Latin America are relaxing marijuana policies in response to legalization efforts in US states and after decades of the unsuccessful US-led "War on Drugs." Leaders are looking to diminish the violence long associated with drug trade and to relieve overburdened prison systems, according to the *New York Times*. **Uruguay** legalized its recreational marijuana market in 2013, and pharmacies began selling adult-use cannabis in mid-2017; home cultivation and marijuana clubs are also propelling adult use in the market.

Medical marijuana sales commenced in **Chile** in early 2017 through select hospitals and pharmacies. Cultivation, consumption, and import/export of marijuana for medical and research purposes was legalized in **Colombia** in 2015 and production operations are taking root with high interest from foreign investors. **Mexico, Argentina, Paraguay,** and **Peru** passed medical marijuana legislation in 2017. A limited medical framework has existed in **Brazil** since 2014. Though recreational sales remain illegal in much of the region, possession of small amounts has been decriminalized in a number of countries.

### Europe

**The Netherlands** is famous for the Amsterdam coffee shops that specialize in high-quality cannabis, but transporting or selling marijuana outside of designated smoking areas is prohibited. About 600 shops exist across the country, which is down from 10 years ago due to new cultivation and sales rules.

**Spain** has about 500 private cannabis clubs. **Portugal** has completely decriminalized marijuana possession, and the country passed new medical marijuana legislation in 2018. Possession of plants or small amounts of marijuana has been decriminalized in a number of European countries, including **Belgium** and **Estonia**. Demand for medical marijuana is booming in **Germany** after the country expanded its program in 2017. Countries including the **Czech Republic** and **Italy** allow medical marijuana, with Italy expanding its program in 2018. **Denmark** and **Greece** approved medical marijuana laws in 2016 and 2017, respectively, and **the UK** and **Malta** passed medical laws in 2018. **Russia** and the **Ukraine** allow possession, but not trafficking. **Israel** has established a sizable medical marijuana market and is the largest proponent of medical marijuana research. Other countries are reviewing laws to legalize marijuana use and sales.

### Asia/Pacific

Marijuana cultivation and sales for medical and research purposes was legalized nationwide in **Australia** in 2016; cultivation licenses were issued in 2017, and domestic production launched in 2018. Distribution is conducted through pharmacies, though implementation is moving slowly due to varying state laws on patient access. Some states in Australia have decriminalized recreational possession of small amounts of marijuana. Others still view possession as a punishable offense. As in the US, proponents of marijuana use are pushing for federal law changes. **New Zealand** is laying groundwork for a medical cannabis industry.

Elsewhere in the Asia/Pacific region, commercial marijuana operations are relatively sparse. **North Korea** and **Bangladesh** are among the most open marijuana markets, with no laws governing cultivation, use, or commerce. **Cambodian** residents are allowed to grow a limited number of plants. Possession in **Pakistan** is illegal but widely tolerated, and cultivation has been decriminalized. In **Nepal**, the use of marijuana had traditionally been accepted, but recreational use became illegal in the 1970s and is not as widely tolerated. **China** has some of the strictest punishments for possession, though two provinces legalized hemp farming in 2017. **Japan** is establishing hemp-based food product operations, and **Singapore** is investing heavily in medical cannabis research. **South Korea** and **Thailand** recently approved limited medical access programs.

## Regional Highlights

### More States Legalize Medical Use

Medical cannabis sales had been made legal as of July 2019 in 33 states plus Washington, DC; Puerto Rico; Guam; and the US Virgin Islands, including all of the US states and territories that have legalized recreational sales. These states are primarily located in the West and Northeast. Another 13 states allow cannabis oils for medical use.

Several caregiver state markets have expanded to allow the establishment of dispensaries; Hawaii accepted dispensary license applications for the first time in 2016, with the first few shops opening in August 2017. California is the oldest (1996) and largest market for medical marijuana sales.

In June and November 2018 Oklahoma, Utah, and Missouri became the most recent states to legalize medical marijuana sales. West Virginia passed legislation in April 2017, and Arkansas, Florida, and North Dakota passed legislation in November 2016.

### Number of Adult-Use States Rises

As of July 2019, 11 states and three territories had legalized recreational use of marijuana. **Colorado** and **Washington** have had active markets since January 2014 and July 2014, respectively. The number of recreational stores has grown to more than 500 in Colorado and 100 in Washington in 2018, according to High Times.

**Oregon** started legal retail recreational sales October 1, 2015. Some 200 of the state's 350 medical dispensaries applied for recreational sales licenses that year; as of early 2018, the state had more than 500 stores.

Medical use and personal possession of limited amounts have been legal in **Alaska** for years. The state passed recreational use laws in 2014 but struggled to establish guidelines for a commercial market. The state's first handful of dispensaries opened in October 2016; about 100 stores were operating in early 2018.

**Washington, DC**, legalized personal use in 2014, but retail operations are dependent on federal legislation.

**California, Maine, Massachusetts**, and **Nevada** voted to legalize recreational marijuana use in November 2016. Sales in Nevada launched in mid-2017; California's recreational dispensaries opened for business in January 2018. Massachusetts' first retail stores opened in late 2018, marking the first recreational stores to launch in the eastern US, while Maine's rollout was delayed.

**Vermont** passed recreational laws in January 2018, and adult possession became legal in July. However, retail sales and public consumption of marijuana remain illegal in the state. **Michigan** passed adult use legislation in November 2018, and **Illinois** passed recreational use laws in June 2019. Sales launched in Michigan in December 2019 and in Illinois in January 2020.

## Human Resources

The total number of full-time workers at marijuana dispensaries and stores, cultivation sites, infused product manufacturing sites, testing laboratories, and service businesses is between 120,000 and 160,000. Retail employees make up about one-third of the total.

Dispensary staff members need to be highly trained in product strain characteristics and regulatory policies. High-paying positions may include laboratory scientists, cash-business bookkeepers, and large-scale commercial cultivators. Other jobs require lower skill levels, such as agricultural laborers and bud trimmers.

### Executive Spotlight

Dispensaries are often single-site operations run by sole proprietors, but industry leaders with growth ambitions are increasingly common.

#### Steve DeAngelo:

- Founder of Harborside Health and co-founder of Steep Hill Labs (cannabis testing) and ArcView Group (investment and market research).
- Recognized by Fortune as one of the seven most powerful people in America's marijuana industry.

#### Michael and David Weisser:

- Owners of Rocky Mountain High, with eight dispensaries and four cultivation facilities in Colorado.
- Owners of Garden State Dispensary, one of the first and largest medical dispensaries in New Jersey.

#### Max Cohen:

- Owner of vertically integrated multi-state marijuana organization The Clinic, including four dispensaries in Colorado and two in Illinois.

- Cultivation and processing facilities are known for producing some of the highest-quality marijuana in the US.

## Call Prep Questions

### Conversation Starters

**What is the political climate in the company's operating region?**

In many countries, including the US, legislation to legalize marijuana at a national level has yet to garner majority support, according to Way of Leaf.

**How is opposition to the dispensary from area residents or businesses impacting the company?**

Citizens determine whether marijuana initiatives make it onto ballots and whether they pass or fail.

**How is the company dealing with the challenges of the dispensary licensing process?**

Each US state and international country has its own requirements for companies applying for a dispensary license, and processes can be lengthy and costly.

**What sources is the company using to build startup capital?**

Investor Interest?- A number of seed-fund investor groups have established operations geared toward new cannabis businesses and cannabis-serving businesses.

**How could the company take advantage of demand for edible products?**

The infused product market is growing exponentially.

**How could the company attract more first-time customers?**

Customers who have purchased marijuana for medical or recreational use on the black market would likely prefer to buy legally, if the product is easy to access and affordably priced.

### Quarterly Industry Update

**How will the company benefit from federal marijuana legalization?**

In December 2020, the US House of Representatives passed the Marijuana Opportunity Reinvestment and Expungement (MORE) Act that would legalize marijuana at the federal level.

## Quarterly Industry Update

### 1.25.2021

**Opportunity: Federal Marijuana Legalization** - In December 2020, the US House of Representatives passed the Marijuana Opportunity Reinvestment and Expungement (MORE) Act that would legalize marijuana at the federal level. This proposed bill, which will go through the Senate this year, aims to decriminalize cannabis by removing it from the list of federally controlled substances. It would also cancel low-level federal marijuana-related convictions, arrests, or criminal records and impose a 5% excise tax on the sale of marijuana. The collected tax would be used to support communities that are most adversely affected by the 'war on drugs.' Supporters of the bill believe that federal marijuana legalization is long overdue considering that medical cannabis is now legal in 36 states and in the District of Columbia, while recreational cannabis for adults is now legal in 15 states and in the District of Columbia. They also assert that such legalization would end the injustice against minorities who, based on statistics, are more than three times more likely to be arrested for marijuana possession and receive harsher punishment for it. The potential benefits of legalizing marijuana at the federal level include reduced cost of investigation and prosecution, collection of taxes from marijuana-related legitimate businesses, and support of such businesses by allowing more tax deductions. However, opponents are concerned that completely legalizing marijuana might lead to increased road accidents due to driving under the influence of marijuana.

**Industry Impact** - If the proposed MORE Act is passed by the Senate, more stores will likely be encouraged to sell marijuana especially when the provision that allows the use of marijuana excise tax to support businesses is approved. Legalizing marijuana at the federal level will also allow marijuana stores to deduct business expenses other than the cost of goods from their taxable income.

## 12.7.2020

**Opportunity: UN's Historic Vote on Rescheduling Cannabis** - The landmark vote in Vienna to reschedule cannabis is likely to have a major impact on the global medical cannabis industry, ranging from regulatory oversight to scientific research into the plant and its use as a medicine. The United Nations Commission on Narcotic Drugs (CND) has acceded the World Health Organization (WHO) recommendation to omit cannabis and cannabis resin from Schedule IV of the 1961 Single Convention on Narcotic Drugs, according to Marijuana Business Daily. The move is a giant step toward the normalization of cannabis not just in medicine but also encourages overall acceptance in societies generally.

**Industry Impact** - The medical cannabis wave has accelerated all across the world in recent years, but this move by the UN will give it another boost.

## 11.9.2020

**Trend: Cannabis Vending Machines** - Marijuana stores are expanding their customer base through contactless innovations such as in-dispensary vending machines. Such improvement adds to overall operations expenditures where costs of products can hit about \$16,000, according to Marijuana Business Daily. Ideally, existing machines in some states in the US can hold about 600 to 700 products with up to 1,500 customers daily. However, stores may enhance customer experience by reducing wait time but also encounter challenges such as regulations of transactions, costs, limited product capacity, and technical issues.

**Industry Impact** - Store may need to adapt to new modern technologies to enhance customer experience and hit higher profitability while considering challenges in place such as integration of point-of-sale systems.

## 9.7.2020

**Opportunity: Record-High Sales in the US and Canada** - Sales of marijuana, especially the recreational types, in the US and Canada have broken record levels since May 2020. According to the latest edition of Marijuana Business Factbook, medical and recreational marijuana retail sales in the US could increase 40% year-over-year in 2020. Colorado's \$198.9 million combined recreational and medical marijuana sales in June were a record breaker and 3.5% higher than that in May due largely to the 6% month-on-month uptick in recreational cannabis sales. The Illinois recreational marijuana sales in July reached a record level of about \$61 million, a 28% increase from June. In Canada, nationwide recreational marijuana sales in June rose about 119% year-over-year and 7.9% month-on-month to \$152.1 million. British Columbia's \$29.4 million recreational cannabis sales were nearly seven times the recreational sales in June 2019 and 7% higher than that in May 2020. These significant upturns in sales are attributed to the increased proliferation of new marijuana products, improved product quality, enhanced product availability with more legal stores and ecommerce presence, better pricing, increasing legalization and acceptance of use, fewer black-market stores, and the unemployment benefits provided by the government. Hence, there is the question of whether marijuana sales would decline once the unemployment benefits have expired.

**Industry Impact** - Marijuana stores will see an increase in sales particularly of recreational cannabis. However, they have to watch out for any change in sales after the unemployment benefits have run out.

## Critical Issues

**Political Opposition** - In many countries, including the US, legislation to legalize marijuana at a national level has yet to garner majority support, according to Way of Leaf. Efforts to decrease incarceration rates and increase local governance have seen some success. Local politicians can influence policy by launching opposition campaigns, even in states with some form of legalization.

**Public Opinion** - Citizens determine whether marijuana initiatives make it onto ballots and whether they pass or fail. Local populations may support dispensary bans that counteract larger government legalization laws. Even with official approval, residents and business owners may object to dispensaries in their immediate vicinity, according to Pew Research Center.

## Business Challenges

**Strict Licensing Requirements** - Each US state and international country has its own requirements for companies applying for a dispensary license, and processes can be lengthy and costly. The number of licenses granted in a given geography may be capped or have extensive product testing rules. Companies must be creative with corporate structures to operate in more than one state or country due to laws against transporting product across borders.

**Access to Banking Services** - Most US banks won't serve businesses in the industry because banks are regulated on a federal level. This forces dispensaries to operate largely in cash. While a growing number of banks are working with marijuana companies under new federal guidelines issued in 2014, most marijuana businesses do not have accounts. Federal legislation has been introduced, and individual states are exploring the creation of state depositories, according to Way of Leaf.

**High Income Taxes** - Companies can't use typical small business deductions for normal operating expenses on federal US income tax returns. This can result in companies paying most (70% to 90%) of their profits to the government, according to the National Cannabis Industry Association (NCIA). The NCIA is lobbying for change and legislation has been introduced.

**Supply Chain Challenges** - Wholesale prices are heavily impacted by product availability, which can vary greatly across cannabis markets. In the US, some states cap the number of plants that businesses can grow, creating price increases when demand exceeds supply. Some markets have experienced falling prices due to an oversupply of marijuana products, according to Supply Chain Game Changer. Patient advocate groups have voiced concern that recreational use laws may make it harder to obtain cannabis products for medicinal use.

## Business Trends

**Demand for Alternative Medicine Services** - Some large medical marijuana dispensaries also provide health classes, support groups, and alternative medicine treatments such as acupuncture and chiropractic. California dispensary Harborside Health provides ancillary services and conducts safety and potency testing.

**Demographics** - As the baby boomer population ages into retirement, the number of elderly patients with chronic illnesses will increase. The US population 65 and older is expected to increase by about 49% between 2016 and 2030, compared to 10% growth in the general population. Physicians and patients trying alternative methods of treatment such as cannabis use will increase as regulations loosen.

**Need for Research** - The marijuana industry is in dire need of research and development resources. Applications for laboratories include measurement of plant strain potency, standardization of product potency, testing for medical benefits, and development of cannabis-based pharmaceuticals, according to Way of Leaf.

**Need for Service Businesses** - As laws change to allow greater degrees of legal marijuana sales, the demand for ancillary businesses is booming. Retailers and growers seek providers of equipment and services including software, packaging, inventory management, security, and data and analytics systems, as well as investment, marketing, real estate, legal, accounting, financial, insurance, and consulting services.

## Industry Opportunities

**Investor Interest** - A number of seed-fund investor groups have established operations geared toward new cannabis businesses and cannabis-serving businesses. Investors in the US have renewed interest citing that cannabis is essential business. According to Marijuana Business Daily, cannabis companies raised about three times the amount in August compared to July through equity deals.

**Demand for Edibles** - The infused product market is growing exponentially. According to Happi, new marijuana users find that edible and topical products such as baked goods, candies, beverages, tinctures, and lotions are less stigmatized and come with fewer health risks than smoking. Products lacking THC (nonpsychoactive hemp and CBD-based products) are growing in popularity even in places that have not legalized cannabis, despite murky federal guidelines and varying state rules, according to Pharmiweb.

**Established Customer Base** - Customers who have purchased marijuana for medical or recreational use on the black market would likely prefer to buy legally, if the product is easy to access and affordably priced. According to Forbes, the US and other countries can create sustainable market through existing customers. Additionally, older customers are expected to expand purchase beyond medical purposes.



**Growing Public Acceptance** - While opposition to marijuana use remains strong, public acceptance is growing across all age categories. In the US, public support of cannabis for adult use increased as evident by the increasing number of cannabis-related bills. Marijuana stores and clients will see more regulatory activities in the coming months that cover cannabis use for both medical and recreational purposes.

**Export Markets** - Vertically integrated marijuana companies increasingly are able to export products. In Europe, many countries are expanding medical marijuana laws but rely exclusively on imports. Companies from nations such as Canada where exports are legal are rapidly venturing into new markets, according to Forbes.

## Executive Insight

### Chief Executive Officer - CEO

#### Maintaining Regulatory Compliance

Marijuana stores must adhere to strict regulatory guidelines to ensure operational licensing and avoid legal challenges.

#### Differentiating the Store

Companies are differentiating themselves from competition by offering unique products and atmospheres, or by operating in high-traffic locations.

### Chief Financial Officer - CFO

#### Securing Financial Resources

Marijuana stores struggle to gain access to financial support services including banking and investor funding.

#### Managing Inventory

Dispensaries must ensure strong cash flow against inventory costs.

### Chief Information Officer - CIO

#### Developing Logistics Management Systems

Marijuana stores use a variety of tools to maintain efficiencies in logistics and inventory management.

#### Maintaining Store Security

Marijuana stores invest heavily in effective security and transactional systems.

### Human Resources - HR

#### Hiring and Retaining Skilled Staff

Companies need knowledgeable and skilled staff members including sales associates, laboratory scientists, and cash-business bookkeepers.

#### Conducting Training Sessions

Marijuana stores train employees on product characteristics and regulatory policies.

### VP Sales/Marketing - Sales

#### Attracting New Customers

Marijuana stores use advertising campaigns to boost awareness and bring in new clientele.

#### Securing Prime Location

Dispensaries must use location, atmosphere, and creative sales tactics to compete effectively against nearby businesses.

## Executive Conversation Starters

### Chief Executive Officer - CEO

**How does the company track compliance with rapidly changing marijuana laws?**

Marijuana stores may use specialized regulatory compliance tracking software.

**What advertising vehicles has the company found most effective in building consumer awareness?**

Dispensaries in recreational states attract consumers through newspaper and billboard advertising, as well as event sponsorship and social media campaigns.

### Chief Financial Officer - CFO

**How did the company fund startup costs?**

Most marijuana companies are backed by founders' savings and personal debt, though investment capital resources are becoming more widely available.

**What challenges does the company face managing inventories of marijuana products?**

In US medical use states, sales are often limited to certain types of cannabis products for specific patient groups.

### Chief Information Officer - CIO

**How is the company using technology to improve inventory management?**

Dispensaries have a variety of information technology needs, including inventory management and logistics management systems.

**What investments is the company making in security systems?**

States often require security measures to prevent and detect diversion, such as motion detectors, cameras, and perimeter alarms.

### Human Resources - HR

**How critical is hiring skilled workers to the company's success?**

Companies need knowledgeable and skilled staff members including sales associates, laboratory scientists, and cash-business bookkeepers.

**What approaches to employee training have been most successful for the company?**

Dispensary staff members need to be highly trained in product strain characteristics and regulatory policies.

### VP Sales/Marketing - Sales

**Does the dispensary primarily serve medical or recreational customers?**

Medical purchases account for the majority of legal cannabis sales.

**How many marijuana stores operate in the company's territory?**

New markets are ripe for entrepreneurs, but competition can be strong among area storefronts.

## Industry Websites

Canadian Cannabis

**International Association for Cannabinoid Medicines**

**Marijuana Business Daily**

**Medical Jane**

**National Cannabis Industry Association**

**The Cannabist**

**The Marijuana Report**

## Glossary of Acronyms

**Cannabidiol (CBD)** - Active ingredient in marijuana.

**Controlled Substances Act (CSA)** - Federal law classifying marijuana as a Schedule 1 substance and prohibiting interstate commerce. The CSA governs manufacture, distribution/trafficking, and possession of controlled substances.

**Drug Enforcement Agency (DEA)** - The DEA enforces drug laws outlined in the CSA.

**Tetrahydrocannabinol (THC)** - Active ingredient in marijuana.