The Current and Changing Cannabis Landscape: An Industry Overview

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Est. Retail Sales of Cannabis (U.S., in billions)

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This is not your dad’s (or mom’s) weed.

- Plants bred under very controlled conditions to yield desired chemical compounds while minimizing the undesired ones
- Increasing understanding of the science behind why cannabis is effective, and its actual side effects and actual potential harms
- Industry that is thriving in spite of the non-normalized operating environment (i.e. banking, legal protections, extra-ordinary regulatory burden)
Regulations: Locally driven, constantly evolving

• State-by-state, even city-by-city differences drive significant challenges in compliance

• Smaller operators rely heavily on their vendors to be the experts in their areas of expertise

• Larger operators look for a vendors who can provide quality services across multiple jurisdictions, at scale

• Regulators: undereducated and cautious, with priority attention on controlling diversion to the black market
Banking: A challenge ... and an opportunity

• Due to the legal status of cannabis, normalized banking relationships are not available to most industry businesses

• All good operators today do indeed have access to basic banking services. If your client is still operating solely in cash: that’s a big red flag

• Dispensaries in particular still take in a lot of cash. All that cash needs to be counted, audited, transported, and deposited.
Plant-touching Industry Segments

*Each with its own security challenges*

- Cultivation
- Processing
- Retail
- Transportation

*Note: Most plant-touching businesses are often found in disadvantaged and/or rural areas*
Cultivation Sites

• Range from small indoor grow rooms to sophisticated greenhouses to acres of open farmland
  • Physical security needs vary accordingly

• Staff numbers depend on size of operation; skews toward specialized workers due to sophistication of modern day horticulture methods

• Information security needs include testing data, current and historical operations info, yields, unique strain tracking, etc.
Processing Facilities

• Range from testing labs to commercial kitchens to warehouse-type facilities
  • Usually lower key, off-the-beaten-path locations as they are not direct-to-consumer businesses

• Smaller staff numbers, typically highly specialized in their craft or profession

• Information will vary by business type and will include track-and-trace, testing results, product and production secrets

• Product counterfeiting: a growing problem
Retail Stores

• Both adult-use ("recreational") and medical-specific shops
  • Very commonly in disadvantaged neighborhoods
  • Similar security needs to pawnshops: high value, easily transported product with cash held on-site

• Highest numbers of staff, many of them hourly workers
  • Highest risk business category for employee theft

• Information needs: track-and-trace, inventory management, HIPPA, personal data of customers
Transportation

• Moving cash and cannabis products from Point A to Point B
  • Within the product development supply chain
  • Delivering online orders to customer homes

• An emerging, developing area of the industry – now an actual license category in a handful of states
Other Overarching Security Considerations

- Security theater? Under pressure to open a facility, clients may prefer to “check the box”
- Vulnerability of track-and-trace systems
  - Open source publication of location of available cannabis products
  - Hacking can expose patient, customer, staff information
- Every single plant-touching staff member or business owner must be licensed, which requires a background check
Other Overarching Security Considerations

- Margins are tight – some clients will prefer capitalized technology solutions over adding personnel, which hit the P&L statement
- Be aware of the risks of allowing firearms near a Schedule 1 drug, and other remnants of the Cole Memo
- Recommendation: be a good consultant to your clients
The role of the rebel in the cannabis industry
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