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RETAILER

Business Magazine for Canadian Retailers

CANNABIS DELIVERY

Delivery services are being
set up across Canada.

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Powerful tools to grow
your business

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by Joyce Hayne

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At the end of January, Canada had 795 cannabis retail stores open. That's a far cry from the number that the industry was anticipating back in October 2018! Alberta, with its free enterprise mindset is leading the pack by a long shot with 411 stores open as of January 31 and more opening each week. BC is still exceedingly slow in opening stores with only 183 open at the end of January and only 26 new stores opening since November 1st compared to Alberta that opened 27 stores in January alone. Ontario will finally start opening more stores but at the rate of 20 stores a month it will take years to get the number of stores required to service our largest province. Likewise, Quebec needs a lot more locations to encourage people to shop in legal outlets.

With the slow growth of stores, consumers still purchased 53% of their cannabis from illegal sources in 2019, according to StatsCan data. Regulators, at all levels of government, need to hasten the process to open stores, if we ever hope to eradicate the black market in Canada anytime soon.

Retailers are anxiously awaiting the long-promised edibles and beverages to help boost sales and offer a better product mix to customers, but the roll-out is slow as producers struggle with the many regulations and impatiently wait for Health Canada approval.

As we enter a new decade, we're all hoping that 2020 will be the year that many people in this industry can finally get in the black. Will 4/20/20 be our Black Monday?

Joyce

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Can I Get that Delivered?

by Tania Moffat

Just over a year after legalization, consumers are seeking the same services they have been accustomed to receiving from companies like Amazon and Skip the Dishes. Customers want apps that can make their cannabis purchases easier, save them time, and pamper them with speedy delivery.

The problem is that the patchwork of cannabis legislation that spans our country is complex. New services and technologies must vigilantly negotiate these laws or risk being shut down. Over the past year a string of would-be apps and delivery start-ups across the country found themselves unprepared and non-compliant.


Hey Bud, is that Legal?

BC has an abundance of online companies offering cannabis for sale, some even offering one-hour delivery. A quick look at BC's cannabis website (cannabis.gov.bc.ca), however, shows that the BC Cannabis Store is the only legal online retailer in the province. It also states that licensees cannot have a non-medical cannabis delivery service or enable one to be operated in association with their stores.

Like BC, in most provinces, government-run agencies are the sole, legal online storefront and only entity allowed to deliver cannabis. Manitoba and Saskatchewan are the exceptions. Canada Post has been the carrier of choice and Xpress delivery, which arrives in two to three days, is the most common option.

While customers cannot place online orders with other licensed retailers, a click and collect service is within regulations for certain provinces like Alberta, Saskatchewan, and Ontario. One service, Leafly Pickup is

to a listing of businesses in their area where they can browse products and reserve them in-store for pick-up and payment. Not all locations or listings on Leafly's website offer click and collect service, only the stores that say 'pickup available' in red on the bottom right-hand corner of their listing. Orders are only accepted during business hours, and the site indicates that the system may not accurately reflect in-stock items. Stores are left to check that orders do not exceed the 30-gram purchase limit.



A click and collect service is within regulations for certain provinces...

free and already operating in Canada. The service, initially only available at Spiritleaf locations in Alberta and Saskatchewan, has added several new retailers since its launch last summer.

Leafly Pickup's website directs customers

Super Set-up on the Prairies

Compared to other provinces, Manitoba and Saskatchewan have relatively liberal rules. Licensed retailers can operate online stores and secure their own delivery services.

Ian Delves and Michael Kniazeff, developers



of Boozer, an alcohol delivery app used in Toronto and Vancouver, have tweaked their legacy platform to develop a compliant cannabis app, Super Anytime (Super).

"Super is an e-commerce interface that legal retailers or distributors can use to facilitate website sales and organize delivery for their customers," says Delves, president and co-founder. The pair worked closely with the Liquor, Gaming and Cannabis Authority of Manitoba (LGCA) and the Saskatchewan Liquor Gaming Authority (SLGA) to ensure their platform's compliance with the existing laws.

Kniazeff, Super's CEO and co-founder explains how the program works, "Super integrates with retailers' point-of-sale systems. We integrate with product information to provide real-time inventory at the store or distribution centre level. Once an order is created, payment is processed by the retailers in accordance with the law."

Another feature that ensures legal compliance is the cap placed on the cart that prevents anyone from ordering more than the legal limit. When it comes to fulfillment, Super can work with any option that the retailer has available—couriers, click and collect, Canada Post, etc.

After a soft launch in Winnipeg, the multi-retailer ordering app launched province-wide in Manitoba on Jan. 22, 2020, to be followed by Saskatchewan. In a press release, Matthew Sodomsky, CTO of Delta 9, stated that the company was impressed with the Super team's diligence in maintaining compliance, and the seamless integration when their stores went live.

Looking forward, Kniazeff says the reserve and pay in-store platform is in place and he would like to see Super expanding to provinces with amenable legislative landscapes.

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Regular distribution models don't work in this industry.

Delivery, Please!

In the past, policymakers argued against online cannabis delivery, citing the risk of black-market products entering the legal supply chain. A year later, that has changed. Provincial governments are beginning to form strategic partnerships with technology and logistic-based companies to stem black market sales. Pilot projects are being conducted in the greater Toronto area and Montreal to verify the feasibility of same-day delivery services.

The challenge is that regular distribution models don't work in this industry. To remain in compliance, many factors must be taken into consideration, including identification checks, transport rules, insurance, payment laws, etc.

Pineapple Express Delivery (PED), a third-party logistics company, offers same-day recreational cannabis delivery in Manitoba

and Saskatchewan and as of Jan. 24, 2020 in Ontario. They also provide medical delivery to customers in Saskatoon, Regina, Moosejaw, Winnipeg, and Greater Toronto.

PED has partnered with recreational cannabis retail outlets in Winnipeg since the day of legalization and entered Saskatchewan in April 2019. Recreational cannabis cannot be delivered in other provinces yet, but PED hopes this will continue to change in 2020.

In Manitoba, retailers can use the courier of their choice, provided they are compliant with the laws. "Delivering in Saskatchewan was a little more complex," says Madelaine Higgins, director of customer experience for PED. "Couriers require a licence from the SLGA to transport cannabis from retail outlets to the consumer.

"Each province has different rules for deliveries. We tailor our program to match both provincial and federal rules

and regulations. Some businesses require armoured services to move product, others stipulate only that the package not be visible from outside the vehicle," adds Higgins.

All of PED's drivers are permanent employees who are fully vetted and subjected to full criminal background checks. Vehicles do not have signage, both for discretion and safety. Higgins encourages retailers, licensed producers, and customers to get in touch with PED to request delivery in their city. "We can be up and running in two to four weeks if the volume is there," she says.

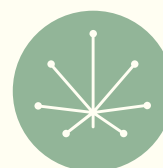
These advances are all excellent news for the maturing industry. The quicker the delivery service, the better positioned the jurisdiction is against the black market. The industry has come a long way despite its challenges, and that is good news for retailers and customers. ▀



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Take your Cannabis Store Beyond the Doors with Text and Email Marketing

by Wayne S. Roberts

Expanding your business requires you to expand your brand story, beyond just products and price, and beyond the doors of your location(s). Once that expanded story is mapped out, you'll be able to reach your buyers and potential buyers using media channels they prefer to access, at a time and place of their choosing.

To that end, email marketing and text messaging are powerful tools in growing your business by maintaining the attention of your customers, sharing more about your store, and making it easier for them to recommend you to others.

When used wisely, legally and with the explicit intent of engaging your customers (not just hyping them every chance you get), targeted marketing via email and text is immediate, quickly updatable, measurable and profitable.

Play within the Rules

Before you deploy your superhuman entrepreneurial instincts about how to

'wow' your audience with messages as magical as your "electric lettuce," stand down for an essential reality check.

services with any kind of "lifestyle," be it adventurous, glamorous, risky, or sexy.

- Do not make any health claims that can

Targeted marketing via email and text is immediate, quickly updatable, measurable and profitable.

You must abide by a strict set of regulations as set out in The Cannabis Act that impact any and all forms of communication related to the marketing of cannabis. Here are some key ones:

- Do not promote, or be seen to promote, any cannabis products or services to minors under the age of 18 (in Quebec and Alberta) and under 19, for the rest of Canada
- Do not use testimonials or endorsements from celebrities, influencers, or customers about cannabis products or services.
- Avoid associating cannabis products or

be interpreted as misleading, deceptive, or unsupported.

Text and Email Marketing Grow Loyalty

At this point, you can "take the store beyond the door" and use your brand to reach out and build customer relationships. Text messages are a great tool, as they have a whopping 90% open rate, compared to only 25% for emails. However, they may have to be sent individually as some carriers are moving to ban group texts.



You can't just start texting and emailing everyone and expect business to go through the roof. You need a plan for your text and email marketing campaign. So, first things first:

- **Ensure Customer Consent** – You need customers' permission before contacting them with texts or emails for marketing purposes.
- **Always Provide a Clear Opt-Out** – Retailers always need to provide a clear opt-out option, among other CASL considerations, for customers receiving text or email marketing material.

Now, get creative. Developing an awesome text and email marketing campaign doesn't mean blasting messages out to everyone you know. Instead, here are some essential tips to creating a successful marketing campaign:

The Content Strategy

Develop a strategy that gives added value to your customers. For example, if you're a music fan, tap into this. Use texts and emails to let customers know about in-store events such as live jam sessions and album release parties. A creative content strategy can offer many unique ways to get content to customers, and customers into your store.

The Editorial Calendar

Once you've nailed down a strategy to guide your outgoing marketing

content, set up a schedule. Ideally, this is set up at least one month in advance, but it's better if you can map out three months. Gather content for your email newsletter, from product launches to repackaged content that complements your brand, and plug it into your calendar. Do the same thing for your text messages. Have a plan so you aren't scrambling to get something together.

Technology

With your editorial calendar set, use technology to turbocharge it. Use a tool such as Hubscannabis to automate your marketing calendar, or Hootsuite for social media. These are just two of many powerful tools available to help you organize your content calendar and effectively deploy it.

Also, make the effort to monetize your website. Team up with growers and other vendors to get eyes on their products by promoting them with big box or banner ads on your site. Customers will see that you carry premium products and have solid relationships with a variety of cannabis producers and other players in the market. Again, if you have a particular cultural interest, you can offer ad space to musical, theatre or entertainment venues.

Gift your Newsletter Subscription

Make it easy for customers to sign up for your emails. Offer free swag, such as coffee mugs or logo T-shirts, in exchange for signing up.



Staff Profiles Humanize the Store

The people working in your store are the face and voice of your brand, so as long as they permit it, profile them in your newsletter, or send a link in your weekly text message to a story about your store's budtender of the month.

Product or Brand Profiles

Just like your staff members, use a text or email message to profile an innovative cannabis producer. Share details about new strains or edibles coming into your store. Or, strike a deal with a producer and profile their brand in your newsletter. Get your customers excited about cutting-edge producers delivering premium cannabis products found in your store.

Segment your Lists

Don't just dump your customers' emails and phone numbers into a spreadsheet and forget about them. Since you're tracking these messages, segment your customers as follows:

- geography
- purchasing interests
- purchasing patterns
- age
- gender
- and much more

Segmentation allows you to strategically target customers and tailor your offering to their interests.

Get Social, for Real

As a cannabis retailer, you might think your job is just to sell legal cannabis. Technically, that's true, but if you want your business to flourish, do more. Use texts and emails to show customers your store is a hub where interesting events happen, such as:

- meet-and-greets with supportive growers;
- cooking classes;
- album release parties; and
- customer appreciation events.

Industry, Market and Thought Leadership

Your marketing texts and email newsletters aren't just about selling. They are about starting conversations. Get your customers thinking with curated content that falls within your brand narrative and area of competence. Share links with customers about notable people and their thoughts on the cannabis industry, or pro-cannabis cultural figures with interesting things to say.

Do Not Over Send!!!

If you over send, not only will your customers resent you, they'll delete you. Respect their time and test how often you should be in touch.

To start, send your email newsletter once a month, and a text message every two weeks or so. What's your open rate? Are your messages converting to website and store visits? Use your software to measure and then adjust your campaigns accordingly. There's no "set it and forget." Measure and optimize your campaigns for better results.

Get Creative and Play Smart to Win!

Legal cannabis retailers in Canada are at the leading edge of a society-wide change in how cannabis is perceived, how it's used, and how it's sold. And while promotional regulations are strict, that doesn't mean you can't be creative and effective by offering useful and actionable information to your customers.

By clarifying your brand's mission and areas of differentiation, being strategic and organized, you can better engage customers with a consistent offering of curated, fascinating, and relatable brand content. And you'll grow your business by growing the community of readers who will be happy to receive your updates.

That being said, when in doubt take the time to consult your legal team before deploying any cannabis-related marketing initiatives you're not sure about. Better safe than shut down by Health Canada, eh?

Wayne S. Roberts is president of Blade Creative Branding Inc. He brings award-winning experience to Blade's clients, including those in the cannabis sector where Blade was instrumental in the branding and launch of MedReleaf.



> DRIED FLOWER LEADS PRODUCT SALES

StatsCan states that up until 2019's third quarter, dried flower accounted for the largest share of total cannabis purchases at 60.7%. Hash accounted for the smallest share of spending at 2.2%.

Cannabis products include flower, hash, edibles, liquid (oils), solid and vape. While flower accounted for the largest share of cannabis purchases, it was followed far behind by vape at 19.5%. Vape was followed by edibles at 7%, solids at 6.4% and liquid at 4.2%.

Despite vape coming in as the second-most purchased product, it has been banned in Newfoundland and Labrador as well as Quebec. Alberta is also reviewing vape products for the time being.

Continue reading: www.cannabisretailer.ca/2020/dried-flower-leads-product-sales/



> META CANNABIS OPENS IN TORONTO

One of the winners of the Ontario cannabis store lottery entered an agreement with Meta Growth to act as a consulting partner and service provider, and they opened a META Cannabis Co. store at 378 Yonge Street in Toronto last week.

The landmark location is in a heritage building on the southwest corner of Yonge Street and Gerrard. Mark Goliger, CEO of Meta Growth, says, "This premium real estate location will introduce a high volume of customers to the META brand. Through our agreement with the owner, we plan to make this site one of the top performing stores in the country."

Continue reading: www.cannabisretailer.ca/2020/meta-cannabis-opens-in-toronto/



> WESTLEAF OPTS OUT OF ALTONA STORE

In May of 2019, Westleaf was chosen in the second phase of the province's retail cannabis draw to open a store in Altona, Manitoba. At the time, a second retailer was chosen as a standby in case the first decided against opening. The standby retailer is 10022915 Manitoba.

However, Westleaf announced it would be pulling out. Westleaf stated that it took into account many factors when it came to extending its retail presence in the market. "It has decided to pivot in regard to opening a store in Altona as a result of the larger business strategy."

Continue reading: www.cannabisretailer.ca/2020/westleaf-opts-out-of-altona-store/



> TOKYO SMOKE OPENS IN OTTAWA

Tokyo Smoke opened its doors at 1000 Wellington St W in Ottawa. Ontario firefighter and business owner, Steve Cochrane, partnered with Tokyo Smoke to open this state-of-the-art 3400 sq. ft. store. This new store provides an immersive shopping experience and the team is looking forward to creating a hub for adult recreational cannabis education and culture.

"With ten new stores set to open in the first half of this year, we are pleased with the momentum we've built and excited to bring the Tokyo Smoke experience to more Ontarians," says Rade Kovacevic, president, Canopy Growth. "Increasing Tokyo Smoke's presence across the province will expand access to high-quality cannabis products and education, continuing to migrate cannabis sales from the illicit to the regulated market."

Continue reading: www.cannabisretailer.ca/2020/tokyo-smoke-opens-in-ottawa/



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TRENDS

Legal vs. Illegal Purchases and Consumption Habits

by Amy Watkins

Pre-legalization, Deloitte estimated that Canada's legal cannabis industry would grow up to \$4.34 billion in the first year of legalization, whereas StatsCan announced that \$907.8 million of legal cannabis was sold between mid-October 2018 to September 2019. Deloitte had also estimated that the majority of purchases would be made

through the legal market, but StatsCan data showed that the illicit market represented around 77% of all cannabis sales in the first year of legalization, which started to shrink in 2019 to a more even 53%/47% spread of illegal vs. legal.

Consumption Frequency in Canada

What's the real story behind legal vs. illegal purchases and the effect on consumption? Using Cannatrack data collected between October 2018 and September 2019, it appears that trends in cannabis consumption frequency have begun to shift in Canada. Among cannabis consumers, people are shifting away from 'light' consumption frequency (every two-three months or less) into medium (once per week to once per month) and heavy consumption frequency (more than once a week).

Now approximately 40% of consumers are light, 40% are medium, and around 20% are heavy users. These trends mean that these consumption frequency profiles in Canada are starting to mimic those in legal US states, making it a useful predictor of how

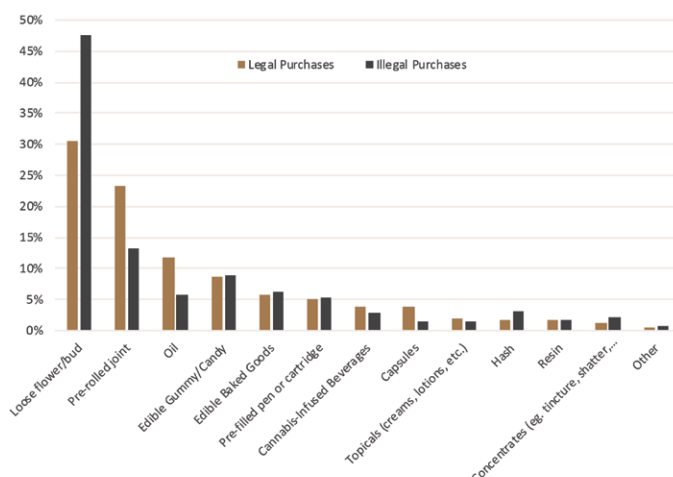
the market might continue to change.

When looking at Canada vs. US markets, Canada has higher numbers of trial users and past four week consumption consumers than the US, even when compared to markets with long established legal recreational markets and readily available retail sales. In US legal states, 31.6% of respondents had never tried cannabis and 15.9% did not use it for more than a month, whereas Canadian data shows 33.3% and 18% respectively. This data challenges the notion that post-legalization markets see a boom in consumption from previous non-users. Cannabis 2.0 formats are much more widely available through legal channels in US states, but even this has not driven mass category adoption.

Using the example of Colorado's legal market, and data collected over 13 months post-legalization, we can see more extremely light and extremely heavy consumers than Canada, which could be a predictor for where Canada is headed after a few years of legalization. Shifts in physical availability, increased medical use, and wider availability of formats may push Canadians' cannabis consumption towards a higher frequency over time.

PURCHASE FORMATS – LEGAL VS ILLEGAL PURCHASES

Proportion of each format type purchased, legal vs illegal channels



Source: Cannatrack, n=6,168 (May 2019 – Oct 2019)

- Purchase formats don't vary drastically between legal and illegal channels
- Loose flower is more prevalent in illegal channels, though this is offset by more pre-rolled joints being sold in legal channels
- As much as 28% of purchases reported through legal channels are not currently available legally – this indicates a significant proportion of respondents misattribute the channel they are purchasing from, or are reluctant to admit to purchasing illegally.



Who's Buying Legal Cannabis?

It may be a surprise to hear that consumers under 40 are generally more likely to buy cannabis through legal channels, although nearly 50% of 18-year-olds report buying cannabis illegally—probably due to legal age restrictions being 19 or 21 in many provinces. Older age groups (making up about 46% of the market) tend to be more likely to report purchasing cannabis illegally. This is partially, but not fully explained by the proportion of older consumers living in rural areas where cannabis is more difficult to purchase legally.

What are People Buying Legally vs. Illegally?

Looking at purchases made between May and October 2019, formats don't vary drastically between legal and illegal channels. Loose flower is more prevalent in illegal channels, though this is offset by more pre-rolled joints being sold in legal channels. As much as 28% of purchases reported through legal channels are not currently available legally, which indicates a significant proportion of respondents misattribute the channel they are purchasing from, or are reluctant to admit to purchasing illegally.

How Much are People Spending?


On average, shoppers spend almost the same amount in legal vs. illegal channels (\$83), with the \$30-59 category being the most popular. However, consumers are less likely to spend small or very large amounts of money in legal channels. Black-market pricing is typically lower than legal markets, meaning shoppers of legal channels are purchasing more total volume of product per trip.

Why are People Purchasing?

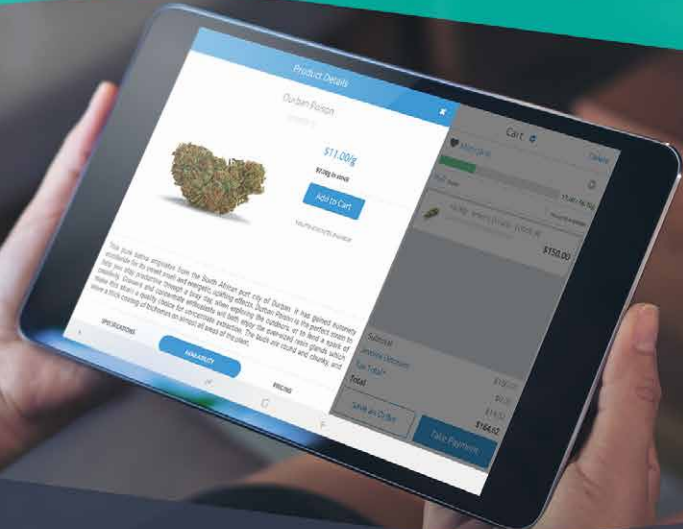
Using data collected between May and October 2019, Cannatrack found that recreational use cases make up about 11% more of total purchases through illegal channels vs. legal channels. Therapeutic (medical without prescription) use cases make up almost 33% of purchases made through illegal channels. Within legal channels, 43% of sales are claimed to be for medical or therapeutic use.

Data from a November 2019 sample shows that black-market buyers claim to generally be less 'influenced' by almost all purchase drivers, except for 'friend recommendation'. Price, potency, and format are dominant purchase drivers across the total market. Many of the same key factors influence channel choice among legal and illegal channel buyers. Convenience is the most often cited reason for choosing a purchase channel. Price and existing relationships are more substantial channel preference drivers among illegal buyers than legal buyers. Only 23% of buyers of legal channels cite being more comfortable purchasing through a legal source as a channel choice driver.

Trends suggest that Canada may follow the US legal model and see more consumers at the light and heavy ends of the consumption spectrum, with an uptick in legal sales based on proximity of stores to customers.



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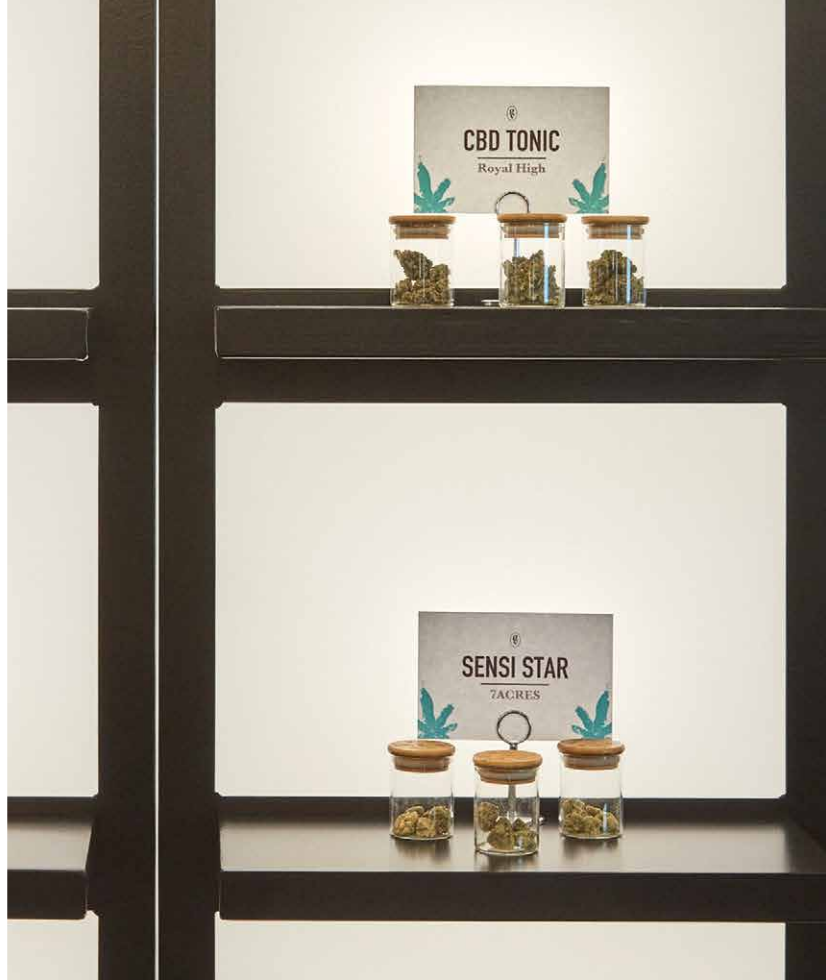


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FEATURED RETAILER



Garden Variety in Manitoba

by Lisa Tachan

Much like the prairies, Garden Variety cannabis retail spaces are fresh and bright with inviting colours and an open atmosphere. They are exclusive to Manitoba (for now), with three operating retail locations in the heart of the province and two more set to open in rural Manitoba later this year. If they sound like a little cannabis shop on the prairie, think again. Garden Variety is operating in the future of the cannabis retail space and has launched a number of in-store initiatives that make them a retailer to watch.

Garden Variety was formed through the collaboration of five shareholders from Ontario, Manitoba, and Colorado. Of 100 applicants for a cannabis retail licence in Manitoba, Garden Variety was one of four who met the strict criteria to be selected. In March 2019, the first two Garden Variety stores opened in Winnipeg. In December that same year, a store opened in Brandon, Manitoba.

Averaging about 3,500 sq. ft., Garden variety stores are big. They are open, airy, and give patrons plenty of room to browse or privately consult with staff.

“Our stores were designed for the cannabis market of the future,” explains Sheilagh Dohie, Garden Variety regional manager. “We left room for refrigeration and the second phase of cannabis products. Our kiosks create an opportunity to evolve our monitors—one day we may see customers ordering right from those screens.”

Having that insight into the future of cannabis in Canada is courtesy of Garden Variety’s management company, Native Roots, which is a cannabis brand located in Colorado. Native Roots has been in business for 10 years, starting in the medical sphere and then moving into recreational cannabis after it was legalized in the state.

“Our head office is in Winnipeg, but they provide us with operational support,” Dohie says of Native Roots. “They help us with IT and marketing functions.”

Garden Variety stores boast many interesting signature features, including a flower wall. The flower wall is an eight-foot custom-built wall holding 40 LED light boxes and displaying an array of real cannabis flowers. There are also custom-built consulting tables, display boxes, and Instagram-worthy signage and graphics, like the Sparwolf. The half sparrow, half wolf creature is native to Manitoba and represents prosperity, togetherness, creativity, and freedom.

Garden Variety also takes pride in providing a range of products, including accessories. Their goal is to make their store a one-stop-shop and build their inventory based on what customers are looking for.

“We always have something new, interesting, and cutting-edge in stock,” says Dohie. “I believe we’re industry-leading in [that] we have a customer loyalty program and started selling gift cards just before Christmas last year.”



Garden Variety has also started a program that helps Manitoba be a little greener in another way.

“The waste produced through the packaging of cannabis products has been a concern for consumers,” Michelle Burkowski, Garden Variety store manager says. “In spring 2019, we launched a recycle program that awards 50 cents for every cannabis container brought back. The program exploded. We’re estimating that between the three stores, we’ve recycled about 1,000 pounds.”

“We’re really trying to behave like your typical retailer,” Dohie adds. “We want to create that return customer and give people different ways to pay in our stores. Not everyone is doing that.”

While Garden Variety is running a number of innovative initiatives, both Dohie and Burkowski feel strongly that their team of “mood makers” is what really makes their business shine.

“One of our mood makers named Ari came up with the idea for the recycle program,” Burkowski says. “We have a standout team of staff who are invested in the brand and the company.”

Dohie couldn’t agree more. “It is very important that our team is approachable, adaptable, and can use their product knowledge to understand a customer’s needs and shape a connection. It’s the team that really sells a positive buying experience.”

As for what the future holds, Dohie says the vision has always been to be in multiple provinces and grow across Canada. While 2020 will be Manitoba-based, within the next five years we will likely see a Garden Variety bloom in Ontario.

“We’d also like to get involved more with our communities and different charities this year,” Burkowski adds. “Now that our three stores are running pretty seamlessly, we want to focus more on elevating our communities and giving back. It’s important to us to work with organizations that our staff and community care about.”

The ground on the prairies is frozen for most of the year. Garden Variety is proof that with a little innovation, forward thinking, and the right team, you can bloom wherever you’re planted. ▀



Using Data Analytics to Understand Consumer Preferences

by Jaclynn Pehota

As an ever increasing number of Cannabis 2.0 products (edibles, vape pens, concentrates, and other derivatives) roll out to market and begin hitting retail shelves, the importance of business intelligence and product knowledge in the cannabis sphere has never been more apparent.

Cannabis retailers have already been contending with the difficulty of selling product that often arrives at the retail store sight unseen, or unsmelled to be more accurate. The need for new tools to aid in training staff, informing product buyers, and driving producer decisions about what products are popular continues to grow as the size of the legal market expands.

As the days of ziplock bags full of cannabis recede into memory, buyers and retailers need to find compliant ways to determine what kind of products customers will be drawn to. Relying solely on their suppliers' product knowledge and business intelligence leaves retailers overly dependent on highly biased information.

Many retailers are already turning to data analytics, as evidenced by the rapid growth of business intelligence providers in the cannabis sphere. Data analytics are a method that complies with the federal marketing regulation that retailers can use to determine customer preferences and buying patterns, letting the retailer maximize the merchandising and limited in-store promotion allowed.

While many of these tools are in early stages of data pooling, the burgeoning retail cannabis space will rapidly bring more data into the pool, which will quickly refine the consumer preference outline we are currently working from.

If you are a cannabis retailer looking to adopt a comprehensive data analytics service, here are some important questions to ask in your

search for the right fit:

- How does the product or service determine consumer preference? Can it tell who likes what kind of cannabis?
- How does the product or service help drive buying decisions? Can it compare different products to find value?
- Are these determinations scientifically valid, or are they based on outmoded concepts like indica vs. sativa?
- Who owns the data you generate? Can you access data from other stores on the same platform in return for sharing your own?

These are the types of questions that a good data analytics platform should be able to help answer for you, and the main points to consider when looking for a cannabis-specific business intelligence solution.

One final thing to consider is that many of these advanced services require integration with a modern, cannabis-specific point-of-sale (POS) and inventory management system.

While many cannabis retailers have been using custom-made systems ported over from other industries, these systems are often not able to integrate into the major data analytics systems, leaving them as a data dead end.

When making decisions about what point-of-sale system to adopt, cannabis retailers should ensure that it allows maximum flexibility and operates on a known industry standard, both for plugging into various analytics systems as well as for auditing purposes.

Jaclynn Pehota is retail licensing specialist and principal consultant at Althing Consulting Services. She serves on the Advisory Board for the Association of Canadian Cannabis Retailers (ACCRES).



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RESEARCH

by Michelle St. Pierre

Chronic Pain

Chronic pain is one of the most common reasons for seeking health care in Canada and one in five Canadians live with pain. The Canadian Pain Task Force recently concluded that Canadians don't have access to a range of adequate or appropriate pain management services and as a result have to find a way to live with the pain. Historically, humans have used opioids to find pain relief. However, in recent years opioids have gained a reputation that's led doctors and patients alike to be weary of them. Nevertheless, living with unmanaged pain is simply not an option for a large majority of individuals. Thankfully, there's another option.

Cannabis has been used for pain relief for millennia. In fact, the oldest recorded use of cannabis, dating back thousands of years, is for pain relief. Research consistently finds that pain relief is the primary condition for which people use cannabis and reaches as high as 80% of medical cannabis users. The National Academy of Sciences, Engineering, and Medicine reported that there was "substantial evidence that cannabis is an effective treatment for chronic pain." This review of all the available research also found that cannabis was as effective as gabapentin (i.e., widely prescribed pain medication) for neuropathic pain. However, not all pain is created equal. Internationally renowned cannabis scientist, Dr. Ethan Russo, recently stated that "cannabis is unimpressive as an analgesic for acute pain".

So why is cannabis effective for chronic pain and not acute pain?

Chronic pain differs from acute pain in important ways. Acute pain is a biological and psychological response to injury of tissue or the nervous system. Chronic pain is a highly complex phenomenon, considered a disease state that serves little to no biological purpose. When we injure ourselves, such as

in the case of acute pain, we may be less bothered by the pain because we know its origin and expect that it will subside as healing occurs. In chronic pain, there can be an increased unpleasantness and distress associated with the experience of pain.

Pain isn't simply a physical sensation. The impact of our psychology and emotions on pain is impressive and not to be underappreciated. In fact, when we are distracted or in a better mood our pain hurts less. The emotional (psychological) component of pain is so important that it is included in the definition of pain, which is an unpleasant emotional and sensory experience that is unique to the individual.

There's a growing body of research looking at the relationship between cannabis use and the emotional component of pain. For some people and some types of pain, cannabis is relieving pain by targeting these emotional components rather than the sensory. Indeed, researchers have studied the brain regions of participants after they've used cannabis and discovered that cannabis preferentially targets the affective qualities of pain and reduced the reported unpleasantness, but not intensity of ongoing pain.

This research and the reports from patients suggest that cannabis is making pain less unpleasant and likely helping to take their attention off of the consistent dull aches and pains that one can experience while living with chronic pain. There is evidence that cannabis can relieve *some* pain in *some* people and cannabis is particularly effective for the emotional and psychological component of pain.

"Whether cannabis is the best treatment for pain or not, many patients around the world believe that cannabis has helped them with their pain," say the authors of Cannabis and Pain: A Clinical Review.

Michelle St. Pierre, MA is a PhD Student in Clinical Psychology at the University of British Columbia.

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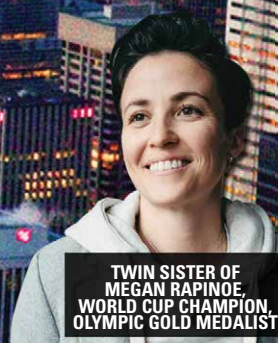
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Retail Best Practices

by Dessy Pavlova

Retail best practices for cannabis stores mirror typical storefront retail experiences. With a continuously evolving industry, three key factors will help retailers deliver the quality storefront experience cannabis consumers demand. Applying these best practices allows for brand differentiation, but even more so, customer retention and loyalty in a market that restricts direct advertising and craves authentic engagement.


Customer Experience, Designed

Conversations around customer experience are often based on the interactions, perceptions, and overall relationships a consumer has with a business or brand. In any other retail sector, customer service can be a differentiator and attractor. In cannabis, the competitive landscape is wrought with legal and illegal online and storefront locations, so customer care is key.

Since so many elements that are necessary for delivering a quality end-to-end customer experience are outside of the retailer's

control, such as product packaging dates or cannabinoid content, the portrayal of the retailer's brand reflects customer loyalty and retention. Using consistent and clear language in online and offline communications helps to build a strong understanding of your brand, through the people and platforms that represent it. As a cannabis retailer, you're not only looking

customers, personally. We know that in general, 80% of a company's revenue comes from about 20% of its customers. By finding and engaging with those top consumers, and offering unique, customized experiences for them, you build long-term relationships that will transfer to their wider networks, encouraging repeat purchases. The Cannabis Act limits the potential of loyalty programs,



Build long-term relationships that will transfer to their wider networks, encouraging repeat purchases.

to define and deliver quality customer experience, but to design it with care, catered to your target audience.

Customizing Experiences

The in-store consumer experience is more than just knowing the customer sales journey and being able to deliver on and exceed expectations—it's catering to your

but retailers are thinking outside of the box for ways to boost their sales.

Clienteling in Cannabis

Clienteling refers to a practice of collecting useful information on your customer interactions, allowing you to use that information to deliver a personally-relevant version of the sales experience. In order



Photo courtesy of Tokyo Smoke

to bring cannabis consumers in from the illicit market, retailers must emulate the personalized experience of pre-legalization dispensary days. Creating an intimate, tailored purchasing environment requires not only understanding consumers' needs, but being able to access cannabis as well as accurate information on available products and personal preferences. This could mean applying the new Leafly cultivar classification system in-store, or utilizing an online platform where consumers can communicate about their experiences, which gives retailers a chance to access, and help interpret, that data. Personalization is rewarded with loyalty.

Messaging with Meaning

For retail success, messaging must be authentic, timely, and contextual, and be delivered with meaning both inside the store and in all external and internal communications. When considering messaging, we're not only evaluating the language of sales reps and marketing, but the experience of messages throughout the store and translated across the brand.

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Remember, the medium is the message, so delivering communication through the appropriate channels can have a major impact. In-store retailers have to be prepared with accurate, quality information to translate and interact with consumers. Messaging with meaning is a matter of delivering communications based on social listening and developing behaviour-triggered events that are catered to the customer experience. Some retailers don't regularly update product availability on all their online platforms. Others opt to display their products on a rotating screen in-store, showing only a portion of their selection at a time. Allowing customers to be able to access and track product prices and availability means ensuring that the messaging is accessible throughout the buying process.

The value of Accessibility

Accessibility remains critically important for cannabis retailers—access to information, to products, and to storefronts. With the provincial cannabis retail system in Ontario finally evolving to allow for new locations, delivery and engagement will play a bigger role as accessibility increases. In the core of downtown Toronto, The Hunny Pot retail staff sport shirts that say, 'I run on weed & gangsta rap,' speaking to a more stigmatized version of cannabis consumers. NOVA cannabis caters to a similar clientele reflective in their 'Black Market Busters' in-store promotions. As it now stands, most marketing remains within the retail locations, and hardly engages outside storefronts, with strict adherence to the regulations. As more cannabis retail stores are licensed, earned media will remain one of the only available avenues for brand awareness. This means

that in-store accessibility to education and information will become even more key to attracting regular cannabis users to the legal market.

The main focus throughout the retail experience should always be to add value, and this comes through delivering information and products catered to consumers. By focusing on ensuring access to information first, buying cannabis becomes experiential, and can be translated into messaging across platforms. Cannabis retailers are only beginning to gain a foothold in the industry, and as consumer tastes become more discerning, retail stores will have to refine their approach to delivering a quality cannabis retail experience. ▀

Dessy Pavlova is associate, marketing and communications at HK Strategies.



Accessing Investment Funds

by Matthew Nordgren

Hindsight is commonly referred to as “2020”. Vision always becomes clearer when looking backwards. In order to properly sort through the current state of the cannabis marketplace, we must first understand where we have been and what led to where we are. Is it a coincidence that this is the year 2020?

In emerging industries, we have seen time and time again two major truths. There is an aspect that follows a normal process by which angel investing turns into seed investing, turns into venture capital, and finally opens up institutional resources. This ultimately leads to proper use of a public market. The job for each investor throughout the life cycle of an emerging industry serves a very specific purpose. That purpose is to de-risk the proposition, and prove scalability. The second major truth is that the passion and excitement, which fuels growth in an emerging industry, will foster an environment of hubris, where aspirational valuations and irrational exuberance boils over.

Eventually, markets always figure themselves out. This industry generated \$15 billion worldwide in revenue during 2019 according to BDS Analytics, up from \$10 billion in 2018. Valuations are falling more in line with fundamentals. They are ripening closer to the point where institutional investors will be more comfortable having exposure to

the sector, so long as at a macro level, revenue generation continues to improve.

For example, Canada is estimated to generate \$900 million of revenue in 2019. To receive a proper comparison, we can find a comparable brick and mortar retail business in a mature market and apply that to a company in the cannabis industry. From that point, the discussion can be made in terms of valuation and next steps, whether it is a premium or a discount multiple, but we must get to fundamentals. Fundamentals are looking extremely exciting, thankful to the near, medium, and long-term macro growth the world is experiencing.

More importantly, this industry is about bringing the plant’s properties to the world in masses. All of our goals should be for that vision. We should be excited about the real revenue growth, market share, and assets this industry has already created without any real institutional support. We have to keep biting off what we are allowed to chew, and the future could not be brighter. ▀

Matthew J. Nordgren is President of Arcadian Fund Management & Arcadian Capital Partners.



Understanding Edible and Beverage Onset Times

by Amy Watkins

Edibles and beverages are classed as ‘ingestible extracts’, which is a category that includes baked goods like cookies or brownies, gummies, and mints as well as drinks such as ready-to-drink (RTD) beverages and drops. Edible cannabis and beverages can contain up to a maximum of 10mg of THC per package (with unlimited CBD) and federally regulated labels contain this information as well as health warning messages, dried cannabis equivalency, and ingredients.

Onset information is not a mandatory label requirement, but with onset times varying between products, it’s important to understand them in order to help customers choose the right products. Fears of overconsumption can lead to fewer sales, so arming consumers with knowledge helps to quell these uncertainties.

Start Low and Go Slow

Start low and go slow is the best advice for consumers, but what does it mean? Health Canada suggests that new consumers look

for products that contain 2.5mg or less of THC as an introduction to edibles. Even experienced flower fans might want to start low because when cannabis is ingested, it takes much longer for it to be absorbed into the bloodstream and for body and brain effects to be felt. Ingestion also metabolizes

intestine after passing through the stomach, and cannabinoids are no exception,” explains Chris Bunka, CEO, Lexaria Bioscience Corp. “From there, most nutrients cross the intestinal wall and enter the hepatic vein into the liver, for processing by the liver into nutrient versions—metabolites—that

Cannabis edible onset times will almost always be faster after a meal...

the THC into a stronger form, so a low dose edible may have a stronger effect than an inhalable. With a THC cap of 10mg on edibles and beverages, most are packaged to be split down into smaller portions that would allow customers to easily consume the recommended ‘starter’ dose of less than 2.5mg.

How do Edibles Get Digested?

“Most nutrients are absorbed in the small

the body can more easily and thoroughly utilize. This is where the Delta-9-THC in cannabis edibles is metabolized by the liver and altered into Delta-11-Hydroxy. This entire process is known as ‘first-pass liver metabolism’.”

There is another path for edibles known as a ‘short-cut’, which Lexaria Bioscience utilizes in its patented DehydraTECH™. This processes the cannabinoids that are associated with certain long chain fatty acids



like those the body manufactures and uses in healthy digestion. “DehydraTECH™ helps the cannabinoids cross the intestinal wall in a preferred manner, mostly avoiding the hepatic transport to the liver, and instead becoming absorbed in the lymphatic lacteals, for delivery into the blood ‘downstream’ of the liver.” This adaptation allows the Delta-9-THC to be delivered to cannabinoid receptor cells prior to the liver transformation into Delta-11-Hydroxy—giving it a faster onset time and an experience that is less like traditional edibles.

What Affects Onset Time?

Health Canada’s official advice about onset time suggests that it can take 30 minutes to two hours to begin to feel the effects of edibles, but up to four hours to feel the full effects. Effects can last up to 12 hours, and some residual effects could last up to 24 hours after use. Going slow means starting with a dose under 2.5mg and waiting for several hours, or possibly even the next

day/session to try with a higher dose. This advice was echoed in LP-run campaigns such as Aurora’s Ready for Edibles website and outreach.

“A key consideration is that the same customer is likely to have a very different experience with edibles depending on how recently they last consumed a meal,” says Bunka. “Cannabis edible onset times will almost always be faster after a meal, than on an empty stomach. Initial onset, which may involve a feeling of flushing or tingling, typically will begin around 40-90 minutes after ingestion for most users. But those same users, on an empty stomach and with the same dose, might not experience initial onset for between 60 and 180 minutes.”

Ingredients can also affect onset times as common carrier oils such as medium chain triglyceride (MCT) from coconut oils tend to increase onset times, whereas long chain oils like sunflower or grape will tend to shorten onset times.

Consumption methods can also affect

onset time. “A chocolate that is chewed and quickly swallowed will generally take effect more slowly than if it slowly dissolves in the mouth, due to a fraction of the THC absorbing through buccal cavity tissue in the mouth and throat,” says Bunka. “For the same reason of partial absorption in the tissues of the mouth and throat, beverages that are held in the mouth for a time can also support more rapid onset times.”

Fast-Onset Beverages

Health Canada onset times are based on edibles such as cookies and gummies, whereas beverages have a much faster onset time of 10-15 minutes, as they are more rapidly absorbed into the bloodstream. Longer onset times can be off-putting for new consumers who may accidentally overconsume while waiting for effects.

“The technology of cannabis is evolving rapidly, so our cannabis beverage rapid onset technology means you can feel effects



Rapid-onset cannabis drinks could give retailers the opportunity to rival the unregulated market.

similar to beverage alcohol, in 10-15 minutes instead of the traditional hour,” says Paul Weaver, Canopy Growth’s Director of Innovation. “It’s all based on your metabolism; some people observe effects in just a few minutes or for some it’s 15 to 20 [minutes]. Equivalizing the cannabis experience to beverage alcohol is necessary to normalize the category and show people a new alternative.”

LPs are working on making consistent edibles, especially rapid-onset beverages, but with Health Canada and Canadian Food Inspection Agency regulation, the process of creating pharmaceutical grade food products is slow and arduous.

With many infused beverages featuring zero calories and no added sugar, rapid-onset cannabis drinks could give retailers the opportunity to rival the unregulated market and the legal alcohol market. Many retailers are opting to add fridges in preparation for summer when chilled cannabis beverages could be available in ready-to-drink formats. LPs are planning non-infused tastings that will be very similar to the final product as the cannabis distillate is virtually tasteless. This will give an opportunity for people to taste the products before retailers start selling them.

“We think legal Canadian edibles and beverages designed specifically for new consumers (who have never been high) will drive foot traffic into the stores,” says Weaver. “If you’re a new retailer feeling the need for comparable products to the grey market, then the easiest and largest source of customers is new consumers, and the beverages and edibles are designed to address their unique needs and fears.” ▲

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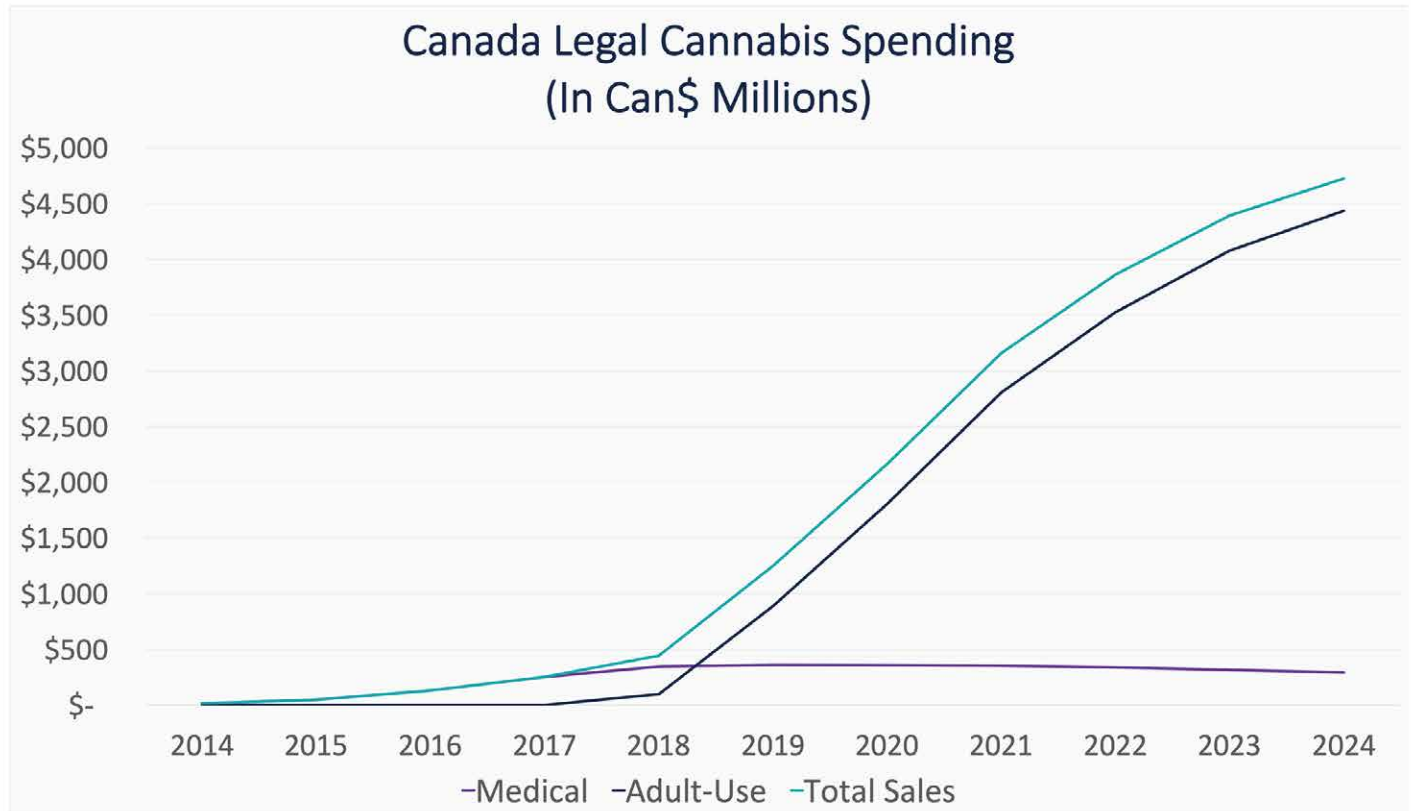
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Canadian Market Projections

by BDS Analytics



Source: Arcview Market Research/BDS Analytics

Methodology

BDS Analytics forecasted the medical spending on cannabis taking into consideration patient counts from Statistics Canada.

Adult-use forecasts are based on comparisons to prior transitions in US markets as well as estimates derived using Canadian government data on cannabis usage. The adult-use annual spending per consumer is based on both government data for national spending, in-store spending, national and provincial economy as well as comparable US data.

Key Assumptions

The Canadian medical cannabis market was well-established prior to the legalization of recreational sales in October 2018. In US markets, we have typically seen an immediate, major decline in both the

number of registered patients and per-patient spending followed by stability after considerable contraction. In Canada, due to the initial sluggishness of adult-use sales, we have seen a much smaller impact—though patients have already begun to decline in a few provinces and we believe the long-term trend will be similar to that of US states, though Canada's medical market is expected to remain relatively stronger due to some coverage by private health insurance and the national veteran's health provider.

In the recreational market, initial sales were weaker than expected due to supply chain issues and lack of a retail footprint in most provinces, excepting Alberta, at launch. Retail expansions in Ontario and other provinces throughout 2019 are beginning to have an effect on sales and stock is expanding. The pending availability of product beyond cannabis flower and oil will lead to greater growth in 2020 and beyond. ▲

We're seeing a lot of licensed producers (LPs) announce new stores in Ontario, yet the Ontario regulations limit LPs to ownership of 25% or less. What types of arrangements between licensed retailers and LPs are allowed in Ontario?

When the cannabis retail regime in Canada was still being developed by each of the provinces, many licensed producers (LPs) anticipated being able to open their own "flagship" stores or make equity investments in potential retailers. However, certain provinces (including Ontario) passed legislation that precluded LPs from operating their own locations or making significant investments in retailers. In Ontario, the investment threshold was initially 10%, but the regulations were recently amended to provide that LPs (or any affiliates thereof) cannot own greater than 25% of any licensed retail operator. As a result of this prohibition, LPs have developed creative commercial solutions and structures that have allowed them to participate in the retail sector and obtain much desired brand proliferation.

In this regard, certain LPs (or their affiliates) have entered into licence agreements whereby the LP licenses intellectual property to the licensed retailer. This, for example, might include licensing the LP's brand elements or proprietary store concepts to the retailer. In addition, LPs can enter into traditional commercial arrangements with licensed operators for the provision of consulting and other services, provided that the LPs do not maintain any level of control over the licensed operator. However, since the Ontario Cannabis Store controls the distribution of cannabis in the province, retailers cannot enter into an agreement to purchase cannabis products directly from an LP.

What steps can individuals take to challenge market rules?

The process for challenging regulations respecting the distribution of cannabis is no different than trying to challenge the regulations for any other sector or industry. Individuals seeking to change market rules should work collaboratively with industry associations and collectively engage with government representatives to advocate for a change in the regulations. We have already seen a significant (and much needed) change to the Ontario retail regime after significant public pressure, so the possibility for change does exist as government officials are still trying to determine the most advantageous and safest way to regulate the distribution of cannabis.

Do you see any harmonization of federal and provincial rules in the future?

Upon the enactment of the federal Cannabis Act, each province had the power to enact legislation to govern the distribution of cannabis within its province. This resulted in each province having a distinct regulatory model for the distribution of cannabis. Certain provinces seemed to have fared better during the first full year of selling legal recreational cannabis, although retail distribution across Canada, and certain provinces in particular, was far from smooth. In this regard, we expect that provincial governments will begin to collaborate and develop models for the distribution of cannabis that may prove more beneficial for their population and economy. While it is unlikely that all provinces will harmonize their cannabis regulatory regimes, we do expect that certain provinces will take steps to revise their regulations based on lessons that can be learned from the provinces where cannabis distribution has been deemed most successful.

What steps can legacy operators take to become part of the legal system?

There is a role for legacy operators in the legal cannabis regime, but they must be willing to embrace the new paradigm and abide by the proper licensing process. Certain provincial governments have shown a willingness to work collaboratively with legacy operators, so they may continue to operate in the new era of legal cannabis. This is a trend that we hope will continue, as ensuring that legacy operators are not disenfranchised and have the ability to operate legal businesses is essential for helping to eradicate the illicit market.

Eric Foster is the leader of Dentons' Canadian cannabis practice. Eric is widely recognized as one of Canada's leading cannabis lawyers and has earned a Band 1 Ranking for Cannabis Law from each of Chambers & Partners and Legal 500.

If you have questions you would like a lawyer to answer, please send them to joyce@emcmktg.com and we will consider including those in our next column.

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