



Our Guide to Cannabis Market Research



BRIGHTFIELD GROUP



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Introduction

The cannabis market has seen incredible movements in legalization efforts, innovated at record pace, and seen widespread consumer and public support. This industry progression has resulted in literally thousands of new cannabis brands around the globe creating never-before-seen products and attracting brand new buyers.

The most successful cannabis companies – from MSOs to dispensaries – do their research. In an industry like cannabis, regulations can be very strict and geographically fragmented. This fragmentation leads to a diverse set of consumer preferences, product categories, and competitive landscapes across states and countries.

Each company needs to get a holistic view of the markets they serve in order to truly understand this dynamic industry.

Market Sizing and Forecast

The first question that many people wonder when beginning market research is: where is the market going to go? Rooted in retail sales, market sizing and forecasting is an excellent first step to plan the growth of your business. If a market like cannabis is expected to have strong growth, you can feel a bit more confident in the decisions you make.

There are many ways to break down the cannabis market. Let's start with adult-use (or recreational) and medical.



Adult-use markets have been ramping up in recent years as public support for the cannabis industry climbs. In the United States, these adult-use markets are popping up east of the Mississippi River, creating an entirely new business landscape and way of passing cannabis legislation. As for medical markets, which have existed in the US since the 90s, growth is still happening. We are well past the halfway point for medical markets in the United States and that number is expected to rise in the coming years.



This large growth is also impacting the types of products that are getting brought to market. As with all emerging industries, cannabis is a fertile ground for innovation; the industry is moving away from loose products like flower and become much more sophisticated with edibles, concentrates, drinks, and even products with CBD.

Historically, cannabis has only been available through illicit channels or through a dispensary or medical facility. This still rings true today but as the industry expands, so does product availability across various channels. Cannabis products are beginning to be distributed through legal delivery services and are even available on-premise in cafes and other locations. While the distribution channel strategy of many companies varies state to state, the gates are slowly opening for wider distribution of cannabis products.

Competitive Landscape

It's always important to know what other people are doing in the industry in which you operate. Competitors can be role models, threats, or even opportunities for work you eventually want to do. The competitive landscape drastically varies across industries, and in cannabis, we are rapidly seeing more business consolidation.

"As the industry expands east, we are seeing a faster rate of business consolidation."

The West Coast business environment has grown into thousands of brands across hundreds of dispensaries and medical facilities. This has created an immensely fragmented landscape where competition is more local than anything else. However, as the industry expands east, we are seeing a faster rate of business consolidation, primarily due to observance of West Coast cannabis and the limiting of dispensary licenses, driving investment barriers up.

Additionally, Major cannabis firms are competing for a few key areas of the US. The Northeast, with its dense population and potential for growth (in states like CT, NJ, NY, et al), has provided fertile ground for competition; in California, companies are vying for a slice of the world's 5th largest Economy; and Ohio—a potential toe-hold in the Midwest—has become a hot spot for medical competition.

When researching the competitive landscape, it's important to look at your business and understand where the opportunities lie and why you are destined for success.



Enter, the SOAR Analysis

SOAR analysis is a strategic planning technique which helps organizations focus on their current strengths and opportunities and create a vision of future aspirations and the results they will bring. In contrast to SWOT analysis, the SOAR model uses appreciative inquiry to focus the business on what is known to work, rather than internal weaknesses or perceived threats that might not eventuate. The technique is more action-oriented than a SWOT analysis and is focused on meaningful outcomes.



Strengths
Opportunities
Actions
Results

Regulatory Environment

Every industry has rules and regulations. Cannabis is no different and, in many ways, is significantly more difficult to navigate. Laws vary across countries, states, and even counties so it's important to understand the specific regulations for the areas in which your business will operate now and in the future.



For example, comparing East and West in the US opens up a wide range of regulatory dynamics. The regulatory environment in the East is very different than when the West first opened. The regulatory environment in the West included few limits on the number of licenses issued at various levels of the production process, favoring small firms, but also creating conditions that proved susceptible to over-saturation and failing businesses. The East Coast and Midwest states are restricting license granting, creating a fertile environment for scale and consolidation, adding value to entry for large firms and investment.

Conversely, this has created a barrier to entry for smaller players leading some to call for a re-balance of the opportunities that are opening in the burgeoning field. These large players and fewer licenses have made it hard for East Coast mom and pop shops to get in the game.

At the federal level, there are a couple key pieces of legislation that would establish necessary infrastructure for the cannabis industry.



SAFE Act

The Secure And Fair Enforcement (SAFE) banking act would serve as another large step forward for the legitimization of marijuana businesses by protecting the business banking practices of those operating in medical and adult-use states. The act prohibits federal regulators from punishing financial institutions that provide services to cannabis-related businesses for trafficking or financial crimes.



As a federally controlled substance, many risk-averse banks are hesitant to do business with legal marijuana businesses. Without a bank account, businesses are operating heavily in cash creating financial vulnerabilities that constrict market expansion. The current environment imposes difficulties for businesses to pay their bills and employees in a legitimate, non-cash way.

STATES Act

In April 2019, the Strengthening the Tenth Amendment Through Entrusting States Act (STATES) was reintroduced in Congress. The bipartisan legislation would clear up longstanding confusion of state legislations versus federal law on cannabis and protect states who have implemented marijuana legalization. The STATES act would amend the Controlled Substance Act of 1970, which bans marijuana, effectively carving out a “respect states’ rights” exemption for individuals and businesses in compliance with state laws relating to the regulation, manufacture, production, possession, distribution, administration or sale of marijuana products.

Due to its bipartisan support, there exist some measure of optimism the STATES act will pass. Many feel the illegal status of marijuana has thwarted critical medical research and creates an environment that stifles the growth potential of legitimate business and innovation.

Product Type Analysis

Analyzing product types across cannabis is essential for growing business. This helps determine new product development, marketing strategies, and business expansion. Each product type is unique in that it fits specific consumer segments, regulatory environments, and businesses’ brands and goals.



Cannabis is an emerging industry (no surprise there.) With all emerging industries, new product types are entering the market every day. From new edibles and drinks, to flower and concentrates, businesses are constantly innovating in order to capture consumer attention and market share. Tracking these innovations is integral to understanding market and consumer trends as well as identifying new opportunities for business development.

Concentrates and “other” product types like capsules, tinctures and topicals will drive the growth in the medical market, while edibles and flower and vapes dominate in the adult-use market. As markets first come online, flower is generally the most popular product – until recently flower dominated nearly all black-market sales and was synonymous to marijuana amongst most. As consumers transition into a new fully legal market, many will first try flower as it is what they are most familiar with, or flower plus an edible or concentrate for some variety.



However, flower is actively declining as a percentage of overall sales in nearly every market, as more consumers move towards newer form factors, including edibles and vapes. As newer consumer segments begin purchasing cannabis products, form factors that don't require smoking, or cause the notorious smell that marijuana is known for are increasingly attractive. However, particularly with the price depreciation seen in the more established adult-use markets like Oregon and Colorado, flower is a very budget friendly option that remains attractive for many heavy users.

International Market



Cannabis is absolutely a global industry. While much of the focus has been on the United States, there are large markets in Canada, Europe, and Latin America that are seeing growth. As with any new market expansion, companies will need to be grounded in the unique consumer demographics, product preferences, competitive landscape, and regulatory environments of each region in order to identify the best opportunity to succeed.



One of the first steps toward strategic international expansion is identifying where demographics and regulations come together to create fertile ground for future growth of cannabis. For example, where do consumers have enough disposable income to afford higher tiered cannabis edibles? Do local or regional policies allow for open and accessible sales of cannabis products? How does the culture around cannabis impact the regulatory environment and consumer perception of new products? These answers can heavily vary especially in Europe where each country has its own policies on both cannabis and CBD regulations. These foundational considerations have a huge impact on the market potential and market size forecast for each country and region, helping companies identify the best geographies to concentrate their efforts.

Next, players must consider the best way to compete in each market. Enter product trend, distribution channel, and competitive landscape analysis. Demographics and regulations are important here again, but local culture, shopping styles, and perceptions of health and wellness also come into play. Surveying the players already present in each market, levels of fragmentation or consolidation, and white spaces in product offerings will let new entrants know how, or not, they can fit into and succeed in the global cannabis market.

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