

# BUYING CBD DURING A PANDEMIC

## Channel & Consumer Trends

NOVEMBER 2020



# Brick-and-Mortar Bounces Back while Online Holds Steady

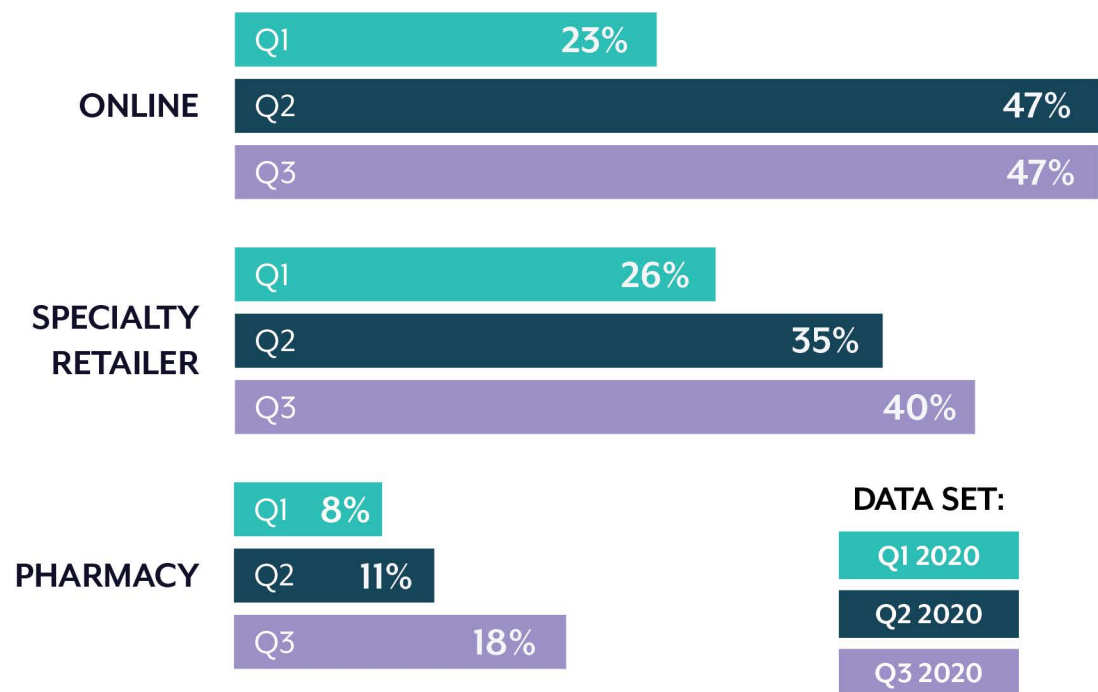
The ongoing COVID-19 pandemic has caused extra stress for consumers, and despite the expense, many are not giving up their CBD during this time. However, with the closing of many retail outlets and stay-at-home orders in place, consumers turned to online outlets for CBD purchases in the first half of 2020.

From Q1 to Q2, the share of CBD consumers reporting online purchasing rose from 23% to 47%, and top brands reported corresponding spikes in online sales. Q2 saw the height of stay-at-home orders, and brands with heavy brick-and-mortar presence were hit especially hard.

Online sales have stuck, as the share of consumers who report buying CBD online has held steady in Q3. However, our latest data shows consumers are venturing out again. In Q3, 41% of CBD consumer reported they recently started shopping in-store again for CBD products.

## CHANGES IN CBD PURCHASE CHANNEL

% of CBD consumers purchasing CBD through channel by quarter



## SPECIALTY RETAILERS

In particular, CBD specialty retailers and pharmacies saw an uptick in consumer-reported purchasing; in Q3, 40% of CBD consumers reported purchases from a CBD specialty retailer such as CBD American Shaman, Your CBD Store, or any number of small, independent CBD specialists found in cities and rural locations alike.

**CBD specialty retailers** provide consumers the ability to learn more about CBD through knowledgeable employees and the ability to sample products, depending on the store. While more mainstream retail outlets now carry CBD, CBD-only stores such as CBD American Shaman and Your CBD Store maintain an important competitive advantage in being exclusively CBD-focused in a time of general consumer uncertainty, as they boast expertise related to these products and offer a wider product variety versus other brick and mortar retail channels.



# PHARMACIES

CBD consumers also returned in greater numbers to **pharmacies**, with 18% reporting buying CBD through this channel in Q3 compared to only 11% in Q2 and 8% in Q1. Chain pharmacies have increased their brand offerings throughout 2020, though are still cautious of their product offerings and are sticking to topicals. During the pandemic, pharmacies have remained open as essential retailers, offering brick-and-mortar shoppers a consistent and convenient location to find CBD. Pharmacies also benefit from the growing mainstream momentum of the CBD industry, which is still drawing in new consumers. Consumers already recognize, understand, and have confidence in the infrastructure surrounding pharmacy retailers. This will help lift social stigmas surrounding CBD use as well as concerns about products.

In addition, brands such as Medterra and CBDistillery have targeted independent pharmacies with new clinical lines that offer pharmacists an exclusive, high quality, and often higher dose offering to their customers. Like CBD specialty retailers, independent pharmacies can provide individual recommendations and personalized advice about CBD products and often carry a wider range of products than chain pharmacies.





# WHAT'S TO COME

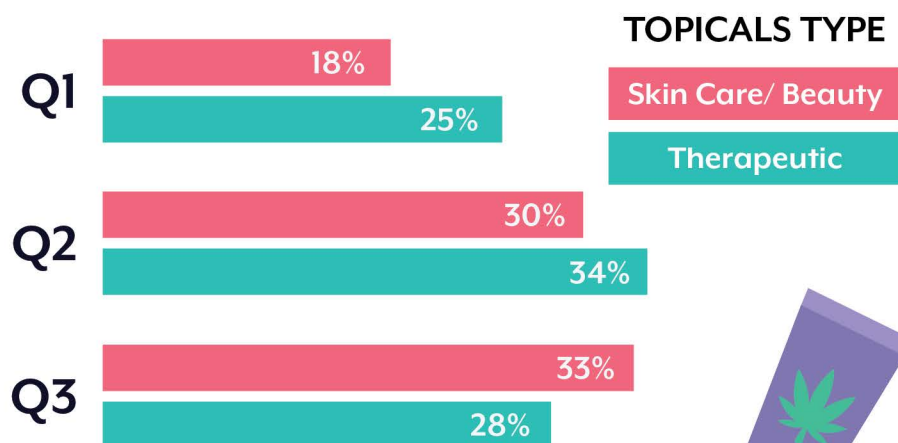
As more brands offer easy-to-navigate website experiences, consumers will continue to make purchases online. However, consumers still have many questions about CBD, are exploring different product types, and are looking for expert advice that can be found in many brick-and-mortar outlets. This will continue to favor specialists and trusted channels like CBD specialty stores and pharmacies. Once the regulatory uncertainty surrounding ingestibles clears, it will be more common to see a wider range of product types - including tinctures and gummies- in mainstream retailers such as grocery stores, big box outlets, and warehouse clubs.



## Product Trend: Beauty & Skincare Surpasses Therapeutic Topicals

### TOPICALS USAGE BY QUARTER

% of CBD consumers using type of topical by quarter



In Q2 2020, CBD topical use was reported by over a third of CBD consumers for the first time. The growth of CBD topicals can be attributed to their ease of use, familiarity with the format, and availability at mainstream retailers. In Q3, topicals for beauty & skincare surpassed therapeutic topical use. From Q1 to Q3, CBD skincare/ beauty topicals use increased by 83%, where now 33% of all CBD consumers report use.

This explosion in CBD for skincare and beauty can be attributed to the growing self-care movement and availability of CBD skincare. As spas and hair salons closed due to the pandemic, consumers took these routines into the home. The beauty industry in general experienced increased sales of skin, body, and hair care as these routines changed. The additional stress of the pandemic also spurred many consumers to practice self-care routines for the first time, and topicals are an easy way to care for skin. New and existing CBD users picked up CBD topicals to treat themselves to functional skincare and reduce stress.

# New CBD Users Bounce Back

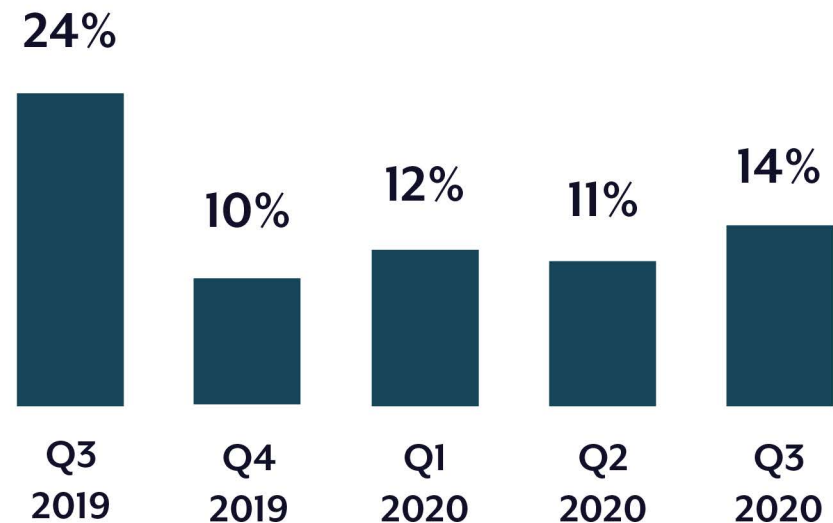
People new to CBD, or the Newbies, are exciting consumers to watch out for. The reasons why they turn to CBD, where they heard about it, and other self-reported markers allow us to understand what is driving entry into the market. We can also see the opportunities for brands to continue to draw new users in the market. In Q3 2020, the number of new users in the market was the highest it had been since declining in Q4 2019; consumers using 3 months or less made up 14% of the market in Q3, and consumers using 3 to 6 months made up another 17%.

**With 31% of the market using CBD for less than half a year, there are opportunities to win loyalty, excite with new products, and create lifelong CBD customers.**

**Newbies = CBD users who report use for 3 months or less**

## NEW CBD USERS BY QUARTER

% of all CBD consumers using CBD 3 months or less

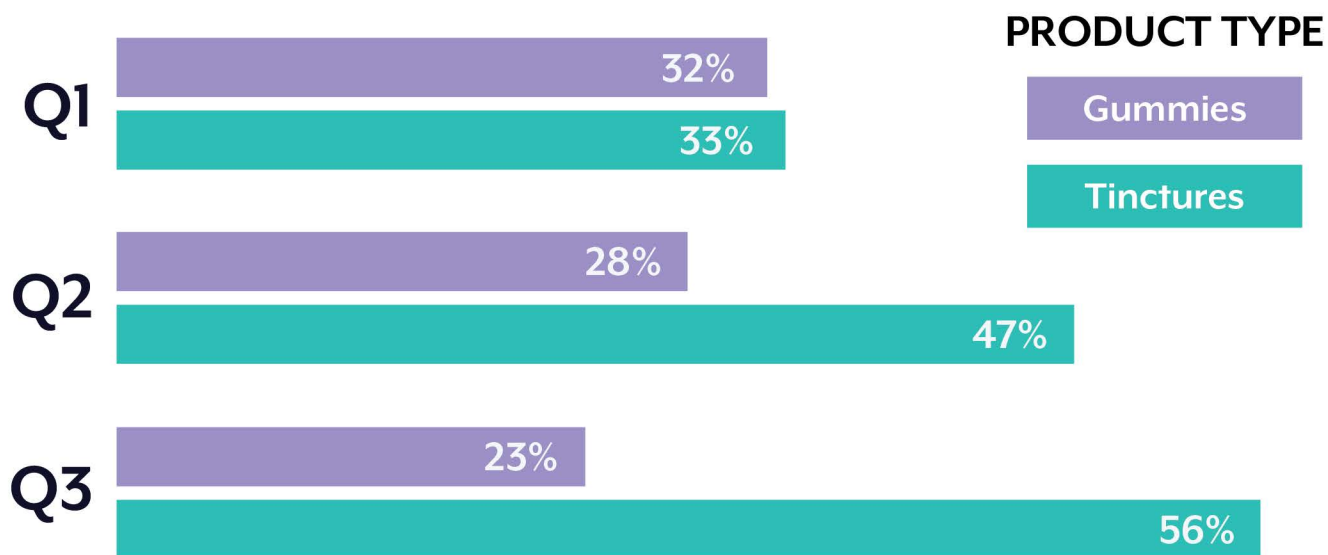


# NEWBIES ENTER THE MARKET WITH TINCTURES

Newbies in 2020 have shifted away from gummies and reported higher instances of tincture use. In the beginning of the year, Newbies were using tinctures and gummies at similar rates, with about a third of the population reporting use for each. As the pandemic set in during Q2 2020, Newbies reported higher rates of tincture use, with 47% having used a tincture in the past 6 months. Gummies use was down to 28%, a 14% decrease quarter over quarter. Now in Q3, Newbies are using tinctures more than ever, with 56% reporting use! From Q1 to Q3, it was a 70% increase in tincture use among new users.

## NEW USER PRODUCT USE BY QUARTER

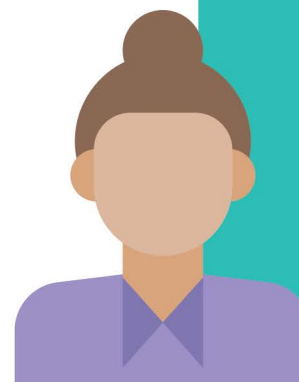
% of new CBD consumers (using 3 months or less) reporting product type use



# KNOWLEDGEABLE NEWBIES

At the same time, Newbies are entering the market with a better understanding of dosage. In Q1 2020, 27% of Newbies were unsure of their CBD dosage. This declined in Q2 to 21% and hit an all-time low in Q3 of only 14% of Newbies not knowing the CBD dosage they take.

This is likely due to CBD companies prioritizing consumer information on their packaging and website. Green Roads uses “Mild”, “Moderate”, and “Mighty” dosage classifications to make the decision easier for consumers. CBDistillery’s labels provide clear directions for consumption, a simple diagram of a CBD molecule, and graphics denoting which parts of the body the product may help. For online education, Green Roads’ website includes CBD University where potential customers can read detailed articles on “How CBD Works;” study a diagram on “broad” versus “full” spectrum CBD; or download the “CBD 101” textbook. Other’s companies—like Medterra and Charlotte’s Web —have followed suit with informative tabs on their websites.

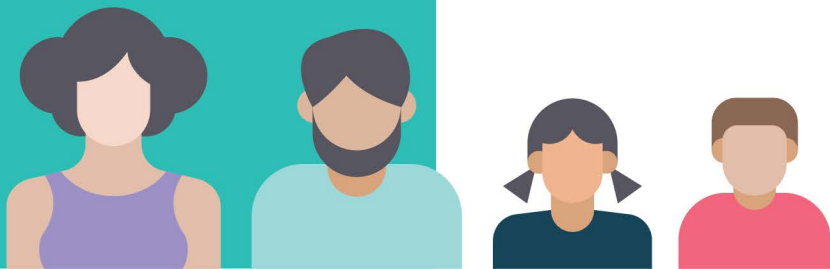




## PANDEMIC TRENDS: Q3 NEWBIES

Looking at the Q3 Newbie CBD consumers specifically, there seemed to be an influx in new users with children. 61% of Newbies have children in the home, which is up 54% from Q2 2020. As children stay home to e-learn due to COVID-19, parents have felt the strain of greater educational responsibilities. Similarly, Newbies are the most likely CBD user to be married. As remote work continues – many times from workspaces shares with a partner - married people are picking up CBD to cope with the changes.

Additionally, Q3 Newbies are more affluent than previous new users. The pandemic has left many Americans unemployed or with reduced hours, leaving them with minimal disposable income. However, the white-collar Americans spared from the economic turmoil seem to be the most likely to have picked up CBD in Q3 2020. 30% of Newbies in Q3 reported an income above \$150,000. Q3 articulated an explosion in affluent Newbies, but the number of new users in this income bracket has slightly increased every quarter since Q4 2019.

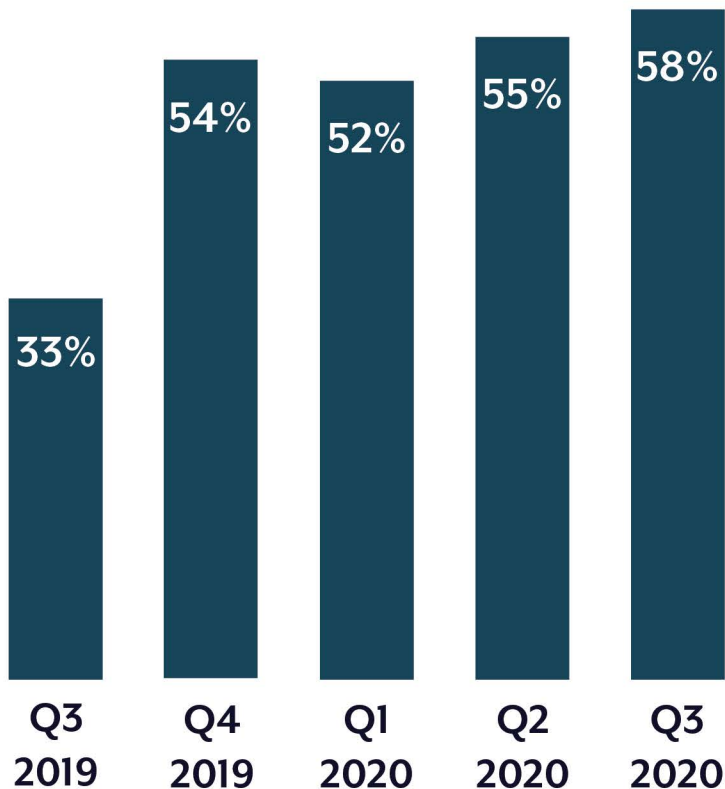


## Consumer Trend: Heavy Usage on the Rise

Heavy CBD use has held over 50% since Q4 2019 and has now climbed to 58% in Q3 2020. Logically, the more a consumer uses CBD, the more CBD they must buy. The growth in heavy users will fuel the expansion of the US CBD market, and with Newbies (those using CBD for less than 3 months) over-indexing for “daily” and “multiples times daily” use, we expect heavy CBD to continue to increase.

### HEAVY CBD USERS BY QUARTER

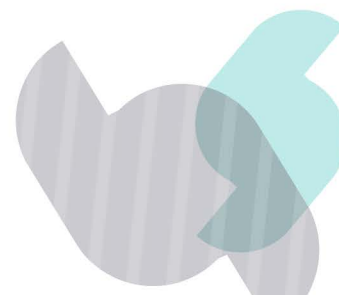
% of all CBD consumers using CBD 5 or more days per week



## Conclusion

CBD brands are always on the lookout for how new users are behaving. With the world beginning to settle into a "new normal" in Q3, these trends are a strong leading indicator of what brands will need to be successful going into Q4 and 2021.

Additionally, as heavy usage among new and existing users continues to increase, so does the lifetime value of CBD consumers. This emphasizes the importance for brands to truly understand who they are marketing to, how they can build loyalty, and create life-long customer relationships. The channels and consumers brands choose to target will influence success in these endeavors. The fundamentals of the industry remain strong, so companies should be revisiting their strategies and tactics for distribution as well as customer acquisition.



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