2018
Green Market Report

Sponsored By:
Brightfield Group
Consumer Research Around Cannabis
MedMen
MJ Freeway
The Green Organic Dutchman

The Economics of the Cannabis Consumer

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EXECUTIVE SUMMARY

As the cannabis industry continues to change, so do consumer preferences. As evidenced by recent data out of most major analysis firms in the industry, cannabis consumers are increasingly turning to concentrates and edibles over flower, and that trend will continue for the foreseeable future.

Demographics are also shifting toward a more diverse consumer base: Currently, the majority of cannabis consumers are men under the age of 40, but we're seeing rapid changes in the realm as well, both in terms of age and gender.

In addition to evolving demographics, cannabis dispensaries are also starting to change. Instead of dimly lit dispensaries in dangerous parts of town, dispensary chains are starting to appear in areas with low crime, adopting bright and open floor plans with helpful and friendly staff. One such dispensary chain is MedMen, one of the fastest growing chains in the United States.

Although stereotypes and stigma around cannabis persist, operators within the cannabis space are fighting back with campaigns aimed at combating misconceptions. From relaxation to treating chronic pain, the reasons why people use cannabis are as varied as the people themselves; and as cannabis continues to move into the mainstream, that diversity will only increase.

PRODUCT PREFERENCES

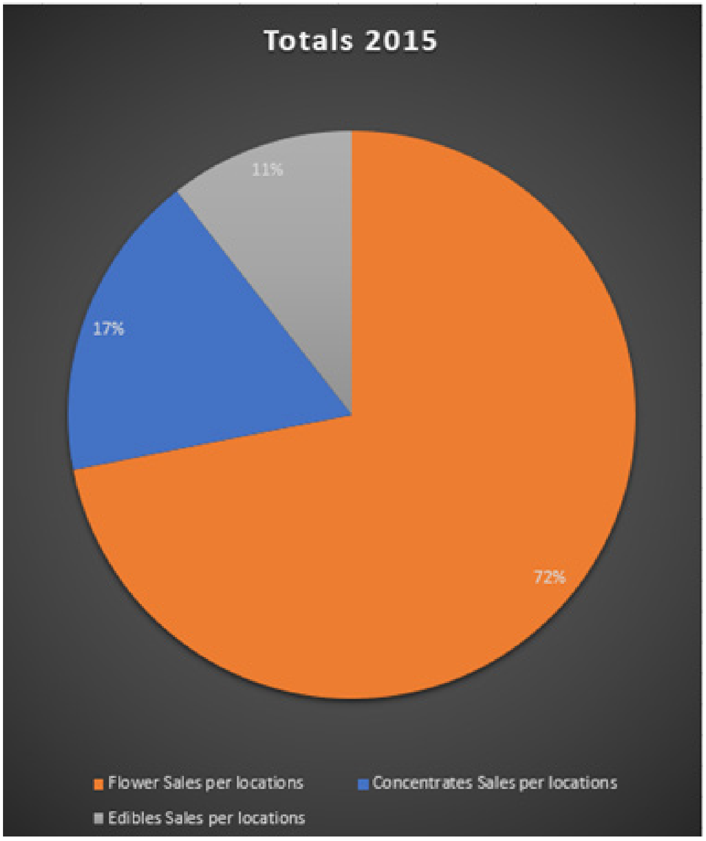
The cannabis industry is evolving, especially when it comes to consumer preferences. Although cannabis flower is still the most popular cannabis product sold, concentrates are quickly catching up, with vaporizer concentrates being the most popular subcategory. In the following example, BDS Analytics provides a snapshot of California cannabis consumer product preferences in June 2018.

In terms of grams sold, cannabis flower remained dominant with 58%. Cannabis edibles came in second with 12%, followed by pre-rolls with 10%. Rounding out the middle of the pack were vaporizer concentrates with 8%, followed by cannabis devices with 5%. Other forms of cannabis concentrates garnered 4% of total grams sold, followed by cannabis topicals with 1%.

But, while cannabis flower may sell the most grams, cannabis concentrates are closing the gap in terms of revenue. Cannabis flower made up 39% of all sales for that month; close behind flower were vaporizer concentrates with 25%. Edibles came in third with 16%, followed by pre-rolls (8%), other forms of concentrates (6%), devices (2%), and topicals (2%).

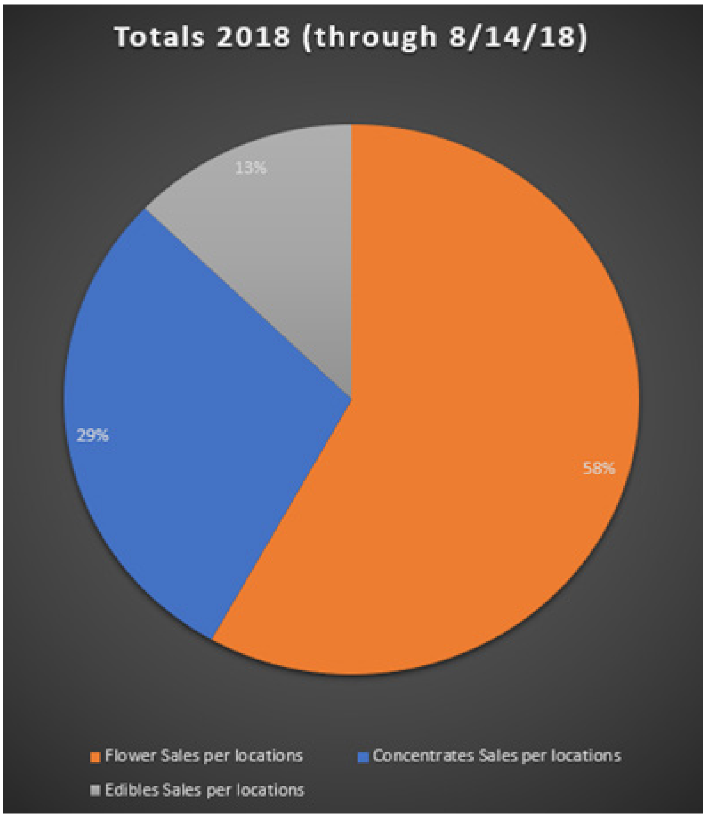
In short, non-flower formats are gaining in popularity. Further data provided by cannabis software company MJ Freeway supports this conclusion.

The following chart uses patient and customer data supplied by MJ Freeway from 321 cannabis dispensaries in four U.S. states: Oregon, Washington, Colorado, and Nevada.



Source: MJ Freeway

Between 2015 and 2018, cannabis flower went from making up approximately 72% of all cannabis sales to 58%. Sales of cannabis concentrates, on the other hand, rose from 17% of all sales to 29% in that same period. Edibles remained relatively stable, increasing from 11% to 13% of all cannabis sales.



Source: MJ Freeway

Although there is not enough data to accurately assess why consumers prefer concentrates to flower, several hypotheses can be made. With greater product variety, consumers may prefer the amount of choices afforded by concentrates as opposed to flower. For some consumers the act of smoking may be unpleasant; using concentrates may alleviate some of this unpleasantness. Regardless of the why, cannabis consumers – especially the newer (more female, older) uses are turning towards concentrates and edibles, and there is significant opportunity for those businesses that move to meet these preferences.

WHO IS USING CANNABIS

Understanding who is using cannabis can help businesses gain a significant advantage over competitors. According to a recent research study from DIG Insights, approximately 25% of Americans have used cannabis in the past year. At present, the majority of current cannabis users are men under the age of 40, with roughly 86% of all cannabis purchases nationwide being illegal purchases.

Men make up approximately 74% of current cannabis users, with women making up 26%. Roughly 29% of cannabis users are between the ages of 21 and 34, followed by adults over the age of 55 with 27%, and closely behind that group are adults between the ages of 35 and 44 with 25%. The smallest group of cannabis users are adults between the ages of 45 and 54, with 19%.

When considering potential cannabis users, the demographics are still skewed toward younger adults but with greater gender equity. Approximately 29% of Americans report that they are likely to try cannabis in the future. Of those likely to try cannabis, approximately 52% are men and 48% are women.

Adults between the ages of 21 and 34 make up the largest group of likely cannabis users, with a 35% probability. The second largest group is conformed by adults aged 35 to 44 with 25%, followed by adults over the age of 55 with 22%. Once again, adults between the ages of 45 and 54 make up the smallest group, with only 18%.

While women do not make up the majority of current cannabis users, the data clearly shows that there is a significant opportunity for businesses that attempt to appeal to female consumers. As the stigma attached to cannabis use continues to decline, more and more women will become cannabis users, and the businesses that start to cultivate a relationship with that group will be the ones to reap the rewards.

Using data provided by leading cannabis dispensary brand MedMen and the Brightfield Group, specific insights about the cannabis consumer can be gleaned.

Note: The following utilizes data from MedMen cannabis dispensaries in the state of California.

As expected, much of MedMen's data conforms with existing assumptions about current cannabis users.

Roughly 42% of MedMen customers are between the ages of 21 and 31 (Leading Gen Z, Trailing Gen Y). The second largest group of MedMen customers are adults between the ages of 32 and 38 (Leading Gen Y), with 21%. Adults between the ages of 39 and 53 (Gen X) make of the third largest group of MedMen customers, and approximately 14% of customers are 54 years old or older (Boomers).

Digging deeper into Brightfield Group's data, insights into specific customer profiles are revealed below. Many of these insights have overarching implications regarding the three target groups the company wishes to market to. Some of the most interesting customer profiles are Divorced Dads, Newbies, Microdosing Mamas, and Boomerangs. *For more information regarding these customer profiles, please see the addendum at the end of this report.*

Source: Brightfield Group.

DIVORCED DADS

As the name implies, **Divorced Dads** are divorced men with children. Divorced Dads are overwhelming white (97%), and nearly half are between the ages of 57 and 79 (47%). The second largest group of Divorce Dads is the 46 to 55 age group with 25%. Approximately 15.69% of Divorced Dads are between the ages of 36 and 40.

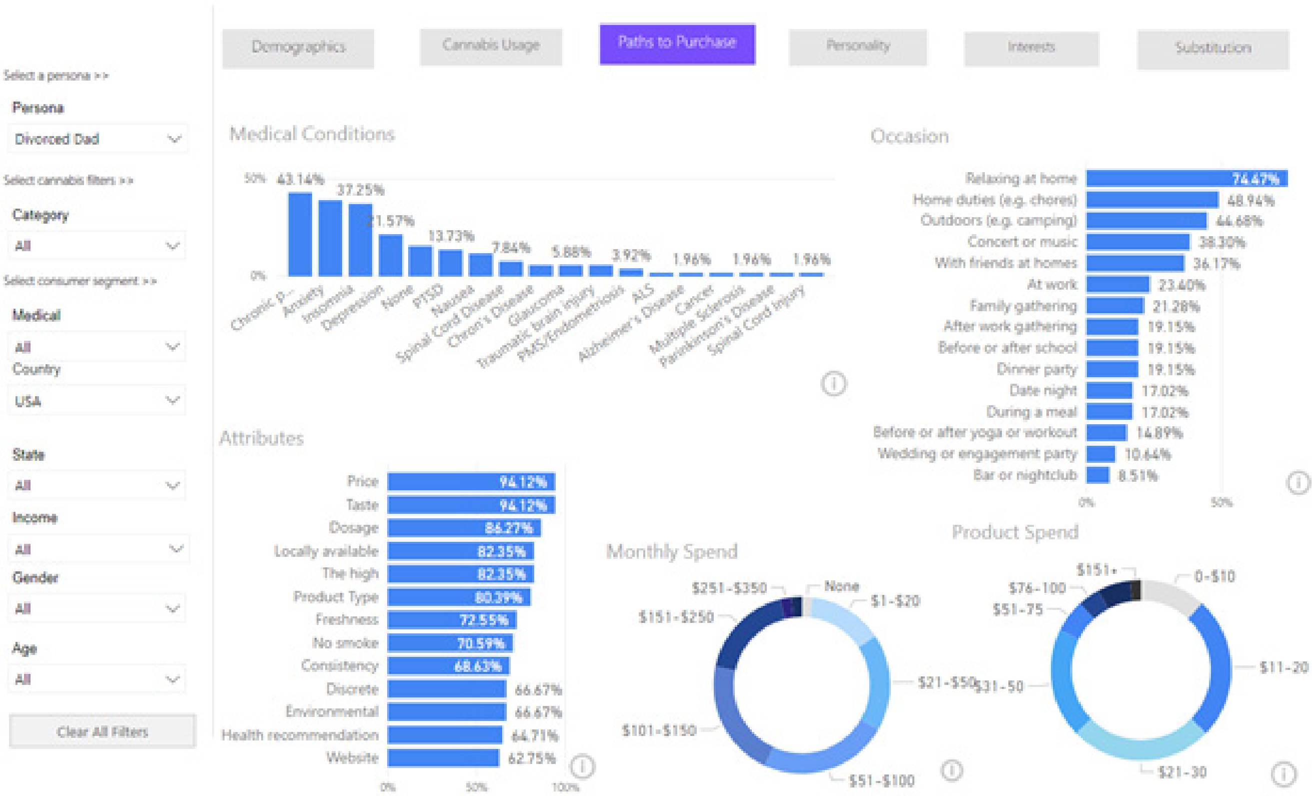
Roughly 41% of Divorced Dads use cannabis on a daily basis. Another 33.3% use cannabis 2-4 days per week. 37.25% of Divorced Dads have used cannabis consistently, another 33.3% have used cannabis on and off.

More than three-quarters of Divorced Dads spend less than $150 a month on cannabis (78.45%). Approximately 17.65% of Divorced Dads spend between $151-$250, and only 3.92% more than $250 a month. Regarding product spend, roughly 62% spend less the $30. 19.61% spend between $31-$50. Only around 17% of Divorced Dads spend more than $50.

Approximately 74.47% of Divorced Dads use cannabis to relax at home. Aside from relaxing at home, the most popular activities for Divorced Dads to use cannabis is home duties (48.94%), outdoor activities (44.68%), concerts or music (38.3%), and with friends at home (36.17%).

Approximately 43.14% of Divorced Dads suffer from chronic pain. Another 37.25% suffer from anxiety and/or insomnia, with another 21.57% suffering from depression.

Key Insight: Divorced Dads are more likely than other groups to be daily cannabis users.



Source: Brightfield Group.

NEWBIES

Cannabis Newbies are those users who have used cannabis for less than two years. Approximately 60% of Newbies are men, and 39% are women. Regarding age, a little more than 40% of Newbies are between the ages of 18 and 30. Another 32% of newbies are between the ages of 46 and 79. 21% of Newbies are between the ages of 31 and 40.

Source: Brightfield Group.

A little more than half of Newbies are recreational users (58.85%), while another 41.15% are medicinal users.

Regarding usage, 27.78% of Newbies use cannabis a few times a year. Another 19.75% use cannabis a few times a month. 15.84% use cannabis 2-4 days a week, while 15.02% use cannabis once per week. Only 13.17% of Newbies use cannabis every day.

Newbies most like to use cannabis while relaxing at home (78.33%), followed by home duties (43%), with friends at home (43%), Outdoors (34.33), before or after a workout (28.33%), and before or after school (28%).

Source: Brightfield Group.

More than half of Newbies spend less than $50 a month on cannabis (52.88%). Another 21.81 spend between $51-$100 a month. Only 18.93% of Newbies spend more than $100 a month on cannabis. In terms of product spend, an overwhelming majority (91.77) spend $50 or less.

Roughly 52.67% of cannabis Newbies suffer from anxiety, 34.98% suffer from chronic pain, and 30.45% suffer from depression.

Key Insight: As the cannabis industry matures, more women are beginning to use cannabis for the first time.

Source: Brightfield Group.

BOOMERANGS

Boomerangs are Baby Boomers (adults between the ages of 56 and 79) who used cannabis when younger, then quit, and are now coming back around to cannabis. About 55% of Boomerangs are men, and 44% are women.

The majority of Boomerangs are returning to cannabis as medical users (66.67%), while a smaller (yet significant) percentage are recreational users (33.33%). Approximately 38.25% of Boomerangs use cannabis a few times a year. Roughly 17.49% of Boomerangs use cannabis on a daily basis, and 16.39% use cannabis a few times a month.

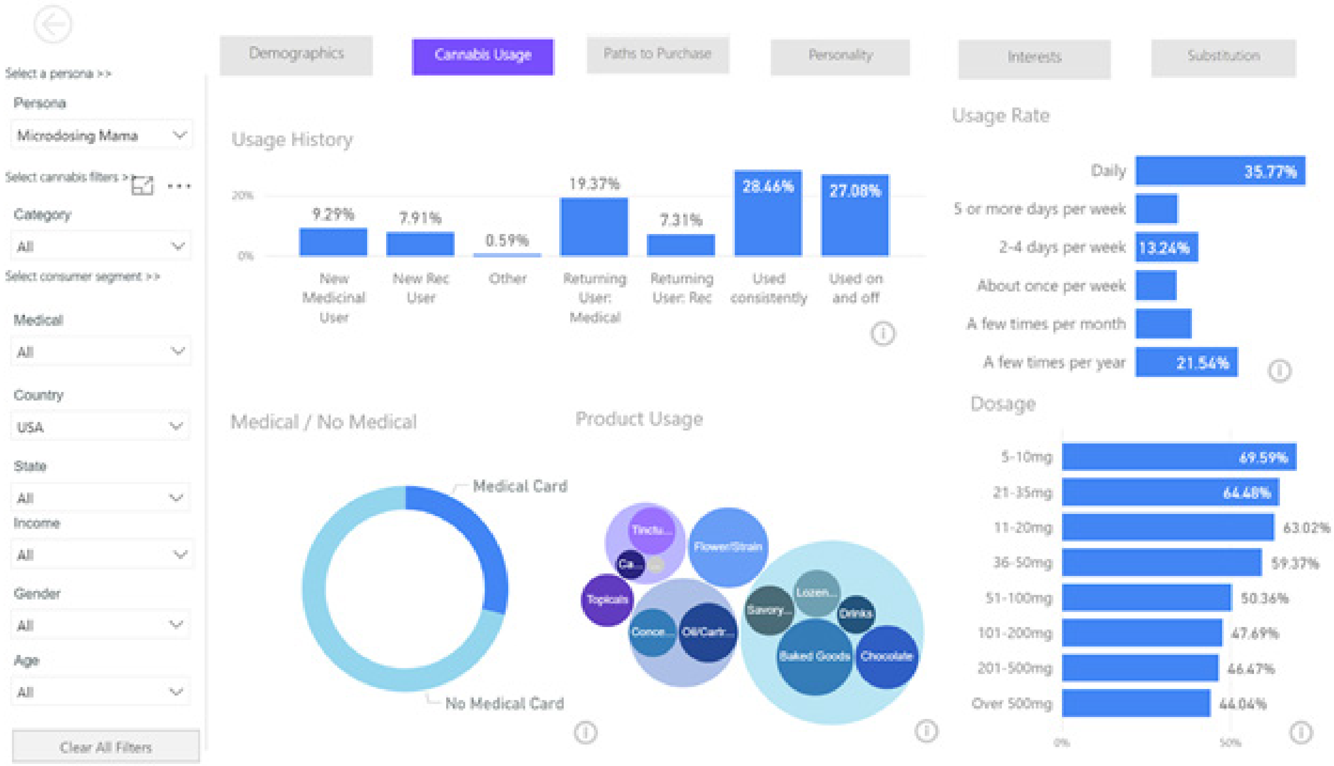
Source: Brightfield Group.

Most Boomerangs prefer to use cannabis while relaxing at home (82.36%), followed by outdoor activities (38.1%), with friends at home (38.1%), home duties (37.14%), and at a concert/while listening to music (32.38%).

Nearly three-quarters of Boomerangs spend $50 or less a month on cannabis (71.04%). Approximately 14.75% spend between $51-$100 a month, and only 14.2% spend more than $100 a month. Regarding product spend, that vast majority (91.8%) spent $50 or less. Roughly 8.2% spend more than $50.

The most common medical conditions that Boomerangs suffer from are chronic pain (46.45%), anxiety (37.7%), and depression (28.42%).

Key Insight: Most Boomerangs are returning to cannabis to help treat a medical condition.



Source: Brightfield Group.

MICRODOSING MAMAS

Microdosing Mamas are mothers with children at home, who regularly use cannabis in doses of less than 100 mg. Approximately 28.46% of Microdosing Mamas have used cannabis consistently, while another 27.08% have used cannabis on and off throughout their life. Another 19.37% are returning users that are medical patients, while another 7.31% are returning users that are recreational users. Roughly 9.29% of Microdosing Mamas are new medical users, and another 7.91% are new recreational users.

Age wise, nearly half are between the ages of 21 and 35 (49.22%). 25.88% are between the ages of 36 and 45; another 23.9% are between 46 and 79. Regarding usage rates, 35.77% of Microdosing Mamas are daily users, while roughly 21.54% only use cannabis a few times a year.

Source: Brightfield Group.

Most Microdosing Mamas prefer to use cannabis while relaxing at home (74.25%), followed by home duties (63.81%), outdoor activities (51.51%), before or after a workout (48.72%), with friends at home (44.78%), and during a meal (43.85%).

On average, 46.83% of Microdosing Mamas spend $50 or less a month on cannabis. Approximately 21.54% spend between $51-$100 a month on cannabis. Nearly a quarter (24.51%) spend between $101-$250 a month. In terms of product spend, 88.74% spend $50 or less, and 11.26% spend more than $50.

Microdosing Mamas often suffer from a combination of medical conditions. The most common of these conditions are anxiety (61.46%), depression (43.87%), and chronic pain (39.33%).

Key Insight: Although they use cannabis in lower dosages, Microdosing Mamas spend more money per month on cannabis than any of the other previously discussed groups.

THE EVOLUTION OF THE DISPENSARY

As cannabis consumer preferences evolve, so too does the design of cannabis dispensaries. One of the key aspects that MedMen credits to their success as a cannabis dispensary is their intuitive understanding that consumers desire an elevated dispensary experience. Critical elements to this elevated experience include:

Safety – Consumers desire a dispensary in a safe neighborhood with security, as well as staff that make them feel comfortable.

Accessibility – The cannabis consumer wants a dispensary experience where it is easy to shop and understand what it is they're looking for.

Premium Experience – Consumers desire an elevated and aspirational retail experience.

Delightfulness – Many consumers also want a shopping experience that provides delightful moments, as well as surprises, throughout the visit.

Helpfulness – Critically, cannabis consumers want to visit a dispensary that provides necessary tools and services that can help them find the right product for their needs.

Relevance – Cannabis consumers want a shopping experience that is appropriate for all users, regardless of age, gender, or experience.

To that end, MedMen addressed these concerns by creating dispensaries located in safe neighborhoods with a bright and open floor plan, friendly and helpful staff, and a hands-on experience. The results from seeking such a design has been mostly positive. Approximately 21% of MedMen shoppers come there for their first dispensary experience, and another 27% ultimately choose MedMen as their sole dispensary.

THE CAMPAIGN TO FIGHT CANNABIS STEREOTYPES

Although a majority of the American support the legalization of cannabis, there still a sizeable portion of the population that is reluctant or even afraid to use cannabis. Some fear the social repercussions, while others fear the legal ramifications, and then some are simply afraid that is going to make the anxious and afraid.

In the same CRA Cannabis survey that polled individuals about their views on cannabis, millions of people provided insight into why they don't use cannabis.

Of those that don't use cannabis, 24.8% of respondents said that they don't believe they would like the effects. Roughly 15.2% were afraid that cannabis is habit forming, 20.7% were afraid of mental harm, 17.3% were worried that cannabis would physically harm them, 7.1% were afraid of losing their job, and 6.4% were afraid of the disapproval of their friends and family.

Source: Consumer Research Around Cannabis

To help combat these stereotypes and stigmas, MedMen helped create two PR campaigns aimed as dispelling cannabis myths. The first was the “Forget Stoner” campaign, which helped reframe the idea that cannabis users were regular people and not “stoners.” The second campaign, dubbed “Cannabis,” similarly tried to dispel conceptions of who uses cannabis by showing users with indistinct features going about their daily lives; the underlying principle being that anyone could be a cannabis user.

REASONS FOR USING CANNABIS

The reasons why a people use cannabis are as numerous and diverse as the people that use it. However, thanks to information provided by the DIG Insights report, some prevailing reasons appear. The most common reason people use cannabis is to help relieve stress and anxiety, with 68% of respondents reporting to use cannabis for this reason. The second most common reason was that it allows individuals to relax mentally (65%), followed by physical relaxation (59%) and being in a good mood (55%). The fifth most common reason was to alleviate physical pain, (46%); although with increasingly better science behind medical cannabis and an again population, that number may rise in the coming years.

CONCLUSION

The cannabis industry is changing, and so are the people who participate in it. The majority of cannabis users may continue to be young, white men, but that is slowly starting to change as cannabis continues to move into the mainstream.

With a more diverse customer base comes evolving tastes and preferences, both in the ways that cannabis is consumed and the forms it is purchased. The modern cannabis consumer is trending towards concentrates over flower, and pleasant shopping experiences over sketchy-and-seedy looking dispensaries.

As businesses fight stereotypes, more and more people from diverse walks of life will turn on to cannabis; and the cannabis industry will be there to serve their varied and ever-increasingly refined tastes and preferences.

Green Market Report, LLC
t. (1) 833.GRN.MRKT
info@greenmarketreport.com
greenmarketreport.com