

# COVID-19 & CANNABIS:

LOOK TO DATA-DRIVEN  
INTELLIGENCE TO SUSTAIN A  
RECESSION-RESILIENT BUSINESS





## **IN EVERY CHALLENGE, THERE IS OPPORTUNITY.**

As essential businesses, cannabis companies are well-positioned to grow and thrive during this global pandemic, while helping customers maintain better physical and mental health.

This eBook presents data-driven insights and guidance for how business intelligence can help cannabis operators make smart decisions and cultivate success in uncertain times.

# INTRODUCTION

We are in unprecedented times with the sudden and rapid spread of COVID-19. Shelter-in-place orders have been established in locations across the country with certain types of businesses deemed ‘essential’ — grocery stores, banks, and pharmacies. In states where medical and/or recreational cannabis use is legal, essential also includes cannabis businesses. The recognition by state and local governments of cannabis as essential to the public’s physical and mental health and well-being demonstrates how far cannabis has come, with its use more broadly accepted across the country than in previous years.

**The cannabis industry is ‘recession resilient,’ with both short-term and long-term opportunities for innovations in new products and the ways they are marketed and sold.**

To act on these opportunities, business leaders must be smart about how they approach and make business decisions. This eBook offers data-driven insights and expert guidance to help cannabis operators navigate the ever-evolving business landscape with knowledge and confidence so they and the industry will continue to grow and prosper.

The insights discussed in this eBook are informed by business intelligence from MJ Freeway’s cloud-based seed to sale solution, MJ Platform. MJ Freeway is part of the Akerna family of technology companies. Akerna is the leading compliance and technology company serving clients in the cannabis industry, providing data-driven solutions worldwide across the entire supply chain, from seed to sale to self.

# 2020 PREDICTIONS

At the end of 2019, Akerna CEO Jessica Billingsley made several predictions for the coming year, some of which are already playing out due to COVID-19. We'll take a fresh look at these predictions below — and discuss the near — and long-term opportunities for the cannabis industry during and after this global pandemic.



## **DATA IS THE NEW CANNABIS CURRENCY**

As the industry simultaneously expands in market size and consolidates the number of businesses, smart professionals will demand rich data to make better-informed decisions. Providing and analyzing data from every point along the supply chain — cultivation, manufacturing, distribution, retail, and finally the customer — becomes critical for stakeholders looking to make the right decisions.



## **CONSUMERS BECOME SAVVIER**

Consumers will vote with their dollars by demanding and purchasing authentic and trusted products, especially in the wake of the 2019 vaping crisis. Not paying attention to the source can mean serious illness or even death.



## **CANADA'S SCALED MARKET CONTINUES TO SET THE STANDARD. U.S. BUSINESSES WILL PARTNER OR MERGE TO OPERATE GLOBALLY.**

To capitalize on global expansion opportunities, more U.S. brands will work to establish intellectual property holding companies and license their technologies overseas. Many will partner or merge with Canadian companies who have already established a global license presence.



## **BRANDS MUST PROVE THEY ARE REAL**

As business intelligence becomes more widely adopted, brands will be able to control, regulate, and report on their repeatable processes to maintain product consistency in geographically dispersed regions. Consistency builds credibility and drives the evolution of a product to a brand in terms of its market position, customer loyalty, and repeat sales.



## **CANNABIS BUSINESSES FOCUS ON FUNDAMENTALS**

Public valuations for many operators have fallen, setting comps in the private sphere as well, and cannabis businesses are focusing on fundamentals, including an accelerated adoption of technology and utilization of data-driven decisions.

# WHAT ARE THE **OPPORTUNITIES** AND **CHANGES** NEEDED FOR CANNABIS BUSINESSES STEMMING FROM COVID-19?





## SALES ACTIVITY AND BUYING BEHAVIORS

We can look at March 11 as the date when the significant impact of the coronavirus first entered people's minds across the U.S.

It was the day that Rudy Gobert of the Utah Jazz tested positive. As a result, the NBA suspended its season. The next day other sports leagues also suspended their seasons. On Friday, March 13, we saw a tremendous spike in demand for cannabis. This continued for several days as shelter-in-place orders were established, and consumers began to stockpile cannabis out of fear that dispensaries would close. In the following weeks, those fears were put to rest as cannabis businesses were deemed essential.

Overall, our business intelligence shows total cannabis sales increased in Q1 2020 by 20% or more over Q4 2019 and 78% year-over-year, March 2019 to March 2020.

Purchasing trends in the first quarter since the beginning of COVID-19 include:

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# 20%

increase in all sales

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# 300%

increase in online orders

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# 2.5X

increase in delivery

These statistics point to an ongoing trend that has peaked during the COVID-19 pandemic. This trend is likely continuing in the months to come. In essence, more people are embracing cannabis, particularly for its health and wellness benefits. Our business intelligence shows, among the top five reasons people use cannabis, are for health-related issues. In times of heightened anxiety, more people may turn to cannabis.

Additionally, the realization, during last year's vape issue, that products purchased illicitly might threaten one's health has driven more demand to the legal market. As our CEO predicted just a few months ago, consumers are becoming savvier and more selective about the products they use, choosing reputable brands that are known for providing quality goods.

\* Note: people may be buying more at one time, but that does not necessarily mean they are consuming more. They could be – stockpiling for later, – which is borne out by a dip in sales in subsequent weeks.

# 150%

in average order sizes\*

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# 50%

increase in the average amount  
spent by women  
in March.

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# \$105

was the highest average  
shopping cart size for  
women in March

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# 9%

steady increase in  
vape sales





## ONLINE SHOPPING, PICK-UP, AND DELIVERY

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With in-store shopping and social distancing restrictions, customers need to be able to purchase products online. Offering online shopping is an opportunity to strengthen a dispensary's brand and fortify the business.

Whether starting or improving an existing e-commerce presence, dispensaries can enhance the online shopping experience by offering flexible pick-up and delivery options to meet customers' needs and ultimately attract more buyers.

### **Online Chat with a Virtual Budtender**

When shopping in a physical store, customers enjoy working directly with a budtender for recommendations and to answer questions. It's possible to offer something similar online through live video and online classes, or virtual consultations provided by call centers.

### **Curbside Pick-up**

Curbside pick-up requires new processes and workflows for safely handling and transporting orders out to the curb and processing payments. Workflows must include ensuring physical safety for both employees and customers, requiring each staff member to focus on his or her task (e.g., order retrieval, packaging, delivery, payment processing) and to wear masks and gloves, and keep a safe distance from each other.

## **Delivery**

Some customers will opt for delivery solely for convenience or because they may have special medical needs or transportation limitations. There are two options for delivery. The first is the ‘ice cream truck model,’ where a driver travels through different neighborhoods with products for sale. This might not be the best option with social distancing mandates. The more traditional approach is ‘pizza delivery style,’ where a customer places an order online and has it delivered to their doorstep. This option is made possible through the use of fleet management software like On Fleet, which also helps optimize routes for the most efficient use of time.

With both models, there are significant costs and training considerations. In Nevada, for example, delivery options were challenged when not enough drivers were equipped with secure delivery boxes. Some dispensaries chose to have drivers purchase security boxes at their own cost and submit for reimbursement.

## **Arms-length Transactions and Payment Processing**

Whether customers are purchasing online for pick-up or delivery, there are several payment companies, including Hypur, that enable virtual payment processing. This is convenient during normal times — and with current requirements to maintain proper social distancing, virtual payment options are even more valuable. Virtual payment companies can enable safe and reliable ‘arms-length’ transactions that protect both customers and employees while solidifying brand and customer loyalty.

## **Communication & Education**

Giving customers flexibility in how they purchase products is a great way to build loyalty. Just as crucial for dispensaries is communicating those options and informing clients of specific COVID-19 safety practices, as well as sending them relevant information about new products, brands, and promotions based on their purchase history and demographic data. Companies like Happy Cabbage offer customer analytics and segmentation capabilities. Zoltrain is an excellent option for building custom content and sharing it with customers and prospects through text and email to inform them about product promotions, product pick-up or delivery options, and the ability to conduct arms-length transactions.



# MANUFACTURING, SUPPLY CHAIN AND INVENTORY MANAGEMENT

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Business intelligence is a powerful tool to help operators anticipate changes and disruptions and make adjustments as necessary. Cannabis companies must get back to the fundamentals across all touchpoints of the supply chain — from cultivation to manufacturing to distribution to retail. Data derived from business intelligence is a particularly powerful currency across all of these areas.

## **Manufacturing**

Demand for cannabis is up, which is good news for the industry overall. At the same time, requirements for safe handling of products and social distancing make it critical to maintain a high standard of good cultivation and manufacturing practices. The CDC is calling for limiting COVID exposure among employees while taking steps to limit the potential transmission from employees to products.

With the right systems and technology in place, it's possible to ramp up production to meet client demands, while allowing for minimal contact with both the product and other people in the facility. Options to consider include: installing physical barriers to keep people separated, requiring workers to wear the right protective gear, when available, and establishing high standards for continuous cleanliness and sanitation.

## **Transport & Delivery**

The hyper-local nature of transport and delivery has so far protected the supply chain from disruption stemming from the pandemic. Some dispensary owners are using business intelligence to identify stocking opportunities choosing to stock products based on demand and previously unrecognized potential. Leveraging business intelligence about buying patterns, seasonal trends, and other behaviors enables operators to approach inventory decisions with insights that can result in cost savings and higher customer satisfaction. This is also a good time for manufacturers to evaluate new approaches to packaging that can extend the shelf life of products.

## **Inventory Management, Run Rates and Ordering**

Making the right decisions for the business in the areas of inventory management, run rates, and ordering can be facilitated with reliable business intelligence.

To effectively manage inventory, dispensaries can use their data to understand sales velocity, trends, and spikes. From that, they can evaluate which items to promote and which products tend to stay on shelves longer. Business intelligence is a powerful tool in revealing and helping operators address these market nuances and unforeseen opportunities.





## FEDERAL REGULATION AND LOCAL ACTION

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Federal legalization of marijuana has long been anticipated — and with developments stemming from COVID-19, this may come sooner than previously thought, but at a state-by-state level instead of through sweeping federal action.

The cannabis industry has already moved into the mainstream. With more than 12 million recreational users and 2 million medical users, some estimates predict, the legal cannabis industry will reach \$73 billion by 2027.

These numbers illustrate the cannabis industry is not only essential; it is an integral part of the overall health and wellness infrastructure. Research also shows 91% of U.S. adults say cannabis should be legal. The sentiments expressed by these numbers, combined with cannabis' growing popularity, make a good case for state and federal action in the coming months.

One area where we also expect to see change is in the tax code. Currently, Section 280E of the Internal Revenue Code disallows cannabis businesses from deducting; otherwise, ordinary business expenses associated with the “trafficking” of marijuana from gross income. This makes their tax liability much higher than other businesses. With cannabis's essential business designation, states will begin to work in a more concerted effort to encourage the federal government to lift 280E, particularly as federal legalization looms. Removing cannabis from section 280E from the tax code would give a significant boost to cannabis operators and have enormous implications for the overall industry, and potentially help local economies.



## **MARKET CONSOLIDATION AND OPPORTUNITIES**

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In the cannabis industry today, we see consolidation, operational maturation, and a lack of access to capital for smaller players all within the context of growing consumer demand.

Companies with a strong balance sheet and an established public currency are going to continue to be well-positioned to take advantage of the current environment as others will not be able to raise capital and continue scaling.

These players will benefit from the resources of the larger entities, and, through acquisition and consolidation, be able to provide clients with additional tools they need to manage their operations, including business intelligence, compliance, reporting.





## **BUSINESS INTELLIGENCE HELPS CANNABIS BUSINESSES THRIVE AND PROSPER**

In challenging times, it's important to think about the positive aspects, and the opportunities cannabis businesses have to position themselves for future growth.

With demand for cannabis at an all-time high, the Akerna team is working with operators to help them make smarter business decisions through business intelligence, analytics, and reporting, and meet the changing needs of their customers. Making the right decisions to meet changing market conditions while keeping customers happy with product selection, flexible buying options, and consistent service all require data-driven insights and intelligence.



**MJ FREEWAY**  
AN AKERNA COMPANY



MJ Freeway is more than software as a service. Its flagship solution, MJ Platform now includes Platform Insights. Now operators, investors, and regulators can access the industry's largest, and most statistically-relevant database to drive data-driven business decisions.

**Platform Insights Provides:**

- The greatest statistical relevance across countries
- Normalized data (not farmed from various disparate POS platforms)
- Full cannabis supply chain data
- Business insights founded in category management methodology

**Platform Insights can eliminate the guesswork and provide answers to questions like:**

- What is the gross margin return on inventory?
- What SKUs should be carried?
- How do basket adjacencies influence discounting and retention strategies?
- What does a medical market look like a year or five years after decriminalizing cannabis?

**These are a few of the many questions Platform Insights can help business leaders answer with ease and enable them to manage all aspects of the supply chain. Visit [MJPlatform.com](https://MJPlatform.com) to Learn More >**



# IS YOUR BUSINESS READY TO THRIVE AND PROSPER?

CHECK OUT THE CANNABIS  
BUSINESS EFFICIENCY CHECKLIST

**SEE CHECKLIST »**





## **ABOUT AKERNA**

Akerna is a global regulatory compliance technology company. Akerna's service offerings include MJ Platform®, Leaf Data Systems®, solo sciences tech platform and Trellis. Since its establishment in 2010, Akerna has tracked more than \$18 billion in cannabis sales. Akerna is based in Denver. For more information, please visit [www.akerna.com](http://www.akerna.com) and follow us on Twitter @AkernaCorp.