

THE (MENTAL) BARRIER COMES CRUMBLING DOWN

An Enormous Window of Opportunity in the Cannabis Sector



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As of September 2017, 18% of Canadian adults consumed marijuana in the last 12 months. That’s an impressive proportion considering that the legalization of marijuana in Canada is only expected to come into effect in July 2018. Consequently, we can expect recreational cannabis users to continue to grow. The market size in terms of user penetration is comparable to industries such as alcohol (spirits), hovering at 25%, and e-cigarettes, with 13% of Canadians having tried them but only 1% smoking regularly. Despite the enormous market potential of cannabis, not only in Canada but globally, leading companies in related sectors have been reluctant to enter...that is until Constellation Brands came in, guns blazing. In October 2017, Constellation Brands, a Fortune 500 alcohol producer and distributor, acquired a 9.9% ownership stake in Canopy Growth Corporation, the leading licensed producer (LP) in Canada, the buy-in valued at \$245 million. This action proved the skeptics wrong and swung the floodgates of opportunity wide open. The only companies that should be rejoicing however, are the ones that can act swiftly and take advantage of the still-fragmented cannabis sector.

STRATEGIC ENTRY MODES FOR RELATED INDUSTRIES BASED ON CAPABILITIES

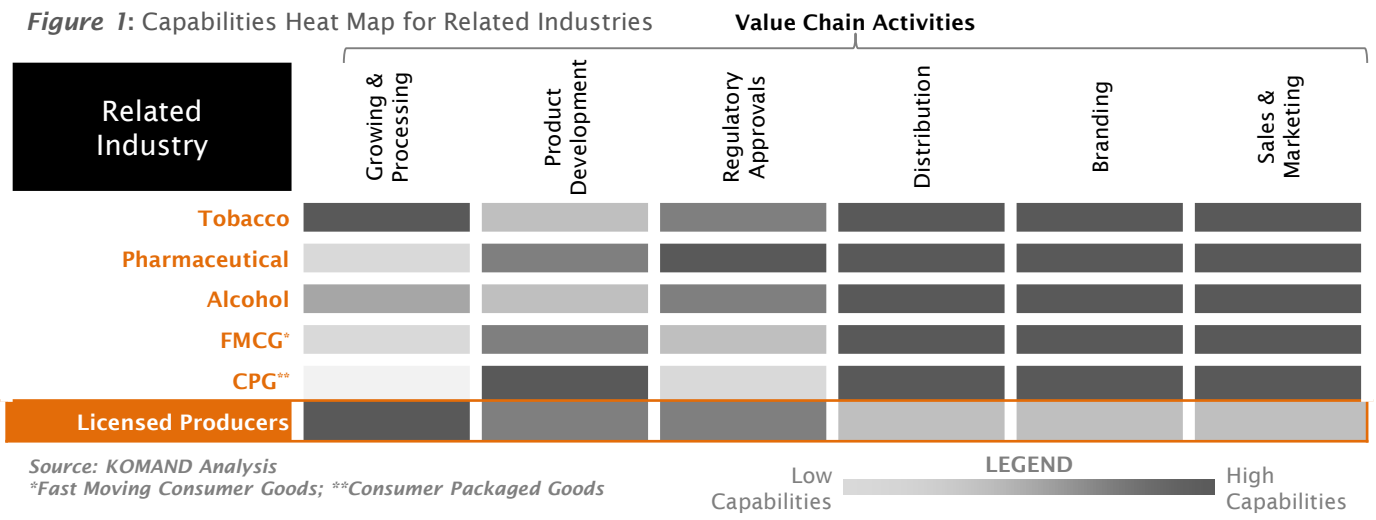
The mode of entry into a new market should be driven by (1) the importance of speed to market and (2) your existing resources & capabilities. Now that Constellation Brands has paved the way and cannabis legalization is on the horizon, it is safe to say that time is of the essence for any new entrants who strive to establish a market leading position. This brings us to point (2): capabilities. *Figure 1* provides a heat map based on the key activities that a company must excel in to succeed in the cannabis sector. The capabilities of LPs like Canopy Growth Corp are stronger in upstream activities, such as ‘Growing & Processing’, and weaker in downstream activities relative to the incumbents in adjacent industries (e.g. tobacco, pharma, etc). In fact, the cannabis sector is still quite fragmented because none of the LPs have the capabilities to distribute, brand sell and market the products as effectively as some of the incumbents in other industries (think of the large salesforce of a pharma company or the branding capabilities of a leading beer company). The LPs also possess rare resources in the form of government issued licenses, such as the ACMPR issued by Health Canada. Similar to the telecom spectrum auction, the ACMPR licenses are limited, giving the LPs a temporary competitive advantage.

CALL TO ACTION

The strategic decisions leading to success in the cannabis market require a clear understanding of the trade-off between building a capability from the ground up (i.e. greenfield) versus the time to market. Therefore, strategic decisions need to be taken at the key activity level by acquiring the capabilities for upstream activities, structuring appropriate alliances for mid-stream activities, and doubling down on existing capabilities for downstream activities.

The one thing we know for certain is that complacency is the only decision that shouldn’t be taken.

Figure 1: Capabilities Heat Map for Related Industries



Source: KOMAND Analysis
 *Fast Moving Consumer Goods; **Consumer Packaged Goods

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