

HIGH TIMES FOR FRANCHISING?

The cannabis retail sector is taking North America by storm. Here's how the franchise model is playing a part in the green rush

WORDS BY JAMES FELL

 Overall sales within the legalized U.S. cannabis industry reached \$13.6bn in 2019, according to figures compiled by New Frontier Data – this was a 32 per cent increase on 2018's \$10.3bn. Looking beyond North America, the global legal marijuana market size is expected to reach \$76.6bn by 2027, according to a report published by Grand View Research, Inc.

It's no wonder, then, that this ever-growing sector is making a huge amount of investors see dollar signs amidst a haze of marijuana smoke. While the relatively nascent industry is most definitely seeing more and more big businesses entering the sector, in the retail space specifically, it is still mainly inhabited by mom-and-pop-style independent stores, which are ripe for converting into an operation with a well-known brand name and sophisticated retail livery. Franchising, meet cannabis.

The big smoke

As of March 2020, a total of 33 U.S. states have legalized marijuana for medical purposes, and 14 of them have legalized the drug for recreational use. This number is expected to rise, with

more and more Americans coming round to the idea of cannabis becoming legalized on a wide scale. In fact, a Pew Research survey reports that 67 per cent of Americans believe marijuana use should be legalized. That figure is over double of what it was in 2000 – 31 per cent – and, not too surprisingly, five times how much it was in 1969. This shows that the more ubiquitous the cannabis experience is becoming, the more tolerant the nation is getting.

So, why are we not seeing more franchised cannabis dispensaries and other marijuana-related concepts popping up all over the place? “There are lots of pitfalls and complexities, and that's why there are not any franchisors yet,” says Justin Livingston, vice president of franchise development at cannabis dispensary franchise Unity Rd. (see his full interview on p.53). “The first complexity from a franchisor standpoint is that here in the U.S., it's federally illegal. Franchising is federally regulated and just being able to navigate the complexities of that, to even be a franchise, is number one. The number one thing that's hurting new franchisor entrants is figuring out how to actually be a franchisor in this industry.

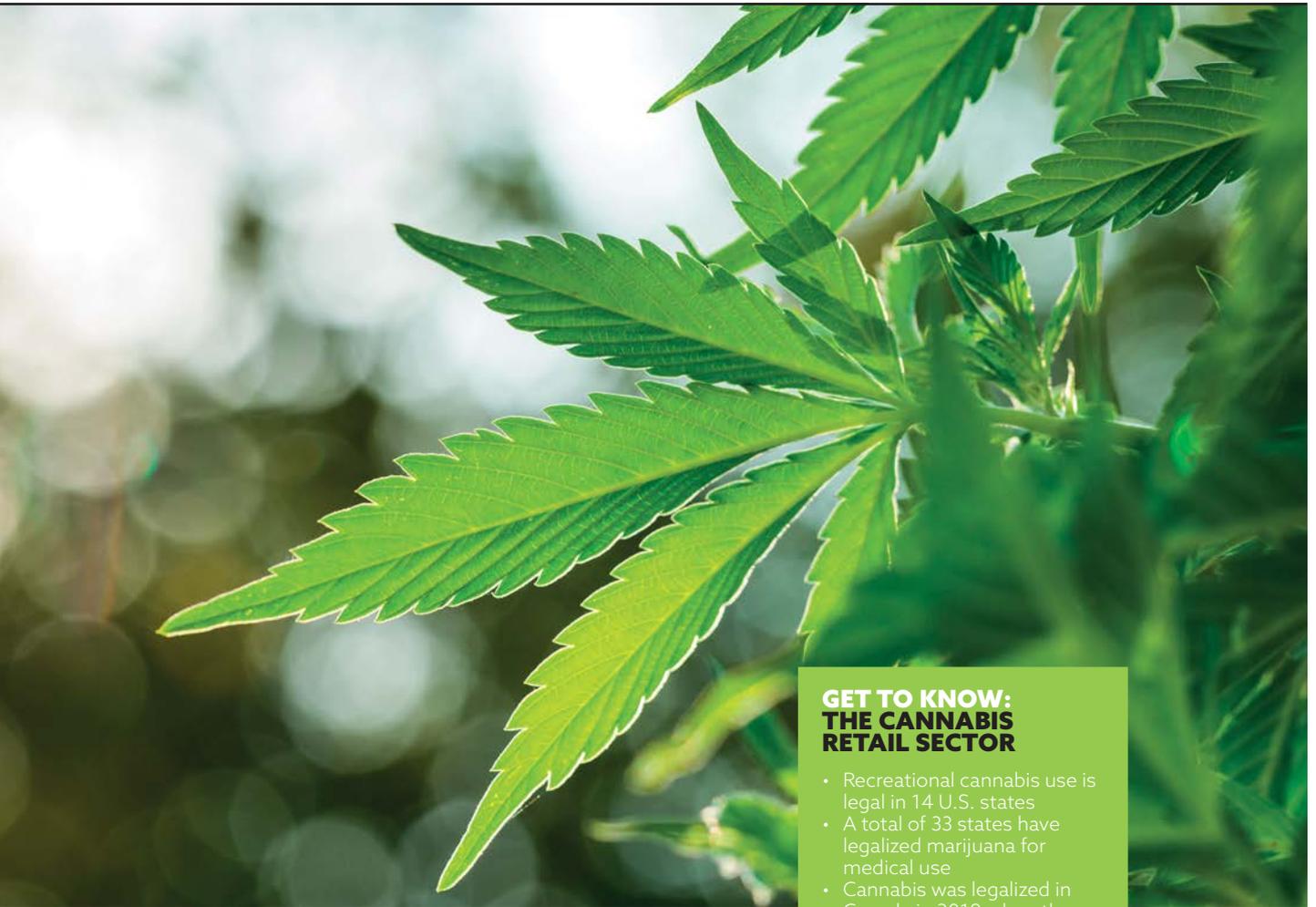
“You really need deep industry expertise in cannabis, and also in franchising. It really takes having the best of both of those worlds to navigate each individual complication. So the requirements and issues on the franchise side, and the compliance issues and tax regulations on the cannabis side.”

Cannabis in Canada

While the growing and selling of cannabis will never necessarily be a straight-forward exercise, one place that has proven a breeding ground for marijuana-related franchise concepts is Canada. Medicinal marijuana was legalized in Canada back in 2001, and the federal Cannabis Act came into effect on October 18, 2018, making Canada the second country in the world – after Uruguay – to formally legalize the cultivation, possession, acquisition and consumption of cannabis and its by-products, thus igniting the flames of a new industry. Since then, not only have Canadian consumers embraced the product, but the franchising side of it has truly taken off, too. With Canada's legal cannabis market projected to double from \$6.5bn in 2019 to \$11bn in 2025, according to the *Defining the Cannabis Sector in Canada* report produced by EY, it's no wonder why there are investors and brands flocking to take a slice of the pie.

From cannabis dispensaries and medicinal marijuana health centers to CBD and water pipe, vaporizer and accessory purveyors,

“The number one thing that's hurting new franchisor entrants is figuring out how to actually be a franchisor in this industry”



GET TO KNOW: THE CANNABIS RETAIL SECTOR

- Recreational cannabis use is legal in 14 U.S. states
- A total of 33 states have legalized marijuana for medical use
- Cannabis was legalized in Canada in 2018 when the federal Cannabis Act came into effect
- Other countries where cannabis has been legalized for recreational usage include the likes of Uruguay, Portugal, Czech Republic and Belgium

there's currently a strong number of franchise networks operating in the Canadian marijuana space. Franchisors have been quick to develop brands in the country, too. Inner Spirit Holdings Ltd, the parent company for the retail cannabis store Spiritleaf brand, has 100 corporate and franchise locations under development, with a growing portfolio of proprietary brands and strategic partnerships and investments in place. Other established brands that provide a premium service include the likes of HOBO and MedMen. And with this industry coming of age, we expect there to be a lot more brands entering this fruitful sector.

Global perspective

With Canada and sections of the U.S. providing the canvas for franchise businesses to plant their seeds and grow, it begs the question of how internationally scaleable the concept is. European countries like Portugal and Belgium have legalized recreational and medicinal cannabis to varying degrees, but

what about the likes of franchising hotspots, like Germany, France or the U.K.?

"I see the U.K. legalizing cannabis, but not for three or four years," says Professor Mike Barnes, a medical cannabis expert and co-founder of Maple Tree Consultancy. "The present government is currently against legalizing it for recreational use, and I feel that we will need to wait for a political change. However, support for recreational use is growing – around 50 per cent of the population – and politicians may see that support and speed up the process."

Barnes believes that while the cannabis industry has weathered the COVID-19 storm fairly well, the impact of the crisis will set the industry further back in its hopes of marijuana becoming legalized in the U.K. "Cannabis businesses are no strangers to operating in a challenging and consistently changing landscape, and we've seen this industry resilient against socio-economic, political and

policy-driven barriers," he explains. "Demand for medical clinic prescriptions has continued to rise despite COVID, and there has been a greater focus on staying healthy and boosting immune systems, which is driving consumers to a variety of health-focused products, including CBD. The problem is supply chain issues from abroad.

"In the U.K., all cannabis medicine is imported. This has highlighted the need for a U.K. industry, and I hope the government will speed up the cumbersome licensing process to allow good quality facilities to grow high THC cannabis before long. It will help the supply chain, reduce costs, provide valuable post-COVID jobs and tax income, and importantly, serve patient needs."

“Cannabis is a worldwide, pandemic-resistant industry”

Justin Livingston, the vice president of franchise development for Unity Rd., has plenty of experience when it comes to growing a brand. So what led him to hop on board the cannabis train, and why are investors everywhere starting to see green?

INTERVIEW BY KIERAN MCLOONE



KM What drew you toward Unity Rd. as a concept, and the cannabis industry in general?

JL The reality is this: I'm a firm believer in the franchise model. I've been in franchising for a very long time, all over the globe, and franchising at its core is about helping people get into an industry that they otherwise couldn't get in to or would struggle with some of the complexities of running the business. That's what we're charged to do as franchisors, is provide that roadmap to success.

When it came to cannabis, here's what I saw: an industry that has unbelievable amounts of money. The money is life-changing for people. Opening a dispensary can do more for you than multi-units of almost any other industry. It's also an industry that was unbelievably

fragmented. There was no consistency, branding, or consistent customer experience from one location to the next. You might have a good experience at one place and a bad one elsewhere, and this is a product that people are still educating themselves on; a bad experience can be really bad!

There was an opportunity for me to implement and help to develop the first franchise that could take all of the things in franchising that we love – consistency, branding, processes, systems, teams, support – and implement it into an industry that had none of that.

On the flip side, bringing cannabis to franchising was equally exciting. Franchising is made up of amazing franchisors and people doing really

innovative, cool things. But, let's be clear, there are typically different versions of something that already exists. The new gym, the new way to make a chicken wing. They're great, but it's new spins on existing industries. This is a totally brand-new industry.

KM What kind of impact has the coronavirus crisis had on the cannabis industry?

JL I think there's a couple of industries that are really resilient in times of recession. Coffee thrives, alcohol thrives, and cannabis thrives. I think we're seeing that among the franchise system with folks that are prepared for this.

Cannabis is being deemed essential. Not only are people using it to cope from a recreational standpoint, but there are so many people who use it from a medicinal standpoint. It's a really key element in our society.

There was even a threat here in Colorado of cannabis not being deemed essential, and immediately people stopped what they were doing and they went to dispensaries and liquor stores. There were these crowds of people, which defeats the purpose of social distancing, so they said: 'Wait, go home, we're not going to close these.'

Business is, albeit a different normal, good. Topline revenues are good, and I think we're proving the point here that as a legitimate business across multiple platforms, states, and methods of delivery. And who knew: cannabis is

also a worldwide pandemic-resistant industry.

KM With so much regulation surrounding the cannabis industry, how feasible do you believe a wide franchise network truly is?

JL It's really interesting because the regulations here in the States are really intense. They make it complicated from city to city, state to state, province to province, or whatever the case may be.

It's not unlike other markets; there are complexities in food and beverage that vary between markets. I come from a background of bars where the way that alcohol and staffing are handled varies wildly from one location to the next. The differentiation from one market to another isn't necessarily specific to cannabis, but it can be really magnified by the fact that the compliance issues are intense.

KM What kind of challenges are you coming up against and factoring into the Unity Rd. franchise offering?

JL There are lots of pitfalls and complexities, and that's why there are not any franchisors yet.

The first complexity from a franchisor standpoint is that here in the U.S., this is federally illegal. Franchising is federally regulated and just being able to navigate the complexities of that, to even be a franchise, is number one. The number one thing that's hurting new franchisor entrants is figuring out how to actually be a franchisor in this industry.

The other thing that, once you get past that, you get franchise guys who say that they can franchise anything. Any industry, any concept, because the recipe is the recipe. It's not true in cannabis, and personally, I don't think it's true at all. It's certainly not true in cannabis.

You really need deep industry expertise in cannabis, and also in franchising. That's how we've been able to get where we've gotten, because we have 10-plus years of legal cannabis experience within our team. 10 years might not seem long, but that's day one in legal cannabis here in Colorado, which was the pioneer in the country.



KM What changes do you think will occur within the cannabis industry within the next 12 months, or even this decade as a whole?

JL I think it's really exciting. We'll have to take coronavirus out of the equation, so let's pretend the world is normal for a moment.

All signs point to cannabis having sweeping states coming on board. Before, we were moving at a clip when states were coming on board at a rate of maybe one or two a month. Predictions had cannabis going from \$13bn in five years to \$80bn in 10 years. You're talking about just ridiculous numbers, it's bananas.

I think in the coming months

and years, you'll start to see more and more states and countries adopting the ability to open dispensaries. Some are going to go medical and really conservative at first; that's okay.

Most, even the medical states, like Illinois here in the U.S., went from nothing, to medical, to recreation, to even more licenses within a year. You're going to see more states adopting this. You're going to see the stigma begin to change, as more people see that this is just part of the decision making for what comes into the house. People are going to Whole Foods, and then the liquor store, and then the dispensary on the way home.

For the decision-makers who are choosing what comes into the house from a recreational and medicinal standpoint – it's just becoming the norm. That stigma will begin to change and people will really begin to recognize the benefits of cannabis. Not just recreationally but medicinally in dealing with a myriad of symptoms; be it PTSD, or chemo, or MS, or some really intense things that this product has been a real lifesaver for.

KM And for Unity Rd., what does your next year of franchising look like?

JL We've got 31 partners on board so I think you'll see a lot of Unity Rd. locations across different states start to pop up this year, even with the craziness that's happening right now. Perhaps even into Canada and some other markets that are on board.



Embark on a new frontier

Unity Rd. offers the safest way to own a cannabis dispensary

Cannabis is a new industry for franchising, but the team paving the way for dispensary franchises is not new to either. Unity Rd.'s seasoned bench of both cannabis and franchise industry veterans offer the most viable route for industry newcomers looking to get a piece of the \$14bn U.S. market.

If there was ever a time to invest in the cannabis industry, now is it. With cannabis sales increasing during the pandemic and some states talking about how state tax revenue could help offset the economic damage caused, the industry is poised to take-off.

According to New Frontier Data, the United States saw nearly \$14bn in revenue in 2019 and is projected to reach \$30bn by 2025. While still in the emerging stage of its lifecycle, the cannabis industry has no household names, fragmented

true expertise and very little — if any — consistency of standards, making it an ideal choice for entrepreneurs and investors with eyes on the future.

The U.S. federal government is coming around, too. The SAFE Banking Act, overwhelmingly approved by the U.S. House in September 2019, made its way into the latest \$3tn coronavirus stimulus bill (at the time of writing, the bill is being reviewed by the U.S. Senate). The highly regulated sector boasts alluring possibilities for those savvy enough to break into the business, but the obstacles between getting started and operating a dispensary are challenging. Even savvy investors need someone with experience to help them enter safely



AT A GLANCE UNITY RD.

Established: 2018

Number of franchised outlets: Two, company-owned

Locations of units: United States

Investment range: \$1m-\$2.5m

Minimum required capital: \$1m

Contact: opportunities@unityrd.com
unityrd.com



and establish themselves as a market leader. Cannabis, meet franchising.

PAVING THE WAY FOR FRANCHISING CANNABIS DISPENSARIES

Unity Rd. entered the enticing marijuana market driven by one simple idea: imagine what a franchise model could do in an industry where a 37-store operation is considered a giant. Bringing the stability and continuity of franchising to the budding and fragmented cannabis world allows industry newcomers to glean institutional knowledge and vetted relationships — putting them far ahead of any competition.

The company's unprecedented franchise model breaks down the barrier to entry even further — the first instance in which the risk is mitigated to such a degree that prospective franchisees realize it is actually possible. For example, beyond gaining industry experience, standard operating procedures (SOPs), ongoing guidance and countless other resources, Unity Rd. franchisees also benefit from a common pain-point felt by industry newcomers and veterans alike: access to a



Photo by Brooklyn Huberty

trusted, premium supply chain.

The company is in the final stages of closing a merger with Item 9 Labs Corp. (OTC: INLB) – a vertically integrated, multi-state cannabis operator with a wide array of best-in-class cannabis products. Since cannabis cannot cross state lines, Item 9 Labs plans to develop or partner with cultivation facilities in states where Unity Rd. franchisees open dispensaries.

Anticipated to close this summer, the merger also adds more depth to the team's cannabis industry experience with multiple team members with backgrounds in dispensary management and operations as well as application writing. Item 9 Labs also owns the leading online platforms for new cannabis applications and consultation through its websites dispensarypermits.com and dispensarytemplates.com, which will support new franchisees in the application process.

With a vertically integrated cannabis company at the helm, Unity Rd. will be able to maintain the level of consistency that is so important in franchising.

“Franchising in cannabis is a new concept,” said Justin Livingston, Unity Rd.'s vice president of franchise development, who has around 15 years of franchise development experience. “We're going about it the right way; building our teams and franchise system with intention to be the best – setting high standards for those who will surely follow.”

Unity Rd. currently has more than 10 franchisees in various stages of opening more than two dozen dispensaries across seven U.S. states – poising itself to make good on its mission to inspire confidence in the benefits of cannabis for all.

INDUSTRY VETERANS WITH OVER A DECADE OF PROVEN PROCESSES

“At its core, good franchisors help prospective entrepreneurs enter a market they otherwise may not be able to enter or set them up to be more successful than if they had gone it alone,” said Livingston. “Though cannabis is more complicated than most industries, those core principals remain the same; building systems and support programs based off



experience and the right team.” Unity Rd.'s abilities stem from the comprehensive pool of knowledge it draws from the two previously unmarried worlds of franchising and cannabis. A collection of industry pros developed the robust Unity Rd. franchise system based on the history of Unity Rd.'s CEO, Christian Hageseth, who has been active in the Colorado legal cannabis industry since its inception in 2009 and chronicled his entrepreneurial cannabis journey in his book, *Big Weed*.

Instead of navigating the complexities alone like Hageseth had done, ambitious entrepreneurs can take advantage of the experienced team and years of success running compliant and profitable businesses within the cannabis space. “You can only get this level of understanding through experience, which means a lot of trial and error,” said Hageseth. “We want to help others succeed by giving them the roadmap we never had.”

The brand's earliest franchisees said they were able to see the opportunity for what it was — a chance to leverage someone else's knowledge in order to open their own dispensary doors with confidence. Unity Rd. franchisees are guided through every step of the process, from the dispensary application and store build out to SOPs integration, employee training and beyond.

Hageseth added: “Surviving the challenges of the past has paved the way for systems and processes that

“Our systems offer the safest way for newcomers to enter the cannabis industry and set them up for success that can create generational wealth”

we can now translate to a top-tier franchise program and support the next generation of canna-preneurs while building brand presence, industry stability, and pioneering a safe and consistent way forward for the industry as a whole.

The barrier to entry into the cannabis market is perhaps the most substantial of any market – driven by the complexities of the laws and the ever-changing rules that vary from one market to the next. Compliance guidelines rival the weapons and oil industries and far surpass alcohol.

Longtime franchise veteran and Unity Rd. COO, Mike Weinberger, said: “As in any other industry, franchising helps navigate those complications, however, no other industry in the world needs that help, knowledge, and support more than cannabis. Our systems offer the safest way for newcomers to enter the cannabis industry and set them up for success that can create generational wealth.”

When executed properly with careful consideration of all key elements of the business, getting a slice of this massive pie will be enough to elevate any business portfolio and lead the way for a new era in franchising.