

The Marijuana Business Plan: From Seed to Sale

Executive Summary

In these closing days of 2018, popular support for the renewed legalization of marijuana/cannabis in one form or another (medicinal and/or recreational) is gathering momentum in the United States (U.S.) with a 64% majority of Americans favoring legalization according to an October 1–10, 2018 Gallup poll.

In November of 2018, in spite of Federal law and the criminal laws of seventeen States, there are some 28 thousand marijuana/cannabis businesses in operation and employing about 150,000 people in the U.S. and they manage and control some \$9 billion in essentially cash revenues. It is estimated that some \$55 billion is spent annually on legal (\$9 billion) and illegal (\$46 billion) marijuana/cannabis purchases in the U.S. The gross number, as well as the legal number, is forecasted to increase dramatically as the industry continues to promote marijuana/cannabis as compatible with a healthy, habit free, adult lifestyle, more States legalize the drug and legal access becomes widespread.

The principal marijuana/cannabis businesses can be generally categorized as:

1. Cultivators/growers: heavily regulated and monitored farming operations that require significant horticultural knowledge and substantial initial investment (seed capital).
2. Infused product manufacturers: fabricators, processors, distillers, cooks/bakers of marijuana/cannabis edibles; joints; blunts; bongs; bowls; bubblers; dabs; pills; capsules (cannacaps); tinctures; oils; pens; vaporizers (vapes); sprays; drinks; etc.
3. Manufacturers/fabricators/distillers/bottlers of consumption devices: hand pipes; water pipes (bongs); rolling papers; hookahs; vaporizers; tinctures; transdermal salves; capsules; edibles; drinks (an alcoholic or non-alcoholic beverage infused with marijuana/cannabis).
4. Testing facilities: marijuana/cannabis independent testing laboratories that provide quality control and data relevant to product potency, pathogens, residual solvents, heavy metals, homogeneity, etc.
5. Software or online services: Laboratory Information Management System (LIMS); IDBS E-WorkBook Cloud; Electronic Laboratory Notebook (ELN); Laboratory Execution System (LES); Scientific Data Management System (SDMS).
6. Delivery services: flowers, various infused edibles, topical oils and salves, pre-filled vaporizer pens, concentrates, etc., ordered by qualified customers, can all be delivered to a consumer's home, office, or hotel by licensed and reputable courier service providers.
7. Retail sellers: essentially stores, known as collectives or dispensaries, that sell marijuana/cannabis products and related items to qualified customers.

The U.S. medical profession is producing growing numbers of credible research studies indicating marijuana/cannabis use provides significant palliative benefits for chemotherapy induced nausea and vomiting, the symptoms of multiple sclerosis, the tremors and pain of Parkinson's disease, and chronic pain. It has been argued that marijuana/cannabis use should be encouraged as a less harmful and addictive alternative to the rash of Opioid use/abuse now the scourge of the nation.

The current legalization of medical and recreational marijuana/cannabis production and sale in 33 States has surfaced a multi-billion-dollar legal market, but that \$9 billion market is less than 20% of the total market in the U.S. It is anticipated that the seventeen States now prohibiting marijuana/cannabis will accede to the findings of the medical profession and growing popular support among their citizenry for legalization.

The U.S. marijuana/cannabis industry is on track to achieve market sales exceeding \$24 billion by 2025. New Frontier Data projects a growth of 300,000 jobs by 2020; ArcView projects a growth of 414,000 jobs by 2021. Depending on the location of these jobs a marijuana/cannabis worker permit may be required for employment in the business.

At the Federal level, H.R. 1227 Ending Federal Marijuana Prohibition Act of 2017 was introduced in the House of Representatives in February 2017. This bill amends the Controlled Substances Act to provide that the Act's regulatory controls and administrative, civil, and criminal penalties do not apply to with respect to marijuana/cannabis.

It removes marijuana and tetrahydrocannabinols from schedule I. (A schedule I controlled substance is a drug, substance, or chemical that: has a high potential for abuse; has no currently accepted medical value; and is subject to regulatory controls and administrative, civil, and criminal penalties under the Controlled Substances Act.)

Additionally, it eliminates criminal penalties for an individual who imports, exports, manufactures, distributes, or possesses with intent to distribute marijuana/cannabis.

IRC § 280E now provides no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted will no longer be applicable to the marijuana/cannabis business and all ordinary and necessary business expenses will be deductible. The effect of this is a reduction of the federal corporate tax rate from confiscatory rates now exceeding 70% to a normalized rate of 21%.

Data analytics firm, New Frontier Data, forecasts that if legalized on the Federal level, legalizing marijuana nationwide would create at least \$132 billion in federal tax revenue through 2025 and nearly one million new jobs for workers at all ends of the marijuana/cannabis supply chain, from farmers to transporters to sellers across the U.S.

As soon as Federal law is amended to legalize the use of marijuana/cannabis, and as soon as the holdout seventeen States amend their laws to legalize use of marijuana/cannabis, it is anticipated that further dramatic growth will occur and significant investment returns will be realized in this nascent drug industry.

Our business plan presents a reasoned and practical model to formulate and conduct a marijuana/cannabis business capitalizing on the wider legalization of medical and recreational marijuana and one that will be adequately financed and positioned to reap significant investment returns therefrom. Significant investment returns will be generated from a conducive legal, tax, and regulatory operational environment for the launch and growth of a marijuana/cannabis-based business.

Sales and Marketing

1. Definition of the product or service to be delivered to the targeted market:

- a. Cultivators/growers: heavily regulated and monitored farming operations that require significant horticultural knowledge and substantial initial investment (seed capital).
- b. Infused product manufacturers: fabricators, processors, distillers, cooks/bakers of marijuana/cannabis edibles; joints; blunts; bongs; bowls; bubblers; dabs; pills; capsules (cannacaps); tinctures; oils; pens; vaporizers (vapes); sprays; drinks; etc.
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2. Competitive analysis: who and what are the competing forces in the market:

- a. Four U.S. firms: agricultural technology company Scott's Miracle-Gro, and three biotech firms: GW Pharmaceuticals, Insys Therapeutics, and Cara Therapeutics.
- b. Six Canadian companies: Canopy Growth Corp.; Aurora Cannabis Inc.; Aphria Inc.; MedReLeaf Corp.; Sprott Inc.; CanniMed Therapeutics Inc.

3. Pricing: premium, competitive, economy.

4. Development and implementation of a marketing plan: identification of potential customers, preparation of brochures, advertisements, literature, and other forums (web sites, contests, print publications, radio, TV, etc.) in which to create brand awareness and to attract and secure the loyalty of new customers.
5. Development and standardization of packaging: bottles, cans, paper cartons.
6. Standardization of delivery of product and service: “after care” policy for vendor and customer attraction and retention.

Production and Control

1. A procedure for the identification of discreet market segment customer needs must be established: personal interview checklists and need identification procedures must be developed and consistently utilized. This assures consistent quality of product and minimizes the likelihood of vendor and/or customer dissatisfaction and disputes.
2. A procedure for careful and methodical development of new or enhanced product formulation, must be established and consistently followed.
3. Contracts and relationships with identified product source entities and with packagers must be established and networked in geographically opportune areas.
4. A standardized delivery system must be developed and consistently utilized.

Organization and Structure

1. Determination of appropriate business entity must be analyzed and determined: corporation, limited liability company (LLC), partnership or sole proprietorship.
2. The legal entity must be established, and certificates and/or licenses must be obtained.
3. A business name must be determined and secured/registered.
4. Appropriate legal domicile must be established, a business location, and needed property; plant and equipment must be determined and implemented.
5. An employer identification number must be obtained.
6. A business bank account, if possible, must be established and the business ‘banked.’ Commingling of personal and business funds cannot occur.
7. A professionally designed and maintained web site must be developed and implemented. Links must be established with other web sites.
8. A staffing plan together with appropriate written job descriptions and training must be developed and implemented.
 - a. Administrative staff: accountants, sales representatives, and administrative assistants.
 - b. Gardener/grower: is charged with overseeing the cultivation of marijuana/cannabis plants, assuring proper nutrient and humidity levels, and managing and training any assistant growers. Gardeners/growers must be knowledgeable of strains as well as growing technologies, such as lights, irrigation, and fertilizer.

A physical science or horticulture degree is desirable for the position but is not required.

Assistant growers earn, on average, \$15/16 per hour; master growers typically command a salary of \$100,000 per year and sometimes a percentage of the facility’s profit.
 - c. Bud trimmer: an entry-level job responsible for cutting marijuana/cannabis plants by hand and then manicuring the plants to remove all the excess foliage and trim them down to the buds.

Some trimmers get paid per pound of how much finished marijuana/cannabis product they trim, while others get paid about \$12 to \$18 per hour.
 - d. Budtender: customer service consultants at dispensaries who have a working knowledge of marijuana/cannabis products as well as all current rules regulating retail and medical marijuana/cannabis, and guide customers through the selection and buying process.

Beginners earn around \$11 to \$12 an hour, plus tips, while salaried employees make about \$31,200 to \$42,000 per year.
 - e. Extraction technician/concentrate makers, or extractors: apply scientific techniques and procedures in labs in order to take marijuana/cannabis plants and process them into hashish, oils, and other concentrates.

Some positions may require a bachelor degree in chemistry, biochemistry, engineering, natural sciences, or a related field. Entry-level extraction jobs average between \$20,000 and \$40,000 annually.

f. Edibles chef: use culinary talents and marijuana/cannabis knowledge to create marijuana/cannabis-infused foods, or edibles: hash cookies, pot brownies, space cakes, gummy candies, lollipops, and more. Specifically, edibles have to be precisely measured by these chefs to ensure safe and consistent dosage and consumption.

Edibles chefs earn in the range of \$40,000 to \$90,000 per year.

g. Dispensary manager: oversee the daily operations of the marijuana/cannabis retail shop: interface with customers, vendors, and law enforcement; manage inventory and product returns; hire, train, and manage budtenders; and, ensure that only the best and safest product is being sold.

A bachelor degree is generally preferred: retail or luxury goods experience is a plus.

Dispensary managers earn in the range of \$60,000 to \$150,000 per year.

- 9. A management team with appropriate written job descriptions and training must be developed and implemented.
- 10. An organizational chart together with reporting responsibilities and authorities must be developed and clearly communicated.

Research and Development

A methodology to maintain currency with industry trends and developments must be identified and implemented.

Financial Plan

- 1. An analysis of the initial cost of business start-up must be performed. This “cost of entry” consists of legal fees, licenses and/or charter fees, printing and publication costs, direct mail, advertising, or other promotional costs.
- 2. Determination of amount and source of “initial capital”: initial estimate \$.

Use of proceeds:

- a. Brand acquisition cost \$.
 - b. Professional fees .
 - c. Selling concessions .
 - d. Brand promotion and marketing .
 - e. Inventory and packaging supplies .
 - f. Cash and other working capital .
- \$.

- 3. Preparation of prospective financial information (PFI).
- 4. Determination of billing and collection procedures.
- 5. Preparation of financial budget.

Time Line for Success

- 1. A critical path or decision tree must be developed and monitored.
- 2. Milestones or achievement dates must be established:
 - a. Finalized business plan.
 - b. Finalization of capital and business formation.
 - c. Finalization of contracts, business forms and other clerical materials.
 - d. Adoption and implementation of promotional activities.
 - e. Finalization of billing and collection policies and procedures.
- 3. If failure occurs at any point on the decision tree, an alternative plan should be in place, e.g., modify the original plan or abandon the project.

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