



LEVEL5 STRATEGY

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Retail: The Key to Building Cannabis Brands

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Building Awareness and Loyalty through Strong Channel Management

The legal recreational cannabis industry in Canada and the world is in its infancy. However, unlike many industries before it, this one will enjoy a short introductory period as it rapidly matures into a large, developed sector by taking and building on share from the illicit market. Driving this rapid maturation are the bones of the industry that have been present for years:

- A pre-existing consumer base;
- Shallow and limited understanding of the product;
- Comparable regulatory and distribution frameworks mapped out by the alcohol and tobacco industries.

All these factors set the stage for an industry that will be plunged into different phases of the maturity cycle over the next 2-3 years. The formative years of the industry will be a race to scale and capacity; but as the supply gap begins to close, the primary pillar of competition will evolve to the level of differentiation between brands.



Building Brands in a Regulated Industry



Companies should establish brand equity through a well-organized and executed business system, not through traditional marketing efforts.



The industry has recognized this challenge, and the race to build brands started well before its legalization on October 17th. The large players made concerted efforts to establish awareness before their direct communication channel to consumers was halted by regulatory reform. They have also invested significant resources in hiring the best ex-CPG talent to harness the brand-building prowess of the industry that pioneered it.

Yet despite all of these efforts, recent Level5 research indicates that they have had limited success. Almost 70% of Canadians have zero top of mind awareness of any cannabis brands¹. Each of the 4 largest Canadian cannabis companies by market capitalization (Canopy,

Aurora, Tilray, and Cronos) have public awareness levels at 29% or lower, with meaningful awareness (having some or a lot of brand knowledge) hovering between 4-14%².

The issue all cannabis brands are running into while looking to build awareness and loyalty is clear: the tools that consumer-branded organizations typically rely on don't work in this environment. Regulatory guidelines have clamped down on some of the most obvious means of brand differentiation – advertising, promotions, etc. – enacting a filter between end-consumers and the brands that are vying for their loyalty.

From Level5's perspective, the solution is equally clear:

companies should establish brand equity through a well-organized and executed business system, not through traditional marketing efforts.

While the traditional brand-building channels (a.k.a. marketing communications) are extraordinarily limited, what's not limited is big "B" brand building. This is the understanding that a "brand" is a summation of a promise made by the business and brought to life by all aspects of that business. The organizations that recognize strong brand-building as synonymous with the development and execution of a well-managed and aligned business, will be the ones that win. The rest will be absorbed or die out.

1. Fielded to n=1,516 Canadians on Maru Voice Canada April 1st, 2019. Balanced to Canadian census by age, gender, and region. A representative sample frame of this size has an error rate of +/-2.52% 19 times out of 20.
2. Ibid.

Where to Focus in the Short-Term

To understand where organizations should focus their efforts, we need to look across the industry value chain and identify the most fertile opportunity to influence awareness and loyalty.

The needs of consumers within their current context are well understood: industry players should work on reducing the cultural stigma, improving the consumers' understanding of cannabis use in the newly formed legal market, reshaping personal experiences and benefits in this new environment, and providing education about the product. That said, the means of reaching the consumers to address those needs are far less clear.

Given regulatory limitations, Level5's experience in comparable industries tells us that the biggest opportunity to address these needs and build loyalty doesn't actually come from focusing on the consumer. The focus needs to be on the retailer instead – however counterintuitive it may sound.



Being Consumer-Centric by Not Focusing on the End Consumer

In the highly regulated world of cannabis, the means of bridging the communication gap between the producers and consumers is reduced (due to regulatory burdens), to the detriment of both. Brands are unable to reach consumers through traditional methods; and consumers are left confused and uneducated as they explore an entirely new industry that has historically been associated with stigma and full of misleading information.

Recognizing the need to address this information gap in the short-term, the strategy that best supports brands and consumers alike is the one that reduces this disparity. In the case of this industry, the most impactful opportunity to do this is at the retail level.

At the point of sale, most consumers are relatively uneducated and highly influenceable. An estimated 41.7% of current and potential consumers having little to no experience with cannabis.³ On top of that, differentiating

between an unending deluge of scientific terms and product names leftover from legacy cannabis culture further impedes informed decision-making.

Analogous to the craft beer industry, where the bartender is often the best sales person a brewery has in their arsenal, the most powerful influencer in the formative years of cannabis will be the front of house retail sales person or “Budtender” / “Cannista”. Budtenders are ultimately the best, unfiltered resource for unique stories and differentiating elements of individual brands to reach end-consumers. According to a recent cannabis study done in 2018, 71% of current consumers and 69% of potential consumers consider having staff with strong product knowledge the most critical feature of cannabis stores⁴.

Furthermore, retailers recognize that differentiating their own channel from other physical and virtual competitors requires building a memorable experience that addresses consumer needs.

To do this, they require support from their upstream partners in supplying them with the information, story-telling elements, and differentiating product attributes that act as informational guides for their customers.

Although counterintuitive, the best way for cannabis brands to be consumer-centric in this environment is to support their retail partners.

3. *HIGHER GROUND: Insights from Canada's Most Comprehensive Consumer Cannabis Study*, Environics Analytics, 2018
4. *A society in transition, an industry ready to bloom: 2018 cannabis report*, Deloitte, 2018

Establishing Differentiation at the Retail Level



Budtenders are ultimately the best, unfiltered resource for the unique stories and differentiating elements of individual brands that assist in reaching end-consumers.



Given the limited degree of vertical integration legally allowed within Canada, establishing differentiation through this channel isn't an easy task. That said, there are plenty of industries with less vertical integration that have built concerted processes and structures around executing this strategy.

Our experience establishing go-to-market strategies within the beer industry and other consumer industries has unearthed five keys to success that, if executed thoughtfully, will help differentiate cannabis brands in this channel:

1. A Clear Positioning and Portfolio Strategy

Producers and processors need to think about their products from a portfolio perspective and develop products for specific audiences, consumer

segments, needs, use cases, etc. The composition of the whole portfolio is as important as the development of the specific product. Specifically, companies should look to:

- Define the specific market audiences you're looking to serve and the needs of each audience – in other words, segment and target.
- Align your organization's competencies to these needs. Add competencies if needed and/or exit market plays that don't align well with your current capabilities.
- Develop the narrative for each product line and your portfolio that Budtenders can leverage. Keep it simple, specific, memorable and differentiating. Back it up with data and "romance it" where possible.

- Reinforce this narrative wherever possible given regulatory constraints – on company/product websites, through CSR initiatives, product/ portfolio naming, etc.
 - Establishing a clear strategic narrative for an associated product line that Budtenders can use to support, inform and connect with consumers will go a long way. It will make a significant difference between being talked about eloquently by the most influential person at the point of sale (POS) and being another commodity product on a crowded shelf.
- ## **2. Well-Coordinated Commercialization Support**

The retail channel has its own needs, concerns and regulatory guardrails. The greater the producers' and processors'

ability to understand the needs of retailers and support them as partners, the better they can influence the retail experience. This is why it's important to:

- Understand the retail landscape, including, but not limited to: training requirements, technological innovation, key provincial partnerships, etc.
- Provide the data that retailers need (especially front-line Budtenders) to help make their work easier.
- Actively seek feedback from retailers and address their input. Supporting retail partners with the education, tools and data they need to enhance their in-store experience and make better category management decisions will ensure that your brand is always leading the strategic conversation.

3. Influence Retail with IP and Partners

Producers and processors can affect the retail landscape via intellectual property in a direct way, but bringing other tangential players into the fold can impact the retail landscape as well. Here are five areas where third-parties can yield important influence:

- Leveraging brands via licensing

and franchise agreements.

- Identifying key brand assets (e.g. colours, naming conventions, etc.) to cement relationships and recognition with retailers.
- Providing educational tools and training, strategically via third parties (and directly).
- Harnessing media relationships to develop stories that aid retailers and, potentially, your brand.
- Connecting and partnering with data and research organizations to help drive retail affinity to your brand/portfolio.

Impacting the cannabis industry requires addressing a broad set of needs through a complex regulatory framework. Establishing an ecosystem of partners and support systems that add value to your stakeholders without conflicting with regulatory guidelines is important to establishing leadership credibility in a crowded space.

4. Work on Stigma to Support Retail

Cannabis is now legal which promotes broader acceptance. But to broaden appeal and grow beyond a small, devoted user group, the cannabis industry

will need to address the stigma of cannabis use. There are two critical points related to addressing the stigma that will influence retail stores. The first is connected to the fact that only 24% of surveyed Canadians are willing to publicly disclose their cannabis use. This means that the brick and mortar retailers must be cognizant of having to split traffic with online options (like the Ontario Cannabis Store's online platform) that helps maintain anonymity.⁵ Second, 48% of those surveyed in a separate study said they'd reconsider their decision to buy a home in a neighborhood where a cannabis dispensary is present – this attitude negatively impacts retailers' ability to develop locations in a broader range of municipalities.⁶ Here are a few actions companies can do to broaden the cannabis appeal:

- Ensure government relations is not only focused on the concerns of producers and processors but also on supporting the retail side of the equation.
- Understand cannabis views beyond those of current users and consider the attitudes among skeptics and those audiences opposing cannabis use.
- Develop Public Service Announcement (PSA)





Retailers will be producers' and processors' single most powerful tool to effectively engage endcustomers, build their brands, and differentiate from competitors.



campaigns and Corporate Social Responsibility (CSR) initiatives to address stigma at the consumer and governmental levels.

- Aim to help alleviate community angst when proposed cannabis retail locations are called into question at the local level.

Impacting how the industry is viewed in a broad sense may be the tide that lifts all boats. Being known as the catalyst for positive attitude change can be especially helpful when looking to develop positive corporate relationships.

5. Relationship Management Capabilities

Establishing all previously listed aspects requires the development of broad-based, company-wide capabilities and processes to make this happen. Understanding the impact on the organization while operationalizing smoothly in this

dynamic space is necessary to breed success. Here's how cannabis brands can do just that:

- Develop research and insight capabilities – both at the consumer and retailer level.
- Ensure that your supply chain (from production and inventory management, to secure and timely delivery) is well thought through and running smoothly.
- Develop your Customer Relationship Management (CRM) strategy and key account management capabilities to actively and properly manage the sales engine. This should be implemented at the corporate level (and the store level, to the extent possible).
- Ensure that your service team is trained to handle questions or concerns from retailers, partners and consumers.

The key to developing the right relationships lies in ensuring that the organization has a clearly understood and well-executed go-to-market strategy rooted in well thought through capabilities and business processes. This would encompass the proper sales systems, IT capabilities and key account management systems to service retailers.

These five keys to success can help organizations bring their brand to life, and can be categorized into something that Level5 has coined “the new 4P's™” of managing a brand: People, Process, Intellectual Property, and Partnerships. Leveraging these 4Ps via the retail node in the value chain is crucial. Ensuring organizations do this while maintaining compliance with cannabis regulations is all the more important.

Conclusion

Simplifying the lives of retailers and providing them with the tools, support and service they need to easily discuss a cannabis brand in a differentiating way will be the single most powerful go-to-market opportunity that producers and processors have in standing apart and building their brands.

The organizations that get this right will benefit from a stronger connection with consumers and will drive loyalty, within regulatory guardrails that limit traditional marketing channels.

But doing so in a way that makes sense to retailers and consumers while complying with regulations means starting with a clearly defined strategy and anchoring your business around it.

Sources Cited

- 1 Fielded to n=1,516 Canadians on Maru Voice Canada April 1st, 2019. Balanced to Canadian census by age, gender, and region. A representative sample frame of this size has an error rate of +/-2.52% 19 times out of 20.
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- 6 How Canadian Homeowners and Renters Really Feel About Legal Cannabis, Zoocasa, 2018

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Level5 Strategy is a leading management consulting firm located in Toronto, Ontario. The company works collaboratively with clients across all industry sectors to navigate their most critical challenges and opportunities, and to build and execute practical and executable strategies that convert decisions into actions. Level5 Strategy leverages the power of its proprietary tools, provocative insights and proven solutions that are true to brand, to align organizations on a clear path forward. Areas of expertise include enterprise strategy, growth strategy, customer-driven brand strategy, customer experience, transformation, digital, change management and governance.



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