

Thursday, July 28,  
2022

THE HANDOUT  
First Annual Cannabis Summit,  
July 28, 2022

Issue#1

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## The Cannabis Industry Must Act to: Avoid the Race to the Bottom!



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Introduction: Richard has over 33 years as a California Attorney and business advisor. He worked for Warner Atlantic and Elektra Records with music superstars like Stevie Nicks, Phil Collins, etc., and as a Business and Tax Manager for Wolfgang Puck, Tommy Lee Jones, Kurt Russell, etc. Richard was chosen by 110<sup>th</sup> CONGRESS to deliver a Statement on the solutions to the Great Recession. When the U.S. Treasury and the ALFN wanted to develop and teach the mortgage meltdown solutions to the banks, they choose Richard as the Chairman of CMIS. Richard co-created the donated \$1,000,000 in financial education for underprivileged kids in Los Angeles. He helped Elon Musk with his first Tesla Newport Beach Showcase. He is general counsel for KT California and Farmer Ryan and consults many Cannabis and industrial Hemp companies. He is currently developing Canna Crypto and NFT opportunities with marketing penetration strategies for his clients. He also owns the PreferredProfessionals™ brand, which offers business credit and funds to startups and scaling businesses.

## **The Cannabis Industry Must Act to: Avoid the Race to the Bottom!**

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The industry reports that price compression is occurring. Prices are down. There is a race to the bottom with respect to pricing as well as the participants actual existence. The participants are lowering prices, offering deep discounts, and flooding the market with BOGOs. The result is inevitable: (1) commoditization, (2) reduction of participants, and (3) big money consolidation.

The top 5 brands already control 20% (\$1.1B) of industry sales over the last 365 days. It takes over 1000 brands to reach 28% (\$1.5B) of sales. (Headset, New Frontier) This fact and others, compounded by the weak or falling pricing, excessive regulations, and taxes, are a cause to raise this red flag of concern. The undisciplined industry response (endless discounting and BOGOs), excess supply, and limited retail outlets support the continuation of a race to the bottom.

What can be done?

1. How can Dispensaries and Brands (and other participants) avoid the race to the bottom (in pricing and existence)?
2. Can we avoid commodity status?

The unregulated or illegal market is 2 or 3 times bigger than the \$30 billion cannabis market (YTD) (Headset) Government, industry, and its participants, must seek to refine and relax the rules and reduce heavy costs and taxes, to allow smaller sized participants to grow within its legal confines. Otherwise, the industry is hopelessly a commodity with much fewer participants.

California has some 40 million people and less than 1000 active retail dispensaries. The retail participants in the California businesses in the Beer, Wine, and Liquor stores industry far overshadows the Cannabis structure. (IBISWorld) The Cannabis industry must grow up and fast. The more retail outlets and industry has, the broader the foundation and stability of its market and sales. We still have 68% of local governments banning Cannabis businesses. (Headset) Cities and local government must join-in the fight to expand the legal Cannabis industry.

The market share of Flower declined from 42% to 36% (July 2022). The price declined for flower, capsules, concentrates, vapor pens and topicals. The market share grew for beverages, edibles, and pre-rolls. (Headset)

What can the Dispensaries and Brands do to combat the race to the bottom?

Dispensaries and Brands are using sales price DISCOUNTS and stacked BOGOs masquerading as marketing. That's not marketing. That's a form of offer stacking in the race to the bottom.

## Solutions - Thoughts and Analysis:

Dispensaries and Brands (and other participants) need to revisit traditional market and product positioning and branding strategies, as well as implement the new online and Web3 tactics.

Combine Old and New Product & Brand Techniques: Create unique marketing and value propositions to avoid being local commodity. To do this combine traditional Laws of Marketing, Branding and Positioning with online marketing (including websites, funnels, email nurturing, geo-fencing, content PR, event culturing, social media and Web3 (for example: DAO and NFT) strategies.

STEP ONE: Traditional Markets Analysis: The first step is to analyze your product, brand, or store LEADERSHIP position in the market. By position I mean consumer perception. You must create a unique value proposition and own your own EXCLUSIVE ATTRIBUTES on the Product, Brand or Store Market Ladder. The consumer must hold that same perception. Their beliefs must be based upon the exclusive attributes you own based on your points of difference (POD), and the PODs must truly be unique to your brand, product, or store. (Example, a DISPENSARY that specializes in THC Beverages; or specially serves Boomers, or Gen Z, or Millennials, or GEN X; or offers unique education or service experience, or video or virtual reality experience.) Maybe a brand is the first to offer a unique configuration or ingredient.

STEP TWO: Online Marketing: The second step is to craft your Hook, Story and Offer.

The Hook, Story and Offer are the number one reason online sales suffer. The hook is just that, something catchy to catch the attention of the viewer (for example as a lead-generator to capture an email). The Story is not your personal history but a persuasive and believable story of why the consumer should trust or buy from you. This is key. It must be simple and easy and ring true. It should be consistent with your value proposition. It shouldn't be a testimonial that violates any law or makes unsubstantiated claims. The Offer must be a Stacked Offer with 2-4 OTOs (one time only, up sales, BOGOs or sales bumps). Yes, you should offer discounts and double or triple quantity offers, etc. within reasonable bounds of scarcity such as time, unique strain, limited run inventory, etc.

Be Different Not "Better": A common mistake in market positioning, penetration and marketing is to say you're better. Consumers are savvy and will develop a sticky perception of your differences (PODs) but reject your claim that you are better than their perceived (in their mind) category leader. If your value proposition (PODs) and the attributes (words) you claim exclusively, are believable and consistent with the market, the consumer may likely accept your rung on the marketing ladder. But the rung must ring true.

Market Size and New Untapped Consumers: As an industry, we must increase the market consumer size. If you're relying on and accepting that the consumer only wants the cheapest price, then it's time to seek out the other consumers not being served. That market is exponentially bigger, and they probably want more (understandable) value or premium experiences. Maybe these are consumers that don't speak the Tincture or Blunt jargon or maybe they don't want to smoke but want to get relaxed or high. There are a whole lot more

consumers in those categories and they are waiting to be introduced to the legal marketplace. For example, KT California is a THC Beverages brand seeking consumers who don't smoke weed but want to get a sense of relaxation or high.

If We Act Strategically, We Can Avoid Creating a Commodity Industry: If your only strategy is to offer BOGOs and discounts tactics, eventually the industry becomes a limited scale commodity. The question is: Will the industry accept the challenge to be more than a commodity? It takes real effort to add real value and avoid creating a commodity.

### WEB3:

1. What's WEB3? It's the DECENTRALIZED WEB!
  - a. Google says: Web3 is the next generation of the internet which incorporates decentralization by using digital assets (Tokens, NFTs, etc.) on blockchain and smart contract technologies.
2. What's Crypto? CURRENCY OR A DIGITAL COIN!
  - a. Google says: A cryptocurrency is an encrypted data string that denotes a unit of currency. It is monitored and organized by a peer-to-peer network called a blockchain, which also serves as a secure ledger of transactions, e.g., buying, selling, and transferring. Like: BITCOIN, ETHEREUM (Network), DOGECOIN, SOLANA, POLYGON, etc. (Ethereum is a decentralized, open-source blockchain with smart contract functionality. Ether is the native cryptocurrency of the platform. Among cryptocurrencies, Ether is second only to Bitcoin in market capitalization. Ethereum was conceived in 2013 by programmer Vitalik Buterin.)
3. What's NFTs? A UNIQUE DIGITAL VALUE PIECE
  - a. Google says: NFTs are non-fungible tokens, which is incredibly unhelpful. NFTs can be an expression of your beliefs, values or your ethos. Typically, NFTs can be Art, Collectibles, Domain Names, Music, Photography, Sports, Trading Cards, UTILITY, and Virtual Worlds.
4. What's DAOs? A UNIQUE DIGITAL WORLD
  - a. Google says: DAOs are Decentralized autonomous organizations are a staple of web3. Internet-native and blockchain-based, DAOs are intended to provide a new, democratized management structure for businesses, projects, and communities, in which any member can vote on organizational decisions just by buying into the project.
5. How can dispensaries and brands use Web3 (NFTs, DAOs)?
  - a. Dispensaries and Brands can use NFTs to create their culture and metaverse world or community. Typically, the NFT can be Art, Collectibles, Domain Names, Music, Photography, Sports, Trading Cards, UTILITY, and Virtual Worlds. They can be brought, sold, and transferred, however there is a more powerful use. For example, the NFT can make a THC Beverage can a collectible, or offer VIP access to its Virtual and Reality world and events. It can target other

groups or worlds with traits that might enhance its marketing and or, eventually, sales or perceived value.

b. Web3 Take-Away: You must create your world where your customer base can reside. If sincere and authentic, they are ready to buy from you (brand, dispensary, or delivery service) – for more reasons than just LOW PRICE. They want to be part of a tribe or community, world or metaverse with common interests, values, interests, and benefits.

#### TAKE-AWAYS – Navigate and Avoid the RACE TO THE BOTTOM

- a. Education is not only for consumers, but it is needed for Dispensary and Brand owners as well.
- b. Focus on your unique value proposition (as a brand or store, etc.)
- c. Encourage Dispensaries to ADD PREMIUM RETAIL SHELF SHOWCASES to start the delineation of super-premium products (and dispensaries). (Dispensaries and Brands should Joint Venture in marketing to consumers, and complementary BRANDS should Joint Venture to share costs for marketing and or premium dispensary showcase shelves (or slotting fees).
- d. Brands May Diversify Products as Premium vs. Non-Premium: Not all products need to be deeply discounted.
- e. Joint Marketing Ventures (Joint Marketing and Branding):
  - i. Joint Campaigns for email blasts, nurturing, event geo-fencing and funnels
  - f. Leverage your brand PR and IP
  - g. Governments: Add more Retail Outlets (Cities offer Visit your City coordination and cooperation for tours to dispensaries, grows, education, brands, manufacturing)

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Santa Ana Annual Cannabis Summit July 28, 2022