



6 Challenges Facing Today's Growing Cannabis Industry

...and how to know when your cannabis business is ready to take it to the next level in cannabis operations technology

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Introduction

Due to rapid legalization and excited investors, the cannabis industry is exploding - U.S. nationwide sales are expected to exceed \$75 billion by 2030. The logistics of running a successful enterprise in this up-and-coming sector are often overlooked and are more complex than industry novices realize. Just because you're a master gardener or grow the best Blue Dream on the planet doesn't mean you can successfully run a cannabis business with today's ever-changing regulatory landscape. Without the technology, convenience and cost savings of a cannabis-focused Enterprise Resource Planning (ERP) system, many cannabis businesses can't stay afloat.

This kind of growth breeds fierce competition even though running this type of business is complex. Knowing what challenges you'll face and how to overcome them is the key to a successful enterprise.



Challenge 1: Regulations and compliance

The biggest concern for a cannabis operator is staying compliant. Often regarded as the most highly regulated industry in the world, cannabis has complex regulations that change frequently. Given the wide-ranging local, state and federal regulations a cannabis business must adhere to, violations happen and can be unintentional.

Cannabis compliance requires operators to go beyond simply familiarizing themselves with licensing requirements. In the case of a shutdown, live inventory still needs to be fed, watered and rotated through the various growing cycles in order to avoid a business catastrophe.

With many states eager to show strict policy enforcement, it's common to read about cannabis manufacturers losing their licenses. Violations could mean the end of the line for a cannabis business entrepreneur, where not only business and personal assets stand at risk but the potential for criminal proceedings remains a possibility for some.

With all the complexities of marijuana seed-to-sale inventory tracking, product testing, transportation procedures, cannabis packaging and labeling requirements, tax liabilities, and multiple location procedures, how does a cannabis manufacturer stay compliant?

Solution:

Seed-to-sale software that directly connects and synchronizes with regulatory bodies provides all the information officials need without requiring extra data and time-consuming paperwork.



Challenge 2: Product recalls

It may not sound like a common occurrence, but cannabis product recalls happen more often than you might think. Current supply chain traceability standards (seed-to-sale regulations) mandate the real-time tracking of every single plant through each stage of its life cycle.

To put this in context, Ben Curren, CEO of Green Bits, compares coffee to cannabis, "In addition to limits on where, when, and how it was sold, every Starbucks, Dunkin Donuts, or independent coffee shop would have to account for every bean that goes into a coffee product, whether a cup of plain old brewed coffee, espresso, cappuccino, or pumpkin spice latte."

In this industry, manufacturers should have a cannabis recall plan in place that has defined procedures and uses data to document that those procedures were followed. Without it, operators have no solid ability to maintain quality control or react swiftly in the event of a product recall.

Solution:

Traceability is achieved by attaching a barcode or radio frequency identification (RFID) tag containing a unique 24-digit number to every plant. The tags then interface with major traceability portals.

ERP systems, like CannaBusiness ERP, have added barcoding and RFID technology to make it easy to track the journey of every plant. Product recall management and corrective and preventative action (CAPA) planning enable quick action when issues arise.



Test your recall readiness

If your company is prepared to deal with a product recall, you'll be able to answer "yes" to questions like these:

- Is your compliance team familiar with Corrective Action and Preventative Action (CAPA)?
- Are you in compliance with current regulations and are you tracking news about new regulations in the pipeline?
- Do you have automated systems and plans in place to handle a possible product recall?

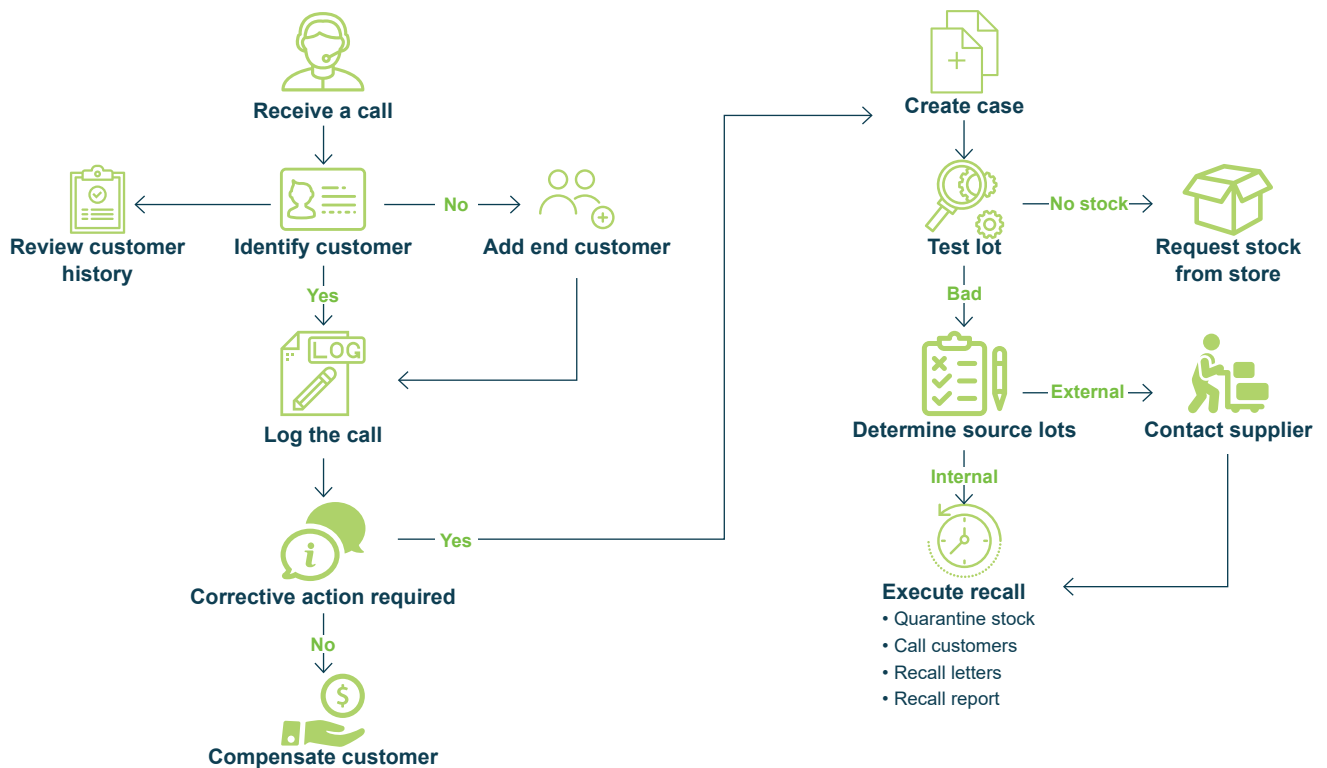
If you answered "no" to any of those questions, you may want to explore some solutions.

Much like the food and beverage industry, cannabis manufacturers use a CAPA plan, a documented process for identifying and correcting existing and potential issues that may impact the quality of the cannabis product.

Cannabis manufacturers and distributors need a clear and traceable trail to document every step of their product's journey - from planting a seed and monitoring various plant locations to harvesting, packaging, transporting and selling of the final product in the event of a product recall. The work effort is significant, so how should a producer proceed?

How CAPA works:

- Manages customer issues
- Identifies affected materials, products
- Reduces product recall time and effort
- Manages and communicates risk
- Generates notification letters
- Ensures compliance



Challenge 3: Staying organized

Thankfully, the technology exists to help cannabis operators manage many core functions within a single system. The average operator spends his or her day making decisions, responding to emails, scheduling and attending meetings, managing processes and teams, advocating for patients, and maintaining compliance among many other tasks. Handling all of this without organization is overwhelming.

If your business isn't using an enterprise-wide solution like an ERP system, more than likely it's using an individual software system to fulfill each of these functions. This can lead to issues including data errors or duplication, lack of transparency, and lack of communication between different areas of the business.

Systems that efficiently share data keep you organized, prepared and improve the overall accuracy of business decisions.

Consider what Sterling Stoudenmire, the president and CEO of Pure Greens, has to say about his cannabis manufacturing company's Sage Enterprise Management implementation: "One of the biggest changes for me is a consolidated view of all the moving parts of our organization so that I have the ability to look out in front of the bus and see what's coming."

Growing cannabis manufacturing companies need an ERP solution that integrates all of these disparate business functions into a single system and allows them to communicate with each other. Stoudenmire knows organization is essential to staying compliant and profitably growing your business.

"It's quality control overall, knowing statistically what's happening, knowing what's failing, where and why. CannaBusiness ERP gives me a 360-degree view of things."

Sterling Stoudenmire, President and CEO, Pure Greens

Solution:

A full-service cannabis ERP system to seamlessly integrate with multiple systems unique to the cannabis industry including:

- Accounting software
- Customer relationship management (CRM) software
- Business intelligence (BI) software
- HR software
- Project management software
- Point of sale software

Challenge 4: Improving profit margins

High land, labor, utility, supply, and personnel costs all make it difficult for cannabis manufacturers to maintain profitability. Should cultivation be done in an indoor operation or outdoors? Growers need to be able to compare costs associated with each step of the growing process in order to take money-saving or profit-raising action.

Cannabis manufacturers are also having a difficult time trying to set and maintain profit margins on their product. Supply and demand within this uncharted field fluctuates more dramatically than in most other industries. Because the plant process changes depending on the use for the end product, cannabis cultivators need to understand where the profit margin and demand for their product will be so they can intelligently focus their attention.

Some items are more profitable than others so operators can benefit from learning how to detect low vs. high profit inventory. In order to determine the profit margin for your product, you need to first understand everything that goes into your costs.

Solution:

A effective cannabis ERP system tracks key data and metrics (strain, costs, human resources and processes), and helps monitor energy consumption, environmental conditions, water consumption, nutrient and pesticide use, crop diseases, individual strain yield and profitability, lab test results and more - all the way down to an individual plant level.



Challenge 5: Forecasting

In any business environment, making accurate predictions for future operations and processes is essential. For cannabis cultivators, it's all about knowing how much product is needed to meet demand, but not exceed it.

- **Demand forecasting:** determining the busier time(s) of the year or which products are selling and at what margins.
- **Supply forecasting:** determining which procurement, production and distribution activities are essential for meeting customer demand.

Supply and demand forecasting is especially difficult in the cannabis industry with the varying and evolving legal environment.

Many years ago, process manufacturing companies relied heavily on spreadsheet formulas or other manual tracking efforts. As frustrations mounted with these ineffective, time-consuming approaches, technology improved.

Today, cannabis manufacturers have the tools needed to forecast capital and material requirements while minimizing delays.

Solution:

Effective cannabis ERP enables you to prepare for supply and demand forecasts based on historical customer and product data. It also positions managers to make strategic, profitable decisions with procurement, scheduling, and labor management.



Challenge 6: Reducing waste

There are tremendous efforts to reduce waste in the cannabis industry. Despite most cannabis byproducts being entirely compostable, some municipalities have dictated marijuana waste be treated as medical waste. Medical waste disposal creates additional business processes, costs money and can be time-consuming.

Instead of worrying about how to dispose of cannabis production waste, forward-thinking operators are finding ways to reduce their waste starting with the crucial step of identifying the areas where waste occurs. The most obvious cause of waste is a product reaching its expiration date. This can be a result of overstocking or some other supply chain hang-up, and it occurs when companies are unable to sell their finished product.

Another common cause of waste lies in contamination or cross-contamination. "Pesticides are one, but there are a variety of pathogenic molds and fungus that can also grow on cannabis," said Steve DeAngelo, Founder of Harborside, a cannabis dispensary in Oakland, California. Cross-contamination can often be associated with ineffective traceability within a company's own warehouses.

The core solution for reducing waste problems is effective traceability. Expiration and spoilage occur because of ineffective expiration tracking. Overstocking can be traced to an inability to track sales over time. Without traceability, companies will never know which processes are causing the most waste.

The current growth of the cannabis industry is exciting. Your business can take advantage of these new opportunities - if you're ready. The key to becoming compliant and growing your business is as easy as finding an ERP system that is designed specifically for the cannabis industry, integrates with all your other systems and scales as your business grows.

Solution:

A successful ERP solution combines real-time data from employee time tracking software and inventory control systems.

Solution: An ERP system

Enterprise Resource Planning (ERP) is a software technology solution that allows business professionals from all areas of commerce to develop a centralized method of managing the challenges discussed in this paper. ERP software integrates a variety of functions and issues into one complete system that streamlines information, commerce, activity, and strategies, enabling more effective and more intelligent business management and data analysis across all sectors. An effective and reliable ERP system is essential for cannabis industry professionals interested in using data to maximizing profitability, efficiency, and safety in areas that include:

- Inventory and order management
- Accounting and finance
- Resource Management
- Traceability and product recall management
- Customer relationship management (CRM)
- Publicity, sales, and marketing
- Logistics

About NexTec Group

NexTec Group is an award-winning business software company with a nationwide network of consultants. We have developed seed-to-sale software, called CannaBusiness ERP, that can help get your cannabis business thriving in a fast-moving, highly regulated industry. CannaBusiness ERP is designed to run your cannabis business as a business should be run. It tracks production, inventory, sales, finances, staff, compliance and customers (medical and recreational). It runs in the Cloud and is built on the powerful Sage X3 platform.

Contact us for a demo at nextecgroup.com/cannabis.

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