



# Overcoming the Top 13 Financial Obstacles to a Thriving Cannabis Business

The US cannabis industry is projected to double by 2022. Growth does not come easy though. The cannabis business has unique financial obstacles. This creates opportunity for those who learn how to meet these challenges.

Be an overcomer – use regulations to get stronger than your competition.

Jump on this now - once federally legal the best window has passed.

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-  **Taxes.** Cannabis firms are taxed on gross margins under IRS regulation 280E. That means your firm could be losing money yet still owe major taxes, so you burn even more cash. Be wary of advisors who say you can completely cut 280E taxes. Based on your business model, there are ways you can put a dent in this burden. We know how, as well as how to build support.
  -  **Banking.** Most banks are sitting on the sidelines. While you have some options, some of those financial institutions have limited capacity, cannot service their cannabis accounts well and can drop accounts like a hot potato. There is a better solution - you need to know where to look and how-to setup your organization to optimize. You can almost bank like a normal company.
  -  **Cash.** With limited merchant account options, too much cash moves through the system starting at the dispensary level, creating a huge security risk as well as a major drag on time and attention. There are solutions for handling the cash, which especially work well if you get your ecosystem - such as distributors, suppliers, etc. on the same network. Cash couriers are not cheap but can be very worthwhile- some banks will do this. If you currently have a lot of cash, how do you unload it? Are you still making payments with cash? Having trouble finding the right partner?
  -  **Funding.** The salad days of 2018 and 2019 are in the past. Mad money is no longer for the grabbing. Valuations are down as much as 90% for many firms with only a small bounce-back. Investors are more discerning. Cannabis is seen as risky- with very high taxes and regulatory uncertainty. Public markets are dry. Debt is difficult with some incredibly pricey private sources. Some private investments are getting done- especially for niche opportunities that stand out.
  -  **M&A.** Right now, deals are tough to do. Buyer stock prices are very low. Licensing and other regulatory factors make stock rather than asset acquisitions the norm. Mergers and acquisitions should pick up to record levels. Should you buy? How do you know what you are getting? If looking to sell, how do you set yourself up for success? Who is the optimal buyer? Whether buying or selling, valuing a transaction is especially tough in the cannabis industry. You have major levers that could dramatically affect your value- banking leverage, tax reform, federal legalization.
  -  **Going Public.** While cannabis is federally illegal in the US, US firms have to look to Canada to go public. Although the market has dried up, it could open up again. RTO's (reverse takeovers) have fallen out of favor. IPO is likely the preferred option. Larger firms have another route- getting acquired by a SPAC (special purpose acquisition corporation) in order to go public. Whatever way you chose, it is hard work. In addition to the accounting and reporting requirements, there can be tricky tax, shareholder, and organizational issues to work through.

-  **Insurance.** Many insurers have taken a pass on the cannabis industry, but over time more come in. Work with a broker familiar with cannabis. Premiums run higher for cannabis firm. Biggest expense by far- public D&O insurance. Workers comp rates are coming down, are your operations? One area not as affected by cannabis – medical – there are ways to offer this important benefit to your team, optimize to take advantage, while reducing costs by taking on controllable risks.
-  **Real Estate.** Cap rates (think rental rates) for real estate are twice as high for cannabis firms. It is a high-risk area for investors, who have to put in all equity since they cannot use leverage. Buildout improvements can push costs way above market due to specialized cannabis production needs. Production locations may be limited- as many communities say no. Likewise many counties/cities forbid dispensaries. Location affects your overall company and culture- you may end up with split locations making it harder to operate.
-  **State Expansion.** Since cannabis is classified as a schedule 1 drug for now, interstate commerce is prohibited. If you want to sell in another state, you have to setup shop there. However, someday cannabis may become federally legal, so the value of separate operations in each state may have a short shelf life. Likewise, you want to grow fast to get strong in advance of legalization- after may be too late. You have a variety of options- get your own license (time consuming), buy a license (expensive), partner with a license holder or utilize a co-manufacturer. What way you go drives the organization you need and how fast you can scale.
-  **Planning.** It is really challenging to make plans in the cannabis industry, which makes it critical that you have a plan. Does your plan answer question #1- how soon will your firm get to cash flow breakeven? The grow at any cost, land grab, spare no expense days are over. Question #2- how much capital do you need to get to breakeven? To survive, you need a dynamic plan, not a rigid one, that can flex with changes coming in the industry - banking leverage, tax reform, state/federal legalization.
-  **Metrics and Financials.** In a fast paced, rapidly changing business, it can be easy to lose track of where you are. What are the key drivers behind your results- sales growth, production costs, gross margins, customer acquisition costs, general overhead, taxes, and cash flow? Are you tracking these daily, weekly, monthly and are they visible? Meanwhile, are you getting your monthly financials out quickly- do they make sense to you and your team? Do you get surprises that should not happen? What delays your numbers - streamline your big factors? You cannot afford to be blind or slow.
-  **Organization.** Your finance team especially matters in the cannabis industry. Recruiting can be tougher- many good finance people have said no to the industry but that is changing. It is not a place for a typical finance person- you need people who are fast-paced, run lean, are flexible with a high tolerance for ambiguity. Things move quickly, and your days get easily disrupted. Yet they also need high standards for compliance- cannot play loose. The top matters- do not wait too long for a good CFO- consider a fractional one- with cannabis expertise and connections.
-  **Technology.** Surprisingly, some technology firms will not sell to cannabis firms. Fortunately, that is the exception and there are terrific options available that can help you scale and run your operation leanly. As important is compliance - tracking seed to sale - are getting better. Finally, you need your systems working together- financials, planning, operations (ERP), and sales (CRM).

Cannabis firms have developed amazing products and found many ways to get these in the hands of people who badly need what the plant can offer. The industry is growing up- like dot.com firms that learned to survive after the 2001 crash. Unlike those tech firms, you have these hurdles- any one can knock you out. I would love to see you survive and help you on your journey - together we can grow the industry.

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