


BY KATIE EVANS



INSIDE THE BUDDING, COMPLEX WORLD OF ONLINE CANNABIS SALES

WITH CALIFORNIA JOINING THE POT OF STATES LEGALIZING USE OF RECREATIONAL MARIJUANA, MANY COMPANIES ARE USING THE WEB TO FACILITATE CANNABIS SALES.

WHEN IT COMES TO E-COMMERCE and cannabis, there's a lot of gray mixed in with the green.

As the number of states legalizing cannabis continues to grow, savvy entrepreneurs are launching services that make it more convenient for shoppers to pick and choose from a variety of strains, compare prices and order cannabis from the comfort of their couch. Others are introducing online services that connect marijuana distributors with dispensaries.

However, marijuana sales today are largely stuck at "almost e-commerce," says Alan Brochstein, founder of 420 Investor, a subscription-based portal for investors offering data on marijuana companies, and of New Cannabis Ventures, a content aggregation site for the cannabis industry. That means consumers can order online for pick up at a dispensary or get cannabis delivered but pay cash at the door.

An Amazon-like site for cannabis is a good idea, and it's not a new idea, but the current federal illegality of the drug makes the idea difficult to execute, Brochstein says. Each state has different laws surrounding the purchase and use of marijuana. "It's hard to scale when you are state by state by state," he says. "Who opens an e-commerce site only targeting Chicago? It's very tough."

MARIJUANA IS A DRUG THAT can be used recreationally or as a medicine. And it is also a big—and increasingly legal—business in the United States. As of 2018, eight states and the District of Columbia have enacted laws legalizing marijuana for recreational use.

Most recently, California legalized the drug on Jan. 1 and Massachusetts will begin allowing retail sales of cannabis in July. Meanwhile, the majority of states allow for limited use of medical marijuana under certain circumstances, according to *Governing.com*, a media site covering politics, policy and management for state and local government leaders.

Legal cannabis, hemp and marijuana sales in North America grew 34% last year, and they're slated to grow by an average of 26% annually through 2021, according to ArcView, a research group for the legal marijuana industry. Spending on legal cannabis in the United States is projected to reach \$20.8 billion by 2021 and to generate \$39.6 billion in overall economic impact, 414,000 jobs, and more than \$4 billion in tax receipts, ArcView says.

But for now, the vast majority of that spending by consumers is paid for in person, not online. Beyond complex state-by-state regulations, full-on marijuana e-commerce sales are also stalled because many cannabis retailers only accept cash payments. Banks don't want to

risk legal woes from the U.S. government, which regulates banking, because cannabis remains illegal under federal law. This makes credit card payments for cannabis rare.

“Federal illegality impacts [online] payment processing,” Brochstein says. “It’s possible that cannabis could remain illegal but that Congress could create a safe harbor for non-cash payments, but there is no sign of that happening anytime soon. Until there is a payment solution, we will have only almost e-commerce.”

However, there are alternative solutions. CanPay, a debit payment service, offers a payment method beyond cash. It facilitates electronic payments between consumers and retailers in highly-regulated and emerging markets, including the cannabis industry. Financial institutions apply to be a part of the CanPay network and merchants with a bank account at one of those institutions can accept CanPay debit transactions from customers who have signed up for a CanPay debit account.

Hawaii last year became the first state to make a major push for cashless cannabis payments. In September 2017, Gov. David Ige and state financial institutions commissioner Iris Ikeda said CanPay, through an agreement with Safe Harbor Private Banking, will process transactions at retail dispensaries in the state.

STILL, WHEN IT COMES TO online sales of cannabis “near e-commerce” remains the norm in many areas, and it still offers benefits over physical stores such as online price comparisons, a wider selection, delivery and ordering online ahead for faster pickup at a dispensary, Brochstein says.

In California, Eaze, Meadow Care and GreenRUSH Delivery all connect dispensaries with consumers via the web. Getmeadow.com, for example, is an on-demand directory connecting patients to dispensaries for cannabis delivery. Meadow Care also operates Meadow MD, a telemedicine platform that connects patients to physicians for online evaluations for medical marijuana prescriptions.

Meadow Care in 2016 launched Meadow Platform, a software-as-a-service platform for California dispensaries to offer cannabis retail sales and delivery. It includes tools for inventory management, analytics, online and mobile ordering, delivery tracking and logistics, compliance and patient intake.

Meanwhile, Eaze, which launched in 2014 and bills itself as a marijuana technology company, connects cannabis product brands, dispensaries and doctors to consumers via the web through its site and app. To use the service, a shopper must register her email and phone number and submit a picture of her ID to verify her age. Eaze then texts her back once it approves her. She then can order her goods for delivery, although she must pay when the product is delivered. The service, which began as a platform that enabled medical marijuana users to connect consumers with doctors and to offer online medical forms, says it has amassed 350,000 users in California. A similar service, called GreenRUSH, also collects payments on delivery.

Marijuana delivery is popular among fans of the drug. In its “Eaze Insights: 2017 State of Cannabis Data Report” released in January, Eaze says it delivered the drug every 10 seconds in 2017, a 200% increase over 2016, when it was delivered every 30 seconds. The report is based on a survey of 15,000 consumers and Eaze’s database of 350,000 consumers. An Eaze spokesman says it’s too early for Eaze to share data on orders through its site since cannabis was made legal for recreational use in California on Jan. 1.

“After Californians voted for adult [recreational] use in November 2016, many consumers shifted their mindset and became more open to using cannabis to improve their everyday lives,” says Jim Patterson, CEO of Eaze. “Americans are becoming better educated about the wellness benefits offered by cannabis. As prohibition ends and a new era of marijuana emerges in 2018, we’ll see increased awareness drive diverse product adoption among new groups of people and continue to change lives for the better.”

The Eaze report also found:

- The number of baby boomers ordering marijuana increased 19% in 2017 compared with a year earlier, the highest of any generation. Vaporizers and edibles are most popular among millennials, while tinctures are most popular among baby boomers.
- On Inauguration Day 2017 (Jan. 20), Eaze sales increased 21%, making it the seventh-most popular holiday for ordering cannabis, more than Cinco De Mayo (May 5), Memorial Day weekend and Mother’s Day. Other popular days include government holidays such as Presidents Day and July Fourth, which ranked as the



34%

The percentage that legal cannabis, hemp and marijuana sales grew in North America last year.

Source: ArcView

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RYAN SMITH, CO-FOUNDER, LEAFLINK

third- and sixth-most popular delivery days, respectively.

- Consumers favor ready-to-use, convenient consumption methods like vaporizers, edibles and prerolled marijuana cigarettes. In 2017, vaporizer sales increased 191% and preroll sales increased 267% from 2016. Sales of loose marijuana, on the other hand, are wilting, having dropped 43% over the past year.
- Consumers are turning to marijuana as a wellness product for things like sleeplessness, anxiety, joint pain and other ailments. 45% of respondents said they replaced sleeping pills with marijuana.
- Eaze grew the number of products available via its platform by 277% in 2017, to 381 products from 101.
- Spending by women on Eaze increased 20% in 2017.

Meanwhile, other web-based services like marketplace LeafLink Inc. are using the web to connect marijuana growers and brands with retailers. LeafLink, which launched in 2016, employs 25 and expects to facilitate \$500 million worth of B2B marijuana transactions in 2018, says Ryan Smith, LeafLink's 26-year-old co-founder.

Cannabis retailers have typically managed their ordering process through email, text messages and phone calls with a decentralized web of cannabis flower, edible, concentrate and topical vendors, LeafLink says. "As a purchasing manager at a dispensary you might have 25 to 50 brands on your shelves, and you used to have to get emails, PDFs, text messages and phone calls from brands about what was available and when. It was old school," Smith says.

1,850 dispensaries use the platform and 450 brands sell through the LeafLink marketplace, which enables them to place orders in one legally compliant shopping website. The cannabis vendors then manage their incoming orders using the platform's business tools, including

customer relationship management, data reporting, order status tracking and fulfillment, the company says. LeafLink does not process payments, however.

"LeafLink is an order management platform, so the orders are done online through our platform, but the brands and retailers handle their payments as they always have offline," he says. "There are challenges around banking in the industry, so right now we don't provide that service. Companies settle in person."

To use the marketplace, a dispensary sends its state license to LeafLink for review and once approved, LeafLink will display marijuana brands that the specific dispensary is legally allowed to purchase based on state regulations.

LeafLink, which has raised \$14 million from investors, collects a monthly fee for brands to list on its marketplace; the service is free for retailers. LeafLink recruits buyers and sellers mainly through its team of eight sales people but also through online advertising. But marketing is tricky for the industry, he says.

Facebook Inc., Google and Apple Inc.'s app store have a range of constantly changing rules about words and images related to cannabis, Smith says. "On one platform you maybe can't put up a picture of a marijuana leaf, so you may have to put up a picture of your logo instead," Smith says. "I know one cannabis company with an app that took two years to get approved by the iOS app store."

Smith's partner at LeafLink came from eBay Inc., and LeafLink built all its technology in-house. The company is always adapting to the ever-changing regulations in the industry, Smith says.

"It's very much a living project," he says. "In California for example, we are basically building out our structure while they're drafting their regulations. Everything is changing so fast. People say one year in the marijuana industry is like seven anywhere else." ●



10 SECONDS

Eaze delivered cannabis every 10 seconds in 2017, a 200% increase from 30 seconds in 2016.

Source: Eaze

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