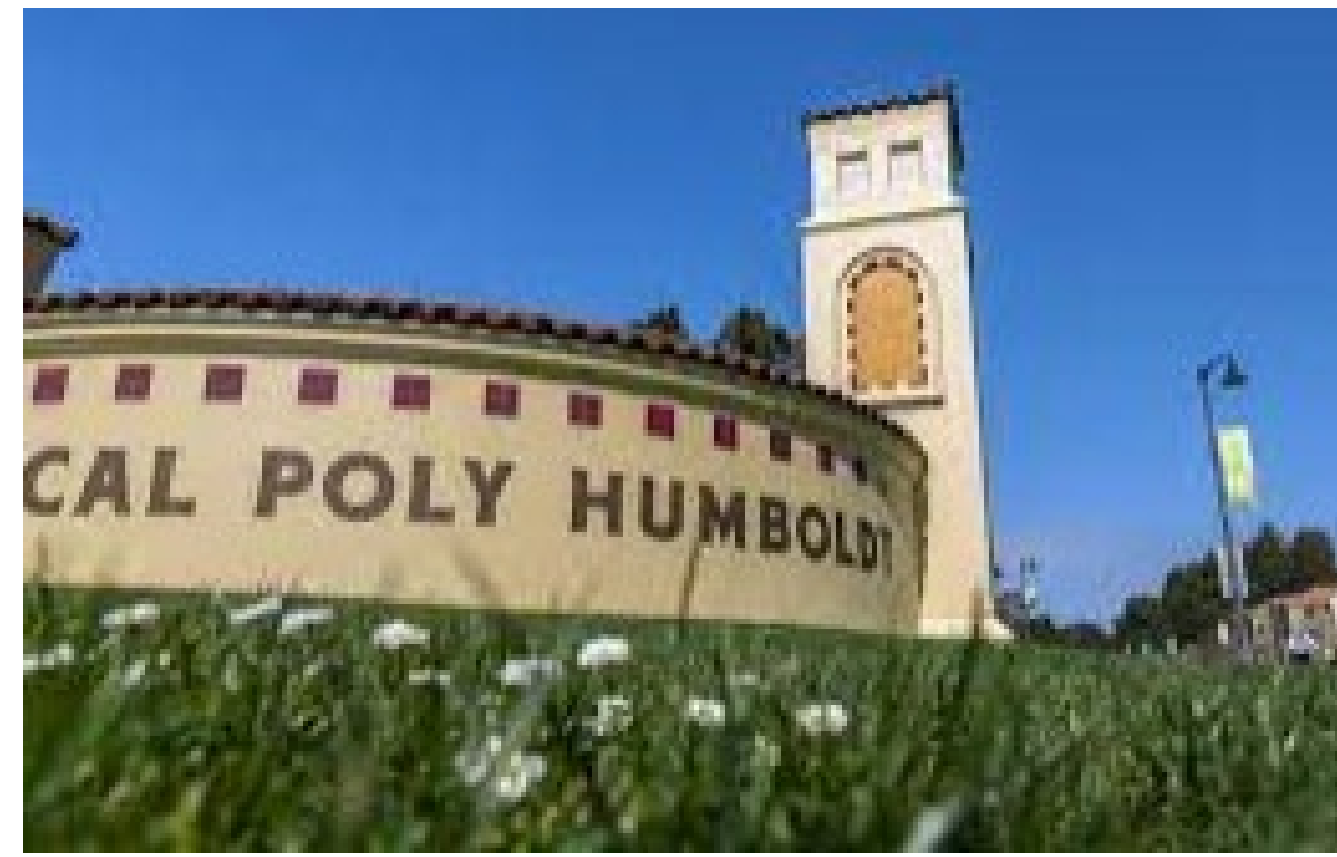


Cannabis Entrepreneurs Survey:

Research Objectives



The California Experience



Research Findings



Factors that Most Contribute to Future Success in the Workplace

Abstract

Our goal is to determine the characteristics and strategies of cannabis entrepreneurs that lead to success. Market pressures have increased competition and illegal operators undercut their prices by bypassing the tax and regulatory system. Other stressors are what business owners consider excessive state and local taxes and regulatory requirements that have not responded to the shift in the market environment. Our survey indicated that a significant number of current jobs existed in the traditional market before Proposition 64 was passed. Entrepreneurs in their thirties seem to be more successful. Finally, cultivators are less likely than retailers or manufacturers to report business success. We present strong evidence that rural cannabis businesses and cultivators are negatively correlated with business success.

Research Objectives

Our goals include:

- providing state and local licensing agencies with clear guidance on which cannabis businesses are likely to be successful,
- producing a clear history of how newly licensed cannabis businesses and jobs are related to formerly unlicensed businesses,
- providing local and state agencies a better understanding of how firms relocated after licensing,
- providing prospective entrepreneurs the knowledge they need to make informed decisions regarding business knowledge and potential in the cannabis industry,
- providing a scholarly outlet for those in the cannabis industry to express their insider knowledge of the industry safely.

Methodology

The data for this project has been collected in several phases. The first phase consisted of a focus group. We used the snowball method utilizing phone calls to prospective and referred focus group members. The initial general study was conducted in the summer and fall of 2022 via an online survey. We choose a randomly sample 1,125 business owners, mailing a monetary incentive to each business to participate. A second online survey was sent to all other cannabis license holders via email. Currently, 267 have responded to the survey. There will be a follow-up study in 2023. By contacting the businesses that responded to the online study, we will be able to assess changes in their business. This will occur via personal interviews and an additional online survey. We note that many of these business owners have agreed to take part in more in-depth interviews via telephone or Zoom.

Focus Group Findings

Participants expressed strong doubts that the illegal market had been eliminated. All participants suggested that the illicit market was not only active but continuing to operate illegally was enabling many businesses to survive. They reported bypassing the tax and regulatory system. They also allow businesses to export into lucrative out-of-state markets. Several participants estimated that about 70-80% of all canna businesses in California actively participate in or are in some way connected to the illegal market. One participant said "it's way more restrictive, costly, and risky to be in the licensed market than in the traditional market," especially in Humboldt, Mendocino, Trinity, Monterey, and Santa Cruz counties.

Table 1: Sample Population – County of Origin

Source: DCC License database (June, 2022)

| County | N | % | n | % |
|--------------------|------|-----|-----|-----|
| Humboldt | 1895 | 15% | 231 | 21% |
| Mendocino | 866 | 7% | 156 | 14% |
| Los Angeles | 1504 | 12% | 120 | 11% |
| Trinity | 402 | 3% | 83 | 7% |
| Alameda | 492 | 4% | 63 | 6% |
| Nevada | 247 | 2% | 54 | 5% |
| Sonoma | 288 | 2% | 51 | 5% |
| Santa Barbara | 1968 | 16% | 41 | 4% |
| Lake | 974 | 8% | 39 | 3% |
| Monterey | 640 | 5% | 37 | 3% |
| Riverside | 473 | 4% | 35 | 3% |
| Sacramento | 331 | 3% | 30 | 3% |
| Santa Cruz | 268 | 2% | 29 | 3% |
| Calaveras | 162 | 1% | 21 | 2% |
| San Bernardino | 232 | 2% | 18 | 2% |
| Yolo | 98 | 1% | 16 | 1% |
| San Francisco | 140 | 1% | 15 | 1% |
| Orange | 122 | 1% | 12 | 1% |
| San Diego | 143 | 1% | 8 | 1% |
| San Luis Obispo | 117 | 1% | 6 | 1% |
| Stanislaus | 67 | 1% | 6 | 1% |
| Data Not Available | 56 | 0% | 5 | 0% |
| Contra Costa | 48 | 0% | 5 | 0% |
| Fresno | 331 | 3% | 4 | 0% |
| Inyo | 50 | 0% | 4 | 0% |
| Merced | 17 | 0% | 4 | 0% |
| Mono | 11 | 0% | 4 | 0% |
| Kings | 254 | 2% | 3 | 0% |
| Kern | 74 | 1% | 3 | 0% |
| Shasta | 34 | 0% | 3 | 0% |
| San Mateo | 31 | 0% | 3 | 0% |
| Ventura | 99 | 1% | 2 | 0% |
| Santa Clara | 44 | 0% | 2 | 0% |

Table 2: Statistically Significant Correlations Between Determinants and Measures of Success

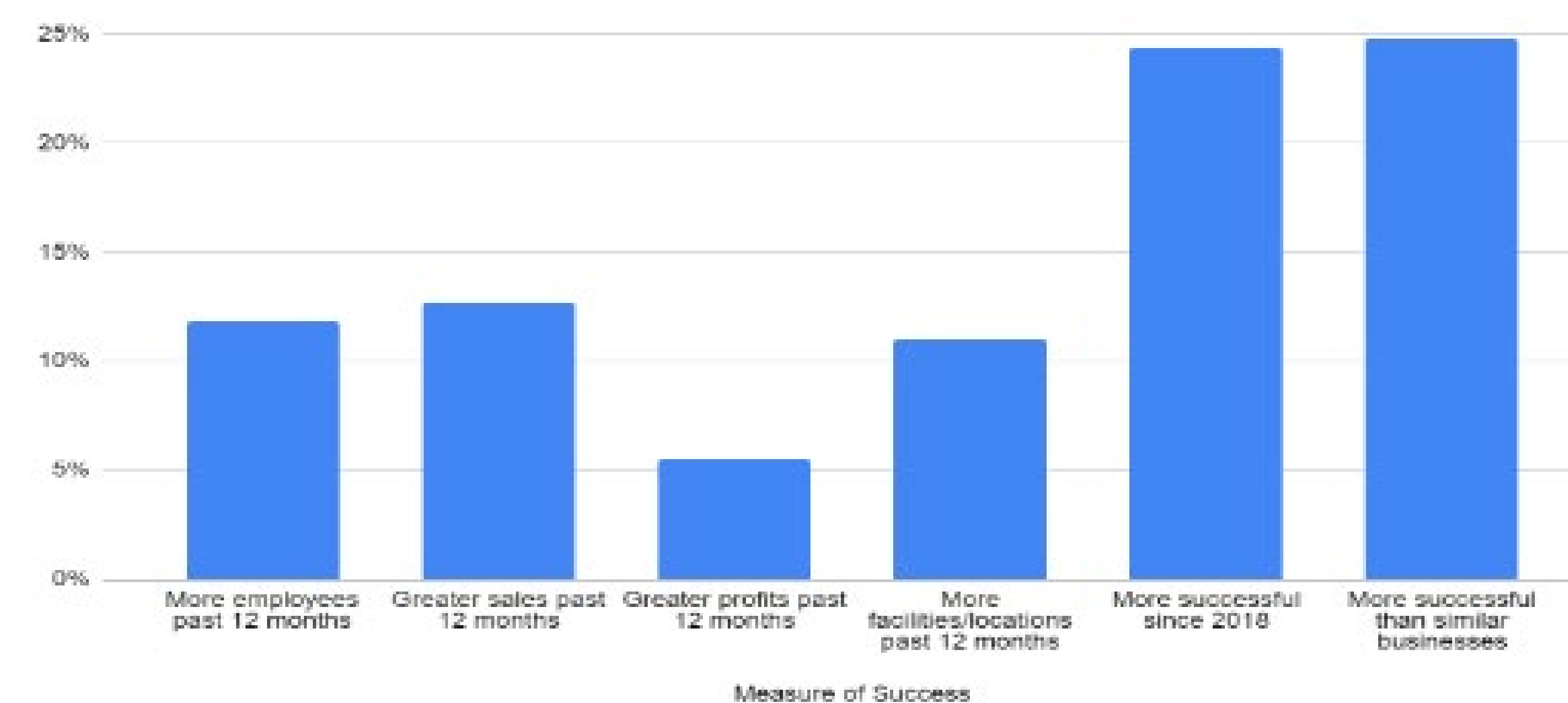
| | More employees past 12 months | Greater sales past 12 months | Greater profits past 12 months | More facilities/locations past 12 months | More successful since 2018 | More successful than similar businesses |
|---|-------------------------------|------------------------------|--------------------------------|--|----------------------------|---|
| Prior cannabis industry experience | -0.255* | -0.011 | -0.077 | -0.072 | 0.04 | 0 |
| Owned other type of business in past | -0.051 | -0.127 | 0.017 | 0.073 | -0.212* | 0.012 |
| Other owners have cannabis experience | 0.058 | 0.144 | -0.111 | -0.058 | 0.234* | 0.123 |
| Book used to start business | .335** | .302** | .284** | 0.074 | .320** | 0.058 |
| Business course used to start business | .222* | 0.053 | 0.129 | .301** | 0.157 | 0.135 |
| Cannabis course used to start business | 0.192 | 0.079 | .217* | .381** | 0.087 | 0.001 |
| Start-up funding from personal loans (family, friends, etc.) | 0.196 | 0.014 | .236* | .287** | -0.034 | 0.127 |
| Start-up funding from personal credit cards | .233* | .334** | 0.125 | 0.116 | .363** | .198* |
| Start-up funding from fixed loans from other businesses | .222* | 0.114 | 0.018 | 0.028 | 0.04 | 0.157 |
| Start-up funding from business credit lines (e.g., credit cards, lines of credit, etc.) | 0.1 | .233* | 0.129 | .301** | -0.03 | 0.179 |
| Start-up funding from owners contributions | .310** | 0.146 | 0.126 | .289** | 0.062 | 0.139 |
| Do you work with a spouse or other family member? | 0.156 | 0.173 | 0.036 | -0.059 | .215* | 0.025 |
| Are you involved in more than one cannabis related business? | -0.043 | -0.118 | -0.067 | -0.025 | -.213* | -0.158 |
| Do you advertise? | 0.171 | 0.168 | 0.141 | 0.136 | 0.076 | .226* |
| Are you using software in your business? | .387** | 0.179 | 0.109 | 0.127 | 0.183 | .288** |
| Age range is 30-39 | .402** | .313** | 0.151 | 0.134 | .261** | .318** |
| Age range is 50-59 | -0.168 | -.196* | -0.072 | -0.031 | -0.047 | -0.151 |
| Education terminal degree | 0.195 | .371** | .356** | -0.033 | -0.049 | 0.077 |

Pearson Correlation coefficient.

*Correlation is significant at the 0.05 level (2-tailed).

**Correlation is significant at the 0.01 level (2-tailed).

Figure 1: Percent of Cannabis Businesses Reporting Success



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Survey Response

Compared to the proportion of all license holders, our respondents include a greater percentage of cultivators. Manufacturers and micro businesses responded in proportion to their number in the population. Distributors and retailers were somewhat less likely to respond. Table 1 shows the responses to the question, "In which county do you conduct the majority of your business?" Most observations come from Humboldt and Mendocino counties, which are at the center of historic traditional cannabis cultivation. After these counties come Los Angeles, Nevada, Trinity, and Sonoma counties.

Statistical Correlations

Table 2 highlights Pearson Correlation results. We group the factors by type to aid in analysis. The first grouping is owner experience, and the third row shows that the correlation coefficient between "Other owners have cannabis experience" and "More successful since 2018" is 0.234, a weak positive association between the variables. However, the negative sign on the coefficient between "Owned other type of business in the past" and "More successful since 2018" is difficult to explain since most literature finds that previous ownership experience leads to success. Similarly, the negative association between "Prior cannabis industry experience" and hiring "More employees in the past 12 months" is also unexpected. Looking at the "sources of help" factors, taking a "business" or "cannabis" course, and especially reading a "book," is positively correlated with several success measures. Six different sources of start-up funding are significantly correlated with measures of success: use of personal loans, credit cards, fixed loans, venture capital, business line of credit, or owners' own personal use of funds. "Using software," "advertising," and "working with a family member" are general business strategies that are positively correlated with success. Finally, being "aged 30-39" is positively associated with four of our measures of success.

Conclusion

Comparing measures of cannabis success with factors that may influence success suggests a few lessons for entrepreneurs. First, the relationship between past participation in the cannabis industry or the number of cannabis firms and success today is not straightforward. Second, start-up funding from a variety of sources is important. Some common business strategies, such as advertising and using software, are also helpful for cannabis businesses. Finally, entrepreneurs in their thirties seem to be more successful. The importance of the unlicensed cannabis market deserves further investigation. The results presented here certainly confirm that a large portion of licensed cannabis business owners believe that the many other businesses have their roots in the traditional market and that current unlicensed activities are common. Respondents believe that a large portion of licensed businesses use "off-the-books" labor. It is difficult to quantify how many "licensed cannabis businesses have created new" jobs. Still, our survey indicated that a significant number of current jobs existed in the traditional market before Proposition 64 was passed. Finally, cultivators are less likely than retailers or manufacturers to report business success. We present strong evidence that rural cannabis businesses and cultivators are negatively correlated with business success.

Interested in Participating in Survey?

We are currently soliciting parties interested in being interviewed for this study. If your business holds a Cannabis license within the State of California, please reach out to Gregg.gold@humboldt.edu or leave us your business card or contact information. Participants will receive a monetary incentive for their participation.