



# Beyond the Smoke

## The Future of Cannabis in the Food and Beverage Industry

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# Cannabis 101

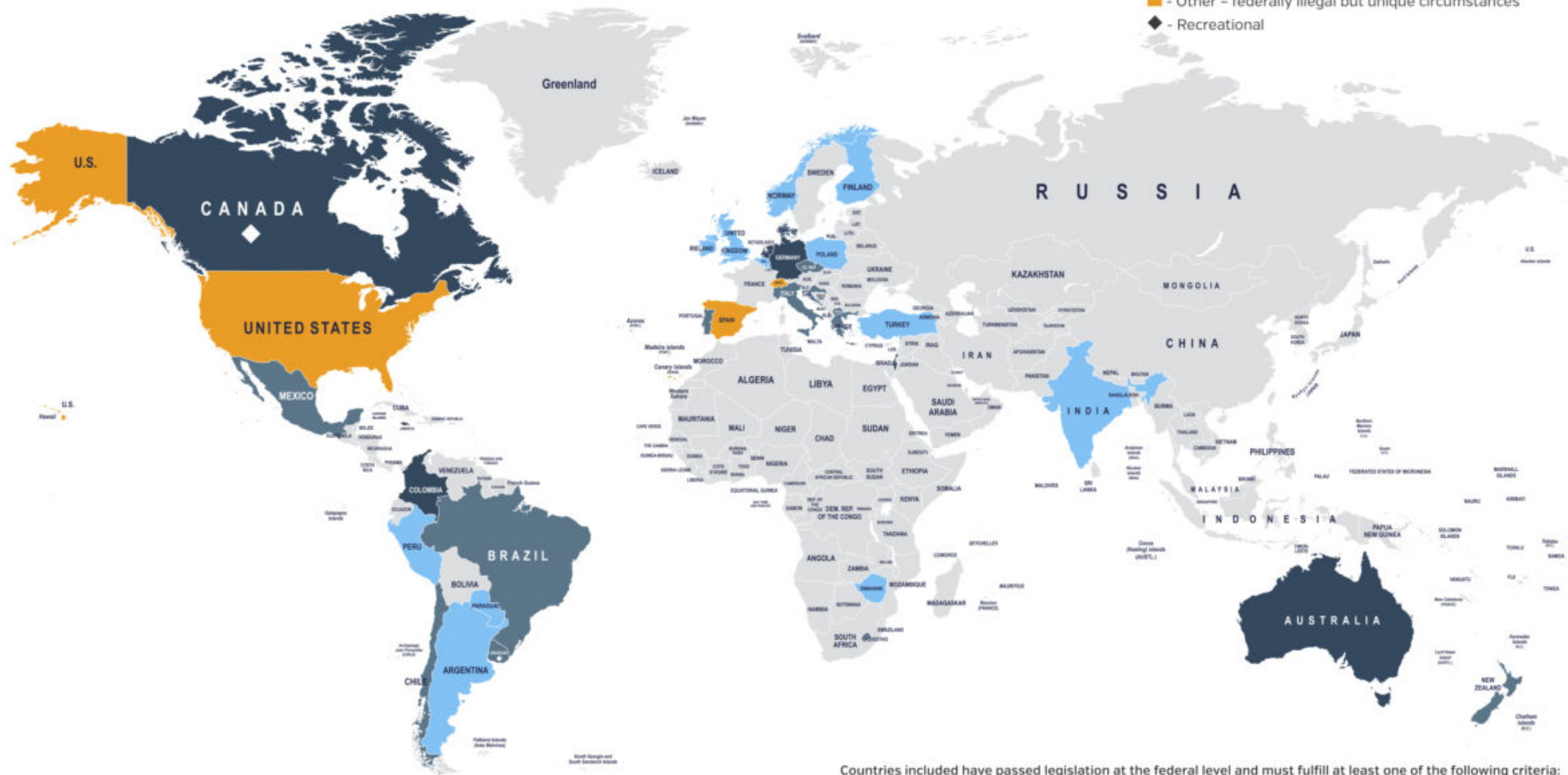
- Cannabis is a genus of flowering plants in the *Cannabaceae* family
- The *Cannabaceae* family includes over 170 species, including numerous species of hops (*Humulus*) and hackberries (*Celtis*)
- The plant contains over 480 identifiable chemical compounds
- The two most abundant compounds are:
  - Tetrahydrocannabinol (THC) **INTOXICATING**
  - Cannabidiol (CBD) **NON-INTOXICATING**



## WORLD MAP OF CANNABIS LEGALIZATION

### MAP LEGEND

- - High level of medical development/implementation
- - Medium level of medical development/implementation
- - Low level of medical development/implementation
- - Other – federally illegal but unique circumstances
- ◆ - Recreational



Countries included have passed legislation at the federal level and must fulfill at least one of the following criteria:

- Cultivation or manufacture of medical cannabis allowed
- Doctors can prescribe medical cannabis
- Import and/or export of medical cannabis allowed

High: Countries at the forefront of the global industry. Frameworks are established, and adoption is well underway.  
Medium: Implementation has begun but is still limited or restricted; lots of room for the market to develop.  
Low: Legislation has been passed, but implementation is very limited or nonexistent. Decriminalization is not included.



# Reasons for Optimism

- Total Cannabis Market in Canada estimated to be over \$7 billion in 2019 (incl. illegal and medical)
  - 2016 Wine (\$7 billion)
  - 2016 Beer (\$9 billion)
- Edible cannabis products will be for sale within one year of legalization
- In the food and beverage industry, opportunity exists for:
  - Health foods and supplements
  - Snack foods
  - Packaged meals
  - Beverages
  - Dining & Tourism



**A society in transition,  
an industry ready to bloom**  
2018 cannabis report



# Three Major Market Segments



Recreational – Medical – Non-Intoxicating



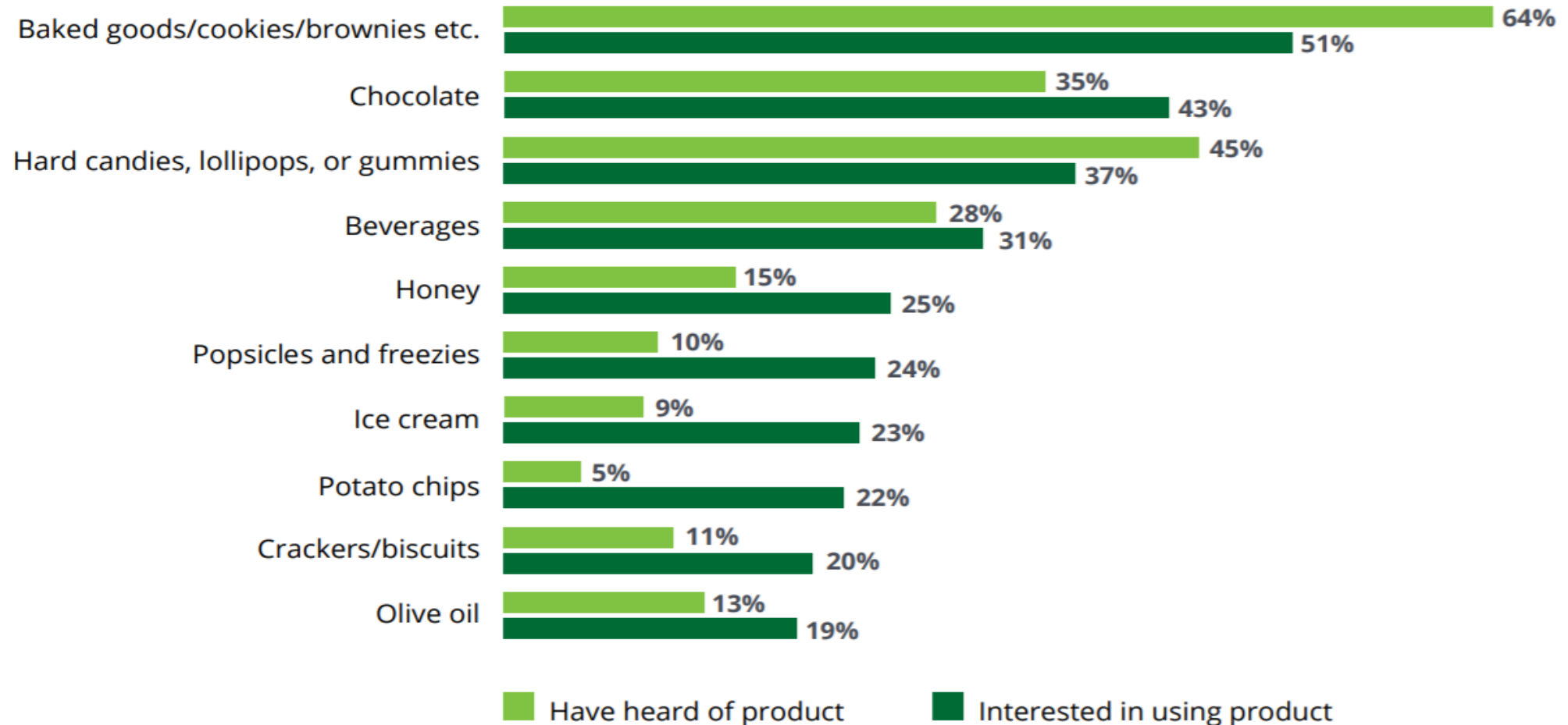


# Canadian Consumer Preferences

- 64% of current and likely consumers are aware of cannabis-based edible products
- 58% of likely cannabis users plan to purchase edible products
- Expected monthly expenditure:
  - Frequent user: \$95-100
  - Occasional user: \$25-30
- Statistics Canada (2018) found that approximately 4.2 million Canadians had used cannabis products in the last three months
  - 56% of them on a daily or weekly basis
  - 28% identified edibles as their preferred method of consumption

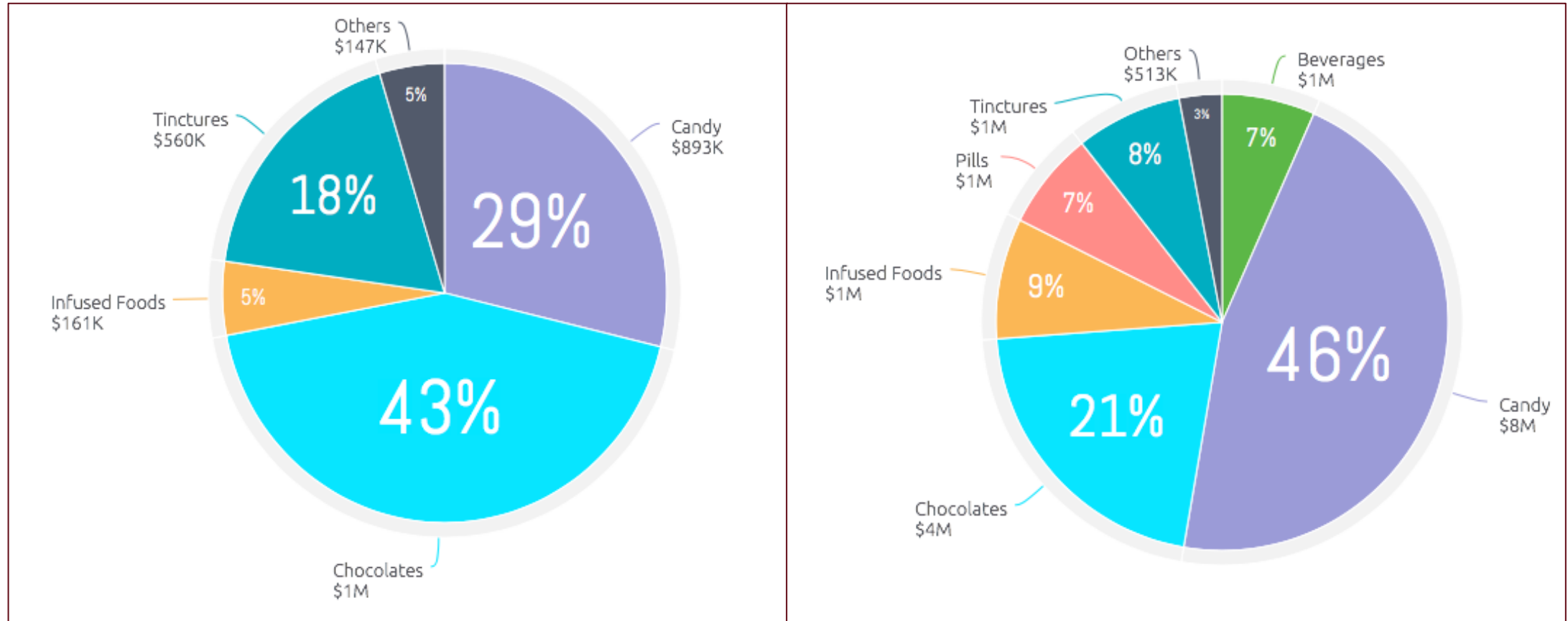


# Survey of Current and Likely Cannabis Users



Source: Deloitte, 2018.

# Oregon vs Colorado: Edibles Sales by Type (2016)

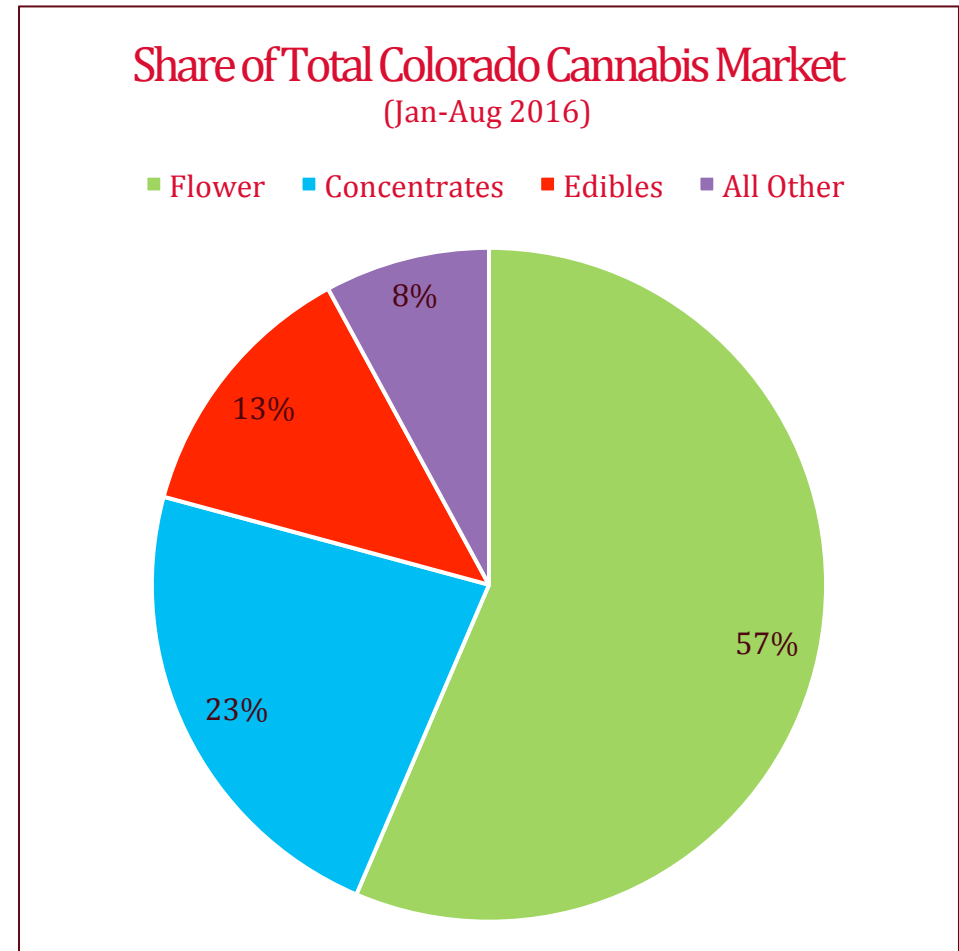


Source: BDS Analytics, 2017



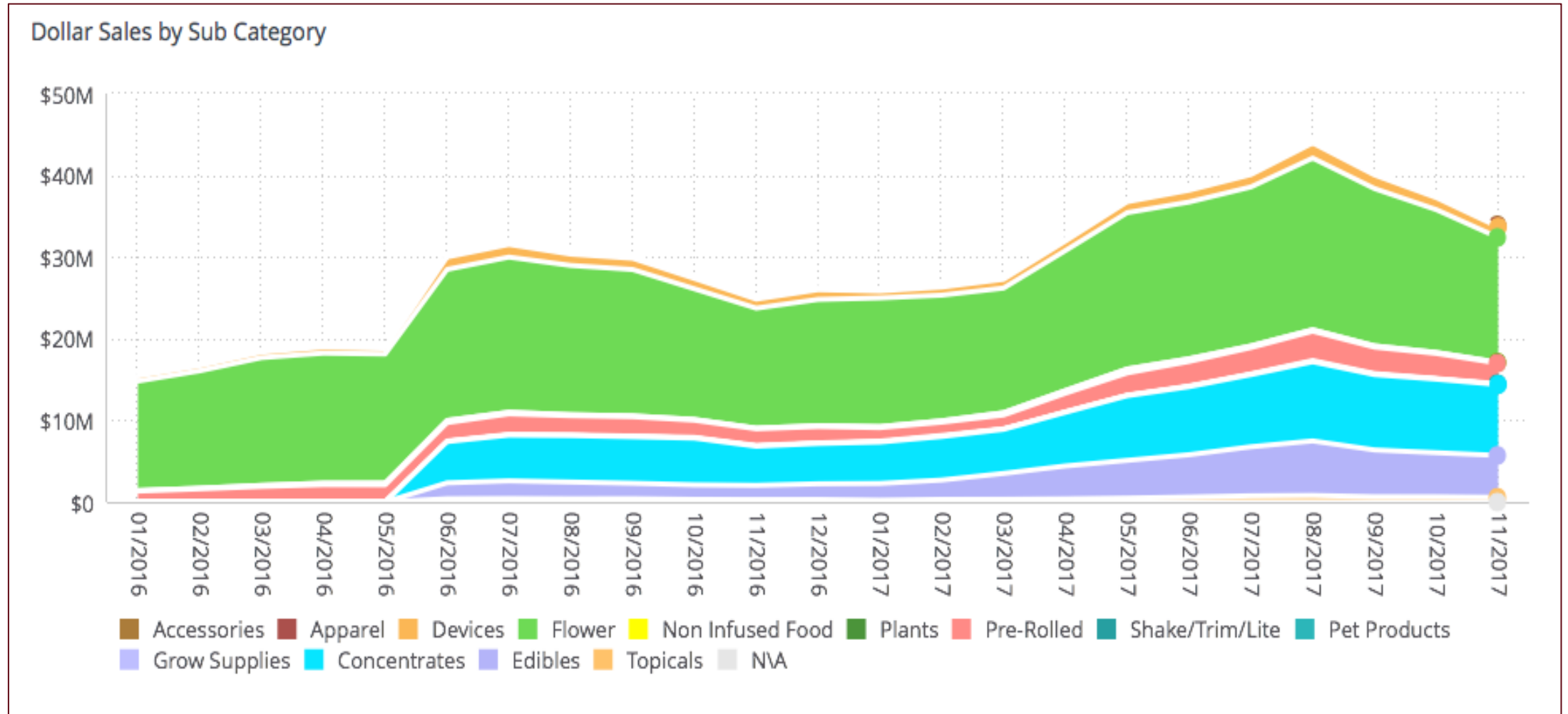
# Expectations for Market Shares

- Sales of edibles in Colorado have grown over 60% a year for the last two years
- Market share for flower is shrinking
- Market shares for edibles, concentrates, topicals, and pet products are growing
- Infused dining experiences and packaged meals are growing in popularity



Source: BDS Analytics, 2016

# Growth of Cannabis Market Shares (Oregon)



Source: BDS Analytics, 2018.



# Risks and Considerations

- While the newly legal cannabis market is an exciting opportunity for the food and beverage industry, expectations should be tempered

Regulatory uncertainty

Shifting market dynamics

An established black market

# Legal Cannabis Regulations in Canada

- Cannabis is regulated by three separate pieces of legislation:
  - The Cannabis Act
  - The Food and Drugs Act
  - The Controlled Drugs and Substances Act
- There are also additional regulations in the Controlled Drugs and Substances Act for medical cannabis
- Edible cannabis products are not yet legal under the current legislation
- The federal government has indicated that edible products will be incorporated into the legal market within one year of legalization

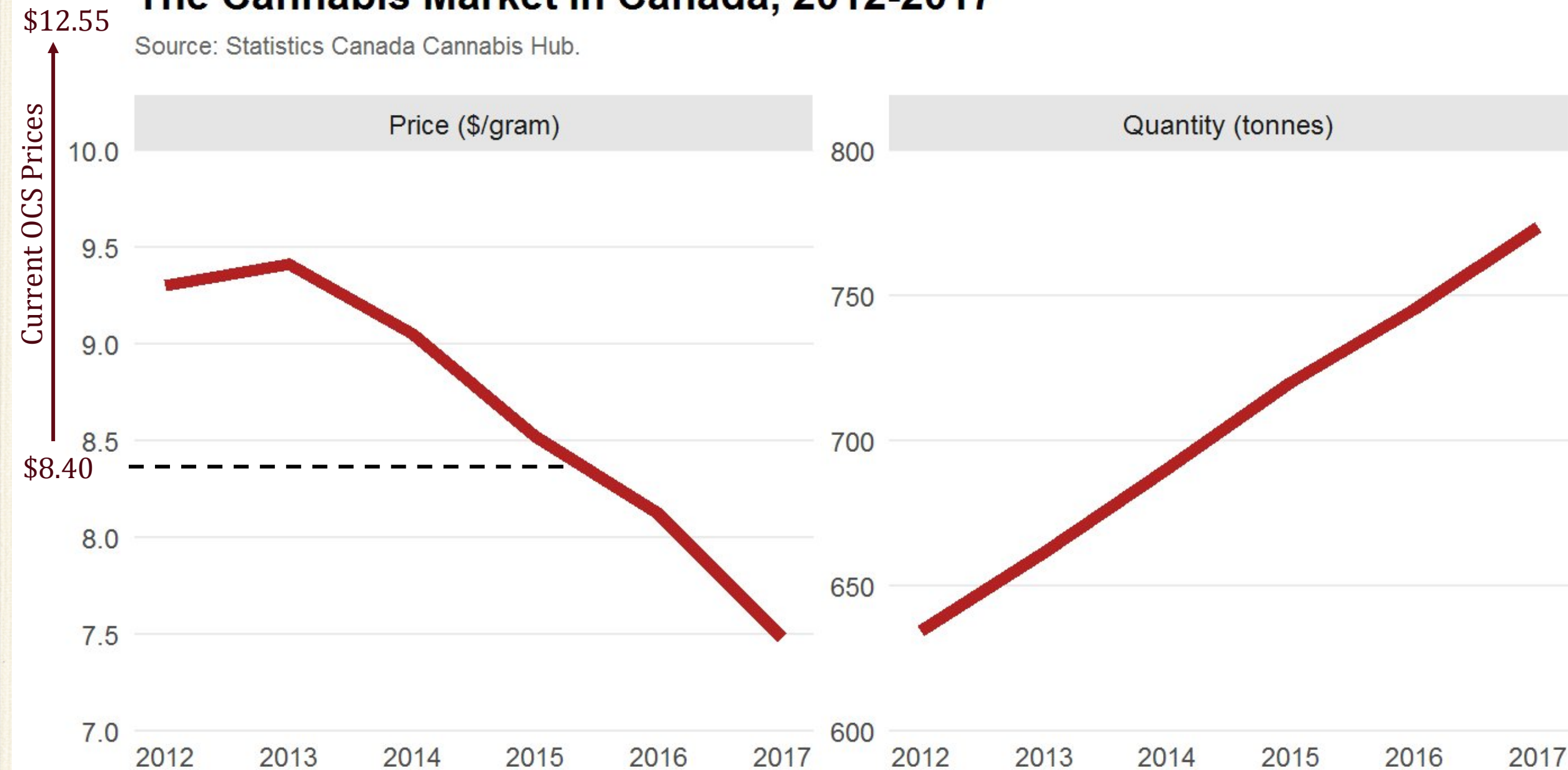


# Shifting Market Dynamics

- Entering an emerging market will always involve risk
- Early indications are that government prices are high, profit margins are low, and supplies are already starting to dwindle
- Pair this with expectations of long-run price declines and the cannabis market seems less profitable than advertised
- Based on the experience of CO, WA, and OR, the key to succeeding in the cannabis market will be innovation, product diversity, and to some extent brand recognition

# The Cannabis Market in Canada, 2012-2017

Source: Statistics Canada Cannabis Hub.





# Happy to answer any questions



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