



Understanding the recreational marijuana market:

Public opinion, consumption trends and retail opportunity

The possibility that the federal government will legalize and regulate marijuana for recreational purposes presents a bold new landscape for Canadian businesses and governments alike.

What this new landscape might look like remains unclear, however, the Federal Task Force charged with informing upcoming legislation on the topic continues to study the issue and meet with stakeholders throughout Canada and abroad, including in those US states where recreational marijuana is already legal.

What is clear, however, is that regardless of the specifics of how recreational marijuana may ultimately be regulated in terms of distribution, retail, marketing or even the forms the product can be sold in, success in this nascent industry will be predicated upon understanding the current and future consumer.

Until recently, very little was known about the Canadian recreational marijuana consumer; no comprehensive assessment of the Canadian market had been developed. To address this gap in knowledge, in 2016, Deloitte conducted a study of the Canadian recreational marijuana market. Partnering with Toronto's RIWI Corp., Deloitte surveyed 5,000 Canadian adults (19 years or older) from coast to coast, 1,000 of whom identified as current recreational marijuana consumers.

Survey responses were interesting and complex, and the study yielded a range of far-reaching insights on how both consumers and non-consumers want and expect to see the burgeoning industry unfold.

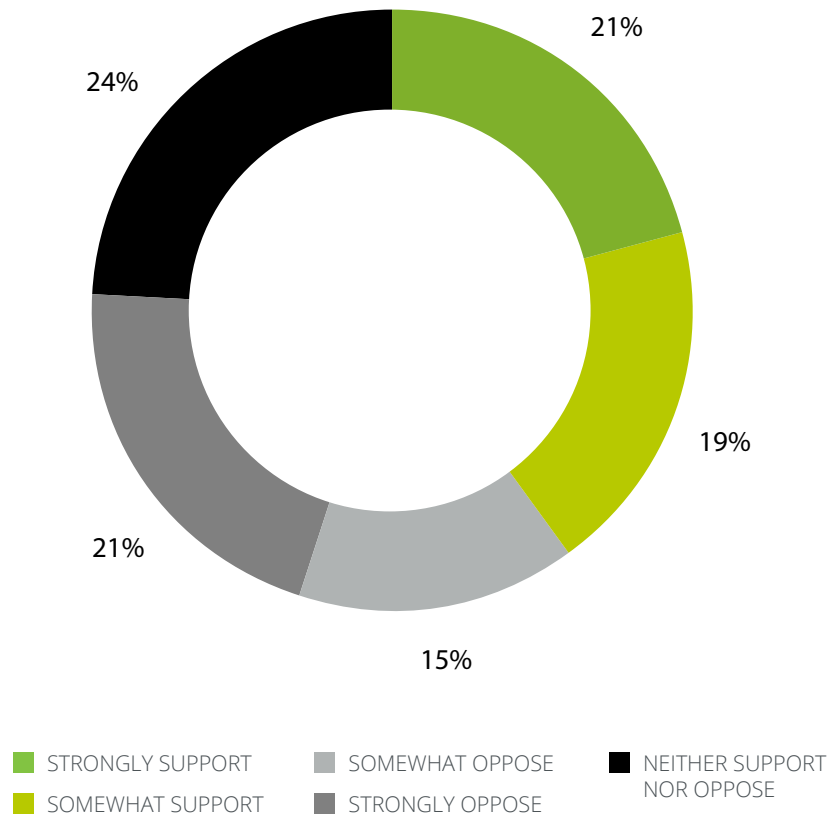
Along the way, we captured key insights on consumption frequency, methods and motivators. We also explored the interplay between alcohol and marijuana consumption and captured perspectives on retail preference, as well as perceptions of the health and social impacts of marijuana in relation to alcohol and other drugs.

The study also revealed many areas that require future examination, particularly for those looking to participate in this new and potentially profitable space. In making the case for participation in this market, however, both businesses and governments must be prepared to consider the full range of business opportunities and challenge some basic assumptions.

Social Permissibility

It's important to note from the outset that, from a public policy perspective, recreational marijuana is not currently a clear win for the federal government. Only 40% of the adult population is in favour of legalization, with 36% opposed and a quarter undecided. This will make it challenging to create a broadly accepted regulatory environment. The level of division and indecision is not really surprising. Since no one knows what the market might look like, it's difficult for individuals to form a strong opinion on it. Moreover, brand new policy frequently tends to leave a large portion of the population on the fence. However, this indecision will shrink as legislation becomes more defined, emphasizing the importance of tracking public opinion as it evolves.

National Support and Opposition



Data shows that support and opposition levels are similar across Canada.

Some insight on where opposition may be coming from, however, emerged in response to a question we posed about the perceived health and social impacts of recreational marijuana. A slim majority of overall respondents - 59% - believe recreational marijuana has the same or less of a health and social impact than alcohol. Twenty-three percent believe marijuana to fall somewhere between alcohol and hard drugs, while 18% see marijuana as having about the same social and health impact as hard drugs (e.g., cocaine and heroin).

Notably, though, there were clear differences in the data by consumer sub group, with millennials very much seeing marijuana in a positive light and older, non-consumers much more likely to equate the effects of marijuana with a harder class of drug.

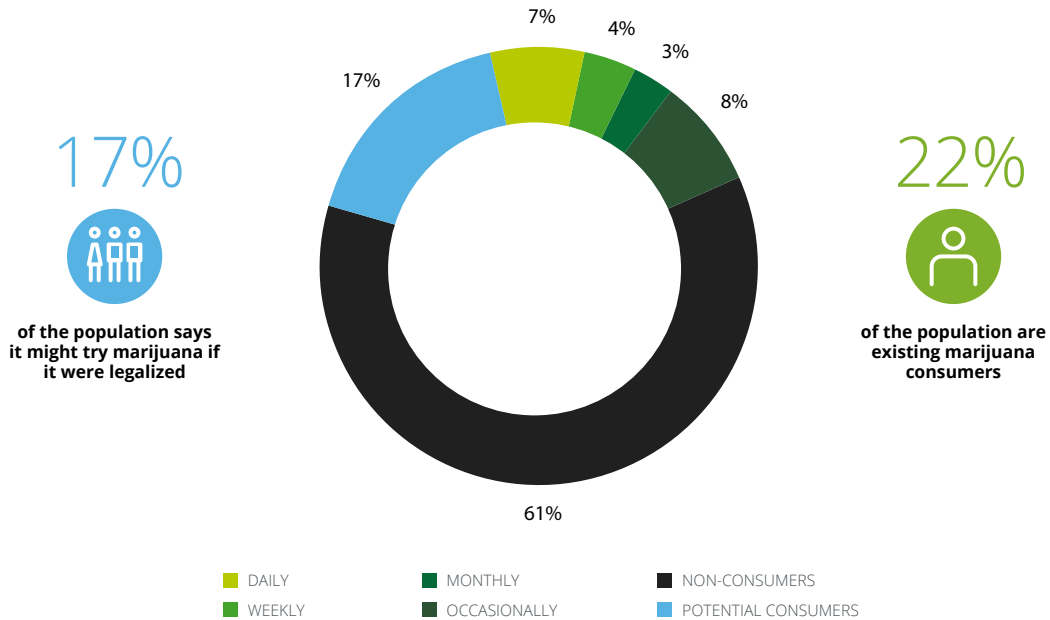
From a government and corporate responsibility perspective, it would appear that a cautious approach is required. Rather than an unfettered, open marijuana market from the outset, a measured market entry is likely a preferable route, and brands looking to expand into this area must recognize that a large portion of the population will not be immediately supportive.

Market Size

Having established a general sense of public opinion on legalization, the next obvious question is: what is the actual size of the potential market? Results show that 22% of the Canadian adult population consumes recreational marijuana on at least an occasional basis (this does not include medical marijuana), with a full 7% of the adult population consuming on a daily basis.

A further 17% show some willingness to try it if it were legal, suggesting the total potential marketplace (current plus potential consumers) is close to 40% of the adult population. For context, Statistics Canada reports that close to 80% of the adult population has consumed alcohol in the last year.

Consumers by Frequency and Potential



Note: *Potential consumers defined by the 17% of non-consumers who indicated that they would definitely, probably or might try.

Age and Gender

One interesting finding from the study was the near parity in consumption between men and women. For those contemplating entry into a potential recreational

market, this fact presents an opportunity to create brands and products that speak equally to both genders. While gender makes very little difference in consumption, there is a clear generational divide in

consumption. Perhaps unsurprisingly, recreational marijuana consumption tapers off with age, with millennials consuming more than their Gen X and boomer counterparts.

	MALE	FEMALE	MILLENNIALS	GENERATION X	BOOMERS
DAILY	7%	6%	11%	6%	4%
WEEKLY	4%	4%	7%	5%	2%
MONTHLY	3%	3%	5%	4%	2%
OCCASIONALLY	8%	8%	11%	9%	6%
NOT AT ALL	77%	79%	67%	77%	86%



Economics of Recreational Marijuana

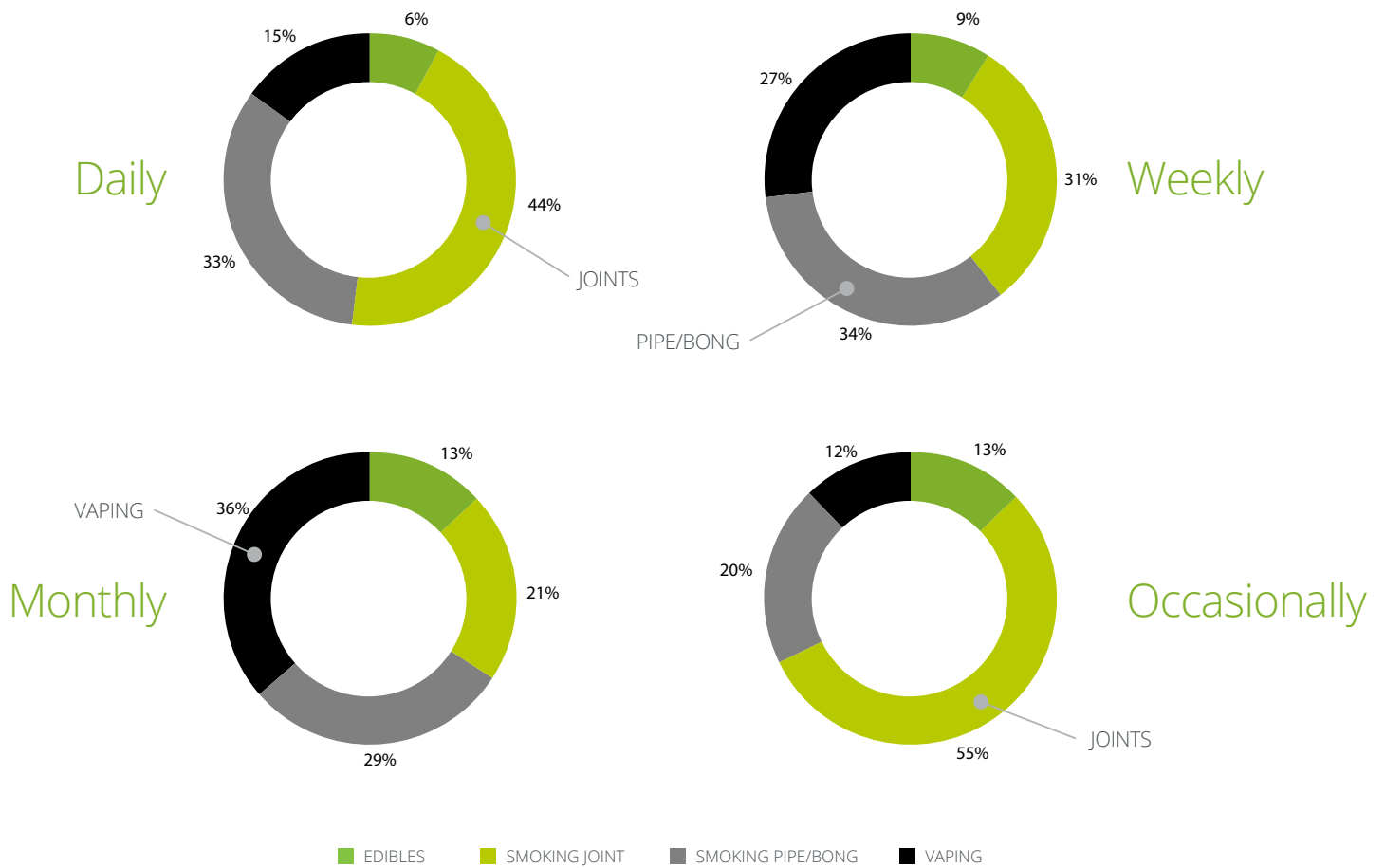
To get a sense of how the consumer landscape might translate into economic impact, we integrated our survey data with both publicly available data on sales volume from jurisdictions where recreational marijuana is already legal and current market prices in Canada.

The results suggest that on sales of recreational marijuana alone, the Canadian marketplace could be as much as \$5B per year to start – a number on par with the Canadian spirit market (whiskey, vodka, rum, etc.). At the upper threshold, which takes into account the people who are “likely to consume,” marijuana sales alone could be as high as \$8.7B, similar to sales generated by wine.

When you factor in ancillaries such as security, transportation, etc., the potential economic impact approaches \$23B. And none of this accounts for things like taxes, licensing fees, tourism and paraphernalia sales. With tax and licensing revenue totalling over **\$52 million** in Colorado the last fiscal year, a state **one-seventh** the size of Canada, it’s obvious the opportunities are substantial.

On the production side, supplying even the low-end estimate of the recreational market would require producing over 600,000 kilograms of marijuana annually, a significant increase from what the medical marijuana industry is currently capable of producing.

Of course, there will be a practical consideration to take into account when setting marijuana prices that goes beyond what the market will pay. The challenge will be to set a price point that balances the goal of creating and sustaining a legitimate market (while eliminating ancillary criminal enterprise) with that of not promoting excess consumption.



Methods of Consumption

A visit to a typical dispensary in Colorado highlights that dried marijuana is only one of many ways the product can be consumed. With this as inspiration, we wanted to better understand how the Canadian consumer is using the product.

Data shows that 42% of the market prefers joints for consumption and that in general, some form of

smoking remains the preferred method for marijuana consumption, with some variability between frequency of consumption. Vaping is a particularly popular method for weekly and monthly consumers, and edibles represent up to 13% of the market for both occasional and monthly consumers.

Motivation to Consume



Consumption with Alcohol



Motivation to Consume

Understanding individuals’ motivation to consume was another important goal of the study, as a variety of reasons would likewise indicate a variety of commercial and branding opportunities. This was, in fact, the case with people citing reasons, such as relaxation, stress reduction, social connection and many others for consumption activities.

Interestingly, there appears to be some overlap between certain motivations for recreational consumption and those usually associated with medical consumption, for example, to aid sleep or manage anxiety. This raises the possibility of slowed future growth for the medical

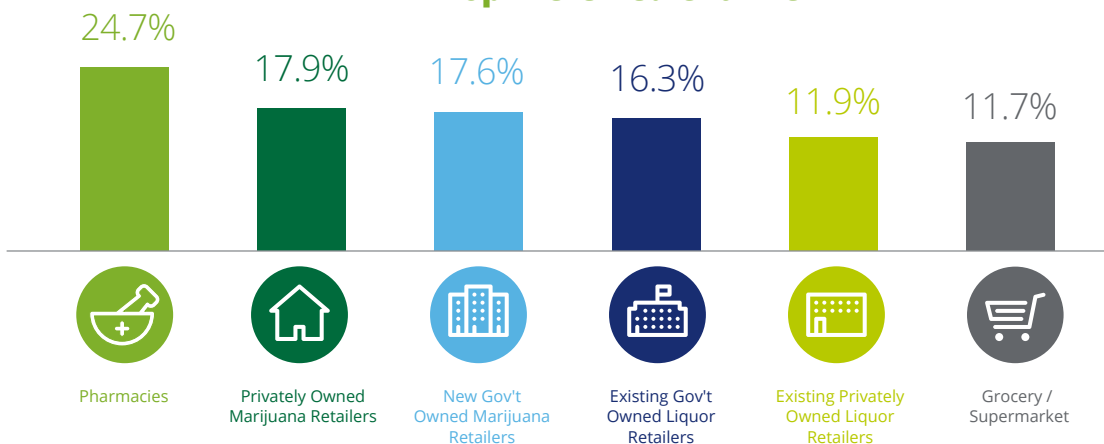
marijuana market if people discover they can manage certain medical conditions through recreational channels (though this would be further complicated if medical marijuana were subsidized – and hence made more preferable – as it is in Colorado).

Additionally, some of the motivators for recreational marijuana consumption – to have fun or help connect with others – could just as easily be associated with alcohol consumption. On the interplay between alcohol and marijuana, our study also found that only 20% of current marijuana consumers also consumed alcohol at the same time while 80% of respondents rarely or

never mixed the two. For the most part, the consumption of marijuana and alcohol are distinct activities. Taken together, these two findings suggest a potential for some current beverage alcohol consumers to migrate away from that category and toward marijuana when it becomes legal.

Indeed, recreational marijuana industry aspirants need only look to the beverage alcohol industry for marketing and branding parallels. Positioning a brand to align with various consumer needs and activities will be a strong strategic option.

Top Preferred Channel



Private vs Government Sales Channels

Of course, if marijuana becomes legal, the question of how it will be sold will be critical to potential market entrants. By a fairly wide margin, pharmacies top the list for where Canadians (sample of both consumers and non-consumers) believe recreational marijuana should be sold. In a statistical tie for second place are both private and government owned retailers that sell recreational marijuana exclusively.

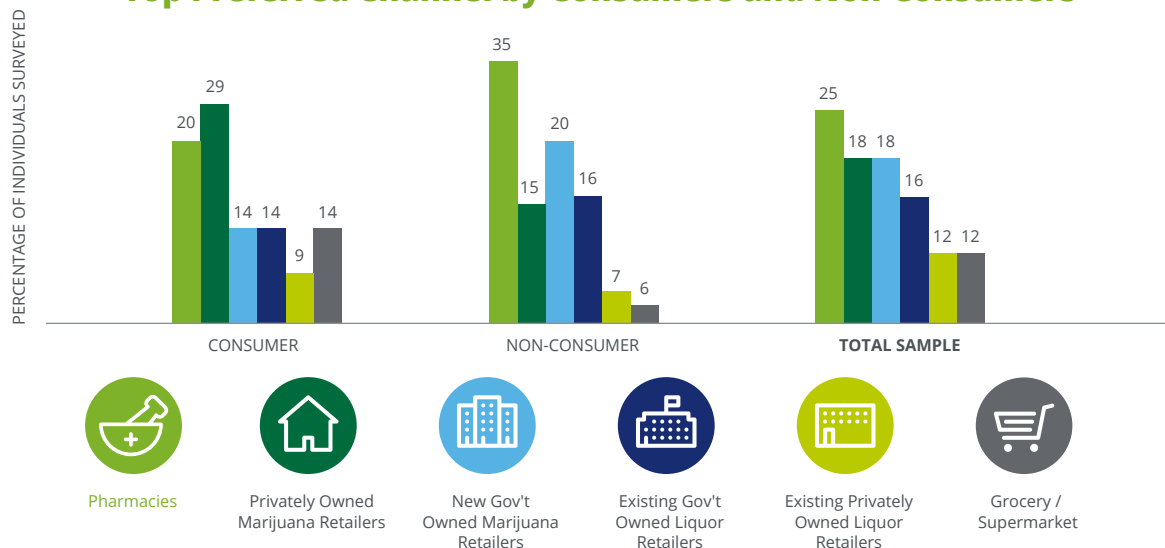
The interpretation for this finding is not that Canadians see pharmacies as the preferred retail outlet per se. Rather, the insight from this data point is more likely that Canadians see

marijuana as a drug and currently purchase drugs from a pharmacy, therefore the association is a natural one. More to the point, the finding indicates that Canadians in general see recreational marijuana as distinct from alcohol and tobacco and want the buying environment to be highly regulated, as opposed to marijuana being available at liquor, convenience or grocery stores. There may also be a perception issue at play – one which might impact purchasers of both alcohol and marijuana. While people buying groceries or wine may not feel comfortable shopping next to someone buying marijuana, marijuana purchasers may still want to keep their consumption behaviour private with respect to their neighbours,

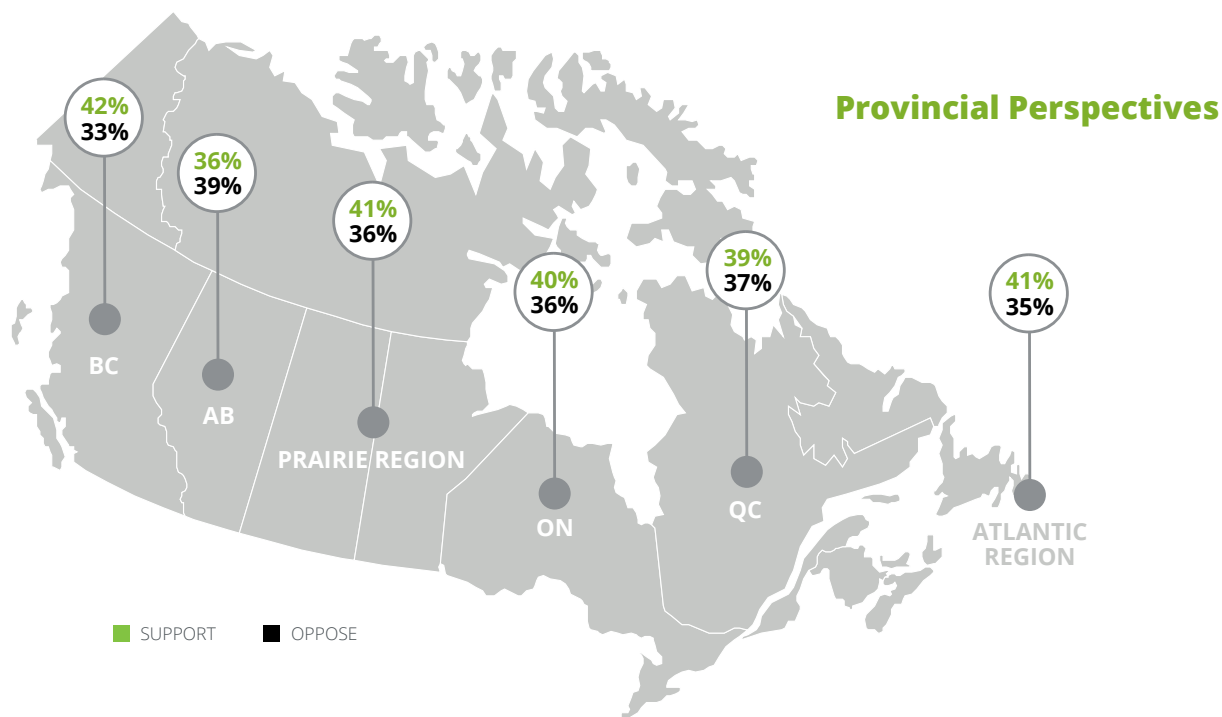
colleagues and social contacts.

It's important to remember that this data is based on the total Canadian adult population, not just consumers, so a large number of non-consumers are weighing in. When you split the channel preference data between current consumers and non-consumers, it is non-consumers who prefer the pharmacy option while consumers – specifically the daily and weekly consumers who constitute 11% of the total population – favour standalone marijuana retailers, preferably privately operated. Intuitively, this is partly because they want to be served by educated retailers or 'bud tenders' who can help them match need to product.

Top Preferred Channel by Consumers and Non-Consumers



The survey was conducted between March 13th and April 3rd, 2016 with a total sample of 5000 adult Canadians (19+) using RIWI's RDIT™ methodology. The sample includes representation from every province and territory. Weighting was applied to ensure representativeness by age and gender. Results are accurate to one decimal place. Values may not add up to 100% due to rounding.



Provincial Perspectives

Geographically, BC was the exception to the rule when it came to channel preferences, with pharmacies tying with private marijuana retailers (generally known as dispensaries) for the top spot. That private retailers are on statistically equal footing with pharmacies in BC likely reflects the fact that such private retailers – though illegal – already exist in Vancouver, therefore much of the province’s population has been socialized to the concept. We expect that if the same question was asked today in Ontario, the numbers would look similar to BC given the high-profile proliferation of dispensaries, particularly within Toronto.

Nonetheless, the issue for regulators remains one of designing a system preferred by the current consumer or the non-consumer. With the majority of the Canadian population still identifying as non-consumers, it’s likely that decisions about where marijuana may be sold will ultimately be driven by that constituency.

Moreover, what might the system look like in terms of distribution, government revenues, training and tracking? Colorado has a sophisticated seed-to-sale system that tracks plants using RFID from seed through to retail

sale, which helps with analytics and identifying potential leakage. Whether Canada uses a similar or different system remains to be decided, and this, too, will likely have a large effect on retailer decisions.

Key Considerations for Stakeholders

Whether you are part of government initiatives around marijuana sales and regulation, a current marijuana reseller or someone considering entering that space, if legalization happens, there will be a number of key considerations.

On the business side, it will be important to recognize from the outset that the Canadian recreational landscape will likely differ from Colorado in terms of product variety and freedom. In terms of the marketplace itself and potential/ permissible marketing approaches, marijuana will likely fall somewhere between alcohol and tobacco.

When it comes to actually entering the market, businesses should consider now how to build their brands, so they will be positioned to lead should legalization occur. For example, with whom can they develop business alliances when they go to market, and

how can organizations broaden their ecosystem?

Market aspirants should also be prepared to take advantage of any existing business components to drive future success. For example, how can they leverage current brands in the marijuana market? Moreover, considering the total economic potential for ancillary businesses from marijuana sales – around testing, distribution, technology, packaging and professional services – how can they leverage existing business expertise to pivot agilely to this new industry?

The diverse makeup of the potential consumer market should provide further opportunity. A clear understanding of how that market is segmented will be vital to go-to-market success, from selecting the seed strains being grown to marketing strategy to merchandising. Also consider that the ‘likely consumer’ will have a unique set of needs; the unknowledgeable will require guidance and education in navigating this new world, presenting a chance for brands to establish strong consumer bonds from the outset.

Questions for businesses to ask:

- + Is a strategy in place around where to play in the market and how to win?
- + What does the entire value chain look like and where are the opportunities beyond production and sale?
- + Are there opportunities for vertical or horizontal integration?
- + How well do you understand the marketplace and the segment you are trying to attract?
- + How will you differentiate?
- + Are you sufficiently capitalized to execute on your strategy?
- + Are there opportunities beyond Canada?

Government stakeholders, too, will have to keep certain challenges in mind. For provincial governments, a variety of sales and distribution models may be available under the new legislation, including government-owned (e.g., the LCBO), industry-owned (e.g., the Beer Store), private or some hybrid of the above. Determining which model will make the most sense for individual provinces is a complicated question, requiring detailed modeling to balance the financial potential against not only consumer preference, but appropriate commitments to social responsibility and public health.

Questions for government stakeholders to ask:

- + How big is this opportunity for your province or region?
- + How can a province leverage its existing expertise – in education, technology hubs, agriculture, etc. – to best support industry participation?
- + Are there opportunities to build a class-leading hub and, if so, where are the technical skills and facilities to make it happen?
- + Which retail and distribution model works best for your province both economically and in maintaining socially responsible consumption?
- + At what price should marijuana be sold, recognizing the competing needs of creating and sustaining a legitimate market, eliminating the black market and not encouraging excess consumption?
- + To what degree should facilities, agriculture, marketing and distribution be encouraged?
- + What is the province's strategy for the recreational market?
- + What does public and youth education look like in a recreational market?
- + What tax structure should be implemented?

Move carefully, act decisively, understand the terrain

There's a lot of uncertainty around what the marijuana market and sales environment might look like.

Currently, nothing is set in stone, but the mortar is being mixed and the framework set in place. For those looking to enter this potential market on the ground floor, it's important to put a strategic plan into place in advance. It's equally important, however, to bolster action with the most current and accurate information available. This study is an attempt to provide some real knowledge around the Canadian market, establishing baselines for opinion, consumption and sales potential and helping all stakeholders begin to effectively set strategic parameters for success.

To see the full results of our survey on recreational marijuana consumption or for advice on potential market opportunities for your organization, please contact us.

Contacts

Mark Whitmore

Partner
Consulting
mwhitmore@deloitte.ca
416-874-3399

Michael Belz

Partner
Tax
mbelz@deloitte.ca
416-643-8989

Lu Cacioppo

Partner
Audit & Assurance
lucacioppo@deloitte.ca
905-315-6795

Phil Iorio

Partner
Audit & Assurance
piorio@deloitte.ca
416-775-8834

Tom Peters

Partner
Analytics
tompeters@deloitte.ca
416-601-6250

Chinmaya Thakore

Partner
Audit & Assurance
cthakore@deloitte.ca
416-601-5697

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Paul Bien

Tamara Dinelle

Darren Karasiuk

Mike Nethercott

Corina O'Hearn

Anthony Viel

Deloitte.

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