Five Myths of Today's California Cannabis Consumer

A first-of-its-kind survey in the world's largest cannabis market profiles the real cannabis consumer.





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Table of Contents

Pg. 04 Why the California Cannabis

Consumer Matters

Pg. 06 Myth #1

Pg. 09 Myth #2

Pg. 12 Myth #3

Pg. 15 Myth #4

Pg. 17 Myth #5

Pg. 20 Conclusion



Why the California Cannabis Consumer Matters

California is on the forefront of the massive change occurring in cannabis markets around the world. Like other U.S. states, and other nations, who are moving fitfully but inexorably from prohibition to regulation, the California cannabis market is in the midst of a rapid evolution.

By 2024 the California cannabis market will comprise 25% of the entire market for cannabis in the U.S.

By any measure, California is the world's largest cannabis market experiment. It has a population of 40 million residents, and a GDP which would make it, standing alone, the fifth largest economy in the world. For decades, California's "Emerald Triangle" of three Northern California counties has been the country's main domestic supplier of cannabis, and cannabis has been available with a doctor's recommendation since Proposition 215 passed in 1996.

Since recreational cannabis was legalized by referendum in January 2018, based on a 2016

ballot measure, growth in the regulated cannabis market has been exploding. Regulated cannabis sales is forecasted at \$4.5B in 2019, and \$6.3B in 2021. The state of California took in more than \$116M in cannabis taxes in the first quarter of 2019 alone. By 2024, the California cannabis market will be 2.5X larger than the next U.S. state and 25% of the entire U.S. market.

California is important because of its market size, but also because of its role in creating and exporting dominant companies and brands in emerging industries. California companies like Apple, Google and Facebook emerged from the scrum of the internet explosion to create dominant, global companies. Disney, a quintessential California company, touches nearly every human on the planet. And leading consumer brands, including Gap and Levi's, started in California. When the global cannabis market matures, California companies will dominate.

But the cannabis market in California is still nascent. Regulated recreational cannabis sales began in January, 2018. Since then, thousands of cannabis businesses have emerged, trying to establish new brands, new products, and new ways to provide cannabis to consumers. Since the



Gold Rush, California has seen many cycles of intense investment and innovation, with markets expanding and exploding, resulting in whole new sectors and industry leaders. The cannabis market today is at the beginning of such a cycle.

But to mature, every industry needs to answer fundamental questions about their market. Who buys our product? What do they use it for? What do they think of brands? In more established industries, companies gather and buy data, employ analysts, and use the resulting insights to guide everything from product development to marketing communication.

Our survey of 1,529 California cannabis users was the first study of its kind.

But because of the immaturity of the cannabis market, there are few convincing answers to those fundamental questions. Partly this is the result of a lack of market data, and data services to support the industry. Early-stage industries also tend to be more focused on basic execution than developing strategic opportunities. For these reasons and others, when it comes to consumer behavior, there are huge gaps in knowledge which make it difficult to properly address consumer preferences.

At NorCal Cannabis Company, we have been working to fill in some of those gaps. In May 2019, we conducted an in-depth, quantitative study of 1529 cannabis consumers in California. The survey was fielded using an online panel, and was representative of all California cannabis

consumers 21 years and older. The survey was designed specifically to understand consumer preferences and build a consumer segmentation. It is the first study of its kind, and has helped us shape product development, brand development, and strategic decision-making.

We believe that the more investors, cannabis professionals, and the general public understand the behaviors and needs of cannabis consumers, the faster the industry can evolve to serve them. That's why we are pleased to share this report, and shatter some of the myths of today's California cannabis consumer.







Decades of propaganda and disinformation about cannabis have left behind a powerful social stigma. Depictions of cannabis usage in government-sponsored anti-drug messaging, and portrayals of 'stoner culture' in popular media, have created lasting stereotypes and assumptions about who uses cannabis, and why.

Cannabis has been studied as a social problem, not as a consumer product.

Because cannabis is still mostly consumed in private, and because of its illegal status across most of the country, our mental model of who uses cannabis, and why they use it, is skewed. We may smell cannabis in front of a rock concert, but may not know about the cannabis Buyers' Club at the Senior Center. We see people smoking a joint at a party, but not taking their cannabis tincture to sleep at night. Because of media, propaganda, and what we see and don't see, cannabis is largely viewed as simply a way that people get high.

But is this why most people actually use cannabis? Surprisingly, there is little good data to answer that question. Government and university-sponsored efforts have generally studied cannabis usage in the context of drug abuse, addiction, or as a gateway to other drugs. National surveys of cannabis have studied cannabis alongside heroin, cocaine and methamphetamines. Cannabis has been studied as a social problem, not as a consumer product.

So why do people in California use cannabis? In our study, we asked respondents why they used cannabis, and offered them the ability to select any of 15 responses, ranging from answers like "to treat a medical condition", "to be more productive", "to be more social", and "to enjoy experiences more". Respondents were given the option to select multiple responses.

The data shows that cannabis is not used primarily for fun, but rather for physical and psychological relief and wellness. While many report using cannabis to be more social and enjoy experiences more, many more use cannabis to treat ailments such as pain, insomnia or psychological distress, or to treat a medical condition.

When asked why they use cannabis, 69% of respondents say that they use cannabis "to help me relax". Following relaxation are three use-cases aligned to physical and psychological wellness.

84% of respondents reported using cannabis specifically to help with sleep, relieve pain, or reduce anxiety and depression.

The second most popular choice was "to help me sleep" (61%), followed by "to relieve pain" (56%), and "to feel less anxious and depressed" (46%). 84% of respondents reported using cannabis to self-medicate; specifically to help with sleep, relieve pain, or reduce anxiety and depression.

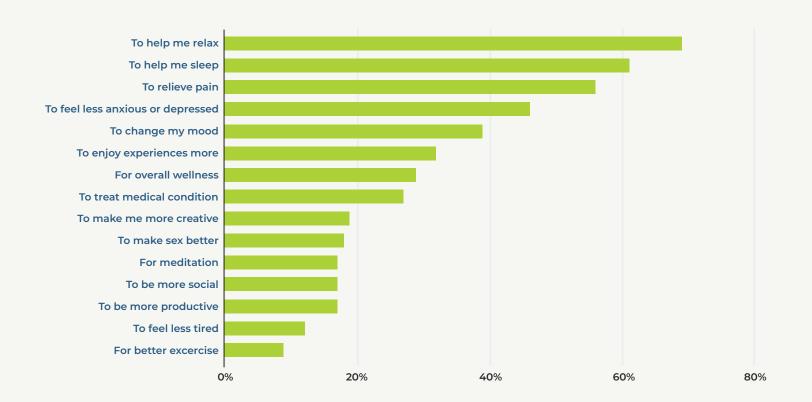
These findings have been supported by research published subsequent to our survey. In July 2019,



a large-scale study sponsored by Gannett found that cannabis is used as a replacement for analgesics and other drugs. According to the study, 49% of cannabis users reported reducing their over-the-counter painkiller because of cannabis, and 52% reduced prescription drug use. In addition, 37% said they reduced alcohol consumption because of cannabis.³

We believe our findings should re-contextualize the discussion of who uses cannabis and why, and provides a strong argument for expanding access to adult-use cannabis where distribution is currently limited. It also provides a strong incentive for companies to address the mental and physical health benefits of their cannabis products and brands.

WHY PEOPLE USE CANNABIS







Most people assume that men are more likely to use cannabis than women. Cheech & Chong, Willie Nelson and Snoop Dogg, some of the most famous celebrities associated with cannabis, are male. And government studies of cannabis consumption have found that nationally, men are more likely to report using cannabis than women. ⁴

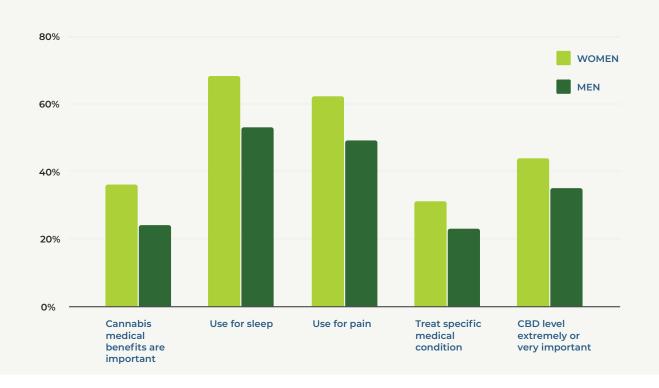
But in the world's largest cannabis market, California, this gender disparity does not exist. We found that among California residents 21 and older, women and men were equally likely to report having used a cannabis product in the last month. Most surprising, the average amount that women reported spending on cannabis the month before was the same for women and men: \$116. This means that the cannabis market in California is equally split between men and women.

This lack of gender disparity may be the result of California's relatively long history of medical access to cannabis. Some national studies have suggested that men

There is no gender divide in cannabis usage in California.

use cannabis more than women because they are more likely to risk exposure to the criminal drug market, a reason which evaporates when decriminalized.⁵ The fact is that there is no gender divide in cannabis usage in California, and this may signal a trend for other markets which legalize cannabis.

DIFFERENCES AMONG WOMEN AND MEN



When it comes to cannabis, however, there are important differences between women and men. Women are more likely to say that cite "medical benefits" of a cannabis product as extremely important (36% women, 24% men). They are more likely to use cannabis for sleep than men (68% women vs. 53% men), and consequently are more likely to use cannabis before bed (69% women vs. 60% men). Women are more likely to use cannabis to relieve pain (62% vs. 49%) and to treat a specific medical condition (31% women vs. 23% men). Perhaps relatedly, they are more likely to value CBD-level in cannabis products as very or extremely important (44% women vs. 35% men).

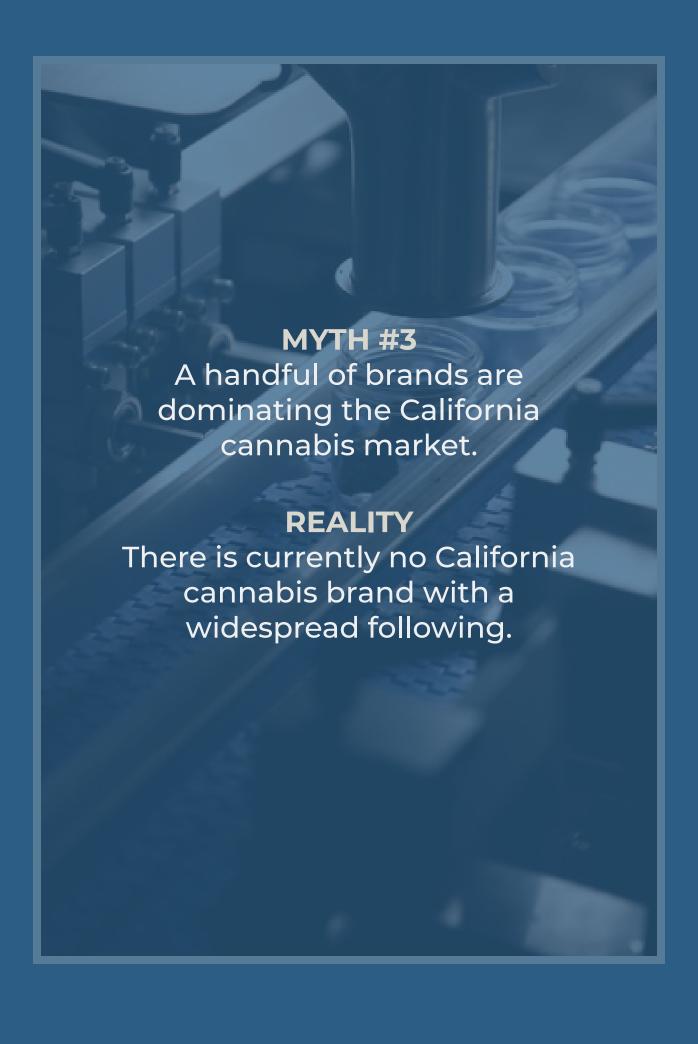
In other words, women are more likely than men to use cannabis to improve physical and mental health. This may reflect biological differences. Women are more likely to experience intense pain than men⁶, and more likely to suffer from insomnia⁷. In addition, women's reproductive systems create a different set of needs that they address with cannabis. Fifty-six percent (56%)

of those female cannabis users aged 21-45 use cannabis to treat menstrual cramps, and 31% of those aged 45-54 use cannabis to treat menopause-related symptoms. 7% of female cannabis users under the age of 45 use a cannabis product as a vaginal lubricant or for "vaginal health/wellness".

Women are more likely than men to use cannabis to improve physical and mental health.

These data point to a range of product and brand opportunities targeted to female cannabis users. A fully mature cannabis market will have to address men and women in equal measure, and provide products which address female needs with specific formulations, form factors, and brands.⁸







Until relatively recently in California, buying cannabis usually meant buying cannabis flower. Different kinds of cannabis flower products were either sold as strains: Purple Kush, Sour Diesel, White Widow, etc., or by an even more general classification: the plant species, indica or sativa⁹. Cannabis consumers used strains or species as a way to form preferences, and brands were not dominant in driving product loyalty.

No brand has yet to achieve a significant foothold in California cannabis.

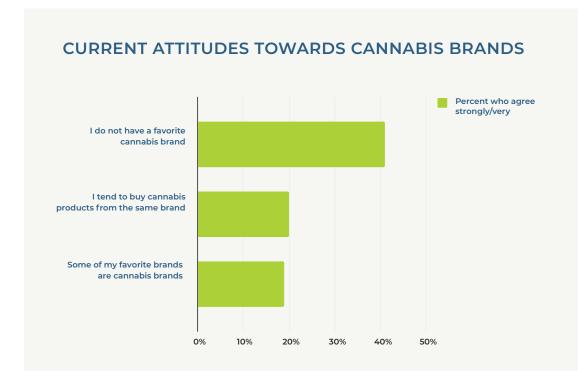
When it comes to flower, this is still largely the case. According to BDS Analytics, which tracks cannabis sales, the most popular flower brand in California only captured 3.2% of sales in June. In fact, only two brands captured more than 2% of the cannabis flower market, which comprises

1,920 individual products.¹⁰ Almost half of all sales are categorized by BDS as "Flower", a generic catch-all that likely includes hundreds of brands with very limited penetration. In other words, when it comes to flower, no brand has yet to achieve a significant foothold California cannabis.

Outside of flower, the number of cannabis brands and products is exploding. In June 2019, BDS Analytics tracked 14,775 different products for sale in California including 4,060 vape products, 1,984 edibles products; and even 228 different cannabis beverages. Hundreds of new cannabis products existed in June that were not for sale even three months before.

In the face of this deluge of new products, brand attachment among cannabis consumers is relatively low. Forty-one percent (41%) say they do not have a favorite brand. Twenty percent said that they tend to buy products from the same brand, and only 19% said that some of their favorite brands are cannabis brands.

Consumer knowledge of cannabis brands is also low. When asked in open ended format to name ANY brand of cannabis, only about 1 in 3 could name one. Among the brands mentioned, there were a huge number of different responses. Only two cannabis brands, Kiva and Cookies, were





cited by more than 1% of respondents, garnering about 2% of total responses, respectively. In other words, almost every cannabis brand in California currently lives on the 'long tail'.

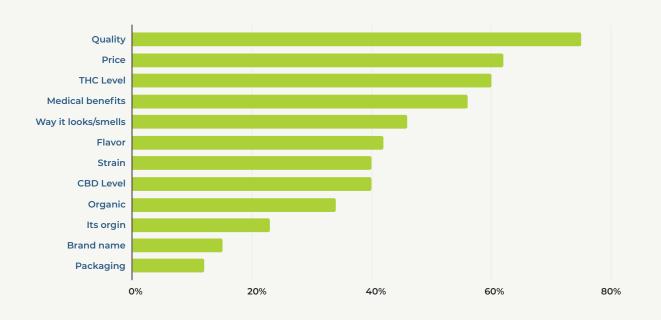
With the profusion of new brands and products, consumers are seeking brands that they can trust.

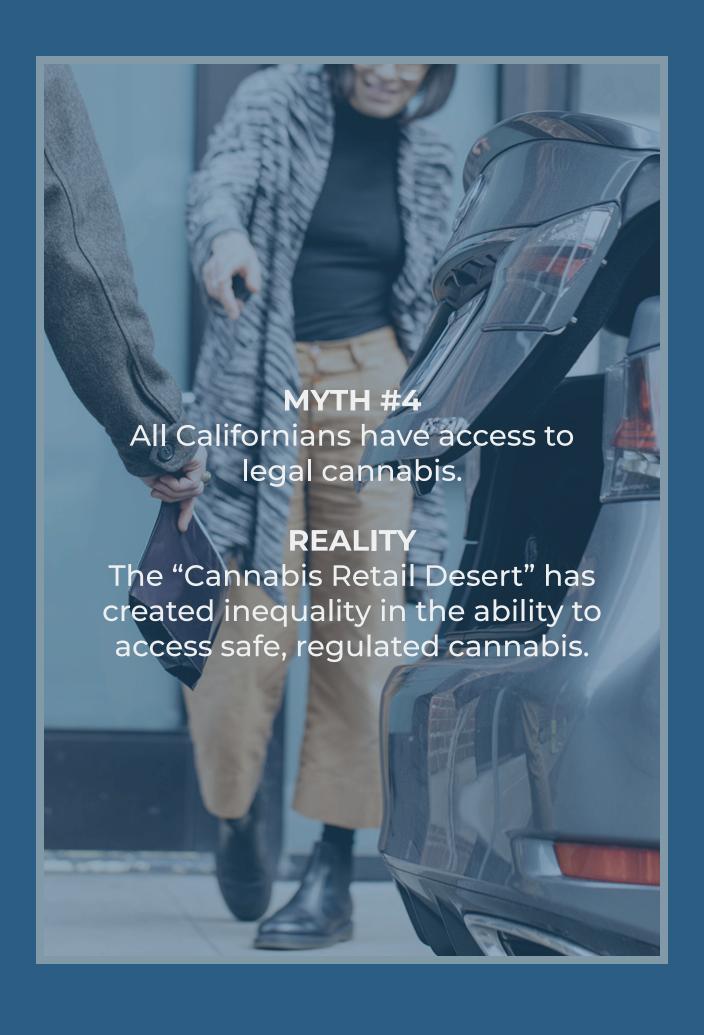
This lack of brand engagement is surely linked, in part, to the fact that cannabis brands and products are new. Many cannabis consumers have yet to discover favorite brands, and few cannabis brands have existed long enough for consumers to become habituated. In addition, the legacy of a cannabis strain-based market has not trained consumers to focus on brand names.

Our data provide a useful guide to how brands can build loyalty as the market develops. We asked respondents what was important to them in choosing a cannabis product. Seventy-five percent of respondents cited "quality" as very or extremely important, followed by "price" (62%), THC level (60%), medical benefits (56%), flavor (42%), and CBD level (40%).

Quality and price are the cost of entry in almost every consumer product sector. Cannabis is no exception; it is clear the consumers are seeking brands that they can trust. Cannabis brands which are associated with high quality at a good value are likely to be the market leaders of the future, and this basic set of consumer preferences will be the basis upon which more market differentiation will emerge.

'VERY' OR 'EXTREMELY' IMPORTANT IN CANNABIS SELECTION







In California, access to cannabis is not evenly distributed. Despite a state-wide referendum in which voters overwhelmingly approved the legalization of recreational cannabis, today 80% of municipalities in California have banned physical cannabis stores. This has created a "Cannabis Desert", where convenient access to cannabis is limited.¹¹ Forty percent of the state's population lives more than 60 miles from the closest physical retail store.

80% of California municipalities have banned physical cannabis stores.

Despite this spotty access, three-quarters of cannabis consumers source at least some of their cannabis from dispensaries. But non-regulated sources, friends and private dealers, still serve 37% of cannabis consumers. Online delivery currently only serves only 22% of the market, and 10% of

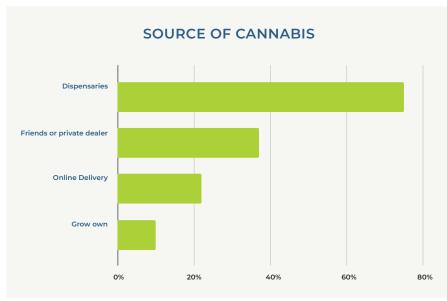
cannabis consumers in California report growing their cannabis.

40% of the state's population lives more than 60 miles from a dispensary.

We asked respondents who sourced cannabis from a private dealer why they did

so. The data provide strong support to the notion that the curtailment in physical retail in California is helping perpetuate the non-regulated market. When asked why they sourced from a private dealer, the number one reason cited was "It is the most convenient option for me" (74%). Fortyfour percent (44%) said that it is because "I do not have access to a dispensary in my area". In other words, the Cannabis Desert is driving people to non-regulated suppliers.

Given that so many people use cannabis for pain, anxiety and insomnia, the unequal access to a dispensary should be considered a serious issue in the state. In some municipalities in California, as many as 13% of the population does not own a car, and public transit is limited. The Cannabis Desert should not only be seen as a lack of a public mandate, but also the denial of a wellness product. While cannabis delivery can help alleviate this issue, non-regulated distribution is likely to be fully curtailed only by increasing the number of counties and municipalities that allow physical retail stores.



MYTH #5 Consumers are migrating from dispensaries to delivery. REALITY Most consumers want the experience of retail, and the convenience of delivery, working together.



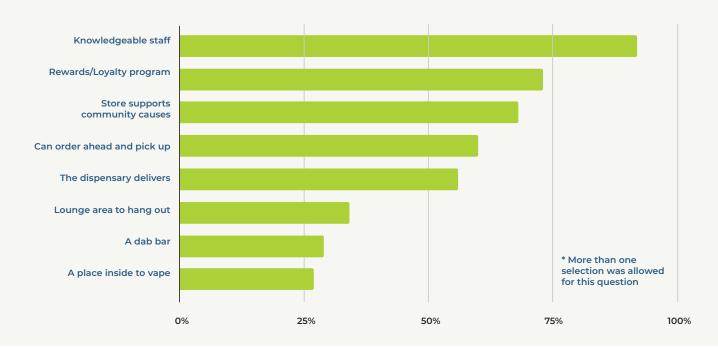
Why do so many experienced cannabis users visit dispensaries, when there are other, possibly more convenient options like online delivery? The answer lies in what people value most about dispensaries. When we asked what people find most important in a dispensary, 92% cited "knowledgeable staff". This was true for experienced users who "have been using continually" since they started (92%) as well those who recently restarted after stopping for a while (91%). It is true for those who smoke flower at least once a day (92%), as well as those who smoke several times a week or less (93%). The desire to talk to a knowledgeable budtender is one of the most unifying preferences for California cannabis consumers, regardless of how experienced they are, and shows the importance of education for the entire market.

But cannabis consumers in California want more than a face-to-face consultation with an expert budtender. They also want the convenience of an integrated retail experience. Sixty percent want to be able to pick up an online order in a dispensary, and 56% want their dispensary to deliver to them. 61% of those who use online delivery also go to physical dispensary locations.

Consumers want an omni-channel experience that is both high-touch and efficient.

In other words, consumers want an omni-channel experience that is both high-touch and efficient with their time.

WHAT CONSUMERS FIND IMPORTANT IN A DISPENSARY





When it comes to retail, there are several other things that are important to California cannabis consumers. Seventy-three percent of cannabis consumers said they wanted dispensaries to provide a loyalty rewards program, reflecting a desire to save money. But savings are not the only thing that is important to dispensary customers: 68% said it was important that dispensaries supported their local communities. This suggests that retail stores need to engage with and support the communities in which they operate.

These data suggest show that despite the relative immaturity of the recreational cannabis market,

cannabis consumers have high expectations for retailers. Delivery and physical retail are highly complementary in their ability to create the customer service people expect. Experiences with companies such as Walmart, Warby Parker, and other modern retailers have trained consumers to expect high levels of service across physical and delivery channels. This has set a high bar for companies looking to create consumer relationships in California.





Conclusion

The size and importance of the California cannabis market is unquestionable. But it is still nascent. Much of the state does not have convenient access to legal retail, and many consumers still purchase from the black market. In California, the legalization of recreational cannabis is not a point in time, but rather a work in progress.

The data from our survey paint the picture of a large, committed cannabis consumer base in the state of California. Clearly, consumers are loyal to cannabis because of its efficacy in helping them relax, sleep, and enjoy life more. Over time, this loyalty to cannabis will translate to loyalty to cannabis brands.

While the cannabis market in California is already quite large, the data present a number of significant opportunities for the cannabis industry. First and foremost, cannabis companies should ensure that they develop products and brands which specifically address the some of the main reasons why people use cannabis: to relax, to sleep, and to alleviate physical and psychological distress. While many cannabis brands will likely be successful in associating themselves with aspirational lifestyles, and serving a strictly recreational market, the data show that there is even more demand for uses more traditionally associated with the "medical" market.

It is also important that the California cannabis industry address the diversity of cannabis consumers across the state. Our data about women show that they are equally as large of a market as men, but sometimes have different reasons for consuming cannabis. The fact that a majority of younger (21+) women treat menstrual pain with cannabis suggests that there may be an important set of gender-specific indications for cannabis products. The cannabis industry will meet its potential only when it discovers and serves the needs of all kinds of cannabis consumers.

The cannabis industry will meet its potential only when it discovers and serves the needs of *all* cannabis consumers.

It is also important to emphasize that access to cannabis across California is currently sharply curtailed by unequal access to physical retail stores. Despite clear support for cannabis legalization in the referendum process, the slow rollout of dispensaries has left much of the state without a conveniently located dispensary. Given the importance cannabis consumers place on



the information and expertise that budtenders in dispensaries provide, the uneven access to cannabis dispensaries is an important issue that should be addressed.

It is clear from our data, however, that expectations for cannabis retail stores are not diminished by the nascency of the market and the lack of retail penetration across the state. Cannabis consumers, like consumers in other sectors, have high expectations for cannabis retail. This includes not only a high-touch experience with a budtender, but a choice across retail, delivery, and product

pick-up. Cannabis consumers in California expect a true 'omni-channel' retail experience.

It is worth noting that the preferences and expectations of cannabis consumers are likely to be highly dynamic. The market will be continually transformed over the coming decade by new products, brands, retail experiences, and new consumers who enter or re-enter the market. The companies who best address current opportunities, and can identify and address new ones, are likely going to be the winners in the highly-valuable California market.

About the Author



Jeffrey Graham is VP of Business Intelligence at NorCal Cannabis Company, where he leads efforts to develop, discover and analyze data to inform decision-making. He has built and led consumer insight and data science teams at leading companies such as Google, Twitter and The New York Times. He holds a PhD in Sociology from the CUNY Graduate Center, a Masters in Media Studies from NYU, and a Bachelors in Communication from UMass Amherst.

About NorCal Cannabis Company



NorCal Cannabis Company is building the largest vertically integrated and consumer reach platform in the biggest cannabis market in the world, California. NorCal Cannabis Company is a leader in the growing California cannabis industry, having cultivated its reputation, relationships, and high quality product suite over many years.



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