

Retailers Prepare For Surge of CBD Products

Floyd Landis, founder of Floyd's of Leadville and Nik Modi, analyst with RBC Capital Markets, share their knowledge on the booming industry of CBD.



The retail market for products containing cannabidiol, or CBD, is projected to expand rapidly in the coming years amid the growing acceptance of hemp and marijuana across the country.

“Experts believe CBD consumer sales could reach \$2 billion by 2022,” said Nik Modi, an analyst with RBC Capital Markets, in a recent webinar called, “Is CBD the new Energy Drink?”

The webinar was sponsored by Floyd’s of Leadville, a supplier of CBD products, and presented by CSP.

Although hemp-derived products such as CBD oil have been on the market in some states for the past few years, the products have been sold in a legal gray area because they technically have been illegal at the federal level. The passage last year of the 2018 Farm Bill, which legalized hemp production across the country, has opened up opportunities for products containing CBD, Modi explained.

CBD vs. THC

It’s important to understand the differences between CBD, which is derived from hemp and has been reported to have anti-inflammatory and other benefits, and THC, which is the intoxicating chemical found in marijuana. Both hemp and marijuana are members of the cannabis family, but hemp has been bred not to contain THC, explained Floyd Landis, former professional bicyclist and founder of Floyd’s of Leadville.

Landis explained how he became involved in the cannabis industry after beating an opioid addiction that evolved from a prescription to relieve pain following a hip replacement. Through Floyd’s of Leadville, he now offers several CBD products, including tinctures, edibles and CBD isolates, both online and through select retail outlets such as bicycle stores.

He said retailers should take the time to learn about how CBD products are made and to understand the products that are coming to market. Some products are made containing hemp oil derived from the seeds of the plant, for example, which does not contain CBD or its therapeutic effects. (Only oil extracted from the buds of the plant contains CBD, he explained.)

“There’s really no way to know which products are of the best quality other than trusting the source,” said Landis. “Companies will often provide a certificate of analysis, but even that can be forged.”

He suggested that retailers contact the lab to verify that the certificate of analysis is authentic if they are buying CBD products from a company they are not familiar with.

The passage of the Farm Bill, he said, should lay the groundwork for more federal oversight of the industry in the future.



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In the meantime, retailers should ask suppliers if they can prove the source of the CBD in their products and if they can demonstrate that it doesn't contain any contaminants or ingredients that are not listed on their label. Suppliers should also be able to provide a certificate of insurance, Landis said.

Retailers should be aware that many CBD product suppliers have built their businesses as online sellers and might not have the capacity or the capabilities to support retail distribution. They might not have point-of-purchase displays to assist in marketing, for example.

Some suppliers may also make unsubstantiated medical claims, such as promoting CBD as a cancer treatment. This has prompted the FDA to send out warning notices to companies that have done so, Landis explained.

For convenience store retailers, Landis said he expects CBD to be popular in products designed for vaping and as an ingredient in edibles, among other forms. Convenience retailers and their suppliers will work together to merchandise CBD products at lower price points than consumers might currently be accustomed to paying, Landis predicted.

CBD AS AN INGREDIENT

Modi said it might be helpful for retailers not to think of CBD as a category, but rather as an ingredient that can be used in a range of products, including beauty products such as face mask creams.

U.S. CBD sales totaled \$358 million in 2017 and an estimated \$513 million in 2018, according to the Hemp Business Journal. Sales are expected to soar to \$813 million in 2019 and to \$1.8 billion-plus by 2022.

The expanding legalization of recreational marijuana is helping drive CBD sales. CBD currently accounts for about 1% all cannabis-related sales in markets where marijuana has been legalized for recreational use, Modi said, citing data from Headset. If that proportion remains constant, and recreational marijuana continues on its growth trajectory, the implication is that CBD sales could reach nearly \$5 billion by 2027.

More than 60% of Americans believe that marijuana should be legalized—up from 32% in 2010, Modi noted. Among younger consumers, 70% support legalization.

While Millennial consumers have been driving sales of cannabis products, older consumers—particularly Gen Xers in the 35- to 53-year-old range—have become more interested in the items as well.

“It makes sense, for CBD in particular, because as we age, we started having pains and aches, lack of sleep,” he said.

BRANDS EARN TRUST

Brands will become much more important as the industry grows, Modi said, because consumers need to know they can trust companies to provide product that is authentic.

“Trust matters because you’re going from an illegal market to a legal market,” he said. “Consumers want to have trust and understand that the brand is safe.”

A significant element of earning that trust will be related to the amount of capital that the suppliers have available to conduct product testing.

“There’s going to need to be evidence for the government to allow companies to make claims,” said Modi. “I think that’s going to really be the holy grail of this entire industry.”

“We’re about to open the kimono on this category, and so you’re going to see a lot of activity,” he said. “Six months from now, a lot of the gray is going to turn black and white. So science has to be the critical, critical component of the marketing claims. And, by the way, that science is not cheap. These are expensive studies. That’s why capital becomes so critical.”

VARIETY OF FORMS

Modi said the convergence of other functional ingredients with categories such as beverages provides an indication of how the CBD market will evolve as an ingredient. CBD can be offered in a wide variety of forms, from topicals and tinctures to gummies, capsules, edibles and beverages including water, coffee and tea.

He said the industry needs to think about providing “shared experiences” for the consumer when it comes to these products.

“How can you as a supplier or retailer offer products to help that consumer change the mood when they want to change it? How can you be part of all those occasions? How can you help them in the morning with a pick-me-up so they can get their day started? How can you help them enjoy their social experience? How can you help them bring them down after a very busy day? How can you help them perform better, get rid of anxiety?”

Mitch Morrison, VP of Retailer Relations at *CSP*, asked if CBD was likely to be caught in a “massive maze” of various local regulations or if federal legalization would bring more standardization.

“In the beginning, I’m sad to say that it’s going to be the wild, wild west, because I don’t know if everyone is properly educated on this category,” said Modi.

Many people might believe that CBD products have the intoxicating effects of THC, for example, which could lead to local regulatory pressures.

“As people become more educated, I think that’ll change,” he said.

Retailers need to educate themselves about the products, and then get ready to tally the benefits at the register, the presenters said.

“This category is going to be very big,” said Modi. “It already is very big.”

