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Cannabis Wholesale Distribution Consultation

What We Heard:
Cannabis Licensed Producers, Marketing Entities
and Brand Owners Consultation

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What We Heard:

Cannabis Licensed Producers, Marketing Entities and Brand Owners Consultation

As the cannabis industry continues to grow, AGLC has identified the cannabis wholesale distribution model for review and improvement.



AGLC invited all cannabis licensed producers, marketing entities and brand owners to participate in a conversation on Alberta's cannabis wholesale distribution model.

Currently, AGLC conducts market analysis to identify which products to purchase from cannabis licensed producers. These licensed producers sell their products to AGLC and ship them to the AGLC cannabis warehouse. AGLC remits payment to the licensed cannabis producer in full. Licensed cannabis retailers choose products from the AGLC warehouse to sell in their stores. Cannabis retailers pay AGLC for the products upon order.

AGLC currently purchases cannabis from approximately 130 cannabis licensed producers; the cannabis is then sold to one of approximately 800 retail cannabis stores.

METHODOLOGY

All cannabis licensed producers, brand owners and marketing entities in Alberta as of November 2022 were invited to participate in a conversation on Alberta's wholesale distribution model. Participants responded providing their availability, and Microsoft Teams invitations were distributed to respondents. Sessions were conducted in small groups to maximize engagement.

At the start of each session, participants were informed that the discussions would remain confidential, and a summary of the consultation's themes would be published in a *What We Heard* report. The interviews were conversational in nature and overall themes were tracked. There is an opportunity in future consultations to include a statistically valid survey to gauge level of support for ideas.

Participants in each session were asked to provide feedback on seven topics:

1. Overall thoughts on the current wholesale distribution model.
2. Aspects of the current wholesale distribution model they would like to remain the same.
3. Pain points or aspects of the current wholesale distribution model they would like to see change.
4. Opportunities for improvement.
5. Lessons from the warehousing and distribution models in other jurisdictions.
6. Whether a consignment model would be a favourable option in Alberta.
7. Production of white label products.

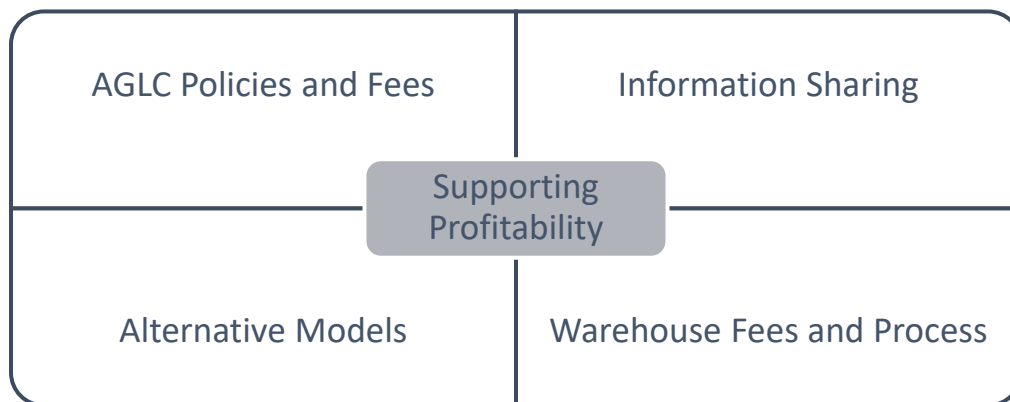
Some stakeholders sent written feedback as well.

CONSULTATION FINDINGS

Ninety-Eight cannabis licensed producers, marketing entities and brand owners responded to the invitation to participate, in November and December 2022. This represents approximately 69 per cent of cannabis licensed producers, brand owners and marketing entities.

Feedback from participants was varied. Each licensed cannabis producer, brand owner and marketing entity had their own unique perspective informed by their experience conducting business in Alberta and, for some, across Canada. AGLC gained insight into the varied models in Canada, including their benefits and drawbacks.

Four overarching themes emerged from the sessions; these themes were mentioned in most sessions. Central to each theme was the overarching priority of profitability. Participants were clear that their top priority is receiving quick and reliable payment for their products, to support profitability and business planning.



CURRENT ELEMENTS REQUIRING NO CHANGE

- There was almost unanimous expression of the positive working relationship with AGLC category managers. Some expressed it felt as though they were working with a partner in product management.
- Many were satisfied with Alberta's payment schedule, stating that the quick turnaround time is predictable and reliable, which in turn helps businesses to remain profitable.
- Several expressed appreciation for the consultation, noting that AGLC is proactive in reaching out in this manner. Many expressed hope that the dialogue remains open and would like to see more consultations in the future.

THEME 1: AGLC POLICIES AND FEES

Early Payment Fees

We heard that Alberta has one of the fastest payment remittance schedules in the country; however, a mandatory early payment fee is applied. Many producers expressed that they would like to see early payment as an optional benefit. In this case, they would have the choice to opt-in to early payment or avoid the fee.

Alberta has a unique and high listing fee

The product listing fee was mentioned by some producers as being both unique to Alberta and high.

This fee was identified as one of the current obstacles to maintaining profitability for two reasons:

- It is an extra cost to consider when introducing a new product to the Alberta market.
- If there is more demand than inventory, the product goes into a computer algorithm to ensure fair and equitable distribution. Cannabis licensed producers referred to this as a lottery system.

Expiration Dates

Products delivered to AGLC must have at least three quarters of the remaining shelf life upon receiving noting that it can be returned when a product hits sixty-seven per cent of its shelf life. If a licenced cannabis producer can provide evidence that their products' shelf life is longer (via laboratory tests/verification), AGLC will adjust that sku accordingly.

It was noted that some other provinces have unique expiration dates that account for the shelf-life differences by product category.

This policy was identified as one of the current obstacles to maintaining profitability because product that does not sell to a cannabis retailer after this timeframe is returned to the producer even though it may still be within its shelf life. Many cannabis licensed producers indicated they cannot subsequently sell these returned products in other provinces with identified longer shelf lives because they have already been stamped for sale in Alberta.

White Label Cannabis Products

We heard that most cannabis licensed producers were supportive of permitting white label cannabis products in Alberta. Many producers indicated white label products are permitted in other Canadian jurisdictions.

THEME 2: ALTERNATIVE MODELS

Consignment

As an alternative to the current wholesale distribution model, the implications of a possible consignment model were discussed with all participants. Most participants said the current model is working well for them, and many indicated that Alberta's model is working best for them in comparison to all other provinces. While some participants noted that a consignment model could work if payment frequency remained the same, they also expressed preference for the current model.

Reasons for the wholesale model preference were again related to the central theme of maintaining profitability. Currently, producers receive full payment for product in the warehouse. This affords producers to use the payment toward developing new product and producing products for future sale. Additionally, it was noted that changing to a full consignment model could be detrimental for some businesses as they are trying to fill the gap of payment after product is shipped to the warehouse. Some producers suggested that they would need to seek funding or loans to maintain business operations during a transition to full consignment.

There were two instances where many cannabis licensed producers suggested they could see a partial consignment model as a tool toward business profitability:

- **New Products:** Some participants suggested that sending new products that are not part of the AGLC product list to the AGLC warehouse on a consignment basis could be beneficial. This could avoid the listing fee for new products until it is determined that this product could perform well in the Alberta market.
- **Pre-Orders from Retailers:** Some participants suggested that they would like to build relationships with retailers to strengthen brand relationships and loyalty. Consignment could be a useful tool in this case. Retailers could pre-order products from a licensed cannabis producer, the producer could send their pre-ordered product on consignment to the AGLC warehouse on hold for the retailer, and the retailer could purchase from AGLC. This is a similar model to allocation used in the liquor distribution model.

Ontario's Flow-Through Model

The Ontario flow-through model, which is a pre-order/pre-pay model, was discussed as an alternative distribution model available in Canada. Ontario's flow-through program allows retailers to choose non-warehoused products from a catalogue, with the purchase from cannabis licensed producers being facilitated by the Ontario Cannabis Store (OCS) followed by OCS shipping the product to retailers. Products are not stocked by the OCS, but instead move through (flow-through) their warehouse on a demand basis. Cannabis licensed producers discussed how it could be beneficial in theory, but many expressed that the implementation in Ontario has been challenging. The model supports Ontario-based producers the most, as shipping product from other provinces to flow-through has been cost prohibitive. Some Alberta-based producers suggested they would also like to see an option in Alberta that supports local cannabis producers.

Other Jurisdictions

Some cannabis licensed producers indicated they are permitted to ship cannabis products directly to retailers in some provinces like Saskatchewan. Cannabis licensed producers from British Columbia indicated that they ship products directly to retailers in their province.

THEME 3: INFORMATION SHARING

A critical aspect of a partial-consignment or full-consignment model is accessing information on product availability and sales. This information is imperative for making decisions on product allocation to the AGLC warehouse.

Following the alternative models discussion, many cannabis licensed producers requested that AGLC review the data provided to producers on product listings and product sales. While AGLC provides producers with high-level performance data on their products, other provinces are providing a lot more in-depth information. Ontario's and British Columbia's data were often cited as the most in-depth and useful reports. These reports include information on how well all products are selling by area. Cannabis licensed producers can see all cannabis products in the provincial market.

Some participants lamented the removal of albertacannabis.org. Many felt it served as a central source of information on products in Alberta for both consumers and producers. Many cannabis licensed producers requested the ability to see what was available in the warehouse, like the Connect Logistics Services website for liquor (www.liquorconnect.com). Many expressed the result could be a better customer experience for individuals seeking a particular product. Furthermore, it would assist producers in identifying retail locations where their products are available.

THEME 4: WAREHOUSE FEES AND PROCESS

Non-Fulfillment Fee

Non-fulfillment of orders is currently subject to penalties in Alberta. It was expressed by many cannabis licensed producers that there should be more clarity when penalties are applied. There may be opportunities to avoid costly penalties as part of the licensing process, and licensees should be informed of such opportunities (e.g., changing the order quantity and closing the Purchase Order). The Licensed Producer Operations Manual and contracts include information about non-fulfillment.

Late Delivery Fee

In the case of late deliveries, an additional fee is charged. Several cannabis licensed producers expressed that there is an opportunity for improvement when it comes to receiving product deliveries to ensure that the delivery is verified as being within the delivery time.

Choosing a Delivery Time

Some cannabis licensed producers mentioned that booking a delivery date/time for their order can be difficult. The system fills up quickly, so delivery slots must be booked in advance. For cannabis licensed producers that make their product to order, this can be difficult as the system requires detailed product information at the time of booking and cannot be edited. Some cannabis licensed producers have requested to book their delivery slot and add specific product information prior to shipping to the AGLC warehouse.

Product Allocation

If there is more demand than inventory, the product goes into a computer algorithm to ensure fair and equitable distribution. Several cannabis licensed producers referred to this as a lottery system. Because of this system, retailers may hesitate to order products as they are uncertain whether they will receive them.

The consensus was unclear as to what should replace the current model, although some suggested a cap on orders or a first-come, first-served system. But it was clear that cannabis licensed producers wanted to ensure that that they could continue to provide a suitable amount of product with relation to demand.

Predictability is enhanced by standard meetings

Some cannabis licensed producers indicated that at one point they had regularly scheduled meetings referred to as “standards meetings.” These cannabis licensed producers mentioned that these meetings helped with product planning as well as with the distribution process.

NEXT STEPS

AGLC will contact cannabis retailers to conduct a second round of engagement based on our findings from the first round of engagement with cannabis licensed producers, brand owners, and marketing entities. The goal of this second round of engagement with cannabis retailers is to discuss the themes listed above with a view to revising the distribution process.

AGLC would like to thank all cannabis licensed producers, brand owners, and marketing entities who participated in the discussions in November and December 2022. AGLC values the expertise provided by all participants in this consultation. It is evident that the cannabis industry in Alberta has an abundance of expertise and knowledge.