



# Transitioning from Medical to Recreational

WHAT CANNABIS RETAILERS NEED TO KNOW



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Recreational cannabis has taken the country by storm. In just a few years, it's gone from being an illicit substance to a recreational one, sold and regulated in a similar way to alcohol.

It's now legal to sell flower, edibles, and other cannabis products for recreational use in Alaska, Colorado, Nevada, Oregon, and Washington. Soon, recreational markets will open in California, Massachusetts, Maine, and other states.

Transitioning from a medical retailer to a recreational retailer presents an attractive business opportunity because of the significant increase in new customers – and revenue. Unfortunately, this isn't a straightforward transition...



- It can be challenging and expensive to obtain a recreational license.
- There are ever-changing regulations you must comply with.
- And there are expenses you didn't have to consider before.

At Green Bits, we've seen this transition happen in Alaska, Colorado, Nevada, and Oregon. We've been on the frontlines and helped hundreds of customers make the transition from medical to recreational. For this eBook, we talked to a host of store owners and managers who have been through the transition.

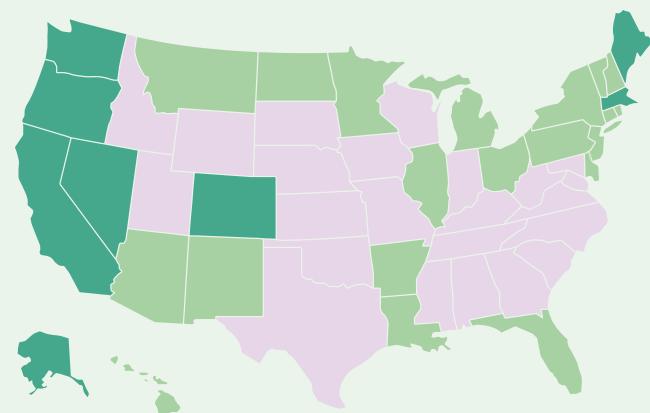
We've learned how tough the transition can be, and which changes you're likely to see. We're here to prepare you as your state undergoes a market transition that will change how cannabis is bought and sold forever.



#### CANNABIS LEGALIZATION STATUS

- Medical cannabis broadly legalized
- Cannabis legalized for recreational use
- No broad laws legalizing cannabis

as of August 2017



In this eBook, we'll cover what you can expect as your state transitions from medical to recreational cannabis, as well as how to position yourself for success in a new retail landscape. We'll go over:

- What to generally expect as your state transitions from medical to recreational
- Changes in the overall cannabis business
- Recreational licensing considerations
- Budgeting considerations for the transition
- Seed-to-sale tracking systems: How they work, and what you need to know
- Success stories from transitioned retailers in other states

## TRANSITIONING FROM MEDICAL TO RECREATIONAL

### What to Expect

Lucky for you, five states have already undergone the transition from medical to recreational. From seed-to-sale tracking systems, to taxes, to adjusting supply and demand, these states have paved the way for California, Massachusetts, and Maine.



### REMINDER

Every state is different. For example, Washington had virtually no medical cannabis market before recreational became legal. In Alaska, medical was legal, but patients could only grow it themselves, rather than visit a dispensary. In a state like California, there is a healthy and relatively unregulated medical market. Because of this, the transition in your state may look different than a state next door.



What's likely to happen as  
you transition from medical  
to recreational

## Recreational licenses might be tough to obtain

Many managers and owners at cannabis retailers in states that transitioned reported that getting a recreational license was not nearly as straightforward as they'd thought. When a state introduces new recreational cannabis legislation, they change licensing requirements. Store owners not only have to apply for an expensive license, but they also have to catalog each and every plant that is currently in their medical store.

State	Business licensing information
CALIFORNIA	<a href="http://www.greenrushconsulting.com/open-a-dispensary-in-california">www.greenrushconsulting.com/ open-a-dispensary-in-california</a>
MASSACHUSETTS	<a href="http://www.greenrushconsulting.com/open-a-dispensary-in-massachusetts">www.greenrushconsulting.com/ open-a-dispensary-in-massachusetts</a>
MAINE	<a href="http://www.greenrushconsulting.com/open-a-dispensary-in-maine">www.greenrushconsulting.com/ open-a-dispensary-in-maine</a>
NEVADA	<a href="http://www.greenrushconsulting.com/open-a-dispensary-in-nevada">www.greenrushconsulting.com/ open-a-dispensary-in-nevada</a>



There are a few things that stop medical retailers from obtaining their recreational licenses. Here are the most common roadblocks

### EXPENSES.

We've seen stores spend upwards of \$80,000 on the license alone, and that may be for a temporary license. If this isn't money you have on hand, you may have difficulties getting a recreational license.

### CAPITAL FROM CLEAN, TRACKABLE SOURCES.

States don't want the black market involved in the industry, so they want to know where every penny comes from. If you fundraise to open a store, they'll want to know who gave what.

### NO CRIMINAL RECORD.

Traditionally, store owners need a squeaky-clean record in order to get a recreational license. If you have any blemishes on your record, you may find it challenging to get a license.

### ZONED LOCATION.

When it comes to recreational cannabis sales, store owners will be expected to open a store in an area that has been zoned for cannabis sales.

### MOVING FROM NON-PROFIT TO FOR-PROFIT.

Some medical cannabis retailers function as non-profits, but they'll have to transition from a non-profit to a for-profit company. That means they'll need a functioning business license as well as articles of incorporation.

## Having to catalog existing product for seed-to-sale

When a state introduces recreational cannabis legislation, they introduce seed-to-sale systems, which track each and every cannabis plant that is grown, goes to market, and is then sold.

Retailers will need to catalog all of their existing product when they obtain their license, but this can't happen immediately. We've had store owners and managers call us and say "I have my traceability ID, let's get going." Unfortunately, this needs to be a deliberate process and can take days or weeks to properly complete.

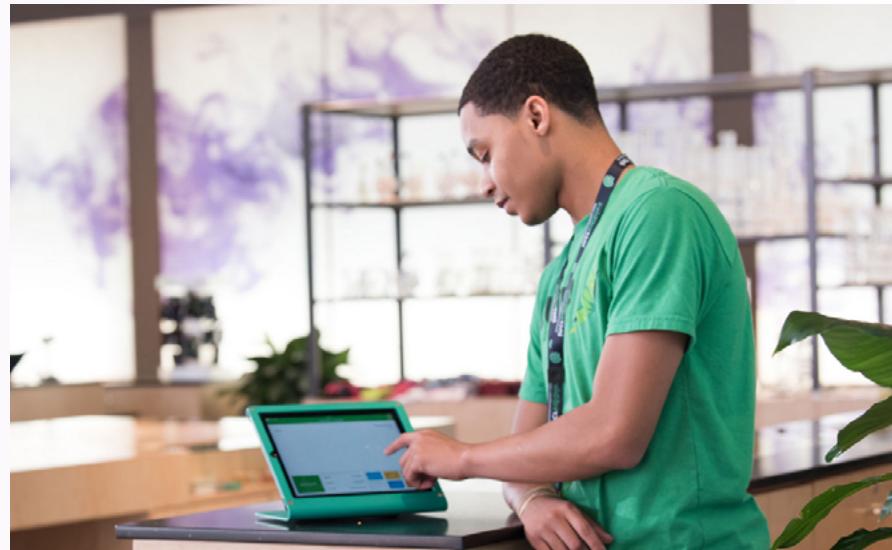
In most states, store owners are given a period of 10 days to catalog everything they have. After these 10 days, store owners will only be able to buy and sell cannabis that is tracked by the state.

## A lot more rules and regulations

Once recreational cannabis is legalized in a state, expect new rules to be introduced. These rules will cover how much can be sold, how retailers can advertise, and how compliance must be recorded.

The introduction of new cannabis rules has happened in every state that has legalized recreational cannabis, as state legislators want to control how people can access the substance.

**THE TAKEAWAY:**  
YOU'RE GOING TO SEE A LOT OF  
LAWS THAT WEREN'T IN PLACE BEFORE.



"We have recreational regulations that we have to follow in our store. For example, we have transaction limits. We're not allowed to sell over an ounce of flower to recreational customers, which is a different amount than we can sell to medical patients."

WILL TISDALE, CANNABIS STATION (WA)

## Supply and demand issues

Because all recreational cannabis will need to be tracked via seed-to-sale, you're likely to encounter supply issues. Growers will have to cultivate new plants that are state compliant, which could create a bottleneck in the supply of new product to retailers.

The growing period is typically two or three months, but it can make a huge difference in product availability. When this transition has happened in other states, stores have struggled to keep up their supply in the face of increased demand.

Retailers can expect a 10x in traffic to their store shortly after recreational sales are allowed. This is phenomenal for retailers, but it can create headaches if they are low on supply. In short, demand will rise significantly in recreational markets, but supply could become the bottleneck in the business.

"When we first began selling recreational cannabis, the regulations were relatively loose.

Since then they've tightened up, especially when Oregon switched from the Oregon Health Authority to the Oregon Liquor Control, which occurred almost a year and a half after we went recreational. When we first went rec, the rules were in flux a little bit more and it was kind of just open your doors and just don't sell over these quantities and have fun. In the time afterwards, it's tightened up a lot."

GORDON LATTA, INVENTORY MANAGER AT FARMA (OR)

## Managing employees

When recreational cannabis sales are implemented, expect an influx of new customers. To accommodate these new customers, you'll likely need more employees. You'll also want to offer similar benefits to other business so you can attract talented individuals.

Since cannabis is not legal at the federal level, it can be tough to get health insurance, as well as banking and direct deposit for employees.

## Constant change in regulations

Just as recreational retailers get used to one rule, they're often confronted by another. For example, advertising rules constantly change in recreational markets. Retailers will figure out an advertising scheme that attract new customers, only to have the rules change six months later.

Sometimes the interpretation of the same rules will change. Some stores offered "punch cards" (10 punches, then a free joint) and were told this was within the rules. A few months later, regulations changed and stated that the punch cards were "coupons" which were a prohibited form of advertising in their state.

### IN SHORT:

BE ADAPTABLE, RESPONSIVE,  
AND AWARE OF THE EVER-  
CHANGING REGULATIONS.

## An increase in new and old expenses

In many ways, a recreational cannabis retailer is just like any other retail establishment. Customers want goods, so they come in and purchase them. But when it comes to a recreational cannabis business vs. a medical store, you can expect an onslaught of new expenses.

First of all, taxes are higher, and you have to keep careful track of everything you sell. This may mean implementing a retail management platform that helps you automate seed-to-sale reporting, such as Green Bits.

Additionally, many states require retailers to have expensive security cameras. The security systems at a recreational cannabis store average \$15,000 to be compliant. This doesn't take into account proper signage, safes, or other security measures.

## A different type of customer

Medical patients usually see their local cannabis store more like a pharmacy than a liquor store. But when stores switch to recreational, a new type of customer comes in.

"As with any retail store, recreational customers come in believing they are always right," said Will Tisdale of the Cannabis Station. "They think they can get certain amounts of things that they can't or try to sneak more product than they're supposed to. We've even had customers trying to steal product by reaching behind the counter."

This isn't to say that all recreational customers are difficult. It's simply a reminder that there may be a stark difference between medical customers, who are often educated about the product, and recreational customers, who may have no experience buying cannabis, or may be used to getting their product on the black market.

### TRANSITIONING FROM MEDICAL TO RETAIL:QUICK OVERVIEW

Licenses are hard to get and expensive - Licensing fees range from state to state, but they may be as much as \$80,000. If you don't have a clean record, you'll struggle to get a license.

### MORE RULES WILL BE INTRODUCED

More rules were introduced in every state that legalized recreational cannabis.

### EXPECT SUPPLY ISSUES

Because of the need for seed-to-sale tracking, you may not be able to access product that is state compliant. You're likely to see a huge demand and not enough supply.

### MORE EMPLOYEES WILL BE NEEDED

With more demand, you'll need more employees on staff. You'll also need to manage them.

### REGULATIONS WILL CHANGE

When recreational cannabis is introduced in a new state, it can take a while for regulations to get ironed out. Over the course of the first year, you may see regulations, or the interpretation of these regulations, change dramatically.

### THERE WILL BE MORE EXPENSES

Because of taxes, compliance, and security, cannabis retailers have expenses that medical retailers didn't have to worry about. It's going to be more expensive than you expect to sell recreational cannabis.

### NEW TYPE OF CUSTOMERS WILL ENTER THE STORE

An influx of recreational customers will enter the store, and they may not be as educated or respectful as your medical patients.

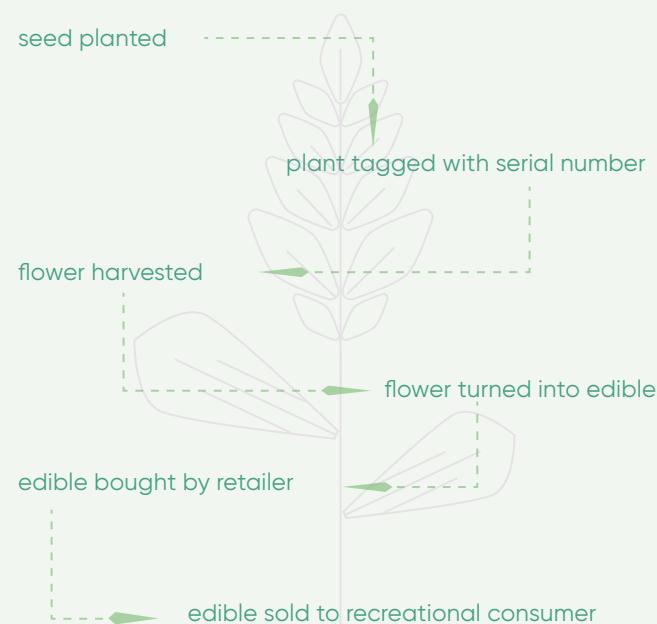


# Understanding Seed-to-Sale Tracking

Seed-to-sale tracking (also called Track-and-Trace) is the term used for the process of tracing a cannabis plant from its infancy to its final product sold to a customer. Basically, seed-to-sale systems record the journey from seed to final retail product.

When a state introduces recreational cannabis, they'll also introduce a seed-to-sale tracking system. That means growers and retailers will be responsible for charting a plant's journey from seed to sale.

#### WHAT A SEED-TO-SALE SYSTEM TRACKS



But this process is a lot more complicated than meets the eye. After all, a cannabis plant is not sold on its own. It can be broken up and used for separate products. Different plants can be mixed together in edibles. Even so, you're responsible for reporting exactly how much of each plant you bought and sold.

Once you obtain a recreational license, you'll be given traceability credentials. Once you have your credentials, you're able to purchase the tags that you'll need to have to then associate to your products.

If you run a recreational store, you'll be responsible for not only recording seed-to-sale data for everything you buy and sell, but also reporting it to state reporting system on a daily basis. This process can be cumbersome, but software solutions can make the process easier. For example, Green Bits automates this process for you by integrating with government seed-to-sale systems through a robust API; saving up to 15 hours per week of manual and error-prone reporting.



## Why compliance matters to each state

The cannabis industry is relatively new, and state governments want to be careful to legislate cannabis so that the industry does not spiral out of their control.

Part of this legislation is around compliance, and that manifests itself in seed-to-sale tracking. Basically, states want to follow a cannabis plant from its infancy until it's sold to a consumer so they have visibility into where the products – and money – are going.

### Tracking seed-to-sale allows public officials to

- Ensure growers are following planting limits
- Collect data about how much cannabis is being bought and sold, so this data can then be studied
- Make a credible case to the federal government that the state is not allowing the legalized market to touch the unregulated market
- Recall cannabis plants and products deemed unsafe or harmful

Although it's good for states to keep track of where and how recreational cannabis is bought and sold, it can be a pain for retailers. In order to be compliant, retailers need systems for tracking the cannabis that they sell.

## Seed-to-sale systems by state

States manage compliance through government-contracted software systems such as Metrc, BioTrack, and Leaf Data Systems. Each recreational store is expected to enter information about the products they sold into these systems in order to remain compliant.

- **Metrc** – Metrc is unique in the sense that it only offers government-facing tracking programs, as opposed to solutions for retailers. Metrc is used by Oregon, Alaska, Colorado, and Maryland. It will likely be used in other states, like California.
- **BioTrackTHC** – BioTrackTHC focuses on both private and government sector software solutions. BioTrack is used by Hawaii, Illinois, and New York for medical and recreational sales.
- **Leaf Data Systems** – Leaf Data Systems is used in Washington (Oct. '17), Nevada, and a number of other medical markets.

Entering information into these systems on a daily basis can be monotonous and time consuming. That's why most recreational retailers choose a Point-of-Sale (POS) software built specifically for cannabis retailers. These cannabis-centric POS solutions automatically record necessary compliance information and report it to the state traceability system in real-time.





## Why you need to be as compliant as possible

In every state that's gone recreational, these rules – and the consequences for breaking them – have been exceedingly strict. If your store is not compliant, you'll face fines, fees, and potentially arrests. If you're not compliant, you put your business in danger.



"Officers occasionally visit our store to make sure that we're being compliant. They make sure our security cameras are up and running, and that we have all disclaimers that we need. They'll check customers' IDs to make sure they're legitimate and unexpired. If we aren't compliant, we can get written up and given points. If we're not following compliance, we could get shut down. Compliance is a key focus for our business because of that."

WILL TISDALE, CANNABIS STATION (WA)

# Understanding recreational cannabis taxes

If you plan to sell recreational cannabis, you're going to be confronted with new taxes. The taxes may vary widely from state to state, county to county, and city to city. One thing is for sure – you will be taxed.

## Here are some taxes that recreational cannabis retailers pay in other states:

### STATE EXCISE TAX

Excise taxes are taxes paid when purchases are made on a specific good, such as gasoline or cannabis. Excise taxes are often included in the price of the product. In Alaska, the state excise tax is \$50 per ounce of cannabis, as of July 2017. Excise tax is collected at wholesale.

### SALES TAX

Sales tax is paid when a sale is made. In the state of Washington, there is a 37% tax paid to the Liquor and Cannabis Board for every cannabis sale, but there is no excise tax. Sales tax is collected at retail, when the customer pays for the product.

### REGIONAL/LOCAL TAX

A city or county can tax cannabis retailers for operating within their limits. For example, the city of Fairbanks, Alaska, charges a 5% local sales tax on all cannabis sales.

### FEDERAL TAXES

Even though cannabis is not legal at the federal level, retailers are still responsible for paying standard federal taxes. Federal income tax falls in this category.

### TYLER HOLLISTER GIVES AN OVERVIEW THE TAXES PAID AT PAKALOLO SUPPLY CO IN ALASKA:

"We run a cultivation company, as well as a recreational cannabis store. So we're taxed at both the cultivation level and the retail level.

Let's start with our cultivation company. We pay a state excise tax of \$50 dollars per ounce. As soon as our products have been tested and approved and we're ready to transfer our product, then it becomes taxable at \$50 dollars per ounce of bud, and \$15 per ounce of trim.

For the retail side, product is taxed again with a sales tax, which goes to the local government. We're inside the city limits of Fairbanks, so we pay a 5% sales tax to the city of Fairbanks."

Although selling recreational cannabis comes with challenging regulations, the market is ripe for creative retailers who can keep inventory stocked, develop a loyal customer base, and remain compliant. Once you obtain a recreational license, it's time to figure out how to build a store that delights customers and generates revenue.

Entrepreneurs like Kayvan Khalatbari, co-founder of Denver Relief, the second oldest cannabis dispensary in Colorado, have built exemplary business models in a short amount of time. Despite the challenges that came with being a disruptor in the space, the model is an inspiration for anyone opening or running a new recreational cannabis store.



# How to be successful in the new recreational landscape

## Rethink the flow of your store

When you have medical patients, you may have a few patients come in at a time. But when you go recreational, the whole flow of the store should change to accommodate the significant increase of new customers. Rather than being like a pharmacy, you need to start mimicking workflows of traditional retail stores. This means:

### RETHINKING THE WAITING ROOM MODEL.

Do you really need to check ID's in a waiting room? It may save space to check ID's at the door instead.

### CONSIDERING THE CHECKOUT PROCESS.

You'll want the checkout process to be as efficient as possible. This may mean pre-made labels, as opposed to ones you print out on the spot. It may also mean implementing a POS system with a fast transaction time.

### BEING DELIBERATE ABOUT PRODUCT DISPLAYS.

How do you show off your product and educate customers in a retail environment? With more people in the store, customers may not get as much one-on-one time with budtenders.



### PREVENTING THEFT.

More people in the store means more opportunities for customers to try to steal product. Yes, we've seen it happen. You'll have to think about the layout of your store to minimize theft and comply with your state regulations regarding required security measures.

## Decide what type of store you're going to be

There are many different types of stores out there, and you will have to decide how you will compete. Will you be like Walmart, offering a wide array of products from a number of different growers? Or, will you be more like a boutique, offering a limited, curated collection of product from one or two different growers?

The fast and convenient model makes it easy for customers to come in and get their product as quickly as possible. With this model, you may offer a ton more product, but won't be able to offer the same time and attention with each customer.

The customer-centric "boutique" model is based on educating customers and offering them a more personalized experience. This experience is more limited in terms of product, but you'll be able to sell a curated collection and work with each customer.

We've seen both models be successful, but it's hard for retailers "in the middle" to get it right. Now is the time to begin thinking about what model you'd like to execute. Once you decide, you can build your business around that model.

## Make sure you have exceptional inventory management

When recreational cannabis sales get implemented in a new state, it's your responsibility to manage the inventory so that you have the product that customers want.

"You need to ensure inventory doesn't run out and that you have a good system for when to order new product," said Will Tisdale. "Knowing which products sell out fast and which ones sell out slower is essential so you can pace that so you don't run out of products."

## Innovative ways to manage supply

If you're low on stock of a certain product, find innovative ways to repurpose the products you do have. For example, you can create pre-rolled joints out of flower to create an entirely new product that excites your customers.

When a retailer was unable to supply their customers with edibles, the team offered "make your own" edible kits which included flower packaged with baking supplies and instructions on how to create edibles at home. These kits were such a success that the store continued to sell the kits even when they were able to stock other edibles.

## Stay on top of the ever-changing rules

Since the regulations around cannabis can change constantly in a new recreational market, it's essential to remain proactive. What was legal last week may not be legal this week. Read up on the latest cannabis news in your state to ensure you're compliant at all times. We recommend subscribing to updates via your state's website, if they don't automatically update you.

It's also a good idea to develop a rapport with your agent. Be willing to ask questions when you aren't sure, and turn to your agent when you need clarification.

## Get the right tools

The right tools can make reporting, managing inventory, compliance, and sales easier for cannabis retail owners and managers. Rather than manually entering in seed-to-sale information through METRC, BioTrackTHC, or Leaf Data Systems, retailers can automate the process using a POS solution like Green Bits – saving 200+ hours per year and significantly reducing manual errors.

## Vet your vendors

Many are trying to get rich off the new cannabis market, which means you need to be aware of uneducated vendors. These vendors may have good intentions, but aren't aware of the scope of the challenges in the cannabis market.

Whether you're considering an accountant, security company, or software solution, make sure your vendors have worked in the industry before.



## Find innovative ways to care for your team

Just because cannabis is not legal on a federal level does not mean you should skimp on caring for your team. Your business provides a livelihood to many, and the cannabis industry has opened up job opportunities for all walks of life.

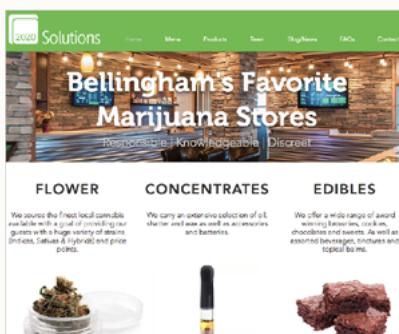
Most successful retailers offer health insurance to employees, and some have even figured out how to offer employees paychecks via direct deposit. Basically, these retailers pay a third party company to manage payroll, and employees receive a paycheck just like they would anywhere else. Source: Cannabis Station



## Consider the overall experience

A cannabis shop can be more than a pit stop full of Bob Marley posters. Retail innovators are designing shops that feel more like luxe boutiques and hipster hangouts. These shops prioritize the experience they offer more than a standard liquor store or pharmacy, and work to destigmatize cannabis.

For example, Farma, a retail cannabis shop in Portland, Oregon, is outfitted with clean lines and a modern look, providing a clean and luxurious environment for customers, as well as design inspiration for recreational shop owners everywhere.



## The experience goes beyond the retail store.

Washington based 2020Solutions has a modern website that provides prospective and existing customers with all the information they need.



## RUNNING A SUCCESSFUL STORE WHILE REMAINING COMPLIANT: QUICK OVERVIEW

### RETHINK THE FLOW OF YOUR STORE

You're not a pharmacy, you're a retail store. Reconsider whether you need a waiting room and how you will check ID's.

### DECIDE WHAT TYPE OF STORE YOU'RE GOING TO BE

Will you be a store with a high number of transactions or offer a slower-paced, boutique experience?

### HAVE EXCELLENT INVENTORY MANAGEMENT

You may run into supply issues, so be prepared.

### STAY ON TOP OF THE RULES

The rules are always changing, so make sure you are on top of them to remain compliant at all times.

### GET THE RIGHT TOOLS

The right tools will make operating in this highly-regulated industry much easier.

### VET YOUR VENDORS

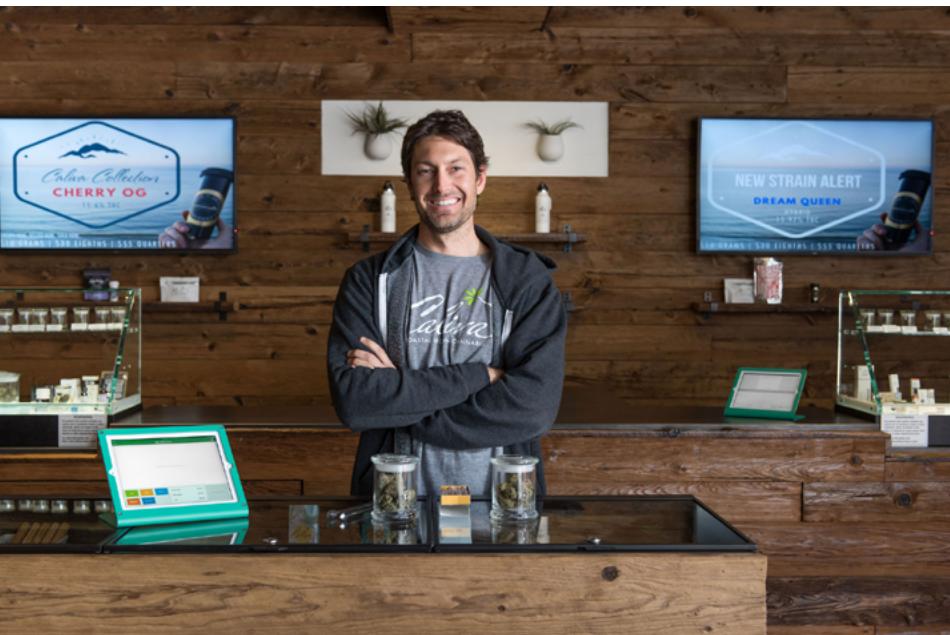
Many are trying to edge into the cannabis market, but not every vendor has worked in the industry before and understands the challenges.

### CARE FOR YOUR TEAM

Even though you may have trouble banking like a traditional business, you should do everything you can to care for your team so they take their jobs seriously.

### THINK ABOUT THE OVERALL EXPERIENCE

Retailers are finding innovative ways to attract customers. They offer more than product – they offer an experience.



## It's an exciting time to be in the cannabis industry.

Recreational retailers are excited for the future, and can't wait to see how cannabis will positively influence medical and recreational users alike.

In this new era of cannabis, current medical store owners should be prepared for the new challenges ahead. As cannabis is legalized and regulated in states across the country, there will be changes in regulations, customers, and compliance.

### ABOUT GREEN BITS

Green Bits is a retail management platform that helps cannabis retailers grow their businesses. Green Bits serves more than 700 cannabis retailers in 7 states:

Alaska, California, Colorado, Maryland, Nevada, Oregon and Washington.

With more than \$1.5 billion in annual sales processed through the Green Bits point-of-sale. The company was founded in 2014 and has offices in San Jose, California, and Portland, Oregon.

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For this eBook, we synthesized the knowledge we gained from cannabis markets in other states, and interviewed managers from four retailers.

Tyler Hollister, Pakalolo Supply Co (Fairbanks, AK)

Gordon Latta, Farma (Portland, OR)

Aaron Nelson, 2020 Solutions (Bellingham, WA)

Will Tisdale, Cannabis Station (Edmonds, WA)

SEE OUR PLATFORM IN ACTION AT  
[GREENBITS.COM/DEMO](http://GREENBITS.COM/DEMO)