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Marijuana Industry Growing Like A...Well...Weed

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Posted by [Neal Leavitt](#) on April 22nd, 2015 at 12:54 pm

“Dave’s Not Here Man”

--*Tommy Chong*

“They’ve Outlawed the Number One Vegetable on the Planet”

--*Timothy Leary*

Grass. Pot. Weed. Ganja. Reefer. Wacky tobaccy.

The monikers are infinite.

And apparently, so is the growth potential of the burgeoning cannabis industry. [GreenWave Advisors](#), a marijuana research and financial analysis firm (could anyone have remotely envisioned such a firm a decade ago?) prognosticated last year in a report that if the federal government and all 50 states legalize recreational marijuana, it could be a \$35 billion annual business by 2020.

While that's probably a *Rocky Mountain High* pipe dream for the near future, another cannabis industry investment and research firm, Oakland, CA-based [ArcView Group](#), said that the U.S. market for legal cannabis almost doubled from \$1.5 billion in 2013 to \$2.7 billion last year. ArcView also predicts that by 2020, another 14 states will legalize recreational marijuana and two more states will legalize medical marijuana.

Currently four states – Alaska, Colorado, Oregon, and Washington – have legalized retail marijuana; Washington D.C. voters legalized recreational use but sales are still illegal.

Erik Devaney, writing in HubSpot, said it's not just marijuana growers, distributors and dispensaries comprising this potentially lucrative landscape.

“It's also fertilizer companies, and lighting system companies, and hydroponic supplies companies, and jar & container companies, and analytical testing laboratories – there are even staffing groups that specialize in placing workers in the cannabis industry,” said Devaney.

Sounds like a marketer's dream, n'est pas?

Not so fast.

Marijuana is still illegal at the federal level. So marijuana marketers are still faced with numerous hurdles. Google and Facebook, noted Devaney, forbid advertising marijuana on their platforms. Same holds true for photo-sharing service Instagram (owned by Facebook) – cannabis industry accounts belonging to businesses have been suspended.

“In many cases the online restrictions that marijuana marketers face are simply a result of companies trying to adhere to the law,” said Devaney. “Under federal law, marijuana dispensary operators are classified as narcotics traffickers. So if a company helps those operators sell their product (e.g., through providing ad space, or by allowing them to share photos on a public platform), that company theoretically could be convicted of participating in a criminal conspiracy.”

There are a number of other significant hurdles. A 1982 federal tax code amendment – known as Section 280E – denies tax credits or exemptions to businesses “trafficking” in controlled substances. So a lot of newbie marijuana dispensaries in Colorado and Washington, for instance, are taking a big hit (pun intended) - federal tax rates in many instances have ranged between 60-90 percent. They also can't write off advertising costs, employee salaries and rent.

And most banks still won't do business with the marijuana industry so legal weed has become a de-facto cash business. One that is, First Security Bank of Nevada, has opened accounts for about 80 marijuana-related businesses.

“The applicants hold approximately \$35 million in deposits,” said John Sullivan, the bank's president/CEO. “As a small community bank, there are benefits to providing services to the industry in the form of new deposits as well as opening doors to other businesses and services.”

Media companies have by and large avoided selling ad space to cannabis-based businesses too because again, at the federal level, it's illegal to advertise marijuana and related products.

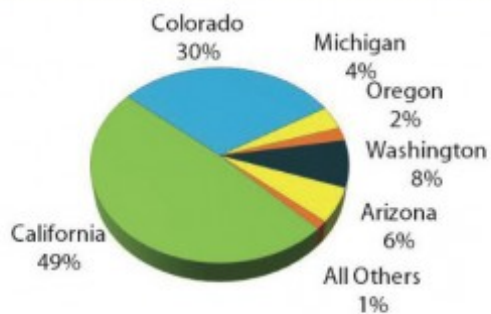
And trying to patent a marijuana brand is currently impossible right now – the U.S. Patent and Trademark Office (USPTO) won't issue a trademark for something that's currently not lawful on the federal level.

Despite all of the aforementioned, the industry continues to grow. Colorado retailers sold \$386 million of medical marijuana and \$313 million for recreational use last year; tax revenues were \$63 million, licenses/fees brought in another \$13 million. The state expects annual sales to top \$1 billion by 2016.

Private equity groups also see opportunities. Last fall, Seattle-based [Privateer Holdings](#) cobbled together more than 40 investors and has raised over \$50 million that is being spent on various cannabis industry ventures. One of these is [Marley Natural](#), created by the family of the late Jamaican reggae artist Bob Marley. The family launched what they call the world's first global cannabis brand – it will sell cannabis-infused creams, lotions and various accessories.

Privateer Holdings has made one U.S. acquisition, according to CNBC – [Leafly](#)

\$2.7 BILLION U.S. CANNABIS SALES BY STATE IN 2014



Source: ArcView Market Research (consumer and wholesale sales)

[Leafly](#), which bills itself as “the world’s largest cannabis information resource.” Leafly, per their web site, says “we make the process of finding the right strains and products for you fast, simple, and comfortable.”

Creating demand and building brand loyalty will continue to pose challenges over the next few years. John A. Quelch, a Harvard Business School marketing professor, told *Forbes* that a national mass-market brand of marijuana is not on the horizon anytime soon. Until a majority of states – and the federal government - legalize marijuana sales, large cigarette and alcohol companies won't take the risk.

Quelch does think some marijuana companies may expand to additional states to carve out early market share.

“They’ll achieve economies of scale that position them to be bought out later by national players. Unlike craft beer, marijuana would be inexpensive to transport across state lines to retail outlets across the country. I think you’ll definitely see a couple of companies get licenses in more than one state,” said Quelch.

Clay Butler, who founded now defunct Canna Cola, a soft drink containing THC, the psychoactive ingredient in marijuana, summed it up:

"My suspicion is that, if some day it is decriminalized, and you can get marijuana products in a liquor store or a 7-Eleven, I really don't think it would be the big established food companies that would get involved," Butler said. "I could see them buying out existing brands, which is a lot easier for them anyway. I think the market is going to the early pioneers."

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