Chapter 4

Technology: The missing link

For long-term success, cannabis companies need to adopt technology as a critical capability

Entrepreneurs in the cannabis industry have moved at warp speed to get their businesses up and running in time for the Canadian government’s legalization of adult-use cannabis, creating billions of dollars of value in the process. Most companies however, have failed to implement appropriate technology strategies during this boom, putting much of that equity at risk.

While cannabis companies expanded rapidly, pouring resources into a broad set of actions, few have made sufficient investments in technology as a core strategic initiative aligned to their capabilities. As discussed in Chapter 3 of this series, a business’ competitive position depends on these high-performance capabilities – processes, tools, knowledge, skills and behaviours that rivals can’t match – and the ability to leverage them in pursuit of strategic paths. Having the right technology as part of its capabilities is essential for a company’s success.

Unfortunately, much of the technology used by cannabis operators today is rudimentary, unscalable and unsustainable.

To carry a business to the top of this highly competitive, multi-billion dollar industry, you need more than spreadsheet solutions.
This has resulted in chronic inefficiency, and the build-up of significant long-term risks for cannabis players, including operational inefficiencies, customer dissatisfaction and churn, potential data loss, weak knowledge management and likely regulatory and compliance omissions to name a few.

Companies are primarily employing IT today to manage batches of cannabis plants and to boost crop yields. They also use technology to track various lots of the same cannabis strains, and to ensure compliance with Health Canada’s packaging and labeling requirements, with regular reporting of required data to the government. Beyond these functions, technology is often an afterthought that management is not embracing with the rapidly changing needs of the business in mind. For example, licensed producers (LPs) have made physical security a priority, installing surveillance cameras and establishing sign-in logs as part of compliance requirements necessary to maintain a license. That said, few have given cybersecurity sufficient attention, opening the way for possible breaches that could damage operations, brand reputation, intellectual property and financial security. The cannabis industry has a target on its back given its rapid development and lack of technological sophistication. This has already been demonstrated in the recent breach of OCS customer data, and will likely continue to occur as sales progress.

Across the industry, there is a void in traditional, major brand and mid-market technology solutions such as enterprise resource planning (ERP), customer relationship management (CRM), and business intelligence and analytics (BI/BA). Some companies have adopted largely unproven startup packages that can’t integrate with other solutions or scale effectively.

Cannabis companies face a significant misalignment between their technology implementation and the rest of their operations.
New technology, new opportunities

At the heart of the problem lies a lack of understanding among cannabis companies of how to harness the power of technology to improve operations and customer engagement through opportunities such as predictive modeling, robotics and automation, which can be employed to improve cultivation practices (e.g., identify and treat crop disease). The use of data and analytics can provide insights into customer behavior, help improve customer retention, optimize supply chains and target new sales opportunities, all of which contribute to growth targets and potentially reduce operating costs. Furthermore, with the right technology, a company will possess the agility and flexibility necessary to enable innovation and new business models, as and when the need arises.

As companies take the time to learn about advanced technologies, they should develop the confidence necessary to make the large investments and prioritize technological enhancements. When the process is done correctly, companies are able to improve performance; common benefits include:

- Streamlined communications internally across departments and externally among clients, distributors and partners;
- Enhanced strategic thinking through better access to, and analysis of, critical data and a faster, more comprehensive transfer of knowledge among employees;
- Lower costs and reduced waste through streamlined operational and managerial processes; and,
- Greater visibility from integrated systems that offer a real-time window on an enterprise’s operations and performance.

The customer churn rate is significant in the cannabis industry. With such a high cost of acquisition, customer retention should be a priority.

Getting technical

ERP

The uncertainty still surrounding future regulatory environments means that LPs will need to maintain flexible supply chains with the ability to securely track and manage operations from order to cash and recruit to pay. The systems and processes most cannabis companies have in place today, however, remain dangerously insufficient and could lead to fines or even revoked listings. Shortly after adult—use legalization, Health Canada issued formal warnings to seven LPs – a move that signified a tightening compliance leash even as LPs remain largely experimental with how they pivot and adhere to the nascent set of regulations. Companies need to be investing in proven ERP solutions, designed to manage the efficient growth of a business’ supply chain operations. (Note: we cover supply chain in greater depth for LPs and distributors in Chapter 8 of this series.)

CRM

The legalized adult-use cannabis market allows for greater consumer choice and stricter marketing and branding rules than the medical market did. As a result, companies must emphasize customer retention over the more expensive process of customer acquisition.

CRM software, along with data management and analysis tools, help companies to understand the forces driving loyalty and churn and enable them to proactively increase retention and sales.

The key for LPs is to have real-time information and analysis that allows them to remain agile and adapt to market events.
As increasing amounts of data begin to become available to cannabis companies, it is crucial that LPs utilize this data to its fullest potential to inform product and brand development, operational optimization and the overall corporate and go-to-market strategies. Additionally, provincial liquor boards will likely request data and advice from the LPs as the adult-use market matures and the initial supply chain issues are rectified.

There are a number of areas where data and analytics can provide benefits to LPs:
- Conduct a business health check diagnostic to identify insights as well as potential weaknesses and their trigger points to enable a rapid response.
- Identify new growth avenues and undertake scenario planning to inform the go-to-market strategy as the industry evolves.
- Capture and understand consumer insights to drive product development with the corresponding branding and marketing.
- Evaluate and maximize potential merger and acquisition transactions.
- Improve operational performance in the overall supply chain, from cultivation and manufacturing through to distribution.

When used and applied correctly, data analytics can help to understand the past and the present in order to better predict the future of the business.

Adding the right technological capabilities will allow cannabis companies to manage access, approvals and audit trails. For example, emerging robotic process automation (RPA) technology offers a cost-effective way of performing routine tasks tied to processing, risk management and regulatory compliance. These systems will prove particularly valuable when companies are forced to adapt quickly to regulatory changes. Businesses that are agile in this area should gain a competitive advantage and those that are not may face additional compliance risks.

In the burgeoning competitive cannabis market in Canada, if one organization cannot meet consumer demand, another one will. This is why it's essential to have clear visibility of operations in real time. Companies lacking well-integrated technology systems that can grow with their business will encounter rising inefficiencies that won't be alleviated by hiring more personnel. These companies will be unprepared for the operational problems that surprise them and as a result their investors and valuations will likely suffer.

For companies considering international expansion and/or doing business with European citizens, lack of compliance with the General Data Protection Regulation (GDPR), which came into effect on May 25, 2018, could result in fines up to 4% of global revenues (noting that the Canadian equivalent will go into effect in 2019).
Tailored tech

As an enabler of your business, technology must link to the strategy, operations and overall vision of the company. Software solutions are customizable, which means they should be tailored to fit. Once implemented, the system should provide a holistic view of the business rather than create an unconnected set of silos.

Finding the right technology package requires that management consider the priorities, operations, culture and ambitions of the organization. Operational assessments, gap analyses and capability mappings can help ensure the choices align with business needs.

Smart money

Investing in advanced IT systems may seem like a luxury for cannabis companies focused on staking strong positions in Canada’s new cannabis landscape, yet technology is an essential element of a company’s capabilities. Tech-enabled customer analytics and CRM solutions allow for greater customer engagement and the opportunity to build an omni-channel presence from a foundation of strength. Analytics provide important health-check capabilities, business performance tracking and the ability to direct resources effectively. Finally, cybersecurity tools protect not only customer data but importantly, corporate brands and reputations.

If solutions are selected and implemented correctly, they should power the enterprise along its strategic path. If a business is not leveraging technology effectively, it may well get left behind.

In a changing industry with an uncertain regulatory environment and unproven market demand, mergers and acquisitions have continually transformed the cannabis landscape. In Chapter 5 of our cannabis series, we discuss mergers and acquisitions in the cannabis space.