

BUILDING NEW FOUNDATIONS IN THE CANNABIS INDUSTRY:

Product Development and Branding

03.



THE
ARCVIEW
GROUP



Product Development and Branding

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INTRODUCTION

A few years ago, a then-major Multi State Operator (MSO) launched a brand aimed at the female cannabis consumer. The brand was developed and launched by an all-male team. This company is no longer in business.

Got your attention? Good. This white paper was written with the intent to help brands, dispensaries, and investors to forever avoid this predicament and other ham-fisted approaches to the women's cannabis market. In looking at women's presence in the cannabis industry, one measure of gender equity is the relative presence of brands and products designed for or marketed to women. It should be noted that the presence or lack of presence of women-focused brands and products does not necessarily constitute a "problem." However, the pronounced underrepresentation of products geared towards women likely indicates a lack of understanding of the power of the female consumer. Like our now-defunct MSO found out, ignoring the woman cannabis consumer, or choosing the wrong strategy to reach women cannabis users, represents lost revenue opportunities that can have profound implications.

Specifically, this paper will examine:

- Common perceptions about women and cannabis and the data that supports or invalidates these perceptions
- Implications of the data for brand and product development strategy
- Primary options for building brands with strong appeal to women

- This paper should be leveraged by brands, dispensaries and investors to avoid making business decisions that are based on erroneous assumptions about what women are looking for in cannabis products

RESEARCH: UNPACKING COMMON PERCEPTIONS ABOUT WOMEN AND CANNABIS

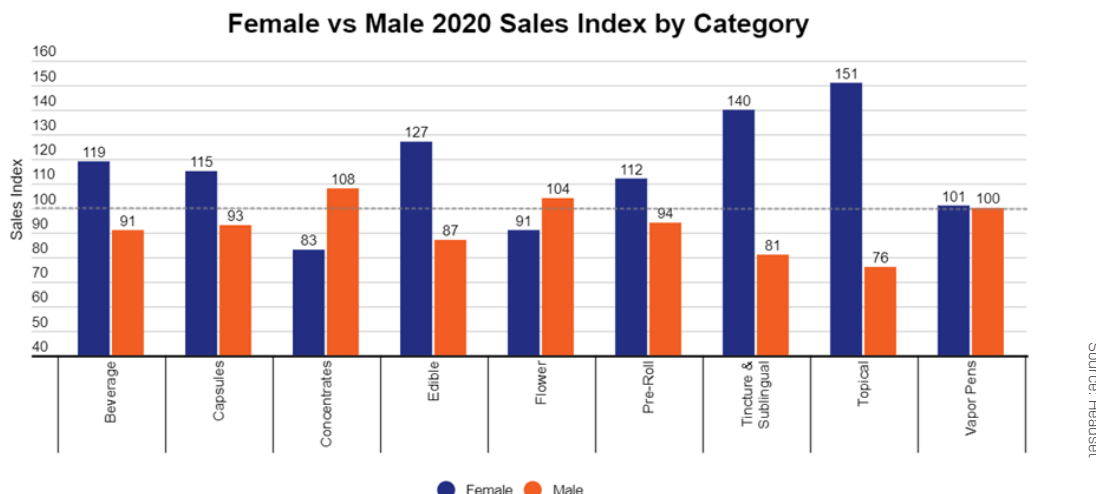
Analyzing this topic requires that we first understand women's attitudes, consumption patterns, and preferences for cannabis products - and then compare that research to the current state of the cannabis market. In this section, we explore perceptions about women and cannabis and use data to validate or debunk these perceptions. We will also look at the implications of the data on brand and product development. This data comes from Headset 2020 Retail Data and Brightfield Group 2020 Consumer Data.

MYTH

Women prefer edibles and topicals to inhalable formats.

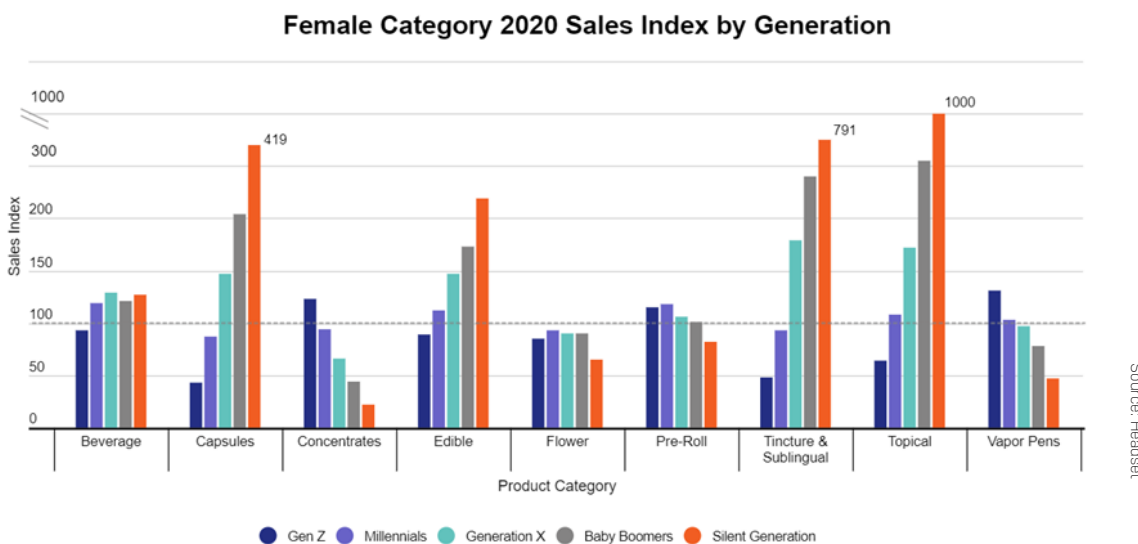
False. Women did, in fact, over-index on edibles and topicals, meaning they spent relatively more on these categories than the market average in 2020. The gap between men and women was widest in topicals. Women under-indexed compared to men in flower and concentrates, though the gap was much less pronounced. Interestingly, both genders purchased vape at similar rates, and women over-indexed on pre-rolls. Women seem to use inhalables at similar rates to men but prefer value-added, "ready-to-use" formats like vape pens and joints they don't have to roll themselves.





There are important variations in product preferences across generations. Gen Z women, the youngest but fastest growing consumer group, displayed the opposite behavior to the average female shopper. These women under-indexed in edibles and topicals but over-indexed in concentrates. The most significant differences are in medicinal or wellness-oriented formats such as

capsules, topicals and tinctures, which older women purchase at much higher rates than younger generations. Looking at female shoppers as one homogenous group masks these key differences and could prevent cannabis companies from tailoring their approach to a broader audience.



Women are the primary consumers of premium cannabis products, but men are more knowledgeable about cannabis.

False. On average, women spend the same per milligram of THC as men. However, this does vary by format. Women paid a slightly higher price per milligram on non-inhalable products, while men paid higher prices for inhalable formats. One driver of this trend could be that men are more inclined to purchase strain specific inhalable formats (Blue Dream, Wedding Cake, etc.), which tend to command higher prices than generic sativa, indica and hybrid alternatives.

This tendency to seek out specific strains may also indicate that men consider themselves more knowledgeable about cannabis, since they seem to know what they want. However, this may simply reflect a deeper social bias influenced by traditional gender norms, where men are more likely to state that they are experts on a given subject relative to women.

Women are more brand loyal than men.

False. Women are less brand loyal than men. In Brightfield's survey of Canadian cannabis consumers, 61% of men reported loyalty toward a brand, compared to just 37% of women. In another survey of US CBD consumers, brand was the second lowest driver of a cannabis purchase for women, with 48% saying they consider brand in their decision, compared to 61% of men. Headset data shows that women are, however, more likely to purchase brands that intentionally appeal to female needs and interests such as lower potency, light flavors, corporate social responsibility and certain female celebrities. The evidence suggests brands may drive higher loyalty among female consumers by emphasizing features they value in a consistent, authentic way.

Women are less likely than men to use cannabis.

True. for now. Today women make up about one-third of the cannabis consumer population. One in three shoppers entering a dispensary are women. However, female consumers spent nearly 30% more than last year on cannabis and are growing at a faster rate (9 points higher) than male consumers. Misunderstanding the unique preferences and demands of women cannabis users could be a costly mistake.

Women prefer low potency or micro-dosed products.

True. Headset data on THC content per serving is most robust for beverages compared to other categories. In both California and Colorado, the two largest US cannabis markets, women tend to choose low potency beverages more often than men.

Women are more likely to consume cannabis for health and wellness reasons (sleep, anxiety, pain) than men.

True. Brightfield's survey of US cannabis consumers shows that women use cannabis more often than men to treat anxiety (53% vs. 29%), depression (36% vs. 25%) and insomnia (22% vs. 9%). There are notable difference in time of consumption as well, with 77% of women using "right before bed," compared to 67% of men. This finding is consistent across the Canadian cannabis and US CBD markets as well. Women are significantly more likely than men to treat anxiety, sleep, depression and pain/inflammation with CBD.

Women are more likely to prefer CBD products.

True. Female cannabis consumers in both the US and Canada over-index on products that contain CBD (THC or CBD-only), and the gap is even more pronounced in the US (64% of women vs. 47% of men).

Women use cannabis less frequently than men and spend less than men on cannabis products.

Inconclusive. Women made fewer trips to purchase cannabis than men in 2020. However, women generally spent more per trip than their male counterparts across the four major markets analyzed. Female shoppers tend to spend \$2-\$3 more per trip than men, but they spend about \$2 less per item than men. Furthermore, discount rates are fairly consistent across both genders. From a purely economic standpoint, the female audience is a valuable consumer segment for any brand or retailer.

OVERALL CONSIDERATIONS

- Women are an important and growing segment of cannabis consumers. They already represent over 30% of the market and are growing more rapidly than male consumers. Any strategy that deliberately targets only men will miss out on a major part of the market.
- It is critical to not treat women consumers as a monolith consumer block. The Headset data, for example, shows significant differences in consumption preferences by generation. When planning strategy to reach women, it is essential to be more granular in your product development, targeting, and messaging. Go deep in understanding your segment's preferences.
- Consider the size of generational cohorts. While Gen Z women are enthusiastic consumers, they also represent a small percent of the total female (and overall cannabis) market as they are aging into cannabis legality. It's unlikely that a brand could achieve significant scale exclusively targeting this age cohort.
- Additionally, consider the life cycle of the women that you are targeting. Women's preference for certain product forms, such as edibles, may reflect the need for discretion, especially for women with children at home.

- Older women significantly over-index for health and wellness formats such as tinctures and topicals. Any brand focused on this group of women should strongly consider these product formats.
- Don't neglect inhalable products though, especially if targeting younger females. For example, Gen Z women are significantly more likely to purchase concentrates than other generations, showing a distinct preference for this product form.
- The Headset data indicates that women are less likely to purchase strain specific products. This may be, in part, because they don't consider themselves to be "experts" in cannabis. Because many women do not consider themselves to be experts about cannabis, it is likely that many women will respond positively to brands that provide education and information on cannabis without being condescending. Headset's beverage information suggests that women are likely to be more interested than men in micro-dosed options. Female focused product lines should include at least one or more micro-dosed options. Again, micro-dosing preferences may be related to life cycle realities including the need for discretion and control when taking care of family.
- Extensive consumer research information supports that anxiety, sleep and depression are three primary uses for cannabis. Formulations that focus on these conditions are likely to find a strong following with women.
- Women show strong interest in products that include CBD, which again, can be helpful for specific health and wellness needs. Women focused brands should consider a range of THC/CBD ratio products within their product portfolios.
- Both industry consumer research and anecdotal information finds that many women find the dispensary experience uninviting. Enhancing the dispensary experience and providing better cannabis education outside of dispensaries may attract more women into the category and drive higher consumption frequency. Dispensaries are also brands and should consider the preference of female shoppers when designing and staffing their stores. One example of a more inclusive strategy is Giving Tree Dispensary in Phoenix who designed their store to encourage browsing, more visual and olfactory access to the products, and increased interaction with budtenders.
- Brand and retail strategies should consider implications for diverse groups and audiences in addition to gender.

BRAND/PRODUCT STRATEGY OPTIONS

The implications of the data discussed above should be taken under consideration by any brand seeking to attract female customers. Beyond identifying the overall implications of actual data on women and cannabis, this paper addresses brand and product development strategies that lead to successful, sustainable women-focused brands.

The fact that relatively few products are focused on women does not necessarily imply that women are being consciously or unconsciously neglected. In fact, there are also relatively few products on the market that have overtly male positioning.

In this section, we will look at three different models for reaching women cannabis consumers including:

1. Products that are gender neutral. They are not specifically targeted for women (or men for that matter) but they also don't alienate either gender.
2. Products that are generic in nature, such as chocolate or vapes, but are packaged and branded to appeal to women.
3. Products that are formulated and/or marketed specifically for women's needs.

Any of these strategies has the potential to be successful however, they each have specific pros and cons. Additionally, the fact that cannabis can only be sold through licensed outlets adds another layer of complexity. Most cannabis is sold through dispensaries and therefore, any discussion of gender in product and brand development must include the ability to gain shelf space.

OPTION I: GENDER NEUTRAL PRODUCTS

This category includes the brands that shoot for a middle ground that is comfortable for all genders. A review of the major brands

on the market indicates that most top brands fall into this category.

Examples of Brands Using this Strategy



WANA BRANDS

Wana's products are gender neutral with packaging that is designed to look clean and professional without specifically focused on men or women.



KIVA

Like Wana, Kiva also has designed its packaging and offerings to appeal to both men and women.

As the Headset data shows, both brands show fairly balanced sales between male and female cannabis consumer indicating that they are able to effectively reach both genders with their approach.

PROS AND CONS OF OPTION I

Pros: The biggest advantage of this approach is that it provides a brand with the largest possible audience by not specifically targeting either men or women. This minimizes the possibility that a dispensary will rule out a brand or product as being too niche.

Cons: Products that don't overtly target women are not likely to immediately attract the attention of female consumers. They are missing out on the opportunity to gain a strong following among women.

Action Items: As the fact that most of the top brands fall into this category attests, this can be a very effective business strategy but, if the goal is to reach women, possible refinements to this strategy would include:

- Heavily feature women in marketing, especially advertising and social media
- Position some of the product attributes as particularly appropriate for women based on data regarding women's tendency for various health and wellness issues (e.g. promoting products with a higher CBD content to women as an option for treating anxiety and depression)

- Use female influencers
- Provide at least one lower potency option as one of the offerings
- Use gender neutral package design
- Ensure that training for budtenders includes product/brand attributes that are appealing to women and encourage dispensaries to create women-friendly environments

GENERIC PRODUCTS

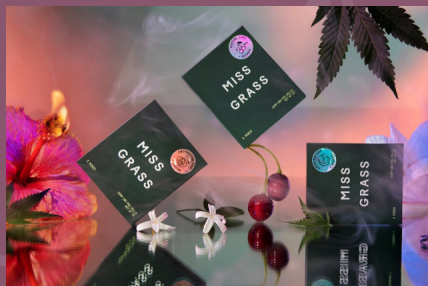
In this option, brands use packaging, marketing, and branding strategies to take gender neutral products such as chocolate or pre-rolls and target them to women through the use of a "female-friendly" look and feel.

Using this Strategy



THE GARDEN SOCIETY CHOCOLATES AND MINI PRE-ROLLS

With floral packaging and home parties for women to try their products, The Garden Society has developed a female-focused brand with non-gender differentiated products such as chocolate and pre-rolls.

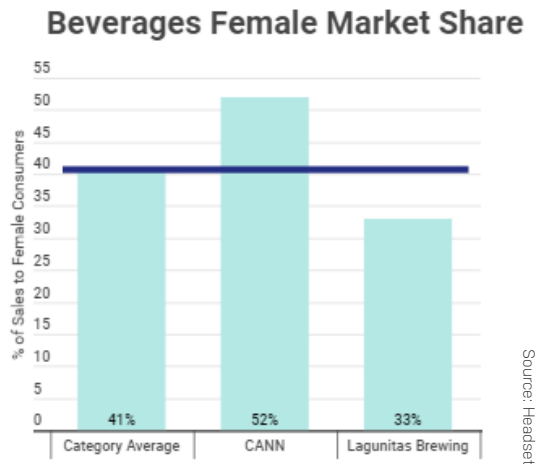
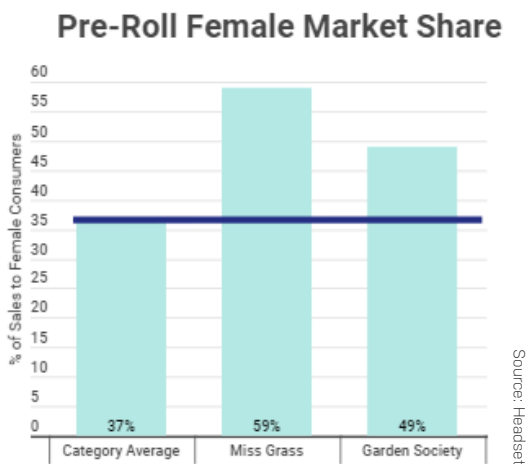


MISS GRASS

Miss Grass is a CBD and cannabis brand. While there is nothing specifically female oriented about its products, everything from its name to its floral themed marketing to its "women only" merch, such as botanically printed panties, demonstrates that Miss Grass is unabashedly focused on female consumers.

OPTION II GENDER MIX IN PRE-ROLLS

OPTION II GENDER MIX IN BEVERAGES



The first graph above demonstrates that both Garden Society and Miss Grass have successfully attracted women consumers simply through marketing approaches aimed specifically at women even though their products are not gender specific.

The second graph shows the impact of Option II in the beverage category. Comparing Cann and Lagunitas demonstrates that subtle shifts in product coupled with targeted marketing can have significant impacts on gender mix. Cann uses the hard seltzer format, a low dosage formulation coupled with a prominent female spokesperson (Gwyneth Paltrow) and a softer visual brand to create a brand that over-indexes for women, while Lagunitas created a de-alcoholized beer and more male oriented marketing to over-index for men.



ROAM VAPE ESCAPES

A third example of an Option II brand is Roam. Roam's travel-themed vapes are overtly female-focused in both packaging and flavoring. Founder Hema Patel, quoted in Forbes noted "I wanted to create a brand that spoke to women on their terms, that was tailored for their lifestyles and preferences in approachable and simple ways."

PROS AND CONS OF OPTION II

Pros: This approach doesn't require any special formulation for women's health and wellness needs. It is clear about its target audience and enables the brand to focus exclusively on the female market.

Cons: By going for an overtly female positioning, brands are potentially limiting their ability to appeal to male cannabis consumers who comprise over 50% of the market. While the female market is large enough and robust enough in terms of cannabis usage to support female focused brands, it assumes that most women care about having products that are positioned for women. It's likely that many women don't care as long as a more generic product is not offensive or positioned specifically for men which may make it harder to scale the brand.

Action Items:

- Be "all in" in terms of targeting women; don't try to pivot to an Option I approach in marketing
- Understand the gaps in the dispensary experience and encourage dispensaries to create environments that are more appealing and comfortable for women

- Sell with data to buyers to make a case on women's preferences and the size of the market opportunity
- Develop a media plan that focuses on women for a differentiated media strategy; consider non-endemic media to specifically target women
- Gear entire "go to market" strategy to appeal to women
- Consider issues of diversity
- Ensure that your brand "walks the walk"; make sure your leadership and product development teams include people who are representative of women's needs and perspectives

OPTION III: PRODUCTS FORMULATED FOR WOMEN-SPECIFIC NEEDS AND USE CASES

Brands employing this strategy are directly linking their formulations and/or the benefits of cannabis to specific health and wellness issues for women. These range from breast and ovarian cancer, menopause, endometriosis, and polycystic ovarian syndrome to anxiety and sleep.

Examples of Brands Using this Strategy



BLISSIVA

Blissiva is a female focused brand that describes itself as "developing cannabis-infused products specifically designed for the anatomy and power of the female body and mind."



QUIM

Quim focuses on vaginal cannabis products. According to their web sites, their products address vaginal health issues such as yeast infections and urinary tract infections as well as products to enhance sexual experiences.

PROS AND CONS OF OPTION III

Pros: Highly targeted and unmistakably focused on women. This enables clarity in messaging and the ability to identify and execute on female specific marketing initiatives

Cons: The "pros" of this approach are also the "cons." The combination of the products being only for women and, in many cases, use case specific, makes the products very niche. This may make it difficult to "sell" to dispensaries who are looking for high velocity products to put on the shelves.

Action Items:

- Brands that are looking to create Option III products should be prepared to sell with data. Dispensaries must evaluate the product in the light of actual information on the size of the market for various uses
- Learn from mainstream female product lines and brands in terms of how to position and market products
- Per the data, women express some discomfort in shopping in dispensaries. That discomfort is likely to be exacerbated if women need to talk with budtenders who are often young males about menstrual cramps or other personal health concerns. Consequently, brands pursuing this strategy need to focus on business to consumer marketing approaches so that women can drive demand and ask for the products that they want
- Brands should recommend that dispensaries should try to match budtender and customer demographics

- Brands would also do well to explore home delivery options in markets where that is available to provide another alternative to dispensary shopping.

CONCLUSION

Women represent one-third of the cannabis consumer population. Lots of data already exist to develop, execute, and support strategies for creating robust women-focused businesses. Use the data or risk creating weak and poorly supported strategies. If brands don't look specifically at women's needs and preferences, the tendency will default to a male perspective.

Reaching female cannabis consumers doesn't always mean focusing exclusively on women. With minor tweaks, a brand can become much more effective at selling to women. Authentic women-focused brands must have women in positions of influence and authority to create and market relevant products and marketing strategies. Ignoring this large market segment means a brand is leaving significant money on the table.

BUILDING NEW FOUNDATIONS IN THE CANNABIS INDUSTRY:

PRODUCT DEVELOPMENT AND BRANDING TOOLKIT

Women in Cannabis



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Females and Cannabis: Overview

Percent of Overall Sales from Females

32%

Average Item Price

\$21.30

\$1.99 lower than males

Amount Spent on Cannabis from Females YTD*

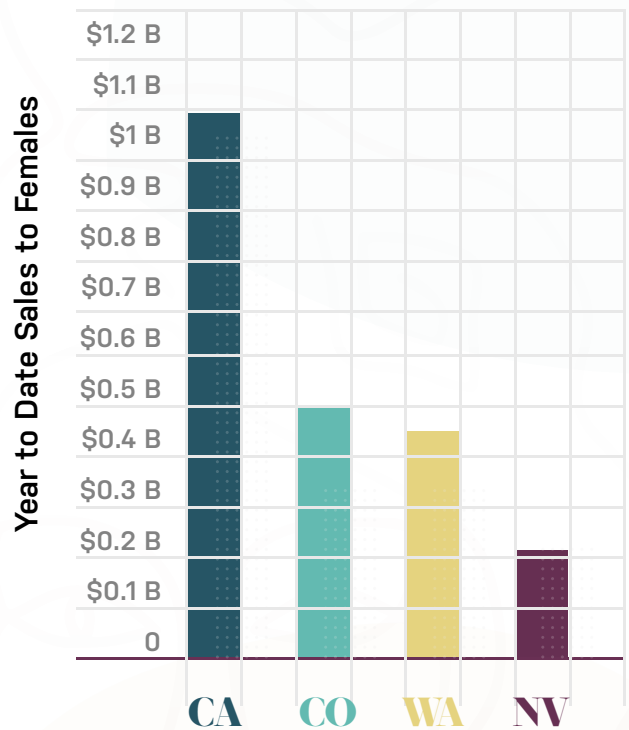
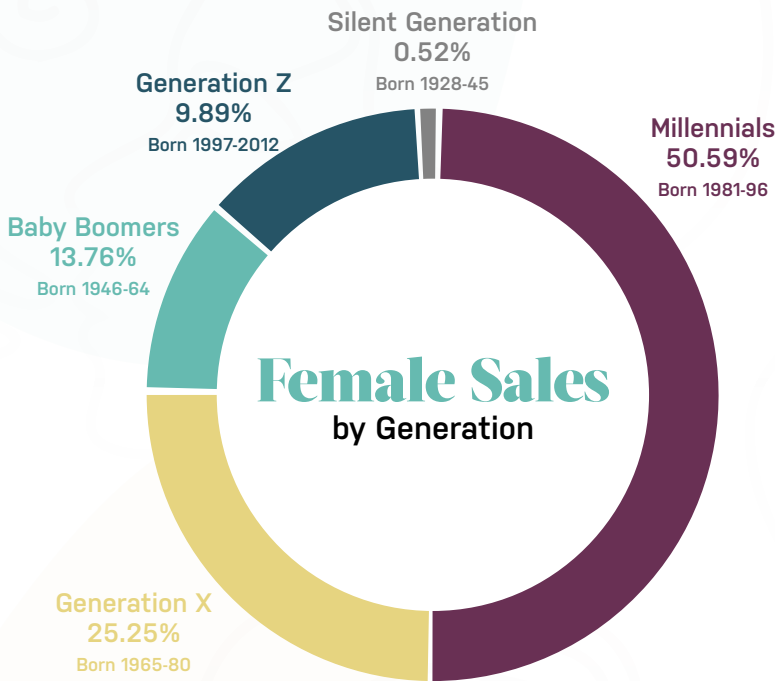
\$2,322 M

*within the following markets: CA, CO, NV, WA

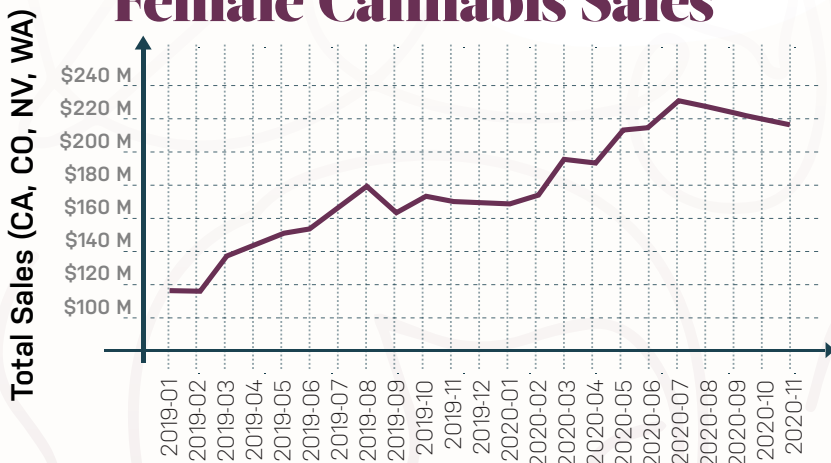
Year Over Year Growth (Nov 2020 vs. Nov 2019)

28%

9 percentage points higher than males growth (19%)



Female Cannabis Sales



Female consumers comprise roughly one-third of Adult Use cannabis sales in West Coast markets with sales growth out-pacing sales growth to male consumers YOY. Digging deeper into the demographic we see that about 50% cannabis sales to women were to Millennials. However, the group with the fastest growth is Generation Z. These consumers are just aging into the market and have grown from less than 5% of the market last year to nearly 10% today.

Females and Cannabis: Categories

Top Category
by % Sales

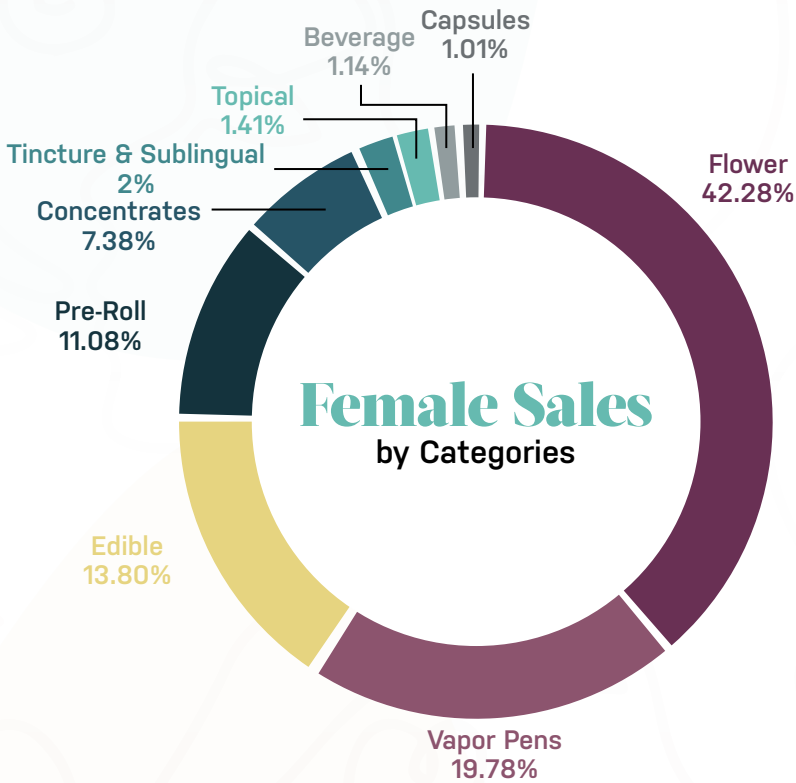
Flower

Most Over-Index
Category

Topicals

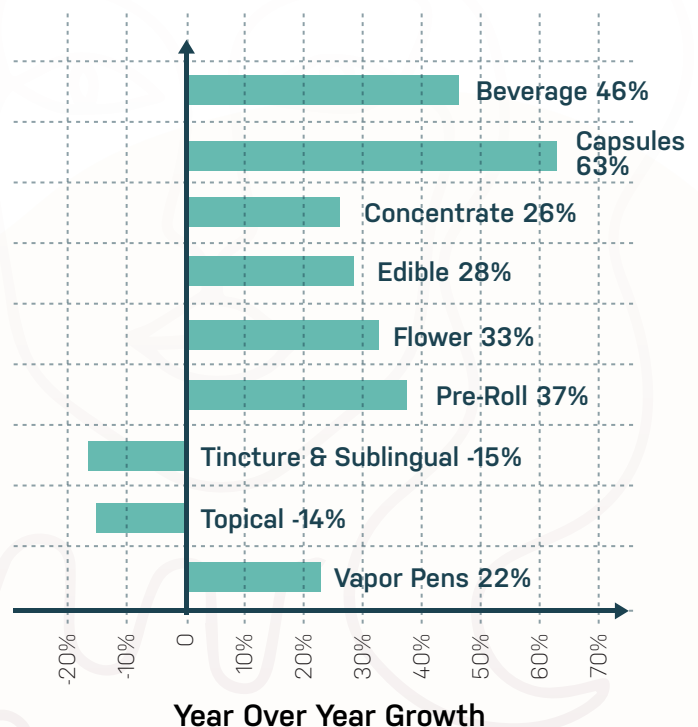
Category with the largest Year Over
Year Growth (Nov 2020 vs Nov 2019)

Capsules, 65% growth

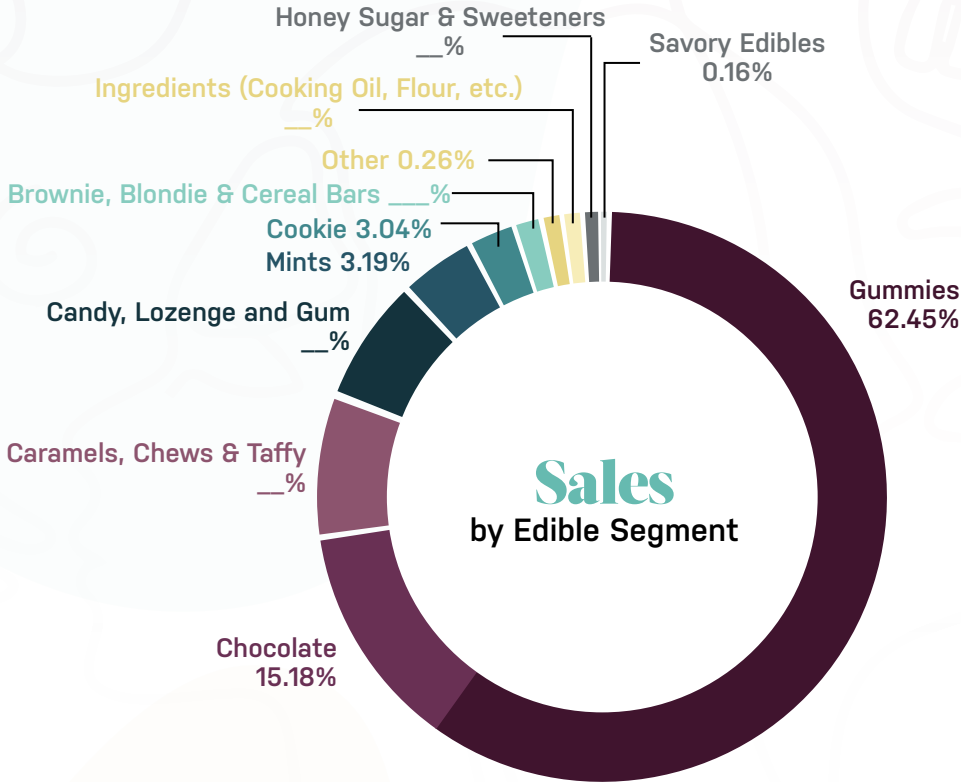


Category	Female Index	Male Index
Flower	91	104
Vapor Pens	101	100
Edible	127	87
Pre-Roll	112	94
Concentrates	83	108
Tincture & Sublingual	139	82
Topical	151	76
Beverage	119	91
Capsules	114	94

The top category for Female consumers was Flower, similar to their male counterparts (under-indexing at 91). Flower made up about 42% of their total cannabis wallet. Flower has been slowly edging up in market share over the last 12 months, this trend was exacerbated by Covid as consumers swapped some of the Vapor Pen and PreRoll spend to Flower. While women and men share the same top category not all category fare the same. Non-inhalable categories, in particular Topicals, Tinctures & Sublinguals, and Edibles over-index to female consumers the most. This means that female consumers spend more of their cannabis wallet on these categories than males (Index= Female Market(\$) Share:Male Market(\$) Share). Further, we find that Beverages, Pre-Rolls, and Capsules are growing fastest among female consumers.

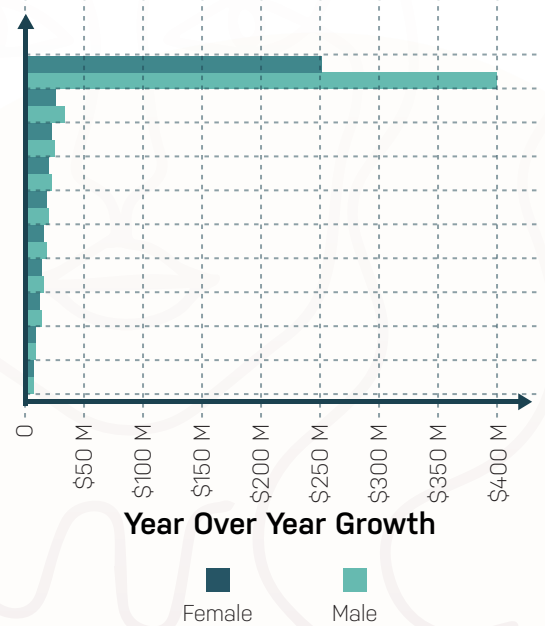


Females and Cannabis: Edibles Dive



Next we dig into edibles. Here we find that the largest segment share for women is gummies, however, women do not over-index in gummies. This means that share of gummies is very similar between women and men shoppers. Mints, cookies, and ingredients slightly under index female, while caramels, chews and taffy, candies, savory edibles, and honey, sugary and sweeteners over-index to women. In particular, in sweeteners we see honey sticks performing very well among women, though it is a very niche segment. Finally, we find that both women and men spend the largest portion of their wallet on 100mg packs. Women do however, over-index in small package sizes (those 50mg and smaller), especially when the products contain CBD as well as THC.

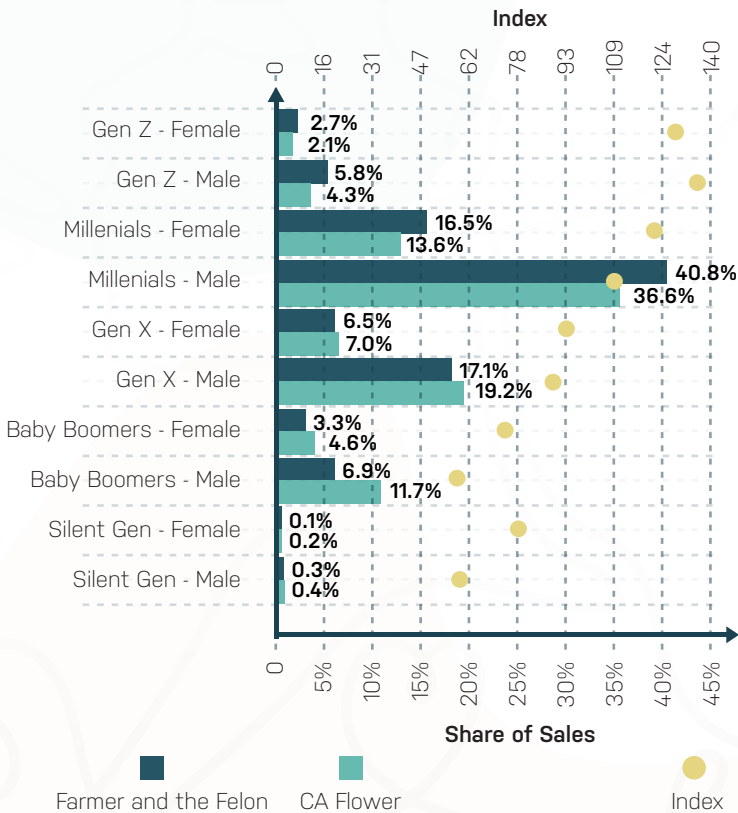
Edible Segments	Female Index	Male Index
Gummies	99	101
Chocolate	101	100
Caramels, Chews & Taffy	105	97
Candy, Lozenge and Gum	107	96
Mints	99	100
Cookie	91	106
Brownie, Blondie & Cereal Bars	102	99
Other	108	94
Ingredients (Cooking Oil, Flour, etc.)	86	110
Honey Sugar & Sweeteners	120	86
Savory Edibles	118	88



Females and Cannabis: California Brands

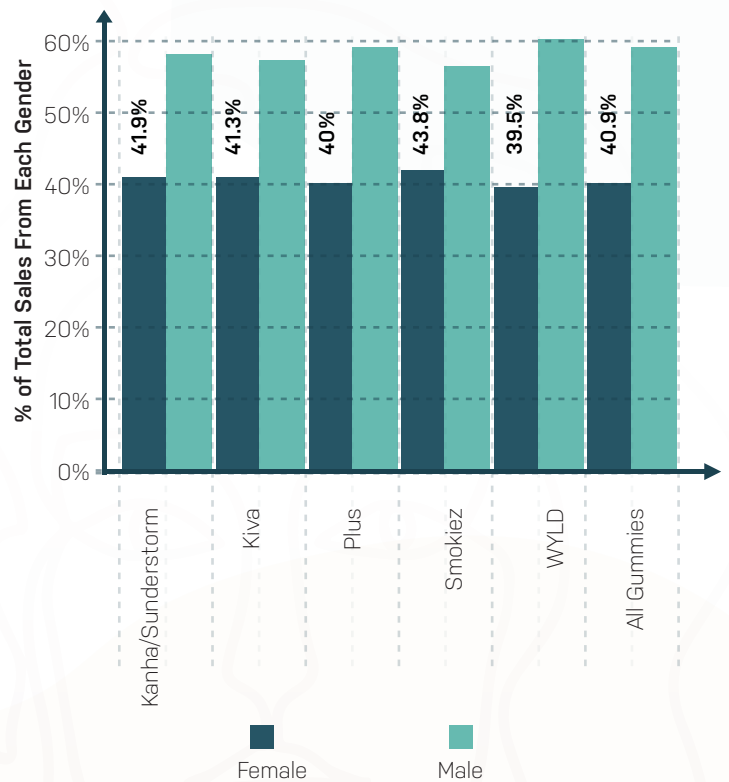
FLOWER BRAND ANALYSIS

Farmer and the Felon is a brand that over-indexes Female



EDIBLE BRAND ANALYSIS

Smokiez sees the largest sales share from women in The Top Gummy Brands



Here we compare to Female spent on Flower (the most popular category among men and women) to Female spend on a single Brand, Cannacraft's Farmer and the Felon. FATF overindexes in both the Millennial and Gen Z age groups, indicating that the brand is resonating most with younger customers. Except for Gen Z, females within each generation have a higher index than males - indicating that brand does better with female customers than with males across most age groups.

Here we compare top Gummy brands in the state of CA and find that Smokiez appears to have the highest % dollar share to female consumers with 43.8% of their sales from women. In contrast, Wyld sees the smallest portion of sales dollars from women with only 39.5%.