

A WINNING STRATEGY: **Optimizing Pricing and Products for your Shoppers**

Kelly E. Nielsen

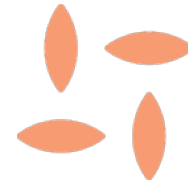
Vice President Insights & Analytics

**BDSA provides a
complete view of the
Global Cannabinoid
Market of today and
tomorrow.**



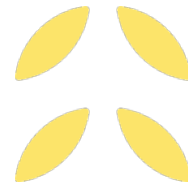
Retail Sales Tracking

Know exactly what is selling where, when, and at what price point



Market Forecasts

Gain a comprehensive understanding of market size and future opportunity



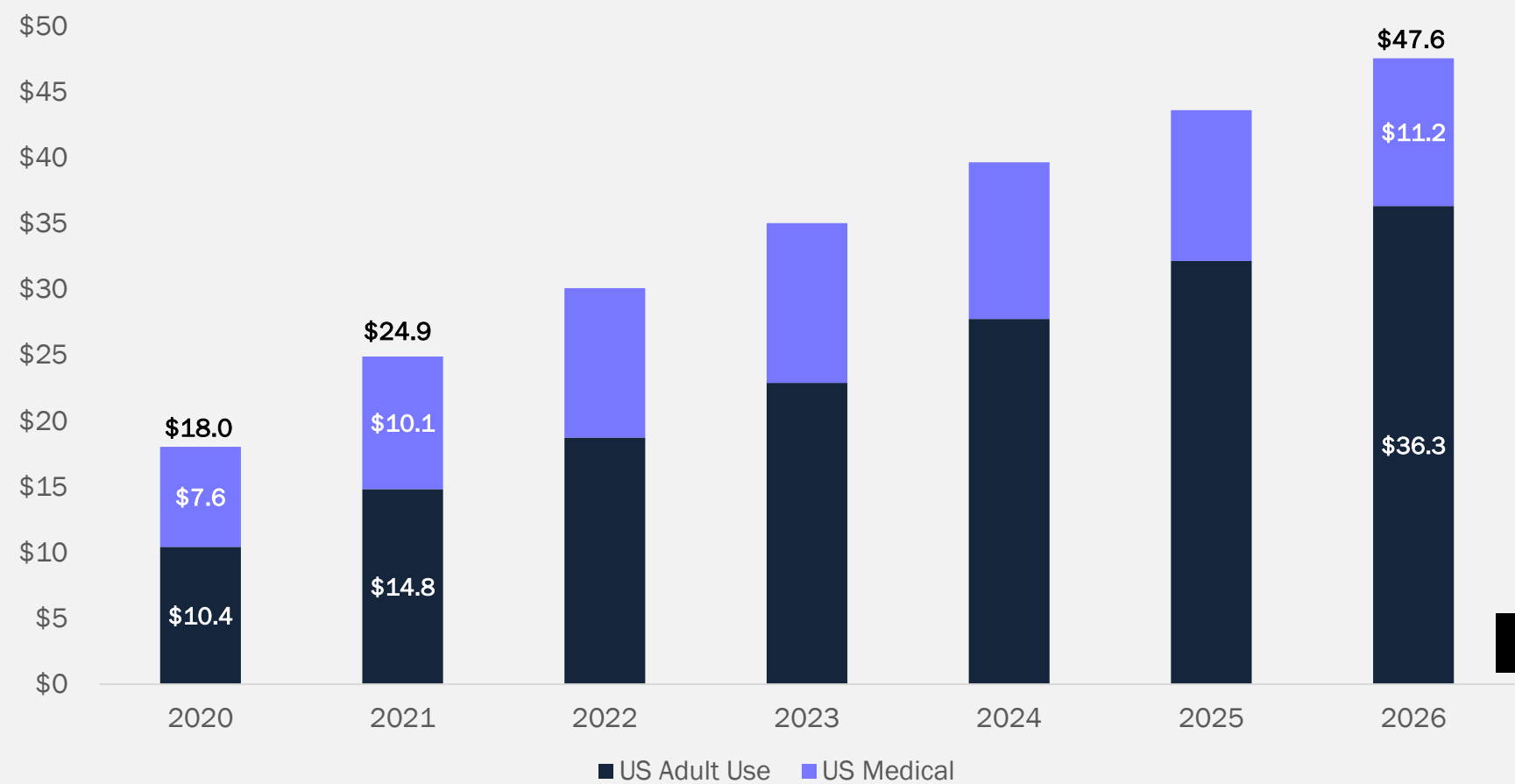
Consumer Insights

Understand consumer (and non-consumer) segments, size, behavior, consumption patterns, purchase habits, and more

QUICK RECAP: STATE OF THE INDUSTRY

2021 US MARKET SHOWING STRONG GROWTH DRIVEN BY ADULT USE

BDSA US Legal Cannabis Forecast (USD, Billions)



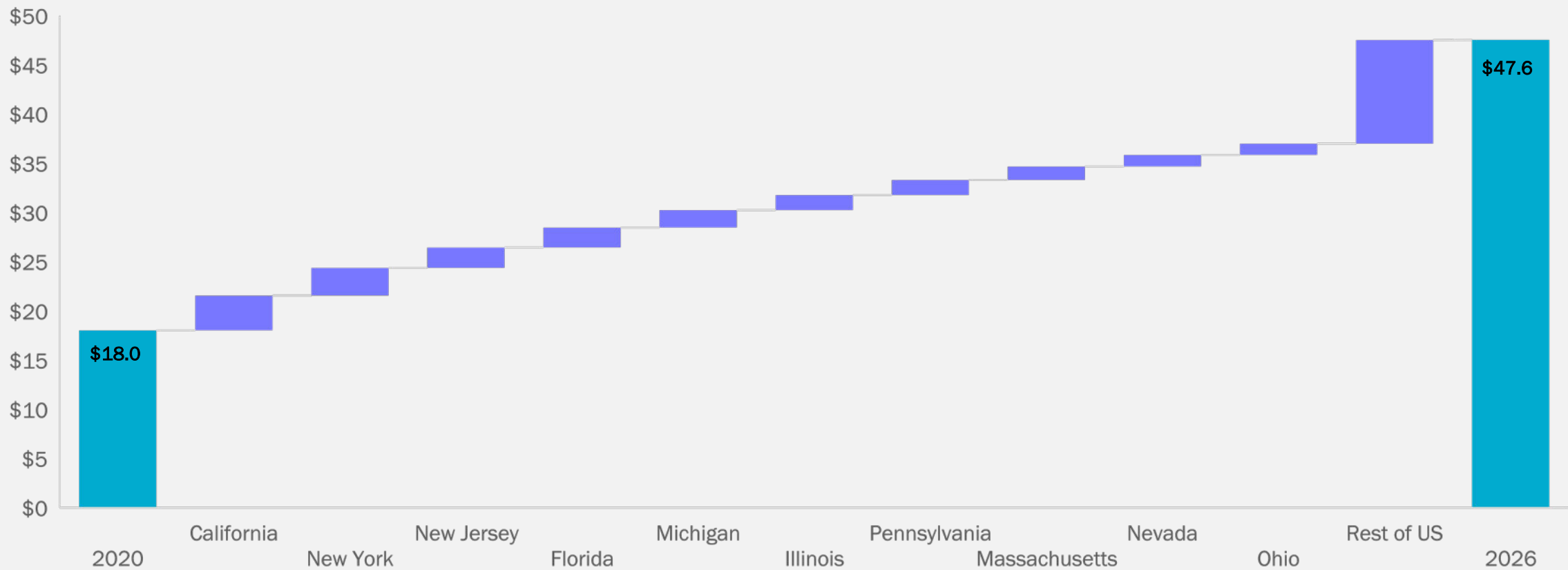
BDSA Top 2026 US Markets

- 1. California
- 2. Colorado
- 3. Florida
- 4. New York
- 5. Michigan

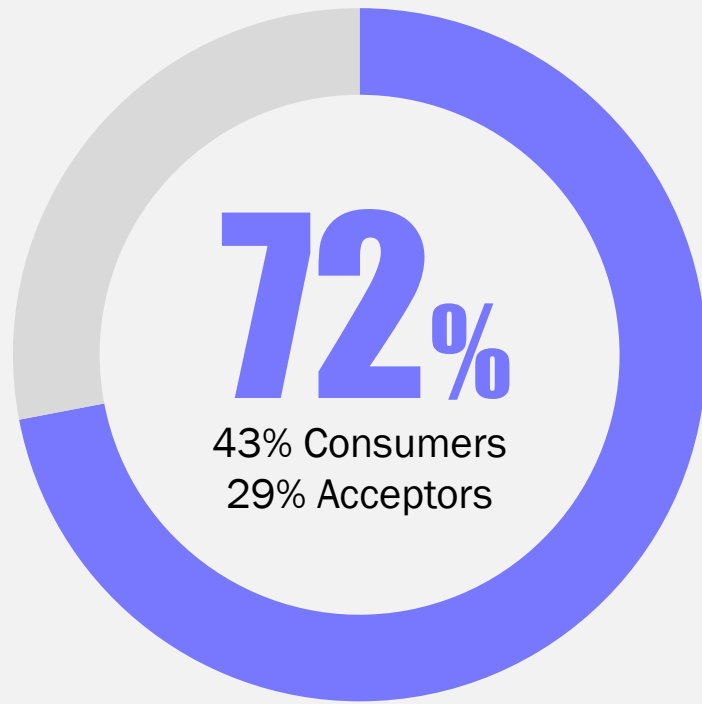
'21 – '27 CAGR: 14%

EXISTING, NEW, AND EMERGING MARKETS WILL CONTINUE TO DRIVE LEGAL SALES GROWTH

BDSA US Legal Cannabis Forecast (USD, Billions)



IN FULLY-LEGAL STATES, ~THREE-QUARTERS OF ADULTS ARE “BOUGHT IN” TO CONSUMING



Up from 63% in 1H 2018
32% Consumers
31% Acceptors

...of adults 21+ in fully legal U.S. states consume cannabis or are open to consuming cannabis

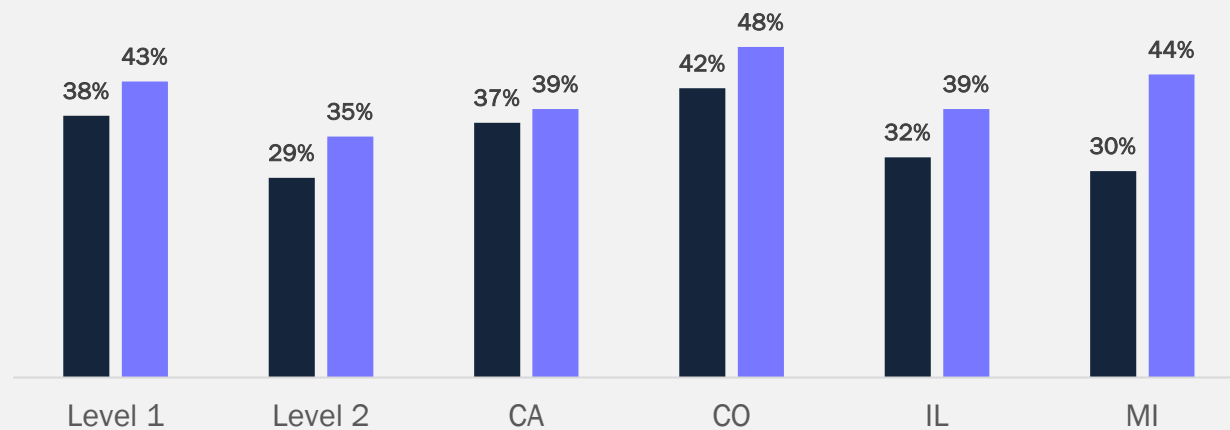
28% are Rejecters
(would not consider in the future)

*Source: BDSA Consumer Insights H1 2021

CONSUMER PENETRATION CONTINUES TO EXPAND ACROSS THE BOARD, MANY NEW TO CANNABIS

Past 6 Month Consumer Penetration

■ 2H 2019 ■ 1H 2021

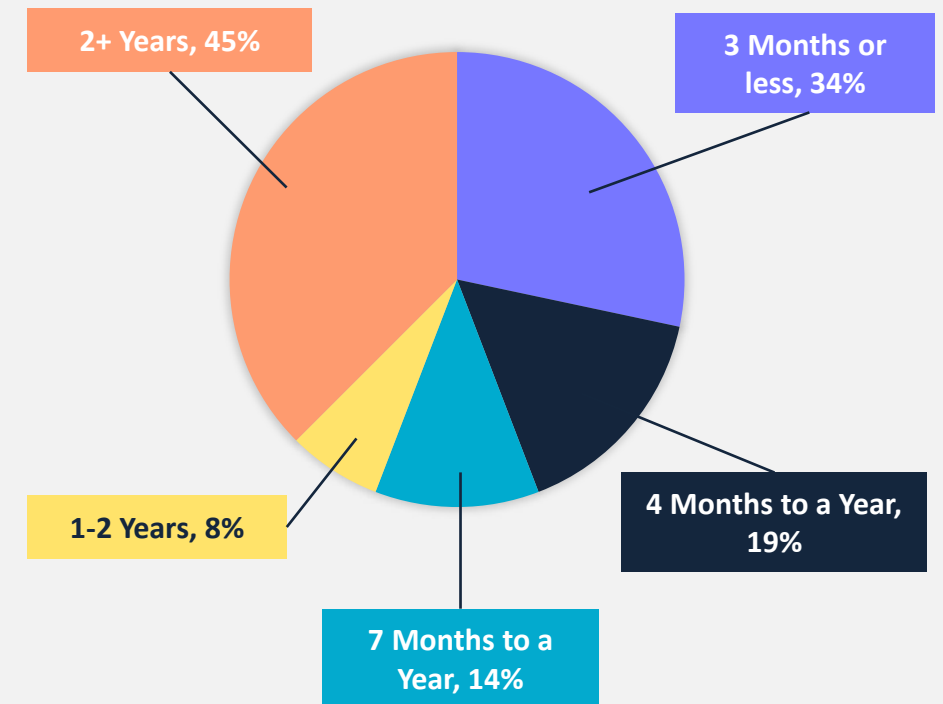


IMPORTANT BDSA CONSUMER INSIGHTS TERMINOLOGY:

Consumer: Adult who has consumed cannabis in the past 6 months
Level 1: Aggregate of fully legal adult-use states
Level 2: Aggregate of medically legal states

Length of Cannabis Consumption

Among Past Six-Month Consumers

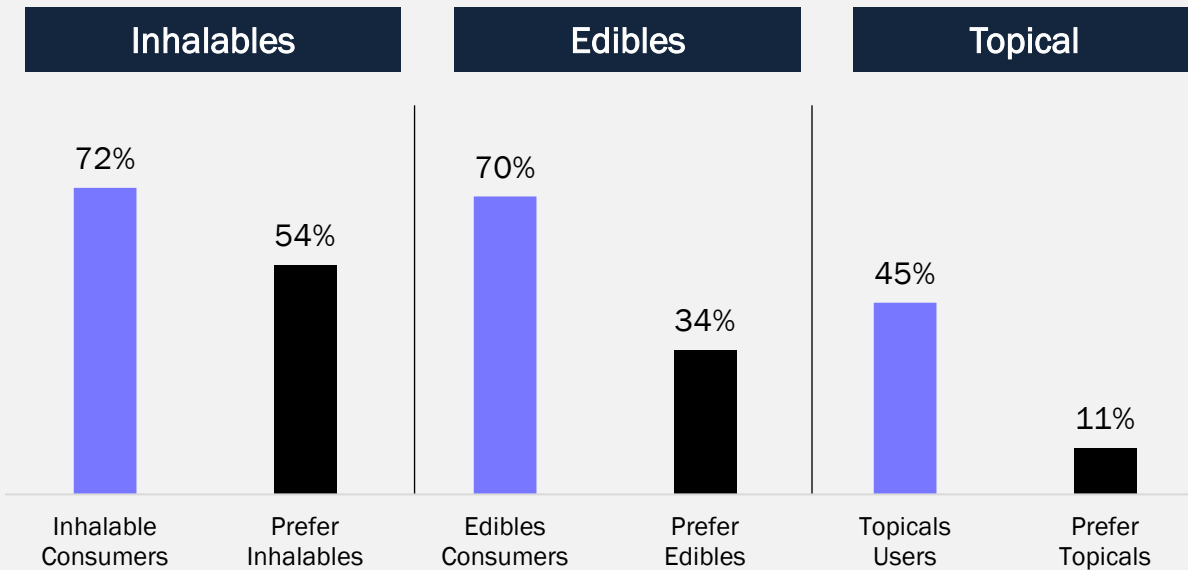


*Source: BDSA Consumer Insights H1 2021

INHALABLES MOST PREFERRED AND MOST FREQUENT USAGE (BUT FREQUENCY OF OTHER FORMS INCREASING)

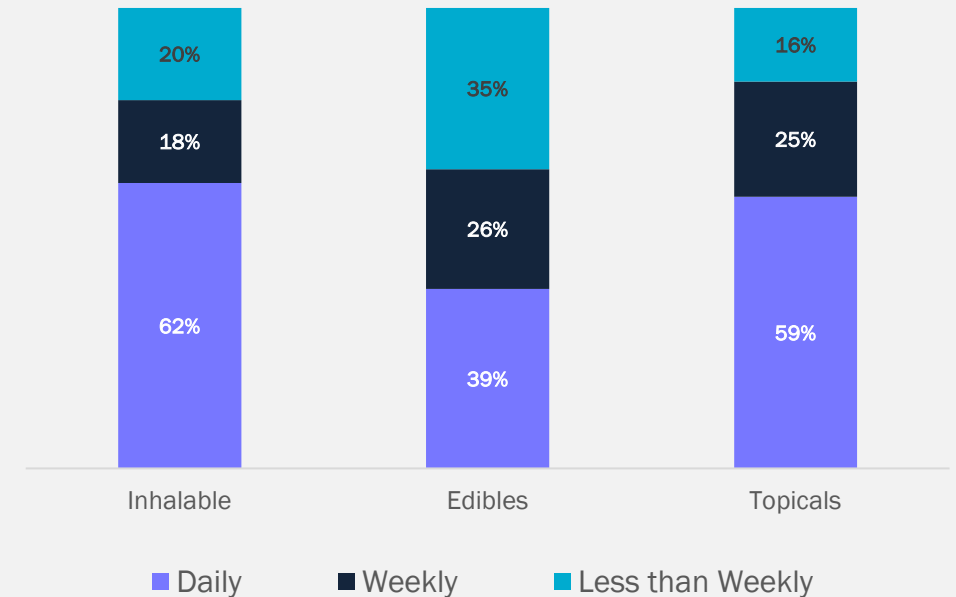
% Who Consume & Prefer Categories

(among US consumers in fully-legal markets)



Frequency of Consumption/Usage

(among US consumers in fully-legal markets)



*Source: BDSA Consumer Insights, H1 2021

DEVELOP A STRATEGY FOR SUCCESS

MAXIMIZE YOUR DISPENSARY POTENTIAL

1. Understand differences by location: no market (or city!) is the same
2. Know your customer and put them at the center
3. Drive traffic & basket size for growth
 - Retain customers and bring in new shoppers
 - Optimize your assortment for basket expansion
4. Price and promote with purpose: the right product, at the right price, at the right time
5. Understand brand importance, and how it will evolve



#1

UNDERSTAND DIFFERENCES ACROSS LOCATION

Drivers of product choice differ across markets

Top 10 Influencers of Product Choice, by Market

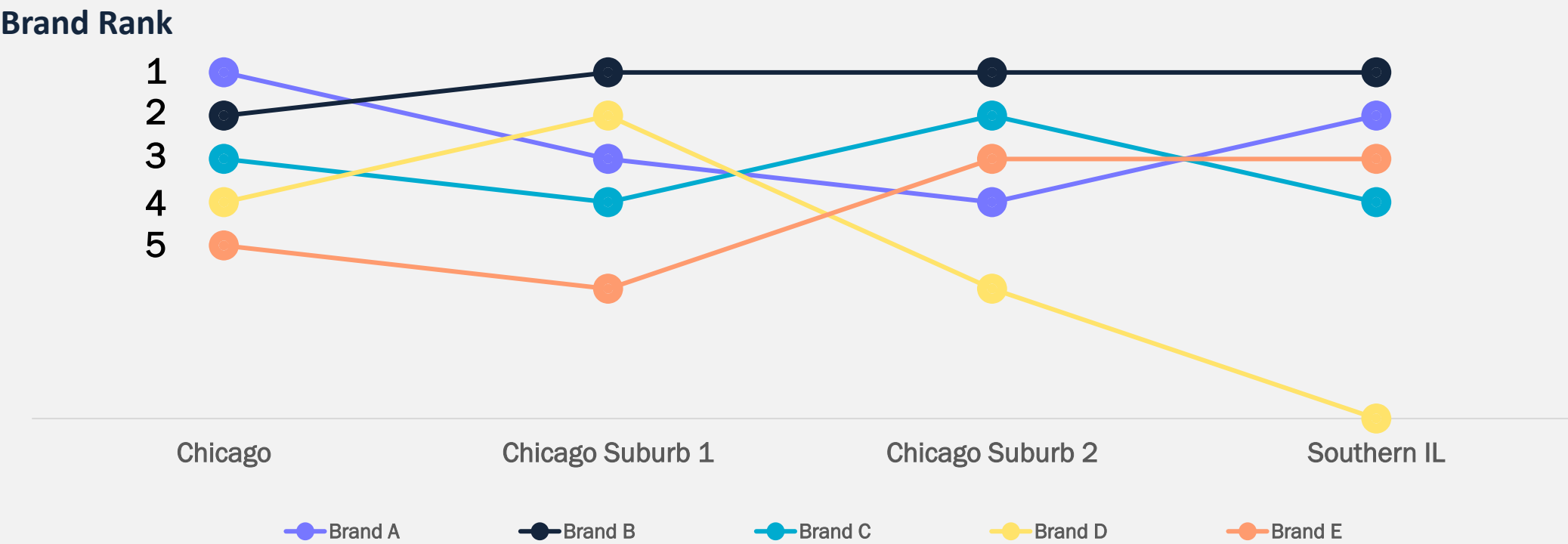
(among dispensary shoppers)

RANK	CALIFORNIA	COLORADO	NEW YORK
1	Taste or flavor	Taste or flavor	Brand I've used before
2	High THC content	High THC content	Product format I've used before
3	Brand I've used before	Low price	Natural ingredients
4	Low price	Brand I've used before	Taste or flavor
5	High CBD content	Strain/class I've used before	Organic
6	Quality, premium packaging	Budtender rec.	High CBD content
7	Reputation of the brand	Coupons, sales or discounts	Quality, premium packaging
8	Convenience of consumption	Aroma	High THC content
9	Mood or effect labeling	Organic	Mood or effect labeling
10	Budtender rec.	Convenience of consumption	Dr./pharmacist/health worker rec.

TOP BRAND AND PRODUCT IMPORTANCE CAN DIFFER ACROSS STORES EVEN WITHIN THE SAME STATE & MANAGEMENT

BDSA Retail Sales Tracking Dollars Sales Brand Rank

(with single management in Illinois)



THESE PATTERNS CAN PROVIDE INSIGHT INTO PRICE TIERS AND PREFERENCE PATTERNS

Store Transaction Average \$/Unit vs. Total Arizona Market

Vs. Total AZ Average \$/unit by category

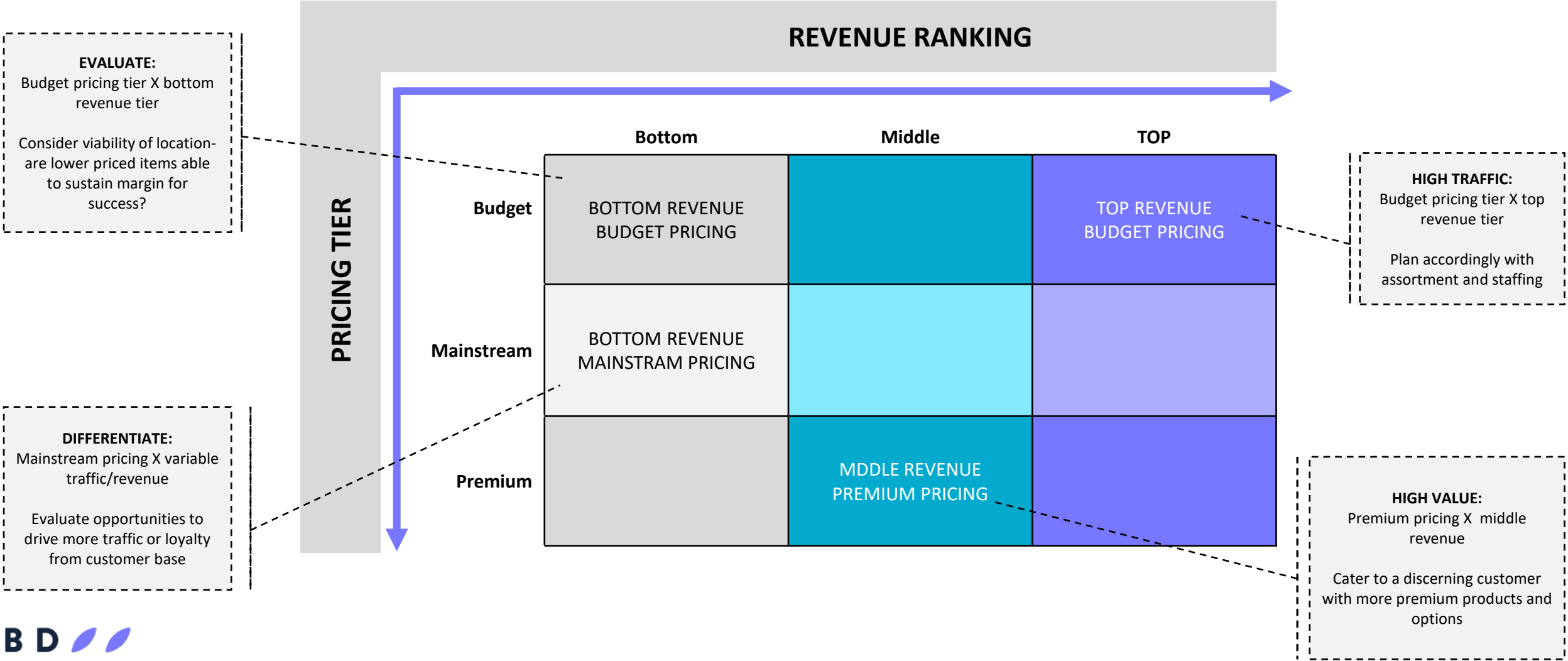
T	Top Third	M	Middle Third	B	Bottom Third
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Average Pricing per Category

	\$/Unit vs. Total Arizona Transactions					Overall Pricing Tier
	Ingestibles	Dabbable Concentrates	Vape	Flower	Pre-Rolled	
Store A	B	B	B	B	B	Budget
Store B	T	M	T	T	M	Premium
Store C	M	B	M	B	B	Budget
Store D	M	B	M	M	B	Mainstream
Store E	B	M	M	M	B	Mainstream
Store F	T	M	T	T	B	Premium

Higher \$/unit implies premium pricing for this specific category

STRATEGIZE BASED DIFFERENCES ACROSS STORES



#2

KNOW YOUR SHOPPER AND PUT THEM AT THE CENTER

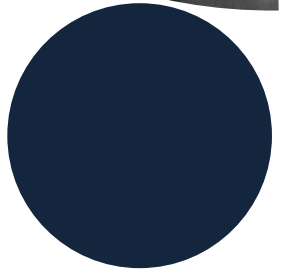
What's important and what will differentiate?

Understand who makes up majority of your volume

Who is it most important to appeal to as your “table stake”

Act on differences across your stores and versus the competition

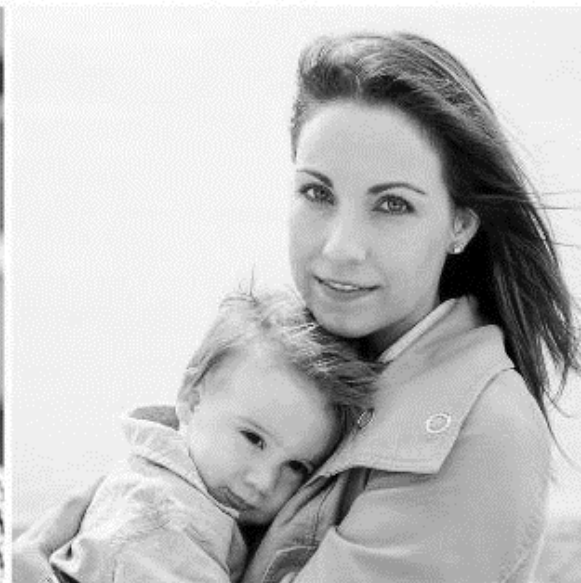
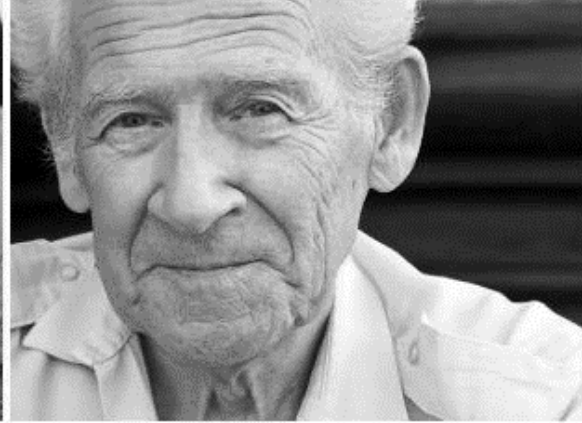
Allows you to differentiate and tailor strategy across locations and versus competition



THERE IS NO ONE CANNABIS CONSUMER

Cannabis Consumers Span:

- Generations
- Gender
- Socio & Economic Backgrounds
- Motivations
- Need States
- Benefits
- Premium / Luxury / Economy

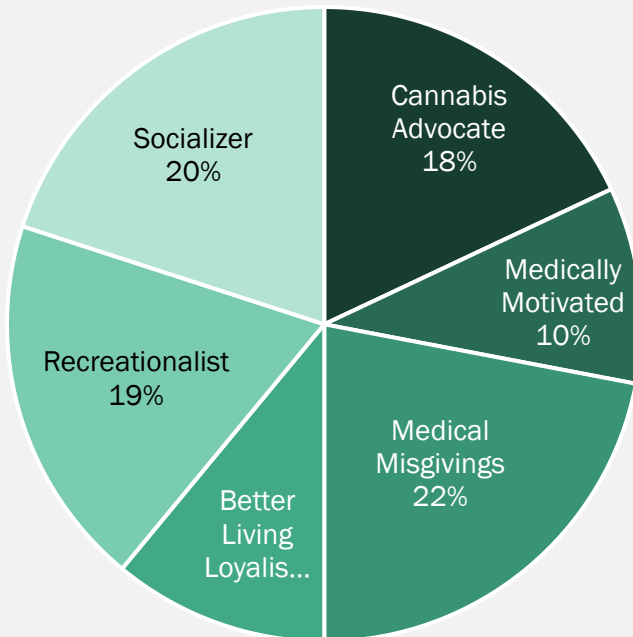


BDSA'S CONSUMER SEGMENTATION

BDSA input Lifestyle Attitudes and Attitudes
Toward Cannabis into...

...a statistical analysis grouping “like-minded”
people based on shared attitudes, resulting in...

TOTAL UNITED STATES



Medical Misgivings

Recent adopter who consumes for general health and wellness; willing to try new products and spend on quality

Socializer

Infrequent user in social settings; relies on recommendations

Recreationalist

Consume for recreational and social reasons; infrequent purchaser; more likely to inhale-price sensitive

Cannabis Advocate

Cannabis plays role in overall health & wellness; consume frequently; open to new products and spend on quality

Better Living Loyalist

Advocate for full legalization; consume for recreational and health and wellness; frequent purchaser

Medically Motivated

Medical focused consumer and does NOT consume for recreational purposes

+ 4 Non-Consumer Segments

*Source: BDSA Consumer Insights H1 2021

CUSTOMIZE YOUR STORE-LEVEL STRATEGY TO THAT STORE SHOPPER

Consumer Segment Distribution by Retail Location, Index vs. All AZ Transactions

	Cannabis Advocate	Medically Motivated	Medical Misgivings	Better Living Loyalist	Recreationalist	Socializer
TOTAL ARIZONA	29%	8%	17%	13%	16%	17%
Store A	74	132	97	122	107	108
Store B	90	89	131	53	67	158
Store C	80	95	162	66	81	118
Store D	81	116	97	131	88	115
Store E	102	106	87	67	80	150

Majority Segment

Underperforming

Key stakeholder
across all stores

Differentiator:

Target greater
penetration

Store A

Store B & C

Stores A & D

AND differentiator

How to Act:

Target messaging around
product quality and
benefits

Have dedicated
assortment for those with
medical needs

Carry more **topical**
products for this group

Higher new adopter
penetration provides
opportunity to **educate**
build relationships

Where possible, **drive**
loyalty among this strong
advocate

Provide **education &**
recommendations to tailor
consumption beyond social

*Source: BDSA Arizona Transaction Analysis Consumer Segmentation Coding H2 2020

#3

DRIVE TRAFFIC & BASKET SIZE FOR GROWTH



Retain & Drive Traffic

- More frequency
- More shoppers



Drive Basket Size

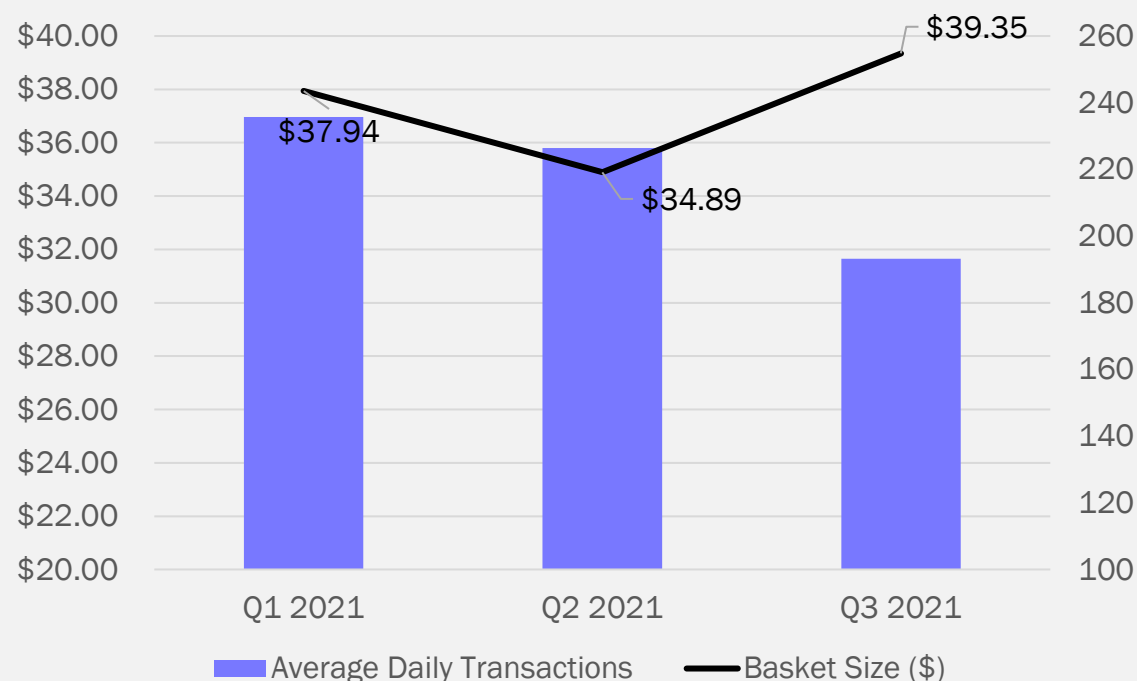
- More units
- Higher price points



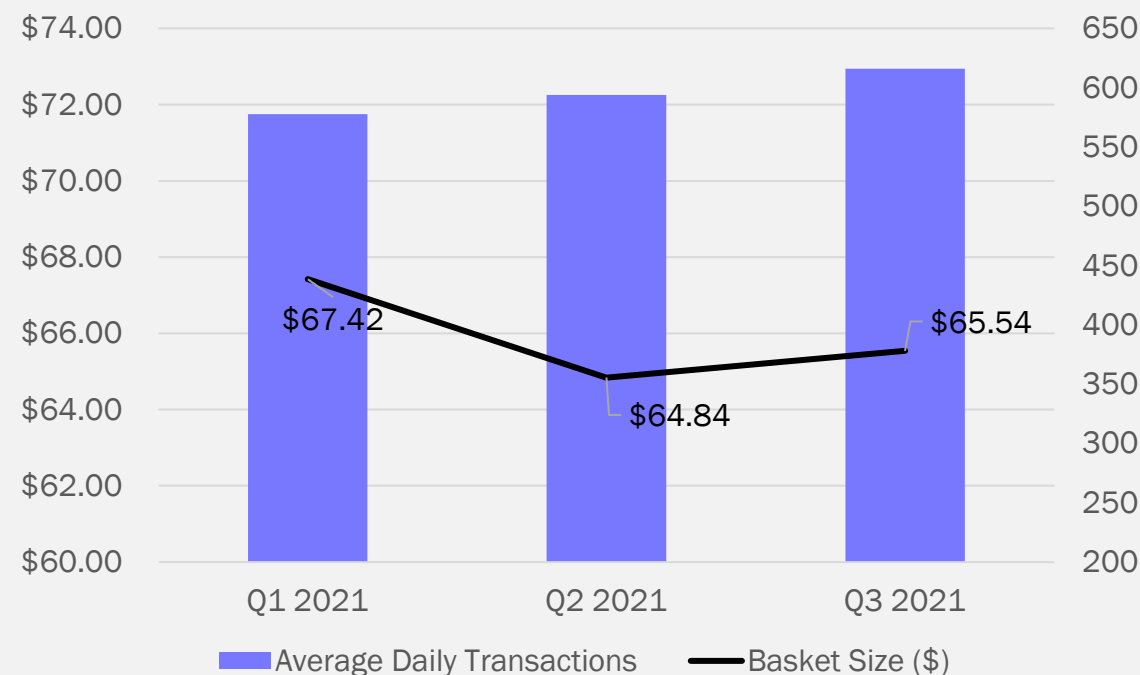
IDENTIFY WHERE VOLUME IS COMING FROM AND HOW IT IS SHIFTING

BDSA Basket Analytics: Average Daily Transactions & Basket Size (\$)

Colorado Q1 2021- August 2021

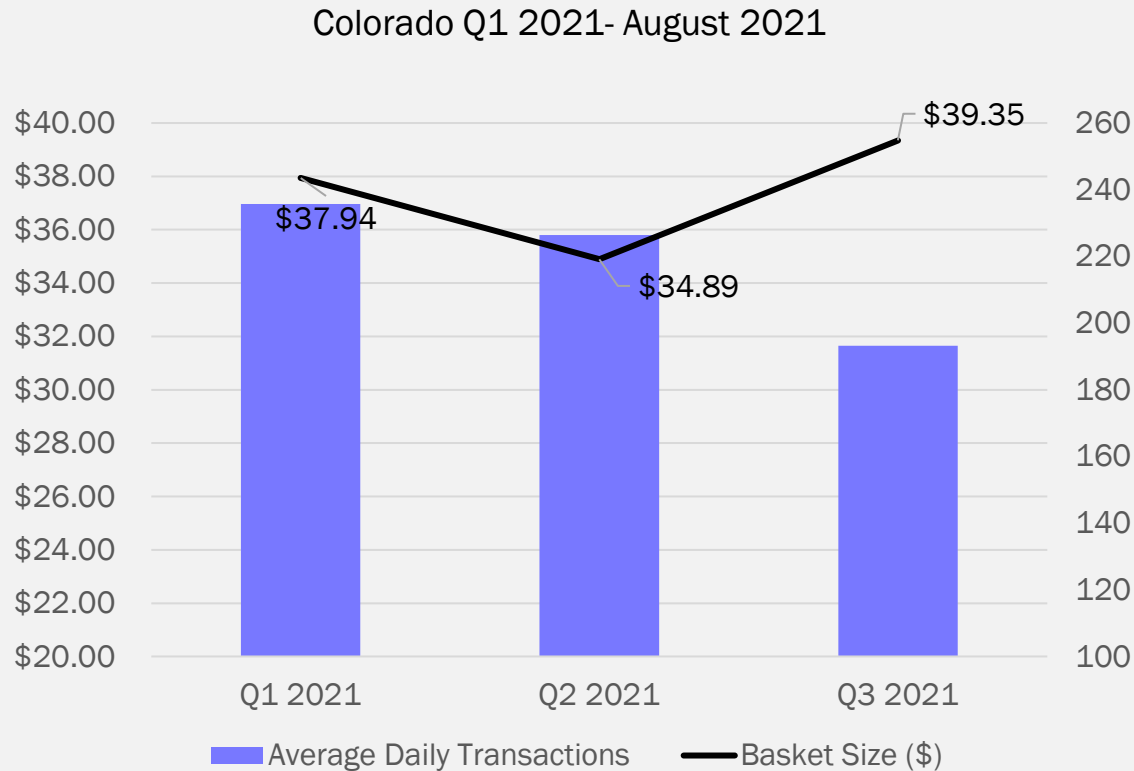


Illinois Q1 2021- August 2021



TO TAILOR STRATEGY BASED ON THE ENVIRONMENT

BDSA Basket Analytics: Average Daily Transactions & Basket Size (\$)



Q3 vs. Q2...

Average Daily Transactions	-16%
Average Basket Dollar Amount	+13%
Average Number of items	+7%
Average Price per Item	+6%

If you are a retailer....

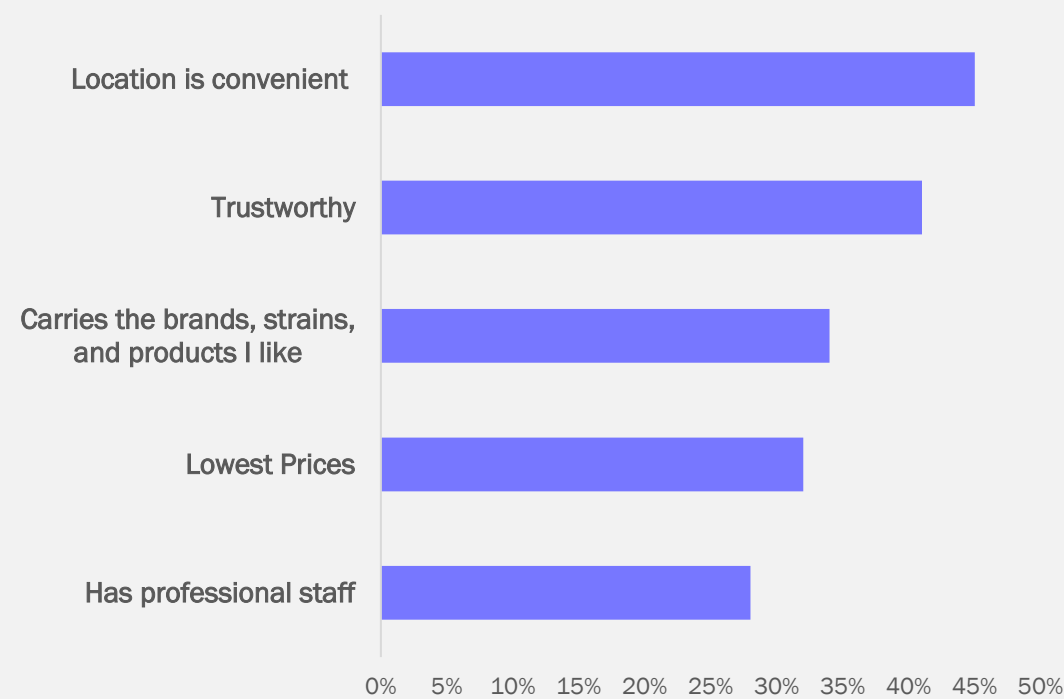
Bring shoppers to [your store](#)

Tactics to [drive basket size and quantity](#) to offset likely decline in transactions driven by seasonality

GETTING (AND KEEPING) SHOPPERS IN THE DOOR: CONVENIENCE IS KEY

TOP 5: Which of the following are important when choosing where to shop?

(among in US consumers in fully-legal markets)



TOP 5: Differentiators among Consumers who shop at single management vs. cross shop

Case Study Example

- Ability to reserve online
- Wait time
- Accessibility
- Ability to find desired product
- Knowledgeable staff

UNDERSTANDING WHAT MATTERS IN PRODUCT CHOICE

Top 10 Influencers of Product Choice)

(among dispensary shoppers in US consumers in fully-legal markets)



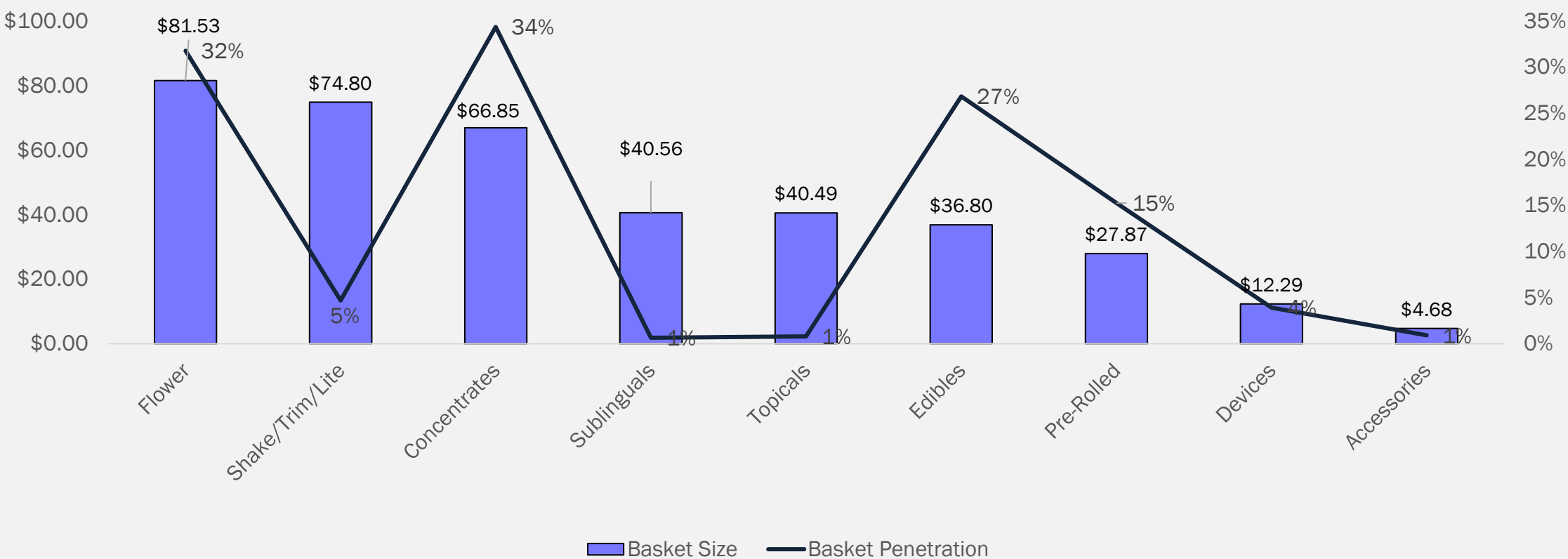
Particularly important among...



*Source: BDSA Consumer Insights, Spring 2021

INFLUENCING BASKET SIZE AND FREQUENCY

BDSA Basket Analytics: Average Basket Size vs. Penetration by Category Illinois Jan-August 2021



EMERGING IN BASKETS: WHITESPACE AND PROMOTIONAL OPPORTUNITIES

BDSA Basket Analytics: Cross Category Basket Analysis Illinois Jan-August 2021

	Accessories	Concentrates	Edibles	Flower	Pre-Rolled	Sublinguals	Topicals
Accessories	100%	26%	23%	40%	33%	2%	1%
Concentrates	2%	100%	13%	19%	12%	1%	1%
Edibles	2%	21%	100%	20%	15%	2%	2%
Flower	2%	15%	10%	100%	12%	1%	0%
Pre-Rolled	3%	17%	14%	22%	100%	1%	1%
Sublinguals	2%	19%	35%	17%	11%	100%	6%
Topicals	2%	18%	31%	16%	12%	7%	100%

If you are a retailer....

Identify the **right assortment** & have the right products on hand

Develop **cross-category promo & shelving** opportunities

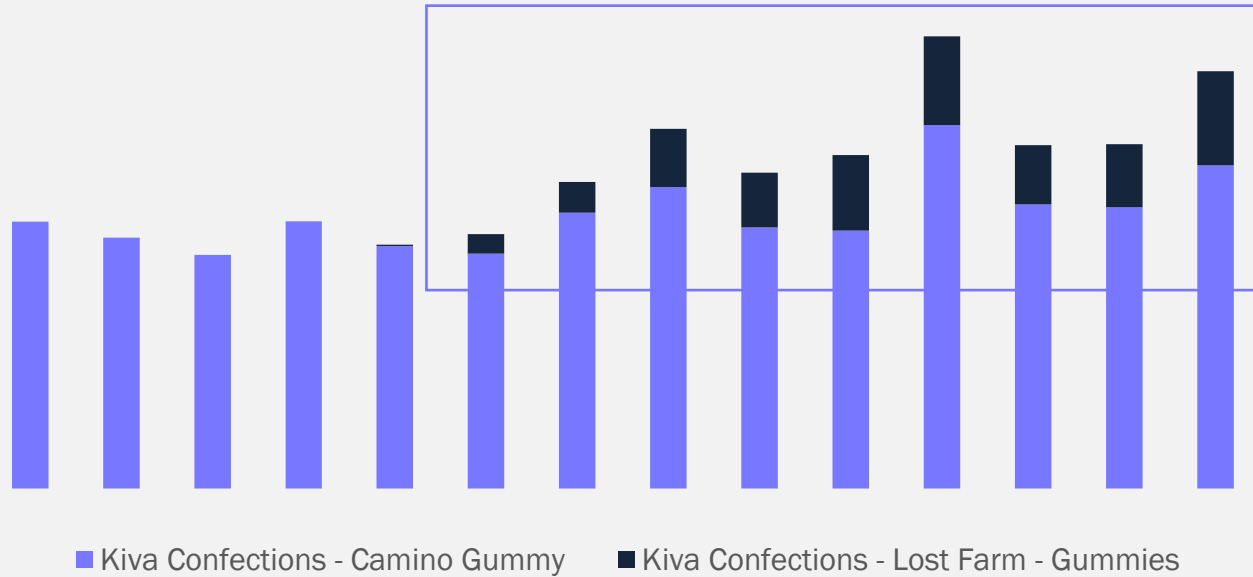
If you are a manufacturer....

Identify **white space & innovation** opportunities for expansion

Identify opportunity for cross promotion and **partnership** equity/awareness building

TO MAXIMIZE BASKETS AND ASSORTMENT, CONSIDER VELOCITY AND INCREMENTALITY

BDSA Retail Sales Tracking Dollar (\$) Sales: California



Consideration for assortment and line extensions

Velocity of a line extension *typically* **40-70%** of parent brand

To drive incrementality:

➤ Differentiated

➤ Relevant

PRICE WITH PURPOSE: UNDERSTAND IMPORTANCE AND DRIVERS

Pricing Matters

Consistently a **TOP 3** claimed driver of product choice, but willing to pay for relevant added benefits

*Source: Consumer Insights H1 2021

Be Prepared: Impact of Pickup & Online

More cross-dispensary price comparison:
online menus & shopping

*Source: BDSA Retail Sales Tracking

Rules of Economics Apply

BDSA Pricing Sensitivity Analysis: CA Edibles

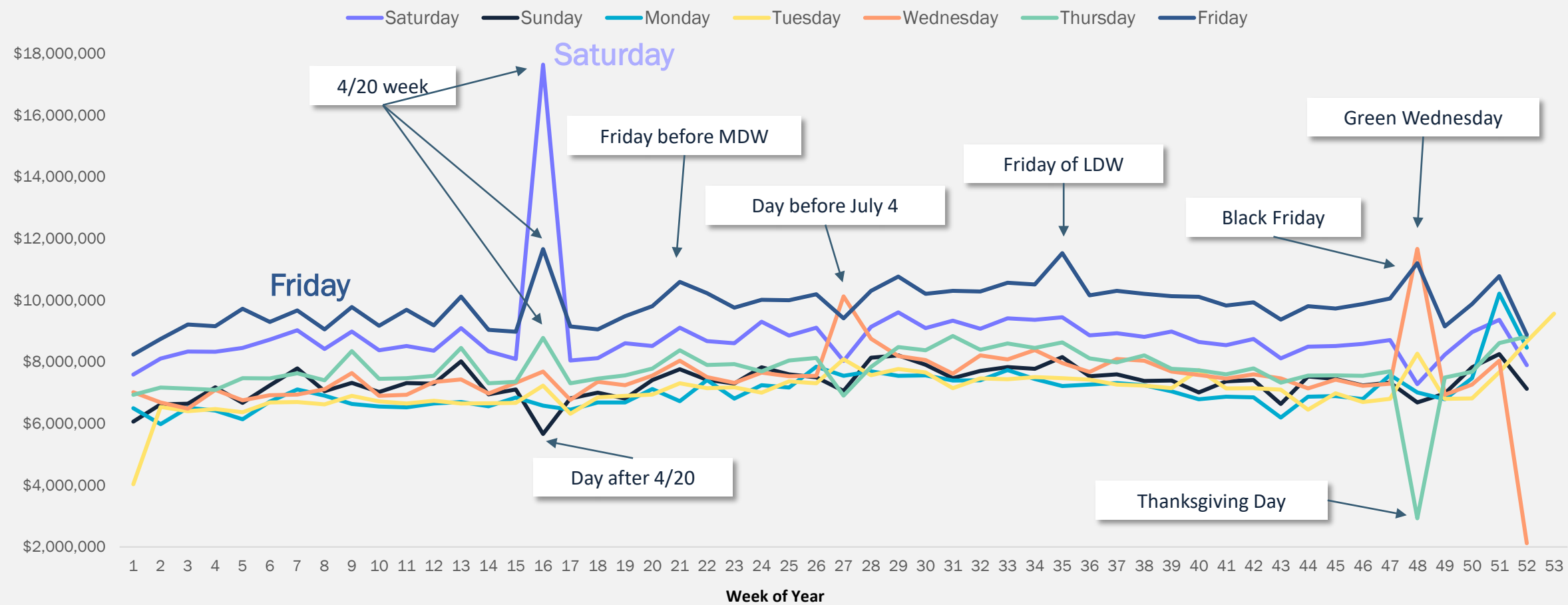


In an analysis of 10 price changes in 2019/2020, it was consistently found that unit volume increased as price decreased

*Source: BDSA Retail Sales Tracking

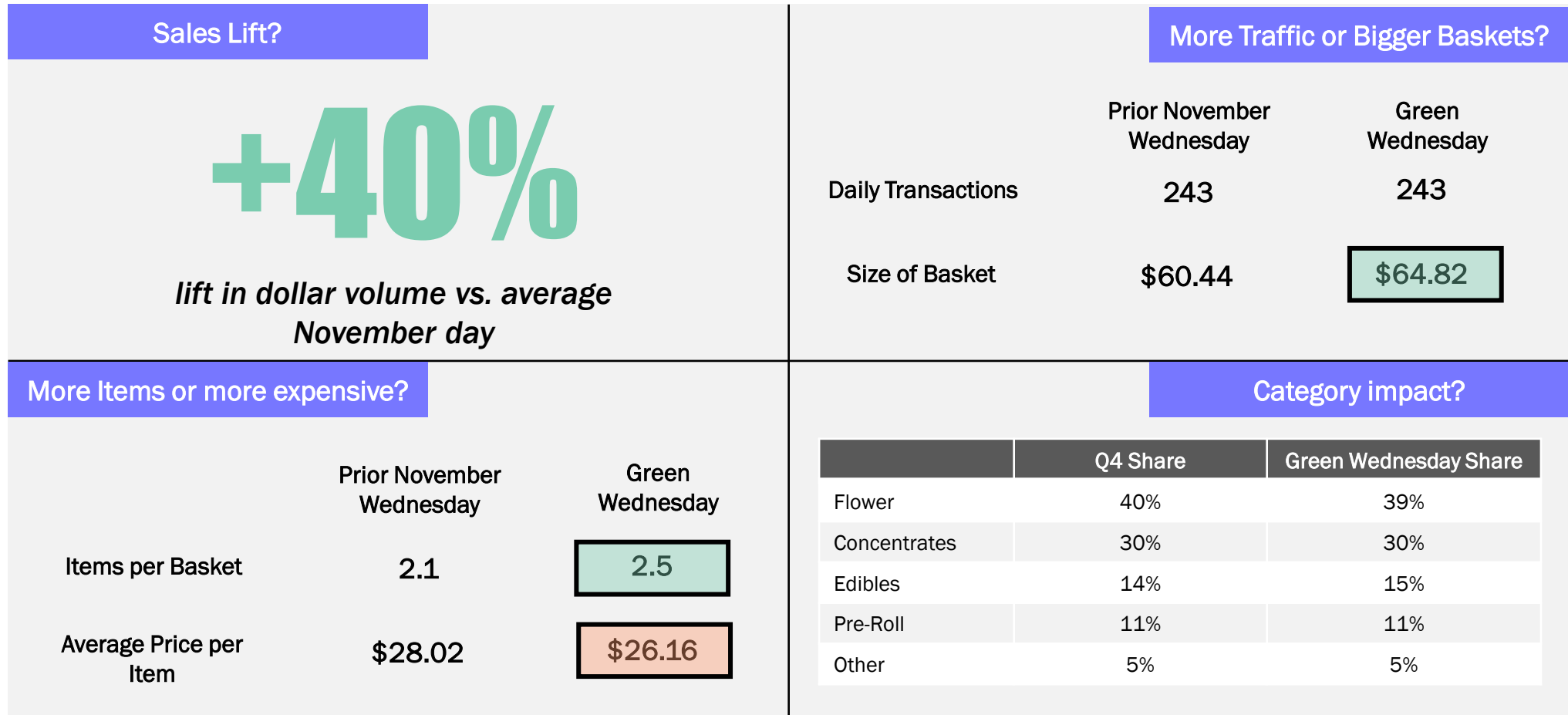
PROMOTE WHEN RELEVANT TO DRIVE GREATEST LIFT POTENTIAL

BDSA Retail Sales Tracking Dollar (\$) Sales: California 2019



A GREEN WEDNESDAY EXAMPLE: CALIFORNIA 2020

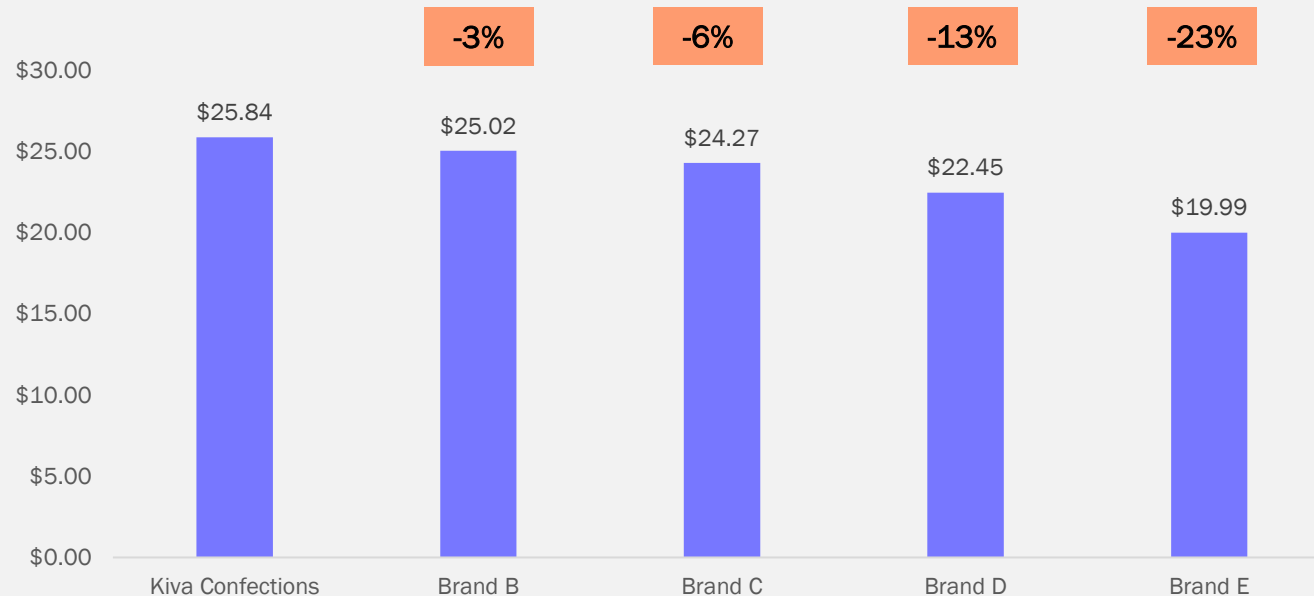
BDSA Retail Sales Tracking and Basket Analytics: California 2020



#5

UNDERSTAND BRANDS BRAND IMPORTANCE TODAY, AND HOW IT WILL EVOLVE

BDSA Basket Analytics
Average Basket Size when included (California Edibles)



Today

- Brand can tie a product back to a **good experience & trusted recommendation**
- Brand dominance does not **yet** exist in most markets, and brand rankings shift constantly

As Market Matures

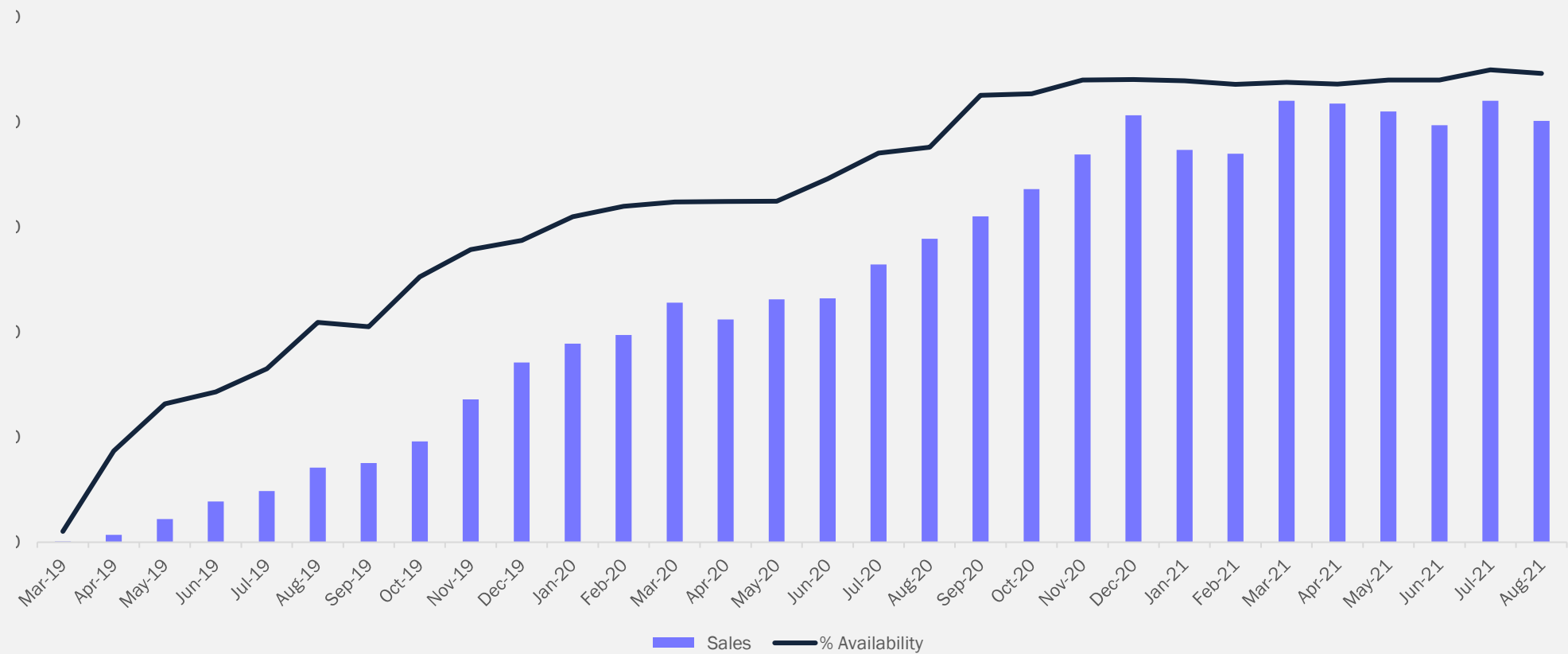
Tomorrow

- Expect more brand loyalty and purchasing on reputation

IT MATTERS TO THE BRANDS: DISTRIBUTION IS KEY

Brand availability is the number one driver of volume

Retail Sales Tracking Dollar (\$) Sales vs. Availability: Wyld Brand California



RECAP: MAXIMIZE YOUR DISPENSARY POTENTIAL

1. Understand differences by location: no market (or city!) is the same
2. Know your customer and put them at the center
3. Drive traffic & basket size for growth
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WHAT'S NEXT...



- Legalization explodes in the next year
- Innovation...
 - ... Will continue at an extremely rapid rate
 - ... Will become more sophisticated & targeted
 - ... Will incorporate new technologies & cannabinoids
- Consolidation Accelerates—the Big get Bigger

IT'S A NEW GAME. DATA. DEEPER.

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