Small Growers Or Corporate Cash Crop?

Published: Tuesday, 20 Apr 2010 | 12:01 AM ET
By: Trevor Cuwin, Special to CNBC.com

Key Points
Artisanal growers likely to dominate first. Different jurisdictions and laws challenge mass distribution. Years for agribusiness to ramp up.

If marijuana becomes legal for the average consumer, today's small growers may have more to learn from Starbucks' lifestyle branding than from the mass production of Kraft's Maxwell House.

In other words, producers may have to focus on "artisanal" handling and distribution to attract experienced consumers, instead of mass production for a huge new market.

Starbucks?
"The coffee analogy is dead-on, or maybe the Napa Valley wine model," says Dale Clare, executive chancellor of Oaksterdam University, an institution that trains entrepreneurs in legal marijuana distribution. Others say the micro-brewery model comes to mind.

"I think it's partly just a ritual thing, just like with lots of other substances, like coffee," says Harvard economics professor Jeffrey Miron, who has researched the marijuana industry extensively. "You don't want to just pop a pill, you like the whole idea of walking across the street...and ordering an espresso and going through the whole ritual."

While Oaksterdam's Clare calls it "the largest cash crop in California," numbers are hard to nail down. But in agricultural Mendocino County—one of three counties in California's "Emerald Triangle" of marijuana cultivation—local estimates put the crop at $1.5 billion of the county's total economic output of $2.3 billion in 2005. (See CNBC's market analysis and watch Marijuana Inc. to find out more about the marijuana business there.)

Legal commercial production in the U.S. is currently handled by a patchwork of small farmers. While there have been rumors for years of big agricultural firms buying up land ahead of legalization, it would still take time to develop a...
mass production product, and even more time to build a Maxwell House-like brand that would come to dominate that market.

But Miron adds eventually the market will grow.

"I think most of the market would be [artisanal], but you would certainly see these other things, as we do with existing legal products," he says.

Unlike coffee, a fragmented regulatory environment will also drive the distribution model. As with alcohol today, a pastiche of local, state and federal laws and regulation could mean any new distributor would have to adapt a mass-market product to micro-jurisdictions.

California's Plainview Systems LLC is using technology to bridge that gap, providing an online platform for the existing medical marijuana market to connect consumers with the producers.

Collectives And Cooperatives

"We connect growers to the patients and allow them to conduct business legally," says Plainview CEO John Lee, who bristles at the comparisons of his firm to being the "eBay of pot."

"[Concern for] patient anonymity is very high and transparency of the transaction is, as well," he says. "The reason these [dot-com] comparisons don't make sense is all of the regulation," he says, adding that he sees himself as a "mixture of a social network and a B2B solution."

Plainview currently has more than 30 marijuana collectives that use the online platform to meet and form. Lee's working on signing up existing dispensaries looking to expand beyond their brick-and-mortar operations. Dispensaries pay around $700 a year and $5 a patient on his platform; patients pay nothing for the service.

He argues it makes for a good economic model for "mom and pop" growers and distributors, given the significant startup costs of a typically run dispensary.

But if legalization down the road makes these dispensaries the equivalent of the local high-end coffee shop, they'll need to differentiate themselves.

"Some try to differentiate on price," says Lee. "But they do a lot of things to differentiate now, like offering holistic services or wellness advice."

Some test for molds and chemical composition to assure quality, a hallmark of the artisanal food movement.

But as dispensaries face their own challenges—local government crackdowns, ongoing security needs and intervention by federal authorities—Lee says they're still marking up their product by 100 percent or more to compensate for their own risks. That means less for growers.

He says farmers have seen prices drop from $5,000 per pound to $1,600 per pound in recent years.

"It's called compassionate care," Lee says of the medical marijuana dispensary model currently in effect in California. "But I don't see much compassion in the prices."

Like with other agricultural products, smaller marijuana farmers may have to

The Consumer | All Articles & Analysis

Your Money: Dollars & Sensimillia
Why 'Gateway' and Cancer Questions Still Matter
The Drug-Free Workplace vs. Medical Marijuana
Wall St: Buy, Sell Or Hold (It In)
THC DIY: Marijuana Mega Store
Marijuana Critic Prowls Denver Dispensary Scene
The New Pot: No High, No Pain, No Problem

Commentary

Paul: Start With Decriminalization
Johnson: Tax And Regulate Marijuana
Giannasio: Addictive, Destructive And Dangerous
Rovell: Why Pro Sports Teams Worry About Marijuana
Wells: Why Aren't California Pot Dealers Happy?
Koch: Form A Commission, Then Move On
Smith: 45 Year-Perspective From Haight-Ashbury
Stamper: Legalization Will Reduce Crime, Free Up Police
DuPont: Why We Should Not Legalize It
Hirshon: An Issue That Just Won't Go Away
Hutchinson: Legalization Not Worth The Costs
Miller: Rhode Island's Drive For Sensible Pot Laws
Natepka: My 'Addiction' To Fighting Drugs
Dalton: Using Pot Remains Bad Career Move

State by State Guide
A comprehensive guide to marijuana laws, enforcement statistics, medical marijuana programs and costs.

Marijuana In America
A look at how marijuana figures into the history and culture of the nation.

Marijuana: By The Numbers
Pot use and laws vary widely from state to state. Here are some highlights.

Top Marijuana Travel Destinations
Some places have turned a blind eye to personal use, encouraging travelers from around the globe to visit.

Tools of the Trade
Marijuana users experience the drug in a variety of ways, and various products exist to facilitate consumption.

A Gallery of Medical Marijuana
With medical use legal in 14 states, there's quite an assortment of varieties available.
band together and form cooperatives to get better deals for distributors and provide effective marketing, says Shermain Hardesty, director of the small farm program at University of California at Davis.

"Cooperatives are often mainly used as a risk management, stretching out sales over a whole year rather than relying on a single client," she says, providing them with safety afforded to larger producers with a bigger balance sheet.

Plainview's Lee says he already heard talk of growers banding together in California's Humboldt county, also in the so-called Emerald Triangle. "You could see a growers' union," he says.

**Agribusiness In The Wings?**

Most large agribusiness producers and distributors wouldn't comment on any marijuana cultivation plans while it's still largely illegal.

Seed and agri-chemical maker *Monsanto* isn't focused on it, says spokesman Darren Wallis, adding that even if that changed tomorrow, development of a mass-scale crop takes time.

"We focus on major crops for food, feed and biofuels—corn, soybeans, cotton, canola, wheat, sugarcane and vegetables," he says. "It takes eight to ten years of investment to bring a biotech product to market."

Other big food and agricultural firms would not comment, saying the proposition was too hypothetical or inappropriate given the largely illegal current status of the drug.

While the distribution and production model that wins out in a post-prohibition world remains to be seen, the existing market will need to be served right away—and consumers right now appear willing to place a premium on quality over quantity.

"I think there is room for large and small entrepreneurs," says Harvard's Miron. "There is certainly plenty of room for product differentiation in the same way that you see for, say, beer, because it can have different scents, it can have different THC content. There is plenty of room for the entrepreneur to try to market oneself as being in some way superior and capture a good market share," he says.

In the end, says Oaksterdam's Clare, smaller can survive.

"The fast food giants didn't put full-service restaurants out of business," she says.

© 2010 CNBC.com

**TOPICS:** Agriculture  
**COMPANIES:** Monsanto Co
ADD COMMENTS

Please Sign In or Register to participate.

Please sign-in/opt in or register to be able to submit comments.

Remaining characters

CNBC welcomes your contribution. Please respect our community and the integrity of its participants. CNBC reserves the right to moderate and approve your comment.