

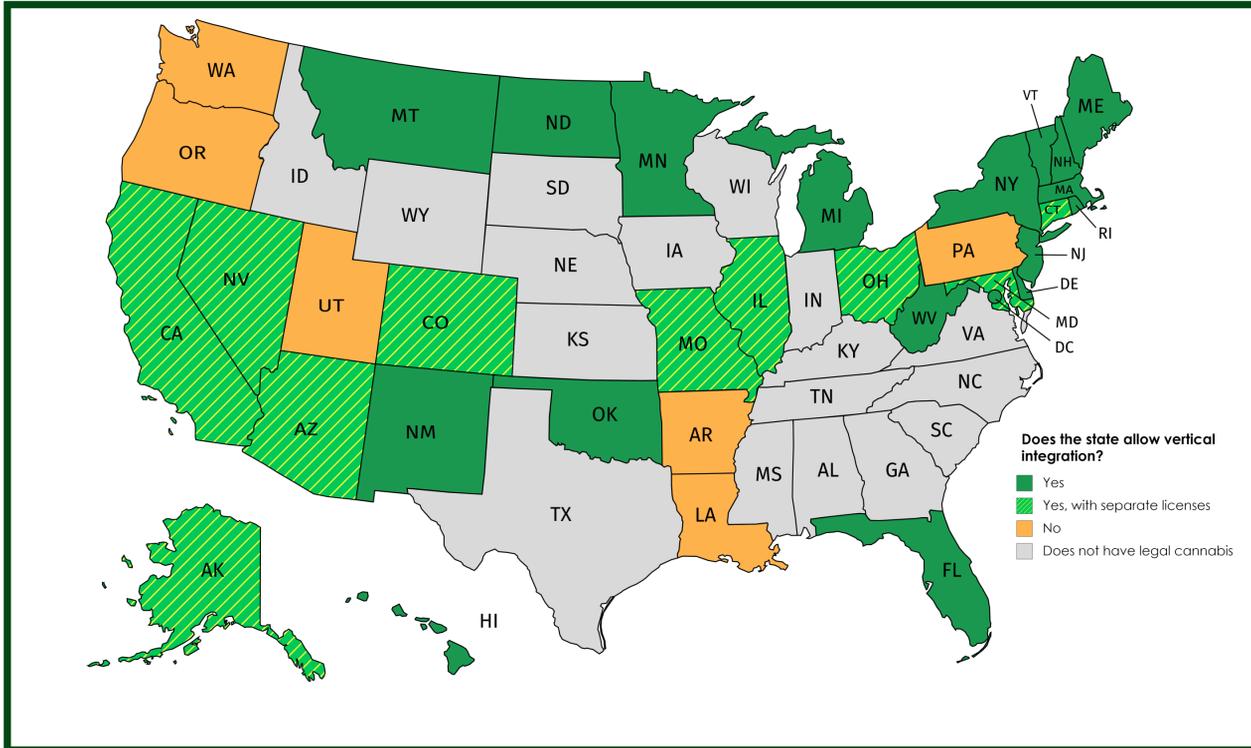
PURM

The Cannabis Industry: Vertical Integration Laws

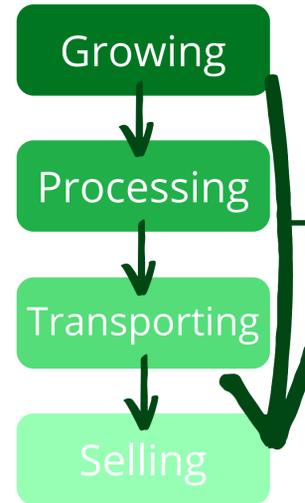
Mentor: Prof. Jose Miguel Abito, Wharton School, Department of Business Economics & Public Policy

By: Bailey Campbell, Wharton School, Class of '23; (954)-822-0690 | baca@wharton.upenn.edu

Vertical Integration Laws by State



Vertical Integration for Dispensaries



Vertical integration for dispensaries means that dispensaries are able to cultivate the products that they sell, skipping the transportation and sometimes the processing step (see left). There are arguments for and against vertical integration in the cannabis industry (outlined below). Some states, like Colorado, have had it be a requirement for dispensaries to have some sort of vertical integration for reasons such as product quality.

Many states require separate licenses for dispensaries to be able to produce their own product. Most commonly, the licenses offered are for selling, cultivating, and processing marijuana. Some states also require additional licenses, such as transportation licenses. For example, Illinois requires 5 different licenses.

On the other hand, for New Hampshire and Delaware, where only medical cannabis is legal, dispensaries are not-for-profit and are encouraged to cultivate their own products. Other states have all-encompassing licenses, like those in Florida, Minnesota and Montana. The laws in states with all-encompassing licenses usually mandate physical boundaries between grow spots and sales areas.



Why States Are Pro VI

When Colorado became the initiator for the Cannabis industry in 2010, they had something called the 70/30 rule. This meant that retailers for marijuana grew at least 70% of their product. States that fully support VI can have all-encompassing licenses, or simply allow businesses in the Industry to hold multiple licenses. Here are some points behind that rationale.

1. Products wouldn't be acquired from the black market.

This point is fairly straight-forward. If retailers run out of product or wish to make higher profits, they can't turn to the black market due to 70/30 regulations and the ability to grow your own supply.

2. It's easier to regulate storefronts than hidden grow sites.

The Idea behind this point is that if the State's cannabis-regulation entity has to monitor sales from retailers already, then it won't need to also visit grow sites. States realized the growers would need licenses and this means monitoring the grow sites, making this point less valid.

3. It can make prices more fair to customers.

Because retailers are selling the products they grow, they don't have to hike up prices to make a profit. Profits are essentially only the cost to produce the product subtracted from the price tag.



Why States Are Against VI

States like Washington and Louisiana (Medical Cannabis only) make the opposite point to Colorado and all-out ban vertical integration of their Cannabis industry. Even some of the states that allow for multiple licenses strictly prohibit the retailers license from the cultivators license. Again this follows multiple points behind that rationale.

1. Some business would become too strong

It's not unknown that the cannabis industry is up and coming as more states legalize it. Many powerful, rich entrepreneurs would be able to drive out mom and pop shops if allowed to grow and sell. Not to mention these people are prominently white, shutting out people of color from entering the Industry.

2. It allows businesses to specialize

Growers create their strains and grow at high volume; processors test and finalize the product for safe consumption; and retailers have the freedom to buy from multiple growers.

3. It increases the buying experience for customers.

Because retailers are able to buy from multiple growers, their product lines are diverse and they can have exclusive contracts, creating competition. Without VI many shops are able to survive also reducing the customers' distance from a cannabis shop