

Introduction to Business Concepts

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Learning Objectives

- 1) Perfect exchanges repeated over time create wealth and raise our standard of living.
- 2) Delegate authority and build a trustworthy team.
- 3) A Theory X management and Theory Y management.
- 4) Both for-profit and non-profit companies make profits, however, for-profit corporations distribute some profit to investors, while non-profits use their profits to grow their company.
- 5) Preferred stock earns dividends based on agreements.
- 6) A stock split is a sign of the growth of a stock's value and is done by changing a company's stock offer by doubling the number of shares and giving each share half its former value.
- 7) "2/10, net 30" Terms
- 8) FOB shipping point and FOB destination indicate.
- 9) Overhead, ease of market entry, economies of scale, line of business, debt to asset ratio, proprietary, non-disclosure agreement and non-compete clause are important business terms.
- 10) The wide variety of cannabis products available in the medical and recreational cannabis markets.
- 11) A wide variety of software and enterprise software systems will allow various software systems to communicate with each other.
- 12) Medical cannabis business functions.
- 13) Price theory: the relationship between supply and demand and how they relate to price and the relationship between perceived value and actual value.
- 14) Elastic demand and volatile markets.
- 15) Industries typically mature from introduction to growth to full maturity and then decline.
- 16) Strains with long flowering times, like those with genes from tropical land-races, have much higher COGS.
- 17) Resolving conflict properly involves good listening skills, the right body language, controlling your ego and finding reasonable resolutions.
- 18) Good will is a valuable asset and pleasant-mannered service providers can build good will by providing patients a bright spot in what may well be a relatively dreary life.
- 19) High-risk businesses offer the potential for high returns and ethical business practices help to assure a good return on investment in a high risk industry.
- 20) The cannabis industry is made possible only through the efforts of cannabis activists.

Successful businesses create “perfect exchanges”: Business is, in essence, a structure for repeated perfect exchanges. Perfect exchanges are when the provider of goods or services and the consumer of those goods or services both benefit from the exchange. The consumer has money, but values a certain amount of that money less than the goods and/or services offered by their provider. On the other hand the provider has goods and/or services to offer and values those goods and/or services less than the money the consumer is willing to offer. When the goods and/or services are exchanged for the money, both the consumer and the provider gain value through the exchange - making it a perfect exchange. Over time, repeating these perfect exchanges creates a higher standard-of-living. In other words, it creates wealth. We have no reason to be ashamed. Business is all about creating wealth.

The challenge of being a good manager: There are business people who are kind, caring, nurturing, giving people and, like any other group of people, there are some who are dictatorial, overly self-confident, distrusting and miserly. These two extremes were first defined as parent-types, not business person-types, by the inventor of transactional analysis, Eric Byrne (1910-1970). Byrne defined two extremes in parenting styles: the controlling parent and the nurturing parent. The controlling parent tells the child what to do and threatens that if they do not do it they will be punished. The nurturing parent treats the child with respect by valuing the child's ideas. They work with the child to find solutions and recognize the child's innate desire to do the right thing.

Transactional analysis is the science of studying how what is said between people defines their relationships. Our ability to listen, demonstrate our understanding of what is being said, understand both the practical and emotional impacts of what is said, to address both the practical and emotional aspects and to validate the emotional impacts behind the subject at hand set the expectations that define relationships.

These same principals were famously applied to the manager/employee relationship by MIT professor Douglas McGregor. McGregor re-defined the controlling parent as a "Theory X" manager and the nurturing parent as a "Theory Y" manager.

Theory X managers distrust employees, assume they are lazy and feel as though they must be watched closely. They use threats and punishment. **Theory Y managers** know that employees are like themselves and have an innate desire to do a good job and take pride in their work. Theory Y managers value their employees input and use "group think" for shared problem solving so that employees can see their opinions are valued. Working together on problem solving and incorporating employees' ideas builds teamwork, pride in workmanship and trust of the management team.

Toxic corporate environments, Theory X management and flat corporate hierarchy: Theory X management is often a contributing factor in the occurrence of toxic corporate environments. Toxic corporate environments are typified as those that encourage hypocritical deceit of the customer, extra-hierarchical communications (communication not through the established management hierarchy), lax or selective policy enforcement, turnover, sarcasm, lack of advancement, unmotivated workers, mean gossip, sudden unexplained changes, problems addressed by blame, hidden agendas, tension and conflict, departments competing for corporate assets and, sometimes, aloof management.

Another sign that a company suffers under Theory X management and may foster a toxic corporate environment is if its management structure, or **hierarchy**, is flat. The flat part is a reference to the lack of managers between the chief executive or president and the hourly employees. An executive or president or any manager who is unable to trust those they manage has great difficulty delegating authority to others - an insufficiency that leads to that manager carrying a greater burden of management responsibility on his or her self. This presents a challenge to growth. Without a management structure able to share management burdens, growth presents insurmountable burdens to the few managers in-place.

Theory X management, toxic corporate environments and flat managerial structures walk hand-in-hand and this is not a coincidence.

Legal Company Types: Registering your business with the federal government and your state government includes defining your business by its ownership structure. If a business is owned by one person it is, by legal definition, a proprietorship. A business shared by equal ownership, 50% and 50%, of two people, is defined as a partnership.

Corporations: Other businesses are defined as forms of corporations. A corporation is endowed by law with the rights of a person and is treated as a stand-alone individual. Though this legal status carries many implications, one important implication is in corporate liability.

The most common form of corporation is the **Limited Liability Corporation** or LLC. The limited liability part of an LLC is that the business owners of an LLC are required to cover liability incurred by the corporation only in the amount of their investment in the corporation.

For-profit and non-profit corporations: An often misunderstood business term describes a business as either "for profit" or "nonprofit". These phrases are often misunderstood as a nonprofit business actually does make a profit. The difference between the two is in what happens with the profits, not whether profits are made. A for profit business distributes its profit to investors of various types, types we will describe later in this text. Profits made by nonprofit companies cannot be distributed to investors and, instead, must be reinvested in the company in one way or another, usually by purchasing assets, hiring more personnel, increasing pay and/or benefits for current employees or financing promotional activities.

Charitable corporations: Public charities are classified according to whether they are doing political work or not. Due to the possibility of corruptive influence, charities that do political work are very closely monitored and contributions to them are not tax-deductible. These include political action committees or PACs and

super PACs. Charities that do political work are categorized by the IRS as **401 C4 corporations** and are limited so that they cannot dedicate more than 49% of their funds or work to political work. Charities that do no political work are designated as **401 C3 corporations** by the IRS and contributions to those organizations are tax deductible.

Publicly traded stocks and preferred and common stockholders: Beyond these legal and tax oriented definitions there are family-owned, director owned and publically held corporations. Publically held corporations have their ownership defined, in part or in whole, as stocks. Shares of that stock are traded in stock exchanges where they are available to members of the public.

In order to begin being exchanged on a stock market a corporation must make an **initial public offering** or IPO. When a corporation makes an initial public offering it is usually seen as a mark of recognition of a company's success, but it can be a very risky move. Before making their initial public offering, company leaders must predict and monetize the future value of their business, divide that future value into shares and set a value of each share as the starting price per share. For instance, a company predicting its value at \$100 million might offer 10 million shares at a starting price of \$10 per share. The total value of the stock offering is referred to as **capitalization or market cap**.

Types of stock: Those who buy stocks on stock markets are public stock holders and their stock is referred to as **common stock**. Common stock holders are invited to attend an annual stock holders' meeting and each stock holder has a vote at that meeting. Common stock holders are allowed to vote on many issues regarding corporate management, including pay for corporate executives.

There are other types of stocks that are not traded publically through stock exchanges including **preferred stocks** and classified initial investor stocks. Preferred stock holders do not get to vote at stock holder meetings and the value of their shares does not go up and down based on the price at which they are exchanged on a stock market. Preferred stocks have fixed value and are earn dividends, annual payments,

at a fixed, pre-determined rate. Also, in case of **bankruptcy** and **liquidation** (the conversion of assets into cash for paying back debts) preferred stock holders are returned their investment before common stockholders are.

Yet another type of stock is offered to employees as **vested shares**. Upon being hired, employees perceived as being valuable are given an incentive to stay with the firm by being offered a certain number of common shares after remaining employed for a certain time. For example, on employment a new Chief Information Officer (CIO) might be offered, as a part of a benefits package, 200 shares if they remain employed there for at least 2 years. 200 shares are set-aside for that employee and after 2 years of employment, he or she is given the shares. Employees who receive vested stock should be aware that when they are given the shares, that income is considered a “capital gain” and is subject, even if the stock is not sold, to capital gains tax.

The Green Rush: The re-emergence of legal medical and recreational cannabis markets. The medical cannabis market was severely limited by state regulation in the early 20th century and eliminated by the Marijuana Tax Act of 1937 against the objections of the American Medical Association (AMA). The Tax Act also eliminated the recreational cannabis and industrial hemp markets. Industrial hemp was briefly made practical again from 1942 until 1955, for the production of hemp required to supply armed forces during World War II. Since 1955 all cannabis industry was illegal until Proposition 215, written by Dennis Peron, was narrowly passed by ballot initiative in California in 1996 allowing the legal provision of cannabis for medical purposes. As of this printing 23 other states, the District of Columbia and the US Territories of Guam and Puerto Rico have followed California’s lead by legalizing medical cannabis. The vote in Massachusetts in 2012 supported medical cannabis with 63% of the vote. Every city and town in Massachusetts, but Mendon and Lawrence (51% opposed in both), supported the initiative.

Despite the recognition of cannabis as a medicine by more than half of the population of the USA, the federal government continues to maintain that cannabis is a Schedule 1 controlled substance, defining it as having a high potential for abuse and no accepted medical use.

State level repeal of medical cannabis prohibition allowed an already existing industry to be legal on enactment. This led to the almost instantaneous existence of a multi-billion-dollar market, which is not typical of a new industry. That instant industry birth is referred to as the Green Rush.

The Green Rush birthed not only businesses directly associated with dispensing medical cannabis products, of which there were many, but also of many ancillary businesses providing goods and services to both providers and consumers of medicinal cannabis. In California the direct provision of medical cannabis led to the growth of both dispensary operations and large-scale grow ops. Many other states, like Massachusetts, require seed-to-sale control, which does not allow separate grow ops. In those states the dispensaries alone are allowed to grow for their own supply.

Types of cannabis products:

- **Dried bud**
- **Fresh leaf and bud:** For THCA and CBDA
- **Monster buds:** Fox tails, may allow a higher price per ounce than cut-up buds, unclear whether medical regulations allow this
- **Topical Products:** Creams, Lip Balm, Bubble Bath, Skin Sprays, Etc.
- **Edibles and Beverages**
- **Tinctures:** Oil mixed with flavoring and vegetable glycerin, mouth sprays or drops for sublingual absorption
- **Vape fluid:** Oil mixed with vegetable glycerin (avoid propylene glycol), sometimes flavored
- **Seeds, Clones in soil, Hydro Clones:** Clones in soil do not transplant easily into hydroponic systems and hydro clones do not transplant easily into soil, these are not likely to be sold by dispensaries in Massachusetts, whose interests are to sell cannabis products - not help client do so
- **Clean Concentrates:** Bubble Hash (made using ice water and/or dry ice), Hash and Keif (sifted, hash is more fine than keif), Hash Oil (hash mixed with olive oil), Rub and Charas (plant oil rubbed off buds by hand)

- **Chemical Concentrates - solvents used:** CO₂, Butane (BHO, Blonde Honey Oil), Alcohol (Tar, RSO - Rick Simpson Oil, see www.pheonixtears.ca), (Acetone, Xylene, Tolulene and Hexane will not be allowed)
- **Done Twice:** Refined oil products - Budder, Wax and Shatter
- **Major Cannabinoids (non-psychoactive):** CBD, CBDA, CBN, CBC, CBG, etc. (it will be difficult for Massachusetts medical dispensaries to compete with these products as multi-national suppliers will enjoy huge economies of scale.

Internal and/or ancillary cannabis industry oriented business functions. Cannabis business functions

include those that are specific to the cannabis business and those shared by businesses in other industries.

When those functions are handled by businesses not offering cannabis products directly, they are

considered **ancillary**. Handling these functions internally is a part of a vertical integration strategy and can

lower the costs of goods sold.

Cannabis industry oriented functions include:

- Software and hardware
- Production equipment
- Trimming and curing equipment
- Extraction systems
- Kitchen equipment, supplies and food ingredients, training and certifications
- Inventory control, packaging and labeling systems
- Cannabis product delivery systems apparatus (vaporizers, bong, dabbing rigs, etc.)
- Security, safety, signage and compliance hardware, software, training and services
- Point-of-sale systems
- Showroom layout and design and display casing, lighting
- Branding, advertising and graphic design and layout, printing and publishing services
- Public and community relations management
- Social media monitoring, authoring, publishing and distribution
- Human resources management, hiring, firing, compliant posters, training, benefits management
- Delivery services
- Wellness services, medical and legal advisory for customers
- Industry magazines, manuals, webcasts and blogs
- Association and networking organizations, industry-wide public relations and lobbying
- Unions
- Legal advice and representation
- Insurance

- Electricity Providers and
- Financial services (accounting, time and attendance and payroll) – just to name a few.

Cannabis-related software and hardware systems: Ancillary industries are as diverse as those for any other industry, plus an extra layer of cannabis-specific industries. Like any other business departmental software and hardware systems provide support for production (growing cannabis), **inventory, point-of-sale, customer relations management** (CRM), personnel records and training, financial monitoring, time and attendance, payroll, vacation scheduling, etc. As with other businesses these disparate systems need to be tied together with enterprise management software and they all must use industry standard data tagging for all data fields so the systems can share their data knowing what data fields contain which data. CRM (Customer Relations Management) software can be cloud-based, off-the-shelf or custom built. Some fields that will be important for medical cannabis CRM databases would be all the standards (name, address, phone, email, etc.) and:

- Previous purchases with total weight purchased within 60 days, which is limited by regulation
- Fields for rating the effectiveness of each product a patient has purchased
- At least 8 fields for illnesses – many patients have many illnesses
- A sensitivity field where a patient's sensitivity to THC can be rated from 1 to 10
- A field to show whether a patient prefers indica, sativa or hybrids
- An emergency contact name and phone number field in case a patient has an emergency while at the dispensary
- Two renewal date fields, one for the renewal date of the patient's doctor's recommendation and another for the state medical card, a dispensary would be smart to call patients before these renewal dates to be sure they renew
- A delivery zone field.

Production systems: Those who oppose the repeal of cannabis often claim we cannot allow a legal cannabis market as we have no way of knowing how to safely produce and process cannabis. This is absolutely not true. In fact the American Herbal Products Association (AHPA) has already published guidelines for regulators outlining processes and procedures for the proper production and processing of

cannabis. This should come as no surprise as cannabis is an herb much like any other. To see the recommendations visit www.AHPA.org and search for cannabis.

Cannabis foods production: Producing safe foods and avoiding the liability associated with offering unsafe foods requires food producers follow food handling, cooking, storage, packaging and labeling safety measures required by federal, state and local town or city health officials. Employees involved with foods must be certified periodically through an authorized food safety training program.

Facilities used for producing, storing and displaying foods must meet regulatory requirements and must be inspected by local health officials periodically. Licensing requirements must be adhered to, without which you will not be allowed to operate. If people are sickened or, heavens forbid, killed by foods you produce you and your company can be charged criminally, which can lead to fines and imprisonment, and also face civil suits, which often cost millions and even tens-of-millions of dollars.

Food safety storage requirements generally regulate storage temperatures and that some foods are stored separately from others. Similarly food products must be properly labeled in order to meet licensing requirements and to avoid and minimize liability. There are as many as six different labels or pieces of information needed on cannabis food packages, including:

1. FDA compliant nutrition panel: You should pay a provider to produce one of these labels for each food product you intend to offer. Getting a label will cost about \$200 or \$300 for each product. You will have to share your recipe and ingredient list with the label maker, but, before you do so, you should have them sign a non-disclosure agreement (NDA) so they will not disclose your recipe to competitors.
2. Marketing label: You are required to include your contact information on foods you offer and probably will want to use the opportunity to market your brand. This means including your logo, website, phone number, street address and email address.

3. Test results: Massachusetts Department of Public Health (DPH) regulations require cannabis products be tested and that test results must be on cannabis products.
4. Dosage: Dosage must be indicated with a relatively large label that is easy to read.
5. Inventory control label: A detailed accounting of inventory is required to make diversion of cannabis and cannabis products less likely. Two basic types of inventory control labels include the bar code label and the radio-frequency identification (RFID) label.
6. Universal Pricing Code (UPC) label: When cannabis products are sold through multiple retail outlets, after recreational cannabis products are made available, cannabis product producers will want to include a label that allows those retailers anywhere to identify, inventory and know many details regarding your products.

Packaging: The three things that destroy cannabinoids are light, heat and oxygen exposure and packaging and storage should avoid exposing cannabis to these elements. Another potential packaging issue is crushing as crushing cannabis buds can turn them into a powder called "chafe", which consumers find less attractive than buds. Another consideration is static-electricity. Static electricity makes trichomes that fall from the cannabis stick to the surfaces inside the storage container. For this reason, many prefer using glass or porcelain containers, which are non-conductive and will not hold a static charge. Long-term storage of cannabis is usually done with food-sealing equipment, which removes air from a plastic bag and uses heat to seal it closed. The sealed food-storage bags are usually stored in a cool, dark place, like a refrigerator.

Cannabis product delivery systems apparatus (vaporizers, bongs, dabbing rigs, etc.): Cannabis products can be delivered into the bodies of patients by smoking, vaporizing, sublingual (under the tongue) application, through lips, genitals or anus, by swallowing or by topical application through the skin. New product forms and technologies are rapidly evolving. For instance, prostate cancer sufferers may find a

more effective delivery system by using cannabis-infused suppositories. Dabbing and vaporizing technologies are examples that are rapidly evolving, with new products being introduced constantly.

Security can be a top-level executive monitoring compliance, designing software and hardware systems, setting security policies and employee training and it can be an hourly-paid watchman checking to be sure doors and gates are lock through the night and everything in-between. You may want to have a burly guy who has experience as a bouncer in the showroom to both prevent and deal with unruly customers.

All employees must be trained and acknowledge in writing that they know safety and security policies.

They should know what to do in case of a fire or in case they hear gunfire in the building. They should be able to show fire responders how the water main and electricity to the facility can be shut-off.

Check-in is a security and compliance necessity. The check-in area should be secured from the showroom and should limit the number of targets available to a shooter. The entrance and exit to the check-in area should be secured with lockable heavy doors. The check-in receptionist should be able to monitor the entrance and be allowed to decide to admit a person from outside only if they appear safe. In medical cannabis dispensaries only credentialed patients can be allowed entry. First-time new patients should be interviewed and their customer relations management (CRM) database record should be completed.

Important security systems may include:

- A public-announcement system. Personnel should know codes announced to indicate fire, medical, lockdown and other security incidents as they take place.
- Battery operated lighted emergency exit signs
- Sprinkler systems with sprinkler heads replaced every few years
- Card or biometrically controlled access to employee only areas. Biometric systems can include retinal, fingerprint, palm and facial recognition systems.
- Lockable fencing topped with concertina wire
- Radio frequency identification (RFID) tagging and sensors
- An employees' handbook that details safety and security policies and procedures.

Point-of-sale systems: These are systems where a cash register and “merchant services” including credit card terminals (usually a single unit) act as hardware tied to software systems that associate sales with the patient who is buying through the customer-relations management (CRM) software, with the inventory control systems and with the financial management systems.

Showrooms: Proper lighting and signage are important safety and security elements. Flooring, particularly for public areas, must be demonstrably safe. Textured flooring and polyurethane coatings designed for public areas must be used. Public areas must be designed for handicap-accessibility. Showroom design should reflect your branding. A relaxed retail area will make clients feel more at ease and things like layout, graphics, color schemes, display design and lighting are contributing factors. Display case lighting should use the kinds of lights used by jewelers designed to make jewels sparkle. Trichomes on cannabis buds refract light the same way jewels do and the right kind of lights will make them sparkle.

Graphic design: Graphic designers are trained to know design concepts, typestyles, layout, color selection, graphics software and hardware, best materials for all printed media, both electronic and printing service choices and the advantages offered by various printing and publishing service providers. Some companies will hire in-house graphic designers and others will contract design services.

Community relations: If community members local to your business have a problem with your business, who would you rather they complain to? The mayor, selectmen or town council? The police chief? Their state senator or representative? Local news editors? No! Obviously, if they have a problem you would rather they complain directly to you. Good community relations management gives locals opportunities and lets locals feel comfortable vent to you. Not only does this prevent officials and the press from giving you trouble, it also allows you opportunities to hear, understand and, possibly, mediate problems with locals. You should hold “neighborhood nights” or meetings where local folks are invited to come-by and vent on a regular, scheduled basis. You may want to use local media to let people in your area know they are

welcome to call with complaints. You will want an employee who is PR savvy who knows how to handle such calls at-hand, just in case. Another good way to better community relations is through donations to local charities and enabling employees to participate in local charitable work and community betterment. A good example of betterment would be closing the shop on for a day, giving employees their regular pay, but asking them to help in an effort to clean up a local park. It would be best to let the local press know when the check to the local charity is being handed-over and when the park clean up will be complete and get some local press coverage of your good deeds, maybe even a photo.

Social media monitoring, authoring, publishing and distribution: Social media should be monitored, either informally by managers monitoring their areas of authority or formally by an expert employee or contractor.

Some absolutely essential business functions are not covered in this course to avoid repetition of course materials. Cannabis business aspects of production and product finishing are covered instead in the cultivation courses. Branding and public relations are explored in detail in the media course. Business plan writing, start-up funding and investor relations will be covered in advanced courses and/or in workshops. Each of these issues could fill an entire course, as could many of the business functions included in this course. Getting the essentials of the subject matter addressed in the time given for the course requires brevity and condensation as-it-is and the repetition of materials covered by other courses would compromise our ability to get the essentials of each subject covered in a timely manner.

Human resources management, hiring, firing, compliant posters, training, and benefits management:

Good hiring practices are important. A bad hire leaves you employing and training the wrong person. That wrong person may compromise morale and poison the waters your other employees swim in. Hiring the wrong person presents a terrible missed opportunity to have hired the right person. A bad hire may compromise your security and proprietary knowledge. There is an employment contract clause called a

non-compete clause. This would stop employees who leave from exposing your competitive advantages to your competitors by stopping them from working for others in your industry for a defined period – usually a year or two. These clauses are very hard to enforce in Massachusetts. Courts here have said you cannot stop a person from making a living by denying them employment in the industry unless the employee has skills in other industries as well.

You must require responsible cannabis use by employees. No diversions of product to employees. If they are medical patients they must buy cannabis products the same way other patients do. Employees cannot be allowed to hang out in the parking lot at day's end smoking pot.

Hiring the right staff makes delegation easy, as the employees are trustworthy. Often a well-planned set of well-managed benefits can attract the best employees. HR professionals know how to design and buy benefit packages the right way. One of those important benefits is making continuing education available to loyal employees. State and federal requirements include the display of compliant employee information posters in lunch or break areas. Firing is also risky business and HR professionals know how to limit that risk.

Training: Employee training will be done by managers training employees within their departments, but also may include training by consultants. Training is required on a wide variety of safety, security and policy issues. Where those issues are important for all employees, they should be addressed in a comprehensive employee handbook.

Employee handbooks: Standards outlined in an employee handbook set ethical standards much more stringent than the legal standard. For instance by law, sexual harassment must be reported immediately. Corporate standards do not allow even a single incident of sexual harassment by any employee, whether they are managers or not.

Writing an employee handbook on your own poses a great danger, as some issues might not be addressed or addressed in a way that minimizes liability. Employees who are not properly informed about safety, security and policy issues can expose a company to horrendous liability when safety, security and policies are compromised.

Handing a handbook to each new employee is not enough. To be sure employees know what we need them to know, we need to assure they have read, understand and agree to abide by safety, security methods and company policies. This is best accomplished by online course delivery and testing that assures and can provide evidence that every employee has read, has proven by testing that they understand and has signed documents acknowledging that they understand and agree to abide by safety and security methods and company policies.

A good employee handbook provides **indemnification**, information and a way to acknowledge that employees understand and agree to stipulations. Employees must understand that corporate standards are more stringent than legal standards. Do not write a handbook yourself; not even your corporate counsel will know or include everything needed using the right words. Instead use off-the-shelf language from a handbook known to be fully compliant. A free, compliant handbook is available at the New England Human Resources Association website, www.NEHRA.org. You will need to customize it with your policies and procedures, but it will make an excellent starting point. The best option, though, is online training and certification, which should include testing and acknowledgements of understanding and willingness to comply.

Delivery services: The DPH has indicated they will be allowing dispensaries to offer delivery of cannabis products to patients. It makes good sense as many who are ill or injured suffer from limited mobility. Many disabled folks do not drive. Though delivery services make good sense for medicinal cannabis, it carries great risk and must be treated as a serious responsibility.

Your drivers will be carrying cannabis, may be carrying cash and people will know where they will be and when they will be there. This is a perfect set-up for a rip-off. You need drivers that know how to feel trouble instinctively. They must be instructed that safety takes precedence over making the delivery and if the circumstances give them the heebie-jeebies they should keep driving and skip the delivery. They must know that safety is most important. You may want to hire veterans or retired cops who are good at spotting trouble and at protecting themselves.

You may also want to hire professional drivers. School bus drivers, truck drivers and taxi drivers have the professional driving experience that may help keep your company out of trouble. Imagine what a disaster could befall a company whose cannabis delivery driver is caught speeding or has an accident. If they test positive for cannabis your company can end up with a huge PR issue. That is not how you want your company to end up in the newspaper.

Wellness services

Wellness services are those that help improve physical and mental conditions, but have nothing to do with using cannabis products. These often include: Doctors and healthcare experts, Dieticians, Naturopaths, Ayurvedic and Chinese herbalists, Chiropractors, Acupuncture practitioners, Personal trainers and aerobic exercise instructors, Physical therapists and massage therapists, Psychiatrists, psychologists and group therapy providers, Cannabis use and grow consultants.

Wellness experts cannot be employed or co-located to offer those services within medical cannabis dispensaries in Massachusetts by regulation, but dispensaries should establish business relations with those providers. That relationship should encourage referral to that provider and referrals from that provider to your dispensary. Stacks of business cards and brochures for those providers should be available for handing-out in the showroom.

Industry magazines, manuals, webcasts and blogs: These are ancillary businesses and wonderful opportunities for new businesses, but are also important sources businesses must exploit to remain competitive. It is in a business' best interests to make these publications available to managers and other employees so they will remain properly informed.

Association and networking organizations, industry-wide public relations and lobbying: Cannabis businesses, like those of any other industry, need to coordinate certain efforts and messages to protect and promote a positive public-image, to ensure safe industry practices and to support or oppose legislative efforts they may be effected by. These efforts must extend beyond the industry to other business oriented networking organizations like Kiwanis Clubs, chambers of commerce and Business Networks International (BNI) groups.

Unions: Though many business leaders try hard to avoid union organizing in their companies, unionizing offers advantages to both companies and their hourly employees. Unions work with hourly employees. Management level employees are salaried, not hourly, and are not included in union contracts. For employees, unions negotiate employment contracts in a very comprehensive manner. Individual employees would be hard-pressed to know all the things they should negotiate and how those contract items are best worded. That is an area of expertise for unions.

Union members pay weekly dues with some portion of those dues held in a walk out fund. If employees walk off the job to protest a contract violation, they will be paid for some days or weeks during a walk out with money from the walk out fund. Ultimately a contract violation can be brought to court where an employer can be sued for the violation.

The union organizing cannabis workers is the UFCW (United Food and Commercial Workers) Union, that currently has over 1.3 million members and a headquarters in Needham. One of their national

organizers who helped organize here in Massachusetts, Dan Rush, is under FBI investigation for allegedly accepting illegal bribes from cannabis businesses hoping to avoid union organizing in their companies.

Legal advice and representation: Cannabis businesses will need reliable legal advice and face a strong possibility of needing legal representation in court. You may want to have a lawyer “on retainer,” meaning you have paid that lawyer in advance of actually needing them allowing you to be sure he or she will be available when you need advice or when you need them on-the-spot to deal with a legal emergency. Some businesses hire an “in-house counsel,” an attorney who is an employee, usually as a part of your administrative staff also called a corporate counselor. Another way to secure legal services is if a lawyer has an interest in participating in your cannabis business as an investor, owner or member of your board of directors.

Insurance: Cannabis businesses are required to have several types of insurance and should have others. As soon as a business hires its first employee it must get workman’s compensation insurance and must register with the state’s division of unemployment insurance (DUI) and begin quarterly reporting to DUI through their QUEST online reporting system. Workman’s compensation insurance covers on-the-job injuries, which do not include, for instance, injuries occurring during your commute to or from work. Both of these types of insurance are provided by state agencies. It will also need general liability insurance, particularly as the general public will be in the check-in and showrooms, to protect against “trip and fall” and other general injuries at your facilities. Also, you will need auto insurance for any company-owned vehicles. These insurances are available through a “property and casualty” insurance brokerage. Once you are employing 11 full-time employees or the part-time and/or full-time equivalent of 11 full-time employees, you are required to offer all employees not covered by another health insurance policy participation in a group health insurance plan you offer. You must pay for 50% of the cost for health insurance coverage for

employees who are single and 30% of the cost for employees who are married and their families. The more employees that participate, the lower the cost per participant.

Electricity providers: Medical cannabis dispensaries will use lots of electricity. With the recent opening of the electricity market in Massachusetts, many new providers offer a wide variety of choice. A wonderful, socially responsible way to lower your costs of goods sold would be to install solar panels and a windmill and generate your own electricity.

Financial services (accounting, time and attendance, payroll): Like legal services, if a certified public accountant (CPA) is involved with ownership, they may be willing to offer accounting services at low or no cost. Otherwise the firm will need either a staff accountant or an accounting firm. Time and attendance and payroll services are often combined, but they can be gotten from two different companies, if that makes sense. The largest time and attendance company is Automated Data Processing (ADP), but a worthy competitor is our local Kronos in Waltham. Both companies offer payroll services as an option. Using a local payroll company may be a good way to support the community.

Price theory: Price theory is a very complex topic, but the basic concepts are illustrated with Adam Smith's **invisible hand of the market**, from his book, *The Wealth of Nations*. According to Smith, markets determine the perfect price as a result of the adverse relationship between supply and demand. On the supply and demand curve, the vertical determines price and the horizontal determines quantity. The perfect price is the point on the chart where supply meets demand. When supply is small for a given demand, the price, where on the curve supply meets demand, will rise. When supply outstrips demand, the price will drop. Market forces directly drive this automatic price adjustment - what Smith called the invisible hand.

Price and demand elasticity: When the price of an item can be changed with little or no effect on demand, it is considered **elastic**. So if you sold 10 ounces of Blue Dream last week at \$300 and raised the price to

\$320, but still sold 10 ounces the next week, the price of Blue Dream would be considered elastic. If raising that price \$20 from one week to the next resulted in 5 ounces being sold, half the amount of the previous week, the price of Blue Dream would be relatively **inelastic**. This same process can also be described from the demand aspect. If a rise in price leads to a drop in sales or **demand**, demand is inelastic. If demand remains basically the same despite a price rise it is elastic, in that it can accommodate the higher price without dropping. On a supply-demand chart, as described above, elastic demand would result in a more horizontal demand curve and inelastic demand would have a more vertical curve.

Market volatility: Some markets, particularly those in new or developing industries, tend to be more **volatile** or changeable than others. An example of a volatile market would be that of computers. A computer introduced as “state-of-the-art” today might sell for \$2,000. Six months from now that same computer is no longer state-of-the-art and its price might be half what it had been. As a new, high-growth industry with products whose value has been artificially inflated by prohibition, the cannabis industry is likely to be volatile.

Decreasing marginal utility: **Marginal utility** refers to the satisfaction gotten from each additional purchase of a good or service within a short period of time. A good example would be cannabis cookies. You buy and eat one cookie and it gives you lots of satisfaction. The second cookie is somewhat less satisfying, the third even less satisfying and by the time you’ve bought and eaten four cookies you may have had too many cookies. Each additional cookie gives less marginal or additional utility or satisfaction.

Diminishing returns: The **law of diminishing returns** is an economic law stating that if one input in the production of a commodity is increased while all other inputs are held fixed, a point will eventually be reached at which additions of the input yield progressively smaller, or diminishing, increases in output. An example of this law would be a dispensary that owns a certain area of grow-space that finds that a certain number of gardeners will yield the maximum output per worker. If they hire more gardeners, the

combination of growing area and labor would be less efficient because the proportional increase in the overall output would be less than the expansion of the labor force. The output per worker would therefore fall. This rule holds in any process of production unless the technique of production also changes.

Perceived vs. actual value: One direct effect of effective branding can be increasing the perceived value of the products and services you offer. Examples of branding effecting perceived value could be viewed from either extreme. On one extreme, bargain basement branding gives many consumers the impression they will get a better value by paying a lower price. At the other extreme, a high-class brand image gives many consumers the impression they will get a better value by getting better quality products and services. In an ideal world actual value would track directly with perceived value. The fact that actual and perceived value are often at odds gives evidence that consumers can be manipulated by marketing and branding.

Industry maturation: Many of these price factors are affected by the progress of an industry through typical maturation. Most industries progress from an introductory period, to a growth period, to a maturation period and eventually to decline. The cannabis industry is not typical in that cannabis needs no introduction. Cannabis has been a popular product for many decades. With the repeal of prohibition, first for medical uses and then for recreational/religious/industrial uses, an already existing market is bursting into the legal market with a very large, well-established user-base. This industry is basically skipping the introductory stage and progressing to the growth stage from the start. As the industry matures through the growth stage we will see more competitors, more consolidations, prices stabilizing, lowering COGS and a better variety of industry-oriented services. We may eventually see industry maturity, where growth slows and then declines, but that will probably take a long time.

Disruptive innovation: Many products start with relatively limited applications and, as production increases and costs decline, new applications are innovated and become practical. The introduction of new

applications affects supply and demand – “disrupting” the market through “innovation.” This has been particularly true in the industrial hemp business where new applications like Hempcrete, an ecologically advantageous alternative to concrete with many other advantages, and the use of hemp for phytoremediation (cleaning polluted soils) has increased demand and is expanding supply rapidly.

Strain selection and its effect on COGS and pricing: One of the most important decisions a cannabis business makes is which strains it will grow and how much of each. Though your retail manager and master grower should have great influence, administrators would be smart to participate in those decisions. Not only must selected strains reflect the preferences of customers, the decision about which strains are put into production must anticipate customer demand for strains 5 or 6 months in the future.

Which strains you choose to grow is not only a matter of what strains customers are looking for, but also flowering some strains costs a lot more than others. Some sativa strains have genetics from “land races”, races acclimatized by having originated in certain areas, from the tropics, which are used to longer summers. Those strains take longer to flower. Some land races, like Thai weed and Congolese weed, can take two or three times as long to flower. Cannabis plants begin flowering after the number of hours of light are turned back to 12 or less. While some indicas, like Northern Lights, can flower fully in four weeks after the hours of light are turned back, some sativas, like Lemon Thai, can take up to 12 weeks to flower fully.

This difference in time to flower affects costs by both requiring more time to flower and by longer occupying grow space that could be used to flower other plants – an opportunity cost. The question that naturally follows is; can you charge more for bud that takes longer to flower? The answer may depend on what your competitors charge, whether demand for that product is price elastic or not or whether your profit margin for that project allows the higher COGS.

Retail operations: cash handling

When a customer hands you cash, handling that cash the right way can make a big difference. You should carefully count the cash you've been handed by holding it up so the customer can watch you and the cash as it is counted. Until the transaction is complete, it should be kept separately and in sight of the client. The transaction is complete when a customer accepts their change and puts it in their purse or pocket.

At the end of the sales day, when sales staff is going home, the sales or store manager stays behind to **justify the register**. Justifying the register is making sure the amount of cash the register holds matches the register's report. If a small amount of cash, like \$5, is missing, most store managers will put their own cash in so he or she can go home. If the amount of cash missing is more, the store manager must figure-out what happened to the cash before going home. This might entail going through cash transactions as recorded by the register one-by-one and seeing what bill denominations are missing and it might include watching video recordings of register transactions as they were made.

Conflict resolution: There will be conflict. Internal conflict and conflict with customers is inevitable, if you are in business long enough. When dealing with medical patients, my experience is that about half of the patients suffer from physiological issues and the other half are dealing with mental health issues. Some conflict will be reason based and some will seem senseless. Either way, conflict, even unreasonable conflict, cannot be dismissed. It must be resolved and it must be handled respectfully.

Good listening skills, as described earlier, become important when there is conflict. Repeating the issues to complete a feedback loop - so the customer understands that you understand the issue - is important.

Addressing and validating the emotions behind the issue help de-escalate confrontations.

Body language and controlling your emotions are other ways of keeping conflict from getting out-of-hand.

Body language that reduces stress includes avoiding invading personal space. Keeping 3 or 4 feet between you and the other shows respect for personal space. Keeping your hands below your waist with palms

open reduces perceptions of threat. Raised hands and fists are threatening. Pointing fingers are also threatening gestures. Crossing your arms on your chest is a sign you feel threatened and are protecting yourself.

Controlling your emotions includes not taking-the-bait when you, your store or your coworkers are insulted and it is essential. Never respond to insults in an escalating manner. Keep your ego in-check and be the mature adult. Respond to insults with calm understanding. Keep your voice low and by all means avoiding shouting to help keep tensions from building.

You must find reasonable accommodations to resolve conflicts. The solutions not only need to seem reasonable to you and reasonable to your customer, they must also seem reasonable to an objective third-party. Your customer may describe the issue and its resolution to friends, neighbors, relatives, folks down at the barber shop or Starbucks and the resolution your offer must sound reasonable to all those people or your reputation will suffer.

Internal conflict must be handled out of public. If, for instance, you are a store manager and you hear a patient services associate make an absolute medical claim ("This Chem Dog will cure your cancer."), rather than dressing-down your employee in front of the customer, gently ask the customer to please wait just a moment, invite the employee to speak with you privately, briefly away from the counter, point-out the error, promise to discuss it further later and let the employee complete the transaction.

Building goodwill: One of the most important assets a company can build is goodwill. Goodwill is the popularity your business enjoys and it has actual, defined, monetary value. When an actuary defines the value of a company one line on the listing of assets is the dollar value of the company's goodwill.

Smile: As a representative of your business one of the things you are required to do and do well is to smile. It doesn't matter whether you had a fight with your partner or if you are dealing with a family

health issue. You cannot be impassive. You must be pleasant. You cannot over-compensate for your inner sadness with a big, crazy, phony smile. You must be pleasant.

A bright spot in an ill or injured person's day, week, month: Keep in mind that you are the face of your business. Many medical cannabis patients have few opportunities for social interaction. Many of them cannot work and spend their days anticipating any activity, including visiting your dispensary. Some will have been looking forward to visiting your dispensary for many days, maybe even weeks. You have a great responsibility to make that visit as helpful, as informative, as safe and as pleasant as you can.

Risk vs. Return: For other businesses the #1 cause of failure is under-capitalization, but for cannabis business the #1 cause of failure is the bust – state, local or federal – THIS IS CHANGING RAPIDLY! Congress is defunding Justice Department efforts to interfere in states that allow medical cannabis. Still, compliance is absolutely essential.

Though we have rights to operate, we must emphasize our responsibilities. We need to have squeaky-clean management teams. We must supply employees with continuing education required to be sure they are aware of changing policies, procedures and laws. We must use extraordinary caution when laws are vague and in such cases legal counsel is required. Many Massachusetts towns have passed zoning restrictions out of fear of dispensary problems. Those in the cannabis industry need to encourage reasonable regulation, which depends on industry participation in the political process.

The risk level in cannabis businesses is in flux, but the risk is shared across the industry. Risk reduction will define which business models are successful and which are not. Many roadblocks are still problems for the business including cannabis stock trading holds and the lack of banking and merchant (credit card processing) services. The more directly a business offers and holds an inventory of cannabis products, the higher the risk and *vice-versa*. Ancillary businesses carry relatively low risk.

Though federal intervention is fading, their use of forfeiture has resulted in rental risks that have resulted in high rents and landlords unwilling to rent to cannabis related businesses.

As with any new industry, investment in the cannabis business is a volatile, high risk - high return (heh, heh "high") investment, with opportunities that may offer spectacular payback and opportunities that will crash and burn.

Ethical business practices: Selling drugs in good conscience requires ethical introspection. Scrutiny of our industry has popular support and we must protect our interests. Employee compliance must be a requirement particularly with those who interface with the customer. We must assure policy development and enforcement is done in an ethical manner. We have great special responsibilities in keeping ill and injured patients safe.

Cannabis culture: Cannabis culture is old, where cannabis business is renewed. Cannabis users are a repressed people struggling for FREEDOM. Brave activists have dedicated many decades of standing firm in the face of terrible odds and have made considerable self-sacrifices. Managers unaware or unappreciative of how their industry was allowed are at a disadvantage. Investors, clients and personnel will have often been activists. We must be aware of what are marijuana myths and what are marijuana facts. Marijuana users are replete at every level of society and are largely indistinguishable from others. Those who once were cannabis "criminals" are now experts. Long-term activists are wary of newcomers and we should try to make them part of the cannabis business community.

Business Thought Provoking Questions

- 1) Why should business deals be “perfect exchanges”?
- 2) What are the differences between telling an employee what to do and consulting with an employee about what should best be done?
- 3) What distinguishes a corporation from a partnership and a proprietorship?
- 4) What are the differences between “preferred” stocks and “publically traded” stocks?
- 5) What is “enterprise” software?
- 6) How can packaging limit the breakdown of cannabinoids?
- 7) Other than handing handbooks to new employees, what should employers require employees to do regarding the information in the handbook?
- 8) What are “wellness” services?
- 9) Why should hourly workers want to join a union?
- 10) When supply and/or demand change, what is adjusted by Adam Smith’s “invisible hand”?
- 11) How can a business change the “perceived value” of products?
- 12) Describe body language that that is non-threatening and non-defensive and why it is important in conflict resolution.
- 13) Why would a wealthy investor want to make a risky investment?

Glossary

- Perfect Exchange - when the provider of goods or services and the consumer of those goods or services both benefit from the exchange
- Theory X Management - controlling parent; distrust employees, assume they are lazy and feel as though they must be watched closely
- Theory Y Management - nurturing parent; employees have an innate desire to do a good job and take pride in their work
- Hierarchy - managers between the chief executive or president and the hourly employees
- Limited Liability Corporation - the business owners of an LLC are required to cover liability incurred by the corporation only in the amount of their investment in the corporation
- 401 C4 Corporation - Charities that do political work and are limited so that they cannot dedicate more than 49% of their funds or work to political work
- 401 C3 Corporation - Charities that do no political work and contributions to those organizations are tax deductible
- Initial Public Offering - to begin being exchanged on a stock market
- Market Cap - The total value of the stock offering
- Common Stock - stocks bought on stock markets by public stock holders
- Preferred Stock - type of stocks that are not traded publically through stock exchanges; initial investor stocks
- Bankruptcy - state of being completely lacking in a particular quality or value
- Liquidation - the conversion of assets into cash for paying back debts
- Vested Shares - type of stock is offered to employees
- Ancillary - functions that are handled by businesses not offering cannabis products directly
- Customer Relations Management - system to track interactions with clients
- Point-Of-Sale - departmental software and hardware systems provide support for production
- Inventory - products available for sale
- Non-Compete Clause - for employees who leave your company from exposing your competitive advantages to your competitors by stopping them from working for others in your industry for a defined period
- Invisible Hand of the Market - markets determine the perfect price as a result of the adverse relationship between supply and demand
- Elastic - when the price of an item can be changed with little or no effect on demand
- Inelastic - if a rise in price leads to a drop in sales or demand
- Volatile - markets that tend to be more changeable than others
- Marginal Utility - satisfaction gotten from each additional purchase of a good or service within a short period of time
- Law of Diminishing Returns - an economic law; if one input in the production of a commodity is increased while all other inputs are held fixed, a point will eventually be reached at which additions of the input yield progressively smaller
- Risk - A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action
- Return - Yield generated by an investment, expressed usually as a percentage of the amount invested