



CHEAT SHEET

Down markets are hard, but this reference will help keep you on track

- **Cashflow:** Do more of the things that are easy and profitable. Grow what your customers want. You can always have your pet projects when things improve, assuming you stay solvent.
- **Goals:** Why did you start to grow? If it's not going as planned, adjust to make better use of your skills. Not everyone needs to be a master grower.
- **Overhead:** Cut expense. Paying for rent, utilities or services you don't need can put you in the red quickly. Don't pay to store stuff you will never use.
- **Employees:** Critical employees need to have an active part in finding solutions. Don't keep employees just to be nice, or to support operation that are not profitable.
- **Automation:** Factor in the cost of equipment and compare it to employee expenses, including wages, taxes, management, facility requirements, etc.
- **Your Strengths:** Large growers that can work efficiently and small growers who can adapt quickly in a changing landscape will survive. Those who don't, wont.
- **Whiplash:** Overreact to trends, and you will be positioned for current markets, not future ones. If everyone thinks the market is going one way, few will be prepared for other possible outcomes.
- **Customers:** They have challenges too, and don't have time for your problems. Know what your customers need and support them, or the competition will. Unique times require offering unique solutions.
- **80/20 Rule:** Typically, 80% of profits come from 20% of your customers and 80% of your problems come from another 20%. Keep the good customers, dump the problem ones, and cut your workload.
- **Plan:** Cannabis is in a state of transition. Be part of that change and figure out your place in the evolving landscape. Doing more of what got you here, is not going to get you out.

CANNABIS GROWERS' SURVIVAL GUIDE

10 QUICK TIPS

NAVIGATING THE
MARKET DOWNTURN

BUSINESS IN 2022

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Stop Bleeding Cash



Can Technology help?



Markets are Tight

We don't have to tell you how challenging it is to run a profitable grow operation right now.

Morale among growers is at an all-time low. For the first time, complaints about low bud prices have surpassed complaints about compliance regulations. Some growers plan to leave the market which will help a little, but it is unlikely to be enough to

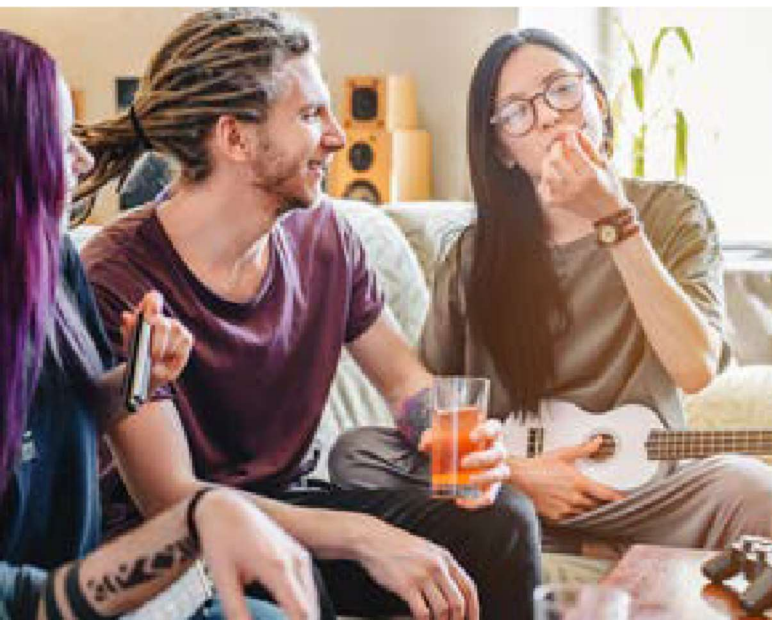
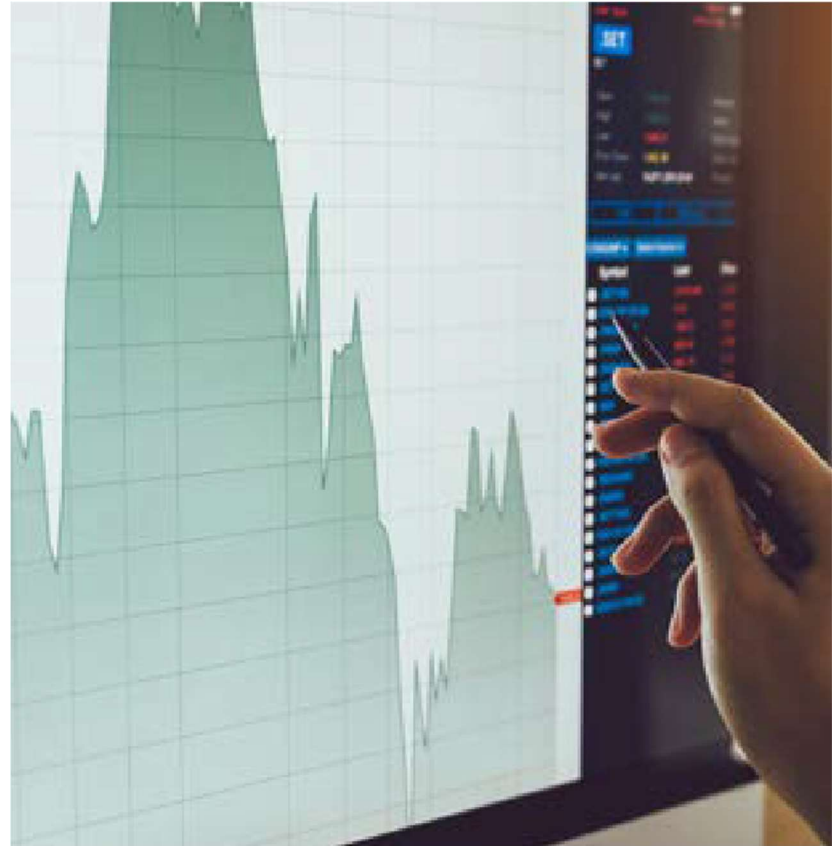
bring prices back near anything we have become accustomed to. It is time to tighten our belts, but how do we do so with future prosperity in mind? We have put together 10 tips to help you navigate your business through these turbulent times.

Why is it so Bad?

The obvious answer is over supply, but the bigger picture is not so simple.

Everything goes through boom bust cycles, and cannabis is no exception. However, cannabis is unique in how fast the cycle occurred. Other industries such as wineries, breweries and distilleries have all had their similar challenges, but none saw this rapid of swings.

While markets varied by state, the wind was at cannabis's back for most of 2019 through 2021. Supply was limited and demand was high. The stock market was booming and many looking to make a buck were willing to speculate on cannabis. This dumped tons of money into new grow operations. Now, with the economy looking more like recession, customers are looking to curtail spending right when supplies are high.



Will it get better?

Things will improve, but not for everyone and not right away.

We have just been through what investors like to call a blow off top. This is when maximum money flows in because of maximum hype. The hype drives the market and dreams of getting rich quickly blinds investors to good business fundamentals. Ultimately this leads to a crash.

Trying to push this cannabis pig through the python will take time before the market is hungry again. Luckily for growers, cannabis is a consumable, so markets can rebound in months or a couple of years, not in decades as with some industries. However, don't ever expect to see the previous high prices return. Every industry goes through its early development phase, and that is over for cannabis. Just like the dot-com bubble of the 1990s, the cannabis industry is not going away, but it will be transformed.

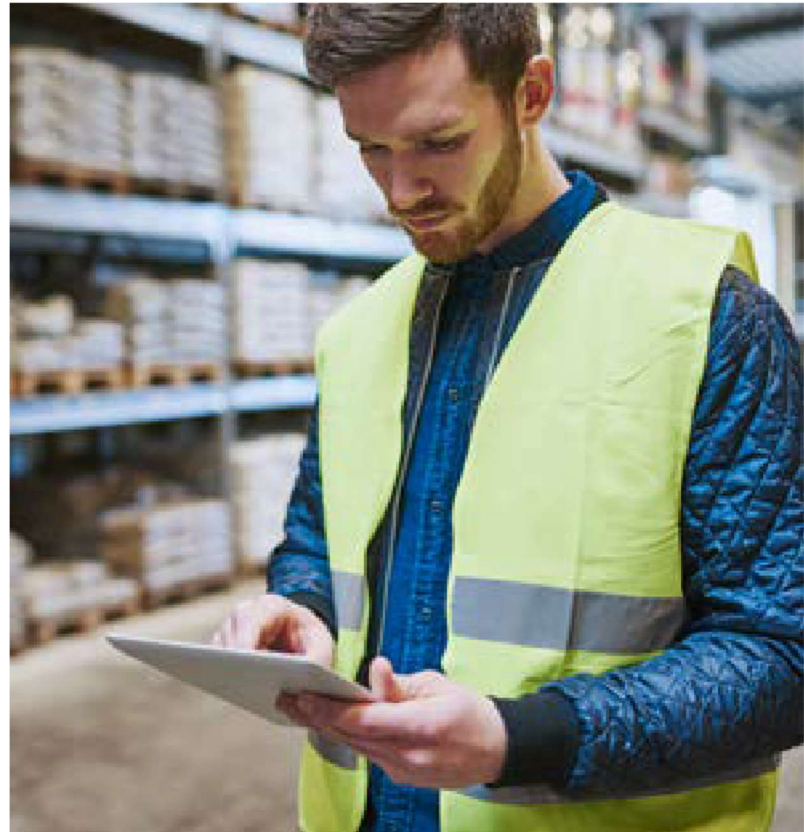
Tips for Moving Forward

1. Watch your cash flow

We have all heard cash is king. If that is true, cash-flow is how you stay king. Trying to make a profit on under \$500 per lb. weed will take vastly different thinking than what worked for over \$1000 per lb. weed. When things are booming, it is all about being the first to market, and watching expenses takes a back seat. That \$400 per gallon nutrient mix that promised to grow unicorns may not be justifiable anymore.

It might be your dream to produce that magical strain that will elevate you to OG status, but does your customer care? Or better yet, do they “still” care? We are not saying that you must forget your dreams, but now might not be the time to bet the farm on it. It is fine to keep your pet project alive, but if they can’t pay the bills, you have a hobby, not a business.

Find what works well. Grow what gave you the least issues. Assume going forward that you will not be able to give plants the individual attention you did before. Some of you might be going at it alone for a while.



Your Goals

2. You started growing for a reason, are you still growing for that reason?

Now is time for some soul searching. Did you start because you loved cannabis, farming or maybe just profits? Whatever your answer, we won't hold it against you. However, you need to ask if it's still fulfilling your needs?

Possibly, your true passion is cannabis culture, education, or maybe you are a marketing genius. What we can all agree on is that we don't need more plants. This may be the time to look at where your true skills and passions are. Whatever your strengths, you can assume another grower is lacking. The shotgun approach from yesterday of starting a grow and hiring all the warm bodies to support your needs will not work anymore. Finding true synergies will be required for success in the future.

“If you don't love what you do, you won't do it with much conviction or passion.”

-Mia Hamm



Overhead

3. What seems like a few bucks here and a few bucks there can really add up when things get tight.

Building space and utilities are obviously huge for indoor growers. Now is the time to ask yourself if you are paying to store things you will never use. If you are not sure if you need something, ask what you would do if you didn't own it and you saw it next to a dumpster. If you must think about it, let it go, and hopefully pocket a few bucks in the process.

Reducing your rent or renting out some unused building space or equipment can make the difference between paying the bills or not.



The little Things

Watch out for those subscriptions. Many of us have purchased services to support employees or operations we no longer have. That cannabis joke archive your marketer had to have may not still be serving you.

Sorry Uncle Bob

4. The second worst part of running a business is letting people go. The worst part is keeping those you no longer need.

We all love Uncle Bob. After all, he is the one that taught you how to grow and encouraged you to start a business. However, all good things come to an end. If you have to pay the bills, the buck stops with you. Keeping people on because you feel you owe it to them or are afraid you can't hire someone later will just accelerate your financial problems. You can always gift that pound that has been collecting dust to Uncle Bob to stay on his good side.

For those employees or partners that you can't live without, it is time for a heart to heart. If you value them that much, it is time to go over finances with them. If they are going to be a valuable part of the business going forward, it is time for them to shoulder some of the responsibilities and come up with solutions. It may be your ship to steer, but if they want to stay in the boat, they must row. At times of stress, another set of eyes is critical to finding solutions.





“The good part of running a business is that you only have to work half days. The best part is you can pick which 12 hours.”

-All Business Owners

Automation

5. Equipment can be expensive, but no established industries are competitive without it.

Cannabis relishes in the cottage industry image. We all want to produce that magical strain that reserves the coveted position in the dispensary display case. For those more ambitious, we may strive to be the Samuel Adams of weed. Accompanying this mentality has been the mindset that bucking, trimming and packaging should all be done by hand. Here's a little secret. Samuel Adams is not hand crafting their beer. The days of doing everything by hand and making a profit are over for most of us. Those wanting to succeed will have to adapt.

The cost of harvesting and processing equipment can be a barrier to many, but it should be compared to the cost of employees. Employee expenses go beyond just wages. Employees require payroll taxes, insurance, managers and facility space. Many growers are concerned that the introduction of machines will reduce their product quality. This may have some merit, but all machines are not created equal, and some are better than others. This is where doing your research really pays off.

With this downturn, there will be some bargains on used equipment. However, growers will sell their worst performing machines first. The last thing you want to do is buy someone else's headache.



The Big Players

6. Know your strengths and weaknesses. Don't be a fish in the wrong pond.

Whether you are big or small, challenges exist in a down market. We are used to seeing large companies buy up smaller competitors. However, we also see large companies going under or being swallowed up by other large companies. Large companies that have forward looking management will have opportunities to grow in this challenging environment. Those who have become bogged down in bureaucracy or became disorganized trying to expand quickly will not.

For the smaller growers, the opportunities are different. It is much easier for a blade of grass to survive a hurricane than the mighty oak. It is easier for you to pause or do different work for a while than your larger competitors. As larger companies change course or go out of business, voids in the market will open. Your strength is in being nimble. Look for niche opportunities that might take you in a better direction.

Don't assume the big players will always win. Most business owners aren't lying awake at night worried about Sears, Enron or Lehman Brothers taking over their market.



7. Don't get whiplash

Say there is a shortage of weed and prices hit \$2000 per lb. You don't want to miss out, so you rent space, buy lights, buy clones, buy nutrients, etc., all at record levels. In response, your suppliers double or triple their orders from the manufacturer. The manufacturer builds a new factory to keep up with orders and increase production for future sales growth.

With high profit potentials, more people grow, and prices drop to \$400. To save money, you reduce your purchasing to the bare minimum to stay afloat. Your supplier, now overstocked, drops prices to increase sales and pay their bills. The manufacturer in turn gets very few orders and must lay off people before they even finish building their new facility.

This slow down reduces supplies and weed goes back up to \$1000. Over time, the market figures this out and the swings become smaller. However, these swings are catastrophic to those who don't understand them and react instead of plan.

Example: In 2nd quarter 2021, Amazon made 7.7 billion in profits. They expanded, constructing warehouses across the country. Come 2nd quarter 2022, they lost 3.8 billion and haven't finished building the new warehouses. Even Amazon isn't immune.



Offering your customers something your competitors don't is crucial when competition is high and you don't want to win the race to the bottom.

What does your customer want, and how are you going to give it to them?
You better be able to answer this.

It's not About You

8. Now is not the time to be looking for customers.

It is often estimated that it costs 5X as much to get new customers than to keep the ones you have. In down markets everyone is looking for new buyers, so this number is likely much higher. Cherish the current customers you have. Going above and beyond is likely to improve your bottom line more than trying to start a new relationship with someone who has already had 5 sales calls by noon. If you are trying to gain a new client, you better be ready to show them how you will make their life easier or improve their profits. Don't let down your game face but be sympathetic to the challenges your customers are dealing with. No one wants to take on your charity case. You are dealing with business owners, not social workers.



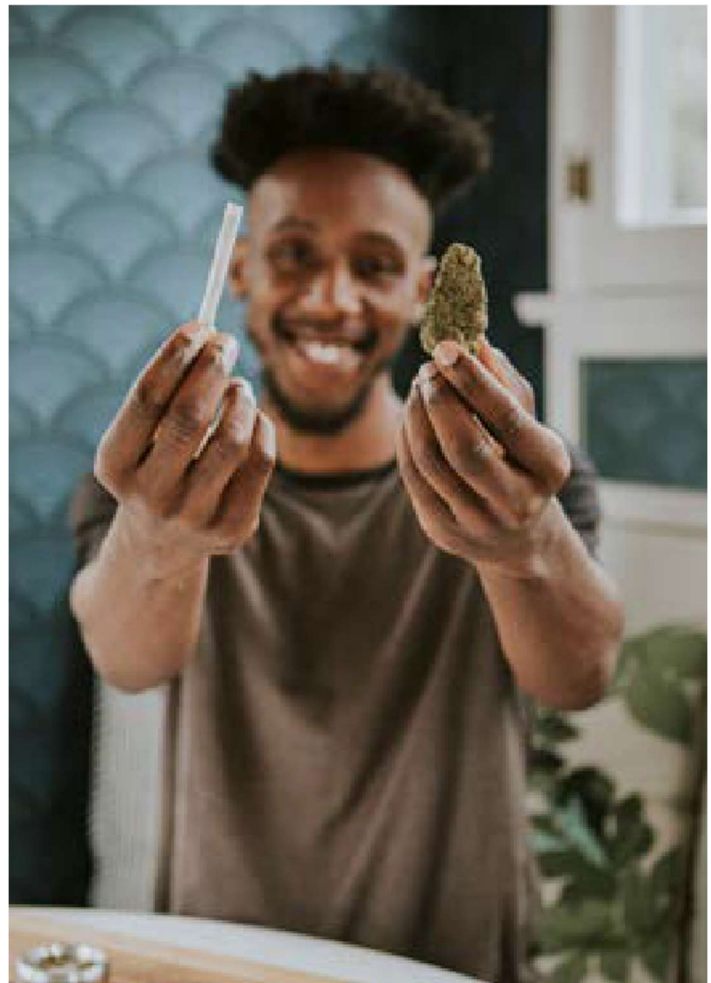
80/20 Rule

9. 80% of profits come from 20% of your customers and 80% of your problems usually come from another 20%.

It is easier to hold onto your money than make more of it. Researching which customers are sucking your time and energy may be the most profitable thing you can do. Bite the bullet and crunch the numbers to figure out how to stop the bleeding. You may find that you are spending more money managing some customers than you are making from them. Dropping your worst offenders may drastically reduce your customer service needs. The small loss in sales may easily be made up for with a reduction in expenses. Plus, the extra product you still have in stock may sell for more later.

For the customers you want to keep, you need to practice the following:

- Admit to any mistakes you have made and fix them. It is easier to forgive than forget.
- Never over-promise and always deliver on promises
- Understand what the customer expects from you and vice versa.
- Find out what is most important to your customer. Don't assume.
- Be available. If you aren't, your competitors will be.





Plan for the Future

10. Dumping your product may seem like the only priority but don't lose sight of next week, next month or next year.

One thing we can all agree on is that things are happening fast. If you take a day off, you may miss a sale, but if you don't take a day to plan, you could lose your entire future. Things aren't going to go back to "normal" and this isn't a "new normal." We are in a state of transition, and we can play a part in defining how that transition will look. Analyze what you and your business do well. Maybe you are the best grower in the state. However, maybe you are better at marketing, business, accounting, logistics, irrigation, lighting or customer service. Instead of waiting for your business to be scooped up in a fire sale, find other growers that excel where you don't and vice versa. This is the time to be humble and cooperative. Don't get purchased by your bigger commentator, become them. Doing more of what got you here, is not going to get you out.

More millionaires are made by scooping up opportunities in down times than are ever made by riding a market to the top.

Conclusion

Once in a lifetime opportunities are everywhere if you know where to look.

If you wait for the big break to come to you, it will never happen. Life is largely about luck, and those who correctly position themselves are more likely to get it. However, luck is not usually the issue, letting it pass you over is. Most people will have luck at various times in their life, but few capitalize on it. In reality, good fortune is recognizing opportunity and acting on it. You may be great at managing the METRC system, and you meet an excellent grower who struggles with compliance. You both just found luck, but you must act.

Inaction is the kiss of death. You don't have to upend your entire business and change everything, but standing still will get you passed over. You could take a step back and wait for better markets. However, if you wait until prices are back up to start growing, you will be too late. Growing additional niche crops may smooth out some of the swings in the cannabis markets. No one knows what future federal legislation will bring. If cannabis is legalized nationally, this will open new markets to experienced growers. Those well positioned to act may have another boom opportunity.

We need to accept the reality of this erratic business cycle. If this doesn't seem worth it, follow your gut and head for sunnier pastures. However, many economists expect similar problems to surface throughout the economy. Jumping ship just to ride another industry down as cannabis recovers is a real possibility. Forward looking businesses willing to adapt and change with the needs of the cannabis landscape will be positioned to come out on top. Happy Growing.

Happy Growing



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