

Women & Minorities in the Cannabis Industry



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WOMEN & MINORITIES IN THE CANNABIS INDUSTRY



Eli McVey
MJBizDaily
Research Editor

Welcome to the second edition of the Women & Minorities in the Cannabis Industry Report, produced by the research team at *Marijuana Business Daily*.

Since the first edition of this report was published in 2017, the cannabis industry has changed significantly—and with it the diversity landscape. Consider the following:

- Preventing individuals with a prior drug conviction from working in or owning a marijuana business—which disproportionately affects people of color—was common practice in most early legal marijuana markets. Now, newly legalized states such as Massachusetts and Illinois are actively encouraging people with previous drug charges to enter the industry.
- Instead of providing opportunities specifically to women or racial minorities, several states now use their social equity programs to target opportunities to people who live in communities that are economically disadvantaged and/or experienced excessive enforcement of drug laws.

It remains clear, however, that racial and gender diversity in the marijuana industry is still lacking—especially in ownership and executive positions. But so too is the amount of hard data by which to benchmark the current state of diversity in the marijuana sector, understand the obstacles standing in the way of a more equitable industry and contextualize the initiatives states are putting in place to address the issue.

By utilizing data from several governmental agencies and incorporating additional information from our own industrywide survey, this report provides 12 key charts to address these deficiencies. Conversations with industry experts well versed in matters of diversity and inclusion helped round out the analysis.

Throughout the course of survey development, analysis and publication, great care was taken to provide the most reliable and trustworthy data possible. Our organization's purpose is not to hype the industry, but rather to serve as a credible reality check.

To that end, it's important to point out that this report draws heavily from a few core markets where robust data exists. The information provides the most accurate snapshot of diversity in the cannabis industry as possible, but the circumstances of each market are unique and will vary from state to state.

In the minds of many lawmakers and regulators, social equity initiatives and cannabis legalization are now intertwined—you can't have one without the other. This is a mark of progress, one that will push states to be more transparent about the demographic compositions of their cannabis markets.

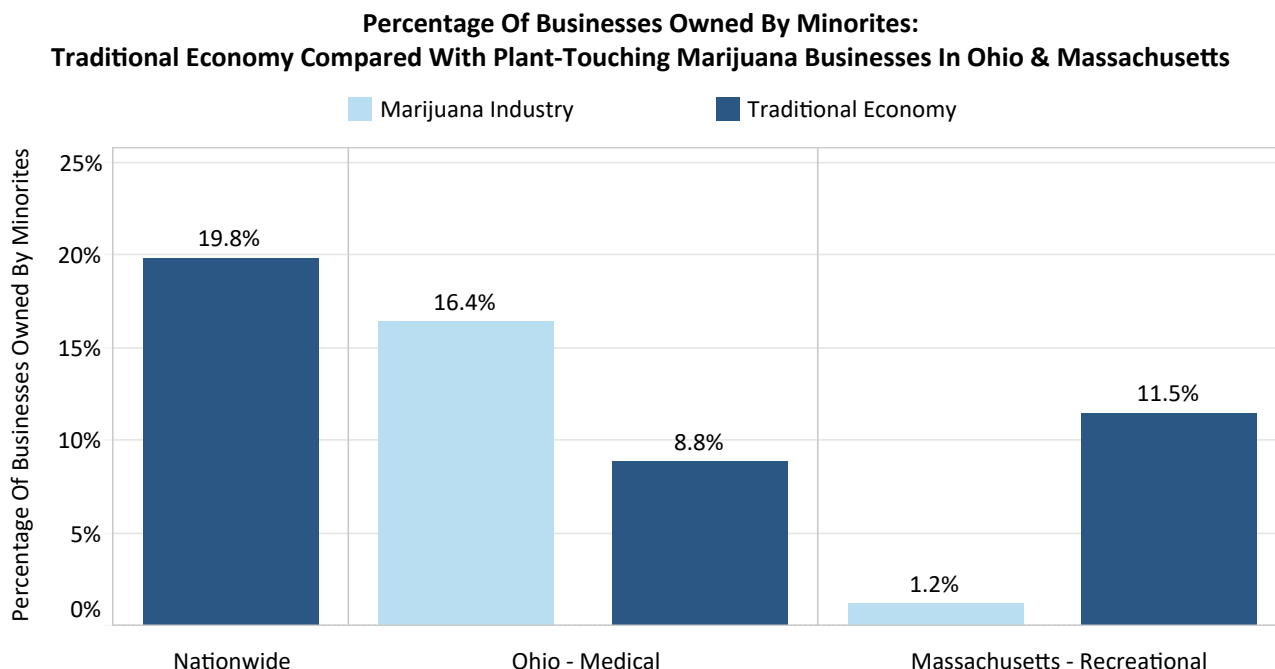
We'll continue to monitor the situation, providing the most up-to-date and credible information by which to measure and improve diversity in the marijuana industry.

If you have any suggestions or want to provide feedback, please contact me at elim@mjbizdaily.com.

A handwritten signature in black ink that reads "Eli McVey". The signature is stylized and fluid.

Eli McVey
Marijuana Business Daily Research Editor

CHART 1: Percentage Of Businesses Owned By Minorities: Traditional Economy Compared With Plant-Touching Marijuana Businesses In Ohio & Massachusetts



Note: All ownership statistics refer to businesses at least 51% owned and controlled by minorities. Ohio and Massachusetts license data includes both provisional and final licenses issued. Ohio data current as of 6/9/19. Massachusetts data current as of 7/18/19.

Source: 2016 Annual Survey of Entrepreneurs, The Columbus Dispatch, Massachusetts Cannabis Control Commission
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The two states that provide robust data on the proportion of businesses that are majority-owned by racial minorities are Ohio—which offer only legalized medical marijuana—and Massachusetts—which has legalized both medical and adult-use cannabis.

A business that is minority-owned—meaning at least 51% of the business is owned and controlled by a racial minority—is different than a business with a racial minority owner. For example, in the latter classification, if 20% of a business is controlled by a racial minority, the business has a minority owner but is not minority-owned.

While the data is limited in scope and may not be an indicator of minority representation in the broader cannabis industry, it provides an accurate snapshot of the level of diversity in these two new markets—something that’s been conspicuously lacking in this young and rapidly developing industry.

Significant social equity provisions were implemented in both Ohio’s MMJ and Massachusetts’ adult-use markets, but the states took very different approaches to foster more diversity.

In Ohio, regulators mandated that 15% of all licenses go to companies that were majority-owned by a racial minority. Though an Ohio judge eventually decided this “racial quota” was unconstitutional, as it meant that two lower-rated, minority-owned firms were picked ahead of applicants with higher scores, the ruling came after licenses had been awarded.

Massachusetts took a different tack entirely. Instead of providing opportunities specifically to racial minorities, the state set up its social equity program to benefit those who:

- Live in communities disproportionately harmed by marijuana law enforcement.
- Have a previous drug conviction.
- Are married to or are the child of someone with a past drug conviction.

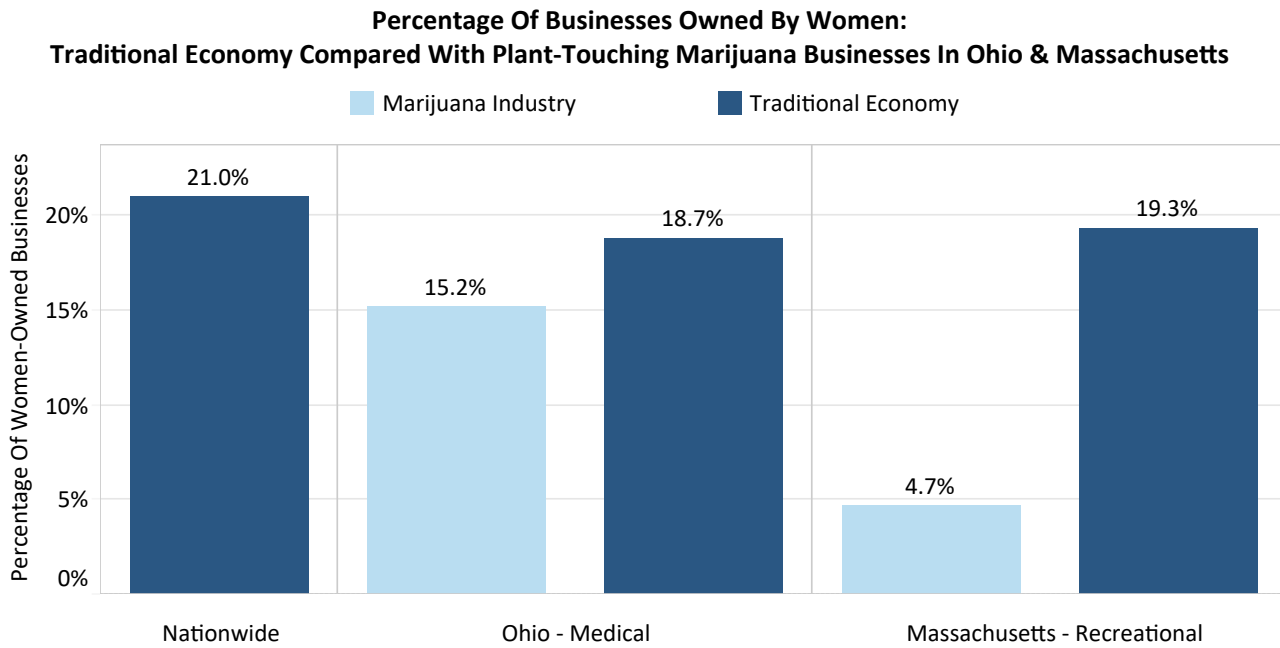
People who qualify for Massachusetts' social equity program and want to apply for a business license receive certain benefits, such as assistance in creating a business plan, management training and reduced licensing fees. People who qualify for the state's program but don't want to own a business can instead get training for management or entry-level positions in the industry.

The social equity provisions in Ohio were very straightforward, and though eventually found unconstitutional, they appear to have achieved the goal of fostering more diversity in the ownership of cannabis businesses.

Regulators in Massachusetts clearly understand that racial minorities have been disproportionately harmed by the war on drugs and are taking steps to ensure the legal cannabis industry provides opportunities to them. Relative to Ohio's, the social equity program in Massachusetts is more nuanced and attempts to provide options outside business ownership. But in terms of diversity in ownership of cannabis businesses, the results so far have been lackluster.

Furthermore, the data is skewed because previously existing MMJ businesses—which were overwhelmingly owned by non-minorities—received priority processing for recreational licenses. However, it's still very early days for cannabis businesses in Massachusetts and many more licenses will be awarded in the coming months and years.

CHART 2: Percentage Of Businesses Owned By Women: Traditional Economy Compared With Plant-Touching Marijuana Businesses In Ohio & Massachusetts



Note: All ownership statistics refer to businesses at least 51% owned and controlled by women. Ohio data includes provisional and final licenses granted to processors and cultivators, current as of 7/19/19. Massachusetts data includes both provisional and final licenses issued across all plant-touching license types, current as of 7/18/19.

Source: 2016 Annual Survey of Entrepreneurs, Ohio Medical Marijuana Control Program, Massachusetts Cannabis Control Commission
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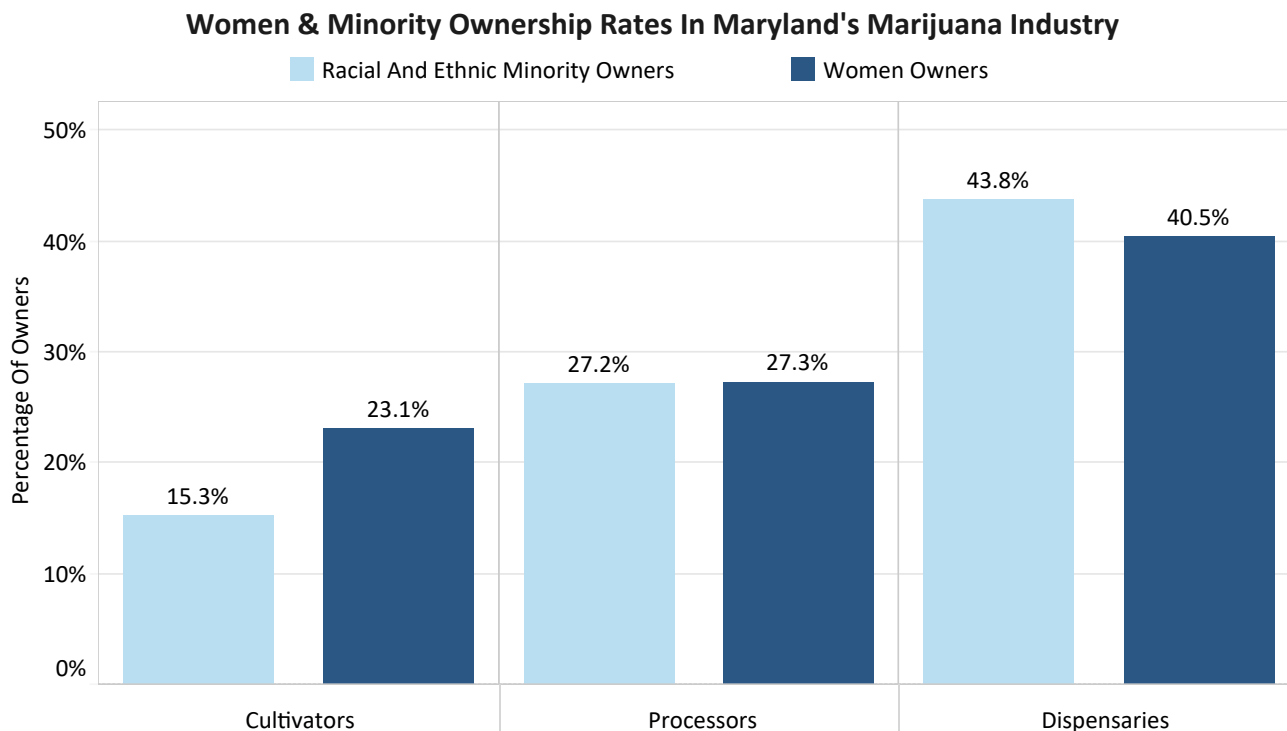
In both Ohio’s MMJ market and Massachusetts’ recreational industry, the proportion of plant-touching marijuana companies owned by women is lower than the proportion of businesses in the traditional economy owned by women.

In Massachusetts, the difference is quite stark, as the rate of women-owned cannabis businesses is roughly a quarter of what it is in the regular economy. However, the licensing process is still underway in Massachusetts, so these figures could change over time.

Social equity was a major component of the licensing process in Ohio, but that did not extend to women-owned businesses. In Massachusetts, women-owned businesses could theoretically qualify for the social equity program, but not solely on the basis that the business is owned by a woman.

The recurring issue keeping many women from starting a plant-touching business is lack of access to capital. The amount of money needed to start a plant-touching cannabis business can easily surpass six figures, and the networks of investors that can provide that amount of money—such as high-net-worth individuals and venture capital firms—can be hard for women to tap into. If they do find an investor, the women-owned businesses often receive less funding and fewer resources—such as mentorship and strategic guidance—than their male counterparts.

CHART 3: Women & Minority Ownership Rates In Maryland's Marijuana Industry



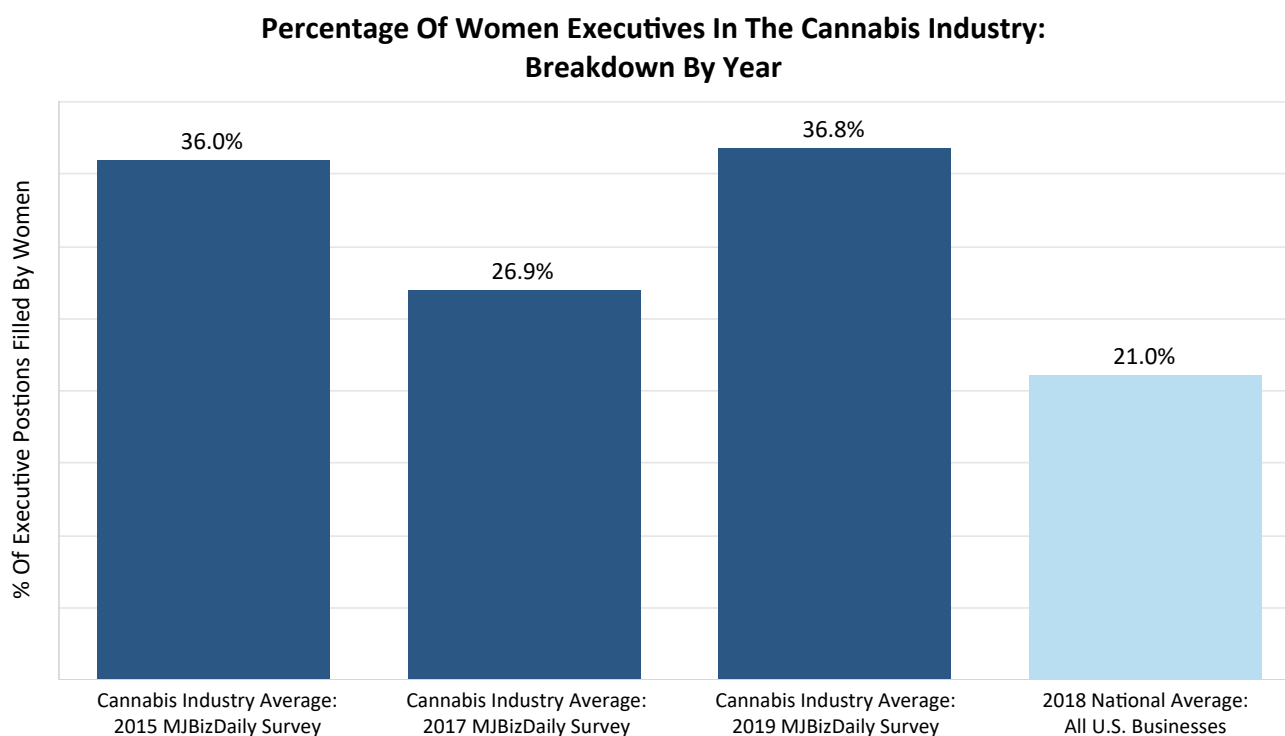
Source: Maryland Medical Cannabis Commission
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In Maryland, regulators were required to consider an applicant's race when awarding business licenses, and the initial data suggests the state's cannabis industry is more diverse than most.

However, there are some key points to consider:

- The most recent data available is from 2017.
- Maryland's survey data reflects the percentage of respondents who have any ownership stake in a business, not necessarily a controlling stake.

The state received significant backlash after awarding all 15 of its initial cultivation licenses, none of which went to a minority-owned business. A subsequent study commissioned by the state found that minorities did face significant disadvantages to entering Maryland's cannabis industry, prompting lawmakers to approve a second round of licensing—currently underway—that will focus on both race and barriers to entry for minorities as it chooses permit winners.

CHART 4: Percentage Of Women Executives In The Cannabis Industry: Breakdown By Year

Source: Marijuana Business Daily reader surveys, October 2015, August 2017 & June 2019; Grant Thornton International Business Report
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The percentage of women in senior-level executive positions at cannabis companies has vacillated since 2015, currently standing at just under 37%, according to a *Marijuana Business Daily* survey conducted in June 2019.

It's hard to say for sure what's driving these dips and spikes, but some industry experts suggest that more competitive markets tend to favor businesses with men in ownership and leadership positions, primarily because of their established access to capital.

The money and resources companies need to survive and expand often comes from private capital markets, such as family investment offices and venture capital firms—a largely male-dominated industry.

The general landscape has changed significantly since *MJBizDaily's* survey on this topic in 2017. That year, major recreational markets, including Colorado and Washington state, were no longer in their infancy and had become highly competitive. This may have been harder on businesses with female executive teams, forcing some companies to close and some executives to exit the industry.

Since the previous survey, rec sales launched in California, Massachusetts and Nevada, while major medical markets such as Maryland, Ohio and Pennsylvania got off the ground.

Many young, quickly growing companies that initially filled key positions in sales, marketing or operations with whomever they could find—often friends and family members—are now looking to bring in people with more experience and expertise. That's presented a tremendous opportunity for women outside cannabis looking to advance their careers, some of whom may be frustrated with a lack of upward mobility in their current professions.

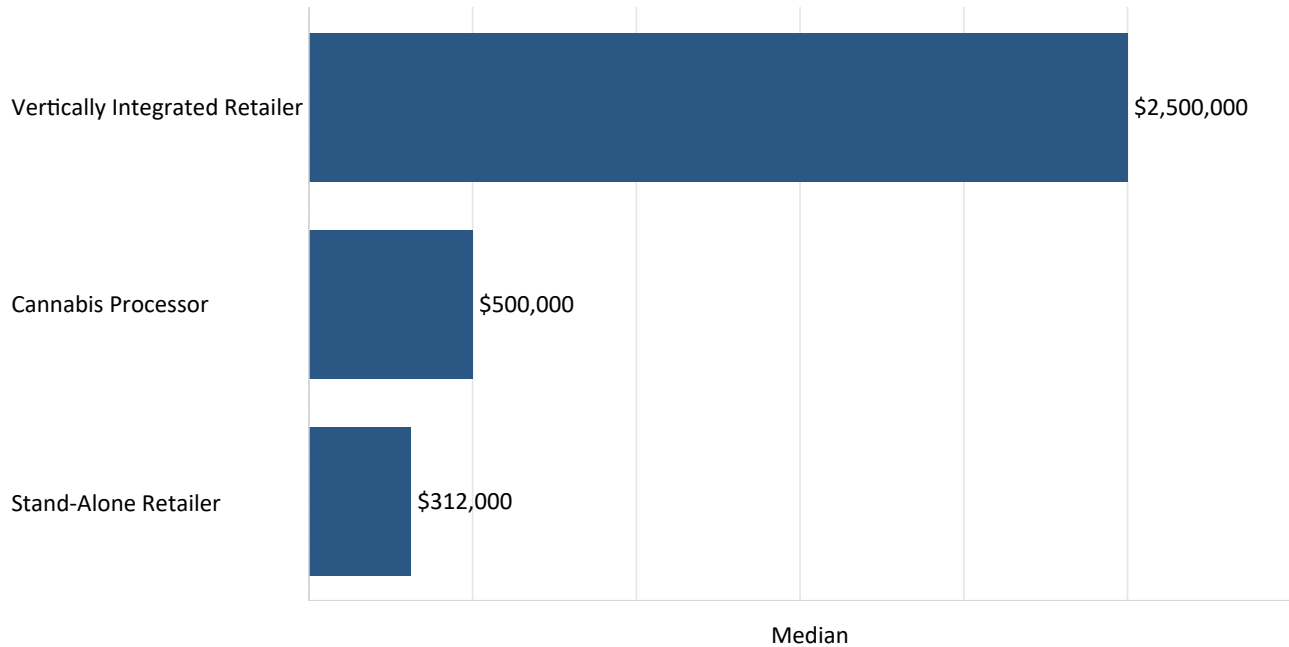
There's also been a growing sense of awareness around the lack of both gender and racial diversity in the cannabis industry, prompting more concerted efforts among mature cannabis companies to fill key leadership positions with women and minorities.

Despite the swings between years, the portion of executive positions held by women in the cannabis industry has consistently outpaced that of businesses in the traditional economy.

DRIVERS OF LOW GENDER & RACIAL DIVERSITY IN THE CANNABIS INDUSTRY

CHART 5: Startup Costs For Plant-Touching Businesses Launched In Or After 2016

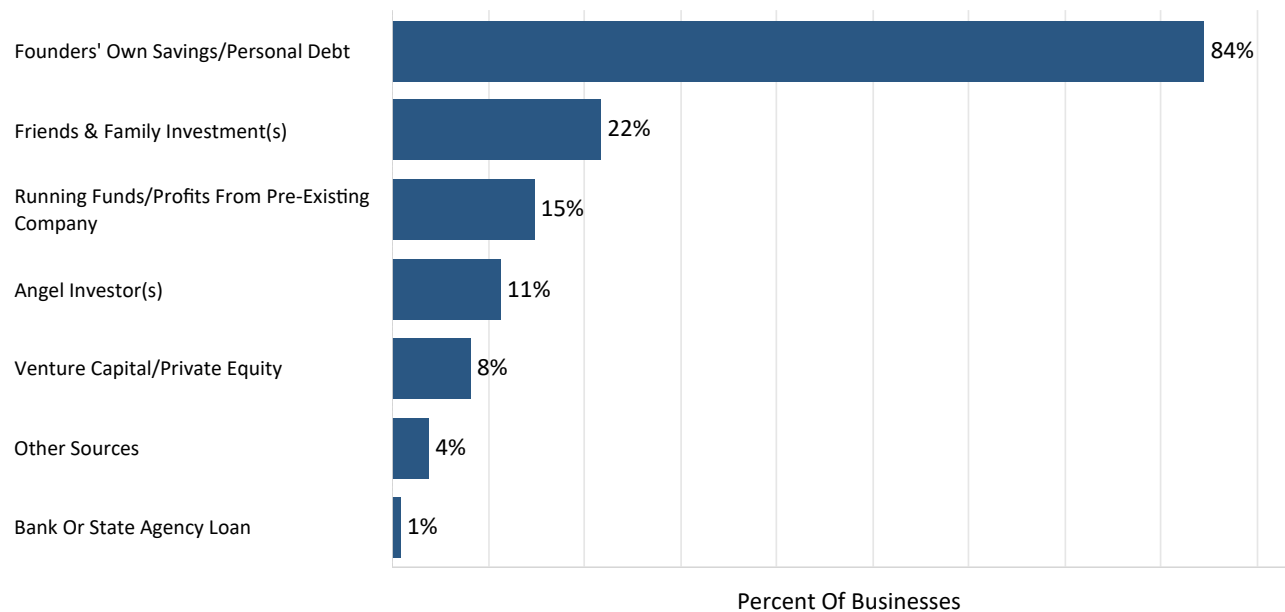
Startup Costs For Plant-Touching Businesses In Recreational Markets Launched In Or After 2016



Source: 2019 Marijuana Business Factbook
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Getting into the plant-touching side of the marijuana industry is a costly endeavor. Even on the low end—in this case, a retail store in a recreational market—it typically costs upwards of \$300,000 to launch a business. For entrepreneurs looking to establish a plant-touching business on the medical side of the industry, where regulations are generally more stringent and licenses fees are typically higher, the cost of entry can easily exceed several million dollars.

Furthermore, this doesn't include funds businesses need to keep in reserve in order to sustain or expand the business after it launches—this is just the bare minimum it takes for a business to begin the process. Before regulators award licenses or investors provide additional funding, they'll often want to see that a business has access to liquid capital they can deploy in case of lower-than-expected demand or an expensive, unplanned expense.

CHART 6: Source Of Capital To Launch: Operational Cannabis Businesses Based In The U.S.**Source Of Capital To Launch: Operational Cannabis Businesses Based In The U.S.**

Note: Multiple-choice question; respondent total may be greater than 100%.

Source: 2019 Marijuana Business Factbook

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Though it costs hundreds of thousands—if not millions—of dollars to start a cannabis business, the vast majority of U.S. marijuana companies are privately owned and self-funded by the founders. When personal savings/debt aren't enough, entrepreneurs typically look to their close network of friends and family for additional funding.

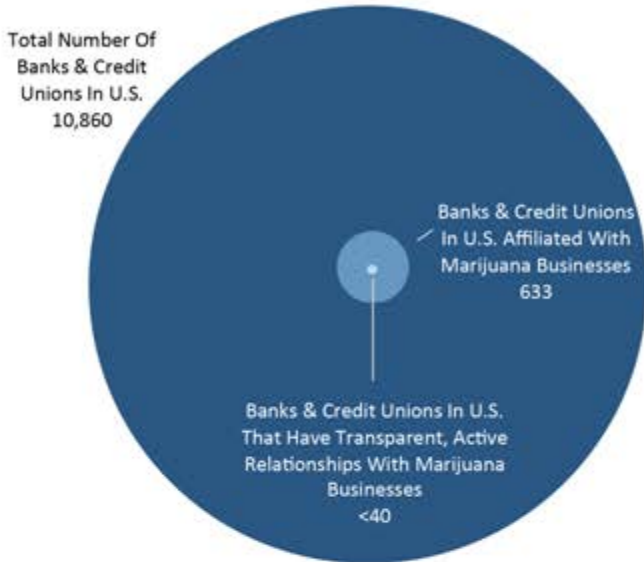
Despite increased interest in the marijuana space from investors, only a small percentage of cannabis companies—typically businesses with experienced management teams, a proven track-record of success and the ability to scale—will manage to secure funding from private equity/venture capital firms or angel investors. For most small business owners in this space, it's not a viable path forward.

Furthermore, investors able to provide the amount of funding that cannabis businesses need to get off the ground are, generally speaking, white males. Whether consciously or unconsciously, white male investors tend to fund businesses run and led by people who look like them—putting women and racial minorities at a disadvantage.

CHART 7: Overview Of Banking Situation For Marijuana Businesses

Overview Of Banking Situation For Marijuana Businesses

Number Of Banks & Credit Unions Working With Marijuana Businesses



Overview Of Services Banks & Credit Unions Generally Provide To Businesses

	Traditional Business	Marijuana Business
Checking Accounts:	✓	✓
Payment Processing:	✓	✗
Business Loans:	✓	✗

Source: FDIC, Credit Union National Association, Hypur, Marijuana Business Daily
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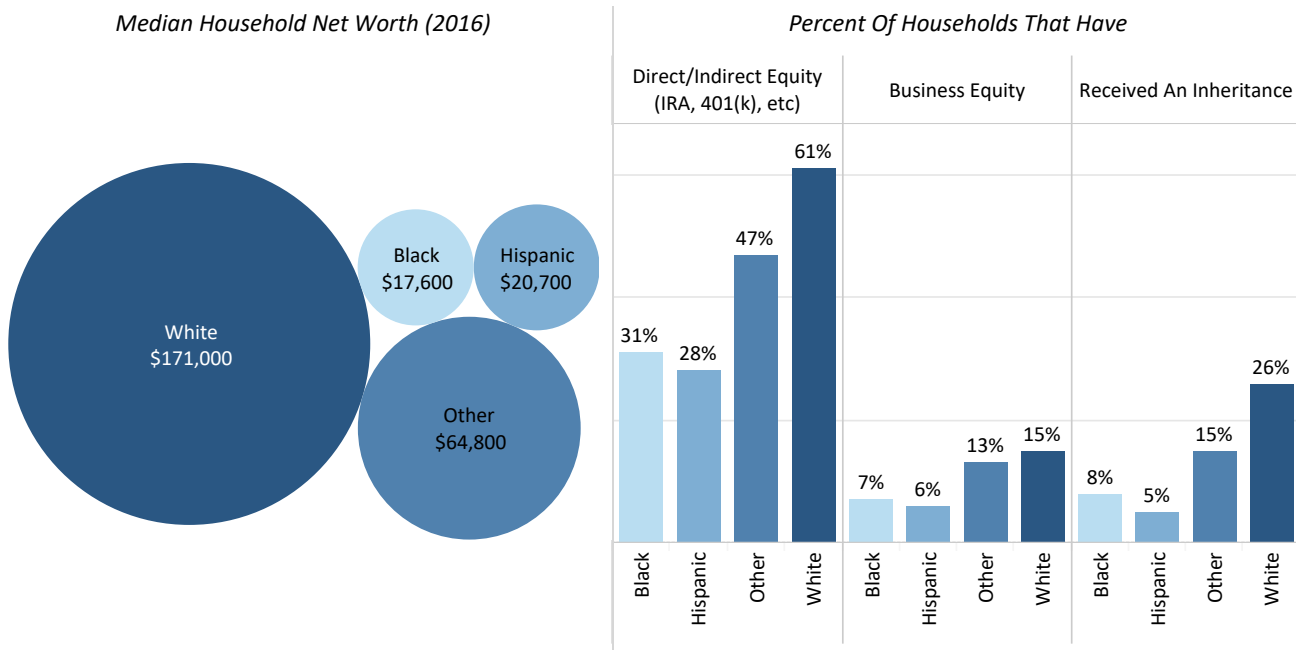
In the traditional economy, an entrepreneur with a good idea and solid business plan, but without access to friends, family members or other investors able to provide funding could turn to a bank and apply for a small business loan.

But because marijuana remains illegal at the federal level, the overwhelming majority of banks and credit unions choose not to work with cannabis businesses.

While some marijuana businesses are able to get bank accounts by providing a nondescript operating name to the bank or mischaracterizing the nature of the company to avoid additional examination, they still have access only to very rudimentary banking services and don't have the ability to procure financing for crucial expenses such as equipment and commercial real estate.

CHART 8: Differences In Household Wealth By Race & Ethnicity

Differences In Household Wealth By Race & Ethnicity



Source: The Federal Reserve Board, 2016 Survey of Consumer Finances
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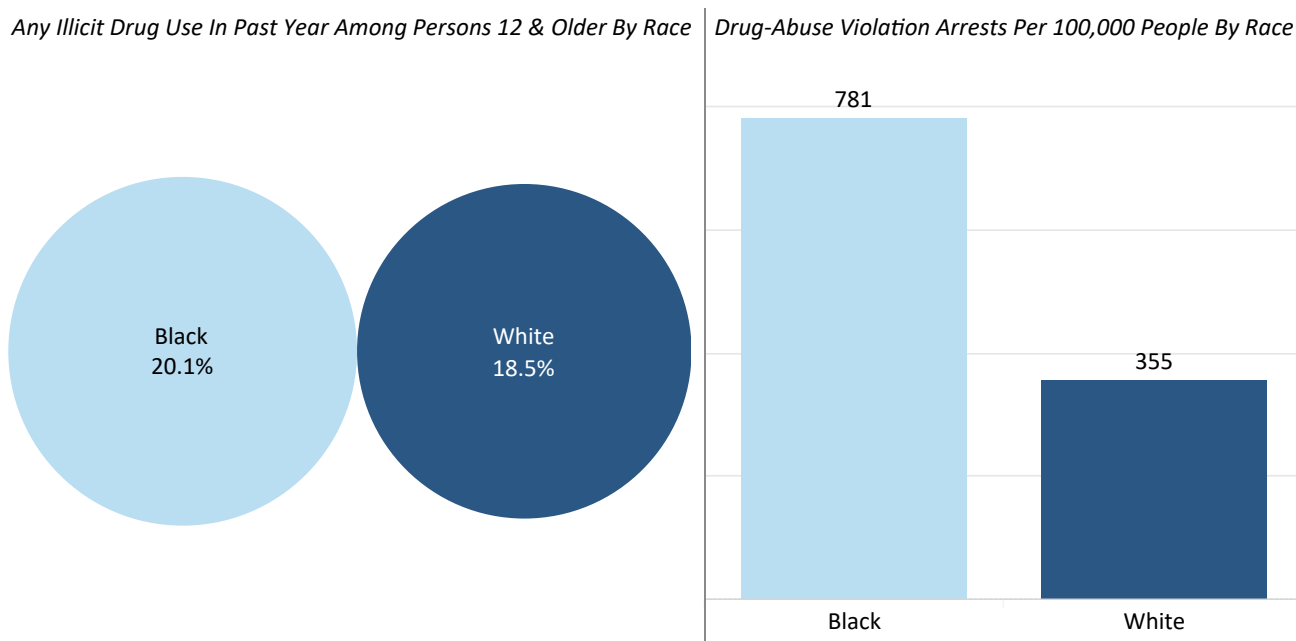
High barriers to entry and few funding sources have created an environment where those with personal wealth or close proximity to wealthy individuals are more likely to find success in the marijuana industry.

That creates a disproportionately high burden on racial minorities looking to start a cannabis business, especially for black and Hispanic individuals. Household net worth—or all assets held by a family minus any debts or liabilities—for black and Hispanic families is 10% and 12% of the total net worth for white families, respectively.

Furthermore, a lower portion of non-white households can tap savings held in investment accounts, draw on funds and/or equity from a pre-existing business or utilize wealth accumulated from previous generations to fund an entrance into the cannabis industry.

CHART 9: Drug Use & Arrest Rates By Race

Drug Use & Arrest Rates By Race



Source: 2017 FBI Uniform Crime Reporting Program, 2017 National Survey on Drug Use and Health, U.S. Census Bureau
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Nationwide, the percentage of black people who have used any illicit drug in the past year—including, but not limited to, marijuana—is roughly 8% higher than white people, yet blacks are more than twice as likely than whites to be arrested for drug abuse violations.

In many states, drug crimes automatically disqualify a person from obtaining a license to operate a plant-touching business. Although many newly legalized states, such as Illinois, are implementing more inclusive rules and regulations that allow people with arrest records to receive business licenses, in many cases the damage has already been done.

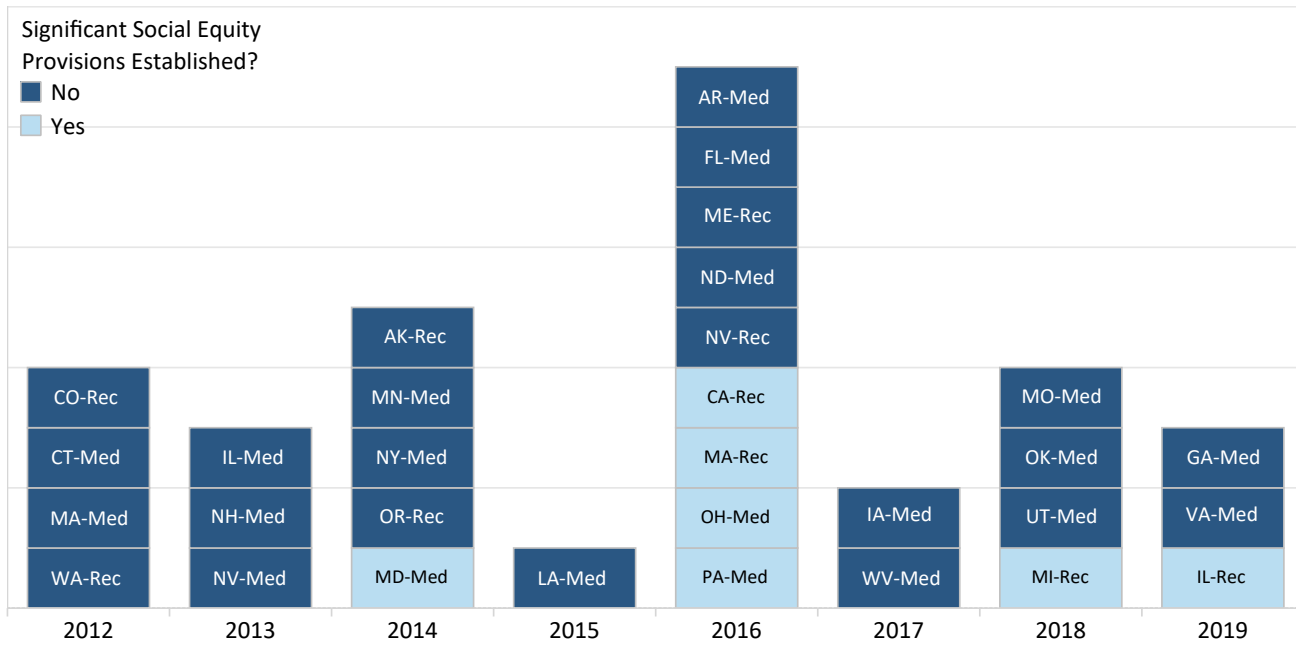
A criminal record may have kept them from receiving other jobs or developing a professional network, preventing them from amassing the kind of wealth needed to enter the marijuana industry.

Furthermore, witnessing the effects of disproportionately enforced drug laws—where friends and family members have been arrested or jailed for simple possession—can foster a culture of fear around cannabis in black communities, keeping people from entering the marijuana industry or even learning about the opportunities legalization has created.

ADDRESSING SOCIAL EQUITY IN THE CANNABIS INDUSTRY

CHART 10: Status Of Social Equity Provisions By State & Market: 2012-2019

Status Of Social Equity Provisions By State & Market: 2012-2019



Source: Marijuana Business Daily
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Concerns over a lack of social equity and diversity in the cannabis industry have existed from the start of marijuana legalization. The fact that a new, extremely lucrative industry was materializing—comprised largely of white males selling a drug that many people of color had been arrested and incarcerated for—was seen as an injustice.

In 2012, the year voters in Colorado and Washington state legalized recreational marijuana sales, lawmakers and regulators were much more concerned about how it would impact public health and safety and, thus, did little to ensure the opportunities legalization created would be distributed equitably.

However, the landscape has changed significantly in just a few short years. Social equity provisions are prominent features of recreational markets in California, Illinois, Massachusetts and Michigan as well as medical markets in Maryland, Ohio and Pennsylvania.

Both New Jersey and New York—where adult-use legalization stalled in the legislatures this year—have struggled on how to best address industry and racial inequities.

While social equity initiatives have not been adopted in some small, tightly regulated medical markets, such as Iowa and North Dakota, the value of these markets is small relative to those that made efforts to boost diversity in their cannabis industries.

Estimated sales in 2022 for all markets that legalized medical and/or adult-use cannabis in 2016 or after sits at \$12.7 billion for those with social equity provisions, compared with \$4.1 billion for those without.

CHART 11: Overview Of Social Equity Provisions Implemented In A Sampling Of Medical And Recreational Cannabis Markets

Overview Of Social Equity Provisions Implemented In A Sampling Of Medical And Recreational Cannabis Markets



Source: Marijuana Business Daily
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There is no one-size-fits-all approach to addressing social equity and diversity in the cannabis industry, and states that have implemented social equity programs have done so in various ways.

California established a statewide social equity program to help those most harmed by marijuana criminalization, with the funding and support provided to municipalities rather than individuals. That means social equity initiatives in Los Angeles, for example, differ from those instituted in Oakland.

As part of the adult-use legalization bill that passed in Illinois—the first state to legalize recreational marijuana sales via the legislature—those with previous marijuana convictions are eligible to have their records expunged.

Some states are still hammering out the details of their marijuana programs, such as Maine and Missouri. While no social equity provisions have been developed in those states yet, they could emerge before sales get underway.

In some states without significant equity provisions—such as Oregon—cities have stepped up to tackle the issue. Businesses in Portland whose owners or staff have previous marijuana convictions are eligible for reduced license fees, and a city marijuana sales tax was put in place in 2016 to generate funds for economic and education programs in communities where drug laws were disproportionately enforced.

In Oklahoma, social equity was not part of the state's legalization bill, but very low licensing fees and no caps on the number of cannabis business licenses that can be issued has lowered barriers to entry—and some industry experts believe this could do more to promote diversity than other, more targeted outreach efforts.

Many of these social equity programs are targeted specifically toward racial minorities and/or communities disproportionately impacted by the war on drugs. While language in most of these initiatives cover gender diversity and their desire to address it, applying for a license as a women-owned business alone is not typically enough to qualify for any incentives that a social equity program would grant, such as additional points or priority processing on the license application.

CHART 12: Selection Criteria For Awarding Adult-Use Retail Licenses In Illinois

Selection Criteria For Awarding Adult-Use Retail Licenses In Illinois



Source: Illinois General Assembly
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In Illinois—the most recent state to legalize adult-use cannabis—lawmakers passed one of the most progressive marijuana business licensing frameworks in the country.

Instead of setting aside a certain number of applications to be awarded to minorities or economically disadvantaged individuals—as was done in Ohio but eventually was found unconstitutional—Illinois is strongly incentivizing diversity through its license application process. For adult-use retail stores, businesses that are at least 51% owned by an individual that qualifies as a social equity applicant are awarded 50 points, 20% of the 250 total points.

This does, however, introduce the potential for savvy businesses to exploit the law to gain a leg up in the application process. “Strawman” agreements, where an individual who qualifies as a social equity applicant owns 51% of the businesses on paper but in reality has no control or equity in the company, have become more common as states begin to provide tangible benefits for businesses that have diverse owners.

Despite the potential for abuse, these strong diversity incentives will likely bring more minorities and disadvantaged individuals into the industry than would otherwise be expected. It’s also a clear signal that regulators are aware of the lack of diversity in the cannabis industry and that they’re actively trying to create more opportunities for them.

APPENDIX

Methodology

Marijuana Business Daily gathered data for the number of women in executive positions at cannabis companies through an industrywide, anonymous online survey of cannabis business owners, founders and senior executives. The survey took place June 11-July 9, 2019, and includes qualified responses from 81 self-identified marijuana industry professionals.

These figures represent responses from individuals who are operating in a legal capacity in the U.S. cannabis industry. We take an extremely conservative approach and exclude data for businesses/respondents whose legal standing is unclear in any manner.

Examples of what we exclude consist of, but are not limited to, responses from those who:

- Claim they operate plant-touching businesses in states that have not legalized medical or recreational cannabis.
- Claim they operate wholesale grows in states where such sales are not permitted.

Data regarding the portion of final and provisional plant-touching marijuana business licenses awarded to racial minorities and women in Massachusetts is available through the Massachusetts Cannabis Control Commission and can be found [here](#). The data presented as part of this report is current as of July 18, 2019.

Data regarding the percentage of plant-touching marijuana business licenses awarded to racial minorities and women in Ohio was gathered by accessing the license applications of each winning business. Winning applications are presented on the Ohio Medical Marijuana Control Program website. Cultivation applications can be found [here](#), processing applications [here](#) and dispensary applications [here](#). The data presented as part of this report was last accessed and analyzed on July 28, 2019.

Data regarding the percentage of plant-touching marijuana businesses with women and/or racial minority owners was provided by the Maryland Medical Cannabis Commission and can be found [here](#). The data presented as part of this report was last accessed and analyzed on July 28, 2019.

SPECIAL THANKS

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