

Thinking Outside the Bud

Episode 346 - George Allen

<https://www.thinkingoutsidethebud.com/podcast/346-george-allen>

George Allen, Chairman of the Board, Lowell Farms

George Allen serves as Chairman of the Board for California-based Lowell Farms Inc. (CSE:LOWL; OTCQX:LOWLF), a leading, vertically-integrated, cannabis company with advanced production capabilities, including cultivation, extraction, manufacturing, brand sales & marketing, and distribution. A seasoned executive with extensive financing and transaction experience, Mr. Allen has built multiple companies through a combination of organic and acquisition-driven growth. He has recruited operating teams and shaped strategy in several competitive and dynamic industries.

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You're listening to Thinking Outside the Bud where we speak with entrepreneurs, investors, thought leaders, researchers, advocates, and policymakers who are finding new and exciting ways for cannabis to positively impact business, society, and culture. And now here is your host business coach, Bruce Eckfeldt.

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[1:06]

Welcome everyone. This is Thinking Outside the Bud. I'm Bruce Eckfeldt, I'm your host. Our guest today is George Allen, he is Chairman at Lowell Farms. We're going to talk about what's going on at low we're going to talk about really what's going on in the industry at kind of this federal level, you know, need unique opportunity here to have a conversation with someone who's really involved in cannabis at the highest level and really looking at where's the market going? How do we navigate the situation we're in with these kind of multiple state markets? What are the strategies? What are the opportunities? What are the challenges, and really kind of find out what's going on long what's going on in the cannabis market from a larger perspective. So with that, George, welcome to the program.

[1:43]

Hey, I'm grateful to be back. Thanks for having me. And I look forward to the conversation.

[1:47]

Yeah, it's a real pleasure to have you. So before we kind of dive into all the details, you know, just kind of refresh people's memories on little and love to kind of learn a little bit more about your background and how you got involved in cannabis. Give us a little the backstory.

[2:00]

Well, I got so so I've been in Canada, this is my second company in the cannabis industry, I was at acreage holdings before the transaction with Canopy Growth. And it's been a lot of fun, I've made my way out to California, sort of searching for the future state of cannabis, you know, looking for what it was going to look like in the future post deregulation or D scheduling whatever you want to call it. And, and I sort of was excited to find a much more mature market very much focused on survival of the fittest and success on brand and execution. And that to me felt like a better place to sort of to sink in and cut your teeth in terms of building a franchise because the hot dog vendor model that exists in in these limited license marketplaces that's going to change so quickly. And we're already starting to see the impact of that. So I think from my standpoint, it was really exciting to get out and I loved how I got involved in cannabis is sort of a long story that slowly my my kids are are weaning out of me, but but for the benefit of not listening to podcasts. But when I first had a joint when I was 15 years old, that, you know, sort of blew my mind. And I've had a long relationship with cannabis since then most of it under the cover of night, and usually behind closed doors. But you know, more recently, sort of, obviously, out Yelp, and it's been an awesome journey. It's been a lot of fun, and I love building a business here. But you know, I will generally say that, to the extent that there are budding entrepreneurs who are spending time, you know, on this call and listening in, I would generally say, the reason to get involved in cannabis business is because you're passionate about it. And you see, you see a potential for making a career, the prospects for sort of almost immediate fortune, I think, I think is something that brings a lot of people in this industry. And, you know, we see him often with scar tissue soon thereafter because I think it's if you go into it for the right reasons, you're gonna get what you want out of it. If you go into it expecting you know, an immediate fortune I think I think you're gonna have your head served. Yeah,

[4:22]

yeah. Yeah. I'm curious what you know, given that this is your second you know, big play in cannabis. What what did you learn from acreage or what do you do carry over from acreage in terms of insight in terms of strategy in terms of just your kind of own kind of understanding and approach and then you know, why lol like, what was the, you know, what was the motivation or the insight or the interest in getting involved there?

[4:43]

Yeah, it'd be hard for me to like to boil it all down to a couple key things that I learned because it was so eye opening, right, the patient side, the consumer side, the rec side, the cultivation side, the retail side, there's so much to this business. That's really fundamental. Although I did I will say Like when you really take the industry and you think about it in terms of fast forwarding towards a long term evolutionary state, I think it's pretty easy to see that a lot of parts of the value chain are eventually going to commoditize. And, and I think that you can debate the timeline of that occurring. But I think it's pretty easy to see that happening. And one place, that's pretty obvious that that you would hope or you would expect from other industries, where that's less likely to occur is and on the brand creation side. And so creating brands, you know, now in this early stage of cannabis, is actually easier than it's going to be in the long term future. And so getting a foothold understanding the consumer building products that sort of speak to that consumer, that's going to be shelf space, that it's going to be hard fought and very enduring for a long period of time. If you're successful that in obviously, it's that nobody's guaranteed success there. Because brand creation is almost analogous to, to writing a hit song, you don't really know it until you've done it and, and even then, it's you're pretty sure that you, you couldn't recreate it if you tried. And there's just no formula for success, right? When you resonate with the consumer. Oftentimes, we overlook the temporal aspects of brand creation, you know, brand gets created in the moment, and that moment passes and then the same, the same chemistry that creates a brand no longer applies. So from my standpoint, I always felt like brand creation here was was where the Holy Grail was in cannabis, if there was going to be a lot of long term value in the industry. And in California is this sort of massive Coliseum, a Bloodsport, where the survivors are those who, who have learned how to to create products that resonate with the consumer. And that's been our fun journey.

[6:58]

I want to talk to me more about the brand, because I think this is interesting kind of evolution or transformation in the cannabis industry, you know, like five years ago, you know, it was basically who could stuff as much THC into their body as possible, right? Like it was all it was all kind of this very much about the cannabinoids and stuff. But you know, now we're starting to see you brands being built. But also, you know, the segments are starting to kind of develop and change. I mean, how, what are the forces at play that have shifted us from being kind of like a cultivation product focused industry to starting to really kind of develop these brands? Like, what have you seen kind of play out that as that has caused this transformation?

[7:33]

Yeah, and I wouldn't call the Transformation complete. yet. I think that world that you speak to the one where THC potency tends to be the single most attractive feature of cannabis, that certainly is still the case very much the case, at least for a large sub segment of the market. So I think I think you've, I don't think a lot has changed there enormously, there are a very small number of sort of must have brands that exist on shelves. And, and I think the rest of what a brand means is usually the comfort with the channel. So you just have this fascinating California has this fascinating marketplace where you've got something close to four or 5000. growers have cannabis, probably 500 Plus brands on the flower side and, you know, several 100 brands on the sort of non flower based CBD products, you're looking at just an incredibly competitive marketplace to get into 825 stores, whatever it is, and that tends to what a brand means right now is is mostly what it means to the stores who are making the decision to put you on the shelf space, because their lives are incredibly complicated. And, and to get into onto a shelf, it means that they have to retire somebody else who had that shelf space. And usually what they're looking for is performance or shelf velocity. And they're looking for reliability. And those are the two

things that you've sort of tried to give a customer in terms of how your brand what your brand means to them. And that today, a lot of the brand battle is with dispensaries and they hold a lot of cards, especially in a market as sort of as sort of lopsided as California is where the brands there's just so much brand, so much brand power trying to get into into stores, eventually it's going to change eventually we'll see more of a sort of a democratic based ordering platform, you know, where I think weed maps is is trying to get the world to that kind of place, albeit they have a lot of other motives and business models that sort of getting away or you know, interfere with that. But for the most part, the consumer is still probably, you know, pretty agnostic to brands but for a very small few brands and for The rest of the products, they're sort of relying on the shopping experience. And so getting onto shelves, and in fighting for shelf space, there's brand value there, but it's different. It's what do you mean to your stores? How do they feel about you being on their shelves? How reliable are you? how responsive are you to, you know, to problems? Because inevitably, there was all sorts of it's CPG that, inevitably, you they're testing you in terms of how you respond to a product quality issue, or how you respond to a product outage issue. I think there's a whole bunch of ways in which we measure our success and retention with stores.

[10:38]

Yeah. And give us a little history on Lowell. And you know, how things developed? Where are you now give us walk us through kind of what what's transpired?

[10:47]

Well, so loaf Farms is really is is really a merger of two companies, the previous brand called Lowell smokes, which was a sort of renegade Dawn of legalization brand in California. And I could go into all the things that I think made that brand, so magical, but it was really one of the first and and most enduring brands in California is one of the first brands to come out and really take the take, take the stage, but at the same time, it's held on to the stage. And we've done a nice job of growing it. And we merge that brand with a capabilities based platform called Indus holdings, which was the company that I had taken over the two years ago now. And that that business was really about capabilities, a lot of cultivation, and a lot of distribution infrastructure and manufacturing capacity, but didn't have a champion or hero brand as we like to think of it. And so the the industrial logic of the merger made a ton of sense, we're looking at a sort of fair amount of commoditization that was likely to happen in cultivation. And the need or the desire to have a sort of a hero brand was really pressing. And yes, there are a lot of brands in California, but there's probably a very small handful of brands that I would have thought would have been attractive and capable of sort of surviving the surgery, so to speak, and roll was Lowe's at the top of the list. And it just so happened to be that was a transaction we could put together. So since we've done the acquisition, or done the merger of the two businesses in in February of last year, we've had tremendous amount of success, we grew the low farms footprint, almost two acts since just just slightly under two acts according to headset, over the last 12 months, we've we've actually taken the number one position in all of California, for flower sales, we sell more flour than anybody else in all California, and in consumer packaged goods. And we're not done there. That's only I think, 3.4% market share in flour, we're the number one full flour preroll in the state under little farms, and really proud of that market position there and continue to take share and, and feel really excited about that. We've also got brands that have made a tremendous amount of headway into concentrates and to vapes. And so those are places where we're seeing a lot of growth over the last or last over the fourth quarter. And all told them and this is crazy landscape. Also, we're actually the we're actually the seventh largest brand portfolio in the entire state. And obviously, that's something that, you know, from my perspective, we're committed to growing we grow brands, and way faster than the market grew last year. So we're taking share, I think in almost all of our categories, we're taking

share except for edibles. And and we're and we're moving up that chart, but it is it's California is it can be just a real real challenge. You've got to have just an all parts of your operation really helping to take share.

[13:58]

Yeah, this is a strategy of of putting together cultivation capabilities with brands. I mean, that was really kind of seeing kind of the writing's on the wall in terms of where the market was gonna go as that as it more or less played out as you thought it would play out in terms of the market. And would you say that that move was sort of a successful move overall?

[14:17]

Well, I'd love to tell you that I was nervous to Domus and I saw this whole thing coming and the honest answer is like I didn't think it was going to happen this fast, not even close. I think the love data and I spent a lot of time looking at the data available. It's on calcannabis website and looking going through massive amounts of licensed data and basically it just it dawned on us about two or three months after we did the low acquisition last summer that that it was really accelerating and specifically we saw a 7x increase in outdoor flower in the state and almost a 40 to 45% increase in canopy across the other form. That's, and that was just, when we looked at that data, we said, this is just this is gonna, this is gonna fall real fast. We can't, can't absorb all this new capacity. And, and the one thing that we did do in sort of answering that was we changed our business model, we changed it originally, our business model had very much sort of similar flavor to someone like glass house where we wanted to go, you know, as much canopies as we could. And I thought, you know, that was logical, right? You can, you can create the lowest cost, marginal cost model and win on on marginal cost and consistency. I think, you know, eventually, when you get to know who's behind the canopy in California, the marginal cost model starts really breaking down, because there are so many participants in the in the sort of the supply stack that are participating for uneconomic reasons, I think probably the most obvious of which is, but for this, what else would they do? They're the people who have committed their lives to cannabis, many of which are coming over from, you know, the illicit market, or the gray market, whatever you want to call it. And so you have this sort of an economic factor of of participation. And when you weigh that in, you can say, this is going to look a lot like a commodity cycle, but at the same time, you don't necessarily have rational behavior, on market participation in a commodity cycle. And that only exacerbates it. So we sort of started spending some time trying to figure out what to do with that business model. And we uncovered some, some missing parts of the value chain. And we built a business around it that basically serves serves other people that grow with, you know, processing based services. And so creating some scaled infrastructure that can be used to support all sorts of growers without necessarily having to grow ourselves. And so far, we've been really happy with the success in that model and looking to build

[17:06]

and grow. Yeah. Tell me a little bit about the acquisition merger, these things are hard enough in any market, how, you know what, I guess, how did it go as being in cannabis harder or easier? What was the biggest? What was the process? Like any surprises as part of you really kind of making these organizations work well, together?

[17:23]

Well, it was during COVID. So I think, you know, you have so many different factors, the acquisition, the first of which was during COVID. That is hard and easier, you know, there's some things about working during COVID, where the expectation is that everyone's participating remotely. So in an acquisition, where people are, you

know, people are sort of distributed, you don't have the the necessary sort of town gown, or here, they're kind of relationship you have, because everybody is sort of has equal weight on a on a zoom call. And that was kind of interesting. To go through that in fairness, we integrated the Lowell acquisition, like, really quickly, we didn't have a lot of choice, but to collapse infrastructure into one operating facility. And so there was some pain in the doing that, but that, you know, we it was paramount to the business and to the synergies we saw,

[18:14]

yeah. So where are we now in terms of expansion? You know, obviously, you know, leader in the California market, are you looking at other markets? How is that playing out? What's your strategy in terms of really growing on a more national level?

[18:25]

Yeah. So, I mean, first of all, yes, I mean, we are, I think there's 130 million people who sort of live blissfully under the grace of God and a state that has access to recreational weed, and we want to be as deep and as far in those markets as we can, we've launched into Illinois and Massachusetts, and with California, it gives us access to just a little over 45% of the recreational market, we're going deeper and further, we've got we've announced plans to move into Michigan, that should be happening very soon, we've got a number of other states that we're working through, and we have the ability to go deeper with product catalog as well. One thing that's constantly weighing on us is the is the notion of, you know, licensed operations versus some sort of sort of asset BDM kind of model. Yeah, and we look at that all the time. But right now I am incredibly grateful for that partnership we have with us and and they've been good guys to us and and certainly have champion in our brand in a way that makes us feel like they respect it. So so far, it's been a great partnership and I look forward to doing more with them.

[19:33]

And how does you know kind of this the I guess the the prospect or the lack of the prospect of federal legalization kind of play into your strategic thinking around this I mean, I you know, if we do go you know, at some level of federal legalization and interesting commerce, being able to transport and stuff I mean, as you know, how do you kind of balance the, you know, short term need to get into these markets, you know, with the longer term the this World Cup look very different. And I might need to kind of change both my strategy and my operational kind of posture, depending on how this plays out, like how do you balance these things?

[20:08]

Well, I think the end state of a federally cohesive market probably would keep us from making very asset intensive acquisitions or commitments. And in other markets, I sort of subscribe to a sort of a different philosophy than than most about decriminalization or D scheduling. I guess the way I think about it has always been the gray market, which we think is kind of just magically going to go away, but by no means is going to go away. And I think I think the especially is as tax levies. This absurd tax regime continues on canvas. And so I think what you're likely to see is that the gray market kind of morphs over time. And the I personally think that by participating in the California marketplace, and getting our products into the California market, eventually, what you're going to see is an increasing comfort level that people have disregarding the boundaries of state, a state by state boundaries. And I think I think what that likely means over time is, even without interstate commerce, the you're gonna see a fair amount, you're gonna see the gray market transition from like, folks and box trucks moving across the interstate to people, you know, consumers having micro businesses just putting stuff in the mail to other consumers, once the sort of federal illegality goes away. And so you're gonna, what

that all means is the second that they do something from the Federal illegality perspective, interstate commerce becomes a de facto right. And it's gonna be very hard to normalize against that, or to protect against that. And I think you're starting to almost already see that with sort of the declines in prices. And, and the kinds of prices and volumes that are occurring in some of the some of the faster growing rec markets like Illinois and Michigan, where you seeing slides in in volumes and prices. Personally, I think that that is California, we're competing with Rec dispensaries in those marketplaces. And, and that's just going to continue until the unlikely event that somebody decides to, to really start cracking down and enforcing it. But that's cracking down on forcing cannabis laws requires a political sort of fortitude that I don't think you know, they have, they have the sort of the mandate for so I think we're just going to continue to see more of the same from my standpoint, focus on building brands, it's gonna be cheaper now to build brands than it will ever be in the future. I'm convinced that once Facebook and Instagram opens up for cannabis brands, you can guarantee that your your cost of customer acquisition and cost of brand impression is going to really rise pretty quickly. Because it's gonna be very busy out there. So my standpoint, like, I think the name of the game today, even though it's not that popular, is is really focused on by brand creation of brand equity, as opposed to, you know, capacity and flags around the country.

[23:19]

Yeah. And what are what are some of the kind of policy or, you know, legal changes, changes in the market that you're most focused on that you think are really going to drive this industry? I mean, we've got all sorts of tax issues in California, we've got all of the, you know, Facebook and Google platforms that are still restrictive, obviously, the some of the federal stuff, we've got to at EA and we were safe banking, that means a lot of potential things that could change, you know, through policy through, you know, shifts in the market. What do you think are the ones that are really going to be impactful to players and different parts of this, you know, cannabis world?

[23:56]

Well, you know, it's funny that I had a really great government affairs person back at acreage, and we don't have a government affairs, part of our business law, but we I had a really good one at acreage and I had a really bright guy who, who was pretty well entrenched in Washington, he said, Look, everyone's gonna be focused on these bills that get thrown up in Congress, but for a long time, they're just going to be political punching bags. Yeah. What what I think was interesting from his perspective that he counts me is just watched deep Republican states, and what they do in their own backyards with medical and recreational programs, because the further they get away from the narrative, Republican obstructionist positions, right, it misses Mississippi, Louisiana, Texas, what the further they get away from cannabis as a crime policy in the state level, Tennessee and North Carolina, the closer you're going to be towards getting real All policy change in Washington. And I think that one thing that we've seen, we haven't seen a lot of progress this year in terms of Washington, and we could debate whether or not you know, there's going to be some slingshot, you know, behavior or some sort of rescue mission here right before the midterms. But I think what we have seen as we have seen a fair amount of movement down at the state level towards normalizing cannabis and, and that that's just, in my opinion, that makes it very difficult for legislators on both sides of the aisle, to have a don't want to talk about a position on cannabis. And the more that happens, the more likely we're going to be towards getting real change.

[25:40]

And in particular markets that you're really kind of focused on, I'm gonna we've got a couple of new states coming online, or at least theoretically coming online, depending on how they play out legislative kind of processes here. But like, what's most interesting to you in terms of growth of the current cannabis markets?

[25:55]

Well, in fairness, I probably think more about, you know, New York is fascinating. And New York's my home and New York is fast. And because New York is probably the second or first largest consumer on the gray market, and just understanding how that markets going to peel off and actually go towards a structured a structured market, I'm fascinated to watch how that occurs and to how successful it's been that obviously, the MediCal program in New York has been one of the punching bags for the industry for a long time. So I'm kind of curious as to how that works. And and whether or not the, you know, what we call the legacy Merck gray market, how it responds in New York? And then, you know, I have to say, like, look, Oklahoma, is a big deal. And what's happening in Oklahoma is a big deal, because the Oklahoma is is to a lesser extent, California. Without the it sort of has the same come one come all are open access policy towards licensing, but it doesn't have the regulatory red tape that California has. And and you've seen just a massive amount of increase in participation from from the cultivation perspective, that we've got to go somewhere. And I so I think what I pay attention to is just the surge of canopy in Oklahoma, and how fast that's going to cause real real friction and pressure against just general wholesale prices across the country.

[27:23]

Yeah, journalism at a pleasure. If people want to find out more about you more about well, what's the best way to get that information?

[27:29]

Well, that's pretty darn easy. ior@lowellfarms.com is our email address. lowellfarms.com is obviously our website, and Instagram we're at at Lowell Farms, and Twitter is at Lowell farms, Inc. So we'd love to have anyone join the conversation there. And we're super excited about what we're building and we'll keep you posted on our progress.

[27:53]

Excellent. I'll make sure that all the info and handles and everything are in the show notes. George has been a pleasure. Thank you so much for taking the time today.

[27:59]

Hey, thank you really appreciate your time.

[28:01]

Take care.

[28:02]

That's it for this episode of thinking outside the bud. Be sure to subscribe using your favorite podcast app so you don't miss our future episodes. See you next time.

[28:12]

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About Thinking Outside The Bud

Thinking Outside the Bud is a business podcast devoted to driving innovation in the cannabis space. During each episode, we speak with founders, investors, thought leaders, researchers, advocates, and policymakers who are finding new and exciting ways for cannabis to positively impact business, society, and culture.

For more information and a list of recent episodes, please visit <https://www.thinkingoutsidethebud.com>.

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