

Cannabis Production Outlook

Here's What Growers Need To Know
About Growing Cannabis In 2022

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The cannabis industry is growing.

This growth has come with an intense focus on large-scale cannabis cultivation.

All around the globe we hear of companies building bigger cannabis farms. Take North America for example. In 2021, the largest grower producing cannabis exclusively in a greenhouse was doing so at nearly 2 million square feet¹ (yes, million).

Besides the focus on large-scale operations, the industry has also seen an increase in the number of licenses being issued. In 2021 alone, California had 7,548 licenses²; the most cultivation licenses of any state in the U.S. Factor in the licenses from other states and you start to get a picture of just how many operations we're talking about here.

But is this growth trend sustainable, or are these companies overextended? After all, we have seen the trend towards large-scale production driving prices down.

In 2018, the monthly average cost for an ounce of adult-use cannabis was around \$390, according to the Cannabis Control Commission³ (CCC). This figure topped \$400 in early 2019 before declining to around \$370 an ounce pre-pandemic. Since 2020, prices have continued on the steady decline path, reaching a monthly average price per ounce of \$362 in September 2021.

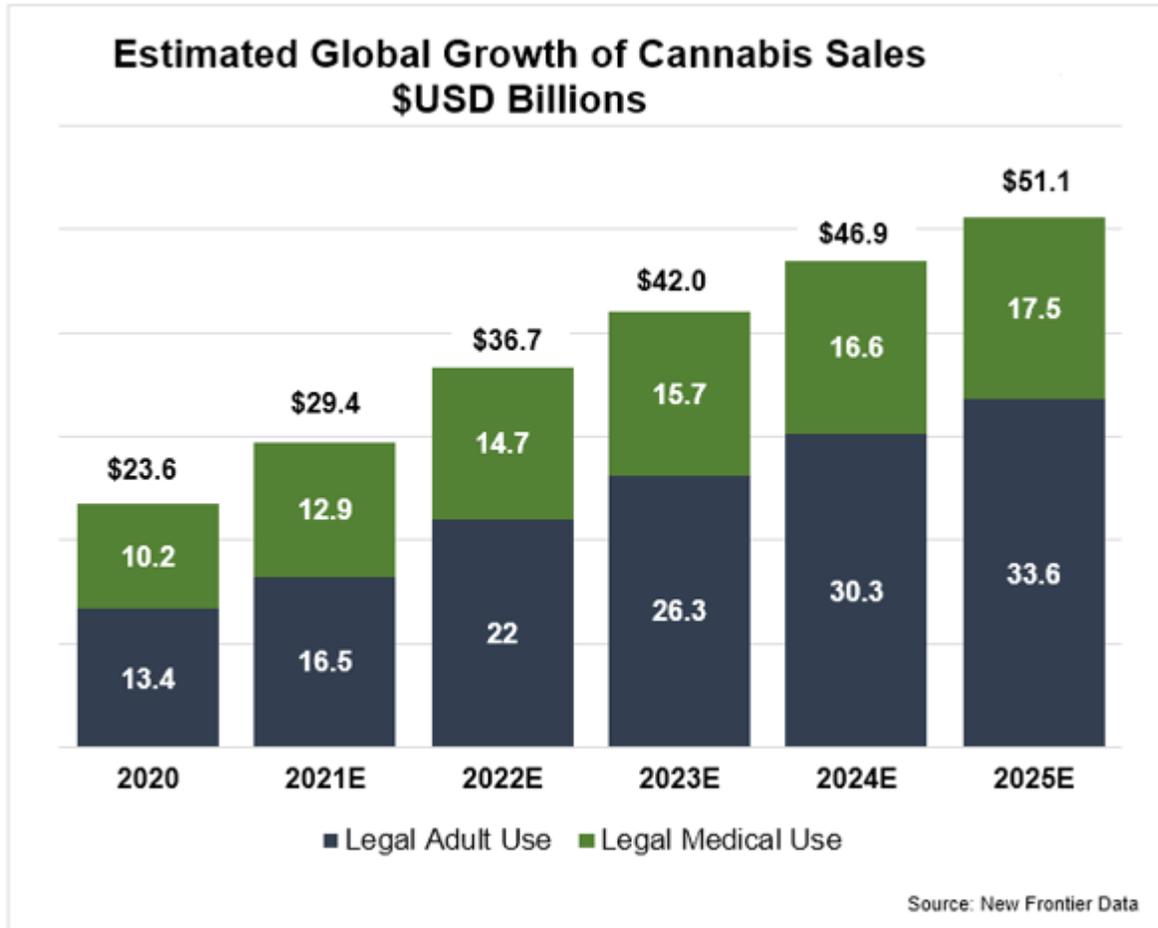
Of course, prices vary by state, but it's unsurprising that cannabis prices are leveling out as the market matures. There are more growers, so supply is high and competition is fierce.

The high competition even led to a moment of panic when prices started dropping. A rash of growers went out of business because the market was suddenly not lucrative enough. Some growers pivoted to hemp production, looking for opportunities in the CBD market.

But the industry survived.

Today, the cannabis industry is still growing. A lot of growth can be attributed to the momentum built by the recent legalization of medical and adult-use cannabis in various countries.

Cannabis global sales are expected to exceed \$50 billion⁴ by 2025 with regulation and legality continuing to be key forces driving the industry. Cannabis financing is also set to continue growing despite the financing issues the industry has always faced. There are signs of increased confidence in the projected growth of the cannabis market. As of May 2021, capital raises in the industry had more than tripled⁵ to \$6 billion.



Growth? Falling prices? Increasing demand?

Things are getting interesting in the cannabis industry, and for growers, there's no clear-cut path to success.

One thing is clear though – instead of doing things the same as before, growers need to pivot. The cannabis industry is changing and success in 2022 hinges on doing things differently.

The cannabis cultivation landscape in 2022

Certain aspects of the cannabis industry are thriving, however, the future is hazy and volatile. There are ebbs and flows as far as revenue is concerned.

Furthermore, a pandemic combined with a recession ⁶ and increasing unemployment rates will inevitably influence who can afford legal cannabis, which in some markets is currently taxed upwards of 70 percent⁷. Ultimately, the economy is going to impact how much money people are willing to spend on cannabis.

There are already so many illicit manufacturers, particularly in areas such as California and New York. This is not surprising if you consider California's high markup in taxes for legal cannabis. Although the illicit operations are a public safety disaster, people may go to them because of better prices.

If consumers ditch the legal industry for the black market, a lot of licensed brands operating on thin margins will likely go out of business.

Cannabis growers need to be efficient

2022 Cannabis Cultivation Outlook

The focus will be on:

- Product quality
- Climate change
- Changing regulations
- Production efficiency
- Fostering the right partnerships
- Scaling to new markets

Production efficiency

In 2022, focusing on efficiency is what's important, not maximizing output. Growers have to operate as lean as possible, scrutinizing operations and cutting out any unnecessary costs.

There have been cases of too much cultivation⁸ and not enough retail to get the product to the consumer. As a result, some facilities have had to let go of employees or shut down. This calls

for growers to be as cost-efficient as possible. Whether that means cutting out certain practices or eliminating unnecessary packaging, certain fertilizers and pest-control measures will depend on the operation.

Cutting costs also relies on maximizing efficiency. There are several ways growers can do this.

One way is to invest in efficient equipment and systems. For example, HVAC is one of the biggest causes of inefficiency in cannabis grows. However, efficient systems can help growers reduce energy consumption and their utility bills.

On the other hand, growing techniques such as a closed-loop watering system can ensure that growers don't waste water, providing one more point for efficiency.

Automation is another way of increasing efficiency. With a system that helps to manage and optimize everything from lighting to climate, water and nutrients control, growers have more control over an operation and it's easier to stay on top of efficiency.

Product quality

Some brands have, in the past, gotten away with selling a sub-par product. However, people are increasingly able to figure out what brands are actually good.

The Covid-19 pandemic put people indoors and gave them time to figure out what's good. Plus there are now more resources on choosing⁹ a good product.

Succeeding in 2022 will hinge on providing a high-quality product rather than pretty packaging. Instead of maximizing production, growers must focus on maximizing efficiency and product quality.

Changing regulations

Although Federal U.S. cannabis legalization is highly unlikely in 2022, state-by-state legalization is gathering momentum. This means keeping up with regulations is a must.

In keeping up, it's still important to remember that the regulations are subject to change as the industry evolves. Given the fluctuations in regulations, a good way for cultivators to keep up with what each state or country requires is to have a good legal mind on the team.

A good lawyer will be able to interpret the regulations and help the operation keep up with what's required. If you want to see the importance of keeping up with changing regulations just look at the new California energy code update¹⁰ coming through.

The aim of the code is to reduce wasteful and unnecessary energy consumption in facilities. Authorities eventually want to eliminate the use of fossil fuels, replacing them with renewable energy sources. Although the code will come into effect from January 1, 2023, everyone building a facility needs to keep the energy code in mind and make sure they comply with the new requirements.

Also, with the worsening drought conditions, regulatory water restrictions will likely impact commercial cultivators soon.

To date, authorities have imposed certain restrictions around electrical power usage to lessen carbon emissions, so a future where the same is done for water usage is not so far-fetched. Knowing what's happening in this space is crucial as it will help with creating and integrating water conservation practices into cultivation plans.

Growers who can't keep up with regulations will already be at a disadvantage in an already competitive market.

Climate change



"Growers must be adaptable and flexible if they are going to survive."

The unpredictability brought on by climate change is going to continue.

We can no longer trust normal weather patterns.

Drought, extremely low temperatures, more severe flooding, hurricanes, tornadoes, wildfires – all of these will likely be part of the 2022 cannabis cultivation story.

Growers must be adaptable and flexible if they are going to survive.

This may mean switching to indoor growing or looking at other options such as sealed cannabis greenhouses¹¹. Granted, this will likely require some capital investment, but it's a good long-term solution.

In light of the impact of climate change, growers will also need to be proactive about improving sustainability. Cannabis production is responsible for some unsustainable practices that require addressing¹².

2022 is about fostering the right partnerships

Having the right partnerships in the cannabis industry has always been important. However, it's even more important in 2022 considering the current industry landscape.

It's very hard, if not impossible to go it alone in the cannabis cultivation world. The quality of the partnerships growers forge can make or break an operation.

What constitutes good partnerships?

Getting the right team with experience in cannabis. This is everyone from the core operating team to the local attorney, CPA, and HVAC consultant. The right team will give a cannabis operation a competitive advantage, allowing for building the right plans, processes and procedures, and policies.

Growers will also need to remember that the right partnerships will help growers achieve all the other things we have highlighted as crucial in 2022 – maximum efficiency, product quality, and being able to keep up with regulations.

Scaling to new markets

There's no denying that the cannabis industry is continuing to grow despite supply chain issues. As the market explodes with potential, there's an opportunity to scale to new states and regions.

Already, the number of multi-state operators is increasing as brands seek to replicate their success in new regions. This trend is likely to continue as new states pass legislation and start allowing cannabis sales. Growers can take advantage of this opportunity if they're in a position to do so.

But before jumping into scaling, it's prudent to learn more about the key challenges to scaling a cannabis cultivation facility¹³.

The year is for continued reliance on the power of networking

Public support for cannabis legalization is growing. According to research conducted by Pew Research Center, about 60% of U.S adults say cannabis should be legal for both medical and recreational use. In fact, two in three Americans support the legalization of cannabis, according to a November 2021 Gallup poll released in November 2021.

Nonetheless, cannabis still faces a lot of stigma because of the negative connotations of "stoner culture." To add to that, much state regulation restricts how cannabis businesses can advertise themselves.

Not only is advertising cannabis often banned on TV, radio or billboards, but social platforms such as Facebook sometimes prohibit the buying of sponsored content for cannabis businesses.

For these reasons, it's hard to know what's okay to post and what might get your account banned, so cannabis brands don't usually run paid ads on social media platforms.

Cannabis brands have to rely on organic reach. Content marketing, more organic social media content and email marketing campaigns will still play a huge role in growing cannabis brands in 2022. But networking is an essential tool in a cannabis business's marketing toolbox. Growers need to lean into it¹⁴.

Conclusion

The developments in the cannabis industry will create a volatile and fast-changing environment for growers in 2022.

Growers have to take note of the increasing competition and complex legal landscape (as of December 2021, only 18 out of 50 states had fully legalized marijuana use). Success is for those who are willing to pivot and adapt to the evolving demands of the industry.

Success is also for those growers who keep up with industry developments. Increasingly, industry experts, analysts, researchers, and scientists are putting more work into understanding cannabis and moving the industry forward. The cannabis industry has been shrouded by secrecy and misinformation for long so this development will help add to the legitimacy of the industry.

Scientific research findings will also help break down misconceptions about cannabis and may play a vital role in the building of proper regulation of the industry.

Efficiency, product quality and consistency, the ability to improve sustainability, and being able to brand and market a business properly remain top of the 2022 must-have list as well.

The year is 2022, the cannabis industry continues to mature (although with some volatility), and those who can keep up will likely be rewarded.

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