



Is the Cannabis Industry Getting Too Crowded?

Description

Pot stocks haven't been off to a great start to 2018, but the hype in the industry isn't dying down just yet, and we might actually be seeing too much of it. With so much fragmentation already present in the industry, it could chip away a lot of the potential that big stocks, like **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aurora Cannabis Inc.** ([TSX:ACB](#)), have. And while we could still see those industry giants acquire some of these new companies, the volume and the amount of cash needed to do so are two very big obstacles.

New competitors keep entering

We're even seeing **The Second Cup Ltd.** (TSX:SCU) look to jump into the industry. The coffee chain has partnered with a cannabis company as it hopes to have dispensaries all across the country. And while coffee drinkers and pot smokers might be two very different customer types, the company's experience will certainly give it an advantage over novices in the industry that may not be aware of what's involved and the challenges of managing many different locations.

Even south of the border, where pot is still illegal at the federal level, we're seeing cannabis companies start to pop up, despite significant legal challenges. Recently, **Golden Leaf Holdings Ltd.** made its [very ambitious targets](#) public, as it expects to saturate the market. **Cannex Capital Holdings Inc.** is another stock vying for market share in the U.S., as the [recently listed](#) company owns the biggest producer of cannabis in Washington State.

Is there enough market share to go around?

There's a lot of ambiguity about how big of a market the cannabis industry will be. For one, it's unclear just how successful legal entities will be in keeping pot sales from the black market and how restrictions on how pot is sold will impact potential consumers. The pot industry in Canada is definitely not large enough for all these companies to be able to survive, and that's why a company like Canopy has looked to expanding and partnering into other parts of the world and try and gain first-mover advantages.

With advertising being a challenge, consumers might be overwhelmed with choice, and that could

present a big obstacle for cannabis companies that are trying to grow sales.

Low barriers to entry creating significant competition

Companies are able to easily get started in the industry, as there are minimal capital requirements, and obtaining a licence for pot is the only real obstacle that potential growers face today. With ease of entry comes lots of competition, and that means a limited competitive advantage for today's market leaders. All it could take to shake up the industry is for a big company, say, a pharmaceutical or tobacco company, to enter the market and start buying up pieces of a very fragmented industry and position itself ahead of big names like Canopy and Aurora.

Takeaway for investors

There's a lot of uncertainty in the industry today, and a lot will change, even in the next 12 months. Investors should be careful not to ignore the risks involved with investing in cannabis.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

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