3 Reasons “Cannabis 2.0” Is Ridiculously Overrated

Description

This past October, “Cannabis 2.0” was all the rage, as speculation circulated about how the legalization of edibles and concentrates would affect cannabis producers.

The new laws impact a number of product categories that were previously illegal to sell — even with the federal legalization of cannabis last year.

When cannabis was initially legalized, marijuana producers’ revenue exploded on the addition of a totally new revenue stream (adult-use). Now, some are saying that the legalization of edibles and concentrates will do the same. But will they?

First, let’s look at one possible reason why they may not.

New products may just cannibalize older ones

It’s extremely common for new products in an existing market to “cannibalize” (i.e., take sales from) older ones. The most famous example of this was when **Apple’s** iPhone led to a massive decrease in iPod sales, but there are examples in almost any industry.

There’s also evidence of it having happened to cannabis vendors in Colorado. Earlier this year, the state released Q1 cannabis sales figures, which showed that medical sales declined as customers had more access to adult-use cannabis. In fact, recreational sales *rose* by precisely the same amount as medical sales *dropped:* 11%. The two markets were not the exact same size, so that doesn’t necessarily prove that the entire loss in medical sales was attributable to cannibalization, but it does corroborate the theory.

Higher margins are not guaranteed

One of the big reasons people are excited about Cannabis 2.0 is because some of the products that could come out of it — particularly cannabis-infused beverages — are perceived as being high margin.

It's true that beverages can be extremely profitable. However, that doesn't necessarily guarantee that they will improve cannabis companies' overall profitability. Before cannabis-infused beverages can drive significant profits, they first need to catch on, and it's not clear that they will. According to a recent story by *The Verge*, cannabis-infused drinks only make up 2-3% of cannabis sales in markets where they're legal. That's a pretty paltry amount for a product category that many are hoping will revitalize both cannabis and beer sales.

How it could play out

One way to look at how Cannabis 2.0 could play out is by examining how one company is handling it.

Canopy Growth (TSX:WEED)(NYSE:CGC) has jumped on the Cannabis 2.0 bandwagon in a big way, saying that it will roll out 32 new products by December and 20 more over the next 12 months. These products include beverages, edibles, and vapes.

To be sure, there's definitely demand for some of the products Canopy is rolling out. Vaping, as you've probably heard, is a growing trend (although one facing increasing pushback), and many cannabis aficionados are genuinely excited about the prospect of legal edibles.

It's very likely that at least some of Canopy's new products will succeed. However, it's far from obvious that they will actually generate new revenue, as opposed to cannibalizing the company's other revenue sources. As we saw in Colorado, the induction of adult-use pot there ate into medical cannabis sales. If that happens with Canopy's Cannabis 2.0 products, then the bottom-line impact may not be as big as some are hoping for.

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