



Aurora Cannabis (TSX:ACB) Follows Aphria's Lead, Again

Description

Aurora Cannabis's ([TSX:ACB](#))(NYSE:ACB) stock price rose by nearly 9% on Thursday last week, as investor sentiment on Canadian pot stocks received a boost from **Aphria's** (TSX:APHA)(NASDAQ:APHA) market-beating earnings report. Shares in Aphria rallied by 20% that day, which is evidence that the marijuana firm is doing some things right, and competitors should be keen to emulate it.

I find it encouraging that a struggling Aurora Cannabis, which is still finding new direction and restructuring its business strategy, has decided to adopt a thing or two from Aphria's strategy book.

Aurora Cannabis follows Aphria's lead

Aurora Cannabis announced on Thursday that it has signed an exclusive distribution deal with Great North Distributors, a leading national sales broker for adult-use cannabis in Canada. The company is effectively outsourcing the distribution and some of its marketing functions to a tried, tested, proven, and capable marketer of regulated consumer products in the country.

Great North has access to all Canadian provinces and is capable of placing represented cannabis brands in any retail store, whether owned by provincial bodies or privately controlled. The distribution firm, a subsidiary of Southern Glazer's Wine & Spirits, should be credited for part of Aphria's success in the Canadian adult-use cannabis market.

Aphria signed a similar exclusive distribution deal for its recreational marijuana products with Great North back in May 2018. This was before recreational cannabis use was legalized in Canada. Great North Distributors had an industry-leading data analytics platform that would provide Aphria a powerful data-driven approach to cannabis sales and strain development.

Recall that Aurora recently pivoted to data-driven premium strain development a few months after Aphria argued that data analytics has identified supply gaps in Canadian pot market preferences. By outsourcing distribution to Great North, Aurora has, for the second time in five months, adopted a business-execution strategy that Aphria employed earlier.

The power in consumer data analytics

Vic Neufeld, Aphria's founding member and former CEO, was indeed a visionary in the new pot field. Whether it is Great North's data feedback or another AI-driven tech platform that Aphria used to properly target consumer segments, [data analytics enabled the company to strategically position its cannabis strains](#) for success in Canada.

Aurora Cannabis has chosen to follow the distribution outsourcing lead and work with Great North Distributors. Recall that ACB recently pivoted to a data-driven strategy to revive its ailing cannabis product portfolio. However, data analytics works best when you have tons of data to analyze, and Great North's databases should be rich in such treasure. Market feedback from Great North should be worth much more than the internal data the company could glean from internal sources.

Moreover, by outsourcing distribution and some marketing functions, ACB will likely have ample resources to focus on producing premium pot and reviving its struggling business.

That said, will outsourcing distribution save the company's fortunes?

What will drive ACB stock going forward?

Readers may find it intriguing that Aurora is about to outsource both production and marketing (at least part of it).

The company closed production facilities and recently cut back production by 75% at its flagship facility in December. It decided to outsource cannabis from the wholesale market "to reduce cultivation risks and improve its cash conversion cycle."

What becomes the company's source of competitive advantages if it outsources production and distribution? What would justify the company's long-term existence when it won't market its own products and produce the majority of its offerings?

Well, ACB told us that it's employing a data-driven strategy. The company seems focused on premium strain cultivation. Premium strains should help it improve gross margins. The wholesale market should provide quality cannabis flower for value brands and cannabinoid extraction. The new strategy could deliver positive results.

Aurora's short-term profitability and cash flow goals may be easily achievable — more so if it successfully produces high-potency premium strains and continues picking some little margins from high-volume value brands, while employing a skeleton staff complement to reduce operating expenses.

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