



Canopy (TSX:WEED) and Aurora (TSX:ACB): Two Industry Juggernauts With Very Different Strategies

Description

As the Canadian cannabis space has begun to enter a new phase, it is interesting to look back at how we got here. An initial frantic arms race to accumulate as much production capacity as possible eventually gave way to the reality that demand would be a lot slower to migrate to the legal market than market participants had hoped.

In a new phase of sustainable growth (pun very much intended), two of the biggest juggernauts in the industry have begun to chart very different paths in the quest for profitability.

Canopy: New product formats

Canopy Growth Corporation ([TSX:WEED](#))(NYSE:CGC) was an early mover in the Canadian cannabis sector – and one of the first companies to begin operations under Canada's first commercialized medical cannabis system. This first-mover trait has always been a part of Canopy's DNA. **Constellation Brands, Inc.** [invested](#) \$5 billion into Canopy back in 2018, sparking a flurry of institutional interest in the Canadian cannabis space.

After almost two full years of the adult-use recreational market, Canopy has finally begun turning out its cannabis infused beverages. It would be an understatement to say that the company has very high expectations for this product category.

When Constellation invested such a significant amount of money in Canopy, it was clear that beverages would be the cornerstone of Canopy's Cannabis 2.0 strategy. While there were technological and production challenges in the beginning of the process, Canopy has already marketed several cannabis-infused beverage products that have begun hitting store shelves.

Canopy has the most variety in terms of product offerings in the cannabis-infused beverage space. I would expect this to continue as Canopy takes the lead in developing this segment of the Cannabis 2.0 market.

There are certainly portions of the cannabis market that remain untapped. When a product is illegal, it is not necessarily conducive to massive amounts of R&D. Now that the time, resources, and space can be devoted to new product formats, Canopy could very well be on to a massive market opportunity with beverages and other innovative product formats.

While this strategy will take some time to play out, the potential rewards are truly immeasurable because it is difficult to estimate the size of markets for products that have yet to be created.

Aurora: Legacy Products at scale

Aurora Cannabis Inc. ([TSX:ACB](#))(NYSE:ACB) has made a few strategic moves that indicate its current strategy/ First, Aurora has avoided unproven segments of the Cannabis 2.0 market, notably beverages. Second, Aurora has offloaded excess production capacity, even if it did so at a significant discount to the price that these assets were purchased for.

These moves will undoubtedly preserve cash. However, they also signal that Aurora is focusing on the cannabis market as it exists today.

First, that means focusing on the size of the legal market for cannabis, as it currently exists. Everyone knows that the black market still commands a significant portion of the Canadian cannabis market.

Rather than keep unprofitable production sites open in the hopes that demand will shift to the legal market is smart. It allows Aurora to cut significant expenses that aren't doing anything to help move the profitability needle.

Second, that means focusing on product [formats](#) that already have a familiarity and following among consumers, like edibles and vapes. The cannabis market is unique because there was already a well-established black market before legalization.

Product formats had evolved beyond dried flower long before October 2018. Aurora is following the old adage of not trying to reinvent the wheel.

A market already exists for a wide swath of Cannabis products. Aurora is focusing on serving that market at scale, and via a cost structure that allows it to be profitable.

Nobody knows how long it will take before significant demand shifts to the legal market permanently from the black market. As John Maynard Keynes famously once said, "The market can remain irrational longer than you can remain solvent." It looks like Aurora is heeding Keynes's advice.

Takeaway

Canopy and Aurora have begun to diverge from a strategic perspective. This is understandable when

you consider their shareholder base.

However, Canopy and Aurora could both see significant success with their respective strategies. As is all too often the case, the ultimate success of these strategies will depend on execution.

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Date

2025/06/29

Date Created

2020/07/19

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