

Potpreneur: Is there a future for “Med Pot”?

Pot, Weed, Bud, Kush, Dank, Dope, Marijuana. It seems like there are more nick names for Cannabis than nicknames for a certain male private part. During my high school days, it was simple: We just called it pot, weed or dope. It’s weird writing this article because I’ve never done illegal drugs. I’ve watched friends smoke it but I never had the desire to try it. And I’m not some goody-two-shoes. I don’t believe in illegal drugs. Why? I’m high on life as it is. I don’t need them. But what you do isn’t my problem.

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Is there a future for Med Pot?

However, having a venture capital background, I became fascinated with analyzing the “pot business.” It started when, after my recent car accident, one of my friends suggested I use pot as medicine for the continuous pain in my ribs, sternum and knees. I told my friend, “If I didn’t do it in high school or college, why the fuck would I do it now?”

Med Pot, aka selling pot as a medical solution to health patients, is controversial but it’s here to stay. The wave toward national legalization continues to pick up steam. This potentially big business is “growing like a weed” but the outcome is unmistakably uncertain. The Med Pot business got its break when the Justice Department agreed to comply with President Barack Obama’s campaign statement that federal agents would no longer target med-pot dealers who comply with the state law.

As a result, California has the potential to become another Amsterdam. We may have to change the name of the state to Californiadam¹ if it helps Californians get out of the state’s financial mess by levying

¹ Californiadam: spinoff word from Amsterdam, the pot capital of the world despite the fact they don’t have surfer dudes. I thought of the word and I’m fucking claiming it.



taxes on it. I lived in Silicon Valley and there's no doubt California is one of the key states that sets the tone in fashion, innovation and new ideas... and now Med Pot.

Californiadam™
for sure, dude!

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Med Pot has been brewing in California for quite some time. It gained momentum in 1996 when state voters decreed that Californians had a right to use marijuana for any illness -- from cancer to anorexia to any other condition it might help. But supplying "med pot" remained risky. The ballot measure didn't specify who could sell it or how. The state provided few guidelines, leaving local governments to impose a patchwork of restrictions. Above all, because pot possession remained illegal under U.S. law, sellers had to worry about federal raids.²

It's one thing to smoke pot, it's another thing to run a venture centered on weed. Running an illegal pot business has major consequences for dealers with the law. However for the Potpreneur³ business, running a legal "med pot" business has numerous challenges, opportunities, and pitfalls.

When I look at any venture from an investment standpoint, there are a few key things I look at to quickly determine its validity.

I first look at (1) market size, (2) consumer behavior, (3) competitive analysis (competitive intensity, barriers to entry and exit), (4) pricing pressures, margin analysis and cost structures, (5) distribution and supply chain analysis, (6) sales and marketing, (7) government regulations, and (8) management sophistication within the sector.

Let's look at some of the major variables in considering whether the Potpreneur (Med Pot) business makes a good investment for investors or a great entrepreneur opportunity.

² *With Med Pot Raids Halted, Selling Grass Grows Greener*, By JUSTIN SCHECK and STU WOO, WSJ, July 23, 2009.

³ Potpreneur: entrepreneurs who are selling pot legally under the "Med Pot" guidelines.

1. Marijuana Market Size (in America and “Californiadam”)

“Hey dude, we don’t need to go to Amsterdam anymore. We’ve got Californiadam.”

Cannabis is the biggest drug market in the world. In 2006, the majority of cannabis herb seizures were reported from Mexico (36%), the United States (23%), and South Africa (7%). Most seizures of cannabis resin were made by Spain (45%), followed by Pakistan (11%), Morocco (9%), France (7%), Iran (6%), the UK (5%), and Afghanistan (4%).⁴

Table 12: Estimated global production of cannabis herb and resin, based on average user consumption

Source: *Based on the proportion of seizures. 17% of the seizures were cannabis resin, however this is most probably an overestimation of the proportion of use since resin is more trafficked abroad and has higher chances of being seized. The lower proportion is assumed to be 10%.** In herbal equivalents, applying a factor of 0.1 and 0.2 to plant seizures for the low/high estimates, respectively.

	Use (mt)		Correction factor for proportion of cannabis resin use*		Calculated cannabis production (mt)	
	Low	High	Low	High	Low	High
Total cannabis use	8,611	50,901				
Cannabis herb use			83%	90%	7,147	45,811
Cannabis herb/plant seizures**					6,107	6,609
Total cannabis herb production					13,254	52,420
Cannabis resin use			10%	17%	861	8,653
Cannabis resin seizures					1,296	1,296
Total cannabis resin production					2,157	9,949

In 2008, global production of cannabis herb is estimated at around 52,420 metric tons. UNODC estimates that 254 million people from the global population, ages 15-64, used cannabis. The total number of cannabis users has increased steadily over the 1997/98 to 2006/07 period. Just in Californiadam, the illegal marijuana business is estimated at \$14 billion per year with three million pot heads.⁵

“In California, pot sales, legal and illegal, are estimated to total \$14 billion a year. Medical marijuana makes up maybe an eighth of that,” says Dale Gieringer, director of the state’s chapter of the National Organization for the Reform of Marijuana Laws. He estimates the state has three million pot smokers, including 350,000 with doctors’ recommendations.⁶

⁴ United Nations: World Drug Report, 2009

⁵ United Nations: World Drug Report, 2009

⁶ *With Med Pot Raids Halted, Selling Grass Grows Greener*, By JUSTIN SCHECK and STU WOO, WSJ, July 23, 2009.

From an investor and entrepreneur standpoint, it's evident that the illegal marijuana business is large enough to support a Med Pot market. If you analyze tables 11 and 12 from the United Nations, just in North America, 31 million dopes get high using marijuana. Far out! The market is not small, dude!

Current consumer behavior of using marijuana illegally supports and provides a continuous foundation for part of this consumer segment to be converted into the "Med Pot" business. Further market support is provided by the health industry willing to prescribe Med Pot to patients with ailments such as hyper extended knee, anxiety, insomnia, besides the more serious issues such as chronic pain.

Table 11: Total cannabis demand, based on average user consumption

Sources: *Van der Heijden, 2003. De Nederlandse Drugmarkt. Korps llandelijke politiediensten, Dienst Nationale Recherche Informatie and **2008 WDR; neither source differentiates between cannabis resin and herbal use.

	Number of users 15-64 year		Average use (kg/user/year)		Calculated use (mt)	
	Low	High	Low*	High**	Low	High
Africa	29,545,844	120,459,807	0.06	0.2	1,773	24,092
Asia	40,912,205	59,464,983	0.06	0.2	2,455	11,893
Europe	28,888,570	29,660,039	0.06	0.2	1,733	5,932
North America	31,262,302	31,262,302	0.06	0.2	1,876	6,252
Oceania	2,455,307	2,572,840	0.06	0.2	147	515
South America	10,457,999	11,083,110	0.06	0.2	627	2,217
Global total	143,522,228	254,503,082	0.06	0.2	8,611	50,901

Hell, getting a Med Pot prescription is not a problem in Californiadam. In my opinion, there's no way of stopping Med Pot anymore. It is just a question of how many states will adopt it.

In today's financial hardships, who isn't stressed out enough to have anxiety or insomnia? Hell, I can even see people taking their dogs to the vet wanting to get Med Pot to relieve their dog's "anxiety of being a pet during these financially stressful times."

The topic of Med Pot brings me back to my high school days when I saw the movie *Fast Times at Ridgemont High*. It's a true classic.

Fast Times at Ridgemont High is a 1982 American coming-of-age teen-comedy film written by Cameron Crowe (adapted from his book) and directed by Amy Heckerling. The film follows a school year in the lives of freshman Stacy Hamilton (Jennifer Jason Leigh), freshman Mark Ratner (Brian Backer) and their respective friends Linda Barrett (Phoebe Cates) and Mike Damone (Robert Romanus), who believe themselves wise in the ways of romance and counsel their younger counterparts. The ensemble cast of characters also includes Jeff Spicoli (Sean

Penn), a perpetually stoned surfer, who faces off against uptight history teacher Mr. Hand (Ray Walston), who is convinced that all of his students are on "dope." Stacy's brother, Brad (Judge Reinhold), is a popular senior who works to pay for a car.

Source: Wikipedia

One of my favorite characters was Jeff Spicoli. Sean Penn was brilliant as Spicoli. What's comical today is that Mr. Hand's conviction in the movie, that "everyone is on dope," could become a reality in Californiadam now that Med Pot has become legalized.

"Med-pot advocates say marijuana can ease chronic pain, spur appetite in anorexics or chemotherapy patients, and relieve eyeball pressure in glaucoma patients. The law voters approved in 1996 listed several conditions that might be helped but said so long as a doctor recommended pot, all "seriously ill Californians" had a right to it for "any... illness for which marijuana provides relief."⁷

Are you fucking kidding me? What does "seriously ill" mean? What this really means is that if I'm stressed out for whatever reason, I could ask my doctor to prescribe pot for me. "Cool, dude! For sure."



Yeah, dude. Looks like I got approved for med pot by my doctor.

Your doctor has recommended "pot" because you've got anxiety about the final exam?

California isn't the only state to go Med Pot. So far, 12 other states across the U.S. have legalized Medical Marijuana use. These are Alaska, Colorado, Hawaii, Maine, Michigan, Montana, Nevada, New Mexico, Oregon, Rhode Island, Vermont and Washington.⁸

⁷ With Med Pot Raids Halted, Selling Grass Grows Greener, By JUSTIN SCHECK and STU WOO, WSJ, July 23, 2009.

⁸ Source: www.norml.org



In summary, the large market size and continuous consumer usage metrics provide a basis, from an investor and entrepreneur standpoint, to greenlight further due diligence of the potpreneur's opportunity.

2. Competitive Analysis (in terms of barriers to entry, exit, intensity and alternative competition)

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“Hey, dude, of course I can be a potpreneur. I’ve smoked it so I’m qualified”

Depending on what part of the value chain you’re looking at as a potpreneur, competitive analysis displays different critical factors for success.

First of all, let’s look at it from a retail and distribution standpoint. Retail potpreneuers are going to experience some of the same hardships or management issues other retail entrepreneurs face such as competitive intensity, new entrants, marketing, retail store management, security, inventory management, employee pilferage, regulations and let’s not forget location, location and location.

In any retail business, location is king. Even Starbucks learned this lesson and had to close non-performing stores located in areas not able to support the cost of running their store.

Current potpreneuers in Californiadam are already experiencing (and will continue to experience) increased retail intensity due to a high number of entry players. For example, in Southern Californiadam, on a 20-mile stretch of Ventura Boulevard in the San Fernando Valley, there are now close to 100 retail places to buy Med Pot. As a result, these Med Pot dispensaries have brought about intense price competition reducing the least expensive pot from \$60 for an eighth of an ounce to \$45 dollars.⁹

When I was younger, I sold software to retailers across the country. I saw CompUSA go from one little store to a multi-billion dollar chain. I watched Egghead Discount stores (a chain of more than 200 stores) go down the tubes after an initial success. I saw Babbage’s, Electronic Boutique, and Software, Etc. consolidate into what is today called Gamestop.

When you have a young, emerging and growing market sector that brings numerous retail entrants, sooner or later, the retail sector is going to consolidate. The retail sector will weed itself. The same thing will happen in the Med Pot retail business. You’re gonna see consolidation of “retail” potpreneuers. There will be many that fail due to competitive pressures --- but as many will fail because of their inexperience in running a “retail business.”

⁹ With Med Pot Raids Halted, Selling Grass Grows Greener, By JUSTIN SCHECK and STU WOO, WSJ, July 23, 2009.

The big question is who is going to be the ‘Wal-Mart of the Med Pot’ business and make price, convenience and availability the key drivers in the sector?

And, who’s gonna become the “Gamestop of the Med Pot” business, with smaller, multiple stores as close to the consumer as possible? Being close to the consumer is critical because sick patients with “anxiety and minor ailments” will continue to rise. Some potpreneurs might make money consolidating the retail sector and creating a “trusted” value brand.

Who’s gonna become the Pilgrim’s Pride of the weed business?

Pilgrim’s Pride Corporation, at \$8.5 billion in sales in 2008, made a commodity like chicken into a “brand.” Some smart potpreneur is going to take the cannabis commodity and brand it. You might even see licensing by potpreneurs with Hollywood. I could see someone branding pot as “Fast Times” and using the movie as the marketing campaign.



Dude, I’m totally pissed. They’re retailing pot at the store.
How the hell did I miss out on this opportunity?
I gotta get in on the game.

Another thing to consider is the potential threat of the existing retail players. What if Walmart, CVS or Starbucks sold pot? I know this may seem crazy, but you never know how markets will emerge in the future. Walmart and Starbucks are unlikely, but drugstore chains such as CVS, Walgreens, or Rite Aid Pharmacy could put every potpreneur out of business in the retail sector if they decide to sell Med Pot. I mean, think about it.

Would you rather buy from a drugstore like CVS or some retail potpreneur that welcomes you with, “What’s up, dude”?



Looking further into the value chain from a competitive strategy standpoint, the big question is (1) who is going to control the distribution of the Med Pot to the retailers, (2) who is going to control the manufacture of the marijuana, and (3) whether vertical integration throughout the entire value chain is the answer.

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In regard to distribution, there's an opportunity for someone to become the "Brinks" of the Med Pot business. If you're a potpreneur, the problem in starting a Med Pot security and shipping service is that at any time, you could have one of the already-established security services enter the market and you've got competition overnight. Transporting marijuana isn't any different than providing secure transport of valuable commodities like money, gold or diamonds.

You have to wonder who's gonna become a player in distribution? Is it going to be someone from an existing security business like Brinks or is it going to be a potpreneur starting one from scratch? There's opportunity in this arena for sure.

Manufacturing is tricky too. Where do you get the product if you're a potpreneur? Are you going to rely on a distributor to get the product or are you going to source it from a manufacturer and then use a security company to transport the product?

In the diamond business for example, the buyer is responsible for sourcing the diamonds and uses a company like Brinks to transport the diamonds safely to the destination point. These security companies also offer viewing, settlement and clearing of the product if buyer and seller agree to use their services.

How are illegal drug cartels going to play in the distribution business? It's one thing to retail Med Pot but once you get into the distribution and manufacturing side, it could get tricky, not only from a business perspective but "personal security" perspective as well. Illegal drug cartels may see this as "an increase in business" for them or a legitimization of their business to a certain extent. But at what point do they start thinking potpreneurs (credible entrants from a legal perspective) are stealing market share from them? Drug cartels may not be happy to concede the manufacture and/or distribution of the weed across the United States.

How hard is it for an illegal crime organization to set up a Pot Med retail chain named 'Potdex'? How would the government be able to track the ownership of these businesses?

The production and manufacture of marijuana, the quality of the product, and the safety of the people involved are critical considerations. Current "Californiadam" potpreneurs are looking to vertically integrate the value chain in order to control the flow of the product from production to sale at the retail

level. I seriously doubt the drug lords are just going to sit idle. They're watching this evolution of the market closely.



Med Pot is the future. Dude, I'm gonna be the Bill Gates of potheads. They shall call me "Potpreneur."
Yeah, Dude. Far out, Dude. Potpreneur, Dude.

How will the illegal drug cartel see this from an overall competitive standpoint? Are they going to care to compete with potpreneurs producing pot legally and taking a share of their business? Are they going to form credible companies and use them as fronts to sell illegally produced marijuana? Are they going to fund legal potpreneurs and use them as a front to sell illegally as well? How's Uncle Sam going to deal with these thorny issues? How does anyone track the source of all this shit? Does anyone even fucking care in Californiadam? It's one thing to approve Med Pot, but it another to think through the implications of producing, distributing, marketing and selling legally to the "masses."

3. Management Experience

"Hey dude, wanna start a pot store? It can't be that hard."

Right now, potpreneurs are coming from various industries trying to capitalize on the Californiadam pot rush. The level of management sophistication could affect the outcome in different points of the value chain.

You can't just be a pothead and think you can open a "retail store" to sell pot. You're gonna need to know how to market and retail Med Pot to consumers – not any different than how CVS markets medical drugs. You're gonna need to provide, convenience, good service, etc.

Retail experience and background will be critical for business survival in running a dispensary. I seriously doubt Jeff Spicoli, in *Fast Times at Ridgmont High*, would fit the successful profile of a Med Pot retailer.



I've gotta get a better career than this shit.
I can't do this for the rest of my life.
What do I do? Potpreneur?

“Far out, dude. Let’s party after the store closes,” is not going to be the key to management success. This shit with the potpreneur market and business opportunities is gonna continue. I’m not done writing about it. *To be continued, dude....*

Is the Med Pot business venture fundable or not? In the subsequent series of articles, we will find out.



Potpreneur: Is it a venture fundable business?
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Questions for the reader:

1. Should marijuana be legalized?
2. Should marijuana be legalized only for medicinal purposes?
3. What do you think about the pot business from an investment or entrepreneur standpoint?
4. Who do you think in the pot value chain is going to end up extracting most of the dollars? Is vertical integration the answer?
5. Where in the supply chain would you start if you were to become a potpreneur?
6. Do you think becoming a potpreneur is morally wrong even if you don't smoke it?
7. Will a "Google-like" company emerge out of the pot business?



Reader Note: If you have any other tips on Angel investing or Entrepreneurship, please email me and I will add them to the list and give you credit. Don't worry -- I'm not a credit monger.

About Damir Perge
Chairman, CEO, Founder and Chief Janitorial Officer

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Damir Perge founded Entrepreneurdex and Angeldex because he is a multi-venture entrepreneur. He's an entrepreneurholic and people who know him will tell you he just can't help himself. He lives in the world of ideas but he's not just a dreamer. He focuses on

bringing ideas to reality.

His brain can't stop coming up with ideas! Whether products, services, movies, books or ventures, they pop into his head every day. He can't stop them, not that he wants to. His biggest problem is sorting out the ideas and figuring out which ones to bring to life.



Damir has been on both sides of the fence. He ran a venture fund and a publishing company. So he knows what it's like to be an entrepreneur and what it's like to invest and manage portfolio companies.

Being an entrepreneur is exciting. Damir can work 20 hours straight and not even feel the pain of the work, because work is fun and fun is work. He says he wishes he could live a thousand years so he could startup and build a thousand different businesses.

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