

Dear Mayor & Council,

In advance of the upcoming regulatory changes in the Fall where the SLGA will begin accepting applications for new cannabis retail stores, we are writing to you on behalf of the locally licensed retailers to urge Council to consider taking a phased approach to expanding licensing in the City of Saskatoon. We have provided research and recommendations below that illustrate how an incremental and slightly adjusted approach can help preserve the financial sustainability of the existing industry, while also allowing operators to maintain a focus on public health and safety during the formative years of cannabis legalization.

We would first like to share our appreciation and recognize of the City's efforts to create an equitable business environment for our industry, and we are grateful for the strides Council made last year in this regard by engaging with us to build an understanding around the value of reducing the business license renewal fee. This amendment significantly improved the financial viability for existing operators and further established a positive working relationship between our industry and the City of Saskatoon. We would like to continue building on that momentum by sharing some insight on how the pivot in provincial policy will affect the local industry, along with some recommendations based on our research. In order to determine the total number of retailers that the City can support, we would like to offer insight on some quantitative market data:

- Stats Canada reports that approximately 14.4% of the population in Saskatchewan has used cannabis in the previous 3 months<sup>1</sup>
- Projected population in Saskatoon for 2020 is 276,888, with approximately 87% of the population being older than 19 years old<sup>2</sup>
- Using both the City's population projections, and Stats Canada data, we can determine that the total consumer base in Saskatoon is approximately 35,000 people
- Stats Canada<sup>3</sup> reports that only 29% of current recreational cannabis purchases are obtained solely from the legal sources, so this means the current market size for legal recreational sales at approximately 10,000 regular consumers, or around 1,700 customers per store for the existing 6 operators

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<sup>1</sup> Statistics Canada: [Cannabis Stats Hub, 2019 Q4](#)

<sup>2</sup> City of Saskatoon: [Population Projection 2015 to 2035](#)

<sup>3</sup> Statistics Canada: [Sources of Cannabis, 2019 National Cannabis Survey](#)

This data demonstrates that adding even one additional retailer would cannibalize close to 17% of the average number of customers per existing retailer. A number that if presented as a decrease in total revenue would not be considered inconsequential by a retailer in any industry.

For your reference, we have provided further analysis in *Figure 1.1* below of the revenue models needed to sustain a reasonable profit margin, as well as the detrimental impact of even a modest expansion of retail licensing from 6 to 10 operators. We believe an increase in the number of retailers this year would significantly impact the economic viability of the current licensees. The downturn in EBITA for existing operators, coupled with the smaller revenue potentials prospective new operators would face, could create an environment so aggressive that both public health and safety, as well as regulatory compliance would be impacted to the detriment of the community.

Figure 1.1

Estimated 2020 Total Cannabis Sales Saskatoon	(C\$)	\$16,500,000
<b><u>CURRENT SITUATION</u></b>		
Per-Store Revenue (6-Store Equal Market Share)	(C\$)	\$2,750,000
10% EBITDA Margin	(%)	\$275,000
\$1M Investment Payback Period	(years)	3.6
<b><u>10 STORE SCENARIO</u></b>		
Per-Store Revenue (6-Store Equal Market Share)	(C\$)	\$1,650,000
5% EBITDA Margin	(%)	\$82,000
\$1M Investment Payback Period	(years)	12.1

In order for legal retailers to displace the illicit market and the associated criminal activity that goes with it, existing licensed operators need to be able to focus on growing their businesses responsibly, and on educating consumers so they see the value of purchasing legal cannabis products. We would like to work with the City to build a balanced approach to integrating cannabis retail into the community, and so we strongly believe that the current number of licensed retailers is sufficient to serve the consumer base in Saskatoon for the remainder of 2020.

We would posit that expanding licensing any further this year would negatively impact not only the economic sustainability of the existing operators; but more importantly, potentially undermine public health and safety by creating an overly competitive environment that would shift focus away from consumer education and responsible use, towards a race to the bottom for pricing and market share in order to survive.

We would recommend that moving forward into 2021 Council adopt a phased approach, allowing the total number of retailers to increase incrementally in alignment with the natural growth of the City’s population. Moreover, based on our collective experience in other markets and industries across Canada, we would also recommend that the City revise the current by-laws to increase the required distance between new cannabis retail stores, and any existing operator, to 1000m. We believe this approach will avoid any clustering and would promote a sustainable method of expanding new licensing opportunities.

Figure 1.2 included below illustrates our recommended approach to licensing expansion based on the City’s projected population growth, and a reasonable consumer conversion from illicit market sources:

Figure 1.2

<b>Recommended Number of Stores (2,000 Customers/Retailer)</b>							
	Year	2020	2021	2022	2023	2024	2025
East	(#)	0	1	3	4	5	7
West	(#)	0	1	2	4	5	6
North	(#)	0	1	2	4	5	6
South	(#)	2	2	2	3	5	6
Central	(#)	4	4	4	4	5	6
	Year	2020	2021	2022	2023	2024	2025
Population of Saskatoon	(#)	276,888	281,160	285,431	289,703	293,974	298,246
Legal Cannabis Purchases	(%)	29%	44%	59%	74%	89%	100%
Population Purchasing Cannabis	(%)	14%	16%	18%	20%	22%	24%
Saskatoon Addressable Market	(#)	10,060	17,220	26,372	37,302	50,077	62,274
<b>Recommended Stores</b>	<b>(#)</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>19</b>	<b>25</b>	<b>31</b>

Furthermore, in support of fostering an ongoing partnership with our sector, and to ensure relevant industry information is shared in a timely manner, we recommend a semi-annual roundtable meeting between City staff and local industry representatives be established to facilitate a healthy and responsive relationship with all licensees, so that we can work collectively to combat the illicit market and improve public health and safety for community stakeholders.

Thank you for your consideration on this matter.

Sincerely,

**Saskatoon Licensed Cannabis Retailers Working Group**

Kiaro | Living Skies Cannabis | Prairie Records | The Pot Shack