Passing the Red Face Test

You probably know what I'm talking about. When you show people your financial numbers – do you blush? Can you answer their questions without turning even redder?

Yes, financial forecasts are almost 100% inaccurate, and yet we still must be able to develop – and more importantly – defend – the numbers in our spreadsheet.

Who cares about your numbers?

EVERYBODY wants to see your numbers – regulators, potential investors, new hires, and the list goes on and on.

Typical revenue forecasting methodology

For a retail operation, one usually starts the number of people within your geographic area. Then, it is a matter of applying various filters, effectively scaling the total population down to the actual number of expected customers. For example, of the total population, how many are within your target age demographic? Of these, what percentage can be expected to be cannabis consumers? Of these, what percent do you expect to capture versus competitors? And so on.

Once you have the number of expected customers – what will they be buying? How often will they be visiting? How much will they be spending?

You may need to know what types of cannabis products are consumed by various age groups or income levels. Why is this important? Because you may be offering a high-end product targeted to more affluent consumers and you need to know how many of them there are within your geographic area.

To be credible, your model should be based on statistical facts as much as possible. Certainly, there will still be assumptions contained in the analysis, but they need to be reasonable – that is, as closely related to actual facts as possible.

Where ya gonna get the data?

So, how do you go about developing credible numbers to fuel this methodology?

Demographic Statistics

There are many sources of population-based statistics that will be relevant to your business (whether it is cultivation, processing or retail). For example, consumer data can be obtained from U.S. census reports, many of which are available free of charge through your library (e.g., reference USA and DemographicsNOW). Often, these data bases can be accessed remotely, and help is available as close as your local librarian who can guide you through their use.

Cannabis Statistics

You will also require statistics specific to the cannabis industry, much of which can be obtained through paid or free research reports. Here are just two examples.

Considered by many to be the bible of cannabis statistics is the "*Annual Marijuana Business Factbook*", published by Marijuana Business Daily (https://mjbizdaily.com/factbook/). Now in its

7th printing, this report is available in digital (and optional print) versions at a cost of $449.99 plus tax. It presents a wealth of cannabis-related statistics collected through various sources, including interviews with industry participants. Examples of its content:

- Charts of the latest sales, employment and investment data.
- In-depth market analysis and insight, including trends and opportunities across the industry.
- Operational data for cultivators, extractors, retail and ancillary businesses.
- State by state legal and regulatory updates.
- Business intelligence.

Statista (https://www.statista.com/) is another company supplying cannabis-specific statistics, in this case through both free and paid subscriptions. Here one can find – for example – a chart illustrating the percentage of U.S. consumers who currently smoke marijuana by age group. Although this data is not a strict reflection an of YOUR exact geographic area, it can serve as a reasonable surrogate – that is, it is reasonable to assume that your area is typical of the US as a whole with regard to this data. As such, it is highly credible data that can be used in your analyses.

Another Statista free report details the legal cannabis spending per capita in the United States. Again, while this data does not explicitly refer to your target market, it does provide a reasonable substitute you can use for your financials.

Trade journal articles represent another free resource. For example, a recent article *("Study Shows Market Forces Influence Who Buys Medical Marijuana",* https://today.ku.edu/2018/09/28/study-shows-market-forces-who-buys-marijuana-how-much-medical-dispensaries-more) describes the results of research conducted by the University of Kansas. The study of 595 randomly selected dispensary visitors revealed that patrons spent an average of $41.73 per visit and went on to detail how much of each type of product (loose-leaf buds, edibles, concentrates, pre-rolled joints, seeds or clones) they purchased.

Conclusion

Is this process easy?

No.

Is a rigorous process like this necessary to produce credible numbers?

Yes.

Do you want to be able to pass the "Red Face Test"?

Probably.