

# Ontario's "Flow – Through" program prepares for prime time!

**By: Tim Wilson**

In May 2021, Ontario announced that it would be introducing a new "flow-through" program. The program, which will allow retailers to order products not stocked in the Ontario Cannabis Store (OCS) warehouse, has been undergoing a complex platform development phase that involves both LPs and retailers.

"After the successful completion of the pre-pilot, we have now moved into the pilot phase and are working with our retail network to incorporate their feedback," says Daffyd Roderick, Senior Director, Communications and Social Responsibility at the OCS. "We will continue to follow a phased launch, with a soft launch and a full launch occurring later this year."

The flow-through program will allow retailers to choose selected, non-warehoused products from an OCS catalogue, with the OCS then facilitating the wholesale purchase from LPs, and the shipment to retailers. This should allow the OCS to offer new stock-keeping units (SKUs), and for retailers to try products that have a short shelf life, are slower-moving, or are not carried by their competitors.

The initial intention was to gradually launch the program beginning in September of last year, with products added during the fall and winter. However, this has been delayed, apparently due to the complexity of the undertaking.

"This has never been done before," says Mike Dunn, co-founder of Toronto retailer 1922, and Board Member on the OCS's Ontario Recreational Cannabis Advisory Panel (ORCAP). "It's still at the crawling stage, and everyone wants to be running. I have a lot of compassion and empathy for what's required from a category management standpoint. The OCS really, really wants this to work."

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## **MIMI LAM, CEO AND CO-FOUNDER OF SUPERETTE**

After the initial optimism of a September 2021 rollout, the OCS pushed back their plans for a soft launch to Q4 of 2021, with an anticipated run state in Q1 2022. Though this hasn't yet happened, the OCS continues to make progress in what has turned out to be a challenging process.

"The OCS is a huge conglomerate trying to make it work, trying to improve it, but it will take a while to figure out," says Rob O'Neill, Principal & CEO at JC Green, a Licensed Provider in Thorndale, Ontario. "Change is slow, but we're glad to be a part of it."

JC Green (Jonny Chronic), Organigram (Edison Cannabis Co.), and Canopy are some of the LPs that are providing direct input to the OCS. Over the past year, OCS has also reached out to participant retailers, such as 1922, with webinars and other forms of contact to get feedback, specifically with regard to order process enhancements to the B2B (business-to-business) web portal. Retailer concerns have led to internal reviews, and revisions of the retailer network solution.

“There are about 20 people providing feedback on the solution,” says Dunn from 1922. “From a retail perspective, this includes some independent stores, some larger, some franchises. We’ve been having great discussions, and the OCS should be commended for listening and responding. It’s a learning curve as there is no baseline here, no analytics, no history – but I can confirm that the plumbing works and that the pilot is up and running.”

## The World We Have

In Ontario, there is no way to legally sell non-medical cannabis without involving the OCS. Legislation places the OCS in the centre of the supply chain, which means that even a flow-through program cannot be structured as a direct pass-through from LP to a retailer or consumer.

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### ROB O’NEILL, PRINCIPAL & CEO AT JC GREEN

“All of the recreational cannabis in Ontario has to be shipped by the provider to Guelph, where it is then unpacked and repackaged for each store shipment,” says O’Neill from JC Green. “We have to use authorized carriers, pay for insurance, and make appointments for warehouse delivery, which can be expensive for smaller producers. By comparison, we ship medical cannabis every day through Canada Post and Purolator.”

With recreational cannabis, the costs related to the structure of the supply chain are impossible to avoid, and can become a significant barrier to smaller producers.

“For some perspective, if our smallest flow-through order was around \$5,000 a week, shipping would be \$450-650, and if we had 10% profit – well you can do the math,” says O’Neill. “For an even smaller producer, this could be even worse. You can ship regular SKUs and flow-through SKUs together, but that doesn’t necessarily help the little guy trying to get in.”

As it is, it is difficult for small producers to get their products featured with the OCS, as it can be challenging to meet the OCS production requirements. In theory, the flow-through program could help with this.

“If limited, low quantity batches can be pushed through this program, then that would be great for micro producers such as ourselves,” says Barry Gill, President of Five Rivers Cannabis in Brockville, Ontario. “We’ve already been contacted by numerous stores wanting to carry our products in Ontario, but right now we have no avenue to do so.”

Part of the challenge is that Five Rivers Cannabis, like many micro producers, doesn’t have a processing license. These smaller producers have to deal with another body to package and process before they can get to the OCS. That would be true even for the flow-through program.

“Also, the requirements for micros seem to be higher,” says Gill. “We have to produce higher quality buds, with higher THC and terps than the large producers. This isn’t a problem for us, but where it becomes an issue is the OCS also only wants the larger buds, so what do we do with the popcorn buds? We have to find another avenue for those, which ideally would be pre-rolls, but again we need someone to process those for us, and is there enough quantity?”

Five Rivers has addressed the supply chain problem by selling to LPs, and through exchanges, in order to send its product out west. This is resulting in better ROI. In some cases, Five Rivers has even been able to negotiate to have its name mentioned on the product. This helps with branding, and also gets them out of Ontario's low-margin market, which at present favours processing companies and larger LPs.

"When you're at the bottom, like the micros, you get squished," says Gill. "A lot of micros we know are sitting on product and are having a hard time moving it because they're not getting the return they need, or they don't even know the channels to access."

However, the challenges related to processing, packaging, and shipping are beyond the purview of the OCS, which, by most accounts, has been working hard, and in good faith, to make the most of the regulatory environment. And that includes putting in place the best possible flow-through program.

"The OCS is developing its own institutional knowledge, and we are entering a new stage that emphasizes creativity and productivity, which we are already seeing in pre-rolls," says Dunn from 1922. "With regard to the flow-through program, the groundwork for the pilot will pay dividends 18 to 24 months from now. At that point, the market will have evolved to reflect more profound lifecycle management with the customer."

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#### **BARRY GILL, PRESIDENT OF FIVE RIVERS CANNABIS**

Placing the OCS in the middle of a flow-through system can offer distinct advantages to retailers, particularly smaller ones. For a small store to manage unique relationships, including invoicing and shipping formats, with multiple LPs, would be far more complex and costly from an operational standpoint. The bigger challenge, it seems, will be with LPs.

"From a functionality standpoint, the flow-through platform is now a well-oiled machine," says Dunn. "The remaining issues are with the producers, who really need more opportunity to test and understand consumer demand, and to apply key learnings to other provinces."

#### **Partnering for Success**

For smaller LPs, including micros, the best way to access the flow-through process might be to partner with a bigger company.

"Overall, given the limited options right now, the flow-through program is the best option available at this current time," says Gill from Five Rivers. "We are working with a company to get our product into the OCS, and it may be through this program, but we are doing so at a lower ROI."

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## **MIKE DUNN, CO-FOUNDER OF TORONTO RETAILER 1922, AND BOARD MEMBER ON THE OCS'S ONTARIO RECREATIONAL CANNABIS ADVISORY PANEL (ORCAP)**

As it stands, for many smaller producers the economics of going solo with flow-through likely don't make economic sense. In order to access the OCS all producers, no matter their size, require a processing license, insurance, as well as other regulatory requirements. They also have to absorb the costs associated with packing and shipping smaller amounts.

"Lots of micros are approaching us, and we have made our first purchase from one," says O'Neill from JC Green. "We might get involved in that way, especially with flow-through coming on. Before we had our standard processing license, we wholesaled to Canopy and others multiple times."

Higher traffic from flow-through may also make it harder to make warehouse appointments, which the OCS requires, though the OCS could presumably adjust for that. The bigger challenge for all LPs, no matter the size or partnership structure, is that they will need to adjust to quicker turnarounds and adapt processing to allow for smaller and more frequent orders. However, on a call on Friday, March 18, the OCS assured O'Neill and others that they are working on that issue.

"We have to do a knockdown and clean for each SKU," says O'Neill. "A lot of small orders could be really disruptive. But that is just something that LPs will have to get used to and figure out. Ultimately, it's a good thing for everyone. Some retailers are catching on and figuring out how to order from us. Given that we are a relatively small LP, it was good for the OCS to give us this kind of exposure and opportunity."

As the kinks get ironed out, it is important to note that the flow-through model is a direct response to what industry players have been asking for. To the extent that the flow-through program will allow producers of all sizes to more seamlessly commercialize products, and to offer retailers enhanced ability to differentiate offerings with more SKUs, it will be a bonus for consumers, too.

"It was actually a really good discussion and I felt 'heard'. I feel like they're definitely putting in the effort to make this work for everyone as best they can, but one size will not fit all perfectly; it will certainly be a work in progress."

## **ROB O'NEILL, PRINCIPAL & CEO AT JC GREEN**

"On this note, most of the call on March 18 revolved around what was working, not working, and on improvements that I could suggest," says O'Neill. "It was actually a really good discussion and I felt 'heard'. I feel like they're definitely putting in the effort to make this work for everyone as best they can, but one size will not fit all perfectly; it will certainly be a work in progress."

It might also help to allow standard producers to list SKUs from micros.

"Flow-through could help with that," says O'Neill, "because right now it is hard to get SKUs listed, particularly with smaller and infrequent lots. It's true that a smaller producer will continue to work with thin margins – but in fairness that is why we are part of this flow-through trial."

And of course, for the retailer, having more SKUs means more variety, which allows for more consumer choice, and competitive market differentiation. With flow-through, there can also be faster turnaround, which results in a fresher product.

“The advantages of having something like this is that hopefully in the future, private operators on either side of the value chain can make buying and selling decisions more in line with any other industry,” says Mimi Lam, CEO and co-founder of Superette, a cannabis retailer with stores in Toronto and Ottawa. “Retailers all carrying similar products is not good for business, nor the customer. And any retailer outside of cannabis will easily tell you that product curation and differentiation is one of the most important components of retail, so I’m hopeful that we will get there one day.”

That day may soon be upon us. Certainly, Daffyd Roderick at the OCS, remains confident:

“Once the program has been fully launched, ordering via flow-through will result in the ability to order unique and seasonal products beyond OCS’s catalogue of products held in stock at the distribution centre,” he says, adding that it will provide, “an opportunity to test out new products, which may help retailers to further differentiate themselves as the market continues to evolve.”