

## Tap Into the CBD Market

Although the FDA has yet to establish CBD guidelines for food and beverage, new products continue to flood the market and c-stores can profit

By Tammy Mastroberte

**IN DECEMBER 2018,** when the Agriculture Improvement Act of 2018 legalized CBD, or cannabidiol, derived from hemp, both manufacturers and retailers started buzzing about the possibilities. Since then, new CBD products continue to hit the market, including food items such as gummies, candy, chocolate and popcorn, and beverages like CBD infused teas and water. There are even topical CBD products, beauty products and tinctures.

With Food and Drug Administration (FDA) regulations up in the air, however, some retailers are hesitant to jump into the CBD market. Meanwhile, other retailers who have taken the plunge can't believe how well the products are selling for them.

"I was in a mom-and-pop convenience store that was selling small packages of CBD gummies and then I went back six weeks later and there was a display of six or eight items at the checkout counter, along with a vape pen and cartridges behind the counter," Mike Luce, co-founder of High Yield Results, a Chicago market research firm covering the cannabis industry, told *Convenience Store News*. "The owner said he can't keep the items in stock."

As of press time, hemp CBD retail sales are only permitted in 17 states, and the FDA has yet to rule on the use of CBD in food and beverages, so there is a regulatory gray area, according to Jamie Schau, CBD research manager at Brightfield Group, a predictive analytics and market research firm for the legal CBD and cannabis industries, based in Chicago.

"The FDA is a huge factor here. Once the Farm Bill passed and legalized hemp CBD, the FDA said ingestible products were not permitted and that no

**"CBD has huge potential for manufacturers and retailers, and will definitely be a disruptor."**

— Sarah Marion, The Hartman Group Inc.





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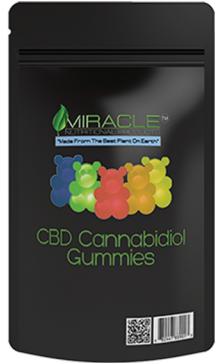
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## Call to Action

- First, check the laws in the states where you operate stores. The Agriculture Improvement Act of 2018 legalized CBD, or cannabidiol, derived from hemp. However, as of press time, hemp CBD retail sales were only permitted in 17 states.
- Check with your distributors to see if they are carrying any CBD products currently. The top items that distributors are shipping into c-stores are gummies, oils and tinctures, and vape items that contain CBD, according to Management Science Associates Inc.
- In the CBD edible space, consumers want things that are easy to consume, portable and discreet. Think gummies, chocolate, mints, snacks and beverages.
- Consider stocking small grab-and-go or single-dose products, which are ideal for the c-store market. Such products allow consumers new to CBD to experiment without having to spend a lot, and enable users to easily manage their intake and portions.

## States Where CBD Retail Sales Are Legal:

<b>Alaska</b>	<b>Nevada</b>
<b>Colorado</b>	<b>New Mexico</b>
<b>Illinois</b>	<b>Oregon</b>
<b>Indiana</b>	<b>South Carolina</b>
<b>Kansas</b>	<b>Tennessee</b>
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medical claims can be made on a product," Schau noted. "People are still hesitant to enter the space until there is more clarity, especially major brands and retailers. Our expectation is the FDA will create a unique channel for ingestible and topical products to be regulated."

The FDA specifically addressed food products in a recent statement, including additives and supplements, but didn't address topicals, which is why major drugstore retailers like CVS, Rite Aid and Walgreens are adding topical products to their shelves, Schau said, noting that she's also seen GNC and Vitamin Shoppe carrying some CBD products as well.

Walmart has made a deal with New Age Beverage Co. to carry the Bob Marley line of CBD infused beverages, but it's still unknown which Walmart stores will carry the beverages and when they will actually hit shelves. Beverage giant The Coca-Cola Co. has publicly stated interest in CBD, and Vita Coco is introducing a line of CBD infused sparkling coconut water.

Schau believes many retailers and manufacturers across various retail channels — including convenience — are very interested, with "deals brewing behind closed doors."

In May 2019, Mondelēz International Inc. CEO Dirk Van de Put shared that the company is exploring adding CBD infused snacks to its product line, which includes Oreo and Chips Ahoy cookies and Cadbury chocolate, according to a *CNBC* report.

Even fast-food chains are jumping into the CBD market, with Carl's Jr. announcing the test of a new burger called "Rocky Mountain High: Cheeseburger Delight" at one of its locations in Denver, Colo. The burger features a sauce infused with CBD oil.

"There are questions about the legality of it, but nobody has cracked down on it yet," Sarah Marion, director of syndicated research at The Hartman Group Inc., based in Bellevue, Wash., said about the Carl's Jr. test. "The laws on CBD vary per state and it's all over the map. Amazon actually pulled all the CBD products from their stock."

Once the FDA provides more clarity, the segment is expected to grow tremendously, both on the manufacturing and retailing sides, according to Schau. In fact, a February 2019 report from Cowen Research put estimated sales of CBD consumer products in 2018 at between \$600 million and \$2 billion, and projects it to grow to \$16 billion in retail sales by 2025.

"CBD has huge potential for manufacturers and retailers, and will definitely be a disruptor," Marion said. "Right now, it's mainly the millennials interested, but I think it will go mainstream because of the benefits for older people, too."

## New Companies, New Products

In states like Oregon and Colorado, where recreational marijuana became legal, the number of products with CBD began increasing from companies who already made products for the marijuana trade, as well as brand-new companies to the market, according to Greg James, owner and publisher of *Marijuana Venture*, a business magazine for the cannabis industry.

"There are hundreds of CBD companies now, and there are

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products like bath bombs, pet shampoos, CBD infused water, popcorn, chocolates, gummies, creams and tinctures," James explained. "Half of the companies are women-owned, which is something I've never seen before because the marijuana business is mostly men. We are seeing beauty creams to help with wrinkles and other items geared toward women."

The Hartman Group conducted a study among consumers aged 18 to 73 who live in Oregon, Washington, California and Colorado to see what the market might look like if it went nationwide, and the data showed consumers are interested in purchasing a lot of food and edibles, including brownies, candy, mints and beverages — although beverages were not as popular as the other segments, Marion cited. Also popular among the study participants were CBD concentrates or tinctures taken under the tongue, oils, pods for vaping, and topical lotions and salves.

"In focus groups, we showed them ideas currently on the market and they seemed pretty enthusiastic about some of the products, like coffee with CBD," Marion explained, noting that there are ready-to-drink coffees with CBD available, as well as coffee beans.

"There is also soda and beer with CBD, and for a c-store, beverages are a perfect fit because the consumer already goes to a c-store for beverage discovery and to get their favorite," said Marion. "Also popular was mints, candy and chocolate. Consumers want things that are easy to eat, portable and discreet."

Traditionally, tinctures have dominated the CBD market. A tincture is a dropper of hemp dried CBD in a carrier oil that you place under the tongue. But with new items entering the market, tinctures may take more of a backseat, said Schau. Topicals for pain relief are seeing huge growth in the baby boomer generation looking for relief from arthritis and other muscle pain.

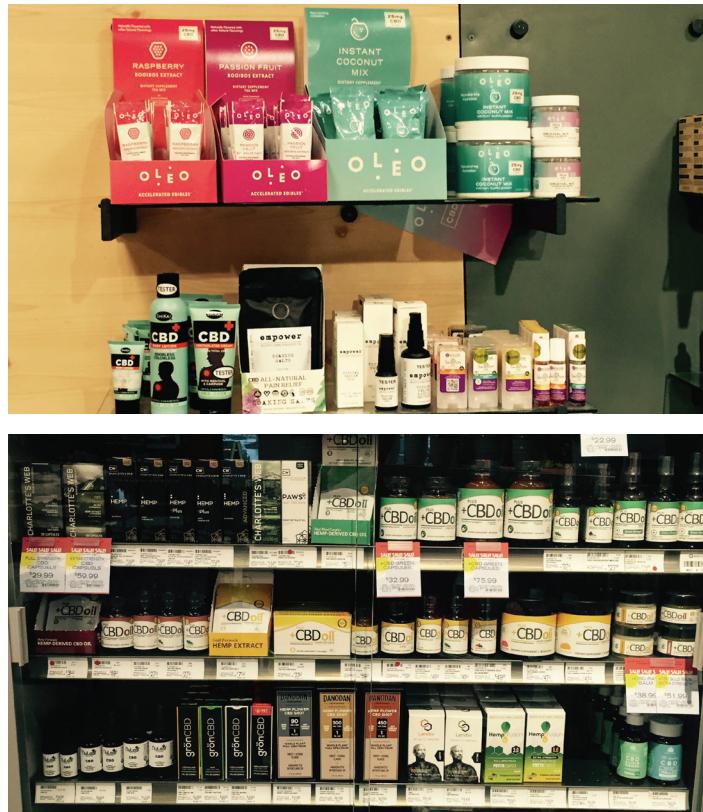
At Healthy Roots Hemp, a supplier of CBD products based in Portland, Ore., the company's bestselling products are its topical root butter for pain-targeted areas — with an activation time of less than five minutes — and tinctures taken orally, said owner Liz Merritt.

"The tinctures and topicals go hand-in-hand for people looking for pain management because you can do the tincture from the inside and then topical on the outside," she said.

### C-store CBD Opportunities

So, how can convenience store operators gain access to these products for their locations?

Don Burke, senior vice president of Management



Along with convenience stores, drugstores and health stores like GNC and Vitamin Shoppe are starting to sell CBD products.

Science Associates Inc., based in Pittsburgh, Pa., advises operators to first check the laws in the states they operate, and then check with their distributors to see if they are carrying any CBD products currently.

"We tracked what CBD items distributors are shipping into c-stores and the No. 1 seller is gummies; second is oil or tinctures you put under the tongue; and third is vape items that contain CBD," Burke told CSNews.

While there are products being distributed and sold in c-stores, he pointed out that some distributors have made the decision not to carry any CBD products until the government regulations have been clarified.

Many manufacturers are offering small grab-and-go or single-dose products, which are ideal for the c-store segment, said Schau. For example, CBD FX offers a display designed for the point-of-sale (POS) that includes single-dose options, such as a small Chill Shot beverage.

"The portable, one-dose products have been doing well according to manufacturers, and CBD FX has the Chill Shot, similar to 5-hour Energy," noted Schau. "They also have disposable vape pens that have only 30 milligrams, capsule packets and little travel-size topical jars. Having the products right there at the POS has been really effective for them."

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— Greg James, Marijuana Venture

Another company Schau highlighted is Green Roads, which offers single-dose products that are disposable. These products have taken off in vape shops, she said. Small-dose products are ideal for people who want to try them, but don't want to commit to purchasing a whole bottle of something — and they're also ideal for the c-store market, she believes.

"There are plenty of reliable manufacturers producing these products, and the POS products and portable products sitting at the cash register are a great way to try them for the store and customers," according to Schau.

Many consumers — both current users of CBD and new users just discovering the products — seem to be gravitating toward items that allow them to manage their intake and portions. This is why grab-and-go products are so popular, said Luce of High Yield Results. Items like chocolate, gummies, candy and even capsules allow for such control.

"For people who might find vaping intimidating, chocolate, gummies or even baked goods won't put them off in the same way," Luce pointed out.

All of the CBD product categories are anticipated to grow considerably, especially once the FDA comes out with set guidelines and the legal ambiguity is gone. Once it's made clear that CBD can be used in food and beverage items, there will be an "onslaught of major manufacturers entering the marketplace," and sales will reflect that in the future, Burke said. **CSN**

#### THREE-PART SERIES

This is the first in a three-part series exploring the CBD opportunity for convenience stores. Look in the July issue for part two.

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