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THE EFFECT OF MARIJUANA ON RESTAURANTS

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Marijuana is now legal for recreational use in 10 states and 12 states are likely to pass legislation by the end of 2020. Observers anticipate changes at the federal level relative to marijuana/cannabis classification to occur by 2023 the latest.

Currently, 13% of U.S. adults report regular or occasional marijuana use; Technomic data indicates that share will likely increase as more states legalize recreational use.

Although current recreational use regulations largely prohibit marijuana and cannabis consumption in public spaces, including away-from-home establishments, the availability for recreational use has

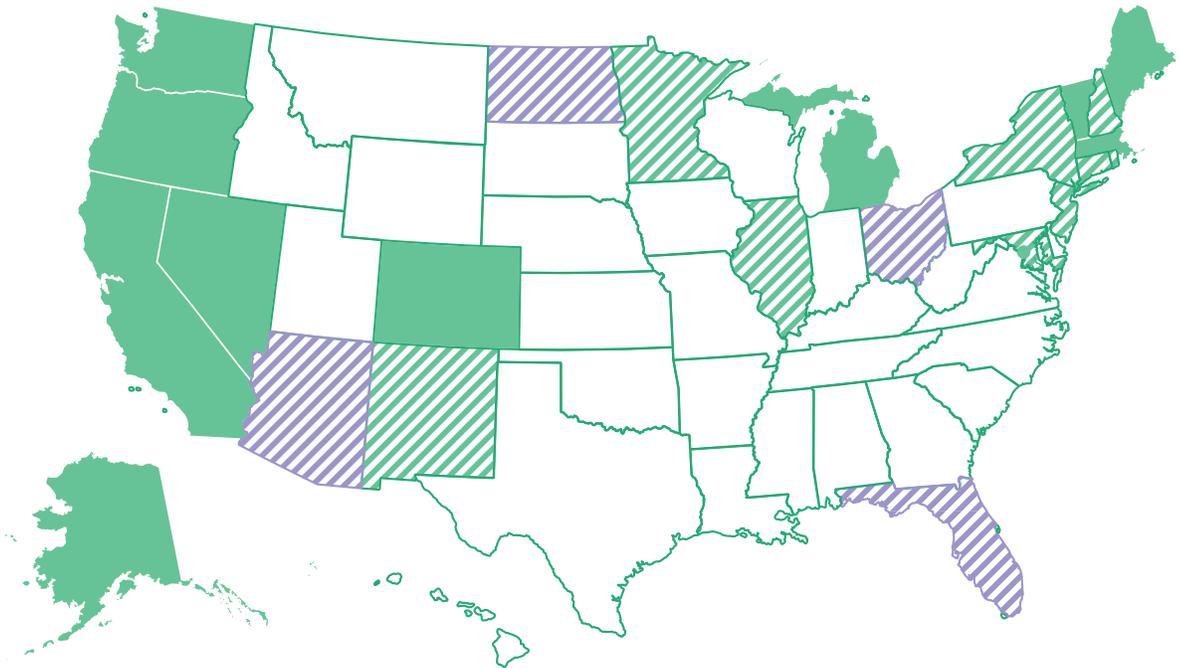
implications for the restaurant industry. These center around consumer occasion dynamics, menu development and employee issues that have the potential for both positive and negative impacts on restaurant operations,

performance and brand positioning.

To assist restaurant operators and their supplier partners in approaching these issues, Technomic has prepared this white paper, drawing on research conducted with consumers and operators and analysis of our Ignite Menu database.

Technomic will continue to conduct research on this evolving issue and the implications for the foodservice industry to support strategic and tactical plan development for operators and suppliers alike.

Nine of the 10 states where marijuana is legal for recreational use have instituted commercial distribution; Vermont is the exception but commercial distribution likely will be established in the next year. Marijuana lounges are licensed in California, Colorado, Nevada, Oregon and Massachusetts; on-premise consumption of marijuana/cannabis products is permitted.



■ Currently legal for recreational use
▨ Expected to legalize in 2019
▨ Expected to legalize in 2020

42% of marijuana/cannabis users anticipate increasing consumption once recreational use is legalized at the national/federal level

Notable Recent Events

Canada became the first major nation to **legalize recreational use** of marijuana in October 2018

President Trump signed the **Farm Bill** into law in December 2018, legalizing hemp production and generating excitement about rapid expansion of the CBD product market

Late in December, the FDA released a statement affirming its authority to **regulate cannabis** and cannabis-derived products and confirming the prohibition of the introduction of food containing added CBD or THC into interstate commerce, or to market dietary supplements involving CBD or THC products

Important Terms

Marijuana—a member of the cannabis sativa family of plants; contains high concentration of tetrahydrocannabinol (THC), which has psychoactive properties, and cannabidiol (CBD) which does not have psychoactive properties; marijuana is produced for medicinal and recreational use

Hemp—a member of the cannabis sativa family of plants; contains very low concentration of THC and also contains CBD and is produced for industrial purposes

Cannabis Consumer Profile

The frequent (monthly+) consumer of marijuana/cannabis skews young, Caucasian and

middle/upper-middle income. Similarly, the frequent limited-service restaurant patron skews young and male, as does the frequent midscale and casual-dining restaurant patron.

Younger consumers (ages 21-34) are more than one-third as likely to use marijuana once a week or more away-from-home than older consumers. The majority of use occurs

at home, due to regulations and also social norms. This may change as both evolve.

Flower is the preferred format for marijuana

consumption (i.e., smoked), although younger consumers are more likely than older to use infused/edible products regularly.

Marijuana/Cannabis User Profile (Once/month+)

Source: Technomic's 2018 The Marijuana Effect Study
 Base: 1,200 (consumers who consume marijuana more than once a month)

Gender



Age



Ethnicity



Income



Cannabis Consumer Behavior

Impact on Restaurant Delivery & Takeout

Foodservice overall has experienced an increased demand for off-premise services, including drive-thru, restaurant delivery, third-party delivery and takeout orders. However, consumers across states with and without legalized recreational marijuana report similar occurrences of delivery and takeout occasions. While the majority of marijuana consumption occasions occur at home, due to regulations and social issues, data suggests

legalizing recreational use does not influence overall restaurant delivery and takeout usage.

Pregaming with Marijuana

Nearly two-thirds of cannabis consumers use marijuana/cannabis products before going out to a restaurant, bar or other establishment; propensity to pregame varies by age and foodservice segment. The involvement of marijuana/cannabis in an away-from-home occasion influences consumption of food and beverage.

Two-thirds (63%) report increased food consumption; only 5% say they eat less.

Nearly three in 10 (28%) say they drink more alcohol beverages; only 5% report they consume less.

Drivers of pregaming with marijuana include a desire to save money (26%). This suggests that consumers may be intentionally using in order to curtail spending on alcohol beverages or food in a restaurant, bar or other away-from-home location. Younger consumers slightly drive increased food consumption, and half (50%) of those ages 21-34 report increased alcohol consumption when marijuana is a part of the away-from-home occasion. This may be due to younger consumers being more likely to partake in the late-night daypart.

63%

of consumers say they consume marijuana/cannabis products prior to visiting a restaurant, bar or other away-from-home establishment

Cannabis Lounges Appeal

While few licensed establishments where marijuana/cannabis products may be legally consumed currently exist, consumer interest in these concepts is notable.

Key attributes consumers seek in such lounges include the ability to order food—with or without cannabis ingredients—as well as table service and beverages, both alcohol and nonalcohol. This points to a consumer desire to replicate the experience of patronizing

a traditional restaurant or bar, but with marijuana consumption central to the occasion. Currently, restaurant and bar operators do not perceive marijuana lounges as a threat or competition; however, nearly half of consumers who use marijuana and cannabis products indicate they would prefer to visit an establishment where these substances could be imbibed on-premise rather than visit a traditional bar, indicating such venues may compete for away-from-home occasions should they increase in number.

70%

find the concept of marijuana/cannabis lounges appealing

Operator Perspective

Effects on Restaurant Businesses

Tourism Trend

Since the legalization of recreational marijuana in their state, operators of full-service restaurants and bars report that there has been little to no change regarding their customer demographics. However, operators have observed an increase in tourists, among all adult ages, visiting their state in the wake of legalization. This may mitigate as more states legalize recreational use.

Dispensary Dynamics

Proximity to a marijuana dispensary does appear to impact key business metrics. Restaurants and bars located near dispensaries report that the presence of these cannabis purveyors has had a positive impact on their sales across food and adult beverages, especially in the immediate aftermath of legalization. This may be attributed to a sense of celebration among local supporters of legalization, as well as an influx of consumer traffic to the neighborhood as consumers seek to visit the dispensary.

44%

of casual-dining operators agree that some employees have consumed marijuana/cannabis prior to their shift

Liability Concerns

Operators of restaurants licensed to serve alcohol, as well as bar operators, do express concerns regarding liability. Nearly half (49%) fear they may be held liable for incidents involving patrons who have consumed alcohol at their establishments and have also consumed marijuana at some point before or during the occasion. The ability to recognize marijuana/cannabis intoxication is also a concern, and operators indicate a need for server training on this issue.

Labor Woes

The cannabis industry is viewed as a competitor for management and hourly employees by more than two-fifths of restaurant and bar operators in states where cannabis is legal for recreational use and is commercially distributed.

Operators in these states also point to employee consumption of these

products prior to and during their shift as an issue, adding to labor challenges.

Marijuana/Cannabis on the Menu

Consumer Interest

While the regulatory environment continues to evolve, the availability of items containing marijuana/cannabis components on food and drink menus at restaurants and bars appeals to the consumer of these substances.

Interestingly, the consumer draw for food items incorporating marijuana is notably higher than that of alcohol beverages that contain cannabis for flavoring (without THC). This suggests consumers may see food items as a more appropriate vehicle for usage of components of marijuana/cannabis than adult beverages. Overall, this data points to the appeal of menu items involving marijuana/cannabis components.

40%

of casual-dining operators agree that some employees consume marijuana/cannabis during their shift

Consumer Insight Agree completely & Agree

“I would visit a restaurant concept that incorporates marijuana in its food.”

Group 1 | 59%

Group 2 | 62% (71% of consumer ages 21-34)

Group 3 | 72%

“I am more likely to drink an alcohol beverage using cannabis for flavoring (with no psychoactive effects) than a regular alcohol beverage.”

Group 1 | 27%

Group 2 | 19%

Group 3 | 30%
(35% of consumer ages 21-34)

Source: Technomic's 2018 The Marijuana Effect
Base: 1,155 (group 1—consumers in states with legal recreational use and commercial distribution); 273 (group 2—consumers in states with legal recreational use, but pending commercial distribution); 572 (group 3—Consumers in states where legalization of recreational marijuana/cannabis products is somewhat likely to occur in the next two to three years)
Q: Thinking of occasions when you are at a restaurant, bar, nightclub or other away-from-home location, please indicate how much you agree or disagree with the following statements

Operator Approach

The majority of operators are neutral about their propensity to add items involving CBD and hemp to their menus. Likelihood to make these additions is highest among casual-dining operators. Menu segments of highest interest for CBD-infused items include cocktails and desserts.

Restaurant operators at the corporate level are awaiting regulatory clarity on inclusion of CBD and other cannabis components on their menus, and also are monitoring public sentiment and customer demand.

Cannabis on the Menu

The share of operators menuing items containing cannabis components, including hemp and CBD, is small but growing, although the outlook is uncertain in light of the regulatory situation.

The FDA issued a statement in December stating the sale of food products containing CBD and/or THC is prohibited. Several states, including California, Maine and Ohio, as well as New York City, have been actively enforcing the prohibition of CBD as an additive or ingredient in food products at the local level.

Hemp seed and hemp-derived products are not prohibited for use in food products by the FDA.

The FDA indicates it recognizes consumer interest and market dynamics relative to marijuana and cannabis, and continues to assess potential use of these components to insure public safety and regulatory compliance regarding the development, marketing and sale of products containing these components.

0.5% of operators menu cannabis*

Top Dishes with Cannabis**

1. Fruit Smoothie
2. Drink Add-In
3. Cereal/Granola Entree
4. Specialty Salad
5. Other Blended/Smoothies
6. Garden/Veggie Burger
7. Salad Topping/Dressing
8. Other Toppings

*Base: 23 U.S. operators with menus in Q4 2013 to Q4 2018 Filters: (Tag: cannabis)

**Base: 120 Menu items across 53 operators in Q4 2013 to Q4 2018; Filters (Tag: cannabis, hemp, CBD, marijuana, cannabidiol), (Region: U.S.) Source: Technomic Ignite menu data

Outlook for Marijuana/Cannabis & Restaurants

Restaurant operators and their supplier partners should closely monitor the evolving marijuana/cannabis landscape and market dynamics on several fronts to identify opportunities, obstacles and potential regulatory compliance issues.

Legalized marijuana for recreational use and the emerging CBD and hemp market present opportunities and

challenges for restaurant operators that require careful consideration and strategic planning to address and potentially leverage.

Opportunities

Traffic will increase for establishments located near marijuana dispensaries and where marijuana tourism spikes.

Check averages will increase as a result of patrons incorporating marijuana into the away-from-home occasion (e.g., pregaming, consuming during the occasion, etc.)



CANNABIS ON THE MENU

OCEAN GRILLE'S SPAGHETTI AND MEATBALLS With marijuana and garlic bread	\$10.99
THE RUDDY DUCK'S VEGGIE BURGER Hemp patty, tzatziki, roasted mushrooms, lettuce, tomato and onion	\$13.00
JOE'S STONE CRAB'S POWER BOWL Quinoa, blueberries, strawberries, hemp, flax, chia and yogurt almond creme	\$9.95

due to propensity to consume more food and, for younger legal-age consumers in particular, more adult beverages.

The incorporation of cannabis components into food and beverage items will drive menu innovation and concept differentiation (consult local regulations and FDA regulations).

Challenges

Labor concerns loom large for restaurant operators in states where recreational marijuana is legal. Cannabis

businesses are seen as competitors for hourly employees; the historically low unemployment level exacerbates the situation.

Liability issues are concerning to operators that serve beverage alcohol.

Balancing compliance with local and federal regulations with desire to be cutting-edge and differentiated to appeal to consumer interest in the inclusion of cannabis products on menus.

Key Considerations & Action Items for Restaurant Operators & Supplier Partners

1 Understand local regulations around legal recreational marijuana usage in operating markets, including social/public use rules, dispensary and lounge licensing.

Track developments and provide input to restaurant association leadership and local government and regulators to help shape regulations.

Ensure unit staff are informed of regulations and understand what is permitted and prohibited in and around the restaurant location.

Monitor licensing of cannabis lounges, which may present a competitive threat.

2 Consider the opportunity to and implications of marketing specifically to marijuana/cannabis consumers.

Doing so may drive traffic and sales, but may also impact brand affinity and visitation by those

opposed to or uncomfortable with marijuana/cannabis legalization and use.

Restaurant brand consumer precision is advised.

3 Menu applications must be weighed carefully in light of evolving regulations as well as consumer receptivity and implications on brand perceptions.

Hemp is an area of potential innovation; supplier partners may be positioned to assist.

Technomic's Approach

This white paper delivers marijuana market insights through an in-depth secondary review of internal and external data sources including:

The Marijuana Effect: Understanding the Implications of Legal Recreational Cannabis Products on Restaurants & Bars, Technomic 2018

Technomic's 2018 Generational Consumer Trend Report

Technomic's Ignite Menu platform

For more information about Technomic resources relative to legalized marijuana and cannabis products on the foodservice, food, beverage, adult beverage and convenience retail industries, please contact:

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Up in Smoke?

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