



CANNABIS

DISRUPTING THE HEALTH AND BEAUTY RETAIL CATEGORIES

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1. INTRODUCTION

Cannabis is an emerging trend in the wellness and beauty industry, breaking ground across various categories in retail.

The role of cannabis throughout history

Dating as far back as 500BC, cannabis products have been used by humans in varied applications, from rope, to food, to natural medicine and the use of its psychoactive properties for recreational and religious purposes.

Cannabis, a misunderstood ingredient

Cannabis (*cannabis sativa*) is often misunderstood because a variety of it, **marijuana**, is known as a narcotic due to its psychoactive properties that until recently have been 'illicitly' used for recreational and religious purposes.

Also a variety of *cannabis sativa* is **hemp**, which is related to marijuana, but is widely used in household products. Products derived from hemp have over the past 20 years ranged from clothing and rope, to cosmetics and food.



Cannabis sativa

Cannabis is the common name of a plant family (*cannabis sativa*) that includes many species, including both **marijuana** and **hemp**.



Cannabis sativa MARIJUANA

Marijuana is a variety of cannabis grown for its high levels of the psychoactive component, tetrahydrocannabinol.



Cannabis sativa HEMP

Hemp is a variety of cannabis grown for its tall, sturdy stalks and contains beneficial cannabinoids and very low levels of tetrahydrocannabinol.

Definitions

CBD

Cannabidiol (CBD) is one of 113 cannabinoid compounds found within the *cannabis sativa* plant family.

THC

Tetrahydrocannabinol (THC) is a cannabinoid component found in cannabis, which has psychoactive properties that cause the 'high' sensation associated with the smoking of marijuana.

Restrictions on the use of cannabis started in the 19th century and were extended in the 20th century to widespread, sweeping restrictions on the propagation and use of the cannabis plant. Over the past decade, various countries have changed their stance on the use of cannabis due to the ongoing discovery of beneficial components and properties within these plants that were unknown until recently. This has led to the recent positioning of cannabis products within the realm of health and wellness.

Canada fully legalised cannabis in 2017, a key milestone in the development of the cannabis industry beyond the existing illicit trade. Following the legalisation of cannabis for personal home use in South Africa in 2018, the Department of Health gazetted the use of cannabis for general health enhancement without a prescription in May 2019.

DID YOU KNOW?

California was the first US state to ban cannabis a century ago, yet it became the first US state to legally allow medical marijuana for patients with a valid doctor's recommendation in 1996



2. HOW DID CANNABIS ('the taboo') FIND ITS WAY INTO A SHOPPING TROLLEY?

Until recently the thought of adding cannabis products into your shopping trolley would have seemed ridiculous. Things are quite different now though, due to changes in legislation and the emergence of innovation in CBD products.

The hesitation in many consumers' minds to accept cannabis products into mainstream retail stems from the historic legislation that criminalised the use of the product, the related stigma associated with its recreational use and the questions around scientific evidence supporting the proposed benefits, as well as safety risks.



2.1 Drivers



LEGISLATION CHANGES

The use of cannabis as a natural remedy in South Africa is now legal. According to legislation passed by the Department of Health, CBD can be legally sold in South

Africa without a prescription. There are, however, specifications relating to product composition, indications and daily dosage allowances.¹

In May 2019, the Department of Health gazetted the use of cannabis for general health enhancement without a prescription, rendering certain CBD products as unscheduled according to the Medicines Act. Further updates in May 2020 relating to the scheduling status of CBD products specified that CBD products would be classified as either Schedule 4 or Schedule 0 if they complied with the criteria as published in May 2019:

- The product must be packaged in a monthly-use pack that does not exceed 600mg cannabidiol in total
- It must contain a maximum daily dose of 20mg CBD with an accepted low-

risk claim or health claim which only refers to:

- General health enhancement without any reference to specific diseases
- Health maintenance
- Relief of minor symptoms (not related to a disease or disorder)
- The processed products must also be made from cannabis plant material, where only the naturally occurring quantity of cannabinoids found in the source material is contained in the product, at no more than 0.001% of THC and 0.0075% total CBD.¹



SELF-MEDICATION AS A HEALTH TREND

Self-diagnosis and self-medication are key health trends that emerged as consumers gained access to detailed health information online. At the same time, the category of natural medicines boomed, providing consumers with the choice of using natural remedies to address most

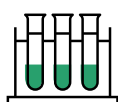
common health conditions. The fading trust in conventional medicines, plus the high costs of medical consultations, further fuelled the trends of self-diagnosis and self-medication paving the way for natural remedies such as CBD into the medicine cabinets of many households.

Self-medication poses many risks:

Incorrect self-diagnosis – This could lead to a medical condition being left untreated, while the patient is using inappropriate treatment options that may lead to further health issues.

Lack of knowledge in selection of safe health products – Few consumers know how to identify safe health products among the wide ranges of natural remedies available to them.

Consumers are therefore advised to always consult a medical practitioner first for a diagnosis to identify the best and most appropriate treatment options.



SCIENCE IS SILENCING THE STIGMA

There is a growing body of evidence-based science to support the use of cannabis product applications in healthcare, nutrition, personal care and beauty.

The identification of the bioactive molecules that naturally occur within the *cannabis sativa* plant, together with the evidence of the health benefits of these components, is building interest within the scientific community. With consumers gaining access to scientific information, so too are they swayed towards acceptance of the use of cannabis for their own health and wellness needs.





INNOVATION FOLLOWS THE WAVE OF WELLNESS

Consumer need states and consumer trends are key drivers behind product innovation. Wellness was positioned as the no.1 consumer trend for the next 10 years in the ‘2030 Consumer Trends’ report by Mintel, a global leader in market insights.² This report was released at the end of 2019, before the outbreak of the COVID-19 pandemic, which no doubt has further

amplified the consumer need for health and wellbeing.

Cannabis innovation is following the strong wave of wellness innovation, speaking directly to existing consumer needs and emerging consumer preferences such as natural medicines, natural cosmetics and plant-based products.

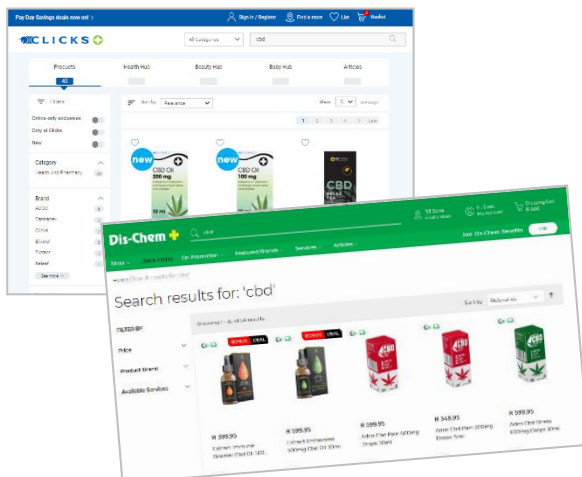
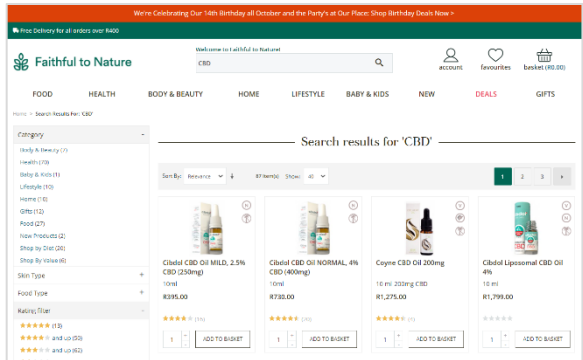
2.2 Points of Access

Cannabis can be found throughout all retail channels and formats in South Africa:

- **Modern trade:** Whole foods stores, health shops, independent pharmacies, Wellness Warehouse, Clicks, Dis-Chem and Checkers Medirite
- **Informal trade:** Healthcare practitioners, health and wholefoods markets, hair and beauty salons, spas,

wellness centres and clinics

- **E-commerce:** Examples include Takealot, Faithful-to-nature.co.za, Organica.co.za, CBDstore.co.za, Medicalcannabisdispensary.co.za, Africanpure.co



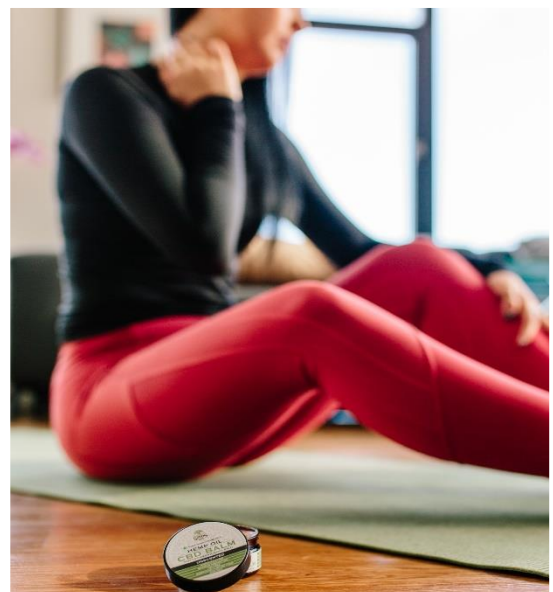
3. CANNABIS AS A DISTUPTOR IN HEALTH AND BEAUTY RETAIL

3.1 What Drives the Retail Agenda?

Where brand leaders and retailers previously led innovation and developments within retail, the consumer has taken over the driving seat. Most of the shifts and trends within retail are now consumer led. The strategic focus of most brand leaders and retailers is answering to the changing needs and demands of consumers. Retailers watch the consumer's every move and respond with agility to entice and satisfy the shopper, thereby driving shopper loyalty. The consumer's increased demand

for plant-based wellness products, such as CBD, is therefore causing disruptions in the established health and beauty category.

In addition, the disruptions caused by COVID-19 are further creating new opportunities for innovation and disruptors such as cannabis. The impact of COVID-19 on consumers' demand for wellness products, due to the amplified need state of health, has increased the sales of CBD products in the US during the pandemic.³



3.2 Classification Conundrum:

Is cannabis a food, a cosmetic, a natural remedy or a narcotic?

The entry of cannabis products in modern retail has taken many stakeholders by surprise. Rather than entering the market gradually and with caution, cannabis products jumped into the very established

retail categories of health and beauty, boots and all. One of the reasons why cannabis has shown such tremendous growth across varied retail categories is that different components of the cannabis plant are used in different types of products.



CANNABIS COMPONENTS

Application

SEEDS	Food & nutrition: Cooking oil, butters and spreads, flour, and foods such as breads, pasta, cereals, etc
	Personal Care: Cosmetics, soaps, shampoos
	Industrial: Colours, ink, firelighters
LEAVES	Health: Wellness products, pharmaceutical products, pet products
	Personal care and beauty: Cosmetics
	Agriculture: Compost
STEM	General: Paper, agriculture, fabric, packaging, biodegradable plastics, biofuel

When a new product enters the retail market, it usually launches into a specific category with a very focused approach. Cannabis has broken the mould in global markets, launching into varied categories simultaneously and disrupting traditional product categories.



TRADITIONAL PRODUCT CATEGORIES

	Innovation Focus	Related Retail Outlets
BEAUTY AND PERSONAL CARE Topical application	Massage oils Balms Creams and lotions Serums Gels Shampoo, body wash	<ul style="list-style-type: none"> Healthcare: pharmacies, health shops, clinics, practitioners Personal care: supermarkets, pharmacies, health shops Beauty: pharmacies, beauty stores
HEALTHCARE AND NUTRITION Consumption	Tea, water Oil Capsules, tinctures Shots Sweets	<ul style="list-style-type: none"> Healthcare: pharmacies, health shops, clinics, practitioners Wholefoods: supermarkets, health shops, wholefoods stores Wellness: spas, beauty clinics, wellness clinics

3.3 Case Study: Same product, different applications



In some cases, cannabis innovation speaks more to application or its positioning to satisfy need states than to ingredient innovation.

An interesting example within the South African market is the Adcock Ingram ADCO CBD range. Adcock Ingram is a pharmaceutical company with a wide range of healthcare products. It launched its ADCO CBD oil range consisting of two identical products, but in different packs with different indications which are directed at different consumer need states:



ADCO CBD STRESS

The focus of this product as natural remedy is to support individuals who suffer with symptoms associated with stress. It can be viewed as a product that promotes a healthy lifestyle towards disease prevention.



ADCO CBD Pain

This product is positioned as a natural remedy to help bring relief of symptoms associated with minor pain. This product can be viewed as a natural alternative for treating pain.

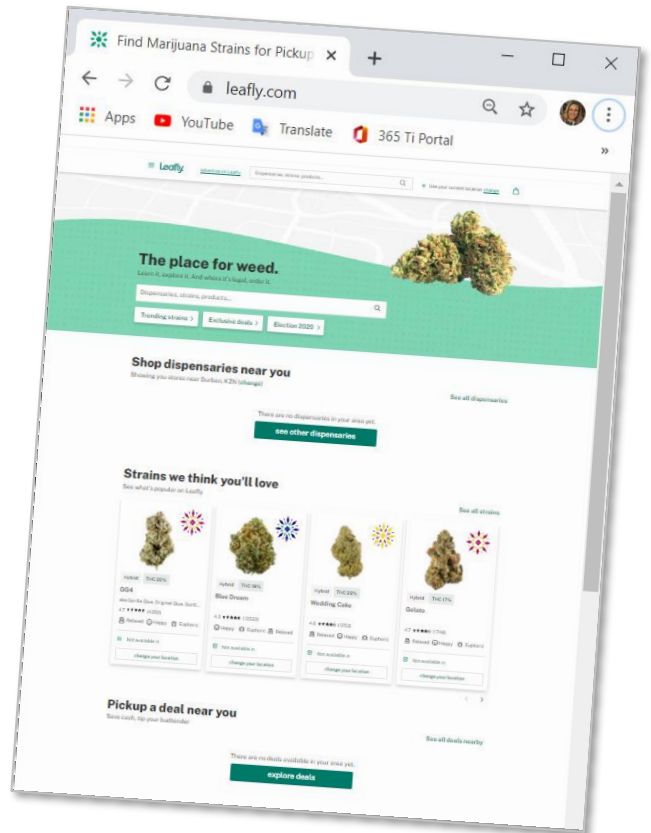
4. WHAT IS HAPPENING INTERNATIONALLY AND WHERE IS CANNABIS INNOVATION HEADING?

4.1 Industry Growth

According to the United Nations World Drug Report, cannabis was the most used substance worldwide in 2018, with an estimated 192 million people using it across the globe.⁴

More and more consumers are eyeing the developments within the cannabis industry. Leafly (www.leafly.com) is the largest cannabis website in the world, allowing visitors to review and rate cannabis products worldwide. It receives more than 15 million visitors per month and 40 million page views across its website and mobile applications.

In the US alone, total cannabis sales are anticipated to grow by +40% over the next year, from a base of \$4.7 billion in 2020.⁵ According to market research by the Brightfield Group, US sales are projected to grow to an estimated \$16.8 billion over the next five years to 2025.⁶



4.2 International Innovation Examples

<p>Mainstream product launches</p>	<p>In the UK, The Body Shop launched three CBD skincare products in September 2020, including a face oil, a moisturiser and a cleansing mask. These products have been introduced in the US by state, according to individual state regulatory restrictions.</p>
<p>Distribution</p>	<p>In the US, Balls Food Store grocery chain launched a CBD store within their store in August 2020 in a partnership model.⁷</p>
<p>Consumption formats</p>	<p>The biggest trend in cannabis innovation globally relates to the varied consumption methods being developed and explored.</p> <p>Within healthcare applications, CBD oil drops are most popular, but additional consumption formats are gaining popularity, including:</p> <ul style="list-style-type: none"> • Teas: Rooibos and other herbal teas infused with CBD • Tinctures: Herbal extract in drop form • Shots: Small volume liquid in one-dose format • Swiftsticks: Single dose powder formula that dissolves on the tongue • Water infused with CBD <p>Edible formats gaining popularity include:</p> <ul style="list-style-type: none"> • Health snacks: Protein and nutritional bars • Add-in ingredients for baking: Brownies, cupcakes, breads • Sweets: Gummies, chocolates, mints, gum • Honey sticks • CBD infused coffee • CBD infused salad dressings

CBD innovation examples on the rise in the US include sparkling tea, sparkling flavoured water, CBD-infused coffee, hot cocoa, gum, 'swiftsticks', salad dressing and candy.⁸



4.3 Challenges and Risks

With the rapid development of this industry, certain growing pains that are showing up do raise valid concerns.

Quality and safety standards	For integrity and consumer safety, controls need to be in place within the supply chain. A preliminary study by the US Food and Drug Administration (FDA) in 2020 found many cannabis products to be incorrectly labelled, with CBD compositions either higher or lower than stated on the product. ⁹
Legislation and regulations	In the US market where the cannabis trade is flourishing, one challenge is that product innovation and product entry into the market is overstepping regulations. The US FDA has only approved the CBD compound in a prescription form for the treatment of specific medical conditions. Topical products containing CBD are also legal. However, it remains illegal to market the product as a dietary supplement or food additive. Despite this, a large number of products have entered the market, with varied methods of consumption and formats ranging from beverages, foods, snacks, sweets and even condiments. ⁷
New validation requirements	In Europe, many CBD brands are currently under threat by new EU regulations. From 31 March 2021, sales of CBD food, drink, oil and supplements in stores would require evidence of validation for each product for novel food application. The cost of the validation process is estimated at £500,000 per brand. Retailers will be tasked to check if cannabis products comply with legal requirements and this may result in a reduction of up to 50% of the brands currently on the market. ¹⁰



5. WHAT IS HAPPENING IN SOUTH AFRICA?



LEGISLATION CHANGES

The biggest trigger in the growth and development of the CBD industry in South Africa was the change in legislation allowing the use of cannabis for personal use and health purposes. At present, the positioning of cannabis products within retail centres is around wellness and healthcare.

The application of cannabis within foods has not been established in South Africa

and regulations have not been developed to support this.

New developments in South African legislation, relating to the Cannabis for Private Purposes Bill tabled in Parliament on 1 September 2020, have raised concerns within the cannabis industry due to proposed restrictions on access to cannabis and on use.¹¹



PRODUCTION AND SUPPLY CHAIN

While the Department of Health put into place regulations specific to the personal and medical use of cannabis products, government did not provide a guideline or framework for the establishment of the cannabis industry. Establishing an ethical and sustainable industry within South Africa is a challenge.

Wesgro, the Western Cape official tourism, trade and investment promotion agency, is introducing a licencing framework for the cultivation and manufacture of medicinal cannabis, with a view to open new investment opportunities in South Africa.¹²

In June 2020, pharmaceutical manufacturer Afriplex exported its first locally-produced CBD extract as a leading contract manufacturer of complementary medicines in South Africa.¹³

In July 2020 Labat Africa announced its intentions to grow its Labat Healthcare

business within South Africa into a vertically-integrated operation, ranging from producing cannabis seed to active pharmaceutical ingredients and products for the complementary medicines market. With a proposed book-build of R112 million, this business is aiming to be a leader in the South African cannabis industry.¹⁴



Image: [businessstech.co.za](https://www.businessstech.co.za)



RETAILERS

Cannabis products have been well established in formal trade, informal trade and e-commerce. Considering the growth seen within the cannabis market globally,

it is likely that South Africa will see similar trends in the innovation and growth of its own cannabis industry.



Image: www.zoothly.co.za



Image: www.healthy4you.co.za

6. INSIGHTS AND RECOMMENDATIONS

Considering the trajectory of growth seen in the US cannabis industry and the positive response to cannabis innovation in the South African market, it is likely that the cannabis industry will flourish here too.

One can, however, imagine the risk of opportunists entering the market as service providers, manufacturers and suppliers, potentially jeopardising the integrity and viability of the industry.



PRODUCT QUALITY

The recent FDA study finding product composition to be higher and lower than stated by many products is a concern. If this is happening in the US, will South African suppliers be able to properly test manufactured products by batch to ensure compliance to label claims?



PRODUCT SAFETY

The science behind the safety issues and benefits of cannabis is young and emerging. The risk of lasting damage to the adolescent brain by THC has raised serious concerns around the legalisation of cannabis for home use. Recent reports relating to the possible dangers of the use of cannabis during pregnancy has highlighted the fact that the body of scientific evidence around cannabis is still growing. These issues are amplified by the risk of produced goods not complying with product composition and quantity claims. Caution should be applied as consumer safety comes first.



LEGISLATION

The fact that legislation around the propagation, distribution, use and recommendation of cannabis products is still changing and being updated regularly is encouraging but it also poses risks. Regulations around the use of cannabis are most definitely likely to favour public safety, which is of great benefit to manufacturers and retailers. However, the changes in regulations unfolding in Europe, threatening the viability of almost half of existing cannabis products in retail, is a real risk to consider. Launching products ahead of the curve of regulatory developments carries risk for all stakeholders.



OPPORTUNITIES

The South African market is showing great affinity and enthusiasm for cannabis products. With the evolution of product quality and safety standards, South African manufacturers and retailers are set for exciting times ahead in exploring the multiple formats, applications and uses of cannabis products.

The view of the potential of one ingredient to disrupt a retail category is one to learn from. Many products that were traditionally positioned to serve a single purpose, have been applied across various retail categories, with varied applications, formats and uses.

The example of aloe vera products in South Africa is a case in point. While aloe vera emerged through traditional medicine as a remedy for digestive upsets, it now boasts a varied portfolio of formats across the health and beauty categories of natural medicine, nutritional supplements, foods, personal care and beauty products. There may be many more products that can similarly be optimised in terms of a business opportunity, meeting the growing needs and ever-changing demands of the South African shopper.

7. CONCLUSION

Cannabis is a disruptor in the South African retail market as it is entering the well-established categories of health and beauty. Building the retail categories of health and beauty requires cautious and strategic planning by all stakeholders to secure it as a resilient and viable category with integrity. Frequent updates and ongoing changes in legislation are likely to shape the cannabis industry.

A sensible attitude would therefore be for all stakeholders to take a measured approach to the opportunities presented by the growth of the cannabis industry within South Africa. We look forward to tracking its development over the years to come.



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