

ARTICLE REVIEW

HOW I DID IT TILRAY'S CEO ON BECOMING THE FIRST MOVER IN A CONTROVERSIAL INDUSTRY

Author: Brendan Kennedy

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Absorn Meesing^{1,*}

Overview and Background Information

As well as being a subject of research and heated debate, for decades there has been increasing interest in the potential of cannabis for medical purposes [U.S.FDA (www.fda.gov), www.drugabuse.gov]. In light of this, the cannabis industry is even more controversial due to its nature of switching legal-illegal status in various countries and states around the world [cannabis industry (www.en.wikipedia.org)]. In Thailand, new movements have included propositions from the Ministry of Health, and Thai FDA, as well as Thai alternative medicine and local wisdom, which have recently proposed to the Thai government that it push for cannabis as a new cash crop, calling for an amendment of the 2019 Drug Act in August 2020 (<http://www.medcannabis.go.th>).

This article, *How I Did It: Tilray's CEO on Becoming the First Mover in a Controversial Industry*, is written by Brendan Kennedy, an American billionaire businessman, CEO and co-founder of Privateer Holdings, along with Michael Blue

and Christian Groh; he is also the CEO of Tilray (wikipedia). Tilray is a global leader in the cannabis industry, which was founded in 2013, but had steadily expanded to a business volume of 43.1M revenue and - 67.7M net income (loss) by 2017-2018 [HBR, Mar-Apr 2020, p.36]. It was the first GMP-certified medical cannabis producer to supply products to patients, as well as researchers, and the medical community, earning itself recognition as a pioneer in cannabis research, cultivation and distribution (<http://www.themarque.com/profile/brendan-kennedy>).

Kennedy apparently wrote this article to trigger the interest of general readers, researchers, and the medical community as well as reluctant entrepreneurs, using the controversial issue of the potential for cannabis medication and business. Featured in 'Idea Watch' in the Harvard Business Review, March-April 2020, was this brief, intact 5-page article; the author sends a clear message of the high potential of the medical cannabis industry and the increasing legalization trend.

^{1,*}Dr. Absorn Meesing is currently the editor-in-chief of the ABAC Journal, indexed in Scopus since 2018. She holds an Ed.D. in Social Studies Education from Indiana University and is the copy writer of ABAC Today. Previously she was the Headmistress of the International School Bangkok; and curriculum developer, and Head of the Special Project Unit at the Ministry of Education, Thailand. Her reading and research interests lie in health & wellbeing, yoga, alternative medicine, environmental studies, English language teaching & learning, marketing, tourism & hospitality, and business management. Email: absornmsn@gmail.com

Review

The author presents his 5-page article in the following outline:

- Lead-In / Introductory paragraphs (Historical Background & Introduction)
- Into the Hills and Fields
- People Thought We Were Crazy
- A Canadian Welcome
- It's Still Day One

Introduction

The author's style is one of recounting or storytelling, a non-academic style which nevertheless contains convincing relevant statistical figures. He interestingly begins ten years ago in May 2010, when he knew nothing about cannabis, while he and his team were working at Silicon Valley Bank (SVB) as evaluators of the business models presented to them by start-ups, new producers, and brand developers. A few days later, his interest was triggered when hearing a news report on the legalization of adult-use cannabis in California. By the end of that same year, December 2010, he and his team decided to launch a cannabis company to gain the position of first-mover after finding out that: (1) there was a high business volume of cannabis, despite its lack of official figures, for both legal and illegal cannabis use in medication and recreation respectively; and that (2) the industry was highly fragmented and poorly managed.

Into the Hills and Fields

Kennedy narrates how he began the first few initial steps of his company, researching, meeting, and talking with people, by drawing on skills from his childhood experience in construction work, and his varied education background in architecture (UCLA Berkeley), and civil engineering (University of Washington), with an MBA (Yale University), as well as experience and skills in software writing and as a CEO of a start-up software company. He joined SVB and

later moved up to CEO of its analytic division. His team quickly grew from 3 to 25 persons and from zero to 3,000 clients, one client was Tesla.

Quite interestingly, his approach in learning and research about cannabis grew, from knowing very little, he began travelling into the hills and fields meeting and talking with people growing cannabis everywhere, legally or illegally, within the U.S. and in other countries: "I visited in a single day more than 80 coffee shops that sold cannabis" (p.34). In addition, his job at SVB provided him with a great opportunity to meet brilliant entrepreneurs, which combined with his former experience in construction work, meant that he knew how to talk to all types of people, networking by building rapport, and trust. As he concludes, "the network we built in those early days may be one of the best investments we have ever made" (*ibid*).

He and his team also looked into other documents and polling data, from which they were convinced that the cannabis industry was a promising industry.

People Thought We Were Crazy

He and his team slowly built the company's investment thesis: (1) medical cannabis was becoming a mainstream treatment globally, (2) most players in the industry were focusing on a niche or their local market while they saw a global paradigm shift toward legalization, knowing that (3) when that shift came, cannabis would become an industry like any other.

Upon development of this thesis, he and his co-founding team found that their company as a VC (Venture Capital) would not work as the timeline of the cannabis business, being based on the legalization of cannabis, was unpredictable. Thus, they decided on a private equity firm. The first two years of raising money from private investors was nearly impossible. People thought they were crazy--throwing away solid careers and pitching a cannabis business!

Then in November 2012, two states (Washington and Colorado) legalized recreational cannabis. Polls also showed 70% of Americans in favor of medical cannabis (p.35). They were not perceived crazy anymore.

He acquired Leafly, publishing online, and has remained the top online source for the cannabis industry to date.

A Canadian Welcome

In 2013 the government of Canada reached out to Kennedy and his team, asking them to shift their private equity firm to a private network of cultivators, processors, and distributors. It was then that they incorporated Tilray, applied for a license, bought land, and started farming cannabis. Their cultivation facility was very different from others. With Kennedy's background in architecture and engineering, they were able to combine the best ideas in the facility with their own testing lab and 40 identical grow rooms so that they could run A/B testing. By December 2014, Tilray was the first cannabis company to conduct a clinical trial approved by Health Canada (p.36).

From then they moved on to join Founders Fund, Peter Thiel's VC firm, the first institutional investment in the cannabis industry. By October 2018, they had raised \$1.1 billion. As cannabis was still illegal under U.S. federal law, it was difficult to work with banks and credit card companies, but in the fall of 2017 they decided to launch their IPO in the United States, and in July 2018, only one year later, they became the first cannabis company to complete an IPO on the American stock exchange. Since then, large banks and institutional investors have bought their shares.

It's Still Day One

As of March 2020, medical cannabis is legal in 41 countries and 33 U.S. states. Kennedy predicts it will be legal in 80 countries by the end of 2022. Adult-use cannabis is legal in Canada, Uruguay, and 11

U.S. states. He predicts 4 other countries will soon legalize adult use cannabis.

In brief, there is a trend of increasing acceptance. Kennedy also sees significant opportunities in cannabis (CBD), cannabis (CBG), and cannabis (CBN). While he predicts legalization of medical use in the next 10 years, adult-use cannabis might be a larger business in the long run.

Conclusion

In summary, this is an interesting, and thought-provoking article, well worth reading, based mainly on the authentic experiences of the author and his two co-founder friends. The author expresses his points well and his genuine optimism and excitement about the cannabis business shows in his writing. As the title suggests, cannabis is still a controversial industry to date. Nevertheless, the author is successfully convincing to his target readers, those in the business community, medical community, start-ups, and research, as well as the general public. Besides this brief article, readers might find Tilray's website worth exploring: www.tilray.com

Recommendations

I would strongly encourage interested readers and hesitant entrepreneurs to read at least 2-3 other sources of information about cannabis before making big decisions to launch, join or put investment in this industry.

- At one end is information from drug-abuse institutions. One good source is <https://www.drugabuse.gov/>, owned by the National Institute on Drug Abuse, NIDA-federal agency, which conducts research on drug abuse in the USA.

- On the other end is the business opportunity view point. <https://www.forbes.com/> e.g. read *Cannabis Industry: 2020 Predictions*. There are plenty of private websites in this category.

- Between these two extremes is information from medical experts and the health community. Especially for readers in Thailand, the website www.medcannabis.go.th might be interesting and worthwhile. Since Thailand's noticeable emergence in effective health practice against Covid 19, this source provides useful information on medical cannabis in Thailand. To date, there are over 300 medical cannabis clinics in Thailand. At the end of 2018, Thailand became the first Asian country to amend its law to legalize medical cannabis (www.thailawforum.com, www.bangkokpost.com). The amendment is narrow, however, only allowing research and development activities under license.