Alaska Marijuana News

To survive extreme competition, Alaska pot businesses race to expand

By Zachariah Hughes
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In a windowless room within a sprawling Midtown Anchorage warehouse, Evan Levinton admires a tiny glass jar with a smooth beige dollop of a cutting-edge cannabis concentrate called “rosin.”

“This is the most connoisseur product out in the market,” said Levinton, who, along with two family members, owns and operates Enlighten Alaska, an Anchorage-based cannabis business that opened its retail shop in 2017.

Rosin is a concentrated extract, made by freezing live cannabis plants, breaking them down in a bath of water and ice, then using heat and pressure to squeeze out all the flavors and psychoactive ingredients into a glob about the size of an M&M. Its potency is generally above 70% THC, the primary psychoactive cannabinoid, and it sells for around $90 a gram.

But unlike other concentrates, the cannabis plant is never dried out, and so retains organic compounds and flavors lost in other refining processes. It’s a bit like the single-malt scotch of cannabis products: strong, refined from a specific set of quality ingredients, and bearing a taste tailored for aficionados rather than novices.

“It’s the closest replica you’ll get to that plant, smoking this stuff,” Levinton explained. “It’s a completely different high.”

It’s not only a new item for Enlighten to produce, it’s part of an entirely new business venture into manufacturing its own concentrates and edibles. What’s more, the raw product comes from just downstairs, in the industrial cultivation facility that takes up several cavernous rooms within this nondescript warehouse in an anonymous industrial patch of Midtown.

Levinton and his co-owners — his sister, Leah, and mother, Jane — are taking a business gamble that just a few other pot companies in the state have managed to pull off: full vertical integration, holding licenses to grow, manufacture and sell their own cannabis.

But many in Alaska say that in the state's highly regulated and ferociously competitive pot industry, controlling each step of the business is going to be key to surviving over the coming years.

"You really need to be fully integrated," Levinton said, noting that the proliferation of retail shops in Alaska, especially in Anchorage, has left businesses scrambling for enough market share to eke out profits.

"You can survive now, but it's harder," he said.

'Things are tough'

Alaska's pot industry has structural elements that are shaping it differently than more populous markets in the Lower 48. There is a residency requirement for a business owners, and there is no cap on the number of licenses the state will issue.

This has kept out large corporations and deep-pocketed investors, "Because of our prohibition in the regulations that require all owners to be Permanent Fund Dividend (recipients)," said Jana Weltzin, an attorney representing several cannabis companies in Alaska.

In recent years, other states' industries have been undergoing aggressive consolidation, with big, highly capitalized multi-state corporations gobbling up cultivation and retail businesses. States like Oregon, California and Arizona have no residency requirements. Several states, including Arizona, have opted to cap the number of licenses they will issue.

"Arizona is the unicorn market — if you have a license there it's worth eight figures at least," Weltzin said.

This is not the case in Alaska, where hundreds of independent businesses are licensed to cultivate, manufacture and sell cannabis (the industry's aberration are testing labs, which cannot have financial relationships with the businesses they ostensibly monitor). The unbracketed licensure system has led to a saturated market, with both cultivators and retailers in many areas competing for dwindling profits.

"If I had a friend who came to me and said, 'Hey I've got a million bucks, I'm gonna open a marijuana business.' I would tell them invest it somewhere else. Things are tough," said Nick Miller, who owns AlaskaBuds, retail shops in Anchorage and Bethel. Though Miller is a member of the Marijuana Control Board, he spoke from the somewhat frustrated perspective of a business owner.

"I honestly did not foresee this many retail licenses in Anchorage. I can't tell you how competitive it is out there right now," Miller said, adding that he regularly hears about businesses struggling to pay their bills.

According to a recent article in Politico, Alaska has more retail businesses per capita than any other Western state: 20.3 licensed dispensaries per 100,000 residents. The next most retail-saturated state is Oregon, with 17.1. Washington state is at just 6.6 pot shops per 100,000 residents.

Alaska's cannabis industry has been running for about half a decade. According to licensing records filed with the Department of Commerce, Community, and Economic Development, there are 149 cannabis retailers, scattered from Ketchikan to Utqiagvik. There are pristine storefronts in downtown Anchorage, a log cabin on Kalifornsky Beach Road, a refurbished Chili's restaurant in Fairbanks, even a shop in a Connex container on the main road in Bethel (that license is awaiting local approval). A retail applicant queued up for state review lists its address as "unsubdivided property along East Point RD adjacent to old WWII military dispensary building."

Even though sales are booming, cannabis remains a challenging industry, requiring lots of money to get a business off the ground, and high overhead once its operating. Cultivation businesses are particularly vulnerable, Miller said, because if a large crop is sampled in a testing lab and determined to have a lower THC content, the harvest instantly becomes less valuable. Retailers will sell higher THC flower, which remains the most popular product in Alaska, for a higher price. Much to the consternation of cannabis connoisseurs, customers continue to equate *stronger* weed with *better* weed, a fallacy aficionados in the industry say amounts to believing a highly alcoholic IPA beer is inherently better than a less potent lager just because it is more intoxicating.

Miller's business recently expanded, purchasing a large cultivation facility in Houston, in part so that they had more flexibility.

"If I had an undesirable crop, I could still sell it in my store at a reasonable price where customers can buy it," Miller said. "But that's not the normal."

"I would expect that we'll see more businesses consolidate and do vertical integration because then you can have a bigger impact on your pricing to the consumer," Miller said.

'Cut out every middle person'

Enlighten's 15,000 square-foot cultivation and manufacturing facility is a warren of offices, hallways and spacious grow rooms. Seven-pointed pot fronds spill out of trellises, the plants packed onto metal racks like crowded Costco shelves, enveloped in humid, pungent air dense with the distinctive aroma from the cannabis terpenes.

The manufacturing rooms on the upper floors are dedicated to sophisticated mechanical apparatuses befitting an organic chemistry lab.

In the corner of a business office was a device chugging with the rapid pulse of a high-speed centrifuge.

“That’s a machine that you put all your doobies in,” Levinton said, showing off how it can produce 100 pre-rolled joints in a minute. On a nearby desk, 127 identical joints, each holding precisely half a gram of shredded green buds, were neatly packed into a zip-close sandwich bag.

Enlighten’s expansion has been intensive and expensive. From when the company signed the lease on this warehouse in 2019, through the elaborate build-out of the facility, it took them nearly two years to finally bring their first cannabis crop to market last April. That cost roughly $2 million, according to Levinton, a figure which does not include substantial legal costs to go through the permitting and licensing processes. And owing to federal banking restrictions on cannabis, none of that money could be financed through banks.

“It was retirement funds and retail funds,” Levinton said.

“And we’re in debt, too,” added Jane Stinson, his mother and co-owner. They project they will pay off that debt in about two years.

Labor and expertise are an additional cost. Like other sectors, the cannabis industry is having trouble finding enough workers to meet its needs. That has made scaling up operations the last few months difficult for Enlighten. They recently raised their pay-scale, according to Stinson.

“It’s been hard just getting enough people to help,” Levinton said. “Lotta moving parts.”

Though Levinton had experience growing cannabis and refining it into specialty products, none of it compared to the scale the business is working at, particularly when small mistakes or inefficiencies can eat away already-thin profits. The business brought in consultants and contractors to help implement best-practices from the outset.

“It costs us more to invest in these people, but saves us so much more in just getting the products out to market faster or developing these higher quality products or getting higher yields out of our gardens, because we have the knowledge to do so instead of just limping along,” Levinton said.

The number of cannabis businesses that have shuttered since the industry began is racking up. According to state licensing records, 57 licenses —including retail shops, cultivators of different sizes and manufacturers — have either been revoked, suspended or expired without renewal.

Even the businesses that are successfully expanding and vertically integrating are subject to intense pressure and working conditions.

Kim Kole was part of the campaign that led Alaska to legalize recreational cannabis in 2014, and went on to start Raspberry Roots, one of the first cannabis companies in the state to vertically integrate its cultivation, retail and manufacturing operations.

“We don’t have the deep pockets that are able to pay for those things,” Kole said of Alaska’s cannabis industry. “You have to do it piecemeal.”

Similar to companies in the Lower 48, cannabis businesses in Alaska have to set up in properties that are owned outright, not by a federally regulated bank. That typically means spending cash to build out older properties. What’s more, Kole said, Anchorage, the state’s largest market, implemented comparatively restrictive zoning rules for cannabis businesses, which has driven many license-holders into more permissive jurisdictions.

“Tons of people have opted for either the (Kenai) Peninsula or the Mat-Su because they don’t want to be in Anchorage,” Kole said. “Except for retail.”

According to Kole, Alaska’s industry is not consolidating or conglomerating at the pace that many Lower 48 markets are. But plenty of people are eying off-ramps after working hard, spending tons of money and seeing razor thin returns, if any.

“I know a number of people who are looking to sell at the right price,” Kole said.

She is among them: Kole recently sold her stake in the business and entered a new line of work that has nothing to do with cannabis.

“It was the right deal at the right time,” she said, declining to elaborate on her reasons for selling.

For Levinton, merely standing up all three legs of the vertical integration stool is just the beginning. There is all kinds of tertiary work that cannabis businesses depend on but are outside of the regulatory strictures governing growing, manufacturing and selling product. That includes things like packaging, delivering products to other stores, brokering connections between growers and manufacturers. To stay competitive, Enlighten is looking for efficiencies wherever it can find them.

“Essentially, we want to cut out every middle person,” Levinton said.

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