



TOPIC: PRODUCT INNOVATION

## THE EMERGENCE OF CANNABIS BEVERAGES

🕒 6 min read

When it comes to cannabis, beverages can be overlooked amid the swelling ranks of pre-rolled joints, infused edibles and vapes. But these non-alcoholic drinks, which offer a buzz without a hangover, are steadily gaining popularity for consumers looking to moderate alcohol consumption. This article explores the evolution of legalized cannabis beverages and their current market dynamics across Canada and the United States.

**Canadian Market:** When the Canadian government legalized cannabis in 2018, the first iteration of regulations didn't include the production of edibles or beverages. Producers of cannabis products, referred to as licensed producers (LPs), could only make dried flower products and diluted oils. Licenses were also highly limited, and what an LPs could do with these licenses was limiting. The 2020 Cannabis 2.0 regulations included beverages and edibles, yet the road to commercializing beverages proved long and winding. Non-cannabis companies needed upfront capital to partner with LPs, and every ingredient and formulation required rigorous screening prior to approval. A previous First Key article highlighted the complexity and quality control measures to be considered while brewing with cannabis. The article emphasized the need for planning with respect to quality and standardization. Contrary to beer, which measures potency with a standardized alcohol by volume (ABV), cannabis lacks a consistent standardization of strength. A beverage infused with 5mg of tetrahydrocannabinol (THC), the psychoactive compound in cannabis, will impact drinkers differently, especially when infused with CBD and other compounds. The lack of consistent messaging and measures of a cannabis beverage's intoxicating effects has presented distinct challenges for the growing sector, in both Canada and the United States.

**United States Market:** The U.S. has a longer history of cannabis beverages, and the regulatory landscape is vastly different from Canadian guidelines. In Canada, products are taxed on the specific number of milligrams of THC infused into each beverage. In the U.S., drinks that contain hemp-derived THC—molecularly, it's the same compound as THC derived from cannabis—are subjected to less stringent regulations. Hemp-THC beverages can be mailed to customers across state lines and can be sold outside of cannabis dispensaries.

The most permissive state is Minnesota, where hemp-derived THC beverages are sold alongside beer, wine and spirits in liquor stores, as well as at some brewery taprooms. Contrast this to Canada, where the sale of cannabis products is restricted to cannabis stores. Through this loophole, alcohol and hemp producers in the U.S. are forming alliances to bring THC-infused beverages to a broader audience, especially consumers who might not normally shop at a dispensary. (vi)

Today, a number of key highlights and changes are influencing the cannabis beverage category:

**Lower barriers to entry:** For new entrants looking to attaining licenses, partner with existing LPs, or acquire capital to formulate trial batches, the barriers to entry have significantly lowered in Canada. Many ingredients and formulations have a history of approval by Health Canada, and there are clearly established regulatory pathways to partnerships with cannabis LPs. In the U.S., the Drug Enforcement Administration has agreed to declassify cannabis to schedule III from schedule I drug (vii). Hemp-derived products, which typically have a lower potency, are making inroads into grocery stores, and many can be quickly delivered to curious drinkers' doorsteps. (viii). Nonetheless, a wide-open landscape has quickly become crowded. Cannabis producers face stiff competition as lobbying and cooperation between alcohol distributors and hemp industry strengthens in the multiple states.

**Product differentiation:** In Canada, the highest dosage of THC is 10mg per unit. While some products aim to provide the maximum bang for the buck, there are several products with 2.5mg to 5mg (ii). In the U.S. the dosage can go up to 100mg per unit. Apart from THC, beverages that contain non-psychoactive cannabinoids like Cannabidiol (CBD) and Cannabigerol CBG can be found in different ratios in formulations. Canadian retailers are now able to sell American brands at their stores. Nick, Naresh, Community Director at THC, a cannabis retail store in Vancouver, Canada, says that "some products just fly off the shelves the day they arrive. Customers wait for unique products to launch, and they buy them in bulk the day of launch." Consumer awareness around dosage and sizing is increasing. While single-serving cans are the norm in Canada, there is growing consumer preference toward low-dosage four-pack options in the U.S. (ii).

**Consumer perception and preference:** While much of the focus of the cannabis industry has shifted toward recreational products, cannabis beverages are also being consumed as wellness drinks (iii). Gen Z is increasingly known to be more wellness-focused generation. The younger consumers are leading the charge when it comes to cannabis, and a study from New Frontier's Data shows more than 69% of Gen Z prefer cannabis over alcohol, compared to nearly 70% among ages 25–34 and 68% among ages 35–44 (ix).

Shelf space for non-alcoholic beverages is visibly increasing (i). Whether they're consumed as an alternative to alcohol or as a wellness drink, cannabis beverages are piggybacking on a combination of these trends and gaining market share each year (i). Health claims are being validated through research, confirming a long history of cannabis being consumed for its anecdotal health benefits such as anxiety, pain relief, better sleep, and mood enhancement. By removing carcinogens from smoking and reducing sugar and preservatives, these drinks offer healthier options without the drawbacks of other cannabis consumption methods.

**Culture and trends:** In the international legalized markets like Thailand, cannabis lounges are popular socializing hubs. Such spaces greatly influence consumption trends and culture. Nafisa Subedar, the director of National Sales Canna Brands Solutions, says "we are starting to see cannabis beverages more commonly in social events. However, if consumers could purchase their beverages at the alcohol stores, we might see a more rapid market penetration." As both producers and consumers demand increased accessibility, product innovation, and robust distribution models, it will be interesting to see the shift in consumer perception and culture toward cannabis beverages in North America.

In summary, cannabis beverages are gaining traction as popular non-alcoholic options. The category is expanding in Canada and the U.S., driven by evolving regulations, lower entry barriers, diverse product offerings, and shifting consumer preferences. As the market matures, cannabis beverages may well emerge as an important segment to monitor in the adult beverage industry.

## Resources:

- I. Headset. (n.d.). *Cannabis beverages: A look at category trends & performance*. Retrieved from <https://www.headset.io/industry-reports/cannabis-beverages-a-look-at-category-trends-performance>
- II. Sightlines. (2023, March 1). *Cannabis beverages: Understanding the occasion, dosage, and consumer*. Retrieved from <https://www.sightlines.news/analysis/cannabis-beverages-understanding-the-occasion-dosage-and-consumer>
- III. AlphaRoot. (n.d.). *Cannabis beverages*. Retrieved from <https://alpharoot.com/insights/cannabis-beverages/>
- IV. BeerNet. (n.d.). Retrieved from <https://beernet.com/>
- V. Axios. (2024, May 18). Weed drinks are gaining popularity in the alcohol and cannabis industry. <https://www.axios.com/2024/05/18/weed-drinks-alcohol-cannabis-industry>
- VI. JAMA Network. (2024). Title of the article. JAMA, Volume(Issue), Page numbers. <https://jamanetwork.com/journals/jama/article-abstract/2798426>
- VII. Herrington, A. J. (2024, April 30). DEA agrees to reschedule marijuana under federal law, AP reports. Forbes. <https://www.forbes.com/sites/ajherrington/2024/04/30/dea-agrees-to-reschedule-marijuana-under-federal-law-ap-reports/>
- VIII. Bloomberg. (2024, May 16). Hemp loophole drives beer sellers toward THC-laced drinks. <https://www.bloomberg.com/news/articles/2024-05-16/hemp-loophole-drives-beer-sellers-toward-thc-laced-drinks?srnd=homepage-americas>
- IX. New Frontier Data. (2024). The kids are alright: Tobacco, alcohol, and cannabis use among Gen Z. <https://newfrontierdata.com/cannabis-insights/the-kids-are-alright-tobacco-alcohol-and-cannabis-use-among-gen-z/>

## Additional resources

1. <https://www.globenewswire.com/news-release/2023/11/15/2780877/0/en/Tilray-Brands-Expands-Cannabis-Beverage-Portfolio-With-New-THC-CBG-and-CBD-Drink-Innovations-by-Top-Performing-Canadian-Brands.html>
2. <https://mjbizdaily.com/tilray-buys-molson-coors-remaining-stake-in-truss-cannabis-beverage/>
3. <https://www.benzinga.com/markets/cannabis/24/06/39167827/cannabis-joint-venture-looks-to-capitalize-on-marijuana-beverages-as-growing-alternative-to-alco>
4. <https://www.axios.com/2024/05/18/weed-drinks-alcohol-cannabis-industry>