



The True Cost of Non-Compliance:

Why failure to meet compliance demands can be one of the biggest costs of doing business in cannabis.



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Introduction.....	2
The Fines You Can Accrue.....	3
Suspension or Loss of License	4
Legal fees and Loss of License.....	5
Damage to Company Reputation	6
The Cost ofRecalls and Corrective Actions.....	7
Why Do-It-Yourself Solutions Won't Save Money in the Long Run.....	8

Headlines from the cannabis industry in 2022 were not for the faint of heart.

Falling prices, saturated markets, oversupply, and the constant challenge of securing funding – all have roiled the cannabis industry of late.

Simply put, the margins are slim and the competition is fierce, and you'd be forgiven for believing there has never been a harder time to make money selling cannabis than in the era of legal cannabis.

When assessing the cannabis industry, one challenging factor that is often overlooked is making sure you meet all your compliance needs.

But while meeting the demands of compliance can be expensive and time-consuming, failing to heed these guidelines can be far, far more costly.

In this eBook, you'll discover how truly costly non-compliance can be, and why investing in a compliance management system is one of the best moves a cannabis company can make.



The Fines You Can Accrue

In April 2021, a New Mexico dispensary was hit with a \$142,000 fine and their license was revoked for “willful disregard for safety protocols” while extracting cannabis concentrates. Multiple workers were harmed in the fire, which an employee said broke out because a hot plate was set above the state-mandated temperature.

In hindsight, the explosion and the fire that ensued could have been worse. But for the company that was left picking up the pieces, the incident is a clear example of the painful and dangerous costs of failing to heed compliance regulations.

According to Jerrico Perez, a partner at the cannabis law firm Vicente LLP, the cost of a compliance fine can range from around \$5,000 for more minor violations such as ones involving inventory tracking, to anywhere between \$30,000 to \$200,000 for more serious violations like selling cannabis to minors.

Saving money by not investing in compliance measures can be a dangerous - and costly - proposition.

How much are cannabis compliance fines?



Suspension or Loss of License

Many cannabis compliance guidelines are close to universally known. Cannabis retail shops know not to sell to people under the age of 21 and to not let customers exceed purchase limits at the dispensary.

But not every guideline is common knowledge and the specifics of the demands can be even more difficult to pin down on your own.

In Oregon in December 2021, a cannabis dispensary was hit with two fines and faced the potential loss of its license after regulators found that the company failed to have cameras covering all of their cultivation areas 24 hours a day and did not maintain comprehensive records of their cannabis waste.

State authorities noted that during an unscheduled inspection, inspectors found that several cameras were unplugged for 15 days and that the dispensary was not keeping records of waste activity for around 1,000 plants.

Cannabis compliance regulations not only state that you need surveillance cameras but precisely how to set them up. And for cannabis waste regulations, it is not simply enough to discard your waste. Instead, you have to adhere to strictly defined guidelines for the disposal that go far beyond “chuck it in the trash.”



The failure to meet these precise and often confusing guidelines can be highly costly. Fines can be as small as a thousand dollars for violating regulations against transferring cannabis products or can reach \$75,000 for having untagged products.

And the sums can reach far higher. In June 2022, New Jersey regulators fined 5 cannabis operators a total of \$360,000 for allegedly making adult-use cannabis sales during hours that were set aside for medical cannabis patients.

But such figures can pale in comparison to the cost of losing your license, which can potentially jeopardize the very future of a cannabis company.

Legal Fees and Loss of License

What happens when a cannabis company is found in violation of compliance regulations?

Authorities present the company with a charging document that details the violation in question and the penalties.

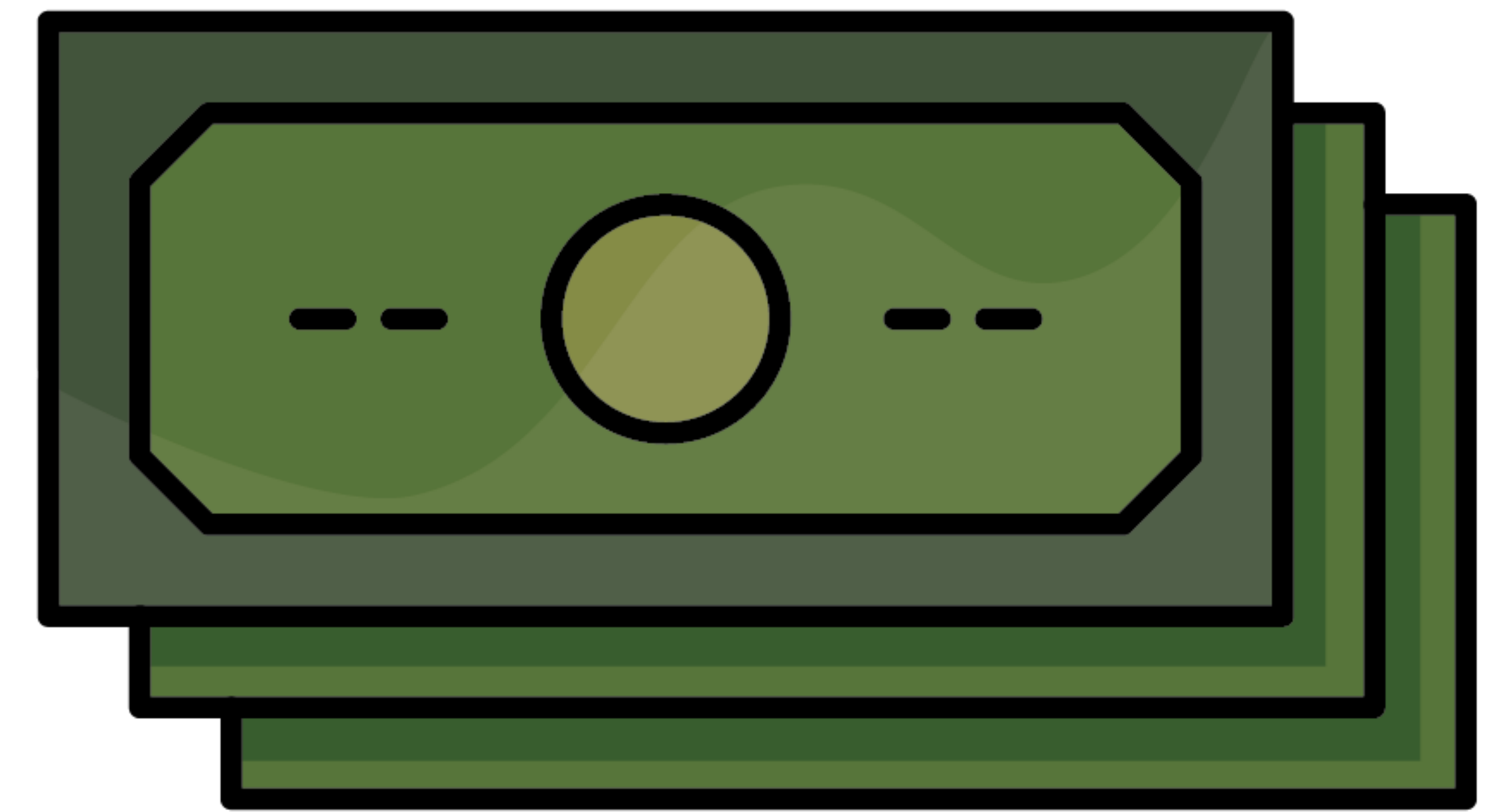
In every state, cannabis operators have the option to contest the violation at a hearing.

But just like elsewhere, attorneys in cannabis don't come cheap. Attorney fees can cost hundreds of dollars per hour, even in the most simple cases. And if a cannabis operator wants to contest a compliance violation, it can get much, much costlier.

"Even for a not especially serious violation if you want to take that to a hearing that can cost tens of thousands of dollars," Vicente Partner Jerrico Perez told Rootwurks.

Perez added that the retainer alone for a cannabis attorney can run anywhere between \$10,000 to \$20,000, and hourly fees can cost from \$250 to \$800 depending on an attorney's experience and location.

Facing the prospect of high legal fees, most companies tend to agree to a settlement with the regulatory agency - usually to the tune of several thousand dollars in the best case.



How much can attorney fees cost in cannabis?

Retainer for a cannabis attorney:

\$10,000 - \$20,000

Hourly fees:

\$250 to \$800

depending on attorney experience and location

Damage to Company Reputation

A cannabis company can weather the fines that come with a compliance violation and even buckle up and wait out a temporary license suspension.

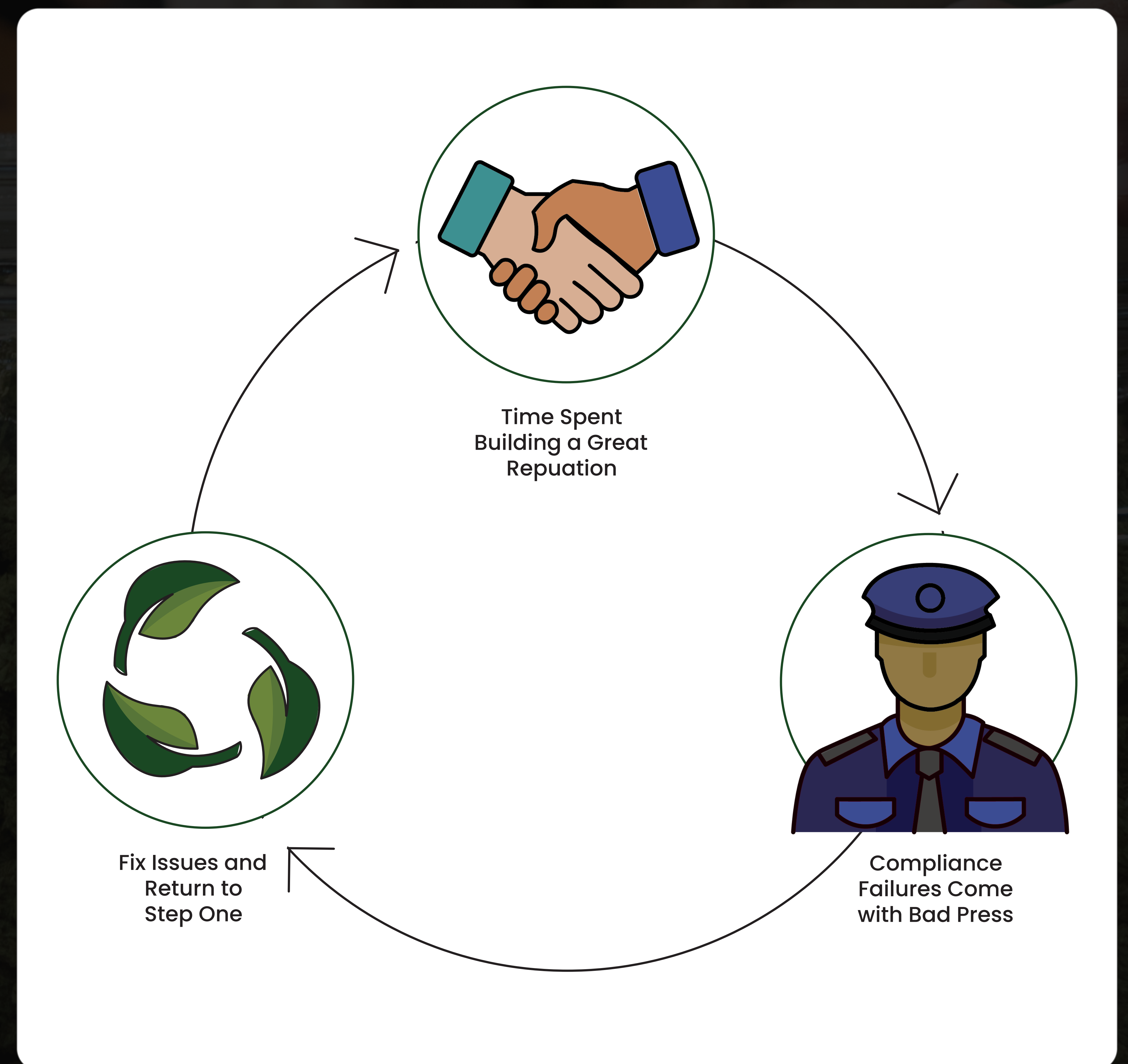
But the damage to brand reputation can linger long after the company has covered its fines and is one of the true and hidden costs of noncompliance that can be hard to put a dollar sign on.

Also, old stigmas die hard. In the eyes of much of the public, legal cannabis is an industry that isn't much different than the cannabis trade pre-legalization, when the rule of law was a suggestion at best. Headlines about cannabis operators who cut corners, falsify records, or simply fail their compliance goals even though they had the best intentions, can serve to further harm the image of the legal cannabis industry.

And such violations can have a very long shelf life. News of a labeling mistake between CBD and THC products or a report of mold or other contaminants in a company's product line can live online long after the fines and other penalties are sorted out.

Simply put, it can take a company months and even years to earn the goodwill and trust of cannabis consumers - and only a moment to lose it all.

This is partly because the cannabis industry is a lively, passionate space where people like to talk - on LinkedIn, Twitter, Facebook, and anywhere that people in the industry or consumers get together to talk shop. With the right compliance measures in place, you can help make sure they aren't talking about you for the wrong reasons.



The Cost of Recalls and Corrective Actions

If a cannabis company is the subject of a product recall, the company must scramble to remove and destroy the items in question, and inform customers and distributors of the recall in question.

Such actions can cost a significant amount of time and money, and that's before factoring in any fines and potential licensing issues.

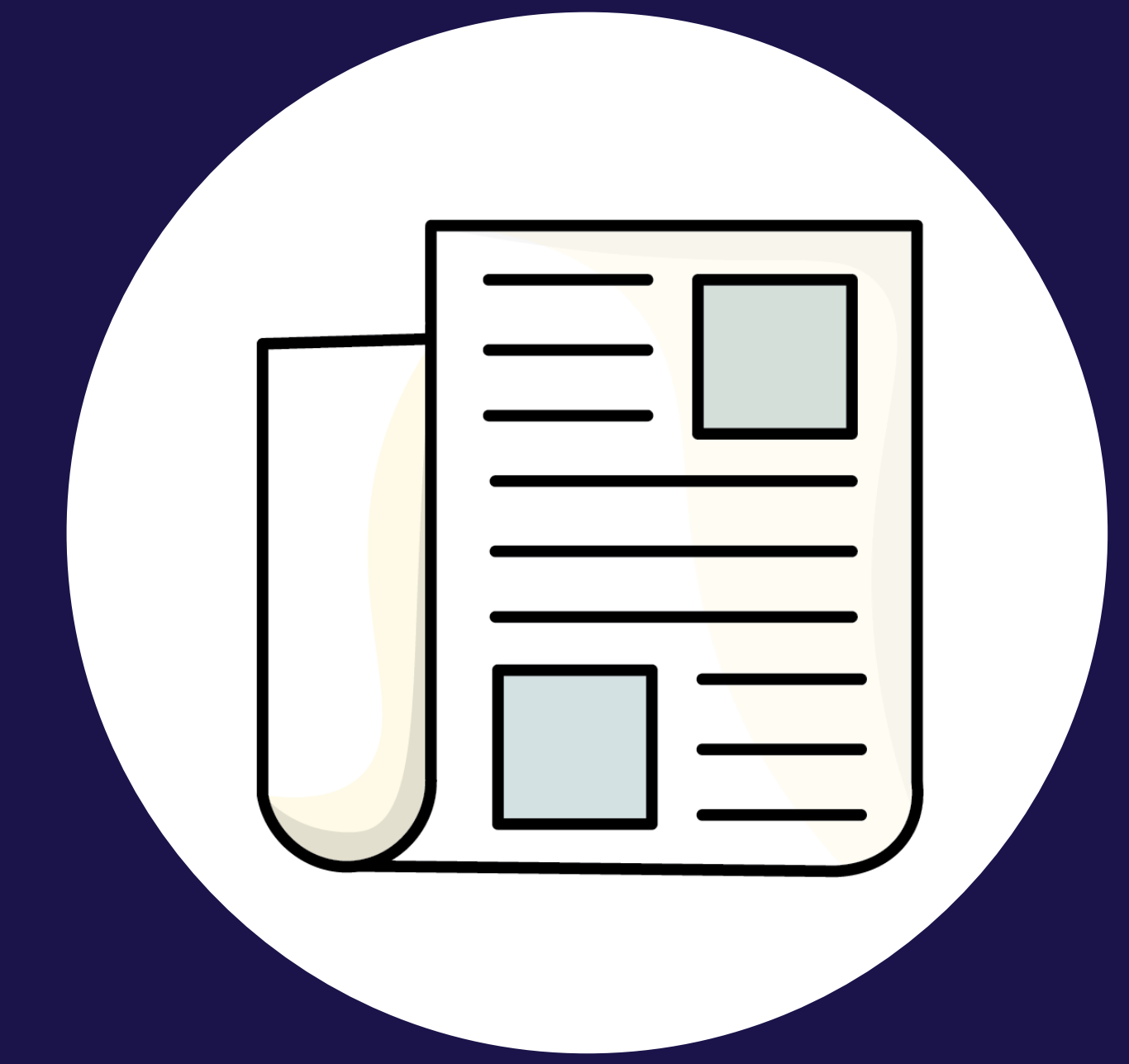
But that may not be the most painful part. Because what happens on the floor of a cannabis dispensary or manufacturing facility doesn't always stay inside the building.

News of product recalls almost always makes waves in the cannabis press and on social media, and for many companies, this may be their first taste of wider exposure in the industry.

What happens in a product recall?



Company spends time and money to remove and/or destroy the items in question



Cannabis press and social media pick up the story and run with it



Company faces fines and potential loss of license

Why Do-It-Yourself Solutions Won't Save Money in the Long Run

In every industry and wherever people do business, there will always be those who prefer to go it alone. A little elbow grease, some duct tape, and no shortage of good intentions is the recipe that countless professionals swear, by but when it comes to cannabis compliance, this can be a false calculation.

To develop its in-house compliance management system, a cannabis company must:

- Spend the time and money to develop industry-ready Standard Operating Procedures (SOPs)
- Develop a training program for staff using those same SOPs
- Build and implement internal audits to gauge compliance adherence
- Regularly invest time and money in refreshing employing training - including when state regulations are updated (typically without warning)
- Create a system for storing and maintaining compliance records
- Continuously monitor and track state cannabis compliance regulations to keep your system up to date

For larger companies that want to develop their online learning curriculum, the costs can be very exorbitant.

It can cost as much as \$400 or more per minute to create professional cannabis education and compliance training courseware. And considering the complexity and sheer breadth of the cannabis compliance code, this could require around 6 hours or more of content - or around \$150,000 give or take.

In other words, developing your courseware and training programs can be costly, even if you never face a compliance violation fine.

How much can do-it-yourself solutions cost?



**\$400
or MORE**

per minute to create professional cannabis education and compliance training courseware.



**Around
\$150,000**

to build out enough material to cover the cannabis compliance code

Crafting an in-house compliance management program and trying to decode the regulatory demands of the industry is not why most people got into cannabis.

	The Rootwurks Solution	Traditional Learning Management Systems
Stays on top of updates to state-specific cannabis compliance regulations	✓	✗
Includes in-depth and bite-size educational modules	✓	✗
Provides access to Responsible Vendor Program training	✓	✗
Includes pre-made checklists and assessment templates for cannabis compliance	✓	✗
Provides customizable learning plans for cannabis compliance and education	✓	✗
"Includes internal audit templates developed by cannabis compliance experts	✓	✗
Built in partnership with Vicente, one of the nation's leading cannabis law firms	✓	✗
Records employee training and compliance performance that can be easily accessed in the event of a compliance visit	✓	✗
Allows for the quick and easy creation of corrective actions that can be assigned to specific employees	✓	Sometimes

In the complicated, competitive, and fast-paced cannabis industry, compliance adherence can require a great deal of time and effort that not every company can spare. And to make matters worse, failure to adhere to these shifting regulations can mean stiff fines, damage to a company's reputation, and the potential loss of license.

The Rootwurks Learning Experience Platform (LXP) is a comprehensive compliance management and online education system that addresses this crucial need.

With the LXP integrated into their operations, cannabis companies can do more with less, and avoid the slings and arrows of compliance failure.

To see how the LXP works, drop us a line here

[Schedule a Demo](#)