

THC POTENCY: WHAT DO CONSUMERS REALLY WANT?

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CANNABIS

BUSINESS TIMES



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LESSONS FROM

THE LAST FRONTIER

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BY JOLENE HANSEN • PHOTOGRAPHY BY SEBASTIAN ULZ

As March rolled into Alaska, folks in Anchorage celebrated the launch of Uncle Herb's latest retail cannabis shop. For father-and-son team Lloyd and Aaron Stiasny, it marked the fourth retail location and the second cultivation space for their vertically integrated operation.

Properly appreciating Lloyd and Aaron's success—with Uncle Herb's retail and Alaska Herb Garden grows—requires remembering a few things. A lot of the Lower 48 has forgotten Alaskans approved legalization of adult-use cannabis in 2014, the same year as Oregon and preceded only by Colorado and Washington.

Next, wrap your mind around Alaska's size. At more than 586,000 square land miles, it's nearly 2.5 times the size of Texas. But almost 40% of the state's more than 730,000 people live in the south-central city of Anchorage—home to three Uncle Herb's retail shops and both Alaska Herb Gardens. A fourth Uncle Herb's graces Homer, about 220 miles south.

But as Lloyd and Aaron will tell you, Alaskan cannabis transcends easy access. Even villages off the road system and cities reached only by sea or air (yes, that means federal Transportation Security Administration involvement) house some of the nation's most dedicated cannabis consumers and craft growers. "It's an amazing challenge to get product from Juneau or Ketchikan or Dillingham ... but somehow this has all been happening," Lloyd says. There is no road leading to the state's capital, for example. Transportation is one of the many hurdles for businesses in the state.

STUDENT OF OPPORTUNITY AND CANNABIS

When Lloyd reached Alaska in 1979, the frontier and its opportunities captivated him. His first job was as an accountant, with no accounting experience, for a new school district composed of 16 remote villages spread across 80,000 square miles.

Work with Alaska Native communities dominated Lloyd's professional career. But grassroots involvement and entrepreneurship—from cable TV access, real



◀ Above: Employees at Uncle Herb's, which operates four dispensaries in Alaska.
Left: The company's first cultivation facility under the name Alaska Herb Garden opened summer 2018.

• ABOUT • UNCLE HERB'S

Year founded: 2017

Locations: Four Uncle Herb's retail stores—three in Anchorage, one in Homer.

Two Anchorage cultivation facilities operating as Alaska Herb Garden.

Number of employees: 49

Products/Services offered: Full line of cannabis products, including deli-style flower, prerolls, vapes, concentrates, edibles and more at retail. Prepackaging and other services for cultivators.

estate and restaurants to eco-tourism and an award-winning seafood company with Aaron—also marked the years. “Those little pieces all add up to where we are today in a lot of ways, and it carries forward,” Lloyd says.

With adult-use on Alaska's horizon, Aaron says Lloyd became “a student of the cannabis industry.” Lloyd immersed himself in the Seattle cannabis marketplace, visiting retail shops, and became a dedicated attendee at national industry shows. As he watched and learned, he connected the dots.

“Here you have an opportunity to engage in a very unique industry,” Lloyd says. “Through our evaluation, I always felt like retail was really the place to be to serve the consumer well. I wasn't a passionate grower; I didn't really understand that as much. Manufacturing was really not something I was particularly interested in, because I didn't have a good understanding of those products. But I did recognize that in serving the consumer, as well as providing really good, solid jobs for employees, retail is really the place where my heart was.”

In part, the name Uncle Herb's was inspired by Uncle Ike's Pot Shop. For Lloyd, the name resonated—not for its Seattle associations, but for the family feeling it evoked.

When Lloyd eventually called Aaron and told him they had a license, Aaron was

living and working in Canada for a winter. He came back, assessed the opportunity and decided he needed to “jump on this.”

A few brief moments with Lloyd make it clear that family, which includes employees, is what makes him and Uncle Herb's run.

Aaron says family-owned cannabis companies are unique, even in Alaska. Though licensing requires state residency for anyone with a direct or indirect financial interest in the business, large ownership groups or multi-investor groups are still the norm. As co-owners, Aaron says, “We truly are just father and son.”

If they had a mission statement, it would read: Be good to your customer. “By that principle, we launched our first store, set sail and kept going, and we're still going to this day,” Aaron says.

RETAIL FOCUS, VERTICAL MARKET

Alaska's first retail cannabis businesses opened in late 2016. Not in a rush, the Sti-assnys took time to evaluate their options. They settled on vertical integration with a strong retail emphasis. The first Uncle Herb's opened in Anchorage in late 2017. The attached 1,500-square-foot cultivation space, Alaska Herb Garden, opened summer 2018.

“[Cultivation] was part of our brand,” Lloyd says. “But we didn't want to focus on cultivation as much as the customer base, the retail platform, and what we could provide as a business to the industry as well as the community. Creating good jobs, bringing in really fundamentally good people to help us



HAD WE BEEN BANKING ON A PRODUCTIVE GROW TO LAUNCH OUR BUSINESS—AND GONE CULTIVATION FIRST, THEN RETAIL—WE WOULD HAVE BEEN HURTING. IN THAT SIX, SEVEN MONTHS THAT WE WERE RUNNING A RETAIL STORE, WE WERE MAKING MONEY TO SUPPORT PROJECTS AND THE BUILDOUT OF THAT [CULTIVATION] FACILITY.”

— AARON STIASSNY, GENERAL MANAGER, UNCLE HERB’S

grow our business was the biggest priority.”

Aaron explains Lloyd recognized that cash-based retail provided the greatest opportunity and stability. Many companies entering the vertical market went big on cultivation first and struggled with their grows as they worked through the typical kinks and challenges many new indoor growing operations face.

“Had we been banking on a productive grow to launch our business—and gone cultivation first, then retail—we would have been hurting,” Aaron says. Instead, they focused on Uncle Herb’s retail. “In that six, seven months that we were running a retail store, we were making money to support projects and the buildout of that [cultivation] facility,” he says. Instead of seeking outside investment, they were able to finance their own expansion.

Another reason for their retail focus was its potential impact on Alaska’s cannabis industry at large. From the beginning, Lloyd and Aaron wanted to represent all the state’s best growers and brands.

“What I’ve found in my own education was that the best place to support Alaska’s cannabis industries—all the respective businesses, the cultivators, the manufacturers—is through the retail lens,” Lloyd says.



Businesses that share Uncle Herb’s values are offered shelf space. “We provide opportunities for their growth, and I think we’ve established amongst all the Alaskan businesses a very good network of business relationships. That’s been very meaningful,” Lloyd adds.

Look at an Uncle Herb’s menu, and you’ll find nearly two dozen flower producers represented. Include other product lines—from vapes, concentrates and prerolls to edibles and CBD products—and the brands jump past 70.

Aaron says many vertically integrated operations lack diversity. “If you go to stores, a lot of them are just siloed. It’s their brand, and that’s what they’re selling to the customer,” he says. “Consumers get tired of that. They want variety. They want to try what’s new. They want that limited grow. So, we really focused on keeping our menu pretty broad to support the little guys, to support all producers across the state.”

TAXATION AND MARKET CHALLENGES

Alaska’s climate precludes significant outdoor cultivation. Most commercial growers cultivate indoors.

◀ Aaron (left) and Lloyd Stiassny at the fourth Uncle Herb’s location, which opened in February 2023. A cultivation facility alongside the retail shop opened in March.

FAST TAKE WITH LLOYD STIASSNY FOUNDER OF UNCLE HERB'S



What's the biggest challenge in launching or maintaining a cannabis business?

"Quality employees. [We look for] sincerity, trust, confidence, warmth, the gentle smile."

What's something that would surprise most people about running a cannabis business?

"How much fun it is. The reward that I feel in terms of what we can provide to those we've hired but also to the community at large and to our customers. It's just this incredible feeling of goodwill to be able to provide a product, that is still [federally] illegal, to a broad base of Alaskans. It's incredibly nonpolitical, because we're all immersed in far too much politics. Our door is open to every, absolutely every consumer, and we embrace it with integrity and honesty and quality."

What keeps you up at night?

"Worrying about legalization and whether or not we can find federal vision. I'm not really looking for federal legalization overnight, but whether or not we can find at least some growth in our industry that really normalizes things for us as a business. To not wake

up one day—because who the heck knows what the next Congress and president will look like—and find that 'poof,' it's all gone. That truly is, unfortunately, a reality for most cannabis businesses."

What helps you sleep at night?

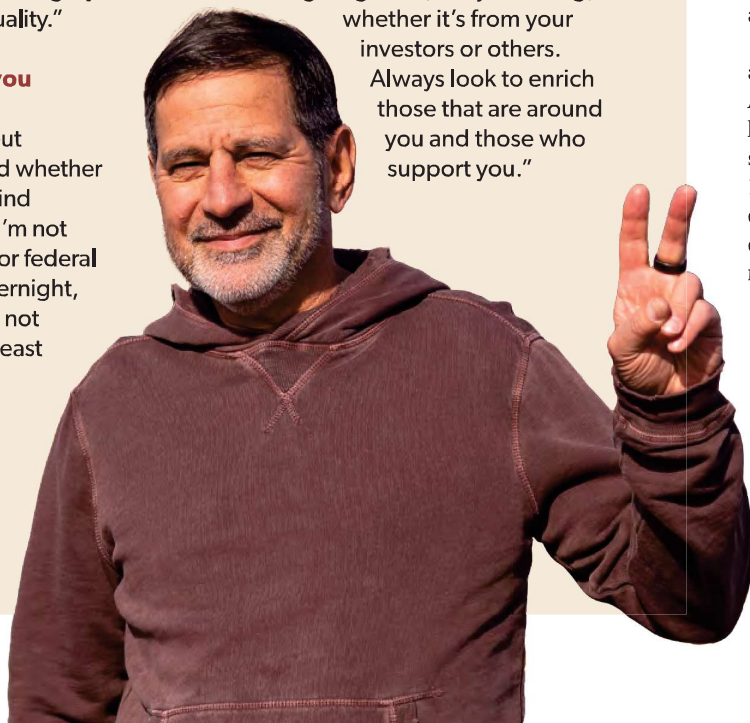
"Aaron."

Any advice for others considering a cannabis business?

"Understand the fundamentals of running a good business and what it means to be a good provider. Don't chase dollars; chase integrity. Focus on bringing quality and a good product to the marketplace, and do it in a sincere way. If you're simply looking to get rich quick, cannabis is not the place to be, that's for sure. No business is. Understand the importance of

giving back, not just taking, whether it's from your investors or others.

Always look to enrich those that are around you and those who support you."



"Alaska is entirely a craft cannabis market. It's a lot of small operators. Pre-legalization, it's always had an aura about it," Aaron says, citing the renowned Matanuska Thunder Fuck strain (also known as Alaskan Thunder Fuck and MTF). "I think we have some of the best products nationwide."

But climate and lack of roads seem small hurdles compared to Alaska's weight-based cannabis excise tax, the nation's highest. The state taxes growers on raw cannabis when it leaves cultivation, at a rate of \$50 per ounce—\$800 per pound—for mature flower and bud, regardless of quality or point-of-sale price.

Aaron, appointed to the Governor's Marijuana Task Force in November 2022, says the tax hits hard in a semi-saturated market where wholesale cannabis averages \$1,800 to \$2,500 per pound. While that may sound good to growers cultivating for a fraction of that cost, energy expenses alone in a market where nearly all cultivation is indoors and winter temperatures in many places rarely go above freezing make it unsustainable for Alaska growers. "Just the cost to operate and ship things to Alaska is very expensive," Aaron says.

As a result, tax delinquency is growing among cultivators, who comprise 53% of the state's 459 active cannabis licenses, according to a December 2022 Alaska Department of Labor & Workforce Development report. Aaron shares that the Marijuana Task Force has proposed a retail sales tax and tax relief for growers.

As of February 2023, there were 165 active, operating licensed dispensaries in Alaska, and though that might not sound like a lot for a state more than double the size of Texas, that equates to 22.3 stores per 100,000 residents, which is more saturated on a per capita basis than the struggling Oregon (19.3 per 100,000) and Colorado (18.2) markets. About a third are in Anchorage.

Despite challenges, Lloyd says the system has sustained reasonable value for all market segments: "At least now, five-plus years in, the market in most cases has been reasonably healthy and productive for those that have played by the rules and done their best, worked hard and tried to serve the market."

Pandemic sales and prices skyrocketed, and Uncle Herb's never closed. "Now we're on that backside," Aaron



says. Summertime will bring streams of tourists and people working tourism and seafood fishing jobs. “That’s young people that consume cannabis, so all of us benefit come May with that influx of people,” he adds.

COMMUNITY AND WORK-LIFE BALANCE

One thing you won’t see from Uncle Herb’s or Alaska Herb Garden is prominent mention of anything other than herb. “Cannabis is something that culturally a lot of folks are adverse to, even with the legal industry, so we don’t use the term marijuana in many ways,” Lloyd says. “We just shy away from it.

We don’t really even use cannabis in any of our advertising.”

Uncle Herb’s is a big supporter of the arts in Homer, a cultural center known for its vibrant arts community. The company supports non-profits where it operates, including the Bunnell Arts Street Center in Homer, the Anchorage Opera, and Challenge Alaska, which helps “Alaskans living with disabilities through adaptive sports and therapeutic recreation,” according to its website. Referencing fundraising events they have supported, Lloyd says, “We’re one of [the] prime sponsors along with Delta Airlines or ConocoPhillips; a lot of different companies that [might] not



Clockwise from left: Bryan Boushell Jr. started working for Alaska Herb Garden as a part-time garden hand and trimmer three years ago, and is now cultivation manager; the original Uncle Herb’s on Arctic Spur Road in Anchorage opened November 2017; the company’s King Circle location and fourth store opened earlier this year.

want to see cannabis next to their name. But Uncle Herb’s is there, whether they know it or not.”

The company and its employees get involved in numerous community activities. “Being engaged and giving back to the community is a primary goal for us constantly, and we try to empower our whole group of employees. They have jumped in and supported that very much,” Lloyd says.

1
UNCLE HERB’S RETAIL LAUNCH
ANCHORAGE:
2017

2
SECOND LOCATION
HOMER:
2018

3
THIRD LOCATION
ANCHORAGE:
2020

4
FOURTH LOCATION
ANCHORAGE:
2023

• HOW •

ALASKA HERB GARDEN

ELEVATED ITS CULTIVATION FACILITY



ALASKA'S CANNABIS CULTIVATION LICENSES

differentiate between “limited” facilities (under 500 square feet) and “standard” facilities. Alaska Herb Garden, the original sister grow to Uncle Herb’s retail shops, is a standard grow located on-site with Uncle Herb’s first Anchorage retail store. A limited grow, Alaska Herb Garden No. 2, launched alongside Uncle Herb’s fourth retail shop in March.

When Cultivation Manager Bryan Boushell Jr. started with Alaska Herb Garden, the grow looked much different than now. After 18 years in printing, working with machinery, Boushell signed on as a part-time garden hand and trimmer three years ago. But in true Alaska fashion, he saw and seized an opportunity to manage cultivation and work with General Manager Aaron Stiassny to improve the grow.

“To speak to Bryan’s prior work experience, he’s a very systems-oriented guy,” says Stiassny, whose father, Lloyd, founded Alaska Herb Garden and Uncle Herb’s dispensaries. Though it’s not a large facility, they recognized automation could help it run more efficiently and effectively. “Bryan’s kind of elevated our whole facilities really, with my support.”

The 1500-square-foot space houses two 600-square-foot grow rooms running 225 plants each, plus a nursery with 10 to 12 moms. Production averages 60 pounds of cannabis per month. “When I first started, we were

120 to 150 plants per room. They were just pots on the floor. I was just hand watering at the beginning of the day and letting them dry back. That was it,” Boushell recalls.

Sourcing equipment to Alaska is never easy. But plants are now on hydrotables, with automated drip irrigation, climate control, dehumidification and cloud-based monitoring capabilities—under a lighting system upgraded to all LEDs. Boushell’s integrated pest management (IPM) program, including beneficial insects shipped monthly from Oregon, helps the grow stay clean. “I haven’t seen a spider mite or fungus gnat in the facility for two years,” Boushell says.

Stiassny and Boushell are working with a partner to diversify genetics for the THC-driven market. At about 120 square feet, Alaska Herb Garden No. 2 is slated mostly for R&D. About a dozen new cultivars were recently brought in to the two-tiered grow.

Boushell says he learns something new from the garden every day: “The plant’s always teaching you something, showing you something. Look at the plant and you’ll figure out what’s going on most of the time.”

Next to seeing his work yield top-shelf herb, Boushell says the most satisfying part of his job is the people he works with at Alaska Herb Garden and Uncle Herb’s. “Not to sound cliché, but they really are like family,” he says. “They’re just a great bunch of people.”



Alaska Herb Garden runs about a dozen cultivars in production at one time.



▲ Alaska Herb Garden's in-house production team dries and sorts flower and trim post-harvest. The company operates two growing facilities in Anchorage.

Perhaps their best-known project is an annual canned food drive started in 2018 to benefit Bean's Café, an Anchorage food bank and kitchen devoted to feeding the community's hungry and homeless adults and children.

"There was a need in the community for food, and we found that our customers are extraordinarily giving," Aaron shares. Uncle Herb's incentivizes giving by offering inexpensive prerolls to customers who give canned goods, and it works. The drive typically collects more than 2 tons of food, about five or six pickup loads. Support goes beyond canned food, Lloyd adds: "We support [Bean's Café] wholeheartedly in what they do for the community."

For them and their staff, the pair encourages work-life balance, which Aaron describes as "very Alaska." That translates to lots of community, events and festivals as a group, plus daily time outdoors skating, skiing, hunting, fishing or hiking—and not getting too consumed by work. "You have to have good outside life balance," Aaron says. "We want you here for 40 hours if you're a full-time

employee, but take a day off. Vacations are important."



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FEDERAL LEGALIZATION AND ALASKA'S FUTURE

What the future holds for Alaska cannabis has yet to be seen. "It's still in

its infancy. I think the best thing going for us as the industry matures federally and moves in that direction is that we just get identified as being a really craft, high-quality market," Aaron says.

Lloyd acknowledges the lack of outdoor cultivation and the tax structure have hampered cultivators, but he sees an upside, too: "I think it sort of creates a business platform for cannabis in Alaska that's sustainable as it exists. We need big changes, but what would hurt Alaska is federal legalization—interstate commerce—because you wouldn't be able to compete as a cultivator up here. Then it becomes very nuanced, very challenging."

As Aaron looks to the future, he hopes for continued growth in retail and opportunities for employees, from their operations manager to retail managers to budtenders. "People in any organization are always looking for growth opportunities. For us, we have them there right in front of us, and we want to support folks to

really make Uncle Herb's a career," he says.

Lloyd mentions Howard Schultz and Starbucks's Bean Stock program, which turns employees into shareholder-partners. "As I look at Uncle Herb's and I look at what he did for employees with Bean Stock, I would love to be able to recreate that someday with Bud Stock for our employees—to basically be able to take Uncle Herb's to that next level for everybody that's contributed to making us who we are right now."

A fifth Uncle Herb's is planned for Soldotna, located between Anchorage and Homer. The father-son pair is also exploring retail and cultivation expansion into Alaska's rural communities. "We talked this morning about how we could grow our business," Lloyd said in March. "Perhaps into rural Alaska, creating meaningful jobs for folks. If that could be accomplished in any way, that would be a nice chapter for my own goals and objectives in the industry." *

