What You Need to Know About Cannabis Incubators

Need help growing your cannabis startup? A new crop of incubators are here to help…for a cost. Here's what to know.

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Unless you're a wealthy business genius who fully understands every aspect of the cannabis industry, you probably need some advice — and a little funding — to get your company off the ground. In the tech industry, this assist often comes in the form of an incubator, like Y Combinator or Techstars. These groups work with companies they believe have potential and help take them to the next level.

Now incubators are starting to pop up in the cannabis industry, too. To help you decide whether to try one, here's the lay of the land:

What, exactly, is a cannabis incubator?

It's a company that gives selected cannabis startups a boost in their early stages. Generally, incubators provide expert advice on the direction a startup should take, helping it evolve from its earliest stages into a viable enterprise. Some incubators invest directly in their clients while others help them find funding. When they do invest, they usually take 5 to 10 percent of the new company — which means they also have a stake in grooming that startup to be successful at raising more money. It's something of a symbiotic relationship.

As one cannabis incubator executive explains it, their primary focus is to help new companies think through every detail related to starting a business, including getting investor-ready. “Our goal is to ensure that our teams have a response for any objection or question that an investor asks as they go out to seek funding,” says Celia Daly, who handles investors and community relations for CanopyBoulder. “As investors ourselves, we aim to help our companies grow rapidly so we can return capital to *our* investors.”

Do you need one?

No. Many a cannabis company has succeeded without the help of an incubator. Some founders don’t like the idea of giving up company equity so early, even if it’s only 5 percent. But a good program can offer a competitive advantage. “As a concept, incubators are great,” says Morgan Fox, a spokesperson for the National Cannabis Industry Association. “Cannabis is a difficult industry with many confusing regulations and requirements that other fields don’t have to deal with. It can be very useful to build up a model or a business plan before spending large amounts of startup capital.”

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Aside from getting help securing funding, you can also make great networking connections through an incubator and learn from what others are doing.

Is it hard to get accepted?

Incubators are selective about which startups they’ll partner with. But the whole industry – like cannabis itself – is growing quickly, and the programs are getting more specialized and sophisticated, with increasing opportunities for applicants. Because each incubator looks for different qualities in the startups it chooses to partner with and, in turn, offers different expertise, programs, and investment

deals, it pays to shop around and vet a few to find the best fit.

What are some of the top cannabis incubators?

Incubators come in many shapes and sizes. These four are a good place to start:

CanopyBoulder: Its focus is on startups that involve "ancillary products and services" in the cannabis industry, although it works with a diverse array of businesses. Located in Boulder, Colo., the incubator is a strategic partner with the well-known cannabis investor network Arcview Group, and has incubated more than 100 companies, including Wurk, Front Range Biosciences, DeepGreen, and BDTNDR.

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CanopyBoulder's program guides its entrepreneurs through 16 weeks of mentorship designed to teach them the ropes and set them up for success. It invests $30,000 in each company and takes between 6 and 9.4 percent in equity. "This year," says Daly, "we increased our offer from a $30K investment [via an additional $100,000 convertible note] as a way to attract top talent and keep up with the rising level of sophistication of entrepreneurs in the space."

Gateway Incubator: This incubator accepts 20 startups a year and invests $50,000 in each, for 5 percent in equity. As a Silicon Valley company, it has a lot of tech-related businesses in its portfolio. Joining Gateway means access to its office space and large network of experts and investors, along with mentoring. Some of the companies Gateway has incubated: Arc Pipes, GrowX, Field, and Trellis.

Greenhouse Ventures: Greenhouse is a Pennsylvania-based incubator of cannabis and hemp businesses that has done a lot of work in the health sector. Greenhouse offers both early-stage and growth-stage programs, depending on what phase the

startup is in. The early-stage accelerator lasts 10 weeks and can be done remotely, which is a unique feature. Offered twice a year, it helps new businesses learn about marketing and the industry. Companies receive between $80,000 and $120,000 in exchange for 5 percent equity. The growth-stage accelerator lasts one to two years, and Greenhouse offers between $100,000 and $1.5 million for 10 to 40 percent equity. Its companies include Releaf App, Wild Fox Provisions, and Healy.

The Initiative: The Initiative, an accelerator based in Portland, Oreg., focuses on women entrepreneurs. “Our goal is to help more female-founded companies succeed in the cannabis space and to prepare those founders for growth,” says Amy Margolis, one of the founders. Many existing women-run businesses grow to a point – but end up hitting a “fund-raising wall,” she says. As an accelerator, The Initiative helps them get past that hurdle. Companies participate in a three-month bootcamp, where they learn how to raise capital and create a successful business strategy. At the end, they pitch to a highly curated group of investors. It’s not only a chance to receive funding in their company, but also to address the gender gap in cannabis while the industry is still young.

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