



The case for training

Introduction

In Canada, commercial production of cannabis began under the Marijuana for Medical Purposes Regulations in April 2014. These regulations opened the door for several licensed producers to enter the space. Since then, we have seen the introduction of the Access to Cannabis for Medical Purposes Regulations followed by the Cannabis Act and its regulations in October 2018. Each new set of regulations brought new product classes, a high degree of change, and the accompanying production practices to support these changes.

Even with the inclusion of talent from adjacent industries, attracting and retaining skilled employees has been one of the most pressing concerns in this sector. Human capital retention is challenging due to several aspects that are unique to the cannabis sector, including the high level of nascent regulation and a lack of developed industry-wide leading practices. There is also a perception that the workforce is dependent on individuals who worked in the industry prior to cannabis commercialization and legalization.

The future of the cannabis workforce

People have been growing cannabis in Canada far longer than medical and recreational legalization has existed. As a result, there is a vast amount of subject-matter expertise from the legacy market that transitioned to the regulated industry. While these individuals brought a wealth of knowledge, the industry has now become highly regulated, with standards much more akin to food or pharmaceutical production. The commercial landscape now resembles a consumer packaged-goods environment for many cultivators and processors. Without the proper guidance or training, organizations can quickly find themselves facing issues such as high employee turnover, financial inefficiencies stemming from operations, product recalls, and non-compliance.

Where will the workforce come from? Statistics Canada forecasts that by 2030, 30% of Canadians will be over 60 years of age. There will be two working-age people in Canada for each retiree—down from four in 2015. There will be more seniors than kindergarten-to-grade-12 students for the first time in history! These statistics, coupled with a job forecast of upwards of 150,000 new jobs in Canada, will mean that workers will be fewer and more expensive.

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There will be five main channels to fill this shortage: unskilled, new to the industry; people with transferable skills from other industries such as manufacturing, automotive, energy; skilled labour from like industries such as production horticulture or pharmaceutical; the legacy industry; and the super-skilled and truly experienced. This last channel will be in high demand, causing employers to compete for them or develop them.

According to LinkedIn,² there are six gaps in employee skill development facing this industry:

1. **The essential skills gap:** A lack of basic numeracy and literacy.
2. **The basic gap:** The gap between what employers are seeking and what they can find.
3. **The expectations gap:** The gap between what employees expect to experience at work and what they actually find themselves doing.
4. **The productivity gap:** The skills that must be developed to significantly improve productivity.
5. **The leverage gap:** The under-utilization of skills in the workforce.
6. **The futures gap:** The gap between current skillsets and the skills needed to become competitive in the Fourth Industrial Revolution.



What can employers do to start bridging these skill gaps?

Training and education

Training that is focused more on capabilities and competencies and less on traditional credentials will provide timely, targeted training to meet the growing needs of the space. Non-traditional programs that incorporate mentoring, coaching, guidance for success, and the recognition of prior learning will help transition people from either grey markets or like industries.

As little standardization exists for these roles, it will be equally important to empower employees to seek out like-minded people in the cannabis community not only so they can avoid feeling isolated, but also to allow them to share information and best practices. Groups like C-45 (a quality and regulatory group specific to cannabis) have opened the door to collaboration across the industry and have become a united voice in providing feedback and/or guidance to the regulator.

In this time of economic uncertainty, it is common to see companies cut back on non-core functions such as training. However, according to the Canadian Apprenticeship Forum, research indicates there is a return of \$1.47 on every dollar spent on training. Additionally, HR Magazine reports that companies investing \$1,500 or more on training per employee, per year, average a 24% higher profit margin than companies with lower yearly training investment.³ These findings are significant for employers in the cannabis industry who, amid the frenetic pace of change, have not yet had the opportunity to implement formalized training programs that deliver these benefits.

A 2019 survey suggested that the average tenure of employees in the cannabis space is 1.1 years.⁴ This is a short period of time when you consider the investment associated with the hiring and integration of new employees. According to Bersin by Deloitte, a research-based strategy division focused on human capital, the suggested average cost per hire is almost \$4,000—that only covers the time investment of information technology and human resources managers. Other sources have indicated that it can take up to eight months for new employees to become fully trained and begin contributing to the company's productivity.

In similar sectors, the average employer spends approximately \$900 on training per employee, per year.⁵ However, based on anecdotal conversations with industry stakeholders and employees, cannabis employers are significantly under-invested in training programs. This lack of training investment can contribute to major and critical non-compliance observations issued by Health Canada, resulting in financial loss, remediation requirements, and even suspension or revocation of licences. Even licence holders that are able to retain their licence after such ratings often continue to operate with under-trained employees that do not work cohesively or understand their

¹ Statistics Canada 2020, <https://www150.statcan.gc.ca/n1/en/catalogue/91-520-X>.

² LinkedIn Corporation, "2018 Workforce Learning Report," <https://learning.linkedin.com/resources/workplace-learning-report-2018>.

³ HR Magazine, January 1, 2001, <https://www.shrm.org/hr-today/news/hr-magazine/pages/0101wells.aspx>.

⁴ "2019 Cannabis Compensation Survey," Cannabis at Work and Global Governance Advisor, <https://www.cannabisatwork.com/salary-survey-2019>.

⁵ "What's the Real Cost of Training Programs for Employees?" Biz Library, November 25, 2019, <https://www.bizlibrary.com/blog/training-programs/cost-of-training-employees/>.

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context in the big picture—and this contributes to the relatively high level of operational ineffectiveness and inefficiency that plagues the industry today. We often hear from cannabis companies that the current state of the industry, along with financial uncertainty, does not afford them the opportunity to invest in training. One might argue, however, they can no longer afford to avoid this investment.

All employees should receive formal and informal training. For employees involved in operations, research and development, and quality assurance and control, in-depth competency-based training is imperative to ensure the standards, systems, and processes are understood and implemented from day one. In addition, ongoing formal training—delivered at least annually—plays a role in ensuring continuous improvement and avoiding complacency. Providing regulatory training to all employees, regardless of the employee's role, will contextualize the impact that each individual has on both the quality of the product and maintaining compliance. While ongoing training is important in any industry, it is especially important in the cannabis industry, given the evolving regulations and guidelines, and the accelerated development and adoption of leading practices.

Retaining employees

According to a study done by IBM, employees who do not feel they can achieve their career goals at their current organization are 12 times more likely to consider leaving than employees who do feel they can achieve their career goals. This number skyrockets to about 30 times more likely for new employees. New employees are 42 percent more likely to stay when receiving the training they need to do their job properly.⁶

Assisting employees by providing them with clear expectations and resources sets them up for success and helps to alleviate the stress associated with starting a new position. For these reasons, investing in employee retention strategies is a worthwhile exercise. If you invest in your employees, they will invest in you.

Succession planning

It seems intuitive that having cross-trained employees is beneficial. However, many employers do not have a formal process to ensure they have mitigated the risk of losing key personnel. One approach to succession planning and management is to identify future needs, key positions, and required competencies. Organizations can look internally to identify high potential candidates and provide them with training and development opportunities to advance their careers. Imagine a scenario where your quality assurance person was lured away by a competitor. Do you possess in-house talent who is trained, security-cleared, and ready to step into this critical role? These positions are in high demand and it can take a significant amount of time to recruit and train a new hire. Without a succession plan in place, this scenario can potentially jeopardize operational continuity.

Building a culture of quality

The health of an organization can be measured through employee engagement and its dedication to quality culture. Moreover, quality culture is the foundation for the integration of quality into all areas of the business. The business as a team can achieve operational excellence by aligning corporate values with employee, business, and customer interests.

A culture of quality starts with a company's leadership investing in their employees and will lead to the standardization of processes, the quality and consistency of products, and, ultimately, the trust of consumers.

The effort required to prepare a safe, consumer-ready cannabis product is tremendous. Employees may not be aware of dependencies in the supply chain, the company's standard operating procedures, or regulatory requirements such as production practices that dictate compliance. There is also a tendency to rely on perceived expertise—the *this is how we always did it* attitude—to make decisions. For this reason, training is more essential in the cannabis industry than in any other industry today.

Creating a variety of learning opportunities will help a business maintain and improve its knowledge in the areas of quality control and regulatory compliance, such as:

- Onboarding training for all employees
- Formal training opportunities
- Informal training opportunities such as touring other facilities, establishing industry networks, and participating in third-party audits
- Post-mortem analysis of quality problems
- Annual training requirements and training goals for the organization
- A mechanism to roll out training as regulations change or new processes come online

In July and August 2020, Deloitte's regulatory consultancy practice within the cannabis division held a series of roundtables with 35 quality assurance people from a variety of licensed cannabis facilities across Canada. One of the overwhelming results of those sessions was concern about reduced personnel and ultimately a lack of training and cross-training. Although a culture of quality may be a significant investment, companies are more at risk without one.

⁶ "The Value of Training," IBM, April 28, 2014, <https://www.ibm.com/blogs/ibm-training/the-value-of-training/>.

What is the risk?

Observations by Health Canada. It can take time for a company act in response to observations. The implementation of the required corrective and preventive actions also take up valuable time. While it is normal to receive an observation or two from Health Canada, having employees who are not adequately trained exposes you to more risk for receiving these observations. As a result, you may have to put production on hold or, worse, have Health Canada do that for you. Health Canada will follow up on these observations and, based on the frequency and sheer volume, may hold you to a more rigorous inspection schedule.

Recalls. Do we really know what a recall will cost? We can quantify the cost of the product being recalled, the time to execute a full recall standard operating procedure, and the subsequent investigation. However, there are other factors that must be considered. Potential lawsuits, the impact on your brand and reputation, and even the impact on the overall valuation of your company could be substantial financially.

Suspension or loss of a licence. Licences for cannabis cultivation and processing can cost in the millions of dollars to acquire. Consider the time and costs associated with the build-out of a facility, sourcing and purchasing the equipment required, and hiring and retaining employees. While the suspension or loss of a licence is not typical in the cannabis space, it has occurred. For those who were able to weather the storm and have their licence reinstated, one could argue that their challenges have just begun. They now face the scrutiny and altered perceptions of their company from the regulator, the investors, and worst of all, the general public.

During onsite assessments of several licence holders performed by Deloitte, we noted that most of them demonstrated deficiencies in document control and sanitation. Even the most well-run facilities had areas that needed improvement, including operational activities and/or the documentation of those activities. That is typical in a new industry, but when there is a lack of forethought or intervention to mitigate these gaps and risks, licences could soon be in jeopardy. All risks are financial, but some are existential.

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“The only thing worse than training your employees and having them leave is not training them and having them stay.”

Henry Ford

Conclusion

Having a robust training program not only builds efficiencies, it also creates product consistency as your processes reach a point of standardization, therefore reducing your risk of non-compliance.

We are approaching 575 cannabis licence holders in Canada, resulting in a period of consolidation and extreme competition. Brand differentiation in this space is incredibly difficult due to the strict regulations under the Cannabis Act. Having the ability to offer consistent product and build trust with consumers will be crucial. Whether or not to invest in training and education should not even be in question. Instead, it should be part of your risk mitigation plan and, ultimately, a key component of the strategic vision for your company.

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