



CONSUMPTION COUNTRY

A red-hot new segment of the industry is taking off, with little direction and massive obstacles

By Patrick Wagner

In theory, consumption lounges should be where the rubber meets the road in the cannabis industry. But while new lounges are opening across the country, operators don't seem to have much runway to work with under the current regulations.

California in 2019 was the first state to allow licensed consumption lounges to open — and then the coronavirus pandemic hit and the segment was left idling. By the time the world was ready to stop working from home, Alaska was already running consumption lounges, Colorado, Illinois and Michigan were launching their programs, and Massachusetts, Nevada, New Mexico, New Jersey and New York were developing their own regulations.

Today, lounges are open in Alaska, California, Colorado, Illinois, Michigan and New Mexico.

But business owners in the fast-growing segment are hopeful the regulations, which were built around the regulatory framework of the existing state cannabis industries and don't necessarily lend themselves well to hospitality businesses, will ease as the new segment finds its footing.

Marijuana Venture reached out to operators in open and upcoming states to see what these businesses can legally offer consumers, what is currently working for their business models and what they hope to incorporate in the future.



RISE Mundelein Lounge & Smokeasy

Mundelein, Illinois

The only consumption lounge operating in Illinois, RISE Mundelein Lounge & Smokeasy, opened in October 2021 in Mundelein, Illinois, just 35 miles northeast from downtown Chicago and 23 miles from the Wisconsin border. It shares its location with a RISE cannabis store — one of the retail brands of multi-state operator Green Thumb Industries (GTI) — and accepts patrons by reservation only.

“The lounge reservation-only system helps stagger guests and make sure that everyone in the lounge can receive attentive service,” says Brendan Blume, GTI’s vice president of store development. “We make sure that we offer reservations so that we can provide dedicated attention to all customers without experiencing a ‘rush’ or creating an overwhelming environment.”

The lounge offers a wide selection of consumption devices for its patrons, including some of the more high-end apparatuses that may be cost- or space-prohibitive for many consumers, such as elaborate glass bongs, dab rigs or gravity bongs. As

its “Smokeasy” name would imply, the lounge takes design cues from 1930s Americana to recreate the feeling of one of the many infamous and swanky speakeasys from Chicago’s past. But the lounge and dispensary also house an educational component in the artwork along its walls — and through its staff — about cannabis history and the lounge’s role as the first licensed business to allow onsite consumption east of the Mississippi.

“The mission of our lounge is to help normalize the use of cannabis while also empowering guests with information and a safe and comfortable place to consume,” Blume says. “Being at the forefront of normalizing cannabis consumption is extremely exciting and also a responsibility that we do not take lightly.”

The lounge also hosts live music, trivia, painting classes, yoga and standup comedy. The lounge itself accommodates up to 47 guests with room for another 17 in its private rooms. Tables reserved at RISE Lounge & Smokeasy have a two-hour time limit.



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The Studio Lounge

West Hollywood, California

The Studio Lounge operates near the heart of Los Angeles in West Hollywood, California, where it sits above its sister business, The Artist Tree dispensary, and below a larger event space the company uses for private events as well as public ones like its cannabis yoga.

“People start in the lounge and then they go up to the third floor for yoga, or a painting class, or a writing workshop,” says The Artist Tree director of marketing Caroline Fontein.

Customers can take any items they purchase from the dispensary on the first floor and consume them upstairs in the lavish lounge. While single joints are the most convenient and commonly consumed items, The Studio Lounge also rents some of the more extravagant smoking equipment that consumers might be interested in trying.

“If you’re a regular cannabis user, you wouldn’t necessarily have a gravity bong,” Fontein says. “But when you’re in an environment like that, where you can rent that out, it’s fun to experience and you’re getting to try something new that you haven’t tried before, or maybe something you didn’t even know existed.”

The Studio Lounge has been open for a little more than a year, but Fontein says a lot of consumers are simply not aware that consumption lounges even exist.

“I know there’s been a lot of challenges, but a lot of licenses were issued,” she says. “It’ll be great once some of these other license owners open shop and it’ll

become more of a destination.”

Although lounge operators in Los Angeles are not allowed to serve food, Fontein says the company has partnered with a nearby restaurant so if patrons get hungry, they can scan a QR code and order food directly from the restaurant.

“It comes out plated, like you’re in a restaurant,” Fontein says. “It’s a pretty seamless experience for customers, but that’s a whole revenue stream that we could be owning.”

New legislation will allow operators like The Studio Lounge to serve food beginning January 1, 2024. Fontein says The Studio Lounge isn’t going to retrofit an entire kitchen into its West Hollywood location, but the legislation will allow the company to incorporate a commercial kitchen into its upcoming second lounge in Hawthorne, California. Fontein says incorporating a restaurant into the lounge would at least help develop the hospitality side of the business by giving servers a bigger bill and the potential for larger tips.

“If we have a group of 20 people come in, at a restaurant, it’s typically 20% gratuity automatically added onto the bill, but that doesn’t work with cannabis, because every single person needs to make individual purchases,” Fontein says. “We really want to have this best-in-class customer experience for our employees and our customers, but for our employees, it’s like, ‘Okay, but we’re not making tips on this.’”

The Vault Dispensary Lounge

Palm Springs, California

The Vault Dispensary Lounge in Palm Springs, California, is the longest-running licensed consumption lounge in the country, having opened in August 2019. Owner Rich Eaton was still renovating his location when he found out he was going to have a lounge license and made sure to incorporate elements like a full-size bar, several different seating areas and a stage for performers, as well as lighting and atmospheric elements that were intended for consumption and not just retail.

“Everything was going great,” Eaton says of the lounge’s initial launch. “Everything was trending up and going fantastic and then, March of 2020 gave us a nice slap of reality.”

In those first few weeks of the pandemic, Eaton felt as though his lounge was doomed to fail, but the business was deemed as “essential” and he soon realized that during a global lockdown a lot of people suddenly didn’t have a place to consume cannabis.

“Maybe their wife doesn’t smoke, or they don’t want to smoke in front of their kids, or they’re in an apartment where they can’t smoke,” Eaton says. “We were able to give people a place to go and relax and enjoy the plant outside of COVID.”

As The Vault was acting like a home-away-from-

home for a lot of his pandemic-era customers, Eaton learned a lot about what consumption lounges should offer their patrons and says communal, weekly events have become his top performing nights.

“It’s just this crazy night of all of these socioeconomic groups coming together and having fun in one place,” he says. “You see a 30-year-old macho guy sitting next to a drag queen and sharing a joint, laughing and having fun — I mean nowhere else does that happen — and that happens every Wednesday (at the Vault).”

Eaton says revenues double on bingo Wednesdays, and ticketed events see an even larger return. However, he says, the absence of an in-house kitchen, or even the ability to have a barista, is holding the business back from being truly realized. He says it’s important that regulators understand that cannabis consumers do not parallel alcohol consumers and that these businesses simply need more than what the state is allowing them.

“The consumption amount is way less — and I mean, way less — than alcohol,” Eaton says. “With alcohol, you could sit there and drink four or five vodka tonics in the course of two and a half hours, but you’re not going to smoke four joints.”



Four Twenty Bank Dispensary & Lounge

Palm Springs, California

More than just a clever name, the Four Twenty Bank Dispensary & Lounge is not just a former bank that was converted into a cannabis retail store and consumption lounge, it's also a venue that has already seen acts like the hip hop group Kottonmouth Kings and country music star Aaron Lewis, as well as a number of cannabis influencers.

"After having a cannabis store in the Coachella Valley for 10 years or so now, I wanted to do something more and I found a way to do it that brings in everyone to have a good time," says owner Julie Montante. "We've had a lot of great entertainers and we have a lot of stars that come by and hang out. It's just a lot of fun."

While the lounge is regularly booking acts to draw in customers, nearly every event is free, Montante says. For larger acts, like Aaron Lewis, the lounge will sell tickets, but Montante says she doesn't want to keep anyone out. In addition to live entertainment, the lounge houses numerous other amenities such as pool tables, arcade games, nine flatscreen televisions, weekend barbecues, food service from several partnering restaurants, weekly events, seasonal events, consumption equipment rentals and will soon open the private rooms on the upper floor of the lounge to host vendors looking to meet the lounge patrons.

"The only thing we can't do is alcohol," Montante says.

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Kalkushka Lounge

Kalkaska, Michigan

Unlike most consumption lounges that are currently open, the Kalkushka Lounge in Kalkaska, Michigan, only sells access to legal consumption for a small entry fee.

"We do ticketed events," says Kalkushka Lounge general manager Chris Atteberry. "A big thing that I do here is our comedy and our music. At our big events, I get sponsored by a cannabis company that'll come in and just pass out products."

While the lounge isn't allowed to sell cannabis products, growers and brands can give it away to patrons. Atteberry says product giveaways have become somewhat of a regular occurrence at the lounge due to the large number of growers in the greater Kalkaska area. He says the sponsored events and giveaways are mutually beneficial as brands and growers can easily promote their products while adding value for patrons visiting the lounge on a random night or for one of its larger events. But free products are still an added value and patrons still bring their own supply or visit the lounge's neighboring dispensary, which does deliver, to make sure they have something to consume.

Another factor that separates the Kalkushka Lounge from similar businesses in other states is its ability to sell food. Atteberry says the lounge doesn't do much in terms of made-to-order menu items, but it offers drinks, snacks like chips and pizza by the slice. Plus, like lounges in other states, food can always be delivered. No alcohol is allowed, but Atteberry says he wouldn't want to have to include it as it would only take away from the lounge's unique atmosphere.

"I love the fact that alcohol and cannabis are separated, because I honestly think that once that mix starts to happen, you're going to have a lot more overconsumption and you're going to see the negative side," he says. "To me, right now, everything is going well but if they incorporate liquor, obviously, attendance is going to increase. But I don't know that that's going to be a good thing necessarily for the business."

Atteberry says there's almost always an event of some sort, even if it's as simple as tarot card readings or trivia. The standard entry fee to the lounge is \$5.

Meanwhile in Vegas...

Even as numerous consumption lounges are opening their doors in major cities like Los Angeles and Chicago and comparatively remote cities like Fairbanks, Alaska, and Kalkaska, Michigan, the city of Las Vegas — known for its massive hospitality industry — is struggling to get operators up and running.

"We've been riding out these regulations since 2017," says Chris LaPorte, a managing partner for the upcoming Reset consumption lounge that is waiting to open inside the Thrive cannabis dispensary in Las Vegas. "We know what we want, we have what we want, but we have a lot of rules and regulations to get around. The reality is — and I've done business in other states — in Las Vegas we have just a much higher barrier to entry."

LaPorte says the latest and perhaps largest barrier to entry was the requirement for lounges to have a ventilation system capable of 30 air exchanges every hour, which he says is double the amount required for cigar bars in the city and five times as much as regular smoking bars. The Nevada Cannabis Compliance Board agreed to loosen the air-ventilation requirements, settling on 20 air exchanges every hour, and issued three conditional permits to lounge operators on June 20, 2023. LaPorte says the delays were "almost" a blessing in disguise as he has watched other lounges open and has seen their pain points — particularly in staffing and entertainment. He plans to capitalize on Las Vegas' massive entertainment industry by incorporating it into the lounge's design.

"If there's nothing else to do but just smoke in a room, yeah, you might get stepped out of some money," LaPorte says. "But if you provide a show as a ticketed event, you could still find a way to ensure that you have a good, happy and educated staff."

In addition to ticketed entertainment such as music acts and comedians, Reset is also planning to offer food service.

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Coachella Canna Club

Coachella, California

Armen Paronyan describes opening his consumption lounge, the Coachella Canna Club, as a “long, hard battle.”

“Hospitality and cannabis are gonna definitely meet somewhere, but right now it’s been a tug of war,” Paronyan says. “One of the neighboring cities has banned indoor consumption and it’s turning into a thing. There’s also some bills in Sacramento right now trying to stop the food service side (of consumption lounges).”

The Coachella Canna Club opened in April in a former nightclub that was built to house a dispensary and onsite restaurant that each operate separately. Paronyan says commercial kitchens are strictly prohibited for consumption lounges in Riverside County, but having the former nightclub divided like a small cannabis mall circumvents the restriction.

Because Paronyan is the owner of the LA Cannabis Club, a chain of three dispensaries around the greater Los Angeles area, and three cultivation sites, he is able

to create his own menu of ready-to-consume products for the lounge that are sold solely by its neighboring dispensary, such as 1-gram flower packages for each of his strains as well as offer competitive pricing for the lounge’s customers.

“We also have a brand appreciation day where brands can set up and give vouchers for \$1 or a penny so people can just go across to the store and get a sample of that brand,” he says.

With a capacity for 172 people in the lounge, Paronyan is also looking to set up a ticketed events schedule for the business and plans to capitalize on the numerous musicians that travel through Coachella annually. He is also planning to host a movie night, which, according to the data analytics firm New Frontier Data, is the most popular post-consumption pastime (56% of consumers regularly engage in movie-watching after consuming cannabis).

“People will be able to get popcorn, drinks and watch a movie together and smoke,” Paronyan says.

Good Titrations

Fairbanks, Alaska

Good Titrations in Fairbanks, Alaska, is cannabis lounge, a dispensary, a grow operation, a restaurant and, weather and talent permitting, an entertainment venue. Customers entering the horseshoe-shaped building, which was formerly a Chili’s restaurant, can head left of the greeting desk for the cannabis retail store or right for the lounge, which includes a cultivation viewing room and a restaurant.

“It’s designed like a coffee shop and a cultivation viewing facility,” says owner Brandon Emmett. “On the left walls are windows to let you look into the flowering room from our hydroponics grow. We’re pretty proud of it because it’s cool for people to get to see the product being grown, being harvested and then be able to see it on the menu.”

While the lounge was designed like a coffee shop, the flatscreen televisions and bar at the center of the space definitely convey a sports bar feel — and the lounge is embracing it, hosting viewing parties for sporting events like March Madness.

“We have a lot of young, working-class people in the 21 to 27 range, that are our customers at night and on the weekends,” Emmett says. “We’re kind of like a sports bar. We’ve got like 12 flatscreen TVs, we play basketball, football, rugby, wrestling, a lot of non-tra-

ditional sports, surfing, that kind of stuff. There’s a big group of guys that come in to watch basketball because they don’t drink but they smoke.”

During the day, the lounge gets a lot of older veterans who come in to get a coffee, read the paper and smoke a joint, but his best customers are retired police and military veterans who come in for their usuals.

However, Emmett has had a hard time finding hospitality workers to staff the lounge, even though he’s friends with many bartenders and bar owners.

“The most charismatic bartenders in this city ... I just can’t pay them enough to make up for the tips that they make selling alcohol and selling pull tabs,” Emmett says. “So we try to really incentivize people to stick around, but stoners just don’t tip as well as beer drinkers.”

While alcohol may be off the menu for quite a while, Emmett is looking to draw more customers in by hosting weekly events and booking entertainers as they travel through the city.

“We find that when we have events the café just kills,” Emmett says. “When we don’t have events, the café is just like any other coffee shop. You can only sell so much marijuana and people are only going to drink so much coffee, so you’ve got to get butts in seats.”

ADDING HOSPITALITY TO MARIJUANA

Consumption lounge consultant Sara Stewart details some of the broader issues facing the industry's newest segment

BY PATRICK WAGNER

Consumption lounges are on the bleeding edge of the cannabis industry. The new industry segment has little history outside of Amsterdam, and with the varied state regulations limiting how the businesses operate and what they can offer, operators are left with practically nothing to model themselves after.

The knowledge gap on launching and operating a consumption lounge is massive for nearly everyone in the industry — except for Sara Stewart, who has already opened lounges in California and Illinois and is parlaying her experience into her role as president of Ritual, a business development firm focused on consumption lounges.

Stewart helped open the Lowell Café (now known as the Original Cannabis Café) in West Hollywood, California, which was the first licensed consumption lounge in the country, and the RISE Cannabis lounge in Mundelein, Illinois, and is currently helping develop numerous lounges in different states.

Marijuana Venture spoke with Stewart about the current state of the industry's newest segment, where it is going and what is holding it back.

MARIJUANA VENTURE: You are in a unique position since you've already helped open a couple of consumption lounges. Is that correct?

SARA STEWART: Yes, I did. I've been in hospitality for 15 years, and I was basically poached from Tao Group, a very large hospitality group, to open the first cannabis restaurant of its kind in West Hollywood. That was quite an experience. I learned Metrc from a restaurant standpoint as opposed to retail. It was very different and kind of changed my perspective on what these places



need to succeed. And being first to market is often first to mistake. So I'm actually very grateful that I got to be in that environment, to learn from it.

MV: Why are you so excited about Nevada?

STEWART: The regulations and the opportunity. I think the amount of people that are going to be building something in such a busy tourist destination will normalize this experience for

the first time. Some of them are going to be able to be open 24 hours, which is insane. It's something we haven't seen yet.

But most importantly, every single one of them is, in some fashion or form, a multi-use space that is a restaurant, a dispensary, a non-cannabis-related retail store and then a venue. We've got so many revenue streams coming out of these experiences, but they're just giant concepts at this point.

MV: You mentioned that a number of people are skeptical that lounges can be profitable. Where do you think that disbelief comes from?

STEWART: If you think about it, the top 10 multi-state operators, let's say, are all very retail focused. Their bread and butter is retail. A lot of them think they're going to build the most beautiful retail store and then throw a little smoking room behind it. That's sort of like being a liquor store and thinking you're gonna build a café behind it. You don't do that. You buy a café, or you buy a restaurant. So they're not thinking about this in the right way.



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Pain Points

While the consumption lounge segment of the industry is still very much in its infancy, consultant Sara Stewart and the majority of operators interviewed for this feature have already identified several pain points stymying the lounge business model.

FOOD SERVICE: Possibly the biggest no-brainer addition to any cannabis consumption lounge would be onsite food service as marijuana infamously give people “the munchies.” Food service is available at several lounges, but it’s not universal, or even legal in some municipalities.

PORTIONS: Most cannabis products are simply not sold as single use items. Lounges need appropriately portioned and priced menu items such as mixed drinks or made-to-order infused foods that go beyond 1-gram joints or buds.

ENTERTAINMENT: Lounges have to offer more than just a place to legally consume cannabis, but not all of them can legally offer much more than boardgames, television and wi-fi. This leads to groups of customers buying a single item, occupying a table for about an hour to consume it and then leaving. Live entertainment has been working for many lounges, and some operators are looking to develop a steady calendar of ticketed events as a supplemental revenue stream, but regulations haven’t allowed or, in some cases, clearly defined entertainment options for operators.

ALCOHOL: Mixing alcohol and cannabis is not a new idea. While it’s true that allowing alcohol anywhere will inevitably increase the number of intoxicated drivers on the road, adding it to cannabis lounges would at least put it in a more controlled environment since many bars already have parking lots littered with empty cannabis packages. Allowing alcohol sales would also give operators a more reliable revenue stream and broader public appeal.

TIPS: Tipping is a huge part of the hospitality industry, but customers can’t just open a tab at a consumption lounge the same way they would at a bar or restaurant.

Splitting food and each cannabis purchase into separate tabs lowers the average check, which lowers the potential tip for servers — and potentially increases turnover among servers. Hospitality workers rely on tips as a substantial part of their income and operators need to either find a way to consolidate checks to get employees larger tips or compensate them with higher wages. For now, many operators say they have been struggling to find experienced hospitality workers for their lounges.

Even the products sold in these lounges are made for take-home use and for multiple servings, whereas with alcohol, pubs came before liquor stores, so we knew what a single serving looked like. We knew how to control the environment. We’re a little opposite in the cannabis space in that regard.

MV: The novelty of public consumption will definitely bring some people in to consumption lounges, but do you think it’s enough to keep them coming back?

STEWART: Retention is a big thing in this space and in restaurants in general. If people come once, how do businesses keep them coming back again and again. That’s definitely something we’re paying a lot of attention to and trying to compete with hospitality groups in general, not just cannabis industry.

MV: Do these businesses need additional amenities to draw in consumers? Who are they targeting?

STEWART: Absolutely. And a lot of these places, especially in San Francisco, where you find a lot of them, or even the Palm Springs area, are pretty targeted toward men. You don’t really see a lot of women going into them. They are a little bit more catered to the “stoner-bro culture.”

MV: Are musical acts and comedy shows getting a lot of traction in cannabis lounges?

STEWART: One of the demographics that we target heavily are the entertainment goers, because there’s definitely a demographic of people who probably won’t go to a lounge on a daily basis to eat a meal and smoke with friends, but they’ll go for an event or something unique and different. I wouldn’t say that, by itself, is a solid business model, but having these concepts is absolutely targeting those people and keeping the event programs busy.

MV: Was there anything that you were really surprised by when you transitioned from hospitality to marijuana?

STEWART: I don’t know if I’m surprised by really anything these days. I was already a consumer, but I was surprised at how much people are willing to put up with to consume in public. I was like, well, people are willing to stand outside for three hours and wait in line to come into this establishment and smoke weed with their friends.

This interview has been edited for length and clarity.

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