

BOUTIQUE CANNABIS ON A

BIG SCALE

BY CRYSTAL HAMMON

Grow Op Farms' Robert and Katrina McKinley talk about how they have reached the No. 1 spot in Washington's challenging marketplace.

There's a common perception in the cannabis industry that all larger operations are run the same: Fill a room with plants and harvest the heck out of it. If that's true, then Grow Op Farms LLC—the largest Tier 3 producer (which allows for 10,000 to 30,000 square feet of plant canopy) in the state of Washington—is an industry renegade.

"We like to think of ourselves as a large-scale boutique," says Robert McKinley, the chief executive officer of Grow Op Farms, which is also known as Phat Panda, the name of its popular product line and parent company.

As entrepreneurs who built their first successful business as marketing experts devoted to helping other companies thrive, McKinley and his wife Katrina had one clear advantage when they decided to begin growing cannabis in 2014: They knew how to grow a business.

But neither knew anything about farming in general nor growing

ABOUT...

GrowOp Farms

LAUNCH DATE:
September 2014

LOCATION:
Spokane Valley, Wash.

CULTIVATION SPACE:
30,000 square feet

PRODUCTS:
Flower, edibles,
concentrates

**ESTIMATED
PRODUCTION:**
1 ton per month

EMPLOYEES:
370

PHOTOS BY J. CRAIG SWEAT PHOTOGRAPHY

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cannabis in particular. So the serial entrepreneurs started by hiring star players. One of their first and most important recruits was Andrew Guy, Grow Op Farm's head grower. "The interesting thing about growers is that they all think they have the most awesome strains and the best way of doing things," McKinley says. "Andrew, though, had a unique perspective and reasoning behind the strains he grows."

At any point in time, you can find up to 80 strains of cannabis being cultivated at Grow Op Farms. Each strain is carefully selected based on criteria such as appearance, potency, cannabinoid and terpene content, flowering time and, perhaps most importantly, potential consumer demand. McKinley credits Guy with introducing the company's best sellers—OG Chem and Golden Pineapple. "They're both amazing strains," he says. "Both have super high THC, great flavor, and people love them."

In pursuit of high-quality cannabis, Guy is always looking for popular strains to help Grow Op Farms maintain market dominance. "We've got multiple phenotypes of 35 different strains being tested right now, and we're ready to start another four or five in the next couple of days," Guy says. "We keep our seed projects running continually. Every other month, we'll test another half dozen strains."

Grow Op Farms has 26 flowering rooms where cannabis is grown in a coco coir mix, fortified with Emerald Harvest nutrients. Each room is tended by an eight-member team and produces five to six harvests per year. A dedicated environmental services team keeps the facility clean, and it has a trained team of scouts whose sole job is to watch for potential problems with each crop. "It's extremely labor intensive," Guy says. "But that's the trick to growing good, clean cannabis. Everyone needs to be clean, so the No. 1 thing we practice here is cleanliness."

McKinley says growing a large volume



of premium cannabis in an indoor environment isn't easy, making it all the more important to be relentless about simple principles, such as knowing your plants and organizing your space for yield, in addition to cleanliness.

Here, *Cannabis Business Times* contributor Crystal Hammon interviews Robert and Katrina McKinley about Grow Op Farms' significant growth in a challenging market—the company has generated more than \$33 million in sales since its launch in September 2015, according to 502data.com, and ranks (at press time) in the No. 1 spot among producer/processors in the state. The duo also share their insights on branding, product lines and pricing, and how they work closely with retailers, including the company's call center that actively sells and upsells to existing customers.

I have owned a marketing company since 2005. We have friends who own a chain of head shops. ... In 2012, when Washington passed laws to legalize and regulate marijuana, [my friend] called me and said, 'Hey, I'm going to try to get some retail licenses. You should grow.' I laughed because I've never grown anything. I don't even think I have a live plant in my house. ... We rented a building and started interviewing growers. The rest is history, really.

CH: What made this a compelling business proposition?

RM: I'm only 40, but I've always paid attention to all sorts of business wisdom. My mentors taught me that if you're early ... and good enough in a market that ... has a prohibition lifted, you can be a pioneer in that space and have potential for a great income and market dominance. ... It seemed like a good investment, so we took the plunge.

CH: You've had an extraordinary degree of growth since you started Phat Panda in 2014. How did you achieve that?

Katrina McKinley: One of the things that

“ABOUT 70 PERCENT OF OUR SALES COME FROM FLOWER. WE'RE THE LARGEST FLOWER PRODUCER IN THE STATE BY VOLUME.”

Crystal Hammon:
How did you get involved in the cannabis industry?
Robert McKinley:
My wife Katrina and



CEO Robert McKinley inspects plants in the company's mother room, where all genetics for cloning are kept. At any point in time, up to 80 strains might be being cultivated at Grow Op Farms.

set us apart as a company was the friends we had in the industry. ... We started asking our friends, 'Okay, what's the price point that is going to work for you guys?' This was back when prices were higher than they are now—in the \$10 to \$11 per gram range.

When we came into the market, we knew these prices weren't working for retailers or customers. The goal of the legalization experiment was to rid Washington of the black market for cannabis. When your product is twice as expensive as the black market, you're going to have a really hard time driving customers away from the existing market.

We came into the marketplace at \$5 per gram, which pretty much took the market and snapped it in half. That, along with having a really high-quality product, really changed the marketplace and allowed us to grow quickly.

CH: How did that affect supply and demand?

RM: We had been growing for five or six months, so we had a pretty good stock of products to meet our demand. We started

with 16,000 square feet of growing space and added a 14,000-square-foot expansion, completed in September 2016. That makes us the first Tier 3 indoor facility built to full capacity.

CH: Talk about packaging and branding.

KM: We package in glass; we don't use bags. We felt bags offered poor presentation and storage of the product. People squash them, and it can damage the flower inside.

Our presentation, marketing and branding are right at the edge of what we can do to be exciting without stepping over the line [or] appealing to children. ... We feel like we do a better job than any of our competitors as far as creating a brand. If you were to ask people in Washington to name a cannabis brand, we're probably in the top two.

CH: There are three different brands linked with Grow Op Farms. Can you explain how you differentiate and use these brand names?

KM: The farm is called Grow Op Farms. The Phat Panda, Sticky Frog and Hot Sugar brands are all licensed to our farm for distribution, and Phat Panda, LLC owns them.

FAST TAKE WITH...

ROBERT MCKINLEY

Biggest challenge launching or maintaining a cultivation operation:

"Capital and taxes. It costs more than anticipated, and the taxation is terrible."

Biggest challenge as the CEO of a cannabis cultivation business:

"Growth management. Building something lasting. Dealing in a consumer market has its challenges. We have to be extremely aware of how we are perceived and make sure that we stay ahead of our competition."

Favorite aspect of your work:

"We get to grow cannabis!"

Something about operating a cannabis cultivation business most people wouldn't know:

"Farming [in general] is not easy. Managing people [we have 370 employees] is a full-time job. Logistics and processing the final products is quite a task!"

Best business decision you've made:

"Build the company around our Phat Panda line. Also hiring the right growers with the right strains/knowledge."

Best cultivation secret that's impacted your business's success:

"We built our facility to have product harvesting all year long [up to 20 harvests a month]; this way we are never off the shelf in the retailers. No one can take your shelf space if you never leave the shelf."

Any advice you can offer other cultivation businesses:

"Make sure you have enough capital. And grow good—great—cannabis. If your products aren't the best or near the top in a category, you will have a hard time."

Phat Panda is primarily for flower. The popularity of our Phat Panda brand made it easier to launch secondary products because the consumers already trust us. You can think of Phat Panda as the parent, and the other brands as children.

The first child was Sticky Frog, our concentrate brand. Our vape pens, shatters, sugars and any kind of concentrated oil go out under the Sticky Frog brand. The oils are sticky in their consistency—hence the name

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LEFT: The processing room at Grow Op Farms, where an employee inspects labels for accuracy.
RIGHT: One of the company's 26 flowering rooms. This one is filled with Space Queen, shown here at six weeks of its eight-week cycle.

Sticky Frog.

Hot Sugar is our edible line. It includes infused and flavored sugars, hard candies, and hard and soft caramels. ... We have chocolate coming out soon.

We don't do tinctures, balms or ... skin care products. That's a small market segment, and [when] we look at where we're going next, we always want to go where we can get market share.

CH: How much of your sales are linked to each brand?

KM: About 70 percent of our sales come from flower. We're the largest flower producer in the state by volume. The remaining 30 percent is split between edibles and oils, all depending on how much product we have of one or the other.

CH: Coming from a marketing background, you bring some definite ideas

about how branding can work. Can you share more about your thinking?

RM: We are always looking to the future. If we eventually want to work in other states, it helps, from a licensing perspective, to have market share garnered from multiple names or products that may appeal to a certain demographic.

When I started my marketing career, ... I learned how memorable animals are. Almost any brand you can think of has an animal attached to it. With Budweiser, you have the horses. With Bud Light, you had

Spuds MacKenzie, the dog. We attempted to combine animals with word play in our brands.

My wife named the Hot Sugar brand. ... The "Hot" is a reference to the THC—not the temperature. By hot, we mean that it's not plain sugar.

In our branding, we look at market trends and try to find things that are catchy.

CH: What do you think has contributed most significantly to your success?

KM: We are very proactive about trying to glean as much information as we can from our retailers to predict what they need to order and what we need to grow. Obviously, we're moving our product, but that doesn't mean it's all moving from the retailer's standpoint. We want to know what's selling and what's not. If we have a strain that isn't hitting the marketplace the way we want, we remove it.

We want to have constant conversations with retailers so they know we're here for them. ... We are flexible and happy to make things right for any customer. I think that sets us apart.

I take care of all of the customer support e-mails. If someone buys a product and they're not happy with it, I am the one who contacts them and takes care of whatever issue they may have.

We want them to feel that they're getting the best possible customer service. And we go above and beyond in replacing products or doing what we can to make



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“WE HAVE A CALL CENTER, WHICH I THINK IS THE ONLY ONE OF ITS KIND IN THE STATE. ... IF WE CAN, WE UPSELL THEM ON PRODUCTS THEY HAVEN'T ORDERED FOR THREE OR FOUR WEEKS.”

those people comfortable continuing their relationship with our brand.

CH: How have you made technology work for your business?

RM: Our team of programmers has helped us leverage market knowledge with a first-class ordering/distribution platform for customers. We've used it to build a really good understanding of our customer base. We have different kinds of product available there, including real-time inventory, which is available on a first-come, first-serve basis. We also have allocated inventory, where certain stores get certain products because we know what they buy.

We have a call center, which I think is the only one of its kind in the state. We draw reports from our customers' last four weeks of purchasing history. If we can, we upsell them on products they haven't ordered for three or four weeks, and we try to make sure they're moving through product. We're very, very active in making contact with our retailers to get sales.

CH: Tell us more about your facility.

KM: We're in a [85,000-square-foot] facility with 30,000 square feet of canopy space. Our grow rooms are stacked in two stories, with 16,000 square feet on one level and 14,000 square feet on the other. ... There was another cannabis cultivator next door to us that has since failed. Before they went out of business, we coached and partnered with them, and now, they're contracted to grow for us. So we actually have access to two 30,000-square-foot facilities.

CH: How has that partnership worked?

KM: We worked with them to improve their procedures and build a better facility that could provide us with the quality product we need. They're adding an extraction lab, so we can do everything in our building. We buy a lot of our products from them, so we have a vested interest in seeing them succeed.

CH: What is your company's approach to pest management?

RM: We use pyrethrins and beneficial bugs. I think we're one of the only farms in the state that tests every one of our rooms before harvest, using an accredited third-party company. We provide a link to those results on Facebook and Instagram so anyone can review the results for every harvest.

CH: What are your expansion plans?

KM: We have zero plans for expansion right

now, but we can have another conversation later this year, and maybe we will have a different answer for you. Our only goal is dominating the market in Washington.

When you're the biggest in the state, our story is easy to tell, right? If you're the fifth-biggest, it's not so easy. So we want to make sure that we are in a dominant position, and we don't take our eye off the ball too soon.

CH: What have your greatest business challenges been?

RM: Managing employees is the most difficult part of owning a business. My wife Katrina is one of the biggest reasons for our success because she manages our brands and our employees. She is well-loved because she's a champion for them.

We have 350-plus people and that's a lot of human resource issues to worry about. Last year we rented a water park and invited employees to bring their families. When you get 2,000 people in a space like that, you really see what you're touching, and you realize that you had better make this work because there are 2,000 people who rely on us.

CH: Any tips that you can share for other cultivators about how to launch and how to approach some of the challenges inherent to the cannabis industry?

RM: If you're not vertically integrated, make some friends that own retail stores. You can get information in a much quicker fashion. *



Packaging (shown here) and branding/marketing has been critical to Grow Op Farms' success. Its Phat Panda line, for example, reflects the owners' marketing background and belief that memorable brands often feature animals.