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Medical Marijuana: A Grass-Roots Business Issue Grows in Colorado

By [BRUCE KENNEDY](#)Posted 9:00 AM 08/02/10 | [Economy, Health Care, Retail, Small Business](#)
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Colorado is no stranger to the debate [over legalizing marijuana](#). Medical marijuana has been legal there for a decade now, and storefront medical marijuana dispensaries have popped up like, well, weeds along the state's Front Range -- the majority in Denver and Colorado Springs.



Chris Hondros/Getty Images

Demand for the product has soared. [More than 100,000 people](#) have reportedly registered in Colorado as medical marijuana users -- a pretty large number in a state of 5 million. And, of course, many budding entrepreneurs and avid weed fans have sniffed out a business opportunity. But as the market has grown so have concerns that some not-so-savory characters are profiting from the boom.

As a result, Colorado has enacted new laws aimed at regulating the state's estimated 1,100 medical marijuana dispensaries. Convicted felons, for example, won't be allowed to operate a dispensary -- a rule that the Drug Enforcement Agency estimates will force some 18% of the state's dispensaries to close, [according to the Associated Press](#). Dispensary owners also must apply for a license by Aug. 1 and fork over thousands of dollars in fees to secure that license.



Bruce Kennedy

Push-Back in Aurora

For some municipalities, especially in this time of economic downturn and strained budgets, the idea of new tax revenue from medical marijuana can be very tempting. Marijuana is, of course, still illegal at the federal level, and this current boom has been compared to the days of Prohibition -- when some cities and towns turned a blind eye to the illegal consumption, and often profitable production, of alcohol.

"You have to balance social objectives with economic objectives," says Robert McGowan, a professor of management at the University of Denver's Daniels College of Business. "This is a classic case study in the pull-and-tug between the social issues about whether it should be available -- the medical aspects and the like -- and then the economic ones in terms of the amount of revenue, taxes, etc."

But not every community has embraced Colorado's acceptance of medical marijuana. Voters in Aurora, just outside of Denver, will consider whether to ban dispensaries in their city in a November referendum. Aurora City Attorney Charlie Richardson is skeptical that medical marijuana is the goldmine some people claim it to be. He points to the time a decade ago when gambling was legalized in some Colorado mountain towns.

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"Right after you had the authorization. . . in Colorado for casino gambling, you had a lot of casinos open, and over the first couple of years you saw the thinning out of financially unsuccessful casinos, to the point where the situation has stabilized," he says. "I believe it's too early to tell whether the current medical marijuana model will prove to be financially viable on a wide basis."

Some Opening With No Business Acumen

McGowan sees a parallel to the dot-com bubble of the 1990s -- when it seemed like everyone was trying to set up an Internet-based business. In this case, however, you have a legion of pot aficionados trying to cash in on their favorite buzz.

"Frankly, some of these people who have opened these dispensaries have no business acumen," McGowan says. "[They] have simply thrown open the doors -- 'If you build it they will come.' They are getting into it from the product standpoint, but from the actual business aspect, these are pretty much neophytes when it comes to the issue of running a small business."



Bruce Kennedy

In fact, some students in McGowan's MBA program are developing a consulting practice to help dispensary owners with the day-to-day aspects of keeping their businesses puffing along. "They said we have business savvy, and these people have to know how to run a business," he notes. "They're fleshing out the business plan, they're looking at the market, they're looking at how to price it, that sort of thing."

McGowan expects that the medical marijuana industry will shake itself out and will probably end up like the sale of fireworks -- where consumers cross state lines to get what remains illegal at home -- while having little to no effect on the trafficking and sale of illegal marijuana. Medical marijuana, he says, is "emotionally charged, it's risen to an issue, it's polarizing; you find very few [people] neutral on the issue. I think the horse is out of the barn, now the issue is how strict are we going to be in allowing this to take place."

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