

# Effective Risk Management Strategies for Cannabis Supply Chains

Risk management is among the most critical tasks for any business owner, and businesses within the cannabis industry are no exception. Instead, risk management is paramount in the volatile cannabis industry for people in every sector, including cannabis supply chains. Here are a few practical strategies and tips for covering your exposures and reducing your risk in cannabis supply chains.

## Understanding the Unique Risks of Cannabis Supply Chains

The cannabis supply chain transforms cannabis from raw material harvested from the plant into finished products for dispensaries. This process includes harvesting, trimming, transportation, packaging, testing, and distribution.

The cannabis industry is a volatile one, rife with business risks. Some risks, like cybersecurity threats, are standard across any industry. In today's digital age, a business with any information stored in the cloud is at risk for a cyberattack. According to IBM, the risk of a cyber attack is less of an "if" occurrence and more of a matter of time: 83% of companies will face a data breach at some point, and attacks were up 41% in 2021.

But some risks are specific to the cannabis industry, like regulatory inconsistencies and transportation concerns. Despite the spread of legalization, the stigma surrounding cannabis is pervasive, and the product carries a high street value in any form. Product quality concerns are a particular issue for the cannabis supply chain, as any business that touches the product can be named liable if something goes wrong for the consumer.

All of these risks can be nerve-wracking for the average business owner. Having product stolen from the road, your cloud data hacked and stolen, or being named in a product lawsuit can all have a negative ripple effect on a business's stability and long-term viability. But you don't have to live with unmitigated risk.

## Implementing Risk Management Solutions in Cannabis Supply Chains

Doing business in the cannabis industry comes with specific risks, but there's no need to reinvent the wheel to deal with them. One strategy that canna-business owners can execute to ensure long-term success is to have a risk management plan.

A risk management plan names all the risks your business faces and the areas where you face exposures. By documenting these risks and compiling them all in one place, you can deal with them. In your risk management plan, you should assess your risks and determine which ones are the cost of doing business and which are unacceptable. By separating your risks into these two categories, you can then make a plan of action that allows you to implement fail-safes, best practices, and other risk mitigation strategies.

For example, if your risk management plan lists cybersecurity, product quality assurance, and regulatory compliance as three risks you must manage, you could take the following actions:

## **Cybersecurity**

Standardize cybersecurity best practices. Too many malware attacks are allowed through because of employee errors. Your business can host training around cybersecurity best practices, have secure data management systems, and conduct regular cybersecurity audits.

## **Product Quality**

Create and implement a robust quality control system. While you cannot control where a product comes from or where it goes after it leaves your business, you can ensure that your company takes every precaution possible to ensure product safety and consistency, with records to prove it.

## **Regulations**

Set aside a time block regularly to stay on top of evolving local, state, and federal regulations. Reading through policy documents isn't how any busy business owner wants to spend their time, but only by knowing the latest version of the regulations can you give your company the best chance of staying compliant.

## **Insurance Policies to Safeguard Against Risks in Cannabis Supply Chains**

One of the most critical aspects of risk management is having the right insurance policies in place. If you have a carefully crafted network of coverage, your business can weather most storms without worry. Insurance policies are one of the simplest ways to cover your exposures and protect your bottom line.

Each business requires a custom suite of cannabis insurance, but there is overlap from business to business with some policies that are important for everyone.

### **Product Liability Insurance**

Most cannabis companies offer customers some service or tangible product, but it's not uncommon for a product or service to "fail" or fall short of customers' expectations.

Customers often take legal action against your product or service, claiming bodily injury or property damage. Product liability insurance protects your company against lawsuits alleging injury or damage caused by your product or service. This policy helps cover affected customers but also protects your cannabis company against costly litigation, frivolous or not. Plus, since the federal government doesn't regulate testing or manufacturing in the cannabis space, it's essential coverage for this industry.

### **Property-In-Transit Insurance**

Most property policies limit the coverage territory to just 100 ft. away from the designated premises. However, a Property-In-Transit enhancement will offer coverage for the property being transported, protecting cannabis inventory as it moves from one location to the next.

### **Cyber Liability Insurance**

US data breaches cost an average of \$4.24 million, so all-sized cannabis companies should have cybersecurity top-of-mind. Loads of personal identifiable information (PII) are stolen yearly, resulting in third-party lawsuits, fines, and penalties from regulators.

Unfortunately, over half of these vicious attacks happen because of employee mistakes, making the breaches and subsequent losses avoidable. Cyber insurance is an evolving policy that helps protect companies against the damages sustained in a cyberattack. Consider the cost of data restoration, credit monitoring, and reimbursement for income lost and payroll spent — it's astronomical. However, this policy is designed to cover these specific damages.

## **Building a Solid Ecosystem of Partnerships for Enhanced Risk Management**

No business in the cannabis industry is an island. And who you work with can help (or hurt) your business' long-term chances of success. It's crucial not merely to work with the first partners you find. Instead, seek out strong partnerships that can become a solid ecosystem for managing supply chain risks.

Sure, some companies will work with cannabis businesses. But others are deeply entrenched in the industry, familiar with the challenges of navigating regulations and managing the stigmas surrounding the plant. Working with suppliers, distributors, regulatory consultants, and insurers who understand the industry can help ensure a smooth cannabis supply chain experience from seed to sale.

Working with other companies in the industry gives you a leg up because cannabis is tricky, and while it's not wholly different from other industries, it also isn't the same. Creating a robust risk management strategy is one way to set your company up for success, and operating within a solid ecosystem of cannabis partnerships is another.

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