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Impact of Cannabis Licensing on Market Saturation (2018–2023)

Introduction

In the last five years, the U.S. recreational cannabis industry has experienced dramatic shifts in market dynamics. One key question is whether issuing **too many business licenses** contributed to the industry's downturn or "fall." Many observers note that states with **unlimited or very liberal licensing** saw rapid entry of new cannabis companies, leading to intense competition for limited consumer demand. By contrast, states that **strictly limited licenses** created quasi-oligopolies for a few players, avoiding oversupply but raising other concerns. Below, we explore how license caps (or the lack thereof) have affected competition, supply gluts, and the success or failure of cannabis businesses in recent years.

License Caps vs. Open Licensing Approaches

Cannabis regulations vary by state. Some states tightly **cap the number of licenses** for growers and retailers, while others adopt an **open licensing** or free-market approach. The motivations differ: limited-license models aim to prevent market saturation and ensure regulatory control, whereas open models seek to encourage entrepreneurship and avoid perceptions of favoritism in awarding licenses. For example, **Oklahoma's** medical cannabis program took an extremely open approach – at one point, roughly **14,000 new cannabis businesses** were licensed in a short time, as essentially anyone who qualified could get a license [1]. This free-for-all was intended to be fair and inclusive, but it overwhelmed regulators and flooded the market. **By contrast, states like Florida or Illinois** (in its early recreational rollout) strictly limited the number of licensed operators, creating high-barrier markets where a handful of companies dominated supply. Large multi-state operators (MSOs) actually favor these **"oligopolistic" limited-license markets** – markets such as Florida, Illinois, Massachusetts, and New Jersey were explicitly highlighted in one MSO's strategy as attractive because competition was restricted [2]. In other words, with fewer licenses issued, the lucky license holders face less rivalry and can capture a larger market share, generally leading to higher prices and revenues per company. However, this approach has been criticized for reducing diversity and equity in the industry [3] [2], since smaller entrepreneurs and marginalized groups often struggle to win the few available licenses.

Oversupply and Market Saturation in Unlimited-License States

In states that issued **very large numbers of licenses**, evidence suggests the resulting oversupply of cannabis and fierce competition put heavy pressure on businesses. The fundamental problem is one of **supply outpacing demand**. When dozens or hundreds of companies are all cultivating and selling cannabis in one state, total production can rapidly exceed what consumers can purchase, causing prices to plummet. **Oregon** is a clear early example: after the state allowed an *unlimited* number of cultivator licenses (with no canopy size limits), an explosion of production ensued. By late 2018, Oregon's legal market had so much surplus product that wholesale prices crashed and profits evaporated, forcing many smaller licensed businesses to shut down [4]. In fact, regulators reported in early 2019 that Oregon had **enough cannabis in the supply chain to meet about six years' worth of demand** – a dramatic glut [5]. The oversupply was directly attributed to the state approving **too many growers** relative to the market's size.

Other Western states faced similar trends. **Washington and Colorado**, after a few years of recreational sales, also experienced oversupply and falling prices. Both states responded by halting the issuance of new cultivation licenses once it became clear that production capacity was exceeding sales [6]. On the West Coast broadly, a mid-2023 analysis by the Associated Press noted that legacy cannabis-producing states (like California, Oregon, Washington) were "struggling with oversupply, low prices and limited outlets for selling their product," a situation many called **"the failed economics of legal pot."** Producers who thrived in the early "green rush" now found themselves unable to fetch sustainable prices for their crop in an oversaturated market [7] [8].

Michigan offers a more recent case of rapid market saturation. The state's recreational cannabis program (launched late 2019) initially boomed, but by 2022 it had "way too much weed" in production. One report noted Michigan had over **1.2 million cannabis plants in active cultivation – roughly six times the volume in 2020 – and enough growing capacity to supply** three times **what Michigan consumers were actually buying** [9] **. This oversupply led to *plummeting prices* and mounting financial losses for many operators** [10] [11] **. By the end of 2022, Michigan's cannabis industry was in a "funk" despite increasing consumer demand, because** a glut of product and too many competing licensees **cut deeply into everyone's margins** [11] **. In fact, the situation became so dire that some Michigan industry officials began** calling for a moratorium on new cultivation licenses** just three years into legalization [12]. Their argument was that the state needed time to let demand catch up with supply and to give existing businesses a chance to survive.

Industry experts have explicitly linked **unrestrained licensing to business failures**. Economist Beau Whitney observed that in many markets "with the glut of supply, and with so many licenses, it's setting up businesses for failure" [13]. In other words, when *everyone* can get a license, you end up with a crowded field of companies all competing for the same customers, driving prices to unprofitable levels. Whitney noted that by late 2022, very few cannabis companies nationally were actually turning a profit – most were struggling to stay afloat [13]. This sentiment was echoed by producers and trade groups across several mature states. For example, a fall 2022 report from *Marijuana Business Daily* highlighted that **calls were increasing among growers in mature markets to stop issuing new licenses**. Growers pleaded with regulators for a pause on new entrants because "overproduction of flower and depressed prices" were making it *"impossible to survive as a cannabis grower"* under current conditions [14]. Simply put, too many licenses (and thus too much product) had created a race to the bottom.

Consequences of Oversaturation (2019–2023)

The oversupply and cutthroat competition in unrestricted-license states have had several consequences, contributing to what some call the recent "fall" of the cannabis industry in the U.S.:

- **Price Collapse and Thin Margins:** Wholesale and retail cannabis prices dropped steeply in saturated markets. In Colorado, for instance, the average wholesale price per pound of marijuana hit record lows by late 2022 – roughly half the price it had been a year earlier [15]. Similar price declines occurred in Oregon, Washington, California, *and even newer markets like Massachusetts and Missouri* as they rapidly expanded licensing [16]. Falling prices might benefit consumers in the short term, but they squeeze business margins to near-zero. Many cannabis companies found themselves selling product below the cost of production, an unsustainable situation.

- **Company Failures and Consolidation:** With so many firms unable to turn a profit, the industry saw a wave of business closures, layoffs, and distressed sales. By 2023, the shakeout was visible in licensing data – for the **first time ever, the total number of active cannabis business licenses in the U.S. declined year-over-year** [17] [18]. After years of double-digit growth in new licensees, 2023 saw more licenses *lost* (abandoned, revoked, or businesses shuttered) in mature markets than new ones gained in emerging markets [18]. Several early cannabis darlings and multi-state operators pulled back or exited states like California and Oregon due to the inability to remain profitable amid oversupply. An industry analyst described this period as a painful but "healthy reaction" – a natural **consolidation** of an overbuilt market, where weaker players are forced out so the market can stabilize for the survivors [19]. Indeed, mature state markets such as **Colorado, Washington, Oregon, and Nevada all saw net drops in active licenses in 2023**, reflecting this contraction [20].

- **Black Market Resurgence:** One unintended effect of oversaturation and low legal prices is the boon it can provide to the illicit market. When legal growers produce far more than can be sold in licensed stores, the excess often finds its way to unregulated sales (either shipped to states where cannabis is still illegal or sold without state taxes). This undermines legitimate businesses further. States like California have struggled with a *thriving illicit market* siphoning sales from legal retailers [21], in part because the legal supply is so abundant (and taxes are high) that some growers offload product outside the regulated system. Oversupply can thus paradoxically strengthen the very black market that legalization aimed to replace.

It's important to note that **not all cannabis industry challenges stem from licensing alone**. High taxes, lack of access to banking, federal illegality, and regulatory costs (like testing and packaging requirements) also weigh heavily on cannabis businesses [22] [23]. Even in states with limited licenses, companies have struggled if the overall market conditions are tough (for example, limited-license states often face their own issues like very high product prices and slower market growth). However, the **imbalance of supply and demand** caused by over-licensing has been a core factor in the recent struggles. Industry veterans often compare this phase to a classic boom-bust cycle: an initial "green rush" boom where anyone could make money gives way to a **competitive shakeout** where only the strongest or most efficient companies survive [24]. As one University of Colorado analyst put it, cannabis went from a "sure bet" in the early days to a fiercely competitive sector where *"you have to have a lot of business acumen"* to endure [25].

Conclusion

The scenario proposed – that *too many licenses* can lead to an oversaturated market and contribute to the downfall of some cannabis businesses – is strongly supported by recent history. In unrestricted licensing environments, **a glut of producers and retailers** has indeed driven down prices and profits, causing many companies to fail or plead for relief [13] [14]. By contrast, states that kept license numbers low generally spared their businesses from rampant oversupply, allowing each licensed company a larger slice of the market (often at the cost of higher prices for consumers and less opportunity for newcomers) [2]. Policymakers are now grappling with this trade-off. Some are considering *moratoriums* or stricter caps to let the market self-correct, while others push for measures like interstate commerce (which could alleviate gluts by allowing surplus product to be sold out-of-state in the future) [26]. In summary, the past five years reveal that **market saturation from over-licensing is a very real and plausible challenge** – one that has played a significant role in the recent struggles of the legal cannabis industry. Balancing the goals of a free and fair market with the economic realities of supply and demand remains a key challenge as the industry matures.

Sources: Recent analyses and reports on U.S. cannabis markets have been used, including industry publications and news outlets (MJBizDaily, Cannabis Business Times, AP News, Politico, Forbes) that document the effects of licensing policies on market health. Key examples include observations of oversupply in Oregon's open-license system [4] [5], expert commentary on how a glut of licenses sets businesses up for failure [13], and data showing contractions in license numbers as saturated markets shake out in 2022–2023 [18] [20]. These sources collectively affirm that licensing strategy has been a critical factor in the boom and bust cycles of the cannabis sector over the last five years.

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