

# CBD Online

A Guide to  
Understanding an  
Emerging Market



by Nicholas Ruggieri  
Chief Sales Officer



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### Nicholas Ruggieri

Nicholas, best known as Nico to his peers, is Co-Founder and Chief Sales Officer for Pinpoint Payments. With a rich background in e-commerce, fraud prevention, and chargeback management, Nico has spent considerable time helping company leaders grow and optimize their businesses by implementing the right tools, services, and solutions with a focus on CBD and other verticals considered high risk.

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# Welcome

**T**he market for cannabidiol – commonly known as CBD – is to put it simply – exploding. How else can you describe a market with a sales leap of **700 percent** in one year? And the indications are that it's just going to keep going, with an estimated growth of **107 percent** every year until at least 2023.

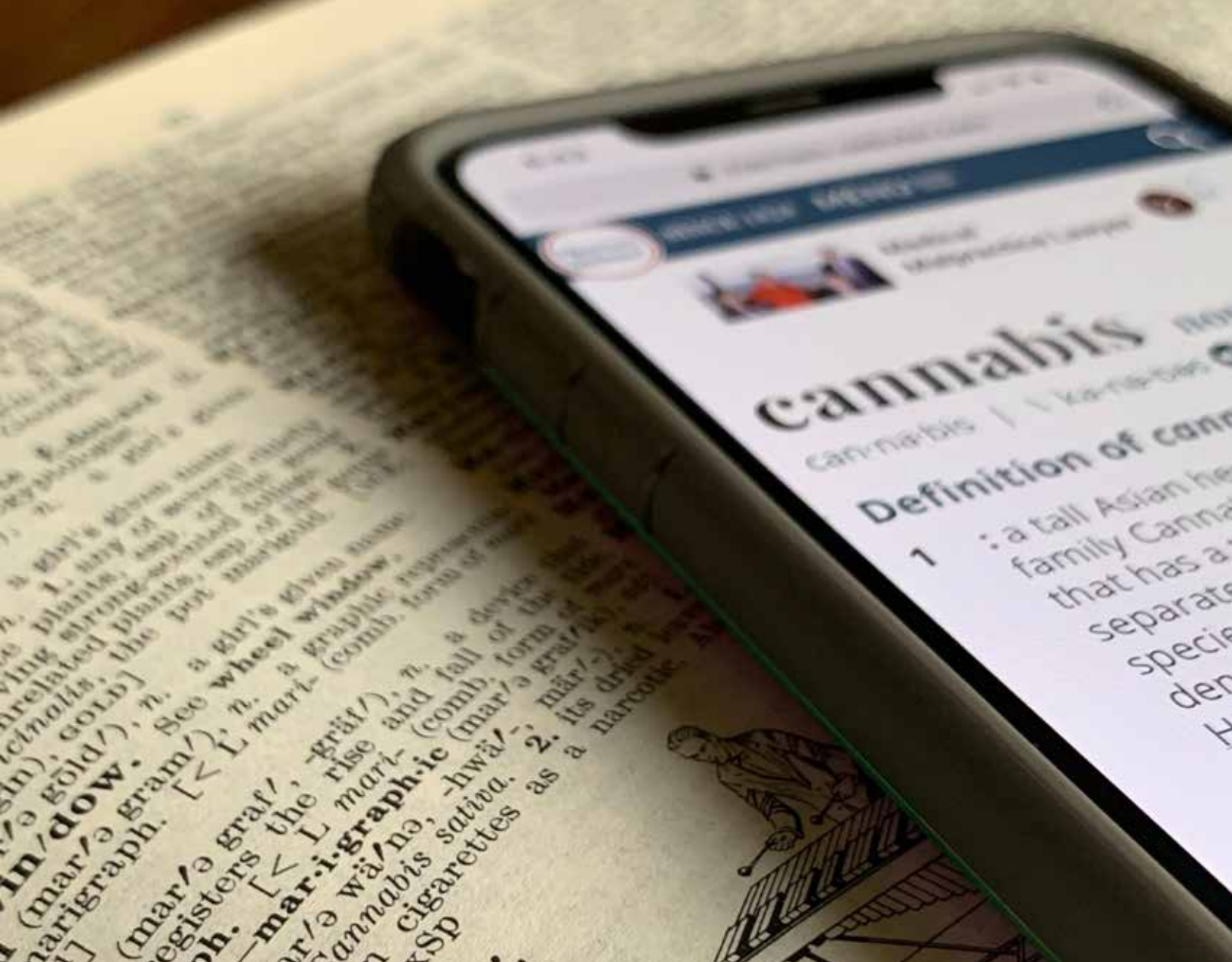


Clearly, there is demand. And, that means there are opportunities for CBD merchants. Many consumers are only beginning to hear about and embrace the potential therapeutic benefits of CBD. They'll be learning even more as doctors and scientists release research on decades of claims of health benefits. At the same time, regulators are easing restrictions and clarifying guidelines to clear the way for more sales.

But while it has become easier to sell CBD products online, there remains a myriad of regulations that vary from region to region, and there are challenges with breaking through preconceived notions as this niche market moves mainstream. Merchants need to be keenly aware of the current landscape and how to navigate obstacles in order to grow successful online businesses.

## This quick guide covers:

- What CBD is and is not
- What is happening in the marketplace
  - The potential pitfalls of selling CBD online
- The steps every CBD online business must take to be successful



## CBD Defined

While consumers are eager to embrace the CBD movement, there is still a great deal of confusion over what CBD is and is not. Let's clarify what we're talking about so we're all on the same page – or leaf as it may be.

**Cannabidiol** is a naturally occurring compound found in the resinous flower of **cannabis**. It is important to note that it is closely related to **tetrahydrocannabinol**, commonly known as **THC**, found in the same plant. There is, however, an important distinction:

**CBD = non-psychoactive**

**THC = can induce psychotropic or euphoric effects**

# Hemp

The plant *Cannabis Sativa* has two primary species, hemp and marijuana. Both contain CBD, but there is a much higher percentage in hemp. CBD oil is not the same as hemp oil. Hemp oil refers to oil extracted from the seeds of the hemp plant. There are no cannabinoids – CBD or THC – in hemp oil.

They may come from the same plant, but they're more fraternal than identical twins. They act in very different ways on very different receptors in the brain and body.

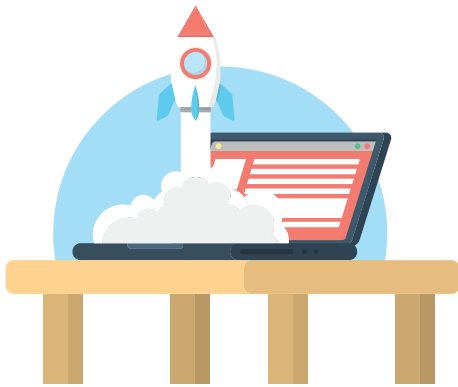
Based on extensive research along with anecdotal experiences, CBD has the potential to provide a natural remedy for a range of ailments. It may have the power to help treat autoimmune diseases, neurological disorders, skin disease, cardiovascular dysfunction and so much more.

While CBD is considered safe and non-addictive, it has so far been approved for use in only one prescription drug. That drug, called Epidiox in the US and Epidyolex in Europe, is used to treat two rare childhood seizure disorders.

CBD is being marketed as an ingredient in many items including oils, tinctures, creams, and lotions.



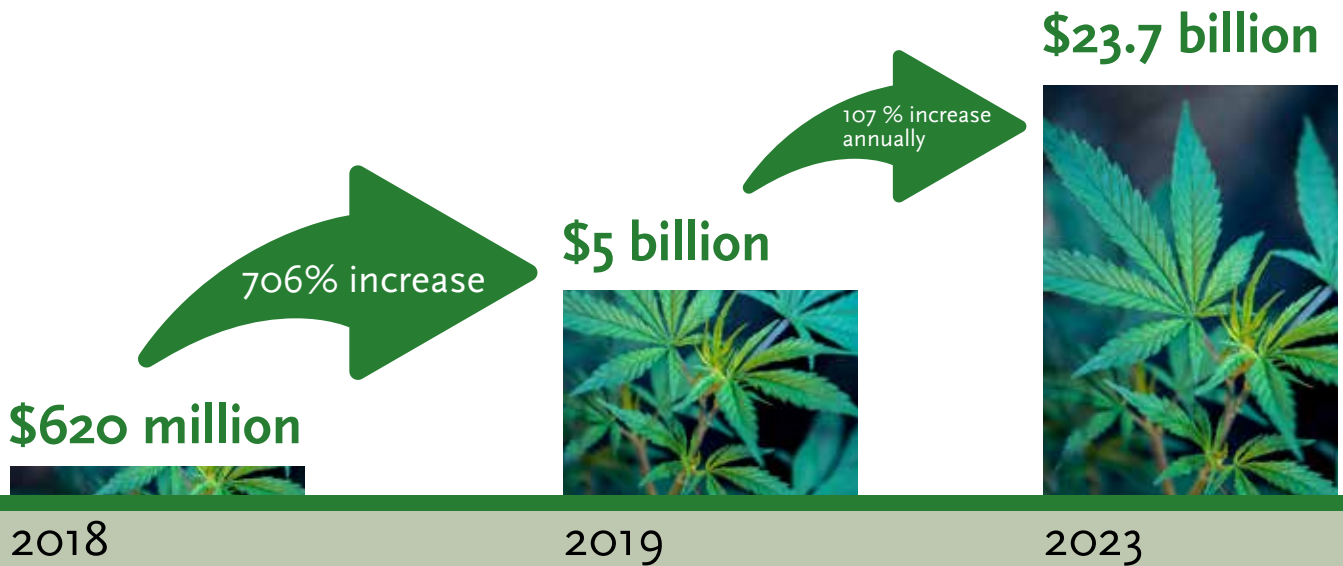
## CBD Sales Predicted to Rocket



In 2018, CBD product sales edged up to a respectable **\$620 million** the U.S. And then, things really took off.

Consumer interest and demand was fueled by a key change in the market. In December 2018, the Farm Bill was signed into law legalizing the industrial production of hemp, as well as CBD products derived from hemp.

In 2019, sales hit a whopping **\$5 billion**. Doing some quick math, that is a massive **706 percent** year-over-year increase. Things went from tepid to blazing hot in a matter of months.



Sales are expected to continue climbing reaching **\$23.7 billion** by 2023 according to the latest Brightfield report. That's a healthy growth rate of **107 percent** annually.

A lot of those transactions are expected to take place in brick-and-mortar stores, but online sales are on-trend to keep growing, as well. The balance between online sales and in-store sales remains to be seen given the shake-up of the coronavirus outbreak that has forced many retailers to close or curtail in-person shopping.



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BRANDS**

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As sales heat up, so does competition, of course. It ranges from solopreneurs making up batches of lotion in their kitchen the top name retailers manufacturing products on a massive scale.

Several big-name retailers are also staking claims. DSW Inc. announced it would sell CBD-infused products from Green Growth Brands Inc. at 96 stores after a successful 10-week trial. Earlier this year, toothpaste giant Colgate bought CBD oral care company, Hello Products. That company's product line includes CBD-infused toothpaste and mouth rinse, as well as toothbrushes and lip balms.

Even with all those big names getting in on the big demand, there are reasons for caution and concern.



# CBD Market Obstacles

While the Farm Bill cleared the way for production, federal regulators aren't as quick as consumers to embrace the new products.



The U.S. Food and Drug Administration has issued a number of critical statements concerning CBD that could affect merchants and retailers. In short, the FDA is raising concerns about the safety of CBD.

That puts additional pressure on CBD marketers to ensure that they are complying with all laws and regulations. Among other things, marketers have to be extra careful about how they write claims around CBD and its medical benefits.

CBD products can't be called a cure-all. In fact, they can't be called a "cure" at all.





## Avoiding the Pitfalls of Selling CBD Products Online

**When it comes to building a successful online CBD business, there are some clear, bright guidelines to follow and then there are some fuzzy ones. The shops that will come out on top are those that stick to the middle of the lane and don't try to cut corners.**

**There are several issues to keep in mind:**

**Only hemp-derived CBD products can be legally sold online.**

Regulations vary from region to region. You need to know what the rules are for your location as for where customers are located. Ignorance isn't a defense and won't keep regulators from shutting down a shop that is in violation of the rules.

If you are selling CBD products online, you must have systems in place to ensure that you are fully compliant with each state's law. Some have removed hemp from their state-controlled substances act. Some prohibit the sale and consumption of CBD. Others limit the types of CBD products that may be sold in-state or require a specific license. To stay within safe shipping zones, implement product-based shipping restriction rules.

**While everyone talks about the benefits of CBD, be careful about the claims.**

CBD products including any food, drug, device, or cosmetic marketed or sold in interstate commerce are subject to the Federal Food, Drug and Cosmetic Act. That means they must be labeled and marketed in accordance to the FD&C Act. There are different requirements depending on whether the product is a food, cosmetic, device or dietary supplement.

Collecting payments can be more complicated than with other products. Payment processing platforms such as PayPal and Stripe don't allow CBD shops to use their services. However, a growing number of banks will cater to the industry providing flexible direct merchant accounts that offer stability for CBD merchants at reasonable rates.

# Setting Up a Successful Online CBD Business



## Get licensed

Before you open up shop, you will need a couple of licenses. The first is a business license. Most small businesses set up an LLC.

If you plan to purchase products from wholesalers, you will also need a resale license or permit. There is no one-size-fits-all rule for this. It all depends on your state. Check with your state to find out what you need.

## Find a certified supplier

If you want to be a reputable merchant, you need to find a reputable supplier. You need assurance that you are getting high-quality products that are properly labeled. Look for suppliers who are certified to sell by the state or federally. They should be getting regular tests of the products to ensure that they meet standards.

## Build a website and set up a shopping cart

You don't need a complex site, but you need to make sure that it is easy to navigate. You also want to make sure that any product claims fall within regulations.

## Set up payment processing

It is vital to find a payment processing partner who can set you up with the right bank for your business. There is a limited but growing number of banks that will provide stable direct merchant accounts for CBD businesses. Look for a payment processing partner that can provide fraud detection and protection along with a system to reduce chargebacks.





## Market the Business



Once you're in business, you need to go out and get business. You need to let people know you're open and you need to find a way to stand out in a crowded field. Set up a marketing strategy that includes several channels.

### **Pay attention to customer satisfaction**

Keeping a customer is cheaper and easier than acquiring a new one. Plus, a happy customer will help spread the word about your business.

### **Check-in with customers after they purchase a product. Follow up with them later to see how things are going.**

This can also help avoid a chargeback, which is what happens when a consumer turns to their credit card company to get their money back. The credit card company can take the funds from a merchant without notification. Typically, the merchant won't know there is an issue until the funds are gone.



**Let's Wrap It Up  
and Ship It**

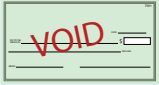


**CBD sales are  
soaring and there  
are plenty of  
opportunities for  
merchants to hop  
on the elevator if they  
take the steps to  
do it right.**

**To sum things up:  
Be aware of the regulations.  
Keep your customers happy.**

# Ready to Set up a Payment Process?

The bank will have some questions. Once you apply, you will need to get through an approval process. You need to show that you will be running a legitimate, viable business that will follow rules and regulations. Here is a checklist to help you prepare:

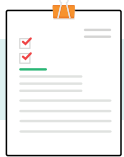


- ☐ Voided check with DBA or legal name on it (Bank letter accepted with DBA or legal entity name, must include account and routing number)

- ☐ (IF EXISTING BUSINESS) 3 months of company bank statements and processing statements (Square/Stripe Excel/CSV files are acceptable)



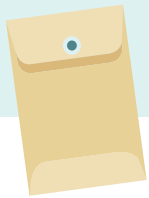
- ☐ Drivers license for all owners (Any owner with 10% of more ownership needs to be listed on application. ID provided for beneficial owners)



- ☐ Articles of Incorporation, or Organization, or Formation

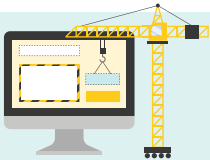
- ☐ EIN Letter from IRS

- ☐ State-Issued Business License or Permit



- ☐ Current utility bill or lease agreement of business address (Or home address, if home-based business)

- ☐ Proof of domain ownership (screenshot of your registration profile is sufficient or copy of Whois information if no URL privacy is on)



- ☐ URL / WEBSITE MUST HAVE FOLLOWING LISTED:  
Privacy Policy, Refund Policy, Terms/Conditions, Disclaimer for “No THC” or “XX.XX% of THC Content or Less”

- ☐ Cannot have any health claims whatsoever

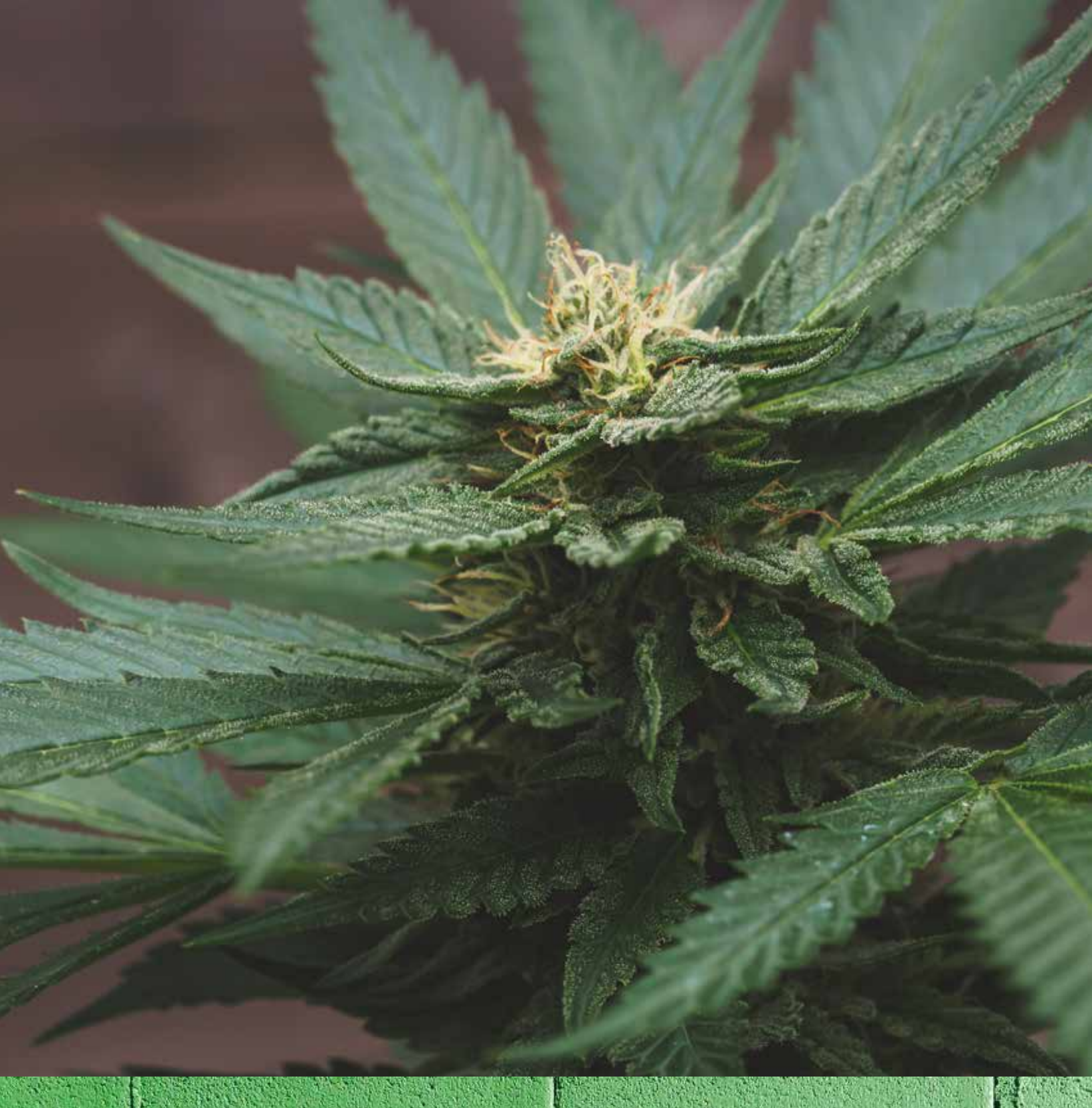


- ☐ Export of ALL products sold on the website



- ☐ Lab Test or Certificate of Analysis for each CBD product sold (Must match the end product in its final state that is being sold on the website; not just the CBD isolate used to make the products.) Testing needs to be completed by approved and accredited third-party laboratory. Must show a full contaminant test was conducted, including heavy metals, microbials, pesticides, and solvents (if applicable) for all products meant for human use. Not just THC levels. Even if your state does not require you to have a full spectrum test, if you are selling online to other states that do require it, a correct test needs to be provided to meet the compliance as we default to the highest degree of standards.





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