

Ancillary Firm Tackles Payment Challenges for Cannabis Brands

Cannabis Industry Grapples with Payment Challenges as Service Providers Step In

As cannabis cultivators and product manufacturers continue to struggle with receiving payments for products sold at retail, innovative service providers are stepping in to close the gap. New York-based LeafLink, a leading software platform connecting cannabis retailers with brands, is introducing a product designed to automate and ensure weekly payments to cannabis producers based on retail sales from the previous week.

The new system, called Payment on Sell Through (PoST), is the third payment solution offered on LeafLink's platform, according to Matt Hutchinson, the company's chief product officer. PoST joins the platform's existing payment options, Direct Pay and FlexPay, to help streamline transactions within the cannabis industry.

Currently available in Colorado, Michigan, and Mississippi, LeafLink plans to expand PoST to additional states, including California, by early 2025.

Challenges in Cannabis Retail Payments

The cannabis industry has long been burdened by cash-flow constraints, particularly for cultivators and manufacturers who often struggle to collect payments from retailers. Despite setting payment terms and tracking receivables, many cannabis brands report being pressured into agreeing to lengthy payment terms such as net-30 and even net-60 days. This puts strain on their cash flow, leaving them vulnerable to unpaid invoices.

A growing number of marijuana brands are now demanding payment upon receipt of products, having experienced non-payment in the past. However, for retailers, paying for inventory up front can tie up valuable cash that could otherwise be used to run their operations.

The PoST system offers a solution that benefits both sides. It allows retailers to delay payments until products are sold to consumers, giving them more financial flexibility. At the same time, cannabis brands can rest assured that they will receive automated payments on a regular basis, ensuring consistent cash flow.

Improved Inventory Management

In addition to addressing payment delays, LeafLink's PoST system also helps retailers manage their inventory more efficiently. The platform tracks the quantities sold and order frequency of stock-keeping units (SKUs) for each storefront, allowing retailers to optimize their ordering process and avoid overstocking or understocking products.

Since the beta launch of PoST in June 2023, over 70 cannabis businesses have implemented the system. One such business is Michigan-based cultivator Six Labs. CEO Ron Gibori shared how the system has helped the

company adjust its SKUs to avoid stale inventory and match orders more closely to demand.

“We’ve doubled sales on a stale SKU to make room for new products,” Gibori explained. “It takes the onus off the retailers, and we reconcile every two weeks. It’s our responsibility to make sure that the orders are the right size.”

Gibori believes that PoST will help normalize the often-strained relationships between cannabis suppliers and retailers, particularly in states like Michigan where price compression and competition from the illicit market have made it difficult for businesses to stay profitable.

Easing Retailer Cash Flow Issues

Retailers, too, are seeing the benefits of LeafLink’s PoST system. Michigan-based Bloom City reported significant improvements after adopting PoST, including:

Doubling sales on a previously stale product through discounts.

Increasing orders on high-selling SKUs.

Freeing up cash by delaying payments for inventory until sold.

Avoiding stockouts by maintaining better control over inventory levels.

As cash-flow issues continue to affect the cannabis industry, systems like PoST offer a valuable solution for retailers who may struggle with limited startup capital, federal tax burdens, and increasing competition.

The Growing Problem of Delinquent Payments

The cannabis industry has been plagued by delinquent payments, with retailers often missing payments to brands and cultivators due to cash-flow constraints. According to Brett Gelfand, managing partner at St. Petersburg, Florida-based Cannabiz Collects, Michigan’s adult-use market rivals California in terms of unpaid invoices. In 2023, late payments across the cannabis industry reached \$3.8 billion, equivalent to about 1.6 months of legal cannabis sales nationwide.

A report by Whitney Economics highlights how widespread these payment delays have become, particularly for cultivators. The survey found that cannabis cultivators were the most impacted by delinquent payments, while retailers had the fewest complaints. Smaller and minority-owned businesses were disproportionately affected, with many struggling to stay afloat as unpaid receivables mounted.

The survey also revealed that:

44% of respondents said delinquent receivables were making it harder for them to service debt.

34% reported that unpaid invoices were affecting their ability to pay taxes.

3% of respondents noted that delinquent accounts receivable had a greater impact on their business than Section 280E of the Internal Revenue Code, which prevents cannabis operators from deducting business expenses due to the plant’s federal status as a Schedule I drug.

A Push for Greater Efficiency

As cannabis businesses, especially in saturated markets like Michigan, continue to face financial pressures, improving efficiency has become crucial for survival. Gibori of Six Labs emphasized the importance of embracing tools like PoST to remain profitable in a challenging environment.

“It only makes you more profitable,” he said, referring to the system’s ability to optimize inventory and ensure timely payments.

With LeafLink’s PoST system gaining traction and plans for expansion into key markets like California, the cannabis industry may find some relief from its long-standing payment issues. By addressing both cash-flow challenges and inventory inefficiencies, PoST could help retailers and producers alike weather the ongoing challenges of a highly regulated and competitive industry.

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