

# Unchecked Credit Threatens Cannabis Supply Chain

The cannabis industry is sitting on a financial time bomb that's growing louder with each passing quarter. While many operators continue business as usual, a critical issue is tightening its grip on the industry's foundation: uncontrolled accounts receivable (AR).

## **\$2.24 Billion in Accounts Receivable: A Brewing Crisis**

According to new data from CannaBiz Credit Association, over \$2.24 billion in unpaid receivables are circulating throughout the cannabis market. This figure represents more than just delayed payments – it's a symptom of deeper structural dysfunction in the way cannabis companies manage credit.

As the industry expanded and matured, especially in major legal markets like California, Michigan, and Massachusetts, many operators adopted payment terms more typical of mainstream industries. But the shift came without the safety net of rigorous credit assessments, leading to a fractured financial system where liquidity is razor thin and late payments are increasingly common.

## **California Leads the Delinquency Epidemic**

Data shows that California alone accounts for \$777 million in outstanding cannabis AR, followed by Michigan with \$231 million and Massachusetts with \$144 million. These three states represent the core of the crisis, but no market is immune.

In some states, more than 30% of all cannabis receivables are past due – a staggering percentage that would sound alarms in any other industry. The cannabis sector, still grappling with thin margins, regulatory costs, and limited access to traditional financial tools, can ill afford this kind of disruption.

## **The Shift from COD to Net Terms: A Risky Evolution**

In the early days of legal cannabis, most transactions operated on a cash-on-delivery (COD) basis – a holdover from the legacy market. But as the sector sought legitimacy, many businesses began extending net payment terms (Net 15, Net 30, etc.) in hopes of scaling operations and attracting wholesale buyers.

Unfortunately, these decisions were made without implementing standard financial safeguards, such as credit vetting, risk scoring, or collateral-backed terms. The result? Cannabis companies, many under financial strain themselves, began taking on more inventory than they could afford, creating a cycle of delayed payments, write-offs, and strained supplier relationships.

## **Collection Data Highlights a Dangerous Pattern**

The AR aging data reveals just how severe the problem has become:

- 46% of all AR is current (0–30 days)
- 24% (over \$529 million) is aged 91+ days
- Only 5% falls into the 61–90 day range, showing a sharp jump in delinquencies once the 90-day mark is passed

This sharp curve suggests a critical tipping point: once invoices go unpaid for three months, the likelihood of eventual payment drops dramatically.

In fact, data shows:

- At 30 days past due, collection chances remain strong
- At 90 days, recovery rates fall below 50%
- After two years, the odds of collecting drop to less than 10%

This isn't just a slow-pay problem—it's a system-wide cash flow crisis in the making.

## **The Cost of Write-Offs: A Hidden Threat to Profitability**

Delayed payments don't just create inconvenience; they devastate profitability.

Consider this: If a cannabis business with a 25% net profit margin writes off just \$10,000 in bad debt, it needs to generate \$40,000 in new revenue to break even. Scale that up to a \$50,000 write-off, and the revenue gap becomes a daunting \$200,000.

In an industry already battling price compression, regulatory taxes, and federal prohibition hurdles, these losses can tip companies into insolvency.

## **The Ripple Effect: Supply Chain Disruption and Investor Caution**

Cannabis is a deeply interconnected supply chain, involving cultivators, manufacturers, distributors, retailers, and service providers. When retailers default or delay payments, the financial shockwaves travel upstream, affecting growers, processors, and tech vendors alike.

Delayed receivables also hurt cash planning, reduce growth capital, and make companies appear riskier to investors. In a climate where venture capital and private equity are already cautious, a poor AR report card can scare off much-needed funding.

## **A Broken System That Needs Repair**

What's most alarming is that many cannabis companies are still offering credit terms without proper assessment. They are effectively issuing unsecured loans with 0% interest, without the underwriting protocols banks use to manage risk.

Even when businesses are operating in good faith, financial strain, tight margins, and external market forces can make even timely players fall behind.

Right now, the entire cannabis credit system is built on trust rather than data—and it's failing.

## **How to Avoid the Cannabis Credit Trap**

So how can cannabis operators escape this spiraling credit crisis?

## **Implement Formal Credit Assessment**

Companies using even basic credit checks are 60% less likely to end up in collections. Whether through in-house financial vetting or third-party credit services like CannaBiz Credit Association, vetting buyers before extending terms is essential.

## **Tighten Payment Terms**

Avoid long net terms unless absolutely necessary. Start with Net 7 or COD policies for new accounts and expand only with a proven payment history.

## **Track AR Aging Diligently**

Implement systems to monitor invoice aging and flag accounts that enter the 31–60 day range. Early action can dramatically increase collection rates.

## **Incentivize Early Payment**

Offer discounts for early payment or enforce penalties for late payments to encourage timely cash flow.

## **Avoid the Revenue Trap**

Extending more credit to drive sales often creates a larger hole. Growth at the expense of collections is a high-risk gamble.

## **The Industry's Crossroads: Reform or Ruin**

The cannabis sector has matured quickly in many ways – from regulatory compliance to branding and consumer engagement. But when it comes to financial discipline, especially around credit, the industry is dangerously behind.

The warning signs are clear: over \$2 billion in circulating debt, hundreds of millions past due, and growing write-offs that threaten the entire supply chain.

Unless businesses begin prioritizing credit risk management, payment discipline, and cash flow planning, many won't survive the next market correction.

The cannabis credit bubble is real, and it's growing.

Operators can either act now – or prepare to be crushed when it finally bursts.

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