

The State of Wholesale Cannabis Payments

The cannabis industry is, in and of itself, a revolution. Yet, as fast as cannabis is advancing in buyer/seller relations, marketing, and distribution, there is still a very inherent hurdle that most of us aren't addressing – B2B payments.

Over the past few years, companies particularly in the [real estate, wholesale trades, and industrial/manufacturing industries](#), have improved how they manage accounts payable/accounts receivable (AP/AR) operations by reducing their need to use cash. The manual status quo wasn't working anymore (accelerated by the pandemic and work-from-home), which led to the growing implementation of innovative digital payment solutions.

“AR is an especially timely consideration in an environment where back-office operations are far-flung, such as with a work-from-home environment, a trend that could prove to be a permanent shift even after the pandemic.”

Timothy Batsche, director of B2B client management at American Express [told PYMNTS](#).

Cannabis is still a highly regulated cash- and check-based industry, which makes improving payment operations with any new tech-forward innovations difficult. At the same time, cannabis businesses must take advantage of digital B2B payment solutions to keep up with the competition.

For brands, knowing when and how you're going to receive your money powers increased cash flow. For retailers, being able to determine when you'll pay for inventory is invaluable for liquidity planning and efficient growth. Every cannabis business benefits from centralized reporting and the time savings and reduced costs that come with it.

There has been a distinct need to understand and

implement a new process in which wholesale cannabis buyers and sellers are no longer transacting with cash or check. It's a hard but necessary pill to swallow, both due to the significant benefits and the labor-intensive status quo.

There are options for forward-thinking operators, including LeafLink's payment solutions which have processed nearly 3/4 of a billion dollars in transactions since the beginning of 2019 (78% of the volume coming after the start of 2021.) This is a testament to the significant number of businesses in the industry that have already adopted advanced payment technology.

If you're waiting for regulatory changes to take care of this for you, don't. You can start adopting the payment operations of leading businesses right now.



How It Started: The History of Cash & Cannabis

Let's start by exploring the basics of how B2B cannabis transactions have typically worked.

Cash has a long history in cannabis. In any given state, 30-50% of all transactions are handled in cash. Buyers and sellers often transact using bags full of bills that take time to count, sort, and process. If it's not cash, invoices are paid through checks which take days to clear with the funds sitting in limbo the whole time. Both negatively impact cash flow, directly hindering business growth.

But why do cannabis businesses end up dealing in a lot of cash in the first place? It's simple; federal restrictions around cannabis banking and payments have led to a complete lack of efficient payment processing solutions at the consumer level. "Cashless ATMs" which Visa is currently [cracking down on](#) are a popular option. In the meantime, cannabis retailers have to deal with the risk of theft as well.

"Because cannabis remains illegal at the federal level, and

federal banking reforms have not been enacted, many financial institutions are wary of getting involved with the industry," explains Will Maupin for the Washington Inlander. "As a result, experts believe dispensaries are being targeted by criminals in large part due to their [cash-dependent business model](#)."

This risk isn't isolated to dispensaries either, but every business in the supply chain that buys or sells with cash. Unfortunately, the federal restrictions around cannabis causing this are unlikely to change any time soon.

Cannabis Regulations Drive This Cash/Check Culture

So long as cannabis remains **Schedule 1**, businesses will have difficulty accessing digital banking and payment solutions. There have been repeated efforts to remove cannabis from Schedule 1 since 1972, shortly after the Controlled Substances Act (CSA) was introduced in 1970. But none of these efforts over the past 50 years have succeeded.

The **SAFE Banking Act** was introduced in 2019 to address the banking and payment challenges

in cannabis. It was advanced to the House and received "broad bipartisan support" at the time.

Schedule 1 drugs are defined as, "Drugs with no currently accepted medical use and a high potential for abuse."

The **SAFE Banking Act** "prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate cannabis-related business."

The SAFE Banking Act was first passed by the U.S. House of Representatives in Sept. 2019, but failed to advance in the Senate. It has been reintroduced and passed the House six times since then, most recently as part of HR 4521: [America COMPETES Act](#), but was removed from the Senate's version of the bill. Conversations are ongoing in the Senate about what a passable piece of legislation built around SAFE Banking looks like. It's not yet clear that this bill will garner the votes needed for passage, or what the timeline for implementation is if it does pass. So, while cash is completely obsolete in a business sense, it's



still prevalent and will remain so for the near future.

As a result, the ability to execute B2B transactions digitally has become a real advantage for the savvier cannabis businesses. While other businesses buy and sell with cash or checks, the real winners are figuring out how to turn AP/AR into a strength for their business with efficient, digital payment solutions.

Why Can't We Keep Using Cash and Checks?

Transactions in cannabis are in a very pivotal growth period where the status quo is hindering cannabis businesses from reaching their full potential. Here's how:

They're Inefficient

Incorporating cash and checks takes up a lot of time for an accounting team. All of that work is offloaded when you embrace automation and the larger your business the better, because these efficiencies increase with scale.

"Manual processes reduce the speed at which firms deliver invoices and follow up on

overdue payments, reducing efficiency when prioritizing collections," says [PYMNTS](#). "They also increase the likelihood of errors, which then must be manually identified and fixed."

For brands, this includes the cost of collections. By automating your AR, you can take collections off your team's plate. The funds also arrive in your account faster, where they can be used for other business needs faster than with cash or checks.

The cash-based process also makes it hard for both brands and retailers to optimize operations based on business intelligence. Batsche covered this as well in his conversation with PYMNTS, saying, "If you're doing things manually and not digitally or electronically, it's very hard to pull insights around your current process...to enhance your relationships with your buyers or suppliers, [the process] really needs to be positioned for data and intelligence."

They're Risky

The security risks of cash- or check-based business operations are obvious. Checks can get lost in the mail, and cash is a

significant security risk while it's being transported.

Provided you choose a reliable solution for automating your payments operations, you lower the financial risk to your business. Ensure that any company offering you financial services is backed by trusted financial institutions, because there can be a lot of smoke and mirrors in this complex space.

When in doubt, ask others in the industry for their take. And when they need some advice, give it to them because we all need to work together to make this industry the best it can be.

They're Restrictive

Cash and check-based operations are restricting cannabis businesses, and the industry as a whole, from reaching their full potential.

Without digital payment solutions, brands are stuck chasing down buyers for payments and they have no idea when that money is going to be usable again. Retailers can't order inventory efficiently without the liquidity that digital payment solutions enable.





And these relationships can become strained as brands hassle retailers for payment and retailers struggle to pay before the inventory sells and they have the cash in hand. To improve buyer/seller relationships, enable liquidity, reduce risk, and save time, it's time for a new way to transact in wholesale cannabis.

The Future of Payments is Already Here

Now that we're caught up on the history of cannabis payments and the challenges to your business from the status quo, let's dive into the present reality — the future of payments is here. And this goes beyond simply managing invoices digitally. Cannabis businesses now have the tools to turn AP/AR from a significant cost to a growth driver, driving revenue along with liquidity and efficiency.

Turn AP/AR Into a Growth Driver, Not a Barrier

"It isn't hard to imagine a future where companies leverage an intelligent cash flow management platform for B2B payments," [PYMNTS](#) recently shared. "This could, for example,

automatically maximize early payment discounts from vendors or automatically adjust credit terms, discounts or terms for late payments from customers."

But first, start with the basics. If your AP/AR functions are completely manual, it may take some time to incorporate automated solutions. And that's totally okay, the most important thing is understanding the fundamental challenges of how you're doing business today, and starting to shift in the right direction ASAP.

While every company will benefit from AP/AR automation in and of itself, the real value comes when this is implemented in conjunction with additional solutions that drive larger orders, take the burden of collecting payments off your plate, and save your team hours.

Payments as a Competitive Advantage

[LeafLink](#) is working to streamline the entire wholesale cannabis supply chain, with payments as a core aspect of the mission. That means providing payment solutions that enable businesses to buy and sell how and when they want. It also means

businesses never have to spend the time and effort chasing late payments, or incorporating cash into AP/AR workflows. Two key LeafLink payment solutions work together with the full platform to enable faster growth.

The first is **Flexible Payments**, which helps brands and retailers increase cash flow. This solution guarantees prompt payment for sellers, while LeafLink extends net terms to buyers. Sellers get paid at time of delivery, and can customize payment terms for each buying partner.

Flexible Payments allows brands to drive larger orders and enables retailers to order all the inventory they need, thanks to the increased buying power and longer payment terms. Payments are made via ACH transfer and transferred directly into the seller's account within 1 business day of payment confirmation.





“LeafLink’s Flexible Payments have made our Accounts Receivable really quick and painless. Being able to have instant access to that cash, and redirecting it to other aspects of the business, has really allowed us to grow and scale.”

Josh Hirschey | President,
Timeless Vapes

LeafLink also offers **Direct Payments**, which allows sellers to receive funds from buyers digitally via ACH with payments settling in your account the next business day. No more waiting two weeks for your funds, driving over to your local bank to deposit a bunch of checks, or spending time and money on collections. Invoices are automatically tracked and reconciled for you in LeafLink – simple as that.

If you don’t position your business to take advantage of these innovations in B2B cannabis payments, you’re going to be leaving revenue on the table. Other cannabis businesses are quickly shifting into this automated workflow, and those that remain in the cash/check world are going to struggle to compete – simple as that.

Ready to take advantage of the newest innovations in wholesale cannabis payments but not sure where to start? Reach out to us via payments@leaflink.com! If you’d like to share your thoughts or have any questions about LeafLink’s insights, give us a shout at marketing@leaflink.com.

