DISTRIBUTION ECONOMICS

The Changing Economics of *Self-Distribution* in New York's Cannabis Market

Why the Operating Model That Won New York's Early Adult-Use Market Is Not the One That Will Win the Next Stage of Growth

INSIDE Statewide Delivery | Retail Marketplace | Data & Analytics | AR & Collections

OVERVIEW

Executive Summary

The first chapter of New York's adult-use cannabis market rewarded speed, flexibility, and vertical integration (as much as the OCM would allow, anyway). As the market dynamics continue to shift, doing everything in-house will become less feasible for many businesses, while those that focus on their core strengths and leverage specialized partners will be better positioned to scale.

When licensed dispensaries first began opening across the state, there were relatively few retail accounts to serve and consumer demand outpaced supply. In that environment, many cultivators, manufacturers, and brands made the rational decision to distribute their own products. Manufacturers already had products moving through their facilities. Adding a delivery function felt incremental, and introducing a third-party distributor often appeared to create unnecessary cost.

That strategy made sense for the market that existed at the time. Today's market is fundamentally different. New York now has nearly 700 licensed dispensaries operating across every region of the state, with over 1,000 more expected to enter the market over the coming years. Retailers have become more sophisticated. Geographic demand patterns have emerged. Competition for shelf space has intensified. Success is no longer defined simply by winning a purchase order. It depends on consistently driving sell-through, getting re-orders, having a sustainable AR strategy, and long-term retail relationships.

At the same time, cannabis brands face unprecedented pressure on working capital in an industry that is already very limited in capital supply. Cultivators and manufacturers invest in producing inventory months before receiving payment from retailers. Every additional operational responsibility, from fleet management and delivery scheduling to collections, compliance reporting, and accounts receivable, competes for the same limited capital and management attention needed to grow the business.

As markets mature, they naturally become more specialized. Companies increasingly outsource functions that create operational complexity but provide limited competitive differentiation, allowing them to concentrate resources where they create the greatest value.

This paper examines how New York's cannabis market has evolved, why distribution has become a strategic commercial capability rather than a transportation function, and how shared infrastructure is enabling brands to scale more efficiently in the market's next phase of growth.

MARKET ORIGINS

01 Self-Distribution Made Sense in the Early Market

The early days of the New York cannabis market were characterized by excitement, but uncertainty.

There were relatively few licensed dispensaries. Retail operators were building businesses from the ground up. Consumer demand consistently exceeded available supply. Brands were focused primarily on getting products onto shelves, not optimizing statewide distribution networks or analyzing regional purchasing trends.

In that environment, self-distribution offered several meaningful advantages.

Manufacturers producing products under their own brands - or manufacturing products on behalf of third-party brands - already possessed inventory, warehouse space, and operational personnel. Adding deliveries to an existing operation often seemed the simplest and most cost-effective approach.

Brands benefited as well. Rather than building relationships with another supply chain partner, they could leverage their manufacturing partners' distribution capabilities while maintaining close relationships with retailers during a period when every account was an opportunity to establish early market presence.

Most importantly, there simply were not enough retail accounts nor compliance overhead to justify significant investment in large-scale third-party distribution infrastructure.

When a market consists of dozens of stores rather than hundreds or even thousands, route planning is relatively straightforward. Deliveries can often be coordinated directly with buyers. Geographic coverage remains manageable. Every retailer receives considerable attention because every retailer represents a meaningful share of the overall market.

Under those conditions, vertically integrated distribution capabilities created operational efficiency. The decision to self-distribute was often the most logical operating model available.

The challenge now is that market dynamics have shifted dramatically.

MARKET MATURITY

02 As the Market Matures, the Economics of Distribution Change

As industries grow, complexity rarely increases in a straight line–it compounds.

Every additional retail account introduces new purchasing behaviors, ordering schedules, delivery requirements, payment terms, merchandising expectations, tedious compliance rigor, and replenishment patterns. What begins as a manageable logistics operation gradually becomes an increasingly sophisticated commercial network.

New York has now reached that stage. Brands are now managing relationships across urban, suburban, and rural markets with dramatically different customer demographics, competitive environments, and purchasing patterns. All this while regulations continue to change and become more onerous and stringent.

At the same time, retail performance has become far less uniform than at market launch. Some dispensaries have emerged as high-volume destinations with exceptional inventory turnover and strong consumer loyalty. Others continue to refine their operating models or serve more specialized customer bases. Geographic "hot spots" have developed, creating concentrated opportunities for brands that understand where demand is strongest and how to allocate inventory accordingly. This evolution fundamentally changes what successful commercial execution looks like.

During the market's early years, success was often measured by how many retail accounts a brand opened. Today, opening an account is only the beginning.

Long-term growth depends on supporting sell-through, maintaining product availability, monitoring reorder patterns, identifying underperforming accounts before inventory stagnates, investing sales resources where they produce the highest return, and, equally as important, collecting payments (including taxes) on time and in full.

In other words, brands are no longer competing simply to get onto shelves. They are competing to stay on shelves. The companies that recognize this shift earliest will be better positioned to compete as New York continues to evolve.

EARLY MARKET
THEN

- Limited number of dispensaries
- High demand relative to supply
- Relationship-driven selling
- Simple delivery routes
- Vertical integration provided efficiency

MATURE MARKET
NOW

- Nearly 700 dispensaries statewide
- Regional demand differences
- Sell-through and reorders drive growth
- Payment processing and collections intensity
- Sophisticated retail buyers
- Commercial infrastructure creates competitive advantage and economies of scale

02.1 How the New York Market Has Changed

MARKET MATURITY · FIGURES

FIGURE 1 · EVOLUTION OF THE NEW YORK ADULT-USE CANNABIS MARKET

NY RETAILERS BY MONTH

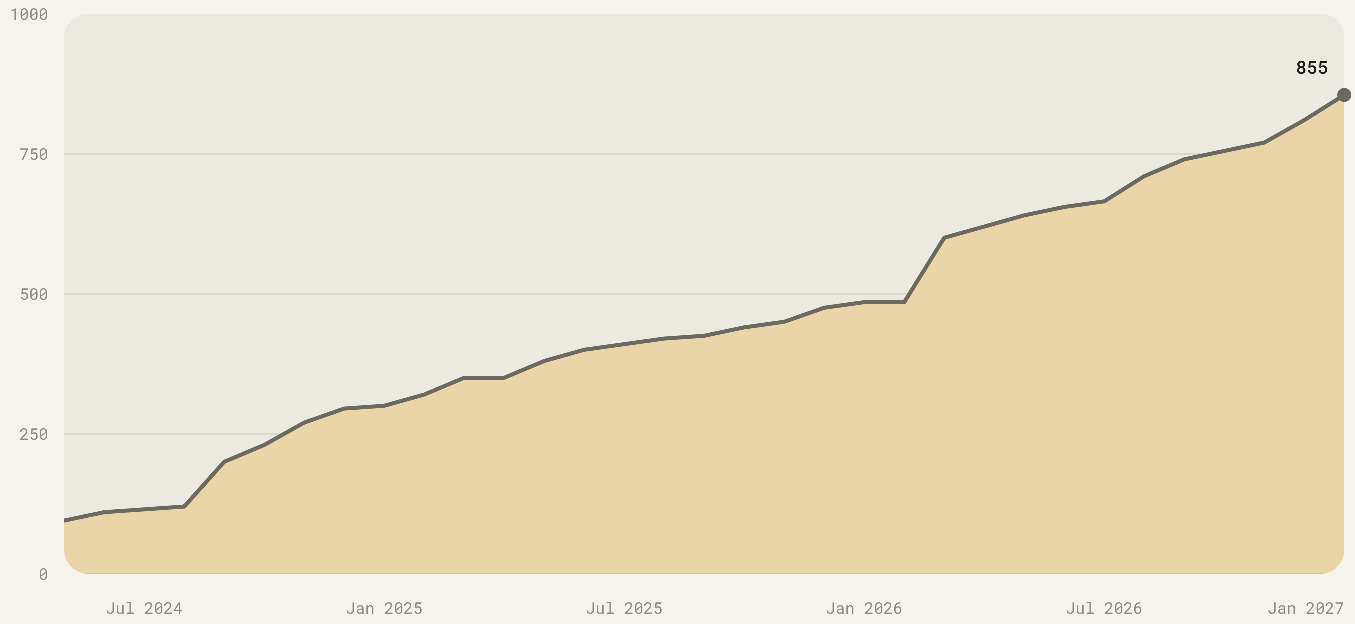
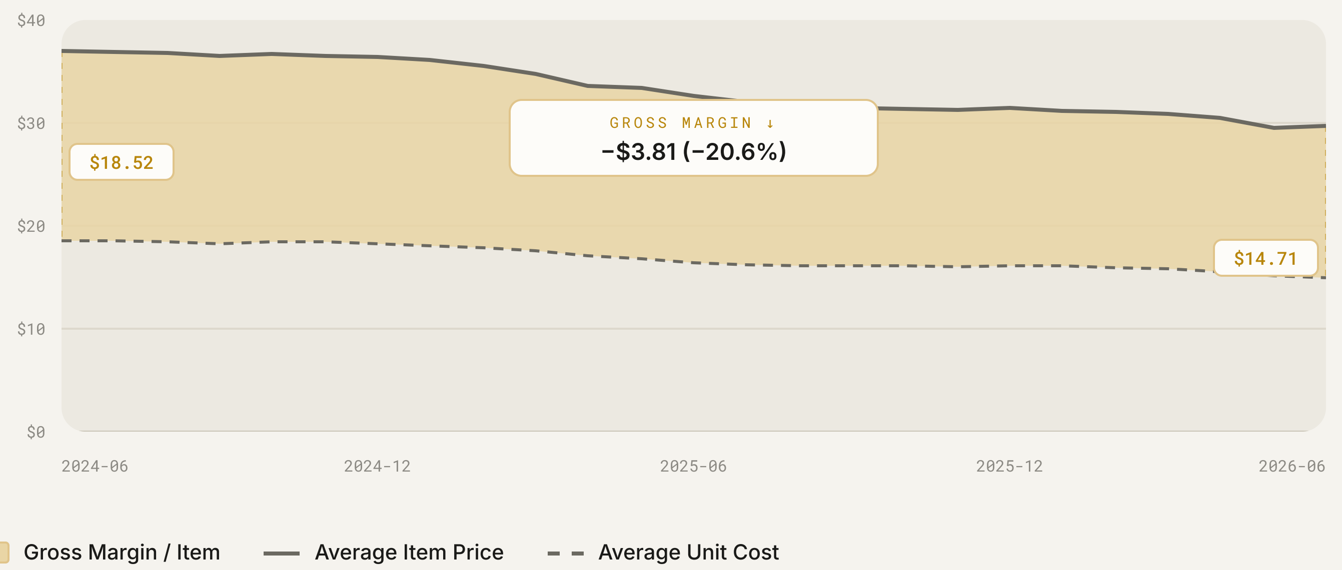


FIGURE 2 · PRICE COMPRESSION IN THE NEW YORK WHOLESALE MARKET

MARGIN FROM $18.52

MARGIN TO $14.71

Average item price is falling faster than unit cost - gross margin per item is compressing.



GEOGRAPHIC REACH

03 Statewide Reach Is Becoming Critical to Growth

As New York's cannabis market matures, having the ability to make statewide deliveries is becoming increasingly important to how much a brand can grow.

In the market's early days, many brands concentrated their sales and distribution efforts in New York City and the surrounding metropolitan area. That strategy made sense: retailers were concentrated downstate, population density was high, and brands could build meaningful revenue without developing a truly statewide distribution operation. But as more brands enter the market following the same playbook, competition for those accounts and shelf space has intensified. At the same time, price compression is putting additional pressure on margins. For brands looking for their next stage of growth, expanding into new territories across New York is becoming increasingly important.

The challenge is that New York is a large state. For an operator based on Long Island, servicing a retailer in Western New York can require an entire day of driving - and, depending on delivery schedules and hours of service, potentially an overnight stay. For smaller businesses, the economics and operational complexity can make servicing distant accounts difficult, if not impossible. Their retail footprint may therefore remain concentrated not because demand for their products doesn't exist elsewhere, but because they lack an efficient way to reach it.

The challenge persists even as companies grow. A larger operator may have the resources to serve Western and Upstate New York, but infrequent routes can mean some retailers receive deliveries only once or twice a month. That can create pressure to place larger orders than a retailer's immediate demand or cash flow supports, tying up inventory on shelves and potentially creating larger accounts receivable balances.

In an increasingly competitive market, reliable statewide fulfillment enables brands to pursue demand wherever it exists - not simply wherever their own delivery network can economically reach.

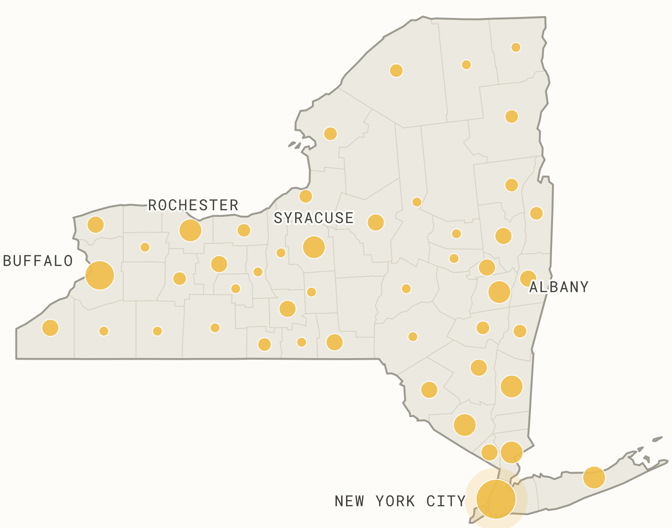
FIGURE 3 · **NABIS STATEWIDE DELIVERY COVERAGE**

655
Open dispensaries served across New York

100%
Active delivery coverage of New York dispensaries

DISPENSARIES PER COUNTY

- 1–2
- 3–5
- 6–12
- 13–30
- 31+



04 Using Networks to Open Doors Beyond Your Sales Team's Reach

Expanding geographic distribution solves one part of the growth challenge: the ability to fulfill an order anywhere in the state. But before a product can be delivered to a new retailer, the retailer first has to discover it.

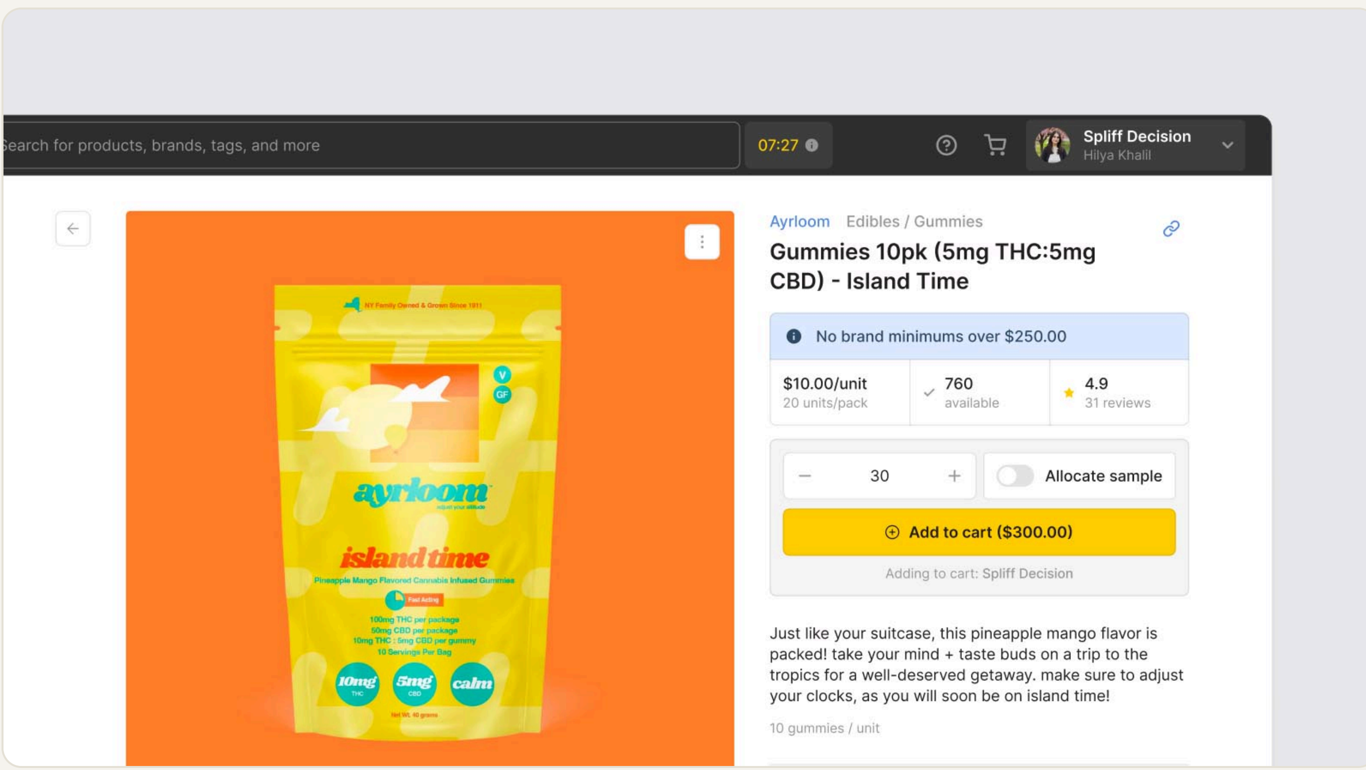
That becomes increasingly difficult as the market expands. A sales team may have deep relationships in its home territory but limited reach with buyers hundreds of miles away. Building those relationships store by store takes time, particularly as the number of retailers and brands competing for buyers' attention continues to grow.

This is where a retailer marketplace can create an important network effect. Nearly every New York retailer already works with Nabis, giving buyers across the state access to the Nabis Marketplace, where they can discover brands, browse available products and place wholesale orders. For brands, that creates another avenue for discovery beyond the accounts their sales representatives can reach directly.

Marketplace visibility does not replace salespeople or the relationships that drive successful cannabis brands. It can make those efforts more scalable. A buyer in a territory where a brand has little existing presence can discover its products before a sales representative ever walks through the door, creating opportunities for conversations and new retail relationships that otherwise may not have occurred.

As the network grows, distribution and discovery begin working together: statewide fulfillment makes new markets serviceable, while marketplace visibility makes it easier for brands and retailers in those markets to find one another.

FIGURE 4 · **NABIS MARKETPLACE**



COMMERCIAL CAPABILITY

05 Distribution Today Is Data-Driven Competitive Intelligence

One of the biggest shifts in New York's cannabis market is that distribution is no longer simply about logistics.

For many years, distributors across numerous industries were evaluated primarily on operational performance. Could products be delivered accurately, on time, and at a reasonable cost? Today, distribution increasingly influences how brands make commercial decisions.

The answers to these questions have become just as valuable as the physical movement of inventory.

As supply chains become more sophisticated, companies begin relying on specialized partners not simply because they move products efficiently, but because they provide **information, technology, and operational scale** that individual businesses would struggle to build independently.

The cannabis brands that will outperform over the next several years will not necessarily be those with the largest delivery fleets or the most warehouse space. They will be the companies that make the best commercial decisions - allocating inventory more effectively, supporting high-performing retailers, identifying emerging opportunities earlier, collecting payments consistently, and preserving capital for activities that directly influence consumer demand.

Distribution has become one of the primary sources of that competitive intelligence. This represents an important shift in how brands should evaluate distribution partners.

Every interaction with a retailer generates data to make smarter decisions.

- Which products are consistently reordered?
- Which promotions lead to incremental purchases?
- Which accounts pay on time?
- Which regions are experiencing accelerating demand?
- Which stores have slowed purchasing activity and may require additional support from a sales representative?

THE SHIFT

Distribution is no longer a cost line. It is where a brand's next commercial decision comes from.

THE EXPANDING ROLE OF DISTRIBUTION

Foundation	Transportation, Warehousing, Delivery
+	
Operational Layer (INCLUDES FOUNDATION)	Compliance, Route optimization, Inventory visibility
+	
Commercial Layer (INCLUDES ALL LAYERS)	Retail analytics, Credit intelligence, Collections, Marketplace discovery, Payment technology, Sales insights
=	
STRATEGIC OUTCOME	*Better commercial decisions, faster growth, and improved capital efficiency.*

06

ACCOUNTS RECEIVABLE

Scaling Sales Also Means Scaling Collections

The financial pressures facing New York cannabis operators are real and significant. As a business scales, efficiently managing accounts receivable becomes mission-critical.

Operators are navigating limited access to capital, high urban rents and payroll costs, taxes, 280E and the broader premium that cannabis businesses often pay for products and services. Even well-run retailers can experience periods of constrained cash flow, making accounts receivable an increasingly important challenge across the supply chain.

That pressure ultimately travels upstream. Nabis handles payments and collections across nearly every retailer in New York, providing a broad view into payment behavior across the market. Our data shows that overdue accounts receivable is rising and that, on average, retailers are paying approximately 35 days past due on Net 30 invoices - roughly 65 days after an invoice is issued. For brands that may have funded production months before the invoice was created, every additional day extends an already lengthy cash conversion cycle.

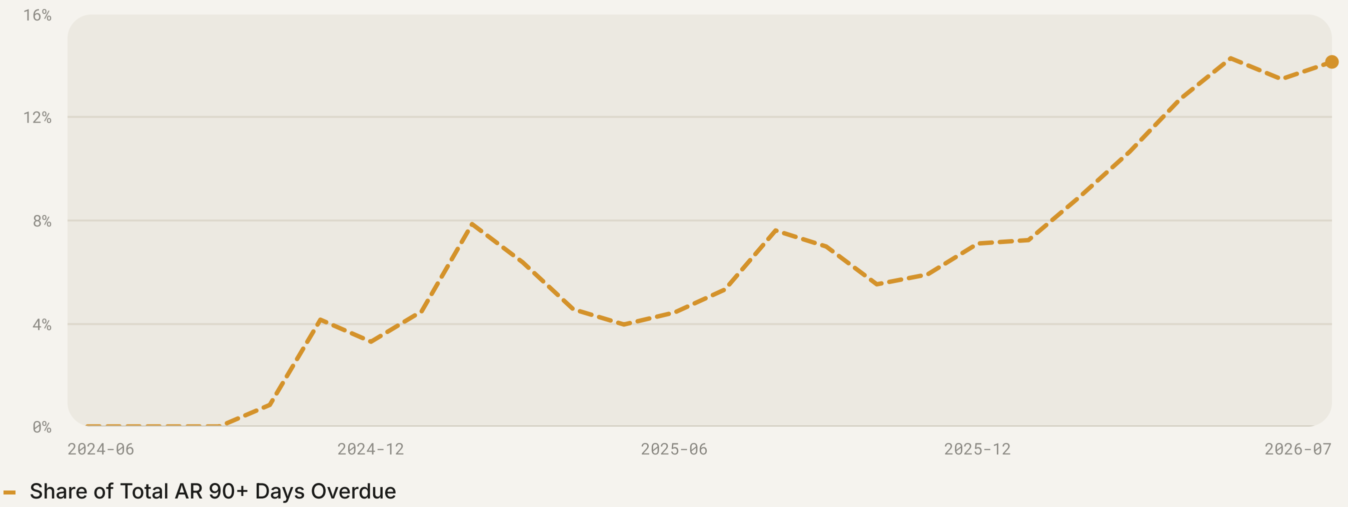
Collecting those balances is rarely as simple as sending an automated email or text message. Effective collections require consistent follow-up, strong relationships and a willingness to work through the details of individual accounts. Retailers may be balancing payroll, taxes and multiple vendor obligations while trying to keep the right products on their shelves. Resolving payment issues while preserving the commercial relationship requires context and a human touch.

As portfolios grow, so does this workload. Brands increasingly find themselves dedicating significant management time to invoice reconciliation, payment follow-ups and collections rather than product, sales and consumer demand. Shared collections infrastructure allows brands to benefit from a team already managing those retailer relationships at scale - while allowing their own teams to remain focused on building the business.

FIGURE 5 · **OVERDUE ACCOUNTS RECEIVABLE IN NEW YORK**

SHARE OF AR **14.2%**

The share of receivables sitting 90+ days overdue has roughly tripled since early 2025.



Nabis New York platform data, June 2024 – July 2026. Month-end reconstruction of outstanding retailer receivables across 45,487 delivered orders; an order counts toward AR if it was delivered by the snapshot date and had not yet been paid in full as of that date. Because month-by-month aging snapshots are not retained, balances for orders still open today are held constant across prior snapshots, affecting a small share of orders. COD orders are excluded as they do not extend credit.

WORKING CAPITAL

07 Scaling Distribution Comes at the Cost of Perfecting Your Core Business

While discussions about distribution often focus on transportation costs, many operators identify a different challenge as their greatest obstacle to growth: working capital.

Unlike many consumer packaged goods industries, cannabis businesses frequently finance a substantial portion of their operations long before revenue is collected. Fluctuations in sales volume make owning infrastructure difficult for statewide distribution while setting a high bar for quality of service.

A brand may commit capital to manufacturing weeks before products are completed. Once inventory is packaged and tested, it enters distribution before reaching retail shelves. Products may remain in stores for days or weeks before being purchased by consumers. Only after retailers have sold those products - and their payment terms come due - does cash begin flowing back to the brand.

In many cases, more than three months can pass between paying to manufacture inventory and receiving payment from the retailer.

During that same period, brands continue funding payroll, sales teams, marketing initiatives, product development, compliance, and future production runs. Every operational function that consumes additional working capital or management attention therefore deserves scrutiny. This is where many companies begin reevaluating self-distribution.

Managing vehicles, scheduling deliveries, coordinating drivers, processing manifests, reconciling invoices, pursuing collections, monitoring retailer payment behavior, maintaining end-to-end insurance, sustaining commercial real estate, and administering accounts receivable all require talented employees and significant executive oversight.

These functions are necessary, but simply may not be the activities that create the greatest competitive advantage for a consumer brand.

As New York becomes increasingly competitive, brands are discovering that the opportunity cost of managing logistics can exceed the direct financial cost itself. Every hour spent resolving delivery issues is an hour not spent developing new products, supporting retailers, expanding into new accounts, or strengthening consumer demand.

For growing businesses with limited resources, those tradeoffs become increasingly significant.

THE CANNABIS CASH CONVERSION CYCLE

WORKING CAPITAL

07.1 The Working Capital Challenge Is Becoming the Industry's Biggest Constraint

FIGURE 6 · CAPITAL INVESTMENT TO LAUNCH DISTRIBUTION CAPABILITIES

Based on Nabis October 2025 cost data across 37 NY brands in three cohorts. Cohort definitions: Emerging = up to $100K monthly sales; Scaling = $100K–$500K; Established = $500K+. Self-distribution cost models reflect operator-reported data and standardized assumptions for fleet, warehouse, labor, compliance, and AR at each scale. CapEx figures represent estimated outfitting costs (racking, HVAC install, forklifts, storage containers, camera system, controlled access system, networking backbone, security alarm installation & annual costs, fire panel upgrades, contingency/incidentals, tools, equipment, supplies, small fleet of 3–5 vans, optional tractor or reefer trailer, annual rent) and are excluded from the margin comparison. Actual distribution costs vary by operator and are influenced by factors including market geography, fleet size, route density, headcount structure, and operational maturity. The figures above represent modeled cohort averages and should not be interpreted as a guarantee of specific savings outcomes.

WHERE EXECUTIVE TIME GOES

Ultimately, It's About Opportunity Cost

For brands, cultivators and manufacturers, the question is not whether they can build and operate a statewide distribution network. It is where their limited capital, talent and management attention create the most value. Every hour and dollar invested in scaling fleets, warehouses, compliance, accounts receivable and collections is an hour and dollar that cannot simultaneously be invested in perfecting products, building consumer demand, strengthening retailer relationships and growing the core business. As the market becomes more complex, specialization allows operators to focus on their craft while leveraging infrastructure built to manage distribution at scale.

SELF-DISTRIBUTION

- Fleet management
- Delivery scheduling
- Collections
- Compliance reporting
- Accounts receivable
- Vehicle maintenance
- Warehouse operations
- Sales & brand development
- Stitching together data from a patchwork of systems

SHARED DISTRIBUTION INFRASTRUCTURE

- Sales execution
- Retail partnerships
- Consumer marketing
- Product innovation
- Merchandising
- Category strategy
- Brand development
- Real-time data analytics

SHARED INFRASTRUCTURE

08 Shared Infrastructure Allows Brands to Focus Where They Create the Most Value

As markets grow more complex, companies increasingly focus on the capabilities that differentiate them while relying on trusted partners for shared functions that benefit from the economies of scale.

Consumer packaged goods companies rarely own nationwide trucking fleets. Technology companies seldom build their own payment networks. Retailers generally do not manufacture every product they sell.

New York cannabis brands create value by developing exceptional products, building consumer loyalty, supporting retail partners, and expanding market share. Those activities strengthen long-term competitive positioning and directly influence revenue growth.

For brands partnering with Nabis, distribution infrastructure extends far beyond transportation. Products gain access to a statewide distribution network. Retailer analytics help brands identify opportunities and make more informed sales decisions. Retailer credit ratings provide additional insight when evaluating payment terms and account risk. Collections are managed through a centralized operation serving dozens of brands, creating efficiencies that are increasingly difficult for individual companies to replicate independently.

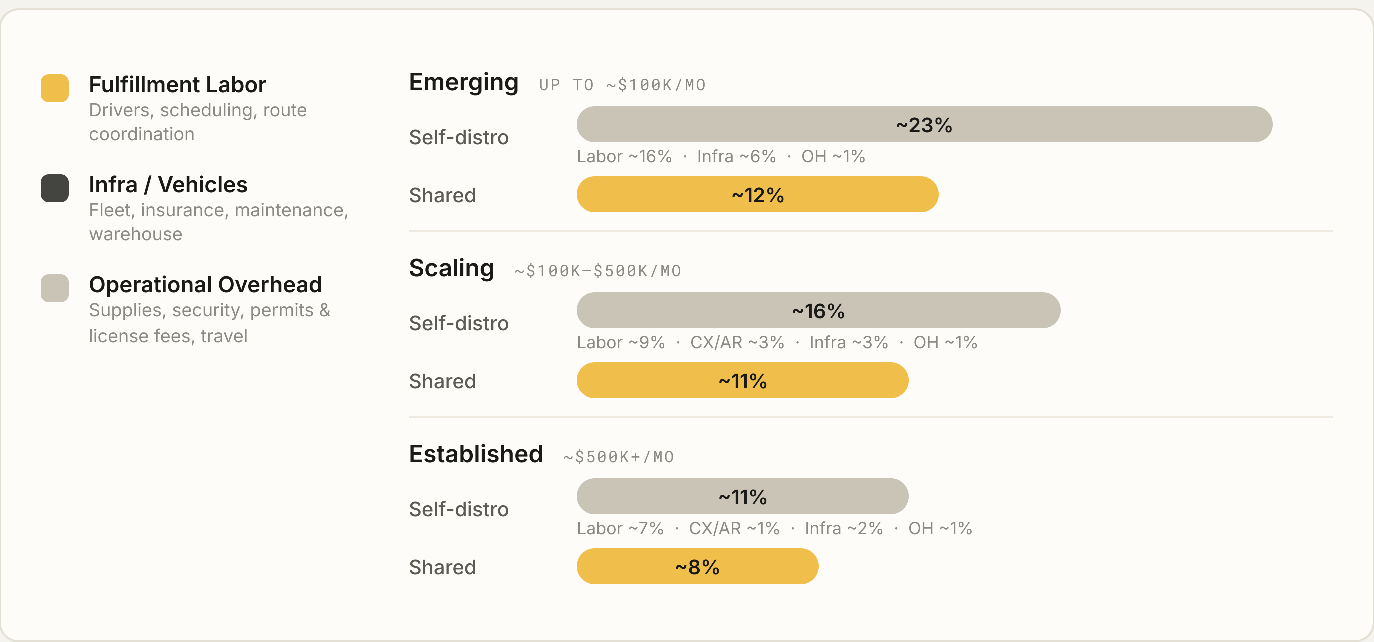
Retailers also benefit from a simplified purchasing experience. Flexible payment options, including cash, check, and BillPay, allow buyers to manage invoices more efficiently, while centralized ordering through the Nabis Marketplace gives dispensary buyers a single destination to discover brands, compare inventory, and place wholesale orders.

As more brands join the platform, these network effects become increasingly valuable for both suppliers and retailers.

Importantly, none of these capabilities replace a brand's sales organization or retailer relationships. Instead, they allow those teams to devote more time to activities that directly influence sell-through, reorder rates, merchandising, and long-term growth rather than administrative tasks that, while essential, do not differentiate one brand from another.

The conversation, therefore, should not be framed as a choice between self-distribution and third-party distribution. It should be viewed as a choice between investing scarce resources in operational infrastructure or investing them in the activities that build enduring consumer brands.

FIGURE 7 · COST OF GOODS COMPARISON OF SELF-DISTRIBUTION VS. SHARED INFRASTRUCTURE



09

CLOSING

Key Takeaways

When New York's adult-use cannabis industry first launched, self-distribution represented a logical and economically rational response to a young and uncertain marketplace. Retail coverage was limited, manufacturers were already moving product, and introducing another supply chain partner often appeared unnecessary.

The market has since evolved. Retail buyers have become more sophisticated. Geographic demand patterns have emerged. Sell-through has become just as important as sell-in. Cash conversion cycles continue to pressure growing businesses, while brands face increasing expectations to provide consistent retail support long after the initial sale.

These changes have transformed distribution from a logistics function into a commercial capability. Effective distribution encompasses market access, retail intelligence, collections, payment flexibility, credit management, analytics, and technology that helps brands make smarter commercial decisions. Fulfillment remains essential, but it is only one component of a much larger operating system that supports profitable growth.

As the cannabis industry matures, companies increasingly invest their capital and leadership attention in the capabilities that differentiate them while relying on shared infrastructure for operational functions that benefit from scale.

The companies that will define the next chapter of the market will be the ones that build the strongest brands, deepen the best retail relationships, deploy capital with discipline, and leverage specialized infrastructure to scale more efficiently than their competitors.

For brands evaluating how to compete over the next five years, the most important strategic question may no longer be: *"How much does distribution cost?"*

THE TRUE QUESTION IS

> ***"Where does our company create the greatest competitive advantage without forgoing mindshare on less important aspects of our business?"***

HIGHEST-VALUE INVESTMENTS

- Product innovation
- Consumer marketing
- Field merchandising
- Retail partnerships
- Sales execution
- Category insights
- Demand generation

SHARED INFRASTRUCTURE

- Delivery operations
- Collections
- Accounts receivable
- Fleet management
- Retailer marketplace
- End-to-end insurance
- Compliance administration
- Payment processing
- Logistics technology

NABIS

GET IN TOUCH

For a customized view of your shared distribution costs with Nabis, contact ny.partnerships@nabis.com, and we will model it against your actual numbers.