2019

Construction Payments Report

Insight into the $64 billion payment gap in the connected construction economy

Rabbet

Introduction

The construction industry suffers from 51 days sales outstanding, the longest of any industry in the US.[1]

Subcontractors experience the primary effects of slow payments, including the cost of floating payments for payroll and supplies, higher risk of bankruptcy during downcycles, and challenges in growing a cash-intensive business. General contractors also face some of these primary effects with the added concern of mitigating secondary effects like inflated project costs and delays.

The 2018 Construction Payments Report estimated a $40 billion impact on the industry for carrying forward the fees and costs of slow payments. In 2019, Rabbet extended the survey to not only collect input from subcontractors but also to collect results from general contractors. Taking into account this additional layer of transactions within the construction industry, Rabbet updated the estimated cost of slow payments to $64 billion in 2019.

The impact of slow payments reverberates throughout the connected construction economy—from subcontractors to general contractors to developers to lenders, owners, and investors. This report demonstrates the primary and secondary cost of slow payments and why all parties in the construction industry should take action to address slow payments.

In partnership with Procore, Rabbet presents the second annual report on the impact of the speed of payments on the connected construction economy.

PROCORE
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2019 SURVEY HIGHLIGHTS

- Survey finds an additional $24 billion in costs associated with slow payments, for a total cost of $64 billion in 2019
- 30% of all respondents report that work has been delayed or stopped due to a delay in payments to crew members in the last 12 months
- 63% of subcontractors report choosing not to bid on a project due to a general contractor or owner's reputation of slow payments in the last 12 months
- 72% of subcontractors would offer a discount for payments within 30 days, resulting in an estimated industry-wide savings of $44 billion

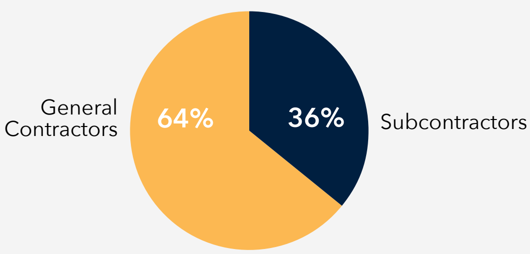
[1] 2018-2019 PWC Working Capital Survey

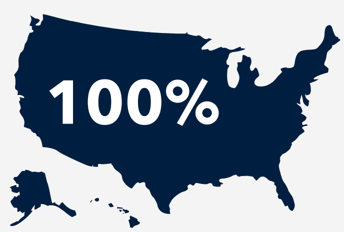
About the Study

The survey captured how 184 general contractors and subcontractors across the US managed working capital, bidding decisions, and project risks in the face of slow payments during the last 12 months. Participants completed the online survey during August and September of 2019. Rabbet distributed the survey to contractors representing a wide diversity of trades at the American Subcontractors Association as well as contractors and general contractors in the Rabbet and Procore networks.

Rabbet would like to thank all survey participants who gave their valuable time to participate in the report.

RESPONDENT PROFILE

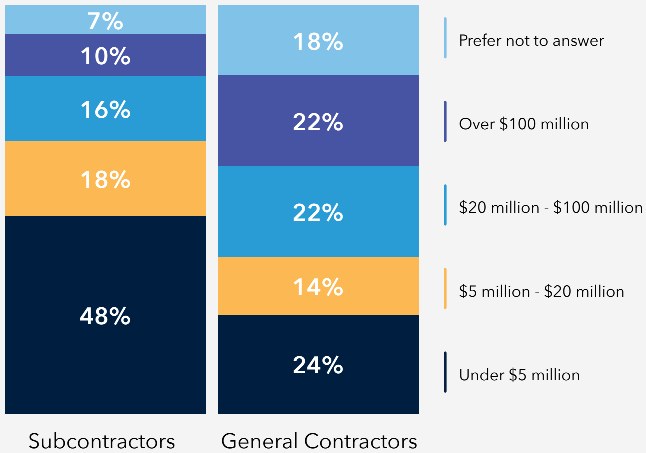




TOP 5 TRADES REPRESENTED:

- Plumbing
- Mechanical
- Engineering
- HVAC
- Electrical

2018 REVENUES



Understanding the Hidden Costs of Slow Payments

Subcontractors bear the greatest direct cost for slow payments

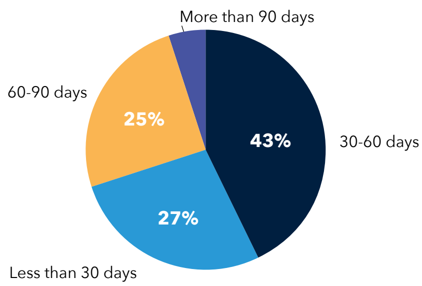
Working capital is crucial to contracting businesses. In simple terms, cash flows out of a subcontracting business for wages and materials much quicker than the 51 days it takes for cash to flow in. Wages must be paid weekly or biweekly, and materials are typically purchased on 30-day invoice terms. Three out of four contractors report waiting longer than 30 days to receive payments, with one in three waiting longer than 60 days.

Subcontractors turn to many sources of financing for wages and materials while they wait for payment from the general contractor. Only 39% of subcontractors report the ability to rely on their balance sheet, followed by a line of credit (36%), credit card (22%), personal savings (15%), and retirement savings (6%).

Consistent with the 2018 survey, subcontractors estimate that the cost of floating payments adds an average of 3.3% to total project costs, representing a $40B in excess cost to the industry.

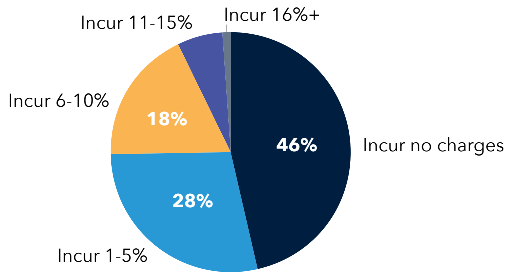
SUBCONTRACTORS

73% of subcontractors wait longer than 30 days for payment



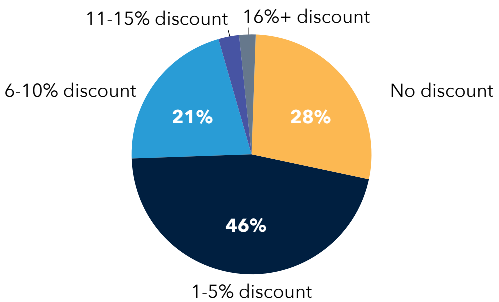
DAYS SALES OUTSTANDING

$40B estimated overhead included in subcontractors' bids to finance slow payments



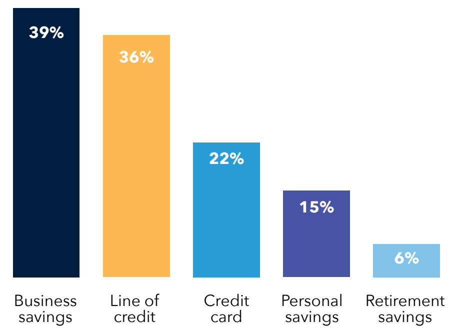
COST OF FLOATING PAYMENTS

$44B estimated discount subcontractors would offer for payment within 30 days



ESTIMATED DISCOUNT FOR NET 30

54% of subcontractors incur financing charges while floating payments



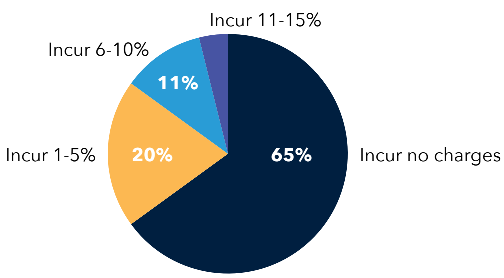
MOST COMMON SOURCES OF FINANCING

Subcontractors indicate that the value of faster payments is greater than the value of alleviating financing costs. While they report the average cost of floating payments is 3.3%, subcontractors say they would provide an average of a 3.7% discount for payments made within 30 days. Even among those who say they did not incur charges for floating payments in the last 12 months, 57% said they would offer a discount.

The 12% premium subcontractors place on payment within 30 days—3.7% discount vs 3.3% costs—sheds light on the hidden values of faster payments.

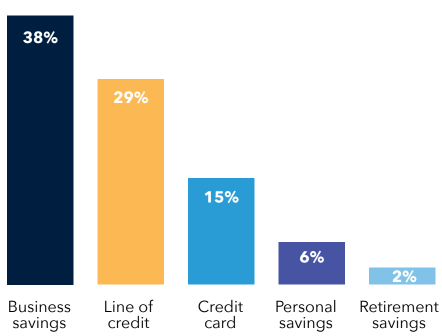
GENERAL CONTRACTORS

$24B estimated overhead included in general contractors' bids to finance slow payments



COST OF FLOATING PAYMENTS

35% of general contractors incur financing charges while floating payments



MOST COMMON SOURCES OF FINANCING

Access to cash is essential for subcontractors to grow their business in an upcycle and survive in a downcycle. In the last 12 months, even while access to capital has been historically cheap, 21% of subcontractors report choosing not to bid on a job due to cash flow concerns. When access to capital becomes more limited during a downturn, faster payments have the potential to impact the bankruptcy rate in the industry.

General contractors champion faster payments for subcontractors

For the first time, Rabbet included general contractors in the 2019 Construction Payments Survey to ask about their involvement in the payment cycle.

74% of general contractors report paying at least some vendors more frequently than once per month, and 35% incur financing costs while floating payments.

Similar to subcontractors, only 38% of general contractors say they are able to rely on their balance sheet, followed by a line of credit (29%), credit card (15%), personal savings (6%), and retirement savings (2%).

General contractors estimate that the cost of floating payments adds an average of 2% to total project costs, representing a $24B in excess cost to the industry.

22% of general contractors say they have delayed payment to subcontractors in order to improve working capital. Notably, general contractors with 2018 revenue under $5 million are twice as likely to report this as general contractors with 2018 revenue over $100 million.

Overwhelmingly (95%), general contractors see value in paying subcontractors faster.

PROJECT IMPACTS

MONEY

3.7%

Estimated project savings for payments made within 30 days

TIME

28%

Subcontractors who report work delayed or stopped due to a delay in payments in the last 12 months

RISK

30%

Subcontractors who report filing a lien due to slow payments in the last 12 months

Developers & Financiers: Your Reputation Is on the Line

Developers and financiers may not realize their role in the overall cost of a project. In addition to the estimated average 5.3% additional project cost for direct effects from slow payments, subcontractors also factor in a general reputation for slow payments when deciding when and how much to bid on projects.

76% of subcontractors report considering a reputation for slow payments when deciding how much to bid on a project.

Not only are they considering how much to bid, but 63% of subcontractors decided not to bid on a project in the last 12 months because of a general contractor or owner's reputation for slow payments.

An owner's reputation for slow payments threatens the general contractor's ability to earn competitive bids, and this challenge is further compounded in a tight labor market. Getting the best bids from the best contractors is essential to managing project costs and schedules.

Owners, investors, lenders, developers, and general contractors share responsibility for slow payments in the industry. Some industry participants are up to five degrees removed from the individuals who purchase materials and perform the work. However, this distance does not shield these parties from cost implications.

Slow payments are an industry-wide problem that requires an industry-wide solution. It is imperative for industry participants to work together to eliminate the manual, complicated processes involved in invoice approval and payment distribution.

Subcontractors and general contractors have long been carrying the burden of slow payments—and all stakeholders suffer from the costs. It's time for owners, investors, lenders, and developers to turn to 21st-century processes and technology to improve the construction industry for all.

About Rabbet

Rabbet is bringing efficiency, accuracy, and transparency to the complex connected construction economy. The intelligent construction finance platform uses machine learning to parse documents and connect information for reduced administrative burden, verifiable compliance, and faster decision-making for real estate lenders and developers. Based in Austin, Texas, Rabbet is venture-backed by QED Investors, Camber Creek, and Goldman Sachs.

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