January/February 2023

Building Better Cash Flow In Construction With Digital Payments

B2B And Digital Payments Tracker® Series

PYMNTS | AMERICAN EXPRESS

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B2B And Digital Payments Tracker®

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Acknowledgment

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Need To Know

As Demand For New Construction Suffers, Complexity Grows

Rising interest rates are setting the stage for a housing sector recession. New construction has continued its descent, as housing starts fell 4% month over month and 16% year over year as of November 2022. Building permits, meanwhile, were down 11% month over month and 22% year over year, while single-family unit authorizations were down 7% month over month.

Simply put, high mortgage rates are driving away would-be buyers, leading to a record 11 consecutive months of declining homebuilder confidence — which now stands at the lowest level in 10 years. With buyer traffic so sparse, some are calling on the federal government to enforce policies that can lower building costs and expand housing production.

Homebuilders are becoming proactive about attracting buyers in a challenging housing market.

37%

Share of U.S. homebuilders who have cut prices to encourage more buyers

59%

Portion of U.S. homebuilders who are using an incentive to encourage more buyers

Need To Know

Federal contractors could face more burdensome compliance evaluations

Construction firms could be required to produce a much broader scope of data and additional documentation during compliance evaluation on federal contracts. The Office of Federal Contract Compliance Programs recently revised its Scheduling Letter and Itemized Listing form with changes coming as early as Q1 2023.

If approved, the updated nine-page compliance review form will expand required documentation related to employment policies and compensation systems, as well as data reporting requirements. The revision aims to increase the obligations for federal contractors, exceeding regulatory requirements. These sweeping changes could place burdensome costs on federal contractors across the construction industry.

In addition to increased compliance requirements, costs are growing for U.S. construction firms.

12% **Share of firms that cited rising electrical components costs**

8% **Share of firms that cited rising exterior finishes and roofing costs**

6% **Share of firms that cited rising costs for appliances**

6% **Share of firms that cited rising insulation costs**

Need To Know

Companies must take swift action to avoid disruption

Getting paid on time is a major roadblock in the construction industry, disrupting cash flow for U.S. construction professionals. Only 11% of construction professionals say they are paid in full on every job, and the impacts can be devastating.

Disruptions due to slow payments can throw projects off schedule or stall them entirely, keeping construction firms in a taxing cycle of plugging holes just to keep machines running. It also creates undue stress in an already complex environment, with 97% of construction professionals admitting they experience stress from slow payments and cash flow problems.

3 Ways Construction Firms Can Weather 2023:

Use banking providers that enable faster payments

Replace legacy systems and prioritize vendors with digital maturity

Identify and implement digital solutions that drive stronger cash flow

News And Trends

Costs Increase As Construction Delays Mount

Delays are widespread across the construction industry. A recent survey found 90% of construction firms experienced construction delays, 78% reported permitting delays and another 86% cited start delays. Funding is an increasing issue, with the share of firms reporting delayed starts because of a lack of available construction financing growing from 7% in March 2022 to 31% in November 2022. At the same time, costs continue to rise, with three in four firms citing project price increases averaging 9% during this time period.

There is some good news on the pricing front, however. The cost of lumber declined for a second consecutive quarter, and while labor costs increased more than expected for 21% of construction firms, the increase was the lowest percentage seen in six months.

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News And Trends

Cost impact of delayed payments rising for U.S. construction sector

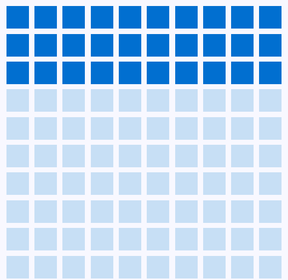
Delayed payments are causing more headaches for the construction industry. Late payments for wages and invoices cost the sector $208 billion in 2022, representing a 53% increase from the prior year. Nearly half of subcontractors reported waiting more than 30 days to be paid by general contractors in the last year, with another 37% citing work stoppage or delays related to late payments to project workers — a 28% increase from the previous year.

The impact runs deep for many, with 27% of subcontractors filing liens to maintain possession of a property until they receive payment for work completed. Six in 10 general contractors are incurring billing charges, financing charges and other costs when making payments to others, meanwhile. Half of those are relying on credit cards to cover costs and one in five are dipping into retirement savings, indicating a need to speed up payment processing systems.

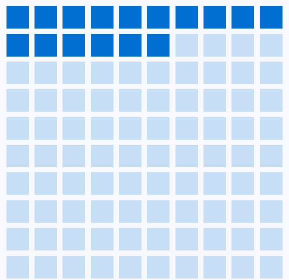
AP/AR automation can help companies prepare for possible recession

Construction firms are not known to be early adopters, but many are increasingly turning to technology to create efficiencies and unlock growth as they stare down a potential recession. Almost half of middle market professionals surveyed said investing in technology was a top priority over the next 12 months, with four in 10 increasing their budget specifically for adding technology. Automation is a focus area for 36%, with 30% deploying it to streamline back-office processes, such as cloud-based accounts payable (AP) tools. On the accounts receivable (AR) side, manual processes create pain in the construction sector, with 26% of firms viewing manual processes as a challenge. Automation and new digital payments options can remove friction.

30%



Share of U.S. construction firms preparing for a possible recession by investing in technology to save time and costs



16%

Portion of U.S. construction firms preparing for a possible recession by reducing or halting digital transformation projects

PYMNTS Intelligence

Slow Payments Drag Contractors' Cash Flows

Slow payments are more than a waiting game for the construction industry. They contributed to 12% of total construction costs last year, dipping into firms' profits. As a result, almost one in three firms surveyed must finance gaps in cash flow, adding carrying costs such as interest to their balance sheets that eat into the 10% profit margin construction firms typically report.

An estimated one in four commercial contractors and more than one in three government contractors report waiting more than 90 days to receive retainage payments, an issue cited as a "very important" or "the most important factor" in cash flow management. Twenty percent become cash flow negative after just 40 days.

PYMNTS Intelligence

Pandemic intensified need to reduce B2B payments friction

With banks reporting that the pandemic added friction to business-to-business (B2B) invoice and payments management, there are a plethora of pain points for the construction industry to address. These frictions have indicated a need for modernizing and upgrading legacy payment processing systems. There are 67% more construction firms using software for payment paperwork now than there were before the pandemic.

Firms are using software in key areas, with 62% using it to track and process payments, 55% to coordinate sending and tracking payment paperwork, 54% for task management and job site coordination and 44% for plan management and reviewing.

Going digital is enabling construction firms to receive money faster.

83%

Share of U.S. construction companies that can accept electronic payments

79%

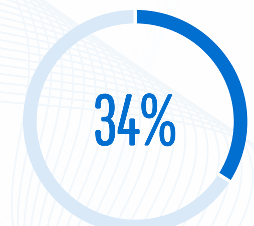
Portion of U.S. construction companies that say accepting electronic payments helps them get paid faster

PYMNTS Intelligence

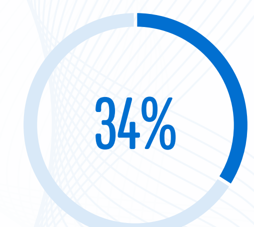
Construction industry leads the way in innovation

Construction firms are out in front of other industries when it comes to upcoming innovations. According to PYMNTS' research, the construction industry is averaging roughly five technologies to be rolled out in the next year. One in four construction companies are eyeing innovation in AP and AR integration and enterprise resource planning (ERP), for example. These contractors are overwhelmingly aiming for faster payments and easier cash flow management. PYMNTS' research found 33% were planning to adopt integration between AP and AR and 31% plan on adding instant bank verification and virtual cards for making payments to suppliers.

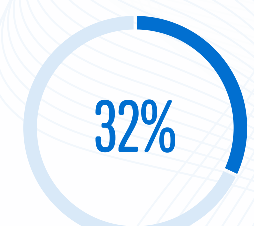
PYMNTS' research shows how U.S. construction companies are targeting AR processes for innovation with plans to adopt new technologies.



Share of construction firms targeting payment acceptance



Portion of construction firms targeting cash application



Share of construction firms targeting invoice delivery

PYMNTS Intelligence

Faster payments relieve pressure

Subcontractors demonstrate that faster payments create as much value as alleviating financing costs, according to one study. While the cost of floating payments is up almost 3%, subcontractors said they would discount payments made within 30 days by an average of 5%, a decrease from the previous year's average discount of 6%.

Faster payments matter so much to subcontractors that even for those who did not get hit with costs related to floating payments in the previous year, nearly six in 10 would offer a discount. Contractors also see the value of credit cards: 49% of general contractors use and accept credit cards to cover projects.

The construction industry places a premium on faster payments.

86% Share of subcontractors claiming a late payment damaged productivity

90% Share of general contractors who said paying subcontractors faster ensures quality of work

Chart Of The Month

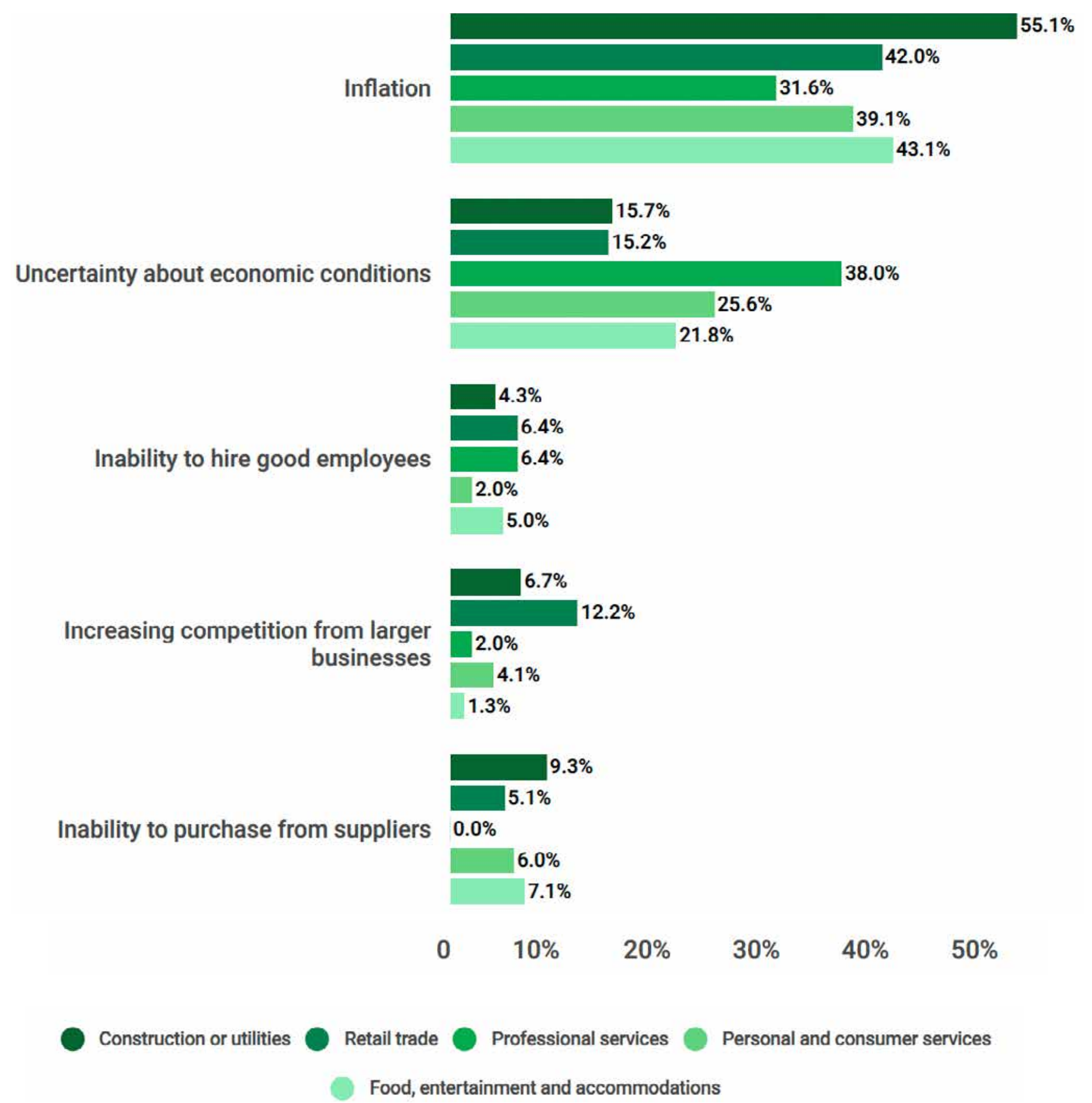
Inflation Is Construction Industry's Top Headwind

Small to mid-sized businesses (SMBs) are facing a number of challenges involving increasing costs and staying competitive in an uncertain economic climate. The biggest concern is around inflation, and SMBs in the construction or utilities sector are most worried, with 55% citing it as their greatest challenge of 2022. Only 9% of these SMBs are most worried about their inability to purchase from suppliers and 7% are worried about growing competition from larger companies.

Source: PYMNTS
Main Street Health Survey Q4 2022, December 2022
N = 501: Complete responses, fielded Oct. 10, 2022 – Nov. 2, 2022

Greatest challenges for Main Street SMBs in 2022

Share of Main Street SMBs that considered a specific challenge to be their greatest this year, by market segment



Insider POV

An Insider On Driving Business Growth By Prioritizing Payments

Patricia Bonilla, owner and president of Miami-based Lunacon Construction Group, asks every prospective client the same question: "How do you make payments?"

"We're in the business of building, but we're really in the business of managing risk and managing cash flow."

PATRICIA BONILLA
Owner and president

The construction industry's long-standing issues around payments are ever-present for Bonilla, who started the firm out of her garage with two employees and now manages nearly $500 million in commercial projects. Bonilla has learned to make receiving payments a business priority, aiming to work with clients who have well-established and clearly defined payment processes.

Insider POV

"Most of our clients have a culture of paying on time," said Bonilla.

Some clients that Lunacon works with will add interest themselves to a payment if it is going to arrive late, in fact. When payments do arrive late, however, it can quickly snowball into bigger cash flow problems that can lead to delaying other projects.

While the construction industry can be unforgiving when it comes to late payments, Bonilla focuses on the things she can control. This is why she targets clients with a culture of paying vendors and tries to understand every client's individual payment process. Much of Lunacon's work is with the federal government and local municipalities, and sometimes payments can get held up by bureaucracy, while residential contractors often face less risk of late- or non-payment.

Bonilla, however, noted that the burden of proof always falls to the contractor. To be proactive, Lunacon has an employee whose job is 100% focused on following the money on projects and ensuring payments are being made in a timely fashion.

It is wise to seek out red flags when guarding against late payments, but sometimes those red flags are not visible until it is too late. Bonilla said one of the industry's biggest challenges is the ability to view transparent, accurate data. She is charged with introducing new digital solutions to the company that will address cash flow, payments and data in an effort to run as efficiently as possible in what figures to be a difficult economy and challenging construction market throughout 2023.

Bonilla noted Lunacon started in 2007 and grew out of the recession during that time. She tapped the American Express Contract Connections program, which helps owners secure government and big corporate contracts and offers many resources to help businesses grow. Having weathered one storm, Bonilla said she is ready for what comes next and motivated to relieve the pain of late payments with digital tools.

"We are focused on innovation and [getting] more work," Bonilla said.

Companies To Watch

Third Parties Offer Access To Payments Ecosystems

New York-based payments firm Extend partnered with American Express to provide small businesses greater access to virtual credit cards. American Express Business Card Members can create virtual cards within five minutes and at no extra cost, enabling businesses to pay employees and contractors and set spending limits without requiring their primary account number.

American Express plans to acquire Nipendo, the platform for global businesses to automate and streamline B2B payments processes . This is another strategic step in the buyer's goal to build a leading end-to-end B2B platform that makes business payments simpler and more efficient. Nipendo enables easy connection, communications and automation of Procure-to-Pay processes.

What's Next

Cost Savings Expected To Power B2B Payments Platform Market Growth

Despite headwinds, the global B2B payments platform market should continue its rapid expansion. With a growing number of FinTechs entering the market with competitive payment solutions and more established financial institutions expanding their innovative solutions and partnerships, there are more offerings available to suit a greater number of use cases. Recent research projected that the B2B payments platform market will grow more than 8% annually by 2028. Concerns over digital payments security and transaction-related fees could slow that growth, however. Selecting the right technology and provider is often the greatest challenge organizations face, but the cost savings that online platforms provide will continue to drive wider adoption.

"The B2B payments process in the construction industry is often inefficient and cumbersome, but partners can help optimize the experience by offering easier access to working capital and the automation of payables and receivables processes. At American Express, we're investing in solutions that help businesses facilitate more efficient transactions with other businesses, and we have direct unique relationships with both the buyers and suppliers who this can benefit. Our focus is improving how our construction customers exchange information to aid in communication, reconciliation and disputes, and generally reducing friction for an overall better payments experience."

CHRIS LOLLI
Vice president and general manager, B2B product, partner & client management

American Express Global Merchant & Network Services

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About

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