



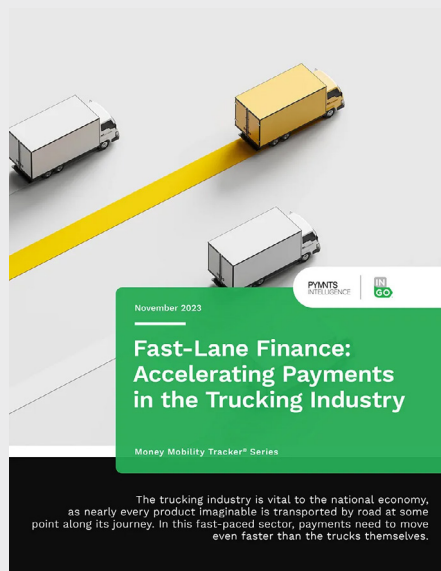
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Under Construction: Improving Payments in the Construction Industry

Money Mobility Tracker® Series

The construction industry is nothing short of a payments disaster, with delayed transactions leading to late payroll, halted projects and more. A complete digital transformation is necessary to bring the construction industry up to code.

■ Read the previous edition



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**Money Mobility Tracker®
Series**

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Acknowledgment

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Introduction

Late payments and transaction errors run rampant in the construction industry. The sector's days sales outstanding (DSO) — a measurement of how long a company waits to receive payment for its products or services — clocks in at a staggering [94 days](#).

The downstream ramifications of these payment delays can spell disaster, causing cash flow disruptions resulting in workers missing paychecks, vendors not getting paid, and projects getting delayed by months. New digital technologies will be critical to reducing payment delays and bringing greater financial stability to the entire sector.



Scope Creep

The Damaging Status Quo for Construction Payments

Payments in the construction industry are typically late, which can have damaging downstream effects on construction processes. One of the most direct consequences of these payments delays is increased costs across the entire sector.

57%

of subcontractors use credit cards to float payments until funds are received.

Payment delays contribute to an overall increase of \$273 billion in construction bids.

In the United States, payment delays in the construction industry are driving up costs across the board. Both general contractors and subcontractors increase their bids between 6% and 10% to compensate for the inevitability of late payments — just so they can keep their businesses operating in the black as they await payment. In addition, 57% of subcontractors use credit cards to cover payments until they receive funds, up from 51% in 2022 and 22% in 2021. Some studies estimate that late payments account for 14% of total construction costs overall, which can create a vicious circle: Higher prices result in later payments as customers gather funds, subsequently leading to further price hikes to offset the costs of these late payments.

Scope Creep

Construction is the sector in Europe most affected by late payments.

European Builders' Confederation Secretary General Fernando Sigchos Jimenéz attributes these delays to the [long value chain](#) inherent in the construction industry, with contractors on the very end of it, meaning they are affected by every holdup earlier in the chain. "Sometimes there is a mismatch with the fact the main contractor ... [waits] for the whole project to be delivered in order to pay the different actors that were active on the project," Jimenéz recently told Business Planet.

Payment delays in Europe are further compounded by the fact that the new solar energy targets and green builds mandated by the European Green Deal have introduced new frictions to the supply and payments chain. "To get into a greener way of doing construction, you need to invest either in more people or in innovation," Jimenéz said.



Hard-Hat Hardship

How Late Payments Harm Construction Workers

While all parts of the construction industry are harmed by late payments, arguably the most affected segment consists of contractors and subcontractors. Upstream delays stanch cash flow downstream, leaving businesses struggling to meet their financial obligations, including those to their workers, such as making payroll on time.

73%

of contractors were forced to pay out of pocket for materials in 2023.

Contractors wait an average of 74 days to get paid for a given job.

This lack of timely payment means that 73% of contractors were forced to pay out of pocket for materials in 2023, up from 66% of contractors in 2022 that reported the same. The situation has gotten so dire that workers are willing to accept less pay in exchange for prompt payment. In fact, more than nine in 10 contractors said they would offer a discount of up to 5% if they were guaranteed payment within three days of an approved application. Despite contractors' history of receiving late payments, subcontractors working under them report similar issues, with 52% saying their general contractors fail to grasp the importance of prompt payments.

Hard-Hat Hardship



Construction workers are abandoning the industry in droves due to payment frustrations.

In British Columbia, Canada, for instance, 14,500 construction workers quit the industry in Q1 2023 alone, thanks in large part to the need to be paid more quickly. Waiting months for a paycheck presents a significant financial risk for workers, potentially leading to bankruptcy as the prolonged lack of payment prevents them from meeting their financial obligations. One study found that 90% of contractors work for small companies, which are paid anywhere from three to six months after a project is finished.

Change Order

Improving Construction Payments With Technology

The construction payments situation is not unfixable, but it will require a concerted technological effort to make changes across the board. Accelerating construction payments could improve vastly the financial prospects of workers and small businesses alike.

Real-time payments
could greatly help construction workers living paycheck to paycheck.

On-demand pay is growing more popular among construction workers living paycheck to paycheck.

Sixty percent of Americans currently live [paycheck to paycheck](#), making any unexpected expense potentially disastrous for long-term finances. FinTech platform Trunk Tools is attempting to mitigate this fear for construction workers by providing them [real-time access](#) to their wages instead of making them wait the traditional two-week pay period. This means that workers can access funds when they need them and avoid using dangerous stopgaps like payday lenders. Trunk Tools recently raised \$9.9 million in a seed round to develop and roll out this technology to workers.

Change Order

Procore recently launched a new solution for streamlining construction payments.

The new system, called Procore Pay, integrates with the company's existing invoicing tool to automate [lien waiver management](#) and allow contractors to accelerate payments to their subcontractors. The launch follows a pilot program earlier this year, which tested the system with two-dozen general contractors. One of the test subjects reported that the new system could save them up to \$90,000 each year in billable staff hours, as the system automates manual tasks that would normally take human employees significant time to complete. These savings could be redirected toward ensuring timely payments to contractors and subcontractors.



Call to Action

How Faster Payments Benefit the Construction Industry

Construction firms can experience a cascade of benefits by streamlining payments processes. Chief among these boons is cash flow management: Construction projects typically involve numerous stakeholders, from suppliers to subcontractors and every position in between. Accelerated payment cycles mean that subcontractors receive funds promptly, reducing the likelihood of cash flow gaps and enabling them to meet their financial obligations. This, in turn, fosters healthier relationships within the supply chain, promoting collaboration and trust among project participants.

With faster access to funds, construction firms can expedite critical activities such as procuring materials and hiring skilled labor.

“Embracing instant payments is not just a choice but a crucial pivot toward a future where technology expedites access to funds, alleviates financial strain, and ensures a thriving construction industry.”



DREW EDWARDS
CEO



This agility is especially crucial for meeting tight project deadlines, reducing the overall project duration, and potentially lowering costs associated with delays. Workers at every step on the supply chain can also access wages faster, significantly reducing financial headaches and encouraging more participation in the construction workforce.

About

PYMNTS INTELLIGENCE

[PYMNTS Intelligence](#) is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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