October 2024

Digital Rebuild: Transforming Payments in the Construction Industry

Money Mobility Tracker® Series

Payment errors and delays are endemic in the construction industry, causing harmful downstream effects, from project slowdowns and work stoppages to increased costs and cash flow problems. Digital payments could significantly reduce these obstacles and get construction back on track.

Read the previous edition

SEPTEMBER 2024

Money Mobility Tracker® Series

What's Inside

PYMNTS INTELLIGENCE | INGO Payments

Acknowledgment

The Money Mobility Tracker® Series is produced in collaboration with Ingo Payments, and PYMNTS Intelligence is grateful for the company's support and insight. PYMNTS Intelligence retains full editorial control over the following findings, methodology and data analysis.

Introduction

Delayed and incorrect payments are a perpetual headache for the construction industry. These issues not only burden accounting teams but also have serious downstream ramifications. Project delays and canceled contracts are just some of the consequences of payment problems. In the United States alone, slow payments in the construction sector have caused a staggering financial impact of $280 billion in 2024. This has led to escalating costs and operational challenges throughout the industry.

Implementing faster, digital payment systems can significantly reduce late payments and their consequences. While improved cash flow is the proverbial carrot, there is also a stick: Many government regulators are now requiring contracting firms to get a handle on their late payments under threat of sanctions.

Legacy Payment Challenges

Late Payments Negatively Impact Cash Flow

Late payments are a persistent challenge for the construction industry, creating severe cash flow problems for firms. Vendors and employees are at risk of not getting paid, which can bring construction to a standstill.

$280B

FINANCIAL IMPACT OF DELAYED PAYMENTS ON THE U.S. CONSTRUCTION INDUSTRY

Legacy Payment Challenges

Slow payments are costing the construction sector $280 billion in 2024.

According to a recent study, payment delays constituted 14% of total construction costs, causing significant financial harm to construction companies. Ninety-eight percent of general contractors reported an increased reliance on personal savings, credit cards and even retirement funds to sustain their businesses while awaiting payments. The problem has only worsened in recent years. Eighty-two percent of contractors said they were paid more than 30 days late, an increase from 49% who reported the same issue two years ago.

"[Slow payments] impact every level of the construction industry, creating a ripple effect that leads to project delays, labor shortages and higher costs," said Will Mitchell, CEO of construction finance software company Rabbet, which conducted the study. "It's imperative that developers and lenders take action to improve their payment processes."

Payment delays stem from myriad sources.

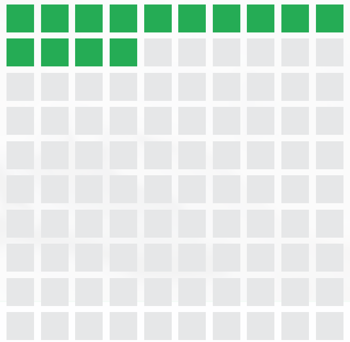
In a recent survey, 38% of general contractors cited bank issues or delays as the biggest contributor to their slow payments. Other common reasons included a lack of organized processes (27%), cash flow issues (24%) and inflation (9%). For subcontractors, cash flow issues were the primary cause of payment delays, at 44%.

Regardless of the cause, the consequences for contractors were severe. Ninety-two percent of respondents said they had to delay or stop work when employees were not paid, and 98% incurred additional fees due to delays. Consequently, 97% of contractors passed those costs on to developers. These cascading effects make it vital to resolve payment issues quickly.

Improving Cash Flow

How Faster Payments Improve Cash Flow

Adopting faster payments can help construction firms significantly improve their cash flow and overall financial health by reducing payment errors and delays.



14%

of total construction costs could be eliminated by implementing faster payments.

Improving Cash Flow

Automating and digitizing payments can streamline operations dramatically.

A recent study revealed that 14% of total construction costs could be eliminated by implementing faster and more reliable payments to contractors. These savings come from various sources, such as reducing the need to replace contractors who quit due to payment frustrations and taking advantage of discounts offered by contractors for fast payments. In fact, 58% of general contractors said they would reduce prices by 11% or more if they were paid promptly. Faster payments also make it easier to hire subcontractors, as 88% declined to bid on jobs because of a general contractor's poor payment reputation.

These savings can also be realized on the back end. PYMNTS Intelligence research shows that 23% of construction firms with automated accounts receivable (AR) processes experienced no AR challenges in 2023. Additionally, 73% of executives at mid-sized firms — including those in construction — found that accounts payable (AP) automation improves cash flow, increases savings or contributes to business growth.

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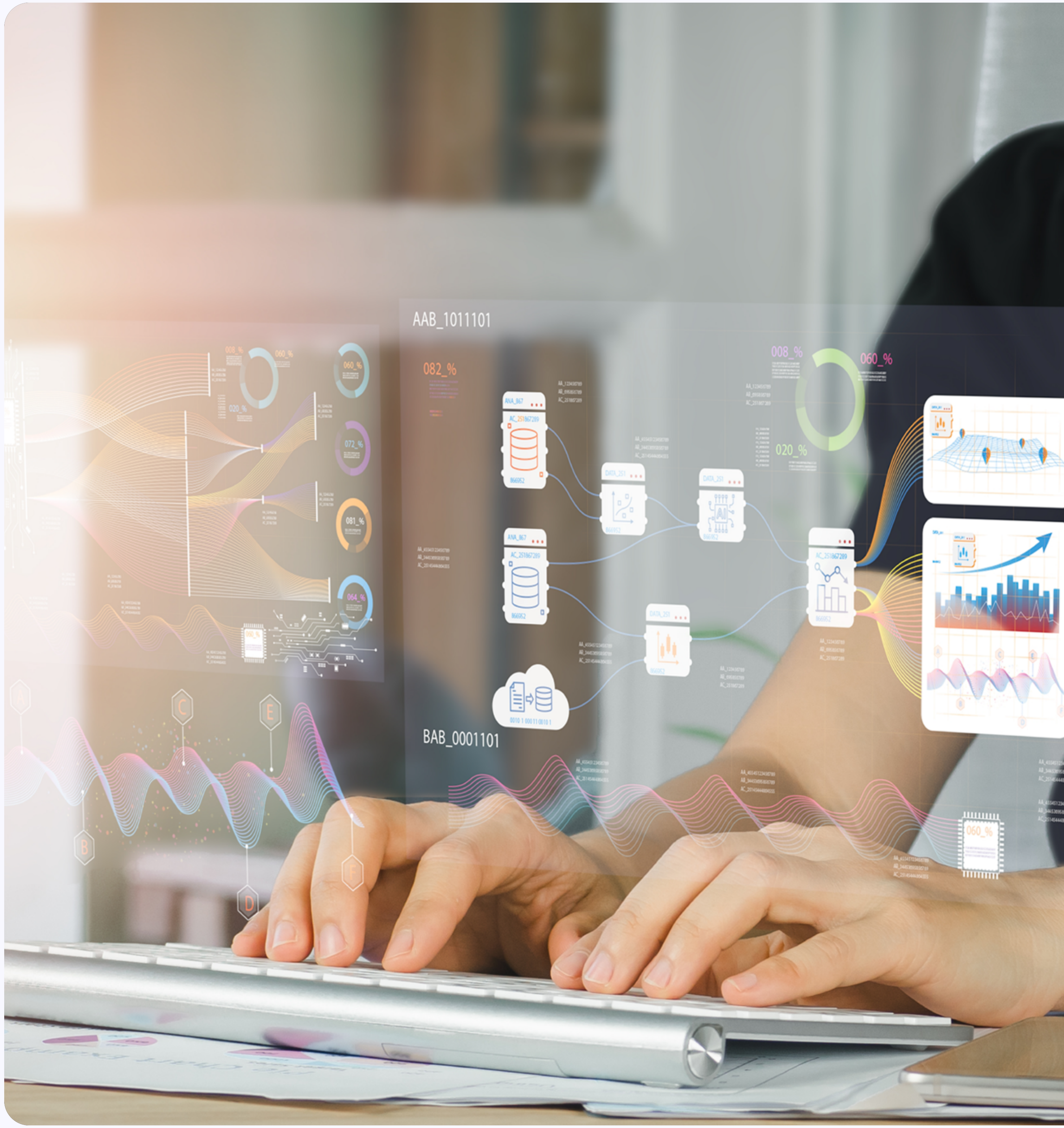
Improving Cash Flow

New AI technologies could further improve construction payments.

Construction FinTech provider Adaptive offers an artificial intelligence (AI)-powered platform that includes financial management tools such as budgeting, cash flow analytics, expense tracking, AR and AP, vendor management and electronic payments. The company recently secured $19 million in Series A funding to expand AI's use in the construction finance sector. AI-driven tools could potentially enhance profitability and competitiveness by streamlining processes, reducing errors and optimizing resource allocation.

Eshan Jayamanne, CEO of construction AI technology company Krane, told PYMNTS Intelligence, "Contractors can also [use AI to] create faster fundamental models and designs without too much effort to coordinate with other stakeholders." This, he added, leads to "increased efficiency, cost savings, improved accuracy and better data for better collaboration."



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New Payment Regulations

Regulators Crack Down on Late Construction Payments

Construction firms should modernize their payment systems, but government regulators provide an even stronger incentive. Lawmakers in the U.S. and the U.K. are cracking down on commercial firms that delay contractor payments.

34%

of U.K. construction workers have stopped or refused work due to outstanding payments.

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New Payment Regulations

New York's Prompt Payment Act aims to accelerate contractor payments.

The law, taking effect in November, limits the amount of money a building owner can withhold from a contractor, whether intentionally or due to a payment delay. It also allows contractors to submit final invoices before project completion to expedite the payment process. The goal is to accelerate the cash flow for contractors, with studies showing that the average firm faced a days sales outstanding (DSO) of 94 days in 2023, up from 90 days in 2022. New York building owners could potentially implement faster payment systems to avoid penalties under the new law.

The U.K. is also cracking down on late payments.

The United Kingdom's Department for Business and Trade (DBT) recently introduced a set of measures, including a Fair Payment Code, to address late payments. These measures aim to curb late payments to small businesses and self-employed workers, delays that cause 50,000 business to shutter each year. The measures also serve to improve transparency by requiring large companies to include payment practices in their annual reports and face stricter enforcement for noncompliance.

These initiatives are especially critical for the U.K. construction industry, which has been facing a late payment crisis. Last year, 34% of construction workers stopped or refused work due to outstanding invoices, and 28% threatened legal action for overdue payments. All told, construction firms accounted for 18% of all insolvency cases in the U.K. in the year ending April 2024, partly due to these payment woes.

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Call to Action

Why Construction Firms Should Deploy Faster Payments

Construction firms should invest in faster payment systems to improve operational efficiency and financial health. The primary beneficiaries of faster payments are subcontractors, employees and suppliers. Timely payments build trust and loyalty, increasing the likelihood that skilled workers and reliable suppliers will prioritize projects from firms known for prompt compensation. By embracing faster payment technologies, construction firms can position themselves as preferred partners in the industry, gaining a competitive edge in attracting and retaining top talent and dependable subcontractors.

Automating payment solutions also reduces the time and effort spent on manual processing, freeing up valuable resources for more strategic tasks. This streamlined approach accelerates the payment cycle and minimizes errors and delays, further ensuring that subcontractors and suppliers receive their payments promptly.

Finally, faster payment systems offer substantial benefits for cash flow management and working capital optimization. With quicker transaction processing, construction firms can receive and process customer payments more swiftly. This improved cash flow enables companies to meet their financial obligations more easily and invest in value-adding initiatives. Additionally, the enhanced visibility and predictability of cash flow allow for more accurate financial forecasting and planning.

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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INGO Payments

Ingo Payments is the money mobility company. Our mission is to give people and businesses instant, digital and secure access to their money. We provide embedded API and iframe-supported payment solutions and deliver fully digital, cloud-based platforms that bridge the gap between legacy payments infrastructure and new payments technologies to deliver modern, bespoke payment experiences. Whether it's instant account funding, payments or payouts, businesses can count on Ingo to tailor our platform and services to meet their needs. Headquartered in Alpharetta, Georgia, Ingo employs more than 240 professionals and serves some of the largest brands in North America.

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