




Construction Cash Flow & Payment Report

2021












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Key Takeaways

Construction businesses live or die by their ability to manage cash flow. Unfortunately, the odds are often stacked against them. Schedule delays, specification changes, poor jobsite coordination, and other logistical complications can derail a project — and the payments that companies rely on. The payment chain on a project, designed to reduce risk for the owners, developers, and lenders at the top, puts enormous financial pressure on the contractors, suppliers, and others in line to get paid.

Even in good times, managing payments and cash flow in construction is an uphill battle. In 2020, the pandemic shut down projects and drove financial uncertainty through the roof, exposing the cracks in even the best-laid business foundations. Evidence of the pandemic's impact on construction companies is written all over this report.

While many construction businesses report relatively high profit — **nearly 2 in 3 contractors enjoy margins above 10%** — cash flow problems make those figures unlikely to be found on their

income statements. Today, fewer companies are getting paid in full (down 75%) and on time (down 60%) compared to pre-pandemic times. The result? **Cash flow problems eat into profits (47%), delay projects (33%), and force them to take out loans (30%).**

The good news: The industry is getting more comfortable with tools and technology that make getting paid faster and more reliable. More than 8 in 10 companies now accept electronic payments, and it's improving their collection speed. **The number of companies who say they have filed a lien is up 22% from 2019.** And their customers aren't mad about it, either: **Nearly 2 in 3 contractors say they support a subcontractor or supplier who files a lien to get paid.**

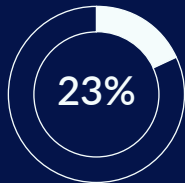
2020 was a hard year for the construction industry. In this report, those that survived share valuable insight into the financial challenges they continue to face — and the choices they made that helped them weather the storm.

Survey Respondents

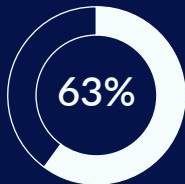


764
respondents

- 34%** Subcontractors
- 27%** General Contractors
- 22%** Suppliers
- 17%** Others



are the owner,
President, or CEO



63% have 50 or
fewer employees

97%

experience stress over
slow payments & cash flow

See page 34 for full demographics



Fewer businesses paid in full & on time

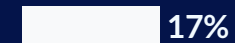
Being able to reliably predict and manage the flow of cash is fundamental to any business, but it's a particular challenge in construction. Payment reliability was on the decline even before the pandemic, and construction businesses reported a sharp drop in 2021.

Only 11% of construction businesses say they always get paid in full – a 74% drop from 2020¹ and down 82% from 2019². And delays in payment also worsened for many companies: just 9% say they always get paid on time, a decline of nearly 60% from the previous year.

But not all construction projects are created equally, and the disparity between construction sectors is stark. Residential construction companies are up to four times more likely to consistently collect payments in full and on time than their counterparts in commercial and public construction.

Always paid on time

Residential Construction



Commercial

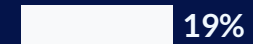


Government



Always paid in full

Residential Construction



Commercial



Government



61%



43%



11%



2019

2020

2021

¹ 2020 National Construction Payment Report. Levelset. April 2020. <https://www.levelset.com/tools/2020-national-construction-payments-report/>

² 2019 National Construction Payment Report. Levelset. October 2019. <https://www.levelset.com/tools/national-construction-payments-report/>

Payment expectations don't match reality

8 in 10 offer 30 day terms



However, only 1 in 4 get paid in 30 days



Construction has long had a problem with payment speed. In 2018, the average days sales outstanding (DSO) in the US building industry was 83 days — the worst of any industry.¹ But construction companies remain hopeful in their expectations: 81% offer payment terms of up to 30 days on invoices or payment applications. Yet fewer than 1 in 4 say they typically get paid within the first month after requesting payment.

Among project roles, delays mirror the company's position on the payment chain: **General contractors are at least four times more likely to get paid within 30 days** than subcontractors and suppliers. For 1 in 5 sub-tier companies, collection times regularly extend beyond 60 days.

Collection speed is also a factor of the project type. Here again, residential construction companies outperform their counterparts — homebuilders are three times more likely than commercial contractors to collect payment within 30 days of invoicing, and five times more likely than those on public projects.

¹Windhaus, D., Tebbett, S., Rosier, H., Rafuse, J., Vettoretti, R., Greaves, P. Working Capital Report 2019/20: Creating value through working capital. PwC. September 2019. <https://www.pwc.com/gx/en/working-capital-management-services/assets/working-capital-report-final.pdf>



Retainage delays are critical – and unequal

While delays are common on all payments, few factors are more critical to a construction business financial health than their ability to collect retainage, which typically accounts for up to 10% of the contract price. Over 61% of construction companies say that collecting retainage is “very important” or “the most important factor” in managing cash flow. But because retention payments are often withheld until project completion, collection delays commonly exceed those of regular payments.

On average, 21% of businesses say it takes longer than 60 days to collect retainage. But retainage delays do not affect project roles equally: 56% of subcontractors wait more than 60 days to collect retained funds, compared to just 16% of general contractors.

The disparity in retainage delays is even wider between project types. Nearly 1 in 4 commercial contractors and more than 1 in 3 government contractors say they typically wait longer than 90 days to collect retainage payments – a delay that affects just 1 in 20 companies on residential projects.

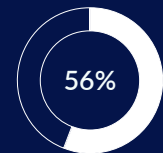
61%

Say collecting retainage is **very important or the most important factor** to their business cash flow

Typically wait **60+ days** to collect retainage



General Contractors



Subcontractors

Typically wait **90+ days** to collect retainage

Commercial



Government



Residential Construction





Cash flow gaps eat into profit

The credit-heavy nature of the construction industry imposes a cash flow gap on many construction companies, who are often required to pay project costs well before they receive payment from customers. After 40 days, 20% of businesses are cash flow negative, having paid their subcontractors, suppliers, and vendors without collecting the payment necessary to cover the costs.

On the bright side, nearly half (48%) of all construction businesses report relatively healthy profits, with margins on a typical project exceeding 10%. But gaps in cash flow can deplete even the safest margins: late payments cause reduced profit for 43% of construction companies, and nearly 1 in 3 are forced to finance cash flow gaps adding interest and other carrying costs that affect the bottom line.

After 40 days...

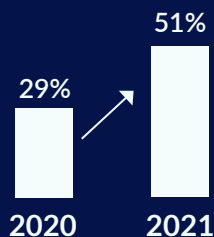
7 in 10 (69%) have paid their vendors



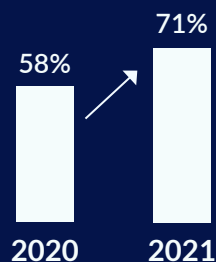
while fewer than **5 in 10 (49%)** have received payment.



Send preliminary notice **on every job**



Have filed a mechanics lien



Liens & notices grow as payment tools

The industry is continuing to grow more comfortable with preliminary notices and mechanics liens as reliable payment tools. Just over half of companies (51%) send preliminary notice on a typical project, up from just 29% in 2020. Lien claims are on the rise as well: 71% of construction businesses have filed a lien over non-payment, a 22% increase from 2019. And, likely due at least in part to pandemic disruptions, 55% of all businesses report filing at least one mechanics lien claim in the past 12 months, with 41% filing two or more.

Overall, the industry is largely supportive of the use of mechanics liens as a payment tool. Nearly 2 in 3 businesses say they would support a subcontractor or supplier if they filed a lien (60%), compared with just 15% who say they wouldn't work with that vendor again.



Construction embraces electronic solutions

Construction companies invested in more technology, software, and digital solutions over the past year, with many companies adopting tools to support remote work for office staff. While the industry has long relied on paper documents— e.g. contracts, pay applications, specifications, checks — investments in electronic solutions are growing.

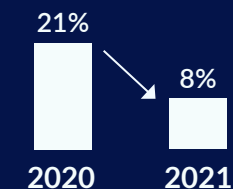
Today, 83% of construction businesses have the ability to accept electronic payments. And that investment is paying off — 79% say it has helped their company get paid faster. Payment software adoption has grown dramatically compared to the pre-pandemic era: Companies using software for tracking and processing payments grew 113% year-over-year, and software for payment paperwork is up 67% since 2019.

Just 8% of construction companies say they don't use software at all — down from 21% in 2019.

8 in 10 can accept electronic payment



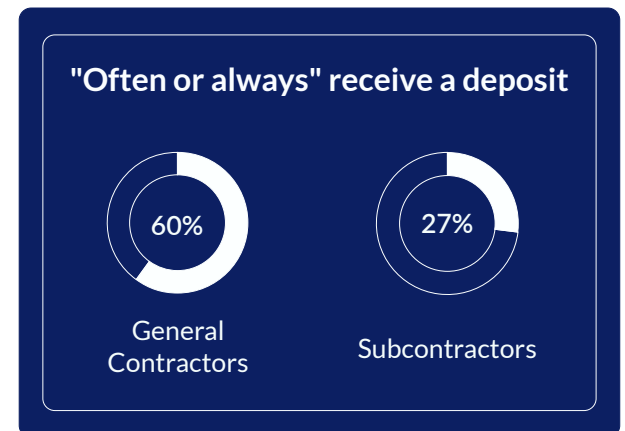
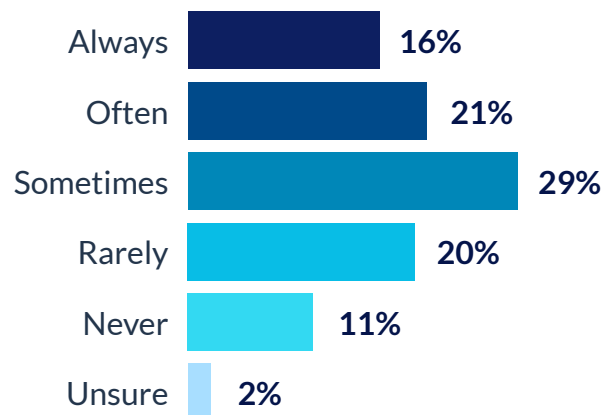
Don't use software



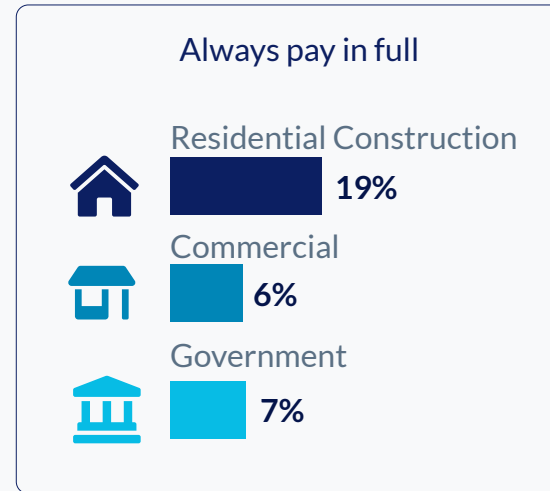
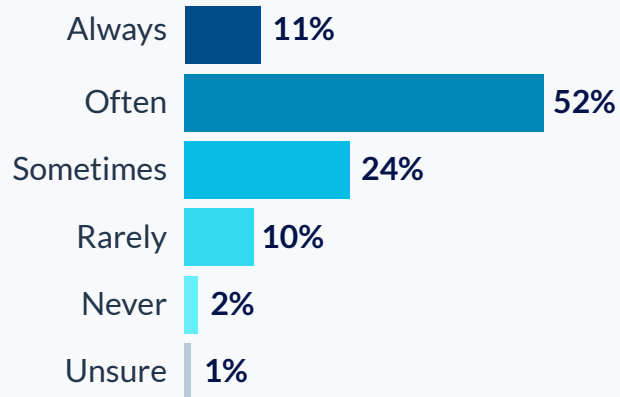


Payment & Cash Flow

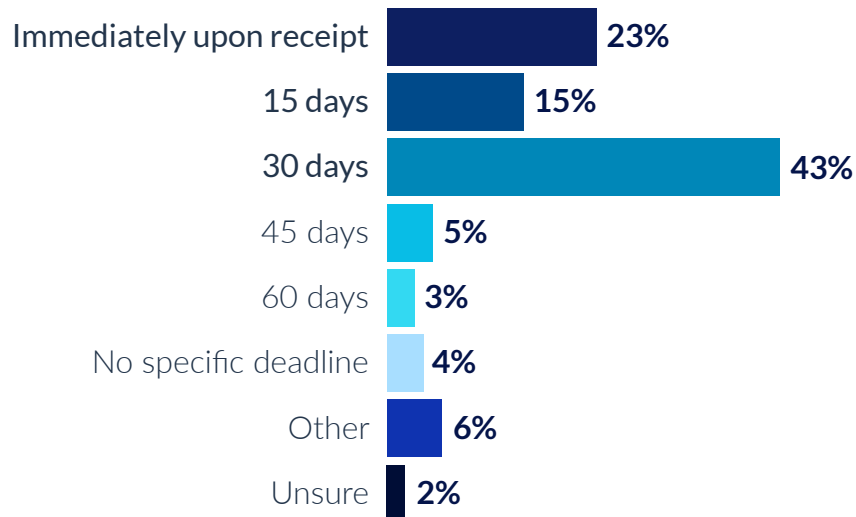
How often do you receive an upfront deposit before beginning work?



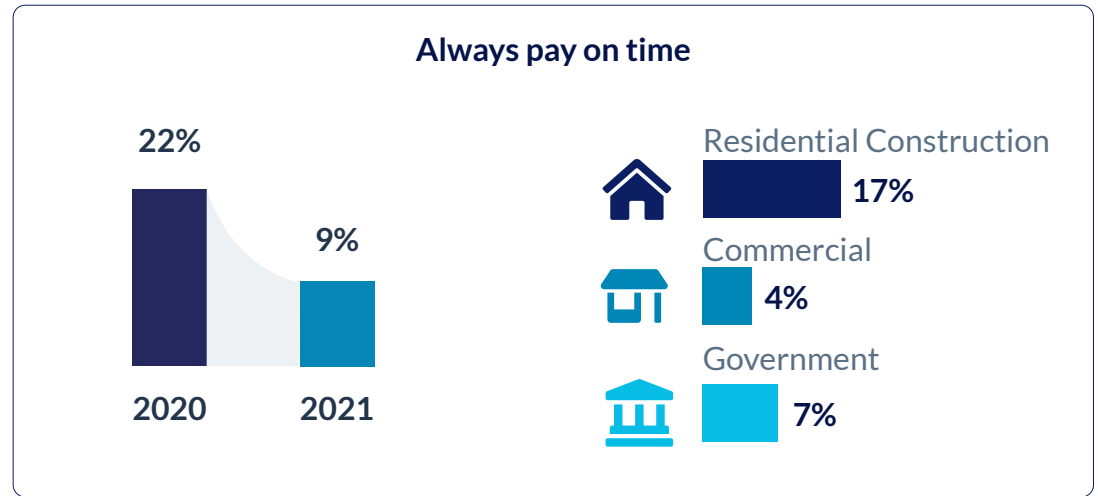
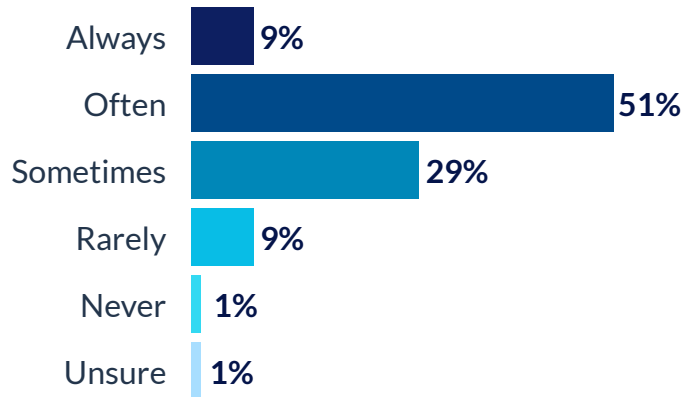
How often do your customers **pay in full** (without backcharging or withholding funds)?



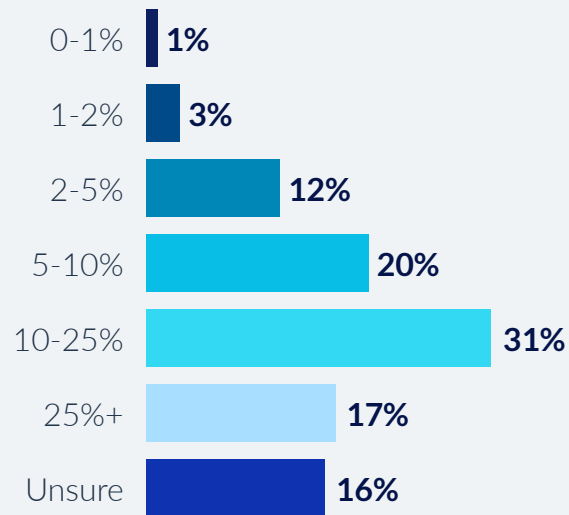
What payment terms do you offer customers when you send an invoice?



How often do your customers pay on time according to the agreement?



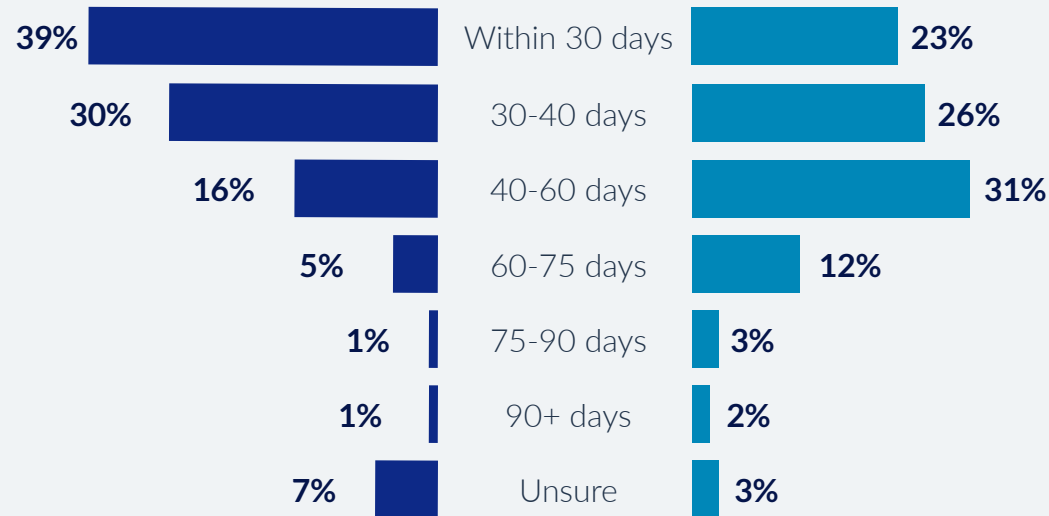
What's your typical profit margin on a project?



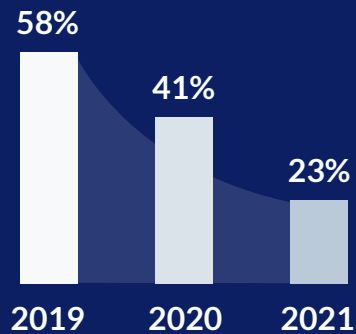
How **quickly do you typically pay** your suppliers, subcontractors, or other vendors?

X

How long does it take **your customers to pay you**, on average?



Paid within 30 days



After 40 days...

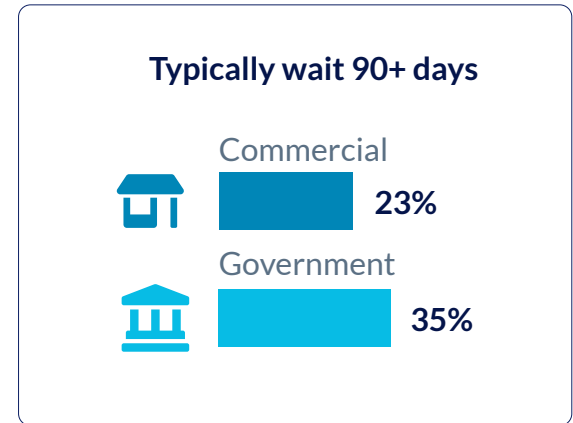
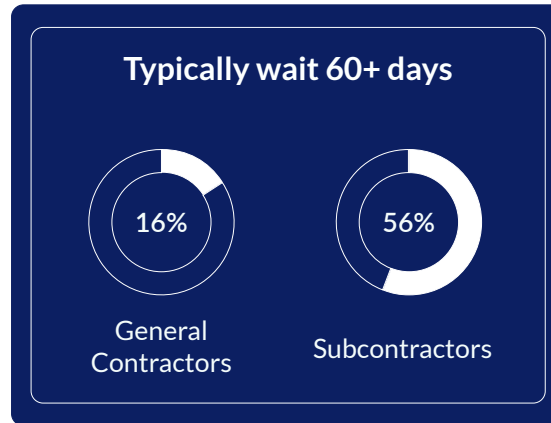
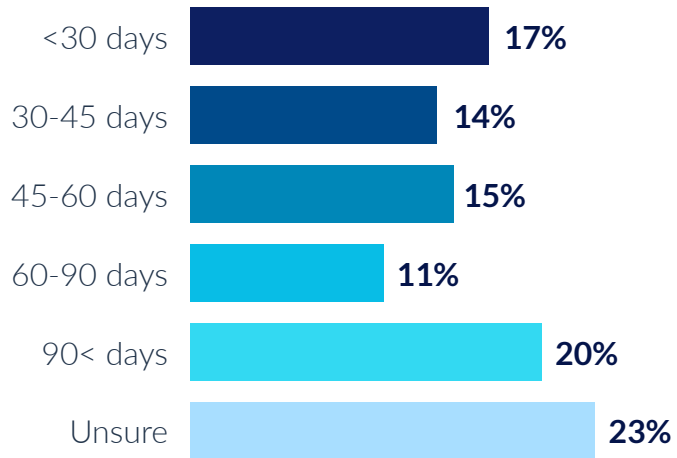


7 in 10 (69%) have paid their vendors

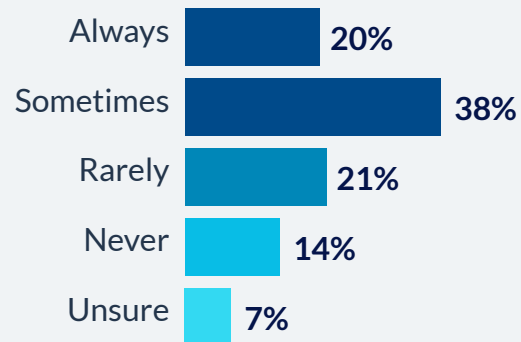


while fewer than **5 in 10 (49%)** have received payment.

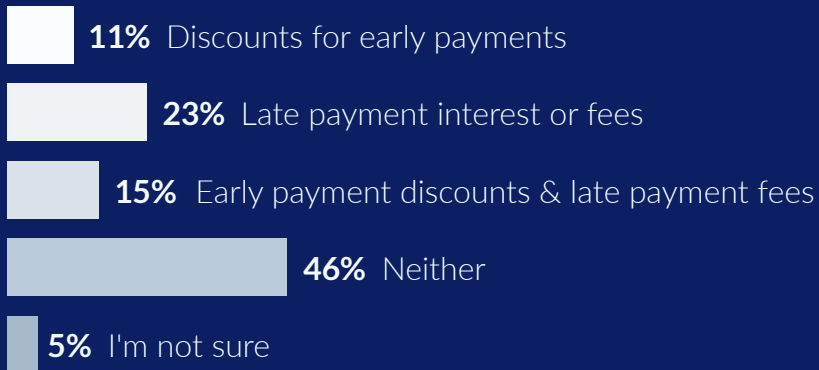
How long do you typically have to wait to collect retainage?



How often is retainage withheld on your jobs?



Do you offer incentives for early payments, or penalize late payments?



In your experience, what are the 3 biggest factors that contribute to slow payments from your customers?



In your experience, what are the 3 biggest factors that contribute to fast payments from your customers?



How important is collecting retainage to your business cash flow?

51%

Very important

- 10% The most important factor
- 28% Somewhat important
- 9% Not very important
- 1% Not important at all

In the past 5 years, has it been getting easier or harder to collect payments on time?

45%

About the same

- 6% Getting much easier
- 20% Getting somewhat easier
- 18% Getting somewhat harder
- 7% Getting much harder
- 4% Unsure

What changes would help to improve payment practices in construction?

Multiple selections allowed

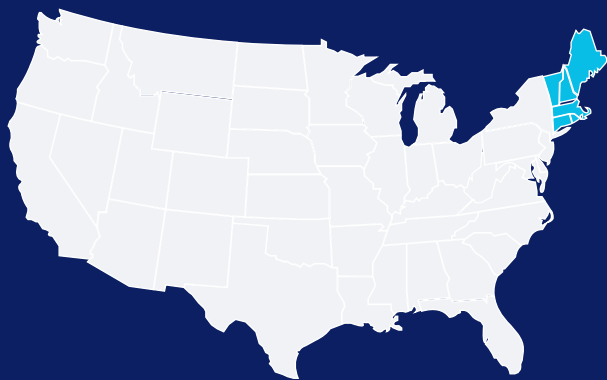
56%

Better communication

- 44% Electronic payments
- 42% Stricter penalties
- 28% More regulation
- 27% Standard contract terms
- 25% Simpler laws
- 20% Shorter payment terms
- 4% None of the above

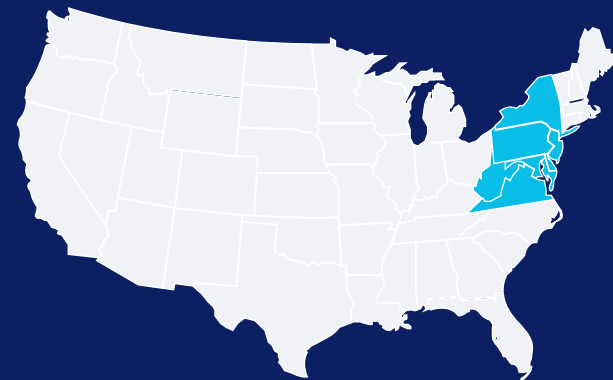
Northeast:

63% say it's the same or getting harder.



Mid-Atlantic:

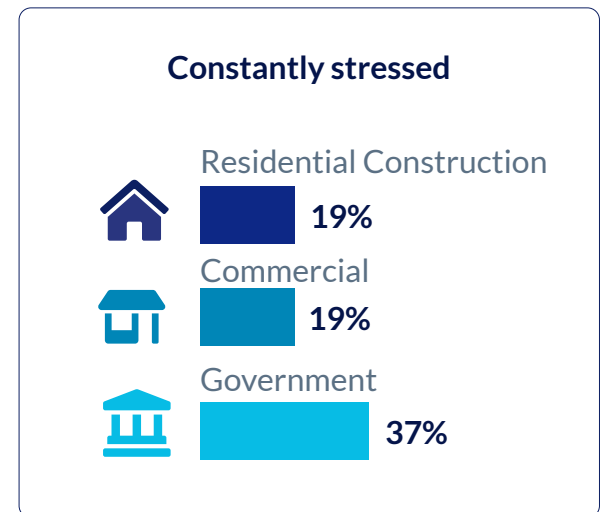
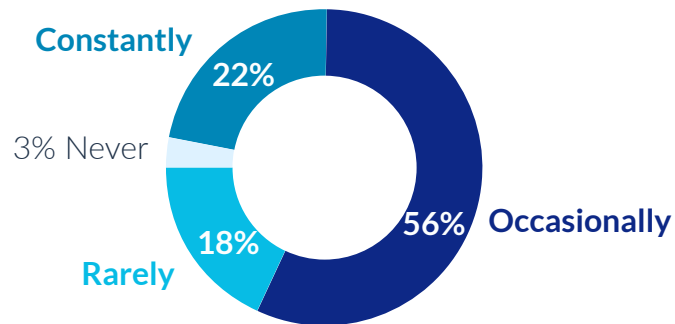
70% say it's the same or getting easier.





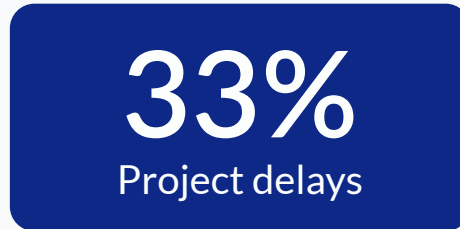
Impact of Late Payments

How often do you **experience stress** over slow payments or cash flow issues?



When payment is late, what are **3 biggest consequences** for your business?

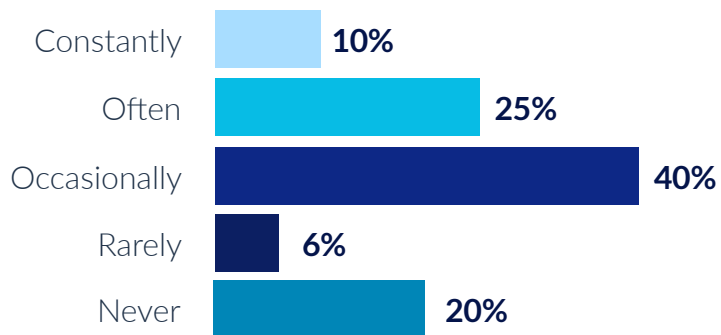
Multiple selections allowed



- 23% No significant negative impacts
- 17% Unable to meet payroll
- 12% Unsure
- 11% Suspend capital investment

- 9% Cut employee benefits
- 9% Stop taking on new projects
- 8% Hiring or pay freezes

How often does **payment paperwork** cause stress or anxiety for you or your team members?



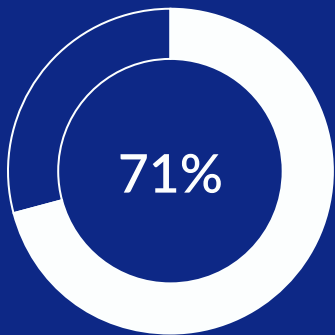
What are the impacts of late payments or poor cash flow **on you personally**?

- 40% Stress
- 30% Anxiety
- 20% Lost sleep

- 17% No impacts
- 15% Depression
- 14% Less time at home
- 13% Extreme anger
- 13% Problems paying personal bills



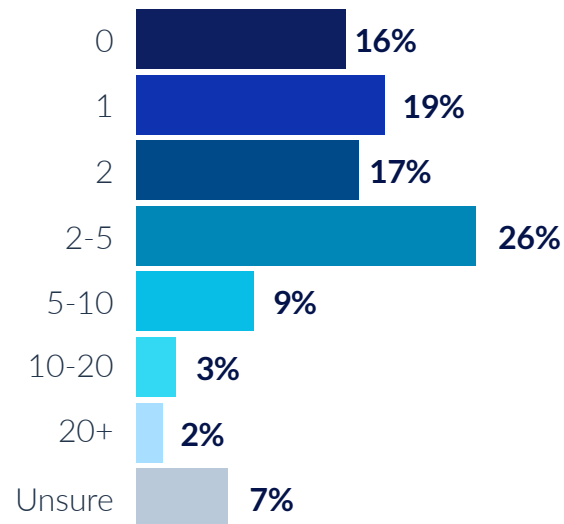
Liens & Notices



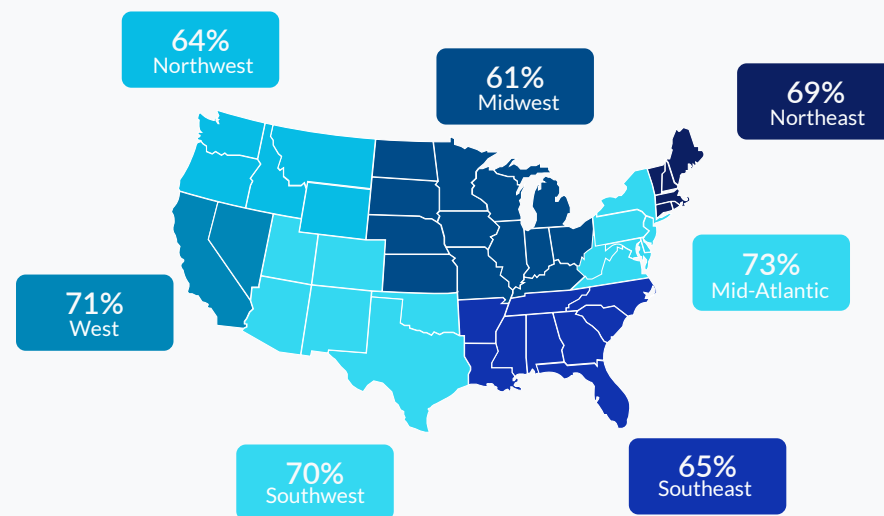
Have filed a mechanics lien over non-payment

↑ 22% from 2019

How many liens did your company file in the past 12 months due to late or missed payments?



Companies that have filed a mechanics lien by region



What keeps you from filing a lien?

Multiple selections allowed

35%

Nothing keeps us from filing a lien

35%

The unpaid amount isn't large enough

21%

It's too complicated

- 20% It's too expensive
- 20% We're afraid of losing a customer
- 18% We don't believe it would get us paid
- 12% Other

If one of your subs or suppliers filed a mechanics lien on a project, what would your response be?

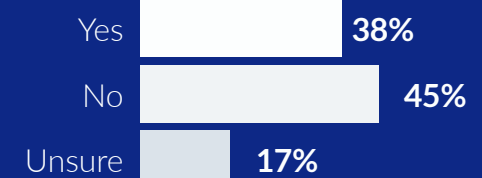
Multiple selections allowed

60%

Support them in their effort to get paid

- 20% Ask them to remove the lien
- 20% File a lien of our own
- 16% Negotiate a reduced payment
- 15% Not work with them again

Have you ever foreclosed on a lien?

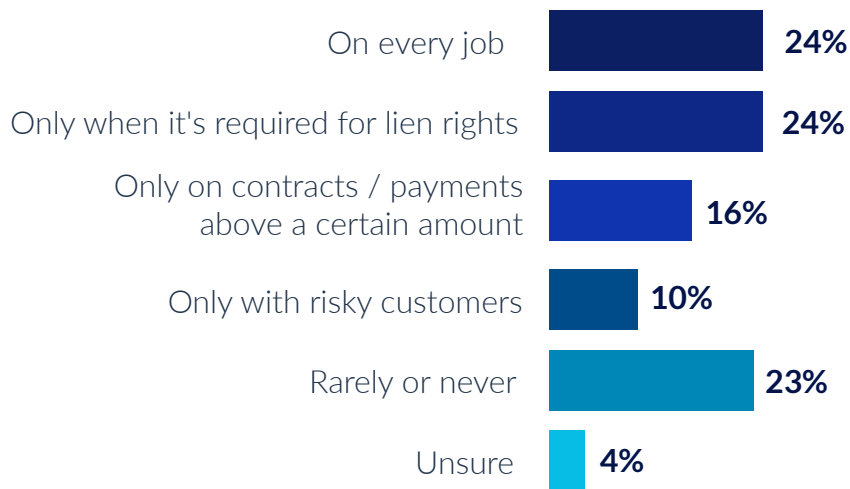




Payment Documents

How often does your company **send a preliminary notice** at the start of a job?

Multiple selections allowed



Only **1 in 3 subcontractors** send preliminary notice on every job.



Which of the following documents would your company send or file on a typical project?

Multiple selections allowed

58%

Lien waiver

57%

Invoice reminder
(if payment is overdue)

51%

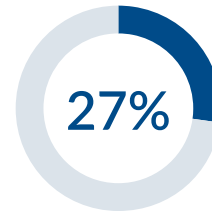
Preliminary notice

47% Notice of intent to lien

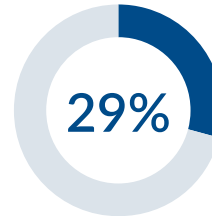
41% Invoice reminder
(before payment is due)

35% Demand / Dunning letter

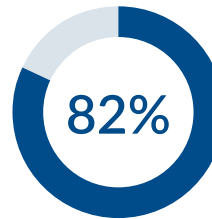
33% Mechanics lien
(if payment is overdue)



Find it difficult to **figure out the payment paperwork** customers require

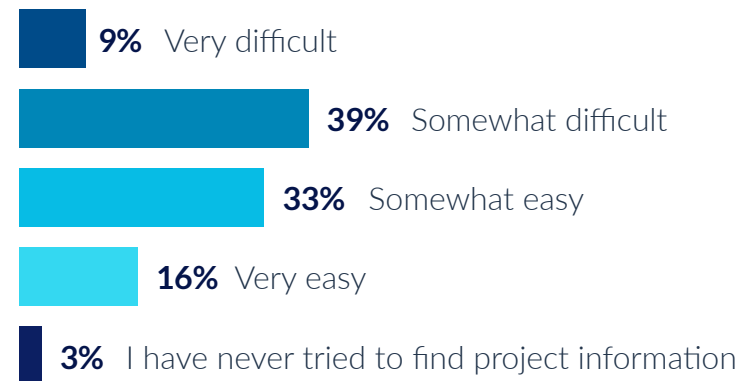


Have had a document rejected over incorrect project information



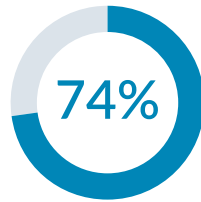
Believe accurate job information is **very important**

How difficult is it to **find project information** when you need it?



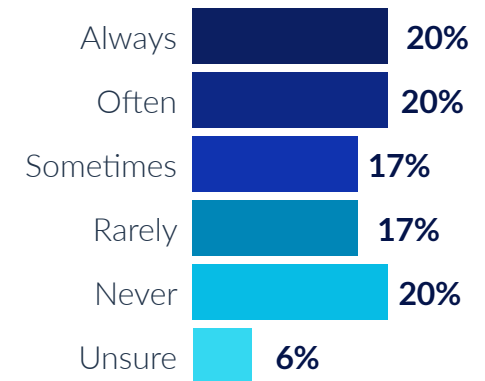


Prequalification

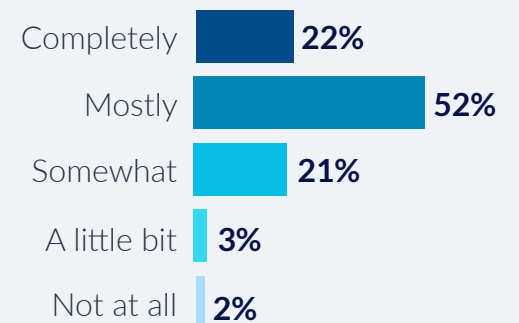


Say finding reputable contractors to work with is easy

How often do you **prequalify new customers** before signing a contract or extending credit?



How much do you **trust your subcontractors** to pay their subs & suppliers on time?

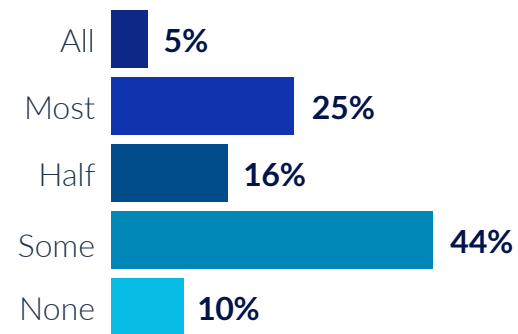




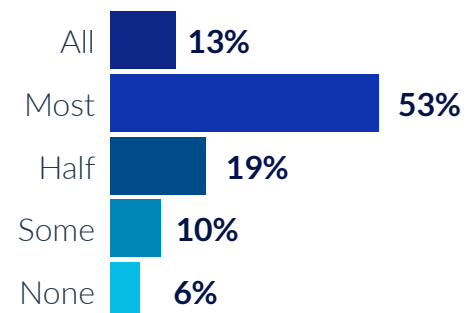
Building Materials

Suppliers

How many of your customers **pay in cash up front**?

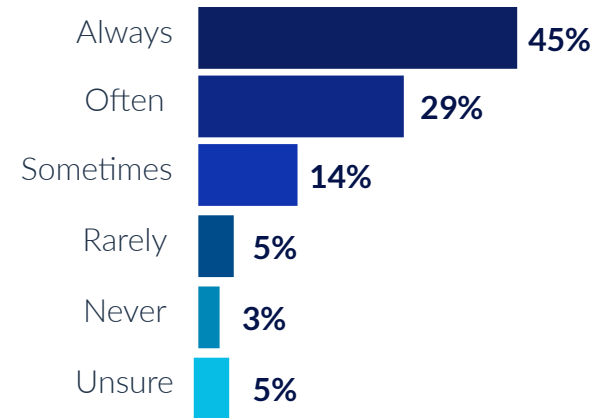


How many of your customers **make purchases on credit** with your company?

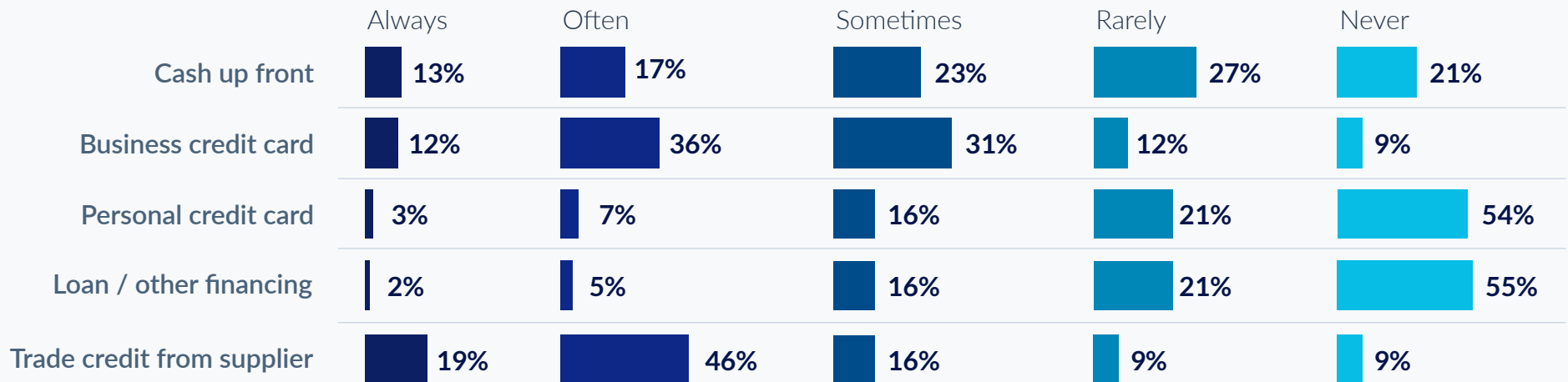


Contractors and Subcontractors

How often do you receive the amount of credit that you need for materials?

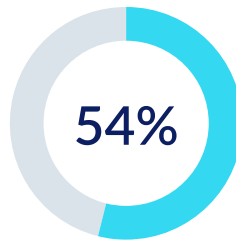


How do you pay for materials?



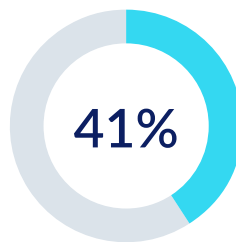


Legal Problems



It is **very important** to find a lawyer who specializes in construction when their business needs legal help

24% Somewhat important | 16% Neutral
4% Not very important | 2% Not at all

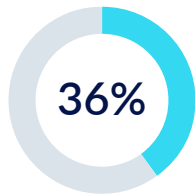
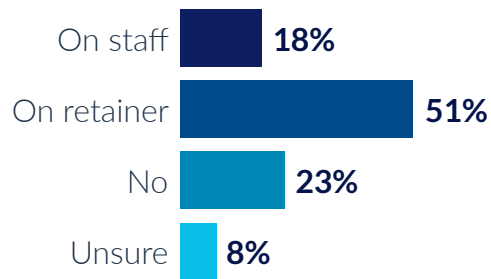


Occasionally encounter a situation in which they need legal help

4% Constantly | 18% Often
32% Rarely | 5% Never



Does your company have a lawyer?



Are not confident their legal rights are protected



Say getting legal help or advice **isn't easy or affordable**

In which situations would you be most likely to **seek out legal help**?

Multiple selections allowed

57%

Mechanics liens

25%

Late payments

29%

Workmanship dispute

29%

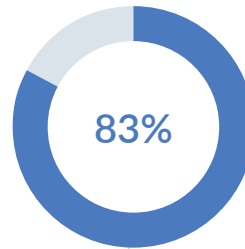
Contract negotiation

13% Schedule delay

11% Other

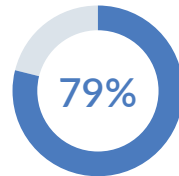


Electronic Payments

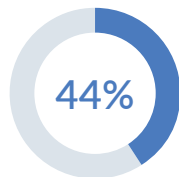


Currently have the ability to **accept electronic payments**

13% No | 4% Unsure



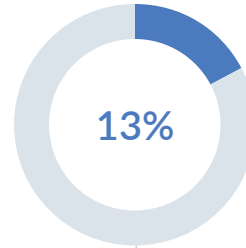
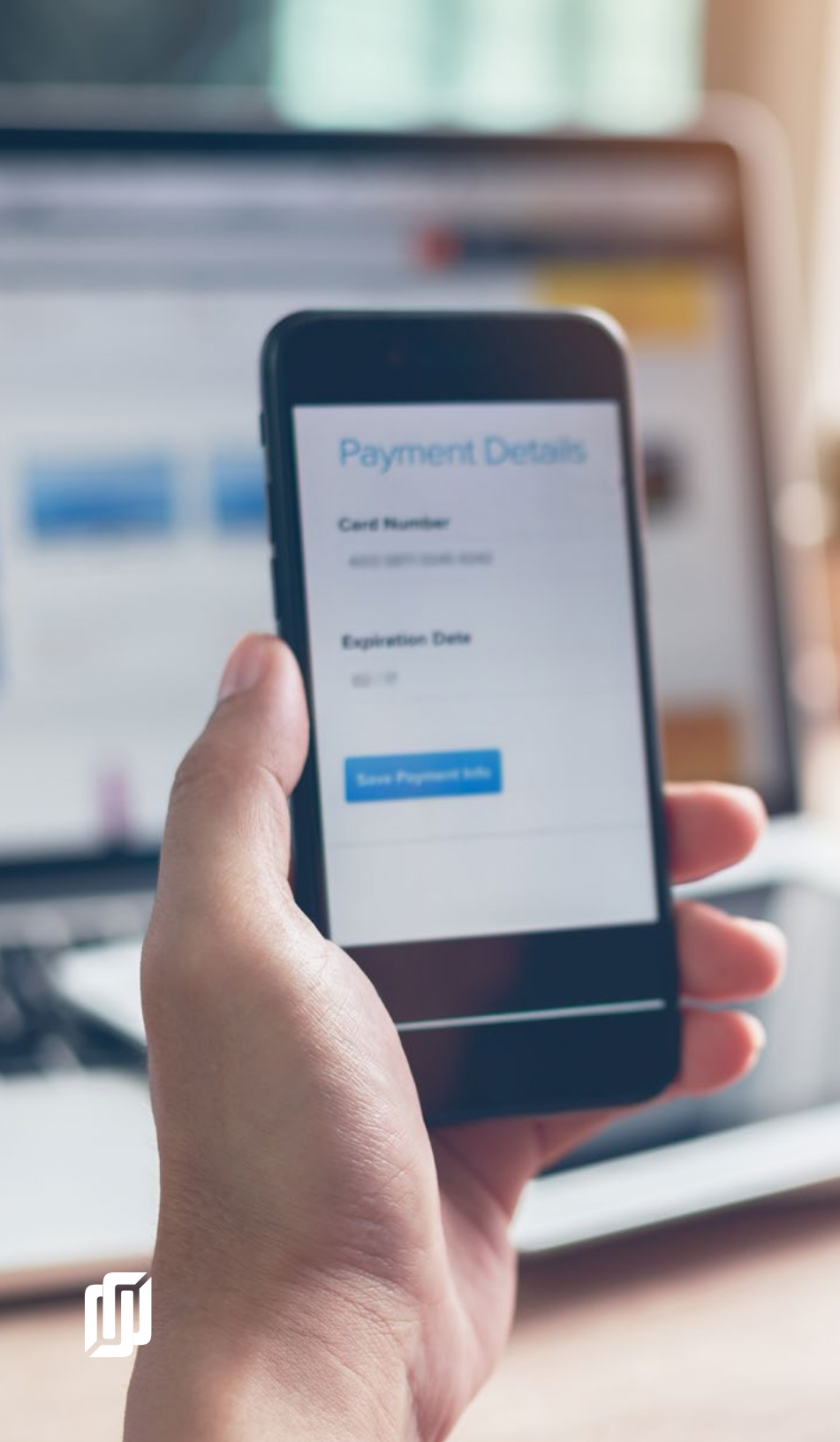
Say electronic payments **helped them get paid faster**



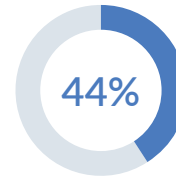
Say **half** of their customers pay their invoices electronically

6% All | 23% Most | 24% Some | 3% None





Don't have the ability to accept electronic payments



Don't think electronic payments would help them get paid faster

What is stopping you from accepting electronic payments?

Multiple selections allowed

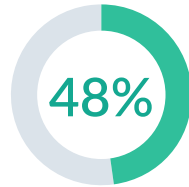
33%

Our customers haven't asked for it

- 30%** We are more comfortable with paper checks
- 26%** Too expensive / too many fees
- 21%** I don't know enough about it
- 21%** We don't have the technology
- 2%** We wouldn't know how to use it
- 0%** Other



Software & Technology



Plan to **invest more in software & technology** in the next 12 months

26% No | 26% Unsure

Which of the following activities does your company use software for?

Multiple selections allowed

62% Tracking & processing payments

55% Sending & tracking payment paperwork coordination

54% Task management & jobsite coordination

44% Plan management & viewing

42% Managing lien rights

41% Remote work

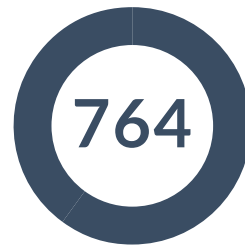
32% Inspections & reporting

8% We don't use software





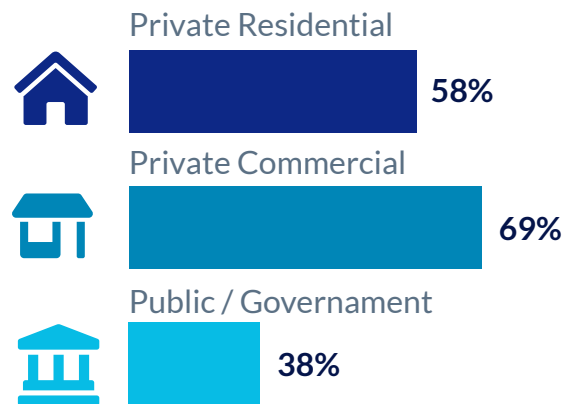
About the Respondents



Responses

What types of projects do you work on?

Multiple selections allowed



What is your primary role in the company?

23%

Owner, President or CEO

23%

Accounting / Bookkeeping

17%

Credit & Collections

16%

Office Manager or Administrator

6% Operations

6% Finance

4% Sales

4% Other

1% Legal

What is your company's primary role on a typical project?

34%

Subcontractor

27%

General Contractor

21%

Material Supplier / Distributor

6%

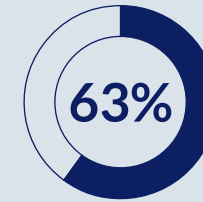
Architect/Engineer / Designer

4% Rental Company

4% Restoration Contractor

3% Other

How many people work in your company?



Work in a company with fewer than 50 employees

- 17%** 1-5 employees
- 24%** 6-20 employees
- 22%** 21-50 employees
- 17%** 51-100 employees
- 9%** 101-250 employees
- 6%** 251-500 employees
- 5%** 500+ employees

How many projects do you complete per month, on average?

30%

0-5 projects

- 16% 6-10
- 17% 11-20
- 12% 21-30
- 4% 31-40
- 3% 41-50
- 12% 50+
- 6% Unsure

What is the value of your average contract?

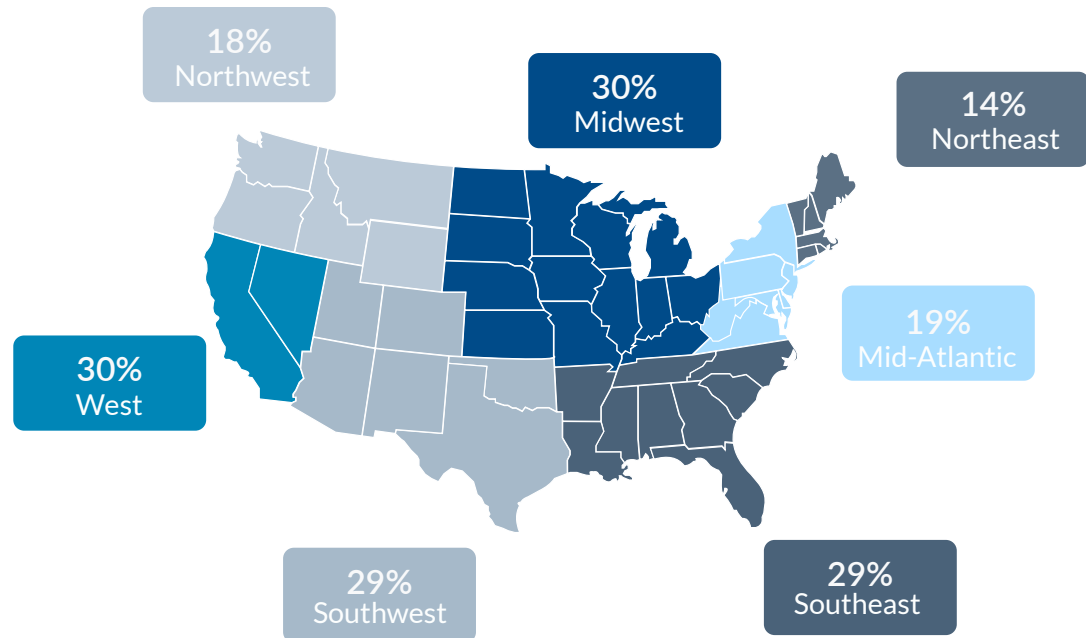
29%

\$10K-\$50k

- 2% \$0-\$1K
- 17% \$1K-\$10K
- 18% \$50K-\$100K
- 11% \$100K-\$250K
- 12% \$250K-\$1M
- 4% \$1M+
- 6% Unsure

In which region(s) are your projects typically located?

Multiple selections allowed





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Levelset is a construction software company that helps contractors and suppliers simplify the collection process, reduce credit risk, improve cash flow, and manage their payment rights. The results are faster payments, reliable access to capital, and fewer surprises.

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