

INDUSTRY STUDY

# Construction Cash Crunch Report

SPRING 2018



# Construction Cash Crunch Report 2018

Examining the state of cash flow in the construction industry

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Did you know cash flow is a constant problem for many companies in the construction industry? Only 8 percent of construction businesses can say their customers always pay on time. Strapped for cash and struggling to make payroll or see significant growth, there is a major opportunity for experienced accountants to proactively address some of the most frustrating challenges construction companies face.

# Results of an industrywide survey conducted by TSheets and zlien

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Between January and April 2018, [TSheets](#) and [zlien](#) conducted a survey of 195 construction company owners and managers to establish how often they experience cash flow problems and what impact this has on their businesses.

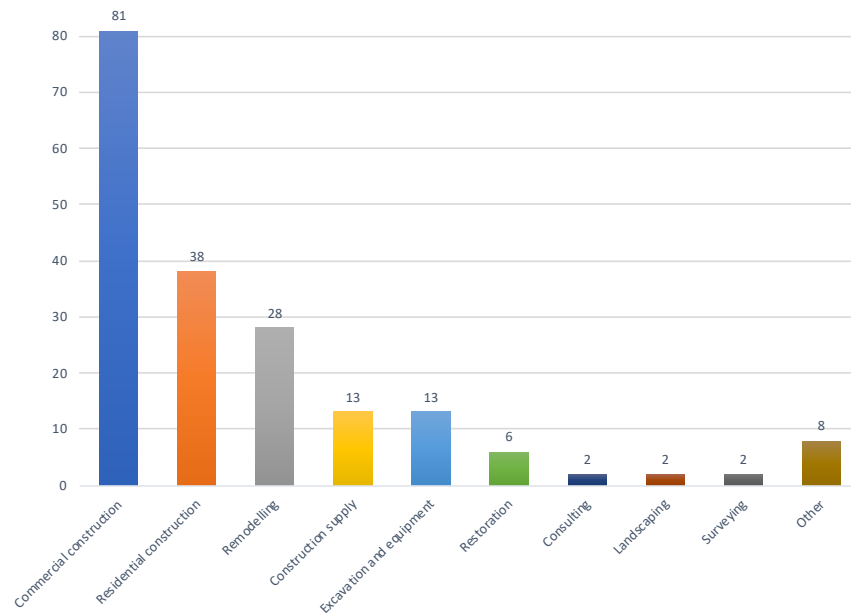
The survey included nine questions on topics including invoicing, payments, and payroll. One question asked respondents about their knowledge of the financial side of the business, screening out people who could not complete the rest of the survey.

## Survey Sample

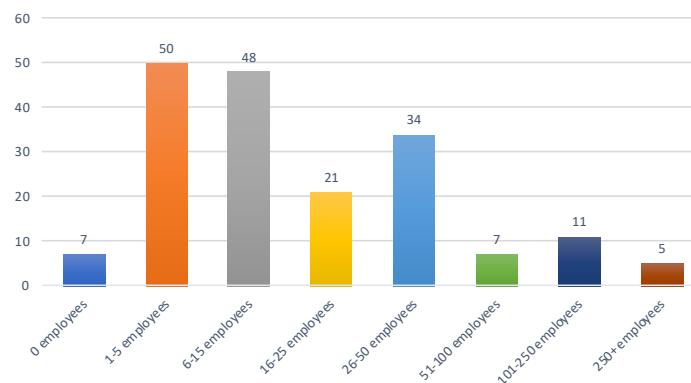
More than three-quarters of the respondents (76 percent) either work in commercial construction (42 percent), residential construction (20 percent), or remodeling (15 percent). See Chart 1, below.

The majority of the respondents (87 percent) work for or own companies that employ 50 employees or fewer. More than half work for smaller companies, with 54 percent reporting their business has 15 employees or fewer. See Chart 2, below.

**Chart 1: Which construction sector do you work in?**



**Chart 2: How many employees does the business have?**



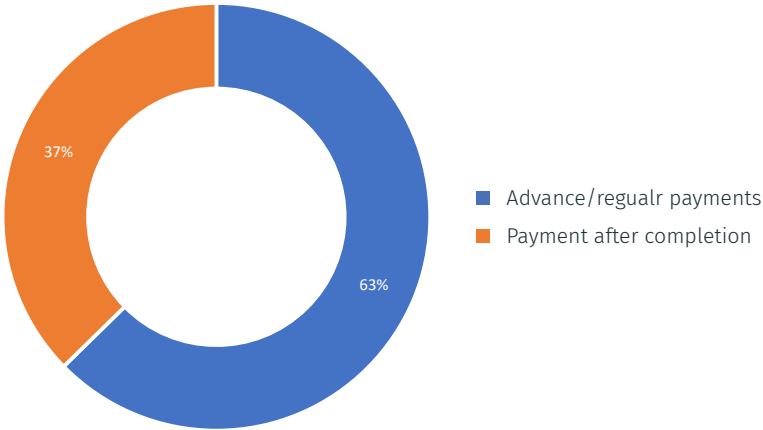
## Key Findings

- Almost 1 in 5 (19 percent) respondents say **cash flow is a constant problem**
- **Only 8 percent** say their customers always pay them on time
- More than a third (37 percent) only get paid **when projects are completed**
- **More than half** (57 percent) do not incentivize early payments or add interest to late payments
- 25 percent say cash flow **prevents their business from growing**
- 17 percent say cash flow affects payroll — and for 25 percent of these respondents, that means **employees do not get paid**

## Payment terms

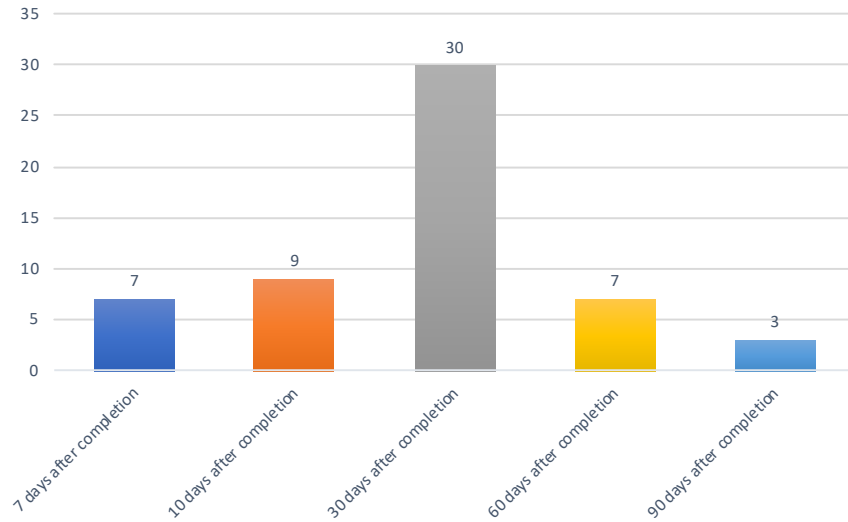
More than a third of the respondents (37 percent) say they only receive payment for their projects after the projects are completed. See Chart 3, below. Among respondents who receive payment after projects are completed, the most popular payment terms are “30 days after completion.” See Chart 4, below.

**Chart 3: Do you usually receive advance payments or payment on completion?**



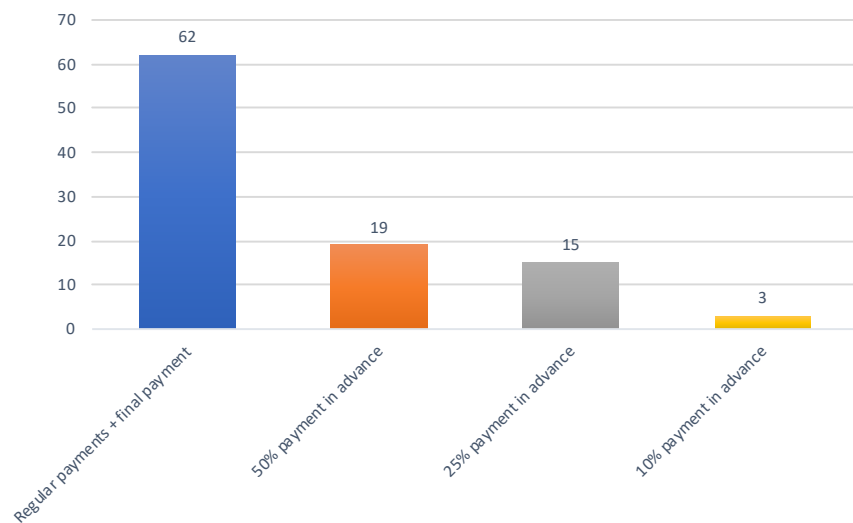
## Payment terms (continued)

Chart 4: Most common payment-after-completion terms



The most popular payment term among the other cohort of respondents – those who receive advance payments before or during the project – is “regular payments during the project with final payment on completion.” See Chart 5, below.

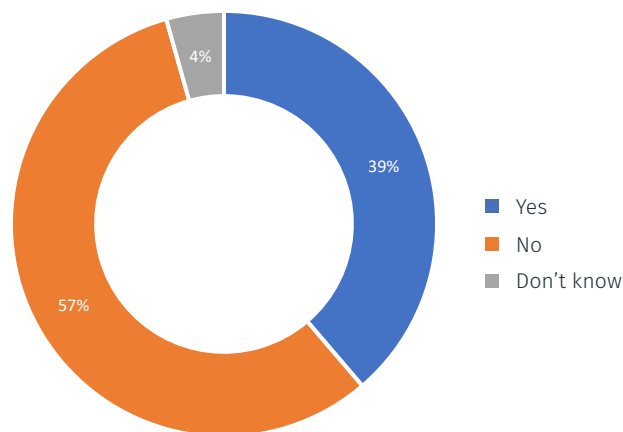
Chart 5: Most common advance payment terms



## Payment incentives and penalties

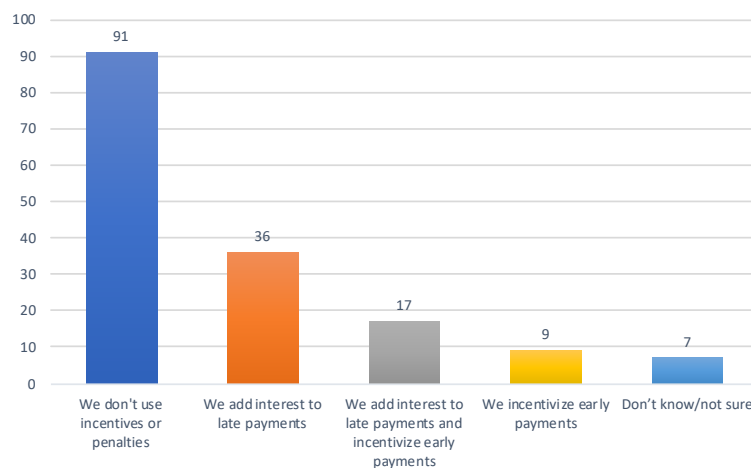
The majority of the respondents (57 percent) do not incentivize early payments or penalize late payments. But more than a third (39 percent) say they do either incentivize early payments or penalize late payments or both. See Chart 6, below.

**Chart 6: Do you use payment incentives or penalties?**



Respondents were almost 4-to-1 more likely to opt for penalizing late payments than incentivizing early payments, with 23 percent saying they add interest, compared to just 6 percent who say they use payment incentives. More than 1 in 10 (11 percent) use interest penalties and incentives together, to encourage timely payments from their customers. See Chart 7, below.

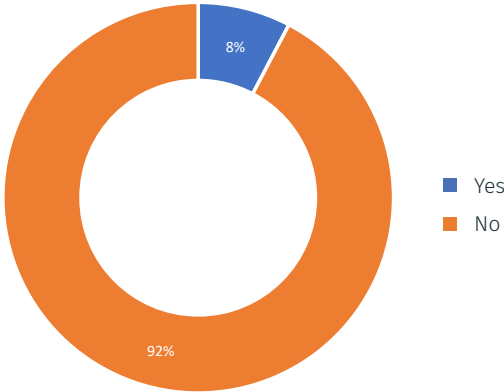
**Chart 7: Which payment incentives or penalties do you use?**



## Getting paid on time

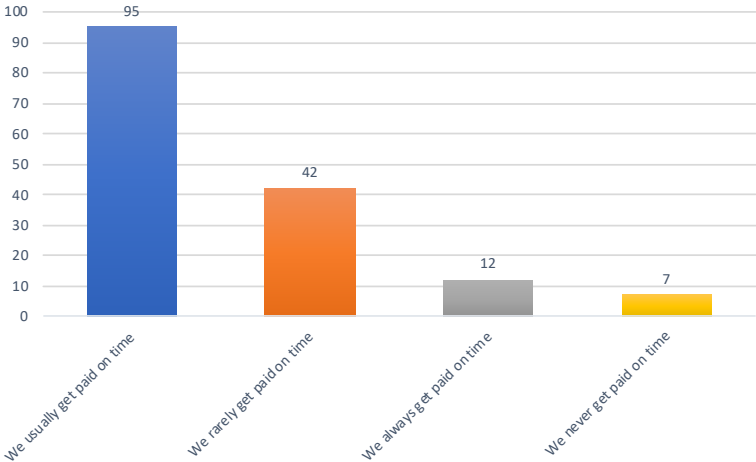
The vast majority (92 percent) of the respondents say their customers do not always pay them on time. Just 8 percent say they always get paid on time. See Chart 8, below.

**Chart 8: Do your clients always pay you on time?**



While more than half of the respondents (61 percent) say they usually get paid on time, 27 percent say they rarely get paid on time, and 4 percent say they never get paid on time. See Chart 9, below.

**Chart 9: How often do your clients follow the agreed payment terms?**

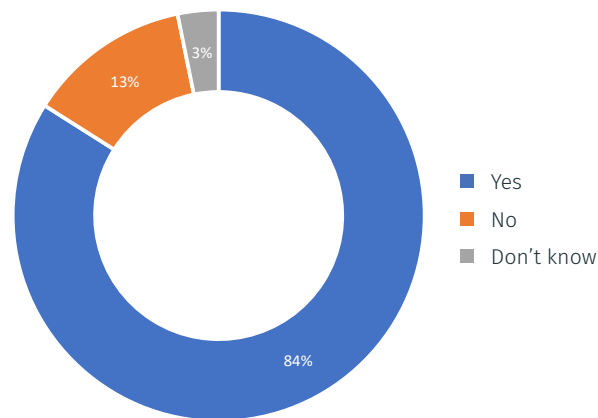




## Cash flow problems

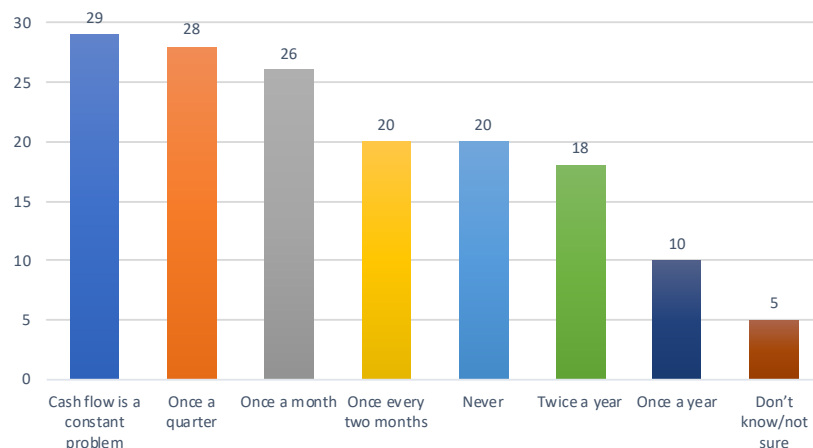
The majority of respondents (84 percent) admitted they have experienced cash flow problems. Just 13 percent said they never experience cash flow problems. See Chart 10, below.

**Chart 10: Has the business ever experienced a cash flow problem?**



Worryingly, almost 1 in 5 (19 percent) respondents say cash flow is a constant problem for their business. Another 17 percent say they experience cash flow problems once a month, and 18 percent say they experience cash flow problems four times a year (i.e. once a quarter). More than 1 in 10 (13 percent) say the problem arises once every two months. A similar number (12 percent) say it occurs twice a year, while 6 percent say it happens once a year. See Chart 11, below.

**Chart 11: How often does the business experience a cash flow problem?**

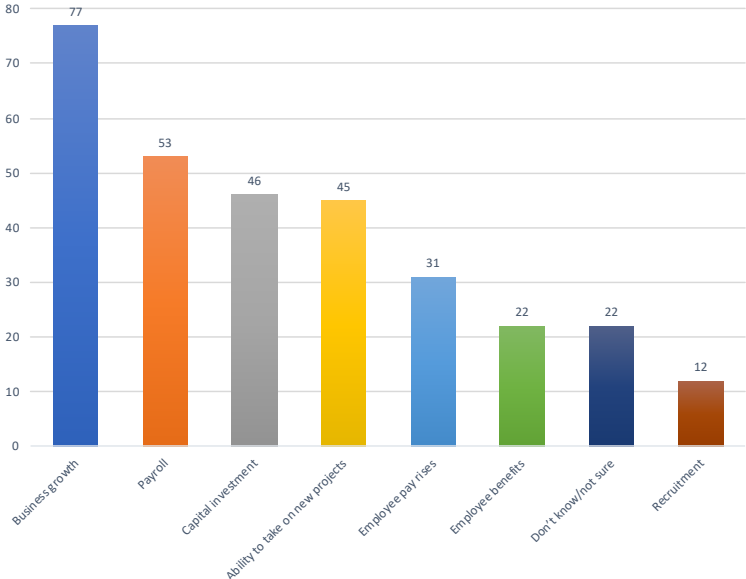


## Impact of cash flow problems

Slowing business growth is the most common effect of poor cash flow in a construction business, according to the respondents in this survey, with 1 in 4 (25 percent) identifying this as a problem. Payroll followed as the next most popular choice, with 17 percent of respondents choosing this.

Capital investment was chosen by 15 percent. Another 15 percent say cash flow restricts their ability to take on new projects, while 10 percent say they have had to restrict employee pay raises. Another 7 percent say they have had to restrict employee benefits. Just 4 percent say cash flow has affected recruitment. See Chart 12, below.

**Chart 12: Has cash flow ever affected any of the following in your business?**



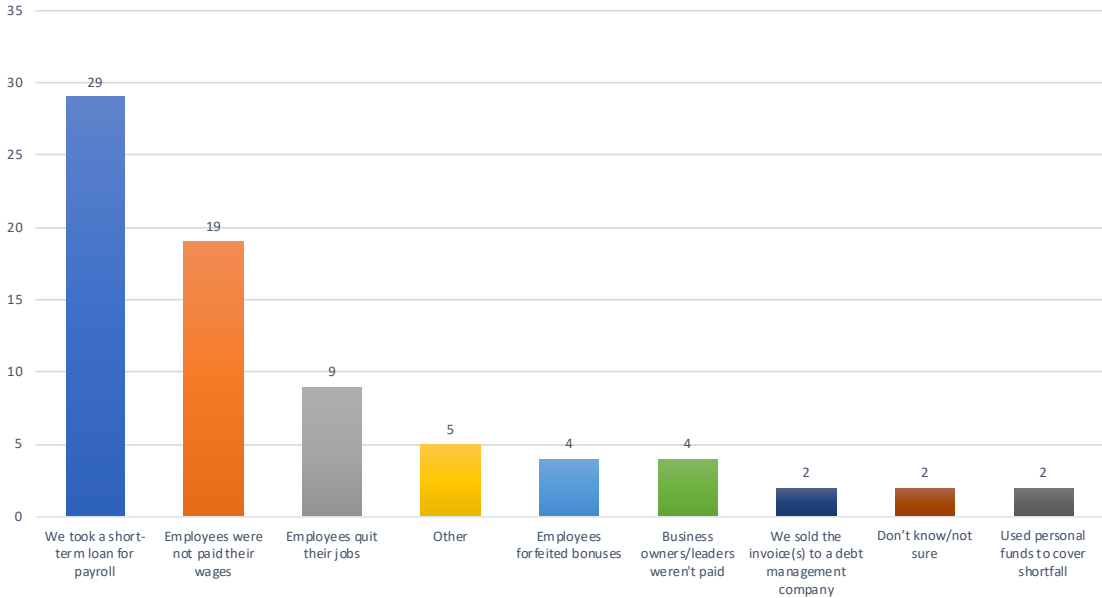
## Cash flow and payroll

Any respondent who said poor cash flow had affected payroll was subsequently asked a follow-up question to identify what impact this had on their employees and the business more widely. Did employees get paid? Did anyone quit their job?

The most popular answer was “we took a short-term loan for payroll,” with more than two-thirds (38 percent) giving this response. A quarter (25 percent) said “employees were not paid their wages,” and more than 1 in 10 (12 percent) revealed employees quit their jobs.

In 1 in 20 cases (5 percent), employees forfeited bonuses. Another 5 percent said business owners or leaders were not paid — presumably so employees could be paid instead. A small number (3 percent) said they took personal loans to cover the shortfall. See Chart 13, below.

**Chart 13: When a cash flow problem affected payroll, what impact did this have on the business?**



## Solutions

[TSheetsPROs](#) are in a unique position to bring their construction clients a lasting solution to their cash flow problems — solutions like better invoicing and clearer insight into real-time labor costs.

Armed with the data they need about their most expensive line item — labor — a construction business owner can better understand the urgency and importance of receiving up-front payments and collecting outstanding debts. TSheets time tracking can help construction owners track their labor forces to cut down on expenses and conduct more accurate job costing.

“My admins love it because it’s taking them so much less time to run payroll in QuickBooks. And we can make better decisions with accurate job costing now,” said Sharon Green of Paul Davis of Asheville.

A trusted advisor can help streamline the invoicing and payment system and prepare for a cash crunch with confidence. Equipped with the right tools, accounting professionals can prepare their clients and help them build savings to adjust when cash is tight.

## About TSheets by QuickBooks

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TSheets is the No. 1 rated and requested time tracking and scheduling solution among accounting firms. TSheets can help your firm be compliant with the Fair Labor Standards Act, reduce time processing payroll, and save up to 6 percent on gross payroll costs.<sup>1</sup> Reports give you invaluable insights into time spent on projects and how to better allocate staff to increase ROI. Tracking time with TSheets allows for accurate-to-the-second invoices for full and accurate billing of your resources and your staff’s time. Referring TSheetsPROs can get a free TSheets professional account. We challenge you to use it and not fall in love. Visit TSheets online at [www.tsheets.com/pros](http://www.tsheets.com/pros).

<sup>1</sup>Based on a survey of 924 businesses that use TSheets for payroll and report savings. On average, they report reducing gross payroll costs by 6%. Internal survey conducted by TSheets in January 2018.