billd

# 2024 National Subcontractor Market Report

Subcontractors who account for the cost of working capital have higher revenues, larger profit margins, and have bigger growth plans

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ABOUT THE REPORT

# In December 2023, Billd surveyed subcontractors across the nation to create the *fourth* annual National Subcontractor Market Report.

This survey investigated the market conditions subcontractors faced in 2023, yielding the perspectives of nearly 700 construction executives. This information served as the foundation of all insights captured in the 2024 report.

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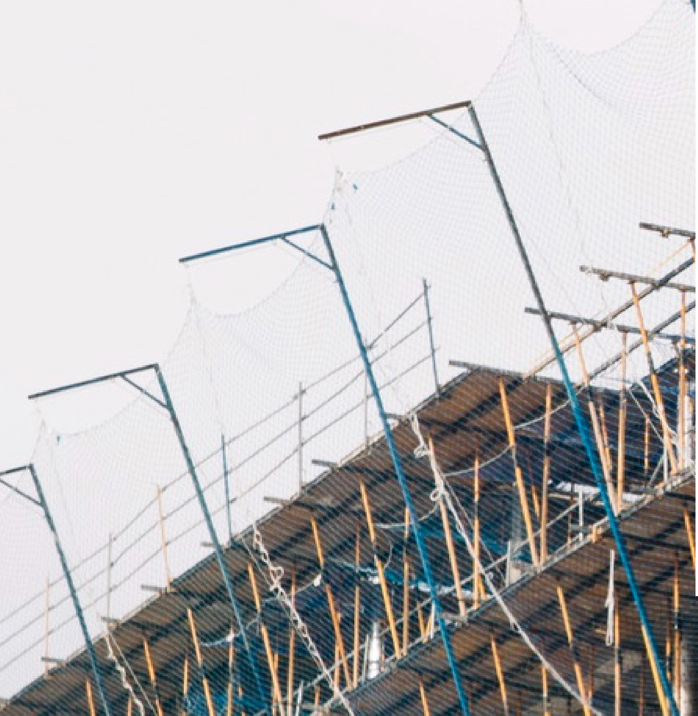
# Report Highlights

Subcontractors undertake a massive financial burden on every project, acting as the "interest-free banks" of GCs and owners. Financing those projects with lines of credit, supplier terms, credit cards and even cash on hand has tangible costs for the subcontractor. Costs that strain their profit margins. All the while, inputs like labor and materials steadily rise year after year. With financing costs forming a silent but significant burden, the profitability of subcontractors now depends, in part, on their ability to recognize and capture the cost of financing in bids.



Accounting for the cost of financing is a strategic business practice that addresses working capital as a project cost, just like materials and labor. By incorporating this cost into bids and invoices to GCs and property owners, subcontractors are treating working capital as a crucial component of long-term business health. This year's report shows that it's a practice that pays off.

- Subcontractors who accounted for the cost of working capital in their bids are seeing **higher revenues, larger profit margins, and have bigger growth plans in 2024.** They also report having more positive relationships with their GCs.
- Those businesses saw **11% larger profit** margins versus those who did not, reporting 14.1% and 12.7% in profit respectively.
- Despite the obvious impact on profit, only $^1/_2$ of subcontractors increased their bids to account for financing.
- Subcontractors are waiting **57 days** on average to get paid while fronting materials and labor from the day the project begins.
- It's no surprise that **46%** reported that cash flow was a significant challenge for their business.
- Subcontractors are turning to **various working capital solutions** to fund this openly expected burden, and are even willing to take a pay cut in the name of faster payments and stronger cash flow.

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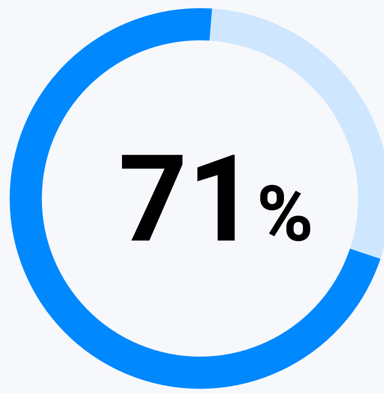
# The Worsening Burden of Slow Pay

## A Well-Known Problem In Construction Intensifies

Every subcontracting business owner and CFO is deeply familiar with the challenges of slow pay and this year respondents reported the problem worsening. Months of unseen back and forth between GCs and property owners can take place before subcontractors start to receive progress payments for the work they've done. The survey saw an 11% increase in the number of subcontractors reporting the problem year-over-year. This contributes to a persistent discrepancy in AP and AR.




Of respondents said they are generally slow paid by GCs, up from 60% in the year prior

**57**
**DAYS**

The average time spent waiting to get paid for completed work from the time a pay application is submitted

**92**
**DAYS**

Worth of working capital available to the business, as reported by business owners. A figure that feels optimistic compared to the thousands of cash flow assessments conducted by Billd.

**77%**

Of subcontractors came out of pocket for materials before receiving payment in 2023, up from **73%** in 2022 and **66%** in 2021

**89%**

Many subcontractors are willing to pay a percentage in exchange for guaranteed payment upon pay application approval. Of those who said yes, 89% would offer 1-5% off their invoice. A select few would go as far as 10%, showing just how serious slow payments can be.

**46%**

Of subcontractors will quickly admit, cash flow posed a substantial challenge for their business growth in 2023

## More GCs Now Understand the Impact of Slow Pay, But Nothing Has Changed

**35%**

of subcontractors believe GCs don’t understand the importance of prompt payment

**33%**

of subcontractors believe GCs don’t express the urgency of prompt payments to the owner

While 35% is still significant, it is a dramatic drop from 2022, when 52% of subcontractors felt GCs didn’t understand. It might be anticipated that heightened awareness would mitigate the incidence of delayed payments, or that GCs would engage in more robust advocacy efforts to expedite payments. However, evidence suggests that increased awareness by general contractors has not had an impact on improving the problem. A third of subcontractors don’t believe GCs urge project owners to pay them more promptly; that shortage of advocacy is evident in the increasing incidence of subcontractors affected by slow pay.

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# The Universal Rising Costs of Inputs

## The State of Skilled Labor

As quality skilled labor becomes harder to find more subcontractors must invest in training programs to upskill their available workforce

Subcontractors characterize the availability of reliable, high-quality skilled labor as the #1 business risk they face.

**48%**

of respondents said the lack of availability of quality skilled labor will be the biggest risk to their business in 2024

Amid an ongoing labor shortage, the cost of labor was once again on the rise. However, this incline is getting less steep over time, even if the improvement was modest.

Skilled labor costs increased **13%** on average in 2023, compared with an average increase of **15%** in 2022

# The State of Material Costs

Sharp material price hikes defined the pandemic and the years that followed, but in 2023, that impact appeared to soften. Material costs rose, but like with labor, the pace has slowed down.

**19%**

Subcontractors reported that their material costs increased **19%** on average in **2023**, compared with an average increase of 26% in 2022

The correlated price volatility was severe during the pandemic and following two years but has since started to improve. The survey showed that subcontractors are less concerned with volatile and increasing material prices impacting their business.

**61%**

Reported that volatile and increased material prices had an explicitly negative impact on their business in 2023

The unprecedented material shortages and price hikes seen during the pandemic have cooled, but rising material costs are still a concern. 65% of subcontractors forsee price volatility impacting their businesses in 2024. The ability to navigate pricing conversations with GCs will continue to be critical to profitability and business success.

Lead times and material availability appear to be less of an issue than they were in 2022, with 64% saying they negatively impacted business in 2023. This is a nearly 20% drop year over year. There was also a notable decrease in the proportion of subcontractors anticipating an impact on their business due to lead times and material availability in 2024, declining from 76% in the prior year to 55%. Despite this positive trend, approximately half of the subcontractors continue to perceive lead times as having a detrimental effect on their supplier relationships.

Pricing is less of an issue between suppliers and subs. Nearly half as many subcontractors experienced strife with suppliers due to material prices compared to last year.

A broader question on the survey probed into whether respondents sought out new suppliers as a result of material procurement challenges. 61% decisively did, compared to 65% in 2022. The market is not without challenges, that much is sure. But these statistics show some improvement.

**37%**

Of respondents said material price volatility negatively impacted their supplier relationships in 2023, a sharp drop off from 73% in 2022. This major improvement is likely credited to the settling in supply chain conditions

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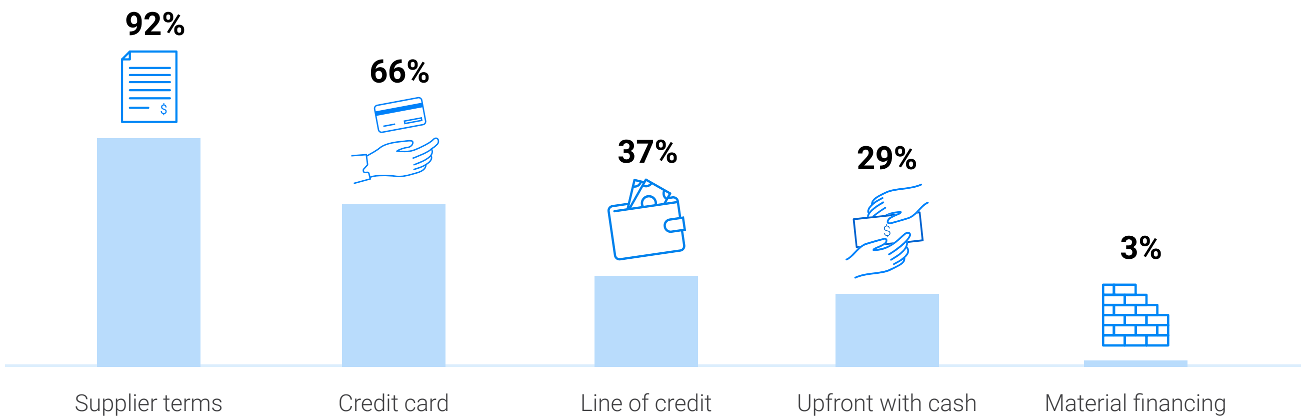
# The Financing Tools Subcontractors Leverage

Even with some relief to the pace of rising costs, subcontractors still collectively front billions in material and labor dollars every year. With the ongoing challenge posed by slow pay, they must have a toolbox of working capital options to meet those obligations.

## Supplier Terms: The Flawed Favorite

Supplier terms continue to be the most popular method of purchasing material, with 92% of businesses using terms. Over 77% use terms more than any other option, a 17% increase from the prior year.

**Select all the ways your business purchased materials in 2023**

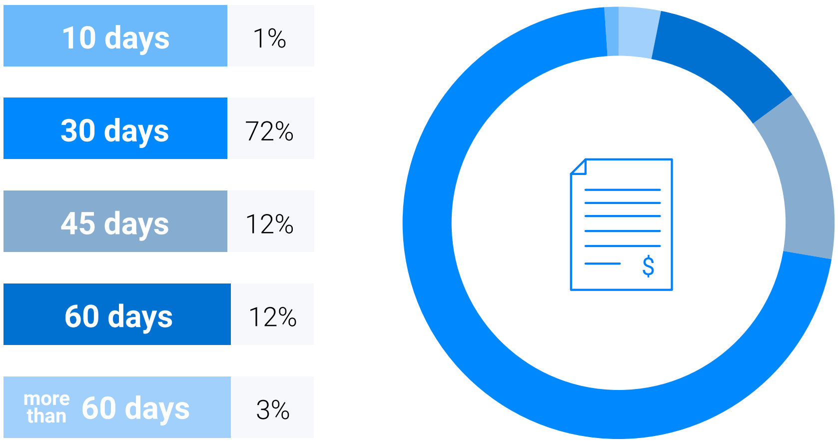



**Unfortunately, terms have always had a glaring problem: insufficient length.**

**73%** **of respondents have terms that are only 30 days or less but they still have to wait 57 days on average to get paid for those materials**

**39%** believe the length of their supplier terms are not sufficient for how long it typically takes them to get paid

### What are the most common terms your suppliers typically offer your business?




**85%**

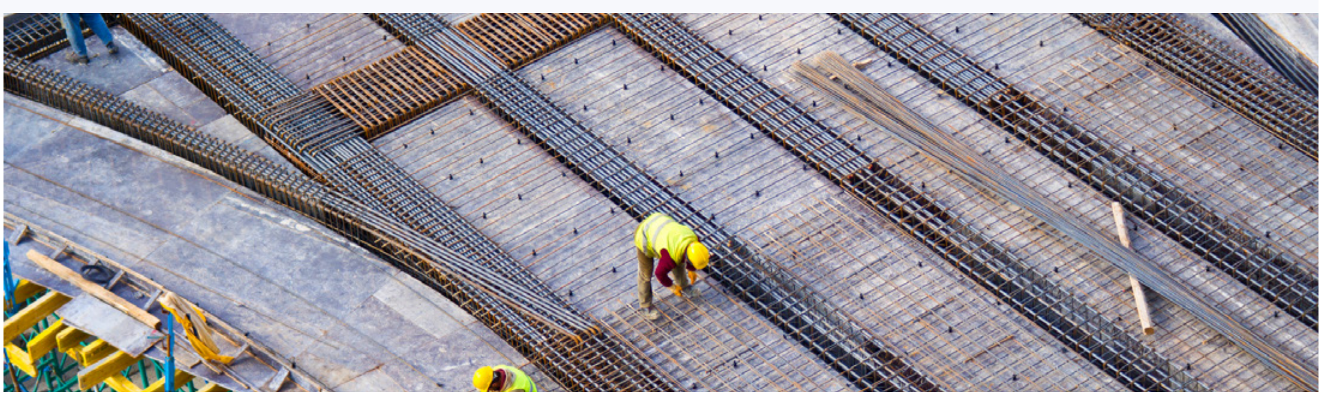
of subcontractors report having supplier terms that do not align with their DSO

When you stack this up against the 57 days it takes to get paid from invoice submission, the problem is clear. 30-day terms only buy subcontractors a short reprieve before the invoice comes due, and they have to turn to other financing options.

### At this point, they heavily lean on credit cards and cash on hand.

**20%** Feel their suppliers do not support their business by being flexible with their credit terms, down from 41% in 2022

**26%** Said their suppliers adjusted their terms in 2023 due to worsening prices or lead times




# The Real Cost of Working Capital

Working capital solutions including financing, however vital to getting subcontractors through the cash flow deficits caused by slow pay, have real costs associated with them, be it interest, lost discounts, or opportunity costs. This chart expresses those costs.

**Cost of Capital by Source**

| SOURCE | HARD COST | SOURCE OF COST |
|---|---|---|
| Line of Credit | 10-15% APR | Interest |
| Supplier Terms | 2-4% per month | Cost of servicing baked into pricing |
| Material and Receivables Financing | 2-4% per month | Financing charges |
| Credit Cards | 18-36% APR / 2-3% Merchant fees | Interest / Upcharge for use associated fees |
| Cash | 5-10% APY | Forgone short-term investments / Forgone or delayed investments in the business |

# 06 Success In Accounting For The Cost Of Working Capital

Almost half of subcontractors are accounting for the cost of working capital and raising their bids accordingly to protect their profit margins. Much like materials, labor and overhead, the cost of working capital directly impacts a subcontractor's bottom line. It is not a negligible expense, it is a real cost, regardless of the types of working capital being leveraged.

**48%**

of subcontractors account for the cost of working capital in their bids

**91%**

of respondents increased their overall bids in 2023, compared with 78% in 2022

Increasing bids in response to rising costs is a strategy employed by subcontractors as a means to sustain their business operations. However, they do not always have the leverage to carry out those increases in a competitive market.

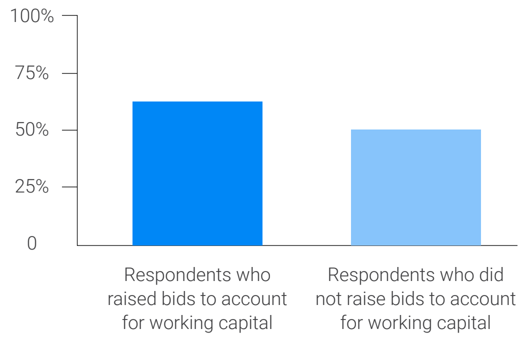
**28%**

said profitability decreased in 2023 because they did not increase the price of their bids at the same rate that the cost of materials or labor rose

Like materials and labor, working capital costs are an input that subcontractors have to consider, calculate and diligently incorporate into bids and change orders. Unlike materials and labor, working capital costs are not always readily apparent or accounted for by subcontractors. Although 48% is a strong start, it leads to a stark split, with the half of subs who account for financing enjoying stronger margins than those who don't.

# The Increased Profitability of Subcontractors Who Account for the Cost of Working Capital

The inclusion of working capital costs has a palpable impact on the profitability of subcontractors. 59% of those who did reported having a more profitable year, compared with just 50% of those who didn't.




## Half of contractors forgo 11% greater profitability

The actual margins of these two subsets were also different, with capital-cost-conscious subcontractors reporting an average profit margin of 14.1%, nearly 2 percentage points higher than their non-accounting peers.

**14.1%** The profit margin of subcontractors who added the cost of working capital into bids

**12.7%** The profit margin of subcontractors who did not add the cost of working capital into bids

With increased profitability from accounting for working capital comes the likelihood of higher revenue. Subcontractors **who accounted for working capital grew at higher rates than those who did not.**

**66%** Of cost-conscious subcontractors reported revenue growth, compared to 63% for their peers

**29%** Of respondents who increased bids to account for working capital enjoyed 20%+ growth rates, only 23% of respondents who did not raise bids to account for these costs experienced the same growth

## Better GC Relationships

Subcontractors who account for the cost of working capital tend to have better GC relationships than those who don't account for it. Both groups experienced slow pay with the same frequency, but there were other benchmarks that cost-accounting subs outperformed their peers on.

These subcontractors were more likely to report that their GCs understood the importance of prompt payment to trade partners. Those GCs were also more likely to pass that message along to property owners. This mutual understanding is a signifier of more harmonious working relationships.

## Better Growth Prospects

There was a significant difference in the business growth prospects of this subset as well. 79% of subcontractors who increased bids planned for growth in 2024, compared to just 67% of those who didn't raise their bids.

They were also 7% more likely to take on larger projects in 2024, and 15% less likely to fund their growth with their own cash, a practice that takes valuable working capital away from growth initiatives.

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# Widespread Revenue Growth in 2023 Has Set the Stage for Success in 2024

## 2023 Business Growth in Review

More subcontractors attained business growth in 2023 than in 2022. 75% experienced revenue growth between 1-20%, with 41% reporting larger revenue gains (between 11-20%) than last year. Subcontractors can credit many things, like more project awards, steadily improving supply chain and supplier relationships, and innovative construction-specific working capital options to protect cash flow and finance growth.

**67%**

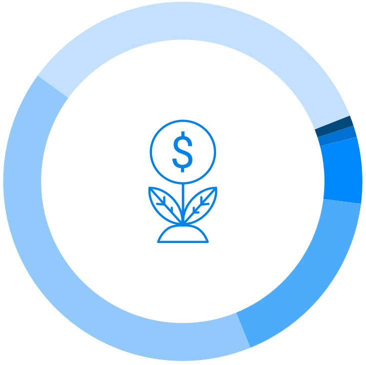
of respondents' business revenue grew in 2023, up from 61% in 2022

**55%**

said their business was more profitable in 2023 than 2022

**How much did your business revenue grow in 2023?**

| | |
|---|---|
| **1-10% growth** | 34% |
| **11-20% growth** | 41% |
| **21-40% growth** | 17% |



| | |
|---|---|
| **41-60% growth** | 6% |
| **61-80% growth** | 1% |
| **81-100% growth** | 1% |

# 2024 Business Growth Aspirations

Subcontractors' desire to grow and pursue bigger projects is remarkably consistent, changing by little more than a percentage point or two year over year. This appetite for growth was admirably undeterred during periods of material volatility and deeper labor shortages.

**73%** of respondents plan to grow their businesses in 2024, up from 71% in 2023

**57%** of respondents are interested in going after larger projects in 2024

That said, those who don't plan to grow flagged the labor shortage as their chief concern: 57% of respondents who don't plan to grow are concerned about the shortage of quality skilled labor to support their growth. 14% of respondents who don't plan to grow cite their concern about limited access to capital and inconsistent cash flow.

# How They Plan to Grow

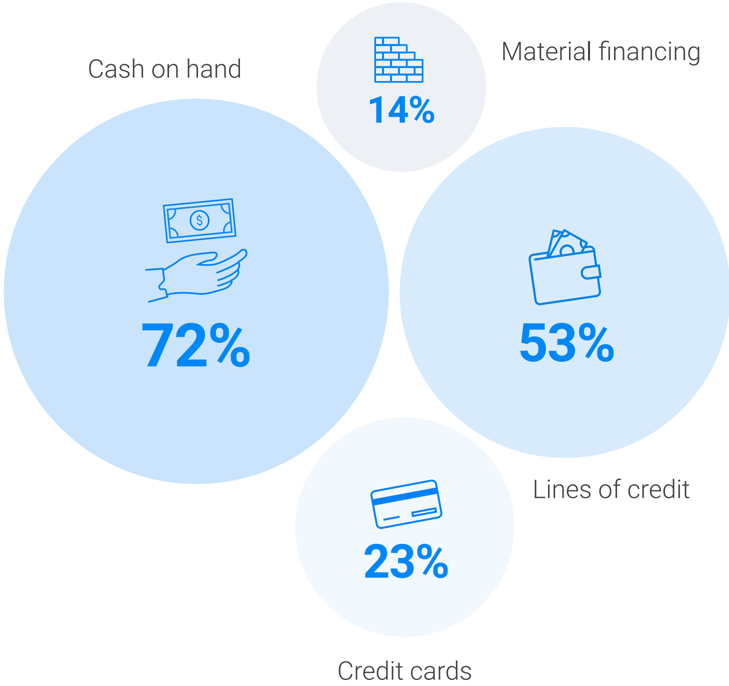
**Capital Stack**

When pressed as to how they plan to fund growth, a majority of subcontractors favor using finite cash reserves. While cash on hand is the most popular way to fund business growth, very few subcontractors rely *exclusively* on cash. Most use supplementary financing methods in combination with cash.

Billd recommends a diverse portfolio of capital options to grow sustainably. **Check out our white paper on the subject at Billd.com**

## Select all the ways you plan to fund business growth in 2024

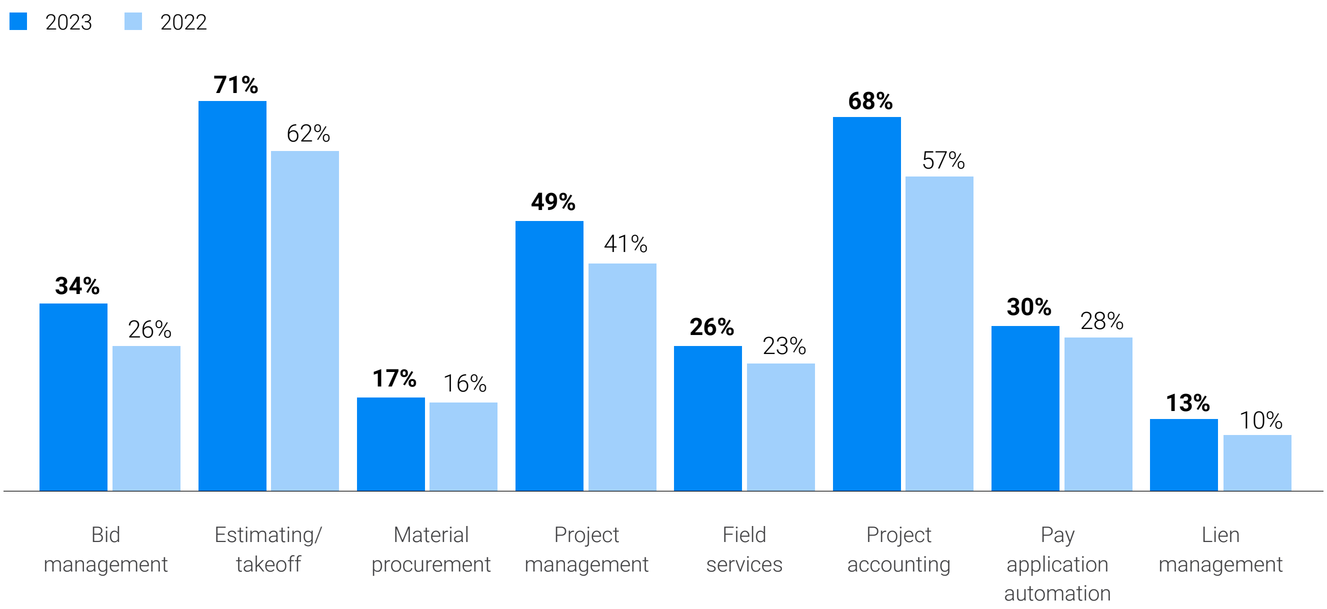
Financing tools are vital to a subcontractors' formula for growth, but the ability to attain new financing is a struggle for many.




## Technology

We've seen an uptick in technology adoption across the industry for well over a decade. The survey showed that more and more companies are turning to the widely available technologies that serve construction. Estimating and takeoff software are now used by 71% of respondents, compared with 62% just one year ago. Bid management and project accounting also saw significant year over year gains, pushing construction toward a more modern future.

## What construction technologies and software does your company use?



# 08 An Industry Veteran's Perspective

One thing genuinely struck me in this year's report: the fact that half of subs don't charge for the cost of their working capital. However, it was clear why those that do have demonstrably higher profit, higher revenue and have bigger growth plans for this year.

Accounting for costs matters in an industry where staying in the black is an uphill battle. Unlike other markets, construction operates on a razor thin margin and turbulent cash flow. Subs are constantly fighting to get paid fairly on change orders, compete with lower bids, and collect payment before working capital options reserves run dry. That means a few percentage points of profit carry a lot of weight. You won't catch 50% of subs saying they don't charge for materials, labor, equipment or change orders. But cost of working capital–nearly half of all subs admittedly eat the cost? At Billd, we advocate for subcontractors at every level. We want to see them get paid fairly and promptly, but they can't collect on what they never charged for.

We hope that the report emboldens subcontractors nationwide to seek out the timely payment they deserve. Subs incur astronomic cash deficits when they don't leverage all their working capital options (cash, supplier terms, bank lines of credit and material financing). While cash may have the lowest, real costs, its finite and subcontractors should have all other options available to manage their working capital proactively. When you combine that capital stack, the costs should be included in all bids. Reflecting that cost in bids ensures the sub can financially thrive, but most importantly, that they can grow. The true injustice here is not that 48% of subs are eating the cost of financing; it's that they're hindering their own growth.

Every year, this report shows financial challenges and opportunities facing the subcontractor. Billd is a company that formed in response to that. Our subcontractor-specific financing tools are the closest thing to a cure for the financial pains that subs endure. As a company, we were built with subs in mind. Billd is in constant search of new ways to support the trades. Without fail, when surveyed, subs show a determination to grow their business. We are singularly committed to propelling that growth.

**Chris Doyle**,
CEO OF BILLD

## About Chris

Christopher Doyle is an entrepreneur and business leader with extensive construction and finance industry experience. He is the co-founder and CEO of Billd, a disruptive payment solution for the construction industry that helps subcontractors and suppliers grow their businesses with less hassle and risk. Recognizing the cash flow hurdles that contractors face, Doyle launched Billd to make traditional Wall Street working capital accessible to business owners in the construction industry.

## About Billd

Billd stands alone as a partner that truly champions the subcontractor. Their financial and payment products empower subcontractors to bypass project hurdles by providing access to upfront funds to cover their most pressing costs, including materials and labor. Unlike traditional financing outlets, Billd provides flexible lines of credit to accommodate the unpredictability of cash flow in construction, and extends their customers longer terms to align with industry payment standards. Billd knows traditional credit metrics are poor predictors for risk and has built a variety of industry-specific, proprietary analytic and financing tools to allow subcontractors to stabilize cash flow and more effectively grow their businesses.

# 09 About the Survey Respondents

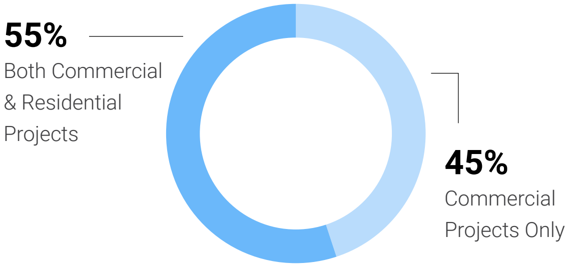
The survey was completed by 696 construction professionals across various trades. It captured data on their revenue, profitability, ability to fund labor and materials, vendor relationships, and the impact of industry payment cycles. Respondents were surveyed in December 2023.

**Respondent Profile:**

**72%**
Subcontractor

**28%**
Both Subcontractor & General Contractor

### What kind of projects does your company primarily work on?

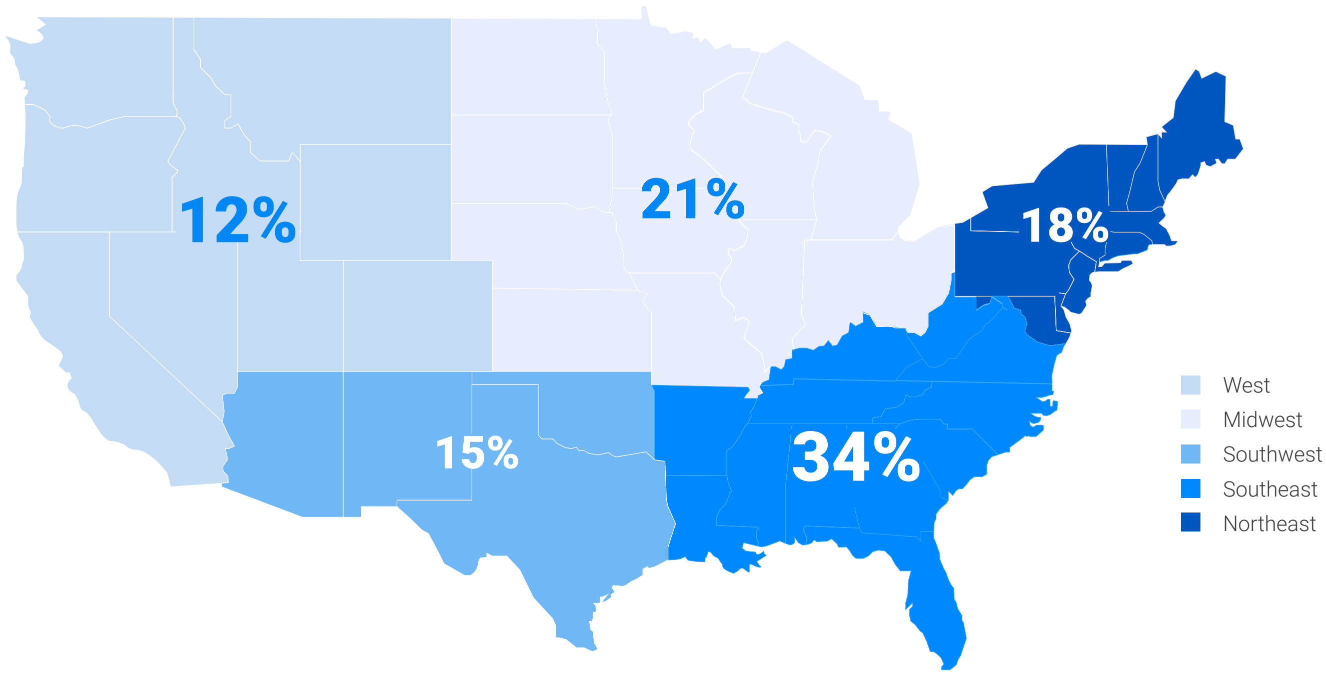



### Trades represented

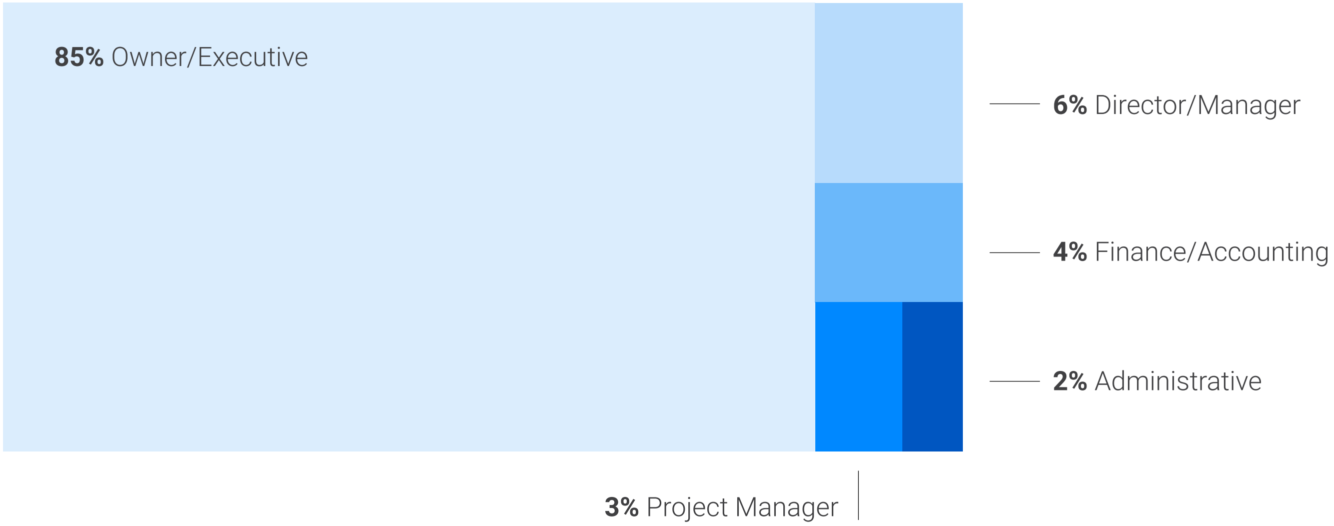
*Business leaders from across all divisions were represented in this survey including*

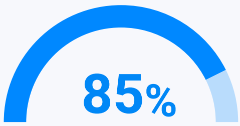
| | | |
|---|---|---|
| Concrete | Flooring | Masonry |
| Drywall | Framing | Painting |
| Earthwork | Glass | Paving |
| Electrical | Glazing | Plumbing |
| Elevators | Gypsum Concrete | Roofing |
| Excavating | HVAC | Site Utilities |
| Fencing | Insulation | Solar |
| Fire Alarm | Landscaping and Irrigation | Steel Framing |
| Fire Protection | Marble and Granite | Waterproofing |

## Which region does your company primarily work in?




## What is your role in the company?




of survey respondents were the owners or executives of their company

## How long has your company been in business?

| 1% | 2% | 6% | 91% |
|---|---|---|---|
| Less than 3 years | 3 - 5 years | 5 - 10 years | More than 10 years |

## Annual Revenue in 2023

| | |
|---|---|
| $5M - $15M | 33% |
| Under $5M | 38% |
| $15M - $50M | 20% |
| $50M+ | 9% |

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