

Accelerating Construction Payments

THE VALUE OF AR AUTOMATION





Table of Contents

Executive Summary 3

Introduction 4

Payment Challenges in Construction 5–6

The Solution: AR Automation 7–8

Value Demonstrations 9

Conclusion 10

Sources 11

Executive Summary

In today's dynamic construction landscape, where cash flow management dictates the pace of progress and growth, **Accounts Receivable (AR) automation emerges as a transformative force.**

This whitepaper delves into the cash flow challenges the construction industry faces due to slow payments and operational inefficiencies. Drawing on industry data, expert insights and case studies, we present AR automation as not merely a technological upgrade but a strategic necessity for firms aiming to thrive in an increasingly competitive and digital-first environment.

KEY HIGHLIGHTS



Industry Challenges:

The construction sector grapples with a 94-day average wait for payments.¹ Slow payments contribute to a staggering \$273 billion cost to the U.S. construction industry,² emphasizing the urgent need for streamlined processes.



The AR Automation Solution:

AR can significantly reduce Days Sales Outstanding (DSO) and enhance payment visibility for businesses. Benefits include simplified processes, reduced manual labor and enhanced customer experience.³



Future-Proofing the Industry:

Beyond immediate benefits, AR automation positions companies for long-term success, enabling them to adapt to market changes with agility and confidence.



Introduction

BUILDING STRONGER FOUNDATIONS, ON AND OFF THE JOB SITE

Construction companies have long relied on manual processes to track their finances. From paper printouts to static spreadsheets, the old ways keep contractors in the dark about their finances and often lead to errors and payment delays. Fortunately, technology now provides real-time financial data and insights about project budgets, costs and cash flow.

This technology is critical in helping lenders and developers face uncertainty in the construction industry. Nearly half (46%) of lenders say risk on projects has increased over the last year.⁴ This may be why **68% of developers have invested in process improvements** over the same period, and over half of the industry says that software is helping their teams be more productive.⁵ Optimized processes are in demand — and for good reason.

OVER 60%
OF FIRMS CHOOSE TO
INVEST IN TECHNOLOGY TO
STREAMLINE OPERATIONS.



CONNECTION
CONTROL
VISIBILITY INTO COSTS
REAL-TIME STATUS UPDATES⁶

This white paper will explore the challenges faced by accounts receivable (AR) departments in the construction industry and key tactics to improve cash flow and operational efficiencies, with an eye toward enabling business growth.

Payment Challenges in Construction

Manual AR processes tend to lead to two major challenges for construction companies: **errors and delays**. Both create hidden costs for businesses that can hinder growth.

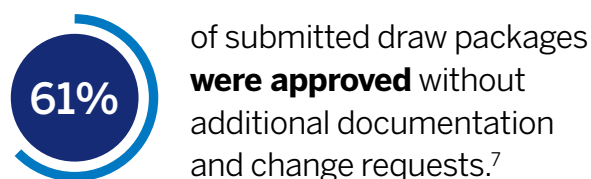
PAYMENT ERRORS

Manual payment draw processes are time-consuming for both lenders and construction companies. These processes are often highly complex, leaving them vulnerable to error and lost information. AR teams are then left to clean up the mess, which takes significant time.

In a recent report, lenders said that:



However, developers reported that:



With significant human error in play, industry stakeholders worry about data security and recognize that digital processes can help reduce their risk.⁸

PAYMENT DELAYS

Slow payments don't just affect project timelines. Construction companies face some of the longest payment delays of any industry, with construction firms reporting that they **wait 94 days on average** to get paid.⁹

Those delays cost the construction industry

\$273B IN 2023.¹⁰

The ripple effect caused by slow payments impacts contractors and vendors across the industry. Workers miss paychecks, vendors may not be paid, and projects are delayed. To bridge the gap, **contractors and subcontractors report paying out of pocket** for materials and using credit cards to cover payments.¹¹ These ad hoc payment methods may have their limits, however: One 2023 report found a **141% increase in liens** filed by subcontractors in the past 12 months.¹²

When AR teams lose time to manual processes and errors, **it costs construction companies money** – funds that could be better spent on investments in future growth.

Payment Challenges in Construction

Whether caused by errors or slow payments, **cash flow issues can keep construction companies from growing and damage relationships** with both workers and vendors — but it doesn't have to be that way.

WORKING CAPITAL MATTERS

When working capital is well managed, operating cash flows are stronger and can support many business objectives:

- ✓ Settle debts
- ✓ Reinvest in the business
- ✓ Return money to shareholders
- ✓ Pay expenses
- ✓ Overcome future financial challenges

According to one estimate,

13.9%

of total construction **costs could be eliminated** with faster, more reliable payments to contractors.¹³



The Solution: AR Automation

The primary goal of AR automation is to accelerate cash flow.¹⁴ By reducing payment errors and speeding up slow payments, construction firms can better manage working capital and position themselves for investment and future growth.

By digitizing these functions, AR teams reduce the chances for error and operate more efficiently.

According to a recent report on the construction industry,

64%

of survey respondents said that software has helped their team gain efficiency and productivity.¹⁵

The time saved is valuable, as teams can shift their focus to customer service and more strategic business functions¹⁶ that help companies stand out in a competitive field.

With both operational and financial benefits, **AR automation is poised to be a transformative force in the construction industry** – and companies that embrace the technology early stand to gain a competitive edge.



AR automation software can be on-site or cloud-based. These platforms streamline common AR processes, including:

- ✓ Generating and delivering invoices
- ✓ Accepting and processing payments
- ✓ Matching and applying payments to invoices
- ✓ Creating accurate financial reports¹⁷

The Solution: AR Automation

Operational efficiency isn't the only benefit of automation. Advanced tools also offer timely, accurate data to inform decisions. **In the construction industry, access to detailed AR data can help companies reduce costs by:**



Managing risk: Real-time financial data can help businesses track expenses against budgets to identify and correct potential overruns before they affect cash flow.



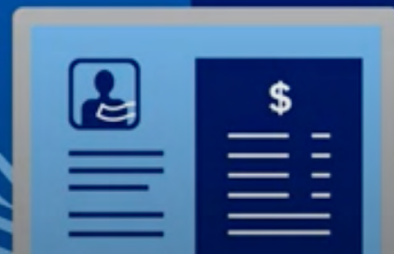
Evaluating vendors and subcontractors: A detailed understanding of pricing and performance can help developers negotiate better deals on materials and services.



Streamlining design and construction: Historical project data can inform future decisions about materials and construction partners for more cost-effective projects.¹⁸

WHAT IS ACCOUNTS RECEIVABLE AUTOMATION?

USING TECHNOLOGY TO STREAMLINE THE ACCOUNTS RECEIVABLE (AR) PROCESS



Value Demonstrations

The construction industry is particularly susceptible to market changes. When economic forces cause a slowdown, industry leaders can invest in technological improvements that position them to grow when deal volume picks up again.¹⁹

CASE STUDY: versapay®

When one East Coast insulation installation company implemented Versapay, their **AR team cut time** on manual tasks **by 75%** and achieved a **90% online payment rate** with clients.

Before embracing AR automation, this company's credit management team toggled between two different systems to find purchase orders and statements, which led to a five-step process to

send a single paper invoice to clients. As a result, **75% of the team's time** was spent on mailings, calls and manual collections. They needed a streamlined system that would allow them to easily identify what customers owed and automate the invoicing process.

Implementing Versapay led to significant improvements. The company was able to reduce its Days Sales Outstanding (DSO) from 60 days to 40

days — an immediate **30% reduction**. They also **saved 75%** of their time on manual collection tasks.

The company reports that **90% of their customers** now make secure online payments. The result is faster, steadier cash flow for the company and 24/7 payment service for their customers, who can use a credit card to pay online at their convenience.²⁰

BEFORE VERSAPAY

5 STEPS required to send **1 invoice**

2 SYSTEMS for purchase orders & statements

75% SPENT on mailings, calls & manual collections

AFTER VERSAPAY

90% of customers make **online payments**

30% **reduction** in DSO

75% **time saved** on manual collections tasks

Conclusion

FOR THE CONSTRUCTION INDUSTRY, AUTOMATION IS THE CORNERSTONE OF PROGRESS

Automation can reduce AR errors, unlock operational efficiencies and provide insights into cash flow that enable businesses to make smarter decisions. AR automation is not just a technological upgrade. It's a commitment to resilience and growth in the face of an uncertain economy. With the right tools, construction companies can manage their working capital and set themselves up for future growth.

When you're ready to automate your payment processes, American Express is here to help.

Contact **American Express** for a Consultation



Sources

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