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Building A Working Capital Toolkit

How to solidify the long-term financial foundation
of your business

About the Whitepaper

As a subcontracting business owner or CFO, you fight a constant uphill battle against the unpredictable payment cycle that is the standard in the construction industry—and you're not alone. No one is exempt from the struggles of slow pay. Your greatest challenge is stabilizing your cash flow so that you can keep existing projects running smoothly and take on more work. In fact, 46% of subcontractors surveyed in the [2024 National Subcontractor Market Report](#) said cash flow posed a substantial challenge for their business growth last year.

Unfortunately, while awareness of the problem has increased, the industry as a whole has been slow to address it. Additionally, there are a lot of subcontractors aggressively pursuing projects, increasing the level of competition. All of this has forced subcontractors to become more financially nimble and generate their own working capital lifelines and strategies.

Cash flow in construction is simple: In the first 30 days of the project, you pay for materials, labor, and overhead to accomplish your scope and invoice for it at the end of the month. When you get paid 60 days later, that means you have three months of expenses to cover in some form.

You cover those expenses with either cash, supplier terms, lines of credit, credit cards, or some other form of working capital. **This combination is your capital stack.**

Each of these options has unique characteristics. Additionally, the ideal mix in your capital stack should be proactive and intentional, not reactive.

As a business owner or CFO, you should understand and proactively manage your capital stack, as well as make sure you always have the capacity to maintain a healthy business.

By understanding your working capital options, building a robust working capital stack, and deploying it effectively, you can defend your business against cash flow inconsistencies and the challenges that come with them. In turn, you can devote more time to running your business effectively and less time worrying about whether you have enough cash to cover existing and future expenses.

After reading this whitepaper, you will walk away with:

- A working capital playbook that maximizes your options and protects your cash flow
- Battle-tested payment collection strategies developed alongside leading commercial subcontractors
- The ability to help your business achieve its growth goals on your terms





Working Capital Options

The typical working capital stack for subcontractors could contain any of the following options:

	REQUIREMENTS	EXPENSES YOU MIGHT USE IT FOR	TIME TO ACQUIRE	DIFFICULTY TO ACQUIRE	AVERAGE CAPACITY FOR A SUBCONTRACTOR
Cash	Years of collecting and holding onto profits	Anything	Years	High - Cash is the result of putting profits back into the business year over year or raising outside capital, which can be difficult in construction	1-5% of annual revenue
Supplier Terms	Reputation and rapport with supplier, personal guarantees	Materials	Minimum 6 months of relationship-building 1 month paperwork	Medium - Available to most reputable subs	Varies between subcontractors based on trade, annual revenue, and more
Bank LOC	2-3 years of historical performance and growth, ideal financial ratios, customer mix and AR concentration, backlog	Overhead Payroll, capital expenditures, key pieces of equipment (Not recommend for materials as costs quickly overtake your credit limit)	Minimum 6 months of relationship-building 2-4 months paperwork	Medium - Requires strong revenues and repayment history as well as a relationship with a bank Requires monthly and annual reviews of covenants	Equal to 2-10% of annual revenue
Billd	Years in business, strong FICO score, modest annual revenue requirements	Materials and other project costs (including labor) and operational expenses	As soon as 24 hours	Medium - Requires strong business financials	Equal to 5-10% of annual revenue; will vary by project
Credit Cards	Years in business, strong FICO, ideal financial ratios	Miscellaneous project needs pending credit limit, monthly recurring bills/subscriptions, travel Not suitable for large material orders or payroll	1-2 months	Low - Requires payment history to grow to meaningful credit limits	Equal to 15-30% of monthly revenue; varies based on credit history



While cash flow might be a persistent problem, one advantage for subcontractors is they have construction-specific financing available. However, construction-specific financing was created because subcontractors have had such a hard time securing adequate financing through more traditional methods. Banks are risk-averse and don't view construction favorably and lines of credit are limited in what they can cover. The challenge is in understanding all of the options that are available for subcontractors and how they are best used.

Your revenue goals, AR/AP ratio, work in progress (WIP), and scheduled backlog along with your desired minimum working capital buffer will help determine how much working capital you need available to your business at any given time. Ideally, you will achieve that buffer using a mix of different capital options.

Subcontractors must take a proactive approach to building their working capital capacity. Even the savviest of subcontractors find themselves in binds for a multitude of reasons. Once this happens, they don't have a lot of flexibility, which is why it's important to have options available before you think you need them. Below, we'll go into more detail about why diversification is advantageous.

ACTION ITEM

As you review the table on page 3, calculate the capacity of your own working capital. Together, your working capital capacity and cash flow inform your capacity for growth, a concept we'll revisit later on in the report.

Be Wary of "Easy" Options

It is a red flag when a "loan" or "line of credit" is "easy" to get or doesn't require you to provide a lot of information for underwriting purposes. Predatory options like MCAs (merchant cash advances) and payday loan companies know that by the time you need their products, you don't have time to secure other options. They can offer fast money at extremely high interest rates. This creates a vicious, cyclical form of debt that is extremely difficult to get out of.



Why You Need to Diversify Your Working Capital Options

Even if you have a safety net of cash in the bank, it's best practice to have multiple forms of working capital available. This prevents you from relying too heavily on any single form of capital, leaves room available in your lines of credit, and saves your cash as a last resort.

The size of construction expenses can make it difficult or impossible to use cash as the only form of capital. Here's a few reasons why diversity is important:

- ❏ Cash and LOCs are finite resources. Even the most prepared subcontractors will find themselves in situations where spending needs exceed their capacity. By using different forms of capital, you can start new projects while waiting for payment on existing ones. This allows you to keep projects moving forward and continue to deliver great work.
- ❏ If you've had lines of credit in the past, you may know that your bank could enforce a 30-day clean-up period. With an LOC, banks can sometimes require that a contractor completely pay off their line of credit for 30 consecutive days each year. You may be asked to pay some of your credit back before you're ready. Additionally, if you fall out of covenants, this option can be further limited or disappear entirely.



- ❑ **Each individual option won't be sufficient to cover your business's needs.** Cash, lines of credit, and supplier terms all have their weaknesses, which is why you need to open up your capacity with different financing options. When cash or LOCs don't meet your business's capacity, you could be forced into making less-than-ideal decisions to cover your expenses. Having additional options like material financing can cover these expenses with longer payment terms, allowing you to use credit cards for smaller purchases.
- ❑ When you need to be bonded, you must maintain open credit that you can't freely use. This makes having diversity in your capital options more important so you have multiple sources of capital you can use to cover expenses while maintaining capacity in your line of credit.
- ❑ Greater diversity can also potentially lead to larger lines of credit. A positive performance history across credit cards and lines of credit can help you increase your limits. When you're feeling confident in your repayment schedule, consider prioritizing options that report to the credit bureaus.
- ❑ In the eyes of the bank that doesn't understand the nuances of the construction industry, construction businesses do not typically have a lot of collateral or assets, which is why they are considered high risk. By having different capital options in place before you need them, you will be in a financially healthier state than if you're seeking new options because you've exhausted your existing capacity.



Each individual working capital option won't be enough to cover your business's financial needs, which is why diversity is important. Additionally, there can and will be times you run into cash flow challenges, regardless of how big your business is. It's an unfortunate reality that is unique to the construction industry and stems from the unpredictability of payment terms and general market conditions.

Fortunately, by understanding your maximum cash deficit and your forms of working capital, you can take proactive steps to manage the ebbs and flows of cash flow in your business.



Understanding Your Capital Needs and Availability

On average, subcontractors wait 57 days for payment after submitting their pay application, according to the [2024 National Subcontractor Market Report](#). That means that your accounts receivable isn't realized until month 3 at best. This compounds with every project you take on, and the sum of all project debts contributes to your maximum cash deficit.

The maximum cash deficit is the amount of working capital you need just to stay operational—it doesn't consider carving out extra capital to reinvest in the business or emergency funds.

Materials, labor, and overhead expense percentages will vary across trades, as will profit, but here's an example of what a breakdown might look like for a subcontractor that makes \$30M in annual revenue.

In this example, the subcontractor is making an average annual profit of 10% and expects net 60 terms with their GC. To help calculate the maximum cash deficit, we will assume they are not using supplier terms and the 10% profit is returned to the business owners or shareholders instead of going back into the business to support working capital. The business's annual expenses for materials, labor, and overhead are broken down on a monthly basis on the next page.

REVENUE	
Annual Revenue	\$30,000,000
EXPENSES	
Materials %	40%
Labor %	35%
Overhead %	15%
Profit %	10%
CASHFLOW INPUTS	
Time to Get Paid from Pay Application Submission	60 Days ▼
Average Time to Pay Supplier	Cash ▼



Monthly Profit & Loss

For the sake of this example, expenses are broken down consistently even though AR and AP will fluctuate month to month. Using the average monthly expenses for the business, here is how to calculate the maximum cash deficit for the \$30M subcontractor.

Month	1	2	3	4	5	6
Revenue	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Profit	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Revenue Minus Profit	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000
Materials	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Labor	\$875,000	\$875,000	\$875,000	\$875,000	\$875,000	\$875,000
Overhead	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000
Total expenses	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000

Monthly Cash Flow

Month	1	2	3	4	5	6
Starting Capital	-	→ -\$2,250,000	-\$4,500,000	-\$4,500,000	-\$4,500,000	-\$4,500,000
Materials	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Labor	\$875,000	\$875,000	\$875,000	\$875,000	\$875,000	\$875,000
Overhead	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000
Total Monthly Cash Outflow	-\$2,250,000	-\$2,250,000	-\$2,250,000	-\$2,250,000	-\$2,250,000	-\$2,250,000
Cumulative Cash Outflow	-\$2,250,000	-\$4,500,000	-\$6,750,000	-\$6,750,000	-\$6,750,000	-\$6,750,000
Cash From Projects Minus Profit	-	-	→ \$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000
Ending Capital	-\$2,250,000	-\$4,500,000	-\$4,500,000	-\$4,500,000	-\$4,500,000	-\$4,500,000

For a \$30M subcontractor to stay operational, **the minimum amount of working capital they should have available at any time is \$6.75M**. Before they receive payment in month 3, they will need to have enough working capital to cover all of the expenses they have accumulated thus far.

In order to calculate your maximum cash deficit, we need to make certain assumptions because there is no start or end to your business. However, we will need to assume one to begin calculations.

While we understand these may not be realistic, here is the full list of assumptions to make to calculate the minimal amount of working capital your business needs.

- **The subcontractor starts with no working capital.** This shows where a subcontractor would be when they've exhausted all of their working capital capacity. This example portrays work that is completed. At its most stretched time, the business would need \$6.75M in available working capital. Additionally, profit is removed from the equation and does not add to the ending capital. Instead, profit is returned to the owners/shareholders. Removing the profit from this calculation shows the total working capital capacity the business will need to remain operational and protect returned capital.
- **Expenses stay consistent even when revenue isn't.** This example shows an even monthly accumulation of expenses, but in reality construction is rarely even flow. Seasonality, larger projects in the backlog, annual expenses, and project schedule changes could all contribute to fluctuations in your monthly expenses.
- **The subcontractor is not using supplier terms.** Removing supplier terms from the calculation can help the sub accurately determine the total amount of working capital the business will need in their capital stack to cover all their expenses, which includes materials.
- **There is no cash coming into the business until the third month.** With 57 days as the average days to get paid from pay app submission, this could be even worse if a subcontractor works with a GC who is more often net 90 or even net 120 on payment.

These calculations will look different for every subcontractor who performs this exercise. However, these assumptions should be made as a way to demonstrate the pure working capital needs for your business.





ACTION ITEM

Calculate the maximum cash deficit for your business

Performing this exercise with your average expenses and average receivables can determine the total working capital capacity you need to protect your bottom line when you experience schedule delays, slow pay, and other factors that are unfortunately common in the industry.

These calculations will work no matter the size of your business. As an example, we'll calculate what this looks like for a subcontractor making \$50M in revenue with the same expense breakdown (40% materials, 35% labor, 15% overhead). Their monthly breakdown would look like this:

Revenue	\$4,166,667
Profit	\$416,667
Revenue Minus Profit	\$3,750,000
Materials	\$1,666,667
Labor	\$1,458,333
Overhead	\$625,000
Total Expenses	\$3,750,000

And their max cash deficit would look like the chart below:

Month	1	2	3	4	5	6
Starting Capital	-	-\$3,750,000	-\$7,500,000	-\$7,500,000	-\$7,500,000	-\$7,500,000
Materials	\$1,666,667	\$1,666,667	\$1,666,667	\$1,666,667	\$1,666,667	\$1,666,667
Labor	\$1,458,333	\$1,458,333	\$1,458,333	\$1,458,333	\$1,458,333	\$1,458,333
Overhead	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000	\$625,000
Total Monthly Cash Outflow	-\$3,750,000	-\$3,750,000	-\$3,750,000	-\$3,750,000	-\$3,750,000	-\$3,750,000
Cumulative Cash Outflow	-\$3,750,000	-\$7,500,000	-\$11,250,000	-\$11,250,000	-\$11,250,000	-\$11,250,000
Cash From Projects Minus Profit	-	-	\$3,750,000	\$3,750,000	\$3,750,000	\$3,750,000
Ending Capital	-\$3,750,000	-\$7,500,000	-\$7,500,000	-\$7,500,000	-\$7,500,000	-\$7,500,000

No matter the size of your business, it's vital you know the maximum cash deficit so you can ensure you have not only the diversity but also the capacity within your working capital options to cover this deficit.



Based on our analysis, most subcontractors have between two and six weeks' worth of working capital readily available to cover their expenses. After calculating your maximum cash deficit, compare that to your available working capital. Remember that the maximum cash deficit is the amount you need just to break even. You would want to have a working capital buffer that would not only meet your maximum cash deficit requirement, but would also include enough capital to cover operating expenses for 1 to 2 months without depleting all your available options.

Here's an example of the working capital capacity a subcontractor making \$30M in revenue may have.

Between supplier terms, a bank line of credit, and a year of retained profit, **the business would need to use all of its working capital options just to stay operational. Even then, there is an unmet need.**

\$30,000,000	Annual Revenue
\$2,500,000	Monthly Revenue
\$1,000,000	40% Materials Cash Outlay
\$875,000	35% Labor Cash Outlay
\$375,000	15% Overhead Cash Outlay
\$250,000	10% Profit
\$6,750,000	Necessary Working Capital (assume 2 months expenses always outstanding, 57 days)
\$1,000,000	Supplier Terms (30 day terms, 1 month of materials)
\$1,500,000	Bank Line of Credit (5% annual revenue)
\$3,000,000	Cash (one year retained profit of 10%)
\$5,500,000	Total Working Capital Capacity
\$1,250,000	Deficit

Now we'll apply their working capital capacity to their starting capital.

Monthly Cash Flow

Month	1	2	3	4	5	6
Starting Capital	\$5,500,000	\$3,250,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Materials	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Labor	\$875,000	\$875,000	\$875,000	\$875,000	\$875,000	\$875,000
Overhead	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000
Total Monthly Cash Outflow	-\$2,250,000	-\$2,250,000	-\$2,250,000	-\$2,250,000	-\$2,250,000	-\$2,250,000
Cash Balance	\$3,250,000	\$1,000,000	-\$1,250,000	-\$1,250,000	-\$1,250,000	-\$1,250,000
Cash from Projects Minus Profit	-	-	\$2,250,000	\$2,250,000	\$2,250,000	\$2,250,000
Ending Capital	\$3,250,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

Depending on the duration of projects and cash conversion cycles, it's not uncommon for subcontractors to experience this situation 3 to 4 times a year, or even more frequently if they are growing quickly. The margin for error during these times is razor thin. A missed or delayed pay application, a schedule delay, or even an extra week waiting for payment can have significant impacts. When this occurs, subcontractors have limited ideal options. One common action a subcontractor may take is delaying payment to their suppliers.



Instead of paying a supplier within 30 days, a subcontractor may stretch their payments to net 45, which can potentially damage relationships with suppliers. If you have pay-when-paid terms with your suppliers, even those have limits, typically around 60 days. Stretching those out further can jeopardize supplier relationships, sometimes permanently.

Additionally, subcontractors may reach for “quick” forms of debt. The cost of capital is always lower when it is planned and accounted for proactively, so using capital reactively may reduce margins. For example, a subcontractor may dip into their line of credit unexpectedly. If the cost of using a line of credit wasn’t accounted for during a bid, the subcontractor is now absorbing the cost of using that capital. Some subcontractors may even resort to short-term predatory financing, which offers access to quick cash at sky-high interest rates, making it extremely difficult to pay back. Reactive capital options can offer temporary relief but continuously using these options without addressing the root cause will have long-term implications on the profitability and solvency of the business.

Due to the cyclical nature of cash flow in construction, the business’s working capital position will fluctuate. At times, it will be well into the black, but the reality is the buffer does not provide the runway found in other industries. The business may only have a few weeks’ expenses and that may be considered a “good” position by subcontractor standards. When the business starts another project, the cycle starts over. Multiple projects starting at once or large cash outlays outside of the business’s normal pattern can disrupt returning to a healthy working capital buffer.

Most business owners don’t want to just maintain, but also find a growth path for the business.

For the same \$30M subcontractor to increase their revenue 10% YoY, they will need to not only determine the amount of additional capital needed to fund the growth, but also the different forms of capital that will allow them to grow. Here is what both the expenses and the working capital availability would look like for a subcontractor that makes \$33M in revenue using the same assumptions as the subcontractor in the previous \$30M example.

\$33,000,000	Annual Revenue
\$2,750,000	Monthly Revenue
\$1,100,000	40% Materials Cash Outlay
\$962,500	35% Labor Cash Outlay
\$412,500	15% Overhead Cash Outlay
\$275,000	10% Profit
\$7,425,000	Necessary Working Capital (assume 2 months expenses always outstanding, 57 days)
\$1,100,000	Supplier Terms (30 day terms, 1 month of materials)
\$1,650,000	Bank Line of Credit (5% annual revenue)
\$3,300,000	Cash (one year retained profit of 10%)
\$6,050,000	Total Working Capital Capacity
\$1,375,000	Deficit

The best thing a subcontractor can do to prevent themselves from getting into these situations is to determine the amount of working capital they need to stay operational (calculating the maximum cash deficit and ensuring there is a capital buffer in addition to that) and getting proactive about the different sources of working capital available. Review the capacity for all of your capital options and then establish a process to continuously see if your existing limits and options will help you run your business responsibly. Your capital needs should be able to scale with the business, a subject we'll cover later. Improvements in operational efficiency and managing overhead costs will contribute to maintaining or increasing profit margins as you scale topline revenue.

These examples show why it's important to have multiple working capital options and capacity available before you need them. Having multiple working capital options and enough capacity in place before you need them can help you keep a profitable business operating well. Some additional benefits to having a higher working capital buffer include risk mitigation, negotiating power with vendors/suppliers, higher limits on other capital options (credit cards and LOCs for example), and the ability to demonstrate a strong balance sheet that is not overly reliant on cash (which GCs will want to see to give out larger projects). Just like personal finances, it's best practice to always have some of your most flexible capital set aside. The amount will vary based on your specific risk tolerances and goals. Whether it's having additional working capital available to manage downturns or putting cash to work to achieve an ROI in the business, the most important piece of the puzzle is that you have the capital in place to execute your plan as a business.

Once you've determined how much working capital your business needs, you'll want to develop a strategy on how to use it.



The Best Way to Deploy Working Capital

The most important factor to consider as you deploy working capital is **flexibility**. Your “cheapest” options, like cash and your LOC, are also your most flexible options—the options that can quickly relieve the strain of sudden project or payment setbacks. Even subcontractors with large working capital reserves and lines of credit can go out of business because they’ve maxed out the options that could have saved them when they ran into unforeseen cash flow challenges.

The Strategy We Recommend

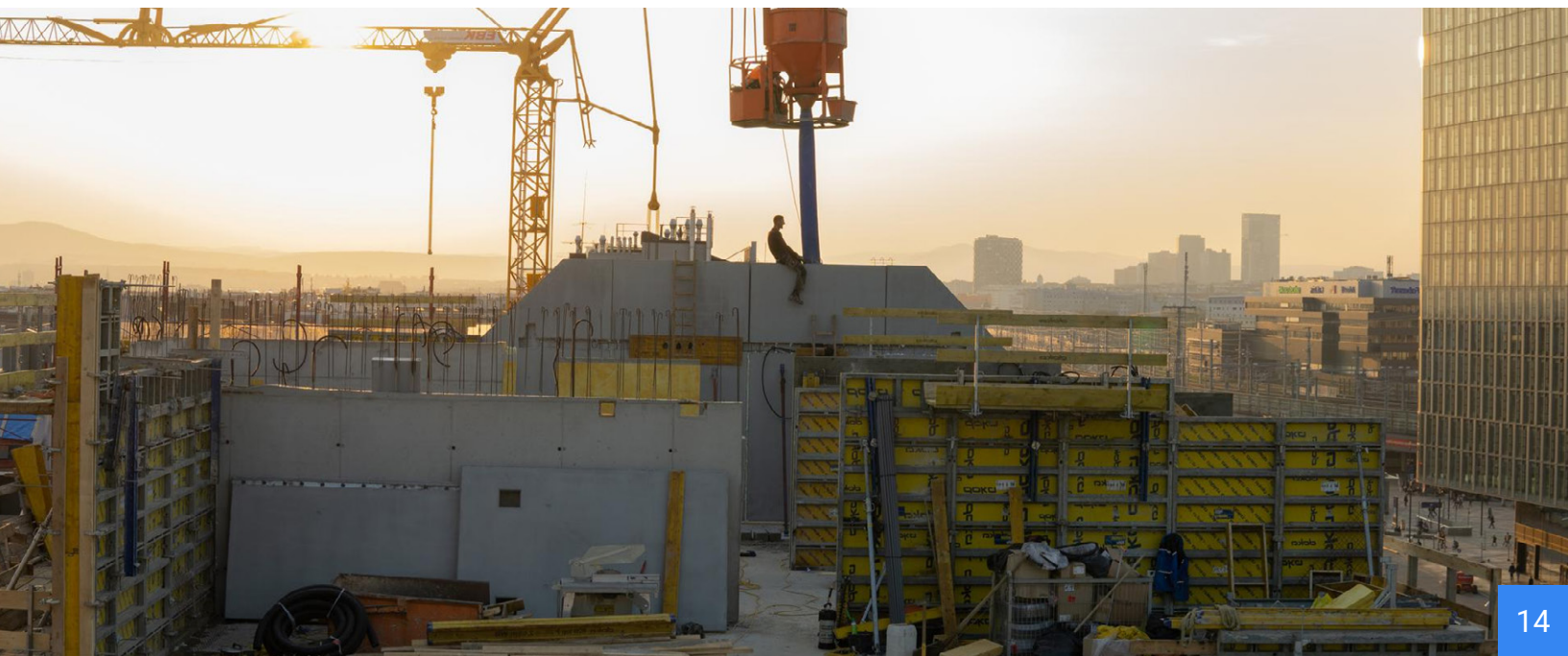


Deploy working capital in order of **least to most flexible**, safeguarding most of your cash and line of credit for when you need them and relying more heavily on the less flexible options first.

A Common Mistake



Using working capital in order of **least to most expensive**, which sees you run through your cash and line of credit first. This limits your options when unexpected expenses come through.





As you evaluate your working capital options, rank your options in order of least to most flexible. Here's what a capital stack that optimizes for flexibility might look like.

LEAST FLEXIBLE



Supplier Terms - Supplier terms should be used first because they are an inflexible form of financing that can only be applied to material purchases and are paid back on fixed terms. [Supplier terms also come with a cost](#), both in terms of interest and forgone discounts when not paying upfront or in cash.



Credit Cards - Credit cards can typically cover daily business expenses such as gas, subscription services, or miscellaneous tools or materials. They should not be used on larger purchases on projects. You want to ensure you can pay off your balance in a timely fashion to build positive repayment history and ultimately increase your credit limit for when you need it.



Billd - Next is a project-based line of credit with Billd. This option is medium-to-low flexibility because it is tied to a specific project. Billd offers two products for subcontractors: material financing, which offers up to 120-day payment terms on material purchases, and Pay App Advance, which covers up to 100%* of an approved project invoice with up to 60-day terms.



Line of Credit - A line of credit can provide a safety net for unforeseen challenges, with the added benefit of protecting bonding capacity. Additionally, it increases working capital analyses and financial ratios when being reviewed by GCs, insurance companies, sureties and banks.



MOST FLEXIBLE

Cash - Cash is the most flexible option and should be the last resort to cover expenses. For example, using cash first on material purchases, instead of supplier terms or material financing, will deplete reserves you may need later if you hit schedule delays or are looking to open up new lines of credit. The effect of using cash at inopportune times is that you limit your access to working capital. For example, if you use cash instead of supplier terms or material financing, you've now ruled it out as an option when a non-material expense is due. Low cash reserves not only make it difficult to cover unexpected expenses but can also make you look financially unstable if you're trying to secure additional capital options. Having a healthy cash reserve allows you to cover the unexpected without disrupting your performance on projects while also allowing you to invest back into the business or take on unplanned opportunities that may come your way. By always maintaining a healthy cash reserve, your business will be able to manage both the highs and lows of the unexpected.

*Less a purchase fee



By having multiple capital options available and creating strategies for when and how to use each of them to manage your cash flow, you can improve efficiency, mitigate risk, improve relationships, and create healthy, long-term growth. However, it's important to be **proactive** instead of **reactive** when securing these options.

Acquire Working Capital Solutions *Before* You Need Them

Flexible working capital options take time and effort to acquire. However, cash flow problems can arise in a matter of days or weeks so we highly recommend you secure these options well before you need them. You should consider different means of working capital, including revolving credit such as LOCs, credit cards, and Billd. If a subcontractor who is healthy enough to secure financing fails to have enough capital options in place and later gets hit with steep project or payment delays, these delays can have a dramatic impact on the business's health.

We recommend taking the following actions to get more credit before you need to use it:

1. Apply for New Credit

While you shouldn't apply for new credit aimlessly, having options available can lower your risk of hitting your limit. Here are a few things to keep in mind when evaluating credit options:

- ❏ Review credit that requires hard inquiries, like LOCs, credit cards, loans, and equipment purchases, annually. If you don't need a change to an existing option, then you may not need to add another hard inquiry to your report.
- ❏ All open credit helps ensure you have the variability of your cash flow covered, even when you don't explicitly need it. The worst case scenario is that you don't use it and it serves as open credit that acts as a source of working capital.

2. Seek Higher Limits

Negotiate higher limits before you need them. If you wait until your finances are strained to negotiate a higher limit, it will make it more difficult to get approved. Plus, the stakes are higher if your limit increase gets denied.

Don't Forget to Negotiate the Most Common Form of Financing: Supplier Terms

With the right leverage, you can negotiate supplier terms just like loans and LOCs. Having a solid payment history can establish goodwill and may result in extended terms and larger purchase volumes.

Use material financing strategically

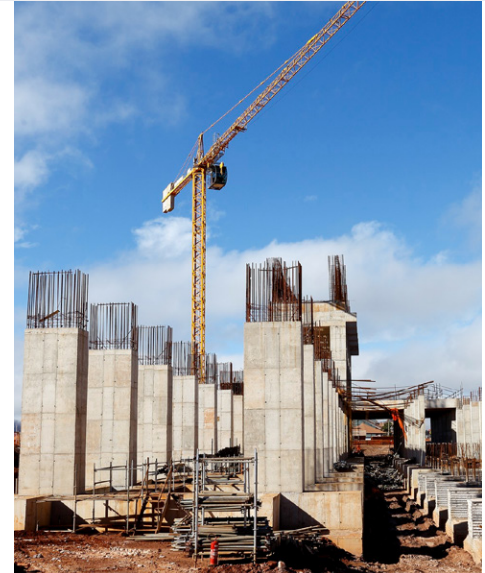
When working with suppliers that offer terms that don't align with your DSO (days sale outstanding), consider using material financing. Material financing enables you to pay suppliers upfront and in full, which can cement your position as a financially capable customer. You may not use it on every material order, but you can strategically decide which suppliers and project types to use material financing with.

When we recommend material financing

- ❑ Projects that are more than 25% above your average contract amount
- ❑ New GC or owner/developer clients with unknown payment histories
- ❑ When making large material purchases
- ❑ Procuring materials in a timely manner prior to price increases, or to lock in pricing for a future contract (assuming you can bill for them)
- ❑ With vendors that require payment upfront or do not offer substantial terms
- ❑ With vendors willing to provide a significant cash discount
- ❑ When your AR/AP ratio falls below 3:1 while you're starting new projects that require material purchases
- ❑ To protect your cash reserves and LOC utilization when preparing your financials to share with surety & bonding companies, insurance companies, and your backing partners



Set Reasonable Growth Goals With Working Capital Capacity in Mind



Even the most financially strong subcontractors can find themselves in trouble for one of two reasons: They are too ambitious for what their capital stack can cover or they have limited their capacity by relying only on cash or lines of credit. A cash-only strategy can often serve as a limit to your growth—you never know what opportunities lie ahead and how much liquidity you may need available to accept them. Financial flexibility is key for a subcontracting business to respond to forces both good and bad.

Start practicing healthy growth by:

- ❑ Bidding strategically on projects you can handle
- ❑ Being selective on projects that your cash flow can't handle (unless the margins are great)
- ❑ Maintaining [strong financial ratios](#), which may include:
 - **Current Ratios** (dividing total current assets by total current liabilities)
 - A ratio over 1.0 is good for construction
 - **Debt to Equity Ratios** (dividing company debt by total equity)
 - The higher the ratio, the more debt the company has
 - Anything above 1.0 is normal, but a ratio higher than 2.0 indicates that the company has taken on too much debt
 - A ratio below 1.0 could indicate that a sub is relying too much on equity, which could be inefficient for the business and signal that the business isn't using growth opportunities
- ❑ Reinvesting back into the business, which could include making key hires or buying new equipment that could help you take on more complex projects, expand, and become more efficient
- ❑ Developing and maintaining long-term relationships with GCs, owner/developers, and vendors
- ❑ Implementing a strong process and establishing resources for estimating, bidding, and project costing

For more information, [here is a detailed guide](#) on setting growth goals.

Addressing Cash Flow Issues When They Happen

Everything we've discussed so far helps you respond to fluctuations in your cash flow. But even with the best strategies in place, unexpected events can affect your business. Let's discuss what you should do if your current cash flow is strained and how to get it back on track.

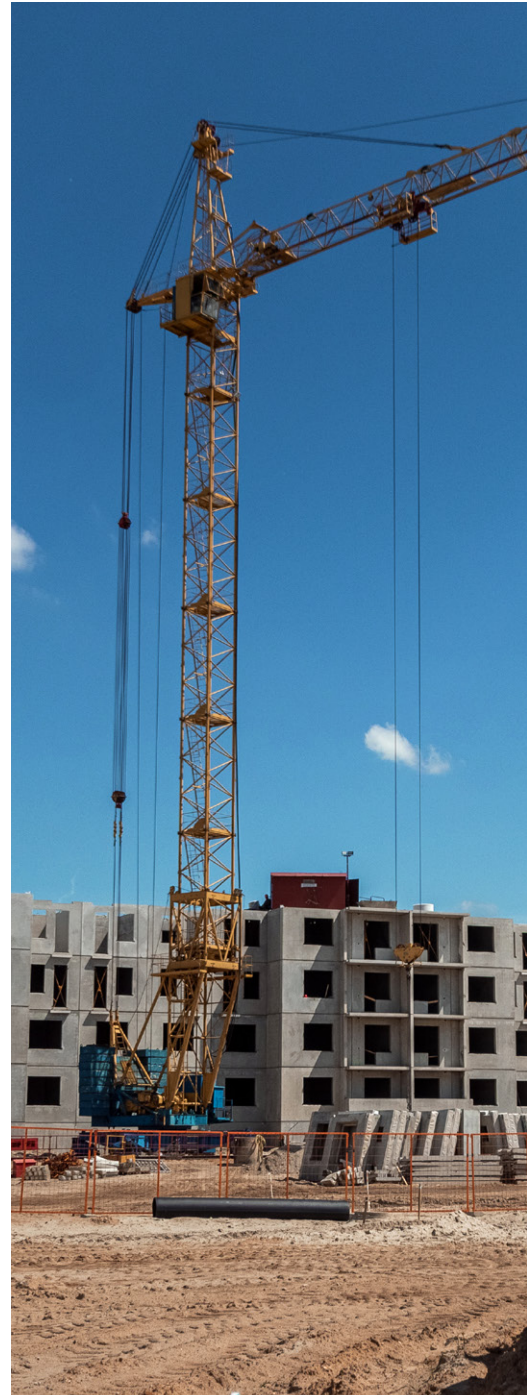
We understand these conversations may be difficult because it's important to maintain the relationships you've established with GCs, but GCs will respect you for making sure your business is healthy.

1 Have someone on staff who is explicitly responsible for cash flow

This should be listed in their job specifications. Every day, this person needs to be thinking about cash. At minimum, every day this person should report the cash balance, outstanding AR, and expected recoveries for the next 30 days to the CEO or business owner.

2 Create an action plan for when DSO exceeds 30 days

It's not enough to have a goal for DSO. Instead, decide how you'll respond when those goals are not met. This means creating an action plan for how and when you will escalate collection efforts.



Example action plan and timeline:

- **14 DSO:** Two weeks after submission, either the PM in the field or your billing person should verify that the pay application was received correctly, that you have no outstanding compliance issues, and that the payment was successfully submitted.
- **30 DSO:** Whoever is responsible for cash flow will begin calling and emailing the GC, communicating that they have exceeded 30 days. You should also have flags in your accounting system that automatically alert you to the late payment.
- **60 DSO:** You can inform your GC that you will cease work until payment is made (assuming it's well outside of contract terms). But most just continue the outreach process.
- ↓ **75 DSO:** Stop working on the project. If you've followed the previous steps, this will be expected.
Important note: Make this extremely clear in your upfront conversations with your GC and see if you can include this provision in your contracts. It's nerve-racking, but if you've been clear about your intention to enforce prompt payment from the very beginning, then the GC has knowingly and willingly moved forward under these conditions despite numerous communications. It also signifies that you are serious about enforcing timelines you've discussed with your GC.

The longer your contract terms, the more days you'll need to add into this proposed action plan. For example, if you have 45- or 60-day terms, you probably won't receive payment for 75 to 90 days. Make sure the action plan your team develops aligns with your terms.

PRO TIP

Before the project, ask the GC how they recommend you respond if and when DSO exceeds 60 days.



3 Bill customers aggressively

Billing aggressively means negotiating as many expenses upfront as the GC will allow. This starts the timer on getting working capital back in the business quickly.

Expenses you can and should negotiate upfront include:

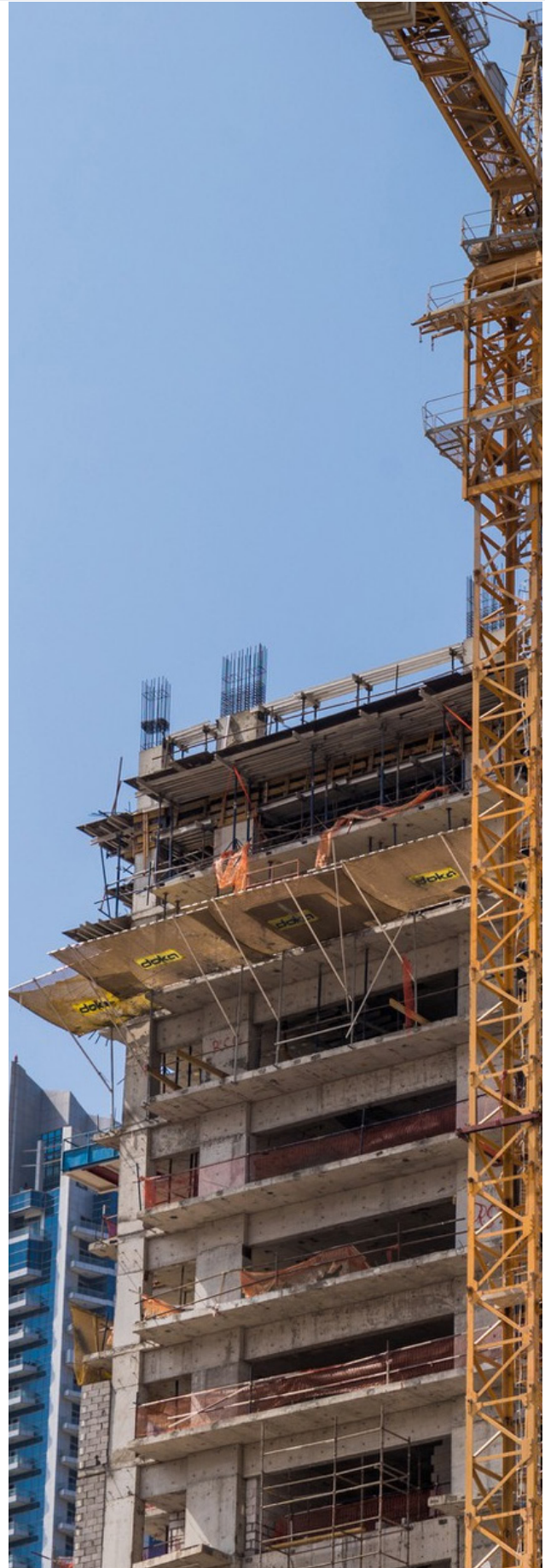
- Materials
- Mobilization expenses
- Permitting costs
- General conditions
- Overhead
- Procurement team
- Legal team
- Submittals

4 Project your cash flow

Of course, you can't just look at performance today—you need to project what performance will look like in the future.

Each project, depending on the capital needs and the GC partner, will have an impact on cash flow. So with every project, you should calculate cash flow. One smart way to do that is with a [cash flow curve](#). We recommend looking at how the project affects cash flow with 30-day payment (best case) and 120-day payment (worst case). That way, you can plan for the worst and hope for the best.

Once you have cash flow curves for each project, you can compile that into your cash flow projections for the entire business.





Protecting Your Business Starts with Your Financial Game Plan

If you take away anything from this whitepaper, it should be the following:

- Spread your expenses across a diverse set of working capital options
- Deploy your capital stack based on flexibility, not price
- Track capacity and cost of your capital stack on a monthly basis
- By the time you need financing, it's too late to secure the best options. Create a proactive game plan to land and expand available credit.
- Plan for growth at a sustainable pace that reflects your operational, staffing, and working capital availability
- Create and deploy an action plan for how you'll respond to high DSO/strained cash flow


The industry may be stacked against you, stretching your capital thin and testing your solution creativity. The good news is, you have resources available to you—as long as you are proactive in having the right working capital capacity in place before you need it. However, vital working capital tools are not without their own set of costs. The best subcontractors will calculate and [offset the cost of working capital](#) across each project to help protect their margins. Go to [Billd.com](#) or [visit us on LinkedIn](#) to see how we recommend you account for the true cost of each form of working capital so that it never comes out of your bottom line.



About Bildd

Bildd 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, Bildd 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. Bildd 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 do the best work of their lives.



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