2023

National Subcontractor Market Report

$97 Billion in Extra Weight on the Shoulders of America’s Subcontractors

billd

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About the Report

In January 2023, Billd conducted the third annual National Subcontractor Market Report survey. The resulting report investigates the economic realities of subcontractors across the country in 2022, zeroing in on the impacts of market conditions and industry trends on business growth, profit margins, and relationship dynamics. This year, nearly 900 subcontractors provided a wealth of perspectives and observations from their businesses, from which insights were summarized.

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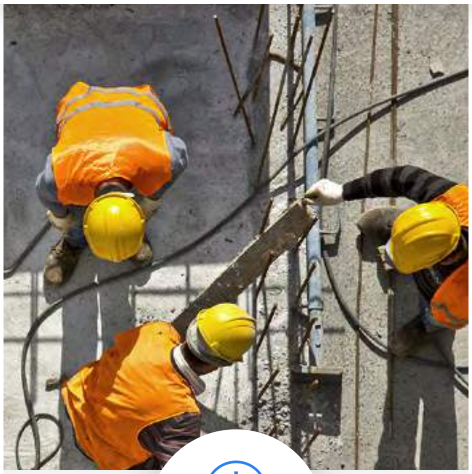
Report Highlights

Subcontractors were the unspoken financiers of the $1.8 trillion construction industry in 2022[1], and bore the brunt of uncertain macroeconomic conditions. Their challenges reflect the most essential barriers and threats to prosperity in the construction industry. The single greatest obstacle for subcontractors this past year? Rising input costs outpaced bids.

- Subcontractors paid an extra **$97 Billion** in materials and labor than expected.
- **1/3** of subcontractors saw declining profit due to bids not rising as fast as input costs.
- Despite **61%** of businesses experiencing growth in revenue, **57%** of businesses reported a decline in profitability.
- **Nearly a quarter** of subcontractors continued to face obstacles securing financing for their businesses.
- The overwhelming majority of subcontractors had to pay for labor and materials before getting paid, with an average wait time of **74 days.**
- **32%** of respondents had their supplier terms reduced in 2022, leaving **more than half** with insufficient terms.
- **72%** of subcontractors plan for growth in 2023 despite unpredictable input costs.
- In 2023, the industry may break the trend of reliance on unsustainable financial practices with more tools and financing available for subcontractors.

[1]April 3, 2023 release.
https://www.census.gov/construction/c30/pdf/release.pdf



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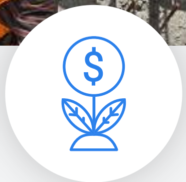
Realities of Business Growth

2022 Business Growth in Review

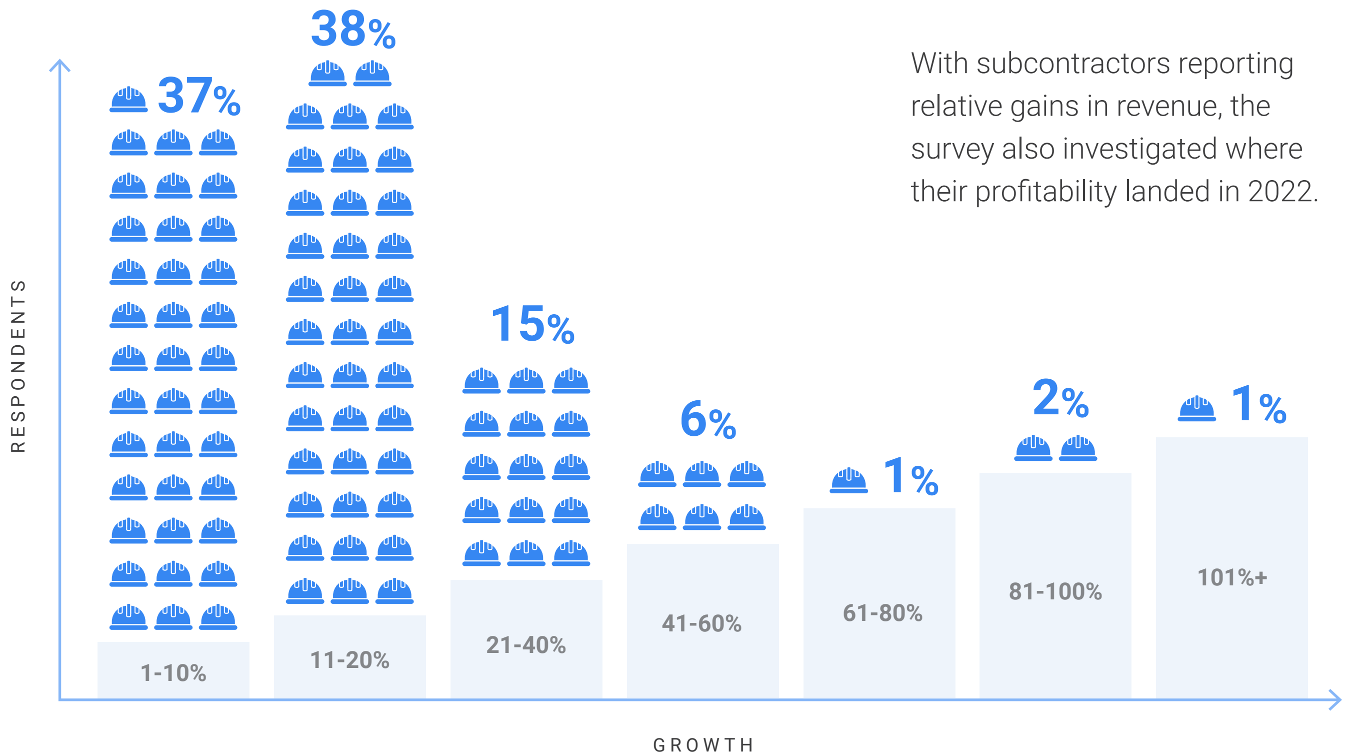
While 2022 didn't exactly outperform the growth goals that subcontractors showed last year, it came commendably close. In last year's report, 71% of subcontractors expressed a desire to grow in 2023. According to this year's report, 61% succeeded. Of those who grew in 2022, 75% grew up to 20%. The remaining 25% grew their businesses up to 101%+. This paints an optimistic picture of subcontractors' ability to set and attain growth goals, despite ongoing macroeconomic challenges.



61%

of respondents' business revenue grew in 2022.

How much did your business revenue grow in 2022?



With subcontractors reporting relative gains in revenue, the survey also investigated where their profitability landed in 2022.

Tight Profit Margins

Despite higher revenue, subcontractors are not seeing equal gains in the arena of profitability. A combination of inflation, higher expenses, and hard bid scenarios are to blame as the report goes on to cover in more detail.

57% said their profitability declined or remained the same in 2022, despite the growth in revenue.

Nothing New?

The overall decline in profitability is not unique to 2022. Not only is this the second consecutive year that subcontractors reported strained profit margins, but the figure also hasn't changed a single percentage point.

The survey allowed us to dig deeper into the factors that created tight profitability, like the fact that subcontractors couldn't adequately charge for rising expenses in their bids.

33% said profitability decreased in 2022 because they did not increase the price of their bids at the same rate that the cost of materials or labor rose.

57% of respondents also reported a decline in profitability in 2021.

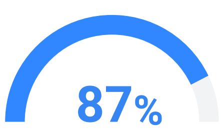
04 Challenges Subcontractors Faced in 2022

Macroeconomic Conditions: Rising Labor and Material Costs

Macroeconomic challenges paint a backdrop to the business growth narrative we saw play out in 2022. Those tight profit margins begin to make a lot more sense when you factor in the incredible increases in labor and material spending that subcontractors quietly shouldered.

The Growing Burden of the Labor Shortage

The labor shortage continues to cast the greatest shadow on subcontractor business growth. The 15% increase that subcontractors report around labor costs this past year is *considerable*. Unfortunately, subcontractors shoulder rising labor costs with minimal leverage to expedite their pay apps, putting further strain on their cash flow.



of respondents report coming out of pocket for labor before receiving payment.

Up from 82% last year and 63% the year before.

Labor costs increased by **15%** on average in 2022, according to respondents.

While the number of subcontractors concerned with material prices got cut in half this year, those concerned with labor shot up to nearly 50%. The trillion-dollar infrastructure bill, compounded with the regular flow of projects, means that hundreds of thousands of workers are needed to meet market demands. As older workers age and retire, the industry is spending more money to recruit, upskill, and adequately compensate new talent. The report highlights just how massive a concern this is for subcontractors.

49%

of respondents said the lack of availability of **skilled construction labor will be the biggest risk** to their business in 2023.

The Continuing Challenges with Material Procurement

Volatility & Material Prices

26% Material costs increased by 26% on average in 2022, according to respondents.

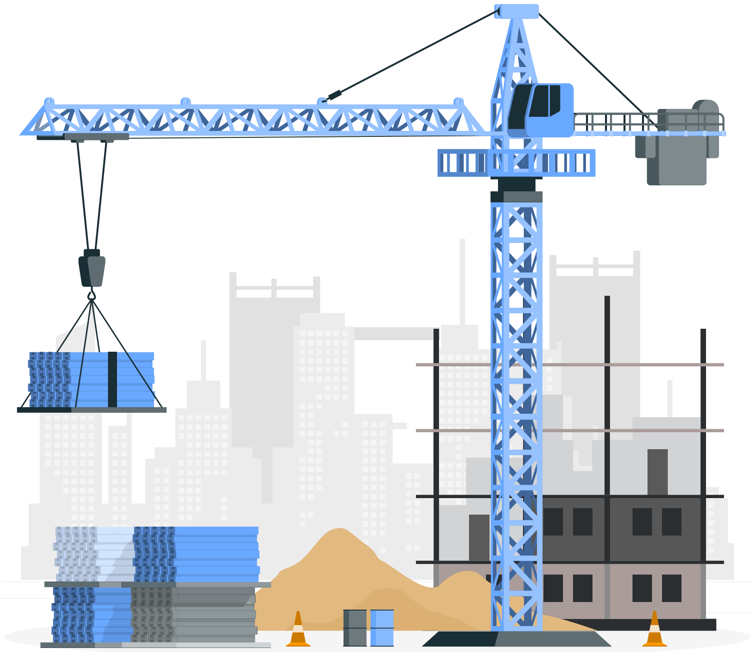
78% 78% of respondents increased their bids to offset the rise in material costs.

66% 66% of subcontractors say the high or volatile material prices had an explicitly negative impact on their business in 2022.

80% 80% expect high or volatile material prices to impact their business in 2023.

Material Availability & Lead Times

81% 81% said the availability of materials and increase in lead times negatively impacted their business in 2022 and 76% said they expect it to impact their business in 2023.



The $97 Billion Dollar Burden

The financial burden of material and labor has always been difficult to quantify, the full extent a bit hazy. Knowing that subcontractors spent an extra $97B almost feels like putting a face to a name. This $97B was subtracted directly from subcontractors' bank accounts. For some, it's the missing cushion in their profit margins. It represents 97 billion instances of subcontractors financing the entire industry, all while navigating uncertainty in their payment cycles and subpar access to capital.

The Role of Inflation

We can't talk about 2022 without talking about inflation. Inflation does play a role in the $97B additional dollars that subcontractors spent on materials and labor last year, but not as much as you'd think. This stat is all the more important because it outpaced inflation at a staggering rate. In fact, the year over year rate increase in material and labor spending is **2.5x greater** than that of year over year inflation. This means that although inflation played a role, it's not solely to blame. Material and labor costs within the construction industry simply rise far faster on their own.

Strained Supplier Relationships and an Overreliance on Terms

73%

of respondents said material price volatility negatively impacted their relationships with suppliers.

53%

of respondents believe lead times negatively impacted their relationships with suppliers.

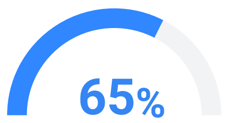
To be clear, $97B isn't what subcontractors spent on labor and materials in 2022. That's just the *extra* amount they spent, *on top* of what they expected to (an increase of about 20.8%). Massive increases in the cost of labor and materials are to thank for that. So how did we arrive at this $97B figure? Let's unpack it.

In 2022, the value of nonresidential construction was $888.5B.[2] With a conservative 80% pass through of costs from GC to subcontractors, we estimated commercial subcontractor revenue to be $710.8B. Assuming a 66% expense distribution towards labor and materials, **without price increases**, $469.1B would have been spent ($234.6B on materials and $234.6B on labor).

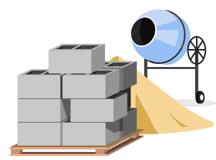
However, according to our survey, labor spending **increased by 15%** and material spending **increased by 26%**. Therefore, subcontractors spent $270.4B on labor and $296.1B on materials. Ultimately, they spent $566.5B, shelling out $97.4B more than they expected to.

[2] April 3, 2023 release. https://www.census.gov/construction/c30/pdf/release.pdf

During the pandemic, material price volatility became a fixture in the industry that persists today, although certain trades have since experienced price relief. This is a major concern for subcontractors, since respondents report that it's starting to impact their supplier relationships. Subcontractors and their suppliers are having uncomfortable conversations about price hikes, long lead times, and inflexible terms. This forced subcontractors to seek out new supplier relationships in 2022 to diversify their options.



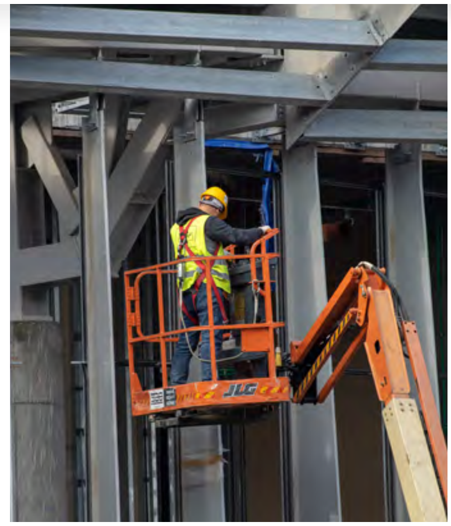
of respondents sought out new suppliers as a result of material procurement challenges.



Terms Maintain Popularity Despite Drawbacks

Supplier terms continue to be subcontractors' preferred method for purchasing materials. The survey found that 90% of subcontractors have terms with suppliers, 87% use terms with relative frequency, and over 60% use terms more than any other purchasing option.

Select all the ways your business purchases materials



The Poor Reliability of Terms

72%

of respondents have terms that are 30 days or less.

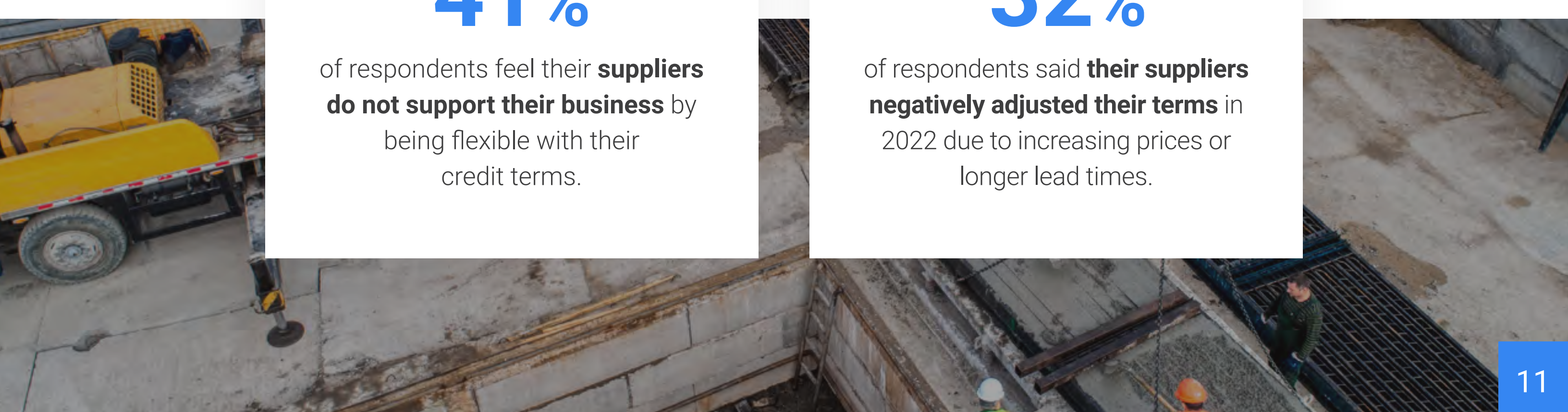
51%

of respondents do not believe their terms are sufficient.

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

10 Days	30 Days	45 Days	60 Days	More than 60 days
3%	69%	11%	15%	3%

Terms may be the most relied upon way to purchase materials, but most subcontractors view them as inadequate for the time it takes to get paid for work. As the survey illustrates, terms don't provide subcontractors with the flexibility they need to grow and thrive. 30-day terms are the norm in the construction industry (69% of subcontractors claim they have 30-day terms), and during strong economic times, suppliers tend to be relatively lenient with their subcontractors on those terms. But, as we saw in 2022, suppliers tightened their terms due to economic uncertainty. Despite all of that, 30-day terms have never been long enough given the 74 days it takes subcontractors to get paid for their work. And many subcontractors now acknowledge this.



41%

of respondents feel their **suppliers do not support their business** by being flexible with their credit terms.

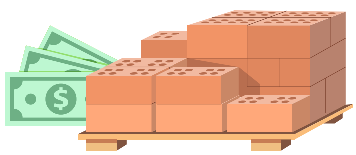
32%

of respondents said **their suppliers negatively adjusted their terms** in 2022 due to increasing prices or longer lead times.

Lost Material Discounts

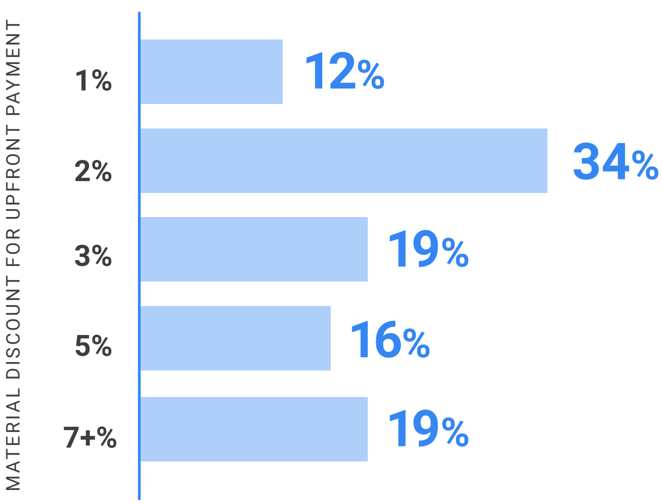
On top of being inadequate, terms also carry a silent but substantial cost: lost discounts. Over a third of suppliers claim they offer subcontractors who pay upfront discounts of at least 2%, if not more. However, tight cash flow forces subcontractors toward terms and causes them to forfeit those lucrative discounts, which would add much needed padding to their margins.

Billd separately surveyed suppliers to find out just how much they're willing to offer in discounts.



The majority of suppliers offer discounts to their customers for upfront payment.

What is the maximum discount you offered your customers in 2022 on materials for paying upfront in cash?



All subcontractors could benefit from supplier discounts, yet many can't put that type of strain on their cash flow with large, upfront material purchases. A good solution to this is to leverage material financing. Material financing provides subcontractors significantly more negotiating power by paying upfront and extending longer terms to pay for the materials (up to 120 days). As of 2022, only 7% of subcontractors are leveraging material financing as a strategic weapon for their business.

Slow Payment Cycles

60% of respondents said they are generally slow paid by GCs.

Slow payments are not a peripheral concern for subcontractors. They've become an inevitability — as common as change orders. With months between submitting a pay app and the eventual payment, subcontractors must go long stretches weathering the storm of working capital challenges. If slow payment cycles weren't the industry standard that they are, the macroeconomic challenges described above wouldn't have nearly the same impact.

74 DAYS

The average **wait time to get paid** is 74 days from when they start work, with some waiting up to 120 days.

73%

come out of pocket for materials before receiving payment from the GC or Property Owner, up from 66% in 2021.

91%

of subcontractors **would offer a 1-5% discount** for guaranteed payment within 3 days of approved application.

5% of subcontractors would extend a maximum discount between 6-10% for this, showing just how impactful slow payments can be.

Why Ignoring Slow Pay Hurts GCs' Relationships with Subcontractors

52% of subcontractors believe GCs **don't** understand the importance of prompt payment.

There's a reason 52% of subcontractors believe their GCs don't understand the importance of prompt payment. The pain of slow payment cycles is not readily apparent to many GCs. As a result, GCs casually throw out payment timelines to the tune of "30" or "60" days, as if those aren't starkly different timelines with starkly different consequences for the subcontractor's cash flow. Long payment cycles have an effect on a subcontractor's ability to effectively do their job and this truth seems lost in many ways among the GC community. Everyone in the industry acknowledges that cash is king, but GCs aren't always putting subcontractors in a position to operate with the cash they need. It's easy to blame the owners for their timelines, but it's the GCs' responsibility to emphasize the sense of urgency upstream.

The health of subcontractor cash flow is the key factor when discussing the financial viability of commercial construction. Due to the pass through nature of project finances from owner all the way to subcontractor (and then supplier), subcontractors need sufficient capital available to fund large upfront project costs that fall on them; i.e material and labor. These expenses are not only felt at the early stage of a project, but throughout the entirety of it. This year's report continues to scrutinize the practices and macroeconomic conditions that make positive cash flow that much harder to attain.

05

Undeterred Aspirations in 2023: Business Growth Plans for Subcontractors

Despite the industry challenges they face, subcontractors are still determined to make the best of 2023. Respondents showed interest in growing their businesses, in line with how they've responded year after year. More subcontractors appear interested in going after larger projects, provided they have sufficient profit margins.

72%

of respondents plan to grow their business in 2023.

Compared to the 71% who planned to grow their business in 2022.

58%

of respondents are interested in going after larger projects in 2023.

Up from 50% for 2022.

Planning for Growth in 2023

Do you plan to grow your business in 2023?

Consistent with previous years, 72% of subcontractors once again shared their intentions to grow their business in the coming year. The 28% of subcontractors who don't intend to grow in 2023 cited market conditions, limited access to financing, and inconsistent cash flow as their top reasons. Those who do not plan to grow are focused on conserving cash and obtaining financing to help them in that endeavor.

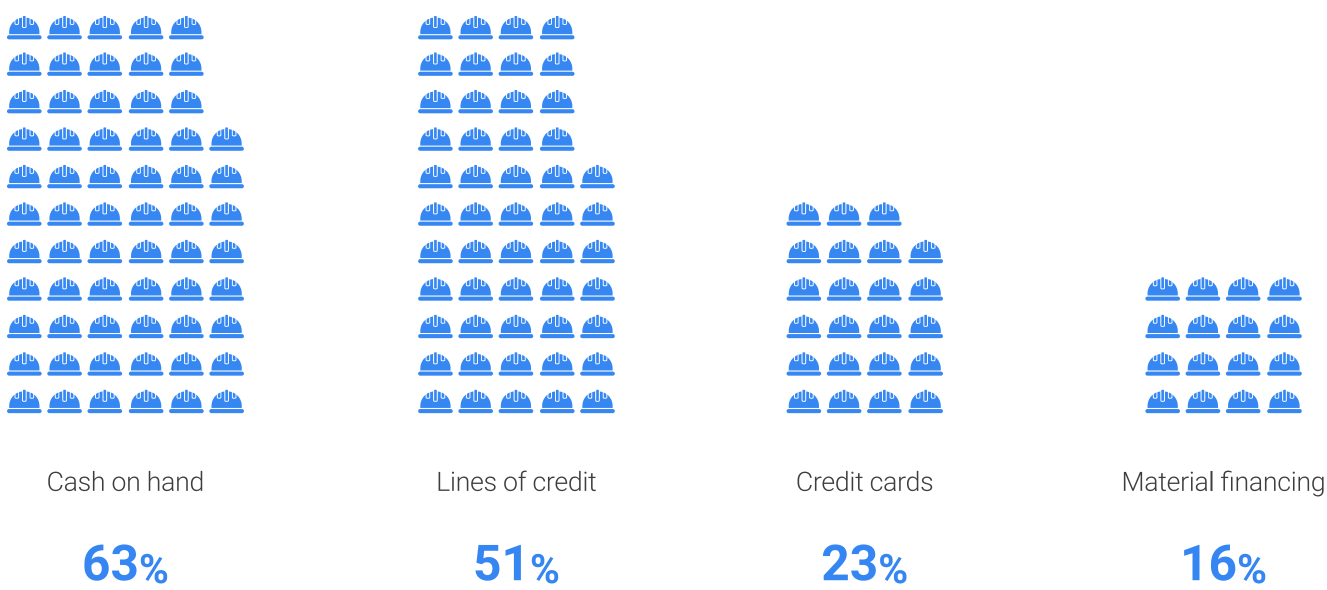
50%

of respondents who don't plan to grow are concerned about market conditions.

21%

of respondents who don't plan to grow are concerned about limited access to capital and inconsistent cash flow.

How do you plan to fund business growth in 2023? (Select all that apply)



4%

More subcontractors are turning to cash on hand than they did in 2022, with an increase of 4%, despite the strain it could place on their cash flow.

Arguably the most cash-flow-friendly financing option for subcontractors, material financing remains the least leveraged, yet more than double the respondents from the survey claimed they'll be leveraging it in 2023, compared to 2022. It's the largest untapped opportunity for subcontractors to extend their term length while leveraging the same supplier discounts they would get for paying upfront in cash.

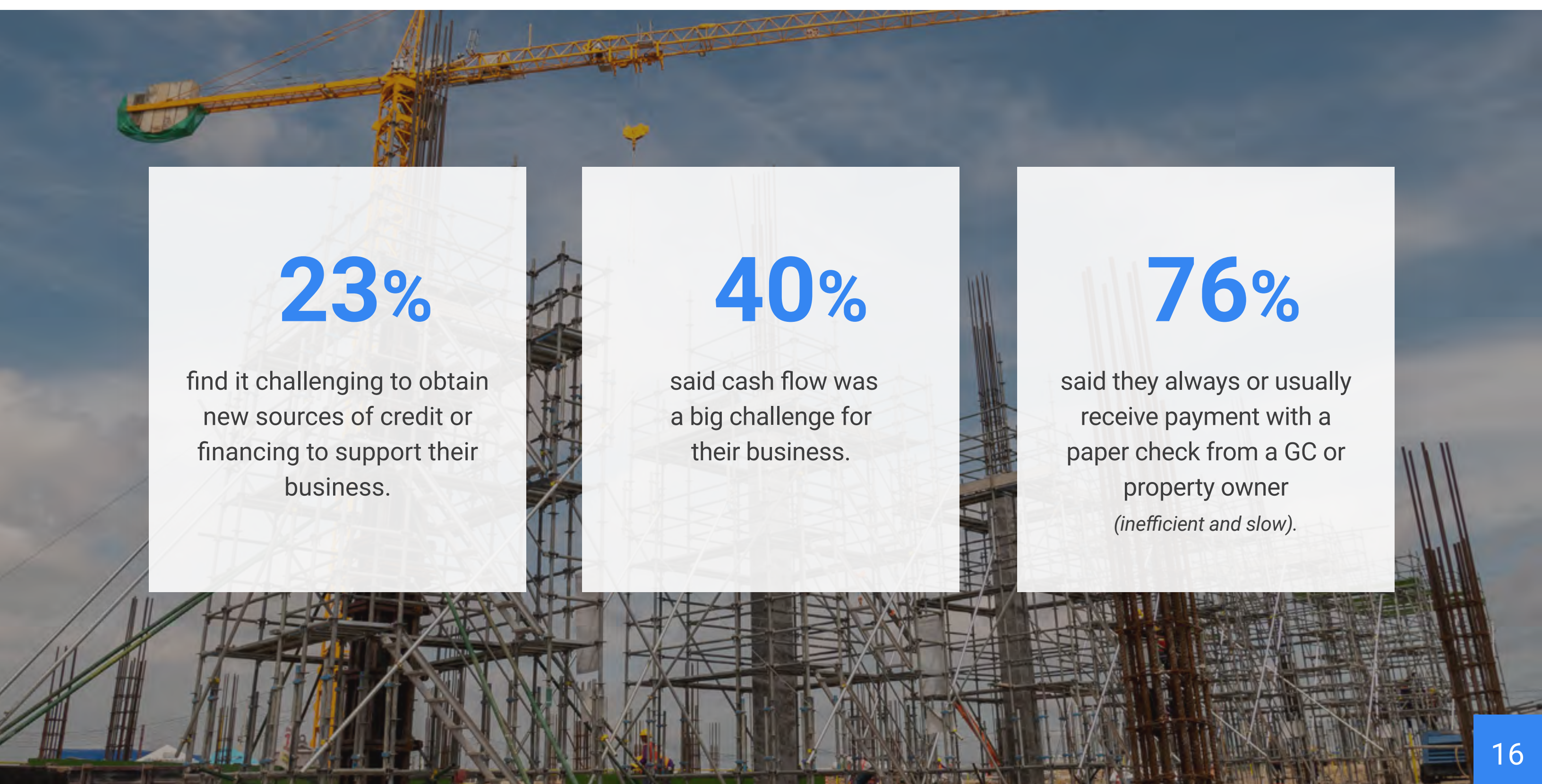
Cash Flow and Financing Options as a Limiting Factor for Business Growth

A large portion of subcontractors are forsaking growth because they can't access financing or because they have cash flow concerns. The subcontractor is caught in the middle of two cash-flow-straining scenarios:

30-day terms that get passed from distributor to supplier to subcontractor.

Long payment cycles that get passed from owner to GC to subcontractor.

This pulls them tightly in two directions, and acts as a major inhibitor to growth. All the while, almost a quarter of all subcontractors are disadvantaged when it comes to obtaining new financing.



23%

find it challenging to obtain new sources of credit or financing to support their business.

40%

said cash flow was a big challenge for their business.

76%

said they always or usually receive payment with a paper check from a GC or property owner

(inefficient and slow).

06

The Silver Lining: New, Attractive Resources Available to Subcontractors

Excellent, Untapped Financing Options

Subcontractors have been forced to finance the construction industry, despite them doing the actual work. Their ability to pull through is crucial to industry survival. To beat narrow profit margins, high material costs, and slim labor availability, subcontractors need good financial resources. But many of the options available aren't tailored to the construction industry. New financing options can help subcontractors navigate industry-specific challenges. It's important to make subcontractors aware of these financial options at their disposal, rather than letting them default to a growth-hesitant mindset. Those tools are Material Financing and Pay App Advance by Billd.

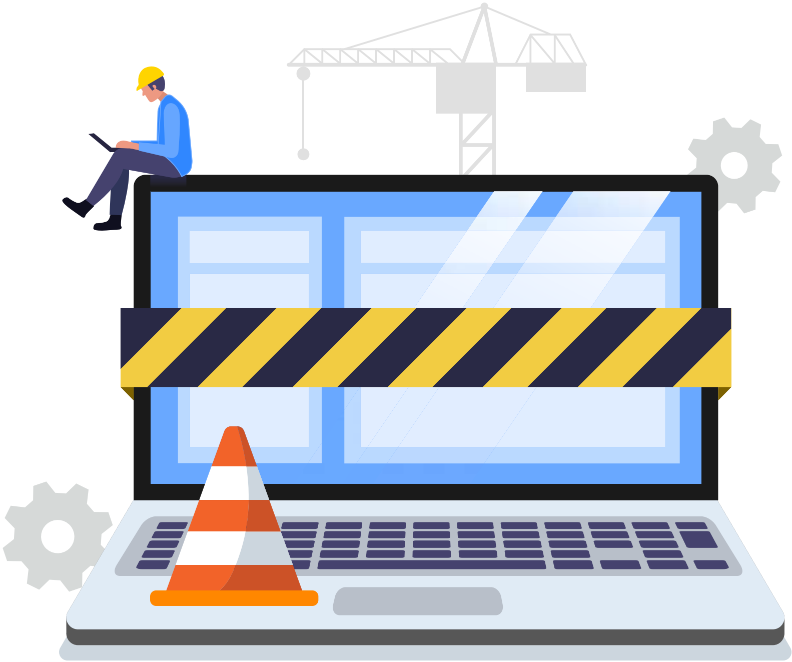
We've told you how Material Financing can facilitate smooth procurement and maximize discounts. Pay App Advance helps subcontractors get their pay app funded the day it's approved, rather than waiting months at a time. Subcontractors then have a comfortable window to pay Billd back, which gives them more time to receive payment from the GC. This affords subcontractors greater financial predictability around their receivables, and allows them to cover their largest, immediate expenses with greater ease.

Advancing Technology at Their Fingertips

In recent years, construction has adopted new technology and software to streamline business operations. More than half of all subcontractors surveyed use estimating and accounting software, making it the most prevalent form of construction technology to date. If subcontractors are willing to adopt new practices that help them proactively manage their business outside of financing, it's only logical to make similar advancements in their financial operations.

What construction technologies and software does your company use? (Check all that apply)

Estimating/Takeoff	62%
Project Accounting	57%
Project Management	41%
Pay App Automation	28%
Bid Management	26%
Field Services	23%
Material Procurement	16%
Lien Management	10%



07 An Industry Veteran's Perspective

Without subcontractors, construction can't happen – and in more ways than one. In addition to the materials, labor and expertise they deliver, the capital provided by their businesses is critical to supporting projects from groundbreak through completion. Yet every year we see macroeconomic conditions compounded by long standing industry practices that make the subcontractor-as-a-bank model harder to maintain for the sub.

Their uphill battle is as steep as ever. This year we saw subs' supplier terms be cut, making those terms even more inadequate against even longer AR timelines. Their direct costs have increased to the tune of $97B, but their bids and contracts can't always keep up. What's worse is that most GCs will not provide the contract provisions to the sub to ensure they can pass price increases to the property owner.

That means the cushion of cash in the business – their profit – is being squeezed to its limit. If that wasn't enough, in 2023 we continue staring down the barrel of significant labor shortages and premiums. Something's got to give... and it will.

We at Billd can't fix inflation, material volatility, or a thinning labor market. But, we can get subs access to working capital that will make these challenges less consequential. And, we can make sure subs know the cost of all financing (Billd products, cost of cash, cost of supplier terms, cost of bank line of credit, etc.) and include that cost in their contracts. Tools that provide the flexibility to pay upfront with terms that align with their payment cycles can help subs survive a volatile material market. The cost of financing can easily be offset by adding it into their bids. This type of cash flow flexibility will actually give way to profitability – and that's what subs need.

When it comes to obtaining working capital, subs aren't in an ideal position. They generally carry low cash balances, are owner operated, have unpredictable AR, and are not well understood by the traditional institutions that could fill their working capital gaps. These factors contribute to the fact that nearly a quarter of subs find it difficult to obtain new sources of financing. This can hurt their ability to achieve their profitability and business growth goals at large. We never want subcontractors to limit their growth because of something as conquerable as access to capital.

Subcontractors built America, and here at Billd, we don't think they should be deprioritized for financing, project payment timelines, or material purchasing power. And because we believe that, we back it up. I'm proud to operate a company that exists to champion the subcontractor. Billd will be here to serve as your partner in profitability, progress, and prompt payment.

- CHRIS DOYLE

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 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 up to 120-day 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.

08 About the Survey Respondents

The survey was completed by 876 construction professionals across various trades, up from 767 the year prior. 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 January 2023.

Respondent Profile

48%

Subcontractor

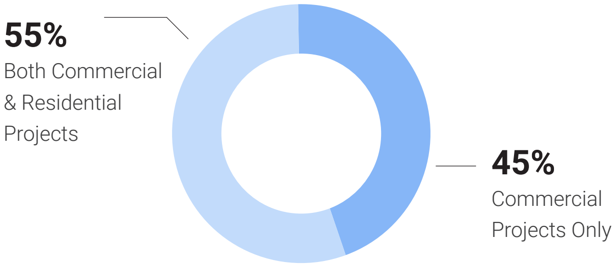
25%

General Contractor

27%

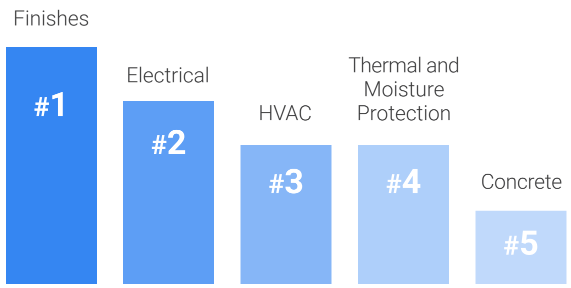
Both Subcontractor & General Contractor

What kind of projects does your company primarily work on?

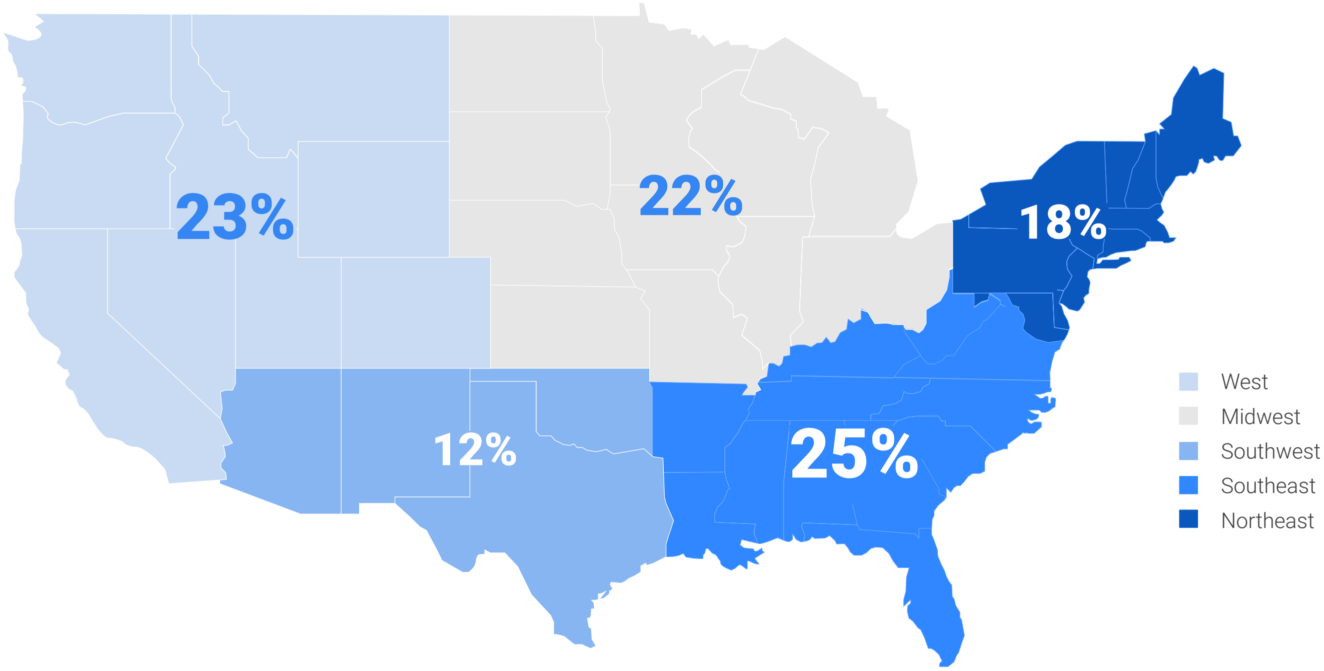


What is your business's primary trade?

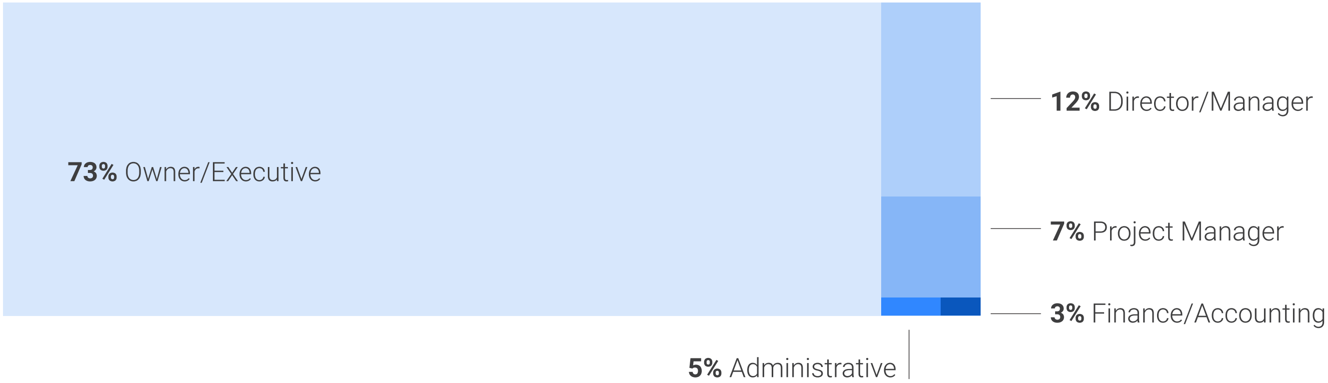
*Top 5 trades comprise **51%** of total respondents*



Which region does your company primarily work in?



What is your role in the company?



73%

of respondents are **Owners** or **Executives in their company**.

How long has your company been in business?

3%	**7%**	**90%**
3 - 5 years	5 -10 years	More than 10 years

Annual Revenue in 2022

$5M - $15M	27%
Under $5M	52%
$15M - $50M	13%
$50M+	8%

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