7 Key Construction Cash Flow Pain Points and How Automating P2P Alleviates Them

Outdated manual systems are causing cash flow bottlenecks that cost companies billions — and put them at unnecessary risk.

Cash flow is the lifeblood of construction firms, yet many of the companies in the industry today need the equivalent of an AP triple bypass. In fact, slow payments cost U.S. construction companies $208 billion dollars every year, with nearly 40% of contractors reporting that work has been delayed or stopped due to payment delays, according to a construction payment report from Rabbet.

What's more, the report shows that General Contractors (GCs) spend more than 40 hours a month managing the purchase-to-pay process (P2P), including payments to subs, contractors, suppliers, and vendors, while more than 60% have incurred billing charges, financing charges or other costs when floating payments to others in the last 12 months.

The reason for this cash flow bottleneck? Outdated manual P2P systems that are prone to error and inefficiency.
The particular complexities of construction AP processes such as lien waivers and proof of work only exacerbate the problem. Managing finances involves many elements and procedures, but accounts payable, or AP, is among the most important — and often the most neglected.

"The older business model for the construction industry has at its core an AP system that is cumbersome, outdated, and costly. It does not include a much-needed cyber safety net, money-saving efficiencies, or a way to increase revenue streams," said Cody Manning, Yooz's North American chief sales officer. Yooz is an industry-leading end-to-end accounts payable automation system.

Manning and other industry experts said today's savviest companies are turning to automated AP systems, which systemize and digitize the P2P process for maximum efficiency, to cut costs and stay competitive.

P2P automation solutions allow construction firms to work more closely with subs, contractors, suppliers, and vendors and take greater control of their finances. Along with gaining greater visibility into cash flow and spend allocation, end-to-end invoice and payment approval processing speeds up cycle time to only hours compared to 14.4 days on average. It also reduces processing costs by up to 80% and can earn cash back.

That's because automating the P2P process streamlines construction projects with a single end-to-end accounts payable solution that captures, processes, and expedites the review, approval, and payment of invoices.

Along the way, it helps with tracking and reconciling purchase orders, retention status, and lien waivers as they come in from a host of suppliers and subcontractors.

"The innovation of an intelligent, user-friendly, cloud-based AP automation system is the best tool in the construction-business owner's belt," Manning said.

7 Cash Flow Pain Points Automated AP Addresses

Here are 7 specific P2P cash flow pain points and how construction pros are using automated AP systems to address them.

1 Missing invoices.

At busy construction job sites it's easy for receipts and invoices to get thrown in the backs of trucks when moving from location to location, leading to a lot of missing documents. With automated, cloud-based P2P systems no matter how many invoices are submitted, they can easily be scanned into the system and are visible and tracked in the process until completed, so they don't get misplaced. They can even be submitted instantly from a mobile device or laptop.

"When you automate your P2P process, there's a central database and things can be tracked," said Mara Johnston, co-founder and managing principal at Keystone Global. "You can even search by keywords to find what you're looking for. If you're doing that manually, good luck."

Companies that have made the switch are amazed by how much automating P2P helps. A good example is a Yooz client with 250 employees across five locations and ten mobile branches.

Before moving to an industry-leading automated P2P system, 400 to 500 invoices routinely went missing or unpaid by months-end, leading to a drop in productivity as employees scrambled through emails to locate the necessary information. Since doing so, the company's monthly invoice discrepancies average just twenty. "Instead of chasing invoices, we're efficiently processing them," said Peggy Holden, the company's accounting manager.

2 Multiple work locations.

Managing several construction projects often means multiple locations and multiple channels to collect and receive invoices — a recipe for disaster when using manual systems.

Multiple locations can lead to challenges with:

- High invoice processing costs and difficulty processing documents fast enough to avoid penalties.
- Duplicate payments, lost documents, and higher risk of fraud.
- Difficulty having an instant overview of cash flow and being able to make accurate financial projections.
- No visibility into complicated, static, and lengthy approval processes on the go.

A state-of-the-art automation platform performs multichannel merging of scattered invoices with a single, unified capture process. Mobility allows companies, from any mobile device, to manage receipt of materials from the back of a delivery truck and to reconcile them with intelligent two- or three-way matching.

As a result, with AP automation, companies can:

- Cut cycle time to hours and reduce costs by 80%.
- Gather invoices and documentation in one easily accessible location.
- Gain instant visibility into the AP process and metrics in real-time to help facilitate purchasing decision-making.
- Engage in smart, dynamic workflows to approve or reject purchases, invoices, and payments anytime anywhere.

“You can review and approve from any mobile device anywhere, anytime,” Manning said. “Given the fast pace and unique challenges of the construction industry, a cutting-edge digital and mobile workflow is a real power tool.”

3 Late or missed payments.

With so many moving parts and multiple suppliers, vendors, and contractors, it's easy for invoices to slip through the cracks. Not only does that disconnect create unnecessary back and forth, but it also can dramatically impact cash flow. In fact, slow payments comprised 14% of construction costs in 2023, up from 12% in 2022 due to inflationary pressures.

"In a manual environment you may get those invoices a month later or even two months later, and if there was no purchase request, you get a bad surprise after you've closed your books. It's like, 'Well, we had a $50,000 invoice that just showed up for the previous fiscal year and no one remembered it,'" said Laurent Charpentier, CEO of Yooz. "With automation, you can put that payment cycle on autopilot."

For example, automated systems allow firms to create autopayments for recurring vendors, while others can simply email their invoices into the system. Once in the system, it's auto recorded and tagged to the correct vendor so it's easy to track and ensure that payments happen on time. Customized workflows and notifications allow for early pay discounts.

"It's just like with the bills you send out personally — you just set it and forget it," Johnston said.

4 Too many paper-based tasks.

More than 50% of construction firms still rely on spreadsheets rather than software when it comes to accounting/ERP, according to a recent JB Knowledge ConTech report.

In 2022, almost one in four invoices processed was flagged as an exception due to bad or missing data. One in three US businesses say that long turnaround times caused by handling exceptions that lead them to pay late are a major AP pain point.

“There’s still a lot of manual work that goes around AP. If you think about the process for accountants, they have to bring in a piece of paper, they look at the piece of paper, then they dispose of the piece of paper,” said Jay Deubler, chief revenue officer for North America. “AP automation takes a lot of the manual work out of the AP process to maximize their cash flow and run through the AP process with as little manual intervention as possible.”

AP automation solutions handle the entire AP process — In fact, manually handling purchase orders costs around $15, compared to $2 with state-of-the-art AP automation. “That’s a great win when it comes to ROI,” Deubler said.

P2P automation can give you:

- **Secure** cloud-based platform
- **Detailed** audit trail
- **Document fraud with duplicate detection** to prevent erroneous or duplicate payments
- **Scalability** as a business grows
- **Cash back** as a new revenue source

5 Lack of visibility and traceability into total cash flow.

With manual P2P processes, companies don't have a good idea of what payments are coming due when, which often leads to cash flow issues. In fact, 62% of general contractors have incurred billing charges, financing charges, or other costs when floating payments to others in the last 12 months. What's more, there's been a nearly 9-fold increase in general contractors using retirement savings to float payments for their business, according to the Rabbet survey.

A digitized payment process provides real-time insight across the P2P process and helps navigate complex payment cycles across purchase orders, retention and lien waivers to full payment. In turn, real-time visibility into cash flow helps senior management make better decisions on when and how to deploy cash.

"If you know someone has raised a purchase request and it's going to be approved, you already know that when it's approved, you made a commitment to spend that money," explained Charpentier. "The data around what's being purchased and what's being approved for those purchase requests is key."

6 Complex and slow approval processes.

Multiple approvals are often needed at many construction firms to finalize payments. When those approvals are happening manually, it often results in a backlog of unprocessed invoices, leading to delays and late fees. This cascading effect impacts the cash management of business vendors and tests their patience. During periods of tight supplies and long wait times for certain building materials, this adds to an already stressful situation for both business owners and clients.

“One of the reasons people come to us is they want to speed up the process,” Deubler said.

Consider Peterson Auto Group. Integrating Yooz into its existing ERP system helped reduce the time required to enter an invoice from five minutes to 15 seconds in addition to eliminating the need to mail 2,500 paper invoices every month. Invoice approval also takes much less time, dropping from an average of 45 minutes per invoice to just five.

Instead of spending two to three hours a day attaching invoices to checks and routing them for signatures, the system now automatically sends the checks for electronic signatures, and funds are electronically transferred. Paying bills this way takes only about 15 minutes a day. The cost associated with cutting checks also dropped from about $5 per check to just $1.43, a savings of nearly $35,000 a year.

7 Numerous contractors, vendors, and suppliers.

Typical construction jobs require dozens of subs, suppliers, and vendors — all of whom need to be paid to keep things on schedule. Trying to manage those payments manually often leads to balls being dropped and the project grinding to a halt. It's also one of the biggest opportunities when it comes to P2P automation.

"Everyone has multiple vendors, so streamlining and automating is one of the biggest low-hanging fruits," Johnston said.

The best automated system automatically extracts and indexes all relevant information thanks to artificial intelligence (AI)-powered technologies such as optical character recognition and smart data extraction backed by machine learning. It then routes the invoice to the right person according to rules every business can personalize, define, and tweak to work for their specific needs.

That leads to less risk and happier vendors, according to the Rabbet survey, which shows 90% of general contractors surveyed see value in paying their subcontractors faster because it ensures quality of work, adherence to the project timeline, and that subcontractors are able to show up to the job site.

Conclusion

Clearly, automating the P2P processes alleviates major cash flow pain points that are caused by outdated, unreliable, and inefficient manual systems. Because automation also streamlines the process, the ROI from making the shift to automation happens quickly.

As AI and machine learning get added to the mix, cutting-edge automation systems are only going to become more powerful. And construction companies that are still using manual systems risk losing their competitiveness in an increasingly difficult marketplace.

“What are you waiting for? You’re really wasting a lot of time and money by not automating,” Charpentier said.

But choosing the right system — and the right software partner — are key.

“What we really do is we help our customers on that cash flow journey, and we help digitize one of the last things that’s been digitized. We take a lot of the manual work out of the AP process to allow our customers to maximize their cash flow, to be able to execute and run through the AP process with as little manual intervention as possible, which maximizes efficiency and savings,” Deubler said. “So, you don’t have to grow AP staff to double business. You can do it with the staff you already have in place.”

To learn more visit **www.getyooz.com.**

Yooz is the most intelligent financial operations automation solution that fights waste, risk, fraud, and errors – all while driving growth and profitability. We deliver Lean Financial Operations™ for the most ambitious companies on the planet, to even the most complex financial environments, so you can achieve the clarity you deserve to grow.

Our solutions powers financial operations automation with an unmatched combination of the most flexible workflow engine, the smartest real-time applied AI and data insight, the most intuitive user experience, and the most comprehensive end-to-end transparency – all protected by the most secure, AI-driven document fraud protection. The result is financial operations that are faster, simpler, deeper and safer. We're customer obsessed. We have 7,000+ customers globally and have processed 300m+ invoices.

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