

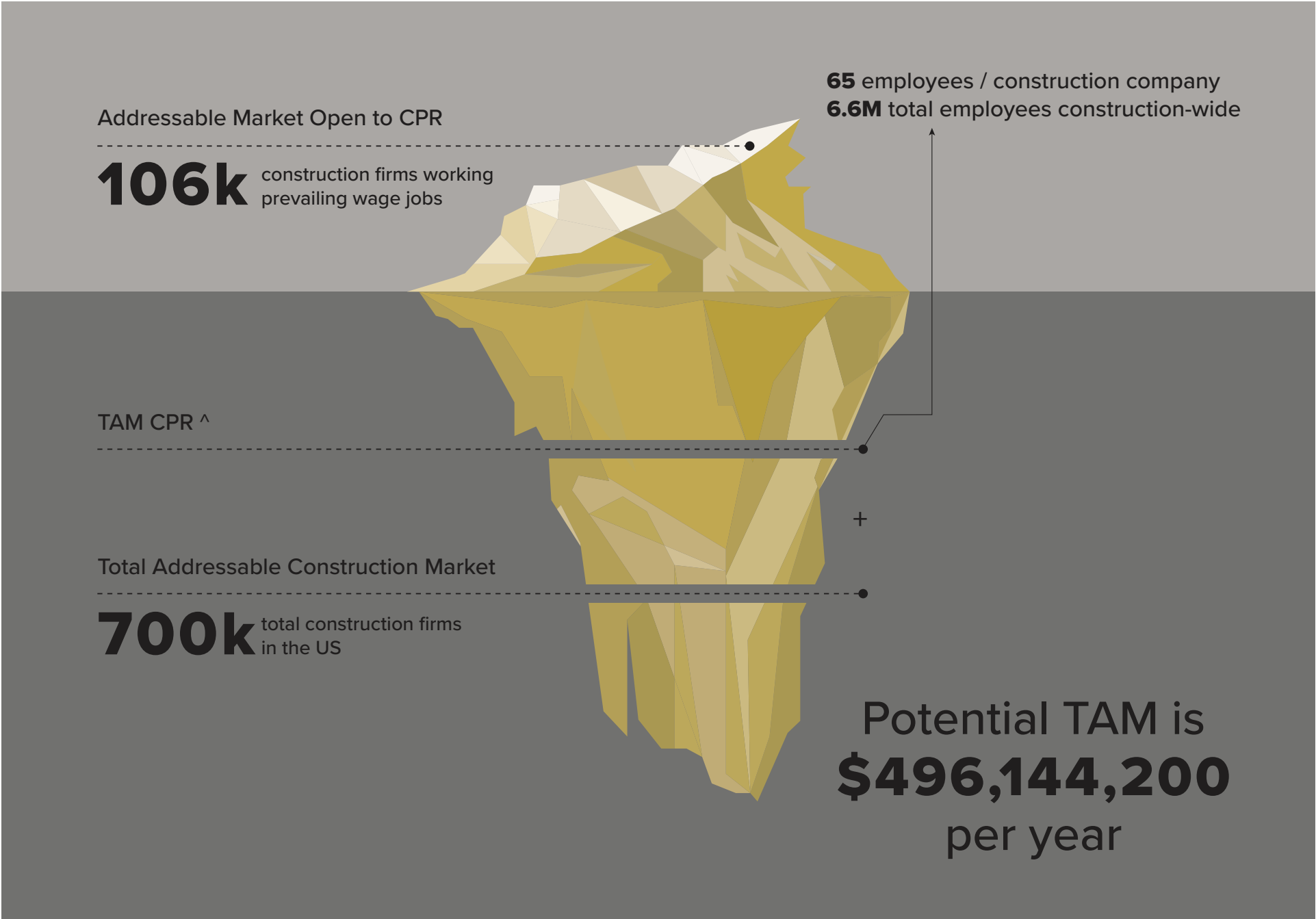
Huge Total Accessible Market Opportunity Exists for Certified Payroll Reporting Software Solutions

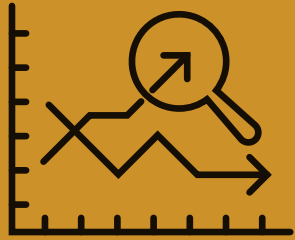
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BUSINESS SEGMENT: U.S. CONSTRUCTION INDUSTRY INSIGHTS

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KEY FINDINGS

- + The Davis-Bacon Act of 1931 requires construction companies, contractors and subcontractors to pay workers local prevailing wages and fringe benefits.
- + Violations and repercussions are increasing. In recent years, compliance checks have become more stringent and between 2014-2018, back wages exceeding **\$1.3 billion** were collected. The American Bar Association hired **350** new investigators to ensure compliance. ⁽¹⁾
- + There have been **119,000** total prosecutions, and the construction industry tops the list of violations totaling **105,584** with **\$177M** back wages paid. ⁽²⁾
- + With approximately **106,000** (out of approximately **700K**) construction companies in the United States that perform work on projects requiring prevailing wages and certified payroll reports to be generated and submitted to government agencies funding the work, there is a huge opportunity in the **Total Accessible Marketing (TAM) for Certified Payroll Reporting software** solutions that include accurate time tracking and payroll integrations. ⁽³⁾
- + With an average of 65 employees at each construction company, the total number of employees industry-wide is approximately **6,608,225**. At a \$6 monthly software fee per employee per month over a year, plus a \$16 base fee per month over 12 months per construction firm, the potential TAM is **\$496,144,200**.



BACKGROUND

According to the Associated General Contractors of America, the construction industry is a major contributor to the U.S. Economy, with more than **680,000** employers, more than **7 million** employees and over **\$1.3 trillion** worth of structures created each year. ⁽³⁾

The Davis-Bacon Act is a federal law in the United States that was passed by Congress in the 1930s when the economy was impacted by the Great Depression to protect workers in the construction market who were being hired on at very low wages.

Under this law, contractors who win a bid of more than \$2,000 on a government-funded construction project are required to pay their workers the local prevailing wage and fringe benefits as well as complete Certified Payroll reports each week outlining:

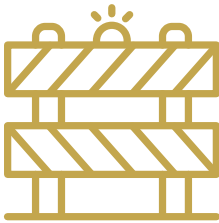
1. Name of each contracted employee
2. Wages and benefits of each employee
3. Type of work being performed
4. Number of hours worked during the week
5. Withholdings and gross wages



VIOLATIONS OF THE DAVIS-BACON ACT



119,000 Davis-Bacon prosecutions
for prevailing wage violations



105,000 violations
resulted in \$177M of back wages paid
by the construction industry



350 new investigators hired
by the ABA to ensure compliance

In recent years violations of the Davis-Bacon Act have increased and repercussions for non-compliance has become more stringent. Since 1985, the U.S. Department of Labor has reported over **119,000** prosecutions for prevailing wage violations of the Davis-Bacon Act. The construction industry has been the worst hit by far with **105,000 violations** resulting in **\$177M** in back wages owed. ⁽²⁾ The American Bar Association has hired

350 new investigators to ensure prevailing wage compliance. ⁽¹⁾

In addition to the millions of dollars in back wages, there is more at stake for those companies that violate the Davis-Bacon Act. Any contractors or subcontractors who willfully fail to pay the prevailing wage also **risk termination from government contracts and exclusion from future contracts for up to three years**, among other consequences.



CONSTRUCTION

INDUSTRY CHALLENGES

Most construction companies **lack an automated process of time tracking with payroll integration** which can lead to confusion and inaccurate time reporting. **74%** of administrators manually enter data on physical time clocks, spreadsheets or paper timecards, which result in weekly errors that can cost time and money. ⁽⁵⁾

Logistics and **categorizing multiple tasks can be difficult and overwhelming** for contractors with seasonal or mobile employees

working in different locations on multiple jobs performing different types of work. Workers in the field often perform multiple tasks per day--some of which must be paid prevailing wage and others that do not.

Many contractors have no knowledge of varying reporting requirements and formats for federal, state and municipal Certified Payroll Reports. **Government agencies across different states require information formatted in different ways**, causing much frustration and excessive

amounts of time spent on preparation.

Many hours are wasted each week manually entering data and submitting to third-party platforms leading to time drain. **One report can take anywhere from one hour to several hours per week** depending on the system used to complete the process. Falling behind on reports as well as payments being held up can lead to a **loss of revenue and increased risk of audits.**



WHY CONSTRUCTION COMPANIES NEED SOFTWARE SOLUTIONS



Construction companies need **automated time tracking and payroll solutions** that integrate with **Certified Payroll software** so they can:

- + Simplify the preparation of prevailing wage reports
- + Store and manage rates
- + Perform custom calculations
- + Import hours from time tracking platforms
- + Output data for payroll and accounting systems
- + Automate the production of federal, state and municipal certified reports within minutes

The Total Accessible Market (TAM) Potential Revenue

With approximately **101,665 construction-companies** in the United States that perform work on projects that require prevailing wages to be paid and certified payroll reports to be generated and submitted to the government agency that is funding the work, there is a **huge opportunity in the Total Accessible Market (TAM) for Certified Payroll Reporting software solutions.**

Certified Payroll Reporting Only

106k construction firms working prevailing wage jobs

Construction Market

700k total construction firms in the US

65 avg employees per company

\$6 per employee per month

+

\$16 base fee per account

Certified Payroll TAM
\$496M

Total U.S.
Construction Spend
\$3.4B

With an average of 65 employees at each construction company, the total number of employees industry-wide is approximately 6,608,225. At a \$6 monthly software fee per employee per month over a year, plus a \$16 base fee per month over 12 months per construction firm, the potential **TAM is \$496,144,200.**

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ASSUMPTION

ANALYSIS

Every company that performs work on government contracts has a four-digit Standard Industrial Classification (SIC) Code used to identify the primary line of business. The primary SIC code is determined by the code definition that generates the highest revenue for that company at a specific location in the past year.

Based on the company's primary business, a rough estimate was

made based on the percentage of companies in the SIC code that would likely bid for and be awarded government contracts.

The average number of employees was estimated based on the total number of employees divided by the total number of companies under each SIC code below.

The Certified Payroll TAM was determined by multiplying a \$6 software fee per month per

employee over 12 months, plus a \$16 base account fee per company per month over 12 months who perform prevailing wage jobs. The overall construction industry TAM was determined by multiplying a \$6 software fee per month per employee over 12 months, plus a \$16 base fee a month over 12 months for the total number of construction firms in the U.S.

DATA

SIC Code	Company Type	# of Companies	# Employed	% with Govt Contracts	Description
1521	Gen Contractors - Single Family Homes	178,619	408,785	0%	General contractors primarily engaged in construction (including new work, additions, alterations, remodeling, & repair) of single-family houses.
1522	Gen Contractors - Residential Building(not single family)	2,274	2,781,048	10%	General contractors primarily engaged in construction (including new work, additions, alterations, remodeling, & repair) of residential building other than single-family houses.
1541	Gen Contractors - Industrial Buildings and Warehouses	2,866	15,434	10%	Industrial buildings and warehouses, such as aluminum plants, automobile assembly plants, pharmaceutical manufacturing plants, and commercial warehouses.
1542	Gen Contractors, Non-residential Buildings	36,243	362,051	23%	Included are non-residential buildings, such as commercial, institutional, religious, and amusement and recreational buildings
1629	Heavy Construction, not elsewhere classified	4,532	340,097	40%	General and special trade contractors primarily engaged in the construction of heavy projects (i.e., athletic field, subway, dam construction)
1623	Water, Sewer, Pipeline, Communications and Power Line	5,307	256,445	50%	General and special trade contractors primarily engaged in the construction of water and sewer mains, pipelines, and communication and power lines.
1741	Masonry, Stone Setting and other Stonework	10,638	121,322	10%	Special trade contractors primarily engaged in masonry work, stone setting, and other stone work
1742	Plastering, Drywall, Acoustical and Insulation Work	12,588	220,786	10%	Special trade contractors primarily engaged in applying plain or ornamental plaster, including the installation of lathing and other appurtenances to receive plaster, or in drywall, acoustical and building insulation work
1771	Concrete Work	19,561	432,903	23%	Special trade contractors primarily engaged in concrete work, including pouring cement and asphalt. This industry includes the construction of private driveways and walks of all materials.
1796	Installation or Erection of Building Equipment, not elsewhere classified	2,371	63,809	23%	Special trade contractors primarily engaged in the installation or erection of building equipment, not elsewhere classified, such as elevators, pneumatic tube systems, and dust collecting equipment. This industry also include contractors primarily engaged in the installation or dismantling of machinery or other industrial equipment.
1752	Floor laying and other floor work, not elsewhere classified	14,081	75,020	10%	Special trade contractors primarily engaged in the installation of asphalt tile, carpeting, linoleum, and resilient flooring. This industry also includes special trade contractors engaged in laying, scraping, and finishing parquet and other hardwood flooring.
1622	Bridge, Tunnel and Elevated Highway Construction	285	5,348	90%	General contractors primarily engaged in the construction of bridges; viaducts; elevated highways; and highway, pedestrian, and railway tunnels.
1751	Carpentry Work	17,236	179,620	10%	Special trade contractors primarily engaged in carpentry work. Establishments primarily engaged in building and installing cabinets at the job site are classified in this industry.
1791	Structural Steel Erection	5,220	99,542	23%	Special trade contractors primarily engaged in the erection of structural steel and of similar products of prestressed or precast concrete.

DATA

SIC Code	Company Type	# of Companies	# Employed	% with Govt Contracts	Description
1711	Plumbing, Heating and Air Conditioning	119,570	1,766,646	23%	Special trade contractors primarily engaged in plumbing, heating and air-conditioning, and similar work, sheet metal work included
1799	Special Trade Contractors, not elsewhere classified	36,292	478,487	10%	Swimming pools and fences, erection and installation of ornamental metal work, waterproofing, damp proofing, fireproofing, sandblasting, and steam cleaning of building exteriors
1761	Roofing, Siding and Sheet Metal Work	38,846	574,113	23%	Special trade contractors primarily engaged in the installation of roofing, siding and sheet metal work.
1731	Electrical Work	55,442	864,445	23%	Special trade contractors primarily engaged in electrical work at the site.
1611	Highway and Street Construction, except elevated highways	12,911	231,022	75%	General and special trade contractors primarily engaged in the construction of roads, streets, alleys, public sidewalks, guardrails, parkways, and airports
1743	Terrazzo, Tile, Marble, and Mosaic Work	7,197	42,223	10%	Special trade contractors primarily engaged in setting and installing ceramic tile, marble, and mosaic, and in mixing marble particles and cement to make terrazzo at the site of construction.
1721	Painting and Paper Hanging	32,284	252,416	23%	Special trade contractors primarily engaged in painting and paper hanging.
1794	Excavation Work	18,886	251,113	23%	Special trade contractors primarily engaged in excavation work and digging foundations, including digging and loading. Contractors in this industry also perform incidental concrete work.
1781	Water Well Drilling	4,997	46, 536	10%	Special trade contractors primarily engaged in water well drilling
1795	Wrecking and Demolition Work	2,880	35,968	23%	Special trade contractors primarily engaged in the wrecking and demolition of buildings and other structures, except marine. They may or may not sell materials derived from demolishing operations.
1793	Glass and Glazing Work	1,055	12,411	23%	Special trade contractors primarily engaged in glass and glazing work.

References

1. <https://www.certifiedpayrollreporting.com/davis-bacon-act-and-certified-payroll>
2. <https://www.agc.org/learn/construction-data>
3. Based on an industry survey of 731 people who manage employee time, conducted by TSheets (now QuickBooks Time) in September 2018.
4. www.SICCode.com

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