



Deposits, Retainage, and Payment Terms

Three separate contract terms, receivables timing, deposit size, and retainage, each tie up cash in a different, quantifiable way. Tightening payment terms alone from 45 to 15 days frees \$49,315 in cash on \$600,000 of annual revenue.

Three different contract terms, how fast customers pay, how much is collected up front, and how much is held back until the end, each quietly tie up cash in their own way. None of them show up as an expense line anywhere. All three are quantifiable, and all three are usually negotiable if the cost of not negotiating them is made concrete first.

Payment terms: the cash sitting in receivables

At \$600,000 in annual revenue, tightening payment terms from 45 days to 15 days frees \$49,315.07 in cash, cash that was previously sitting uncollected in receivables at any given moment rather than available to spend. If terms stay unchanged (45 to 45), nothing is freed, the relationship is a direct function of the days-of-terms reduction against the revenue run rate.

Deposits: pricing the walk-away risk honestly

A \$10,000 job with a \$3,500 materials base cost and a 6% material markup has a real material lead cost of \$3,710 once materials are ordered. A 30% deposit collects \$3,000 up front, which is \$710 short of covering that lead cost if the customer walks away after materials are ordered but before the job starts, a real walk-away exposure. The deposit percentage that would fully cover the exposure, the recommended minimum, works out to 37.1% in this example, higher than the 30% actually being collected.

Retainage: the carrying cost of money held back

A \$50,000 contract with 10% retainage held for 60 days ties up \$5,000 in retainage, and financing that gap at an 8% annual rate costs \$65.75, the real carrying cost of the delay, not just the inconvenience. Stretch the release delay to a full year (365 days) and the carrying cost rises to \$400, matching the flat annual rate exactly, since a full year at the stated annual rate is definitionally what that rate means.

Why all three deserve the same treatment

Payment terms, deposit size, and retainage percentage are all contract terms a business can propose, negotiate, or push back on, but only if the cost of the current terms is a specific number

rather than a vague sense that "cash feels tight." Pricing all three the same way, in real dollars, turns three separate negotiating conversations into three separate, defensible asks.

Key takeaway. Payment terms, deposit size, and retainage each have a real, quantifiable cash cost. Price all three before assuming any of them are fixed or not worth negotiating.

Assumptions

- The receivables worked example uses \$600,000 annual revenue, tightening from 45-day to 15-day payment terms. The deposit example uses a \$10,000 job with a \$3,500 materials base cost and a 30% deposit. The retainage example uses a \$50,000 contract at 10% retainage held 60 days.

Frequently asked questions

Which of the three usually has the biggest cash impact?

It depends on revenue scale and job mix, but payment-terms tightening tends to have the largest absolute dollar impact for a business with steady, ongoing billing, since it applies to the full revenue run rate continuously, while deposit and retainage exposure are per-job and per-contract-structure.

Is a higher deposit percentage always the safer choice?

It reduces walk-away exposure, but a deposit set well above the market norm for a trade or region can cost jobs to a competitor with a lower deposit requirement. The recommended minimum in this framework is the floor that covers real exposure, not necessarily the ideal number to actually charge.

Can retainage carrying cost be avoided instead of just calculated?

Sometimes, by negotiating a shorter release delay or a lower retainage percentage into the contract terms up front, which is exactly what having the carrying-cost number in hand makes possible to argue for with a specific dollar figure instead of a general preference.

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