

## HOW TO START YOUR ASPHALT PAVING BUSINESS

From AsphaltPro Staff

While starting a business in any industry takes a well thought out plan, starting capital, legal documentation, and a host of other considerations, firing up a paving company takes moxie on a completely different level. Besides the talent you must bring to the table for a paving operation, there are business-related decisions that will impact your bottom line. Let's follow guidance from some experts to help you build a plan for a successful start.

### START WITH A SOLID FOUNDATION

Travis Crabtree of Swyft Filings online services provided a checklist of four main steps to build your basic foundation.

#### Step One: Create a business plan.

Every business needs a blueprint for how it will grow and succeed. The business plan is your guide for growing your business and includes strategies for how you'll succeed and what it will cost to run the company.

#### Step Two: File the paperwork to form an LLC or C-Corp with your state.

Although the majority of small businesses formed in the United States are limited liability corporations, you may want to discuss the differences and benefits between an LLC and C-Corp with your tax professional.

\*Note: Even though you do not technically have to incorporate yourself to do business as a contractor or handyman, forming an LLC will protect your personal assets in the event that your business is ever sued. Additionally, if you own any of the worksites or projects where you are working, you may also want to consider creating an LLC for each project. For example, if you purchase a house with the intent to repair and resell it, you can make that project/house its own LLC. This will further protect your business and assets in the event that anything happens during that particular project so that it does not impact your other projects.

#### Step Three: Obtain the necessary insurance for your business.

In addition to liability insurance, you may also need insurance for your employees and equipment, and an umbrella policy. The annual premiums can run between \$2,000 and \$5,000, according to Crabtree.

Jim Loughlin, an insurance industry veteran with over 25 years of experience, and a senior sales director at CoverWallet, a tech company that enables businesses to understand, buy, and manage insurance online, discussed the different types of insurance a construction business should have on its radar to protect the different aspects of a company.

"To choose the right kind of coverage, the key is to know what you're up against," Loughlin said. "In the case of a road builder, it's crucial to assess the needs of the company and the potential risks involved in the industry."

Loughlin listed and described three types of insurance he recommends for those in the road building industry:

- **General Liability insurance**—Chances are, you and your employees interact on a daily basis with people such as clients, vendors, subcontractors, and motorists driving through a work zone. Any one of them could experience an injury or loss and if your business is to blame they can file a lawsuit. This type of coverage protects both your business and your employees. It will take care of the medical bills and costs related to property damage due to day-to-day operations.
- **Business Owner's policy**—If you're a business owner, you're subject to liability. You need to make sure you're protected. The Business Owner's policy is a combination of the General Liability and Commercial Property insurance, offering savings compared to purchasing the coverage separately. It's ideal for small and medium-sized businesses because it's a convenient way to be adequately protected.
- **Worker's Compensation insurance**—Worker safety should always be a top priority; however, accidents can happen at any time. This policy is a legal requirement in most states in the United States; it takes care of the medical expenses and salaries lost of employees who sustain injuries at work. It protects both parties—the business owner against expensive lawsuits, and the employees who will receive benefits in case they get sick or injured at work.

"Having proper coverages is one method of risk management to minimize the chance of a damaging claim or lawsuit shutting down your business," Loughlin concluded. "Carry adequate contractor's insurance and set up management plans so everyone knows what to do and what to avoid while working. Make safety a priority, not only for the business but also for motorists on the road."

#### Step Four: Double-check your admin details.

After you build the foundational blueprint of your business through a plan, you must also address the administrative details. In addition to filing the proper paperwork with the state, ensuring that your employees are properly classified (W2 employees or independent contractors) is a key issue to think about from the beginning. You also need to be careful to follow all of your state's regulations with regard to documentation. In short, you have plenty of details to chase.

Check out the article ["Tips to Properly Classify Your Employees"](#) at [TheAsphaltPro.com](#).



*LEFT: Travis Crabtree is the president and general counsel of online business filing company Swyft Filings and counsel with the law firm of Gray Reed & McGraw LLP, Houston, Texas. His law practice focuses on assisting start-up and technology*

*companies with all of their legal needs. RIGHT: Jim Loughlin is an insurance industry veteran with over 25 years of experience.*

## PREP YOUR CASH FLOW

Once you set the pieces in place, you want to start bringing in the money. But wait. There's more.

When you start an asphalt paving business, you'll have monthly equipment notes and supplies/materials costs that other businesses might not have. While all companies have employees, utilities, insurances, and the usual costs to pay on a monthly basis, you will have additional expenses outgoing while waiting on large projects to be completed and invoiced. The team at Kabbage, which has pioneered a financial services data and technology platform to provide access to automated funding to small businesses, answered some specific questions for us about cash flow.

**AsphaltPro:** For the smaller paving company functioning as a general contractor on a residential or commercial project, what are the pros and cons to paying subcontractors—such as stripers, mills, concrete curbers—in 30 days, whether or not the project is complete or the customer has paid?

**Answer:** The biggest con would be that the general contractor may not have been paid by the client within the 30 days and paying subcontractors without working capital on hand can be difficult on finances for the whole company.

On the other hand, making it a policy to pay subcontractors in 30 days can be a great way to enforce healthy cash flow practices. If you pay your subcontractors within 30 days it means you would have to be very on top of your cash flow and finance management. Always being prepared and one step ahead of any cash out scenario is crucial in case of any unexpected expenses or crisis in your business. Since the general contractor is obligated to pay the subcontractor regardless of whether they have been paid by the client, it is important to be on time for your payments so you can avoid your subcontractors filing a mechanic's lien or suing you for breach of contract as well as avoid violating trust fund law. Enforcing a 30-day rule for your business may keep you accountable.

It can also be helpful during seasonal peaks when subcontractors are high in demand and you are competing with other general contractors for the best talent. If subcontractors trust you more to pay them on time, you may get the advantage in hiring and keeping good talent.

**AsphaltPro:** How can the smaller paving company protect itself from financial hardship when a larger project has multiple components, thus multiple subcontractors and vendors to pay?

**Answer:** With so many components of a project moving simultaneously, it's important to make sure you have all the moving pieces of your business in check, too. When you have a detailed budget for the year, you will have a clearer picture of how each project component can best contribute to your company's healthy cash flow and protect it from financial hardship.

Plan to pay your company's predictable expenses, like quarterly taxes, marketing costs and insurance premiums, when big bills for your project are not due. Additionally, if you invested in capital equipment, you may be able to claim depreciation and other write-offs to minimize quarterly tax payments and free up cash.

You can also work with your accountant or use tools to analyze your finances and make small adjustments to smooth out the peaks and valleys in your cash flow. An easy place to start is taking advantage of upfront payment discounts and making sure you have access to funding for those inevitable unexpected costs.

There are several options for getting extra funds. Depending on your needs, you may choose an SBA loan, alternate lending, a commercial loan, peer-to-peer lending, a line of credit or asset-based financing.

With so many options, it's important to know the pros and cons of each. SBA loans and bank loans tend to feature cheaper and more generous loans, but underwriting requirements can be strict. It can take a long time to process a traditional loan. Online lenders are faster and easier than bank loans—though they may come with higher rates.

Do your due diligence to figure out what funding solution is right for your business.

**AsphaltPro:** What tips can you suggest for the smaller paving company when planning for seasonal employee wages and benefits so the owner can keep quality/trained personnel on hand during the height of season?

**Answer:** Hiring is essential for any growing business, large or small. Ineffective hires and employee turnover can potentially cost your business 30 percent of its yearly earnings, according to the U.S. Department of Labor. Instead of bargain shopping for employees, use additional funds to invest in the right hiring platforms, post multiple job listings, manage payroll, and cover onboarding and training costs. You could also use funds to give current employees a bonus for referring talent, or simply to help retain them.

A longer cash flow cycle can hurt your cash flow. This applies doubly during the height of the season when you need to invest in your company and personnel to get the bigger contracts that sustain the business for the rest of the year. One way to shorten your cash flow cycle while also improving your customers' experience, in any season, is to break up your invoices.

Customers appreciate prompt, smaller bills because it helps them manage their own cash flow. A shorter cash flow cycle helps you have more working capital on hand to make sure you can pay your employees on time and offer them more perks and benefits.

**AsphaltPro:** What is the No.1 cash flow concern to guard against? And how can the owners protect the company?

**Answer:** The number one cash flow concern is simply not having cash on hand to strategically manage your company. It is important to diversify your funding options to reactively guard your business against crisis as well as proactively seek and take advantage of opportunities to grow and prosper.

Buying smaller increments of inventory, hiring staff during busy seasons or requiring payments for orders up-front are all steps you can take to prevent cash flow gaps and maximize the funding you can use to invest back into your business.

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## PLAN AHEAD FOR LEADERSHIP TRANSITION

The team from Lehman-Roberts Company shared that its over-75 years of positive growth comes from how its leadership has put "helping people" ahead of the mechanics of building roads. In other words, the company's founders, W.E. Lehman and George B. Roberts, had a friendship that fueled a business that valued both its work and its employees.

"It was true of my father-in-law, Jim Madison, who helped establish a family legacy in the company," Chairman Rick Moore said. "Now, as I watch the management of our company pass to my son, sons-in-law, and nephew, I know more than ever that the paving industry isn't made great by the roads we build, but by the people who build them."

He's talking about the transition of leadership from one generation to the next, which is something you need to plan for from the beginning.

"As our industry continues to grow and evolve, it's important to know where your company is going—and while these four tips can help fill those gaps, it's crucial to always remember that people are the key to success."



### Tip 1. Set up a transition plan

Moore explained that you must plan ahead and set your company up for a successful transition to new leadership. “If you’re a year or two away from a major transition, you should have a plan well in place. A successful transition plan takes a lot of time and self-sacrifice. You’ve got to be willing to put the success of the business above yourself, factor in every contingency, and prepare your own infrastructure for new leadership.

“That’s all separate from actually running the business. You already know that our industry is driven by plenty of external factors—public funding for infrastructure is at an all-time low, and companies are having to learn to work within those restraints. That’s why foresight is important. Jim Madison had a generational vision from the beginning, so we’ve spent decades developing a plan to take the company from our third generation to our fourth. We already have a framework established for the next major generational shift.”

### Tip 2. Get a team you trust

While the leadership of the company will try to factor in all contingencies when planning for the day-to-day operations, as well as emergencies, the reality of business is that the transition of leadership will include some surprises.

“You need attorneys, accountants, planners—it takes an entire team of people to help make the transition smooth,” Moore said. “With something as sensitive as the success of your business, they need to be people you trust.”

### Tip 3. Accept change

Letting go of the reins can be its own challenge, according to Moore. “My son, sons-in-law and nephew have new ideas, new ways of driving the business. But just as our company has had to adapt to changes in the industry, I’ve had to learn to embrace these changes.

“I trust our next generation of leadership because I know they’ve looked back with me. I know that as we planned the transition, they were on board with our company’s goals and values. And I know they’re committed to keeping Lehman-Roberts strong enough to pass on to the next generation, just like I was.”

### Tip 4. Keep building forward

Moore reminded us that we are lucky to be part of a great industry. We are uniquely positioned to do good and to help people.

“In our work, that means creating a quality infrastructure to help people get where they’re going. To connect them to their jobs, their family, their friends.

“In our business, it means ensuring that we treat every one of our employees like family. Showing them respect, patience and grace.

“In our communities, it means taking what we’ve been given and becoming more than a paving company. We have to become people who are truly invested in the places we’re dedicated to improving.

“I hope that, throughout all the changes in our industry, we can all remember how important it is to connect people. And how blessed we are to create those connections every day.

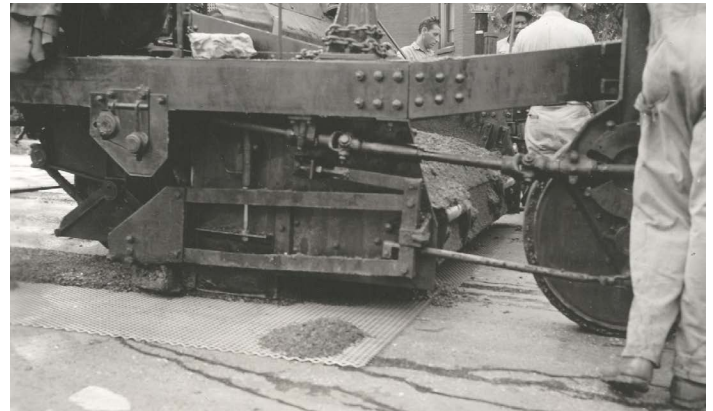
“That’s been the best part of my career. Through the transition at our company, I’m encouraged to see that same passion in the next generation.”

Find additional resources on [TheAsphaltPro website](#) in our [Off The Mat](#) department at any time.

From a strong foundation that incorporates the building blocks of legal docs and insurances to the preparation for easy, sustainable

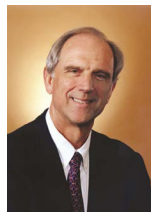


Back in the old days, it looked as if one feed bin was enough. Today, the Lehman-Roberts team incorporates RAP bins and more.



At the intersection of Third and Jefferson in August 1947, a hard-working crew placed shovelfuls of mix atop an interlayer to hold it in place for paving.

cash flow, you can set up a paving business that will last for generations. When it comes time to pass your legacy on to future generations, the transition team you work with can ensure your commitment to an industry and the people within it continues to flourish in your name. *AsphaltPro* Magazine is excited to be part of your journey, providing relevant paving, production, training, and best practices articles to assist you along the way. When you need extra training for your new hires, check out our on-line training course, as well. **AP**



Rick Moore,  
Chairman,  
Lehman-  
Roberts Co.