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Small Business Advising Highpoint Roofing, LLC.

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SMALL BUSINESS ADVISING HIGHPOINT ROOFING, LLC.

By

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HIGHPOINT ROOFING L.L.C.

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SBI CLIENT ACKNOWLEDGMENT
I acknowledge that I have received and discussed the contents of this report with the SBI consultant and/or coordinator and find the counseling satisfactory.

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PREFACE

Angie Newman wrote the attached SBI report to help Highpoint Roofing, making every reasonable attempt to present reliable and accurate information. Much of the analysis contains subjective material based on personal interviews and personal observations, so the writer, faculty, and SBI staff make no warranties or promises of accuracy. Utah State University, its faculty and staff, and the writer assume no responsibility or accrue any liability for the contents of this report or any portion thereof.

The student consultant has not used, and will not use, this report for any other purpose without the written consent of Highpoint Roofing and Professor David A. Baucus.

EXECUTIVE SUMMARY

Highpoint Roofing is a new sub-contracting business that specializes in roofing new homes and re-roofing older homes. During the short time they have been in business there has been evident success. The owners would like to continue the success of the company and plan to do so through improving their financial status, being aware of market fluctuations, cutting-costs, expanding, and creating and following a budget.

The following report addresses the areas in which Highpoint Roofing would like to improve. The financial status is evaluated according to the records from 1994. Suggestions are made for future financial strategies and records that need to be kept. A useful financial record that should be kept is the accounts receivable. This account is necessary in the calculation of the average days' sales uncollected which is used to determine how many days on average it takes to collect on a credit sale. Knowing this information can help Highpoint Roofing alleviate their cash flow problems.

A second area addressed is the current market for the construction industry which is described as prosperous. However, a warning is offered to prepare for an average building season and not to rely on the current success of the market when planning for the future.

Another area that Highpoint Roofing would like to improve in is cutting-costs. After a thorough examination of Highpoint Roofing's spending habits, several recommendations are made to cut-costs and improve profitability. The most important of which is not to incur unnecessary debt through planning for future spending.

Another area discussed involves future expansion for Highpoint Roofing. Several options for expansion are proposed. The importance of developing a complete expansion plan is stressed and a simplistic plan is suggested. There is also a detailed explanation of the staffing process which is recommended as the first step.

The final area in which Highpoint Roofing would like to improve, that is discussed in this report, includes a proposed budget for 1995 based on the records from 1994. The budget allocates a certain percentage of Highpoint Roofing's revenues to various accounts. A suggestion is made that Highpoint Roofing continue to use a budget in the future. The budget should state specific dollar amounts allocated to each account which are based on the previous years spending and on the annual growth the market is experiencing.

All the information provided in this report was attained through studying the financial records kept by the accountant of Highpoint Roofing, interviewing the vice president of Highpoint Roofing, and consulting with expert persons and texts regarding the topics discussed.

The Small Business Institute Program is designed to offer consulting to small business, like Highpoint Roofing, in various aspects. There are also low interest loans available to small business through this program. To receive information regarding the possibility of Highpoint Roofing receiving a loan contact the U.S. Small Business Administration at 1-800-8-ASK-SBA.

BACKGROUND

The idea of Highpoint Roofing originated in February of 1994 when a roofing supplier united with an associate roofer. Steve Scoffield had been a roofing supplier for many years and was interested in expanding his business into a full-service roofing company. Steve, a general contractor, had the means to create the company but needed someone to manage the actual roofing part of the business. Scott Hull had been roofing for the same roofing company for most of his life and knew he was as high as he could progress within that company. Steve approached Scott and proposed the idea of merging their skills to form the company. Scott saw great potential in this opportunity and suggested the idea to his co-workers Brett Fielding and Ray Hull. Together the four of them established Highpoint Roofing. By April of 1994 all the legal conditions were satisfied and Highpoint Roofing began their operations.

Highpoint Roofing is a Limited Liability Company (LLC). The owners and officers are as follows: Steve Scoffield - president, Scott Hull - vice president, Brett Fielding - secretary, and Ray Hull - treasurer. Steve is responsible for supplying materials and equipment. Scott is responsible for billing, scheduling and planning, pricing, purchasing, and supervising crews. Brett is responsible for payroll, employee time records, equipment and materials, and supervising crews. Ray is responsible for billing, scheduling and planning, and supervising crews. Each of them also acts as a sales representative and can give bids on new roofs and re-roofs. They currently have seven employees who work on roofing crews.

The general area Highpoint Roofing services is from North Ogden to Salt Lake City. The type of services available include supplying materials to houses, drying-in and shingling new houses, re-roofing houses, and repairs. They specialize in asphalt shingling. They work for both general contractors and individuals.

Highpoint Roofing was formed not only because a high demand for roofing existed due to low interest rates but also because the combined experience of the owners made it a good opportunity for success. The business has also served its owners in teaching them the skills necessary to run and manage a business. They are able to direct the company in its course and serve their own interests in making profits.. The advantages that accompany this kind of business include working flexible hours, receiving competitive wages, learning craftsmanship skills, seeing a completed project, and the existing high demand for work. The disadvantages include relying on the weather, risking the danger involved and paying the high cost of insurance.

Although Highpoint Roofing has experienced success in the short time they have been in business they realize the need for future goals to continue the success. Aside form increasing profits, Highpoint Roofing would like to increase their managing, organizing, planning, accounting, and training skills. They would also like to expand their business in many aspects such as: workload, sales, employees and equipment. By striving to accomplish such goals Highpoint Roofing plans to continue their success.

OBJECTIVES

The analysis of Highpoint Roofing will specifically examine cutting costs, expansion, and creating a budget. Before any of these areas may be explored the present financial status of the company must be known. Because the company is only beginning its second year in business a definite knowledge of its profits and future trends is not explicitly available. All recommendations and decisions will be based upon the available records from the first year in business, the experience of the owners, and the assumption that Highpoint Roofing will mirror the market.

MARKET ANALYSIS

When considering the construction market in general it seems quite lucrative. For the past one to two years the interest rates on home loans in Utah have been low and the building industry has been reaping the benefits. Also the Utah area has had an influx of people moving to the area which has created a high demand for building new homes and renovating old homes.

Opening a roofing business during this time is one reason for Highpoint Roofing's beginning success. However, there is possibility for strained cash flow inherit in the construction industry. A sub-contractor is always waiting to be paid by the general contractor who is in turn waiting to be paid by the home builder. This cyclical pattern creates a relatively long waiting period for accounts receivable that could be detrimental to a business in the construction industry in a difficult or even average building season. This type of environment causes even more problems for a new business because most of their assets are tied up in purchasing new equipment to start up the business. When a high accounts payable exists as well as a high accounts receivable the result is often failure.

Because of the prosperity of the market Highpoint Roofing has, for the most part, been able to avoid any difficulty due to strained cash flow. However, this prosperity cannot be assumed to continue consistently. The market is known to experience many fluctuations. Future planning should not rely on the success of the current market, but instead should be prepared for an average building season.

FINANCIAL STATUS

SHORT-TERM LIQUIDITY

The following examination of the financial status of Highpoint Roofing is based on the information found in the financial statements for their first year in business (1994). An analysis of short-term liquidity is beneficial in knowing the capability of the company to pay its short-term obligations. The net working capital is the amount of current assets less the current liabilities. A business must have an adequate amount of working capital to meet current debts. The amounts necessary to calculate the short-term liquidity are found in the balance sheet.

Net Working Capital	=	*Current Assets*	-	*Current Liabilities*
$4,511.71	=	*$11,306.46*	-	*$6,794.75*

Highpoint Roofing has a net working capital of $4,511.71. This means that if the business needed to liquidate all its assets to pay for its debt it would still have $4,511.71 left over. Another way of looking at net working capital is if the business were planning to remain operating an extra $4,511.71 in assets would exist to use in ways other than to pay for debt.

Although the net working capital is useful in knowing the amount of liquid assets available it is often unclear what the potential for that dollar amount is. A better comparison of the strength of the working capital is the current ratio. The current ratio is the current assets divided by the current liabilities. A high current ratio indicates a strong financial position because the higher the ratio the more capable the business is of meeting its current debts.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \qquad 1.66 = \frac{\$11,306.46}{\$6,794.75}$$

Highpoint Roofing has a current ratio of 1.66 which means they can pay for their debt a little over one and a half times. When the current ratio is 1 a company has tied up all of its assets into paying for its obligations. A company with a current ratio above 1 is able to utilize its assets in a more efficient way.

A Company should strive for high current ratio, however, a current ratio can be too high. If the current ratio is too high, the assets are most likely not being used effectively. As a general rule, a current ratio of 2 to 1 has been thought of as good. Although, recently more people are relying on three main factors that determine whether a company's current ratio is good or bad. (1) The nature of the company's business, (2) the composition of its current assets, and (3) the turnover rate for some of its current assets.

It is the nature of Highpoint Roofing to struggle in achieving an ideal current ratio because of the cyclical relationships (between the general contractor, sub-contractors, and home builders) in the construction industry. Each element of the cycle relies on the others to continue a healthy business. However, if any of the components become slow the entire cycle becomes strained. Although an optimal goal can theoretically be observed, it is much more difficult to attain in reality.

The second item of consideration is the composition of the current assets. Highpoint Roofing's assets are basically composed of equipment purchased and fully

depreciated within the first year in business. This would create a larger amount evident in current assets than possible in future years, unless there will be expansion every year.

Thirdly, the turnover rate for current assets is not readily available, due to the shortness of time Highpoint Roofing has been operating, but can be assumed to be normal. Thus this item should not have a large effect on changing the current ratio.

Another short-term liquidity ratio is the accounts receivable turnover rate which is extremely useful in measuring how regularly the accounts receivable are converted into cash. The credit sales are divided by the accounts receivable to calculate the rate. A high turnover rate is desirable and means the accounts receivable are collected quickly. If this is accomplished the company has not committed large amounts of money to their accounts receivable. The major benefit of having a high accounts receivable turnover rate for Highpoint Roofing is the ability to have cash on hand to pay their bills, taxes, and employee wages etc.

A second measure of accounts receivable is the days' sales uncollected. This ratio is calculated by dividing accounts receivable by credit sales. By computing this ratio the company will know how many days on average it takes to collect on a credit sale. This information is helpful in determining a limit on the number of days they allow a customer to pay. Because Highpoint Roofing has limited flexibility with its cash flows, the business would benefit from keeping track of its average days' sales uncollected. Most likely, Highpoint Roofing's customers are currently taking too long to pay their obligations which is causing the tight cash flow. With this knowledge a time limit for payment could be assigned to their customers which could increase the flexibility within

the cash flows. Offering a discount for early payments is also highly utilized in the industry and is recommended in this situation.

Both of the above methods for keeping track of accounts receivable could not be calculated for Highpoint Roofing due to there being no record of accounts receivable. I would highly recommend keeping track of the accounts receivable in the future to reap the above stated benefits. The knowledge of the accounts receivable is extremely valuable in forecasting for future years and financial planning as well.

LONG-TERM RISK

Long-term risk measures are an indication of the company's ability to meet its obligations and provide security to its creditors over the long-run. The debt ratio shows the portion of the company's assets contributed by creditors, while the equity ratio shows the portion contributed by the owners. Both involve risk; either risk of paying back the creditor or risk of gaining a return by the investor. The debt ratio is calculated by dividing the total liabilities by the total assets. This information is found on the balance sheet.

$$\textit{Debt Ratio} = \frac{\textit{Total Liabilities}}{\textit{Total Assets}} \qquad 0.48 = \frac{\$6{,}794.75}{\$14{,}153.96}$$

The equity ratio is calculated by dividing the total stockholders equity by the total assets, also found on the balance sheet.

$$\textit{Equity Ratio} = \frac{\textit{Total Stockholders Equity}}{\textit{Total Assets}} \qquad 0.52 = \frac{\$7{,}359.21}{\$14{,}153.96}$$

This can be interpreted as 48% of the company is financed by credit and 52% of the company is financed by equity (stock holders). It is less risky for a company to have a small portion of their assets financed by credit (debt). When the debt is small the burden of paying interest is lessened. Also, if the liabilities are financed to a greater degree by the stockholders, any losses would be absorbed by them before defaulting on a claim. There is one advantage however, to having debt in the capital structure. As long as the risk is not too great the debt can increase the return to the stockholder. This is known as financial leverage.

In the case of Highpoint Roofing decreasing the amount of debt in the capital structure would be an advantage. New and small businesses commonly have high debt and usually with time equity will increase. Being aware of the distribution of the financial structure is the first step in aligning it with the goals of the company. I would recommend Highpoint Roofing continue to keep a record of the capital structure and observe any changes. The goal is to decrease the debt while increasing the equity. If time does not automatically alleviate the problem, a more drastic measure should be taken. Possible solutions would be selling more stock in the company to pay for the debt or investing more revenues into the company rather than in other areas.

PROFITABILITY & OPERATING EFFICIENCY

Using its assets efficiently and creating cash flows and profits for the owners should be important to a Highpoint Roofing. The profit margin describes the company's capability to earn profits from sales. This is calculated as profit (income) over sales. This information is found on the income statement.

$$\text{Profit Margin} = \frac{\text{Profit}}{\text{Sales}} \qquad 0.07 = \frac{\$7,359.21}{\$102,534.27}$$

This can be interpreted as Highpoint Roofing earning 7% profit on every dollar made in sales. Although this is a function of the companies strategy and the nature of the business, this profit margin seems quite low. The reason for this is largely due to high expenses. Cutting costs and reducing expenses along with ideas for increasing profit will be discussed in a later section.

The total asset turnover is another important factor in evaluating operating efficiency. Total asset turnover depicts the ability of the company to use its assets to produce sales and is calculated by dividing sales by total assets. This information is found on the income statement and balance sheet.

$$\text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets}} \qquad 7.24 = \frac{\$102,534.27}{\$14,153.96}$$

The higher the total asset turnover the more efficiently the company is using its assets. A total asset turnover of 7.24 represents an efficient use of assets by Highpoint Roofing. One thing to be taken into consideration is the calculation involved the book value of the assets which is often not representative of the actual value of the assets.

Another efficiency ratio that combines the effects of the previous two is the return on total assets employed. This can be calculated with information found on both the income statement and the balance sheet. There are two ways to calculate the ratio. The first is simply the profit (income) divided by total assets.

$$\textit{Return on Total Assets Employed} = \frac{\textit{Profit}}{\textit{Total Assets}} \qquad 0.51 = \frac{\$7{,}359.43}{\$14{,}153.96}$$

The second way to calculate the return on total assets employed illustrates the combination of the profit margin and the total asset turnover rate.

$$\textit{Return on Total Assets Employed} = \textit{Profit Margin} * \textit{Total Asset Turnover}$$

$$0.51 = 0.07 * 7.24$$

Both calculations represent a 51% return on total assets employed. Although, as stated before, these calculations are directly effected by the nature of the business, they also evaluate the performance of the management because the operating efficiency and therefore the profitability are responsibilities of the management.

Another ratio that stockholders would be most interested in knowing is the return on equity. This is calculated by dividing profit (income) by equity, found on the income statement and balance sheet respectively.

$$\textit{Return on Equity} = \frac{\textit{Profit}}{\textit{Total Stockholders Equity}} \qquad 1.00 = \frac{\$7{,}359.21}{\$7{,}359.21}$$

Not surprisingly there is a 100% return on equity. This is because Highpoint Roofing is in the first year of operation and achieved only a small profit. All profits were directly converted into equity to provide a profit to the stockholders. As the years go on Highpoint Roofing will increase their equity and the return will decrease to a smaller percentage while still returning the stockholders a profit.

CUTTING COSTS

Highpoint Roofing would like to see a greater return on their investment. During their first year in business they were required to invest most of their profits back into the company, especially into equipment and organizational costs. The owners found difficulty in fully understanding the ramifications of their spending within the first unpredictable year. There are expectations that looking back at the financial records of the first year there will be areas to cut costs.

The first step in cutting costs is to determine what the money is spent on. Whatever is being purchased should add value to the company. If there is no value added it can be considered a wasteful use of funds and should be eliminated in the future. Next, how the money is spent will be explored. This includes evaluating who has authority to authorize the spending of money and appropriate checks and balances of the system. Also, whether the timing of purchases and paying of bills is in line to receive the most benefits and least penalties. Thirdly, where the money is spent is a critical key in cutting costs. A comparison of prices offered by various vendors should be available to the purchasing agents of the company. Any possible discounts for contractors should be known and utilized. This will allow for the most economical spending on supplies.

WHAT IS THE MONEY SPENT ON?

According to the income statement for 1994, the majority of the money earned by Highpoint Roofing was spent on wages, followed by travel, supplies and payroll taxes. All of these things are necessary to run the business however, I would recommend further examination of the travel and supplies expenditures. Because both of these

categories are broad in what they include, it may be possible to cut costs in these areas if the specific expenses were researched. I would also recommend creating a policy of checking your records against the accountants as a follow-up to insure the accuracy of the expenses being allocated to the correct accounts.

HOW IS THE MONEY SPENT?

The current method utilized by Highpoint Roofing to pay their expenses only allows two of the owners to authorize checks and make purchases. The controls of the system are in place but could be strengthened. I would recommend a control system between those two owners and the accountant that would enforce a more thorough system of checks and balances.

A control system promotes efficient operations; protects from fraud, waste or theft; and ensures accurate and reliable accounting data is produced. Some examples of good control practices are explained below. Specifically within the accounting system, the person who is responsible for purchasing items should not maintain the accounting record for that asset. Responsibilities for related transactions should be divided between people so the work of one acts a check for the other. Standard procedures must be followed; exceptions only allow for confusion or error. Computerized systems tend to reduce error in processing information and add efficiency because information can be accessed so easily.

One area of concern that is evident with Highpoint Roofing is the timing of their purchases and payment of bills. There appears to be no reasonable method of planning for large purchases or paying large tax payments. These types of expenditures need to

be coordinated to ensure an unnecessary debt is not incurred. Interest on unfounded loans and back taxes are an extreme wast of funds. This tends to occur at Highpoint Roofing and accounts for much of the area in which costs can be cut.

I would recommend that the amount of money available be checked each time before making large purchases. Only after that information is known should a decision be made on the urgency of the purchase. Also, monthly or quarterly bills should be planned for and known by anyone responsible for additional purchases. If possible an emergency fund should be kept in case of unexpected costs. Lastly, an extremely important policy that Highpoint Roofing needs to address is to check that the person responsible for paying the taxes is never late in doing so. The interest rates on taxes alone could cause a business to fail. These simple precautions can save Highpoint Roofing an extreme amount of money, and should be regarded as the most important recommendations.

Although the above issues may seem simple, they must not be overlooked. A possible solution to confronting these issues is holding a standard planning and reviewing meeting that should be scheduled at least monthly. All those responsible for revenues, expenditures, or the records there of should attend and be informed of proper policies and the current issues of Highpoint Roofing. This creates a control for unsubstantiated purchases or payments and could help Highpoint Roofing promote planning rather than reacting. An atmosphere of team-work can also be established.

WHERE IS THE MONEY SPENT?

The vendors Highpoint Roofing chooses to make purchases from is important in building a healthy business. Vendors can be chosen for a number of reasons such as: price, convenience, reliability, service, or promotion. Highpoint Roofing needs to prioritize these reasons in order to establish a policy when choosing their vendors.

Because cutting costs is a high priority of Highpoint Roofing, the price of the items purchased by the company is assumed to be the main deciding factor in choosing vendors. A price comparison of possible vendors is shown in the following two tables. It is recommended these tables be used by the purchasing agent of the company when purchasing supplies and equipment.

The table of supplies lists three vendors Highpoint Roofing commonly uses to purchase supplies from. The price offered by each vendor for the supply is listed and the lowest price is bolded. Overall, Anderson Lumber has the lowest total cost for all the supplies. However on an individual item basis Home Depot has most of the lowest priced items. I recommend generally purchasing most items from Home Depot, except the ladder and 100 ft. cord which should be purchased from Anderson Lumber. True Value does not seem to be a good choice when purchasing supplies. It should also be noted, each of the three vendors listed offer a 10% discount to general contractors and sub-contractors.

Table of Supplies

Supply/ Vendor	ANDERSON LUMBER	TRUE VALUE	HOME DEPOT
Aluminum Square	$9.99	$9.99	**$9.97**
100 ft. Cord	**$34.99**	$37.99	$54.97
50 ft. Cord	$19.99	$20.99	**$19.90**
25 ft. Cord	$12.99	$16.99	**$10.90**
Broom	$24.99	$25.99	**$16.47**
Snow Shovel	**$10.99**	$19.99	$19.76
Work Belt	$44.96	**$36.96**	$37.60
Hammer	$27.99	$37.39	**$27.73**
12 1/2" Snipes	$19.99	**$16.59**	$16.94
Knife	$5.99	$7.29	**$2.94**
3202 Gun Oil	***$3.50**	none	none
Duct Tape	$2.99	$2.99	**$2.98**
Knife Blades	$16.99	$15.99	**$14.96**
Tape Measure	$13.99	**$9.99**	$12.95
50 ft. Chalk Lines	$7.99	**$4.99**	$10.72
8 oz. Chalk	$6.99	$1.89	**$1.24**
Trowel	$12.99	**$3.09**	$6.20
TOTAL	$274.81	$269.11	**$266.23**
Ladder	**(24') $109.99**	(28') $159.99	(24') $139.00
GRAND TOTAL	**$388.30**	$429.10	$405.23

*To make an accurate comparison this price is not included in the total because it is not available at all three stores.

The table of equipment lists four vendors Highpoint Roofing could use to purchase their equipment. As the table indicates there is not one place to purchase all of the equipment to get the best overall price. I recommend purchasing the equipment separately in the following way: the RN451 nailgun from Harington's of S.L.C., the compressor from Mountain Fastener, and the rapid stapler from Air-O-Fastener. Purchasing these items from different vendors does not present a problem because these items are not frequent purchases and it is not necessary to purchase them from the same vendor or even at the same time.

Table of Equipment

Equipment/ Vendor	**ANDERSON LUMBER**	**AIR-O-FASTNER**	**MOUNTAIN FASTNER**	**HARINGTON'S OF S.L.C.**
RN451 Nailgun	$429.99	$475.99	$429.00	**$390.99**
Compressor	none	$640.00	**$620.00**	$540.00
Rapid Stapler	none	**$45.00**	$50.00	none

Not only are the vendors important in making a financial business decision they can also affect the reputation of Highpoint Roofing. Often in the construction industry, the quality of the company is determined by its supplier. I recommend always keeping a standard of high quality and only associating with suppliers who also have a high standard of quality.

The associations made between businesses can also help generate increased business and cut costs. Two associations that could benefit Highpoint Roofing are the Northern Utah Home Builders Association or the Ogden Area Chamber of Commerce.

Some benefits provided by both of these organizations are: networking opportunities with associated businesses, health insurance benefits available at a lower cost, workers compensation savings program, discounts for services such as cellular phones, tournaments and activities for relaxation and networking, and inclusion in an annual directory of members that is distributed to other members and businesses in the community. Both of these associations require a membership fee (Home Builders $275, Chamber of Commerce $250) and recommend attending monthly meetings to receive all the advantages of the services they provide. For further information about these associations you can call Northern Utah Home Builders Association (801) 479-5230 or Ogden Area Chamber of Commerce at (801) 621-8300.

EXPANSION

There are several areas in which Highpoint Roofing could expand its business. The possibilities include hiring more employees, buying additional equipment, purchasing additional vehicles, and renting or owning an office/warehouse. Although each option seems viable there are many determinates that must be examined before choosing to expand a business.

To begin with it is assumed that Highpoint Roofing would eventually like to pursue achieving all of the above mentioned goals for expansion. When planning to expand there must be a direction to follow. A logical approach, for a new company with scarce funds and a lot to loose, is to expand in the least expensive and least risky way possible. Hiring new employees, in itself, fits this description. However, the decision to expand entails more than just deciding to hire more employees. Hiring more employees will cause a domino effect related to the other goals and the company must be prepared to follow through with the entire expansion plan to be successful. Therefore, expansion should be planned carefully and have detailed goals and a timeline to follow.

A possible expansion plan could begin by hiring new employees and then purchasing new equipment for those employees. A training period will follow in which a new crew(s) should be created. Next, a purchase or lease of an additional vehicle(s) for the new crew(s) should be considered. Finally, once the company can afford and fully facilitate it, rent or own a warehouse.

The expansion plan has been proposed in an overly simplistic manor, however the idea is to plan ahead and realize once the expansion begins it will lead to further expansion. It is difficult to talk about one mode of expansion without discussing them all. However, it is important to at least discuss in further detail the beginning procedures Highpoint Roofing can use to expand.

Hiring new employees is recommended as the beginning step. Actually hiring a new employee is accomplished by following the staffing process. The staffing process begins with the company deciding to fill a position and then announcing the position. This could be done through word of mouth, the newspaper, job service, or posting and announcement in specific areas (ie. the job board of a local school). Selection activities such as interviewing and/or testing are the next step in evaluating a possible new hire. The results from these evaluations are used in making a decision about which applicants to reject and which to offer a job. The final step is making the actual job offer and terms of employment and the applicants acceptance thereof.

I recommend Highpoint Roofing know and have a written document of the specific duties of the position that is available in order to better know the qualifications necessary for an applicant and avoid creating a legal problem. Knowing the qualifications could help in preparing a list of specific questions to ask in an interview or to include in a test. Also, for legal reasons, the person applying for the position should only be evaluated on having the ability to perform specific duties the position requires and possessing the characteristics necessary to perform in the position, and not be

evaluated on anything else (ie. gender, race etc). This is to prevent any sort of discrimination and possible legal action.

Another angle to look at when recruiting, is from the position of the applicant. Because good employees can create a successful business environment it is important to hire the best applicants. In order to do this the employer must be aware of the competition in their market for hiring. What types of benefits do other companies offer their employees. I recommend Highpoint Roofing create a benefit program to make available to their employees. It will not only help in recruiting but also in retention of employees.

A possible benefit program could include health insurance, disability insurance (because of the nature of the job), life insurance, dental insurance, holiday or vacation pay and leave, sick leave, internal promotions, scheduled pay increases based on performance, and many other benefits. Within Highpoint Roofing a benefit program can be developed that appeals to the employees and is agreeable with the management.

The staffing process is only the first step in the expansion of Highpoint Roofing and appropriate processes have been explained in detail. Highpoint Roofing should be meticulous in exploring an entire expansion plan and creating a timeline and specific goals that fit into the mission of the business. Another perspective to the expansion decision is, does it fit within the budget. This question will be addressed the following section.

BUDGET

A budget has been created based on the percentages generated in the 1994 income statement. It is always important for a business to have and follow a budget. A budget planned in advance can be the key point in decision making. Referring to the budget can help answer questions about whether the company has the money to spend in various accounts. If followed closely the budget can be an accurate guide and predictor of the actual dollar amounts that can be expected by the end of the year.

This budget does not include dollar amounts because of the period differences being compared. The beginning year in business was not a full twelve month year and the budget is allowing for an entire twelve months. Also, the first year in business is too unstable to predict exact future revenues and expenditures. Therefore, the budget created is based on percentages which can be used to compare the first and second years in business.

Budget

Expense Account	Percentage Used 1994	Percentage Allotted 1995
Supplies	5.2%	6.0%
Liability Insurance	0.9%	1.5%
Bank Charges	0.2%	0.1%
Depreciation	1.2%	1.0%
Entertainment/Promotion	0.5%	0.5%
Interest Expense	0.4%	0.7%
Legal & Accounting	1.9%	1.0%
Licenses	0.2%	0.0%
Travel	8.7%	7.0%
Miscellaneous	0.3%	0.1%
Office Expenses	0.4%	1.0%
Postage	0.0%	0.1%
Taxes-Payroll	5.2%	4.0%
Telephone	1.2%	2.0%
Wages	66.4%	67.0%
Profit	7.2%	3.0%
Expansion	N/A	5.0%
TOTAL	**100.0%**	**100.0%**

The budgeted percentages are a subjective look at what Highpoint Roofing can allow in expenses during 1995. For the most part the percentages are similar to what was used in 1994. However, the following comments are to explain some of the changes made. There has been a 5% expansion allowed which should be used towards the goals discussed in the expansion section. The profit has been lowered from 7% to 3% so Highpoint Roofing can invest more money back into the company and pay less in income taxes. Liability insurance has been increased because there were some problems during the 1994 year in allocating enough money in that area. The percentage allocated for legal and accounting has been reduced because the legal expenses associated with starting the business should only occur in the first year in business. The same is true for licenses. Travel should be reduced because that expense has been transferred to usage of company vehicles instead of paying employees to use their personal vehicles. There has been a reduction in payroll taxes because back interest on late payments should no longer occur and thus less money is used.

Highpoint Roofing should consider the continued use of a budget a strong recommendation. However, in the future it will be possible for Highpoint Roofing to predict the annual growth, based on the market growth, and budget with actual dollar amounts. Another recommendation in using a budget system is referring back to the budget often to make sure it is being followed and being updated if the original estimates were too low or too high. A budget can be a very useful tool if prepared correctly and utilized.

RECOMMENDATIONS

- ✔ Keep track of the average days' sales uncollected to determine how many days on average it takes to collect on a credit sale. Set a due date for all credit sales based on this information and offer a discount for early payments. Keeping track of the accounts receivable is necessary to accomplish this.

- ✔ Reduce the amount of debt in the capital structure by increasing the amount of equity. Continue to keep a record of the capital structure and observe any changes.

- ✔ Only purchase items that add value to Highpoint Roofing.

- ✔ Refer to the table of supplies and table of equipment when making purchasing decisions.

- ✔ Know and utilize discounts offered to sub-contractors when purchasing supplies or equipment.

- ✔ Examine further the travel and supplies expenditures looking for specific expenses that could be cut.

- ✔ Check revenue and expense records with the accountant to insure the accuracy of the work being done.

- ✔ Create a control system when purchasing items that involves a system of checks and balances.

- ✔ Know the amount of money available for spending before making each large purchase. This will insure that an unnecessary debt is not incurred.

- ✔ Plan for monthly or quarterly bills and expenses and allocate money for such purposes. If possible keep an emergency fund for unexpected costs.

- ✔ Always pay taxes on time.

- ✔ Hold a monthly planing and reviewing meeting.

- ✔ Create a policy for choosing vendors according to the priorities Highpoint Roofing holds.

- ✔ Maintain a high standard of quality and associate with suppliers who also maintain a high standard of quality.

- ✔ Examine the possibility of joining either Northern Utah Home Builders Association or the Ogden Area Chamber of Commerce.

- ✔ Develop a complete expansion plan that includes setting specific goals and following a timeline.

- ✔ Write a document of the specific duties for all positions available before Highpoint Roofing does any hiring. This is could help in finding a qualified applicant and avoid any legal problems.

- ✔ Establish a benefit program to make available to the employees for recruiting and retaining purposes.

- ✔ Continue to use a budget. For the following years the budget should contain actual dollar amounts and can be updated with new and accurate information.