

Opening the books is paying dividends for Sun Design

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By Thomas Heath

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Quoted: Craig Durosko and Bob Gallagher, Sun Design, Metro DC NARI

The partners at the Fairfax-based remodeling firm Sun Design had never seen an economy like the one they were facing in December 2008. The Great Recession was pounding their business, cutting revenue from a peak of \$8.7 million in 2007 to \$8.1 million for 2008. The slide was headed toward \$6 million in 2009.

Profit margins, usually at a decent 6 percent, were shrinking. Cash was getting tight. Customers were putting off work on bathrooms, kitchens and other remodeling jobs that are Sun's bread and butter. **Owners Craig Durosko and Bob Gallagher convened the company's 10-member board of advisers, an internal group of employees that helps strategize.**

"We had to cut \$730,000 out of overhead," said Gallagher, who runs the finance end of Sun Design and owns 25 percent of the company. "So we started focusing on how we can do certain things differently." Sun survived, and revenue is headed toward \$8 million this year. I already have written about a couple of home contractors and remodeling companies this year, but Sun had me when they started talking about "employee huddles" and "open-book" management.

I was intrigued. Small partnerships such as Sun are not generally democracies.

Open-book management espouses sharing financial and decision-making duties among all employees. Its big booster is businessman Jack Stack, author of "A Stake in the Outcome" and "The Great Game of Business." Stack is a business strategist and founder of SRC Holdings, a holding company that does everything from consulting to packaging to building high-performance engines. Inc. Magazine calls him "The Father of Open-Book Management."

Durosko and Gallagher swear by Stack's open book, employing huddles to discuss the company's financial decisions and to seek ideas on how to run it better.

"Since we opened up the financial books in the huddle, we have seen employees more engaged and asking better questions about financials and how they can impact the company," Durosko said. "They have a stake in the outcome." In return, the employees share in the profits if they reach certain targets. Incentives range from a few hours' pay to two weeks' worth.

When they met in December 2008, the group crunched revenue and profit numbers to get the clearest picture of what might lie ahead. When one budget was too rosy, they threw it out and started over. They laid out a 60-day forecast that detailed every dime of revenue - another page from Stack.

Sun discovered it was time to restructure the business.

Pay increases were suspended. The IRA match was eliminated. Repairs and maintenance, from painting to copy machines, were put on hold. Employee laptops were replaced less frequently. Even the huddles were downsized, going from quarterly meetings with free lunches at restaurants to monthly gatherings at community centers with doughnuts and coffee.

"We wanted to increase the exchange of information at a scary time," said Durosko, who kept the company's financial assistance to employee health care. "So we did it more frequently at less cost." They kept the marketing budget around 4 percent of revenue to keep business coming in. But they spent more smartly, switching advertising from industry magazines to direct mail. Saturday seminars and open

houses were held to get face time with customers. One staffer was sent back to the field from the main office, reducing overhead.

Sun laid off three administrative staffers in the main office and four carpenters in the field. There are now 45 staffers, including some recent hires. Durosko and Gallagher, both 40, are breathing a bit easier. The company, which relies on high-end, home renovations in the \$170,000 range, is looking to eke out a small profit.

Their survival is due, in part, to Durosko's experiences from the early 1990s, when less disciplined competitors, seeking growth at any cost, borrowed heavily. When the recession hit, many went off a cliff. "I got in this company when I was 18 and in the early 90s, watched a lot of good companies go out of business," said Durosko. "We developed a real respect for cash. Cash is king."

The owners (Durosko owns 75 percent, Gallagher 25 percent) fund expansion through profits. They have resisted big capital outlays, preferring to keep a tight rein on debt. For example, they lease 4,700 square feet of office and warehouse space in a low-industrial corner of Burke. He and Gallagher knew each other as kids. They went to Robinson Secondary School together, spending summers and weekends building fences, patios and brickwork for neighbors and friends. After graduating in 1988, Durosko studied design and architecture at Northern Virginia Community College. Gallagher headed for the West Virginia University to study finance.

Durosko decided in January 1988 to formalize his handyman business, registering with Fairfax County as a licensed contractor under the name Sun Design, inspired by his skill at building sunrooms and decks, as well other remodeling projects.

He found a couple of employees through referrals and friends. After working at a client's house, he would make appointments in the evening before jumping into his Chevy pickup for late-night drives stuffing fliers in doors and mailboxes. The old friends were having a beer at T.T. Reynolds bar around 1993, discussing their careers. Gallagher was helping small businesses get Small Business Administration loans. Durosko was working seven days a week at his nascent home-improvement business "and getting burned out." They decided to team up, with Gallagher taking over accounting duties.

Teaming their talents worked. Revenues rose from \$300,000 in 1993 to over \$600,000 in 1994 and kept going, to \$8.7 million in 2007. Head count also rose, doubling from 15 to 30 in one year. Sun employees were encouraged to sniff out talented new hires, receiving bonuses that could reach several hundred dollars. Durosko and Gallagher frequently attend seminars in Springfield, Mo., held by Stack, whose business career they admire.

The entrepreneurs are mulling their next opportunity. Durosko recently stepped down from day-to-day operations, allowing Gallagher to run the company while they consider their next business move.

"I am looking at this long-term," said Durosko, who has some commercial real estate investments in Warrenton, Va., with his wife. "I am only 40. It's important for us to grow and create companies that will outlive me."