

Animal House

FSB helps a frazzled North Carolina couple nail down their home-construction business.

RUSS SINACORI STEERS HIS WIFE'S Nissan with his knees, freeing one hand for his cellphone and the other for gesticulations. Russ has a million things to do and no time to do them. Not for the first time, he wonders whether an Italian-American guy from upstate New York can really make it in North Carolina construction.

Sinacori was once a successful small contractor in Rochester, N.Y. But three years ago the sagging economy there prompted Russ and his wife, Gina, to pull up stakes and move to booming Charlotte, where they co-founded National Preferred Contractors, a remodeling and homebuilding firm.

The Sinacoris, both 42, were careful and deliberate in their approach to the new market. Russ passed local licensing exams, took out expensive ads in the yellow pages, and developed a reputation among insurance companies for doing quality repair work. Gina boned up on QuickBooks, payroll, and taxes. Despite Russ's decidedly un-Southern style, the business has grown steadily. National Preferred is taking on bigger jobs: Russ is building a \$400,000 spec house outside Charlotte and holds options on land that will let him build 21 more. The company expects its 2004 revenues to hit \$2.4 million, a fourfold increase over 2003.

Yet the Sinacoris feel that their business is dangerously out of control. A year ago Russ acquired a struggling masonry company with 20 employees. He recently bought a small electrical contractor. The acquisitions were supposed to help cut project costs. Instead, some early masonry jobs were moneylosers that Russ felt honor-bound to complete. Even worse, the masonry and electrical companies have added enormous complexity and stress to the business. There's a \$22,000 total weekly payroll to meet, workers and materials to schedule, equipment to rent, new work to find. And the lines of credit they need to keep things running smoothly are proving elusive.

By Brian O'Reilly CHARLOTTE
Photographs by Jeffrey McCullough

a makeover. We enlisted three business experts to help the Sinacoris get their house in order. Rich Russakoff, president of Bottom Line Consultants in Richmond, is an expert on finance for small business. For advice on navigating the local building industry, we enlisted developer John D. Scott of Smith Scott & Associates in Charlotte. And from Albuquerque came Management Technologies president Lanny Goodman, a business coach who helps overworked entrepreneurs get a life.

Russakoff is first to arrive at the National Preferred office, one of dozens in a nondescript, two-story building on the southern outskirts of Charlotte. After he and the Sinacoris squeeze in around a small, Formica-topped desk near the office microwave, Russakoff gets right to the point by explaining how National Preferred can improve its credit rating.

The first step is to make the company look better on paper. "Let me show you a vision," Russakoff says, drawing a pyramid-shaped chart with one box on the top line and three boxes on the line below. Instead of presenting banks with the financials for the three existing companies—contracting, masonry, electrical—Russ and Gina should create a holding company with simpler, more streamlined records.

"You're the CEO—you handle finance and administrative service," Russakoff says, tapping the top box. "The three companies pay the top box for services. That box is more likely to show profits to the bank."

Gina is delighted. "It's so hard to keep bank accounts for the three corporations!" she says.

Russ and Gina also make the common mistake of listing financial data alphabetically, instead of grouping related income and expense items together so that owners—and bankers—can grasp their importance. "Advertising up here, meals down here, phone down there, travel at the bottom," Russakoff says, dismayed.

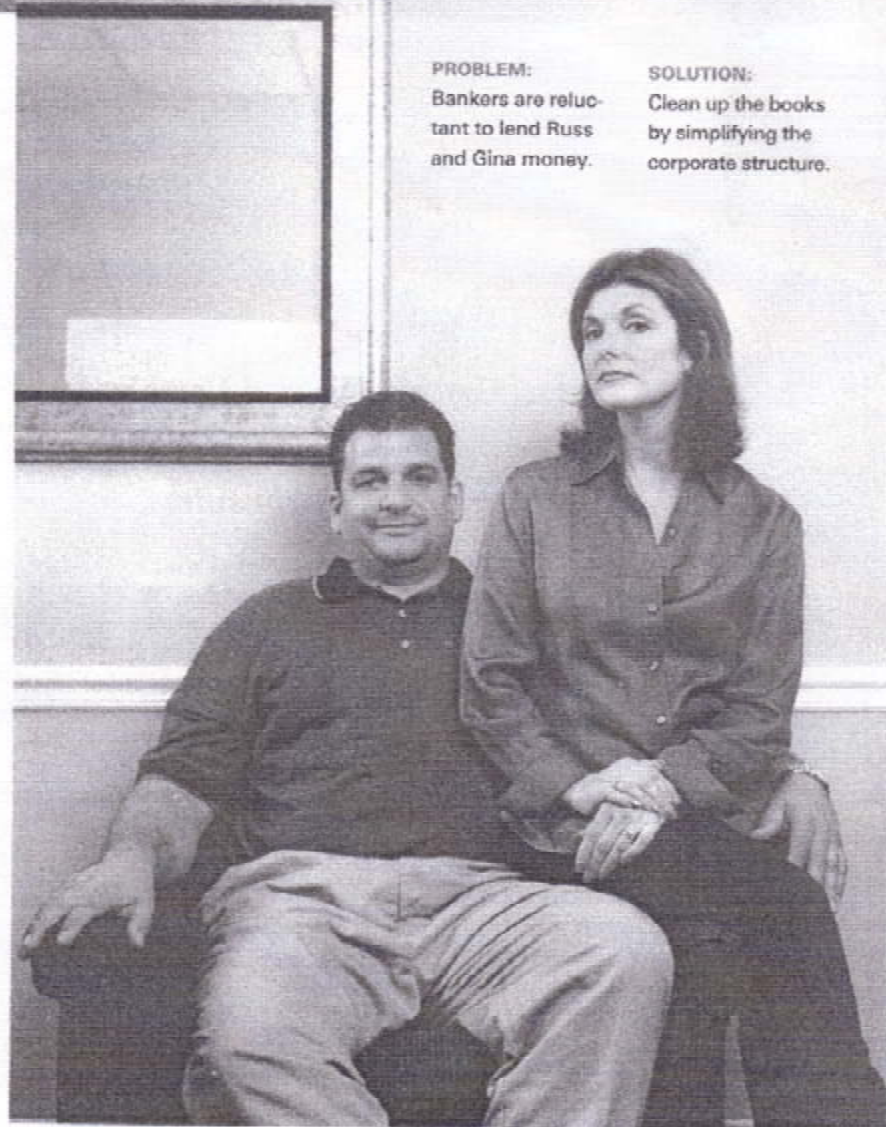
On last year's financial statement, Russakoff spots a loan to the money-losing masonry company. "Where's that from?" he asks. "You?" Russ explains that their construction company lent the masonry company \$90,000 to shore it up. Bad move—the way they've booked it gives their whole operation a black eye. "Pull it out," Russakoff snaps. "Say this is income of National Preferred that was put back into the business. It should be listed on the balance sheet, not as an expense."

Gina complains that QuickBooks won't allow that. Russakoff sympathizes. "That's one of my gripes about QuickBooks." (Intuit's QuickBooks application is an entry-level accounting system: Small businesses with complex needs, such as customization and multiple-user support, will probably require a more sophisticated solution—for example, Intuit's QuickBooks Enterprise Solutions, Microsoft's Great Plains application, Netsuite, or SAP's Business One.)

Having magically transformed the loan into revenue, Russakoff recalculates National Preferred's earnings. The company's 2003 profits suddenly leap from \$5,000 to \$95,000. "On \$615,000 revenues, that's 15% to the bottom line," he concludes happily. "That gets bankers excited!"

"I think you're four months away from turning the corner," he says. The key steps are to finish the house Russ is building, set up the holding company, and recast the loan to the masonry subsidiary. Only then should the Sinacoris seek additional credit. "Always go to bankers when the sun is shining," he concludes.

Next up to the plate is local builder John Scott, a dignified older man whose demeanor evokes Gregory Peck in *To Kill a Mockingbird*. Russ and Scott have



PROBLEM:

Bankers are reluctant to lend Russ and Gina money.

SOLUTION:

Clean up the books by simplifying the corporate structure.

years. When Russ wonders how an outsider like him can fit into Southern society, Smith has one word for him: seersucker. "Wear a seersucker suit, but nevu, sir, after Labor Day," he says in a foghorn drawl.

Russ delivers a fast-paced summary of his business. Scott pauses to think. "Too many irons in the fire," he says finally. He advises Russ to hire some good managers and sell the money-losing masonry business, which has been a drain on the entire company. Russ would do better to farm

replacing them with bigger ones. "Don't do so much you can't get your arms around it," he says.

One reason Gina Sinacori asked FSB for a makeover was that she felt work was overwhelming her family life. So when Lanny Goodman arrives, all her frustrations tumble out. "I want to know when it's time to go home," she declares.

Goodman looks the part of a guru: He's 6-foot-7 and solemn as a priest, wearing rimless glasses and a braided ponytail that hangs halfway down his back. He once worked 70 hours a week as the owner of a jewelry company in San Diego. Now he helps entrepreneurs who "built a great balance sheet but got lost." The first step to balancing work and life, he tells Russ and Gina, is to visualize the good life. "If you haven't defined the life you want, it's hard to get there," he says.

The next step is to figure out how your business can help you get that life. "Imagine

If you got where you are by putting out fires, it is hard to shift into a more strategic role.

agreed to meet at Scott's office in a small house decorated with elegant furniture. Scott's first piece of advice is not entirely serious, though suited to the upscale ambiance. Charlotte has seen an influx of builders from the Northeast in recent

the masonry work out to a few trusted subcontractors. And instead of pioneering new developments, Scott suggests a more conservative strategy of "infill" development: buying houses in established neighborhoods, tearing them down, and

PROBLEM:

The masonry business is a drag on the entire company.

SOLUTION:

Consider selling it and subcontracting out the masonry work.

you're on your deathbed, looking back over your life," Goodman says. "How do you want to invest the days you have left?"

Russ and Gina glance at each other. Then they start talking. Childhood vows are recalled, vacations are plotted, financial goals are clarified. Russ wishes he had a boat to take Gina and their three children exploring around the lakes north of Charlotte. Gina wants a big, comfortable house where she can entertain future grandchildren.

"Sometimes you have to work *on* the business, not just *in* the business," Goodman declares. Like John Scott before him, he sees Russ and Gina spreading themselves too thin and suggests that they consider selling off one or more subsidiaries.

Russ should also hire competent managers for each unit. Each manager should be able to read financials, generate business, and think strategically. Goodman advises Russ to hire one or two managers now. He can add more as the business expands. "You're looking at a payroll of \$1 million a year, including your salary," he says calmly. "You'll need revenues of \$10 million." When the Sinacoris gulp, Goodman reassures them. "However intimidating this might seem, you'll be on cruise control once you have a team in place, with you serving as coach and facilitator."

Goodman acknowledges that it won't

be quick or easy for the Sinacoris to expand their business to the point where it can operate on cruise control. The key to successful growth, he says, lies in motivating the unit managers. Their compensation should be linked to the success of their units and the company's overall profits. Each manager should set his salary, based on what the unit earned last year and what the unit is likely to make next year, subject to the approval of his peers and Russ. That will motivate the manager to set ambitious goals for his unit. But any manager whose greed threatens the company will be slapped down by his colleagues.

Russ and Gina's roles will change, Goodman warns, and the adjustment may be difficult. "As boss, your job will be much more abstract," he tells Russ. "If you got where you are by being a reactive firefighter, it's hard to shift to being strategic. And as you hire more people, you have to give away power to them."

"I'm fine with that!" Gina says eagerly. So, it seems, is Russ. "I don't want to be the fireman anymore," he says gruffly. "I'm ready to be the boss."

Is he really? Can Russ and Gina get a life? Two weeks after their makeover, Russ reported that he's planning to hire a new comptroller to take some of the burden off Gina. He's already moved some existing employees into management roles so that he can focus on prospecting for new business. "I had to do something," he said. "It was killing me." □

For web links to the experts and others in this story and to give feedback, see fsb.com.

The Experts

RUSS AND GINA SINACORI run a successful contracting business, but they also want their lives back. So *FSB* enlisted three experts to help them delegate authority, clean up their books, and make the business more appealing to bankers.

LANNY GOODMAN, a business coach from Albuquerque who helps small-business owners balance work and life, suggested that Russ and Gina hire professional managers who would compete to grow their divisions.



RICH RUSSAKOFF, president of Bottom Line Consulting in Richmond, is an expert on accounting for small businesses. He suggested a different corporate structure and ways for the Sinacoris to improve their financial reporting.



JOHN SCOTT runs Smith Scott & Associates, a real estate development firm in Charlotte. He advised the Sinacoris to dump their money-losing masonry business in favor of a few reliable subcontractors. He also suggested that they focus on "infill" building in established neighborhoods rather than pioneering new developments.

