

## Pillsbury United Communities



**PROFILE:  
TONY WAGNER**

Tony Wagner grew up in north Minneapolis as a client of the agency he has led for the past 25 years. He is currently President of Pillsbury's national trade association, United Neighborhood Centers of America; is a director of the International Federation of Settlements and Neighborhood Centers; and served two terms as President of the Minneapolis United Way Council of Agency Executives. He has written extensively about nonprofit management, board development and community issues, has received a number of local and national awards, and is a frequent lecturer and consultant throughout the country. Wagner received his undergraduate and Master's degrees from the University of Minnesota, served in Vietnam as a 1st Lieutenant, did post-graduate study in the University's social work doctoral program and has been an assistant professor at Augsburg College for several years. He and his wife Marie have two grown children.

### “WE RAN OUT OF CASH . . . ”

“It was probably the darkest day of my career . . . ”

Tony Wagner still cringes. “I'd gotten into this ‘I can't fail' routine,” he says. “I kept saying, ‘Give me one more month and I'll make it work.’ And I remember the Board meeting very clearly when two guys I respect very highly looked me right in the eye and said, ‘Tony, it's over.’

“It wasn't until that point that I faced reality. As an entrepreneur, sometimes you just can't admit defeat. But I learned a valuable lesson. You need to have people outside you who aren't as passionate or emotionally involved who can ask the hard questions and say the things that need to be said.”

But this is a success story, not a nightmare.

And the story begins in the mid-1990s.

Pillsbury United Communities has its roots in the settlement house movement and is one of the largest nonprofits in Minneapolis/St. Paul, with an annual operating budget of \$13 million, 200 full-time employees and community centers in six neighborhoods. Each year, more than 26,000 people pass through its doors, taking advantage of 25 social service programs and a full calendar of arts and cultural activities. In January of 2001, Pillsbury received the Gold Achievement Award for quality from the Minnesota Council for Quality, the first nonprofit to receive the award, which is based on the Malcolm Baldrige criteria for business excellence.

Wagner has been Executive Director since 1976 and in 1999 began serving a three-year term as Chairman of the Board of Directors for Pillsbury's national trade association, United Neighborhood Centers of America.

### THE DAWN OF ENTREPRENEURSHIP

In the mid-1990s, Wagner went to Pillsbury's Board members and “basically told them we needed to get more involved in economic development if we were going to be serious about serving the poor.”

He and his staff sifted through a pile of business ideas – and three of them looked promising: A manufacturing center, a temporary staffing business and a snow removal/landscaping business.

So Pillsbury started all three of them . . .

“It was a mistake,” admits Wagner today. “Starting one was hard enough. Our managers wound up running around doing too many different things and didn’t focus enough on any of them.”

Ultimately, however, it wasn’t management that failed.

All three businesses took off, and Pillsbury had a very clear set of objectives. “Our theory,” says Wagner, “was that we would start people in either the manufacturing center or the landscape business. If they worked out, we would move them along to the temporary staffing agency to get them some experience out in the market, in real jobs – and ideally they would be picked up as permanent employees. That was the continuum we were trying to institute.”

By 1999, there were approximately 100 people employed each day by the temporary staffing unit, about 150 in the manufacturing center and 30 in the landscaping business. “We were going great guns,” says Wagner.

But . . .

## DISASTER

“What happened,” he says ruefully, “is that we grew too fast and began to out-run our cash. It was a goin’ machine, but our payroll began to climb . . . and that was the problem, because our customers usually didn’t pay us until about 45 days after we did the work.”

The three businesses needed to have enough cash on hand to cover at least six weeks of salaries for their employees. Pillsbury provided a line of credit for the first couple of years, but as the businesses grew, their collective payrolls climbed to more than \$30,000 a week, and Pillsbury reached its limit.

Wagner remembers “a mad scramble to try to get lines of credit with Foundations. But we just could not convince anybody that our need was appropriate and necessary – and we were shut out.

“So we ran out of cash.”

Fortunately, Pillsbury did find a Milwaukee company that specialized in factoring for temporary staffing agencies. TriCom agreed to purchase Pillsbury’s invoices at a five per cent discount and do the collections itself, which meant Pillsbury could cover its payroll immediately.

But TriCom had no interest in the other two companies.

So, in the middle of 1999, at that fateful Board meeting, Pillsbury shut down the manufacturing business and the landscaping business, putting nearly 200

## Tony Wagner talks about . . .

- The dangers of starting more than one business at a time
- The “social cost” of getting people ready for jobs . . . and helping them keep those jobs
- The difficulties of blending two types of managers— those who can get along with customers and those who can get along with employees
- The *advantages* of employing low-skilled laborers
- The importance of knowing where you are financially every day
- The impact of racism . . . and the importance of “interpreting” between cultures
- The levels of misunderstanding and mistrust encountered by Pillsbury in both the business and nonprofit communities
- The seductiveness of chucking the mission and just making money . . . and how Pillsbury’s Board resisted the lure

people out of work — and it took six months to survive the carnage.

“The good news,” says Wagner, “is that nobody sued us. The bad news is that five people threatened to do so. They were upset from two standpoints. Losing their jobs, sure. But there had also been a collective enthusiasm about our businesses. People really felt we were doing cutting edge and important work for the community, so this was more than a job loss. It was more like the loss of a movement. When the revolution goes sour, it’s very painful for those folks who’ve done more than their share along the way. It was a very emotional time.”

## **THE SURVIVOR**

The temporary staffing business – New U Temps – has a staff of nine and is led by Steven Oates, Pillsbury’s Executive Vice President, and operations manager Dawn Williams. The company serves customers throughout the Twin Cities and had annual sales during its most recent fiscal year of \$1.65 million, with a net profit of \$58,000. Its mission, quite simply, is to provide jobs for low-income inner city residents through a temp-to-permanent strategy, with a goal of placing 30 per cent of its employees in permanent jobs (at least 180 days of consecutive employment) in any given year. Employees earn an average of \$8.50 per hour, some as high as \$12 or \$15.

About 80 per cent of the employees are African-American, about 95 per cent are low income and many have spotty work records. Most are street people with chemical dependency problems who have poor education and language skills, and many of them are immigrants. “These are people who would be classified by anybody as the hard to employ,” says Wagner, and it leads to what he calls “the big unknown” about this type of business.

“We believe very strongly that permanent employment is the goal,” he says. “Everything has to lead to that.” But getting people ready for jobs – and helping them keep those jobs – is expensive. “We call it the ‘social cost’ of doing business,” says Wagner. “Our gross margins are about the same as they are for our for-profit competitors, but our staff-to-worker ratios are much higher. The industry standard is about one per 100 workers, but ours is about one to 25.”

That means the net margins for Pillsbury are far smaller than they are for its for-profit competitors . . . and there’s another practice that shaves the margins even further. “We don’t charge a fee for our permanent placements,” says Wagner. “We think that would be contrary to our basic values.”

## **CRITICAL SUCCESS FACTORS**

**Transportation** is always a problem when a temp business is moving people from their homes in the inner city to job sites in the suburbs, and Wagner says there are at least seven other factors that have an impact on his company’s success.

**Trust:** “The most important thing,” he says, “is knowing the people we’re hiring. We know them and we have access to them. They trust us. And in temporary work one of the biggest problems is finding people. We’ve never had that problem.”

**Cultural differences:** “You really need two distinct kinds of people to make this type of business work,” says

Wagner. “It’s equally important to have people who can get along with employers and people who can get along with the kinds of people we employ — and those skills are rarely found in the same person. It becomes one of the central features of management to find people with each of those skills and make them work together, and I think we didn’t understand that fully in the beginning. We tended to err on one side of the equation or the other instead of always having a balance — and the balance is critical.”

**Speed:** “You have to be able to move on a dime,” says Wagner. “When employers need someone, they need someone now. It’s always surprising to me how many employers don’t really plan ahead, but they’ll suddenly call and say ‘We need 15 people tomorrow morning,’ and you’ve gotta say yes, then find and deliver 15 people who are reasonably awake and aware.”



**NEW U TEMPS:** More than 70 people work for the temporary staffing business operated by Pillsbury United Communities in Minneapolis and St. Paul.

**A niche mentality:** New U Temps specializes in low-skilled labor. “We pack a lot of frozen fish,” laughs Wagner. “At one point we were handling a job for the largest manufacturer of lutefisk in the world — and we had 40 Somalis packing lutefisk! They had no idea what they were packing or any appreciation for it.” But because most of the work is done by low-skilled laborers, Pillsbury has a competitive advantage. “Most of the major temporary staffing companies don’t have the ability to find low-skilled people,” says Wagner. “We’re almost living in two different worlds. So we’ve had some contracts with a couple of major staffing firms to find people for them. It can be a good alliance, but it depends greatly on the sensibility and sensitivity of the person you’re working with.”

**Just-in-time financials:** It became apparent to Wagner early on that his training as a nonprofit manager didn’t prepare him for the realities of running a business. “We learned that you’ve just got to have somebody involved who has an absolutely brutal discipline about the financial end of the business,” he says. “You have to know where you are financially every day — and we flat out missed that until we were too far down the road. We’re just starting to pick up on it now. I’ve been a nonprofit manager for years, but there’d never been a time when I needed daily financial information. I wasn’t used to it, nor was anybody else.” In a larger sense, Wagner suggests that any nonprofit entrepreneur “make sure your business is as fully capitalized as possible up front . . . and give yourselves at least three years to reach break even. Then hire an expert who has financial experience in the business you’re going to be in . . . and prepare yourself for the long haul.”

**Racism:** “It’s the one big thing we can’t control,” says Wagner, “and it has an impact almost everywhere we go. It’s a huge issue out in the workplace, and it tends to get exacerbated because we use people from the ‘hood, and the employment opportunities are in the suburbs, where, *surprise*, a lot of people don’t have any contact with people of color outside of news, TV or movies. So when you put a temporary crew of eight to ten black guys in

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*“Employers don’t want to deal with racism, so if there’s a conflict they want to resolve it in the simplest way possible, which is to get rid of the black guys.”*

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with a full-time crew of white guys, it frequently results in conflict.” For that reason, Pillsbury staff members have to be excellent conflict managers, resolving disagreements immediately rather than letting them fester.

Wagner believes “employers don’t want to deal with racism, so if there’s a conflict they want to resolve it in the simplest way possible, which is to get rid of the black guys.” But he says it works the other way, too. “We’ve got people with such spotty work records who sometimes don’t get the basic rules of work, so they develop chips or attitudes about authority and who gets to say what to whom.

“For example,” he says, “we had a fairly large back room job with a large discount store and at one point we had 20 north side black guys out there moving around boxes and doing inventory. The night manager was a 26-year-old white female — and most of the time she was terrified. One night she asked a group of the guys not to go out back and smoke because it looked bad — and they told her to go f--- herself. It was two a.m. and she called and said she wanted them out of there right now!

“Our guy ran out there and spent the next couple of hours interpreting — that’s the way I’d put it . . . between two cultures. He went to the guys and said, ‘You -----, *she gets to tell you this stuff*, that’s the way the world works.’ And he spoke tactfully with the manager. We did it all in a respectful way and there was a bit of compromise on both sides.”

**Skepticism:** Wagner has been astonished by the resistance he’s encountered from both the business community and the nonprofit sector as his company tries to simultaneously create a business and carry out a social mission.

“I’ve been blown away by the level of misunderstanding and mistrust,” he says. “For all the writing and talking that’s being done about the subject, out there in the practical world people either don’t get it or don’t want to get it. They say you have to be one or the other.”

The clamor of doubt even invaded Pillsbury itself. “At one point,” says Wagner, “we were close to chucking the social mission” and using the business as a cash machine for Pillsbury’s social programs. “We could see how much easier life would be if we just went out and found people who actually had more skills. It was very seductive, and we had serious discussions about whether we were here to make money or to do a social mission.”

But the core values held, and Wagner thinks it was “really because of certain Board members who weighed in and reminded us we’d built up a culture in which it simply wouldn’t be worth it to us if we were in this just to make money. How would that distinguish us from anybody else in the world?”

# New U Temps

## TYPE OF BUSINESS: Temporary staffing

**Mission:** To provide jobs for low-income, hard-to-employ inner city residents through a "temp to permanent" strategy (*the goal is for a minimum of 30 per cent of temps to acquire permanent employment in any given year, "permanent" defined as a minimum of 180 days*)

**Year founded:** 1997

**Structure:** A stand-alone nonprofit managed by another nonprofit through a management agreement

**Headquarters city:** Minneapolis, Minnesota (*main office in north Minneapolis, branch offices in south Minneapolis and St. Paul*)

**Geographic market:** Minneapolis, St. Paul and suburbs

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

Annual sales: \$1,655,000

Net profit: \$58,000 (3.5 per cent)

## SOCIAL RETURN ON INVESTMENT

Number of employees (average day): 72

Number of different employees (entire year): 715

Average salary: \$8.50 per hour

Employees from low-income communities: 95 per cent

Number of employees graduating to full-time work (most recent year): 132 (18.46 per cent)

## INITIAL INVESTMENT

(Note: The planning and working capital dollars listed below were used to launch three businesses, of which the temporary staffing business is the only survivor)

Planning time required before operations began: 18 months

Dollars required before operations began: \$100,000

Sources of planning dollars: Investment by parent corporation and a grant from The McKnight Foundation

Time required to recover planning dollars: Not yet recovered

Time until the business generated positive cash flow: One year

Additional working capital required before generating positive cash flow: \$500,000

Source of working capital: Line of credit from parent corporation

Time required to recover startup dollars and working capital: Three years (through the sale of a donated building)

## PARENT ORGANIZATION: Pillsbury United Communities (founded 1879)

**Mission:** To create choice, change and connection for inner-city residents

**Programs:** Twenty-five social service programs, employment and economic development services, arts and cultural activities, and community-building efforts, all offered through six neighborhood centers in Minneapolis and St. Paul

Annual operating budget: \$13 million

Number of employees (FTE) 200

Number of people (unduplicated) served per year: 26,000

## SENIOR MANAGEMENT TEAM

President and CEO: Anthony R. Wagner

Executive Vice President: Stephen Oates

Director (New U Temps): Dawn Williams

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## St. Vincent dePaul Staffing Services



**PROFILE:**  
**ROY SOARDS**

Roy Soards has spent his entire career creating job opportunities for people in Oregon. After attending the University of Oregon in the mid-1970s, he began as a VISTA volunteer finding jobs for disadvantaged high school youth, then spent six years in Clackamas County working with low-income, long-term unemployed adults and youth. That led to three years with the Portland Private Industry Council, where, as marketing director, he created unsubsidized work opportunities for welfare recipients, ex-felons, older workers and dislocated workers. He became Chief Operations Officer for St. Vincent in 1989 and Chief Executive Officer in 1995. Soards is one of 41 CEOs featured in *The CEO Chronicles – Lessons from the Top about Inspiration and Leadership*, is an adjunct professor at Portland State University School of Business, and has been a keynote speaker at numerous national and regional gatherings. He and his wife Laurel have two children.

### THE DEMILITARIZED ZONE

The culture wars began when Charley Graham arrived in 1985 and were still underway when Roy Soards joined him four years later.

“By the time I got here,” remembers Soards, “there was a demilitarized zone between the production people who ran the factory and the rehab people who provided social services. We had two very strong-willed managers and each of them had their own lieutenants and armies.” The opposing forces fought over resources and, more fundamentally, they fought for the soul of the organization.

It took another three or four years for the wars to subside, and “it was pretty ugly at times,” says Soards. “The rehab people would sabotage the production people, who often had to rely on the rehab folks for employees. If the production people had a job that had to get done, they were under a lot of pressure, because the rehab people were more concerned about, ‘Well, is this the proper training for this individual, they’re not ready for work that’s too demanding, and why don’t you guys find the types of jobs that fit their needs, and no, they can’t work after three o’clock because they have to go see their case workers.’ We finally had to part ways with the head of the rehab division . . .”

What could stir such passions?

### ORIGINS

The story begins in 1971 when the state of Oregon approached The Society of St. Vincent de Paul, an international Catholic organization of lay men and women who become personally involved in helping people who are disadvantaged. The Society is best known for its shelters and thrift stores.

The state asked if St. Vincent would be interested in starting a vocational training and employment program for people with developmental disabilities. The Society ultimately decided it was in the business of rehabbing clothing, not people – but it set aside \$100,000 in seed money and lent its name to the creation of a new and entirely separate nonprofit.

St. Vincent de Paul Rehabilitation Service began life as a traditional sheltered workshop and stayed that way until Graham arrived. “We were heavily into wood products,” says Soards, who became CEO after Graham departed in 1994. “This being Oregon, we had some Board members who had expertise in that area, and we began making everything from the ubiquitous birdhouse to at one point a full line of cabinets. We did pallets and boxes and furniture parts,” and branched out into other types of manufacturing. By the mid-1980s the annual operating budget reached \$1.5 million, with about a third of the revenue coming from the manufacturing business and the rest in grants from the government to pay for social service programs.

### THREE KEY EVENTS

Then, during the 1980s, three events occurred that changed everything.

The first was the election of Ronald Reagan as President. Suddenly, says Soards, “the government turned off the spigot and our social service fees began to dry up.”

At about the same time, the initial executive director left and St. Vincent’s went through three directors in three years. By the mid-1980s it was constantly in the red.

“All the directors we’d hired and in some cases fired were from a social work background,” says Soards, “and somebody on the Board was finally smart enough to stop doing that and hire a person with a business background.”

That person was Charley Graham, who began to promote the idea of a double bottom line. “He told the Board we were never going to be able to employ more people with disabilities if we continued on the same track,” says Soards. That track was operating a sheltered workshop “and depending primarily on social service fees and charitable giving.” According to Soards, “he convinced the Board that if we provided quality goods and services, people would buy them and we’d therefore be able to employ even more people with disabilities and help them become self-sufficient.”

Doing so, however, meant converting the organization from a sheltered workshop into an affirmative business, and Soards refers to Graham as “one of the pioneers in the field.” An “affirmative” business is created specifically to do things a sheltered workshop cannot: Provide real jobs, competitive wages and career tracks for people who are physically, mentally, economically or educationally disadvantaged.

And the most important precept of an affirmative business is that the viability of the business comes first, not the number of people employed. Implicit in that argument is the belief that if the business isn’t viable, it won’t survive – and the whole question of social impact becomes irrelevant.

The Board agreed . . . but some members of the staff dug in their heels . . . and the culture wars began.

### THE TEMPORARY STAFFING BUSINESS

The third key event took place in 1989, four years after Graham began operating the organization as a business. “We’d been doing very well in the manufacturing, assembly and packaging areas,” says Soards, “but it was a seasonal business. It was up and down, up and down.”

## *Roy Soards talks about . . .*

- The battle between the production people and the rehab people
- The impact of Ronald Reagan
- How an affirmative business differs from a sheltered workshop
- Accusations of “unfair competition” from the for-profit sector
- How growth in the stock market severely damaged his business
- The “holier than thou” attitude of some rehab providers
- The importance of doing something — and not paying much attention to what others say is possible



So Graham and Soards looked around and decided to explore the temporary staffing business. “It looked like an easy business to enter,” says Soards, and “we did it for a couple of reasons. First, we thought it was a good opportunity. But the more important reason had to do with modern medicine.” People with heart disease, kidney problems, head injuries and organ transplants were living longer than they had in the past, “but their quality of life wasn’t very good. They weren’t working, even though they were able to work at least part of the time. So we thought, ‘Hmmm, this temp biz might be a good model for those folks, who could work for us whenever they were able . . .’”

The problem, of course, is that employers don’t want full-time employees who need significant time off. “If your receptionist tells you, ‘I’m really good at this, but I’ve got a chronic back problem so I can’t lift more than ten pounds,’ you know what most employers will do,” says Soards, “and if it’s somebody who’s chronically mentally ill and says, ‘Yeah, I look fine, and I’m doing okay, but sometimes I have trouble adjusting to my medication and need to take some time off,’ most employers will say, ‘yeah, right’ . . .”

Even though it was easy to enter the business, however, Graham and Soards soon discovered it was anything but easy to run the business. “It barely breathed for a long time,” admits Soards, and it ran into three major problems: The internal culture wars, accusations of unfair competition and lack of expertise.

“We took some real heat from our big, for-profit competitors,” says Soards, “especially after we got involved big time in government contracts. They thought we had an unfair advantage because we were a nonprofit. But I simply told those folks, ‘All you have to do if you want us to go away is do what we do. You can have this business — just make sure that 75 per cent of your employees are disabled, that you train them and that you do all the paperwork required by the government.’”

But one of the biggest reasons the company struggled, says Soards, is “because we didn’t know what we were doing. One of our biggest surprises was finding out this type of business was a lot harder to run than we thought it was. We should have gone out and hired somebody who knew the business and could teach us how to run it. Instead, we spent two or three years stumbling around.”

## **THE TURNAROUND**

The turnaround happened in 1991. “We were in the right place at the right time,” admits Soards. Until that time, the company had operated only in Portland, but that was about to change.

A buyer for the state of Oregon happened to run into Graham at a conference and suggested St. Vincent open an office in the state capital to take advantage of the set-aside laws that require the state to purchase products or services from qualified rehab facilities.

Boom! “The next thing we knew,” says Soards, “we had a contract with the state to provide temporary employees for several large departments in the state capital. It was a big step for our Board. Salem is only 60 miles away, but it was still a big step.

“We opened the new office in December of 1991 and the contract started in January of 1992. By mid-summer we were grossing \$50,000 a month and in July we got another big contract with the state department of transportation.” The business took off. “I remember thinking then that if our Salem office ever got to \$150,000 month in billings, man, that would just be astronomical,” says Soards. “Now that office does \$350,000 a month.”

Today the company has offices in six cities, five in Oregon (Portland, Salem, Corvallis, Eugene and Hillsboro) and one in Bremerton, Washington. Annual sales of temporary services in the most recent fiscal year were \$9.8 million (with a marginal loss of \$38,000) and the company employs more than 2,500 different people a year, with an average of 450 people per day, 400 of them disabled or disadvantaged.

About 40 per cent of the company's employees have a physical disability. Twenty-five per cent are chronically mentally ill and another 15 per cent have chronic medical conditions that keep them out of the workforce periodically. Ten to 15 per cent are recovering from drug and alcohol addiction and there's a small contingent who are deaf and hearing-impaired.

## **CRITICAL SUCCESS FACTORS**

In addition to **surviving the culture wars** and **being in the right place at the right time**, Soards believes there are at least six other factors that have been critical to the company's success.

**Expertise:** "It's relatively easy to enter the temp business," says Soards. "There aren't many obstacles. But our biggest mistake was not bringing in an expert from the start. We thought this would be a really easy business, and we simply didn't get the expertise we needed. We don't do this anymore. Any time we start a new business these days we hire expertise first."

**The set-aside laws:** There are 170 temporary staffing companies in the Portland area, one for about every 20,000 residents. Competition is fierce, but St. Vincent has a huge advantage. "Seventy-five to eighty percent of our business comes from the government under the set-aside laws," says Soards. Any federal or state agency that purchases products or services is required to buy them from qualified rehab facilities so long as the facilities charge a fair market price and are able to deliver. In order to qualify, says Soards, "Seventy-five per cent of our direct labor has to be provided by people who have disabilities," and that's something most of St. Vincent's competitors are loath to do.

On the other hand, many of the companies in the for-profit field have an equally big advantage over St. Vincent when it comes to attracting customers in the commercial sector. "The margins in this industry are skinny," says Soards, "and we have too much overhead related to getting and finding and training people. We simply can't compete on the basis of price, and when it comes to hiring temporary employees with minimal skills, everything is price-oriented."

**Speed:** "You never never never take a message and say you'll call somebody back," emphasizes Soards. "This is a 'real time' business. If somebody calls you, a red light goes off, you take the job order and you fill it now." He says installing that mentality "has been one of the most interesting shifts from the rehab culture to the business culture."

**Quality:** "You don't get too many second chances in this type of business," says Soards. "You've got to make a good job match. You've got to get the right person there the first time. You're dealing with expectations that are very high. People will call you up and want somebody there right now – and keeping the pipeline full of people who are trained and ready to go is a constant chore. If it was easy, everybody'd be doing it . . ."

**Recruitment:** "We have to be very creative and aggressive to find employees," says Soards, "and we find them all over the place. A lot of people come to us through our newspaper and web site advertising, and our recruiters beat the streets. They go to nonprofit organizations such as Easter Seals and the Epilepsy Association, to physical rehab

centers and drug and rehab centers, to welfare offices . . . and hundreds of other places.”

**Training:** “We’re dealing with a population that’s been unemployed, has disabilities and needs upgraded skills,” says Soards, “and that means we have to invest a lot in training.” St. Vincent has training centers attached to each of its five staffing offices.

## ENVIRONMENTAL DANGERS

According to Soards, there are three potentially dangerous forces impinging on the company today.

**The stock market:** The business grew rapidly for nine years . . . but it suddenly hit a bump in January of 2000. Revenue at the Salem office plunged by 30 per cent in less than two months because of what Soards calls “a very odd quirk in the government system. The state of Oregon had an incredibly lucrative public employee retirement system and the booming stock market meant there were thousands of state employees who were able to do a whole lot better financially by being retired. So thousands of them retired early and the state started using them as an in-house temp pool. There was nothing we could do about it. I mean, if you could hire somebody who already knows the job and is totally skilled — and you don’t have to pay benefits to that person or an override to a temporary help agency . . . well . . .” It took St. Vincent nearly a year to recover the lost income, and the threat of in-house temp pools still hovers.

**Changes in the labor laws:** “There’s been a huge backlash from the Microsoft situation,” says Soards. For years, Microsoft and many other companies have been using thousands of people classified as “perma-temps.” Soards explains: “You hire somebody as a temp and the person remains there as a temp forever.” Corporations choose this route in order to limit their liabilities — and to avoid having to pay benefits. But the lawsuit against Microsoft, according to Soards, raises a fundamental question: “Whose employee are you? The company’s or the staffing agency’s?” The answer could have profound implications for St. Vincent and other staffing companies.

**A “holier than thou” attitude:** “A really strange barrier we run into politically,” says Soards, “is what I call the ‘holier than thou’ attitude we get from other people in the rehab community. They say ‘you’re not working with people who are really disabled.’ And at the legislature people say to me, ‘If they’re able to go out and do this, how in the world can you call them disabled? How is a recovering drug addict disabled?’” A small but vocal group of for-profit competitors has been lobbying the legislature for three years to change the set-aside rules. “And the one that really drives me nuts,” says Soards, “is, ‘Well, they don’t *look* disabled!’ Just because they’re not in wheelchairs, they’re not drooling, they don’t have seizures on the work site . . .”

## FINAL WORDS OF ADVICE

“Start small,” cautions Soards. “Use the garage model. Every time we’ve dumped a big bunch of infrastructure into the game up front it hasn’t worked. And start with something in hand. Go out and sell something, create the demand first, then prepare to deliver. Don’t go out and set up a staffing business or a call center or whatever and then say, okay, let’s go sell something . . . you’ve got to be nimble enough to create the demand first and then produce the supply.”

He also suggests that entrepreneurs “don’t think too much. If I had to look back on some of the stuff we’ve done, if we’d sat back and analyzed it and spent a lot of time thinking, we might have gotten scared off. At some point you’ve got to take action. Stop analyzing and move ahead.”

# St. Vincent dePaul Staffing Services

## TYPE OF BUSINESS:

Staffing services (temporary employment)

Short- and long-term assignments, with an emphasis on the clerical, light industrial, banking and call center industries

**Mission:** To create work opportunities for people who have disabilities

**Year founded:** 1989

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** Portland, Oregon

*Four branch offices in Oregon (Hillsboro, Salem, Corvallis and Eugene) and one in Washington (Bremerton)*

**Geographic market:** Oregon and Washington

## CURRENT FINANCIAL PERFORMANCE

*(fiscal year ending September 30, 2000)*

Annual sales: \$9.8 million

Net profit: -\$38,000 (negative .4 per cent)

## SOCIAL RETURN ON INVESTMENT

Number of employees (average day): 450

Number who are disabled: 400

Number of different employees (per year): 2,500

Number graduating to full-time work: 120 (4.8 per cent)

Average wage (per hour): \$9.20 - \$9.50

Annual payroll: \$7 million

## INITIAL INVESTMENT

Planning time required before operations began: Six months

Dollars required before operations began: \$35,000

Source of planning dollars: Cash flow from manufacturing operations

Time until the business generated positive cash flow: Three years

Additional working capital required before generating positive cash flow: \$900,000

Source of working capital: Gift of cash from the organization's founder

Time required to recover planning dollars and working capital: Six years

## PARENT ORGANIZATION:

St. Vincent de Paul Rehabilitation Service, Inc. (founded 1971)

**Mission:** To provide employment opportunities for people with disabilities who are capable of making a contribution to the community but who might otherwise be excluded from the labor market

**Programs:** Provides vocational training, education and employment for more than 900 adults with disabilities each day in Oregon and Washington (paid more than \$10 million in wages and benefits to people with disabilities during the most recent fiscal year)

Provides a variety of business and manufacturing services to corporations and government agencies: Staffing services offices in six cities; an electronics assembly plant and a variety of manufacturing, assembly and packaging services in northeast Portland; and separate divisions offering document imaging services and unarmed security services. Also operates three licensed computer training schools.

Annual operating budget: \$21 million

Number of staff members (FTE): 70

Number of people (unduplicated) served per year: 2,600

## SENIOR MANAGEMENT TEAM

Chief Executive Officer: Roy Soards

Chief Operating Officer: Bennett Johnson

Vice President, Staffing Services: John Miller

## Contact information

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## Ocean Village Ventures

### THE READINESS IS ALL



**PROFILE:**  
**RICK WALKER**

Rick Walker graduated from Dartmouth College in 1975, then worked for seven years in the business world before bringing his experience to St. Coleta's of Massachusetts as Director of Adult Services. He left in 1988 to become Vice President of the National Fire Protection Association and the following year made the transition from Board member to President and CEO of Road to Responsibility. Walker has also served for the past 14 years as a consultant to families and corporations on issues ranging from management development to strategic planning, and he has been a member of the Board for a number of organizations, including the Massachusetts Association of Rehabilitation Facilities. Over the years, he has received numerous awards from organizations such as The Giraffe Project, Ernst & Young, Tom's of Maine and the Commonwealth of Massachusetts. Walker and his wife Catherine (Cass) have three children.

First came the motel. Then the bookstores. The ice cream store. The function hall.

But before them all came the committee . . .

"We were heading into uncharted territory," remembers Rick Walker, President and Founder of Road to Responsibility (RTR) in Marshfield, Massachusetts, "so we formed a New Ventures Committee. We had Board members, staff members, the people we served and their family members. We brought everybody together and talked about doing something that was very, very different from what any of us were used to doing in our job placement program or in our old sheltered workshop model."

Today RTR operates seven small businesses. In every case, the goals are to be self-sufficient and to generate employment opportunities (Walker calls it "real jobs for real people with real needs"). Not incidentally, they are also intended to educate the public about the potential of individuals with disabilities. Collectively they are known as Ocean Village Ventures, and they generated \$553,309 in sales during FY00, with a net profit of \$24,249. Walker plans to open one or two additional businesses each year for the next five years.

"A lot of people say we're in too many," says Walker, "but the issue for me is risk management. Collectively, their impact is large – but each of them is small, so failure wouldn't be critical to the agency as a whole. The point is . . . we need to be prepared to eat our mistakes, and most nonprofits are not real good at that.

"For example, each of our little businesses is generating some revenue and creating some jobs, but if the ice cream store continues losing money because we're not able to solve our location problem, I'll kill it. We can't afford those kinds of losses. Or if the whole bookstore business goes completely kablooey and starts doing terribly, I'm not going to let it imperil the agency as a whole. Or somebody could build a giant Motel 6 down the street and be better prepared to respond to the market. We don't have pockets deep enough to compete in a situation like that, so it means we'd fold our cards and go off in a new direction.

"It's the way we make the Board and staff comfortable with what we're doing. We all know how tough dollars are in the nonprofit world, so how can we justify losing money in one of our businesses and then tell staff members they aren't allowed to lose money in their programs?"

## OF GIRAFFES AND . . .

Walker believes the New Ventures Committee “instilled a sense of risk-taking across the organization” and set the tone that’s made it possible for an entire network of businesses to emerge.

Once the committee created a mission statement, he says, “we circulated a mailing to everybody we knew that essentially said, ‘This is what we want to do . . . you got any ideas?’” Although the mailing didn’t generate any immediate suggestions, Walker says “it did something else that’s been critical to our success. To me, it was much more important to establish going in that we were planning to do *something* than to define what that something was going to *be*.”

Walker had seen other nonprofits flounder when they took a different approach, and he believes the committee helped RTR avoid at least three common pitfalls: Tunnel vision, a tug-of-war among staff members, and a disconnect between the staff and the Board.

“Too many nonprofits,” he says, “spend too much time frozen on one particular idea. They say, ‘We want to do a coffee shop’ — and meanwhile three or four great opportunities float by the window. So instead of starting out with a specific idea, we told our stakeholders what we wanted to do and asked them for help. That approach helped us get everybody on the same page and helped them understand we were doing something new and different — so when it actually happened it was much less shocking and dislocating than you might expect.”

He also believes “we lucked into a solution to a problem that’s plagued a lot of other nonprofits. I’ve seen a great deal of internal friction between traditional program people and the people starting business ventures . . . we’ve had a little of that, but we spent a lot of energy on internal communications, talking about why we were doing this and why it was important, and it never became the tremendous distraction I’ve seen elsewhere.”

Finally, he says “nonprofits frequently spend a lot of staff time planning something — and then they go to the Board and get killed. Or they finally begin to involve people outside the organization and discover the environment isn’t ready for them.”

Others have recognized the willingness of RTR to take risks. In 1991 the organization received a national award from The Giraffe Project (honoring individuals and organizations that “stick out their necks for the common good”) and in 1998 RTR became the first nonprofit to win an Entrepreneur of the Year Award in the national competition sponsored by Ernst & Young, the Kauffman Foundation and NASDAQ.

## Rick Walker talks about . . .

- Taking risks and eating mistakes
- Calming the fears of his Board and staff
- Why deciding to do *something* is more important than defining what that something should *be*
- What happens when a nonprofit gets “frozen” on a specific business idea
- Growing from one employee to 170 in 23 days
- Why it’s better to be lucky than good
- What to do with 40,000 books
- Firing people who are developmentally disabled
- The impact of his business ventures on fundraising

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*“To a great extent, nonprofit people are not risk-takers, and their unwillingness to think outside very standard parameters constantly amazes me.”*

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But reactions from the nonprofit sector still exasperate him. “My god, the resistance,” he says. “To a great extent, nonprofit people are not risk-takers, and their unwillingness to think outside very standard parameters constantly amazes me. I see a few of them trying things, but usually on a very, very limited scale. Quite frankly, we’ve had a lot better luck getting people outside the nonprofit world to understand what we’re doing and feel comfortable with it.”

## ORIGINS

Over-all, Road to Responsibility is a \$15 million agency with 400 employees serving about 1,000 people who are developmentally disabled (the organization also serves people who are mentally ill, autistic and physically disabled). It provides a wide variety of residential, work and recreation programs.

But that wasn’t what Walker and his wife Cass had in mind when they founded the agency in 1988.

“We’d met while we were working at another human service agency,” says Walker, “and then I’d gone off to the business end of the world, but we both had a very personal connection to folks who were developmentally disabled.”

So the Walkers formed a small nonprofit to provide recreational opportunities (including such things as trips to Disney World, baseball games and museums, bowling nights, dances and dinners). Cass worked full-time and Richard served on the Board.

“Within the first year,” he remembers, “we had revenues of \$250,000 and served more people than we’d ever thought possible.”

Then serendipity struck . . . and not for the last time in the history of Road to Responsibility.

“Another disability provider wound up in financial difficulty,” remembers Walker, “so the state came to us and asked for help. We already had a corporate entity, so we simply took over the state contracts . . . we didn’t merge with the other agency. But we only had 23 days’ notice – and we went from one full-time person to 170. During that first year we grew to a \$4 million agency.”

## THE FIRST BUSINESS VENTURE

In some ways, the plunge into state-funded programs revitalized RTR’s entrepreneurial instincts.

“It’s funny,” muses Walker. “We were an entrepreneurial organization at our roots. Our intention was never to fall into the trap of state funding . . . and then, boy, we landed right in the middle of it. So part of starting our ventures network was returning to our roots. When you’re doing things for the government, you steel yourself to

the fact that you can't always do what you want to do . . . you lose a lot of control. But we really wanted to provide the things we knew were needed by the folks we served."

One of those things was better jobs.

"A lot of our ventures activity welled up from the people we serve," he says, "from their desire to work in the community. We were never able to satisfy our people one hundred per cent. We placed them in hundreds of jobs, as so many good disability providers are able to do, in supermarkets and in fast food outlets, but always our people wanted something more unique and we had a great deal of difficulty finding it for them.

"So we said we'll create it ourselves."

The first venture came into existence about a year after the New Ventures Committee had outlined its vision and alerted the organization's stakeholders.

"You get lucky," laughs Walker, "and, hey, I'd rather be lucky than good any day of the week! We had been looking around for a house to rehab as a residence for some of our people who were coming out of institutions, and we got a call about a failing motor inn that had been built just six years before. So we went to look at it. Three separate buildings. Looked more like an apartment complex, and it seemed as if it might be a good fit.

"But then we said to ourselves, 'Guess what, we've been talking about starting a business, so why not run a motel?'"

It was 1992 and the economy had tanked, "so we were able to make a very favorable deal," says Walker. "We wrenched \$150,000 out of the FDIC and bought it for another \$600,000 (less than half of its 2001 appraised value of \$1.4 million). "We closed the deal the Thursday before Memorial Day weekend and had a sold-out motel the next day."

Marshfield is exactly halfway between Boston and Cape Cod, so visitors come from all over the country. The Ocean Village Motor Inn has 14 rooms and is filled almost every day from May through October. Annual revenues range from \$150,000 to \$175,000 and Walker says the motel "has been a self-supporting business for its entire existence.

"But more than that," he adds, "it does the two key things we wanted it to do: Generate jobs year round and provide an avenue for people with disabilities to move on to similar jobs elsewhere." More than 70 have done so, each of them receiving a graduation certificate after their training period with RTR. "A big problem in the motel industry," says Walker, "is that there's no time to train people. Motels and hotels need somebody to come on board and clean the room the next day," and the RTR certificate convinces human resource departments that they are capable of doing just that.



**OCEAN VILLAGE VENTURES:** *Road to Responsibility operates seven businesses, including three bookstores, two motels, an ice cream store and a function hall.*



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*"It's the only motel I've ever heard of where when somebody is checking out and paying their bill with American Express or Master Card, they add a donation!"*

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"In the beginning," he laughs, "we were known as 'the insane nonprofit that runs a motel.' The skepticism of people in the community was amazing, but the public education aspect of this has been a lot greater than I thought it would be. We gradually captured people's attention and changed their perceptions."

RTR did it by "stressing from the beginning that we were running a business," says Walker. "You don't stay here to help the disabled — you stay because it's clean, because it has a TV, because

of its location and its price. But we'll also put some material in your room about RTR and oh, by the way, you'll see our housekeepers working and we have pictures on the wall. We don't hit you over the head, but very clearly you get an education you wouldn't have expected. As a result, it's the only motel I've ever heard of where when somebody is checking out and paying their bill with American Express or Master Card, they add a donation!"

## THE PORTFOLIO GROWS . . .

At the core of RTR's approach to business development is a determination to pursue a double bottom line. "We could have said let's go out and buy a printing company that doesn't employ our people but spins out boxes of cash to support Road to Responsibility," says Walker. "Instead, we decided to create businesses that generate jobs for our folks, entities that can be self-supporting — but we don't expect them to support the rest of the agency."

"And early on," he says, "our people identified retail work as something they really wanted to do . . . so we set out to develop a network of bookstores."

The first store opened in Marshfield in 1997 — and stocking the place didn't turn out to be a problem.

"We said to ourselves, 'We need books,'" says Walker, "so we sent out a memo to our supporters. Within 30 days we had 40,000 books! And not just boxes of wet, moldy books, but beautiful books!" On top of that, "we'd been counting on one of our supporters who owned a bookstore in another town for technical advice. When she received our letter she said, 'Oh, my, I didn't think you were that close — we're re-modeling our store and I can give you all the bookshelves and fixtures from our existing store!'"

The Marshfield store has been self-sufficient since its launch, revenues have climbed by 20 per cent in the past year (to approximately \$50,000), and in recent years RTR has opened two additional stores, starting from scratch in Plymouth (1998) and buying an existing store on Cape Cod (1999).

As for the ice cream store purchased by RTR in 1999, Walker admits he is "very, very skeptical about food businesses. But, again, we've generated a certain level of buzz in the community because of our other businesses, so a realtor brought this one to our attention. He told us we had a reputation that we do things nobody else would do and said, 'I wouldn't have thought about calling a nonprofit about an *ice cream* store, but I called *you* guys.' He told us, 'Don't miss this one, this guy's desperate to sell.'" The store "had been around for 17 years and the owner had become a Marshfield icon," says Walker. "When she retired she made her son promise to run it for

one year — but as soon as the year was up he wanted out. He was up to here with ice cream. He told me he'd been making ice cream since he was eight years old and didn't want to look at it again."

The store is currently losing money, "and a lot of that has to do with location," says Walker. "I think it's worth hanging on to if we can solve the location problem, because the jobs it creates are fabulous for our people. We make our own ice cream, and we specialize year-round in ice cream cakes as well as the counter cones, so it's a lot of good steady work."

RTR purchased a second motel in 2000 and Walker says "the opportunity came to us from our program staff. They thought it would be perfect for us — and to me that's a real sign that the whole agency has coalesced around this concept. Our staff members aren't in the game of saying 'That's the crazy other thing we do — it doesn't have anything to do with our programs.'"

The Ocean Village Function Hall joined the network of ventures this year after the building had lain vacant for four years when the government decided to shut down the South Weymouth Naval Air Station. "About 120 nonprofits applied to take over the various buildings on the base," says Walker. "Most of them wanted the buildings to do housing programs, but we asked if we could have the NCO Club and run it as a rental facility for community events. It took more than a year to become fully operational . . . dealing with the military is a *very* slow process. . . but we completely renovated the hall and the kitchen and it's up and running now."

## WHAT'S NEXT?

Not all the ideas Walker and his colleagues explore bear fruit. "It's odd," he says, "you'd think a used golf equipment store would be a great idea, but we went to our supporters and the idea absolutely fell flat."

But it hasn't discouraged him. RTR is currently in the process of creating an offshoot from the bookstore that will sell books over the Internet to other used bookstores across the country. "It's taking off," he says. Other ventures being investigated are a pet shop and a café attached to the bookstore in Marshfield.

Walker's strategic goal is to make sure RTR's non-government revenues (a combination of ventures and fundraising) increase at the same rate as his funding from government — and he's found a healthy correlation between his ventures and both his fundraising and his relationships with the public sector. "The businesses give us a story to tell to potential donors that's very real and very unique," he says, "and we've seen a tremendous growth in our contributed funds," from \$133,000 in 1992 to more than \$484,000 in 2000. Beyond that, state agencies are now giving RTR about \$250,000 per year for job training and coaching (dollars that are not included in the profitability figures for the individual businesses) and "are fighting over who gets to refer people to us."

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*"The businesses give  
us a story to tell  
to potential donors that's  
very real and very unique,  
and we've seen a tremendous  
growth in our contributed funds."*

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## CRITICAL SUCCESS FACTORS

In addition to **preparing stakeholders** and **managing risks**, Walker has identified five other factors that have been critical to his organization's ability to build a network of small businesses.

**Making no excuses:** “We will make no compromises on quality just because the work has been done by people with disabilities,” says Walker. “If you rent a room at our motel it will be the bloody cleanest hotel you’ve ever been in. If you go into our ice cream store you’ll have a perfect experience. Not, ‘Isn’t that cute,’ but ‘This is great!’ I make life miserable for people around me on that issue.” Walker says community skepticism about the ability of Road to Responsibility to successfully operate its businesses “can only be overcome in two ways. Number one, don’t give them an avenue for an opening by having quality failures. And the other is to outlive the bastards and patiently go about what you’ve been doing.”

**Being willing to fire people who are developmentally disabled:** Walker says “you’ve gotta be absolutely ruthless about making changes whenever they’re needed. We fire people if they don’t perform. What we actually do is tell them, ‘This isn’t working out,’ and transfer them back to our supported employment programs. On the flip side, the full-time employees in our bookstores receive the same benefits I get . . . and I hope they’ll stay with us until they retire.”

**Retaining expertise:** “You’ve got to figure out just what it is you can do best,” says Walker, “and you don’t want it to be expertise of such a narrow focus and in so few people’s hands that it can walk out the door.”

**Acquiring capital:** “Access to the capital markets is just so difficult,” mourns Walker, “but we’ve done a lot of creative stuff where the sellers financed our purchases — and I’ve used every other method of financing I can think of. But it’s never enough. We always end up with enough money to launch things but not enough to give them a rocket booster, so we always have to go from hand to mouth . . . and that’s tough . . .”

**Capitalizing on what nonprofits know how to do:** “What kills most small businesses,” says Walker, “are the things that nonprofits are often very, very good at. Personnel management, accounting systems, cost management, purchasing systems. For us, it’s a matter of taking those assets and applying them to our small businesses.”

## FINAL WORDS OF ADVICE

Walker sees a direct relationship between the success of his business ventures and RTR’s ability to raise money from individual donors, corporations and Foundations.

“There are a million nonprofits in this country,” he says, “and they’re all competing for the same dollars. Do you have a story to tell? *Everybody* has a good cause, but that’s not enough any more. For us, doing business ventures is almost a branding strategy . . . because in this environment you’ve got to come up with something to identify your nonprofit as worthy of the public’s attention.”

# Ocean Village Ventures

## TYPE OF BUSINESS:

**A network of seven small businesses**

*Two motels, three bookstores,  
an ice cream shop and a function hall*

**Mission:** To create employment opportunities for individuals with developmental disabilities ("real jobs for real people with real needs") and to educate the public about their potential

**Year founded:** 1992 (*first business*)

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** Marshfield, Massachusetts

**Geographic market:** The area of Massachusetts from Boston to Cape Cod; there are three ventures in Marshfield and one each in Weymouth, Kingston, Plymouth and Falmouth

## CURRENT FINANCIAL PERFORMANCE

*(fiscal year ending June 30, 2000)*

*Annual sales:* \$553,309  
*Net profit:* \$ 24,249 (4.4 per cent)

## SOCIAL RETURN ON INVESTMENT

*Number of full-time employees:* 11  
*Number of full-time employees who are disabled or disadvantaged:* 8  
*Number of part-time employees:* 16  
*Number of part-time employees who are disabled or disadvantaged:* 11  
*Number of employees who have graduated to full-time work elsewhere:* 70

## INITIAL INVESTMENT

*Dollars required before operations began:* \$1,045,000

*Sources of planning dollars:* First motel, \$150,000 from the FDIC plus \$600,000 in bank financing and \$40,000 in contributions from Polaroid, Boston Edison and individuals; Marshfield and Plymouth bookstores, total of \$2,000 plus in-kind donations; Falmouth bookstore, \$60,000, seller financed; ice cream store, \$10,000 grant from Copeland Family Foundation plus \$35,000 in seller financing; function hall, \$100,000 capital campaign; second motel, \$465,000, seller financed

*Recovery of planning dollars:* All borrowed funds are amortized in the profit and loss statements for the businesses; the organization does not expect to recoup grant or fundraising dollars

*Additional working capital required before generating positive cash flow:* The motels were profitable immediately; the three bookstores have required a total of \$65,000, the ice cream store \$50,000 and the function hall \$10,000

*Sources of working capital:* Agency funds and fundraising

*Time required to recover working capital:* Not yet fully recovered; agency funds are expected to be recovered through continuing operations

## PARENT ORGANIZATION:

**Road to Responsibility, Inc. (founded 1988)**

*Mission:* To provide the means, the opportunity and the support necessary to allow people with disabilities to take their place as productive members of the community

*Programs:* Residential services; supported living; employment; Open Roads (day habilitation); recreation; respite; family support

*Annual operating budget:* \$15 million  
*Number of employees (FTE):* 400  
*Number of people (unduplicated) served per year:* 911

## SENIOR MANAGEMENT TEAM

*President and Founder:* Richard J. Walker, Jr.  
*Executive Director:* Sharon Smith  
*Vice President:* Catherine J. Walker  
*Associate Vice President:* Donna MacDonald

## Contact information

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## Bobby Dodd Industries



**PROFILE:**  
**BARBARA MASSEY**

Barbara Massey has been at Bobby Dodd Industries (BDI) for 21 years, but admits her previous experience “had no correlation at all to my current job”! She earned her undergraduate degree in education and music from Belhaven College in Jackson, Mississippi, then received a Master’s degree in education from Jackson State University. After that, she taught performing arts for 13 years at a Jackson high school. She came to BDI in 1980 as a marketing representative and today has over-all responsibility for the organization’s earned income ventures, which include contract packaging and fulfillment, janitorial and grounds maintenance, E3 Technologies and several federal and state set-aside contracts. Massey has been a member of the Board for the Affirmative Business Alliance of North America since 1999 and has previously served on the Georgia State Use Committee. She and her husband Jerome live in Alpharetta, an Atlanta suburb.

### BUYER BEWARE

Seven years ago, the people at Bobby Dodd Industries in Atlanta did some due diligence, took a deep breath and bought a franchise.

It didn’t work out.

Five years later the organization escaped . . . regrouped . . . and converted the experience into a \$992,000 business with annual profits of \$96,000.

How?

By forming a partnership with a for-profit company from another state.

### ORIGINS

To people in Georgia, the name Bobby Dodd means something. A legendary football coach at Georgia Tech, he won 165 games from 1945 to 1965, captured the national title in 1952 and went to 13 major Bowl games, winning nine of them. He served as athletic director from 1950 to 1976.

In the early 1960s, it was common to name work centers after football coaches and other sports figures — government funding usually followed. In most cases the title was strictly honorary, but not in Dodd’s. “He was very, very motivated,” says Barbara Massey, vice president of operations and marketing for Bobby Dodd Industries (BDI). “He had a soft spot in his heart for people with disabilities and became very committed to us.”

Founded in 1963, BDI began life as one of Georgia’s first vocational training facilities for adults with disabilities. It was a small project operated by the Atlanta Alliance on Developmental Disabilities, but by 1989 had long outgrown its parent and become an independent nonprofit.

Today the organization has an annual operating budget of \$3.5 million, serves about 300 people per year and operates a variety of programs designed “to empower individuals with disabilities to maximize their potential while securing their economic self-sufficiency, independence and integration into society.” BDI offers vocational training and evaluation, competitive placements, supported employment, computer training and a welfare-to-work program.

And in 1994 the organization took the plunge into a business venture of its own.

It wasn’t a happy experience . . .

## THE LURE OF THE FRANCHISE

For years, BDI had been operating a sub-contracting business that evolved eventually into contract packaging, warehousing and fulfillment services. That business still exists, employing 50 people and operating at a break-even level with annual revenues of approximately \$1 million. More recently, BDI started a janitorial and grounds maintenance business which employs 30 people and has been profitable since day one, generating \$380,000 in revenue and a net profit of more than \$75,000 during the most recent fiscal year.

But in the early 1990s, Massey and her colleagues realized “it’s hard to be significantly profitable when the only thing you’re selling is labor,” so they began searching for a manufacturing business – with an eye toward the state and federal set-aside laws that require public sector agencies to purchase all their supplies and services from qualified rehab centers (those that employ a certain percentage of disadvantaged workers and are able to deliver a quality product at a fair market price). The set-aside laws give nonprofits such as BDI an impregnable advantage over any for-profit competitors.

Massey started by attending a national NISH conference (NISH administers more than \$30 billion in federal set-aside contracts each year), where she learned about a franchise that manufactured toner cartridges for laser printers, FAX machines and copiers (the cartridge contains a very fine, electrostatically charged powder). “The franchisor had quite a few franchises already up and running,” she remembers, “so we went to visit a couple. On the surface everything looked good. The jobs were touted to be very, very entry level, none of the other franchisees had any negatives to tell me and it was cheap to buy. Our initial investment was only \$13,000.

“Or so we thought . . .”

Then came the surprises.

“We assumed the franchisor was on our side,” she says today. “Wrong!”

## “IT TOOK US A COUPLE OF YEARS TO FIGURE IT OUT . . .”

The first thing BDI had to do was abandon any hope of using the “entry level” jobs as a way to train people for permanent jobs. “We discovered the jobs required a lot more technical skill than we’d been told,” says Massey. “Not high tech skills, but certainly more technical than we could assign to entry level employees moving through a training program and still have us create quality products.”

## Barbara Massey talks about . . .

- The difficulty of making significant profits when the only thing you’re selling is labor
- The mistake of assuming your partner is on your side
- Finding a loophole to escape from a dicey contract
- Allowing somebody else to put the finishing touches on your product
- The most important part of a *successful* partnership
- Why making money is a very good thing . . . but not the *only* thing
- Why some buyers refuse to obey the law

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*Once Massey made the decision to extricate herself from the franchise contract, “it started out being very contentious . . . but it turned out to be very simple” because BDI found a loophole*

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In and of itself that might not have been fatal, but then “we found out there was a lot more to the business than we’d been led to believe . . .”

For example, “we were only taught how to do four types of cartridges – so we thought that’s all there were. Turns out there are 20 or 30 types and as soon as we started approaching customers they told us they wanted to buy all their cartridges from the same supplier. We weren’t able to do that. We didn’t even know the other types existed!”

When glitches occurred, technical support was all but non-existent: “We were given three days of training and then we were on our own,” says Massey. “If we had a

problem, they’d send us a video and tell us to figure it out for ourselves.”

On top of that, “the price the franchise holder told us was a fair market price for the cartridges wasn’t at all, especially in the Atlanta market. It was way too high. And we couldn’t get the price down to a competitive level because *we were forced to buy our parts from the franchise holder!* He was way overcharging us — but it took us a couple of years to figure it out.”

What it all netted down to was that “our franchisor was taking all our profits and offering little in return.” BDI barely broke even in its final year as a franchisee.

## ESCAPE

Once Massey made the decision to extricate herself from the franchise contract, “it started out being very contentious . . . but it turned out to be very simple” because BDI found a loophole.

The contract mandated that any franchisee departing the fold could not compete with the master franchisor for at least three years. But “we had a little hook that helped us escape,” says Massey. “Our contract stipulated that we would manufacture and sell re-manufactured cartridges,” (which meant refilling them with toner and re-using the housing and all the undamaged moving parts) “but our customers kept telling us they wanted to buy *new* ones. So we decided to go that route.

“In other words,” she says, “the product we make now is no longer the product we were making for the master franchisor. We didn’t want to waste the five years we’d spent learning the business, and we figured if we knew how to make a decent re-manufactured cartridge, why couldn’t we make a decent new one?”

## THE NEW PARTNER

Realizing BDI didn’t have the expertise or the equipment to go it alone in the cartridge business, Massey began searching for a partner. She started by interviewing a number of companies in Georgia . . . but then she heard

about a partnership in Florida between the nonprofit Lighthouse for the Blind and a for-profit company called Optima.

Florida officials had been searching for a work center to produce all the toner cartridges needed by state offices. It approached the Lighthouse, but the people there had never done that kind of work . . . so they looked around for a teacher. The resulting partnership called for the Lighthouse to do part of the labor and Optima to do the final assembly and marketing.

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*BDI was searching for a partner that could bring it technical expertise and marketing clout. And Optima needed a nonprofit partner in Georgia so it could gain access to the public sector market.*

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Massey liked what she heard from the people at the Lighthouse, so she traveled to Florida. Then the Optima people came to Atlanta . . . and negotiations went on for a few months until the two organizations hammered out the details and decided they had a good fit. BDI was searching for a partner that could bring it technical expertise and marketing clout. And Optima needed a nonprofit partner in Georgia so it could gain access to the public sector market.

It was a perfect marriage, and the partnership began in January 2000 under a new name: E3 Technologies (the “E3” stands for “Employ, Enable and Empower”). “Ultimately,” says Massey, “Optima would have become our competitor in the Georgia market if we hadn’t formed an alliance. They would have found another nonprofit partner.”

The relationship between the two partners is similar to the one in Florida. “We don’t assemble the final cartridge in our facility,” says Massey. “Optima is ISO 9002 compliant, so both of us felt the final assembly and inspection of each cartridge could best be handled in their plant.” Optima sends BDI a shipment of used cartridges; BDI disassembles them, sells the moving parts to somebody else, cleans the housings in a state-of-the-art blow-out room and inserts some of the new moving parts; then the partially finished cartridges are shipped back to Optima for final assembly and delivery to customers. The resulting product is guaranteed to be 100 per cent compatible with the equipment offered by major manufacturers such as Hewlett Packard, Lexmark, IBM and others.

Massey expects E3 Technologies to quadruple its annual sales from the toner cartridge business to \$4 million within the next two years while maintaining its 12 to 15 per cent net margin. She’s also thinking about manufacturing additional peripheral products such as ink-jet cartridges.

### **“IT WAS JUST A GUT FEELING . . .”**

Massey has some fundamental advice for nonprofits thinking about forming a partnership with a for-profit company. “Make sure your partner fully understands and supports your mission,” she says.

“I just didn’t have good vibes with the businesses we interviewed in the Atlanta area,” she says. “It was just a gut feeling. I don’t know how to describe it any other way. There didn’t seem to be a good meeting of the minds or a good fit — I didn’t feel they had a capacity to plug into our mission orientation even though they made a very good product and had a high profile in the community.



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*“I felt as if they were the right people for us to work with. They understood that making money is a very good thing, and we all want to do that, but there’s another equally important mission that has to be accomplished at the same time and they were very eager to help us accomplish that mission.”*

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“But when I first spoke to the people at Optima, even before I met them personally, I felt differently. Part of it was because they were already hooked up with the Lighthouse and had about eight months of marketing experience with state officials in Florida. They already knew some of the lingo and how things worked. And when I *did* meet them, I was impressed with the people, top to bottom, felt as if they understood the whole concept of doing well by doing good.”

Massey met all the principals at Optima before agreeing to the partnership, including the owner, the vice president and the key marketing people. “To a person,” she says, “I felt as if they were the right people for us to work with. They understood that making money is a very good thing, and we all want to do that, but there’s another

equally important mission that has to be accomplished at the same time and they were very eager to help us accomplish that mission.

“For example, when we told them we wanted to do as much of the work as possible in order to employ more people, rather than having them do the bulk of the work, they understood and encouraged us. They even helped in unexpected ways: We’re currently processing 2,500 or more cartridges a month, but we’re not actually selling that many here in Georgia — Optima lets us work on some of the cartridges they sell in Florida.”

## **CRITICAL SUCCESS FACTORS**

Massey has identified seven factors that have been critical to the success of her business.

**Overcoming the reluctance of public sector buyers (part one) — getting buy-in from the state:** Massey had some concern early in her negotiations with Optima that the Georgia office responsible for the state set-aside programs would object to her partnering with a for-profit company. “So we asked them for a meeting and brought along some people from Optima. We took the position that we really shouldn’t have to get approval for this type of partnership, but that we wanted to keep them informed of what we were doing. We didn’t want to give them the impression they had the right to tell us how to run our business, but we wanted to emphasize that our disabled employees would be doing a significant part of the labor. Well, they bought into it and put the stamp of approval on it right then and there.”

**Overcoming the reluctance of public sector buyers (part two) — convincing purchasers to follow the law:** According to Massey, the set-aside laws are both the biggest opportunity and biggest obstacle for her business. Even though public sector agencies in Georgia are required to buy their toner cartridge from BDI, she says “most don’t do it. They either don’t know about the law or don’t comply. You’d think that if you had the law behind you and just went and told people you were ready to take their order, they’d say, ‘Okay, here goes,’ but it doesn’t work that way. They may have a previous relationship with another supplier that they like or they may say ‘I’ve never

heard of this law, I don't believe it, prove it.' So we have to go door to door to call on every state person who has a credit card and is responsible for buying toner cartridges . . . it's laborious, and it's hard to break down the walls . . . our sales will approach \$1 million this year, but they should be over \$2 million – and there's as much as \$10 million of set-aside business available throughout the state."

**Meeting a complex marketing challenge:**

Neither BDI nor Optima actually holds the state-use contract, which complicates the marketing challenge (part of the reason BDI happily relinquished responsibility to Optima). The contract is held by Georgia Enterprises for Products and Services (GEPS), the state version of NISH. GEPS administers all Georgia's state-use contracts and takes a seven per cent commission for its trouble. What usually happens is that GEPS acquires a contract, then searches for a work center capable of doing the job. In this case it went the other direction: BDI developed a business and then asked GEPS to set it aside. "But GEPS doesn't get involved with the marketing," says Massey, "so it's up to us." Optima has actually situated a full-time general manager in BDI headquarters to supervise all sales and marketing. When he sells to a public sector agency, he uses GEPS stationery and business cards. When he sells to the private sector, he uses BDI materials. None of the sales in Georgia take place under the Optima name.

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*"They either don't know about the law or don't comply. You'd think that if you had the law behind you and just went and told people you were ready to take their order, they'd say, 'Okay, here goes,' but it doesn't work that way."*

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**Minimizing inventory:** "Because we no longer produce the final cartridge," says Massey, "we don't have to hold or build inventory the way we did when we were a franchisee. Optima ships the orders, not us. The cartridges retail for anywhere from \$79 to \$200 each, so trying to anticipate what customers will need and have the right inventory when they order can become real pricey."

**Technical support:** "One of our biggest problems with the franchise holder," says Massey, "was that we didn't have the type of support we have with Optima. Now, when something goes wrong, our partner is right there with us to fix it."

**Fending off the big guys:** According to Massey, the large manufacturers such as Hewlett Packard, Lexmark and IBM "consistently change their cartridges in order to prevent others from recycling them or making cartridges that are compatible. So keeping up with the changing technology is always challenging." So is fending off competition for commercial sales from what Massey calls the "big box" stores such as Office Depot and Staples, not to mention a plethora of small local manufacturers.

**Ancillary services:** Manufacturing cartridges is the core business, but BDI also provides additional services that are meant to enhance the company's appeal. "Our technicians are at multiple locations daily to install cartridges," says Massey, "and we also do printer maintenance, repair and servicing. It provides a good training opportunity for our people — and having that regular contact with customers makes it easier to sell them more cartridges." As part of its service, BDI also helps coordinate and implement an extensive recycling system that helps customers comply with federal and state requirements concerning the return of used cartridges.

## **FINAL WORDS OF ADVICE**

Having learned the hard way, Massey recommends other nonprofits “do lots of research and have much more money than you think you need.” She also suggests they “be flexible . . . your ultimate product might not be the one you started with!”

And she’s succinct in her final advice.

“Three things,” she says.

“Number one . . . never give up!

“Number two . . . if it’s not working, try something else!

“And number three . . . never give up!”

# E3 Technologies

## TYPE OF BUSINESS:

Manufacturing of toner cartridges for laser printers, FAX machines and copiers; also provides printer maintenance, repairs and servicing

**Mission:** To provide jobs for disabled individuals in a viable business

**Year founded:** Cartridge manufacturing (1994); new partner and new name (2000)

**Structure:** A nonprofit subsidiary of another nonprofit

**Headquarters city:** Atlanta

**Geographic market:** Primarily Greater Atlanta (some customers elsewhere in Georgia)

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending June 30, 2001)

Annual sales: \$926,213

Net profit: \$ 96,000 (10.4 per cent)

## SOCIAL RETURN ON INVESTMENT

Number of permanent employees: 6

Number of employees who are disabled or disadvantaged: 3

## INITIAL INVESTMENT

Planning time required before operations began: Six months

Dollars required before operations began: \$13,000 (to purchase franchise)

Sources of planning dollars: Grant from the city of Atlanta

Time until the business generated positive cash flow: Approximately 18 to 24 months

Additional working capital required before generating positive cash flow: Unknown

Source of working capital: Income generated by other BDI businesses

Time required to recover planning dollars and working capital: Unknown

## PARENT ORGANIZATION:

**Bobby Dodd Industries (founded 1963)**

**Mission:** To empower individuals with disabilities to maximize their potential while securing their economic self-sufficiency, independence and integration into society

**Programs:** In addition to E3 Technologies and its other business ventures, BDI provides vocational training and evaluation, competitive placements, supported employment, computer training, a job club, and a welfare-to-work program

Annual operating budget: \$3.5 million

Number of employees (FTE): 25

Number of people (unduplicated) served per year: 300

## SENIOR MANAGEMENT TEAM

Chief Executive Officer: Wayne McMillan

Vice President, Operations and Marketing: Barbara Massey

General Manager, E3 Technologies: Doug Williamson

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## Skookum Abatement Services



### PROFILE: JIM WESTALL

Jim Westall spent the 1970s as a third grade teacher and administrative assistant, began to concentrate on special education in 1980 — and two years later founded Skookum Corporation. Over the years he has received both the Outstanding Public Service Award from The President's Committee on Employment of People with Disabilities and the Jefferson Award for outstanding public service from the American Institute for Public Service, and he's been featured on both the Today Show and National Public Radio. Westall has an undergraduate political science and history degree (and a standard teaching certificate) from Western Washington University and an MBA from City University. He has traveled extensively worldwide, served on the Governor's Task Force on Disabilities, and has been a Board member for numerous local organizations, including the school district. He also continued teaching special ed classes until 1994. Westall is single, with two grown children.

## “\$36 AN HOUR!”

Most people who work in a sheltered workshop earn minimum wage, at best. Employees of an affirmative business frequently do better.

But the people who work for Skookum Abatement Services are in a class by themselves. Less than 15 months after the company began, 23 of them were taking home annual salaries of \$70,000 to \$95,000.

“It's an incredible opportunity for at-risk people to join the middle class,” says Skookum CEO Jim Westall. “It's an amazing transformation to see someone who was on welfare three years ago make this kind of money. It changes lives. It truly does. The incentive to stay off drugs and show up to work on time is different when you make \$36 an hour than when you make \$7 an hour . . .”

### GETTING STARTED

Skookum began searching for its next profitable business three years ago. It had already built a national reputation with its jump rope and game manufacturing business and was operating more than half a dozen small enterprises in western Washington, including a recycling business, janitorial services on two naval bases, a central issuing facility at an army base, a street and parking lot striping business, grounds maintenance crews, elder care programs and others.

“What we needed to do,” says Westall, “was to broaden our core competencies. We compete with other nonprofits for set-aside contracts with the federal government, and we needed to develop competencies our competitors didn't have. Otherwise expansion would be limited. Instead of competing head-to-head, we wanted to find competencies that took us outside what other people did.”

At the same time, serendipitously, Westall ran into a man named Paul Jackson, who had just sold his firm and retired after building one of the largest asbestos abatement companies on the West Coast. Jackson had no thought of returning to work . . . but he became intrigued with Skookum's mission, which is to create employment options for at-risk individuals. “We want to train people in a profession that gives them good employment for the rest of their lives,” says Westall. Today, at the age of 78, Jackson is managing the day-to-day operations for a \$5.7 million business at Skookum that registers a net profit of 6.8 per cent.

“Everybody is becoming more and more aware of the implications of having lead and asbestos in their environment,” says Westall. “People have an increased sensitivity to the

long-term environmental and health damages . . . and it's especially dangerous in the inner city, where it causes high levels of neurological damage among low-income people."

### **"WE CLIMBED INTO A LARGE HOLE . . ."**

"In order to get started," says Westall, "we had to acquire a whole different level of skills. We really had to gear up. We had to train ourselves and then our employees. It took months and months of pretty intensive work, and we climbed into a large hole before we got out with our first asbestos abatement contract.

"But we were in it for the long haul. We spent almost half a million dollars buying equipment, traveling, buying people, getting people trained."

The first contract came from the Bremerton Shipyards in late 1999. Since then, Skookum Abatement Services has been involved in more than 50 projects. It has continued to gradually build the size of its staff and is now thinking about expanding beyond western Washington into the rest of the country.

### **A BLENDED WORK FORCE**

At least 75 per cent of the people employed by Skookum in all of its businesses are classified by the federal government as severely disabled (both mentally and physically). The rest are what Westall calls "highly capable," including most of the abatement company's employees, who are typically able-bodied men ages 20 to 40 who were previously on welfare.

"It's a younger man's work," says Westall, "hard work. They're all suited up, hot, breathing through a respirator." He says attracting potential employees isn't a problem, "but they have to walk a pretty straight line. We have absolutely no tolerance for drugs or alcohol."

The abatement company also employs people who are developmentally disabled, finding work for them that capitalizes on their strengths. "They may be loading a truck," says Westall. "They're probably not running equipment. But whatever they're doing, they're doing it as well as you or I could."

Using a blended workforce is one of the secrets to Skookum's success. But the company sets very high standards for all its employees.

"We require everybody to really perform," says Westall, "and actually there's a lot of dignity in that, knowing what the expectations are and being able to achieve them, being in a workplace where you really feel valued. We benchmark

## *Jim Westall talks about . . .*

- Developing core competencies that are different from your competitors
- Spending half a million dollars to launch a new venture
- Blending able-bodied workers with people who are developmentally disabled
- Setting high performance standards for all employees, regardless of disability
- The competitive advantage of being ISO certified
- The dangers of the "rosy scenario" complex
- The ability of "value rubs" to destroy your business



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*“We can’t screw up. We have very precise procedures. Everybody knows them, and we have a training plan in place so everybody knows exactly what they’re doing.”*

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everything, so people know how they contribute to the success of the company. That’s tremendously important for them, to know they’re part of something significant. And one of the things that always surprises me is that we can do almost anything if we can plan it out and train for it. It’s just incredible what our employees can do.”

## CRITICAL SUCCESS FACTORS

In addition to having a **blended work force** and **setting high performance standards** for its employees, Westall believes there are at least four other factors that contribute significantly to the success of the company.

**ISO certification:** What sets the company aside from its eight competitors in the state of Washington is its certification as an ISO 9002 and ISO 14000 provider. The first is an international quality standard that has to do with a company’s internal processes. “You need to be able to verify those processes against an international benchmark,” says Westall. “You need to prove absolutely that you are doing what you say you are doing.” ISO 14000 is a set of international environmental standards. “You have to be able to document precisely what’s happening with the asbestos every step of the way, where it’s going, so it can be tracked for at least 20 years. Sometimes we can’t remove it, so our job is simply to encase it so it can’t be touched.”



**SKOOKUM ABATEMENT SERVICES:** *Employees don protective gear before entering a contaminated area.*

The ISO standards are rigorous, and that means “we can’t screw up,” says Westall. “We have very precise procedures. Everybody knows them, and we have a training plan in place so everybody knows exactly what they’re doing. We have about ten people on a crew, so that means we’re spending at least \$500 an hour just to have them show up. We have to know exactly what to do, get it done, be efficient, and do it in an environmentally sound way that is very prescribed and monitored all the time. The federal government is very particular about how these things are done.”

Being certified as an ISO provider gives Skookum an edge over its competitors and also reassures its clients. “Here we are,” laughs Westall, “telling them we’ll come in and do asbestos abatement – and that we’re going to hire the least capable members of the community to do it! In an area that has a tremendous liability for the customer and its future as a company! And they’re going to look at us and say, ‘Huh, sure you are!’ And we can say we’re one of only 320 companies in the state of Washington that are ISO certified and the only one that does asbestos abatement.”

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*“The biggest mistake was the timeline. We thought it wouldn’t take nearly the capital or the time. You know, the old ‘rosy scenario’ planning process. We kept digging into our capital.”*

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**Planning:** A second critical success factor for the abatement services company has been the need “to plan everything very, very closely.” According to Westall, “none of our projects can afford to go over estimate on labor or materials. We have to plan very closely and coordinate with our customers.” And that leads to another critical factor . . .

**Knowledge:** “We have to know what we’re dealing with at every level,” says Westall. “We have to know what’s new in the testing field, what asbestos does, what it looks like, what mold and lead look like, a thorough knowledge of exactly what we’re dealing with.”

**Customer focus:** Finally, Westall believes “all business is relationship business. We have to stay close to the customer. The customers have to see us as responsible, open, honest, dependable and reliable.” In fact, in a larger sense, customer focus is at the root of all Skookum businesses. “We constantly monitor the contracts going out from the federal government,” says Westall. “We monitor what our customers are doing to see where opportunities might fall for us. And we’re always changing depending on the kind of feedback we get. We view ourselves as a learning corporation . . .”

## **BIGGEST MISTAKE**

The biggest mistake Skookum made in developing the abatement services business, according to Westall, “was the timeline. We thought it wouldn’t take nearly the capital or the time. You know, the old ‘rosy scenario’ planning process. We kept digging into our capital. But we revised our estimates every month and did some pretty tight planning.”

Westall has plans to grow the company significantly, “but it all depends on how large a company we can manage.” As always, the biggest obstacles will be “doing the right type of planning, making sure we have a trained work force and having enough capital and the right equipment.”

But perhaps the greatest obstacle Westall sees in running an affirmative business is what he calls “value rubs.” Sometimes, he says, “your mission — job creation — and the requirements of your business — sustainability — come into conflict. When they do, you have to depersonalize those conflicts and solve the problem.



Sometimes you have to make decisions about sustainability that are at least temporarily in conflict with your mission. You just *have* to do it. But in my work with other nonprofits, I've seen those value rubs absolutely destroy their businesses.”

## **FINAL WORDS OF ADVICE**

Westall has four pieces of advice for nonprofits wanting to start a business venture: “Plan incredibly well, stay true to your mission, don't be afraid to hire people smarter than you are — and then let them go. Give them the freedom to operate. Use benchmarks to monitor their work — but get out of their way.”

# Skookum Abatement Services

## **TYPE OF BUSINESS:** Asbestos, lead and mold abatement services

Inspections, consulting, interpretation of regulations, training and projects (administration/design/oversight)

**Mission:** Job creation for "at-risk" individuals. *(the goals are to create meaningful work, fair compensation and a safe/healthy work environment)*

**Year founded:** 1998

**Structure:** A nonprofit subsidiary of a nonprofit

**Headquarters city:** Port Townsend, Washington

**Geographic market:** Washington

## **CURRENT FINANCIAL PERFORMANCE**

*(fiscal year ending December 31, 2000)*

Annual sales: \$5,735,000

Net profit: \$392,000 (6.8 per cent)

## **SOCIAL RETURN ON INVESTMENT**

Number of full-time employees: 45

Number of full-time employees drawn from "at risk" populations: 40

Number of part-time employees: 15

Number of part-time employees drawn from "at risk" populations: 15

Number of employees earning an average annual salary of at least \$70,000: 23

Average hourly salary for employees at an abatement site: \$36

## **INITIAL INVESTMENT**

Planning time required before operations began: Two years

Dollars required before operations began: \$400,000

Source of planning dollars: Investment by parent corporation

Time until the business generated positive cash flow: Five months

Additional working capital required before generating positive cash flow: \$500,000

Source of working capital: Line of credit from Frontier Bank

Time required to recover planning dollars and working capital: Within first year

## **PARENT ORGANIZATION:**

**Skookum Educational Programs** (*founded 1982*)

*Mission:* Job creation for "at-risk" individuals

*Programs:* Six business ventures and a variety of housing services. In addition to Skookum Abatement Services, the business ventures include Skookum Jump Rope Company, Skookum Environmental Services, Skookum Program Services, Skookum Eldercare and Skookum Contract Services

*Annual operating budget:* \$11 million

*Number of employees:* 243

## **SENIOR MANAGEMENT TEAM**

*Chief Executive Officer:* Jim Westall

*Chief Operating Officer:* Ken Lynn

*Director, Abatement Services:* Paul Jackson

## **Contact information**

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**PROFILE:  
RICHARD OULAHAN**

Richard Oulahan has been with Esperanza Unida, Inc., since 1973 and has served as the agency's Executive Director since 1978. Originally from New York City, Oulahan learned Spanish as a boy in Mexico City, where his father was bureau chief for *Time* magazine. He came to Milwaukee in 1965 to attend Marquette University, but left in the fall of 1967 to travel for three months in Europe and attend a university in Mexico for six months. He returned to Marquette in 1968 for another year, then dropped out to find employment and spent the next several years working in nursing homes, factories, a mental hospital and at a social service agency where he helped prepare Hispanics for the GED exam. He graduated from the University of Wisconsin-Milwaukee in 1980 with a bachelor's degree in Spanish and political science. Oulahan has two grown children.

**“POWER COMES FROM BELOW . . . ”**

“They used to come in at Christmas, give us a check, offer to help . . .

“Now they were losing their jobs . . . the heart of our community . . . laid off when the plants began to close . . . telling us ‘we don't have any work, we don't have any education, we're losing our houses, our cars, our whole world is crumbling . . . can you guys *do* something?’”

From that heartbreaking beginning in the early 1980s, Richard Oulahan and his colleagues at Esperanza Unida have helped spark a renaissance in Milwaukee's Latino community . . . and they've done it by remembering three simple rules:

- Dead-end training leads to dead-end jobs
- Power comes from below
- Mistakes are part of the game

During the past 17 years, the people at Esperanza have started a dozen training schools that double as businesses. Some have been closed or sold to community residents. Today the organization offers training in six fields: Auto repair and sales, child care, welding and metal fabrication, commercial printing and graphic arts, construction, and customer service. Esperanza also operates the only Spanish language bookstore in Milwaukee, a coffee shop, a legal resource center, an office building with an international flair, and a variety of on-site student support programs.

More than 2,000 people have been trained since 1984 and more than 70 per cent have been placed in family-supporting jobs. Each training cycle lasts for 12 weeks and the 40th class will graduate this year. Earned revenue for the businesses associated with the six training schools during FY00 was \$1,648,542, with a net profit of 2.5 per cent, including fully allocated overhead and management expenses. All told, earned revenue from the training school ventures and the other businesses totaled \$2,564,188, with a net profit of 9.1 per cent.

**“PEOPLE HAVE *NOT* BEEN LIFTED OUT OF POVERTY . . . ”**

Oulahan is scathing in his criticism of the welfare-to-work programs that proliferate today in Wisconsin and elsewhere.

“They're a total fraud,” he says, and for proof he points to studies conducted recently by

the state of Wisconsin. “Seventy per cent of the people who’ve been taken off welfare in Milwaukee are still living in poverty,” he says, “and it’s causing incredible problems. Two or three families living in a single apartment. People crowding into shelters . . . lining up at food pantries . . . committing crimes . . .

“People have *not* been lifted out of poverty — but the powers that be still have the whole country fooled.”

The problem, he says, is that the goal has been to get people off welfare, not into jobs where they can sustain themselves and their families. And one of Esperanza’s core values is that it will not train people for “any job that doesn’t have a career ladder. We don’t have any illusions that if you just start working, everything will be okay.”

When Wisconsin Gov. Tommy Thompson’s administration invented the first welfare reform programs in the mid-1990s, the initial emphasis included training for skilled professions, and Esperanza received a \$500,000 grant to train welders and mechanics. But the state almost immediately shifted its emphasis to getting people off welfare. According to Oulahan, that meant “making them take low-skilled jobs. We refused to do that, so we lost our contract.”

The whole experience has left Oulahan frustrated with “our economic and political system. It doesn’t want to face the reality about wealth distribution and what we need to do to correct it. What we’ve got is broken. It doesn’t work. But the government keeps coming up with remedies that are dysfunctional.”

## ORIGINS

Which is why he and his colleagues rejected the idea of offering low-skilled training in the first place.

Esperanza Unida (Spanish for “hope united”) came into existence in 1971 and spent the next ten years helping residents in Milwaukee’s Latino community qualify for unemployment checks and workers compensation. But once massive layoffs and industrial plant closings began in the early 1980s, says Oulahan, “we started looking around to see if there was a vehicle that could help these people get into the economic mainstream.

“We couldn’t find one, except at the technical college, and there were five things that made it impossible for the people in our community to go there. It cost money . . . they needed to have a high school degree . . . it wasn’t located in our community . . . the classes were all in English . . . and it was usually a two-year program. All those things mitigated against any of our people getting re-trained and into a job with a living wage.”

## Richard Oulahan talks about . . .

- Why welfare-to-work programs are a fraud
- His refusal to train people for low-skilled jobs
- The five reasons traditional training doesn’t work for people in his community
- The dangers of depending on outsiders
- Why nothing gets done unless you make mistakes
- Why he said no to a \$500,000 contract
- Why it has to be a lifetime commitment
- Using a nutcracker to open a refrigerator

At the same time, the people at Esperanza realized it would cost about \$5,500 to train a single person to perform a skilled trade, and Oulahan says “nobody wanted to provide the funding. So, if we were going to do it, we had to figure out a way to pay for it. And that’s when we realized you could generate revenue at the same time you were doing training.”

An abandoned auto dealership served as the site for the first training program and Esperanza used a federal grant to buy a tow-truck, a forklift and some other tools. The first 30 trainees were a group of dislocated workers from an Allis Chalmers plant. “We hired an auto mechanic from the union to train them,” says Oulahan, “and we started working on customer’s cars. It was minor stuff at first, simple things like oil changes.

“Really, that was the beginning. We just basically had to do it ourselves, not wait for somebody else to do it for us.” During FY00, the auto repair and sales shop earned \$513,535 in revenue, with a net profit of \$130,628 (25.4 per cent).

## **POWER FROM BELOW**

Oulahan is quick to emphasize he’s a follower, not a leader.

“Everything we do,” he says, “is driven by the people in our community.” Nonprofits from all over the country come to Esperanza for guidance, but Oulahan says most of them “don’t believe power comes from below . . . they still look to the power structure above them for support. But institutional forces push you toward serving *their* interests. I know that’s a pretty general concept, but it’s an important one to us. Fifty per cent of our employees were students here at one time and half of our Board members are long-time community residents.”

Oulahan says “the biggest problem in the inner city today is that it needs an economic infrastructure that’s controlled by the community itself, not by an outside force. And that’s what we’re all about.” When he talks about “infrastructure” he means buildings, equipment, tools and people with expertise who won’t go away. “If you hire a lot of technical assistance and consultants,” he says, “they’re here and then they’re gone.”

Creating community-controlled infrastructure has been the heart and soul of Esperanza’s business strategy since the first training school opened in 1984. “Back then,” he says, “our institutions were being run by people who said they wanted to help us create wealth . . . but they came in, remodeled buildings, made a lot of money — and left with all the profits.

“It’s taken a lot of patience,” he admits, “because it doesn’t happen overnight. There are dark years when nobody really sees what’s happening. And it costs a lot.” How much? Oulahan just smiles: “Whatever you’ve got and a whole lot more. Whatever you can beg, borrow and steal . . .” But over time the fruits become obvious. For example, during the 1990s Esperanza was able to develop a \$5 million commercial building because it had the necessary infrastructure in place. Oulahan just laughs. “When we first started in 1984,” he says, “we couldn’t even borrow five thousand dollars to fix our windows!”

## A WILLINGNESS TO TAKE RISKS

Of the six training school businesses being operated by Esperanza today, two are profitable, three are slightly underwater and one is struggling (please refer to the fact sheet elsewhere in this chapter for details). Over the past ten years, four others have come and gone, including an auto body shop, an auto parts dealership, a restaurant and an asbestos abatement company.

Oulahan doesn't consider that a bad track record. "You have to take risks," he says. "Our community and our organization and our Board basically feel we don't have a lot of choice. If we're sitting here losing resources every day and people are being destroyed by our economic system, what do we have to lose if we go out on a limb and try to make something work? You can't be crazy. You've got to be careful. But the idea that you have to have all your resources on board before you start something isn't going to work.

"There's nothing wrong with making mistakes. We've made a lot of them – but we look at them as a natural part of development and growth. Nothing gets done unless you make them! You try one thing and if it doesn't work you try something else. Maybe we've stuck with a few things longer than we should have — but if the alternative is waiting until all the ducks are in line, it will never happen. Any time you create something, there are always pieces on the ground around it when its finished. So we're not afraid of mistakes. We just figure that something's always lost when you create something new."

Sometimes, taking a risk means saying no to a big pot of money. At one point in the late 1980s, Esperanza had the opportunity to convert to for-profit status and qualify for \$500,000 in financing from the state department of economic development. But Oulahan says "we realized that wasn't the right way to go. We didn't have much revenue back then, and it would have been nice to receive a big chunk of money, but we felt it would hurt us in the long run. We're not in business to make a profit. We're in business to get people into the economic mainstream. We would have had to start paying back loans and paying taxes and competing as a business. But we're not *really* a business — we're a community training program that generates revenue to support the training. We've lost money some years – but our social purpose has never changed. The idea isn't to make the businesses profitable – it's to make them as self-sustaining as possible. We measure our success by how many people are getting into jobs."

## THE PORTFOLIO GROWS

All of Esperanza's training businesses are intended to address the five challenges faced by those first community residents when the layoffs began: The programs are short-term, they're free, they're located in the community, the courses are bi-lingual, and you don't need a high school diploma to enroll (although many of the people who come to Esperanza decide to attend classes in the organization's learning center to obtain a G.E.D. at the same time they're enrolled in one of the training schools).

"We've never had enough cash," says Oulahan, "but it's like starting a fire. You put on some twigs, then you keep putting on more and more, and you get it burning . . ."

**1987 (construction):** "Jose Alicea was one of our first auto repair instructors," says Oulahan. "He said he'd give us six months – and then he stayed for three years! But he finally told us he wanted to go back to his old line of work in construction. I knew we needed his leadership and inspiration, so I asked what it would take to keep him

as an instructor. He said there wasn't really anything because he was tired of teaching auto mechanics . . . so I said, 'Okay, then start a construction program.'" Esperanza received a grant of \$70,000 from the city to rehab a house, then started doing commercial work. The business earned \$299,288 during FY00, with expenses of \$336,029.

**1989 (welding and metal fabrication):** "We did some research and discovered Wisconsin had a huge need for welders," says Oulahan. During the past 12 years, Esperanza has trained more than 400 people, a third of them women, and placed 75 per cent of them in permanent jobs – and the way the business started is testimony to Oulahan's belief that you can't wait until all the resources are in place. "A large waste management company was looking for somebody to make dumpsters for them," he remembers. "They gave us a letter of intent promising to purchase \$80,000 worth from us and we used it to get a community development block grant of \$200,000 from the city. And then the company bought its own manufacturing shop and never did buy a dumpster from us! But that was fine, because it caused us to diversify and look for other customers. We used the \$200,000 to build a shop, purchase equipment and hire instructors." During FY00, the welding and metal fabrication business earned \$272,924 and had expenses of \$310,667.

**1990 (Esperanza del Futuro Childcare Center):** "We started getting a lot of pressure from the women in our community," recalls Oulahan. "They said we didn't have enough programs for them." So he scrounged a \$20,000 grant from the Helen Bader Foundation, located a vacant building and created a child care training center. Today it's the second-most profitable business operated by Esperanza (only the auto repair shop does better): It earned \$398,550 during FY00, with a net profit of \$72,358 (18.2 per cent).

**1996 (customer service training):** When government officials and others started jumping on the welfare reform bandwagon, Oulahan and the people in Milwaukee's Latino community "realized we needed to create still more training programs for women – and we discovered there were a lot of decent paying jobs out there, with good benefits, for people who could do customer service. And the fact that many of the women in our community were bilingual turned out to be a real asset." Esperanza approached some of the companies that were looking for workers and Ameritech gave it a \$70,000 grant to start the program. The customer service training business earned \$74,329 during FY00 and had expenses of \$89,821.

**1996 (commercial printing and graphic arts):** "We're always looking around to see what types of jobs are needed in the community," says Oulahan, "and we discovered that not many people of color were getting into the printing industry. Those that did usually wound up working in a bindery or in some other low-wage job with no chance for advancement. At the same time, we were running an auto body shop and training school, but it took six months to train people and we could only train five at a time. We decided that just wasn't enough, so we closed it down — even though it was profitable — and started a printing school instead." Esperanza received a \$250,000 federal grant to hire instructors and buy a state-of-the-art press. Its commercial printing and graphic arts business is now five years old and still struggling to find its footing. During FY00 it earned \$89,916 but had total expenses of \$161,550.

## **THE "FAILURES"**

Even though it was profitable, the auto body shop "failed" because it didn't meet Esperanza's social purpose objectives. The other three businesses that are no longer part of the Esperanza portfolio went away for a variety of reasons.

“We tried to do an auto parts business by pulling parts off donated vehicles,” says Oulahan, “but we learned stockpiling parts isn’t cost-effective – you need to have a big lot and only pull parts when you’re selling them. We just couldn’t handle that.”

The restaurant business “drained a lot of capital,” says Oulahan, and also failed to meet its social objectives: “We weren’t able to train people for skilled jobs,” he says, “so we shut it down.” But, he hastens to point out, “we rent the space now to a local guy who’s made the restaurant a great success.”

The asbestos abatement business started when Esperanza decided to buy and rehab an abandoned commercial building. The building had lain vacant for years because potential buyers were scared off by the projected cost of asbestos removal – more than \$300,000. Esperanza found a better way. “We created a training program,” says Oulahan, “and moved the asbestos out as part of the training. It cost us only \$15,000 – and then we sold the business to the guy who was running it for us.”

## **CRITICAL SUCCESS FACTORS**

In addition to **drawing power and direction from below, providing training only in skilled professions, concentrating on infrastructure development and being willing to take risks**, Oulahan emphasizes five other factors that have been critical to Esperanza’s success.

**Long-term commitment:** “You’ve got to make the commitment and say, ‘This is what we’re gonna do and we’re not gonna back off,’” says Oulahan. “You have to be willing to say this is a lifetime commitment. Really. You can’t back out once you start. You have to be in it for the long haul and believe you’re gonna make it work . . .”

**Ingenuity:** “Sometimes you have to use a nutcracker to open a refrigerator,” laughs Oulahan. “It works most of the time if you persist! You can’t be stuck on saying, ‘Here’s the way it must be done.’”

**Going it alone:** “Coalitions are good,” says Oulahan, “but part of the reason we’ve succeeded is because we knew we had to do this by ourselves. A lot of institutions offer assistance, but they only go so far . . .” However, Oulahan also emphasizes the importance of being flexible when others want to help: “You can’t be rigid or ideological,” he says. “You don’t want to sell your soul, obviously, but you can’t be so pure that you can’t work with somebody — unless it becomes obvious that it goes against the interests of the community, as it did with the welfare to work programs.”

**Asking for help:** Going it alone may be the prime directive, but Oulahan also points out that “each of our businesses has an advisory committee we can go to with problems or ideas and to help us keep in touch with the industry.” For example, advisers for the auto repair and sales program come from both the auto mechanics union and auto dealerships.

**Trusting the staff:** “One thing we could have done more of in the beginning was to involve more of our staff members in our decision-making,” says Oulahan. “It seemed like there was such an urgency to get things done, but now we have the luxury of weekly departmental meetings and it’s really incredible how staff members are able to pull together, deal with problems and get past things.”



## FINAL WORDS OF ADVICE

Oulahan has been discouraged by the number of organizations that come to Esperanza for guidance but fail to follow through.

“What we’d like to do is create an institute where people could learn the model,” he says. “Then we could send somebody back with them to their local communities to help them start something from the bottom up.”

At one point, Esperanza was featured on a national evening news broadcast and received “hundreds of calls from people around the country.” To help them, Esperanza collaborated with World Hunger Year to produce a 100-page replication manual in 1999 — but Oulahan doesn’t think it’s enough. “What people really need,” he says, “is technical assistance. They have constant questions and need to have constant access to one of our people: ‘Okay, here’s what we’re doing. What do you think about that?’

“I think a lot of the people who call us or visit are coming from the right place,” he concludes, “but a lot of them don’t understand what they really have to do. They’re trying to find ways to subsidize their work because they know the government doesn’t care enough about what they’re doing. That’s a good way to look at it, but there’s a big gap between concept and reality . . .”

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## CURRENT FINANCIAL PERFORMANCE

*(fiscal year ending June 30, 2000)*

	<b>Earned revenue</b>	<b>Operating expenses</b>	<b>Profit/loss (dollars)</b>	<b>Profit/loss (per cent)</b>
Auto repair and sales	\$513,535	\$382,907	+ \$130,628	25.44
Child care	\$398,550	\$326,192	+ \$ 72,358	18.16
Construction	\$299,288	\$336,029	- \$ 36,741	-12.28
Welding/metal fabrication	\$272,924	\$310,667	- \$ 37,743	-13.83
Customer service training	\$ 74,329	\$ 89,821	- \$ 15,492	-20.84
Printing and graphic arts	\$ 89,916	\$161,550	- \$ 71,634	-79.67
<b>Sub-total</b>	<b>\$1,648,542</b>	<b>\$1,607,166</b>	<b>\$ 41,376</b>	<b>2.51</b>
International building	\$726,371	\$498,822	+ \$227,549	31.33
Legal resource center	\$ 84,383	\$ 84,844	- \$ 461	- 0.55
Bookstore/coffee shop	\$104,892	\$141,067	- \$ 36,175	-34.49
<b>Total</b>	<b>\$2,564,188</b>	<b>\$2,331,899</b>	<b>\$232,289</b>	<b>9.06</b>

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# Esperanza Unida, Inc.

## TYPE OF BUSINESS:

Six training schools that double as businesses (auto repair and sales, child care, welding and metal fabrication, construction, customer service, commercial printing/graphic arts), plus a bookstore/coffee shop, a legal resource center and an international office building

**Mission:** To train and place people in jobs that pay family-supporting wages

**Year founded:** 1984

**Structure:** Programs operated internally by a nonprofit

**Headquarters city:** Milwaukee (three facilities in Milwaukee's near south side community)

**Geographic market:** Milwaukee

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending June 30, 2000)

Please see chart on preceding page

## SOCIAL RETURN ON INVESTMENT

\* Number of people enrolled in training and placement programs: FY00: 156  
Since 1984: More than 2000

Number of people graduating from training and placement programs: FY00: 129

Number of people placed in family-supporting jobs: More than 70%

Average hourly wage and benefit levels of program graduates: FY00: \$8.96

Number of people who maintain employment for at least 365 days: Since tracking began in September 1999: 74%

\* An additional 56 people were enrolled in targeted training programs during FY00, including teenagers and former students

## INITIAL INVESTMENT

Planning time required before operations began: Ongoing

Dollars required before operations began (for the six surviving training schools): \$940,000

Sources of planning dollars: Grants from various sources

Time required to recover planning dollars: Will not be recovered

Time until the business generated positive cash flow: Only two are currently profitable

Additional working capital required before generating positive cash flow: Unknown

Sources of working capital: Grants from various sources and profits from other businesses

Time required to recover working capital: Ongoing

## PARENT ORGANIZATION:

Esperanza Unida, Inc. (founded 1971)

**Mission:** To demonstrate through unity and mutual respect we can provide services, guidance, training, education and economic development to empower people; to assist people in growing personally and becoming economically self-sufficient; to take initiative to provide caring support and protection of rights to minorities and others who will contribute with pride to the greater Milwaukee community

**Programs:** Community economic development, job training, job placement, counseling, high school equivalency courses, and representation for Milwaukee's minority, unemployed, underemployed and injured populations

**Annual operating budget:** \$2.52 million

**Number of employees:** 47 full-time, four part-time

**Number of people (unduplicated) served per year:** 230 receive job training and placement; more than 1,350 receive outreach, education and legal support services

## SENIOR MANAGEMENT TEAM

**Executive Director:** Richard Oulahan

**Associate Director:** Elsa Rodriguez

**Business managers:** Adamino Roman (auto repair and sales)

Jeannette Barquet (Esperanza del Futuro Child Care)

Patrick Miller (construction)

Dennis Klingman (welding/metal fabrication)

Devera Buchanan-Orr (customer service training)

(Acting) Antonio Cruz (commercial printing and graphic arts)

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**PROFILE:**  
**DALE NOVOTNY**

Dale Novotny migrated from Nebraska to Washington in the mid-1970s after working as a partner in a painting company for three years and graduating from Chadron State College with a bachelor's degree in industrial education and a minor in art. He started at Applied Industries in 1976 as Director of Rehabilitation and shortly thereafter became Workshop Director. He was appointed Executive Director in January 1978 and has served in that capacity ever since.

Novotny is also active on the Cowlitz (County) Economic Development Council, having served as a Board member, officer, chairman and committee chairman. He and his wife Dana have two grown daughters. His other areas of interest include Scouting, competition pool, carpentry, woodworking, fishing and travel.

## “SHE WAS FIERCELY INDEPENDENT . . . ”

“She didn't want anybody telling her how to run the business!”

That's how Dale Novotny remembers Nadine Williams, the Executive Director who founded Applied Industries in 1959. Today Novotny leads a nonprofit company that has more than \$2.6 million in annual sales, a net profit of 7.4 per cent, its facility and all its equipment paid for, no long-term debt and more than half a million dollars in reserve. The company employs 57 people, all but six of whom are disabled.

“This was her company, and she was fiercely independent,” says Novotny. “Her son worked here, and she had a philosophy of independence right from the start, for him and for the company. She was determined to avoid entanglements with federal programs or with state funding or grants.”

Applied Industries has lived by that rule ever since. “We've always been very focused on being a business first,” says Novotny. “We're a social service business second.” And that means the company never gets ahead of itself. “We don't have any plans to grow, except incrementally,” he says. “We're pretty pleased with who we are and where we're at, and if we start deviating from our path and adding new programs and a bunch of people, it can come back to haunt us. We've had as many as 80 employees, but 57 is a good number to balance between the work we have and the times we don't have enough work, so that we don't have to lay people off or curtail operations.”

### THE COMPANY TODAY

More than 99 per cent of the company's revenues come from wood products manufacturing. During FY00, the company produced nearly 95,000 wooden pallets, cut 4.1 million board feet of lumber and used more than a million board feet of plywood – and the financial impact was substantial:

- Sales increased by 12.4 per cent from the previous year
- Wages paid to the 51 disabled employees increased by nearly \$88,000 to an all-time high of \$843,669
- Operating profits grew from \$76,602 in FY99 to \$144,335
- Net worth increased by more than \$165,000 to \$1,062,738
- Cash reserves grew from \$258,000 in FY98 to \$410,000 in FY99 to \$544,000 in FY00

According to Novotny, the company's most important social purpose goals are to provide employment and boost employee wages and benefits . . . and the results from the most recent fiscal year enabled the company to give all employees a seven per cent raise plus additional merit and productivity increases for many. The average wage rose by 54 cents to \$5.13 per hour and 36 of the 51 disabled employees were able to work at least six hours per day. Turnover has been minimal: Only nine people have left in the past two years, and they were immediately replaced by people from a waiting list.

Novotny is also proud of the fact that Applied's "employment percentage" during FY00 reached 101.2 per cent, the highest in 12 years. "We set a target of 320 hours of work per day by our disabled employees," he says, "but we usually expect to reach only 90 per cent of that goal."

The company today has more than two-and-a-half acres of outside storage space and more than 35,000 square feet of warehouse/production space. Profits during the past few years have enabled it to invest in its facility by installing a new asphalt yard (at \$143,000 the most expensive purchase the company had ever made), putting a new roof on all its facilities, dedicating a new administration office and purchasing four new forklifts — and it is now in the process of redesigning its sawmill operations.

Equally important, the company decided last year to lower its prices for its biggest customers by five per cent.

## ORIGINS

The city of Longview is one of the few planned communities in the United States. It was founded in 1923 by a timber baron from Missouri, R. A. Long, who saw the advantages of locating at the confluence of the Columbia and Cowlitz rivers. Situated about 40 miles north of Portland, Oregon, it has approximately 35,000 people and a good industrial base. Interstate 5 from Portland to Seattle runs through the city, as do two rail lines, and Portland's international airport is less than 40 miles away. The founders built the world's largest sawmill and Weyerhaeuser and Reynolds Metals arrived during WWII.

Novotny says Applied Industries came into existence in the late 1950s because "there weren't any employment opportunities in Longview in those days for people who were disabled. They were sent to the Goodwill in Tacoma" (about 120 miles away) "for evaluation and training . . . but then they'd be returned to Longview and there they'd sit."

According to Novotny, the company started as a small craft shop making rag rugs and painting coffee cans for planters, but then benefited in the early 1960s by forming an alliance with an unlikely partner.

## *Dale Novotny talks about . . .*

- Why he doesn't have any plans to grow
- An alliance with an unlikely strategic partner
- Recovering from the largest operational loss in the company's history
- Having "no nonsense" Board members with business backgrounds
- Paying sub-minimum wages to people who have lower productivity rates
- The need for "scenario" planning
- Dealing with "cut-throat" competitors who compete on the basis of price
- Viewing "total quality management" as an investment, not an expense

Three members of the local Longshoreman's Union had sons working at Applied Industries, including Ted Williams, an early Board member and the husband of Applied's executive director (Ted Williams, Jr., retired from Applied in 1999 after 39 years of service). "They actually gave us some of the work they'd been doing," laughs Novotny, "and you know how jealously they guard their work. We started sorting and salvaging damaged canned goods and merchandise — and we also began building cargo boards, which really got us started in the wood pallets business."

The company purchased its own building in the mid-'60s and Novotny arrived in 1976 as Director of Rehabilitation. When Williams retired in 1978, Novotny succeeded her and has been Executive Director ever since. Today the company employs people with a variety of disabilities, most of them developmentally disabled.

The company went through some painful times in the early 1990s and in FY93 lost \$164,000. According to Novotny, "it was our largest operational loss in history, and it forced us to take a critical look at every area of our business." He and his staff began to concentrate on product quality and beefed up their marketing . . . and two years later registered the largest operational profit in the company's history (\$281,000).

The company has now developed "a strategic plan for the next 100 years" that calls for continued operational profits and cash reserves of at least \$250,000, but there's no current desire to add more staff or a significant number of employees. And, of course, the new plan calls for Applied Industries to remain independent, with the viability of the business coming from the market, not from philanthropists or government subsidies.

## **CRITICAL SUCCESS FACTORS**

Novotny has identified ten factors that contribute significantly to the company's success.

**The Board of Directors:** "We've always had Board members with strong accounting and manufacturing backgrounds," says Novotny, "and we pay close attention to the numbers." The company prepares a 16-page monthly financial statement "and the Board is pretty much no nonsense." Novotny had to resign in frustration from the Board of another nonprofit. "It was an agency torn between being a social service and a business, with a lot of internal tension," he says, "so I finally gave up."

**Pay for performance:** Novotny is not apologetic about the advantage being a nonprofit gives him. Applied is able to "pay sub-minimum wages to people who have lower productivity rates. If we were a for-profit subject to the minimum wage laws, it would be really difficult to compete." But, he hastens to point out, "if the private sector would provide jobs to all the people who have disabilities, there would be no need for community rehabilitation programs such as ours." Twenty-eight of Applied's 51 disabled employees make at least the minimum wage, some as much as \$7 to \$8 an hour.

**A buddy system:** "Nobody starts here without having a mentor," says Novotny. "You're kinda lost and kinda scared at a new job, so we identified three employees who are very knowledgeable, nice guys. We give new persons a name tag and the usual introductory tour, but then the mentors give them a second tour, introduce them to others, get them a locker — and the new persons work under a mentor's wing for a day or two to make sure they're familiar with safety issues and other procedures. Sometimes for longer."

**Shared values:** Applied Industries participated a few years ago in a study conducted by the University of Chicago, which surveyed more than 17 million people worldwide to discover what it takes to be part of an exceptional organization or company. “It all came back to having a basic set of eight values shared by the people and their companies,” remembers Novotny. “Truth, trust, honesty, new ideas, selfless behavior, personal risk, giving credit and mentoring.” The Rob Lebow Company then designed a survey to determine the level of trust that exists between a company and its employees, who are asked to rate their level of personal honesty and their perception of the company’s honesty. World-class companies had a differential of approximately 8.5 points between the two ratings . . . but Applied Industries had a differential of only one-fifth of one point.



**APPLIED INDUSTRIES:** *Wood product manufacturing, including pallets, accounts for more than 99 per cent of the company’s sales; during FY00 alone, the company produced nearly 95,000 wooden pallets*

**Listening to the market:** “This is a big one,” emphasizes Novotny, “because the environment is constantly changing, either in the way people handle their products, in their decisions to close down divisions, or in the price of lumber. We need to stay on top of everything and prepare for it, so we’ve gone to a program of scenario planning.” Another bogeyman, he says, is the ongoing attempt by customers to either eliminate pallets or modify them in ways that don’t require wood, including plastic pallets, cardboard pallets “and even new forklift attachments that eliminate the need for a pallet!”

**Listening to the customer:** Novotny knows his competitors are waiting to pounce. “They’re tough, they’re large, and they’re cut-throat,” he says, “especially on price. And that means we have to continually show our customers the value of what we do. We have to convince them to look at the whole package.” For that reason, customer service is the focal point of the company’s new strategic plan. “If we’re not doing that,” says Novotny, “nothing else is gonna happen.” Part of it, he says, “is identifying customer needs,” but an equally important part “is figuring out how to measure and report your results so customers will say, ‘Yes, we believe you *do* deliver exceptional customer service.’ If we can get people to that point and then some competitor comes along and charges 50 cents or a dollar less, our customers are not going to just be up and gone.”

**Listening to employees:** Applied Industries has 18 different continuous improvement teams, most of them managed by employees. “We encourage them to get involved and we give them as many opportunities as possible,” says Novotny. For example, he cites a team that was asked to identify, reduce and eliminate waste. “But it went way beyond wasted lumber,” he emphasizes. “It included wasted attitudes, time and motion. And we wound up reducing our physical waste to a single 150-gallon plastic garbage can that the city picks up Monday morning.” Other teams include such things as a “Third Avenue Beautification Team,” an “Employee Janitorial” team, a “Safety” team, a “Marketing” team and a “Facilities” team. The company also distributes an annual survey asking employees more than a dozen questions about their work conditions and soliciting new ideas. “Last year we had 440 ideas for changes and improvements,” says Novotny proudly, “and we implemented 87 per cent of them!”

**Total quality management (TQM):** “I’ve been on my soapbox for six years preaching quality,” laughs Novotny, “and I never run out of something to talk about or repeat myself.” He makes sure employees are trained in both



**NADINE WILLIAMS**  
*Founder*  
*Applied Industries, Inc.*

basic and advanced quality control methods, and he recommends that businesses take whatever time and money is necessary to create a TQM program that works for them. “Think about it as an investment,” he says, “not an expense.”

**Strategic alliances:** Applied Industries prides itself on strong relationships with suppliers and nurtures them carefully, whether they are providing lumber, plywood, nails, nuts or bolts. And the benefits have been reciprocal. For example, one of the nail suppliers led Applied through Stephen Covey’s three-part quality program. “They spent a million dollars doing it for themselves,” says Novotny, “and then they did it for us free!” Novotny also forges close relationships with the local economic development council and creates partnerships with other businesses or agencies. And he tries to add value to the materials provided by his suppliers in order to convert them into customers. “For example,” he says, “We’ll buy four million board feet of lumber from Weyerhaeuser – but then they’ll turn around and buy a million dollars worth of pallets from us!”

**Staying focused:** At one point, Novotny attempted to broaden the base of his employees by hiring convicted felons who were participating in a work release program before returning to the community full-time. “It was a big mistake,” he sighs. “They needed a lot of rehab and a lot of structure. As soon as they were released from prison they usually gave in to the temptation to return to old friends and old habits. And, on top of that, we’re a pretty innocent company, and we started seeing things like extortion, theft, drugs and alcohol that were shocking to us and not acceptable. So we finally said no to the work release program because we were tired of hiring four people to get one good person.”

## **FINAL WORDS OF ADVICE**

Novotny offers four final suggestions . . .

For at least the fifth time during an hour-long conversation, he emphasizes the importance of “being a business first and a social service business second.”

Then he adds, “maintain your independence . . . just say no to grants and subsidies . . . build your commercial revenues to pay for everything.

“And be conservative with your money. Stay calm, don’t get too excited, keep your focus.

“Finally, make it an adventure — and have fun!”

# Applied Industries, Inc.

## TYPE OF BUSINESS:

Wood products manufacturing  
(primarily pallets)

**Mission:** To provide training, employment and job placement assistance for people with disabilities

**Year founded:** Incorporated in December 1959; operations began in January 1960

**Structure:** A stand-alone nonprofit

**Headquarters city:** Longview, Washington

**Geographic market:** Pacific Northwest (world-wide distribution, with emphasis on the Pacific Rim)

## PARENT ORGANIZATION:

None

## SENIOR MANAGEMENT TEAM

*Executive Director:* Dale D. Novotny

*Director of Human Resources:* Travis J. Smith

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending June 30, 2000)

*Annual sales:* \$2,600,668  
(12.2 per cent increase over previous fiscal year)

*Net profit from operations:* \$144,335 (7.4 per cent)

## SOCIAL RETURN ON INVESTMENT

(most recent fiscal year)

*Number of employees:* 57

*Number of employees  
who are disabled or disadvantaged:* 51

*Direct wages earned by employees  
who are disabled or disadvantaged:* \$843,669

*\* Average annual wage earned by employees  
who are disabled or disadvantaged:* \$16,543

\* The average employee works approximately 30 hours per week

## INITIAL INVESTMENT

*Planning time required before operations began:*  
Six months (in 1959)

*Dollars required before operations began:* \$2,000

*Sources of planning dollars:*  
Donations of equipment, volunteer time

*Time until the business generated positive cash flow:*  
One year

*Additional working capital required  
before generating positive cash flow:* \$25,000

*Sources of working capital:* Donations

*Time required to recover:* Within first two years

## Contact information

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### “WE WERE SUNK . . . ”



**PROFILE:**  
**BOBBIE LENZ**

“Everything we did was geared around that one customer. Everything. It provided almost all our work. Then, boom! No warning. They went out of business, and we were sunk . . . ”

Thirteen years later, Bobbie Lenz can laugh about the trauma. It happened less than a year after she took over as Executive Director, and she said, “I don’t *ever* want this to happen again!” But she remembers it as “a good experience. It primed us for being more entrepreneurial. We really struggled for a while. But we started to look for a way to create more diversity in our customer base . . . ”

The disaster eventually led to the launching of a full service direct mail company three years later. Today UDAC Mailing has more than 200 regular customers and jobs ranging in size from 250 to 35,000 pieces. “Our motto is simple,” says Lenz. “No job is too big and no job too small!”

Annual sales for the most recent fiscal year were \$155,619, with a net profit of \$11,535, although the numbers are somewhat misleading. The parent organization still provides a subsidy to the mailing company of about \$12,000 - \$15,000 per year by housing it internally and supplying a variety of accounting and payroll services, but Lenz expects to begin covering those costs in the near future. UDAC Mailing is already one of the three major providers of mailing services in the Twin Ports area of Duluth, Minnesota, and Superior, Wisconsin, and is slowly expanding into Canada and other parts of the Upper Midwest.

### CONVERTING A NONPROFIT ASSET INTO A BUSINESS ASSET

Along the way, almost by accident, Lenz and her colleagues discovered a unique selling proposition.

“Right from the beginning,” she says, “as a nonprofit, we were always mission driven, always centered on what was best for our clients. But very early in our existence we realized that running a business successfully meant we had to use the *same* approach with customers. ‘Here we are,’ we said. ‘What do you need? We’ll do *everything* to meet your needs.’”

That determination to do what was best for its clients *and* for its customers emerged from what Lenz calls UDAC’s core value: “The importance of choice. That’s what this business has been all about. These days, customer service is hard to find, but we’ve bent over *backwards* to provide *extraordinary* customer service. We’re definitely people-oriented, and that’s part of our heritage as a nonprofit.”

Bobbie Lenz has worked in the nonprofit sector for 25 years, 20 of them in management positions. She graduated from the University of Wisconsin-Stout in 1977 with a degree in vocational rehabilitation and began her career as a vocational counselor with Goodwill Industries. After holding administrative positions in several nonprofits, she took over as Executive Director of UDAC in 1987. Today Lenz is a member of the Board of Directors for both the Duluth Area Chamber of Commerce and the Greater Duluth United Way and is immediate past Chair of the Twin Ports Area Nonprofit Coalition. She has also served as President of the Minnesota Habilitation Coalition and as a member of the Minnesota Council of Nonprofits Public Policy Cabinet. She and her husband John live in Duluth and have two grown children.

There was also a practical reason to emphasize customer service. “Initially,” says Lenz, “here we were, this human service agency with severely disabled people doing mailings, and a lot of people had a problem with that. So we never used the heart on the sleeve, ‘Oh, please put these poor people to work,’ approach. Right from the beginning we said, ‘Use us . . . you need to . . . it’s good business.’ That’s why referrals and word of mouth have worked so well for us. You need to act like a business, not a human service agency.”

But there are certain prospects who continue to resist. According to Lenz, “some people use us because of who we are and what we stand for . . . but others won’t because of those same reasons. We have no control over that. All we can do is promote ourselves, educate people and use satisfied customers as testimonials. But there’s a certain segment of society that’s not going to believe in us.”

## ORIGINS

Founded in 1969, UDAC began life as the United Day Activity Center. Since that time, it’s undergone many incarnations, some necessitated by changes in legislation, some cosmetic. The acronym UDAC became its legal name in 1993 and today it’s a \$2 million agency serving 165 people a year with 55 full-time employees. It provides a variety of services for people with disabilities, including community-based employment, vocational training, senior programs, recreation and leisure activities, therapeutic interventions, assistive devices and transportation. Lenz has been Executive Director since 1987.

Throughout its history, the organization has been driven by its core value, and all its literature reinforces the theme. “Every individual,” says Lenz, “regardless of his or her disabilities, has the ability and deserves the right to make *personal choices*.”

And one of those choices has been the desire to work.

UDAC operated a sheltered workshop almost from its inception and later began sending work crews into the community. These days, in addition to the mailing company, UDAC generates an additional \$177,000 of earned income each year through its commercial laundry, its customized packaging and assembly operations, its paper shredding service, and its housekeeping and other work crews. More than 135 people are employed at any given time.

The mailing business started as a series of jobs for one of the work crews. “Businesses here in Duluth hired them to stuff envelopes and put on labels,” says Lenz, “and it gradually became apparent to us there was a lot of work available. Businesses not only needed the basic work done, they also needed help getting the mailings ready, shipping them to the post office and getting

## *Bobbie Lenz talks about . . .*

- Discovering your most important asset as a nonprofit is also your most valuable asset as a business
- How everything at UDAC flows from a single core value
- Her distaste for the “workshop” approach
- Charges of unfair competition from the small business sector
- What her disabled employees can do that machines cannot
- The importance of saying no to customers . . . and the surprising results
- How hard it is to get a customer back once the customer’s been lost

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*“But I have to be honest with you. When we first started this thing, we didn’t really have anything specific in mind. Maybe if we had started out by saying we were going to develop a small business, it might have been kind of threatening to the human service types in our organization.”*

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them mailed at the lowest possible rate with the least amount of trouble. They didn’t know how to do those things . . .

“So . . . we saw the need and thought it would match really well with the needs and abilities of our clients.

“But I have to be honest with you. When we first started this thing, we didn’t really have anything specific in mind. We kinda started out and reacted to a need and went step by step and all of a sudden we had a small business, within the course of a year. Maybe if we had started out by saying we were going to develop a small business, it might have been kind of threatening to the human service types in our organization.”

More than 100 mailing company employees do piece-work part-time, typically from 9 a.m. to mid-afternoon. A staff of non-disabled employees “prepares the work and sets it up so it can be done by the people who have disabilities,” says Lenz, “and once it’s complete they get it ready to go to the post office.” Some of the part-timers are “tremendous producers and others are not,” she says. “Some are significantly disabled, and many have physical disabilities along with their cognitive problems. We use a lot of adaptive equipment to help them work. For some, it’s amazing they can earn even \$100 a year . . . but they *do*,” and the highest paid person earns about \$3,000. Many of the employees have been with the company since its birth — and in recent years the company has also begun attracting people from other rehab agencies.

Some of the employees work in the mailing business three days a week and on a work crew in the community two days a week. “It’s a balancing act,” says Lenz, “because we have a business to run and we have to run it right, but from the beginning we said we didn’t want this to be a workshop setting, and we’re very sensitive to the amount and type of work our employees want to do. Our ultimate goal is to help each of them reach the potential they set for themselves.”

## **OBJECTIONS FROM THE SMALL BUSINESS COMMUNITY**

The most challenging part of running a business that employs people who are severely disabled is staying competitive in the marketplace . . . and Lenz has had to deal with some resentment from the small business community.

“They think we have an advantage because we’re partially subsidized,” says Lenz, and UDAC does receive fee-for-service funding from the public sector to provide transportation, job coaching, counseling and other services to its employees. “But I have to tell you,” she laughs, “if I were in this to make money I would never run this business the way we do.” She doesn’t lower her prices to capitalize on the subsidies – but her competitors have no compunction about reducing their prices when their high-speed equipment gets jobs done faster and cheaper. “Sometimes,” says Lenz, “it’s very difficult for us to do the work at the same price as someone who’s doing it with a machine.”

Ah, technology. It's both a curse and a boon for UDAC.

"We do have some mailing equipment as backup," says Lenz. "There is certain work our people can't do." But the issue is more fundamental: "Our primary goal," she says, "is to provide work for our clients. We've lost some business to companies that use laser technology to print addresses directly on mail pieces, but we prefer to have our employees paste on mailing labels by hand.

"On the other hand," she says, "there are *some* things we can do that machines cannot, so we do a lot of custom jobs, especially around the holidays and special events, where you have to assemble all kinds of things by hand before they can go out. Machines can't do that."

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*"The whole nonprofit sector took a turn during the 1990s. We began to get rid of our inferiority complex and realize we weren't that much different than the for-profit companies around us — that we were an integral part of the business community."*

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## THE ONGOING STRUGGLE . . .

One of the most time-consuming tasks for Lenz has been educating public sector officials, business leaders and her own staff.

For example, she's had to patiently help county officials understand that she's operating a business, not just a human services agency. "Try running a business when you can only be open 220 days a year," says an exasperated Lenz . . . but that's what UDAC Mailing had been forced to do until recently because the county wouldn't increase the number of days it authorized for support services. Lenz's patience finally paid off, and the total has now been raised to 240.

She also spends a good deal of time forging relationships with potential customers and fundraisers "by playing an active role in the business community, becoming very involved in civic groups and serving on the Board of Directors for the Chamber of Commerce." She doesn't begrudge it, because "it gives us a lot of credibility and visibility." Beyond that, she believes "the whole nonprofit sector took a turn during the 1990s. We began to get rid of our inferiority complex and realize we weren't that much different than the for-profit companies around us — that we were an integral part of the business community, with something valuable to contribute."

Internally, Lenz has experienced difficulty moving people from a rehab to a business mentality. "Our mailing people," she says, "are saying, 'Look, we've gotta get this project out by this deadline and it's got to be done right,' and the rehab people are telling us that some of our employees won't be working that day, for whatever reason. So there's always that tension of trying to make sure we're dealing with people and their needs and are still meeting the needs of our customers. Sometimes that gets a little dicey."

She says it took her staff a long time "to understand there was any cause and effect between what they did in the production area and how it affected our customers," and credits her crew chief, Loni Oswald, with helping to



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*“When a customer wants something done and we know we can’t do it, we’ll tell them. And guess what? They’ll often adjust their expectations and wait for us to do the work anyway.”*

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accelerate that change. “She’s a good communicator and she’s been able to share with the rehab staff what she needs in a way that creates more teamwork. But it’s still an issue, because the people we employ have significant disabilities.”

## **NEXT STEPS**

What’s surprised Lenz most over the years is that “By gosh, we did it! It’s been fun to look back and see what we’ve done. And I think it’s important to pat ourselves on the back once in a while, not be so concerned with what we’ve failed to achieve but instead think about all those that haven’t succeeded at all. The abilities of our client workers continually amaze me. We *depend* on them, and they’re phenomenal in the things they can do. We can’t be successful if they’re not there for us.”

As for the future, “we *have* to grow our customer base,” says Lenz, and to that end the company is exploring the possibility of creating its own storefront and reaching out to customers in other cities. “As long as it’s printed locally,” she says, “we can pick it up, get the mailing list by e-mail, put it together and take it to the post office.”

Long-term, Lenz will also attempt to pump revenue by doing more mail fulfillment work and creating an integrated workforce, which means recruiting people who are not disabled to work alongside those who are. She also plans to upgrade equipment, increase the use of computers and work toward a more competitive wage for the people in the mailing room.

## **CRITICAL SUCCESS FACTORS**

In addition to **providing extraordinary customer service** and **finding a balance between rehabilitation and business goals**, Lenz has identified seven other factors that have been critical to the success of her mailing business.

**Industry expertise:** “No matter what kind of business you start,” says Lenz, “you have to be an expert at what you’re doing. With us, we had to learn the mailing regulations. We keep up with them so our customers don’t have to.” Two years ago, when Lenz was searching for somebody to run the business, she turned to Oswald, who had significant experience working for the post office. “It made a very big difference,” says Lenz. “You *have* to keep up with the constant changes in postal regulations. If you don’t do that, you don’t have anything to offer.”

**Reasonable expectations:** “In the beginning,” says Lenz, “we tried to be everything to everybody, whenever they wanted. But, like every business,

there’s a limited amount we can do, so now we’re much more realistic. When a customer wants something done and we know we can’t do it, we’ll tell them. And guess what? They’ll often adjust their expectations and wait for us to do the work anyway.” The company learned its lesson the hard way in the mid-1990s. “We had a really phenomenal volume of work,” says Lenz, “and we weren’t able to keep up. We lost some customers and we learned that once you lose a customer it’s pretty hard to get ‘em back.” And she emphasizes that another aspect of promising to deliver is following through. “If we say, ‘Yes, we can do it,’” she says, “then we do.”

**Strategic partnerships:** Lenz says “we couldn’t have done this without the support and assistance of the post office — they’ve given us a lot of technical assistance and taught us everything we’ve learned about bulk mailing. For them, I’m sure having an organization like us is helpful, because it reduces the number of organizations showing up with bulk mailings that aren’t sorted or otherwise ready for mailing. When people like that come to them, the post office sends them to us.” The company also receives referrals from the many alliances it has with printers and advertising agencies.

**Marketing:** “Another key turning point in our history,” says Lenz, “was realizing we needed to write a marketing plan instead of depending only on word of mouth. We discovered we had to get out there and sell this business, and that became a critical piece.” UDAC started working with an advertising agency three years ago to develop a marketing plan and collateral materials and is about to launch a web site. Over the years, the organization has used direct mail and both newspaper and radio ads . . . all of which has helped shape in the field of play. “Interestingly enough,” she says, “the thing that still works best is word of mouth and referrals . . . but you’ve got to have visibility before the word of mouth can take place.”

**Full-time management:** “We started out by having somebody supervise the business part-time,” says Lenz, “but after about a year we decided we had to bite the bullet and hire somebody full-time. We realized that even if we thought we couldn’t afford it, *we couldn’t afford not to!*”

**Seasonal fluctuations:** Lenz says “one of the things we discovered very early is that this is an extremely time-sensitive business. We didn’t know that going in. Summer tends to be a very, very slow time, but once we start hitting September and October the crescendo just builds until Christmas. Sometimes we’ve had to bring in crews from other organizations such as Goodwill or the Human Development Center to help with our work.”

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*“We started out by having somebody supervise the business part-time, but after about a year we decided we had to bite the bullet and hire somebody full-time. We realized that even if we thought we couldn’t afford it, we couldn’t afford not to!”*

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**Getting it right:** Finally, she says, the customer won't pay for mistakes. "If you screw up, you're costing yourself money, so quality control is essential. You have to do it right the first time."

## **FINAL WORDS OF ADVICE**

Lenz has one last recommendation for wanna-be social entrepreneurs.

"Read a book," she says, "take a class, do something, but write yourself a business plan. Don't be afraid of it." UDAC is currently incubating another business, "and I'm making the people in charge write a business plan. They're *so* into vision and conceptualizing and I'm saying 'That's really great, but then what happens?' I can see they're getting really frustrated with me, but we're not going to be able to go out and get the financing we need until we can prove we know what we're doing."

## UDAC Mailing

### TYPE OF BUSINESS:

**Direct mail assembly and shipping services**

**Mission:** To provide work opportunities for people with disabilities through a mailing service responsive to the individual and unique needs of its customers

**Year founded:** 1991

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** Duluth, Minnesota

**Geographic market:** Duluth/Superior metro region and southern St. Louis County

### CURRENT FINANCIAL PERFORMANCE

*(fiscal year ending December 31, 2000)*

*Annual sales:* \$155,619

*Net profit:* \$ 11,535 (7.4 per cent)

### SOCIAL RETURN ON INVESTMENT

*Number of part-time employees who are developmentally disabled:* 100

*Average hours worked per employee:* 15-20 per week

*Annual payroll for disabled employees:* \$40,265

### INITIAL INVESTMENT

*Planning time required before operations began:*

One year

*Dollars required before operations began:* \$46,590

*Sources of planning dollars:* Grants from the Northland and Ondean Foundations, plus a corporate contribution from St. Mary's Duluth Clinic

*Additional working capital required:*

\$12,000 - \$15,000 per year

*Sources of working capital:* Subsidies from the parent corporation for rent, accounting and personnel services

*Time required to recover planning dollars and working capital:* Not yet recovered

### PARENT ORGANIZATION:

**UDAC Inc. (founded 1969)**

*Mission:* To provide customized services to people with disabilities based on their choices

*Programs:* On-site employment opportunities (mailing company and commercial laundry), community work crews, senior services, recreation and leisure services, transportation services and a wide variety of therapeutic services (including communication, occupational and physical therapies, plus assistive technologies and more complex therapies for those with special needs)

*Annual operating budget:* \$2,091,623

*Number of employees (FTE):* 55

*Number of people (unduplicated) served per year:* 165

### SENIOR MANAGEMENT TEAM

*Executive Director:* Bobbie Lenz

### Contact information

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## Chrysalis Labor Connection/Chrysalis StreetWorks



**PROFILE:**  
**DAVE MCDONOUGH**

Dave McDonough came to Chrysalis in 1990 after six years as a marketing specialist for a restaurant franchise and four years as manager of sales and marketing for a publishing company. He helped launch Chrysalis Labor Connection, led the team that created Chrysalis StreetWorks and today oversees all the organization's employment services. He also serves on the Board for the Los Angeles Emergency Food and Shelter Program and is a member of the Los Angeles Police Department Community Police Advisory Board. In 1998 he was one of six representatives from organizations around the country who spoke at a White House conference on hunger and poverty. McDonough attended San Jose State University for three years and later completed a 14-week strategic planning course at the University of Southern California. He and his wife Ann have two children, ages 16 and 14.

### CULTURE CLASH

Everything changed.

“Right off the top,” laughs Dave McDonough, “it was just the way the new people walked and talked and dressed and approached their day. It was a big shock to the rest of us.”

Chrysalis is a Los Angeles nonprofit that helps people who are economically disadvantaged become self-sufficient by giving them employment opportunities . . . and in 1991 it started a business called Chrysalis Labor Connection.

It wasn't much. It limped along for about three years. And then McDonough did something he now says Chrysalis should have done at the very beginning.

“We decided to hire some people who knew what they were doing,” he laughs, “some people with background in our type of industry. And when we made the decision to hire professional staff, all of a sudden we had a lot of new customers, all our systems were revised and revamped and we really started to grow.”

One of the new people was a woman who had a dozen years of experience in the staffing industry, another was a veteran of the customer service wars and a third had been an account executive. But hiring them was just the beginning.

### CREATING A HYBRID CULTURE

“At that point,” says McDonough, “the issue for me was integrating the folks from the private sector with the people from Chrysalis to make sure the business worked smoothly. It was a lot of work and it raised a lot of issues.”

For one thing, he says, “the new staff members were paid less than they could have been if they'd stayed in the private sector, but they were still being paid more than the staff at Chrysalis.” For another, “we really had to get down to basics. We had to find a happy medium between thinking about what was best for our clients, the people we were employing, and what was best for our customers.”

At the same time, there were rumblings at the Board level. “We started to feel a pull on our working capital,” says McDonough. “It was tough. We were ultimately able to get a credit line – but in establishing the line we lost three Board members who said they never intended to get on a Board and find themselves managing debt.”

Ultimately, the cultural clashes led to an influx of new Board members, staff members and volunteers who came to Chrysalis “with a more business-like and risk-friendly attitude. The culture changes have been very important to us,” says McDonough, “but it needs to be managed, all the time, and all the way from the receptionist at the front desk to the Chairman of the Board to the donors and funders.”

## ORIGINS

Chrysalis was founded in 1984 as a food and clothing distribution center serving homeless men and women living on the streets of Los Angeles’s Skid Row. Today, in addition to operating Labor Connection and another business called StreetWorks (more on that later), Chrysalis offers a job readiness program (job counseling, job clubs, a mail and message center, clothing and transportation assistance), a job retention program (post-employment supportive services), and a series of stress management and other mental health services. The annual operating budget is \$6.2 million and more than 1,800 people found employment during the most recent fiscal year (ninety per cent of the people completing the job readiness program secure employment). Adlai Wertman is the President and CEO, and there are 52 staff members.

Chrysalis’s entrepreneurial adventure began in the late 1980s. “Los Angeles was going through a recession,” says McDonough, “especially in the manufacturing and construction industries. Folks were looking for work, and those with multiple barriers were out of the work force for quite a long time.” At that point, he says, Chrysalis was working primarily “with people from Skid Row, and our clients had multiple barriers. Homeless. Substance abuse. Struggling with mental health issues.”

Right about that time, the temporary help industry began to thrive and gain ground, and Chrysalis decided to give it a try. “We thought that one of the best things we could do,” says McDonough, “was to create some type of short-term employment that would give our clients some income, keep them busy and keep them motivated. Plus, for people who didn’t have much of a work history, we could give them a track record.”

The Hilton Foundation gave Chrysalis a two-year grant of \$185,000, some of which went into planning for the new business. One of the first challenges was solving the workers comp issue. “We had a lot of discussion at the Board level,” says McDonough. “We didn’t know whether it would be possible to provide that kind of coverage to this kind of population – or if we could afford it.” But “we got our insurance policies in place,” McKinsey & Company did some market research, and “we started off very slowly, sending two or three people out a day to clean buildings. All the work was general labor and very short-term.” Gradually the company began to develop more accounts and also the type of

## Dave McDonough talks about . . .

- What happens when you finally hire people who know what they’re doing
- The fruits of a cultural change
- The agonies of waiting for your business to grow
- Re-positioning your company (and dramatically accelerating sales)
- Thoroughly learning the business before expanding
- The challenge of meeting payroll when your customers don’t pay you for 90 days
- The power of partnerships with other nonprofits
- The dangers of the “vacuum” effect

assignments where people could go directly to work rather than coming in first to the Labor Connection offices, which was the old Labor Hall approach to day laboring.

For the first couple of years, the business grew agonizingly slowly. “A big day would be having eight or ten people out on a job,” says McDonough, who arrived in 1992 in the middle of the second year.

A few months later he took the plunge into culture shock.

### **RE-POSITIONING . . . AND A SECOND BUSINESS**

Two other events took place shortly after the professional staff arrived.

First, the company stopped referring to itself as a temporary help agency. “We started presenting ourselves as a full-service staffing firm,” says McDonough. “Whether you need us for a day or a year, we’re ready to serve.”

That re-positioning accelerated sales dramatically and enabled the company to compete more effectively with organizations such as Labor Ready, a for-profit company with annual sales of close to a billion dollars. “Their niche is general labor and construction,” says McDonough. “They can get you 50 guys in a day, and they pay them every day. They’ve had tremendous growth during the last ten years and are the vendor of choice for general labor for the private sector. But they’re basically just a chop shop. They’re looking for breathing bodies. They don’t provide any of the job readiness or support services that we provide.”

And then one day “a customer asked a couple of our employees to do some sweeping work outside in the garment district,” says McDonough, and that was the beginning of Chrysalis’s second business, StreetWorks. “If we hadn’t been in the market with our staffing firm,” he says, “it would never have happened.”

Chrysalis decided to spin off the new company in 1995 and position it as a street maintenance vendor. At the same time, the concept of a Business Improvement District, a phenomenon which emerged first on the East Coast, arrived in Los Angeles and a number of districts began to form. “We spent a year and a half in the garment district learning how to do the business,” says McDonough, “and then we went after all those other contracts.” Today StreetWorks provides high-powered pressure washing, litter removal and graffiti removal for business improvement districts, local governments and private companies. Annual sales for the most recent fiscal year were \$1.5 million, with a net loss of only \$41,000.

Meanwhile, Labor Connection itself doubled its annual sales from \$300,000 in 1994 to \$600,000 in 1996, went to \$850,000 by 1998 and is now at \$1.45 million. “We’re looking at continued sales growth of eight to ten per cent a year,” predicts McDonough, “and we’re actively looking for new sites.” Labor Connection has already opened an office in Santa Monica, where it does more office work than it does in downtown Los Angeles.



**CHRYSLIS STREETWORKS:** *The people who work for the organization's street maintenance business helped generate \$1.5 million in revenue during the most recent fiscal year.*

## **CRITICAL SUCCESS FACTORS**

Hiring a **professional staff**, creating a **hybrid culture** and **re-positioning** itself as a full-service staffing firm have all been critical to the success of Labor Connection. Overcoming **transportation** hurdles has been another, and McDonough emphasizes three more.

**Collections:** The challenge is stark. “You pay your employees every Friday and you send out invoices once a week,” says McDonough. “But you don’t get paid for 30 or 45 days.” At one point during its history, he says, Labor Connection “had a bad accounts receivable problem, and we discovered the primary reason was our inability to get our invoices out on time. We really weren’t getting them out – and then when they did go out they were wrong! So the customer would say, ‘Well, this one’s wrong, I’ll just set it over here.’ It was amazing, really. So we hired a woman in our finance department who had a background in collections . . . and it turned out it wasn’t really a collections issue at all as much as it was a follow-up issue. We made sure the invoices went out on time, called customers to follow up and in just a few months went from having about 60 per cent of our accounts receivable unpaid after 90 days to having the bulk of them paid within 45 days.”

**Customer service:** “What we found is that our customers had long experience with people who didn’t show up,” says McDonough. “What they wanted from us was for us to be there for them and to be responsive 24/7. If you can be that and not wait until they call and scream, really be on top of things, they’ll stick with you.” And speed is one of the most important aspects of customer service in the staffing business. “You need to act quickly when a customer needs ten people,” says McDonough, “so having access to a labor pool is essential.”

**Alliances with other nonprofits:** “We’ve built up relationships with a lot more nonprofits than we otherwise might have done,” says McDonough, “because we need a lot of sources to find people when a customer asks us for a certain type of skill. Customers who use us primarily to fill entry-level positions might all of a sudden need a bookkeeper or a night manager and we don’t have a person to meet that need.”

One of the most satisfying relationships Chrysalis has constructed over the years has been with a nonprofit called SRO, the largest provider of low-income housing in the Los Angeles area. “They’ve been a customer and a partner,” says McDonough. “Our guys start out by doing custodial work in their buildings . . . but today, of their 18 hotels, 14 are being managed by people who came up the ranks from Chrysalis, starting off as a temporary worker.”

## **FINAL WORDS OF ADVICE**

McDonough recommends that any nonprofit wanting to start any kind of business “go get somebody with lots of years of experience in that specific industry who at the same time really has a passion for your mission. I would also go slow, especially during the first year. And don’t expect home runs and lots of money early.”

He also warns against what he calls “the vacuum effect. For example, getting a huge customer up front can cause you a lot of pain and agony, as opposed to slowly adding small ones that enable you to build and ramp up. We had a couple of big customers once and the shock was enormous. They needed 30 people for a week and it sucked up people from everywhere and became the only focus for everybody.”

# Chrysalis Labor Connection

## TYPE OF BUSINESS:

**A full-service staffing agency providing personnel for short-term, long-term, temp-to-perm and direct hire**

**Mission:** To provide employment opportunities for people who are economically disadvantaged (the goals are to help them transition off public dependence by attaching them to the work force, increasing their wages and annual income and helping them achieve long-term self-sufficiency)

**Year founded:** 1991

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** Los Angeles

**Geographic market:** Los Angeles county

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

**Annual sales:** \$1,450,000

**Net profit:** \$66,000 (4.6 per cent)

## SOCIAL RETURN ON INVESTMENT

**Number of employees (average day):** 85

**Number of employees (entire year):** 450

**Percentage of employees who are disabled or disadvantaged:** 95 per cent

**Average wages:** \$7.90

**Average income (annual):** \$15,000

**Job retention after completion of program:** 82 per cent

## INITIAL INVESTMENT

**Planning time required before operations began:** Two years

**Dollars required before operations began:** \$185,000

**Source of planning dollars:** Grant from the Hilton Foundation

**Time until the business generated positive cash flow:** Six years

**Additional working capital required before generating positive cash flow:** Unknown

**Sources of working capital:** Foundation grants, credit line

**Time required to recover planning dollars and working capital:** Not yet recovered

## PARENT ORGANIZATION:

**Chrysalis (founded 1984)**

**Mission:** To help people who are economically disadvantaged become self-sufficient through employment opportunities

**Programs:** Two business ventures (Chrysalis Labor Connection and Chrysalis StreetWorks), a job readiness program (job counseling, job clubs, a mail and message center, clothing and transportation assistance), a job retention program (post-employment supportive services) and a stress management program (mental health services)

**Annual operating budget:** \$6.2 million

**Number of employees (FTE):** 52

**Number of people (unduplicated) served per year:** 1,850 secure employment

## SENIOR MANAGEMENT TEAM

**President and CEO:** Adlai Wertman

**Senior Director, Employment Services:** Dave McDonough

**Senior Director (Labor Connection):** Jackie Murray

## Contact information

Dave McDonough  
516 South Main Street  
Los Angeles, California 90013

**Telephone:** 213-895-7777

**FAX:** 213-895-7525

**E-mail address:** mcdonoughd@changelives.org

**Web site address:** www.chrysalis.org

# Chrysalis StreetWorks

## TYPE OF BUSINESS:

**Street maintenance (high-powered pressure washing, litter removal and graffiti removal)**

**Mission:** To provide employment opportunities for people who are economically disadvantaged (*the goals are to help them transition off public dependence by attaching them to the work force, increasing their wages and annual income and helping them achieve long-term self-sufficiency*)

**Year founded:** 1995

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** Los Angeles

**Geographic market:** Business Improvement Districts, local governments and private companies in Los Angeles County

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

**Annual sales:** \$1,500,000

**Net profit:** \$ -41,000 (a negative 2.7 per cent)

## SOCIAL RETURN ON INVESTMENT

**Number of full-time employees:** 32

**Number of full-time employees who are disabled or disadvantaged:** 31

**Number of part-time employees:** 45

**Number of part-time employees who are disabled or disadvantaged:** 45

## INITIAL INVESTMENT

**Planning time required before operations began:** One year

**Dollars required before operations began:** \$50,000

**Sources of planning dollars:** Private foundations

**Time until the business generated positive cash flow:** Has not yet reached break-even

**Additional working capital required before generating positive cash flow:** Has not yet reached break-even

**Sources of working capital:** Foundations, credit line, upfront payment from some customers

**Time required to recover planning dollars and working capital:** Not yet recovered

## PARENT ORGANIZATION:

**Chrysalis (founded 1984)**

**Mission:** To help people who are economically disadvantaged become self-sufficient through employment opportunities

**Programs:** Two business ventures (Chrysalis Labor Connection and Chrysalis StreetWorks), a job readiness program (job counseling, job clubs, a mail and message center, clothing and transportation assistance), a job retention program (post-employment supportive services) and a stress management program (mental health services)

**Annual operating budget:** \$6.2 million

**Number of employees (FTE):** 52

**Number of people (unduplicated) served per year:** 1,850 secure employment

## SENIOR MANAGEMENT TEAM

**President and CEO:** Adlai Wertman

**Senior Director, Employment Services:** Dave McDonough

**Director (StreetWorks):** Ed Hennessey

**Area Manager (StreetWorks):** Ed Partridge

**Area Manager (StreetWorks):** Kathy Cervantes

**Area Manager (StreetWorks):** Steve Mayorga

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**PROFILE:**  
**VINCE POPPITI**

Vince Poppiti arrived at Binding Together, Inc., in 1994 after more than 20 years as an accountant and controller in the graphic arts industry. He joined the senior staff in 1996 and became Director of Business Services in 1998, making him responsible for all of BTI's fiscal operations and for developing new business opportunities; his primary mission is to grow the business, and he's done so at a rate of 15 per cent per year for each of the past three years. Poppiti graduated from Ball State University in 1973 with a degree in accounting and spent the next 15 years with Quality House of Graphics on Long Island. He also coached soccer for ten years at the elementary and high school levels. He and his wife Mary live in Seaford, New York, and have three grown daughters.

## AGAINST ALL ODDS . . .

Try building a business this way:

- Recruit employees from the ranks of recovering substance abusers, people who are homeless, high school dropouts and felons
- Keep your production employees for no more than six months
- Have them spend large chunks of the work day in classes or counseling sessions

A nonprofit in New York City did . . . and did it successfully.

The adventure began in 1986 when Phil Caldarella, the co-founder and Executive Director of Binding Together, Inc. (BTI), spotted an opportunity for entry-level positions in the copying and printing industry. The organization's initial goals were somewhat unique for the time . . . to run a business that would simultaneously help people who have multiple barriers to employment find and keep permanent jobs.

Over the years BTI's printing/copying/binding/fulfillment/mailing business has grown to \$1.1 million in annual sales and a net profit of 11.6 per cent.

Most of the employees are recovering substance abusers. "They have to be clean for six to 12 months before we'll take them," says Vince Poppiti, who became Director of Business Services in 2000. The majority are high school dropouts, many were recently homeless and "there are quite a few with misdemeanor and felony convictions." Some have never had a job, they range in age from 21 to the mid-50s, and they either come to BTI from treatment centers or as outpatients.

The challenge, says Poppiti, is helping them adapt to the world of work.

### REALISTIC WORK ENVIRONMENT

"We try to set up a work environment inside the shop," he says. "They punch time cards, follow a dress code." But BTI also spends a lot of time teaching them life skills. "Some of these guys have never filled out a W-4 form or paid a telephone bill," he says, "never done the things they need to do to succeed."

The student workers spend eight hours a day working in the print shop, taking classes, attending individual counseling sessions, participating in mock job interviews. It's a four- to six-month program with rolling enrollment, which means BTI is bringing in about 20 new people a month and serving approximately 75 to 90 people at any given

time. Each person is assigned to one of two full-time job developers who help them prepare for interviews and search for a job. Two other full-time staff members do follow-up with graduates for about 15 months.

There are three graduation ceremonies a year, and Poppiti says “they can really get to you. Many of these people have never graduated from *anywhere* and they each get a diploma and usually two or three get up and give some compassionate talk about their experiences at Binding Together.” The graduates also receive a \$1,000 stipend and, if they stay on their new job for six months, another \$1,000. The stipends are intended primarily to ease the transition once the students move out of a treatment center into New York City’s rental market, where it costs at least \$700 for a one-bedroom apartment. All the stipends are generated from print shop profits. BTI has also formed an alumni association that meets periodically, arranges dances and bowling parties; it’s hard to hold meetings, says Poppiti, “because in the ‘real’ world businesses run three shifts and our graduates are often spread out among them.”

## DIVERSIFIED CUSTOMER BASE

A major portion of the print shop’s sales come from contracts with more than 250 institutional customers, including corporations, government agencies, litigation houses and nonprofits. Another portion of the customer base consists of brokers (middle men who work with both the customer and the print shop) and other printers who turn to BTI for overload help or fulfillment services, which typically consist of hand assembly work such as collating pieces into packets, inserting them into envelopes, affixing labels and shipping.

The average job handled by the shop brings in \$400 to \$500 in revenue, and there are about 50 jobs a week. BTI increased its sales by approximately 30 per cent in its most recent fiscal year and is hoping for another 10 to 15 per cent increase this year. Two areas of business that are growing rapidly are color and digital copying.

Binding Together is located in the Tribeca district of New York City. There are 32 people on the full-time staff, including seven graduates of the business venture, and the over-all budget is \$3.2 million.

## CRITICAL SUCCESS FACTORS

Poppiti has identified six factors that have been critical to the company’s success.

**Quality control:** “You’ve got to make sure the product that walks out the door is right,” he says, and that’s complicated for BTI because “we have to overcome the obstacle of always having new students as workers.” That means constant

## Vince Poppiti talks about . . .

- Building a business when none of your production employees stay for more than six months
- Setting up a for-profit mentality inside a nonprofit atmosphere
- Why a promise is a promise . . . including getting things finished on time
- Making sure the work is done right before it goes out the door
- Operating in a fiercely competitive industry
- The snares of government bureaucracy
- The importance of “repeat” customers



training and heavy supervision before any job goes out. “When we’re doing a job for a broker,” says Poppiti, “he doesn’t necessarily care that you’re a nonprofit. He has to supply his customer and he needs the job done correctly.” And he says “quality” also means “getting it done on time. When you make a promise, you have to keep that promise . . . and if you’re not going to keep the promise, you’ve got to inform the customer and do whatever you have to do, including overtime.”

**Balancing the for-profit and nonprofit missions:** “One of our toughest jobs,” says Poppiti, “is to establish as much of a for-profit mentality as we can inside the shop – but always within the limitations of a nonprofit atmosphere.” How do you run a business with people who are spending much of their time in classes and counseling sessions? The answer, says Poppiti, is flexibility. “For example, if we suddenly have a rush job that has to be done in an hour but five students have to go to computer training, we’ll reschedule the training. The customer doesn’t want to hear about those sorts of things.” In sum, “it’s a unique situation to run a for-profit and a non-profit simultaneously. You always remember the students first . . . but you still have to produce as a business.”

**Technology:** One of the forces driving the printing industry today is changes in technology. According to Poppiti, “manufacturers are making two types of copier machines, analog and digital. Xerox and Canon are only producing digital machines. And that means we have to help our employees get basic computer skills because they need them to operate a copying machine that’s driven by a computer.” And that leads to another challenge . . .

**Equipment:** “We can’t be training people on ancient equipment,” says Poppiti, but acquiring new equipment has always been a challenge. “Over the years,” he says, “we’ve tried to get funding from the government or grants from Foundations,” but it’s been slow going, and one of the reasons has been an inability to justify the expense. “Our competition can run its equipment 24/7,” says Poppiti, “but we can’t do that. Obviously, the more you run it, the more impressions you make a month and the lower the cost per impression. We’re looking into buying new equipment now, and we’ve looked into expanding to a second shift, but we’re not at that point yet. Before we go to 24/7, we’d have to hire additional staff, so first we need to be sure we have enough work to make it profitable.”

**Recruitment:** There are all sorts of bureaucratic obstacles to keeping the pipeline of students full. “We recently hired someone to do full-time recruitment,” says Poppiti, and one of that person’s jobs is “to cut through some of the government bureaucratic red tape that slows down the processing.” Some of the money BTI needs to provide the training classes and job readiness counseling sessions comes from the Department of Vocational and Educational Services for Individuals with Disabilities (VESID), but before the money can flow, VESID must approve the individual and the rate per day of service. BTI’s new recruiter helps get them processed.

**Repeat business:** “We’re constantly prodding ourselves to get repeat customers,” says Poppiti. “I keep preaching to our new sales people that it’s so much easier to work with a regular customer than to start from ground zero every time.” BTI is also getting an increasing number of referrals, “so obviously we’re doing something right.”

## **FINAL WORDS OF ADVICE**

Poppiti’s advice for others looking to start a printing business is simple. “Start slowly,” he says. “Build from the ground up and be ready to put in some long hours.” And he offers a caution. “Test the market,” he says. “Do some kind of study to see what types of employees local industry needs for the future. It may turn out to be something entirely different than what you expect . . .”

# Binding Together, Inc.

## TYPE OF BUSINESS:

**Printing, digital copying, litigation photocopying, color laser copying, binding, fulfillment services, mailing**

**Mission:** To provide on-the-job experience for individuals who have multiple barriers to employment and to generate revenue to support the organization's training and counseling services — student workers include people who are homeless, disabled, recovering from substance abuse or are unemployed or underemployed because of economic or educational barriers to employment (*the goal is to place graduates in full-time jobs that pay at least \$8 per hour plus benefits and to help them leave the public assistance rolls*)

**Year founded:** 1986

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** New York City

**Geographic market:** Metropolitan New York City area (including western Long Island)

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending June 30, 2000)

Annual sales: \$1,145,955

Net profit: \$132,533 (11.6 per cent)

## SOCIAL RETURN ON INVESTMENT

Average number of student workers at any given time: 75 to 90

Total number of student workers (annual): 175

Percentage who graduate: 75 per cent

Percentage of graduates who find full-time employment: 95 per cent

Percentage who are still employed full-time one year later: 70 per cent

Number of graduates since 1988: More than 775

## INITIAL INVESTMENT

Planning time required before operations began: One year

Dollars required before operations began: \$150,000

Source of planning dollars: Government subsidy

Time until the business generated positive cash flow: One year

Additional working capital required before generating positive cash flow: \$362,000

Sources of working capital: Government subsidy plus corporate and Foundation contributions

Time required to recover planning dollars and working capital: Six years

## PARENT ORGANIZATION:

**Binding Together, Inc. (founded 1986)**

**Mission:** To help people who have multiple barriers to employment find and maintain competitive employment

**Programs:** Vocational training supplemented by social service support and counseling

Annual operating budget: \$3,205,049

Number of employees (FTE): 32  
(including seven graduates of the training school)

Number of people (unduplicated) served per year: 175

## SENIOR MANAGEMENT TEAM

Executive Director: Philip J. Caldarella

Director of Business Services: Vincent Poppiti

Director of Operations: Carlyle Roberts

Manager, Customer Service/Sales Support Service: Lori Kelly

## Contact information

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## Provident Counseling, Inc.

### SOMETHING HAD TO BE DONE . . .



**PROFILE:**  
**KATHLEEN BUESCHER**

Prior to joining Provident in 1989, Kathleen Buescher provided child protective services in Texas and served as CEO for Toledo-based Family Service of Northwest Ohio. An Indianapolis native, she earned her undergraduate degree in psychology from the University of Texas at Austin and her MSW from the University of Michigan. She's on the professional advisory committee for the School of Social Work at Washington University and is a director for both the St. Louis County Mental Health Board and The Missouri Alliance for Children and Families. She's also a founding member of the Board for The Academy of Gemology and a former Board member for a number of other nonprofits, including the University Club of St. Louis, Logos School and the Ecumenical Housing Production Corporation. Buescher and her husband David Milligan live in University City, Missouri; she has two stepchildren and seven grandchildren.

What happens when a business you've been operating for 20 years begins to go south? When competition stiffens, your senior people resign and revenue starts to drift?

If you're Provident Counseling, Inc., of St. Louis, you scan the horizon to find another business opportunity that restores your competitive edge and forms a powerful strategic alliance with your existing business.

Provident helped pioneer the field of employee assistance programs (EAPs) in the late 1970s when long-term President Tony DeMarinus saw an opportunity to provide a much-needed service to corporations and their employees. Until that time, most EAP programs had been focused on alcoholism in the workplace, but DeMarinus sold his Board of Directors on the idea of significantly expanding the types of services provided. Unfortunately, DeMarinus died of a heart attack before he could launch the new program, a task that fell to his successor, Paul Reed.

Employee Counseling Service (ECS) today offers employee assistance programs that corporate customers use as an employee benefit. ECS provides confidential, short-term counseling services to employees or members of their families; employees either seek out the program themselves or are referred by management when it appears that personal problems are interfering with job performance. Services also include critical incident debriefing whenever there's a crisis at the job site (for example, an injury or a death or a robbery). Most employers also hire ECS to provide wellness workshops at the work site to give employees the information they need to make health care decisions, and ECS is currently developing several additional programs, including behavioral risk management and emotional intelligence assessment.

The business grew slowly at first. In its early days, the chief obstacle was simply convincing people that the concept itself had merit. But eventually the St. Louis public school system and a large engineering company came on board and the business has been self-supporting (and at times very profitable) for more than 15 years.

#### NEW LEADERSHIP

Kathleen Buescher took over as Provident's President and CEO in 1989 and has built it into a \$5 million agency that provides an array of services for more than 15,000 children and families each year. Much of the growth can be attributed to the seed money provided by a variety of business ventures (including a managed care company) that have at times contributed more than \$600,000 a year in profits to the parent nonprofit, which was founded in 1860.

The strategy of starting business ventures hasn't been an accident. "It's my theory," says Buescher, "that nonprofits in the future will have to fund a lot of their mission this way. We're just not going to have sufficient other money to do it. We'll have to earn it ourselves.

"And the beauty of making a profit, as we've been able to do during the past 15 years, is that you can do *a lot* with the money, you can do what *you* want to do. You can do it *how* you want to do it for as *long* as you want to do it and you don't have to make *anybody* happy except your own Board and staff. You don't have to meet anybody else's expectations. That's a very freeing idea, and once you feel it, you don't want to go back to the confines of any other type of funding. So I say go for it! Be courageous, say your prayers and jump off the edge – you can do it!"

But sometimes the market intervenes, and the world of employee advisory programs has been undergoing major changes in recent years. "Those of us in the nonprofit sector are all fairly familiar with government funding cycles and how the United Way does its work," says Buescher. "We're comfortable with the cycles involved in private giving and Foundation grants. But in the business arena, there are new forces we have to be aware of – market forces, industry forces – and we sometimes have very little control."

One of those forces is competition, and it has changed the landscape dramatically for EAP providers. "There used to be more companies competing," says Buescher. "Now there are fewer, they're a lot bigger, and they've turned it into a commodity business. And that means pricing has become a very big deal." Customers pay a capitated rate per year per employee, regardless of how many employees use the program or for how long, which means EAP companies take a major risk when they price their product, and Buescher says prices today "are really being driven down. We used to be able to price this at \$30 or \$35 per year per employee . . . now it's down to \$12 to \$18."

That downward slide has also placed heavy pressure on profitability. In its most recent fiscal year, ECS generated \$714,000 in revenue with a net profit of \$33,000, far below its historical levels.

Something had to be done.

## THE BIRTH OF A NEW COMPANY

In early 2000, Provident launched a new business called At Ease Home Care, Inc., (AEHC) to provide home care services to elderly people in the private pay market.

Part of the strategy for the new company is to leverage its relationship with ECS

## Kathleen Buescher talks about . . .

- The "beauty" of making a profit
- The uncertainty of market forces
- The power of leveraging one company with another
- Surviving a false start
- The importance of non-compete clauses
- Discovering that when you're dealing with corporations — "everything" is negotiable
- The dangers of skipping steps in the business planning process
- The difficulties of starting a business when nobody on the Board has any relevant experience
- The uneasy relationship between a parent nonprofit and its for-profit subsidiary

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*“We can probably make our three-year projections – but building this kind of business takes a long, long time. The third year’s gotta start now!!!”*

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by selling to ECS customers. But it works both ways, because the home care company also increases the attractiveness of the counseling services — it’s an additional benefit ECS customers can offer their employees.

In fact, ECS is increasingly being viewed by Provident as a platform for growth in related areas, and not just home care. According to Buescher, ECS may never return to its historical revenue and

profitability highs, but “we’re hanging in there. We’re the only nonprofit EAP left in St. Louis. All the others have either been gobbled up or gone out of business, but we think it’s important to have access into the business community, and we see ECS as an invaluable point of entrée for our other services. So even though we don’t make as much money with ECS any more, we’re not losing money – and what it does is give us access to a population we might not otherwise have.”

As for the specific relationship between ECS and AEHC, Buescher predicts it “will make both companies unique. To our knowledge, this kind of relationship between an employee counseling service and home care doesn’t yet exist anywhere else, although it’s just a matter of time. Right now, though, it’s a new idea.”

School is still out, of course. AEHC is less than two years old. “Our initial business plan called for us to break even by the end of the third year, with revenue of about \$500,000,” says Buescher, but AEHC learned a hard lesson right out of the box.

“We wanted to sell to the private pay market,” she recalls. “That was our vision. But we’ve learned that with private pay alone you can’t grow it fast enough. When we started, we were generating two or three private pay clients a month, and we thought that was terrible, but once we hired a full-time guy with industry experience to run it he said, ‘that’s about right for private pay, they don’t come in that fast,’ and we said, oops, this is going to take too long. You need a base of other kinds of clients so you can keep staff busy and have them available when you acquire a long-term, 24-hour-a-day private pay client.”

The new man was Allan Smith, a veteran of the home care industry, who came on board in December of 2000, and AEHC immediately began turning to clients who had access to sources of third-party payment such as Medicaid. “By doing that,” says Buescher, “we can probably make our three-year projections – but building this kind of business takes a long, long time. The third year’s gotta start now!!!” A key strategy for Buescher will be to acquire “one or more mom-and-pop groups that have reached their limits of growth, either because they don’t have enough capital or because they lack certain management skills. They’ll bring along their clientele and employees.”

## **CRITICAL SUCCESS FACTORS**

Buescher’s experience has enabled her to identify nine critical success factors for the employee counseling service and eight for the home care business.

### Employee Counseling Service

**Confidentiality:** “It’s a huge thing,” she says. “It has to be one of your core values. Employees have to be able to trust you. They’re worried that if they use the program their employer will hear about their problems.”

**Neutrality:** “From the very earliest days,” emphasizes Buescher, “it was important that we didn’t use the business to feather our own nests. There was a lot of skepticism among employers that providers would be using EAP services as a ‘case finder’ – that people would come in for a couple of EAP counseling sessions and suddenly find themselves in long-term treatment or in-patient care with the same organization. It’s not as big an issue today, but we still have to be careful not to use the ECS program as a way to get clients into long-term counseling programs.”

Luring customers to other Provident programs is another matter, of course: Leverage is an important part of Provident’s on-going strategy, as evidenced by the partnership between ECS and the home care company.

**Accreditation:** “Most of the larger EAP programs don’t have any kind of oversight,” says Buescher. “Accreditation by the Joint Commission on the Accreditation of Health Care Organizations (JCAHO) has been critical to our success.”

**Critical incident training:** “It’s been useful to link critical incident de-briefing to the ECS program,” says Buescher. “We’ve had a lot of banking institutions as customers, and they call us out to de-brief employees after a robbery.” Other critical incidents might include such things as an injury at the work site or the death of an employee.

**Staffing issues:** “Early on,” remembers Buescher, “we thought our therapists could do the EAP work, but it turned out that the ECS business was primarily short-term counseling and our therapists just didn’t know how to do it. They couldn’t focus on what’s hurtin’ right now and get you on your way. So we had to hire a staff dedicated solely to this marketplace. Today, though, with the experience therapists have with managed care, our therapists are quite involved in EAP work.”

Another big mistake was hiring staff without signing them to non-compete clauses. “We let the staff operate too independently, and some of them developed an elitist attitude,” says Buescher. “They didn’t want to see themselves as part of Provident . . . and it ended up with our top three people leaving last year to compete with us in their own company.” Non-compete clauses are *de rigueur* today.

**Technology:** “We lost a contract a year ago,” says Buescher, “in part because we couldn’t offer self-help services on the web.” Web sites typically offer “pretty general information, but a lot of people are not very knowledgeable at all about things like how to manage their money or how to deal with stress, you know, the kinds of things you might do a brown bag lunch about, and a web site can give highlights, which is sometimes all they need, or help them identify what else they need.”

**Staying close to the customer:** One of the biggest surprises for Provident, says Buescher, has been discovering that



**AT EASE HOME CARE, INC.:** Staffing coordinator Karen Silman checks Patricia Varney’s pulse and takes her temperature.

“when you’re working with the corporate sector, *everything* is negotiable, unlike government contracts where it’s ‘thou shalt and thou shalt not.’”

Another surprise has been learning “that not all employee groups are the same. Different companies have different levels of utilization. For example, a company with a highly educated, primarily female workforce uses this type of program a lot . . . but a company with a lot of blue collar, high school educated males doesn’t tend to use it as much.”

All of which is to say that Buescher believes “it’s very important to stay in tune with your corporate customers. You have to stay very attentive and sensitive to their needs. We don’t want to be just a short-term counseling program. We want to be a resource to supervisors and to management.”

**Alliances:** Buescher says Provident discovered that many of its clients had employees “all over the country, in pockets of two or three, and we had a major challenge putting together units that could respond if those employees ever needed us.” To spread the risk and simplify the response mechanisms, Provident has formed alliances with other EAP providers across the nation and maintained membership in two national organizations, the Alliance for Children & Families and Mental Health Corporations of America. “We’ve been fortunate to serve as a sub-contractor for other members of those organizations,” says Buescher, “and, even more importantly, we’ve been able to use them as sub-contractors to help us serve our customers that have employees in their communities.”

**Being local:** Having a local presence has been one of Provident’s primary competitive advantages. “Some of our clients would prefer to have their employees deal with a local group, face-to-face,” says Buescher, “rather than having them call an eight hundred number and talk to people in Baltimore or wherever.” Being local has also given ECS the ability “to provide other kinds of related services, such as work-life seminars, brown bag lunches on health care topics and that sort of thing,” all of which have enhanced the company’s value to its customers.

### *At Ease Home Care, Inc.*

**Planning:** One of Provident’s biggest mistakes was not vetting its original business plan with enough people. Buescher says that Cynthia Jurishica, “the woman who developed the plan for us, tells me now that if she could do it again, she would have talked it over and over and over again with insiders and outsiders. We should have taken more time at the front end rather than getting surprised at the time of implementation, to be sure we weren’t missing anything.”

**Staffing:** Buescher admits Provident made a big mistake at the very beginning of the business development process. “We started by simply assigning the project as an additional set of responsibilities for one of Provident’s senior staff members,” she says. “That was a big mistake. It set her and us up for failure. As soon as things started popping at Provident, it pulled her away. We should have taken the time early on to find a full-time head for the company whose sole interest and total energies could go to developing the company.”

But finding the right type of leadership proved to be only one of Provident’s staffing challenges. “We started the company in the midst of a good economy,” says Buescher, “and that meant it was tough to recruit and hold on to certified nursing assistants and homemaker aides. You need to find good, reliable, honest people, but there’s lots of competition for them.”

**The Board:** Buescher recommends at least some of the Board members for this (or any) type of venture have experience in the specific industry being entered. “Our Board would have had a greater sense of confidence,” she believes, “if they’d had one or more members to turn to for an understanding of the business.”

**Timing:** “It’s critical,” says Buescher. “On the one hand, you think you should get out and recruit certified nursing aides and homemaker aides right away, but if you don’t have any business for them to start servicing, you lose them. It’s the chicken and egg thing. So you need to start marketing a couple of months before you hire your people and open your doors.”

**Transportation:** “Many of our employees live in the central city,” says Buescher, “but a lot of the work that needs to be done is in the suburban area, and public transportation here is still catching up with this reality. So if they don’t have reliable transportation on their own it’s tough to get to work.”

**Networking:** According to Buescher, one of the most important factors in the success of any home care business “is developing a network to bring in referrals. You need to stay in constant contact with physicians, discharge planners, geriatric case managers, all the people who deal with seniors.”

**Managing the business relationship with the parent organization:** It was surprising and painful for Buescher to learn that Provident might not be the best source of contracted services for the home care company. “We had expected to buy a number of our services from Provident,” she says. “Billing, payroll, human resources, that sort of thing. But Provident quickly began to feel too bureaucratic, didn’t move fast enough, and was a little more costly. Either Provident’s got to figure out how to do this thing more efficiently to support its subsidiaries or the subs will have to go find it out in the marketplace at a more reasonable price.”

**Communicating with the Board of the parent organization:** Another major mistake was “failing to keep the Board of the parent company overly informed. Even though we have a Board member from Provident on the Board of the new company as our communications link,” she says, “and even though I serve as the secretary/treasurer of the subsidiary, we’ve taken too much for granted. We need to inform them more, to ease their anxiety.”

The tension grows in part from the fact that ECS is still a program inside Provident, but AEHC is a separate, for-profit subsidiary. According to Buescher, “what the parent Board members say is ‘this is our money, we need a little more control over this,’ but what it says to me is we’re just not keeping them informed enough.”

On the positive side, however, she’s been pleased that the members of the Board for the subsidiary “have had a real urgency to make it grow and succeed and a real sense of responsibility back to the parent. They felt as if they’d been charged by the parent to make it a go, and when it bogged down a couple months after we got started, you could see their sense of urgency and anxiety. It was a positive anxiety, but it was definitely anxiety.”

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*“We had expected to buy a number of our services from Provident . . . but Provident didn’t move fast enough, and was a little more costly. Either Provident’s got to figure out how to do this thing more efficiently to support its subsidiaries or the subs will have to go find it in the marketplace at a more reasonable price.”*

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# Employee Counseling Service

## TYPE OF BUSINESS:

Short-term counseling services for employees or members of their families (offered by corporations and others as an employee benefit)

**Mission:** To further the well-being and self-sufficiency of families, individuals and communities

**Year founded:** 1979

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** St. Louis

**Geographic market:** Primarily the St. Louis area, although several customers have employees located throughout the country

**Number of staff members:** Four full-time and 10 part-time administrative personnel plus more than 200 counselors working as sub-contractors nationwide

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

Annual sales: \$714,000

Net profit: \$33,000 (4.6 per cent)

## SOCIAL RETURN ON INVESTMENT

Number of people served per year: 2,900

Customer satisfaction: 4.38 on a scale of 5

\* Contract utilization: 5.3 per cent

\* The percentage of people employed by ECS customers who use the EAP program in a given year

## INITIAL INVESTMENT

Planning time required before operations began: Unknown

Dollars required before operations began: Unknown

Sources of planning dollars: Special United Way grant and investments by Provident Counseling

Time until the business generated positive cash flow: Unknown

Additional working capital required before generating positive cash flow: Unknown

Sources of working capital: Special United Way grant and investments by Provident Counseling

Time required to recover planning dollars and working capital: Several years

## PARENT ORGANIZATION:

Provident Counseling, Inc. (founded 1860)

**Mission:** To further the well-being and self-sufficiency of families, individuals and communities

**Programs:** General counseling services for adults and children plus niche programs for special groups (batterers, child victims of abuse, compulsive gamblers, people who are dependent on alcohol and drugs); prevention services; community development services (especially for youth); partnerships (Missouri Alliance for Children & Families, a limited liability corporation formed by nine nonprofits); and business enterprises (Employee Counseling Service and At Ease Home Care, Inc.)

Annual operating budget: \$5 million

Number of employees (FTE): 65

Number of people (unduplicated) served per year: 10,000

## SENIOR MANAGEMENT TEAM

President and Chief Executive Officer:

Kathleen E. Buescher

Chief Professional Officer: Cynthia Jurishica

Director, Employee Counseling Service: Ken Bolyard

## Contact information

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# At Ease Home Care, Inc.

## TYPE OF BUSINESS:

Home care services for the private pay market primarily older people

Homemaker and home health aide services, including assistance with bathing or dressing, grocery shopping, preparing meals, light cleaning, transferring from bed to chair or managing financial affairs; also provides medication reminders, wake up and tuck in services, companion/sitter services, hospitality services and 24-hour care

**Mission:** To provide the highest quality home care services possible in order to help customers maintain their independence at home and generate profits to support the charitable activities of the company's nonprofit parent

**Year founded:** 2000

**Structure:** A for-profit subsidiary of a nonprofit

**Headquarters city:** St. Louis, Missouri

**Geographic market:** St. Louis metropolitan area

**Number of staff members:** Two full-time home-care aides, plus four part-time aides who each work an average of 30 hours per week

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

Annual sales: \$2,000

Net profit: (\$82,000)

## SOCIAL RETURN ON INVESTMENT:

Company has just begun operations

## INITIAL INVESTMENT

Planning time required before operations began:  
Nine months

Dollars required before operations began: \$40,000

Source of planning dollars:  
Investment by Provident Counseling endowment

Time until the business generated positive cash flow:  
Not yet achieved (as of March 31, 2001)

Additional working capital required before generating positive cash flow: 250,000 bank line of credit

Source of working capital:  
Secured by Provident Counseling endowment

Time required to recover planning dollars and working capital: Not yet recovered

## PARENT ORGANIZATION:

Provident Counseling, Inc. (founded 1860)

**Mission:** To further the well-being and self-sufficiency of families, individuals and communities

**Programs:** General counseling services for adults and children plus niche programs for special groups (batterers, child victims of abuse, compulsive gamblers, people who are dependent on alcohol and drugs); prevention services; community development services (especially for youth); partnerships (Missouri Alliance for Children & Families, a limited liability corporation formed by nine nonprofits); and business enterprises (Employee Counseling Service and At Ease Home Care, Inc.)

Annual operating budget: \$5 million

Number of employees (FTE): 65

Number of people (unduplicated) served per year: 10,000

## SENIOR MANAGEMENT TEAM

President and Chief Executive Officer:

Kathleen E. Buescher

President, At Ease Home Care, Inc. Allan Smith

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**PROFILE:  
JULIUS WALLS, JR.**

Julius Walls, Jr., was born into the inner-city Brooklyn neighborhood of Bedford-Stuyvesant. Educated at Catholic elementary and high schools, he went to a college seminary to pursue the priesthood and later transferred to Baruch College to study business. He worked first as an accountant at a mid-sized CPA firm and at 27 became VP of Operations for a chocolate company. While there he started his own fundraising company selling chocolate bars to schools and later became a marketing consultant for a national fundraising company. His association with Greyston began when he helped bring the bakery's products to the White House, and he joined full-time as a marketing consultant in 1995. He took over as CEO in November 1997 and last year also became VP of Business Enterprises and Jobs for the parent foundation. Walls and his wife Cheryl have two daughters and a son.

## WHEN BEN MET BERNIE . . .

Eleven years ago, Ben Cohen and Bernie Glassman went for a walk in the woods . . . and the partnership they created has enabled Greyston Bakery to become a model for inner city business development.

Cohen and his childhood friend Jerry Greenfield started scooping ice cream out of a renovated gas station in Burlington, Vermont, in 1978. Today, Ben & Jerry's is a \$237 million subsidiary of Unilever.

Bernard Tetsugen Glassman abandoned a successful career as an applied mathematician and aerospace engineer in the 1970s to become a Zen Buddhist priest. He started Greyston Bakery in 1982.

The two had never met until they ran into each other at a conference for socially responsible businesses . . . and decided to take a walk. By the time they returned, they had created the framework for a partnership that has endured and matured.

Today Greyston is a \$4.2 million business and a national leader in both the baked ingredient and baked dessert industries, with clients ranging from the White House and Lincoln Center to a roster of upscale restaurants, hotels, cafes, private clubs and others. The company employs 55 people, 50 of them formerly homeless, recovering from substance abuse or returning to the community from prison.

Eighty per cent of the bakery's business comes from its partnership with Ben & Jerry's, which translates into more than 10,000 pounds of brownies and blondies a day, nearly three million pounds a year. The ingredients are used in five Ben & Jerry's products in the U.S. (Chocolate Fudge Brownie Ice Cream, Chocolate Fudge Brownie Frozen Yogurt, Half Baked, Jerry's Jubilee, and Blondies are a Swirls Best Friend Low Fat Frozen Yogurt). In addition, Greyston produces brownies for Ben & Jerry's products in Europe and the Mideast.

### ORIGINS

In 1982, Glassman and the members of his Zen Buddhist meditation group, who were living in a beautiful mansion overlooking the Hudson River, borrowed \$300,000 to open a small storefront bakery in Riverdale, a well-to-do neighborhood in the Bronx. The members of the group were interested only in making enough money to support themselves while they carried on their spiritual pursuits. They planned to earn their own daily bread by turning out muffins, scones and cakes for the neighborhood and for upscale restaurants in Manhattan.

Three years later, Glassman and his colleagues decided to marry spirituality with social action by hiring the chronically unemployed and giving them on-the-job training as well as paychecks. They sold the mansion, used the proceeds to buy an abandoned pasta factory in Yonkers and began hiring community residents. Today, Greyston has been transformed into a gourmet wholesale/retail bakery. The muffins and scones are gone, replaced by cakes, tarts & cookies, special orders, national distribution via UPS and a growing reputation. For example, in July 1999, Greyston produced a five-tier cake and ten smaller ones for Lincoln Center that fed more than 8,300 people . . . altogether, the cakes weighed in at 2,385 pounds. Six pastry chefs assembled and decorated the centerpiece cake, which used 225 pounds of butter, 90 dozen eggs and 300 pounds of chocolate, among other ingredients.

Some of the bakery's most gratifying praise has come from *Zagat's* 1999/2000 survey of the New York City marketplace. *Zagat* rated 160 baked goods establishments, and Greyston finished in the top six, tied for second with four others.

As the years went by, Glassman's vision grew. Greyston became one of the first organizations in the country to build permanent housing for homeless families and by the mid-1990s had created the Greyston Foundation, an umbrella organization managing programs that also include childcare services and a variety of residential and outpatient services for people living with HIV/AIDS. The Foundation is headed by President and CEO Charles Lief; it serves more than 900 families per year, has an annual operating budget of \$11 million and generates 74 per cent of its revenue from earned income.

The bakery itself is in the process of building a new, larger facility, "a show space for the city of Yonkers and for Greyston," according to CEO Julius Walls, Jr. "We didn't want to just build a box," he says, "because our mission extends beyond our four walls into the community. So we decided to build a space where we could entertain visits from community groups and schools and could actually be a conference space for the Foundation and others. And we want it to be a place to inspire workers, to make them say 'that's the place I want to work.'"

## CORE VALUES

Greyston Bakery today is at a pivotal point in its history, poised to move into the new facility and developing a new strategic plan. As part of that plan, Walls and his colleagues have committed themselves to ten guiding principles. Four of the most prominent are serving as a model for others, consistently achieving an operating profit, maintaining an open hiring policy and continuing to support the parent Foundation.

**Serving as a model:** The field of inner-city business development is growing

## Julius Walls, Jr. talks about . . .

- Partnering with a big corporation
- Marrying spirituality with social action
- What happened to the muffins
- The importance of a consistent operating profit
- Subjecting yourself to the discipline of the market
- The impact of a souring economy
- Why Ben & Jerry's held Greyston's feet to the fire
- His biggest challenge: Convincing employees the business needed to be sustainable
- The importance of an apprenticeship program . . . with strict standards

and receiving increased public and corporate attention. Greyston Bakery intends to stay in Yonkers and remain at the forefront of the movement by measuring and widely disseminating its progress toward non-financial goals such as open hiring, on-the-job training and the progress of individuals after they leave the bakery.

**Profitability:** The people at Greyston believe that the best inducement for others to follow their model (and the best route to long-term survival) is to consistently achieve an operating profit. Fundamentally, says Walls, “the Greyston model means you come into a community like ours, hire the types of people we’re hiring who were considered unemployable – *and make a profit!*” Subjecting itself to the discipline of market competition, he says, also enables the bakery’s employees to develop skills “that are genuinely valuable, unlike the participants in many well-intentioned job-training programs.”

Greyston itself became profitable for the first time in the late 1990s. In 1998, the bakery had about \$400,000 in debt, had been operating at a deficit since its inception and owned very little equipment. Today, there is no debt and Walls says “we operate as a business. We secure financing to purchase equipment and we look for a return on our investment within a year.”

**Open hiring:** “The major part of our mission,” says Walls, “is to provide employment opportunities . . . jobs. We hire on a ‘first come, first served’ basis. All you have to do to get started is tell us you want to work . . . but you’ve got to do a *whole* lot of work to *keep* the job. The vast majority of employees come to us with some impediment to getting a job. That’s why they showed up at Greyston in the first place. If they could have gotten a job somewhere else, they would have. So we prepare them to work at Greyston and they can either stay there — and quite a few do, for many years— or move on with our blessing and support.”

**Supporting the Greyston Foundation:** In addition to compensating the Foundation for the management services it provides the bakery, a portion of the bakery’s net profits is ear-marked to support the various nonprofit projects of the Foundation, which is the bakery’s sole shareholder. The amount is balanced against the need to reinvest in the business to remain competitive and the need to maintain a certain level of available working capital.

## ENVIRONMENTAL THREATS

Dangers are hovering over both of the bakery’s businesses.

**Baked ingredients:** According to Walls, the greatest threat comes from companies “that claim to supply a ‘baked’ product, but actually don’t . . . or that deal with a lower end of the market. Most fudge brownies out there are more fudge than brownie, and they’re not baked, so their price point is much lower than it takes to produce a baked product.” Only a handful of companies produce baked ingredients, which represent 88 per cent of Greyston’s sales, and “if somebody wants a baked brownie,” says Walls, “we are one of the leading sources — we probably bake the largest amount of brownies for ingredients in the country. But other companies do a lot more things than we do, including a lot of finished products,” so even though Greyston is number one nationally in the sale of brownie products, it ranks in the bottom half in total sales.

**Baked desserts:** “On the baked desserts end,” says Walls, “we’re very subject to the mood of the economy because our cakes are sold to restaurants at the high end whose business also fluctuates with the economy. As the economy goes south, the restaurant business drops in total, but particularly at the high end.” Greyston’s niche is narrow: “We sell primarily to restaurants where the cost of the entrée ranges from about ten dollars to twenty-five dollars,”

he says. “Once you get above that, the restaurants can afford a pastry chef . . . and below that our price point doesn’t work for them.” But even within its niche, competition is stiff, with numerous wholesale bakers competing for the same market. “Here in Manhattan,” says Walls, “we’re in the number one restaurant market in the United States — but because of that it’s also the most competitive place.”

## CRITICAL SUCCESS FACTORS

In addition to the importance of the **strategic partnership** with Ben & Jerry’s, Walls has identified seven other factors that have been critical to the success of the bakery.

**Expertise in bakery science:** It may sound obvious, says Walls, “but it needs to be emphasized. We needed to have an expertise in bakery science. We understood the art, but up until recently we didn’t understand the science, how ingredients react with each other and why. We understood how to make our product every day, yes, but if somebody asked us to deviate from what we were doing it wasn’t as clear how to change and modify.” The need for expertise underscores Greyston’s emphasis on training. “If you’re out there waiting to find Jesus Christ the baker,” laughs Walls, “he’s not out there, but there *are* good-hearted people who can be trained.” Greyston sends its entry-level employees all over the country to attend retail shows and training sessions run by the American Institute of Baking and others.

**Genuine ingredients:** “Not many people believe in the model of scratch baking and real ingredients,” says Walls, “but we still use butter and heavy cream and all that wonderful stuff.” It’s a distinct competitive advantage for the baked desserts division of Greyston, but Walls admits “we struggle with it from a financial point of view. Frankly, we hope everybody else stops using real ingredients, because then we’ll have the niche to ourselves and it will be large enough for us.” In the baked ingredients business, Greyston’s edge “is our ability to come up with a baked product to meet a customer’s needs and then mass produce it.”

**Cultural change:** “When we started working with Ben & Jerry’s,” recalls Walls, “they made it very clear that our product had to always be up to snuff or they wouldn’t produce their ice cream with us. They held us accountable as a business and not as their young child. They provided a lot of assistance, but they told us from the beginning that we needed to stand up and be a business, not a sheltered workshop.”

When Walls took over as CEO, he discovered that the biggest obstacle he faced was helping his employees “understand what we needed to do to be a sustainable model. We had to understand that we are a business with a dual bottom line. Most businesses have one bottom line — economic dividends. Greyston also had a single bottom line, but it wasn’t the economic one. There was a mentality on the part of the employees that came here that if you’re really nice we’ll figure something out to keep you and it doesn’t matter if you’re producing or if the business is doing well. But there came a time when the employees and the business needed to understand that that’s not a sustainable model.”

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*“When we started working with Ben & Jerry’s, they made it very clear that our product had to always be up to snuff or they wouldn’t produce their ice cream with us. They held us accountable as a business and not as their young child.”*

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Once the attitudes began to change, says Walls, “a lot of things fell into place. I don’t want to simplify it too much, but it was simply everybody understanding that going forward we were going to live up to whatever standards we set.” In November 1997, the bakery was producing 4,500 pounds of baked ingredients in a 20-hour day (10 a.m. to 6 a.m.). Within two months the output had increased by a third to 6,000 pounds and today averages about 10,000 pounds, sometimes reaching as much as 11,000 pounds.

“I don’t want to set myself up here,” says Walls, “but I’ve found that one of my gifts is to be able to maintain a balance between social and economic vision – and the way I know that is that I argue with people on each side that we’re not doing enough!”

**Apprenticeship program:** When a new employee arrives at Greyston, he or she immediately becomes part of an apprenticeship program that lasts from 12 to 16 weeks. “It’s not only about learning how to bake,” says Walls. “Yes, they do that, we teach them how to run the equipment, but a bigger part of our apprenticeship is learning how to be an employee.”

Newcomers are assigned to the crew producing brownies. “They come in at \$5.50 an hour and are evaluated every two weeks in four areas,” says Walls, “attitude, productivity, attendance and punctuality.” In the beginning, “productivity” is more a matter of having the right attitude than levels of production, “because we recognize that when you’re starting out you won’t be able to do as much as everyone else. But everyone has to work *hard*. There’s no excuse for not working hard.”

The new employees have eight two-week periods in which to receive six positive evaluations. Once they graduate they receive a salary of \$7 an hour plus full benefits, including major medical, vacation pay and sick pay.

**High standards for employees:** “We do *not* do make-work,” says Walls. “We don’t have pseudo-welfare jobs or a sheltered workshop. You *must* perform. We have very strict standards.”

**Employees who give a damn:** “We don’t hire bakers,” emphasizes Walls. “We train people to become bakers, and we hire people who give a damn. Who care about the end product. If you go to our web site and see the cakes we make – high-end gourmet cakes – I think people would be shocked if they knew who made them. We find that the people we hire are very dedicated because they appreciate the opportunity, and having a dedicated work force is critical to our success as a business.”

**Marketing:** “A lot of people miss out on this one,” says Walls. “They think, ‘we like to make cakes and we like to train people to make them, so if we start a business we’ll succeed.’ No, it’s not like that. We spend a lot of time looking for new customers and new product lines.”

## FINAL WORDS OF ADVICE

“You can’t *make* people change,” says Walls. “You can’t do it for them . . . and I think that was a source of frustration, certainly for myself and certainly for the organization. You know, ‘We’re doing it for you, come on, why aren’t you turning your life around?’ We can only provide the opportunity and the support.”

Walls found it took a terrible toll on him personally. “I started to carry the psychological weight of all my employees,” he remembers. “It started to wear on me and became too much, so as we grew we brought on additional resources throughout the Foundation to provide the types of support services our employees needed.”

# Greyston Bakery

## TYPE OF BUSINESS:

### Baked ingredients and baked desserts

Wholesaler of baked ingredients to the ice cream industry and producer of gourmet cakes sold on-line to individuals and directly to upscale restaurants, cafés and other institutions

**Mission:** To be a force for personal transformation and community economic renewal (*the goals are to operate a profitable business, to give community residents opportunities for employment and advancement and to support the work of the Greyston Foundation*)

**Year founded:** 1982 (store-front bakery in the Bronx); 1985 (manufacturing facility in Yonkers)

**Structure:** A for-profit subsidiary of a nonprofit

**Headquarters city:** Yonkers (New York city)

**Geographic market:** National

*Sources of working capital:*

Line of credit, Greyston Foundation equity, etc.

*Time required to recover working capital:* Three years

## PARENT ORGANIZATION:

### Greyston Foundation (*founded 1993*)

*Mission:* To be a force for personal transformation and community economic renewal

*Programs:* Housing for the homeless, childcare, employment and job training, and residential and outpatient care for people living with HIV/AIDS.

*Annual operating budget:* \$11 million

*Number of families (unduplicated) served per year:* 900

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

*Annual sales:* \$4.2 million

*Net profit:* \$ 155,000 (3.7 per cent)

## SOCIAL RETURN ON INVESTMENT

(fiscal year ending December 31, 2000)

*Number of employees:* 55

*Number of employees overcoming barriers to employment:* 50

*Number of employees still living in the local community:* 45

*Average salary:* \$8.50 per hour

## SENIOR MANAGEMENT TEAM

*President and CEO:* Charles Lief

*CEO, Greyston Bakery:* Julius Walls, Jr.

*Director of Operations, Greyston Bakery:* Richard Bolmer

*Director of Business Development, Greyston Bakery:* Daniel Helfman

## INITIAL INVESTMENT

*Planning time required before operations began:*  
Three years before moving to Yonkers

*Dollars required before operations began:*  
\$300,000 to purchase the Yonkers facility

*Sources of planning dollars:*  
Sale of personal property by the Founders

*Time until the business generated positive cash flow:*  
Sixteen years

*Additional working capital required before generating positive cash flow:* \$400,000

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### PROFILE: KEVIN MCDONALD

Kevin McDonald spent the 1970s as a drug addict, gutter hype and criminal. In 1979 a judge in San Francisco gave him a choice: Prison or a rehab program. He spent 12 years at the Delancey Street Foundation, where he eventually managed the daily operations of a \$1.2 million moving company and supervised 50 to 80 ex-cons, prostitutes and former addicts during their first six months in the program. He left in 1991, spent three years working with former gang members in central Los Angeles, then moved to Greensboro to direct Delancey Street's North Carolina chapter. A few months later he founded TROSA and has been President and CEO ever since. McDonald currently serves on the Board of Directors for City of Medicine, Healthy Carolinians, Health Partners, and Durham Community Penalties. He and his wife have two young children.

## “ONE TRUCK AT A TIME . . .”

When Kevin McDonald started Triangle Residential Options for Substance Abusers (TROSA) in 1994, he had \$18,000 “and 15 hard core street guys, penitentiary guys. I had to figure out some way to make money in order to keep the program going. So we started our first business — peelin’ potatoes!”

That was the beginning . . . but potatoes alone weren't going to keep the TROSA residents fed and housed. McDonald had spent 12 years at Delancey Street Foundation in San Francisco, the nation's leading rehab and job training program for ex-cons, recovering drug addicts and former prostitutes, and he'd spent part of the time running Delancey's moving business.

That experience prompted him to take three steps during the first few months of TROSA's existence that led to the creation of a company that generated less than \$50,000 in its first year but has grown into a \$2.6 million business today. It's the seventh largest moving company in the Research Triangle Park area and last year carried out close to 5,000 moves. It's licensed in 48 states.

### ORIGINS

McDonald's first step was to begin sending his ex-cons and former addicts to North American Van Lines. “We wanted to start a temporary help business in the moving industry,” he says. “There was a tight labor market down here and the big companies were desperate for workers, so we got our guys trained on North American's dime — and then started sending them temporary laborers.”

At the same time, McDonald began to explore the possibility of starting a moving company of his own. “Trouble was, all the existing movers in the area had to vote on you! It would have taken forever!” So McDonald found an attorney who turned up an existing mover who'd gone bankrupt and wanted to sell his license. TROSA bought it for \$10,000 (profits from the temporary labor business helped provide the necessary capital) — and bypassed the approval process.

Finally, he bought a used truck from Ryder. “Bought it, painted it — and made sure it had an automatic transmission, because a lot of the guys didn't know how to drive a stick.”

From that point on, McDonald grew the company “one truck at a time.” The business started in late 1994 and today employs as many as 140 people during the prime moving season. “In the beginning,” he says, “we didn't need highly skilled people to build the business. Each man taught the next man. Plus, it was a cash business.”

More than 250 men and women are currently taking part in TROSA's two-year residential program for drug addicts and alcoholics; most of them choose to do so as an alternative to incarceration. The residents participate in a comprehensive therapeutic program (*please see accompanying story*) and during their stay work in one or more of the many businesses McDonald and his colleagues have launched during the past seven years. They receive free room, board and medical care, plus a modest living allowance, but are not paid salaries. In keeping with TROSA's philosophy of self-help and individual empowerment, residents are responsible for all aspects of the businesses, including job planning and estimates, work scheduling, crew supervision and resource allocation.

Each of the businesses serves double duty as a vocational training school. In addition to the temporary labor force and the moving company, they also include such things as a vehicle repair shop, a construction company, an auto painting and body works company, a lawn and garden service, a quick print and copying business, brick masonry, a catering service, a picture framing company, residential and commercial painting, and its first retail business, a Christmas tree and wreath sales business started in 2000.

### **"I DON'T WANT YOUR MONEY . . . "**

Residential moves were the bread and butter for the moving company during the early years, but it has gradually attracted a corporate business as well and is poised for further expansion. McDonald built the business primarily through personal selling and word of mouth. "We didn't have a very big staff," he says, "just me and two others, and we didn't have much money for advertising. We were just trying to survive as a program. So, I decided to start hitting the pavement and gave a lot of speeches. Went out to the Junior League, the Kiwanis Club, that sort of thing . . . and I found out they were tired of people asking them for a handout. So I told them, 'I don't want your money . . . I want your *business* . . . call us up, let me give you an estimate . . . *use* our services.'"

He says the obstacles have been enormous. "Starting from scratch . . . no capital . . . no staff . . . no facility . . . sort of basic, man!" TROSA received an abandoned school building as a donation, but the building didn't have heat or running water and had to be lit with kerosene lamps. There weren't any written procedures or policies for running a rehab center, much less a moving company. "But nothin' surprises me any more," says McDonald. "I've been doin' this sort of thing for 20 years, and I was a street urchin before that. I just know that if you believe in something hard enough and work hard enough at it, it's gonna happen. You just don't quit no matter how hard it looks. You just keep goin' . . ."

McDonald credits much of the success of the moving company to its manager,

## **Kevin McDonald talks about . . .**

- Running a business using ex-cons and recovering drug addicts
- How to talk to the Junior League and the Kiwanis Club
- Transforming himself from a street urchin into a successful entrepreneur
- The challenge of managing growth
- How TROSA does training: One man teaches the next man
- Remembering that the customer is *always* right
- The foolishness of not having a dedicated sales person
- Why it's important not to bite off more than you can chew



TROSA MOVING: General Manager Mike Keene.

Mike Keene, a former heroin addict who arrived at TROSA in 1997 after gaining four years of moving experience at Delancey Street. “Mike *is* the moving company,” says McDonald. “He oversees the moves, trains our men, helps them with their recovery, and puts in 18 hours a day doing it.” McDonald says Keene’s past experience with drugs and his knowledge of how difficult it is for people going through recovery are what make him such a success with his employees. “It helps him relate to the residents and their difficulties,” he says, “and the encouragement and discipline he provides help employees learn to deal with their past and work a job so they don’t return to the streets.”

Today the challenge is managing growth. “We still have 100 per cent turnover in our employees every two years,” he says, “and up until recently we only had three paid staff members.” He started hiring experienced professionals and now has a full-time staff of 15, 12 of whom have criminal records.

## AUDITIONING

The temporary help side of the business also continues to thrive. “The employers love it,” says Mike Crum, TROSA’s Chief Operating Officer. “They get a drug-free workforce with a great work ethic. And in an area with a 1.5 per cent unemployment rate, they’re desperate to find entry level workers. We’re the only people who can pull together 100 men in an evening to help move an office building on a day’s notice.

“Plus,” he says, “our guys are auditioning for a job that will be waiting for them when they finish their time at TROSA.” The corporations “have a chance to look at our guys for ‘x’ months . . . and a lot of them have been able to land good jobs, with benefits. If they’d just gone through the front door putting in a piece of paper, it would have wound up in the round file . . .”

What comes next? McDonald believes the moving company “can get to \$3 to \$5 million over the next five or ten years, maybe quicker.” He’s also hoping to expand TROSA into a four-year ‘college of recovery’ and to help graduates set up micro-enterprises. And he’s hiring a grant writer (90 per cent of all TROSA expenses are covered by profits from the businesses, but there’s still a gap to fill). “I can’t even believe people give you money,” he laughs. “Twenty years ago I just took it!”

## CRITICAL SUCCESS FACTORS

In addition to **looking for a business relationship rather than a handout**, McDonald identifies eight other factors that have been critical to the success of TROSA Moving.

**Basic skills:** “First of all,” he says, “your crews have to be trained. Training, training, training. Everybody is always teaching somebody else. One man teaches the next man.” That becomes especially important because the

company experiences 100 per cent turnover every two years. TROSA holds training classes for movers every Sunday. Each crew that goes on a move has a crew boss that is continually training new members on his team.

**Image:** “Our employees have to act in a professional manner,” says McDonald. “When you’re dealing with recovering addicts, the first thing you have to do is make sure they’re not using drugs. You can’t be la-dee-dah about it. The accountability has to be there. You’ve gotta have discipline, and appearance is really important. Our people are taught to dress, speak and act professionally. Part of our goal is to change people’s perceptions of addicts as street people, and sometimes our people forget that the customer is the person paying the bills. We sort of have to go back to basics. If somebody isn’t performing, if they’re disrespectful to a customer, we’ll have to fire them . . .” Crum says “it’s a double-edged sword at best when potential customers know we’re a drug rehab facility. Customers suddenly start to fear you . . . or, worse yet, they start looking at you as a nonprofit rather than a business.”

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*“When you’re dealing with recovering addicts, the first thing you have to do is make sure they’re not using drugs. You can’t be la-dee-dah about it. The accountability has to be there. You’ve gotta have discipline, and appearance is really important. Our people are taught to dress, speak and act professionally.”*

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**Customer relations:** “And we will never forget that our customers are the ones who keep us in business,” adds McDonald, “so you have to treat ‘em right. They are *always* right. If we do something wrong, we respond immediately and take care of the problem. That’s just *so* important . . . but people forget that. When customers appreciate what you’ve done, it’s the best form of advertising you can get. It’s like buying cars: You go back to somebody you’re comfortable with.” The company does very little paid advertising.

**Work ethic:** McDonald believes his company’s competitive edge is “our work ethic. One of the things we hear over and over again is how polite our men are. We get the job done. We’re not the cheapest in town, but we’ve built a big following from word of mouth.” And, according to a recent survey, it turns out most customers have no idea the people doing the moving are former addicts and ex-cons.

**Seasonality:** “Here in North Carolina,” says McDonald, “we live for certain months in the summer and hibernate like a bear in the winter, so we’re always trying to cover ourselves with other businesses during the winter, just like most moving companies.”

**Dedicated sales people:** “Not having a dedicated sales person was the biggest mistake we made,” says McDonald. “Anybody who wants to do this should definitely hire a person with some experience in the field. It’s hard to break into the market. There are a lot of big corporations here in the Research Triangle Park, and we’ve made some inroads, but we’re still not in there the way we should be.” McDonald “put over 30,000 miles on my car the first year. I spoke to anyone who would listen to me about TROSA and what we do. The most important thing I needed to do was to establish our reputation in the community.” But that was when the program only had 35 residents. Today it has more than 285 and McDonald doesn’t have as much time to speak at public events.

**Careful growth:** McDonald also believes “you have to be careful not to grow too fast. You can only be as big as the number of people in your program. We’ve got nearly 300 now. But we still have to watch which jobs to bid

on and always be honest with ourselves rather than building up a reputation for biting off more than we can chew.” He says the company has grown so quickly that “the infrastructure hasn’t been able to keep up, so I had to slow down. Now we are hiring more people and building and improving our program and business. For survival. And now that we have some professional staff on board we’re starting to move to another level. But you have to be willing to pay for it. It’s a real learning process as we bring in professional staff to integrate with us. If this were a government agency, the state would have 150 people working in a place like this! But we don’t need anywhere near that many. We just have to build up a permanent staff of middle managers, an institutional memory.”

**Resilience:** Only 33 per cent of the men and women who enter TROSA’s residential program finish the entire two years (although McDonald proudly points out that only 35 per cent of the freshmen who enter the University of North Carolina ever graduate). Not every resident is ready for the long-term, two year commitment. “You just have to roll with the ones who quit,” he says. “You have to remember that no one person is too important . . . and just go find somebody to replace him. The biggest thing is that you have to believe in the people you’re wantin’ to help. They can feel it, they can feel that you believe in them, and they’ll work hard to change.”

## FINAL WORDS OF ADVICE

McDonald admits it would also have been nice to have more capital, “but I never went to school and I didn’t know what I needed. A bunch of MBAs from around here came in and told me I shouldn’t have been able to do what we did – but I didn’t know that!” I followed my gut and used my experience to do it and it works. We’re doing it and will be here for a long time.”

What keeps McDonald, Crum and the other TROSA people going are a set of core values. “We will never forget what we’re about,” says McDonald. “We’re training men and women in order to give them a work ethic so they can go on with their lives, get jobs in the community and overcome their addiction. Many people talk about a double bottom line . . . balancing your program and your business. Well, it all comes down to the people. We’re not gonna sacrifice that, ever.”

## THE TROSA MODEL

Founded in 1994, Triangle Residential Options for Substance Abusers (TROSA) is now the largest therapeutic community for substance abusers in the state of North Carolina.

More than 280 residents currently participate in a highly structured self-help program that lasts for two years. Most are between the ages of 31 and 50 and many come to TROSA as an alternative to incarceration. Ninety per cent have a criminal record, 71 per cent are African American, and 85 per cent are male. Forty-five per cent have not yet completed high school or acquired a General Equivalency Diploma (GED).

Residents receive vocational training, take a variety of educational courses, work on their interpersonal skills and learn how to re-enter the community. By the end of 2000, more than 150 people had completed the two-year program and joined the full-time work force at an average hourly wage of \$9.25.

Educational courses for residents without a high school diploma include literacy and GED classes taught by the

Durham Literacy Council. All residents participate in word processing and spreadsheet classes at an on-site computer lab. Daily motivational and educational seminars are part of the routine, and there are several special interest and vocational classes, including creative writing, photography, charcoal drawing, commercial driving, brick masonry and basic auto mechanics. TROSA residents are also encouraged to volunteer and participate in community activities, and many of them play on TROSA’s basketball and softball teams and sing in a choir that performs at local festivals and private weddings.

During their final three months in the program, residents begin participating in personal finance, job readiness and relapse prevention classes and receive help in their search for permanent employment either within TROSA (staff-in-training) or with an outside company. Graduates of the program receive a car (donated to TROSA and rehabbed by TROSA mechanics) and can live at minimal cost for at least a year in one of the organization’s 20 after-care residences (more than 60 are currently doing so). All graduates also have the option of attending bi-monthly support groups.

# TROSA Moving

## TYPE OF BUSINESS:

**Interstate/intrastate moving company**

Residential and commercial moves; contract labor for other moving and moving-related companies

**Mission:** To provide quality, cost-effective moving and contract labor services while teaching TROSA residents transferable skills that can be used in the labor force after graduation; the goals are to enhance job skills (e.g., commercial driver's licensing, specific moving and customer service skills), to help formerly unemployed people develop a work ethic, and to empower the residents

**Year founded:** 1994

**Structure:** A vocational training program/business operated internally by a nonprofit

**Headquarters city:** Durham, North Carolina

**Geographic market:** Continental United States

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending June 30, 2000)

**Annual sales:** \$1,608,000

\* **Net profit:** \$1,097,470 (68 per cent)

\* TROSA employees receive free room, board and medical care plus a modest living allowance . . . they are not paid salaries

## SOCIAL RETURN ON INVESTMENT

**Number of employees (depending upon the season):** 30 to 140

**Number of full-time employees (seasonal average):** 52

**Number of full-time employees drawn from "at risk" populations:** 52

**Number of part-time employees (seasonal average):** 30

**Number of part-time employees drawn from "at risk" populations:** 30

**Percentage of graduates hired by moving companies or other companies desiring commercially licensed drivers:** 38 per cent

## INITIAL INVESTMENT

**Planning time required before operations began:** Eight months

**Dollars required before operations began:** \$19,000

**Sources of planning dollars:** Profits from other entrepreneurial ventures

**Time until the business generated positive cash flow:** Four to five months

**Additional working capital required before generating positive cash flow:** \$10,000

**Sources of working capital:** Profits from other entrepreneurial ventures

**Time required to recover planning dollars and working capital:** Within first year

## PARENT ORGANIZATION

**Triangle Residential Options for Substance Abusers, Inc. (founded 1994)**

**Mission:** To change lives and increase law-abiding behavior by providing a self-supporting, two-year, residential, self-help community that serves offenders and substance abusers at no cost to the individuals

**Programs:** In addition to the moving company, TROSA operates 12 other businesses that double as vocational training schools; more than 280 people are in residence at any given time; also provides education, peer counseling and mentoring, and leadership training

**After-care:** Fifty-six graduates are currently living in TROSA housing and 70 are actively involved in the TROSA after-care program (consisting of low cost sober housing, bi-monthly group meetings, car repairs for the cost of parts and an on-site after-care coordinator)

**Annual operating budget:** \$5,900,000

**Number of employees (FTE):** 298

**Number of people (unduplicated) served each year:** 400

## SENIOR MANAGEMENT TEAM

**President and Chief Executive Officer:** Kevin McDonald

**Chief Operating Officer:** Mike Crum

**Chief Financial Officer:** Tara C. Anderson

**General Manager, Moving:** Mike Keene

**Director, Men's and Women's Programs:** Jesse Battle

**Director of Internal Development:** Wendy Brown

## Contact information

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**PROFILE:  
RICH GILMARTIN**

Rich Gilmartin is Chief Operating Officer of Gulf Coast Enterprises and Vice President of Vocational Services for its parent organization. He is past Chair of the Affirmative Business Alliance of North America, the Florida Association of Rehabilitation Facilities, and the Panhandle Chapter of the National Association of Rehabilitation Professionals in the Private Sector. He has also been a director of the National Council of Work Centers for the Severely Handicapped, his local Private Industry Council and his local Rotary Club. Gilmartin received Master's degrees in psychology (1977) and business administration (1989) from the University of West Florida. He has been a consultant for the Social Security administration since 1982 and from 1987 to 1999 performed accreditation surveys of rehabilitation provider organizations throughout the country for CARF (The Rehabilitation Accreditation Commission). Gilmartin and his wife Linda have one child.

## FAREWELL TO THE "CLIENT WORKER"

Fifteen years ago, Rich Gilmartin and his colleagues at Southeastern Vocational Services (SVS) abandoned the "client worker" model.

It was the key moment in the evolution from a sheltered workshop with 30 employees to a \$30 million business with more than 600.

"For almost ten years," remembers Gilmartin, "we'd been doing such things as light industrial work and mail sorting, but on a very small scale – and strictly on a transitional basis. We looked at our people as clients first and workers second. When they were finished using our rehab services, they moved on."

But Gilmartin and others began asking themselves a key question. "It was a huge issue," he says, "and we wrestled with it for a long time. Should we provide employment only for the purpose of training . . . or should we give people opportunities to stay with us and build a career?"

"I'll bet we struggled with it for almost a year," he recalls, "and we finally realized it was a disservice to give people an opportunity to earn seven to nine dollars an hour, plus benefits — then tell them they had to go out and earn only two-thirds of that, with lesser benefits." So SVS decided to create its own business for those "who elected to make it their preferred place of employment . . . and if the employee wanted to seek alternative employment we'd provide assistance through our rehab side."

At about the same time, The Affirmative Business Alliance of North America (ABANA) came into existence, "and that further shaped our thought process," says Gilmartin, who later chaired the ABANA Board. "It helped us evolve beyond the concept of a 'client worker' to the concept of an 'employer-employee' relationship." The central tenets were completely different. "We decided to operate as a business, not a rehab agency," says Gilmartin, and that meant two things: Senior executives became business managers, not social workers; and line workers became employees, not clients.

The cultural shift was dramatic . . . but it was only the latest in a series of challenges for Gilmartin.

### ORIGINS

What do you do when your parent organization sells everything it owns to a national corporation? Everything, that is, except your department . . .

Gilmartin responded by keeping the department alive for a year – then found it another home.

The organization known today as Gulf Coast Enterprises existed originally as one of many programs operated by the Rehabilitation Institute of West Florida, which provided both in-patient and outpatient medical care for people with physical disabilities. Gilmartin came on board in 1977 and took over the vocational services division in 1980.

In 1983, the Institute sold all of its medical services and assets – everything except its vocational programs — to Hospital Corporation of America. Gilmartin ran the vocational program independently for a year before merging it into Lakeview Center, a multi-service community mental health center, and changing its name to Southeastern Vocational Services.

Finally, when Gilmartin and his colleagues made the decision to become an affirmative business, SVS created a subsidiary called Gulf Coast Enterprises.

Today, SVS is still a subsidiary of Lakeview, a \$46 million nonprofit with more than 60 different social service programs, and Lakeview is an affiliate of Baptist Health Care, a \$400 million regional chain of hospitals in Florida and Alabama.

## EARLY DAYS

Gilmartin says Gulf Coast Enterprises came into existence primarily because the unemployment rate in Northwest Florida “was still fairly high. It was around seven to nine per cent and that meant it was difficult for people with disabilities to find jobs in the traditional labor market. So we tried to discover whether there was any other way – not *instead* of but *in addition to* the traditional method – to help people become productively employed.”

SVS had been doing a shelf-stocking contract for a couple of years. That became the first business for Gulf Coast Enterprises and very quickly the company began to capitalize on the Javits-Wagner-O’Day (JWOD) legislation that required a large number of federal contracts to be set aside for rehab agencies. Four of those contracts started on the same day in October of 1986 and a fifth a month later, including operating the telephone switchboard system at Eglin Air Force Base (except for the Pentagon, the largest governmental switchboard operation in the country), a mail sorting and distribution center on the base, a custodial contract with the naval training center in Orlando and a second shelf-stocking contract at Whiting Field in a neighboring town.

Today the company is the largest private employer of persons with disabilities in Northwest Florida. It operates seven different businesses, including custodial services (cleaning more than six million square feet of space each day), food

## Rich Gilmartin talks about . . .

- The shift from a “client worker” mentality to an “employer-employee” relationship
- Why it’s not always necessary to be the lowest bidder
- The futility of trying to operate businesses with part-time managers
- The dangers of expanding too rapidly
- What happens when you don’t listen closely enough to your customers
- The true meaning of “exceeding expectations”
- The power of opening your books to employees
- Becoming more profitable long-term by sacrificing short-term profits



services, warehousing operations, telephone switchboard services, mail distribution, administrative support services, and industrial services (including packaging, light assembly, bulk mail preparation and sorting services).

Seventy-seven per cent of the employees are persons with disabilities and about half of those have some type of behavioral disorder (chronic mental illness, substance abuse); the others have a developmental, physical or neurological disability. Eighty-five per cent of the disabled employees are either no longer on public assistance or are receiving considerably reduced support.

Gulf Coast will reach \$24 million in annual sales by the end of the current fiscal year and expects to hit \$30 million by September of 2002. "It was a big hairy-assed goal we set a couple of years ago," laughs Gilmartin, "and I almost wish I hadn't established it. Not because it isn't achievable, but because I wish the message I'd sent was that we wanted to be declared by our customers as the best provider in all the business sectors in which we operate. I think that would have gotten us to the thirty million in a more friendly way – in a 'pull' way as opposed to a 'push' way."

Part of the continued expansion for Gulf Coast and other ABANA members will be doing sub-contracting work for businesses overseas that have markets in the United States.

## **ENVIRONMENTAL DANGERS**

Gilmartin sees three threats to his growth projections . . .

**Dogmatism:** The Rehabilitation Services Administration is currently considering a number of changes in language that Gilmartin says could make it tougher for disabled people to find productive employment. The push for new language is being led by what he calls "dogmatic advocates who believe the only way for success in this field is through supportive employment. We *do* supported employment, and we believe it does positive things for people who desire to go that route, but we also believe in an individual's right to choose where he or she wants to work. We think the federal government's emphasis on the importance of client choice should be preserved."

If the regulations are revised according to the wishes of "tunnel-visioned supported employment advocates," Gilmartin says state vocational rehabilitation offices will no longer be able to receive funding for a client if they place the client with an employer such as Gulf Coast Enterprises, "even though the person might make more money, work more hours and have richer benefits."

**The economy:** There has been a dramatic shift in the unemployment rate since the birth of Gulf Coast Enterprises 15 years ago. "It's down to two to four per cent," says Gilmartin, and that's not necessarily good news for his business. "People with disabilities are much more capable of obtaining employment now than when the unemployment rate was seven per cent or higher," he says, "but a low unemployment rate limits our ability to grow as a business if we want to do so by employing people with disabilities."

**Technology:** "The issue here," says Gilmartin, "is that in order to keep our price in the competitive range, we're consistently looking for ways to introduce new technology – which usually translates into automation or more efficient equipment. For example, on the custodial side, we've traditionally had a person manually operating a floor machine that can do swipes of 24 to 28 inches wide. He'll go down a long hall and come back up the other side to strip wax or buff. But now we've identified some labor-saving machinery that's much more expensive on

the initial end but will reduce our labor consumption and allow us to hold down our costs.”

That means “we’ll be employing fewer people in the short run, but in the long run it can make our prices competitive and allow us to secure more contracts and ultimately create even more jobs.” But even if that weren’t the case, he emphasizes, “we’d have to do it anyway because otherwise we’d be whittling ourselves out of the market.”

## **CRITICAL SUCCESS FACTORS**

In addition to **shifting away from the client worker model**, Gilmartin has identified 12 other factors that have been important to the success of Gulf Coast Enterprises.

**Pricing:** “I don’t necessarily mean the lowest price,” says Gilmartin. In fact, Gulf Coast frequently wins contracts despite having a higher price than its competitors. “Often,” he says, “the customer has already been there . . . and realizes maybe they shot themselves in the foot by going with the lower price. Now they’re looking around because they feel like they’re not getting what they expected – or maybe they’re just asking for a higher level of service.” That said, emphasizes Gilmartin, “if we can’t at least be in the ballpark with regard to a market price, then we have no business being in that market in the first place.”

**Full-time (and experienced) managers:** “We learned the hard way,” admits Gilmartin. “We tried hiring people to oversee contracts as one part of their job . . . and they wound up being distracted by too many other obligations or responsibilities. Or they didn’t have the expertise for the particular activity. And on every one of those occasions it didn’t work out as well as it could have. When we finally got the message, we started putting in people who knew the business and whose sole responsibility was the business, and in every instance they turned it around.”

**Accessibility:** “If we’re not accessible to the customer, we probably won’t be their vendor very long,” predicts Gilmartin. For example, “customers often tell us that the management for previous vendors stayed at a great distance, never came to talk with them — and if decisions had to be made, the local person was not empowered to make them. So we mount a concerted effort to empower the person on the site to make the greatest scope of decisions possible — and we also have people from our corporate offices traveling to each site on a regular basis, in part to spot problems before the customer sees them and they become big problems.”

**Managing growth:** Gulf Coast has always moved cautiously toward expansion. “In the early days,” says Gilmartin, “we wanted to operate outside our immediate area in order to generate revenue and create more jobs, but we set up a couple of criteria. If we were going to go beyond our own backyard, the work had to generate a certain number of jobs and be within two hours of Pensacola, either driving or flying.” The first outside contract was in Gulfport, Mississippi, a food services program at a naval retirement home about an hour’s drive from Pensacola.

“Some time later,” says Gilmartin, “the strategy seemed to be working, so we changed our thresholds. We eliminated the response time requirement. If we didn’t already have a presence at whatever location we were exploring, then the business needed to have gross revenue of \$200,000 a year, which enabled us to create a significant number of jobs. And if we already had a presence, we didn’t even keep the \$200,000 threshold.”

Gulf Coast also began to say no to certain types of businesses. “Over time,” says Gilmartin, “we decided to be more focused in what we did.” For example, the company decided to get out of the groundskeeping business

because of its seasonal nature. “We didn’t want to be constantly scaling up and back,” he says, “because it would have put too many people on the unemployment line – the very opposite of our objective.”

Despite its caution, however, Gulf Coast still found itself at times outstripping its infrastructure. “We made some significant mistakes,” admits Gilmartin. “We were still operating as though we were a 25 to 100 person operation long after we’d passed that point. If I had it to do over again, which of course I don’t, we’d better define the type of human resources support and technologies we needed at each point of growth and have a plan in place.” The damage occurred mostly in the areas of employee frustration and morale.

**Reputation:** Gilmartin believes Gulf Coast Enterprises has a positive public image that contributes substantially to sales . . . and part of the image is the company’s reputation for turning down certain types of work such as highway litter pick-up. “The image we want to project,” he says, “is that people are doing productive work, not charitable work, that they’re earning a day’s pay for a day’s work and that the workers themselves can be satisfied with what they’re doing.”

**Listening:** One of the problems Gilmartin and his staff have managed to overcome during the years has been “not hearing a message early enough.” As an example, he cites the company’s custodial contract on the naval air base in Pensacola.

“They’d been telling us for months that we were missing the mark,” he remembers. “They weren’t ringing any fire alarms or loud bells, but they were saying that improvements were needed here and there. We were listening – we thought – but then we discounted the information and came up with reasons why things were the way they were and why we were doing everything we could be doing. Then they set off the fire alarm. ‘We’ve been telling you for six months that things need to be fixed,’ they said, ‘and we’ve seen no noticeable attempt to fix them. So now your contract’s at risk.’ It took us 18 months to eradicate that situation and turn it around. It didn’t take that long to fix the problems, but it did take that long for the base to believe our fix would stick.”

**Exceeding expectations:** As do most businesses, Gulf Coast Enterprises emphasizes customer service, but Gilmartin believes his company takes it a lot farther. “If you just do what people expect, and that’s it,” he says, “they almost don’t know you’re there — and when it comes time for contract renewal or adding contracts there’s no substantial advantage. On the other hand, it makes a difference if you do something a little out of the ordinary — like leave behind your business card with a handwritten note, or leave a Hershey’s Kiss on someone’s desk, or if you find a \$20 bill on the floor and call it to the attention of the ownership instead of shoving it into your pocket and walking away . . .

“It can be any number of things,” he says. In many situations, for example, the previous vendor didn’t wear uniforms. Gulf Coast employees not only wear uniforms, “but we put our name on them and we let customers pick the color. It all sets a tone immediately that is different than what the customers expect.”

**Benchmarking:** Gilmartin believes measuring employee performance is critical. “Before we started actually measuring things,” he says, “we would sometimes say ‘This is important’ and then not measure it, or we’d measure it for a time and stop — and lo and behold performance would deteriorate. We learned that if you’ve declared something to be important and then stop measuring it, you can’t expect anything to change — but if you keep measuring it, there’s always some type of change.” So, “we do the paper trail,” he says, “the surveys, but we also do focus groups and have periodic performance meetings with our clients. We track things historically to see if they’re on the rise, or flat – or, worse yet, going downward.”

**Letting employees be part of the solution:** Over the years, Gilmartin has learned that some of the best problem solvers he has are his line employees . . . but only if they know that a problem *exists*.

“For example,” he recalls, “we were doing okay with our mail sorting and distribution business on the Air Force base, but we weren’t generating the type of financial contribution we wanted. We were real close, but we were constantly in the red, so we resigned ourselves to the fact that it was as good as it was going to get.

“But one day the contract administrator who reports to me went to a meeting with the employees and laid it all out. We’d never done that before. The employees had never been told

they were in the red . . . and when they heard about it they basically said, ‘we can fix it!’ It only took them four to six months to get us into the black. The changes had to do with scheduling, in terms of coverage. The employees identified times during the day when they were overstaffed, so when attrition occurred they did some rescheduling and worked thinner. It turned the contract around.”

That experience prompted Gilmartin to open his books to all his employees. “We have a very open policy here now,” he says. “If employees want information about what’s going on financially or how decisions are being made, we give it to them.”

**Spread the wealth:** The turnaround experience in the mail sorting operation went so well that “we did two things,” says Gilmartin. “We returned part of our profits to the employees through their compensation – and we gave another piece back to the Air Force base. Those two actions were very good for us. If we’d simply tucked the profits under our hat, we could have been more profitable in the short run. But by sharing them with our employees and our customer, we became even more profitable long term.”

**Stewardship:** Gulf Coast emphasizes to its employees that they are responsible for *all* the company’s resources. Essentially, says Gilmartin, “we want our people to take ownership of both our tangible and intangible resources, regardless of their specific jobs. We don’t want them thinking it’s somebody else’s responsibility. For example, in most organizations, if you see a visitor who appears to be lost, hopefully a staff member will give that person directions . . . but in our system, the expectation is that you’ll actually walk them to their destination, no matter what else is going on. That leaves a powerful impression.”

**Attending to the requirements of specific businesses:** Because Gulf Coast Enterprises engages in so many lines of business, Gilmartin and his senior managers have also learned to be aware of different success factors for each of them. For example, presentation is a critical issue in the food industry. “At the naval retirement home,” says Gilmartin, “food takes on a higher level of importance for people because it’s one of the few things they have to look forward to in the course of the day, so the way we present the food is important.” In the warehousing business, “the most important ingredients are the control you have over inventory tracking, reporting and analysis.” And in mail distribution for the Air Force, “there’s a huge issue of timing – we have a plus or minus 15-minute window for each pickup, and we make 144 stops twice a day, so we live or die by time management.”

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*“One day the contract administrator who reports to me went to a meeting with the employees and laid it all out. We’d never done that before. The employees had never been told they were in the red . . . and when they heard about it they basically said, ‘we can fix it!’”*

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# Gulf Coast Enterprises

## TYPE OF BUSINESS:

An affirmative business that provides custodial services, food services, warehousing operations, telephone switchboard services, mail distribution, administrative support services and industrial services (including packaging, light assembly, bulk mail preparation and sorting services)

**Mission:** To provide training and career opportunities for persons with special needs and barriers to traditional employment (*the goals are to create meaningful jobs and to decrease the individual's dependence on public supports*)

**Year founded:** 1986

**Structure:** A program operated internally by a nonprofit

**Headquarters city:** Pensacola, Florida

**Geographic market:** Southeastern United States (Florida, Alabama, Georgia, Kentucky, Mississippi, Tennessee)

## CURRENT FINANCIAL PERFORMANCE

(fiscal year ending September 30, 2000)

Annual sales: \$12,940,317

Net profit: \$1,638,904 (12.4 per cent)

## SOCIAL RETURN ON INVESTMENT

Number of full-time employees: 420

Number of full-time employees who are disabled or disadvantaged: 300 (71 per cent)

Number of part-time employees: 180

Number of part-time employees who are disabled or disadvantaged: 120 (67 per cent)

Employees with zero or reduced public supports who rely on wages earned at Gulf Coast Enterprises: 85 per cent

## INITIAL INVESTMENT

Planning time required before operations began: Six months

Dollars required before operations began: \$5,000

Source of planning dollars: Investment by parent corporation

Time until the business generated positive cash flow: Ten years

Additional working capital required before generating positive cash flow: \$400,000

Source of working capital: Investment by parent corporation

Time required to recover planning dollars and working capital: 15 years

## PARENT ORGANIZATION:

Lakeview Center, Inc. (founded 1954), an affiliate of Baptist Health Care

**Mission:** To provide the highest quality behavioral health care and vocational services to meet the needs of the people and communities we serve

**Programs:** Sixty-eight programs in areas such as crisis stabilization, behavioral medicine, mental health services for children and adults, youth day treatment and residential services, special programs for people who are developmentally disabled, residential and other programs for people recovering from substance abuse, telephone crisis counseling, vocational preparation and employment services, and others

Annual operating budget: \$46 million

Number of employees (FTE): 1,200

Number of people (unduplicated) served per year: 12,000 – 20,000

## SENIOR MANAGEMENT TEAM

President and CEO: Morris L. Eaddy, Ph.D.

Chief Financial Officer: Gary Bemby

Vice President, Vocational Services: Richard Gilmartin

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