



10+ Secrets to Starting a Nonprofit Business

A successful nonprofit entrepreneur shares some hard-won advice.

BY JERR BOSCHEE

“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 averaged \$2.2 million in annual sales for the past five years, has registered a net profit during four of those years, owns its facility and all its equipment, has no long-term debt, and has just under half a million dollars in reserve. The company employs 52 people, all but nine 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 52 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

The company’s most important social-purpose goals are to provide employment and boost employee wages and benefits. Results from the most recent fiscal year enabled the company to raise the average wage to \$5.78 per hour, with 32 of the 43 disabled employees able to work at least six hours per day. Turnover has been minimal: Only six people have left in the past two years.

More than 98% of the company’s revenues come from wood products manufacturing. During FY03, for example, the company produced nearly 74,000 wooden pallets, cut 3.4 million board feet of lumber, and used more than a million board feet of plywood. And the financial results during the past five years have been impressive: Operating profits have averaged nearly \$48,000; the company’s net worth has grown from \$898,000 to \$1,193,000; cash reserves have climbed

from \$258,000 in FY98 to \$473,000 in FY03; and wages paid to the company’s 43 disabled employees during FY03 alone totaled \$566,826.

The company 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, putting new roofs on all its buildings, dedicating a new administration office, purchasing four new forklifts, and redesigning its sawmill operations.

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 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.

Applied Industries came into exist-



tence in the late 1950s because “there weren’t any employment opportunities in Longview in those days for people who were disabled,” says Novotny. “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.”

The company started as a small craft shop making rag rugs and painting coffee cans for planters. But in the early 1960s it benefited by forming an alliance with an unlikely partner.

Three members of the local Longshoreman’s Union had sons working at Applied Industries. “The union members 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 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 1993 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. 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 10 factors that contribute significantly to the company’s success:

Create a strong board of directors. “We’ve always had board members with strong accounting and manufacturing backgrounds,” says Novotny. 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 torn between being a social service agency and a business, with a lot of internal tension,” he says, “so I finally gave up.”

Pay for performance. Novotny isn’t apologetic about the advantage being a nonprofit gives him. Applied Industries 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-three of the company’s 52 employees make at least the minimum wage, some disabled employees earning as much as \$12 per hour.

Use a buddy system. “Nobody starts here without having a mentor,” says Novotny. “We give the new person 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. The new person works under a mentor’s wing for a day or two—sometimes longer—to make sure they’re familiar with safety issues and other procedures.”

Emphasize shared values. Applied Industries participated a few years ago in

a University of Chicago study, 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 values shared by the people and their companies,” remembers Novotny. For Applied Industries, there are eight such values: truth, trust, honesty, new ideas, selfless behavior, personal risk, giving credit, and mentoring. The Rob Lebow Company then asked employees to rate their 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.

Listen 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!”

Listen 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 equally important 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 aren't going to just be up and gone."

Listen to employees. Applied Industries has 17 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 and reduce 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 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 660 ideas for changes and improvements," says Novotny proudly, "and we implemented 96% of them!"

Adopt total quality management (TQM). "I've been on my soapbox for nine years preaching quality," laughs Novotny, "and I never run out of something to talk about." He makes sure employees are trained in basic and advanced quality-control methods. He recommends taking whatever time and money is necessary to create a TQM program that works for you. "Think about it as an investment," he says, "not an expense."

Form strategic alliances. Applied Industries prides itself on strong relationships with suppliers and nurtures those connections carefully, whether they're providing lumber, plywood, nails, nuts, or bolts. And the benefits have been reciprocal. For example, one nail supplier led Applied Industries through Stephen

Covey's 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 and agencies. And, whenever possible, he converts suppliers 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!"

Stay focused. At one point, Novotny attempted to broaden the company's employee base 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!" ■

Resources

Boschee, Jerr, "Focus on Your Customers as Well as Your Clients," *Nonprofit World*, Vol. 22, No. 2.

Campbell, David, "High-End Strategic Alliances as Fundraising Opportunities," *Nonprofit World*, Vol. 19, No. 5.

Jenson, Donna, "Sharing the Vision: Every Leader's Obligation," *Nonprofit World*, Vol. 8, No. 5.

Remley, Dirk, "Relationship Marketing: Guaranteeing the Future," *Nonprofit World*, Vol. 14, No. 5.

Vitale, Katherine F., "Teams—the Essence of Quality," *Nonprofit World*, Vol. 13, No. 3.

These resources are available through the Society's Resource Center, www.snpo.org.

Jerr Boschee (jerr@orbis.net), long recognized as one of the founders of the social enterprise movement worldwide, has spent the past 20 years as an advisor to social entrepreneurs in the U.S. and abroad. He has delivered seminars or conducted workshops in 41 states and nine foreign countries and is executive director of The Institute for Social Entrepreneurs (www.socialent.org), which provides education, training, and other services for social entrepreneurs. He is also the co-founder and chief executive officer of Peace Corps Encore!, a nonprofit social enterprise that re-deploys former Peace Corps volunteers and staff members on short-term assignments in their areas of professional expertise.

More about Social Enterprise

For more about social enterprise, see *The Social Enterprise Sourcebook* by Jerr Boschee. The *Sourcebook* contains stories about 14 nonprofits that have successfully started business ventures, along with fact sheets about each organization and brief profiles of the entrepreneurs. Copies of the book are available for download at no charge from Mr. Boschee's Web site (www.socialent.org), and bound volumes can be ordered from him or from Amazon.com.