



**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 Danna 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

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