

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

“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.”

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

Contact information

Tony Wagner
1200 37th Avenue North
Minneapolis, Minnesota 55412

Telephone: 612-302-3450

FAX: 612-302-3490

E-mail address: wagnera@puc-mn.org

Web site address: None