Ocean Village Ventures

Case 3

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.

THE READINESS IS ALL

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 kaflooey 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

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

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."

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

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.

"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!"

"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 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."

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."

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

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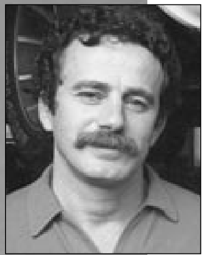
The story of ...

Esperanza Unida, Inc.

Case 6



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 . . . "

CURRENT FINANCIAL PERFORMANCE

(fiscal year ending June 30, 2000)

	Earned revenue	Operating expenses	Profit/loss (dollars)	Profit/loss (per cent)
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
Sub-total	***$1,648,542***	***$1,607,166***	***$ 41,376***	***2.51***
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
Total	***$2,564,188***	***$2,331,899***	***$232,289***	***9.06***

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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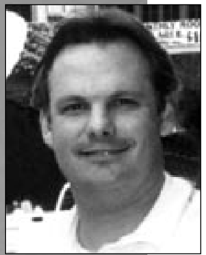
The story of ...

Chrysalis Labor Connection/Chrysalis StreetWorks

Case 9

CULTURE CLASH



**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.

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."

CHRYSALIS 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.***

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.

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

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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)

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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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The story of ...

Provident Counseling, Inc.

Case 11

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 Gemmology 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

"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!!!"

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.

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

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 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 "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."

"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."

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."

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

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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.)

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SENIOR MANAGEMENT TEAM

President and Chief Executive Officer:	Kathleen E. Buescher
President, At Ease Home Care, Inc.	Allan Smith

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The story of ...

Greyston Bakery

Case 12

**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."

> ***"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."***

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."

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

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

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

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

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

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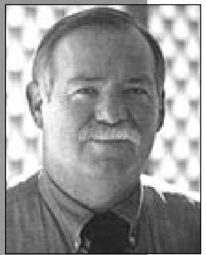
TROSA Moving

Case 13



**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.

"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."

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."

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

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