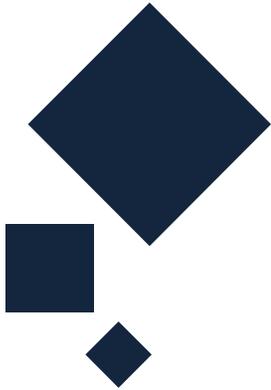


**Seedco**

*Innovations in Community Development*

May, 2003



When Good Work  
Makes Good Sense:  
Social Purpose Business  
Case Studies

Sponsored by:

**MetLife Foundation**

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**When Good Works Make Good Sense:**

**Social Purpose Business Case Studies**

Sponsored by:

**MetLife Foundation**

## Foreword and Acknowledgements

After we began the NonProfit Venture Network project in New York City in 2001 it became clear that the workshop training session would be substantially enhanced with case studies that could portray a variety of nonprofit experiences with social purpose business. The Met Life Foundation generously agreed to support the case study analysis and compilation. Four Seedco staff teams under the supervision of Program Manager Jaycee Pribulsky carried out field reviews of the four social purpose businesses outlined herein. This work was carried out by Steve Cohen, Catherine Gill, Leigh Graham, and Stephanie Morimura.

While a unified protocol was used by the study teams, the businesses themselves and the rationale taken by the nonprofits in creating and managing them were purposely selected to provide a range of options. Therefore, the four case studies represent a solid diversity of approaches to the subject and as such, provide, we believe, an excellent learning tool for budding social entrepreneurs.

After the completion of the field work, the field review teams gathered to compare their experiences and each team prepared a draft report that was shared with the nonprofit for their comments and suggestions and to ensure the accuracy of the findings. Consultant Molly Gordy then reviewed the work and filled in missing blanks to assure consistency of approach. Consultant Leila Feister then provided final editing for the document.

In addition to those mentioned above, I want to thank Dawn Techow, Mimi Grinker and Stacey Redway for their work on the production of the document. Finally I want to express our appreciation to the leadership and staff of the four nonprofits who graciously consented to our inquiries and who were so responsive to our requests for additional information. Last but not least our thanks go to Sibyl Jacobson and April Hawkins of the Met Life Foundation who have sponsored our Nonprofit Venture Network project from the beginning and whose thoughtful insights and suggestions have been of immeasurable value in putting a proactive shape and direction to the project.

William J. Grinker  
November 2002

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## Overview

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Imagine a business venture that has all the money-making savvy of a for-profit enterprise, the social service goals of the public sector, and the mission-driven zeal of a nonprofit organization. Harnessed together, those qualities ought to put the previously unreachable within grasp: innovative, market-based solutions to social problems that generate both financial resources and social value.

That line of thinking inspired a new approach to social enterprise in the 1990s that has grown rapidly in the current decade. Known variously (and often interchangeably) as social entrepreneurship, social purpose businesses, social or nonprofit ventures, nonprofit business development, and earned income ventures, these hybrids blur the lines between nonprofit and for-profit businesses. They follow a variety of models:

- Some are structured as nonprofit businesses. Their income supports both the social venture and other programs operated by the nonprofit organization with which they are affiliated (Institute for Social Entrepreneurs, 2002).
- Some are structured as for-profit businesses. Their profits are divided between the social venture and a return on investment for owners, which frequently are nonprofit organizations that use the profits to support other programs.
- Some businesses calculate a numeric value for the social return generated by their financial investments (Roberts Enterprise Development Fund, 2002). Others focus on income earned, which can range from 19 percent to 56 percent of the venture's budget (Larson, 2002).
- Many social purpose businesses are structured to provide training and employment for people with special needs, such as those who are or recently were homeless. In this sense, the businesses extend the parent organization's programming while also generating revenue.

Despite the range of models, all social purpose businesses pursue a “double bottom line”: They seek to both meet a social need and generate a financial profit.

In 2001, with support from the MetLife Foundation, the United Way of New York City, Mizuho USA Foundation, and the Eckerd Family Foundation, Seedco established the Nonprofit Venture Network (NVN) to stimulate and support the development of social purpose businesses. NVN is a targeted strategy that provides nonprofits with specialized technical assistance to develop and operate social purpose businesses. (For more information, see p. iii.)

Seedco does not require an organization to generate a specified percentage of earned income to qualify as a social business venture. Nor does it expect nonprofit organizations to launch commercial enterprises simply to make money. Instead, NVN defines a social purpose business as **“a business activity started by a nonprofit organization that applies market-based solutions for the purposes of furthering the mission of the organization, generating income and addressing social needs.”**

This report describes the history and context, business strategy and structure, operations, outcomes, and next steps for four real nonprofit ventures: The Women’s Home and Cottage Thrift Shop (Houston, Texas); Artists for Humanity and Art and Entrepreneurship for Urban Youth (Boston); Delancey Street Foundation (San Francisco); and The Fifth Avenue Committee and FirstSource Staffing (Brooklyn, New York).

The organizations profiled, like most social enterprises, all engage in activities that help nonprofit entities “diversify funding, build stronger relationships with constituents, and improve visibility in the community” (Larson, 2002). But within that broad scope, approaches vary. Some organizations, while eager to help hard-to-employ workers, are equally driven to make money. Others structure their businesses in ways that fit their mission but would be hard to replicate in the typical business world, such as one organization whose workers all live onsite. These differences have a profound impact on the context in which the ventures operate and the steps they take to reach their goals.

Each case study illustrates a different approach to nonprofit ventures and a distinct set of important elements. Individually, the cases provide useful examples of the situations that nonprofit organizations face when developing business ventures. Collectively, they reveal the breadth of strategies, options, and lessons available to nonprofit ventures. Across the cases, the following general themes emerge:

- Organizations whose business goals are aligned with their social mission may have intrinsic advantages when it comes to blending “good works” with profitability, especially in the areas of staffing and marketing. Close connections between a social and business mission do not guarantee success, however.
- Skilled management is vital. People who know how to run social programs aren’t necessarily the right people to run profit-oriented businesses, so it is important to find leaders who have both nonprofit and for-profit industry expertise.
- Even if commercial concepts and skills don’t produce a viable business venture, they can improve the quality of nonprofit organizations’ operations and management.

We offer the cases and their lessons as a tool to augment the Nonprofit Venture Network’s training curricula and to inspire further discussion. The cases also provide a basic framework for understanding how social ventures work – and don’t work in a variety of contexts. Each case study begins with a summary of business highlights and ends with a summary of lessons learned; each also contains a set of questions to facilitate discussion.

## The Nonprofit Venture Network

Support for NVN comes from the MetLife Foundation, the United Way of New York City, Mizuho USA Foundation and the Eckerd Family Foundation. NVN began in New York City in 2001 and expanded to Tampa Bay, Florida in late 2002.

NVN works with nonprofit organizations in three distinct phases:

- Phase I: Learning -- Assessment and capacity building through the *MetLife Introductory Workshop Series on Social Purpose Businesses*;
- Phase II: Planning -- Pre-development grants through the Entrepreneurial Assistance Fund and one-on-one intensive business planning assistance; and
- Phase III: Implementing -- Financing for the start-up or expansion of the social purpose business.

The *MetLife Introductory Workshop Series on Social Purpose Businesses* provides community-based nonprofits organizations with introductory knowledge of the field of social enterprise and introduces basic business planning and financing skills. Organizations that have completed the workshop series are eligible to apply for pre-development grants of up to \$15,000 through the Entrepreneurial Assistance Fund (EAF) which begins Phase II of the program. Over the year-long Phase II grant period, Seedco and its local technical assistance partners work with organizations on a one-on-one basis and in small cohorts to develop a management strategy and complete a business plan for the social purpose business. Phase III offers grantees access to several forms of financing to support their efforts in launching a social purpose business. In order for organizations to move from Phase II to Phase III of NVN, nonprofits must have completed a business plan and meet Seedco's due diligence requirements.

By 2003, more than 150 organizations had attended NVN workshops and 21 organizations had received pre-development grants through the EAF in Phase II of the program.

## Case 1: The Women’s Home / Cottage Thrift Shop Houston, Texas

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### Highlights

The Cottage Thrift Shop is a second-hand store operated by a residential treatment center for women. It features:

- Hands-on job training in a real-world setting as a supplement to classroom work;
- Close coordination between the business and treatment programs;
- A manager with both commercial and programmatic experience; and
- A solid base of volunteer support that provides continuity and free staffing.

### History and Context

The Women’s Home, a 50-bed residential treatment center in Houston, Texas, provides room and board, psychiatric and nursing services, psychotherapy, and vocational training for women recovering from substance abuse and/or mental illness and domestic violence. Established in 1957, this nonprofit organization’s mission is to “help women in crisis regain their self-esteem and dignity, empowering them to return to society as productive, self-sufficient individuals.” It is one of only four such centers for women approved by the Texas Rehabilitation Commission, and it is the only one of its kind in the Houston area.

The Home’s residents, who can stay up to 18 months, receive residential care; clinical services from psychiatrists, nurse practitioners, psychotherapists, and substance abuse counselors; spiritual support; and vocational training. Residents are referred by hospitals, drug treatment centers, and social service agencies. The average length of stay is one year, and more than 70 percent of the women who stay at least six months depart with a job and a safe place to live.

The Women’s Home Cottage Thrift Shop, which sells designer labels in a boutique-like setting, was established as a “therapeutic and empowering” hands-on venue for residents’ job training, according to Vocational Training Director Peggy Wilson. But the second-hand shop, located in the eclectic and gentrifying Montrose neighborhood, is also a thriving business that provides almost 20 percent of the center’s \$2 million annual operating budget. It’s clean, attractive ambiance and upscale merchandise—donated by a local design center—has earned it a reputation as “the Neiman-Marcus of thrift shops.”

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*“The shop experience is designed to foster personal growth, responsibility, and independence... Most importantly, this training builds self-esteem and self-confidence, giving residents the tools to work toward self-sufficiency.”*

—Paula Paust  
Executive Director, The Women’s Home

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The Home has no long-term debt, owns its property, and raised almost \$4.5 million through its most recent capital campaign. Its executive director, Paula Paust, devotes most of her time to development activities.

## Business Strategy and Structure

The thrift shop was designed as an integral part of the Women's Home's treatment program, according to Paust. The business meets several crucial goals for the Home's social mission:

- It is a place where residents can learn and practice new skills. "What they can't do in the classroom, they can learn in the thrift shop," notes Vocational Training Director Wilson, "such as coming to work on time, the right mindset to accept responsibilities, working in teams and with others, and being flexible in job duties."
- Residents gain self-esteem as they learn. Ida N., for example, was distracted when she began working at the shop. She says she had the feeling that her life was over. But after gaining work experience, Ida now views herself as a role model for incoming residents.

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*"It's a place where [residents] can be recognized for achievement... in a safe environment."*  
—Peggy Wilson  
Vocational Director, The Women's Home

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- Working in the shop helps residents establish a routine for living, which most have not had in a long time. Their training and workplace emphasizes accountability, responsibility, and time management. In fact, the Home's vocational training team assesses residents' readiness to enter the broader workforce by monitoring their progress at the shop.
- The program teaches residents to take initiative. Workers decide which roles they will play in running the shop, and they help with interior decoration and window displays.
- It gives residents an opportunity to network with each other. Participants discuss what they learn at the shop during peer group meetings, which gives them extra opportunities to learn from each other.

Thrift shop employment is mandatory during the first 90 days of each resident's stay, along with clinical treatment and classroom-based vocational training. During their first three months, residents typically work four 3-hour shifts each week. They are prohibited from leaving the Home's campus during the week and receive homework assignments to complete, including résumé writing and computer training.

Thrift shop manager Sandy Hatcher and her assistant, Clary Hunker, emphasize to residents that their work in the shop is a real job. Hygiene and appearance get special attention, and Hatcher and Hunker can decide which clothes residents are allowed to buy with the vouchers they earn by working.

Because participants enter the business with varying levels of skill and aptitude, training is highly individualized, and success is not measured solely by whether the resident achieves full employment after graduation. "There are women who enter the program who are not able to return to full-time employment," notes Wilson. "[The Home] helps them get part-time employment or disability income, affordable housing and to develop independent living skills. This income prevents homelessness and/or continuing dependence on abusive relationships. That is a successful outcome for these women."

The Home also provides job counseling, job intervention, and networking opportunities for graduates of The Women's Home. Says Wilson, "We're trying to tie the resident to the organization so they can return [to the job bank] if their job doesn't work out."

## **Operations**

The thrift shop is open from 10 am to 4 pm every day but Sunday. It draws an estimated 130 customers on an average Saturday, when everything is 75 percent off the original retail price; on other days, prices are 50 percent off. The store holds sidewalk sales four times a year, which are advertised. Other than that, little advertising has been necessary. No inventory is taken, because donations pour in at a fast pace. The shop has only solicited donations once, when a flood destroyed merchandise.

These practices generate approximately \$20,000 per month in revenues. As an integral part of the Home's vocational program, the shop does not have a budget separate from that of the vocational program. Shop Manager Hatcher tracks daily sales, but her input into the program's budget is limited to what revenues she expects to generate.

Partnerships with three other Houston-based social service agencies give the thrift shop a steady stream of customers, and the shop donates overflow merchandise to another thrift shop and to two agencies that serve homeless populations.

The business is deeply integrated with the Home's therapy program. For example, thrift shop manager Hatcher attends all clinical meetings where residents' needs are discussed; as a skills trainer, she is considered a vital member of the clinical and vocational team that assesses residents' progress.

The Women's Home has a full-time staff of 17 but also relies heavily on a corps of volunteers to help with the thrift shop and vocational training. Known as the Auxiliary, these workers clock enough hours to equal 10 full-time employees. About 15 to 20 volunteers work regularly in the shop, supplemented by groups of private and corporate volunteers. The Home also is a training site for graduate students in long-term rehabilitation, social work, psychology, psychiatry, and nursing, drawn from the University of Houston, Baylor University, and the University of Texas.

Volunteers are recruited through word of mouth and ads in local newspapers, and they tend to stay a long time. As the volunteer crew has grown, a Community Outreach Committee has formed to further build community awareness.

## **Outcomes**

Residents who have spent six or more months at The Women's Home experience an 80 percent decrease in hospitalization rates. Of the Home's graduates in 2001, 70 percent left with an affordable place to live – 62 percent supported by full-time employment and the rest by Social Security income. An additional 10 percent finished or re-enrolled in school. Of the graduates in 2000, 70 percent were self-sufficient a year later.

Residents laud the thrift shop as a "realistic training environment" that can lead to similar jobs upon graduation from the Home. After a year living at the Home and working in the thrift shop, for example,

Ida N. landed a part-time job at Macy's and has become a public speaker for the Home. She and many other successful graduates frequently return to the shop to offer guidance to current residents.

There is considerable anecdotal evidence of similar personal transformations. Sandra K, for example, came to The Women's Home after struggling with drug addiction for nine years. She found the requirement that she work in the thrift shop especially challenging. But the experience gave Sandra the discipline and self-esteem she needed for training in computer graphics, which led to temporary jobs and, eventually, a permanent placement as a systems administrator for a local university.

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*"Seeing the residents blossom, and their kindness and intelligence come through, is like watching an awakening... It's very rewarding for the volunteers. They're so proud of the residents' accomplishments."*

—Judy Winograd  
Thrift Shop Chairwoman and volunteer

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"At first you feel used, like they're getting free labor," Sandra says of her six months at the thrift shop. "Then you realize that by giving something back, you're not a charity case. I wouldn't be where I am today without that experience."

## Looking Ahead

Leaders of The Women's Home are considering opportunities for expansion, including a chain of thrift shops; development of affordable housing for recent graduates of the program; and a line of jams, spreads, and dips that volunteers have developed to sell at local craft events.

Shop manager Hatcher would like to see a second Cottage Thrift Shop open in a Hispanic neighborhood, which she sees as an underserved market. She also believes that the Home could greatly increase revenues by operating several higher-end shops in more affluent communities. Executive Director Paula Paust, on the other hand, sees acquiring housing stock as a logical next step for the Home's residential program. With a solid donor base to tap, it would be easier to buy a building than to rent one because "people will give to capital campaigns faster than they'll give to operations," she notes.

Paust also has considered pursuing accreditation from the Joint Commission on Accreditation of Healthcare Organizations, an entity that accredits all healthcare organizations nationwide. This would give the Home unprecedented access to research, best practices, and other resources. But it also is an expensive process and would increase the complexity of the Home's management and regulation.

To pursue its long-term goals, The Women's Home will need an income stream that is steadier, more diverse, and less dependent on private donors. Until recently, the Home lacked the administrative infrastructure to meet public funders' stringent accounting requirements. But improvements have enabled the Home to test the waters with a funding application to the City of Houston.

Moreover, if The Women's Home directors decide to open additional stores, they will need to write business plans and consider operational issues more formally than they did with the first shop, Paust says. Planning would include decisions about whether to incorporate the additional stores into the vocational program or make them purely sources of revenue.

## Lessons from The Women's Home and Cottage Thrift Shop

### *1. Build a management team with both business and program experience.*

It is rare to find a manager who can handle both the commercial and social aspects of a nonprofit venture. In the Cottage Thrift Shop's case, that means simultaneously helping women in crisis gain self-esteem, job skills, and self-sufficiency and helping the business generate revenue. The thrift shop's first manager had retail experience but lacked the temperament to work with women in crisis, says Executive Director Paust. But in current manager Sandy Hatcher, The Women's Home found a person who has both extensive retail experience—she previously owned a Houston consignment store—and a “coaching” persona that fits the Home's vocational training orientation.

The importance of balancing the two perspectives led the Home to divide Hatcher's time almost equally between store management and the vocational training division. In that second capacity, Hatcher attends meetings with clinical and therapeutic practitioners to help her understand residents' needs and to offer her perspective based on workplace observation. Hatcher also helps clinical and vocational staff assess residents' progress.

Hatcher's colleagues describe her concern for thrift shop workers as “parental”; indeed, her management style is so supportive that more than half of the businesses' former workers remain in contact with Hatcher after they graduate from The Women's Home. Hatcher, meanwhile, credits Paust's hands-off management style with giving her a pride of ownership in the business venture. She feels personally invested in and responsible for the store's accomplishments, as both a thriving business and a means of improving women's lives and she knows that Paust is available as a supporter and advocate of her efforts.

### *2. Build a solid base of volunteer support.*

Volunteer workers are a crucial source of labor for The Women's Home and the Cottage Thrift Shop—so vital, in fact, that Executive Director Paust advises other organizations to consider their prospects for attracting volunteers before launching any social purpose business venture.

## Discussion Questions

1. What characteristics make the Cottage Thrift Store's manager a successful director of a social purpose business? How do these characteristics align with her job responsibilities?
2. If you had to hire a replacement for the thrift store manager, would you focus more on programmatic aspects or on the applicants' business experience (assuming that you could not find someone with adequate experience in both)? How would you make up for a lack of experience in either area?
3. Is the thrift store succeeding? How do you know? What additional information do you need to answer this question?
4. Could the thrift store do better financially? How do you know? What additional information do you need to answer this question?
5. Could the thrift store be more useful to residents of The Women's Home? In what ways?
6. What potential threats does the store face?
7. Should The Women's Home expand its social purpose enterprises? What are the advantages of each of the expansion options? How do the expansion options fit with the Home's core competencies? What types of organizational capacity are needed for the different expansion options?
8. Should the expansion options be integrated with the mission or chosen strictly on the basis of potential to generate revenue?
9. Does the thrift store rely too heavily on volunteers? What are the advantages and disadvantages of using volunteers as core staff of a business?

## Case 2: Artists for Humanity Boston, Massachusetts

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### Highlights

Artists for Humanity operates a social purpose business where teenagers learn to create, market and sell art. The program features:

- A commitment to innovation, creativity, and flexibility;
- Opportunities for youth to learn both artistic and business skills;
- Mentoring by young professionals; and
- Hourly wages for many participating students, and payment of some profits to student artists who sell their work.

### History and Context

Artists for Humanity (AFH), located in Boston, is a nonprofit organization that operates Art and Entrepreneurship for Urban Youth, a social purpose program and business. After school and during the summer, young people participating in the program learn painting, silk screening, architecture, photography, sculpture, and graphic design from paid “mentor” artists. The staff and students market their fine art through exhibits and graphic design services, using the profits to support future projects.

AFH was founded in 1990 by Susan Rodgerson, a painter and entrepreneur. Rodgerson had successfully raised funds for the preservation of Native American lands through art exhibitions and auctions, organized an after-school drawing program for kids, and founded a fashion accessory business that grossed more than \$1 million in sales.

In 1990, Rodgerson became concerned about the lack of arts experiences available to students in the city school system. When she approached several schools to initiate a collaborative art project, the principal of Martin Luther King Middle School in Dorchester invited her to supervise a student-painted mural, which a private company later purchased for its annual report cover. That project introduced Rodgerson to six especially enthusiastic and talented boys, who claimed space for themselves in her South End art studio after the school session ended.

Rodgerson realized that the boys’ desire to create was shared by many young people without opportunities to express themselves. She urged her protégés to try to sell their art as an act of empowerment. After a lucrative day of spray-painting tee shirts on the steps of MIT’s Sloan School of Management, the youths decided they would rather pool their earnings to fund another project than

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*“Youth need to be given a voice, not just for their own benefit, but because adults need to hear them.”*

—Susan Rodgerson  
Executive Director, Artists for Humanity

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divide their profits and be done. They founded Artists for Humanity, with Rodgerson as the group's executive director. Two years later, AFH gained 501(c) (3) status to pursue its mission of bridging "economic, racial and social divisions by providing inner-city youth with the keys to self-sufficiency through paid employment in the arts."

## **Business Strategy and Structure**

Artists for Humanity is founded on the premise that young people need to express themselves and also develop the tools to achieve self-sufficiency. Its dual mission is to give students freedom to grow as artists while helping them develop skills and appreciate the commercial value of art.

At the outset, Rodgerson had no intention of establishing a nonprofit business. "But I soon realized that nonprofit status was a way of getting the seed capital to be able to run the business, and that a combination of earned and raised revenue would allow the organization to meet its social goals as well as its operating needs," she recalls.

Rodgerson has written five different business plans in 10 years. "That's the problem with a business plan," she asserts. "You start with the sketch but then the painting evolves and ends up different from the sketch."

Finding the right sales strategy has been a particular challenge. Most corporate buyers didn't grasp the concept of purchasing youth art. Nor did they know how to react to a hybrid business that blurred the line between profit and nonprofit. Rodgerson's phone calls were inevitably transferred from the sales department to the charitable giving office before she could make her pitch. "I wasn't looking for a hand-out; I wanted to be paid for a valuable product or service," she recalls in frustration. "But in the early 90s, the idea of social entrepreneurship was just beginning to develop."

To reduce the confusion, Rodgerson adopted a "doing business as" name for AFH, the City Teens Design Company. The strategy worked, and eventually AFH was able to return to using its own name. But Yhinny Matos, who oversees AFH's marketing efforts, says she still has to address misunderstandings daily. "They want to talk about grants, we want to talk about holiday card [sales]," Matos says.

Although initial sales were so weak that Rodgerson supported AFH with her personal credit card, AFH now has an annual budget of \$1.2 million. The money comes from private foundations (36 percent), sales (25 percent), in-kind donations (15 percent), corporate foundations (12 percent), governmental sources (8 percent), and individual donations (4 percent).

AFH does not expect all art to generate revenue. In fact, when a tradeoff must be made, the organization consciously chooses to empower students to follow through on their ideas rather than to make a purely commercial decision.

## **Operations**

Rodgerson employs eight full-time and six part-time staff members (including three of the co-founders), most of whom are in their late 20s. The organization works with more than 500 youths every year, of which 100 are full-time "apprentices" who receive a minimum of \$8.50 for every hour spent in the studio. The rest, known as "associates," participate less than full time; they have full access to AFH's facilities but

do not receive wages. Students typically enter the program during their first year of high school and work for the full four years until graduation.

Before a participant can receive wages, he or she must spend 720 hours as an unpaid “community partner.” That experience is designed to raise the students’ awareness of the crucial role each person plays in Artists For Humanity. “They need to feel like they’ve earned it,” Rodgerson explains.

When a piece of art is sold, the artist receives a percentage of the selling price. If the artist brokers the deal independently, he or she pockets 100 percent of the sale.

Enthusiasm permeates the Artists For Humanity studio, where students clearly are having the time of their lives as they create and sell art. Damon Butler, a co-founder and mentor, attributes this energy to AFH’s commitment to innovation and creativity. “There isn’t a single thing that’s routine,” he says.

The presence of young professional mentors keeps the organization grounded in its roots and provides role models for participants. According to Butler, much of the mentoring job entails motivating the participants to apply and challenge themselves. “I definitely have to kick people in the butt when I feel they are not trying hard enough,” he says. And Rodgerson has fired participants who don’t pull their own weight.

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*“People here work really hard. I demand it of them because I demand it of myself. I have sometimes been described as a dog on a bone.”*

—Susan Rodgerson

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For the most part, however, Rodgerson’s empowerment strategy works well. Carlo Lewis is a good example. One of AFH’s co-founders, Lewis went on to attend the Rhode Island School of Design as an architecture major. When Rodgerson was evaluating options for a new building to house AFH, she encouraged Lewis to submit a proposal, and she and the AFH board eventually accepted it. Lewis is now working alongside the architectural firm hired to oversee the project, and as an AFH mentor he is helping 10 students develop specific design elements of the building.

Young participants in AFH frequently have opportunities for authority and responsibility; as Resource Director Patrice Maye says, “They help lead the organization. They are the model.” Recently, for example, a 24-year old mentor appointed a 16-year old student as project leader for the design and implementation of a full-scale mural at a major medical center.

## Outcomes

Since 1996, Artists For Humanity has collected more than \$1 million from sales of student paintings, t-shirts, graphic design services, holiday cards, brochures, and murals; exhibitions of AFH art; and the use of the AFH studio for corporate meetings. Current annual sales are approximately \$250,000, and the level of sales has grown steadily for five consecutive years.

AFH has employed a total of 469 “at-risk” youths. The organization monitors participants’ progress in several ways. An intake form collects data on the background and demographics of each new participant and his or her career aspirations and goals for the future. Every six months, students fill out a self-evaluation form that asks participants to grade themselves on personal growth indicators, such as their level of motivation, initiative, and involvement, and their attitude towards work, respect for others, and capacity

for leadership. For each student in their studio, mentors fill out a job evaluation form that collects data on the participant's perceived ability to handle responsibility, take on new challenges, and identify personal strengths and weaknesses.

AFH also follows the progress of students who graduate from the program. In addition, staff measures the annual attrition rate of paid participants, which AFH strives to keep below 10 percent, and follows up with students who leave the program. These activities reveal that most students who leave are not dissatisfied with the program but have conflicting commitments.

## **Looking Ahead**

Artists For Humanity is an enterprise in transition. The client base is shifting from a small number of large clients to a larger number of smaller clients. Rodgers and her marketing team attribute this change to the weakening economy, which has provoked some organizational soul-searching. Should Artists For Humanity focus harder on cultivating their larger clients and catering to their needs? Or would a customer base of nonprofit organizations, such as schools and community-based organizations, be more consistent with the AFH mission? In the long run, Artists For Humanity's goal is to increase its self-sufficiency both through more successful fundraising and greater student sales.

The organization is poised to begin construction of a \$6 million, environmentally friendly headquarters in South Boston. The new building is both a symbolic and concrete step toward the goals of social action and long-term sustainability. The building will generate all of its own energy through solar panels and other renewable sources. And the new space will give Artists For Humanity more opportunities to hold exhibitions or lease gallery and studio space to other artists, nonprofit organizations, and retail businesses, thus increasing revenue.

AFH is also considering new ways to create customer loyalty, including a possible subscriber package that would give corporations a menu of options for holiday cards, tee shirts, exhibitions, and other services.

## Lessons from Artists for Humanity

### *1. Dare to be flexible.*

Risk-taking and experimentation are the name of the game with creative, entrepreneurial social ventures. For example, a group of AFH students once decided to develop a line of lamp shades. Rodgerson kept her misgivings to herself, and although the idea didn't pay for itself, she has no regrets. "You can't expect students to see the entrepreneurship sense without giving them the opportunity to go through the process," she insists.

Rodgerson concedes that AFH could probably make more money and avoid mistakes if more of its staff had professional business experience, but she emphasizes that the mission of training artists to become business people is paramount. This does not mean that nonprofit ventures should treat the business side lightly, Resource Director Maye adds—simply that "we adapt to changes in the market, [the] economy, and particularly the needs expressed by our young people to... sustain our organization while helping the teens create their own sustainable futures."

### *2. Link financial and emotional investment.*

By involving students in selling their art, Rodgerson believes she is demonstrating to young people that they are the organization's partners. The sense of ownership that the practice fosters has virtually eliminated any problems with staff.

### *3. Appoint a board that shares your vision, and let its composition evolve along with organizational needs.*

The first staff person Rodgerson hired for AFH was a woman experienced in managing nonprofit organizations. At her suggestion, they recruited nine enthusiastic board members from the corporate, public, and nonprofit sectors. It soon became clear, however, that Rodgerson and her colleague had different visions for AFH's future. It was a fundamental debate over whether AFH should be *either* a nonprofit or for-profit organization or whether it could be a hybrid of *both*—and the board was similarly divided. Rodgerson ultimately asked several of the board members to resign and let the staff person go.

Rodgerson now believes that the original board members represented the right backgrounds, but they were in place at the wrong time and without adequate preparation. She now "sells" Artists For Humanity's philosophy to her prospective board members in much the same way that she approaches potential business clients. AFH also is developing a second board to focus on fundraising, leaving the first group free to focus on key business, community, and legal issues.

#### **4. Avoid over-expansion.**

Rodgerson receives phone calls every day from people across the country that have heard about Artists For Humanity and want to replicate it in their communities. She usually offers moral support and guidance while resisting pleas for more involvement. (“What could go wrong [with a replication attempt]? Anything at all,” Rodgerson notes wryly.)

AFH has been closely involved with an offshoot called California Artists for Humanity, however. Rodgerson and Carlos Vera, Executive Director of the California group, sit on each other’s boards, and the Boston organization does much of the fundraising for its California counterpart. Still, California AFH is developing its own characteristics, with Rodgerson’s approval. “You create something out of nothing, that’s the only imperative,” she says. “I don’t want to control the replication process—that would go against our mission.”

### **Discussion Questions**

1. Flexibility in an organization can produce remarkable results, but it also involves risks. What risk factors should a social purpose business like Artists For Humanity consider when deciding whether to implement an idea? (Think about the lamp shade example.)
2. When AFH completes its new building, the organization will become a landlord. Is that a good expansion opportunity? Why or why not? What organizational capacities are needed to manage real estate? Does AFH have these capacities? If not, what should the organization do in order to succeed in this new endeavor?
3. AFH’s client base is changing, and it is getting harder to attract and retain large clients. Should AFH pursue these clients? Why or why not? If AFH does pursue them, what should the marketing strategy be? What is the cost? What are the alternatives?
4. What outcome measures would be most useful for determining the success of Artists For Humanity?
5. Should AFH expand to other sites beyond the California replication attempt? What are the advantages to expansion? What are the disadvantages?

### Case 3:

## The Delancey Street Foundation

### San Francisco, California

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#### Highlights

Delancey Street is a residential complex and rehabilitation program for former substance abusers and other high-risk individuals that operates several businesses. It features:

- Labor-intensive ventures in which individuals develop multiple skills, workers are easily replaced, and the work is not highly specialized;
- A commitment to communal living, self-help, and peer support;
- Continuous learning opportunities for workers, reinforced by mandatory rotation through various businesses; and
- Synergy across several types of businesses.

#### History and Context

The Delancey Street concept was established in San Francisco in 1971 by John Maher, a recovering substance abuser looking for ways to rebuild his life. Maher saw communal living and peer support as the keys to staying sober and becoming a more productive member of society. He and some friends who shared his circumstances and ambitions pooled their resources to rent an apartment. Recalls a long-time resident, “Those who could work, did. They drew up some by-laws, and then became a [nonprofit organization].”

The residents soon outgrew their original apartment and moved into a variety of buildings in Pacific Heights and the South of Market area of San Francisco, holding jobs in various sectors. But they remained linked by two important beliefs: Only by sharing a central location and establishing a strong sense of community could Delancey Street achieve its mission of helping men and women turn their lives around; and, the operation had to become self-sufficient.

Today, a 350,000-square-foot complex in San Francisco houses 500 former felons, prostitutes, ex-convicts, and substance abusers. Residents receive vocational and educational services through the Delancey Street Foundation. There are similar Delancey Street Foundation centers in Los Angeles; Espanola, New Mexico; Greensboro, North Carolina; and upstate New York.

Delancey Street covers its own operating expenses, financed in part by direct donations (up to \$3.5 million per year from nongovernmental sources) and donated products and services (\$7 million per year). But the organization’s main source of income is the revenue generated by several social purpose businesses operated and managed by Delancey Street residents. These include a Zagat-rated restaurant and café, a national moving company, a limousine service, a van service for seniors, a catering service, and a digital print and silkscreen business. Delancey Street has also cornered the market for Christmas tree sales.

In San Francisco, Delancey Street residents live in a housing facility along San Francisco's Embarcadero waterfront. The maze of pastel stucco buildings and Mexican tiled walkways, much of it hand-built by residents, stands as a monument to the power of people working together to achieve a common goal.

## Business Strategy and Structure

After founder John Maher heard criminologist and psychologist Mimi Silbert speak at a public gathering, he asked her to visit Delancey Street. Silbert was impressed and immediately began lending her expertise to the budding organization; she is now the director of the Delancey Street Foundation. Under her leadership, Delancey's philosophy is one of "mutual restitution":

The residents gain the vocational, personal, interpersonal and social skills necessary to make restitution to the society from which they have taken illegally, consistently, and often brutally, for most of their lives...In return, Delancey Street demands from society access to the legitimate opportunities from which the majority of residents have been blocked for most of their lives.

Delancey Street has no professional staff—no doctors, therapists, or security guards. Residents of the program therefore serve as supervisors, instructors, and role models to those who enter the program in despair. Stephanie Muller, a former heroin addict, is a good example: After living at Delancey Street for 21 years, she now manages several of its entrepreneurial initiatives and is Silbert's assistant.

But despite the emphasis on communal living, the organization's structure is markedly hierarchical. The residence is organized into three areas, which bear the impressive names of War, State, and Vatican. The War division encompasses all business activities and revenue generation. State takes care of administration and logistics. The Vatican oversees all personal growth activities and decides when residents are ready to leave Delancey Street's gated community and rejoin the outside world.

Managers refer to their commercial ventures as "training schools" because residents are viewed as perpetual learners who are expected to develop several marketable skills. Thus, for example, a new resident who has expertise in a specific area, such as auto repair, will probably be assigned to a completely new role, such as restaurant worker. And residents who have attained a management position within one business unit may perform entry-level tasks in another.

All jobs, however, emphasize self-sufficiency, peer support, discipline, and accountability. For that reason, the enterprise is not purely a training or rehabilitation program. "It's part big family or kibbutz and part university," Muller says.

Because of its strategy for training workers, Delancey Street—which does all its own business planning—focuses on highly regimented, labor-intensive ventures that can withstand constant fluctuation in personnel. "Our business plan is to try it, and if it doesn't work, then we don't do it again," says Muller. Business planners also avoid businesses that rely on a few workers who have special skills; instead, they favor businesses that rely on several different workers possessing many general skills, working together as a group.

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*"Some years we make money, some years we don't. If we don't, then we eat different food."*

—Stephanie Muller  
Delancey Street manager

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## Operations

Delancey Street’s business operations are inextricably intertwined with its personal development goals for residents. Residents must work for their keep, and they receive no compensation. In exchange, Delancey Street provides almost everything residents need, including clothes, education, and pocket money. (It does not provide professional therapy or medication on the premises, although a few local doctors offer pro bono health services.)

In addition to working full-time jobs—making fresh pesto in the restaurant, for instance, or hauling boxes for the Delancey Street Moving Company—residents are responsible for all activities at the complex. Those duties range from helping fellow residents study for their high school equivalency diplomas to training drivers to replacing loose bricks on the walkway.

Admission to the program is restrictive. “The word out there about Delancey Street is that it’s a hard program and that you really have to be serious about changing,” says Paul Burch, a member of Delancey’s intake staff. “Here, residents find forgiveness for the past but total accountability from this day forward.”

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*“When a participant comes in through the door, they are immediately participating in their own recovery.”*

—John Pavao  
9-year resident of Delancey Street

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In general, applicants must be in good mental and physical health and capable of adapting to the social constraints. Although an average of 10 applicants interview daily, and about five receive placement offers every week, not all approved applicants enter the program. Many cannot persuade a judge to let them carry out their sentence or parole at Delancey Street; others need to fulfill certain contingencies first, such as spending time in a detoxification center.

New residents lose virtually all independence until they are deemed capable of operating on their own. “New people are never left alone at the beginning, and they are not allowed to go outside,” says Jerold Miller, a Delancey graduate and longtime resident. “This may last two weeks or three months, depending on whether they are able to deal personally.”

Residents must earn freedoms such as “walking around money,” free time, and better rooms. As a resident develops, he or she begins to mentor others, lead discussion groups, and move into managerial roles within the businesses.

Everyone at Delancey Street must obey three cardinal rules: no drugs, no threats, and no violence. “We’ve had almost no fights even though members of opposite gangs are sleeping next to each other,” Stephanie Muller notes. “But if there is even a sense of threat, that person is *out!*”

## Outcomes

Delancey Street’s businesses generate combined revenues of \$17 million annually. The organization’s civic success rate is equally impressive; in 30 years, Delancey Street has successfully rehabilitated thousands of people.

Managers estimate that approximately 75 percent of residents remain law-abiding and drug-free after graduation. “This is the exact inverse of statistics for ex-felons overall,” Paul Burch notes with pride. Not everyone is suited to Delancey Street’s closely controlled living and working arrangements, and about 20 percent of new residents leave during the first 90 days. After that critical period, however, the attrition rate is very low.

## Looking Ahead

The next challenge for Delancey Street is to synthesize its successful elements into a model that other nonprofits and government agencies can use to develop revenue-producing rehabilitation programs for hard-to-serve populations. Creating a replicable model will both widen Delancey’s impact and help the organization refine its own operations.

### **Lessons from the Delancey Street Foundation**

#### ***1. Know your population, and choose businesses that match your population’s needs.***

Two of Delancey Street’s initial ventures, a print shop and an auto repair business, failed. Those enterprises required high-maintenance machinery and expensive materials, and the level of worker skill they required conflicted with the organization’s goal of continuous learning. From that experience, Delancey Street managers drew the following conclusions:

- Because the population is transient, a business that relies on a few, skilled individuals is hard to sustain.
- Because perpetual learning is a tenet of Delancey’s healing process, residents who develop marketable skills and knowledge must constantly be rotated into new jobs—even those who rise to management levels. Thus staff training is a constant need.

Today, Delancey Street hedges its bets by developing labor-intensive businesses in which individuals develop multiple skills, workers are easily replaced, people work in group settings that promote peer learning, and the work is not highly specialized.

#### ***2. Cut costs through synergistic operations.***

Whenever possible, Delancey Street managers try to minimize expenses by linking their business and vocational units. For example, driver training and certification is resource-intensive, so the organization operates a driver training school whose graduates can work for various business units, including the moving company, van service, bus tour company, or limousine service. Auto parts and supplies from one business can also be used in the others. The restaurant, catering, and café businesses exploit similar synergies with a cooking school.

### ***3. Seek in-kind donations.***

Delancey Street managers quickly learned that business decisions were driven in part by how easy or difficult it is to obtain raw materials. The organization therefore established a department to recruit in-kind donations, which now secures \$7 million in supplies and services annually. The in-kind department locates free auto parts for the moving company, silverware and dishes for the café, movie equipment for the viewing room—even professional advice about construction of the housing complex.

### ***4. Nurture warm community relations.***

Community members generally embrace Delancey Street’s work in principle, but not everyone wants the organization located in their back yard. Delancey Street managers try to turn opponents into supporters by being both responsive and responsible. When the organization launches a venture in a new community, it sends a cross-section of workers to the new site to put a human face on the enterprise. “We send a slice of the pie that represents what we think it takes to build a Delancey Street—someone who can hustle, someone who knows accounting, someone who can write, some maintenance people, et cetera,” Muller says. As a result, neighbors’ fears that Delancey Street would reduce their property values and increase local crime have been proved wrong.

### ***5. Resist over-expansion.***

Two factors make it difficult to expand a venture like Delancey Street beyond a certain size: The philosophy of continuous learning that is embedded in the business structure, and the focus on intense personal attention.

At any given time, at least one-third of all employees in Delancey Street businesses are new, either because they’ve recently joined the organization or are rotating in from other jobs. The rotation process offers unparalleled learning opportunities, but it isn’t efficient to transfer workers who have risen to management positions at one job into another where they must start from the bottom. The constant retraining limits the businesses’ ability to grow quickly.

Moreover, the close attention that the organization pays to each resident and worker limits its potential to expand indefinitely. As Delancey Street’s resident population approached 500, operations became more unwieldy, peer support suffered, and it was harder to keep track of residents.

## Discussion Questions

1. What is the mission of Delancey Street?
2. How do the social purpose businesses fit with that mission?
3. What are some of the issues that managers of the social purpose businesses face, given the rotation of staff, the jobs' low skill requirements, and the high labor intensity?
4. Delancey has been very successful in finding synergy across several social purpose businesses. What other business opportunities might be compatible with these current business lines? How are they related? Do they fit Delancey's criteria, such as low skills and high labor intensity?

## Case 4: The Fifth Avenue Committee/FirstSource Staffing Brooklyn, New York

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### Highlights

FirstSource Staffing is a temporary staffing agency that provides job training, counseling, and placements for hard-to-employ people. It features:

- An aggressive marketing strategy that makes the social mission a selling point;
- A top manager with expertise in the industry;
- An equal commitment to profit-making and employees' personal success; and
- A below-market fee for services, used to make the business competitive in a tight market.

### History and Context

The Fifth Avenue Committee (FAC) was established as a block association in Park Slope, a low-income area of southern Brooklyn, in the late 1970s at the beginning of that neighborhood's gentrification process. Through community organizing efforts, FAC quickly grew into a strong neighborhood improvement association: it brought in the area's first major supermarket, Key Foods, and developed dozens of units of affordable housing. FAC also created Brooklyn Workforce Innovations, an organization that offers job training programs for low-income residents.

By the mid-1990s, Park Slope had become a thriving area of renovated townhouses, trendy boutiques, and storefront restaurants interspersed with tenements. With the economy booming and property values making housing development more expensive, FAC leaders began to think about creating for-profit businesses, owned and managed by the organization, that would ensure new employment opportunities for neighborhood residents.

Their first venture was Ecomat, an environmentally friendly dry cleaning business. Ecomat closed within five years, however, because it was expensive to operate and failed to create a sufficient number of new jobs. Moreover, the company that operated the business from which FAC purchased the franchise also went bankrupt. A second venture, FirstSource Staffing, opened in 1999 as a community-based temporary employment service.

FAC selected the temp business for its social venture after consulting with The ICA Group, a Boston-based nonprofit that specializes in social-purpose businesses. (ICA provides initial backing for the businesses and

then gradually converts them to worker ownership through employee stockholder plans.) FAC settled on the temp business for four reasons:

1. There was strong client demand for the service.
2. Low start-up and overhead costs made it a less difficult venture than a retail shop.
3. ICA had direct experience in the temp industry, having launched similar projects in Boston and Washington, DC.
4. Opening an employment agency furthered FAC's community assistance mission by creating employment opportunities for local residents.

ICA helped FAC connect with 10 funding sources, most of which were unknown to the nonprofit organization. The result was \$600,000 in grants and loans—enough capitalization to launch FirstSource with zero investment from the Fifth Avenue Committee. FAC also followed its consultant's advice to create a business plan for FirstSource that included pricing, marketing, job training, and performance goals.

## **Business Strategy and Structure**

FirstSource focuses on training and placing hard-to-employ people—like John S., an ex-offender with 10 children who now earns \$11 an hour as a factory worker, and Lovey A., who has left public assistance because FirstSource taught her office skills and placed her in a \$15-per-hour job at a law firm.

FirstSource can place such candidates because it gives them a level of training and support that are not available at conventional staffing agencies. Through its nonprofit parent organization, FirstSource offers vocational screening, guidance counseling, psychotherapy, training in good work habits, and English as a Second Language. This preparation significantly lowers the hiring risk to employers.

By opening a temporary staffing agency, FAC, along with Brooklyn Workforce Innovations, were entering a highly competitive market. According to the New York Association of Temporary and Staffing Services, the temp industry is the state's largest employer, with an annual payroll of \$2.25 billion and average daily employment of approximately 120,000 individuals. Most of that total comes from the greater New York City area.

Aaron Shiffman, Executive Director of Brooklyn Workforce Innovations, and his partners determined that FirstSource would need a market share of 0.3 percent to 0.5 percent. To meet that goal, the new agency needed to create a niche. “We knew we couldn't compete in every sector, so we decided to focus on administrative work, light industrial, and clerical,” Shiffman explains. “These were the areas where we believed there was a demand that we could meet.”

Almost immediately, the new company wrestled with problems of perception. As a for-profit enterprise operated by a not-for-profit organization, FirstSource risked being confused with welfare-to-work programs. Yet there were crucial differences, as Shiffman notes: “No one is mandated to come here. We

are a business. Our temps are more job-ready. Not all of them are coming off public assistance; some are very experienced people whose unemployment benefits are running out.”

During its first three years, FirstSource had modest success placing people in jobs but its client base wasn’t expanding. FirstSource managers’ marketing strategy was to distance the company from its social mission, fearing that potential corporate clients would not see the agency as a commercial peer. Neither the agency’s brochures nor its sales pitch mentioned the social purpose nature of the business.

But in 2002, when temp agency veteran Isaac Schild became president and CEO of FirstSource, the agency shifted strategies. Schild believes that a social mission can give a business a competitive edge. “The perception out there is that most staffing agencies are interchangeable,” says Schild. “This is what sets us apart: The premise that not only do we provide great service, but the money goes back into the community.” Schild revised all of FirstSource’s promotional materials and, within six months, had transformed FirstSource into a full-service staffing agency capable of serving major corporations.

Schild emphasizes that the venture is a business, not a charity, however. The only way FirstSource can expand its client base and generate repeat business in a competitive market is by offering superior service, he says.

## Operations

Although FirstSource focuses primarily on supplying major corporations and white-glove law firms, it lavishes equal care on smaller clients such as the Trim Corporation of America, a Brooklyn-based display manufacturer. Company executives say they weren’t even aware of the agency’s social mission when they used FirstSource to hire 35 people.

“The bulk of our business is seasonal, so we have a tremendous need for temporary blue-collar help,” says Stanley Pawigan, the Trim Corporation’s comptroller. “We went to FirstSource because they were convenient and reasonably priced. They found us a large numbers of workers quickly, and all the workers were reliable, so this year we’re going back for more.”

FirstSource places as much emphasis on employee welfare as it does on pleasing clients like Pawigan. For a typical temporary agency, “temp-to-perm” arrangements are bad for business; the agency loses valuable temp staff for future placements and also loses an income-producing placement with a client. But FirstSource encourages employers to move their temps into permanent jobs “because we are ultimately trying to find jobs for people, not just perpetuate the temp agency,” Shiffman says.

FirstSource's pricing structure reflects its social purpose roots. When employers use a staffing agency to hire temporary help, they pay a fee based on a percentage of the worker’s salary, known as the gross margin. Nationally, the average gross margin for temp firms is 26 percent. In New York City, it averages

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*“Any business can have a mission and be successful, if it’s positioned right in the marketplace. And we are positioning ourselves well.”*

—Isaac Schild  
President and CEO, FirstSource Staffing

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from 32 percent to 35 percent. But FirstSource targets a far lower gross margin of 28 percent to 30 percent in an effort to place a greater number of community residents in jobs.

Management has been a major operational issue for FirstSource. The agency's first general manager had many years of experience, but only in nonprofit management. He successfully launched the enterprise but lacked the business contacts needed to expand it. A second manager, who had for-profit experience, lasted only three months.

Just as FirstSource was struggling to find the right leader, the high-tech industry faltered and the terrorist attacks of September 11, 2001 took their toll. New York City was no longer a seller's job market, and FirstSource needed a leader with enough industry savvy to navigate the rough waters. FAC paid an executive search firm \$13,000 to find Schild, who had not only run a for-profit temp agency but also had experience with business expansion.

With a professional staff in place, Shiffman had to address the temp employees' compensation structure. Temp agency recruiters—the sales and marketing staff—typically receive a base salary plus bonuses and incentives. The result is that a good salesperson can make more money than his or her boss. Shiffman is philosophical about that: “You get what you pay for.”

## Outcomes

According to national surveys, the recession that began in 2001 hit New York City harder than any other U.S. city. And the staffing industry absorbed the worst blows of any sector of the economy. Yet while other employment agencies were closing their doors in the first half of 2002, FirstSource Staffing was expanding its staff, its client roster, and its accomplishments.

By 2002, all of the structures necessary for a self-sustaining business were in place. FirstSource had a professional management team to oversee the company, a marketing strategy, and partnerships with organizations that could refer a steady stream of job-ready workers to the business or provide training to upgrade workers' skills. FirstSource had placed 228 employees in jobs paying an average wage of \$11 an hour. About 10 temp workers were being placed in permanent positions every month, for a total of 65 permanent placements—more than three times the agency's original goal. And FirstSource had diversified its original client portfolio of small businesses and nonprofits to include universities, large law firms, and major financial institutions.

## Looking Ahead

FirstSource was not the Fifth Avenue Committee's first foray into social purpose ventures, but it may turn out to be the most promising. It directly supports the mission of increasing employment, is not capital intensive, and is easily expandable. With the right management team in place, effective marketing, and a cooperative economy, FirstSource is positioned to take off. Next steps include:

- **Strengthening the Board of Directors**—Shiffman wants to expand the Fifth Avenue Committee board's roster of community activists to include directors with financial expertise and corporate contacts. “There are a lot of intricacies related to pricing, compensation, and collections

that only someone with [business] experience can offer guidance on,” he notes. “We need a retired CFO and experienced, retired temp industry executives on our board.”

- **Improving training**—With a grant from the Surdna Foundation, FirstSource has implemented several programs, including pre-employment job training, troubleshooting when problems arise on the job, childcare and domestic violence counseling. “By helping the job candidates we also help ourselves, by heading off problems that could affect productivity before they reach the workplace,” Shiffman says.
- **Getting to scale**—With the new management team in place, FirstSource aims to expand its business with existing customers and go after bigger placements with each client, to take advantage of economies of scale. One possible sector is litigation support, which has a continuous need for temporary staff.

## Lessons from FirstSource Staffing

### *1. Know your industry, and pick the right niche within it.*

When Brooklyn Workforce Innovations’ Aaron Shiffman and FAC first began thinking about a nonprofit venture, the franchise model was attractive because it came with employee training and, they assumed, a built-in marketing advantage. But after committing to the Ecomat franchise, FAC discovered that only eight workers could be employed at one time, and the skills they learned were not easily transferred to other jobs. The hoped-for savings in marketing costs were absorbed by high operating and maintenance expenses. And then the franchise company itself declared bankruptcy.

Shiffman, determined to try again but not with a high-risk start-up company, insisted on doing extensive research to make sure the next enterprise was better suited to FAC’s purposes. He and his colleagues analyzed the industry’s dynamics from all angles. Their advice now is:

- Familiarize yourself with the market. How big is it? Who will your customers be? Who’s your competition? What percentage of the market share will you need to seize in order to meet your goals? Which sector of the market can you successfully compete in?
- Get other organizations with industry experience to guide you and provide advice in the early stages.
- Identify organizations that could provide your company with important resources, such as training or even potential employees.
- Think through the type of structure you want your business to have. Would you like a management team composed of industry professionals, or professionals from the nonprofit world, or both?

**2. *Have the right management in place before you open your doors.***

Businesses, unlike some nonprofit organizations, can't just "wing it." If they can't generate income, they can't meet their payrolls, grow, or take advantage of new opportunities in the marketplace. And the pace of work in the for-profit sector is fast; managers must be nimble and decisive. FAC neglected to ask the all-important question of *who* should oversee the process until a year and a half after FirstSource opened. It took three tries before the company had someone in place who, as Shiffman declared, would "manage the company like a business rather than a program." Shiffman now says that senior managers and Boards of Directors must have expertise in the relevant industry and a strong background in accounts receivable.

**3. *Hire experienced staff.***

"We are the only staffing agency in the city in which all the recruiters came from other agencies," says Schild. "You have to have people on board with a track record that resonate with prospective clients."

**4. *Find the right marketing strategy.***

"The right wording of your materials is important," says Schild. He advises social purpose businesses to emphasize superior product first, then offer partnering with the community as a bonus.

**5. *Find the right partners.***

Partners have been a valuable source of expertise, information, and guidance for FAC and FirstSource. The alliance with Boston's ICA Group provided industry expertise and strong connections to sources of financing. Good Shepherd Services, a Brooklyn-based social service and youth development agency, provided the initial employee pool with graduates of its secretarial training program. Other community-based organizations have supplied job-ready workers and/or training to upgrade workers' skills.

**6. *Set your sights high.***

Before Schild came on board, FirstSource wasn't targeting any large companies because those accounts can take a year's worth of time and effort to attract. But the big contracts also are the key to long-term stability. "The beauty is that once you're there, you are usually kept on unless you screw up," Schild observes. He recommends a combination of large and small contracts to achieve quick income along with sustainability.

**7. *Be willing to say "no."***

At first, FirstSource leaders were reluctant to turn away any business, even if the client wasn't a good fit. Now they're more strategic. If a client's order is inappropriate for FirstSource, they refer it to a competing agency. This is a good practice for two reasons: The employer appreciates the referral, and the competitor may reciprocate with future referrals to FirstSource.

## Discussion Questions

1. Why was FirstSource able to expand its business during the economic downturn?
2. FirstSource struggled to decide whether to market the business' social purpose or to sell the service as typical temp staffing. In marketing a social purpose business, what are the advantages to selling the mission as well as the business? What are the disadvantages? Think about this from the point of view of the nonprofit organization as well as the business clients.
3. How could FirstSource have avoided the initial management problems that it faced?
4. FirstSource prices its services below the standard market rate. Leaders claim this practice will enable them to place a greater number of community residents. Do you think FirstSource could command a market rate for its services? Why or why not?
5. Should social purpose businesses always compete by offering low-cost products and services? How do pricing decisions affect the image of a product or service?

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