

Chrysalis Labor Connection/Chrysalis StreetWorks



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.

CULTURE CLASH

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.”

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.



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.*

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

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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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