

KANDU CASE FOR SUPPORT (Fifth Draft 07/29/04)

WE HELP PEOPLE FIND AND DO GREAT WORK

Since 1953, Kandu Incorporated has adapted and grown to meet its core mission—providing employment for people with barriers to employment. Started by a group of concerned parents whose children with disabilities were exiting the school system and facing adulthood with no meaningful activity to enhance their lives, Kandu fosters enrichment of the human spirit through the application of gainful and meaningful employment to build self worth, and create genuine responsibility and accountability for one's own life.

Throughout its rich 50 year history it has provided a full spectrum of services, including employment training for onsite and outside employment, job clubs, co-ops, club houses, job connection services, and retail stores for tens of thousands of people. It teaches employment and life skills that transform someone labeled “unemployable” into someone who does excellent work and earns a wage. Kandu provides onsite work for 300 client-employees each year and over the past five years, mainstreamed another 2,734 client-employees into the areas work force.

Kandu began accepting contracts from governmental service agencies in the 1970s and has worked with over 20,000 individuals. Over 90 companies rely on Kandu annually to assess, train, place, and support people to rise above employment barriers and reach their highest potential. Realizing manufacturers are vital to success, Kandu built manufacturing facilities in Holland and Grand Haven to service more clients and employers. Business partners continue to award bids to Kandu because staff and clients are reliable, successful, and profitably fulfill work order demands.

Kandu is a diverse corporation with a thriving picture frame manufacturing division and an in-demand industrial services business. Each hardworking client-employee enjoys paychecks, increased self-esteem, respect for and from others, a safe and understanding work environment, and the satisfaction of helping businesses achieve their goals. Kandu provides quality products for manufacturers such as Herman Miller, Haworth, Donnelly, and Johnson Controls to name a few.

WE MUST NOW PLACE MORE PEOPLE IN A TOUGHER ECONOMY

Kandu connects area business needs with dedicated client-employees who are often overlooked but have a wide range of skills. In 2003, Kandu Services provided work opportunities resulting in \$849,290 in payroll to client-employees.

Because of its success and community-wide support, requests for Kandu to place people in work have increased 12 percent a year since 2002. These new referrals are people with higher barriers to employment, resulting in placement requiring more staff support.

Meanwhile, Kandu experiences an increase in the types and percentage of bids it is awarded that place employees on or off site. Kandu's end goal is to be nimble enough to keep matching clients with work from local employers. The short-term goal is to pay people while they train for jobs.

Picture framing: adapting is the key to growth

- In 1984 we won a federal contract to make frames. Now we're the nation's largest supplier of frames to the U.S. government. We train and employ more than 60 people a year.
- How? We invested in new equipment. We broadened our product base. We expanded our services to include wholesale picture frame sales, design services, custom matting, assembly, order fulfillment, and we opened two retail frame stores.
- Recently, however, we've been losing money on our framing operations. *It's time to adapt again.* Unifying our frame lines will help us be more efficient, so we can retain jobs and improve margins.

BUT OUR BUILDINGS LIMIT OPPORTUNITY

Kandu's dedication to the people it serves begins with the ability to get them work, either onsite or offsite. The move into custodial services has allowed Kandu enough contracts to keep 19 client-employees working on the job.

As Herman Miller, Haworth, Donnelly, Johnson Controls, and other businesses downsize, automate, and outsource, they will need a variety of services that Kandu can offer. In the past, Kandu got high volume assembly or consignment contracts. These were a good fit for Kandu's many client-employees skilled in repetitive processes and low-ceilinged manufacturing rooms.

Presently, Kandu's customer requests involve less time and employ fewer people. Many of these new jobs are price-complete products. This means, Kandu purchases, assembles, light manufactures, and supplies finished goods to the customer. Unfortunately, these jobs currently provide lower margins, because Kandu must purchase higher volumes, monitor more inventory, more frequently change work crews and assembly lines, move supplies, and retrain workers.

By unifying industrial operations in a space designed for maximum flexibility, Kandu can manage work flows more efficiently, shift employees from job to job as contracts are completed, and expand its ability to attract and win more types of bids. In addition, unification will provide equal opportunity to work to all clients.

In keeping with its mission to provide training, employment, and placement, Kandu does not turn away referrals. Even lack of paid work for the client-employees to perform does not stop its dedication to achieve its mission as they involve client-employees in unpaid work training or skill building experiences.

Unless Kandu increases the levels and amounts of good paid work experiences, it risks losing contracts from agencies that refer people for services. Kandu also risks organizations questioning the value of the services Kandu provides. For example, just two years ago, Community Mental Health suggested a county-wide change that would have drastically impaired Kandu's efforts. In response to this proposal, over 8,000 people and business leaders in Ottawa County petitioned Community Mental Health in support of Kandu's services.

FOUR REASONS WHY UNIFICATION WILL KEEP WORK FLOWING IN

We'll have a better place to train people for offsite work. In 2003, Kandu placed 450 people in manufacturing, retail, food service, custodial, and maintenance jobs, because they accurately assessed and effectively trained them onsite to meet the local employers' offsite needs.

Local business needs are changing, and there is a need to mirror their new situations in onsite training. The current business climate offers *opportunities for those flexible enough to respond*. Businesses today want employees who can adapt to changing manufacturing environments, ISO certification, and lean manufacturing. Given their disabilities, our client-employees need extra training and support to do well in the new manufacturing environment. Kandu's buildings are not suited to training for these rapid changes.

New facilities will let us accept more opportunities for onsite work. Each year approximately 325 client-employees work and earn paychecks at the Kandu facilities. The work is there-if Kandu can adapt and price its services competitively.

Kandu needs more operational efficiency so it can win bids. Kandu's integrated company-wide information systems already helps track clients, deliver reports, document progress, respond to "just-in-time" demands, offer cost-effective pricing, and identify which contracts produce the best opportunities for its employees and financial responsibilities.

Kandu's remarkably committed staff has a personal stake in finding new employment opportunities for their client-employees. Kandu recently hired a Director of Sales to generate more work, but feels a sense to do more to keep meeting its mission. Kandu now spends \$225,000 a year on duplicate services at two facilities. This money could be spent instead on providing extra support to client-employees with more difficult barriers to employment.

Our peers have reached the same conclusions. Community rehabilitation programs that receive most of their funding from Medicaid, state, or federal sources usually operate from scattered sites so they can service a broad area.

Agencies that receive most of their revenue from industrial work usually mirror their commercial competitors by unifying industrial operations. They use multiple sites for providing additional community services. Kandu is ranked in the top 25% of such agencies. It annually averages \$7 million in industrial work and \$2.5 million in service contracts.

Unifying industrial operations will achieve the benefits described above. Continuing to work from multiple sites to provide other services (such as Job Club, Co-op, Club House, Job Connections, and retail stores) will maintain Kandu's strong community commitment and visibility in Holland and Grand Haven.

WHY WE CAN AND SHOULD START NOW

After extensive study, the leadership staff and Board of Trustees have committed to consolidating the Grand Haven and Holland industrial facilities into one centrally-located plant. Currently, both sites are 20 years old and will require over \$320,000 of maintenance costs and an additional \$2.5 million in operational costs associated with the duplication of operations within the next 10 years. Neither site can be expanded to cover all its industrial and operational needs in a single facility.

The Board and staff have spent considerable time and effort weighing the organization's options. This process led to the decision to move from its current buildings and seek an existing facility that has sufficient manufacturing and administrative space. Until *September 15*, Kandu has an option to buy a 10-acre site and 65,000 sq. ft. facility between Grand Haven and Holland. It is estimated that renovating, expanding, and moving into this facility will cost \$4.1 million.

Kandu has enjoyed remarkably positive community support in the last 18 months and has not done any major fundraising efforts in 25 years. The Board is optimistic that the community will invest in its future through supporting this building project. The Board and staff are proposing to raise 4 million dollars in a county wide campaign. It is their plan to use

the equity from the current facilities to cover the transition costs with the balance to be put in an endowment fund to insure the financial future of the organization.

Kandu’s significant success as a nonprofit agency stems from its ability to generate its operating costs from industrial contracts, prime manufacturing, fee-for-service revenue and cost reimbursement contracts.

CURRENT ESTIMATE OF NEW BUILDING:

Purchase of Existing Building/Site:

Purchase Existing Site (10 acres, 68,000 sq.ft. Mfg)	1,750,000
Purchase Costs, Survey and Environmental	50,000

Office Building Addition:

15,000 additional sq.ft Mfg. Space:	405,000
Office Building (15,000 sq.ft.)	1,500,000
Architectural Fees	50,000
Drive, Parking, Landscape:	95,000

Move, Furniture, Phone systems, equipment:	250,000
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Total	4,100,000
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THE BOTTOM LINE: MEETING MUTUAL NEEDS

Relocation is a critical, strategic move to provide services to a growing number of employee-clients and better position Kandu for the challenges of the future. Kandu is dedicated to remaining a top hiring choice for our local businesses for the growing client-employee work force. The entire community benefits as Kandu clients reach their optimum employment potential and help businesses do well.

Merging facility operations is also a great business move, as it allows room to grow. Kandu believes unification is the surest route to maintaining and expanding its ability to provide employment for people with employment barriers. Unification would boost payroll to client-employees from \$849,290 a year to \$1.2 million within twenty-four to thirty-six months.

You have an important perspective on how Kandu Incorporated and its client-employees contribute to our community. What do you think will best ensure that Kandu and local businesses sustain and advance their mutually beneficial relationships?