GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS

Tony Francolin wrote this case under the supervision of Professor W. Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was April 1, 2010, and Kathy Crosby, president and chief executive officer (CEO) of Goodwill Industries of Greater Grand Rapids Inc., had just returned from a board meeting where her staff had presented a proposal to begin selling donated books online. Prior to the meeting, Crosby had been inclined to accept the proposal without any reservation. However, after the meeting she wasn’t as sure. A guest at the meeting — a visitor from a neighboring Goodwill — had asked a number of pointed questions that were making Crosby revisit her support for the project. She needed to review the financial and strategic fit of the proposal and make a recommendation at the next board meeting in three weeks.

GOODWILL INDUSTRIES OF GREATER GRAND RAPIDS

The Goodwill movement was established in 1902 by a Methodist Minister, Edgar Helms, to help European immigrants by having them collect used goods for repair and resale. Reverend Helms motto was “Not a handout...a hand-up.” The movement has evolved; today’s mission is:

Goodwill Industries International enhances the dignity and quality of life of individuals, families and communities by eliminating barriers to opportunity and helping people in need reach their fullest potential through the power of work.

In 1966, Goodwill Industries of Greater Grand Rapids, Inc. (GR Goodwill) was established to serve the needs of the citizens of Kent County, Michigan. GR Goodwill operates programs that help “employment challenged citizens,” which they refer to as “participants,” overcome mental impairments, physical impairments, incarceration records, transition issues experienced by veterans returning from duty, and other work barriers that would prevent participants from becoming contributing members of society. Since its founding, GR Goodwill had helped more than 25,000 people to achieve sustained employment and become contributing community members. In the past year, 3,800 participants had received services, and 996 participants had been placed into community employment. These participants had a variety of barriers including the following: 38 per cent were welfare recipients, 16 per cent were offenders, 11 per cent were youth at risk, 10 per cent had learning disabilities, 9 per cent had a mental or emotional disability, 7 per cent were displaced workers, 3 per cent were homeless, and 2 per cent had substance abuse issues.

GR Goodwill had developed a variety of techniques and services to help people realize their employment potential. It provided the following services, among others:
• **Career Assessments:** Professionals helped participants identify the career that best suits their skills, experiences, and aspirations.

• **Job Training:** Participants received on-the-job experience in a variety of work environments, such as health care, food preparation, hospitality, and grocery services.

• **Workplace Training:** Participants were offered workshops on topics such as etiquette, culture, interviewing, and other soft workplace skills.

• **Job Placement:** Participants received assistance with job searches, résumé building, and interviewing. Goodwill also provided short-term financial support to firms that took on participants.

• **Job Retention:** Participants were coached on how to handle home or work crises that might otherwise derail a career plan.

• **Other Support Services:** Participants were helped to find services to assist with other issues such as transportation and counseling.

Many of the services were offered in a creative manner. For instance, GR Goodwill offered catering to the community as a means of training participants in the food industry skills needed to gain long-term, quality employment.

GR Goodwill was a non-profit organization that received funding from three sources. The first source was donations from community members (i.e. individuals, corporations, and foundations) who supported Goodwill’s goals and methods. The second source was grants received from the government to fund specific programs. The third source was from revenue earned in thrift stores operated by GR Goodwill.

In its thrift stores, GR Goodwill accepted donation of used clothing, household goods, books, electronics, and other items from the community and resold the goods in one of its 14 retail stores, one outlet store, or online at shopgoodwill.com. In the past year, GR Goodwill sold more than 2.4 million pieces of clothing and earned total retail revenue of almost $12 million. The Operating Flow Diagram for Goodwill’s Donated Goods outlines how donated goods were received, processed, and repurposed (see Exhibit 1).

Anyone wishing to donate goods (i.e. clothing, household goods, books, electronics, or other items) could drop them off at any of the GR Goodwill’s 14 retail stores, one of its four drop-off centres (which have no retail space), or the GR Goodwill central warehouse. Sorters at each facility inspected the donated items to determine whether the quality of the goods met the standards for placement on the sales floor; not all goods were resold. In addition, some retailers passed on excess items to GR Goodwill to sell; these items represented approximately 15 per cent of the goods in the retail stores.

If an item was identified as a potential antique or collector’s item, it was sent to the central warehouse. Once there it was photographed and placed on shopgoodwill.com.

Goods for sale at GR Goodwill’s thrift stores were competitively priced with other thrift stores in the Greater Grand Rapids Area. However, most items sold by GR Goodwill were deeply discounted from traditional retail prices.

A colored tag was affixed to goods when they were placed on the retail shelf. Later, the tag was used to identify items that had been on display for four weeks without being sold. Each week, goods with tags of a different color were removed from the shelf. If an item did not sell after four weeks, it was sent to the outlet store, where bulk or salvage buyers purchased product by the weight at much discounted prices. For instance, at the outlet store, a salvage buyer could purchase 500 pounds of clothing with the intent of shipping it overseas where it fetched a profit. At the outlet store, clothing and shoes sold for 50¢ per pound; glassware, 10¢ per pound; housewares, 30¢ per pound and books, 7¢ per pound.
Any items not sold at the outlet store were recycled. The manner in which items were recycled depended on the goods. For instance, cloth was often shredded and sold to be made into rugs or used as absorbents. Items that did not meet the standards to be placed on the sales floor were immediately sent to be recycled.

Goodwill was the largest recycler in the world in terms of textiles and was proud of its recycling record. In the last fiscal year, 75 per cent of the material that had been donated was recycled. GR Goodwill had diverted a total of 10.5 million pounds of material from the landfill: 5.5 million pounds of textiles; 3.8 million pounds of computer electronics; and 1.2 million pounds of shoes, books, and miscellaneous household accessories. This level of recycling represented a 10 per cent improvement over the previous year. GR Goodwill’s target for the current year was to reduce waste by a further 38 per cent. These numbers were especially gratifying when considering that most of this material would not have been handled by traditional municipal recycling facilities.

HISTORY OF THE ONLINE BOOK-SELLING PROPOSAL

GR Goodwill sold books according to the general procedures that guided its sale of other goods, such as clothing. A flow diagram for Goodwill’s current book-selling process can be seen in Exhibit 2 and outlines the manner in which books were handled. The books were offered for sale if they were deemed visually appealing (i.e. they are not written in, highlighted, bent, or otherwise in a worn condition).

Like other goods in the retail stores, GR Goodwill priced books at a deep discount by using a simple pricing model. Books were priced at a fraction of the publisher’s suggested list-prices (see Exhibit 3).

In the past year, the retail managers had noticed a large number of customers using cell phones and personal digital assistant (PDA) devices next to the shelves that held the books for sale. These customers were entering the international standard book numbers (ISBNs) of the books in stock into programs that indicated the books’ resale values. In effect, customers were scouting the shelves for underpriced books. Watching this activity, the GR Goodwill staff came to realize that their pricing policies may be inappropriate: they may have been leaving money on the table.

Prompted by this realization, Sharon Nason, director of Donated Goods Operations, approached Monsoon Software (Monsoon) for advice. Monsoon licenses a software platform that allows retailers to become online book resellers. Among others, the software performed four major functions. First, the software allowed resellers to scan books to determine the prevailing prices on Amazon.com and other online retailers. Second, the software listed a reseller’s inventory of books on a third party’s website such as Amazon.com, Abebooks.com, or eBay.com. Third, the software automatically re-priced a reseller’s unsold inventory on the basis of user-defined rules that aim to lower prices to ensure slow-moving inventory sells. Fourth, the software generated invoicing and shipping paperwork.

Monsoon scanned a random sample of 600 books from a bin of books that were not sold at the retail stores and determined that 9 per cent of those books could have been sold for an average price of $5 per book. That $5 is a marked increase over the 7% that GR Goodwill would otherwise have earned for these books from a salvage customer. Nason estimated that GR Goodwill could increase revenue by $243,135 from the sale of books if it could realize a gain of $4.73 on the 9 per cent of the $550,000 worth of books that had gone to salvage customers in the past year. On the basis of this initial rough calculation, Nason set out to develop the online book-selling proposal.
The proposal Nason developed was presented to the board jointly with Dave Brinza, chief operating officer (COO) of GR Goodwill. The highlights of the proposal are as follows.

**FORMAL PROPOSAL**

GR Goodwill proposed to sell books online on Amazon.com to generate additional revenue for Goodwill's mission.

**Phase I**

The online book-selling program would be introduced in two phases. In the first phase, GR Goodwill would take approximately 12 per cent of the books that were unsold at the retail stores and post them online for sale to Amazon customers.

Goodwill’s Phase I Book-Selling Flow Diagram, as shown in Exhibit 4, outlines the manner in which books sales would be managed in Phase I of the implementation.

Nason projected 523,636 unsold books would be sent by the retail stores to the central warehouse, in each of the next three years. She projected 62,836 (approximately 12 per cent) of those unsold books would be scanned and offered for sale online in each of the following three years. In the first year, 34,152 (6.522 per cent) of the 523,636 books were expected to sell; in year 2, the number of books sold were expected to increase to 40,290.

With the assistance of Monsoon, revenue and commissions were projected. The average gross selling price was expected to be $7.50 per book in each year. After fees, the sales would generate an average net revenue of $4.98 per book sold online (see Exhibit 5).

If 34,152 books were sold at $7.50 per book, total revenue was expected to be $256,140 in year 1, and $302,175 in year 2, based on 40,290 units sold. As the annual revenue from books sold online increased, revenue from sales to salvage customers would drop marginally, from $36,654 (7% × 523,636 books) to $34,263 (7% × (523,636 – 34,152 books)).

Amazon would be responsible for the collection of all sales. Every two weeks, Amazon would deposit into GR Goodwill’s bank account the value equivalent to total sales less Amazon’s 15 per cent fee.

Operating costs were projected at $96,732. The majority of the operating costs were wages and benefits associated with the hiring of three full-time equivalent employees, to be called e-commerce book technicians. Ideally, each would be a skilled employee with training in library services or retail services. These employees would report to Nason, who anticipated the book-selling business would take approximately 15 per cent of her time.

The budget for the first year is shown in Goodwill’s Year 1 Projected Revenue, as shown in Exhibit 6. Start-up costs were projected at $24,977. The major items in this list included $4,240 for shelving, $7,000 for the Monsoon software, $3,500 for computer hardware, $3,850 for fencing, $1,600 for pallet jacks, and $1,065 for totes. The remainder of the costs were for office supplies. Based on an income of $61,148 per year, the breakeven would be less than six months.
GR Goodwill had 80,000 square feet of warehouse space, of which 2,000 square feet would need to be converted from warehousing space to make room for the book-selling operation. This space would provide room for the three staff, staging for scanning, staging for shipping, and book shelving.

**Budget Sensitivity**

Nason identified some concerns with Monsoon’s estimates. When she visited the Indianapolis Goodwill, which was pioneering the Goodwill venture in online book-selling, she found that their financials differed from those offered by Monsoon. The average selling price of a book sold by the Indianapolis Goodwill was approximately $8, including shipping revenue, which was approximately $3.50 less than in Monsoon’s budget. Fortunately, this reduction in revenue was largely offset by reductions in costs. First, the reduction in revenue also meant a reduction in the fees. Second, the Indianapolis Goodwill found that Amazon waived all transaction costs because of the volume of sales that it facilitated. Nason also found that shipping costs were less than projected; based on her findings, Nason had reason to believe shipping costs could be approx. $2.99 per unit. Nason was not disturbed by the variation in the financial projection. Each model showed that payback was approximately six months (see Exhibits 7 & 8).

**Phase II**

In phase II of the implementation, the retail stores and drop-off centers would scan all donated books that were visually appealing. All visually appealing books with a projected sales value of more than $5 would be sent to the online book-selling unit rather than stocking them in the retail store to be sold at the deep discounted value (see Exhibit 9).

Because of these changes, GR Goodwill’s revenue were expected to increase considerably, although the figures were not estimated. First, the increases would come from an increased number of books being sold online where margins were greater. Second, the increased volume of books being scanned would also help retail stores to recognize when books that would remain on retail shelves should be priced above the deep discount prices (see Exhibit 3).

**QUESTIONS RAISED DURING THE PRESENTATION**

At Kathy Crosby’s invitation, Frank O’Leenue, a visitor from a neighbouring Goodwill organization, sat in on the online book-selling presentation because it was a business segment that his organization had yet to consider. Crosby had thought O’Leenue’s curious nature would add to the meeting.

O’Leenue focused on three aspects of the presentation: (1) the impact of the proposal on the salvage customers, (2) the participation of the stores, and (3) the intended labor force.

**Salvage Buyers**

O’Leenue had asked:

What happens to the relationship we have with book resellers if we reduce the quality and quantity of books that are available to be sold as salvage? If we begin to sell online and our sales of books increase, won’t we be reducing the quantity and quality of books
available to the salvage buyers? How can we expect to retain the salvage customers? Might not we end up generating more waste and less revenue if they leave?

Nason had answered:

Currently, we are selling the books that cannot be sold at the stores to salvage buyers for 6¢ or 7¢ per pound. We haven’t told them about our plans to skim off 12 per cent of their volume to be posted online. These salvage buyers are book resellers who operate their own online book web sites. They are professionals who will know how to get value out of the books that are left for them to sell.

Dave Brinza, the COO, had added:

We are only concerned with how our business model damages other not-for-profits. We don’t want to change our business model in a way that reduces the collection or viability of other donation-dependent charities. However, we are not concerned with how changes we make may impact a for-profit business. For-profit businesses will need to adjust, compete, and survive.

Participation of Stores

O’Leenee had asked:

Correct me if I am wrong, but doesn’t Phase II of the proposal call for store employees to scan the books and send on all books to the central sorting facility that are most likely to fetch a good resale value? If that is so, why would we expect store managers to participate in Phase II of the proposal? Are you not asking store managers to do two steps that add no value to their store’s sales/margin objectives? First, by sending the best books to the central facility, are you not asking the store managers to forego store sales and profit? Second, by asking them to scan the books to determine their value, are you not asking the stores to incur extra labor costs that add no value?

Another question that had come up was: “What will be the impact on customers who are attracted to the 14 regional Goodwill stores if quality books are sold online rather than in stores?”

Although Brinza had expressed this concern himself to store managers, the store managers he contacted did not feel that this would be a concern. However, Brinza wasn’t sure whether the store managers’ responses were because they felt books were not an attractive item or because the store managers did not have a sense of how much book sales contributed to their bottom line. GR Goodwill did not record the value of book sales by store; the store cash registers recorded the sale of a book as a sale of a “miscellaneous household item.”

Participant Involvement

O’Leenee had asked:
On principle, how can we support a business proposal that does not employ participants? As I understand it, Sharon has said that the three full-time employees that will be used in the book-selling unit will be hired externally from a non-participant workforce. You don’t have faith that participants can be found to fill the role. What does that say about our confidence in our clients?

He even pointed to the poster on the wall that contained the mission statement “Changing lives and communities through the power of work” (see Appendix 1). He also pointed to the first strategic planning item, “We will have people-centric services that build self-sufficiency,” and said: “How does this project satisfy these objectives? How does it satisfy the mission or the vision?”

Brinza had responded:

GR Goodwill has a responsibility to their donors — to be fiscally responsible. When there was a choice between (a) employing a participant and making less money, or (b) not employing a participant and making more money that could be used to support a community program, GR Goodwill will choose the latter.

Crosby would have responded in a similar manner. Goodwill had a long history of using funds raised from its businesses to help other organizations to employ participants. If this proposal was successful, profit not labor opportunities would be generated for the greater good.

Yet, Crosby had to admit that the online book-selling proposal added no opportunities for participants, which would make it the first business segment with no participants. This business segment would be in contrast to Goodwill’s other business segments; 65 per cent of Goodwill’s entire workforce is comprised of individuals with disabilities and other barriers to employment.

Moreover, Crosby could not defend Nason’s assertion that participants lacked the skills to operate the three jobs at the book center. Crosby knew that GR Goodwill was able to use participants in its Dell Reconnect Program, which partnered GR Goodwill with Dell to recycle computer electronics. It was odd that participants could be used in a program that involved working with computer parts, but could not be used in a program that involved working with books.

CONCLUSION

Crosby, in the privacy of her office, was revisiting the meeting. Was O’Leenee being picky, or did he raise some good points? Was there a reason why this proposal, which seemed to be financially sound, should be reconsidered or altered?
Exhibit 1

OPERATING FLOW DIAGRAM FOR GOODWILL'S DONATED GOODS

Donated Goods → Is it Visually Appealing

- Yes
  - Retail Store
    - Sold in 4 wks
      - Yes → Retail Consumer
      - No → Outlet Store
- No
  - Outlet Store
    - Sold in 4 wks
      - Yes → Salvage Consumer
      - No → Recycling or Landfill

Shopgoodwill.com
Exhibit 2

GOODWILL'S CURRENT BOOK-SELLING FLOW DIAGRAM

Donated Book → Is it Visually Appealing → Retail Store → Sold in 4 wks

Yes → Retail Consumer

No → Salvage Consumer

Exhibit 3

GOODWILL'S EXISTING BOOK PRICING RULES

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Exhibit 4

GOODWILL'S PHASE I BOOK-SELLING FLOW DIAGRAM

Exhibit 5

GOODWILL'S YEAR 1 REVENUE PER BOOK

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<td>Shipping Revenue</td>
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<td><strong>Total Sale</strong></td>
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Exhibit 6

GOODWILL’S YEAR 1 PROJECTED REVENUE

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<td>Transaction Fee</td>
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Exhibit 7

GOODWILL’S YEAR 1 REVENUE PER BOOK – REVISED

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## Exhibit 8

**GOODWILL’S YEAR 1 PROJECTED REVENUE – REVISED**

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<td>Shipping Revenue</td>
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<td>Transaction Fee</td>
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## Exhibit 9

**GOODWILL’S PHASE II BOOK-SELLING FLOW DIAGRAM**

1. **Donated Book**
2. **Is it Visually Appealing?**
   - Yes
     - **Scanned For Valuation**
     - **Sold in 4 wks**
       - Yes
         - **Retail Store**
         - **Online Consumer**
       - No
         - **Salvage Consumer**
     - No
6. **Sold in 12 wks**
   - Yes
     - **Amazon.com**
     - **Online Consumer**
   - No

**High Rank**
- Yes
- **Scanned For Valuation**
- No
Appendix 1

MISSION / VISION / VALUES

OUR MISSION
Changing lives and communities through the power of work

OUR VISION
The leader in the nation helping people achieve self-sufficiency

OUR VALUES
- **Integrity**: We are honest, transparent, and accountable in our decisions and actions.
- **Stewardship**: We commit to being socially, environmentally, and fiscally responsible with community resources.
- **Innovation**: We continuously learn, embracing creativity and change.
- **Excellence**: We continuously improve and deliver high value results.
- **Respect**: We treat each other with dignity and fairness, value diversity, and commit to a safe environment.

STRATEGIC PLANNING GOALS

Goal 1: We will have people-centric services that build self-sufficiency

**Objectives:**
- Define and measure participant self-sufficiency
- Establish funding formulas that best supports the people-centric model
- Implement innovative and effective programs to achieve self-sufficiency

Goal 2: We will have the best workforce to achieve the mission

**Objectives:**
- Employee behaviors will align with the values of our organization
- Goodwill will attract and retain the best workforce
- Our Goodwill will be a continuous learning organization
- Goodwill will have an efficient and effective workforce
Appendix 1 (continued)

Goal 3: We will have the financial resources to sustain Goodwill

Objectives:
- Extract the greatest value from material donations
- Define the balance between profitable growth, financial stability, and sustainable mission
- Establish an environment that fosters intentional innovation

Goal 4: We will have an effective business infrastructure

Objectives:
- Enhance IT systems to include analysis and design
- Eliminate non-value-added activity
- Improve organization-wide communication
- Recurring activities have developed and followed documented processes

Goal 5: Goodwill’s mission is understood and supported by our community

Objectives
- Increase the presence of the organization’s leadership in the community
- Increase the quality and quantity of material donations
- Increase community support
- Leverage collaborative relationships in the community
- Develop a plan for effective usage of social media