



SOCIAL ENTERPRISE BUSINESS MODELS

An Introduction to
Replication and Franchising

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CEiS is a social enterprise and the largest development organisation working within the social economy in Scotland. Our purpose is to help communities and individuals disadvantaged in, and effectively excluded from, the economy and the labour market. We do this through helping social economy organisations create sustainable enterprises and developing innovative employability programmes to assist individuals, who are hard to reach and hard to help, move towards employment. Founded in 1978, we continue to work with local social economy organisations as well as testing and developing policies that will benefit the social economy as a whole.

We work throughout Scotland and also extend nationally and internationally, wherever collaboration with CEiS can enhance local capacity and produce meaningful outcomes. We believe that our added value lies in our ability to bring a business perspective to the achievement of social objectives, break new ground in the field of community regeneration and champion and promote the interests of our clients and partners.

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EXECUTIVE SUMMARY

Introduction

1. This report on Social Enterprise Business Models was commissioned from **CEiS** by the Scottish Government's Social Enterprise Team. The purpose of the study was to advance the understanding of the range of business models used to establish and develop social enterprises through examination of UK and international examples and consider if and how these might be used to help grow the sector in Scotland.

Methodology

2. The study involved primary research to establish the current use of alternative business models within the social enterprise sector in Scotland and to enhance the quality and validity of the information contained within a number of the case studies. The remainder of the study was conducted through desk based secondary research of information regarding the theoretical and practical approaches of alternative business models, influences within the sector's operating environment and programmes to stimulate social enterprise growth through business replication. Further details of the methodology used can be found on Page 7 and 8.

Business Models in the Social Enterprise Sector in Scotland

3. Most survey respondents commenced operations as a social enterprise through an organic start-up business model, mainly through the development of an existing voluntary or social economy organisation or project, or as a result of grant funding for start-up. While respondents showed a propensity to start new businesses with an average 2.54 between them, the number that did this through some form of business replication was negligible. Further details of these findings can be found on Page 9 and 10.

4. Factors identified separately that influence the business models selected to establish and grow social enterprises across the world include:

- The level of access to public sector procurement markets
- The taxation and fiscal instruments associated with social enterprises and other not-for-profit organisations
- The existence and expertise of social enterprise development support mechanisms
- The nature of local formal and informal economies
- The existence, nature and strength of a social enterprise sector in a particular country.

Business Replication

5. Social enterprise replication is fairly widespread in the UK and tends to work best where there is a formal arrangement to recompense a social enterprise for its expertise or knowledge as opposed to where the process is informal: i.e. where an organisation attempts to replicate another social enterprise without informing them, or where the replicated business is in too close proximity to the original business and the two effectively become competitors.

Franchising

6. In examining franchising as a model of business replication the report identifies Business Format Franchising as the method of most relevance to social enterprise. This typically involves the payment of initial and on-going fees in exchange for access to an organisation's complete system of doing business, use of trademarks and logos, and on-going business development support.

7. Franchising works well as a tried and tested route into a market and one of the major issues for franchisors currently is a lack of suitable franchisees. While reducing the risk associated with developing a new business, franchising does not necessarily speed up the process. Franchising performs poorly where the original franchise model is weak, where franchisees fail to effectively apply a franchisor's model to their own business, or where franchisors fail to provide adequate initial and on-going support to their franchisees.

8. Social Enterprise to Social Enterprise Franchising: This approach is representative of the formal process of business replication within the sector which is highlighted elsewhere in this report. As yet, however, few have invested the level of resources required to prove the effectiveness of their business model. Many social enterprises also lack the capacity to build, promote and manage a robust franchise model.

9. Unlike commercial franchisors, social enterprise franchisors are not as motivated to establish and manage a franchise network preferring instead to operate their own social enterprise. This can lead to difficulties in ensuring and enforcing the compliance of the franchisees to the franchise model.

10. Commercial Franchise to Social Enterprise Franchising: This form of franchising is on the increase although more likely to be found in the USA than the UK. The proportion of suitable commercial franchise models is likely to be higher than the proportion of social enterprise franchise models and in recognition of the potential for franchise growth that the social enterprise sector offers, a number of commercial franchisors have agreed to vary their standard commercial franchise agreements for social enterprise franchisees.

11. The motivation for social enterprise tends to be more about engaging their target group for provision of training and employment in a real business environment rather than simply income generation from profits, which in the commercial franchising sector can take some time to come to fruition anyway.

Business Model Programmes

12. There have been a number of initiatives within the European social economy sector aimed at stimulating social enterprise growth through business replication. While some of these programmes have resulted in social enterprise success stories, many are still 'works in progress' even though the programmes that initially supported them have now finished.

13. There is also a potential for such programmes to have a negative impact by selecting partners in advance, providing less than three years funding, or focusing their efforts on producing outcomes that comply with the conditions of their funding rather than the needs of the developing enterprise.

The Influence of Funding on Social Enterprise Business Models

14. The reasonable access to public sector and charitable funding initiatives in the UK has had a significant influence on social enterprise development. Effects include:

- A common acceptance of a 2-year development cycle for a social enterprise, when in reality this can vary greatly depending on the organisation and the market
- The preference for activities with low capital costs
- The emphasis on revenue-based activities
- The continued 'subsidy' of activities based on their projected social benefit rather than the level at which they are commercially viable
- Less engagement with private sector funders operating an 'investment' model

15. While public and charitable funding streams are still necessary to pay for the social costs of a social enterprise, allocating large amounts of grant-funding to the seeding or start-up phase is unsustainable. Social enterprises need to be more business-like in considering alternative business models for delivering their social outcomes.

Recommendations

16. This report makes a number of recommendations regarding the potential of business replication as a means of growing the social enterprise sector in Scotland:

- Social enterprises should always consider business replication as a strategy for growth
- Commercial franchisors should adapt their approach to working with franchisees when engaging with social enterprises but maintain the rigours of their franchise models
- Social franchising should be strictly defined as relating to the formulation and operation of a social franchise agreement and relationship and not all forms of business replication
- Prospective social franchisors must adequately test their business model and be prepared to support a franchise network
- 'Top-down' programmes focused on social and environmental outcomes should not attempt to achieve them by creating and/ or supporting unsustainable social enterprises
- Government interventions should focus on awareness raising in the commercial franchise industry, sharing learning and enabling the provision of specialist advice and assistance.

CHAPTER ONE

INTRODUCTION TO SOCIAL ENTERPRISE BUSINESS MODELS

Background

1.1 In the author's experience most social enterprises in Scotland are one-off, stand-alone businesses, created to address a particular - and often local - need or issue rather than geographically spread, multi-branch organisations replicating their activities to a significant scale. The majority begin with the creation of a pilot project, with the aspiration of creating a sustainable business. In many cases the pilot projects secure significant funding from foundations and government, but due to the difficulties inherent in this start-up route, allied to a lack of business experience, most never achieve the goal of creating a financially sustainable enterprise. The reliance on the pilot project development route to new business start-up over many years points to a culture influenced by the availability of revenue grant funding for start-ups, and little effective mainstreaming of the lessons behind the poor outcomes from this activity.

1.2 As the sector has developed and matured, it has become clear that business models and methodologies developed in one sector or geographic area can be transferred and applied elsewhere. There is considerable scope for social enterprises to share and learn from each other's experience as well as understanding what works in the commercial sector.

Purpose of this Report

1.3 "Better Business, A Strategy and Action Plan for Social Enterprise in Scotland" (Communities Scotland, 2007) outlines the objective of examining, "the potential for franchising, licensing, merger and acquisition, and other possible business methods to generate more growth in social enterprise activity." This report deals with the potential of franchising, licensing and replication models for social enterprises in Scotland as the acquisition and merger activity has been addressed in a recent report "Acquiring Business for Good" from Social Firms Scotland (2007).

1.4 The purpose of this report is to:

- advance understanding of the range of business models used to establish and develop social enterprises;
- offer guidance on whether or not business replication models have the potential to generate more growth in social enterprise activity; and if they do;
- describe how the uptake of these models by social enterprises in Scotland can be facilitated.

Business Models

1.5 Chapters 2-6 examine the key features of social enterprises that have been developed through replicating another enterprise, or purchasing a franchise or licence. Social enterprises are typically started through a range of methods including:

- Operating a pilot project to test and develop the business idea;
- Acquiring an existing business and developing it as a social enterprise;
- Developing the business from a public authority or voluntary sector project;
- Merging the activities of two organisations;
- Purchasing a licence to operate a business, usually a business franchise;
- Replicating another enterprise.

1.6 In this report we examine the last two of the above models:

- **Replication** - Social enterprise replication is not a new phenomenon (e.g. the development of charity shop branch networks for various major charities since the 1950's and 1960's.) In the commercial sector, when a new business concept becomes successful, then it will inevitably be followed by competitors with similar offerings, right down to the appearance of the products, services or premises. In the social enterprise sector the early adopters of successful business concepts hope that the values and good behaviour of organisations in the sector will give them space to establish their business in a geographical area before similar businesses are developed in the same marketplace. While brand name and technological applications can be protected by trademark and patenting laws, business concepts cannot, therefore it is a basic business principle that successful ideas will be copied. The replication section of this report will look briefly at the process of copying social enterprise ideas and concepts, but the main focus is on the replication of a business system or model with the support of the original enterprise, thereby establishing a formal replication process.
- **Franchising** - In this report we differentiate between social enterprises franchising with other social enterprises, and social enterprises that purchase a franchise from a commercial franchisor. Interestingly, the concept of social enterprises purchasing a franchise from a commercial franchisor has been practised in the USA for over a decade and is on the increase in the UK, but the concept of social enterprises purchasing a franchise from another social enterprise is far more prevalent in the UK than elsewhere. We use international examples to outline and explain how the relationship works from the perspectives of franchisee and franchisor. We also highlight a franchise that has failed, as this outlines the risks associated with using a business model where success for both franchisor and franchisee is dependent on each other's performance, and is therefore more complicated than other business models.
- **Licensing** - A "licence" allows one party "a licensee" to use a business system, and/or trade name, and/or patented technology process, from the holder "the licensor". In the majority of cases in the social enterprise sector and the commercial sector the purchase of a license will be in the framework of a franchise agreement which involves ongoing technical support, marketing assistance and sales support in return for a fee based on percentage of gross sales. This converts the licensor into a "Franchisor" and the licensee into a "franchisee." In section 5 we give some examples of licensing where there is no "franchising" activity, although this is not widespread in the social enterprise sector.

An explanation of “Social Franchising”

1.7 In the author’s opinion, some of what is termed “social franchising” at present is not recognised by the commercial world as “franchising” as it doesn’t reflect the key features of “business format franchising” such as purchase of a licence to cover a business system, use of branding, an allocated geographical territory, rules of operation, and payment of ongoing fees based on sales to cover ongoing support and marketing activity. There are two main instances of “social franchising” being used as a term to describe non-franchising activity.

Firstly there are programmes where medical and healthcare assistance are being delivered to communities in third world countries through a licensing arrangement. Typically one or more manufacturers participate in a scheme where a Non-Governmental Organisation (NGO) is licensed to distribute its products free of charge to communities in developing countries. This activity doesn’t involve business systems, marketing and sales activity, and is essentially a system for NGOs to get products from manufacturers into developing countries without distorting the first world marketplace for these products. One of the best known is the Green Star Service Delivery Network (Green Star Network, 2005) which used “social franchising” to expand access to reproductive health services in Pakistan.

Some formal replication in the social enterprise sector is being termed “social franchising” when in fact no “franchising” is involved, just social enterprises collaborating to take the systems and experience of one enterprise and apply it to another. As the commercial franchising sector becomes increasingly involved with the social enterprise sector it is perhaps helpful to continue to differentiate between franchising and replication as we have done in this report, but this is a new and expanding area and terminology will continue to be used in different ways before a common understanding develops over time.

Programmes

1.8 Chapter 7 examines a number of high profile programmes in the UK in recent years that author’s identified through existing knowledge, peer reference and secondary research. These programmes were designed to stimulate growth in models from “employee ownership” to “social franchising”, and initiatives at European Union level have enabled some programmes to test concepts and systems in a number of countries. In Chapter 7 of this report we examine the purpose and impact of a number of these programmes and draw conclusions that are intended to engage social enterprises, support agencies and policy makers in further discussion on the merits and design of “top-down” programmes of this nature.

1.9 Chapter 8 considers the influence of public sector and charitable funding on the business models pursued by social enterprises, before Chapter 9 draws conclusions and makes a series of recommendations.

Methodology

1.10 This study involved a mix of primary and secondary research to examine practice in Scotland and the UK, as well as consider examples from countries with different governmental structures and societies.

1.11 Desk-based secondary research, comprising internet searches, peer references and reviews of relevant reports, journals and other publications in the public domain was used to gather information regarding the motivations for and principles of business replication, the alternative approaches to business replication and those currently adopted by social enterprises. The background information to the social enterprise case studies was also gathered in this way. Secondary sources were used to develop a profile of programmes designed to stimulate the use of alternative business models within the social enterprise sector.

1.12 Primary research was conducted with a selection of Scottish social enterprises to determine how they came to commence their operations. A single question e-mail was distributed to approximately 700 individuals/organisations through their association with three social enterprise network/membership organisations: SENSCOT, Social Firms Scotland and the Development Trust Association Scotland. Returns were received from a total of 50 organisations operating 127 social enterprises. Respondents were given 12 options by which to categorise their response to the question:

If you have established or are in the process of establishing a social enterprise*, which of the following models apply in your case?

1.13 In support of some of the social enterprise case studies contained within the report, four semi-structured telephone interviews were carried out with a number of originators and/or replicators of the business model being examined. The case studies were selected on the basis of author knowledge or profile and the questions related to the key headings contained in the case studies themselves.

Summary

1.14 Social enterprises can be developed through replication, licensing and franchising as well as start-ups, acquisitions and other routes. "Social Franchising" terminology is not uniformly applied as this activity is still in its early stages. The study uses primary and secondary research from the UK and worldwide to introduce the models of replication and franchising and their interaction with social enterprise.

CHAPTER TWO

BUSINESS MODELS IN THE SOCIAL ENTERPRISE SECTOR IN SCOTLAND

Introduction

2.1 This chapter provides context to the alternative social enterprise business models outlined in this report through reporting the findings from a survey carried out with a selection of social enterprises to determine the nature of how they came to commence their operations. The chapter continues by examining the external factors that determine how social enterprises are established, as an explanation for the survey's findings. Although not designed to be representative of the whole sector in Scotland it provides a useful snapshot of how the range of alternative business models available have been applied by a significant number (127) of social enterprises.

Findings and Analysis

2.2 Figure 2.1 provides a summary of these returns.

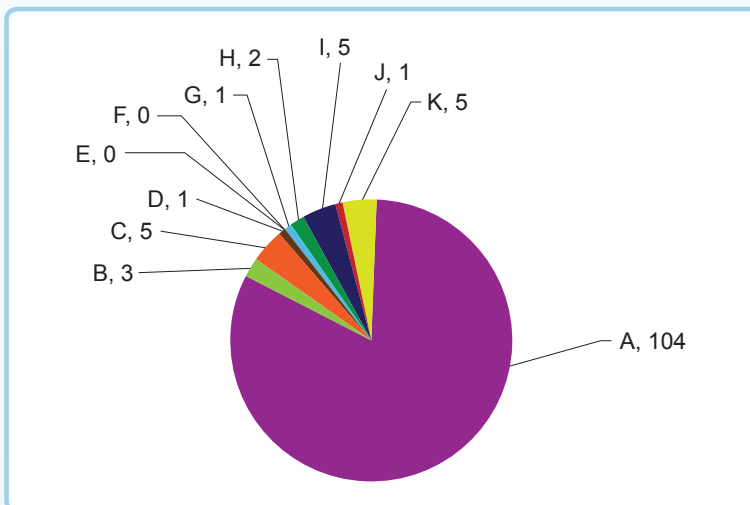


Figure 2.1 Social Enterprise Business Models

- A.** Organic start-up (started via an existing service or pilot project)
- B.** Developed from a public authority project
- C.** Converted from a private business
- D.** Formed from a merger of two or more projects or enterprises
- E.** Purchased a licence to operate a business or business process
- F.** Purchased a franchise from a commercial business
- G.** Purchased a franchise from a social business
- H.** Replicated another social enterprise
- I.** Purchased a private business and converted to a social enterprise
- J.** Purchased a social enterprise
- K.** Created as a joint venture with another organisation
- L.** Other

2.3 Based on responses for 127 organisations we find that:

- Nearly half of organisations responding were involved in establishing more than one business;
- The overwhelming majority of social enterprises covered by these responses have commenced operations through an organic start-up business model;
- From these organisations, 47% developed from an existing voluntary or social economy organisation or project and 30% were started with grant funding (e.g. local authority, trusts, foundations);
- 9% of social enterprises involved some form of purchase, merger or conversion from an existing social enterprise or private business;
- 6% involved an externalisation of a public authority project or a joint venture with one or more other organisations;
- Although we are aware of a small number of exemplars in Scotland, none of the respondents to this survey had purchased a licence to operate a business or business process or purchased a franchise from a commercial business;
- One respondent had purchased a franchise from a social business and two others had replicated another social enterprise.

2.4 Although not a representative sample, this snapshot of responses illustrates a clear preference for organic start-up of social enterprises in Scotland and this business model has thus far been the preferred route for getting into business. In the author's opinion the prevailing environment for organisations and individuals has a significant influence on the size of enterprises, their market orientation, their economic sectors, and more recently the business models selected to establish and grow their enterprises.

External Influences

2.5 The external factors that determine how social enterprises are established and what they look like include:

- Public sector procurement legislation or social clauses
 - Relevant taxation and financial advantages for social enterprises
 - Existence of informed business advice and support
 - Economic conditions
 - Existence of a social enterprise sector
- The existence or absence of legislation or "social clauses" that enable social enterprises to access procurement markets to deliver services to national government, local government or related agencies. For instance many social enterprises in Italy are formed as social co-operatives where a third or more of the members will be people who are disadvantaged in the labour market or people with a mental health problem. The Co-operatives are established as a labour market instrument but with a business orientation to deliver services to municipalities facilitated by Law 381/91 which laid the foundations for preferential tendering, allowing municipalities to only accept tenders for some contracts from organisations meeting a minimum requirement on the employment of disadvantaged people - a condition which only social co-operatives will normally meet. This system has been specifically approved by the European Union provided that each contract falls under E200, 000 (£125,000) threshold (Mattioni and Tranquilli, 1998).

- Taxation and financial advantages conferred on social enterprises and non-profit distributing organisations will influence how social enterprises are formed, their legal status and how they wish to appear. Tax and finance conditions can include exemption from taxation on surpluses, business rates relief, income tax benefits, business tax advantages etc. In some countries social enterprises are trying to operate along commercial principles, but find that to underpin the cost of their social mission they need to comply with regulations that justify public benefit tests that have been designed for traditional charities. We are beginning to see a conflict between the pressure of social enterprises to operate and project themselves as commercial, sustainable and professional, and the regulatory framework that may require them to highlight the charitable objects that result in financial benefits.
- The existence of relevant and informed business advice and support that understands the social purpose and economic goals of a social enterprise will act as an accelerator for social enterprise development. Social enterprise in its various guises has been present for many years in situations where individuals and communities have had no access to support, advice or guidance. However when business support and training is available from commercial, public and educational institutions as well as from other social enterprises, this can create an environment where social enterprise can flourish and more complex business models can be considered.
- The economic conditions will vary between developing countries and the world's largest economies. In the developing world many social enterprises are micro-businesses whereas in the leading industrial nations social enterprises will vary considerably in size, scale and diversity of activity linked to their market opportunities. The reality for some is that starting businesses for social purpose may not be viewed as positive as this threatens the informal economy and traditional relationships. This for instance has been the experience of NGO leaders in Ukraine as they struggle to navigate post-socialist political, social, and economic transformations (Society for Applied Anthropology, 2005)
- The existence of a social enterprise sector in a country will be a key factor in encouraging social enterprise growth. The "early adopters" established social enterprises using a range of organisational forms, operating in economic sectors that appeared to have potential, and tried to achieve social outcomes using the social enterprise model. For those following the early adopters, there is opportunity to learn from their successes and failures. Successful social enterprises have been extensively copied and we now see the emergence of "social franchising".

Summary

2.6 The overwhelming majority of social enterprises in Scotland have commenced operations through an organic start-up business model. Factors that influence the business model chosen include social clauses in procurement, taxation and legal forms, availability of business advice, local economic conditions and peer learning.

CHAPTER THREE

BUSINESS REPLICATION

Introduction

3.1 This chapter serves as an introduction to the concept of business replication. It gives an overview of why and how businesses are replicated as well as good practice principles to ensure replication is carried out responsibly. The chapter ends with a case study of a specific initiative where social enterprises have successfully replicated a business model in another geographic area to achieve additional social outcomes.

Social Enterprise Replication

3.2 Social Enterprise Replication of a concept, business model or system, where this assists a new enterprise to develop a business, is fairly widespread in the UK. The practice can work well where the charge for the service is a fair reflection of the expertise or knowledge given. There may be problems around intellectual property and competition, given that there is nothing to prevent the new business from eventually growing enough to damage the prospects of the business that provided the expertise. There is some evidence of social enterprises copying business ideas and concepts without acknowledgement or recognition, but this is less prevalent than in the commercial sector.

3.3 A significant number of businesses today are copies of other businesses. If we consider economic sectors that are popular with social enterprises, such as catering and recycling, we can see that over a relatively short period social enterprises of similar size and scale have been developed as entrepreneurs observe progress, visit models that work, and utilise the results of the early adopters in order to make a case to funders, stakeholders etc. A great café or restaurant, contract catering enterprise or recycling model can inspire others to follow suit and the sector directly encourages this with business awards, visit programmes and dissemination material in order to widen the social impact.

3.4 Some successful social enterprises in the UK have created formal visit programmes with a charge for services, in order to enable them to deal with demand and capitalise on their intellectual property. Their ideas can be and have been widely copied. This activity has been encouraged and supported by programmes such as The Phoenix Fund and Social Enterprise Visit Programme, which operated in England until March 2006. Problems do occur when the organisation copying the concept is in a position to damage the original business through competition, as stated above. Moreover, due to the changing nature of consumer purchasing, geographical proximity is not the only situation in which this risk exists. This can be a dilemma for the social enterprise sector, but fortunately bad practice is reasonably rare.

3.5 Formal replication has been practiced for some time, but is now on the increase as the sector expands. The advent of computerised systems, and the increase in quality standards in social enterprises, mean that previously unrecorded knowledge is often now documented in an Operations Manual, training programme or Staff Handbook, making it easier to support others to follow a system.

3.6 Social Enterprise replication can include one or both of the following elements;

- Engaging the personnel from one enterprise to support the development and establishment of another, similar social enterprise;
- Allowing another business to access systems, business information or other intellectual property to assist them to develop a new social enterprise.

3.7 Replication is often in return for a consultancy fee, but there are exceptions, such as the National Community Wood Recycling Project, which supported other enterprises generally without charge. In many cases the replication will be covered by a management agreement or contract to ensure that the intellectual property is not passed on to a third party and to avoid the original business being damaged. When Social Firms UK purchased operating knowledge from the Daily Bread Wholefood Co-operative in Cambridge for its Wholefood Planet social firm initiative, it agreed that no Wholefood Planet business would be based within 50 miles of the Daily Bread operations in Cambridge and Northampton. The Co-operative sector has numerous examples of intellectual property and personnel support being given free of charge to other co-operators. Daily Bread itself was inspired by Rainbow Grocery in San Francisco, and has supported a number of UK wholefood co-operatives including the Unicorn Grocery in Manchester.

3.8 Despite problems and issues such as setting fee levels that work well for both parties, or dealing with capacity issues when the tried and trusted systems don't transfer perfectly, formal replication is on the increase.

3.9 Case Study: National Community Wood Recycling Project

Originator	National Community Wood Recycling Project (NCWRP)	
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Business Model

Brighton and Hove Wood Recycling Project (BHWRP) was the original organisation established by Richard Mehmed in 1998. The enterprise was set up to rescue and re-use some of the vast quantity of timber in the Brighton area that was needlessly being land-filled. As there was no wood recycling service in the Brighton area and virtually no information available on the extent of the problem at that time, the organisation set out to find if there was enough 'waste' timber worth saving; where it came from, how it could be collected and what could be done with it once it had been collected.

A significant level of 'waste' timber was diverted, primarily from builders but also from a range of other sources including joinery and furniture workshops, companies with wood packaging and pallets to dispose of as well as consumers. A commitment by the project to take anything that was wood, stick to a pickup schedule and charge less than a skip enabled it to build a loyal customer base. Uplifted wood is categorised into three grades on the basis of its potential use: Grade 1 (around 5% - 10% of wood collected) is reusable and is sold back to the community for DIY, Grade 2 (around 20% of wood collected) is good wood but too small for public sale and so is used to make a range of products ranging from compost bins to high quality furniture, Grade 3 (around 70% of wood collected) is cut up and bagged

for firewood and kindling, passed on to be chipped for re-manufacture into chipboard or used as fuel at a power station. The company aims to create volunteering and training opportunities for disadvantaged people, some of whom might later be employed. This has resulted in more than 8,000 volunteering and training days being provided by the 20 wood recycling projects that have been set up by the NCWRP - as well as the creation of 70 full/part-time jobs throughout all of the projects. The projects are financially self-sustaining on income from uplift charges and wood sales, after the contribution of volunteers is factored in.

Motivation for Replication

Over time, as BHWRP developed, it was approached by various groups wanting to set up similar recycling schemes. It decided that it wanted to encourage and assist others to replicate its business model, reaching as wide an audience as possible without restricting the model to only those who could afford to pay. Consequently, National Community Wood Recycling Project (NCWRP) was established in 2003 to address this demand and support other organisations replicate Brighton's activities. Funding from the Esmee Fairbairn Foundation and the SEED programme was secured to cover the majority of costs for three years.

Replication in Practice

Replication was through a dissemination approach. The NCWRP made the majority of its business information and knowledge on how to develop and launch a new recycling project available on its website. Richard spent about a year producing and finalising these materials, most of which were created from



scratch since most aspects of BHWRP had never been documented before. There was no charge for using these materials and this was rolled out in 2003. In addition, the NCWRP offers free telephone support for people setting up new projects, and developed ongoing informal relationships with the network of projects.

Disseminating information in this way was very effective in starting new recycling projects. The writing up of information was undertaken while Richard was helping to set up other recycling projects using the BHWRP model. Although this slowed down the process of creating the document, it also provided an essential understanding of the scope of information needed and the types of materials required by new projects to succeed. New projects were also required to register with the NCWRP before they could access additional documents from the website, and to visit an existing project after they had been introduced to the business model. This was to ensure the business model and drivers were clearly understood. At the same time however, NCWRP found it difficult to develop its own trading income to sustain its ongoing activities. They originally intended to generate income through a consultancy service providing assistance to new projects, and still do. However, due to the fact they wanted to make the service as widely available as possible, consultancy was usually provided free of charge to those who could not afford it. Richard felt he either had to choose professional paid consultancy to help with the sustainability of the enterprise or help set up the replication recycling projects. He chose the latter believing that his funders would back him due to successful outcomes of the project. This financial support was however not forthcoming.

Performance and Prospects

The target of twenty projects was reached before the end of 2006. The NCWRP is introducing centralised activities that will benefit its network of recycling projects and generate income. This has however been a slow process. The company has recently concluded a deal with a national construction company after 3 years of negotiating that means all 20 projects can start wood collections from their nearby sites. Other activities, including centralised policies on PR, health and safety and marketing for manufactured markets are all due for completion in the near future, but have taken time to develop, due primarily to a lack of resources at the NCWRP's disposal.

This problem, combined with Richard's desire to make information and knowledge freely available, meant that NCWRP has effectively become a charity dependent on decreasing grant income to sustain its operations. Online dissemination involved relatively low ongoing effort and costs. However, providing additional ongoing personal support required substantially more effort and funding. Had the NCWRP been able to gain more income through consulting, central support offers would doubtless have been developed and implemented sooner, and it would possibly be self sufficient by now. Equally, if it had been established as part of the BHWRP, profits from this project could have been used to fund the core NCWRP activities. Self sustainability might also have been achieved if the NCWRP had received the funding to create a business development post.

The Replicator's Perspective

Previously operating as a voluntary organisation, Glasgow Wood Recycling Project (GWRP) was one of the organisations replicated through NCWRP. Established in 2006, it became fully operational in 2007, funded mainly through the Scottish Executive's INCREASE programme and the Key Fund. GWRP were looking for a community orientated project model that would encourage a high level of community involvement, which NCWRP's model offered and were also attracted by the success achieved by other affiliates throughout the UK, providing evidence of a strong track record for the business model. GWRP has two full-time and two part-time staff supported by 8-10 volunteers focusing on the collection and re-use of wood. They utilised many of NCWRP resources; the knowledge, experience and skills obtained through the website and the telephone support service in particular were instrumental in starting the enterprise. In addition to this, GWRP visited two existing affiliates as well as the original project in Brighton.

So far GWRP has proved a great success: local awareness of recycling has increased, as has the number of volunteers. Both individuals and organisations in the community have become involved in helping to divert 20-25 tonnes of wood per month away from landfill. They believe that the business model will enable the enterprise to pay for itself and develop into a successful social enterprise.

Overall, the performance of the replication has been positive. GWRP have become competitive in the market place and are close to hitting both economic and environmental targets, although competing with larger organisations is difficult. However, despite local and regional market differences, GWRP feel that the model can definitely be replicated.

Key Learning

A conclusion of the original case study was that the recycling business model was more sustainable than the replication business model. Had it charged more for replicating services, it might have improved its long-term financial viability, although this would have resulted in fewer replicated projects. The company originally planned for its business replication activities to be supported by public/grant funders. However, this proved not to be the case. Learning points for the replicator are:

- The model has to be flexible and open to all opportunities in order to work.
- Initial financial projections are hard to achieve. Up to 24 months working capital is required for the model to succeed, which should be secured early in the process to avoid distractions from the development of the business. Funding sources for this working capital seem few and far between.
- The environmental, social and economic aims of the project have all been hard to consistently maintain alongside each other and at times seem too much.
- The information provided from NCWRP is quite generic and can sometimes prove difficult to relate to local markets. The business model should perhaps provide a clearer idea of the product range that the project should be rolling out.
- It could be helpful to have an improved infrastructure, able to provide information on product development, as well as increased levels of 'hands on' practical guidance.
- If the resources were available to NCWRP then an overall marketing strategy and branding 'across the board' would also help.
- A high level of support is needed at the outset of the project, but this can be tailored off as the project matures.

Summary

3.10 Replication of social enterprises is common and often encouraged by those that support and work in the sector. If unregulated, replication can endanger the early businesses, particularly where the original business finds itself in competition with the replicated business, but there is little evidence of deliberate poor practice in the social enterprise sector. Replication of a social enterprise business usually involves an operational system and is often supported by enterprise personnel acting as mentors, trainers and advisors.

CHAPTER FOUR

FRANCHISING - INTRODUCTION AND BACKGROUND

Introduction

4.1 The purpose of this chapter is to provide an introduction and background to the principles of franchising and licensing with particular regard to the realities of franchising, the nature of the franchisor/franchisee relationship and important legal aspects in support of the next two chapters which consider approaches to franchising and licensing by social enterprises.

Franchising Basics

4.2 The British Franchise Association (BFA) is the lead body for the franchising industry in the UK. It describes a franchise as -

“an agreement or license between two parties which gives a person or group of people (the franchisee) the rights to market a product or service using the trademark of another business (the franchisor).”

The franchisee has the rights to market the product or service using the operating methods of the franchisor. The franchisee has the obligation to pay the franchisor certain fees and royalties in exchange for these rights. The franchisor has the obligation to provide these rights and generally support the franchisee. In this sense, franchising is not a business or an industry, but a method used by businesses for the marketing and distribution of their products or services. Both franchisor and franchisee have a strong vested interest in the success of the brand and keeping their customers happy.”

4.3 While it is recognised that globally there are two types of franchise methods, “business format franchising” and “product and trade name franchising”, the latter is generally not relevant to social enterprise as it involves industries such as the automotive or soft drinks industries. Such businesses also tend to be on a very large scale with - for instance - the rights to distribute and sell an international brand of cola to one or more countries. This type of franchising does not include royalty fees and the franchisor provides trademarks and logos, national advertising campaigns, but most importantly, products such as petrol, cola etc.

4.4 The franchising method that is relevant to social enterprise is Business Format Franchising, which offers a variety of services to franchisees. Franchisors provide the franchisee with the use of trademarks and logos, as well as a complete system of doing business. They will generally assist the franchisee with site selection, as they know what type of site works well and what does not. Services include interior layout and design so that all sites have the same appearance, hiring and training of staff, national and local advertising and marketing, and on occasions supply of product or raw materials.

4.5 The franchisee pays an up front franchise fee and agrees to pay continuing royalties to the franchisor that help the franchisor to sustain a franchise infrastructure. The initial fee will vary from £10,000 to £250,000 depending on the maturity and scale of the opportunity and its earning potential. The ongoing royalties are based on percentage of gross sales and again these will vary greatly depending on the range of support services provided by the franchisor (which will range from a modest level of support to full call centre service to assist sales and marketing.) The level of fee paid and the range and quality of support provided is frequently a source of tension between franchisor and franchisee.

4.6 There are many examples of business format franchising in the form of commercial franchises, including - fast food restaurants, automotive services, estate agents, convenience stores, recruitment agencies, hairdressers, retail opportunities, office services etc.

4.7 The BFA identifies that Business Format Franchising involves three characteristics for success, cautioning that:

“Franchising may seem like an easy way to start ones own business and many times it is just that. However, investing in a franchise is no guarantee that you will be successful. Your success in franchising will depend on three key factors; your ability to make the investment to secure the franchise and open it for business, the care with which you select the franchise, and most importantly your drive and ambition to make it successful.”

Background to Franchising

4.8 Nations across the world are becoming progressively more sophisticated and well educated. All markets increasingly demand innovative and higher quality products and services. The BFA contends that franchising is a business model increasingly used to meet this market demand.

“In the early days, franchising was concentrated in a limited number of markets, predominantly fast food, motor distribution and hotels with a degree of uniformity in each section’s structure and operation.”

4.9 Business format franchising is now prevalent in a very wide range of business sectors. The British Franchise Association has close to 200 members, many of whom have hundreds of franchised outlets in UK and internationally.

4.10 Much of our franchise law and governance codes have been developed with the European Franchise Federation, but the highest profile international franchises in the UK and Europe (McDonald’s, Burger King, and Pizza Hut), are from the USA. Franchises of UK origin such as Mace, Stagecoach, Clarks Shoes and Pizza Express are also well established. Franchising is in tune with the laws of supply and demand, so when childcare or plumbing services are in short supply, a market solution will result in franchises being developed in the areas of pre-school and kids’ club activities, and ‘quick and easy’ routes to being a plumber with accompanying training, branding, equipment and finance. The 1998 competitiveness White Paper identifies a role of government to, “promote competition by opening and modernising markets” (Department for Trade and Industry, 1998). The relatively compact geography of the UK, its modern economy and diverse Service Sector has ensured that franchising is well embedded in our economy.

Franchising Realities

4.11 The BFA contends that while franchising growth has provided many high-quality, accessible services, there are also negative associations with shoddy values, poor quality working conditions, homogenisation, and low skills.

4.12 Data from the franchising industry may reflect its vested interest in creating a dynamic image of franchising. The author believes that it's difficult for prospective franchisees to differentiate between impartial research and industry sponsored sales material and many believe that the message that franchising is safer than other business models is essentially untrue. Small franchises often have comparable failure rates to small businesses, but this is under-reported as the franchisor often takes over or sells on the business if it fails (Natwest, 2007).

4.13 In its early years a franchisor will be vulnerable to business failure and under pressure to balance franchise support and obtain a return on investment. This is particularly problematic for social enterprises planning to develop a franchise system, as many will not have access to the working capital and resources necessary in order to try the system in a number of locations prior to developing a franchise offering, or to continue to invest in and develop a system for a number of years prior to getting a financial return. Many franchisors identify the break-even point as being at a dozen or more franchisees, although some of the current social enterprise franchisees have no aspiration to grow to such a scale. For a prospective franchisee, banks, universities and business agencies have informative, impartial, resources on the industry.

4.14 Whether looking at a commercial franchisor or a social enterprise franchisor, a franchisee should assess the suitability of the business, the value of the investment, the market prospects, and the quality of the information provided. Prospective franchisees are advised to speak to existing franchisees to determine how their business is performing and how their relationship with the franchisor is progressing. Due diligence at this stage is essential, particularly for an inexperienced franchisee. British Franchise Association accreditation means that the business has approved systems and has tested the proposition and system in a number of locations prior to developing a franchise, but it does not establish whether a franchise is good value, or an appropriate investment.

Power and Control in the Franchisor/Franchisee relationship

4.15 The franchisor holds the balance of power in the franchise relationship, despite franchisor financial return being dependant on franchisee performance. The franchisor owns the know-how and will protect this through Contractual and Operational Control. The franchisor will also generally have more experience and knowledge of the market which it can bring to bear.

4.16 Contractual control is exercised through the franchise agreement, in which the franchisor will determine the length of the licence, the territory, recruitment, performance clauses, operating conditions and terms for sale or termination. A Franchisor requires a high level of control in the Agreement to prevent conflict and avoid the franchises engaging in practices that are damaging to the brand. Other stakeholders such as banks, and indeed franchisees, will require evidence that the franchisor can control and protect its intellectual property, know-how, trade-marks and systems.

4.17 Operational control is exercised through providing the franchisee with a system. This will include an Operations Manual, Support Staff to deal with queries, marketing support to promote the franchise, possibly materials for use in the business and a Data Management System to monitor and analyse franchisee performance.

4.18 The franchisee needs all the above to run a business effectively, and these services are part of why a franchisee will chose the franchise model. While franchisor control is mainly protected by the Franchise Agreement, in practice it is in operational areas where franchises may feel that the franchisor has excessive power. Examples include situations when:

- Supply of data benefits the franchisor's business more than the franchisee's;
- Tied supply of materials arrears to be uncompetitive as many franchises mark up materials;
- Modernisation will benefit the franchisor through increased turnover, but penalise the franchisee though lower net return, (commission is paid on gross sales);
- The recommended system is viewed as restrictive;
- The marketing levy doesn't appear to benefit the franchisee;
- Conditions relating to the sale of non-franchised products prevent the franchisee from increasing profits.

4.19 Control and power are an interesting part of the franchise dynamic. While it is true that franchisees are usually content when their businesses are making profits, the working relationship with the franchisor is also important. Some franchisors work to ensure the franchise develops a common culture and shared values, recognising that it is in the interests of both parties to work together to achieve and maintain mutual goals.

Legal Aspects

4.20 Franchise Agreements are usually very complex, and professional assistance is essential to determine the level of risk to the franchisee's investment. A specialist franchise solicitor can check that the agreement is legal and fair, and that reasonable adjustments are proposed to the franchisor, although established franchises may not accommodate amendments due to costs that would be incurred for their legal advice.

4.21 The BFA recommends that agreements should be fair and balanced, as part of its code of ethics. However in practice, agreements ensure the protection of the franchisor's intellectual property, and control how the franchise is operated, sold or terminated.

- Informed analysis of standard licence agreements by the author suggests that the number and content of the termination clauses will dramatically favour the franchisor and present considerable risk for the franchisee.
- Trade marks may require a level of warranty to protect the franchisee in the event of a trade mark dispute, particularly when a franchise is newly established. Resale conditions may restrict the franchisee unduly and reduce the market value of the franchise.
- Care needs to be taken where the franchisor has the ability to introduce new franchises into the territory and where a franchisor supplies marked up materials (Society for Applied Anthropology, 2005) as these are sources of conflict and risk. Specialist advice can determine the value of fixed and variable franchise fees, and how these affect cashflow and margins.

4.22 While a specialist legal advisor is unlikely to secure alterations that dramatically change the balance of a franchise agreement, a specialist will be able to inform a client when to walk away from an agreement, which clauses are less favourable than the industry norm, where amendments are advisable or essential and whether the franchise agreement is likely to be the basis for a satisfactory relationship with the franchisor.

Summary

4.23 “Business Format Franchising” is the format most relevant to social enterprise. Franchisors and Franchisees have common objectives and incentives but there are many areas where tensions may arise. Specialist advice is recommended for social enterprises due to the complexity of legal agreements and the fact that clauses dealing with materials, fees, modernisations and restrictions on sale of non-franchised items can have a serious impact on profitability for a franchisee.

CHAPTER FIVE

SOCIAL ENTERPRISE TO SOCIAL ENTERPRISE FRANCHISING

Introduction

5.1 Building on Chapter 4's introduction and background to franchising, Chapter 5 examines developments in the sector for social enterprises to franchise or license their business model to other social enterprises. Reflecting on the current maturity of the sector in this area it goes on to provide examples and a case study of successful 'works in progress' known to the author, which have adopted this approach to market development. As an alternative approach to learning, it closes with a case study of a social franchising failure.

Sector Practice

5.2 Social Enterprise to Social Enterprise franchising and licensing, such as the GreenWorks furniture recycling or Pack-It warehousing and distribution, reflects recent moves from successful social enterprises to partner others, sharing branding and systems for mutual benefit. Very few of the social enterprise franchise models have invested to the level where their system is tried and tested in a number of settings prior to taking on franchisees, and many intend to provide less support and take a lower fee than commercial franchisors. This can result in problems as the principles and control that underpin commercial franchising aren't generally applied.

5.3 Social franchisors often have difficulty ensuring social enterprise partners follow guidelines or comply with regulations, whereas commercial franchisors exercise control through financial penalty clauses and threat of termination of agreement. There is some potential for this activity in the social enterprise sector as some social enterprises will prefer to deal with a partner that shares the same values, but at this stage very few social enterprises in the UK have the investment potential, management capacity and brand strength to offer a social franchise programme to others.

5.4 An example of a social enterprise licence opportunity where branding, system and technical support are available, but where the licensee is expected to develop, promote and market their own business, is the award winning social firm Pack-IT Group.

Pack-IT (Mail Fulfilment)


Pack-IT Product Promotions Limited was established in 1988 as a small enterprise carrying out light industrial packing services. It is now a thriving three-pronged business supplying mailing, storage & distribution and on-line fulfilment. It also provides specialised finishing services such as subscription fulfilment and cross matching of short-run hand mailings, full web-based real time stock control facilities and customer services capabilities. After establishing themselves as a viable entity, Pack-IT decided to replicate in order to generate more jobs and generate income. →



Once fees have been paid (£15,000 for the license) and agreements signed, licensees have access to the Pack-IT name, brand and business processes. The intellectual property is retained by Pack-IT protected in a contract. The replication of the model allows Pack-IT to bid for larger contracts and then share the contract requirements with their license partners. A successful license requires a minimum amount of available space, a good grasp of their local market, a robust business plan and a manager able to 'drive' the development of the business. The goal is to create six licensees with two (Wakefield and Paisley) of these established to date. Capital investment is estimated at £10,000 in addition to the initial license fee. Licensees then pay a monthly percentage of gross sales, a third of which is used for marketing, another third to develop the license system and a third is retained profit for the licensor.

5.5 One of the most successful social enterprise to social enterprise franchises in the UK is that of the School for Social Entrepreneurs (SSE). The SSE has a Scottish presence in that BRAG Enterprises in Fife have the Scottish SSE Franchise. This model has also been introduced to Ireland and discussions are underway to begin a franchise in Australia in 2008.

Case Study: School for Social Entrepreneurs

Originator	School for Social Entrepreneurs	
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Business Model

Founded in 1997, the School for Social Entrepreneurs (SSE) was established by Michael Young, a social innovator who had previously launched the Consumers' Association, the Open University and around 40 other organisations. Its purpose is to provide long-term, tailored support and learning to social entrepreneurs to enable them to use their creative and entrepreneurial abilities more fully for social benefit. Following successful Millennium Awards programmes around the UK, the SSE expanded outside its base in London, and the network of Social Entrepreneurs around the UK continues to grow. Over 300 SSE Fellows have completed programmes around the country.

Motivation for Replication

From its origins as a national programme for social entrepreneurs operating out of East London, it soon became apparent that there was much greater demand for this sort of programme and for more opportunities for potential social entrepreneurs. SSE settled on a franchise strategy because it was in line with core principles: working in genuine partnerships; that those who best understand the problem understand the solution; and utilisation of existing networks. SSE had no wish to duplicate or compete with existing local / regional delivery agencies with a track record, credibility, similar mission, local networks/understanding, but wished to combine this with its experience, expertise and proven methodology. Added to this was a desire to build a network of Social Entrepreneurs to provide support / innovation for each other.

Replication in Practice

Having run its original national programme for three years, SSE was funded to run twelve time-limited year-long programmes in twelve locations around the UK. This provided 'proof of concept', in that the SSE methodology worked outside of London / with different delivery partners. SSE then set about developing its franchise package which has been refined and improved over the years. At the centre is a Best Practice Guide which includes Quality Standards and Learning Resources. The other core services provided to the Network include branding (literature + materials), extranet/web, policy work, media and PR, and internal/external evaluation.

The SSE Network works as a social franchise: local, independent, community-led agencies are licensed to create and run programmes with School for Social Entrepreneurs' help on design, learning and quality. The same characteristics that they seek in their students (engaged with community, entrepreneurial, experienced, committed etc.) are those that they seek in their local and regional partners.

SSE-UK (which also runs SSE London) identifies potential partners (judged against criteria) and works with them to get investment / funding, to recruit and to develop/design their programme. Each SSE is run by an independent organisation which is responsible (though strongly supported) for its own financial sustainability and programme delivery. They pay SSE a flat annual fee of £10,000 (plus VAT) for the entire franchise package, and a license agreement is signed with each. This agreement includes all of the above detail, as well as the geographical area the SSE is permitted to operate in for funding and recruitment purposes. Each SSE is audited annually against the franchise's Quality Standards. Programme co-ordinators / directors meet quarterly with each other at Network Away Days for peer discussion and support.



SSE estimates that it has spent more than £1.5 million on developing its franchise system. The 12-location replication over the Millennium provided useful learning for when the franchising process began. Moreover, SSE did not attempt to run before it could walk. After just over 5 years of replication, there are 6 schools, and (particularly from 2001-4) SSE was primarily reactive to opportunities as it assimilated learning and improved the franchise offering.

Performance and Prospects

SSE now has 6 Schools in the network. Over 300 Fellows have now completed programmes, with a further 70+ students currently going through in this financial year: the number continues to grow exponentially. A recent evaluation of the first 10 years of School for Social Entrepreneurs operations (by the New Economics Foundation), gave a very positive endorsement of the school's methodology and approach. The evaluation applied to all existing Social Entrepreneur Schools, and Fellows from all Schools were surveyed as part of the process. The first franchisee in Fife is now running its sixth programme and looking to expand, and there is a similar sense of momentum and togetherness across the network at present. The franchise product is now very robust and School for Social Entrepreneurs' aim is for twelve franchises within the next three years covering every English region, Northern Ireland, Scotland and Wales. It also sees increasing international opportunities, though the UK remains the primary focus for replication.

The Replicator's Perspective

The motivation for replicators has been to be part of a wider, stronger, national network and the benefits to profile that such a brand can offer. The franchise complements their existing services and offers a good fit with their mission. The initial development work established a proven methodology that gave confidence to the replicating organisations. The earlier adopters definitely had a less clearly defined package but greater involvement in design / innovation. Personal relationships were of vital importance during difficult periods. The network's enthusiasm for setting up and sustaining an Associate School is very important. While SSE have provided the initial know-how and support, partner organisations' input has been vital in various areas, including funding and networking within their intended area of operation. SSE is now much clearer about the value / type of support it provides at all times, and in terms of what is expected on both sides of the franchisee / franchisor arrangement.

Key Learning

- Franchising has been a hard and difficult process, particularly the 'bottling' of what made SSE unique, different and effective. Arguably, the central Network team was under-resourced and under capacity, and this meant some development was slower than it could be.
- The central issue, which was not an easy one to address, was producing a quality system (best practice guide / standards / audits) which was true to the different SSE experiences, flexible enough to be easily tailored to local needs, rigorous enough to provide consistency of delivery, and publishable in usable form.
- The earlier franchises (Fife, East Midlands) have provided huge amounts of learning and innovation themselves, alongside the original London SSE, which has been hugely valuable, and demonstrated the benefit of not pursuing the London-centric 'central control' approach to replication.
- Nevertheless, the franchise approach has proved successful, and proving the concept and testing it gradually, rather than a rapid expansion, has ultimately proved sensible. With that robust basis after a decade's work, the SSE is set for more swift but sustainable replication over the years to come.
- Clear and consistent communication would be watchwords for anyone undertaking the franchise approach to replication. This is key on both sides (franchisor / franchisee) and, whatever obstacles are raised, allows for these to be worked through constructively and collaboratively.
- The other major point of learning is an obvious one: that the individual / team heading up a franchise is incredibly important to its ongoing success. SSE has increased its involvement in the initial staff recruitment process as a result.

5.6 One of the pioneers of social enterprise franchising in the UK is Greenworks, the office furniture recycling franchise. This has an operation in Scotland through KibbleWorks in Paisley and has been operating for a number of years and developing its business model through gradual expansion of franchise partners.


Greenworks (Office Furniture Recycling)

Greenworks is a charity and social enterprise that both protects the environment and creates real jobs and training, whilst providing a green office solution. They strive to ensure that redundant office furniture from the commercial world is passed on at very low cost to charities, schools, community groups and even start-up businesses across the UK. There are now five franchise operations around the country including: Kibble (The Community Warehouse) in Paisley. Working with young people with a complex mix of social, emotional, educational and behavioural problems, Kibble operates a number of social enterprises. Through the Greenworks franchise, Kibble enables local community groups, schools, charities and small business to access vast quantities of quality office furniture at very low cost. In addition to protecting the environment, the partnership is also about creating real training and employment for young people at risk and assisting them to gain long-lasting skills. Kibble anticipates that the venture will become financially self-sustaining by the end of 2007. The young people in the warehouse perform a variety of tasks including making up orders, helping deliver goods across Scotland, undertaking sales and marketing and forklift driving. They will also help with the day to day running of the warehouse including restocking display areas, tidying, and paying particular attention to keeping a work area clean and safe. To date 14 young people - six of whom are currently with the organisation - have benefited from work placements and the organisation has expanded operations. They are now collecting and distributing office equipment and supplies throughout Scotland.



5.7 A social enterprise franchise that has failed and subsequently closed despite being a well publicised award winner is the Aspire Group. It is important to learn from failures and there is valuable information about the reasons for the failure of Aspire in the public domain. The following is a summary of a case study written by Tracey and Jarvis, which was published in the Stanford Social Innovation Review in 2006. Key learning as to the reasons for failure is included in the case study.

Case Study: Aspire Group

Originator	Aspire Group	
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Business Model

Two Oxford graduates, Paul Harrod and Mark Richardson, started a social enterprise employing homeless people in a door-to-door catalogue business that sold fair-trade products. Sales during the early period were reasonably strong, helped in part by media publicity and the support of volunteers so that by 2001, the company had a turnover of just under £1m.

Motivation for Replication

The two founders of the business, Harrod and Richardson, invited an Aspire advisor Terrance Roslyn Smith to join the management team in 1999. Together, they decided that in order to succeed, Aspire needed to expand. In 2000, they decided that franchising would be the quickest and most cost-effective way of achieving this. They believed Aspire would be able to reduce its operating costs, increase its purchasing power with suppliers, and expand into new markets, while still retaining some degree of control.

In July 2000 they started work on a franchise strategy to create 30 outlets by the end of 2003. They first of all obtained a £400,000 investment from a social investor. Harrod and Richardson then formed a new company - Aspire Group - to lead the franchise operation. Harrod headed the administrative headquarters in London, and Richardson remained at Aspire Bristol. Its main roles were to manage the catalogue company, design the catalogue, and source the goods. The regional outlets (franchisees) distributed catalogues, delivered orders, and supervised and trained homeless and ex-homeless employees. Risk analysis did not feature strongly in discussions or planning with the franchisees. By the end of 2001 after two of the franchises closed, Aspire Group put its expansion plans on hold. Harrod persuaded another group of investors by



the middle of 2002 to commit another £250,000 to the Aspire Group. This investment came with conditions. The investors insisted that the year-round catalogue be reduced to two four month seasons - one at Easter and one at Christmas. This forced franchisees to give up one of their primary goals: employing homeless people full time and year round. They also introduced a central warehouse and a mail order sideline. The relationship between the Aspire group and the franchisees became increasingly tense. Aspire Group and its franchisees came to rely on each other less and less.



Performance and Prospects

By September 2001, Aspire Group had opened nine franchises, most of which were embedded within existing charitable organizations. The Aspire Group eventually became frustrated by its franchisees 'ineffectiveness and wilfulness'. The Aspire Group saw itself as attracting resources and investments which they thought allowed them controlling responsibility for centrally driven finance. Harrod thought that individual regions could command a pocket veto for decisions they did not like, while issuing a whole host of demands that the catalogue company had to meet. Aspire Group further developed its direct-mail business, which functioned independently of the franchisees. In July 2003 Aspire Group faced a cash flow crisis and put payment to creditors on hold. Harrod stepped down as CEO in September 2003. By the end of the year, Aspire was effectively bankrupt.

The goals of the organisations taking on the Aspire franchises were to provide employment for homeless people full-time and all-year round, as well as generating income for the organisation. All of the franchisees had some experience working with homeless people, but only four had experience with business or social enterprise. After just a few months, serious problems arose with Harrod and Richardson's business model. →

The narrow range of products attracted only a narrow range of customers. Every franchise, including the original Aspire Bristol, was losing money. Many of the franchisees began to think that the Aspire Group had misled them. Nobody was able to run the catalogue as a stand-alone, viable business. By the end of 2001, two of the franchises closed. Franchise managers were also exhausted by their long days and also by the challenge of overseeing and supporting homeless and ex-homeless employees - many of whom still struggled with addiction, mental illness, and a lack of basic skills like punctuality. The franchisees also struggled with the competing goals of enforcing strict discipline and supporting their vulnerable workers. There was a perceived indifference of the Aspire Group due to minimal training and mistakes made during start up. Aspire was sold as a business that would be profit making, and so it set up expectations that weren't realistic. The Aspire Group's activities were characterized as "a constant changing of policy. Practices are set, and just as everyone has got busy working with them, they change again".

In order to generate additional income and employment, the franchisees established secondary businesses, including a bicycle repair shop, a window cleaning service and furniture manufacturing business. The door-to-door catalogue business became marginalized and the ties between franchisor and franchisees dissolved.

Franchisees did not want to just employ homeless people, they wanted to rehabilitate. Aspire managers could not punish or fire employees in the same way that managers of 'traditional' franchises could as the consequences of doing so could be dire. The blurring of the roles of 'employee' and 'client' led to difficult managerial decisions and subsequent loss of morale. Aspire franchisees were also disadvantaged by limited business knowledge, with just four of the nine franchise managers having any business experience.

Key Learning

- Aspire was small and untested, and became a franchise too soon. When it first began signing up franchisees, less than two years after the venture was founded, the original Aspire Bristol was not yet a viable concern.
- The franchise also paired a weak business model with ambitious social objectives and many of the franchisees were unprepared for the possibility of having to compromise on their social objectives to improve their competitive position.
- In the early stages of Aspire, the franchisees had a lot of autonomy in implementing the business model, as the business deteriorated. However, Aspire Group attempted to impose greater control over the franchisees operations, thereby compromising its legitimacy and authority.
- Aspire Group's priorities also shifted to financial survival, while the franchisees' priorities remained the employment and support of homeless people.

Summary

5.8 While some social enterprises will feel more comfortable dealing with a social enterprise franchisor than a commercial franchisor, few social enterprises have the ability to invest substantial sums in franchise systems and infrastructure. Work with early franchisees can therefore require a degree of franchisee patience and franchisor persistence as the systems are developed and tested. There are a limited number of situations where social enterprise to social enterprise franchising is working well in the UK, but there have also been business failures due to under-developed systems and unsuitable business propositions.

CHAPTER SIX

COMMERCIAL FRANCHISE TO SOCIAL ENTERPRISE FRANCHISING

Introduction

6.1 Again, building on Chapter 4's introduction and background to franchising Chapter 6 turns its attention to how social enterprises have adopted commercial franchises as a means of contributing towards the achievement of their financial and/or social objectives. The chapter also considers the motivation for commercial franchisor and social enterprise franchisee in developing such a relationship. While acknowledging the approach to be stronger in the USA, the chapter highlights an example and a case study of such franchise relationships in the UK.

Sector Practice

6.2 Commercial Franchise to Social Enterprise relationships are on the increase. The best known in the UK are the Ben and Jerry's PartnerShop programmes. Progress is beginning to be made with franchises in the catering and food retail sectors, although the USA is leading the way with close to 100 ventures between Commercial Franchisors and Non-Profit Organisations (Community Wealth Ventures and IFA, 2006).

Recruitment of franchisees continues to be a significant problem for the franchising industry (Natwest, 2007) as franchisors seek to open units more quickly than suitable franchisees can be recruited. This has led to some franchisors focusing their efforts on franchisees prepared to operate multiple units after a period of time and other franchisors to show a willingness to vary licence agreements to take on social enterprise organisations rather than individual licensees. This brings the commercial disciplines of franchising to social enterprise and there are some examples (See Table 6.1) of this being successful in the USA as well as in the UK. These examples show that a number of social enterprises have operated commercial franchises in mainstream markets. There are equally a large number of commercial franchise opportunities where the product offering, market sector and the values of the franchisor make the proposition fundamentally unsuited to social enterprise activity.

Table 6.1 Examples of Commercial Franchising with Non-Profits/Social Enterprises

Non-profit organisation/Social Enterprise	Franchise	Status
Beaver County Rehabilitation Center	B Candy Bouquet	Open
Better Bronx for Youth	The UPS Store	Open
Center for the Homeless	ServiceMaster	Open
Community Service Programs of Alabama	Dunkin' Donuts	Sold
Elwyn, Inc.	AIM Mail Centers	Open
Manna CDC	Maggie Moo's	Sold
Melwood	Jerry's Subs & Pizza	Closed
National Foundation for Teaching Entrepreneurship	Jersey Mike's Subs	Closed
Platte River Industries	Auntie Anne's	Open

6.3 For a social enterprise or voluntary organisation, the attractions of partnering with an experienced Commercial Franchisor with an established brand include the following:

- Buying into a well-known brand with a national marketing programme is less risky and is a more immediate way of developing a business than traditional start-up.
- The ability to demonstrate to stakeholders that they are investing in a proven business concept and established brand can lend credibility to the venture.
- The training, operational support and guidance provided by an experienced franchisor has been tried and tested.
- The pre-contract support and resources make financial projections less of a guessing game, and if loan funding is required, banks like established franchises.

6.4 The attitude of Non-Profit Organisations to franchising in the USA differs from the UK in that most of the ventures in the UK are aiming to engage a target group for the provision of training and employment in a real business environment, while some non-profits in the USA use a franchise for the specific purpose of income generation. There are instances (e.g. Ben & Jerry's Belfast operated by Cresco Trust) where the target group supported by non-profit organisations is not engaged in any way with the franchise, as instead a manager is appointed and incentivised to run the franchise to maximise revenue. The following extract from Franchising World (2006) is indicative of where the Non-Profit and Franchising Sectors are coming together in the USA.

"Now emerges the "Era of the Social Franchise," where non-profit organizations identify, acquire and operate proven and successful franchised businesses. The intersection of the non-profit and franchise worlds may well create a powerful and compelling gate to the future for both sectors. It promises to provide renewed prospects for differentiation, develop sustainability and enhance the mission or goal for the conjoining parties. While there have been some pioneers who have forged ahead over the past decade, there are less than 100 social franchises in the United States today, and the lessons learned from both the winners and the losers should be considered before joining the fray."

6.5 The best known commercial franchise operating worldwide with social enterprises and non-profit organisations is Ben & Jerry's. With three franchisees in the UK, it is possible to look at this franchise operation from the perspective of both the franchisor and the franchisees. Ben and Jerry's is not typical of the commercial industry to date in that there are special terms and conditions for social enterprises. This is an area where further progress needs to be made to encourage other commercial franchisors to engage with social enterprises.

Case Study: Ben and Jerry's

Originator	Ben and Jerry's (Unilever)	
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Business Model

Ben & Jerry's (B&J) is the leading brand in the Super-premium ice-cream market. 10-15% of its turnover is from its Scoop Shop outlets. It has a high presence in cinema chains and has plans to expand from 30 to 150 sites across the UK in the next three years. It undertakes highly effective marketing through PR, outdoor advertising and cinema. It is recognised as an ethical brand in terms of its ingredients and the social objectives that it works to achieve: climate change and training & employment for disadvantaged young people. B&J has a dedicated programme for developing social enterprises as franchisees through its PartnerShop Programme.

Motivation for Replication

B&J sees its PartnerShop Programme as its 'commitment to helping non-profit organisations meet the double bottom line.' It seeks to train and counsel disenfranchised youth who are in need of a helping hand to get back into the work environment. It also gives them (the youth) a community reach they might find difficult to achieve on their own. From a commercial perspective it also provides the company with positive PR and community access.

Replication in Practice

B&J have a vigorous vetting process they apply to assess people or organisations as potential franchisees, rejecting many more organisations than they accept. They focus on the challenges that small businesses face and the ways in which a potential franchisee is set up to succeed and prevail over these challenges. They require applicants to have retail food experience amongst their staff, specifically those staff that will launch the venture. They also look favourably on organisations that have an enterprise director or equivalent with retail experience. B&J like to see a commitment from the franchisee to come up with working capital to 'feed' the business.

B&J requires its PartnerShops to target disadvantaged 16 to 26 year olds for training and employment opportunities. As PartnerShop operators, business proceeds are retained to support further →



programmes. They buy their bulk at a much reduced wholesale price and don't pay any percentage of turnover to Unilever (which is not the normal in a franchise arrangement). They also have access to a high level of professional advice and assistance from Unilever in their business related activities. Start-up costs range are £50,000-£100,000 with standard franchise fees waived and support provided to help 'non-profits' operate strong businesses, including: additional support from the field operations team, business consultation on a quarterly basis, a manager mentor (aligning seasoned managers from Scoop Shops to new PartnerShop managers to help during the first six months), one PartnerShop community meeting per year and keep communication tight to share best practices. A PartnerShop franchisee signs up for a ten-year agreement and are held to the same standards as any other franchisee.

Performance and Prospects

B&J have opened 36 PartnerShops since 1987. They currently have 14 in the US and three in the UK; operated by Aberdeen Foyer and Cresco Trust. Table 6.2 provides an overview of social enterprises that have participated in the PartnerShop programme. Over the years they have had shops stay open for the full ten-year agreement and then gone on to new ventures. They have also had shops close within their first two years of operation. Some of the perceptions as to why one such closure occurred were that:

- The location pushed by the franchisee was a poor fit with the B&J target market and the property selected by the franchisee required extensive refurbishment which added significantly to costs.
- The venture was launched out-of-season for ice cream.
- The manager leading the development for the social enterprise was developing other businesses at the same time and left within a year of the Scoop Shop's launch.
- The social enterprise adjusted the target group for training and employment which did not represent as good a fit with the franchise model, and the franchisee contracted training delivery to a third party.
- The social enterprise closed the franchise before even a full twelve-months trading cycle had been completed when a five-year payback period was more likely.

The greatest successes and benefits from the B&J PartnerShop programme relates more to the training and employment opportunities they create and the boost to profile that they provide local social enterprises, rather than to generating a significant level of profit for the franchisee. As all three of its current PartnerShops continue to operate successfully, B&J have plans to develop more in the UK.

The Replicator's Perspective

Many of the challenges traditional franchisees face, affect PartnerShops; mismanagement, under capitalization, bad location. Franchisees also face issues surrounding shifts in leadership, mission shifts or changes in strategic priority. This means that the venture may not be so aligned with the organisation's mission as it grows or shifts direction. There have been many specific situations with partners where the PartnerShop just wasn't as much of a strategic fit as it was five years before.

Aberdeen Foyer's PartnerShop has been in operation for a year now, the first franchise of its kind in Scotland, following an initial approach by B&J. Operating from Aberdeen's Bon Accord Centre, Aberdeen Foyer believes that it has selected a successful business model to enable it to offer supported training and employment opportunities to unemployed young people aged 16-25 years. →

The organisation has been able to train staff in Food Hygiene and Customer Care with the possibility of accessing additional accredited training via its partnership with Aberdeen College. Aberdeen Foyer supports the cost of a Youth Worker to support the trainees, where necessary, for non-business related matters such as confidence building and motivation. Throughout the last year, they have successfully learned how to balance the business and social aims of the enterprise. It survived initial 'teething problems' of 'hitting the ground running' when the store opened over Christmas where people had to be in the store all day, every day. The goal now is to improve the alignment of graduate/ training/ education opportunities they have across Aberdeen Foyer with the opportunities that B&J presents. Currently, they have a number of trainees working in the shop so they feel the model is working at the moment, and will continue to do so. They have developed the concept and have bought a cart to go around various outdoor events in order to take the enterprise into local communities.

Just over two years before Aberdeen Foyer, Cresco Trust officially opened the first ever B&J PartnerShop in Northern Ireland (and only the second of its kind outside of the USA). It adopted B&J as a business model with a proven track record that offered opportunities for training and employment, and developing a sustainable revenue stream. The Derry population has a high youth element and there are only two larger shopping malls located in the city centre that young people can easily access. This high proportion of young people fits with the B&J target market. Another important factor has been the community recognition of the B&J brand. Although they might not automatically appreciate the ethical approach to business the Partnership model entails, they still see an outlet that sells a premium-priced luxury product. Cresco meet annually with their USA partners, and share all financial and non-financial information on the operation of the respective businesses - which is a huge resource for everyone. There is a dedicated PartnerShop team within Unilever USA/UK and they all communicate on-line almost on a daily basis. The Derry outlet breaks even, while its more recent outlet in Belfast was in profit after 8 months. The costs of training beneficiaries have a direct economic impact on the business. At this stage in the franchise's development Cresco are concentrating on profit-making, and taking to underwrite other pre-employment training that is available within the organisation from other sources.

Key Learning

- B&J are constantly looking to improve the programme to help partners achieve their social mission as well as become a financially strong operation.
- Cresco thinks the model of the PartnerShops in the UK has to change - and there is a shift with the way in which its USA partners would now operate.
- The experience has demonstrated to Cresco that a franchise outlet can provide a social enterprise with a sustainable revenue stream whilst also delivering employment and training opportunities to underpin its social purpose.

Table 6.2: Ben & Jerry Social Enterprise PartnerShops in the UK and USA

Non-profit organisation/Social Enterprise	Country	Franchise	Status
Aberdeen Foyer	UK	Ben & Jerry's	Open
Cresco Trust, Londonderry	UK	Ben & Jerry's	Open
Cresco Trust, Belfast	UK	Ben & Jerry's	Open
FRC Group, Chester	UK	Ben & Jerry's	Closed
Friends of Youth us	US	Ben & Jerry's	Open
Goodwill Industries of Greater Detroit	US	Ben & Jerry's	Open
Juma Ventures	US	Ben & Jerry's	Sold
Latin American Youth Center	US	Ben & Jerry's	Open
Life'sWork of Western Pennsylvania	US	Ben & Jerry's	Open
LifeWorks	US	Ben & Jerry's	Open
Metro Community Investment	US	Ben & Jerry's	Open
New Avenues for Youth	US	Ben & Jerry's	Open
Second Chance	US	Ben & Jerry's	Open
YWCA of Ft. Worth and Tarrant County	US	Ben & Jerry's	Open

The Community Action Network and Recognition Express Venture

6.6 A business venture in the UK that is indicative of an increasing interaction between commercial franchising and social responsibility is the Community Action Network (CAN) promotion with Recognition Express in 2006. Recognition Express worked with CAN to offer one enterprising person, who wouldn't usually be able to afford a franchise, an entry into business on the condition that they could also prove how they could use the break to help and benefit their local community. The franchise, worth £30,000, was to be based in Tower Hamlets. Working with Recognition Express, CAN put together a competition - The Franchise Challenge - which was launched at the CAN 'Achieving Breakthrough Performance' conference in 2005 (Community Action Network, 2006). While not a social enterprise opportunity, this is an example of a commercial franchise engaging with a social franchising programme to achieve social outcomes.

6.7 Competitors constructed a proposal relating to how they would use the franchise and presented their proposition to Nigel Toplis, The MD of Recognition Express. This was the first time that a challenge like this had ever been delivered in the social sector. An extensive publicity campaign was held across East London via job centres, training organisations, community and development organisations. There were 14 applicants for the CAN/Recognition Express Franchise Challenge, all from East London and many with a strong community focus. Six people were short listed and interviewed and Recognition Express were so impressed by the quality of candidates that Nigel Toplis decided on two winners - one winner operating a Recognition Express franchise in Tower Hamlets and the other based in Greenwich.

6.8 One of the winners, former designer Pui Kei Chan, 27, was seeking to use the opportunity to improve and develop social enterprises' profile through better and more strategic branding and marketing and is now the owner of Recognition Express Southbank. Since it opened, Recognition Express Southbank has gone from strength to strength, offering corporate recognition goods such as

name badges, branded promotional products, business gifts and signs to organisations throughout the area. This venture raised awareness of the social enterprise sector amongst commercial franchisors, helped in no small measure by the fact that the Recognition Express Managing Director, Nigel Toplis, was the newly appointed Chair of the British Franchise Association. Pui said:

“Owning a franchise has been a big step from my previous job as a designer – the range of products alone is enormous. But, I’ve been learning as fast as I can and it’s been a fantastic year. The great aspect about franchising is that Head Office and the other franchisees in the network are extremely supportive, so I didn’t feel like I was starting out entirely on my own. One of the criteria of the CAN initiative was to give something back to the local community and working with customers like Riverside Cars is one way I’m fulfilling this..” (CAN, 2006)

Nigel Toplis, managing director of Recognition Express, added:

“We’re really impressed by how Pui has accepted the challenge of managing her franchise – by learning the ropes quickly she hit the ground running. She’s a model franchisee and we couldn’t be happier with the success of our CAN winner. It just goes to show that skills, commitment and drive are what matter in business, not your background” (British Franchise Association, 2006)

Summary

6.9 There are a number of clear advantages for social enterprises wishing to engage with commercial franchisors to establish trading ventures. If an experienced and supportive franchisor is chosen the systems, brand, training and support can ensure that the venture is lower risk and quicker to commence earning than many other routes to trading. There have however been a number of failures in social franchising ventures when either the franchisee or franchisor varied from their usual standards of due diligence in assessing whether the opportunity is commercially sound and the parties suited to a long term business relationship.

CHAPTER SEVEN

BUSINESS MODEL PROGRAMMES

Introduction

7.1 Whereas the previous chapters have reflected on how models of business replication have been applied by individual social enterprises, Chapter 7 examines a number of 'top-down' UK and European programmes and initiatives that have sought to stimulate the uptake a range of business replication models as a method of market entry and development in order to try to diversify the way in which social enterprises are developed.

Business Development Programmes

7.2 There have been a number of initiatives within the European social economy sector to stimulate the consideration and implementation of franchising, licensing and business replication as a sustainable business model for addressing social needs. Some of these have been targeted specifically at Structured Business Format replication for social enterprises or as an employability tool with disadvantaged people, while others have considered it as one approach as part of a wider social enterprise development programme.

7.3 Similarly, funding approaches for these programmes has been quite diverse with some being funded directly from the European Union via the EQUAL initiative, accessing this funding indirectly through an in-country infrastructure programme, or using this funding along with local sources of finance to undertake their programme.

7.4 The following Case Studies profile three UK programmes that promote franchising and replication to social enterprises. The Create programme is still in operation, the development programmes operated by Social Firms UK and the CAN Beanstalk Programme were supported by the DTI, Small Business Service Phoenix Fund and this finished in 2006 although the franchise and replication ventures established by these programmes are still in operation. A programme funded by the European Union Equal initiative operating in Germany, Italy and the UK is also featured as the CAP supermarket model developed in Germany is interesting and may well be transferable to other countries. All the examples considered have accessed European funding in one form or another. Evaluation of their impact is mostly self-assessed.

Programme	CREATE (UK)	Lead Organisation	Exemplar
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Background

CREATE is a partnership of 21 national business support organisations (See Appendix Three) whose aim is to encourage people from disadvantaged groups - ethnic minorities, women, young people, over 50s and people with disabilities - to consider self-employment, using a Structured Business Format such as franchising, licensing or agency distribution agreements as a business model. CREATE was originally supported and partly funded by the European Union through its EQUAL programme.

Context

Innovation and growth for small-to-medium sized businesses is a focus for the UK government and the EU, and individuals at disadvantage in the labour market often experience difficulty starting their own business. CREATE proposed that Structured Business Formats are a good route to start-up given that research has shown the failure rate for franchises in the first three years of operation is 12% compared to 34% for all new business start-ups. The research also showed that lack of suitable franchisees was the biggest barrier to growth in the sector. There was also evidence to confirm that groups such as women, ethnic minorities and the disabled were underrepresented in self-employment.

Overview

CREATE offers a range of activities and flexible business support to reflect people's needs in considering self-employment particularly through franchising or other forms of licensing and distribution. It is designed to assist individuals to overcome the range of barriers that can stop them starting a business or franchise and avoid the pitfalls when they do decide to commence such a business. CREATE provides information, assistance, advice and tools to provide them with the best opportunity of running a successful business.

The programme includes:

- Initial impartial advice and assistance
- A series of workshops and seminars, with presentations by specialists
- On-line information and support
- One-to-one advisory sessions
- Access to bespoke support packages
- Access to alternative forms of finance.

Outcomes

Its achievements are focused on the development of research, infrastructure and tools through its partner organisations. There is no direct reference to the numbers of Structured Business Formats established as a result of this work, however, it reports beneficiary attendance of 957 females, 747 over 50, 157 under 24 and 794 were of ethnic origin. Self-assessed achievements include:

- Research into the needs of franchisors, individuals from targeted groups and intermediaries.
- The development and piloting of programmes and services to provide access, awareness and ongoing support tailored to franchisees and franchisors.
- The development of an accessible web site
- Interactive e-learning workshops
- Franchise suitability matrices
- News section and a free e-newsletter
- Workshops and seminars delivered by specialists
- Impartial advice and assistance including mentoring
- Partnership working to ensure that service development increased capacity to support target client groups, including business adviser awareness and training seminars.

Funding for a follow-up programme (CREATE+) was also secured to:

- Improve the capacity of the Business Support Network to advise on franchising and other SBF
- Initiating the sustainable growth of social format franchising
- Creating sustainable opportunities for low cost entry to structured business formats.

Programme	Beanstalk (UK)	Lead Organisation	Community Action Network (CAN)
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Background

CAN develops, promotes and supports social entrepreneurs and social enterprises. It develops and delivers projects both alone and in partnership with other organisations. Beanstalk was a CAN initiative, part of the Small Business Service's Building on the Best programme and CREATE+ partnership mentioned previously.

Context

In the early part of the decade, the programme recognised that franchising was non-existent within the social enterprise sector despite more than 700 commercial franchises operating successfully in the UK.

CAN commenced a two-year pilot in 2003 with 37 UK charitable organisations as part of the first EQUAL Create programme. Research established that an interest in franchising existed but that 'would-be replicators' required first hand access to specific experience and skills which did not exist within the social sector at that time. As a result, CAN became the social enterprise sector partner of the CREATE+ project in 2005, tasked with developing the concept of social format franchising as a growth strategy for social enterprises.

Overview

CAN's role in the CREATE+ programme was to support the development of social enterprise through:

- *Social Franchise Development* - to position replication as a strategic tool for social enterprise growth
- *Creation of a Social Enterprise Growth Service* - with the expertise to support social enterprises to implement a replication strategy
- *Development of Social/Commercial Franchise opportunities* - support a number of social enterprises to undertake a business replication (5 social enterprise replications and 5 commercial franchises acquired by social enterprises)
- *Participation in Trans-national and National activities* - to share international knowledge and best practice.

326 social enterprises were engaged and their growth ambitions and plans assessed to identify a small number most suited to growth through business replication. Ten client organisations were identified as having the potential to franchise or license their product, five of which dropped out as the programme proceeded. The remaining client organisations were:

- **Law for All** - not-for-profit legal services
- **Thames and Chiltern Trust (TACT)** - an independent living charity
- **The Big Issue** - magazine publisher supporting the homeless
- **Timebank** - a national refugee assimilation charity
- **Mezzanine 2/CAN Centres** - providing social enterprise hubs



The franchising and replication programme offered support, assistance and mentoring through a team of business advisors from the commercial and social sector and mentoring members of the British Franchise Association. This team helped take social enterprises through market assessment, strategic and business planning, investment readiness, partner profiling, piloting and evaluation.

The programme also attempted to develop a franchise network from a master franchise. Significant research and development went into franchising Ashbury Images, a successful US social enterprise in the manufacture and sale of screen-printed garments. Despite considerable time, effort and progress a decision was taken not to proceed with the franchise.

Efforts to move disadvantaged individuals into self-employment via franchising did prove more successful when Recognition Express, a business imaging franchise, offered one person a free entry into their business on the condition that they could demonstrate how they would use their opportunity to help and benefit their local community. In the end two franchises were awarded. Both underwent Recognition Express training and launched their businesses in Spring 2006.

Outcomes

Impacts

Business-format franchising - in particular the concept of 'selling' a franchise - was not appropriate for any of the final five clients. Replication, licensing and branch development proved a more attractive route due to the level of involvement, responsibility and perceived restrictive costs of franchising. Nevertheless, across the five organisations 33 new businesses were started.

Programme Learning

- Vision and strategy need to be clear and robust before replication should be considered in any way
- Necessary management time and resources must be devoted to the replication process
- The time-restricted nature of many funding programmes does not match the timescales required to develop a full franchising operation and can prove to be over-ambitious
- Social enterprise replication was positively perceived but concerns existed over the impact of commercial franchises on social mission
- Franchising and replication is often viewed as restrictive and limiting the individuality valued by many social enterprises
- Many social enterprises shun the profile that many commercial franchises would demand
- A number of social enterprises lacked the management and operational expertise and access to investment, required to develop and maintain a volume franchise network
- Social enterprises are generally averse to the risks associated with the development and maintenance of a franchise network.

Programme	Flagship Firms (UK)	Lead Organisation	Social Firms UK
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Background

Funded between April 2004 and March 2006, the Flagship Firms programme set out to introduce the franchising, licensing and replication of proven successful social enterprises to grow the number and quality of Social Firms (to increase sustainable employment for disabled people).

Context

Social Firms UK aims to create employment opportunities for disadvantaged people through the development and support of Social Firms. Social Firms are market-led businesses that are set up specifically to create good quality jobs for people severely disadvantaged in the labour market. The investigation of social and commercial business replication opportunities linked in with Social Firms UK's desire to create significant volumes of sustainable jobs for people severely disadvantaged in the labour market.

Overview

Social Firms UK used franchising/licensing/replication as its model, and served as franchisor/licensor, facilitator and supporter of ventures. Websites, events, seminars and conferences were used as forums to promote the programme and communicate progress. It also used 'experts' from the private franchising sector in order to obtain the standard franchising and licensing documents for its programme. These all needed considerable adaptation for the social enterprise sector, and now the private sector is interested in learning more about the ethical approach that has been taken by Social Firms UK.

Various criteria were used to identify social enterprises potentially suitable for replication and those social enterprises appropriate as replicators. As a result, nine replication opportunities were developed, three* of which Social Firms UK held the intellectual property. These were:

***The Soap Co.** - Soap manufacture and retail to the tourist and gift market.

***Aquamacs** - Aquarium maintenance and supplies

Pack-IT - Mail Fulfilment, packing and warehousing

***Wholefood Planet** - Food wholesaler

ReCycle IT - Computer recycling (business liquidated in 2006)

CASA - Homecare services

Café Ciao - Cafés employing disabled people

NCWRP - National Community ReCycling project (trialled as a social firm in Oxford)

Yes2 Temps - staffing agency

Outcomes

As a result of this programme seven new social firms were started and 15 new social firms were under development, with the hope that numbers would continue to multiply as firms demonstrate good performance.

It concluded that 'franchising isn't the answer to sector growth' that it had hoped at the beginning of the programme and identified a number of key learning points.

- The lack of development capacity within social enterprises to support franchise development is likely to make the process of replication costly, risky and more time consuming. However, the replication of commercial franchises could possibly reduce the impact of these factors.
- The timeframe for developing a franchise offering was much longer than would fit into a 2-year programme and that five years might be a more realistic timescale.
- A greater impact can be achieved by working with fewer business opportunities in the future and having the right participants from day one.
- Implementing a commercial and business-focused programme into the social firm sector forces a cultural shift in the mindset of those traditionally considering social firm development (from project to business).

Programme	INCUBE (Germany)	Lead Organisation	FAF
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Background

INCUBE was a development partnership under Phase 2 of the EU's EQUAL Programme. The partners included a number of social economy, employer and cooperative organisations and was led by FAF. The purpose of the project was to share expertise amongst partners, identify successful and sustainable business concepts that could be replicated as social firms and develop strategies and tools to support this replication.

Context

FAF's research and experience within the social firms sector in Germany showed that few social enterprises had used market assessment and planning to select their current business activities. As a result, business concepts were often incomplete and business processes were not always as efficient and effective as they could be. Those that had developed efficient methods and tools for both the organisation and structuring of their own production processes; service delivery; and marketing, had become sustainable as a result. Given the sense of shared purpose, similarities in client group needs, and shared economic and development challenges it seemed appropriate for social firms in different sectors to pool their expertise and efforts.

Overview

Project activities included:

- Improving and sharing good business ideas amongst partners to scale up social firm activities
- Replicating successful business models in well-defined sectors as the basis for new social firms
- Developing intermediary networks to support the development of these social firms
- Implementing a sustainable franchise structure
- Implementing training and development at all operational levels

FAF focused on supermarkets with the development of a CAP-market franchise. This was against a background of commercial supermarkets moving to out of town locations when a clear level of demand remained in urban centres, particularly amongst consumers without their own transport, though perhaps on a different scale. At the same time the public sector was interested in the opportunities for employment and for maintaining urban infrastructures that a social enterprise supermarket offered. CAP-market franchisees benefited from consultancy support on franchise start-up, finance, HR, store design and launch; market and operational information; exemplar visits to other CAP-markets; and an initial contract with CAP.

Outcomes

There were 29 supermarkets operating by the Spring of 2006 and activities to expand the number of franchises continue. With an average turnover £750K to £2m Each employed 5-20 staff with regular working contracts. The development of this franchise has resulted in:

- Mainstream jobs for disabled people with opportunities for integration and direct customer contact
- An improvement in the range and quality of products and services provided
- Maintained a supermarket presence in urban areas
- Instilled a sense of loyalty with customers and 'their' CAP-market.

FAF identified a number of requirements for a successful CAP-market franchise from its initial developments:

- A high degree of consultancy support
- A suitable location and site with an appropriate tenancy agreement
- Sources of investment must be planned
- Practical support, including manpower, is required in the early weeks
- Identifying a break-even point for each franchise
- Regular analysis of performance within and between stores
- Support with staff recruitment and the provision of appropriate training and qualifications
- Exit planning for the franchise team.

Many of the obstacles encountered were addressed through centralising branding and procurement; providing mechanisms for franchisees to learn from each other; consultancy support and franchise performance management.

Programme	Le Mat (Italy)	Lead Organisation	Albergo in Via dei Matti Numero 0
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Background

The Le Mat Association succeeded an EQUAL transnational partnership of the same name. It worked with disabled people, people with mental health problems or people who have experienced some other form of social exclusion. Le Mat modelled its business on the Hotel Tritone in Trieste, which had been operating successfully as a social co-operative since 1991 providing quality hospitality services and employment for disadvantaged people through a sustainable business model. Le Mat developed training materials and an operating manual to help groups in other towns set up similar hotels operating under its brand.

Context

The project partners wanted to find out whether the mechanism of franchising could be used to help small social enterprises to compete more effectively on the market, without losing their essential qualities. Linked to this, they wanted to discover how to organise efficiently as a network, and how to start the process from the bottom up. It decided to experiment in one trade sector in order to learn the franchising process and to set up a sustainable network organisation of enterprises with a quality trademark. It wanted to find a business idea that was in a growing market, and provided the sort of jobs that disadvantaged people could benefit from. It chose the hotel sector because it combined two production processes, hospitality and integration, in what was first and foremost a 'people business.'

Overview

Le Mat supports enterprises founded on reciprocal assistance, on the active participation of workers, and on promotion of the public interest through the development of a network of hotels and hospitality establishments. It is composed of enterprises, social enterprises and professionals with experience in the creation of enterprises and entrepreneurial development, empowerment of workers, placement in employment of persons disabled or socially disadvantaged, hotel training, consultancy and management, social planning and the conception and handling of projects and networks. The project piloted a franchise network of hotels and other accommodation establishments employing disadvantaged people. Replication of the base model (Hotel Tritone) involved the identification of properties, preparation of business plans, enterprise capacity building and network development. Le Mat supplies the development support and start-up and operations manuals detailing the skills, products and services, processes and branding for stakeholders seeking to develop a hotel under the Le Mat brand.

Outcomes

Operating in sixteen locations across Italy, Le Mat also cooperates with other organisations across Europe. It has found building its network a long and difficult process. Some of the key learning points were:

- The role of location and property in determining a franchise's financial viability
- The need to build the capacity of the network partners
- Allowing an appropriate timescale to apply an innovative methodology
- The base model must be developed to represent good practice prior to replication commencing
- A network's enterprises must be involved in brand design
- A central network management infrastructure is required

Over time, the driving force for the project became the private and public sector partners that recognised the opportunities that the network presented. Generally social enterprises 'followed' rather than 'led' in the development of the network. Maintaining a growing network became more difficult in terms of wider geographic distances, regional market differences and variable enterprise support needs. Ensuring the appropriate enabling infrastructure (e.g. tourism organisations, lenders, public sector) was time-consuming as the experience of participating in a network was new to many of these organisations and a degree of resistance was experienced. However, the network also empowered social enterprises to lead local development of responsible and sustainable tourism. Le Mat concluded that social franchising was a very innovative business networking methodology. However, it could not work through a strong franchisor simply selling the know-how but required a central organisation to develop and manage the network, and support the development of the participating organisations.

7.5 It is not unusual for European or nationally funded projects to conclude that continued funding support for infrastructure is necessary to produce additional results and the conclusions of the LeMat initiative are not unexpected. However, any programme that selects participating partners in advance, has time-limited funding of less than 3 years duration, and is under pressure to produce outcomes to comply with the conditions of its funding programme is at odds with some of the commercial principles and market forces driving franchising and replication and is likely to result in lack of progress, failed franchises and inappropriate partner selection.

Summary

7.6 Programmes can be successful in raising awareness and broadening understanding of the use of and advantages of business models. Single business programmes such as the Esmee Fairbairn funded National Community Wood Recycling Project or the Equal Funded CAP Supermarket project, have achieved particularly strong outcomes. More diversified programmes have been less successful at meeting their business outcomes. Government agencies and funders need to consider the potentially damaging effects of supporting programmes that lead to business failure due to factors such as inappropriate timescales, pressure to report outcomes and risks with inappropriate selection of replicator/franchisor businesses and partners.

CHAPTER EIGHT

THE INFLUENCE OF FUNDING ON SOCIAL ENTERPRISE BUSINESS MODELS

Introduction

8.1 Chapter 8 closes the main part of the study by examining how the nature of much public and charitable funding has influenced the business models pursued by social enterprises and the resultant impacts. It highlights how this has caused the social enterprise sector to pursue a different path from the conventional enterprise development route taken by private sector businesses.

Access to Funding

8.2 In the UK many social enterprises have the opportunity to access funds to cover start-up costs, and in some cases the ongoing cost of delivering social mission, from grant making initiatives and programmes from national and local government, the European Union and charitable trusts and foundations. The objectives of these programmes are typically to alleviate poverty, assist regeneration, combat unemployment, address social exclusion and support community initiatives. An analysis of grant funding information resources indicate that many grant programmes that are accessible to social enterprises;

- Prioritise revenue funding over capital grants
- Are time limited, for between 1-3 years
- Have an emphasis on non-commercial outcomes
- Have considerable variances in their administrative and reporting requirements
- Often penalise commercial performance
- Don't carry out commercial screening of business plans and financials.

HM Treasury identifies that:

Current grant regimes are rarely designed to help community organisations develop into robust social enterprises. Few are intended to fund a package of organisational development. Nor do they specifically encourage the development of more entrepreneurial approaches, such as requiring organisations to lever in loan finance or improve business process. Opportunities may therefore be lost.

Impact of Funding

8.3 The impact of this supply of finance is that organisations working to achieve social benefit have had reasonable access to a range of funding initiatives. In the author's opinion this has led to social enterprise development being very significantly influenced by the funding initiatives that can provide support for using pilot projects to start-up an enterprise. Some examples of how the availability of funding has affected social enterprise start-up process include:

- The emergence of a 2-year development cycle where an enterprise anticipates moving from its idea generation stage to trading sustainably in the 2-year period that is favoured by many funding initiatives. One year and three year cycles also exist but have been less prevalent. This cycle is at odds with the fact that enterprises will have a huge range of start-up cycles, some reaching sustainability in a number of months, others where the capital cost is high or the social mission is expensive may in fact take many years.
- Social enterprise activities that have very low capital cost have been preferred over those with the type of capital cost that is ineligible for grant funding. This results in a significant undercapitalisation of the sector, and until recently very few enterprises were supported to own assets and therefore most have no security for working capital or borrowings. This is a completely different approach from the private sector, where the earning potential of an enterprise is the significant factor in determining business development.
- Restricting social enterprise development to revenue based activities has resulted in a proliferation of development in landscaping, gardening, catering, and other service industries that are competitive, but also very vulnerable to times of recession, when private sector businesses and individual customers will only purchase essential items.
- Business ideas that would not secure loan finance in the commercial sector due to lack of capacity of the group leading the business, lack of potential of the business idea, or both, have been funded by grant initiatives on the basis of projected social benefits. For the millions of pounds invested in social enterprise start-up, there has been a relatively low return in terms of sustainable business creation.
- In recent years grant funding initiatives have addressed the above issues by promoting capital programmes, emphasising capacity and experience in business management, and in some cases linking with provision of loan funding.
- The existence of such a wide range of grant funding types has led to less engagement with commercial foundations and philanthropic sources that favour an 'investment' model based on a realistic business plan and repayment of some or all of the funds in the longer term. Similarly, the Community Development Finance Initiatives (CDFIs) have been very active in lending to social enterprises, but do so at modest volumes given the level of development activity in the sector. The preference for 'free' grant funding instead of loan funds that will need to be repaid has been significant, despite the flexibility, speed and business behaviour benefits that loan funds or investment can bring to an enterprise.

8.4 All of the above has favoured a 'pilot project' model of social enterprise development in which funds are secured to test an idea, using primarily revenue funding. Models commonly used in the private sector or in other countries where grant funding is less available, including the purchase of an existing business to avoid the risk and complexity of starting a new business, or the purchase of a license to operate a business as a franchise, have been significantly under utilised. These models are more complex and therefore require more capital investment and more business capacity than the pilot project route.

8.5 The recent interest in franchising, replication and acquisitions is partly due to the increasing awareness that allocating large amounts of grant funding to the seeding or start-up phase is unsustainable, and that social enterprise development should mirror conventional enterprise development in terms of the capacity of the business leaders and the methods and models used to start enterprises. This is not inconsistent with having bespoke funding streams to pay for the social costs of a business; rather it is an acknowledgement that in order to deliver social outcomes in a sustainable manner, social enterprises need to be more business like in their analysis of how to deliver those outcomes.

Summary

8.6 The reasonable access to public sector and charitable funding initiatives in the UK has had a significant influence on social enterprise development. In the author's opinion the effect of this in many cases has been to develop the social enterprise around the desired outcomes of the funding initiative as much as to meet the needs of the business and its market.

CHAPTER NINE

CONCLUSIONS AND RECOMMENDATIONS

Social Enterprises as Franchisors

9.1 The challenge for a successful social enterprise is where the next step goes - is it to franchise out within the sector, replicate the business, or simply give away the idea? For some who determine that the best route of generating social outcomes and building a sustainable business model is to replicate or franchise their business rather than growing through a series of owned operations in other locations, it is important to reflect on the experiences to date:

- As highlighted in Chapter 5.3 social enterprises struggle with the discipline of being a franchisor. Image is important and franchisees know that a social enterprise franchisor is less likely to enforce a termination clause or insist on compliance than commercial franchisors.
- Partners in a franchise or replication initiative have expectations that the support will be of high quality, timely, constant and will produce results. The fact that the fee for support may be modest is irrelevant, support needs to be provided when required and considerable time will need to be devoted to solving somebody else's problems.
- Many social enterprises do not have access to the resources and working capital of the commercial sector and will therefore struggle to invest sufficient resources to develop a robust replication structure or franchise offering. Time limited funding initiatives that allow a proposition to be developed and expect a degree of commercial independence in two or three years have not proven to be successful, as the investment is usually too low, the pressure of recruiting partners in a limited period distorts the principles of effective partner selection and the time allocated to achieving a financial return is much shorter than is typically accepted in the commercial sector.

Social Enterprises as Franchisees

9.2 Franchising can be complex for the staff and boards of social enterprise organisations; specialist advice is expensive and impartial specialist advice can be hard to find. Some groups will reject the commercial franchising industry and its values, and will opt for a relationship with a social enterprise franchise as they respect the value base and the track record. On occasions, the level of research and due diligence carried out on social enterprise opportunities is less than it would be with a commercial opportunity, despite the risks being higher in many cases due to the modest level of investment by the franchisor.

9.3 It can be hard to see beyond the professionally presented results and high quality systems of commercial franchisors, and for some social enterprises the presentation of a business system that is proven elsewhere is a key factor in encouraging them to begin a franchise relationship. Social enterprises need to determine in advance if they will have the discipline of following a system to the letter, if they are prepared for the franchisor to exercise a significant degree of control in the relationship, and if they have considered that the projections of earnings and employment made using the templates supplied by the franchisor may not actually be achieved (whereas they are obliged to continue their commitment to the franchise relationship).

9.4 Commercial Franchisors are used to dealing with 'an individual' who signs the licence agreement, raises finance to secure the business opportunity and will benefit financially if the business performs as expected. The motivation of personal financial gain, or personal loss if the opportunity results in a terminated franchise, is critical to the dynamic of the franchisee/franchisor relationship. Franchisors may want 'an individual' to sign the agreement even when dealing with a limited company social enterprise, this can be a problem for a board of management, particularly if the practice is not to appoint a manager until the business is ready to start. Increasingly commercial franchisors are prepared to deal with social enterprises and some may be willing to vary the standard agreements to reflect the different governance and ownership arrangements that would otherwise prove prohibitive. Most will require non-returnable financial security and a lead individual who has designated responsibilities.

Recommendations for Social Enterprises

9.5 For some social enterprises there are very high risks in starting a pilot project where the systems need to be developed from scratch, and a group with modest business experience is charged with the complex task of testing a concept and starting a business. It can make good sense to pay another organisation to assist with replicating or franchising a tried and tested business model to avoid unnecessary development and to benefit from the experience of others. There are an increasing number of choices and options in this field, and these are set to expand as the contact between the social enterprise sector and the commercial franchising sector develops. The author believes a range of ventures should be considered to determine best fit with a social enterprise.

9.6 Franchising and replication will not be a suitable market entry strategy for every social enterprise nor will every franchising and replication opportunity be an appropriate match. The basics of due diligence and careful consideration still apply when looking at a tried and tested business model. The message to social enterprises is to seek independent, professional and specialist advice and plan and prepare as thoroughly as with any other high risk business venture. Consider using a template or system such as the Assessment Criteria in Appendix One to examine elements of the business proposition that the Franchisor Template will not cover.

9.7 Testing replicability in two or more locations prior to engaging with franchisees is an essential pre-requisite for Franchisor Accreditation (British Franchise Association). This is costly and often takes a number of years; however, when social franchises have bypassed this process their franchise offering is untried and therefore high risk. In many cases this is where business failures have been experienced.

9.8 While it is acceptable to consider franchising or replication to bring benefit to others and create added value by having a network of independent businesses, some social enterprises may consider it unacceptable to develop such a network by placing the risk of trying and testing a business concept on other social enterprises. If the proposition does not work there will be an expectation that the franchisor will provide the resources to sort this out.

Recommendations to Government and Support Agencies

9.9 If the Scottish Government wishes to encourage social enterprises to consider the business models that are most appropriate for their circumstances, then consideration should be given to the support that social enterprises require in order to access technical and specialist assistance. Typically the specialist fees for legal and business advice in the franchising industry are vastly in excess of the business advice fee structures usually encountered by social enterprises. It is generally a false economy to engage non-specialist sources to deal with franchising and licensing matters, and in many cases the fees are out-with the acceptable banding for development funding that may be accessed by social enterprises. An initiative that would develop partnerships with franchising industry specialists to benefit social enterprises should be a priority of the Social Enterprise Strategy.

9.10 It is essential that learning from unsuccessful businesses be shared, just as successful businesses go on to become well publicised award winners. It is important to continue to capture and disseminate social enterprise experiences in this area, to inform the choices of social enterprises considering routes to business.

9.11 The Scottish Government can have a role in brokering and supporting contact between the Commercial Franchising sector and the social enterprise sector, either directly or through intermediaries. The DTI invited the British Franchise Association to information sessions on social enterprise franchising and the resulting awareness raising has led to increased interest and contact from both sides. To get commercial franchisors to the position outlined in 9.15 below, a programme of awareness-raising needs to be introduced and embedded over a period of time.

9.12 In the interest of clarity, 'social franchising' should be utilised when the process involves a franchise agreement and therefore sets out the terms of a franchisor/franchisee relationship. This will involve payment of fees, reporting, branding, marketing, training and support, control and compliance. It is not relevant whether this is between a social enterprise and a commercial franchisor or a social franchisor; however, it is important to differentiate the process from replication of some elements of a business or a complete business model if the key features of a franchise agreement are absent.

9.13 Future mapping of social enterprises in Scotland should attempt to capture data on the business models used to develop social enterprises and how business start-up and growth is funded.

9.14 It is difficult to build a sustainable replication model for activities which might have high social or environmental benefits, but for which processes and business systems are uncomplicated. Organisations will often develop their own systems in preference to paying others for a tried and tested system. For simple enterprise concepts it is unrealistic to develop a sustainable model based on receiving payment for what others could develop themselves given time and modest resources. Programmes that support and fund social and environmental outcomes that engage with a replication programme should be content with outcomes that involve supporting as many organisations as possible, and engaging these for a defined development period. At the end of a successful development programme the legacy will be a cluster of enterprises that can decide whether or not to network and provide peer support. Programmes should consider lifecycles of initiatives rather than encouraging sustainability strategies where they are not appropriate.

Recommendations for Commercial Franchisors

9.15 For the commercial Franchisors that are engaging with the social enterprise sector, the experiences from the ventures that have worked, and those that have not, indicate that Franchisors should:

- Be prepared for different decision making processes when dealing with a non-owner managed franchise;
- Be ready to provide higher levels of support in some areas of operations;
- Consider how to use the Corporate Social Responsibility outcomes to benefit the overall franchise and the social enterprise franchise;
- Provide the system that is expected, including the disciplines of compliance and reporting. Social enterprises are purchasing the commercial know-how, and too much variation from standard practice can limit the franchisor's ability to support the franchisee effectively.

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APPENDIX ONE

ADDITIONAL ASSESSMENT CRITERIA FOR SOCIAL ENTERPRISE FRANCHISES

In addition to the standard assessment of franchise opportunities, social enterprises will need to address a range of the following issues;

Ethics and Business Culture	Employment *	Business	Finance
<p>1) How does the business or business type rate on Ethical performance?</p> <p>2) Does the business contribute positively to the environment, or is there potential for this?</p> <p>3) Does the business sector have a positive image that will compliment your mission?</p> <p>4) Does the Franchisor have a good corporate record and image?</p> <p>5) Does the franchisor have a Management Team/Structure capable of working with you as a social enterprise?</p> <p>6) Are existing franchisees happy, and are any of them social enterprises?</p> <p>7) Is there evidence that the franchisor is supportive of social enterprise and will your relationship be positive?</p>	<p>8) Does this franchise model create significant numbers of jobs?</p> <p>9) Will there be a range of jobs and skill levels, and are these easily transferable to other sectors?</p> <p>10) Will it be possible to offer full time or part-time employment for those who want it?</p> <p>11) Can you create a working environment where people will enjoy their work?</p> <p>12) Are the wage rates in this sector appropriate for your workers, and will you be paying at or above market rate?</p>	<p>13) What does market research indicate regarding the future demand and trends for this product/service?</p> <p>14) Is there added value from being a social enterprise in this sector?</p> <p>15) Is there market intelligence from independent professional sources to support franchisor projections and your own assumptions?</p> <p>16) Are there private businesses and social enterprises in this sector that you can learn from?</p> <p>17) Is there a high level of brand awareness that will attract significant business?</p> <p>18) Are the franchise systems (manual, training programme and know-how) going to significantly help your enterprise to get into business?</p>	<p>19) Does the initial outlay represent good value relative to the costs of acquiring a going concern or starting up oneself in this marketplace?</p> <p>20) Are the ongoing fees appropriate to the level of support provided (and likely to be required once you are up and running)?</p> <p>21) Will banks, CDFIs, funders and investors understand this business model and provide working capital to support your trading?</p> <p>22) Is there sufficient margin to accommodate the additional cost of social mission?</p>

* Many social enterprises prioritise job creation, therefore the volume and quality of employment opportunities is often more significant than in a business where the key objectives are related to maximising profits. This section will not be relevant to all social enterprises.

APPENDIX TWO

CREATE PARTNER ORGANISATIONS

- Direct Selling Association (DSA)
- National Federation of Enterprise Agencies (NFEA)
- Association of Disabled Professionals (ADP)
- Blind Business Association Charitable Trust
- British Franchise Association
- Business Link
- The Community Action Network (CAN)
- Everywoman
- Exemplas
- European Social Fund
- Netcel
- Prime
- Prince's Trust
- The Franchise Alliance
- The Indus Entrepreneurs (TIE UK)
- whichfranchise.com
- Business Enterprise Centre
- Hidden Art
- Business Startup Community
- HM Revenue & Customs
- National Council for Graduate Entrepreneurship



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