

The Social Franchising Manual

Date: April 2011



LOTTERY FUNDED



Contents:

10 Steps to Social Franchising	2
What is Social Franchising?.....	3
Social franchising: why and when?	6
What are the key elements of a (social) franchise?.....	10
Franchise agreements	11
What are the key differences between social and commercial franchising?	
What is the 'social' element of a franchise?	13
Frequently Asked Questions.....	16
Support, training and advice 8. Further information	20
APPENDIX 1: CASE STUDIES APPENDIX.....	22
APPENDIX 2: Template franchise agreement	29

Acknowledgements:

This manual was developed by Nick Temple, with editorial management by Craig Carey, Holly Brereton and Olof Jonsdottir.

The Social Enterprise Coalition would like to thank the Big Lottery who funded this manual as part of a wider project on growing the social enterprise movement through franchising and other forms of replication.

We would also like to thank the organisations who generously contributed their stories and knowledge to this manual, including: Aspire, Fruit to Suit, Green-Works, Hidden Art, School for Social Entrepreneurs, and Sunderland Home Care / CASA

The Social Enterprise Coalition is the UK's national body for social enterprise. The Social Enterprise Coalition represents a wide range of social enterprises, regional and national support networks and other related organisations. As well as showcasing the benefits of social enterprise, and sharing best practice we work closely with our members to inform national policy.

CAN Mezzanine, 49-51 East Road, London N1 6AH
Email: craig.carey@socialenterprise.org.uk
Web: www.socialenterprise.org.uk

Published 2011

This how-to guide provides a general introduction to social franchising, and practical advice on how to franchise a social enterprise. It is primarily aimed at those thinking of franchising their organisational model (potential franchisors) but will be of use and relevance to a broader audience.

Franchising is not a simple process, but the 10 steps below give a simplified indication of how this process works for most organisations.

10 Steps of Social Franchising

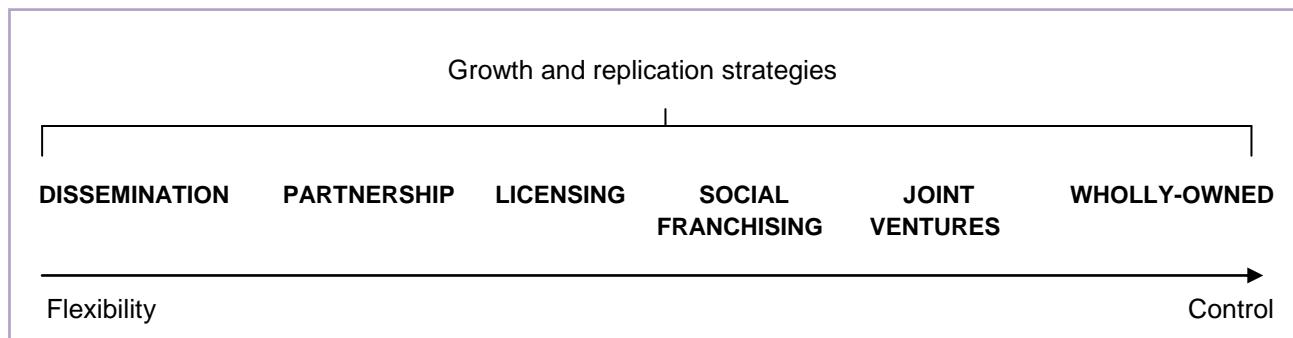
1. Consider different forms of replication: **choose** most applicable to your organisation
2. Go through replication **readiness** exercise
3. Raise funding or set aside **money** to invest in infrastructure / staff time
4. Address / **strengthen** any weak or 'unready' areas
5. Prepare necessary **documents** (operations manual, franchise agreement, trademarks, fee structure)
6. Select 1-2 pilot / test **franchisees**, using due diligence and criteria
7. Provide initial **training** and (cultural) induction to franchisees
8. **Support** (test) franchises in all aspects of operations in line with obligations, communicating constantly
9. Assure **quality** of test franchises, and evaluate impact / success
10. **Learn**, improve and repeat 6-9 with more franchises

1. What is social franchising?

In its simplest definition, social franchising is simply the application of commercial franchising methods and concepts to achieve socially beneficial ends. Or, to put it slightly differently:

**social franchising is the use of a commercial franchising approach
to replicate and share proven organisational models for greater social impact**

A standard definition of social franchising has not been agreed to date, and the term has sometimes been used interchangeably with 'replication' or 'scaling'. This causes unnecessary confusion, as there are several different approaches to replication and scaling, of which social franchising is one.



Social franchising is part of a spectrum of replication strategies which range from the very flexible and loosely controlled (dissemination, giving away for free, open source) to the more restrictive and tightly controlled (wholly-owned by central organisation). Social franchising sits between these two extremes, but does demand a larger degree of involvement and control from the parent organisation than partnerships or licensing.

The initial definition above does require us to understand what we mean by commercial franchising. The most usual form of commercial franchising is business format franchising.

Business format franchising is where the owner of a franchise system (the franchisor) enters into a legal agreement with another person or organisation (the franchisee) which grants that franchisee a licence to use its systems, brand and other intellectual property, and to use those to operate an identical business in a particular area.

The franchisor teaches the franchisee the entire business format, and provides support via training and communications to the franchisee for the duration of their business relationship. In return for these systems and services, the franchisee pays an initial fee and ongoing fees to the franchisor.

The same applies to social franchising, which should also include the following:

- a legal agreement between franchisor and franchisee
- ongoing obligations between franchisor and franchisee
- the entire business format being duplicated, including the same brand
- the franchisee being granted a particular territory to operate the business
- fee payments from franchisee to franchisor

This list is also helpful in distinguishing franchising from licensing, which is a related but distinct approach to replication.

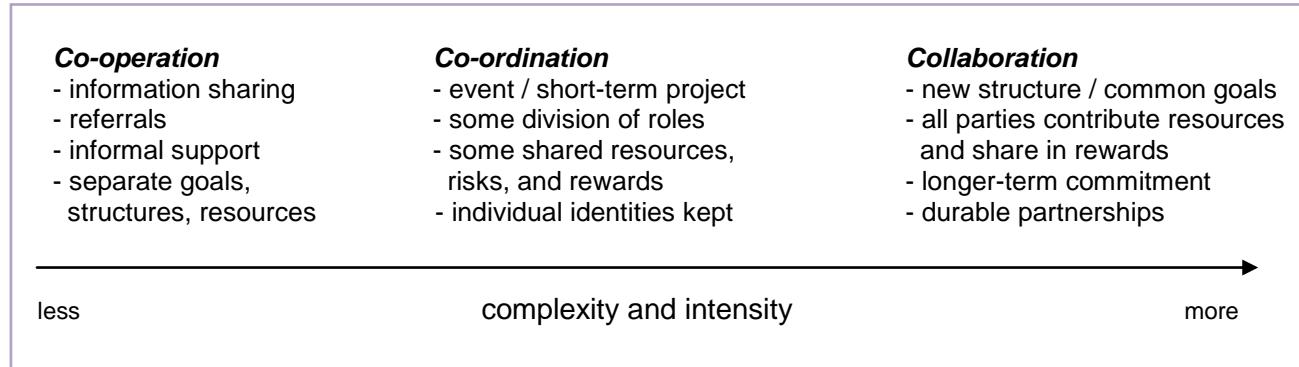
Licensing usually involves being granted a license to provide a service or sell a product, rather than an entire business format or system. The relationship between a licensing organisation and licensee is also looser than its franchising equivalent. This usually means a much smaller package of training and support (and not ongoing), and often no ongoing fees payable after the initial license purchase. Moreover, licensees will usually not receive exclusive territorial rights, and the granted rights are usually more limited.

This is not to say that franchising is preferable to licensing; it may be that the lower upfront development costs and lower ongoing costs (of fees) are preferable to the licensee. Similarly, the licensing company's reduced level of involvement and support provision may be preferable for models that require less control or for an organisation with less capacity.

Other **replication approaches** include:

Joint venture: A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking, often for a finite period. The parties share control over the enterprise, and agree to share in the revenues, costs and assets.

Partnership: An agreement or arrangement in which two or more parties agree to work together for mutual benefit or to advance their interests. Partnership can vary in complexity or involvement, and it is helpful to also think about a partnership continuum.



Joint ventures are an example of a formal collaboration, and mergers would come even further to the right of this continuum where complete integration is the aim, involving multiple variables and significant complexity.

Open source / free dissemination: An approach to replication in which the methods, design, and content (all intellectual property) of a product or system are made freely and publicly accessible.

The natural impulse of many in social enterprise is to simply share their learnings and methods openly, and disseminate them freely. In recent years, this has tended to be referred to as ‘open source’, after the open source software movement which shares openly its source code for anyone to use and improve upon.

2) Social franchising: why and when?

Why social franchising?

There are several reasons why a franchising approach to replication might be attractive to social enterprises. For example, it:

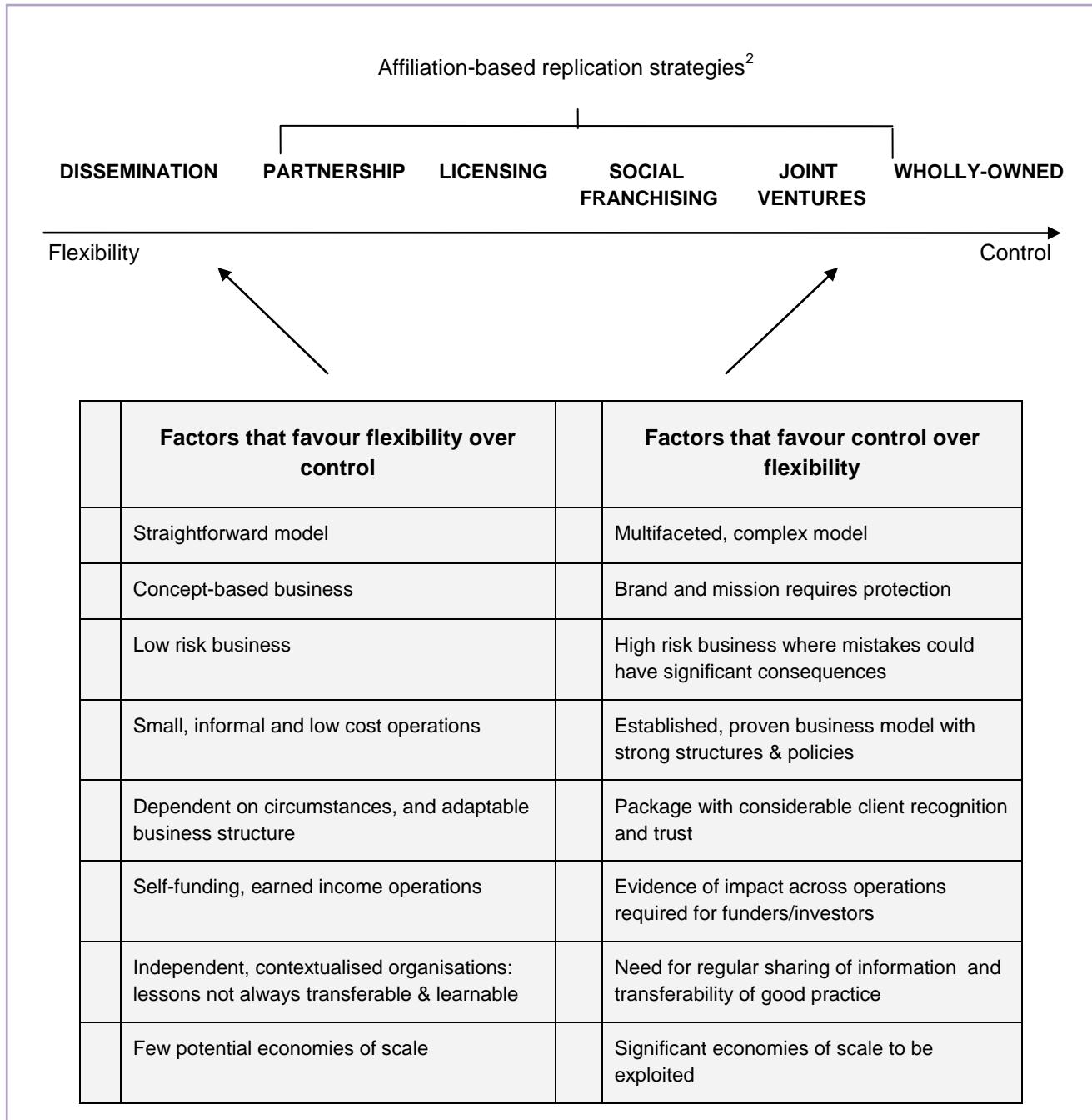
- grows social impact in line with mission, but without growing an organisation in a traditionally hierarchical way that creates distance from the frontline
 - avoids reinvention of the wheel (and shares existing learning), making it quicker and easier to start up
 - allows for local ownership, flexibility and tailoring to context and circumstance
 - achieves benefits of national organisation (joint purchasing / bidding, policy credibility, effective communications, economies of scale)
 - shares successful models in a way that combines social and financial goals (social impact, financial sustainability)
 - works through genuine partnerships and for mutual benefit, under a common identity
 - devolves power and encourages entrepreneurship
-

The most important of these reasons is arguably that **social franchising combines the social objectives** (sharing learning and methodologies for greater social impact) **with the financial objectives** (charging fees for intellectual property and services for greater economic sustainability). This link with the core values and principles of social enterprise is the reason that many consider social franchising, if approached and implemented correctly, to be a potential 'sweet spot' for the growth of social enterprise.

Social franchising's combination of social and financial motivations is in contrast to the extremes of traditional wholly-owned growth, in which little is shared but the organisation ensures its own sustainability, and open-source dissemination, in which everything is shared, but with no revenue or currency flows attached.

If some of the above reasons why an enterprise might consider a social franchising approach seem compelling and interesting, it is worth following up with a simple and relevant tool which is included

below. The tick-box list below, developed by LKM Consulting¹, gives a swift indication of whether an enterprise and its model would benefit from an approach with more flexibility or more control.



¹ The report in which the original version of this table appears was produced for ATA Management by Loic Menzies of LKM Consulting (see www.lkmconsulting.co.uk)

² Some refer to this group of replication strategies as 'affiliation-based replication strategies' as they involve working with an affiliate or partner to achieve replication.

This exercise also identifies **risk** as an important factor. If a social enterprise works with young people, at-risk groups, individuals with mental health problems or other disadvantaged parts of society, it may well be that mistakes would have major, damaging consequences. This can make the higher levels of control (and associated performance management and quality assurance) available in franchising attractive.

When to franchise?

This simple readiness tool is designed to provide a starting point for assessing whether a social enterprise model is ready for franchising (or affiliation-based replication). It looks at whether the model of delivery, the central systems and processes, and the franchising organisation itself are ready.

For each of the 10 areas, score the enterprise / organisation on a scale of 1-10, where 1 is “not at all ready” and 10 is “completely ready”.

- | | |
|--|--------------------------|
| Commitment: buy-in from staff team and board | <input type="checkbox"/> |
| Learnable: transferable knowledge and methods | <input type="checkbox"/> |
| Operations: systems and procedures in place | <input type="checkbox"/> |
| Need / demand: from end-users, franchisees, policymakers | <input type="checkbox"/> |
| Evaluated: proven social impact | <input type="checkbox"/> |
| Duplicable: able to be replicated locally | <input type="checkbox"/> |
| | |
| Finances: sustainable and stable | <input type="checkbox"/> |
| Identity: brand reputation and recognition | <input type="checkbox"/> |
| Rewards: socially and economically valuable for both parties | <input type="checkbox"/> |
| Model: clearly understood and codified | <input type="checkbox"/> |

TOTAL: _____

Scoring

- | | |
|---------|--|
| 75-100: | ready or almost ready to replicate |
| 50-75: | strengthening needed before replication undertaken |
| 25-50: | some replication potential but too early currently |
| 0-25: | not at all ready to replicate |

This is not in any way an exact science, and is intended primarily to highlight areas of weakness which need to be addressed or strengthened. A useful supplementary exercise beyond the simple scoring is to ask the following three questions for each of the 10 areas:

- i) what strengths does the organisation have?
- ii) what weaknesses does the organisation have?
- iii) what actions can be taken to improve this?

This will help formulate the organisation an action plan for getting prepared for social franchising, and for addressing the key areas required.

Another specific tool of this sort which is useful in answering the readiness question is UnLtd's *Replication Readiness Overview*, which uses a similar diagnostic approach to helping a social entrepreneur or social enterprise think through whether it is ready to replicate. This is part of a suite of useful, practical resources and publications published by UnLtd as part of a dedicated replication project³.

³ See <http://www.unltd.org.uk/template.php?ID=95&PageName=replicationstudy> and <http://www.unltd.org.uk/template.php?ID=121&PageName=publications> to access the full list of resources

3) What are the key elements of a (social) franchise?

- A business model, with associated systems and processes, which has been codified into an operations manual*
 - A legally-binding franchise agreement (see *sample agreements* section)
 - A common brand (usually trademarked); often a centralised marketing budget
 - Training and support provided from the centre (at start-up and ongoing)
 - Demand (or need) for the model to be replicated elsewhere, from potential franchisees, investors or end-users
 - Quality assurance system (including monitoring performance)
 - Clear franchise fee structure (initial and ongoing)
 - Learning culture (openness to feedback, innovation, new practice)
-

* An **operations manual** is the 'franchise bible', and varies in length and scope depending on the business, but normally includes:

- introduction (mission, values, philosophy, history)
- system outline
- description of activities, services and/or products
- tasks and roles (HR and recruitment)
- administration (internal policies and procedures)
- brand/identity usage guidelines
- marketing, sales and communication
- quality standards (or performance standards)
- references to relevant external documents (appendixed forms library)

Key things to consider for the operations manual:

- i) how will it be used? (training + induction; reference; quality assurance?)
- ii) who writes it? (founder; key employee; external specialist?)
- iii) what format, how updated and how protected? (hard copy; copyrighted?)
- iv) what length is useful and navigable?

4) Franchise agreements

Franchise agreements also vary in size and scope, but do not need to include the detail of the operations manual. It is important that they strike a fair balance for franchisee and franchisor, and should deal with the higher-level issues, which include the following:

- organisations / parties involved
- nature and extent of rights / license granted
- length of term (and renewal)
- geographical territory (and exclusivity)
- obligations of franchisor (support and services)
- obligations of franchisee (financial, performance data etc)
- fees (initial and ongoing)*
- brand rights / usage (logos, trademarks, domain names etc)
- reference to other relevant documents (e.g., operations manual)
- ownership of intellectual property of new innovations / developments
- exit / intervention / breach / termination clauses

A template agreement is included in the appendices to this manual, purely for reference. Franchise agreements are often complex and extensive legal documents, and will vary considerably depending on the particular business model and franchise set-up. For these reasons, getting professional (ideally specialist) **legal advice on the agreement is strongly recommended**, particularly as the franchisor.

A further note worth considering is how much information and details are to be shared in the pre-agreement / development stage, and whether a Memorandum of Understanding (MoU) or non-disclosure agreement (NDA) is needed.

Whilst important to have things necessarily protected and set out legally, it is worth remembering the maxim of one experienced franchisor-owner: "***the best franchise agreement is one that is never used***". If the franchisee selection is correct, the expectations are clear from the outset, the model works, and the culture and relationships are strong and open, an agreement need be consulted only on renewal.

*Franchise fees

Franchise fees can be calculated in several ways, but the fee structure always includes:

- i) initial / advance fee (e.g., to cover set-up, development, trademark, legal, recruitment costs)
- ii) ongoing / management fees (often a percentage of turnover)

As a useful rule of thumb, in the commercial sector the average initial fee is around 3% of turnover, while the average ongoing fee is around 7.5% of turnover. Often, the initial fee is kept low to provide a realistic point of entry, while the ongoing fee percentage scales downwards as turnover increases (to incentivise the franchisee to grow the business).

Setting the level of fees is crucial for social enterprises, which is about the balance of financial and social objectives, and about aligning incentives. Should the initial fee aim to recoup all up-front costs (+ a margin) or be based on what the market can bear/afford? Should ongoing fees only cover the costs of central services/support (so more is spent on frontline delivery) or make a profit that can be reinvested centrally in the social mission?

5) What are the key differences between social and commercial franchising?

What is the ‘social’ element of a franchise?

Incentives and aligned objectives

The primary difference between social franchising and commercial franchising is very similar to the difference between social enterprise and commercial enterprise: that the aims are not purely financial (to make profits), but also social (and/or environmental). Indeed, the social impact and mission of the organisation will often be primary, with profits reinvested to further the social mission.

This raises interesting questions where franchising is concerned, as commercial franchising is powered by financial incentives. For example:

- the franchisee takes up the business for themselves to earn a living, and the more profit they make, the better off they will be personally; and
- the franchisor receives fees from the franchisee which are usually directly related to the financial success of that franchise (e.g., percentage of turnover); the franchisor is therefore also financially incentivised to provide excellent training and ongoing support to those starting up and running the business.

In short, the interests of both parties are aligned around the financial bottom line: growth benefits all. This becomes more complicated in social franchising, which involves a double or triple bottom line, and raises some key questions or challenges for those considering the social franchising approach, such as:

- can the interests of both parties be aligned around two or three different areas?
- can incentives be developed which marry the financial and the social objectives?
- can only social enterprises with a business model that makes an evident profit (or surplus) adopt a franchising approach to replication?

Developing incentives which drive good behaviours from franchisees (and franchisors) in relation to both social and financial objectives is a critical issue: are the incentives related to financial growth, quality of performance, social impact measures, or a combination? For example, a franchisor may choose to link serving more beneficiaries (growth of social impact) to a reduction in franchise fees (lower financial cost).

Franchisee selection

There are also some differences in relation to franchisee selection between the commercial and the social. For example:

- commercial franchisees can quite often be an individual, rather than an organisation; this is less likely in social franchising, given the type of products and services being replicated
- as discussed above, in social franchising, the franchisees must share all of the objectives of the franchisor, including not only the financial ones, but also the social objectives that flow from the organisation's mission; this will often form a key part of the selection criteria for franchisees in social franchising
- social franchisors may be more likely to place an emphasis on the values and culture that underpin their approach, and make this a key part of the selection criteria and training
- social franchisors may decide, as part of the above mission alignment, to only select franchisees which have a similar (non-profit) legal structure

Social impact measurement

As with social enterprises, it is not only measuring the financial bottom line that is important in social franchising, but also measuring the social impact. This would obviously not be a part of a traditional commercial franchise.

Social franchises should ensure their evaluation framework for measuring social impact is established before replication, as it will form part of the systems that are being utilised by franchisees. Social franchisors may collect such data centrally as part of their quality assurance procedures, and offer overall evaluation work (collation and analysis of data) as an additional central service to franchisees. This emphasis on shared evaluation also helps ensure that:

- a) the focus remains on achieving social impact (the original reason for replication);
- b) the focus remains on the experience of the end user / customer / client; and
- c) there is a system for continuous improvement.

Finance and funding

Commercial franchising is often viewed by mainstream banks as less risky and a safer option for investment, because the business model is proven and there will often be other franchisees as direct evidence of that fact. Social franchising is in its infancy, and there are currently too few examples for mainstream financiers and investors to take much notice. Similarly, social investors have been slow to identify the opportunities, or have made the judgement that there are not enough proven and credible models to justify investment.

Either way, franchising is costly and requires significant upfront development of infrastructure and systems before any can be recouped from franchise fees. To date, the finance for social franchising has either come from a small number of forward-thinking investors (primarily trusts and foundations) or from an organisation's own cash reserves.

These differences should not obscure the fact that there is much more that is common between social and commercial franchising, namely:

- a) model must be proven, easily learned, and scalable (duplicable)
- b) high levels of upfront development and ongoing involvement and obligations; with which there are associated high costs
- c) common, shared identity; which means there is risk for the franchisor; risk which necessitates a high level of control
- d) based on a legal agreement; which licenses use in particular territories; and sets out fee payments

6) Frequently Asked Questions

These FAQs are intended to answer some of the most commonly asked questions on the topic of social franchising.

1. Will social franchising help the enterprise raise more income if it is struggling?

No, franchising requires significant up-front development costs, and though it can provide additional revenue in the medium to long-term, it is not a route out of financial problems (in fact, the opposite is true). If the finances of the original business model do not stack up, this problem will be replicated, not disappear.

2. Will pursuing a franchise approach distract from the core business?

Taking on any replication requires a new set of skills and is effectively a ‘new’ business alongside the original one; a business that is about transferring knowledge and providing central support and services. This new business requires resourcing and appropriate capacity, and often separate budgets and teams.

3. Should the franchising part be separated from the day-to-day core business?

Opinion varies on this subject. As stated above, it is a ‘new’ business requiring new skills, teams, and budgets. So some separation, even if this is only internal to the organisation, can be helpful. However, maintaining a delivery franchise at the centre means the franchisor retains credibility with its franchisees, and can pilot and test out new innovations. These are compelling reasons to keep its hand in the game.

4. Does the word ‘franchise’ put people off in the social enterprise movement?

The word ‘franchise’ can occasionally deter people from involvement, as it is associated in people’s minds with fast-food and profit maximisation. Explaining the approach, and how it is centred on mutuality and partnership, alleviates these fears.

5. Can you ‘learn by doing’ with franchising?

It is possible, as with all entrepreneurial endeavours, to learn by doing, but it is crucial that the model is ready to replicate and the organisation is ready to pursue it. Pilot franchises are an excellent idea to learn by doing, and ensure that most mistakes and learning takes place with a small number of understanding partners.

6. Will funders fund or invest in the franchisor and franchisee organisations?

Further education of funders and social investors is needed, as sometimes they view a franchisee as part of the same organisation, rather than an independent entity with a shared brand and methodology. However, there are examples of forward-thinking funders investing in both sides of the business to help it establish.

7. How protective is it best to be of intellectual property?

Ultimately, an idea or methodology cannot be protected, only how it is expressed in text (e.g., the copyrighted text of an operations manual). Alongside this is the brand, which is so central to franchising that some protection (trademarking name / logo) is usually recommended. It can be useful to think of an intellectual property ‘portfolio’ in which there is some information that is shared freely, some shared with pre-agreement potential franchisees (under NDA or MoU), and all shared on signing a franchise agreement.

8. How can pressure to scale be resisted in the early years of development?

There is often interest and ‘buzz’ around exciting new social enterprises, which are encouraged to scale up. This is flattering, but should often be resisted. Utilising a simple replication readiness tool will help to bring objectivity to the decision, and assess whether the model is ready and the organisation is willing and able.

9. Is social franchising a cheap approach to replication?

No, franchising is a high(er) cost approach to replication, and requires up-front investment in central infrastructure, systems, processes, legal agreements and so forth. It should be viewed as a long-term approach, based on business relationships and partnerships.

10. What makes the perfect franchisee?

Finding the right franchisee is arguably the most critical success factor for any franchise. Most ideal franchisees are a kind of ‘entrepreneur-lite’: they must have the drive and skills to lead and own their own business, but not be so entrepreneurial and opportunistic that they cannot follow the franchise system they have signed up to.

For social enterprise, it will often be a case of finding (or recruiting) such a person within an organisation, and also seeking an alignment of mission, values and culture. This makes franchisee recruitment a challenging task: drawing up a set of criteria will help with screening and deciding on potential franchisees.

11. Is there an optimal number of territories?

The number of geographical territories offered depends enormously on the business model:
what at is the size of market that provides the necessary
a) demand / need; b) income / revenue; c) skills / franchisees?

This will vary significantly depending on the social enterprise model, the type of end-user, the average turnover of the business and so on, and requires analysis.

12. What quality assurance techniques are most effective?

Some franchises use external quality systems (e.g., accreditations / health + safety), while others develop bespoke systems and frameworks of quality standards and assurance. Alongside any paper-based and auditing processes (which may be done annually, quarterly or at more regular intervals), it is worth also considering ‘mystery shopper’-type approaches to ensure that the end-user is receiving a high quality service.

7) Support, training and advice

The business support that is specific to social franchising and licensing that is currently available to practitioners is minimal. Although there is a body of experience from a practical perspective in the field, it is limited in scope, fragmented, and has not been translated into targeted, accessible and relevant support.

Currently, a social enterprise or social entrepreneur seeking support and assistance with replicating via social franchise or license has a few options to choose between:

- i) attend a specialist support programme
- ii) seek (pro-bono) assistance through their existing support agency / funder
- iii) gather information informally from peer organisations who have franchised
- iv) employ an independent consultant or agency with (social) franchising expertise
- v) read up on the available information, and 'learn by doing' it themselves
- vi) utilise a combination of some or all of the above

Specialist programmes

- *Scaling to Success*: dedicated social franchising and replication programme run by School for Social Entrepreneurs in partnership with the Social Enterprise Coalition

>> www.sse.org.uk / www.socialenterprise.org.uk

- *FranchisingWorks*: programme using commercial franchising for social aims (employability and job creation), run by Shaftesbury Partnership and delivery partners

>> www.franchisingworks.org

Consultants / support organisations

- AMO Consulting: commercial franchise consultants who have done some work in the social field

>> www.amoconsulting.com

- British Franchise Association: the governing body for franchising in the UK, with advice, information and links to support

>> www.thebfa.org

- Community Action Network (CAN): CAN has experience from running the Beanstalk social franchise programme, the Breakthrough growth programme, and commercially within its staff team

>> www.can-online.org.uk

- Economic Partnerships: North East-based firm which helped establish a trans-national European social franchising network, and worked with a flagship social franchise, CASA Associates

>> www.economicpartnerships.com

- LKM Consulting: Consultancy which worked on a project with established social franchise the Hub, and developed some useful tools and experience

>> www.lkmconsulting.co.uk

- Nick Temple: Consultant who has run social franchises, and provided advice and support to several organisations implementing a franchise-type approach

>> www.nicktemple.org

- Social Pioneers: Social development agency specialising specifically in public sector innovation and reform, and also with experience of large-scale growth and replication projects

>> www.socialpioneers.com

8) Further information

Recommended reading

- *Social franchising: a way of systematic replication to achieve social impact* by Martin Ahlert et al (Bundesverband Deutscher Stiftungen; Spring 2008)
- *Scaling social impact: frameworks and strategies* by Center for Advancement of Social Entrepreneurship (Duke University; www.caseatduke.org)
- *Social Enterprise Business Models: an introduction to replication and franchising* by Gerry Higgins et al (CEiS; June 2008)
- *An Enterprising Failure: why a promising social franchise collapsed* by Owen Jarvis + Paul Tracey (Stanford Social Innovation Review, Spring 2006)
- *Growing social enterprise: research into social replication* by Lidija Mavra (Social Enterprise Coalition; January 2011).
- *Social Franchising: Scaling up for success* by Simon McNeill Ritchie et al (Shaftesbury Partnership; January 2011)
- *The Guide to Franchising* by Martin Mendelson (Cengage Learning EMEA, 2004)
- *Social Franchising: the magic bullet?* by Loic Menzies (LKM Consulting, December 2010)
- *In and Out of Sync: the challenge of growing social innovations* by Geoff Mulgan et al (Nesta/Young Foundation; September 2007)
- *Replication Study* by Adrian Clarke et al (UnLtd; 2007/8; www.unltd.org.uk / UnLtd Ventures), includes:
 - *Choosing a social enterprise replication strategy*
 - *Social enterprise replication*
 - *Replication Ready Overview*
 - *Developing a franchise agreement*

APPENDIX 1: CASE STUDIES

The following six case studies are designed to provide real-life examples of social franchising, and draw out particular points of learning from that experience. They have been chosen to represent a diverse mix of experience, organisation, field of operations and learning. Key insights are drawn out in the box at the end of each page.

The organisations featured are:

- a) Aspire
- b) Fruit to Suit
- c) Green-Works
- d) Hidden Art
- e) School for Social Entrepreneurs
- f) Sunderland Home Care / CASA

A) Aspire

Project / business overview:

Aspire was set up by Paul Harrod and Mark Richardson in 1998 in Bristol to produce a not-for-profit fair trade catalogue which was distributed by homeless people, who would return to collect orders. The focus of the organisation was to provide full-time employment that moved the homeless away from benefit dependency; to this end, the homeless people were guaranteed a wage based on hours worked (not on sales gained).

Initial sales were strong and local support and media coverage helped establish the business. After a year of operations, Aspire had attracted 4000 customers, generated £150,000 and employed 15 staff; it was not profitable, but self-sustaining.

Social franchising experience:

The Aspire model rapidly attracted a lot of attention, from then Prime Minister Tony Blair and Prince Charles amongst others. The founders decided that Aspire needed to grow to achieve necessary economies of scale, and drew up an ambitious franchising strategy in July 2000: this aimed to establish 30 outlets by the end of 2003. £400,000 funding was secured, and Aspire Group established to lead the franchising operation.

The business expanded rapidly, largely because Aspire were relatively loose and flexible about how each franchisee interpreted the business model. Nine franchises, most embedded in existing charitable organisations, were established by September 2001. Most of these had homelessness experience, but less than half had any business experience. At this point, there had been no substantive evaluation conducted, nor profitability proven; but Aspire reached 12 franchises, employing 300 homeless people, and with sales of £1.3 million.

Challenges soon became apparent: the products appealed to a narrow range of customers, the business was highly seasonal, and homeless people lacked skills and required support. All franchises started to lose money, and began asking questions of Aspire Group, who they now distrusted: they felt they had been promised a profit-making model, whilst the reality was that the feasibility of the business was largely unproven. The boundaries of model and geography also became blurred: franchisees started ancillary businesses to earn money, while the central group started an independent direct mail business. The franchisor-franchisee relationship became more strained.

Following further investment of £250,000 in 2001, the catalogue was reduced to two seasonal periods (Easter and Christmas); this made business sense, but meant that homeless people could not be employed all year-round. The franchisees felt that the central group were about financial survival, while they were committed to the social objectives. By July 2003, Aspire Group faced a cash flow crisis and put payments to creditors on hold; a year later, with the group effectively bankrupt, the catalogue business folded.

Key insights:

- Resist external pressures to scale after early success, but before model is proven
- Balance the commercial and social objectives (and temper ambition)
- Select franchisees with the right mix of skills and mission alignment
- Be clear about model and about obligations on both sides

B) Fruit to Suit

Project / business overview:

Terrie Johnson set up Fruit to Suit in 2006, having perceived the need (working as a teacher at the time) for healthy snacks in the inner city, primary school tuck shop. She started trialing healthy snacks and found them to be hugely popular with the children. So she set up a healthy tuck shop, and then another – and from there the organisation grew. Alongside the healthy eating aspect, Terrie also developed business and enterprise training for school pupils themselves, so that they can take over the management and running of the tuck shops

Social franchising experience:

While the schools own the tuck shops themselves, Fruit to Suit's franchisees supply the materials, i.e. the healthy snacks, and the business and enterprise training (which the franchisee, usually an individual adult, oversees). There are currently over 100 franchisees across the UK, who receive an operations manual and work under a trademarked brand.

Terrie wanted to spread her idea in such a way that people who were actually local to the school and who could pay personal attention to the children there were involved. She didn't want to employ people to work in different branches as they might not have the same local knowledge and passion needed to connect with Fruit to Suit's agenda – she wanted new business people who were passionate and motivated in their own right.

So the organisation aims to engage other working mums as franchisees; women who are 'not after millions', i.e. purely commercially orientated, but who understand the principles of social enterprise and want to work within and contribute positively to their communities, e.g. by ensuring children eat healthily. Terrie advertises for franchisees via the Working Mums network (online) and speaks to them a couple of times over the phone before meeting them in person and agreeing to work with them

Franchisees then pay a start-up fee of £2500 and thereafter pay 4% of sales. This covers the resources and food supplies supplied by Fruit and Suit, and brings in some extra income, though this is accruing slowly as margins are low. Franchisee support is given by phone and e-mail, and via a bi-annual meeting, but is almost solely given by Terrie herself which places significant demands on her time.

Fruit to Suit has had business support from a Business Link adviser and from WirralBiz (a consultancy based in the North West), both of whom have been helpful in developing the franchise. But accessing funding and investment has been much more problematic, and Fruit to Suit has struggled to gain outside funding: this may in part be because of the lack of social impact measurement to date.

Key insights:

- Measure and prove social impact: as important as financial bottom line
- Explore niche networks with similar values for franchisees
- Seek and invest funding for central capacity and support...
- ...particularly if profit margins are low and resources are stretched

C) Green-Works

Project / business overview:

Green-Works (GW) was set up by Colin Crooks in 2000 with the original aim to divert waste from landfill: specifically the collection of office furniture which could then be sold at low cost to small businesses, charities and social enterprises. Initially, GW started with small contracts to clear offices, its breakthrough coming with a major contract with HSBC to remove their office furniture (including 8,000 workstations) when they moved out of the City and into Canary Wharf.

This model continues to this day, combining disposing of corporate office furniture waste, recycling these for re-use by other smaller organisations, and with the additional social aim of training up and employing long-term unemployed, ex-offenders and others disadvantaged from the labour market.

Social franchising experience:

GW decided to franchise within the first 2-3 years of trading, for primarily logistical reasons: GW's corporate clients have branches across the UK and themselves cover the transportation cost of GW removing their office furniture. As a result, having local GW plants to do this greatly reduces this cost, and makes the service much more favourable for clients.

There are currently five franchises in various locations across the UK. GW's franchise model is where the legal agreement with the franchisees is a bolt-on to their existing business/charity. The franchise pays a fee for the GW logo and tonnage from clients (which GW headquarters sources), and then the franchisees just process the furniture. The franchise fee is used to pay GW sales people on the road who find the corporate leads and arrange contracts for the franchises, and also for central marketing costs.

Franchisees are selected following several meetings, mutual due diligence, and looking over the franchise agreement together. Potential franchisees have often been sourced via the well-established Furniture Recycling Network. GW are in regular contact with franchisees, and there are monthly quality assurance visits to ensure they are complying with the terms of the agreement. GW's experience is that setting out clear expectations at the start helps avoid any non-compliance further down the road. Where franchises have not worked, this has been largely due to a lack of available furniture to process.

GW recognised the difficulty of accessing the lump start-up sum required (e.g., for staff, storage, etc) and so helps their franchisees raise seed money, and allows them to pay in quarterly cycles. GW also gives them training in the core skills and knowledge necessary to run the business, as well as marketing support (e.g., contacting the local press) and helping them build their stakeholder base, for example by buying local databases of SMEs to target and raise awareness of the franchise's service. GW has also produced a handbook (operations manual) and a website all franchise partners can access.

Key insights;

- Lower the (financial) barriers of entry for franchisees
- Give complete clarity in setting obligations and expectations at the start
- Provide central services (e.g., marketing and sales) that create real value
- Take time with due diligence, on both sides

D) Hidden Art

Project / business overview:

Set up 20 years ago, Hidden Art (HA) is a not-for-profit organisation that exists to promote and support designer-makers in various crafts, including jewellery, furniture, ceramics and fashion among others. It provides marketing and business support to people interested in becoming designers and setting up their own ventures, and enables them to showcase their designs at relevant events and exhibitions (e.g., art fairs).

HA advertises its services largely by word of mouth and also through its presence in art/design colleges and via its website. People pay to become members of HA, with different levels of involvement according to a fee scale (London-based members also receive additional benefits). Turnover is around £500k with eight staff.

Social franchising experience

HA set up a franchise in Cornwall in 2005, largely on the basis of its strong brand and success to that point, and took advice from a franchise lawyer and from Exemplas on how to go about establishing the model. HA advertised in the Guardian for franchisees and was approached by University College Falmouth (UCF) in Cornwall: given the high number of designers in the area, the market seemed ready. Once HA had established that UCF shared its principles and understood its processes, a franchise agreement was signed, and a manager and support worker recruited to run HA Cornwall.

HA charged the UCF a franchise fee, although this was subsidised by a grant from the Phoenix Fund (government programme). Beyond that point, the franchise relied on events and membership fees for its income, alongside further grants sourced by the university or from HA in London.

The key challenge for HA Cornwall was generating income, but also the franchisee itself. UCF had funded start-up costs and employed the staff, but the hosting department merged soon after, and HA was deprioritised. Over time, with income not meeting the costs, the franchise had to fold, with its members given the option of moving to the overall HA UK membership. The franchise officially closed in 2008.

HA did continue their operations in Cornwall by partnering with Trereife House to hold the Cornwall Design Fair, utilising the HA brand. This less formal collaboration has proved successful, and HA have decided that their growth model will be based more on collaborations and partnerships with partners who have their own infrastructure and systems in place.

HA had found that funders felt that the franchisee was fundraising to secure money to pay the franchisor, rather than for community benefit. And that internal capacity needs to be there to both implement the growth strategy and evaluate the impact of such work.

Key insights:

- Be aware that organisational franchisees may have multiple priorities
- Assess carefully whether a funding-reliant model can be replicated
- Ensure internal capacity matches the readiness of the viable model
- Consider all forms of replication: franchising is not the only answer

E) School for Social Entrepreneurs

Project / business overview:

School for Social Entrepreneurs (SSE) was founded in 1997 in East London, and runs year-long programmes of training and support for social entrepreneurs. It aims to develop the individual and their project in combination, based on specific elements and an action-learning (or learning-by-doing) approach.

Social franchising experience:

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', that the SSE methodology worked outside of London and with different delivery partners. SSE then set about developing its franchise package, which includes a Best Practice Guide (operations manual) explaining the methodology, and also includes the Quality Standards. The other core services provided to the network include programme design, fundraising/development, extranet/web, policy work, communications, and internal/external evaluation.

SSE-UK (which also runs SSE London) identifies potential community partners, usually independent non-profit organisations, against criteria and works with them to establish the programme. Each SSE is run by an independent organisation which is responsible for its own financial sustainability and programme delivery. They pay SSE a flat annual fee of £10,000 for the entire franchise package, and a license agreement is signed with each (which includes all of the above, as well as the geographical area the SSE is permitted to operate in for funding and recruitment purposes). Each SSE is quality assured annually against the franchise's Quality Standards, while evaluation data from the programme is collated. Programme co-ordinators / directors meet quarterly with each other at network away days for peer discussion and support.

By 2011, SSE has 10 franchises in the UK (including the original one in London), and has also franchised internationally to Australia, with SSE programmes established in Sydney and Melbourne. Over 600 SSE Fellows have been supported on programmes since 1997. After adding approximately a franchise per year from 2002/3 onwards, beginning with SSE Fife, the growth in the number of franchises in the UK was accelerated by the Office of Third Sector (now Office of Civil Society) awarding SSE-UK £500,000 to expand its work; this led directly to new franchises in Yorkshire & Humber, Hampshire and Devon.

SSE's main challenges to date have been firstly that the business model is an inherently 'charitable' one in that each programme has to be fundraised for; this may prove challenging in a more difficult financial climate for the franchisees. The other main area is selection of franchisee partners: choosing not only the right organisation to franchise to (which is aligned to the same mission), but also ensuring it has its own identity and right person leading it *within* that organisation.

Key insights:

- Pilot and test the franchise approach
- Grow slowly: learn and make mistakes with fewer partners
- Provide opportunities for franchisees to meet, network and learn
- Select franchisees (and the people within them) who are aligned with the mission

F) Sunderland Home Care / CASA

Project / business overview:

Sunderland Home Care (SHC) was started in the 1970s by Margaret Elliott originally as co-operative nursery. In 1980, this became a home care co-operative, targeted specifically at helping people who could not otherwise access these services from their local authority (LA). This developed into the larger SHC in the 1990s, on gaining a major contract to deliver 450 hours of these services per week. Home care is still the core business now for SHC, which is based in South Tyneside and employs 360 people. It has a turnover of £3.5m, and is employee-owned.

Social franchising experience:

In 2004, SHC decided to replicate the model. Their approach to doing this was to set up 'Care and Share Associates' (CASA) to be an umbrella replication unit for the health and social care sector. They set up their first franchise in North Tyneside, followed by Newcastle, Manchester, and then Halifax.

The reason that SHC decided to venture down the franchising route was their belief that people in different areas have different needs, and that those in economically hard-pressed communities with a low skills base need tailored training and support. CASA provides this, giving local ownership of the franchise while also providing them with training, financial infrastructure, tendering support, policies and procedures, HR management and use of the CASA brand – all contained within a comprehensive operations manual.

CASA's franchises are funded through a mix of public service delivery contracts and individuals paying for their own care; after these contracts (+ grants/loans) are secured, their offices are set up and a manager found (whom they advertise for locally). Franchisees tend to be other organisations which then hire individuals to run the business, rather than individuals setting up franchises themselves, as these organisations are better able to provide the necessary support and infrastructure. Organisations are selected on the basis of being employee-owned and being able to deliver the service to SHC's standards. They are charged a license fee which goes towards the costs of CASA, which in turn acts as a quality controller to ensure the standards are being met.

CASA / SHC's experience to date is that having the right franchise manager in place, in terms of their skills, knowledge and experience (and that they live near the franchise), is crucial to its success. CASA's primary challenge remains finance, given that the model is a mixed one of grants and trading, and capacity to start-up more businesses.

CASA franchises have so far proven successful in terms of delivering their mission and also in terms of the quality of life for staff, evidenced by low staff turnover and high levels of commitment. The organisation also believes that it is helping to boost their core social aim by spreading them out and speeding up the democratising process throughout the home care industry through its insistence on employee ownership.

Key insights:

- Place the social values and mission in the franchisee selection criteria
- Utilise appropriate staff / organisation performance measures
- Consider direct involvement in staff recruitment
- Ensure central financing (and capacity) is sufficient to achieve growth ambitions

APPENDIX 2: Template franchise agreement

Whilst all franchise agreements are different there is set out below in summary form some of the provisions that may be in a standard form franchise agreement along with a brief commentary in italics.

Parties

- i) Franchisor
- ii) Franchisee
- iii) Individuals

Note

The franchisor will almost inevitably be a limited liability company but the franchisee may be a sole trader/partnership or a limited liability company. This will depend largely on the requirements of the franchisor and the advice which has been given to the franchisee concerning the tax/legal implications of carrying on a business without limited liability.

If a franchise is to be given to a franchisee trading as a limited liability company it is desirable to obtain a guarantee of the obligations of the franchisee company from the individuals who have set up the company and who will operate the franchise. The reason for this is that franchisee companies are very often newly incorporated with few or no assets and should the terms of the franchise agreement be breached the franchisee may not have sufficient assets to meet a claim. It is more difficult for individuals to put their assets beyond the reach of a franchisor

Recitals

Note

Recitals to an agreement set out the background to the agreement and do not have any legal effect.

1. Definitions

Note

It is desirable in order to assist understanding to set out definitions of terms used in the agreement.

2. Rights Granted

- a) The Franchisor grants the Franchisee an exclusive/sole/non-exclusive right to:
 - i) Operate the Business with the Territory from the Premises
 - ii) Use the trade names, trade marks etc
 - iii) Use the Franchisor's copyright material, know-how, knowledge etc
 - iv) Use the benefit of the Franchisor's accounting management and marketing knowledge and experience
- b) The Franchisee shall enter into a Registered Licence Agreement when required by the Franchisor.

Note

Not all franchisee agreements will grant exclusive territories and indeed many franchisors are hostile to the grant of exclusive rights.

If exclusivity is granted care should be taken in establishing the territories to be granted. If, for instance, customers for a franchised business are likely to be obtained by way of telephone directories, the territories to be given should be linked to the area covered by the directory.

3. Franchise

The Franchisee will pay an initial fee of £[] plus VAT on execution of this Agreement

Note

It may be desirable to stagger payment of the initial franchise fee if it is a large amount.

There are two guiding principles concerning the initial fee. The first is that it should not contain a profit element for the franchisor. The second is that the initial fee should not exceed 10% of the total investment which the franchisee will have to make. Ultimately, the amount which can be charged by way of an initial fee will depend on the reputation of the franchisor, the profitability of his franchise, the term granted, whether it contains an exclusive area etc.

4. Term

The term of the agreement is [] years from the date of this Agreement.

Note

Most franchises are for an initial term of 5 years with a significant number of franchises being granted for 10 years.

5. Rights of Renewal

- a) The Franchise may renew the Agreement for a further term unless he has committed a material breach or has not substantially performed the terms of the Agreement.
- b) Prior to renewal the Franchisee may be required to enter into the then current form of the agreement and may have to refurbish the Premises.

Note

It is important for a franchisee to ensure that he may renew the franchise at the end of the initial term and that the renewal can be exercised without further payment. The right to renew should not be lost merely for minor breaches of the franchise agreement.

6. Franchisors Initial Obligations

The Franchisor will on execution provide the following:-

- a) Advice on finding premises
- b) Advice on alterations to and fixtures and fittings in the Premises
- c) General advice on how to set up the franchise
- d) Such equipment, stock, fixtures and fittings as are listed in the Schedule
- e) A PR launch
- f) A copy on loan of the Operations Manual
- g) An initial training programme for the Franchisee

Note

The purpose of the franchisor's initial obligations is to put the franchisee (who probably has no knowledge of the business to be franchised) in a position to operate the franchised business. If a franchisee 'fails' the initial training the franchisor usually reserves the right to terminate the agreement and return to the franchisee payments which have been made less all expenses incurred by the franchisor.

7. Franchisor's Continuing Obligations

- a) Provide the Franchisee with know how, advice and guidance relating to the Business
- b) Supply products to the Franchisee
- c) Supply stationery when required
- d) At cost, train the Franchisee's personnel
- e) Organise an annual conference for Franchisees

Note

It is advisable to set out in some detail the obligations accepted by the franchisor. Franchisees will find it unacceptable to enter into an agreement where the obligations which they will have to accept are extensive but those accepted by the franchisor are limited.

8. Franchisee's Obligations

The Franchisee shall:-

- a) Refurbish and equip the Premises as required by the Franchisor
- b) Only use stationery, invoices and products which are supplied by the Franchisor
- c) Operate the Business in accordance with the Operations Manual
- d) Use only signs and packaging in connection with the Business as have been approved by the Franchisor
- e) Maintain the Premises to the highest standards and not carry out any alterations without the Franchisor's consent
- f) Use his best endeavours to promote and extend the Business
- g) Operate the Business during hours specified by the Franchisor
- h) Ensure that staff are well dressed, clean and polite
- i) Not employ as a manager any person who has not completed the Franchisor's training course and been approved by the Franchisor
- j) At the request of the Franchisor provide potential franchisees with information as reasonably requested

Note

This clause contains only a short selection of those provisions which may be appropriate to be imposed on a franchisee.

It is important to stress that obligations and restrictions are being imposed on all franchisees for the protection and benefit of franchisees generally because a franchisee who does not comply with the franchisor's system may have a detrimental effect on the entire franchise network.

9. Training

The Franchisor will provide training for the:

- a) Individuals in accordance with the details set out in the Schedule
- b) Franchisee's employees

Note

It is desirable to set out the training obligations in some detail. The initial training is usually provided free of charge, but further training during the term of the franchise is usually provided subject to the reimbursement of the franchisor's standard charge.

10. Management Charge

- a) The Franchisee shall pay a Management Charge of []% of gross turnover on monthly sales
- b) The Management Charge is to be paid within two weeks of the end of every month with interest of 15% per annum on late payments

Note

Ideally, from the franchisor's point of view the Management or Service Charge should be paid weekly since this will improve the franchisor's cash flow and enable the franchisor to establish at an early stage a franchisee's ability to pay the Management Charges. A franchisee will usually wish to establish the level of any mark up on the goods/services supplied by the franchisor to ensure that a franchisor is not charging a high mark up and Management Charge.

11. Accounting Records

The Franchisee shall:-

- a) Maintain records of gross turnover and submit a statement of gross turnover with the Management Charge in the form specified in the Operations Manual
- b) Maintain all records needed to verify the gross turnover for not less than 6 years.
- c) Allow representatives of the Franchisor to enter the Premises to investigate the Franchisee's records
- d) Supply to the Franchisor copies of all VAT returns

Note

The extent of the accounting records to be provided to the Franchisor will depend on whether the franchisor charges a continuing fee. VAT returns are usually required to be provided because they enable the franchisor to check the financial information provided by the franchisee.

12. Advertising

- a) The Franchisee shall spend a minimum of £[] per year on advertising in the Franchisee's territory
- b) All advertising is to be approved by the Franchisor
- c) The Franchisor shall spend not less than £[] per year on national advertising

Note

Most franchise agreements require franchisees to contribute to national advertising by way of an advertising levy to be held by the franchisor in a separate fund so as to ensure that it can only be used for advertising.

13. Insurance

- a) The Franchisee shall take out with a reputable insurance company all such insurance cover relating to the Business as the Franchisor shall reasonably require
- b) The Franchisee shall ensure that the Franchisor's interest is noted on policies and/or furnish to the Franchisor copies of policies and evidence of payment premiums

Note

Franchisors are usually concerned to ensure that their franchisees are adequately insured because of the possibility of claims being made against the franchisor for the acts of the franchisee.

14. Sale of the Business

- a) The Franchisor shall have no right to transfer the franchise without the Franchisor's consent
- b) The Franchisor shall consent to a transfer provided that:-

- i) The Purchaser meets the Franchisor's minimum standards
- ii) Payment of the costs of investigation and training are made
- iii) There are no subsisting breaches of this Agreement
- c) The Franchisor shall have the option to match any offer for the Business which is made to the Franchisee

Note

Special provisions will have to be inserted if the franchise is a limited liability company to ensure that the franchise cannot be transferred simply by transferring shares.

15. Non-Competition

Neither the Franchisee nor the Individuals will during the term of the franchise:-

- i) Carry on any other business
- ii) Entice employees away from the Franchisor or other franchisees
- iii) Use or disclose confidential information for any purpose other than a purpose set out in the Agreement

16. Death of an Individual

- a) The Franchisor will provide a manager for a period of three months following the death or incapacity of the last of the Individuals to die, on payment of the Franchisor's then current costs and expenses.
 - b) Within the three months period the Individual's personal representatives or beneficiaries must either:-
 - i) Qualify as a Franchisee by training etc
 - ii) Notify the Franchisor of their desire to sell the franchise
- Failing which the Franchisor may terminate this Agreement

Note

A franchisee's family or personal representatives may wish the franchised business to continue to operate because this increases the value of the business should it have to be sold. Further, a franchisor may not wish a franchise outlet to cease trading because of adverse publicity that would result.

Provisions may need to be inserted to deal with incapacity as well as death.

17. Termination

The Franchisor may terminate this Agreement if the Franchisee:-

- a) Fails to commence business within three months of execution of the Agreement
- b) Is in breach of [any of] the terms of the Agreement
- c) Persistently defaults in payment of any amounts due to the Franchisor
- d) Is found to have supplied materially false or misleading information in or supporting the franchise application
- e) Goes into liquidation/bankruptcy or is insolvent

18. Consequences of Termination

The Franchisee:

- a) Must cease use of the Franchisor's trade name and trade marks and must not thereafter hold itself out as being a franchisee of the Franchisor.
- b) Must pay to the Franchisor all sums payable to the Franchisor whether or not then due
- c) Shall return to the Franchisor all manuals literature promotional material letterheads invoices or anything else which bears the trade name or indicates any association with the Franchisor

- d) Shall provide the Franchisor with a list of all customers and potential customers of which it is aware
- e) Shall not make use of or disclose any confidential information relating to the system or the franchised business
- f) Shall not compete with the Franchisor

19. Individuals' Guarantee

The individuals shall indemnify the Franchisor against any breaches of the Agreement by the Franchisee.

20. Representations

The Franchisee and the Individuals confirm that they have not relied on any representation or warranties from the Franchisor in entering into this Agreement.