Nonprofit-Owned Franchises:

A Strategic Business Approach

Prepared by:

Community Wealth Ventures, Inc.
&
IFA Educational Foundation

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1.0 Introduction

In a period where resources for social needs are becoming scarcer, nonprofit organizations are exploring new avenues to generate the resources necessary to sustain and grow their organizations. One of these options is social enterprise – the use of profitable business ventures as a means to generate unrestricted income.

In many cases, the challenge of creating a successful business from the ground up is larger than many nonprofits are prepared to undertake. Business success largely depends on identifying a viable opportunity, creating a profitable business model, and consistently mastering operational systems and processes. Nonprofit organizations often struggle to identify and exploit such opportunities for financial gain. Although nonprofits may have a clear understanding of the needs in a given community and be able to raise the necessary capital to start a business, they are frequently unable to address the service delivery, marketing, and accountability challenges that all small businesses face.

Franchising can represent an effective approach to mastering the complexities of a small business. Franchise products and services frequently have been painstakingly developed and improved by the franchisor, and in most cases, they have succeeded in the marketplace. In addition, these businesses usually have developed an operating system that is clearly defined, carefully researched, and universally applicable. More importantly, franchisors often provide training and management assistance to their franchisees to help address common business problems that all small businesses encounter. As a result, franchising offers entrepreneurs tools that increase their likelihood of success.

For these reasons, franchising merits closer consideration for the nonprofit sector. It not only promises to help address the question of how to provide innovative nonprofits with the structure and support necessary to convert their interest in social enterprise into profitable businesses, but it also provides a roadmap for implementing these ventures. By offering established products, structures, and support systems, franchising allows nonprofits to focus their resources on managing a business rather than creating one from the ground up.

Similarly, the nonprofit sector represents an intriguing opportunity for franchise companies looking for qualified franchisees to expand their systems. Charitable organizations are an untapped market that can offer unique benefits to an innovative franchisor. With over 1.2 million nonprofit organizations[1] in the United States, the potential pool for franchisee candidates within this sector remains quite large.

Unfortunately, little is known about nonprofit-owned franchises. While the Ben & Jerry's PartnerShop Program has received significant media attention, there are few resources available on how to expand such a practice. As a result, Community Wealth Ventures (CWV) and the IFA Educational Foundation (IFAEF) have partnered to conduct an in-depth study into nonprofit-owned franchises to explore the use of franchising as a tool for both the nonprofit and franchising sectors. The goal of this project is to answer three principle questions:

1) What value do nonprofits and franchisors represent to each other?
2) What are the lessons learned and challenges faced by existing nonprofit-owned franchises?
3) Is there a strategic business case for expanding nonprofit-owned franchises?

To find answers to these questions, CWV and the IFAEF spoke with the executive directors (or their representatives) of 18 nonprofit organizations that currently operate franchise businesses and the CEOs (or their representatives) at 11 franchise companies with existing nonprofit

[1] Independent Sector. *The New Nonprofit Almanac and Desk Reference*. 2002

franchisees. Identifying these organizations was challenging, both because the practice is not particularly widespread, and because few industry and nonprofit leaders are aware of the existence of nonprofit franchises. Nevertheless, these interviews form the basis for this report. While the sample is relatively small, we believe it represents a significant portion of the nonprofits and franchisors that have entered into such partnerships.

It is essential to note that the purpose of this project is to develop viable business relationships for both the nonprofit and franchising sector. Franchise companies will not be interested in working with nonprofit organizations if they cannot demonstrate an ability to operate them successfully. Similarly, nonprofits will not be able to generate net revenues or provide job-training opportunities if they cannot operate their business to the franchisor's standards. This report seeks to understand the value proposition that each represents to the other, and by doing so, help to accelerate the practice.

2.0 Overall Findings

Based on the research conducted, CWV and the IFAEF have reached the following four conclusions regarding nonprofit-owned franchises:

1. The nonprofit sector represents a viable market for franchisors to expand their systems.

Nonprofit organizations – as established, functioning entities – have assets that individuals often do not possess. These assets can be leveraged throughout the franchising process to create tangible value for franchisors that can drive both unit and system-wide success. This value includes:

- Higher brand awareness;
- Increased system-wide sales;
- Stronger community relationships; and
- Differentiated market presence.

2. Franchising mitigates many of the risks incurred by a nonprofit looking to start a small business venture.

For nonprofits pursuing small business ventures as a means to diversify revenue sources and increase organizational sustainability, franchising can increase the likelihood of success by providing nonprofits with:

- An established business concept;
- An established brand;
- Well-defined operating systems and cost structures; and
- On-going training and operations support.

3. Franchisors can do more to maximize the value received from their nonprofit-owned franchise units.

Most of the franchisors interviewed treat their nonprofit-owned units as regular franchisee units and do not incorporate their nonprofit partnerships into their marketing activities or their community outreach efforts. As a result, these companies often do not realize the full marketing/public relations benefits that such partnerships offer.

4. Expansion of nonprofit-owned franchises would benefit from specific assistance for franchisors and nonprofits interested in this practice.

While nonprofit-owned franchises represent a unique opportunity for both sectors to achieve their strategic objectives, few franchisors or nonprofits have engaged in such partnerships. To spur the expansion of nonprofit-owned franchises, nonprofits and franchisors should support the development of technical assistance resources in the following areas:

- *Applicant identification* – To help franchisors identify and screen qualified nonprofit applicants for their franchise systems and to increase the number of nonprofit applicants.
- *Business planning* – To provide nonprofits with targeted assistance in developing comprehensive business plans for their proposed franchise units.
- *Site selection* – To encourage nonprofits to select and develop a suitable location for their franchise unit based on business opportunity rather than current holdings or mission objectives.
- *Access to capital* – To help nonprofits identify and secure financial resources during the capitalization stages of their franchise unit.
- *Management screening/recruiting* – To facilitate the process of recruiting and hiring skilled management personnel.

3.0 The Nonprofit Business Case

Key Points

1. *Nonprofits are beginning to pursue small business ventures to diversity revenue sources and increase organizational sustainability.*
2. *Franchising mitigates many of the risks incurred by a nonprofit looking to start a small business venture.*

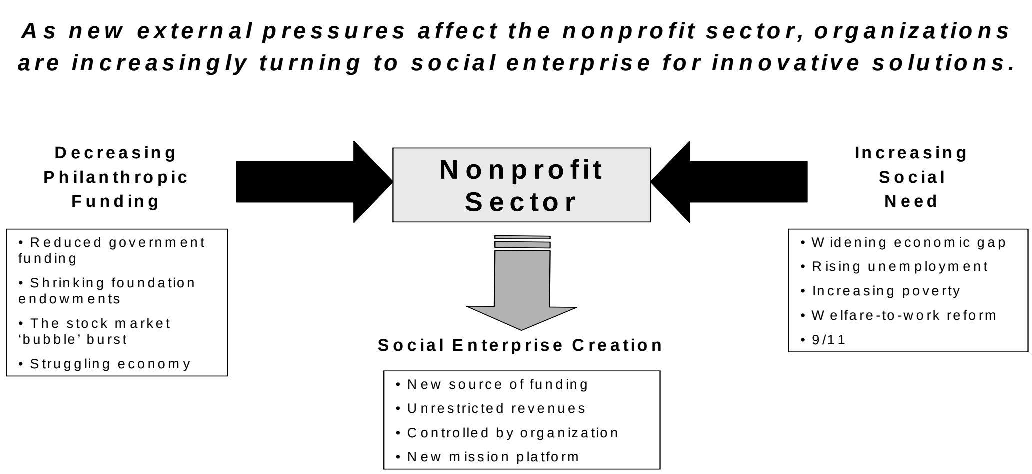
3.1 *The Need for New Sources of Revenues*

As nonprofit organizations prepare to meet the challenges of a new century, many are finding that the need for their services has increased significantly. With a widening economic gap and reduction in government spending, organizations are realizing that the safety net that they provide is becoming strained. At the same time, nonprofits have seen a steady decline in the amount of philanthropic funding available for programmatic support over the past few years. After the terrorist attacks of September 11, 2001, many nonprofits saw philanthropic dollars diverted to more visible efforts centered on the victims of terrorism. In the economic downturn that followed, corporate support and corporate sponsorships also diminished. The asset base of many large and established grant-making institutions shrank dramatically. As a result, nonprofits now have to do more with fewer available resources.

3.2 *The Emergence of Social Enterprise*

In response to this growing pressure, innovative nonprofits are looking to the small business sector for solutions – analyzing, learning from, and even co-opting business practices and ideas in order to launch market-based ventures. Community-based nonprofits ranging from childcare providers and homeless shelters to charter school and youth development organizations are increasingly supplementing charitable donations with earned revenues. Having developed products and services that transform lives and communities, many nonprofits are beginning to realize that they must create more of their own wealth that will enable them to reach more individuals in need. Commonly referred to as “social enterprises”, these ventures hold the promise of generating revenues to improve organizational sustainability and, in many cases, to further mission objectives.

Figure 1. The Emergence of Social Enterprise



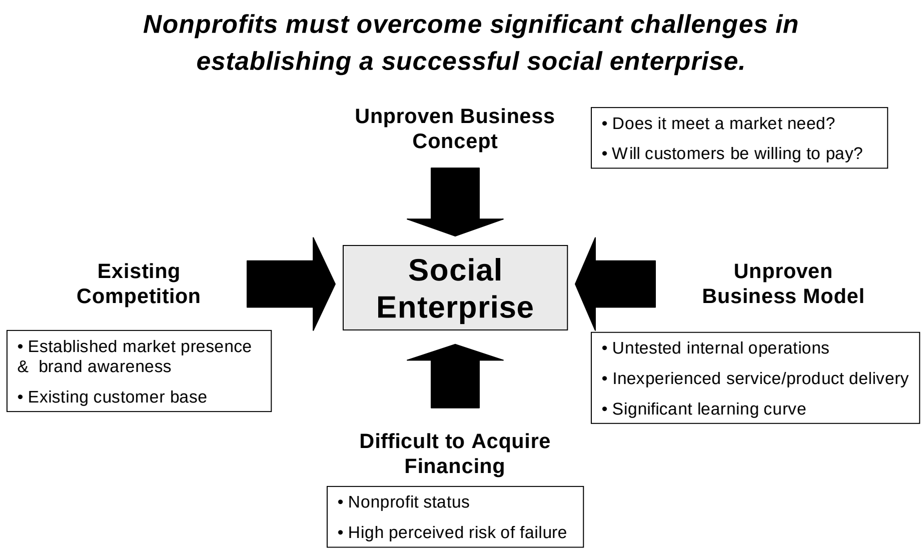
This concept covers a wide range of activities including product manufacturing, retail sales, consumer-driven services and market-based partnerships with for-profit corporations. As such, a social enterprise is more akin to a for-profit business than a nonprofit program. In fact, depending on its legal structure and tax status, a social enterprise can remain a part of the nonprofit's corporate structure or be structured as a for-profit subsidiary of the nonprofit organization.

While a handful of organizations have historically engaged in social enterprise – ranging from Girl Scout cookie sales to Goodwill thrift stores – scores of nonprofits nationwide are beginning to explore this approach as traditional funding sources continue to diminish. For example, the Nation's Capital Child and Family Development (NCCFD) – the largest childcare provider in the District of Columbia – utilized the excess capacity in its kitchen facilities to create an institutional catering venture. Today, the business provides meals on a contract basis to several charter schools and unaffiliated childcare organizations located within the Capital region in addition to the 500,000+ meals it serves to its own daycare centers. Similarly, the COMPASS School in Boston leveraged its institutional knowledge to start a consulting business that trains school districts on the most effective way to teach self-discipline and life skills to troubled youth. The venture now generates over $900,000 in annual revenues for the organization. Examples such as these increasingly are becoming more prevalent within the nonprofit sector as organizations begin to respond to the changing environment.

3.3. The Challenge of Social Enterprise

Unfortunately, the path to developing a successful social enterprise remains challenging for many organizations. Not only are the cultures of many nonprofits not adapted to creating business ventures, but organizations must also contend with the challenges that face every small business start-up. These challenges can greatly increase the risk of failure for a new social venture, and addressing them often requires significant resources. According to a recent National Federation of Independent Business (NFIB) study, over 30% of new business fail after four years.[2]

Figure 2. The Challenge of Social Enterprise



[2] "Study Shows Start-ups Have High Rate of Success." Feb. 19, 2003. www.nfib.com.

As a result, while social enterprise represents a promising option for nonprofits, organizations pursuing this route will need to address the following challenges:

- ***Unproven business concept*** – At the time of its conception, any business idea can seem very promising. However, there is no guarantee that the idea will attract a sufficient customer base to be profitable or that it even addresses an actual market need.

- ***Unproven business model*** – Even with a solid concept, a start-up must still build the business. This task is fraught with challenges, as systems must be developed to deliver the product/service, to attract and retain customers, and to minimize expenses while maximizing revenues. Any miscalculations or inefficiencies during this phase can greatly damage the venture's financial viability and/or reputation, which can ultimately cause it to fail.

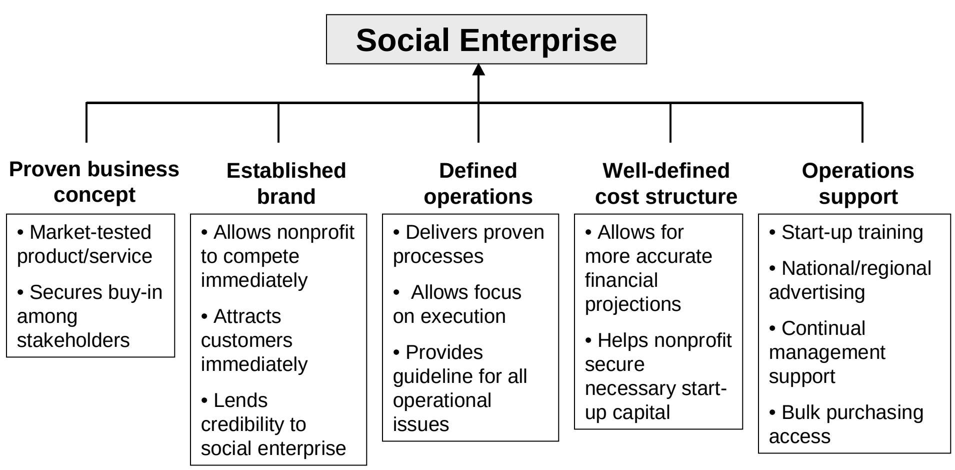
- ***Difficulty acquiring financing*** – Given the uncertainty of its business concept and model, a small business often has difficulty securing the resources needed to properly capitalize the venture. As a result, small businesses often must finance themselves either through personal loans from the entrepreneur or through higher-interest loans from traditional financial institutions. This situation often negatively affects a start-up's ability to properly capitalize the venture and its initial cash flow.

- ***Existing competition*** – Even if a small business manages to secure the capital to launch, the venture must then compete with other established businesses for customers and sales. Start-ups are inherently at a disadvantage during this process due to the lack of customer awareness and the absence of existing relationships in the market.

3.4 Franchisor Value to Nonprofits

Hence, while social enterprise represents a promising option for the nonprofit sector, it remains a risky proposition for many organizations. However, franchising mitigates many of the risks incurred by a nonprofit looking to start a small business venture.

Figure 3. Franchisor Value to Nonprofits



- ***Proven business concept*** – A franchise provides an established product or service that targets an identified customer need. This situation allows the nonprofit to focus its resources on developing the business operations and securing buy-in among concerned stakeholders.

- ***Established brand*** – A franchise typically possesses widespread brand-name recognition that normally takes years to establish. This brand awareness not only allows nonprofits to immediately compete with existing businesses, but it also lends credibility to the business venture that the nonprofit is pursuing.

- ***Defined operations*** – A franchise provides well-defined operating systems and manuals. This "turn-key" model allows nonprofits to focus on implementing such systems rather than developing them. More importantly, it provides organizations with a detailed guideline for dealing with complex issues such as human resources, inventory management, equipment operations, etc.

- ***Well-defined cost structure*** – Along with an established operating system, a franchise also provides a good understanding of the costs associated with operating a franchise unit. Although some variable costs still exist, this knowledge allows a nonprofit to forecast more accurately the capital needed to operate the venture and to secure the resources for the business.

- ***Operations support*** – As the popular mantra goes, "owning a franchise allows you to go into business for yourself, but not by yourself."[3] A franchisor not only provides franchisees with start-up training, but it also provides national/regional advertising, on-going management support, and access to financing sources and bulk purchasing agreements. This system helps the nonprofit to overcome the initial difficulties of operating a business venture and to focus on the business success of the franchise unit.

In exchange for these benefits, franchisors require some compromises on the part of the social enterprise. Franchise units routinely are required to pay the franchisor monthly (even weekly) royalty payments in the form of a percentage of gross sales, as well as additional marketing and advertising fees. Franchisees also must sacrifice some of their independence to join a franchise system – for example, the business model is sacrosanct and the pre-defined operating systems must be adhered to at all times. However, for many nonprofit organizations looking to start a small business venture, these drawbacks are easily outweighed by the significant advantages of working with an established franchise business model.

[3] Beshel, Barbara. *An Introduction to Franchising*. IFA Educational Foundation and the Pepsi Foundation: Washington, DC. 2001.

4.0 The Franchisor Business Case

Key Points

1. *Franchisors face some significant challenges during the franchising process when working with individual franchisees.*
2. *Nonprofit organizations possess many assets that can be leveraged throughout the franchising process to create successful franchise units and tangible value for franchisors.*

4.1 The Stages of Franchising

While the specific processes vary by company, franchising can be broken down into six major phases. At each stage, both the franchisor and franchisee must fulfill certain tasks as required by law or by the franchise agreement. The table below provides a quick of overview of these requirements:

Table 1. Stages of the Franchising Process

	Franchisor	Franchisee
Applicant recruitment	▪ The franchisor actively recruits for applicants through its website, conventions, and publications.	▪ Potential franchisees research various franchise opportunities through the Internet, attending franchisor conventions, and reading franchise publications.
Applicant assessment	▪ The franchisor reviews a potential franchisee's application to determine their fit with the company's criteria – including the applicant's financial health, proposed location for the desired franchisee unit, and individual business experience.	▪ Potential franchisees submit their application after reviewing the franchisor's Uniform Franchise Offering Circular (UFOC) and talking to existing franchisees to assess the franchisor's business concept and support system.
Negotiations & signing	▪ After determining an applicant to be acceptable, the franchisor extends its standard franchising agreement to the applicant.	▪ After receiving an offer from the franchisor, an applicant negotiates any flexible terms of the agreement with the franchisor and then signs the contract after reviewing the final terms.
Unit build-out	▪ The franchisor provides its franchisees with site selection assistance, design and construction assistance, pre-opening training and financing (in some cases).	▪ The franchisee must attend the franchisor's training program, secure a location for their franchise unit, and build-out the location to the franchise system's specifications.
Unit launch	▪ The franchisor trains its new franchisee in its grand-opening program.	▪ Franchisee prepares the unit for opening and institutes the franchisor's grand-opening program.

Table 1. Stages of the Franchising Process <cont'd>

	Franchisor	Franchisee
Operations support	▪ The franchisor provides its franchisees on-going training, national and regional advertising, operational assistance, management support, and access to bulk purchasing agreements (in some cases).	▪ The franchisee manages the day-to-day operations of its franchise unit following the operating systems developed by the franchisor. Franchisee pays an on-going royalty fee to the franchisor (typically a percentage of its revenues).

4.2 The Challenges of Working with Individual Franchisees

At present, franchise companies tend to prefer to work with individuals as franchisees. This arrangement not only streamlines the assessment and negotiations process, but it also allows the franchisor to deal with a single point-person for liability and accountability purposes. More importantly, individuals typically expend a significant portion of their savings acquiring a franchise unit. As a result, they are highly motivated to ensure their unit's success, as their financial security is directly tied to the franchise unit's overall performance.

However, despite these distinct advantages, franchisors also face some significant challenges in six stages of the franchising process when working with an individual franchisees:

Table 2. Franchisor Business Challenges Working with Individuals

	Challenge
Applicant recruitment	Franchisors often have difficultly efficiently identifying and recruiting qualified candidates that have both the necessary skills and capital to operate a franchise unit.
Applicant assessment	Applicants may not possess extensive experience operating a small business. While some franchisors prefer such individuals, most limit their search to people who require minimal training assistance. However, identifying such individuals can be a difficult challenge for franchisors.
Negotiations & signing	Individuals often do not have access to reserve liquid resources for emergency purposes. As a result, many of them are unprepared to cover unexpected costs incurred by the franchise unit.
Unit build-out	Individuals often have difficulty securing a location that fits the franchise system's needs. This situation can delay the opening of a new franchise unit and increase the costs incurred by the individual franchisee.
Unit launch	Individuals must rely on the strength of the franchise brand, unit location and traditional marketing channels to attract customers to the new franchise unit.

Table 2. Franchisor Business Challenges Working with Individuals <cont'd>

	Challenge
Operations Support	Individuals possess a wide range – from none to significant – of financial and marketing expertise/experience that can be used to accelerate the growth of a franchise unit. As a result, the franchisor must develop systems to assist franchisee units in these areas.
Other	Individuals must manage every aspect of the franchise from operations to marketing and accounting. This division of attention not only prevents the individual from focusing solely on the operations of the franchise unit, but it also can require more assistance from the franchisor.

4.3 Nonprofit Value to Franchisors

Nonprofit organizations – as established, functioning entities – have many assets that can be leveraged throughout the franchising process. These assets create tangible value for franchisors that can drive success. The figure below represents the assets that nonprofits can offer a franchisor and the stages when they can be leveraged most effectively.

Figure 4. Nonprofit Value to Franchisors

Franchising Stage

Nonprofit Assets

	Applicant Recruitment	Applicant Assessment	Negotiations & Signing	Unit Build-out	Unit Launch	Operations Support
Ability to assemble an advisory board		X	X	X	X	X
Access to non-traditional financial markets		X	X	X	X	X
Established community relationships/ reputation	X			X	X	X
Existing accounting departments					X	X
Existing development/ marketing departments					X	X
Access to a loyal, trained workforce		X			X	X
Affiliated network of organizations	X					
The nonprofit "halo" effect	X			X	X	X

- ***Ability to assemble an advisory board of industry experts*** – With their strong community relationships and philanthropic focus, nonprofits can attract industry experts and business leaders to assist in developing a franchise unit. This advisory board can assist the organization in the planning, launch, and on-going oversight of a franchise business.

- ***Access to nontraditional financial markets*** - Nonprofits have access to financial markets and instruments unavailable to individuals such as endowments, foundation grants, and sub-market rate loans. This can significantly reduce the organization's risk in acquiring and capitalizing a franchise unit.

- ***Established community relationships and reputation*** – With these relationships, nonprofits can create a community event to highlight the launch of their franchise units. For example, when the Latin American Youth Center opened its Ben & Jerry's PartnerShop in Washington DC, the organization was able to secure representatives from the mayor's office and press coverage from the *Washington Post*. Not only did this event deliver public relations and marketing benefits for the venture, but it also highlighted the franchisor's commitment to helping the community.

- ***Existing accounting departments*** – With government regulations requiring nonprofits to annually report their finances, nonprofits typically have dedicated accounting departments that handle these functions. The accounting requirements for the franchise unit could be easily integrated into this department that would allow the nonprofit business manager to focus more on the operations and marketing of the franchise unit.

- ***Existing development/marketing departments*** – Given their need to raise charitable donations, most nonprofits possess a development and/or marketing department designed to promote the organization within the community. Although there is a marked difference between fundraising and marketing, nonprofits nevertheless can leverage existing staff members to market the franchise. These activities would help augment any marketing activities by the franchisor and allow the nonprofit franchise manager to focus their time on the operations of the business.

- ***Access to a loyal, trained workforce*** – For a nonprofit with an existing job-training program, the organization can reduce its recruitment costs by hiring the clients it has trained through its program. Not only will these clients be more loyal to the organization than regular hires, but the nonprofit can also specifically design its programs to meet the needs of the franchise business. More importantly, the nonprofit may be able to access government or private sources to fund the job training so that the franchise unit would incur no additional costs.

- ***Affiliate network of organizations*** – A national nonprofit can offer a franchisor a network of operationally similar organizations that exists in markets across the country. With a qualified organization, this situation not only reduces the time needed to recruit new franchisees, but it also allows the company to reap the benefits of partnering with a nonprofit organization in multiple markets.

- ***The nonprofit "halo" effect*** – Industry research has repeatedly demonstrated the benefits a company receives when it partners with a nonprofit organization. These include higher employee retention, increased customer goodwill, and visible brand enhancement.[4] A franchisor can leverage this "halo" effect to differentiate itself from its competitors, to acquire prime retail locations, to improve its corporate image, and to institute cause-marketing campaigns to increase system-wide sales.

[4] *1999 Cone/Roper Cause Related Trends Report*. Cone, Inc. 1999.

5.0 Lessons Learned from Existing Nonprofit-Owned Franchises

5.1 Lessons from Nonprofit Practitioners

Key Points

1. *Financial performance will suffer if mission objectives are considered equally important as the franchise's business objectives.*
2. *Hiring an experienced operator to manage the day-to-day franchise operations significantly increases the financial performance of the business.*
3. *Nonprofits must have an internal champion providing oversight and guidance for the franchise at all times.*
4. *Assembling an advisory board of business and industry experts greatly benefits an organization during the franchise assessment phase and beyond.*
5. *Conducting a thorough market research study before signing a franchise deal is critical.*
6. *Nonprofits need to be clear with the franchisor about any mission objectives and look for a company that understands these objectives.*
7. *Nonprofits need to capitalize the franchise adequately.*
8. *The location of the franchise should be determined by its business needs rather than by the nonprofit's needs or desires.*
9. *Nonprofits should not assume that they will automatically receive the "best" offer from the franchisor during initial negotiations.*

Overall, nonprofits have benefited from their franchise partnerships. These businesses have generated positive revenues for the organizations, created job-training platforms, and enhanced development efforts. In addition, franchise operations have helped many nonprofits attract a more diverse set of funders, highlight their work in the community, and market the organizations to a wider audience of people.

However, nonprofits also have had their share of difficulties operating a franchise venture. More importantly, organizations often must overcome initial resistance – from board members to staff and external stakeholders – before acquiring a franchise business. Like any business, franchises require significant investment and experienced managers to run the operation. Many nonprofits have struggled to find the right balance between financial and mission objectives. Nevertheless, many organizations believe that the benefit of owning a franchise operation is well worth the effort.

The following section discusses a summary of the lessons learned in operating a franchise business from the nonprofit perspective. For a complete listing of organizations interviewed for this section, please see Appendix A.

Lesson 1: Financial performance will suffer if mission objectives are regarded as equally important as the franchise's business objectives.

Measuring the franchise's overall success using both financial and mission objectives often negatively affects the franchise's business performance. The main reason for this decline in performance is because a blended performance metric may permit a nonprofit to accept decreased financial success when mission objectives are being met or exceeded.

In addition, a blended metric may require the franchise manager to operate the business differently. Whereas a chronically tardy or rude employee would normally be terminated, a nonprofit franchise manager might try to accommodate the individual's behavior, particularly if the individual is part of the nonprofit's job-training program. Meeting mission objectives may also require the franchise to hire additional staff such as job coaches to provide programmatic services. These costs represent additional expenses that normal franchise units do not incur. As a result, the overall business performance of the nonprofit franchise unit suffers when compared to other franchise units.

Case Examples

Organization	Description
AIM Mail Center	According to the CEO of AIM Mail Centers, all of the nonprofit franchises within its system have lower revenues and profit margins than other franchise units. He attributes this fact to nonprofits' hesitancy to take corrective measures – such as hiring more external staff or firing unproductive employees – if it affects the organizations' job training objectives. In addition, government job training subsidies also affect the nonprofits' motivations to improve their franchises' financial performances.
Ben & Jerry's	Although Ben & Jerry's nonprofit PartnerShops have similar revenues to other franchise units, most of them have higher cost structures and lower profit margins. This difference is mainly attributed to the extra staff needed to implement the nonprofits' job-training goals and to the lower productivity of the organizations' clients within these programs.
Platte River Industries	Although 70% of its franchise staff members are persons with a disability, the general manager of the Auntie Anne's operation is required to manage the franchises as a profit center. Even though the manager is trained to be sensitive to the needs of the organization's clients working in the franchise units, her performance review and compensation are based on the business's profitability. However, the franchise units also uphold the agency's philosophy that PRI exists to employ and train the disabled. As a result, individuals who are uncomfortable working with persons with a disability cannot work for the Auntie Anne's franchise units. PRI cross trains all shift manager(s) to be job coaches and specific minimal training is conducted to ensure knowledge and skill in the rehabilitation field. Peer employees also all receive some sensitivity training. More importantly, specific personnel policies are in place to minimize any potential negative behavior toward persons with a disability in the worksite. The organization credits this overall approach for the franchises producing $1.2 million in revenues and $300,000 in profits the previous fiscal year.

Lesson 2: Hiring an experienced operator to manage the day-to-day franchise operations significantly increases the financial performance of the business.

Given the significant differences between operating a philanthropic program and a business, nonprofits need to commit to hiring a manager with the necessary skills and experience to operate the franchise profitably. Attracting the right individual will have a major impact on the franchise's performance as the person will need to handle all of the daily challenges associated with a new business including employee management, inventory control, customer satisfaction, etc.

Case Examples

Organization	Description
Latin American Youth Center	Even though the Latin American Youth Center had created a Director of Social Enterprise position, it still realized that it needed an experienced operator within its stores. As a result, the organization retained the store manager that had operated the PartnerShop prior to its acquisition.
Manna Community Development Corporation	Given its small staff and its desire to grow within the franchise system, Manna CDC hired a manager with both food service experience and entrepreneurial acumen. The manager is charged with operating the organization's initial shop and is instrumental in exploring expansion opportunities.
Marshall Heights Community Development Organization	Once the organization partnered with the Chesapeake Bagel Bakery to open a franchise unit within its service area, the nonprofit actively searched for a manager who could successfully operate the business. It ultimately recruited an individual who had previously managed a McDonald's and had been on the waiting list to own a Burger King franchise for two years.
Platte River Industries	PRI was operating a small popcorn concession at Denver International Airport at the time the Agency became an Auntie Anne's franchise operator. Rocky Pop Popcorn generated approximately $150,000 per year, but was not providing consistent employment opportunities for persons with a disability. PRI partnered with a long-term wholesale/retail popcorn entrepreneur to qualify for the City of Denver's request for proposals at the new airport. That relationship, along with PRI's extensive experience working the concessions as a nonprofit at Denver sport stadiums (e.g. Broncos, Nuggets, etc.), was the basis for PRI's success with its popcorn venture and provided the organization with valuable experience that it used to manage its Auntie Anne's franchises.

Lesson 3: Nonprofits must have an internal champion providing oversight and guidance for the franchise at all times.

Securing a franchise only represents part of the process for a nonprofit – it also must have an internal champion who will keep the franchise priority on the organization's agenda. Without such an individual, the responsibility for providing organizational support to the franchise can easily be overlooked or ignored among the shifting priorities of the nonprofit. This person can be an existing staff member or a new hire, but she must be part of the management team to ensure that her opinion is given equal weight within the organization. In addition, the champion should be held accountable for the franchise's overall performance and have her compensation linked accordingly.

Case Examples

Organization	Description
Common Ground	Common Ground hired an Operations Manager to oversee all its Ben & Jerry's PartnerShops, which allowed other Common Ground staff to focus on the organization's program areas. In addition, because this individual must report to the organization's Business Manager, he continually remains focused on the financial and operational issues that affect the franchises' performance.

Case Examples <cont'd>

Organization	Description
Latin American Youth Center	When the Latin American Youth Center acquired its Ben & Jerry's franchise, it realized that it did not have the internal capacity to manage the business. As a result, the organization created a Director of Social Enterprises position to oversee the store's on-site operator, to ensure that the nonprofit provided support to the franchise, and to market the PartnerShop within the community.

Lesson 4: Assembling an advisory board of business and industry experts greatly benefits an organization during the franchise assessment phase and beyond.

Given that nonprofits frequently lack both business and franchising experience, assembling an advisory board from both fields can significantly improve the venture's likelihood of success. Individuals on the advisory board can include those that possess relevant experience or expertise such as practitioners, industry academics, field experts, consultants, etc. It can be either a part of the nonprofit's existing board of directors or a completely separate entity that meets on its own.

In essence, the board acts to fill the gaps in business experience and knowledge as nonprofits start the franchising process. This group can assist the organization throughout the franchising process including evaluating, developing, and managing the venture. Its presence not only increases the nonprofit's chances of success, but it can also speed up the business's build-out time as members can help identify key steps in the process.

Case Examples

Organization	Description
Ben & Jerry's	Leslie Halperin, the nonprofit franchise developer for Ben & Jerry's, notes that nonprofits that assemble an advisory board for their PartnerShop typically have stronger business plans and quicker build-out times than those that do not. She attributes this fact to the experience and skills that the advisory board provides to the nonprofit. With such a group in place, nonprofits are much more able to identify potential challenges earlier than those without one. More importantly, the nonprofit typically has a better understanding of what is required to operate a franchise business properly.
Platte River Industries	PRI began planning to operate and own its own "Wendy's" franchise when the organization and its Board of Directors was established in 1987. During the creation of the Agency, members of the banking community, a University of Northern Colorado's Business School Dean, and three business owners were recruited in conjunction with other community leaders. PRI's initial venture into a wholly owned retail business (Rocky Pop Popcorn) was developed by hiring an established wholesaler/retailer in snack foods. The paid consultant established the business criteria for the venture in conjunction with the Board and its staff. These individuals later provided PRI with valuable insight regarding the airport marketplace and also helped the organization structure the Auntie Anne's franchise's operations so that they were positioned correctly to maximize profitability. More importantly, their experience and presence on PRI's board was critical in convincing Auntie Anne's to award a franchise unit to the nonprofit.

Lesson 5: Conducting a thorough market research study before signing a franchise deal is critical.

Because operating a franchise requires a significant investment of time and resources, nonprofits need to carefully assess both the external market and their internal capacity before pursuing a franchise. The organization needs to determine whether it is capable of operating a business given their current operations and whether it can compete in the marketplace.

In addition, taking the time to conduct a market research study allows the organization to evaluate multiple franchise opportunities carefully to find the one that fits with the organization's strategic objectives and location. More importantly, a market research study helps create buy-in among both internal and external stakeholders by demonstrating that the organization has evaluated all the issues related to pursuing a franchise.

Case Examples

Organization	Description
Fontana Rehabilitation Workshop	Prior to acquiring the AIM Mail Center franchise, the organization conducted an area scan of businesses for sale. Fontana evaluated its options using multiple criteria including the business's location and projected revenues. Ultimately, Fontana decided to purchase the AIM Mail Center because it best fit these criteria and because the franchisor agreed to provide the nonprofit with additional on-going training and support.
Manna, Inc.	Prior to signing a franchise agreement with Maggie Moo's, Manna – with the assistance of local business school students – conducted a thorough analysis of its target market, the U Street corridor in northwest Washington DC. This study helped the organization identify demographics, economic trends, key community needs and local businesses within the area. With this information, Manna narrowed the list of ventures the organization was considering before deciding on an ice cream business. After evaluating several franchises, Manna ultimately chose to partner with Maggie Moo's given the strength of the company's management team, its stable financial position, the positive reviews given by existing franchise units regarding their relationship with the company, and Maggie Moo's willingness to locate the franchise unit in a developing neighborhood.
Platte River Industries	Prior to PRI's acquisition of the Auntie Anne's franchise units, PRI – with the assistance of University of Northern Colorado's Business School students – conducted a market research study for the organization's initial Rocky Pop Popcorn venture at the Denver International Airport (DIA). A follow-up analysis was later performed on the soft pretzel industry and Auntie Anne's franchise operations, which was presented to PRI's banker, the Small Business Administration, and PRI's Board of Directors to demonstrate that the franchise units were wise investments of resources for the organization.

Lesson 6: Nonprofits need to be clear with the franchisor about any mission objectives and look for a company that understands these objectives.

Nonprofits need to communicate to the franchisers early in the process if the organization is looking to use the franchise unit as a job-training platform, as a catalyst for community development, or for other social purpose. This disclosure is particularly important given the impact mission objectives can have on financial performance. However, while this candor promotes an open and honest relationship, it may limit the types of franchising opportunities available to the nonprofit. Some companies may shy away from having the clients of a nonprofit work in one of their franchises; others may be unwilling to place a franchise unit in a depressed neighborhood because of economic reasons. Being clear about these objectives upfront is the quickest way to screen potential franchisors for these criteria and to find the "right" partner. More importantly, understanding the franchisor's position will allow an organization to adjust any mission goals as necessary.

Case Examples

Organization	Description
Fontana Rehabilitation Workshop	From the beginning, Fontana made it clear to AIM Mail Centers that the organization was looking to use the franchise unit as a job-training platform for its disabled clients. Only after the franchisor accepted this condition did the organization proceed to the negotiations phase of the franchise process.
Manna Community Development Corporation	During its exploration of various ice cream franchise opportunities, Manna informed the franchisors that the organization was looking to locate the business in a developing neighborhood. As a result, one major national franchise opted to withdraw from consideration as the master franchisee had no desire to open a shop there or to work with a non-profit. Maggie Moo's had few objections, and its real estate team helped Manna CDC secure a suitable location in its own backyard.

Lesson 7: Nonprofits need to capitalize the franchise properly.

Similar to any small business start-up, nonprofits need to secure the necessary capital to launch a franchise business properly. Organizations should have the resources on-hand to cover all projected start-up expenses and at least three months of working capital. Without this security, the franchise will begin in a disadvantaged position, and it will be unprepared to handle fluctuations in its business.

Case Examples

Organization	Description
Platte River Industries	The organization experienced a brief financial crisis when it launched its first Auntie Anne's franchise unit because it did not have the cash on hand to cover payroll expenses during the first 90 days of operation. However, Platte was able to work through this predicament and used this experience to obtain the necessary resources to fully capitalize its second franchise unit.

Lesson 8: The location of the franchise should be determined by its business needs rather than by the nonprofit's needs or desires.

In many cases, the location of a franchise represents a critical element of its success. Nonprofits should do their best to secure a location that matches the franchise's business needs (e.g. customer demographics, population density, etc.) even if it is situated in a high-rent area or does not leverage existing space owned by the organization. Otherwise, the business performance of the franchise will likely suffer as attracting customers will be more difficult and additional marketing will be needed to compensate for this shortcoming.

In addition, while a franchise can act as a business anchor for a developing neighborhood, the surrounding neighborhood offers a series of challenges that may prevent it from becoming profitable. In such instances, the nonprofit must evaluate carefully the benefits and liabilities of the proposed location to both the organization and the franchising company.

Case Examples

Organization	Description
Centerforce	The organization pursued an AIM Mail Center franchise because it perceived the business to be a natural extension of the nonprofit's shipping and packaging programs. However, since the organization's AIM franchise was the first unit to operate in the state of Washington, the franchise did not possess substantial local brand equity to help market the business. This factor initially hurt the financial performance of Centerforce's unit as the organization had to increase its marketing efforts to compensate for the lack of local brand recognition. Nevertheless, once the organization hired new staff and implemented AIM Mail Center's marketing plan, gross sales increased by 50% the following year.

Lesson 9: Nonprofits should not assume that they will automatically receive the "best" offer from the franchisor during initial negotiations.

Some organizations assume that because of their nonprofit status, franchisors will automatically give them the best deal available. However, whether this preferred treatment is the price of a business or the amount of assistance provided to the nonprofit, organizations need to take responsibility for negotiating in their own best interests during discussions with the franchisor.

Like all businesses, franchisors are interested in securing the best agreement for their company and their stakeholders. While they may support a nonprofit's mission objectives, the initial terms they offer may reflect their desired terms rather than those of the nonprofit. Organizations need to be aware of this motivation and negotiate like any other business regarding the terms of the franchise agreement.

Case Examples

Organization	Description
Fontana Rehabilitation Workshop	Fontana negotiated with AIM Mail Centers for several weeks before signing the franchise agreement. Issues discussed included the cost of acquiring the franchise, the responsibilities of the franchisor for refurbishing the site location, and the use of clients within the franchise unit. As Fontana's executive director stated, the nonprofit needed to negotiate like a business for its own interests because the franchisor was doing the same.
Platte River Industries	When the organization first attempted to purchase the Auntie Anne's franchise, the initial asking price was $850,000. After conducting its market analysis and consulting with its advisory board, the organization negotiated the final price down to $675,000 – the maximum the agency's bank and SBA would approve given the financial analysis of the value of the business.

5.2 Lessons from Franchisors

Key Points

1. *Franchisors can accrue benefits to their brands and franchise systems by actively promoting their nonprofit-owned franchise units.*
2. *Nonprofits are better able to manage the accounting requirements of the business than other franchisee units.*
3. *The most profitable nonprofit-owned franchise units are those that focus primarily on the business performance of the venture rather than on their mission performance.*
4. *Franchising agreements with national nonprofits are most effective with an organization that possesses a strong, highly centralized affiliate network.*
5. *Franchisors should be prepared for a slower decision-making process with nonprofits given their status as a corporate identity.*
6. *Nonprofits require greater levels of support from the franchisor compared to other franchisee units.*

Currently, most franchisors award franchises to nonprofits for philanthropic reasons rather than financial ones. The decision often is motivated by personal relationships between the franchisor and the nonprofit or by a belief that "it is the right thing to do". Some take an active interest in providing job opportunities for disadvantaged individuals while others are merely interested in demonstrating their social commitment in certain retail markets. Regardless, without this philanthropic motivation, it is clear that the majority of franchisors would not have agreed to enter into a partnership with a nonprofit organization.

Nevertheless, even with these social intentions, franchisors still require that the nonprofit organization demonstrate its ability to operate a franchise unit. Nonprofits need to prove that they possess the sufficient capital, management structure and internal commitment to successfully operate a franchise unit. However, once the organization meets the franchisee requirements, the franchisor often is willing to give the nonprofit special concessions unavailable to regular franchise units. Some waive the franchise fees for their nonprofit partners while others award expanded territories or offer additional technical assistance. In addition, many franchisors often are willing to accommodate the nonprofit's mission objectives for the franchise unit as well.

However, based on our research, the financial performance of nonprofit-owned franchises to date has been below par. Although revenues for many of these units are comparable to other franchisee units, the majority of nonprofit franchises typically have higher cost structures and lower profit margins than other units. As a result, franchisors indicated that they have received less financial benefit from their nonprofit partnerships than their other franchised units. Few franchisors, however, have worked aggressively to capture the non-financial benefits (e.g. public relations, increased brand awareness, etc.) of their nonprofit partnerships.

The following section discusses the lessons learned in partnering with nonprofit organizations from the franchisor perspective. For a complete listing of companies interviewed for this section, please see Appendix A.

Lesson 1: Franchisors can accrue benefits to their brands and franchise systems through nonprofit-owned franchise units.

Among those franchise systems studied, Ben & Jerry's is the only franchisor that currently is actively seeking and growing nonprofit partnerships. Ben & Jerry's has integrated its philosophy toward social commitment and nonprofit Partnershops throughout its company and has reaped benefits to brand, awareness among consumers and impact on the overall franchise system.

However, most of the franchisors interviewed treat their nonprofit-owned units as regular franchisee units that receive a few special start-up concessions and extra assistance. These companies typically do not incorporate their nonprofit partnerships into their marketing activities or their community outreach efforts. As a result, most franchisors do not believe that their nonprofit-owned franchises have resulted in any tangible marketing/public relations benefits for the company.

Lesson 2: Nonprofits may be better able to manage the accounting requirements of the business than other franchisee units.

Whereas many individual franchise owners struggle with the financial requirements of the franchise unit, some franchisors have found that nonprofits handle this task with relative ease. The majority of nonprofits simply incorporate this function into their existing accounting departments. As a result, nonprofits can produce effective financial reports requiring franchisors to spend less time assisting their nonprofit franchises in this area.

Case Examples

Company	Description
AIM Mail Center	The CEO of AIM Mail Centers is pleased by how easily the company's nonprofit franchise units have handled their accounting responsibilities. The franchisor attributes much of this competency to the organizations' existing accounting departments. More importantly, the company acknowledges that it does not need to spend as much time with its nonprofit units on this issue compared to its other franchise units.
Auntie Anne's	According to the Platte River Industries' executive director, the organization has integrated the accounting needs of its franchise units into the nonprofit's accounting systems. In fact, when the organization attends franchisee conferences, it is often one of the most sophisticated units within the system in regards to this topic.

Lesson 3: The most profitable nonprofit-owned franchise units are those that focus primarily on the business performance of the venture rather than one their mission performance.

In most cases, franchisors have found that overall financial performance suffers when nonprofits use their franchise units as job-training platforms. The business either has lower revenues, higher cost structures, or a combination of these problems when compared to other franchisee units. In addition, improving the financial performance of these units can be difficult because the corrective actions needed – using fewer clients as employees, reducing the number of on-staff job coaches – often conflict with the organization's mission objectives.

Most franchisors attribute this under-performance to the nonprofit's use of a blended metric when judging its franchise unit's success. This approach causes the franchise manager to operate the business in a much different manner than other franchisee units. It not only allows for decreased financial success when mission objectives are being met or exceeded, but it also limits the types of corrective action that managers can take to improve the franchise's financial performance.

Case Examples

Company	Description
AIM Mail Center	Despite varying locations and customer demographics, all of AIM Mail Centers' nonprofit franchises have lower than expected revenues and profitability. However, the company attributes these shortcomings to the nonprofits' unique accounting systems and the fact that they have added internal cost factors for their job-training programs. While organizations are being compensated by various job-training grants, those revenues are not attributed directly back to the franchise unit. As a result, the franchise units often carry the costs but not the revenues derived from job-training activities that lower their overall financial performance.
Ben & Jerry's	Although Ben & Jerry's PartnerShops have similar revenues to other franchise units, most of them have higher cost structures and lower profit margins. This difference is mainly attributed to the extra staff needed to implement the nonprofits' job-training goals and to the lower productivity of the organizations' clients within these programs.

Lesson 4: Franchising agreements with national nonprofits are most effective with an organization that possesses a strong, highly centralized affiliate network.

While partnering with a national nonprofit can provide a franchisor with access to multiple markets, this strategy can be difficult to implement if the nonprofit's affiliates are loosely connected. A uniform agreement negotiated with the organization's headquarters will only be applicable if the nonprofit is able to guarantee the cooperation of its local offices. Without this assurance, affiliates may resist any terms negotiated at the national level on their behalf.

Case Example

Company	Description
7-Eleven	Several years ago, the company signed an agreement with the headquarters of two national organizations that stated 7-Eleven would pay the organizations $5,000 for every successful franchise candidate they referred to the franchisor. In return, the nonprofits agreed to give 7-Eleven access to all of their affiliates to help them in their search for franchisee applicants. The nonprofits were interested in the deal because it allowed both the national office and local chapters to promote small business ownership among their constituency while generating revenues for the organization. However, many of the nonprofits' affiliates balked at assisting 7-Eleven when approached by the franchisor. Most chapters either demanded a separate agreement from 7-Eleven or were not aware that such a partnership had been established. More importantly, the national offices did not communicate to their affiliates the criteria that the franchisor had established for suitable franchisee candidates. As a result, 7-Eleven not only did not receive the access to local markets it was looking for, but the company also received a high number of unqualified applicants from the affiliates. Given these shortcomings, the partnerships ultimately were unsuccessful.

Lesson 5: Franchisors should be prepared for a slower decision-making process with nonprofits given their status as a corporate identity.

Franchisors typically are accustomed to dealing with a single individual regarding franchise issues. As a result, many companies find working with a nonprofit to be more complicated and time-consuming. Unlike individual franchisees, nonprofits often must obtain the approval of their board of directors before committing to major decisions such as signing a franchise agreement or acquiring a specific retail space. As a result, decision-making naturally proceeds at a slower pace when compared to an individual. Franchisors must to be prepared for these delays when working with nonprofits.

Case Examples

Company	Description
Auntie Anne's	During the negotiation process, several board members of Platte River Industries raised objections to the final franchise agreement and continued to object even after both parties had reached a settlement. As Platte's executive director acknowledged, it was probably the longest negotiation process that the franchisor had ever participated in. At one point, the nonprofit became concerned that Auntie Anne's would withdraw its franchise offer because the process was taking too long.
Maggie Moo's	Manna required approval from its board of directors at every major stage of the franchising process including site selection, capital acquisition, and signing of the franchise agreement. Although this requirement slowed the negotiation process, the franchisor accepted these delays because the company was interested in expanding into the Washington, D.C. market.

Lesson 6: Nonprofits often require greater levels of support from the franchisor compared to other franchisee units.

Nonprofit franchisees often require more assistance implementing the operational systems of the franchise. Issues such as inventory management and customer relations frequently are new concepts to the organization and require a shift in their thinking. As a result, franchisors typically need to devote more time advising the nonprofit during the franchising process compared to other franchise units.

Case Examples

Company	Description
Ben & Jerry's	The company maintains a full-time position whose sole responsibility is to assist nonprofits with the development of their franchise units. This task often requires that the franchisor spend more time working with its nonprofit partners to integrate job-training programs into the franchise model, to teach them how to operate a retail ice cream shop and to develop the proper business mentality within the nonprofit's culture. In addition, Ben & Jerry's devotes more time to evaluating nonprofit applicants to ensure that the organizations it chooses are capable of operating a successful PartnerShop.
ServiceMaster	Out of its desire to "give back to the community", ServiceMaster provided the On the Job, Inc. with much more management assistance than usual including hiring employees, marketing the venture to specific businesses, and assisting the organization with fulfilling job contracts.

6.0 Recommendations for Expanding Nonprofit-Owned Franchises

Key Points

1. *Nonprofits need to present and deliver the business case to franchisors for expanding nonprofit-owned franchises by:*
   - Taking active steps to minimize the differences between working with a nonprofit and an individual as a franchisee;
   - Fully leveraging the organization's asset base for the benefit of the franchise; and
   - Focusing on the financial performance of the nonprofit-owned unit.
2. *Franchisors need to view nonprofit-owned units as business relationships by:*
   - Structuring the nonprofit relationship to maximize benefits for both parties; and
   - Developing a system that will obtain the full benefits of a partnership for the company.

6.1 Recommendations for Nonprofits

CWV's recommendations for nonprofits focus on three issues – minimizing the differences between working with a nonprofit and an individual for the franchisor, fully leveraging the organization's asset base for the franchisor's benefit, and focusing the nonprofit's attention on the financial performance of the franchise unit. Nonprofits need to present and deliver the business case to franchisors if a partnership is to succeed:

1. Conduct a comprehensive feasibility assessment that evaluates multiple franchise opportunities and the organization's internal capacity.

Nonprofits must identify the most promising franchise opportunity that fits both the external market needs and the organization's internal assets. A nonprofit should not pursue a franchise merely because it has a personal relationship with a franchisor or because it thinks an opportunity is an attractive one. Organizations need to be guided by market data and relevant information when deciding which franchising opportunity to pursue.

A feasibility analysis will also help a nonprofit identify any internal gaps – including resources, talent, and staff – that it will need to fill before pursuing a franchise opportunity. More importantly, this gap analysis will inform the organization which franchises it should not pursue either because of resource constraints or poor fit with available resources. In addition, such an analysis can be used to build buy-in from both the nonprofit's internal and external stakeholders.

2. Pursue franchises that represent good business opportunities rather than good platforms for job-training or other mission objectives.

In order to develop sustainable franchise units, nonprofits need to be willing to perform like a typical franchisee in terms of business performance. Although a nonprofit organization may find a breakeven franchise that employs its clients to be wholly successful, franchisors will not. Franchisors have profitability as a primary objective, so they will not be interested in pursuing and expanding nonprofit franchise relationships unless they believe the nonprofit can perform at the level of other for-profit franchisees. As a result, nonprofits must pursue franchise opportunities that represent areas in which they are favorably positioned to compete, or they should place greater emphasis on financial performance than mission fit in making the choice of which franchises to consider.

3. Assemble a specific advisory committee consisting of industry experts and business leaders to provide on-going assistance and oversight to the franchise unit.

Not only will an advisory board help the nonprofit navigate the challenges of evaluating and operating a franchise, but they also can reduce the franchisor's risk in working with the organization. The additional oversight and assistance provided by the advisory board's combined expertise and experience help compensate for a nonprofit's lack of business experience. As a result, the franchisor gains an extra measure of assurance that the nonprofit franchise will be managed correctly.

4. Develop external measures for the franchise that focus on financial performance.

The nonprofit should not only internally commit to operating the franchise as a business, but it should also create an external system that forces the organization to operate it like one. Although this may be uncomfortable, this system – which cannot be altered by the organization once agreed to – will help keep a nonprofit focused on maximizing the franchise unit's financial performance. Some suggested measures include:

- Having the executive director or nonprofit manager overseeing the venture sign a personal liability agreement for the franchise unit with the franchisor;
- Incorporating the franchise as a for-profit subsidiary; and
- Regularly presenting reports that focus on the franchise unit's financial performance to the nonprofit's advisory board and/or board of directors.

5. Hire an experienced operator to manage the day-to-day operations of the franchise unit.

Because nonprofits typically lack relevant business experience, it is critical that the organization hire an experienced manager to operate the franchise unit. Without such an individual, the success of the business is jeopardized. More importantly, the manager's compensation should be tied to the franchise unit's financial performance. This incentive will ensure that the venture will be managed to maximize its business performance both for the franchisor and for the organization.

6. Develop internal accountability measures that define the responsibility of the nonprofit and the franchise unit to one another.

To ensure that the franchise unit receives the necessary support from the nonprofit, the organization should explicitly detail what is expected from all internal stakeholders involved in the franchise partnership. These measures should include the franchise manager's responsibility to the nonprofit, the executive director's responsibility to support the franchise, and the board of directors' responsibilities to support the franchise. More importantly, it should also include a commitment that a nonprofit's organizational assets – such as its accounting department, development/marketing department, network of contacts – will be used to support the franchise unit.

More importantly, specific accountability measures should be developed to create a system of consequences should someone fail to provide the necessary support to the franchise unit. These consequences can be tied to either financial compensation or employee performance reviews or both. Without one, the needs of the franchise unit can be quickly overlooked or ignored among an organization's ever-shifting priorities.

7. Any job-training component of the franchise business should be an extension of existing organizational programs.

Nonprofits should not use the franchise unit as a platform to launch a new job-training initiative. Doing so will negatively affect the overall financial performance of the franchise unit and make a long-term partnership less appealing to a franchisor. Using a franchise unit as a job-training platform should only be considered by nonprofits with existing programs that already successfully incorporate clients into business environments.

8. Streamline the decision-making process by obtaining Board approval to negotiate a franchise opportunity before doing so.

This step helps reduce the bureaucracy a franchisor will experience when negotiating with a nonprofit. Although the time required for this process probably will still be longer for nonprofits than with individual franchisees, obtaining board approval beforehand can significantly reduce the time frame involved.

6.2 Recommendations for Franchisors

The recommendations for franchisors focus on two main issues – structuring the nonprofit relationship to maximize benefits and developing a system that will obtain the full benefits of a partnership for the franchisor. Franchisors need to view nonprofit units as business relationships and act accordingly. While these requirements may limit the number of potential nonprofit partners, it also ensures that the relationship will be beneficial to both parties:

1. Open the door to nonprofit franchise ownership.

Franchisors will not realize the many benefits of working with nonprofit organizations if they never indicate that they are open to the idea of nonprofits owning franchise units within their system. Although companies have conducted considerable outreach to members of the minority community regarding franchising opportunities, few have actively solicited nonprofit organizations. Nevertheless, franchisors can easily build upon their current minority-focused initiatives to begin reaching out to nonprofit organizations. While such efforts do not guarantee approval or success, they nevertheless create an environment where highly-qualified nonprofits are in a favorable position to submit a strong application to be considered for ownership.

2. Evaluate nonprofit franchise proposals as business proposals.

While franchisors can be motivated by philanthropic reasons, their decision to award a franchise unit to a nonprofit organization ultimately must be based on the business merits of such a relationship. If the nonprofit is unwilling to leverage key assets or cannot demonstrate that it can operate a franchise at the same level as other franchisees, the company should not enter into a relationship with the nonprofit.

3. Select a nonprofit partner that best fits the franchise's core business and brand identity.

Because part of the benefit of partnering with a nonprofit is increased marketing/public relationship, the public must be able to establish a natural connection between the nonprofit and the franchisor. As a result, a franchisor should award a franchise unit to a nonprofit that fits closely with the company's image and business objectives, rather than base the decision on a personal relationship or affinity for the organization's mission. For example, given the product's association with childhood, an ice-cream franchisor may be better off partnering with a youth organization than with an organization that works with adult ex-offenders.

4. Define the performance expectations and accountability measures for the nonprofit franchise unit clearly before signing a partnership agreement.

Just as the nonprofit needs to be clear about any mission objectives it plans to incorporate into the franchise unit, the franchisor similarly needs to be clear about its performance expectations for the nonprofit. In addition, the company should detail the accountability measures – such as increased fees, probationary periods and revocation of the franchise license – that will be invoked if the nonprofit continually fails to meet the company's performance expectations. More importantly, the franchisor must enforce these measures, much as it would with any other franchisee.

Both the franchisor and nonprofit should understand and agree on these standards before signing any franchise agreement. Taking the time to do so will create a more open relationship that can help avoid any future misunderstandings regarding performance expectations.

5. Work with nonprofit partners to promote the partnership to both internal and external audiences.

Franchisors – in conjunction with their nonprofit partner – need to actively promote the partnerships to receive the full benefits of such a relationship. Activities include incorporating the nonprofit franchise unit into all marketing and media outreach activities, leveraging the nonprofit's relationships to enhance community outreach efforts, instituting cause-related marketing campaigns, etc. In addition, while the company will have to determine which marketing activities will produce the most benefits, it must also allocate the necessary resources to support such efforts.

6. Develop a system that effectively tracks the partnership's financial and marketing benefits to the company.

Franchisors will need to develop a system that allows the company to accurately assess the benefits of a nonprofit franchise beyond the unit's financial performance. These benefits can include increased sales at other franchise unit locations, higher brand awareness, additional media coverage, stronger employee morale, etc. The system's ability to quantify these benefits will be critical in justifying the costs of a nonprofit franchise unit to both a company's internal and external stakeholders.

Nonprofit-Owned Franchises:

A Strategic Business Approach

Appendices

Appendix A – List of Nonprofits, Franchisors, and Franchise Experts Contacted

Nonprofit Organizations

- On the Job, Inc.
- Brentwood Baptist Church
- Center for the Homeless
- Centerforce
- Common Ground
- Community Development Corporation of Kansas City
- Elwyn, Inc.
- Fontana Rehabilitation Workshop
- Juma Ventures
- Latin American Youth Center
- Manna Community Development Corporation
- Marshall Heights Community Development Organization
- Martin Luther King Economic Development Corporation
- Metro Community Investment
- New Community Corporation
- Platte River Industries
- Postgraduate Center for Mental Health
- Washoe Association of Retarded Citizens

Franchise Companies

- 7-Eleven
- AIM Mail Centers
- Ben & Jerry's
- Coffee Beanery
- Dunkin' Donuts
- Krispy Kreme
- Maggie Moo's
- McDonald's Corporation
- Moxie Java
- ServiceMaster Clean
- ServiceMaster/Tru Green Landscaping

Franchise Information Sources

- Andrew Caffey – Attorney
- Jeff Elgin – FranChoice
- John Reynolds – International Franchise Association Educational Foundation
- Michael Seid – Michael H. Seid Associates
- Jerry Wilkinson – Franchise Recruiters

Appendix B – Overview of Existing Nonprofit-Owned Franchises

Nonprofit	Franchise	Year Started	Description
On the Job, Inc. (Boston, MA)	**ServiceMaster**	1999	▪ Obtained janitorial franchise to provide jobs for homeless clients. ▪ Although the franchise was profitable after two years, due to the negative impact 9/11 had on the franchise's key airport account, the franchise closed in 2002.
Brentwood Baptist Church (Houston, TX)	**McDonald's**	2002	▪ The church leases space to an independent McDonald's unit – it does not operate the franchise. ▪ Although the franchise hires some parishioners, the church has little involvement in the management of the business. ▪ Generates some revenues for the church – but it is an arrangement with the franchisee instead of the McDonald's Corporation.
Center for the Homeless (South Bend, IN)	**ARAMARK ServiceMaster**	1998	▪ Originally a franchise, the Center now is only affiliated with ARAMARK ServiceMaster. ▪ Employs 12 client FTE's. ▪ Profitable in every year of operation.
Centerforce (Lakewood, WA)	**AIM Mail Center**	2001	▪ Opened AIM franchise to become less dependent on government funding. ▪ Employs 3.25 disabled FTE's (plus 3.5 non-disabled FTE's). ▪ Not profitable to date – projected break-even in 2004.
Central Detroit Christian Development Corporation (Detroit, MI)	**Tastee-Freez**	2002	▪ Opened Tastee-Freez franchise to generate revenue for the organization and provide job-training opportunities to Northern Detroit youth. ▪ Employs 13 youths and young adults. ▪ Projects annual revenues of $167,000.
Chicago Children's Choir (Chicago, IL)	**Ben & Jerry's**	2003	▪ Operates a PartnerShop on W. Randolph Street in the city's theater district. ▪ Employs youth from its program who sing as they scoop ice cream for customers.

Nonprofit	Franchise	Year Started	Description
Common Ground (New York, NY)	**Ben & Jerry's**	1994	▪ Operates Partnershops in three locations – Times Square, the Rockefeller Center, and 104th Street. ▪ Franchises are break-even to marginally profitable – businesses required to cover a portion of the organization's overall overhead costs. ▪ Business took 2 – 3 years to break-even. ▪ Franchises hire 15 client FTE's (permanent & part-time).
Community Development Corporation of Kansas City (Kansas City, MO)	**Popeye's**	1989	▪ The organization pursued the franchise to address the local demand for fast food restaurants. ▪ Required that a minority be allowed to own the franchise based on sweat equity from management. ▪ Popeye's guaranteed minority management and 100% employment from within the community.
Elwyn, Inc. (Fountain Valley, CA)	**AIM Mail Center**	2002	▪ Became the licensed operator of the Huntington Beach AIM Mail Center in March 2002. ▪ Acquired franchise to diversify the organization's revenues and to offer additional job opportunities to disabled clients.
Fontana Rehabilitation Workshop (Fontana, CA)	**AIM Mail Center**	2000	▪ Pursued franchise to establish job-training platform for disabled clients and to expand the organization's existing business lines. ▪ Purchased an existing AIM Mail Center from franchisor. ▪ Business has yet to break-even since the nonprofit acquired it.
Juma Ventures (San Francisco, CA)	**Ben & Jerry's**	1995	▪ Operates 5 Ben & Jerry's franchises (3 PartnerShops & 2 ballpark concessionary stands). ▪ Pursued each franchise to provide job training and real life skills to organization's clients. ▪ Majority of franchise employees are nonprofit program participants. ▪ Franchise operating margins range from marginal losses to marginally profitable.

Nonprofit	Franchise	Year Started	Description
Latin American Youth Center (Washington, DC)	**Ben & Jerry's**	2002	▪ The Center bought an existing franchise located in one of Washington DC's affluent neighborhoods to provide job training opportunities for its clients. ▪ Franchise hires between 4 – 15 client FTE's (depending on season). ▪ Plans to open a second PartnerShop in Washington DC in 2004. ▪ First PartnerShop projected to break-even in 2003.
Manna Community Development Corporation (Washington, DC)	**Maggie Moo's**	2002	▪ Signed franchise agreement in December 2002. ▪ The organization recently acquired the retail space for the business and currently is in the build-out process. ▪ Hired an experienced business manager to operate the franchise and will focus all employee hiring in the surrounding neighborhood. ▪ Franchise located in a developing area of Washington DC.
Marshall Heights Community Development Organization (Washington, DC)	**Chesapeake Bagel Bakery**	Not Available	▪ Instead of operating the franchise, Marshall Heights became a 25% equity partner in the business. ▪ The CDC helped identify the franchise operator and used its relationships with real estate brokers and lending institutions to accelerate the negotiations and build-out process.
Martin Luther King Economic Development Corporation (Milwaukee, WI)	**Ponderosa**	2001	▪ The organization pursued the franchise to address the local demand for a sit-down, family-style restaurant. ▪ Instead of operating the franchise, Martin Luther King CDC became a 19% equity partner in the business. ▪ The CDC helped identify the franchise operator and assisted the franchise in screening more than 600 employee applicants.
Metro Community Investment (Minneapolis, MN)	**Ben & Jerry's**	2000	▪ Main goal of PartnerShop is to provide job training and real life skills to organization's clients. ▪ Raised half of start-up capital from community, half from grants & loans from state and local foundations.

Nonprofit	Franchise	Year Started	Description
New Community Corporation (Newark, NJ)	**Dunkin Donuts, Nathan's, Pizza Hut/Taco Bell**	1992	▪ Pursued each franchise to satisfy the need for food establishments in central Newark and job opportunities for low-income individuals. ▪ New Community owns and operates each franchise.
Platte River Industries (Denver, CO)	**Auntie Anne's**	1998	▪ Operates two franchise stores in Denver International Airport – purchased an existing franchise in 1998 and opened a second one in 2001. ▪ At least 70% of franchise employees are persons with a disability. ▪ Businesses net an estimated \$200,000 – \$300,000on \$1.2M revenues.
Postgraduate Center for Mental Health (New York, NY)	**Ben & Jerry's**	1995	▪ Main goal of PartnerShop is to provide job training and real life skills to the organization's clients. ▪ Franchise trains approximately 10 clients per year. ▪ Because the organization owns the retail space occupied by the franchise, the business does not pay any rent – however, it still requires an annual subsidy to support the venture's job-training program.
Second Chance (San Diego, CA)	**Ben & Jerry's**	2003	▪ Acquired an existing Ben & Jerry's shop located in the Hill Crest area of San Diego on October 1, 2003. ▪ Second Chance plans to use the PartnerShop to provide underprivileged young adults an opportunity to become workforce ready.
Washoe Association of Retarded Citizens (Reno, NV)	**Pier One, Moxie Java**	1978, 2000	▪ Moxie Java is a licensing relationship while Pier One is a traditional franchise relationship. ▪ Neither business hires individuals from Washoe's disabled client population. ▪ Pier One – located near a shopping mall – took 7 years to break even; Moxie Java – located near office park – took three years.
Youth Job Center of Evanston, Inc. (Evanston, IL)	**Ben & Jerry's**	2003	▪ Opened in March 2003 a few blocks from the campus of Northwestern University. ▪ The goal of the PartnerShop is to provide supportive employment and training opportunities to the organization's youth looking to enhance their job skills.

Appendix C – Case Example of a Successful Nonprofit-Owned Franchise

Platte River Industries

Organization Description

- Platte River Industries was established on June 17, 1987 with the mission to create market-based employment opportunities that provide individuals with disabilities the opportunity to participate productively in the economy of their community.
- PRI operates several services industries – a $4.2 million business – to accomplish this mission including:
    - A manufacturing plant that provides light manufacturing, bench assembly, packaging and shipping/fulfillment services;
    - Custodial services at the Fort Carson Army Base in Colorado Springs, the U.S. Mint in Denver and the Colonnade Federal Building in Denver;
    - Retail grocery operations providing custodial, shelf stocking, warehousing and product order writing at Buckley Air Force base in Aurora, CO; and
    - Auntie Anne's Soft Pretzel businesses at the Denver International Airport.
- Over 80% of the direct labor employment positions for PRI's businesses are held by persons with a disability, resulting in $962,618 paid in wages to individuals with a disability during fiscal year 2001-2002
    - An additional $148,057 was paid in health and dental benefits.

Franchise Description

- PRI operates 2 Auntie Anne's franchises in the Denver International Airport. The organization acquired an existing franchise unit in 1998 and opened a second one in June 2001.
- At least 70% of the franchise units' employees are disabled clients of Platte.
- Auntie Anne's did not waive the franchisee fees or royalty payments for either unit.
- The two franchise units generate a combined annual revenues of $1.2 million and estimated annual profits of $200,000 - $300,000.

Keys Decisions

Many actions taken by Platte River Industries during the different franchising stages helped to create a successful nonprofit franchise unit.

1. Applicant Recruitment

Before acquiring the Auntie Anne's franchise, PRI – with the assistance of University of Northern Colorado's Business School students – examined the market dynamics of Denver International Airport to determine what type of businesses it could operate profitably in that location. Although Platte initially used the information to open its Rocky Pop Popcorn vending stand, it later conducted a follow-up analysis on the soft pretzel industry and Auntie Anne's franchise operations – which was presented to PRI's banker, the Small Business Administration, and PRI's Board of Directors – to decide whether or not to purchase the Auntie Anne's franchise unit from its previous owner. The information they gathered was critical in convincing several hesitant board members that the Auntie Anne's franchise represented a wise investment of resources for the organization.

2. Applicant Assessment

During the creation of the Agency, members of the banking community, a University of Northern Colorado's Business School Dean, and three business owners were recruited in conjunction with other community leaders. PRI's initial venture into a wholly owned retail business (Rocky Pop Popcorn) was developed by hiring an established wholesaler/retailer in snack foods. The paid consultant established the business criteria for the venture in conjunction with the Board and its staff.

These individuals later provided PRI with valuable insight regarding the airport marketplace and also helped the organization structure the Auntie Anne's franchise's operations so that they were positioned correctly to maximize profitability. Drawing from their business experience, these individuals helped PRI to strategically analyze the market opportunity and to address critical issues before acquiring the business. More importantly, their experience and presence on PRI's board was critical in convincing Auntie Anne's to award a franchise unit to the nonprofit.

3. Negotiations & Signing

When the organization first attempted to purchase the Auntie Anne's franchise, the initial asking price was $850,000. After conducting its market analysis and consulting with its advisory board, the organization negotiated the final price down to $675,000 – the maximum the Agency's bank and SBA would approve given the financial analysis of the value of the business.

More importantly, the organization's CEO agreed to sign a personal liability agreement with Auntie Anne's for the franchise units. Although PRI's board acquired insurance to cover the costs of these agreements, these actions helped convince Auntie Anne's that the organization was intent on operating the franchise units profitably with a focus on the business's financial performance.

4. Unit Build-Out

Although the organization had experience operating other business ventures, PRI realized that it did not possess any airport retail experience and appointed an experienced manager to oversee its Auntie Anne's units. Even though the individual is trained to be sensitive to the needs of the organization's client working in the franchise, her main priority is to manage the business profitably. The organization acknowledged that it needed such an individual to ensure that the franchise units met both financial and mission objectives.

5. Unit Launch

PRI obtained an SBA-guaranteed loan to capitalize the franchise units and incorporated them as separate for-profit LLC subsidiaries wholly owned by the nonprofit organization. These decisions helped focus Platte on the financial performance of the franchise units as external pressures were created to motivate them towards profitability.

6. Operations Support

Although 70% of its franchise staff members are disabled clients, the organization only measures the success of its businesses by their financial performance. Even though the manager is trained to be sensitive to the needs of the organization's clients working in the franchise, he is evaluated and compensated solely on the basis of the profitability of the business. As a result, client employees are expected to perform at the same level as other employees with the franchise fully covering their wages. In addition, the franchises do not hire any additional job coaches. PRI credits this approach with the franchise's ability to produce $1.2 million in revenues and an estimated $300,000 in profits the previous fiscal year.

Key Lessons Learned

1. *Clarity of purpose affects success* – By managing the franchise units strictly by their financial performance, PRI is able to operate highly profitable enterprises. More importantly, it gives managers clarity of direction when they need to make decisions regarding the businesses.

2. *Working capital is critical* – The organization experienced a brief crisis when it launched the first franchise unit because it did not have the cash on hand to cover payroll expenses during the first 90 days of operation.

Appendix E – Case Example of a Franchisor with Successful Nonprofit Franchisees

Ben & Jerry's

Company Description

- Ben & Jerry's manufactures and distributes premium ice cream, frozen yogurt, and sorbet.
- The company possesses over 260 franchise shops in the United States and was acquired by Unilever in 2000.

Nonprofit Franchise Descriptions

- Ben & Jerry's currently has franchise agreements with 15 organizations within its nonprofit PartnerShop program.
- The company plans to open 5-7 additional nonprofit-owned franchises in 2004.
- The benefits to Ben & Jerry's from its nonprofit PartnerShops include:
    - *Stable revenues* – Nonprofit-owned franchises typically have similar revenue levels compared to other franchise units.
    - *Enhanced brand* – Ben & Jerry's nonprofit partners is consistent with its social commitment and culture, resonating with customer groups and building brand.
    - *Higher employee morale* – Both corporate staff and field employees feel a stronger affiliation to the company as a result of its nonprofit partnerships.

Keys Decisions

Many actions taken by Ben & Jerry's during the different franchising stages helped to create successful nonprofit partnerships.

1. Applicant Recruitment

Ben & Jerry's provides access to existing nonprofit-owned franchise units to potential applicants and actively seeks out appropriate nonprofit partners. Ben & Jerry's has developed a forum on its website for approved nonprofit organizations that helps address frequently asked questions and allows nonprofits to learn more about the PartnerShop program.

2. Applicant Assessment

Ben & Jerry's screens all nonprofit applicants to ensure that the organizations are capable of operating a successful franchise unit. A Ben & Jerry's representative will do a site visit to all nonprofit applicants to assess organizational capacity, financial infrastructure and community relations. In addition, Ben & Jerry's will call up to 12 external references of the nonprofit organization before approving an application.

3. Negotiations & Signing

Ben & Jerry's waives the franchise fees and reduces required royalty payments for its nonprofit-owned franchises.

4. Unit Build-Out

Ben & Jerry's assists the nonprofit by providing site selection criteria, and evaluating and approving all franchise unit sites.

5. Unit Launch

Ben & Jerry's works with its nonprofit partners to create a community event around the launch of the new franchise unit. For example, the company assisted the Latin American Youth Center in gathering local politicians as well as Ben Cohen and Jerry Greenfield for the opening of its first Washington DC unit that resulted in media coverage in *The Washington Post* and local television stations.

6. *Operations Support*

Ben & Jerry's maintains a full-time position whose sole responsibility is to assist nonprofits with the development of their franchise units including teaching organizations how to operate a retail ice cream shop, how to develop the proper business mentality within the nonprofit's culture to manage the ventures, etc. In addition, the company developed a standard curriculum for nonprofit franchise units looking to use their ventures as a job-training platform to help reduce inefficiencies associated with the process and to share best practices across organizations. The Ben & Jerry's representative also contacts all of the nonprofit-owned franchises on a monthly basis to provide hands-on assistance with the ventures.

More importantly, Ben & Jerry's has integrated its social commitment in a variety of ways that range from its products to its nonprofit-owned franchises. This holistic approach creates an integrated brand that is viewed as authentic one that consumers know and trust.

Key Lessons Learned

1. *Importance of advisory boards* – Nonprofit-owned franchises that establish an advisory board to assist with the venture typically perform better financially and are opened more quickly than those without such a board.
2. *Price of mission-based activities* – Nonprofits that incorporate job-training and other mission components into their franchise units often have significantly lower net margins than other franchise units.

Appendix F – Target Criteria for Expanding Nonprofit-Owned Franchises

CWV and the IFAEF have developed the following criteria for future nonprofit-owned franchises to ensure that both the nonprofit and the franchisor are capable of fully capitalizing on this opportunity. These criteria are designed to screen for participants who are best positioned to implement the recommendations of this report.

I. Nonprofit Criteria

The ideal nonprofit organization for a nonprofit franchise partnership meets the following characteristics:

1. ***Established nonprofit with success in its field of work*** – Because operating a franchise will increase the stress placed on an organization, the nonprofit needs to be a stable organization that is effectively managing its programs. In addition, the nonprofit should also have demonstrated its success within its respective field. Without these qualifications, a nonprofit likely will lack the sophistication and business acumen required to develop a successful relationship with an established franchisor.

   More importantly, if the organization is a national nonprofit, it must have a strong, highly centralized affiliate network. The nonprofit will need to be able to ensure that any agreement signed at the national level will be binding to its affiliates at the local/regional level. Without this assurance, it will be difficult to attract a franchisor for a national partnership.

2. ***Willingness to focus on financial returns before mission returns*** – Given that a franchise unit's financial performance suffers when mission objectives conflict with business objectives, the nonprofit must commit to managing the franchise strictly by its financial performance. Although this decision does not exclude the possibility of using the business as a job-training platform or neighborhood catalyst, these measures should not be implemented into the franchise unit's definition of success. Otherwise, the franchisor will have a difficult time realizing the tangible benefits of a nonprofit partnership.

3. ***Ability to assemble a franchise Advisory Board*** – The nonprofit must have relationships with industry experts and experienced businesspeople that it can leverage to assemble a franchise Advisory Board. Given that many organizations lack industry knowledge and experience within the franchise sector, the Advisory Board will be crucial to the nonprofit in navigating the challenges of operating a franchise unit. More importantly, the board will be able to assist the nonprofit in identifying and addressing problems that arise during the franchising process.

4. ***Access to sufficient resources*** – The nonprofit must be able to secure the resources needed for all stages of the franchise process. These resources can be both market-based – loans, lines of credit and equity investments – or philanthropic-based – grants, program-related investments and endowments.

5. ***Willingness to hire the right talent*** – The nonprofit must commit to providing the resources and compensation package necessary to attract experienced managers and operators to oversee the franchise venture. Because running a business often requires a different skill set and mentality than operating a nonprofit program, the organization must be ready to hire external talent with relevant experience to manage their franchise unit.

6. ***Experience with earned income ventures and/or social enterprise*** – To mitigate the risks of operating a franchise unit, the nonprofit should be familiar with managing an earned-income venture. Whether this entity is a fee-for-service program or a functioning social enterprise, it ensures that the organization is familiar with the profit-centered mentality needed to manage a franchise business.

7. ***Existing job-training program*** – For nonprofits looking to incorporate job training into the franchise model, the organization must already possess a successful job-training program that incorporates clients into multiple business environments. Otherwise, the financial performance of the nonprofit franchise unit will suffer as the organization struggles to determine how to incorporate clients into a business setting for the first time.

II. Franchisor Criteria

The ideal company for expanding nonprofit-owned franchises meets the following characteristics:

1. ***Socially conscious executive team*** – The franchisor's management team must be inclined to support social causes and believe in the positive "halo" effect that a nonprofit partnership can have for the sales and brand equity of the franchise system. Although the business case for a nonprofit-owned franchise can be made to any franchise company, the likelihood of a franchisor agreeing to engage in such a partnership increases with the presence of a socially conscious leadership team.

2. ***Privately owned franchise system*** – The owner or management team of a franchise company must be able to make decisions for the system without excessive pressure to focus on short-term gains. These decisions will be easier to achieve with a privately-held franchisor rather than with a publicly-held franchisor that possesses a separate board of directors or individual shareholders.

3. ***Well-established franchise system*** – The franchisor must have a proven business model, an established support system, and a publicly recognized brand. Without these characteristics, the benefits to the nonprofit partner are greatly diminished. Although each franchise system needs to be evaluated on a case-by-case basis, CWV and the IFAEF believe that the initial guidelines for such a system include 5+ years franchising experience and 200+ existing franchisee units.

4. ***Growing network looking to expand beyond traditional channels*** – To ensure that the franchisor is financially healthy, the company needs to be in an active stage of growth. More importantly, the franchisor needs to be flexible in the liability requirements it demands from its nonprofit partner. Given that many nonprofit managers will hesitate to sign a personal liability agreement for the organization's franchise unit, the company must be willing to consider corporations as potential franchisee units.

5. ***Willingness to develop a nonprofit system*** – Because nonprofit franchise units typically require more on-going assistance than other franchise units, the franchisor must be willing to develop a system to support its nonprofit partners. This system must effectively track the partnership's financial and marketing benefits to the company. Without this information, the franchisor will not be able to measure the full benefits of the partnership to convey to its internal and external stakeholders.