INVESTING IN SOCIAL FRANCHISING

Research for Big Society Capital by

The International Centre for Social Franchising

September 2012

"Nearly every problem has been solved by someone, somewhere. The frustration is that we can't seem to replicate (those solutions) anywhere else."

Bill Clinton

Mark Richardson, and Dan Berelowitz

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Foreword

Big Society Capital's (BSC) goal is to build a sustainable social investment market in the UK.

Even we, however, would not argue social investment is an end in itself. Yes, social investment can be a critical factor in the start-up, growth and resilience of organisations that exist to deliver social benefit, whether it's helping a frequent re-offender mend his ways or getting an unemployed young person into work. But other things matter too.

Like good ideas for social change, tried and tested products, operational platforms that are proven to work. And quantity matters as well as quality. The UK doesn't suffer from a surfeit of large but mediocre social organisations. It suffers from a surfeit of small but great social organisations. We need more of these organisations to grow and 'reach scale'. Doing this organically is not for the impatient.

Social Franchising could be part of the answer - helping the social sector scale, whilst remaining response and adaptable at a local level. We originally commissioned this report to better understand the scope for Social Franchising, and we now understand that scope to be considerable:

- There are already 95 social franchises operating in the UK such as Care and Share Associates (CASA) in the North of England, many of whom could offer potential for social investment
- There are also successful European social franchises that can be imported to the UK - like LE MAT, originally an Italian co-operative hotel run by mental health patients and providers, which has now franchisees in Sweden and elsewhere
- Franchising is well established in the commercial sector - with UK franchisees turning-over £13.4bn in 2012 across more than 900 franchise brands and over 40,000 franchisee outlets.

The report's recommendations focus on how to make social franchising happen in the UK. We're particularly delighted that the International Centre for Social Franchising (ICSF) has been founded to carry out some of the recommendations, particularly around having a support body for those thinking of franchising. Policy makers and social investors alike now need to think how implement some of the other recommendations, including developing a 'pipeline' of social franchises, and establishing a dedicated social franchise investment fund.

Nick O'Donohoe
Chief Executive
Big Society Capital

BIG SOCIETY CAPITAL
Transforming social investment

Executive summary

Background

In December 2011 research was commissioned by Big Society Capital to help better understand the social franchising marketplace in the UK. A follow up piece of work was then commissioned to look at the need for, and possible structure of, a social franchise investment intermediary. This report is the output of both pieces of research.

Introduction

The term 'social franchising' can mean different things. In the UK the term social franchising is often used interchangeably with the broader concept of social replication: replicating a successful social purpose organisation or project in a new geographical location. We would argue however that it is helpful to distinguish between franchising and replication and so the definition of social franchising we use in this report is:

A successful social purpose organisation that enables at least one independent franchisee to deliver their proven model under license.

Other uses of the term are also explored, although in less detail, as potential areas for social investment.

Why invest in social franchising?

It makes no sense to keep reinventing the wheel. If we are serious about maximising social impact we need to give greater priority to replicating successful models, rather than constantly encouraging new solutions to the same problems.

There is a real opportunity in the UK to take the lessons from both past and current social franchise operations and successful commercial franchises in order to generate social impact.

Investing in mature social franchises can be seen as a safer investment than investing in a new, stand-alone social enterprise. Although hard data from the social sector is difficult to come by this supposition is supported by qualitative evidence and evidence from the commercial sector:

"…The average annual commercial failure rate of franchise units has been less than 5% each year since 2001. Even in the current recession 90% of franchise units have reported that they remain profitable. As a result '...around 90% of new franchise businesses are still operating after 5 years, compared with 30% of other types of business start-up.'[1]

[1] Data Monitor report on Franchising, 2010

Deciding what social franchises to invest in

Social Enterprises exist on a continuum from 'not-for-profit' to 'for profit' and on a continuum from 'social focus' to 'market focus'. There are grey areas between social enterprise, ethical business, commercial business and charity. All these sectors contain organisations that are worthy of further investigation for investment in social franchising.

Because opportunities for investing in social franchising cannot be limited to one sector, a set of criteria needs to be developed to assess an organisation's eligibility for social investment.

Social franchising – scale and potential

Our research has identified 95 social franchises operating in the UK. Many could offer potential for social investment. We have also identified a further 45 social franchises operating in other European countries. Although franchising across borders has its challenges it has been successfully accomplished by a number of organisations. There are several successful European social franchises that are not yet operating in the UK but have the potential to do so.

There are 897 commercial franchises in the UK at the moment[2]. Although these commercial franchises would probably not consider themselves as part of the social economy many are arguably already operating with a social purpose.

In addition to commercial franchises that are seemingly already delivering social benefit, there are also those that could be adapted to do so. For example a regular grounds maintenance franchise could be adapted to create employment opportunities specifically for disadvantaged people

The 'Income Generation Model' of social franchising refers to not-for-profit organisations taking on a commercial franchise as a means of generating revenue. This has not been widely used in the UK, but is also worth further exploration.

Legal structures

We surveyed 33 of the 95 social franchises registered in the UK. There was no one common legal structure adopted by parent organisations or franchisees. They included Private Limited Companies, Industrial and Provident Societies, Companies Limited by Guarantee, Registered Charities and Community Interest Companies. Each of these legal structures has advantages and disadvantages for both the organisation and the potential investor.

There is no one established legal structure for the overall franchise 'group' either. Different structures include:

- A federation of mutually supportive franchisees

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[2] Natwest/BFA Franchise Survey 2011

- A central charity supporting a network of franchisees
- An arms length approach with little interaction between franchisor and franchisee
- Hybrid models combining different aspects of the others

The financial relationship between social franchisors and franchisees varies enormously across the sector. In the world of commercial franchises the franchisee pays a license fee for the use of the intellectual property, brand, business model etc. License fees are sometimes paid in the social sector, but often the resources go the other way with the franchisor supporting the franchisee to further their social purpose.

Intellectual Property

In the commercial world the licensed use of the franchisors intellectual property is part of all franchise systems and the franchisor retains ownership of the intellectual property. This is also the case with social franchising, although in other, looser, forms of social replication intellectual property does not necessarily remain in the ownership of the original social enterprise.

It is very difficult to tell how common an ‘open source’ approach is to intellectual property in social enterprise replication. There is a lot of informal learning within the social enterprise sector. But since new projects will not share the same branding as those they have learned from, and will often adapt the business model significantly, it is very difficult to tell which similar businesses are a result of ‘open source replication’ and which have simply coincidentally hit upon a similar model.

In the context of the development of social franchising in the UK, there is scope to work with loose federations and tighten up their business models, branding etc. to develop a franchise that is operated in an open source way amongst members of the federation and those who subsequently join.

Advantages and disadvantages of franchising

If a social enterprise expands organically that organisation has to find all the resources for the expansion: the staff time, the finance and the contacts. This can be particularly arduous if the expansion is to a new geographic area where new partnerships need to be formed and where local knowledge may well be vital to the success of the project. On the other hand this expansion model retains complete control of the brand, social mission and quality.

Franchising by contrast can provide new resources, fast growth and local knowledge. Normally this is at the cost of full control, although a rigid business format plus a tight franchise agreement can effectively give full control.

Despite the common perception however, franchising is unlikely to be a cheap option, particularly in the short term when the franchise system is being created for the first time.

For the franchisee there are also advantages and disadvantages compared to starting a new social enterprise from scratch. The most obvious advantage is that franchises are, in most cases, less likely to fail than other new-start businesses. Start-up is usually faster and more cost-effective and there is support in delivering a proven business model. This is particularly helpful for social purpose organisations that have limited business expertise. However franchises can be expensive, and if the model is too rigid it may not be adaptable to the local need and market. And of course a franchise is only as good as the business model being franchised.

Success and failure

There are numerous examples of successful social franchises. Many of the most successful have been established for a number of years and, at least initially, grew slowly and steadily.

We could find far fewer examples of failed social franchises. But there is useful learning to be taken from those that have failed, particularly where the failure was a result of the franchising process.

Nick Temple uses some of this learning to list certain critical success factors for social enterprises wishing to franchise:

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

Support for social franchising

Historically there have been two significant attempts to support social franchising in the UK: the Beanstalk programme, operated by the Community Action Network (CAN) and the Flagship Firms project operated by Social Firms UK. Between them they supported 11 organisations to replicate, although two have since closed.

The Plunkett Foundation also developed five franchise models for rural businesses.

Social franchising is still really in its infancy in the UK and there are relatively few people with expertise. Individuals with experience of social franchising are often still involved in running a social franchise rather than offering advice to others. Those organisations currently involved in offering some form of support for social franchising include:

- The International Centre for Social Franchising (ICSF)
- The European Social Franchise Network (ESFN)

- The Social Enterprise Coalition (SEUK)
- Ashoka UK
- CAN
- Plunkett Foundation

This is an area where social investment could be made.

Finance for social franchising

Because of the diversity of legal structures and business models among social franchises, there is an equally wide variety of financial models in use. There is also a vast difference in start-up costs, from a few hundred pounds to £1.5 million. And the length of time to break-even also varies greatly from two years to 5 years or more.

The right balance of grants, patient capital and loan finance are vital to ensure the success of a social franchise. If social costs are too great to be borne by the trading activities then sustainable fundraising needs to be put in place. And all involved (franchisors, franchisees, investors and funders) need a realistic expectation of how long a new franchise will take to become profitable.

Even amongst the more commercially-minded social franchises grant funding, rather than loans or investment, are often the preferred source of finance. Grant funding is available for social franchising from a variety of sources depending primarily on the social mission and legal structure of the social franchise. Yet a report for the Scottish Government by CEiS points out:

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

Grant funding may be appropriate to cover some initial capital costs, or in some cases to cover social costs that cannot and should not be borne by trading activities. However reliance on grant funding to cover revenue costs is unsustainable. There is also a question as to the appropriateness of grant funding in an enterprise context.

There are other sources of funding in addition to grants. Equity and loan investment for social franchising that cannot access regular bank finance is available from 11 different organisations in the UK. Social Impact Bonds are being explored by a number of organisations as a way of financing social replication.

Social enterprises that are looking for investment face two significant obstacles: firstly investors tend only to provide short-term funding (1-3 years); and secondly they tend to favour new ideas over scaling-up enterprises with a proven track record. There will always be a need to fund the pilot phase of new approaches to problems, but more emphasis should be given to funding what already works rather than reinventing the wheel.

Investing in Social Franchising

There is already some social investment being made in social franchises, and a further shift in focus from grant funding to loan and investment finance would make the sector more financially sustainable and robust.

The areas of social franchising where investment could be made by a social investor can be broken down into 5 categories.

1. Expanding the capacity / operation of existing social franchisors

There are less than 100 social franchise operations in the UK at the moment. We estimate around 25 of them could benefit from investment to expand their capacity. The amounts of money required vary enormously. We have estimated an average investment of £100,000 but larger amounts may well be needed. For example Big Issue Invest invested £200,000 to scale up MyTime CIC and CASA are seeking £500,000 to scale up their franchise operation.

2. Investing in new franchisees for existing social franchise operations

Based on the research we have already undertaken we estimate that 44 of the existing UK social franchise operations are worth further investigation to see whether they could be helped to recruit new franchisees.

Set up costs for a new social franchisee varies from £5000 to £1.5 million. Excluding Emmaus, which includes the cost of buying a suitable property, the average start-up cost for the 11 UK social franchises surveyed in the ESFN survey was £103,000.

3. Getting successful social enterprises ready to franchise for the first time

Investing in developing first-time franchises is the highest risk area for investment. It has the potential to provide significant social return, and in some cases may provide a good financial return. It is difficult to get a clear idea of exactly how large the marketplace might be for this kind of investment. Our best estimate at this stage is that we could expect to find between 10 and 50 social enterprises where it would be worth investing in an initial feasibility study of which around 20% would go on to become fully-fledged franchise operations. A 'pipeline' of franchisable social enterprises should be developed longer term.

Of the 9 social franchises we interviewed the average investment to get the organisation franchise-ready was £134,000. However this average masks enormous variation with estimates from £10,000 (BlueSky) to £500,000 (CASA).

Julie Waites, of The Franchise Company, estimates that the average cost for a commercial business to become franchise ready is between £30,000 and £50,000. Although again this varies enormously depending upon the complexity of the business, the amount of staff input etc. This cost would not include the cost of running a franchise pilot.

4. Investing in commercial franchises as fund raisers for social purpose organisations.

There are 897 commercial franchise operations in the UK, and many franchises could potentially be run as fund-raisers by charities as long as there was no ethical conflict of interest between the commercial operation and the social aims of the charity. High street operations run by registered charities could potentially benefit from rate relief on premises, making them very attractive as commercial propositions. And the right joint branding could help swell sales, as well as benefitting the reputation and profile of both the charity and the franchisor.

We make an assumption that a commercial return is possible on this type of investment. The default rate on loans by commercial franchise is only 3.5%, which makes this a relatively low-risk investment. However this type of venture should, in many cases, be able to be funded through commercial banks.

5. Investing in 'socialised' versions of commercial franchises

Around 50% of commercial franchises appear to have the potential to be run in some way as a social enterprise. However we anticipate that more in depth analysis would rule out many more. We have estimated the actual proportion of commercial franchisors genuinely open to the possibility of a licensing a socialised version of their franchise will be closer to 10%.

This is a largely untested market. It is difficult to anticipate what the costs might be of adapting a commercial franchise for social purpose, and what the effect on the business might be in terms of reduced revenue or increased costs. A recent study by Social Impact Consulting of social enterprises working with homeless people found that the average cost saving for running the operation on a purely commercial basis would have been 21.3%[3]. However this figure masks a variation from less than 10% (40% or respondents) and more than 70% (14% of respondents).

Whatever the source, sustainable grant funding to support the charitable aspects of a 'socialised' commercial franchise needs to be a key component of the business plan to make an investment viable unless they are low cost.

A Social Franchise Investment Intermediary

There is rapidly growing interest in social franchising, from social enterprises and charities, from social investors and from policy makers. If this interest is to be converted into impact there is a strong argument that the sector needs two things:

- Organisations providing expertise and support on social franchising
- A dedicated social franchise investment fund

Since some of the loan funds will be used by the social franchises to pay for the business support, ideally these two functions are kept legally and operationally separate to avoid potential conflict of interest. However the entities would need to work closely together

[3] Social Enterprise and Homelessness Survey 2011, Social Impact Consulting (unpublished)

to ensure the lowest possible default rate on the fund's loans, and to maximise the social impact of the investments.

For the purposes of this report we will refer to the social franchise investment fund as 'The Fund', and the organisations providing business support functions as 'The Social Franchise Support Body'.

Bringing together investors, franchises and social franchising experts in this way, could lead to a significant increase in the quantity, sustainability and impact of social franchises in the UK.

Financial Modelling of The Fund

The financial modelling of The Fund has been carried out by Jeff Dober at FSE. The current model shows that further work is needed to balance the portfolio of investments to secure a reasonable return for investors, or that grant funding totalling approximately 10% of the loan fund would be needed to support riskier investments and reduce the default and dropout rates.

The proposed Fund would sit in a place between two different types of investor:

- Franchise units of commercial banks, and
- Specialist social investors

The balancing act for The Fund is to:

- Invest in organisations that will deliver a social return
- Invest in organisations that will deliver sufficient financial return
- Provide investment that is not already available through other lenders
- Provide expertise to support investment that would not be available from other lenders

In many cases we anticipate The Fund providing finance in a way that will help to secure additional finance from more commercial sources or as part of a package of investment with grant making trusts and other social investors. Strong communication and cooperation with other finance providers will be essential for the success of The Fund as well as the social franchises.

The Social Franchise Support Body

The Social Franchise Support Body will be vital to maximise both financial and social returns on investments. It will need to provide:

Service	Purpose
Marketing	to find suitable social franchises to invest in
Pre-franchise Consultancy / business support	to support social enterprises through the franchising process and reduce risk of failure
Post-franchise Consultancy / business support	ongoing support / mentoring to franchisors and franchisees to reduce risk of failure

Recommendations

To develop the potential of social franchising in the UK this report recommends a number of actions which can be summarised in the following areas:

1. **Develop a social franchise support body**
    - Develop a dedicated centre of expertise in social franchising, able to provide practical support to social franchise operations
    - Utilise appropriate expertise from the commercial franchising sector to support social franchising
    - Provide intensive consultancy support to a number of potentially franchisable projects
    - Promote successful social franchises
    - Educate social organisations and investors on the use of loans and investment ahead of grants as a source of funding for social franchises
2. **Create a 'pipeline' of scalable, franchisable social enterprises looking for social investment**
    - Work with loose federations of organisations to tighten up the business model and develop a full franchise operation
    - Work with intermediaries to ensure (where appropriate) that new social enterprises build scalability into their business models from the start and consider social franchising as one model for doing so
    - Facilitate entry into the UK for successful European social franchises
    - Develop a challenge fund to increase awareness of and encourage more social franchising
    - Investments should be made in:
        - Expanding the capacity / operation of existing social franchisors
        - Getting successful social enterprises ready to franchise for the first time
        - Investing in new franchisees for existing social franchise operations
        - Investing in new franchisees for existing commercial franchise operations as fund raisers for social purpose organisations
        - Investing in 'socialised' versions of commercial franchises
3. **Develop a social franchise investment fund**
    - Establish a dedicated social franchise investment fund, either managed by an established social finance intermediary, or run as a 'virtual fund' marketed by a consortium of committed investors who work together to come up with an investment package for social franchises on a case by case basis.
    - Create links between appropriate charitable trusts prepared to offer grants alongside social investments to create sustainable social franchise operations

- Work with investor intermediaries to promote social franchising as a social investment opportunity, as well as using conferences and targeted media.
- Work to change the culture of the investment market to look at what works rather than what's new

4. **Bring together key stakeholders to work together on social franchising**
    - Convene a social franchising conference to bring together key stakeholders, develop partnerships and map out a plan for developing the social franchise sector
    - Develop a peer network of organisations getting started in social franchising
    - Open discussions with commercial banks' franchise units and charitable trusts to explore their involvement with social franchising
    - Establish a brokering service between commercial franchises and not-for-profit organisations for the use of commercial franchises for social impact or fundraising
    - Work with housing associations to explore opportunities for them to take on social franchises
    - Facilitate discussions between large service delivery charities and appropriate social franchises / social enterprises wishing to franchise
    - Work with larger charities and commercial franchisors to explore the opportunities of taking on commercial franchises for fundraising
5. **Further research and policy work**
    - Establish a common definition of social franchising as distinct from social replication.
    - Establish annual baseline data on social franchise activity in the UK
    - Analyse all existing social franchise operations in the UK to establish which could be supported to grow through social investment and business support

Next Steps

The International Centre for Social Franchising is pursuing a number of these recommendations in line with their vision to see proven social projects spread across the UK and the world:

- With the support of BSC a group of social franchising support organisations is being convened by the ICSF to discuss the formation of a consortium to further develop recommendations in this paper.

- The ICSF and Social Enterprise UK will host a conference on social franchising in October 2012.

- The British Franchising Association and ICSF are convening a meeting of their members to discuss developing 'socialisation' of commercial franchisors.

Conclusion

There is a wide variety of activity taking place within the sphere of social franchising. As well as the existing social franchises there are commercial franchises with social potential and social enterprises with the potential to franchise.

There would appear to be good opportunity for social investment in organisations that use social franchising as a growth strategy. As a sector it is relatively under-developed, under-researched and under-resourced, and yet comparisons with the commercial sector point to what could be achieved if it can be helped to grow. A dedicated social investment fund and business support from organisations with expertise in social franchising could provide the catalyst the sector needs.

There are five distinct areas of social franchising into which investment can be made, each of which each offers a different balance of risk and reward. Further work is needed to establish what balance of investments, and at what price they would need to be made, in order to generate a sustainable financial as well as social return for a dedicated social franchise investment fund. However comparisons with other areas of social investment and with the commercial sector suggest this should be possible. A range of social investors could have a role to play, but for maximum impact there should be a coordinated approach.

Too much time and money are currently wasted reinventing the wheel. Too little investment in social purpose organisations is made to encourage financial sustainability and growth. Coordinated social investment into social franchising, backed by specialised expertise, could address both these issues; delivering social and financial returns, scalable social impact and ultimately changing many lives for the better.

Introduction to the Report

Project Scope

This report, prepared by the ICSF, was commissioned by Big Society Capital to investigate the social franchising market in the UK and Europe. The original aim of the research was to provide an overview of the number and diversity of social franchises already operating, an understanding of the transition from social enterprise to social franchise, and the opportunities for social investment. Further research was then carried out to look at the viability of establishing a social franchising investment intermediary to stimulate and strengthen the social franchising sector in the UK.

Advisory Panel

This research benefitted from the support and input of an Advisory Panel. We would like to thank them for the support and guidance they offered and the generosity they showed with their time and expertise. Members of the Advisory Panel are listed in section 16.

Methodology

The findings in this report are based on:

- A thorough web and literature review
- Interviews with:
    - Social franchisors
    - Social franchisees
    - Social investors
    - Experts in social franchising
    - Experts in commercial franchising

While every effort has been made to ensure the accuracy of the information in this report it has been carried out with a view to guiding decision making and stimulating discussion, not as a rigorous academic study.

Report Structure

The report is presented in three sections. Part 1 provides a detailed overview of social franchising and the current state of the sector in the UK. Part 2 looks at five specific opportunities for investing in the social franchising process and the expected risks and rewards. Part 3 looks at the viability of establishing a social franchising investment intermediary and two alternative models of doing so.

Part 1: Social Franchising

1. Definitions

The term 'social franchising', like the term 'social enterprise', can have a wide range of meanings for different people. There are three distinct definitions in common usage:

1. The Traditional Model

   The definition common in the UK and Europe refers to the replication of a social enterprise, charity or project through some form of franchise agreement, including those that don't make a profit.

2. The Income Generation Model

   The definition used in America usually refers to the use of commercial franchises as fund-raisers by not-for-profit organisations, often on a preferential deal compared to commercial franchisees.

3. Socialised Franchises

   The third definition refers to the 'socialisation' of commercial franchises to deliver direct social benefit. For example a commercial grounds maintenance franchise could be used to provide supported employment to young people excluded from the labour market.

There are also two further linked concepts which are discussed in relation to social franchising:

4. Microfranchising

   Where financially disadvantaged people are trained and supported to take on an income-generating activity under a franchise arrangement in order to create additional income for themselves as a means of escaping poverty. This is more common in developing countries but is currently being trialled in the UK by FranchisingWorks, part of the Shaftesbury Partnership.[4]

5. Community franchising

   This covers broadly the same ground as the Traditional Model but where the projects being franchised are often not financially sustainable and require ongoing funding commitments from the franchisee. This term appears to be more common amongst church communities.[5]

All five of these concepts are worth exploring for potential social investment. The UK is at the cutting edge of developing social franchises under the first definition, but the ideas behind the others have not been widely employed in the UK.

[4] http://www.franchisingworks.org/
[5] http://www.communityfranchising.net/

The bulk of this report will focus on the most common definition, what we have described as the Traditional Model. Even within this definition however there is considerable variation in the strictness of interpretation, as discussed in the next section, section 2. However what we mean by social franchising can be defined as follows:

A successful social purpose organisation that enables at least one independent franchisee to deliver their proven model under license.

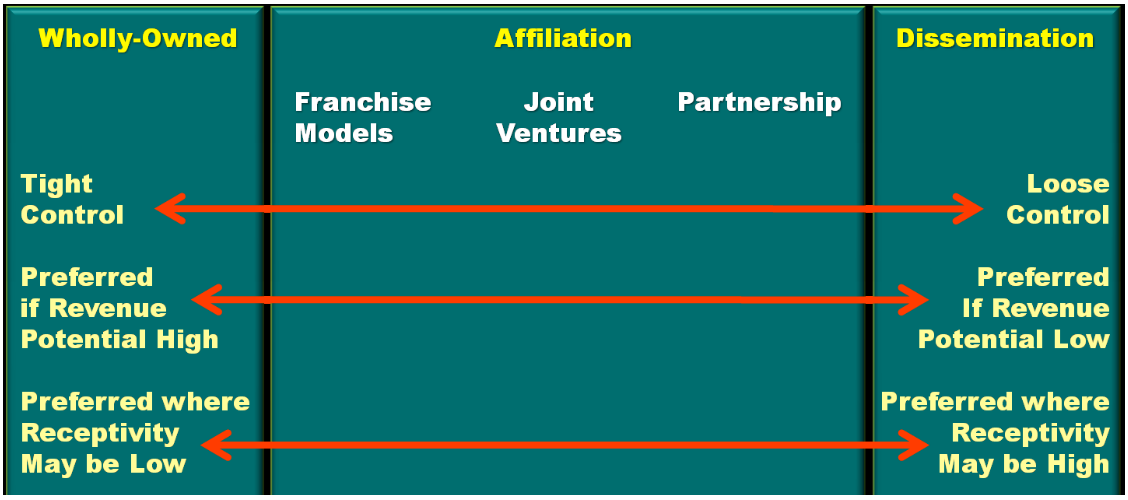
2. Social replication and social franchising

2.1. The spectrum of social replication

Social franchising is often used in the broadest possible sense as synonymous with 'social replication'. This is unhelpful in carrying out meaningful debate on the issue so we advocate making a clear distinction between 'social replication' and 'social franchising'.

Social replication is the re-creation of any not-for-profit organisation or activity in a new location. The replication of social projects is important (a) in order to spread good practice and build on what is known to work and (b) as a way of accelerating the process of meeting need. There is a range of ways in which an organisation can replicate.

Social purpose organisations are, by definition, motivated by delivering social rather than financial profit. This opens up more options when looking to expand their geographical area of impact compared to a purely commercial operation. A commercial organisation can expand organically, purchase or merge with a competitor, or franchise. By contrast there is a spectrum of replication options open to social purpose organisations of which social franchising is just one part. The Shaftesbury Partnership report *Scaling up for Success*[6] provides a useful diagram that summarises this spectrum:



We could also add to this spectrum 'Networks', where local projects which are doing similar things in different areas are brought together in some sort of federation in order to share information, good practice and ideas.

Social franchising is a specific form of social replication. It requires an independent 'franchisee' operating an established business model under some form of license agreement. There are advantages and disadvantages but for some organisations it offers the most efficient and effective way to scale up.

6 http://www.shaftesburypartnership.org/sites/default/files/pdf/Social-Franchising-Scaling-Up-for-Success.pdf

All models of social replication offer potential for social investment, however in this report we concentrate primarily on social franchising.

2.2. The concept of social franchising

We have defined social franchising as:

A successful social purpose organisation that enables at least one independent franchisee to deliver their proven model under agreement.

This definition can be expanded upon. A social franchise contains the following five elements:

- A franchisor with a proven business model, systems and processes
- At least one independent social franchisee delivering that business model
- A documented agreement that binds them together
- A common brand proposition under which the social franchisees operate
- An interchange of knowledge between members

Julia Meuter, in her 2008 paper for the Berlin Institute also includes:

- *A manual setting out the concept and recurring processes…The manual should include descriptions of procedures, binding guidelines and instructions on how to behave in certain situations.*
- *Standardised training for franchisees.*
- *Systematic, standardised methods of evaluation and of quality control measures.*[7]

While we would agree that these three elements would constitute good practice in social franchising there are a number of successful social franchises incorporating the first five essential elements which don't incorporate these other three.

Social franchising is by no means the only form of social replication and is not always the most appropriate. However to have a clear discussion on which form of replication is most appropriate it is important that the precise terms are clearly understood.

[7] Meuter, Julia, *Social Franchising*, Berlin Institute 2008

3. Social franchising - current activity

This section provides an overview of current social franchising activity in the UK and Europe. It looks in turn look at:

- The Traditional Model:
    - Existing social Franchises operating in the UK
    - Existing social Franchises operating in Europe
- The Socialised Franchise Model:
    - Commercial franchises achieving social impact
    - Commercial franchises with the potential to achieve social impact
- The ‘Income Generation Model’

3.1. Social franchises currently operating in the UK

Research by the European Social Franchising Network (ESFN) conducted in 2011

"…identified 56 social franchises and aspiring social franchises across Europe. They… …exist in 12 European countries. The UK leads in terms of numbers of social franchises with 30 followed by Germany with 6."[8]

Our research has uncovered 130 social franchises operating in Europe with 95 of these operating in the UK. The discrepancy in the figures may be due in part to using a wider definition of 'social franchises' when compiling the list for this report. A full list of these social franchises is given in Appendix A.

Of the 130 social franchises on our list, 30 are members of the ESFN. There are an additional 4 members of the ESFN that have not been included in our list: Zero Waste in a Box, Entrepreneursity and Social Support Project have not yet become franchisors but are all listed as 'aspiring'. (Other projects listed on the ESFN members' directory as aspiring have subsequently succeeded in franchising.) In addition Better World Cameroon has been excluded as it is based in Cameroon.

The diversity of social franchises operating in the UK can be appreciated by considering the small range of established examples given in the following table:

Examples of established social franchises in the UK.

Social Franchise	Year Established	Franchise Units	Description
School for Social Entrepreneurs	2002	12	Practical courses in social enterprise for social entrepreneurs.
Citizens Advice Bureau	1939	394	Free, independent, confidential and impartial advice to everyone on their rights and responsibilities.
Daily Bread Co-op	1980	2 (was 3)	A wholefood business employing people with learning disabilities.
Emmaus	1949	22 (+ 14 aspiring)	Communities which run recycling businesses providing a home and an occupation for homeless people.
FoodBank	2004	140+	Tackling food poverty through the charitable distribution of food to those in need.
Pack-IT	1988	3+	Direct Mail and Third Party Logistics organisation employing people with disabilities.

[8] http://www.socialfranchising.coop/resources/view/esfn-research-shows-over-13000-employed

3.2. Social franchises operating in Europe

Our research discovered 35 examples of separate social franchises operating in European countries other than the UK. The most high-profile examples include:

Social Franchise	Year Established	Franchise Units	Description
Le Mat (Italy)	1995	10	Hotels employing people with learning difficulties and mental health problems.
Villa Vägen ut! (Netherlands)	2003	15	A variety of social enterprises employing excluded people.
GDW SÜD (Cap Supermarkets) (Germany)	1999	82	Supermarkets employing people with learning difficulties.
JobAct	2005	28	Training programmes for the long term unemployed.

A full list of European Social Franchises is included in Appendix A. Details can also be found in the members' directory on the ESFN website.

http://www.socialfranchising.coop/members-directory/

3.3. Social franchises spanning several countries

There are a number of examples of social franchises that have spread across several European countries. Operating in the UK there is:

- Emmaus — originally established in France in 1949
- Fietspunt (Bike Point) — originally established in the Netherlands
- L'arche — originally established in France
- The Hub — established in the UK, now in 14 cities across Europe and other cities across the world.

The best-known examples not yet in the UK are:

- Le Mat — originally established in Italy now in Sweden and setting up elsewhere across Europe
- Villa Vägen ut! — originally established in the Netherlands, now across Europe
- Cap Supermarkets — originally established in Germany now across Europe

3.4. The opportunity presented by cross-border franchising

In *Opposites Attract – A Guide to Social Franchising* Keith Richardson et al discuss the issue of cross-border franchising:

"Within Italy, Comunità Solidali's psychiatric care provision model has been copied across Italy. In such a decentralised state, approaches to care provision and local legislation vary widely and the Welfare Italia brand has coped with this variation. Le Mat has also developed hotels beyond its Italian homeland in Sweden and is working on developing others in, for example, Croatia. The evidence therefore points to the fact that, like commercial franchises, a good business idea in one European country is likely to work well in another, despite cultural differences. At the moment, such differences include the way social enterprises are constituted and organised as well as legislative environments.

However, it is clear that a good business idea in one country might not necessarily be strong in another. For example, CAP Markets are taking over smaller supermarkets abandoned by the commercial sector in Germany. This is providing a market opportunity as some of these sites are abandoned more as part of a strategic, corporate move to bigger out-of-town premises rather than an analysis of the viability of individual sites.

However, in the UK the commercial sector, and in particular the Co-operative Group, is beginning to move back to operating smaller stores and the opportunity to buy them up is no longer a significant opportunity."

However Simon McNeil Ritchie of FranchisingWorks makes the point that there are relatively few commercial franchises that have successfully gone global and reached the UK. He estimates around 200[9]. This perhaps indicates that while cross-border franchising is certainly possible it is not as straight-forward as franchising within one country.

Clearly there is a greater amount of research needed to replicate a successful social enterprise between countries than within a country; however there can be greater similarities between large cities in different countries such as London and Paris, than between areas within the same country. Additional areas that might need to be considered include:

- Language – communication within the franchise network and translation of resources
- Adapting the model to fit local culture
- Different political environment
- Different funding environment
- Different legal constraints
- Different market
- Different social need

There may be opportunities for a suitable investor to facilitate the entry into the UK of some successful European social franchises. If the first franchise proves successful there may also be an opportunity or even a need to develop a UK franchisor for a particular concept. In the same way that Emmaus UK is licensed by Emmaus International to grant licenses to new Emmaus communities in the UK.

[9] Conversation between Simon McNeil Ritchie and Dan Berelowitz.

3.5. Commercial franchises with social impact

Franchising is well established in the UK: there are 897 franchise systems with nearly 35,000 franchise units operating in the UK. In total, they employ over half a million people and generate over £12.4 billion in revenues.[10]

NatWest/BFA Franchise Survey 2011

Our research has suggested a number of commercial franchises that do not necessarily consider themselves as part of the social economy but are arguably already operating with a social purpose whether that is working with pre-school children or delivering green energy solutions:

Franchise	Description
Banana Moon Day Nursery	Nursery
Computer Xplorers	ICT training to children aged 3 to 13
Dig It	Outdoor ´Play and Learning´ provisions for Education and Community Sectors
Energy & Carbon Management	Energy broking and consulting business
Green Assess	Energy Performance Certificates (EPCs) & renewable energy supplies
Green Care solar franchise	Distributing UK certified solar panels and solutions
Little Kickers Football Classes	Football skills classes for children aged 18 months to 7th birthday
Playtime Nursery	Nursery
Tumble Tots	Physical play programme for children from six months to seven years,
Witty Day Nursery	Nursery

Many of these could potentially be taken on and 'socialised' by not-for-profit organisations with little adaptation

[10] Franchise Development Services put the figure at over 1500 companies using franchising for business growth. http://www.fdsfranchise.com/franchise-your-business/why-franchise

3.6. Commercial franchises with social potential

In addition to commercial franchises that are arguably already delivering social benefit, there are also those that could potentially be adapted to do so. For example a regular grounds maintenance franchise could be adapted to create employment opportunities specifically for disadvantaged people. Many job-creation social enterprises are already operating in similar markets. Some commercial franchises that might present a possibility for 'socialisation' include:

Franchise	Description
Countrywide Grounds Maintenance	Grounds maintenance
Driver Hire	Supplying commercial drivers and logistics staff
Envirocare Grounds Maintenance	Grounds maintenance
Furniture Medic	On site repairs of wood, laminate, leather upholstery, UPVC, marble etc.
Green Thumb Lawn Treatment	Grounds maintenance
Office Express	Supplies small and medium sized companies with office supplies
Travail Employment Group	Staffing solutions to industry, commerce, education and the professions
VIP Bin Cleaning	Domestic & commercial bin cleaning

These could potentially be taken on by social enterprises to be applied with enhanced social objectives, for example a housing association taking on an Envirocare franchise to engage its residents groups in estate maintenance. An adapted version of the franchise agreement might be needed.

There are also lessons to be learned from how these largely commercial franchises are structured and how these structures can be adapted for the replication of social projects. This could provide another avenue of research which should quite quickly establish how viable this route for investment would be.

For a charity or social enterprise looking to develop business there are some clear advantages of partnering with an experienced Commercial Franchisor rather than developing a new business from scratch. These include:

- Reduced failure rate of new franchises compared to stand-alone start-ups
- Buying into an established brand with an established market
- Significant time and resource savings implementing a proven business plan rather than developing a new one by trial and error
- The pre-contract support and resources make financial projections less of a guessing game
- The ability to demonstrate to stakeholders that they are investing in a proven business

- Bringing commercial business expertise into the not-for-profit organisation
- The training, operational support and guidance provided by an experienced franchisor has been tried and tested.

The other area of potential social impact from commercial franchising is Micro-Franchising, where financially disadvantaged people are supported to take on a commercial franchise of some sort in order to create an income or add to their existing income. These could be existing franchise opportunities, or opportunities developed specifically for this market. This is an area that is being developed by the Shaftesbury Partnership through their FranchisingWorks programme.

3.7. A comparison between commercial and social franchising

Comparisons between the social and commercial franchising sectors can be helpful. In each instance the original enterprise becomes a franchisor and attempts to successfully replicate the original business model by creating a blueprint for that model and licensing third parties to deliver it. But just as social enterprises differ greatly from purely commercial businesses, so social franchising differs from commercial franchising.

Steven Leach in his paper 'Believing in People' provides a useful summary of some of the key differences between commercial and social franchising. *Our additions are included in red*:

"At the core the main difference between the commercial and social venture worlds is the driver; profit or social impact. This, in turn, determines a number of other related differences;

	Commercial	***Social***
Operations	*Rule based*	*Values based*
Relationships	*Based on commercial imperatives*	*Based on social impact imperatives*
Finance	*Debt or equity or financed from profits*	*Additional recourse to grants. Sometimes aversion to debt finance*
Attitude to Risk	*Balanced against financial return*	*Balanced against risk to beneficiary and financial return*
Market	*Customer pays for product or services*	*Often service users (or beneficiaries) receive services and other agency (paying customer or donor) pays.* *Can also be market driven.*
Success measures	*Financial performance, growth, improved profitability, increased competitive barriers*	*Growth of social impact, greater efficiency/effectiveness in delivery of social impact, financial independence and viability*
Franchisees	*Usually individuals*	*Usually charities or other third sector organisations*

Julia Meuter, in her 2008 paper for the Berlin Institute, goes into greater detail:

"…there are also substantial differences between the for-profit and the not-for-profit sector, which suggests that the approach [to franchising] must be adapted accordingly.

Customers vs. Beneficiaries

Firstly, while businesses have the main aim of maximising profit, an organisation in the non-profit sector will have the maximisation of social impact as the key objective. Similarly, the target group will be different. A non-profit organisation most likely serves beneficiaries rather than customers. This means, on the one hand, that it cannot always expect to receive payment and that, on the other hand, its approach will be different.

Funders

Moreover, non-profit projects are usually dependent on financial support – during the start-up phase but also in order to remain sustainable. This adds a further player to the equation: the donor. Since they will most likely have their own policies, the franchisor and franchisees must find ways of integrating these into their project. In order to remain sustainable it is also important to ensure sufficient funding after the start-up phase, which involves continually communicating with existing donors as well as acquire new ones.

Fees

Due to the fact that franchisees in most cases do not generate sufficient income, they are often not able to pay fees to the franchisor. While a franchise system without fees is unconceivable in the commercial sector, the social franchisor must be prepared to settle for reduced fees or find alternatives to financial compensation. In many cases, the social franchisor will even resolve to financially support the franchisees in order to ensure the social mission is achieved.

Since there is usually no transfer of investment risk from the franchisor to the franchisee, it can be claimed that the latter has less motivation to comply with the system in the long term. Although the expected altruistic behaviour in the non-profit sector arguably reduces the risk of inconsistent actions, this issue must be kept in mind when setting up a Social Franchise system. In the case of the franchisor financially supporting franchisees through a regular stipend, it is conceivable that this could be linked to an incentive scheme whereby franchisees receive money upon completion of specific targets. This not only ensures compliance with the system but also a certain degree of quality."

With the exception of FranchisingWorks there has been little or no attempt to bring commercial franchising expertise into the social sector. Despite these key differences between commercial and social franchising there is potential to add substantial value to the sector through this introduction, particularly in the areas of financial sustainability and appropriate replication of systems and processes. The benefit of bringing in commercial franchising expertise is even greater if the sector adopts the Income Generation Model of social franchising and commercial franchises are taken on by charities as revenue generators, or adapted to deliver social benefit.

3.8. The 'Income Generation Model'

When Americans discuss social franchising they generally refer to the use of commercial franchises as fund-raisers by not-for-profit organisations, often on a preferential deal compared to commercial franchisees. According to Community Wealth Ventures and The International Franchising Association, even in 2006 there were already close to 100 ventures between Commercial Franchisors and Non-Profit Organisations.

The 2008 CEiS research into social replication and franchising observed that

"The proportion of suitable commercial franchise models is likely to be higher than the proportion of social enterprise franchise models and in recognition of the potential for franchise growth that the social enterprise sector offers, a number of commercial franchisors have agreed to vary their standard commercial franchise agreements for social enterprise franchisees."[11]

A number of social enterprises have already operated commercial franchises in mainstream markets. The following table is taken from the CEiS report.

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

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

Another difference between the UK concept of social franchising and the Income Generation Model is that *"…most such ventures in the UK are aiming to engage a target group for the provision of training and employment in a real business environment, while some non-profits in the USA use a franchise for the specific purpose of income generation."*[12]

The best known commercial franchise operating worldwide with social enterprises and non-profit organisations is Ben & Jerry's. In 2008 it had three such franchises in the UK.

Non-profit organisation/Social Enterprise	Country	Franchise	Status
Aberdeen Foyer	UK	Ben & Jerry's	Open
Cresco Trust,	UK	Ben & Jerry's	Open

[11] Higgins, Gerry et al, Social Enterprise Business Models: an introduction to replication and franchising, CEiS 2008

[12] CEIS – An Introduction to Replication and Franchising, 2008

Londonderry			
Cresco Trust, Belfast	UK	Ben & Jerry's	Open
FRCGroup, Chester	UK	Ben & Jerry's	Closed

Ben and Jerry's is not typical of the commercial industry to date in that there are special terms and conditions for social enterprises.

It would require a culture shift in the UK for established charities and social enterprises to take on a franchise purely for the purposes of generating income to fund the organisations social activities. And yet the concept is not dissimilar from the very well established businesses of charity shops and charity catalogues; a pure commercial venture acting as a fundraising resource for the parent charity.

High street operations run by registered charities could potentially benefit from rate relief on premises, making them very attractive as commercial propositions. And the right joint branding could help swell sales, as well as benefitting both the charity and the franchisor.

The Income Generation Model of social franchising may well then be a concept worth exploring with the fundraising departments of some of the UK's larger charities, particularly in the current climate of cuts.

4. Ownership and regulation

This section looks at the different models of ownership employed by social franchises. In particular it looks at the different legal models and the advantages and disadvantages of each, ownership of intellectual property and the financial relationship between franchisors and franchisees.

4.1. Models of ownership

We surveyed 33 of the 95 social franchises registered in the UK. There was no one common legal structure adopted by parent organisations. In fact of the 33 surveyed there were:

- 3 Private Limited Companies
- 2 Industrial and Provident Societies
- 15 Companies Limited by Guarantee
  - of whom at least 3 were registered charities
- 12 Community Interest Companies
- Some run as projects or unincorporated charities

The pros and cons of the different legal structures are examined in the following sections 4.1.1 to 4.1.3.

There is no one established legal structure for the overall franchise 'group' either. Different structures include:

- Federation
  Many adopt a 'membership' approach where franchisees are members of a federation and all contribute co-operatively to the development of the entire organisation, for example Emmaus.
- Central charity
  Others are spun out from a central charity, such as FoodBank franchises which are supported by the Trussell Trust. Here there is also considerable cooperation and sharing of learning, but with the central charity firmly in control.
- Arms Length
  Others, such as Caring Christmas Trees, offer the franchise with a much more 'arms-length' approach and there is little co-operation between the different franchisees which is possible because of the simplicity of the product.
- Hybrid
  Aspire franchises were originally tied into a central catalogue business model and supported by the central charity. When the catalogue business folded the franchisees formed a federation and remained supported by the Aspire Foundation, but with no central control.

4.1.1. Community Interest Companies (CICs)

On the whole more recent social enterprises tend to adopt the CIC legal structure. The CIC is intended for organisations that will have primarily social purposes but will earn a significant proportion of their income from trading.

Advantages:

- Directors can be paid a salary, which means that the founders of the CIC can retain strategic control of the enterprise by sitting on the board as paid directors.
- Asset lock prevents profits from being distributed to its members or shareholders other than in certain limited circumstances and must be used for the benefit of the community.
- Both individuals and companies can invest in a CIC, subject to certain rules that regulate this.
- A CIC can be financed by loans or bonds and by stakeholders taking shares, as with the City of Westminster investing in the Hub Westminster on a 50:50 basis with Hub World.
- Investors can receive a return. However, there are limits on the amount of interest that can be paid by CICs to investors. There is a ceiling of the amount of a CIC's profit that can be distributed by way of dividends, currently 35%.

Disadvantages:

- CICs do not currently benefit from any of the tax advantages that charities do, the most important being Gift Aid on donations and rate relief on premises occupied.
- Fewer opportunities for fundraising from charitable trusts than a Registered Charity.
- Fewer opportunities for venture finance due to the cap on income distribution: the limits on the amount of interest that can be paid by CICs to investors, and the ceiling of the amount of a CIC's profit that can be distributed by way of dividends, currently 35%

4.1.2. Company Limited by Guarantee (CLG)

Older organisations tend to be registered as a CLG. Companies limited by guarantee that exist for a charitable purpose also have the option of applying for charitable status. This can open up further fund-raising opportunities but can place restrictions on trading activities, loan financing etc. CLGs do not have the option of raising finance through share issues, but social investors do sometimes work around this through long-term loan arrangements.

4.1.3. Industrial & Provident Societies

Although there were far fewer IPSs picked up in our research there are advantages to this structure, particularly if the social enterprise is to be set up as a community co-operative. Raising share capital through an IPS is easier and less expensive than through a limited company. The Asset Transfer Unit has a helpful section on its website which covers this issue.

"Community share issues are a way of raising inexpensive capital and at the same time mobilising a community behind a building project. A successful share issue gives the organisation credibility and recruits volunteers.

Industrial and Provident Societies (IPS) are the only type of company that can issue shares in an inexpensive manner. If you want to issue shares to more than 100 people as a private company or share limited Community Interest Company, you have to produce a formal prospectus that can cost between £20 and 50k.

A Company Limited by Guarantee (CLG) cannot issue shares (but can issue bonds). It costs less than £1,000 to convert from a CLG to an IPS.

Share issues range from a few thousand pounds to start a community shop, to the £20m raised by Shared Interest (Fair Trade). IPS share issues without a full prospectus cannot be for more than £2m. There have only been about 50 share issues of over £10,000, but this is set to increase." [13]

Community owned renewable energy schemes tend to take on an IPS structure as it provides an inexpensive way to raise capital through a public share issue, and a co-operative structure in which members of the community have an opportunity to influence the organisation's development and benefit from future profits.

4.1.4. Cooperatives

2012 is the International Year of the Cooperative, when there will be increased focus on an operating format pioneered in Rochdale in the mid-19th Century. Cooperative ownership and management can provide an appropriate format for some community ventures without registering as an IPS.

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[13] http://atu.org.uk/Support/wiki/CommunityShares accessed 23-12-11

4.1.5. For Profit Formats

Two for-profit formats are available: the Limited Liability Company (LLC) and the Limited Liability Partnership (LLP). Both provide limited liability for their investors. The essential difference between the two is that a Company has a "legal personality", and is taxed on its profits; whereas a Partnership is the sum of its members, and the members are taxed on any taxable profits earned by the LLP at their own tax rate, and can then receive distributions from the LLP tax free. The LLP format is particularly appropriate where ownership is largely or substantially in the hands of tax-exempt organisations such as charities. A LLC or LLP is able to distribute all of its profits to its shareholders/partners, but the founding documents can put a cap on the returns that they can enjoy or provide for distributions for charitable purposes. The LLP is a recent innovation, and it is only just beginning to be used by social enterprises.

4.2. Intellectual property

In the commercial world the licensed use of the franchisors intellectual property is part of all franchise systems. Intellectual property can cover the business plan and operations manual for the franchisors business, IT programmes, websites, systems and processes, as well as the use of trademarks and trade names belonging to the franchisors business. The franchisor retains ownership of the intellectual property.

This would also be the case with social franchising, although in other, looser, forms of social replication intellectual property does not necessarily remain in the ownership of the original social enterprise.

One of the benefits of adopting a social franchising approach is that it forces the promoting organisation to consider the protection of its intellectual property (which it might not otherwise do).

Pre-school Playgroups Association (PPA) – Case Study

The dangers of not franchising

The PPA was a membership organisation founded in the 1960s. It developed and promoted a form of day-care for under-5s that involved play and encouraged parental involvement. Child development was more important than learning. They coined the term “playgroup”, had a distinctive logo. Although the logo was copyright the term “playgroup” was not registered as a trademark. This meant that anyone could use the term “playgroup” whether or not their form of day-care aligned with the PPA and its values, and any member could use the PPA logo regardless of quality of provision. Effectively, the PPA had lost control of an important asset, which a franchise approach would have prevented – as they would then have kept control over the use of the term “playgroup” and been able to ensure that any day-care calling itself a playgroup would meet their values and quality standards.

4.2.1. Is an 'open source' approach common?

An Open Source approach could make a great deal of sense for social franchising, if profit is not a priority consideration, as this could create wider replication and build more effectively on the wisdom of the crowd of franchisees than with a typical franchisor-franchisee arrangement.

It is difficult to tell how common an open source approach is to intellectual property in social enterprise replication. There is a lot of informal learning within the social enterprise sector with visits to gain ideas for developing new enterprises. The 3xE network[14], for example, helps facilitate learning between social enterprises employing homeless people. Many social enterprises are prepared to share business plans with aspiring social entrepreneurs and charities wanting to establish new social enterprises. But since the new projects will not share the same branding and will often adapt the business model significantly it is very difficult to tell which similar businesses are a result of open source replication and which have simply coincidentally hit upon a similar model.

This is illustrated by recent research we have carried out into social enterprises working specifically with homeless people. There are now over 300 of these enterprises in the UK. A survey in November 2011 of 65 revealed that:

- 15 carry out garden maintenance
- 11 are involved in construction work
- 8 carry out painting & decorating
- 9 carry out building maintenance & repairs

None of these social enterprises share the same branding but many have shared their experiences and their business plans to help others start up[15].

In the context of the development of social franchising in the UK, there is huge scope to work with these loose federations and tighten up their definitions, business models, branding etc to develop a franchise that is operated in an open source way amongst members of the federation and those who subsequently join.

Community Wood Recycling[16] did begin replicating with an open source approach, simply passing on information to other community wood recycling groups. Eventually they started to charge for their business plan as a more sustainable approach.

FRC Group in Liverpool also originally had an open source approach with social entrepreneurs travelling from all over Britain to visit and learn from their successful business model. They found it was using up so much staff time they developed another social enterprise, The Cats Pyjamas, which charged people to visit FRC and ran

[14] http://www.crisis.org.uk/pages/ethical-enterprise-and-employment-network.html
[15] Social Enterprise and Homelessness, Mark Richardson
[16] http://www.communitywoodrecycling.org.uk/about.htm

development courses for social entrepreneurs; a fore-runner of the School for Social Entrepreneurs.

4.2.2. Intellectual property owned by an intermediary

While the originator of the business blueprint usually holds the intellectual property as the franchisor, there is an example of an intermediary buying intellectual property of social enterprises and developing franchises independently.

The Flagship Firms project run by Social Firms UK aimed to create 15-20 new social firms by franchising successful examples. Social Firms UK set up a subsidiary and bought the intellectual property of Daily Bread co-operative. They then licensed franchisees using this intellectual property. The franchise, Wholefood Planet, closed after less than two years. This example is covered in section 6.2.2.

The Flagship Firms project finished when funding from the Pheonix Fund expired, and to our knowledge there is no longer any intermediary in the UK which holds 'blueprints' for successful social enterprise business models. However we believe that an intermediary with sufficient expertise in social franchising could potentially support organisations to take on a franchise using this model.

4.3. The financial relationship between franchisors and franchisees

The financial relationship between social franchisors and franchisees varies enormously across the sector. In the world of commercial franchises there is a license fee which is paid by the franchisee, typically between 8% and 12%, for the use of the intellectual property, experience, brand, business model etc. But in many cases of social franchising the resources go the other way with the franchisor supporting the franchisee to further their social purpose. This is illustrated by the following three different models:

1. Caring Christmas Trees charge a £5,000 franchise fee, providing additional income for the originating charity Bethany Trust.
2. Emmaus UK contribute significantly to the set-up costs of new communities. For example they raised £1.4 million of the £1.5 million needed to start the new Emmaus Community in Burnley.
3. FoodBank ask for a donation of £1,500 as a set-up fee and an ongoing annual donation of £360 as a franchise fee. However these charges cover only 1/3 of the actual costs involved, with the parent organisation Trussell Trust picking up the rest.

Clearly the more commercially successful the social enterprise the more opportunity there is for charging both initial and ongoing franchise fees. However, as previously noted, many social franchises, such as FoodBank, operate extremely successfully with little or no earned income. Goodwill can be a sustainable source of income if the model is right.

FoodCycle

A franchise in the making

FoodCycle is a simple idea. Students and others collect food that would otherwise go to waste – from markets, shops and supermarkets and through the Fare Share scheme – cook the food in donated kitchen space and serve it to vulnerable people – refugees, old people, the homeless, etc. It was adapted from the Campus Kitchen Project in the USA, and launched in the UK in 2009, achieving the Best New Charity award in 2010.

Local projects are student or community run, and are asked to contribute £2,500 per annum towards the central costs of FoodCycle, and in return they receive food safety training (which is required for all volunteers), help with start up including equipment, on-going advice, training and support, and the benefits from being part of a network. The projects are given ideas and help for their fundraising, and the eventual aim is to raise the target from £2,500 to £7,500, which will come from a mixture of sources, including student fundraising events (perhaps involving the use of free food), crowdfunding and support from student unions and local trusts and companies. By the end of Year 3, there were 17 FoodCycle projects across the UK.

Three of the projects now run cafes or restaurants based on the same principle of using volunteers to cook reclaimed food. The first, at Bromley-by-Bow centre is running smoothly 5-day per week and is now profitable. There is a lot of interest being shown by churches and community centres, and plans are being developed to create a separate franchise for these restaurants using the name “Pie in the Sky”. www.foodcycle.org.uk

5. The transition from social enterprise to social franchise

The Traditional Model of social franchising involves the replication of a social enterprise, charity or project through some form of franchise agreement. The transition from being a social enterprise to being a social franchisor and running a social franchise operation is not an easy one. As a method of expansion it has both advantages and disadvantages. Likewise, for an organisation becoming a franchisee it has both advantages and disadvantages over starting a new business from scratch. This section explores the stages involved in that transition and the pros and cons of a franchise approach.

5.1. Development process for a new franchise operation

The process of developing a new franchise operation from an existing successful business can be mapped as follows:

1. Running of core / original business to develop the business format.

2. Geographical expansion of the business by the opening of company owned outlets (optional). This can count as the franchise pilot

3. Development of the franchise format (fees, relationships and roles of the franchisor and the franchise package of support services to be provided, expansion plan etc.) Funding/investment may be required.

4. Production of the Franchise Documentation:

- Operations Manual
- Agreement
- Franchise Brochure
- Disclosure Document
- Franchisee Business Plan
- Recruitment marketing

5. The franchise pilot(s) tests the proposed franchise format. A pilot normally runs for a minimum of twelve months. A franchise system needs to have a minimum of one pilot (can be more). A pilot can be company owned. During the piloting period the company can continue to develop the manual and training programmes Funding/investment may be required.

6. Refine the franchise format (as required)
Produce the marketing materials and franchise agreement (if pilot was company owned) write the franchise business plan recruit and train additional personnel as per the plan funding/investments.

7. Launch the franchise - working capital will be required.

5.2. Expansion vs. franchising

If a social enterprise expands organically that organisation has to find all the resources for the expansion: the staff time, the finance and the contacts. This can be particularly arduous if the expansion is to a new geographic area where new partnerships need to be formed and where local knowledge may well be vital to the success of the project. On the other hand this expansion model retains complete control of the brand, social mission and quality.

Franchising by contrast can provide new resources, fast growth and local knowledge. Normally this is at the cost of full control, although a rigid business format plus a tight franchise agreement can effectively give full control.

Despite the common perception however, franchising is unlikely to be a cheap option, particularly in the short term. The investment needed to create and support the first franchise can be expensive. This could provide an opportunity, in the right circumstances, for a social investor to invest in the process. Once investment has been made in the material and structures necessary for franchising then further replication and growth may well be cheaper than organic expansion. The report *Franchising in Frontier Markets* by Dalberg Global Development Advisors suggest that in the commercial world franchises tend to be around 1% more profitable than home grown stores[17]. This is unlikely to translate into the world of social franchising as varying social costs between franchises will make such small differences meaningless. However the additional goodwill, and volunteer time that can be leveraged through a social franchise approach should provide some cost savings over organic expansion in the long-term. For example there are currently 14 Emmaus communities under development, all of which are being set up by local volunteer groups with support from a small central team at Emmaus UK. That speed of expansion would be very difficult to achieve with organic growth.

The advantages of franchising over organic growth are covered in more detail in the following section, 5.3.

[17] Franchising in Frontier Markets, Dalberg Global Development Advisors

5.3. Advantages of becoming a franchisor

These are some potential advantages to expansion through franchising as opposed to organic growth:

- A combination of big businesses advantages (market power) and small business advantages (flexibility).
- Potential revenue stream from the franchisee
- Potential capital from the sales of franchises
- Potential for fast growth
- Franchisees provide commitment and resources meaning franchisors don't have to rely solely on paid staff time
- Appropriate franchisees will already be imbedded in the new area with significant social capital and involvement of local partners
- Franchising leverages existing resources rather than creating new structures at high costs.
- The concept can be adjusted more effectively to local peculiarities than a centralised system of expansion.
- Franchisees are arguably more motivated to work hard to generate income and minimise costs than centrally paid staff.
- Activities such as fundraising and marketing can be shared between the franchisor and the franchisees.
- Ongoing improvement of the social enterprise model through systematic transfer of know-how, data sharing and analysis and on-going learning between franchisor and franchisees, up down and sideways.
- Quality management through standardisation.
- The franchisor can share the entrepreneurial risk and start-up capital with the franchisees.
- Franchising can generate a high degree of trust between the partners and become the basis for sustainable cooperation.

5.4. Disadvantages of becoming a franchisor

There are some potential disadvantages or risks to expansion through franchising as opposed to organic growth. Many of these can be mitigated through planning and good management. These risks include:

- The franchisor loses total control over the business
- Profits are shared between the franchisor and the franchisee
- Since initiatives are often set up with a specific geographic focus in mind, there is a risk of changing the initial mission when adapting it to other locations.
- If franchisees are granted too much independence this can lead to activities that might be inconsistent with the project or brand.
- However too much standardisation can lead to inflexibility, making it more difficult to adapt the project to other locations.
- If franchisees do not have to provide start-up capital they might act more opportunistically.
- Inconsistent behaviour by franchisees can negatively influence the reputation of the organisation as a whole.
- Monitoring and evaluating franchisee performance is difficult. However this is essential in order to ensure adequate quality.
- There can be competition over fundraising if there is no central coordination.
- The timescale needed to successfully develop a sound business model which can be franchised is often many years, but the pressure to expand a socially impactful project often comes much earlier.

5.5. Advantages of becoming a franchisee

There are also advantages and disadvantages for an organisation taking on a franchise rather than starting their own new social enterprise from scratch.

- Decreased risk of failure (with an established franchise)
- Faster and more cost-effective start-up. Because the model is proven and the systems are in place, a franchise is often quicker and easier to start up, and you get significant support in doing so
- The franchise has an established brand bringing credibility, legitimacy and potentially opening doors to new networks and investment
- There are benefits from being part of a national organisation that franchising allows you to access (joint purchasing, economies of scale, communications, policy work etc)
- Franchising still allows some autonomy, independence and local ownership, compared to running the branch of a national organisation.
- Successful franchises work through genuine partnerships and mutual benefit, which is suited to work in the social sector
- Individual franchises can call on the support of the whole franchise operation
- Shared services are provided from training to marketing that an individual enterprise could not afford
- Innovations in one of the franchisees can be spread through the whole franchise operation.
- Franchisees can focus on their core competences rather than central administration and business development
- The market is already established (at least in one area)
- There is a proven demand for products & services (at least in one area)
- There is greater access to bank finance (in the commercial world)
- Networking amongst franchisees can provide peer support and opportunities to share experiences, ideas and innovations
- Franchise fees can provide a very real incentive to create turnover and profit, making the organisation more financially sustainable.
- Not everyone can be an innovator, but there are many people willing to work hard to create social change and being a franchisee allows you to do just that.

5.6. Disadvantages of becoming a franchisee

There are some potential disadvantages for the franchisee compared to starting up a new social enterprise from scratch too:

- There are often additional set-up costs and ongoing fees to pay. However there should also be a proven business plan that demonstrates increasing revenue flows as the venture develops which can be used to repay the start up costs. And the savings made by making fewer mistakes and not reinventing the wheel should more than offset the franchise fees.
- The social impact may come to play second fiddle to the commercial impact.
- There are constraints on what you can do as a franchisee, with limited freedom and flexibility which can prove challenging if you are entrepreneurial.
- Franchising is a long-term endeavour and relationship-based, so it represents a significant commitment, and can be difficult to exit.
- A franchise is only as strong as its weakest member because of the joint brand: a weak franchisee or (worse) a weak franchisor can affect the whole network.
- Sometimes a franchisor over-sells its offer, and the franchise does not turn out to be everything that was promised to the franchisee.
- Profits are often shared between the franchisor and the franchisee
- Some research has shown that the risk of being a franchisee under a new franchisor may be higher risk than being an independent start up because of the added risk of the franchise failing centrally. The risk reduces dramatically when the franchise network starts to mature.

6. Success and failure of social franchises

The most frequently quoted advantage of becoming a franchisee rather than starting a new enterprise from scratch is the relative likelihood of success and failure. We could find no direct data on the relative failure rates of start-ups vs. franchises in the social sector, although there is strong data for the commercial sector:

"The statistics on business start ups show that becoming a franchisee is a far safer route into self-employment than starting up a new business alone. The average annual commercial failure rate of franchise units has been less than 5% each year since 2001. Even in the current recession 90% of franchise units have reported that they remain profitable.7 As a result '...around 90% of new franchise businesses are still operating after 5 years, compared with 30% of other types of business start-up."

Keynote Report on Franchising, 2010, quoted in 'Scaling up for Success by The Shaftesbury Partnership

It should be noted that these figures are slightly different to those in a study of VAT registered businesses for a 2008 UK Treasury report, but these still support the same conclusion:

"Looking at commercial franchises in the UK nearly 90% of franchises are still trading after three years. This compares favourably to standard start-ups. 71% of VAT registered start-ups are still registered after 3 years."18

In her 2008 report for the Berlin Institute Julia Meuter suggests that a legitimate comparison can be made between the commercial and social sectors in terms of the relative risk of starting a new operation compared to a franchise. While this would seem to make intellectual sense further primary research would be needed to test if this is genuinely the case.

6.1. Examples of success

There are many examples of successful social franchises in the UK and abroad. Interestingly many of the most successful have been established for many years and, at least initially, grew slowly and steadily. We have highlighted three examples here with case studies.

6.1.1. Emmaus

Emmaus Communities offer homeless people a home, work and the chance to rebuild their lives in a supportive environment. There are currently 21 Communities around the UK and several more in development.

The first Emmaus Community was founded in Paris in 1949 by Abbé Pierre, a priest, MP and former member of the French resistance. The idea spread around the world, but

[18] Enterprise: unlocking the UK's talent; UK Treasury report March 2008 http://www.bis.gov.uk/files/file44992.pdf

Emmaus didn't arrive in the UK until 1992, when the first Community opened in Cambridge.

Emmaus Communities enable people to move on from homelessness, providing work and a home in a supportive, family environment. Companions, as residents are known, work full time collecting renovating and reselling donated furniture. This work supports the Community financially and enables residents to develop skills, rebuild their self-respect and help others in greater need.

Companions receive accommodation, food, clothing and a small weekly allowance, but for many, the greatest benefit is a fresh start. To join a Community, they sign off unemployment benefits and agree to participate in the life and work of the Community and abide by its rules, for example not bringing drugs or alcohol into the Community.

Emmaus is a secular movement, spanning 36 countries, with 20 Communities in the UK. Each Community aims to become self-supporting, with any surplus donated to others in need.

Emmaus Communities are set up when local people decide that the tried and tested Emmaus approach to homelessness would benefit their area. If initial research and consultation establishes that there is a need and local circumstances are right, volunteers come together as an Emmaus Group.

Each Emmaus Community and Group (apart from in the very early stages) is an independent charity, governed by a local Board of Trustees. This enables them to retain their own character and adapt to local circumstances, while still benefitting from being part of a national Federation: co-ordination, mutual support and the chance to learn from one another.

The national Federation is managed by a Board of Trustees, elected by Communities. The majority of Federation Board members are also involved with their local Community or Group. The Board is also responsible for the Federation Office, based in Cambridge, which provides support to local projects and co-ordination on a national level.

Each Emmaus Community aims to become financially self-supporting through its trading activity, primarily the re-sale of furniture and household goods donated by the public. Any surplus is used to help others in need. Newer Communities rely on donations and grants to cover their costs while the business develops, but all projects aim to become financially self-sustaining within 3-5 years of opening.

Emmaus Groups rely on fundraising to acquire a site, build/convert accommodation and set up the business. The Federation Office is also funded by donations and grants, both to provide its support services and also to help any Communities or Groups that urgently need funds.

Independent research shows that an Emmaus Community saves the tax payer £800,000 per year in services foregone.[19] http://www.emmaus.org.uk/434/sharing-in-success

[19] Information taken from the Emmaus UK website http://www.emmaus.org.uk/

6.1.2. Care and Share Associates (CASA)

Care and Share Associates was established in 2004 to provide essential support services to older and disabled people, through developing a franchise network of majority employee owned social care providers. It is based on the award winning Sunderland Home Care Associates model, which has been delivering quality domiciliary support since 1994.

CASA is the UK's leading social enterprise in the social care sector. It currently operates employee-owned services across six locations and delivers over 6,000 hours of personal support per week, principally commissioned by the public sector. CASA franchise companies have a track record of providing skilled, compassionate and reliable workers.

CASA goes further than most commercial franchisors by setting up franchisee social enterprise companies in which the workforce are the owners. They are able to participate in the decisions that affect their working lives. They believe this produces a higher level of commitment to the organisation and to the quality of the services that they deliver.

From its base in Sunderland, Care & Share Associates (CASA) launched a chain of employee-owned home care companies.

Since its establishment in 2004, CASA has developed 5 CASA franchise companies operating across six territories. These are:

- CASA Calderdale
- CASA Knowsley
- CASA Leeds
- CASA Manchester
- CASA Newcastle
- CASA North Tyneside

This information is taken from a more detailed case study available on the ESFN website http://www.socialfranchising.coop/case-studies.

6.1.3. LE MAT

The following text is adapted from the full ESFN case study available on the ESFN website http://www.socialfranchising.coop/case-studies.

LE MAT officially started in 2004. Il posto delle fragole (LE MAT founder member) is a cooperative of young psychiatric patients, artists, drug addicts, doctors and supporters that have managed a small hotel from the late 1980's onwards.

The LE MAT Hotel brand copied and developed some of the key success factors from this founder member.

Each LE MAT social franchisee has their own Quality Handbook, which has been developed in conjunction with all workers and members of the team, and with the help of the LE MAT social franchisor. These site-specific Handbooks set down rules of daily work and management.

LE MAT is owned in Italy and in Europe by social-cooperatives. In Italy it is a Consortium (a co-operative society of social cooperatives), a social enterprise owned by 9 social co-operatives, 3 consortia of social co-operatives, the LE MAT Travellers Association and Coopfond, a co-operative development agency. They are the collective owners of the brand, members of the co-operative society and they elect the board of directors every 3 years.

The co-operatives and consortia are located all over Italy and all together they employ more one thousand workers, many of them disadvantaged. You can find LE MAT owners in Sicily, Sardinia, Apulia, Latium, Umbria, Tuscany, Lombardy, Venetia - from the far south to the far North.

On European level LE MAT is also a co-operative owned by LE MAT ITALY and LE MAT SWEDEN. In 2011 there were 18 approved LE MAT SPECIAL PLACES, and in Sweden 2 LE MAT B&Bs.

Others are going through the learning process to become a franchisee including LE MAT Liverpool which has already started.

6.2. Examples of failure

There are fewer examples of social franchises that have failed, but there are some. Of the 95 social franchises discovered in the UK, only 3 appear to have closed. This is a failure rate of only 3.5%. Those registered as in administration are:

- Wholefood Planet(from Daily Bread)
- Hidden Art
- Law for All

A 2008 report by CEIS suggests

"Franchising performs poorly where the original franchise model is weak, where franchisees fail to effectively apply a franchisor's model to their own business, or where franchisors fail to provide adequate initial and on-going support to their franchisees."[20]

None of the examples of social franchise failure that we have come across can be attributed to lack of affordable finance. However this may be a more common reason for organisations failing to franchise in the first place.

We have considered three specific examples of social franchise failure below:

[20] CEIS – An Introduction to Replication & Franchising, 2008

6.2.1. Aspire

The most widely discussed example of 'social franchise failure' is Aspire. This social enterprise was established in Bristol in 1998 to employ homeless people. It opened franchises in eight cities around the UK and there were ambitious plans for more. The initial catalogue business did fail and three of the eight franchises closed. However, significantly, the other 5 franchises all survived and a sixth was subsequently spun out from the coordinating charity Aspire Foundation. These 6 Aspire social enterprises are still employing homeless people today, although now operating under the model of a loose federation with a shared brand, rather than a franchise relationship.

The following timeline is updated, augmented and corrected from the 2007 Tracey & Jarvis paper[21]:

Stage 1 – the birth of Aspire	
September 1998	Aspire founded in Bristol by Harrod and Richardson
February 1999	First grant of £5000 from Henry Smith Foundation
Mach 1999	Richardson and Harrod take out personal loans from the Princes Youth Business Trust, Bristol Enterprise Development Fund and CEED totalling £15,000.
May 1999	Aspire launches
Stage 2 - growth through franchise	
July 2000	Work begins on ambitious franchise program that envisions 30 outlets by the end of 2003
September 2000	First two franchises open in London and Birmingham
November 2000	Prominent social investor commits £400,000 to fund the franchise program
March–September 2001	A further seven franchises open in Sheffield, Brighton, Cambridge, Manchester, Blackpool, Oxford, and Southampton
Stage 3 - Aspire restructures	
December 2002	The Birmingham and Brighton franchises close because the franchisees consider the business model to be unworkable All remaining franchises also losing money.

[21] Tracey, P., & Jarvis O, *Toward a Theory of Social Venture Franchising,* Entrepreneurship Theory & Practice, 31(5): 667-685.; September 2007

	Proposed expansion to 30 franchises put on hold
June 2002	Individual social investors, banks and social venture capitalists commit a further £250,000 to the Aspire Group. Catalogue operations cut from 12 to 8 months to reduce costs
July 2003	Aspire Support is formed, a charity to support the social impact work of the franchisees, separately from the franchisor, Aspire Group.
Stage 4 - the collapse of the catalogue business	
July–December 2002	On behalf of Aspire Group, Richardson supports franchisees to begin to establish alternative social enterprises. Aspire Group develops mail order business independently of franchisees
July 2003	The Aspire Group faces cash flow crises and puts payments to creditors on hold. A working party is established to produce another restructuring strategy
September 2003	Recognising the need for new skills in the management team, Harrod steps down as CEO
February 2004	An insolvency specialist is brought in and the Aspire Group is wound up
Stage 5 - the rebirth of Aspire	
February 2004	Aspire Support takes over as the main link between the franchisees and the structure effectively becomes a federation
June 2008	Aspire Support becomes Aspire Foundation and develops new social enterprises to employ homeless people
2010	Aspire Bristol has its strongest year to date employing 47 disadvantaged people and working with a further 21 disadvantaged volunteers
2011	Harrod launches a new social enterprise, Bristol Together, which contracts Aspire Bristol and other social enterprises to restore derelict property

6.2.2. Wholefood Planet

Wholefood Planet, was a community interest company employing people with learning disabilities. It opened in January 2009, and closed within the first year. It was the first social enterprise in the UK established using the licence which was brokered by Social Firms UK; the first fruits of Social Firms UK Flagship Firms project supported by the Pheonix Fund.

According to Social Enterprise Live:

"Social Firms UK worked in partnership with Norfolk County Council and Norwich City College to set up the business. The licensor company of Wholefood Planet is Wholefood Planet Ltd, which is a wholly owned subsidiary of Social Firms UK. However, licensees are completely independent companies.

Wholefood Planet paid more than £14,000 to receive the 'intellectual property' of Daily Bread Co-operative, which runs two successful social enterprises based in Northampton and Cambridge. The fee also helped the business find premises and carry out research, marketing and branding."

Sarah Brown is a social enterprise consultant and former head of marketing for the franchise Dyno-Rod. Her reflection was:

"…[in the commercial world] franchises critically focus on marketing and sharing and building a strong brand and I note that this was not how this social firm was set up.

Another social enterprise consultant, Adrian Ashton, comments:

"[Daily Bread] the successful social firm / co-op that the model is based on traded successfully through previous recessions, and was always very realistic about its financial plans and models: it didn't (expect to) break even for at least the first 3 years of trading. It also never received any financial support or grants like this licensee did... it traded, and continues to trade, on market mechanisms - took a commercial loan to set up and support cash flow, overdraft arrangements with the bank, and all revenues come from customer sales…

…Sadly the original (and still successful) Daily Bread Co-op (DBC) was / is not involved in any way in the Wholefood Planet franchise…

…Wholefood planet, to my perception and understanding, is a poor imitation of the DBC business model in that it has not retained some of the core defining values or business case features, nor created any linkages to the original enterprises - a key part of any franchise model (private or social)."[22]

[22] Poted on the CIC Association discussion board, Jan 28th 2010 http://cicassoc.ning.com/forum/topics/flagship-social-franchise-also?page=1&commentId=2691611%3AComment%3A7249&x=1#2691611Comment7249

6.2.3. Law for All

Law for all was a social enterprise that was helped to replicate under the Beanstalk Programme run by CAN from 2004-6. By 2008 it employed 50 lawyers, advised approximately 15,000 people and opened case files for about 3,000. It went into administration in July 2011.

It is difficult to obtain many details about the organisation as their website now contains a virus. However on July 29th, the day after the company went into administration, the Law Gazette reported:

"In a statement posted on its website, the trustees said: 'Recent years have proved extremely difficult as changes to the administration of publicly funded legal work have resulted in an unsustainable administrative burden, together with an increasingly complicated funding mechanism – not to mention reduced payments in real terms.

'These factors, combined with current plans by the government to cut legal aid payments by a further 10% this autumn, and to almost completely end legal aid in October 2012, have led the trustees, reluctantly, to conclude that there is no hope of a viable long-term future for Law For All.'"

It would therefore seem that the failure of Law for All was not in any way related to its franchise structure.

6.3. Critical success factors

Literature, case studies and personal experience allow us to draw some broad conclusions about the critical success factors concerning social franchising.

The Social Franchise Manual, developed by Nick Temple suggests the following check list to see whether an organisation is ready to develop a social franchise or not:

Commitment: buy-in from staff team and board

Learnable: transferable knowledge and methods

Operations: systems and procedures in place

Need / demand: from end-users, franchisees, policymakers

Evaluated: proven social impact

Duplicable: able to be replicated locally

Finances: sustainable and stable

Identity: brand reputation and recognition

Rewards: socially and economically valuable for both parties

Model: clearly understood and codified

There are also further critical success factors in developing a successful social franchise beyond the readiness of the original social enterprise. The following points have been related specifically to the experience of Aspire, but have wider implications for potential social franchises.

The initial business model needs to be established and proven before attempting to franchise. The business model for Aspire was not profitable when the process of franchising began. The expected savings from the economies of scale did not compensate for the financial weakness of the original model.

Sound business experience is vital in running a commercially successful social franchise. Aspire franchisees had experience of working with homeless people but little or no experience of running a business or social enterprise. Franchisee selection is a critically important factor.

Trying to achieve social impact on too many fronts is not commercially viable. Aspire aimed to achieve social impact through Fair Trade as well as employing people who were furthest removed from the labour market.

Potential employees need to be ready for supported employment before you employ them. Aspire took on employees who were not able to generate any income for the enterprise. Multiply-disadvantaged people can be supported through volunteering to transition into supported employment.

Communication between franchisor and franchisees, and between franchisees themselves is vital. With Aspire this broke down as all efforts were spent fighting fires.

Diversity of income streams is a huge advantage. Aspire Group began supporting its franchisees to develop alternative income streams and employment opportunities fairly early on. These enabled most franchises to survive when the original catalogue business went into administration.

A clear franchise agreement where franchisees are aware of and committed to their responsibilities as well as their rights is vital. Aspire's original franchise agreement relied too heavily on good will, which was lost when finances became difficult.

The right funding mix is crucial. The right balance of grants, patient capital and loan finance are vital to ensure the success of a social franchise. If social costs are too great to be borne by the trading activities then sustainable fundraising needs to be put in place.

Franchisors, franchisees, investors and funders need a realistic expectation of how long a new franchise will take to become profitable.

Shared values between the franchisor and franchisee including the relative importance of social impact and financial performance.

Jarvis and Tracey also draw this conclusion from the experience of Aspire:

"…the Aspire case shows the importance of developing incentive structures that align the interests, both social and commercial, of the franchisor and franchisees. It also suggests that contractual mechanisms alone are unlikely to be sufficient. Thus, the franchisor, as network leader, needs to foster support for strategic decisions in order to present them as legitimate both in terms of the commercial and social dimensions of the venture. This is likely to involve developing systems of shared meaning and a sense of cohesion between network members. The implication is that social franchising may be more effective when franchisees are given a degree of autonomy in the way they implement the franchise model."[23]

Richardson et al in their guide to social franchising Opposites Attract add the following fundamental principles as critical success factors:

- Adoption of suitable sectors of the economy to colonise
- Injection of quality business support, financial backing, time and money
- Creation of businesses where increase in size is mutually beneficial

These principles, and others already mentioned, are discussed in more depth in the guide itself.[24]

[23] Tracey, P., & Jarvis O, Entrepreneurship Theory & Practice, 31(5): 667-685.; September 2007, *Toward a Theory of Social Venture Franchising*

[24] Richardson, Keith and Turnbull Guy, Inspire; 2007, *Opposites attract: how social franchising can speed up the growth of social enterprise*

7. Support for social franchising

7.1. A history

Historically there have been four significant attempts to support social franchising in the UK.

7.1.1. Beanstalk

The Beanstalk programme, operated by the Community Action Network (CAN) helped five not-for-profit organisations to replicate themselves:

- Law for All: a welfare rights advice centre that branched from London to East Anglia and went into administration in 2011.
- Big Issue: A magazine sold by homeless people. The London edition launched in 1991 and has since expanded to five editions across the UK
- Timebank: a charity which promotes volunteering
- CAN Mezzanine: a charity that provides fully serviced office space exclusively to charities and social enterprises, currently looking to open it's third location
- TACT: independent living services for handicapped people

Not all of these used social franchising to replicate however.

7.1.2. Flagship Firms

Social Firms UK piloted six business ideas suitable for social firms as part of its Flagship Firms project, supported by the Phoenix Fund:

- Aquamacs: the rental and maintenance of aquariums.
- Soap-Co: the manufacture and retail of hand-made soaps.
- Wholefood Planet: a health food wholesaler (based on Daily Bread in Northampton, a very early social firm)
- Pack-IT: packaging, order fulfilment, distribution and warehousing
- Café Ciao: healthy eating coffee bar
- Wood recycling

One significant discovery from this programme was that creating a new franchise operation takes much longer than the two years allowed under the funding for this project.

7.1.3. INSPIRE

INSPIRE ran between 2005 and 2008. It was set up by North East Social Enterprise Partnership to identify business opportunities for social enterprises and develop business development methodologies to capitalise upon them. It was funded by One North East and the European Social Fund's EQUAL programme. Through its work and links with other European partners it developed the concept of social franchising as the means to capitalise on the opportunities identified.

INSPIRE focussed on three business development areas that were seen as being fertile growth areas for social enterprise, care, the environment and tourism. Some work was done on establishing a hotel through tourism but ultimately it was the environment and care silos that achieved success.

INSPIRE's care silo worked closely with Sunderland Home Care Associates to set up Care and Share Associates as its pioneer social franchise with the aim of democratising domiciliary care. The environment silo considered recycling enterprises but ultimately developed Community Renewable Energy (CoRE) working with communities to develop renewable energy systems and Option C car club which has now become Commonwheels and reduces carbon emissions by making it possible for members to use a car club and rather than have their own car.

CASA and now has five franchises, which together with Sunderland Home Care Associates employ 700 people. Commonwheels has five franchises and operates 25 car clubs across the UK. CoRE has three franchises and has installed over a 100kW of photovoltaic panels, is constructing a 500 kW wind turbine and two 500kW farm based anaerobic digesters as well as developing a range of other renewable energy systems.

As part of the EQUAL programme, INSPIRE set up a transnational partnership with four other European countries that ultimately led to the formation of European Social Franchising Network and produced "Opposites Attract", a guide to social franchising.

7.1.4. The Plunkett Foundation

The Plunkett Foundation, the leading British and Irish think tank on agricultural co-operation, has developed five franchise models for rural businesses:

- Farmers' Markets Operator
- Wood for Heat and Power
- Charcoal Products
- Local Food for Food Service
- Local Fruit and Vegetables

7.1.5. Other support for social franchising

In 1994, Directory of Social Change organised a conference on "Charity Franchising" and published a how-to guide with case studies under this title, plus advice on replication which was published in association with the Joseph Rowntree Foundation.

In 2008 UnLtd also did some work on social enterprise replication, although not specifically social franchising. They too published resources and guides.

Social Enterprise UK have also published a social franchising manual and a guide for social franchisees.[25]

[25] http://www.socialenterprise.org.uk/advice-support/resources/social-franchising-manual
http://www.socialenterprise.org.uk/advice-support/resources/social-franchising-guide-for-franchisees

7.2. Current support

Social franchising is still really in its infancy in the UK and there are relatively few people with expertise. Those people who do have experience of social franchising are often still involved in running a social franchise rather than offering advice to others.

The International Centre for Social Franchising (ICSF)

The International Centre for Social Franchising (ICSF) is a new organisation, pulling together much of the expertise available with the aim of providing support for existing and aspiring social franchisors and franchisees.

The European Social franchise Network (ESFN)

ESFN is another organisation in the early stages of development. Since much of the UK's expertise in social franchising resides with those still involved as franchisors they are currently looking to develop a peer to peer support programme.

http://www.socialfranchising.coop/

The Social Enterprise Coalition (SEUK)

In 2011 SEUK published a series of resources and guides specifically around social franchising. They also have a directory of support agencies for social enterprise in general on their website[26] however few of these have any experience of supporting social replication.

http://www.socialenterprise.org.uk/

Ashoka UK

Ashoka UK funds a small number of social entrepreneurs each year whose organisation is ready to scale-up nationally or internationally.

www.ashoka.org/

CAN

Although no longer running a social franchise programme, the Community Action Network continues to support social entrepreneurs to scale up their businesses and maximise their social impact.

www.can-online.org.uk/

CIVA

The Centre for Innovation in Voluntary Action has been directly involved in the franchising of YouthBank UK, ChildLine India and the Children's Development Bank (in South Asia), and advises a number of social enterprises on their scaling up strategy, including MyBnk, BikeWorks, FARM:shop and FoodCycle.

www.civa.org.uk/

[26] http://www.socialenterprise.org.uk/advice-support/directory

Plunkett Foundation

A national body which supports co-operatives and social enterprises in rural communities worldwide and is focusing some effort specifically on supporting social franchising.

www.plunkett.co.uk/

8. Finance for social franchising

Because of the breadth of organisations involved, and the different legal structures and business models, there is a huge variety of ways of financing the franchising process. There is also a vast difference in set-up costs. An Emmaus Community typically costs around £1.5 million to set up. A franchise of Caring Christmas Trees can be set up for little over £5000. The length of time to break even also varies greatly from two years to 5 years or more.

As noted in section 6.3, the right funding mix is crucial. The right balance of grants, patient capital and loan finance are vital to ensure the success of a social franchise. If social costs are too great to be borne by the trading activities then sustainable fundraising needs to be put in place. And all involved (franchisors, franchisees, investors and funders) need a realistic expectation of how long a new franchise will take to become profitable.

At the less commercial end of social franchising grant funding of one sort or another predominates. In 2011, the Cinnamon Network conducted research into what they term 'Community Franchising'. Several thousand Churches in the UK were contacted as well as franchisors and franchisees of 9 'ministries'. They received 190 responses with the following results:

"Obviously the church is seen to be the main funding vehicle – 56% fund the Full Franchise completely. 44% of Franchisees had obtained external funding – sometimes providing more funding than the church.*

The sources of external funding in descending order of mentions were:

1. *Grant making trust/local charities*
2. *Local authorities inc. Council, Police, etc*
3. *Other Churches or Diocese*
4. *Fundraising events/individuals*
5. *Franchisor*
6. *Local Businesses"*

8.1. Grant funding

Even amongst the more commercially-minded social franchises grant funding, rather than loans or investment, are often the preferred source of finance. For example each new Emmaus community raises approximately £1.5 million in grants to start up. Very few new Emmaus groups are willing to take on any form of debt finance. One community did, Glasgow, and have struggled to raise enough income through the business to pay back the loan. More established communities however have been able to take on Charity Bank loans to expand existing business activities.

A 2008 study for the Scottish Government by CEiS summarises the impact on social enterprise development and growth caused by the current funding climate in the UK:

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

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

While public and charitable funding streams are still necessary to pay for the social costs of a social enterprise, allocating large amounts of grant-funding to the seeding or start-up phase is unsustainable. Social enterprises need to be more business-like in considering alternative business models for delivering their social outcomes."[27]

They go on to say:

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

- *Prioritise revenue funding over capital grants*
- *Are time limited, for between 1-3 years*
- *Have an emphasis on non-commercial outcomes*
- *Have considerable variances in their administrative and reporting requirements*

[27] CEIS – An Introduction to Replication and Franchising, 2008

- *Often penalise commercial performance*
- *Don't carry out commercial screening of business plans and financials.*
- *HMTreasury identifies that:*

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

Grant funding may be appropriate to cover some initial capital costs, or in some cases to cover social costs that cannot and should not be borne by trading activities. However reliance on grant funding to cover revenue costs is unsustainable. There is also a question as to the appropriateness of grant funding in an enterprise context. It often seems a better option to accept grants rather than take a loan or an investment (which creates future obligations). But taking a grant can weaken the commercial drive of a project and its eventual success.

8.2. Possible sources of grants

Grants of one sort or another are available for most types of socially beneficial activity. Sources include national, regional and local governments; European grants; charitable trusts and foundations, and private individuals. There are no grants specifically for social replication of any kind however.

Ease of access to grants for social enterprises wishing to franchise depends on a number of factors:

- **Legal structure**
  Charities find it easiest to obtain grants. These are followed by CLGs, CICs and, for small grants, individuals. It is much harder for companies limited by shares to obtain grants, where there will be a conflict of interest between private and public benefit.
- **Geographical location**
  Certain areas benefit from being in particular regeneration zones and so will have access to a greater variety of grants
- **Religious affiliation**
  Many grants are available from foundations specifically set up to support the work of a particular religious group. Church related social enterprises for example have access to a number of charitable trusts specifically supporting Christian community work.
- **Type of social activity engaged in**
  Many charitable trusts focus their grant-making on particular causes, for example, education, homelessness, refugees, etc.
- **Activity being funded**
  The activity usually needs to be directly delivering social impact, although some grants are made for capacity building. When planning the expansion of a social enterprise, any application for funds should try to specify the social impact that this aims to create in the medium and longer term.
- **Revenue or capital**
  Grants are available for both capital and revenue funding; some funders prefer one, some the other, some have no particular preference and will look at each application on its merits.
- **New project or existing work**
  It is usually easier to obtain grants for new projects rather than for the further development of existing work. The franchisor can present the franchise development as a new initiative for taking the project to scale. The franchisee can present the establishment of a franchise in the specific location as a completely new project.

Grants vary hugely in size. For example a new Emmaus community may attract grants from certain charitable trusts in the hundreds of thousands of pounds, while a local trust may give out grants of a few hundred pounds.

There really is no general advice that can be given on this topic. Each social franchisor and social franchisee needs to look at the specific opportunities open to it given its unique attributes, circumstances and geographical location.

8.3. Equity and loan funding

Despite a preference for grant funding there are social enterprises involved in franchising and looking for investment. ClearlySo exists to connect social business and enterprise with commerce and investment in order to grow the social economy. Their CEO, Rodney Schwartz, reports that in the previous 12 months they have helped over 100 social enterprises looking for investment, of which just under 10% were involved in some form of social franchising.[28]

Most social investors, public, private and charitable sources of funding are very short-term (1-3 years) and favour new, innovative ideas over scaling up social enterprises with a proven tack record. There will always be a need to fund the pilot phase of new approaches to problems, but more emphasis should be given to funding what already works rather than reinventing the wheel. This is a view echoed in the recent report by the Shaftesbury Partnership[29].

Keith Richardson of the European Social franchising Network (ESFN) suggests that there are three stages of growth for a social franchise:

1. Start up — not much investment possibility
2. Development — possible investment but high risk
3. Growth — best opportunity for investment

Ironically it is often easier to get funds for piloting a new venture (stage 1), than for stage 2 when there are real funding needs. Stage 2 usually requires larger amounts of money over a longer period of time. At stage 3 funding once again becomes easier, with funds like Bridges, the Social Investment Business, Big Issue Invest and others all operating at this level, but all constrained by some extent by the need to avoid undue risk.

The real gaps in ready investment appear to be primarily at stage two and to some extent at stage three.

Action could be taken to reduce the risks of investing in the development phase (stage 2), for example through:

- Intensive analysis of the social enterprise before investment
- Intensive support from franchising experts
- Strengthening the board or management team with additional business expertise
- Balancing the funding mix to include appropriate grant funding from a partner organisation

[28] Mark Richardson, conversation with Rodney Schwartz, 23-12-11
[29] *Social Franchising - Scaling up for Success*

- Involving venture philanthropists who would be prepared to turn patient capital into a donation should the need arise

8.4. Possible sources of loan and equity investment

Commercial banks will lend businesses and a number have specific 'franchise units'. Because of the lower risk of becoming a franchisee compared to starting a new business from scratch franchises are often able to borrow more and at more favourable rates compared with other start-ups.

Social investment, impact investment and venture philanthropy have all become increasingly popular over the last decade with a number of new funds available.

Funding Central provides a searchable database of thousands of funding and finance opportunities for charities and social enterprises, including grants, loans and contracts. www.fundingcentral.org.uk/

Those sources of loan finance most appropriate for social franchising are listed in the following table.

8.4.1. Sources of loan finance

Loan Fund	Description	Max Loan	Website
Adventure Capital Fund	The Adventure Capital Fund is an ambitious new style of funder for community and social enterprise.		www.adventurecapitalfund.org.uk/
Big Issue Invest	Big Issue Invest is a specialised provider of finance to social enterprises or trading arms of charities that are finding business solutions that create social and environmental transformation.	£ 250,000	www.biginvest.co.uk/
Bridges Community Ventures	Bridges Ventures is a sustainable growth investor whose commercial expertise is used to deliver both financial returns and social and environmental benefits. It invests in entrepreneurial small and medium-sized enterprises in the most deprived 25% of England (using the Index of Multiple Deprivation).		www.bridgesventures.com/
Charity Bank	Charity Bank finances social enterprises, charities and community organisations, with the support of depositors and investors who want to use their money to facilitate real social change.	£ 2,000,000	www.charitybank.org/

Loan Fund	Description	Max Loan	Website
Community Business Loan Fund (CBLF) Royal Bank of Scotland	Financial assistance to help potential and existing social entrepreneurs in the UK who are unable to access finance through the normal mainstream channels.	£ 1,000,000	http://www.rbs.co.uk/business/banking/g3/community-business-loan-fund.ashx
Co-operative and Community Finance (Industrial Common Ownership Finance Ltd)	Financial aid is available for the support of the development of cooperatives or employee-owned businesses and social enterprises in the UK for general business needs, including loans on property, business purchase, capital equipment and working capital.	£ 250,000	www.coopfinance.coop/
FSE Social Impact Co-Investment Fund	Early stage loan fund for social impact entities: subject to match-funding from angel investor	£ 100,000	www.thefsegroup.com
Local CDFIs and Development Trusts	Community Development Finance Institutions (CDFIs) lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies.	£35,000 (micro) - £160,000 (SME)	http://www.cdfa.org.uk/

Loan Fund	Description	Max Loan	Website
Enterprise Finance Guarantee Scheme	Guarantee facility, available through high street banks, for small UK businesses. It will also support lending for business growth and development in cases where a sound proposition may otherwise be declined due to a lack of security.	£ 1,000,000	http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee
Modernisation Fund (Cabinet Office)	Financial assistance is available in the form of interest-free loans to help third sector organisations in England overcome the impact of the economic downturn.	£ 500,000	http://www.modernisationfund.org.uk/
The Social Investment Business	The UK's largest social investor has made over 1100 investments in civil society organisations. They invest in viable, non-bankable projects: facilitating their move into more enterprising ventures; strengthening them; investing in excellence; and bringing to scale the most innovative ideas.	£7 million	www.thesocialinvestmentbusiness.org/
Triodos Bank Loan Finance	Loan packages and investment finance available to charities and social enterprises throughout the UK.	Discretionary	http://www.triodos.co.uk/
Unity Bank	A specialist bank for civil society, social enterprises, CICs, councils, and trade unions	£6 million (property)	http://www.unity.co.uk/
Venturesome (CAF)	Financial assistance in the form of loans and equity investments is available to support charities and social enterprises throughout the UK.	£ 250,000	https://www.cafonline.org/charity-finance--fundraising/banking-and-investments/loans-and-capital.aspx

8.4.2. Commercial Banks' Franchise Units

Historically one of the biggest benefits of becoming a commercial franchisee is that franchisees have generally found it easier to borrow more money to open a franchised business than a conventional one. The majority of the high street banks have specialist franchise units whose remit is to provide funding to franchisees.

Franchise Units currently operational:

- HSBC
- Bank of Scotland
- Royal Bank of Scotland
- National Westminster
- Lloyds TSB

Role:

The objective of the franchise units is to provide finance to the franchise sector by providing finance for franchisees. Their remit generally does not include franchisor funding although they will make introductions to the relevant commercial departments for the franchisor if required. The franchise managers are trained in understanding the franchising process and generally visit a new franchisor to collate information about their franchise system which is then used to determine if that bank wants to provide finance to franchisees of that particular franchise system.

The franchise units hold information centrally that local managers can access and use to assist them with a local lending application.

Some franchisors use the services of a third party franchise finance specialist as an outsourced service to their franchisees and this ensures that they are "arms length" from The Funding situation.

Variations in funding positions between banks:

The franchise units of the various banks all have their own approach to franchise funding regarding which sectors they are prepared to lend into and which individual franchise systems they are prepared to provide finance for.

National Westminster is the market leader and historically has been the biggest lender in the franchise sector. They have historically taken a more aggressive approach to gain market share and will generally deal with newly developing franchisors from a relatively early stage and therefore have a larger portfolio of companies that they work with.

RBS have maintained their own franchise unit despite RBS and Nat West having the same director.

HSBC tend to be more conservative and will generally wait to see how the franchise system develops before making a funding decision. They have a smaller number of franchisors in a limited number of sectors but probably gain a higher % of the business of the franchisors that they do work with due to the fact that they can develop a closer working relationship.

Lloyds TSB has been quite active in the franchise sector during the last few years but the Franchise Manager at Lloyds TSB has recently been given responsibility for managing their manufacturing customers as well as running the franchise unit and so has limited time currently to look after the franchise division.

Bank of Scotland are similar to HSBC and have a smaller number of franchisors that they work with.

Barclays do not currently have a franchise unit. Over the last twenty five years they have relaunched and then closed their franchise division three times, generally as a result of cost cutting within the bank. They were at one point joint market leaders with Nat West but have now lost almost all of their market share.

Finance availability for different sectors

The franchise units have to follow central guidelines regarding the sectors they can or cannot finance. For example one bank has recently made a decision not to finance the likes of “Cash Convertors” which are a modern form of pawn broking. As a result of this the bank has withdrawn from financing new franchisees and also called in the facilities of existing franchisees which has created big problems for them and the franchisor.

Types of finance available:

Most of the franchise units state that they are prepared to consider loans of up to 70% of the start-up costs, including working capital, for the right applicants, who would like to join a proven franchise system.

For new franchisors The Funding percentage is generally lower and often similar to new business start ups – i.e. 50%. This % will increase as the bank’s exposure to lending with the particular franchisor increases (subject to a positive experience).

Types of lending

The banks lend, primarily, in 2 ways; secured and unsecured. Unsurprisingly, the vast majority of the business is secured.

The banks will always look to secure a loan if they can and would normally take a 1st, 2nd or 3rd charge on an asset, usually a suitable property. Currently, they are charging 3.25 to 3.75% over base (0.5%) for loans up to 10 years, but won’t lend for longer then the timeframe of the franchise agreement. In addition, the banks levy a variety of fees connected to the loan, which can add up to 2% of the capital cost. The process can be lengthy as a legal process has to be endured!

The main clearing banks do offer a small, unsecured, business loan but this is for a maximum of £25,000, usually to a maximum term of 5 years. The advantage of this type of loan is that it is quick, in that it is underwritten on a computerised credit score basis, has a fixed rate of interest and little or no charges to the customer. The monthly repayment for a £25,000 small, unsecured, business loan over 60 months would be approximately £500 with an APR of 3.75%.

More commonly, the larger unsecured loan is offered under the Enterprise Finance Guarantee Scheme, a scheme set up and overseen by the government's department for Business Innovation and Skills (BIS) and administered by a panel of 27 approved lenders.

The government "guarantees" 75% of the liability of the loan, should things go wrong, leaving the lenders with 25% liability. This loan is more expensive as the customer has to pay a surcharge of 2% of the loan on the reducing balance over it's life. In addition, the banks are currently charging 3.75 to 4.50% over base for EFG loans up to 10 years. Fees are the same as for a secured loan. Most banks will also take personal guarantees.

The banks will never lend all the money needed; they will lend up to 70% of the total capital cost. They are more likely to lend you this amount on secured business and for an established franchise; generally for new ventures, they look for a 50/50 split. Therefore an established franchisor or franchisee will be more likely to receive "favourable" terms.

Financial Products:

Most of the banks offer a broad range of lending products for people who intend to buy a franchise including loans and overdrafts as follows:

- **Start-up costs** – Franchisees can borrow a substantial percentage of the total start-up or entry costs. For well-established franchises with a proven track record, they'll generally lend a higher proportion of the total start-up or entry costs, including any working capital requirements.
- **Maximum term** - the term of any loan will be no longer than that of the initial period of the franchise agreement or lease, whichever is the shorter.
- **Interest only loans** - with some secured loan products, franchisees can pay just the interest but will need to make arrangements for repayment of the capital at the end of the loan term.
- **Payment holidays** - Interest is charged during the period of underpayment and the monthly payments may increase afterwards.
- **Overdrafts** - overdrafts are granted on the basis of an annual review. The bank may extend the overdraft facility in the first few months of the business for any recoverable Value Added Tax.
- **Security** – most banks ask for security as collateral for loans and overdrafts
- **Free business banking** – as per the banks standard practise for new businesses.

8.4.3. Sources of equity investment

There are an increasing number of individuals and organisations willing to take an equity stake in a social enterprise, or to put in 'patient capital'.

ClearlySo

ClearlySo describes itself as the first online marketplace for social business & enterprise, commerce and investment. In the previous 12 months they have helped over 100 social enterprises looking for investment, of which just under 10% were involved in some form of social franchising.[30]

http://www.clearlyso.com/

Impetus Trust

Impetus Trust describes itself as the pioneer of venture philanthropy in the UK.

Venture philanthropy is an active approach to philanthropy, which involves giving skills as well as money. It uses the principles of venture capital, with the investee organisation receiving management support, specialist expertise and financial resources. The aim is for a social, rather than financial, return.

http://www.impetus.org.uk/

In addition Crowd Funding is becoming an increasingly common way to raise finance, with a number of crowd sourcing platforms including:

- CrowdCube
- Bank of the Future
- Buzzbnk (quasi equity for social enterprises)

See section 8.6.1 for further details.

[30] Mark Richardson, conversation with Rodney Schwartz, 23-12-11

8.5. Social Impact Bonds (SIB)

Developed by Social Finance[31] Social Impact Bonds (SIBs) are a new opportunity for social enterprises to 'monetise' their social value, thereby opening up the possibility of loan or equity investment to projects which previously would not have made enough profit to justify such investment.

Social Impact Bonds are described by Social Finance as

"…a form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) for a defined population.

Social Impact Bonds are an innovative way of attracting new investment around such outcomes-based contracts that benefit individuals and communities. Through a Social Impact Bond, private investment is used to pay for interventions, which are delivered by service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment.

Social Impact Bonds provide up front funding for prevention and early intervention services, and remove the risk that interventions do not deliver outcomes from the public sector. The public sector pays if (and only if) the intervention is successful. In this way, Social Impact Bonds enable a re-allocation of risk between the two sectors."[32]

Emmaus are currently looking at developing a SIB as a way of opening up debt and equity finance opportunities.

If social impact bonds do prove to be successful they could spur the growth of social franchising because of the reduced risk of using a proven business model.

[31] http://www.socialfinance.org.uk/
[32] http://www.socialfinance.org.uk/work/sibs

8.6. Other sources of funding and investment

8.6.1. Crowd funding

Another source of finance worth mentioning here is Crowd funding (sometimes called crowd financing or crowd sourced capital). This *"…describes the collective cooperation, attention and trust by people who network and pool their money and other resources together, usually via the Internet, to support efforts initiated by other people or organizations."*[33] CrowdCube provides facilities to raise equity finance and Buzzbnk is specifically set up for social ventures to raise funds as loans, quasi equity or donations. Buzzbnk is also about to launch a match loan fund where funds raised by a venture can be matched with a loan from the fund. This is being developed in partnership with Plunkett, Community Development Finance Association, Locality and the Community Development Foundation.

Crowdfunding has the added benefit of building a constituency of support behind the scaling up process. It also reduces the risk for invested funds, as the crowd fund piece is the most junior, most unsecured funding.

Because crowd sourcing requires significant commitment from The Fund raiser to 'sell' their idea to a large number of potential investors it could be used as a way to guarantee the commitment of franchisors or franchisees if they were not in a position to commit their own cash, or provide assets as security for a loan.

[33] http://en.wikipedia.org/wiki/Crowd_funding

8.6.2. IPS community share issues

According to Keith Richardson of ESFN Industrial & Provident Societies (IPS) community share issues is a common strategy for community renewable projects such as wind farms. There are about 50 people developing such schemes at the moment. [34]

For example The Baywind Energy Co-operative (www.baywind.co.uk) is a co-operative IPS formed in 1996 to promote community-owned generation of renewable energy. The first share issue in that year raised £1.2 million to buy two turbines at the Harlock Hill wind farm in Cumbria. Two years later, a second share issue raised a further £670,000 to buy another turbine.

Preference is given to local residents and the minimum investment is £300. Part of the investment's attraction is the competitive interest rate of over 5%, which also attracts one-off tax relief in the first year (equivalent to an additional 4% return for a basic rate tax-payer).[35]

Energy4All (www.energy4all.co.uk) grew out of Baywind and has now developed 7 wind farms across the UK using the same method.

The Plunkett Foundation is encouraging the use of community shares for funding the development of rural enterprise.

One issue to consider with IPS share issues is that special arrangements need to be made for investors from outside the community, in order to preserve the community aspect of the venture.

[34] Keith Richardson in conversation with Dan Berelowitz 07-12-11
[35] Chris Hill, Community Share and Bond Issues, The sharpest tool in the box, 2007

Part 2: Investing in Social Franchising

Part 1 of this report has established that there is already some social investment being made in social franchises, and that a shift in focus from grant funding to loan and investment finance would make the sector financially more sustainable and more robust.

This section examines social franchising as a market for social investment in more detail. It seeks to answer the following questions:

- What types of social franchise organisation offer potential for social investment?
- What is the size of that potential market?
- What are the potential risks and rewards?
- What amount of money is needed by the social franchises?
- What is the funding mix (the balance of grants, loans and equity) needed by different social franchises?

9. Five types of investment

The areas of social franchising where investment could be made by a social investor can be broken down into 5 categories.

1. **Expanding the capacity / operation of existing social franchisors**
2. **Getting successful social enterprises ready to franchise for the first time**
3. **Investing in new franchisees for existing social franchise operations**
4. **Investing in commercial franchises as fund raisers for social purpose organisations**
5. **Investing in 'socialised' versions of commercial franchises**

This fifth category could also include micro-franchises for unemployed, vulnerable and disadvantaged people, as used by Timpson for ex-prisoners, or carried out under FranchisingWorks. Funding could be provided to the franchisees to take on a franchise, perhaps guaranteed by the franchising organisation. There is also the possibility of developing joint ventures of this sort with commercial franchise companies.

These different investment opportunities are explored in turn in the following sections. In each case however, the existing market is undeveloped. There is a strong argument for the development of Social Franchise Support Bodies to help develop these markets; putting together deals with commercial franchisors, companies such as GSK, fundraising organisations such as Oxfam, big service delivery charities such as SCOPE and Barnardo's. It will also require partnership working with support agencies for start-up social entrepreneurs to encourage them to build scaling up into their business plans if their model proves successful.

9.1. Expanding the capacity / operation of existing social franchisors

There is a relatively small pool of around 100 social franchises operating in the UK at the moment. Based on the research we have already undertaken we estimate that around 25 existing social franchisors could benefit from capacity building which would allow them to refine their franchising model, increase their portfolio of franchisees and use some of the increased revenue to service a loan, or provide a return on an equity-like investment.

As long as the increased revenue stream was clear this should be a relatively low risk investment. If we allow a comparison with the commercial sector, the Nat West/BFA Franchising Survey 2011 states:

Using a strict definition of business format franchising, the number of active franchises identified was 897. This represents an increase of 55 franchisors; however this hides the fact that there were 28 departures during the year and 83 new concepts. Of the departures none were due to financial reasons but just withdrew from franchising.

So even in the current economic climate no franchise operations have been forced to close in the past year.

Nat West/BFA Franchising Survey also reports that in 2011 the second biggest barrier to growth for franchisors was the lack of investment/financial backing and this was reported by 56% of the sample surveyed.

In the commercial sector franchisors derive income from the franchise network in a number of ways:

- **An initial fee** – The Franchise Package Fee – To cover the costs of recruiting, training and supporting new franchisees. Can vary between £5000-£20,000 and VAT.
- **Ongoing fees** – Management Services Fee – To cover the costs of supporting and managing the franchise network. Can vary between but generally between 5-12% of gross sales (Net of VAT).
- **Sale of Product to Franchisees** – If the sale of product is involved and this is supplied centrally by the franchisor.

An investment to build the capacity of an existing social franchisor would aim to:

- Refine the franchise model to maximise financial and social benefit for the franchisor and franchisees
- Increase the number of franchises that could be serviced and supported

The increased income for the franchisor resulting from these changes would then be used to pay back the investment. Where the franchisor receives a franchise fee this income would service the loan. Where franchisors do not receive any income from franchisees, or even financially support them, the capacity building would have to include alternative income generation to pay back the loan.

Significant business development expertise will be required to support an organisation through rapid expansion.

There are some well-established social franchise operations with a strong financial record such as CASA. These would seem to represent a relatively low risk investment. CASA estimate a social investor could expect a return of 10%.

More recent social franchises may represent a higher risk, but potentially a lower level of investment could see a large expansion in their activity. MyTime CIC, for example, has only recently franchised for the first time but could potentially scale up more cheaply than CASA. Big Issue Invest invested £200,000 in developing and piloting the first franchise operation. Likewise Bikeworks is in the process of considering its first franchise. If this proves successful an investment to scale up the capacity of the franchisor could enable that operation to develop in other cities across the UK. There are also a number of successful social franchises operating in Europe that do not yet operate in the UK. Investments could be made to help establish a UK franchise operation.

The process of scaling up through franchising can be broken down as follows:

Stage	Relative Risk	Support Required
Pilot franchise	High risk	Very High levels
Early franchises	Medium risk	Medium levels
Rapid scaling up	Low risk	Lower levels

Because social franchisors are generally well-established social enterprises in their own right they are less likely to go into administration than franchisees. As a comparator none of the 897 commercial franchisors in the UK have folded in the past year. So even If the franchise operation fails there should be an entity capable of paying back a loan. However examples such as Aspire show that there is a real risk social franchisors can go into administration.

The level of investment needed to expand the capacity of existing social franchisors is very difficult to estimate. We have based an average investment of £100,000 on the following assumptions:

- £20,000 to buy in expertise to help refine the franchise model, making it more financially and socially robust. (This figure is based upon the cost of readying a new franchise operation as detailed in section 9.3.
- £80,000 for an additional member of staff (costed at £40,000 a year over 2 years) to support the development of further franchise units.

9.2. Investing in new franchisees for existing social franchise operations

This too would be a relatively straight forward market for social investors to analyse. By working with appropriate organisations amongst the existing 132 social franchisors operating in the UK and Europe a social investment intermediary could help identify, recruit, vet, train and support new franchisees. This investment area is arguably low risk, but with limited financial returns. In the commercial world this is where the franchise units of high street banks operate.

Based on the research we have already undertaken we estimate that 44 of the existing UK social franchise operations could be approached to see whether they could be helped to recruit new franchisees. The number of potential franchisees that could be supported for each operation varies enormously. Of those surveyed in the UK by ESFN the average number of franchise units is 19, but this is skewed by the Trussell Trust's Food Bank franchise which has 182 outlets. If you take this out of the equation the average is 8. An average of 4 new franchisees per appropriate franchisor would therefore seem to be a reasonable estimate for the potential market for this type of investment.

The default rate for franchise units in the commercial sector is 3.5%. Although social enterprises have additional burdens to carry compared to their commercial counterparts, there is evidence to suggest that social enterprises are more resilient and robust than purely commercial businesses. Research by New Philanthropy Capital found that:

- Three quarters of social enterprises studied had seen their organisations grow since 2010, despite the recession
- Social enterprises were 40% more likely to survive for 5 years than traditional businesses
- The social enterprises studied had all experienced fast-growth—at an average rate of 17% a year. [36]

The default rate for loans by CAF Venturesome is 4%. Despite the evidence to suggest that franchises are less likely to fail than non-franchises, and that social enterprises are less likely to fail than purely commercial businesses we have cautiously estimated the default rate for this type of investment of 6%.

The 'in-a-box' approach means that each franchise can be accurately costed; the investment funds needed can be put up by the franchisee using a loan, or jointly by both franchisor and franchisee. To reduce risk, the franchisor might part guarantee any loans to franchisees as part of their expansion plans.

There is clearly a larger market for investing in social franchisees than for investing in social franchisors since each successful social franchisor could potentially have many

[36] Are social enterprises more resilient in times of limited resources? Eibhlín Ní Ógáin, New Philanthropy Capital.

franchisees. So a social investor could make a relatively large number of investments into individual franchise units while still dealing with a relatively small number of franchise operations. This would reduce both the risk and the transaction costs for this type of investment as the business model would already be well known and ongoing business support would essentially be for a small number of multi-site businesses rather than a large number of SMEs.

There is considerable variation in the costs of establishing a new social franchise. Of the established social franchises we interviewed estimated start-up costs for new franchises varied from £5,000 (Caring Christmas Trees) to £1.4 million (Emmaus).

Excluding Emmaus, which includes the cost of buying a suitable property, the average start-up cost for the 11 UK social franchises surveyed in the ESFN survey was £103,000.

Initial franchise fees varied from 'reverse fees' (significant contributions by the franchisor to the new franchisee) to £40,000 (CASA). Ongoing fees to franchisors varied from 0 - 8%.

Of the nine social franchisors we interviewed estimates of the amount of time it took for a new franchise to reach profitability was between one and three years, with the average being two. Equity-like investment (patient capital) or deferred payment loans may therefore be a more appropriate form of finance for these organisations than regular loans. However where the franchise is being set up by a well established organisation (for example a housing association) loan repayments could be factored more easily into the cash flow. Either way, longer repayment periods would be expected for this type of investment.

In the commercial sector banks frequently offer interest only payment terms for the first 12-18 months until the business has a more robust cash flow, if sufficient security is offered, either by the franchisee or through the Enterprise Finance Guarantee scheme.

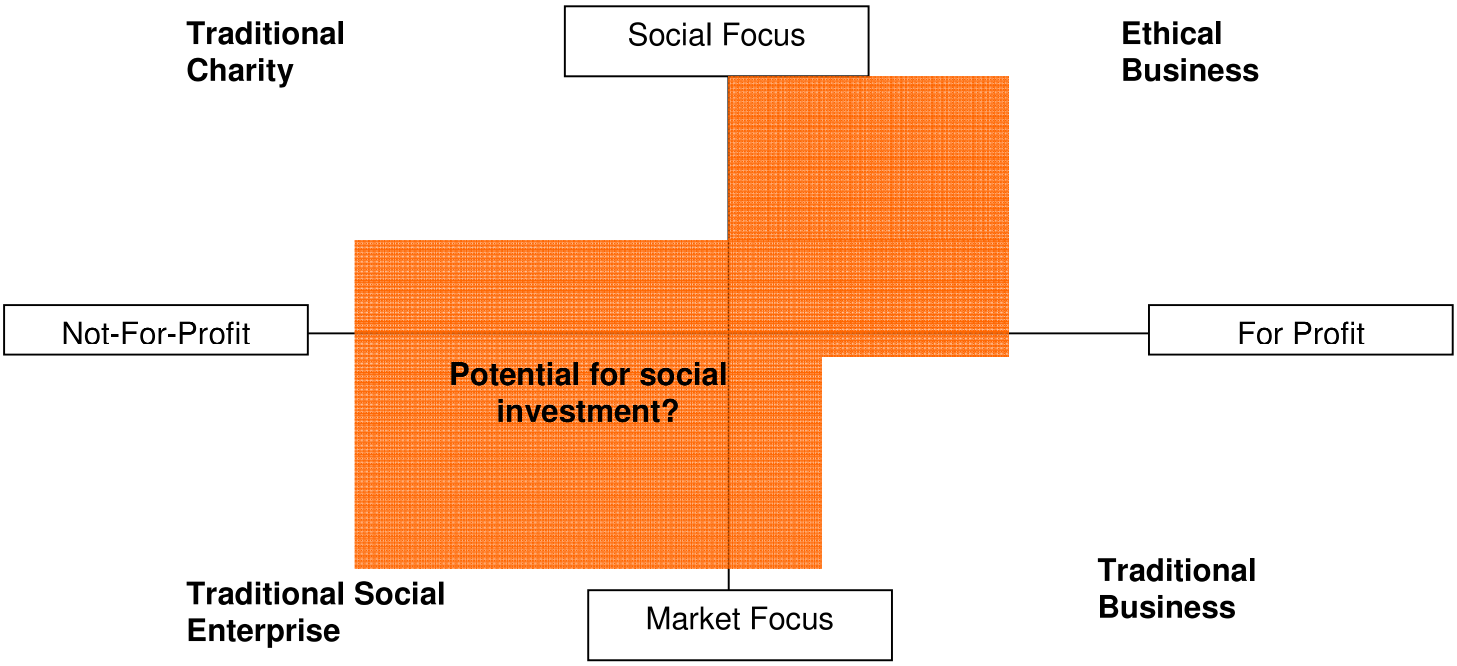
A social investor making an investment in new franchisees may well also wish to invest in the franchisor; however investing in different franchise operations would help spread the risk. There is also a consideration regarding potential conflict of interest in investing in both franchisor and franchisee. If a situation were to arise where the best decision for the franchisor was not the best decision for the franchisee it becomes more complicated if a social investor has invested in both. However this relationship, should it exist, would also allow the social investor to take a more neutral perspective to help negotiate the best possible outcome in terms of social and financial return.

Importantly the social return on the investment into the franchisors is mainly realised with the establishment of new franchisees. This is also the easiest investment to plan for as the franchise structure is already in place; the set-up costs, time to profitability and projected social are already proven.

9.3. Getting social enterprises ready to franchise for the first time

This is the highest risk area for investment. It has the potential to provide significant social return, but in most cases probably limited financial return, at least in the short-term. Some social franchises that do not turn a profit as a business may still offer potential for social investment if they have a sustainable source of donations or grant income to meet operational costs that cannot be borne commercially. (The costs of establishing a new social franchise are covered later)

It is very difficult to get a clear idea of exactly how large the marketplace might be for this kind of investment. Social Enterprises exist on a continuum from 'not-for-profit' to 'for profit' and on a continuum from 'social focus' to 'market focus'. They can be plotted onto the following matrix:



Many definitions of social enterprise will restrict the term to organisations with a not-for-profit structure, and with a minimum percentage of their income generated through earned income. We are not concerned here with that debate. However it is important to consider what criteria might guide the decision to make a social investment in a social franchise. For example:

- There are a number of privately owned commercial franchises which sit within the 'traditional business' quadrant of this matrix and yet have a social or ethical focus. For example Dig It Projects is an education franchise that established allotments in schools and provides teaching resources around healthy eating and sustainable development.

- There are successful co-operatively owned social franchises such as Daily Bread Co-op which would sit within the ‘ethical business’ quadrant.
- There are examples of successful not-for-profit franchises that have substantial social impact but generate little or no revenue, such as DePaul NightStop. This would sit in the ‘traditional charity’ quadrant of the model.

We would suggest that the potential for achieving social impact through investing in social franchises should not be restricted by too narrow a definition of social enterprise.

Jo Hill of Unltd reports that of the 638 applications for their Challenge Fund probably only 6 were franchisable and since these were at an early stage they would be high-risk investments.

Primary research that we have conducted with housing associations showed that of the 89 interviewed, 6 were running social enterprises they felt had the potential to develop into franchise operations.

Primary research we have conducted amongst 78 social enterprises working with homeless people has identified 18 social enterprises making more than £5,000 surplus a year, of which 9 were making more than £25,000. Although they seem to be operating on a sustainable financial footing, further research would need to be done to see whether these were franchisable concepts.

Our best estimate at this stage is that we could expect to find between 10 and 50 social enterprises where it would be worth investing in an initial feasibility study. Based on the experience of The Franchise Company in the commercial sector only around 20% of these would then go on to become fully-fledged franchise operations.

Based upon the experiences of past attempts to develop social franchises from existing social enterprises we have put a conservative estimate of a 15% default rate, however this should be brought down considerably with careful due diligence and providing intensive business support. It is also possible to mitigate by tranched drawdowns – the investment released in stages as the franchise operation is developed.

There is also the prospect of reducing the risk further by sourcing grant funding for the earliest stages of the franchising process where the drop-out rate will be highest. Only in cases where there is a clear indication of rapid and substantial profitability in the proposition would loan funding be appropriate for the whole amount.

For most commercial businesses looking to franchise a feasibility study would be the first stage of the process. However an intermediary investing in social franchises would probably want to include two other stages prior to a full feasibility study. A self-assessment feasibility study could be included by the intermediary to help filter out completely inappropriate applications, and a quick feasibility assessment to decide whether to invest the money in a full feasibility study.

Of the 9 social franchises we interviewed the average investment to get the organisation franchise-ready was £134,000. However this average masks enormous variation with estimates from £10,000 (BlueSky) to £500,000 (CASA).

Julie Waites, of The Franchise Company, estimates that the average cost for a commercial business to become franchise ready is between £30,000 and £50,000. Although again this varies enormously depending upon the complexity of the business, the amount of staff input etc. This cost would not include the cost of running the franchise pilot.

These break down as follows:

Consultancy Fees:

- Fees for the feasibility study are likely to be in the range £3000-£8000
- Fees for the remaining preparation work would be in the region of £6,000-£8,000.
- Ongoing fees for helping with franchisee recruitment, training and support, will depend on precise involvement but they could be linked to recruitment.

Other Costs

- Legal fees for the production of the legal documentation (notably the franchise agreement and a non-disclosure agreement): circa £4,500 - £5,000.
- Production of the franchise operations manual (FOM): The FOM can vary tremendously depending upon the type and complexity of the business model and how much written operational information is available in house. As a guide only fees for producing the FOM are normally in the region of £4000-£8000.
- Any additional piloting costs (although any additional pilot operations would be treated as a profit centres in their own right, so they should recover some or all of their costs).
- Franchise marketing and franchisee recruitment costs (although these costs would normally be recouped as each franchisee is recruited by adding a figure to the initial franchise fee).
- Building the systems needed to operate at scale… real world and IT: cost depending on circumstances

Drop-out rates for potential franchisors

Julie Waites estimates that in the commercial sector, *"for every 10 businesses looking to franchise two will decide to go ahead, one will take on a couple of franchises and very small numbers become successful franchisors."* We should therefore expect the drop-out rate of social enterprises going through the process of franchising to be quite high.

This success rate can be substantially increased however by:

- Running awareness and understanding sessions
- Providing business support / expertise
- Getting the model right at start

9.3.1. The investment process for new social franchise operations

We suggest that the following five-step process could be used to reduce the risk of investing in new social franchises. Investment at each stage would obviously depend upon a successful outcome at the previous stage.

1. Initial self-assessment (currently being developed by the ICSF in collaboration with Bertelsmann Foundation in Germany)
2. Brief assessment for a small loan (£3-10K) for a feasibility study (contingently repayable on first revenues).
3. Grant / quasi equity (£10-20K) to develop the franchise model
4. Mix of grant / quasi equity / loan (£50-150K) to pilot first franchise
5. Quasi equity / loan to expand further

Based upon this process we would anticipate the following level of investment:

Stage	Ratio of investments	Average investment
Feasibility study	3:	£5,000
Develop model	2:	£20,000
Pilot franchise	1	£75,000

Higher risk investments in developing new social franchises should lead (longer-term) to lower risk investment opportunities as the successful franchise operations become established.

9.4. Commercial franchises as fund-raisers

There are 897 commercial franchise operations in the UK, and many franchises could potentially be run as fund-raisers by charities as long as there was no ethical conflict of interest between the commercial operation and the social aims of the charity. High street operations run by registered charities could potentially benefit from rate relief on premises, making them very attractive as commercial propositions. And the right joint branding could help swell sales, as well as benefitting the reputation and profile of both the charity and the franchisor.

It is anticipated that most of these franchises would be run entirely as commercial operations, simply donating the profits to the parent charity. Some organisations may consider delivering an element of social impact through the franchise operation itself, for example Ben & Jerry's Partnershops are often run as training and employment programmes for NEET young people. However in this section we will consider fund-raisers as commercial operations and then consider 'socialised' commercial franchises separately in section 9.5 below.

Since these would essentially be commercial franchises we could take our figures directly from the commercial sector. The Nat West/BFA Franchising Survey 2011 states:

The cost to a business in setting up as a franchise in the first year ranges from £20,000 to £900,000, with the average being £150,000 - £170,000 that has remained fairly static at this level for a number of years.

The average initial outlay for setting up a franchise is £81,900, though again this varies dependent on the sector.

Finance is needed by 61% of franchisees when setting up. Banks continue to be the most important overall source of finance (81%). The average amount borrowed, by those that do, was £66,500, with 20% needing to borrow in excess of £100,000

The average ongoing Management Service Fee is 8.4%. The average advertising levy is 2.3%. Overall ongoing costs are 11.1%.

However the experience of Ben & Jerry's Partnershops in the UK has not been entirely positive with a number closing after a relatively short time. There is an argument that there is more to lose for a regular commercial franchisee with their house on the line than for a charity developing a new fundraising opportunity. It would be wise therefore to assume that the failure rate of fundraising franchises will be higher than the commercial sector. This would not necessarily lead to a higher default rate though, as an established charity probably has a greater chance of paying back a loan than an individual commercial franchisee.

It may well be that many social purpose organisations are able to borrow much of the necessary finance from commercial banks. However, even where borrowing from commercial banks is an option, there may well be the need for the investment of risk capital by social investors to make up the shortfall.

The Nat West/BFA Franchising Survey 2011 also states that:

"…The average annual commercial failure rate of franchise units has been less than 5% each year since 2001. Even in the current recession 90% of franchise units have reported that they remain profitable. As a result '...around 90% of new franchise businesses are still operating after 5 years, compared with 30% of other types of business start-up.'

If we assume a commercial return is possible on this type of investment, and the failure rate is around 10% in 5 years, with the default rate on loans by commercial franchise units at 3.5%, that makes this a relatively low-risk investment. We have been slightly more conservative in putting this at 5%.

9.5. 'Socialised' commercial franchises

An initial review of the 897 members of the British Franchise Association suggests that around 50% have the potential to be run in some way as a social enterprise. However we anticipate that more in depth analysis would reveal that many of these would not be appropriate or the franchisor would not consider a social franchise. We have therefore estimated that around 10% of commercial franchisors may genuinely be open to the possibility of licensing a socialised version of their franchise.

As there has been little attempt to 'socialise' commercial franchises in the past it is very difficult to estimate the potential success or failure rate of this type of investment. We have taken into account the default rate of commercial franchise units (3.5%) and the default rate of CAF Venturesome (4%). Despite the evidence to suggest that social enterprises are more robust than purely commercial businesses we have used a conservative estimated a default rate of 6%.

As this is a largely untested market it is difficult to anticipate what the costs might be of adapting a commercial franchise for social purpose, and what the effect on the business might be in terms of reduced revenue or increased costs.

A recent study by Social Impact Consulting of social enterprises working with homeless people found that the average cost saving for running the operation on a purely commercial basis would have been 21.3%[37]. However this figure masks enormous variation from less than 10% (40% or respondents) and more than 70% (14% of respondents).

In the commercial sector franchisee's profits vary significantly subject to the market and sector etc. According to Julie Waites of The Franchising Company franchisees realistically need a gross profit margin of at least a 35% in order to have a chance of success. If a social franchise also had to bear costs amounting to an additional 21% only franchises offering a gross profit of over 50% could be considered.

However, for many larger social purpose organisations many of the additional costs, such as training and staff support for employees who are not yet job ready, can be borne by the parent organisation as part of their core work rather than by the social franchise itself. Where this cannot be achieved suitable and sustainable grant funding could be sourced to ensure the social franchise is financially viable.

Furthermore many of the social costs can be offset by contracts for delivering social outcomes, for example as part of government programmes or local authority service delivery.

Whatever the source, sustainable grant funding to support the charitable aspects of a 'socialised' commercial franchise needs to be a key component of the business plan to make an investment viable.

[37] Social Enterprise and Homelessness Survey 2011, Social Impact Consulting (unpublished)

If a large proportion of these additional costs are genuinely taken away from the social franchise then it can perhaps be treated in a similar way to a commercial franchise, but still allowing for a reduced profit and increased risk of failure. We have therefore estimated a default rate of 6%, compared to 3.5% for purely commercial franchises and 4% for CAF Venturesome.

9.6. Summary of potential investments

The following table summarises the different types of social investment that could be made into social franchise operations.

Type of investment	Approximate size of market	Default rate estimate	Estimated range of possible ROI (%)	Average level of investment needed	Possible balance of loan / grant / equity*
Existing social franchisors	131, of which perhaps 25 could be potential investments	5%	2-10	£100K	G: 0% L: 90% E: 10%
New franchisees for existing social franchise operations	Around 100 (Assuming an average of 4 new franchisees / suitable franchise.)	6%	2-10	£103K	G: 10% L: 40% E: 50%
Supporting social enterprises to first-time-franchise	10 – 50	15%* (On equity-like investment only. Not including grant)	0	£40K	G: 40% L: 0% E: 60%
Commercial franchises as fund-raisers	500 (After initial review of BFA database)	5%	6-15	£67K	G: 0% L: 100% E: 0%
'Socialised' commercial franchises	90 (After initial review of BFA database)	6%	2-10	£67K	G: 10% L: 40% E: 50%

*Equity could be genuine equity or equity-like investment- risk capital with returns linked to profit.

9.7. Further segmentation of investments

The potential investment portfolio could also be analysed according to sector or social outcome. For example:

• The development of franchisable contract services for the supply of care, health, etc… to major providers.

• The development of Big Society programmes that engage people and communities.

• The development of income generation for long-term unemployed people, vulnerable and disabled people, older people, and NEETs

• The franchising of financial services to combat financial exclusion

• Non-commercial franchising of volunteer and engagement programmes (such as the Samaritans or Alcoholics Anonymous)

Part 3: A Social Franchise Investment Intermediary (SoFII)

"Intermediary and support agencies and associations play a crucial, if sometimes intangible, role in encouraging high quality replications. Intermediary and support agencies and associations provide knowledge and advice as well as credibility, championing, and a focal point for access to information. Without a national champion or 'lead' agency, the diffusion of innovations that work is largely left to chance. Arguably, the development of social franchising has been hampered in part because it no longer has a dedicated support agency."[38]
Diana Leat

There is rapidly growing interest in social franchising, from social enterprises and charities, from social investors and from policy makers. If this interest is to be converted into impact there is a strong argument that the sector needs two things:

- Organisations providing expertise and support in social franchising
- A dedicated social franchise investment fund

Together these would form a social franchise investment intermediary. Bringing together investors, franchises and social franchising experts in this way, could lead to a significant increase in the quantity, sustainability and impact of social franchises in the UK.

A social franchise investment intermediary would need to consist of two legally separate entities: an investment fund and a Social Franchise Support Body. Since some of the loan funds will be used by the social franchises to pay for the business support ideally these functions should be kept legally and operationally separate to avoid potential conflict of interest. However the entities would need to work extremely closely together to ensure the lowest possible default rate on The Fund's loans, and to maximise the social impact of the investments.

For the purposes of this report we will refer to the social franchise investment fund as 'The Fund', and the business support functions as 'The Social Franchise Support Body'.

Part 3 of this report looks at some of the practical issues around establishing a business support intermediary, suggests possible models that could be adopted and attempts to provide some base line data that can be used for more detailed financial modelling of The Fund.

[38] Diana Leat, *Replicating Successful Voluntary Projects*, Association of Charitable Foundations, 2003

10. The Fund

Using the assumptions generated by this research Jeff Dober at FSE built a financial model of The Fund to investigate its viability and the factors necessary for it to work.

The current model shows that further work is needed to balance the portfolio of investments to secure a reasonable return for investors, or that grant funding totalling approximately 10% of the loan fund would be needed to support riskier investments and reduce the default and dropout rates.

Alternatively it may also suggest that:

- Default assumptions are too high
- Pricing of funding to clients needs to be increased (equity type returns)
- Running costs need to be reduced
- A combination of the above is required - or -
- None (or not enough) of these can be changed realistically - and therefore a non-investment (grant like) subsidy is required to make the initiative sustainable

10.1. 'Competition' and Co-investors

The proposed Fund would sit in a place between two different types of investor:

- Franchise units of commercial banks, and
- Specialist social investors

The balancing act for The Fund is to:

- Invest in organisations that will deliver a social return
- Invest in organisations that will deliver sufficient financial return
- Provide investment that is not already available through other lenders
- Provide expertise to support investment that would not be available from other lenders

In many cases we anticipate The Fund providing finance in a way that will help to secure additional finance from more commercial sources or as part of a package of investment with grant making trusts and other social investors. Strong communication and cooperation with other finance providers will be essential for the success of The Fund as well as the social franchises. A list of these is given in section 8.4.

10.1.1. The 'Challenge Model'

One way of marketing the fund to potential social franchises would be to adopt a challenge model. The concept is simple; put up a sum of money for potential investment and run a widely publicised competition to win it. There are two good examples of this model being successfully adopted to develop a particular sector.

UnLtd recently started the Big Venture Challenge for social entrepreneurs wanting to scale up their projects. They had over 600 applications from which 25 of the best social enterprises in the UK were chosen. 7 of the 25 are using some form of replication for growth.

The Spark Challenge[39] is a competition, first launched in 2007, to develop sustainable social enterprises that employ homeless people. The winners receive a share of investment. In 2010 a £700K investment was shared between 12 enterprises.

Interestingly many of the social enterprise ideas that do not go on to win still manage to raise sufficient investment through alternative sources to start up. Of the 65 social enterprises employing homeless people that we surveyed in November 2011, 20 had started before 2007, and 45 since. Many of these new start-ups had grown out of the Spark Challenge.

Spark Challenge has had an impact in a number of key areas:

- Raising awareness of the social impact on homelessness that can result from social enterprise
- Sparking interest, and providing motivation for organisations working with homeless people to set up social enterprises
- Directly providing substantial investment and leveraging more into this sector
- Changing the culture of the homelessness sector to consider more entrepreneurial approaches to tackling the problem

An independent evaluation report sets out the social and financial benefits arising from the government's initial investment of £2.94m, in the 3 years to 31st March 2011[40]. The highlights were:

- 696 homeless people entering sustainable employment
- 872 homeless people gaining secure housing tenancies
- A social value of £8.9m has been created
- An additional £4.5m was leveraged in as a result of the Spark investment

A similar 'challenge' fund could potentially stimulate significant interest in social franchising.

[39] http://www.sparkchallenge.org/
[40] http://www.sparkchallenge.org/news.html#sparkworks

11. The Social Franchise Support Body

As was mentioned in the introduction to Part 3, the social franchise investment intermediary really consists of two parts; an investment fund and a business support operation. The Fund could be managed by one organisation, or a consortium of social investors. Likewise the business support could be delivered by one other organisation, or by a cluster of organisations working together.

11.1. What services should the Social Franchise Support Body provide?

The Social Franchise Support Body needs to perform two main functions; marketing the fund to social franchises and providing business support. This is summarised in the following table:

Function	Purpose
Marketing	to find suitable social franchises to invest in
Pre-franchise Consultancy / business support	to support social enterprises through the franchising process and reduce the risk of failure
Post-franchise Consultancy / business support	ongoing support / mentoring to franchisors and franchisees to the reduce risk of failure

The possible models of delivery and their related costs are discussed in the following sections.

11.2. Marketing

The Fund would need to be marketed to find social franchises that would deliver maximum social and financial returns.

The market would need to be properly segmented to devise a full marketing strategy but it could roughly be divided into:

- Existing social franchises
- Successful social enterprises with the potential to franchise
- Organisations wishing to take on a social franchise
- Suitable commercial franchises which could become fund-raisers
- Suitable commercial franchises which could be 'socialised'

There are a number of ways in which this marketing could take place:

- Using social enterprise intermediaries to find suitable investment opportunities
- Working through networks such as the European Social Franchise Network (ESFN) and the British Franchise Association BFA)
- A 'challenge fund' such as the Big Venture Challenge (see section 10.1.1)
- Running 'taster sessions' to encourage suitable organisations to think of franchising

Coordination of the marketing could be done by The Social Franchise Support Body, or an external organisation.

Additionally the body could create a web portal that has a slate of social franchising opportunities advertised to prospective social franchisees. This is already well established in the commercial world with numerous directories of franchise opportunities available online including:

- www.thebfa.org
- www.smallbusiness.co.uk/franchise-directory/
- www.theukfranchisedirectory.net
- www.selectyourfranchise.com

A similar service, publicised in the right way, could encourage organisations looking to develop a social enterprise to look at tried and tested models before developing a new one.

11.3. Consultancy and business support

The consultancy is a vital part of the investment in social franchises, particularly in developing new social franchisors. It can be a significant part of the cost of developing a new franchise.

Julie Waites of the Franchise Company says

"As franchise consultants, operating since 1991, we have encountered many businesses with growth potential that would potentially make good franchises but lack the financial resources to employ professional consultants to help them develop the franchise format. Alternatively some companies prefer to develop their own franchise system in-house without using external consultants.

In addition, we have seen many companies launch franchise systems that are obviously poorly developed without understanding the process of franchising a business and what is involved. Frequently these franchise systems fail, but in the meantime the company has spent a lot of money and management time and often recruited a number of franchisees into the business."

Average consultancy costs for developing a new social franchise operation are £25-50,000, with a further £5-10,000 needed for legal fees.

A significant part of the cost of capacity building existing franchisors, or 'socialising' commercial franchises would also be the cost of buying in appropriate expertise.

Since some of the loans from The Fund will be spent on consultancy services it is important that The Fund and the consultancy services are kept separate. The Social Franchise Support Body would manage the consultancy services.

There are five possible models that the Social Franchise Support Body could follow to deliver this consultancy. These are shown in table 11.4.

A wide range of expertise will be needed by the Support Body, covering commercial and social franchising experts across a range of sectors. We recommend, at least initially, having a slate of freelance consultants that can be bought in. A set number of days could be bought upfront to bring down the cost. If it becomes apparent that particular expertise is in demand some of the consultancy could be brought in-house at a later stage.

A decision about how much to subsidise the consultancy could be taken depending on the need to stimulate demand for any of the five types of investment.

Except for initial assessment work the cost of the consultancy would ultimately be borne by the investee, although some may be subsidised with grants where appropriate.

Estimated consultancy costs for each type of investment are:

Type of investment	Estimated cost of consultancy
Existing social franchisors	£15,000
New franchisees for existing social franchise operations	£5,000
Supporting social enterprises to first-time-franchise	£15-20,000
Commercial franchises as fund-raisers	£5,000
‘Socialised’ commercial franchises	£15,000

11.3.1. Commercial franchising expertise

One possibility for growing the social franchising sector is to bring in expertise from the commercial franchising sector. This could add value in a number of areas.

The social enterprise sector is generally very good on delivering on its social goals but often less good in delivering on its business objectives. Financial sustainability varies enormously across the sector for many reasons. Commercial franchising experts could help to strengthen the package available to the franchisee to ensure a successful franchise could be run with little or no previous business experience.

Given that commercial franchises already have a tried and tested business model there may be an opportunity to help social enterprises take on commercial franchises to achieve social objectives. This would involve assessing commercial franchises for suitability and may involve negotiating with franchisors to adapt their franchise agreement accordingly. Both of these tasks would arguably be easier with the assistance of expertise from the commercial franchising sector.

Commercial franchising experts could also help advise on social purpose organisations taking on commercial franchises for income generation. Or sit on the board of organisations seriously contemplating social franchising.

In each case it will be important to get the right people providing the expertise. Ideally people with significant experience of commercial franchising who also have an understanding of the social impact sector. Or alternatively ensuring advisors with a focus on the social as well as the financial bottom line are also providing input.

Although expertise from the commercial franchising sector can add value it cannot replace the need for specialist expertise on social franchising. Just as there is a need for specialist business support for social enterprises in addition to the general support available to the wider business sector. Social enterprises do have 80% of the way they operate in common with commercial enterprises but unfortunately you cannot separate out the 20% that is different and provide specialist support for this 'social' aspect on its own. Being a social enterprise affects the way an organisation is marketed, its finances legal structure and every element of its operation. Generic enterprise support services generally don't recognise this and that is why they have been so unsuccessful in supporting the social enterprise sector.

Keith Richardson, of Economic Partnerships argues that *"one of the principle reasons for the failure of Social Firms UK's programme (we were quite involved in it) was it tried to ape commercial franchises and failed –in particular it was far to legalistic and rigid in its approach. This is not to say that we cant learn from commercial franchises and use their expertise, but because they are commercial franchise experts does not make them social franchise experts. "*[41]

[41] Email from Keith Richardson to Dan Berelowitz, 19-07-12

11.4. Possible models of delivery for the consultancy

Model	Pros	Cons
The Social Franchise Support Body delivers consultancy in-house on a commercial basis	• Social Franchise Support Body retains full control and knowledge • Income from more commercially viable franchisors can be used to subsidise socially strong but commercially weak franchises	• Staff overheads
The Social Franchise Support Body attracts grant funding and delivers consultancy in-house on a subsidised basis	• Social Franchise Support Body retains full control and knowledge • May attract more potential franchisors	• Staff overheads • May attract more potential franchisors who are unsuitable
The Social Franchise Support Body subcontracts to one or more consultants on a commercial basis	• No staff overheads • Can buy in particular expertise • Can make a small margin on the consultancy to more commercially viable franchisors which can be used to subsidise socially strong but commercially weak franchises • A consultant on a retainer would reduce the day-rate and increase potential margins	• Reduces knowledge of franchise and therefore the information available to The Fund for making decisions.
The Social Franchise Support Body attracts grant funding and subcontracts to one or more consultants and subsidises the service	• No staff overheads • Can buy in particular expertise • May attract more potential franchisors	• May attract more potential franchisors who are unsuitable • Reduces knowledge of franchise and therefore the information available to The Fund for making decisions.
The Social Franchise Support Body provides a list of approved consultants	• Minimal involvement by the Social Franchise Support Body after initial vetting	• Further reduces knowledge of franchise and therefore increases risk to The Fund • Difficult to control the quality of work

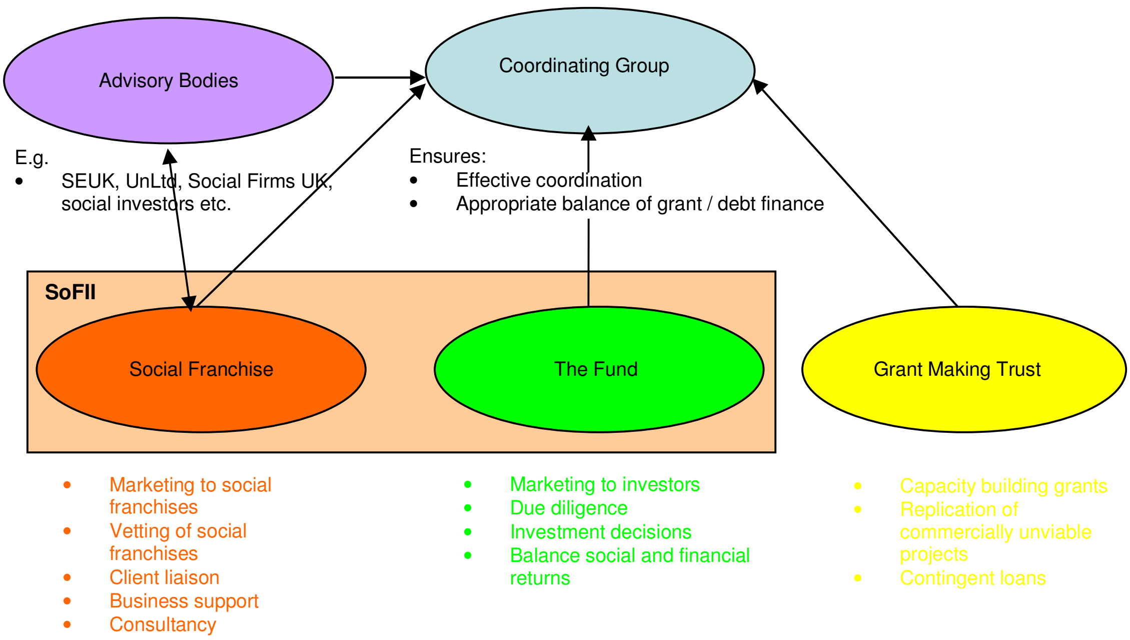
12. Suggested models for the SoFII

12.1. Model 1

At its simplest a Social Franchise Investment Intermediary would consist of two elements: The Fund, a specialist fund for investing in social franchise operations; and the Social Franchise Support Body which would provide the expertise on social franchising, market The Fund to potential clients and provide or manage specialist social franchise consultancy.

To ensure maximum social impact, the best balance of debt and grant finance for clients, and to minimise the risk of investments the SoFII should also develop close relationships with one or more grant making bodies. And the SoFII will also need to ensure it coordinates effectively with other social investors, social enterprise networks and other relevant partner organisations.

The following diagram provides a simplified overview:

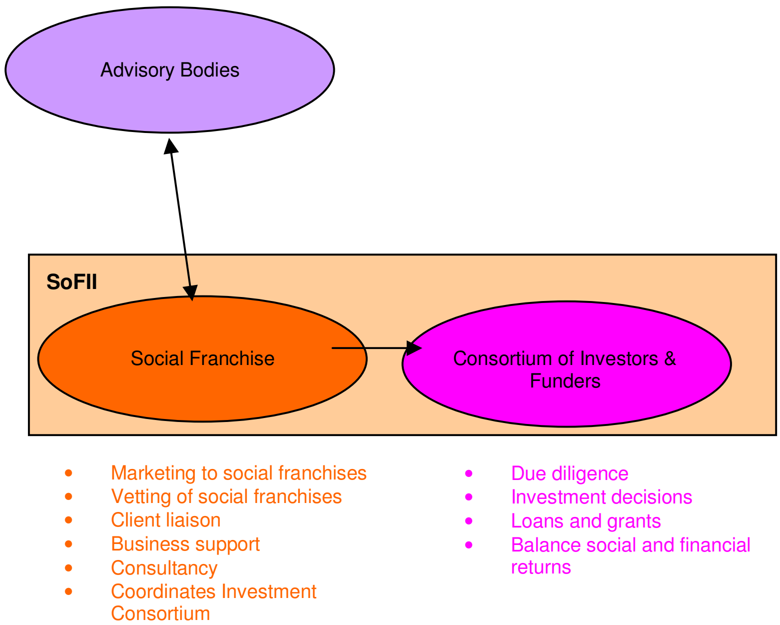


12.2. Model 2

Under Model 2 the Social Franchise Investment Intermediary would also consist of two elements. The Social Franchise Support Body would still provide the expertise on social franchising, market The Funding opportunities to potential clients and provide or manage specialist social franchise consultancy. The second element would not be a stand-alone Fund however, but a consortium of social investors and grant making trusts that would use existing funds, enlarged by further investment from Big Society Capital, to invest in social franchises. This consortium could be coordinated by the Social Franchise Support Body.

The same categories of investment would still apply, and the consortium could decide on the right balance of investments just as a single fund could.

The following diagram provides a simplified overview:



Part 4: Recommendations & Conclusion

13. Recommendations

Throughout this report we have suggested ways in which the social franchising sector could be supported to grow and deliver greater social impact. We have summarised these recommendations below. A number of potential stakeholders will need to be involved to maximise the potential of the sector, and we have suggested some of those who may take a lead in coordinating this activity.

13.1. Develop a social franchise support body

Recommendation
• Develop a dedicated centre of expertise in social franchising, able to provide practical support to social franchise operations
• Utilise appropriate expertise from the commercial franchising sector to support social franchising
• Work with loose federations of organisations to tighten up the business model and develop a full franchise operation
• Work with intermediaries to ensure (where appropriate) that new social enterprises build scalability into their business models from the start and consider social franchising as one model for doing so
• Provide intensive consultancy support to a number of potentially franchisable projects
• Establish database of social franchise opportunities
• Establish database of potential social franchisees
• Promote successful social franchises
• Facilitate entry into the UK for successful European social franchises
• Encourage social enterprises wishing to scale up to explore social franchising as an option
• Create a 'pipeline' of scalable, franchisable social enterprises looking for social investment

13.2. Develop a social franchise investment fund

Recommendation
• Establish a dedicated social franchise investment fund, either managed by an established social finance intermediary, or run as a 'virtual fund' by a consortium of committed investors
• Link fund and Social Franchise Support Body
• Develop a challenge fund to increase awareness of and encourage more social franchising
• Investments should be made in: o Expanding the capacity / operation of existing social franchisors o Getting successful social enterprises ready to franchise for the first time o Investing in new franchisees for existing social franchise operations o Investing in new franchisees for existing commercial franchise operations as fund raisers for social purpose organisations o Investing in 'socialised' versions of commercial franchises
• Promote the use of loans and investment ahead of grants as a source of funding for social franchises
• Create links between appropriate charitable trusts prepared to offer grants alongside social investments to create sustainable social franchise operations
• Work to change the culture of the investment market to look at what works rather than what's new.

13.3. Bring together key stakeholders to work together on social franchising

Recommendation
• Convene a social franchising conference to bring together key stakeholders, develop partnerships and map out a plan for developing the social franchise sector
• Develop a peer network of organisations getting started in social franchising
• Further develop the peer support offered for social franchises through ESFN
• Open discussions with commercial banks franchise units and charitable trusts to explore their involvement with social franchising

13.4. Broker relationships between commercial franchises and not-for-profits

Recommendation
• Establish a brokering service between commercial franchises and not-for-profit organisations for the use of commercial franchises for social impact or fundraising
• Work with larger charities and commercial franchisors to explore the opportunities of taking on commercial franchises for fund raising
• Broker discussions between large service delivery charities and appropriate social franchises / social enterprises wishing to franchise
• Work with housing associations to explore opportunities for housing associations to take on social franchises

13.5. Further policy / research work

Recommendation
• Establish a common definition of social franchising as distinct from social replication.
• Establish annual baseline data on social franchise activity in the UK
• Analyse all existing social franchise operations in the UK to establish which could be supported to grow through social investment and business support

14. Conclusion

There is a wide variety of activity taking place within the sphere of social franchising. As well as the existing social franchises there are commercial franchises with social potential and social enterprises with the potential to franchise.

There would appear to be good opportunity for social investment in organisations that use social franchising as a growth strategy. As a sector it is relatively under-developed, under-researched and under-resourced, and yet comparisons with the commercial sector point to what could be achieved if it can be helped to grow. A dedicated social investment fund, and business support from a dedicated centre of expertise in social franchising, could provide the catalyst the sector needs.

There are five distinct areas of social franchising into which investment can be made, each of which each offers a different balance of risk and reward. Further work is needed to establish what balance of investments, and at what price they would need to be made, in order to generate a sustainable financial as well as social return for a dedicated social franchise investment fund. However comparisons with other areas of social investment and with the commercial sector suggest this should be possible. A range of social investors could have a role to play, but for maximum impact there should be a coordinated approach.

Too much time and money are currently wasted reinventing the wheel. Too little investment in social purpose organisations is made to encourage financial sustainability and growth. Coordinated social investment into social franchising, backed by specialised expertise, could address both these issues; delivering social and financial returns and scalable social impact.

Appendices

15. Information about the authors

International Centre for Social Franchising

The ICSF tackles the issue of scale; its mission is to help the most successful social impact projects replicate.

The ICSF does the following:

- Network - act as a hub for discussion and networking on social franchising and scale
- Knowledge – forward the study of social franchising in its different manifestation
- Assist - act as consultants for those wanting to franchise

The ICSF is assembling a range of partners including academic institutions, social entrepreneurs, those with experience of franchising, consultants, NGOs and others. These 'partners' will collaborate to develop, agree and finalise a working model for the Centre. The work is expected to be completed in June 2012 at a launch meeting to be held at the University of Cape Town. The ICSF is a registered charity that will earn funds through consultancy and raise funds from philanthropists.

Finance South East (FSE)

Finance South East (FSE) is a not-for-profit organisation based in Camberley, Surrey.

FSE was formed in June 2002 and is supported by the South East England Development Agency (SEEDA) and the region's **Business Link** organisations.

FSE exists to provide access to finance and to improve the coordination and provision of pre- and post-investment support for ambitious growth companies and entrepreneurs in the South East.

Services include:

- Advice on funding strategy
- Introductions to funding sources
- Fund management from proof of concept to growth finance
- Managing mentoring networks
- Managing investor networks
- Impartial guide to finance available via the **Finance South East website**
- Delivery of SEEDA-funded business grants

FSE's team consists of highly experienced finance professionals with many years experience of small business finance. Their areas of expertise principally cover bank and non bank finance, venture capital, business angel finance and grants.

Social Impact Consulting

Social Impact Consulting is an affiliated network of researchers and consultants experienced in understanding social problems and delivering social impact in the public, private and third sectors. It is led by the award-winning social entrepreneur, Mark Richardson and exists to improve the opportunities and life-chances of people experiencing poverty, discrimination or disadvantage in the UK and abroad.

Social Impact Consulting provides a range of services covering:

- Research,
- Strategy
- Delivery

in

- Social enterprise
- Social franchising
- Social finance

It delivers social impact through:

- Originating and incubating new social enterprises
- Research into social enterprise
- Developing and delivering projects, research and social enterprises for clients

Mark Richardson

Social Impact Consulting

Mark Richardson is a pioneer of social franchising, a social entrepreneur, consultant and researcher. At the age of 21 he founded Aspire, a ground-breaking social enterprise that employs and trains homeless people. He pioneered a social franchise model establishing the business in eight different cities providing supported employment for over 100 homeless people a year. As a result he was asked to advise the Prime Minister and the UK Government on homelessness and social enterprise.

Using this expertise he became a Regional Business Advisor, supporting the development of 107 social enterprises and community co-operatives in two years.

In 2006 he became Chief Executive of Fair Trade Wales, growing the organisation's support base to 113 times its original size and partnering the Welsh Government to make Wales the world’s first Fair Trade country. He then joined Dwyfor Coffee as Operations Manager to transform the business into a specialist Fairtrade wholesaler.

In 2011 he was appointed a Fellow on the Clore Social Leadership Programme, became a Fellow of the Third Sector Research Centre and established Social Impact Consulting, developing innovative social enterprise ideas to improve the opportunities of people experiencing poverty, discrimination or disadvantage.

He is also Director of Social Enterprise at Bangor University, leading the development of a modular MA in Social Enterprise specifically for social entrepreneurs.

Dan Berelowitz
Chief Exec ICSF

After becoming frustrated at seeing great social projects that stay small, Dan recently quit his job to found the International Centre for Social Franchising.

Before this Dan was Director of Tzedek, the Jewish community's NGO working regardless or race or religion in Ghana and India. Since taking up post the organisation more than quadrupled in size.

Dan is currently a Clore Fellow; an MBA for the charity sector, and is working with Oxfam as part of this. He is Rothschild fellow at the Cambridge Judge Business School and has experience of working in a number of social organisations.

In voluntary roles Dan is Chair of the Jewish Social Action Forum and mentors aspiring social entrepreneurs.

Jeff Dober
Head of Debt Funds, FSE

Jeff is responsible for overseeing and developing the various debt-based funding managed by FSE, including the ongoing design, development and fund-raising strategies for new debt fund services. Jeff is responsible for FSE's Social Impact Co-Investment Fund launched in 2011 and for development of the Community Generation Fund & associated Community Energy Support programme (ERDF-sponsored) which are scheduled for launch in early 2012.

Jeff joined FSE in 1996 originally within the Accelerator Fund team. He has over 20 years lending experience within structured and cash flow loan transactions, including senior & mezzanine funding in MBO/MBI transactions and early-stage SME expansion funding. Previously, Jeff was Head of Acquisition Finance within the London office of Ahli United Bank and a Director within the Acquisition Finance Department of Commerzbank AG, having earlier undertaken various roles within the credit-risk and corporate banking departments at National Westminster Bank.

Julie Waites
Director, The Franchising Company

Julie has been involved in franchising in a managerial or advisory capacity since leaving University. In 1981 she joined the Prontaprint Group (one of the founder members of the British Franchise Association) and in 1986 became Franchise Director of Phone-In UK Ltd, a retail telecommunications franchise.

Since forming The Franchise Company in 1991 she has worked on many successful franchising projects for clients in a broad range of sectors. Apart from advising commercial clients on franchising, Julie has worked on a major research study into the UK franchise industry for the DTI and has set up and delivered the national franchise seminar programme for the Armed Forces Resettlement Centre in Catterick.

On an international basis she has worked on projects in New Zealand, Australia, Canada and Saudi Arabia.

Julie is also a franchisee and runs her own franchise as part of the educational development company “First Class Learning” www.firstclasslearning.co.uk

In addition to franchise work Julie has been involved in many enterprise projects including a number of social enterprises on a voluntary basis. She is a professional member of the Chartered Institute of Marketing (CIM).

Her list of clients includes:

- Nova International (operators of the Great North Run)
- British Airways plc
- Rangers Football Club
- Middlesbrough Football Club
- Durham Pine
- ICI Learning
- JJB Sports plc
- Palletways plc
- Sovereign Chauffeur Ltd
- Talktactics (New Zealand)
- ALJ Corporation (Saudi Arabia)

Dan Gregory
Common Capital

Dan has worked for a number of years to support investment in mutual and social enterprises. He has a range of experience of funding and financing mutual and social enterprises, from developing policy at the highest level to delivering in practice at the grassroots.

His experience includes creating and organising POPse!, the pop-up social enterprise think tank; Investment Executive at Local Partnerships; Finance Policy Manager at the Cabinet Office; Credit Policy Manager at Futurebuilders England; and Policy Advisor to HM Treasury.

16. Advisory Panel

Michael Norton
Founding Chair of the International Institute for Social Franchising

Serial social entrepreneur, in 1993 Michael commissioned action-research for 10 social ventures on their franchise potential, as part of a wider initiative, including organising a national conference and publishing an accompanying handbook on "Charity Franchising" and a report for the Joseph Rowntree Foundation entitled "Building on Innovation".

His early career was in merchant banking (Samuel Montagu), where he invented the split capital investment trust and in publishing, where he helped establish the book club and mail order publishing division of BPC Publishing (part of the British Printing Corporation) which he became Managing Director of in 1970.

In 1995, Michael established the Centre for Innovation in Voluntary Action to promote innovation, and have successfully replicated a range of social ventures including foundations run by young people (YouthBank), streetchildren's banks in South Asia (Children's Development Bank), and crisis helplines for vulnerable children (ChildLine India). Michael then co-founded UnLtd: the foundation for social entrepreneurs in the UK, which received an endowment of £100million from the UK Lottery. UnLtd supports some 2,000 early-stage social entrepreneurs a year: Level 1 to have a go at an enterprising social venture; Level 2 to consolidate a successful project; and Level 3 to scale up and get investment ready. He replicated this foundation in India and is currently developing it for South Africa. Michael is an honorary professor of Cape Town business school.

Stuart Roden
Senior Limited Partner, Lansdowne Partners

Stuart joined Lansdowne Partners Ltd in June 2001 and is a limited Senior partner of Lansdowne Partners Limited Partnership. Prior to that Stuart was a Managing Director of Merrill Lynch Investment Management (MLIM), managing $5bn of UK Equity high performance pension funds. Stuart was appointed Head of UK Equity Research in 1997, and Co-Chairman of the Pan-European Research Group in 1999. Previous research responsibilities include managing MLIM's coverage of Consumer Goods and Telecommunication sectors, in addition to numerous individual sectors since joining the firm in 1994.

Prior to working at MLIM, Stuart was a Management Consultant at McKinsey & Co where he served industrial, retail and financial services clients on profit improvement and strategic issues.

Stuart started his career in the City in 1984, joining S G Warburg & Co where he began managing UK Equity portfolios before becoming assistant to the Chief Operating Officer of Warburg Securities, during which time he worked in corporate finance, focusing on mergers and acquisitions.

Stuart received a 1st class honours degree in Economics (BSc) from the London School of Economics in 1984.

Paul Bernstein
CEO Pershing Square Foundation USA

Paul Bernstein recently became CEO of the Pershing Square Foundation who amongst many other things are the lead funder in the social impact bonds pilot in the US. Paul was Managing Director at ARK from 2003. Prior to that, he worked as a business consultant for Vodacom in South Africa, and as Marketing Executive for Vodafone Global Products and Services, where he brought to bear his marketing, strategic planning, and project management skills. Paul holds an MA Hons. in Economics from Jesus College, Cambridge and MBA from Cranfield University. Paul is a Non-Executive Director of the ICSF.

Nick Temple, SEUK
Director of Business & Enterprise, SEUK

Before joining Social Enterprise UK, Nick was working as an independent consultant with a whole host of organisations, including UnLtd, Skills Third Sector, the Guardian, Venture Partnership Foundation, Stepping Out, British Council and the London School of Economics.

Nick also co-founded and helped run POPse!, the world's first pop-up social enterprise think-tank, and is on the board of the SROI Network.

Nick was previously the Director of Policy and Communications at the School for Social Entrepreneurs, with responsibility for all communications, policy work with government, and overseeing evaluation and research. He also designed and delivered learning programmes on social franchising and for leaders of NHS Right to Request social enterprises. Before that, he was director of the Global Ideas Bank and the Natural Death Centre, and co-edited Poem for the Day Two and the Time Out Book of Country Walks vol.2, books whose royalties go back into charitable work.

Stephen Grabiner
Until June 2010 Stephen Grabiner was the head of private equity giant Apax Partners' media operations. Mr. Grabiner joined Apax Partners in 1999. Prior to that he served as Chief Executive of ONdigital Plc, and as Managing Director of The Daily Telegraph Plc. He holds an M.B.A. from Manchester University and a B.A. in Economics from University of Sheffield. He has offered to chair the SoFII.

Geoff Knott
Geoff has lived in 6 countries, has run a number of companies and had a corporate career – lastly on the European Board of D&B. He then served as Executive Director of Wycliffe in the UK for 9 years.

Since then he has been involved in helping many campaigns, charities and companies. His interests are church mission and relief of poverty. Among many things, he has helped an investment fund which has now raised over $250M to create businesses with social impact in Africa, a campaign to encourage UK churches to increase social action by taking on social franchises and an initiative to try to open up investment in social impact projects and businesses to the retail investor.

17. Literature Review

17.1. Key research & reports

There have been a number of academic and more practical studies of social franchising. The most useful are:

Author	Institution	Title	Summary
Higgins, Gerry et al	CEiS; June 2008	*Social Enterprise Business Models: an introduction to replication and franchising* *http://CeiS.org.uk/wp-content/uploads/2011/05/CeiSBusinessModelsReport-June2008.pdf/*	Commissioned by the Scottish government, this report draws upon case studies from the UK and US to draw out lessons about franchising and replication in the social enterprise sector, and provides recommendations about how this growth might be supported.
McNeill Ritchie, Simon et al	Shaftesbury Partnership; January 2011	*Social Franchising: Scaling up for Success* http://www.shaftesburypartnership.org/sites/default/files/pdf/Social-Franchising-Scaling-Up-for-Success.pdf	This paper from the 'think and do tank' aims to provide clarity about what is social franchising, what the implications are in its relationship to commercial franchising, and provide some thoughts about what needs to happen next for the field to develop.
Temple, Nick	Social enterprise Coalition, 2011	*Social Franchising Research, Information & Support* http://www.socialenterprise.org.uk/about/about-us/our-programmes/social-franchising-support-project	A good 6 page summary of existing sources of information on social franchising.

17.2. Full literature summary

A more comprehensive list of the available literature on social franchising which was read for this report is listed below:

Author	Institution	Title	Summary
Ahlert, Martin et al	Bundersverband Deutscher Stiftungen; Spring 2008	*Social franchising: a way of systematic replication to achieve social impact*	A report from the international conference in Berlin on the subject in late 2007, which provides a useful introduction to the field (including an attempt at definitions, pros and cons, challenges, key information), though one with a broad definition of social franchising.
Aiken, Dr Mike	Office of Third Sector, 2007	*What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?*	A social enterprise think piece which refers to social franchising as part of a wider paper.
Aimes, Michael	Franchising World 2000	*Not for profit franchising*	Early introduction to the concept of social franchising focussing on the developing world.
Allison Yeo	CAN, April 2006	*CAN Beanstalk newsletter (Growth through social franchising)*	Summary of top 10 lessons learnt from the Beanstalk programme run by CAN to develop social franchises.
Ashton, Adrian	Guardian Social Enterprise Network, January 2011	*Social franchising: the next big thing for social enterprise is here (again)*	An article advising caution when looking at social franchising as a growth strategy for social enterprises.
Bradach, J	Stanford Social Innovation Review, 2003	*Going to scale: the challenge of replicating social programs*	

Author	Institution	Title	Summary
Bricks & Bread	Bricks & Bread, 2011	*Bricks and Bread Sustainable Living Centre: Replication of a community sustainable enterprise hub by the creation of a social franchise model*	This report charts the progress to date of replicating and growing a network of Bricks and Bread Sustainable Living Centres by creating a social franchise model, with support provided from NESTA's Big Green Diffusion project.
Dalberg Global Development Advisors	Dalberg Global Development Advisors, 2009	Franchising in Frontier Markets	A 3-month study to explore franchise models in frontier markets and the factors critical to their success, with particularly useful data on commercial franchising.
Hackl, Valerie	Powerpoint – Slideshare.net, 2009	*Social Franchising: scaling social impact*	
Higgins, Gerard	Social Firms UK, 2006	*Can franchising and replication grow the number of social firms?*	
Higgins, Gerry et al	CeiS; June 2008	*Social Enterprise Business Models: an introduction to replication and franchising*	Commissioned by the Scottish government, this report draws upon case studies from the UK and US to draw out lessons about franchising and replication in the social enterprise sector, and provides recommendations about how this growth might be supported.
Leach, Steven	Nov 2010	*Believing in People – Social Franchising – A Model for Implementation*	A look at different models of social franchising and a comparison with commercial franchising.

Author	Institution	Title	Summary
Leat, Diana	ACF, 2003	Replicating successful voluntary sector projects	A brief history of replication, the case for replication, and some of the costs, a series of steps in replication, spreading ideas that work and implementing them in other places or on a larger scale.
Litalien, Benjamin	Franchising World / IFA, June 2006	*Era of the Social Franchise: where franchising and non-profits come together*	
Mavra, Lidija	Social Enterprise Coalition; January 2011	*Growing social enterprise: research into social replication*	Recent report which looked at the barriers to replication (especially franchising and licensing) for social enterprises, and made recommendations based on its findings from a series of practitioner interviews. These recommendations are primarily around finance, intellectual property, understanding and capacity.
McNeill Ritchie, Simon et al	Shaftesbury Partnership; January 2011	*Social Franchising: Scaling up for success*	This paper from the 'think and do tank' aims to provide clarity about what is social franchising, what the implications are in its relationship to commercial franchising, and provide some thoughts about what needs to happen next for the field to develop.
Menzies, Loic	LKM Consulting, December 2010	*Social Franchising: the magic bullet?* *http://lkmconsulting.co.uk/article/social-franchising-magic-bullet-20122010*	A short article giving an overview of social enterprise replication options with a focus on social franchising.

Author	Institution	Title	Summary
Meuter, Julia	Association of German Foundations, 2007	International Social Franchise Summit – *Summit Report*	A summary of key thoughts from 13 speakers at the International Social Franchise Summit in 2007. Increasing social impact by not reinventing the wheel.
Meuter, Julia	Berlin Institute 2008	*Social Franchising*	A good introduction to social franchising.
Mulgan, Geoff et al	NESTA; September 2007	*In and Out of Sync: the challenge of growing social innovations*	A report by the Young Foundation which, although looking at a more general framework and understanding for how social innovations can be scaled, draws consistently on franchising, and includes case studies of Big Issue (franchise / license) and Aspire; a case study of the latter by the same authors also appears on the Social Innovation Exchange website.
Norton, Michael		*Social franchising: a mechanism for scaling up to meet social need*	A paper presented by Michael Norton at a Graduate School of Business, University of Cape Town, Research Seminar. It primarily focus on developing countries but with reference to and case studies from the UK.
Pinnell, Nadine	BC-Alberta Social Economy Research Alliance; June 2008	*Best Practices in Social and Private Enterprise Franchising*	Canadian research report which aggregates lessons learned from examining three case studies (Aspire, ACCION and Fifteen), in order to provide recommendations for Canadian organisations considering franchising as a replication option.

Author	Institution	Title	Summary
Reynolds, Sally	2006	*Social Firms UK Flagship Firms Programme –Evaluation Report*	Flagship Firms was a franchising and replication project run by Social Firms UK between April 2004 and March 2006 to support the development of 15-20 high profile Social Firms.
Reynolds, Sally	A life in the day Volume 12 Issue 4 November 2008	*Social Firms*	Covers the franchising of social firms as part of a wider article
Reynolds, Sally	CEFEC Conference	*Notes from Social FranchisingWorkshop 10,*	
Reynolds, Sally, & Wong, Carol		*INVESTING IN SUCCESS* *Capturing the Lessons from the Phoenix Development Fund*	
Richardson, Keith and Turnbull Guy	Inspire; 2007	*Opposites attract: how social franchising can speed up the growth of social enterprise*	Introduction to social franchising, also including several case studies as appendices, as part of wider European trans-national project. A useful starting point based on practical experience.
Richardson, Keith et al.	SIPS; 2007	*SIPS Transnational Partnership Conference Book*	Report that emerged from a European-funded social franchising trans-national partnership, with different chapters (social franchising, business models, European case studies) authored by different partners.

Author	Institution	Title	Summary
Se² partnership	Social Enterprise South East (se² partnership)	*A Beginners Guide to Social Franchising and Replication*	
Smith, Elizabeth	Marie Stopes International, February 2002	*Social franchising reproductive health services: can it work?*	Social franchising in the world of international developing world health. This piece of research, drawn from the work of Marie Stopes International (MSI).
Temple, Nick	Guardian Social Enterprise Network, November 2010	*Why social franchising could be the key to scaling social enterprise*	
Temple, Nick	Social enterprise Coalition, 2011	*Social Franchising Research, Information & Support*	A good 6 page summary of existing sources of information on social franchising.
Temple, Nick	Social Enterprise UK 2011	*Social Franchising – Franchisees Manual*	This how-to guide provides a general introduction to social franchising from the perspective of the franchisee, and gives practical advice on how to decided if franchising is the right choice, selecting a franchise and building a successful franchise relationship.

Author	Institution	Title	Summary
Tracey, P., & Jarvis O	Entrepreneursh ip Theory & Practice, 31(5): 667-685.; September 2007	*Toward a Theory of Social Venture Franchising*	Developing a theory of social franchising based on the experience of the Aspire franchise.
Tracey, Paul & Jarvis, Owen	Stanford Social Innovation Review, Spring 2006	*An Enterprising Failure: why a promising social franchise collapsed*	
Volery, T. and Hackl, V;	University St Gallen; 2009	*The promise of social franchising as a model to achieve social goals*	Swiss Academic study based on three case studies (Dialogue in the Dark, Science Lab, and Vision Spring) which takes a more conceptual, philosophical and theoretical look at social franchising.
Weingartner, Nancy	US Franchise Times, May 2007	*Sweet charity: nonprofits sing praises of franchising*	
Yamada, K	Stanford Social Innovation Review, Summer, 2003	One Scoop, Two Bottom Lines: Nonprofits are buying Ben & Jerry's franchises to help train at-risk youth	

Author	Institution	Title	Summary
Young Foundation	Open Book of Social Innovation, Young Foundation	*Social Franchising*	
UnLtd	UnLtd http://unltd.org.uk/template.php?ID=95	*Choosing_a_Social_Enterprise_Replication_Strategy* *Experiences_in_Social_Enterprise_Replication* *FAQs* *Funding_for_Replication* *Replication_Challenges_and_Tactical_Responses* *Social_Enterprise_Replication_Overview* *Social_Enterprise_Strategies_for_Early_Demand_for_Replication*	A collection of more practically focussed tools reports which also include some analysis of social replication including social franchising.

Author	Institution	Title	Summary
Social Enterprise Coalition	Social Enterprise Coalition	*Growing_Social_Enterprise_Report – SEC 2011* *SF_manual_11 SEC* *SF_Research_Information_tools_and_support* *SFM_-_Further_social_franchising_info_and_support* *SFM_-_Social_Franchising_case_studies* *SFM_-_Social_Franchising_FAQs* *SFM_-_Template_Franchise_Agreement* *Social Franchising Research* *social_franchising_manual* *Taking proven social projects to scale through replication*	A collection of more practically focussed tools & s which also include some analysis of social franchising.

18. List of Social Franchises in the UK and Europe

18.1. Social Franchises in the UK

Social Franchise	Website	Country
Age UK	http://www.ageuk.org.uk/	UK
Aquamacs	http://www.aquamacs.co.uk/	UK
Aspire	www.aspire-bristol.co.uk/about	UK
b active n b fit	www.bactivnbfit.co.uk	UK
Ben & Jerry's PartnerShops	www.benjerry.co.uk/partnershopprogramme/	UK
Big Issue	http://www.bigissue.com/	UK
Bikeworks	http://www.bikeworks.org.uk/	UK
BioRegional (ReiY)	www.reiy.net	UK
Bricks and Bread	bricksandbread.com	UK
Brighter Futures	http://www.brighter-futures.org.uk/	UK
Café Ciao	http://www.socialfirms.co.uk/get-involved/start-social-firm/licence-and-replication-opportunities/I-ciao	UK
Café Nova Interchange	http://www.socialfirms.co.uk/features/case-study-caf%C3%A9-nova-interchange	UK
CAP Money (Christians Against Poverty)	http://community-franchise.buzzr.com/handlingmoney/cap-money-course	UK
Care Confidential	http://community-franchise.buzzr.com/crisisintervention/care-confidential	UK
Caring Christmas Trees	www.caringchristmastrees.com	UK
Caring for Ex-offenders	http://community-franchise.buzzr.com/crisisintervention/caring-ex-offenders	UK
Citizens Advice Bureau	http://www.citizensadvice.org.uk/	UK
Common Purpose	http://www.commonpurpose.org.uk/	UK
Commonwheels CIC	www.commonwheels.org.uk	UK
Community Renewable Energy	www.core.coop	UK
Community Wood Recycling	www.communitywoodrecycling.org.uk/	UK
CrossRoads Care	www.crossroads.org.uk/	UK
Cwm Harry	http://www.cwmharrylandtrust.org.uk/	UK
Daily Bread	www.dailybread.co.uk/	UK
DePaul – Night Stop	http://community-franchise.buzzr.com/housing/depaul-nightstop	UK
Drug Proof Your Kids	http://community-franchise.buzzr.com/addiction/care-family-drug-proof-your-kids	UK
Ecconomic Partnerships – Care & Share Associates	www.casaltd.com/	UK
Ecconomic Partnerships – RED Initiatives	www.micromemos.co.uk/member.php	UK
Ecconomic Partnerships – The Social Work Co-operative	http://economicpartnerships.com/partners.php?uid=8	UK
Eco Kids	www.eco-kids.org.uk/	UK

Eco Living	http://www.thebfa.org/members/ecoliving-ltd	UK
Emmaus	www.emmaus.org.uk/	UK
Energy 4 All	www.energy4all.co.uk	UK
Envirovent	http://www.thebfa.org/members/envirovent-ltd	UK
Ethical Financial	http://www.ethicalfinancial.co.uk/	UK
Ethical Property	Ask keith??	UK
Ex-cell solutions	http://www.ex-cell.org.uk/solutions.htm	UK
FairShare	http://www.fareshare.org.uk/	UK
Food Bank – Trussell Trust	http://www.trusselltrust.org/foodbank-projects	UK
Food Cycle	www.foodcycle.org.uk/	UK
Foster Care Cooperative	http://www.fostercarecooperative.co.uk/	UK
Friends of Farmers Markets	http://www.neefm.org.uk/	UK
Fruit to Suit	www.fruittosuit.co.uk/	UK
GB Jobs Clubs		UK
Good Fuel Coop	http://www.uk.coop/node/6728	UK
Green Gym	http://www2.btcv.org.uk/display/greengym	UK
Green Valley CIC	www.thegreenvalleys.org	UK
Green Works	www.green-works.co.uk/	UK
Groundwork	http://www.groundwork.org.uk/	UK
H2oPE	http://www.h2ope.org.uk/	UK
Health Exchange CIC	www.healthexchange.org.uk	UK
Hidden Art – CLOSING AT END 2011	http://www.hiddenart.com/	UK
HomeStart	www.home-start.org.uk/	UK
Homework Computers	Ask keith??	UK
Household Energy Services	http://www.h-e-s.org/	UK
Inside Job	http://www.insidejobproductions.co.uk/	UK
Land Society	www.landsociety.org/	UK
L’arche	http://www.larche.org.uk/	UK
Law for All – IN ADMINISTRATION	VIRUS ON THIS SITE???	UK
Light Foot Household Energy Services (H.E.S.)	www.light-foot.org/	UK
Mezzanine 2		UK
My Time CIC	www.mytime.org.uk	UK
MyBnk	www.mybnk.org/	UK
National Community Wood Recycling Project	http://www.communitywoodrecycling.org.uk/	UK
New Leaf New Life CIC (NLNL)	http://www.ingoodshape.org.uk/	UK
Option C Car Club	www.optionc.co.uk	UK
Pack-IT	http://pack-it.com/	UK
Participle	http://www.participle.net	UK
Pembrokeshire Frames	www.pembrokeshire-frame.org.uk/	UK
Pluss	www.pluss.org.uk/	UK
Pluss – Future Clean	http://www.pluss.org.uk/future-clean	UK

Princess Royal Trust for Carers	http://www.carers.org/home	UK
Recycle IT	http://www.recycle-it.uk.com/	UK
Riverford Organics	www.riverford.co.uk	UK
School for Social Entrepreneurs	www.sse.org.uk	UK
Sit N B Fit CIC (now b active n b fit)	http://www.sitnbfit.co.uk/	UK
Smartmove	http://www.crisis.org.uk/pages/crisis-smartmove.html	UK
Soap-Co	http://www.thesoapco.co.uk/	UK
Sports Traider	http://www.sportstraider.org.uk/	UK
Spruce Carpets	http://www.sprucecarpets.org.uk/	UK
St Loyes Foundation??	www.stloyesfoundation.org.uk/	UK
Striding Out CIC	http://www.stridingout.co.uk/	UK
Suited + Booted	http://www.suitedandbooted.org.uk/	UK
TACT: independent living services for handicapped people		UK
Tatty Bumpkin Ltd.	http://www.thebfa.org/members/tatty-bumpkin-ltd	UK
The Big Lemon	http://www.thebiglemon.com/	UK
The Childcare People (TCP)		UK
The C-I-L Peer Brokerage Franchise Scheme	http://www.c-i-l.org.uk/wp-content/uploads/2011/06/Las-Peer-Brokerage-Franchise-Scheme.pdf	UK
The Hub	http://the-hub.net	UK
The Lighthouse Group – Early Intervention Centre	http://community-franchise.buzzr.com/education/lighthouse-group	UK
The Lighthouse Group – Education Centre	http://community-franchise.buzzr.com/education/lighthouse-group	UK
Timebank: volunteering	http://timebank.org.uk/	UK
Vision 21	www.vision-twentyone.com/	UK
Whole Food Planet (Daily Bread) – Closed	http://www.socialenterpriselive.com/section/news/money/20100127/first-social-firm-licensee-closes-down-after-one-years-trading	UK
Youth Bank	www.youthbank.org.uk/	UK

18.2. Social Franchises in Europe

Friskis & Svettis	http://www.friskissvettis.co.uk/	Sweden
Le Mat Sweden	www.lemat.it	Sweden
Villa Vägen ut!	www.vagenut.coop	Sweden
Barka Foundation	http://barkauk.org/	Poland & UK
Fietspunt (Bike Point)	http://www.fietspunt.nl/	Netherlands
Ortus	http://www.ortus.org	N Ireland
Atlantide		Italy
Comunità Solidali	http://socialfranchising.coop/case-studies/view/comunita-solidali	Italy
Consorzio Pan	http://www.consorziopan.it/	Italy
Le Mat	www.lemat.it	Italy
Fledglings Early Years Education & Care	www.ancosan.com/?page_id=190	Ireland
Balu und du	http://www.balu-und-du.de/	Germany
Dialogue in the dark	http://www.dialogue-in-the-dark.com/	Germany
Dialogue Social Enterprise	www.dialogue-se.com	Germany
GDW SÜD (Cap Supermarkets)	www.gdw-sued.de	Germany
JobAct	www.projektfabrik.org/pf_ueber_uns_en.php	Germany
Lifeguide		Germany
Miniphaenomenta	http://www.miniphaenomenta.de/	Germany
Notinsel	http://www.notinsel.de/notinsel-de/index.php	Germany
Science Lab	http://www.science-lab-ev.de/	Germany
wellcome gGmbH	www.wellcome-online.de	Germany
AETES	www.aspp-asso.com/home	France
Agathe Jersey	http://www.facebook.com/pages/agathe-jersey/211047682267694	France
Altermundi	http://www.altermundi.com/	France
Energies Alternatives	http://www.energies-alternatives.com/	France
Optimom		France
Specialisterne	http://specialisterne.com/	Denmark
TiffinDay	http://www.tiffinday.com/	Canada
Age d'Or Services	http://www.agedorservices.com/	Belgium
FIETSenWERK (Bike & Work)	www.fietsenwerk.be	Belgium
Groep INTRO	http://www.groepintro.be/	Belgium
KoMoSie	http://www.komosie.be	Belgium