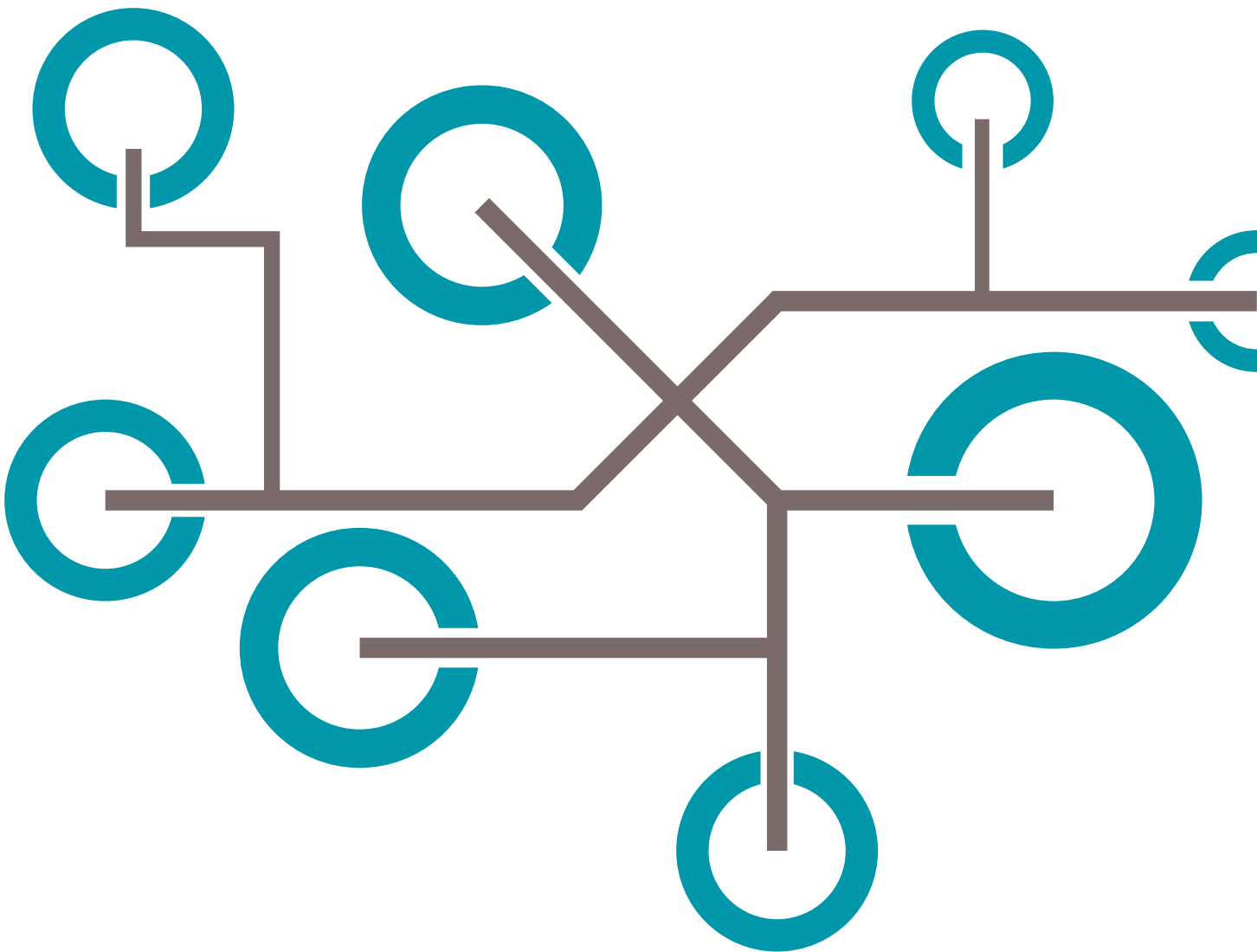


# SOCIAL FRANCHISING INNOVATION AND THE POWER OF OLD IDEAS

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What can the social sector learn from the  
experience of franchising in the commercial sector?

Dan Berelowitz  
November 2012



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## PREFACE

Franchising has huge potential to help all of us address the big problems in the world. This is why I am delighted to be working with Dan Berelowitz to create an international Centre to promote social franchising and support those wishing to go the social franchising route, and to develop an archive of case studies of franchise-ready or successfully-franchised projects. The time is right. We can learn from the way that commercial franchising has developed and adapt its techniques for use by social enterprises, and even by volunteer-run projects where there is little or no money involved.

Two things are self-evident in today's world. The first is that there are huge problems out there to be solved – be these hunger, health, destruction of the environment, global warming, population growth, human rights or youth unemployment. And the second is that there are some brilliant projects actually providing solutions to many of these problems. There is no need to reinvent the wheel. If we are to make any impact on the big problems, then we need to scale up workable solutions and do this rapidly.

Those who are developing the solutions need to be ambitious, and build an appropriate scaling-up strategy into their business model. I first noticed the potential of doing this during the first wave of contracting out health and care services in the UK from government to independent providers. Two organisations seemed to be growing fast and successfully, and both had adopted a franchise model. They were Crossroads Care and HomeStart. So in 1993, to promote the idea, I organised a conference on charity franchising and published a book on the subject.

Fast forward five years: I met the founder of ChildLine India, a fantastic project which provides practical assistance to children on the street. Urban India was growing, and there were children in every Indian city with emergency problems that needed solving. I helped Jeroo Billimoria develop a mechanism for scaling up the project from Mumbai (where it then was) to every city in India; I then helped find the money from the UK Lottery and the Government of India to implement the franchising plan. Within three years, ChildLine was in 60 cities in India; today it is in over 200.

Fast forward again to 2011; I stumbled upon three really exciting projects. The Farm Shop, which is a farm inside what would otherwise be an empty building, which promotes local food growing, actually growing vegetables, fruits, chickens and fish on the premises which are then sold or used in its café. The 'Pie in the Sky' vegetarian restaurants run by Food Cycle volunteers, using food which would otherwise be thrown away to provide cheap nutritious meals in the community. And, in South Africa, a fish farm in a shipping container, which has the potential to create livelihoods as well as provide protein for protein-deficient communities.

"Wow," I said to myself, "These are all amazing projects which could easily be scaled up." The starting point is always your good idea, which can be made to work, plus an ambition to do more than just run a little local project. You next need to make the idea work. Then you need to develop a business model embedded within which is a replication strategy. Then at an appropriate stage, you set about rapidly scaling up the project, using techniques and lessons from commercial franchising.

The first reaction I had from all these three projects was that "We're not ready; we're not even covering our costs". But all three have now developed a scalable business model, so the next challenge for them is to become 'franchise ready'.

It is sometimes easier to learn from what doesn't happen. In 2001, I was in Tanzania for a workshop on capacity building. We visited a number of projects that had been supported by the big international development agencies. One was a team of young lads who were making low-impact bricks using a compression device, earth and a little cement. They were trying to make a living by building or extending people's houses. The main problem was that their clients never had enough money to buy all the bricks they needed for their building work. What was needed was a financial solution (a loan scheme) so that the brickmakers could produce all the bricks that were needed, and the homeowners could buy them, but pay over a period of time. Packaged like this, there is an income generating activity that could be franchised across rural Africa. But the international development agency had just trained the brickmakers in brickmaking, and had not developed their ideas beyond this. Things could have become so much more!

We are at a very exciting time in the history of the world. We need solutions, we need them to scale and we need them rapidly. This is where social franchising comes in.

Big agencies such as Oxfam can use franchising to replicate their successes, to adapt what works in Colombia for delivery in Cameroon or Cambodia; they can market their successes to other agencies and earn licensing fees; they can buy in ideas that others have developed, rather than try to do everything themselves.

Big pharmaceutical companies, facing a mature drugs market where the cost of creating new drugs is escalating, and cheaper clones or generics are being produced, might want to turn their attention to health delivery and take workable solutions and develop them as micro-franchise businesses.

Commercial franchisors might want to have some of their franchises run by vulnerable people, as the Timpson Group does in the UK by training prisoners to take on a key-cutting or shoe-repairing franchise when they are released. Or commercial franchises can be re-engineered to create a parallel brand for a different market – a Starbucks for young activists, a blend of a traditional coffee shop, the atmosphere of *Friends* and the ideas of a development education centre. Oxfam tried this with its 'Progreso' coffee shops, but these were located in basements. I tried to persuade Costa to develop more environmentally minded outlets under the brand 'Costa The Earth'. And Oxford Student Hub has now done something similar and really successfully with its Turl Street Kitchen in the centre of Oxford.

If we have the ambition we can succeed. This is perhaps best illustrated by Jay Kimmelman who has started Bridge International Academies to bring low-cost education to African children. Started in 2010, this aims to be educating a million students within five years – using a franchise model to ensure quality and this rapid scaling up.

**Michael Norton**  
Co-Founder of the International Centre for Social Franchising



[www.the-icsf.org](http://www.the-icsf.org)

## SEUK

Social franchising is a topic that rightly interests all those who want to change things for the better, and is based on a simple and compelling insight: if something works in one place, then why shouldn't it work in another? And if that replication can take place, then resources will be saved and more effectively used, rather than wasted on duplication and reinvention.

Often, it seems, we know the answer to the question, but can only answer it in one place at a time. To date, though, social franchising has tended to be something more talked-about than put into practice, and this research is a helpful and practical contribution to changing that state of affairs. Looking at what has worked in the social sector and comparing that to commercial experience draws out practical insights for those seeking to replicate their work, and also has important learning for those wishing to invest, procure or commission such work.

The research also helpfully identifies the potential for commercial franchises to be 'socialised' and utilised to achieve social rather than purely commercial ends. This is surely an area of significant potential growth in coming years; as one US social enterprise, Greyston Bakery, puts it "We don't hire people to bake brownies. We bake brownies to hire people", and the same mantra could be applied across a whole range of retail industries.

Social Enterprise UK has long been interested in replication and social franchising in particular; an interest which is driven by our members who instinctively want to share their knowledge and experience, and maximise the social impact they can have. We continue to work with partners across the social enterprise and social investment communities to try and develop the field, and grow not only understanding and awareness but also the number of enterprises who are replicating their work.

Because the real power of social franchising is that it takes the concept away from traditional fast-food outlets and into more important areas: the true value of franchising in future should be about people, not pizza.

**Nick Temple**  
Director, Business and Enterprise Social Enterprise UK



# ACKNOWLEDGEMENTS

It has taken a number of supportive people and organisations to make this research possible and for that I am truly grateful. First and foremost I would like to thank Dame Mary Marsh, Siobhan Edwards and everyone at the Clore Social Leadership Programme for giving me the opportunity to take part in the programme. Huge thanks are due to the Pears Foundations for their decision to create and fund my Fellowship.

Without the two organisations that are the subject of my research giving me both their time and their trust, this would not have been possible. At the Trussell Trust Foodbank, particular thanks go to Chris Mould and Jeremy Raven, as well as all the franchisees who opened themselves up to interview. At McDonald's, thanks goes to their senior staff in different parts of the organisation, who agreed to meet with me and share their insights.

A number of people have given advice and support during the writing process. Eve Poole who supervised my writing of this paper has been encouraging and challenging in all the right ways. This paper would probably have likely never been completed without the help of Lidija Mavra who conducted some of the research with me and made contributions towards some sections. Brian Smart of the British Franchise Association and Julie Waites of the Franchise Company deserve thanks for their excellent summaries of the commercial franchise sectors.

Craig Carey and Nick Temple at Social Enterprise UK deserve special thanks for helping develop the concept for this paper, supporting me along the way and publishing it.

Last but not certainly not least, a huge thank you to Michael Norton for agreeing to write the foreword and, much more importantly, for trusting me with his idea for the International Centre for Social Franchising and being my co-founder.

**Dan Berelowitz**  
Chief Executive and Co-Founder  
International Centre for Social Franchising



This research report is published as part of my Clore Social Fellowship. As part of the Clore Social Leadership Programme, each Fellow is required to undertake a piece of practice-based research. The purpose of the research is to help develop Fellows' skills as critical users of research, and to help develop the evidence base for the sector as a whole. The research focus, methodology and output are all chosen by the Fellow.

# EXECUTIVE SUMMARY

Social franchising is a business model that addresses two key issues for the social sector: taking successful projects to scale, and avoiding the continual reinvention of the wheel. Time and money are poured into developing new programmes to meet a social need, when so often this work has already been done and could simply be copied or adapted. In addition, many organisations run excellent projects, but remain small, seeing social problems grow far faster than they can deliver the solutions.

There is an impressive core of organisations that have used social franchising to scale up. Rather than conduct a broad shallow study of which there are already a number, this research compares and contrasts two case studies in more detail. The first is the Trussell Trust Foodbank, a social franchise, which is compared with McDonald's, a globally successful commercial quick service franchise.

The report opens with an overview of the project and the wider context in which it fits. It then explains the methodology used, and discusses the different definitions and viability of social franchising. This is followed by the case study of The Trussell Trust, and a discussion of other types of social franchise. The report then moves onto examining McDonald's, before highlighting some trends in the commercial franchising sector.

These discussions lead into a comparative analysis between social and commercial franchises, extracting key lessons that could be used by social franchises. This is followed by a discussion pointing towards a new way of understanding social franchising, using the 'OPEN Model' and the four dimensions of the social franchise. It concludes with some final thoughts and areas for further research.

The aim of this research is to encourage people in the social sector to learn from commercial franchising, and to help them to increase their impact significantly through adopting an appropriate replication strategy. It also points to some shared learning that commercial businesses could use to increase their benefit for society, whilst at the same time building a stronger business.

The findings aim to encourage social organisations to consider replication as a viable approach both to scaling sustainably and to increasing their social impact. Finally, the research offers new frameworks for considering social franchising to make it more accessible to the busy CEO.

## Methodology

The research started with a literature review looking at publications about social and commercial franchising. This suggested an approach involving case studies, in order to probe the similarities, differences and learning from these two sectors. Two case studies were selected, one of a social franchise (the Trussell Trust's Foodbanks), and one of a commercial franchise, McDonald's. The following key points of comparison were then developed for analysis:

- Choosing the right franchisee
- Support and skills development for franchisees
- The network
- Key success factors
- Key challenges
- Future of the franchise

Each of these will be discussed in turn, after a general introduction to the topic and an examination of the two case studies.

## What is social franchising?

In comparison with the established history of commercial franchising, social franchising is a relatively new arrival. There are currently 56 social franchises across Europe, 32 of which are in the UK. Social franchising falls within a spectrum of replication options available to social enterprises and other 'social' organisations, such as charities, that are looking to scale up.

Social franchising can be defined along similar structural lines as commercial franchising, where a proven business model is 'boxed' up and passed on to franchisees for them to replicate with appropriate support. It has been noted that the social sector needs to be more flexible than the commercial sector in its definition of franchising, given the additional challenge of not necessarily generating profit.



## Key characteristics, successes and challenges of social franchises

There are a number of types of social franchise both in the UK and Europe that illustrate a diverse set of successes and challenges. Sampling these reveals the importance of the values they share, centring on community engagement and being rooted in, and adaptable to, local contexts.

Key differences between them include:

- whether franchises are funded or contracted by larger civil and statutory organisations, or whether individuals or groups need to raise this money themselves
- whether target markets are primarily consumer or beneficiary-oriented
- to what extent they enjoy comprehensive central support or have access to a franchise management team
- the degree to which they have achieved financial sustainability, with grassroots and charity franchises tending to be less sustainable than social enterprises that are moving away from a dependency on grant funding.

Collectively, the different examples demonstrate that the nature of the activities of differing social franchises determines their different target markets, funding models and scale. Thus social franchising can be seen as much more diverse than commercial franchising, with no 'one-size-fits-all' model.

## Key characteristics and criteria for success of commercial franchises

There are many different models of commercial franchising, at different levels of scale and scope, and with differing journeys. This is particularly true of the UK, where franchising can be a very flexible undertaking, given the lack of prescribed or legislated regulations.

Types of commercial models include the *business format franchise*, usually an individual delivering a service on a small scale; *retail franchises*, where small and medium-sized retail businesses set up a franchise network to help them expand and to grow the brand; and *management franchises*, where a franchisee (which may be an individual or a company) takes on a managerial role rather than delivering the service itself.

My research has shown that some of the key criteria for running a successful commercial franchise include:

- Identifying a clear marketplace demand for the services or products being franchised
- Finding the right franchisee, and offering them the right training and support
- Adhering to processes and brand standards
- Implementing strong central support and good internal communications systems.

## Comparing social and commercial

Using the two main case studies and some other examples, several pertinent comparisons can be made in terms of how social and commercial franchises behave, how they progress, and how they negotiate obstacles and overcome problems. These include:

- Choosing the right franchisee: this is absolutely critical to both sectors, although there are notable differences. Social franchisors whose mission is community focused are best placed recruiting people with similar values through existing networks and via word-of-mouth recommendations, while commercial franchisors tend to have more formal application processes and be willing to consider franchisees if they have funds to invest in startup.
- Support and skills development for franchisees: great weight is put on this across both the commercial and social franchising sectors. However, larger commercial franchisors tend to have greater resources to invest on their franchisee's development.
- The network: both successful social and commercial franchises recognise the need for an inclusive, interactive network that enables franchisees to make their voice heard and foster innovation. In practice, this includes peer mentoring schemes, online forums, and participatory workshops. The network also plays a key role in informal quality enforcement.
- Financing: Commercial franchisors need to claim fees from franchisees in order to finance the central support systems and create profit. Social franchises operate on a spectrum, with one end being social enterprises that operate using a for-profit model, and at the other end money often flowing outwards as grants from the franchisor.

The key challenges they face demonstrate some very real differences between social and commercial franchises. The major challenge for commercial franchises tends to be raising brand awareness and competing in already established markets. For social franchises, the real challenge is finding a sustainable business model whilst ensuring the quality of social outcomes and impact. A challenge both share is ensuring that the right franchisees are selected at the outset, and managing the tensions that can arise within the franchise network, relating both to issues of inclusion and finance. Most importantly, finding finance can be a challenge for both social and commercial franchises, with social franchises having a more complex range of opportunities to navigate and having to struggle harder to maintain the income level needed to run and support the franchise network centrally.

## Lessons for the social (and commercial) sector

The comparisons drawn out from this research lend themselves to key lessons that social franchises can take from commercial franchise practices and attitudes, as well as from other social franchises. These are:

1. Design for scale: make sure that replicability is kept prominently in mind as the business model, systems and processes are developed.
2. Choose your franchisees carefully.
3. Develop your people.
4. Test, test... and test again: There needs to be a clear, replicable business model that is as tried and tested as possible before a franchise model is designed and put in place.
5. Continuous learning, feedback and improvement to ensure that the offer to franchisees remains relevant and the franchisor keeps adding value to the franchisee.

6. Being three steps ahead of your franchisees to maintain credibility: this can be done by constructing a 'meta plan' to enable potential problems in the franchise network to be dealt with before they occur.

7. Using your networks to maintain quality and foster innovation

8. Creating 'freedom within a framework': systematising the core business model and operational details, without stifling healthy adaptation to the local context.

9. Planning for sustainability: ensuring that there is a financial model in place that will generate enough income for the overall support and management of the organisation. For some social enterprises, this may mean aiming to move away from a model of grant-dependency to one supported by fees that franchisees generate through entrepreneurial activity.

10. Understanding and adapting to markets to ensure that your product or service stays relevant.

11. Building your brand proposition and articulating it clearly.

This research also yields a number of insights that could be useful to the commercial sector. Namely, that making social and environmental outcomes part of your business will help develop closer relations with your community and will ultimately drive profits upwards. However, this needs to be a genuine effort and not undertaken solely for PR purposes. To support this, commercial businesses can learn from the social sector as to how to engage with grant making organisations and other sources of funding for these initial investments.

## Towards a new definition of social franchising

This research has highlighted the complexity of franchising, across both the commercial and social sectors. One key element that stands out in making any franchise work is breaking down this complexity into manageable elements, which, in their own right, can be easily 'digested' and made to work for the business as a whole. These key replicable parts are:

- Vision
- Idea
- Knowledge
- Process
- Brand
- Networks
- Training
- Health and safety
- Business plans
- Monitoring and evaluation systems
- IT systems and websites

Considering these parts, the 'OPEN elements' of social franchising are then defined:

- **O**wnership – an empowered 'franchisee' who feels ownership over their organisation and is highly motivated for it to succeed
- **P**rocess – systematised processes so that the wheel does not have to be reinvented, but with simultaneously enough freedom to adapt to the local context
- **E**nhanced network – a network of knowledge, data and innovation for sharing between franchisees and the franchisor
- **N**ame and Brand – a recognised brand proposition that commands respect and notice from key stakeholders for sales or campaigning purposes.

As a franchisee, when you create your 'business in a box', these are the four key elements that will be of most use. Social franchising as a business model should be an open door to all sectors to find new ways to replicate and grow. Social organisations can use all of these elements and be a full social franchise, or pick and choose which are most useful to them. It is possible that the social organisation that picks and chooses will not be a full social

franchise. If the OPEN elements framework proves helpful for organisations in reaching the right model to unlock the key to scale, any rigid definition of the term 'social franchising' becomes less relevant.

## The four dimensions of franchising

Based on this research and experience of speaking with an increasing number of social franchises, I propose four dimensions of social franchising. These are most usefully posed as questions for consideration in designing for replication. Each dimension is a scale with a number of permutations and no 'right' answer. Answers to these questions will need to be found through research within each organisation's context, and analysis of the barriers to replication that need to be overcome.

- 1) Charitable to commercial: Will the business model be most replicable if based on a grant-funded approach, an enterprise approach, or a mixed model?
- 2) Individual to group: Will the business model be most replicable if each franchisee is an individual or a group?
- 3) Funds inwards to outwards: Will the business model be most replicable and sustainable if the franchisor provides funds for start up, or should franchisees be sustained from the centre, or will each franchisee be able to support the centre with fees?
- 4) Flexible to control: Will the business model be most replicable, and quality maintained most effectively, through tightly systematised processes or by allowing more freedom?

# INTRODUCTION

"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

In recent years I have found myself coming up against two issues that have drawn more and more of my attention. The first is scale. I see many successful, well-evaluated programmes that remain frustratingly small. These vary from youth empowerment programmes in the UK to vocational training programmes in Ghana. Many of these models are truly addressing a local need but help 100 people rather than the 100,000 or more they would need to reach to really address the scale of the issue.

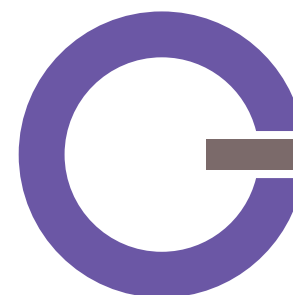
The second issue, one of the causes of the first, is reinvention of the wheel. Social entrepreneurs and even larger organisations start new projects to address social needs rather than properly researching what has gone before and learning from it. In most cases, I believe these are well meaning, busy people who just want action, but sometimes there is also a touch of ego and the thought that no one else can do it as well. This is compounded by the fact that funders like funding new ideas, which means that social organisations are obliged to innovate even when there are proven methods that work.

As a fellow of the Clore Social Leadership Programme, I was given the time and space to explore these challenges and look for solutions. Early on I came across the concept of social franchising. The essence of social franchising is that a proven social change project is turned into a 'franchise' and then quickly replicated. The central franchise documents their processes and then franchisees adopt the approach and are given support in establishing themselves. This allows them to set up a successful business much faster, with reduced risk, whilst maintaining quality.

After some research, I realised that here was a business model that has the potential to address not only the scale of the impact of social organisations, but also my frustration at wasted resources in the name of innovation. Others have researched social franchising and there are notable examples of organisations that have used the method to great effect. These vary from the social franchise that I will case study in detail in this paper, the Trussell Trust Foodbank, to Child Line<sup>2</sup> in India, which replicated to 60 cities in three years and is now in 215, and CAP markets<sup>3</sup> in Germany, the supermarkets that employ people with learning disabilities, which was established in 1999 and now has over 80 outlets.

In the interest of not reinventing the wheel myself, I began to look at the writing and research that has been done into the subject of social franchising. There are many possible angles for further research in what is a largely under-explored area. I am fascinated by the potential for the use of social franchising to replicate globally, despite the contexts between developed and developing world being so different, but the research on this is so thin that it would have been a challenging first research paper. Instead, I have chosen to focus mine on the eighty years or more of experience in commercial franchising to find lessons that can be applied to the social franchising sector.

Firstly, I present a good example of social franchising. The Trussell Trust's Foodbank is an excellent example to use because of its rapid growth. Foodbanks provide a minimum of three days' emergency food and support to people experiencing crisis in the UK. The first Foodbank franchise opened in 2004 and there are now over 200 across the UK feeding over 120,000 people experiencing food poverty.



McDonald's, a well-known fast food restaurant chain, was the obvious place to go for comparison, not only because they were the first to deploy the franchising of a complete business model but also because they have managed to remain at the forefront of franchising, winning UK franchisor of the year award recently. Some fast food companies have attracted significant criticisms, and I am very aware that some social organisations will be uncomfortable with them being held up as examples for social organisations to use. One of the most in-depth papers on social franchising refers to a fast food restaurant as a 'one-size-fits-all' replication of a concept with standardised procedures and services, which is generally regarded as inappropriate in the social sector.<sup>4</sup> But can a business operating in Indonesia (you can order rice) and Israel (cheeseburgers are not Kosher so are off the menu) really afford to adopt a one-size fits all approach? For the purposes of this paper I have chosen to draw a line between the organisation and the business model. I hope to encourage the social sector to learn lessons that can make them more effective wherever they are coming from. What is undeniable is that McDonald's has been phenomenally successful in applying the franchise model when it comes to scale, growth and profitability.

There are other successful commercial franchises that could equally have been used for this comparison. These include: Subway, the largest single food chain in the world with 36,013 restaurants<sup>5</sup>; Dyno-rod, a UK drain cleaning franchise started in 1963 and now a household name; and The Body Shop, which went global and in 1990, just one year after launching in the USA, had over 2,500 applicants wanting to become a franchisee<sup>6</sup>.

The main reason for choosing McDonald's is because of the number of studies written on it over the last 60 years, making the comparison with a social franchise more possible.

An immediate concern of mine was whether the comparison between a relatively small UK based social franchise and an international corporation would draw any useful lessons at all. At my first Foodbank interview I was standing outside the building and could not attract the attention of my interviewee because of a broken bell (Foodbanks are often loaned building so they take what they can get). Margaret, the stockroom manager, was standing outside with me and I asked her what her key lesson would be for anyone wanting to set up a Foodbank. Without hesitation she said 'Keep it simple' which immediately took me to the words of the founder of McDonald's, Ray Kroc<sup>7</sup>. In his engaging book, he mentions one of his all-time mantras when training staff as KISS: 'Keep It Simple, Stupid'.

This research paper is timely because, even since I began this research a year ago, the field is expanding:

- The European Social Franchising Network (ESFN) held their first European social franchise conference in October 2011
- Of the 25 winners of UnLtd's Big Venture Challenge, 6 are planning on growing through franchising.
- Some of the biggest impact investors are assessing whether there is an investment opportunity in social franchising.

Some of my most fascinating discoveries relating to the topic have been through the many meetings with interested people and organisations. It has been noted that social franchising is particularly relevant to the sustainability and up-cycling movements because it can save valuable resources by not reinventing the wheel. Leadership development professionals have noted that the old style of corporate leadership is no longer working and we need a new networked-style leadership – something that social franchising, when done well, will lead to.

There has also been interest around the possibility of 'socialising' commercial franchises to make them achieve social as well as commercial bottom lines. This topic will be explored later on in this paper.

As are others, I am sceptical of any idea that is held up as the next big thing<sup>8</sup>. Replication towards a chain of units in the commercial sector takes between five and 10 years,<sup>9</sup> so if social franchising is the next big thing and then disappears off the agenda in a year or two there is little chance of it achieving sustainable impact. Rather, I would like social franchising to be a business model that offers an open door to anyone in any sector who wishes to increase their scale and impact. Through gradual growth it has the potential to become another weapon in the arsenal of practical strategies for creating a more just and a fair world, whether in the disability sector, the health sector, or in addressing poverty and unemployment, and beyond.

Half way through this research I was so convinced by the importance of what I was learning that, with encouragement from Michael Norton, I left my job as Director of Tzedek to co-found the International Centre for Social Franchising. I will touch upon its work later in this report.

## METHODOLOGY

I began my research with a review of the social franchising literature, with a focus on the UK and Europe but considering writing from around the world. While a number of papers contain sections comparing commercial and social franchising, and acknowledge the importance and relevance of the comparison, studies remain broad rather than deep. When it comes to the commercial world, it is recognised that 'franchising is all about following the franchisor's systems,

processes and business model exactly,'<sup>10</sup> i.e. the devil is in the detail.

So when designing my methodology, I have chosen to go deeper into a few key areas of comparison between the social and commercial franchise through a case study of each.

Both the social and commercial case studies were developed through a literature review, together with interviews with the franchisor and franchisees. In the case of McDonald's,

there is such a vast quantity of literature that this necessitated less primary data gathering than for Foodbank.

Foodbank and McDonald's are very different in a number of ways, so I have focused on where I believe the comparison is most likely to be helpful. There are surely other comparators worthy of exploration, which I hope in time others will take up. In this study, these are the comparators I have chosen, and the reasons for doing so:

## COMPARATORS BETWEEN COMMERCIAL AND SOCIAL FRANCHISING

### • Choosing the right franchisee:

For both commercial and social franchisees, choosing the right franchisee is recognised as critical to the success of the franchise.<sup>11</sup> The franchisor/franchisee relationship is often described in terms of a marriage because this conceptualisation helps explain the crucial importance of selecting the right franchisee.<sup>12</sup>

### • Support and skills development for franchisees:

An overlooked benefit of social franchising is the training and personal development that the franchisee receives through taking on a franchise. In a short period of time, and with the right support and training, franchisees can become gifted community activists with powerful transferable skills. While there is a growing body of work that supports the central social franchisor to systemise their businesses, there remains little support for the prospective social franchisee, so it is hoped that drawing on experience from the commercial sector will be particularly helpful in this regard.

• **The network:** One of the most powerful components of a franchise is the network. The network supports all the people involved and works together to improve the system as a whole. It gives greater power to what would otherwise be a number of small one-off projects.

• **Key success factors:** The areas that are perceived as being most critical to the success of a franchise.

• **Key challenges:** Although it can be difficult to obtain information on the challenges faced, learning from failures is one of the best ways to ensure mistakes are not repeated.

• **Future of the franchise:** What key plans and predictions are there in the coming years?



# WHAT IS SOCIAL FRANCHISING?

Commercial franchising is recognised as a phenomenon arising from the last century through well known fast food restaurants. However, it has been argued that the model actually dates much further back – to the Catholic Church, which used franchising to enable its rapid spread across Europe.<sup>13</sup> Certainly, corporations like Coca-Cola have been arranging simple bottling franchise agreements since as early as 1899.<sup>14</sup> In the social sector, while not adopting a complete social franchise model, the YMCA which was founded in 1844, and the Red Cross which was founded in 1863, both grew using some, if not most, of the elements of franchising.

## Social replication VS social franchising

Social franchising falls on a spectrum of growth and replication strategies:

Social franchising and social replication are opaque terms to the uninitiated. In reality, social organisations have to adopt a variety of approaches to replication, ranging from loose dissemination models through to licensing and then onto franchising. Using social franchising terminology is confusing because it tends to conjure up images of McDonald's and Subway in people's minds that are not initially helpful to their understanding of what is meant.

Social replication is such a broad term, encompassing all of the above models, that when I used it in conversation during the course of this research, it was often dismissed as simply being a new way to look at the traditional growth models of regional offices or other often-used replication strategies.

To successfully replicate, social organisations must free themselves from traditional categorisations and be fluid in their approach to deciding on business models, mixing and combining techniques to create the right recipe. However, the terminology is important. For this research, where I have chosen to use the term 'social franchising', despite it not being totally analogous to commercial franchising, I will be exploring the form of replication that is close to the control end of the spectrum.

## Defining Social Franchising

The essence of franchising is that a proven organisational model is turned into a 'franchise' and then quickly replicated. The central franchise documents their processes and then franchisees adopt the approach and are given support in establishing themselves. This allows them to set up a successful business faster, with reduced risk, whilst maintaining quality. At its most simple, social franchising is a social organisation that 'replicates success to scale'.<sup>16</sup> It has been noted that the social sector must be more flexible than the commercial sector in its definition because of the additional challenges of not necessarily generating a profit, maintaining a set of core values, and being adaptable to local needs and cultures. I think it is helpful to supplement this broad definition by recognising a replicated organisation with the following elements as being a social franchise:

- 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 with a reporting procedure

- A common brand proposition under which the social franchisees operate
- An interchange of knowledge between the community.<sup>17</sup>

In the commercial world, when a complete business model is franchised it is called a 'business format franchise'. This terminology does not translate well to the social sector so I will use the example of the Cinnamon Network, and call a social franchise that incorporates all of the above elements a 'full franchise'.<sup>18</sup> Consequently, a replicated social organisation that takes only some elements from franchising can be known as a 'part franchise' when looked at through a social franchising paradigm.

## When does social franchising work?

To date, no frameworks have been published that specifically address the readiness of an organisation for social franchising. There are frameworks that address replication readiness and in the most part these can be adapted. Creating a franchising framework is an obvious next step in advancing the use of social franchising.

One simple but helpful model is the Five Rs for assessing potential pathways for scaling up.<sup>19</sup> The Five Rs are:

- **Readiness** of both innovation and the organisation to scale
- **Resources** required to replicate
- **Receptivity** or Readiness of key stakeholders to accept the replication model
- **Risks** – understanding the risks associated with scaling the idea both from an innovation and organisational perspective
- **Returns** – will the social returns of replication make it worthwhile.

UnLtd have also published a helpful replication readiness guide with notes.<sup>20</sup> As part of the research for this paper, I have visited a number of social organisations who are exploring social franchising as a possible route to growth. Drawing upon these experiences and a literature review, I have produced the Social Replication Readiness Checklist at Appendix A.

One misconception of social franchising is that it only works where there is profit involved. In their definition of social franchising, the ESFN states: 'social franchisor and franchisees must be social enterprises (i.e., businesses that trade and have a social purpose).' I will not define social franchising this narrowly because the method works well for charities when the conditions are right, as we will see with the Foodbank. There are other examples of charities using a franchising approach to scale successfully in the UK and overseas.<sup>21</sup> Recently, the Cinnamon Network has been developing the concept of *community franchising* to equip the church for social action, and they have social franchising models that are working well for churches across the UK.

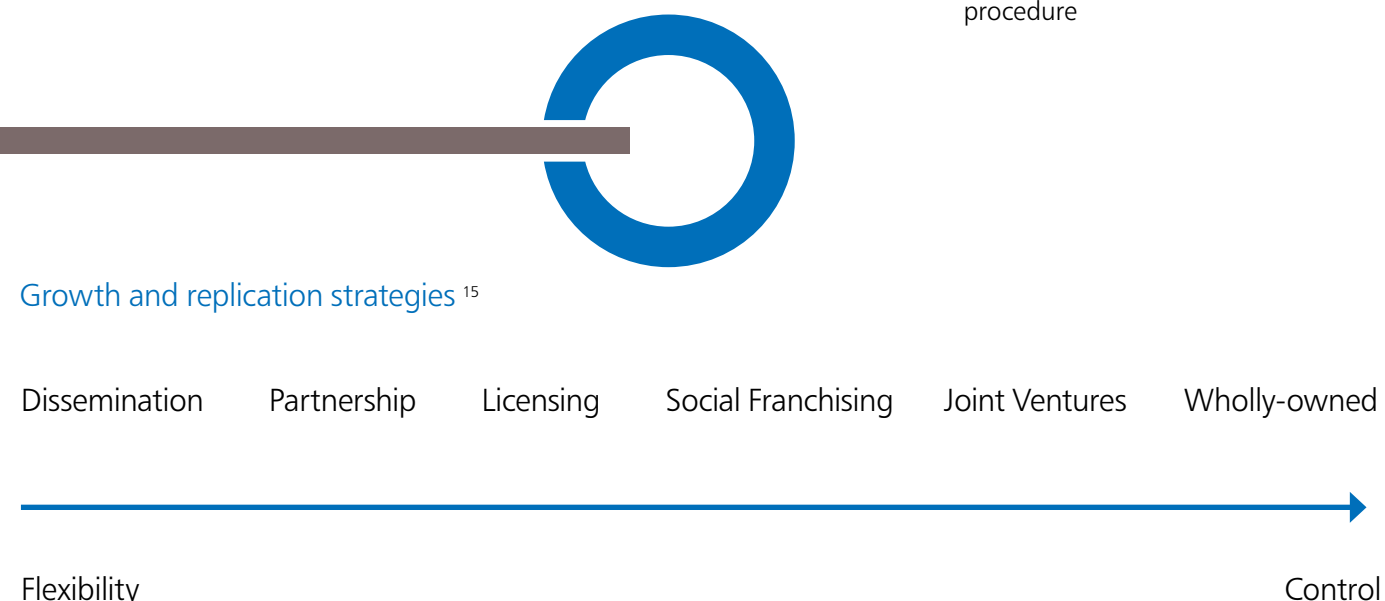
Later I will propose a broadening of the most commonly used definition of social franchising, primarily because I think that a more all-encompassing term will be helpful in getting a full spectrum of organisations to adopt some form of franchising to develop their business.

Other definitions of social franchising worth exploring are the American model of commercial franchising and 'socialisation'. The definition used in America refers to the use of commercial franchises as fund-raisers by not-for-profit organisations, often on a preferential deal compared to commercial franchisees. This idea is working and has already spread in a limited way to the UK in the form of the Ben and Jerry's Partnerships,<sup>23</sup> and there is real potential for this idea to be explored further.

The final way that social franchising could work is through the 'socialisation' of commercial franchises for social benefit. For example, a commercial grounds maintenance franchise could be used to provide supported employment to young people excluded from the labour market. Some recent research I have conducted for another project has uncovered at least 10 commercial franchises that have the potential to be 'socialised'.

## How big is the social franchising field?

In its totality, the field remains small. According to ESFN, there are currently 56 social franchises across Europe, 32 of which are in the UK.<sup>24</sup> Of these, the numbers of franchisees are small, and tried and tested models are even fewer. In a recent study that the International Centre for Social Franchising conducted for Big Society Capital, we found 187 organisations that could be classed as social franchises across Europe, the majority being in the UK. The definition used in this search is no doubt broader than that of the ESFN, particularly in the inclusion of some not-for-profit organisations.





A smiling woman with long brown hair is holding a sign that says 'Foodbank' with a leaf logo. The sign is partially visible at the bottom left. A large white circle is overlaid on the image, containing the title text.

## SOCIAL FRANCHISING CASE STUDY: THE TRUSSELL TRUST'S FOODBANK

Thousands of people across the UK go hungry because they cannot afford to eat...

### Background

Thousands of people across the UK go hungry because they cannot afford to eat. The Trussell Trust knew that they had to help their community do something about it. They founded Foodbank in 2000 to provide emergency food for people in crisis, adopting a social franchise model.

The first social franchise was established in 2004 and there are now over 200 Foodbanks<sup>25</sup> in the UK, helping over 128,000 people out of immediate food poverty per year. Since 2010, the growth in the number of Foodbanks launched has grown exponentially, from 55 to over 200 in 18 months. In the first half of 2011, one new Foodbank was launched every week.<sup>26</sup> Each individual Foodbank is a church-led initiative,<sup>27</sup> this faith-based element determining the mission, with the social franchise model enabling the vision of having a Foodbank in every town across the UK.<sup>28</sup>

The success of the Foodbank model has been so great that on the 26th of April they hit the pages of all the major newspapers and radios with a piece of research published showing the rapid rise of food poverty in the UK.

Foodbank is undoubtedly one of the most successful recent social franchises to reach any kind of scale in the UK and is showing the promise of further growth.

This case study, using material that has been gathered through a literature review, interviews with the Executive Chairman of the Trussell Trust, the Director of the Foodbank network, and three Foodbank franchisees, will focus on the social franchise element, examining both the successes and challenges this has wrought.

One interviewee illustrated the roots of the Foodbank's social franchise model:

"The story of the Foodbank started when we were fundraising for our charity in Bulgaria and a local lady said, thanks for doing it for those guys there, what are you doing over here for me? We learnt two things out of that conversation; firstly that there was a local need, and the second thing was that, frankly, if we didn't know much about the local need, we could guarantee most of the community didn't understand the level of need either."

This shows that right from the start, Foodbank emerged from a local imperative, with the emphasis on community participation and buy-in. Specifically, these Foodbank communities centre around a church, operating as charity 'bolt-ons' to their existing work rather than as a separate entity started by an individual.

The Foodbanks, which are largely volunteer-run with usually a paid part-time coordinator, operate either within the churches themselves or from rented/donated property if they have insufficient storage and distribution space.

They collect food from people in the community and then distribute this to other people via a voucher system for those who are referred by statutory agencies. The food is often donated by individuals: "when they (the franchisees) give people shopping lists of donated goods they need outside Tesco's, they get 50% of people giving them something." Food is also collected via churches, schools and special supermarket collections. This simple community-run, low cost, approach makes Foodbank a highly replicable concept.

### Choosing the right franchisee

To ensure high standards across their many Foodbank franchises, the Trussell Trust are careful about selecting the right franchisees:

"Before they decide to do the project, they have to do a number of things... [say you] rang me up and said you are interested in running a Foodbank. My first question to you is: where are you coming from, where do you live, are you part of a faith-led organisation, do you know you will have to work with churches. The first document that we send them is the terms and conditions and a little bit of an explanation as to how the Foodbank works. It says who we are, what we do and it basically outlines how we work. Then there are the conditions and the money."

This suggests a less formal process than a traditional, commercial application form route, which itself includes an element of training in understanding how the franchise works from the start. As one church-based franchisee illustrates:

"In the beginning, [a contact from the Trussell Trust] came and met with the leaders of the church, then I think we had another meeting and that was the first meeting that I went to... he went through the whole process. We asked tons of questions and he showed us the manual... and that was so comprehensive, things that we never even thought of. If you wanted to set up a charity status – everything was covered. He went away and it was discussed and decided... we were going to go for it!"

In this sense, the selection and training processes can be said to be somewhat conflated, which lends itself to setting the franchise up as soon as the decision is made – the latter as much coming from the franchisees as it does from the Trussell Trust in terms of ‘vetting them’. Having an established network of churches makes it relatively easy for the Trussell Trust to find a ready supply of franchisees with little need for advertising. The franchisee agreement is made with the church group or a number of churches, rather than with an individual as is typical in the commercial sector.

Finances are also an issue in the selection process, as it is important that franchisees understand the value of the pre-existing knowledge and infrastructure that the Trussell Trust has built up, rather than expecting it ‘for free’ because they are starting a charity. One interviewee also emphasised that having financial readiness as a criteria for the franchise was also a way of filtering out those who “just think they will have a go at it and those that are committed to it.” In addition, it is important that the franchisee group setting up a Foodbank has enough money to cover operational costs and franchise maintenance, which includes training and on-going support.

Each franchisee makes a one-off donation of £1,500 at start up stage, followed by an ongoing ‘donation’ of £360 per year. This covers approximately one third of the set up and support costs, with the remaining two thirds fundraised by the Trussell Trust.

As well as making this financial commitment, franchisees are also required to monitor their activities and collect data, make appropriate use of the Foodbank logo, and participate in an annual audit.<sup>29</sup> The Trussell Trust then requires them to complete a business plan for their franchise to ensure that they really understand how it will operate, particularly the financial and operational elements.

Crucially, franchisee groups also need to be well connected with other key organisations working with vulnerable people in their local community, as well as, of course, having sufficient capacity to undertake the running of the Foodbank. The following interviewee’s account illustrates this:

“Sutton Food Bank is run by twelve churches in the London borough of Sutton, who formed a new charity, Community Works. The mission is to engage with the needs of the community but also to engage with the council, the police, the local authorities, to make sure we’re talking to the church and to the local authority, to make sure we’re meeting needs. We felt there was a need in the borough for a Foodbank.”

This reiterates the local imperative for a resource such as Foodbank, and the level of local interconnectedness that potential franchisees need to consider.

### Support and skills development for franchisees

By working with franchisees to create Foodbank, the Trussell Trust has discovered that they are, in fact, creating skilled social change agents who can engage with their community in a multitude of ways. The Foodbank is just the starting point for this engagement. As a food bank manager says, “We are selling more than a food bank – we are selling food bank plus the opportunity to lean and integrate into the community and produce more innovative ideas.”

The fact that the first Foodbank took over five years to set up whereas now franchisees can be up and running in a matter of months, is testament to the way in which this mission has been ‘packaged’ accessibly, and the package itself refined over time. The core element of this is the Foodbank operations manual, which contains many of the training materials as well as information to help franchisees troubleshoot and develop the franchise.

One interviewee recounts the importance of the manual in helping her group’s Foodbank succeed, after having tried to undertake food collections and give-outs independently: “when we started, we didn’t have a manual. After being in touch with the Trussell Trust, we found that very helpful, especially if you want to be accountable.”

In addition to being provided with a manual, each Foodbank franchisee is supported with on-the-job training, project mentoring and support, a branding suite, website, and data collection tools. Interestingly, the training element is flexible and tailored to what each franchisee needs. As one interviewee from the Trussell Trust explained:

“There is no point training people who have picked up things from the manual very quickly and they understand it. So what we have to do is allow them to decide what sort of training they need from a menu or a discussion. We have created a menu of the kind of training provided, who it is for and how long it takes.”

This tailored, personable approach means that Foodbank coordinators quickly learn a variety of skills and gain significant personal development through being a franchisee. This is leading to a more engaged community and increased employability. As one franchisee emphasised:

“They are there all the way. ... the coordinator for London is on my speed dial; he is available all the time. He comes down for the training of volunteers; we had a photo opportunity, he came down for that. They are totally supportive. They are there all the way. They built our website, they ask us how it’s going. We report to them on everything we do. They report back to us. There are annual meetings and newsletters. You’re supported. They plug you in. You are totally supported.”

A vital part of the support franchisees receive to run the Foodbank is from the volunteers who administer the day to day running of the projects. Some of these are supported volunteers, such as ex-offenders undertaking community service or rehabilitation programmes. Foodbank managers are given the necessary training to help train them up in the work; in addition, each of these supported volunteers has a mentor who helps them.

Generally, franchisees feel supported by staff from the central office, who are on hand to respond to queries, inform franchisees about any new developments within the network as a whole, and to deal with press enquiries. There are also key people there whom franchisees can contact for support, and from whom they receive ongoing support, such as a Network Manager and, where available, regional coordinators. The following section discusses these resources and other elements of the Foodbank franchise network.

### The network

The Foodbank network is extensive, encompassing not only the individual Foodbanks, but also the many connections with key gatekeepers in the local community, as well as the Trussell Trust and key supporters within the network itself.

The on-going support provided to franchisees emerged as an important element of the model. The overall network is divided into sub-networks, each of which has its own dedicated Foodbank Network Manager, supported by an assistant. They provide mentoring as well as hands-on practical assistance to the individual Foodbanks in that network. These sub-networks themselves feed into regional networks, each of which has a Regional Network Manager. Managers at both of these levels were seen to be very accessible and open to receiving feedback from franchisees, which in turn lends itself to improving the franchise model as a whole and inspiring innovation across the network. As one interviewee commented:

“The Trussell Trust wants to break the barriers of how normal charities do things. They want to go to the next level, so they encourage you to come up with creative ideas of how to do things. That information gets filtered back. You see that different Foodbanks operate slightly differently to others because, depending on their team and the area that they’re in, it works for them. Best practice gets shared amongst us. We’re always pushing the envelope and we’re allowed to do that. It enhances the whole of the Trussell Trust. That’s what we’re there to do, enhance the project.”

This was found to be particularly important in cases where franchisees felt there were specific areas for improvement that needed to be actioned as soon as possible. For this purpose, The Trussell Trust established a network forum that enables everyone to feed in interactively and make other franchisees aware of the situation, without needing to call upon individual Network Managers for assistance. As the following franchisee recounts:

“Certainly I’ve fed things back, like using a label gun, things like where you get crates from, we’ve bought bio-bags so that clients go away with food in bags that are biodegradable that have a supermarket name on. Generally we feed those sorts of things back to the forum so that people are aware.”

This innovative edge also becomes apparent in the internal governance of this network. For example, the network stipulates that Foodbanks need to be inter-church initiatives; another study of the Foodbank network found that many plan to work together with other churches to create umbrella charities, within which the Foodbank would be one project.<sup>30</sup> This indicates the importance of this network to fostering new ideas for both community benefit, and for collaboration and resource pooling.

### Key success factors

The social franchise model that has driven the growth of Foodbanks has proven central to the overall success of the initiative. The model itself has worked well for a number of reasons. Firstly, the idea of the Foodbank itself is an accessible, easily replicable concept; as one franchisee made clear:

“The church leaders got hold of it as well; it’s something that members could get hold of. You didn’t want to make it too complex, too wishy-washy, too ethereal... [it needed to be] something very tangible that would make us feel we could make a difference in our community.”

In addition to being an attractive, easily understood proposition that everyone can participate in, a Foodbank franchise is also a low cost model. This means that churches can, in most cases, easily raise the necessary funds to start and maintain one, space and staff being the main costs as food is largely donated through individuals from the local community, as previously highlighted.

Another factor is the way in which Foodbank franchises interact with the social and statutory infrastructures of the local community. The model is something that agencies working with vulnerable people can easily engage with and that, moreover, allows Foodbanks ‘to remain essentially bottom-up initiatives.’<sup>31</sup> Community buy-in is essential in order to encourage people to donate food and indeed approach the Foodbank as clients. The franchise model facilitates this well because each community can mould the Foodbank, to an extent, to fit their local circumstances, rather than this being controlled ‘from above’.

Gaining this buy-in, while not always an easy process, has been considerably aided by the clear operations manual, and by the openness of other franchisees to showing potential new franchisees how it is done:



“For our church, having seen the project and what it does, it’s exactly what’s needed in the area, it’s something that’s up and running. It didn’t require a brainstorm. It’s a franchise, it’s up there, it knows what it’s doing. When you buy into it, you get the booklets, you get an overload of information. It’s quite daunting – you look at the folder and the information. You’ve got the help of the regional coordinator. You’re pretty much sure what you’re going to do is going to work, especially because everybody loves the idea. As far as our church is concerned, it was great. Getting other churches in to work with us requires a little bit more selling. Once you explain you are literally helping people in a crisis situation and providing what they need, then everybody else is also interested in doing it.”

This indicates the importance of ‘local confidence in the manageability of the project’ and being able to ‘prove the credibility of the new local project particularly to care professionals, but also to potential partner churches and other local stakeholders.’<sup>32</sup>

The overriding success factor is perhaps precisely that: credibility. As well as local communities, the Government has now also “agreed that they can trust Foodbank when people are in crisis,” as one interviewee stated, adding that:

“They are getting something for nothing, and they are getting something for nothing from an organisation that is credible. Credibility is all-important, and reputation. We try really, really hard to make sure that the project is credible and with a good replication plan, because that gives the food banks confidence that this is going to work and that it is going to be sustainable.”

Standards are also kept high through annual quality audit processes, where new franchisees are initially quality assured by the Trussell Trust, and thereafter on a three-year cycle, with Year Two being a peer-to-peer audit. This, again, reiterates the importance of the relationships and perceptions within the franchise network itself, as well as to external stakeholders: “we want the standards to be high not only from a statutory point of view but also for ourselves.”

The network’s marketing strategy has also proven important to its success, particularly in the early stages of their franchise rollout, when the Trussell Trust strategically marketed the benefits of the Foodbank to areas where a gap in services and a potential for inter-church collaboration was perceived.<sup>33</sup> However, one of the executive team stated that, “yes, we have done some fancy marketing but really it has just been word of mouth,” again underlining the grassroots credibility that the Foodbank network has achieved.

On a practical level, their success is underpinned by having all the processes thoroughly documented: “we took the time to make sure that every process was thought through and flow-charted so that we could very quickly train volunteers and particularly those people who are going to be with us for a short time.”

The operations manual is crucial in this, and seen to be a highly user-friendly tool, as one of the central support team emphasised:

“There is the manual, open the box, do what it says and it will happen, don’t do what it says and you will have problems. I go around problem solving when people have failed to follow the manual and that happens. So we have this whole business of commitment from people who want to do it, we make it financially affordable, we make it sustainable and we make it credible and simple. By doing that we will pretty much guarantee success.”

When speaking with Chris Mould, Executive Chair, and Jeremy Raven, Foodbank Manager, I got a strong feeling that they are also significant key success ‘factors’. Both have the vision and the technical ability to follow through on that vision.

### Key challenges

So what have been some of the key challenges that Foodbanks have faced? One of the key issues has been the maintenance of the quality of service provided to the network, given the rapidly increasing number of Foodbanks across the UK. The Trussell Trust central franchisor office works hard to keep the service they provide professional for the rest of the network. They have to be two steps ahead of the franchisee because if the franchisees do not perceive value coming from the central office, as independent entities they will leave. As a result, the central office in its effort to provide excellent services is sometimes seen to be ‘chaotic’. This is compounded by how passionately staff feel about Foodbank: “I think that one of the characteristics of the Trussell Trust is that it is always doing more and is always creative, everyone is giving about 120% and therefore it does look a bit chaotic a lot of the time.”

Some of the franchisees interviewed also highlighted the workload in their individual franchises, suggesting that additional administrative support from central office would be welcome:

“Not having as many people around to get out on the phone and do all the work [is a challenge]. Having people working full time [on other jobs] and only myself was hard. Not having funding also limits us because there is so much that we need to do and that would help us to go further with administration, etc.”

This also highlights one of the key challenges for managing the network – that of funding. While the model is low cost to implement, maintaining it has proven to be a struggle for some franchisees. In addition, ongoing franchise fees are not currently sufficient to cover franchisor support costs, putting pressure on the Trussell Trust to secure grant funding, which is a challenging task in the current economic climate. As a way of mitigating this, the Trust has been ‘encouraging individual Foodbanks to develop social enterprises to assist their own sustainability, through for example the Restore charity shop model developed at Salisbury.’<sup>34</sup>

The Trussell Trust believes that their central support office will be sustainably funded once the number of franchisees increases and they are all paying regular fees.

While some franchisees are responding to the call to earn money rather than raise it, others are focused on gaining grant funding themselves; however, this is an area in which franchisees are experiencing some difficulty and would like more support. As one franchisee replied when asked about their top three ‘wish list’ things they would like from central office: “I know some of the team think that we could do with a bit more support from them, especially with the actual funding applications.”

Finances are here inextricably linked with the wider question of capacity to deliver Foodbank programmes on a day-to-day basis, which is implemented by volunteers: “finances and space – those are the two things you need for Foodbank... and of course volunteers. That’s the most important thing. It doesn’t work without people, and without people who have a heart for the work.”

Several interviewees pointed out that attracting and retaining volunteers has been a challenge:

“That, I’d say, is where there have been the most challenges – getting volunteers. In the beginning, when we were giving out vouchers, sometimes you’d sit here and you’d wait and there’d be a whole afternoon and nobody would come. When it happens three or four times, a volunteer can get disheartened. Excuses start to come out because they don’t feel like they’re doing what they came to do in the first place. That was a problem in the beginning. Now we have quite a few people coming. A lot of our people are students, so the minute exams happen...”

This does, however, suggest that the lack of volunteers is something that is mitigated over time, once word about the Foodbank spreads and once volunteers who do remain committed understand the longer-term impact, and perhaps seasonally also, once people are free to volunteer.

A challenge was also identified relating to the voucher system. This was brought in before the Foodbank franchised to help discern between different people’s needs for Foodbank’s services, an issue found challenging from the start. The Trussell Trust resolved this by establishing a referral system, where local statutory organisations that work with vulnerable people send their clients to Foodbank, with up to three days’ (or ten meals) worth of vouchers:

“What we did recognise straight away is that we couldn’t identify who was in need and who wasn’t so we had to have a referral process and we had to have checks and balances to make sure that people didn’t abuse the service... we refined this within a couple of years of opening even though it was built in right from the start.”

However, this is proving problematic in some cases where communication between individual Foodbanks and the agencies referring people does not always happen as procedure dictates. This is one instance of the way in which it is not always easy to uphold every quality measure across the network, even though it is stipulated by the operations manual; in this case, it is primarily given the sheer number of Foodbanks. Ultimately, it is likely that this growth is set to have knock-on effects on upholding quality throughout the network.

### Future of the franchise

Very soon after establishing the first franchise, the Trussell Trust realised just how powerful a community engagement model Foodbank could be. As one of the management team emphasised:

“We are selling more than Foodbank – we are selling Foodbank plus the opportunity to learn and integrate into the community and produce more innovative ideas. That’s what is exciting I think. These are the things that come out of having a good outreach to volunteers, and also good outreach to the community.”

Given this successful community engagement, there is huge potential for the franchisees to start providing peripheral services to the local community. This is made easier by having the Foodbank as a solid base of engagement and volunteering. For example, one of the franchisees recounted that they had a local police officer who regularly ‘popped in’ at the Foodbank, and who one day said that she sees so many lonely people on her beat that she would like to teach some of them to do beadwork. The Foodbank said they would be delighted to set this up and purchased the materials. They now have 15-20 people who come in every Thursday afternoon to do beading. This is just one example of ‘instinctive local development’ that happens once the Foodbank knows and gains the trust of the local people.

The Trussell Trust itself has set up a shop that sells items that local communities need, at reduced cost. This could be replicated, and could also form a blueprint for future social enterprise ‘bolt-ons’ that Foodbanks could develop to aid their own revenue source.

Ultimately, the Trussell Trust’s mission is to ‘replicate the Foodbank Project throughout the UK: “every town should have one”’,<sup>35</sup> so the network is set to grow still further.

### Other types of social franchise

There are a number of other types of social franchise, both in the UK and Europe, that present a different set of successes and challenges to the experience of the Foodbanks, and which are working well. The most obvious category that has been neglected by only looking at Foodbank is other social enterprises that have franchised.



Some of the best examples of this come from Europe. For example, the Barka Foundation,<sup>36</sup> established in Poland in 1989, aims to support the social inclusion of excluded and vulnerable people, particularly in the European Accession countries. It does this through various education and housing programmes, and projects promoting entrepreneurship and cooperative working and learning. Specifically, Barka has been involved in developing housing for homeless people, vocational schools for the unemployed (known as Centres for Social Integration), and also social enterprises, the latter including training for public sector staff, entrepreneurs, and cooperatives.

Barka adopted a franchise model from the start within 40 sub-regions in Poland, establishing 20 social integration centres and 20 cooperatives, which have since been assembled into a network. These involve wider partnerships with local councils, entrepreneurs, and central Government departments. Barka then began to franchise outside Poland in 1995, initially focusing on the specific area of helping marginalised people (such as the homeless) access housing, training and employment, in countries including the UK, Netherlands and Ireland. It has since widened to include the European Migrants' Integration Network, outreach and voluntary return projects for homeless Eastern European migrants, and several projects across Africa.

Aside from the international reach, a key difference to Foodbank is Barka's involvement with and funding by larger civil society and statutory organisations, rather than the individual franchises being grassroots ventures. The process of franchising usually starts with Barka being approached by such organisations, so there is a wider imperative than the local one alone.

Another example from Europe is Le MAT, a social hotel chain – 'a network of social entrepreneurs in tourism.'<sup>37</sup> It began life in 2004, inspired by a cooperative of psychiatric patients, doctors, artists and supporters who from the late 1980s had managed a small hotel. Today, the Le MAT network is comprised of social enterprises employing workers from disadvantaged backgrounds and promoting sustainable environmental practices. Ultimately, Le MAT aims to have a triple bottom line – a positive impact on people, planet and profit. The Le MAT brand is owned by consortia of social enterprises across Italy and other parts of Europe, who also implement the franchise system.

Le MAT attributes much of its success to its ability not just to replicate standard hotel models, but to tailor these to very different local contexts and environmental sensitivities; for example, a Le MAT hotel based in an urban area versus one more ruraly based where the aim is to provide food for catering that comes from local, sustainable sources. In this sense, Le MAT's approach can be seen as comparable to that of the Foodbank.

However, a key difference to Foodbank is that Le MAT's market is consumer based (i.e., dependent on commercial revenue rather than fundraising and grants). As such, Le MAT employs a strong brand-driven approach relating to the quality of their premises as well as their social enterprise 'unique selling point' to attract customers. Le MAT's social franchising approach is driven by the need to attain growth, thus also creating a parallel motivation with commercial franchises. In contrast, Foodbank's growth is more motivated by the social impact they want to see across the UK; however, it could also be argued that growth and social impact are not easily separated, as the latter often depends on the former.

In the UK, Care and Share Associates (CASA) has a similar structure to Le MAT in that it is an umbrella replication unit, facilitating social franchises such as Sunderland Home Care (SHC) and others, to deliver health and social care services in the North of England. CASA grew out of SHC when they decided to replicate their model and establish a central body to manage subsequent franchises. CASA now provides franchisees in different areas with skills training that is tailored to the needs of the different people that franchisees are working with (the elderly, families, etc), while enabling each franchise to be locally owned. Specifically, CASA offers support with HR and finances, tendering for contracts from local authorities, and policies and procedures, as well as with the franchise operations manual.

CASA's franchisees tend to be other organisations, which then hire a management team to run the business as a 'bolt-on' to their existing operations. The advantage here is that these organisations have the necessary infrastructure already in place, thus reducing both the costs and risks associated with the venture. This differs from Foodbanks in that often the individuals and grassroots groups setting them up are doing so 'from scratch'. Another difference between the two is that CASA's franchisees are selected on the basis of being employee-owned and being able to deliver the service to standard, meaning that they have a prior track record in the industry. However, this difference may be due to the greater specialist knowledge needed to deliver CASA's remit than that needed for Foodbanks.

Like Foodbank, CASA charges franchisees a licence fee which goes towards facilitating CASA, which in turn acts as a quality controller to ensure that standards are being met. CASA's success is underpinned by its sound business model, and the fact that they have chosen the right franchisees to work for them and build on their social mission.<sup>38</sup>

Similar to CASA and Le MAT, and working on a much larger scale, is KOMOSIE – the umbrella body for two social franchises working in the field of energy saving, recycling and reuse. One of these, De Kringwinkel, is 'the largest social franchise in Europe and possibly the world.'<sup>39</sup> De Kringwinkel itself is a federation of 108 shops selling used goods across Belgium. KOMOSIE's second social franchise, Energiesnoei (Energy Cutters) is comprised of 33 social enterprises that install energy saving equipment to private homes, employing and training disadvantaged people to deliver this service.

KOMOSIE was formed in 1994 from a federation of second hand shops that were set up in the early 1990s to provide unemployment for disadvantaged people. They were motivated to come together as a federation given steep competition from the private sector and the need to lobby Government as one voice. Interestingly, when the De Kringwinkel brand emerged from this, KOMOSIE did not realise that they had, effectively, set up a social franchise, where individual De Kringwinkel shops paid KOMOSIE a fee for support and brand management. This is in contrast to Foodbank, where the Trussell Trust saw franchising as the initial expansion option. The explicit labelling of De Kringwinkel as a social franchise came later and has been helpful to their development.

Like Foodbanks being supported by the Trussell Trust, De Kringwinkel franchises are supported by KOMOSIE, which, however, has a more comprehensive central support team than Trussell Trust. This team, composed of 12 employees, offers a wide range of services to its franchisees, including advocacy and government lobbying, communication and systems supports,

logo and marketing materials, PR, shop layout blueprints, training, workshops and a learning network – indeed, more resonant of the commercial restaurant franchise than Foodbanks. This comparison resonates with the fact that the Trussell Trust and Foodbank franchisees perceive a capacity gap in the way their franchise is managed.

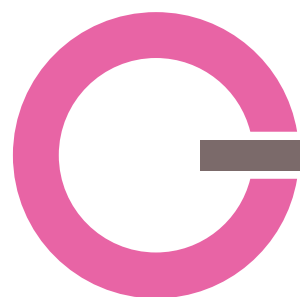
Another example of a social franchise in the UK is Fruit to Suit, an enterprise offering healthy snacks to primary school 'tuck shops', and business and enterprise training to pupils so they can run the tuck shops themselves. In the short time it has been established (since 2007), Fruit to Suit has progressed rapidly across the UK, winning The Morgan Foundation's Best Social Enterprise or Charity Award in 2011, which specifically recognises social sector organisations that are seeking to move away from a dependency on grant funding. The innovative element of Fruit to Suit is its unique remit, straddling both the catering and education fields where children are taught to run operational businesses.

Fruit to Suit started out very much with the idea of engaging people who lived locally around schools and could pay personal attention to the children there, rather than growing centrally with staff who may not necessarily have a passion for a particular local area or for really connecting with Fruit to Suit's agenda. This may be seen as comparable with Foodbank's approach of starting at the grassroots and engaging people in local communities rather than 'parachuting in' outsiders.

However, one area where they differ and where Foodbank could learn from Fruit to Suit is to do with finances – franchisees pay the latter a start-up fee of £2,500 and thereafter 4 per cent of sales. The school enterprise training, which was initially free, is now also paid for and brings in extra income. Both of these elements are helping to keep Fruit to Suit sustainable and able to expand, without depending on grants or fundraising. The founder herself stated that adhering to these financial objectives does not conflict with Fruit to Suit's social goals – the balance between the two will be maintained as long as they have the right franchisees on board.<sup>40</sup>

At the more commercial social business end, Ben and Jerry's Partnerships are an example of a 'socialised' franchise.<sup>41</sup> They offer to waive their franchise fee and give additional support to community organisations who want to run a shop to generate income. A few Partnerships have been set up in the UK but at the time of writing research into their successes and challenges could not be found.

The other examples of social franchises considered here show both certain parallels with Foodbank as well as many other values and strategies that have been developed in order to drive their social mission and help them achieve sustainability. The key implication here is that the nature of what different social franchises do determines their different target markets, funding models and scale. Thus social franchising can be seen as a diverse movement, with no 'one-size-fits-all' model – even more so than in the commercial franchising sector.





## COMMERCIAL FRANCHISING CASE STUDY: MCDONALD'S

### Background Research

Since its inception in 1953 in California, McDonald's has grown into a global giant and established an iconic brand, becoming a symbol of modern globalisation and one of the most successful commercial franchises in history. For most of its history, the chain has been the largest franchise restaurant operation in the world, only recently surpassed by Subway,<sup>42</sup> and employs 1.7 million people.<sup>43</sup>

It was in 1954 that a milkshake machine salesman came across one of the original restaurant stands and proposed to the owners that they franchise nationally throughout the United States. This salesman, Ray Kroc, offered to take on most of the risk, and it was from there that he began the national franchise, eventually buying out the owners' own independent franchises by 1961 and setting up McDonald's. Today, the chain comprises 33,500 restaurants worldwide across 119 countries, 80% of which are operated by independent owners as franchisees.<sup>44</sup> In the UK, the first restaurant opened in Woolwich in 1974, and the first franchise in 1986, just over 1200 restaurants trading across the UK in 2012.



The company has had an annual growth rate of 5% since 2004, with revenues of over \$27 billion in 2011. Given the difficulties of achieving these impressive figures within the constraints of the economic climate over the past few years, the quick service giant's success has been attributed to strict planning, accountability and review procedures throughout the company. One of the keys to its success, therefore, is the way the franchise structure itself is governed and managed, and how franchisees develop and input back into the organisation. Indeed, it has been recognised that 'the success and profitability of [the company] is inextricably linked to the success of the franchisees.'<sup>45</sup> As a senior London-based member of staff commented in an interview, 65% of the business currently consists of franchisees in the UK, and they are aiming for 70% to be franchised in the next decade.

This case study has used desk research, supplemented by face-to-face qualitative interviews with senior company staff based in the UK (whose names have been kept anonymous), and confidential operating manuals made available by head office. It explores how this success has been created, how franchisees themselves are supported, and, crucially, the role they play within the powerful global network that the chain has become. It is designed to draw out lessons that can be used by social organisations planning to franchise.

### Choosing the right franchisee

McDonald's franchise brochure addresses future franchisees with the opening statement that 'you are a large and valuable part of your local community, as well as being a small but important part of a renowned global organisation.'<sup>46</sup> It calls for a 20-year commitment, with the restaurant as the franchisee's full time best business interest during this time. So how, then, does the company select its franchisees?

Franchisees are selected following a rigorous application process. People can only apply as individuals, and are screened according to the following criteria: they should, ideally, have prior experience of running a business (not necessarily in the food industry); people-management, sales and marketing skills; and a good balance of initiative with the ability to follow a proven system: 'We don't expect you to reinvent the wheel, just to make it turn faster.'<sup>47</sup>

A great deal of attention is devoted to potential franchisees' financial standing and the availability of their personal funds, both to invest in the franchise and cover living expenses while training.



The cost of purchasing a McDonald's restaurant franchise varies between £125,000 and £325,000 depending on location (with the company maintaining the head lease of the property). There are two ways of buying one. The conventional franchise is where franchisees put up at least 25% of the total purchase price and borrow the rest. There is also a one-off franchise fee of £30,000, and a training deposit of £5,000, which is charged at the start of training and refunded on completion of the programme. The other way is the Business Facilities Lease (BFL), 'designed to help exceptional candidates without sufficient funds to cover the 25% cost of a franchise,' although candidates here still need to show they have the ability to accumulate capital – usually savings of at least £35,000. The restaurant's cashflow is used to then buy the franchise within the first three years of trading.<sup>48</sup>

Franchisees pursuing either avenue are also advised of on-going franchise fees, such as the monthly rent of restaurant premises at around 12%; a monthly service fee of 5% for use of the company's system, and a 4.5% sales contribution to national marketing.

Other qualities that are repeatedly emphasised are being 'hands-on' and being a 'people person', i.e., able to connect with a diverse range of people, including staff and potential customers in the local community: 'Franchisees must possess an entrepreneurial flair for business. They must possess the drive and energy necessary for running a busy restaurant to the standards set.'<sup>49</sup> In addition, considerable emphasis is placed on franchisees actively involving themselves in the life of their local community, such as through volunteering for schools programmes or helping to raise money for charity, with the aim of engaging potential customers as well as doing their part in the community.

After filling out an application form, candidates may then be invited to a follow-up interview and, if successful, to an on-site experience at an active restaurant and finally a regional selection panel. It is here interesting to note that the brochure states that candidates would visit 'franchisees' rather than 'owned restaurants', again suggesting that it is the people rather than the 'cold' business infrastructure that is most important.

### Support and skills development for franchisees

Once franchisees have been selected, the next stage is a self-funded, nine-month, full-time training programme. This involves working in an operational restaurant in staff uniform and learning everything from the cooking process to customer service. An important part of this is also learning how to train future staff along the same lines, meaning that, ultimately, 'no franchisee would have to ask a member of his or her staff to do something that they couldn't do themselves. Knowing this, can also be a powerful motivator for the staff.'<sup>50</sup>

After three months as part of the restaurant crew, prospective franchisees are then given further training at regional centres focusing on more strategic elements, such as business management, leadership skills and team building.<sup>51</sup> Throughout, franchisees' progress is assessed by a 'field consultant', usually a successful mid manager with proven multi site experience, who advises them on best practice.

But the training does not end there, as the company offers various routes for on-going support. Most famously, perhaps, it formalised its training facilities in the USA by opening the first Hamburger University in the USA, offering students 'a Degree in Hamburgerology with a minor in French Fries',<sup>52</sup> thus recognising the importance of training right from the start. The institute offers various leadership as well as practice-oriented

courses that range from learning how to cook, to how to manage a large team and build good PR relationships. In particular, the university is seen as a vital part of the continued learning and training that takes place after the inaugural nine months have been completed by franchisees. Today, the university has campuses around the world and is seen as 'the company's global center of excellence for McDonald's operations training and leadership development.'<sup>53</sup>

In the UK, the company launched a Level 2 apprenticeship in Hospitality in 2009, which is equivalent to 5 GCSEs from A\* to C; to date, 14,000 people have qualified. This, along with other cases, indicates that the company has proven adept at adapting their training practices to diverse local contexts.

Perhaps the strongest example of this would be the restaurant's Moscow franchise. At the time, this franchise had a rigid management structure where the General Director had to be a Canadian citizen, and the deputy general a then-Soviet citizen, with an executive committee that hired several managers to run the business. This structure was therefore an exception in terms of its scale and the political context involved, but could be seen as illustrative of the franchise's ability to adapt to different locales in terms of its all-important 'people' element. In this instance, the company also demonstrated initiative in subverting certain local practices where this was deemed necessary for the productivity of the business, e.g., by having a competitive application process, which was not typical of Soviet working practice at the time.<sup>54</sup>

This flexibility has ultimately enabled the company to create a mechanism whereby franchisees around the world are able to communicate and input into the vast corporation, inspiring new innovations as well as voicing their needs. The following section elaborates on this.

## The network

According to the available documentation on the company's franchisor-franchisee relationships, these can be said to have achieved a good balance between brand management/operational standardisation, and franchisee autonomy. There are some important lessons to learn here, because this is not an easy balance to achieve. As one study of international fast food chain franchising suggests:

Typically when a franchisor first enters an international market, the franchisor relies on the franchisee's local market knowledge to develop the business... Therefore, during this growth stage, the franchisees have more autonomy and more influence. As the business enters its maturity stage, however, the franchisor no longer needs the franchisees' expertise. The franchisor's priority shifts from building the brand to protecting the brand. Since the number of the franchisees increases as the business is maturing, the franchisor has to take away autonomy from the franchisees in order to standardize the business and protect the consistency of the core business concept.<sup>55</sup>

Given the food chain's global reach and commercial success, it can be argued that this tension has been negotiated with a powerful network-based structure connecting franchisor with franchisees. This network has an inbuilt consultation and feedback mechanism to ensure all franchisees have a say on the global brand and standards. For example, while all franchisees pay 4.5% of their sales towards the national marketing fund, in return they can participate in business working groups and offer feedback to the Executive Team, who come to them in person to develop the company's strategic direction with their input. Franchisees then vote for a proposed marketing plan.<sup>56</sup>

A strong ethos of reciprocity and a collaborative approach to business development is conveyed here. In practice, this starts with an anonymous questionnaire to all staff and franchisees to enable them to feed into the planning process. As the Chief Operating Officer in the UK explained:

"A breakdown in communication between franchisee and franchisor can lead to problems which ultimately can put the reputation and the success of the brand at risk. Franchisee consultation should not be seen as an obligation, but rather as fundamental for business success and something that is ingrained in a company's value and beliefs.... We consult with our franchisee community on an ongoing basis, running trials with them and often relying heavily on them to support our most progressive new business moves."<sup>57</sup>

This suggests that one of the most powerful components of the company's franchising strategy is its network mentality in relation to its franchisees. This approach also enables franchisees to contribute new ideas and innovations, such as the case of the big Mac, that was invented by a franchisee. The network also means that franchisees can support each other and work together to improve the system as a whole. Having tens of franchisees working on the same problems also gives a huge amount of scope to innovate across the network and to spread ideas that work quickly and efficiently.

On a day to day level, this network takes the form of an open online forum via which franchisees can communicate with each other; regional meetings; and staff engagement sessions where executive management listens and takes note based on the five 'Ps': price, place, promotion, product and people. Really listening to what franchisees need is important, as one interviewee emphasised.

However, this interviewee also noted that, while in the early days innovation was inspired by the franchisees, this is a less frequent occurrence today, as the company has gained much experience that they can use to innovate centrally. As Ray Kroc recognised early on in the McDonald's franchise, it was necessary to minimise all the things that put stress on the franchisor/franchisee relationship. For example, they enabled their franchisees to choose suppliers as long as they were approved by the company first: 'my gut instinct [in avoiding stipulating which suppliers franchisees could use] helped us avoid the anti-trust problems that other franchises got into.'<sup>58</sup>

## Key Success factors

The trust emphasised above, as well as the other relational elements in how the company manages its franchisees, can be seen as crucial to the franchise's global success. From the rigorous initial training process through to the feedback mechanism and network that enable franchisees to make their voices and needs heard, the communication infrastructure is one that promotes innovation and further growth. This infrastructure hinges on these important elements:

## People

When I asked a senior member of company staff what was the most important thing to remember when franchising, without hesitation he replied: "the people."

This reflects on the importance placed on continuing professional development as well as the rigorous initial training that the company gives all new franchisees. Both of these factors act as effective motivators for franchisees to succeed and feel a sense of real belonging within, and buy-in to, the chain's identity.



Moreover, this emphasis on ‘people development’ yields tangible results in terms of climbing the career ladder. Many of the past CEOs began their career there as a trainee manager.<sup>59</sup> This is further reflected in the attitude that the company itself takes towards its franchisees: ‘When I speak I ask how many CEOs are there in [our company]. The answer is almost always one, but there are 160 CEOs, each of our franchisees is a CEO.’<sup>60</sup>

The central drive for this is not only to help franchisees attain this sense but, of course, to achieve business excellence. As another interviewee made clear, franchisees ‘are running SMEs [small to medium enterprises] on their own so they have to be excellent. They have to go through a strict training programme. Recently we have added qualifications to the mix,’<sup>61</sup> as previously outlined.

The restaurant’s Franchise Brochure also emphasises that an important success factor is the connections their franchisees build with people in their local communities, not just among themselves. Franchisees are encouraged to participate in charity events, sponsor local projects and involve their staff in volunteer activities. In the UK, these include the company’s coaching partnership with the Football Association, acting as reading partners to children in local schools, and facilitating fundraising within individual restaurants for a particular cause.

## Process

A major reason McDonald’s so effectively empowers their franchisees and therefore enables overall success lies in their detailed systems and processes.

The company made available their workbook which documents their restaurant operating improvement process (operating manual), a page of which is available at Appendix C, and an annual booklet received by all franchisees that outlines all the updates to systems in an easy-to-read way. The attention to detail and thoughtfulness that went into making these documents comprehensive while remaining accessible and user-friendly, are truly impressive.

As examined previously, the rigorous nine-month training programme that all franchisees undergo prior to starting ensures efficiency and standardisation across all franchises. In addition to this training, ‘from day one they have a buddy for three weeks that will help new people get into it. They provide a training roadmap right from start to finish.’<sup>62</sup>

In terms of continuing professional development: ‘each year each person has to create a personal development plan, including senior staff at the central office... everyone also does a crew development plan so that they know how to do all the jobs in a restaurant – even franchisee owners.’<sup>63</sup>

With reference to the chain’s internal network, these processes contain both discretion-based and face-to-face elements (such as the annual anonymous staff survey and consultation meetings), and enable franchisees to feed into strategic decisions from the bottom up. Particularly important are executive management’s regular engagement sessions with franchisees and staff, ‘where they just listen and do nothing else.’<sup>64</sup>

There is also a committee made up of franchisees and senior people from Head Office who jointly decide the company’s marketing activity and spend for the following year. This is another example of these effective processes. As one franchisee who sat on this committee stated: ‘It’s amazing the influence you, just one individual, can have on the decisions of a big company... you really do have an effect. You’re involved all the way, from coming up with ideas, to approving campaigns and budgets.’<sup>65</sup>

It is this systemised feedback loop that engenders both franchisee buy-in and innovative thinking, both of which ultimately influence the success of each franchise and, indeed, the restaurant brand as a whole.

## Brand and Marketing

It would be insufficient to lay all of the company’s success at the door of their franchisor-franchisee or community relationships. It is clear that the company also has an extremely powerful brand and a successful marketing and PR strategy. It appears as the first quick service entry in lists of the most powerful global brands.<sup>66</sup> They explain that ‘brands that have more loyal customers have higher values, and brands with high voltage are likely to have much stronger growth prospects.’ The power of the brand in its ability to transfer from one vastly different territory to the next cannot be underestimated.

In terms of marketing, as Ray Kroc commented in his book, ‘I’ve often been asked why I didn’t just simply copy the whole [company owners’] plan... Truthfully, the idea never crossed my mind. I saw it through the eyes of a salesman. Here was a complete package, I could get out and talk up a storm about it.’<sup>67</sup>

The company’s marketing shrewdness is linked to its awareness of widely diverging local contexts, cultural tastes, and the demands and constraints of local market conditions, as the following section illustrates.

## Consistency and innovation

A major factor in this commercial franchisor’s success has been its ability to synthesise different cultural and local nuances, and continually innovate, while maintaining a global brand identity. As one commentator makes clear, ‘[the company] is careful to balance standardisation with respect to local traditions,’<sup>68</sup> while another points out that ‘it’s all in the detail,’ with the franchisor applying different prices and using different ingredients to ‘classic’ food products in different parts of the world.<sup>69</sup>

This is helped, again, by franchisee involvement in forging this brand. It is also managed by their Innovation Centre in the USA, where new ideas are filtered and streamlined after having passed through the company’s ‘living network,’ where ‘ideas bubble up from global partners – owner-operators, suppliers, outside design firms – and are relentlessly filtered and tested by the Vice President of Concept and Design and his team.’ As this VP also commented, ‘one of the strengths of my job is to conceptualise what happens in the marketplace and distil the principle out of it.’<sup>70</sup>

## Key challenges

As with any franchisee-franchisor relationship, especially on so large a scale, and as previously discussed, this company has also experienced challenges in terms of negotiating central versus franchisee control and, indeed, not positioning them as opposing forces. In his book, Kroc notes certain tensions as the corporation grew and the initially close relationship between franchisees and central office became inevitably distant and strained, in contrast to the ethos he had envisioned: ‘It’s always been my belief that authority should be placed at the lowest possible level. I wanted the man in the stores to be able to make decisions without seeking directives from headquarters.’<sup>71</sup>

Many of the old operators (shop owners) did not like things as they grew because they had to report to district or regional offices with new managers who had not been part of the original franchising crew, whereas they wanted to be in touch with Head Office.<sup>72</sup> In response, they created a pressure group, which bad mouthed the Head Office and incited fears that the restaurant was about to buy up all the franchises. Following this, the franchisor was forced to send out continual messages of reassurance that they valued franchisees who had developed ‘good community relations and a strong spirit among [their] employees,’ and did not intend to buy back their stores.<sup>73</sup> Ultimately, the situation was resolved through the franchisor’s good networking and communication tactics, and their recognition that ‘we are an organisation of small businessmen. As long as we give them a square deal and help them make money, we will be amply rewarded.’<sup>74</sup>

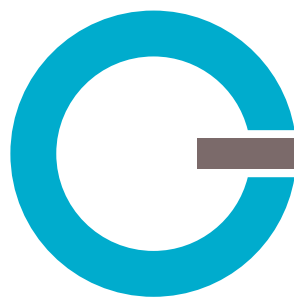
Another challenge the company has faced, more recently, has been in creating the powerful feedback network that is currently in place – the journey towards this was not easy. As one senior member of staff at the UK head office commented, one of their biggest challenges has been “learning to operate in a networked way rather than top down. This was a big culture change – the biggest of the last 10 years... since then, the company has moved from a corporate to a collaborative model.” He also emphasised that, today, the company ‘never do anything without the franchisees’ buy in.’<sup>75</sup>

Other key challenges have been around the restaurant’s brand and how it is perceived, including criticisms over the food choices they offer consumers, employing a young labour force, and contributing to environmental pollution. However, comparisons between negative perceptions of this brand and that of social franchises are not very comparable and so are not explored further in this paper.

## The future

The future holds some significant developments for the restaurant in the UK. Primarily, the plan is to have a higher percentage of their restaurants owned by franchisees and to continue to build their ‘global brand at local level.’<sup>76</sup> As the senior members of staff emphasised, this will entail the continued recruitment of people who ‘want to be challenged but within a framework,’ franchising with the company being seen as ‘freedom in a framework.’<sup>77</sup>

Growing the franchise base will also necessitate more support for franchisees, as well as an advancement of franchisees’ progression route. In addition, there are plans to introduce more qualifications staff can take.



## OTHER TYPES OF COMMERCIAL FRANCHISE

While the case study of McDonald's highlights some important issues for this research, and what social enterprises can learn, it is important to note that there are many models of commercial franchising that exist, at different levels of scale and scope, and with differing journeys. These bring with them different implications for how they are managed, the role and position of the franchisor, and how the network grows as a whole. This section will highlight some of these, with a view to demonstrating the diversity of the commercial franchising spectrum.

There are different types of commercial franchise. To begin with, the business format franchise can be seen as at the other end of the spectrum to the previous commercial franchisor case study, in that it usually delivers a service on a small scale, 'man and van' basis,<sup>78</sup> such as carpet cleaning or gardening services. Business owners in this type of service industry often choose the franchising route as a way of expanding, as they may not have the capital to do this themselves centrally, and/or they do not want to grow via a centrally managed corporate route.

The appeal of the franchise model here also lies in the fact that franchisees, as owners and managers thereafter of their own small business, are very motivated to ensure that the business succeeds and that they maintain the integrity of the brand. This is in contrast to, for example, small business owners choosing a strategy of central expansion, where they may have business managers in distant locations that they then find it difficult to oversee and manage in case of any problems. In this sense, while franchisees are used as a way to expand and raise capital, which the case study commercial franchisor did not need, a parallel may be drawn in that both models seek franchisees who are highly motivated.

However, a challenge that the business format franchise may encounter, which the larger franchisor will not, is the potential lack of central resources and staff capacity to support a growing network. This then places the business format franchise in a similar space to social franchises.

Retail franchises are another model, where small and medium-sized retail businesses set up a franchise network to help them expand and to grow the brand; the Benetton clothing chain and The Body Shop are good examples of this. The difference between them and the business format franchise is that a corporate model may still be employed within the retail franchises themselves, given the bigger scale of activity. In addition, retail franchises may be set up with the ultimate intention of buying them back into the business centrally once they are successful. For example, The Body Shop moved 'full circle' in this fashion, buying back many of the individual franchise outlets when these came up for re-franchising, after they had successfully expanded across the UK and internationally. Today, they have a much lower percentage of outlets owned as franchises compared to those run corporately. However, in new territories such as the Middle East, where the local context is very different, they always enter the market with franchisees who understand it first.<sup>79</sup>

This buy-back strategy is not necessarily the norm. Several commercial franchises, including retail ones and others, employ a dual policy where franchising and corporate ownership sit alongside each other. In practice, this could take the form of franchises being owned and managed by people who initially started the business, rather than taking on new people.

For example, it is often assumed that Starbucks is a franchise when in fact Howard Schultz, the founder, was against growing through franchising because he perceived a loss of connection between the corporation and its customers: 'to me, franchisees are middlemen who stand between us and our customers.'<sup>80</sup> Given this outlook, a number of other franchised coffee outlets initially grew faster than Starbucks because of the quick injection of capital from franchisees. To create a feeling of empowered ownership that is one of the main benefits of franchising, Starbucks gave any employee that had worked with them for six months or more the option of becoming a partner and buying shares in the company.

Over time, Starbucks realised that being so controlling was prohibiting them entering new lucrative markets, and did start to licence out the model. Today, almost 10% of their stores are licenced and, although they 'went through some rocky times in that (the licencing) relationship' because of their lack of experience, their opinion of licencing has improved as the relationship with their licensees has.<sup>81</sup> This story – that there is no 'right' model to grow a business across all markets and that being flexible with franchising, as with any business model, rather than fanatical – is more likely to allow profits to be maximised in each varied market.

Both business format and retail franchises can be seen to differ from the case-studied commercial franchisor in terms of the structures and hierarchies by which they are governed; i.e., the former have much flatter and less hierarchical management frameworks, as their networks grow from fresh and are often based on trust as much as rules to maintain what is still a growing brand identity.

In contrast, McDonald's was already very well established overseas before it came into the UK market, meaning there was already a level of brand awareness and consumer curiosity to try what was then perceived as a new and exciting model. Despite this, the franchisor was cautious upon launching and initially opened outlets on a co-owned basis with franchisees, subsequently controlling self-maintained franchises very tightly and with much policing to ensure standards were being met. Smaller business format and retail franchises would not have these resources but, equally, given their smaller scope may not need them to the same extent.

Commercial franchises may also develop in partnership with other businesses and ultimately be bought up by them. For example, the Harry Ramsden chain of fish and chip restaurants developed a kiosk-style model in partnership with Granada motorway services, offering their food outlets at Granada's motorway locations, while they continued to develop their own franchises and corporately run restaurants. In 1999, Granada acquired Harry Ramsden's, which by then included four company-owned restaurants and 25 franchises.

This 'combination franchising' model, alongside experiences such as The Body Shop's, highlight the fact that UK franchises are operating in a much less regulated environment than, for example, the USA. When Anita Roddick opened the first The Body Shop franchise, this was not explicitly seen or legally labelled as such; rather, it was based on trust and the collaborative building up of The Body Shop identity. It was only once the first ten or so shops were running that a formal franchise agreement was drawn up. This flexibility is enabled by the lack of specific legislation relating to franchising in the UK. While the British Franchise Association (BFA) exists as an industry body to monitor and advise on best practice, there is no legally defined, specific process to setting up a franchise.

This removes bureaucratic constraints and means that, as one consultant put it, 'anyone can set up a conventional business model and call it a franchise.'<sup>82</sup> As this paper will discuss shortly, this has interesting implications when viewed from the perspective of social enterprises.

Other types of commercial franchise include the management franchise, where a franchisee (who could be an individual or a company) takes on a managerial role rather than actually delivering the service itself, which is then outsourced to different agencies and/or individuals. An example of this would be in nursery and care services, such as the example of CASA discussed previously, suggesting a good parallel here between the commercial and social franchising sectors.

Investment franchises are larger scale ventures (an example would be the Holiday Inn Express chain), where individuals or companies engage with a business and act as franchisees primarily because they are seeking a return on investment rather than being motivated by being business owners. In such cases, the franchisee employs a management team to run the actual business for them, which may be of a much bigger scale than the original business they are franchising from, especially if the franchise is a 'bolt-on' alongside other investment ventures. For example, in the case of Harry Ramsden and Granada, Granada was the bigger partner even while they were acting as franchisees in partnership with Harry Ramsden.

The challenges that smaller business format and retail franchisors may face include difficulty in recruiting franchisees and, crucially, recruiting the wrong one who ultimately harms the brand or does not manage the business well. For retail franchises that are just starting out, there may be initial problems in accessing retail space given that they are competing for space with much larger and better-established corporations.

Smaller franchisors may also face the issue of their franchise network growing to the extent where it becomes a victim of its own success, in the sense that individual franchise managers are so well able to run the business that they 'outgrow' central management expertise and have less need of the network itself. In this case, the business owner may become disenchanted with the network and reduce it. This suggests that, while it is important for business owners to have the capacity to take their franchise network from inception through different stages of growth, it is also important that they themselves grow and develop their own management capacity in accordance with the needs of the network.

The characteristics and issues around commercial franchises outlined in this section demonstrate that franchising in the UK can be a very flexible undertaking – not all commercial franchises take the form or follow the same route as the major franchisor discussed in the case study. And this flexibility is key to helping the franchise movement grow, given that there is no one rigid formula that business owners need to keep to. This could also be a point of inspiration for social enterprises, i.e., that social franchising need not be undertaken on a 'one size fits all' basis but can be very tailored to individual business models, products, services, and values.



# WHAT MAKES A GOOD COMMERCIAL FRANCHISE?

The benefit to SMEs of choosing to franchise in some format is that it is a good way to expand from a central base without needing to invest capital in corporate expansion or a complex employment management system, while still allowing the brand to grow and bring in income for the franchisor: 'franchising enables business owners to get a smaller slice of a larger cake while still retaining the SME aspect of their business.'<sup>83</sup> This section discusses the key elements to creating, driving and maintaining a successful commercial franchise.

Firstly, there needs to be a clear marketplace demand for the services or products being franchised, at the scale at which the franchisor wants to engage, e.g. regionally, nationwide or internationally, to ensure that the model can be replicated.

Secondly, the franchise model itself needs to be made simple enough for the franchisee to understand and engage with, but not so simple as to encourage franchisees to take up the model and implement it themselves independently, which would then be a market threat to the franchise.

Finding the right franchisee is key, as is the subsequent training process – franchisors need to be skilled at supporting and managing franchisees. Crucially, this also includes due diligence processes and ensuring franchisees are maintaining brand standards while not in breach of legal requirements.

On the other hand, the franchisor also needs to have good knowledge of the regulatory environment, and what they are liable for. An example of the contrary would be the 1995 lawsuit brought against Subway Sandwich Shops in the USA, following lease and contract violations, with the chain earning the strong judgement that 'Subway is the biggest problem in franchising and emerges as one of the key examples of every abuse you can think of.'<sup>84</sup> One of these problems was a contract clause given to Subway franchisees that Subway Corporate had the power to seize and purchase any franchise without cause; several cases were reported of this happening. This indicates the importance of maintaining transparent relationships with franchisees – a good commercial franchise is one that works for and benefits both franchisee and franchisor.

Other processes that need to function well from the central position are brand marketing and good internal communications systems, which again feeds back into the importance of keeping franchisees aware and included in new developments, and enabling them to feed back concerns.

Finally, a good commercial franchise is one that does not try to grow too fast and therefore outgrow its own capacity; rather, it paces its growth as commensurate with the management capacity of the franchisor and central team, ensuring that franchisees receive the right support.

# COMPARING SOCIAL AND COMMERCIAL

## Choosing the right franchisee

Both case studies cite 'people' as absolutely critical in ensuring the success of a franchise. Up to a point, the right person will make even a mediocre idea work, whereas the wrong person will almost certainly lead to its downfall. For example The Body Shop franchisees were selected in an ad-hoc way in the early days but the process became more standardised as the company matured, increasing the quality and fit of franchisees<sup>85</sup>.

Between the two case studies explored in this paper, there are notable differences. Most obviously, the Trussell Trust is providing a primarily Christian response to important social needs, whereas the restaurant is responding to a commercial desire. Moreover, the Trussell Trust's Foodbanks need to be truly rooted in the community because of the amount of voluntary support that they require, meaning that local organisations such as churches are the preferred franchisees. McDonald's also needs to be rooted in the community, but really only to the extent that this boosts the brand. It is clear that, while in some cases the restaurant's franchisees will go beyond the call of duty in their community work, profit often comes first.

The Trussell Trust has made the decision to take more of a calculated risk with trusting franchisees than the commercial franchisor, which means that they can let franchisees join without as stringent a recruitment process. Conversely, McDonald's requires much longer-term commitment, which is less likely to be possible in the social sector. Nonetheless, it is important to make social franchisees aware that they need to be committed for the long term also, and to think about succession planning.

Both the Trussell Trust and the commercial franchisor are in a fortunate position in that they do not have a shortage of willing franchisees. The reasons for this are different. In the case of the Trussell Trust, it is because they are taking advantage of a strong existing network that already has a common set of values and desire to help their community. In the case of McDonald's, it is because they are a very strong brand with a proven business model, meaning that becoming a successful franchisee virtually guarantees that you will make significant earnings over the years. This is not the case for smaller commercial franchises, where it can cost as much as £25,000 to recruit new franchisees.

## Support and skills development for franchisees

As 'people' was found to be one of the most critical factors across both studies, great weight is put on the support and skills development of those people across both the commercial and social franchising sectors. It was inspiring to see how motivated the Trussell Trust franchisees were to learn more about their local communities' needs, now that they had a way of engaging with them. McDonald's is also focused on people development, the main difference being that they have resources beyond the wildest dreams of most social franchises to spend on developing their people. Their 2010/11 prospectus starts with a diagram showing the 10 steps to becoming a one of their 'consultants', or franchisees, from work experience to success, with each step carefully mapped out with the requisite qualifications.

Another potential difference is in franchisees' perceptions of the support they receive from the central business. While, in the Foodbanks' case, all the franchisees were generally highly complimentary of the support that Trussell Trust gave them, there has been evidence of tension between McDonald's as the central franchisor and their franchisees. This, as well as evidence from other commercial franchises that have faced lawsuits from their franchisees (such as Subway, as previously discussed), suggests that franchisor-franchisee relationships may be more fraught in the commercial sector. However, it is important here not to generalise, and to remember that models such as the Trussell Trust's and other social franchises such as CASA are smaller in scale and simpler than running a major operation such as McDonald's outlets.

As one of the main distinguishing points between a 'good' and 'bad' franchisor in both the social and commercial sectors is the support that they give to their franchisees, it is worth reiterating the lack of legislative procedures for franchises in the UK. The BFA was set up partly because a number of unscrupulous franchises were putting all their money into marketing the franchise rather than supporting franchisees. This meant that people were wooed into signing up for expensive franchisee agreements only to find that the business model did not work, and a lot of life savings were lost. As well as the piece of mind that the BFA brings, they have a helpful '50 questions to ask a franchise' section on their website,<sup>86</sup> which should weed out any unscrupulous operators.



Aside from the relational elements, the training processes themselves differ across the social and commercial franchisors profiled in the two case studies. Whereas the latter has a rigorous one-year training programme before a franchise is granted, the Trussell Trust takes a more on-the-job approach to learning. Foodbank franchisees are trusted to know and report when they are struggling with certain parts of the operation, and then to choose from a menu of training that the franchisor offers. This puts even greater emphasis on the need for social franchisors who adopt this approach to choose the right people who are open and willing to learn.

Another challenge that McDonald's has faced, more recently, has been in creating the powerful feedback network that is currently in place – the journey towards this was not easy. As one senior member of staff at their UK head office commented, one of their biggest challenges has been 'learning to operate in a networked way rather than top down. This was a big culture change. He also emphasised that, today, they "never do anything without the franchisees' buy in."<sup>87</sup> In contrast, social franchises such as the Trussell Trust and Le MAT, for example, grew from a grassroots imperative for positive action to be taken within the community, necessitating a more collaborative and less hierarchical approach to working with franchisees from the start. As Le MAT best practice states:

*It's a bottom up process where LE MAT social entrepreneurs discover and share interesting and innovative practices in inclusive tourism, hospitality and sustainable local development, identifying needs, demand, processes and quality standards... LE MAT extracts the most significant quality elements and it tries to replicate those that LE MAT and its members agree upon.*<sup>88</sup>

However, evidence from other, smaller commercial franchises, such as business format ones, indicates that scale rather than principles (i.e., whether values are social or commercial) determines this and can equally drive a commercial franchise to have a relatively flat governance structure.

This, in turn, leads to the question of the network – how the body of franchisees interrelate with one another and the central business, both in terms of governance and business development. The following section draws out these comparisons.

### The network

I was surprised by the power and importance placed on the network in both case studies. With the commercial franchisor, restaurant owners often become 'consultants' to other franchisees, sharing knowledge and best practice. In contrast, Foodbank franchisees tended mainly to look to the central business for support, which does not have this peer mentoring embedded in their franchising policy, although it is available on an informal basis.

The network also plays a key role in fostering innovation, although there is the sense across both case studies that this diminishes in importance over time. For example, innovation across the network was important to the restaurant when they were a new franchise, but has since become less relevant. For the Trussell Trust, the ideas coming from the network are still highly valued but it is likely that their usefulness will follow a similar arc to that of the restaurant and become less useful as the franchise develops.

However, given that the social sector is never likely to be able to employ a research and development facility as substantial as the commercial franchisor's here, the franchisees could be relied upon to fulfil some of this discovery of new ideas even when Trussell Trust reaches maturity.

A note of caution could also be raised here, remembering the experiences drawn from other commercial franchises that there is a danger of franchisees or 'the network' as a whole outgrowing the original franchisor, and so seeming a threat, with the result that they are then bought out.

Alongside mentoring and innovation, the network also plays a vital but under-researched role in enforcing quality in the absence of profit, in the Trussell Trust as well as other social franchises.

For example, KOMOSIE does not require legal contracts for its 100+ De Kringwinkel shops, which operate under this same brand but are independently owned. In place of contracts is a sophisticated system of peer monitoring and quality control which enables KOMOSIE to harness the power of peer pressure to ensure that franchisees do not let the quality of their shop deteriorate and damage the brand. In their 17 years of operations,<sup>88</sup> they have never had to ask a franchisee to leave. This strong connectedness between members has also meant that they are easily able to share learning and strengthen their individual models based on each other's experiences; share and reduce costs; and build a bigger and more credible brand name.

In addition, in contrast to McDonald's, KOMOSIE and other social franchisors such as Trussell Trust and CASA did not set out on the social franchising route with a view to then either buying the franchises back up or selling them on for profit, precisely because profit is a means to an end rather than the end itself for these social franchisors. In this way, then, the social network franchise and the loyalty and buy-in of its franchisees stay strong.

It is clear that the network is a key and complex element of any franchise. Further research is needed in this area to understand fully the potential of harnessing the network in the social franchise.

### The money

Both commercial and social franchisors need to claim fees from franchisees in order to finance the central support systems and, in the case of commercial franchisors and some social franchisors, create a net profit. The difference then is where this profit goes, as social franchises typically use this to expand their operations with the ultimate aim of furthering their social mission, whereas commercial franchisors are likely to use this to raise their brand awareness in order to fuel revenues and further growth.

When comparing the Trussell Trust with McDonald's the restaurant franchise, what became clear is that the social franchise found it more difficult to obtain franchise fees, given the looser framework in place and an understanding that Foodbank franchisees are ultimately working for the good of the community. However, as noted, franchisees are still obliged to pay these fees and not to assume they are exempt because of their charity status; this is one area where the social franchising sector can learn from the commercial, the latter certainly proving much more litigious where these financial relationships are concerned.

Significantly, the founder of McDonald's in his book highlights the fact that if franchisees are making money, essentially all problems can be resolved – the real problems come if they stop making money, such as among the restaurant's franchisees who were approaching the end of their twenty-year licenses and were concerned that these would not be renewed. This has real relevance for the social sector because it is the money, or lack of it, that is most likely to cause discomfort between franchisee and franchisor.

### Key Success factors

- **Choosing the right franchisee:** this is the first key element, for which a strong marketing strategy is essential. While the Trussell Trust undertakes this on a word of mouth basis (mainly because of cost, i.e., keeping this low), and social enterprises typically need to actively recruit for franchisees, McDonald's is in a unique position because people come to them very keen to become franchisees. Aside from this unique case, commercial franchises usually have relatively large marketing budgets and are able to recruit franchisees via advertisements and at events such as franchise shows.
- **Developing people:** investing time and resources into consistent professional development of the people running the franchises.
- **An effective, interactive and dynamic feedback network:** innovation across the franchise network, i.e., emerging from franchisees themselves and through collaborative working with the franchisor, is a major driving force of success, particularly at the earlier stages of both social and commercial franchises.
- **A well-tested and sustainable financial model:** If the finances work in any franchise, be it social or commercial, this removes a great deal of stress from the franchisor/franchisee relationship. Whatever the general model, it is critical that the financial model is clearly understood and stress-tested. Social franchises are generally less expensive to set up, especially at the charitable end of the spectrum; however there are some that cost similar amounts to establish as the commercial restaurant franchise, such as a CASA health care partner.

- **Alertness and responsiveness to the external environment:** The ability to adapt to changing market as well as wider economic and socio-cultural trends is another marker of a successful franchise, be it commercial or social. This can range from the detailed, such as The Body Shop changing to flip top bottles in the USA while still producing screw-tops for the UK, to the 'macro', such as Le MAT coming to the understanding that replicating one set hotel standard across Italy, for example, would not yield the desired social outcomes; rather, a sensitivity to localities and rural-urban variations is what is needed, and has now been embedded in their replication policies.<sup>90</sup> Undertaking this process of adaptation on an international basis does, however, require careful thought.
- **Standardisation that allows room for contextual sensitivity:** Another success factor across both commercial and social franchises is being able to standardise the basic business model and operational details, but without stifling variation where this is necessary, e.g., in cross-cultural or diverse geographical contexts. The strongest franchises are those that manage to walk this fine line and instil a rigorous understanding of the process and its flexibilities in franchisees.

- **A clear yet unique model:** a successful franchise idea is usually a simple one that anyone can grasp, but without being too simple so as to allow wholly independent replication. For example, with McDonald's, the idea is tasty food efficiently delivered, which, when it first arrived in the UK, was seen as a highly novel and desirable concept. Similarly, the Trussell Trust has a simple idea at heart with Foodbanks – helping people in need by using available community resources. Within this overall need for simplicity, 'complicated' tasks that can be broken down into steps tend to be the most replicable, whereas complex tasks that can be interpreted and resolved differently each time require more training, and tend not to be as helpful.
- **Community engagement:** this was cited by both of the case study organisations as important, although it can be seen as much more so to the Trussell Trust, given that their model depends on engaging the community rather than this being the value added element that it is with McDonald's. The argument could here be made that the restaurant could in fact benefit from more community engagement and this rootedness in the local.
- **Maintaining brand reputation:** credibility with customers is something that franchises in both sectors need to maintain for their brand to remain strong. This relates both to the basic issue of trust, that the products and services will be delivered to a given standard, and also to wider notions of what the brand stands for and the integrity of the organisation as a whole. For example, for a charitable franchise like Foodbanks, their successful brand built on community buy-in and trust has given them the power in numbers that they needed to successfully campaign on issues of food poverty, as well as giving funders the confidence to fund them, even without a long track record.

### Key challenges

The discussions throughout this research indicate that key challenges are an area where there is the most difference between commercial and social franchises. This is because the major challenge for the commercial tends to be raising brand awareness and competing in already established markets. For social enterprises, on the other hand, there is usually a substantial market for the need to be met and so the need-based brand is easier to convey; here, the real challenge is about finding a business model that works and protecting the quality of what is delivered.

The following are other challenges that the two case studies highlighted:

- **Maintaining and protecting quality standards:** this is critical to both the social and commercial franchisor, and is where effective internal communications and monitoring systems feature. Both case studies have found a way to maintain good quality, but only if the people are right – the challenge here, then, is ensuring that the right franchisees are selected from the start, who will truly buy into the values of the organisations and adhere to its operating mechanisms.

- **Capacity to manage the franchise network:** potential tensions may arise over the level of support provided (or perceived as not being provided) by franchisors to franchisees. The challenge here, especially for the franchisor, is to achieve the right balance between managing the franchise and supporting franchisees, and simultaneously progressing with their own workload as the business owner.
- **Finding finance:** this can be a challenge for both social and commercial franchises. In this sense, social franchises can be seen to have a more complex field to navigate than commercial franchisors, as the latter typically require franchisees to raise their own capital. In contrast, social enterprises recognise the difficulties inherent in obtaining funding for a social franchise, which is still an unfamiliar field to investors and other funding sources (such as grant-giving organisations and public sector commissioning bodies). In addition, social franchises themselves may not need to raise the same level of start-up capital as a commercial franchise. To that end, the challenge lies in the social franchisor supporting the franchisee to source funding, either by helping them write grant bids, or by funding them initially from the central social enterprise itself. However, this is not always a sustainable strategy going forward, and social franchises need to ensure that franchisees can support themselves independently.

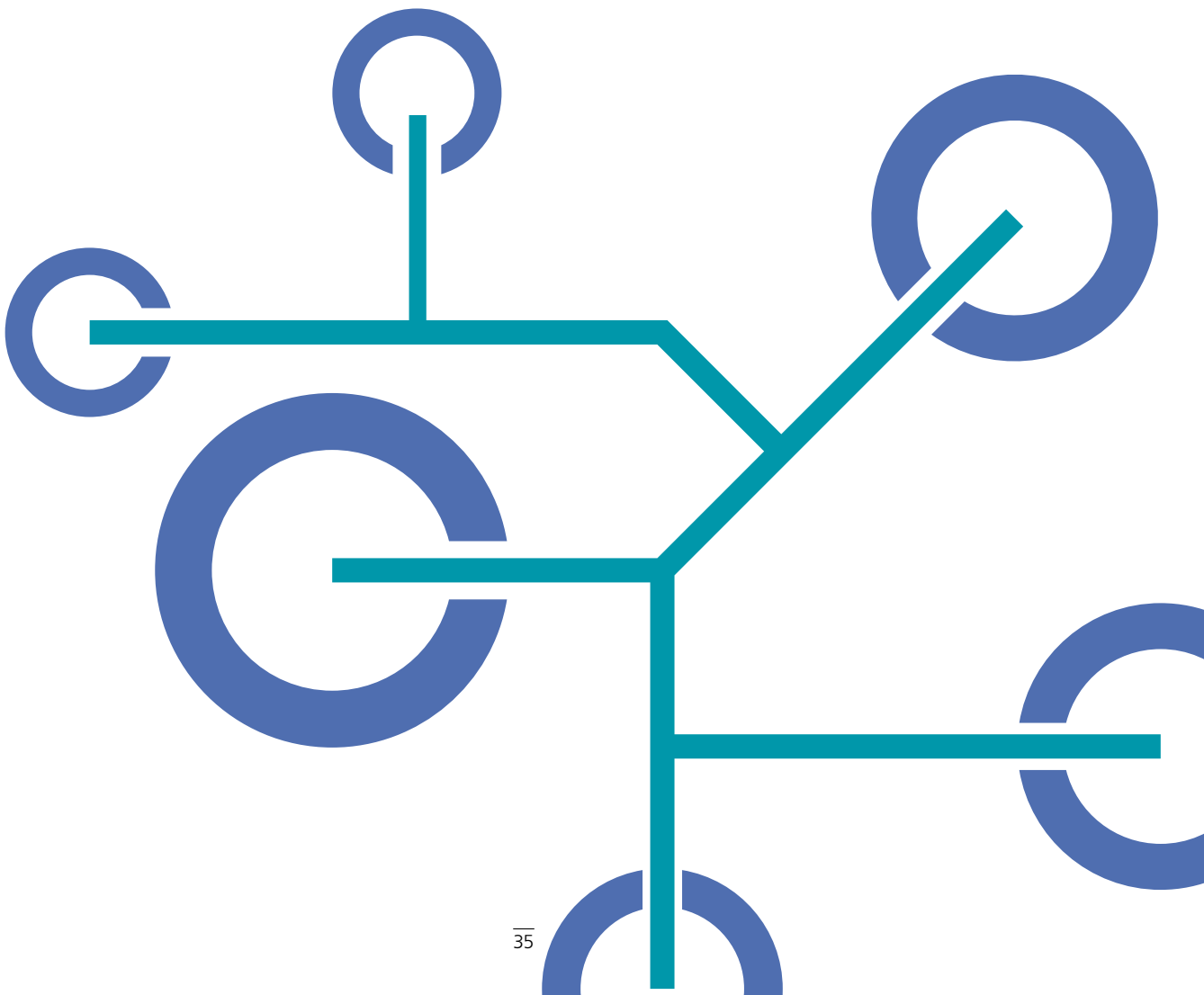
- **Physical Infrastructure:** having a space in which to run the business has proven a challenge for some social franchises, as this can be an expensive and rare commodity for a community venture to run. This is arguably less the case for commercial franchises, where the issue is resolved by having franchisees secure this or, as with McDonald's, the central business over time having acquired many assets including real estate, which franchisees can then buy or lease from them.
- **Recognising true need:** for social franchises, a key challenge lies in recognising who is truly in need of their services within the community and how best to respond to this need, while also maximising available resources and ensuring that what is delivered goes to those who truly need it.

### The future of the franchise

While growth and expansion of services both in scope and geographically is in the future plan for both the social and commercial franchises looked at, there are other elements that are distinct to each.

With the social franchises, particularly the Trussell Trust, the aim is to increase community engagement and involve a variety of stakeholders in shaping and driving the franchise itself. Given its successful community engagement to date, the Trussell Trust also aims to develop potential peripheral services that can create additional revenue streams and further support the core aims of the franchises themselves. This case study, alongside other examples of social franchises such as KOMOSIE, demonstrates the way in which the social sector can harness the power of the local network and existing reputation within the community to increase the sustainability of their franchises and allow for rapid replication.

In comparison, commercial franchises such as McDonald's hope for similar significant developments but at a global rather than local scale, the approach here being to emphasise the 'local' through having more franchises, but without wider community collaboration. To achieve this global growth, future plans necessitate additional support for franchisees internally, rather than the emphasis on external community engagement, which social franchises have. This is not to say, however, that social franchises themselves do not plan to boost their support capacity for franchisees – going forward, this is recognised as a key challenge that needs to be met.





# LESSONS FOR THE SOCIAL SECTOR

The comparisons drawn out from this research lend themselves to key lessons that social franchises can take from commercial franchise practices and attitudes, as well as from other social franchises. These are:

## Design for scale

One of the greatest problems that I saw when looking at replicated social organisations is that the original organisation had not been designed with scale in mind. This means that often the passing on of systems and processes was done in an *ad hoc* way, or those systems were incomplete. This was compounded by trying to replicate inherently non-replicable elements, such as the charismatic fundraiser who attracts grant funding, or the hard worker who is happy to work 80 hours per week for little financial reward. Because of this, during my research I continually came across organisations that have replicated a few times, usually no more than three, and have come to the conclusion that it is a nightmare and impossible. The problem is that those organisations are either not suitable for replication or, more likely, have not been properly designed to scale.

When setting up a new organisation, cost and capacity are front-loaded i.e., more needed at the start up phase. One of the benefits of becoming a franchisee is that much of the front-loading has already been taken care of by the franchisor so that they can get up and running more quickly and with less cost than starting from scratch. The benefits of front-loading have been noted by other sectors.<sup>91</sup> The problem for the franchisor is that designing a franchise model and network is even more heavily front-loaded than just starting a conventional business, because of the time and money needed to think about the replicable system.

While it is tempting to take shortcuts in designing for scale – and, of course, things will never be perfect from the start – it is absolutely critical that replicability is kept at the forefront of the business model as systems and processes are developed. It is hoped that social sector leaders who embark upon the franchising process will seek advice and make sure that they have the proper organisational capacity to deliver on their vision right from the start.

Social organisations reading this will probably by now be thinking how it could be possible for them to adopt these expensive practises in such a resource constrained environment. The lesson from the Trussell Trust is that the main additional resource needed is a bright, highly motivated, hardworking person to design and implement the franchise system. Some external advice may be needed along the way but, with the right additional people power inside the organisation, this is possible to achieve on a relatively tight budget.

## Choose your franchisee carefully

Given the financial constraints that social franchises may experience, particularly on starting up the franchise model, existing resources should be used wherever possible. This is particularly true of the crucial initial stage of finding the right franchisees. Using existing networks for this is both an economic and effective strategy for what could otherwise be a costly endeavour, and means that both franchisors and potential franchisees are already dealing with the familiar. These networks could include churches, as in the case of the Trussell Trust, but also community groups, charities, and other stakeholders such as local authority partners and the private sector.

In addition, existing networks can be a good source for generating free publicity, such as editorials in community or regional papers, and local television and radio coverage. These are also good ways to attract attention to new ventures emerging from an existing brand that people are familiar with and understand, and so recruit new franchisees.

In the commercial sector, new franchisors tend to recruit one in every ten applications. Once a good franchisor has reached maturity they are more likely to recruit only one in every one hundred applicants.<sup>92</sup> Social franchises are unlikely to spend anything near the amount the commercial sector would on recruitment; there is, therefore, an incentive to be initially less selective. While this is attractive in the short-term, it runs the real risk of engaging the wrong person to run the franchise, which can have potentially damaging effects in the longer term, such as compromising the reputation of the brand and, ultimately, the social impact achieved.

To this end, it is important that social franchises apply a process of selection to potential franchisees, which does not need to be cost-intensive. Again, this could involve using existing networks and ‘informal referees’ to find out information about a particular individual or organisation applying. Another tactic would be to engage a voluntary ‘recruitment board’ from among the local community where the franchise will be active, to assist the franchisor with this process.

## Develop your people

As highlighted throughout this research, supporting franchisees with skills training and professional development is a key element of a successful franchise, be it social or commercial, and is recognised by both sectors. In particular, good commercial franchisors have concrete development plans which they require all franchisees to adhere to right from the beginning, reviewing this at regular intervals as the franchise progresses. In the case of McDonald’s, this is called ‘our learning path’, and builds in room for franchisees themselves to feed back on their progress and highlight areas for improvement with which central support services can help. This may be a useful blueprint for social franchises, to be adapted to the nature of the enterprise and the franchisees engaged (i.e., whether these are individuals, organisations, or both).

## Test, test and test again

A key lesson is the need for a clear, replicable business model that is as tried and tested as possible before a franchise is attempted. Aside from having a comprehensive operations manual that contains all the relevant information that franchisees need, more broadly this includes understanding the market for the goods and services being offered; specific market ‘segments’ that are being targeted; and, crucially, how replicable the model is in those different markets within different cultural and geographical contexts. This means that both franchisor and franchisees would benefit from taking a reflexive approach as the franchise progresses, being responsive to new needs that emerge and/or to those that are not being met.

In particular, the financial element in running a franchise is crucial to test, i.e., how the franchises will be made sustainable, and how they will be continuously evaluated as the franchise progresses. This is particularly significant in light of Trussell Trust franchisees’ feedback that they would appreciate more support in fundraising from the centre. This highlights a tension that cannot be taken lightly and can lead to the breakdown of an entire system, such as in the case of Aspire.

Aspire is a social enterprise that was established as a fair trade catalogue company in Bristol in 1998 to employ homeless people. In 2000, they embarked on an ambitious programme to open 30 outlets across the UK by 2003, and by 2001 had set up eight franchises. However, by 2002 it became clear that the catalogue business was failing – two of the franchises had closed because the franchisees considered the model to be unworkable, while all of the remaining franchisees were losing money. Alongside this, there were also internal management issues that meant the franchisees were not receiving adequate support. Ultimately, the Aspire Group was unable to hold this structure together or pay its creditors, and was wound up in 2004.

Aspire was subsequently reborn and, from 2008, continued to work with disadvantaged people as the Aspire Foundation, which manages six social enterprises as a ‘loose federation with a shared brand, rather than a franchise relationship.’<sup>93</sup> Even though the original idea was able to survive in this way, Aspire’s journey reiterates the caution of growing too fast that was previously evident from the commercial sector, especially if this growth is predicated on a business model that has not been properly tested. It also emphasises the need to test and evolve a management model that works best for both franchisees and franchisor, being responsive to new challenges that emerge.

## Continuous learning and feedback

It became clear through this research that the better franchisors are listening to and learning from their franchisees. Franchisees’ needs change and evolve over time as the context that they operate in changes. It is, therefore, critical that the franchisor does not become detached and irrelevant to the franchisee; otherwise, the whole system may break down. For example, Aflatoun,<sup>94</sup> an Amsterdam based social franchise that develops resources to help children learn about finances, places enormous emphasis on feedback from franchisees. Each year they do a survey of all their franchisees that is benchmarked against eight other network organisations. They also seek to hire people from the franchisee network so that the centre is constantly refreshed with people who really understand what is happening on the ground.<sup>95</sup>

## Be three steps ahead of your franchisees to maintain credibility

Franchisees coming to the business ‘fresh’ will not have the same insights into the business, and potential hurdles that may come up, as the franchisor would, having run the original business beforehand, sometimes for many years. With that in mind, it is important that social franchisors construct a ‘meta plan’ for their franchises that goes beyond the operations manual alone, to include foreseeable risks, opportunities and projections for the future, so that potential problems in the franchise network can be dealt with before they occur, or in good time to resolve them.



This is an important and complex undertaking that would benefit from the advice and guidance of people who have good prior experience of franchising, or from infrastructure support organisations. As one study of voluntary sector replications suggests: ‘intermediary and support agencies and associations play a crucial, if sometimes intangible, role in encouraging high quality replications. [They] provide knowledge and advice as well as credibility, championing, and a focal point for access to information.’<sup>96</sup>

In planning ahead, therefore, social franchisors should not feel they are alone, but should use all the resources available to them.

Maintaining the credibility of the social franchise is also key. Franchisors should trust both their instincts and their prior business experience to know when something does not seem right, and to act upon that accordingly as soon as possible. While this may involve some difficult decisions, such as taking legal action against a franchisee, it is important that elements which may damage the reputation or the quality of the organisation are dealt with early. This also involves not embarking on new ideas, or indeed new franchises, if these do not fit with the careful planning and progress instigated to date. This recalls the cautionary note from trends among commercial franchises – that growing too quickly can ultimately make the franchise chain a victim of its own success and undermine the credibility of the franchisor themselves.

### Use your networks to maintain quality

As previously discussed, quality maintenance can be a resource-intensive process that some social franchises may not be able to facilitate. However, they can still undertake this effectively by learning from organisations such as KOMOSIE and harnessing the power of their franchise network to create a self-policing mechanism. Specifically, this can involve the use of peer pressure in place of a financial imperative, where the different franchisees regularly meet, compare performance and feed back to each other about areas for improvement.

While this may work better for larger social franchises that have many people involved and therefore a greater incentive in the ‘quality competition’ stakes, the strategy of keeping everyone talking and motivated, and giving them the forum to do this, can work for smaller social franchises too. Forums for enabling this can include larger workshops that bring all franchisees together regularly; an interactive online forum where franchisees can share learning and report good (and bad) practice as they go; and a peer mentoring scheme, where different franchisees ‘buddy up’ to regularly meet, learn from and support each other.

### Create ‘freedom in a framework’

Of all the organisations studied, there was agreement that, at the very least, the core offering had to be defined and systematised. The challenge in a franchising network is balancing the systemisation of processes while giving franchisees enough freedom to achieve real social aims. Social organisations are advised to put real thought into where the line between freedom and framework is drawn, in order to create a business model that achieves maximum scale.

Too much framework means that franchisees may become demotivated and leave the franchise network; too much freedom, and it becomes difficult to maintain a consistent level of quality.

Jonathan Jenkins, now chief executive of the Social Investment Business and formerly a commercial franchisor, says that in his experience, “it’s easy to run up to 15 franchises.<sup>97</sup>” After that, if you do not have the right systems in place, the network crumbles.

### Plan for sustainability

A common feature of social franchises, especially smaller grassroots or charity-based ones, is that they may struggle to maintain the income level needed to run and support the franchise network centrally. For example, respondents from the Trussell Trust indicated that they are not yet at the point where their franchisees are paying the full fees, which is impacting upon their sustainability for the future.

The lesson to be learned here, particularly for social enterprises aiming to move away from a model of grant dependency, is that social franchisors need to charge enough for the model they are giving their franchisees and to ensure those fees are met, or otherwise, as one study recommends, ‘alternatives to monetary compensation’ should be found.<sup>98</sup> While there can be a greater degree of flexibility than with commercial franchises that, for example, may have investors expecting returns, it still needs to be recognised that for the social franchise to work and for their social mission to be carried out, financial sustainability is key and should not be compromised in the longer term.

### Understand and adapt to markets

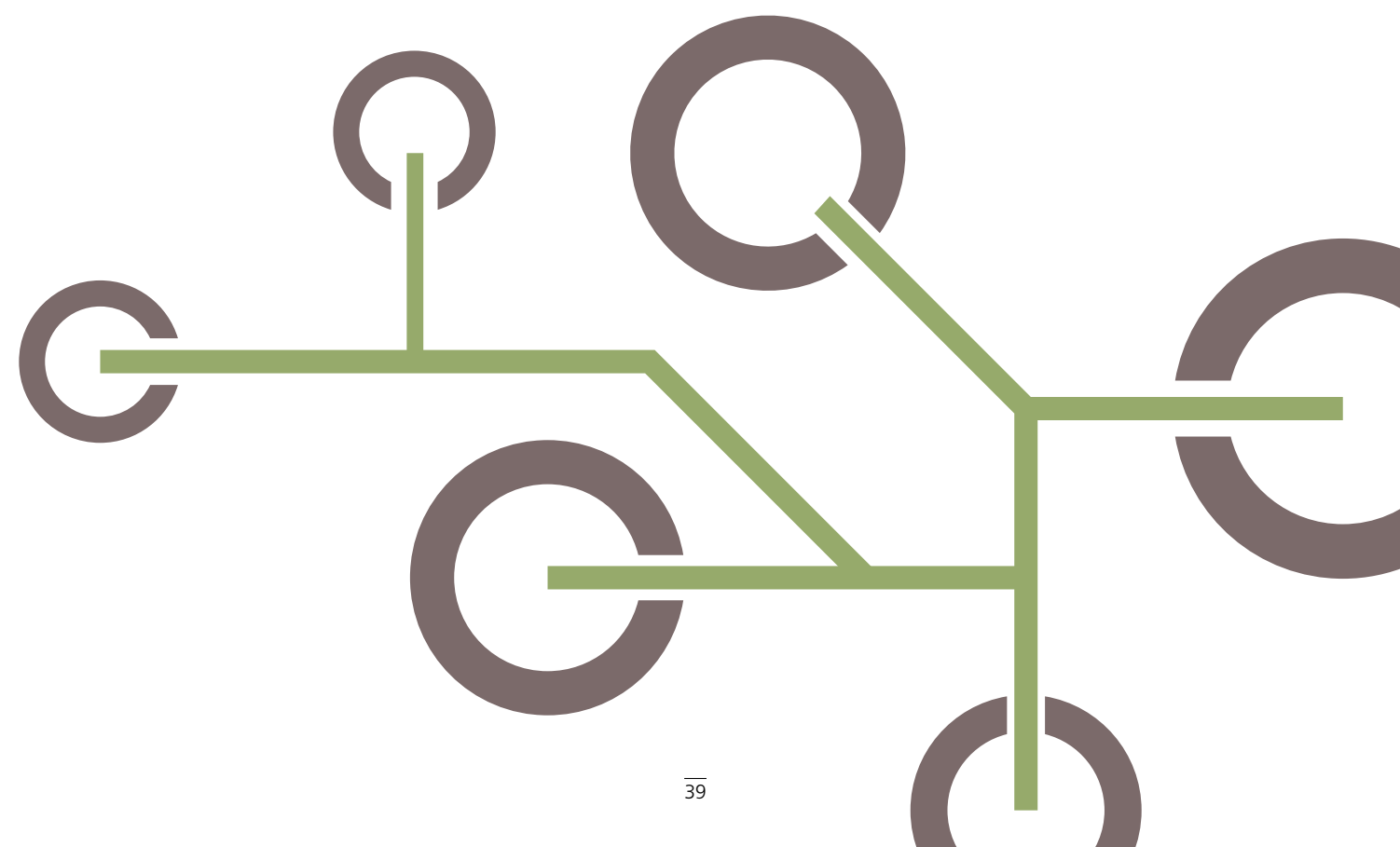
Social franchisors need to promote the availability and quality of their goods and services to their target market in the same way as a commercial franchise would. However, for social franchisors, there are two ‘meta’ markets – the people they are serving, i.e., their beneficiaries, who may be receiving free goods or services (such as Foodbank’s vulnerable clientele), and people who are buying from them. The latter may include consumers, such as tourists staying in a Le MAT hotel, or shoppers buying reused furniture from KOMOSIE outlets, who need to be marketed to adequately; however, it may well also include local authorities contracting social franchises to deliver a service (such as health and social care, as with CASA), and grant funders.

If the demand side of the equation is a statutory body or a grant funder, then the social franchise is effectively selling the concept, which these ‘buyers’ then fund. In these cases, it is particularly important that the concept has been tried, tested and well packaged, to instil confidence that it is worth buying into. Marketing in these cases would include recommendations from previous contracts or funders, a strong reputation in the local community and, crucially, ‘personal selling’ in the form of relationship building with local commissioners and funders, where it is as much the persona of the franchisee as the services they are offering that comes under scrutiny. Social franchises must know their markets and adapt to them to ensure that their product or services stay relevant.

### Build your brand

Whether your organisation is a registered charity or a social enterprise, its brand is the glue that holds the social franchise network together. ‘Brand’ is what people say about your organisation when you are not in the room. The franchisee/franchisor relationship, like any relationship, will have times when it is put under strain. It is vital that what people say about the brand remains positive so that there is good reason for franchisees to be part of the network.

To build a brand proposition that franchisees can be proud to be a part of, it is critical to articulate it clearly. For example, Le MAT says that it owes much of its success to its simple but clear strapline which encapsulates their brand: ‘Special people, special places, special values’.



## LESSONS FOR THE COMMERCIAL SECTOR

While this research has focused on drawing out lessons in franchising for the social sector, certain key points have emerged which may be useful for the commercial sector also. Namely, the fact that making social outcomes part of your business develops closer relations with your community and will ultimately drive profits. McDonald's certainly employed these tactics, such as facilitating community football leagues and supporting charitable causes.

Thus a good business case could be drawn up for engaging with the community. However, it is important here to note that this needs to be a genuine effort and not solely for PR purposes. For example, Timpsons stores in the UK have a policy of employing ex-offenders to undertake some of their service delivery, offering tangible and long-term potential benefits to this marginalised group. In this sense, commercial businesses that seek to build in social outcomes need to involve members of the community with their operations, or actually have an embedded presence within the community themselves.

There is evidence to suggest that around 10% of commercial franchisors in the UK have the potential to inject certain social enterprise elements into their operations by, for example, licensing a 'socialised' version of their franchise.<sup>99</sup> To support this, commercial businesses can learn from the social sector as to how to engage with grants and other sources of funding for these initial investments.

It is true to say that, currently, commercial businesses may have greater potential to make a social impact than social enterprises and their franchises simply because of the their greater reach and longer-standing tradition. Further research is needed on how these large businesses can work effectively with both local communities and their target markets to that effect.

## TOWARDS A NEW DEFINITION OF SOCIAL FRANCHISING

This research has highlighted the complexity of franchising across both the commercial and social sectors. However, one key element that stands out in making any franchise work is breaking down this complexity into manageable elements which, in their own right, can be easily 'digested' and made to work for the business as a whole, while not unduly simplifying it.

This section breaks down these key components and suggests a new approach to conceptualising social franchising.

## KEY REPLICABLE ELEMENTS

The following are key elements of any business that could be replicated through a franchise, as explored throughout this research:

- Vision
- Idea
- Knowledge
- Process
- Brand
- Networks
- Training
- Health and safety
- Business plans
- Monitoring and evaluation systems
- IT systems and websites

Considering these elements and building on the definition at the start of the paper, that a social franchise is 'a social organisation that replicates success to scale', I will now define what I will call the 'OPEN elements' of social franchising.

- **O**wnership – an empowered 'franchisee' who feels ownership over their organisation and is highly motivated for it to succeed
- **P**rocess – systematised processes so that the wheel does not have to be reinvented, but with enough freedom to adapt to the local context
- **E**nhanced network – a network of knowledge, data and innovation sharing between franchisees and the franchise
- **N**ame and Brand – a recognised brand proposition that commands respect and notice from key stakeholders for sales or campaigning purposes.

As a franchisee, when you open up your 'business in a box', these are the four key elements that can be used and learnt from. Social franchising as a business model should be an open door to all sectors to find new ways to replicate and grow. Social organisations can use all of these elements and be a full social franchise, or pick and choose which OPEN elements are most useful to them. It is possible that the social organisation that picks and chooses will not be a full social franchise. In my opinion, if the OPEN elements framework proves helpful to an organisation in reaching the right model to unlock the key to scale, definition becomes almost irrelevant.

Currently social franchising is a 'new and expanding area and [its] terminology will continue to be used in different ways before a common understanding develops over time.'<sup>100</sup> It is hoped that by defining OPEN elements, social organisations that replicate will be able to pick and choose the most relevant components of social franchising for them to encourage replication.

### Four dimensions of social franchising

As Michael Norton and I explored an increasing number of social franchises, it became clear that although each organisation faced a unique set of challenges, they had to make similar decisions about certain elements of their operations. We have called these elements the 'four dimensions of social franchising', and they are most usefully posed as questions to consider when designing for replication. Each dimension is a scale with a number of permutations and no 'right' answer. Answers to these questions will need to be found for each organisation's context, and analysis carried out of the barriers to replication that need to be overcome.

It is also worth noting that it is possible to use two or more approaches at the same time, as in the case of the fast food restaurant which has 35% wholly owned units and the rest franchisee-owned.

- 1) Charitable to commercial: Will the business model be most replicable if based on a grant-funded approach, enterprise approach or a mixed model?
- 2) Individual to group: Will the business model be most replicable if each franchisee is an individual or a group?
- 3) Funds inwards to outwards: Will the business model be most replicable and sustainable if the franchisor provided funds to start up or sustain the franchisees from the centre, or will each franchisee be able to support the centre with fees?
- 4) Flexible to control: Will the business model be most replicable and quality be maintained most effectively through tightly systematised processes or by allowing more freedom?

It is likely that other important dimensions for consideration are added to this list as research into social franchising deepens. Certainly, more research into real examples that fall across the four dimensions would be helpful to practitioners. I have also developed 10 questions to ask when assessing the replicability of a business model, which can be found at Appendix A and can effectively be used in conjunction with these four dimensions.



## CONCLUSION AND NEXT STEPS

In exploring what social franchising can learn from the long history of commercial franchising, there are key differences that cannot be ignored, particularly around the complexities of operating with fewer resources. This research has also uncovered a number of helpful comparisons and, even if these are not conclusive, the study of the commercial sector is valuable in the development of the social one.

Although I have chosen to look at examples of success, understanding failure and how we learn from it is critical to a deeper understanding of how to create long lasting social change. Why do projects fail when, by now, surely the sum of human knowledge should allow us to implement the most world-changing of ideas?

In a study of the medical profession where failure is a preoccupation because it ends lives, just two reasons were found as to why we fail.<sup>101</sup> The first is ignorance – ignorance of how the world works because the knowledge does not exist. This could be anything from an incomplete understanding of how the weather affects people's moods to how buildings react under earthquake conditions. The second is ineptitude. Ineptitude is where the knowledge exists but we fail to apply it correctly. Having seen so many examples of social organisations working, it appears that we should now have all the tools to go into a community and solve many of its problems, or at least the most superficial ones, with the resources that we have.

Ineptitude is an unmerciful name to give failure, and one that I would be extremely reluctant to apply. As Atul Gawande writes in his enlightening book, *The Checklist Manifesto*, 'maybe a more useful word would be "eptitude", making sure that we apply the knowledge that we have consistently and correctly.'<sup>102</sup>

Of course, many social change projects are complex and cannot be boiled down in their entirety into an operating manual and a set of processes. However, throughout this research, I have seen that many of the simplest ones can. Even for the more complex projects, certain processes and procedures can be systematised, increasing the chance of successful replication.

If I were to reduce social franchising into one key element, it is creating systems and processes that can be replicated. This would of course not be possible without myriad other considerations, some of which have been explored in this paper. But if there is one thing that the social sector can learn from the commercial practice of franchising, it is that even if individual organisations do not buy into the full concept, understanding your processes and documenting them so that they can be replicated will ultimately save you time, money, and increase your impact.

The following section covers some of the main thoughts and findings from the research.

## SIMILARITIES AND DIFFERENCES WE CAN LEARN FROM

It is evident that certain features and attitudes are necessary to make both social and commercial franchises work. These are: a clear and replicable business idea; a comprehensive operations manual, which has good systems in place while simultaneously allowing for contextual flexibilities; franchisees with the right skills set, values and commitment; and the ability of the franchisor to balance the running of the central business with ongoing support to franchisees.

There also exist other similarities that are present to a greater or lesser degree in each. For example, commercial franchises are better at establishing sustainable and profitable financial practices, something which social franchises understand and have in place, but could, in some cases, enforce more rigorously, particularly those seeking to move away from a model that is dependent on grant funding. Conversely, community engagement is a strong facet of social franchising, but it is also present in commercial businesses – indeed, there is much scope to expand on this in the latter as part of both a good business case and wider societal contribution. In this sense, social franchising should not see itself as a sector per se but, rather, an open door for all sectors to learn from.

The fact that these parallels do exist indicates that there is much that both social and commercial franchises can share in terms of good practice and innovation. However, certain differences, and lessons that can be learned from those, also emerged from this research.

Firstly, while for both commercial and social enterprises franchising is an expansion strategy that can foster greater brand awareness and increased profit, the wider motivation behind this and the ultimate beneficiary or 'customer' differs. For social franchisors, the mission rather than profit-making is key (although many social franchisors recognise that the latter can ultimately boost their social mission). With mission as the driving factor, therefore, commercial franchising systems can, at most, serve as a guide rather than an easily applied formula.<sup>103</sup>

The strength of the franchising model for the social sector lies chiefly in the fact that it is a good way of growing a socially and/or environmentally beneficial idea in a context where resources are scarce, because it harnesses the power of the franchisee, attracts and enables buy-in from the wider community (often including voluntary and pro-bono support), and is more efficient at planting the seeds of positive change over a wider area than concentrating operations centrally.

That being said, setting up a franchising system that works and is also sensitive to different contexts requires time and expertise, and cannot be done half-heartedly – once the decision is made to franchise, then it is the responsibility of the franchisor (who could be a chief executive, a management team, or a business owner) to ensure that the capacity is there to enable the optimum time and energy to be invested into making it work.

To sum it up, 'social franchising offers considerable potential for the more efficient and effective use of scarce resources in the non-profit [and social enterprise] sector. A popularisation of this method would increase the social impact and should therefore be implemented wherever and whenever possible and practical.'<sup>104</sup>

# TEN KEY POINTS FOR FURTHER RESEARCH AND CONSIDERATION

Given the newness of social franchising as a recognised movement, both in business terms and as a force for social change, there is still much learning to be done. The following are some important points that have emerged from this research as warranting further consideration.

## Branding

How does branding affect the social franchising sector? This question is relevant because the ‘branding’ of a social franchise, given its inbuilt social and/or environmental mission, often extends to concepts beyond its immediate product or service, in contrast with a commercial franchise. For example, the Trussell Trust has become a national authority on food poverty, rather than just ‘selling’ themselves on the basis of providing food to vulnerable people. Further research here could highlight new ways in which branding could help spread the ethos of social franchising in general by raising its profile in national (and international) debate.

## Measuring Impact

How do social franchises measure their impact? Measurement is becoming increasingly important in the social enterprise world, for example with new mechanisms such as social impact bonds. Examining social franchises’ approach to this, e.g. by having several similar units (i.e., franchisees) within the whole to benchmark one another against, could help construct more robust measurement systems.

## Wider context

What is the role of the wider socio-political environment and key stakeholders in promoting the development (or not) of social franchising? Currently it may be problematic to suggest that the Government adopts social franchising as an approach to implementing public services, given the long timescale it typically takes to successfully establish a strong social franchise network and to see the outcomes.

However, given that the Government has been far-sighted with social impact bonds (which typically take seven years to yield a return), there is potential in exploring key decision-makers’ attitudes towards social franchising more widely, specifically in relation to public funding for these franchises’ systems development, i.e., making such funding available over a 5-10 year period while a social franchise is developing.

## Systemising processes

The creation of a comprehensive social franchising toolkit, building on Social Enterprise UK’s manual, would be a worthwhile endeavour and comparable to resources that exist in the commercial sector, such as those supplied by the BFA. The social sector must understand what systemisation means. See an example from the Foodbank Manual at Appendix B.

## Maintaining quality across a network

The benefit of a franchise network is having highly motivated franchisees willing to work harder than if the business was wholly owned by the centre. The trade-off is that franchisees are harder to ‘control’ and therefore there is always the worry that quality will deteriorate. While we know that the motivation of profit is helpful in maintaining this balance, further research into the tools and techniques available to social franchises to maintain quality across a network would be very helpful to practitioners.

## Calculating the cost of franchising

There are a number of excellent proven organisations that are ready or nearly ready to franchise, but calculating the real cost of doing so is challenging. The Trussell Trust case study shows that the most important capacity that usually has a cost attached to it is the internal person leading on the social franchising project. More research needs to be done into the most cost effective ways of helping social organisations franchise successfully and then speeding up the process.

## Long term problems need long term solutions

The problems being faced by the social franchises that I researched are multi-generational social issues that keenly warrant long term thinking in order to approach real solutions – ten to twenty years’ forward thinking, at least. Governments do not have the attention to do this; however, new mechanisms such as social bonds are based on seven-year outcomes and offer some hope, if they can be refined and the technical issues that come with them can be resolved. This suggests that social organisations must look beyond government money into the social enterprise market-space, and at low cost models that can be sustainably funded through goodwill.

## Is income everything?

To examine the feasibility of the latter point, research would be needed into how sustainable a social franchise model can be if it is not income generating, and into the extent to which goodwill itself is ‘sustainable’, given the dependency of many social franchises on volunteers.

## Succession planning

Given the emphasis placed on community buy-in and engagement throughout this research, is there scope for an organisation to create wholly independently owned social franchises and pass them on to franchisees? And would these need to be based in community organisations with key pre-existing values for this to work?

## Front-loading

Studies have been done in other industries showing that front-loading a project (spending more time at the beginning planning and systemising than is usual) leads to an overall saving of resources. I believe that, in the franchise system, this saving of time and money is multiplied as each new franchise is set up. Research into this phenomenon in the replication of social projects would give a helpful insight into the amount of front-loading it is worth doing when creating each a new franchise.

# SOCIALISATION OF COMMERCIAL FRANCHISES

Commercial franchises can also learn some important lessons from the social sector. What is the scope for the ‘socialisation’ of commercial franchises? Engaging with this question would respond to an under-studied area that could then inform significant, practical ways in which commercial businesses could foster real social impact. ICSF has already instigated this research, recommending that the way operational activities would need to change, and the costs involved to ‘socialise’ a commercial franchise, should be key areas to consider.<sup>105</sup>

As this is a largely untested market, it is as yet difficult to anticipate what these costs or indeed the longer-term financial impact on a commercial business may be. This is particularly the case since commercial franchisees realistically need a gross profit margin of at least 35% in order to have a chance of success,<sup>106</sup> and given that these profits vary significantly according to the industry and market conditions that the business is operating within.

However, it should be remembered that many large commercial businesses seeking to build in social outcomes would already have many of the additional costs, such as training and staff support, covered by the parent organisation as part of their everyday remit, rather than as an extra financial burden of a new social franchise arm. Where this cannot be achieved, businesses could seek grant funding in partnership with a social sector organisation.

It is evident that looking further into the potential socialisation of commercial franchises would fill an important research gap, as this is an area where more case studies are needed to provide information both to franchisors and to the wider public. The ICSF are currently researching this area and further research will be available later in 2012.

# THE INTERNATIONAL CENTRE FOR SOCIAL FRANCHISING AND FURTHER ADVICE

Halfway through writing this paper and with encouragement from Michael Norton, I was so inspired by the idea of social franchising that I decided to found The International Centre for Social Franchising. The ICSF is a registered charity that tackles the issue of scale; its mission is to help the most successful social impact projects replicate.

It is a membership organisation for social franchises and aspiring social franchises, and advises social organisations how to franchise. We are already helping organisations such as Big Society Capital and Oxfam think about how social franchising can be applied to their work.

If you would like an informal conversation about the practical steps you could take to get franchise ready, and ideas for funding the initial setup of a franchise system, please contact Dan Berelowitz, the author of this paper, Chief Executive and Co-Founder of the ICSF at [info@the-icsf.org](mailto:info@the-icsf.org) or by visiting [www.the-icsf.org](http://www.the-icsf.org). The ICSF website also lists a number of helpful resources for those considering franchising.



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# APPENDIX A KEY QUESTIONS WHEN REPLICATING EXERCISE

- These 10 key questions have been developed from meetings with a number of social organisations. They aim to help an organisation think through whether or not they are ready to replicate.\*
- For each of the 10 areas, score the project on a scale of 1-10, where 1 is 'not at all ready' and 10 is 'completely ready'.
- Proven model fulfilling real need that has been evaluated without an over-reliance on a special individual or non-replicable asset?
  - Easily transplantable to other locations/regions/countries/continents with or without adaptation to local cultures and conditions?
  - Process, systems and procedures developed for delivery and ensuring quality?
  - Sustainable business model developed and demonstrated?
  - Internal commitment from staff team and board?
  - External context open to the project including stakeholder buy in?
  - Legal structure and financial arrangements for the franchise developed?
  - Brand and values established?
  - Significant market exists?
  - Supply of franchisees willing and able to take on the franchise?

TOTAL: \_\_\_\_\_

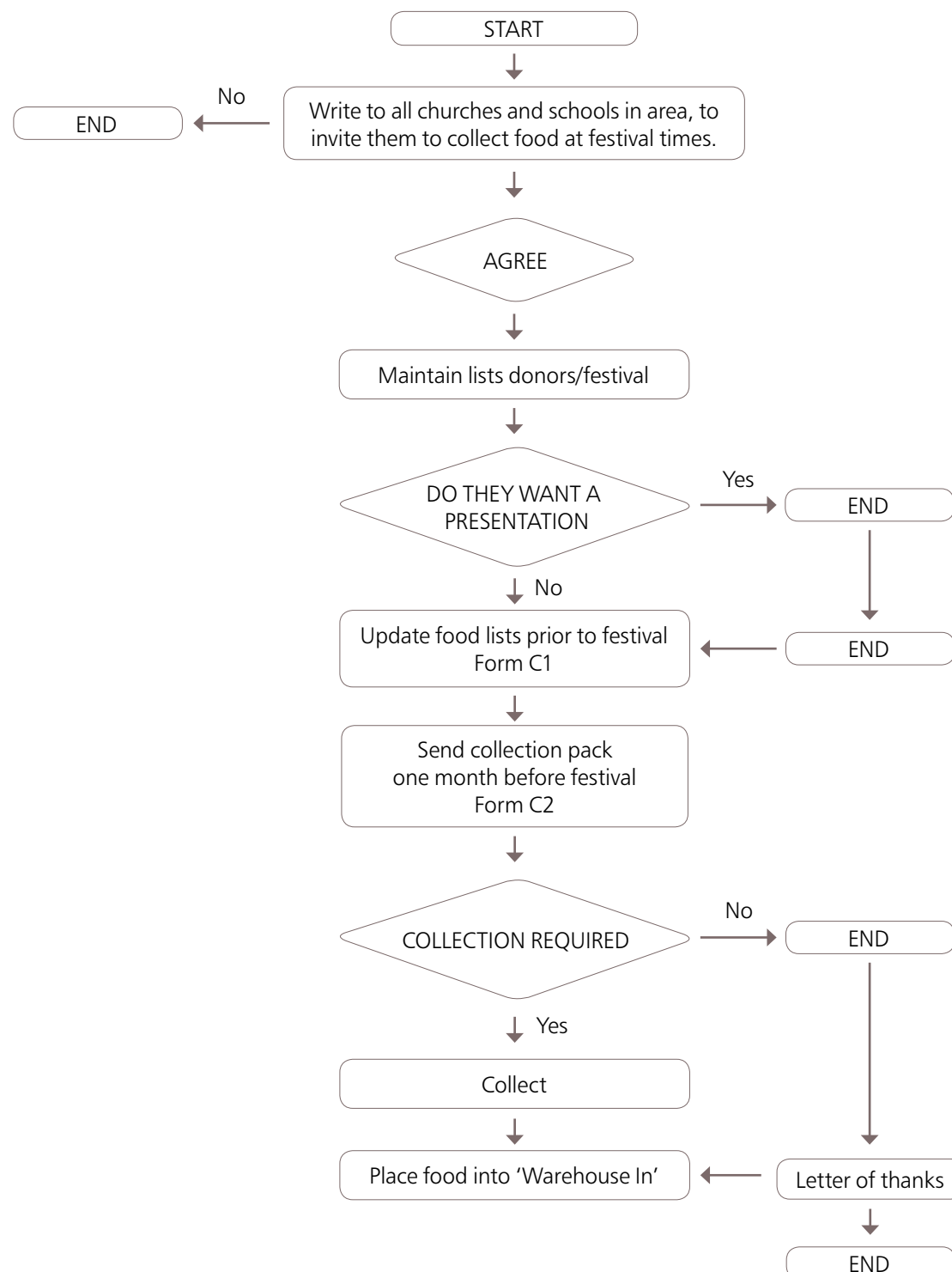
\* Based on a tool developed by Social Enterprise UK

**Scoring**  
75-100: ready or almost ready to replicate  
50-75: strengthening needed before replication undertaken  
25-50: some replication potential but more work needed  
0-25: too early currently, much more development work needed

## APPENDIX B FOODBANK OPERATING MANUAL EXAMPLES

Process flow diagram for the collection  
of donated food from harvest appeal:

### Process C-1: Festival Collections (Church & School) (Harvest/Christmas/Easter)



Template harvest appeal poster to encourage people to donate food. Made available to franchisees in Microsoft Word for easy adaptation.

Please support our

# Harvest Appeal

Your donations help to provide three days of emergency food and support to local people in crisis.

We are in need of:

- Milk (UHT or powdered)
- Sugar (500g)
- Fruit juice (carton)
- Soup
- Pasta sauces
- Sponge pudding (tinned)
- Tomatoes (tinned)
- Cereals
- Rice pudding (tinned)
- Tea bags/instant coffee
- Instant mash potato
- Rice/pasta
- Tinned meat/Fish
- Tinned vegetables
- Tinned fruit
- Jam
- Biscuits or snack bars

seeded by  
the trussell trust

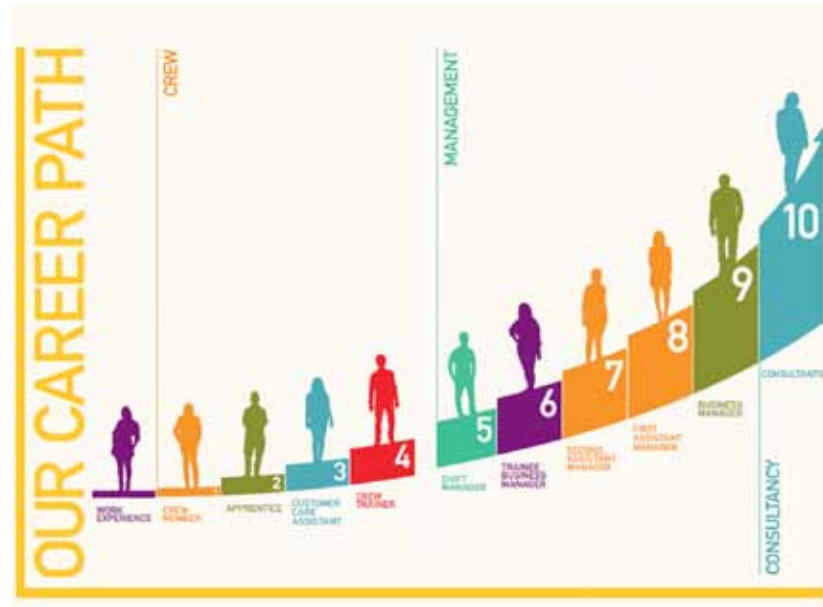
[www.xxxxx.foodbank.org.uk](http://www.xxxxx.foodbank.org.uk)

Reg. Charity No: xxxxx | Reg. in England & Wales



## APPENDIX D MCDONALD'S FRANCHISE MANUAL EXAMPLES

Example page from the  
McDonald's prospectus:



Example of one page from a regular  
systems update to all restaurants  
written in a standard system:



## APPENDIX C USEFUL ADDRESSES

- Social Enterprise UK (SEUK) is the home for all things Social Enterprise in the UK. Visit them at [www.socialenterprise.org.uk](http://www.socialenterprise.org.uk).
- The Shaftesbury Partnership is a consultancy and incubator of social projects, and has a special interest in social franchising. Visit them at [www.shaftesburypartnership.org](http://www.shaftesburypartnership.org).
- CAN support social enterprise and are developing some social franchising support programmes. Visit them at [www.can-online.org.uk](http://www.can-online.org.uk).
- The Social Investment Business (SIB) has recently opened up a fund for social enterprise wanting to get investment ready. Visit them at [www.thesocialinvestmentbusiness.org](http://www.thesocialinvestmentbusiness.org).
- Clearly So are a membership organisation for Social Enterprise and also provide assistance.

## ENDNOTES

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- <sup>5</sup> Subway website (Accessed 12/2/2012): [www.subway.com/subwayroot/exploreourworld.aspx](http://www.subway.com/subwayroot/exploreourworld.aspx)
- <sup>6</sup> The Body shop website (Accessed 4/4/2012) [www.thebodyshop.com/en/\\_ww/services/aboutus\\_history.aspx](http://www.thebodyshop.com/en/_ww/services/aboutus_history.aspx)
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- <sup>8</sup> Ashton, A. (2011) *Social Franchising: the next big thing for social enterprise is here (Again)*. Available from: <https://socialenterprise.guardian.co.uk/>
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- <sup>14</sup> Coca-Cola, (2011) *History of bottling*, available from: [www.thecoca-colacompany.com/ourcompany/historybottling.html](http://www.thecoca-colacompany.com/ourcompany/historybottling.html)
- <sup>15</sup> Reproduced from Social Enterprise UK.
- <sup>16</sup> This definition is suggested by Brigham Young University's Ballard Centre for economic self-reliance (2007) web site. They use it in relation to microfranchising, a sub set of social franchising which tends to be more appropriate for the developing world, but I believe the definition to applies to broader social franchising.
- <sup>17</sup> The basis for these elements has been taken from the European Social Franchising Network's definition, but with some adaptation from the findings of research.
- <sup>18</sup> Knott, G. (2011) *Church and community involvement: Community Franchising Insights*. (Cinnamon network [www.communityfranchising.net/](http://www.communityfranchising.net/))
- <sup>19</sup> Dees J.G. et al (2002) *Pathways to Social Impact: Strategies for Scaling Out Successful Social Innovations*. Stanford Social Innovation Review
- <sup>20</sup> Unltd Ventures (2008) *Replication readiness*. Unltd.
- <sup>21</sup> Norton, M. (2011) *Social franchising: a mechanism for scaling up to meet social need*. Paper presented to the Graduate School of Business, University of Cape Town.
- <sup>22</sup> Cinnamon Network, (29/6/12) : [www.cinnamonnetwork.co.uk](http://www.cinnamonnetwork.co.uk)
- <sup>23</sup> Ben and Jerry's, (29/6/12) [www.benjerry.com/scoop-shops/partnerships](http://www.benjerry.com/scoop-shops/partnerships)
- <sup>24</sup> ESFN figures from research conducted in 2011 – [www.socialfranchising.coop/resources](http://www.socialfranchising.coop/resources)
- <sup>25</sup> Correct as at April 2012
- <sup>26</sup> Trussell Trust (2011), <http://www.trusselltrust.org/foodbank-projects>
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- <sup>30</sup> Lambie (2011), p.11
- <sup>31</sup> Lambie (2011), p.10
- <sup>32</sup> Lambie (2011), p.12
- <sup>33</sup> Lambie (2011), p.11
- <sup>34</sup> Lambie (2011), p.18
- <sup>35</sup> Trussell Trust (2004), *Foodbank Operating Manual*. Salisbury: Trussell Trust, p.2
- <sup>36</sup> ESFN case study, *Barka*, available from: [http://www.socialfranchising.coop/uploaded/Barka\\_ESFN\\_Case\\_Study\\_6.pdf](http://www.socialfranchising.coop/uploaded/Barka_ESFN_Case_Study_6.pdf)
- <sup>37</sup> ESFN case study, *Le Mat: Travelling with Social Entrepreneurs*, available from: <http://www.socialfranchising.coop/uploaded/LE%20MAT%20case%20study.pdf>
- <sup>38</sup> Mavra, L. (2011) *Growing Social Enterprise: Research into Social Replication*. Social Enterprise Coalition, pp.40-41. Available from: [www.socialenterprise.org.uk/uploads/editor/files/Publications/Growing\\_Social\\_Enterprise\\_report.pdf](http://www.socialenterprise.org.uk/uploads/editor/files/Publications/Growing_Social_Enterprise_report.pdf)
- <sup>39</sup> ESFN, *KOMOSIE: Reuse, Recycling and Energy Reduction*. Available from: [www.socialfranchising.coop/uploaded/KOMOSIE.pdf](http://www.socialfranchising.coop/uploaded/KOMOSIE.pdf)
- <sup>40</sup> Mavra (2011), pp.26-27.
- <sup>41</sup> Ben and Jerry's (2012). Available from: [www.benjerry.com/scoop-shops/partnerships/](http://www.benjerry.com/scoop-shops/partnerships/)
- <sup>42</sup> The Irish Times (2000) *McDonald's Franchise Agreement*. Available from: [http://www.business2000.ie/pdf/pdf\\_2/mcdonalds\\_2nd\\_ed.pdf](http://www.business2000.ie/pdf/pdf_2/mcdonalds_2nd_ed.pdf)
- <sup>43</sup> McDonald's website (2012) available at: [http://www.aboutmcdonalds.com/mcd/our\\_company.html](http://www.aboutmcdonalds.com/mcd/our_company.html)
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- <sup>45</sup> The Times 100, edition 8. *McDonald's: the route to fast food franchising*.
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- <sup>50</sup> The Times 100
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- <sup>57</sup> WhichFranchise.Com, 2011.
- <sup>58</sup> Kroc (1977), p.84
- <sup>59</sup> Interviews at McDonald's head office, 2011.
- <sup>60</sup> Ibid.
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- <sup>66</sup> Branz.com top 100 brands (2010): <http://www.brandz.com/output/brandz-top-100.aspx>.
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