How do I create a social sector franchise?

Stage One: Developing and proving the concept

Stage One is used to test the viability of the concept as a social enterprise and refine the model until it is able to deliver desired social and financial results in one location. During Stage One, the social enterprise concept requires development level funding generally in the form of grants to develop the concept, its infrastructure, and working capital. The donor also provides or pays for technical assistance and provides subsidies for the consumer to purchase the products or services.

- The concept is based on well-established consumer demand in a stable and growing industry.
- The regulatory environment in the country doesn't impede operations.
- The concept is well defined (brand personality, marketing, expenses, pricing, product sourcing, seasonality, location requirements, labor and training requirements, and so forth).
- The concept is operational and is achieving earnings and impact goals.

Technical assistance required to achieve benchmarks includes developing the tactics.

Stage Two: Proving the replicability of the concept

During this stage of development, the concept will be tested in additional locations and further fine-tuned to optimize performance and prove consumer acceptance and profitability in a variety of settings.

Development benchmarks include the following:

- Sufficient consumer demand in additional markets for the system's products and services.
- Consumers or third-party payer is able/willing to purchase products or services.
- The business can be replicated (the system can be transferred and operators can achieve brand standards consistently).
- Last-mile quality supply chain can be sustained.
- Potential franchisees have access to capital needed to invest in the franchise or funding sources contribute to or offset initial franchisee investment.
- The business can achieve economic benchmarks, including return on investment (ROI), ability to support debt service, acceptable breakeven point, and providing a living wage for owner operator.
- The franchisor management team is committed and capable of supporting the franchise system.

The following technical assistance is typically required to achieve those benchmarks:

- Replicating the social enterprise in one or more additional markets
- Adapting the business to new markets
- Assessing the expansion readiness of the business after it has been operating in additional markets
- Determining the best replication model for the business, e.g., single unit owner, multi-unit owner, fractional, master franchise, hub and spoke, etc.
- Preparing the business for expansion through the selected replication model

Stage Three: Developing the franchise system

During Stage Three, the social franchisor's concept and franchisor "offering" are designed, developed, and tested. Through mainly grants, but with some acceptable equity participation, the franchisor's support organization is designed and developed, and local franchisees are provided with the necessary development and working capital to open locations, prove and fine-tune the franchise system. Subsidies will generally be required for local consumers.

Development benchmarks for this stage include the following:

- The critical elements of a successful franchise system are put in place — franchisee recruitment, location selection and development, operations expertise, marketing, supply chain, legal, initial and continuing support, merchandising, compliance, research, and more.
- Growth capital for franchisor and franchisees is secured and committed.
- The expansion plan is geographically developed to enable franchisor support.

The following technical assistance is typically required to achieve these benchmarks:

- Designing the franchise system (creating the franchisor entity and the strategic plan for operating an effective and sustainable franchise).
- Producing the franchise tactical elements (preparation needed to execute strategy: operations manuals, training programs, supply chain, marketing plans, legal documents, and so on).

Stage Four: Expanding locally and nationally

Once the franchise system and support requirements have been developed, consumer acceptance has been validated, and financial sustainability of locations has been proven, debt and equity investment is used to expand the social franchise system on a local or national level, with donor funding generally targeted at consumer subsidies:

- The brand is recognizable and drives customers to the business.
- There is sustained and growing retail demand for franchisees.
- ROI is attractive to investors and donors.

- Social results are strong and attractive to donors.

The following types of technical assistance are typically required to achieve those benchmarks:

- Recruiting, selecting, developing, and supporting master franchisees nationally
- Evaluating the system performance nationally
- Refining the system to improve performance nationally

Stage Five: Expanding Globally

Once the franchise system has expanded locally and nationally and the franchisor has gained the necessary experience required as a franchisor, the social franchise is now ready for a more global approach to expansion. As with Stage Three, a blend of debt, equity, and grant capital is used to support growth.

Development benchmarks for this stage include the following:

- The franchise system is meeting its national impact and financial goals.
- The brand has achieved national recognition.
- Global expansion opportunities have been evaluated, and analysis reveals opportunities for products and services in additional global markets.
- Funding is available to expand to new global markets.
- The number of franchisees is growing.
- The support system including supply chain can be replicated in the additional targeted markets.
- There are available potential franchisees in the targeted markets.
- The system can be changed and supported based on local consumer requirements.

The following technical assistance typically is required to achieve benchmarks:

- Adapting the franchise business to new global markets
- Executing the franchise sales plan globally
- Executing the franchise training program globally
- Recruiting, selecting, developing, and supporting master franchisees globally
- Evaluating the system performance globally
- Refining the system to improve performance globally