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Building the Charity Franchise

Groups run businesses to expand their revenue and their missions

By Nicole Wallace

The Dunkin' Donuts in the Neighborhood Shopping Center in

downtown Newark offers its patrons the same selection of coffee, crullers, Munchkins, and other treats found at the chain's 4,000 other stores around the country. But this particular franchise is different from most others: It is owned and operated by a charity.

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[Franchises Can Offer Benefits, But Charity-Enterprise Experts Advise Caution](#)

The New Community Corporation, an economic-development group, decided to open the doughnut shop and several other businesses in the shopping center it developed in 1990 as a way to

provide job training to local residents and generate revenue to support its social programs. Also among its offerings: a Nathan's Famous, Pizza Hut, and Taco Bell, as well as a Pathway supermarket that the charity co-owns with the company.

"Why lease space out to an entrepreneur to come in, make the profit, and then leave the community with the money?" says Raymond M. Codey, New Community's director of development.

As more charities consider running their own businesses in order to establish quality job-training opportunities for their clients, encourage community development, and generate revenue to support their other programs, an increasing number are attracted to franchises. Such businesses provide name recognition, established operating procedures, and built-in support and training. At the same time, franchise companies -- which long have preferred to award franchises to individual entrepreneurs -- are slowly starting to see nonprofit organizations as a new pool of potential franchise operators that can help them reach urban markets and new customers.

But starting a franchise business is not for every organization. Start-up costs are high, with upfront franchise fees running into the tens of thousands of dollars -- or more. It can take years for the ventures to break even, let alone generate revenue for an organization's other programs. Finding the right managers to balance the businesses' social

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and financial goals is challenging. And charities risk having to pay a penalty if they cannot live up to the franchise agreement they sign, and have to discontinue the business.

Despite the potential hazards, a number of charities have taken the plunge:

- The Mexican American Opportunity Foundation, a social-service organization in Los Angeles, provides job training at the 7-Eleven it operates there. The Southland Corporation, 7-Eleven's parent company, donated the franchise in 1995.
- Platte River Industries, a Denver disability group, brings in about \$250,000 a year from the two Auntie Anne's pretzel shops it operates at the Denver International Airport.
- The Chicago Children's Choir in August opened the doors of its Ben & Jerry's ice-cream shop on Randolph Street in the city's theater district. Adding a new twist to the traditional ice-cream parlor, employees sing as they scoop.
- CenterForce, a group in Lakewood, Wash., that provides training and employment to people with disabilities, spent \$100,000 in start-up costs to open an AIM Mail Centers franchise in 2001.

'Hits and Misses'

Even with the recent interest, charity-owned franchises are still relatively rare. And their results have been mixed.

Charities have found that franchise or no franchise, starting a new business is tough, and balancing financial and social goals for a franchise can prove especially challenging. And franchise companies have learned that nonprofit groups often require more support than other entrepreneurs and sometimes have image problems that can cause business problems.

"There have been hits and misses," says John R. Reynolds, president of the International Franchise Association Educational Foundation, located in Washington. "Some have been absolutely fantastic successes. Others have been failures."

In August 2002, for example, the Boston Rescue Mission closed the commercial-cleaning business it had started with a ServiceMaster franchise in 1998 because of the strain the venture was putting on the organization's employees and because it was having trouble competing with other firms for contracts.

To identify what factors make some ventures thrive while others struggle, the franchise association foundation is working on two research projects that examine charity-run franchises. The foundation received \$50,000 from the ExxonMobil Foundation to study franchise

businesses run by community-development corporations, and it is working with Community Wealth Ventures on the other study, which covers many types of charities and is financed by the Colburn Family Foundation. Reports of the studies' findings are due out later this fall, and will be available on the association's Web site.

In the second phase of the research projects, the foundation will serve as a middleman to broker new deals between franchise companies and community-development corporations and youth organizations. These pilot projects will give the foundation an opportunity to test whether the successful practices it identified in its research will work in the real world, says Mr. Reynolds, who expects the foundation to start accepting applications from interested charities in February or March.

Business Skills

One of the biggest challenges charities face when starting their own ventures is the need to learn a wide variety of business skills in a short amount of time, says Alfred Wise, director of Community Wealth Ventures. The company, which helps charities start their own businesses, is a for-profit subsidiary of Share Our Strength, a national antihunger organization.

When charities buy a franchise, they are getting a set way of operating, training workers, and tracking finances, Mr. Wise notes. "Franchising is business in a box," he says. "If we can figure out the mechanisms of the business in a box for nonprofits, it will help them do social enterprise much more easily and readily."

Others are more cautious. Jed Emerson, who has been a leader in the social-enterprise movement since the early 1990s, worries that some charities may feel a false sense of security when purchasing a franchise and not do the research and other work required to make an informed decision before opening a business.

"There is an inclination on the part of some nonprofits to think that by getting a franchise all they have to do is add water and they'll have a successful business," says Mr. Emerson, senior fellow at the William and Flora Hewlett and the David and Lucile Packard Foundations. "It can lull you into thinking that you don't have to understand the numbers as well because, gosh, they give you the template for how to crunch the numbers. Or you don't have to be as studious in terms of understanding local market demands."

Some groups have found that the very qualities that make them want to open a franchise can become limiting later.

Three years ago, United Community Corporation, an economic-development organization in Newark, opened the city's first Manhattan Bagel franchise. Floyd Melvin, the charity's chief executive officer, says that it didn't take long for United Community to figure out that the store's menu didn't appeal to residents in the neighborhood.

"Manhattan Bagel might be very good in Manhattan and maybe southern New Jersey," says Mr. Melvin. "But in this area, after 12 o'clock people were reluctant to get a sandwich on a bagel."

United Community took its concerns to Manhattan Bagel, Mr. Melvin says. While the company wouldn't let the charity modify the menu, it did permit the organization to end its franchise agreement and create its own eatery, the UCC Star Cafe, which offers chicken, hamburgers, and hearty sandwiches served on sliced bread. In addition to being a restaurant, the cafe also prepares several hundred meals a day for local child-care centers, something else that United Community couldn't do when the store was a Manhattan Bagel franchise.

Multiple Goals

Measuring the success of a charity-owned franchise can prove difficult given the venture's multiple goals of providing jobs and training, as well as earning revenue to pay for other charity programs.

"An income statement is really easy to generate," says Brian Connor, senior director of business affairs at the Center for the Homeless, in South Bend, Ind., which signed a franchise agreement in 1998 with ServiceMaster to open a landscape business to train and employ homeless people. The business was profitable in its first year and now brings in between \$100,000 and \$200,000 for the organization annually.

But Mr. Connor says profits tell only half the story, a point that initially he had trouble conveying to the charity's board members and executive director, who only wanted to talk about financial statements.

"If all we want to be is profitable, I can go out and hire landscapers in the community, grow the business, and probably be more profitable than we are right now," says Mr. Connor. "But if we're using it to help people toward recovery, personal growth, housing, and employment goals, then we need to talk about those as well."

And sometimes, a charity's social goals for a franchise can conflict with financial ones.

"Your profit margin does go down because of your mission," says Msgr. William J. Linder, founder of Newark's New Community Corporation. For example, the charity doesn't give up on its businesses' employees who are having performance problems as readily as other business owners would because of the organization's goal of helping young people learn job skills and gain work experience. And New Community offers its workers better compensation, higher wages, health insurance, and tuition benefits, and often has more employees in its stores than the competition.

Some charity leaders say at times it may make sense to run an unprofitable franchise because its operations help advance a charity's

mission in ways that aren't reflected on profit-and-loss statements.

Juma Ventures, a charity that provides job training to low-income young people in San Francisco, runs three Ben & Jerry's ice-cream shops, as well as selling concessions for Ben & Jerry's, Krispy Kreme doughnuts, and Tully's coffee at Pacific Bell Park and 3Com Park. While some of its commercial operations are financially successful, says Jim Schorr, the charity's executive director, "we have businesses that lose small amounts of money year after year. And while we're certainly working to improve the profitability of those businesses, we recognize that they don't exist for the purpose of generating profit. They exist for training and employing youth."

Seeking Diversity

As charity interest in running businesses -- and franchises in particular -- has grown, franchise companies have started to become more receptive to the idea of signing agreements with nonprofit groups.

Sonya Thorpe Brathwaite, director of diversity and U.S. emerging markets at the International Franchise Association, says companies are beginning to think of charities as potential partners that can bring a set of assets to the table that individual entrepreneurs are unlikely to have. They have established reputations in the neighborhoods they serve, existing accounting systems, and access to nontraditional financing, and can assemble advisory boards of local business professionals. In addition, she says, such organizations can help franchise companies reach new customers.

If franchise companies "had traditionally been a suburban model, they've exhausted those locations," says Ms. Thorpe Brathwaite. "Now they're looking for locations that they may have overlooked in the past, in urban areas, and oftentimes there's a community-development corporation or a nonprofit there that could facilitate that process."

With just such intentions, the Krispy Kreme Doughnut Corporation, in Winston-Salem, N.C., awarded a store franchise to a charity for the first time in May 2002. But its experience so far has shown that while working with a charity has potential benefits, it also carries some risks.

The company awarded a franchise to Project Homestead, an economic-development organization in nearby Greensboro, to open a store downtown on East Market Street, a former hub of black-owned businesses that has fallen on hard times. Project Homestead owns 51 percent of the venture, and Krispy Kreme owns the remaining 49 percent.

Several months after the store's grand opening in September 2002, Scott Livengood, Krispy Kreme's chief executive officer, hailed the experiment as a new strategy the company could use to expand into

smaller markets and low-income areas. "If we're successful, not only does it create a model that we can follow into other markets, but it will hopefully become a model that other businesses can consider," says Mr. Livengood.

But whether Krispy Kreme still feels that way is uncertain. Over the past few months, Project Homestead has been the object of negative news coverage, with three former employees filing lawsuits against the organization alleging sexual misconduct by Project Homestead's former president. The city of Greensboro also has started an audit of the charity's financial records in response to charges that it misspent city funds.

"We're waiting for the audit that the city's still in the process of completing," says Alton Thompson, chairman of Project Homestead's board of directors. "Then we'll have a better indication of what the board needs to respond to."

While none of the allegations involve the Krispy Kreme franchise specifically, the problems at the charity could have public-relations implications for the company because of its close ties with the organization.

Krispy Kreme declined to discuss whether Project Homestead's organizational problems have had any effect on the company's plans to work with nonprofit organizations in the future. But Brooke Smith, a spokeswoman for the company, says Krispy Kreme remains committed to its partnership with Project Homestead.

"Our purpose, which continues today, was to locate a Krispy Kreme store in an underserved section of the Greensboro community, adding new life and vibrancy to that community," says Ms. Smith. "We continue to manage the Krispy Kreme operations at the store there, and we remain committed to our mission there."

While other franchise companies have not faced problems as serious as the ones at Project Homestead, many businesses have found that charity-owned franchises often require different treatment than franchises owned by individual entrepreneurs.

Michael Sawitz, chief executive officer of AIM Mail Centers, in Irvine, Calif., says there can be drawbacks to working with charities. "There's a board of directors," he says. "They are extremely conservative. Decisions take a long time."

He says he has overcome his initial skepticism about working with nonprofit groups, however, after meeting and talking with the managers and the disabled employees who work in his company's three charity-owned franchise stores.

"You won't find any more dedicated employees than these folks," says Mr. Sawitz. "It is so important to them."

Ben & Jerry's Homemade, in South Burlington, Vt. -- which has been encouraging charity-owned franchises for 16 years through its PartnerShop program with youth organizations -- has made special efforts to help such groups run their businesses.

Four years ago, Ben & Jerry's established a PartnerShops manager position to work with charity owners, and it has also created a private Web site that charities in the program can use to communicate with one another. Twice a year, the company brings PartnerShop operators together to share ideas.

Ben & Jerry's waives its \$30,000 franchise fee, as well as royalty payments, for charities that make it through the program's lengthy evaluation process and open an ice-cream shop to provide job training to young people.

"Operating any small business is hard, and operating a supportive employment and training program within the business is an added challenge," says Leslie Halperin, who manages the PartnerShop program. "Organizations that don't have prior experience starting and operating a business will certainly face a steep learning curve."

Organization	Franchise	Year first franchise started
CenterForce (Lakewood, Wash.)	AIM Mail Centers	2001
Central Detroit Christian Development Corporation	Tastee-Freez	2002
Chicago Children's Choir	Ben & Jerry's	2003
Juma Ventures (San Francisco)	Ben & Jerry's, Krispy Kreme Doughnuts, and Tully's Coffee	1995
Mexican American Opportunity Foundation (Los Angeles)	7-Eleven	1995
New Community Corporation (Newark, N.J.)	Dunkin' Donuts, Nathan's Famous, Pizza Hut, and Taco Bell	1990
Platte River Industries (Denver)	Auntie Anne's	1998
Project Homestead (Greensboro, N.C.)	Krispy Kreme Doughnuts	2002



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