Social Franchising:

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**Introduction**

In part two of Deloitte’s D2international (D2i) Social Franchising (SF) Community of Practice (CoP) series of white papers, the CoP builds off of the first publication by focusing on the questions social enterprises need to consider on the path towards a franchise model. Over the past few years working with clients on their social franchising journey, we have repeatedly heard questions regarding the enterprise’s franchise readiness, how best to secure appropriate types of funding and partnerships, and how to expand to new markets. To address these questions, we have held interactive workshops, created relevant tools, and synthesized the latest research in order to provide guidance to social franchises across three continents from industries ranging from sanitation to economic growth to find success in their respective endeavors. The goal for this white paper is to synthesize what we have learned in order to equip mature social enterprises with the strategies they should consider as they expand their enterprises and begin or continue along their social franchise journey.
Is My Social Enterprise Franchise Ready: Foundational Questions

Before an enterprise considers expansion through the franchise model, they should have reached a certain level of maturity and operationalization, have a strong mission, minimum amount of capital, and multiple staff. Stage Six, a social franchising accelerator, has created a Franchise Feasibility Criteria tool with several indicators they suggest enterprises consider prior to considering expansion. According to Julie McBride, the founder of Stage Six, once this readiness baseline has been met, the social enterprise should begin to ask itself these essential questions:

1. Is there enough demand for my products and services to justify expansion?
2. Do the potential customers have a way to pay for the product for the business to be profitable?
3. Are there qualified franchisees available in the area of expansion and do they have the means to make the franchise business profitable?
4. Does company leadership have the capital and time it takes for an effective franchising rollout?
5. At this stage of development, is the franchising model the most beneficial model for the recipients of your services?

While these foundational questions should be answered affirmatively before a social enterprise begins the franchising process, this practice of consistent questioning and recipient prioritization should also form a foundational habit throughout the franchising process.
How Do I Choose the Right Market: Market Entry Strategy

One of the most important strategic factors that a social enterprise should consider is how to select the right market for expanding the products or services being delivered to the community. Through many engagements, the CoP has witnessed that a common pitfall for social franchisors is prioritizing a funding opportunity over the business growth strategy for market expansion; this may result in entering a market that is not optimal for what the enterprise can provide, thus decreasing potential success.

The CoP has created a Market Entry Strategy framework that leverages quantitative and qualitative data for a comprehensive evaluation of the market that likely allow the enterprise to enhance their success as they expand their business. This method has found success when assisting social enterprises identify the most ideal market or to narrow down the focus of an enterprise’s market goals. The CoP worked with Founder and CEO of social franchise Unlocking Communities, Josh Goralski, who provided this insight on his experience using the framework: “the most pressing questions [for expansion that we faced] were that of when and where; the need for our business is so great, there are almost too many good markets.” The table below outlines the specific areas of focus for developing a market entry strategy:

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Case Study: Unlocking Communities Expansion Plans to Brazil and Mozambique

The Enterprise: Founded in 2018, Unlocking Communities (UC) is a social enterprise that empowers communities with access to clean water and entrepreneurial opportunities. UC has provided clean water to 3,000+ of the 6.6M impoverished people living in in Haiti.

The Goal: Analyze and narrow down the countries that will likely be strategically beneficial to permit the enterprise’s success in achieving their strategic objectives.

The Approach: In order to create a robust market entry strategy, UC first identified the goals by which it could benchmark its success. It then prioritized the markets it was interested in entering by creating a series of quantitative and qualitative metrics that could permit them to compare the strategic benefits of each. Once the country search was narrowed down to two markets – Brazil and Mozambique – a more in-depth analysis was used to evaluate country and regional socioeconomic factors of entry, followed by an assessment of the synergistic partnerships and optimal funding environment that could permit a sustainable expansion of UC in the selected countries.

The Current Stage: The Market Entry Strategy is being used to provide guidance on various grant proposals and has served to guide the type of funding the company may select for expansion.
How Do I Gather the Right Kind of Support: Funding and Partnerships

Funding Evaluation and/or Reevaluation

For social enterprises, it is important to develop a solid long-term funding plan and defining north stars within that strategy. According to McBride of Stage Six, “the greatest challenge for social enterprise owners is gaining access to sufficient capital needed to seed and nurture a franchise to a point where it can reach exponential growth and generate healthy returns for investors.” As funding is such a large piece of any business's priorities, social enterprises should set clear guiding priorities to drive their funding strategy forward to align with their long-term goals.

At a high level, funding may be broken down into three large categories: debt funding, equity funding, and grants and other donors. Keeping these categories in mind, the enterprise should consider how to strike a balance between the value acquired by a funding source, and the level of effort required to attain, pay back, or return that funding with interest. While it may be tempting to take funding from donors with their own interests, organization should be firm in accepting only the funding that addresses their specific funding strategy and goals, and which best serves their recipients and organizational growth. According to a report by Duke University’s Center for Advancement of Social Entrepreneurship (CASE), “there are several ‘knock-out’ investment criteria for funders and investors, such as stage, sector, and geography”1, which should be taken into consideration to avoid any misalignment pitfalls when funding an expansion venture. Misalignment is not only a risk to the organization’s goals for the future and growth strategy, but a threat to the core business structures that have allowed them to be successful.
Partnerships

In the business ecosystem, funding and partnership are intrinsically tied. A social enterprise looking to expand needs to secure strong, reliable partners that meet the diverse business needs and goals of the enterprise. Association with these parties may be classified into five separate categories:

1. **Community Partners**
   - On the ground associates that have a similar mission or product

2. **Local Companies**
   - Willing to sell the social enterprises’ products

3. **Business Partners**
   - Organizations that can drive brand awareness through publicity and marketing

4. **Government Partners**
   - Provide for increase efficiency and in-country support

5. **Operational Partners**
   - Offer supply chain optimization through sourcing of raw materials, shipping, in-country product fabrication, and transportation

To properly research and select the right network of associates, the social enterprise should consider how the potential partner’s mission aligns to their own, the focus and the region of their operations, the value added that can be provided, and any existing partnerships the potential partner has. Understanding and evaluating these factors may facilitate the social enterprise’s success in the country of interest.
How Do I Gather the Right Kind of Support: Funding and Partnerships

**Putting it Together: The Pitch Deck**

The success of a social franchise is closely tied with its ability to concisely and compellingly tell the story of its business so as to garner the right funding, attention, and partnerships. In order to do so, a social franchise should consider leveraging the pitch deck as an essential resource that may allow the organization to increase their development and expansion. Although each pitch deck differs depending on the goals of the organization and the target audience, The CoP has identified eight features that every pitch deck should consider to maximize its impact to the audience:

**Figure 3: Essential Pitch Deck Features**

- Define Current Challenge
- Offer a Solution
- Specify the Product/Service
- Introduce the Team
- Identify the Competitors
- State the Ask
- Provide Financials
- Demonstrate Direction and Potential
At many stages of the social franchise journey, it may be useful to create a performance management strategy in order to define and track specific performance indicators so as to access and reflect on the success of an activity or expansion strategy. The CoP’s three-step approach for a Performance Management Framework, consisting of a capability assessment, performance plan, and strategic communications plan, may assist enterprises to build a performance management strategy in order to meet their internal sustainability goals while successfully tracking the success of their enterprise expansion. See below for a breakdown of critical questions to ask within each Performance Management Framework step:

**Figure 4: Goal-Setting Performance Management**

- **Assess Capacities**
  - What are our market expansion strengths and weaknesses?
  - What gaps across business processes, technology, infrastructure and human capital do we face?

- **Create Performance Roadmap**
  - How will we best quantify and track our market expansion success?
  - How will we determine where best to place our efforts and resources for market expansion?
  - How will we ensure organizational accountability through milestones and metrics ownership?

- **Develop Strategic Communications Plan**
  - How will we best identify and organize external stakeholders we have within our ecosystem that will be necessary for successful market expansion (e.g., investors, advisors, franchisees, etc.)?
  - How will we best streamline our communication practices to ensure they engage relevant stakeholders as best as possible?
  - How can we best evaluate and organize necessary communication frequency, method, and additional considerations?
Conclusion

As noted in Deloitte’s D2i SF CoP’s first white paper, “Why the International Donor and Impact Investing Community Should Pay Attention to Social Franchising,” due to rapidly shrinking resources and expanding world population, it is imperative that each dollar spent on social impact work be as efficient as possible. The CoP firmly believes that social franchising exponentially scales the impact of each donor dollar while removing barriers to entry and creating economic opportunity. While proven effective, the social franchise model for many organizations may seem daunting and unapproachable. We hope that this white paper eases the burden of social enterprises as they begin or continue along their social franchise journey; equipping organizations with useful tools, lessons, and frameworks that will likely help them answer the foundational questions they may need to ask in order to create an effective market expansion strategy.
References


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