

## Franchising for the Greater Good

July 21, 2023

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Nonprofit organizations and franchised businesses operate in separate worlds. But sometimes those worlds meet in a way that can be mutually beneficial. When the franchise benefits the mission of the nonprofit, the organization might consider forming a separate entity that will become a franchisee. The arrangement is sometimes referred to as “social franchising”.

Starting any new business is a risk. Even a franchise business. Not every nonprofit organization will be willing to expose a portion of its assets to business risk. But in some cases, and with proper legal advice, the arrangement can work.

Here’s how it’s done:

The nonprofit should form and contribute the initial financing to a new for-profit entity, typically a limited liability company, that will sign the franchise agreement and become the franchisee. The separate entity protects the nonprofit from the liabilities of the franchised business. It also protects the organization’s nonprofit status. Because the franchisee is wholly-owned by the nonprofit, the net profits go to the nonprofit to further its mission. The franchise entity’s business income is taxed as such. In fact, its local tax payments help support the community.

The nonprofit need not be expert in the franchisor’s line of business. The franchisor will provide a business system in a package with training and support. But the nonprofit should find an experienced and ambitious manager to operate the business. Having the right management will benefit both the nonprofit and the franchisor.

The franchisor will likely benefit from the positive publicity that comes with its association with a good cause. Customers will appreciate the fact that their dollars will benefit a social mission. The franchisor may also benefit by finding a franchisee with deep community ties and an excellent reputation, which can help build the franchisee’s business and help the franchisor move into a new market.

The franchisor can discount or waive its initial franchise fee for entities owned by nonprofits, similar to the way many franchisors give discounts to veterans. But the franchisor should not lower its standards in awarding the franchise. The franchisee prospect should meet the same qualifications that the franchisor requires of for-profit franchisee candidates. The franchisee’s management should have the requisite experience, aptitude, ambition and team compatibility, and the entity must be adequately financed. In addition, the franchisor should be satisfied the nonprofit is committed to taking the risk of starting the new business. Beyond that, the mission and culture of the nonprofit organization should be one that the franchisor is proud to support.

Here are some examples of franchising to nonprofits taken from articles in the [QSR Magazine](#), [New York Times](#), [Entrepreneur Magazine](#), [NonProfit Times](#), Wall Street Journal, [Franchise World](#), and [Franchise Times](#):

- Ben & Jerry's was the trail blazer when it began working with select nonprofits in its "PartnerShops" program for youth-development and job training nonprofit organizations in 1987.
- Subway began working with nonprofits in 1996, opening franchises in school cafeterias and hospitals, some of which are owned by the institutions.
- The YWCA of Greater Pittsburgh opened a Nathan's Famous restaurant within its facility in 2010.
- Affordable Homes of South Texas, which constructs homes for low-income families, opened a Blimpie shop in Weslaco, Texas, in 2013.
- The Dale Rogers Training Center owns a Papa Murphy's franchise in Oklahoma City to train and employ people with disabilities.
- CMARC, a nonprofit in Woburn, Massachusetts, that provides job opportunities for disabled people in its community, bought a Money Mailer franchise in 2008. Money Mailer is a direct mail marketing company. It helps the local businesses market, which creates more job openings. And the fact that CMARC was already working with the local businesses made it easy to introduce the Money Mailer program to those businesses.
- Beaver County Rehabilitation Center (BCRC) Inc., in New Brighton, Pennsylvania, owns a Candy Bouquet franchise to "teach work with work".
- Washington Vocational Services bought an Auntie Anne's pretzel franchise in an outlet mall near Seattle in 2005.
- Share Our Strength, a charity based in Washington, D.C., that fights childhood hunger around the world, opened a Wine Styles shop in Washington, D.C., in 2007. The wine connection enabled the organization and its for-profit subsidiary to host fund raising events together featuring great wines, thereby appealing to the nonprofit's donors.