

# FRANCHISING: THE POTENTIAL TO CREATE QUALITY JOBS IN LONDON



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## ABOUT JPMORGAN CHASE FOUNDATION

Our mission is to enable more people to contribute to and share in the rewards of a growing economy. We believe that reducing inequality and creating widely-shared prosperity requires collaboration of business, government, nonprofit, and other civic organizations, particularly in the cities and metropolitan regions that power economic growth. We take a comprehensive approach to increasing economic opportunity, using our firm's global scale, talent, and resources to make investments

and create partnerships in four priority areas: workforce readiness, small business expansion, financial capability, and community development.

While this report has been supported by the JPMorgan Chase Foundation, the contents and opinions in this paper are of the authors alone and do not reflect the views of the JPMorgan Chase Foundation, JPMorgan Chase & Co, or any of its affiliates.

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# EXECUTIVE SUMMARY

The need to create high quality, stable jobs in London is undeniable. 2.25 million people experience poverty in London and in-work poverty is increasing. At the same time, the franchising sector in the UK has experienced strong growth over the recent past; 621,000 people are employed in a franchise in the UK – a 70% increase in the last 10 years. This research set out to assess the potential of franchises to provide quality employment for low-income groups, and if promising, to explore what a franchising employability programme could look like.

This report first considers the landscape of underemployment and unemployment in London; who does it affect, where are they based and what are the barriers they face in reaching high quality jobs? It then explores if roles within franchises could provide high quality work. With this understanding, it moves on to explore the different routes through which franchising could create jobs, based on research into different models which have been employed elsewhere in the world. Finally it provides recommendations as to what an employment programme, leveraging the principles of franchising, could look like.

This report has been produced in partnership between the International Centre for Social Franchising (ICSF), The Social Innovation Partnership (TSIP) and Numbers for Good. These three charities and social enterprises came together given their individual skills in understanding the principles of franchising and how they can create social impact, an understanding of the unemployment landscape in London as well as expertise in the social investment sector. The research and recommendations outlined in this report have been guided by an Advisory Group comprised of experts from the franchising sector as well as agencies supporting employment for low-income groups across London.

Our research has shown that whilst the issue of unemployment and underemployment impacts all London boroughs, it is most concentrated in East London, which has high levels of people out of work or in low paid jobs. Research into the

barriers to employment showed that typically these can be classified into three groups: personal, cultural and structural barriers. We believe an employment programme is best able to address personal barriers (i.e. technical skills, soft skills and employability skills) and is most needed in East London.

Given the franchising sector's stability and low risk of failure, we believe an individual working for a franchise unit is more likely to be in a stable, secure position working for a profitable business. In addition, the franchisee role offers individuals the potential for high earnings, intensive training and on-going support whilst running their own business. Based on a definition of quality job as one which at a minimum pays the London Living Wage and offers opportunities to build skills that lead to improved career prospects; we consider there to be potential for franchising to create quality jobs. Our research has demonstrated that franchising has been used as a mechanism for job creation in a number of countries across the world. Most recently a €50m Impact Creation fund was established in France which aims to create 250-300 franchised businesses and create more than 2,000 jobs over five years in areas of economic deprivation in areas of economic deprivation.

Having validated the need for quality jobs and the potential for franchising to create quality work, we explored three design routes for creating jobs in the sector and developed each into an outline of an employability programme:

- Route 1: Employment intermediaries would recruit and train low-income individuals to become franchisees; they would support franchisees to access the start-up capital required, then provide on-going training and coaching to manage their franchise unit
- Route 2: Employability intermediaries would carefully match low-income individuals with vacant positions within newly established franchise units. The programme would support the set up of these new franchise units (not necessarily run by low-income individuals) operating in identified quality sectors

- Route 3: Employability intermediaries would carefully match low-income individuals with vacant positions in existing franchise units operating in identified quality sectors

To test the potential and viability of these approaches, we consulted extensively with a range of experts in the franchising, employability and social investment sectors. Stakeholders were excited by the idea of harnessing franchising principles to address the social need, but raised operational challenges for each route. A fourth option, applying the principles of franchising to mission led business, continued to emerge as an alternative that could overcome these barriers and achieve significant impact.

Our research suggests Route 1 appears to be the least feasible approach, due to the intensive labour required per job created and difficulty of finding enough suitable franchisees and franchisors. Route 3 faces fewer operational challenges, but would not create new jobs and may duplicate existing employability initiatives already delivered outside the franchise sector. Route 2 has potential for strong impact, but franchisees would likely require a financial benefit for it to be successful. The current social investment and philanthropic capital markets in the UK require an organisational mission lock to offer this, which neither franchisees nor franchisors may accept.

The fourth route, applying the principles of franchising to social organisations, appears to offer the opportunity to overcome many of these challenges. With this approach, a programme would be developed to support existing mission-led businesses with a proven model of supporting low-income groups into quality jobs to replicate into targeted areas of London. They would harness franchising models and concepts to ensure their replications are financially viable and achieve the same social impact. This idea builds upon a key franchising principle itself: tapping into existing employability expertise and replicating something that's working rather than starting from scratch and duplicating mistakes that others have made before. Working with mission-led

organisations would unlock access to funding from philanthropic funders and social investors, while the programme's objectives would be aligned with participants from the start.

Whilst requiring further validation and development, this fourth option offers the opportunity to overcome the barriers of working with primarily commercial organisations. Recommendations on how this research could be taken forward are outlined below.

***Explore and develop a replication support programme for mission led businesses focused on creating jobs for low income groups***

This support package would provide mission-led businesses with the expertise and support required to replicate their model into targeted areas of need in East London. An initial period of exploration would be required to further develop and validate how this programme would operate. As mission-led businesses, these ventures would be able to access both grant and social investment to support their replication. Whilst operational challenges would also be faced in this route, as it will aim to replicate non-franchise systems, incentives will be aligned across stakeholders leading to a greater chance of success.

***Pause further exploration of creating jobs through the commercial franchise sector***

Our research has found operational challenges preventing each of the three design routes explored for creating jobs for low income groups in the commercial sector.

Route 1 could have a transformative impact for individuals and their families, but would be very labour intensive considering the limited number of jobs it could create and it may not be possible to recruit enough franchisees and franchisors that meet such a narrow set of criteria. Route 2 seemingly offers the opportunity to create large numbers of jobs, but requires funding that philanthropists and social investors are unlikely to provide. Route 3 appears operationally feasible, but does not create new jobs and may unnecessarily duplicate existing employability initiatives.

***Build partnerships between London's franchising and employability sectors***

This research identified a trend of franchisors interested in understanding how their businesses could better build jobs in their communities, with many unaware of the opportunities available to them. Similarly, employment intermediaries showed a lack of awareness of how franchising can create more stable jobs than other sectors, with strong potential for progression within the network. Developing relationships between both groups, potentially through an existing body like the British Franchise Association, and specifically its London regional forum, would strengthen their ability to provide employment for low-income individuals. Similar efforts in other sectors, such as the Movement to Work<sup>1</sup> collaborative, have

achieved impressive results by galvanising existing good will into tangible efforts.

***Raise franchising sector's awareness of business benefits of employing from low-income groups***

There are clear business benefits to recruiting staff from low-income groups, beyond a desire to simply have social impact. The press coverage generated leads to reputational gains; increased staff awareness of community issues leads to improved workforce morale; and companies involved in work inclusion schemes report direct financial benefits through reduced recruitment and training costs.<sup>2</sup> Better awareness of these benefits would encourage greater participation in any employability programmes. This could be a key function of the partnerships described above.



# 1 INTRODUCTION

## 1.1 Purpose and objective

This report is the result of a research project to explore how quality jobs could be created within franchises for low-income individuals in London. Our objective was to assess the potential of franchises to provide quality employment, and if promising, to explore what a franchising employability programme could look like.

To assess the potential of franchises to provide quality employment we:

- Validated the need to create quality jobs for low income individuals in London
- Identified the areas and groups most in need of quality jobs in London and their barriers to employment
- Assessed the quality of jobs within a franchise

To explore what a franchising employability programme could look like we:

- Developed a framework for designing an employability programme in the franchising sector
- Identified who might benefit from a franchising programme in London
- Explored who might be involved in delivering a franchising employability programme, and what their role might be
- Assessed the feasibility of the programme
- Recommend the next steps for implementing a franchising employability programme for low-income groups in London

## 1.2 Partners

This report has been produced by the International Centre for Social Franchising in partnership with The Social Innovation Partnership and Numbers for Good, with support from the JPMorgan Chase Foundation.

These organisations came together given their individual skills in understanding franchising and how it can create social impact, an understanding of the unemployment landscape in London, as well as expertise in the social investment sector. The research and recommendations outlined in this report have been guided by an advisory group comprised of experts from the franchising sector, as well as agencies supporting employment for low-income groups across London.

### 1.2.1 International Centre for Social Franchising (ICSF)

ICSF is a charity born out of a frustration of seeing mission led organisations constantly reinventing the wheel and wasting scarce resources. Using a combination of successful and tested commercial and social principles while drawing on extensive practical expertise ICSF help organisations identify, design and implement the right social franchising and replication model, enabling them to solve social problems on a much larger scale.

### 1.2.2 The Social Innovation Partnership (TSIP)

TSIP is a leading social consultancy, supporting its clients in their work to tackle some of society's largest challenges. TSIP acts as a trusted advisor to central and local government, leading foundations and funders, businesses, charities, social enterprises and other social-purpose organisations.

TSIP tailors its approach to every project, drawing on its expertise in research, strategy, engagement, evaluation and capacity building to generate insight, challenge current thinking, drive strategic innovation and enable organisations to secure lasting social impact.



### 1.2.3 Numbers for Good

Numbers for Good is an impact investing and social innovation organisation bridging the worlds of finance and social enterprise with the aim of improving people's lives and helping the planet. They work with a cross section of investors, social enterprises and commissioners to:

- Create financial solutions that enable organisations to fund social and environmental projects
- Connect investors with opportunities for sustainable financial and social returns

### 1.2.4 Advisory Group

The research and recommendations outlined in this report were guided by an advisory group of experts from across the business, franchising and employability sectors. They provided insight into the wider policy and infrastructure landscape, the value proposition that would be required to motivate the different stakeholders involved, and shared best practice from their experience.

In addition to representatives from all project partners, the following experts sat on the group:

- Stephanie Mestrallet,  
*JPMorgan Chase Foundation*
- Geoff Knott, *Impact Franchises*
- Carl Reader, *Dennis and Turnbull*
- Julie Hutchinson,  
*East London Business Alliance*
- Siobhan Scantlebury,  
*East London Business Alliance*

## 1.3 Approach

We used extensive desk-based research and interviews with stakeholders from across the franchising, employability and financial sectors, split into four stages of research:

- **Stage 1 - Landscape review:** We started with a landscape review of franchising in the UK, to identify the key success factors for franchising business models and to validate the sector's potential to create quality employment. At the same time, we looked at the unemployment and underemployment landscape in London.
- **Stage 2 - Identify routes and locality:** Following the landscape review, we identified the three most viable routes to employment franchising could offer and developed an initial design of how each route could work as an employment programme. We also identified the location to focus on.
- **Stage 3 - Sector and financing analysis:** We then conducted a sector analysis to identify target industries of operation and researched different options for how each of the proposed routes could be financed.
- **Stage 4 - Refining and testing the three routes to scale:** Finally, we refined the design of the three routes and tested with stakeholders across sectors to assess their viability.

Both primary and secondary research was conducted as part of our approach:

- Primary research was conducted through interviews and focus groups with:
  - Franchisors
  - Franchisees
  - Job seekers
  - Employability agencies
  - Social investors
  - Commercial banks



- Secondary research was conducted through review of reports and data on:
  - Franchising landscape in the UK
  - Unemployment in the UK
  - Quality of jobs per sector in the UK

See Appendix 1 for a full list of stakeholders interviewed and data sources used.

## 1.4 Definitions

To frame this research, we began by defining some of the key concepts.

### 1.4.1 Poverty and low-income individual

Poverty across the European Union is largely measured by household income. A household is considered to be in poverty if its income is less than 60% of the median household income of that country. This measure of poverty is called Households Below Average Income (HBAI) and it varies depending on the type of household (for example a couple with no children, single person or couple with no children). The UK HBAI poverty line for a lone parent with two children in 2015 was £15,132.<sup>3</sup> This report considers a low-income individual as anyone with a household income of less than £15,000.

### 1.4.1 Quality jobs

There are a number of different ways to define quality jobs.

A 2016 research project undertaken by the University of West Scotland and Oxfam identifies the top five factors associated with high quality work as:<sup>4</sup>

- Decent hourly rate
- Job security

- Paid leave
- Safe environment
- Supportive manager

For the Work Foundation,<sup>5</sup> 'good work' is defined by having a secure position, effective training and development, good communication, working practices that benefit employees through good reward schemes and term and conditions, and ways of working that support task discretion and involve employees in business improvements.<sup>6</sup>

The Organisation for Economic Cooperation's<sup>7</sup> framework for job quality covers quality of earnings, labour market security and quality of the working environment.<sup>8</sup>

As a minimum, this report defines a quality job as one that satisfies these two indicators:

- Pays above the London Living Wage of £9.75 per hour; equivalent to an annual salary of £19,012.50 for a full-time employee working 37.5 hours per week
- Offers opportunities for career advancement; either within the role or by developing transferrable skills that enable new jobs to be attained

Where possible, we considered the additional factors discussed above, in particular those identified by the University of West Scotland and Oxfam.

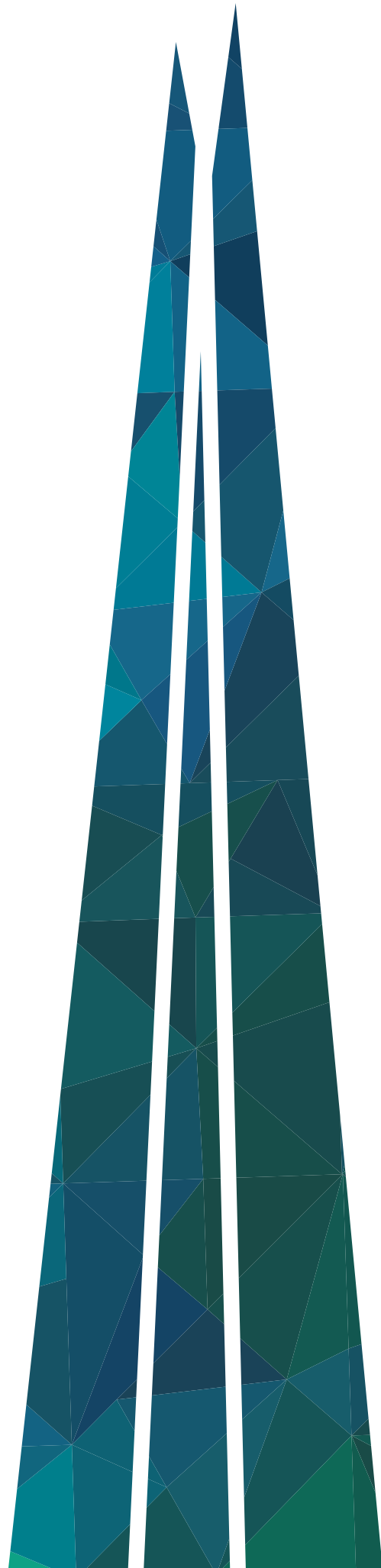
### 1.4.3 Other definitions

- Unemployment: people aged 16 and over who are out of work, want a job, have actively sought work in the previous four weeks and are available to start work within a fortnight; or are out of work and have accepted a job that they are waiting to start in the next fortnight

- Underemployed workers: people who are employed, but who either wish to work more hours in their current role, or are looking for an additional job or replacement job that offers more hours
- In-work poverty: individuals living in households where the household income is below the poverty threshold despite one member of the household working either full or part time
- Franchising: the granting of a license by a franchisor to a franchisee which entitles the franchisee to own and operate their own business under the brand, system and proven business model of the franchisor
- Franchisor: a person or company that grants the license to a third party for the conducting of a business under the franchisor's marks
- Franchisee: a person or company that is granted a license to do business under the franchisor's trademark, trade name and business model by the franchisor
- Employment intermediary: an organisation that supports individuals to find employment, through training and matching with potential employers
- Social investment: investment activity which has an expectation of both a social outcome and a financial return, which would usually be below market rate

## 1.5 Limitations

This report is an exploration into how a franchising employment programme could work in London. A full feasibility study is required before further pursuing any of the routes developed here.



## 2 THE NEED FOR QUALITY JOBS IN LONDON

We started this research by first validating the need for quality jobs in London. This section describes the state of unemployment and underemployment in London, exploring the areas where it is most profound, and identifies the barriers individuals face in accessing quality jobs.

### Key points –

#### The need for quality jobs in London

- 2.25 million people experience poverty in London and in-work poverty is increasing
- The problem is most concentrated in East London and amongst certain demographic groups such as young people, people with disabilities and ethnic minorities
- An underemployed or unemployed individual is prevented from accessing a quality job by personal, cultural and structural barriers
- An employability programme has the most ability to address personal barriers to employment

## 2.1 Thousands of people in London cannot access quality employment

### 2.1.1 Poverty, unemployment and underemployment in London

In 2015, approximately 2.25 million people experienced poverty in London.<sup>9</sup> After considering housing costs, this amounts to 27% of Londoners living below the poverty line; 7% higher than the national average.<sup>10</sup>

While the number of unemployed adults in the capital is at its lowest level since 2008, London's unemployment rate as of 2016 stands at 5.7%, representing 269,700 people in need of a quality job.<sup>11</sup> This figure excludes the economically inactive who want work, but do not fall under the definition of unemployment, estimated at 360,000 people in 2014.

Increasingly, even those in employment live below the poverty line and are in need of better jobs. The majority of people in poverty are now in a working family, increasing from 700,000 to 1.2 million over the last decade.<sup>12</sup> 3.6% of Londoners are in work but state that they want more hours.<sup>13</sup>

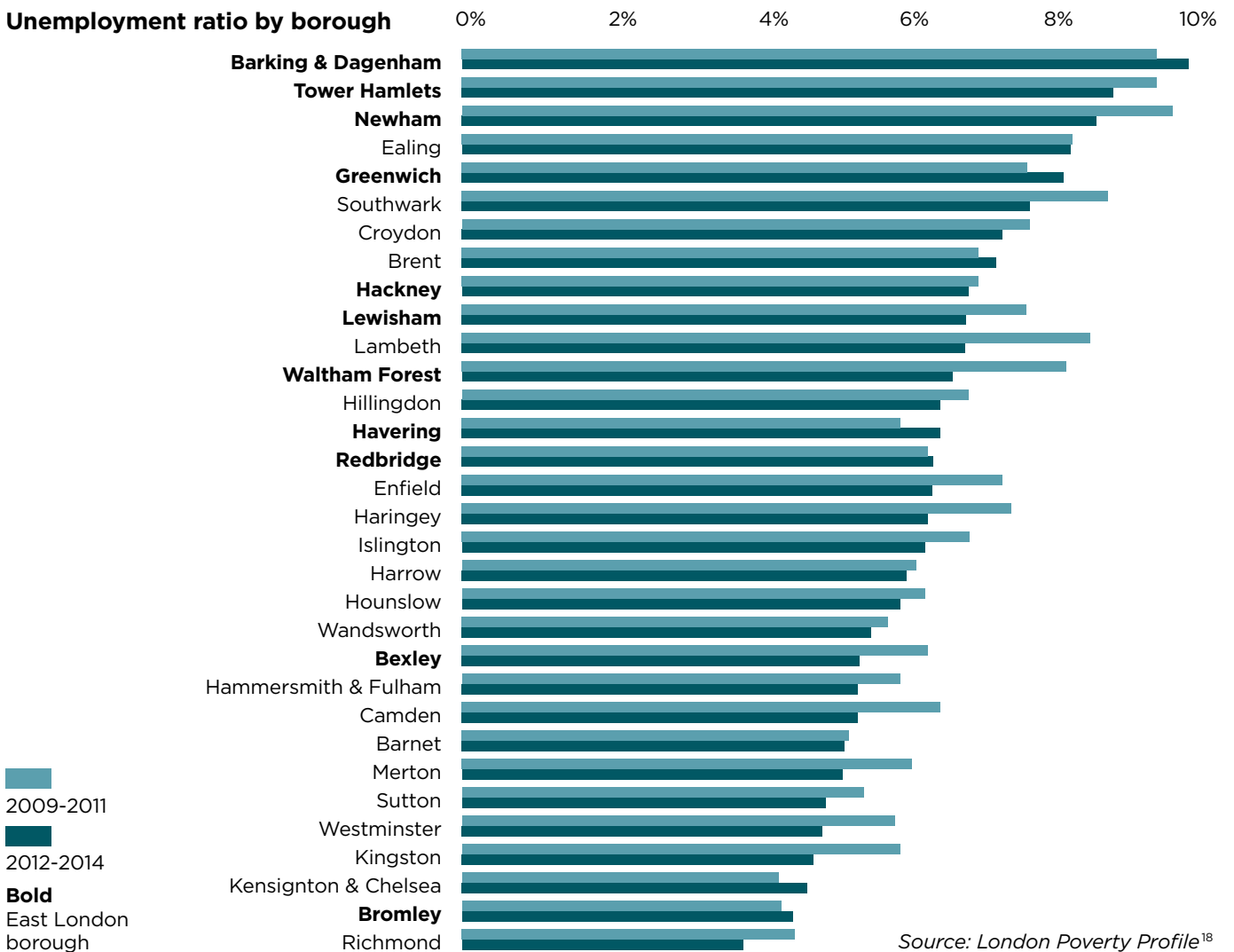


### 2.1.2 East London

Despite there being pockets of poverty across the city, the need for quality jobs is greatest in East London, where deprivation and unemployment is most prevalent. The problem is particularly acute in certain boroughs such as Tower Hamlets and Barking and Dagenham.

- East London boroughs have some of the highest unemployment rates in the capital, including the top 3: Barking & Dagenham, Tower Hamlets and Newham – see Figure 1<sup>14</sup>
- East London has the highest concentration of boroughs where at least 35% of children live in poverty<sup>15</sup>
- Tower Hamlets has one of the highest rates of income inequality in London<sup>16</sup>
- East London boroughs have some of the highest ratios of single parents out of work, namely Tower Hamlets at 62.3% and Barking & Dagenham at 54.2%<sup>17</sup>

Figure 1 – Unemployment ratio by London borough



### 2.1.3 Sub-groups

The need for quality jobs is greatest amongst certain sub-groups of the population who disproportionately suffer from unemployment and underemployment. Table 1 outlines the unemployment rate for key demographic groups in London by the Office for National Statistics. The group with the highest unemployment rate is young people (aged 16 to 24) at 16.7%, followed by people with a disability at 10% and ethnic minorities at 9%. This is in comparison to an overall unemployment rate of 5.7% in London.

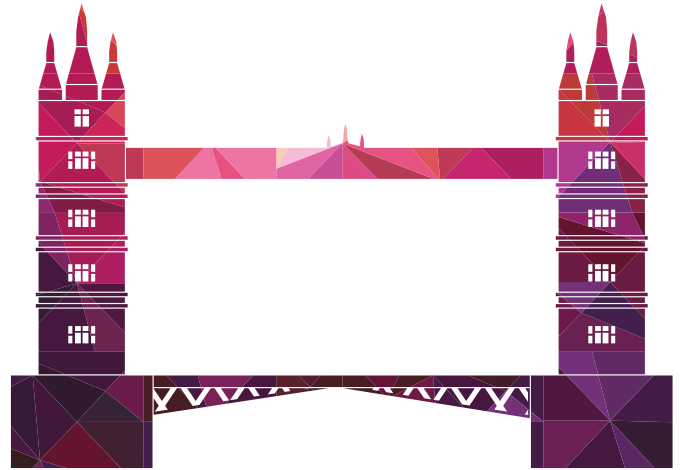


Table 1 - Unemployment in London by sub-group

Group	Unemployment % rate in London (Dec 2016)	Total number unemployed in London
All	5.7	269,700
Female	6.3	137,400
Male	5.1	132,300
Ethnic minority	8.7	151,700
White	3.9	118,000
Disabled	10.0	54,300
Young people (16-24)	16.7	89,200

Source: Office for National Statistics<sup>20</sup>

These groups are not mutually exclusive. Individuals falling under multiple categories are even more likely to be unemployed. For example, the unemployment rate amongst black young people in London is 29%.<sup>21</sup>

In 2015, as with the unemployment rate, those aged 16 to 24 were the most likely to be underemployed in London, making up 13.9% of the underemployed population. This is followed by the 50 to 64 age bracket at 8.7% then the 35 to 49 bracket at 8.3%<sup>22</sup>. By occupation, the largest proportion of the underemployed are in “elementary occupations”<sup>23</sup> at 21% followed by “caring, leisure and other service occupations”.<sup>24</sup>

### 2.1.4 Barriers to employment

A complex array of interconnected factors prevents the underemployed and unemployed from accessing quality jobs. These barriers can be split into three categories:<sup>25</sup>

- *Personal* – skills, experience, personality and other circumstantial factors specific to the individual
- *Cultural* – attitudes or expectations of employers and other stakeholders
- *Structural* – systemic factors in the wider ecosystem that neither individual nor employer can directly control

Certain sub-groups are more likely to experience certain barriers. For example, unaffordable childcare, a structural barrier to employment, is most likely to prevent a single parent from working. However, every unemployed or underemployed person has their own unique set

of factors that must be addressed if they are to secure a quality job.

Table 2 outlines some of the most common barriers and identifies the groups most acutely affected.

Table 2 - Barriers to employment

Barrier type	Barriers	Example groups acutely affected
Personal	<ul style="list-style-type: none"> <li>● Lack of qualifications /education</li> <li>● Lack of (real or perceived) employability skills e.g.               <ul style="list-style-type: none"> <li>- Work experience</li> <li>- Confidence</li> <li>- Job search and motivation</li> <li>- Social capital</li> <li>- Soft skills</li> <li>- Language barriers</li> </ul> </li> </ul>	Young people
Cultural	<ul style="list-style-type: none"> <li>● Discriminatory employer attitudes towards:               <ul style="list-style-type: none"> <li>- A criminal record</li> <li>- Complex needs</li> <li>- Long term unemployment</li> <li>- History of mental health issues or drug addiction</li> <li>- Other factors (e.g. social class, racism, postcode, gender, orientation, age, disability)</li> </ul> </li> <li>● Attitudes of colleagues and management</li> </ul>	People with disabilities Ethnic minorities
Structural	<ul style="list-style-type: none"> <li>● Supply and demand of jobs</li> <li>● Unaffordable childcare</li> <li>● Unaffordable housing and living costs (i.e. higher bills in energy inefficient housing and travel costs)</li> <li>● Complexities of benefits system</li> </ul>	Single parents

Between personal, cultural and structural barriers; an employment programme has the most ability to influence personal barriers. These can be overcome by developing the necessary skills, experience or aptitudes in an individual through training and on-going support. For example, those facing educational barriers might be best suited to a vocational training scheme specific to the job. Those with poor or perceived poor employability skills could overcome their barriers through soft skills training.

Cultural barriers are overcome by changing the workplace culture through encouraging and making adjustments for a diverse workforce. While possible to address within an employment programme, this requires greater on-going effort, a change to existing ways of working and a behavioural shift amongst management and employees.

Structural barriers are symptomatic of wider societal problems, beyond the immediate work environment and job seeker. They can rarely be addressed in isolation and often require significant policy change to achieve impact. It therefore lies beyond the scope of a single employment programme.





# 3 THE POTENTIAL OF FRANCHISING TO CREATE QUALITY JOBS

Having identified the need for quality jobs in London, we sought to understand whether franchising has the potential to provide quality jobs. This section provides an introduction to franchising in the UK and discusses the quality of jobs within franchises.

## Key points – The potential of franchising to create quality jobs

- Franchising is the granting of a license by a franchisor to a franchisee, which entitles the franchisee to own and operate their own business under the brand, systems and proven business model of the franchisor
- The franchising sector in the UK has experienced strong growth since 2000 and franchises report high profitability and significantly lower failure rates than start ups
- Given the stability and low risk of failure, an individual working for a franchise unit is more likely to be in a stable, secure position working for a profitable business
- A franchisee setting up a new franchise is far more likely to be successful than if they started a non-franchised business
- The franchisee role offers individuals the potential for high earnings, intensive training and on-going support whilst running their own business and therefore qualifies as a quality job

## 3.1 What is franchising?

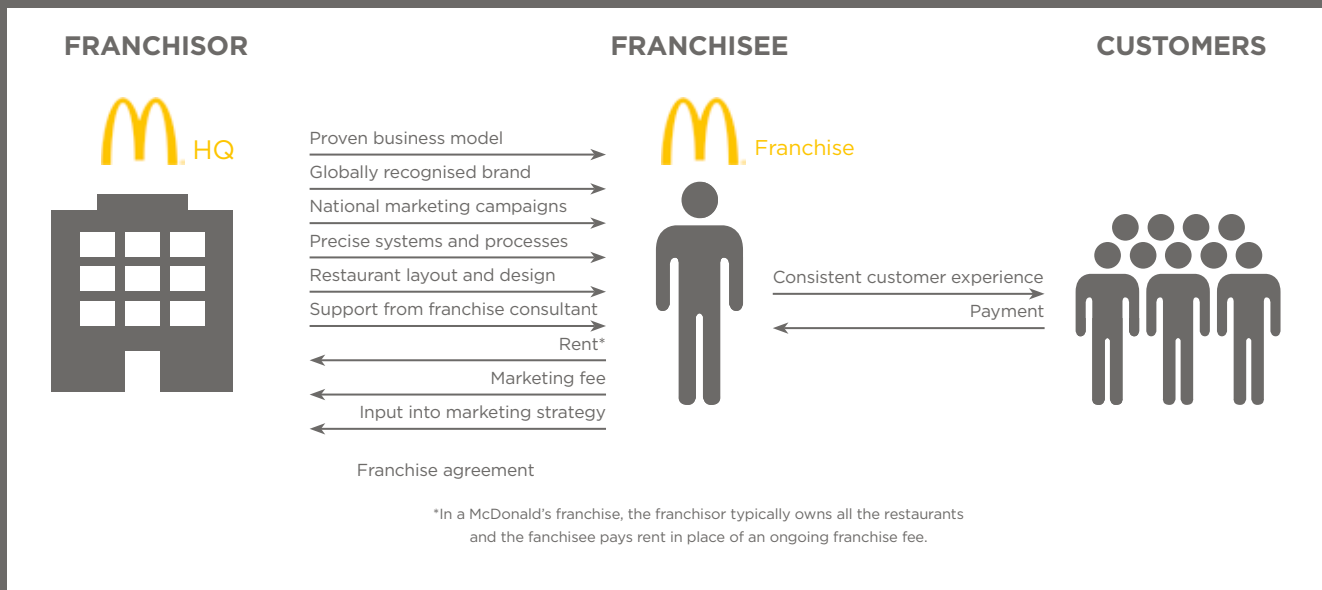
The British Franchise Association (BFA), the voluntary self-accrediting body for the UK franchising sector, defines a franchise as ‘the granting of a licence by one person (the franchisor) to another (the franchisee), which entitles the franchisee to own and operate their own business under the brand, systems and proven business model of the franchisor.’<sup>26</sup> Key characteristics of a franchise include:

- The franchisor provides all the training, resources and support required for the franchisee to successfully establish and run their business
- The franchisee pays a start-up license fee and ongoing fees for the use of the business model and brand, and to cover other franchisor costs such as training and national marketing
- The franchise agreement, a legal contract, sets out the terms of the license and obligations and rights of both parties



## Case Study – McDonald's

The fast-food chain has expanded to 33,500 restaurants across 119 countries, 80% of which are owned and operated by independent franchisees.<sup>27</sup> Through a meticulous franchisee recruitment process and exacting quality standards, McDonald's ensure every customer has the distinctive McDonald's experience anywhere in the world.



## Case Study – No Letting Go<sup>28</sup>

No Letting Go is the leading inventory management brand in the UK. They have been operating a franchising model since 2006 and now have 64 offices across the UK, with ambitions to reach over 100. Franchisees provide a range of inventory services to the lettings industry, predominantly condition reports of rented homes at different stages of a tenancy. Typically, they begin as sole traders, conducting property inspections themselves alongside managing the business. As their business expands over time, they will employ inventory clerks and can grow to businesses with five or more staff.

No Letting Go offers franchisees the following package of support in return for their initial and ongoing fees:<sup>25</sup>

- Extensive initial and ongoing training on all aspects of the business from inventory reporting to sales, marketing and leadership through the No Letting Go Academy
- All required business processes and planning tools
- Market leading inventory management software
- Use of a brand that is well-established within the lettings industry
- Guaranteed local work as part of franchise wide contracts negotiated by the franchisor with national lettings agents

The main types of franchises are:

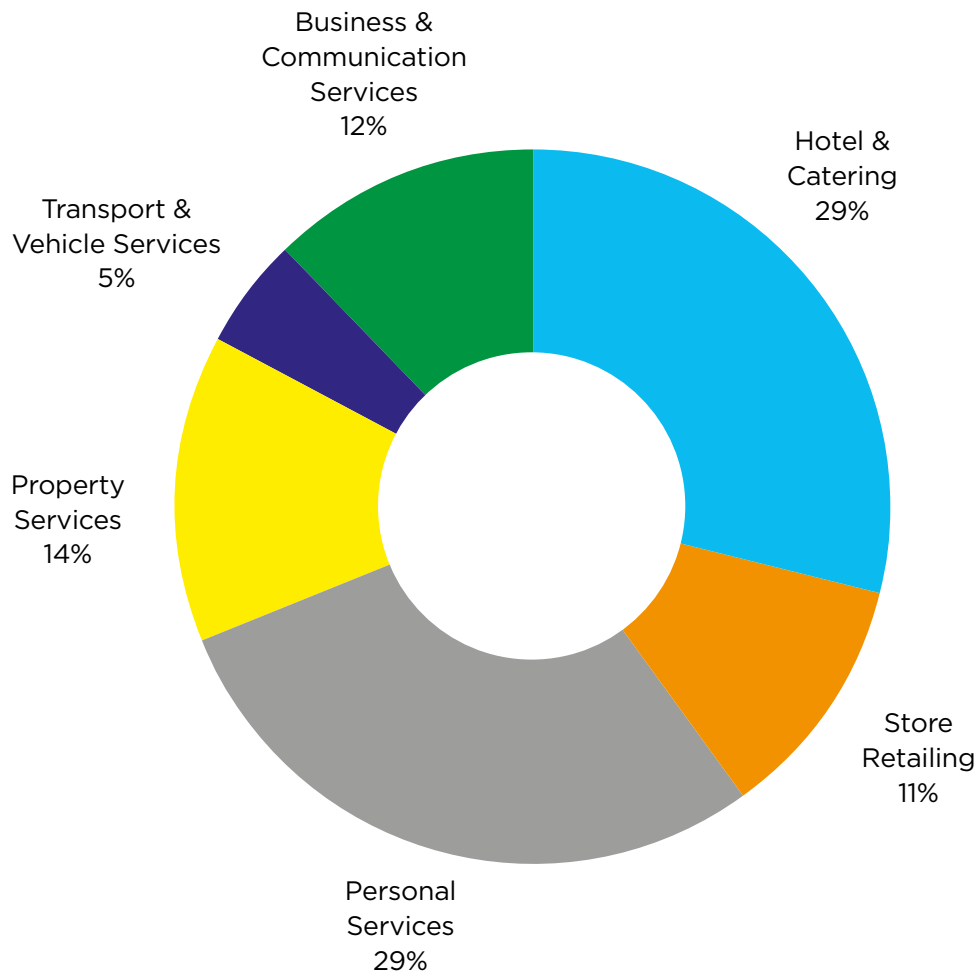
- **Business format** – where the franchisee uses a franchisor’s product, service, trademark and business systems such as the marketing plan and operations manual. These are the most common type of franchises.
- **Product distribution** – where the franchisee sells the franchisor’s products. The franchisor licenses their trademark, logo and selling rights to the franchisee, but not an entire system for running the business.
- **Job format** – where the franchisee can operate as a sole trader, often found in the cleaning sector.
- **Joint-venture** – where the franchisee and franchisor both invest in setting up the franchisee business; meaning they have joint ownership.

Examples of popular franchises in the UK:

Type	Name	Sector
Business format	Century 21	Real estate
	Home Instead Senior Care	Care
	KFC	Food and beverage
	McDonald’s	Food and beverage
	Supercuts	Hairdresser
Product distribution	Exxon	Energy
	Ford Motor Company	Automotive
	Pepsi	Food and beverage
Job format	Ovenclean	Cleaning
	Tatty Bumpkin	Children/play education
Joint-venture	Specsavers	Eye care

Franchise units in the UK are distributed across six sectors, with the largest number of franchises in the hotel and catering and personal services industries:

## UK franchising by sector<sup>26</sup>



Source: British Franchise Association<sup>29</sup>

### 3.1.1 The franchisor

Franchising is an attractive option for successful business owners looking to grow. Key advantages for a franchisor include:

- *Scaling rapidly* – the franchisee invests their own finances and time to set up and run new units, making it easier for the franchisor to scale faster with fewer resources
- *Motivated local owners* – invested franchisees have ‘skin in the game,’ incentivising them to work hard for the business’ success
- *Reduced risk of failure in new environments* – by recruiting quality franchisees, a business gets invaluable knowledge of the local market including how to best adapt the proven model to the new context
- *Reduced financial risk* – as the franchisee invests their own capital, the franchisor’s liability is reduced
- *Power of a network* – franchisees may contribute ideas that improve the whole business. Famously, the Big Mac came from a McDonald’s franchisee

To become a franchisor, a business must have a proven model that is:

- *Able to deliver high gross margins* – the business model needs to generate sufficient revenue to sustain both franchisee and franchisor
- *Simple and systemised* – processes and systems must be well documented so that franchisees can understand and successfully implement the business model without constant handholding from the franchisor
- *Replicable in new geographies* – the business model must not rely on factors that are unique to one location
- *Proven to have a strong brand* – the brand must drive sales across the network, rather than relying on individual relationships to build repeat business

### 3.1.2 The franchisee

For the franchisee, owning a franchise is attractive as it allows the individual to “go into business for themselves, but not by themselves.” The franchise provides an established product or service that is proven to deliver success. Initial and on-going support is provided to the franchisee, while still allowing a certain level of operational independence.

Choosing the right franchisee is paramount for the franchisor. Each business will develop its own bespoke profile of the ideal candidate, but all franchisors typically look for the following attributes:

- Strong drive and motivation
- People management skills
- Ability to follow proven structures and systems well

- Takes initiative, but will not try to re-invent the business

To become a franchisee, a potential candidate must:

- Convince the franchisor that their skills, experience and personal attributes match their profile of a successful franchisee
- Secure sufficient funds to purchase the franchise licence and working capital to cover set-up and ongoing operations

Franchisee candidates tend to be above 30 years of age, so as to have developed and demonstrated the above skills, and strong work experience is normally required.

Franchisees typically require finance to cover the cost of a franchise license as well as working capital to fund the set-up and ongoing operations of the business. Licences can cost from several hundred, to hundreds of thousands of pounds. Franchisees commonly source loans from high street banks. Several banks have dedicated franchise departments offering loans worth up to 70% of the cost of purchasing a franchise license. Banks consider two distinct elements of a potential franchisee’s application for finance:

- Attributes of franchise system and historical performance – some banks have ‘pre-approved franchises’ that meet these criteria
- Applicant’s personal attributes, credit rating, personal capital and business plan

## 3.2 Franchising's potential to create quality jobs

### 3.2.1 The UK franchise sector has experienced strong growth

Franchising has experienced strong growth in the UK since 2000 with no signs of slowing. It is a stable sector with many opportunities for targeted job creation.

In the UK, 901 franchise brands operate 44,200 franchise units. The number of people employed in a franchise has seen a 70% increase in the last 10 years; currently at 621,000 people and the sector contributes £15.6 billion to the UK economy.<sup>30</sup>

### 3.2.2 Franchises report high profitability and low failure rates

The sector's strong growth relies on its high profitability and low failure rates:

- In 2016, 97% of franchise units reported that they were profitable<sup>31</sup>
- Since 2001, 90% of new franchise businesses were still operating after 5 years, compared with 30% of other types of business start-ups<sup>32</sup>

The reasons for franchising's success are:

- *A proven business model* – implementing a model proven to work elsewhere lowers the risk of failure and helps franchisees to secure finance
- *Franchisor support* – each franchise unit receives extensive training and support from the franchisor to succeed
- *Strong brand* – driving sales across the network, rather than relying on individual relationships to build repeat business

- *Network size* – enabling small businesses to leverage economies of scale that would otherwise be out of reach; and the experience of veteran franchisees
- *Skin in the game* – each individual franchise unit is run by an independent business owner that has invested capital and time into setting up the business and is therefore invested in its success

Given the stability and low risk of failure, an individual working for a franchise unit is more likely to be in a stable, secure position working for a profitable business. Similarly, a franchisee setting up a new franchise is far more likely to be successful than if they started a non-franchised business.

### 3.2.3 The franchisee role is a quality job

Franchises require franchisees. To successfully recruit franchisees, there needs to be a strong value proposition for an individual to want to become a franchisee. As franchisees are independent business owners, they are likely to be profit-driven. The assumption is, therefore, that proven, successful franchise systems must be able to deliver high profits, well above the London Living Wage for their franchisees, thereby satisfying one of the two minimum requirements of a quality job (see section 3.2.3 for definition of a quality job). Franchisees also typically expect the value of their business to grow beyond the cost of their initial investment, creating additional wealth that can be realised through the eventual sale of the franchise.

The second minimum requirement of a quality job is its ability to generate opportunities for career advancement or to develop transferrable skills. The training and support provided by franchisor, coupled with the experience of running their own business, means a franchisee develops many attributes attractive to future employers. There are also often opportunities to progress within a

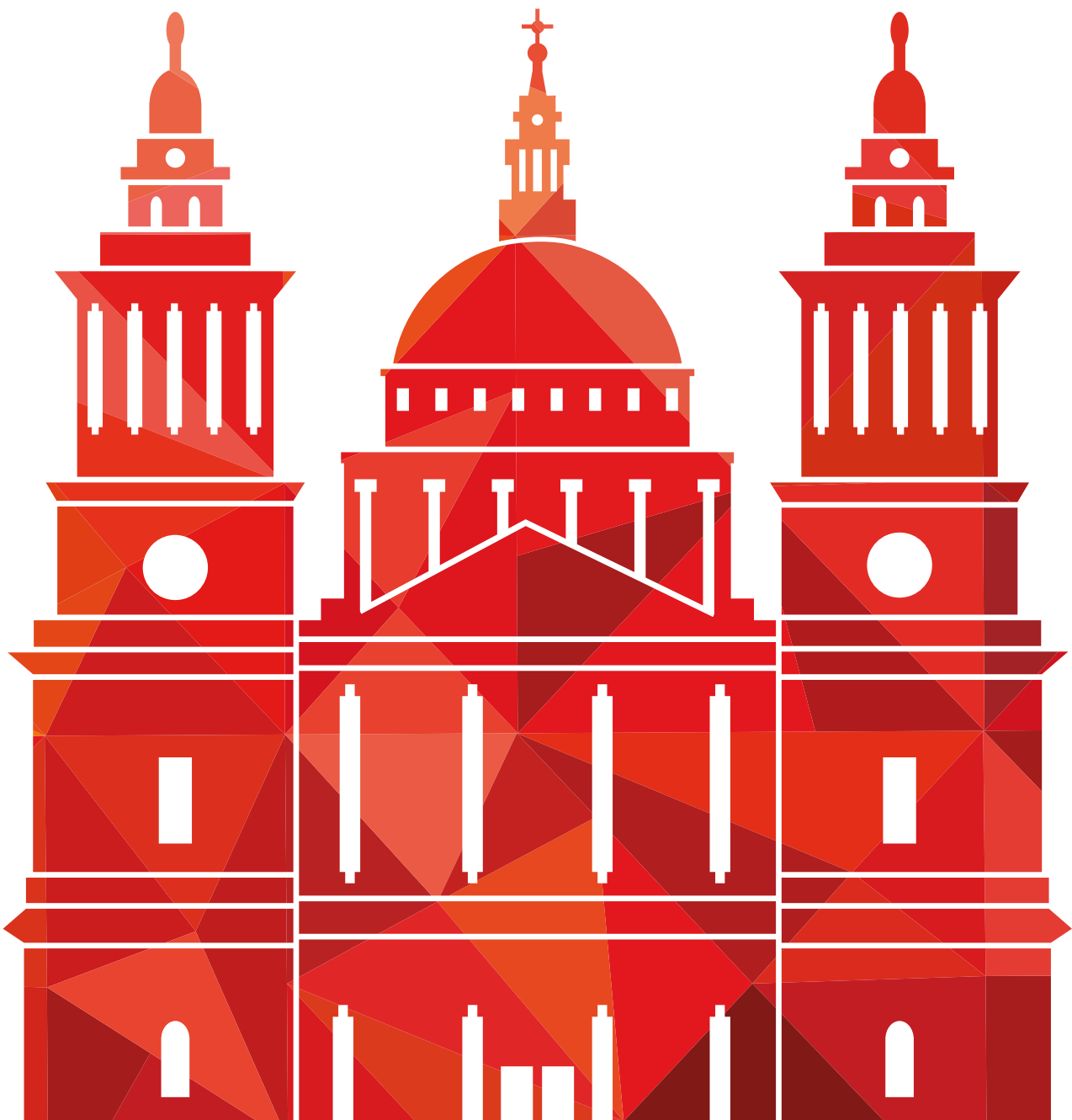
franchise network, with some offering successful franchisees head office positions or the option to buy multiple units.

Considering some of the other characteristics of a quality job, being a franchisee of a proven franchise is also able to:

- *Provide job security* as the industry has demonstrated stability and low failure rate
- *Offer paid leave* as the franchisee is the business owner and in control of the work environment

- *Provide a safe environment* as the franchisee is the business owner and is able to control the work environment

It must be noted here that, due to variation across the sector, it is inevitable that some franchise systems would not deliver a quality job for their franchisee. In this report, we make the assumption that the franchise systems being considered are proven and successful and therefore will create a quality job for the franchisee.





## 4 A FRAMEWORK FOR DESIGNING A FRANCHISING EMPLOYMENT PROGRAMME

Having validated the need for quality jobs in London and the potential of franchising to offer quality work, we set out to design what an employment programme operating in this sector could look like. This section describes the framework we developed to guide the programme's design. We developed this framework based on our research into similar employment models implemented across the world and the key success factors of franchise systems.

### Key points – A framework for designing a franchising employment programme

- Our framework for designing a franchising employment programme consists of:
  - Foundations – the starting point for the programme's design
  - Minimum requirements – areas the programme's design must satisfy to be successful
  - Additional considerations – areas that may affect the programme's success
- The main foundations of the programme are that jobs created are within proven and established franchise systems and are of high quality; and beneficiaries are from households with an annual income of less than £15,000
- Minimum requirements ensure the dynamics of a franchise are not adversely affected through the programme design; for example ensuring a strong value proposition for all stakeholders
- Additional considerations cover further areas for discussion such as impact beyond jobs created, ease of implementation and funding

### 4.1 Foundations of a franchising employability programme

We set the following foundations to focus the programme's design:

- Jobs created are high quality (see section 1.4.2 for definition of high quality jobs) – at a minimum, jobs pay at least £9.75 an hour and have opportunities for progression or to develop transferrable skills
- Beneficiaries are from households with an annual income of less than £15,000, and are currently unable to access a quality job.
- Beneficiaries face predominantly personal and/or cultural barriers to employment
- Jobs created are in East London
- Jobs created are within proven and established franchise systems suited for operation in London. This means franchisors must have the following:
  - Been operating for a reasonable number of years with strong franchise unit profitability
  - Available territories in London or are already operating in London
  - Analysis to indicate there is sufficient demand for the product or service in the territory or previous demonstration of this
  - Limited physical premises requirements

#### 4.1.1 Ensuring quality jobs

Two assumptions have been made to ensure the jobs created in the franchise will be high quality.

First, where beneficiaries are franchisees of proven and established franchises; it is assumed their job is high quality, see section 3.2.3.

Second, where beneficiaries are employees of a franchise, sectors are used as a proxy for quality work. Although working as an employee in a franchise unit increases the likelihood of the stability of the role (see section 3.2); we wanted to further assure the quality of the work. Quality sectors were chosen by first identifying sectors where franchises are prevalent. Entry-level occupations within each sector were then matched against factors for high quality jobs. Factors used as a proxy for high quality jobs are average annual earnings, job security, and career progression.<sup>33</sup>

The high-quality priority sectors we identified are:

- Animal care
- Fitness instructor
- Construction services
- Gardening and groundsmen
- Estate agents
- Vehicle repair
- Domiciliary care
- Business and communication services

It is important to note that, while some sectors are more likely to offer quality jobs than others, this will also vary according to each employer, the specific role within an organisation or even by different employees' own perception and values. As is the case if an individual is a franchisee, the franchisor will be the largest determinant of job quality.

## 4.2 Minimum requirements for success

To leverage the advantages of franchises, the employability programme needs to preserve its key success factors. This ensures the dynamics of a franchise relationship are not adversely affected. The minimum requirements are:

- Vacancies within the franchise system – as franchisee or staff – are filled by capable and well suited individuals
- Franchisees have 'skin in the game' and are invested financially in the success of the franchise unit
- The franchisor has ultimate say on who is recruited as a franchisee
- There is a strong value proposition for all stakeholders from the beneficiary, franchisor, franchisee, and programme intermediaries to commercial and social funders.

## 4.3 Additional considerations for the design

Further to the minimum requirements, we considered the following three areas when designing the programme:

### **The impact the programme is capable of generating beyond quality jobs**

- *Depth of impact* – how 'far away' from a quality job was the beneficiary prior to the programme?
- *Reach of impact* – how many quality jobs might be created?
- *New jobs* – how many new jobs does the programme create, compared to how many people are supported into existing jobs?

- *Provision gap* – do similar programmes exist targeting the same beneficiaries?
- *Secondary benefits* – what impact does the programme have beyond the beneficiary? For example, benefits for the employer
- *Sustainability* – is ongoing funding and effort requisite to sustain impact? Does the programme create limited, short-term impact or does it influence all elements of a social problem and have the potential to change a system longer term? If successful, could the programme be implemented in new locations?
- *Impact per pound spent* – how many jobs will be created for every pound spent?
- *Investment leveraged* – does the programme unlock financing not previously available?

#### **The ease in which the programme can be effectively implemented**

- *Complexity* – how many stakeholders does success rely on? What financial flows need to exist?
- *Value proposition* – how strong is the value proposition to motivate stakeholder participation?
- *Minimum scale* – will there be sufficient interest from and participation of stakeholders to generate the minimum activity required to sustain the programme?
- *Assumptions* – how many assumptions have been made in the programme’s design that need to be verified prior to implementation?
- *Past success* – have similar models been successfully implemented before?
- *Other risks* – what other factors could threaten successful implementation?

#### **The likelihood of the programme securing funding**

- *Cost* – what will the initial and ongoing costs of running the programme be?



## 5 THE THREE ROUTES TO EMPLOYMENT

Based on the framework, we designed three separate routes that could create employment in the franchising sector. Across all three routes, employment intermediaries support low-income individuals to access quality jobs either as franchisees or employees in the franchising sector. As per the foundations of the framework, all three routes create or fill jobs in East London,

within proven and established franchise systems for beneficiaries from households with an annual income of less than £15,000, who are currently unable to access a quality job.

This section provides an overview of the three routes and summarises considerations for each route's successful implementation. As with the framework, these routes were developed based on research conducted into similar employment programmes employed globally and the key success factors of franchise systems. We consulted extensively with a range of experts in the franchising, employability and social investment sectors.

Following this section's overview, we explore initial programme designs for all three routes in more detail in subsequent sections before making a recommendation on next steps for pursuing a franchising employment programme in London.

### Key points – The three routes to employment

- In Route 1, employment intermediaries would recruit and train low-income individuals to become franchisees; they would support them to access the start-up capital required, then provide on-going training and coaching to help franchisees manage their business
- In Route 2, employability intermediaries would carefully match low-income individuals with vacant positions within newly established franchise units. The programme would support the set up of these new franchise units (not necessarily run by low-income individuals) operating in identified quality sectors
- In Route 3, employability intermediaries would carefully match low-income individuals with vacant positions in existing franchise units operating in identified quality sectors



The three routes that could create employment in the franchising sector for low-income individuals are:

<b>Route 1</b> <b>Low income individual becomes a franchisee</b>	<b>Route 2</b> <b>Low income individual becomes an employee of a newly set-up franchisee</b>	<b>Route 3</b> <b>Low income individual becomes an employee of an existing franchisee</b>
<p>The programme would support individuals on low incomes to raise the capital and develop the skills to become franchisees of a low-investment job format franchise.</p>	<p>The programme would provide access to social investment for franchisees looking to set up new high investment management franchise units. Franchisees would be supported to recruit individuals on low income as staff; and individuals trained and coached to fulfil their job role.</p>	<p>The programme would support existing high investment management franchise units to recruit individuals on low income as staff. Individuals would be trained and coached to fulfil their job role.</p>

The table below provides an overview each route's initial programme design, based on our research and analysis to date. It summarises the:

- Beneficiary
- Role of the beneficiary
- Sector of operation
- Type of franchise system
- Role of employability agencies
- Role of social investor and/or grant funder
- Role of commercial funder/existing government schemes

Table 3: Summary of the three routes to employment

	<b>Route 1 – become a franchisee</b>	<b>Route 2 – staff of new franchises</b>	<b>Route 3 – staff of existing franchises</b>
Beneficiary	Low income individuals facing personal barriers to employment, with a focus on the migrant and disability sub groups	Low income individuals facing personal barriers to employment, with a focus on capable individuals with (perceived) poor employability skills	Low income individuals facing personal barriers to employment, with a focus on capable individuals with (perceived) poor employability skills
Role of beneficiary	Be the franchisee – set up and run the franchise unit; including investing some personal funds in the set up	Be an employee of a franchise unit	Be an employee of a franchise unit
Sector of operation	All sectors	Priority quality sectors*	Priority quality sectors*
Type of franchise system	Low investment job format franchise (<£30k initial investment); low jobs per franchise unit (<10 employees)	High investment management franchise (~£100k initial investment); high number of jobs per franchise unit (>10 employees)	High investment management franchise (~£100k initial investment); high number of jobs per franchise unit (>10 employees)
Role of employability intermediary	Recruit potential franchisees from low-income groups, support to apply for a franchise and provide ongoing support	Match staffing gaps with individuals from low income groups and provide both employer and employee training and ongoing support	Match staffing gaps with individuals from low income groups and provide both employer and employee training and ongoing support
Role of social investor and/or grant funder	Potential for initial grant funding to develop and deliver franchisee preparatory support	Provide part of the initial investment to franchisees with interest rebates per low-income hire made	Subsidise employability intermediary to deliver high quality, low cost recruitment service
Role of commercial funder/existing government schemes	Government scheme to provide majority of the initial investment required	Commercial sector to provide some of the initial investment required	N/A as the franchise already exists

\* High quality priority sectors identified are animal care, fitness instructors, construction services, gardening and groundsman, estate agents, vehicle repair, domiciliary care and business and communication services. See Appendix 2 for more detail on how the sectors were identified.

Per the parameters, all three routes will create or fill jobs in East London, within proven and established franchise systems for beneficiaries from households with an annual income of less than £15,000 currently unable to access a quality job.

Route 1, where low-income groups are supported to become franchisees, has the potential to create high levels of social impact as new businesses and jobs are created. The number of jobs and the depth of impact per job created however is low. Operationally, the value proposition for franchisors is strong. Research demonstrates franchisors struggle to find suitable franchisees. Offering additional support to their franchisees initially and on-going will strengthen their franchise offer. It will however be a challenge to build a sufficient pipeline of suitable franchisees that meet the parameters of the programme but are still able to access commercial capital and have independent funds to invest. The effort per job created is high initially and on-going. Yet, route 1 has the potential to be financially self sustaining in the future.

Route 2, where low-income groups are placed into employment in newly created franchises, has the potential to create the highest levels of social impact compared to the other two routes. New businesses are set up, and high numbers of jobs per franchise unit are created. As employees are trained to accommodate a more diverse workforce, there is exciting potential for a cultural shift. The offer for franchisees is strong – they will be able to access a cheaper source of financing, receive support to recruit employees and will reap the benefits of a more diverse workforce. It will, however, be a challenge to align the interests of social investors, grant funders and franchisors. The effort per job created is lower than Route 1, as on-going support to beneficiaries need not be as intensive; however considerable effort is still created to secure and manage the social investment and incentives. Some level of on-going grant funding will be required to sustain Route 2.

Route 3, where low-income groups are placed in employment in existing franchises, will create

high numbers of jobs for low-income groups however these jobs would not be newly created, but already in existence. As with route 2 however, there is the same opportunity for a cultural shift to accommodate a more diverse workforce. Operationally it is the easiest to implement as there are already employability agencies operating in this space. While grant funding will be essential to sustaining this route, the effort per job created is low.





## 6 ROUTE 1: FRANCHISEES

This section explores Route 1, detailing how it might work and who might be involved. It provides the background and research that underpinned this route's design and discusses considerations for successful implementation.

### Key points – Route 1: franchisees

- In Route 1, employability intermediaries would recruit and train low-income individuals to become franchisees. They would support them to access the start-up capital required, then provide on-going training and coaching to help franchisees manage their business
- Route 1 addresses two issues highlighted in our research – franchisors' struggle with franchisee recruitment and franchisees' lack of access to capital
- The beneficiary groups with most potential to benefit from this route are immigrants and people with disabilities
- Consideration points for route 1 are:
  - The potential for transformative change for the beneficiary, weighed against the challenge of successful implementation and low number of jobs created
  - If becoming a business owner is the most suitable first step for the unemployed
  - The struggle of building a pipeline of franchisors and franchisees
  - The significant investment required per job created

## 6.1 Background and current situation

### 6.1.1 Franchisors struggle to recruit suitable franchisees

Currently, most franchisors independently recruit, train and support franchisees. Despite the high supply of interested candidates, franchisors – particularly lower investment franchises – can struggle to find the right candidate for the franchise opportunity. Several of our interviews highlighted that applicants would often be turned down for failing to demonstrate the personality, drive and motivation required to make a success of their franchise. These comments are backed by the BFA's annual survey that cites franchisee recruitment as the second largest barrier to expansion.<sup>34</sup>

### 6.1.2 Franchisees lack access to capital for the initial investment requirement

For successful candidates, access to capital for the initial start-up costs is often a struggle. Cited by 36% of respondents to the BFA's annual survey, this is the most common reason for a franchise not being granted.<sup>35</sup> Interviews indicated that this problem was particularly profound for lower investment franchises, whereas larger unit franchises in social care reported that applicants tended to have access to sufficient finance. High street banks play an important role in providing loans to new franchisees to purchase and launch their franchise. Loan applications are successful only if both franchise (e.g. historical performance and level of training for franchisees) and individual (e.g. credit rating, personal history) attributes are deemed sufficiently appealing to the bank.

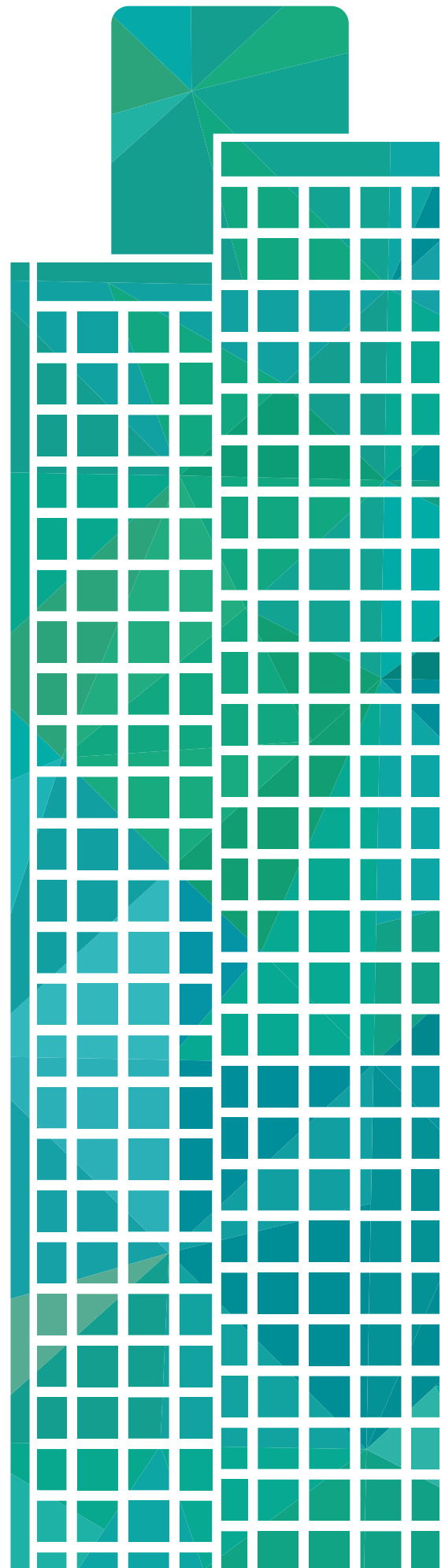
### 6.1.3 There is precedent for a programme that supports the unemployed to become franchisees

FranchisingWorks is a UK-based social enterprise that supports the long-term unemployed to become franchisees as a route to self-employment. It provides advice, training and formerly access to a fund to support potential franchisees to invest in franchise licenses.

#### FranchisingWorks

FranchisingWorks was launched in 2012, as a £1.2 million fund to support the unemployed to invest in franchisee licences. The fund targeted licences that cost between £5,000 and £20,000. However, it struggled to build a sufficient pipeline of interested franchisors and qualified franchisees, creating only 40 jobs in the first year of operation. By funding the licence fee, some argue franchisees did not have sufficient 'skin in the game'. At the same time, government start-up loans were launched, offering cheaper and simpler terms of borrowing for franchisees seeking start-up capital. The fund eventually wound down in 2014.

Today, FranchisingWorks provides independent advice and practical support to people interested in becoming franchisees, primarily in Greater Manchester and Merseyside. Instead of providing financing for the franchisee licence, it matches franchisees and franchisors, and facilitates franchisee access to capital. There are currently 45 franchise models on the FranchisingWorks programme, all of which are BFA approved and typically job-format franchises operating across all sectors. Examples of successful FranchisingWorks franchises include No Letting Go, Motivation & Co and Creation Station. A key operational challenge FranchisingWorks has faced is finding sufficiently qualified franchisees. Referral partners such as job centres were often hesitant to refer their service users given the potential risk of landing franchisees in debt, should the franchise fail.

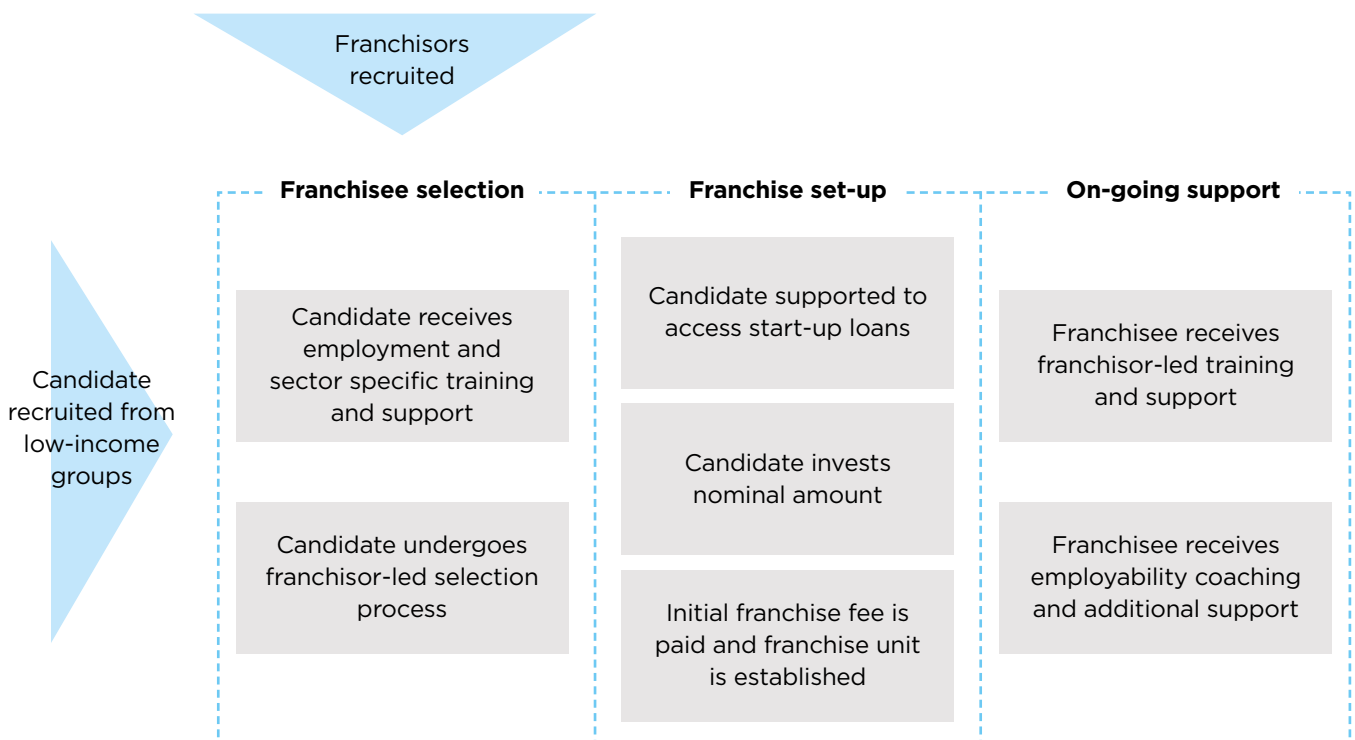


## 6.2 Programme design for Route 1

Based on the research above, we propose key design points for route 1 are:

- An employment intermediary<sup>36</sup> carefully matches individuals from low income groups with a low investment, job format franchisee opportunity and provides employability and sector specific training to the potential candidate to prepare for the franchisee selection process
- The franchisor leads the selection process, and if successful, the individual establishes a new franchise unit
- An intermediary supports the individual to access existing funds for new businesses e.g. the Government Start Up Loan<sup>37</sup>
- A nominal investment is made by the franchisee to ensure they have 'skin in the game'
- Alongside the franchisor's on-going support, the franchisee receives coaching, training and additional support from the employability agency to support day-to-day operations of the franchise unit

Figure 2: Route 1<sup>38</sup>



## 6.3 Stakeholders, their roles and value proposition

Table 4 provides an overview of the different stakeholders, their roles and value proposition.

Table 4 – Route 1 stakeholders

Who is the stakeholder and what are their characteristics?	What is their role in the programme?	Why would they want to take part in the programme?
<i>Beneficiary</i>		
<ul style="list-style-type: none"> <li>• Low income individuals, with a focus on immigrants and people with disabilities</li> <li>• Ability to invest some personal capital in the franchise</li> <li>• Ability to access loans</li> </ul>	<p>Be the franchisee, including:</p> <ul style="list-style-type: none"> <li>• Take a loan for the initial investment</li> <li>• Invest a small amount of personal capital in start up fee</li> <li>• Set up, own and run the franchise unit</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity for quality employment opportunity as a business owner</li> <li>• Potential for high financial gains</li> <li>• Control of working hours</li> </ul>
<i>Franchisor</i>		
<ul style="list-style-type: none"> <li>• Low investment job-format franchise (up to £30k)</li> <li>• Operate across all sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Select franchisees</li> <li>• Provide the initial and on-going support to franchisees, as per their franchise offer</li> </ul>	<ul style="list-style-type: none"> <li>• Receive support for franchisee recruitment</li> <li>• Strengthen the franchise offer through additional on-going franchisee support</li> <li>• Fulfil corporate social responsibility</li> </ul>
<i>Employment and other intermediaries</i>		
<p>Multiple intermediaries including:</p> <ul style="list-style-type: none"> <li>• Recruitment agencies focused on low income groups</li> <li>• Employability training and coaching agencies</li> <li>• Agencies supporting access to new business loans</li> </ul>	<ul style="list-style-type: none"> <li>• Recruit potential franchisees</li> <li>• Provide employability and sector specific training to prepare beneficiary for franchisee selection testing</li> <li>• Support franchisees to apply for the loans required for the initial investment</li> <li>• Provide on-going coaching and support to operate the franchise unit</li> </ul>	<ul style="list-style-type: none"> <li>• In line with intermediaries' existing roles and objectives</li> <li>• Offer potential candidates an exciting opportunity</li> </ul>

<i>Financiers</i>		
<ul style="list-style-type: none"> <li>• Pre-existing funds for new businesses e.g. UK Government's Start Up Loan fund</li> <li>• Beneficiaries' personal capital (minimal amount)</li> </ul>	<ul style="list-style-type: none"> <li>• Franchisees to access loans to support initial start-up fee</li> <li>• Beneficiaries to contribute a small percentage of the start-up fee to ensure 'skin in the game'</li> </ul>	<ul style="list-style-type: none"> <li>• Aligns with funds' social and economic objectives</li> </ul>
<i>Programme coordinator</i>		
<ul style="list-style-type: none"> <li>• Relevant charity or social business</li> </ul>	<ul style="list-style-type: none"> <li>• Programme management</li> <li>• Coordinate all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• In line with their mandate</li> </ul>

## 6.4 Beneficiary group

We propose that Route 1 would target low-income individuals facing personal barriers to quality employment. Within this, we propose focusing on immigrants and people with disabilities. Our interviews and research suggests both groups may be well-placed to benefit from this route.

Immigrants often have work experience, but can fail to translate that into employment upon settling in a new country for a variety of factors, including language challenges and degrees not being recognised in the UK. However, research has found that Immigrants in the UK are three times more likely to have entrepreneurial interests than non-immigrants.<sup>39</sup>

Interviews suggest individuals with disabilities are similarly more likely to have entrepreneurial aspirations and a disproportionately high number run their own business.<sup>40</sup> In an interview, a sector expert raised that many people with disabilities already have the skills and experience suitable to run a franchise, but that an employer's environment often makes it difficult to find work.

## 6.5 The initial investment

We propose the majority of the initial investment be funded by pre-existing funds such as the Government Start-up Loan scheme, which offers loans of up to £25,000 at a fixed interest rate of 6%. Not only are these terms cheaper than many commercial alternatives, but the loans are more accessible. Applicants with weaker credit records are often successful and do not need to put forward assets or a guarantor to secure the loan.

This route would also require investment from the franchisee's personal funds, to ensure they still have some 'skin in the game'.

## 6.6 Considerations for route 1

**6.6.1 Becoming a franchisee could have a transformative impact on a beneficiary's life, however finding suitable candidates may prove difficult and the number of jobs created will be low**

By setting up new franchises, Route 1 would create new businesses and jobs. The financial returns and development opportunity of owning and managing a business could have a transformative

impact on the beneficiary's life. For many, being a business owner and in control of your work life is an attractive offer. This is particularly true for immigrants and disabled individuals, who are more likely to have entrepreneurial ambitions and may already possess the required skills and experience. However, the beneficiary group this route could support may be limited. Franchisees require some experience, access to personal capital and a good credit score to purchase the franchise. Young people or others without work experience could lack the confidence, business insight, management skills and access to personal capital required to buy and run a franchise unit. If the programme is only able to work successfully with qualified candidates who are already better placed to access the job market, the depth of impact per beneficiary may be limited. Furthermore, as Route 1 focuses on job-format franchising, only one job opportunity for a low-income individual would be created for every franchise set up.

### **6.6.2 Becoming a franchisee may not be the most suitable first step for the unemployed**

The reasons for a person being unemployed are often complex and rooted in their life circumstances. While a proven franchise system does make setting up a new business considerably less risky, becoming a business owner may not be a suitable first step back into the labour market. For example, an employability social enterprise highlighted that unemployed single parents are unlikely to have the time or motivation to set up a franchise.

This may not be as true for underemployed people. By having already secured a job, they have demonstrated that they are better able to overcome any structural barriers to employment.

### **6.6.3 Building a pipeline of franchisors and franchisees may be challenging**

One of the reasons the FranchisingWorks fund wound down activities is because it struggled to

build a strong pipeline of committed franchisors and qualified candidates. Success is dependent on recruiting and motivating franchisors and franchisee candidates that meet narrow sets of criteria. Interviews revealed a suspicion towards this model in the franchising and employment sectors, rooted in the difficulties FranchisingWorks experienced trying to find the right participants.

### **6.6.4 The offer for all stakeholders is strong however significant investment is required to create one job**

Route 1 has the potential to be financially self-sustaining in the long-term, if the interests of all stakeholders align. For franchisors, the offer of this programme is strong. Research demonstrates they struggle to recruit suitable franchisees and the additional support this programme would offer to franchisees initially and on-going would only strengthen their franchise offer. For employment intermediaries, it offers another route to get beneficiaries into the labour market, and for intermediaries that support with access to funding, this would be another source of clients. For beneficiaries, this is an attractive employment opportunity, and support would be offered to access capital.

Assuming interests do align, significant effort is required to create one job. Effort needs to be spent coordinating a range of stakeholders, recruiting candidates, conducting pre-application training, securing the initial start-up loan and providing on-going support, just to create one job. Conversations with organisations working in the employability space indicate on-going coaching to be an essential element for keeping those with barriers to employment in the workforce. Given the high levels of responsibility required to run a franchise, this support is likely to be fairly intensive.

## 7 ROUTE 2: NEW FRANCHISES

This section explores Route 2, detailing how it might work and who might be involved. It provides the background and research that underpinned this route's design and discusses considerations for successful implementation.

### Key points – Route 2: new franchises

- In Route 2, franchisee candidates would be supported to access cheap capital to help them set up new franchise units. Employment intermediaries would carefully match low-income individuals with vacant positions within the newly established businesses
- Franchises would be medium to high investment and operate in the identified quality sectors. Grant funders and social investors would provide financial incentives to franchisees for every low-income hire made
- Route 2 addresses a key issue highlighted in our research – franchisees struggle to recruit and retain staff cost effectively
- The beneficiary group will be low-income individuals with personal barriers to employment. Capable individuals with weak employability skills have the most potential to benefit from this.
- Finance to purchase the franchise will be provided by a combination of commercial capital, the franchisee's personal investment and a blend of impact investment and grant funding
- Consideration points for route 2 are:
  - Balancing the potential to create high numbers of jobs with the difficulty of assuring quality of employment
  - The complexity of mobilising social investment successfully
  - The strong value proposition for employers
  - The complexity of implementation due to the number of different stakeholders
  - The potential for impact to be sustained beyond the programme's operational life



## 7.1 Background and current situation

### 7.1.1 There is precedent for programmes that use financial incentives to align business behaviour

Examples in Canada and France have used financial incentives align business behaviour, as shown in the two case studies below.

#### **Social Capital Partners**

Through their 'Community Employment Loan Programme,' Canadian impact investor Social Capital Partners (SCP) has used financial incentives to encourage recruitment from particular groups. They offer interest rebates for employers that hire individuals from specified demographic groups. In a proof of concept programme starting in 2006, over 300 people were hired and more than 50 employers participated.<sup>41</sup>

#### **Impact Partenaires**

French investment manager Impact Partenaires recently launched a new fund IMPACT Creation, which focuses on franchising to spur job creation in deprived urban areas. Not limited to specialist impact investment organisations, Dutch bank ING offer loans where interest is determined by performance against environmental, sustainability and governance measures.

### 7.1.2 Staff recruitment can be a struggle for franchise businesses

Interviews with franchisors and franchisees report staff recruitment as a continuing challenge within franchised units. A franchisee in the professional services sector cited the lack of suitable applicants as a key factor. A property services franchisor highlighted that poor staff retention was driving high costs for its franchisees, who need to constantly invest in the training of new staff. Indeed, within the quality sectors prioritised, the following recorded national skill shortages in 2015:<sup>42</sup>

- Business and communications services and domiciliary care both recorded a 26% skill shortage
- Vehicle technicians, mechanics and electricians stood at 13%
- The density of vacancies in construction increased by 71% from 2013<sup>43</sup>
- The proportion of fitness instructor establishments reporting vacancies was very high, at 5.1%

### 7.1.3 Franchises are profit driven enterprises

Franchisees are independent business owners whose primary focus is delivering a healthy profit. Therefore, they will always seek to keep costs as low as possible when looking for capital to cover the initial investment or to grow the business. For franchise systems around the £100k mark, a commercial loan is typically the cheapest source of finance.

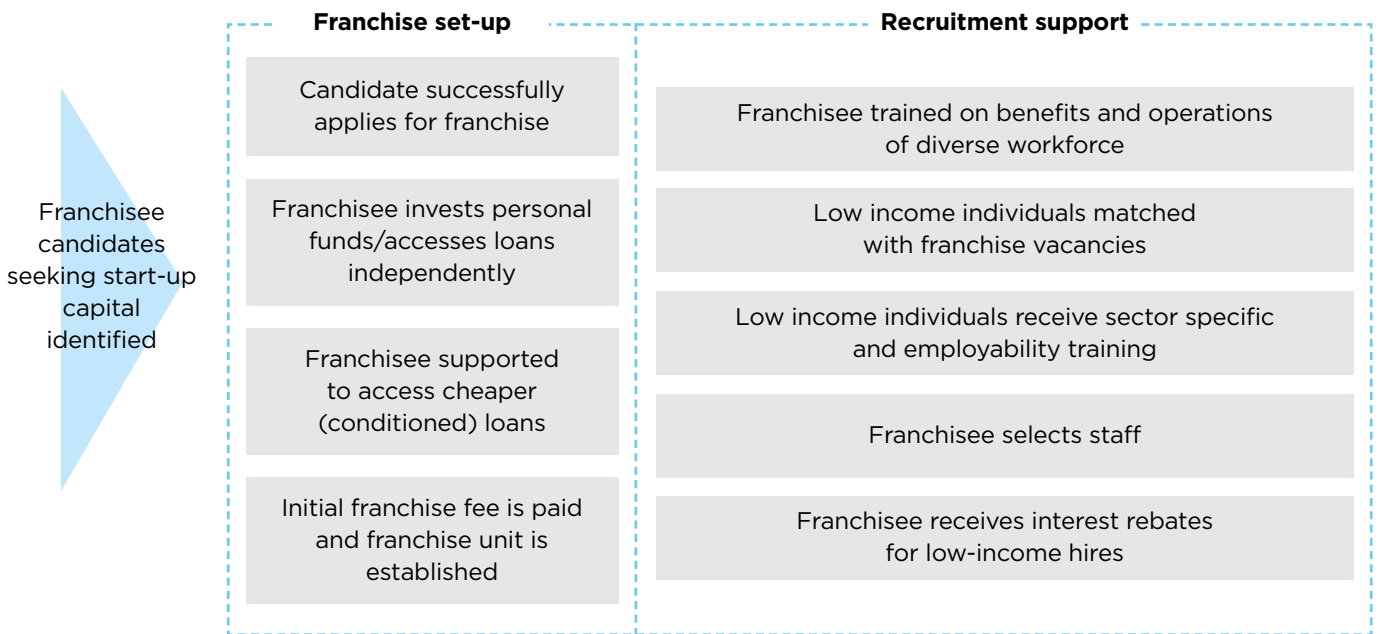
## 7.2 Programme design for route 2

Key design points for route 2 are:

- The programme engages franchisee candidates seeking start-up capital and connects them with investors that use impact investing to incentivise employment of low income staff
- Interest rebates on start-up capital loans are offered to franchisees for every low income hire made
- Blended finance of impact investors and grant funders provide funds to cover the cost of interest rebates

- An employment intermediary trains franchisees on the benefits and the operations of accommodating staff from low income groups
- An employment intermediary carefully matches individuals from low income groups with staff vacancies and delivers training to ensure individuals are able to fulfil and retain their job

Figure 3: Route 2<sup>44</sup>



## 7.3 Stakeholders, their roles and value proposition

Table 5 provides an overview of the different stakeholders, their roles and value proposition.

Table 5 - Route 2 stakeholders

Who is the stakeholder and what are their characteristics?	What is their role in the programme?	Why would they want to take part in the programme?
<i>Beneficiary</i>		
<ul style="list-style-type: none"> <li>• Low income individuals facing personal barriers to employment, with focus on capable individuals with real or perceived poor employability skills</li> </ul>	<ul style="list-style-type: none"> <li>• To be an employee in a franchise unit performing an entry level position</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity for quality employment in a stable work environment</li> <li>• Employability skills</li> </ul>
<i>Franchisor</i>		
<ul style="list-style-type: none"> <li>• Medium to high investment franchise (around £100k)</li> <li>• 10+ jobs per franchise unit</li> <li>• Operates in estate agents, domiciliary care, business communication sector or any other of the quality sectors identified</li> </ul>	<ul style="list-style-type: none"> <li>• Recruit and select franchisees</li> <li>• Provide initial and on-going support to franchisees</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen their franchise offer by supporting franchisees access cheaper capital, and providing support for franchisees on having a diverse workforce</li> <li>• Fulfil corporate social responsibility</li> </ul>

<i>Franchisee</i>		
<ul style="list-style-type: none"> <li>• Individual that fits the franchisee profile; unlikely to be from a low-income group</li> <li>• Able to access commercial loans</li> </ul>	<ul style="list-style-type: none"> <li>• Secure investment and successfully apply for franchise</li> <li>• Set up franchise unit</li> <li>• Recruit and train staff from low income groups</li> <li>• Receive training on working with low income individuals and its benefits</li> <li>• Demonstrate to social investors/grant funders that staff remain in quality employment to receive interest rebates</li> </ul>	<ul style="list-style-type: none"> <li>• Access to qualified job candidates and support with recruitment</li> <li>• Access to cheaper financing than commercial options</li> <li>• Fulfil corporate social responsibility</li> <li>• More diverse workforce</li> </ul>
<i>Employability intermediaries</i>		
<ul style="list-style-type: none"> <li>• Recruitment agencies focused on low income groups</li> <li>• Employability training and coaching agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Understand franchisee's staffing needs and carefully matches with individuals from low income groups</li> <li>• Provide employability and sector specific training to prepare low income individuals for the role</li> <li>• Provide training to franchisees on working with low income individuals and its benefits</li> </ul>	<ul style="list-style-type: none"> <li>• In line with employability agencies' existing roles and objectives</li> </ul>

<i>Financiers</i>		
<ul style="list-style-type: none"> <li>• Blended finance: social investors and grant funders</li> <li>• Commercial loans</li> <li>• Personal finance</li> </ul>	<ul style="list-style-type: none"> <li>• Social investors and grant funders provide funds to franchisees to support with the cost of the initial investment required to start and launch the franchise unit</li> <li>• Interest rebates are offered to franchisees for every low-income hire made</li> <li>• Commercial loans and personal finance cover the remainder of the initial investment</li> </ul>	<ul style="list-style-type: none"> <li>• Achieves social impact objectives of social investors</li> </ul>
<i>Programme coordinator</i>		
<ul style="list-style-type: none"> <li>• Relevant charity or social business</li> </ul>	<ul style="list-style-type: none"> <li>• Programme management</li> <li>• Identify franchisee candidates and support to access social investment</li> <li>• Coordinate all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• In line with their mandate</li> </ul>

## 7.4 Beneficiary group

The proposed target group are low-income individuals facing personal barriers to employment, with a focus on capable individuals with poor employability skills, whether real or perceived.

Interviewees suggested there are plenty of capable individuals currently unable to access quality employment who have great potential to become good employees. To support them to overcome the personal barriers they face, the programme will provide job specific training alongside general employability coaching, covering interview skills,

team working and communication. To address the cultural barriers to employment facing these individuals, franchisees will be trained on how to accommodate a diverse workforce.

Starting with those closest to the labour market will generate 'quick wins' in the early stages of the programme. This will provide the platform to later reach those with more challenging barriers to employment, as the programme is refined and scaled.

## 7.5 Initial investment

In Route 2, the franchisee would fund the initial investment by a combination of commercial loans, personal financing and blended finance of impact investors and grant funders. Commercial loans and personal financing would be secured by the franchisee independently while the programme would facilitate access to social financing. Blended finance is proposed as it would provide a cheaper source of financing for the franchisee than commercial capital. This is because the grant funder counterparty would cover the cost of the interest rebate whenever a low-income hire is made.

Alternatively, financing could be provided by a bond. Allia, a UK non-profit supporting others to create social benefit, have used listed and unlisted bonds to give charities and social enterprises access to unsecured finance, typically with lower interest rates and flexible repayment structures.<sup>45</sup> If a bond could attract socially motivated investors requiring sufficiently low rates of return, this could enable the provision of interest rebates without the need for blending in grant funding.

## 7.6 Considerations for route 2

### 7.6.1 There is potential to create high numbers of jobs and overturn negative perceptions of diverse hiring policies; however, the quality of work created may be challenging to assure

By setting up new franchises with many employees per unit, route 2 would not only create new businesses, but has the potential to generate far more jobs than route 1. Quality employment could become accessible to those with barriers to employment. The training programme would break down these barriers, benefitting the individual beyond the immediate job created, potentially acting as a stepping stone for future work. From the employer's side, those that hire from disadvantaged groups could help to counter the negative, elitist attitudes carried by some in

their industry towards diverse hiring policies.<sup>46</sup> Employees in a company would benefit from increased awareness of community issues and increased engagement resulting in enhanced morale, loyalty and improved skills.<sup>47</sup>

The programme however has less control over the quality of jobs created. Despite the programme only working in the prioritised quality sectors with reputable franchisors, it may be hard to ensure that positions have strong skills development or progression opportunities and are unlikely to be as financially attractive as becoming a franchisee. The impact on individual beneficiaries would be similar to conventional employment programmes.

### 7.6.2 There is successful precedent of social investment to incentivise behaviour but it is not without complexity

While not limited to franchise businesses, SCP are successfully implementing a similar loan programme in Toronto, with interest rebates for employers that hire individuals at a disadvantage when finding employment. The UK context, however, is different. Social investors and grant funders in particular can only lend to organisations that have a social purpose embedded in their legal status or governance documents, for example a registered charity or social enterprise. It is unclear whether such a 'mission lock' would be accepted by franchisors, particularly if this represents a fundamental change to their established franchise system.

A further factor for investors to consider is the financial sustainability of a franchisee. Though franchises have an established track record and are proven to have higher financial sustainability than other start-ups, many impact investors have limited awareness of franchises. Some stakeholders in the social investment sector indicated they would consider franchises as start-ups, and therefore a higher risk investment than existing businesses.

Conversations with Allia Impact Finance indicate that a bond could be an alternative tool to provide

the cheap capital required to incentivise business behaviour, as it may not require a similar ‘mission lock.’ However, the appetite for investment in such a bond is as yet unproven.

### 7.6.3 The value proposition for employers is very strong

There are many gains for businesses participating in this programme. Franchisees and franchisors alike were excited by the potential to reduce high recruitment costs. Cheaper financing, compared to commercial loans is a big draw. In addition, reputational gains from diverse hiring policies can turn into improved brand awareness and customer relations, as well as improved workforce morale and loyalty. Companies involved in work inclusion schemes report direct financial benefits through reduced recruitment and training costs.<sup>48</sup>

### 7.6.4 Implementation will be complex due to the number of different stakeholders

Success of implementation relies on keeping many stakeholders, all with differing objectives, engaged and committed to the programme. Satisfying these different demands and managing the value proposition for each party will be a delicate balancing act and complex to manage. Interviews with teams that have run similar programmes like FranchisingWorks cite managing and mobilising the different stakeholders at the right time as a key success factor.

### 7.6.5 Impact for beneficiaries could be sustained beyond the programme’s operational life

While many stakeholders with different interests need to be aligned to make Route 2 work, once successfully implemented, its impact could be sustained beyond its operational life. Once a beneficiary has been established in post, unlike Route 1, there is no need to continue to support the beneficiary beyond the first couple of months.

Despite the low levels of on-going investment in each beneficiary, this route will always need some form of philanthropic funding or government subsidy to make the social investment cheaper than commercial capital.



## 8 ROUTE 3: EXISTING FRANCHISES

This section explores Route 3, detailing how it might work and who might be involved. It provides the background and research that underpinned this route's design and discusses considerations for successful implementation.

### Key points – Route 3: existing franchises

- In Route 3, employability intermediaries would carefully match low-income individuals with vacant positions in existing franchise units operating in identified quality sectors
- Franchisees would receive training on accommodating staff from low income groups and grant funders would provide subsidy to ensure the recruitment service is low cost and high quality
- As with route 2, route 3 addresses the issue of franchisees struggling to recruit and retain staff cost effectively
- The beneficiary group will also be low income people with personal barriers to employment. Capable individuals with weak employability skills have the most potential to benefit from this.
- Consideration points for route 3 are:
  - Balancing the potential to fill high numbers of jobs with the difficulty of assuring quality of employment and that new jobs would not be created
  - The strength of the value proposition
  - Ease of implementation, compared to routes 1 and 2
  - The requirement for continuous grant funding



## 8.1 Background and current situation

### 8.1.1 Staff recruitment is a struggle within businesses

As with route 2, interviews with franchisors and franchisees report staff recruitment as a continuing challenge within their franchise units.

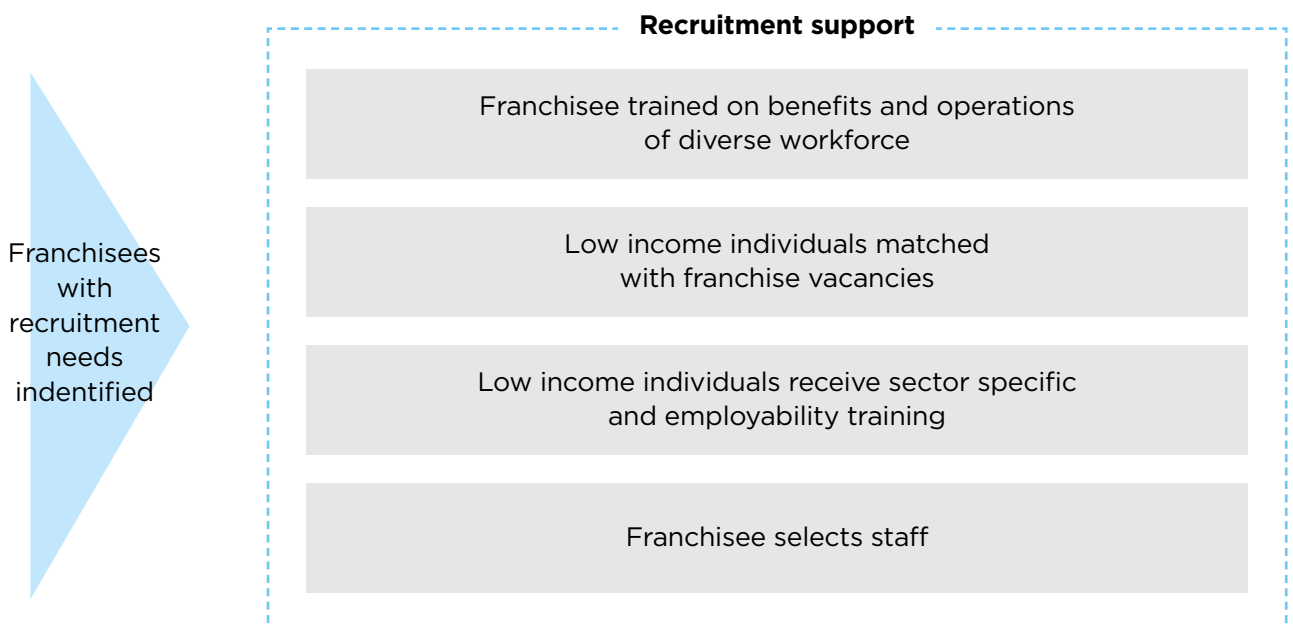
As outlined in the previous section, the priority sectors we have identified have largely recorded skill shortages (see section 7.1).

## 8.2 Programme design for route 3

Key design points for route 3:

- The programme involves franchisors that have franchisees with high number of employees per unit operating in a quality sector
- The franchisor connects the programme with franchisees with recruitment needs. An employment intermediary delivers training with franchisees on the benefits and the operations of accommodating staff from low income groups
- Subsidised by a grant funder, an employment intermediary offers franchisees a high quality, low cost recruitment service, carefully matching individuals from low income groups with staff vacancies and delivering training to ensure individuals are able to fulfil their job roles

Figure 4: Route 3<sup>49</sup>



## 8.3 Stakeholders, their roles and value proposition

Table 6 provides an overview of the different stakeholders, their roles and value proposition.

Table 6 - Route 3 stakeholders

Who is the stakeholder and what are their characteristics?	What is their role in the programme?	Why would they want to take part in the programme?
<i>Beneficiary</i>		
<ul style="list-style-type: none"> <li>• Low income individuals facing personal barriers to employment, with focus on capable individuals with real or perceived poor employability skills</li> </ul>	<ul style="list-style-type: none"> <li>• To be an employee in a franchise unit performing an entry level position</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunity for quality employment in a stable work environment</li> <li>• Employability skills</li> </ul>
<i>Franchisor</i>		
<ul style="list-style-type: none"> <li>• Medium to high investment franchise (around £100k)</li> <li>• 10+ jobs per franchise unit</li> <li>• Operates in estate agents, domiciliary care, business communication sector or any other of the quality sectors identified</li> </ul>	<ul style="list-style-type: none"> <li>• Connect programme to franchisees with recruitment needs</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen their franchise offer by supporting franchisees access cheaper, quality recruitment services, and providing support for franchisees on having a diverse workforce</li> <li>• Fulfil corporate social responsibility</li> </ul>
<i>Franchisee</i>		
<ul style="list-style-type: none"> <li>• Existing franchisee of franchisor</li> </ul>	<ul style="list-style-type: none"> <li>• Recruit staff from low income groups</li> <li>• Receive training on working with low income individuals and its benefits</li> <li>• Demonstrate to grant funders that staff remain in quality employment to receive subsidised recruitment service</li> </ul>	<ul style="list-style-type: none"> <li>• Access to high quality, low cost recruitment service, satisfying their staffing needs</li> <li>• Fulfil corporate social responsibility</li> <li>• More diverse workforce</li> </ul>

<i>Employability intermediaries</i>		
<ul style="list-style-type: none"> <li>• Recruitment agencies focused on low income groups</li> <li>• Employability training and coaching agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Understand franchisee's staffing needs and carefully match with individuals from low income groups</li> <li>• Provide employability and sector specific training to prepare low income individuals for the role</li> <li>• Provide training to franchisees on working with low income individuals and its benefits</li> </ul>	<ul style="list-style-type: none"> <li>• In line with employability agencies' existing roles and objectives</li> </ul>
<i>Financiers</i>		
<ul style="list-style-type: none"> <li>• Grant funder</li> </ul>	<ul style="list-style-type: none"> <li>• Fund employability intermediaries to provide high quality, low cost recruitment service to franchisee</li> </ul>	<ul style="list-style-type: none"> <li>• Achieves social impact objectives of grant funder</li> </ul>
<i>Programme coordinator</i>		
<ul style="list-style-type: none"> <li>• Relevant charity or social business</li> </ul>	<ul style="list-style-type: none"> <li>• Programme management</li> <li>• Coordinate all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• In line with their mandate</li> </ul>

## 8.4 Beneficiary group

Route 3 has the same beneficiary target group as with Route 2 - low-income individuals facing personal barriers to employment, with a focus on capable individuals with poor employability skills.

A combination of employability coaching and job specific training will help them take the last steps into the labour market and remain there. Similarly, cultural barriers are addressed through employer training. See Section 7.4.

## 8.5 Considerations for route 3

### 8.5.1 **There is potential to fill high numbers of jobs and overturn negative perceptions of diverse hiring policies; however, it is harder to assure the quality of employment and new jobs would not be created**

As with route 2, there is the potential to support high numbers of low income individuals to secure a job. For these individuals, quality employment would become accessible through employability training. However, these vacancies would not be newly created, nor would new businesses be set up. Vacancies would need to exist within the established franchise units, limiting the impact of this route.

As with route 2, the quality of jobs would be difficult to assure, but would nonetheless still generate social gains from the employer's side (see section 7.6.1).

### 8.5.2 **While the value proposition is strong, it may not be strong enough**

The benefits for participating franchisees are largely the same as in route 2 – support for staff recruitment and retention, and the reputational, workforce and financial/organisational gains associated with hiring from low-income groups.

The difference with route 3 is that instead of access to cheaper financing, franchisees receive a subsidised recruitment service. Interviews with franchisors and franchisees suggest this may appeal if the programme could reduce recruitment costs without sacrificing staff quality.

### 8.5.3 **Implementation is simpler compared to route 1 and 2**

As route 3 proposes to work with existing franchise units, there is less complexity and risk as the programme is not involved in setting up new franchise units. Additionally, there is no involvement in securing the initial capital. The programme's focus would be largely on the staff training, support and recruitment side.

### 8.5.4 **Continuous grant funding required**

Even more so than route 2, route 3 will need a greater proportion of ongoing grant funding. There is no obvious role for social investors and it is likely that the recruitment service will continue to need subsidy from philanthropic funders.

## 9 CONCLUSION AND RECOMMENDATIONS

This research began by establishing two facts: the need to support low income individuals living in East London access high quality employment; and the UK franchising sector's strength, growth and ability to create stable jobs. We focused on how to create jobs within the commercial franchising sector, developing and exploring three possible design routes for an employability programme. Our interviews showed excitement across the employability and franchising sectors for harnessing franchising principles to address the social need, but raised operational challenges for each route. A fourth option, applying the principles of franchising to mission led business, continued to emerge as an alternative that could overcome these barriers and achieve significant impact.

Our research suggests Route 1 appears to be the least feasible approach, due to the intensive labour required per job created and difficulty of finding enough suitable franchisees and franchisors. Route 3 faces fewer operational challenges, but would not create new jobs and may duplicate existing employability initiatives already delivered outside the franchise sector. Route 2 has potential for strong impact, but for franchisees must receive a financial benefit for it to be successful. The current social investment and philanthropic capital markets in the UK require an organisational mission lock to offer this, which neither franchisees, franchisors nor high-street banks would accept.

The fourth route, applying the principles of franchising to social organisations, appears to offer the opportunity to overcome many of these challenges. With this approach, a programme would be developed to support existing mission-led businesses with a proven model of supporting low-income groups into quality jobs to replicate into targeted areas of London. They would harness franchising models and concepts to ensure their replications are financially viable and achieve the same social impact. This idea builds upon a key franchising principle: tapping into existing employability expertise and replicating something that works rather than starting from scratch and duplicating mistakes that others have made before. Working with mission-led

organisations would unlock access to funding from philanthropic funders and social investors, while the programme's objectives would be aligned with participants from the start.

Whilst requiring further development, this fourth option offers the opportunity to overcome the barriers of working with primarily commercial organisations and achieve significant impact for low income groups in London.

### 9.1 Programme recommendations

Recommendations for how this research could be taken forward are outlined below.

#### 9.1.1 Explore and develop a replication support programme for mission led businesses focused on creating jobs for low income groups

This support package would provide purpose led businesses with the expertise and support required to replicate their model into targeted areas of need in East London. An initial period of exploration would be required to further develop and validate how this programme would operate.

As purpose-led businesses, these ventures would be able to access both grant and social investment to support their replication. This route may also be operationally complex, given that it will focus on replicating mission-led businesses, which may not have developed the systems and processes inherent in commercial franchises. However, a significant advantage over the other routes is that the motivation of mission-led businesses will be aligned to the vision for the programme, reducing the need for additional financial incentives, and contributing to greater success.

#### 9.1.2 Pause further exploration of creating jobs through the commercial franchise sector

Our research has found operational challenges preventing each of the three design routes

explored for creating jobs for low income groups in the commercial sector.

Route 1 could have a transformative impact for individuals and their families, but would be very labour intensive considering the limited number of jobs it could create and it may not be possible

to recruit enough franchisees and franchisors that meet such a narrow set of criteria. Route 2 seemingly offers the opportunity to create large numbers of jobs, but requires funding that philanthropists and social investors are unlikely to provide. Route 3 appears operationally feasible, but does not create new jobs and may unnecessarily duplicate existing employability initiatives.

### 9.1.3 Build partnerships between London's franchising and employability sectors

This research identified a trend of franchisors interested in understanding how their businesses could better build jobs in their communities, with many unaware of the opportunities available to them. Similarly, employability agencies showed a lack of awareness of how franchising can create more stable jobs than other sectors, with strong potential for progression within the network. Developing relationships between both groups, potentially through an existing body like the BFA London regional forum, would strengthen their ability to provide employment for low-income individuals. Similar efforts in other sectors, such as the Movement to Work collaborative, have achieved impressive results by galvanising existing good will into tangible efforts.

### 9.1.4 Raise franchising sector's awareness of business benefits of employing from low-income groups

There are clear business benefits to recruiting staff from low-income groups, beyond a desire to simply have social impact. The press coverage generated leads to reputational gains; increased staff awareness of community issues leads to improved workforce morale; and companies involved in work inclusion schemes report direct financial benefits through reduced recruitment and training costs. Better awareness of these benefits would encourage greater participation in any employment programmes. This could be a key function of the partnerships described above.



# 10 APPENDIX 1: LIST OF INTERVIEWS AND DATA SOURCES

## 10.1 Interviews

As part of this research we interviewed representatives from the following organisations across the employability, finance and franchising sectors. Their inclusion in this report does not indicate an endorsement of the findings of the research or recommendations.

### Employability

- Bromley by Bow Centre
- Catch-22
- Change Please
- Crackedit
- East London Business Alliance
- Evenbreak
- Gingerbread
- Partnership to Advance Youth

### Employment

- PolicyLink
- Social Capital Partners
- The Learning and Work Institute
- Timewise Foundation/Women Like Us
- Toronto Community Benefits Network
- Tree Shepherd
- Voice4Change

### Finance

- Barrow Cadbury
- Big Society Capital
- Impact Partenaires
- Lloyds Bank

### Franchising

- Art K
- British Franchise Association
- Business Options
- CookFood.net
- Dennis + Turnbull
- Franchising Works (former employee)
- Heritage Healthcare
- HR Department
- ImpactFranchises.com
- LawnScience
- LovelyLawns
- No Letting Go
- British Franchise Association London Regional Forum
- Platinum Wave
- Signs Express
- Stevens and Bolton LLP
- Surface Medic
- The Franchise Company
- Thrifty Car Rental (former CEO)

## 10.2 Data sources

The following primary data sources were used as part of this research.

British Franchise Association. 2016. bfa NatWest Franchise Survey 2015. [Survey]

Data Monitor. 2010. Monitor Report On Franchising.

Department for Work and Pensions. 2017. Households below average income: 1994/95 to 2015/16. [Data file]. Retrieved from <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201516>.

Global Entrepreneurship Monitor. 2016. Global Entrepreneurship Monitor: United Kingdom 2015 Monitoring report. <http://www.gemconsortium.org/report/49536>.

Office for National Statistics/London Data Store. 2016. Unemployment Rate, Region. [Data file] Retrieved from: <https://data.london.gov.uk/dataset/unemployment-rate-region>.

Office for National Statistics/London Data Store. 2016. Unemployment Rate, Region. [Data file] Retrieved from: <https://data.london.gov.uk/dataset/unemployment-rate-region/>.

Office for National Statistics. 2017. Unemployment rates of young black men in London. [Data file] Retrieved from: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/adhocs/006675unemploymentratesofyoungblackmeninlondon>.

Office for National Statistics. 2016. Underemployment and overemployment in London: 2015. [Data file] Retrieved from: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/005741underemploymentandoveremploymentinlondon2015>.

UK Commission for Employment and Skills. 2016. Employer Skill Survey 2015: UK Results. <https://www.gov.uk/government/>.



## 11 APPENDIX 2: SECTOR ANALYSIS

This section summarises the methodology for deciding which sectors should be prioritised, by identifying the sectors most likely to offer quality work. Desk-based research was used to identify the sectors in which franchises are prevalent, and to assess entry-level occupations within each sector against factors for quality work.

### 11.1 Factors for high quality work

The table below summarises the factors for quality work used by the analysis and indicators used to assess them.

Table 7 – Factors for quality work

Factor	Indicator
Average earnings	Average annual earnings by occupation for full-time workers in London.
Job security	Historic and forecast job growth by sector in London.
Career progression	Apprenticeships by sector

These factors were chosen based on research from 2016 conducted by Oxfam and University of West Scotland into what makes quality work. Their findings also identified paid leave, a safe environment and a supportive manager as factors of high quality work, but these are not observable at sector level and so were not included in the analysis.

## 11.2 Comparing sectors against factors of high quality work

Common franchise sectors, and occupations within these, were identified, using the British Franchise Association’s annual franchising survey. Occupations were mapped against each of the identified sectors, using a ‘red, amber, green’ (RAG) rating system, as summarised in the table below. A grey rating denotes that data could not be sourced for that occupation.

Table 8 – RAG rating by sector

Occupation	Earnings	Career advancement	Job growth	Occupation	Earnings	Career advancement	Job growth
Hotels and Catering	Red	Amber	Amber	Property services: gardeners and groundsmen	Amber	Red	Amber
Store Retailing	Amber	Red	Red	Property services: elementary cleaning	Red	Red	Green
Personal services: Childcare & related	Red	Green	Red	Property services: estate agents	Green	Green	Green
Personal services: Animal care	Amber	Amber	Red	Transport & vehicle services: drivers	Green	Red	Red
Personal services: Fitness instructors	Amber	Grey	Red	Transport & vehicle services: repair	Green	Amber	Red
Personal services: Hairdressers & beauticians	Red	Green	Red	Domiciliary care	Amber	Green	Green
Personal services: construction & building	Amber	Red	Amber	Business and Communications services	Green	Green	Green

## 11.3 Identifying priority sectors and conclusion

A staged exclusion approach was applied to prioritise the sectors:

1. Firstly, any occupation with a red rating for earnings was excluded due to the programme’s focus on job creation for low income groups.
2. Secondly, any occupation with at least two red ratings was excluded.

Adopting this approach suggests preference is given to animal care, fitness instructors, construction services, gardening and groundsmen, estate agents, vehicle repair, domiciliary care and business and communication services. Of these, estate agents, domiciliary care and business communication perform best against criteria of high quality of work and thus should be further prioritised.

## 12 APPENDIX 3: ROUTE DESIGN

### 12.1 ROUTE 1: FRANCHISEES

This table explains how Route 1 would work in further detail.

1	<p>The programme works with an employment intermediary to recruit unemployed and underemployed people from low income groups, with a focus on immigrants and people with disabilities with suitable skills and experience for running a franchise. It targets individuals facing predominantly personal barriers to quality employment.</p> <p>A personality test is used to identify individuals with the right characteristics for becoming a franchisee. High potential candidates progress to phase 2.</p>
2	<p>The programme delivers training to candidates on how to become a successful franchisee. The training is tailored to the sectors where franchise opportunities are available.</p> <p>The programme supports candidates to access the capital necessary to apply for a franchise, likely through government start-up loans. The candidate will invest some personal capital.</p>
3	<p>The programme recruits franchisors that:</p> <ul style="list-style-type: none"> <li>• Require low initial investment (up to £30k)</li> <li>• Do not require premises</li> <li>• Are 'emerging' and have available territories in East London</li> <li>• Have proven to be successful</li> <li>• Are from any sector</li> </ul> <p>The candidate applies to become a franchisee with the recruited franchisor, undertaking their normal application process with support from the programme. The franchisor will always have final say over the success of the application.</p>
4	<p>The candidate undertakes the franchisor's initial training, sets up and begins to operate their franchise unit.</p> <p>The programme provides thorough ongoing training and coaching to support the candidate run their business successfully. The franchisor may pay a small fee towards this support.</p>
Outcome	<p><i>The person from the low income group is now in quality self-employment as a franchisee.</i></p>

## 12.2 ROUTE 2: NEW FRANCHISES

This table explains how Route 2 would work in further detail

1	<p>The programme partners with franchisors that:</p> <ul style="list-style-type: none"> <li>• Have high numbers of jobs per unit (and therefore high investment, £100k+)</li> <li>• Operate in a sector that creates 'quality' jobs</li> <li>• Do not require premises</li> <li>• Are 'emerging' and have available territories in East London</li> <li>• Have proven to be successful</li> </ul> <p>The programme engages with franchisee candidates, through franchisors and franchise recruitment websites. Franchisee candidates need to meet the franchisor's franchisee profile and generally will not be from a low income demographic group.</p>
2	<p>The programme supports franchisee candidates to access the required capital to apply for the franchise. This will mostly be provided by a commercial bank, with a proportion funded by a social investor or foundation. If the franchisee meets social employment targets, they will receive a discount on this part of the loan.</p> <p>The programme will train the franchisee candidate on best practice for accommodating people with low incomes, and the reputational benefits of doing so.</p>
3	<p>The candidate applies to become a franchisee with the recruited franchisor, undertaking the normal application process. The franchisor has final say over the success of the application.</p>
4	<p>The new franchisee undertakes the franchisor's training, sets up the franchise unit and begins to create jobs as it expands.</p> <p>The employment intermediary works with the franchisee to understand their recruitment needs. They source, train and refer people from lower income groups to closely match the franchisee's needs. Potential recruits with complex barriers to employment will be referred to specialist organisations. The franchisee will always have final decision on whether to hire the individual.</p> <p>Once hired the employment intermediary will continue to support the new employee through the first couple of months on the job.</p> <p>For every individual successfully hired and retained for six months or more, the franchisee will receive a discount on their loan repayment from the social investor, subsidised by a grant funder. The franchisee will have to prove that the beneficiary's position is a 'quality' job.</p>
Outcome	<p><i>The person from the low income group is now in a quality job as an employee of a new franchise.</i></p>

## 12.3 ROUTE 3: EXISTING FRANCHISES

This table explains how Route 3 would work in further detail.

1	<p>The programme partners with franchisors that:</p> <ul style="list-style-type: none"> <li>• Have high numbers of jobs per unit (and therefore high investment, £100k+)</li> <li>• Operate in a sector that creates 'quality' jobs</li> <li>• Have proven to be successful</li> <li>• Have existing units able to employ people from East London</li> </ul>
2	<p>Franchisors connect the programme with franchisees that have particular recruitment needs. The employability intermediary delivers training with franchisees on the benefits of a more diverse workforce and how to adapt to accommodate staff from low income groups.</p>
3	<p>The employability intermediary works with the franchisee to understand their recruitment needs. They source, train and refer people from lower income groups to closely match the franchisee's needs, targeting sub-groups suited to the chosen sector. The franchisee will always have final decision on whether to hire the individual. This service will be subsidised by grant funding.</p> <p>Once hired the employment intermediary will continue to support the new employee through the first couple of months on the job. To continue involvement in the programme, the franchisee will have to prove that the beneficiary's position is a 'quality' job.</p>
Outcome	<p><i>The person from the low income group is now in a quality job as an employee of a franchise.</i></p>

## Footnotes

- 1 <http://www.movementtowork.com/>.
- 2 Business in the Community. January 2015. *Business Benefits of Work Inclusion: Why working with people from disadvantaged groups works well for business*. <http://www.bitc.org.uk/> [Accessed 12 June 2017].
- 3 Department for Work and Pensions. 2017. *Households Below Average Income: 1994/95 to 2015/16*. [Data file]. Retrieved from <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201516>.
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- 5 The Work Foundation is British non-profit that transforms people's experience of work and the labour market through applied research and influencing public policy.
- 6 The Work Foundation. 2016. *The Commission on Good Work: Shaping The Agenda In A Modern UK Economy*. <http://www.theworkfoundation.com/> [Accessed 23 April 2017].
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- 9 When referring to London in this report, we refer to the area defined as Greater London.
- 10 London's Poverty Profile. 2016. *Poverty 'Before' And 'After' Housing Costs*. [ONLINE] Available at: <http://www.londonpovertyprofile.org.uk/> [Accessed 3 July 2017].
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- 13 London's Poverty Profile. 2016. *Underemployment Over Time*. [ONLINE] Available at: <http://www.londonpovertyprofile.org.uk/> [Accessed 3 July 2017].
- 14 London's Poverty Profile. 2016. *Unemployment Ratios By Borough*. [ONLINE] Available at: <http://www.londonpovertyprofile.org.uk/> [Accessed 3 July 2017].
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- 16 London's Poverty Profile. 2016. *Income Inequalities By Wards Within London Boroughs*. [ONLINE] Available at: <http://www.londonpovertyprofile.org.uk/> [Accessed 15 June 2017]
- 17 Office for National Statistics/London Data Store. 2016. *Unemployment Rate, Region*. [Data file] Retrieved from: <https://data.london.gov.uk/dataset/unemployment-rate-region/>.
- 18 London's Poverty Profile. 2016. *Unemployment Ratios By Borough*. [ONLINE] Available at: <http://www.londonpovertyprofile.org.uk/> [Accessed 3 July 2017].
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- 21 Office for National Statistics. 2017. *Unemployment Rates Of Young Black Men In London*. [Data file] Retrieved from: <https://www.ons.gov.uk/>.
- 22 Office for National Statistics. 2016. *Underemployment And Overemployment In London: 2015*. [Data file] Retrieved from: <https://www.ons.gov.uk/>.
- 23 Occupations performing mostly routine tasks. Most do not require formal educational qualifications, but will usually have an associated short period of formal experience related training. Office for National Statistics. 2010. *Standard Occupational Classification, Volume 1: Structure and descriptions of unit groups*. <https://www.ons.gov.uk/>
- 24 Office for National Statistics. 2016. *Underemployment And Overemployment In London: 2015*. [Data file] Retrieved from: <https://www.ons.gov.uk/>.

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- 28 No Letting Go. 2017. *A Unique Franchise Opportunity In The Property Sector*. [ONLINE] Available at: <https://nolettinggo-franchise.co.uk/aboutus.html> [Accessed 5 July 2017].
- 29 British Franchise Association. 2016. *BFA NatWest Franchise Survey 2015*. [Survey]  
Hotel & Catering: Hotels, coffee houses, fast food chains, dairy etc.  
Personal services: Children's entertainers, tutors, personal trainers, pet services  
Property services: Estate agencies, plumbing, cleaning, gardening etc.  
Store retailing: All retail, including travel agencies, shoe shops, bathroom centres etc.  
Business & Communication services: Printing, office supplies, training, recruitment, accountancy etc.  
Transport & Vehicle services: Couriers, car rental, vehicle repair etc.
- 30 British Franchise Association. 2016. *BFA NatWest Franchise Survey 2015*. [Survey]
- 31 Ibid.
- 32 Data Monitor. 2010. *Monitor Report On Franchising*.
- 33 See Appendix 2 for details of how these sectors were identified.
- 34 British Franchise Association. 2016. *BFA NatWest Franchise Survey 2015*. [Survey]
- 35 Ibid.
- 36 This role could be delivered by more than one employment intermediary.
- 37 The Government Start-up Loan is a government-backed personal loan available to individuals looking to start or grow a business in the UK. It offers a fixed interest rate of 6% per annum and the ability to borrow between £500 and £25,000.
- 38 See Appendix 3 for further details.
- 39 Global Entrepreneurship Monitor. 2016. *Global Entrepreneurship Monitor: United Kingdom 2015 Monitoring report*. <http://www.gemconsortium.org/report/49536>.
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- 41 "The Community Employment Loan Program: Mainstreaming social finance to increase job opportunities for Ontario's most vulnerable," *Deloitte/Social Capital Partners*, September 2014 (in DB).
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J.P.Morgan

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[www.the-icsf.org](http://www.the-icsf.org) | +44 (0) 20 7239 4929

Phoenix Yard | 65 Kings Cross Road | London | WC1X 9LW