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STANFORD SOCIAL INNOVATION *review*

Case Study

An Enterprising Failure
Why a promising social franchise collapsed

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Stanford Social Innovation Review
Spring 2006

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An **Enterprising** Failure

Why a promising social franchise collapsed

IN THE LATE 1990S, ASPIRE WAS THE POSTER CHILD OF BRITISH SOCIAL ENTERPRISE. Founded by two recent Oxford University graduates, Paul Harrod and Mark Richardson, Aspire employed homeless people in a door-to-door catalog business that sold fair-trade products. By 2001, the company was doing $1.6 million in business, and was one of the first social enterprises in the United Kingdom to expand through franchising.

Politicians, funders, and the press were overflowing with praise. Prime Minister Tony Blair called Aspire's employees an "inspiration," and Prince Charles told its founders, "Your track record to date is most impressive."

By 2004, however, Aspire had collapsed into bankruptcy. One of the authors of this article, Owen Jarvis, was the manager of an Aspire franchise from March 2001 to July 2004, providing him with a firsthand perspective on the organization's rise and fall. In 2003, Jarvis decided to write his master's thesis about the failure of this promising social enterprise. This article is based on his experience, interviews, and analysis.

Early Aspirations

Harrod and Richardson were childhood friends. The two did stand-up comedy and student radio together at Oxford, where Harrod majored in history and Richardson in psychology. They also volunteered at various charities for the homeless, where they concluded that many programs fail because they focus on the symptoms of homelessness rather than on its root causes. They came to believe that offering paid employment and job training to the homeless would be more effective than just providing food and shelter.

After graduating from Oxford in 1998, Harrod and Richardson returned to their hometown of Bristol, England, to try out this new way of helping homeless people. "We didn't really want to run a business," said Harrod. "But if we were offering employment, we felt we needed to make the business viable."

Harrod had worked part time as a door-to-door salesman for a household catalog company called Betterware (a well-known brand in the UK). From this experience, Harrod understood both the catalog business and the skills that door-to-door sales requires – skills that most homeless people could be taught.

In creating Aspire, Harrod and Richardson tweaked the catalog business

Can social enterprises grow through franchising?

How can social franchises balance their social and financial goals?

by PAUL TRACEY & OWEN JARVIS

One of Aspire's young homeless workers utilized his door-to-door sales skills in the summer of 2001.

PHOTOGRAPH BY CHRISTOPHER JONES

model to accommodate their social justice goals. Deeming commission-based pay unfair, they offered employees a flat pay rate, irrespective of sales. And wanting to help people overseas as well as in the UK, they chose to sell fair-trade housewares, jewelry, and gifts that were sourced mainly by Traidcraft and Oxfam.

After securing a £5,000 (about $8,000 at the time) grant from the Prince's Trust (a UK charity), as well as many small donations from local businesses and residents, Harrod and Richardson launched Aspire Bristol in February 1999. They were only 24 years old.

In the first years, Harrod, Richardson, and a small team of volunteers worked a grueling schedule. Everyone pitched in to design the catalog, source the products, and recruit an average of six employees from the homeless community in Bristol. The employees placed the catalogs in mailboxes and then collected orders from around the city. Using the basement of their office as a storage facility, Harrod and Richardson next put the orders together and delivered them to households each weekday evening. Volunteers also gave employees lessons in literacy, numeracy, and basic business skills.

Sales during this early period were reasonably strong, helped in part by publicity from the local media. And while Aspire did not make a profit, and relied heavily on volunteers, it was able to sustain itself.

Franchising Aspire

Toward the end of 1999, Harrod and Richardson invited an Aspire adviser, Terrance Roslyn Smith, to join the management team. Unlike the founders, Smith had been involved in a number of social enterprise projects. He and the founders agreed that for Aspire to succeed, it needed to expand.

During the first part of 2000, the three men considered different ways to grow Aspire. They thought about creating wholly owned subsidiaries, but decided that franchising would be quicker and more cost-effective. By expanding through franchise, they reasoned, Aspire would be able to reduce its operating costs, increase its purchasing power with suppliers, and expand into new markets, while still retaining some degree of control.[1] In July 2000 they started work on an ambitious franchise strategy to create 30 outlets by the end of 2003.

Given the scale of the proposed expansion, and Aspire's already tight finances, Harrod first had to convince investors to support the idea. Using his formidable charisma, he persuaded a prominent social investor to commit £400,000 (about $600,000) to the franchise program. In late 2000 Harrod and Richardson formed a new company – Aspire Group – to lead the franchise operation. Harrod headed its administrative headquarters in London, and Richardson remained at Aspire Bristol.

By September 2001, Aspire Group had opened nine franchises, most of which were embedded within existing charitable organizations. Aspire Group managed the catalog company, designed the catalog, and sourced the goods. Meanwhile, the regional outlets distributed catalogs, delivered orders, and supervised and trained homeless and

ex-homeless employees. All of the franchisees had some experience working with homeless people, but only four had experience with business or social enterprise.

A wave of optimism swept through the entire franchise, and neither the founders nor the new franchisees appeared unduly concerned about the perils of expansion. "Risk analysis didn't feature very strongly in our discussions or planning. We were told the business model worked, government and funders wanted us to roll out, and sooner or later the economies of scale would make the figures stack up," recalled franchisee David O'Hare, of Aspire Cambridge. "As we set off, it seemed we were sailing in fair weather."

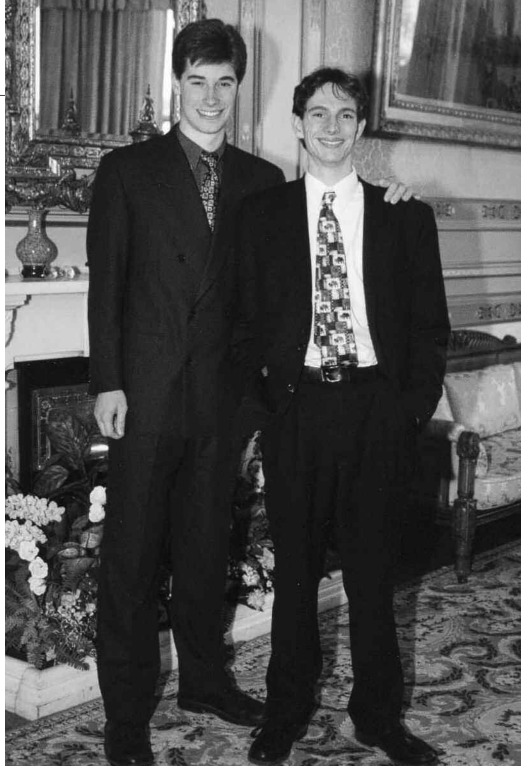
The End Begins

But after just a few months it became clear that there were serious problems with Harrod and Richardson's business model. The narrow range of products attracted only a narrow range of customers. Every franchisee, including the original Aspire Bristol, was losing money. Many of the franchisees began to think that Aspire Group had misled them.

"We'd suspected from the start that the catalog business would not fly," said David Verity of Aspire Sheffield during the franchise's waning months, "but we'd been presented with lots of figures – this is what's happening at Bristol, and this is what's happening at Brighton. As time has gone by, we've learned that nobody has been able to run the catalog as a stand-alone, viable business."

Harrod himself admitted, "[Aspire] was sold as a business that would be profit making, and so it set up expectations that weren't realistic."

Franchise managers were also exhausted, not only by their long days, but also by the challenges of overseeing and supporting homeless and ex-homeless employees – many of whom still struggled with addiction, mental illness, and a lack of basic skills like punctuality.



Aspire co-founders Paul Harrod (left) and Mark Richardson at the *New Statesman* magazine's awards ceremony in London on Nov. 15, 2001.

Even some of Aspire's best employees were difficult to manage. For example, one of Aspire Cambridge's most promising staff members, Jody, was reliable and effective for several weeks at a time. But these reliable spells were broken by periods of poor mental health, paranoia, and heavy drinking. During these times, Jody often refused to attend group meetings and could not perform his work. On one occasion Jody was involved in a drunken-driving incident, and avoided a prison sentence only because one of the Aspire managers gave him a good character reference.

Because Aspire was not only concerned with making money, but also with making a difference in its employees' lives, its franchisees often struggled with the competing goals of enforcing strict discipline and supporting their vulnerable workers. "There are very often situations where the guys might have needs that would be best addressed by taking them off the road," Verity said. "But you are conscious of the fact that each time you do that, that's your revenue down the pan because you can't claim any catalog deliveries."

Franchisees were understandably reluctant to lay off employees for whom the consequences of unemployment were so severe. As the financial pressures upon the business became greater, however, managers were often required to do just that, which hurt their morale.

Franchisees' commitment was further eroded by Aspire Group's perceived indifference. "The training was pretty minimal, and when we started up we made mistakes that were totally unnecessary," recalled one manager. When he was chair of Aspire East in Cambridge, Tony Barker similarly complained: "I hear absolutely nothing from Aspire headquarters. I don't even see any documents from them. I can't remember the last documents I had."

By the end of 2001, the Brighton and Birmingham franchises closed. Aspire Brighton judged that the business model was unworkable, while Aspire Birmingham decided to focus on supporting drug addicts rather than homeless people. Confidence in the business quickly drained away. Aspire Group put its expansion on hold.

Yet Harrod remained convinced that the catalog business could be viable. He turned his attention to fundraising, and by the middle of 2002 had persuaded a group of individual investors, banks, and social venture capitalists to commit another £250,000 ($425,000) to Aspire Group.

This investment, however, came with conditions. To increase Aspire's profitability, the investors insisted that the year-round catalog business be reduced to two four-month seasons – one at Easter and one at Christmas. This change forced franchisees to give up one of their primary goals: employing homeless people full time and year-round.

Managers found themselves ever more tightly squeezed between Aspire's two bottom lines. "You are always under

PHOTOGRAPH COURTESY OF PAUL TRACEY

pressure thinking, 'Well, what are we going to do with this lot of catalog distributors once Christmas has gone? How are we going to help them move on?'" said Verity. "Because we are not a traditional employment agency, we can't say: 'Thanks very much, Sunshine, but that's it. Off you go. We will see you next year,' because that would put them back in the hole that we've just dug them out of."

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Aspire Expires

The relationship between the franchisees and Aspire Group became increasingly tense. Franchisees were more and more annoyed with what they perceived to be Aspire Group's lack of integrity. "It's taken an awful long time to understand just how big a mess finances are in," said Verity shortly before Aspire declared bankruptcy. "You have to ask: How has that come about? People would rather understand that there's a problem than be given a load of eyewash and hot air in the hope that that will shut them up."

Franchisees were also fed up with the seemingly capricious changes to the business model, including the introduction of the two-season calendar, a central warehouse, and a mail-order sideline. Barker characterized Aspire Group's activities as "a constant changing of policy. Practices are set, and just as everyone has got busy working with them, they change again."

Aspire Group, on the other hand, was frustrated by its franchisees' ineffectiveness and wilfulness. As Smith saw it, "[Aspire Group] has been attracting resources and attracting investments, and so it has a right to be controlling responsibility for centrally driven finance." Harrod would later say, "It did seem as if individual regions could command a pocket veto for decisions they did not like, while issuing a whole host of demands that the catalog company had to meet."

Aspire Group and its franchisees came to rely on each other less and less. To generate additional income and employment, the franchisees established secondary businesses, including a bicycle repair shop, a window cleaning service, and a furniture manufacturing business. Meanwhile, Aspire Group further developed its direct-mail business, which functioned independently of the franchisees. As the door-to-door catalog business became marginal, the ties between franchisor and franchisees dissolved.

In July 2003 Aspire Group faced a cash flow crisis and put payments to creditors on hold. Recognizing the need for new skills in the executive team, Harrod stepped down as CEO in September 2003. By the end of the year, Aspire was effectively bankrupt.

Learning From Aspire

The collapse of Aspire shocked the social enterprise movement in the UK, and inflicted a blow to social enterprise's credibility as a way to address social issues. Our analysis of this case, however, finds that social franchises are not doomed to failure, and that Aspire's mistakes can be avoided.

Aspire's first error was that it became a franchise too soon. Franchises need a strong brand, a product or service that is competitive in the marketplace, and an open, supportive relationship between the franchisor and its franchisees.[2] Given these criteria, it is not surprising that successful franchises tend to be large and well established.[3] Aspire, however, was small and untested. When Aspire first began signing up franchisees, less than two years after the venture was founded, the original Aspire Bristol was not yet a viable concern.

Nonprofits should beware of franchising before the business model has proven successful, or of joining franchisors with unproven business models. Nonprofits seeking stable franchisors can also consider partnering with a mainstream franchise. For example, Bendigo Bank in Australia allows nonprofits to take ownership of a franchise to deliver financial services in underserved areas. Similarly, through Ben & Jerry's "PartnerShops," nonprofits can employ young adults who might otherwise have a hard time getting work.

Aspire's second mistake was pairing a weak business model with ambitious social objectives. Staffing the business with homeless people who had little work experience and significant personal problems made it difficult for the organization to provide reliable services, and consequently to turn a profit. Moreover, franchisees did not just want to employ homeless people; they also wanted to rehabilitate them. And so Aspire managers could not punish or fire employees in the same way that, say, McDonald's managers can, because the consequences of doing so were so dire. This blurring of the roles of "employee" and "client" led to difficult managerial decisions and the subsequent

loss of morale.

To franchise successfully, social enterprises must balance their social and commercial objectives.[4] This may mean that social franchises have to compromise on their social objectives. Had Aspire employed fewer homeless people, or more selectively recruited its homeless employees, it might have improved its competitive position. Moreover, Aspire might have been more successful if it had waited until after the business was more established to give its employees the kind of extensive support it wanted to provide.

Aspire franchisees were also disadvantaged by knowing very little about business. Just four of the nine franchise managers had any business experience, and none had worked in the household catalog industry. This made it difficult for franchisees to evaluate Aspire's business plan prior to entering the franchise agreement, or to compensate for Aspire's weaknesses as they became apparent.

One way to fix this problem is for franchisors to take greater care when selecting their franchisees. Finding franchisees with the requisite social commitment is likely to be easier than finding partners with the ability to run a profitable business. However, it is our view that using franchisees with business experience will more likely lead to a commercially viable social franchise. When franchisees do not have commercial track records, franchisors must educate them about the rigors of franchise management.[5] One way to do this is to employ potential managers in a variety of roles in an existing outlet before giving them their own franchise.

British Prime Minister Tony Blair, one of Aspire's boosters, at Aspire East London's office in December 2001.

Having selected its franchisees, social franchisors must then build support for their strategic decisions, presenting them as legitimate on both commercial *and* social fronts. In the early stages of Aspire, the franchisees had a lot of autonomy in implementing the business model.[6] As the business deteriorated, however, Aspire Group attempted to impose greater control over the franchisees' operations – thereby compromising its legitimacy and authority. At the same time, Aspire Group's priorities shifted to financial survival, while the franchisees' priorities remained the employment and support of homeless people.

For all parties to share both a deep understanding of what the business needs to succeed and a commitment to the social purpose, the franchise needs reliable ways to exchange ideas, knowledge, and experiences.[7] Regular forums, for example, are a good place for franchisees to swap stories and insights with each other, as well as with the franchisor. They also help franchisees feel like they are part of a greater whole, leading them to identify more closely with the franchise and its objectives. Denying franchisees a voice, on the other hand, often makes them feel alienated and reduces their levels of commitment.

As social entrepreneurs experiment with new organizational forms, learning from others' mistakes may be just as important as learning from successful cases. Aspire's failure shows that franchising has the potential to be an effective strategy for replicating social businesses, but it is not an easy option or a quick fix. Social franchising requires a tried-and-true business model paired with the considerable resources needed for finding and developing franchisees. We therefore believe that franchising is better suited to relatively mature social ventures, rather than to recent start-ups seeking rapid growth. □

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