Innovative Fundraising: Creating a Franchise Ownership Program

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This paper reports on an innovative entrepreneurship program, designed to not only train students to become franchise owners, but provide the necessary start-up capital as well. This model creates multiple revenue streams for the entrepreneurship center from program students, franchisees, franchisors and sponsors, allowing it to become self-sustaining in no more than 10 years.

EXECUTIVE SUMMARY

This paper provides a revolutionary framework for fundraising in university-level entrepreneurial programs. Given the charge to become self-sustaining, one entrepreneurship center attempted the usual fundraising tactic of building an endowment from donations, but learned that because of both macro- and micro-economic reasons, this approach was not realistic. After a review of both typical funding mechanisms utilized by entrepreneurship programs in the United States and franchising education in these institutions, a revolutionary model, entitled the Franchise Ownership Program is introduced.

Fueled by the creation of Franchise Investment Trusts or FITS, these funding pools provide passive opportunities for investors to ear returns from a portfolio of franchises. These franchises are owned by students trained through the program and the entrepreneurship center received multiple revenue streams in this model: a) 50% of franchise fees, b) 1% gross revenue royalty rate from each franchisee, c) $5,000-$10,000 in tuition from each franchisee, d) $5,000 in annual continuing education fees from each franchisee, e) corporate sponsorship revenues, and f) donations to the program.

Franchisors to date are identified and the ability of this program to be replicated at other universities.

INTRODUCTION

When our entrepreneurship center launched in 2007, it was with the charges that it develop curriculum and programming that best serve the students of the college and members of its community. One could persuasively argue that to at least some degree these mandates are common among virtually all higher education entrepreneurial programs in the country. In our instance, we received one additional directive—become self-sustaining, defined as raising adequate financial resources that allow the Center to operate without additional funding from the institution. While fundraising is a common responsibility for directors of entrepreneurship programs, this goal is significant because although centers that are ranked by national publications have average endowments of over $10 million, 47% of all centers have endowments of less than $500,000 (Finkle, Kuratko, & Goldsby, 2006).

Many entrepreneurship centers are started through the interest of an alumnus of a university, who is usually a successful entrepreneur. These individuals often fund the entire development of a center, or at least a substantial portion of it, before its actual creation. It is not uncommon that the idea of creating a new entrepreneurship program is first broached by an alumnus who commits to backing it financially. At this point, development of the Center begins and it is often named after this donor.

In our circumstance, this was not a possibility. Though this institution has almost 24,000 students and nearly 70,000 alumni, the 45-year old college does not have a base of graduates who have reached the level of financial independence required to subsidize such an endeavor. Plus, fundraising in general is a relatively recent priority of the institution and the level of donor cultivation needed to precede such an ask is not present. For these reasons, the college provided funding to start the Center, still with the expectation it should become self-sustaining.

At the onset, Center management investigated typical fundraising initiatives, such as donations, sponsorships, fee-based consulting, and commission-based referral programs. Soon thereafter, administrators identified that building an endowment would be the most efficient means of reaching its financial goals. Using this strategy, the Center would solely operate from interest earned in the account that would one day provide enough annual income to eliminate the need for support from the college's general budget. This strategy is not uncommon in fundraising circles and is commonly used to create and maintain faculty positions in academic departments, for instance, as well as maintain large aforementioned centers and programs. But Center management learned quickly that this direction was also not a viable option. Donors often give to specific programs where they can readily see the fruit of their efforts. While this might be a valid outcome of an entrepreneurship center due to myriad positive results that can be connected to its existence, individuals that do not already have an affinity with the institution will generally not contribute for "overhead expenses." These expenses include administrative costs and salaries, among other things that are not "directly" associated with specific programs, students, faculty members, etc. The Center did receive donations from individuals and foundations, but always with the express order that their funds not be used for general overhead. Consequently, administrators crafted proposals in specific program areas for these audiences.

At this point, it was clear we needed to investigate alternative methods to achieve our goal of self-sustainment. The macro-economy accentuated this reality when in the third quarter of 2008, the United States began its most significant economic pullback since the Great Depression, making the traditional fundraising environment more difficult.

But in this case, necessity was indeed the mother of invention when we discovered a funding model that not only provides ample opportunities for multiple stakeholders, but will make this entrepreneurship center self-sustaining. After conducting due diligence on other business ownership programs in the country, we found this funding model to be innovative in higher education, as well as exceptionally rare in the private sector. Additionally, this model of revenue generation addresses a field of entrepreneurial study vastly ignored by most entrepreneurship programs in the country—franchising. Before we delve into the specifics of such a program, we must first review the funding mechanisms currently being employed at other institutions and the level of attention they give to the study of franchising.

FUNDING REVIEW

A national study by Finkle, Kuratko, and Goldsby (2006) examined the general characteristics of entrepreneurship centers in the United Sates and provided information about their funding models. The survey results provide a comparative basis that indicates the unique nature of this franchise funding model. The survey authors queried entrepreneurship center directors about many items associated with their programs, including funding origins and strategies. The importance of funding issues appears to be consistent in the findings for the entire sample (Finkle et al., 2006). Given the current state of the economy and the looming shadow of additional budget cutbacks, revenue will continue to be an issue for centers in the foreseeable future.

Entrepreneurship education has witnessed tremendous growth in recent years with over 100 established and funded centers. The discipline's accumulated financial worth has grown to exceed $440 million with most of those funds accruing since 1987 (Katz, 2003). While the endowed center is a typical model, many entrepreneurship centers must be proactive and search for additional means to increase funding. Some typical examples of funding strategies are (a) having students work with local businesses to write plans for them in exchange for a sum of money; (b) seminars/workshops; (c) grants; (d) start a student club, which will give donors something specific and measurable, some tangible feedback for them to give money to the program; and (e) become involved in technology transfer. Additionally, universities in developed countries have become increasingly entrepreneurial and have worked at increasing their efforts to develop sustainable funding models for their entrepreneurship programs, such as, patenting and licensing; creating incubators; university spin outs, and; investing equity in startups (Mowery et al., 2004; Siegal, 2006). Even these tactics are not always successful and are certainly not a panacea to solve the fundraising problem (Swamidass and Vulasa, 2009).

The Center of this college was first looking to developing programs with similar initiatives, but decided to create an innovative fundraising program that revolves around franchise management education.

FRANCHISE STUDIES IN HIGHER EDUCATION

As of 2005, the franchise industry contributed 4.4% of the economic output and accounted for 8.1% of all private sector jobs in the United States (International Franchise Association, 2006). Accordingly, it would seem that franchising is an important area of study for entrepreneurial students because proven business models are sources of case study instruction. In the same breath, entrepreneurs and new venture capitalists also study franchising as a way to minimize risk (Spinelli, 2010).

However, franchising represents both the fewest number of undergraduate and graduate courses offered through college-level entrepreneurship centers (Finkle et al., 2006). Additionally, franchising is one of the least popular courses of students based on enrollment (Finkle et al., 2006) in both undergraduate and graduate entrepreneurial curriculum.

The reality is that most of the opportunities for learning about the franchise business can be found on the Internet, through franchise workshops, and via webinars. The most reputable of these options are courses sanctioned by the International Franchise Association (IFA). A review of Business Week's top ten business schools identified only three institutions that offered certificate programs in franchising that were supported by the IFA.

The IFA offers a series of courses on their website titled Franchise University. In 1993, the IFA Educational Foundation began offering the Certified Franchise Executive Program (CFE), which is designed to further educate franchise professionals. In effect, the program gave IFA members the opportunity to groom their company's personnel for leadership positions within their respective industries (Poehlman, 2001).

As an example, three college campus offering certificate programs in franchising are Georgetown University, the University of Texas at El Paso, and Nova Southeastern University in Ft. Lauderdale, FL. Georgetown University offers a two-course (42-hours of class time) certificate program through the School of Continuing Studies. Students are able to earn (900) CFE credits towards CFE certification. The two required courses are: "Building Blocks of Franchising" and "Managing a Franchise Business". University of Texas at El Paso offers a 2-1/2 day seminar certificate program. Students are able to earn (375) CFE credits towards CFE certification. The 2-1/2 day seminar consists of fifteen lectures that vary from 45-minutes to 60-minutes followed by question and answer sessions.

Nova Southeastern University and its Huizenga School of Business and Entrepreneurship offer programs regarding franchising through the International Institute for Franchise Education (IIFE), and offers four distinct educational paths: course series, conferences, in-house programs, as well as the opportunity to work one-on-one with the institute to develop custom programs for the franchise business. This program focuses more on turning a single business entity into a franchise model as a means of expansion.

Through three formatted paths, students are able to earn up to 3600 CFE Education points. The first education path, the course series, has three distinct options as well: Entrepreneurial Leadership, Developing Operations Manuals, and Franchise Training Systems. The second education path consists of four conferences: Emerging Franchisor Conference, IIFE Executive Summit, Catch the Franchise Fever, and Expanding Your Business Through Franchising. The third education path consists of three in-house programs: Franchise Executive Real Estate Program, Leadership for High Performance, and Streamlined Strategic Planning and the Balanced Scorecard.

Outside of the U.S., Ecole Superieure des Affaires (ESA) started the Certified Franchise Executives Program (CFEP) in response to franchise owners not being adequately trained for the daily activities of owning and running a franchise. Franchising in Asia is also growing and as a result, the Philippine Franchise Association (PFA) was formed. In 2002, the PFA became affiliated with the US-based Institute of Certified Franchise Executives (ICFE).

THE FRANCHISE OWNERSHIP PROGRAM

The Franchise Ownership Program joins investors, franchises, and entrepreneurs in a model that enables people to realize their dreams of business ownership, while creating sustainable revenue streams for the institution. The reasoning behind utilizing the franchise model of ownership is although not all firms that close are failures (Bates, 2005) and two-thirds of start-ups survive at least two years, only 50% survive at least four years (Small Business Administration, 2007). In contrast, the franchise industry as a whole experiences failure rates of 7-12% (Holmberg and Morgan, 2004). One study reported franchise failure rates as high as 35% (Stanworth, Purdy, Price and Zafiris, 1998), but this conclusion was contested by Castrogiovani and Justis (2007). Comparing these percentages provides some evidence that starting a franchise can be less risky than beginning an independent enterprise. These percentages are true even for owners with limited backgrounds in business and who receive training from their chosen franchisor from as little as two weeks to two months (Michael and Combs, 2008).

The success rates associated with franchise models are higher because these entities operate proven business models. And for individuals served by this particular college, people who often don't have the resources to overcome even one failure, this fact is significant.

The challenge for would be franchise owners is finding start-up capital to pay the franchise fee, develop a location (if needed), and provide operating capital. It could be argued that this is one reason why entrepreneurship programs place so little emphasis on franchising as a potential path to ownership. Is it appropriate to train students in franchise management if then, after graduation, they are on their own to raise up to a six or seven figure dollar amount to start?

Accordingly, this Center decided to create the first higher education program in the world that provides rigorous training, along with the investment needed to turn students into franchise owners.

Franchise Investment Trusts

The key to this program is the creation of Franchise Investment Trusts or FITs. To use their legal identification, these Special Project Vehicles are more similar to limited partnerships than trusts. But similar to Real Estate Investment Trusts (REITs), these vehicles allow qualified individuals or organizations to invest in a portfolio of franchises that help people become self-sustaining through business ownership. While the investment is not risk-free, preliminary due diligence estimates potential returns on investment from 68 to 156% over 10 years. While these returns are low for typical angel investors and venture capitalists, they are attractive to foundations interested in making Mission Related Investments (Stannard-Stockton, 2010) and individuals identified as Impact Investors (Sullivan, 2010), a fledgling but growing pool of individuals who accept lower returns if their investment helps a cause about which they care.

Each FIT will raise a minimum of $1 million and invest in 4 to 5 franchises, potentially more for home-based operations. The trust owns 100% of the franchise equity in Year 1, and through buybacks and royalties, the entrepreneur becomes sole owner in Year 10. FITs earn their estimated returns through a 7% gross revenue royalty payment in each of the 10 years of the trust. The more revenue each franchise generates, the greater the investors' return.

Using a thorough screening process, a review board identifies select groups of owner candidates, each of whom pays tuition of 5 to 10 thousand dollars to enroll. Next step: a 2-month intensive training program. Part of the instruction includes working as an employee at an existing franchise and receiving on-site instruction. Upon graduation, the FIT invests in each business by paying the franchise fee, development costs, and providing operating capital. With the help of participating franchises, Metro State's Center for Innovation will continuously monitor its graduates, offer continuing education opportunities, and provide guidance to maximize their performance.

Franchises involved in the program offer candidates a variety of ownership opportunities. To date, the following franchisors agreed to participate in this program:

- 10 til' 2 (part-time temporary employees)
- Camp Bow Wow (doggie day care)
- Cartridge World (reusable ink cartridges)
- Franchise Development Group (franchising consulting)
- Grease Monkey (preventive automotive maintenance)
- Home Buddies (in-home pet car)
- Homewatch CareGivers (in-home, non-medical assistance)
- Monkey Shine (car wash)
- PostNet (copying and shipping services)
- Smiling Moose Deli (quick service restaurant)

It is expected that at least 5-10 more franchisors will join the program prior to its first class of students.

The reason for the popularity of this program with franchisors is two-fold: a) creates deal flow, and b) provides enhanced training. Since the start of the recent mortgage crisis in this country, the Small Business Administration has increased the down payment required for small business loans from 20% to 40%. This has made the sale of franchises to potential franchisees more difficult. An offer to bring funded deals to the table is extremely attractive to this group of entrepreneurs. This program also provides almost two months of full-time training, which includes 1-2 weeks working specifically with a student's franchisor to learn business knowledge specific to that organization. Finally, a required component of this program will be annual continuing education classes after the franchise is awarded and until the franchisee takes total ownership control. In return franchisors give the Center 50% of its franchise fee for every new owner in their individual system, similar to the commission they pay franchise brokers.

Other revenue streams for the Center include a 1% gross revenue royalty rate paid by the franchisee in each of the 10 years of the FIT, initial program tuition cost of $5,000-$10,000, and continuing education cost of $5,000, both paid by each franchisee.

CONCLUSIONS AND IMPLICATIONS

The Center estimates that after 10 years, it will have raised over $6 million, which will make it self-sustaining through its endowment. This opportunity has also opened doors to corporate sponsorships, providing yet another ancillary income stream. Plus, each FIT can be tailored to address the needs of a specific audience. As an example, the Center recently submitted a proposal for a grant that would create one FIT specifically for veterans of the armed forces.

So What?

In this economic climate where funding is scarce and traditional fundraising avenues are increasingly inaccessible, a Franchise Ownership Program provides an alternative means by which entrepreneurship can not only recapture lost funds, but generate more in a quest to be self-sustaining. The beauty of this model is that it can be replicated in any institution of higher learning in the world.

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