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Small Business (A Special Report)
Profits on the Side: Take a charity; Add a franchise outlet; The result; more money for the mission

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As executive director of Washington Vocational Services, Lynn Van Vactor spends her days helping people with disabilities find jobs. Then, every so often, she really gets down to business: twisting dough at the Auntie Anne's pretzel franchise her nonprofit agency bought in 2005, in an outlet mall near Seattle.

"I love to go in every once in a while, roll up my sleeves, and work next to these teenagers," says Ms. Van Vactor. When it comes to making pretzels, "I'm not very good," she admits. But sales at the for-profit shop are booming, providing an additional $25,000 in revenue last year to fund her agency's programs. Plus, the pretzel shop routinely employs disabled students, many of whom are making the transition from high school to work. "It's been a very good match," she says.

While charity and fast food may seem like an odd mix, more nonprofit groups are looking at national franchises as a way to boost their income and support their mission. Profits from their franchise outlets go to the coffers of their nonprofit organizations. The strategy -- part of an emerging sector dubbed "social franchising" -- has become increasingly palatable as competition heats up for government funding, foundation grants and **philanthropic** donations, experts say.

"Social franchising is part of a larger and increasing phenomenon of earned income by nonprofits," says James E. Austin, emeritus professor of business administration at Harvard Business School in Boston, who has studied the blending of nonprofit and commercial enterprises. In the past, nonprofits have ventured out on their own to run bookstores, thrift shops, day-care facilities and even low-income housing projects. Now, nonprofits with limited business acumen are checking out the cookie-cutter franchise model as a way to earn extra cash.

"It has the attraction, from the nonprofits' standpoint, of providing infrastructure, product, administrative systems, and a proven marketplace," Mr. Austin says. "It's a risk reducer."

That's what Share Our Strength, a charity based in Washington, D.C., that fights childhood hunger around the world, hopes as it prepares to open its first WineStyles shop by year's end, near Dupont Circle in Washington. The organization has long paired with restaurants to host Taste of the Nation events with top gourmet chefs to raise money for its cause. At first, Share Our Strength planned similar fund-raisers with WineStyles Inc., a Margate, Fla., franchiser that claims to "demystify" wine shopping by organizing wine in its stores by color and taste, instead of varietals and regions.

Then, Billy Shore, executive director of Share Our Strength, realized his charity's donors and WineStyles customers both had sophisticated tastes and, in fact, were likely the same people. Mr. Shore says he had long "wanted to create a nonprofit that was not always begging for money" and decided the wine business paired well with his nonprofit's mission. "This is a model we liked," he says.

Executives at WineStyles, which has 110 stores nationwide, were at first skeptical about allowing a nonprofit agency to buy and operate one of their stores. "This is not a gratis type of thing," says Robert Spuck, chief executive of WineStyles, who went forward with the deal after making sure Share Our Strength could handle the $25,000 franchise fee and other costs associated with opening a store, which typically are big shops -- up to 1,800 square feet. He also insisted that the charity hire a manager with retail experience to run the store.

"Just like any other franchisee, if they don't have the proper training and if they don't implement the system the way it was designed, they won't be successful," he says. "If you want to be one, you have to act like one."

In fact, many franchisers are not keen to work with nonprofits, chiefly because the nonprofit isn't your typical small-business owner whose passion and financial commitment help ensure success, says Ben Litalien, president of Social Franchise Ventures, a Washington, D.C., consulting firm that promotes the social-franchise concept. The firm, started in 2005 as an offshoot of Share Our Strength, is currently matching about 15 nonprofit clients to franchises.

"It's really not [a nonprofit's] core mission to launch a business," Mr. Litalien says. Share Our Strength, for instance, will always be more concerned about eradicating hunger than selling wine. But a nonprofit can bring to the franchise system a "distinct competitive advantage," he says.

Sometimes that advantage is a physical asset, such as a facility where a franchise operation can be built. But often, it's the nonprofit's "sphere of influence," Mr. Litalien says -- a deep knowledge of a community, plus a stellar reputation -- that can be helpful when a franchise wants to open in a new market. With their potential to complement each other, "it's amazing these two sectors have not found more interesting ways to engage than they have," he says.

Ben & Jerry's was one of the first franchisers to court nonprofit owners, creating "PartnerShops" in 1987, which typically are operated by youth-development and job-training organizations. Ben & Jerry's, now a unit of the Anglo-Dutch consumer-goods company Unilever PLC, waives its $30,000 franchise fee and monthly royalties for select nonprofits, which currently run 14 of its 450 ice-cream shops. "We've seen partner shops open and close through the years," says Jennifer Shewmake, PartnerShop program manager for the South Burlington, Vt., company. "What we've found is that the model is complex, and meeting the demands of the double bottom line is a challenge."

Yet "financially for us, it's still a sensible business decision," she says. One of the PartnerShops last year was listed as one of the company's top 10 caterers, while another won Ben & Jerry's "heck of a year" award for having a significant sales increase. Not every PartnerShop ends up being profitable, but each fits well in Ben & Jerry's social mission, a key part of the company's marketing strategy, she says. Still, because failure is always a real possibility, nonprofits interested in running a shop need to show they are "committed to taking a risk in a venture like this," she says.

Indeed, running a franchise has been "a whole different ballgame for us," says Judi Bishop, executive director of the YWCA in Forth Worth, Texas, which opened a Ben & Jerry's shop in 2005 and has yet to turn a profit.

The YWCA, which specializes in helping low-income individuals find work, started looking at for-profit enterprises in 2003 as a way to earn extra income for its programs. When it heard about PartnerShops and the focus on providing job skills to youths, "it was a great opportunity for us to do our mission-related work in a venue where we could generate income," she says.

Still, there have been growing pains that have forced the YWCA to lower its financial expectations. For starters, the company lost $50,000 in its first nine months of operation, and then an additional $60,000 in the next 12 months.

But much like any small-business owner, Ms. Bishop knows it's too soon to give up. "We know what it's going to take to turn it around," she says. "We are experiencing what the Ben & Jerry's franchisees are experiencing. You just have to get out there and beat the bushes."

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