

Platte River Industries and Auntie Anne's

At a Glance

<i>Location:</i>	Denver, CO (Two airport locations, two mall locations)
<i>Year Opened:</i>	Purchased an existing franchise in 1998, opened a second franchise in 2001, and opened the third, fourth, and fifth franchise in 2005. One was closed in early 2006 when the mall was closed for renovations.
<i>Annual Revenue:</i>	Between \$200,000 and \$1 million per site
<i>Profitability:</i>	Estimate \$250,000 to \$300,000 returned to PRI annually across four stores
<i>Mission Outcomes:</i>	30 jobs across four stores, 50% of which are individuals with disabilities
<i>Legal Structure:</i>	Each is a separate, wholly-owned for-profit LLC under PRI

Organization Background

Platte River Industries (PRI) was established in 1987 with the mission to create market-based employment opportunities that provide individuals with disabilities the opportunity to participate productively in the economy of their community. PRI operates several services businesses to accomplish this mission.

Social Franchise Origins

PRI was operating a small popcorn concession at Denver International Airport at the time the Agency started considering other options. Rocky Pop Popcorn generated approximately \$150,000 per year, but was not providing consistent employment opportunities for persons with a disability. PRI wanted to find a business that could provide stable jobs and solid financial potential.

Franchise Deal

When the organization first attempted to purchase an existing Auntie Anne's franchise, the initial asking price was \$850,000. After conducting its market analysis and consulting with its advisory board, the organization negotiated the final price down to \$675,000 – the maximum the agency's bank and SBA would approve given the financial analysis of the value of the business. Subsequent shops cost between \$25,000 and \$350,000 (including franchise fee) depending upon the size and structure of the location.

PRI is treated exactly the same as any other Auntie Anne's franchisee and is required to pay the same royalties (7%) and advertising fees (1%).

Challenges

- § **Board negotiations** – Negotiations within PRI's board were extensive, and at one point, the nonprofit became concerned that Auntie Anne's would withdraw its franchise offer because the process was taking too long.
- § **Cash crunch** - The organization experienced a brief crisis when it launched the first franchise unit because it did not have the cash on hand to cover payroll expenses during the first 90 days of operation.

Keys to Success

- § **Strong advisory board** – During the creation of PRI, members of the banking community, a business school dean, and three business owners were recruited in conjunction with other community leaders. These individuals provided PRI with valuable insight regarding the airport marketplace and also helped the organization structure the Auntie Anne's franchise's operations so that they were positioned correctly to maximize profitability.
- § **Experienced manager** – Although the organization had experience operating other business ventures, PRI realized that it did not possess any airport retail experience and hired an experienced manager to oversee its Auntie Anne's units. While the individual is trained to be sensitive to the needs of the organization's clients working in the franchise, their main priority is to manage the business profitably. Hiring an experienced manager has helped to ensure that the franchise units meet both financial and mission objectives.
- § **Careful hiring practices** – The franchise units uphold the agency's philosophy that PRI exists to employ and train the disabled – at least 50% of the franchise units' employees are disabled clients of PRI. As a result, individuals who are uncomfortable working with persons with a disability cannot work for the Auntie Anne's franchise units. PRI cross trains all shift manager(s) to be job coaches and to ensure knowledge and skill in the rehabilitation field. Peer employees also all receive sensitivity training. More importantly, specific personnel policies are in place to minimize any potential negative behavior toward persons with a disability in the worksite.
- § **Focus on business operations** – The PRI social franchises look just like traditional franchises in many ways:
 - PRI obtained an SBA-guaranteed loan to capitalize the franchise units.
 - Each is incorporated as a separate for-profit limited liability company, wholly-owned by the nonprofit organization.
 - The organization's CEO agreed to sign a personal liability agreement with Auntie Anne's for the franchise units (PRI's board acquired insurance to cover the costs of these agreements).
 - The general manager of the Auntie Anne's operation is required to manage the franchises as a profit center, and their performance review and compensation are based on the business's profitability.

These decisions not only helped convince Auntie Anne's that PRI would be a good franchisee but also ensure strong ongoing financial performance. Without the positive financial results, PRI would not be able to provide the valuable employment opportunities for its clients.