

A SPECIAL REPORT ON Franchising

With franchising growing in popularity in the early years, **Nicole Weinstein** discovers what the appeal is of both the traditional franchise model and newer versions of it



The popularity of franchising has grown significantly in recent years across all business sectors – a trend that is mirrored in the early years. The appeal of the model can be attributed to the fact that both the franchisor and franchisee benefit from the model's success and both have an incentive to work together to make the business flourish.

Until recently, two major players dominated the early years franchising market: Monkey Puzzle Day Nurseries (MPDN) and Banana Moon, both of which have continued to expand during the pandemic.

But, with the arrival of America's largest childcare franchise, The

Learning Experience (TLE), along with a new wave of innovative franchise consultancies, the landscape looks set to change in the coming years.

THE MARKETPLACE

Richard Blunden, CEO of MPDN, which has 63 nurseries, 60 of which are franchised, says, 'This is a sector seeing a significant level of external investment with investors recognising the impact and returns possible from a resilient sector.'

The benefits of the franchise model have been demonstrated throughout the pandemic, with local franchisee owners having autonomy with their nursery under the banner of a large national brand support structure.

Franchisees have autonomy with the added security of being part of a larger network

Blunden adds, 'This has enabled our network to be fully informed and part of a sector "voice", working closely with government departments to influence and shape policy.'

Josh Smallwood, head of franchising at Banana Moon, which has 49 settings operating under its brand name, including two corporate settings, says, 'There's increasing demand in the sector. Since the second lockdown, enquiries from potential franchisees have gone up and we've had a steady flow of sign-ups from suitable partners.'

With all the uncertainties of the current trading climate, the ability of the franchise business model to mitigate risk is driving its popularity. ▶



Not only has there been a renewed interest from people outside the sector, as a knock-on effect of the publicity that early years and childcare has gained throughout the pandemic, but current nursery owners are turning to a new wave of franchise consultants in order to expand their businesses with the ongoing support of experienced operators.

PROPERTY MARKET

Eamonn O'Connor, commercial director of Toddleworld, a consultancy franchise service which launched in January this year, says the current climate offers 'tremendous advantages' to those wishing to open their own setting, not least because of the recent relaxation of planning rules last year, which saw nurseries being put into the same category as shops, offices and pubs.

He says, 'This is producing a glut of opportunities for nurseries. Ex-retail and office space is freely available. There is currently low demand for office space so an attractive deal can be struck with landlords. Previously, finding suitable property was like hens' teeth.'

Prior to this change, nurseries were in the same category as religious and medical uses. This means that there is now more scope for nurseries to go into different buildings, without the requirement to change planning permission.

But despite this change, Smallwood says the 'biggest

challenge' is finding suitable nursery buildings that work for the franchisees in terms of the level of investment that they are able to put into the project.

He adds, 'There's also a lot of competition from our competitors, and standalone nurseries.'

TLE nurseries in the US are typically 150-place settings because children are based in small, age-specific classrooms.

Fiona Smith, managing director of TLE, says although UK sites will always be at the larger end, some are likely to have fewer places than the average American model because one of the challenges in the UK is around the availability of sites, which often involves conversions of existing sites.

TRADITIONAL FRANCHISES

Banana Moon, MPDN and The Learning Experience operate traditional franchising models. They work in partnership with the franchisee to equip them with a proven business model and the necessary support to grow a successful business. An investment fee on joining gives them a licence to operate a proven business model along with all the equipment and resources for children and staff that are required to run a nursery.

Each month, the franchisee pays a management service fee (ranging from 8 to 9.5 per cent of their total turnover plus VAT) to cover monthly support and third-party services.

Being part of a franchise can give new businesses vital financial support and advice

→ MORE INFORMATION

- Monkey Puzzle: <https://monkeypuzzledaynurseries.com/nursery-franchise>
 - Banana Moon: <https://www.bananamoonfranchise.com>
 - Toddleworld: <https://bit.ly/3l8PUwn>
 - Evolution Childcare: www.evolution-childcare.co.uk
 - The Learning Experience: <https://tle-franchising.co.uk>
- O'Connor says, 'We do not

On top of this are the costs associated with buying or leasing premises, which can be anywhere upwards from £150,000, depending on the building and the location.

Blunden says, 'We have great relationships with key property investors who invest in property on our behalf. We then take the risk on the property with the headlease and sublet to a franchisee, giving the investor a stronger covenant and the franchisee the protection of us holding the headlease. The total project cost is anywhere between £400k and £500k-plus.

'Banks tend to fund 70 per cent of the total cost, with the remaining 30 per cent covered by the franchisee liquid funds. The total project cost also takes into account working capital requirements – year one tends to lose money in a start-up nursery, therefore this is factored into the total cost.'

Each nursery is branded with the company logo and there is a uniform approach to the policies, procedures, training programmes and curriculum throughout the group.

Banana Moon, MPDN and The Learning Experience each own their own corporate nurseries that act as either flagship centres or training hubs. They are also all members of the British Franchising Association.

NEW WAVE OF CONSULTANT FRANCHISORS

Toddletown, a well-established nursery group of four settings, branched into franchising earlier this year with the launch of Toddleworld and a business strategy designed to 'disrupt the existing franchise model' and establish a 'new paradigm' for franchisors in the sector, which offers a 'better, more personal and ultimately cost-effective service' to the franchisee.

O'Connor says, 'Having created two nurseries from scratch and successfully acquired and transitioned two others, as well as advising numerous other operators, we realised there was a gap in the market.'

The Toddleworld approach differs from traditional franchising because it does not insist that franchisees – although it prefers the term 'partners' – use its brand name.

O'Connor says, 'We do not

believe that a nationwide brand offers any advantage to a new operator. If you want a pizza or a coffee, you can be pretty certain that the “brand” will tell you what to expect. This isn’t the same in childcare. Parents make local choices, seeking out the views of other parents through social media when deciding which nurseries to visit. We find our partners feel greater ownership of their business if they create the name, the logo and the brand.

‘We aim to take them from zero to self-sufficiency in 18 months. Clearly, they will not be totally autonomous in this time if they have no previous experience, but they will have the confidence to manage their setting over this timeframe.’

There is an initial fee of £30,000

and Toddleworld takes 5 per cent of ongoing gross revenues.

‘This aligns our interests with those of our franchisee partners: we would not be able to deliver the extensive initial support we offer for this initial fee. Our model is therefore “back-end loaded” whereby we start to generate more meaningful revenue streams only when and if our partners are successful,’ O’Connor explains.

All but one of Toddleworld’s new clients are experienced nursery operators.

Melissa Swaine, who owns Squirrels Childcare and Training, a 46-place private nursery in Northamptonshire, has been looking to expand for a number of years and has been working with Toddleworld to secure a rented property.

It’s fresh and new and they work alongside you, rather than having to take on their brand

She says, ‘Part of the reason for appointing Toddleworld is to get help with the planning process, which changes regularly. I have also had help writing my proposals, which takes the burden off, especially as I’m running my own nursery. When we eventually find the right property and it’s up and running, I will have access to HR and quality support. It’s an ongoing relationship and as a lone business owner, it can be quite solitary. Toddleworld appealed to me immediately as it’s fresh and new and they work alongside you, rather than having to take on their brand. I’m in contact with them every couple of days and it’s a really friendly, professional relationship, which I find inspiring.’ ■

case study: White Label Nurseries – a new model of franchising

Sue Jones, owner of Evolution Childcare, has recently launched a new business model to replace her former franchising arm, which she says was ‘flawed’.

In 2011, Evolution Childcare had nine branches in the UK, a master licence in China with a guarantee to open ten nurseries in five years, eight nurseries in Abu Dhabi and Dubai and two nurseries in Bahrain.

But although the model could have gone on to be very successful – Sue turned down more than 50 nursery franchise applicants in the early days – she decided to revise it when the franchisees hit the three-year mark.

Today, Jones no longer offers the franchise model and has parted company with all of her franchisees, except for three in the UK, one in China and one in Bahrain. She also operates five of her own nurseries.

She explains, ‘Franchising a brand is an exceptional way to enter a particular industry as a novice and appear to the outside world that you are incredibly experienced. This works brilliantly in many sectors, but for me, in childcare, to put my brand,

my name, my heart and soul and my reputation not just on the line, but in someone else’s hands regardless of the protection measures you build around it, is still incredibly risky.’

At the beginning, her franchise model was simple and lucrative for both franchisor and franchisee. The franchise brand licence was £25,000 plus VAT, and every month thereafter the franchisor paid a management service fee (MSF) of 8 per cent of turnover plus VAT in return for property sourcing, designing and project management, business and financial support to access funding, manager and deputy recruitment, training, building fit-out and resource advice and support, a mentor, library of documents, a bespoke e-learning platform and quarterly auditing and quality control.

But Jones explains that the model was ‘flawed’ because the franchisor works relentlessly for 18 months to get the franchisee up and running; the MSF fee in the first few years as child numbers are climbing is ‘easy

for the new business owners to absorb’, but hit years three and four and the monthly fee has gone from hundreds to over £6,000.

She adds, ‘By this time, the manager and the team are settled, trained, knowledgeable and Ofsted-accredited. The owners have no need for the brand constantly inspecting and auditing them and quickly want out of the costly contract that served them well in the start-up phase.’

‘I completely understood this, so slowly but surely I parted company with my franchisees and wished them luck in their next chapter. Others who I had built not just business relationships but personal friendships with, I revised their contracts and put them on a mutually agreeable fixed fee for the service I provide. They continue to thrive.’

Meanwhile, in July 2020, Jones brought a new White Label model to the sector with the slogan ‘the team behind your nursery dream’. Three branches are due to open in 2022.

She says, ‘I project manage every aspect of the process from sourcing a property to



negotiating building rates; coming up with the branding and kitting out the nursery. I do everything in the same way as if it were a franchisee, but I support them in my capacity as a consultant to build their own brand and identity and allow them to own their intellectual property rather than license it.

‘There are three packages: bronze, silver and gold. The bronze package is £50k and involves the support of Evolution Childcare until the doors are open; the silver is £75k for a year after opening, and the Gold is £100k for five years. This is a much more economical way of working because a typical ten-year MFS franchisee contract would set you back half a million pounds.’

→ For bonus content on franchising, go to the online version of this article at www.nurseryworld.co.uk