

Franchise, wholesale or own network?

How to choose a growth model that balances economics, pace of growth, capital and control over the brand.

STARTING POINT

The question is not: which model is best?

BUT

which model is best for this business, in this market and at this stage of development?

OWN NETWORK

An own network gives the highest level of control.

FRANCHISE

Franchising makes it possible to grow scale by using the capital and entrepreneurship of partners.

WHOLESALE

Wholesale can enable fast entry into new channels and geographies without building the whole retail infrastructure.

Each model, however, has a different economics.

- A different risk profile.
- Different competency requirements.
- A different relationship between growth and control.

That is why the decision on a growth model should not be taken solely on the basis of the pace of expansion.

Scale in itself does not create value.

What creates it is the scale that the economic model is able to sustain.

THREE MODELS, THREE LOGICS

Three models, three logics.

OWN NETWORK

The company controls the location, customer experience, pricing, staff, inventory and the way of operating.

The benefit is direct access to the full economics of sales and to the customer.

The cost is capital, infrastructure and operational responsibility.

FRANCHISE

The partner invests part of the capital and runs the business according to a defined model.

This can speed up expansion, but success depends on the quality of the concept, unit economics, standards and the ability to manage partners.

Franchising does not remove the need to manage the network.

It changes the kind of management.

WHOLESALE

The brand sells the product to a partner, who is then responsible for retail sales.

The model can be scalable and attractive in terms of capital, but the company gives up part of its control over the final price, display, customer experience and access to data.

These are not three variants of the same model.
They are three different systems of creating and sharing value.

ECONOMICS

Turnover does not yet say which model is the most valuable.

When comparing models, look at the whole economics.

OWN NETWORK

In an own network the company may generate a higher gross margin, but bears the full costs of:

- locations,
- staff,
- stocking,
- operations,
- infrastructure,
- openings and closures.

WHOLESALE

In wholesale the percentage margin may be lower, but part of the costs and risk is taken on by the partner.

FRANCHISE

In franchising the economics depends on a combination of:

- initial fees,
- product margin,
- royalty,
- marketing fee,
- partner support costs,
- and the level of capital needed to build and maintain the system.

THAT IS WHY MODELS MUST BE COMPARED AT THE LEVEL OF:

cash generation

ROIC

working capital

cost of scaling

single-unit economics
(capital)

The largest sales **do not** always mean the highest value.

CAPITAL AND PACE

Faster does not always mean better. Slower does not always mean safer.

OWN NETWORK

An own network may grow more slowly because of capital constraints.

FRANCHISE

Franchising can grow faster, but a growing number of partners increases the need to control the standard.

WHOLESALE

Wholesale can open access to many points of sale very quickly, but at the same time limit direct control over distribution.

So before choosing a model, two questions must be asked at once:

QUESTION 1

How fast can we scale?

AND QUESTION 2

How fast can we scale without losing the economics and quality of the model?

The difference between these questions is fundamental.

CONTROL OVER THE BRAND

Each model gives up control in a different place.

● OWN RETAIL · FULL CONTROL ○ FRANCHISE · CONTROL THROUGH THE SYSTEM ○ WHOLESALE · INDIRECT CONTROL

OWN RETAIL

In its own retail the company controls most of the customer experience.

FRANCHISE

In franchising, control is enforced through:

- standards,
- the agreement,
- the operating manual,
- training,
- an audit system,
- data,
- the relationship with the partner.

WHOLESALE

In wholesale, part of the brand experience already depends on an external retailer.

So the more the value of the brand depends on:

- service,
- visual merchandising,
- premium experience,
- advice,
- atmosphere,
- price control,

the more consciously the cost of losing control must be assessed.

This does not mean that a premium brand cannot work through partners.

A partner model must be designed as precisely as own retail.

COMPETENCIES

A growth model should match not only the market, but also what the organisation is capable of.

OWN NETWORK

An own network requires retail and operational competencies.

WHOLESALE

Wholesale requires very strong B2B sales, account management, product planning and channel management.

FRANCHISE

Franchising requires yet another set of competencies:

- partner selection,
- know-how transfer,
- standard management,
- franchisee economics,
- performance monitoring,
- managing conflicts of interest,
- and developing a system that remains attractive both to the brand owner and to the partner.

A company may have an excellent product and still not be ready for franchising.

A franchisable business is one that can pass its advantage on to someone else **in a repeatable way**.

QUESTIONS FOR THE BOARD

10 questions before choosing an expansion model

01 Where does value really arise in our model?

02 What does the full unit economics look like in each variant?

03 How much capital does opening and maintaining the next point require?

04 How much control over the customer experience is essential for the brand?

05 Is the operating model repeatable enough to pass on to a partner?

06 What customer and sales data will we lose in a partner model?

07 What level of margin does the partner need for the model to be sustainable for them?

08 Does the organisation have the competencies to manage the given channel?

09 Where does conflict between channels arise?

10 Should one model apply everywhere, or do we need a hybrid architecture?

HEFT7 PERSPECTIVE

You do not have to choose one model forever.

Many companies should think not of a single channel, but of an architecture of growth.

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- 01 Own flagship locations can build the brand and the experience.
 - 02 Franchising can develop markets where a local partner has an advantage.
 - 03 Wholesale can extend the reach of products where building an own network has no economic justification.
 - 04 E-commerce can play yet another role.
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What is key is that every channel has:

- a clear role,
- its own economics,
- rules on customer, price and range,
- and a defined place in the brand strategy.

If the answers are not unambiguous, the company does not need another sales channel.

It needs a decision about its model of value creation.

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