

Building Territories for a Franchise System

Many franchise systems incorporate the allocation of defined territories to the franchisees. Peter Buckingham of Spectrum Analysis believes that the application of a little bit of science can generate far more equitable territories and avoid a myriad of problems down the track.

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In the last edition, I asked franchisors to consider the question of “How many territories do I want”, rather than coming to a consultant and asking “How many territories should I have”, a question that is really up to the franchisor to address initially. Once you have a view on this, we can work on establishing territories of similar sales potential.

There are 2 specific questions to be addressed now:

- What differentiates a high sales potential area from a low sales potential area?
- How do I use this information to create territories of similar sales potential?

The first item we need to consider is what the Drivers of my business are, or more explicitly, what is the profile of the customer you are aiming for? Most products and services have a “target customer” and we need to think in terms of who this is and also (just as importantly) where these people are likely to be when they make their purchase.

The following examples illustrate this idea:

- A company distributing magazines for new mothers wanted to define equitable sales territories. The target audience was professional two parent families with young children, targeted at their place of residence.
- In contrast, a gourmet corporate catering service looks for professionals at their place of employment.

The profiles of the highest potential customers can be gained through market research or by simply observing who is buying the product. Large companies may be undertaking more detailed research for a variety of reasons, and the findings of this research should be channelled back into this process.

Once we have decided on how to define the characteristics and location of the target customer, we need to decide what data or information exists that can grade area opportunity. This information may come from such sources as the Australian Bureau of Statistics Census of Population and Housing or Business Employment Estimates.

Using a Target Market Index to Grade Area Potential

As we have seen already, often the profile of a target group of interest may include several characteristics. For instance, in our new mother’s magazine example, the ideal area characteristics are

- Two Parent Families with Dependants
- Professional

- High % population aged 0 - 4

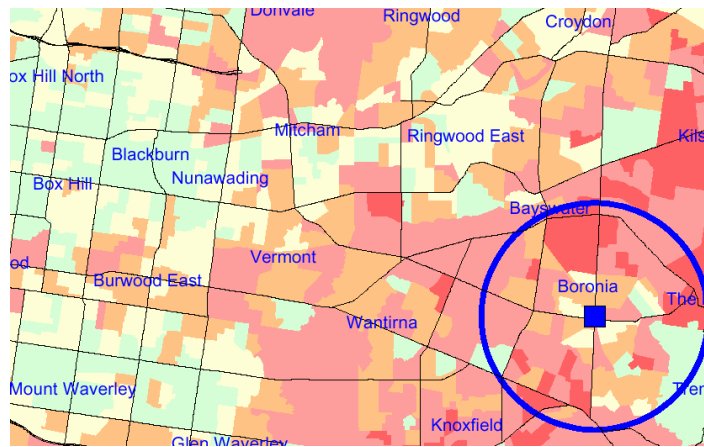
While in the corporate catering example, the ideal area characteristics are

- High Number of Professional Business Employees

A Target Market index is a means of combining several characteristics of a target group into a single index score (ranging in value between 0 and 1) used for comparison of area potential.

While a full discussion on indexing is beyond the scope of this article, an index method is relatively easy to implement, is very flexible and can use characteristic data from a variety of sources such as residential demographics and employment statistics. Characteristics can also be weighted if it is felt that one characteristic is more important than another.

The resultant score can be mapped (using a variety of shadings) across any area of interest, instantly showing the hot spots of highest opportunity.

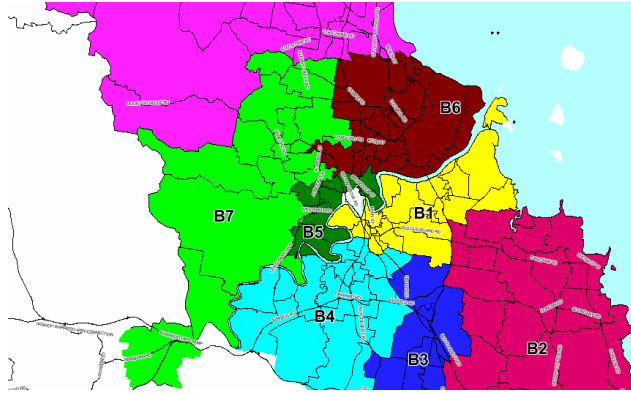


Building the Territories

Establishing territories normally involves aggregating up small areas until they attain some pre set population. To maintain equitable territories, areas with high sales potential (high TMI scores) should contain a lower base population than areas with low sales potential.

The process of doing this is actually quite simple. By multiplying any area's base population by its TMI score, we derive an "adjusted" population that is more representative of an areas true sales potential. This adjusted population is then used to aggregate areas (normally Postcodes) until we reach our preset level of population.

In this way, the base population required to sustain a territory may be set at 50,000 persons, but territories in high potential locations may end up containing 40,000 persons, while territories in low potential locations may end up containing 60,000 persons, a much more equitable carve up.



Summary

A process as described above will assist in the following ways:

- Management will have a better understanding of the Drivers of the business, and be able to explain the process of building territories to prospective franchisees.
- New franchisees will better understand what they are buying in terms of a territory.
- Avoids the rush on choice territories, and difficulty in moving the less choice areas
- Allows for valid comparison of franchisee performance across areas

You now have a process that meets the Franchise Code, and are able to state in your disclosure document that you have a process in establishing equitable territories. In the case of some potential legal issues, this may be the best insurance your business has ever taken!

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