

THE SERVICES FRANCHISES



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Where should I go, and how do I know my territory is sufficient to support me?

I like to define services franchises as those that do not specifically need a retail location to operate out of. In most cases these are where you (the franchisee) go to the customer, rather than the customer coming to you.

Within service franchises, there are the indoor ones such as:

- house cleaning
- ironing
- oven cleaning
- portrait photography
- befriending the elderly
- and many more.

Similarly there are a large number of outdoor service franchises which include;

- pool cleaning
- dog walking and washing
- building and renovating – whole houses if required
- antennas
- roofing
- paving
- kerbing
- gardening and landscaping
- junk removal
- and many more.

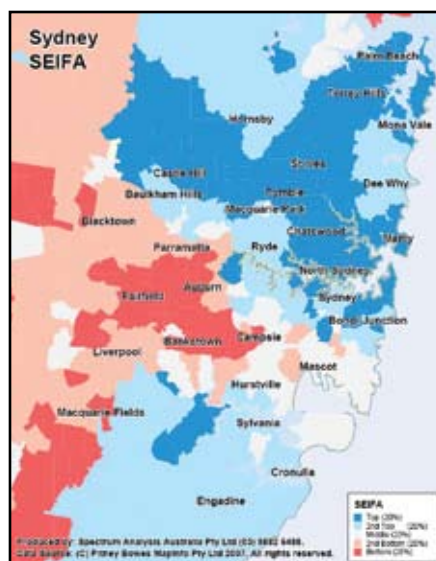
If you like the outdoors, think of yourself as a bit ‘macho’, can handle the sun, rain, wind as well as an occasional day spent in the beautiful outdoors, maybe one of these is for you?

The demand curve

The demand for these types of household services correlates closely to high economic

areas. We look at this in terms of SEIFA (socio economic index for areas), which is an Australian Bureau of Statistics product, and tells us a score for every area in Australia, centering around an average score of 1,000. I like to describe it as a line from ‘affluent to effluent’, and everywhere in Australia sits somewhere on that line!

High SEIFA areas are typically ones where the housing price is high, most people are in employment, and in most cases in professional or other well paid jobs. Typical of this are areas such as the northern suburbs of Sydney, Melbourne’s inner east and Perth around the Swan River. Lower SEIFA areas would be both Melbourne and Sydney’s western suburbs in general.

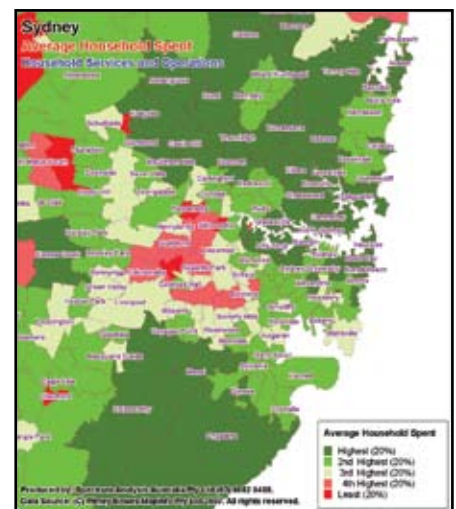


SEIFA map of Sydney, showing the breakdown of areas into five quintiles

The demand for household services is definitely stronger in higher socio economic areas according to

our research and experience.

To confirm this, we demonstrate the household expenditure survey (HES) which was conducted with around 7,000 households asked to fill in how they spent their money some years back. One classification we can examine in the HES data is household services and operations:



HES map of Household Services and Operations

These maps confirm the relationship the HES shows us to spending on household services, as compared to higher versus lower economic areas, as shown on the SEIFA map.

Territory design

Smart franchise systems try and adapt the size of the territory so that each territory gives the similar amount of opportunity for a franchisee. As you would imagine, if we simply split up a market into territories each of 40,000 households, you would much prefer to have the service franchise for pool cleaning, gardening, or dog washing around Camberwell, Toorak, Double Bay, Hunters

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Hill or Claremont, than around St Marys, Cabramatta, Sunshine or Broadmeadows. Some franchise systems wonder why some of their franchises are keenly sought after, whilst others seem to have no interest at all. Inevitably they have split their territories very poorly.

Good franchisors move away from what we call the ‘beer and pizza’ map to a proper, statistical based system so we can give each franchisee similar opportunity within their territory.



Beer and Pizza map

The ‘beer and pizza’ map has traditionally been done with a black text on a large map, strongly influenced by some early entry, self centered franchisees drinking beer (or red wine) and eating pizza at the franchisor’s expense! The down side of the ‘beer and pizza’ map is that no data has been used, just a keen eye, and normally a group of self fulfilling designers!

The way we recommend is to firstly understand what makes for a good customer of this service franchise i.e. Who is going to be our customer? This can be done by creating a picture of who the ideal customer is, or if the business already exists, plot the customers, and look for areas (post codes ideally) of high concentration (penetration, or customers/1,000 households) of customers. By then comparing to the demographics of the post codes of high penetration, we

can see if our service franchise works best in high versus low income, areas of older versus younger people, areas high with families, or whether ethnicity may have some effect on the business.

Once we know which drivers are good for the business, we can calculate a score for each post code. For example if one household was likely to spend \$10 on your service on average, then a household in a high demographic area may be considered to spend \$15 per household, and a household in a lower demographic area may spend \$5 per household. If each post code was equivalent in the number of households, say 10,000, then the higher area would offer you \$150,000 of potential sales, whilst the lower socio economic area would only offer you \$50,000 of potential sales.

Therefore if we decide to do this across the total market such as all of Melbourne, we may conclude the total market offers us 1,200,000 households at an average of \$10 per household = \$12,000,000.

Being a good franchise system, we may have concluded we want 30 franchises across Melbourne, so we want each franchise to have \$400,000 of potential.

To balance the potential so each territory is similar, in a high socio economic area, when we add the post codes together to come up with \$400,000 of potential, it may take 29,000 households, and in a lower socio economic area, we may need 50,000 households to give the same amount of opportunity for the franchisee.

This type of calculation can be done for any market, and rather than trying to adjust the franchise fee for a higher potential area, compared to a lower potential area, we believe it is better to keep the franchise fee constant, and adjust the area’s size, so each franchise area is considered to offer similar opportunity.



Map showing territories of similar potential for the franchisee

Summary

Our experience is that outdoor service businesses definitely have more opportunity in higher socio economic areas than lower ones, however a good franchisor will balance the territories they create so that each area gives a similar amount of opportunity for the franchisee. If your franchisor is showing you a territory based on the ‘beer and pizza’ map, ask yourself whether you should trust your investment to this franchise system?

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