



Spectrum Analysis specialises in assisting major retail chains and franchisors in property decisions – structuring territories, where to place new sites, which stores should we close, and what sales do we expect to achieve at new stores or within territories?

## **How many Territories should I have?**

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The regular question we are asked is “How many territories should we make for a particular market?”

Whilst no exact answer can be given, we recommend the following path be taken:

### **Where does my crystal ball say we are heading?**

Firstly ask yourself “What revenue do I believe this concept can generate in 5 and even 10 years if my business expands as I envisage”? This will give you an answer and logic like:

I have 2 shops, or I have a small company running 3 vans in a particular area. I currently am doing \$1,000,000 turnover from the business and really only covering a small portion of the city. With advertising and promotion, in 5 years my business plan says we will be selling \$10,000,000, and then 10 years out we should be doing \$16,000,000.

### **What should a successful franchisee turn over?**

What revenue will make a franchisee successful, based on your knowledge of the business and some form of forecast Profit and Loss Statement? This is definitely

confidential information to yourself, and should not be shared / shown to potential franchisees.

You may have an answer like a turnover of \$300,000 will make a reasonable living, but if you are turning over \$400,000, you will be considered successful and generating a good living (say \$80,000 - \$100,000).

### **Simple calculation**

This logic would suggest the following:

In 5 years we should have about 25 territories (\$10M / \$400,000), and in 10 years around 40 (\$15M / \$400,000).

### **So how many territories should we define now?**

We often talk about “the chequer board approach” where you define more territories than are required, and initially give a franchisee his “prime territory” and use of a second or even third territory for maybe 2 - 5 years. This allows the concept to develop, and then the extra territory(s) may be offered to the franchisee at some cost, or if he does not want it, you may appoint other franchisees into the extra territories.

In the example above, we would suggest cutting the city into 40 territories of about equal demand for the concept. The first few franchisees may have their prime territory, with agreement to service any work coming out of a couple of other territories, until they can support their own operator. The exact arrangement that is made between Franchisor and Franchisee depends on the circumstances, rate of expansion and the confidence you have in the concept.

### **Possible action plan for selling territories**

In my example, I would be suggesting the first 10 franchisees buy their prime territory, and then service any business that comes out of possibly 3 other territories.

After 2 years, as you are appointing the next 5 franchisees, they will take a Prime Territory (that someone else has just been looking after, and maybe take over the servicing of a second territory).

By 5 years, you have 25 franchisees (business plan number), of which around 10 are working in their Prime Territories, and up to 15 could be doing their Prime Territories, and still looking after all or part of a second area. As we move from 25 – 40 franchisees, progressively each one resorts back to operating in their Prime Territory only.

### **How big are the major Australian Cities?**

I am enclosing a table to give you an idea of the size of the relative capitals across Australia. This should give you some feel of the proportionate numbers that can be achieved if you had similar penetration in each city:

<b>City</b>	<b>Population</b>	<b>Households</b>
Sydney (incl. Newcastle / Central Coast / Wollongong)	<b>4,382,478</b>	<b>1,535,205</b>
Melbourne (incl. Geelong)	<b>3,452,491</b>	<b>1,246,333</b>
Brisbane (incl. Gold Coast & Sunshine Coast)	<b>2,195,094</b>	<b>798,162</b>
Perth (incl. Rockingham & Mandurah)	<b>1,391,303</b>	<b>515,152</b>
Adelaide	<b>1,029,560</b>	<b>403,189</b>

*Source: ABS Census 2006 (Urban Centre / Locality boundaries)*

As an idea for proportional representation, if a franchise had 100 territories across the 5 main capital cities in Australia , you would have a distribution along the following lines:

<b>City</b>	<b>Number of Territories / Stores</b>
Sydney (incl. Newcastle / Central Coast / Wollongong)	<b>35</b>
Melbourne (incl. Geelong)	<b>28</b>
Brisbane (incl. Gold Coast & Sunshine Coast)	<b>18</b>
Perth (incl. Mandurah)	<b>11</b>
Adelaide	<b>8</b>

## **Summary**

In summary to answer these questions you need to look at where you believe the concept should be in about 5 and 10 years time, and the revenue required to make a successful franchisee. It is far easier to set this up initially, than to sell a few very large territories, and then try to gain franchisee agreement to “give them back”, or “buy them back” so you can expand with time.

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