

# LOCATION, LOCATION, LOCATION...

## Site selection thinking for franchisees

**Y**ou have now decided you wish to take on a franchise that is going to make money for you, secure your future and put the kids through school. The concept looks great, the forecasts are strong, and now you (and the franchisor) need to find a location.

Different franchisors have different levels of assistance in New Zealand. These vary from:

- Finding the site for the franchisee and then ‘telling’ him or her where they are going to open the business. Historically this has been the McDonalds way, where an approved franchisee was offered a store and basically had to be prepared to take it.
- Working with the approved franchisee at various levels that can include assisting in locating the opportunities in their area, assisting in the negotiations and working to make the site come into fruition.
- Taking the American way and letting the franchisee find the site, and the franchisor giving the ‘nod of approval’.

We recently visited the International Franchise Associations Convention in Las Vegas, and I was very interested in the franchisor/franchisee relationship in this site selection process.

In the USA, they have created a new role in the process called a ‘site broker’. The site broker becomes an associate or preferred supplier to the franchisor. The broker is expected to know about existing leases becoming available and new developments coming onto the market.

Irrespective of the methods used by the franchisor, you need to have some knowledge of site selection process, as it is your money that is being invested.

### How do you tell people what you require?

We recommend that all franchise systems should have a ‘properties guideline’ to tell the outside world what they are seeking. The property guideline does not need to contain confidential information. It does need to be specific enough to allow the parties involved, including real estate agents, to be clear in what is sought.

In my past life with Caltex, we wrote a property guideline that we gave out to people who stated they had suitable blocks. We also distributed the guideline to real estate agents we were working with. This served to eliminate many poor options very quickly and minimized wasting our time. It also assisted those good operators in clearly understanding what we wanted.

### Impulse vs. destination

Before you write your property guideline, I always suggest you consider where you stand in the impulse vs. destination axis. High impulse sites are required for high impulse products and have high rents. High destination, low impulse products can be sold in sites that are far less visible – with far lower rentals.

High Impulse  
Low Destination  
High Rentals

Low Impulse  
High Destination  
Lower Rentals



### High impulse items

High impulse items are usually low cost, spontaneous purchases such as a carton of milk, a packet of cigarettes for a smoker or a newspaper. You may make some decision

where you go, but convenience normally drives this purchase.

When we look at the most high impulse business we can imagine, think of a busker. In this case, they are very mobile and are able to move to the best traffic flow at no cost, other than moving their instrument and case and walking to the other side of the pavement.

As the cost of the goods you are purchasing increases, you move further along the line towards low impulse/high destination items.

### High destination purchases

If the goods you want are reasonably expensive, and you have already pre-determined where you will buy it from - it is a high destination purchase. If you want a specific type of car, such as a BMW, then you will find and go to a BMW showroom.

### Giving a value to this impulse vs. destination ratio

Your business can normally be addressed as x% impulse; y% destination. Here are some examples:

	IMPULSE	DESTINATION
Busker	100%	0%
Rolling stones concert	1%	99%
Buying petrol	80%	20%
KFC	60%	40%
High class restaurant	20%	80%
Buying small electrical goods	70%	30%
Buying a plasma screen	30%	70%

“The higher the impulse value of the goods you are selling, the more important it is to be in a highly visible, high traffic location.”

Peter Buckingham, Managing Director,  
Spectrum Analysis.



As you can see, the more premeditated the purchase, the higher the probability you will look up where you want to go. You won't just spontaneously make a purchase from the first store you see.

### The decision

The higher the impulse value of the goods you are selling, the more important it is to be in a highly visible, high traffic location. If you are a very strong destination product, then you can take a more back street approach.

The rental you pay for a property is probably defined by the owner's view on whether the premise is on high traffic flow and high visibility. In shopping centres, most stores have a different rental per sq meter depending on the shopping centre management's view on these factors.

What you need to do is pay the appropriate rental for the appropriate store. If you have a high destination type product, you do not want to be paying top rental for the peak corner in the shopping centre.

If you are a high impulse product, you definitely need a high passing trade, or you will not sell your goods. No point being down at the back of the shopping centre paying cheap rental if you have a high impulse product, such as phone cards, sandwiches or other food items.

An exclusive restaurant that has a great reputation and its popularity is spread by word of mouth - can be in a lower rental street or area, as the public will find it and come to it.

A quick serve restaurant such as McDonalds or KFC must be in a high impulse area, be it in a food court or on a main high exposure road.

### The property guideline

The typical property guideline is normally a maximum of two pages and should cover the following areas for a free standing site:

- who you are (use that as a positive to sell your system)
- size of land or building you are seeking
- configuration of land (corner or midblock)
- traffic flow and direction (outbound vs. inbound traffic)
- access
- visibility
- parking
- competition (maybe you want to be near certain businesses or clustered with other similar businesses)
- specific suburbs or areas where you wish to locate

If looking at a site within a strip or shopping centre, you should nominate a series of centres or shopping strips of interest and also address:

- size of store required and frontage
- neighbours or environment you seek (fashion area, food court or fresh food)
- GLAR (gross leasable area retail) or size of centre
- pedestrian traffic nearby (supermarket car park and trails)
- visibility from both directions

As a franchisee, it is very much in your interest to find the best site available to you by understanding what should work for the type of franchise system you are interested in purchasing.

By working with your franchisor to have a clear property guideline, you can have the best chance of finding the best possible site

for your new business.

Most franchisors have a reasonable idea of what works for their system, either by gut feel, or preferably by some statistical analysis as to why their better stores out-perform their lesser stores.

Understanding the drivers of the business gives you an advantage into knowing what to look for in a location. Understanding where you believe you sit on the impulse vs. destination line also gives you a reasonable feel as to where to position your new business.

If you are taking on a new franchise, discuss these things with your franchisor or his representative. If they cannot be of assistance, maybe they need to do some better research, and you should be looking at a franchise system that does have a clear understanding of the drivers of their business.

**Peter Buckingham is the Managing Director of Spectrum Analysis Australia Pty Ltd, the leading geodemographic and sales prediction modelling company in Australia.**

**Peter also works closely in conjunction with SITE Property Limited in New Zealand, and is bringing their Spectrum products to New Zealand.**

**Spectrum specialises in assisting clients with decisions relating to store location and territory planning, using various scientific and statistical techniques.**

**For more information please contact:**

**Peter Buckingham**

**Phone: +61 03 9882 6488**

**Email: peterb@spectrumanalysis.com.au**

**Web: www.spectrumanalysis.com.au**