

Territories

Should I have them?



Anyone who watched John Cleese in *Faulty Towers* will remember his great lines about 'Don't bring up the war!' The same can be said for territories, preferred marketing areas, exclusion zones, or whatever name you chose to give them.

If you are a franchisor, may I suggest you think very carefully about what you agree to right from the start. As, like many things, promises once given are VERY hard to get back!

WHAT'S IN A NAME?

The first point I suggest you think about is, "What am I giving a franchisee in terms of a spatial footprint and what should it be called?"

The four most common things that a franchisor gives to a franchisee are:

- nothing! - I shall explain
- a defined territory
- a PMA (Preferred Marketing Area)
- an exclusion zone

EACH HAS ITS PURPOSE AND REASON!

If you have a fixed location, such as a shop in a shopping centre, a strip or a free standing store, my preference is to give nothing away if you do not have to. I worked for Caltex for 20 years. Let me assure you the oil industry does not give away any territories. What they do give you is the right to sell the oil companies' products from a designated premise.

Some franchisors may give the rights to a certain shopping centre. However, others will simply give you the rights to market their products and brand in the shop's footprint.

I believe, in a fixed abode, there is little reason to give a territory anyway - as you cannot tell a customer that comes into your shop to leave and go to another shop some kilometers away, because they live in another postcode (unless you are trying to go broke)!

SO WHEN IS A 'TERRITORY' APPLICABLE?

A territory, in my view, is the correct name for the spatial area you grant a franchisee when they are a true service business. True territories really

come into being when you need to define who services a customer, especially if you take orders or assign jobs from a call centre. Naturally, it becomes extremely important that the right lead is passed on to the correct franchisee, or you can expect major legal issues. Examples could be such businesses as courier services, mortgage broking, pool cleaning, lawn mowing, junk collection, oven cleaning and many, many more.

Service businesses rely on the franchisee purchasing an area and having the correct leads passed on to them, along with customers they generate themselves within that given area.

To make this occur even more accurately, you can now have your territory maps electronically incorporated into Google Maps. This allows the call centre operator to identify the pick up or service location and instantly know which territory to assign the job to.

ACTIVE AND PASSIVE MARKETING

I also like to think of Active and Passive marketing in a service business. My definition of this is:

You can ACTIVELY market in your own area. Active marketing can include cold calls, telephone calls, letterbox drops, signs in bus shelters and many more ideas. The idea of Active is something you can 'carpet bomb' to attract business from within your area.

PASSIVE marketing is when someone from outside your defined area comes to you personally for some reason. This gives you the option of doing the job, or passing it on to the franchisee

who handles the area. The ideal situation would be if everyone passed on jobs from outside their area, however in my experience that is unlikely, and maybe for a good reason.

If you have done a great job for someone, and they refer you to a friend/ colleague/relative, then you should be able to perform that referral in most systems. The main thing is that you are NOT allowed to actively promote yourself outside your area! Most franchisors believe it is better to do the job within the group than say no and see it be done by someone unknown. From a franchisor's view, you would rather see it done 'passively' than lost, as the royalties should still be paid.

If you are setting up territories – do it properly. Do NOT end up with the 'Beer and Pizza' map with no logic created by some over bearing franchisees, beers, pizzas and a black texta.



Beer and Pizza Map – Don't Do This!

Do it properly. Your finished product will be a logical Territory Planning solution you can understand and explain.



Well presented, logical territory mapping!

THE PMA – PREFERRED MARKETING AREA

If it is not a service business, and therefore not a true 'territory' as you are not allocating leads,

then DON'T call it a territory. A much better description is a preferred marketing area (PMA), which covers many logical situations.

If there is a fixed shop or location, and you want to set up leaflet distributions, catalogues, local newspaper advertisements or any other local area marketing tools, give the franchisees their own PMA. A PMA is a description of where you should market. It should not be seen as your exclusive ownership. So often I see fixed premises being given an area which is nominated as a territory by the Franchisor, and I liken their ownership to re-erecting the Berlin Wall (with razor wire and machine guns) and challenging anyone else to break in or out!



The Berlin Wall - or how some Franchisees see their border.

One of the major hot bread chains shared with me how they had to buy out a franchisee. They had initially given the franchisee a large territory, which then became one of Melbourne's major growth corridors. The franchisor had to buy the franchisee out in order to open three additional stores in this corridor. Otherwise, the franchisor would have sat out of this high growth market for quite some years.

The way of setting up PMA's or territories is basically identical; it is just a matter of flexibility for the future.

EXCLUSION ZONES

If you feel the need to give your franchisee greater security than a PMA in order to secure the sale of the franchise, then call a spade a spade.

If you WANT to give an exclusion zone and are prepared to commit for a period of time not to open any more stores nearby, then nominate in

your agreement an exclusion zone. This can be a map, as the boundaries are far less likely to change, or postcodes (however be aware these can change). It can be for a set period. For example, you may issue a franchise for a store at an approved location. Along with this, you may issue an exclusion zone stating you will not open another store within five kilometers for five years and then for three kilometers for the following five years.

Be very clear in what you mean by five kilometers. Is it a radius, or is it by roads and drive distance? I strongly suggest you do not go near 'drive times' as these vary by the minute. One client we service has an exclusion zone mapped. Included in their agreement is a map by drive distance. To achieve this, the client used our mapping system and measured (by the roads) a series of marks exactly five kilometers from the store. They then 'joined the dots'. This gives a polygon around the location that is far better than a circle. As when measuring a five kilometer radius circle, the outer edges can be nearer to seven kilometers from the store location.

SUMMARY

If you are a franchisor, think very hard about what you give your franchisees and what you call it. Make sure you are not 'Giving away the farm'. Once you give away an area and describe it in terms of a territory - there is no turning back.

Peter Buckingham is the Managing Director of Spectrum Analysis Australia Pty Ltd, a Melbourne based mapping, demographic and statistical consultancy. Peter is a Fellow of the FCA and a Certified Management Consultant.

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

Contact Peter at:

Phone: 03 9882 6488

Email: peterb@spectrumanalysis.com.au

Web: www.spectrumanalysis.com.au