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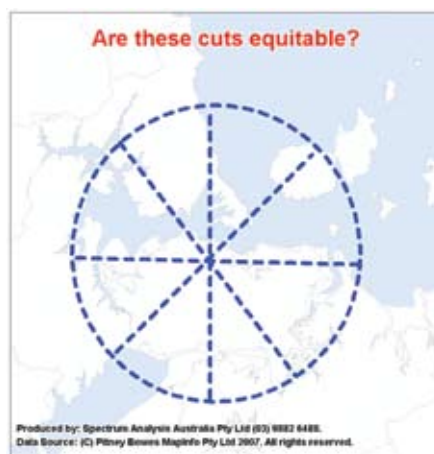
TERRITORY PLANNING

from a franchisee's viewpoint

So, you have decided to proceed into buying a franchise. You ask your franchisor how has your area been established, and you get a blank look. The 'beer and pizza' method has been used again! Not good! Read on.

A franchise system has an obligation to provide you with a business operation that is, in their best view, a viable business. As part of the due diligence on your new business opportunity, you should be comfortable that there has been logic used in establishing your territory or marketing area, that is, the geographical area surrounding your site, to give you sufficient business opportunity to make a profit.

Many franchise businesses begin on the smell of an oily rag. The initial territory or market area planning is often what one of our clients called the 'beer and pizza' approach. This is a scenario where the franchisor and early franchisees, bought beer and pizzas, and stood around a map with a black marking pen, and cut the areas up. Some franchisees are fortunate, and have excess business opportunity in the area, and others come up short.

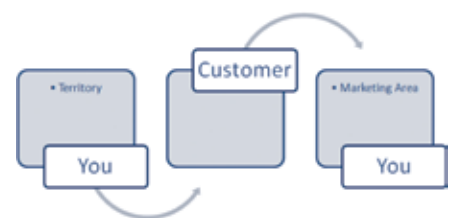


One ex-client of ours (I think they went broke), told us that their territories were all OK, however once they were electronically mapped, one territory had over 800,000 people, and another one (in the country) had 36,000 people. He was wondering why some sold very quickly, and others were hard to sell!

Territory V. Marketing Area

I am of the view that if you have a service business (not based in a retail shop), then a

territory is the way you should proceed. This territory is exactly defined on a map, and is probably a combination of postcodes or suburbs – with very definite boundaries. Any leads generated within the territory are then passed on to you to service. The area is yours to promote and work, to the best of your ability.



If you are a retailer, then you do not have much influence on who will come to your store. It is very unrealistic to knock back a customer because they come from outside a pre-determined area. In retail, we normally recommend you have a marketing area, or an exclusive area, within which you have the right to promote your store. This marketing area should also be seen by your franchisor as an area within which another store cannot be located, at least for a certain period of time.

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The reality is you cannot or will not refuse a customer a sale if they come from elsewhere.

Who is our customer?

There are two major methods that can be used in setting up territories of similar potential, depending on if you are a B2C (business to consumer) or a B2B (business to business) seller. In some cases you can combine the two methods and calculate territories based on 30 per cent of the business coming from B2B, and 70 per cent coming from B2C.

B2C businesses

A typical B2C business is one where the product is something that is personally used, and the demand for the product mainly relates to the number of households or number of persons in the area. The usual base of information is the census, where you can see how many people or households are in the nominated territory or trade area. B2C businesses could relate to clothing or food sales, or leisure related business.

The idea is then to make some adjustment, so that if the type of person in the area is deemed as ‘good’ for what you are selling, then you expect there will be less than the average number of people in the territory. If on the other hand, the type of people are not favorable to the business, then you will need more than the average number of people in the territory to give a similar amount of ‘demand’.

B2B businesses

If you are taking on a B2B business, then the number of people living in the area may be some form of indicator, but far more important is the number of business opportunities that are in the territory. Typical of the B2B businesses would be the printing

business, couriers, leasing of business vehicles and sales of tools to tradesmen.

NZ Stats provides information that we call the ‘New Zealand Business Counts’, giving us the number of businesses, type of business, and the approximate number of employees in a specific area. Using this information, you can give weighting to more favorable business types, and whether larger or smaller businesses offer more opportunity.

In some cases, you may have a business that has a very specific client base, so you can estimate how many of those types of business are in each postcode, and make it so each territory has similar potential.

Combinations of B2C and B2B

This arises in many cases, and the two databases can be used together, so the territories are balanced to represent how much of the business is B2B and how much is B2C. An example of this is the mortgage markets, where you may ask for a broker to come and see you at home (normally in the evening) – typical B2C, or you may ask them to visit you at work, or go to their office near your work (daytime), therefore they are then acting like a B2B.

What should your franchisor be able to show you?

If your franchisor has carried out a professional territory planning job, you would expect the franchisor to be able to explain the logic behind how the territories or market areas have been created. The franchisor should have an overall map of the whole market, and be able to provide you with a relevant map of your territory. Many good franchisors will also provide you with the residential demographics of your area, and if a B2B operation, then a business demographic of your area. To further assist in the opening of

your business, many franchisors can give you a business hit list for you to use in direct mail-outs, or phone invitation to your prestigious opening. Examples of interactive mapping and information can be seen on our website.



Summary

You are investing your money in a business opportunity that is being sold to you as a viable business operation. You really need to be comfortable that the franchisor does understand the logic of how the territories or marketing areas have been established, and have used their best endeavors to have each territory or marketing area of similar potential for you – the investing franchisee.

Spectrum Analysis works in the New Zealand market and have all the information to assist you in this extremely important area. ❖

Peter Buckingham is the managing director of Spectrum Analysis Pty Ltd, the leading geo-demographic, territory planning and retail sales modelling company in Australia and New Zealand. Spectrum assists many retail and service businesses in better understanding the retail market from a territory planning view. Spectrum operates their full range of services in New Zealand.

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