

STAKE YOUR CLAIM

WHAT YOU SHOULD KNOW ABOUT
YOUR SITE OR TERRITORY

I am often blown away when I meet franchisees who have come on board to a franchise system, and when I ask them what they know about their site or territory, there is a stunned silence. Having invested from a \$100,000 up to a couple of million dollars, it amazes me how little has been done or how little the franchisee actually knows about their site or territory allocated within the franchise agreement!

A friend of mine has a German shepherd and a beagle. He describes how they get up each morning, and when they go outside, the German shepherd stands high and takes in the big picture. He looks around the fence lines, probably looking for possums and other intruders. Meanwhile, the instant the beagle is out the door, the snout is down, looking for scents. Which one are you?

If you identify with the beagle, you simply walk the streets and look at the very local view. Who are your neighbours and where

are the roads you can drive around to cover your territory?

The German shepherd type focuses more on the helicopter view. You want to know what your territory is like from a bird's eye view (the demographics), as well as on the ground.

Sometimes I think some franchisors are like the beagle, with little interest in the demographics or the overall picture of the area.

Depending upon the amount of investment and the type of franchise business you are purchasing – the specifics of your territory or site allocation will differ.

So what can and should be done by you and your franchisor to give you some confidence in what you are investing in?

Let's break the market down into two types of franchises:

1. Bricks and mortar – a fixed shop/facility from which you do business.

2. A service business – you have an allocated territory, working mainly at your client's premises.

When considering buying a franchise and finding a location, this will probably be one of the biggest financial commitments of your life. In most cases, the funding source will have their hooks into that as well.

The size of the franchise system should give you some comfort. Most established franchise systems have a vast amount of experience and systems in place for choosing a prime and profitable location. If the system is young (and small) they may be using the 'wet finger in the air' approach. Hopefully they have a more complex and intelligent system for assessing the site selection. If there are not enough sites to do a quantitative analysis, you would like some confidence that some 'qualitative' work has been considered.

Areas you and the franchisor should be considering include:

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Peter Buckingham, Managing Director,
Spectrum Analysis.



IN A SHOPPING CENTRE

- Get the numbers. Shopping centre statistics such as GLAR (Gross Leasable Area Retail), MAT (Moving Annual Turnover) and pedestrian numbers are all available via the Property Council or on the web.
- A close-up view of your location. Where in the Centre should you be? What type of precinct is best? Who is your competition and where are they located? Think like the beagle, sniffing around and discovering what is happening in the immediate area.
- A broader view. From a more broad perspective, you can access some demographic information from www.abs.gov.au (the Australian Bureau of Statistics) website, and look up Census data, which will give you some understanding of the postcode and socio demographic of the nearby residence.

- If these look good, and hopefully align with what you are selling, you are doing well so far.
- The last consideration is what we call an Analogue model. This means you look for some sites in similar situations, and see how they are going. For instance, if you would like to open in a regional shopping centre (30,000 – 50,000 sqm), are there others of this brand in that size centre and how are they going?
 - a. If you are going with a larger franchise system, do they have any sales prediction modelling (which they may not be prepared to share with you), and if so, are they confident the store should work well?
 - b. The other thing a franchisor can do is called benchmarking. We have a database of the top 200 shopping centres in Australia in terms of their GLAR, MAT etc, and also their socio economic

ratings and the demographics of who lives around the centre. The franchisor can benchmark the current stores to see what ratios are being achieved such as sales/MAT of the whole centre – and then determine if you would get your share.

- c. The best franchisors undertake some forms of modelling to statistically evaluate the range of sales a store should achieve. This should give you confidence (even if they, legally, will not show their internal figures) that they are doing a good analysis before they take your money.
- d. If the franchisor cannot convince you they have some process to estimate your future sales – how can they instil confidence in you that you will make money and survive?

QUESTIONS TO CONSIDER WHEN CONTEMPLATING DOING BUSINESS IN A SHOPPING STRIP

- What is the strength of the shopping strip and what are the major generators that will pull potential customers?
- Where in the shopping area are you located in terms of the busiest to the quietest section of the strip?
- Can you measure the car and pedestrian traffic that you will be relying on to bring in customers?

THE SERVICE BUSINESS

These days many new franchises are service businesses. This could include working from home, or at a group office. Most

