Five Tips For Effective Territory Planning

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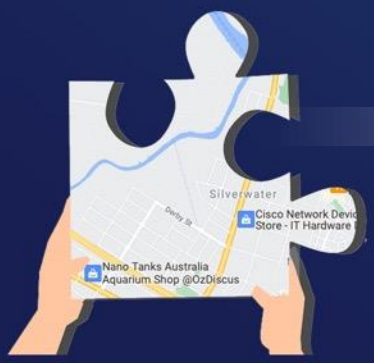
SPECTRUM ANALYSIS
Geodemographic Modelling & Analysis

Territory Planning should be considered a science, using facts and data, and not a guesswork job that has evolved.

It relies on a few simple steps to come up with the best result that suits you and your concept.

The map is not the territory... The only usefulness of a map depends on similarity of structure between the empirical world and the map...

Alfred Korzybski



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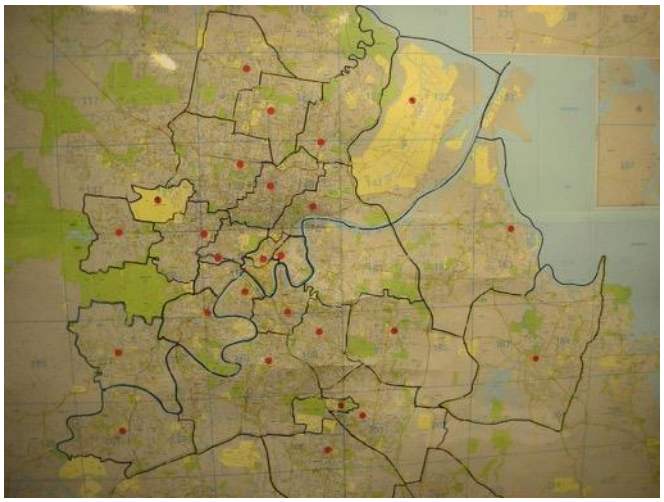
1. First and Foremost

Many territory planning schemes have come from what I call the ‘Beer and Pizza Map’ approach, normally started when a few franchisees and the franchisor meet over the board table with a big map, a black marker, beer and pizza. Little science has gone into it, and normally a lot of self interest has come out of it.

The two big questions we are commonly asked before a territory planning project commences are “How many territories should we make for a particular market?”, and “How do we make each Territory of similar sales potential?”

In many cases, you already have some of the knowledge that can be used to answer these questions, and a territory planning project extracts this information and then applies it across broader markets.

Territory Planning is not an exact science, as we are governed by many factors, such as how to weight certain factors to see how attractive they are (in defining customer potential from good and bad areas). Many combinations may suit, and the job is to come up with the best one for your System.



The ‘Beer and Pizza Map’

2. Where does my crystal ball say we are heading?

Before we can do an effective territory planning project, we need to see your Business Plan to determine where you are heading and where you believe the business can go. To move forward you need to ask yourself honestly “Where am I heading long term?”

You can also ask yourself “What total revenues do I believe this great new concept can generate in five and even 10 years if my business expands as I envisage in my home market”? This will give you an answer and a logic like:

I have two shops, or I have a small company running three vans in a particular area. I currently have a $1,000,000 annual turnover from the business and am only covering a small portion of my total market. With advertising and promotion, in five years my business plan says we will be selling $10,000,000 per annum and then 10 years from now, we should be turning over $16,000,000 per annum in our target market.

What should a successful business turn over?

Do you know what turnover revenue will make your business successful, based on your current level of sales and your Profit and Loss Statement?

You may have an answer. For example, a turnover of $400,000 will make a reasonable living for the operator (or franchisee), with a contribution back to Head Office, but if the turnover increases to $500,000, it will be considered successful and will generate a good living (say $100,000 - $150,000) for a franchisee with a good return to Head Office.

Simple Calculation

This logic would suggest the following:

In five years we should have about 20 territories ($10M / $500,000), and in 10 years around 32 ($16M / $500,000) in our home market.

This tells us where we should be aiming in our home market. If we think in terms of a chessboard, we are best to cut up the number of territories we plan for the long term as we can always ask a franchisee to have their core territory and care take some others for what may be some years. In the long run, if you have a vision of how you want the mature business to look, then you should be setting things up in that direction.

Tip 1:
It is better to create too many territories based on the long-term vision of where you want to be long term than too few, and have to try and split up territories from franchisees in the future.

In the scenario above, we should be cutting up our market into 32 territories, even if we only franchise four out initially and have each franchisee looking after another seven.

In two years time, we may have eight franchisees, each looking after four areas.

In five years time we may have 16 franchisees looking after two areas and at 10 years we plan to have them all filled.

The worst thing we can do is only cut eight territories now and in two years, beg franchisees to let them go, so we can cut up more territories.

3. How big are the major Australian Cities?

If we know how many franchises or stores we believe we should have in our home market, we can calculate how many we could have nationally.

The table below gives us the relative population and numbers of households for the five major capital cities in Australia:

City	Population	Households
Sydney (incl. Newcastle / Central Coast / Wollongong)	5,672,390	1,933,915
Melbourne (incl. Geelong)	4,647,007	1,637,362
Brisbane (incl. Gold Coast & Sunshine Coast)	3,118,322	1,097,575
Perth (incl. Rockingham & Mandurah)	1,942,730	690,081
Adelaide	1,234,468	470,906

Source: Housing and Population Census 2016

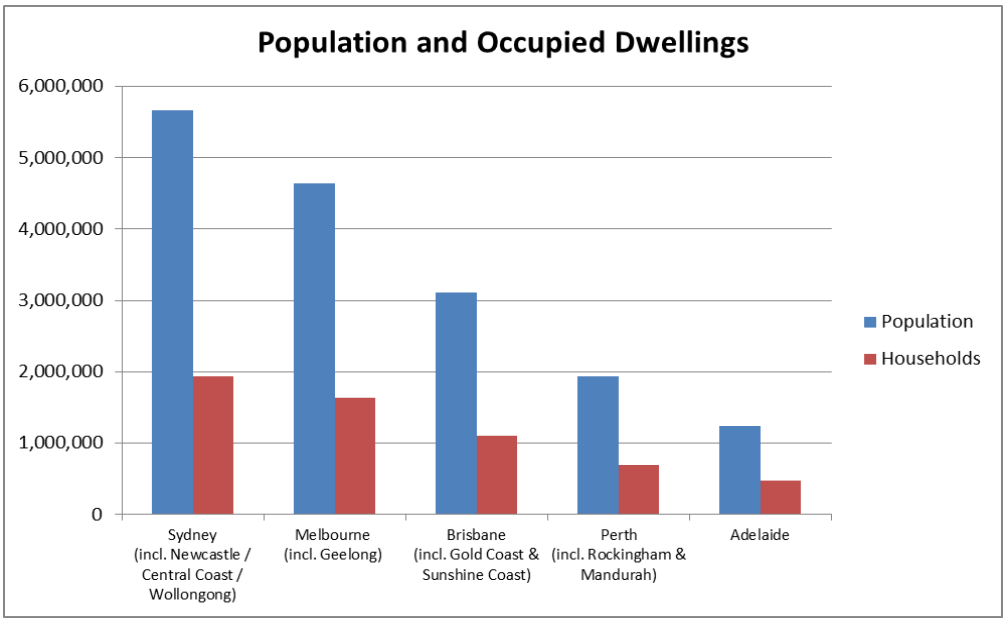
Tip 2:

The basic ratios for number of territories in a Territory Planning Project of one city to another should be done on basic population. Whatever the total numbers of territories are across the five main capital cities, there will normally be another 25 – 35% of territories available in the country.

As an idea for proportional representation, if a business had 100 stores in territories across the five main capital cities in Australia, you should have a distribution along the following lines:

City	No. of Territories / Stores
Sydney (incl. Newcastle / Central Coast / Wollongong)	34
Melbourne (incl. Geelong)	28
Brisbane (incl. Gold Coast & Sunshine Coast)	19
Perth (incl. Mandurah)	12
Adelaide	7

Our experience shows us that in Australia, for 100 stores or territories in the five major capital cities, most businesses will open 25 to 35 across the rest of Australia. This is normally not quite proportional to population, as in many cases, you must have a substantial major town to begin with, especially if it is a retail concept.



4. Territory Planning for Business-to-Consumer business (B2C)

Units of area in building territories.

The most common unit of area we use is Postcode. You must remember that there are two (2) types of postcodes, and be aware of what you use. The first type is the Australian Bureau of Statistic's (ABS) Postcodes and these do not change between each Census, and these are one of the units that our Census data comes at.

The second type is Australia Post's postcodes, and these can change in small amounts on an annual basis, as there can become a need to alter postcode boundaries, or add a new postcode.

If a Territory Planning Project requires maps to define territories, we normally recommend that Australia Post's postcodes be used, and the date (year) be specified so there is no doubt on how the territory boundaries are created.

The scientific approach

With the broad number of territories established in our new, long-term business plan, we now need to break that down to understand what will make up an individual territory. The main aim should be that each territory or sales area offers the operator a similar amount of sales OPPORTUNITY.

The approach is to create ‘Units of Demand’ (UOD) for each postcode in the market area based on population, households, businesses or employees, with a method to increase the potential demand of a postcode if it is favourable to what we are selling, or decrease it if unfavourable. The factors that may be used can include Census variables such as age, income, family type, or business variables such as type of business or the ratio of white collar to blue collar workers.

Once the algorithm is established, we can create the number of UOD’s for each postcode. If we then total these up for the market (i.e. Melbourne or Sydney) and divide by the number of territories we can calculate how many UOD’s we need for each Territory. Then it is a matter of cutting up the market to give combinations of geographically suited postcodes to ensure territories have the correct amount of Demand.

Example

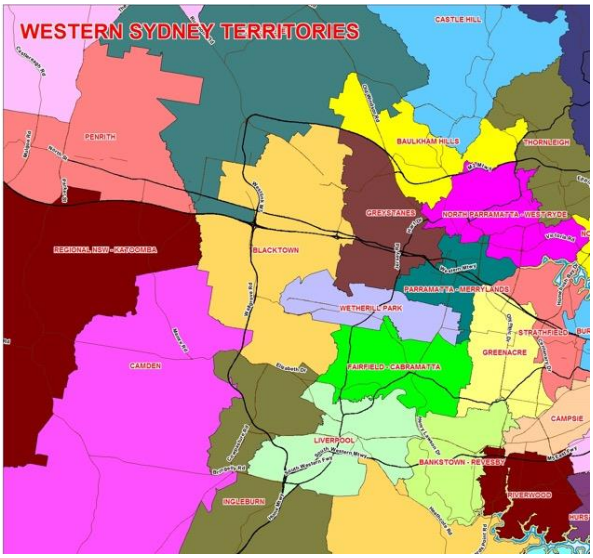
A lawn mowing business or franchise may have discovered from Market Research that their target customers are high-income households and that these households have double the probability of using them compared to the people in the lower income brackets. Therefore, it can be deduced:

- 10,000 households in Sydney's Eastern Suburbs offer 15,000 UOD
- 10,000 households in Sydney's Western Suburbs offer 7,500 UOD

When we calculate every postcode in Sydney based on the number of households (1,425,000), and the average income of the postcode we may find we have a total of 1,500,000 Units of Demand.

Tip 3:

Make each area of similar potential for the Franchisee. Better areas can have less people or households, and areas that are not so favourable to your product will have more people / households in each territory.



The Franchisor or Head Office decides from their research on what makes a territory large enough to sustain a business and they decide they can operate 50 stores or territories across Sydney.

Knowing that not all postcodes are of similar size, they have concluded that each territory should have between 27,000 and 33,000 Units of Demand.

Across Sydney Metro there are 260 postcodes, so they would be grouping around four to seven postcodes together to make a territory of between 27,000 – 33,000 Units of Demand (UOD). Once this process is completed, they can produce a map of the Market, and then individual maps showing the exact territory boundaries to be included as Marketing Areas or Territories within their Franchise Agreements.

5. Territory Planning for Business-to-Business (B2B)

Many territory planning projects we undertake are for businesses that see themselves primarily as a B2B business. Examples of this include businesses that provide printing services, commercial light maintenance, business loans and sign manufacturers.

Spectrum Analysis Australia still uses the concept of Units of Demand to establish how much demand comes from each area (usually postcodes) to build the territories.

The information we have from the ABS tells us at SA2 level how many businesses there are by size and type.

The size criteria they use are:

- Non employing businesses (shelf companies or owner operators)
- 1 – 4 employees
- 5 – 19 employees
- 20 – 199 employees
- 200+ employees

The ABS uses the ANZSIC categories as the business definitions to define what type of business you are in.

We construct a matrix with our clients to consider how much additional opportunity comes from each SIZE of business, and which category of business they believe best suits what they are selling.

ANZSIC Category
A - Agriculture, Forestry and Fishing
B - Mining
C - Manufacturing
D - Electricity, Gas, Water, Waste
E - Construction
F - Wholesale Trade
G - Retail Trade
H - Accommodation, Hospitality
I - Transport, Postal, Warehousing
J - Information, Media, Telecoms
K - Financial and Insurance
L - Rental, Hiring, Real Estate
M - Professional, Scientific, Technical
N - Administrative and Support
O - Public Administration and Safety
P - Education and Training
Q - Health Care and Social Assistance
R - Arts and Recreation
S - Other Services
X - Not Stated/Unknown

Size of Business

If we consider a business of one to four employees worth one point, then what is a business of five to 19 employees by comparison in terms of opportunity to you? You may say the five to 19 employee business potentially offers four times the opportunity for what you sell than a one to four employee business.

We work with you to assign comparative values as follows:

Business size	Opportunity
1 - 4 employees	1
5 - 19 employees	?
20 - 199 employees	?
200+ employees	?

An example may look like

Business size	Opportunity
1 - 4 employees	1
5 - 19 employees	3
20 - 199 employees	5
200+ employees	20

So this says for example, a business with 20 – 199 employees offers five times the potential of a business with one to four employees.

Type of Business

We believe that in many cases, there is some variable that says some TYPES of business are more suitable to your concept that others. What we look to do is rank the business type you feel best suits your sales as a 10, and then think of each other type on the list and rank from 10 down to 0 – never sell to that type of business – ever!

Obviously, you may not have a 0, but the lowest may be a 2 or a 3.

Example of Demand Estimate matrix

ANZSIC Category	*Value to YOUR Business/10*
A - Agriculture, Forestry and Fishing	2
B - Mining	2
C - Manufacturing	4
D - Electricity, Gas, Water, Waste	1
E - Construction	8
F - Wholesale Trade	10
G - Retail Trade	6
H - Accommodation, Hospitality	3
I - Transport, Postal, Warehousing	10
J - Information, Media, Telecoms	2
K - Financial and Insurance	3
L - Rental, Hiring, Real Estate	1
M - Professional, Scientific, Technical	1
N - Administrative and Support	3
O - Public Administration and Safety	4
P - Education and Training	2
Q - Health Care and Social Assistance	1
R - Arts and Recreation	3
S - Other Services	4
X - Not Stated/Unknown	1

Some businesses may say they cannot determine any difference in Type of Business and that is quite okay, as we can value each type of business as equal potential to you.

Once we have this information, we can then create how many Units of Demand there are for every postcode in the market we are creating territories for.

Furthermore, if we have already agreed on how many territories are to be cut, we divide the Total Units of Demand by the number of territories and that gives us the basis to work from on approximately how many Units of Demand will be in each territory.

Tip 4:

If you are a B2B business, do not concern yourself with small area populations, but concentrate on what type of business you market to, and what size of business suits your product. In many cases, once a customer passes a certain size, they may no longer use your type of service, but do that work in house. This may mean your strength is in certain types of businesses up to a certain number of employees.

Our aim is then to make each territory approximately equal in demand, but because we are limited by the size of the postcodes, we try to keep to whole postcodes in each territory, and are reluctant to cut postcodes as:

1. We cannot accurately measure part postcodes as the business data's lowest level as supplied by the ABS is postcode level.
2. It makes it very hard to describe territories without exact maps.
3. The average potential franchisee understands postcodes.
4. If you are allocating leads, every one knows their residential postcode.

If you are expecting to have over 300 territories across Australia, we begin to recommend using suburbs rather than postcodes. I hope this assists with the understanding of setting up your territories.

6. How do I describe my territories to a potential franchisee?

Spectrum Analysis Australia has developed a high value information data package to assist franchisors and/or franchisees to understand the areas in which their business operates. Having done the territory planning for the business, each territory can be identified, mapped and all the relevant information supplied in individual data packs.

Major data sources include the 2016 ABS Census of Population & Housing and the 2021 ABS Counts of Australian Businesses, which provide insights into where potential customers live and work respectively. The data from these and other sources is presented in reports with tables and graphically in maps.

A Data Pack consists of any combination of the following sections described below (additional custom sections can be included by arrangement):

1. Local Area Fact Sheet

This page provides a snapshot of the local area highlighting key features with respect to your business, such as population counts or population growth estimates, important demographic indicators, and the addresses of competitors and generators. Where applicable, this section also outlines the suburbs and postcodes that comprise the marketing area (or territory or operating area) assigned to the given franchise.

2. Demographic Summary

This section is derived from ABS Census 2016 data looking at major demographic segments of the community. The demographics for the local area are compared with the averages across the state or capital city. These comparisons highlight where the local area has relative ‘strengths’, which can assist in guiding marketing strategies or in determining the suitability of an area for a given business or product. A Demographic Summary can be drawn for a radius, postcode, group of postcodes, or a defined territory if required.

3. Business and Employment Summary

The Business and Employment Summary is derived from the 2021 ABS Counts of Australian Businesses. It details the number of businesses in an area, categorised by their size in terms of numbers of employees, and also by the industry in which they operate. Some values in the local area are compared with the averages across the state or capital city. The target area can therefore be analysed in terms of the sheer number of businesses and employees, the proportion of businesses that are white or blue collar, the proportion of employees in a given field, and even whether the area has a lot of big business or is predominantly small business.

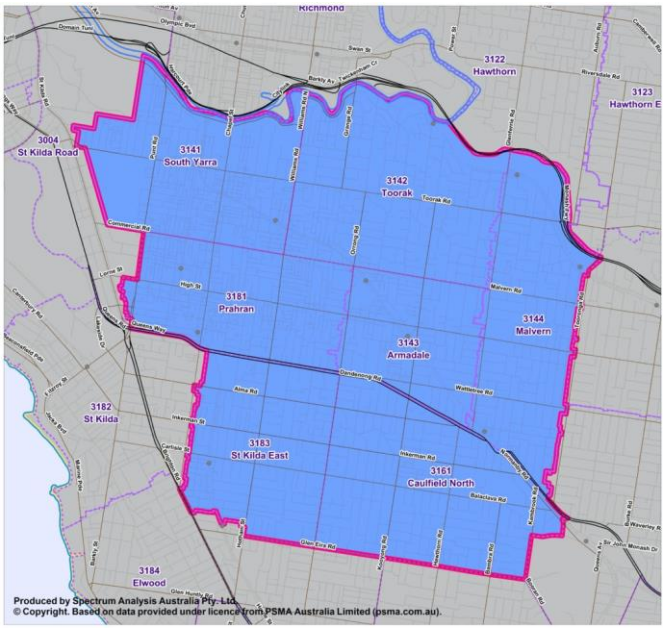
This information is particularly useful for business-to-business operators, but also has applications for services or products that a customer might find more convenient to access from their place of employment rather than their home. A Business and Employment Summary can be drawn for a radius, postcode, group of postcodes, or a defined territory if required.

4. Map of Local Area

This map shows only geographic features of the local area including the roads, road names, postcode and/or suburb boundaries and labels, train lines, rivers, and other features as agreed. Where applicable, this map shows the boundaries of the marketing area (or territory or operating area) assigned to the given franchise.

5. Land Use and Zoning Map

This map utilises Mesh Blocks, which are the smallest geographic unit used by the ABS. Each Mesh Block is encoded with the land use or zoning that predominates within its boundary, making it easy to visually identify the industrial and commercial precincts, schools, hospitals, parks and residential areas.

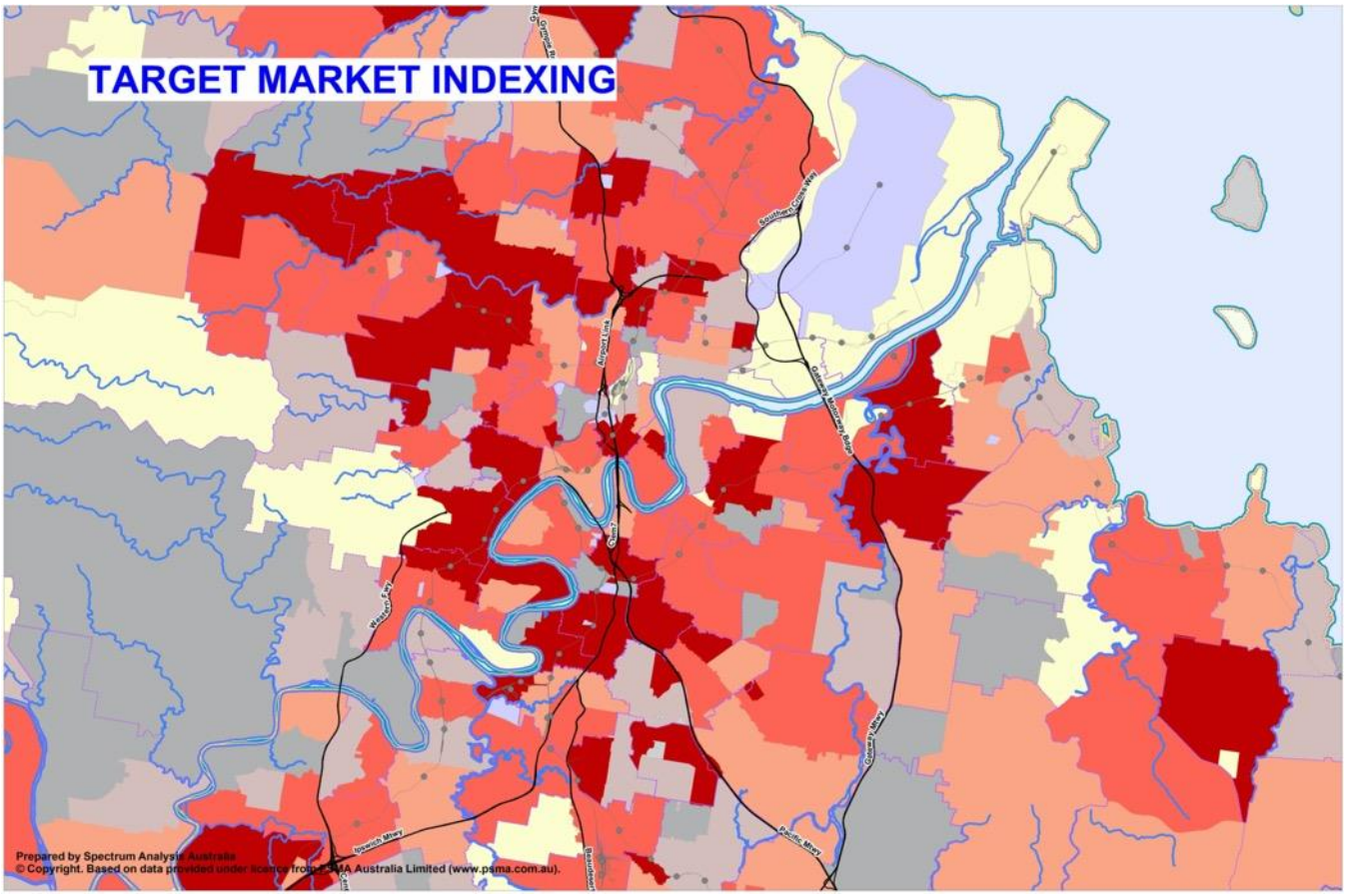


6. Map of Household Density

This map presents the geographic features of the local area over the top of a graphic indicator of household density. The number of households per square kilometre is calculated for each Statistical Area 1 (or SA1) in Australia. The areas with the highest household density are rendered in red, the second highest in orange, then yellow, then green.

7. Map of Target Market Index

This map retains the geographic information whilst also presenting other data in graphical form. In this case, the data presented is a Target Market Index (or TMI). A TMI combines one or more demographic variables that are related in some way to the success of your business to produce a single indicator of relative market potential. This index can usually be calculated for SA1's, so the map will show a high level of detail and allow the identification of hotspots.



9. Business Distribution Map and Business Hit List

Spectrum Analysis Australia has access to a private database of around 700,000 businesses in Australia (the Spectrum Analysis Business Hit List). We have geocoded the entire list so that every business can be seen on a map by any size area with the company name, address, phone number, Australian and New Zealand Standard Industrial Classification (ANZSIC), title and business type. Spectrum Analysis Australia can create Business Hit Lists for any size or shape of area, not just postcodes or suburbs.

Tip 5:
If you wish to sell your new territories that you have derived from your territory planning, invest in having the information professionally displayed in the form of a Data Pack.

The geo-coded business records can also be represented on a Business Distribution Map. All the business points are colour coded based on their ANZSIC Division title. This map can provide guidance on where to find concentrations of potential customers, suppliers, competitors, or generators within a given area, which has applications in site selection, distribution chains, and targeted marketing.

More details on the Business Distribution Map and Business Hit List are available on request.

If you wish to see examples click on the following link:
https://spectrumanalysis.com.au/services/data-packs

7. Summary

To answer the big questions on territory planning, you need to look at where you believe your concept will be in five and 10 years time, and the revenue required to make a successful business or Franchise.

We then need to understand the DRIVERS of the business and divide our markets up to give similar opportunity within each territory. It is far easier to set this up properly initially, than to sell a few very large territories, and then try to gain Franchisee's agreement to give them back, or buy them back so you can expand properly later on.

Spectrum Analysis Australia assists major retail chains and franchisors with property decisions. In territory planning, we help you choose where to place new sites, which stores could be closed and what sales you can expect to achieve at new stores or within territories.

We can assist with Site Selection, Market Analysis and Territory Planning using a wide range of geodemographic modelling, analysis and reporting to help you make well informed decisions.

Please visit the Spectrum Analysis Australia website for more information.

You can subscribe to our free monthly email newsletter here.

You can follow us on social media by clicking on the icons below.

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Established in 1996, Spectrum Analysis Australia has been providing facts, data, analysis and reports to clients across Australia and the world in multiple industries and sectors. Our clients rely on the reporting we provide for effective planning and decision-making.

We work with all staff levels and help our clients develop strategic plans based on verifiable information, and we do it well. You need facts and data. You need expert analysis. You need to understand the risks and opportunities.

At Spectrum Analysis, our team of expert data scientists and analysts can help you:

- ensure that your decisions provide accountability and due diligence
- improve your marketing, sales, business and enterprise results
- provide evidence-based suggestions
- secure evidence for multi-million dollar investments or grant applications
- understand your organisation's demographics
- answer your questions.

We can help you reflect on the past, understand the present and plan for the future. Contact us now, follow us on social media by clicking on the icons below or subscribe to our monthly email newsletter here!

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