

Strategic Network Planning

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Building a retail network of stores or franchises requires good quality strategic planning so that you can make reliable forecasts for the short and long term.

To do this, you need quality geodemographics and mapping data, analysis and reporting that can provide reliable information for the board and leadership team to make well-informed decisions.



Strategic planning is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organized, systematic feedback.

Peter Drucker



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1. Think for the long term

Building a retail network is normally a long term affair, whether you plan to operate your stores under the banner of a company or develop a Franchise System.

When you complete a Business Plan, you envisage what will happen over the next few years, and use your best forecasts to make long term decisions, and hope all goes to plan.

Why are there so many different long term Network Planning processes being used, from being Proactive, such as companies like McDonalds and Caltex, through to companies that are totally Reactive – where they can be led like a bull with a ring through the nose into a selection of very good to very poor locations – often on the coat tails of a very persuasive leasing agent?

In many cases the location strategy for a business is driven by minimising expenses, and minimal staff. In some cases, the property department is the waiting room for retirement.

However, the decisions this group makes for your business are some of the most important long term decisions and they can either make or break a company over the next 10 or 20 years.

Poor planning in new store development leads to closures in the next five to 10 years, and the costs of those can be astronomical.

Think of companies that rose like comets and sunk down just as quickly (and some of them who tried to re-energise again). Names like Dick Smith, Klein's Jewellers, Allan's Music, Pie Face and Clive Peeters come to mind.

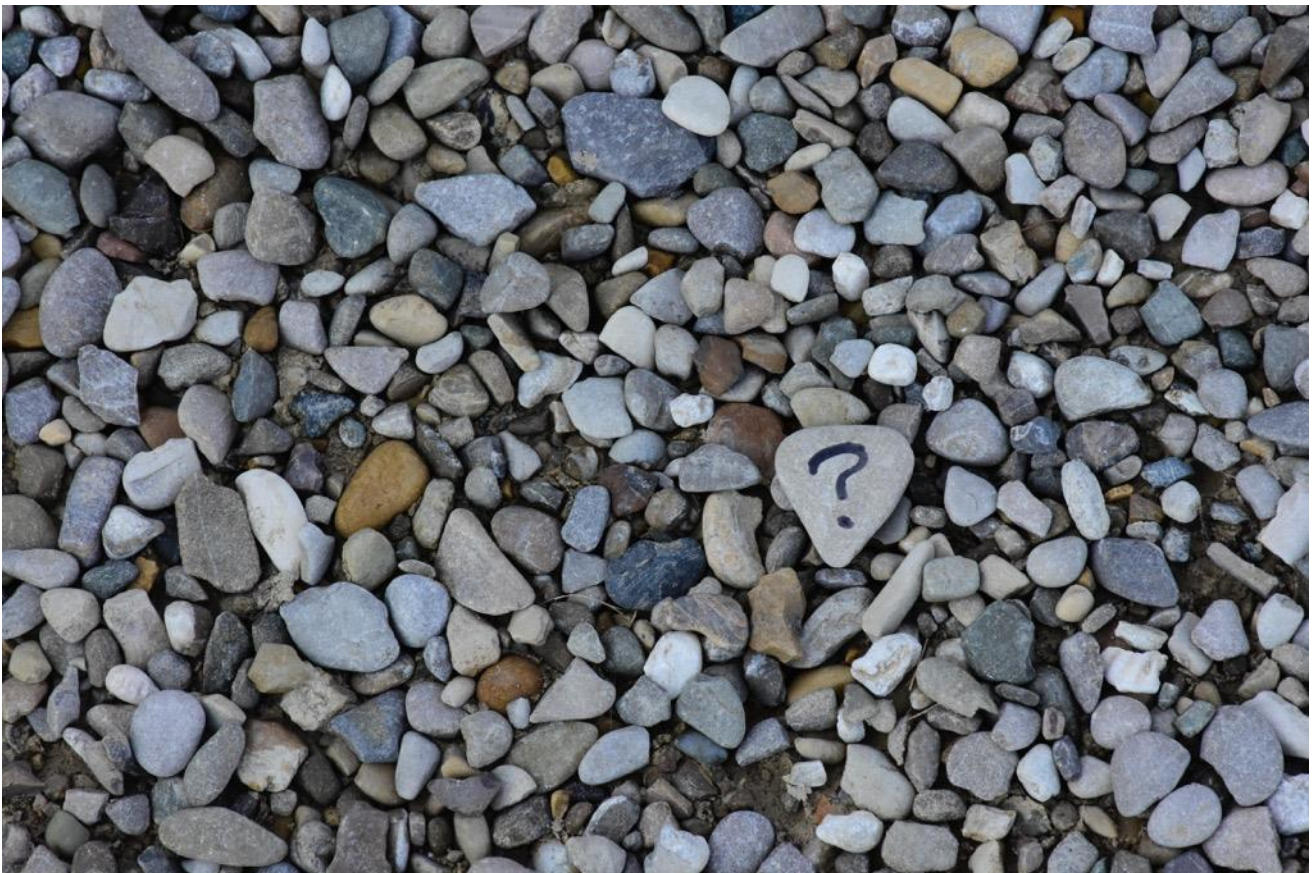
2. Australia Wide Presence

Naturally, a business starts in a city or state and effectively begins its expansion there. After a certain length of time, many successful business concepts decide to become a national business, and make decisions on heading interstate whilst still maintaining their local presence.

This is when a proper Strategic Network Planning process needs to be developed.

The first question to ask is how many stores (or territories) will you have?

In simple terms, this is probably proportional to the population as far as the ratios from city to city are concerned.



The table below gives an approximate breakdown of how that sits, based on data from the 2016 Australian Bureau of Statistics (ABS) Census, the latest full dataset for Australia.

City	Population	Households	Population Ratio
Sydney (incl. Newcastle / Central Coast / Wollongong)	5,672,390	1,933,915	34%
Melbourne (incl. Geelong)	4,647,007	1,637,362	28%
Brisbane (incl. Gold Coast & Sunshine Coast)	3,118,322	1,097,575	19%
Perth (incl. Rockingham & Mandurah)	1,942,730	690,081	12%
Adelaide	1,234,468	470,906	7%

Source: Housing and Population Census 2016

From this we can see that if we had 100 stores evenly distributed by population across the five main capitals (including the extended cities such as Geelong, Sunshine and Gold Coasts, Newcastle, Central Coast and Wollongong), we would have the ratios on the right hand side of the table.

Normally if we have 100 sites in the main cities, we have about a further 20 – 40 in other cities and towns.

3. Proactive versus Reactive Network Planning

One solution to all of this is to be proactive, and have a plan of where you are seeking sites and why and not be reactive and accept what is thrown before you. You need to have realistic targets in mind at all times.

As businesses grow, it can be easy to reduce resources for Network Development. A previous client appointed a new Network Development Manager and I was speaking to him about the boss's expectations and he told me his job description was to find the Franchisee, qualify and approve the Franchisee, find the location and arrange the lease for the store, arrange the fit out and do everything up to opening.

I commended him on what he could do, and asked him how many he was planning to open in the next 12 months. He told me the boss had set his target at 25 stores. I suggested he put his undies on the outside and get a cape with a big S for "Superman" on it!

As a previous Network Development Manager and consulting advisor to many more, the current thinking is that if a person had all of those tasks AND had a good pipeline of leads, they would have been very successful if they were able to establish eight to 10 stores.

If they need to establish 20 or more stores, they will be accepting any property put before them due to a lack of time and the quality of the property will suffer. You may have heard of the 80 / 20 rule as 80% of your problems come from your lowest 20% of sites. This is a recipe to make that even worse!



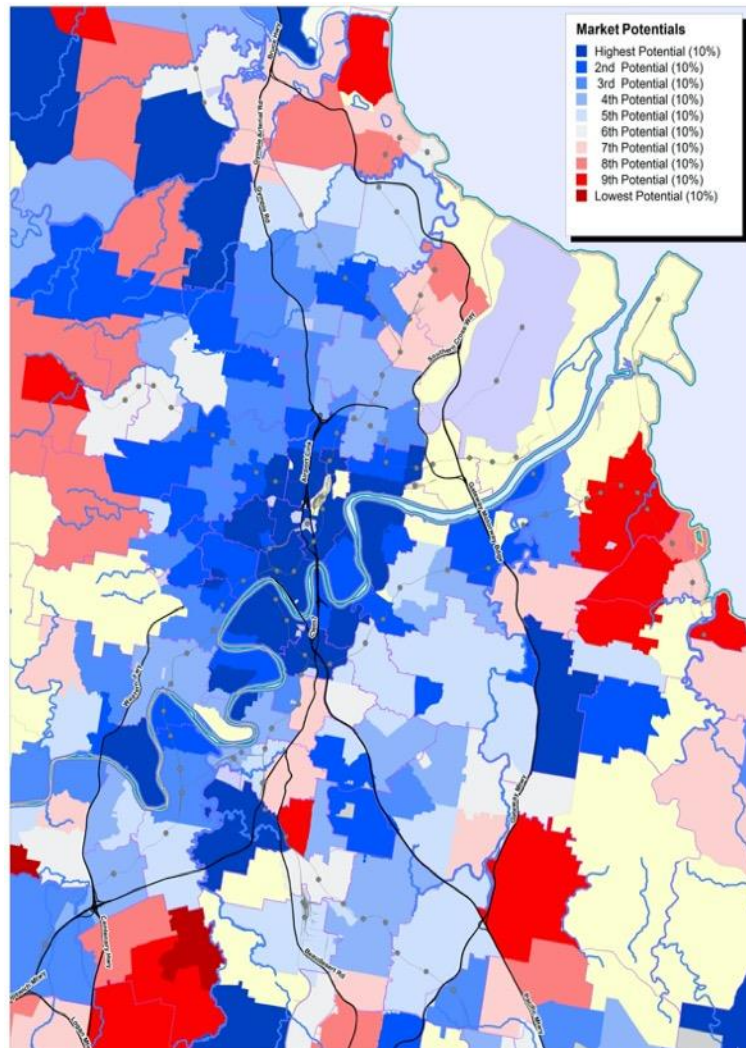
4. The Plan

We have undertaken Strategic Network Planning Projects for many large companies, including a large USA Quick Service Restaurant (QSR) chain coming into Australia. The first thing to try and establish is how many sites you will want to have in 10 to 20 years time – when the enterprise reaches maturity level. A classic way of expressing the long term targets could be:

Total stores (‘mature’ market)	2016 Population	Approx. 200 stores
Sydney	4,495,871	49
Melbourne	4,413,651	48
Brisbane	2,152,634	23
Perth	1,845,653	20
Adelaide	1,234,468	13
Gold Coast-Tweed Heads	678,912	7
Canberra-Queanbeyan	456,619	5
Newcastle	555,339	6
Central Coast	327,673	4
Wollongong	293,507	3
Sunshine Coast	346,512	4
Geelong	233,356	3
Townsville-Thuringowa	167,516	2
Hobart	222,362	2
Cairns	144,713	1
Toowoomba	100,057	1
Darwin	109,687	1
Other Cities > 50,000 Persons	694,893	8

Source: Housing and Population Census 2016

A Target Market Index (TMI) then allows you to describe or work out statistically what your best potential customers look like and where they come from.



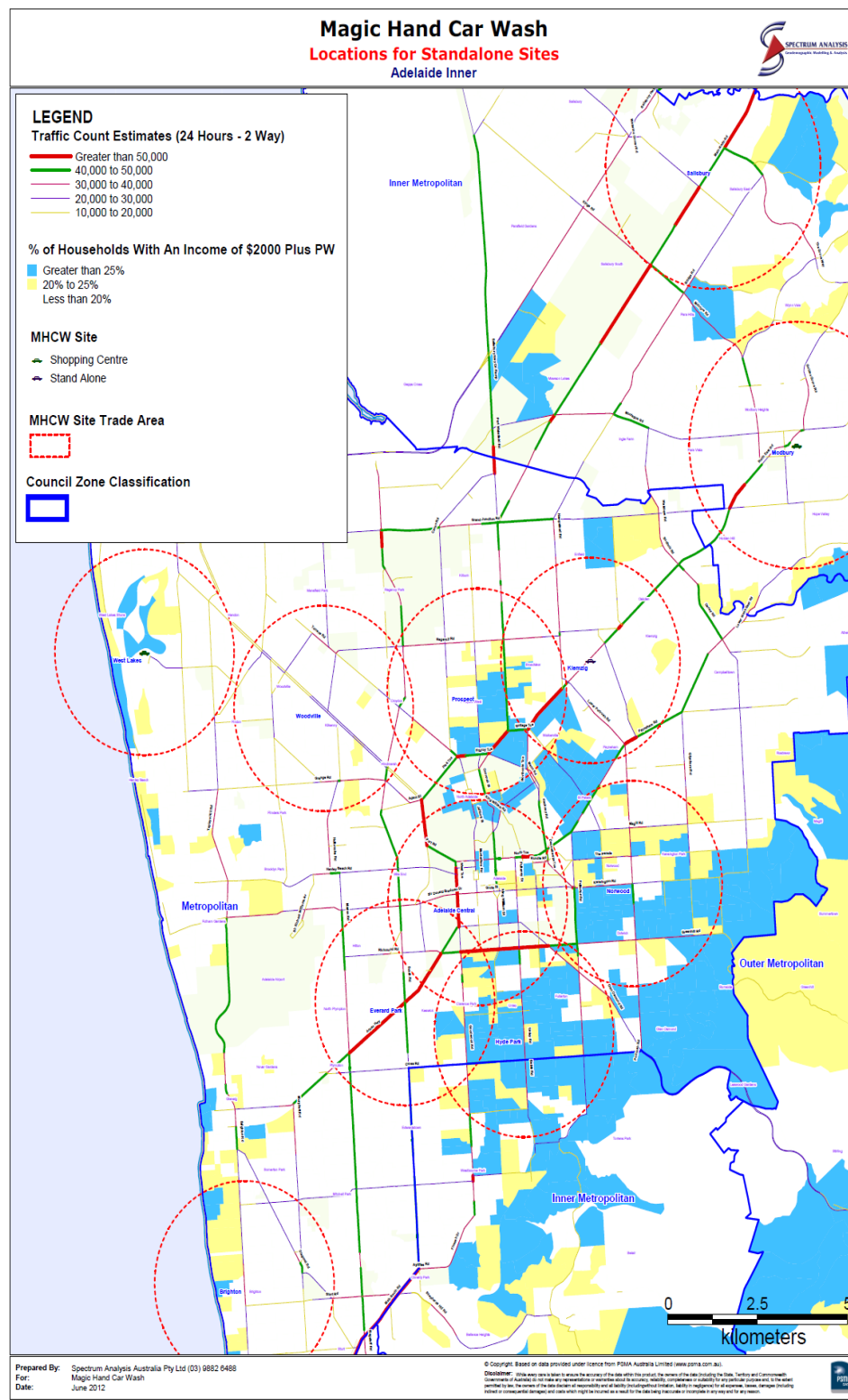
You can then move to a more local level and nominate specific areas or suburbs. We see Strategic Network Planning like being in a helicopter two kilometres off the ground and being able to look down and nominate the best areas or sections of a road to nominate where you believe a store should be considered over the long term and why.

Our analysis comes from evaluating the major drivers of the business, in conjunction with the site availability and in many cases such as QSR's and petrol stations, the traffic actually passing the store.

We then create a series of maps to show each market, and then individual maps to show specific areas, including right down to local areas with a two kilometre radius and the traffic estimates along the main road.

Magic Hand Car Wash have agreed to let us show you their map. They are a company on a strong growth phase and you can see one of the maps that has been made for Adelaide. We also created a map for a specific area where they wanted to open a new franchise.

Their sweet spot is an area of high socio economics along a road with high traffic – all fairly logical for a car wash.



The local area map can show the exact opportunities and the traffic estimates.

Claude Roda, the Managing Director of Magic Hand Car Wash says, "Having done the planning, it has made it so much easier to communicate with potential franchisees, as they understand we have a plan and a logic on where we locate our new stores".



5. Not all sites are equal

As part of a Strategic Network Planning project, we need to have some form of prioritisation, as not all opportunities are equal. We recommend creating a Three Tier system, where:

- Tier 1 is sites you would like to open immediately if they became available
- Tier 2 are sites can be considered, preferably when at least 50% of the Tier 1's are opened
- Tier 3 is for sites to be considered in three to five years' time, after 75% of the Tier 1's and 33% of the Tier 2's are already operating.

This can help you spread stores evenly around the chosen markets, and not end up with all of your stores in a specific area. You can then guide your Network Development staff into opening stores in a preferred order and avoid accepting inappropriate locations provided by assertive commercial real estate agents.



6. What you can do to improve your system

1. Decide that Strategic Network Planning is a core part of the business and should be completed by capable and experienced staff, ideally with a reasonable amount of work and management experience in the network.
2. Decide what to outsource. Some franchise systems outsource this area of their work and pay for performance. I know of many good companies who work well in finding sites, but who is steering the ship? My view is this is critical as a senior person needs to be at the helm. If outsourcing is to occur, the guidelines and targets must be realistically set. Beware of spotters receiving success fees as they incentivise the outsourced party to open as many stores as possible. I have assisted some consultants in this area, and have said to the client, that they need to pay a retainer as a major part of the cost, and by all means some success fee, but keep the balance right so that the consultant has a reasonably long term contract to achieve a good mix of locations.
3. Whether you do it internally or use an external consultant, make sure that your Strategic Network Plan looks at the short, medium and long term goals of your business in terms of site planning and site selection.



[Spectrum Analysis Australia](#) can help you make the correct site selection and territory planning decisions in the future by using facts and data to better understand the location BEFORE committing to the lease or purchase of a property, or the sale of a franchise area.

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.

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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.

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- provide evidence-based suggestions
- secure evidence for multi-million dollar investments or grant applications
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