STRATEGIC NETWORK PLANNING

A GUIDE TO START THE STRATEGIC NETWORK PLANNING PROCESS
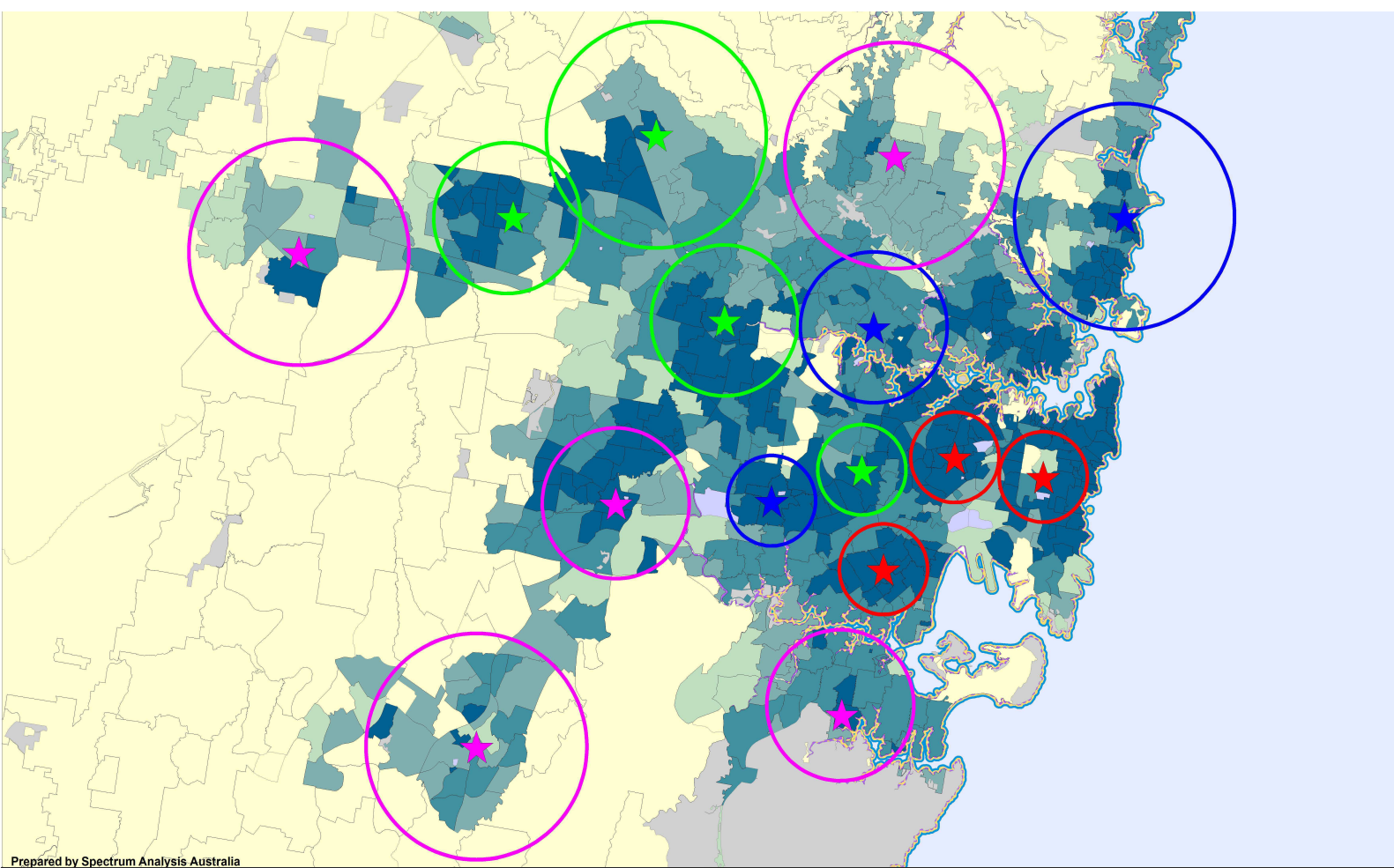
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Chapter 1

Think For The Long Term

Building a retail network is normally a long term affair, whether you plan to company operate your stores, or develop a Franchise System. When we do a Business Plan, we envisage what will happen over the next few years, and use our best forecasts to make the long term decisions, and hope all goes to plan.

Why is it then when many businesses look at their long term Network Planning, there is a huge variety of processes 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?

In many cases the location strategy for a business is driven by minimising expenses, and to that end, minimal staff (and in some cases the Property department is the waiting room for retirement). When working in the oil industry, I must confess that was our assessment of many of the property managers of the time!

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

Poor planning in new store development leads to the closures of the next 5 – 10 years, and the costs of those can be astronomical. Think of companies that rose like comets and sunk down just as quickly (some to try and re energise again). Names like Starbucks, Klein's Jewellers, Allan's Music, Pie Face and Clive Peeters come to mind.

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 as well as their local presence. It is at this time that I believe a proper Strategic Network Planning process needs to be considered.

The first question is how many stores (or territories) should I have? In simple terms, this is probably proportional to population as far as the ratios from city to city are concerned.

The table below gives an approx. breakdown of how that sits, based on Census 2016, the latest full dataset for Australia.

City	Population	Households	Pop.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 5 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.

Proactive vs. Reactive Network Planning

As businesses grow, it can be easy to not place the necessary resources into Network Development. I was with one client some years back who had appointed a new Network Development Manager. 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 how many he was planning to open in the next 12 months. He told me the boss had set his target at 25. I suggested he put his undies on the outside and get a cape with a big S for "Superman" on it!

In talking with many experienced Network Development Managers, and I had this role for Caltex for 3 years myself, the current thinking is if a person had all those chores, AND had a good pipeline of leads, they would have had a great year if they achieved 8 – 10 stores.

If they are going to achieve a number like 20, believe me they will be accepting everything put before them, and very little quality will be sought. You may have heard 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!

One solution to this is to be Proactive, and have a plan of where you are seeking sites and why, and not be reactive, just accepting what is thrown before you, with realistic targets.

- Peter Buckingham

Chapter 4

The Plan

We have undertaken these types of Projects for many large companies, including a large US QSR chain coming into Australia. The first thing to try and establish is how many sites they want to have in 10 – 20 years i.e. what they feel is maturity.

A classic way of expressing the long term targets may be something like the table below.

Total stores ('mature' market)	2016 Pop	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 then allows you to describe or work out statistically what makes your best potential customers and where they come from.
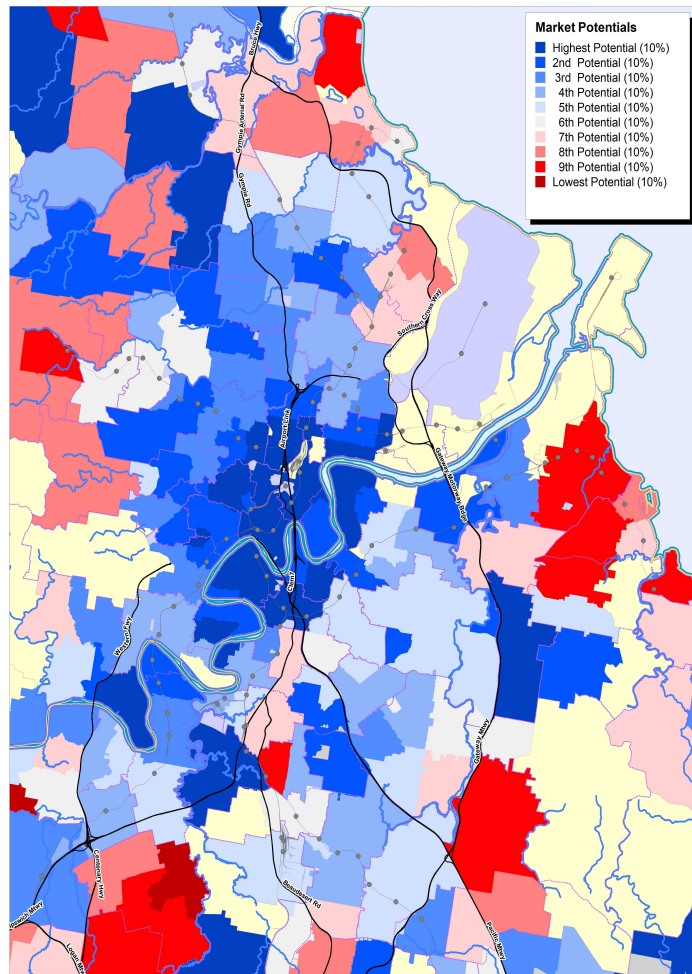

From this, the discussion then moves to a more local level where you need to nominate specific areas or suburbs. We see the Strategic Network Planning being like in a helicopter 2 kms off the ground, and being able to look down and nominate areas, or sections of road to say where you believe a store should be considered long term and why.

The 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.

Ideally, we then create a series of maps to show each market, and then do individual maps to show specific areas, including right down to local areas with a 2 km radius, and even the traffic estimates along the main road.

With the permission of Magic Hand Car Wash, a company on a strong growth move at present, we can look at the maps that have been made for Adelaide, and even a map for a specific area where they want to open a new franchise.

Their sweet spot is areas of high socio economics and along roads with high traffic – all fairly logical for a car wash. This gives a map as shown below:
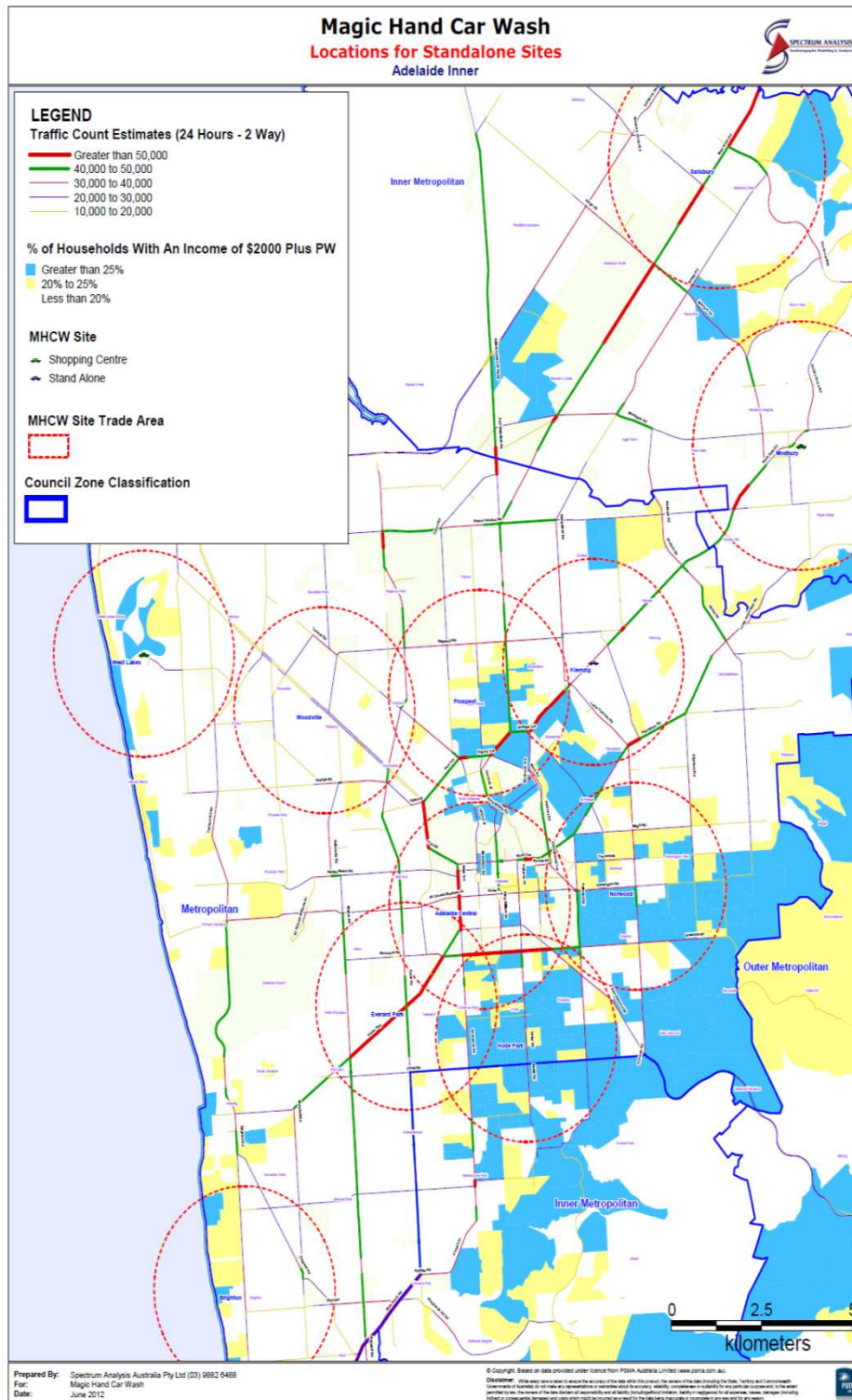
On an individual basis, we then can put forward a local area map showing the exact opportunities, and if the client desires, even the traffic estimates along the main roads.

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".
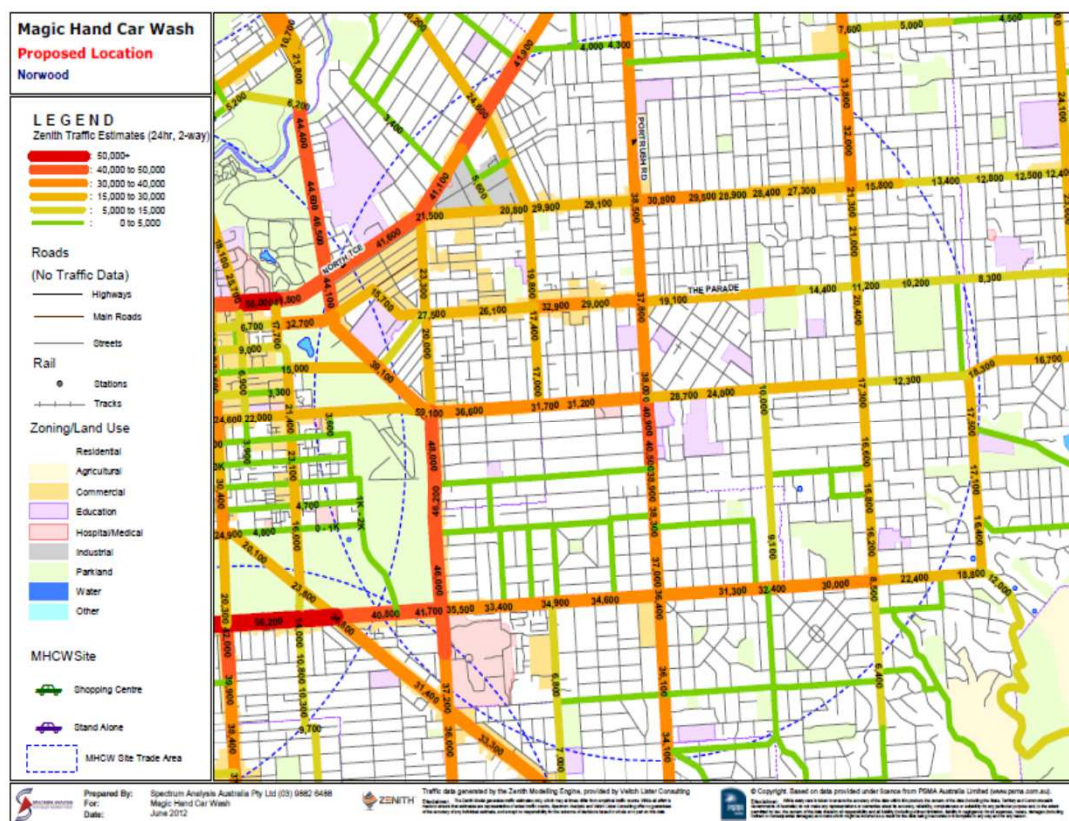
Traffic count information is available from the website www.zenithtraffic.com.au which is jointly operated by Spectrum Analysis.

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 will appear equal. Our view is to create a 3 Tier system, whereby Tier 1 is sites you would like to open immediately if they became available. Tier 2 are sites we can consider, but really would not want to be opening too many until at least 50% of the Tier 1's are opened, and Tier 3 is probably where we should start to look for sites in 3 – 5 years' time, after 75% of the Tier 1's and 33% of the Tier 2's are already operating.

This is partially to assist you in spreading evenly around the chosen market, and not end up with all your stores in a specific area.

With direction to your Network Development staff, you should be able to open stores in a preferred order, not just taking what the real estate agents are drip feeding you, or trying to shove down your throat.

What You Can Do To Improve Your System

The first thing you need to do is consider the Network Development Area as a core part of the business and should be home to many of your leading, most experienced staff. In the oil industry, no one went into this area without a very solid background as a representative or a manager in their past.

Secondly I see some franchise systems where they outsource this area of their work and to an extent 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 so critical; a very senior person needs to be driving. If outsourcing is to occur, the guidelines and targets must be realistically set, and it is little use in my view just paying a "spotters fee" or a success fee, as it incentivises the outsourced party to open as much 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 so the consultant has a reasonably long term contract to achieve good stores.

Finally, whether you do it internally, or use an external consultant to work with you, make sure you have a Strategic Network Plan to look at the short, medium and long term goals of your business in terms of site planning and site selection.

Search well Grasshopper!

TURNING DATA INTO SOLUTIONS

Spectrum Analysis is the company to help you in making 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. **Site Selection**, **Market Analysis** and **Territory Planning** using demographics and statistics are what we live and breathe.

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