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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.

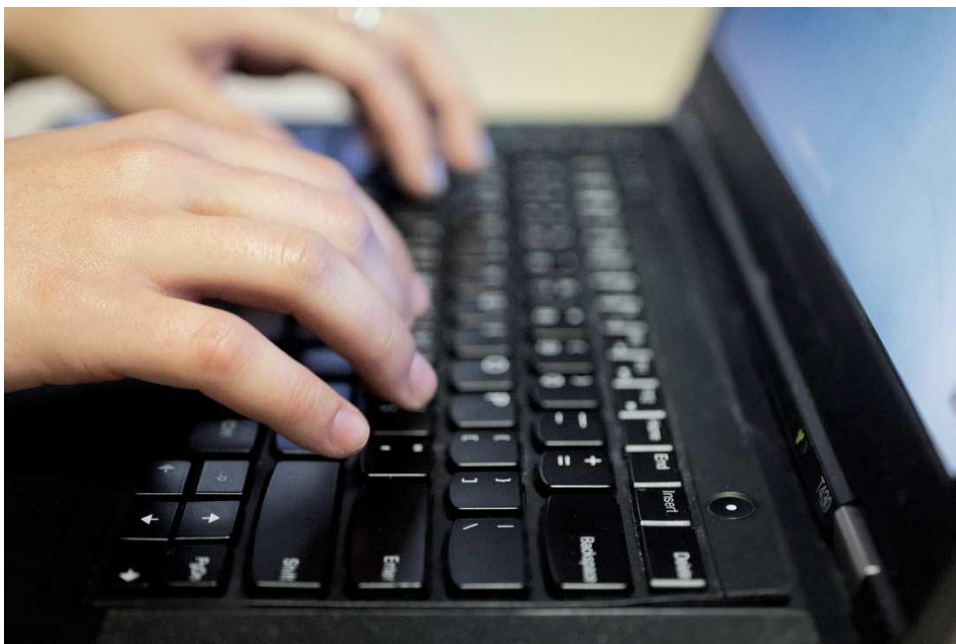
5 Tips to

EFFECTIVE TERRITORY



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First and Foremost

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.

Many territory planning schemes have come from what I call the “Beer and Pizza” approach, normally started with a few franchisees and the franchisor over the board table with a big map, beers and a couple of pizzas. Little science has gone into it, and normally much “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 job is extracting this information, and then applying it across far broader markets.



The “Beer and Pizza” Map

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 good areas from poor areas for customer potential). Many combinations may suit, and the job is to come up with the best one for your System.

Where does my crystal ball say we are heading?

Before we can do an effective territory planning job, we need to have a Business Plan to determine where we are heading. This plan is your plan, created by you on where you believe the business can go. To move forward you need to ask yourself honestly “Where am I heading long term?”

Ask yourself “What total revenues do I believe this great new concept can generate in 5 and even 10 years if my business expands as I envisage in my home market”? This will give you an answer and logic like:

I have 2 shops, or I have a small company running 3 vans in a particular area. I currently am doing \$1,000,000 turnover from the business, and really only covering a small portion of my total market. With advertising and promotion, in 5 years my business plan says we will be selling \$10,000,000, and then 10 years out we should be doing \$16,000,000 in our target market.



What should a successful business turn over?

What revenue will make a business successful, based on your knowledge of the business and some form of forecast Profit and Loss Statement?

You may have an answer, like a turnover of \$300,000 will make a reasonable living for the operator (or franchisee), or as a contribution back to Head Office, but if you are turning over \$400,000, you will be considered successful and generating a good living (say \$80,000 - \$120,000) for a franchisee or as a return to Head Office.



Simple Calculation

This logic would suggest the following:

In 5 years we should have about 20 - 25 territories (\$10M / \$400,000), and in 10 years around 40 (\$16M / \$400,000) 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 to 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.

In the scenario above, we should be cutting up our market into 40 territories, even if we only franchise 4 out initially and have each franchisee looking after another 9. In 2 years time, we may have 8 franchisees, each looking after 5 areas. In 5 years time we may have 20 franchisees looking after 2 each, and at 10 years we plan to have them all filled.

The worst thing we can do is only cut 8 territories for now, and in 2 years time we are back with each franchisee begging them to let go, so we can cut up more territories.

Tip 1:

It is better to cut 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.

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 5 major capital cities in Australia:

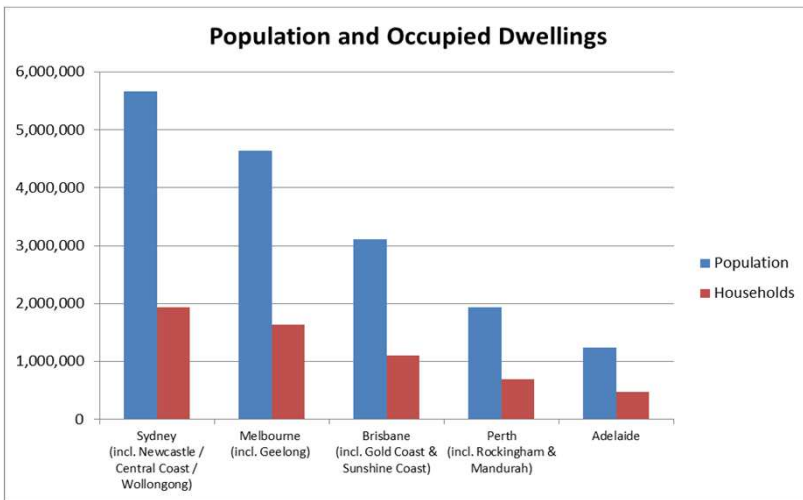
City	Population	Households
Sydney (incl. Newcastle / Central Coast / Wollongong)	5,672,390	1,933,915
Melbourne (incl. Geelong)	4,647,007	1,637,362
Brisbane (incl. Gold Coast & Sunshine Coast)	3,118,322	1,097,575
Perth (incl. Rockingham & Mandurah)	1,942,730	690,081
Adelaide	1,234,468	470,906

Source: Housing and Population Census 2016

As an idea for proportional representation, if a business had 100 stores territories across the 5 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 in Australia, that for 100 stores or territories in the 5 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.



Tip 2:

The basic ratios for number of territories in a Territory Planning job of one city to another should be done on basic population.

Whatever the total numbers of territories are across the 5 main capital cities, there will normally be another 25 – 35% of territories available in the country.

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 Postcodes, and these do not change between 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 so that each territory or sales area offers the operator a similar amount of sales OPPORTUNITY.

The approach is to create “Units of Demand” 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 may be 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 “Units of Demand” 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 want, we can calculate how many Units of Demand we need for each Territory. Then it is a matter of cutting up the market to give combinations of geographically suited postcodes to make territories giving the correct amount of Demand.

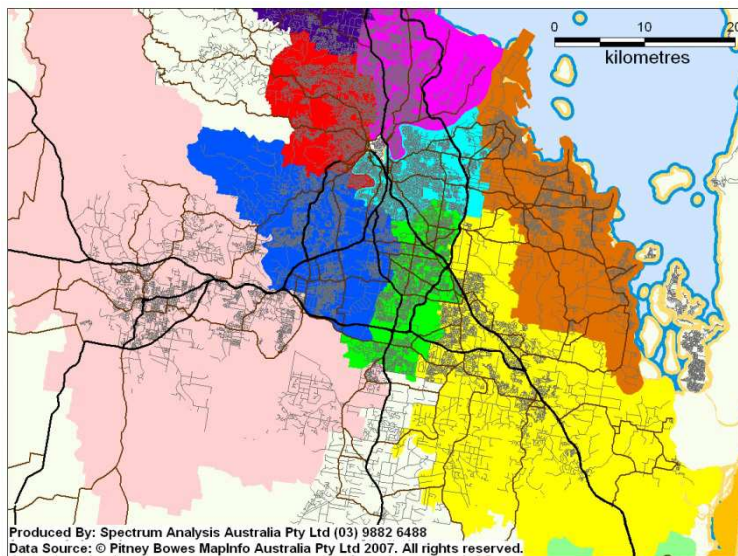


Example

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

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

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 1,500,000 Units of Demand.



Tip 3:

Make each area of similar potential for the Franchisee. That means better areas will have less people, and areas that are not so favourable to your product will have more people in each territory.

The Franchisor or Head Office has decided from the research on what makes a territory large enough to sustain a business, they can operate 50 stores or territories across Sydney. Knowing 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 4 – 7 postcodes together to make a territory of between 27,000 – 33,000 Units of Demand.

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 within the Franchise Agreements.

Territory Planning for Business-to-Business (B2B)

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

Spectrum still uses a concept called “Units of Demand”, and what we are trying to establish is how much demand comes from each “block” (usually postcodes) that we can use in building 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 type of business definitions they give us are the ANZSIC categories or the business descriptions they use in defining what type of business you are in.

We then construct a matrix with the client to consider how much additional opportunity comes from each SIZE of business, and which category of business they see as 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 1 - 4 employees worth 1 point, then what is a business of 5 – 19 employees by comparison in terms of opportunity to you? You may say the 5 – 19 employee business potentially offers 4 times opportunity for what you sell than a 1 – 4 business.

Therefore, we ask 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 – 49 employees offers 5 times the potential of a business with 1 – 4 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 than 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 shall just 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 how many Units of Demand approx. will be in each territory.

Our aim is then to make each territory of approximately equal demand, but we are limited by the size of the postcodes, as 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 then 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.

Tip 4:

If you are a B2B business, do not concern yourself about 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 business up to a certain number of employees.

How do I describe my territories to a potential franchisee?

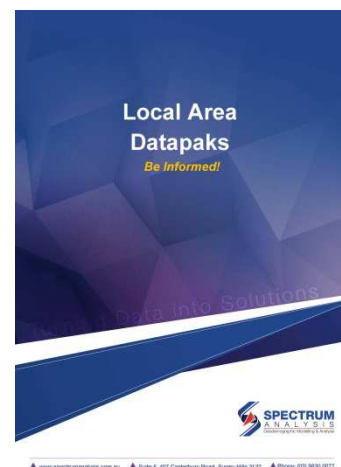
Spectrum Analysis has developed a high value information package to assist franchisors and/or franchisees to understand the areas in which their business operates. Having done the territory planning for the business, each territory can be identified, mapped, and all the relevant information supplied.

Major data sources include the 2011 Australian Census of Population & Housing, and the 2013 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 as tables, and also graphically in maps.

A Datapak 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 Census 2011 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 & Employment Summary

The Business & Employment Summary is derived from the 2013 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 & 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.

8. Customer Heat Map

Customer concentration and distribution becomes crystal clear with this map, which draws upon the addresses in your customer database and displays them on the map in the form of graduations of colour from blue (indicating no customers) through green (indicating medium customer concentration) up to red (indicating high concentrations). This map, particularly when used in combination with the TMI map, will help focus Local Area Marketing to areas where it will do your business the most good. [NOTE: The process that creates the Heat Map also changes the projection of the map slightly.

5. Land Use/Zoning Map

This map utilises Mesh Blocks, which are the smallest geographic unit used by the ABS. Each Mesh Block has been encoded with the land use or zoning that predominates within its boundary, making it easy to visually identify the industrial and commercial precincts, as well as 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 has been calculated for each Census Collection District (or CCD) 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 while 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 CCD's, so the map will show a high level of detail and allow the identification of hotspots.



9. Business Distribution Map & Business Hit List

Spectrum Analysis has entered into a partnership with Impact Lists, who hold and maintain a database of approximately 675,000 businesses in Australia. Spectrum has encoded the entire list, so Business Hit Lists can be produced for any size or shape of area, not just postcodes or suburbs. Each record in the list contains the Company Name, Address, Phone Number, ANZSIC Classification Title, and Business Type.

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 relative examples click on the following link:

http://www.spectrumanalysis.com.au/uploads/3/1/8/6/31864321/local_data_pack.pdf

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 Datapak.

Summary

To answer the big questions on territory planning, you need to look at where you believe the concept should be in 5 and 10 years time, and the revenue required to make a successful business or Franchisee. 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.

For further information or discussion, contact Peter at Spectrum Analysis Australia Pty Ltd on 03 9830 0077 or email peterb@spectrumanalysis.com.au

Spectrum Analysis specialises in assisting major retail chains and franchisors in property decisions – territory planning, where to place new sites, which stores should we close, and what sales do we expect to achieve at new stores or within territories?

For further information, visit our website at www.spectrumanalysis.com.au

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