

Developing Franchise Territories

The exclamation of “Oh, I see it now!” that comes when someone finally understands a concept or an idea says a lot about how humans process information. We are visual beings and this statement captures the requirement to “see” things both mentally and visually in order to understand. This need for seeing to understand explains why business-mapping technology (GIS) is a favorite for franchisors in charting territories. From start-ups to mature market leaders, all have found value in mapping tools regardless of the complexity desired. The flexibility of mapping software and the available demographic data provides the franchisor with many scalable analysis options.

By Jeffrey Davis

Most franchise territories are created by some “defined” geography such as a group of Zip codes, a ring dimension or a described area. Since all political geographic boundaries are readily available including block groups, Zip codes, census tracts, counties, states, designated market areas, and Metropolitan Statistical Area-Core Based Statistical Area, these are mapped and viewed within a global information system (GIS) and are a great foundation for the beginning step in defining territories.

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GIS tools allow the franchisor to draw or create the territory in digital format. For some franchisors, this may be enough, having a digital database of existing territories. There may not be a need to understand the demographics of the area, just be able to see it on a map. This allows them to print hard-copy maps to include in the franchisee agreement, be able to identify potential overlap issues with new territories, and to map out potential future territories.

Counting the Customers

Some franchisees choose to enhance their mapping capabilities by including geo-demographics, both consumer and business related. Adding demographic data to the geography (block groups, counties, DMAs) dramatically enhances the ability to identify or “target” groups of desired customers. The franchisor may know that their targeted

customer base is a household with a certain level of average income.

Using the mapping-demographics, every block group in the United States can be found and mapped that meets this criteria. The process of creating the franchisee boundary will now include a count of potential customers. Having these counts leads to the development of defensible, equitable territories.

For those who may not know their true customer profile, mapping tools can include geocoding (assign a latitude-longitude coordinate based upon an address) that places the customer on the map. Once the customers are on the map, attaching their location with the corresponding demographics of their block group to create a customer demographic profile is easily accomplished. By mapping your best customers and developing a “target” profile, you can go find these targets anywhere in the United States and develop intelligent franchisee territory searches.

Some franchisors are business-to-business rather than consumer oriented. The same process applies, but by using a different set of geo-demographic data. Business population counts are available by North American Industry Classification System/Standard Industrial Classification codes by their address or summarized at any geographic level (block group, Zip, county). Either way, this data can be viewed as information on a map. If a franchisor targets a specific business population, this targeted group can be mapped and territories developed based upon desired levels of business counts and potential.

Understanding and documenting the potential
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customer base of a franchisee territory will also benefit the franchisor by allowing them to effectively maximize the potential number of territories in a given market area. Franchisors wouldn't want to "give away" too much territory or on the other hand not provide an adequate customer base. By understanding the demographic customer potential and using a defined minimum criterion for these customer levels, one can map the optimal number of territories per market assuring that each is sufficient with the potential customer base.

Pro-active Territory Development

Knowing where you need to be instead of where a franchisee wants to be can change the process of franchising from re-active to pro-active. Pro-active territory development is a "win-win." The franchisor has identified the areas of greatest potential and can work to place a strong franchisee in that territory. A strong territory with a strong franchisee is a "win-win." By understanding target

potential, at any geographic level, the franchisor can rank all the markets and territories from the strongest to the weakest to develop smart and effective long-range plans for franchisee development.

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Unfortunately, for new concepts or those new-to-the-market franchisors, they may need to expand their early franchisee territories to ensure adequate market potential and early franchisee success. However, knowing the demographics of the market today and using a five-year demographic forecast, the franchisor will understand the dynamics of the changing market. Although a franchise system may give away too much territory in the beginning, by understanding that territory

potential, clauses may be included that stipulate a certain franchisee growth commitment over time to assure maximization of the territory for the franchisor. If the franchisee cannot achieve or obtain the desired growth, the franchisor will have the right to parcel or add other franchisees to the territory. Only by knowing the market demographics, customer potential and defining the original franchisee territory, can the fledgling franchisor have the ability to understand and prepare for this potential problem.

People have been mapping new territories since there was paper and pen. This continues today, just the tools have changed. ■

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