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Location, Location, Location: Ensuring a Franchisee's Success

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Abstract
This article examines effective site selection methodologies and determines if good site selection is a science or something best left to luck. The article provides an overview of the current available literature on site selection and then explores three issues: the wrong way to select a site, sample cases of poor site selection, and effective site selection

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Locations characteristics fall under two major component parts, location factors and market area characteristics. Location factors are described under five main headings: access, visibility, traffic counts, center size, and presence of complementary stores or restaurants.

Issues related to access include the ability for automobile and pedestrian traffic to access the site of the restaurant with little or no difficulty. This may mean, for automobile traffic, that there are easy turning points to move a car from traffic going in either direction onto the property of the location and that it has suitable parking for the restaurant.

The visibility of the restaurant indicates that both passengers of vehicles and pedestrians can easily see the restaurant. Visibility will be noted from the store front itself and from any signage at the street level which the restaurateur can put up.

The traffic count analysis suggests that the more traffic which passes by the site, the greater the opportunity for success of the restaurant. This traffic is counted in both terms of vehicle and pedestrian.

Another analysis is to determine where the restaurant will be located within a particular shopping center. If the center has certain characteristics, for example a major grocery store as an anchor, there may be a tendency for shoppers of that anchor store to also use the restaurant facility. If the center is large enough, the argument suggests that the customers of the center will beat a path to the restaurant door.

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Finally, the presence of other complementary stores, including restaurants, suggests that a competitive field will attract shoppers who can then easily decide which of the many restaurants they want to patronize.

Once location factors are determined, the literature goes on to suggest that market area characteristics must be determined. Traditional retail market analysis suggests that demographic studies be conducted to determine, among other criteria, the age of the local population, household make-up, average household income, per capita income, education levels, dollars spent on food outside the home, and disposable income.

While these market characteristics are commonly used for initial site location strategies, they are not pertinent or reliable in assisting chain operations to assess sites accurately during their growth period.

Robert A. Simon's article of October 1992 in the *Appraisal Journal* is the first to identify market variables as tested with a franchise chain. The results of his study show that traffic counts, site access, visibility and market area income are associated with higher sales, while the ratio of population for competing restaurants is negatively associated with sales.

Simon's application of a site criteria model is more a tool for leasing agents and shopping center developers rather than for franchisers looking for ideal sites for their franchisees. He develops an analysis of 35 independent variables and subjects them to significantly complex statistical procedures, including variable means and the Pearson correlation coefficients. Using stepwise regressions and weighted least squares, Simon has set up several diagnostic procedures for developers to better place and market their properties. While strong, and in many cases relevant to the industry, Simon's approach is relatively difficult to implement and too cumbersome for franchisers to implement effectively.

Site Analysis Is Critical

Many franchise and restaurant operators have their franchise sales or real estate representatives conduct their site analysis. The individuals who conduct the site analysis in these cases are usually short-term employees or representatives who do not have a long-term vested interest in the franchise operations themselves and who receive the bulk of their remuneration in the form of a commission based on a percentage of sales.

Their objective is to make lots of sales, not necessarily lots of quality sales. In many cases a site study is simply a windshield review, where the representative drives past the site and approves it.

As a result, in many cases the site analysis is very cursory and leads franchisers to place operations in the wrong locations, which can mean that the work which goes into the site selection and site criteria is, at best, lacking in quality and good judgment. Yet, survival of a franchise, restaurant, or retail outlet is based on three critical criteria: location, location, and location.

While this is a tired old axiom, it still holds true.

One of the most lucrative aspects of the author's consulting practice is litigation support, and, of that, over 50 percent deals with proving negligence on the part of the franchiser in site selection for franchisees. Franchisers emphatically suggest that they place a great deal of emphasis on site selection. However, poor site selection, strategy, and location analysis is one of the most prevalent and persistent problems in the franchise industry today. The bottom line is that the result of a poor site selection is an unhappy franchisee and, in turn, an unhappy franchiser, whose livelihood depends on the steady stream of royalties the franchisees remit.

When a franchisee feels that the site selection is the prime reason that the franchise unit is failing, the outcome can be a lawsuit. The outcome of the lawsuit where no reasonable and independent site analysis was conducted can mean substantial financial losses to the franchiser.

A few franchise situations can provide case studies for consideration of lawsuits of franchisees against franchisers.

• **Location 1:** The first franchiser placed a white collar family style restaurant on a fast food strip. The franchiser's requirement for automobile traffic flow was 20,000 to 40,000 cars per day. This site was 19,500 according to city statistics. Half the traffic could not access the site as there was a median in the road making access impossible. Traffic coming in the opposite direction could not see the site as the site was below grade and set back and the landlord refused street signage.

When asked how the site was chosen the franchiser's representative, who conducted the analysis, stated that they were from the particular area and that they knew it well and watched the traffic near the site for an hour on a Friday night. At that time, the traffic flow seemed to be able to support the location. The franchisee sued the franchiser based on the fact that the initial site analysis was poorly conducted, and as a result their business was not achieving the gross sales anticipated. The franchisee won.

• **Location 2:** The second franchiser selected a superior site, at least in his mind. It was located on a major highway and a busy exit. When asked, the franchiser indicated that the location was great because it was right on the highway and a busy interchange and, therefore, it had wonderful exposure.

The site was located on the north side of the highway while the traffic generally exited the highway and went south. Southbound traffic north of the highway could not access the restaurant as there was a median in the road blocking the access to the restaurant's driveway. In addition, there was a building blocking the exposure to the highway, and, as a result, there was no visibility to cars passing by. The site was also located at the back side of a mall and, therefore, had no exposure to the side street either. The franchisee sued the franchiser after finding out that the franchiser received a huge financial inducement for leasing the location and that the location was likely leased based solely on the inducement. Of the 16 restaurants in the chain this one was doing the worst due to its location. The franchisee won the lawsuit.

• **Location 3:** The third franchise situation was similar to the first two as the restaurant had many of the same problems as the others. It was located in a setback building. The road allowed for access from one direction only. However, this site was even worse in that there was a larger building directly in front of it and, as a result, exposure from the road was completely obscured. In fact, when one went to the site, the franchisee, to give directions, said to drive down the street and turn into the driveway where one saw the XYZ store. His restaurant was located directly behind it.

The franchiser turned out to be a friend of the landlord and the landlord assured him that the site would meet with all their needs. In this case, the franchiser relied on his friend's, the landlord's, word that it was a good site and leased it on behalf of the franchisee. The franchisee sued the franchiser for not conducting an independent site analysis which would have illustrated how bad the site was. The franchisee won.

An Effective Site Selection Process Exists

Selecting a site for a new franchise unit differs from generalized site selection for a franchise as there are already existing units in the franchise system that are performing well and, therefore, there are "'known factors" of what makes one specific site better than another.

In order to develop an effective site selection strategy a franchiser must define the requirements of the site. First, he must develop site criteria which reflect the standard criteria of the franchiser's best stores in a one, three and five-mile radius. Depending on the style of operation, customers will generally not travel more than 15 minutes or five miles. They will travel less for inexpensive items like convenience and fast food items and further for specialty items such as high-end retail products or a gourmet restaurant.

Eight steps for franchisers to follow for effective site selection are analyzed in two phases. The first phase is to determine the attributes of the best current sites and the second phase is to match proposed locations to the best locations in an effort to duplicate them. By doing this, the franchiser will be able to provide franchisees with a more realistic opportunity to match the sales of the best operations. The more closely each location is matched, the greater the propensity to ensure success at each location.

• **Step 1:** The first step is to analyze the current markets of the best operations, thus creating a demographic profile of the most successful operations based on the following criteria.

- age
- income per person
- lifestyle attributes
- population and trends
- income per household
- education level of customer
- number of people per household
- expenditures on your product (i.e., food away from home)

• **Step 2:** The second step is to determine the customer profile and make up of the most successful operation. Are customers housewives, business people, the theater crowd, the after hours crowd, afternoon shoppers, or office towers employees?

• **Step 3:** The third step is to determine how customers at the most successful operations access those locations and to determine what services are required to support their transportation preferences. Do they use the following transportation methods?

- subway (access)
- bus (access)
- private cars (parking)
- foot (are there other demand generators)

• **Step 4:** The fourth step is to define the access, egress and visibility of the best locations. Which of the following attributes are very prominent at the most successful sites:

- access
- egress
- visibility
- signage
- parking

- support services
- sunny side of the street
- going home side of the street

- **Step 5:** The fifth step is to determine what constitutes the ideal store in terms of physical attributes. For instance, a 6,000 square foot operation will have a significantly different feeling than a 3,500 square foot operation. Attributes include the following: size of site, ceiling height, width of store, minimum/maximum square footage, street level requirements, and number of floors required.

- **Step 6:** The sixth step is to count both the pedestrian and automobile traffic in front of the best locations and to set them as an ideal standard for your new operation.

- **Step 7:** The seventh step is to assess whether or not there is a clustering effect of competitive stores within the most successful operation areas. In some cases a clustering helps build demand. Three ski stores, all located in one area, may be beneficial for all three stores since people can do their price comparison and shopping in one area, saving time for themselves and, thus, increasing demand for the stores. Questions to ask include the following:

- Are there too many competitors?
- Will the market support your prices?
- Will the market support your product?
- Are there enough competitors to draw business to the area?
- Is there sufficient demand not being served which would support a new entrant into the market?

- **Step 8:** Finally, determine how economic indicators are having an impact on the site. For example, areas of business growth, like the construction of a new office tower, may be a positive influence. On the other hand, the building of residential homes may have a negative impact on business as people could be mortgage-strapped and have little disposable income.

The Process Can Be Expanded Further

Phase two involves matching up the potential sites with the attributes and market generators of the franchise system's best sites by finding the answers to each of the eight steps outlined above. Therefore, one must develop a comparison or ranking of the proposed sites in relation to the most successful existing sites.

This is the active part of the process that will likely take two days to complete. In fact, at FHG International, Inc., the process is done with detailed charts and tabulations that determine an actual "score" of each potential site.

A site scoring system reflects how one should rate proposed sites or locations compared to the most successful operations. If the proposed site matches the best site by less than 70 percent, give it a score of 1; between 70 percent and 85 percent, give it a score of 2; and over 85 percent, provide it with a score of 3.

Then take the results and mark them on the scoring report, illustrated in Exhibit 1. In order to fill out the scoring report, one places a tick in the appropriate column and adds up the totals once the analysis is completed. A detailed site analysis of this style will likely take two days to complete, but will be worthwhile in increased franchisee satisfaction.

• **Step 1:** The first step is to have a demographic tabulation firm find appropriate pockets within a given market by conducting a profile analysis. The appropriate pockets are determined by taking demographic information from Phase I and computerizing it. The result will be an outline of the areas which meet the demographic profile most closely.

• **Step 2:** Once the pocket areas have been determined, the required demand generators are matched to the best operations in order to narrow in on the ideal site within each area and rate all seven points on the 1 to 3 scale.

• **Step 3:** It is necessary then to determine whether the proposed site matches the transportation and access strategies of the most successful stores. If so, the site is rated as very favorable, or a three in the scoring. If the proposed site does not match the transportation attributes of the best locations, it is scored low. The five points should be rated on the 1 to 3 scale.

• **Step 4:** Next, it must be determined if the location meets the key site attributes of the client's most successful operations. If so, then it bodes well for the new operation. If not, then one should not force a location which does not provide the ease of access necessary to make the franchises successful. These seven points should be rated on the 1 to 3 scale.

• **Step 5:** Are the basic site requirements met? Is the store frontage large enough? Are the ceilings high enough to provide the effect that you needed? Are the physical attributes of the site sufficient? Each of the six points should be rated on a 1 to 3 scale.

• **Step 6:** Go to City Hall and ascertain the traffic counts for the site and its closest cross streets. Assess how closely the traffic count at the site matches the traffic counts at the most successful locations. These two points should be rated on a 1 to 3 scale.

• **Step 7:** Walk around the area of the proposed site; drive around the extended area, mark down the names and locations of every direct and indirect competitor and determine if the support required from the market can be secured, given the competition, or lack thereof, and the additional demand generators. Assess if the market will support the business. These five points should be rated on a 1 to 3 scale.

• **Step 8:** The client should go to City Hall and find out the five-year plan for the area around the proposed location, including planned road changes, and new office towers or residential construction and how those changes may have an impact on the site. These two points should be rated on a 1 to 3 scale.

A site should score at least 80 out of 100 points (actual scoring is out of 99) or 80 percent to be acceptable for selection. This should assist in finding the best sites for any operation.

Ultimately franchisees are not coming to the franchiser's organization for his best gut feeling based on his experience in the industry. They are coming to the organization for a variety of reasons, and one of the most important is the franchiser's ability to provide them with a site which most closely matches other successful operations and which should be able to support their franchise locations and financial goals.

Giving franchisees the quality they deserve will make a franchiser stronger and more successful.

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Exhibit 1
Scoring Report

ATTRIBUTE	1	2	3
SOURCE			
Housewives			
Business People			
Theater Crowd			
After Hours			
Afternoon			
Office Towers			
ACCESS			
Subway			
Bus			
Private Cars			
Foot			
ATTRIBUTES			
Access			
Egress			
Signage			
Visibility			
Parking			
Support Services			
Sunny Side			
Going Home			
PHYSICAL			
Size			
Ceiling			
Width			
Sq. Footage			
Street Level			
Number of Floors			
TRAFFIC			
Pedestrian			
Automobile			
COMPETITION			
Too Many			
Support Prices			
Support Product			
Demand			
Business Draw			
ECONOMIC			
Growth			
Development			
TOTAL			

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