

A Look at Franchise Royalty Fees

An Examination of Average Royalty Fees from 2012-2018



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Source Material

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Summary

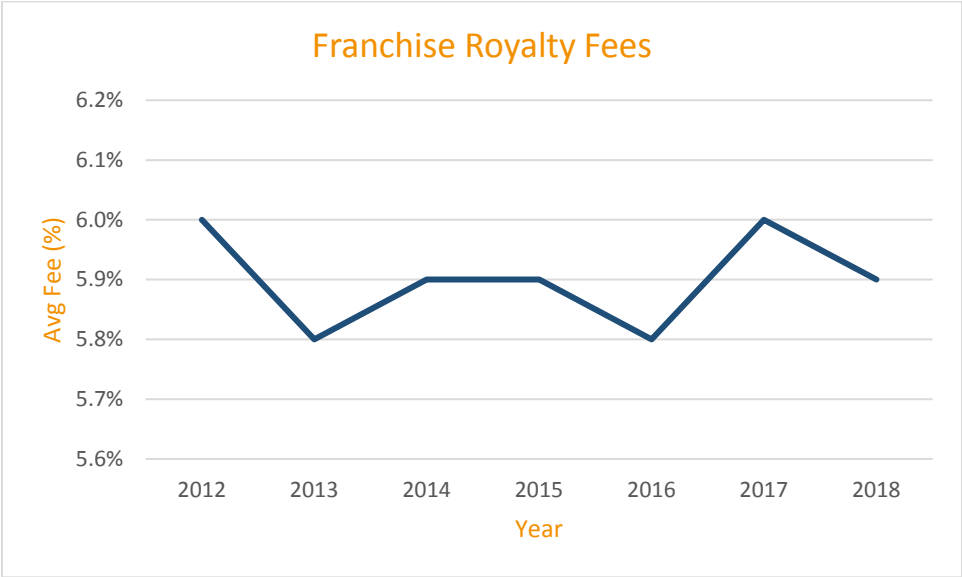
Franchisees’ royalty fees paid to franchisors cover the ongoing training and support, marketing and promotion, and advisory services provided by the franchisor, so the benefits have minimized the risk of small business owners. Total income generated from royalty fees will eventually become the mainstream of franchisor’s total revenue for mature brands. FRANdata recently conducted a detailed royalty fee study based on in-house historical data we have for a total of 2,425 brands. The business-related industry has the highest average royalty fee of 10%, which largely outperforms overall averages. The other top 5 industries include the publication, education-related, maintenance, and computer products and services industries.

Based on our analysis of 2,425 brands across 7 years, the following are key takeaways that we found:

- The average royalty fees have remained stable at 6% over the past seven years.
- Of the 29 unique industries franchise brands have been operating under, the business-related industry charges the highest royalty fees, which average at 10%; photographic products and services industry charges the lowest, which averages 4.3%.
- Franchisors have varied format of royalty collections, instead of charging franchisees fixed dollar amounts per month or a percentage of weekly/monthly/quarterly revenues.

Average Royalty Fee Calculations

Average Royalty Fee						
2012	2013	2014	2015	2016	2017 (Est.)	2018
6.0%	5.8%	5.9%	5.9%	5.8%	6.0%	5.9%



From this table we can see that the average royalty fee maintained a stable 6% over the years, with a range between 0% to 40% (some outliers include Hot Stuff Pizza who does not require its franchisees to pay royalty fees; H&R Block who charges its franchisees 40% on the revenue received during each calendar year for royalty fees, but discounts may apply in certain situations). 52.4% of brands charge royalty fees below the average, and 47.6% of total brands have higher than average royalty fees.

Average Royalty Fee Categorized by Industry

Industry	Average Royalty Fee
Business-Related	10.0%
Publications	9.0%
Education-Related	7.4%
Maintenance Services	7.1%
Computer Products and Services	7.1%
Pet-Related Products/Services	7.1%
Child-Related	7.0%
Party-Related Goods/Services	6.6%
Sports & Recreation	6.5%
Services - General	6.5%
Automotive	6.4%
Personnel Services	6.1%
Real Estate	6.0%
Health & Fitness	5.8%
Building & Construction	5.7%
Beauty-Related	5.6%
Frozen Desserts	5.4%
Retail Food	5.4%
Decorating & Home Design	5.4%
QSR	5.3%
Baked Goods	5.2%
Printing	5.2%
Clothing & Accessories	5.1%
Restaurants (Sit-Down)	5.0%
Security-Related	5.0%
Retail Stores	5.0%
Lodging	4.9%

Industry	Average Royalty Fee
Travel	4.6%
Photographic Products/Services	4.3%
Industry Average	5.9%

The business-related industry has the highest average royalty fee of 10%, which largely outperforms overall averages. Here are some brand examples in the business-related industry with high royalty fees:

- Liberty Tax Services charges a royalty fee of 14%
- Expense Reduction Analysts charges a royalty fee of 15%
- Jackson Hewitt Tax Service charges an average royalty fee of 10%
- Padgett Business Services charges a royalty fee of 9%

The other top 5 industries include the publication, education-related, maintenance, and computer products and services industries.

Of the 29 industries, food industries (Frozen Dessert, Retail Food, QSR, Baked Goods, & Restaurants (Sit-Down)) have an average royalty fee of 5.2%, which is lower than non-food industries with an average royalty fee of 6.3%.

Royalty Fees in a Varying Format

Franchisors charge royalty fees in varying formats. Based on the study, 87.1% of total brands have royalty fees charged in a fixed amount or percentages of weekly/monthly/quarterly sales, and 12.5% of total brands offer discounts to certain types of franchisees. They also have royalty fees charged in a variation format, or on a sliding scale based on different business locations and models, amounts of monthly/weekly/quarterly gross sales, length of business operation, type of services/products offered by franchisees, or number of units opened by franchisees, etc. The remaining 0.4% of brands have no royalty fees charged at all. FRANdata has also found that 20% of the total brands have minimum royalty requirements.

Type	Average Fee Charges	Brands Distribution
Fixed Royalty Fee	5.9%	87.1%
Varied Royalty Fee	5.8%	12.5%
No Royalty Fee	0.0%	0.4%

Here are some brand examples with incentives on royalty fees:

- Marco's Pizza:
 - Royalty for Limited Seating and Expanded Seating Stores: 5.5%, up to a maximum of 6%;
 - Royalty for Special Venue Stores: 5.5%, may be reduced by agreement based on the Special Venue facility characteristics and event criteria;
 - Royalty for Key Management Employee Program: 2.5% (if commission is due to an Area Representative, this will increase by an additional 2.2%)

- Penn Station, East Coast Subs
 - Royalty fee percentage applied on a per Restaurant basis and varies depending on level of monthly net sales: for each Restaurant 2% of net sales <\$30,000 unless the net sales are within the applicable 5 year period in which case zero percent (0%) for that month, 3% on net sales > \$30,000 but < \$35,000, 4% on net sales > \$35,000 but < \$40,000, 5% on net sales > \$40,000 but < \$45,000, 6% on net sales > \$45,000 but < \$50,000, 7% on net sales > \$50,000 but < \$55,000, and 8% on net sales > \$55,000

- Capriotti's Sandwich Shop
 - 7% if franchisees sign an individual franchise agreement to operate 1-2 franchised restaurants;
 - 6% if franchisees sign an Area Development Agreement to operate 3 or more franchised restaurants

- Palm Beach Tan
 - 1- 12 months from opening date: 4% of gross sales;
 - 13-24 month from opening date: 5% of gross sales;
 - 25 months from opening date through the end of the term: 6% of gross sales

- Culligan (Supplies water-related products and service and air filtration equipment)
 - 2% of monthly gross revenues on authorized products and services;
 - 0.5% of gross revenues on industrial products and services and on ancillary products and services

Emerging Brands vs. Non-Emerging Brands

Brands Type	Average Royalty Fee
Emerging Brands	6.1%
Mature Brands	5.9%

FRANdata has also found that emerging brand (franchising no longer than five years) franchisors charge their franchisees slightly higher royalty fees than mature brands (franchising more than five years).

Conclusions

Franchisees' royalty fees paid to franchisors cover the ongoing training and support, marketing and promotion, and advisory services provided by the franchisor, so the benefits have minimized the risk of small business owners. Total income generated from royalty fees will eventually become the mainstream of franchisor's total revenue for mature brands. Therefore, for franchisors to gain more profitability and efficiency from the business operation, charging royalties that are suitable for the chain and varying these amounts over time is necessary to create a stable franchisor-franchisee relationship while ensuring the sustainability of the franchise brand¹.

¹ Calderon-Monge, Esther, et al. "Economic Sustainability in Franchising: A Model to Predict Franchisor Success or Failure." *Sustainability*, vol. 9, no. 8, Nov. 2017, p. 1419., doi:10.3390/su9081419.



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