How much for the brand in a franchise?

by Christof Binder

Typically, a franchise includes various different rights, i.e. the right to use the brand of the franchisor, some sort of territorial protection or local exclusivity), and the right to use the business concept and the operating system developed by the franchisor. All of these different rights are finally combined in on franchise fee or franchise royalty rate.

An interesting but difficult to solve question in franchising is how much the franchised brand is worth, and how much the concept and operating system. To develop a better understanding of this aspect, we conducted a comparative analysis of both non-franchised and franchised restaurant businesses. More specifically, we compared the trademark royalty rates applied in the valuation of non-franchised restaurant brands with franchise royalty rates paid by franchised restaurants. Each sample comprised 40 individual cases. The main results are summarized in the table below.

Royalty rate analysis - 80 restaurant businesses

	brand royalty rate (% of revenues)	**franchise royalty rate** (% of revenues)	**share of brand**
min	0.2%	2.0%	[10%]
25% quartile	1.5%	4.0%	37.5%
median	2.0%	4.2%	48%
mean	3.2%	5.0%	64%
75% quartile	4.4%	4.4%	[100%]
max	10.0%	8.0%	[>100%]

Source: MARKABLES database

Leaving the first and fourth quartile of the royalty rate distributions out, the analysis indicates a share of between 40% and 60% for the brand in the franchise royalty rate. This brand share would include the price for territory protection because the brand royalty rate describes the value of (exclusive) brand ownership. Hence, the remaining 60% to 40% of the franchise royalty must be for the business concept and the operating system.

Although only indicative, these ratios are a good starting point to isolate the part for the brand included in a franchise. Three factors need to be considered in each particular case. First is price positioning. For franchises with a higher price positioning, the share of brand seems to be at the higher end of the spectrum. Second is the complexity of the business system. If the system is easy to establish, and if the cost advantages on the supply side are small, then the share of brand will also be at the higher end. And third is brand strength. All individual cases in the comparative are well established and enjoy stable local brand awareness in their target audience. Thus, the share of brand is lower for young franchising concepts, or that are just entering new territories.

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