Royalties and Revenue Categories

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Overview

As a franchisor, you need to make sure you are collect the royalties and fees due to you from your franchisees, and that you collect these royalties and fees in accordance with your Franchise Disclosure Document (FDD.)

service**minder** has a robust menu of settings and configurations to allow *any* franchise organization easy reporting on what's owed. **It's very important to set this up properly!**

The order of dominance for Royalty Calculations is:

1. Accounting Class (*overrides everything else*)

2. Organization (*runner up*)

3. Brand Dashboard Revenue Categories (*base to build on*)

Step 1: Strategy

We encourage you to answer the following questions for your brand before starting:

- Do your franchisees report weekly or monthly?

    - If weekly, then when does your week start and end?

- At what stage to they report on revenues for royalty reporting?

    - Invoices

    - Completed Proposals

    - Accepted Proposals

- Do you collect on Net or Gross Sales?

- Accrual or Cash basis?

    - If you are Accrual-based, Invoices appear on the End of Period report as soon as they are created. The franchisee is charged for the full cost of the job that will be billed to the customer.

    - If you are Cash-based, the franchisee pays royalties in the money collected. A Deposit on a Proposal may appear on a separate End of Period report than the full or additional payments made to the Invoice, but the franchisee will only be charged once for each payment collected.

- Will your services be under separate revenue categories, or will they all "roll up" into a "Sales" category?

- Do you want the report to auto-send? If so, which day should they be submitted?

Step 2: End of Period

- Go to your **Dashboard>Tools>Configuration Settings**. Scroll down to "End of Period" section

- Choose your settings based on your brand reporting/FDD

- See additional information about End of Month/Week Reporting

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Step 3: Revenue Categories

Go to **Dashboard>Tools>Revenue Categories**. This is where a brand has the ability to determine royalty settings: Minimums and Maximums, Variable percentages, compounding tiers of royalties. These brand settings can be "overridden" at the Organization and at the Accounting Class level.

Click on **Add** to add a category and enter a royalty percentage or a flat $ fee (in Minimum field):

Edit a Branding Revenue Category

Name*	New Installations
Active?	☑
Group By	Base Royalty pricing tier example

Other categories sharing this same value will group into a single line when downloading your branding's month end report

Apply to Total Sales?	☐

If enabled, this category will apply to the total of all sales across all services instead of only services within this category

Exclude from Minimum?	☐
Exclude from Total?	☐
Default Percentage*	6.00
Per Invoice	

Flat royalty amount per invoice

Minimum	2000.00

An optional minimum amount to apply

Maximum	

An optional maximum amount to apply

Maximum Period	Month ▼

- **Apply to Total Sales** - ONLY check this if you are creating an item NOT tied to a service, for instance, a brand Marketing Fund percentage of X% each period. If checked, you won't be able to select the category on your services.

Pricing Bands

You will need to save that category, then click **Edit** to reveal banding options.

Rate Bands

#	At Least	Less Than	Base Royalty	Percentage
✕	0	30000		7
✕	30000	60000	2100	6
✕	60000	120000	3900	5
✕	120000		6900	4

If your royalty schedule has nuances, like minimums and "layers" of calculations, here's an example:

- Let's say minimum royalty is $2100

- For the *first* 0- $30,000 in sales, the franchisee owes 7% (same in this instance as the minimum)

- Then, for $30,000 - $60,000 in sales for the period, the franchisee owes the base 7% of $2100, PLUS 6% of the $30K amount in this bracket. *The previous band's full calculation is added to the new tier*

- For $60K - $120K, the base royalty is now the maximum from the previous bands ($1800 + $2100 = $3900)

- Finally, if the franchisee has revenues > $120K in the period, additional sales will be calculated at a 4% royalty PLUS the $6900 from the previous bands.

Update Services

Your Revenue Categories tie to your services. This allows not only robust performance reporting, but enables a brand to collect different royalty amounts based on the service, if so desired.

Once your Revenue Categories are set up, go to **Control Panel>Services>Edit** each service by scrolling down to Invoicing:
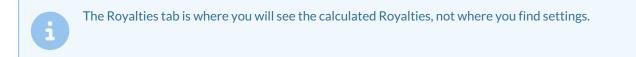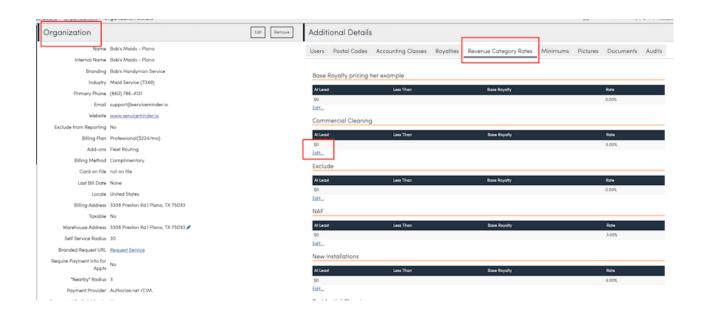

Step 4: Overriding Brand Royalty Settings

A common occurrence in franchising is the inevitable "changing of the FDD."

- A brand could have "original" franchise owners under a flat fee royalty program, and "newer" franchise owners under a variable royalty.

- Franchise owners who have been around a long time could very easily own multiple territories with each one under a different royalty structure.

- Even if the majority of your franchise owners are under an "old" territory agreement, we **strongly** encourage brand admins to make their brand-level royalty settings match their current FDD.

If your franchisee owner is under a different royalty agreement, then go to Dashboard>Organizations. Click on the Org name (do NOT click Edit). At the right, click the "Revenue Category Rates" tab and edit at will.

> ℹ️ The Royalties tab is where you will see the calculated Royalties, not where you find settings.

Of course, if one franchise owner has multiple territories with different franchise agreements, then the big guns come out. This is when you override your brand royalty reporting at the "Accounting Class"(i.e. territory) level.

1. Go to **Control Panel>Integrations>Accounting Classes>Manage Accounting Classes**

2. Click on the NAME of the Accouting Class/Territory (don't hit Edit)

3. You will see the familiar **Revenue Category Rates** tab. Edit the Categories to the desired royalty rates/amounts. Don't forget to save!

Invoices with Finance Charges

As you are aware, there is a setting in **Control Panel>Invoices** where an organization may set up a finance charge percentage and message. This is also where they may "automate" finance charges, so invoices of "X" days or older (custom setting) will automatically have the chosen finance charge added on "D" day of the month (also a custom setting.)

What does this mean to a Franchisor?
- Do you collect royalties on Finance Charge Revenue?
- Are your Royalties based on Accrual or Cash?

If your Royalties are based on Accrual, and you DO want to collect royalties on this money, *and* an invoice has already been submitted for monthly/weekly royalties, then you will need to run a Parts Usage report on the Finance Charge part to capture those finance charges.

If you don't want to collect Royalties on Finance Charges, then make sure you have a Brand Revenue Category set up for those, with 0% as the amount.

Royalties Exclusions

Exclude from Minimum

A minimum is when a franchise says that you have to pay at least this much and if it is over that $ then you pay % of revenue. So minimum each month the zee will pay is at least $450 (as an example), but if you exclude it from minimum then they don't have to pay at least that $. I believe it just goes off the % set up by the revenue category (so probably 6%) .

Exclude from Total

Exclude from Total means that it is completely excluded from all royalties. For example, Disaster Relief services for a tree cutting company may exclude from total royalties since this is a community service and they can treat this as more of a donation part situation.

FAQs

If a franchisee invoices a customer in March for $100 and is charged a royalty fee on that invoice then they write off the invoice in April, the -$100 write off would affect the amount subject to royalties in the April report, correct?

Yes, if it is based on "Net Sales" the write-off will come off the revenue amount for royalties that month.

Can you confirm which invoices will be locked once the end of period report has been submitted? If an invoice is "written off" or "voided" what are the implications and what is the difference?

If your royalty settings are based on Invoices created regardless of payments made to them and based on Net sales, the report will show approved invoices created during that date month regardless of payments made to them.

Voided invoices will not be included.

Write-offs will be factored in on "net sales" so they will show on the report but not be included in the royalty collection.

What is the difference by basing royalties off of proposals vs. invoices?

If your settings for royalties are Cash/Invoice, (i.e. Payments made to invoices) means that if a franchisee has taken a deposit on a proposal, but has not created an invoice, then that deposit is not considered revenue yet.

Are there different reports if my business is accrual-based or cash-based with the royalties settings?

Most of our reporting is based on accrual, and it is hard-coded so there are no direct changes that you can do to affect that. They are out-of-the-box reports that are the same for everyone so if we cannot make a change for one specific brand - it would affect every user in service**minder**.

However, if you are cash-based in your royalties then you will want to primarily look at these reports. At the org level, **Payment Reconciliation** is a good one or the **End of Period** report. At the brand level, you should look at the **Payments by Accounting Class** (rather than Revenue by Account Class) and End of Period.

I see refunds on my EoW/EoM report, how do I not be charged royalties on them?

You do not pay royalties on refunds. You may see refunds show up on a royalty report contained within parenthesis. This means that they are being subtracted. So ($25.00) means -$25.00.

Are taxes included in the royalties?

You will see a column for taxes on the EoW/EoM reporting but royalties are not actually including them. That is more of a reference for how much you paid in taxes for that reporting period. Royalties are not charged on taxes.

What do I do if I think my report is incorrect?

It is our recommendation to reach out to your Brand Admin or your Business Coach. They can send a support ticket on your behalf if there is something the ServiceMinder team needs to look at.

What happens if the franchisees take deposits but we exclude them from end of period reporting?

The intention with excluding deposits is that once the invoice is paid, the entire amount will populate on the EoP report.