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WED/WDP Royalty Payments

Economics Research Associates



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Eventually
WDP brought
WED back and
this became a
non event HAP

Dear Bill:

After a careful analysis we have come up with an approach to the WED-WDP royalty problem that appears to have merit. The essence of it is that WED would receive a profit on its design work through royalties on attractions designed, and that the royalties would be collected on that portion of attendance that is over break-even levels. By this means you get no profit if the attraction does no more than break even, a modest profit ~~(15 percent on gross)~~ when the attraction draws a satisfactory level of patronage, and a high profit ~~(up to 30 percent)~~ when the draw is at the maximum practical capacity of the attraction. The royalty ~~amount~~ ^{basis level of} would be set to return the/profit over the first three years of operation of the attraction, but payments would continue thereafter at the same amounts so that royalty income would be built up to quite substantial levels after several years of ~~operation~~ of this system of operation.

The following eight points are the basis for the system we have devised:

1. WED should receive a profit on their design work in addition to being reimbursed for design costs.
2. This profit should be related to the crowd-pulling success of the attraction designed. Until attendance is at a pre-established break-even level, no profits are deserved. When attendance is at a satisfactory level a modest profit is warranted, with the level of profit increasing as attendance increased to the maximum practical capacity of the attraction.
3. Profits should be received ~~as~~ ^{in the form of} royalties on attendance over break-even levels. Royalties will continue to be paid on this basis ^{should} so long as the attraction is in operation. The royalty amount per admission ~~will~~ be established at a level which will permit WED to recapture the basic profit allowance after three years. Three years has been used rather than the

more standard five because the five year term usually related to payout of investment whereas in this instance the funds received constitute the source of already only/profit on services/performed.

4. The profit allowance should be computed on the basis of all/^{costs} incurred in producing a design for WED. Included costs would~~x~~ be labor, employee benefits, out~~e~~of pocket expenses, material, and overhead at cost.

5. A basic profit allowance of 15 percent seems reasonable on an attraction which draws a satisfactory attendance, with a 30 percent maximum at maximum practical attendance capacity. These basic allowances are the ^{royalties} amounts to be recovered in the first three years. ~~The total profit received would continue at the same level. There is no r~~

6. There is every reason to continue royalty payments at the same amounts per admission after the Basic profit allowance has been recovered. ^{features} The design ~~skills~~ built into the attraction will have an important bearing on its economic life, and if by good design WED is able to add life to an attraction it should share in the income from the attraction.

7. If there is no practical way to measure the design results, as in the case of attractions which can be enjoyed without payment of a/^{directly} related admission fee, a 20 percent return is warranted. In these cases there is no opportunity for WED to participate directly in the results of their efforts, and an average level return is deserved. ~~The same~~ For the reasons given earlier, three years should be the period over which the basic 20 percent is collected, but payments would be made for the entire economic life of the attraction.

8. If WED has carried the design forward into the construction stage and sold the completed attraction/^{at cost} to ~~WED~~ WDP, as in the case of the tiki-room, the regular basic profit allowances should apply to the entire cost. However,

probably somewhat
as the construction function is/less unique and is not patentable, it seems
more appropriate that the basic profit allowance be spread over five years
rather than three.

~~The following steps will be made~~

Attached are several sheets illustrating how this system would work
and giving the details on how to use it. We feel that this is a means
by which both WED and WDP can receive equitable treatment, and hope that
you will find it useful.

Respectfully submitted,

Harrison A. Price
President

SYSTEM FOR CALCULATING ROYALTY PAYMENTS

(For revenue producing attractions)

1. Establish the following:
 - a. Total design costs, or total design and construction costs if WED manufactures the attraction.
 - b. ~~Profit~~ Basic profit allowances are 15 percent and 30 percent of the above cost.
 - c. Theoretical ride capacity, and break-even, satisfactory, and maximum practical ride capacity.
2. Divide the basic profit allowances by three, or by five if WED manufactures, to yield the amount to be recovered annually.
3. Calculate the annual number of rides below break-even, from break-even to satisfactory, and from satisfactory to maximum.
4. Divide the amount to be recovered annually in the break-even to satisfactory attendance range by the number of annual rides in that range. Do the same for the higher attendance range. The answer is the royalty amount to be collected per ride.
5. Convert the annual figures to months, making appropriate adjustments for differences in numbers of days and hours per day, so that the royalties due WED can be calculated and paid monthly.

(For non-revenue producing attractions)

1. Establish the design (and construction if applicable) costs as above.
2. Calculate the basic profit allowance at 20 percent of costs.
3. Divide by three to derive the annual royalty.
4. Collect monthly as a flat fee, with adjustments for open hours per month if desirable.

IN ALL CASES PAYMENTS CONTINUE ^{AS} ~~SO~~ LONG AS THE ATTRACTION IS OPERATED.

Hypothetical Example - New Ride

1. a. Design Cost \$200,000

b. 15 percent \$30,000
30 percent \$60,000

c. Theoretical Capacity 1000 per hour
100 days @ 14 hours 1400
180 days @ 8 hours 1440
2840

*
Theoretical ~~Capacity~~ Capacity 2,840,000 rides

Break-even at 25% 710,000
Satisfactory at ~~40%~~ 40% 1,136,000
Maximum at ~~70%~~ 60% 1,704,000

2. Divide 1b. by ~~four~~ ^{three} to derive annual royalty
 $30,000 \div 3 = \$10,000$

3. Break-even to Satisfactory 426,000

Satisfactory to Maximum 568,000

4. Royalty per ride

First	710,000	0
Next	426,000	2.35¢
Over	<u>1,136,000</u>	1.75¢

Example - New Ride (continued)

Result

Royalty paid as a percentage of total revenue, assuming ~~50¢ and 25~~ 40¢ per capita admission, a 30 day month, and a 14 hour day, is:

Capacity	$1000 \times \frac{14 \times 30}{30} =$	420,000
Break-even	105,000	> 61,000
Satisfactory	168,000	
Maximum	252,000	> 84,000

<u>Monthly Attendance</u>	<u>Total Revenue</u>	<u>Monthly Royalty Paid</u>	<u>Royalty as % of Revenue</u>
100,000	40,000	—	—
150,000	60,000	1,058	1.8
200,000	80,000	2,040	2.5
250,000	100,000	2,915	2.9

Specific Example - Tiki Room

Facts & Assumptions

1 a. Sold to WDP at cost \$778,000

1 b. ← 15 percent \$116,700

← 30 percent \$233,400

1 c. Ride capacity 750 per hour
100 days @ 14 hours = 1400
180 days @ 8 hours = 1440
2840 hours per year

Theoretical capacity 2,130,000 rides

Break even at 25% 532,500

Satisfactory at 40% 852,000

Maximum at 60% 1,278,000

2. Divide ~~by~~ 1 b. by five to derive annual ~~amount~~ ^{royalty}
 $116,700 \div 5 = 23,340$

3. Break even to Satisfactory, 319,500 rides
Satisfactory to Maximum, 426,000 rides

4. Royalty per ride

First 532,500 rides	- 0 -
Next 319,500 rides	7.3¢
Over 852,000 rides	5.5¢

~~Average per ride at 60%~~

Example - Tiki Room (continued)

Result

Royalty paid as a percentage of total revenue, assuming per capita revenue at 70¢, a 30 day month, and a 14 hour day, ^{is:} ~~can be computed as follows:~~

Capacity	$750 \times 14 \times 30 =$	315,000
Break even	78,750	} 47,250
Satisfactory	126,000	
Maximum	189,000	
		63,000

<u>Attendance</u>		<u>Royalty Paid</u>	
Days Monthly	Monthly Attendance	Monthly Royalty Paid	Royalty as % of Revenue
	75,000	52,500	0
	100,000	70,000	1,551
	125,000	87,500	3,376
	150,000	105,000	4,769
	175,000	122,500	6,144
	190,000	133,000	6,969
			5.2%

Hypothetical Example - Wooden Indian on Main Street

1. Design Cost 1,000
2. ~~allowance~~ 20 percent 200
3. Divide by 3 66.67 annual ~~rent~~ royalty
4. Royalty \$5.55 per month