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WED/WDP Royalty Payments

Harrison Price Company

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Eventually
WDP bought
WBD back and
this became a
corporate event

SEP
Dear Bill:

After a careful analysis we have come up with an approach to the 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 (25 percent) when the draw is at the maximum practical capacity of the attraction. The royalty amount 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.

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 royalties on attendance over break-even levels. Royalties will continue to be paid on this basis so long as the attraction is in operation. The royalty amount per admission should 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/in incurred
in producing a design for WDP. Included costs would be labor, employee
benefits, out 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 revenue received
would continue at the same level thereafter.

6. There is every reason to continue royalty payments at the same
amounts per admission after the basic profit allowance has been recovered.

7. If there is no practical way to measure the design results, as in
directly
the case of attractions which can be enjoyed without payment of a 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. 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
at cost
and sold the completed attraction to WEP WDP, as in the case of the tiki-room,
the regular basic profit allowances should apply to the entire cost. However,
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.

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
Président
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. 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 LONG AS THE ATTRACTION IS OPERATED.
**Hypothetical Example - New Ride**

1. **Design Cost**
   - $200,000

2. **15 percent** $30,000
   - **30 percent** $60,000

3. **Theoretical Capacity** 1,000 per hour
   - 110 days @ 14 hours = 1,540
   - 180 days @ 8 hours = 1,440
   - **Total** 2,980

4. **Theoretical Capacity** 2,980,000 rides

5. **Break-even at 25%** 710,000
   - Satisfactory at 40% 1,136,000
   - Maximum at 60% 1,704,000

2. **Divide 1b by 3 to derive annual royalty**
   - $30,000 ÷ 3 = **$10,000**

3. **Break-even to Satisfactory** 426,000
   - Satisfactory to Maximum 568,000

4. **Royalty per ride**
   - **First** 710,000
   - **Next** 426,000
   - **Over** 1,136,000
     - 0
     - 2.35
     - 1.75
Example - New Ride (continued)

Result

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

Capacity: \(1000 \times \frac{14 \times 30}{52} = 420,000\)

Break-even: 105,000 > 61,000
Satisfactory: 168,000 > 84,000
Maximum: 252,000

<table>
<thead>
<tr>
<th>Monthly Attendance</th>
<th>Total Revenue</th>
<th>Monthly Royalty Paid</th>
<th>Royalty as % of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000</td>
<td>40,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>150,000</td>
<td>60,000</td>
<td>1,058</td>
<td>1.8</td>
</tr>
<tr>
<td>200,000</td>
<td>80,000</td>
<td>2,040</td>
<td>2.5</td>
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<tr>
<td>250,000</td>
<td>100,000</td>
<td>2,915</td>
<td>2.9</td>
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</tbody>
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Specific Example - Tiki Room

Act & Description

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

1b. 15 percent $116,700

1c. 30 percent $233,400

1c. Ride capacity 750 per hour

100 days @ 4 hours = 1400
180 days @ 6 hours = 1080
2880 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 1b. by per to derive annual activity

116,700 ÷ 5 = 23,340

3. Break even to satisfactory, 319,500 rides

Satisfactory to Maximum, 426,000 rides

4. Royalty per ride

First 532,500 riders 0
Next 319,500 riders 7.34
Over 852,000 riders 5.5
Example - Tiki Room (Continued)

Result

Royalty paid as a percentage of total revenue, assuming per capita revenue of $70, a 30 day month, and a 14 hour day, can be computed as follows:

Capacity: \(750 \times 14 \times 30 = 315,000\)

Break-even: \(78,750\) > \(41,250\)

Satisfactory: \(126,000\) > \(63,000\)

Maximum: \(189,000\)

<table>
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<th>Total Revenue</th>
<th>Monthly Royalty Paid</th>
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<tr>
<td>190,000</td>
<td>133,000</td>
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</tbody>
</table>
Hypothetical Example - Wooden Indians on Main Street

1. Design Cost 1000
2. Subtract 20 percent 200
3. Divide by 3 66.67 annual royalty
4. Royalty $5.55 per month