

# Revenue Diversification Strategies in Franchise Systems: Beyond Traditional Sales Models

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*Abstract- Franchise systems are traditionally analyzed in terms of outlet expansion, contractual governance, and brand replication, yet their economic sustainability also depends on the ability to structure revenue sources beyond the direct sale of products or services. This article examines the main mechanisms through which franchise systems diversify their revenue architecture, with emphasis on initial fees, ongoing royalties, advertising contributions, margins on input sales, digital integration, omnichannel strategies, and multibrand and multisystem arrangements. Based on a qualitative review of the literature, the article argues that revenue diversification is not merely an accounting outcome, but a strategic choice associated with system governance, incentive alignment, digital transformation, and sector-specific conditions. The literature suggests that more diversified structures may enhance franchisor financial resilience and reduce dependence on a single transactional stream, but they may also intensify channel conflict and distributive tensions when coordination mechanisms are weak. The central argument is that diversification in franchising creates value consistently only when the monetization logic is aligned with operational support, the legitimacy of system charges, and the system's capacity to manage interdependent relationships between franchisor and franchisees.*

**Keywords:** Franchising, Revenue Diversification, Royalties, Omnichannel, Franchise Governance

## I. INTRODUCTION

Franchising has become established as a hybrid organizational form combining centralized brand control with decentralized investment, thereby enabling territorial expansion, operational standardization, and the use of local market knowledge. A substantial body of classical literature explains franchise growth through factors such as resource scarcity, agency costs, quality signaling, and the coexistence of company-owned and franchised units within plural governance arrangements [1-3]. While this theoretical tradition has clarified why

franchising became a recurrent growth alternative, it does not fully resolve a question that is now central to system sustainability: how franchisors and franchise systems structure revenue sources that do not depend exclusively on the direct sales generated at the unit level.

This issue has become more relevant as franchise systems increasingly operate in environments shaped by digitalization, channel integration, intangible asset monetization, and multibrand portfolio expansion. As a result, revenue in franchising can no longer be understood solely through initial franchise fees and sales-based royalties. In many cases, the economic architecture of the system also includes advertising fund contributions, margins on the sale of supplies, technology-related fees, digital intermediation revenues, brand licensing, and portfolio structures that redistribute risk and value capture across brands and formats [4-8].

This article aims to analyze how franchise systems diversify revenue beyond the traditional model based on direct sales. It adopts a qualitative literature review to integrate theoretical and empirical contributions on franchise contracts, franchisor compensation, digital transformation, omnichannel governance, and multibrand strategies. The argument developed here is that revenue diversification should be understood as part of the system's economic governance rather than merely as an expansion of income streams. Its effectiveness depends on the compatibility between contractual design, agent incentives, coordination capacity, and the characteristics of the sector in which the network operates

The economic literature on franchising shows that franchisor compensation usually combines up-front payments and recurring streams. Franchise fees and royalties are not arbitrary charges; they are instruments for risk allocation, effort incentives, and

the temporal organization of the contractual relationship. Kaufmann and Lafontaine showed that the pricing of franchise rights should be understood in light of expected returns, franchisor support, and system attractiveness [4]. Similarly, Windsperger interpreted fee structures from a property rights perspective, emphasizing that contractual configurations respond to the need to protect intangible assets and discipline opportunistic behavior [5].

However, the literature also shows that franchisor revenue is not exhausted by the fee-royalty dyad. Vázquez argued that up-front and variable payments may function as partial substitutes, but also drew attention to other forms of value capture, especially when the franchisor participates in the supply of inputs or services to franchisees [6]. This point is conceptually important because it broadens the analysis of contractual compensation to include margins derived from the supply chain, making the sale of materials, equipment, or standardized inputs an additional source of revenue.

Maruyama and Yamashita extended this discussion by showing that royalties should not be interpreted solely as rent extraction mechanisms, but also as instruments associated with ongoing support and incentive alignment between the parties [7,8]. This interpretation is highly relevant to the argument of this article, because it suggests that revenue diversification becomes sustainable only when each monetary stream has a clear functional justification within the system. In other words, multiplying sources of income is viable when franchisees perceive concrete counterperformance in the form of support, brand value, technology, supply-chain services, marketing, or coordination.

Advertising contributions illustrate this issue particularly well. Dant and Berger showed that cooperative advertising decisions may generate system-wide gains, but they also create distributive tensions when franchisees do not clearly perceive the returns of collectively funded campaigns [9]. The existence of such funds therefore reinforces the idea that revenue diversification is not merely a financial issue, but also a matter of organizational legitimacy. In the same direction, Bang et al. found in the restaurant

industry that higher royalty fees tend to be more acceptable when they are associated with effective franchisor support, confirming the importance of linking system charges to observable value delivery [10].

Digital transformation has significantly expanded revenue diversification possibilities in franchise systems. The integration of physical and digital channels allows franchisors to capture value through centralized ordering, electronic intermediation, platform management, digital services, technology fees, and new models of customer engagement. At the same time, the literature makes clear that these opportunities are accompanied by distributive tensions and conflicts over revenue attribution.

Kremez et al. argued that e-commerce in franchising is not a simple additional sales channel, because it alters the balance between local autonomy, central control, and franchisees' territorial rights [11]. This finding is central to the present discussion because it shows that digital revenues are not merely a commercial expansion; they require a redefinition of the system's economic governance. If online sales are centralized by the franchisor without transparent compensation mechanisms, franchisees may perceive that their customer base is being appropriated. If, by contrast, digital operations are integrated through clear value-allocation rules, they may reduce dependence on physical traffic and expand the brand's monetization capacity.

This interpretation is reinforced by recent studies on omnichannel franchising. Chaney et al. found that franchisees' adoption of omnichannel marketing depends on behavioral and organizational factors, including attitudes, perceived norms, and perceptual gaps between franchisors and franchisees [12]. Ghantous et al. further demonstrated that omnichannel reconfiguration in franchise networks requires meso-level capabilities related to learning, coordination, and change management [13]. Taken together, these studies suggest that the additional revenue enabled by digital channels does not arise automatically from technology itself, but from the system's ability to align incentives and define who captures which share of the value created.

The study by Septian et al. provides an applied illustration of this movement by analyzing the financial planning of a digital platform dedicated to franchise business development. Although it does not provide a sufficient basis for broad generalization across the entire sector, the case is useful in showing how digital platforms may combine brand exposure, lead generation, and the monetization of specialized services in a logic that is less dependent on traditional direct sales [14]. Its contribution is therefore illustrative rather than foundational: it demonstrates how digitalization may expand the revenue architecture of the franchise ecosystem, but it does not replace the more established theoretical literature on contractual governance.

Revenue diversification in franchising may also occur at the level of the organizational portfolio rather than only at the level of each unit or isolated contract. Grünhagen et al. demonstrated that multibrand, multisystem, and multirole arrangements enable franchisees and franchisors to distribute risk, develop entrepreneurial competencies, and reduce dependence on a single brand or governance system [15]. Rather than relying exclusively on the performance of one network, actors may combine different brands and formats, thereby producing a portfolio effect.

This point requires conceptual precision. When discussing revenue diversification in franchising, one may refer to at least three distinct phenomena: diversification of the revenue captured by the franchisor, diversification of the economic base of the system as a whole, or diversification of the franchisee's risk and cash flow through multiple participations. The literature on plural structures helps organize this distinction. Dant and Kaufmann showed that franchise systems evolve structurally over time and that the coexistence of different ownership and control forms may represent strategic adaptation rather than organizational inconsistency [2].

This logic is especially visible in the hotel sector. Brookes and Roper argued that international hotel chains may derive significant benefits from plural-form arrangements by combining learning, local adaptation, and brand-standard control [16]. Lawrence et al., analyzing thousands of franchised U.S. hotel properties, concluded that different types of franchisor

investment affect unit performance and that these effects are moderated by franchisee dependence [17]. These findings suggest that in sectors where brand assets, reservation systems, loyalty programs, and managerial support are monetizable, revenue diversification tends to be broader and more sophisticated than in formats centered only on unit-level transactions.

Ukrainets' study on hotel franchising provides additional contextual evidence in this direction by indicating that franchise model development strategies may favor resource allocation, market share expansion, and regulatory adaptation in specific settings [18]. Even so, this source should be read as a sectoral illustration rather than as general proof applicable to franchising as a whole.

Although revenue diversification may increase the economic resilience of a franchise system, the literature does not support treating it as a universal solution. Sectors strongly concentrated around product sales may offer less economic space for ancillary revenues without generating excessive complexity or contractual resistance. Łucak, in an analysis of FMCG enterprises, found strong revenue concentration around the core commercial activity, with relatively limited diversification [19]. Although the study does not focus specifically on franchising, it is useful in showing that the viability of diversification depends on sector economics and on the nature of the value proposition.

This means that franchise systems oriented toward highly standardized transactions and narrow margins may not benefit from the indiscriminate multiplication of fees, channels, and services charged to the network. In some contexts, expanding monetization mechanisms may increase coordination costs, intensify conflicts, and reduce the franchisor's legitimacy in the eyes of franchisees. The systematic review by Nijmeijer et al. is especially useful in supporting this caution, as it indicates that effective franchising depends on the fit between organizational arrangements, institutional environment, and relational characteristics [3].

Accordingly, the main issue is not whether every franchise network should diversify revenue, but under

what conditions diversification becomes an effective organizational advantage. The literature reviewed here suggests that this occurs when the new revenue source is functionally linked to real system assets such as brand value, support, technology, supply, data, advertising, or digital intermediation, and when clear mechanisms exist to allocate burdens and benefits across the parties.

The review developed in this article indicates that revenue diversification in franchise systems goes well beyond increasing the number of charges imposed on the network. More precisely, it involves a reconfiguration of the system's economic governance through which the franchisor seeks to capture value not only from direct unit sales, but also from intangible assets, contractual coordination, supply-chain participation, cooperative advertising, digitalization, and multibrand portfolio structures.



Figure 1. Governance-Based Revenue Diversification in Franchise Systems  
 Source: Created by author.

The literature shows that such diversification may strengthen financial resilience, reduce exposure to a single transactional stream, and increase the network's investment and scalability capacity. At the same time, it also shows that these benefits are not automatic. When complementary revenues are not clearly linked to concrete system deliverables, or when digital channels and centralized mechanisms redistribute value without transparent criteria, diversification may generate channel conflict, distributive tensions, and loss of contractual legitimacy.

The central contribution of this article is therefore to argue that revenue diversification in franchising should be analyzed as a contingent strategy of system organization. Its success depends on the alignment between contractual design, operational support, franchisee incentives, interchannel coordination capacity, and sector-specific conditions. From this perspective, diversification does not merely mean opening new sources of cash flow, but building a value-capture architecture that is economically coherent and organizationally sustainable.

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