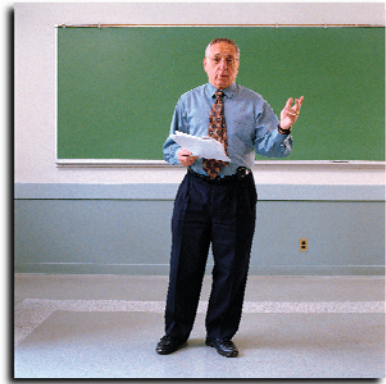


# Franchising 101 - Defining the Common Terms

The franchise industry, just as any other industry, has its own vernacular or language that at times can seem confusing. As with any language, it is just a matter of learning a few key phrases or words in order to understand the big picture.

The following is a compilation of some of the most common franchise terms and their definitions to help you navigate your way through the world of franchising.



**Advertising Fee or Marketing Contribution** – These two terms are used interchangeably and represent money contributed to an escrow fund for the sole purpose of regional marketing or advertising in order to strengthen the brand. It is normally 3% or less of the franchisees annual sales and is paid in addition to the royalty fee. Marketing contributions can vary greatly by franchise company.

**Approved Supplier** – Suppliers approved to do business with a franchise company. In many cases they are not required but are familiar with the needs of the franchise and are therefore approved to supply the franchise.

**Area Developer** – An investor who buys the rights from the franchisor to develop the system in a defined region by opening a predetermined number of stores in a specific time frame. Area developers do not sell franchises.

**Business Plan** – A plan that outlines the objectives of a business and the steps necessary to achieve those objectives. This includes financial projections and the planned steps for expansion. You will often be asked to provide your business plan in order to secure financing or in order to sign a lease.

**Copyright** – The franchisor produces manuals and other documentation to ensure the franchise system is uniform. These are the franchisor's documents and the franchisor has copyright, or reproduction protection with these items.

**Designated Supplier** – This is an approved supplier who is designated as sole source for a particular part of the franchise. A Point of Sale system is an item that usually has a designated supplier for a franchise.

**Developer or Master Franchisee** – An investor who buys the right to develop a specific market or area by selling franchises and providing support to the franchisees in that area.

**Earnings Claim** – Any information the franchisor gives to a prospective franchisee which shows historic “company” store sales, costs, income or profits. Earning Claims are usually located in the FDD and must be accompanied by any disclaimers with respect to the revenue and expense figures.

**Estimated Initial Investment** – A detailed listing of all fees and expenses you can expect to incur in starting a specific franchise. This listing represents the total amount that you would need to pay or get financing for, including fees paid to the franchisor, real estate costs, opening inventory values, insurance costs, working capital, deposits, leasehold improvements as well as estimates for furniture, fixtures and equipment.

**Exclusive Territory** – This is the area given to a franchise operator where no other franchisee or company store development would be allowed. It is usually either a specified radius from the franchise store or a territory described by surrounding streets and landmarks.

**Franchise** – The rights you acquire to offer specific products or services within a certain location for a declared period of time.

**Franchise Agreement** – Outlines the expectations and requirements of the franchisor and describes their commitment to the franchisee. The Franchise Agreement includes information that covers territorial rights of the franchisee, location requirements, training schedules, fees, general obligations of the franchisor, etc.

**Franchise Fee** – An up front entry fee, usually payable upon the signing of the contract (franchise agreement) for the right to use the franchisor’s name, logo, vendors and business model. Often the franchise fee is also the consideration paid for initial training, site selection, operations manuals and other help given by the franchisor before the opening of the business.

**Franchisee** – The operator or owner of a franchise.

**Franchise Resale** – The process of buying a franchise that is already up and running. While the investment may be higher than buying a new franchise, buying a franchise resale minimizes the risk of failure and is operational and provides income from day one.

**Franchisor** – The parent company or person that grants, for a fee and other considerations, the right to use its name and system of business operations.

**Marketing Plan** – part of your overall business plan which defines your market, identifies your customers and competitors, outlines a strategy for attracting and keeping customers and identifies and anticipates change.

**Multi-Unit Franchise** – The franchisor awards the right to a franchisee to operate more than one unit within a defined area based on an agreed upon development schedule.

**Operating Manual** – Comprehensive guidelines advising a franchisee on how to operate the franchised business. It covers all aspects of the business and may be separated into different manuals addressing such subjects as accounting, personnel, advertising, marketing and standard operating procedures.

**Renewal** – The right given to a franchisee to renew their franchise agreement once the initial period set out in the franchise agreement has lapsed. The franchise agreement should also state the terms and conditions under which the renewal will take place.

**Royalty Fees** – Ongoing fees paid to the franchisor by franchisees for ongoing training, support and the use of the business model. It is usually stated as a percentage of gross sales.

**Turnkey Package** – A package that includes all the systems, information, costs and equipment a franchisee needs to be able to “turn the key” and start the business.

**Working Capital** – Initial funds needed to pay expenses such as deposits, licenses, professional fees, payroll and other start up costs needed in order to keep the business running smoothly in the first few months of operation while revenues are still climbing.