

# Glossary of Terms

Click on a word to be taken to the definition. Click on a blue letter to be taken to the beginning of the alphabetized category.

**A B C D E F G H I J K L M N O P Q R S T U V W X Y Z**

## **A**

Acknowledgement of Receipt

Advertising Co-operative

Advertising Fee

Affiliate

Agent

Amortization

Angel Investor

Approved Products

Approved Site

Arbitration

Area Developer (AD)

Area Development Rights

Assets

Authorized Supplier

## **B**

Balance Sheet

Bankruptcy

Bridge Loan

Business Appraisal

Business Format Franchising

## **C**

Capital Required

Ceased Operations Franchise

Collateral

Company-Owned Outlet

Continuous Training

Conversion Franchise

Conversion Franchisee

Conversion Franchising

## **D**

Discount for Multiple Franchise Outlets

Distributorship

## **E**

Earnings Claim

Earnings Claims

EBITDA

Entrepreneur

Exclusive Territory

## **F**

Federal Trade Commission (FTC)

Field Representative

Financial Performance Representation (FPR)

Footprint

Franchise

Franchise Agreement

Franchise Attorney

Franchise Broker  
Franchise Default  
Franchise Disclosure Document (“FDD”)  
Franchise Fee  
Franchise Filing State  
Franchise Operations Manual  
Franchise Registration State  
Franchisee  
Franchisee Advisory Council (FAC) or Franchisee Association  
Franchising  
Franchisor

**G**  
Gray Marketing  
Gross Sales

**H**  
Home Based Franchise

**I**  
Industry Specific Regulations  
Initial Investment  
Initial Term  
International Franchise Association (IFA)

**K**  
Key Supplier

**L**  
Legal Name

**M**  
Management Service Fees (MSF)  
Market Introduction Program  
Master Franchisee  
Multi Unit Franchisee

**N**  
Non-Compete Clause  
Non-Disclosure Agreement (NDA)  
Non-Renewals  
Non-Solicitation Agreement

**O**  
Operations Manual  
Owners Equity or Equity

**P**  
Parent Company  
Pilot Operation  
Pro Forma  
Product Format Franchise  
Profit & Loss (P&L) Projections  
Projected New Franchised  
Prospect  
Protected Territory  
Purchasing Cooperative

**Q**  
Quality Control/Quality Assurance

## **R**

Reacquired Franchise

Regional Development  
Agreement

Renewal

Restrictions on Goods and  
Services

Return on Investment (ROI)

Royalty

## **S**

Schedule to Open

Semi-Absentee Ownership

Sherman Anti-Trust Act

Signed But Not Opened

Single Unit Franchisee

## **T**

Terminations

Territory Fees

Trade Name

Trade Secret

Transfers

Turnkey

Turnkey Financing

Tying

## **V**

Veteran Discount

## **W**

Working Capital

## **Y**

Year First Franchised

## A

### **Acknowledgement of Receipt**

The Acknowledgement of Receipt is a document signed by a prospective franchisee confirming when they received the Franchise Disclosure Document. It is evidence that the document was delivered in compliance with franchise regulations.

### **Advertising Co-operative**

A franchisee group that contributes money toward a regional advertising effort.

### **Advertising Fee**

Fees paid by franchisees for national, regional or local advertising efforts. Funds are typically deposited into an advertising account managed by the franchisor or the franchisor and a representative group of franchisees. Funds are expended on advertising activities for product, services and/or franchise brand promotions.

### **Affiliate**

An associated company that may either operate an outlet or provide services/goods to franchisees.

### **Agent**

An individual or group granted the authority to act on behalf of another.

### **Amortization**

The repayment of a loan by periodic payments of principal and interest.

### **Angel Investor**

An individual or small group of investors who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

### **Approved Products**

Required products or services that a franchisee must purchase from the franchisor and/or its approved suppliers.

### **Approved Site**

A location that the franchisor determines satisfactorily meets the franchisor's criteria for an acceptable franchise location.

### **Arbitration**

The process in which an arbitrator, usually a former judge or qualified attorney hears both sides of a dispute and renders a decision. Compared to utilizing the judicial process in the courts for litigation courts, arbitration is usually less costly.

## **Area Developer (AD)**

An Area Developer, sometimes called a Regional Developer, obtains the rights to a large territory and opens a single location. The AD is then expected to recruit single unit franchises, multi-unit franchises and area development franchises and can receive a portion of the franchise fees and royalties in return for recruiting, training and supporting the new franchisee.

## **Area Development Rights**

The rights granted to a franchisee to open a set number of franchise locations within a specified geographic area within an agreed time. The Area Developer may sign one franchise agreement with an addendum that details the requirements for opening additional locations.

## **Assets**

Personal property, trade secrets, equipment, inventory, cash and real estate owned by a business.

## **Authorized Supplier**

A supplier either affiliated or approved by the franchisor to provide products and/or services to franchisees. Not to be confused

with a Required Supplier which franchisees must purchase from.

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## **B**

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## **Balance Sheet**

A financial statement that presents the financial picture of a company's assets, liabilities and equity. Will often include footnotes that describe certain entries.

## **Bankruptcy**

A legal process utilizing the judicial system whereby individuals or businesses seek to demonstrate their inability to meet its financial obligations in order to seek relief from some or all their debts. There are several types of bankruptcy relief.

## **Bridge Loan**

Temporary financing extended to a borrower until permanent financing is secured. At that time, funds from the permanent financing are used to pay off the bridge loan.

## **Business Appraisal**

An expert estimate of the value of business assets or property, in most states by licensed appraisers.

## **Business Format Franchising**

The franchisor licenses the franchisee to use the franchisor product, service and trademarks and teaches the franchisee the marketing, selling, financial and personnel procedures. Most franchises are business format franchises.

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## **C**

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### **Capital Required**

The total financial amount required to operate the business successfully.

### **Ceased Operations Franchise**

When a franchise outlet is closed, is no longer operating. A franchise closure can be due to several reasons.

### **Collateral**

Tangible assets used to secure a lease or loan.

### **Company-Owned Outlet**

Company-owned locations are owned and operated by the franchisor and similar in most respects to a franchise location.

## **Continuous Training**

Ongoing training provided by the franchisor or an affiliate to a franchisee, which must participate in.

## **Conversion Franchise**

A franchise that was converted from an independent business to a franchise operation. There is usually a reduced franchise fee or other consideration paid to the business owner for converting to a franchise.

## **Conversion Franchisee**

A franchisee that once owned a similar business to the franchised business but converted the business to a franchise.

## **Conversion Franchising**

The strategy of adding new franchisees to a franchise network by converting an independent business to a franchise operation.

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## **D**

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## **Discount for Multiple Franchise Outlets**

A discount of subsequent franchise fees upon the agreement by the franchisee to

purchase and open additional franchises. May be offered at the beginning of the completed transaction, or during the term of the initial franchise agreement.

## **Distributorship**

A right granted by a manufacturer to sell a product to others. A distributorship is not a franchise. However, certain distributorship arrangements may qualify as a franchise or as a business opportunity requiring disclosure.

## **E**

### **Earnings Claim**

A representation by the franchisor pertaining to the revenues or earnings performance of the franchisees. Disclosing this information to a franchise candidate must conform to Item 19 of the FDD.

### **Earnings Claims**

The act by a franchisor of providing prospective franchisees historical sales, profits and/or earnings of its franchisee. Earnings claims without an accompanying Item 19 disclosure are considered a violation of franchising regulations.

## **EBITDA**

Earnings before interest, tax, depreciation and amortization. EBITDA is used to measure a company's operating performance and is utilized to evaluate company performance without including financing decisions, accounting decisions or tax considerations.

## **Entrepreneur**

A person who creates, operates or purchases a business.

## **Exclusive Territory**

An exclusive territory right gives you, as the franchisee, the right to that territory. The franchisor cannot locate another franchise or company location in that territory. The franchisor may sell certain products into an Exclusive Territory, but it must be disclosed in the FDD.

## **F**

### **Federal Trade Commission (FTC)**

An independent agency of the U.S. Government whose mission is: "Protecting consumers and competition by preventing anticompetitive, deceptive, and unfair business practices through

law enforcement, advocacy, and education without unduly burdening legitimate business activity.” The FTC promulgates franchise regulations, and which assists in the administration of franchising activities.

### **Field Representative**

An employee of the franchisor who is responsible for training and assisting franchisees, and auditing franchise operations in order to maintain compliance with franchise system standards.

### **Financial Performance Representation (FPR)**

Item 19 of the Franchise Disclosure Document that provides financial data about the franchise.

### **Footprint**

The layout of a location including placement of the fixtures, equipment and furniture.

### **Franchise**

A business in which the owner (franchisor) of a product, service or method obtains distribution and the use of a trademark through affiliated dealers (franchisees) and helps in such areas as operations, training,

marketing and managing in return for remuneration.

### **Franchise Agreement**

The written contracts that identifies the legal relationship between a franchisee and franchisor for the duration of the operating term. Can include ancillary agreements such as a Personal Guaranty, NDA and Non-Compete.

### **Franchise Attorney**

An attorney who specializes in, with specific knowledge of, laws, regulations and customs governing franchising.

### **Franchise Broker**

An outside salesperson or firm that assists with, for a fee or commission, the sale of franchises for a franchisor. Some franchise brokers refer to themselves as franchise consultants.

### **Franchise Default**

The failure to comply with a provision or clause in a franchise agreement. The action or inaction can trigger a default in which case the franchisee has several days to cure the default. Franchisee and franchisor may be subject to default.



## **Franchise Disclosure Document (“FDD”)**

A document required to be provided to a franchise candidate by the Federal Trade Commission (FTC) and certain states, fourteen calendar days prior to the prospective franchisee signing the franchise agreement or paying the franchisor money to buy the franchise. In the event the franchisor unilaterally changes the franchise agreement or related documents, the franchisor must allow the prospective franchisee seven calendar days to review the proposed changes. Negotiated changes do not require any additional review period. Negotiated changes do not require any additional review period. The FDD contains 23 items that describes various features of the franchise.

## **Franchise Fee**

The initial fee paid by the franchisee to the franchisor to obtain the franchise rights.

## **Franchise Filing State**

Ten states that require that the franchisor files with the Filing state their intent to offer

franchises for sale. A filing state does not require the submission or approval of the FDD.

## **Franchise Operations Manual**

The manual or set of manuals that instruct a franchisee on how to operate the franchised business and cover all aspects of the business, including franchise pre-opening activities, general business procedures and franchise practices and policies. The operations manual may consist of different manuals addressing such subjects as accounting, advertising, promotion and marketing.

## **Franchise Registration State**

Thirteen states that require that the FDD be submitted to the state, reviewed and registered before an offer to franchise may be presented from that state or to a resident of that state. Two states require registration of the FDD however the states do not require approval of the FDD.

## **Franchisee**

A person or company issued the right to operate a franchise.

## **Franchisee Advisory Council (FAC) or Franchisee Association**

A representative body comprised of franchisees that may advise and participate with the franchisor on decisions regarding franchisee complaints, disputes, franchisor operating policies and marketing programs. A FAC does not have the same independence which as a Franchisee Association which may be a legal entity that operates under rules independent and distinct from the franchisor.

## **Franchising**

A method of doing business where one company (the franchisor) grants another entity (the franchisee) the right to do business using the franchisor's name, business methods, trademarks and logos for a fee and continuous payments.

## **Franchisor**

A person or entity issuing or granting a franchise or license.

## **G**

## **Gray Marketing**

A franchisee may purchase using a key supplier and sell the

products under another business, or to another company.

## **Gross Sales**

Franchisee revenues before any adjustments, taxes or expenses are deducted.

## **H**

## **Home Based Franchise**

A franchised business operated out of the primary residence of the owner(s).

## **I**

## **Industry Specific Regulations**

Regulations that affect the specific area of operations of the franchise. An example would be regulations pertaining to healthcare franchises.

## **Initial Investment**

Presented in Item 7 of the FDD a table that presents the initial franchise fee and the minimum and maximum estimated total investment amount, including working capital, necessary to open and operate the franchise for approximately 90 days.

## **Initial Term**

The length of the initial term of the franchise agreement the franchisee is granted.

## **International Franchise Association (IFA)**

The international trade organization for franchisor and franchisees. Based in Washington D.C., the IFA requires a rigid code of ethics to be followed by member franchisors.

## **K**

## **Key Supplier**

The supplier that the franchisor has negotiated pricing or product availability and has products or services that are important to the operation of the franchise system

## **L**

## **Legal Name**

The legal entity that operates the franchise.

## **M**

## **Management Service Fees (MSF)**

Based on total turnover typically, these are fees paid to the franchisor.

## **Market Introduction Program**

Marketing plan that is necessary to launch the franchisees location.

## **Master Franchisee**

An individual or company having the exclusive rights to develop a territory and sell franchises in the same territory. The Master will typically take the same position as the franchisor in terms of training, support and responsibility. A Master will execute franchise agreements between themselves and unit franchisees. This concept is often referred to as sub-franchising and primarily utilized in international franchising.

## **Multi Unit Franchisee**

A franchisee who owns and operates multiple locations in the same system.

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## N

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### **Non-Compete Clause**

A clause in a contract that prohibits a person from entering the same line of business for a specific period. This will apply after a franchise agreement; an employment or termination agreement is signed.

### **Non-Disclosure Agreement (NDA)**

A contract that creates a confidential relationship between parties, meant to protect proprietary information or trade secrets.

### **Non-Renewals**

Occurs when a franchisee chooses to not exercise its franchise agreement renewal option for an additional term

### **Non-Solicitation Agreement**

A non-solicitation provision restrains a former franchisee or employee from soliciting a franchisor or other franchisee's employees or clients for a specific period.

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## O

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### **Operations Manual**

The manual which instruct a franchisee on how to operate the franchised business

### **Owners Equity or Equity**

The total value of a business after all debts have been paid. The simple calculation is assets minus liabilities equals owner's equity.

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## P

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### **Parent Company**

The company that the franchisor is operating under.

### **Pilot Operation**

The initial test of the franchise concept to see the pressures faced by franchisees in different areas.

### **Pro Forma**

A document that is a description of financial statements. It assumes levels of expenditure, assets and relies on historical data.

### **Product Format Franchise**

The right to sell a product that does not represent the products

that are sold. In product franchising, the product itself represents the franchise. For example, a car dealer, petroleum distributor, or soft drink bottler is a product or trade name franchise.

### **Profit & Loss (P&L) Projections**

Calculations which try to predict how soon a franchisee will see a ROI.

### **Projected New Franchised**

How many outlets the franchisor assumes will be opened in the next year.

### **Prospect**

Someone who has expressed interest in a specific brand and is in the discovery stages.

### **Protected Territory**

A defined territory granted to the franchisee in the franchise agreement. The franchisor agrees not to open another comparable or similar franchise or company owned operation within the franchisees protected territory. A Protected Territory does not provide the same protections to the franchisee as an Exclusive Territory.

### **Purchasing Cooperative**

An organizational structure utilized by a franchisor to maximize the buying power of the franchise supply chain. In a purchasing cooperative the franchisor and each franchisee are a shareholder and the purchasing cooperative is operated by a board of directors including franchisor and franchisee representatives.

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## **Q**

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### **Quality Control/Quality Assurance**

The policies and methods by which the franchisor enforces the rules of operation that were established in the franchise agreement and franchise operations manual. For example, most franchisors issue quality control audits to ensure franchises are operating in accordance with the contractual operating policies and procedures.

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## **R**

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### **Reacquired Franchise**

When the franchisor purchases or somehow acquires the franchise

rights back from an existing franchisee. The franchisor may re-franchise the outlet or operate it as a company location. A franchise may be reacquired for a variety of reasons.

## **Regional Development Agreement**

A franchise right to develop or sell franchises in a defined geographic area. A portion of the franchise fee is paid in advance for a certain number of franchise outlets.

## **Renewal**

At the end of the initial term, some franchisors allow you the potential to renew the franchise agreement for a fee.

## **Restrictions on Goods and Services**

Limitations on what the franchisee may sell or provide as a service from their franchise under the franchise brand.

## **Return on Investment (ROI)**

A standard measure of the profitability of an investment. The most common method for calculating ROI is to divide net profit by total assets. In a franchise investment, ROI is used

to calculate the return from an investment in a franchise. ROI can vary, depending on the size of the investment and franchise.

## **Royalty**

The royalty is the recurring fee paid to assist in the operation and development of the franchisor.

# **S**

## **Schedule to Open**

The agreement to open multiple franchise outlets according to a specified schedule.

## **Semi-Absentee Ownership**

The franchisor does not require full-time effort from the franchisee, and may be operated while the franchisee is involved in other ventures or with a full-time job.

## **Sherman Anti-Trust Act**

A federal law that makes it illegal to conspire or otherwise to restrain trade. Franchisees need to be diligent and franchise agreements must be drafted to avoid exclusive allocated territories or price fixing.

## **Signed But Not Opened**

A situation where the franchisee has signed an agreement and paid the initial fees, but the outlet is not yet within operations.

## **Single Unit Franchisee**

A franchisee who owns and operates a single location.

## **T**

### **Terminations**

When a franchise agreement is terminated by the franchisor and no longer operates.

### **Territory Fees**

Fees to either expand or initially purchase additional franchisee territory or options in which to operate a franchise.

### **Trade Name**

The name the brand is known by. Considered to be the most valuable franchise asset, creating brand recognition.

### **Trade Secret**

Knowledge in the possession of a company or entity that is commercially valuable, not generally known or readily ascertainable and maintained in

confidence by the trade secret owner or franchisor and by each franchisee to which the information is disclosed.

### **Transfers**

When one outlet is transferred to another franchisee or the franchisor/affiliate.

### **Turnkey**

A franchised location that's easy to launch and ready for immediate business because it's fully equipped and ready to operate when handed over to the franchisee.

### **Turnkey Financing**

Financing available to franchisees, structured so that opening the business is a convenient "turnkey" experience.

### **Tying**

When the franchisor requires that the franchisee must purchase one product as a condition to the sale of another. Tying may be legal or illegal, depending on if the products or comparable products used in the franchise operation can be acquired from other sources at a lower price.

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## V

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### **Veteran Discount**

Military veterans who have received an honourable discharge are eligible for franchise fee discounts.

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## W

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### **Working Capital**

The funds available for starting a business or for daily business operations.

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## Y

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### **Year First Franchised**

The year the franchise was first offered, either by this franchisor or its predecessor.