Glossary

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

Advertising Fee: A contribution paid by the franchisee into the franchise system's advertising fund for regional/national advertising campaigns. May be a flat fee or percentage of franchise sales typically paid on a monthly basis.

Area Developer: Rights granted to open a designated number of franchise units in a specific geographic area within a designated time frame.

Assignment: The sale of a franchise by one Franchisee (assignor) to another (assignee) is called an assignment. In most UFOC's, the Franchisor designates an assignment fee that must be paid by the original franchisee which is then used by the Franchisor to train and induct the new Franchisee.

B

B-2-B: An acronym for Business to Business. Used to describe a type of franchise, whereby a Franchisee offers products or services of use to other businesses – not to consumers.

B-2-C: An Acronym for Business to Consumer. Service to consumer franchises are similar to service to business franchises. The services are delivered to the client's home or you are providing services to individuals. This business similarly requires pro-active marketing.

Broker: A third-party salesperson who receives a fee or commission for the sale of a franchise on behalf of the franchisor.

Business Opportunity: A term used to describe a non-regulated business offering. Buyers should be beware that these offerings are not protected by UFOC compliance laws.

C

Capital Required: The amount of money a Franchisee will need to ramp up their franchise business during the start-up phase (average 3 to 15 months) to the point of producing a profit.

Company-Owned Units: Units (or territories) of a franchise that are owned by the Franchisor. Such units allow the Franchisor the ability to test new ideas and products without detriment to the overall operation of a particular franchise. Usually these units are required to contribute to an advertising fee or any such group expenses.

Conversion: Some franchisors offer entrepreneurs the opportunity to convert their existing independent business into a franchise.

Consumer-Driven: A term that is often applied to franchises that appeal only to consumers rather than businesses. Same as B2C, or Business to Consumer.

D

Disclosure Document: Also known as the Franchise Disclosure Document (FDD), a legal document all franchisors are required to provide to prospective franchisees by the Federal Trade Commission (FTC) outlining the franchisor’s history, financials, investment costs, contract obligations, and more.

Distributorship: A manufacturer or wholesaler grants permission to businesses and individuals to sell a range of products, usually within a protected territory. A distributorship arrangement does not normally qualify as a franchise.

E

Exclusive Territory: This is the region or area a Franchisee will have exclusive rights to operate within. It is generally defined and mapped in terms of targeted households or population.

F

FDD: An acronym for Franchise Disclosure Document — an extensive legal document that provides you with all you need to know about a particular franchise business, the franchisor, and the franchise agreement. Regulated by the FTC, the FDD contents must be disclosed to potential buyers before purchase.

Federal Trade Commission (FTC): The Federal agency in Washington, D.C. that regulates franchises.

Franchise: The legal rights (the surrounding marks, system, support, training, product or service) a Franchisee obtains from a Franchisor under a franchise agreement to operate within a designated contract period as their business.

Franchisee Advisory Council: The Franchise Agreement may provide for the formation of a Franchisee Advisory Council — with Franchisees assuming the role of assisting the Franchisor with certain group decisions.

Franchise Agreement: A contract between a franchisor and a franchisee in which the franchisor grants the franchisee certain rights to use the franchisor's marks and system in connection with a business to be independently owned and operated by the franchisee.

Franchisee: The person, partnership, or company who pays the Franchisor for the right to own and operate a business using the Franchisor's marks and system.

Franchise Fee: Often referred to as an initial franchise fee. This is a one-time, up-front payment by the Franchisee to the Franchisor for the rights to a franchise. This fee is due and paid once the Franchise

Agreement is signed, is generally non-refundable, and precedes final payments.

Franchise Validation: When investigating a franchise opportunity, a prospective franchisee should interview current and past franchisees, obtaining unfiltered opinions about the quality of the franchise system.

Franchisor: The creator of a franchise system. The party to a franchise agreement who grants prospective Franchisees the right to use the Franchisor's marks and system.

G

Goodwill: A term used to describe the value of trade already established in a particular business that is likely to continue to the benefit of the new business owner.

L

Liquidity: The total cash available to a franchise owner for business operation or living expenses.

M

Master Franchisee: Rights given to sub-franchise within a designated area for a portion of franchise and royalty fees.

Multi-Unit Franchise: A Franchisee that owns more than one unit. Multi-unit owners are often the strongest operators in a franchise system. A system with many multi-unit operators is one that is likely performing quite well.

Multiple Franchisors: Franchisors offering more than one franchise concept.

N

Net Worth: Your assets (i.e., the cash value of all you own) minus your liabilities (i.e., what you owe). Most franchise companies have minimum net worth requirements to prohibit buyers from overextending.

O

Offer: A verbal or written proposal to sell a franchise to a prospective Franchisee upon understood general terms and conditions.

Offering Circular: Used to be called the UFOC.

Opening: The time when a franchised unit first opens for business.

Operations Manual: The handbook a Franchisor provides to its Franchisees in printed or electronic form about the in-depth operations of the franchised business.

Owners: The individual owner(s) of a franchise that is a legal entity such as a corporation, general partnership, limited partnership, or limited liability company.

P

Predecessor: Any person from whom the Franchisor obtained most of its assets.

Public Figure: Any celebrity or well-known figure who endorses a franchise or whose name or image appears in the franchise name or symbol.

R

Registration states: Fifteen states require franchisors to register their FDDs with a state agency before they are legally allowed to sell franchises within that state. Find a list at FTC.gov.

Royalty Fee: Monthly payments made by the franchisee to the franchisor – typically a percentage of sales.

S

Simple Retail: Simple retail franchisees are typically found in a strip center. Often-single point operations. Simple retail franchisees typically start with you behind the counter providing a product or service to individuals. This type of cash and carry business is easy to build and attracts consumers but is limited by single location. Usually, open seven days a week.

Sophisticated Retail: These are bigger businesses with a different approach to sales. Rather than serving one customer at a time, your customers come to you seeking your advice or counsel before making a purchase. This requires more than high sales skills and the design includes developing marketing, referral, and advertising initiatives to attract new business. This type of business will be staff dependent.