



GLOSSARY OF FRANCHISE INDUSTRY TERMINOLOGY

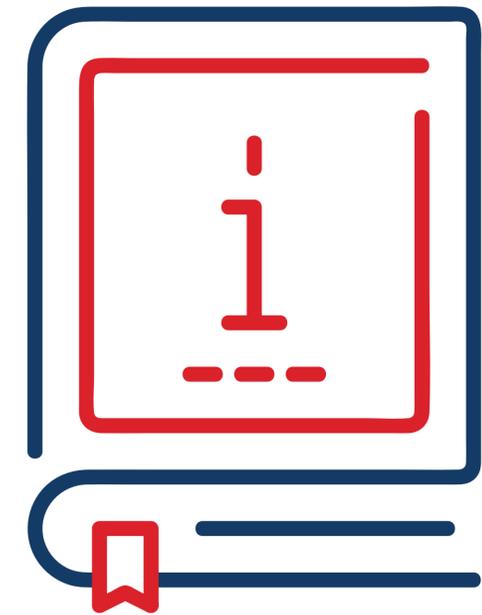
A VISA FRANCHISE GUIDE

Overview



At Visa Franchise, we have assisted countless clients from various countries worldwide in discovering and evaluating the most suitable franchise investments for themselves and their families. We understand that the franchise industry employs numerous terms specific to its domain.

Hence, in the following pages, we have compiled a comprehensive list of the most common words and terms used within the franchise industry, along with their respective definitions.



Key Terminology



1. Franchising: A method of business expansion characterized by a trademark license, payment of fees, and significant assistance and/or control.

2. Franchise: A license that describes the relationship between the franchisor and franchisee including use of trademarks, fees, support, and control.

3. Franchisor: The person or company that grants the franchisee the right to do business under their trademark or trade name.

4. Franchisee: The person or company that gets the right from the franchisor to do business under the franchisor's trademark or trade name.

5. Trademark: The marks, brand name and logo that identify a franchisor which is licensed to the franchisee.

6. Franchise Disclosure Document (FDD): A legal document which is presented to prospective buyers of franchises in the pre-sale disclosure process. It provides information about the franchisor and franchise system to the franchisee. Here are some main items that are included in this essential document:

- **Item 7:** The section in the Franchise Disclosure Document that requires franchisors to set out in a prescribed format a franchisee's estimated initial investment needed to start the franchise business. It is important for individuals looking to purchase a franchise to fully understand what Item 7 contains as it provides the low and high ranges of the investment size.

Key Terminology



- **Item 19:** The section in the Franchise Disclosure Document showing the financial performance representation. It includes any oral, written, or visual representation to a prospective franchisee (including a general dissemination in the media) that states or suggests a specific level or range of actual or potential sales, income, gross or net profits, or "break-even" figures. Note that not every franchisor provides Item 19 in their Franchise Disclosure Document.
- **Item 20:** A section of the Franchise Disclosure Document (FDD) that provides information about the historical and current franchise outlet numbers, closures, transfers, and other details related to the franchisor's growth and performance.

7. Franchise fee: The initial fee paid to a franchisor to become a franchisee, outlined in Item 5 of the Franchise Disclosure Document (FDD). For some franchises, this is a flat, one-size-fits-all fee while for others it varies based on territory size, experience, multi-unit / area developer commitments, or other factors.

8. Royalty: The regular payment made by the franchisee to the franchisor, usually based on a percentage of the franchisee's gross sales.

9. Startup Cost & Initial Investment: The total amount required to open the franchise, outlined in Item 7 of the FDD. This includes the franchise fee, along with other startup expenses such as real estate, equipment, supplies, business licenses and working capital.

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10. Working Capital: Working capital is the money needed to fund the day-to-day operations of the business. This can include paying bills, employee salaries, and miscellaneous expenses.

11. Advertising Fund (Ad-Fund): The regular payment made by the franchisee to the franchisor or dedicated advertising fund that is then used exclusively for brand level and local marketing initiatives. It is usually based on a percentage of the franchisee's gross sales.

12. Distributorship: The right granted by a manufacturer or wholesaler to sell their products.

13. Protected Territory: The "exclusive" portion of area based on a national, regional, county, postcode, or population basis, which is allocated to franchisees as part of the franchise package. This is granted by the franchisor

against the opening of company, franchisee, or other locations within the territory assigned to the franchisee.

14. Turnkey: A term used to describe a location which is provided to a franchisee fully equipped and ready to operate.

15. Franchise Agreement: It is the legal, written contract between the franchisor and franchisee which tells each party what each is supposed to do. A template of this agreement is usually included within the FDD.

16. Franchise Attorney: A legal professional specializing in franchise law who advises both franchisors and franchisees on legal matters related to franchise agreements, compliance, and dispute resolution.

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17. Licensing Agreement: A legal contract between a licensor (the owner of intellectual property or rights) and a licensee (the party granted permission to use the intellectual property) outlining the terms, conditions, and limitations of use, including payment terms, duration, and any restrictions or obligations.

18. Discovery Process: The series of steps taken by prospective franchisees to research and evaluate a franchise opportunity, typically involving initial inquiries, information gathering, attending discovery days, validation calls, and reviewing legal documents like the Franchise Disclosure Document (FDD).

20. Validation calls: Conversations between prospective franchisees and existing franchise owners aimed at verifying and understanding the franchise system's claims and operations.

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21.LLC (Limited Liability Company): A business structure that combines the limited liability protection of a corporation with the flexibility and tax benefits of a partnership.

22. Operating Agreement: A legal document outlining the rights, responsibilities, and operating procedures of a limited liability company (LLC) and its members.

23. EIN (Employer Identification Number): A unique nine-digit number assigned by the IRS to identify a business entity for tax purposes, similar to a social security number for individuals.

Key Terminology



24. Corporate Bank Account: A bank account specifically for business use, separate from personal finances, typically used by corporations and LLCs to manage financial transactions.

25. Business Plan: A comprehensive document outlining a company's objectives, strategies, market analysis, financial forecasts, and operational details to guide its growth and development.

The above list and definitions covers the most commonly used terminology in the franchising world. It helps to review and understand the terminology in order to better understand the existing franchise opportunities.

**IF YOU HAVE ADDITIONAL QUESTIONS,
FEEL FREE TO CONTACT YOUR CLIENT SERVICES ASSOCIATE!**

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