

Franchising – Glossary of Terms

BFA:	The British Franchise Association, which was established in 1978 with the aim of regulating franchising on an ethical basis, by granting membership to those franchisors that it considers, meets the demands of its Codes of Ethics and procedures.
Business Format:	The terms used to describe a franchise where the franchisee buys in to the total system of the brand, including the brand name, know-how, training, methodology, systems, procedures and ongoing product development.
Buy Back:	Where the franchisor agrees to purchase the franchise from a franchisee where the franchisee no longer wishes to continue.
Disclosure:	The practice of revealing detailed information about the franchisors business and franchise package, prior to the signing of the Franchise Agreement. This is a legal obligation in many European and North American countries, although only voluntary in the UK.
Exclusive Territory:	The area in which the franchisee will operate. It is exclusive in that the franchisor will not grant a licence for any other franchisee to operate within the territory or permit other franchisees to proactively target business outside their own territory.
Franchise Licence:	The right to operate a franchise using the franchisors brand name system of the brand, know-how, methodology, systems, and procedures for which an initial Licence fee is charged as well as ongoing fees.
Franchise Contract:	Often referred to as the Franchise Agreement, and sets out the terms under which the Franchise Licence is granted.
Franchise:	The business format being offered for sale under a Franchise Licence.
Franchisee	The person or company buying the Franchise.
Franchisor:	The person or company that sells the Franchise.
Franchise Package:	The sum of what the Franchisee is buying including costs and fees.
Intellectual Rights:	The franchisor's secrets of doing business including the various Trade Marks, Patents, Branding, Manuals etc.

Master Franchise:	A licence granted to an individual or company to operate in more than one territory. Often Master franchises are granted for a whole Country or Region.
Franchisor Management Fee:	Sometimes referred to as Royalty or Ongoing fees. These are the fees that the franchisee will pay the franchisor, normally monthly, and normally as either a fixed monthly amount or a percentage of the franchisees turnover.
Operations Manual:	The detailed document or manual, often referred to as “the bible”, which describes every aspect of how the franchisee should run their franchise business.
P&L Projections:	The calculations, based on the franchisors experience, which predicts the franchisees financial performance.
Pilot Operation:	A test undertaken by the franchisor of how a franchise would operate. The pilot is set-up in a separate geographic location and is run at arms distance from the franchisor to replicate how an independent franchisee would operate and perform.
Renewal:	The legal provision for granting another franchise term once the initial term has expired.
Re-sale:	Refers to the sale of a franchise, by a franchisee, to another person or company other than the franchisor.
Royalties:	Sometimes referred to as Franchisor Management Fees or Ongoing fees. These are the fees that the franchisee will pay the franchisor, normally monthly, and normally as either a fixed monthly amount or a percentage of the franchisees turnover.
Term:	Refers to the length of time the franchise is granted through the franchise agreement (normally 5 or 7 years).
Termination:	Is the legal provision by which either party may terminate the franchise agreement, often used when there is a breach in the franchise agreement terms.
Trading Act:	Known as the Trading Schemes Act (1996). This was introduced to combat the maligned practice of “pyramid selling”.