

# **Most Commonly Used Terms in Franchising**



### Total Revenue/Sales

Total or gross value of monthly revenue/sales for all products and services sold in each franchised unit (before deducting any expenses, commissions, Zakat, taxes, or accounts receivable).



### Trade Name

The trade name used by the franchisor to identify its business.



### Parties

Refers collectively to the franchisor and franchisee, and "Party" refers to either of them.



### Master Franchise

A foreign franchisor grants the right to a company or individual (master franchisee) in the Host Country to grant sub-franchise rights to qualified investors.



### Sub-Franchise

The master franchisee grants sub-franchises to qualified investors and supports them in establishing branch(es) or developing sub-areas in their country or territory.



### Direct Franchise

The franchisor grants franchise rights and provides direct ongoing support to franchisees in the same country.



### Multi-Unit Franchise

A franchisee obtains the right to establish one or more franchise units.



### Single Unit Franchise

Granting the right to establish and operate a single franchise branch.



### Franchise Package

The set of services provided by the franchisor to the franchisee including items like advertising, marketing materials, training equipment, stationery, printed materials, signage, boards, etc., to enable the franchisee to establish and operate the business in a specific geographical area.



### Franchise Association

An entity composed of a group of franchisors, service providers and sometimes franchisees. It is responsible for providing services to promote ethical and credible franchising, providing franchising educational materials, and representing the industry before governments, media, and the press.



### Copyright

The exclusive right to exploit works or publications containing know-how, patents, formulas and confidential procedures and information, whether in digital or printed formats.



### Intellectual Property Rights

Refer to copyrights, patents, discoveries, trade names, trademarks, service marks, website domain names, logos, architectural designs, brand identity designs, approved colors, work materials, packaging, uniforms, accumulated expertise, and know-how. This includes methods, techniques, procedures, means, management and operation applications, functional knowledge, products, trade secrets, composition secrets, component ingredients, standard recipes, along with the reputation of the business activity, whether available in writing, electronically, verbally, or by any other means.



### Franchise Development Rights in Host Country

The rights granted to the franchisee by the franchisor to establish and operate the business and use intellectual property rights and benefit from accumulated know-how and provide products and services in its units in a certain country.



### Expertise

The accumulated expertise gained by the franchisor from years of proven successful business practice and profitably managing business units using the franchisor's system of operations which is updated periodically to account for market changes, new technologies and customer requirements.



### Site Development Plan

The number of stores or units to be operated in the Host Country or territory during the franchise contract term.



### Operation Manual

The franchisor's work manuals, documents and confidential materials containing the information, templates, and requirements for establishing and operating the franchised business in the designated market.



### Country of Origin/Home Country/Domicile

The country where the business concept was developed by the franchisor, where all operating systems, products and services were tested, proven successful, enabling the franchisor to provide a successful business model to prospective franchisees.



### Host Country

The country identified by the franchisor for business expansion, granting an exclusive right to a qualified investor to establish the proven successful business model in the designated geographic area.



### Franchise Fees

The initial fees paid by the franchisee to the franchisor for the rights to use trademarks and receive franchise support package and associated rights.



### Master Franchise Fees

Fees paid by the master franchisee to the franchisor for the rights to: use intellectual property owned and protected by the franchisor; use expertise and know-how; obtain rights to sell products and services; and establish the successful business founded by the franchisor in the Host Country similarly to the business in the Home Country; and for the full utilization of market potential specified by the franchisor by providing franchise business opportunities to qualified, trained investors approved by the franchisor and fully supported by the master franchisee and franchisor. These fees include initial and ongoing training, equipment, goods, advertising programs, promotional programs, marketing materials and all other accompanying items for operating the business in the Host Country.



### License Fees

Fixed fees paid by the franchisee to the franchisor for the right to use intellectual property rights, expertise and know-how, market potential in the territory, and other costs borne by the franchisor. This payment is part of the franchise fees.



### Advertising Fees

Regular fees paid to the franchisor by the franchisee as a contribution to the cost of providing joint marketing support, advertising, and promotional programs, calculated as a percentage of the franchisee's total sales.



### Marketing Contribution Fees

Ongoing fees paid by the franchisee to the franchisor as a contribution to the cost of providing marketing support, advertising and promotion, calculated as a percentage of the franchisee's total sales.



### Store/Unit Opening Fees

Fees payable by the franchisee to the franchisor for opening each additional store/unit according to the franchise contract terms and conditions.



### Royalty/Administrative Service Fees/Franchise Support Fees/Franchise Package Fees

A percentage of total gross sales achieved by the franchisee's business payable to the franchisor in a specified and ongoing manner in return for the ongoing administrative and operational support provided by the franchisor during the franchise contract term.



### Offshore Company

The branch or subsidiary established by the franchisor in a territory or country different from the Home Country in order to gain the maximum operational and financial advantages. This is achieved by managing and supporting franchisees in a geographically closer location.



### Wholly Owned Subsidiary

A wholly owned subsidiary established by an international franchisor in the Host Country to grant local franchise rights.



### Area Development Franchise Contract

A contract whereby the franchisee is required to establish and operate multiple franchise unit in a designated geographical area.



### Franchise Contract

The contract concluded between the franchisor and franchisee that specifies the terms governing their business relationship.



### Partnership Contract

A contract whereby a foreign franchisor company partners with a local company, entrepreneur, or governmental entity to develop the business in that country.



### Brand

The distinctive name or symbol used to differentiate a particular business, product or service from others, which can only be used under permission or license from its owner.



### Affiliates

Any entity or person that directly or indirectly owns or controls 50% or more of the shares and voting rights entitled to make decisions in the franchisor or franchisee company.



### Franchisor

The parent company that owns the product or service, conceived and developed the business idea in its country, established a number of successful units and customer base nationally and internationally by marketing the franchise seeking to expand the business network globally.



### International Franchisor

A franchisor who has expanded its business outside the Home Country through direct franchising.



### Local Franchisor

A franchisor who has established its business in a certain country or territory, and directly grants franchise rights to franchisees, while providing training and ongoing support to them in the same country or territory.



### Unit(s)

(Store - Showroom - Site - Unit - Shop)

The premises established by the franchisee under the franchise contract are used to prepare, equip, display and sell products and services, utilizing the intellectual property rights and know-how as specified in the operation manual.



### Franchisee Advisory Board

A group of franchisees who form a board amongst themselves and meet with the franchisor to discuss corporate policies and operational issues.



### Term

The term of the franchise contract.



### Know-how

The accumulated expertise developed by the franchisor. This includes the comprehensive methods, techniques, processes, procedures and applications for business management and operation. Encompassing functional and product knowledge, trade secrets and formulas, equipment specifications, unit decorations and fixtures. Quality control and assurance programs, training aids, product supply sources, initial and annual marketing, advertising, recordkeeping, accounting, financial planning, administrative procedures, performance, and sales analysis are all documented in the operation manual and other bulletins. This information is available in writing, electronically, verbally, or by any other means for day-to-day operations.



### Confidential Information

Information disclosed by the franchisor, any of its affiliates, or any third party on its behalf to the franchisee and its affiliates (whether in writing, verbal, electronic or any other form, and whether directly or indirectly) including any information related to the franchisor's products, operations, plans, work procedures, know-how, design rights, trade secrets, market opportunities, business affairs, work system and operation manuals.



### Good Standing and Reputation

Ability of the franchisee and its affiliates to comply with all terms and conditions of the franchise contract, operation manual, and pay the amounts owed on time to the franchisor and/or its affiliates.



### Franchisee

Any person or company willing to pay the franchisor for expertise and know-how required to operate the business systems and for ongoing support.



### Master Franchisee

The person, company, or group that, after vetting and verification of qualifications by the franchisor, has obtained the master franchise rights in a particular country or territory. as a result, they have the authority to establish owned units as well as grant sub-franchises to qualified, trained investors this is done with the aim of maximizing the potential and capabilities for expansion within the franchise territory.



### Proprietary Products

Products considered part of the franchisor's business that are supplied and delivered directly to the franchisee by the franchisor or through approved suppliers.



### Approved Products

The set of goods or products authorized by the franchisor to be prepared and sold at the franchisee's premises, subject to modifications, substitutions, enhancements, or additions made by the franchisor from time to time at its discretion.



### Store/Unit Opening Approval

A separate approval specific to each store/unit signed by the franchisor and franchisee to open and operate or renew the operating permit for the store/unit in the franchise territory.



### Nominated Suppliers

Suppliers or manufacturers and/or service providers selected by the franchisor to supply products to the franchisee in order to meet the quality standards and specifications set by the franchisor.



### Approved Site

The physical location approved in writing by the franchisor for establishing a franchisee's premises.



### Franchise Model

The process of granting or licensing certain intellectual property rights and obtaining tangible and intangible benefits in return for specific ongoing payments.



### Disclosure Document

A document containing information about the franchisor company and its operating and legal history, nature of business, and recent financial statements.