

FRANCHISE ALERT #: 23 Franchise Jargon

What is a franchise?

This question is answered in [Franchise Alert #22](#).

The following are explanations of common franchise industry jargon.

Franchisee: This is the person or business entity that owns and operates a local franchise.

Common abbreviation: **Zee**

Franchisor: This is the term used for the company that franchises its brand. “Franchisor” refers to the business entity that owns the brand, its intellectual property, its business format, provides training and support, awards territory, collects royalties, and provides a Franchise Disclosure Document to each prospective franchisee.

Common abbreviation: **Zor**

Franchise Candidate: This is the term for a prospective franchisee. This person is guided through the discovery process by someone in franchise development.

Franchise Developer: This is a (sales) person explaining the brand and what it offers to the candidate. A franchise developer guides a franchise candidate through the discovery process and helps qualify the candidate for the opportunity. Expect the developer to cover topics such as marketing, operations, training, support, and technology. The developer also provides the Franchise Disclosure Document to candidates, reviews it with them and answers any questions about it.

Discovery Process: This is a multi-week educational evaluation process that allows both the franchise candidate and the franchise development representative to get to know each other. During this, the parties are gathering information about what each brings to the table.

This is the same as the **“franchise granting process.”** Note that franchises are **“awarded”** to people who qualify for the opportunity.

Franchise Disclosure Document: This is a “pre-sale” disclosure document each franchise is required by the **Federal Trade Commission (FTC)** to provide to every franchise candidate. Franchisors update their FDDs annually.





Each franchise's FDD contains the same 23 sections called "Items." The Items cover a variety of topics: financial information about the franchisor; costs, royalties and fees associated with owning a franchise; any lawsuits the franchise has been involved in; the franchise agreement; list of current franchisees; list of any franchisees who exited the system in the past year; and so forth. Our next Alert will cover this in more detail.

Common abbreviation: **FDD**

The franchise developer provides the FDD to franchise candidates during the discovery process. An important part of a franchise developer's role is to review FDDs with franchise candidates and answer their questions about them.

Validation: This is a key part of the discovery process. Once a candidate understands what the brand involves and how it works, he or she is invited to talk with current franchisees. The purpose of validation is to confirm what the candidate has heard about the franchise during the discovery process. Who better to speak with candidates than franchisees who have firsthand experience about what it's like to be an owner?

All franchisees and their contact information are listed in the FDD. However, many franchises arrange scheduled weekly validation calls on a regular basis. This allows candidates easy access to owners and avoids phone tag. This is convenient for both the franchisees and the candidates.

Be aware that franchisees are volunteering their time. There is no script they use. Actually, franchisees don't have to share anything with a candidate who contacts him or her. This is where scheduled weekly calls work well for everyone. Any number of candidates can be on a group validation call with one franchisee. The franchisee can volunteer to do an hour group meeting and handle questions from 10 candidates at once. Otherwise, that franchisee may be contacted by 10 individual candidates all asking for an hour of his/her time.

It is during validation calls that candidates can ask financial related questions and gather important information a franchisor may not be legally allowed to share, like "earnings claims" or how much potential money can be made from the business.

It is strongly recommended to gather financial information from a variety of franchisees. It is to be expected that their individual financial performance will vary. Not everyone has the same goals, abilities, interests, skills, or motivation.

It is expected that there is no variation when it comes to validating the franchisor and what is provided in terms of training, support, systems, the business format and other verticals within the system.

Franchise Agreement: This is a legally binding contract between a franchisor and a franchisee. It spells out the territory, the terms of the agreement, and the responsibilities of both parties.





NEXT STEP - 3 Options:

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3. Stay in touch and be informed by engaging on social media to get the latest news on what's hot in franchising and learn what you need to know about franchises.
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It's my pleasure to provide insightful explanations about [franchise vocabulary](#) to you!



Anna Wilds, CFE
Certified Franchise Executive
Franchise Economist and Elite Franchise Advisor

Learn. Launch. Live Your Dreams.



anna@selectfranchises.com



706-736-0579



www.howtoselectfranchises.com



@annawilds