

- (a) Unit franchising – In unit franchising Franchisor grants Franchisee the right to establish and operate the Franchise Business at a single defined location. Franchisor and Franchisee enter into a unit franchise agreement which defines their respective rights and obligations regarding the development and operation of the Franchise Business. Unit franchising is the most prevalent form of business format franchising, because it gives Franchisor maximum flexibility and control over the growth of the franchise system. For a more detailed analysis of “Unit franchising” please see the following heading “VARIATIONS OF UNIT FRANCHISING”.
- (b) Area development franchising – Area development franchising is a natural extension of unit franchising, in which Franchisor grants Franchisee the right to establish and operate the Franchise Business at several locations within a defined area such as a city, county, or larger demographic region. Franchisor and Franchisee (usually called an "area developer") enter into an area development agreement which schedules the opening of each outlet and defines the parties' respective rights and obligations regarding the development and operation of each outlet. Often the area development agreement deals only with the expansion aspects of the franchise, the location, construction and operation of each outlet being governed by a separate unit franchise agreement.
- (c) Master Franchising and Subfranchising – In Master Franchising Franchisor enters into a “master franchise agreement” with another person (“Subfranchisor”) by which the Subfranchisor has the right to grant unit franchises to others (“Subfranchisees”) within a defined territory, for the Subfranchisor's own account. The Master Franchise Agreement requires the Subfranchisor to grant unit franchises within the territory in accordance with an agreed development schedule, and to service each such franchise. The Subfranchisor then grants the unit franchises to its Subfranchisees by entering into separate unit franchise agreements with each. Thus Master Franchising is a three-tiered arrangement, involving a contractual relationship between Franchisor and Subfranchisor governing the development of the territory, and a wholly-separate contractual relationship between Subfranchisor and Subfranchisee governing the Subfranchisee’s Franchised Business.

It is possible to structure a franchise arrangement which combines different elements of the three subcategories of business format franchise. For example, Franchisor may permit the Subfranchisor to develop and operate its own outlets, thereby hybridizing subfranchising and unit franchising. Other interesting hybrids are possible.