

- (a) Area representation franchising - In area representation franchising Franchisor retains the services of another person (the "area representative") to solicit prospective Franchisees within a defined area, and to perform some or all of Franchisor's obligations to Franchisees within that area. In return the area representative shares in Franchisor's revenue stream from these Franchisees. The area representative has no authority to grant franchises (either for its own or for Franchisor's account): it functions merely as Franchisor's "headhunter" and servicing representative for the area.
- (b) Affiliation (Conversion) franchising – There are several types of Affiliation (or Conversion) franchising. The first type involves the sale of an existing Franchisor-owned outlet coupled with the grant of a unit franchise to the buyer of the outlet (this is sometimes called "branching"). A second type of Affiliation franchising involves the assimilation of an existing independent business outlet into a pre-existing franchise network which carries on the same type of business. This type of Affiliation franchising is very common in regulated sectors such as real estate and insurance brokerage, pharmacies, optical outlets, travel agency and financial services, and in capital intensive sectors such as lodging. A third type of Affiliation franchising involves a loosely-affiliated group of independent merchants organizing themselves into a tightly-integrated franchise network by operating under a common banner and uniform image. This type of affiliation franchising is usually motivated by a need to become more competitive by creating a higher profile and capitalizing on the many synergies offered by franchising. Yet another type of Affiliation franchising involves the assimilation into a franchise network of an entire complementary or competing franchise network.
- (c) Joint venture franchising - In joint venture franchising Franchisor and Franchisee establish a joint venture vehicle (corporation, limited partnership, trust, etc.), and Franchisor then grants a unit franchise, area development franchise or Subfranchise to the joint venture vehicle. Joint venture franchising is most often used in international franchise expansion, Franchisor partnering with a local resident in the target country. The primary advantages to joint venture franchising for Franchisor are a higher potential for profit and greater control over the business outlets and in international expansion the ability to partner with someone who is intimately familiar with the laws, customs, economy and practices of the target country. The primary advantages for the joint venture partner are a greater commitment by Franchisor and a sharing of the risks, because Franchisor has "put its money on the line".
- (d) Combination franchising - Combination franchising (often called "co-branding" or "twinning") involves the operation of two or more distinct and complementary franchise systems in physical or functional conjunction, thereby combining under one roof the synergies of the two different franchise systems. For example a franchised hotel network may be combined synergistically with a franchised fast food restaurant network to provide enhanced product and service mixes to

customers, maximize operating efficiency, and permit units of both systems to be developed at prime site locations, all on a shared-cost basis. Combination franchising usually involves the physical installation of an outlet of one of the franchise systems (the "tenant system") into an outlet of the complementary franchise system (the "host system"), giving rise to four possibilities:

- (i) Host and tenant Franchisors joint venture outlets featuring both systems.
- (ii) A host Franchisor becomes a tenant Franchisee, as well, by operating a tenant system outlet within one or more of its company-owned host outlets.
- (iii) A host Franchisee becomes a tenant Franchisee, as well, by operating a tenant system outlet within its franchised host outlet.
- (iv) A host Franchisee and a separate tenant Franchisee operate their franchised outlets in physical conjunction

These relationships can create many thorny problems, for example:

In case (i), what if one of Franchisors wants to introduce a substantial system change? In case (ii), what if the host Franchisor wants to convert its host outlet to a franchise? In case (iii), what if the host Franchisee wants to transfer its host franchise? In case (iv), what if the host franchise is terminated?