

Agency and franchising



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Main objective of any business is profit making which it derives by making its products and services available to people. Hence, the core business strategy of any business heavily relies on the fact that its products and services meet the needs and requirements of the people at large. According to McGoldrick, 'The customers and their needs should play a central role in all business activities' (McGoldrick, 2002). In the present market scenario a more aggressive approach to market its goods and services need to be adopted to meet the challenges of the changing time, making the concept of retailing as a major business strategy has become extremely popular and cost effective. Two types of retail business format are popular; agency and franchising. Agency or an agent can be broadly described as a person with an authority to represent another person, persons or corporation (called the Principal) (Brillinger, p214). The agent therefore, represents the principal in all the commercial transactions. It is important to understand that as the agent represents the principal, the principal, by default, becomes liable for all the acts of omission and commission of the agent. Even when the agent's appointment may have pre-defined authority as given by the principal, the principal becomes responsible for all the leverages taken by the agent while conducting business on his behalf. The goods and services sold by the agent are owned by the principal, he is just the intermediary who acts on behalf of the owner of the goods and services. 'By virtue of an agency, the seller contracts directly with the customer, who is seller's customer, not that of agent' (Ishani, 2007).

The franchising is 'a marketing system revolving around a two-party legal agreement, whereby the franchisee conducts business according to the terms specified by the franchisor' (Longenecker, chapter 3). The process of '

franchising', therefore, has become popular in the emerging economy which presents wide scope for the parties, franchisee and the franchisor. The franchising format of business primarily comprises of licensing another person to run the business in a pre-determined format.

The franchisor is able to expand his business and spread them in wider areas of operation in a relatively short time and with reduced capital cost. By facilitating goods and services to the franchisee, the franchisor is relieved of the pressures of day today operation and at the same time, he is able to control the appearance and operation of the franchisee outlets as per his standards, thereby help maintain the credibility and high standard of his brands. Though the profit margins are considerably reduced but the widening network of franchisee, selected judiciously, help increase the overall profit with considerably less stress.

The franchisee is able to start business with a relatively small initial investment that has prospects of good return with immediate effects. He is able to establish and operate a well established business in a new area where the whole marketing system inputs and guidelines are provided by the franchisor on a continuous basis. The recurrent training and proven marketing strategies provided by the franchisor boost the confidence of the franchisee and help him to expand his business significantly. The main limitations are the loss of independence in running the business as one wants and restriction in the operational area comprising mainly of the goods and services that can be sold in specific areas.

Reference

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