exceed $100,000 and the maximum period over which a loan can be repaid is 10 years with installments paid at least annually.

The interest rate on SBLA loans is set at one percent more than the prime lending rate of the chartered banks and fluctuates with changes in the prime lending rates for the duration of the loan.

Loans can be made to business enterprises engaged in, or to be engaged in, manufacturing, wholesale or retail trade, construction, transportation, communication and the provision of service.

Small business engaged in finance or the business of a profession and non-profit making organisations are not eligible for loans.

The FBDB assists in the establishment and development of business enterprises in Canada by proyiding them with financial and management services. It supplements such services available from other sources, and gives particular attention to the requirements of smaller enterprises.

It extends financial assistance to new and existing enterprises of almost any type that do not have other sources of financing available to them on reasonable terms and conditions.

There are two main qualifications for FBDB financing. The amount and character of investment in a business by persons other than FBDB may reasonably be expected to ensure the continuing committment of these persons to the business and that the business may reasonably be expected to prove successful.

Financing is available by means of loans, loan guarantees, equity financing, leasing or by any combination of these methods in whatever manner best suits the particular needs of the business.

Where loans are involved, they are made at interest rates which are in line with those generally available to businesses. Security is usually a first charge on fixed assets.

Most of the customers of the bank use loans to acquire land, buildings and equipment although some use them to strengthen working capital or establish new businesses.

The loans are usually repaid by means of monthly installments of principal and interest, although other arrangements may be considered if the particular needs of the business make them appropriate. Most loans are repaid within 10 years.

The management services offered by the bank include counseling, training and information services.

The counseling service assists small businesses to improve their method of doing business and overcome problems. Management training service is provided to improve managerial performance and assistance is given on the availability of programs of assistance to small business sponsored by the Federal Government and other organisations through the information service. ■

Franchising: To Buy or Not to Buy

By Albert Gadbois

Although modern franchising dates back to the post Civil War economy when the Singer Sewing Machine Company introduced an innovative manufacturer/retailer system, some writers will debate that franchising had its earliest roots in Queen Isabella's granting Christopher Columbus the exclusive right to discover trade routes to the east.

Origins notwithstanding, its impact on marketing was not, however, felt seriously until the advent of the automobile. Soon afterwards, petroleum companies and soft drink bottlers launched their corporate empires. In the food industry, Howard Johnson's and A & W Root Beer used the franchising format as early as the 1920s but widespread emulation was not realized until nearly 30 years later with the appearance of Kentucky Fried Chicken and later, McDonald's. The original group of franchises were of the traditional type (vertical franchising) existing mainly as an alternate distribution channel for manufacturers.

The franchisee was licensed within a set territory to sell the franchisor's manufactured product under a particular trade name or trademark. The latter group represents a new service-oriented type of franchising, generally referred to as business format franchise (horizontal franchising). In addition to the use of a trade name, standard methods for the successful operation of a retail until are prescribed.

Today, franchising can be found in all walks of life and, in both the U.S. and Canada, it accounts for over one-third of total retail sales. There are more than 2,000 known franchisors in the U.S. and 350 in Canada, the latter operating a total of about 20,000 points of sales. The traditional type of franchise, dominated by the automotive and gasoline industries, still represents nearly 80 per cent of total franchise retail sales.

However, business format franchises have experienced the major growth and have achieved the highest profile in recent years. Franchised restaurant chains are the most popular sector, capturing a 40 per cent share of total industry sales. For this reason, the article will focus on the business format franchise and attempt to explain why this type of franchise in particular has been so popular and successful.

Rapid expansion

The development and widespread acceptance of the business format franchise system is based on the premise that it offers advantages to both the franchisor and the franchisee. For the franchisor, it enables quick expansion by limiting capital requirements and manpower problems when compared to a chain store type of operation, as these are borne by the franchisee. In addition, it allows royalty collections on sales that might otherwise be lost to competitors if expansion didn't occur quickly enough.

For the franchisee, a franchise provides the opportunity to get into business without having to face all the risks inherent in starting from scratch even though skills or experience might be lacking. Start-up services, such as site selection and training will be provided along with a variety of continuing services that could not, in all likelihood, be afforded.

For this, an initial franchise fee and ongoing royalty based on a set percentage of sales will be paid. Could this type of arrangement represent the perfect business relationship where the position of each party is enhanced?

There is no definite method of measuring the success of franchising from the franchisee's point of view although it is widely accepted that the acquisition of a franchise reduces the risk of going into business. Industry representatives are quick to compare the failure rate of franchisees, estimated at 10 per cent, with statistics supplied by Dun & Bradstreet reporting a 60 per cent failure rate within the first five years of existence among new businesses. They go on to conclude that the purchase of a franchise better than doubles the chances of survival of a new venture.

This conclusion, however, is questionable.

Firstly, the reported number of failures among franchisees is not supplied by any independent source, but by the franchisors themselves who have different definitions of what constitutes a failure.

Secondly, many franchisors might take over a troubled outlet before it closes, thereby creating further distortion in reported statistics.

Thirdly, franchise holders, in most cases, have been screened by the franchisor.

Consequently, one can assume that only the ones showing better managerial abilities and financial strength would have been retained. Since incompetence and under-capitalization are recognized as