

## Will My Business Fail?

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We are all aware of the increased dangers of doing business in the present environment. Particularly for smaller businesses, where there aren't the buffers that come with scale, the risks are forcing some to an early demise.

There is little good statistic-based research available. But what reliable signs are there that a business is heading for failure, and what are the myths?

Myth #1: One Man Businesses are the Biggest Risk.

It's likely we all assume that the one-man band is the highest risk. However, they're actually fairly lean – low overheads, plenty of flexibility & no employees to pay. In fact, the greatest level of failure is for businesses between 2 – 6 employees.

Myth #2: Most Businesses Fail in the First Year.

The commonly held belief is that year one is the most littered with failures. In fact, few businesses fail in the first year or the second year. This is backed up by studies in other countries. Years 3 – 8 account for 60% of business failures.

We suggest this is due to:

1. A deferment of tax for a start-up business.
2. Time delays in the legal process via which debts can be recovered.
3. The cash used to start most businesses either from borrowings or savings taking at least a year or two to work through the business.
4. Ego or pride. Small business owners often know when there are major problems but they press on regardless, unable to make the tough decisions.
5. Lack of financial monitoring.

### The Facts

The Government Careers website tells us that accommodation, cafes & restaurants, & communication services have the highest failure rates because of the competitive nature of these industries

- 69% of businesses started up in 2001 survived at least 2 years.
- 52% of businesses begun in 2001 were still operating in 2005.

Small businesses in finance & insurance, mining & electricity, gas & water supply have higher survival rates.

It also stresses the point that small business owners with a set business plan have the best chances of making their business work. They tend to:

- Research & develop their business plan thoroughly before setting up
- Keep a simple core business strategy & stick to it
- Set up effective & efficient processes in their business so things run smoothly & consistently
- Have a back-up plan with a strategy in place & ready to action in case the business hits turbulent times.
- Understand how to promote & market their businesses cost effectively
- Understand how to manage cash flow

### Look For These Problem

#### 1. Business Started for Unrealistic Reasons

Did starting your own business mean that you would make a lot of money? Spend more time with your family? Be your own boss? If so, you may have already found these don't always come about.

However you are more likely to make it if you can satisfy these requirements:

- You have a passion or skill, & strongly believe – based on educated study & investigation & in the face of outspoken pessimists – that your product/service fills a real need in the marketplace.
- Physical fitness & mental stamina.
- You have drive, determination, patience & a positive attitude. When others are negative, you are more determined than ever.
- Failures don't defeat you. You learn fast from your mistakes, & use these lessons to succeed the next time around.
- You thrive on independence, & are skilled at taking charge when a creative or intelligent solution is needed. This is especially important when under strict time constraints.
- You like – if not love – your fellow man, & show this in your honesty, integrity, & interactions with others. You get along with & can deal with all different types of individuals.

## 2. Poor Management

You lack the relevant business & management expertise in areas such as finance, purchasing, selling, production & hiring & managing employees.

Neglect can also be a business's downfall. Regularly study, organise, plan & control all activities of the operation. This includes the continuing collection & study of market research & customer data.

You hire the wrong people because you don't know on what basis you should be hiring them.

## 3. Insufficient Capital

A common fatal mistake for many failed businesses is having insufficient capital & cash flow. Business owners often have an unrealistic expectation of incoming revenues from sales.

## 4. Location, Location, Location

Whereas a good location may enable a struggling business to ultimately survive & thrive, a bad location could spell disaster to even the best managed enterprise.

## 5. Lack of Planning

Most small businesses fail because of fundamental shortcomings in their business planning or they simply do not plan! A business plan must be realistic & based on accurate, current information & educated projections for the future.

## 6. Not Having Cash in the Right Place at the Right Time

Cash is more often than not the reason why so many businesses fail. The old adage 'cash is king' rings true here. Profits can't be spent until they are collected & many business owners neglect to pay careful attention to this detail as they simply don't like doing it. Collect your debts.

## 7. Overexpansion

A major cause of business failure, overexpansion, often happens when business owners confuse success with how fast they can expand their business. A focus on slow & steady growth is best.

If expansion is warranted after careful review, identify what & who you need to add in order for your business to grow. With the right systems & people in place you can focus on the growth of your business, not on doing everything in it yourself. Make sure you relinquish the correct roles & leave yourself with the things you are most effective at.

## 8. No Website

Simply put, if you have a business today, you need a website. Period. At the very least, every business should have a professional looking website that enables users to easily find out about your business & how to avail themselves of your products/services. Later, additional ways to generate revenue on the website can be added; selling ad space, drop shipping products, or recommending affiliate products.

If you don't have a website, you'll very likely be losing business to those that do. And make sure that the website makes your business look good, not bad – you want to increase revenues, not decrease them.

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