TEN COMMON REASONS FOR BUSINESS FAILURES.

It is generally accepted that only one out of five companies starting up today will be with us five years from now. Detailed investigation of small business failures illustrates notable consistency in the causes of those failures.

Let's consider the ten most common reasons for small business failures:

1.) Failure to Plan

A builder would not construct a building without a plan. That plan consists of every step from the digging of the foundation to the electrical, plumbing, framing, carpentry aspects right up to shingling the roof. Similarly, you should not consider building a business without a Business Plan. Expressed another way, "Fail to Plan and Plan to Fail."

2.) Failure to evaluate realistically.

Many new business owners start out with the misguided assumption that the world will beat a path to its door the day they open for business. There appears to be a tendency to overestimate their own strengths while underestimating their competitors. Similarly, many people underestimate or totally ignore their own weaknesses while painting exaggerated or blatantly unrealistic pictures of their competitor's shortcomings. Don't ever underestimate the ability of a competitor.

3.) Failure to re-align goals.

Many businesspeople that took the time and effort to prepare a business plan, often lose track of its purpose and intent and it ends up in the back of the top drawer. A business plan is a living, breathing document. As such, it should be a valuable tool of management as it meets the daily uncertainties of business head on.

4.) Absence of the businessperson's personal reality checks.

Too many businesspeople make decisions based on supposition rather than fact. A common cause of business failures is no or poor accounting records. Money in a bank account does not mean that the business is profitable. The use of timely and accurate financial reporting is only one management tool that is regularly overlooked in businesses that fail. Most businesses that failed also neglected to monitor their suppliers, customers and competitors as well.

5.) Failure to expect the unexpected.

Key personnel die, retire or quit. Interest rates rise unexpectedly. Buildings burn down. A supplier goes bankrupt six weeks before your Christmas rush or three new competitors announce their openings this month. Yes, life is full of uncertainty. However, a major change in the business's working environment requires immediate attention and a correcting change in direction. Businesses that failed generally demonstrated their unwillingness or inability to adapt to their circumstances. Like the dinosaur, a business that can not adapt to change will become extinct too.

6.) Marital problems of the Principals.

Listed as one of the singular highest causes of both personal and business bankruptcies in Canada, marital problems are often exacerbated by the long hours and emotional strain of running a business. There's an old saying that supposedly justifies the long hours of being self-employed by stating, "You have to make hay while the sun shines." However, there's an equally valid axiom that states, "There's no sense making hay while the barn is burning down at home."

7.) Failure to monitor goals of the business plan.

Reviewing your success in achieving your goals can be an emotionally and financially rewarding exercise. Alternatively, it has been consistently observed in businesses that failed that routine monitoring was not carried out. If it had been, the minor variances and problems that contributed to and hastened the failure would have been recognized earlier and addressed in a timely fashion.

8.) Failure to commit sufficient personal capital.

Contrary to common belief, banks are not in the business of risk taking. Banks are in the business of risk analysis and opportunity sharing! Most financial institutions place a great deal of importance on the investment (or equity participation) of the owners. Therefore, when owners demonstrate their lack of confidence in the business by refusing to invest in a new or expanding business, financial institutions often respond in kind and refuse to loan money to that business. This immediately restricts the ability of the business to operate, acquire fixed assets or purchase inventory and consumables.

This common problem is compounded by the fact that when many new businesses write their plan, they typically overestimate the revenue and underestimate the costs and the length of time needed to get established. The bitter fruit of this reality is that they simply run out of money before they are able to generate their own surplus funds. There is an old adage when going on vacation that says, "Take fewer clothes and more money." This holds equally true when embarking on the trek of starting a business.

9.) Failure to commit sufficient time.

A London, Ontario professor known for counselling new entrepreneurs glibly commented, "Many people start up a business with the illusion that they only have to work half days to be successful. They may be right. Now they only have to figure out what to do with the remaining twelve hours."

10.) Lack of business experience/knowledge.

A trait observed amongst successful businesspeople is their strong reliance upon and the close relationships they build with their business advisors, namely, their lawyer, accountant, banker, insurance broker and safety consultant. It appears in general that the higher the level of business training/experience, the greater the tendency to call upon experts for their opinions and counsel. Conversely, a common trait witnessed in business people whose business failed is a "go-it-alone" attitude coupled with a basic lack of business knowledge and the absence of resources to whom they could ask for or receive help on a day-to-day basis.