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Business Start-Up

The Seven Pitfalls of Business Failure and How to Avoid Them

by Patricia Schaefer

The latest statistics from the Small Business Administration (SBA) show that "two-thirds of new employer establishments survive at lease two years, and 44 percent survive at least four years." This is a far cry from the previous long-held belief that 50 percent of businesses fail in the first year and 95 percent fail within five years.

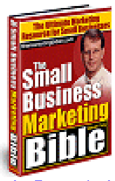
Brian Head, Economist with the SBA Office of Advocacy, noted that the latest statistics are a much more accurate assessment of new business success rates, and that "as a general rule of thumb, new employer businesses have a 50/50 chance of surviving for five years or more."

Better success rates notwithstanding, a significant percentage of new businesses do fail. Expert opinions abound about what a business owner should and shouldn't do to keep a new business afloat in the perilous waters of the entrepreneurial sea. There are, however, key factors that -- if not avoided -- will be certain to weigh down a business and possibly sink it forevermore.

1. You start your business for the wrong reasons.
Would the sole reason you would be starting your own business be that you would want to make a lot of money? Do you think that if you had your own business that you'd have more time with your family? Or maybe that you wouldn't have to answer to anyone else? If so, you'd better think again.

On the other hand, if you start your business for these reasons, you'll have a better chance at entrepreneurial success:

- You have a passion and love for what you'll be doing, and strongly believe -- based on educated study and investigation -- that your product or service would fulfill a real need in the



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- You are physically fit and possess the needed mental stamina to withstand potential challenges. Often overlooked, less-than-robust health has been responsible for more than a few bankruptcies.
- You have drive, determination, patience and a positive attitude. When others throw in the towel, you are more determined than ever.
- Failures don't defeat you. You learn from your mistakes, and use these lessons to succeed the next time around. Head, SBA economist, noted that studies of successful business owners showed they attributed much of their success to "building on earlier failures;" on using failures as a "learning process."
- You thrive on independence, and 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, and show this in your honesty, integrity, and interactions with others. You get along with and can deal with all different types of individuals.

2. Poor Management
Many a report on business failures cites poor management as the number one reason for failure. New business owners frequently lack relevant business and management expertise in areas such as finance, purchasing, selling, production, and hiring and managing employees. Unless they recognize what they don't do well, and seek help, business owners may soon face disaster. They must also be educated and alert to fraud, and put into place measures to avoid it.

Neglect of a business can also be its downfall. Care must be taken to regularly study, organize, plan and control all activities of its operations. This includes the continuing study of market research and customer data, an area which may be more prone to disregard once a business has been established.

A successful manager is also a good leader who creates a work climate that encourages productivity. He or she has a skill at hiring competent people, training them and is able to delegate. A good leader is also skilled at strategic thinking, able to make a vision a reality, and able to confront change, make transitions, and envision new possibilities for the future.

3. Insufficient Capital
A common fatal mistake for many failed businesses is having insufficient operating funds. Business owners underestimate how much money is needed and they are forced to close before they even have had a fair chance to succeed. They also may have an unrealistic expectation of incoming revenues from sales.

It is imperative to ascertain how much money your business will require; not only the costs of starting, but the costs of staying in business. It is important to take into consideration that many businesses take a year or two to get going. This means you will need enough funds to cover all costs until sales can eventually pay for these costs.

4. Location, Location, Location
Your college professor was right -- location is critical to the success of your business. Whereas a good location may enable a struggling business to ultimately survive and thrive, a bad location could spell disaster to even the best-managed enterprise.

Some factors to consider:

- Where your customers are
- Traffic, accessibility, parking and lighting
- Location of competitors

- Condition and safety of building
- Local incentive programs for business start-ups in specific targeted areas
- The history, community flavor and receptiveness to a new business at a prospective site

5. Lack of Planning
Anyone who has ever been in charge of a successful major event knows that were it not for their careful, methodical, strategic planning -- and hard work -- success would not have followed. The same could be said of most business successes.

It is critical for all businesses to have a business plan. Many small businesses fail because of fundamental shortcomings in their business planning. It must be realistic and based on accurate, current information and educated projections for the future.

Components may include:

- Description of the business, vision, goals, and keys to success
- Work force needs
- Potential problems and solutions
- Financial: capital equipment and supply list, balance sheet, income statement and cash flow analysis, sales and expense forecast
- Analysis of competition
- Marketing, advertising and promotional activities
- Budgeting and managing company growth

In addition, most bankers request a business plan if you are seeking to secure addition capital for your company.

6. Overexpansion
A leading cause of business failure, overexpansion often happens when business owners confuse success with how fast they can expand their business. A focus on slow and steady growth is optimum. Many a bankruptcy has been caused by rapidly expanding companies.

At the same time, you do not want to repress growth. Once you have an established solid customer base and a good cash flow, let your success help you set the right measured pace. Some indications that an expansion may be warranted include the inability to fill customer needs in a timely basis, and employees having difficulty keeping up with production demands.

If expansion is warranted after careful review, research and analysis, identify what and who you need to add in order for your business to grow. Then with the right systems and people in place, you can focus on the growth of your business, not on doing everything in it yourself.

7. No Website
Simply put, if you have a business today, you need a website. Period.

In the U.S. alone, the number of internet users (about 70 percent of the population) and e-commerce sales (about 70 billion in 2004, according to the Census Bureau) continue to rise and are expected to increase with each passing year. In 2004, the U.S. led the world in internet usage.

At the very least, every business should have a professional looking and well-designed website that enables users to easily find out about their business and how to avail themselves of their products and services. Later, additional ways to generate revenue on the website can be added; i.e., selling ad space, drop-shipping products, or recommending affiliate products.

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

When it comes to the success of any new business, you -- the business owner -- are ultimately the "secret" to your success. For many successful business owners, failure was never an option. Armed with drive, determination, and a positive mindset, these individuals view any setback as only an opportunity to learn and grow. Most self-made millionaires possess average intelligence. What sets them apart is their openness to new knowledge and their willingness to learn whatever it takes to succeed.

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