

# 3 Reasons That Might Cause Your Small Business to Fail, and What to Do About Them

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Running and growing a small company isn't an easy task, and there is a looming and dark cloud ever-present: failure. Roughly 50% of new businesses fail within the first five years, with some sectors, like the restaurant industry, experiencing significantly higher percentages. As an entrepreneur, I have always felt I had a monkey on my back reminding me that even most ambitious business newcomers can falter. As I was finishing an MBA from Warwick University, I even chose to write my dissertation on small business failure – in the process interviewing more than 100 entrepreneurs whose start-ups closed their doors.

As I poured through the associated Q&As, some trends emerged; among 12 major contributing factors, three applied across 92% of these sad stories.

## 1. Cash

Ninety six percent of the owners I interviewed said they closed due to not having enough cash, and/or a business that was bleeding them dry. For most reading this article, the goal is likely to be looking at getting started or aiming to grow. What I learned was that fulfilling both aspirations sucks cash – with far too many reporting that, “they had no idea things

would be this expensive.” This lack of assiduous capital planning proved one of their biggest downfalls.

“Steve,” for example, owned a party rental business outside of Austin. To get it started, he needed considerable capital to buy bounce houses, tents, tables and other establishing items, and underestimated needs for the first 90 days by \$26,000. Instead of financing, he paid for everything in full, as the busy season was right around the corner and he could afford no delays. Things did not end well; it took him longer than anticipated to gain market traction, and in time he couldn’t make payroll, hadn’t paid himself a dime and burned through his entire emergency fund.

Here are a few actions to help ensure that cash does not put you out of business:

**Plan Properly:** While this sounds desperately simple, don’t forget to ask two vital questions: are you aiming to grow and will put all cash back into a business, or are you planning to bootstrap and be profitable right away? Each has radically different cash-necessity implications. And make sure you have reserves – can afford to operate without taking much from the company coffers.

**Consider Adopting a Profit-First Mentality:** This concept has been around for a long while, but small business author Mike Michalowicz formalized it into the 2014 book, *Profit First: A Simple System to Transform Your Business from a Cash-Eating Monster to a Money-Making Machine*. Put simply, he advises, instead of embracing the formula of “sales – expenses = profit”, rewrite it as “sales – profit = expenses”. The risks of not embracing this shift I saw far too often: entrepreneurs paying themselves last. They also let all the money get eaten up by other expenses – overhead, other salaries and the like. The “profit-first” ethos ensures you are paying yourself first. One of its methods is the use of clearly defined bank accounts. I’m a huge proponent, and personally use it in my

business.

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## 2. Lack of marketing

A stupefying 87% of the business owners I interviewed reported, “doing very little or no actual marketing.” As the owner of a marketing agency, this rocks me to the core. I’d assumed the indispensability of this field was understood, especially when launching a business. Instead, owners I spoke to tended to focus on the product/service almost exclusively. “Gabrielle”, for example, spent eight months building her dream: a Mexican restaurant. She oversaw every detail of the build; there was not a single thing that she did not authorize. With excitement, she opened in July, then invested just \$600 worth of marketing in the first two months. By October 15th she’d closed the doors. There were not enough customers to sustain the business, and they were throwing out food. Her dream had become a nightmare.

Strategies to consider include adopting a “marketing first” mentality. In the beginning stages of a business, no one knows you exist. There is no, “If you build it, they will come.” Never assume that putting up a brick-and-mortar and/or a site will organically drive a flow of customers. Next, put together a simplified 90-day marketing plan. What will you be doing each day from that list? What will you be investing in? How are you tracking success? Focus on both online and offline marketing. Last, ensure that you have enough financial resources set aside for the task. Don’t invest all your money building something shiny and have zero dollars to market it with; a budget of 10 to 20% of forecasted sales is a good figure to start with, depending on the industry.

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### 3. Personal life challenges

This also was surprising to me. Nearly seven tenths of the entrepreneurs I interviewed discussed the extent to which a small business hurt their personal life, or the other way around. “Anthony” talked about his divorce and how it put his business under, draining the financials as well as his energy. “Sarah” talked about working 80-hour weeks and going into a deep depression – one that ultimately cost her vital employees and almost all her clients, forcing her to close and take a job. These were but two of many, many stories with striking similarities.

A Few Actions to Consider:

- Make the decision on the type of business you are going to build, using your unique personality as a filter. For example, I built a lifestyle marketing agency, and designed its growth strategies around my lifestyle so I can take time off when needed. If you are looking to build a high-growth business, anticipate and account for significant “real life” time from the outset, because it will be asked of you regardless.
- As a corollary to the above point, build in quality time. Don’t trade off small business success if it means missing all the milestone events in your family. And *certainly* don’t be that parent.
- Reach out to other small businesses. Ask them how they are doing. A little moral support goes a long way. I can attest to this benefit, having been a member of the Entrepreneurs Organization. Connect with like-minded people and share your personal and professional trials and tribulations.

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