Top 10 Reasons Small Businesses Fail

About half of all small businesses fail within the first four years, a statistic that generates a shudder of fear in even the most dauntless entrepreneur. Most of these failures, however, resemble one another in crucial ways. And once you identify these harbingers of failure, you can increase your own chance of success.

1. Procrastination

When you own a small business, you will find that tasks and paperwork pile up like snowdrifts on your desk. Putting them off is like piling up debt; eventually they could overwhelm you. An unwillingness to dedicate the necessary hours to keep the business going is one of the reasons small businesses don't survive.

2. Inadequate knowledge of regulations

As a business owner you will need to have adequate knowledge of various regulations and legislation, including tax law, company law, environmental law, health and safety regulations and employment law. Failure to comply with key legislation can have a detrimental effect on your business. If you are unsure, always seek the advice of a competent professional. Trying to save money by scrimping on professional advice may cost you more in the long run or put you out of business.

3. Ignoring the competition

Consumer loyalty has declined sharply in recent years. Today, customers go where they can find the best products and services, even if that means breaking off long-term business relationships. Monitor your competitors, and don't be ashamed to improve on their best ideas (assuming that doesn't mean violating patent law). Better yet, devote some time each week or month to devising new methods, products or services for your business.

4. Ineffective marketing and ignoring customers' needs

Contrary to the popular cliché, few products or services "sell themselves". If you don't have time to market your product effectively, hire an experienced person to do it for you. Marketing keeps your products selling and money flowing into your business. It's crucial that you do it well. Once you attract customers, you'll have to work hard to keep them. Customer service should be a key aspect of your business. If you don't follow through with your customers, they'll find someone who will. Inadequate knowledge of the market and ignoring the needs and wishes of customers and emerging market trends is a common cause of business failure.

5. Incompetent employees and management

Hire only workers who are essential to your operation. When you do hire employees, make sure they're well trained and able to complete the tasks expected of them. As well as recruiting good staff, ensure you retain them - especially at management level. Happy employees make good workers. Try to create a work environment that keeps your staff happy and motivated. You should also ensure that you also have the relevant management skills when it comes to motivating and managing staff and delegating tasks to others.

6. Lack of versatility

You may be excellent at, say software programming, but that's not enough to make your IT consultancy business successful. Successful business owners tend to be adept at a number of tasks, from accounting to marketing to hiring staff. If you do not have the necessary skills, hire them.

7. Poor location

Even the best restaurant or retail store will fail if it's in the wrong place. When you're scouting a location for your business, consider factors such as traffic (how many potential customers pass during the course of an afternoon or evening?) and convenience (how hard is it for your regular customers to get to your location on a regular basis?).

8. Cash flow problems

You need to know how to track the money coming into and out of your business - even a profitable venture will flounder if it runs short of cash. In addition, you must learn to make cash flow projections that will help you decide how much money you can afford to spend and warn you of impending trouble. One of the more common mistakes is poor financial planning, especially under-capitalisation in cyclical business, taking out expensive high-interest loans and withdrawing cash that in reality belongs to creditors or the Revenue Commissioners. Don't get bogged down in overheads. Consider renting or leasing property and equipment and instead use the funds to make more money.

9. A closed mind

Everyone goes into business with some preconceptions - don't be surprised if you find that many of yours are wrong. Look for advisors who can give you good advice and run your ideas by them before you make important decisions and financial commitments. Read books and magazines about small business, visit business-related Web sites and network with your peers in the business community.

10. Inadequate planning

Start with realistic but precise goals for your firm, including deadlines. For example, don't just say that you want to increase sales; instead, decide that you want sales to increase by €100,000 over the next 6 months. Then write down the steps you can take to meet those goals on time, and set deadlines for completing those steps. Consult your goal list every day, and make sure you are doing what you need to do to meet your objectives.

Other planning issues to watch out for are:

- Poor tax planning which can lead to unnecessary tax bills.
- Lack of long-term planning when it comes to entering new markets and exiting existing ones.
- Taking decisions based on wishful thinking rather than verifiable research.

Sometimes these difficulties can be overcome; sometimes they prove terminal. But in almost every case they can be avoided if professional advice is sought on time. This is why we recommend our clients to come in for regular business reviews. If you have not had a review recently, call us to arrange one today.

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Please call Seamus Parfrey today on 021-4310266 if you need further information on reasons small businesses fail or a free consultation.