

Fact Sheet

Business Failure is Sometimes An Option

By now most people have heard that the business failure rates of yesteryear were inaccurate; they used to count every business closure as “failure” when in fact, many businesses close for other reasons. Today, the Small Business Administration reports that 2/3 of new businesses are around after 2 years and 44% of businesses are around after 4 years. We can improve these odds even more by being aware of common business mistakes that often lead to failure and helping consumers address these issues ahead of time in their business plans and as they start up.

- 1. Lack of reserve funds** – most entrepreneurs have unrealistic expectations of how long it will take to start generating income; it can often take the first year to just break even before profits are made.
Entrepreneurs need to have cash on hand to survive this one-year startup time frame particularly if they will be renting office space or a retail location. The entrepreneur also needs to make sure reserve funds are available after startup to protect against slower sales months.
- 2. Ineffective marketing** – most entrepreneurs do not budget enough for marketing at startup or as an ongoing expense. This marketing budget is as important as equipment and supplies and the numbers should reflect that. At the very least, they will need a website, business cards and some kind of brochure/ mailing piece, some type of paid advertising or directory listing and funds to cover memberships and networking. A good rule of thumb: the startup marketing budget should be 15-26% of the 1st year’s projected sales and 5-15% of sales for continuing years.
- 3. Inflexibility** – many entrepreneurs have very specific set ideas about their product or service, their customers and their market in general and wear rose-colored glasses when viewing them all. An inability to objectively evaluate all these aspects and change when needed, can be a big problem. Successful entrepreneurs are able to change quickly as opportunities or problems arise, obtain (and be willing to receive) help from outside experts, and make themselves aware of the real needs of their customers.
- 4. Spending too much money before money is coming in** – many inexperienced entrepreneurs decide they will startup BIG. They focus on getting office space immediately, committing to long-term leases, purchasing the latest and greatest computer equipment and furnishing their office in high-end décor. Then they leave no reserve funds and no marketing budget (or too small of a marketing budget), expecting customers to just come rolling in. The more conservative plan of action for a new entrepreneur is to start out small and grow as your business grows.
- 5. Poor financial controls** – many entrepreneurs are “idea” people, not detail-oriented people; they may have a tendency to ignore financial statements (if they even know how to create them) and may not realize they are in trouble until it’s too late. Entrepreneurs can also take on too much debt in their efforts to grow big quickly or to keep the business from failing, without discovering the underlying financial problem. Budgeting for an accountant and/or bookkeeper will be essential, even if it’s just an initial consultation to help set up the accounts and teach some basics and then handle annual accounting and taxes.