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Reasons Why Small Businesses Fail

By Anthony Fensom

When it comes to owning and running your own business, fear of failure can be very real, particularly when it could impact your family, income and even home. With this in mind guest writer Anthony Fensom, highlights common causes of failure.

Albert Einstein famously said, “Anyone who has

never made a mistake has never tried anything new.” From Richard Branson to Walt Disney, there is a long list of famous entrepreneurs who failed spectacularly before becoming successful.

But with ABS data showing around half of the new businesses established in Australia fail within four years, what are some mistakes to avoid?



1. WRONG BUSINESS MODEL

Most successful businesspeople have a passion for their business, so if you are in it for a quick buck then perhaps rethink your strategy. Having the right [business model](#) will ensure your business can achieve growth from day one – and not just fight it out with other competitors.

Tip: Alex Osterwalder and Yves Pigneur's "business model canvas" can help identify your value proposition, partners and channels, while a proper business plan is essential for examining the business opportunity and its required resources.

2. POOR CASH FLOW

Poor cash flow management has been blamed for 90 per cent of small business

failures, and the current business climate is not making it any easier.

According to Dun and Bradstreet, businesses are waiting nearly eight weeks to be paid by other companies, with the average invoice payment time rising to 55 days during the first quarter of 2013.

Tip: Make sure your payment terms are at the shorter end of the scale, send out invoices as soon as the work is done and follow up late payers immediately.

3. BAD LOCATION

For a retail business, position is everything, unless you are planning to operate purely online. A lack of patronage will kill your business, although getting space in a shopping centre can prove costly.

Tip: Consider your target market carefully



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and, like David Jones's "multi-channel" approach, obtain as many pathways to reach customers as possible, including a shopfront, user-friendly website and mobile store.

4. LACK OF RESOURCES

Inadequate finance, equipment and human resources can hurt your business, so ensure your business is sufficiently capitalised from the start. Poor financial controls, including bad credit arrangements, have been blamed for up to a third of business failures.

Tip: Don't quit the day job until you have enough savings to endure any unexpected revenue shortfalls. Tap 'friends, family and fools' for finance, check [available government assistance](#).

5. INADEQUATE SUPPORT

It can be challenging operating a small business and even harder if you are a one-person operator. Not everyone is skilled in every area and without proper financial controls, marketing and management experience, it can be tough to succeed.

Tip: Seek advice from a mentor with expertise in your industry. Educate yourself in areas you are weak in and build a network of support from which you can draw upon.

Being an [entrepreneur](#) is about taking calculated risks, not avoiding them entirely. "If you're not making mistakes, you're not trying hard enough," says award-winning entrepreneur William H. Saito, who says a failure is someone who quits.

Sources

[SMH: ability to fail](#)

[DNB](#)

[Dynamic Business](#)

[SMH: Why so many businesses fail](#)

"An Unprogrammed Life," By William H. Saito, John Wiley & Sons, 2012.

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