How to Avoid the Most Common Reasons for Small Business Failure

By Caroline Jordan, MBA

The life cycle of the typical small business is short and painful. It starts out with a dream and ends with a whimper. And in between, a struggle of Herculean proportions is played out as the owner tries to figure out why the business isn't succeeding.

Depending on which survey you read, up to 80% of small businesses fail. Most fail within the first five years and those who survive the first five are often losing money. Pursuing a career in small business ownership seems like a fool's footpath straight to failure and poverty.

So, what is the difference between the 80% that fail and the 20% that succeed? When you examine the reasons that cause business failures, you begin to understand that most business failures are preventable. The major missing ingredient is knowledge. Business owners who get expert help before they open a business have a much greater chance of succeeding. Business owners who get expert help as their businesses grow and change succeed more quickly with fewer speed bumps along the way.

Why do businesses fail? A study published by Jessie Hagen of U.S. Bank gives the details of the top reasons for failure:

General Business Factors

• 78% - Lack of a well-developed business plan, including insufficient research on the business before starting it.

• 73% Being overly optimistic about achievable sales, money required and about what needs to be done to be successful.

• 70% Not recognizing, or ignoring, what they don't do well and not seeking help from those who do.

• 63% Insufficient relevant and applicable business experience.

Financial Factors

• 82% Poor cash flow management skills/poor understanding of cash flow

• 79% Starting out with too little money.

• 77% Not pricing properly - failure to include all necessary items when setting prices

Marketing Factors

• 64% Minimizing the importance of promoting the business properly.

• 55% Not understanding who your competition is or ignoring competition.

• 47% Too much focus and reliance on one customer/client.

Human Resource Factors

• 58% Inability to delegate properly - micro-managing work given to others or over delegating and abdicating important management responsibilities.

• 56% Hiring the wrong people - clones of themselves and not people with complimentary skills, or hiring friends and relatives.

To get your own business on the right side of the 80/20 split, assess your business to see if any of these Failure Flags exist. Then, systematically eliminate them. And if you don't have all the skills you need, hire an expert to help you. The cost of having a professional on your team is far less than watching your business join the 80% club.

Caroline Jordan, MBA, is a veteran small business owner, accountant, consultant, trainer, and author. She is the owner of The Jordan Result, a company specializing in developing real world, practical resources to help small business owners improve cash flow and business operations. Jordan is also an accounting and business professor and the author of "Stop the Cash Flow Roller Coaster, I Want to Get Off!" For more tips and strategies to build your business visit www.TheJordanResult.com.