

Business failure

Start up businesses have a very high failure rate in this country with as many as 1 in 2 failing in their first two years. The reverse side of the coin is that almost a half survive and go on to prosper. Key reasons for business failure include:

Poor marketing

Successful modern businesses are ones that understand and meet the requirements of their customers. Detailed market research is therefore an essential for new businesses, to find out details such as the potential size of the market, the extent of competition, as well as consumer preferences and tastes.

Cash flow problems

Many businesses struggle through poor cash flow management. It is all very well having a good idea and a good product but it is also necessary to be able to meet short term outflows. Many businesses try to grow too quickly, and end up borrowing too much money externally, resulting in crippling interest repayment charges.

Poor business planning

A business plan should cover aspects such as marketing, finance, sales and promotional plans, as well as detailed breakdowns of costings and profit predictions. It is often said that 'failing to plan, is planning to fail'.

Lack of finance

Insufficient finance often means that businesses are unable to take opportunities that are available to them, or have to compromise - going for high cost solutions to problems, rather than lower cost ones that would yield greater competitive advantage.

Failure to embrace new technologies and new developments

In a fast changing world leading businesses are ones that make best use of advanced modern technologies in an appropriate way. Firms that operate with outdated technologies and methods frequently find themselves at a cost disadvantage over more dynamic rivals.

Poor choice of location

Location is a very important business decision. A good location is one that appeals to large numbers of customers, while at the same time minimising costs. For example in retailing it is often a mistake to choose a low cost location, that is not visible to customers. However, conversely there are considerable cost advantages to out-of-town retailers that customers are prepared to travel to visit.

Poor management

Weak and inexperienced management is one of the major causes of business failure. Managers have to work extremely hard, and to understand their customers needs, and the business that they are in if they are to be successful.

Poor human resource relations

Are often a cause of failure. Successful businesses motivate their employees to work hard to help the business to succeed.

Lack of clear objectives

Successful organisations have clearly focused and communicated objectives that enable everyone in the organisation to pull in the same direction.

Brand names

At the turn of the millennium a host of new .com businesses were launched in this country based on the hype associated with having an 'online presence'. A large number of these businesses were based on good ideas - e.g. retailing wine, clothes and financial services on the Internet.

However, what many of these businesses lacked was an established trade name, which the general public was familiar with.

The major companies that we are familiar with - Coca-Cola, Cadbury Schweppes, Nestle have taken years to build their brand names. Many of the new .coms were seeking to build brand awareness very quickly. These companies were able to raise relatively large sums of capital to set up. However, advertising and promotional costs were substantial, and the pool of capital they started up with rapidly began to run out before they could make the breakthrough to profitability. What we then saw was a high level of business failure in 2000 and 2001 among the new .coms. Although many of their ideas were good they ran into cash flow problems. In the end the prime beneficiaries of the .com revolution were existing companies with well established brand names that were able to embrace the new technologies.