Why Businesses Succeed

Community Futures is not strictly in the business of loaning money to entrepreneurs – we really want to help build successful businesses that will have a positive and lasting impact on the economies of rural British Columbia. So, anything we can do to help reduce the risks is a good thing – including sharing our wisdom about why some businesses fail while others succeed. There are two big reasons that small businesses succeed or fail – management ability and economic conditions. The first you can control; the second you can't – but you can still be informed and strategic in your response.

1. Managerial Ability.

The good news about management skills and abilities is that these are issues that you have control over. Good preparation can increase your chances of success. Key reasons for business failure related to business management include:

a. Poor cash flow management/poor understanding of cash flow
b. Poor capital structure – errors in determining how much start-up capital is needed, inadequate financing, or conversely, too much debt
c. Over-expansion
d. Lack of a well-developed business plan
e. Poor pricing
f. Excessive optimism (about sales, time and energy required to be successful, etc.)
g. Managerial inexperience: ineffective time management, not recognizing your weaknesses, not paying attention to your plan after it is developed, inability to delegate properly, hiring the wrong people, poor people management skills, poor execution and internal controls
h. Lack of experience in the industry your business is in
i. Poor marketing and promotion
j. Bad business location
k. Too much focus on one client/customer

2. Economic conditions.

Research indicates that the most common reasons for business failures are due to economic conditions outside of your control. So a big part of your job as an entrepreneur is surveillance, environmental scanning, and being strategic in your decisions. You need to be able to respond to the opportunities and challenges posed by the environment in which your business is operating. These are some of the economic factors connected to business failure rates that you should keep an eye on:

a. Unemployment rate of experienced wage and salary workers – when this unemployment rate is high, business failures increase
b. Interest rates – when interest rates go up, business failures also go up after 2-3 years.
c. Gross domestic product – when the GDP goes up, business failures decrease. A good GDP means healthy businesses.
d. Profit ratios after tax for manufacturing corporations – when profits go up for manufacturers, business failures go down. Keep an eye on what's happening in this sector.
e. Many other issues outside of the entrepreneur's control: changes to government regulation, changes to international trade, and weather to name a few.

Solid management will allow many small businesses to survive in difficult economic periods, but the entrepreneur must also always be aware of the strategic risks posed by economic conditions.

Community Futures South Fraser