

Small Businesses Can Learn From Others' Failures

Small-business owners can learn some valuable lessons from businesses that have closed their doors.

“One reason businesses fail is limited resources,” says [Insert name and county]. “Yet it may go beyond that. Before starting, the business owner must have seriously evaluated the profitability potential for the business.”

Without that evaluation, the owner simply does not realize that the “math” does not work. A simple rule of thumb - that the business must be profitable in the long run - often is overlooked or is not reasonable, given the circumstances. The need for a solid and reality-based plan of market potential, product price and the cost structure is crucial.

“Another issue that can lead to business failure is the lack of product,” says Glenn Muske, rural and agribusiness enterprise development specialist for the North Dakota State University Extension Service. “Certainly, not having sales is one issue, but sometimes a business fails when sales take off and the business cannot meet market demand.”

A related issue can be overexpansion. Expansion is costly. Carefully examine your sales growth rates. You have no guarantee that sales growth will continue. The competition always is alert and can interrupt your sales growth trend by coming out with a similar product that better provides customers with the benefits they desire at perhaps a lower price. This can happen if the market is shrinking, but it also can occur in a growing market.

Management issues are another reason for business failures. Factors such as poor accounting, operational inefficiencies, or the lack of vision and focus all can be the tipping point between success and needing to close the doors. Entrepreneur must monitor costs closely. For example, buying unneeded equipment or new equipment when you might rent or time-share, or buy used equipment, affects your bottom line.

Also, waste can be a significant cost. The company that is attuned to its cost structure and understands where it can cut costs is the company that has the strongest negotiation power and ability to capitalize on new opportunities.

“One of the most important factors for the small-business owner is having an adequate cash cushion,” Muske says. “Although not truly tested, the rule of thumb is that establishing a business will take twice as much money as planned, and that sales will take twice as long to develop. During that time, you need to know how you will keep the business operating, plus maybe how you will continue to support your family’s economic needs. “

For more information, you can go to www.ag.ndsu.edu/smallbusiness. You also can contact your local Extension Service office at [insert phone number and e-mail address] or visit www.eXtension.org/entrepreneurship. Federal and state resources such as the Small Business Administration and Small Business Development Centers also are prepared to help.