This is the sad truth why many small businesses are ever failing

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Though some companies perform and make some profit, the larger number of companies fail within their first 18 months of operation, the Small Business Administration (SBA) reports. Entrepreneurship is genetically a risky affair, not for the faint-hearted. Take for example the Murray story. David Murray left a six-figure position at Google to find a startup. It did not turn out to be as he thought. The same holds even for big companies. Of the top companies listed in S&P 500 (1957 edition), only around 15% of them have survived. This article is not meant to discourage anyone thinking of taking this path, in essence, I hope I get you prepared for this journey. Juma Ikangaa, a marathon runner from Tanzania once said, ‘the will to win means nothing without the will to prepare'. I hope that by the end of this you will be aware of pitfalls to look out for on your road to success.

According to SBA, a small business is one that has employees less than five hundred. The SBA Office of Advocacy’s 2018 Frequently Asked Questions shows just about 80% of small business make it in their first year, after that the figure drops drastically with only a third of small businesses making it to a decade in operation. On a positive note, the small business failure rate is said to have decreased by 30% since 1977. Scott Shane, a university professor believes that smarter business owners are behind this increased success.

Change is inevitable and innovation is no different. The business landscape is decorated with cautionary stories of businesses that failed due to lack of innovation. Failure to innovate puts any company at risk more so refusing to evolve with the market. Most startups fail because they lack innovation. They rush into the market without doing due diligence. Understand your environment of operation. Understand the industry and the competition and bring in new ways. Remember what gave a push to some of the biggest companies today from being a small business is innovation. With it they became disruptive. A typical example is Airbnb, by creating a new industry, the hospitality industry, most specifically the hotels got threatened and now they are no longer the most used option. Uber is also an example. Small businesses should learn from these success stories. The observation that you have to be able to acquire your customers for less money than they will generate in value of the lifetime of your relationship with them is stunningly obvious. Sadly, a majority of entrepreneurs have no regard of figuring out a realistic cost of customer acquisition.

Marketing is a crucial aspect of any early-stage business. The major issue is companies fail to make budgets to cater for current and future marketing needs. Failing to prepare adequate funding for current and future marketing campaigns early on is a major drawback because it's very impossible to get funding from other budgeted aspects of the business. The results are poor marketing campaigns constrained by finances which in turn might not produce the desired return. Apart from adequate marketing financing, most startups fail on content marketing. Digital marketer, Neil Patel gives an example. He says, 'Stay organized, pay attention to world events, and be nimble enough to cancel a bad idea before it plays out.' This was a lesson learnt from Malaysia airlines who were facing a difficult time in 2014 after two flight disasters but continued to run a content contest centred on people sending in their "bucket lists" for free electronic prizes. That was a bad idea. It has often been said that good marketers know what not to do. Remember the new coke fiasco in 1985 or GAP's failed brand design.

Having the wrong people in your leadership means not having a leadership at all. John Maxwell says, "Leadership is not about titles, positions or flowcharts. It is about one life influencing another." It is important to note, leaders can influence for good or bad, success or failure. Some companies have failed mainly because of the leadership. Take for example Uber's organisational culture which came into the spotlight after some reported scandals. The leadership has the power to dictate a corporate culture despite written values cemented on a plaque. Another example is WeWork. They tried to go public this year only to face harsh criticism after their filing became public. Alex Wilhelm writes, 'a messy CEO' contributed to investors passing on WeWork shares which resulted in a quick devaluation during their IPO process. Another aspect of leadership is a servant's attitude. Most people when they start companies the general feeling is that, "finally, I'm now my boss". Entrepreneurs need to understand once you own a business, a servant's attitude is required. If you are a business owner, almost everyone is your boss, your customers, employers, suppliers. Recognise that and make it your job to keep all these groups of people happy.

This often happens when an entrepreneur pursues an idea just because it's a "clever idea" with no evidence of the need for it. Some call this a solution in search of a problem. It has often been said that to be successful, identify a need and work to meet that need. An idea could be wonderful but difficult to market because the need is absent. History has recorded several startups that failed because they were just ahead of their time. One typical example is pets.com, a pet product website launched in 1998 and raised $80million in funding at launch. In about two years the startup crashed after spending $300million.

Most entrepreneurs are in search for success but not many are ready for it. Scaling is a double aged sword. A lack of a scaling plan and wrong timing for scaling can be detrimental to small businesses. Michael A. Jackson says, 'Premature scaling is putting the cart before the proverbial horse. The more a company grows, the further away from profitability it becomes." The Startup Genome Project reports up to 70% of startups scale up too early. They further say this can explain up to 90% of failed startups. Some of the things to note are, you're not ready to scale when you don't know the lifetime value of your customers and your cost to acquire that user.

If your business model isn't repeating, meaning you're not yet similarly acquiring customers then it's not time to scale.

Paul Graham, a successful entrepreneur advises that three essential things make a good startup which is good people, having something customers want and spending as little money as possible. The Startup Genome Project reports that solo founders take 3.6x longer to outgrow the startup phase whereas a balanced team with technology and a business person has 2.9x more user growth than an unbalanced team.

Of the vast number of small businesses that fail each year, nearly half of the entrepreneurs state a lack of funding or working capital is to blame. In most instances, a business owner is intimately aware of how much money is needed to keep operations running on a day-to-day basis, including funding payroll, paying fixed and varied overhead expenses such as rent and utilities, and ensuring outside vendors are paid on time. However, owners of failing companies are less in tune with how much revenue is generated by sales of products or services. This disconnect leads to funding shortfalls that quickly put a small business out of operation.

In addition to finding funds for working capital and overhead expense needs, business owners, more often than not, miss the mark on pricing products and services. To beat out the competition in highly saturated industries, companies may price a product or service far lower than similar offerings with the intent to entice new customers. While the strategy is successful in some cases, businesses that end up closing their doors are those that keep the price of a product or service too low for too long. When costs for production, marketing, and delivery outweigh the revenue generated from new sales, small businesses have little choice but to close operations.

Small companies in the startup phase also face challenges in terms of obtaining financing to bring a new product to market, to fund an expansion, or to pay for ongoing marketing costs. While angel investors, venture capitalists, and conventional bank loans are among the myriad of funding sources available to small businesses, not every company has the revenue stream or growth trajectory needed to secure major financing from these sources. Without an influx of funding for large projects or ongoing working capital needs, small businesses are forced to close their doors.

To protect a small business from common financing hurdles, business owners should first establish a realistic budget for company operations and be willing to provide some capital from their coffers during the startup or expansion phase. Over time, it is imperative to research and secure financing options from multiple outlets before the funding is necessary. When the time comes to obtain funding, business owners should have a variety of sources to which they can ask for capital.

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