PENNY HOLBURN COACHING

It's about You and Results

Why Established Businesses Fail

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There is a lot written and said about "Start Ups" and why they fail. And typically the reasons fall into one of three categories. 1) Cash flow or other financial challenges, but cash flow is a big challenge for new businesses. 2) Staffing – especially finding and onboarding the right staff and managing them well. 3) Not doing enough research on the business idea and the industry before starting the business. If you have started a business and you have managed to get through the first five to ten years you may be giving a sigh of relief. Yes, you have made it through the scary start-up phase, however, an established business can also fail. And quite a few of them do. And they do so usually for the following reasons.

1. Often the reason is that the market has changed, and the business strategy has not kept up to date. Once we have a business operating successfully, it is all too easy to think we have found the formula for success, and let's just keep on with it. But that doesn't work. The world changes. Customer needs change. Technological innovation comes along. New channels for product distribution emerge. New market segments appear. The lifestyles of customers change. Complacency and hence lack of adaptation to market changes is a big reason why a previously established and successful business may fail. It is easy to heave a sigh of relief once the business starts going well consistently. But, it is also easy to get fooled into thinking that it will stay like that. What works now will probably not work forever.
2. Linked to this, in that it is also part of the market, is the competition. However, it so often does lead to business failure that I want to mention it separately from general market changes. People are always wanting to establish businesses. Some businesses have low barriers to entry. It is easy for other to become part of the industry and so they set up a similar business. As new competitors come on the scene and market their services, the impact can eventually be quite substantial on existing businesses. If you run a business and want to keep it going, then pay attention to the competition. Know who they are and know what they offer. And be prepared to change your value proposition as required to remain competitive and ensure you retain customers.
3. Another reason for an established business to fail is a change in leadership or leadership team. Once, when I was talking to someone who was in charge of many small businesses, he said to me he had research done on which businesses were successful. Of the small businesses, it didn't matter where it was located, it didn't matter who the clients were, it didn't matter what the products were, because at the end of the day the success all came down to the leader. (The reason I was talking to him was that he wanted leadership development.) I have a lot of clients who work in really big corporates. Hence there are different leaders in different parts of the business. Now leadership sets the culture. And this is clear to see in that while one part

of the business is losing staff hand over fist and everyone has their CV out in the market, other parts of the business are growing. So, a business may fail because of new and weaker leadership. It could also have a hiccup if others choose to follow great leaders who leave.

4. Ineffective processes and structures, which include inappropriate or lack of effective management practices, also play a role in business failure. When I worked in management consulting for one of the big 5, we were at a business that was experiencing big challenges with their structures, processes, and culture. They started out successfully and grew rapidly. With their success came the realisation that while a new business is about being agile and fast and everyone chipping in to do what needs to get done, that did not work in a larger business. Their problems were coming from a lack of a suitable organisation structure, a lack of processes and policies, and a start-up culture that simply didn't work for a big established business.
5. The fifth and last reason I will give is the economic situation. There is a reason why I put it last. The previous four points are a bit more in your control as a business owner. It is easy to blame the economy. And often it is not untrue that it is the economy. However, if you run a business you need to know that the economic circumstances in which you operate will vary. As long as man has been alive there have been good times and not so good times, and terrible times. And you need to plan for this. Especially if you want a sustainable business for a long time. Now it is not easy to navigate all the different challenges that come with an economic downturn; it is in fact very, very hard. But it is not an excuse to close up business. A good business owner will realise that plans will need to change when the winds blow differently. And managing a business means being able to change and modify when it is necessary. This is often the real test of a business. Can you do well and survive in all different types of economic circumstances? Are you able to adapt your products and services to changing customer needs and environmental conditions, so you can adapt with the times and continue to provide value to markets. Those that can, that stay in it for the long haul, are the really good businesses.

We know that it is challenging to start a business. The literature is replete with the statistics of the number of "start-ups" that fail. There is also a lot of information on why they fail and how to deal with this or even avoid it in the first place. And this is important. With the unemployment rate as it is, new businesses are necessary. What is also important is existing businesses. Existing businesses that are growing are potentially a good source of employment opportunities. This may be one way to improve the unemployment situation. However, existing businesses and growing businesses also have their challenges and need attention and advice and help at times to ensure they stay the course, continue growing, and contributing to the economy and overall well-being of the community. Often the small businesses and the large corporates get a lot of attention. And are the focus of a lot of research. Yet medium-sized businesses have much to contribute, and also need to get their share of attention. They too have a lot to offer the economy in terms of growth, but they also have their challenges to navigate and need help and support before the situation becomes so bad they end up in business rescue or having to close their doors.