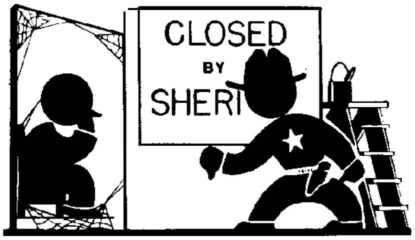
Don't Murder Your Business



A Study Of Why Small Businesses Fail

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• Most **businesses** do **not** die natural deaths. Their **managements** kill them ! Whether they are a sole proprietorship, partnership or corporation doesn't seem to matter. The blunt, inescapable fact is that homicide, accidental though it may he, is committed. And there are various murder techniques.

Today, there seems to be a popular misconception regarding the ease with which the life of a TV service company can be sustained. Sustaining life in any business, be it large or small, is a tough job. Superimposed on this general business difficulty is the hardship faced by the small operator. After all, consider his position. His business is usually not too well capitalized, is not as well controlled as a larger operation, generally faces shortages of working capital, and receives a tighter credit line than its larger competitors. What it really comes down to in the final analysis is this: the advantage of having everything under the thumb of the owner is more than offset by the disadvantages which are concomitant with smallness-inadequate financial reserves and difficulty in decentralizing responsibilities among subordinates.

Failure Survey

Let's delve into some **figures concerning** business failures. A survey made by Dun & Bradstreet indicated that only '78 out of every 10,000 businesses fail. This is truly amazing since many new businessmen have had little or no prior business experience. Naturally, there have been wide variations depending on the particular stage through which the economy was passing. Still, this very low mortality rate should encourage every small TV service organization. Another Dun & Bradstreet survey showed that two out of every three concerns that failed had been in business for five years or less.

Just what are the basic, and broad reasons that businesses die? A study of 9,162 failures came up with the following reasons :

Incompetence	42 %
Lack of business experience.	31%
Lack of rounded experience. .	14 %
Neglect	6%
Fraud of the owners..	4%
Miscellaneous	3 %
	100%

Let us examine each group and explore some of the controllable factors.

Incompetence: Generally speaking, this group can be broken down into three categories : physical, emotional and economic.

Physical incompetence is self explanatory. Either you cannot adjust to the hours or you are not suited for the type of work. Antidotes would be: (1) sell the business before it dies, (2) transfer labor duties to someone else, (3) rent or buy labor-saving devices (if available).

Emotional incompetence is a very common reason for the failure of many businesses. Many men are excellent workers, but cannot assume responsibility. Therefore ask yourself the following questions before going into business. You alone know the answers.

• Do I realize that I may lose money and that I'll be in a rough spot pretty often?

• Can I take the responsibility of paying my creditors and my workers on time?

• Will I mind working long hours?

• Do I care for this type of business ?

• Am I ingenious enough to get myself out of a tight financial spot quickly?

With economic incompetence the largest factor is inadequate initial capital. The wise man thinking of going into a small operation should take time to accurately calculate his **financial needs** to keep the business going for at least a year. Unfortunately, far too many people start on the proverbial shoestring. They feel that once the initial outlay for machinery, furniture, fixtures, deposits, licenses, merchandise, supplies, etc. is made, things will take care of themselves. Such could not be further from the truth.

Lack of business experience: Can be termed as a lack of general business experience as well as specializing in the particular line. Here is a list of typical symptoms originated by this: (1) No, or inadequate, records. (2) Overextension of credit. (3) Poor receivable collections. (4) Taking on too large a fixed overhead. (5) Not reducing the variable overhead when the going gets rough. (6) Overbuying or underbuying. (7) Poor location. (8) Not knowing how to combat competition. (9) Not "knowing" this business.

Lack of rounded experience: This defect stems from favoring one department to almost complete exclusion of all others. Former salesmen generally are the great-

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est violators. They have become so accustomed to seeing business through sales lenses that they find it very hard to place purchasing, credits, collections, etc., in their proper position on the business scale.

Where a partnership exists the problem of rounded experience is usually not as acute as it is in the case of many sole proprietorships. It is also a wise idea to make use of the firm's accountant. His varied experience can prove invaluable in showing the owner(s) the forest rather than the individual trees.

Neglect: This is generally due to: (1) Poor personal habits. (2) Poor health. (3) Domestic difficulties. Some of these foibles are difficult, others are impossible to eradicate. A logical view commands the owner to decide whether the difficulty is surmountable or not.

Fraud of the owners: Included are false financial statements, illegal disposition of assets, deliberate overbuying. Luckily for the business community this group represents only a small percentage of the total failures.

Miscellaneous : Covers such items as employee frauds, disasters and unknown reasons for failure. Employee frauds and such disasters as ***fire,*** burglary, boiler explosion, etc., can be protected against at reasonable cost. The advice of an insurance broker should be sought not only at the inception of a business but on a continuing basis. Obviously, business is dynamic and it therefore follows that an insurance program covering its risks should change from time to time.

Conclusions

Awareness of the causes of failure can go a long way toward preventing it. Action goes a longer way. The following list, by no means exhaustive, should give you action ideas sufficient to prevent you from killing the source of your income.

(1) Join a trade association.
(2) Read as many trade journals

as you can.

(3) Question suppliers and their salesmen about new developments.

(4) Talk to your attorney, accountand, banker and insurance man about those phases of your business which come within their jurisdiction.

(5) If you have a partner, discuss all phases of the business with him regularly. Remember, you're married to him commercially.

(6) See your doctor if you're chronically tired. If you're not, have an annual checkup anyway.

(7) Keep accurate, up-to-the-minute records.

(8) Review your list of receivables regularly and often. Keep after the slow ones. Be polite but firm.

(9) Digest your financial statements. Remember, they are not novel to skim through. •