

# **Success the Flip Side of Failure**

**(How to become successful and avoid failure)**

**By Mark Wheatley**

## **Committed To Your Business Success**

This isn't a copywriting trick to put you in pain and offer you a solution.

Most people that help companies improve don't talk about failure, many business people that have failures, won't talk about it.

So I'm daring to be different!

The reason for writing this one for you is to highlight, where other people have gone wrong in terms of business failure, or not achieving significant growth, so that you can examine the research, observations insights, to make sure that you are not falling into any of the traps and shortcomings in your business.

After all, success is the flip side of failure.

Many business owners have failed in their businesses and started again, some people say that to become successful, you have to fail a few times, its part of business.

Let's face it business is about taking risks.

I can remember years ago, the interviewer Alan Wicker questioning a multi millionaire about his success, in reply the millionaire said, he would never bet the company on one major investment or project.

That one stuck in my mind as sound advice, measured risk.

When a financial advisor talks to you about investments, one of the things that they have to weigh up, is your attitude to risk, High, Medium and Low. The point of this is to provide you, with an investment that meets your risk profile.

## **So how risky is business?**

This is the scary part; I've managed to dig a few facts and statistics regarding this:

Only five out of ten companies make it to 5 years and only three out of every ten companies survive for 10 years in the UK, according to the government VAT registration statistics 2007.

These are established businesses, this does not take into account start up's or companies that are not big enough for VAT registration.

More than half of Britain's small businesses collapse because of cash-flow problems (source the insolvency helpline).

So you have a 70% chance of failure at around year 10, and what's also a major concern is a lack of growth. Back in 1999 Cranfield Management School conducted some research into a number of businesses in the UK and they found that only 4% of the companies achieved significant or high levels of growth.

Now if your aim is to build up a business to sell it, or franchise it, to walk away with a sizable sum of money, it looks like the odds are stacked against you....and while we're at it, if you're from the USA reading this, the position is similar.

According to a small business administration study in the USA, 60% of all new businesses fail within the first six years of operation and Dun and Bradstreet estimates 82% will go under by their 10th anniversary.

### **What's the Cure?**

There are two issues outright failure or slow growth, let's deal with what stops companies growing firstly.

Turning back to the Cranfield research, they believed that the barriers to growth are:

#### **Barrier #1: The Planning Vacuum**

Essentially taking risks without a proper plan, financial, marketing, operations etc managing by 'gut feeling.'

#### **Barrier #2: Muddled Marketing**

Diversification too early, not focusing on their core products or services, the more successful firms 'stuck to their knitting.'

#### **Barrier #3: Mismanaged Change**

Change can be complex and the larger the project, more risk, it's a case of strong leadership and capable management that's required to successfully manage change.

#### **Barrier #4: The Wrong Objectives**

Pretty fundamental, not costing projects correctly, not setting financial targets or simply going in the wrong direction – a case of poor management and poor marketing.

## **Barrier #5: Meddling and Misspent Time**

I summarise this as the management having poor delegation, time management skills and poor leadership skills.

Peter Drucker the Management guru makes the point that that successful business-building requires three types of tasks

- Managing day-to-day operations
- Improving today's business
- Creating a new business for a new tomorrow

How do you rate yourself in these three areas?

## **Barrier #6: No Financial Strategy – and Poor Controls**

I don't think this requires much comment.

So these are the barriers to growth according to Canfield's research.

Back in 1999 I was also researching the subject, when I submitted my dissertation, part of the research included barriers to growth and these were my conclusions, I have also included the table I was referring to:

*'Entrepreneurs of tend to fail to realise the potential of their ideas, because they lack the business skills they need, the Government has a part to play through the education system, it is easy to see from the growth stage theories including the Barriers to Growth developed in the Bolton Report how firms fail because of the personal characteristics of the owner-manager coupled with the managerial problems they face and the business environment that they are working in. These personal deficiencies have been researched by Larson and Clute (1979) their findings are detailed in **Table 11.**'*

Rather than get too bogged down with this academic style I've attached the tables in appendix 1.

Now I hope I've not depressed you too much, but there is a pattern in all of this research and the last bit I want to give you, hammers the point home even further.

When considering outright failure this is what I found.

*'More than half of Britain's small businesses collapse because of cash-flow problems.'* source the insolvency helpline. They give 65 reasons why businesses fail See appendix 2 it can be summarised as:

Inadequate Marketing  
Inadequate Management and Leadership  
Inadequate Financial Control

Quality policies and procedures - making the operations work smoothly, I've included in 'Management and Leadership.'

Many of the financial control problems can be avoided through better marketing, for example if sales are higher and payments are collected on time, cash flow will improve.

## Conclusion

Since success is the flipside of failure and this article spells it out where things go wrong, your task should be to address any areas of weakness that you or your team have in relation to the findings.

So if you're lacking in any of these areas what are you going to do about it?

As an exercise get your team together and rate your performance against the points raised, look at the 65 reasons in appendix 2 and consider if any apply, if they do how can you improve?

This article is a summary of some of the points I cover in a key note speech on the subject, where I go into detail about how you grow a more successful business.

If you have any concerns or if you want to book me to speak on the subject, you have my contact details.

I hope you've found this article informative and useful, any feedback would be appreciated.

If you want to know more about the subject or have any questions relating to our sales improvement programmes, you can call me on **01623 720022** during normal business hours or click this [link](#) to let me know when it's a good time to talk.

How successful do you want to be?

Sincerely

A handwritten signature in blue ink that reads "Mark". The signature is written in a cursive style with a horizontal line underneath the name.

Mark Wheatley

Mark Wheatley is a business growth and marketing expert who specialises in growing small to medium sized businesses through low risk marketing strategies and improving sales skills.

## Appendix 1.

1. An experienced owner-manager with a good knowledge of the market and industry: venture capitalists know that management buy-outs are less risky than start-ups. This is partly because they are then backing a number of managers, each with a good knowledge of their industry.
2. Close contact with customers and a commitment to quality of product and/or service: higher profit margins were achieved by competing on service rather than price or, perhaps more surprisingly, uniqueness of product.
3. Innovation and flexibility in marketing and technology: this gives them a differential advantage over their competitors.
4. A focus on profit not sales, with good management systems controlling costs: there is the old adage that 'Turnover is vanity, profit is sanity'. (To which the accountant added, 'Cash flow is reality.')
5. Attention to good employee relations, often backed by a bonus scheme: there is a large body of research which now indicates that the major weakness of British business is not a lack of functional skills but basic management and that the firms that grow are the ones that get this right.
6. Operating in a growing market: spotting opportunities is something entrepreneurs are good at, but perhaps luck does play a part.

**Table 10. six common factors associated with successful growth businesses** Burns, Dewhurst (1996).

### 3.3.2.1 Failure

*Entrepreneurs often fail to realise the potential of their ideas because they lack the business skills they need, the Government has a part to play through the education system, it is easy to see from the growth stage theories including the Barriers to Growth developed in the Bolton Report how firms fail because of the personal characteristics of the owner-manager coupled with the managerial problems they face and the business environment that they are working in. These personal deficiencies have been researched by Larson and Clute (1979) their findings are detailed in **Table 11**.*

#### Personal Characteristics

1. Exaggerated opinion of business competency based upon knowledge of some skill.
2. Limited formal education.
3. Inflexible to change and not innovative.
4. Uses own personal taste and opinion as the standard to follow.
5. Decisions based on intuition, emotion and non-objective factors.
6. Past not future, orientation.
7. Little reading in literature associated with business.
8. Resistant to advice from qualified sources but, paradoxically accepts it from the least qualified.

## **Managerial Deficiencies**

1. Cannot identify target market or customers.
  2. Cannot delineate trading area.
  3. Cannot delegate.
  4. Believes advertising is an expense, not an investment.
  5. Only a rudimentary knowledge of pricing strategy.
  6. Immature understanding of distribution channels.
  7. No Planning.
  8. Cannot motivate.
  9. Believes the problem is somebody else's fault and a loan would solve everything.
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Table 12. Reasons for Failure **Larson and Clute (1979)**.

Failure is flip side of success, it follows that the characteristics of failure are the opposite to those of success. Although when comparing the reasons for failure with the common factors associated with successful growth businesses in **Table 10**, with **Table 12**, it is interesting to note that the personal characteristics of successful Entrepreneurs are not considered. If the purpose of these studies was to develop a model for assessing potential/existing Entrepreneurs then Burns and Dewhurst are missing an important aspect: that being, those personal characteristics that make an Entrepreneur successful. The next chapter deals with internationalisation, which is a development of a business beyond its local market; a degree of success normally has taken place to achieve this.

## Appendix 2.

### The UK Insolvency Helpline 2007

#### The 65 most common reasons for business failure

##### *Introduction*

##### **More than half of Britain's small businesses collapse because of cash-flow problems.**

For some businesses, insolvency is the only option and companies are often wound up or partnerships bankrupted.

The UK Insolvency Helpline's commitment to market research and ongoing customer feedback has enabled us to publish the most up-to-date and fully comprehensive list of reasons for business failure.

1. Failure to focus on a specific market because of poor research
2. Failure to control cash by carrying too much stock, paying suppliers too promptly and allowing customers too long to pay
3. Failure to control costs ruthlessly
4. Failure to adapt your product to meet customer needs
5. Failure to carry out decent market research
6. Failure to build a team that is compatible and has the skills to finance, produce sell and market
7. Failure to pay crown taxes (PAYE and VAT)
8. Failure of businesses need to grow. Merely attempting stability or had even less ambitious objectives, businesses which did not try to grow didn't survive
9. Failure to gain new markets
10. Under-capitalisation
11. Cash flow problems
12. Non-payment by customers
13. Poor sales & marketing
14. Fatal leasing agreements
15. Loss of financial backing
16. Tougher market conditions
17. Poor management
18. Directors aiming to find new markets, but not making a single sale
19. Companies diversifying into new, unknown areas without a clue about costs
20. Companies finding that staff set up as rivals and stealing the business
21. Company directors spending too much money on frivolous purposes thus using up all available capital
22. Loss of market
23. Tax liabilities
24. A lack of working capital
25. Bad debts are the cause
26. Personal extravagance
27. Fraud
28. Legal disputes
29. Falling property values
30. Poor management
31. Unsuitable people starting small businesses without the skills or resources they need to succeed
32. A lack of orders
33. A lack of control over cash flow
34. Lack of good management
35. Bad management of the capital available

36. Marketing problems
37. A failure to plan ahead, beyond the day-to-day running of the business
38. Marketing problems
39. General rise in costs
40. Bad financial management
41. Poor forward planning
42. Too heavy reliance on grants
43. Poor collection of debtor book such as greater than 45 days
44. Extended lines of credit
45. Rising work-in-progress that is not billed on time
46. Diminished cash balances
47. Purchase orders being made by expanding payment periods, not by cash
48. Over-reached overdraft facilities
49. Poor cost control with too many people responsible for purchasing
50. Lack of long-standing relationships with suppliers
51. The business widening its range of suppliers simply to make more credit available
52. Rising stock levels and static sales
53. Contract disputes
54. Final demands and writs being received
55. The business being reliant on one or two customers which do not pay as well as they used to
56. Borrowings being increased just to keep the business running
57. Outstanding debtors or potential bad debts seem to have rising suddenly
58. The business is unsure how much it owes and how much it is owed
59. The business is more than one month adrift in payments to the Inland Revenue or Customs and Excise
60. The bank is calling the business to say it has exceeded its overdraft limit
61. Under pricing
62. Over trading
63. Poor quality of product or service
64. Bad labour relations
65. Niche businesses - These suffered from narrow customer and supplier bases and an inability to react to changes in the market