

# The 5 Small Business Dangers

by Thomas Anderson

In today's business climate, entrepreneurs face countless obstacles to succeed. New research sponsored by The Entrepreneur's Source sites a short, but compelling list of dangers that typically cause business failure and that are prevalent across the board, in all businesses – independent of industry or sector. Not focusing on the dangers can be the difference between being a player in an industry or another statistic of business failure. When business owners lose sight of their goals, it is often because they don't have the ability or are unwilling to see beyond their blind spots and take action. However, when the weak areas are identified, there are rapid impact solutions that can be applied to increase performance and revenue.

The research found that businesses are weak in one or more of the following areas:

## Financial Management (Cash Flow)

Cash flow problems are responsible for over 70 percent of business failure with their first year.

## Marketing & Business Planning

The majority of companies pursue projects that are incompatible or inappropriate for their resources and capabilities.

## Human Capital (Selection, Retention & Training)

The mismanagement of human capital is the main reason that "good" companies never become great.

## Sales & Sales Management

Under performing sales people bring in at minimum 50 percent less revenue than top performers.

## Communications & Leadership

The beginning and end of all failure in business lies with the people who make the decisions every day.

## Financial Management (Cash Flow)

About 50 percent of small business owners run into cash flow hurdles and use personal credit cards to finance operations in order to compensate for a lack of funding or revenue. This is a common, oftentimes unaddressed issue that many entrepreneurs need to manage well to succeed. The Small Business Association echoes this sentiment stating that cash flow management is probably the most frequent problem for business owners. Watching the cash inflows and outflows is one of the most pressing management tasks for any entrepreneur.

The most common areas of expenditures for companies come from technology; human resources; marketing and sales lead generation; and office procurement, operational costs and inventory. Companies often expend more than 50 percent of their revenues purchasing goods and services; therefore, managing these costs well can have a direct impact on increased profitability. Business owners should know the best sources for meeting additional cash needs and keep good relationships with those in finance, such as bankers and other creditors.

## Marketing & Business Planning

It might be hard to believe, but over 50 percent of companies admit to doing a poor job of marketing and planning before opening a new business, according to research conducted by Southern Methodist

University. Without a good understanding of the market, the competition and potential partnerships, unfortunately, businesses tend to fail at a higher rate.

The main reason businesses fail is the lack of marketing exposure and business acumen of new business owners. For many companies, marketing is an under-valued function mainly because it is not understood and is considered an overhead expense and not a true necessity to succeed. A strong marketing plan, supported by solid execution, will 'grease the wheels' for a boost in sales.

Different from a marketing plan, a strategic plan will guide a company toward profitability. Many business owners work from a vision they have in their head, or they're optimistic that their day-to-day efforts will prevail in the end. Well, hope is not a business plan. No matter what size your business is, a strategic plan lays out the strategy and supporting tactics or activities that will meet the goals of the plan. Writing a well thought-out and organized strategic plan dramatically increases your odds of succeeding as an entrepreneur.

## Human Capital (Selection, Retention & Training)

Analyzed research conducted by The Entrepreneur's Source indicates that a large percentage of start-up businesses and small businesses find it challenging to hire talented employees and retain them. The mismanagement of employees is the main reason that 'good' companies never become great. Many firms fail to grasp the value of each individual employee. Many businesses struggle with inability to retain talent and money is wasted when the wrong person is hired. Unfortunately, the lack of employee continuity and poor training affects all aspects of the business, thereby potentially affecting a company's longevity.

Many businesses spin their wheels trying to find employees perfectly suited for their jobs. However, the right combination of skills and personality can be hard to find. Therefore, when the process fails, they spend several months and 30 percent of the salary trying to replace the bad hire.

The Heldrich Work Trends Study, published by Rutgers University, reflects this data. According to the study, 57 percent of companies with 100 or more employees have had difficulty hiring workers with the required skills. In effect, a significant amount of productivity is lost due to vacant positions. Each year, about one-third of the workforce changes jobs – largely to take advantage of better opportunities. The average cost for hiring a new employee is about 30 percent of the worker's annual earnings. A large percentage of firms find they are not prepared to deal with this "revolving door" situation.

Domineering personality, ineffective leadership and poor communication are some of the major barriers that occur between a company's management and staff. Some employees may never reach their true potential because management doesn't understand how to address the challenges of different personalities, and when leaders don't know how to connect with people, the flow of work stops and hard feelings set-in. Without effective leadership skills everyone suffers and productivity plummets.

However, with the right guidance, written and interpersonal skills, and formal training, start-up businesses and small businesses can overcome these obstacles.

## Leadership & Communications

The only way to win the race in business is to go back to basics. Many small businesses find it difficult to grasp the importance and impact of good leadership and communication within their business. Leadership comes in many forms, but one of the most important is the articulation of a clear vision or business plan, something that employees can be motivated by and support.

Many leaders of small businesses do not have the ability to lead teams. Employees are unclear of their expectations, fail to achieve crucial goals, or don't quickly grasp their role in the business. The following are some of the complaints that employees from small businesses have about management.

The manager does not encourage open, honest two-way communication;

Senior management lacks a clear vision of the future direction of their organization;

Senior management does a poor job of establishing clear priorities and objectives.

A good leader provides a trust-based environment where employees come first and are recognized as key to their success. There is open communication and a shared vision for the end goal.

On the other hand, if there is a fear-based management style dominating the environment or a 'my-way-or-the-highway' attitude, employees are not motivated to do their best. Poor communications rarely brings out the best in a talented team.

## Sales Management

A nonproductive sales team is among the top common dangers that cause many small businesses to fail. A sales team is oftentimes the core driving factor for revenue generation. Research conducted by Dr. John Sullivan, professor of Economics at San Francisco State University, revealed that a large percentage of small businesses are unsuccessful because of underperforming sales people who bring in, at a minimum, 50 percent less revenue than top performers.

A business owner's job as a leader is to recruit sales 'hound dogs' and teach them how to hunt. Studies indicate that a common reason for poor performance in the sales department is a lack of focus and poor time management. It's vital for struggling small businesses to get their sales team on the right track.

Research indicates that 98 percent of all salespeople don't follow a consistent sales and marketing methodology. However, the other 2 percent who do follow a steady plan produce 45 percent more revenues.

The sales department's role is to focus on their job – selling. Oftentimes, sales people are given other duties by management, like customer service or product development tasks, which leave less time for them to sell and make money for the business. This greatly impacts the amount of deals that a company loses.

It is often difficult for small business owners to identify the weakness of their own management style, let alone the areas that need more attention in their business. Many get caught up with working 'in' the business versus 'on' the business. Working with a business coach, entrepreneur's can create realistic goals, be accountable for these goals and make fact-based decisions, thus increasing company performance.

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