Fatal flaws: Here’s why UAE SMEs fail

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Noni Edwards | Special to REACH BY GN

A lack of working capital and unrealistic revenue projections are some of the reasons SMEs fail in the UAE Image Credit: Supplied

If you’ve done your homework and launched your start-up to be fully-aligned to market conditions, then hopefully you’ll never need to consider it, but failure is a real risk for many entrepreneurs so it pays to be aware of worst-case scenarios.

We spoke to two experts in about why businesses in the UAE might fail to thrive.

Khaled Talhouni is managing partner of Wamda Capital, an entrepreneurship accelerator in the tech sphere. “Very commonly companies fail because of external factors that are not necessarily addressable internally.”

When we asked Pratik Rawal, Head of Business Development at Creative Zone about why businesses fail he said, “That's a very grim question, albeit an important one. Our nine years in this business, have shown us a few common denominators that have put small businesses out of business.”

Here are just a few reasons SMEs fail:

Capital

Talhouni says the ability to raise capital is crucial, given how thin capital markets are for early stage companies in our region.

Rawal believes there are two aspects of capital to watch out for: not having enough, and not spending it wisely.

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“There have been many startups with modest capital that have done well, and many with a sizeable capital gone kaput. The key is to maximise on the available resources and shed keeping up appearances,” says Rawal.

Teamwork

The calibre of skills, experience and cohesion among founding team members is essential for start-ups, according to Talhouni.

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> - Khaled Talhouni, managing partner at Wamda Capital

"I think that one key factor to consider is that it is absolutely critical for early stage companies to be helmed by a founding team able to address challenges in market realities and adapting or pivoting the business to address the challenges," he says.

"Most early stage companies will have to re-invent themselves in a process of continuous evolution before they reach a stable path to growth and sustainability."

Research

Market research needs to built into your model right from the outset, according to Rawal. "When starting out, all you have is an idea and lots of time: use it."

"Build on your idea, do research, study your competitor, market analysis, rope in a financial expert and work on those numbers," he says.

> **If you are doing great in initial phase do not rush into expansion without careful evaluation, it can be tempting but you will certainly get there more effectively if you plan well**
>
> - Pratik Rawal, Head of Business Development at Creative Zone

"Whether you are in trading or manufacturing, or a service provider or consultancy, ensure you know exactly how much capital and time will it take for your entire operation to function until the business is able to sustain on its own, that includes costs involving company set up, legal framework, permits, infrastructure and staffing. A feasibility study will help you get to a ballpark figure," says Rawal.

Product

Most entrepreneurs will feel like they are fully focused on their product and their market, but getting the two perfectly aligned is one of the trickiest parts to starting a business.

At Wamda, Talhouni sees the lack of product-market fit as a common reason that tech start-ups fail, when the company pursues a solution to a problem that is not particularly pressing or critical enough for users to adopt the company's offering.

Rawal agrees: "Know your niche and build your brand around it and most of all, believe in your idea because if you don't, no one else will."

Timing

Being impatient and too hasty to expand is a main driver for failure, according to Rawal.

"If you are doing great in initial phase do not rush into expansion without careful evaluation, it can be tempting but you will certainly get there more effectively if you plan well," he says.

Equally, getting stuck in a rut and being unable to pursue business expansion when needed can hamper growth too.

"Difficulties in accessing new markets and expanding, in particular being able to scale into new geographies or territories across the region," says Talhouni.

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