

# 6 Reasons Your Small Business Will Fail (And How to Avoid Them)

According to Small Business Administration research, only half of new businesses survive for the first five years and only one-third of new businesses are able to survive for 10 years. The inverse is compelling as we can conclude that if only 50% of new businesses survive for the first five years, then the other 50% fail in the first five years. We can also conclude that about 65% of new businesses don't make it to the ten-year mark.

Forbes reports an even more grim statistic, based on Bloomberg research, that of every 10 businesses, eight fail within the first 18 months. What are the reasons businesses fail to thrive, given a 50/50 chance of survival and assuming a product or service for which there's a demand? Let's discuss six reasons businesses fail and some ways you can avoid business failure.

## 1. Leadership Failure

Your business can fail if you exhibit poor management skills, which can be evident in many forms. You will struggle as a leader if you don't have enough experience making management decisions, supervising a staff, or the vision to lead your organization.

Perhaps your leadership team is not in agreement on how the business should be run. You and your leaders may be arguing with each other publicly, or contradicting each other's instructions to the staff. When problems requiring strong leadership occur, you may be reluctant to take charge and resolve the issues while your business continues to slip toward failure.

**How to Avoid Leadership Failure:** Dysfunctional leadership in your business will trickle down and affect every aspect of your operation, from financial management to employee morale, and once productivity is hindered, failure looms large on the horizon.

Learn, study, find a mentor, enroll in training, conduct personal research—do whatever you can to [enhance your leadership skills](#) and knowledge of the

industry. Examine other business and [leadership best practices](#) and see which ones you can apply to your own.

## 2. Lacking Uniqueness and Value

You may have a great product or service for which there is strong demand, but your business is still failing. It may be that your approach is mediocre or you lack a strong value proposition. If there's strong demand, you probably have a lot of competitors and are failing to stand out in the crowd.

**How to Avoid Value Proposition Failure:** What sets your business apart from competitors? How do you conduct business in a way that is totally unique? What are your competitors doing better than you are? Develop a customized approach or service package that no one else in your industry is using so you can present it as a [strong value proposition](#) that attracts attention and interest.

This is how you [build a brand](#). Your brand is the image your customers recognize and associate with your business. Your brand identity, including your logo, tagline, colors, and all the visible aesthetics and business philosophies that represent your company should be supported by your value proposition. It should separate you from the pack and present your individual perspective to your customers. Do everything you can to present that unique value proposition to your market so you can capture a market share and begin building your conversion rates.

To publicize your brand and set yourself apart, you will also need to step up your [marketing plan](#) and use as many venues as possible to present your brand to the public. You may be far better than your competitors but that won't make any difference if your prospects don't even know you're in the game. Use social media, word of mouth, cold calling, direct mail, and other tried-and-true marketing techniques. Ensure you have a well-optimized online presence, develop lead generation and contact information capture techniques such as offering high-quality content on your site, a subscriber newsletter, and information giveaways.

### 3. Not in Touch with Customer Needs

Your business will fail if you neglect to stay in touch with your customers and understand what they need and the feedback they offer. Your customers may like your product or service but, perhaps they would love it if you changed this feature or altered that procedure. What are they telling you? Have you been listening? Or is the market declining? Are they even still interested in what you're selling? These are all important questions to ask and answer. Maybe you're offering a product or service that is fallen well below trend.

**How to Avoid Losing Touch with Customers:** A successful business keeps its eye on the trending values and interests of its existing and potential customers. Survey customers and do [market research](#) and find out what their interests are and keep abreast of changes and trends using customer relationship management (CRM) tools. Effective use of CRM can help keep your business from failing.

### 4. Unprofitable Business Model

Akin to leadership failure is building a company on a [business model](#) that is not sound, operating without [a business plan](#), and pursuing a business for which there is no proven revenue stream. The [business idea](#) may be good but failure may come in the implementation of the idea if there are no strategic guidelines in place.

**How to Build a Good Business Model:** Research and review the way other businesses in the industry operate. Develop a complete business plan that includes [financial forecasting](#) based on predictable revenue, strategic marketing, and challenge management solutions to overcome potential obstacles and competitor activities. Create a [milestone](#) chart with specific tasks and objectives assigned along the timeline so you can measure success, solve problems as they occur, and stay on track. A sound business model that incorporates best practices can help your business avoid failure.

## 5. Poor Financial Management

SmallBizTrends.com, a business news resource, offers this [infographic](#) which states that 40 percent of small businesses make a profit, 30 percent come out even, and the remaining 30 percent lose money.

You must know, down to the last dime, where the money in your business is coming from and where it's going in order for your business to succeed. Your business can also fail if you lack a contingency funding plan, a reserve of money you can call upon in the event of a financial crisis. Sometimes people start businesses with a dream of making money but don't have the skill or interest to manage [cash flow](#), taxes, expenses, and other financial issues. Poor accounting practice puts a business on a path straight to failure.

**How to Avoid Financial Mismanagement:** Use professional business accounting software like [QuickBooks](#) or [Xero](#) to keep records of all financial transactions, including every expenditure and all revenues received, and use this information to generate [income statements](#) (profit and loss statements). Even better if you use a [business dashboard tool like LivePlan](#) that makes it easy to monitor your financials. This is valuable information that you need to run your business, know where you stand at all times, and keep it operating in the black. If you lack skill in financial management, consider hiring [a small business advisor](#) and professional bookkeeper or certified public account to help manage your financial affairs.

## 6. Rapid Growth and Over-expansion

very now and then a business startup grows much faster than it can keep up with. You open a website with a trending product and suddenly you are inundated with orders you are not able to fill. Or perhaps the opposite is true. You are so convinced that your product is going to take the world by storm that you invest heavily and order way too much inventory and now you can't move it. These are both additional paths to business failure.

**How to Avoid Growth and Expansion Problems.** [Business growth and expansion](#) take as much careful and strategic planning as managing day-to-day operations. Even well-established and successful commercial franchises such as fast-food restaurants and convenience stores conduct careful research and planning before opening a new location. They measure local and regional demographics and spending trends, future development plans for the area, and other pertinent issues before they move forward. You must do the same for your business to avoid failure.

Conduct thorough research to ensure the time is right and the funding is available for expansion. Make sure the initial business is stable before expanding to an additional location. Don't order [inventory](#) you're not sure you can sell but have a plan already in place to fill orders quickly should the demand present itself. The key to successful growth and expansion—and avoiding business failure—is strategic planning.

If 50% of new businesses fail, then 50% of new businesses can succeed. Starting a business is an exciting endeavor that requires a clearly defined product or service and a strong market demand for it. Whether you desire to start a new business or you're already running a business, you must understand that success depends on careful strategic planning and sound fiscal management that begin prior to startup and continue throughout the life of the business.