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English 273, Period 6

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Small Business Failure

Small business is a large part of the American economy and plays an important role in creating jobs. In 2009, small business was the source of around half of America's private GDP and private sector employment, and accounted for 64 percent of total employment since the 1990s. (MacDonald 1). Although small businesses can often be successful in America, the failure rate of individual small businesses is high. According to Bloomberg, eighty percent of businesses fail within the first eighteen months (Wagner 1). In order to reduce their high failure rates, it is necessary to understand why small businesses fail. Truly understanding why small businesses fail requires much knowledge of the various causes of small business failure. In the broad history of business and economy, there are several common causes of failure that remain the same throughout the history of the United States economy.

One of the more common causes of small business failure is a lack of customers during economic downturns. During the economic downturn of 1992, many consumers were more focused on paying off their debts than spending their money because they were afraid of losing their jobs. Consumers avoided spending money on business goods and services because they had less income. Low demand for products and services slowed the economic recovery and growth (Tannenbaum 0). With the resulting lower revenue, businesses found themselves unable to keep pace with the increasing costs of maintaining their business in an economic slump with

little recovery. With less profit, they could not expand their business. If businesses lack sufficient demand for their services, they become more likely to fail.

More recently, small businesses have faced similar problems with financing and costs. Of all the issues that small businesses faced in 2008, the greatest was financing (MacDonald 4). In 2008, a general decrease in home values led to a large drop in the housing market (1). This decrease caused many money lenders to default on their loans, and caused them to increase their lending standards. This increase made loans more difficult for small businesses to acquire. Another factor causing the difficulty that small businesses encounter is the higher relative costs of giving healthcare to their workers, as well as the higher relative cost of hiring and keeping them (4). Economist Paul Krugman wrote for the *New York Times*, “Willing and able workers can’t find jobs because employers can’t sell enough to justify hiring them” (Economic Policy 9). Since employers lacked access to loans and other forms of financing, they could not justify hiring workers due to the unreasonably high costs that were involved. Throughout 2008, small businesses also saw problems with increased regulations. Regulations cost relatively more for small businesses than large businesses (MacDonald 4). Therefore, these small businesses that had difficulty adapting to less capital and increased regulatory burdens were unable to survive. The economic recession hurt many small businesses that were unable to solve these problems, and many businesses were forced to go bankrupt.

Effective communication, including public relations, management, and marketing, is crucial to the success of a business and can help keep businesses from failure. Small business owners need to know how to communicate effectively with their employees. A small business should hold meetings with its employees, and communicate the owner’s vision for the business and the value of their employees’ ideas and efforts. It should try to ensure that its employees

have a good understanding of its goals (Dyer 45). Another aspect of communication is the community. A business must associate with the community and try to gain familiarity and trust for that business' service. Businesses need to personalize themselves by meeting with their local community in order to gain trust. (45). Businesses should gain necessary feedback through communication with their clients. They should also trade ideas, employees, and resources with each other.

To reduce the high failure rate of small businesses, business owners and their employees also need to improve their business ability through education. Entrepreneurship requires knowledge of the optimal number of employees, the best location, and the proper financial management for a business. The Small Business Administration provides several resources for a business owner to learn this information. The administration provides business training and information to millions of entrepreneurs (Hearing on SBA 1). It funds over 950 Small Business Development Centers that make information and help regarding small business available and easy to access (1). These centers can train individuals in a wide variety of subjects, including “financial, marketing, production, organization, engineering and technical problems and feasibility studies” (1). A small business owner must know whether a decision is feasible, that is, whether it can be done within a company's financial constraints.

To increase their capital, small businesses can use crowdfunding as an alternative way of raising money to meet their monetary needs and funding expansion. Crowdfunding, a form of crowdfunding, is a way to fund small businesses through a crowd of interested investors (Kortleben & Vollmar 404). It is a form of crowdfunding that offers many small investors a safer chance to gain shares of a company. Small businesses can create an internet-based platform for crowdfunding to present their ideas and gain support for their ventures. They can provide

incentives for donation, such as offering a position on their website or offering shares of their company in exchange for investments (404). Since lack of funding for small businesses impedes their growth, businesses that use crowdfunding will raise their chances of success.

The ability to adapt to changing circumstances is necessary for small businesses to succeed, and a means of fostering this ability is practicing effective communication. Small businesses are better able to adapt to their environment when they have strong relationships with their clients. When a business' employees feel as if they have a clear understanding of their business' objectives, they will be capable of working efficiently. In 1995, Norman Stone said that communication can change people's opinions as well as improve reputation and trust in a business (Dyer 43). Small businesses that communicate effectively will be able to adapt to new changes and new options that present themselves (46). There are many financial benefits in communication. By associating with other small enterprises, businesses can create mutual funds and gain capital (Agyapong 202). If businesses gain good reputations, more people will invest in them. When businesses are good participants in a community and provide services, they are better liked (Dyer 45). Unlike crowdfunding, effective communication does not depersonalize a company, and does not lack the strong relationship with the customer that is necessary. However, the benefits of the community may not outweigh the drawbacks. A business may not have enough funds to provide services to the community that it does not know for certain will be returned through profits.

The most significant benefit of education in entrepreneurship is that small business owners would better know and understand the logistics of running a business. Another advantage is that education in business is easy to obtain. If business owners are educated and have assistance and training, they will be much better prepared to succeed. A downside of

crowdfunding is that the entrepreneur knows more than the investor (Kortleben & Vollmar 406). The investor may not know whether the success of a small business is due to its environment, or its business plan (406). Investors who are less experienced may be wary of a business idea because they do not have sufficient knowledge. They may also not want to trust their peers' opinions, if they do not know their backgrounds (407). People who take business courses may not truly understand the potential drawbacks of trying to start a successful business, such as the risks involved. A business startup may not succeed regardless of its education, due to the competitiveness of other corporations and the established presence that they have in their niche market.

Crowdfunding enables a company to present its ideas to a large audience. This approach to presenting ideas is advantageous, because a company can reach a greater audience with greater efficiency, as opposed to meeting independently with an investor. A common cause of the failure of businesses to acquire funds through investors is the fact that only a small percentage of ideas meet the requirements of venture capitalists (Kortleben & Vollmar 404). Crowdfunding will eliminate this problem, because there is less risk involved for each investor and the investor is not obligated to give a large sum of their money. Its philosophy is described as this, "Instead of a few investors get many, instead of some high funding amounts from a few get many small" (405). Crowdfunding can also finance a business owner in the early stages of development, when there is a lack of funding for the business (404). Small businesses that use crowdfunding will gain more capital from people who are willing to donate money to help their company, and will therefore be better capable of growth. They can benefit from increased publicity brought on by social networking and the availability of online information regarding their business. Crowdfunding can be seen as a way for small businesses to gain funds when they

lack other means to do so (408). Crowdfunding can help businesses to succeed, and when businesses succeed the unemployment rate decreases. With crowdfunding, the failure rate of small businesses can be reduced. This would help to ensure that small businesses continue to play their important role in the economy.