WHAT ARE THE KEY ISSUES THAT CAUSE A BUSINESS TO FAIL?
STAY IN THE BLACK BY AVOIDING THE FOLLOWING EIGHT THINGS THAT
COULD MAKE YOUR BUSINESS GO UNDER.

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It is clear that successful businesspeople have a vision and commitment to succeed. Yet the road to get there is not always easy. To complete the journey you actually must build a business that is financially sound.

This article is about giving you more than ideas. It’s about giving you the specifics, what you have to get right to make sure your businesses does not go under.

1. NO VISION FOR THE FUTURE
We all want to earn a good living on a day-by-day basis. But the most successful also want the pot of gold at the end of the rainbow. They are as focused on tomorrow’s value as today’s paycheck!

There is a common saying ‘Start with the end in mind’. This is a great approach that applies to many situations. But for your business, you need to ask yourself some questions:

• Why are you here?
• What do you want to be accomplished? Part of the answer is about creating personal wealth.
• To do that you need a vision and a plan.
• Is your business the goose that is going to lay the golden egg? How big does the goose need to be? How big is the egg going to be?
• What is your business worth today?
• What will you need it to be worth tomorrow?
• What will you need to do to bridge the gap?

The best way to answer these questions is through a planning session that will help you map out the answers.

2. NO PROCESS FOR PERFORMANCE IMPROVEMENT
Here’s the simple process for performance improvement:

• Measure it
• Understand it
• Get it done.

So do we measure everything? Probably not. But we need to be specific about those things we really do need to measure. Financial statements measure financial results. But that’s just the starting point. For many though, that’s often the finishing point. That’s because many of us don’t know how to interpret the wealth of information that’s sitting in there!

Measure those things that add to the value of your business. Measure the areas that help you get things done. It all starts with accurate financial information. You must track your current situation in the areas that matter most. And what are those areas?

• Productivity
• Profitability
• Cash.

The combination of these three key indicators leads to financial strength. Having a process for improvement is so important we’ll come back to it later in this article.

3. HOPING FOR PROFIT INSTEAD OF PLANNING FOR IT
Profit is not an option – we just don’t seem to be committed to it. We seem to accept that whatever is left at the end of the day is it. Well, it can be more than that.

The first step is to set a profit goal. Then figure out how much turnover you need to hit your profit target. Breakeven analysis is a great tool to help you figure this out.

Do you have a profit plan? Most businesses don’t. They often have a sales target for the year, but not a profit plan. They say, “If I hit $2 million in turnover, at 10 per cent, well, there’s my $200,000 profit”. That’s not a plan – that’s a wish. And how often do wishes come true?

First, you must know and understand your costs. Really understand them. What makes them go up, what’s going to change? For example, if costs go up how much more do you need in sales to cover it? If you relocate, if you put on more staff, if you buy new machinery, if interest rates change? Breakeven analysis puts you in the driver’s seat to really understand this and actually plan for profit.

4. NO STATED GOALS
Do you have goals? Are they written down?

You will have read this before, but did you do anything about it? Are you focused on the action plans to achieve these goals?

Commitment to a goal means dogged persistence even with chaos everywhere. Yes, it’s hard to stay focused with so much going on. But having clear and definite goals written down gives you focus on where you need to continue to drive value.
5. **TURNOVER IS A GUESS**  
This just isn’t good enough. You must drive sales. You must be proactive. You must have a marketing plan. You can’t just sit there waiting for the phone to ring. Sales should never be a guess. It should be part of your business plan and supported by a solid sales and marketing plan.

You know what you need to do and how you will do it. Now write it down and make it happen!

6. **NO LONG-TERM FINANCING PLAN**  
Have you ever been in a business with huge growth, or do you know one? What happens to the cash? It gets totally sucked up by the business.

Say your turnover is currently half a million dollars and you know that in five years you want it to be $3 million. A bigger business will mean more assets and more people. Your will need to buy things to get there.

There are specific ways to predict how much funding you will need. But remember this, the best way to get funding is:

- **Know how much you will need.**
- **Know when you will need it.**
- **Know how you will pay it back.**

This is much better than asking for a loan when you can’t even keep up with your current bills. You need to have a very clear idea of what your long-term financing plan is and how it will come to fruition.

7. **MISUSING THE OVERDRAFT**  
Nearly every business has a season, a busy period. We also know that cash comes and goes. Sometimes we rely on the overdraft to get us to the next bright spot. But how much of the overdraft does your business need to be successful? Have you planned ahead to make sure it’s there when you need it?

As a general rule, ‘match the life of the loan with the life of the asset’. Your overdraft is designed to buy extra time to buy stock and collect your debtors. It is not designed to buy plant and equipment, or other long-term assets. You need a long-term financing plan for those items. If you use the overdraft for things not intended, it won’t be there for cash flow when it really is needed.

8. **LACK OF FOLLOW-THROUGH**  
We talked before about the importance of goals and plans. We also know there are three reasons people don’t achieve their goals:

- Wrong goal – it simply wasn’t achievable.
- Right goal, wrong plan – there was no way they could get there.
- Right goal, right plan – they just didn’t do it, they didn’t make it happen. This is the most common reason.

We like to call it FTI – failure to implement. All the goals, all the plans are worth nothing if you don’t implement the plan and don’t take action!

But let’s review performance improvement. If your business has a process for continuous performance improvement, you will create more value in two ways; both along the way, and also when you sell your business.

For most businesses, people and assets are the critical resources. The big question is how efficiently do you use those resources? How could you improve in this area? How much more money could you make if you increased productivity?

But it’s not just about doing things efficiently. It’s about doing the right things efficiently. Don’t spend energy doing things that don’t matter!

How much of your resources, people and assets are devoted to processes that don’t really matter? Measuring productivity is critical for every business. But what you measure, and the way to measure depends on what resources drive results. So look at the key drivers for your business. It might be chargeable hours, stock turns, or units of production. It has a variety of names, but productivity – or how smart we are using resources – drives the rest of our business success.

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