

Top 12 Issues Facing Small Businesses

By Derrek S. Lennox, originally published in 4 pieces 2007

Several years ago DSLCS was commissioned by a division of the Canadian Government to examine the underlying causes for small business failures. During this study a number of trends were discovered. Over the subsequent years, DSLCS continued to gather and expand on that initial research and has converted the trends into the following top 12 reasons for why small business fail.

Number 12: Reliance on a limited number of clients:

Even with solid contracts, if your income is reliant on a small number of clients, you may be at risk. Some larger companies (and we know from experience) specifically download their own risk onto smaller suppliers / resellers. If you find that 1 or 2 clients make up more than 60% of your business, you may be more of a subcontractor than a business.

Number 11: I am working too many hours:

A lot of entrepreneurs find themselves working 80, 90, 100+ hours a week. That work load can wear anyone down. Especially when the income results are not there. The only way to get out of this is to focus. Work on the higher value activities that only you can do, and delegate items that can be done by someone else (especially when they are of lower value).

Number 10: Am I a Business? A practice? Of just self-employed?

Several businesses that we worked with – where the owners thought of themselves as a business – were in fact practices or just self-employed people with a lot of overhead. While each of those business models works in certain situations, the supporting structure for each should be different. An easy test to see where you are is to ask yourself the following questions:

- ☐ How much is my time being leveraged (i.e. do I have employees)? A lot or a little?
- ☐ How many clients/customers/customer segments do I have? A large amount or a small amount?

A small number of clients with a large number employees may indicate that you are a Subcontractor and are taking on too much risk (see Number 12). Many companies in construction and auto manufacturing fall into this.

A small number of clients with a small number of employees may indicate that you are really “selfemployed.” Many freelancers fall into this category.

A large number of clients with a small number of employees may indicate that you are a practice. Retail stores where the owner is usually on site, legal offices, dental offices, etc. where the owner does a majority of the work, falls into this category.

A large number of clients with a large number of employees is a turnkey business. Businesses that sell for the highest multiple of revenue or net income fall into this category. Different risks and issues can arise in any of the four business types – for example, key man insurance on the owner is extremely important for a Practice, but less so for some of the other types.

Number 9: Unclear Business Definition (lack of business focus):

In this situation, everyone is busy, but nothing is getting done. People are productive, but not always on the tasks or activities that are profitable for the business. Does this sound familiar? Is everyone “overworked” but nothing is getting done? For some companies, clearly defining the business and then clearly defining the outcomes of the business, leads to the right tasks and activities getting done on time more often.

Number 8: Poor Cash Management:

While revenues and net income look good on paper, cash flow from operations is dismal: or worse, unknown. As a business owner it is up to you to know where your money is coming from in the short and mid-term: whether this be from cash revenues,

accounts receivable collections, factoring, credit card company remittances, loans, or from the re-sale of other assets. In many of the firms reviewed, there was no management of cash flow and in most cases, entrepreneurs were caught at least once within the last six months where they had a cash flow strain that they "didn't see coming." But when interviewed further, they knew it was coming, but were "so caught up in the day to day" to do anything about it. Managing your cash flow is about knowing the timing of your inflows and outflows of money, and making sure there is more inflow than outflow, regardless of the source.

Number 7: Firefighting / Not Enough Hours in the Week:

Entrepreneurs often make good firefighters – and I don't mean the kind that actual put out "burning buildings" but the kind that put out "burning issues." If you find that you are spending more than half your day being reactive, like most of the failed businesses in this review, then watch out. You are probably spending too much time with fires, and not enough time getting clients and operating the business.

Number 6: Succession, exit & retirement - If I were injured, sick or "taken out of the picture" who would run the business

It is amazing the number of businesses that do not have a success plan. With our aging population, with a shrinking workforce, with consistent outsourcing the number of business I see of all sizes merely shut down when the owner decides to retire is astounding. It takes a good three years to execute most succession plans – and it is amazing to see how many think they can do it in a few months or less.

Number 5: Lack of management capability

We hear this everyday: "I am not good at getting others to do what they need to do." If you own your own business – and you decide to veer away from being a one-man-shop – you will have to. Whether they are vendors, contractors or employees, establishing management processes and learning how to manage others is critical. Some people appear to believe that what happened in school is still true: that someone is other there to make sure that schedules are set, classes are scheduled without conflicts, homework assignments do not conflict with that of other classes... but this is not true. This is not school and management is the only way to make sure that "scheduled are set..." etc.

Number 4: no internal controls, guidelines, manuals, etc lack of reports / information / no books (no financials)

Considering that having understandable books of accounts is a legal requirement of owning a business, it is still amazing to see how many companies do not have proper books. On top of that, the number of business that do not have structural capital, and wonder why things do not get done. Recently, I was with a client that had very specific process steps required to ensure that information was retained and that client information was properly recorded. And yet they didn't have any manuals on the process. They didn't even have it mapped out. And they wondered why most new employees quit within the first three months. How many times can you be "given crap" for doing something "wrong" when there is no reference tool / document / notes that suggests how to do it right? Talk about being set up to fail.

Number 3: Poor Business Model Design:

In many situations, the business model itself isn't designed to ensure that the business and each member of it produce what it needs to in order to stay in business. "Every year we have to scramble to make year end." "It seems like no matter what we do, we cannot do more than scrape by." "As the owner of this business, I sure hope I get the value out of it when I sell, for the number of years that I have had to take less than my target salary – despite good sales." All of these symptoms can point to a business model that doesn't actually provide enough of a profit to the business.

Number 2: Owner's Willpower:

When the tough gets going, a lack of willpower and a lack of accountability causes the "not so tough" to run away. Or bury their heads in the sand. Or hide in the back office. Or go on vacation. Whether it be fear of going on or lack of gumption to be able to, many small business owners go into business not fully understanding what they are getting into. A business is more than making

something better than someone else. So, when things start to go wrong, in many cases, they are not prepared for it.

Number 1: Overall Complacency:

Some call this a lack of accountability, others a lack of a sense of achievement. In the academic world, this is referred to by some as being “performance avoidance.” We do just what we need to do in order to just cover most of the needs that I want. And then find that everyday, the list of things that I want lessens. This can be poisonous coming from the leader of the organization. This complacency is what the others will emulate – or get frustrated by and leave. These organizations often do not challenge their employees nor do the really find that their employees achieve what they want to.

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