

SEVEN BIGGEST CHALLENGES SMALL BUSINESSES FACE



There are approximately 28 million small businesses in the United States today. How many of these businesses will still be around tomorrow?

The statistics for company survivability vary. One source says that 24% of businesses fail in the first year, and 48% do not make it past the second year. Another source says 7 out of 10 new employer firms survive at least 2 years, half at least 5 years, a third at least 10 years and a quarter stay in business 15 years or more. Pinpointing the exact rate of small business failure is difficult, but regardless of the correct statistic, it is a fact that the rate of small business failure is high.

So what challenges do business owners face that make survivability so difficult? From my experience as a CFO, CPA and consultant to small businesses, I have compiled the following list of the seven biggest challenges small business owners face.

1. Cash flow/ Having enough money to pay bills and make payroll

This is by far the one universal concern of small businesses. Regardless of the purpose of my initial engagement with a client, an overlying theme of my involvement is always a concern about meeting cash flow demands. The familiar saying that “banks only lend money if you don’t need it” has some truth. Small businesses while developing or growing need cash but don’t always have sufficient collateral or business history to entice banks to lend to them. They are often funded by personal savings, credit card debt or loans from family members. Focus on customer collections, being able to pay bills, meeting payroll and other cash demands is often the primary focus of a business owner’s daily routine.

2. Management’s business experience / Going it alone

A baker with unique skills for creating the tastiest baked goods starts a bakery business. But what experience does that person have running a business? How does he/she handle personnel, insurance, accounting, legal and other issues? Business owners are resourceful and handle these and other areas as best they can. Sometimes they get it right. Sometimes they

make mistakes. Eventually as the business grows they hope to be able to hire additional management with experience in these areas.

3. Market pressures / Competition / Beating the big guys / Product differentiation / Staying relevant

Every day seems to produce a new set of business challenges. Yesterday's problems have been joined by today's crisis. While the business owner is concentrating on resolving each of these issues, the outside world continues to evolve. Products become obsolete, new competitors are born, and large businesses challenge the small guys. The business owner needs to pull his/her head out of the sand every once in a while and evaluate these outside pressures, make adjustments and fight to survive.

4. Growing revenues / Keeping customers happy

In order to stay solvent, companies cannot stagnate. Revenues need to grow to support increasing business costs. When busy soliciting new clients, the existing clients continue to support the business structure. It is challenging to maintain the required level of attention to the existing client base when management is focusing so much energy on new business. Businesses often learn the hard way that investing in existing clients and customers is as important as investing in new business efforts.

5. Client concentration / Vendor & distributor reliance

As a business evolves, sometimes there is a major customer, vendor, supplier, or distribution channel, which becomes invaluable to the business. Management may focus a majority of its attention on this one critical business association. It makes sense to consider planning a way out of this over reliance. But that takes a concerted effort to move in a direction away from the very issue that created the need for action. What would happen if one of these key businesses would cut ties with the company? The business owner fears that without this critical support, the business might fail.

6. Work hours / Work personal life balance

Owning or managing a business is a 24/7 lifestyle. There are never enough hours in the day. How does the owner prioritize? When is enough work done that they can go home? Which is more important, dealing with a personnel issue, a delayed customer order or a vendor underperformance issue? Answer: all of the above. While commuting home, eating dinner, spending time with family, it is hard to detach from the issues of the day and the challenges awaiting the owner when he/she arrives the next day.

7. Affording good employees / Employee retention

The business owner can't survive alone. Some business are more reliant on a competent employee base than it is on its customer base. Critical management, operational and administrative personnel need to be added to support the current business and paths for growth. Managed spending can constrain funds made available for new hires. Sometimes business owners target the lower end of a reasonable compensation range and as the saying goes "you get what you pay for". And once they are lucky enough to find and develop valuable employees, the owner must focus on employee retention. Weak employee and management competency translates into a weak company. Employee turnover is costly and can threaten a company's survival.

There are only seven challenges listed above. There are many additional issues that challenge a business owner on a daily basis: Unexpected lawsuits, regulatory compliance, tax audits, facility leases, inclement weather, investor pressures, bank requirements, accounting rules, technology, employee benefits, etc. All of these challenges threaten to make each business a failure statistic.

Sources of statistics: US Bureau of Labor Statistics, Forbes.

Note: The Small Business Administration defines a small business as an enterprise having fewer than 500 employees.

This white paper was written by Steven Bell

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