

Chapter 15

Reasons for business failure

1. Business failure

: Businesses fail for a variety of reasons- one of the common reasons is money

: For example, run out of cash etc.

2. Cash flow problems

: Some entrepreneurs focus too much on profit and forget about the importance of cash.

There are a number of reasons why a business runs short of cash.

2.1 Overtrading

: This occurs when a business is attempting to fund a large volume of production with insufficient cash. This can happen even if a business is profitable.

2.2 Investing too much in fixed assets

: When businesses first start trading, funds are limited. Spending large amounts initially on equipment, vehicles and other capital items can quickly use up resources.

2.3 Allowing too much credit

: A great deal of business relies on credit. This means that goods are sold and the customer pays for them at a later date.

2.4 Over-borrowing

: Businesses may borrow to finance growth. As more loans are taken out, interest costs rise.

2.5 Seasonal factors

: Sometimes trade varies for seasonal reasons. In agriculture, cereal farmers have a large cash inflow when their harvest is sold.

2.6 Unexpected expenditure

: Businesses need to be prepared for any unforeseen expenditure. Eg. Equipment breakdowns, bad debts.

2.7 External factors

: Sometimes events that are outside the control of the business cause cash flow problems. Eg. Covid-19

2.8 Poor financial management

: Inexperience in managing cash or a poor understanding of the way cash flows into and out a business may lead to cash flow problems.

3. Lack of finance

: Both new and established businesses may fail if they cannot attract funding.

: New businesses often struggle to attract funding because they do not have a trading history and, again, they are too risky for investors.

4. Not competitive

: Some businesses fail because they are unable to compete effectively in the market.

There could be a number of reasons why businesses eventually lose out to their rivals.

4.1 New entrants

: A business may begin successfully and then fail because a new firm enters the market and takes away their trade. Many small businesses collapse because they are “overrun” by larger competitors in the market.

4.2 Ineffective cost control

: In some cases, businesses cannot keep their costs down. If costs are too high then a business needs to charge more to make a profit. This might result in a loss of trade to low-cost competitors

4.3 Ineffective marketing

- A business might launch new products, which fails to take off.
- A business might use inappropriate pricing strategies, which could mean that prices are too high or too low.
- A business might invest too heavily in overpriced or inappropriate marketing campaigns.
- A business might use an inappropriate marketing strategy.

4.4 Lack of business skills

: some businesses lack competitiveness and fail because their owners are not sufficiently skilled.

4.5 Poor leadership

: A business might lose its competitive edge in the market because the leader makes a mistake. This could be the result of poor decision making or a failure to make urgent changes.

5. Failure to innovate

: Some businesses collapse because they fail to innovate-they do not change with the times. They may have failed to adopt new technology or to develop new products.

