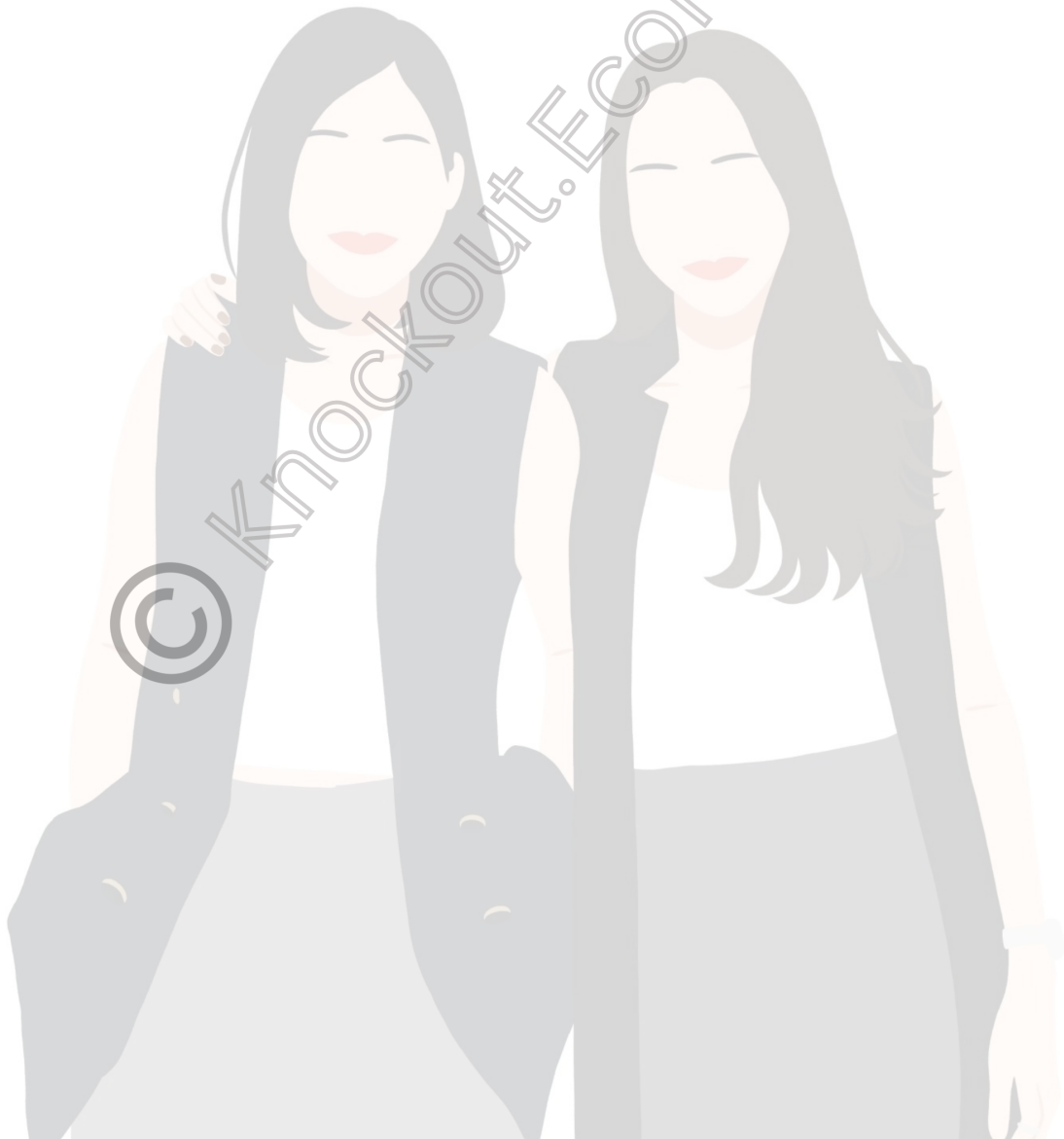


## Chapter 36 Business failure

### Key terms

1. Administration: where a falling business appoints a specialist to rescue the business or wind it up.
2. External factors: factors beyond the control of businesses which can cause collapse.
3. Internal factors: factors that business are able to control which can cause collapse.
4. Overtrading: a situation where a business does not have enough cash to support its production and sales, usually because it is growing too fast.



## **1. Internal causes of business failure**

### **1. Poor management of cash**

- investing too much in fixed assets leading to insufficient cash funds
- too much selling on credit => lack of liquidity/cash
- overborrowing

### **2. Overestimating sales.**

- consumer tastes and preferences can change dramatically in short period of time.

### **3. Overtrading**

- occurs when a business is attempting to find a large volume of production with inadequate cash.

### **4. Poor inventory control**

- holding too much inventory

### **5. Poor marketing**

- unable to raise awareness of new products

### **6. poor quality**

- unable to meet customers' expectation

## **2. External causes of business failure**

1. Market condition - change in consumer taste, change in price
2. High competition in the market
3. Economic - government policy
4. Exchange rate both domestic and global economy
5. Interest rate - high interest rate => high cost of borrowing => high debt
6. Government regulation e.g. A subsidy
7. Supplier problems
8. Natural disaster

