Why Companies Fail

The study of why businesses fail is an essential endeavor if we are to understand the reverse side of the equation – why businesses succeed. Certainly success is more than just avoiding the causes of failure, but recognizing where the dangers lie can be a critical factor to enhancing growth, particularly in the early stages of a company's development. To this end, this article presents the 10 most common reasons companies fail and, perhaps more critically, what to do to circumvent them.

The following ten common fatal errors are not listed in any specific order. Each of them, or a combination of one or more can lead to a company failing to meet its objectives, or worse, unable to continue operations. The ten errors to avoid are:

1. The DIY Syndrome – companies that think they can do everything by themselves are destined to fail because no company does it all. **Fix It:** You need to outsource or partner to supplement your skills and abilities with additional talent.

2. Bad Hires – companies that fail to hire and retain the right employees will find it hard to succeed. Once again it comes down to the talent you have available. **Fix it**: You need highly skilled people working in tasks relevant to their experiences and skills.

3. Shortage of Funds – companies that lack sufficient funds to try numerous tactics will find it difficult to maintain operations. **Fix it**: Plan appropriately for multiple tactics and make sure sufficient funding is available as you enter the marketplace.

4. Weak Management – leadership is key to success. If management was selected by default or inherited from the founders team the company may find itself lacking the experienced leadership it needs to succeed. **Fix it**: Hire experienced, mature management that understands the need for teamwork and is willing to provide vision and leadership.

5. Misunderstanding Time – often a company will miscalculate the amount of time it will take for it to reach a specific milestone. The consequence of this misjudgment is an increase in expenses and a drain on manpower. **Fix it**: Plan according to pessimistic predictions and execute according to optimistic ambitions.

6. Poor Growth Plan – while companies are typically seeking to grow, many don't really have plans in place to accommodate that growth as it comes. Operationally they become paralyzed as their systems and infrastructure are unable to handle the increased volume. **Fix it:** Make sure your growth plan includes the logistical and operational components that will permit the company to deliver on its promise as demand for its products/services increases, even if that increase is sudden and dramatic.

7. Poor Crisis Plan – many companies do not plan for the course of action they will take should their current strategies fail to yield the anticipated results. The outcome is often the sticking with a bad strategy because it is the only strategy. **Fix it**: Make sure you have contingency plans and alternative strategies ready to go in case the ones you elected to implement are not delivering the desired results.

8. Poor Money Management – sometimes money can be an issue even when there is enough of it. Some companies misuse the money they have, leading them to run out of it

faster than they initially thought (and irritating investors to the point where they won't put anymore money into the company). Other time companies misunderstand cash flow issues and suffer from a chronic lack of funds. **Fix it**: Make sure you allocate your funds properly by avoiding the temptation to compensate management and placing money only into activities that will yield more money (a return). Also, understand the payment policies and habits of companies in your sector so you can know how long it will take until invoices are paid. This will help you avoid cash flow shortages by allowing you to plan expenses against income.

9. Technical Difficulties – there are times when a company's success is dependent on its successful integration of technologies that enable it to manufacture its products or operate with profit inducing efficiencies. An inability to properly integrate or fully exploit these technologies can inhibit a company's prospects. **Fix it**: Make sure that the technologies you select are (a) compatible with your existing systems, (b) easy to integrate not only with your current technologies, but with your operational and workflow systems, and (c) consistent with the level of technical knowledge within your company.

10. Poor Marketing – the purpose and value of marketing are sometimes overlooked in favor of product development and manager preferences. Without properly marketing the company, failure is more than probable…it is inevitable. **Fix it**: Make sure you not only commit the resources and managerial integrity in marketing your products, but also have a comprehensive integrated marketing program that raises awareness and creates interest while promoting a benefit your product genuinely delivers.

Failure in business is a choice. It may seem like an overly harsh statement, but so long as there are alternative strategies and tactics available, the causes of failure are all too often voluntary imposed on companies by the very people charged with creating, maintaining and growing its value. By understanding the bumps and how to fix them, companies in danger of failure can reverse their fortunes and actually make a fortune.