

STEP 1

Planning to avoid failure

The bad news

If you're launching a small business, the odds are against you: South Africa has one of the highest failure rates of small businesses in the world. Over 70% of our small businesses fail in less than two years. Business failure isn't something you want to think about. But if you want to give your business a fighting chance it's important to understand the reasons behind the grim statistic so that you can work to avoid them.

Why do businesses fail?

There are a multitude of things that can crush a business, but here are the 10 leading causes of business failure:

1. Launching the business with little to no planning
2. Lack of sales due to failing to understand your market and customers, or the wrong pricing, or the wrong location, or poor customer service.
3. Poor marketing that doesn't attract any attention or build any demand for your product/service.
4. Running out of money due to cash flow problems, or starting off with crushing debt, or poor financial management.
5. Underestimating or ignoring the competition.
6. The product/service lacking uniqueness and value.
7. Insufficient capital or funding.
8. Inexperienced or poor management.
9. An unprofitable business model from the beginning.
10. Damaging economic conditions.

The good news

Most causes for business failure are avoidable. The only one on the above list that you have no say over is "*Damaging economic conditions*". This means that you have a say over 90% of the leading causes that lead to business failure. All those avoidable business failures stem from launching your business without adequate planning. Unfortunately, most entrepreneurs get so caught up in the excitement of getting started, that they rush the planning process and fail to think through every aspect of their business, leaving their business full of fatal flaws that eventually overwhelm the business, and the doors close.

The basic principle of planning is that a business's future is to a great extent in its own hands.

Planning turns ideas into businesses

The purpose of planning is to successfully build your idea into a strong, sustainable business that has the best chance of success. The heart of the planning process is to avoid the reasons businesses fail by–

- confirming that your business idea will actually work
- determining your start-up and monthly costs so that you don't run out of money before everything is in place, or start off with crushing debt
- ensuring you are targeting the right customer base with the right prices from the right location
- understanding your competition so that you can be better than them and grab a good share of the market
- creating an effective marketing strategy that will attract attention, create demand for your product/service, and bring customers into your business
- defining what makes your business and product/service uniquely valuable to customers, and thus separates you from the competition
- ensuring you put good financial management systems into place.

Entrepreneurs are made, not born

Many businesses crash due to poor or inexperienced management and many people attribute this to the owner not being a born entrepreneur. Not so. Anyone can be an entrepreneur. Entrepreneurs are made, not born... becoming a successful entrepreneur starts with mindset, is built with education, and polished with competence:

- Mindset:** ✓ clearly you have an entrepreneurial mindset as you are here, planning how to start your own business.
- Education:** ✓ planning allows you to see where you need to educate yourself on the skills you lack, or hire skilled employees, or outsource work to competent professionals.
- Competence:** ✓ we can reach the level of mastery on anything to which we commit wholeheartedly. Mastering entrepreneurial competency is created through dedication, the years of life and work experiences behind you, and the commitment to never quit learning. The planning process is one of the biggest contributors to your competency because it forces you to think through and formulate every aspect of your business which prevents you from the fatal mistake of jumping blindly into a business that is full of flaws.

No planning = No funding

No matter how brilliant your business idea is, no-one will help fund you if you present them with the idea, but with no solid plan to back it up that clearly demonstrates that your business has a better than even chance of being successful.