

CLOSED

Why Businesses Fail

WE DON'T KNOW WHAT WE DON'T KNOW

THERE ARE A LOT OF ANSWERS FOR WHY BUSINESSES FAIL, BUT
IGNORANCE DOESN'T HAVE TO BE AMONG THEM.

WHY BUSINESSES FAIL

“You want to know why businesses fail? This is why. If this had happened last year when we were restructuring, it would have been the end of us.”

I was talking to a friend who owns an agency in Dallas.

He had just dodged a potentially fatal bullet in the form of a sales tax audit, and he did it by writing a \$32,000 check.

“My CPA told me to collect sales tax on services,” he continued, “so I got a permit. I collected and remitted sales tax on all my clients except the ones who were supposed to have their own permits. Turns out some of them didn't, so the auditor tells me I have to pay that too. It's a raw deal for me, but not nearly as raw as it's going to be for them. They're on the radar now. They're going to owe taxes from the day they began business.

“And that's not the worst part. Even if the tax puts them into bankruptcy, they'll still owe it. You can't get rid of sales tax liability.”

“These are really smart people who've been in business for years. How could they not know to collect sales taxes on services in Texas?”

WHY BUSINESSES FAIL, OR, WHY WOULDN'T THEY?

Great question: “How could they not know?” A better question is “How would they know?”

Business is a broad and complex undertaking. Most of us business owners are specialists in the product or service we sell.

We didn't begin as business experts and we don't know what we don't know.

Unfortunately, as my friend discovered and his clients soon will, ignorance is no excuse. We are responsible to know, and by paying attention and enlisting the right help, we can.

The place to start is by framing the scope of the problem. Business is divided into four broad functions:

Guiding the business is leadership. It involves creating and pursuing a guiding vision for our companies, building and maintaining a company culture, creating action plans, setting goal, holding people accountable, and providing incentives to build and lead an effective team.

Getting the business is marketing and sales. Those two deceptively simple words describe critical functions that form the lifeblood of our futures.

Doing the business is delivering what we sell consistently, as promised, on time and at a profit.

Administering the business is everything else. Administration includes sales tax (!), bookkeeping, finance, HR, insurance, payroll taxes, IT, banking, legal, regulatory compliance and all the other matters we know little or nothing about.

All four functions are critical to success, and our companies must be at least good at all four areas to prosper.

WHY BUSINESSES FAIL & THE ADVISORS CRITICAL TO SUCCESS

The good news is there are only four functions.

The bad news is there are a lot of particulars within each.

Some of them are business skills, others are laws and regulations, most of which we've never even heard of.

Business owners tend to be specialists in one area - production. We are really good at delivering what we sell, which is why we began business in the first place.

To prosper, we have to uncover things we don't know and make our companies good at them. But that doesn't mean we have to become experts. That would be impossible.

It means we have to enlist the help of competent advisors.

LEADERSHIP

Leadership is a subjective topic that can take many forms, but it is ultimately a skill that can be learned and improved. We do so first, by paying attention and second, by enlisting the help of mentors such as:

- A business coach,
- A mentor colleague, or
- A mastermind group to help us step out of the daily grind to focus on and consider larger questions.
- Reading and listening

MARKETING AND SALES

I've asked hundreds of business owners where they get their customers. Far and away, the most common answer is: "Word of mouth."

Only a vanishing small sample of small businesses operate with a marketing plan. Which means they leave this vital function to chance. Fewer still measure the results of their activities to see what works and what doesn't.

It is understandable why that is so.

Marketing used to mean the Yellow Pages and a newspaper, but has grown to be an increasingly complex, constantly changing mixture of strategy and technical skills few business owners have the time to master and keep up with.

The solution for us in small business is to enroll the help of a competent marketing professional or agency.

Marketing professional/agency to help with:

- Creating coordinated marketing plan
- Social media
- Web site development
- SEO
- Content marketing
- Video productions
- Print material

Of the hundreds of sales people I've talked with, very few have had any sales training.

Sales is a skill that can be learned and mastered through;

- Training courses
- Books/audio books
- Podcasts
- Videos
- On-line webinars
- Mentor professionals

ADMINISTRATION

Administrative skills has the longest list of dedicated professionals to help with specific administrative areas. All of us in business will benefit from a relationship with:

A **CPA** to advise us on matters including:

- Sales tax
- Payroll taxes
- Unemployment
- Business /franchise tax
- Income tax planning
- Bookkeeping
- Corporate structure
- Other topics specific to our businesses and states

An **Attorney** to advise us on:

- Corporate structure
- Operating agreements
- Contracts and negotiations
- Partner relations

- Planning for the future events including death, divorce, dissolution, partner splits

A **Banker** to provide for future cash needs and investments

- To fund accounts receivable
- To fund equipment and real estate investments
- To finance inventory
- To provide operating capital for growth

An **Insurance/risk management professional** for

- Liability insurance
- Workman's comp insurance
- Risk assessment
- Vehicles and equipment insurance
- Health insurance
- Lost income insurance

An **HR consultant** to guide us through increasingly complex

- Hiring issues
- Firing issues
- Discrimination
- Sexual harassment
- Unemployment insurance issues

Regulatory compliance specialists on

- Safety
- OSHA compliance
- Machinery and equipment certification

WHY BUSINESSES FAIL-START THE CONVERSATION

The lists above are not comprehensive, but you get the idea. There is more to discover and learn than we could ever do on our own. All of us will benefit from relationships with:

- A business coach or mentor
- A Marketing professional
- A Sales training professional
- A CPA
- An Attorney
- A Banker
- An Insurance/ risk management professional
- An HR consultant
- Regulatory specialist

If you don't have a relationship with each type of advisor above, it's easy to get one.

Ask your peers who they use, set an appointment, and start the conversation with a question: "What do I need to know about _____ ?" One question will lead to the next and you'll be on your way to becoming good in all four areas of business.

There are a lot of answers for why businesses fail, but there is no reason ignorance should be among them. There are some folks in Dallas who will wish they had asked a few simple questions sooner.

WHAT ABOUT YOU?

Where do you get your customers? Is there a tax or regulatory issue you've "heard about" but are just hoping never comes up? Have you ever been ambushed by something you didn't know? Do you have a working relationship with each type of advisor listed above?

If you have any further questions, please don't hesitate to mail me at Martin@annealbc.com or visit www.annealbc.com



Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.