Since 1906, the Association of Business Credit Executives

Business Credit News

CREDIT REPORTS 210-225-7106
COLLECTION 210-225-7106
FAX SERVICES 210-225-1777
WEB SITE: www.bcmstx.com
E-MAIL: bcms@bcmstx.com

Business Credit and Management
Services Co of Texas
4407 Walzem Rd #205
San Antonio, TX 78218

JUNE 2018

"What Causes Businesses to Fail"

By: David Balovich

According to the Small Business Administration 45,000 businesses close every month. Declining consumer spending, employee layoffs due to store closings, business acquisitions, consolidations, and mergers, credit constraints and foreclosures are only part of the reasons that have contributed to the number of business failures and bankruptcies that have occurred and are expected to continue.

Accountants and business consultants tell us that there is five reasons businesses fail.

Loss of revenue; lost income and a declining customer base may be due to circumstances beyond a businesses control, such as the current economic climate. But it can also be attributable to other factors, such as pricing, location, declining market share, slow or non-paying customers.

Management/operational issues; the majority of start up's by nature may not possess or employ the proper balance between ownership and management skills. When internal management is insufficient, the effects generally are reflected on the bottom line.

Lack of capital; all businesses must have sufficient working capital. Accountants say a business should have a balance sheet to support three to six months of payroll and fixed expenses, to maintain a cushion for any unforeseen loss or crisis.

Economic conditions; history reflects that the most common causes of business failure is related to economic conditions outside the control of business.

Credit / debt issues; many businesses for too long have relied on access to easy credit in the forms of lines of credit, loans and home equity lines of credit to finance their businesses. Small to mid-size businesses are now struggling as a result of tighter lending, high-rate credit cards, reduced lines of credit and maturing loans.

Any of these reasons can wreck havoc on a business. However, from the credit professionals' perspective the two primary reasons a business fails are poor management and economic conditions.

The good news about managerial shortcomings is that management has control over them and they can be corrected. The bad news is that management will sometime overlook these shortcomings and find fault elsewhere never admitting that they were to blame for the failure of the business. Some of the key reasons for business failure related to management include:

Poor cash flow management or the understanding of cash flow;

Under capitalization; no business plan or lack of a well developed business plan;
Being overly optimistic about sales and the time and effort required to be successful;

Inadequate pricing or failing to maintain adequate margins;

Over expansion; growing too quickly before identifying sales trends;

Lack of experience in the industry they are doing business in;

Poor marketing and promotion;

Poor business location;

Too much reliance on one customer or industry;

Poor managerial experience: including not following the business plan, weak internal controls, poor execution, hiring the wrong people, poor delegation skills, poor communication skills, ineffective time management.

Economic conditions are usually something that is beyond managements' control. Good management practices, however, can permit management to respond to those opportunities and challenges that the economy, good or bad, is constantly presenting.

Good management is always aware of the following:

The unemployment rate of experienced salaried and hourly workers - when this unemployment rate is high, business failures increase;

Interest rates - when interest rates go up business failures historically have increased after 2 to 3 years;

Gross domestic product - when the GDP is high, business failures decrease.

The after tax profits for manufacturing companies. When profits go up for manufacturing companies, business failures go down.

Other issues to follow are changes in government regulations, changes in international trade, education and the weather.

Today we work in the era of big government and business. As individuals we have become subject to these giants. More often than not we cannot even comprehend all that goes into making them what they are. They employ regulations and rules that call for uniformity, standardization, and the reduction of all independent thought and action to a set of formulas. In many organizations this is known as "company policy". In government we call it "politics".

For example: How many recall the story about the Union Pacific coal train operating between Sharon Springs and Salina Kansas? A few miles after departing Sharon Springs a wheel bearing on one of the coal cars became overheated and began melting. This caused a metal support to come loose and grind on the rail. It caused white-hot molten metal to spew onto the railroad track and ties. Fortunately, the train crew noticed the smoke halfway back in the train and immediately stopped the train in compliance with company policy. Unfortunately, when the train came to a complete stop the coal car, with the hot wheel, was sitting on a wood bridge that was built with creosote ties and trusses. The crew immediately called the company dispatcher and after explaining their situation and was ordered not to move the train because government regulations prohibited operating a burning vehicle and company policy prohibited moving the train with a defective part. So, because of company policy and government regulations the train crew waited for the fire department and watched while the bridge, the railroad tracks and the train burned. Later the National Transportation Safety Board and company investigators ruled the accident was the fault of the train crew for stopping the train in such a manner that the defective coal car ended up on the wood bridge.

Big business often survives difficult periods because rather than admit their mistakes they look to the government to bail them out. Small and mid-size businesses, in order to survive economic downturns, must always be aware of the strategic risks posed by changing conditions.

From our perspective the number one reason why most businesses fail (all sizes) is because they either did not recognize the need for transition or they failed to manage the transition.

Business leaders are constantly reminded that they need to change to stay competitive. Change is a constant and although I have written countless articles about change and counseled clients about change and have received positive feed back from readers and clients expressing their need to implement changes, the fact is when I have followed up and asked how the changes has affected their operation the most common response is the changes never took place.

The business environment is not stable, it seldom is, and that is a reality of being in business. There are different reasons for every downturn in the business cycle, but the consequences stay the same. A business has to adjust and adapt to survive in both a good and bad economy. This means management has to know not only what changes need to be implemented but also how to manage the transition.

There is a universal misconception about change. The majority maintains that change requires strong leadership, a strategic plan and good information. While leadership, strategic planning and information is important, they are only a component of business success.

We know companies with great leadership who had a detailed strategic plan supported by reliable information and yet they failed. And, they failed because they believed:

Change is about having a plan
Change is about saying you are going to change
Change is about having current information

Well, that's not what change is about.

Real change is about doing something. It's not the failure to identify change that hurts organizations. It's the failure to implement change that hurts organizations. And implementing change involves transition.

The difference between change and transition is similar to the difference between collecting past due accounts receivable and implementing a credit policy that is enforced. Collecting past due accounts receivable will immediately improve cash flow (collecting past due receivables represents change in the collection process). Implementing and enforcing a company credit policy (the transition) will not only result in reducing past due accounts receivable but will provide a continued benefit to the organization. It is much more difficult to transition than it is to change.

We knew of a company who was having difficulty implementing its strategic plan. The executive team did an excellent job identifying the key points in the plan and communicating it to department management. However a year after the plan had been presented to all, little progress had been made and the executive team was naturally concerned.

What happened? Nothing.

Nothing happened because making pronouncements about the need to change and how change will create results did nothing for this organization because there was no follow through. After all the announcements were made and meetings were concluded everyone went back to their daily activities. Everyone assumed someone else was handling the transition and no one made any effort to change what his or her department was doing because no one had instructed them to.

There are two types of management, strategic and operational. It's important that we look beyond strategy when presented with a business downturn or new opportunity. Strategy will help us to identify the direction we should move in. But, if we want to successfully move our organization in that direction then we have to transition the strategic plan to an operational one and that requires us to address employee concerns and uncertainties.

Employees are generally not adverse to change if they understand not only the reasons for the change but also how they will be affected by the change. Too often senior management fails to include anyone outside the management ranks in the reasons for the changes they are making and expect rank and file to follow and adjust to the changes being implemented.

Our leaders, in both business and government, have either forgotten or ignored the words of the successful entrepreneur Ross Perot who said, “You cannot commit the troops until you first have their support”.

Leadership is understanding the need to not only effectively communicate the plan but also obtain the support for those plans by informing employees, customers, and vendors how they will be affected by the results. This will result in a successful transition from strategy to operations and minimize failure.

If we fail to effectively transition then any attempt to change the way we operate will be less successful then planned and that will lead to businesses continuing to prolong the inevitable.

I wish you well.

************************************* **JUNE 2018** **********************************

Day	Date	Group	Location	Time
Tues	5	Austin Construction	Tres Amigos Restaurant, 7535 E Highway 290, Austin, TX	11:30
Tues	12	Corpus/Victoria/La/RI	Conference Call	2:30
Thurs	14	SW Food Credit Group	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:00
Tues	19	Austin Construction	Tres Amigos Restaurant, 7535 E Highway 290, Austin, TX	11:30
Thurs	21	Fuel & Lube/Heavy Eq.	Phone Conference Meeting 1-800-791-2345	2:30
Thurs	21	Austin Ad Media	Phone Conference Meeting 1-800-791-2345	2:00
Thurs	21	HVAC Credit Group	Texas Air Products, San Antonio TX	11:30
Fri	22	SW Electrical Group	The Onion Creek Country Club, Austin TX	11:30
Tues	22	SA Construction	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:30

****