

# 10 CAUSE OF BUSINESS FAILURES YOU MUST WATCH OUT FOR



# High Debt Ratio

The first cause of business failures you must watch out for is high debt ratio. If your business is being owed much, maybe by giving too much credit to customers, then your business is at risk. Also, if your business is heavily indebted, then it's at risk of folding up. An antidote to this is for you as an entrepreneur to always carry out an acid test ratio and keep a keen eye on the debt to equity ratio.

# High Level of Mismanagement

The second cause of business failures is high level of mismanagement. If your key staff lacks professionalism, then your business is in trouble. Since your staff are in charge of running the day to day affairs of your business, their professionalism should not be compromised for anything.

# Unexpected Resignation of Staff

The third to watch out for is the unexpected resignation of staff from sensitive offices. This can really pose a threat to your business so you must be prepared for it. In business, poaching is really a factor to deal with. Big companies are always poaching good staffs away from other companies by enticing them with improved salaries and incentives.

***"The competition to hire the best will increase in the years ahead. Companies that give extra flexibility to their employees will have the edge in this area." – Bill Gates***

# Inadequate Inventory

Another factor that leads to business failures is inadequate stock or inventory. If you have inadequate stock either for production or for your customers, your business is bound for failure. Also; if you stock too much inventory, you are still bound to fail because you are tying down business capital.

***"Inventories can be managed but people must be led."***

***– Henry Ross Perot***

# Selling product below Cost Price

- \* The fifth cause of business failures is the sales of goods and services below cost price. Sometimes in business, cash crunch, fierce competition or economic factor make businesses sell their goods below cost price and this can ruin your business.

# Dwindling work Capital

- \* Dwindling working capital also cause of business failures and you must watch out for. Depreciating capital may be as a result of unnecessary expenditure, too much inventory and weak cash flow management on the part of the entrepreneur.

# Consistent Negative Cash Flow

The seventh factor that could lead to business failure is consistent negative cash flow. Cash flow is to business what blood is to humans. No business can survive without strong cash flow management. A solution to negative cash flow is to hire a professional accountant to keep a keen eye on the cash flow.

***"The most important word in the world of money is cash flow. The second most important word is leverage." – Rich Dad***



# Declining Profit

Declining Profit, if not handled properly can cause of business failure. If there is a down turn in profit margins due to competition or deflation, your business could be negatively affected. A solution to declining profit is to increase your sales volume so you can make more profit on volume or better still; diversify.

# Loss of Market Share

If you observe you are losing your market share due to either competition, new technology, innovation or trend, then this is a sign that your business is on the verge of being liquidated.

***"Your greatest and most powerful business survival strategy is going to be the speed at which you handle the speed of change. That speed of change is trend."***

The only prevention to loss of market share is to keep your ears to the ground for any new industrial trend, technology or innovation. You must also keep an eye on your competitor and be quick to act and adapt to any positive or negative industrial change or once again; you can diversify.

# Inability to Secure Operational Capital

Lastly, your inability to secure funds from financial institutions could lead to business failure. I really don't know what to say on this one but it is often said that "where there is a will, there is a way." If financial institutions refuse to assist you financially, you have to turn to other sources of funds.

***“Before making an important decision, get as much as you can of the best information available and review it carefully, analyze it and draw up worst case scenarios. Add up the plus or minus factors, discuss it with your team and do what your guts tell you to do.” – The Mafia Manager***