



Reasons your growing business could fail and how to future-proof yourself

Description

With a failure rate estimated between [50% and 94%](#), it can be easy to assume business failure is something only small businesses need to worry about. You'd be hugely mistaken in that belief though.

While 70% of businesses will survive the first year, [70% of all businesses](#) will have failed by year 10. That's an uncomfortable number, and the reality is your business might fail too. But the advantage of such a high business failure rate is there is a lot of history to learn from.

So, learning from that history, let's explore why your own business might fail and explore some strategies to avoid becoming a statistic yourself. Here are some reasons why growing businesses fail;

Failing to be flexible from the original plan

If I had to wager on the most followed adage in the history of humans:

Why change a winning strategy?

Humans, by our nature, though I'm not yet professionally qualified to affirm this, like to stick to winning formulas. I am qualified by observation, and I have often observed humans tread the same path over and over because it once worked.

Companies, by extension, because of being managed by humans tend to fall victim to the same folly. They will constantly invest in the same products, strategies and processes that built their brand in days past. While there's absolutely no problem with this while it still works, the problem arises when the company;

1. Fails to invest in new products, strategies and processes as a result

2. Sticks to the tried and tested even when it stops working

Smaller more agile competitors quickly pull the rug from other these stubborn businesses. More often than not, your business will find itself with no means of defence, and failure is inevitable.

No matter how much your business grows, it needs to retain the hunger, agility and innovation it started with. Every now and then, launch an offshoot to explore new avenues while you take care of the core if it still works.

Because, at the end of the day, it's less what you were selling that got you your initial success. It's more likely that you were fresh, innovative and exciting. If you allow your business to lose that, it will lose its market share and dominance as well.

Losing sight of the original plan entirely

This point needed to come next because it may seem like a bit of a contradiction, but it stands very true. Business growth and diversification is a delicate balancing act. It's more ballet than krumping. Your business can thrive by [observing the factors that got it started](#) as much as it diversifies from them.

For this to work, you need to be robust in what you base your founding principles on. As [Mut-Con](#), we exist to help entrepreneurs start and/or grow successful businesses. We may offer [financial management](#) or [analytics](#) or whatever other product you know us for, they all serve this greater purpose.

If [online presence and marketing](#) stopped giving our clients the advantage, we'd have no qualms about dropping it, but we'll always be dedicated to giving the best consulting and advisory around. What shape or form that will take twenty years from now, you can believe Mut-Con will define it.

That's the kind of commitment to your [values](#) that helps you build a business that lasts to posterity. As your business grows, have that true North that defines what you stand for. Losing sight of that could very well be what causes your business to struggle and ultimately fail.

Failing to develop/ retain your talent

Talent is expensive to acquire, get up to speed, and retain. The problem is even more pronounced in businesses with high employee turnover rates. You can expect the cost of replacing your employees to

be between [16%, 20% and a whopping 213% of the replaced employee's yearly salary](#) for low, mid and high-range jobs.

And these are just monetary costs. There are additional costs such as lost employee morale, skills, and knowledge. As a result, a business that consistently loses employees cannot retain its competitive advantage.

Business failure will not only come as a result of failing to retain and grow your market but it will also come as a result of failing to defend yourself from your competition.

Not only does losing your talent mean you lose the ability to innovate, it means they innovate for someone else. While you lose relevance, your competition grows stronger through the people you lost.

Always remember that the employees you lose will either become your direct competition or work for your competition. You need to defend your organisation by ensuring your employees are satisfied, with good growth prospects. Not only will this motivate them to give you their best, but they'll also be there to give it for a while.

Narrowing of business goals

It's common for business goals to narrow, usually in pursuit of the root of all evil. As businesses grow, the focus tends to shift to the bottom line, nothing but the bottom line. Employees, values, and all stakeholders are abandoned, as long as shareholders are given a bigger return.

This often leads businesses to take shortcuts. Making short-term decisions that definitely come back to haunt them in the future. We are all always so surprised when scandals break, and large businesses that should have known better are caught in the wrong.

Usually, these scandals cause reputational and financial ruin for the businesses involved. More often than not, these businesses fail to regain their ground after these incidents. Some of these businesses are institutional pillars like [Lehman Brothers](#) that fell apart for its role in the subprime crisis of 2008.

Some are businesses that just established their dominance, like [Facebook](#), which makes one wonder how long the tech giant will stick around. One thing is clear though when business focus is shifted to making profits alone, business failure is inevitable.

To future-proof your business, you need to make sure to keep goals balanced. At any given time, make sure your profits do not come with negative legal and moral implications. Because be it via fines, loss of public trust or bankruptcy, these will always come back to shut your doors down.

Overexpansion

One of the biggest [advantages of](#) small businesses is their manageability. It's easy to keep track of;

1. Best-performing products or services
2. Highest performing markets
3. Employee morale and efficiency
4. Expenditure management

As the business grows, this is quickly lost and the business becomes a management mess. It increasingly becomes difficult to figure out which areas of the business should be cut for costs, and which ones should be boosted.

The business becomes difficult to manage and bureaucracy ensues, stifling innovation. Take Sony, for example, which lost its mantle as the premium electronic giant [to falling sales in almost every division except gaming](#). Growing bureaucracy has seriously stifled what was once the "factory of ideas" to another run-of-the-mill gadget maker.

For your business to succeed for a considerable period, it's important to keep it manageable. A holding company structure may be a way to go. Give each division as much autonomy as possible.

Poor management development and succession plan

It's not uncommon for organisations to fall apart after the founder dies or retires. Research has shown that when a founder dies, [sales dip by 60%, employment sheds 17% and the survival prospects of a company drop by 20%](#) on average after two to four years.

Considering this research was on companies up to ten years old, this is a problem growing and established companies are equally faced with. Perhaps the most famous is the struggle and subsequent rise of Apple after the [firing of Steve Jobs](#).

The point is, businesses have been known to fall apart without the founder. A lot of this could be attributed to poor leadership development and succession planning.

Founders of businesses usually have a holistic understanding of their operations. Having started it from the ground up, they fully understand how all the parts interact and work together.

As the business grows, it's important to make sure this knowledge is passed down to new management. This way, the business will be able to hold on to its competitive advantage once the founder is removed.

Without such a succession plan in place, the founder will take the business's competitive and operational advantages when they leave.

What soon follows is a struggle to retain clients and talent, or fend off competition, and the business crumbles. Good management development and succession planning should allow the business to perpetually replicate what made it a success in the first place.

The business can grow and establish new advantages, but it cannot lose the ones that made it.

Failing to evolve with your market and its needs

Believe it or not, Blockbuster CEO John Antioco [laughed at a Netflix partnership](#) in 2000. Despite the fact that everyone was going crazy over the internet, he really didn't see a future in video streaming. Maybe the 20/20 vision of hindsight is leading to Blockbuster being judged too harshly because this misplaced confidence is common.

Brands oftentimes become so caught up in their dominance they overlook the obvious signs of a changing tide. And this has been the undoing of a lot of businesses. It's tough to see when the problems begin because shifting trends don't pause much threat at first. They are aimed at early adopters and the core market of established businesses is safe.

Think video streaming, early enough, few people were bothered to move from hard media. Think e-commerce, early enough, few people considered shopping online safe. But soon enough, the small issues are ironed out one by one, and the mainstream joins in. That's how the Amazons and Netfixs of this world are born.

Don't let your business be one of those that [fail to see shifting consumer trends](#). From the onset, model your business around the solution you want to offer, not the product you want to sell.

Never fall in love with the product, it's just a means to an end. Demand for your product may fall flat at some point, but the problem will most likely always need a solution. Building a lasting business is where your efforts need to be focused.

The Innovator's Dilemma

[The Innovator's Dilemma](#), an inspired piece of literature by Clayton M. Christensen explains why innovative businesses may fail to seemingly inferior products. A good modern example could perhaps be Apple. It's no doubt that the technology giant is currently struggling.

Sales are falling, launches are not as anticipated as they once were, and the tribe is not growing as strong. And all of this is counter-intuitive because one would argue Apple still makes great quality innovative products.

The answer could lie in the innovator's dilemma, Apple's commitment to that level of quality could be its downfall. Business failure usually follows when a business focuses solely on the technologies that service its current market and ignores new and emerging ones.

This decision is sometimes justified because the business has no benefit in investing in these inferior technologies. The problem is that these technologies quickly become cheaper, and more innovative and start to creep into industry leaders' markets.

Businesses that pursue these disruptive technologies start out on the fringes but soon encroach on the leader's main market. By the time the industry leader recognises the threat, it's too late to defend itself.

So for a business to survive, it needs to invest in maintaining its current market, while exploring new ones. They may not represent many benefits at the moment but they could be a huge threat in the future.

Think of any business whose fall was ushered by an internet-related product. When that product came on board it was probably poor quality and wouldn't attract its core market, but in the end, it did. A classic example is Blockbuster and Netflix. No doubt upon its launch, Netflix was an inferior product to Blockbuster. Overlooking it though is the nail that did Blockbuster in.

Conclusion

Business failure is a threat large and small businesses should be concerned about. [Gary Cokins of Analytics Magazine](#) has this little nugget of wisdom for us to chew on;

Almost half of the 25 companies that passed the rigorous tests for inclusion in Tom Peters and Robert Waterman's 1982 book, "In Search of Excellence," today no longer exist, are in bankruptcy or have performed poorly.

Of the original Standard and Poor's (S&P) 500 list created in 1957, just 74, only 15 per cent, are on that list today according to research from Professor Gary Biddle of the University of Hong Kong. Of those 74, only 12 have outperformed the S&P index average.

This paints a pretty clear, and grim picture, business failure is a reality. Not only do large businesses also fail, but the odds are also more against you than they are with you. But if history has shown us anything, it is that companies that stand the test of time do exist.

Coca-Cola is a whopping 120 years old. The world record for the oldest company is a Japanese hotel [from the year 705](#). That's a very long time in existence. Your business can reach these milestones too. You, as an entrepreneur, need to make sure it's fortified against business failure. And [managing the risk](#) of the points raised here goes a long way in helping with that.

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