



“Many receive advice, only the wise profit from it.” *Syrus*



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Business Failure might be avoidable ... if you are modest enough to ask for help

According to the Small Business Administration, one third of new businesses fail within their first two years, and roughly 50% of these new small businesses fail within the first five years.

The following were offered as the most prevalent reasons, which we have grouped according to disciplines;

| <u>Business Planning</u> | <u>Marketing Planning</u> | <u>Financial Planning</u> | <u>Operations</u> |
|---|---|--|---|
| <ul style="list-style-type: none"> • Over expansion | <ul style="list-style-type: none"> • Bad business location • Ineffective marketing and self-promotion | <ul style="list-style-type: none"> • Poor capital structure • Overspending • Lack of reserve funds | <ul style="list-style-type: none"> • Poor execution and internal controls |

However, at COGNEGY, we have seen another strong influencing factor that can be even more debilitating to a business than the above items. For now let’s call it **Passionate Arrogance**.

When a business first starts, the “founder” will make the usual round of family and friends investment requests, and begin with these minimal resources, erroneously under estimating what it really takes to start and run an end-to-end business of this nature. As seen from the table above, the majority of the reasons for early failure relate to some aspect of this initial funding.

As one would expect, insufficient funding will lead to almost instant failure – even with a good business and marketing plan.

However, it is frequently the case that sufficient short-term funding – from these friends and families sources - will mask and defer the inevitable failure resulting from these poor business and /or marketing plans; plans that are often required for securing the long-term investor funding critical to surviving past these first 2 years.

The other major reasons for failure are in the planning categories; specifically business planning and marketing planning. Here the founder has a great 'product' or 'service' idea, but little or no experience or idea as to how to build the business required to get it to succeed.

And by 'build a business', we mean:

Planning, building and managing all of the client acquisition, client delivery, and business support/back office processes at a projected expense rate and a projected performance rate that consistently operate at a fair profit.

Clearly, based on this definition, building and running a new business is no easy task. It requires multiple skill sets and experiences thru each phase of each major area – that are each above and beyond being a product or industry expert.

Many new small business owners jump in head first relying primarily on their industry expertise, passion, and early investors – while failing to ask the simple, but critical question: “Where do I want this business to be in 5 years, and how will I get it there?”

Major Corporations have entire and separate departments accountable for the planning, building and execution of each of these critical business requirements (acquisition, delivery, support). However, the new entrepreneur often has no one to rely on but himself, and while he may have experience in some for these critical areas of building businesses – more often than not, he or she often relies on trial and error, hoping that the errors are non-fatal.

Now comes the surprising part - while many entrepreneurs are quick to acknowledge their own experience deficiencies and seek assistance from others, an alarming number do not. There are no know statistics to support this view, a large number genuinely believe they can do it all and make their business and success without guidance or advice for others.

And while a few are gifted enough to achieve success without assistance, most aren't and fail.

The best advice we can offer is to be receptive of the advice given from qualified individuals; evaluate it and embrace it if makes sense to what you are trying to achieve and do not start with the premise that you are wiser than they. Remember;

“Many receive advice, only the wise profit from it”