How to Survive

Lessons in Business Survival

Expert knowledge means success

Contents

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

Pick up any newspaper these days and you'll find statistics on business failures. They make frightening reading and the forecast is gloomy.

It's vital to know whether your business is operating successfully and to ensure that you have the right information available to act quickly if a problem arises. Some of the things you must be aware of, or have access to, are listed below.

Accurate and Meaningful Financial Information

Successful firms recognise the importance of setting realistic budgets and cash-flows, and of being kept fully informed about what the current financial position is, and what the future position should be. This will allow you to identify any problems and encourage you to take corrective action before it is too late. Some of you will produce management accounts yourselves, whilst others may outsource that work - check with us for details on how we can take this burden from your shoulders.

Insolvency Act 1986

Before the introduction of the *Insolvency Act* and *The Company Directors' Disqualification Act 1986*, a director could generally only be held personally liable for debts of the Company due to fraudulent trading. These days, a director can be personally liable for a company's debts when he (or she) knew, *or ought to have known*, that the Company was wrongfully trading. This includes such things as not being able to meet debts as they fall due.

Any attempt to deny wrongful trading on grounds that you didn't have all the necessary information is unlikely to be acceptable - the Court will expect you to have access to this nine months after your financial year-end. You should always obtain your financial information as rapidly as possible because this should safeguard you in the even of any unforeseen problems arising at a later date.

Careful Documentation of all Directors' Actions

The number of prosecutions of private company directors is on the increase, and you should guard against it happening to you. As a Director, you must be able to show that you acted properly in any given situation - and in particular show that you have acted at all times in the best interests of the company. A minuted record of board meeting decisions will help you to do this.

All directors should be aware of their statutory duties, their common law duties, the definition of their function, and of the reasons for disqualification of directors. In particular you should be aware that shadow directors have the same responsibility and liabilities as other directors.

Companies Act and Taxation Legislation

Penalties exist for failure to comply with a variety of requirements. You can save money by avoiding all fines. For example, ignorance is not an acceptable excuse for failure to comply with the Companies Act - penalties payable by companies for late filing are now up to a maximum of £1,500 for a delay of over 12 months for private companies and £7,500 for public companies. VAT and PAYE non-compliance penalties are equally onerous.

20 Reasons Why Small Businesses Fail

1. Lack of adequate management information systems. An example, management accounts that show a profit or loss, but no reason why. Businesses that do not keep updated and accurate records and do not use adequate financial controls have a greater chance of failure than firms that have those systems in place.
2. A lack of periodic or regular Financial Review and subsequent planning.
3. The absence of a "defined" Purpose and Vision by Owners and Managers. Businesses that do not develop specific business plans have a greater chance of failure than firms that do.
4. Concentration on the technical aspect (the "doing" of business) rather than strategic planning and actions to attain the purpose of being in business - working too much IN the business rather than working ON it.
5. Inadequate capitalisation - Businesses that start undercapitalised have a greater chance of failure than firms that start with adequate capital.
6. Lack of delegation with responsibility (and training) resulting in excess dependence on single individuals who end up creating a narrow funnel for progress.
7. Failure to get appropriate advice and guidance - businesses that do not use professional advisors have a greater chance of failure than firms using professional advisors.
8. Failure to establish and communicate company goals to the management team and employees.
9. Lack of business experience - businesses managed by people without prior industry experience have a greater chance of failure than firms managed by people that do have relevant business experience.
10. Lack of management skills - businesses managed by people without prior management experience have a greater chance of failure than firms that are managed by people with prior management experience.
11. Inability to recruit and retain people - businesses that cannot attract and retain quality employees have a greater chance of failure than firms that can.
12. Lack of market and competitor knowledge (and thus an inadequate market strategy) - business owners without marketing skills have a greater chance of failure than owners with marketing skills.
13. Failure to understand product/service trends - businesses that select products/services that are too new or too old have a greater chance of failure than firms that select products/services that are in the growth stage.
14. Bad timing - businesses that start during a recession have a greater chance of failure than firms that start during periods of expansion.
15. Buying or spending cheap rather than for effective results.
16. Inadequate standards for quality and performance.
17. Starting too young - younger people who start a business have a greater chance of failure than older people starting a business.
18. Doing it alone - A business started by one person has a greater chance of failure than a firm started by more than one person.
19. Lack of parental guidance or role-modelling - business owners whose parents did not own a business have a greater chance of failure than owners whose parents did own a business.
20. Other factors:
    - Minorities have a greater prospect of failure than non-minorities.
    - People without any higher education or university degree who start a business have a greater chance of failure than people with one or more years of such education.

10 Tips for Success

1. Before starting the business, entrepreneurs should attain adequate capital and keep fixed costs low. A rule of thumb to define adequate, is to get the best estimate available of all costs, then double it. As the business begins to earn money, the owner should avoid the temptation to increase fixed costs. Without some extra financing a small business has no margin for the other factors of failure.
2. During slow economic activity/recession, consider waiting to start the business until the economy turns around, if the product/service is economic sensitive.
3. Starting with adequate capital and developing a close relationship with creditors can help eliminate creditor problems.
4. Following good accounts receivable practices, particularly ageing of accounts receivable and continuous contact can help to avoid slow accounts receivable.
5. Good record keeping with the help of a good accountant, and having adequate capital and good credit relations can help overcome tax problems.
6. Having a diversified customer base can help eliminate the problems of the loss of or over-reliance on a major customer.
7. Entrepreneurs who lack management experience and skill can work for someone else to gain these skills before starting their own business.
8. Partners can be an advantage or disadvantage to the entrepreneur. On the positive side, partners increase capital and skills, but on the other hand, a bad partner can be the cause of business failure. This is understandable, but can be counter-argued by the many successful entrepreneurs who recommend having a partner. The implication is to be careful when selecting a partner and to have a clear understanding exactly what each partner's responsibilities and share of the profits will be.
9. Small businesses should expand slowly with adequate capital to support growth; especially if business activity may not be as high as projected. Keeping the fixed costs low can also help.
10. Good record-keeping and financial control can help minimise theft.

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Important Notice

Publication issued or updated on:
23 January 2012

Ref: 107