

## **Why Businesses Stay Small and What They can Do About It.**

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### **Abstract**

An analysis of Australian Bureau of Statistics data reveals an astonishing growth in small businesses. It also reveals the fate that awaits most is not that their failure is imminent, although every business fails sooner or later, it is that almost all of them stay small. While work/life balance may be an issue for many owners affecting their growth objectives, many others just struggle to stay where they are. This paper looks at the five reasons businesses remain small, the steps they must take to break through the barriers to achieve the results they want, and what advisors must do to facilitate that growth.

### **Introduction**

Much is made of small business failure, with some fairly wild and unsubstantiated figures being quoted, especially by advisors trying to drum up business. The facts are somewhat more prosaic. Business failure is about 7.5% per year (1). This, however, covers a higher failure rate amongst new businesses. A recent Australian Bureau of Statistics study (2) showed that just 58% of businesses started in 2003 were still operating in 2006, an annual failure rate of 17%.

While these statistics are important, what these numbers don't show is the two realities all businesses owners know and face. Number one is all businesses fail, eventually, as none last forever. This is not what concerns most business owners. What is of concern to most, is what happens to them in the meantime.

Further analysis of the Australian Bureau of Statistics study (2) reveals some interesting trends. When considering just active employing small businesses (with less than 20 employees), the average annual growth in the 3 years from June 03 is 9%. Fuelling this growth are micro-businesses (with less than 5 employees). This sector has had an average net growth of 11% over the same period and makes up 61% of all businesses.

A bubble is now forming in the number of businesses with fewer than 5 employees. While there are exits (failures) and transfers (promotions) to larger categories, this sector is growing faster than any other. Most micro businesses seem to be trapped within the bubble, with only a few emerging. The analysis shows:

- New Micro-businesses each Year: 18%
- Annual Micro-business Failure Rate: 5%
- Net Annual Micro-business Growth Rate: 11%

- Micro-businesses Emerging from the Bubble: 2%

Within the group defined as micro-business, there are two other sub-groups:

- Emerging Businesses
- Micro-Stayers

Emerging Businesses differentiate themselves from all the other micro-businesses as the movers. The Emerging Businesses are leaving their fellow micro-businesses behind. Only 2% of micro-businesses escape the bubble.

Those micro-businesses that don't emerge from the bubble, but still survive, I define as the Micro-Stayers. There are a number of reasons that businesses may stay in this group. It could be a lifestyle choice. Work — Life balance is becoming more and more important to many people. It may be because they don't have the knowledge to take their business to the next level, and become frustrated Micro-Stayers. Or they may have progressed from frustrated to resigned Micro-Stayers and have adjusted lifestyle and ambition in recognition of this.

Therefore, what concerns most business owners, is that in spite of all their hard work, that their business will stay small.

### **Reasons Businesses Stay Small**

In my studies on small business (3) I have identified five key reasons businesses stay small. Owners must address all five areas to achieve success.

**1. No Vision for their business.** Without a vision, it is not possible to create a plan. The business becomes directionless. Without a vision it is impossible to work out which opportunities to say yes to, and just as importantly, which ones to avoid. Owners without a vision find decision making difficult. They are fashion followers. They expend a lot of time and money trying different things then dropping them when they don't get immediate results.

**2. No Passion or Commitment.** Passion comes from the right vision, and creates the Commitment that will drive the business to achieve its goals. Passionate owners will be prepared to make the sacrifices in time, money and effort to succeed. Passion infects others- staff, suppliers, customers. Without that passion for their business, the support to keep going would not be there. Any plan will have flaws, but without commitment that derives from passion, the owner can be diverted by even the smallest obstacles to achieving their goals.

**3. No Goals or Plan.** On its own, vision is not enough. If owners don't have clearly identified goals that create stepping stones from today to their future success, they will lose focus and get mired in the day-to-day operations of their business. However, to create confidence in their success, there must be plans to move the business between each

goal. These become a business' opportunity finders. Plans also create a belief in success. If owners have no plan, they will lack the confidence to take the calculated risks required.

**4. Owners not Valuing their Time.** There is a well known saying that the owner must spend time working on the business, not in it. Most owners know this, but say they just don't have the time. The reason for this is that owners don't value their time. They either try to save money by doing the non-core tasks themselves or find they can't give tasks to others as they have inadequate systems in their business. To create systems also requires them to spend time working on their business. If, however, they put a dollar value on their time, based on the highest value work that they could be doing instead of non-core work, they would be prepared to pay someone to do these tasks, and pay for advice to help their business.

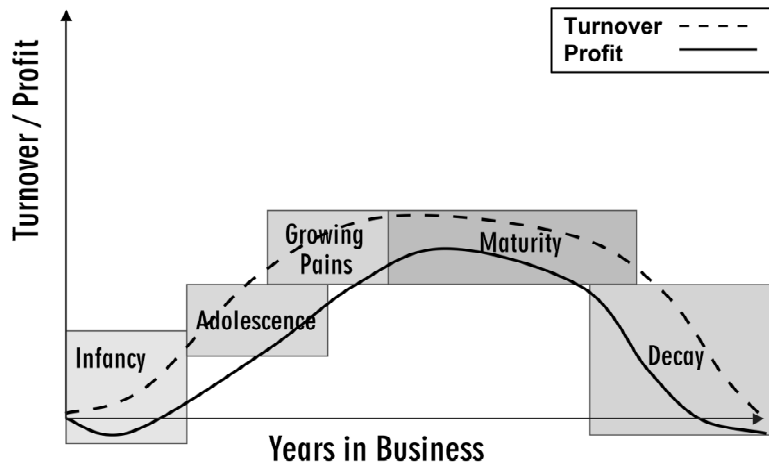
Most owners don't pay others to do work because they don't have the vision of how their business will be and the belief that their business will be a success. If they know their business will be successful, employing others to undertake work for them is just part of their plan.

**5. Lack of Business Knowledge.** This does not mean owners have to be an expert at everything, but understanding the fundamentals will encourage them to seek out advice and support in those areas in which they are not expert. When owners value their time, they will also understand the value of knowledge. After all, the right kind of knowledge can greatly increase the speed at which they reach their goals.

If an owner is not willing to invest in their education, and sees that as a cost instead, they are relying on the school of hard knocks which extracts a far higher cost than that of any advice. Ultimately, lack of knowledge creates a ceiling for their business.

### **How to Advise Business Owners**

While most business advisors understand these principles, too many try to apply the same solutions irrespective to the stage of the business. It is not so much a case of what an owner needs, but what it is they want at a particular stage, and therefore, what they are prepared to implement. To be effective, an advisor has to understand the stage of the Lifecycle of the Business (3) and tailor solutions to that stage.



### Start-up and Infancy

Every business goes through a Start-up phase. Prior to Start-up the focus of the business owner should be to prepare a Business Plan. A detailed plan will ensure that the owner will understand the risks of their new venture and have strategies to manage them, to make sure that their business is viable and has a flying start.

Infancy is characterised by low profitability (or even losses). Turnover is low. In many cases, they are paying themselves almost nothing, and when you look at the total cost of their being in business, they are actually paying customers to do business with them.

Once the business has commenced operations and has moved to infancy, the owner has two big areas of concern:

- Survival and
- How to get more Customers

While the owner is likely to have some technical skill, and is good at providing some service, the biggest issue they have is to find someone to whom they can provide it. Few owners at this stage have any idea of marketing — not even the basics. Any business that comes their way is more by good luck than good management, and when the good luck happens, they have no way of replicating it.

Often the owner has no vision, and in many cases has gone into business by accident. They have no idea how they will survive. Even the basics like an idea of how much to charge, and how to sell are missing.

In this phase, the most dangerous issue for small business owners is that they don't know what they don't know.

From the owner's perspective the best chance of survival is to bring in more customers. While this is essentially true, it is too often short-sighted, and keeps the owner in a state of perpetual re-activity instead of being pro-active. At this stage, they aren't too fussy about who could be a customer. In fact they would be happy if anyone would be their customer.

At this stage they are seeking low cost ideas that produce quick results, utilising smart marketing tactics that require only a minimal outlay of funds. While a start-up business owner usually has little in the way of funds, if they can get good, low cost advice, it will quickly pay for itself many times over.

### **Adolescence**

Businesses enter this phase when the owner no longer needs to look over their shoulder all the time. The business is not just surviving, it is growing. Through experience, the owner now knows the basics of business for which no degree could ever prepare them.

The owner now is impatient. They ask:

- How can I accelerate my sales growth?
- How can I make my business more efficient?
- How can I make my sales more predictable?
- How can I smooth out the peaks and troughs?

At this stage of the life a business, the owner understands not everyone can be their customer. Even more importantly, they don't want everyone to be their customer!

They now need a Marketing Strategy — not just ads that might get the phone to ring. They are also starting to look at how they can improve the operational aspects of their business. In the past this was not an issue, as they weren't that busy with customers.

The business is growing quickly, even if somewhat erratically. Year on year, business is good, although there seems little consistency and predictability of profit. Marketing efforts produce good results, although they are volatile. What is missing is a systematic approach to producing and managing sales.

At this critical phase of the life of a business, the right advice can quickly change what is a roller coaster ride into a ride where the owner, rather than gravity, has control.

## **Growing Pains**

All businesses reach a stage where they are victims of their success. They don't want any more customers. They are struggling to handle the customers they have. Until this time, inefficiencies in their business could be handled because they had spare capacity. They are now operating flat out. The owner is working extra hours just to cover the gaps. Customer service is starting to suffer. They are making a lot of money, but not that much profit.

In the Growing Pains phase they:

- see a slowdown in growth
- are busy most of the time
- are making mistakes because they are busy
- are working long hours
- are turning some business away
- are spending all their time working in their business

At this time growth slows. The focus now should be on business systems that will allow the owner to take back control of their business. They need to be able to delegate to others or outsource non-core parts of their business. In short they must leverage their time. Without business systems and procedures, they are unable to do this and maintain quality.

Although important, systems on their own are not enough. The owner also needs to generate reports for every part of their business to ensure that the work they have delegated to staff, or outsourced, is being undertaken in the way they want. Only when reporting is in place, can the owner have confidence that the work done by others meets their standards and they can continue to bring in more people to grow the business.

While they are at this stage, owners also need to develop a marketing strategy that will allow them to have fewer, but more valuable customers. They need to be far more targeted in their marketing. This increases their income and gives them more time to work on their business. This requires a significant re-adjustment in their business operations.

At this point, business owners now know what they don't know. The challenge for business owners at this stage is not whether they can afford to get advice; it is actually finding the time to make the changes.

In this phase of the business lifecycle, owners start to appreciate the value of their time. When they understand its value, they are prepared to pay a price to have more.

## **Business Maturity**

A business in maturity has the following characteristics:

- Stable profitability
- Predictable sales
- Business generally runs smoothly
- Minimal growth
- Owner feels in reasonable control and comfortable
- Owner has run out of ideas to grow the business

Maturity is a very dangerous time for a business. This is the point at which the owner is comfortable with their achievements. Their business is running smoothly. While sales have started to plateau, their profits may still increase for a while, because they are still getting better at doing what they do.

The owner has decided that their business is at the right size, they don't want it to grow larger. The owner is in their comfort zone. They see opportunities to increase their profits incrementally, but they see no need to make significant changes in their business.

The reason this is a dangerous time is that the owner has taken their foot off the accelerator, and the business is starting to coast. When businesses are coasting, they are consuming the energy and marketing capital they created in the early years. For example, for businesses depending on Word-of-Mouth, this is a wasting asset and requires continual nurturing. People move away. Their needs change or they may be captured by a competitor who has a better service.

The success of a business is dependent on constant renewal. This involves developing new products and services, finding new customers, and new ways of delivering the service. If owners don't invest in constantly rejuvenating their business, their business will be in decline. At first it might still appear to grow (from the momentum of earlier efforts). After a time, the sales start to plateau. They then start to lose some of their older customers and it becomes more difficult to get new customers.

Businesses at this stage require a total review of their strategy. Where do they want to be in five years? They need to be prepared to change their business. Their business has plateaued because the strategies they have employed so far, have exhausted their potential. To continue to grow, new strategies will be needed. Potentially there may be a need to change the business model. The owner will most definitely need to change the way they work.

## **Business Decay**

Businesses start to decay while they still appear to be on plateau. At some point, significant and consistent falls in sales start to occur due to the owner ceasing to invest in

the renewal of their business. The business starts to lay off staff and reduce their services, until they only have a few customers and staff remaining. The owner may even continue for some time while making losses, out of habit, and perhaps, pride. They may start to look for someone to buy their business, but there is nothing to sell, as they have consumed their business capital and not re-invested. The only asset that remains is themselves, and they are by now disheartened.

The owner starts to blame the economy, the government, imports, staff, even customers. Turnaround at this point is rare. Unfortunately the type of changes necessary are radical, and can be costly. Such changes require a commitment that most owners at this stage no longer have. After all, if you believe someone else is to blame, you also believe that its up to someone else to do something, not you. At this stage their personal goals may also have changed, and life coaching may, in fact, be of greater assistance than another business plan which they will never implement.

## **Conclusion**

For most small business owners, the struggle they have is to achieve the reward they expect for the effort in time and money they have invested in their business. In these days of high employment, and more challenging economic times, the temptation is to walk away and find a job in a larger business and let someone else do the worrying. Their sunk investment in their business, however, prevents many from taking such a decision which would mean admitting failure. As long as this investment has not been consumed by decline, the opportunity to re-invigorate and refocus is always a valid option.

Advisors must be sensitive to the stage of the business lifecycle that the owner has reached, and provide the advice that the owners are ready to receive and implement. Trying to do more than that may make the advisor feel good, but leave their client feeling like they have wasted their time.

## **References**

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## Goal Attainment and Constraints in Small Business

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### **Abstract:**

Using structured interviews, this study examines barriers encountered by SMEs in New Zealand in their endeavour to attain their own and reported goals from launching their business venture. Of particular importance, this paper investigates and analysis internal and constraints separately. One outcome was the tendency of business managers/proprietors to rate highly external constraint. Also from our analysis, while experience and education as some of the internal constraints were identified as areas of weaknesses, and accordingly SMEs made a clear indication that they would like to know more about how to do things, however they don't see education as the cure. This point is particularly problematic for educationalists, because these SME Proprietors/managers clearly differ from management in larger businesses who look to MBAs and other programmes as a way of climbing the career ladder.