Deciding When to Call It Quits

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Starting your own business is not for the faint of heart. According to the U.S. Small Business Administration, half of all small businesses will fail before reaching their fifth anniversary. With a 50% chance of failure, individuals starting a small business have many challenges to overcome for long term success. For the 50% who succeed, owning a small business can provide financial security for the business owner and their family. Unfortunately, for those who do not succeed, failure represents the loss of not only future financial security, but in many cases, financial insolvency in the present. Recognizing the signs that your business is headed in the wrong direction may help mitigate the financial loss. Here we look at signs it may be time to call it quits and possibly salvage some of your financial stability.

What Makes A Business Fail?

There are dozens of reasons why a start-up or small business in the early years may fail. Some of the more common reasons include but are not limited to; **lack of sufficient capital, lack of experience, using business funds for personal use, competition and poor credit arrangements**. All businesses require available cash flow to not only function, but grow. In many cases, a small business is primarily funded by the owner, family, friends and a handful of investors. Without sufficient capital, even the best business, managed perfectly cannot succeed.

Signs Your Business Is In Trouble

There is no denying the fact that all new businesses experience problems in the first few years. How these problems are handled and knowing how to avoid them, or at minimum reduce the damage, can be the difference between a successful business and one that closes its doors. For most small business owners, the business represents not **only an investment but also a lifelong dream.** All too often the fixation on turning that personal dream into a reality creates a type of tunnel vision which prevents the owner from seeing the warning signs that their dream is about to turn into a nightmare. The personal investment of both time and money can be overwhelming, however it is imperative for business owners to remember that their dream is in fact a business and must be managed accordingly. The following signs should be considered a warning that your business is headed for trouble regardless of how much you " want" it to succeed.

- ***No cash flow*** - Businesses need cash. If your business relies solely on credit or other financing just to cover basic operations for an extended period of time, you will almost always run out of funding options to keep your company afloat.
- ***Drop in sales*** - Whether you are providing a service or selling a product, a drop in sales represents trouble. Although it is not uncommon for businesses to have slow periods, to succeed sales must remain steady or increase for growth. If your product isn't selling, something is wrong.
- ***High turn-over/low morale*** - A low employee morale and high turnover indicate problems in the management of the business that the owner may not see. If your workers do not have faith in your product or service, how can they instill confidence from buyers? If your employees are unhappy, investigate the reasons why to learn where the weakness lies.
- *Rapid growth*- All business owners strive to grow their business and expand beyond the initial start-up. Unfortunately, too much growth in a short period of time can be the very thing that makes a business fail. If your business experiences rapid growth that is not accounted for in your business plan or infrastructure, it may very well destroy the foundation. This is one situation where it is possible to have too much of a good thing.

Calling It Quits

If your business is on a downhill slide, knowing exactly when to pull the plug can be difficult. Waiting too long will surely cost you more money, however calling it quits too early will eliminate any chance of recovery. Experts recommend setting a limit as to how long you are willing to work at a loss before taking the steps necessary to close the business. This may be a set amount of money or specific period of time. If the business does not show improvement or turn around before your limit has been reached, it is time to call it quits. Another factor is determining just how likely it is that your business can survive moving forward. Changes in the industry, new competition and other factors may clearly dictate that it is time to move on.