Four reasons why businesses fail

Businesses that are managed properly usually have contingency plans in place to get through difficult times. Poor management is often the reason businesses fail.

Thomas van Zyl and Robyn Hey

Robyn Hey of HWD Attorneys and Thomas van Zyl, an Insolvency Practitioner at Mazars often work together on liquidations and have seen their fair share of businesses go under.

Here they share some common mistakes and useful solutions.

Professional help is essential

Don't assume that if you are good at your trade, you will be good at running a business. "You may be an excellent engineer, for example, but it doesn't mean you are equipped to keep an engineering business afloat," says Hey.

Running a business well includes the assistance of a skilled accountant, access to legal advice and consultation with a business coach. "We had a client who had signed over 30 sureties making him liable in his personal capacity for debt his business could not pay," she says.

"Things got so bad that both he and his wife were sequestrated as they were married in community of property. His debt cost them everything."

The lesson learnt here is that you need to consult professionals to help you. "For example, a qualified estate planner will help you avoid tying personal assets to your business. The expense of this process will be worthwhile," adds van Zyl. "Also be aware that assets on your balance sheet are not necessarily what your business is worth. If things go belly up, you must realise those assets won't necessarily be sold at market value, but instead will more than likely fetch a quick "forced sale" price in the liquidation process."

Honesty is your best policy

Some businesses don't have the correct internal controls in place and some may even operate with suppliers on a handshake. This is a dangerous game. "Keeping up to date management accounts can help you identify trends in your business such as what you are doing right as well as what you are doing wrong," says Hey. "Getting things in writing should be obvious, but this is essential." And, says van Zyl, don't try to hide what is really going on.

"Another case saw some delaying from the owner's side in making a decision to liquidate. He tried to hide assets before liquidating so they couldn't form part of the liquidation. It is so important to act with integrity. This means you won't end up acting out of desperation or unlawfully."
"Remember, your first loss is your cheapest so look ahead before it's too late," adds Hey.

Choosing the wrong business partner

If your values are not aligned with those of your business partner, trouble is usually ahead. "You've got to do thorough checks before you get into business with someone and remember if you co-sign and your partner disappoints, you are fully liable for debts," says van Zyl.

In the event that your business is failing, you need to be practical, not sentimental. "And if you are honest, you may be able to hold onto some supplier relationships," adds Hey. However, if your business cannot pay its debts as and when they fall due, you have no option but to liquidate your business. Failing to do so is unlawful.

Putting all your eggs in one basket

Make sure you have diversification in your business. If more than 50% of your business' survival lies in the hands of one client, it does put you at risk. "If you want to grow to avoid this risk, you must make sure you have the right systems in place to do so," says Hey.

"Liquidation is a crisis management tool, but it's also a learning curve - if you are smart and get the right assistance, you can come out on the other side and even go on to start a new, successful business later," she adds.

"It's a horrible process being liquidated, but cutting your losses in good time and acting with integrity will make all the difference," van Zyl concludes.