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The Five Main "Business Killers" And How To Avoid Them

Many small to medium-sized businesses display similar unfavourable management techniques that can be threatening to the business. Here are the five main so-called "business killers" to avoid.

Lack of strategic planning.

The tendency to react to each circumstance without the advantage of a strategic plan is a downfall for any business. Without a plan, owners jump from crisis to crisis without control, teaching employees to do the same.

A strategic plan must be designed to increase the chances of success, not simply reduce the likelihood of failure. It must identify a competitive advantage by differentiation and value.

Inaccurate financial information.

If there is a lack of truly useful financial information, it is impossible for executives to manage or make solid decisions.

Without accurate information, owners are unaware of the financial impact of their decisions and how those decisions impact the break-even rate, overhead application and pricing matrix. A business owner who relies on gut feeling leads with a false sense of security.

Solid financial information is developed by analysing critical functions. Based on this information, specific productivity goals should be set, along with a reporting mechanism to monitor costs to enhance profitability.

Insufficient liquid assets.

Business owners who continually use bank overdrafts to cover costs put tremendous pressure on themselves to resolve financial crises. Often, this leads to making expedient short-term decisions, to the detriment of the long-term survival of the company.

Understanding the true cost of running the business is the first step in gaining control of the company's finances and, ultimately, the success of the business.

Utilising break-even for pricing and competitive advantage, understanding the impact of indirect and administrative overhead and making profit the first item of expense allow the company to generate enough cash flow to meet its needs and generate a substantial profit.

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Inability to measure employee productivity.

A business owner who is not able to measure employee productivity is forced to discipline negative work habits based upon visual observations. If a company has not defined employee performance standards or has not quantified the desired results, it will have a difficult time providing incentives to employees.

The lack of a system to measure productivity leads to an inverse pyramid organisational structure, with the owner spending less time on long-term planning and more time on daily crisis situations. This structure can lead to discouragement and poor performance among the best employees.

Incentive programs and performance job descriptions allow management to motivate employees, shift responsibility to a lower position within the structure and hold employees accountable for overall performance.

Inability to identify company costs.

When no system is in place to identify costs, business owners must rely on visual observation to determine how each section of the company is managed. This can lead to a wasted budget or time, in turn leading to a decrease in billings or costing the company clients.

Business owners should identify the critical variables within the company, such as revenue, direct job cost, margin contribution, indirect costs, administrative and general overhead.

Each business is unique in its cost structure, employee and management profile, and market, but owners must follow the principles of sound business management and learn to adapt these techniques to their specific industry. Each category works in conjunction with the others to provide the necessary information to make cogent decisions that are critical to the success of a company.

For business owners to realise their profit potential, they must understand that every decision has an impact on profit. If owners are diligent in the execution and follow through of sound management techniques, they will achieve their predetermined profit.