PRESTAMOS CDFI
A DIVISION OF CHICANOS POR LA CAUSA

Top 10 Reasons Businesses Fail

PRESENTER
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ABOUT US

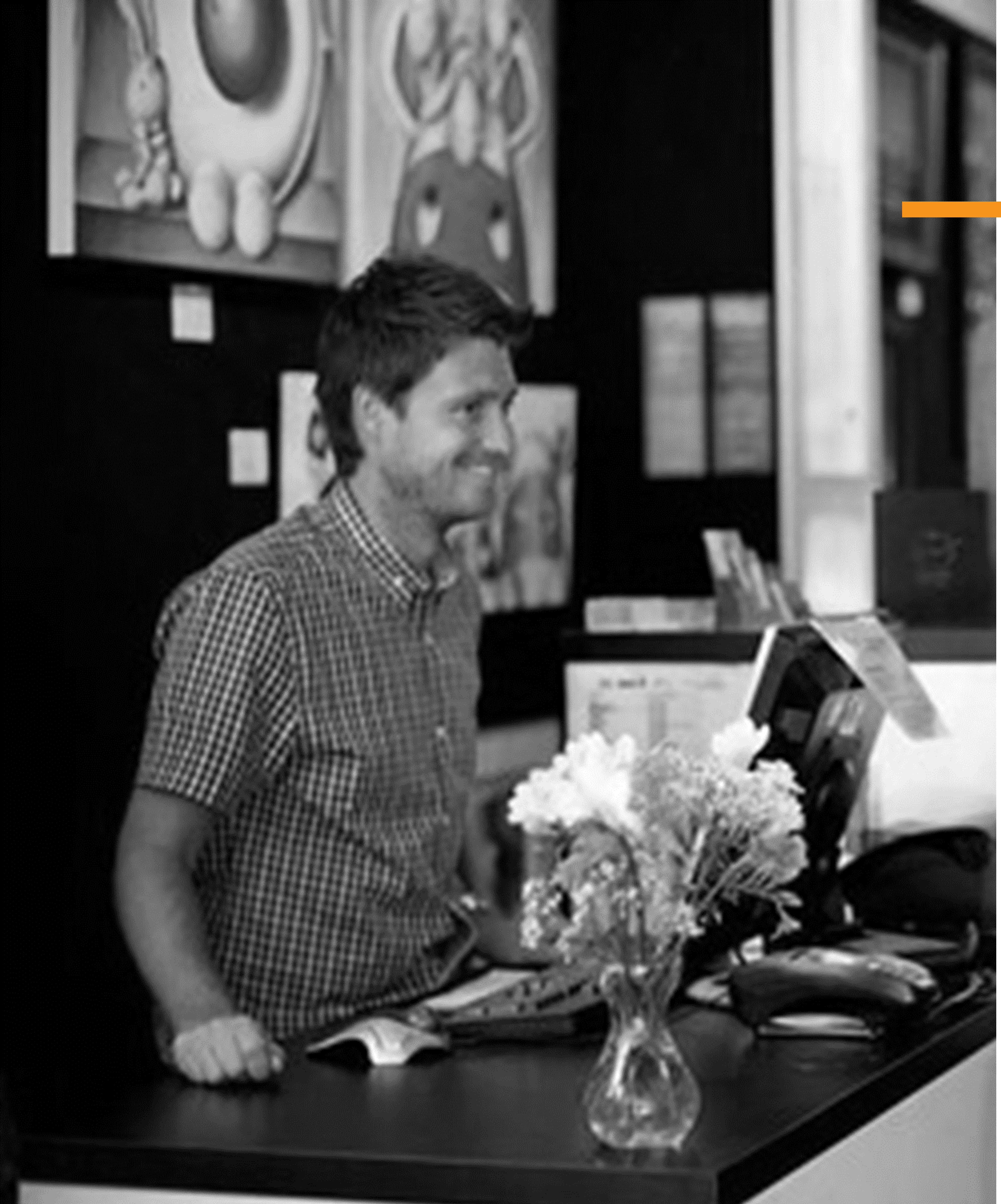
Prestamos CDFI, a division of Chicanos Por La Causa (CPLC), is a trusted mission-driven Community Development Financial Institution. Since 1980 we have promoted economic and community development through lending, business consulting services, and investment opportunities to underserved communities in Arizona, Nevada, New Mexico, Texas, and California.

Highlights:

- WBC – Women's Business Center
- MBDA – Minority Business Development Agency
- Business Consulting Services
- Prestamos CDFI was named the #1 U.S. SBA lender by playing an integral role nationally in supporting small businesses during the pandemic, providing over 400,000 Paycheck Protection Program (PPP) loans to underserved communities in crisis.
- Maricopa County Resilience Loan Program ($26MM)
- Santa Cruz County Forgivable Loan Program ($1MM)
- City of Phoenix Light Rail Program
- State Small Business Credit Initiative (AZ Loan Guarantee Program) AZ Commerce Authority

Ten common factors that contribute to Small Business Failure:

1. Financial support
2. marketing
3. preparedness
4. Cs / spending habits
5. Business plan
6. Mgmt
7. Cash flow
8. technology
9. logistics
10. Can do mindset



Ten common factors that contribute to Small Business Failure:

- **Insufficient capital:** One of the primary reasons for small business failure is a lack of adequate funding. Insufficient capital can lead to cash flow problems, making it challenging to cover expenses and invest in growth. Knowing when to borrow is huge!

- **Poor financial management**: Ineffective financial management, such as improper budgeting, **lack of bookkeeping**, or **failure to monitor cash flow**, can quickly lead to financial trouble and ultimately business failure

- **Lack of market demand:** If there is insufficient demand for the product or service a small business offers, it can struggle to attract customers and generate revenue. A thorough market analysis and understanding of customer needs are essential to avoid this pitfall.

- **Inadequate planning and strategy:** Failing to develop a comprehensive business plan and a well-thought-out strategy can leave a small business without a clear direction. Without a roadmap, it becomes challenging to make informed decisions and adapt to changes in the market. (How does technology play a part in your business?)

Ten common factors that contribute to Small Business Failure (cont):

- **<u>Strong competition:</u>** Intense competition can make it difficult for small businesses to gain market share and differentiate themselves from larger, established competitors. Failure to identify and respond effectively to competitive threats can lead to business failure

- **<u>Lack of marketing and promotion:</u>** Even with a great product or service, a small business may struggle if it fails to reach its target audience. Insufficient marketing efforts, including online presence, advertising, and branding, can limit visibility and hinder business growth. How are you utilizing Social Media?

- **<u>Poor management and leadership:</u>** Ineffective leadership, inadequate management skills, and a lack of experience can undermine a small business's operations and its ability to navigate challenges and seize opportunities. Seek out a MENTOR!!

Ten common factors that contribute to Small Business Failure (cont):

- **<u>Inadequate customer focus:</u>** Neglecting customer needs and failing to provide excellent customer service can result in customer dissatisfaction and loss of business. A strong customer-centric approach is vital for long-term success.

- **<u>Operational inefficiencies:</u>** Small businesses that face operational inefficiencies, such as inefficient processes, inadequate inventory management, or a lack of scalability, can struggle to meet customer demand and maintain profitability. (Restaurant Industry and Manufacturing)

- **<u>External factors and unforeseen circumstances:</u>** Small businesses are vulnerable to external factors beyond their control, such as economic downturns, changes in regulations, or natural disasters. These factors can disrupt operations and, in some cases, lead to business failure**. (Covid-19)**

The Statistics

Bureau of Labor, Small Business Admin,

1. 20% of Small Businesses fail within the first year. By the end of the 2nd year, 30% of Small Businesses will have failed. By the end of the 5th year, about half will have failed. And by the end of the decade, only 30 percent (3 out of 10 businesses) will remain – a 70 percent failure rate.

2. Not surprisingly, failure rates exhibit substantial variations across different industries. Healthcare/Medical businesses and organizations typically experience a lower-than-average failure rate, primarily driven by the consistently high and growing demand for healthcare services. On the opposite side of the spectrum, the failure rates for warehousing and transportation businesses tend to be elevated, likely attributable to substantial startup expenses and intense competition within the sector (High Fuel Costs). Falling somewhere in between are enterprises like SEO companies and other marketing firms, which feature relatively low startup costs but contend with demand fluctuations tied to market conditions and heightened competition.

Why The Failure Matters

- For starters, the failure rate gives you an idea of how and when businesses tend to fail. Only 20 percent fail within the first year but 50 percent fail within the first five years. In other words, an additional 30 percent of businesses will fail between years 2 and 5, or about 7.5 percent of the initial amount per year.

- If we assume a kind of "death by natural causes" and take that 7.5 percent figure as a predictable rate of failure, we can assume about 12.5 percent of businesses in the first year fail due to lack of preparation in one way or another. If you're better prepared than the bottom eighth of business owners, you're in good shape.

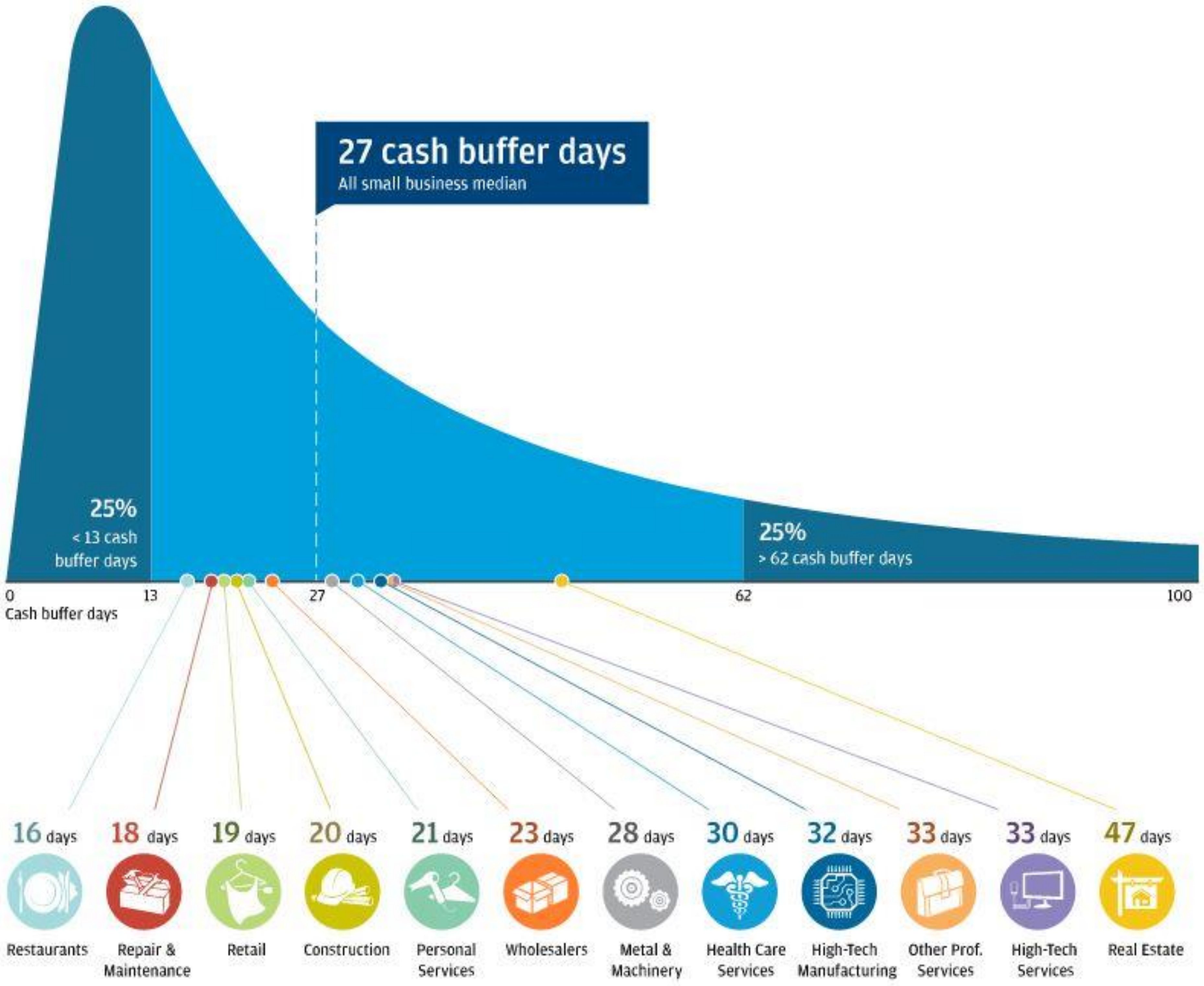
Measuring Cash Inflows, Outflows, Balances, and Buffer Days

Cash Inflows: Credits into any business deposit or savings account (e.g., revenues, owner transfers into the account from private savings, loan disbursement, or tax rebates)

Business Deposit & Savings Accounts -> Cash Balances: The amount of cash held at the end of the day across all business deposit or savings accounts

Cash Outflows: Debits out of any business deposit or savings accounts (e.g., supplies purchased, payroll, owner transfers out of the account to private savings, loan repayments, or tax payments)

Cash Balances ÷ Cash Outflows = Cash Buffer Days: The number of days of cash outflows a business could pay out of its cash balance were its inflows to stop



BEST PRACTICES

Cash Reserves

Industry standard is anywhere from 3 to 6 months of working capital cash on hand for unexpected challenges.

Audit Your P&L Statement Monthly

What are you spending your money on? This allows you to better budget expenses. (understanding trends in your own business)

What are you Cash Flow Cycles?

Understanding seasonality in your business.

Constantly Researching Your Industry

Staying abreast of how your industry is evolving. Data Analytics is something you should educate yourself with.

Utilizing Resources Available to you

Staying abreast of how your industry is evolving. Data Analytics is something you should educate yourself with. Business Mentors in the same industry!


Q & A

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