

Five Reasons Small Businesses Fail, And How To Avoid Them

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We all know that entrepreneurial activity is essential for creating vibrant and sustainable communities. After all, small businesses are the [economic engines](#) that create the vast majority of all new jobs. For the aspiring entrepreneur, owning a successful business can be a path to economic empowerment and social mobility. And yet, while new business creation is [on the rise](#), the odds of success remain remarkably low.

After more than 20 years of exploring the mindset and the methods of successful entrepreneurs, I've found that, despite its rising popularity, the subject of entrepreneurship remains fraught with popular myths and common misconceptions, many of which lie at the root of why so many startups fail. Whether you're an aspiring

entrepreneur or in a supporting role, you can drastically increase the probability of success by following these simple rules.

1. Start with why.

Too often, aspiring entrepreneurs fail because they set out to solve a problem for themselves rather than for others. They see owning a business as a way to make money, to escape the rat race or to follow their passion. And by doing so, they overlook the first principle of entrepreneurship: By solving problems for *others*, we empower ourselves.

This is not to say that good ideas can't be found by scratching our own itch. In fact, many successful businesses arise from doing just that. Yet, what so many aspiring entrepreneurs and small business owners fail to realize is that it is the self-oriented nature of their why that undermines their ability to succeed.

By contrast, those who succeed are much more likely to begin by finding a problem, frustration or unmet need. They intuitively understand that by solving problems for others, they can empower themselves. It is the other-oriented nature of their why that lies at the root of their ability to succeed.

In his book, *Competing Against Luck: The Story of Innovation and Customer Choice*, Harvard Business Professor Clayton Christensen illustrates the importance of understanding not only the functional but also the underlying social and emotional dimensions of human needs as the key to creating products and services that customers actually want to buy.

2. You don't need to be an inventor to be an entrepreneur.

Many aspiring entrepreneurs mistakenly believe that the only thing that stands between them and success is a great idea. They set out in search of the "million-dollar idea" that will catapult them to success. And by doing so, they often overlook opportunities that are hiding in plain sight.

We've all heard the story of an entrepreneur who came up with the idea that led to overnight success. Yet, in reality, these stories are, by far, the exception rather than the rule. The truth is, very few businesses actually start this way. In fact, even large established companies, like Hewlett Packard, Waste Management and Walmart, are created by founders who initially pursue small niche opportunities.

This begs the question: Is it the horse or the jockey?

This get-rich-quick way of thinking often reveals another fundamental flaw in the logic of the aspiring entrepreneur. They mistakenly believe that to win the race, they don't need to be a good jockey; they just need a really fast horse. In reality, the opposite is more likely to be true. Companies like Zappos and Starbucks remind us how a relentless focus on the customer can transform a simple idea into a significant and sustainable success.

3. Ditch the business plan.*

All too often, those who set out to start a business are encouraged to write a business plan as the crucial first step. At first blush, this may seem logical. Yet, the overreliance on logic and reason, which is inherent in the business planning process, can easily create a false sense of confidence that can lead us astray.

The road map is not the terrain.

Rather than careful planning, successful entrepreneurs behave more like scientists searching for evidence of their ideas' usefulness. They intuitively understand that the road map is not the terrain. As such, they approach their ideas as hypotheses to be tested in the real world. Rather than relying solely on reason and logic, they undertake an evidence-based approach, testing their ideas through a process of micro-experimentation and adaptation. By doing so, they increase the probability of success. In many cases, the trial-and-error process enables them to uncover latent opportunities that formal planning overlooks.

**Auditmetrics has over 30 years combined the talent of accountants and statisticians in developing rigorous and mathematically sound empirically driven analytic processes available to small businesses and future entrepreneurs.*

4. Create a support network.

Among the most underutilized — and most effective — resources available to an aspiring entrepreneur is the guidance of an experienced entrepreneur.

Every entrepreneurial journey is fraught with unanticipated challenges and setbacks, not to mention self-doubt. And just as an animal born in the wild is much more likely to survive with a parent's guidance, the guidance of experienced mentors and advisors can drastically increase the likelihood of success. For example, Brian Scudamore, founder of 1-800-GOT-JUNK, [created a personal MBA](#) (mentor board of advisors) to help him transform his trash-hauling business into a \$300 million enterprise.

5. Try not to fool yourself.

We all know that succeeding as an entrepreneur requires passion and risk. Yet, it also requires a healthy dose of skepticism, as our passion can easily distort our perceptions in ways that can lead us astray. Rather than quitting your day job, mortgaging your house or putting your life savings at risk, make it happen in the margins by testing your ideas on a small scale before going all in.

Remember what physicist Richard Feynman has been credited with saying, “The first principle is that you must not fool yourself, and you are the easiest person to fool.”

The question of why startups fail is a critical one, not only for aspiring entrepreneurs and small business owners but also for the communities they serve. After all, when a small business succeeds, everybody wins. While starting a business may involve risk, much of it can be mitigated by looking beyond the popular myths.



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