

LESSON 1 RECOGNISING PROBLEMS - WHERE THINGS GO WRONG?

It may seem counterproductive to discuss how a business can fail in a course on how to improve your business and take it to the next level. Not understanding what can go wrong however is why so many start-ups don't make it past the first couple of years. Understanding what can go wrong gives you the tools to recognise and deal with potential problems, before they affect the health of your business.

recognise an already saturated market and also recognise opportunities.

This course will help you to do this and also to recognise potential problems and to implement business techniques that will help to take your business or start-up to the next level to achieve more profits or increased business growth.



How To Recognise Problems?

Improving a business is at the forefront of most business owners' minds - especially once the start-up phase has settled and you are looking around for new ways to expand or improve profitability. To take that next step though you need to be cognisant of all the things that can go wrong. It may seem like a negative approach but in reality recognising the sorts of problems you could face is a positive way to ensure your business success as you can make plans around any issues that may arise.

Successful businesses do not remain stagnant. A good business manager recognises this fact, and is aware that a business only has two realistic options – to get better, or worse. Remaining the same is never an option.

It is important to recognise problems as early as possible. Delays in recognising problems often makes them worse and can cause delays to finding possible solutions.

Constant reviews of a thriving business: cash flow, stock, sales analysis etc. (all discussed later) is the best way to recognise problems and to improve it as well as save it from potential failure.

In order for a business to thrive, you need to know your competition, understand market research and marketing techniques, select products or services for which there is a demand,

Things can go wrong in any business - problems can be either external or internal:

- **External problems** - are problems created by the world outside of the business. They may have social, economic, or political origins. They may be caused by other changes like a recession, amendments to government regulations, a new competitor entering the market place, or demographic changes in your customers (e.g. relocation of a major customer to a different city).
- **Internal problems** - are issues that are created by the business itself. They might be related to insufficient or inadequate choices made - such as a poor marketing strategy, overspending which has resulted in unmanageable debt, or not updating soon enough. Internal problems can also occur when leadership is poor, time and resources are underutilised, or the business offers goods and services which it does not have the capacity to deliver.

These are only some of the problems that can arise. Surprisingly, most business managers will have some degree of awareness about what is going wrong but more often than not, fail to take the time to properly reflect upon and understand the problem.

A natural reaction to a downturn in business, or to business problems, is to work harder and longer. In reality, this is not the best approach: working longer hours causes fatigue; fatigue makes you less able to reflect on and analyse your business problems clearly - you tend to lose perspective when you are

over-tired or over-stressed. Ironically, the solution to a declining business may well be to work less hours rather than more - to refresh the body and brain, stand back and take a look at the business from a different perspective.

If this is impossible for the manager, it may be necessary to find someone who can look at the business with clearer eyes and a sharper mind. In some instances, this may be someone who is close to, and trusted by, the manager (e.g. a spouse, friend or colleague), or perhaps an external consultant or a business coach..

Someone close to the manager will already have (to some degree) an understanding of the business, but they may also carry some level of prejudice. On the other hand, a consultant will lack familiarity with the business, and that means there is potential for them to not consider some important facts, but they will also lack prejudice. Employing a consultant would mean that you need to recognise you have a problem, or potential problem and act on it early on. Once a business is in serious decline then you may not have the funds to pay for a consultant. In larger businesses it may be helpful to redeploy a manager or other employee from another part of the business who can offer a new insight into failing business strategies or influences.

What Do Most People Do?

The reason that so many businesses fail, is that most people react to business problems in an unplanned and largely unmanaged way. They do what comes naturally to them and are more likely to take decisions that are easier in the short term, without fully considering the

Suggested Tasks: ▼

Throughout this course you will be provided with suggested tasks and reading to aid with your understanding. These will appear in the right hand column. Remember: these tasks are optional. The more you complete, the more you will learn, but in order to complete the course in 20 hours you will need to manage your time well. We suggest you spend about 10 minutes on each task you attempt, and no more than 20 minutes.

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Suggested Tasks

Make a list of possible external and internal problems that could affect your business or that you think may be affecting your business.

long term implications.

There Are Choices

When things get worse in a business, there are always choices:

- Some people increase activity hoping to stimulate growth
- Some decrease activity hoping to minimise losses
- Some change activity hoping to find a more profitable mode of operation
- Some close down the business
- Some do nothing

The worst option is usually to do nothing.

Focus On The Issues

It is important to learn to focus – stand back and see what is happening. The owner of a failing business often has a clouded view of things. Their priorities are askew and they are not seeing some things that should be obvious, because they are preoccupied with things that are unimportant.

When business owners are heavily involved in the running of the business, without delegating tasks to employees, they can become bogged down with the day to day operational tasks of the business, spending all their energy and efforts into keeping things operating smoothly. They don't have time to pay attention to the bigger picture – where the business is heading, how to improve the business, goals and projections, reviewing the market, and so on. The business owner may need to step

back from the daily operations to get a clearer picture of changes that need to be made.

Analyse the Problem

Are you focussing on what is important and analysing where your problems arise? There are many questions you can ask in order to pinpoint where the problems in your business are coming from:

- Is it a lack of customers? Perhaps this is due to customers facing increased costs in other areas of their lives. Maybe your customers are moving to another 'newer' product or service.
- Did your sales go down gradually or suddenly? A gradual change could suggest that you have failed to keep improving your product or service. A sudden change might indicate that a competitor has moved into the market.
- Did you start the business with a product or service that was popular (or even a fad) at the time but has since lost public appeal? Gone out of vogue. Were you offering a single product or service but didn't see shift in customer interest?
- What other things occurred at that point of time? For example change of staff, website profile down - forgot to pay for web positioning, lack of funds, withdrawal of funds from the business for personal use.
- Do you still have customers but lack resources? Not enough staff, too many staff.

- What business decisions have you made in the past year? Look at all decisions not just those that you 'think' may have caused your downfall.
- Do you have too much debt? Too much money spent on incidentals that do not relate to business growth e.g. flashy new office, or new office equipment you could have managed without, new car you couldn't really afford, too much spent on entertaining etc. etc? Is this creating a cash flow problem that is limiting your ability to buy in products or materials in order to continue running the business?
- Are there mistakes happening? Where are the mistakes stemming from? Is stock being wasted? Time being wasted? Are customers becoming disgruntled?
- Are your procedures systemised? Is your business chaotic or organised? What can you do to streamline your business and make operations smoother?

You can gather information from a range of sources:

- Your own experiences and knowledge about the business.
- Speaking with employees.
- Reviewing customer feedback.
- Reviewing financial reports.
- Analysing the operating procedures.
- Analysing sales reports.

- Looking to the market for competitors.
- Looking to the market for other influences - for example, global financial crisis, end of the financial year, and other influences that may affect customer's purchasing decisions.
- Look at market trends - what people want now and what they don't. Where the money is being spent. You can research a trend for almost anything online.



Consider Your Product Or Service

- Is your product obsolete?
- When was the last time you conducted any market research to gauge how your product is seen by your customers?
- Have your customer needs changed?
- Have your customer's expectations changed?
- Is your product or service still valued?
- What can you do to bring your product or service in line with your customer's desires?
- Is the competition offering a better, or cheaper, or better pitched product?

Make enquiries, ask your customers, contact your competitors, pose as a customer to see what others are offering.

- Are your suppliers offering you the best possible service and prices, or are there better options?
- Have you lost interest or confidence in yourself or your business? If so, how could you regain interest? Think about what attracted you to it in the first place.
- What could you do to improve what you have to offer? Can you modify your existing product or service?

Remember though that business isn't just about sorting out problems once they have occurred. A good manager will have systems in place to recognise potential problems and deal with them before they occur.

Recognising new business potential, new ways to expand or direct your business and also new ways of doing business are equally important.

New ways of doing business for example could include:

- Offering a virtual service rather than face to face
- Moving from storefront to online

A business person also needs to be an entrepreneur; you need to add to or change your core business with market changes or market demand. Knowing how to focus your business efforts, to recognise problems and also opportunities not only improves your current business situation it also allows you to consider up-scaling.

This type of approach gives you the opportunity to improve your business and take it to the next level.

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Suggested Tasks

Review the list of internal problems you made earlier. Since reading more what have you changed or added? Now think of at least one way that you could approach and improve each 'problem'.

We shall now review some case studies.

Case Study

Martin runs an accountancy business. He does a lot of work for people who are friends and acquaintances of his. He has spent a lot of time networking. They are often telephoning him and emailing him with accountancy questions. They often ask him questions when he is socialising with them. Often Martin does not charge for these queries as he views these people as his friends.

However, at the end of the year, he sends out their bills for payment. He realises that he has not charged people enough for all the time he has spent with them answering their queries. He realises that his business is struggling financially because of this. He starts to contemplate making some members of staff redundant.

Making a member of staff redundant may be one way to reduce costs, but the error here is Martin's. He may think he is being friendly and helpful, but for every ten minutes answering a free enquiry for a friend, he loses ten minutes income. He finds it hard to think of charging his friends for advice. If Martin had a GP as a friend would he expect free advice? Would the GP offer him a discount? It is unlikely because they are offering a professional service. They are not offering goods - with goods you may be able to offer a friend a discount and still make a profit. Time given is time lost - there is no profit margin in lost time. The more time you lose the less money you are making.

It is worthwhile remembering that when you offer free advice it often has less value in the mind of the person you are offering it to.

Avoid working for free for friends by separating friendship from work. Either refer them to someone else or charge them the full rate. Always remember

time has no hidden profit margins.

Sometimes no matter how hard you try there will always be people that overstep the mark. You could handle these professional queries quite differently for example:

In a social situation, Martin might say something like "Let's not talk about work now, we're having a nice evening. Why don't you email me in the morning and I'll have a look at it." Then in the morning, he can answer the query in his "work time" and the client will see that the answer is coming from the business. It is easier for Martin to charge for that work, rather than invoice for 'a chat in the pub.'



Case Study

Judy runs a successful online store selling children's clothing. The store has grown steadily for ten years. Suddenly the sales drop off drastically. Judy does not know why. She talks to her friends some of whom inform her that all the indicators would suggest that the economy is slowing down, that the country is seemingly heading into a recession. Other friends tell her that her clothes are perhaps too expensive. Some suggest that people don't like paying delivery charges, or that her customers can buy the same clothes cheaper in the shops.

Judy listens to all this advice. She stops charging her customers for delivery, and cuts the price of her clothing. This, of course, also cuts her profits. Nevertheless, her sales continue to go down (along with her profits). She convinces herself that it is due to the recession and just hopes that things will improve.

Finally, a customer contacts her and tells her that she's been trying to make a purchase on her website and it keeps coming up with an error message. Judy realises that there is an error in her online shopping "basket" and the sales are not going through to the site to take payment. She contacts the webmaster who oversees her website design and maintenance and they quickly fix the error on the website. Sales start to increase again.

As you can see, simple things can have a dramatic effect on a business. Imagine a shop in the high street. If the sign on the door always said closed because the owner forgot to change the sign, they would lose out on some potential customers. Problems on a website can have the same effect. Also when customers experience problems like this with a website, it causes distrust; people may think your website isn't secure or that it is not a 'real' business but a way to glean customer information. If a customer finds it hard to source the products they want, or to manage their online basket and complete the checkout process, this too can drastically affect sales. It is therefore very important to regularly

check that customers can actually buy your products. Regular "test purchases" and tests on the website should be conducted to nip any problems in the bud.

Another problem in Judy's case was that she listened to people who had some ideas but did not really think about her business as a whole, and what else could be going wrong. Before deciding that the sales going down were due to the "recession", she should have thought about what else could be going wrong. It would have been a very productive exercise to carefully scrutinise all aspects of the business to look for problems.