



THIS IS HOW YOU CAN BEAT STARTUP BUSINESS FAILURE

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An incredible percentage of new businesses fail within a few years. So if you want to start a business, what should you do? Buy an existing business! This is why.

Do you know people who own businesses?

Of course, you do.

The thing that you may not realize is that such people have greatly beaten the odds.

According to the U.S. Small Business Administration, over 750,000 new businesses were started in 2019.

That's the good news.

The bad news is that some 595,000 businesses close each year.

The statistics aren't good.

Why do most businesses fail?

It's often a combination of many things, however, 3 primary issues that often lead to business failure are:

- 1. Lack of a Market Need**
- 2. Insufficient Capital Investment**
- 3. Improper Planning**

As the rhyme goes - "If there's no market need, you will not succeed."

Once you have confirmed a market need, you must have sufficient capital to get your business off the ground. If not, you will always be a day late and a dollar short.

Lastly, failure to properly plan out the path of your business is a sure-fire way for that path to lead to a dead end.

Grim Statistics on Small Business Startups

It's a known fact that 20% of small businesses fail within their first year, 30% within their second year, 50% after five years and 70% in their tenth year in business.

No matter how good the idea, how effective the execution, how seasoned the owners and how well-capitalized the business, 70% of all small businesses no longer exist 10 years after they are started.

These statistics might cause one to never want to start their own business and just stick to a 9-5 job.

Why Do People Start Their Own Business?

If it's so difficult, then why do so many people give it a try and start their own business?

Here are three primary reasons.

1. Personal & Professional Freedom

Dealing with an overbearing boss can produce fear, anxiety and an entire array of illnesses. Come Sunday night, many adults experience that feeling of dread, much in the same way they did as children before having to go back to school on Sunday/Monday.

The most extreme way to rid yourself of an overbearing boss is to no longer have a boss.

If there is nobody at the office to scream, berate, condescend or otherwise induce fear and anxiety in you, then going to the office may actually become an event that one looks forward to doing. When one's frame of mind is positive, work production and efficiency often improve.

Starting one's own business is a major step toward both personal and professional freedom.

2. Self-Reliance

Many people must rely on others.

They find it extremely difficult to find inspiration and are unable to properly finish projects without somebody else's assistance. This is why many businesses use teams.

Some will tell their friends "let's open a business together" or "let's write a book together" when the truth is that doing it by themselves would be far easier and avoid any future conflicts with that other person. The reason many people don't do things solo is because they feel the need to rely on others in order to get things done.

People who work for others are able to rely on others. They can rely on so many people: managers, supervisors, bosses, etc. They are given tasks to complete, perform them adequately, and are happy with their destiny.

Self-reliant people don't need others telling them what to do nor how to do it. This isn't because they are unable to follow instructions. It's because they have their own initiative to both start and get things done.

Self-reliant people often make successful business owners.

3. Unlimited Growth

Employees often have limits.

Some people, no matter how hard they work, cannot rise above a certain level at their job.

This may be due to working for a small business where the owner takes much upon him or herself. It may be due to working at a large company where they lack the right pedigree and education for advancement.

Because of this, many people find themselves stuck somewhere in the middle. In fact, most people are in the middle.

They neither reach an executive nor managerial level, nor are given the opportunity to showcase their talents in order to grow.

Owning one's own business brings unlimited growth opportunities.

Besides the business having the ability to increase sales and expand, it allows personal growth in that the owner may use or acquire skills unavailable to them as an employee.

If you are the type of person who yearns for freedom from supervision, is self-reliant and craves opportunity growth, then owning your own business may be a good fit.

How to Beat the Odds of Business Startup Survival

Now, let's not forget the failure rates for small businesses mentioned earlier.

You might read that and realize that starting your own business is simply a risk that you don't want to take. If the failure rates are so high, then why bother?

There is, however, a way to own your own business and still be able to substantially reduce that risk of failure.

The answer is by buying an established business.

Now, don't get me wrong. Buying an established business is not a cure against failure. There is no all-in-one cure against business failure. Too many variables can lead to a company's demise. However, one can certainly limit the risk by buying a long-established, profitable business and using it as a springboard for growth.

If a company has survived 5, 10, even 20+ years of existence, it has not only beaten the odds, it has far surpassed the lifespan of most small businesses.

This is a good reason to consider buying a business rather than starting one yourself.

An enduring track record coupled with your ambition and new ideas may be just the thing necessary to carry that business forward for many years to come.

Is it easy to buy the right business?

Of course not.

Nothing is that easy. Then again, starting your own business is certainly no picnic.

First thing, it's expensive.

In most cases, a business is sold based upon a multiple of its EBIT (earnings before interest and taxes). If the average business sells for a 2xEBIT multiple, then a business that has gross revenues of \$1,000,000 and EBIT of \$350,000, would be valued for sale at \$700,000.

This is not an insignificant amount of money to buy a business. Many people might choose to start the business themselves and save such a large investment. The issue is the failure rate that I mentioned earlier. If the survival odds are only 10% by year 5, then perhaps spending the money to buy the business may actually make sense.

However, an established business for sale may be the right opportunity for you. Buying a business avoids the start-up years, which statistically, are the most difficult years with the highest rates of business failure.

Buying a business enables you to step into an ongoing enterprise, one with an existing customer base, years of goodwill and, depending upon the particular circumstances, existing equipment and facilities to operate the business.

If you're interested in owning your own business and wish to skip over the difficult start-up years, then perhaps you should consider buying an existing business.

The Process

Buying a business is a significant undertaking.

I plan to discuss the process in further detail in a future article, however, for now, to break it down in simplistic terms, the process of buying a business consists of the following:

1. Identify a target business
2. Negotiate the terms of sale, including the sales price
3. Conduct due diligence
4. Arrange financing
5. Close the transaction
6. Get to work!

Buying a business isn't for everybody, but then again, neither is owning your own business.

If you want to own your own business and increase your odds of surviving the start-up years, buying a long-standing business may be a possible option for you.