The Party is Over:
What to do when the business dies.

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Sometime the party isn't over when the owner thinks it is. And, the converse is also true. Sometime the party is over, but the owner doesn't realize it.

"85% of business Failures can be attributed to a failure in understanding financial statements." (Brian Hamilton, CEO of Sageworks, Inc.) That is certainly a scary and an impressive statistic.

According to the Office of Advocacy of the US Small Business Administration (SBA), the following statistics were recorded for business closings over a four year period.

Startup capital:
- 45.3% reported inadequate startup capital
- 54.7% had adequate startup capital

Owner's Age:
- 43.3% had owners age 35 or younger
- 21.2% had owner's age 36-54
- 35.5% had owner's age 55+

Education:
- 42.1% of owners had high school or less education
- 57.2% of owners had post high-school education

Race
- 40.6% were black owned
- 58.2% were white owned
- 1.2% were owned by other groups

Gender
- 38.1% were female owned.
- 61.9% were male owned.

Type of Business
- 38.1% were a service business
- 37.1% were a retail business
- 29.1% were a manufacturing business

Location
- 36.7% were home-based
- 62.3% were in commercial space.

As the data shows, no group escapes failure. When failure occurs, closing will take one of two paths, depending on whether or not you will be defaulting on any loans and/or contracts. (1) All federal, state and county agencies that you have been dealing with need to be notified of your closing date, or (2) if defaulting on loans or contracts, hire a good bankruptcy attorney.

Good business managers know that the party is over well before it is time to close the doors. They read and study their financial reports at least on a monthly basis. If so, they will know when the business is experiencing a decline in sales and by how much. They will notice other things, like eroding profit margins, or an ongoing monthly increase in inventory.

Thousands of books and entire manager training courses are based on helping business owner(s) and manager(s) understand their financial statements. Obtaining these skills are generally worth every penny such courses might cost. You can't manage a business without at least a basic understanding of financial statements.

Every week, in good times or bad times, we see businesses that are in trouble. If the owners realize well ahead of time that the business could be in trouble, more can be done to turn things around. If sales have declined for the past six months and you're two weeks from running out of cash, not much can be done.

In 2008, the 16 South Carolina Small Business Development Centers saw 2,286 clients for counseling. We estimate that 50% or more were hurting financially. About 10% had seen the handwriting on the wall and wanted advice on how to close their business.

With the recent economic recession, many of our clients are seeking additional or alternative ways to generate money, particularly by selling to the government. But, selling to the government shouldn't be viewed as a panacea to help an already failing business.

The government isn't interested in purchasing from a startup. In fact, a business needs to be at least 2 years old before even beginning the registration and certification process.

Likewise, the government isn't interested in buying from a business that is loosing money. Selling to the government won't save a business that is already in financial trouble. Preparing and submitting bids can take a huge amount of time and effort.

And, the government can be slow paying. This means that a business that is having cash flow problems probably shouldn't expect that selling to the government will happen quick enough to help, and in fact, might make cash flow even more difficult.

The best advice is for business owners to read and understand what their monthly financial statements are telling them.

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