



## **Business failures in Uganda – what causes them? How can we help prevent this?**

### **How frequently do businesses in Uganda fail?**

Uganda is ranked as one of the most entrepreneurial nations – It means we set up businesses much faster than many countries – and many of our businesses are driven by opportunity rather than necessity (e.g retrenchment or unemployment)

But a respected 2004 study conducted by Makerere University Business School (MUBS) and sponsored by among others the European Union (EU) indicates our business failure rate is 50%!

That means 1 in every 2 Ugandan businesses that is started fails – usually within 3 years.

What is more worrying is that global statistics show that most businesses are family businesses. For example 90% of all US businesses are family owned. This is expected to be the same in Uganda.

*Is business failure worse for family businesses?*

Yes. The problem is worse for family owned business – a failing family business causes higher levels of stress – particularly as you cannot just get rid of your business partner who has contributed to the failure – they are after all your spouse, brother/sister, mother etc.

### **But why exactly are Ugandan (and family) businesses failing?**

Businesses worldwide not just in Uganda fail for a variety of reasons. The top 4 reasons include: not enough demand, stubborn owners, out of control growth and poor accounting.

See the full list of the top 10 reasons why businesses fail (and how we help prevent this) in **Appendix 1**.

### **Can business failure be prevented?**

Some people think achieving business success is purely good luck – its true there is an element of luck (or blessings if you like) but a lot of success comes to putting in place measures and controls to prevent failure in the first place (think of it like the foundation of a house) – and then you can go ahead to achieve strategies that help you succeed (the building).

In **Appendix 1** below, we provide the full list of the 10 most common reasons why businesses fail and how we might help you prevent this failure.

## Appendix 1: Why businesses fail & ways we prevent this

	<b>Top 10 cause of business failure</b>	<b>How we help (www.inachee.com)</b>
1	<p><b>Not enough demand</b></p> <p>The math doesn't work - there is not enough demand for the product/service at a price that will produce a profit.</p>	<p><b>Forecasting</b> – We look at the market critically, your pricing strategy and help you to forecast profit as part of feasibility study.</p>
2	<p><b>Rigid owners</b></p> <p>Owners who just cannot get out of their own way. They are stubborn (not flexible), risk and conflict averse.</p>	<p><a href="#">Advanced thinking newsletter</a> – presents new information that “opens the mind” including on the Ugandan market, opportunities and tips on success.</p>
3	<p>Out of control growth</p>	<p><b>Ongoing management accounts</b> to assess cash needs as an organisation expands</p>
4	<p><b>Poor accounting</b></p> <p>You cannot be in control of a company if you do not know what is going on.</p>	<p><b>Monthly/Quarterly management accounts</b> to provide financial information including on profit and performance of the company.</p>
5	<p><b>Lack of cash cushion (cash for emergency)</b></p>	<ul style="list-style-type: none"> <li>• <b>Forecasting and business plans</b> – to indicate the cash needed including working capital</li> <li>• <b>Our Sources of finance website</b> – to help businesses identify alternative sources of finance other than bank loans. Visit: <a href="http://www.inachee.biz">www.inachee.biz</a></li> </ul>
6.	<p><b>Operational mediocrity</b> – which means operations that are “just ok” – rather than <u>the best</u> because business owners forget that repeat and referral business (usually from the same customers) is critical for success.</p>	<p><b>Managed services contract</b> – which means we provide you with a relationship manager to provide ongoing advice and put in place systems to professionalize a company's operations- allowing them to provide a quality service which attracts repeat business.</p>
7	<p><b>Operational inefficiencies</b></p> <p>Paying too much for rent, labour, materials etc</p>	<p><b>Management accounts</b> – including a budget-actual analysis to allow comparison as well we can provide a service of a <b>“value for money audit”</b> - analysis of comparing a company's procurement with independent market information.</p>
8	<p><b>Dysfunctional management</b></p> <p>Lack of focus, vision, planning and all else that goes with good management.</p>	<ul style="list-style-type: none"> <li>• <b>Business/strategic plan</b> – provides a vision</li> <li>• <b>Internal control set up and reviews</b> – identifies where issues are in systems</li> <li>• <b>Management accounts</b> – provides information to help planning</li> </ul>
9	<p>Lack of a succession plan</p>	<p><b>Managed Services contract</b> which helps you in professionalizing your company. Having systems in place helps a company out live its founders and</p>

		also allows it to be run, on its own – without the need for day to day presence of the owners.
10	A declining market	<b>Ongoing market research studies</b> –a service where on say an annual basis we carry out a market survey study to check for changes in the market and find emerging trends that could threaten the business.