



# Comparison of Kiwi Business Failure Rate to That of Other Countries

# Presentation Scope

- The purpose of this file is to present known statistics related to business failure rates experienced in countries other than N.Z.; compared to the Kiwi business failure rate.
- Data presented relates to: USA, Australia, UK,

# The USA situation...

- About 80% of businesses with employees will **survive their first year** in business. (The most recent data shows that of the small businesses that opened in March of 2015, 79.9% made it to March of 2016.)
- About 66% of businesses with employees will **survive their second year** in business. (The recent data shows that of the small businesses that opened in March of 2014, 69.4% made it to March of 2016.)



# The USA situation (cont)...

- About **50%** of businesses with employees will **survive their fifth year** in business. (Data shows that of the small businesses that opened in March of 2011, 51% made it to March of 2016.)
- About **30%** of businesses will **survive their 10th year** in business. (The most recent data shows that of the small businesses that opened in March of 2006, 32.8% made it to March of 2016.)

[Source: [www.fundera.com](http://www.fundera.com)]

# The USA situation (cont)...

- Greatest influencing factor causing business failure in the USA is said to be working capital and/ or cash flow deficiencies.

[Source: [www.fundera.com](http://www.fundera.com)]

# The Australian situation...

- 97 % of all businesses in Australia are classified as “Small Businesses.”
- More than 60 % of small businesses cease operating within the first 3 years of starting trading.

[Source: Australian Bureau of Statistics]



# Main reasons for Australian business insolvencies...

- A report generated by the Australian Securities & Investments Commission determined the following to be the main causation factors of businesses becoming insolvent for the 2011 - 2012 year:
  - 44 % - poor strategic management
  - 40 % - inadequate cash flow
  - 33 % - realised EOY trading losses

# Main reasons for Australian business insolvencies (cont)...

- *Hayes Knight Accountants & Advisors* consider the following to be key reasons why Australian businesses fail:
  - #1 - Under-capitalised and poor cash flow (business simply runs out of money).
  - The idea that the business was based on was bad to start with - it was never going to work.
  - Poor planning.
  - Lack of proper training.
  - Aussie attitude of “**Running a business - how hard can that be?**”, causes many owners not to ask for help because they think they will be O.K. going it alone.



# The U.K. situation...

- 50 % of businesses that start-up survive 4 years of trading.

[Source: The Statistic Brain Research Institute]

- 60 % of businesses that start-up fail after their first 5 years of trading.

[Source: [smallbusiness.co.uk](http://smallbusiness.co.uk)]

# The U.K. situation (cont)...

- The main reasons attributed to business failure in the U.K. are:
  - Incompetence (including lack of planning and financial management), and/ or
  - Performed no market research before launching, and/ or
  - Performed the wrong market research before launching, and/ or
  - Launched the wrong product/ service at the wrong time (and/ or in the wrong place)

[Source: [smallbusiness.co.uk](http://smallbusiness.co.uk)]



# The U.K. situation (cont)...

- Commonly-held view why so many small businesses fail:

“Single-mindedness, determination and great vision are all good attributes to have, but they can all too easily become narrow-mindedness, pig-headedness and blindness.”

[Source: [smallbusiness.co.uk](http://smallbusiness.co.uk)]

# The New Zealand situation...

- Average failure rate for Kiwi businesses is 40 % within 5 years of starting-up.
- Average failure rate for Kiwi businesses is 74 % if instead a 10 year timeframe is considered.



# Main Causation Factors of Business failure in N.Z. [source: Waikato Management School survey]

- # 1 Cause = Accounting

Including:

- \* Poor inventory control
- \* Poor Cash Flow/ working capital
- \* Heavy operating expenses

# Main Causation Factors of Business failure in N.Z. [source: Waikato Management School survey]

- # 2 Cause = Marketing

Including:

- \* Poor quality and/ or low level of marketing activity
- \* Business location



# Main Causation Factors of Business failure in N.Z. [source: Waikato Management School survey]

- # 3 Cause = Finance

Including:

- \* Lack of initial capital
- \* Lack of finance/ working capital

# Main Causation Factors of Business failure in N.Z. [source: Waikato Management School survey]

## • # 4 Cause = Other Internal Factors

Including:

- \* Competitive weakness
- \* Lack of managerial knowledge and experience
- \* Excessive Drawings
- \* Tax planning
- \* Lack of management/ financial skills
- \* Poor governance



# Summary/ Conclusions...

- The survival rate of Kiwi businesses is similar to that of the USA and U.K., yet decidedly better/ higher than the Australian business survival rate.

