

SME's LIFE CYCLE – STEPS to FAILURE or SUCCESS?

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Abstract

The body of literature on SMEs suggest that all SMEs seem to go through different life cycles, and while the terms used by different authors may vary, the events that govern them are all too familiar to the founders and managers involved. While each SME may seek to grow from the start it will inevitably meet new challenges and crises over time that must be addressed effectively if the business is to survive and prosper. This author believes that these crises are characterised as 'Plateaus' that must be carefully managed in order for the business to be ready for its next growth period. If neglected and the business tries to continue 'business as usual' during a crisis it will collapse in failure. As so many have done in the past and why the average life span of many SMEs is only five years. Moya K. Mason (2009) points out that: "The Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years." According to an August 2009 Business Daily Article - Poor practices lead to high SME mortality: "poor management and a shortage of funds have been identified as the main cause of start-up deaths globally." It is recommended that training be provided for all SME entrepreneurs to prepare them for the road ahead and the challenges and crisis that they will inevitable meet along the way. This Paper provides a brief look at a typical SME's life cycle in terms of both its Growth Phases and the subsequent crises 'Plateaus' it must manage along the way in order to survive and prosper, and be ready for the next growth Phase.

Key words: *Small Medium Enterprises (SMEs), Corporate/company life cycles.*

Introduction

Now with the financial crisis still wreaking havoc on the world and many large corporations and public sector organizations reducing their staff numbers, many aspiring entrepreneurs, suddenly finding themselves out of work, are striving to make their dreams come true and seeking to start their own business. Most such businesses are Small to Medium Sized Enterprises, businesses employing fewer than 250 people, commonly referred to as SMEs².

The history of SMEs is one where many have gone but few have succeeded. The average lifecycle of many SMEs is in the region of five years or less. Take the United

States, for example. As pointed out by Mason (2009), "*the Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years.*" And, as an August 2009 Business Daily article, ominously entitled 'Poor practices lead to high SME mortality,' indicates, business failure at an early stage of a company's existence is a worldwide phenomenon: "*poor management and a shortage of funds have been identified as the main cause of start-up deaths globally. Experts say a majority of small businesses fold up after an average of 18 months due to failure to stand up to competition. About 80% of start-ups are expected to fail ... the failure rate is not localized, even in advanced economies the mortality rate is just as high.*" Harvard Professor Mukti Khaire³ is equally blunt and categorical in his assessment of SMEs' life expectancy: "*the track record is well known and sobering for any entrepreneur: 90 per cent of all new ventures fail as start-ups often lack vital resources, must compete against established companies, and have little or no*

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