Make or Break?

An investigation by Xero into what separates successful entrepreneurs from those who fail

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Beautiful accounting software

Are you doing what it takes?

It's hard to overstate the value that small businesses provide to the global economy. In addition to their financial contribution and job creation, there's the personal enjoyment they bring to those who strike out on their own to become their own boss.

Passion, and even money, often aren't enough for a company to flourish, as evidenced by the large numbers that don't survive. According to the U.S. Bureau of Labor Statistics, just half of small businesses see their fifth birthday. In the U.K. even fewer reach that milestone, with the Office for National Statistics reporting 41%. But why is that? Are there fundamental differences between companies that make it and those that don't?

Running a small business is always hard work, but all successful entrepreneurs know there are seemingly small things that make a big difference to the "make or break" that goes along with business ownership. We set out to uncover those things.

Finding out the answer is important for two reasons: Firstly, we get to share that crowd wisdom with you. Why not follow the path of other successful entrepreneurs who have gone before? Second, if you're a financial advisor or accounting professional working with small businesses, we hope these insights will be of value to your clients.

To answer these questions we asked over 2,000 current and former owners of businesses with 20 or fewer employees in the U.S. and U.K. We also took a look at whether using Xero, or another accounting tool, increased the likelihood of business longevity.

The result is the Xero **Make or Break** report which examines the experience and attitudes of those who have either made it or had to shut their doors. Despite their differences in geography, U.S. and U.K. entrepreneurs are remarkably similar. There's no magic formula that guarantees success or failure, but we did discover a few common traits that seem to predicate success—one was quite surprising.

We hope you find these insights as fascinating as we did.

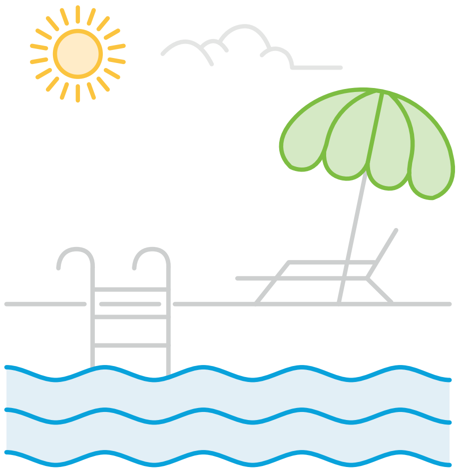
Russ Fujioka
Xero U.S. President

Gary Turner
Xero U.K. Managing Director

While no two business owners are exactly alike, those who succeed share the following characteristics in the way they approach running a business.

They don’t work around the clock

Contrary to the stereotype of a harried entrepreneur burning the midnight oil, our research showed that successful small-business owners not only value their personal time, they view stepping away from work as essential. And by stepping away they mean more than just taking an occasional vacation.



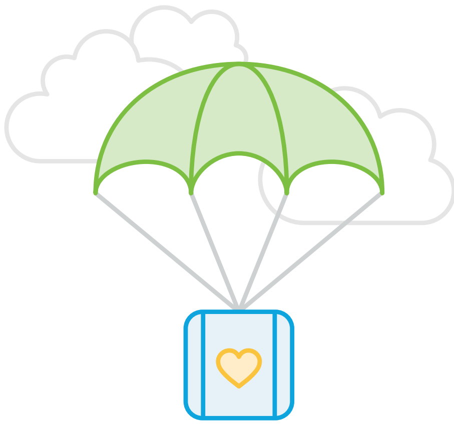
Nearly six in ten respondents (58%) cite spending time with family in the evenings as crucial to their effectiveness as a business owner, and more than half (55%) say it’s important to keep their weekends free for loved ones. That’s a far cry from the image of sleep-deprived business owners guzzling coffee at all hours to keep their company afloat.

It’s noteworthy, however, that while successful owners aren’t willing to sacrifice their personal life, for most of them it’s still impossible to disconnect entirely. Just 28% say it’s vital to turn off their phones and laptops after business hours. Using automated tools to take care of simple tasks for you avoids letting work eat into family time. Perhaps you might use the latest tech tools to shoot off a quick invoice as you climb the stairs to read the kids a bedtime story!

> What’s the point of success if you’re not enjoying it? Those that step away, switch off, and make time for the people they love, are most likely to be successful.
>
> **DR. ROBERT HOLDEN**
>
> Director, The Happiness Project

They don't pretend to have all the answers

Have you ever turned to a mentor or support group for advice about your company? If not, maybe you should. **A third of successful entrepreneurs say they have, compared to just 14% of respondents who ran businesses that had to close.** Running a small (often solo) operation can be a lonely undertaking. Whether it's for expertise or a friendly ear, a supportive community may not only prevent you from feeling like you're in it all by yourself, but help you brainstorm solutions to a problem or give you tips on how to better manage your business. Working for yourself doesn't mean you have to go it alone.



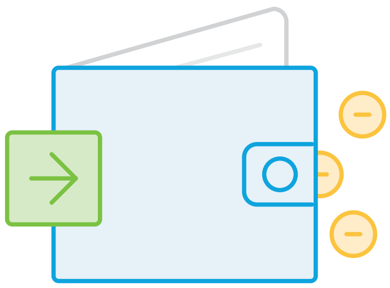
In a similar vein, our research suggests that forming strong relationships with a professional financial advisor is beneficial to the longevity of the business. For those owners who collaborate with an accountant or bookkeeper, 42% of survivors describe that relationship as "excellent," compared to 27% of those whose company failed.

> "Your support network doesn't need to be exclusively focused on the industry you operate in. I've seen many entrepreneurs gather together informal "boards" with participants drawn from all walks of life. Simply meeting monthly, sharing problems out loud and planning with others, can set you on the path to success.
>
> **PORTER GALE**
>
> Author, 'Your Network Is Your Net Worth'

They're willing to spend money

Successful small-business owners maintain a close watch on their budgets, but **they still prioritise investment in technology or strategic initiatives**. Just under half (49%) spend on marketing campaigns (social media, advertising, PR), compared to 20% of those whose business failed. **Nearly six in ten survivors (58%) use software to manage their finances compared to a marginal 14% of failures,** and just shy of a third (31%) allocate resources to improving customer service, versus 20% of those in the failed camp.

The takeaway? There's merit in the old adage *you have to spend money to make money.*



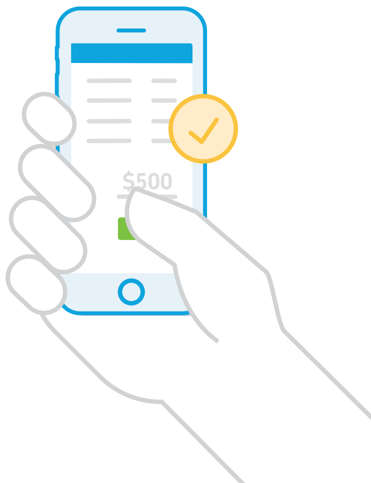
> It's a known fact that owners who spend more time on the business do better than those who don't. It's crucial that owners strike a balance between time in the business and time on the business. This extends to include investments in technology and other strategic initiatives like digital marketing.

ANDY LARK

Chief Marketing Officer, Xero

They keep their finances in order

The bottom line of any business's health is, well, the health of the bottom line. Of those owners who cited a business issue as a reason for failure (as opposed to a personal issue), a **whopping 65% blamed financial issues** (cashflow visibility, access to capital). This echoes the benefits of having a positive relationship with an accountant or bookkeeper, as well as using technology apps to help stay on top of financial management.



Not a fan of math? Not to worry.

The idea of "managing the books" can be daunting if your brain isn't wired for numbers, but **technology makes it simple to understand.** Case in point: nearly every survey respondent who used financial or accounting technology (99% of failures, 98% of survivors) recommended it. When advice is that universal, it's probably worth following.

> My advice is to learn about your cashflow pretty early on, even if financials are not your 'thing'. It's in the best interest of your new business that you know where your cash comes from and where it's spent.
>
> **EMMA LOMAX**
> Founder, Emma Lomax London

They aren't afraid to fail

If you're looking for a guaranteed payout, you probably (definitely) shouldn't leave a stable job to start your own business, as there's a real chance that it may not work out. That doesn't stop many rookies from succeeding, as **58% of successful respondents had a corporate position before taking the plunge into entrepreneurship.** It might be a leap of faith, but perhaps that's exactly why it appeals to those who try. Nothing ventured, nothing gained.

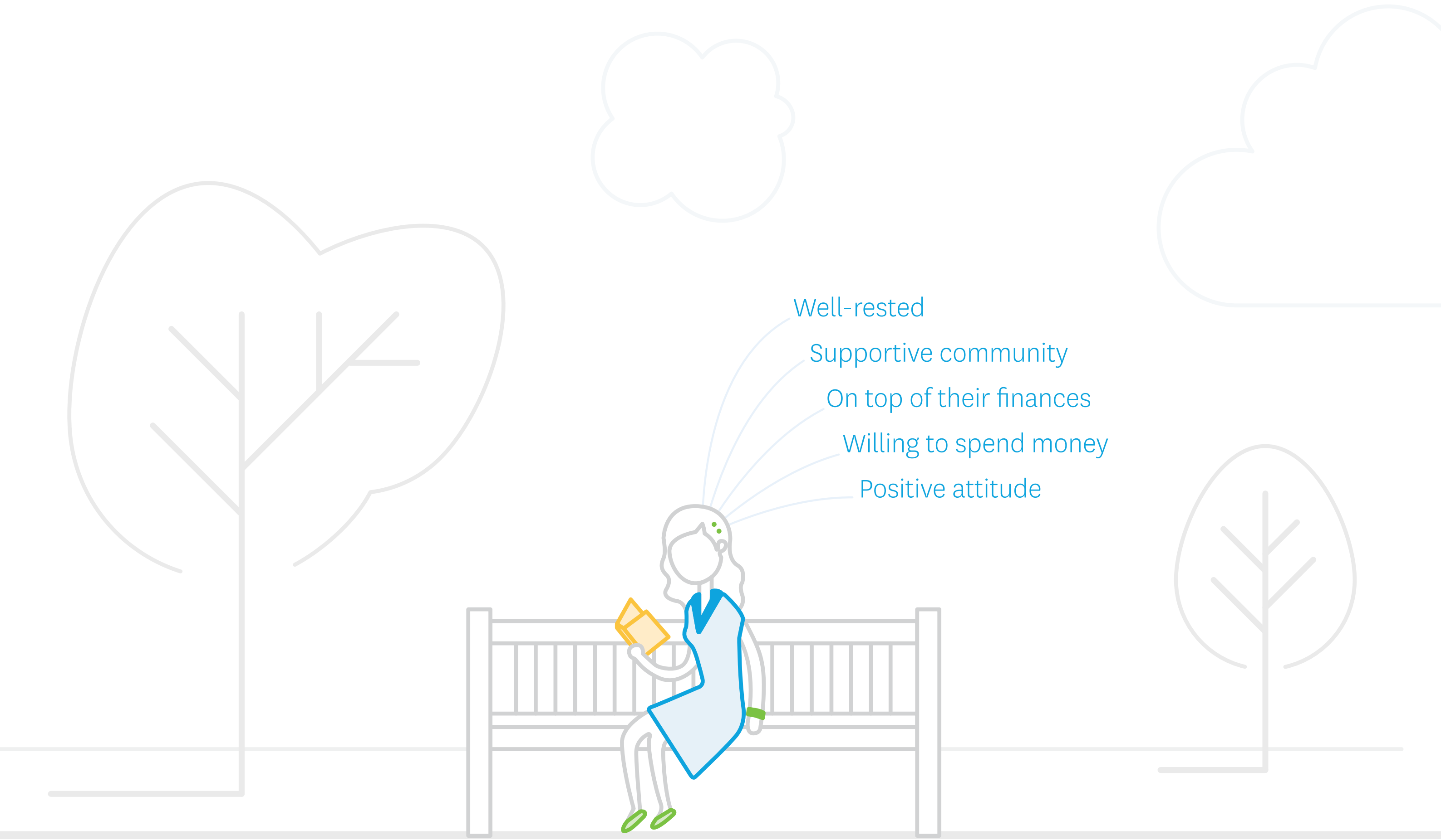
Starting a small business is often just as much about the *experience* as being successful.

> It's important to go into a new business venture having thought through the existential risks but also knowing that there will be challenges that you haven't anticipated. How you react to the unexpected will likely determine your success (or failure). If you're lucky enough to get it right first time: great. If you don't, and you learn from it, you'll be greatly increasing your probabilities of success in subsequent ventures.

MATTHEW BRADLEY

Investor, Forward Partners

Anatomy of a successful small-business owner



No money means no business

No single factor dictates failure. The inability to keep track of money, however, is often the culprit when things fall apart. More than **65% of failed business owners blame financial mismanagement for their downfall,** a figure that is more than worthy of attention.

Call to action

If numbers aren't your strong point, hire a accountant or bookkeeper to manage the books, but don't distance yourself too much from your numbers. Technology makes staying on top things a lot easier and simpler than you might think. Many tools, like Xero, automatically download bank transactions each night, or even alert you on your Apple Watch or mobile device when a payment has been received.

Hindsight is 20/20

Another common denominator in businesses that shut their doors is that **they regret not investing in marketing and customer service.** Just one in five made an effort to improve their customer service, *but all of them recommended doing so.* Failed owners expressed similar remorse about marketing efforts. The same number (20%) paid to spread the word about their product or service, but an overwhelming majority (88%) recommended that other entrepreneurs do so.

It can be hard to measure the impact of initiatives not tied directly to sales, but that doesn't mean they aren't effective.

Selling products to people is hard!

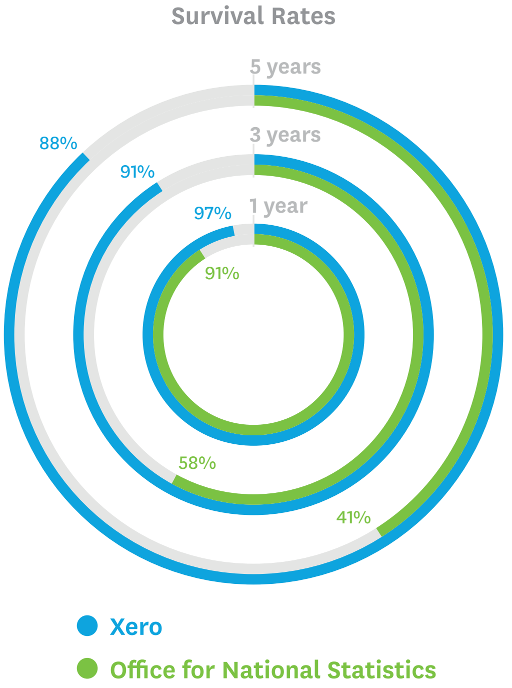
- More than twice as many failed companies sold products (41% versus 19% of survivors). Survivors were much more likely to sell services (59%)
- Failures were more likely to sell to individuals (49%) versus just 28% of survivors who focused on individuals. (Half of survivors sell mostly to companies.)

Do Xero customers fare better than the average small business?

The numbers say (maybe even shout) yes.

When compared to industry averages, U.S. and U.K. businesses that use Xero are markedly more likely to succeed. In the U.S. 95% of Xero customers survive their first year compared to 79% for the average. In the U.K. 97% of Xero customers make it that far compared to an average rate of 91%.

The pattern becomes even more distinct over longer timeframes. At the five-year point, 85% of Xero customers in the U.S. are still up and running, while the industry average is 50%. In the U.K. the difference is greater still, with 88% of Xero customers operating after five years, compared to an industry average of just 41%.



Effective entrepreneurs are more likely to:

- regularly spend time with family and friends
- build a strong relationship with their accountant or bookkeeper
- surround themselves with a support network or community
- use accounting software to stay on top of their finances
- invest in marketing and customer service

For millions of small-business owners, every day is a dream come true. Being in charge is certainly not without its challenges, but for those with the entrepreneurial bug, a little risk pales in comparison to the thrill of creating your own livelihood. We hope you'll find this report to be a useful resource as you continue to forge your own path. For additional tools designed specifically for small companies, try our small business guides.

An online survey was fielded to current and former business owners in the U.S. and the U.K. Owners of businesses no longer in operation were asked questions to determine if the business had failed or closed for some other reason. “Failure” was defined as a business that closed because of problems with demand, operations or other business issues. “Survivor” was a business that was still operating. From a survey base of 2,087 in total, 301 former business owners in the U.S. and U.K. completed the survey. Their responses were compared to answers provided by 1716 individuals who currently own small businesses in the U.S. or U.K. All businesses included in the survey currently have 20 or fewer employees, or had at the peak of operations before closing. The total base was made up of 1,052 U.K. respondents and 1,035 U.S. respondents.