

# Beyond the Failure of Coastal Cottage

## Action Learning Project

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## Dedication

This Action Learning Project toward the completion of an MBA from Point Loma Nazarene University is dedicated to my daughters Gretchen and Bridgett. They stood by me while I attended school, encouraged me to complete this project and loved me unconditionally through hard years and tough decisions. I love you both dearly! Thank you.

I would be remiss if I also did not mention and thank my advisor, mentor, consultant and friend, Jose Munoz. You believed in my ability before knowing whether I could achieve my goal. You envisioned my business and guided me along the way. You taught me humility and tenacity. You insisted I put Jesus in the driver seat and that I sit in back. For these lessons and truths I am forever grateful.

To my mother, Mia Foy, thank you for being my biggest cheerleader.



## Table of Contents

Title Pages.....	1
Section One: Setting the Stage.....	5
Section 1: History of your organization.....	5
Section 2: Environmental Analysis.....	6
Section 3: Introduce the Action Learning Project.....	13
Section Two: Writing the Script.....	16
Section 4: Focused Literature Review.....	16
Section Three: Action and Reflection.....	24
Section 5: Describing the Action.....	24
Section 6: Assessing the Project.....	27
Section 7: The “what next” stage.....	28
Section 8: Reflections and Conclusions.....	29
References.....	31
Appendix.....	34

## **Chapter 1: Setting the Stage**

### *Section 1: History of the Organization*

Doug and Denise Nielsen opened Coastal Cottage, a unique gift boutique, in December 2006. Coastal Cottage was the result of a dream of business ownership, extensive retail experience, and from a desire to create an upscale distinctive gift shop in a tourist location. Those goals were met. The store was located above the world-renowned La Jolla cove with a white water view housed in a beach like cottage. Coastal Cottage offered a unique and varied array of sea related merchandise, gifts, books and clothing. There were specialty gifts, home décor and seasonal merchandise. It provided outstanding, quality, and desirable merchandise to customers in an inviting and friendly environment. Exceptional customer service was provided to each guest. Respectful working relationships were established and maintained with vendors. An atmosphere of warmth and service became the pinnacle for success.

A business plan was written which included an organizational plan, a mission statement, a declared vision, and a short and long-term objective that included growth for the business (see Appendix). There was the marketing plan, a simplified set of ideas to launch Coastal Cottage as a destination shopping experience which included the beginnings of an online website. And of course, the financial plan was included which boasted a balance sheet, a pro-forma, three years of income projections and a break-even analysis.

The owners of Coastal Cottage were a married couple with extensive financial and retail experience. The husband, Doug Nielsen was a graduate of USC with a degree in financial management. He ran a successful real estate investment firm and was an avid

stock market trader. Denise Nielsen was enrolled in Point Loma Nazarene University's MBA program, and had worked in the retail industry as a buyer and manager for upscale boutiques, department stores and five star hotels for twenty two years. Financially, the Niensens were well off and settled with exceptional credit, no debt and the financial means to invest in this agreed upon business venture.

Denise and Doug were fortunate to have a trusted and valuable mentor and guide who was a business leader, a CPA, and a professor. They had a kind and caring landlord who wanted their success. Most importantly, Coastal Cottage had a location second to none on Prospect Street in La Jolla, California, nestled amongst world-renowned restaurants, art galleries, jewelry, and clothing boutiques.

Like so many small businesses in America, Coastal Cottage closed its doors in August 2009, a trying two and a half years later. It appears all the components were in place for a successful enterprise. But Coastal Cottage failed. This action-learning project will delve into why Coastal Cottage failed, what was learned from the years in business and what the research teaches. Most importantly, this action- learning project will open the door to one day reopen Coastal Cottage but with the knowledge, tools and true experience to be a success.

### *Section 2: Environmental Analysis*

There were numerous internal and external components that affected the success of Coastal Cottage. Much was learned during the years of running the small gift store. However, most helpful has been the research and analysis performed since closing the store. Based on the research regarding the failure of small business and a situational analysis of the demise of Coastal Cottage, red flags were present throughout Coastal

Cottage's life cycle. In order to fully present the situation, and serving as a "Monday morning quarterback", a few key mistakes are listed. The first mistake was that the business was started without adequate capital. There was not extra financing available to the business when the need arose. In order to open Coastal Cottage, money was the first necessary component. There were two basic types of funding available to Coastal Cottage - debt financing and equity financing. Debt financing is used by companies constructing their capital structure as it helps lower total financing cost. The advantages of debt financing include that the lender has no control over the business once the loan is paid back. Secondly, the interest paid is tax deductible. Thirdly, because loan payments do not fluctuate, it is easy to forecast payments. However, the downside to debt financing is that debt requires the ability to pay back the loan. In contrast, equity financing allows for shares in the company to be offered to family, friends and other small investors. Equity financing often involve venture capitalists or angel investors. The greatest advantage of equity financing is that the risk is taken by the investor rather than the owners. If the company fails, no money is paid back. Because there are no loan payments, more working capital is available. Finally, investors take a long-term view and understand that growing a business takes time. However, in order to gain the funding, the investor owns a percentage of the company.

Our situation did not fit either of the above definitions. We lacked all normal constraints. My husband, the equity investor, expected a quick return, and did not accept the fact that growing a business took time. Destined for failure? The real failing element was that none of this was discussed beforehand. After all, I had worked in retail for 22 years, managing and buying for department stores, boutiques and hotel gift shops and

therefore knew the “technical” side of the business, or so I thought. I was enrolled in the MBA program at Point Loma Nazarene University learning accounting and finance. I had a vision and mission and a small business plan. We had a stellar location. Therefore, rather than seeking outside financing, we decided to use our cash to begin Coastal Cottage. At the time, we had strong credit and a nice sum of money in the bank. This decision, in retrospect, was part of the demise of Coastal Cottage. Because we were a married couple, we assumed we wanted the same goals. Those goals were never discussed, agreed upon, or put in writing.

Perhaps the best way to sum up the situation is that we lacked a plan. This is characterized as our second fatal mistake. There was no strategic plan in place or an agreement between partners, which is required, even though the partners may be husband and wife. No goals were established for the business. As Benjamin Franklin (1748) once said, *“By failing to prepare, you are preparing to fail.”*

In an effort to prepare, a business plan was written. Important decisions for the business were included. But, among other reasons, Coastal Cottage failed because of fundamental shortcomings in the planning of the business. The information gathered was not accurate or realistic. The description of the business, the vision and goals for Coastal Cottage was simple and truthful. Lacking completely, however, were the keys to success, projections for the future, the knowledge of potential problems and solutions and most importantly any and all financial data. There was not an accurate balance sheet, nor income statement or cash flow analysis, no sales or expense forecast that could be utilized. The analysis of competition was sketchy and based more on opinion than sound reasoning and research. A web site was created but not maintained. The location

included the world-renowned street and ocean view but was crippled by the traffic, accessibility and parking. This was not determined until after the business was started. The marketing, advertising and promotional activities were sparse and not tracked for their success or failure.

Thirdly, Coastal Cottage lacked necessary budgeting to manage the expenses. Financial record keeping and basic accounting functions were lacking to run a successful business. Therefore, any money the store brought in was used for additional merchandise. As a seasonal gift store, merchandise changed continuously. The fixed costs increased by attempting advertising, expanding the square footage of the store and yet no extra financing was available.

A common fatal mistake for many failed businesses is having insufficient operating funds. As business owners we underestimated how much money was needed. It was imperative that we ascertain beforehand how much money our business required, not only the costs of starting, but also the costs of staying in business.

Poor money management was compounded by the fact that the store was not bringing in money. Research insists that the business owners need to be able to live for one to two years without income when starting out. When creating the budget, the numbers were not realistic and money the store brought in was spent on personal spending. Having enough cash on hand to pay the bills was crucial and attainable early on. Like so many small business owners, we were unable to solidify the business because we did not have enough cash to carry us as time went on.

As a business owner, I needed to be skilled at strategic thinking, able to make a vision a reality, and able to confront change, make transitions, and envision new

possibilities for the future. Had the correct plans and financial controls been in place, had I studied, and organized the operation, I may have had more success. I was excited about the new venture, I was willing to work hard and sacrifice, I was confident in my understanding of the retail industry and providing exceptional products and service, but sadly, I lacked the experience of running an effective business. Coastal Cottage did not fail because of a weakness in the product or service concept but because the business was not properly managed in the back office.

Finally, the analysis of the failed business enterprise would not be complete without discussing the effect of the lack of agreement or contract between business partners, and in this situation, the partnership of a married couple.

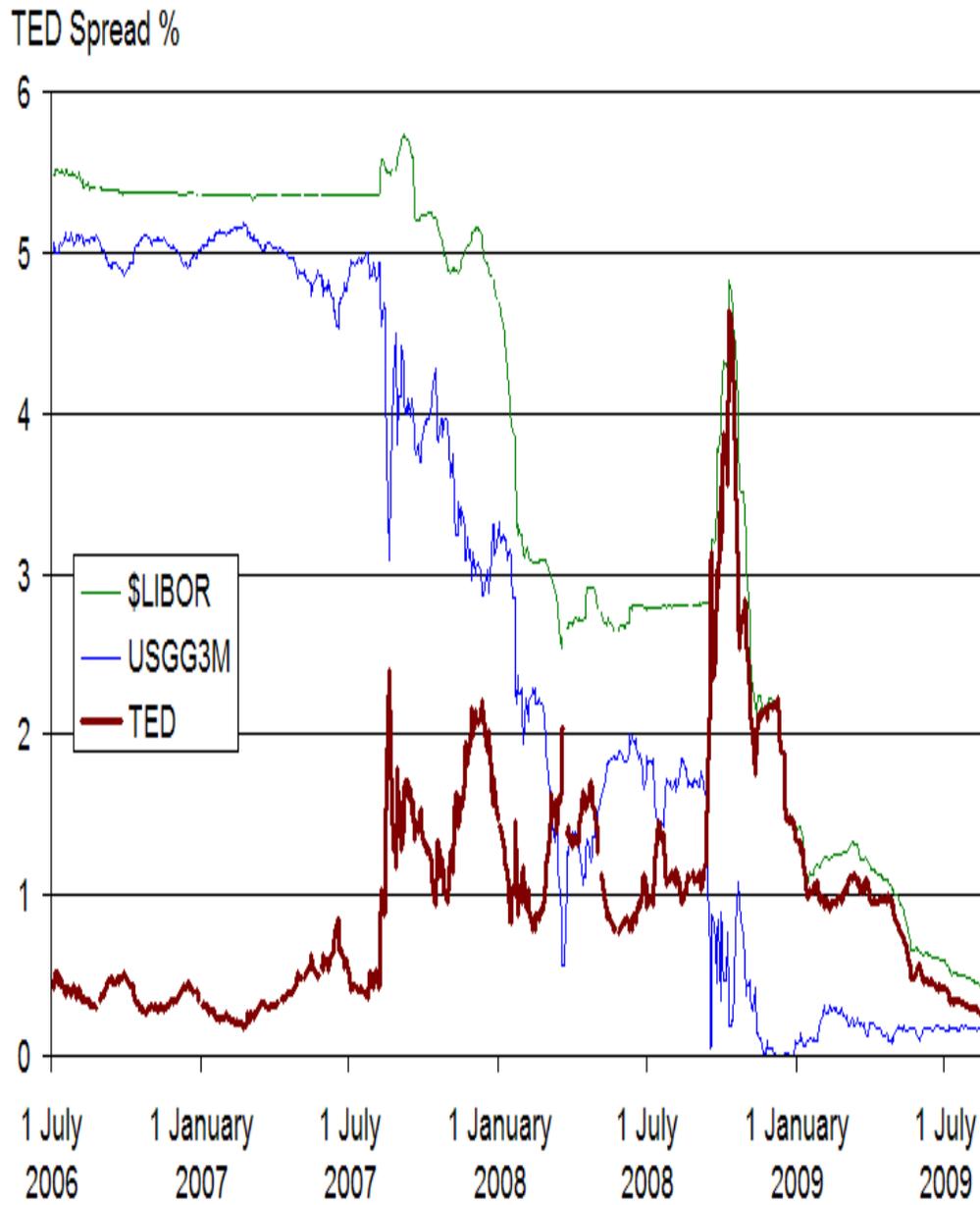
Alongside the grave internal failure was the external environment which wreaked havoc on the business' success. Coastal Cottage was started in December 2006 with an economic down-turn beginning in July 2007. The financial crisis of 2007–2009 is considered by many economists as the worst financial crisis since the Great Depression. The external environment affected our business and became the reason Doug decided to walk away from the venture. Doug followed the economic climate, the markets worldwide, and the political front, thus he saw a bleak financial picture and decided he wanted to close the business. A problem with the lack of agreement became evident within six months of starting the business when without a discussion, Doug decided he wanted the money back and pulled out of the business. Doug took cash advances totaling \$80,000 on credit cards. He then handed Coastal Cottage the \$80,000 debt. As the business became strapped with this new debt, an added monthly expense of \$3,000.00, a desperate need arose and a strategic plan was necessary. Had a contract or agreement

been written beforehand, the debt crisis might have been averted? Another option, which would have prevented the debt issue, would have been to keep our personal money separate from the business' money.

Due to the additional expense added to my poorly constructed budget, I decided I had to go all in if I were to survive. I naively concluded that if the customers liked what I sold in 400 square feet, they would love what I could do in a 1000 square feet. My landlord approached me with the opportunity to expand my storefront. I was able to gain additional window space and a back room for storage. What I did not take into consideration was the fact that I would need to stock the extra square footage with merchandise, display tables and shelving, thus spend money.

Lack of capital and the inability to obtain credit kept Coastal Cottage stagnant and in crisis mode as the need for financing grew. The tourist driven customer base completely disappeared by July 2008. Locals were beginning to feel the crunch and worried as their home values began the descent downwards. The once vibrant city of La Jolla became more of a ghost town with stores and restaurants closing. My expenses had more than tripled, as my customer base diminished. I worked diligently on the website and sought advice for alternative uses for the expanded space. Adding a coffee bar to the store front was discussed. A lack of financing and the diminished number of customers made the idea risky.

I soon discovered I had expanded too quickly, out of desperation, increased the fixed costs and put the final nail in the coffin.



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A chart showing the downturn in the US economy based on Libor, USGG, and TED.

(Business Wire News, September 30, 2009.)

<p>SWOT ANALYSIS FOR COASTAL COTTAGE</p>
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<p>Strengths</p> <ul style="list-style-type: none"> <li>Initial Financial Resources</li> <li>Initial debt position</li> <li>22 years retail management experience</li> <li>Buying experience</li> <li>Great industry contacts</li> <li>Location</li> <li>Low fixed costs</li> <li>Upper demographic area</li> <li>Lack of competition</li> <li>High profit margins</li> </ul>	<p>Weaknesses</p> <ul style="list-style-type: none"> <li>Cash flow</li> <li>Start up cash drain</li> <li>Lack of commitment by partner</li> <li>Lack of marketing plan</li> <li>Lack of accounting records</li> <li>Lack of communication</li> <li>Gap in knowledge base</li> <li>Lack of return on investment</li> <li>Too much money spent on nonessential expenses</li> <li>Lack of volume</li> <li>Slow inventory turns</li> <li>Not profit minded</li> </ul>
<p>Opportunities</p> <ul style="list-style-type: none"> <li>Website Development</li> <li>Niche target market</li> <li>Advertising</li> <li>Pricing strategies</li> <li>Accounting knowledge</li> </ul>	<p>Threats</p> <ul style="list-style-type: none"> <li>Recessionary downturn in economy</li> <li>Lack of communication</li> <li>No contract with partner</li> <li>Loss of financial backing</li> <li>Increased fixed cost</li> <li>Lack of Financial knowledge</li> <li>Tourism halted by economic downturn</li> </ul>

*Section 3: Introduce Action Learning Project*

“A failed business is a crushing end to lifelong dreams, financial expense and hours of hard work, yet there is much to be gained moving beyond the failure (Shane, S., 1997).” This Action Learning Project has taken me many years to complete. As I mention elsewhere in the project, a lot was destroyed by the failed business enterprise.

Therefore, it has taken me longer than anticipated to fully access the failure and complete the project. There were emotional, financial and tactical issues to overcome before being able to truly learn from the mistakes. This project has helped guide me through and even beyond the mistakes that were made. It has also given me a renewed hope that things happen for reasons we may never understand but that God uses these occurrences for our good. My goal is to learn from the mistakes in all areas of my life. The mistakes were multifaceted. They taught me about the need for details and systems, about the importance of continued learning and mentorship, about human nature and the strength that is needed to move on and beyond the downturns in life.

For many successful business owners, failure is not an option. It is the business owner's openness to gaining new information and their willingness to learn that sets them apart in their effort to succeed. My dream and desire to run a successful gift store was crushed. Much was lost in the aftermath of this attempted enterprise. For years it was hard to see beyond the failure. As I have gone through this action learning project, I have been able to uncover the managerial and accounting mistakes that led to the demise. I have worked closely with the owner of a highly successful retail enterprise for the past seven years. With that model in place, my goal is to reopen Coastal Cottage in the future with new insights, tools, and managerial knowledge. I plan to continue to study and understand necessary managerial practices and principles and the accounting tools necessary to be a success. I understand the need for a successful business plan that clearly describes the business concept, the mission and the philosophy of the business. I understand the need for specific time lines and clear strategies to achieve them. I understand that successful businesses must operate within a planned framework. In a

new business plan there will be financial projections for three years. It will describe my mission to serve my customers. It will analyze marketing strengths and how they can be achieved. The plan will address the known weaknesses and how they will be overcome. It will identify the target markets and pricing strategies necessary for a successful operation. The plan will uncover the tools needed for the long-term health and viability of the business.

An accounting/point of sale system will be bought and utilized this second time around. The information provided by this tracking system will provide critical information on sales, cash flow and other financial performance data so that I can make timely decisions as needed. Cash forecasting and management, budgeting, variance reporting are other functions I can utilize with this system. The system will manage and record customers, vendors, accounts receivable and accounts payables, as well as have the capability of generating detailed managerial reports. I was encouraged to buy this type of accounting software package the first time around, but did not heed the advice. I most definitely will not begin another business without one.

My plan will accentuate cash management, a forecasting spreadsheet that projects accounts receivable and will allow me to anticipate shortages and take action before a cash crisis occurs. It will include a three-year budget. I will automate a variance report so I am able to compare actual results against the budget. Sales volume will be calculated by day, week, month and year. Any and all major decisions that potentially and significantly affect the company's cost structure will be determined before the decision is implemented. Daily sales reports will track sales by product group and departments on a weekly, monthly and year to date basis. The need for the start-up cash

and financing will be calculated beforehand based of clear projections. Research will be employed to understand the location's demographics, customer profiling, parking issues, traffic flows and seasonal gaps.

## **Chapter 2: Writing the Script**

### *Section 4: Focused Literature Review*

In researching why businesses fail, I came across numerous articles of advice. Rather than rehash the advice, I have broken the research results into three categories where I am certain I lacked expertise, discipline and focus. Past and current literature stresses the fact that small businesses face a very high chance of failure. As a small business owner, it is critical to understand why these small businesses fail and what factors contribute to their failure (Gaskill, Van Auken & Manning, 1993).

The national statistics on small business failure has concluded that half of all small businesses fail within the first two years and 80% fail within the first five years (National Times, 1980). According to statistics published by the Small Business Administration (2003), seven out of ten new employer establishments will survive at least two years and 51 percent will survive to the five-year mark. This is a better scenario from the previous long-held belief that 50 percent of businesses fail in the first year and 95 percent fail within five years. In a report out of Canada, business failure statistics show that about 96 percent of small businesses with less than one hundred employees survive for one full year, 85 percent survive for three years and 70 percent survive for five years (Key Small Business Statistics - January 2009, Industry Canada). From whatever statistic you follow, it is obvious that the success rate for small businesses is bleak. However, there is the hope that businesses can be successful if entrepreneurs discover and put into

place the tools necessary to start and maintain a thriving business.

Numerous studies exist that look to understand business success versus failure. Comparisons between successful and failed small businesses and the owners are useful so prospective entrepreneurs can predict their own probability for success (Lussier, 1995). (Altman 1983; Ballantini, Cleveland and Koeller 1992; Cameron, Kim and Whetton 1987; D'Avani 1989; Dugan and Zavgren 1989; Koh and Killough 1990; Pech and Alistair 1993; Storey, Keasey, Watson and Wyncarczyk 1987).

Studies point to the fact that many small business failures are due to mismanagement. "Businesses fail because of weak overall management, weak financial management, or weak marketing capabilities" (Lussier, 1995). In the case of Coastal Cottage, not only was weak financial management a huge reason for failure but also inadequate knowledge and the lack of accounting processes. Safeguards had to have been in place in order to access the financial health of the business from the start. Playing catch up as time goes on proved to be extremely difficult and eventually impossible.

"The main reason for failure is inexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to run their businesses. Even as the firm ages and management experience increases, knowledge and vision remain critical deficiencies that contribute to failure" (Sherr 1989). We lacked the technical and financial knowledge of how to run a business. Twenty two years of experience in the retail industry and a degree in finance is noteworthy. However, we both lacked the experience to operate a business, especially the day-to-day financial managerial tools necessary for success.

Owners of undercapitalized businesses, who lack adequate expertise, generally run into problems. That ended up describing us. Research has linked the need for and understanding of financial ratio data to successful business operation. There are numerous variables within the management lifecycle that is helpful when discerning success and failure (Scherr 1989). Storey et al (1987) justifies the belief that hard qualitative data will provide owners the same predictions for success or failure as traditional financial ratios. Throughout the lifecycle of Coastal Cottage, financial ratios were not used to analyze its strength or weakness as a business. Qualitative data was lacking as well.

When discussing the impact small business has on the economy, evidence proves that most small businesses fail. However, it has also been proven that the closure and failure rates can be reduced. One such model suggests that would-be entrepreneurs must have the experience of running a business before starting their own business. Just as would-be lawyers practice in mock trials, mock ventures would provide hands on experience for future entrepreneurs. Educationally, there are numerous online programs and degree programs available to teach an entrepreneur want to be. Although I was a student in an MBA program at the time, I lacked the specific knowledge necessary to run a successful enterprise. I lacked the skill to put what I was learning to use in a real world enterprise. Proponents of entrepreneurial programs suggest that exposing and educating the entrepreneur could reduce the closure rates by 50%”(Kieber, 1995).

The reasons can sometimes be complicated and unclear why a certain business fails. Research suggests that the knowledge of the upper management, the lack of adequate funding, or just the free market competition can be behind the failures (Lussier,

1995). We lacked adequate as well as correct funding. We lacked a thorough and concise plan. Therefore, no safeguards were in place to ensure our success. This research will guide the next enterprise I attempt. No doors will be opened in the future without a detailed, comprehensive plan in place, an understanding of what the numbers mean and how to achieve them. For the past seven years, as the general manager of a successful retail enterprise, I have worked with the numbers, the safeguards, and the procedures. I have been responsible for the increased profit margin and lowering of expenses, the profit and loss statement and balance sheets.

The charts below state numerous reasons that explain the skills business owners lack prior to beginning a new business. More interesting however was the table titled *Business Owners Mistakes* that list twelve reasons businesses fail. Analyzing this chart revealed that Coastal Cottage fell prey to at least nine of these mistakes.

*BUSINESS FAILURE TABLE*

<i>Major Cause</i>	<i>Percentage of Failures</i>	<i>Specific Pitfalls</i>
<i>Incompetence</i>	<i>46%</i>	<i>Emotional Pricing</i>
<i>Unbalanced Experience or Lack of Managerial Experience</i>	<i>30%</i>	<i>Poor credit granting practices</i>
<i>Lack of Experiences in line of goods or services</i>	<i>11%</i>	<i>Carry inadequate inventory</i>
<i>Neglect, fraud, disaster</i>	<i>1%</i>	

(Lussier, 1995).

I have spent time evaluating the above table. I lacked competence. I had my heart attached to the items I was selling so my pricing was inconsistent and emotional. There were sought after items I refused to sell. I also lacked the experience of running the entire show, so to speak. In previous managerial positions and buying jobs, I was responsible for a specific area. I lacked the necessary understanding of how a decision affected the overall success of the business. This single minded viewpoint was detrimental to the larger picture of success.

### ***MISTAKES MADE BY ENTREPRENEURS***

	<b><i>LEADING MANAGEMENT MISTAKES:</i></b>
<i>1</i>	<i>Going into business for the wrong reasons</i>
<i>2</i>	<i>Advice from family and friends</i>
<i>3</i>	<i>Being in the wrong place at the wrong time</i>
<i>4</i>	<i>Entrepreneur gets worn-out and/or underestimated the time requirements</i>
<i>5</i>	<i>Family pressure on time and money commitments</i>
<i>6</i>	<i>Pride</i>
<i>7</i>	<i>Lack of market awareness</i>
<i>8</i>	<i>The entrepreneur falls in love with the product/business</i>
<i>9</i>	<i>Lack of financial responsibility and awareness</i>
<i>10</i>	<i>Lack of a clear focus</i>
<i>11</i>	<i>Too much money</i>
<i>12</i>	<i>Optimistic/Realistic/Pessimistic</i>

(Lussier, 1995).

Robert Lussier (1995) surveyed 100 entrepreneurs to determine why businesses succeed and why they fail. Lussier contends that due to the lack of agreement on why businesses fail, the reasons given by 100 entrepreneurs may have significant value in helping to understand, explain, predict, and control small business failure. According to Dun & Bradstreet (1995) the population of failed businesses included both chapter 7 and chapter 11 bankrupt businesses. Firms that went out of business without loss to creditors were not considered failures in this study. Entrepreneurs were asked to state major reason for failure, with most listing more than one reason. The results identified the areas that imply implementation strategies for would-be entrepreneurs. These include:

- 1. Before starting the business, the entrepreneur should attain adequate capital and keep fixed costs low. (A rule of thumb to define adequate, is to get the best estimate available of all costs, then double it). As the business begins to earn money, the owner should avoid the temptation to increase fixed costs. Without some extra financing a small business has no margin for the other factors of failure.*
- 2. During slow economic activity/recession, consider waiting to start the business until the economy turns around, especially if the product/service is economic sensitive.*
- 3. Starting with adequate capital and developing a close relationship with creditors can help eliminate creditor problems.*
- 4. Following good account receivable practices can help to avoid slow account receivables.*

5. *Having a diversified customer base can help eliminate the problems if the loss of a major customer occurs.*
6. *Entrepreneurs who lack management experience and skill can work for someone else to gain these skills before starting own business.*
7. *Partners can be an advantage or disadvantage to the entrepreneur. The implication is to be careful when selecting a partner and to have a clear understanding exactly what each partner's responsibilities and share of profits will be.*
8. *Small businesses should expand slowly with adequate capital to support growth; especially if business activity is not as high as projected.*
9. *Good recordkeeping and financial control can help minimize financial ruin.* Dun & Bradstreet (1995)

As entrepreneurs enter the marketplace, it becomes crucial that those who advise them are able to make them aware of the reasons business fail and how to avoid making those mistakes. (Lussier1995).

As in our case, when an entrepreneur starts the business undercapitalized with high fixed costs, and the economy begins to slow, survival becomes increasingly difficult. Inadequate capital structure is a known leading cause of small business failures. One of the most frequently cited reasons for failure of business ventures is “resource poverty” (Welsh & White, 1981). Small businesses do not have the resources available to them that large businesses can access. “External forces such as government regulations and tax laws are felt more acutely by small ventures than by large ones. The small ventures cannot afford the professional expertise of accountants and attorneys to

the degree that large firms can” (Welsh & White, 1981). “The composition of initial capital (equity vs. debt) has been found to affect the success rate of small ventures. Too much debt at the beginning leads to liquidity problems”(Jones, 1979). Smaller ventures tend to have limited access to capital and money markets. All of these arguments explain why the entrepreneur must understand capital structure decisions prior to embarking on a new venture.

Another frequently cited cause of business failure is the somewhat simplistic and all-encompassing notion of "poor management" (Allen 1995; Hodgetts and Kuratko 1995; Kharbanda and Stallworthy 1985; Laitenen 1992; Peterson, Kozmetsky, and Ridgeway 1983; Zimmerer and Scarborough 1994). "While everyone agrees that bad management is the prime cause of failure no one agrees what 'bad management' means nor how it can be recognized except after the company has collapsed—then everyone agrees how badly managed it was" (Argenti 1976, p. 3). Consistent with the finding expressed by Rue and Ibrahim (1998), the literature strongly supports the argument that, in small business, planning is a key issue.

Dunn and Bradstreet, in their 1994 Business Failure Record, determined that nearly 90% of small business failures are directly caused by lack of managerial expertise...people didn't know how to properly run a business. When you're starting a new business, the last thing you want to focus on is failure. But if you address the common reasons for failure up front, you'll be much less likely to fall victim to them yourself.

Perhaps the best advice from the research I discovered was the need for entrepreneurs to work in a like venture to gain hands on experience. I had extensive

retail experience but lacked the experience and knowledge on running a business. As a result of researching business failure, I have decided to pursue a side goal of teaching entrepreneurship to high school and community college students where they can attempt the running of a mock venture. This project started as a look back on why the venture failed. It has renewed my interest in doing more to help others be successful in their ventures by equipping them with the knowledge and tools necessary for success. The research and study of why businesses fail pointed to all the mistakes, big and small that were made with Coastal Cottage.

### **Chapter 3: Action and Reflection**

#### *Section 5: Describing the Action*

George S. Patton famously said, “I don’t measure a man’s success by how high he climbs but how high he bounces when he hits bottom.” I hit bottom! I had no other option than to bounce back hard and high. Because of how far reaching and devastating the failure became, I found it took longer than expected to process the failure of the business. I had no choice but to process the business’s failure and complete this project while rebuilding my life. Because our business was tightly intertwined in our lives, the closure of the business resulted in a huge shift in my personal life. My business partner and husband walked out and saddled me with the debt of the company. Those repercussions are life-long. I not only dealt with the loss of the business and my employment and dream, but also my marriage and family. This was crushing and devastating. As a result of completing this action learning project, I want to make clear that the decisions we made at the start of our business, debt financing, location, terms and agreements, all decisions, no matter how small, were played out in the end as life

changing decisions.

Entrepreneurship for some might be a goal or opportunity, but for others, as in my case, it affected every aspect of my life as I knew it. As I wrote on the topic of small business failure, I found I needed the time to process it fully. I thought about changing the subject matter numerous times. But the opportunity I was given to run a business and the evolving failure became too much a part of my story to switch topics. No longer a current student, I lacked the support to push through the setbacks I encountered while working on this learning project. I have had to find the necessary strength on my own while starting over, in a new city, working full time, raising young children. I had to find the time to get through a bankruptcy, a divorce, and rebuilding a life, before I could access what happened and why, and how it could have been different.

I learned firsthand the real effect losing a business has on an entrepreneur. It is different from being fired from a job. A small business becomes part of the owner's identity. It did mine. I was Costal Cottage. There was no one to blame but myself. Therefore, writing this action plan required me to step out of the role of owner to truly access what went wrong. Throughout life, I have heard the many success stories of entrepreneurial business ventures. When businesses fail, generally the entrepreneur moves on and the focus is on the next success. I found this true in the MBA program. We looked at case studies of successful ventures, we met successful entrepreneurs, but time was not spent on the failures. I had to spend time in the failure to write this action learning project. I found that difficult at times. As I was focusing my energy on the future and better choices, in order to complete this project, I had to continually go backwards and evaluate the failings and wrong decisions. This difficult task stalled the

timely completion of this project numerous times.

Change is never easy. I have experienced great change in my personal and professional life since closing Coastal Cottage. I have learned a great deal about myself, my abilities, my strengths and weaknesses. My absolute goal is to tackle entrepreneurship again. I so want to open a small gift shop but with the experience and expertise that is needed to be a success. As I have recognized my strengths and weaknesses, I know the areas where help will be needed. I found running my business with my husband to be a lonely and frustrating venture. There was never a communion of ideas or vision. There was not an equality and openness of communication. Beyond the failure of the business was the failure of the marriage. I feel it is necessary to speak to the outcome of closing the failed business. The result of losing the money, the security of employment, the loss of trust in each other went far beyond the mere closing of the business. We ended the marriage, filed bankruptcy and destroyed our bond as a family. Those results are far reaching especially with five children involved. I do not blame the business for ending the marriage I blame the marriage for ending the business. We lacked the communication, trust, security with each other to talk about the weaknesses we possessed and what we needed to survive in business together. I mention this here so as to show that there are more consequences to the cause of failure than just the management, financials, and outside economic climate. There is the internal partnership that plays a vital role in the success of the business as well. With this being said, my next venture will be supported by professionals who can foster and help grow the enterprise with their knowledge and expertise. Money spent on expert advice and support is a crucial expense component. I was encouraged by my mentor to elicit the help of an

accountant and attorney, but did not heed the advice. Doing the extensive research beforehand on traffic flow, location, demographics, market needs and wants is crucial when choosing a location. Relying on statistics and less on opinion is beneficial and necessary.

### *Section 6: Assessing the Project*

I started this action plan soon after closing Coastal Cottage. The timing was wrong. I was too close to the raw emotions that led to the failure of the business. As I attempted to write the action plan the numerous times over the past few years, I saw my thoughts and mind set changing. I have gained incredible insight into what it takes to run a successful business by running a retail store for the past seven years. I am currently the general manager of a chain store, Five & Dime General Store that has adequate capital, policies and procedures in place, a strategic plan, and a super location. The company has equipped each manager to run the store as their own. Budgeting, accounts payable and receivables, purchasing, payroll, inventory, cost and profit margins, the profit and loss statements, the monthly and yearly balance sheets are all the responsibilities of the managers. The owners are there for guidance and suggesting things that are needed or useful. But the primary success of the store rests upon me. This opportunity arose after closing Coastal Cottage and I was less than excited to work in a souvenir, low priced general store. I knew that opportunities were slim at the time so I took the position. God's hand was in this venture as I relocated to Monterey, CA with my two young boys and started a new life. The business of life and a new job slowed the pace of work on this project. But it allowed me to truly access what went wrong as I learned the ins and outs of the successful model I was running.

Managerial styles differ, but the lesson I learned was that a style of some sort is needed. I have had the tendency to go with the flow or solve the problems after they arrive. This is different from being proactive and aware of issues before they become problems. It requires that the numbers take precedence over feelings and ideas. I recognized that I was more of a visionary and less of a practitioner. As an entrepreneur, I must be both. I believe that the role of entrepreneur was defined in a new way for me while reading and researching the role of the entrepreneur.

What I have learned will be invaluable as I put the hands-on experience to work in my own venture in the future. Hopefully this experience coupled with my increased knowledge from this project and my MBA courses will permit greater success next time around.

#### *Section 7: The "What Next Stage?"*

As I have stated throughout this action learning project, I was not adequately equipped to run my own business. I lacked the financial knowledge, the managerial skills, the correct location, and adequate funding to be a success. My business partner and I did not share the same goals. Rather than focusing on the failure, I am inclined to take those very mistakes and use them for my future success. A position with a solid company, a monthly paycheck and benefits are too vital to my existence currently to consider anything different. However, if the time becomes right for another chance at business ownership, I plan to be ready. The process and experience of running my business will be utilized. Most importantly, however, is this research and plan that has given me needed insight into why companies statistically fail. Having this base coupled with my experience, I am hopeful better choices will be made if a future endeavor is

possible.

### *Section 8: Reflections and Conclusions*

Although the outcome of running Coastal Cottage was a devastating life event, I would have not wanted to miss any minute of it. This is not to say that I wouldn't have done things very differently had I known how it would end up. But I am fortunate to have had the opportunity to own and run my own business. I am fortunate to have attended PLNU and worked toward an MBA amongst mentors and friends who supported me through the process. This project culminated both of these events. It brought healing to a large wound and closure to much in my life. I learned about my strength and conviction as a person. I was able to see my weakness on paper in areas such as maintaining detailed reports, record keeping, financial knowledge, spending habits, managerial skills. The average entrepreneur who fails at a venture does not have the luxury to study why it failed and what areas need to be strengthened. They don't have a University program with knowledgeable and God loving people to hold them up at their darkest moments. For this I am eternally grateful.

Coastal Cottage was a shell. The merchandise was beautifully housed within a quintessential cottage overlooking the beautiful stretch of ocean in the coveted La Jolla Cove. We smiled and provided warmth and exceptional service. All was right to the shoppers' eye. But beneath the surface was a failing enterprise and discord amongst the owners. Bills were not being paid and anger was in full strength behind the scenes. As I scrambled to make things right with great hope and naivety, things continued to spiral downwards. The economy was depressed. The little town of La Jolla was seeing a mass exodus of business and tourists. My marriage had crumbled. I tried to hang on to the

shell of happiness but even that began to fade as reality set in more each day.

It is my dream to tackle this role of entrepreneur again one day. The merchandise selection and luxury tourist locale will remain similar. However, thanks to this action learning project, everything else will be different. I will be the same owner achieving the goal of providing a great customer experience. However, the business of running a business will be structured, planned, and organized with adequate financing. Professionals will be employed for their expertise and knowledge. I will hopefully have the opportunity to one day try again.

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