Common Business Start-up Mistakes

1. Are you really an entrepreneur?

People with business ideas often believe that the idea is the hard part of starting a business. "If I'd only had that idea a couple of years ago, I could've made millions…".

Ideas are fun, but, frankly, overrated. Just ask any venture capitalist who has to wade through scores of business plans a week, seeing the same variations on a theme cropping up over and over again.

An entrepreneur is not someone with clever ideas but someone who has the ability to take an idea (often someone else's) and turn it into a real business, with products, staff, premises and profit.

This is why investors often back the same entrepreneurs over and over again (known as serial entrepreneurs). It's not because they keep coming up with fantastic ideas, its because they've demonstrated an ability to turn their ideas into profitable businesses (a much rarer skill).

In order to maximise your chances of success as an entrepreneur, don't waste all of your time trying to think of a killer idea and don't be despondent if you can't.

Instead, pick a simple idea and devote most of your planning time into working out how to turn that idea into a real business: where to get staff and how to manage them; how to promote the idea cost effectively; and how to grow the business without running into cashflow difficulties.

A business plan with one paragraph on your idea and ten pages on how you propose to execute it is far more likely to find favour with potential investors. That might be something they really haven't seen before.

2. 20 pages of ideas, two pages of financials.

If you're raising finance for your new venture – whether from a bank or a private investor – you'll almost certainly need a business plan. Either way, it's an essential planning exercise, giving you the opportunity to *really think through* your business idea and how to execute it.

All too often, though, bank managers and investors see business plans that are long on written ideas, smart pictures and diagrams, but desperately short on financial forecasts. Bank managers are hardly noted for their flair and invention – that's your job – so don't assume yours will grasp immediately the sheer brilliance of your idea. He'll want to know if the numbers add up, so the financial section of your plan *must* be thorough and credible.

Most people who provide investment for new businesses read business plans the same way. They look at the "executive summary" (a one or two-page outline of the business proposal) first, then they look at the management team, then they flick to the back to check out the financials. Only if these make sense will they bother to read the rest.

If finance isn't your strength, seek help. Get a financially astute friend or associate to help, contact your local Enterprise Agency or Business Link or, if you actually want some decent advice, speak to us. (You didn't think you were going to read all this stuff without the odd shameless plug did you?)

3. **"...and these are the sales we expect to get!"**

How long will it take you to achieve your target level of sales? Answer - probably double the length of time it says in your financial forecast.

It's a very rare new business that achieves the target level of sales shown in the time predicted in the financial forecast. Why? Because most budding entrepreneurs believe that unless they show a very high level of sales in the financial plan, potential investors won't be interested.

To be fair, there is an element of truth in this. Investors are optimists too, otherwise they wouldn't be investing their money in your extraordinarily high risk venture would they? (We're talking about equity investors here and not banks, who don't take risks, especially not extraordinarily high ones).

The problem is that if the gap between forecast and actual sales turns out to be too wide, your business's cash-flow will be painfully stretched and, unless you can raise more money, you'll go bust. Furthermore, it's hard to raise more money when your sales have fallen so far short of that inflated target.

What should you do? Well, one thing you can do is to provide a low, medium and high forecast of sales. Respectively, these are the minimum acceptable level of sales to make the business viable, the expected level and the target level which you hope to achieve if everything goes particularly well.

You and your optimistic investor can gaze lovingly at the 'high' forecast and dream of riches to come. If sales only reach the 'low' target, you have at least reached your agreed minimum acceptable level and it should be easier to raise further finance (usually from the same investor) to keep the business going.

4. **"It's such a fantastic idea we'll have no problems raising the money!"**

People don't invest in ideas, they invest in other people (now that we've got all that dot.com nonsense out of the way, this is painfully true again). You can have the world's best business plan with a truly original idea that *no one* has done before and is *guaranteed* to make a fortune, and still no one will invest in it.

Investors and banks look more closely at the individuals behind the business than at the business itself. Ask any investor to choose between a mediocre idea with a brilliant management team and a great idea with an inexperienced management team and they'll choose the former.

It may not seem fair, but you're trying to start a business and you need business skills – a flair for marketing, an ability to manage and motivate people, operational nous and, particularly, financial acumen and discipline.

Do you have all of these? Really? No, didn't think so. Investors are far more impressed if you have the sense to admit that you don't, but you know people who do. It adds credibility if you can say that you've approached them and they have expressed an interest in being involved (in fact it really needs to be a commitment, rather than an interest).

So identify your weak areas then think about who you could bring on board to beef up your management team. If Richard Branson's your uncle, ask him. If not, then a friend, colleague or relative with the requisite skills is next best.

5. <u>We'll offer it at half price to begin with.</u>

Perhaps there really is such a thing as a free lunch, and it's the half-price ones which should be treated with suspicion.

If you try to lure customers or clients by offering your new product at a reduced price, there's a real danger that they'll all vanish when you put the price up to its proper level.

Why? Because at the reduced price it feels like a 'bargain' and at the raised price it … doesn't. Remove the bargain and people will go hunting for it elsewhere.

It's probably better to give the product away rather then reduce the price. Customers don't view give-aways as bargains, and accept that they will have to pay the full price next time round.

Better still, don't mess around with the price of your products or services at launch.

Instead of offering things cheaper, consider other types of promotion such as giving away something extra for free. Ideally, this is something that doesn't cost you very much, but is of value to the customer (such as a free six month service, if appropriate, or free delivery). This way, there's no confusion over the price.

6. <u>Delaying the launch.</u>

Yes, yes yes – we know. You don't want to spoil the ship for a ha'porth of tar, and you want to look before you leap and all that. It's true – attention to detail is very important when starting a business, but don't let it get in the way of actually launching it.

Business theorists have often tried to identify the common traits of successful entrepreneurs, and a "bias for action" usually appears on the list. Put simply, this is the "let's go for it" attitude.

At some point, you have to take that deep breath and stick up the "Open for Business" sign on your door. Repeatedly putting off the launch is costly not only to your reputation, but can consume cash, causing you to run out before you hit breakeven.

To make sure that you keep your customers happy, plan so that you can deal quickly and efficiently with any teething problems which occur. It's a strange but true fact that businesses which deal effectively with customer problems actually have a higher customer loyalty rating than those businesses which never have any problems.

Set a realistic start date, stick to it, solve customer problems as they arise and never look back.

7. <u>There aren't many competitors.</u>

Hmmm – it might not *look* that way, but whatever your business there is always competition. Before you start make sure you've checked out *all* the potential competitors.

That means indirect as well as direct competition. Direct competition is usually pretty obvious: a new plumbing business will be in competition with all of the other plumbers in the area. You might have to think more laterally to identify the indirect competition.

For example, a new flower shop on the high street should view the Thornton's chocolate shop as a competitor; the Italian restaurant has competition from the local cinema. In both cases, they're chasing the same buck: in the first case it's a gift and in the second it's a night out.

Your business plan, then, should take account of all the possible competitors. Having thought laterally to identify them, continue in that vein to work out how to persuade customers to spend their disposable income with you.

For example, the Italian restaurant could consider a cheap early evening menu to capture theatre and cinema goers without taking too much more of their hard earned cash.

8. <u>"We've allowed for all the costs"</u>

Next to over-estimating sales, this is the most common mistake made by new entrepreneurs when trying to assess the profitability of the business.

You've probably already made a fair guess at the direct costs – that is, the cost of materials, personnel, manufacturing and so on. But don't forget to allow for the stuff you sell for which you don't charge the full price – introductory discounts, for example or free samples, trial offers, supplementary gifts etc.. If these are 10% of your revenue and you're forecasting a gross profit margin of 50% and a net profit margin of 10%, then…go on, you work it out.

Also – have you accounted for the *all* of the overheads you'll incur throughout the year? You've included office rental, but did you remember business rates? Staff salaries are in there, but what about employers' National Insurance?

To cover yourself here, it's always useful to put in a monthly contingency or "miscellaneous" figure to cover all the unexpected expenses. This is particularly useful when dealing with bankers, who love to point out expenses you've missed. (If you get this far it's usually a sign that they're reasonably interested, so flatter them and gasp with wonder at their attention to detail).

9. Insufficient market research

So *you* think it's a great idea. Your friends all think it's terrific. But what about your customers?
One of the most common faults of start-up businesses is a lack of proper market research to support the business proposition. You're so enthusiastic and wrapped up in your brilliant idea that you've lost your objectivity.

To put your new venture into perspective, you'll need to provide detailed information on potential customers (different customer groups), competitors (both direct and indirect), suppliers (of everything you'll need for the business), human resources (who you're going to need, and how you'll find them), and operations (the location of your office, the shop, etc).

When you're starting out, it's unlikely that you'll be able to afford the services of a market research company to help you with all this, so you'll probably be doing it yourself. But going through this process is a good way of getting your feet back on the ground.

If you can do all of the above and still think that the business has significant potential, you're far more likely to be able to persuade investors, and more importantly, customers, to believe in you.

10. Giving up too early

Starting a new business may well be the scariest thing you've ever done. Brace yourself for setbacks and disappointments. Lots of them. It's going to take a lot of persistence, nerve and dedication to make it work. But hey – who said it was going to be easy?

Having thought up your brilliant idea (or not as the case may be – see Mistake 1), be realistic and allow for a degree of flexibility within your proposal. You should be able to adapt it quickly in the light of new information gathered and changing circumstances.

Above all, hang on in there. Broaden your shoulders, thicken your skin and when it finally works, there's nothing more rewarding than being your own boss.