The Entrepreneur's Guide to Financial Maturity ®
Common Mistakes Made by Small Businesses

Most business owners start with a great idea and lots of enthusiasm. Some people are so excited about their business idea and so eager to get started, they fail to recognize what is actually involved in operating a business. In other words, they fail to recognize the importance of planning.

In my practice, I have seen too many entrepreneurs spend too much time focusing on the esthetics and ancillary items and they fail to devote sufficient time understanding the mechanics of operating their company and planning its success. Below is a very short list of some of the many fatal mistakes entrepreneurs make that I have seen in the past month or two. An entrepreneur's failure to recognize these mistakes and take corrective action could have cost hundreds of thousands of dollars of damaged relations with friends.

Not Having a Business Plan:

Preparing a business plan is instrumental to the success of your company. If you do not plan to succeed you are planning to fail. Business planning, if done properly, causes you and your team, to focus on establishing goals and objectives and the details as to how they are going to be implemented. .

It enables you to map out strategies, understand the implications of the strategies and modify them so as to obtain the desired results. Obviously, the results of real life situations can be different than paper results. However, the education you gain from visualizing the implications of your potential actions can save you time, frustration and money.

Business planning should provide benchmarks and create accountability by providing a measure to evaluate performance. The planning process should facilitate an exchange of ideas, communications of objectives and

and implementation thereof. Further, it reduces the likelihood that you will commit one of the following fatal mistakes.

Not Knowing Your Customer

As basic as this may sound, many entrepreneurs do not understand the following about their customers or potential customers:

- Who
- What
- Were
- When
- Why
- How

If you can not answer **"why should a potential customer purchase goods or services from me instead of continuing to do what they have been doing?", your business is in trouble.**   If you do not understand why a potential customer should change their habits and purchase your goods and services, why would they?

Many entrepreneurs look at their customers through their own eyes, and not how the customer views them and their competition. They do not understand the customers' buying patterns, motivation to purchase, changes in customers preferences etc. If you do not understand your customers, in the long run, you may not have customers. If there is little "pain" in customers changing their purchasing patterns, they will. It is when both the entrepreneur and customer invest (time etc.) in building a relationship and mutual trust the customer tends to value and keep that relationship longer. .

Not Having a Sales Forecast

The sales forecast provides you with a method to gauge the progress of your business. It helps you develop strategies and an action plan for the steps you need to take in order to accomplish these goals. Based upon a sales forecast you can determine your company's needs, including:

- Financing Requirements

- Inventory Requirements
- Marketing Budget Requirements

Not Having a Marketing Plan

A marketing plan helps you understand how you will get in front of your prospective customers. It could include branding and defining your image. There are multitudes of ways that you can reach your potential customer base. A good marketing plan enables your company to identify and implement effective ways to reach prospects. It should enable your company to focus on your message, the consistency and frequency of your message and media to be used to deliver it. .

Not Understanding the Collection Process and Cash Flow

Too many entrepreneurs are so focused on making the sale and fail to recognize the importance of collections. For most entrepreneurs, making the sale and delivering the product or service is much more exciting then the mundane task of collections. In order to generate sales entrepreneurs extend credit to "high risk" customers. If you do not collect on your billings, you gave away your product or service for free. You will not stay in business too long if this occurs too frequently. Similarly, when your customer is a slow payor you may be discounting the value of your product or service. It is normal to have bad debts, but it should not be excessive.

Ignoring Your Current Cash Position

Financial projections rarely work out as anticipated and therefore a cash reserve should be established. It is that cash reserve that sustains you when business does not run as smoothly as you anticipated. If you fail to appropriately manage your cash and your credit availability, you may find out that you ran out of money and credit just when you need it most.

Not having a Board of Advisors

An advisory board should enable you to establish your priorities, objectivity and create accountability. One of the best ways to use members of your advisory board is to have them review your business plan and pre-qualify your major business decisions. These may include:

- Financing alternatives
- Spending decisions
- Changes within your company/industry
- Adding (or eliminating) products/services

Although you can bring in friends or family members to fill these roles, it is crucial to have seasoned professionals that can provide honest and direct guidance. We recommend that you have a minimum of three advisors:

- A seasoned Attorney with the appropriate experience for your business
- A Business Consultant with either finance or management expertise
- A CPA - to set the business up and crunch the numbers throughout its progress

The very nature of an entrepreneur is to constantly evaluate new ideas and business strategies. Without direction and accountability to control these ideas, you may be diverting too much attention away from achieving your primary goals. A good advisory board should help you establish priorities and maintain your focus.

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