

Six Pitfalls for Small Businesses to Avoid

In consulting with start-ups and small-to-medium sized businesses, we run across some common mistakes made by many businesses. Some of these mistakes have immediate consequences such that a business never gets off the ground, others may compound unnoticed over time until they finally become a huge problem.

1. Not having a business plan.

A business plan serves three purposes. First, it forces you to put your ideas on paper which helps to clarify your thinking and highlight any logical inconsistencies in your plan. Second, a business plan is usually necessary to get financing for the business. Potential investors and lenders need to see convincing proof that their investment or loan will be reasonably safe and produce an acceptable return on investment. Third, a business plan helps to keep your business on track toward definite objectives and provides a standard against which to measure performance.

2. Not obtaining the necessary capital to support start-up, operating and growth costs.

Particularly in today's economic environment, capital is hard to come by. Many owners make the mistake of getting the money to start their business without accurately estimating the cost of starting and operating the business until it becomes self supporting. In addition, most businesses do not generate enough profits to grow organically and need additional funds to expand. These needs should be incorporated into the initial plans to acquire capital.

3. Not creating a budget.

This is closely related to the previous pitfall of not obtaining sufficient capital. Without a means of tracking estimated vs. actual income and expenses, it is very easy for expenses get out of hand. A budget enables you to see how your cash is flowing, anticipate possible problems in advance and gives you concrete information that you can use to make adjustments, as long as it is current and accurate. A corollary of this problem is that some business owners will do a budget but then never go back and review it to see how their estimated income and expenses compare with the actual figures.

4. Not selecting the proper business structure.

Often new business owners do not give much thought to what form of business entity they choose for their enterprise. This is a pitfall that may not seem problematic initially, but can lead to serious consequences down the road. For example, a business may start as a sole proprietorship out of convenience without consideration of its exposure to legal liabilities. If a customer is injured on the premises, a lawsuit can put the owner's personal property at risk. Many businesses start as informal partnerships where each partner brings different skills to the table. However, without a written partnership agreement which formalizes everything from ownership shares, to organizational structure, and transition plans; there will inevitably be problems at some point.

5. Not doing market research.

Most owners do not take the time to do the proper market research before starting their business. Many are so enamored with their product idea that they do not find out whether anyone other than friends and family members will be interested in buying it. At a minimum, you need to know the size of the potential market for your product, whether it is growing, how many competitors are already serving the market and whether there are any gaps that are not

currently being filled by competitors. This information is essential to position yourself for success, or at least avoid certain failure if market conditions are not suitable for your product.

6. No marketing strategy.

An offshoot from the lack of market research pitfall is the problem of no clear marketing strategy. If asked to describe their ideal customer or what differentiates their offering from the competition, most business owners cannot clearly articulate answers to these questions. When your offering is designed to meet a particular need that competitors are not addressing or are doing a poor job of filling, then you can design a clear message to your target audience explaining why you have the best solution to their problem. Until you have clear understanding of who your target audience is and what is important to them, you cannot identify what marketing media are best suited to reach them.

By doing the necessary preparation to avoid these pitfalls, start-ups and existing businesses can maximize their odds for success and growth.

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