Business Lincolnshire
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FACT SHEET

Starting a Business: Common mistakes

Quick Summary

- Starting a business is no easy task and shouldn't be taken lightly. It can be an involved process but the rewards and benefits can be well worth it
- Rushing any aspect of starting a business will leave you vulnerable to flaws that could cost you dearly
- Taking your time and thinking through every aspect of your business, industry and market, will increase your chances of success

Introduction

The satisfaction of creating and building something up from nothing, watching it grow and succeed, is an incredible feeling – and is well worth the hard work to get there. There are risks involved, and success is not always guaranteed, however that shouldn't deter you from setting off on the journey to create a business. The hard work will make the potential success that much sweeter!

Businesses are most vulnerable to failure during the early years of trading, with 20 per cent of new businesses folding within their first year and 50 per cent within their first three years.

These figures should not scare you off, but should prepare you for some of the challenges entrepreneurs face when starting a business. With hard work and an awareness of the issues, a new business can be a great success.

Common mistakes

Poor or inadequate market research

Fail to prepare; prepare to fail. Research is vital in ensuring that your business idea is viable and that your pricing is both competitive in your market place and provides an adequate return.

A common misconception is that entrepreneurs who have failed simply lacked sufficient funding or did not put the right team in place. However, many fail because they have not spent enough time researching their business idea and its viability in the market. If you do not complete adequate research, you are in danger of selling to the wrong people or not understanding your marketplace/competitors properly.

Weak financial planning

Financial planning is extremely important. Having sufficient capital is vital for the longevity of your business. With a high-quality business plan, it can attract and secure the right type (and amount) of funding that you need to make your business successful.

Without a contingency plan, you can leave yourself exposed to the unexpected. Situations beyond your control may impact on your cash flow and whilst your business can survive periods where there are no sales or profits, it cannot survive without cash. Building up cash reserves will ensure that you can trade effectively and develop your business. Always expect the unexpected.

Failing to seek professional advice will make any financial troubles worse. Few new business owners can claim expertise in all areas of their business. Using an accountant or financial adviser can help you ensure you borrow and manage money cost-effectively.

Setting sights too high

During the start-up phase, it can be easy to make over-optimistic forecasts, however there can be serious consequences for your business if your projections are not realistic.

Cash levels can be quickly depleted if you recruit too many people, buy unnecessary equipment or spend too much on business premises. Effective cash flow and income forecasting can help you avoid this.

A common mistake for new businesses is to focus too much on growing the sales volume or size rather than profit. There may be a temptation for you to tap into a new market or geographical area, but keeping a clear focus on your core business is crucial. Diversifying too quickly can actually increase your business risks during the vulnerable start-up stage. Writing a marketing plan will ensure that you take into account your target customers, your marketing objectives and will help you set goals to address these.

Taking your eye off the competition

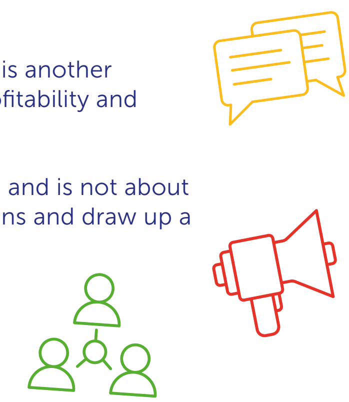
During the busy start-up phase, it can be easy to forget about your competition. The famous phrase ‘Keep your friends close, but your enemies closer’ is extremely relevant in the context of business markets. It’s essential that you are ready to respond to competitors in your market place and to new developments. Competition is not just another business that might take money away from you. It can be another product or service that’s being developed which you ought to be selling or looking to license before somebody else takes it up. Remember, it’s always better to be proactive rather than reactive.

Your marketing plan and research will help you to set realistic targets and deadlines, and allocate appropriate resources. You can then decide to focus on building relationships with your existing clients or attract new customers. Your marketing can then be turned into sales by deciding on your sales methods. Remember to feed any useful information into your marketing plan to keep it relevant and accurate so you can refer to it knowing full well it will give you a concrete foundation for accurate decision making.

Poor supplier and customer controls

Setting up unsatisfactory credit arrangements and not taking due care when choosing suppliers is another common mistake new businesses make. These should be chosen with care as your business profitability and reputation could be at stake otherwise.

Take the time and carry out a credit check to ensure that the supplier can deliver what you need and is not about to fold. Once you have identified your chosen supplier, you can then discuss terms and conditions and draw up a formal contract.



If you're dealing with a potential new customer, it can be tempting to offer credit without carrying out checks. But this can leave your business exposed to delayed or non-payment. You may find that you cannot pay your suppliers or bank on time. In turn, they may withdraw their supplies or funds, putting your business at risk.

Poor stock and asset management

Firstly, in the early years of your new business, you need to limit drawing on your cash reserves unnecessarily. Poor stock control and over-investment in fixed assets can mean your capital is tied up unnecessarily, as acquiring fixed assets outright gives you ownership straightaway, but you have to pay for the full cost upfront which drains cash. The alternatives include leasing assets, hire purchase or buying second hand.

Efficient stock control (inventory) will mean you have the right amount of stock in the right place at the right time. You need to put systems in place to keep track of your stock levels and values. Again, being proactive is far better than being reactive. Taking control will allow you to free up cash, whilst also having the right amount of stock on hand.

Hiring the wrong people

A large part of the success of your new business will be determined by the quality of the people you recruit. Ensuring that you hire high-caliber people with the right mix of skills is not easy, however by inputting some time and effort your hard work will pay off with a strong team of recruits around you.

Being your own boss may be a key motivator to setting up your own business. However, delegating the right task to the right person is important for both you and your business. Failing to delegate could mean you take on too much and increase your stress levels.

How you go about employing new people will depend on your business needs, e.g. whether the work is constant, how long it will last and the number of hours available. Remember to explore all the options available to you. To read more on recruiting for the first time, take a look at the Fact sheet titled: Employing staff for the first time.

Final comments

A common theme that runs through all of these common mistakes is time. Rushing through vital start-up tasks means that the planning and infrastructure is missed, causing the business to likely fail. Take your time and think about every aspect of your business, not just on the profit numbers. Tunnel visioning on a single aspect of your business – the profit most likely – will mean you are blind to all the other potential threats, flaws and weaknesses your business might be experiencing. To put it another way, if all you think about is treasure, you'll have to watch your ship sink.

Need more support?

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For more information visit **www.businesslincolnshire.com** where you can request support from one of our advisers by filling in the online contact form.

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