



**DEADLY
SINS
OF
STARTING
A
SMALL
BUSINESS**

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A free publication provided by



Training and Consulting Inc.

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INTRODUCTION

Success in business brings its own rewards. Unfortunately, there is no full proof plan to guarantee success. The mere fact that you have elected to establish your own commercial enterprise or professional practice marks you as an entrepreneur or risk taker. According to statistics, the risks are quiet high. Research shows that 80% of new businesses fall within the first five years.

Your business is like an ever-changing puzzle. Each day there are more and more pieces of financial information that need to be collected and organized so that you, the owner, can view the overall financial status and health of your company. If even one of the pieces of the puzzle is missing, the picture will be incomplete. And without the big picture to tell how much money is coming in and where it's going, you can't effectively manage your business.

You can minimize your risk of failure and maximize your chances of success by avoiding the common mistakes that frequently result in business failure. Here are some suggestions to avoid some common mistakes and errors small business owners make especially at the start up of their business.

The suggestions are based on analysis of business failures and successes, along with interviews of small business experts, people in business and other professionals.

1

MANAGEMENT SKILLS

Lack of management skills is a more polite phrase for incompetence. Call it what you will, but this is far and away the leading cause of small business failure. And it has been since statistics have been kept. Just because you earned a professional degree or were a sales "hot shot", there is no guarantee you will succeed on your own.

Learn to understand financial statements. Use your accountant for more than keeping your books and preparing your taxes. Take advantage of all the financial advice and management counseling that today's accounting firms provide.

Develop management skills from your business coach or consultant. Although you may be the Captain of your ship, they can help you design and plot a course that is effective and efficient for you and your operations. Internal control and systems are the key to stay on top of your business success. Management skills can be acquired also through college continuing education programs, or through the use of a board of directors or advisors whose skills complement your skills. Keeping an open mind encourages creative problem solving and opportunistic thinking.

Remember, you have proven your ability to learn your business and professional skills. Use that same ability to learn management skills.

2

NO PLANNING

As difficult as it is to believe, many people set up shop on their own with no business plan whatsoever. It's not enough to say you are going to open a veterinarian clinic, a hardware store, an auto body shop or even a bookkeeping service. You need to think through and write down, exactly what your goals and objectives are, how you intend to achieve them, and what timetable is needed for implementation.

Many people believe that once they put an advertisement in the paper and hand out tons of business cards, the telephone will be ringing off the hook. Be specific in your planning. Follow each business plan component that pertains to your business. It's not enough to say, "I want to serve patients or clients" or "I want to make money". What kind of patients, clients? How much money? In what particular market?

Refer to your plan periodically or as many times you need to measure your performance and results. Make realistic changes if necessary. As the saying goes, "When you're up to your ears in alligators, it's difficult to remember that your objective was to drain the swamp."

Remember, if you fail to plan, plan to fail

3

UNDER- CAPITALIZATION

Very few people ever have all the money they really need to start an enterprise. Their biggest mistake is assuming that once they open for business - or expand into a second or third operation- their financial problems will diminish as the money from the new venture starts rolling in.

In fact, the opposite is frequently the case. The financial bind gets tighter, after you open for business. You grant customers credit, but suppliers expect payment before those credit sales turn into cash. As sales increase, inventories become depleted. As you replenish, supplier bills will follow. And, there are the routine bills to pay - rent or mortgage utilities, salaries and other (fixed) "overhead" expenses.

Determine your financial needs carefully in advance. Consider how much is needed for rent, for fixtures, office furnishings, equipment and possible up grade to that equipment and inventory. Think about how much you need for salaries, including your own, for other operating expenses, for debt service. These are just a few costs to consider. Your business coach/consultant or financial advisor will help you determine realistic financial needs before you start or expand your business.

Then, seek out appropriate funding.

4

CASH MANAGEMENT

How much money do you have on hand for emergencies or to take advantage of an unexpected opportunity? Who owes you money and how much? What are your expenses? Do you have enough cash on hand to cover current expenses?

These are fundamental questions that every competent business manager must be able to answer at any time. And by knowing the answers, take whatever actions are required to ensure there are adequate funds to keep the business solvent or to allow for borrowing the needed funds.

Good cash managers also know how to put accounts receivable to work, how to make short-term investments that produce additional income from monies not needed for working capital. In other words, how to improve their overall return on investment.

Wouldn't you agree that being in control of your money will give you peace of mind?

5

IMPROPER PRICING

You are in business for essentially one reason: to make money. More precisely, to make a profit. This means that what you charge for your goods or services must produce more than enough revenue to cover all your fixed and variable expenses. For starters that means determining your costs and then projecting the size of your market to determine your break even point.

Ideally, your pricing strategy will maximize profits, meet or beat competition, and help maintain or improve your market share.

How much is your product or service worth? As much as your customers or clients are willing to pay. You may even charge more than your competition. If your customer or client feels you offer more knowledge, skills, service or other intangible value, you will have no difficulty charging accordingly.

Remember this: Our prices determine us as much as our customer or client determines our product or service.

6

LACK OF SALES

Few businesses ever have all the customers they'll have. But many never get as many as they should. And too few, of course could mean disaster.

The problem of insufficient customers, however, is often the result of not meeting a need in the marketplace or failing to develop a distinctive niche. Both can be overcome with market research. What is the competition offering? What service is lacking? What are customers buying? What do they want? Why?

By recognizing your customer profile and the marketplace, you can provide the products or services people need *and* set yourself apart from the competition.

Understanding your sales cycle and obtaining continuous feedback from your potential and existing customers are essential to maintain continuity for your business.

There is an old saying to ensure sales: "Knock and it shall be opened unto you; Ask and you shall receive".

7

INDISCRIMINATE GROWTH

Everyone in business wants to be successful. and, business growth is frequently a measure of success. Growth, however, has to be managed. growing too fast can cause just as many problems as not growing fast enough.

Before undertaking any growth, take inventory of your strengths and weaknesses. If superior quality is your strong suit, growth producing a high sales volume and low margin will make it difficult to maintain quality control standards. If your professional skills represent your strength, how will your clients feel about being serviced by someone else?

Remember, growth alone does not ensure success. Indiscriminate growth may, in fact have negative impact in both the long and short term. Keep in mind that growth should add to the business in some way - through increased profitability, increased efficiency, economies of scale, etc. Otherwise, don't expand.

Think of the story between the Turtle and the Hare. Who won the race?

8

BUSINESS VERSUS PERSONAL

To have a true and accurate picture of your company's finances, you need to separate business activities from personal activities. Open and use a separate chequing account strictly for business purposes.

Deposit all income - whether in the form of cash or cheques - directly in the business account. This way, you will always have a complete record of your earnings and know exactly how much money is available for business expenses and/or expansion at any given time.

Avoid paying personal expenses out of your business account. Although it may seem easier or more convenient, this practice invariably creates confusion and, in the long run, actually costs money by doubling the amount of time you, your bookkeeper or accountant must spend sorting out these expenses later on.

For small expenses, such as parking, cab fare, postage), you should keep a limited amount of "petty cash" on hand. It is easy to go to the next bank machine and withdraw a set amount of money from your business account for these expenses. Be careful not to let these expenses nickel and dime you right out of business. Make sure to account and record for the expenses you have incurred. Withdraw only the "petty cash" amount to replenish the business expenses you've spent.

9

DISORGANIZED RECORDS

Just as important as a complete, detailed set of books, are the sales slips, invoices, receipts, cancelled cheques and other (source) documentation that support them.

However, rather than keeping these valuable records safe and organized in easily identifiable files, many business owners merely pile them into drawers or stuff them into cabinets or place them in shoe boxes as if they were waste paper.

Come tax time, these owners and their bookkeepers waste tremendous amounts of time (which translates into money) sorting through jumbles of paper, trying to find the specific documents that will justify a deduction or avoid an unnecessary penalty. That is, if the documents in question are even anywhere to be found.

The solution to this problem is simply to create and use organized files for all of your important records. Coding them by category, colour, date or other identifying criteria can make it easier to spot the file you need at a glance. Once your system is in place, it should be maintained and it will be easier to neatly file away important papers in an organized manner than to try to find empty drawer space in which to stuff them.

10

RECORD TRANSACTIONS

You write out a cheque to a supplier or go to the bank and withdraw some cash from the Automatic Bank Machine. You are in a hurry so you forget to write down what it is for or forget to fill in the stub. Or you promise yourself that you'll do it later when you have more time. Later, when you go to write another cheque, you find yourself faced with an empty cheque stub and no recollection of the identity of the payee or amount of the cheque.

Blank cheques.....cheques made out to "cash".....automatic bank machine slips... bills paid in cash..... gas and restaurant receipts, not entered, and eventually forgotten, .add them all up and you've got confusion and the potential for financial disaster.

During the course of each business day, countless pieces of information are generated about sales, cash, equipment, purchase expenses, payroll and accounts receivable and payable. To ensure that you maintain accurate records of every transactions, experts advise you:

- *Record each transaction as it occurs.* Write down and describe the nature of this transaction.
- *Make sure each entry is complete.*
- *Avoid writing cheques to "cash".*
- *Avoid using your automatic bank machine to pay for business expense purchases.*

11

NUMERICAL TRANSPPOSITIONS

The Cheque book is one area where a costly mistake can easily happen with the slip of the pen or the transposition of a number (e.g. recording "59" as a "95").

Banks report that simple transposition of errors take a high toll on their business clients in terms of fees for overdrawn accounts, lost credibility with suppliers because of "bounced" cheques and wasted time and energy trying to track down the mistake late.

You need to be extremely careful to check and re-check your numbers as you go through the various steps of writing a cheque, copying the information on the stub, copying the same information on the invoice, and, finally copying the information again in the cheque register or journal.

Make sure to ask your bookkeeper, accountant or business consultant which cheque writing systems are available that eliminate the potential for numerical transpositions.

12

STREAMLINE YOUR SYSTEM

To minimize costly clerical time and errors, many small businesses need to ensure a bookkeeping system is in place.

Sales and deposits, cheques written and suppliers invoices, and cash expenses, these transactions can be recorded also on simple (computer generated) spread sheets, or journals which can be purchased at any office supply stores. However, the more frequent business activity, the more sophisticated system is needed.

There are a variety of comprehensive bookkeeping systems available. These include:

- One write systems - Available for virtually every cheque writing application, including accounts receivable and payable, job costing, petty cash etc. These systems consolidate a number of posting steps into one.
- Accounting Software - many different accounting software packages are available for small business. To maximize and streamline your bookkeeping system, ensure to understand basic accounting principles before implementation.

Ask your accountant, bookkeeper or business consultant how to create an efficient bookkeeping system that works for you and your business.

ABOUT VDMA

VDMA Training and Consulting Inc is a Learning Organization to assist you and your company to be more productive, efficient and profitable in your work and private life.

Through the training and the specific on-going consultation and coaching processes, we have assisted clients with the start up, growth and the restructuring of their current economic environment.

Consequently the firm has implemented various (management) control systems, researched and written comprehensive business plans, assessed, designed and developed training programs.

Our consultants, coaches and trainers are experienced in the fields of:

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|---------------------|-----------------------|
| ❖ Entrepreneurship | ❖ Management |
| ❖ Sales & Marketing | ❖ Human Resources |
| ❖ Customer Service | ❖ Communications |
| ❖ Finance | ❖ Life Skills |
| ❖ Web Development | ❖ EQ in the Workplace |