10 Mistakes Every New Business Should Avoid

What you need to know before you launch your new business venture

STARTING A NEW BUSINESS is an exciting and challenging endeavor. Even if you consider yourself a risk-taker, starting a business takes a lot of courage. To be successful and stay in business, though, you need more than courage. You need a combination of hard work, skill, and perseverance. And most importantly, you need to be well versed in multiple areas to help your new business thrive. In this report, we'll examine 10 mistakes every new business should avoid. If you can maneuver through these common pitfalls, you may increase your chances for success right from the start.

From a broad perspective, you've probably already discovered that running a new business requires you to play two very different roles. Each of those roles requires specific skills that you'll need to possess–or be ready to learn.

First, as a small business owner, you will be responsible for designing, fulfilling and delivering products and services to your customers. You'll need to have a solid knowledge of the market or industry you have chosen to enter and know how your new business will be able to fit in with the competitive landscape. Even if you hire employees who understand your unique market, you'll still need to be the main source of inspiration and drive for the business.

Second, you have to manage all the activities and make the decisions involved in running the business. You'll make critical decisions that could lead to the success or failure of your endeavor. You'll need to arm yourself with the knowledge of how to run a small business, and learn from those who have conquered the task years ago.

STARTING A BUSINESS takes some serious survival skills. According to studies at the U.S. Small Business Administration, two-thirds of new businesses survive at least two years. After two years though, the odds for survival start to get a bit bleak. About 46.5 percent are open at least four years, and only 39.5 percent are open after six years.[1]

But why do some ideas succeed beyond imagination and others collapse in a few short years? It's not a matter of luck.

To help your new business succeed right from the beginning, you need to avoid these common missteps that may slow down–or even indefinitely stall–your business launch.

1 SOURCE: Small Business Administration, "Small Business by the Numbers"

10 MISTAKES EVERY NEW BUSINESS SHOULD AVOID

1. **NOT CREATING A WRITTEN BUSINESS PLAN.** The success or failure of your business depends on how well you've charted your course.

2. **IGNORING THE INTERNET.** The Internet can give your small business a global as well as local identity and a 24x7 channel to reach your customer base.

3. **INCONSISTENT BRANDING OF YOUR NEW BUSINESS.** Your business name should help a customer immediately know who you are and what your business is about. But finding the right name is not as easy as you might think, and branding your business poses even more challenges.

4. **INSUFFICIENT FUNDING OR LACK OF CREDIT OPTIONS TO GET ENOUGH FUNDING.** Starting a business takes resources–and money. And money management in the first few months can be critical to the survival of your new business.

5. **PICKING THE WRONG BUSINESS STRUCTURE (LLC, INC., LLP).** Your legal business organization can affect your tax structure, so choose wisely.

6. **NO FINANCIAL REPORTING.** Are you making money or losing money on each job or project? To survive, every small business owner has to stay in touch with the financial state of the business and know how to run key reports.

7. **EXTENDING CREDIT TO CUSTOMERS WITHOUT PROPER CREDIT CHECKS.** The fastest way to get into debt is to skip customer credit checks.

8. **POOR PRICING AND COST ESTIMATING.** Accurate pricing and estimating can make or break any new business.

9. **INSUFFICIENT FINANCIAL MANAGEMENT SKILLS.** Do you know how to manage the financial aspects of owning a business, such as invoicing, paying employees or contractors, and monitoring cash flow and your bank accounts?

10. **POOR HIRING PRACTICES.** Hiring too few or too many employees can affect cash flow. And not understanding the laws relating to hiring employees can result in fines from the government.

The better you prepare yourself and understand the challenges of starting a new business, the more likely it is that your idea will become a profitable and growing company.

MISTAKE #1
NOT CREATING A WRITTEN BUSINESS PLAN

Before you launch a business, you need to have a plan. Not just a concept or great idea for a company, but a true business plan. The business plan is more than a document. First and foremost, it is a process that enables you and your chosen team members to come together and commit to a business venture of significant personal and professional risk. The business plan is a process that evaluates the opportunity, quantifies the resources required and lays out a road map for implementation.

Keep in mind that developing a business plan takes effort, know-how and a significant time commitment. Business advisers from Human Resources Development Canada estimate that business plan development requires up to 200 hours. [2]

Young, pre-launch businesses aren't the only companies that need a business plan. The business plan is a living document that is as vital to the business' first day as it is its tenth year.

The business plan is integral to your company's success and a must-have if you seek a moderate to large small business loan from a bank or the U.S. Small Business Administration (SBA).

2 SOURCE: Bell Zinc Web site article, "Should you hire someone to write your business plan?"

If you haven't thought about your business plan, now's the time to begin. Although no two business plans will look alike, there are a number of key considerations that will play an important role in shaping the content of a business plan. The form of every good business plan tends to run along the same basic lines, containing the following nine key sections:

- **COVER PAGE** The cover page should be informative and professional. It should also contain an appropriate confidentiality and non-disclosure legend.

- **EXECUTIVE SUMMARY** The most vital section of the business plan is the executive summary. Although it comes first, you may find that you need to write it last, as it summarizes your entire plan. Effective summaries generally cover: company origin; product or service; company's goals; market potential; summary of key financial forecasts including sales and profit/loss; the management team; financing needed; and the exit strategy.

- **COMPANY DESCRIPTION** This section should convey a sense of the company's history as well as its goals. The description section also includes the business' principal objectives, including long-term and interim goals. Remember to be very realistic with your business goals.

- **MANAGEMENT** Key members of the management team should be listed in this section. Describe their responsibilities and establish their relevant experience and accomplishments. You may want to include resumes and awards won by key managers that show accomplishments or successful track records.

- **THE PRODUCT OR SERVICE** If the business sells a product or service, this section should describe what the product is and show why it can penetrate the existing or developing market. If the product is still in development, discuss the anticipated date to market. This section should also outline logical extensions of the products or services, to demonstrate that the business is not too one-dimensional in its offerings.

- **THE MARKET** This section should describe the company's market and outline whether the target market is already large or small but growing. This section should also give reasons why the market should be receptive to your particular products and services.

- **COMPETITION** List competing products and technology in this section. Compare your product or service with the competition. Describe how your price or quality is different and how your product will be successful among the contenders in the area.

- **MARKETING** This section should describe the company's marketing plan and strategy in as much detail as possible. Since marketing plays a vital role in successful business ventures, how well you market your business, along with a few other considerations, will ultimately determine your degree of success or failure. Make sure that your plan shows that you know your customers–their likes, dislikes, and expectations. [3]

QUICKTIP

Once you complete your business plan, read it repeatedly to yourself. By familiarizing yourself with all aspects of your business plan, you will stay focused on your mission and keep your business on track on a daily basis.

- **FINANCIAL STATEMENTS AND PROJECTIONS** This key component of the business plan should contain a summary of your financial forecasts. The section should include total cash requirements, the timeframe for positive cash flow, and the anticipated growth in sales and profits. You can also include more detail, such as balance sheets, income statements, and cash flow projections for a three- to five-year period. The most significant aspect of the forecasts is the set of assumptions supporting your numbers. Make sure your discussion sufficiently communicates the basis of your assumptions. They must be realistic, logical, and attainable.

When complete, a business plan is going to run 20-50 pages, including financials and appendices. The financials are going to take up 10 or 15 pages when you include appendices showing monthly projections.[4] You can also create full-color charts to illustrate visually your financial plans. The plan should be easy to understand and use specific details whenever possible. Remember, this document represents your business and should be polished and professional.

Once you have completed your business plan, ask others to critique it. The information is confidential, so be careful whom

3 SOURCE: SBA, "Business Plan Basics"

4 SOURCE: "Length of business plans," Bplans.com, written by Tim Berry, President, Palo Alto Software you choose to read the document and control its distribution. You may want to show your business plan to banks, private investors and venture capitalists to obtain funding or to potential employees to attract top management talent. Friends, significant others, mentors and colleagues can also provide much needed constructive criticism of your business plan.

More importantly, though, read your business plan repeatedly to yourself. By familiarizing yourself with all aspects of your business plan, you will stay focused on your mission and keep your business on track on a daily basis.

MISTAKE #2
IGNORING THE INTERNET

Almost any small business can benefit from a Web site that spreads the word about its products or services. A good site provides numerous benefits to a new business, including increasing visibility and providing a steady stream of sales leads.

A Web site is one of the most cost-effective ways to announce your business opening, market your business, and reach potential customers. Ignoring it could prove to be a critical mistake.

A Web site is especially important for startup businesses because it can provide immediate results. You don't have to wait until the next edition of the Yellow Pages is printed before customers can find you and start doing business with you. The other good news is that the state of Web technology and design tools have advanced considerably in the last few years. Many Web hosting providers give you everything you need to design, launch, and host your new site. With those services, you don't have to be a master programmer to build a highly functional, professional site.

And don't worry if you're not prepared to set up e-commerce yet and sell your product over the Web. Most new businesses aren't ready to tackle that right away. Plus, it can be a very expensive project that requires a dedicated team of people who are specialists in Web commerce. And the truth is, not every small business will benefit by inviting customers to order products directly over the Internet. So give yourself time before leaping too quickly into e-commerce.

To get started on the Internet, you'll need to choose and register a domain name, also called a URL or Web address. Practically speaking, your Web address is your Internet identity and your online brand. Your customers will remember this name and use it to find your Web site, your products or your services. And since no two parties can ever have the exact Web address at the same time, your Internet identity is unique.

Note that every domain name has an extension, or category. While the most common extension is .com, there are several extensions to choose from, including .net, .org, .biz, .us, and many others. You can buy the same domain with different extensions, such as flowers.com or flowers.biz. Each additional extension requires a separate registration and fee.

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A short, memorable domain name can make the difference between creating a successful Web presence and getting lost among the clutter on the Internet. Because of that, you need to put as much thought into registering the right domain name and extension as you did into naming the business.

While your business name is always a wise first choice as your domain name, you may decide to register a domain name that matches the concept of your business instead of your exact business name. That way, you might draw customers in search of that topic. For instance, a gardening store that registered tulips.com might get visitors looking for information about planting tulips. A short, topical domain name can also be a wise choice if your business name is lengthy or contains multiple partners' names.

Once you buy and register a domain name, you are ready to begin building your site. Doing it yourself with tools provided by a Web hosting firm can save money compared to hiring a design firm. Plus, creating your site in-house allows you to get your site up more quickly. You may even have some fun along the way.

After you register a domain, you can set up e-mail addresses for your employees that are associated with your domain. By doing that, you can help brand your new company with every invoice, proposal, estimate, or other customer communication that you send from your new e-mail account. Using a branded e-mail address for all of your electronic correspondence helps your business appear more professional to your customers than if you use a free Internet mail service, such as those provided by MSN HotMail or Yahoo!.

MISTAKE #3
INCONSISTENT BRANDING

A solid branding strategy begins with a few simple but well-researched first steps. One of the first items to consider for your new business is its name. There are as many schools of thought on what this should be as there are unique business names. Choosing a name requires careful thought, as names are crucial to marketing and branding both in the immediate term and for the long haul.

You should also do a trademark search of your potential names, to ensure the name you're interested in choosing isn't already trademarked by another business. This could help you avoid costly lawsuits later. The best source of information about the trademark process is the U.S. Patent and Trademark Office. The department is online at: http://www.uspto.gov/.

In short, your business name should help a customer immediately know who you are and what your business is about. Your name shapes a customer's first impression and hopefully leaves a lasting impression as well. Many businesses choose to use some or part of the owner's name or family name. Others use a location-based name to help customers more easily determine where the office is located. Still others use a more descriptive name that signifies what the company does or sells. Some business owners simply name their company after the name of their premier product. The choices are limitless.

As you begin the process of choosing a name, first make a list of several potential names, and then use this checklist to critique each of them:

- Does the name describe what your company or product does?
- Will the name still work if you expand your products or locations?
- Is it an easy name to say, spell, read, and remember?
- Does the name fit your overall identity?
- Is the name unique? [5]

After you decide on a name, the next branding action item is to create a logo. Unlike the free thought processes used when naming your business, creating or updating a logo is a more disciplined task. If possible, a logo should reflect the nature of your business and provide people with some clues as to the services you provide or the products you sell. The right logo can give even the smallest new business a polished, professional look.

Once your logo is ready, don't forget to include it on all of your business correspondence. Use this checklist of places where your logo should go.

- ❑ Business letters or correspondence
- ❑ Shipping labels
- ❑ Business cards
- ❑ Envelopes
- ❑ Printed invoices
- ❑ E-mail, invoices, statements, proposals, and estimates
- ❑ Sales and purchase forms
- ❑ Statements of Work and project estimates
- ❑ Presentations
- ❑ Every page of your Web site
- ❑ On Web sites of any partner companies
- ❑ Your front door or outside your office or building
- ❑ On the side of delivery trucks, if applicable
- ❑ With any ads for your business
- ❑ In the Yellow Pages or other business directories

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5 SOURCE: Bell Zinc, "Win the Name Game"

MISTAKE #4
INSUFFICIENT FUNDING

Inadequate or ill-timed financing is considered by the Small Business Administration to be one of the main reasons small businesses fail. Whether you're starting a business or expanding one, you need ready capital, along with the ability to manage it well.

To get the idea off the ground, early on you must address the financial needs required to launch and operate your new business. The bottom line is that unless you're independently wealthy, you'll need help with financing. And before you seek assistance, you'll need to have a fairly accurate estimate of what your start-up and your operational costs might be.

The first step is to assess your own finances. Ask yourself these questions: Do you have a large savings account, maturing stock portfolio, or a sizable nest egg? How much of it are you prepared to use? Do you have a personal line of credit at your bank? Are you prepared to borrow from it to launch your business? Do you know what your credit rating is? Before you go another step, find out the answers to these important questions.

Once you determine how much you need, then consider all the sources. The six most common types of business financing options include:

- Angel investors and venture capital
- Commercial banks
- Assistance from the Small Business Administration
- Home equity loans
- Credit cards
- Equipment leasing

While business credit for established companies is not too difficult to obtain from local banks, savings institutions or other lenders, new businesses face a different set of obstacles.

New businesses frequently have trouble securing conventional financing because they present a tremendous risk to lenders and investors. The result is that nearly three-quarters of startup businesses are funded through the owner's own resources, including personal savings, residential mortgages, home equity lines of credit, or consumer loans. Family members, friends, or investments by private contracts often provide most of the remaining start-up or seed money for new small businesses.

Once the business is up and running, maintaining ongoing lines of credit becomes essential. In addition to overruns in operational expenses, you should preserve some borrowing capacity for unforeseen opportunities or emergencies.

According to the U.S. Chamber of Commerce, the most common financial problem for startup businesses is a shortage of short-term cash. Cash flow problems during a potentially long start-up period can be fatal to your new business. This cash crunch puts a tremendous focus on sales and inventory turnover, and the need for immediate revenue often becomes a daily crisis that takes priority over financing for sustained growth or development of new products. During this critical early start-up period, you need to demonstrate perseverance and investigate all sources of financing.

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According to the Small Business Administration, about 82.5 percent of small firms use some form of credit. About 55 percent use loans from depository institutions, while 45 percent have personal credit cards and 33 percent have business credit cards. [6]

These numbers bring home one cautionary note to consider when seeking small business financing: odds are, your business finances will be linked to your personal finances. Thereby most of your small business debt will also be your personal debt. So any default to those business lines of credit or credit cards may mean disaster to your personal finances.

In addition, the more debt you assume, the harder it may be to obtain additional funding, on much better terms, when you are in a better financial position to obtain it. In short, advocating a limitless assumption of risk and debt is easy when it's not your life savings, your house, or your family's assets on the line.

If your launch plans require extensive financing, there's no time like the present to take advantage of economic conditions that favor the borrower. Do plenty of research to find the right financing option, as you have many choices.

6 SOURCE: Federal Reserve Board, Survey of Small Business Finances

MISTAKE #5
PICKING THE WRONG BUSINESS STRUCTURE

One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications, so consult with an accountant and attorney to help you select the form of ownership that is right for your type of business. As you determine which structure is right for your business, consider these issues:

- The potential size and nature of your business
- Desired management level
- Simplicity of operation
- The possible duration and longevity of your business
- The business' vulnerability to lawsuits
- Tax implications, pass-through vs. double taxation
- Costs of registrations
- Expected profit (or loss) of the business
- Exit strategy/cashing out

The typical structures for a start-up business are sole proprietorships, general partnerships, joint ventures, limited partnerships, limited liability partnerships, limited liability companies (LLCs), S corporations, C corporations, and nonprofits. Sole proprietorships, general partnerships, and joint ventures are considered to be the most simple, from an operational standpoint. However, with sole proprietorships and general partnerships, the owners have personal liability for the debts of the business. And a sole proprietor may also have difficulty raising capital.

Corporations, if properly formed and operated, generally provide the shareholders protection from personal liability. S corporations generally give you tax benefits, with only one level of tax on income of the business. C corporations have two levels, one at the corporate level on income earned and one at the shareholder level for any dividends received from the corporation.

Also note that after you decide upon an organizational structure, you'll need to choose a state of formation. State laws governing businesses vary from state to state, so compare state regulations governing your type of business before you file. Filing fees are also different in each state, so be sure you check registration costs, too. And almost all jurisdictions require that a corporation designate a registered agent for service of process.

QUICKTIP

Know that you'll need to do plenty of research on business structures and licensing before you file your initial registration documents. While you can change structures in the future, it's better to set up the business correctly from the start, to avoid confusion or even additional taxation.

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MISTAKE #6
NO FINANCIAL REPORTING

Not tracking the state of your business finances is an all-too-common mistake that new businesses tend to make. Many owners just launching a business are experts in their industry, but they simply don't know how to build financial statements. But that problem won't last, as your business may not stay operational for very long if you don't learn to create, read, and use profit and loss statements, balance sheets, and several other key financial reports.

Reports give you insight into your company finances. You can use reports to answer questions such as these:

- Which invoices are past due?
- How profitable was that big job I completed last month?
- What will my cash flow be for the next quarter?
- Are my expenses within budget?
- How much did my business grow in its first year?
- Can I afford to hire a few new employees?

Financial reports give you insight into your business and can help you make decisions related to growth and profitability. For example, a standard profit and loss statement can show you how much money your business made—or lost—over a period of time. The balance sheet gives you a view of your overall financial health and is an indication of whether it is improving or declining.

A banker can look at these financial statements and predict how long he or she expects you to stay in business. The profit and loss statement tells the bank if you are running a profitable business. The balance sheet tells the bank about your financial stability.

Generally what you see on a profit and loss statement is growth in revenue and net income. Some companies choose not to grow or choose to cut back on less profitable jobs in order to increase their net income or profit margins. Even if you have selected no growth, slow growth, or less revenue in your second year versus your first year, you still need to review your profit and loss statement to make sure you are making money and not overspending on job, employee, or overhead expenses.

On the balance sheet, you should look for higher assets, lower liabilities, or a proportional growth in assets over liabilities. For example, if you purchased a truck in your first year for $30,000 and acquired a loan for $20,000, your assets have increased $30,000 and your liabilities have increased $20,000. A common rule of thumb is that the value of your assets should equal at least two times the value of your liabilities. So if you have $150,000 in assets, for example, you should have $75,000 or less in liabilities.

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MISTAKE #7
EXTENDING CREDIT TO CUSTOMERS WITHOUT PROPER CREDIT CHECKS

Extending credit to customers is a necessary part of owning and operating a business. Besides accepting credit cards, your new business may offer credit to customers in multiple ways. For instance, every time you invoice a customer with extended payment terms, you are in fact extending credit to that customer. But did you first check that customer's credit rating? How do you know they will pay?

Many small business owners believe that the primary reason they experience cash flow problems is the difficulty they encounter collecting money due them. Successful collections can be the key to success–or the reason for failure–in any business. And credit management is especially important in new businesses where cash flow can be tight. Be sure you are familiar with all aspects of credit and collections management, including:

- Using professional credit reports
- Asking for customers' credit applications
- Building and enforcing your credit policy
- Using payment reminders and collections letters
- Providing payment incentives

Here are a few ideas to consider:

1. **Use professional credit reports.** Companies such as D&B offer very affordable business credit reports. D&B sells a range of different reports, from a simple report that provides a quick overview of a company's credit to a more detailed report that offers in-depth information and credit monitoring.
2. **Ask your customers to fill out a credit application.** One of the best ways to discover more about your customers' credit is to ask them some questions about their business. In the credit application, ask the customer for three trade references and at least one bank reference. And be sure to follow up on the information they provide by calling their references.
3. **Create and communicate your credit policy to your customers.** By specifying your business' payment requirements before you begin work, you can eliminate potential payment misunderstandings from clients or customers later. And while large corporations may ignore your credit policy, they might accept certain terms, such as paying half of the invoice when you begin work on a project.

4. **Use payment reminders and write collections letters when payments from customers are due.** Whether a short note or a quick e-mail, friendly payment reminders are a cost-effective way to stay on the radar of those who owe you money. Don't expect customers to police themselves. Instead, send statements and reminders when payments are due.
5. **Provide payment incentives to customers.** These incentives can be for payment in full at the time of service or for early payment. If your client list has more than a handful of slow-payers, you may want to offer a percentage discount for prompt payment, especially if the job is in excess of a particular amount. You can also offer 2/10 Net 30 credit options, meaning a customer can receive a 2 percent discount if the bill is paid with 10 days of the invoice date.

Also note that every day in the U.S., more than 1,100,000 checks bounce, causing a significant loss to businesses. The first step in preventing check fraud is establishing check acceptance procedures. Here are some basic guidelines that anyone handling transactions from customers should follow. With each check you accept, confirm:

- The identity of the customer with a picture ID, such as a driver's license
- The amount is correct and the written and numerical amounts agree
- All lines are properly filled in
- The check is legitimate and has the banks' MICR coding along the bottom

QUICKTIP

Successful collections can be the key to success–or the reason for failure–in any business. And credit management is especially important in new businesses where cash flow can be tight. Be sure you are familiar with all aspects of credit and collections management.

- The date on the check is no more than 30 days old and not dated ahead
- The customer's signature is legible
- Your business name is legible, if you don't have a stamp or check-writer tool at your checkout stand

If you use a Point of Sale system, such as QuickBooks Point of Sale, to accept payment from customers, you may be able to use that system to provide another layer of protection against bad checks. In some POS systems, you can flag a customer with a "Do not accept checks" note. If a customer is flagged, the POS system will not allow a sale.

MISTAKE #8
POOR PRICING AND COST ESTIMATING

One common mistake that new businesses tend to make is undercharging. The habit often takes root when a new business can't properly estimate a job or determine correct pricing levels for its products and services. Using bargain basement pricing or giveaways as a way to drum up business can also cause initial pricing problems, as it sets customer's expectations for prices at an artificially low level.

Unfortunately some new businesses never find a way to boost their initial practice rate or pricing of products to a profitable level. And sometimes business owners become lax about product pricing and fail to implement pricing policies by individual item or situation. This situation can be detrimental to cash flow and may affect your overall profitability.

To avoid this mistake and help your new business thrive, you need to quickly gain an understanding of fair market pricing in your industry. Pricing items correctly and knowing when to reduce prices and offer discounts to select customers are key ways to manage and grow your profits.

To ensure your pricing is correct, start by understanding the difference between markup and margin. The terms margin and markup are closely related but not interchangeable. Both are calculated by comparing the direct cost of a given project to its selling price. In markup, the difference between those figures is expressed as a percentage of cost; for margin, it's expressed as a percentage of the selling price.

To give a simple example, consider a job that cost $1,000 to complete and sells for $1,500. The difference between the two is $500, so the markup is 500/1,000, or 50%. But expressed in terms of margin, it's 500/1,500, or 33 1/3%. The table below shows how much a job must be marked up to yield a given margin. [7]

MARKUP VS. MARGIN

MARKUP %	MARGIN %	MARKUP %	MARGIN %
20	16.67	46	31.51
22	18.03	48	32.43
24	19.35	50	33.33
26	20.63	52	34.21
28	21.88	54	35.06
30	23.08	56	35.90
32	24.24	58	36.71
34	25.37	60	37.50
36	26.47	62	38.27
38	27.54	64	39.02
40	28.57	66	39.76
42	29.58	68	40.48
44	30.56	70	41.18

In general, determining and maintaining an optimal pricing strategy could help raise your return on investment (ROI), improve your short-term cash flow, and potentially maximize profits. Each time you modify or update your pricing models, be sure to:

- Re-evaluate consumer demand for your products and the price customers are willing to pay for each item.
- Consider the implications of deflation on your pricing models.
- Maintain your competitive position when compared to prices found at other businesses that sell the same or similar goods and merchandise. Use the Internet to gauge market pricing.
- Constantly compare prices from different suppliers to ensure you're getting the best market rate.

MISTAKE #9
INSUFFICIENT FINANCIAL MANAGEMENT SKILLS

If you want your new business to succeed, you need to learn all you can about the basics of financial management. No matter how skilled you are at building a product, providing a service, and marketing and selling your wares, the money your business earns will literally slip between your fingers if you ignore the financial management aspects of your business.

You have to know how to efficiently collect money, manage your accounts, and run accurate reports that reflect the state of your business finances. By performing at least those very basic functions, your business may have a better chance to make money, save money, and reduce operating costs. And by maintaining a working knowledge of your day-to-day finances, you can make more informed future investment and hiring decisions.

According to the U.S. Chamber of Commerce, poor financial management is considered to be one of the leading reasons that businesses fail. In many cases, owners could have avoided failure or bankruptcy if they had applied sound financial principles to all their dealings and decisions.

Other experts agree, stating that small-business entrepreneurs spend their time doing something specific they're very passionate about–and it's not bookkeeping and accounting. Consequently, new business owners often stall or delay putting accounting systems into place. By doing so, they might not realize they're making errors or failing to identify problems with start-up cash flow, accounts receivable, or taxes. [8]

When launching a new business, you may feel as though you're too busy to tend to financial management tasks yourself. While hiring a CPA or accountant is often wise, financial management is not something that you should put entirely in the hands of your banker, financial planner, or accountant. You need to understand the basic principles yourself and use them on a day-to-day basis, even if you plan to leave the more complicated work, such as paying taxes or processing payroll, to hired accounting or payroll professionals.

Familiarize yourself with the following concepts of financial management for your new business:

1. **Understand bookkeeping basics.** You need to know at least the basics of how to manage your books or general ledger. This includes recording transactions, posting debits and credits, making adjustments, and preparing financial statements. In addition, you may need to know how to manage inventory, employees (payroll), and other vendors and subcontractors and accurately reconcile your bank and credit accounts.
2. **Manage customer credit and collections**. Managing your receivables is critical to maintaining good cash flow for your new business. See Mistake #7.

7 SOURCE: Statistics and chart reprinted from The Journal of Light Construction

8 SOURCE: Bell Zinc, "Five Ways to Fumble Your Business"

3. **Analyze your financial state.** You need to be able to regularly analyze your business' current financial state. Financial statements such as the income statement, balance sheet, and statement of cash flows, A/R aging summary, and profitability ratios are only a few examples of reports you will probably use regularly. Use these reports as a starting point for further analysis. The key is to use your statements to spot trends and anomalies, and then follow these up with further investigation. See Mistake #6.
4. **Keep a watchful eye on your expenses and cash flow.** With a new business, you may feel as though more money is going out on necessary expenditures–such as office furniture, inventory, or salaries for new employees–than is coming in on sales. While this has to be the case initially, start-up costs are often a one-time expense, and many can be depreciated over time. But any small business owner will agree that the real key to business success is using smart cash flow techniques–right from the start.

QUICKTIP

For your new business to succeed, you have to know how to efficiently collect money, manage your accounts, and run accurate reports that reflect the state of your business finances. By performing at least those very basic functions, your business may have a better chance to make money and save money.

MISTAKE #10
POOR HIRING PRACTICES

Some of the most challenging tasks for new business owners are related to employee management. Once you hire an employee, you add many layers of complexity–and costs–to the operations of your new business. According to the U.S. Chamber of Commerce, complying with government regulations cost small businesses $7,000 per employee per year, which includes issues such as comp time and OSHA regulations.

But depending on your type of business, you may at some point need to hire and manage full-time employees. One good rule of thumb for new businesses is to hire only workers who are essential to your operation. This may help you keep start-up expenses to a manageable level and help you maintain positive cash flow until your revenue streams are steady and predictable.

There are hundreds of employee laws and related topics and issues surrounding employees. Here's a partial list of areas you should research before you hire:

- Affirmative action
- Age discrimination in employment act
- Disabled workers
- Drugs in the workplace
- Equal employment opportunity
- Fair labor standards act
- Preventing violence in the workplace
- Privacy rights
- Racial discrimination
- Religious protection
- Safety in the workplace
- Sexual harassment
- Sexual orientation discrimination
- Americans with disabilities act
- Child labor laws
- Civil rights act
- Equal pay act
- Immigration reform and control act
- The bankruptcy act

Depending on the size of your new company, you may be exempt from some of these employee laws. For example, the Age Discrimination in Employment Act only applies to employers with 20 or more employees. But regardless of your business size, the government is concerned about who you hire as well as who you don't hire. So evaluate your company's hiring practices with every person you sign on. Hiring only 20 white males is never a good practice. Remember that any size employer can be sued based on employment patterns and for not employing enough minorities and women.

SUMMARY AND CONCLUSIONS

ONCE YOU'VE INITIATED THE FIRST FEW STEPS of your new business, the adventure really begins. As a small business owner, you'll have to bring your business idea to life. You'll be the sole person responsible for determining how your business team will provide products and services to your customers. You'll have to become a leading expert in your field and know how to rise above other businesses that are competing with you for every customer and every sale.

Most importantly, you'll have to manage all the operations of the business and make critical decisions that could lead to the success or failure of your endeavor. You'll need to arm yourself with the knowledge of how to run a small business and learn from those who have conquered the job years ago.

To help your new business stay in business, you should start by avoiding the 10 pitfalls mentioned in this guide. Second, you should consider using QuickBooks to manage your business finances.