Practical Decisions

Practical Ideas That Work!

Six Mistakes of New Ventures…*Avoiding Common Pitfalls*

In the early stage of any new venture, whether it be a start-up, an acquisition, or growth through a new division, no matter how careful or knowledgeable the entrepreneur is, mistakes happen. Still, if you heed the voices of experience, you can dodge many common missteps. Here are six mistakes that new ventures make frequently – and some advice about how to avoid them. Although the principles are fundamental,

Get these six things right, and your chances of success increase tremendously!

Mistake #1: *Passion Without a Plan*

Entrepreneurs need passion to succeed. Well, enthusiasm can be overrated. To grow your business and succeed in the long run, you need more than energy and a fire in your gut. You need a plan. Take the time to thoroughly investigate your market, target customers, the competition, and other basics. Focus on answering simple questions: What is the fundamental profit model that will make money? How will the business grow…. is it scalable? **Commit the plan to writing.** Use the plan as a yardstick to measure progress, and allow the plan to be a living document that changes as the business evolves.

Mistake #2: *Selling Too Cheaply*

New ventures often chase sales volume, and assume that rock bottom prices will fuel sales. More often than not, that is not the path to success. Even if sales explode, the business doesn't generate sufficient gross profit to cover expenses, or provide sufficient cash flow to grow. Before pricing products and services:

- Calculate fixed and variable costs
- Research markets and competitive price points
- Develop your unique selling proposition; the qualities that differentiate you from competitors
- Price your products and services on the basis of the value they provide to your market
- Determine the minimum margin required in order to walk away with dollars in your pocket

Mistake #3: *Ineffective Marketing and Advertising*

You must develop effective strategies to market your business. Many new ventures, in an attempt to manage costs, develop their own marketing campaigns without fully understanding the market and competitive landscape. Competition is fierce, markets are crowded, and the "noise" can be overwhelming. You must have an effective message, a compelling value proposition, a unique differentiated market position, and adequate marketing funds to make it happen. Advertising messages must be believable, relevant, and precisely delivered to the target in order to achieve success.

Mistake #4: *Underestimating Capital*

Typically, entrepreneurs and their new ventures, full of enthusiasm, grossly underestimate their financial needs. Surprisingly, new ventures often don't anticipate that few customers will pay promptly, and assumptions regarding receivables are often optimistic. After developing personal and business budgets that can sustain the company for the time it will take to break even, add at least 50% to manage your risk. Be creative and explore creative financing options early on, including the potential for third party equity. Often the choice comes down to owning a piece of something that is valuable, or owning all of something that has no value.

Constantly review actual performance versus the business plan, and adjust forecasts regularly. Are revenue expectations unrealistic? Are expenses greater than budget? Be brutally honest. Even if the business is performing to plan, manage the business as if it was going to run out of cash;

Cash is King!

Mistake #5: *Lack of Management Oversight*

New ventures are, by definition, all-consuming, requiring attention to the smallest of details. The need to truly manage the business during this important time is critical, yet the demands of the new venture distract the entrepreneur from doing just that, when it needs management most. Resources are often in short supply, and a lack of management oversight ranks high among the reasons why many new ventures fail.

One of the most neglected and poorly managed aspects of new ventures is security and loss prevention, particularly for businesses with employees. According to U.S. Department of Commerce statistics, employee dishonesty alone causes 30 percent of all business failures. Simultaneously be supporting and suspicious of your associates, and remember to **"trust…..but verify."**

Poor credit procedures are another common source of failure of new ventures. The failure to manage payables and receivables aggressively is often the precursor of many cash flow problems. Review invoicing policies, and be tough on receivables collections from the outset.

Mistake #6: *Lack of Specific Skills*

Many new ventures perish because the entrepreneur simply lacks certain specific skills in a particular aspect of business. This is particularly true for entrepreneurs, who wear many hats. You may excel at marketing, for example, but you may need help in setting up your accounting system or distributing products. You may understand the requirement for additional financing, but lack the skills to network and find sources of capital.

You can and must complement your skills with the expertise of a board of advisors, a mentor, or a business advisor.

You may not need a formal board of directors, but the business will benefit from the regular advice of experienced people who can ask difficult questions, provide an honest assessment of the operation, and advise and assist in obtaining resources that will be critical to the venture's success.

Practical Decisions has successfully helped many new ventures, and is committed to the success of entrepreneurs. As always, we're here to help them achieve their dreams. If you'd like to know more, complete the following…..