6 common mistakes small business owners make

By Dov Girnun

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We've all heard the scary statistics that the majority of small businesses fail within their first three years of operation. This is mostly a result of poor planning and funding.

Source: www.pexels.com

As a country, we need to continue to support these businesses in order to drive a more robust SME sector. There are several ways a new business can go sideways. Fortunately, there are also many ways to propel it forward. This often starts with a clear and honest understanding of the mistakes too many small business owners make. These are actually relatively easy to side-step if you can predict where you might go wrong and understand what to look out for.

These are the most common mistakes made by small business owners:

1. Inaccurate assumptions about operating costs

At the start of a business venture, like any astute entrepreneur, you put together a business plan. The challenge with this is that when it comes to looking at the numbers, you need to strike a delicate balance between creating an optimistic overview and setting yourself up for failure.

When looking at expenditure and operating costs, it's so important to round up your costs to the nearest thousand, rather than rounding down. This will put you in a better position where you will be pleasantly surprised if things are cheaper than anticipated, instead of the other way round. This will also automatically add in some extra padding for inevitable costs you didn’t see coming.

2. Buying too much inventory or equipment up front

As a business owner, you will very quickly learn this very hard lesson: Nothing in business is predictable or constant. The challenge is that most business owners are often over-eager when it comes to implementing hard and fast plans. Leading them to buy a lot of equipment up front or overextend on inventory which may or may not sell.

In these cases, especially in the early stages, it’s important to conservatively test the market with your product. Buy small units and lease equipment where possible. This will give you an out should you hit any snags along the way and need to readjust.

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3. Securing flimsy contracts with suppliers and staff

At the beginning of any business venture, you probably won’t have strong relationships in place. You will be building track records and managing that tricky tension of trying to make a good impression with suppliers. While good intentions are always important, what is equally vital is that the agreements in place can withstand future potential issues. Committing to poorly structured agreements with both staff and suppliers can come back to bite you.

So ensure you only commit to paying for what you need to get by. Don’t hire expensive staff before your business is in a strong position to pay for them. Which also often means waiting until the business is more stable with a proven track record before making new hires.

4. Poor budget planning

Every budget is a work in progress and needs to be flexible enough to go with the flow of your business. The most important thing is that it is accurate and incorporates all predictable expenditures. The best way to do this is to maintain weekly and monthly accounting and budgeting practices. This will ensure that you consistently remain close to your actual running costs and can adjust in real-time, and re-think plans before it’s too late.

5. Investing too much too quickly

Business owners are passionate people, often getting too invested too quickly in both ideas and expenditure. There is always the temptation to invest more in order to maximise profits. But this is not always the smartest plan.

As a rule of thumb, try not to invest more than 20% of your capital at any one point in time. Particularly when it comes to a new business or fresh offering in an existing business. Limiting your investment to incremental periods of time is a good way to prevent the possibility of losing everything in one bad move.

6. Using the wrong funding at the incorrect time

Many business owners are afraid of debt. But not all debt is created equally and actually taking on the right kind of debt can empower your business long term. This may include startup funding to kick start your operation. Taking on good debt can be paid back quickly and help you build up a good lending history. Or using a merchant cash advance that works in line with turnover, giving you useful working capital while allowing you to repay as you trade.

ABOUT DOV GIRNUN

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