# Darlington Business Venture - Common Mistakes on Starting a New Business

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## Introduction

Launching a small business can be risky and success is not always guaranteed. 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.

This guide looks at the most common mistakes new business owners make and, more importantly, how you can avoid them. It also shows you how to improve the chances of your business idea succeeding.

## Poor or inadequate market research

Research and planning are vital to ensure that your business idea is viable.

A common misconception is that entrepreneurs who fail 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.

**Lack of in-depth market research**

Lack of proper market research is one of the key problems for new businesses. It's easy to get carried away with a business idea and set up a business without testing its viability.

Accurate market data will help prevent over-optimistic forecasts. For more information, see the page in this guide on **setting sights too high** and our guide on **market research and market reports**.

### Keeping your business ideas to yourself

Failing to share your business ideas with people you trust means that you will miss out on objective feedback.

Brainstorm with other colleagues to give you valuable perspective. Note down any good ideas you get from brainstorming and use them when developing your business.

For more information, see our guide on how to **research and develop your business ideas**.

If you want to keep your ideas confidential, consider using a non-disclosure agreement, also known as a confidentiality agreement. This will allow you to share your ideas with colleagues without the risk of them divulging the information. See our guide on **non-disclosure agreements**.

### Not knowing your clients or marketplace

If you do not complete adequate research, you are in danger of selling to the wrong people or of not understanding your marketplace. To avoid this:

- use information, such as free government data or your own network of contacts
- carry out field research to explore customers' profiles and discover buying trends
- swap ideas with people in the same sector

For more information, see our guides on **market research and market reports** and **know your customers' needs**.

Take advantage of free advice available from your local Business Link. **Find your local Business Link through our Contacts Directory**.

Becoming a member of a Chamber of Commerce will give you access to services such as training, networking and savings on overheads. **Find your local Chamber of Commerce at the Chamber Online website**.

## Weak financial planning

Financial planning is extremely important for most new businesses. A lack of capital, lack of a contingency plan and reluctance to seek professional advice can all bring major problems.

### Lack of capital

Having sufficient capital is essential for the survival and prosperity of your business, and is a primary indicator of your business' health.

It is important to create a high-quality **business plan** to attract and secure the right type and amount of funding that you need to make your business successful. A business plan can:

- be used as a tool to structure the financial side of your business and can be updated and changed as your business grows

- keep your expectations for what can be delivered grounded

For more information, see our guide on how to **prepare a business plan**.

**Lack of a contingency plan**

Without a contingency plan you can leave yourself exposed to the unexpected.

Situations beyond your control that may impact on your business and cashflow include interest rate rises, transport strikes and political instability. While 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.

For more information, see our guides on **cashflow management: the basics** and **how do I survive until my business is off the ground?**

**A reluctance to seek professional advice**

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.

For more information, see our guides on how to **choose and manage an accountant** and **choose and manage a business adviser**.

You can also **find a local independent financial adviser on the Association of Independent Financial Advisers (AIFA) website**.

## Setting sights too high

It is important to make realistic forecasts about your business' potential. 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.

**Over-optimistic forecasts about market size**

Inaccurate forecasting of market size is a common mistake when starting up.

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

Inaccurate forecasting is often linked to poor market research, so it is essential to get your research right. For more information, see our guides on **market research and market reports** and **cashflow management: the basics**.

**Focusing on sales volume or size not profit**

A common mistake for new businesses is to focus too much on growing the sales volume or size rather than profit.

Overtrading can occur during the rapid expansion of a new business when it takes on more orders than can be supported by its working capital or net current assets. This can have serious repercussions.

For more information, see our guides on how to **forecast and plan your sales** and **avoid the problems of overtrading**.

**Diversifying too soon**

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.

**Poor planning**

Poor planning will increase your chances of making business mistakes and will reduce the probability of achieving your goals.

Drawing up a high-quality and realistic business plan is essential. A business plan will help to secure external funding, pre-empt problems and measure how well your business is doing.

Writing a marketing plan will also ensure that you take into account your target customers, your marketing objectives and that you set goals to address these.

For more information, see our guides on how to **prepare a business plan** and **write a marketing plan**.

## Taking your eye off the competition

During the busy start-up phase it can be easy to forget to set aside enough time to monitor the competition. However, it's essential that you are ready to respond to competitors in your market place and to new developments.

**Failing to actively monitor the competition**

Failing to monitor your rivals will stop you from seeing what competition or threats to your business exist in your market place.

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.

You can get clues to the existence of competitors from:

- advertising
- press reports
- exhibitions and trade fairs
- questionnaires
- searching on the web for similar products or services
- approaches reported by your customers
- flyers and marketing literature that have been sent to you - this is quite common if you're on a bought-in marketing list
- planning applications and building work in progress

For more information, see our guide on how to **understand your competitors**.

**Failing to act on competitors' information**

Failing to use information gathered about your competitors will weaken your position in the market.

Feed any useful information into your marketing plan. 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.

For more information, see our guide on how to **write a marketing plan**.

## Poor supplier and customer controls

Failing to choose suppliers carefully and set up satisfactory credit arrangements are common mistakes for new businesses. Choose carefully as your business' profitability and reputation could be at stake.

**Setting up poor supplier contracts**

Finding a reliable and competitively priced supplier can be vital to the success of your business. This is because you rely on your suppliers to provide you with the goods and services your business needs to operate. And getting the best deals can have a significant effect on your business' profits.

When selecting your suppliers, price is an obvious concern. However, other factors such as value for money, quality, reliability and service must also be taken into consideration.

Establish exactly what you are looking for in a supplier. 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.

For more information, see our guides on how to **manage your suppliers** and **negotiate the right deal with suppliers**, and our guide on **the supplier selection process**.

**Setting up poor credit arrangements**

If you are 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.

To avoid potential problems with customer payments, you may want to:

- carry out credit checks on new and existing customers
- check bank references, trade references and online credit-ratings, from a credit-reference agency
- ensure that your customer is aware of your credit terms (eg they must pay within 30 days) and that the payment terms for your debtors is longer than the terms offered to customers
- motivate customers to make early payments by offering discounts
- investigate legally enforceable ways of encouraging prompt payment

See our guide on **getting paid on time**.

## Poor stock and asset management

Poor stock control and over-investment in fixed assets can mean your capital is tied up unnecessarily.

**Poor stock control**

Efficient stock control (inventory) will mean you have the right amount of stock in the right place at the right time. It ensures that capital is not tied up unnecessarily, and protects production when there are problems with the supply chain.

Poor stock control can tie up capital unnecessarily. You need to put systems in place to keep close track of stock levels and values. Taking control will allow you to free up cash, while also having the right amount of stock on hand.

There are a number of ways you can approach stock control. You can:

- re-order when stock reaches a minimum level
- carry out regular reviews of stock
- use **just in time** (JIT) delivery to avoid excessive stock build up

See our guide on **stock control and inventory**.

**Over-investing in fixed assets**

In the early years of your new business, you need to limit drawing on your cash reserves unnecessarily. Over-investment in fixed assets, such as office furniture or computer equipment can be a problem. 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** - at least while your business finds its feet. This allows you to spread payments in regular instalments over a fixed period, thus freeing up more cash. You may be able to upgrade equipment without having to buy more up-to-date models.
- **Hire purchase** - you own the asset at the end of the payment process. This is not the case with leasing.
- **Buying second hand** - for office furniture, fittings, etc.

See our guide on how to **decide whether to lease or buy assets**.

## Hiring the wrong people

A large part of your new business' success will be determined by the **quality of the people you recruit**. Taking on people will always mean some form of investment for your business and requires careful consideration. Taking this investment seriously can make it more valuable and improve your chances of success.

Ensuring that you hire high calibre people with the right mix of skills is not an easy process but one that will pay dividends.

How you go about employing new people will depend on your business needs, eg whether the work is constant, how long it will last and the number of hours available.

You need to explore all the options available to you. These include:

- recruiting permanent staff on a full or part-time basis
- fixed-term contract employee
- temporary staff
- freelancers
- consultants
- contractors

Employing relatives and friends may appear an easy solution to staffing issues, but they may not have the right mix of skills that you need. It can also be more difficult to bring a period of employment to a close when a personal relationship exists.

For more information, see our guide on **taking on staff - the options**.

**Use our interactive tool to get a checklist of the things you need to do when you take on a new employee**.

### Failing to delegate

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.

A good way to tackle delegation is to identify a few key tasks of your own that are very valuable to the business and handover the rest to your team. For more information, see our guide on **skills and training for directors and owners**.

## Helplines

**Business Link Helpline**

0845 600 9 006

## Related guides on businesslink.gov.uk

**Manage your personal list of starting-up tasks with our Business start-up organiser** | **Find your local Business Link through our Contacts Directory** | **Market research and market reports** | **Research and develop your business ideas** | **Know your customers' needs** | **Researching overseas markets** | **Prepare a business plan** | **Cashflow management: the basics** | **How do I survive until my business is off the ground?** | **Choose and manage a business adviser** | **Choose and manage an accountant** | **Choose the right finance when starting up** | **Avoid the problems of overtrading** | **Identify potential cashflow problems** | **Forecast and plan your sales** | **Write a marketing plan** | **Understand your competitors** | **The supplier selection process** | **Manage your suppliers** | **Negotiate the right deal with suppliers** | **Getting paid on time** | **Manage overseas suppliers** | **Stock control and inventory** | **Decide whether to lease or buy assets** | **Taking on staff - the options** | **Skills and training for directors and owners** | **Recruiting and interviewing** |

## Related web sites you might find useful

**Find Chambers of Commerce in your area at the Chamber Online website**

**Find a local independent financial adviser on the AIFA website**

**Download guidance on cashflow from the CIMA website (PDF)**

**Download a short guide to understanding competitors from the Chartered Institute of Marketing website (PDF)**

**Download information on supplier**

**relationship management from the Chartered Institute of Purchasing and Supply website**

**Find details of credit checking agencies on the Better Payment Practice Campaign website**

**Find out how to get paid on time on the Better Payment Practice Campaign website**

**Find guidance on recruitment and induction at the Acas website**

  