10 Mistakes That Start-Up Entrepreneurs Make

(article from Wall Street Journal)

When it comes to starting a successful business, there's no surefire playbook that contains the winning game plan.

On the other hand, there are about as many mistakes to be made as there are entrepreneurs to make them.

Recently, after a work-out at the gym with my trainer—an attractive young woman who's also a dancer/actor—she told me about a web series that she's producing and starring in together with a few friends. While the series has gained a large following online, she and her friends have not yet incorporated their venture, drafted an operating agreement, trademarked the show's name or done any of the other things that businesses typically do to protect their intellectual property and divvy up the owners' share of the company. While none of this may be a problem now, I told her, just wait until the show hits it big and everybody hires a lawyer.

Here, in my experience, are the top 10 mistakes that entrepreneurs make when starting a company:

1. Going it alone. It's difficult to build a scalable business if you're the only person involved. True, a solo public relations, web design or consulting firm may require little capital to start, and the price of hiring even one administrative assistant, sales representative or entry-level employee can eat up a big chunk of your profits. The solution: Make sure there's enough margin in your pricing to enable you to bring in other people. Clients generally don't mind outsourcing as long as they can still get face time with you, the skilled professional who's managing the project.

2. Asking too many people for advice. It's always good to get input from experts, especially experienced entrepreneurs who've built and sold successful companies in your industry. But getting too many people's opinions can delay your decision so long that your company never gets out of the starting gate. The answer: Assemble a solid advisory board that you can tap on a regular basis but run the day-to-day yourself. Says Elyissia Wassung, chief executive of 2 Chicks With Chocolate Inc., a Matawan, N.J., chocolate company, "Pull in your [advisory] team for bi-weekly or, at the very least, monthly conference calls. You'll wish you did it sooner!"

3. Spending too much time on product development, not enough on sales. While it's hard to build a great company without a great product, entrepreneurs who spend too much time tinkering may lose customers to a competitor with a stronger sales organization. "I call [this misstep] the 'Field of Dreams' of entrepreneurship. If you build it, they will buy it," says Sanjyot Dunung, CEO of Atma Global, Inc., a New York software publisher, who has made this mistake in her own business. "If you don't keep one eye firmly focused on sales, you'll likely run out of money and energy before you can successfully get your product to market."

4. Targeting too small a market. It's tempting to try to corner a niche, but your company's growth will quickly hit a wall if the market you're targeting is too tiny. Think about all the high school basketball stars who dream of playing in the NBA. Because there are only 30 teams and each team employs only a handful of players, the chances that your son will become the next Michael Jordan are pretty slim. The solution: Pick a bigger market that gives you the chance to grab a slice of the pie even if your company remains a smaller player.

5. Entering a market with no distribution partner. It's easier to break into a market if there's already a network of agents, brokers, manufacturers' reps and other third-party resellers ready, willing and able to sell your product into existing distribution channels. Fashion, food, media and other major industries work this way; others are not so lucky. That's why service businesses like public relations firms, yoga studios and pet-grooming companies often struggle to survive, alternating between feast and famine. The solution: Make a list of potential referral sources before you start your business and ask them if they'd be willing to send business your way.

6. Overpaying for customers. Spending big on advertising may bring in lots of customers, but it's a money-losing strategy if your company can't turn those dollars into life-time customer value. A magazine or web site that spends $500 worth of advertising to acquire a customer who pays $20 a month and cancels his or her subscription at the end of the year is simply pouring money down the drain. The solution: Test, measure, then test again. Once you've done enough testing to figure out how to *make* more money selling products and services to your customers than you *spend* acquiring those customers in the first place, roll out a major marketing campaign. (See related article, "On a Tight Budget? How to Land a Client.")

7. Raising too little capital. Many start-ups assume that all they need is enough money to rent space, buy equipment, stock inventory and drive customers through the door. What they often forget is that they also need capital to pay for salaries, utilities, insurance and other overhead expenses until their company starts turning a profit. Unless you're running the kind of business where everybody's working for sweat equity and deferring compensation, you'll need to raise enough money to tide you over until your revenues can cover your expenses and generate positive cash flow. The solution: Calculate your start-up costs before you open your doors, not afterwards.

8. Raising too much capital. Believe it or not, raising too much money can be a problem, too. Over-funded companies tend to get big and bloated, hiring too many people too soon and wasting valuable resources on trade show booths, parties, image ads and other frills. When the money runs out and investors lose patience (which is what happened 10 years ago when the dot-com market melted down), start-ups that frittered away their cash will have to close their doors. No matter how much money you raise at the outset, remember to bank some for a rainy day.

9. Not having a business plan. While not every company needs a formal business plan, a start-up that requires significant capital to grow and more than a year to turn a profit should map out how much time and money it's going to take to get to its destination. This means thinking through the key metrics that make your business tick and building a model to spin off three years of sales, profits and cash-flow projections. "I wasted 10 years [fooling around] thinking like an artist and not a business person," says Louis Piscione, president of Avanti Media Group, a New Jersey company that produces videos for corporate and private events. "I learned that you have to put some of your creative genius toward a business plan that forecasts and sets goals for growth and success." (See related article, "Are Business Plans a Waste of Time?")

10. Over-thinking your business plan. While many entrepreneurs I've met engage in seat-of-the-pants decision-making and fail to do their homework, other entrepreneurs are afraid to pull the trigger until they're 100% certain that their plan will succeed. One lawyer I worked with several years ago was so skittish about leaving his six-figure job to launch his business that he never met with a single bank or investor who might have funded his company. The truth is that a business plan is not a crystal ball that can predict the future. At a certain point, you have to close your eyes and take the leap of faith.

Despite the many books and articles that have been written about entrepreneurship, it's just not possible to start a company without making a few mistakes along the way. Just try to avoid making any mistake so large that your company can't get back on its feet to fight another day.