

The Hornbeam Guide to Success in Business

10 pitfalls to Avoid

1. Sales
2. Follow the Market
3. Pricing
4. Advertising
5. Time Management
6. Working for Nothing
7. Focus
8. Productivity
9. Think Strategically
10. Retirement

1. Sales

Most start-up businesses fail because they never get anywhere near their sales targets. So don't spend lots of time and money; setting up a workshop / fitting out a shop / developing a product / buying stock / researching the market etc. etc. Get some product into the market place and see if you can sell it. It is easy to convince yourself that you need to set up the production facility first, or the nice shop first, or to develop the product first....believe me, "if you can't sell it, you are wasting your time (and money)" I'm not saying don't do it, what I am saying is try to sell some product as soon as possible, you will learn a lot about the product, about the market, about yourself. The other bits are exciting, they are fun, they are important, but they are comfort zone activities. Only if you can sell enough of the product will you make a go of the business.

2. Follow the Market

Most of us (*including me - Phil*) set up in business believing that we have discovered a particularly exciting niche in the market. (*I thought I was going to provide financial control and outsourcing services to small businesses - Phil*) But most of us find market demand comes from unexpected customers, for unexpected products. And basically it is easier to satisfy customer demand than to create it. I know of one successful garage door installer who set up with a heavy duty business plan to sell continental style metal security blinds to English householders.

He (*like me - Phil*) sank much money, time and enthusiasm trying to develop this market before realising that there was a much easier market on his doorstep.

3. Pricing

Most new businesses have to price very competitively to win sales from established competitors.

In time, if all goes to plan, the new business starts to reach capacity...the order book becomes embarrassingly long...the restaurant has to turn away bookings...whatever.

This is a difficult time for a young business, having worked all-out for two years to build up the sales the entrepreneur needs to change his mind set. The business is constrained by lack of capacity not lack of sales. This is the time to start raising prices, to sell on reputation not on price. My advice is always to find ways of increasing prices by stealth, to test the market.

- Increase the prices of the contracts you don't really want or
- Increase the prices of the products you don't really want to sell or
- Increase the prices to the customers you really don't want to work for

Then it doesn't matter if you don't get the contract, or sell much of the product, or work for the customer that you didn't want, because you leave the core business secure. But, nine times out

of ten you do get the work at the higher price and you can carry on spreading the price rises across your contract pricing / product range / customer base.

4. Advertising

I am an advertising sceptic. Benefits are always hard to pin down, costs are all too real. My advice is basically to understand the economics and dynamics of your business and to rely on common sense – resist hype.

If your business is running at capacity don't spend money on advertising, it has to be coming straight out of your profit to no benefit.

Work out the break-even point for your advertising spend. For example if you make a 33% gross margin and spend £2,000 on advertising you need to make £6,000 of extra sales to break even.

Do you think that this is: happening / probable / improbable?

Is your industry one which wins customers by advertising or not. Don't spend a lot of money finding out what everyone else in the industry already knows. If your industry is one that does need to advertise, then pick your media carefully, yellow pages is often best, some people swear by leaflet drops, but never buy advertising from anyone who cold calls.

Don't be afraid to use the media, press releases about new products, new shops, new jobs, or internal promotion often result in snippets of free advertising, in the part of the paper that people read.

Don't forget the internet. Lots of businesses are winning new business out in cyberspace.

5. Time Management

Management time is the one commodity in short supply in all small businesses, from one man bands upward, use it wisely.... It is always easy to do the things that 'have' to be done and the things that are most urgent, and the things that are fun. It is easy to defer critical jobs that could improve your effectiveness, productivity and prosperity. The people who fall into this trap are always busy, but rarely earning much money. Richard Branson didn't become a millionaire by stacking the shelves in his record shops or by writing up his own VAT records. So, sit down with a pen and a pencil and work out which activities bring in the most money, and which activities bring in the least. And make sure that in future you use your time effectively.

6. Working for Nothing

Stop doing those things that are loss making or only marginally profitable – only a fool works for nothing – including many small businessmen! (For example, I advised a shop that used to offer free deliveries. On consideration the deliveries were almost all bulky sacks, which earned hardly any profit. When petrol and vehicle costs were added to the cost of the product the delivery service was found to be loss making as well as extremely hard work.)

7. Focus

Concentrate on those things which bring in the most money. For example, it would be a travesty to keep putting off a valuable contract because you are spending 8 hours per day minding the shop / manning the phone / doing the wages. You could pay someone else to do that and still be better off at the end of the day. And yes I know there are problems finding the right person etc. etc. It is your job to overcome those problems, not to tell me about them.

8. Productivity

Always look for ways to improve the productivity of essential but low added value tasks. Always look for ways to push down your costs, even if you aren't, your competitors are!

9. Think Strategically

Business is a constant dynamic between two opposing principles:

- The need to focus on the core business, to do that better than the competition
- The need to diversify, to develop new markets, to utilise existing capacity better, to balance risks

Both these principles are important, they must be balanced, neither must be sacrificed. There is no simple rule as to how to do this, but you must attempt to assess the strengths and weaknesses of your organisation and develop a strategic plan for using these resources to minimise risk and exploit opportunities.

10. Retirement

Don't leave retirement and business continuity planning until you are ready to retire, begin planning at an early stage. I have come across people with no pension provision who get to their sixties before discovering that they cannot sell their business and there are no internal candidates to take over. The good businessman plans many lucrative exit routes.

10a. Try not to pay more tax than you have to

We have a complex and rapidly changing tax system, which offers numerous traps and opportunities. Hornbeam help our clients to keep as much of their hard earned money as legally possible.