3 DANGEROUS PITFALLS

All Small Business Owners Face

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John's kitchen cabinet installation business has taken off like he never thought it would. Within two years of starting his business, he has gone from doing all the work himself to having two full-time installation teams doing the work 6 days a week. Business is so good, in fact, he needs to put a third installation team in the field, since his current crews can't keep up with customer demand.

His company has a stellar reputation for quality work and using only the best products. Customers rave about it to family and friends.

John is committed to making his business successful. He spends every waking moment working or thinking about it. He only accepts quality work from his crews. He constantly monitors the work they do and if it doesn't meet his high standards, he makes them redo it.

When not on the job site, John works to drum up new business. He is constantly talking on the phone, sending emails, or visiting potential customer sites to give quotes. He prides himself in offering quotes that are always lower than the competition.

Successful Business or Not?

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Successful Business or Not?

On the surface, John's business seems successful.
The reality is a bit different:

- His accountant says the company is hemorrhaging money. He predicts the company will not be open in a couple of months unless something drastically changes.
- Most weeks, John is barely making payroll. On two occasions, he has had to borrow money from his parents to cover it.
- He dreads getting a call from one of his vendors. They are getting impatient with his late payments and high outstanding balances.
- He cannot trust his installation crews to do their job without him standing there. They often skip steps and forget to bring basic tools to the job site.
- He often runs to the home improvement center to pick up installation supplies that should have been ordered from a vendor.
- Customers on his waiting list are giving up on his company and going to the competition. He simply cannot afford to bring on that third crew.

John's business is failing. And, even worse, he has no clue why.

The Overwhelmed Business Owner

Owners, like John, often find themselves chained to the business 24 hours a day, 7 days a week. They are constantly putting out fires and playing the savior. They never have time to focus on bring in new products or services. They are always running around, but never seem to get much done.

It could be they have fallen into one of the dangerous pitfalls involved with running a business.

Number 3: Insufficient Structures

Turning a Passion into a Business

New business ideas often emerge when an entrepreneur wants to turn a passion into a money-making venture.

An experienced software designer wants to turn his talents into his own company. It is what he is good at. He starts up his business and waits for the customers to come knocking at the door. For some reason, they don't come knocking.

Fortunately, he starts getting a few clients via recommendations from family and friends. The designer is over the moon. His business is finally showing signs of life.

The software designer spends hours working on the most fascinating parts of each project. There are times when he works well into the night, dropping into bed exhausted. His fascination with certain parts of the project are at the expense of the more mundane details that never get done.

After several weeks, his clients start to worry. Their projects are not getting done and the designer is not communicating with them. Even after prompting for updates, the designer is not providing updates. Fed up, clients begin pulling their projects, forcing the software designer to return money.

It is a humiliating experience, to say the least. And it was all related to having insufficient structures in place, one of the most dangerous pitfalls business owners fall into.

Successful Businesses Require Solid Structures

Building a successful business is much like building a house. It all begins with a solid foundation. Without that firm base, a house will eventually collapse. Without a firm foundation, a business will fail. And strong structures are a part of that foundation.

According to the Merriam-Webster dictionary, a structure is the way something is built, arranged or organized. In business, structures come in many forms. They include:

- Your organizational structure. Who is the business owner? Who reports to whom?

- Who does what? The receptionist handles phone calls, visitors, and mail delivery. The AP clerk keeps track of how much is owed to each vendor.

- How things are done. Your cooks use a specific recipe for your restaurant's secret sauce. Your assemblers fasten down Part A, then Part B. Not the other way around.

- How the company delivers each product or service. From start to finish.

In fact, when you look at successful businesses, you will find every action taken within the company is part of a structure.

Insufficient structures within a business can take many forms. The software designer had some glaring insufficiencies in his company's structures.

- He had no marketing plan. Just hanging out your shingle will not get you work. Even a basic marketing strategy with low-cost, targeting advertising is the start to a successful structure. Sitting staring at the door expecting it to magically open is not.

- He had no solid way of tracking his time against estimated project hours. Most software projects are priced based on the estimated time it would take to complete. Spending endless hours solving miniscule problems while neglecting the rest of the project is not efficient and can end up putting a project deep into the red.

- He was not communicating with his clients. Any business relationship is built on trust and communication is key to building that trust. Failing to communicate project progress or issues can destroy any trust built. Flat out ignoring their requests for updates will cause nuclear-level trust destruction.

Now, no one is saying you have to build structures and systems around every tiny aspect of your business. However, you need enough solid structures to provide your customers with a consistent experience.

How to Strengthen Your Structures

Building a full solid foundation for your business, includes strengthening your structures. One of the first things you should do to strengthen your structures is to ensure consistent delivery for your customers. And you can easily do that with a flowchart of your customer's experience.

Write down the entire journey of what a customer goes through when they purchase your service or product. This journey begins from the moment they hear about you for the first time. It ends when they walk away a happy, fulfilled customer.

You need to document every interaction you have with this customer. It should show every place they make a decision. It should take into consideration each decision they make along the way.

The easiest way to do this is with a flow chart. The flow chart involves a series of boxes connected by arrows where each box is a step in the journey and the arrows direct the flow from one step to the next. At decision points, multiple arrows go out, representing each possible decision path.

The flow chart needs to document the customer's journey. But, it also needs to document what the company is doing at each point and how it is being accomplished. For example, the customer wants to get more information about a particular product. How is the company providing that information (website url, product description, face-to-face interaction with sales person, etc.).

The flowchart will show you where you need to strengthen your existing structures and where you may need to build new ones. It can also show you unexpected details:

- Bottlenecks are spots where things can get bogged down when the number of customers or prospects increases. If you cannot keep up with the work if you have more than 10 customers at a time, you have a bottleneck.

- Weak links are the spots where the process can break down. You know exactly what will happen if the customer decides on X, but have no real idea of what happens if the customer selects Y instead.

- Interaction problems when between the customer and you is not the same each time. If product X is out of stock, you offer the customer alternative products to meet his or her need. If product Y is out of stock, you redirect them back to the product category page with no explanation. This inconsistency leaves the customer wondering what to expect next.

If your business is having problems with insufficient structures, taking the time to strengthen them is critical. Start by defining your customer's experience and see where your structures are not doing the job you need them to do. Then, take the steps necessary to strengthen your existing structures and put new ones in place where needed.

It will give your business the solid foundation it needs to succeed.

Number 2: Fuzzy Financials

Letting Your Competition Set Your Prices

Pricing your products is actually one of the hardest decisions for a new business owner to make. Make the prices too high and no one will want to buy. Make the prices too low and you can't make a profit. Not knowing how to price products properly is a common challenge for new business owners. And it is one that can make or break a company.

One business decided to let their competition set their prices. And it had the potential of driving the company into bankruptcy.

The owner based his products' prices on what he thought the market would bear. He looked at what his competitors were charging and set his prices accordingly. So, if the competition is charging $100 for a thingamajig, the owner would charge $100 or slightly less for his version of the thingamajig.

His business definitely brought in a lot of customers, who loved the high quality of the products he offered. Yet, the company's profits were nowhere near what the owner expected. He just did not understand why.

The answer was found in his product profit margins.

A product's profit margin is the amount it sells for, compared to how much it costs. In layman's terms, it is how much the product is "marked up." The markup is usually expressed as a percentage. So, product X sells for $65 and it costs $40. The difference is $25. To calculate the profit margin percentage, divide the $25 by the $65, which equals 0.3846 or 38.46%.

The ideal product profit margin can vary depending on the industry. For our profit-challenged business owner, the typical range for his industry was between 30 and 35%.

The reality for this business owner was a bit different. His product mix ranged from 40% to -5% margins. Yes, that was negative 5%, not positive. Consequently, on the products with the -5% profit margin, the business was actually giving away its profits to the customer. Happy customers, not-so-happy business owner.

The good news was that by examining the profit margins on individual products, it was possible to sort out which products were priced properly and which were not. The business owner adjusted his pricing to his industry standards. And the business continued to grow. Why? The quality of their products stood out from the competition and that made customers take notice.

This business owner has gotten trapped in the Fuzzy Financials pitfall. It is one of the most challenging pitfalls to identify. It is also one of the most dangerous for bringing a company to bankruptcy.

Your Financials are Your Scoreboard

Your financials are a critical part of having a solid foundation for your business. Every month you should receive a set of financial reports from your accountant or bookkeeper. Those reports are your scoreboard to knowing whether your business is winning or losing the game. Just receiving the reports is not enough. You, as a business owner, need to understand what the data in each report means and how it affects your operations.

Let's say you're watching a baseball game on TV. You can see the number of runs each team has up on the scoreboard. That is the basic measure of success or failure in the game. But it is not the only one. As a new batter approaches home base, the announcer talks about the player's statistics - RBIs, batting average, and number of stolen bases. Those numbers tell you if the batter is All-Star material or about to be sent back to the minor leagues. The team stats tell you how well they are doing this season.

After the game ends, you end up watching part of a cricket match, a sport about which you know absolutely nothing. The scoreboard for the game shows the number of runs scored and the number of wickets lost. The announcer talks about each player's innings, not outs, centuries, overs, wides, and strike rate. Yet, there is no information on the team's performance other than the scores.

Utterly confusing to someone not familiar with the game. Who is winning? Is that player one of the best or not? Is the team doing well this season?

If you don't understand the sport's scoreboard and statistics, you can't tell who is winning or losing. The same goes for your financials. If you don't understand them, you have no idea if your business is succeeding or not. You could be losing and not even know it. Or, you might see a problem, but have no idea how to fix it.

That is the pitfall of fuzzy financials. The financial reports may contain all the information you need to know about your business. However, if you can't understand them, the information is fuzzy. That means you are making business decisions based on less-than-clear information. And that is a recipe for disaster.

Understanding Your Business's Scoreboard

If you don't understand your company's financial reports, stop everything you are doing right now and learn. Everyday you live with fuzzy financials is another day your business is at risk. Your foundation is starting to crumble, to develop cracks, to sink into the sand.

There are tons of tools to help you understand your financial reports. Let's look at the weekly cashflow projection spreadsheet as an example.

Every week, your company has money coming in as customers pay for products and services. You also have money going out to pay expenses. Ideally, you always have enough money flowing in to cover the money flowing out. You can use a weekly cashflow projection spreadsheet to track this.

The spreadsheet looks similar to a budget. The difference is that it shows how cash flows through your bank account. For each week, you track your expected income and your expected expenses. From those numbers, you can tell what your balance will be each week.

The spreadsheet allows you to track the income and expenses you know will not change, as well as those items you know will change. If you sell products, you assume you will sell at the same rate you have been. However, in a given week, you may be introducing a new product line or having a major sale. You track these changes in the spreadsheet. The same goes for your expenses. You know which expenses are due each week and if anything could change.

This spreadsheet will tell you when your cash reserves will be low or high. If cash is going to be low, you might need to delay a vendor payment or bring in more income to cover expenses.

This weekly cashflow projection worksheet is just one of the tools that will help you understand your scoreboard and tell you if you are winning or losing the game.

The Number 1 Reason: Ready, Fire, Aim

Considering the Consequences of Your Actions

"Ready, Fire, Aim" is actually a business approach used by many business owners. The philosophy behind this approach is that doing something, anything, is better than doing nothing. And that is valid. Spending too much time in preparation and not getting anything done is often referred to as "Analysis Paralysis" and it doesn't get a business up and running.

However, depending on the "Ready, Fire, Aim" approach to business can backfire with catastrophic results.

One day, two brothers decided to start an online business by selling their products on eBay. They quickly gained popularity and took the business another step forward. They contracted with the product's wholesaler for larger quantities and opened a store front on eBay to attract even more buyers.

The brothers depended on pay-per-click advertising to bring customers to their store front. At the same time, they had direct competitors using the same tactics to sell the same product. The brothers decided that to beat the competition, they would have to lower their prices below their competitor's advertised price. It would bring in a ton of customers and generate record sales.

And they were right. They had a flood of customers. Their sales shot through the roof and orders were flying out the door. They were definitely getting the majority of buyers for the product on eBay.

Despite having millions in sales every month, the brothers started having trouble paying their wholesaler. They started running sales on their already discounted products just to generate revenue to pay the wholesaler's overdue payable. That tactic didn't work for very long. Their already-strapped cash flows took a nosedive. That meant they had even less cash to pay the wholesaler.

Before they could do anything else, the brothers' wholesaler decided to pull the plug as the amount owed continued to rise. No inventory meant their customers didn't get the products which were already paid for. Angered and frustrated, those customers filed complaints with the credit card companies about undelivered orders. Finding the complaints valid, the credit card companies started pulling money out of the brothers' account until there was nothing left. The brothers had to file for bankruptcy and that was the end of their venture.

All of this happened because the brothers used the "Ready, Fire, Aim" approach to their business. Instead of taking the time to consider the consequences of lowering their prices, the brothers decided to just do it and worry about any potential problems later. And that approach ended up driving their company into bankruptcy.

Striking the Right Balance

There is a balance to be found between the "Ready, Fire, Aim" approach to business and the "Analysis Paralysis" problem. This balance is crucial to your foundation. Mastery of these foundational issues in your business will help you to business a strong business that can withstand the test of time. Just like you have to have a solid foundation to build a house, and an even deeper, more secure foundation to build a skyscraper, the foundation of your business is fundamental to having a successful business. Luckily, the foundation of your business, unlike that of a house, or a skyscraper, can be revisited, revised and improved as you grow.

In the early days of starting a business, entrepreneurs often need to make decisions without a lot of planning and analysis. They want to get clients coming in the door and cash flows starting to move. They need to stock products, hire people, and buy advertising. Moving quickly and agilely is more important to them than stopping to analyze every decision along the way.

However, at some point, planning and analysis must enter the picture. Here are just a few business decisions that need examination beforehand:

Hiring a new employee can help the business grow, but, at the same time, it brings additional overheads for payroll and taxes. Can the business cover these costs with the additional growth the new employee can bring?

Bringing in a hot, new product could open up new markets for the business. Can you use your current supply chain or will you need to bring in new suppliers or logistic providers?

You need to refresh your marketing. Do you bring in a marketing agency? Do you hire a marketing person in house? Do you put up a billboard or put money into a pay-per-click advertisement campaign?

Making the wrong decision in any of these scenarios could spell real trouble for the business. Taking the time to analyze the impact of these decisions protects the business while ensuring the choice is what is best for the business.

Think of Each Decision as an Investment

When you make an investment, you expect a return of some sort. You put money into stocks you think will give you a sizeable return. You buy a house in a neighborhood where prices are likely to rise. You pay for your kid's braces with the expectation she will have straight teeth.

Think of each business decision you make as an investment. Look at your marketing for a second. Do you have a marketing plan based on an analysis of your current customer base and product mix, that takes into account the changing aspects of your industry as well as your sales goals for the year? If you answered no, you are not alone.

Marketing is one of those areas where many business owners do little planning or analysis. Unless they have a marketing background, they do not know to know if one marketing strategy is better than another. They hesitate to bring in a marketing agency or marketing professional to assist, not knowing if it is worth it or not. Simply put, they do not know what kind of return to expect when investing money into marketing.

How to measure the return on investment with marketing depends on multiple factors:

- Knowing when to measure. A tradeshow lead may bring business in three months while an online touch may end with an immediate purchase. For the tradeshow, do you measure it on the day it occurred or the day the new client buys his first product three months down the line?

- Multiple touches. Buyers often shop around when making purchases. It often takes multiple touches for the buyer to decide on your company over the other. Touches can include seeing the brand for the first time, seeing a pay-for-click ad, visiting the website, seeing a billboard, and talking with a salesperson. Which touch had the most impact? How much money do you allocate to each potential touch?

- Extraneous factors. The one-day blockbuster sale could be a bust due to a blizzard arriving the day before. One of the new sales guys is busting sales records left and right. Is his success due to his sales skills or the marketing campaign that just ended?

Just because measuring the return on your marketing investment is difficult doesn't mean it is impossible. Marketing analytics exist to give your business measurements on the return you receive from your marketing investments.

What It All Comes Down To

Starting up and running a small business can seem like an obstacle course sometimes. There are pitfalls around every corner and you don't always know how to avoid them. If you fall into one, you may not know how to get out. It can be nerve racking to say the least. And, not having that solid foundation, as well as a mastery of the foundational principles and tools, is one of the biggest reasons that 90% of small businesses fail.

Insufficient structures can undermine the foundation you are trying to build your business on. You need to know that every interaction a potential customer has with your company is consistent and positive. Once you have a solid foundation of strong structures, you can showcase the talent and value your company can bring to your clients.

Fuzzy financials can bring any business to bankruptcy. If you have any confusion or questions about your financial reports, address them immediately. Taking the fuzzy out of your financials will show you if your company is winning or losing.

Ready, fire, aim is not the way you should be running your business, especially for the long-term. Making quick decisions in the beginning may be necessary. But, as your business grows, build in time to analyze and plan. It will ensure your company remains heading in the right direction and avoids catastrophic choices.

These are just three of the dangerous pitfalls your business may be facing. You need to stay vigilant to avoid any pitfalls in your path. If you find your business mired in a pitfall, immediate action is needed to keep your business going forward.

To insure that you have the solid foundation that you need to build your business on, you have to have mastery over business foundational principles. This is why we developed our Foundational Mastery Program. The Mastery Foundation Program, "Stabilize Your Business," is the culmination of 25 years of experience coaching businesses around the world. It incorporates the most tried and true principles that have been used to build successful businesses for millennials with current best practices from 10,000's of businesses world-wide today.

The 13 week program is delivered through online video presentations delivered to your custom portal each week with exercises, tools and quizzes to help you insure that you fully integrate all the learning of the program. And, unlike other programs where you are simply given the course and left to your own to complete it, maybe with email support, we also include a private facebook community to get one-on-one coaching from our team of professional business coaches, as well as support from your peers. To keep you engaged and moving forward, your virtual coach will be monitoring your progress, awarding your progress and encouraging you if you fall behind.

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