10 Mistakes New Business Owners Make (and How to Fix Them)

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Introduction

Nearly half of all small businesses fail within their first five years, according to the U.S. Small Business Administration. That's a coin flip–a coin flip deciding the fate of the business you're pouring your heart and soul, and possibly your life's savings, into.

Running a small business is incredibly challenging. It's more than a full-time job–it's a lifestyle. When you start a new business, you're gambling that you can earn enough to support yourself and your family. When you hire employees, you become responsible for other people's livelihoods. There's a lot riding on your ability to build a successful business and sustain it over the long haul.

One simple way to increase your odds of success is to learn from other people's mistakes. Every business is different, but there are some common themes that come up again and again as potential pitfalls for new business owners.

Here are 10 common mistakes small business owners make–and some suggestions for how to avoid them

Mistake 1:
Not making a plan.

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If you're applying for funding or attempting to attract investors for your business, you'll be required to put together a formal business plan.

But even if you're self-funding when you start out, you'll still need a clear and detailed business plan. A business plan doesn't just prove to outsiders that you're serious and have done your homework. It also helps you set goals for your business and check that you're moving in the right direction to meet or exceed those goals.

The Small Business Administration has some great resources on **how to create a business plan**. Even if you're only developing a plan for your own reference, it's a good idea to go through all the steps. Doing so will help you come up with clear and concise ways to talk about what your business is and what your goals are. It will also serve as a guide you can use as you go through your daily routine.

Include a market analysis

This is a great exercise when you're just starting out, and it's a useful exercise to return to periodically in order to make sure you're staying up-to-date on market trends.

A market analysis should start with an overview of your industry: Who are your competitors? What are their strengths and weaknesses? Who are your target customers? The answer can't be "everyone." Think about a core demographic you can focus on. A smaller target market may be better when you're just starting out. Win over a small number of loyal customers and then expand from there–don't try to be everything to everyone.

Refer to your plan often

As an entrepreneur, your to-do list is a mile long. It's easy to get caught up in dealing with the details and forget to focus on the big picture.

That said, making a plan and then sticking it in a drawer isn't going to help you much. You should be referring to your plan on a regular basis. Are you hitting your financial targets? Do you need to adjust anything? If your sales are strong, but customers are buying more discounted items than expected, for example, you'll need to adjust your projections going forward, and come up with a strategy for pushing full-price products.

Mistake 2: Believing your own hype.

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Entrepreneurs need optimism. You couldn't do the enormously challenging work you're doing if you didn't believe you could succeed.

But you can't get too caught up in your rosy view of the possibilities for your business. You need to be able to spot trouble and take action to correct problems when they arise. Blind hope isn't an action plan.

Over-optimistic sales projections could sink your business if they push you to buy too much inventory or hire too much staff. And if you're new to business, your projections probably are going to be too optimistic. According to the **American Enterprise Institute**, the average person thinks that the average business enjoys a 36 percent profit margin. If you're an experienced business owner, you know that's about five times too high. Realistic projections are key to a healthy business.

Use actual sales data

Just because you've got an exciting new product doesn't mean sales this holiday season will be double last year's. When you're making your projections, use previous years' sales data to make your plan as realistic as possible. If your company is new, you've got some research to do. If you can, talk to other business owners to learn about their first few years in operation. How long did it take them to hit their initial sales goals? You can also use economic data from the **government** or the **National Retail Federation** to get a sense of overall trends in consumer spending and retail sales. The more detailed your projections are, the better.

Get a mentor

Reach out to your network and look for someone who's willing to meet with you regularly to share ideas and talk about questions that are coming up. An experienced entrepreneur from your community would be ideal. You want someone who can help give you a reality check when you're getting too caught up in the excitement of building your business. **SCORE** is one organization that can help you find a volunteer mentor in your area.

Mistake 3: Forgetting about marketing when sales are strong.

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Small business consultant Barry Moltz calls this the "double helix trap." When sales are strong, you and your team get busy dealing with customer demands and staying on top of inventory. You let marketing fall by the wayside. Then, when sales dry up, you're suddenly scrambling to reach out to your customer base. This leads you into an unproductive and unnecessarily stressful boom-and-bust cycle.

Failing to prioritize marketing can also mean that your marketing message becomes inconsistent and confusing. Today, you're all about discounts; a few months later, you're suddenly touting your beautiful high-end product as a worth-it splurge.

Ultimately, if you don't focus on marketing consistently, your customers will control the message about your product. Today's consumer is highly active on social media. That's great if they're supporting your message, but not so helpful if they're muddying the waters with complaints.

Come up with a clear message and stick with it consistently

Apple® promises innovative, easy-to-use products. Walmart promises low prices. Great brands have a crystal-clear marketing message, and they communicate it consistently, in everything they do.

It's crucial to make a marketing plan and stick to it, even when you're busy, in order to avoid that boom-and-bust cycle. It's also important to make sure that everything a customer sees reinforces that message. If you're promising convenience, you need to back that up with great customer service, short wait times, and speedy delivery. Effective marketing includes advertisements, email campaigns, website design, and social media–and the customer experience in your store.

Focus on creating lasting relationships with your customers

When you think about marketing, your goal shouldn't be just to get new customers to walk through your door, but to keep them coming back. New customers cost money to acquire; repeat customers are pure profit; loyal customers do your marketing for you.

Customer relationships start with the in-store experience–the way customers are greeted, helped, and thanked. Loyalty programs can also go a long way to converting new customers into loyal brand ambassadors. **Clover Rewards** is one easy way to create a digital loyalty program that rewards customers for coming back again and again.

Mistake 4: Letting the technical stuff scare you off.

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Before the pandemic, almost half of small businesses didn't have a website, citing cost and lack of technical knowledge as the reason for not having one. The pandemic forced many business owners to adapt, yet still, 28% of small businesses haven't set up a website. Today's customers expect to be able to find businesses online; it's a critical way to build trust and share information.

Small businesses and medium-sized businesses account for **43 percent of all data breaches**, and **60 percent of small companies** that suffer such an attack are out of business within six months.

Tackling technical problems can feel daunting, but it's crucial to stay on top of technological changes, both to make your business more attractive to customers, and to keep it safe.

Start with a simple website

These days, with so many simple, user-friendly services out there that can help you create an attractive website–no coding skills required–there's no excuse for failing to represent yourself online. You can use a service like Squarespace, which provides templates you can fill in. Clover also offers **eCommerce solutions** to help you create a more secure online store that's integrated with your inventory and POS systems.

Take advantage of all opportunities to protect your data

The statistics on small businesses and cyberattacks are scary, there's no doubt about that. But protecting your data–and your customers' data–could be easier than you think.

Employee mistakes can be a huge factor in successful cyberattacks. Make sure your staff understands basic web-safety practices, like how to recognize a potential phishing attack. Make passwords stronger for your business systems, and only give to employees on a need-to-know basis. Additionally, you'll want to make sure you install all software updates and patches to address any known threats and vulnerabilities. To accept, transmit, or store any type of credit card data, you'll also need to ensure that both your in-store and eCommerce payment environments are **PCI-compliant**.

Mistake 5: Focusing too much on sales, and not enough on cash flow.

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As a business owner, you spend so much time stressing about how to make sales that it's all too easy to forget how much money those sales are costing you. Your busiest times can be your most expensive times–you're spending money on marketing, inventory, and staffing up to meet demand.

Sales and profits are simple measures of how your business is doing. But as a business owner, it's crucial that you dig deeper into the details. Increasing sales isn't always the best goal for your business. Even a business with strong sales can get caught in a cash crunch if, for example, you're paying for inventory too early and collecting from customers too slowly.

Learn how to read a cash flow statement

Odds are you went into business because of a passion for your product–not a love of math or spreadsheets. But cash flow is crucial to the health of your business, so you've got to study up.

There are some great **resources** online that can help you learn how to read and understand your **cash flow statement**. Basically, you'll be looking at three categories: operating expenses (what you're paying to keep your business going), investing activities (what you're paying for long-term assets like delivery trucks or equipment), and financing activities (any outstanding loans). Understanding this kind of accounting can help you spot a cash crunch before it starts.

Look into financing options before you need them

The worst possible time to look for financing options is when you're already in the middle of a cash crisis. If you're worried about making payroll or paying a major supplier, you'll be too desperate for a solution to evaluate your options carefully. You'll prioritize speed above everything else, and that could end up costing you a lot of money.

Look into your options for loans and short-term financing when your cash position is secure, so you know exactly where to turn when things get tight. One option for Clover merchants is a **cash advance** based on your sales. Cash comes quickly and repayment is automatic.

Mistake 6: Setting your prices too low.

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According to consultants from McKinsey, setting prices too low is a widespread and dangerous problem. As many as 90 percent of badly chosen prices may be too low–and while charging too much is an easy problem to fix, charging too little is harder to correct. It's hard to re-train customers to pay more for a product they're used to getting for cheap.

Unfortunately, even if you set your prices well to begin with, offering discounts can also train your customers to expect lower prices. A lower price also sends some cues to your customers about what to expect from your product. **Marketing research** shows that cheap products can be seen as less effective, and that people tend to pay less attention to the experience of consuming a cheaper product. In other words, charging more for your coffee could actually make your customers savor and enjoy it more.

Evaluate discount programs carefully

When you do decide to run a sale or offer a discount, do the math beforehand to make sure you can afford to sell at this price at the volume you expect. As the program goes on, monitor it closely to see how it's affecting sales volume, customer-buying behavior, and your bottom line. Check in with your staff to see how customers are reacting to the price, both in terms of what they purchase, and in terms of how they seem to feel about their purchases.

Discounts and special offers can be a great way to reward loyal customers, but you want to make sure you're rewarding the right customers the right way. Using a data-driven program like **Clover Rewards** can help you keep tabs on your progress and make changes as needed.

Look for ways to set your business apart that aren't price-based

It's easy to look at your competitors and think you have to set your prices based on their prices. But there are other ways to compete. Obviously, a high-quality product can set you apart from the pack. Excellent customer service can also help you create an experience that's a cut above the competition.

Convenience is another way to set your business apart. **For Seattle's FROST** doughnut shop, changing their menu frequently means customers can expect a fresh, unique experience every time they step into the shop. Whatever your strategy, you don't necessarily have to cut prices to catch a customer's eye.

Mistake 7:
Hiring the wrong people.

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Hiring the wrong person can really hurt your business. In one survey, nearly three in four employers said they'd been affected by a bad hire. And from the employee's perspective, the problem may be even worse–six out of ten employees in one survey said a new job has turned out to be different from what they expected.

Because a poor fit can lead to higher employee turnover, hiring the wrong person can cost as much as **30 percent** of that individual's first-year earnings–and a small business can't afford to make such a costly mistake. An employee doesn't have to be a total disaster to drag your team down. According to **Gallup**, only about a third of U.S. workers feel fully engaged in their jobs, and 15 percent are actively disengaged.

Fully engaged workers drive greater productivity and boost the bottom line. Bored or checked-out employees waste time. They don't give their all to please the customer. They force you or your managers to spend time trying to nudge them to do more instead of focusing on bigger-picture questions. They drain the energy of everyone around them.

Focus on mission to attract people who care about your business

Emphasizing mission is crucial to attracting and retaining the right employees. Especially for younger workers, having a sense that they're contributing to something larger than themselves makes a huge difference in their job satisfaction. If you focus on your company's big-picture goals during the hiring process, you'll have a greater chance of finding employees who care about what you're doing, whether that's providing treats for busy commuters, offering healthy lunchtime options, or selling sustainable or organic products.

Attitude matters more than a resume.

Why would **Southwest Airlines** recruiting mantra be "Hire for Attitude, Train for Skill"? Why does Google ask applicants goofy **questions** like, "How many haircuts happen in America every year?"

Because they know that you can teach a person new skills, but you can't change their personality or the way they think. To successful companies like these, a person's job experience matters less than the kind of person they are and whether they're a good fit for the company.

Quirky tricks and tests are one way to uncover personality–you can also have an applicant shadow an employee for a while, or favor referrals from current employees who know the kind of person you're looking for. But the key lesson is to focus on attitude over skills. You can teach someone to use a **POS system**, but you can't teach him or her to be a cheerful go-getter.

Mistake 8: Micromanaging.

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About 79 percent of employees have been micromanaged at least once during their career. Are you a micromanager? It's an easy trap for an entrepreneur to fall into.

Chances are that when you first started your business, you were the first and only employee. Even if you've had employees since day one, when you started out, you were probably highly involved in the day-to-day operations of the business. You were on the floor, dealing with customers, every day. You know your product and your customers better than anyone does. This business is your livelihood and your life's work. It's only natural that you might feel like nobody else understands exactly how things should get done.

But micromanaging comes at a huge cost. It damages employee morale and even cuts into productivity. And there are costs for you, too. If you're focused on the daily details of what your employees are doing, you're not thinking about strategy. You're taking on too much, and trying to do two or more jobs at once.

For your own peace of mind, and for your employees', you need to learn how to let your staff do their jobs.

Identify your core strengths and focus on them

There's a reason you got into the business that you did. You're a great chef; you have a real eye for design; you have an innate sense of what your customer needs. Whatever it is, it's the core of what makes your business a success.

As an entrepreneur, you need to figure out what you're best at and then focus on those core strengths. If you're great at keeping the books, do that, and let your staff handle customer service. If you're not much of a numbers person, hire a manager who can help you monitor the bottom line, and stay focused on designing the delightful new products, services, or menus that keep customers coming through your doors.

Cultivate trust and communication

Micromanaging shows your employees that you don't trust them to do a good job. Creating an atmosphere of trust starts with hiring the right people–people you know will work hard and do their best.

Once you have good people in place, show them you trust them by asking them for their opinions, seriously considering their suggestions, and relying on their judgment. Tell your employees you have an open door policy and they can come to you with questions any time–and then follow through. The more you show your employees that you value them and rely on them to get the job done, the more they'll want to live up to your expectations.

Mistake 9: Putting 110% into your business.

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How could trying too hard be a mistake? When it leads to burnout. Small business owners tend to work way more hours than the typical person does. Many work through weekends. One survey found that just over half of small business owners take vacation–and those who do manage to get away only take half as much time as the average American worker. If you feel like you can't ever step away from your business and take a break, you're on the fast track to burnout.

Obviously, you're committed to your business, and you want to put in the work you need to keep it running successfully. But, the key is to not confuse being busy with achieving high productivity. Just because you have a to-do list as long as your arm doesn't mean you're being productive–in fact, it may mean that you're letting big, long-term projects fall through the cracks because you're too busy chasing after more immediate problems.

Focus on getting one essential thing done every day

There are dozens of productivity methods and organizational systems out there, but one thing they all tend to have in common is they ask you to prioritize. Don't just let your day fill up with all the things your staff, customers, and suppliers are asking of you–decide what's most important to your business and focus on that first.

This requires you to take some time at the beginning of each day and not just make a to-do list, but also decide what your top priorities for the day and the week are. If, like most people, you're a morning person, start your day with focused work time on that top priority. Then move through the rest of your list with the confidence that comes from knowing that you've taken care of what matters most.

Don't neglect sleep, eating well, and exercise

We all know we need to take care of our bodies in order to be at our best. But when we get busy, it's all too easy to feel like we don't have time to go to bed an hour earlier, sneak away to the gym, or cook a healthy meal.

When you build time into your schedule to take care of yourself, you'll find you have more energy, and that you can get more done in the time you have. Taking time for self-care isn't selfish, and it doesn't take time away from your business–it makes you stronger, and that only makes your business stronger.

Mistake 10: Covering up a mistake instead of coming clean.

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It's the last thing you ever want to have happen–a major mistake that affects your customers. Whether it's a product that ships with a noticeable flaw, a health violation, or more serious wrongdoing by someone on your staff, a mistake can seriously damage your relationship with your customers.

It's human nature to want to downplay a mistake, or deflect blame when it's coming your way. But it's exactly the wrong move when it comes to your business. Study after study has shown that customers value transparency. It deepens customer loyalty. It boosts the bottom line. And it's good for employee morale, too. Younger consumers seem to value transparency even more than older folks, so this trend isn't going anywhere any time soon.

Be transparent when something goes wrong

If your business does make some kind of mistake, the best thing to do is come clean about it quickly and openly.

The **story** of the poisoned Tylenol crisis of the early 1980s is a classic case study in crisis management because it illustrates exactly how best to handle a problem that could affect customers. In this case, as soon as Johnson & Johnson found out there was a potential problem with Tylenol–even though it was caused by a random lunatic and not by anyone at the company–they withdrew millions of dollars' worth of product from stores. They communicated quickly and openly with customers, and as a result, their brand remained strong despite the crisis.

Be proactive in making up for the mistake

Don't just apologize to customers when something goes wrong. Offer a refund or replacement–or both–before customers ask for one. If it's too late for a replacement, a voucher for the future may be in order. Whatever the answer, the key is to act quickly. Don't leave customers waiting to see what you'll do. And once the mistake is behind you, you'll want to make a new promise of quality and service to your customers, and over-deliver on it.

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