# The Seven Biggest Mistakes That Entrepreneurs Make

By Delvin R. Chatterson, 9/21/09

Which ones are you making? How can you avoid them?

I was recently asked to do a presentation with my associates at a breakfast seminar for business clients. We had arrived at the title "Seven Biggest Mistakes that Entrepreneurs Make" before I had the list prepared, so I decided to do a survey of entrepreneurs and their advisors to complement my own ideas. The feedback was enlightening.

Here are some of the suggested "Biggest Mistakes" from the survey:

"Cash flow, cash flow, cash flow", "Afraid of Marketing and Sales, "Reactive, not strategic", "Not delegating", "Hiring too fast, Firing too slow", "Not focused", "Communicating too much, or too little", "Not using consultants" (That last one was from the consultants, not their clients!)

The feedback also reinforced my own experience that it is OK to fail and make mistakes, as long as they are small, frequent, and early. It's all part of the learning experience to get better. But big mistakes can kill your business.

Here is my final list of the Seven Biggest Mistakes that Entrepreneurs Make.

**#1 Too Entrepreneurial**

Certain characteristics of entrepreneurs are necessary for them to be successful. But if over-indulged they can lead to big mistakes. These include the tendency to be too opportunistic and not be sufficiently selective and focused; to be too optimistic and miss or ignore the warning signs; to be too impatient and expect too much too soon.

Entrepreneurs usually have great confidence in their instincts and consequently rely on "gut feel". The mistake is to neglect or ignore market feedback and analysis of the facts. Being action-oriented, the tendency is to react and "fire" before the "ready, aim" stages are complete. Painful surprises can result.

Many successful entrepreneurs have achieved a lot based on their energy, charm, charisma, and persuasiveness, but then get caught by selling on personality, not on performance. Clients start to notice that expectations are not being met.

Entrepreneurs are expected to be decisive and demonstrate "leadership". Both can be overdone – deciding too quickly and providing too much direction so that input, initiative and creativity are stifled.

“Doing it my way” often means improvising and learning on the fly, or sticking with what works, until it stops working. The mistake is in neglecting to evolve and grow by optimizing systems and installing best practices and latest technologies.

All these mistakes can lead to serious consequences, as a result of being “too entrepreneurial”.

**#2 Lack of Strategic Direction**

Another consequence of the action-oriented entrepreneurial approach is the tendency to get lost in the daily details and completely neglect the original strategic plan and objectives. The owner-manager soon becomes pre-occupied by operating decisions and all the demands on his time from customers, employees and the constant fire-fighting. It leaves little time for fire prevention.

This situation is worsened as the entrepreneur concludes that the best solution is “do-it-myself”. Not delegating to staff or using external expertise may seem like the least-cost solution, but probably undervalues the owner’s own time and expertise and does not lead to long-term solutions.

The entrepreneur may have good awareness of long-term strategic issues and had them in mind when the business was launched. But they are now neglected, and the original Business Plan (if there was one) is not documented, updated or shared.

Lack of strategic direction is listed here as #2, but may be the Biggest Mistake that Entrepreneurs Make.

**#3 “That was Easy, Let’s Do It Again!”**

Another common mistake that can have devastating consequences on the business is the over-confident entrepreneur who concludes, “That was easy, let’s do it again!” So he or she leaps into new markets, new product lines, or even a new business or investment opportunity.

It’s important to remember: Making money doesn’t make you smart.

Do you really know what you did to succeed? Or what mistakes and risks you avoided? Is now a good time to start something new? How much will the current business be impacted by new initiatives? Is your success really transferable?

Many successful entrepreneurs have made the mistake of jumping into a new venture – merger, acquisition, restaurant franchise or real estate investment – and blowing away the equity value they generated in their original business.

Another big mistake to avoid.

**#4 Focused on Profit**

Being focused on profit doesn't seem like a mistake. After all, isn't that the whole purpose of running a business? No, actually. As I explain to students in their first Finance class, the primary financial objective of any business is "to enhance long-term shareholder value".

Many short-term profit-oriented decisions can hurt long-term value. Examples are many: cutting staff, maintenance or marketing expense; not upgrading systems and technology; accepting high credit risk or low margin customers; avoiding taxes, environmental or quality issues.

Most entrepreneurs are very focused on managing the bottom line by monitoring sales, gross margin and expenses. They always know those numbers.

But they are usually ignoring asset management, especially cash flow. The business may appear very profitable, but have constant cash flow challenges because management is neglecting inventory and receivables, in particular. And unfortunately it is not as simple as: Collect fast, Pay slow. Customer and supplier relationships can be at risk if cash flow issues force you to take that approach.

Managing the Balance Sheet also requires good management of debt and balancing short-term and long-term needs with short and long-term sources of funds.

And the Most Undervalued Asset doesn't usually even appear on the Balance Sheet: Human Resources. That leads to Biggest Mistake #5.

**#5 Neglecting Key Relationships**

The key relationship for any business is the one between its owners and the staff. Management and employee communications are essential to business performance and often not managed very well. Key employees need to be recognized and engaged. Mistakes made with key employees can jeopardize the whole business.

Similarly, don't make the mistake of being distracted by the most annoying and persistent customer. Your biggest customers are not likely the "squeakiest", just the most important. Don't make the mistake of letting them be neglected.

Do you need to squeak more yourself? Do your suppliers appreciate you enough?

Fast growth and profitability may be coming from one or two key customers or suppliers which can lead to over-dependence on their business. And your success may be convincing them that they don't need you in the middle any more. Be wary.

Another key relationship not to be neglected: Is your bank a welcome and willing partner in your business? Remember "friends in need" have to be developed in advance.

**#6 Poor Marketing & Sales**

You know there is a problem brewing when you hear the entrepreneur explaining that "The product sells itself", or "Price is all that matters", or "Our Sales Reps need to do a better job". These are signs of poor marketing and sales results. Usually the company is failing at both the strategic marketing level and at the execution of effective marketing and sales activities.

Not only are opportunities for profitable growth being missed, but the company may be on the downward slide to “out of business” without a well-conceived marketing plan and effective sales strategies.

**#7 Distracted by Personal Issues**

And finally #7 – Personal Issues that distract attention from good management of the business.

Personalities and their issues can seriously affect business performance regardless of whether they are owner, management or staff issues. Sometimes they are simply ignored until they become a problem. Sometimes they are a result of too much success and behaving like a rock star.

Family businesses in particular run the risk of favoritism and having family matters interfere with business success. Managing personalities and corporate culture are a particular challenge in family businesses.

That completes my list of the **Seven Biggest Mistakes that Entrepreneurs Make.**

In Summary, they are:

1. Too Entrepreneurial
2. Lack of Strategic Direction
3. “Let’s do it again!”
4. Focus on Profit
5. Neglecting Key Relationships
6. Poor Marketing and Sales
7. Personal Distractions

Now the obvious question is: **How to Avoid Them?**

**The answer is: Balance!**

Each of these Big Mistakes is a result of the entrepreneur failing to achieve balance between opposing approaches and decision making processes. Avoiding these mistakes requires the entrepreneur and business owner to:

- Balance the Entrepreneurial Approach with Analytical Input

- Balance Strategic Vision with Operational Detail
- Add the Head and the Heart to the “Gut Feel”
- Manage for Long-term Value not just Short-term Profit
- Keep Personal Priorities in your Plan but out of your Business

I hope that helps you to grow and prosper in your own business and avoid the Seven Biggest Mistakes that Entrepreneurs Make.

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