10 Mistakes That Can Destroy Your Business

"Nearly every business I have seen has the potential to be great. And yet the sad reality is that most businesses fail to realise their full potential and are a constant source of worry for their owners.

Not everyone wants to build a large business but most people who are running a small one would like to find ways to do things more efficiently and profitably - to free up their time and earn more money for their efforts."

- Mike Reddy

It doesn't take much. I mean, nobody I have met has tried to destroy their business. But I have seen the smartest of business owners doing silly things from time to time.

Some of those things will impact on cashflow. Ouch. But the worst part about it is that some of those mistakes can destroy a great business.

1. Underestimating the importance of cash flow management

Two woodworkers had a thriving business building interiors for retail stores. They did beautiful work and their customers were pleased, but it often took them 60 or even 90 days to pay the bill. Until the money rolled in the partners couldn't start on the next job because they couldn't buy materials. They lost jobs because customers were in a hurry. You can be making plenty of money, but if cash isn't arriving in time to meet payroll and buy inventory when it's needed, you can be quickly out of business.

2. Getting sloppy with recordkeeping

The owner of a lawn-mowing service was haphazard about recordkeeping. If he had kept better track of lawns mowed he would have known that his oldest mowers had so many hours on them, they were unlikely to last the season without an overhaul. Instead, it came as a very unpleasant surprise when three of them burned up in one week. What are the chances? I'm reminded about Murphy's law here! Good records are a key decision-making tool. If you're not keeping good track of your business, you are denying yourself the tools to make good business decisions.

3. Ignoring inventory

The owner of a stationery store filled his store-room with construction paper just before school started (to benefit from a discount). Three years later team members were still stepping around the boxes to get into the storage room. If you end up with obsolete inventory discount it and get it out of there. Otherwise you're just tying up money and taking up storage space.

4. Neglecting collections

A dentist had dozens of outstanding bills for routine and special dental work approaching 180 days old because his assistant hated to chase debts. Nobody likes to harass people, but unless you have a systematic collection plan and make sure it's carried out, some people just won't pay.

5. Disregarding employee concerns

The owner of a small jewellery manufacturing operation refused to pay overtime. He thought workers should be able to get the job done in the time allotted. Employees came and often left unhappy over what they saw as unfair treatment. Finally, one of them complained to the states labour relations agency which launched an ugly and (for the jeweller) expensive investigation followed by a visit from the taxation office (some disgruntled employees had contacted them with regard to certain practices entered into by the owner). If you have a hard time hiring and retaining good employees, your business is doomed. And if you find yourself the target of an employment-related lawsuit, your expenses can be astronomical. Get expert advice on human-resource issues. While it may look expensive, it can save you a bundle in the end.

6. Failing to delegate

A baker thought she was the only one who could make the perfect cake. Back trouble that put her in bed two weeks before Christmas nearly shut down the business. Recognize that you can't do everything. Turn some of the job over to the best assistant you can hire and trust him to do the job, even if he makes a mistake now and then. If you insist on doing it all yourself, you can't grow.

7. Offering something the customer doesn't want

I used to be a Group Accountant for a large multi-national company. One of the guys there left to set up a boutique ice cream parlour in the main street of town. He spent his company superannuation on developing recipies for 18 different flavours. I called in at one stage and he let me sample every single one, delicious! The trouble was nobody bought anything but vanilla (no imagination), chocolate and boysenberry. 84% of his sales were one of those three flavours. Ultimately, his inventory melted away and so did his profits. Market research is vital. Talk to potential customers, talk to current customers and respond to what they tell you.

8. Letting costs get out of control

The owner of a mechanical repair shop was having such a great year that he bought a lift that wasn't in his budget. He also hired the son of an employee who needed a job, even though there wasn't quite enough work to keep another person busy. In the final analysis, revenue went up significantly, but costs skyrocketed. If you're not careful, you'll spend up all the profits.

9. Spreading marketing dollars too thin

The owner of an Asian restaurant in a part of the country that's not exactly a hotbed of enthusiasm for exotic cuisine had an obvious need to advertise. And she did. She bought one regional TV ad, one radio spot and a small coupon in the local weekly. Although she spent plenty - several thousand dollars altogether – her efforts didn't add up to a marketing campaign. Failure to spend wisely on an integrated and continuing marketing plan is an expensive mistake. In this case, her location is now a pizza place.

10. Underfunding an emergency account

When unannounced road resurfacing closed a popular dress shop's doors for a month, it put the owner out of business because she had no emergency money and she couldn't go a whole month with virtually no sales. As every gambler knows, no matter how good a player you are, you're occasionally going to be dealt a bad hand.