

Biggest Business Mistakes



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Seek Advice

As an accountant one of the most frustrating situations can be where a new client is already well underway with the setup and structure of their business without seeking advice because their mate down the pub said (now often replaced with Google said).....!

We would always urge anyone thinking of setting up a new business to not just think about the basics of research, business planning etc. but also to seek advice on how to have their business structured from the outset.

Please see our free downloads at <http://www.phaccountancy.com/resource-centre.html> for “Trading as a Limited Company” and “Trading as a Sole Trader”.



On your first visit to an accountant they should find out more information about your business and your aims for the business, again we have a free online download of “Finding the Right Accountant for You” which will help you guide yourself through this basis.

You should be able to leave the meeting feeling you have gained a lot of knowledge and confident that the advice given to you is correct for your business. They should be able to explain everything concisely and confirm the services you will require and the costs for doing this.

It's a good idea to always be prepared and have a list of questions in advance so you can come away from that first meeting feeling like you have gained a lot of additional knowledge.

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Things to think about before you meet: -

- Principal activity of your business.
- Main people involved in your business and the role they will play.
- How you potentially see profits being distributed.
- Annual turnover forecasts.
- Net profit forecasts.
- Will you have employees working for you?
- Do you have any other forms of income?

If you don't know the answers to the above that's fine because they can be talked about in more detail and scenarios can be discussed.

Once you have had this meeting you should know whether to trade as a sole trader, partnership or limited company and they would explain the differences between each one and their reasons for the choice.

Tax rates and examples of expected liabilities based on profits you have discussed. They'll also be able to advise on how to help you plan and set money aside for these liabilities and when they are due to be paid.



Deadlines for filing requirements with the relevant governing bodies and how they will help you stick to these deadlines.

Do you need to be VAT registered and if so how this works and the different scheme options available to you.

If you require employees, do you know their rights and duties as well as yours as an employer. Factors not to forget when originally looking at outgoings for employees are also employers National Insurance, auto enrolment for pension contributions, minimum wage, and statutory entitlements. Please also see our free download about "Taking On Your First Employee".

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How will you keep your records for accounting purposes which isn't just to satisfy the needs of HMRC but also for you to be able to regularly review and from which to gain an insight into: -

- Where your monies are being spent.
- Monies owed to the business and monies owed to suppliers.
- Regular profit reviews to ensure correct monies are being set aside for annual liabilities.
- Cash flow management.

Relevant business expenses you can claim to offset against your profits for things you may not have even considered.

How you withdraw monies from your business and the impact this will have on your personal tax situation considering any other forms of income.

Services that they offer as a company and the ones they feel relevant to you now and what you could potentially require in the future.

You may also need to seek advice from other professionals for things such as: -

- Shareholder Agreements
- Employment Contracts
- HR
- Insurance Obligations



“If you fail to plan, you plan to fail.”

Businesses fail for many reasons, one of which is due to a lack of planning. A business plan will help you to clarify your business idea, identify potential problems, set out your goals and measure your progress.

Most businesses fail because of the lack of short and long-term planning. Your plan should include where your business will be in the next few months to the next few years including realistic goals and results to achieve along the way. You will also want to include specific to-do lists with dates and deadlines.

Your business will not necessarily fail if you do not have a plan, however, you will more than likely spend more money, be less efficient and grow at a slower rate, if at all.



Look at it this way, if you were going to drive to a specific location and back would you use a sat nav or would you wing it? Think of a business plan like the sat nav, it will help you get to where you want to be, in a shorter amount of time with less resources being used.

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As well as a business plan helping you to achieve your goals and results, it can also help with identifying potential problems and assist in obtaining funding. Potential investors will have many questions about your business. A complete business plan will not only provide them with the answers, but shows you are organised and have considered all aspects of running a business.

Having a business plan will also help you handle and control various other aspects of your business, such as cash flow, staff, sales and purchases, accounting and finance, marketing etc. For example, cash flow needs to be monitored and looked after, this is very important as it is the lifeblood of every business.

Poor cash flow management can lead to many different problems, such as overspending. It is very easy to overspend on your business in the hope that it will bring in more money. With adequate planning, you will be able to forecast for the future and make the right decisions.

A business needs to set financial goals and targets to truly measure its success and drive the business forward. Another example would be with regards to the staff you employ, you will need to plan to ensure you select the correct employees for the role, as well as putting in procedures that your employees would follow.

As a business owner, you will need to manage team members and track their results. By having a plan, you can put together a review form which you, and the employee can keep on top of and go over at regular team member reviews. This way you will be able to monitor your staff and direct them for the future.



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A business plan will ensure you are proactive rather than reactive. You won't wait for things to happen, you will plan them. The word "reactive" implies you do not have the initiative, you let events set your agenda. Whereas, the word "proactive" implies you anticipate the future and can deal with it.



Having a business plan is not just for new businesses. Existing businesses should continue to follow and add to their plan. It will continue to guide you on your path and assist in the growth of the business. You will be able to track your progress, measure results and better manage the business. It will also help you to manage priorities and delegate where needed. You should work towards your strengths and away from your weaknesses. You will then be able to develop your business by doing the most important things per your long-term goals and plan.

Overall, proper business planning will save you time, point your business in the right direction and will help you to succeed.

Failing to Control a Budget When Going into Business

When a business first starts to trade quite often many business owners don't create a budget because they either don't know how, or don't think it is relevant. This is potentially harmful because without a budget you are unable to see what resources are available for your day to day living, paying your business invoices and support business growth.

Before you can make money, you should know how to spend it appropriately, and drafting a budget is a key way to help your business be successful.



Creating, monitoring, and managing a budget is key to business success. It will help you allocate resources where they are needed, see where you are expecting growth and any other issues that you may not have considered, for example, a reduction in trade during a certain month.

There are a number of benefits of drawing up a business budget, such as: -

1. Set Targets

Budgets are used to project income and spending to help determine how the business will achieve short-term and long-term plans. Budgeting estimates income, plans expenditure, and restricts spending that is not part of the plan.

2. Plan for Funding

Budgeting ensures that money is allocated to those things that support the plan. It is difficult to take a business to the next level without the necessary financial resources to support the plan.

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3. Allocate Money for Appropriate Resources

Money needs to be allocated for set resources i.e., new equipment, aging facilities, and new business ventures when the time comes.

4. Manage your Money Effectively

Spending is controlled when funds are allocated and unallocated spending is not tolerated. Budgets help to establish boundaries, which eliminates unbudgeted spending.

5. Provide A Profit Margin

Profit margins give you an indication of the amount of money you should earn from your product or services. A small increase in the profit margin can have a huge positive effect on your business but you need to see how that would affect your potential customers as well as seeing the increase in gross profit which would, in turn, go straight to the bottom line.

So Where Do You Begin?

We have a free downloadable book “60 Minute Business Plan” which aims to help entrepreneurs and business owners looking for general support & business success, visit <http://www.phaccountancy.com/resource-centre.html> to download yours.

When you've made a budget, you should stick to it as far as possible, but review and revise it as and when necessary. Successful businesses often have a rolling budget, so that they are continually budgeting, e.g., for a year in advance.



Failing to Regularly Review Your Business

It is easy to assume that all successful businessmen and women must be experts at money and business management however they too can fall foul of making mistakes which in turn, may impact them financially.

For example, Richard Branson himself admits that with one of his businesses, Virgin Megastores, he simply did not keep on top of the situation as soon as he should have. In his book entitled 'Like a Virgin: Secrets they won't teach you at business school', he stated that with regards to Virgin Megastores "... the business was losing a lot of money. We did not make a speedy exit in part because I resisted closing the business."

A lesson learned from this situation could be to ensure that you regularly review your business and to ask yourself whether tools that you currently use to benefit the business, are still working for you and whether changes could be instigated to help grow and develop your business. Assessing how well your business is performing and identifying areas which could be improved upon, will also provide the opportunity to move forward and grow your business.



Many people are afraid of change, especially with the mentality of 'if it isn't broke, don't fix it' but in various situations, there are tools and ways of increasing profitability as well as cutting costs for your business, if you can be open minded to such changes. After all, it is very common to find yourself focusing on the day-to-day running of your business however, it makes complete sense to continually think about the future and plan for the same.

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Also, as your business grows and, for example, you appoint more management staff, it can of course become increasingly more difficult for you to keep your eye on the ball. It is also extremely important to maintain the quality and service you provide to your clients or customers and, as such, a customer satisfaction programme to give your clients or customers the opportunity to provide you with feedback on their experiences of your service, can be a very effective way of continually reviewing your business.

Regularly reviewing the prices you are providing your clients or customers as well as your own cash management can ensure that as well as being a profitable business, your clients or customers continue to use your services and ultimately, add sustainability to your business.

A sensible tool to keeping fully up to date with the situation of your business would also be to enlist the services of a Business Development Manager who would go through various aspects and topics regarding your business. Whatever your business situation; from starting up a new business to a well-established and successful business, a Business Development Manager can assist you in avoiding common mistakes as well as helping you (and any staff you may have) with your own time management.



A Business Development Manager will coach and guide you as much or as little as you wish, to enable you to run your business as efficiently and successfully as possible. The support and advice you would receive from a Business Development Manager is invaluable and could be the difference between a successful business and, sadly, one that results in having to close.

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Perhaps knowing when to cut your losses and close a business is very important and could be key in ensuring success for any future ventures. As many successful businessmen and women have discovered, it is possible to make mistakes and even suffer failures in business, and yet go on and become successful in other ventures.

Indeed, in the words of Bill Gates “It’s fine to celebrate success but it is more important to heed the lessons of failure”.



Trying To Do Everything Yourself

You simply cannot do everything yourself. It's that simple, but very irritating! Whether you own your own shop or you're a one-man band builder, your business will involve so many different responsibilities and aspects in different tasks that no person can do them all to the standard you need. If you disagree and think yourself as the perfect candidate who can complete anything they set out to do and manage an outstanding job at whatever you do – you'll still find you're constrained by something out of your control, time. If you end up taking on everything, you overwork yourself and end up not enjoying what it was that you set out to do in business in the first place!

Avoid this huge business mistake of biting off more than you can chew by learning how to delegate, hire when needed and outsource where appropriate. Just a few examples: -

- Why do your own accounting when you can hire an accountant who really knows what they are doing?
- Why spend hours preparing posts for your social media when you could outsource this to a social media and marketing company?
- Why spend hours reviewing CVs for recruitment, advertising a job and completing endless job interviews for the wrong people, when a recruitment consultant could do all of this for you?
- Why not hire someone part-time to work in your shop and do stock takings etc., rather than you working an extra 20 hours per week?



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Particularly when we first start in business, we tend to prefer to complete these things ourselves as we feel we are saving ourselves money by not spending out on other services – which quite often we would feel are unnecessary. More often than not, the time you spend on these things can often greatly outweigh the money you'd have spent using a professional. Time is money is the phrase that springs to mind.

If you're in a more established work place and you have a team around you, learn their strengths and weaknesses and utilise them accordingly. Have your go-to people in the business, allocate all technology updates and issues to someone, your debt and finance management another. If you have staff and they don't make your job any easier – you either have the wrong staff, or you're not doing your job as the boss properly by not using them to their full potential.



If you work alone and you realise it is time to hire, it can be really unnerving but also exciting! You'll be worried whether the person you hire is incompetent, if they will resign and even doubt yourself as an appropriate manager for this person. You won't want to hire at a point in your business that is too early as you'll end up with cash flow problems, equally, if you hire too late, you could miss business opportunities or projects you've been offered due to an unavailable work force. You can download our e-book about taking on your first employee here.

<http://www.phaccountancy.com/resource-centre.html>

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Ensure you're making the right move in hiring, these remarks are hugely important to bear in mind! Do not hire if: -

- You're desperate – you'll hire in the heat of a stressful moment, if you're desperate to get another body on the work force, it is unlikely you'll choose the best body out there.
- You don't know exactly what you want the new person to do – you might realise you need help, but have you established exactly what help you need? Complete a job description and review your own workload and establish exactly what you need to avoid this. Establish if you'll be better outsourcing your work or if you genuinely do need to hire.
- You plan to take the first person you meet – the right applicant should thrive in your business and make your business thrive in return. You'll learn a lot about yourself, the applicant market, and your own position by interviewing multiple candidates.



Failing to Delegate or Outsource

If you're swarming with work your first port of call should be to review outsourcing your work. If you're a one-man band in the construction industry with no clue about invoicing, debt management or arranging meetings and your time is best spent on your building site earning your money – the last thing you want to be doing is spending hours managing the admin side of your business when you should be building.

You should consider a virtual admin assistant who can ensure your workload is managed properly. This should be extremely cost effective and saves you taking on a member of staff.

If you have a larger company, you might have a few staff who deal with your health and safety compliance, they might spend one day per month reviewing the compliance they need and completing the relevant checks. However, for two staff to spend a whole day doing this monthly you lose a whopping 24 working days from your work force and during these 24 days, your staff could have raised bills, visited potential clients and much more beneficial work for the company. So, it would be worth considering outsourcing your health and safety to a company, who can visit monthly, run their reports, and ensure all compliance is up to date. The likelihood is that the cost of an external company providing you with this service isn't going to equate to anywhere near the 24 days of staff wages along with what those staff could potentially earn you with those days.

Take the time you need to review if you need to delegate, take on staff or outsource – you'll save time, become more profitable and be able to enjoy running your business knowing that everything is in hand and you aren't swamped with work.

We have a free book "Taking On Your First Employee" you can download via: - <http://www.phaccountancy.com/resource-centre.html>

Over-trading

Businesses can fail for several reasons from cash management, uniqueness to over-trading.

Over-trading will leave you without enough funds for the growth of your business as over-trading is where a business expands more quickly than its funds allow, if the business does not have enough funds to pay all its debts, as they fall due, it may well fail.

Symptoms of over-trading are:-

- Rapid increase of sales where you may not be able to fulfil the demand.
- Rapid increase of trade receivables/debtors.
- Longer receivables collection periods and increasing bad debts.
- Stock levels tend to increase.
- Increasing use of trade payables/creditors.
- The bank overdraft facility will be in more use and overdraft interest adds to future cash flow problems.
- Assets are more likely to be financed by means of credit rather than business capital.

All of the above influence the business as suppliers may stop trading with you if payments cannot be made, customers may use an alternative supplier if orders/services are not kept on top of. The company will also face liquidity and cash issues meaning assets will be purchased using capital and any payments that fall due, there will not be sufficient funds.



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Actions to reduce the risk of over-trading are: -

- Effective debt management and credit control.
- Improve stock control.
- Make more use of supplier's credit terms.
- Focus on cash management.
- Maintain a tight control of costs.
- Lease rather than buy non-current assets.
- Inject capital to the company and reduce the dividends/drawings from the business.

Over-trading will have an effect on your business in the current time as well as the future with suppliers, customers, and reputation if the problems are not identified and quickly corrected.

