10 Common Mistakes of Business Owners & CEOs

10 min read

When running a business, the goal is to make money by providing valuable services or products to your customers. Before your business can thrive and make money, though, a business owner has to figure out how to help their business survive, and mere survival might be a bigger challenge than you realize. More than 20% of new businesses fail within the first year, and 90% of all businesses eventually fail. Of those, 82% cite cash flow problems as the reason the business did not survive [1].

Key Takeaways

- **Defining Your Target Market and Ideal Customer Profile:** Without defining a target market and ideal customer, you run the risk of spending money on marketing and sales efforts that are ultimately highly ineffective with a low return on investment…

- **Spending Enough:** If you do not spend (i.e. invest) enough in your business, then you risk under-delivering in every aspect of your company: products, service, customer service, advertising, and sales…

- **How Outsourced Accounting Supports SMBs Through Business Growth and Business Change:** By outsourcing your back office to a reputable provider, SMBs benefit from complete teams of bookkeeping and accounting experts who can help you establish sound policies and…

Cash flow is the lifeblood of your business, and positive, healthy cash flow (more money flowing into your company than out of your company) is essential to smooth operations. Although the concept seems simple enough for any business owner to manage, countless factors can lead to cash flow problems, and balancing them all can be an unbelievably difficult feat.

Almost every kind of problem or mistake that occurs in managing a business can eventually lead to cash flow concerns, and this is especially true in businesses that are growing or changing in other ways. As a business owner, it's vital to realize that challenges with cash flow are always serious, so it's imperative to avoid the kinds of mistakes that can lead to a cash flow shortage.

10 Management and Leadership Mistakes Business Owners and CEOs Commonly Make

1. Not Having a Plan

No business owner should jump into a new venture, expansion, or pivot head-first. Having a sound, solid, well-developed business plan is essential.

The first step in running a business is setting and writing down SMART goals (both short and long-term ones). Before you open your doors for business, pivot, or change your business in any way, you need to take the time to think through and document your goals. SMART goals are specific, measurable, attainable, relevant, and timely. These will help you define what success looks like for your business and answer questions like what your business should have achieved in years one, two, three, four, and five. Additionally, these goals can then help you establish a roadmap of short-term benchmarks that are designed to lead your business to achieve its long-term goals.

All of these goals, benchmarks, and your future vision should then be organized within a business's operating framework (like the Entrepreneurial Operating System) so that you have an established action plan and the necessary people, tools, technology, and training to carry it out.

2. Neglecting Your Legal Documents and Paperwork

In the excitement of having a great business idea, many owners fail to do the legal work. They might not consult with an expert on selecting the right type of business. They might fail to file the proper and necessary paperwork to incorporate their business or register their business name. They might not get the trademark they need on a logo or file patent paperwork on a novel product or system.

Any one of these oversights could end up putting you out of business in the future. So, make sure you've consulted with the right experts (i.e. accountants, patent lawyers, etc.) before opening your doors.

3. Failing to Establish a Back Office System

Most new business owners and SMB owners are not bookkeeping and accounting experts. Yet, they find themselves handling the majority of their company's bookkeeping and accounting tasks.

This is a big mistake. The back office is like your business's control center. It's the place where you can check up on your company's financial health, take its temperature, monitor the performance of new strategies, and assess the business's likely future health. It's the artery through which your cash flow flows. So, if it is not in order and functioning properly, then your business cannot be in order or functioning properly.

In addition to having a back office that functions well, you must also have a back office that is properly secured with enough people to separate duties and power in addition to the right checks and balances, policies and procedures, and security and compliance protocols to protect your company from internal fraud and external security risks, as well.

Read More: Save Your Small Business With These Cash Flow Strategies

4. Not Defining Your Target Market and Ideal Customer Profile

If you haven't taken the time or done the work to determine your business's target market (the market group where the majority of your sales are going to come from) and its ideal customer profile (the specific type of person who is most likely to purchase your product or service), then you aren't going to know how to market your business effectively or how to train your sales team. It's essential to define your market and pin down your ideal customer so that you know who it is your company serves best and can tailor your ad messaging and sales scripts to cater to this demographic.

Without defining a target market and ideal customer, you run the risk of spending money on marketing and sales efforts that are ultimately highly ineffective with a low return on investment. Your messages become overly vague, as they attempt to appeal to too many different groups or kinds of people at once. As a result, no one really "gets" your brand or understands what you're selling.

Conversely, distributing your marketing and sales dollars in the right channels and speaking directly to your ideal customer is much more effective and generates a much more significant ROI.

Just making a profit won’t guarantee long-term success.

Positive profit but not-so-positive cash flow comes down to an accounting issue. The [CEO's Guide To Improving Cash Flow] shares 28 ways to gain efficiency and peace of mind with cash flow management rules.

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5. Doing Everything by Yourself

Sometimes in an effort to save money and other times out of the fear of delegating tasks, business owners attempt to do everything by themselves. Running a business, however, requires more time in the day and more energy than any one person has at their disposal. Furthermore, no business owner is an expert in every aspect of running a business.

It's essential that business owners learn how to hire the right people, trust the people they hire, and delegate the right tasks to the right people. Business owners might want to have their hands on every task in a business, but this will stymie your operations, result in productivity lags, and ultimately make your business suffer.

6. Hiring Too Soon or Hiring the Wrong People

In most businesses (especially service-based businesses) labor costs are going to be your biggest expense. So, properly timed and executed hiring practices are essential to spending the right amount of money on the right kinds of employees in your business. Hiring too many people too soon (or for too many hours) can result in a negative ROI on labor costs – a major drag on cash flow. Hiring the wrong people can result in high turnover rates – also a major drag on cash flow.

Business owners need to be careful that only hire the employees they actually need and that they hire employees who are competent and trustworthy and share the same core values as the business.

Whenever possible, new business owners should look to outsource the non-core functions of their businesses (such as marketing, bookkeeping and accounting, legal, logistics, etc.) to third-party providers and independent contractors, instead of hiring full-time employees to handle these jobs. This saves an incredible amount on total labor costs, shifts the money exiting the company into dollars that can be written off as business expenses, and enables you to access people who are true experts in their fields.

7. Growing Too Quickly

Growth and expansion are exciting, and they're good for a business's health. Attempting to expand too quickly, however, can quickly dry up your cash flow and put your business in dire straits. If you experience a period of growth in revenue and are making decent profits, be sure it is a sign of a new trend and not simply an anomaly before you begin bringing on new employees or renting out a bigger office space. If the growth is, in fact, a one-off experience, your expenses will immediately outweigh your revenue, shrinking your margins, cutting off your cash flow, and putting you out of business.

8. Spending Too Much

Spending too much too soon is another way to cut off your cash flow in a hurry. Some financial decisions like purchasing an office, instead of renting, for example, might seem like smart financial moves, but big spends too early in a company's lifecycle or at the wrong moment in a growth cycle can quickly drain cash reserves, restrict financial flexibility, and overextend the business.

Be careful about the timing of big purchases and ensure you have the sales history and positive profit trends to demonstrate the capacity to carry new debt or offload a significant chunk of cash.

9. Not Spending Enough

Conversely, while being careful not to overspend, it's also important to remember that you have to spend money to make money. If you do not spend (i.e. invest) enough in your business, then you risk under-delivering in every aspect of your company: products, service, customer service, advertising, and sales.

While it can be difficult, finding a balance between spending too little and spending too much is vital to your company's cash flow and success.

10. Failing to Use Time-Saving Technologies

Some of the most valuable seconds, minutes, hours, and days in existence arguably comprise the time of CEOs and business owners. So, wasting your time or spending it on low-value, low-return tasks is a money-losing strategy. You need to conserve time whenever possible so that you can put as much time toward high-value, high-ROI tasks as possible.

So, if you aren't using as much technology as you can to streamline your day, then you are simultaneously wasting time, missing opportunities, and throwing away money.

Read More: 4 Ways to Fight Employee Burnout With Automation

If you aren't already, consider adopting some of the following popular productivity tools to help you save time and increase efficiency in your business:

- QuickBooks Time
- Panda Doc
- Microsoft OneNote
- Google Drive
- Teamwork
- Bridge

These apps can help you keep your personal and professional life highly organized to increase your efficiency while making the most of every minute of every hour of every day of the week.

How Outsourced Accounting Supports SMBs Through Business Growth and Business Change

A top-notch outsourced accounting provider is a savvy way for business owners and CEOs who are at the helm of growing and changing businesses to keep a close watch on their financial health and improve their forecasting and management of cash flow while saving time and money.

By outsourcing your back office to a reputable provider, SMBs benefit from complete teams of bookkeeping and accounting experts who can help you establish sound policies and procedures to increase accuracy, efficiency, and security while handling the back office function. As a result, business leaders have access to reliable financial reports – not just designed for compliance – and useful charts. These resources can help you identify trends and make data-driven decisions to reduce mistakes, improve management, and prevent cash flow problems to keep your growing business healthy and strong through any challenge or change.

[1]https://www.businessinsider.com/why-small-businesses-fail-infographic-2017-8?r=US&IR=T