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FROM: WAYNE UNZE (797-1100)



RE: THE TWELVE BIGGEST MISTAKES NEW ENTREPRENEURS MAKE

After twenty-five years in the business brokerage profession and as an expert witness in court-ordered business evaluations, I have encountered "the good, the bad and the ugly" in the world of business. Unfortunately, too many aspiring entrepreneurs seek advice after the sale or start-up rather than before, which often creates an unbridgeable gap between expectations and reality. After analyzing scores of business failures, I have recognized the dozen biggest mistakes that would-be entrepreneurs make that contribute to their eventual demise.

1. Lack of capital. Starting or buying a business on a shoestring may sound like a romantic idea, but it can be a one-way ticket to disaster. Banks, landlords and equipment leasing companies require personal guarantees with their contracts, thereby creating an indebtedness that must be repaid whether or not your business makes money. A good rule-of-thumb is to have access to at least twice as much money as you have budgeted for the venture.

2. Insufficient research. People going into businesses often overlook the most fundamental question: is there a market for that particular product or service? The fact that you find woven baskets from Guatemala beguiling, doesn't mean anyone else does, but a focus group or survey can help make that determination. Smart, would-be entrepreneurs should also take the time to shop their competition to try to uncover an advantage they can exploit, especially in the area of pricing. In the purchase of an existing business, research primarily centers around due diligence: the review of key financial and legal documents that express the value of the business. Beware the quick deal that doesn't allow sufficient time for you to complete all the research you deem necessary.

3. Relying on the seller's verbal representations. Serious sellers know that in order to sell a business, they have to get their financial affairs in order. Those who show little or no profit sometimes claim they are intentionally doing that to avoid paying taxes, but are actually "skimming" thousands of dollars, tax free, as their compensation. Beware of these claims because there is no credible way to prove the existence of "phantom money."

4. Unsuitable lease. Buying a business with only a short-term lease makes no sense. Most landlords will welcome the chance to either sign a new lease with a credit-worthy buyer or add one or more renewal options to the existing lease. If the business purchase is financed through either the seller or a bank, the lease should remain in effect at least until the promissory note is repaid - and hopefully longer if the business is successful. Recently, a successful Nob Hill business had to vacate its premises at the end of the lease term because the landlord decided to exploit its popularity by opening his own establishment. If this ill-fated business owner had long-term renewal options in his lease, he would still be in business.

5. Growing too fast. A planned growth strategy is vital to any new business venture. A

business that grows too fast can create overwhelming financial problems and force owners to resort to costly money-raising schemes such as factoring receivables. The best growth rate is one that can be financed by the cash flow of the business.

6. Lack of spousal commitment. Operating a business can be stressful enough without having to endure your spouse's disapproval and lack of support. Discuss the details of the business acquisition or start-up before the fact and try to obtain a consensus as to how much jointly-held money will be at risk, the required hours of operation and the expected return on investment that will justify the venture.

7. Being held "hostage" by employees. Relying totally on key employees for the technical knowledge to operate a business can be dangerous. If necessary, take a crash course in the trade or industry you are targeting so you can at least learn its jargon and basic standards of operation.

8. Bad partnerships. Sharing the risk through a partnership may sound ideal, but a bad partnership can be as harrowing as a bad marriage. Before entering into a partnership, negotiate every conceivable scenario, especially those involving the "dismal Ds": death, divorce, disability and dissolution. Other "Ds" to add to the list include a *determination* of duties and responsibilities and how to *distribute* proceeds if the business is successful or capital requests if more cash is needed.

9. Inept accounting practices. You can't travel cross-country without a road map and you can't run a business without accurate financial information. Too many owners simply file their monthly statements without studying them to see how they compare to the current year's budget as well as the previous year's actual performance. Most problems won't become insurmountable if caught in time

10. Attempting a "turn-around". A business in trouble can seem like a great opportunity, but only when you possess the necessary knowledge and capital to turn it around. Remember that the current owner, who knows the business better than anyone, has already tried and failed to make it work. Don't let pride rule.

11. Failure to pay taxes. When things get tight, there is a tendency to put off paying the government (gross receipts and payroll taxes) in lieu of more pressing expenses such as salaries and the purchase of inventory. Unfortunately, not paying taxes can create serious consequences and require not only repayment but penalties and interest that can dwarf the original liability.

12. Throwing good money after bad. If you made a bad decision in purchasing or starting a business, it is often best to mitigate damages by either selling or even liquidating the business before the losses create financial ruin. Like picking a bad stock, it's better to sell at half price than ride it all the way down to zero.