

COMMON STARTUP MISTAKES



Table of Contents

TABLE OF CONTENTS.....	0
1. DISCLAIMER.....	2
2. INTRODUCTION TO SMEDA.....	2
3. PURPOSE OF THE GUIDE	2
4. INTRODUCTION TO COMMON START-UP MISTAKES	3
5. IDEA GENERATION & PLANNING	3
5.1. UNORIGINAL IDEA	3
5.2. BEING INFLEXIBLE WITH YOUR BUSINESS IDEA	3
5.3. NOT HAVING A PLAN	4
6. BUSINESS OWNERSHIP	4
6.1. SINGLE FOUNDER	4
6.2. FIGHTS BETWEEN FOUNDERS.....	4
7. HUMAN RESOURCE MANAGEMENT	5
7.1. NOT BEING PROACTIVE/ LACK OF PERSONAL COMMITMENT.....	5
7.2. STAFFING MISTAKES	5
8. TARGET MARKET	6
8.1. NOT KNOWING YOUR CUSTOMERS / AVOIDING RESEARCH	6
8.2. UNSUITABLE BUSINESS LOCATION	7
9. BUSINESS FINANCING	7
9.1. LACK OF CAPITAL	7
9.2. RAISING TOO MUCH OR TOO LITTLE MONEY	7
10. ADVICE, SUGGESTIONS AND FEEDBACK	8
10.1. HANDLING ADVICE	8
10.2. LEGAL ADVICE	9

1. Disclaimer

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. Although, the material included in this document is based on data/information gathered from various reliable sources; however, it is based upon certain assumptions, which may differ from case to case. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision, including taking professional advice from a qualified consultant/technical expert before taking any decision to act upon the information.

For more information on services offered by SMEDA, please visit www.smeda.org.pk

2. Introduction to SMEDA

Small and Medium Enterprises Development Authority (SMEDA) is an apex SME development agency working under the Ministry of Industries and Production (MoI&P), Government of Pakistan. In pursuit of its mission, SMEDA has adopted an integrated strategy that comprises SME sectors & clusters development, Business Development Services (BDS), and Policy advocacy to protect and promote SME interests.

SMEDA offers a broad spectrum of business development services to SMEs which include prefeasibility studies, identification of experts and consultants, delivery of need based capacity building programs in addition to business guidance through help desk services.

3. Purpose of the Guide

This document is a demonstrative guide for new / start-up entrepreneurs particularly businesses categorized as Small & Medium Enterprises (SMEs). The guide aims at highlighting areas of caution for SME's about commonly observed pitfalls for new start-ups and small businesses. Although it is inevitable that every new business will face challenges and problems but through this document we hope that businesses can be better prepared to tackle hurdles faced during the start-up phase.

4. Introduction to Common Start-up Mistakes

When starting a new business it is important that a good foundation is built so that your business has better chances of success. Following is a list of some commonly observed mistakes that new businesses and start-ups have been observed to make and suffer from. Please note that this list is merely a guideline and is not meant to cover all potential mistakes.

5. Idea Generation & Planning

5.1. Unoriginal Idea

Most new businesses and start-ups are imitations of some existing organization/business. Although that is a good source of ideas especially if the business in question is performing well, but lack of innovation can be a major obstacle to your success. Most successful start-ups offer differentiation or innovation in their product or service.

Remember:

If you focus on solving some unsolved problems or issues being faced by your target market, statistically you have a much better chance of being successful

So instead of copying an established business and then figuring out what products/services they provide, try to identify problems or opportunities in the market and develop a product or service aimed at solving that problem.

5.2. Being Inflexible With Your Business Idea

Being confident and persistent with your business idea are good things however, stubbornness and inflexibility must be avoided. It is almost inevitable that your original business idea will need to be modified and adapted as you move towards implementing it. It is important for you to be flexible and open to change in your original idea when the need arises.

Remember:

If there is a critical flaw in your original business idea, throwing more resources towards achieving that idea will not make it a success.

5.3. Not Having a Plan

Most small business owners in Pakistan have no idea about how to make a business plan¹, this significantly increases the risk of failure. Setting up and running a business requires an organized effort. Your goals and objectives need to be well defined along with milestones. Try to set SMART (**S**pecific, **M**easurable, **A**ssignable, **R**ealistic, **T**ime-related) medium to long-term goals. The business owner must manage work hours, resources, commitments and targets both for the short term and long term.

Well-crafted business, financial & marketing plans are hallmarks of most successful start-ups. Please refer to the OTC Document titled "How To Make a Business Plan" available at SMEDA website (www.smeda.org.pk) for more information and insight on the subject.

6. Business Ownership

6.1. Single Founder

You might think that a person, having an original business idea and necessary resources, can successfully implement it single-handedly. However, start-ups have a much greater chance of success if there is a group of founders², or a collaborative partnership, involved in designing and development of a new business. Including more than one founder in the business venture diversifies the inherent skill set of the owners, creates a strong team to successfully deal with challenges in the start-up phase and improves chances of in-house debate and brainstorming.

6.2. Fights between Founders

Disagreements and arguments are unavoidable, and often beneficial as well, but sometimes such disagreements can lead to one or more founders/partners leaving the business altogether.

This in itself is not a serious problem especially if the leaving founder was not very active, but if he/she had some required key skills or had been very active in setting up and running the business then it can be a major setback for the business.

It is advisable to get to know your potential business partners/ founders prior to engaging them in a business venture. The same is also advised to be formalized in the form of documentation / contracts amongst the working partners. The contract can highlight areas of responsibilities and associated remunerations. Please visit the section titled 'Commercial

¹Shabir Hyder, Robert N. Lussier, (2016) "Why businesses succeed or fail: a study on small businesses in Pakistan", Journal of Entrepreneurship in Emerging Economies, Vol. 8 Issue: 1, pp.82-100, <https://doi.org/10.1108/JEEE-03-2015-0020>

²Shabir Hyder, Robert N. Lussier, (2016) "Why businesses succeed or fail: a study on small businesses in Pakistan", Journal of Entrepreneurship in Emerging Economies, Vol. 8 Issue: 1, pp.82-100, <https://doi.org/10.1108/JEEE-03-2015-0020>

Contracts' under 'Facilitation for Doing Business – Information Material' on SMEDA's official website www.smeda.org

7. Human Resource Management

7.1. Not Being Proactive/ Lack of Personal Commitment

An important difference between running your own business instead of being an employee, is that no one will tell you what to do. You need to manage work hours, resources and commitments all by yourself. The more proactive you are at identifying and managing your goals and milestones the more suitable you are for running a successful business.

Making a start-up business successful, requires long term personal commitment in the form of time and effort from the founders of the business. Entrepreneurs often need to cater to all aspects of their businesses. This will often mean having to do tasks which may be outside your comfort zone or area of experience. For example; meeting with potential investors and customers or investing your time and effort in promotional, etc.

If you appear confident with your direction and course of action, your employees, investors and customers will also feel confident about the product / service your business offers.

Maintain Focus:

At the time of launching a new business it is wise to narrow down a specific product or service, based on your core competencies and targeted customers. Even as your business grows never lose sight of what motivated you to first start the business.

Most successful entrepreneurs enjoy what they do; this helps them not only to stay focused but also motivate their team.

7.2. Staffing Mistakes

Entrepreneur(s), in the beginning of their business, will typically attend to every detail of the business themselves, but as the firm grows, skills of additional / hired people is required. When your business and its operations grow, *do not avoid hiring* or insist on doing everything yourself, put a team together if required. The entrepreneur(s) must prioritise their time towards strategy, studying customers and competition and adapting to market conditions.

- i. There tends to be a high turnover rate among employees working in smaller businesses often due to lower wages, high workload and even exploitation³. You

³Shabir Hyder, Robert N. Lussier, (2016) "Why businesses succeed or fail: a study on small businesses in Pakistan", Journal of Entrepreneurship in Emerging Economies, Vol. 8 Issue: 1, pp.82-100, <https://doi.org/10.1108/JEEE-03-2015-0020>

should take care to compensate your employees fairly and keep them motivated. This will reduce employees' turnover and improve overall business performance.

- ii. When you do hire, be sure to *effectively delegate tasks*, responsibilities and authority, so that you can focus on your priorities and responsibilities towards the business.
- iii. It must also be kept in mind to *not hire too quickly / frequently*. Before hiring you need to know exactly which tasks the new recruits are needed for and, what responsibilities will be delegated to them. Since employees cost financial resources, the process of hiring needs to be organised, planned and need driven. The benefits of an employee should outweigh the costs.
- iv. New businesses are usually unable to offer competitive salaries to highly skilled individuals. Persons with specialised skill sets can be offered equity and made shareholders in the business, thereby ensuring that only committed individuals join the team.

8. Target Market

8.1. Not Knowing Your Customers/ Avoiding Research

The success of any business depends on how attractive it is to prospective clients. Regardless of the type of product or service you are offering, it is very important to know your customers' point of view.

You need to research your target market and its preferences, to know how interested they will be in purchasing your product/service. This will help you to forecast sales, which will allow you to make more accurate estimates.

The following questions can assist you in better knowing and researching your target market:

- i. **Why will customers feel the need/want to buy your product?** Focus on that need/want and try to be the best at satisfying it.
- ii. **What is the type of a customer that you will be targeting?** Look at attributes like age, income bracket, location, lifestyle, beliefs etc.
- iii. **Who is your ideal customer?** This will be the type of customers, which are most profitable for you. Often referred to as "Key Accounts", for example regular customers or customers that place bulk orders. Try to establish a positive business relationship with them.
- iv. **How do you want to reach your targeted customers?** For example through retail outlets, online selling, door to door selling etc. more details about this are covered in the OTC "Sales Strategy"

- v. **What will be the most suitable marketing approach?** Find out how you can fine-tune your product/service according to the targeted customer needs and then decide about your branding, Promotional and advertising strategies.

Remember:

Keep lines of communication between yourself and the customers open and request for feedback whenever possible. All customer feedback should be valued. Successful businesses learn to get cues about market trends as well as their own failings from customer feedback

8.2. Unsuitable Business Location

The location of your business / production facility is a key determinant of efficient and successful business dynamics. If your business or production facility is located in a relevant business cluster, hub or industrial zone, it offers many advantages such as; ease of finding suitable experts and workforce, raw material, synergies with supporting industries, networking and linkages with similar businesses and customers, etc. Such advantages are the reason we find certain business clusters performing successfully while standalone firms of the same industry struggling or even failing.

9. Business Financing

9.1. Lack of Capital

Lack of capital is one of the most important determinants of business failure⁴. Even if you manage to obtain sufficient funds at start-up, you will still need to carefully manage your cash flow of capital to continue operations and grow your business. Since access to formal financing may be restricted if you do not have collateral, you need to be extra careful about how you raise and utilize capital.

Estimating financial requirements and forecasts of the business is a crucial step when designing your business plan. For more information and insight on the subject, please refer to the OTC "Assessing Your Financial Requirements". available at SMEDA website (www.smeda.org.pk).

9.2. Raising Too Much or Too Little Money

Raising finances is often one of the most challenging aspects of establishing a start-up. Regardless of how you obtain your finances, it is very important to know how much money you actually need for a given period of time and exactly how you intend to utilize it.

⁴Shabir Hyder, Robert N. Lussier, (2016) "Why businesses succeed or fail: a study on small businesses in Pakistan", Journal of Entrepreneurship in Emerging Economies, Vol. 8 Issue: 1, pp.82-100, <https://doi.org/10.1108/JEEE-03-2015-0020>

Following are some important considerations regarding money that start-ups should be mindful of:

- i. When looking for investment from external source(s), seek only the minimum investment necessary.
- ii. Try to generate cash flows through your business operations as soon as possible even if you need to start from a very small scale initially.
- iii. Avoid obtaining surplus cash, as you may be tempted to make non-productive purchases / expenses.
- iv. If you fail to generate the minimum necessary capital do not commence your business operations until you do.

It is very common for start-ups to underestimate the amount of money and time it takes to start a business. Until you actually start operations of your business, you cannot exactly know the amount of time and resources your business start-up will require. Even the most carefully laid out plan and estimates are going to need changing when they are practically implemented.

A safe approach is to commit more than necessary resources to each major activity in your plans, as a result your business plan should be continuously updated to incorporate changes and reflect all that you learn.

10. Advice, Suggestions and Feedback

10.1. Handling Advice

The advice that people give you can be very valuable and should always be taken into consideration, but keep in mind that all advice is not always reliable. Every person has different expertise, experience, objectives as well as understanding of your work. The advice they give you will often be in accordance with those influences and may not fully apply to your situation. The trick is to know what type of advice is more useful and relevant.

A common example is advice from investors, even though investors have a stake in your business and benefit from your success; their approach towards profitability may not be in line with your business idea or vision.

Remember:

In order to have a reliable source of advice, try to identify a mentor for yourself and regularly seek their opinion/guidance. A mentor can be any person you look up to and are inspired by, especially in relation to your type of business.

It is also considered useful to seek suggestions and feedback from employees and customers of the business. Most commonly a suggestions / feedback box is placed for anonymously

written suggestions which are periodically reviewed by the relevant department's management for further processing.

10.2. Legal Advice

Legal advice is typically the most sought after advice for a small and medium enterprise. Please visit SMEDA official website for templates of Commercial Contracts that will help you to design your contracts and develop a better understanding of the terms and conditions you need to apply in your business transactions. Choose your lawyer after careful deliberations and research.