17 Mistakes Start-Ups Make

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Mistake 1: Failing to spend enough time researching the business idea to see if it's viable. "This is really the most important mistake of all. They say 9 [out] of 10 entrepreneurs fail because they're undercapitalized or have the wrong people. I say 9 [out] of 10 people fail because their original concept is not viable. They want to be in business so much that they often don't do the work they need to do ahead of time, so everything they do is doomed. They can be very talented, do everything else right, and fail because they have ideas that are flawed."

Mistake 2: Miscalculating market size, timing, ease of entry and potential market share. "Most new entrepreneurs get very excited over an idea and don't look for the truth about how many people will want to buy it. They put together financial projections as part of a presentation to pump up their investors. They say, 'The market size is 50 million people that could use this product, and if I could only sell to 2 percent of them, I'd be selling a million pieces.' But 2 percent of a market is a lot. Most products sell way less than 1 percent."

Mistake 3: Underestimating financial requirements and timing. "They set their financial requirements based on Mistake 1, and they go ahead and make a commitment to this much office space and this many computers, and hire a vice president of sales, and so on. Before they know it, based on sales projections that were wrong to start with, they have created costs that require those projections to be met. So they run out of money."

Mistake 4: Overprojecting sales volume and timing. "They have already miscalculated the size of the market. Now they overproject their portion of it. They often say 'There are 200 million homes, and I need to sell [to] x number of them.' When you break it down, though, a much smaller number of those are really sales prospects. That makes it impossible to make their sales projections."

Mistake 5: Making cost projections that are too low. "Their cost projections are always too low. Part of the reason is that they project much higher sales. There are also unknown reasons that always come out that usually make costs higher than planned. So on top of everything, their margins are now lower."

Mistake 6: Hiring too many people and spending too much on offices and facilities. "Now you have lower sales, higher costs and too much overhead. These are the things that you see every day in companies that fail. And they all grow out of that first mistake: failing to research the size and viability of the opportunity."

Mistake 7: Lacking a contingency plan for a shortfall in expectations. "Even if you're realistic in your estimates to start, there are things that happen when you start a new business. Your sales ideas may be no good; bank rates may go up; there may be a shipping strike. These aren't the result of poor planning, but they happen. More often than not, entrepreneurs just feel that something will come along when they need it. They don't have contingency plans for it not working out at the size and time they want."

Mistake 8: Bringing in unnecessary partners. "There are certain partners you need. For instance, you often need money, so you're going to need money partners. But too many times, the guy with the idea takes on all his friends as partners. Many people don't provide strategic advantages and don't warrant ownership. But they're all going to get 25 percent of the company. It's totally unnecessary, and it's a mistake. Before people are made partners, they have to earn it."

Mistake 9: Hiring for convenience rather than skill requirements. "In my first business or two, I hired relatives. It was easy to do, but in many cases, they were the wrong people [for the job]. And it's hard to fire people, especially if they're relatives or friends. More time needs to be spent handpicking people based on skill requirements. You really need super-skilled people who can wear more than one hat. It just bogs you down when you hire people who can't do the job."

Mistake 10: Neglecting to manage the entire company as a whole. "You see this happen all the time. They'll spend half their time doing something that represents 5 percent of their business. You have to have a view of your whole company. But too often, the person running it loses that view. They get involved in a part, and they don't manage the whole. Whether I do this product or that product, whether I hire somebody, [I consider] how they [will] fit long term and short term in the big picture. Constantly try to see your big picture."

Mistake 11: Accepting that it's "not possible" too easily rather than finding a way. "I had an engineer who was a very good engineer, but with every toy we developed, he would say, 'You can't do it that way.' I had to be careful not to accept this too easily. I had to look further. If you're an entrepreneur, you're going to break new ground. A lot of people are going to say it's not possible. You can't accept that too easily. A good entrepreneur is going to find a way."

Mistake 12: Focusing too much on sales volume and company size rather than profit. "Too much of your management is often based on volume and size. So many entrepreneurs want to say 'I have a company that's this big, with this many people, this many square feet of space, and this much sales.' It's too much [emphasis] on how fast and big you can build a business rather than how much profit it can make. Bankers and investors don't like this. Entrepreneurs are so into creating and building, but they also have to learn to become good [businesspeople]."

Mistake 13: Seeking confirmation of your actions rather than seeking the truth. "This often happens: You want to do something, so you talk about it with people who work for you. You talk to [your] family and friends. But you're only looking for confirmation; you're not looking for the truth. You're looking for somebody to tell you you're right. But the truth always comes out. So we [test] our products, and we listen to what [the testers] say. We give much more value to the truth than to people saying what we're doing is great."

Mistake 14: Lacking simplicity in your vision. "Many entrepreneurs go in too many directions at once and do not execute anything well. Rather than focusing on doing everything right to sell to their biggest markets, they divide the attention of their people and their time, trying to do too many things at [one time]. Then their main product isn't done properly because they're doing so many different things. They have an idea and say they're going to sell it to Wal-Mart. Then they say they're going to sell to [the] Home Shopping Network. And then the gift market looks good. And so on."

Mistake 15: Lacking clarity of your long-term aim and business purpose. "You should have an idea of what your long-term aim is. It doesn't mean that won't change, but when you aim an arrow, you have to be aiming at a target. This [concept will] often come up when people ask 'How do I pick a product?' The answer depends on what you're trying to do. If you're trying to [create] a billion-dollar company with this product, it may not have a chance. But if you're trying to make a $5 million company, it can work. Or if you're trying to create a company [in which] family members can be employed, it can work. Clarity of your business purpose is very important [but] is often not really part of the thought process."

Mistake 16: Lacking focus and identity. "This was written from the viewpoint of building the company as a valuable entity. The company itself is also a product. Too many companies try to go after too many targets at once and end up with a potpourri rather than a focused business entity with an identity. When you try to make a business, it's very important to maintain a focus and an identity. Don't let it become a potpourri, or it loses its power. For instance, you say, 'We're already selling to Kmart, so we might as well make a toy because Kmart buys toys.' If you do that, the company becomes weaker. A company needs to be focused on what it is. Then its power builds from that."

Mistake 17: Lacking an exit strategy. "Have an exit plan, and create your business to satisfy that plan. For instance, I am thinking I might run my new business for two years and then get out of it. I think it's an opportunity to make a tremendous amount of money for two years, but I'm not sure [whether] it's proprietary enough to stop the competition from getting in. So I'm in with an exit strategy of doing it for two years and then winding down. I won't commit to long-term leases, and after the first year, we'll start watching the marketplace very closely and start watching inventories.

The Minnesota Inventors Congress would like to thank John Osher for granting us permission to distribute this document to our clients. February 2008.