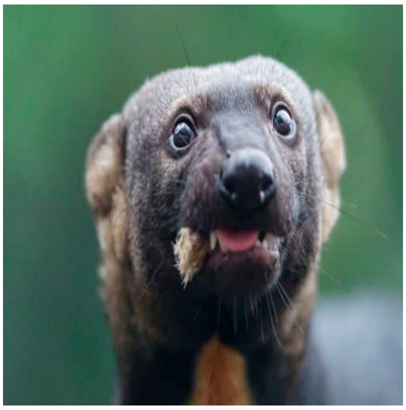

11 Dumb Financial Mistakes of Business Owners

Description

Assumptions, Lack of Knowledge and Hubris – Don’t you get caught!

There are thousands of posts about clever successful business owners, but becoming successful takes practice, and often leads to blunders along the way. These are some very common Dumb Financial Mistakes, in random order, for you to consider, laugh at, or commiserate with.

11 Dumb Financial Mistakes of Business Owners

1. Self Deception

Money is money, no-matter the form. That is the point about money; $1 in your wallet has the same value as $1 at the bank, as $1 on your credit card. However it seems new business owners especially, tend to believe some money is worth less than other money and value money differently depending on where it comes from. Investor money, Tax Refunds or Grant are often quickly spent as it is considered â??foundâ?• money and therefore spent more recklessly than the $5,000 you worked hard to earn on the job.
e.g. Spending an extra $3,000 on a $200,000 piece of machinery isnâ??t spending any less money than an extra $3,000 on a $2,000 Laptop – money is money.

2. Amnesia

Every dollar invested in the business is a dollar that eventually had to be repaid. There is no such thing as a free lunch!
From an accounting perspective, repayments are only ever made from profits, and profits comes from sales less expenses; therefore sales need to be sufficient to cover all your everyday business costs AND make your repayments. So remain mindful when agreeing to borrowing or investment terms that don’t match your projected profit flow. Remember repayments are only possible if your business is running well, so finding the healthy balance between set-up spending, reinvesting and expansion spending PLUS leaving enough for repayments is critical to long term survival.
e.g. If it looks like it will take two years to turn a profit from the first day, then make sure your repayment terms are deferred for at least two years as well.

3. Unfamiliarity

a) Compound Interest is adding to the overall amount of money you borrow. If you have borrowed $10,000 it is also attracting interest, at say 10%p.a. annually you will need to repay $12,000 in two years, an extra $2k you need to

include as part of your repayment plan. Importantly, if the interest is compounding monthly you will need to repay $12,203.91, which is another $203.91 more than if the interest is at a flat rate. So get very clear up front how your interest will work so you can repay it all.
b) Inflation is eating away at the overall buying power of each dollar. As inflation kicks along it creeps up the prices of all your expenses each year therefore year on year you will need to also increase your prices, just to stay in the same place. If you are worried about changing your prices check out Price Hikes are Vital.

4. Mis-comprehension

Know which way your Reports are rounded. Nice even numbers might be prettier to read, but be sure you know what is what is it up is it down, was your annual $19,999 electricity rounded DOWN by $9,999 to become $10,000 on your year end report because the rule is “round DOWN to the nearest ten thousand” instead of the number being rounded up by $1 to $20,000 (while this may seem dumb, trust me I have seen it happen). What different decisions would you make if you understood it was almost double what you were being told?

5. Inexperience

There are many costs that get hidden or overlooked, here are two varieties:
a) Costs that are overlooked. “The new staff member will cost $100,000 because that is the salary we are offering”…. WRONG!
The same new staff member will also need to have Superannuation (a 401K) and insurances, taxes such as payroll tax, administration of their payroll, a desk and seat and telephone etc etc etc….Get advice on ALL of the related, and flow-on costs when making a change to your business.
b) Costs that are incremental. There is a point up to which you can push the limits then things break…. knowing that point is critical. What is the total capacity you can extract from your staff, production machine, page size before you need to upscale? You need to know when you can’t deliver the next 1% increase in production because it also requires a new machine (and two new staff to operate it which will also require a move to new premises) then perhaps you are best forging this extra order until you are able to accommodate it more easily.

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6. Forgetfulness

a) You know the months are not all the same length. So if you pay rent weekly the total monthly rent will vary between 4 and 5 week months; don’t get a shock! If you have weekly sales targets for the month then these can also be up in a corresponding proportion, – when working with annual totals it is best to divide by 52 then multiply by then number of weeks in the month, rather than simply making every month 1/12. Implementing a column for “Percentage of Sales” will

enable a percentages re a good way to even this out.
b) You know seasonal changes impact may products and services. Seasonality affects both sales and the types of expenses needed (heating in winter and air-con in summer). Seasonality isn't just about changes in temperature, also remember to think about the impact of holiday shutdowns, or extra holiday demands depending on your type of business – people tend to pay more slowly, and need more credit just after their summer holidays.

7. Dependence

Don't assume anyone will take care of your business above theirs'. Having the same supplier for years, may make you feel stable, and perhaps requires less "work" but in the meantime that supplier has upped their prices by 10%, year on year, without every saying anything…. Relying on them to take care of your business ahead of their own is unrealistic, so keep everyone honest and regularly do price comparisons, and where possible have a cordial relationship with alternative suppliers to avoid being "held to ransom".

8. Ignoring Intuitions

Intuition is just as important in business as it is in other settings. It is amazing how many huge corporate deals are green-lighted or red-lighted because of some CEOâ??s gut feeling. Itâ??s hard to say no to a deal that seems juicy by the numbers if your gut is saying, â??Youâ??ll regret it,â?• you will more often than not! Double check the numbers, ask some more questions and most likely later you will see evidence of why your alarm bells were ringing like mad.

9. Confidence

Having confidence that your staff will "do the right thing" isn't enough. Policies, even for a two-man-band are important for consistency – you need to have confidence that your understanding of "what the right thing is" matches. Conviction that your staff are all signing from the same song-sheet, without providing the music will probably lead to disaster (even when there is only your spouse to consider).
No policy & No Review = No Confidence.
e.g. travel expenses are an area where many mistakes are made:

1. Are taxi's OK or is it the tram?
2. are first class flights good for executives but not OK for managers?
3. What level of Accommodation is appropriate (and does the budget need to vary from city to city and country to country)?
4. How much is OK to spend on a meal, on a client's meal?

Don't forget there is no point in having a policy that no-one knows about, or is never enforced.

10. Trust

Cash may well be King but Profit is Queen and both are required by any great business. It is very easy to be cash rich and still making losses – simply put all your bills into your bottom draw and pretend they don't exist, that way you should end up with both lots of cash in the bank, and a bunch of unhappy suppliers. Trusting when your cash-flow is fine then everything else is good is a very flawed mistake – because it doesn't allow you to effectively monitor where your money is going and why, therefore it also doesn't afford you any transparency about how the costs can be controlled, or how much you need to put aside for upcoming expenses.

11. Assumption

Activity is not Profitability. You can be offering an incredibly great deal and running around ragged selling increasing your sales figures enormously. But if you build a business that spends more than it makes, if you make your prices lower than your costs, your customers will love you for being cheaper than your competitors but your suppliers will hate your for not being able to pay your bills.
As a business owner, you need to find a way to deliver your value in a cost effective manner – working smarter not more.

Being as efficient and effective as possible ensures you remain competitive so re-optimize everything from time to time. How can you get it done in less time, be less busy? How can you get this done at a lower cost, less wastage and rework? Itâ??s often much easier to save time and money than it is to create whilst ensuring great quality. For more on assessing and maintaining quality see [Quality checklist for products and services]

Share your "friends" dumb mistakes in comments below (we all have seen some pretty dumb mistakes) and help everyone learn…

Now that you have a taste of what we can do… here are some more options to improve your business profits:

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