Nine Entrepreneurial Mistakes that Can Kill Your Organization

Are you making these killer mistakes? Check yourself with this quiz.

BY PAUL LEMBERG

It's hard to avoid certain mistakes, especially when you face a situation for the first time. Many of the following mistakes are hard to avoid even if you're an old hand at entrepreneurial activities. If you're just starting to get involved with enterprise projects, be sure to peruse this list first. If you're involved in enterprise already, take the following self assessment to see how well you're doing.

Give yourself 10 points for each of these entrepreneurial blunders you're in the process of making. Deduct 5 points for those you have narrowly avoided. Your score, of course, will be kept confidential, but do seek help. Fast!

Low margins = no profits = no future.
So the grosser the better.

1
Are you a victim of big-customer syndrome?

If more than 50 percent of your revenues come from one source, you may be headed for a meltdown. While it's easier to deal with a small number of sources, you're vulnerable if one or two sources contribute the lion's share of your cash flow. You tend to make silly concessions to keep their business. You make special arrangements to meet their requirements. And you're so busy servicing them that you fail to develop additional customers and revenue streams.

Don't fall into this trap. Always look for new customers. And always seek to diversify your revenue sources.

2
Are you creating in a vacuum?

You and your team have a great idea. You spend months, even years, implementing that idea. When you finally bring it to market, no one is interested. Unfortunately you were so in love with your idea you never took time to find out if anyone cared enough to pay money for it. You have built the classic better mousetrap.

Don't be a product searching for a market. Do the market research up front. Test the idea. Talk to potential customers, at least a dozen of them. Find out if anyone wants to buy it. Do this before anything else. If enough people say "yes" go ahead and build it.

Better yet, sell the product or service at pre-release prices. Fund it in advance. If you don't get a good response, go on to the next idea.

3
Do you want to be the low-price leader?

Some nonprofit entrepreneurs think they can be the low-price player in their market and make profits on the volume. But remember, gross margins pay for things like marketing and product development. Low margins = no profits = no future. So the grosser the better.

Set your prices as high as your market will bear. Even if you can sell more units and generate greater dollar volume at the lower price (which

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isn't always the case) you may not be better off. Make sure you do all the math before you decide on a low-price strategy. Figure all your incremental costs. Figure in the extra stress as well.

For service organizations, low price is almost never a good idea. How do you decide how high? Raise prices. Then raise them again. When people stop buying, you've gone too far.

4
Are you short on capital?

Check your business assumptions. The norm is too-optimistic sales projections, too-short product development timeframes, and too-low expense forecasts. Regardless of the cause, many startups are simply undercapitalized. Even mature enterprises often don't have the cash reserves to weather a downturn.

Be conservative in all your projections. Make sure you have at least as much capital as you need to make it to the next planned round of funding.

5
Are your ideas out of focus?

Many nonprofit entrepreneurs—hungry for cash and thinking more is always better—seize every opportunity dangled in front of them, instead of focusing on their core product, service, market, distribution channel. Spreading yourself too thin results in sub-par performance. Instead, focus on a limited area.

There are so many good ideas in the world, your job is to pick only the ones which provide superior returns in your focus area. Get known in your niche for the thing you do best, and do that exceedingly well.

6
Are you first-class and infrastructure crazy?

Many a startup dies an untimely death from excessive overhead. Keep your digs humble and your furniture cheap. The best entrepreneurs know how to stretch their cash and use it for key processes like product development, sales, and marketing.

Skip that fancy phone system unless it really saves time and helps make money. Ask: Will there be sufficient return on this expenditure? Everything else is overhead.

7
Do you have perfectionitis?

The disease of perfectionitis is often found in engineers who won't release products until they are absolutely perfect. Remember the 80/20 rule? Following this rule to its logical conclusion, finishing the last 20% of the last 20% could cost you more than you spent on the rest of the project.

Yes, admitting mistakes is hard, but bankruptcy is harder.

When it comes to product development, Zeno's paradox rules. Perfection is unattainable and very costly at that. Plus, while you're getting it right, the market is changing right out from under you. On top of that, your customers put off purchasing your existing products while waiting for the next new thing to roll out your doors.

The antidote? Focus on creating a market-beating product within the allotted time. Set a deadline and build a product development plan to match. Know when you have to stop development to make a delivery date.

When your time's up, it's up. Release your product.

8

Are you unclear about your product's return on investment?

Can you articulate the return people get from purchasing your product or service? What? You say it's too hard to quantify? There are too many intangibles? If it's too difficult for you to figure, what do you expect your prospect to do?

Do the analysis. Talk to your customers; create case studies. Come up with ways to quantify the benefits. If you can't justify the purchase, don't expect your customer will. If you can demonstrate the great return on investment your product provides, sales are a slam dunk.

9

Are you slow to admit mistakes?

Of all the errors made by nonprofit entrepreneurs, this might be the biggest. At some point you realize the awful truth: You've made a mistake. Admit it quick. Redress the situation. If not, that mistake will get bigger, and bigger, and...Yes, admitting mistakes is hard, but bankruptcy is harder.

Assume your costs are sunk. Your money is lost. There is good news: Your basis is zero. From this perspective, would you invest fresh money in this idea? If the answer is no, walk away. Change course. Whatever. But don't throw any more good money after bad.

OK, everybody makes mistakes. Just try to catch them quickly, before they kill your organization. ■

Enterprise Resources for Nonprofits

Center for Social Entrepreneurship Services
(www.ashoka.org)

Emergent Enterprises
(www.emergententerprises.net)

Enterprise Endeavors, Leadership Series
(Society for Nonprofit Organizations, www.snpo.org)

The Institute for Social Entrepreneurs
(www.socialent.org)

Mission-Based Management Online Newsletter
(www.missionbased.com)

Mission-Based Management Videotape
(Learning Institute for Nonprofit Organizations, www.snpo.org)

National Center for Social Entrepreneurs
(www.socialentrepreneurs.org)

National Gathering for Social Entrepreneurs
(www.ngse.org)

Nonprofit Piggy Goes to Market
(Society for Nonprofit Organizations (www.snpo.org)

The Northland Institute
(www.northlandinst.org)

Social Entrepreneurship Videotape
(Learning Institute for Nonprofit Organizations, www.snpo.org)

Resources

Brinckerhoff, Peter, "Return on Investment: How Much Do Nonprofits Need?", *Nonprofit World*, Vol. 7, No. 5.

Dickson, John P. & Sarah S. Dickson, "How to Conduct a Marketing Research Project," *Nonprofit World*, four-part series, Vol. 12, No. 6 through Vol. 13, No. 3.

Lemberg, Paul, "What Not to Do, and How Not to Do It," *Nonprofit World*, Vol. 19, No. 6.

Lemberg, Paul, "Why Predict the Future?", *Nonprofit World*, Vol. 19, No. 3.

Muehrcke, Jill, ed., *Enterprise, Leadership Series.*

These resources are available from the Society's Resource Center, www.snpo.org.

Paul Lemberg is the author of Faster than the Speed of Change. *To download excerpts from the book, send an e-mail to bookexrp@lemberg.com. To buy a copy, go to www.fasterthanthespeedofchange.com. To find out more about Lemberg's Growth Strategy and Executive Coaching Programs, call 760-741-1747, e-mail paul@lemberg.com, or visit www.lemberg.com.*