

# The 3 most common mistakes SME owners can make and how to avoid them

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While the entrepreneurial journey can be riveting and full of promise, entrepreneurs in any sector will inevitably encounter some challenges as they progress towards achieving their goals.

Three of the most common mistakes that small and medium enterprise (SME) owners make, particularly in the first few years of getting their businesses off the ground, involve two of the most important business pillars – people and profit. If you want to know how to get started as an entrepreneur, it is important that you look out for these frequent pitfalls and understand how to mitigate them.

## **Not managing cash flow efficiently**

Poor financial management can have huge ramifications on the sustainability of your business because of the central role that it plays in the long-term success and profitability of any SME.

A survey of 400 local entrepreneurs conducted by Xero found that 'being irresponsible with cashflow' was the most expensive mistake businesses made in the past 12 months. The study also concluded that mistakes caused due to a lack of financial knowledge cost South African SMEs an average of R90,000 per year.



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One of the most common snares involving cashflow include underestimating operational costs. Proper forecasting therefore needs to take the hidden fees of doing business into account, as well as the smaller, miscellaneous costs which add up in the long run. Some of these include the cost of licenses and permits, office utilities, equipment and machinery maintenance, asset depreciation and interest on business cash loans.

Cashflow management involves striking a delicate balance between incoming revenue and outgoing expenses. The efficiency of a cashflow cycle can be interrupted by factors such as payment delays, invoicing errors and inventory miscalculations, thus emphasising the need for developing financial basics like budgeting, forecasting and reporting.

## **Acting without sense-checking a decision**

Entrepreneurs are problem solvers and creative thinkers. As such, it can be argued that the majority of entrepreneurs are optimists – they tend to see challenges as opportunities and find ways to innovate new solutions and approach seemingly complex problems with a different mindset. While for many, this is the single most important trait to nurture on the road to success, it can also become a roadblock.

When making big decisions as an SME owner, sometimes the most useful approach is to have someone who can bring in an element of pragmatism and provide you with an unbiased, outside opinion to sense-check your proposed way forward. Whether that person is a friend, a mentor or a business associate, they could become an invaluable part of ensuring you don't miss vital threats and risks that fall outside of your line of sight.

## **Neglecting to use contracts**

Many SME owners make the mistake of sealing a deal with a handshake, relying on nothing more than good faith to make things happen. In the highly-competitive world of business, however, this could cost you more than you can afford to lose. The reality is that not everyone you work or partner with will practice with integrity at the core of their business operations.

This is where having a legal agreement and written contract in place, which stipulates all the finer details, could bring you much needed peace of mind and clarity. Contracts are also a crucial part of how to write a business strategy that includes risk management to prevent costly legal disputes, business disruptions and reputational damage.

A misconception that many first-time entrepreneurs have is that insisting on written contracts at the beginning of any business-related relationship is a sign of mistrust and a possible cause of offence. There is a more constructive way to think about it – contracts are simply legally-binding commitments, which are the cornerstones of any successful business relationship. Having a contract in place is therefore in the interests of both parties and should be viewed as mutually beneficial.

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