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Six mistakes of small business

Know how to avoid common pitfalls

In your early years of business, no matter how careful or knowledgeable you are, mistakes happen. Still, if you heed voices of experience, you can dodge many common missteps. Here are six mistakes that new business owners make frequently – and some advice about how to avoid these problems.

Mistake #1: Passion without a plan



We always hear that entrepreneurs need passion to succeed. Well, enthusiasm can be overrated. To grow your business and success in the long run, you need more than energy and a fire in your gut. You need a plan.

Take the time to thoroughly investigate your market and target customers, the competition, and other basics. Focus on answering simple questions: How will I make money? How will I grow the business?

Mistake #2: Selling too cheaply



New business owners often emphasize quantity over quality and figure rock

bottom prices will fuel sales. More often than not, it doesn't work that way. Even if sales boom, the business doesn't make enough profit to make ends meet or grow.

Before pricing products, calculate fixed and variable costs. Research markets and competitive price points. Develop your unique selling proposition: the qualities that differentiate you

or your products from competitors. Determine the margin you need in order to walk away with dollars in your pocket.

Mistake #3: Generic Marketing and Advertising



You must develop effective strategies to market your business. But is your

marketing plan working, or is it just a waste of resources?

Many business owners, in an attempt to manage costs, develop their own marketing campaigns only to fail to boost

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How to put a “price tag” on employees

Putting a price tag on a job can be a lot harder than pricing your company’s products and services. After all, pay packages have few rules.

They go up and down depending on geography, industry conventions, seniority, and the job market, as well as a candidate’s background. The salary you set must be high enough to attract and retain top applicants but not so high that it eats into your profits. How do you decide how much a job is worth? Follow this five-step guide.

1. Review your pay practices. Often, business owners react to what a prospective employee wants before they know what they should be paying. Don’t wait until you find a candidate to come up with an offer. Do some homework and review your past practices and precedents. The decision comes down to how you value the job and what your company can afford. You also need to keep the salaries of new hires in line with what you pay current employees.

Go through a budget process and check how much you spent on payroll for the past year or two. Decide how the position you’re filling fits into that overall percentage.

2. Define the job clearly and completely. You can’t research a job’s going rate unless you compare apples to apples. You need a clear-cut job description, not just a job title. Match the job to others in the marketplace by comparing the core functions, responsibility level, and required experience.

3. Track the competition. Uncovering the competitive rate for a job takes detective work. To find what other companies pay, research these sources:

- *Search classified ads in newspapers, trade magazines, or online job boards.*
- *Quiz your professional contacts. Talking to officials at your local chamber of commerce or expert panelists at a conference or to other business owners will yield current salary data. Join a professional organization in your field. Many associations mount annual salary surveys. The data, funded by member fees, is collected just so companies have access to current pay rates. Also call staffing agencies, recruiters, and/or some of your vendors to learn more.*

- *Search government and media sources. Your first stop should be the U.S. Bureau of Labor Statistics (www.bls.gov). On the home page, click “Wages by Area and Occupation” to find salary histories. This information, while deep and extensive, may be a few years old. For more current information, check business and trade magazine Web sites. Many journals run annual salary surveys, both in print and online.*
- *Pay for a customized survey. Many compensation consultants and market researchers sell salary surveys for specific fields or certain-sized companies.*

4. Set the salary range. Once you have an idea of the competitive rate, experts suggest you set parameters for the job – both a floor and a ceiling.

5. Bundle pay and perks. Health care and retirement benefits and “quality of life” perks go a long way toward attracting talent. Don’t overlook flextime, job sharing, and similar options. Employees with two-career families, young children, and long commutes often choose more time over more money. Consider adding these perks to the compensation package:

- *Work-at-home privileges*
- *Discretionary hours (earlier mornings or later nights)*
- *Paying for all or part of club memberships, association dues, and training courses*
- *Bonuses, such as time off or other prizes, that are pegged to performance goals*
- *Paying for all or part of home technology equipment and/or telecommuting expenses*
- *Picking up all or part of employee-assistance services, such as tax or retirement planning, daycare, family counseling, and so on.*

Plan for the future. However you structure the salary, don’t forget to plan for the future. Leave room for raises and think six to 12 months to two years ahead. When you’re ready, put the offer in writing in an offer letter. Describe all the details and terms, including start date, pay package, benefits, vacations, and special perks such as telecommuting and flextime. Putting everything in writing avoids confusion or disagreements later on.



Small budgets, big results. Creative ways to stretch your marketing dollars

Marketing and advertising activities are expensive, yet vitally necessary, to your business. Too often, small business owners fear that they cannot afford to promote their businesses without busting their budgets and fail to do anything at all. Yet, with a little creativity, you can get the word out without spending a bundle.

Support local sports. Sponsor a local children's team for free advertising. In exchange for a sponsorship fee, the players will wear uniforms with your company's name or post advertising around the field or in program books.


Sponsor a blood drive. You provide the space and the local Red Cross organization does the rest. In many cases, you'll get free radio and newspaper ads.

Publicize your staff. Most small newspapers also have community bulletin-board columns in their business sections. Notify the business editor every time an employee gets a promotion or completes professional course work.

Magnetize your brand. Are your employees making deliveries in unmarked cars? For a modest fee, you can have removable magnetic signs made. By placing the signs on the vehicles, they can become rolling billboards during the day and convert back to private cars at night.

Send a card. Send birthday cards, Thanksgiving cards, congratulations cards – they're great, personal ways to let customers know you care.

Customize cash register receipts. If you generate receipts for your customers, they should include more than just a transaction record. Use register receipts to tell customers about upcoming specials and, events.



Basic security precautions discourage computer hackers

Spyware, adware, and computer viruses have wreaked havoc with many businesses.



The bad news is that there's no truly hackproof system. The good news is that hacking is typically a crime of opportunity. If your system is safeguarded with a minimum amount of protection – including a firewall and an antivirus program – hackers will likely move on and look for easier prey.

Install a Firewall

The firewall is probably the most important part of any security scheme. The firewall prevents unwanted access to your networked computers. Once installed, you can “teach” the application what programs are allowed access to the Internet and what outside sites are allowed to communicate with your computer. A good firewall will protect you against hacker attacks but not against viruses.

Install and Update Antivirus Software

Keeping your antivirus program up to date is almost as important as installing it. Updating virus definitions will ensure that you have protection against the very latest virus variants. Symantec and McAfee are the leaders in antivirus applications. Also keep current with operating system updates. They are released frequently to plug security holes discovered by hackers.

Consider Adware and Spyware Detection

Adware and spyware aren't necessarily catastrophic to your business, but they can be annoying and will decrease productivity. Installing an application like Lavasoft's Ad-Aware product will keep your computers free of spyware and adware.

You should install your security measures as soon as you bring your new system online. It can take as little as 30 minutes for a new, unsecured computer to be hijacked by hackers and turned into a “zombie computer” that will do the hacker's bidding: sending out spam e-mail or even looking for other computers to take over.

sales. Their campaigns become ineffective and commonly suffer from an irrelevant message or improper niche marketing. To achieve your marketing and advertising goals, you must have an effective message, market position, and adequate funding. An advertising message that is believable and relevant is vital to success.

Mistake #4: **Blowing through** **your capital**



New business owners grossly underestimate their financial needs.

Typically, inexperienced owners overspend at the outset, buying more furniture, technology, and supplies than they really need.

New owners also don't realize that few customers pay promptly. After developing personal and business budgets that can sustain the company for the time it will take to break even, add at least 50% to manage your risk. To speed collections and boost cash flow, consider offering a discount for prompt payment.

Next, review how you performed against your business plan. Did you spend beyond your budget? Your problem may lie in misguided or unrealistic expectations of revenues.

Try to explore other financing options, even open yourself to accept equity financing. Your choices may be to build the

business yourself and push it to success, then later sell your interests for a fair profit or be repeatedly frustrated in attempts at financing a business that cannot achieve its potential because of insufficient capital.

Mistake #5: **Poor management**



Poor management ranks high among the reasons many small businesses fail.

It may cover anything from the inability to manage people, security, financial aspects, marketing or customer relation aspects of a business.

One of the most neglected and poorly managed aspects of small business operation is security and loss prevention, particularly for businesses with employees. According to U.S. Department of Commerce statistics, employee dishonesty alone causes 30 percent of all business failures. Consider implementing measures to protect your business assets, such as inventory, equipment, supplies, cash, and yes, your people. Physical protection of employees and customers is crucial, but often overlooked.

Poor credit management is another common source of the downfall of many businesses. The failure to handle credit well is often the precursor of many cash flow problems. You can review your customer invoicing policies, possibly shifting to a strategy where each invoice car-

ries a "pay by" date as well as the pre-determined payment terms instead of invoicing in a set pattern.

Mistake #6: **Lack of know-how**



Many small businesses perish because the entrepreneur simply lacks the

know-how in a particular aspect of business. This is particularly true for sole proprietors who wear many hats. You may be good at marketing, for example, but you may need help in setting up your accounting system or distributing products. Or you may have an idea where to find additional financing, but lack the skills to network and find sources of capital.

You can complement your skills with the expertise of a board of advisors, a mentor, or a business advisor. You may not need a formal board of directors, but your business will benefit from the advice of even two or three experienced people who can give an honest assessment of your work or where the business is heading.

Worry about being better; bigger will take care of itself. Think one customer at a time and take care of each one the best way you can. - Gary Comer
