

## The 8 Biggest Mistakes I've Made

By Brian Hamilton, CEO of Sageworks, Inc.

Running a business should earn you an honorary graduate or even doctoral degree given all you will learn. For those just starting out, here are the CliffNotes, the mistakes you should hear now and avoid.

1. Hiring in advance of revenue. There is a common expression: “Don’t count your money until it is in the bank.” There is great wisdom in this. Many times in business, we receive contracts or the promise of revenue. However, there is a major difference between having revenue and almost having it. Until revenue actually hits the bank account, you don’t have it, and you must overcome the tendency to be optimistic and hire too many people before the revenue is real. This one principle or mistake could be its own manifesto.
2. Borrowing money when I did not really need it but when the bank was willing to lend it. Just because a bank is willing to lend you money does not mean you should accept it. The bank is in business to collect interest and not to optimize your financial performance. Sometimes these two goals meet somewhere near the middle, but it is not as often as you might think. It’s not that bankers seek to take advantage of businesspeople; it’s only that their objectives and yours are very different. In general, borrow as much as you need to grow your business. The problem with credit is not that there is too little available; it is that people get too much of it. Borrowing money adds a huge burden to your business, a stress that can often cascade into your personal life.
3. Not paying payroll taxes on time. I have known few businesspeople who have completely avoided this mistake, but it always creates unnecessary anxiety. When you pay employees, you collect a portion of their money on behalf of the government. Essentially, you are a collection agent. This is a tremendous liability and responsibility for employers that did not exist years ago when employees had to deduct their own taxes and pay them to the government. Alas, these days are over. When you hire an employee, you are also agreeing to help them pay their personal taxes, a major responsibility. Here is how this problem crops up. The employer cuts payroll checks but does not immediately set-aside the payroll liability in an operating account that is separate from the account they use to pay other operating expenses. The funds are mingled, and the person running the business has an inflated view of his or her cash balance. It is not that the employer is being dishonest or intentionally withholding the tax revenue; they lose track of the liability. Later, employers try to play catch-up, but because there is almost never as much cash available as you would like in a privately-held company, the taxes accrue and problems start severe penalties and interest. One solution is to keep two, separate accounts: one for regular operating expenses and the other for payroll taxes. Another solution is to simply use a payroll service that will give the liability its due attention.
4. Pricing too low. Unless you are Walmart or are trying to be (and have a real hope of achieving this), it is almost *always* better to sell fewer units at higher prices than to sell more units at lower prices. High prices protect your margins and also enhance your brand. Even 5-10 percent price increases can make a significant difference to the bottom line. I believe that, at any given time, 20-30 percent of businesses in a given market cannot possibly make a profit at their current prices—they are simply too low. In a way,

these businesses have set themselves up unknowingly as nonprofit organizations. Conduct deep industry research on pricing, and then price at or near the market average—maybe even a little above it. When people start a business, they tend to price low to differentiate their offer. Instead, spend time and develop a real *product or service* differentiator so you can command higher prices. If you price low at the start and then later have to charge more as your operating costs grow (which they always do), you will offend and lose many of your early customers who think the increase is unfair. Price for decent margins, build and protect a real brand, and maintain your customers to build your franchise.

5. Permitting accounts receivable. Unless there is a good reason, you should not offer credit terms to customers. When you offer credit, you are now a bank *and* a service or product provider rather than just a service or product provider. It is rare that businesses fail because of profitability (most entrepreneurs know they need revenues to exceed costs); more often businesses fail because they cannot collect receivables and manage cash. Offer credit only when you *must* do so, and many businesses don't need to. This goes against commonly accepted practices, but I have seen so many businesses fail due to poor cash flow management that I flinch every time I see smaller businesses offering credit. I realize that everyone reading this will think *they* need to offer credit to customers, but probably only 25 percent really need to. There is an old inventory management maxim: "Inventory kills." This is wrong; it should be: "Inventory hurts, but accounts receivable really kill."
6. Counting on one major source of revenue. It is best to assume that, unless you are proactively building revenue, it is contracting. You should look at your revenue as if it were a portfolio; you do not want all or a majority of revenue coming from one or a few sources. Of course when you start out, you are often so busy serving your first few customers that it is difficult to build other accounts or business. But, with time, you should build alternative sources of revenue, so when major revenue streams die off (which they tend to), you are still building your overall business.
7. Hiring too much overhead. People at companies bring in sales, build products, or serve customers. You can justify employees filling these roles. The real challenge is when you hire "overhead" people, who cost the company money but don't sell or produce anything directly. It is best to keep this cost as low as possible. Of course, the real magic is created by properly deploying overhead people because they can help you get your business to the next level.
8. Not really listening: trying to be right. When I was younger, I read many books on entrepreneurship, and I tried to implement the lessons I learned from them—I really tried. However, I was not able to succeed as much as I wanted because I was not willing to listen and learn. I looked and acted as if I were listening, but, down deep, I was more interested in being right and proving people wrong. Now that I reflect on it, my real goal was not to build my business; it was to prove how smart I was (thought I was). I'd like to say that I overcame this mistake through some kind of personal transformation, but I really only learned to listen when I realized I would never attain much success until I was willing to listen to others. You need to surround yourself with people who can help you, and these people will/should be people who won't always agree with you. For this reason, all businesses, now matter the size, should have an outside Board of Directors or group to advise the entrepreneur.

**About Brian Hamilton:** Brian Hamilton is the co-founder and CEO of [Sageworks](#), a financial information company, and Inc. 500 honoree. Hamilton is an original co-developer of "FIND" (Financial Information into Narrative Data), Sageworks' core artificial intelligence technology which converts financial numbers into plain language. FIND is the basis of the [ProfitCents](#) and [Sageworks Analyst](#) applications that are used by financial institutions and accounting firms throughout North America and the United Kingdom.

Brian Hamilton holds an MBA degree from Duke University and a bachelor's degree from Sacred Heart University, where he graduated summa cum laude. Brian is a noted expert in finance who has been published and quoted in most major national media outlets.