Top 5 Mistakes Small Business Owners Make

The path to starting a small business is rocky. Whether you’re establishing yourself as a freelancer or trying to get a new business up and running, there are a few trip hazards to watch for along the way.

Some mistakes are small, and part of the learning curve for self-employed careers. Others can leave you flat on your face if you aren’t watching where you step.
One in three businesses in the United States fail in their first two years, according to the Small Business Association. After five years, that proportion rises to 50 percent; by year ten, 66 percent of businesses have closed up shop. Many of those failures are due to preventable circumstances.

Below, the National Association for the Self-Employed (NASE) outlines five of the biggest mistakes to look out for on your small business journey.

**Mistake #1: Winging it.**

Benjamin Franklin said it best: “If you fail to plan, you’re planning to fail.”

A **business plan** is an essential guide for decision-making and growth. A business plan can be long and detailed or begin as a brief “executive summary,” but the point is the same: Your startup has a roadmap about how you’re going to make it in the coming months and years.

Need some help getting started? NASE offers a **Startup Kit** to guide small businesses through the process, and **BPlans.com** offers an array of example business plans and free templates to help you get started.

**Market research** is critical before you jump in. According to small business research firm CB Insights, the most common reason businesses fail in the first few years is **lack of market demand** — a sign that far too many people launch businesses without investigating whether they will have a market for their wares.

Market research means thoroughly surveying the landscape and ensuring you have a place in it. Ask the following questions:

- What is the demand for your services?
- Who are your competitors?
- Who are your potential customers?
- What hole will your product or service fill that others can’t provide, or do as well as you?
- How will you raise your business profile to reach customers?

The answers to these questions come from more than a personal hunch or the support of family and friends. Consult demographic data from the Census Bureau, read into the economic history of the area for your particular niche, and conduct a survey of potential customers outside of your personal circle to get a more accurate picture.

Market research is a central component to your business plan. It will outline your product differentiation strategy, the key to gaining a competitive advantage and attracting customers, investors, and lenders.

**Legal details** also require some research and attention. Are you forming an LLC, or incorporating as an S corporation? Different legal forms correspond to different types of business and employee/owner structures. Will you be working solo or hiring others?

The choice determines how you file taxes, but it’s more than that. “From a tax standpoint, the entity form you choose is not going to make a material difference in the amount you pay,” says NASE National Tax Advisor Keith Hall.
“Choosing the correct structure should not be a tax decision but is more about liability issues, employee issues, how you see your company in the future and other issues. It’s all about planning.”

Confused by the legal details? NASE offers expert advice in business strategy, legal, taxes, accounting and more to all members.

**Mistake #2: Trying to do it all.**

Most small business owners start as one-man or one-woman shows. They do the work, field phones and emails, maintain their own websites and marketing, and manage invoicing and taxes. As your business grows, the pressure of these responsibilities can cut into the time spent actually making money.

One of the biggest pitfalls for the self-employed is failing to delegate some of this work. Often, it’s also one of the hardest things for a business owner to do because of the sense that you are ceding oversight over a critical part of your business.

But over the long haul, you’ll get burned out and the quality of work — not to mention your health and quality of life — will suffer unless you learn to delegate. Waiting too long to hire has a ball-and-chain effect on the productivity of a solo entrepreneur.

**Delegating** can mean hiring a full-time employee or outsourcing work to freelancers, but it doesn’t mean you’re handing over the reins to someone else. **Delegation is all about leadership** — identifying the tasks you can delegate, finding the right people to do the work, and training them properly.

**Specializing** is another vital decision that small business owners tend to underestimate. For example, a contractor may be highly skilled in computer programming and app development, and because they are familiar with IT, they may also pitch themselves as a computer technician, IT administrator, cyber-security expert, and more. The next thing they know, instead of landing mobile app development jobs that really fit their skills set, they’re crawling under cubicles in an office managing hardware networking.

Being too diverse in your service offerings can weaken and distract from your core skills. Don’t pitch yourself as the neighborhood handyman if that’s not why you launched your business. Focus on what you really want to be doing, become an expert in your niche, and sell those specialized skills.

**Mistake #3: Neglecting marketing.**

The market research conducted prior to starting a new business is only half of the battle. You may have identified a segment of potential customers, but reaching them is a whole new ballgame.

**Marketing is an investment.** If you don’t invest in marketing you’re shooting yourself in the foot. You’re also essentially ceding the field to competitors who are marketing where you aren’t.

**Build a home base on the internet.** You need a website and Google Business account. When a potential customer searches for the services you provide, you want your business listing to come up. Not building a website is like opening a business without bothering to put a sign out front. Neglecting Google registration is like having an unlisted number and expecting your customers to guess.

**Reach and manage your audience.** Beyond Google search, customers research services and products in different ways: they search directly on smartphone map applications, on Facebook or other social media. They also browse through Google, Yelp, and Amazon reviews before making their decisions.
Effective marketing is built on knowledge of your audience. Know who and where your customers are, and what they are looking for when they come to you. Are your customers on Facebook? Do they base decisions on star-ratings in Google results? The best way to get answers is to ask customers how they heard about you.

Such information is key to determining what kind of advertising is right for you. Traditional ads like print, radio, or billboard still may be necessary or even primary channels — you don’t know until you get a good sense of your customer demographics and shopping habits. You may discover you need to establish a more engaging presence on social media instead.

**Mistake #4: Selling yourself short.**
Underpricing services is a classic beginner’s mistake in small business. The logic is understandable: you’re a new entry into the market, so if you want to draw some business away from established competitors then the best way to do that is offer the same services at a lower price. Right?

Underpricing may do just that — and still result in failure. Why? The tactic ignores the reality of the market a business is entering: prices are often set where they are because that’s what it takes to cover costs and still make a living. When you try to win customers on the basis of undercutting others, you’re inadvertently consigning yourself to a bare-bones existence that may not pay your own bills.

It creates a situation in which winning new business has the effect of slowly sinking into unsustainable workloads and closing up shop.

**Research industry benchmarks** and competing business rates to set prices that are reasonable and realistic for both you and your customers. Rather than low-balling your worth, differentiate yourself and consider what value you bring that is worth your fees.

This is absolutely vital to protecting your work and ensuring you are paid.

Paperwork is not always pleasant, and initially it may feel demanding to send written contracts to a new client. But new freelancers and contractors often learn this lesson the hard way:

Verbal agreements don’t mean much when it comes to a dispute over the scope of services a business provides to a client.

The same holds true for your business partners. Come to an agreement, make a plan, and put it in writing.

**Business partnerships** require written agreements, even among good friends. A **partnership agreement** spells out each partner’s rights and responsibilities, and what becomes of the business and money when one partner exits.

**Outline work in invoices.** Paperwork is part of every stage of business, including wrapping up a job and sending a bill. Invoices don’t have to be fancy, but they need to include your own business information, the client’s information, a description of the work performed and breakdown of the cost, and payment terms.

**Protect intellectual property, when eligible,** by applying for **copyright** or **patent protection**. Register your intellectual property with the government, and spell out your ownership in contracts.

If the legalese and paperwork are too intimidating, **consult NASE’s experts**.

All small businesses go through beginner’s mistakes, but those mistakes don’t have to be the beginning of the end. A planful approach and consultation with seasoned business pros can make all the difference.
Member Benefits

Visit NASE.org to learn more about the following benefits!

**New!**

As a member of the National Association for the Self-Employed, you're eligible for an important new benefit, accident insurance, at a member rate. Now is the time to consider accident coverage, and how it can help protect your family's budget.

You can't prevent an accident, but you can prepare for one.

An American is accidentally injured every second.¹ These accidents can be expensive, each trip to the emergency room costs an average of $1,389.² Even with medical coverage, additional expenses can add up quickly. While accidents are always unexpected, they don't have to be financially devastating. With MetLife Accident Insurance, you can benefit from:

- **Coverage for over 150 accident-related covered events & services,** including medical services and hospitalization.³
- **Payments are made directly to you,** and you decide how to spend the money. You could use the payment toward medical expenses like copays or deductibles, or you could use the payment for non-medical needs like household bills, childcare expenses, or home modifications.

You can enroll in accident insurance and take advantage of member rates. Best of all, your acceptance is guaranteed⁴ for you and your eligible family members, as long as you are an active member of the NASE. There is no medical exam required.

To learn more and enroll, visit nase.org/accidentinsurance

For questions, call 1-800-232-6273.

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³. Hospital does not include certain facilities such as nursing homes, convalescent care or extended care facilities. See MetLife’s Disclosure Statement or Outline of Coverage/Disclosure Document for full details.
⁴. Coverage is guaranteed provided (1) the member is in good standing and (2) the member and dependents to be covered are not subject to medical restrictions as set forth on the enrollment form and in the Certificate. Some states require the insured to have medical coverage. Additional restrictions apply to dependents serving in the armed forces or living overseas.

Coverage may not be available in all states. Please contact NASE at 1-800-232-6273 for more information.

MetLife’s Accident Insurance is a Limited Benefit Group Insurance Policy.

The policy is not intended to be a substitute for medical coverage and certain states may require the insured to have medical coverage to enroll for the coverage. The policy or its provisions may vary or be unavailable in some states. There are benefit reductions that begin at age 65, if applicable. Like most group accident and health insurance policies, policies offered by MetLife may include waiting periods and contain certain exclusions, limitations and terms for keeping them in force. For complete details of coverage and availability, please refer to the group policy form GNPN14-AX-ASSN or contact MetLife. Benefits are underwritten by Metropolitan Life Insurance Company, New York, New York.
Member Spotlight

Programming Self-Employment

Preston “Paul” Parks is the President of P2 Programs located in Dripping Springs, Texas. P2 Programs, started in 1986 as a part-time by writing barcode applications (inventory and process tracking applications) for various barcode suppliers in the Houston, Texas area. After four years of construction experience and another four years manufacturing operations experience, Paul founded P2 Programs and began full time operations in 1992. Based upon our experiences with construction and manufacturing process tracking, P2 Programs had the technological expertise to present customers with an affordable and successful solution to the data collection challenges they faced in their manufacturing operations.

When and why did you join the NASE?
We first joined NASE in 2003 in order to participate in the NASE HRA 105 program. We have since taken advantage of several other benefits including the discounts on Constant Contact, Turbo Tax On-line, Office Depot and UPS.

What inspired you to enter the field you are in?
I took my first programming class senior year of high school. When entering college, it was not my intent to be a programmer. My degree in Engineering Technology from Texas A & M combined with my mostly self-taught programming knowledge made the way for what P2 Programs does for their customers today.

When and why did you start your business?
I started my business in 1986, in part to make my job easier. I wrote the software to streamline my job. At that time, the extra money I made by writing custom software outside of regular work hours was used for vacation money. I then became so busy with my “side” job of writing software that it became
apparent that I needed to do this full-time. In 1992, I was laid off from my full-time job. It was then that my wife Sherrie and I decided to see if I could make this side gig work as a full-time venture. Although there have been some very lean years, I haven’t regretted making that decision.

How do you market your business?
We attend one trade show a year — NASCC: The Steel Conference to market to steel fabricators. In addition to the NASCC Trade Show, our main marketing is by word of mouth.

What challenges have you faced in your business?
The main challenge has been making it through a depressed economy — a couple of times. The best advice we received is to stick back 3 months of funds when you are in a good economy so you can make it by during the tough times.

Another challenge has been figuring out what, if any, type of advertising works for your business. For our business, the best advertising is word of mouth. We have wasted a lot of money on print and other advertising. It just doesn't work for us.

Do you have any employees?
My wife Sherrie is an employee of the company and handles all of the administrative work. We have 3 contract (1099) employees — a salesperson, a software developer and a trainer. We do not plan on adding any other employees in the near future.

What’s your schedule like, what’s a typical day for you?
P2 Programs is open 8:30am – 5:30pm Central Time. Since we have customers all over the United States and internationally, we monitor our calls evenings and on weekends for when our customers have a software issue that is keeping them from working.

What’s the best thing about being self-employed?
The best thing about being self-employed is having a flexible schedule. I can be with my kids on their schedule. The second-best thing is that I do not have to fight traffic to get to work.

What’s the best compliment you’ve ever received from a client?
“Have worked with P2 Programs for several years now. P2 Programs is an expert in the field and I have and will continue to recommend them over and over again. I cannot express how much P2 Programs has helped me over the years and consequently streamlined my fabrication making us much more efficient at our job.”
Ted Mannstedt & Sons — La Crosse, WI

What’s the most important piece of advice you would give to someone starting their own business?
Join NASE and join your local chamber of commerce. NASE can provide needed information for getting started and making it through the challenges. Your local chamber of commerce will give you a local community to connect with and for them to help support your business. And see if you have a local SCORE representative in your area. They have retired executives who will give advice and counsel at little to no cost.

Which NASE member benefit is most important to you?
The NASE HRA 105 program. It has saved us a lot of money being able to claim our medical expenses as a deduction on our taxes every year.
On Tuesday, May 12, the House Democratic Leadership introduced the HEROES (Health and Economic Recovery Omnibus Emergency Solutions) Act, a sweeping $3 Trillion relief package that touches every aspect of those suffering through the current crisis. The proposed legislation is inclusive of numerous Democrat priorities, many of which are considered non-starters for Senate Republicans. However, we anticipate some of these proposals will eventually find themselves in the final package of legislation that the House and Senate will pass in the weeks ahead.

As always continue to visit the NASE's COVID19 resource web page for the most up to date information.

For the NASE, we have highlighted below some of the key proposals of which we believe are important to be included in the final legislation:

**Changes to Paycheck Protection Program (PPP)**

- Extension of the covered period from June 30 to December 31;
- Establishes a minimum maturity on PPP loans of 5 years to enable borrowers to amortize loans over a longer period of time, which lowers monthly payments;
- A carve out of 25% of the existing funds on the date of enactment to be used specifically for small businesses with 10 or fewer employees to guarantee they are fully able to access PPP assistance;
- Adds flexibility in the covered period for borrowers by extending the 8-week period to 24 weeks and extends the covered period from June 30 to December 31;
- Harmonizes the use of proceeds with forgiveness;
- Mandates forgiveness data collection and reporting;
- Creates a safe harbor for borrowers who cannot rehire in the prescribed time frame;
- Eliminates the 75/25 rule on use of loan proceeds;
- Excludes certain loan forgiveness by the Small Business Administration, emergency EIDL grants, and certain loan payments from the gross income of the ultimate recipient;
- Clarifies that expenses paid or incurred with proceeds from Payment Protection Program loans that are forgiven pursuant to section 1106(b) of the CARES Act and certain loan forgiveness by Small Business Administration, emergency EIDL grants, and certain loan payments that are not included in gross income under section 333 of this Act do not result in a
denial of any deduction or basis of any asset for federal tax purposes

- Clarifies that PPP loans cannot be calculated on a compound basis, saving borrowers money over the long-term
- Expands eligibility to all non-profits (also eligible for the Main Street Lending program)

**Economic Injury Disaster Loan**
- Provides an additional $10B for EIDL

**Business interruption credit for the self-employed.**
- Provides a 90% refundable individual income tax credit for certain self-employed individuals who have experienced a significant loss of income. The credit may be claimed on “qualified self-employment income” which is the loss in gross income for self-employment that exceeds a 10% reduction from 2019 to 2020, scaled using the ratio of net earnings from self-employment to gross income from self-employment in 2019. The amount of qualified self-employment income taken into account cannot exceed the reduction in adjusted gross income from 2019 to 2020, and is capped at $45,000. The credit phases out starting at $60,000 of adjusted gross income ($120,000 for married filing jointly) at a rate of $50 for every $100 of income.

**Unemployment Benefits**
- $600 per week FPUC supplement to state and federal unemployment benefits through January 31, 2021.

**Pandemic Unemployment Assistance benefits (PUA)**
- Extend Pandemic Unemployment Assistance benefits (PUA) provided to workers who do not qualify for regular unemployment compensation through January 31, 2021. Under this provision, workers would be able to apply for PUA through January 31, 2021. Individuals would receive all of the weeks of benefits so long as they are for weeks ending by March 31, 2021.

**State and Local Taxes**
- Eliminates the limitation on the deduction for state and local taxes for taxable years beginning on or after January 1, 2020 and on or before December 31, 2021.

**Recovery Rebates (NEW/additional)**
- Provides a $1,200 refundable tax credit for each family member that shall be paid out in advance payments, similar to the Economic Impact Payments in the CARES Act. The credit is $1,200 for a single taxpayer ($2,400 for joint filers), in addition to $1,200 per dependent up to a maximum of 3 dependents. The credit phases out starting at $75,000 of modified adjusted gross income ($112,500 for head of household filers and $150,000 for joint filers) at a rate of $5 per $100 of income. Treasury shall issue this credit as an advance payment based on the information on 2018 or 2019 tax returns.

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