

Becoming your own boss can be a dream come true - if you're willing to learn from other people's nightmares.

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NEW YORK (CNNMoney.com) - For many people, starting their own business is a dream come true. But too many entrepreneurs see their dreams fall apart - their firms fail because of common pitfalls that could have been avoided.

One-third of small businesses fail in the first two years, according to the Small Business Administration, and a little more than half fail within the first five years.

But that doesn't mean you have to give up your dream. Here are five common mistakes to avoid, so you can build a successful business.

1. Too little cash

"The biggest issue that most entrepreneurs have is money - they're not properly capitalized," says Douglas Long, owner of a management consulting firm that advises entrepreneurs and aspiring entrepreneurs. He recommends his clients have approximately three times what they think they'll need starting out, largely to protect them from any downturns.

Steve Hockett learned that lesson the hard way when he set out to open his own business.

"A few years ago, I was working at a bank and it wasn't a good fit, I was bored and I wanted to become an entrepreneur," says Hockett. Without a business idea of his own, Hockett decided to become a franchisee. Although he picked a very successful franchise, Hockett admits, "I was undercapitalized, it took too long for the business to build and my cash ran out." Forced to abandon the business after only a little more than two years, Hockett says he was "devastated."

"The real thing I missed was anticipating my cash needs and being able to weather the first year," says Hockett, who has since become a successful franchise consultant. "One of the hardest things I've ever done was to make the decision to pull the plug on a dream."

2. Thinking small

You may be competing for customers against larger companies with more resources. But you don't have to show it.

Harprit Singh founded Intellicomm Inc., a communications services firm, in 1994 when he was a second-year MBA student with just \$100 in startup capital.

"A few years ago, my colleague and I drove hundreds of miles to give a presentation on our service to one of the leading global insurers," said Singh, president and CEO of the Philadelphia-based company. "I could clearly see the excitement in our service quickly dwindle in the packed conference room when we mentioned that we are a small business with limited resources. From that day on, I vowed never to let our size hold us back."

Singh began to focus on the advantages he could offer as a small firm in the telecom industry, such as greater expertise and speed of execution. Intellicom now has more than 4,500 customers in 45 countries.

Remember, you're not small, you are boutique. You're not tiny, you are personalized.



Quiz

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Could you build a \$1 billion business? To find out whether your company is on a fast track to reach \$1B in annual sales, take this quick test.

1. Do customers tell you that the benefits you provide are distinctive and unique?

Yes

No

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3. Skimping on tech

Sure, buying gadgets costs money. But giving your employees laptops, Treos, BlackBerries and wireless access allows them to do more with less. In addition, the latest technology will help you and your employees respond promptly to customers, no matter where you are or what you are doing.

Ironically, it's often easier for a small company to adopt and deploy new technologies, vs. big companies that may be wedded to legacy systems and cumbersome, outdated technology. Your small size can be a plus, letting you be nimble and swift.

4. Underestimating the importance of sales

For small-business owners starting out, most of the attention should go to sales and revenues, Singh says. If sales grow, expenses will take care of themselves.

And no matter how small, every company needs a dedicated sales pro to make sure business is constantly rolling in the door.

If you are your own salesperson, Long suggests practicing on friends and family to hone your skills. "You could have the best idea in the world, but if you can't sell it, you won't be successful."

5. Losing focus

Every business should have a vision of what they will be when they grow up. And the more focused the vision, the greater the chances that the business will realize its goal. Further, the vision should be translated into specific execution tasks to achieve desired results.

Before embarking on your business, Hockett suggests carefully laying out all the attributes of your company and what you'll need to do to make each aspect of the business succeed.

Had he created a detailed plan for his franchise, "I would have waited longer until I was in a better cash position to start," Hockett said. "But I was impatient. I made a decision based on emotion rather than fact."