

Anticipate Your Company's Biggest Hurdles. By preparing for obstacles such as low cash reserves, high customer acquisition costs, and burnout, your business can improve its chance of surviving. By [Karen E. Klein](#)

In your experience, what are the 10 most challenging things a business faces in its first through fifth years? — C.J.G., Baltimore

Interesting question. We posed it to small business sources from startup entrepreneurs, to marketing experts, to tax specialists. Here is a compilation of their thoughts, with five challenges for startups and five for growing enterprises:

1. Getting and vetting a business idea. "I always wanted to start a business, but it's hard to find a problem that is worth the time and effort to solve," says David Greenberg, a New York attorney and chief executive of [Updater.com](#), an online service for managing postal mail. The light bulb moment happened when he moved and found automated change-of-address processes lacking. "Since millions of people move each year and no good solution existed, I felt I had discovered a problem worth solving," he says. Your idea should be somehow different than your competitor's idea, says Bruce Freeman, co-author of *Birthing the Elephant*. "If you're not bigger, better, faster, or delivering a better bang for the buck, it's not worth doing." Once you get a great idea, prove your concept, including prototyping, market research, and focus groups. "Don't write a business plan in your basement, or you'll have to rewrite it over and over again. Go out and test your idea, talk to your family and friends, and then your target market," says Dan Nathanson, an entrepreneurship lecturer at the UCLA Anderson School of Business.

2. Focusing and persevering. "It is hard to maintain confidence that your concept will succeed. You will second-guess yourself more than once, but if you really believe in it, you will push ahead," says Kristy Lewis, founder of Quinn Popcorn, a natural microwave-popcorn product that's being launched this summer. "Be prepared to sacrifice time, energy, and mental capacity—you'll never be as prepared as you think you are," she says. Startup entrepreneurs usually have great vision but must limit themselves to the practical. Rather than go in a dozen different directions, focus on one or two things your company can do well from the outset, then expand as you build trust with customers and partners. Take the time to study the industry you're entering; Greenberg spent 15 months researching full time. Taking an entrepreneurial training course can also go a long way toward building your confidence, says Roberto Barragan, president and CEO of the [Valley Economic Development Center](#) in Los Angeles. The more you understand how businesses run, especially on a financial level, the better chance you'll succeed.

3. Raising capital. Most startups are self-funded, bootstrapped through the founders' savings or credit, or through private investment. "You've got to get to know local independent bankers who can lead you to angel investors," says Jeff Williams, founder and CEO of [Bizstarters](#), a Chicago business startup consultancy. "After searching in four cities, we got an outside investment 11 years ago through a referral from a small neighborhood bank." You may have to get creative to keep your company afloat: Lewis has used the [Kickstarter](#) site to raise cash.

4. Managing cash flow. Undercapitalized, underplanned startups can be derailed quickly by unanticipated expenses, says Robert O. Ball III, CEO of [OfficeArrow](#), an Atlanta business that runs an online community for entrepreneurs. He lists the cost of customer acquisition, paying retail for supplies until you can qualify for vendor discounts, and fluctuating revenue as the biggest cash flow challenges for startups. "In the early days, when you don't have built-up reserves, it doesn't take much of a swing on the revenue or expense side to put you in a bind," Ball says. Put accounting software in place to help you manage cash flow or bring in a bookkeeper to help.

5. Choosing the appropriate legal structure and location. Establish the proper legal entity from the start, taking into account the tax and business climate in your state. "I can't tell you how many times I've seen a new business started up as a C corporation, whereby the losses are trapped within the entity and the shareholders can't take advantage of those losses," says Dhaval Jadav, CEO of [alliantgroup](#), a specialty tax advisory firm in Houston. Likewise, make sure your company has the requisite license, permits, and tax registrations in place, says Robert Spielman, a CPA and partner in accounting firm [Marcum](#) in Melville, N.Y. And find the ideal location, whether it be a retail site with excellent commercial lease terms and high foot-traffic or a manufacturing facility on a site where tax breaks are available for hiring.

6. Marketing. "Marketing is not flyers; advertising is a must," Barragan says. Start by identifying a target market and a target customer. Build a database of core customers, says Ben Tiernan, executive director of strategy at ONE/x advertising agency in Los Angeles. "Use social media, e-mail newsletters, and regular promotions to keep your consumers involved. Leverage publicity as a low-cost solution to drive awareness and aid in business development," Tiernan says. Most importantly: "Be prepared to abandon marketing tactics you were sure would work, but failed to deliver."

7. Team building. "Continually have new talent on your radar in terms of employees. Expand this mentality into not just W2 employees but also independent contractors and service providers," Williams advises. Hire slow and fire fast: For a young company, the cost of one bad hire can be devastating, especially at the senior executive level, Ball says. Don't forget to include outside advisers on your team; too many entrepreneurs try to go it alone. "The best thing to do is recruit mentors, advisers, and a lead investor who knows the business," says Nathanson. But don't be afraid to admit when you've outgrown your advisers or management team and need to upgrade as your business expands, says Sharon Lechter, a women's business expert and co-author of *Think and Grow Rich*.

8. Anticipating burnout. Put business processes in place as if you plan to franchise your concept, regardless of whether you go that route, Nathanson says. During the startup years, it's usually necessary for the founder to devote many, many hours to the business. As you grow, standardize tasks and delegate them to trusted employees. That way, you can stop wearing all the hats in your company and eventually achieve a more balanced lifestyle. "Learn to anticipate burnout and cope with it. It usually sets in by the fifth year," says Williams.

9. Managing growth. If your company is to continue growing, it must stay ahead of its competitors. That means connecting with the thought leaders in your industry and looking for strategic partnerships, Williams says. His company recently entered into a joint venture with a London company: "Most companies won't last 10 years if they don't partner up within the first two or three years, because you can't generate enough business on your own. I had an established product, and it didn't cost me a dime to [get it] marketed in the U.K."

10. Planning your exit. "Entrepreneurs must not lose sight of the future, yet [they] often get too busy with employee and management issues," Lechter says. Instead of just letting things happen, take control of your company and plan for what will happen to it once you are out of the picture. It helps to bring in an attorney or other adviser who specializes in business succession issues. Getting a plan in place before you're ready to sell or retire gives you goals to work toward, Nathanson says. "The business should work for you, not vice versa. Most people say they want to have their own business so they can have freedom and a creative outlet, but meanwhile they get trapped and the business is controlling them."

[Karen E. Klein](#) is a Los Angeles-based writer who covers entrepreneurship and small-business issues.