

BALANCING CUSTOMERS

You need to balance your customers so that you don't have all your eggs in one basket. If you are unbalanced, with one or more dominant customers, your business is extremely vulnerable and ruinous for your business if they leave. When your customers are balanced, it's much easier to quickly replace one who leaves you.

When you have only one or two dominant customers, your business becomes an extension of theirs without them having to pay overheads. You are always at their 'beck and call' and unable to grow a sustainable business. This is a very unhealthy position for your business to be in. This situation often arises when the dominant customer is a large corporate. And being in this position, you often end up waiting for your payments – so, in effect you're subsidising their business!

Whilst you are gathering the information for the previous analyses, insert a column for the percentage of gross profit each customer contributes to your entire business.

Year	Customer	Turnover	GP	% GP to Total
2016	Smith	50 000	23 000	26
2016	Thorn	42 000	18 000	20
2016	Jones	78 000	32 000	36
2016	Hume	64 000	17 000	19
Total		234 000	90 000	100
2017	Smith	65 000	26 000	29
2017	Thorn	50 000	21 000	24
2017	Jones	65 000	27 000	30
2017	Hume	54 000	15 000	17
Total		234 000	89 000	100
2018	Smith	80 000	34 000	38
2018	Thorn	55 000	22 000	24
2018	Jones	50 000	23 000	26
2018	Hume	45 000	11 000	12
Total		230 000	90 000	100
Total		1 166 000	448 000	100

In this analysis, you'll see that in years 2016 and 2017, Jones had a large share of your business which is far too high. Replacing Jones would be costly.

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In year 2018, with Jones' orders declining, Smith became the far too dominant customer. Once again, unbalancing your business.

Hume could be a C customer and is not a major contributor. Therefore, Hume would be easier and less costly to replace.

I like to see an equal spread across the customer base, ideally a balance of less than 17% of gross profit contribution per customer.