

### Is Your Business Dependent on Too Few?

Many small business owners share one problem, especially in their early days. It's being over-reliant on a single customer or supplier for much of their business. If you're in that position, your business is operating with higher risk. Just as with investments, you don't want all your eggs in one basket. Your goal should be a well-diversified portfolio of customers and suppliers.

That's in an ideal world. In the real world you may have to live with the situation, at least short-term. However, there are steps you can take to understand your risk and, over time, to change it.

Measure the problem. Work with your managers and accountant to quantify how your sales break out by customer. You only need do this for the top five or ten customers to see whether you have an over-reliance problem. If you're a manufacturer or retailer, take a similar look at your principal suppliers. Quantify how dependent you are on the top few.

Understand the risks. List the factors that could jeopardize your business with your chief customer or supplier. These will vary with your specific circumstances. They might include a natural disaster that interrupts your customer's business or that prevents you from shipping or receiving goods. It could be a change in the marketplace or a new technology that cuts demand for your product. It could be actions by your competitors. It might even be problems in your own operation, such as a drop in quality, delays in shipping, or poor inventory control. The list may be daunting, but until you understand the risks, you can't develop solutions.

Look for ways to minimize your risks. Brainstorm with your managers on long-term steps to reduce each risk. It might be to enter new markets or to tweak your product design. Think through contingency plans to address possible disasters or find alternative suppliers. Discuss how you would respond to changes in the marketplace. Try to set measurable goals for change and clearly assign responsibility. Changing the situation won't be simple, and it may take a long time. But that's what strategic business management is all about.

For assistance with this issue or with any of your business concerns, give us a call.