



Fire a Customer, Make More Money

Nearly everyone has financial advice for someone who owns a business, whether large or small, some of it sound, and some not so sound. But when all is said and done, there is only **one basic financial question and the answer will tell you whether your business is making a profit or not.** Unfortunately, it probably doesn't appear on the financial reports you get from your accounting department every month, and your CPA has no idea what it is.

big customers determines in large measure the profitability of your business. My firm has an aerospace manufacturer client who sold some products to their largest customer *that actually lost money, and they didn't know it until we did the homework.*

do it, but you must know how profitable that account is in order to make the best decision for your company's overall bottom line. **Your largest customer isn't always your most profitable,** as many Walmart suppliers likely know. And, are you giving those concessions because you're building a relationship that will pay off "later"? Ask your customer when they will be willing to pay you more money tomorrow for what they pay less for today.

In doing your analysis, consider how *often* your customer buys, how *large or complex* their orders are, and how *well they pay.* Those are the obvious things.

Now *consider the special price concessions* you might give them in appreciation for their business. Do you extend special services to them in delivery, warranty support, or other customer service? Do you extend payment terms or wait longer before you call Accounts Payable? Do you process special turnaround orders or accept smaller orders than you really want to (*raising the fulfillment cost per dollar of sales*)?

Consider this closing thought: If your company-wide contribution profit margin is 40%, for example, and any one of those top 10 customers is delivering a contribution profit margin of less than 40%, *you could make more money by dropping that customer.* If you want to explore this idea more thoroughly, give us a call, 888-788-6534.

You may not be able to easily calculate the dollar cost of each of those extras, but you know they cost something to provide. Each of these extras costs your company money or time (that is, money) – both real costs of servicing that account. This is not to say you shouldn't



"What's measured improves"
- PETER F. DRUCKER

First, I have a confession to make. There isn't just one number. There is one number for each customer you serve. (If you really only have one customer you have a whole different set of problems, of course.) But that was a little misdirection just to get you reading to this point.

OK, the REALLY BIG little question is:

How much profit do you really make on each of your 10 largest customers?

Why? Because the profit you make on those

The Exit Checklist BY JONATHAN GOLDHILL

Thinking about selling the business? Or just thinking about thinking about it? Having good answers to 4 questions will help keep you focused as you go through the exit planning process.

Is your business ready to sell?

Have you done all you can to maximize the value of your business? Let's see.

Would you answer YES to a few, some or

most of these questions?

- a. Do you have a stable management team in place who can run the business in your absence? If it's a family member(s), do they have the capability to grow and/or manage the business?
- b. Is your business free of overdependence on any one customer, supplier, employee e.g., no more than 15% of your sales are to a single customer?
- c. Do you have a business in an industry/ market with growth potential?

- d. Are your financials well organized? And do you have great, consistent results in profitability?
- e. Will a lot of operating capital be required when a buyer takes over the business, thereby putting a drag on the amount a buyer would be willing to pay you in cash?

Are you personally ready to sell?

Are you being pushed into selling or do you
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Gene Siciliano is the founder and president of Western Management Associates, source of Your CFO for Rent® services for over 25 years. The firm provides interim and part-time CFO/Controller services, executive coaching and assistance in operational finance and exit strategy. Gene and his team of seasoned CFOs and controllers have a clear mission in their work with CEOs and owner/operators of privately owned companies. Their value proposition:

- Increase the company's net worth and profitability by improving the management team's financial proficiency and bottom line results, and
- Develop and execute strategies that will make your company more appealing to a buyer or investor, if and when the time comes for an ownership transition.

Exit Checklist

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feel a pull towards something else?

Ideally, you will have more pull factors than push factors. Push factors might include: divorce, death, boredom, stress, market has peaked, health or retirement reasons, etc.

Pull factors might be to start a new business, travel, get fit, spend more time with family or with a hobby, become more involved in

“Your largest customer isn’t always your most profitable”

giving back, etc. As an exercise, take the back of an envelope and make a balance sheet scorecard with a list of what you are excited to do (pull factors) on one side and what you want to get away from (push factors) on the

other side. This exercise will help you articulate your goals for your business and life.

Do you know your number?

Do you know what the business is worth to you and to a buyer? These might be two very different numbers! If you’re thinking of retirement for yourself, your thinking might look something like this:

Say you need \$200,000 a year to live comfortably and believe 5% is a reasonable rate of return

to expect. Then you will need 20 times that amount or \$4 million after taxes.

To get an estimate of your company’s value at no cost, **The Goldhill Group** offers a free Value Builder Assessment.



If you want to prepare to exit your business (or scale up for the future), you’ll want to make sure you get the most value from it. Take a few minutes to get your Value Builder™ score and your 27 page report on how to increase the value and improve the salability of your business. Go to <https://goo.gl/j7EBtN> to get your score. Then call 818-716-8826 to see how scale-up or exit coaching can help you increase the value of your business.



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