



Making Good Decisions on **Client Concentration** Or, *learn way too late that one is not enough!*

by **Kenneth P. Walsleben**

Why worry about client concentration?

After all, concentrating on clients is the key to success. No, what I'm talking about is having one or two large clients as the backbone of your business, a circumstance that should be avoided at all costs, particularly now in these uncertain economic times.

'... you need to insulate your business from the credit concerns of others.'

By the way, have you noticed that business articles these days begin with concerns for our national economic picture, and the doom-n-gloom of epic financial challenges? (To maintain credibility as a financial columnist, I've now just referred to it, so I suspect I'm still in the good graces of the business media!)

However, my advice concerns the significant problem client concentration poses for most business, and holds true regardless of the economic challenges at any given moment. That is to say, you need to **insulate your business from the credit concerns of your clients**.

I've seen staffing companies severely rocked and even fail because of a **payment default by a single client**.

Worse, prior to the unexpected, terrible event, some firms continue to concentrate business with one or two clients, and thus dig deeper and deeper into the risk of others.

It's just human nature. After all, how do you say 'no' to more business?

While I understand how this situation arises, **financial failure of a large client can sink your business, too**. To those who have suffered such a fate, I tip my hat in condolence.

But, on the other hand, I want to scream that **it didn't need to happen!**

With proper client diversification, you have

many customers to whom you are a creditor.

Conversely, with poor client diversification, when trouble arises, you'll find that you don't have a client/creditor relationship — you really have, instead, **a partner, for whom you are completely dependent**, AND without the necessary controls.

Your future is hopelessly intertwined with the fate of your client — a fate that you can't manage.

'... the financial failure of a large client can sink your business, too.'

The only question that remains is how much you lose. Worse yet, you'll discover that **you have to continue service**, or they'll fail and leave you completely unpaid.

Now, you'll worry about throwing good money after bad.

So, how can you say 'yes' to new additional business (thereby keeping your DNA in proper alignment) and still sleep at night?

Two ideas come to mind — each involves transferring payment risk to another party.

'... transfer of payment risk to another party.'

Either purchase a credit insurance policy from a reputable provider — there are five large specialty insurers worldwide, or you can **employ a non-recourse factoring company**.

The credit insurance route is viable if you

- (1) don't need funding,
- (2) are **comfortable with record keeping and monthly submissions** of data to the insurer, and
- (3) can survive the **annual policy loss deductible**.

Each insurer also has minimum annual premiums and, depending on your needs, these minimum levels may prove to be cost prohibitive.

Alternatively, aligning with a non-recourse **factor will take on the risk of credit default** using their funding mechanisms, giving you the best of both worlds.

It gets even better with a non-recourse factor that doesn't impose minimum fees or term agreements.

Such an arrangement gives you the same or better protections of a credit insurance policy, AND at lesser cost, with little or no deductible, and no incremental funding!

All too often, Factors are simply viewed as a necessary cost of doing business.

Or, you may consider all Factors alike. However, as you see here, they can be a business-saver because **they absorb non-payment risk**, and provide credit guidance before a problem arises.

They can literally save your livelihood.

With a non-recourse factor in place, you can say 'yes' to new business and sleep comfortably at night. Of course, that includes broadening your client base to build a stronger business in the end.

'... the factor will take on credit-default risk and with their funding mechanisms, you'll have the best of both worlds.'

If your firm has client concentrations of more than 20% to any single customer, you owe it to yourself to chat with a non-recourse factor.

Don't say I didn't warn you. *Especially* during these trying economic times!

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