CONCENTRATIONS KILL COMPANIES

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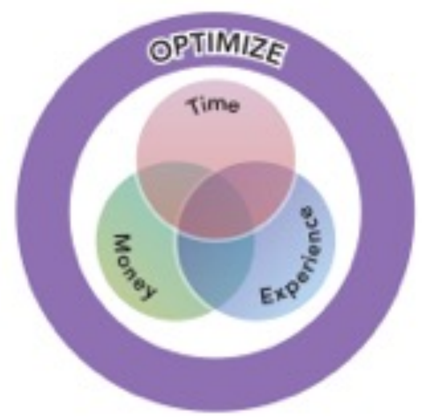

Have you ever noticed how many small businesses simply drop off the face of the earth? One day they're open and successful, and the next day they're gone. Every year a silent killer takes out thousands of businesses. This killer is called a "concentration".

What is a concentration?

A good description of a concentration is any major component of your business that is sold to or provided by one person, company, or industry. For example, if you sell 50% of your product to one company, it's a concentration. If you sell 85% of your product to a specific industry, it's a concentration. You get the picture.

The bottom line is that concentrations create a threat that one party or group could disrupt your entire business. They essentially take away your control and can put your business at the mercy of others.

The most common type of concentration is having one or two large customers that you rely on for a high percentage of your sales. If a large percentage of your sales are concentrated with one customer, then your business could fail if that customer were to go under or stop buying from you.

> "These risks can sneak up on you and often grow worse over time."

A similar problem can exist with a concentration in just one industry. The owner of a company I was once referred to told me that his company was in trouble because he had lost four large customers, but he assured me that he didn't have any concentrations. But after taking a closer look, it turned out that all four of those customers were in the same industry, which had recently experienced a downturn.

Other types of concentrations are just as dangerous. Once, during a conversation with a new client, we discussed his company's sales. This guy was very proud of a member of his sales staff and bragged that almost 80% of their sales came from that one man -- meaning he had a salesperson concentration. If that salesperson were hired away by a competitor, or suffered a serious illness or family disaster, my new client's business could have been sunk. So we looked at ways to remedy that situation.

Here are some concentrations I've seen over my career as a business consultant in Colorado that you should watch for in your own business:

- Having a high percentage of sales with one or two customers.
- Buying all or most of a certain product from one vendor, who couldn't be replaced in a timely manner if that company were to fail.
- Having equipment or software that is very specific and only one vendor can service, such as a piece of old machinery that is very critical to your business.
- Having an employee who knows a critical part of the business that no one else knows (how to run a machine, certain information about customers, how the accounting system works, etc.), or who is the only person certified in an area critical to the company.
- Having most or all of your sales generated by one effort (trade shows, direct mail, etc.).
- Having most or all of your sales generated or closed by one salesperson.

These risks can sneak up on you and often grow worse over time. Granted, some concentrations are unavoidable, like having all of your utilities under the control of your city or utility company. But most concentrations should be looked at as a liability and, wherever possible, you should take steps to reduce the risk. Work at diversifying your customer base, make sure you've got a contingency plan in case an essential employee bails on you, and have back-up vendors lined up for critical supplies.

Take a good look at your business to determine if any concentrations exist, figure out a plan for minimizing the risk, and determine "what-if" scenarios or contingency plans if something should go wrong. Remember, the best way to avoid being choked is to never let people get their hands around your throat, so make sure no one person, company or industry can seriously hurt you!

BusinessTruth: Concentrations kill companies!