**The Value of Knowing Your Most Profitable Customers:**

 **One of Five of the Most Common Mistakes to Avoid When Growing Your Business**

By Gary Patterson MBA, CPA (778 words)

While numbers themselves are neutral, the way they are interpreted and manipulated can be misleading. Without asserting blame, where could your financial statements, projections, and results be interpreted more accurately? Besides giving you a more accurate picture of your company’s financial strength, accurate numerical interpretations will give you more reliable information. Hence, you can make better decisions, assess risk and effectively run your company.

After helping and strategizing with hundreds of leaders, I’ve identified five key risk areas that can provide strategic benefits when managed effectively, or explode into landmines if ignored. Let's transform caterpillars into butterflies and address potential risk factors that can be lurking inside your company!

**How does your company measure up to this first statement?** Answer True or False.

My business knows who are the 10 most profitable customers, and has accurate information about these top clients.

The results on this question vary by size. If you are a middle market company (normally 50 million dollars and up), normally 75% tell me they ***accurately*** know their top 10 customers and are fairly comfortable on customer profitability. Consider this group often has reasonably sophisticated accounting software and a reasonably sophisticated accounting department.

If you are a 5 to 30-million-dollar company, that degree of comfort often drops to around half.

Both groups feel less comfortable about the accuracy of product or service profitability once the discussion goes deeper on where to help leaders improve their ability to obtain sustainable growth and profitability.

**Whatever the size of your business or accuracy of your accounting information, let’s go deeper on the topic of profitability – for customers and products.**

*“If you find out who our 10 most profitable customers are, could you please let me know?”*I can’t tell you how many times top executives ask me this question. Let’s help unveil this sometimes well-kept family secret and how it happens. Some companies define their top 10 customers in terms of largest revenue. At some point, that may have been a reasonable approach. Previously a narrow product line, minor customer service issues and stable costs of production may not have eroded profit margins.

However, in today’s competitive economy that can quickly change.

It is inevitable that changes need to be made when your business becomes more complicated and/or competitive. For example, this may require more modern software programs and/or compatible record keeping systems. Unfortunately, businesses may not have the resources to immediately upgrade information systems and have to settle temporarily. In these cases, I’ve found that accurately measuring your 10 most profitable clients means conducting a semi forensic type investigation to concretely understand the origins of company data.

For example, a large steel company client had invested substantial amounts in software and hardware systems to handle high volume manufacturing---but only for a limited number of products and narrow choice of options. When their industry rapidly became more competitive, customers demanded a wider range of customized product options including; color, length, and width. This dramatically more competitive environment required better operating systems to become more cost effective while meeting these new demands.

Information systems that had worked well could not meet rapidly changing customer demands. Murphy’s Law always seems to happen at the wrong time. Funds were not available for these new manufacturing and data systems.

Organizations (maybe yourself) solve limited supply of resources and outdated systems with unofficial excel spreadsheet systems. Excel's flexibility solves rigidity inside official operating systems. After all, buyers want the product customized to their needs and delivered on their time schedule; consumers are not concerned with the inner workings of the company's internal information system.

Even if the accounting department can deliver high level financial statements and reports needed for a Securities and Exchange Commission (SEC) reporting, management must have the right detailed information to run the business successfully. Think of the last discussion or meeting you attended where a manager insisted they could not get the information that was requested. That’s simply unacceptable in business.

Often, the short-term answer is to throw bodies against the problem. Sometimes the mid-range solution is to get the right eight people in a room for a day. They see what information is needed and how it can be delivered. That focused working group can initiate the process to obtain necessary information and help clear red tape for management and their teams.

Which aspect of this real world story can help your business make more bottom line profits by better managing limited resources available to improve customer and product profitability?

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