



Found Money Minute

Quick Thoughts To Help Small Business Owners See Better Financial Results

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Is Your Business Digging A Hole?

I was recently reading an article about a study that found only 25% of customers are actually profitable. The particular study focused on the computer retailing industry but I've worked with enough businesses to know it's the same for almost all businesses.

That's a jaw-dropping statistic. It means that the remaining 75% of customers are costing the businesses money. A business is worse off, financially, after dealing with three out of every four customers.

In other words, businesses are actually digging a hole in profits by dealing with three-quarters of their customers. Three out of four of their customers cost them money and create a loss for the business. And then the business relies on the remaining 25% of customers to make enough profit to "fill" in the profit hole created by the other 75%.

And all that has to happen before the business actually makes a dime in overall profit.

Why would a business do that?

It's clear that the business would be better off if it didn't have that "profit hole" to fill. If it could only focus on the 25% of customers that actually made it money. If it did that, then ALL of the profit from those customers would contribute to overall profit, instead of first having to erase losses incurred from money-losing customers.

The problem is that most business owners don't truly understand how to decide which customers actually make them money, and which ones don't. And because of that, they feel compelled to deal with any customer that walks in the door.

But if you take the time to actually look at your customers, analyze them to see which ones REALLY are, indeed making you money, and which ones aren't, then you will have the ability to take action. Focus on the ones that are making you money, and rehabilitate the ones who are losing you money.

If you can PREVENT yourself from digging a hole in the first place, then ALL your efforts go toward making your pile (of money) grow from the very beginning. No hole = bigger pile. Make sense?