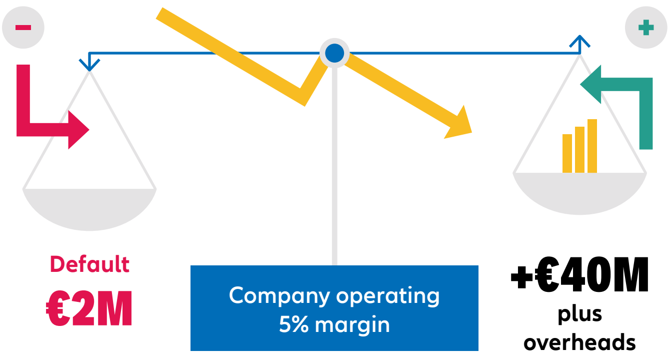
5 GOLDEN RULES FOR CHOOSING GOOD CUSTOMERS

Businesses are instinctively entrepreneurial, looking for new markets and profitable new product lines. While considering economic and market conditions is critical in selecting growth markets, it's important to remember that **a successful move into a new market starts with the quality of your customers.**

The impact of choosing the wrong customers can be severe.



A company operating at a 5% margin must find additional revenue of €40 million, plus overheads, to offset a default of €2 million. An undesirable pressure to say the least.

While it does also depend on geography and your appetite for risk – keeping in mind there are also good companies in bad sectors, and bad companies in good sectors – there are still **Golden Rules to help you select the right customers.**

1 Bear in mind distance, visibility and knowledge

Risk and margin increase depending on the distance to the customer. That can mean miles or kilometers, but equally can be the length of time granted for credit. Enhancing visibility and knowledge can also decrease risk.

2 Consider all the angles

If you're moving into unchartered waters, it's always useful to have a third party's view. To build profitable and lasting relationships, you'll need data, such as DSO benchmarking, and a network of partners. You'll need local market knowledge for context and real time information to ensure your risk level meets your business objectives.

3 Invest in intelligence

Go beyond the financial ratings and assess whether your potential customer has a sound business strategy and culture that matches your own. Your finance team will have a critical role to play, as they can use their analysis of buyers to set credit limits and price discounts – helping reward good customers and weed out poor performers.

4 Look for clues

Do your potential buyers have any type of risk coverage, including credit insurance? Studies have shown that companies who do are more profitable, in part because they are empowered to take more calculated risks. It's also a sure-fire sign of strong corporate governance, as well as an early warning system to manage exposure.

5 Play the long game

The best customers are usually the ones you know most. The longer the relationship, the greater the understanding of your mutual business strengths and needs, and the greater the willingness to provide flexible and extended terms – especially if the customer uses any credit insurance arrangements to help secure finance.

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