

When One Customer Becomes Too Important

Understanding Customer Concentration & Protecting Your Cash Flow

Having a large, reliable customer can be a major win for a growing business. Larger orders, steady work and predictable revenue can give you the confidence to hire, invest and take on new opportunities.

But there can also be a hidden risk. When a significant portion of your revenue or your outstanding invoices is tied to just one or two customers, your business may be more financially vulnerable than it appears.

This is known as customer concentration risk, and it's something every growing business should keep an eye on.

What Is Customer Concentration Risk?

Customer concentration occurs when a large percentage of your company's revenue comes from a small number of customers.



"Never take your eyes off the cash flow because it's the lifeblood of business."

- Sir Richard Branson

Imagine your business generates \$100,000 in monthly sales, but \$45,000 comes from one customer. That customer may be excellent and pay consistently but nearly half of your monthly revenue is still dependent on a single relationship.

Now imagine that customer:

- Starts paying 15–30 days later
- Suddenly reduces its orders
- Disputes a large invoice
- Changes its payment terms
- Experiences financial difficulties of its own

Your sales may still look strong, but your available cash can change very quickly.

Revenue Isn't the Same as Cash in the Bank

This distinction becomes especially important for businesses that invoice their customers.

You can have your strongest sales month of the year and still experience a cash shortage if those invoices aren't due for another 30, 60 or even 90 days.

Meanwhile, your own obligations continue. Payroll needs to be met. Suppliers expect payment. Fuel, insurance, equipment, taxes and operating expenses don't necessarily wait for your customers to pay you.

That's why healthy businesses don't just monitor how much they're selling. They also monitor who owes them money, how much is outstanding and when that money is expected to arrive.

Dos and Don'ts

DO

- Monitor your accounts receivable regularly.
- Diversify your customer base where possible.

- Know your customers' payment habits.
- Build cash-flow forecasts around reality.
- Plan before taking on a large contract.

DON'T

- Confuse strong sales with strong cash flow.
- Allow overdue invoices to quietly accumulate.
- Wait for a cash-flow emergency to explore your options.
- Turn down good business simply because payment terms are long.

IPS TIP OF THE MONTH

At month-end, list your five largest outstanding customer balances. Record the amount outstanding, invoice age, usual payment time, and expected payment date. This quick review gives you a clearer view of next month's cash flow.

From Invoice to Working Capital

Growth often creates a challenge: the more work you take on, the more cash you may need upfront.

That's why accounts receivable management matters. If your business has completed work and invoiced another business, that invoice represents money earned but not received for weeks.

IPS helps Canadian businesses turn eligible current invoices into working capital sooner, bridging the gap between completing the work and getting paid.

This can provide cash for payroll, suppliers and the next opportunity without waiting for customer payment terms to run their course.

Created by the IPS Business Owner Success School (BOSS)