

BLACKTECHSTARTUP EDUCATION

Customer Concentration: When One Big Customer Becomes Company Risk

Measure how much revenue, cash, roadmap and bargaining power depend on a few accounts—and reduce the damage if one relationship changes.

A large customer can be proof, distribution and cash. It can also become a company-level single point of failure. Investors examine concentration because losing one account may simultaneously cut revenue, strand customized product work, delay collections and weaken the next financing story. The right response is not to apologize for winning a large account; it is to quantify dependence and show a credible path to diversification.

Know what weak and strong look like

READINESS AREA	WEAK / DILIGENCE RISK	STRONG / INVESTOR-READY
Revenue share	Founder knows the biggest logo is “important.”	Top-1/top-5 share calculated on revenue, ARR/GMV and gross profit.
Contract risk	Annual logo assumed safe.	Renewal date, termination for convenience/cause, pricing, assignment and change-of-control terms mapped.
Cash exposure	Only revenue concentration measured.	Receivables, prepaid/deferred revenue and payment timing measured by account.
Product dependence	Custom work described as “enterprise features.”	Code/process exceptions and roadmap share attributable to one customer quantified.
Diversification	“We are hiring sales.”	Named pipeline/cohort plan shows when concentration should fall and by what mechanism.

Measure concentration several ways

Top-1 and top-5 revenue share are starting points. Also calculate gross-profit share, accounts-receivable share, contracted backlog and product/engineering capacity tied to the customer. A low-margin whale can dominate attention without dominating gross profit.

Read the contract as a risk instrument

Extract renewal, notice, termination, minimum commitments, volume bands, SLA credits, pricing resets, exclusivity, IP/custom-development rights, assignment and change-of-control provisions. Put dates and notice windows on the operating calendar.

Separate healthy beachhead concentration from structural dependence

Early B2B startups often begin concentrated. The question is whether the first customer proves a repeatable segment or forces a bespoke company. Track what percentage of implementation and product work is reusable for the next 10 customers.

Build a loss scenario

Assume the top customer disappears at the next termination point. Recalculate cash runway, gross margin, staffing need and covenant/debt effects. Pre-decide what spend changes and what sales motion accelerates.

Diversify by repeatability, not random logos

Target customers that validate the same product thesis. Five unrelated custom accounts can reduce numerical concentration while increasing operational fragility.

Run the diligence stress test before investors do

Do not rehearse an answer. Rehearse the evidence. Give yourself a short diligence window and try to produce the underlying records without rebuilding the story from memory. A clean result is reproducible, tied to a source system or signed document, and consistent with the numbers elsewhere in the company.

→ **Revenue share:** Put the underlying records on screen and prove this standard: Top-1/top-5 share calculated on revenue, ARR/GMV and gross profit. If the evidence still looks like this

weak state—Founder knows the biggest logo is “important.”—record the gap, name an owner and give it a due date instead of explaining it away.

→ **Contract risk:** Put the underlying records on screen and prove this standard: Renewal date, termination for convenience/cause, pricing, assignment and change-of-control terms mapped. If the evidence still looks like this weak state—Annual logo assumed safe.—record the gap, name an owner and give it a due date instead of explaining it away.

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→ **Product dependence:** Put the underlying records on screen and prove this standard: Code/process exceptions and roadmap share attributable to one customer quantified. If the evidence still looks like this weak state—Custom work described as “enterprise features.”—record the gap, name an owner and give it a due date instead of explaining it away.

→ **Diversification:** Put the underlying records on screen and prove this standard: Named pipeline/cohort plan shows when concentration should fall and by what mechanism. If the evidence still looks like this weak state—“We are hiring sales.”—record the gap, name an owner and give it a due date instead of explaining it away.

Do the math investors will do

Concentration measures: Top-1 revenue concentration = largest customer revenue ÷ total revenue. Top-5 = sum of five largest ÷ total. Also calculate top-1 gross-profit concentration and A/R concentration. Example: one customer is 32% of revenue but 18% of gross profit because delivery is heavily customized; that tells a different risk story than revenue alone.

Build the evidence investors can verify

✓ Top-20 customer schedule with revenue/ARR/gross profit

✓ Contract term/renewal/termination matrix

✓ A/R and collections concentration

✓ Customer-specific product/customization inventory

✓ Top-customer loss scenario and management response

✓ Diversification pipeline tied to the same ICP/use case

Questions an investor may ask

? What happens to runway if your largest customer does not renew?

? Can this customer terminate for convenience?

? How much engineering work is unique to them?

? What is top-1 concentration on gross profit and receivables?

? When does top-1 fall below your internal threshold under the base case?

30-day repair sprint

1 Days 1–4: build customer concentration schedule.

2 Days 5–10: abstract contract/renewal/termination terms.

3 Days 11–15: quantify custom delivery and gross-profit dependence.

4 Days 16–20: model loss of top-1 and top-3 customers.

5 Days 21–25: define diversification targets and sales pipeline.

6 Days 26–30: put renewals, notice dates and risk triggers on the operating calendar.

Research behind this guide

Use the primary and authoritative sources below to verify current rules, market conditions and technical guidance. Terms and regulations can change.

Andreessen Horowitz — Insider's Guide to Data Rooms



SEC — Small Business Glossary: Due Diligence



Stripe — Customer Lifetime Value



Bessemer Venture Partners — Scaling from \$1M to \$10M ARR



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