Why Big Customers Can Be Bad for Business

ORLANDO, FLORIDA, UNITED STATES, March 20, 2024 /EINPresswire.com/ -- When landing the first big customer, it feels like a real win. And it is – as long as it doesn't remain the biggest account. Especially in the lawn and landscape business, having too much revenue coming from too few customers can be a red flag. Especially for buyers, if the owner is thinking about selling any time in the future. Here's why.


Jim Parker, Lawn Boss

The lawn and landscape business is both seasonal and competitive. There's not much differentiation between companies, so it's easy for customers to make a change if the level of service drops over time. Even if there is a written agreement with a commercial account, it usually takes just a 30-day notice to terminate the contract and move on.

That means a big part of monthly revenue could disappear with little notice. So, it's strongly encouraged landscape company owners invest in prospecting and marketing, even after they've landed a couple of big accounts. Diversifying the customer base is always good business; it protects the business from taking a disastrous hit if a big customer changes his mind.

Wondering how diversified the business should be? Here's a formula: no one customer should represent more than 15% of revenue. It's recommended that the biggest accounts be around 10% of the total revenue or less.

That means the company should regularly acquire more customers, especially if a business sale is planned within the next couple of years. It's very tough to sell a business—even a 7-figure business—if it has just two or three big accounts. Buyers simply don't want to take on the risk.

Companies with too much customer concentration may be unsellable. If they do sell, most buyers will make deeply discounted offers to mitigate risk. If they do offer full price, the seller will almost certainly be asked to take on a significant amount of owner financing, which, of course, reduces the payout that the seller's been counting on.

Some buyers will insist on forgivable notes – a note that requires payment of principal and interest over a fixed period. These notes, though, include trigger events that could make the debt forgivable. An example might be retaining the top three customers for the next two years after closing. (Now you can see why having a few very big accounts presents such risk.)

Another way sellers structure high-risk deals is to offer earn-outs instead of paying the full asking price at once. This form of owner financing requires the seller to assume some of the risk over the first year or two of new ownership. The seller only gets the payments if the company meets the revenue goals agreed to in the sales contract.

So it's obvious why getting the first big customer is just the beginning, rather than the end, of the story. Marketing is always going to be the lifeblood of any company, and a lawn business is no exception. It’s critical to be aware of the customer mix at every stage of the business and work every day to make sure the the right number and the right mix of customers.

Using these practices makes a business stronger while it is owned and has a stronger chance of selling it for a great price when the owners are ready to exit.
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