REVENUE QUALITY CHECKLIST · DEAL STAGE: ENTRY

Ten questions to ask about the customer base before you price the deal

The revenue line tells you what the customer base produces. These questions tell you whether it will keep producing that after acquisition. Each maps to a dimension of revenue quality that standard diligence does not surface.

1 **Which customers generate the top 20% of revenue, and is that share growing or shrinking?**
Revenue concentration risk. If the top 20% is becoming more concentrated, the multiple is resting on fewer customers.

2 **Have the highest-value customers increased, maintained, or reduced their spend over the last 24 months?**
Value-tier migration. Reduction in the top tier is the leading indicator of revenue deterioration.

3 **What percentage of revenue comes from customers acquired in the last 12 months?**
Cohort dependency. A high and rising share of revenue from recent cohorts indicates a fragile base.

4 **Are new customers entering at the same average spend and frequency as the incumbent base?**
Cohort quality. Growth that dilutes the average customer value reduces revenue quality even as total revenue increases.

5 **What percentage of the customer base is dormant, and has that changed over the last 24 months?**
Dormancy is deferred churn. A rising dormant population signals revenue at risk that has not yet left the reported numbers.

6 **Are the highest-value customers purchasing across multiple categories, and is that breadth stable?**
Breadth is a retention predictor. Breadth contraction in the top tier precedes churn by 6 to 12 months.

7 **Is the ratio of new high-value to new low-value customers improving or deteriorating?**
Acquisition quality. Six low-value customers for every high-value one means growth is diluting, not reinforcing, the revenue base.

8 **What proportion of revenue is structurally supported versus dependent on promotional or seasonal activity?**
Revenue durability. Promotional revenue inflates the headline; it does not survive the acquisition intact.

9 **Is the customer base becoming more or less concentrated over a 24-month observation period?**
Concentration trend. A deteriorating trend, even with revenue growth, signals single-point risk accumulating under the surface.

10 **Does the investment thesis depend on customer behaviour the available data can actually confirm?**
Thesis grounding. If the answer is no, the entry pricing is based on assumption, not evidence.

Commission the Health Check

If you cannot answer three or more of these questions with confidence from the data available, you need the Health Check before you price the deal.

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