Accelerating Value Creation Post-Close

Taking Commercial Diligence to the Next Level





Today we're going to discuss...

- ✓ Why most M&A deals fail
- ✓ The drivers of value creation
- ✓ How the voice of the customer can be incorporated into the due diligence process
- ✓ Customer due diligence best practices
- ✓ Three customer due diligence case studies





Poll



Why do you believe 70% to 90% of deals fail to live up to expectations?

- a) Margin compression
- b) Lack of innovation or new products
- c) Loss of key customers
- d) Disruptive technologies or competitors
- e) All of the above



Pre-close, sellers tend to paint an optimistic picture



- Great customer relationships
- Expanding market share
- Stable, secure pricing
- Improving margins
- New products that customers love
- Competitive but controllable landscape
- Positive growth outlook for the category

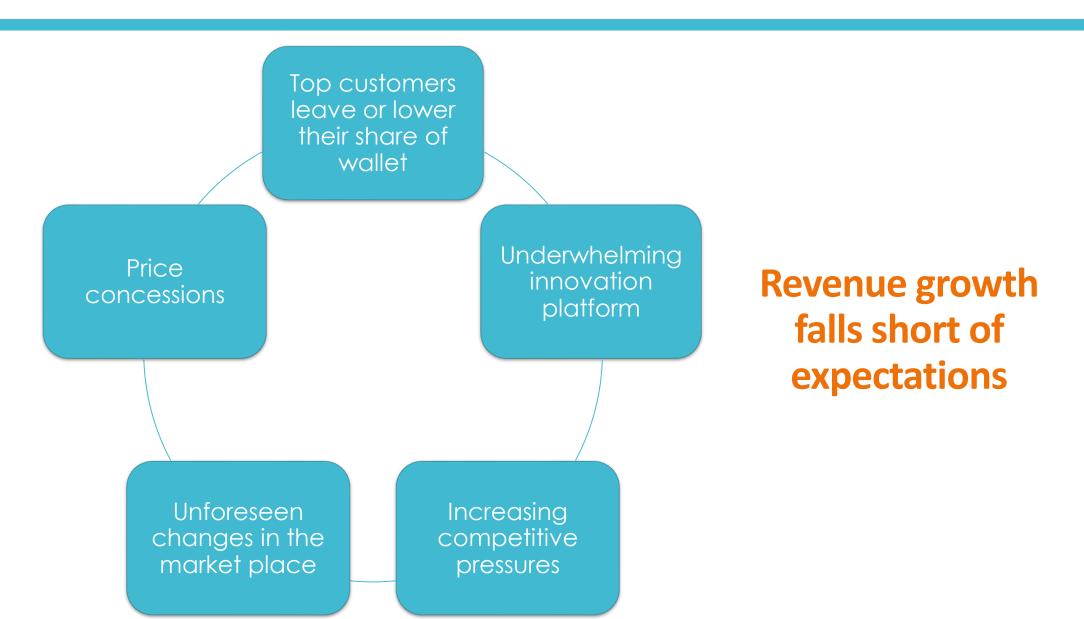
But after closing, reality often sets in

- A top account is lost
- Price concessions are given to retain accounts
- Competitors make in-roads
- Promising innovation efforts don't take off

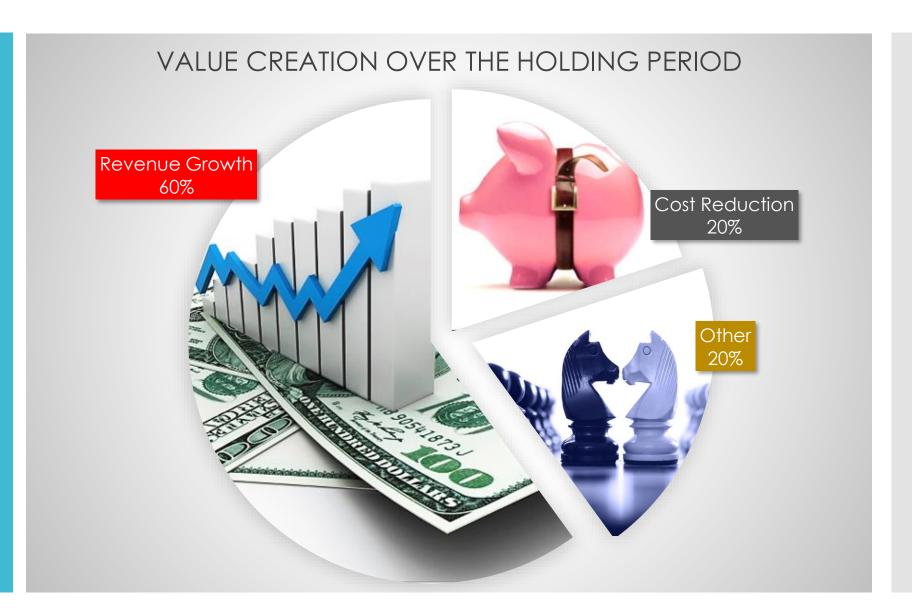




What's the result?



Revenue growth is the primary driver of value creation.





HOW CAN YOU INCREASE THE ODDS OF

GROWING
REVENUE POSTCLOSE?

 Retain and expand the customer base

Raise prices

Innovate

What do investors think?

"Due diligence is inadequate in more than 40% of deals."

McKinsey & Company Survey of Dealmakers

Customer diligence efforts are often inadequate

- Cursory "reference checks"
- Brief, web-based interviews
- "Check the box" exercises
- Limited analysis
- Light topical insights
- Weak recommendations





There has to be a better way.

Quality of Customers® (QofC®) applies the Voice of the Customer (VOC) methodology to the world of customer due diligence.

QofC® is another tool in the due diligence toolbox

Common Types of M&A Due Diligence

Financial

Analysis of the company's financial statements, tax returns, accounting policies, and financial trends

Legal

Analysis of corporate documents, contracts and agreements, ongoing, pending, and potential litigation, environmental factors, and legal and regulatory compliance

Operations

Analysis of the company's technology, fixed assets, and facilities, as well as real estate and insurance coverage

Human Resources

Analysis of the company's structure, employee benefits, management and personnel, and labor matters

Quality of Earnings

Model the company's future earning potential, which is the basis on which valuation is determined

Quality of Customers

Analysis of the company's customer relationships in order to determine if key accounts are at risk – an often overlooked factor of QofE estimates

Mutually Beneficial

Peace of Mind

Close deals with confidence or, in extreme cases, withdraw an offer if insurmountable issues surface

Leverage to Negotiate

Potential for meaningful price concessions due to concerns unearthed that would impact QofE

Accelerate Value Creation

Faster and better integration with a short term playbook to retain and expand the revenue base



The goal is to shift the role of customer feedback from this...

Customer

Feedback

Buying

Process

Competitor Landscape

Market Growth & Trends

Size of the Market



...to this.

Buying **Process** Competitor Landscape Market Growth & **Trends** Size of the Market **Customer Feedback**

The benefits of QofC® are realized both pre- and post-close

Confirms other forms of due diligence

Validate revenue forecasts

Validate margin projections

Map the competitive landscape

Provides insights to develop a playbook for revenue growth

Uncover top areas for improvement

Informs an innovation roadmap

Provides insights to gain market share

Customer due diligence best practices

- Presented as a "customer satisfaction survey"
- Sponsored by target company
- No mention of a deal or pending transaction
- Focus on top accounts
- Aggressive timeline
- Insightful set of questions
- Ladder findings → insights → recommendations

Objective-driven conversations with top customers



- Satisfaction and loyalty
- Pricing risks and opportunities
- Competitive benchmarking
- Growth outlook for the market
- Likely adoption of new innovations
- Unmet needs and market trends

Satisfaction → Loyalty → Increased market share

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Timothy L. Keiningham, Lerzan Aksoy, Bruce Cooil and Tor Wallin Andreassen

> Linking Customer Loyalty to Growth



The current issue and full text archive of this journal is available at www.emeraldinsight.com/0960-4529.htm

The value of different custor: satisfaction and loyalty met predicting customer rete. recommendation, and share-of-wallet

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Purpose – The purpose of this research is to examine different customer satisfaction and loyalty metrics and test their relationship to customer retention, recommendation and share of wallet using

Design/methodology/approach - The data for this study come from a two-year longitudinal nemet panel of over \$000 US customers of firms in one of three industries (retail banking, terner paner or over coop up customers or nems in one or unive monastics occan nomining, assemerchant retail, and internet service providers (ISPs)). Correlation analysis, CHAID, and three assumerchant retait, and internet service providers (EU/3). Corresision analysis, CIVILIA, and latest pass of regression analyses (best-subsets, ordinal logistic, and latent class ordinal logistic regression)

dings - Contrary to Reichheld's assertions, the results indicate that recommend intention alone will author as a single predictor of customers' future loyalty behavior. Use of a multiple indicator instead make as a single predictor or customers matter anything outsides. On a manager monature attraction and performs better in predicting customer recommendations and retention. arch limitations/implications - The limitation of the paper is that it uses data from only

ical implications - The presumption of managers when looking at recommend intention as mary, even sole gauge of customer loyally appears to be erroneous. The consequence is amsallocations of resources due to myobic focus on customers, recommend intentions of missallocations of resources due to myobic focus on customers, recommend intentions. ality/value - This is the first scientific study that examines recommend intentions and its n relention and recommendation on the micro (customer) level.

ds Customer retention, Customer loyalty, Customer satisfaction



The Net Promoter Score[®] is

A RELIABLE

PREDICTOR

of a business's growth outlook.

Please note that gray areas reflect activors that has

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Poll



Has a company you own, advised, or are attempting to acquire measured their Net Promoter Score®?

- a) Yes
- b) No
- c) I'm not sure
- d) I have never heard of the NPS®

The Net Promoter Score®

Q: How likely is it that you would recommend Company X to a friend or colleague?

Promoters		Passives		Detractors						
10	9	8	7	6	5	4	3	2	1	0

Net Promoter Score = % Promoters - % Detractors

Promoters

- Repeat purchasers
- Willing to pay a premium
- Putting their reputation on the line for you

Passives

- Somewhat satisfied but not necessarily loyal
- Will shop around
- Will pressure you on price

Detractors

- High risk of leaving
- Expensive to service
- Spreading negative word of mouth



Interpreting the score

NPS Growth Outlook

> 35 NPS 10 to 35 NPS < 10 NPS

Gain Share ↑ Maintain Share ↔ Lose Share ↓



Highest NPS firms often outpace their industry segment's growth rate by 2x to 3x

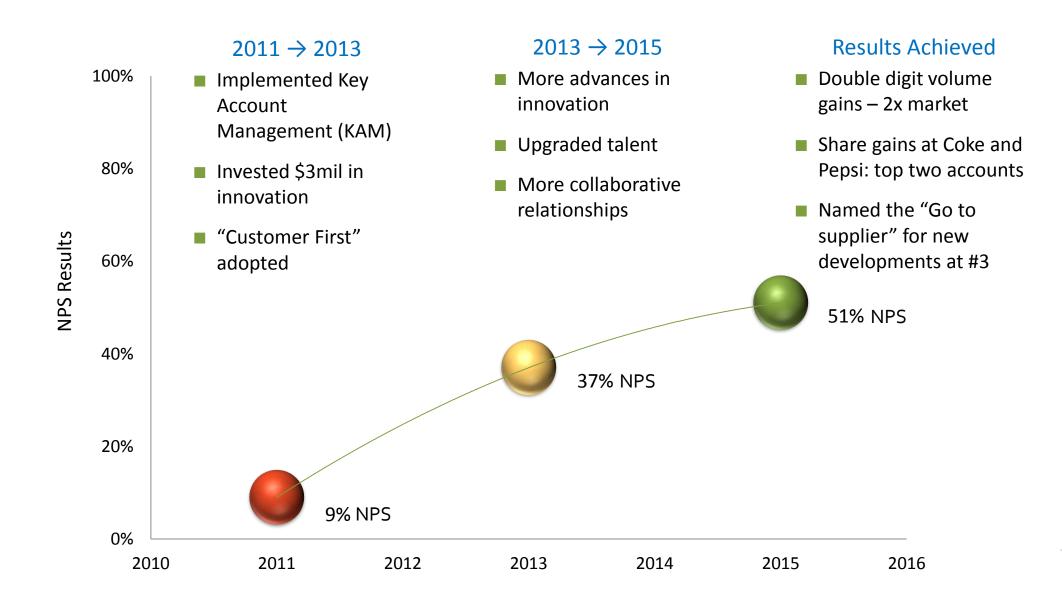


A high NPS company is often the premium priced player because customers are buying more than just a product



Customers who score a high NPS are less costly to maintain and less likely to leave. Detractors are 2x as likely to leave

NPS® EXAMPE: PET Bottle Producer



NPS® is not a panacea; you have to close the loop

Overall impressions and NPS "Closing the Loop" Validated ratings with competitor benchmarks Nuanced understanding of the issues Identification & prioritization of opportunities Customer Competitor benchmarking experience



CASE STUDYRaising Prices

Key Insight to Discover

- What's the Outlook for Pricing?
- Room to Increase Pricing?Or....
- Risk of Shrinking Margins?

"If I didn't say their pricing was too high, I should be fired from my job."

Purchasing Director Leading Beverage Company



Telltale Signs of Actual Opinion

- Is the NPS score a 9 or 10?
- Does the respondent not mention pricing?
- Does the respondent rate pricing favorably?
- Does respondent admit he's receiving great value for the price?

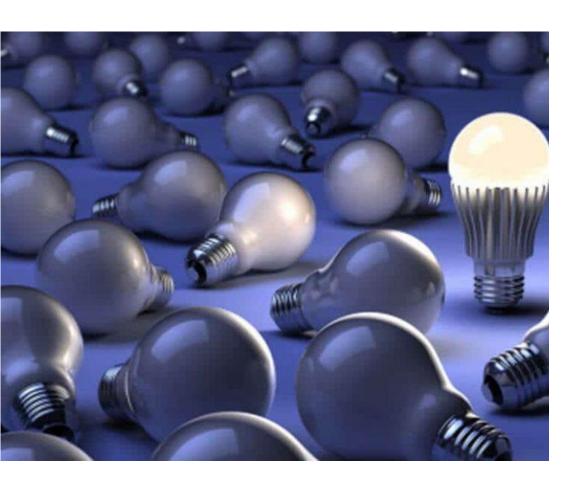
- Does customer favor competition due to lower pricing?
- Does respondent specify the % premium charged?
- Is it a repetitive theme across the market?

CASE STUDY: VALUE HINGED ON PRICING



- South African **Packaging** Company
- Established Company / Good Reputation
- VOC Discovered **Pricing Under** Attack from **Imports**

CASE STUDY: LOSS OF PRICING POWER



Leading manufacturer of LED lighting was being severely pressured to lower costs, Chinese imports had altered the market

VOC Research discovered...

- Pricing was 30-40% too high
- The company's industry role as an innovator had been lost
- Without innovation, they could not justify premium pricing
- Customers wanted leading-edge product focus from the manufacturer



VALUE CREATION:

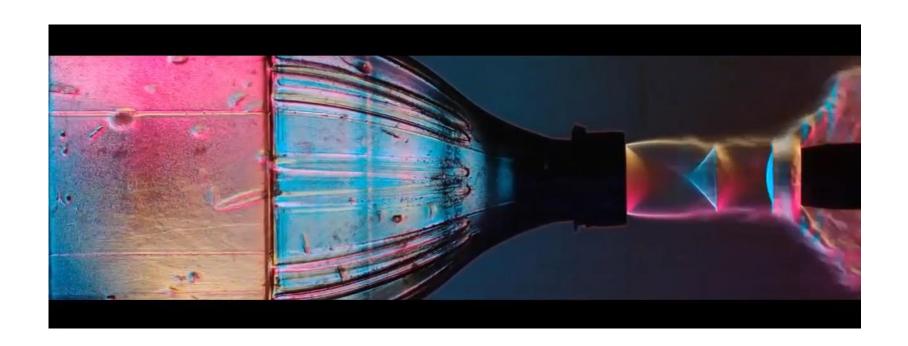
GROWTH
THROUGH
INNOVATION

Keys to Determine...

- Are there unmet needs?
- Does the target's new business ideas have real potential?
- Do customers want new products from the target?

CASE STUDY: INNOVATION ROAD MAP

Customers identified over 2 dozen product enhancements in one VOC initiative for a manufacturer in a highly specialized tech field.



CASE STUDY: JOINT INNOVATION



Leading manufacturer of specialty chemicals believed customers were not innovating in their product category

VOC Research discovered...

- 16 top accounts who viewed themselves as innovators
- 25% were open to joint innovation roadmap development
- Over 200 potential new program opportunities were identified

CASE STUDY: VALIDATING NEW IDEAS PRE-SALE



Leading manufacturer of high-end rugs / carpeting was promoting 4 new product opportunities. Were they legitimate?

QOC® Research discovered...

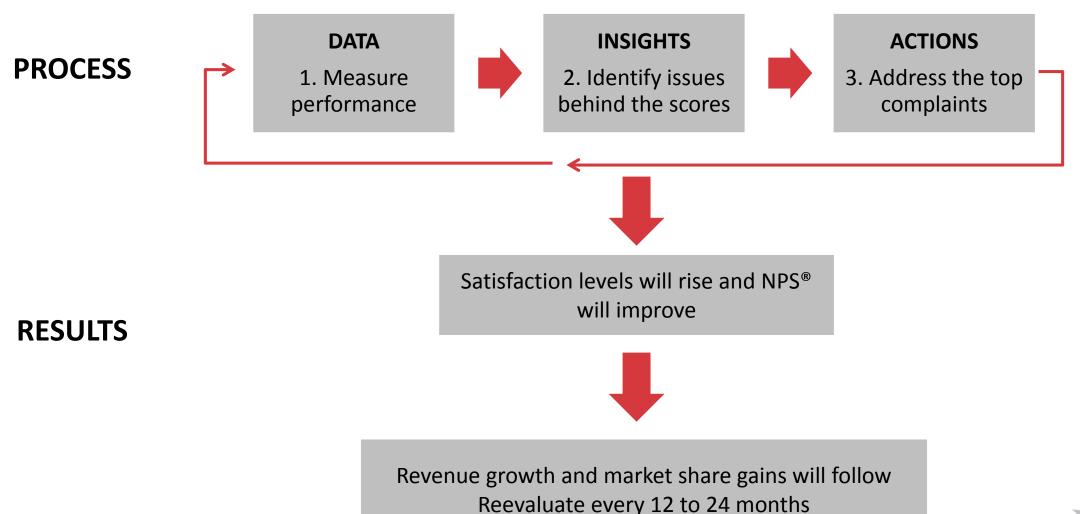
- Actual demand for the product ideas
- Specific features desired
- Drawbacks to overcome.
- Competitor's presence. Market well served? Saturated?
- Key's to success to commercialize
- Pricing considerations

TOP LINE VALUE CREATION RECAP

Recap:

- Use Voice of the Customer to assess and develop a playbook for making business improvements and inform the strategic plan.
- Assess potential for value creation in 3 areas
 - 1. Gaining volume with current customers
 - 2. Increasing Price
 - 3. Introducing New Innovations
- Do it early...during due diligence or immediately after closing

QofC® is intended to be a continuous improvement tool



Value Creation in the Words of our Clients

Assess stability of customer relationships

"Three or four customers represented 70% of the business. A customer dropout or fall-off would have been devastating. **Strategex's information made us comfortable with the acquisition**."

Turnkey solution

"The ability to have a third party manage this process is significantly better than us doing it ourselves. We would not have gotten the same feedback if we had done it."

In-depth analysis

"The information that's gained from the QofC process allows us to sit down with management teams and engage with them at a level of insight and engagement that we wouldn't normally have being new to the business."

Playbook to kickstart value creation

"We are **definitely taking all their recommendations** for follow-up steps including the four or five improvement efforts."































Client Perspective



"We build the recommendations that come out of customer due diligence work into the path to value that we have for the company, because we're interested in accelerating topline opportunities and improving customer service. All those things are directly tied to the value that we're going to be able to create with our investment."







Thanks for your time.

Questions?



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