

A stack of smooth, dark grey stones is balanced on a larger, flat stone. The background is a soft, out-of-focus green, suggesting a natural setting. The text is overlaid on a semi-transparent grey band across the middle of the image.

# Combining Customer and Commercial Diligence to Ready M&A Deals for Greater Success

Presented by



In partnership with



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**Anthony Bahr**

Vice President

01-312-357-5219

[abahr@strategex.com](mailto:abahr@strategex.com)



**Kay Cruse**

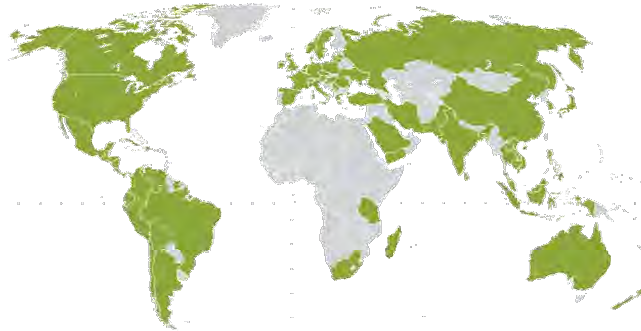
Vice President

01-312-357-5208

[kcruse@strategex.com](mailto:kcruse@strategex.com)



Chicago-based research firm specializing in customer experience (CX) and the Voice of the Customer (VOC) methodology



Since 1993, over 800 B2B engagements

Due diligence and non-due diligence related

60% domestic, 40% international

**4,000+**

Customer phone interviews estimated in 2018, all done by our in-house team of executive interviewers

# Today's Agenda

- 1 What's the difference between customer and commercial diligence?
- 2 How do you know when a deal would benefit from a joint approach?
- 3 What are best practices for combining customer and commercial diligence?
- 4 Questions



**On your most recent B2B deal, did you perform or recommend any of the following?**

- A) Commercial diligence**
- B) Customer diligence**
- C) Both**
- D) Neither**



# Commercial Diligence Objectives

## Commercial Due Diligence

- Size the **category**
- Historical and projected **category** growth
- **Category** pricing and margin benchmarks
- Analysis of primary **category** competitors
- **Category** trends
- cursory analysis of the **customer** base

*Data is typically derived from secondary research, expert panels, and other open-source databases*

## Commercial Diligence's Blind Spot

The greatest errors in estimation appear on the revenue side which is particularly unfortunate, since revenue synergies form the basis of the strategic rationales for entire classes of deals. ***Almost 70 percent of the mergers in our database failed to achieve the synergies expected in this area.***

McKinsey & Company



# Customer Diligence Objectives

- Assess the strength and stability of the **customer** base
- Validate the future growth outlook based on expected change in **customer** spend
- Benchmark the target against specific suppliers from which the **customer** is sourcing
- Identify opportunities to improve the **customer** experience and gain share of wallet
- Understand what **customers** consider to be the most important trends and disruptions

*Data is derived from primary research, including in-depth interviews with decision makers at the target's top accounts*

**Customer Due  
Diligence**



## Customer Diligence Validates the Stability of the Revenue Base

When one investor acquired a company, the acquirer suffered unusually high losses among the target company's customers, rendering the deal unprofitable. *Due diligence on the target's customers would have revealed that they were especially likely to defect.*

McKinsey & Company

Commercial *or* Customer Diligence?

Commercial *and* Customer Diligence!

Commercial  
Diligence

Customer  
Diligence

***Increased odds of a successful deal***

The customer is king

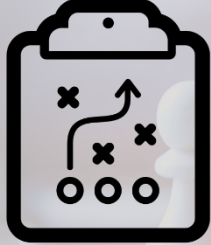
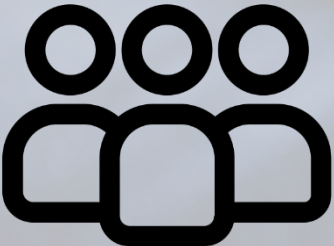
“In B2B transactions,  
**customer relationships are  
the most critical driver of  
value.**”

M&A VP | \$3B Manufacturing Company

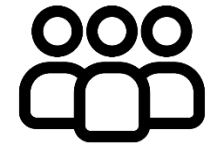


When might a joint approach be necessary?

# When the success of a deal pivots on being able to...



# Mitigate the risk of customer concentration



## Questions to ask

Q: Are top revenue generators loyal?

Q: Are any top accounts at risk?

Q: If so, what can be done to retain them post-close?

Q: Do customers expect to increase, maintain, or decrease their spend with the target?

**Best Practice:** Segment customers by revenue and conduct in-depth interviews with the top 20% of customers which are typically generating roughly 60% to 80% of revenue.

# Validate the growth outlook for the category and the target



## Questions to ask

- Q: Does the growth outlook for the category and target confirm assumptions made in the pro forma financials?
- Q: Should the projected EBITDA or offer price be revised based on customer forecasts?

**Best Practice:** Set baseline expectations using commercial diligence, and validate at both the target company and account levels via customer interviews.

# Optimize the target's channel strategy



## Questions to ask

- Q: Are the target's current sales channels aligned with customer buying preferences?
- Q: Are there emerging channels which the target has not yet identified, or in which it is not participating?

**Best Practice:** Use commercial diligence to identify common channels, and use customer interviews to validate and calibrate the target's channel mix and strategy.



# Improve win-loss ratios and reduce customer churn



## Questions to ask

- Q: When customers are evaluating suppliers, what are the most influential criteria in the decision-making process? How does the target perform against these criteria? What suggestions do they have for improvement?
- Q: What are the triggers for customer churn? How can they be prevented? How can the target reengage with lapsed or lost customers post-close?

**Best Practice:** Map the Customer Decision Journey (CDJ) via in-depth customer interviews, and consider additional interviews among lapsed, lost, or prospective customers to gain a more holistic understanding of the CDJ.

# Strengthen the target's competitive position



## Questions to ask

- Q: From which other suppliers are customers sourcing?
- Q: How is the target perceived relative to competitive suppliers? Is it the go-to supplier? If not, what can the target do to enhance competitive advantages and minimize disadvantages?

**Best Practice:** Use commercial diligence to paint a picture of the competitive landscape, and supplement with customer interviews to understand how market forces have an impact on the target's top accounts.

# Uncover opportunities to improve the customer experience



## Questions to ask

- Q: How satisfied are customers with the most important customer experience touchpoints (quality, lead times, delivery, price for the value, etc.)?
- Q: What suggestions do customers have for improving these touchpoints?

**Best Practice:** Develop a customer journey map to identify when and how customers interact with the target, implement customer-suggested improvements, and track the effectiveness of these improvements over time.

# Build a compelling innovation roadmap



## Questions to ask

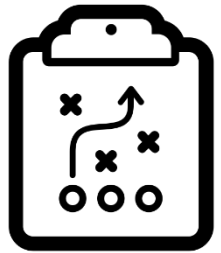
Q: Are customers satisfied with the breadth and depth of offerings?

Q: Are competitors offering something the target is not?

Q: Do customers see trends or disruptions in the market that may serve as an opportunity to develop a new product or service concept?

**Best Practice:** Utilize commercial diligence to gain a high-level understanding of the state and future of the industry, and supplement with customer interviews to gain insights more relevant to the unique unmet or under met needs they may have.

# Develop a value creation playbook



## Questions to ask

- Q: What can the target do to organically grow share of wallet?
- Q: How can the target most effectively acquire new customers?
- Q: Is there an opportunity to increase prices?
- Q: How can the target operate more efficiently to improve margins?
- Q: Is the target servicing its top customers more effectively than less important accounts?

**Best Practice:** Using customer feedback, develop a series of recommendations for the target to implement post-close. Incorporate best practices from the 80/20 management consulting toolkit to ensure the “whales” are being treated differently than the “minnows”.

# Determine the need for an active operating partner



## Questions to ask

- Q: Are customers satisfied with the level of engagement they have with the target company's management? Do they feel valued as a customer?
- Q: Has the target reached partner status, or are they still considered a vendor?
- Q: Do customers express confidence in the management team, or are there concerns about succession and the abilities of leadership?

**Best Practice:** If the answer to any of these questions is “no”, there may be a need for a strong operating partner to ensure the management team is effectively executing against the playbook and creating value.

# Evaluate cultural fit and ability to integrate with a platform



## Questions to ask

- Q: How do customers characterize their impressions toward the target?  
What is the 'persona' of the target?
- Q: Do customers respect their primary contacts?
- Q: Do customers question their integrity, or are they people with whom they are proud to do business?

**Best Practice:** Use feedback from customer interviews to determine if the target exhibits similar values to the acquiring team and, if an add-on, to the platform.

Objectives are fully tailored to the  
nuances of the transaction





## Post-Close Benefits

“This is the **only type of diligence we do that adds value post-close.**”

Managing Director | Private Equity Firm

# Post-Close Benefits

## Insights that kickstart the value creation process

Nurture existing  
accounts and grow  
share of wallet

Optimize pricing  
strategies

Develop strategies to  
retain at-risk  
accounts

Maximize value  
proposition by  
focusing on top areas  
for improvement

Develop an  
innovation pipeline  
based on market  
needs

# Case Study: Confirm Growth Outlook & Performance



# TOPICS COVERED IN THIS VOC REPORT

1. Overall Impressions of ACME and NPS® Ratings
2. Top Strengths and Areas of Improvement
3. Competitor Benchmarking
4. Key Performance Measures
5. Taking Care of the Customer
6. Future Outlook

# ACME's Customer SWOT

## STRENGTHS

- △ SUPERIOR CUSTOMER SERVICE
- △ STRONG PROGRAM AND LEAD QUALITY
- △ PROVEN INDUSTRY KNOW-HOW AND LEADERSHIP
- △ CUSTOMER LOYALTY BUILT THROUGH STRONG PARTNERSHIPS AND CUSTOMIZED APPROACH

## OPPORTUNITIES

- ▷ ENHANCE CAPABILITIES IN TRAINING AND EDUCATION FOR SALES TEAMS, INCLUDING CLIENT TEAMS, AND INCLUDE MORE CONTENT-DRIVEN DEVELOPMENTS
- ▷ INTENSIFY MARKETING EFFORTS AND EXTEND NETWORK TO BRING MORE CREATIVE LEADS TO CLIENTS
- ▷ EXPAND INTO OTHER INDUSTRY SEGMENTS BEYOND TECH

## WEAKNESSES

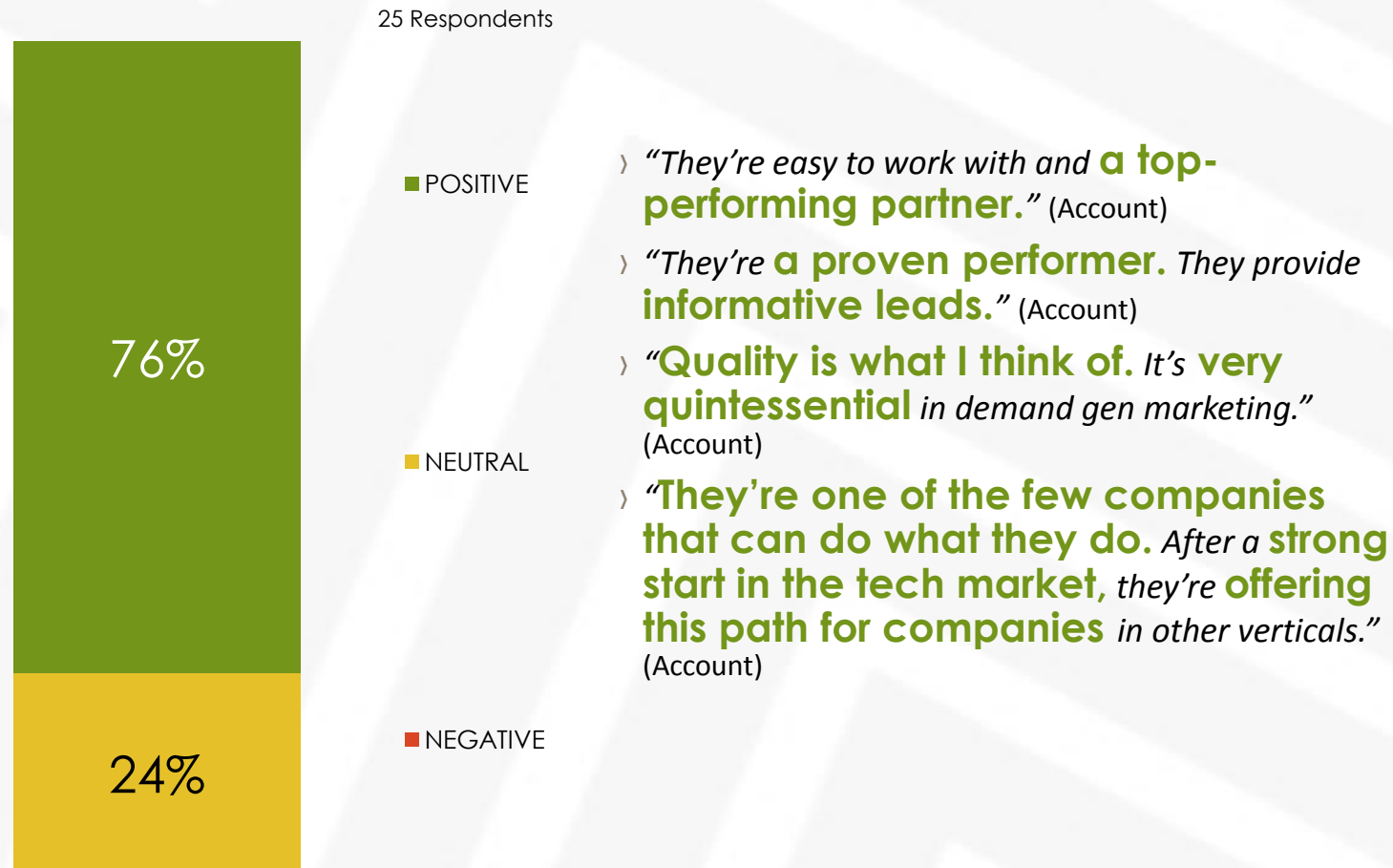
- ▽ ACCOUNT MANAGEMENT REQUIRES MORE PROACTIVITY AND ONGOING COMMUNICATION
- ▽ LEADS NOT AS TARGETED AND PROCESS NOT AS TRANSPARENT AS DESIRED
- ▽ LEAD CONVERSION RATES THOUGHT TO BE LOW, WITH LESS NOTICEABLE BUSINESS OUTCOMES
- ▽ RESPONDENTS WANT SERVICES BEYOND THOSE CURRENTLY OFFERED—TOOLS FOR DATA INSIGHT LIMITED

## THREATS

- ▽ NEW COMPETITORS' LEAD QUALITY AND INNOVATIVE SERVICES SOMETIMES OUTPACE ACME
- ▽ TRANSPARENCY ISSUES MAY POINT TO NEGATIVE PERCEPTIONS OF DATA QUALITY
- ▽ OTHERS ARE MORE EFFECTIVE AT LIST SCRUBS

# First Impressions of ACME

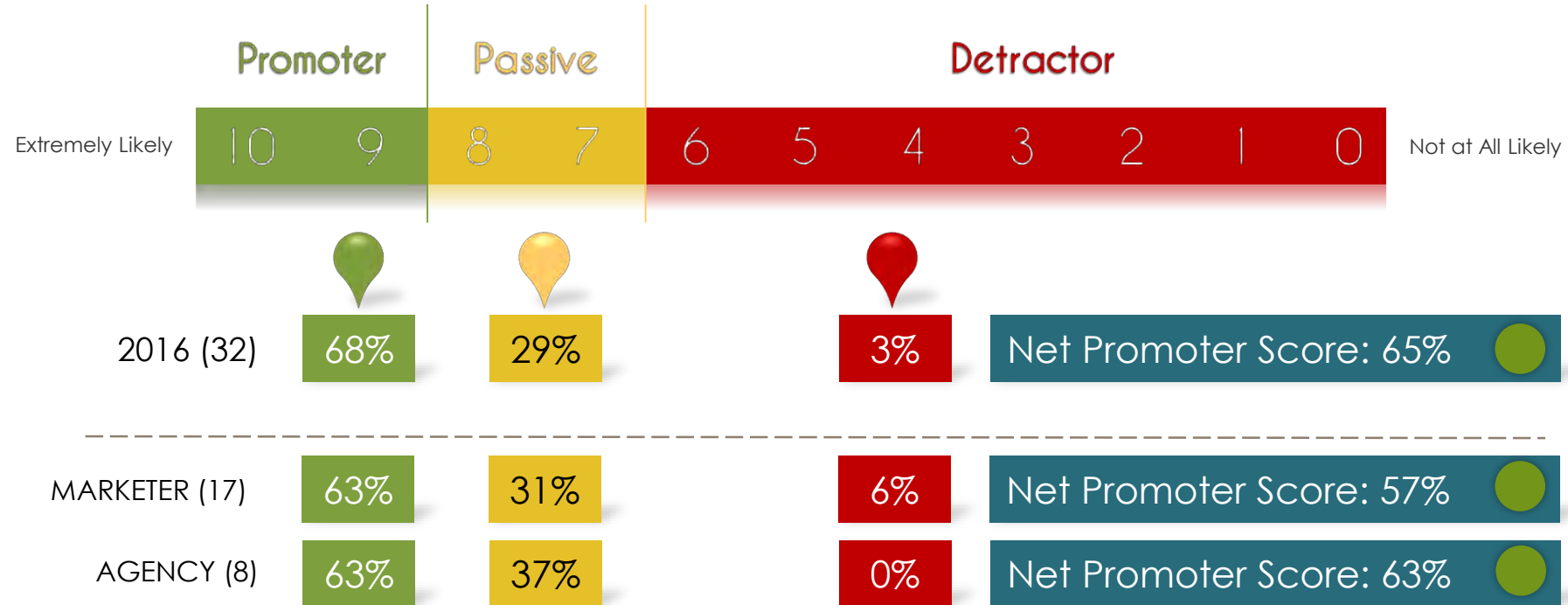
Q. When you think of ACME, what are the first things that come to mind?



Respondents often used the word “partner” when describing ACME.

# ACME's Net Promoter Score®

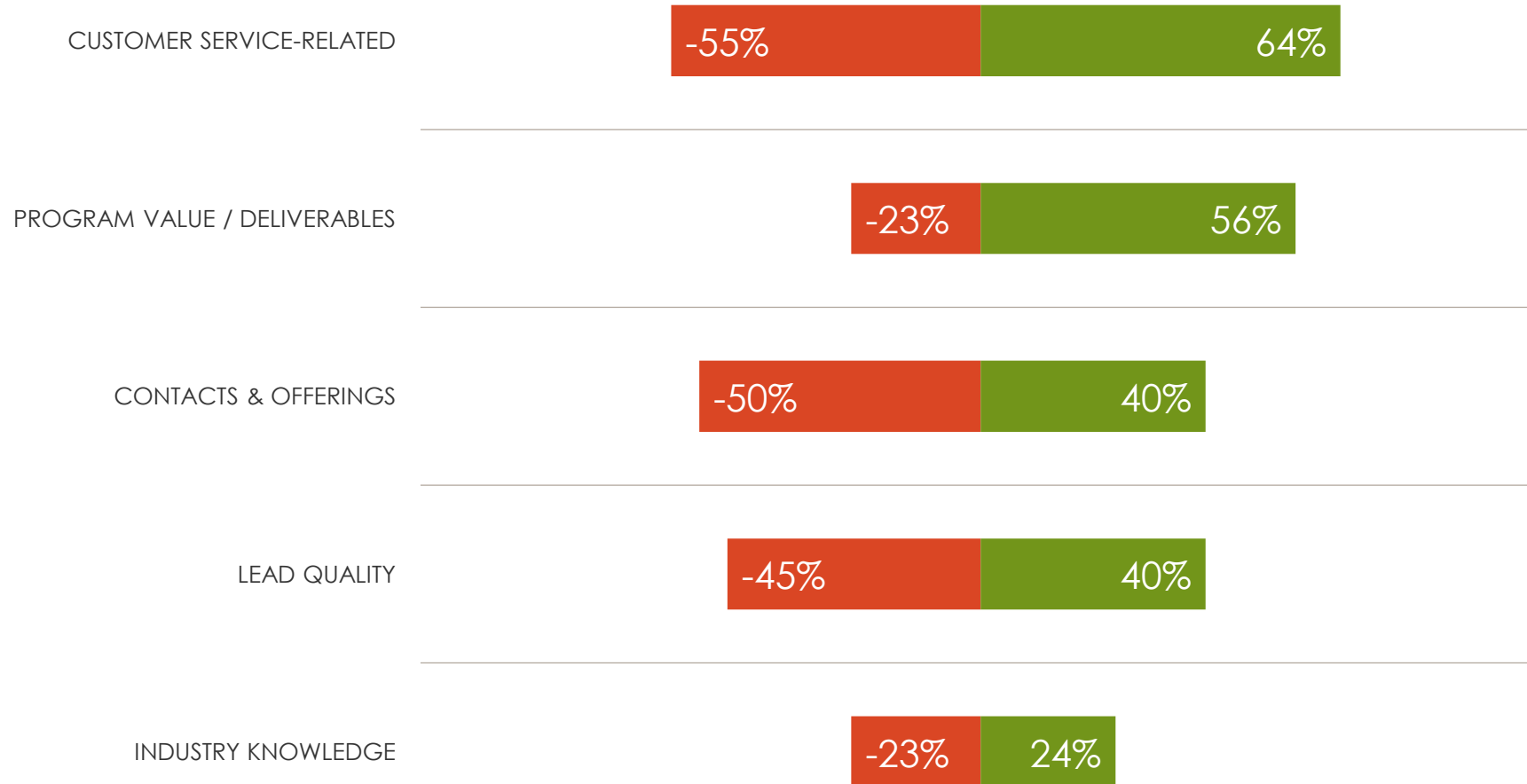
Q. How likely is it that you would recommend ACME to your colleagues within your organization and in the industry?



A very strong NPS, indicating solid customer relationships.

# Summary of ACME's Performance

Q. Top of mind, name the top two to three strengths and improvements for ACME.



ACME has positive values across all aspects of the relationship spectrum; however, there is a “drag” on contacts / offerings and lead quality.



# Ratings Summary by Top Five Accounts

COMPANY		2016 REVENUE (THOUSANDS)		2016 NPS®	SECURITY OF RELATIONSHIP	FUTURE SPEND WITH ACME	COMMENTARY
M	ACCOUNT 1	\$3,279	14%	5.0			› Lacks in lead quality (noted as core issue), and higher conversion rates provided by competitors
M	ACCOUNT 2	\$2,951	13%	9.0			› Overall satisfied, but more understanding of what ACME can offer and how to leverage is requested
M	ACCOUNT 3	\$1,814	8%	10.0			› ACME is a top-performing partner. Spend is stable: already more spend with ML than other vendors
A	ACCOUNT 4	\$1,500	6%	9.5			› Highly satisfied, though more collaboration and training for sales team noted
M	ACCOUNT 5	\$1,459	6%	8.0			› Views ACME very positively, but unsure about future due to recent merge with Company x

“SECURITY OF RELATIONSHIP” IS AN OVERALL ASSESSMENT OF NPS, SATISFACTION RATINGS, PLUS TONE OF COMMENTS

● VERY SECURE   ● ISSUES RAISED / ROOM TO IMPROVE   ● SIGNIFICANT COMPLAINTS / BUSINESS AT RISK

“FUTURE SPEND” REFLECTS CUSTOMERS' EXPECTATIONS FOR FUTURE BUSINESS WITH ACME

↑ INCREASE SPEND   ↔ FLAT   ↓ SPENDING DECLINE LIKELY

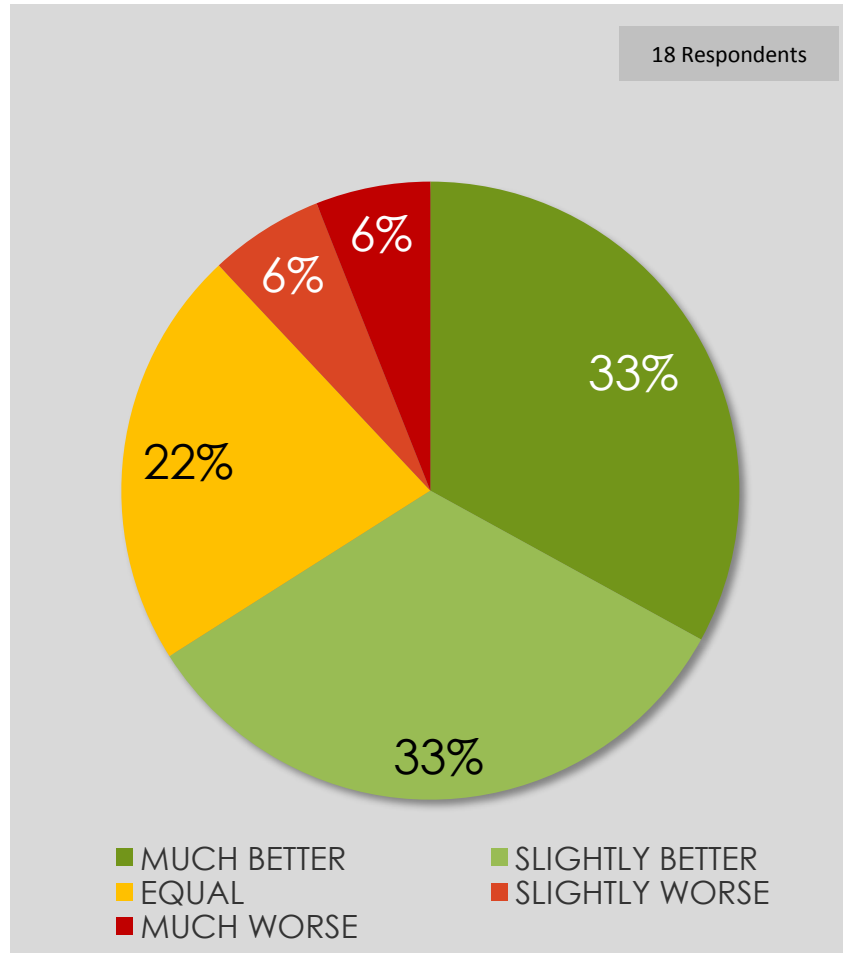
M – MARKETER  
A – AGENCY

# Who Complained?

	ACCOUNT*	2016 REVENUE (THOUSANDS)	ACCOUNT MANAGEMENT	EXTEND OFFERINGS	POOR LEAD QUALITY	IMPROVE DELIVERABLES	LACKING INDUSTRY / TECH. EXPERTISE
TOP ACCOUNTS	ACCOUNT 1	\$3,279			✓		
	ACCOUNT 2	\$2,951		✓	✓	✓	✓
	ACCOUNT 3	\$1,814	✓				
	ACCOUNT 4	\$1,459	✓	✓			
	ACCOUNT 5	\$1,420	✓		✓		
	ACCOUNT 6	\$1,136	✓	✓	✓		✓
	ACCOUNT 7	\$1,087	✓		✓		
	ACCOUNT 8	\$603			✓		
	ACCOUNT 9	\$488				✓	
	ACCOUNT 10	\$293	✓			✓	
	ACCOUNT 11	\$130				✓	✓
	ACCOUNT 12	\$83	✓	✓	✓		✓
	ACCOUNT 13	\$67	✓	✓	✓		

# Competition: Digital Lead Generation

Q. How does ACME compare to the competition?

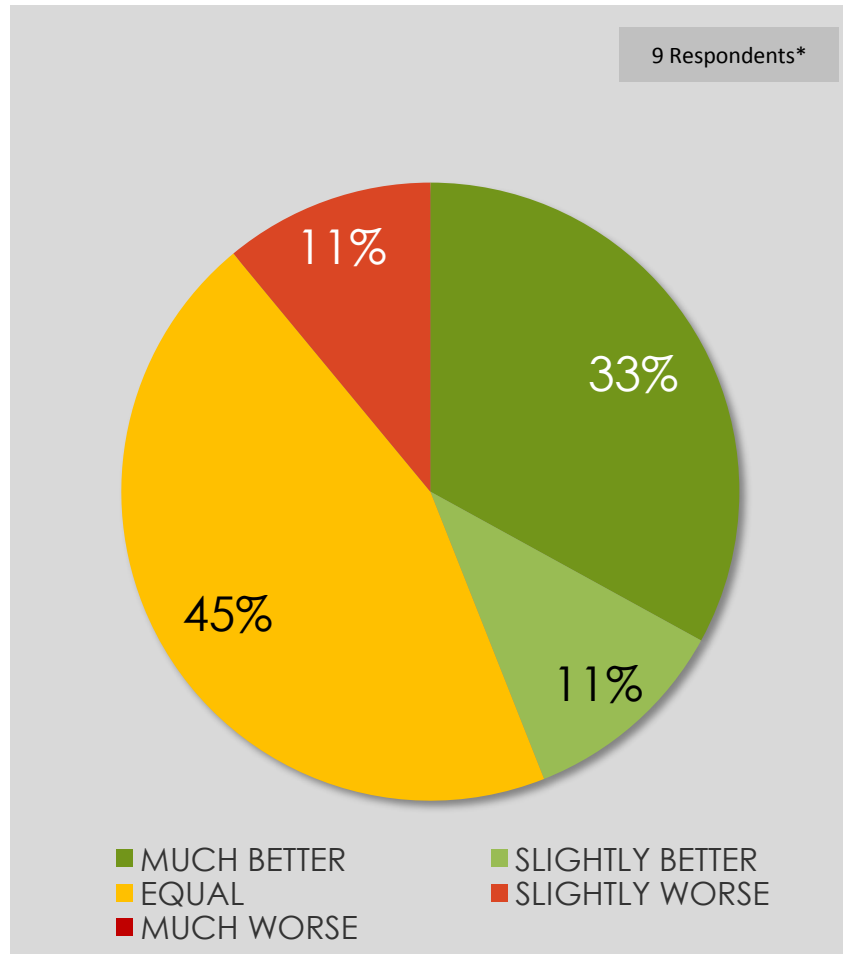


- › “ACME is better at lead generation and data. They get more targeted leads.” (Account)
- › “ACME is better when it comes to cost, quality, and timely delivery of leads.” (Account)
- › “ACME is better when you consider lead quality, scalability, and vision around ABM sales and services. COMPETITOR is better than Competitor A and B, but not as good as ACME.” (Account)
- › “ACME is slightly better than COMPETITOR MEDIA. Compared to most of the vendors we use, ACME is significantly better. ACME seems to be innovative in cool programs like the intent data program, and we’re interested in the third-party service ability to de-dupe contacts already in our database; they provide leads we don’t already have.” (Account)

ACME holds a steady position against the competition.

# Competition: Display Solutions

Q. How does ACME compare to the competition?

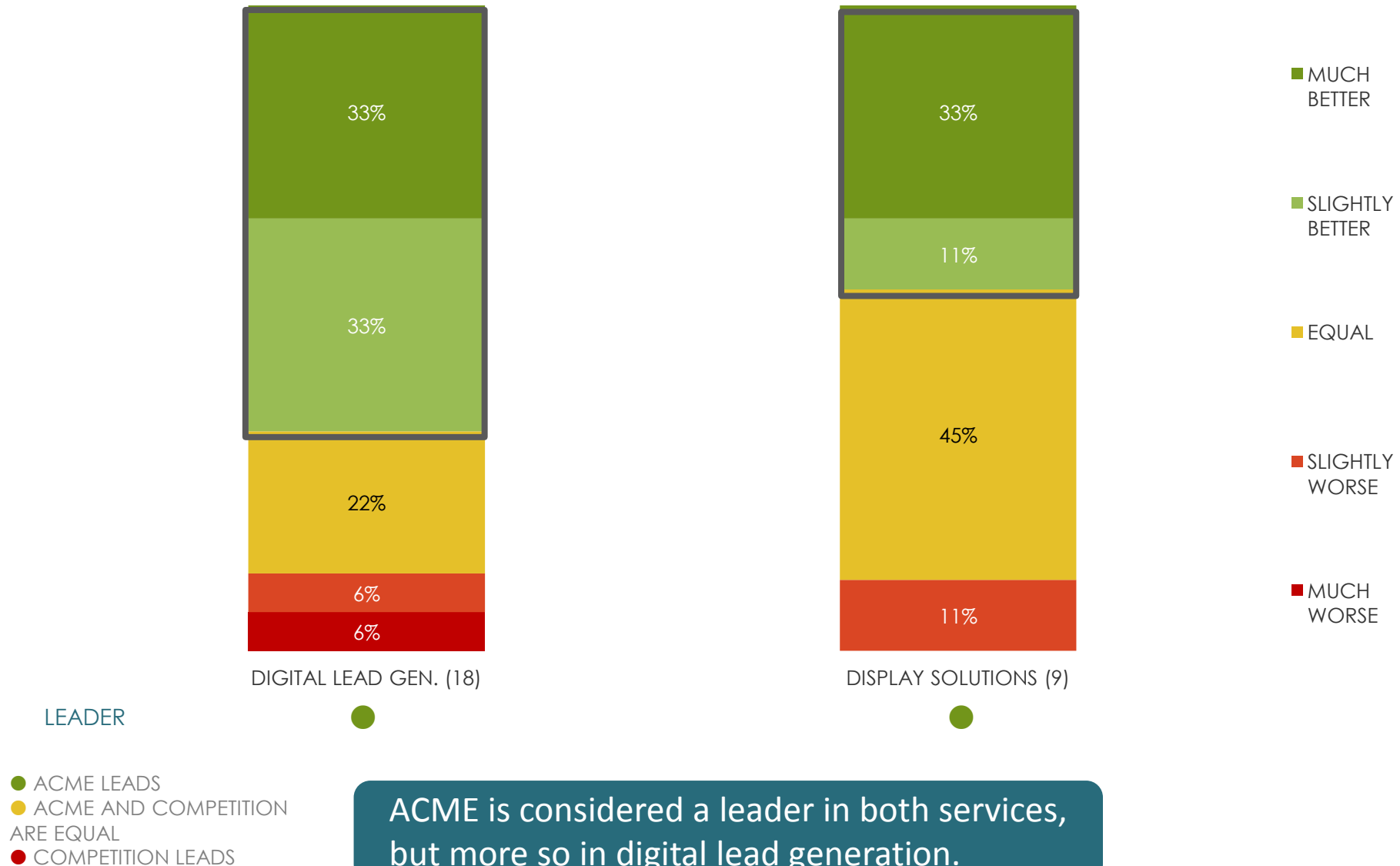


- › “ACME’s **strength is on the demand side with display capabilities.**” (Account)
- › “ACME is **better on targeting capabilities, worse on cost—maybe 20-30% worse.**” (Account)
- › “They are **slightly worse from a volume perspective.**” (Account)
- › “From our experience, they are pretty equal. This is **less of a focus now than lead generation.**” (Account)
- › “We’ve used **COMPETITOR and COMPETITOR, but it’s been over a year because they weren’t as successful. They were slightly different strategies, but ACME has been a better value because of the better ROI.**” (Account)

Respondents largely view ACME as equal to the competition, but some value display and targeting capabilities.

# Service Performance vs. Competition

Q. How does ACME compare to the competition?



# ACME's Performance Ratings

	TOTAL	MARKETER	AGENCY	COMMENTARY
PRODUCT OFFERINGS	8.6	8.6	8.7	› ACME is generally well prepared to offer a diverse data market base. Respondents would like more education on campaign development and faster results.
TARGET AUDIENCE	9.0	9.0	8.8	› Many respondents noted ACME's high target quality and industry know-how. Some requests for more ideas to refine targeting.
ACCOUNT IDENTIFICATION	8.7	8.4	9.1	› Strong intent data and knowledge was mentioned, with improvements to be made in assessing purchase interest and prospect quality.
QUALITY OF LEADS	8.2	7.9	8.9	› A satisfactory rating: while ACME meets needs, there is a desire for leads that improve business rates and result in higher engagement.
OVERALL SUCCESS	8.3	8.2	8.6	› Overall measures of success were sufficient, but respondents require more pipeline revenue and lead conversion to feel ACME delivered.
PRICE FOR VALUE	8.4	8.3	8.4	› ACME has a very fair price for the value. Respondents appreciate the high ROI and quality services for the price.

# ACME's Performance Ratings

	TOTAL	MARKETER	AGENCY	COMMENTARY
CARE FOR THE CUSTOMER	9.1	9.4	8.5	› ACME is overall perceived as above average and provides a tailored approach to customer care, going above and beyond.
PRIMARY CONTACT	9.5	9.8	8.9	› ACME's primary contact team is known for being accessible, responsive, and in touch with respondents' business needs. Many reps are standout performers.
ACCOUNT SUPPORT	8.6	8.5	8.7	› A satisfactory performance: respondents want to see more consistent support and fewer gaps in information.
EASE OF DOING BUSINESS	9.1	9.4	8.6	› Many noted ACME's flexibility and availability to accommodate needs. Some desire an improved response rate.
LEVEL OF ENGAGEMENT	9.1	9.2	8.9	› Many noted the partnership-like feel they had with ACME, which enables it to achieve an extremely high level of satisfaction in its business relationships.

## Customer Focus Greatly Improved

*“THEY NOW HAVE **FANTASTIC LEADERSHIP** AND **FANTASTIC SALESPEOPLE** WHO ARE **LOOKING AT WHAT THEY CAN BRING TO ME** THESE DAYS. I THINK OF **HOW MUCH THEY’VE IMPROVED** AND **HOW FAR THEY’VE COME IN** DELIVERING TO OUR BUSINESS AND OUR NEEDS.”*

*TOP ACCOUNT*



# Future Outlook by Top Five Accounts

COMPANY		2016 REVENUE (THOUSANDS)		2016 NPS®	SECURITY OF RELATIONSHIP	SPEND ON ACCOUNT-BASED MARKETING			
						TOTAL SPEND	CURRENT WITH ACME	FUTURE SPEND	FUTURE SPEND WITH ACME
M	ACCOUNT 1	\$3,279	14%	5.0		<10%	NA		
M	ACCOUNT 2	\$2,951	13%	9.0		30-50%	35%		
M	ACCOUNT 3	\$1,814	8%	10.0		12-15%	12-15%		
A	ACCOUNT 4	\$1,500	6%	9.5		25%	85-100%		
M	ACCOUNT 5	\$1,459	6%	8.0		15-20%	NA		

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## POST-CLOSE AREAS TO ADDRESS

- 1. ENHANCE QUALITY OF LEADS:** While most report satisfactory quality, others are severely disappointed. Consider beta testing a smaller sample to assure lead quality, address de-duping and more aggressive list scrubbing. Lead quality and scalability is needed in other non-tech customer segments.  
**Investor:** ACME's growth strategy will hinge on this critical quality assurance element
- 2. IMPROVE TRANSPARENCY THROUGHOUT THE PURCHASE CYCLE:** Customers want more visibility and assurances of 'target appropriateness' as well as identification of program / campaign conversions. Higher conversion rates equal higher value per lead, enabling more share of wallet and engagement.  
**Investor:** More customer R&D engagement is needed to identify ways to access this information from the customer-side (if available) and identify technology-supported ways to capture this level of data if not
- 3. DEVELOP PREDICTIVE BEHAVIOR SERVICES:** ACME's innovation path should address this critical 'next phase' of understanding what clients' audiences want in content format. It would appear to be a natural add-on to intent data.  
**Investor:** Assess a 'buy or build' strategy to move into this next area of interest / expectation
- 4. INCREASE COMMUNICATION & EDUCATION:** Because ACME has been on the leading edge in digital lead generation and (to a lesser degree) display solutions, customers – and particularly partners – want to understand the strategic direction of the company. For marketers and agencies this includes understanding the horizon of opportunity (what's next) along with a better understanding of how to utilize current services. All look to ACME for sharing best practice in campaign development and execution.  
**Investor:** More Marketing expense to support these initiatives is likely, along with added Sales Training

## Customer Diligence Enables Acquirers to Invest Confidently

"Had we only followed the commercial diligence recommendations, ***we would have gone down the wrong path***. We were able to confidently ***adjust our expectations and plans for the target based on the customer diligence provided*** by Strategex."

Private Equity Client with \$700M+ AUM

Questions?





[strategex.com/checklist](http://strategex.com/checklist)



**Anthony Bahr**  
Vice President  
01-312-357-5219  
[abahr@strategex.com](mailto:abahr@strategex.com)



**Kay Cruse**  
Vice President  
01-312-357-5208  
[kcruse@strategex.com](mailto:kcruse@strategex.com)