

An aerial photograph of several runners on a red track, their shadows cast long and dark on the surface. The runners are in various stages of their stride, moving from the top right towards the bottom left of the frame. The track has white lane markings.

Sell-Side Customer Diligence: *Enhance Your Portfolio Sale Price*

Presented by



In partnership with



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Chicago-based research firm specializing in the Voice of the Customer methodology



Since 1993, over 700 B2B engagements.

Due diligence and non-due diligence related

60% domestic, 40% international

3,862

Customer phone interviews conducted in 2017

Today's Agenda

- 1 Customer due diligence defined
- 2 Why, how, and when to do it
- 3 Case study
- 4 Questions



Deal values are at an all-time high

“Everything is worth what its purchaser will pay for it.”

Publilius Syrus | First Century B.C.

The customer is king

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

M&A VP | \$3B Manufacturing Company

Market vs. Customer Due Diligence

Commercial Due Diligence

Market size
Category growth outlook
Category trends
Competitive landscape
Customer insights

Data derived from secondary research and interviews

Customer Due Diligence

Strength of relationships
Customer Perceptions
Growth Outlook
Share of wallet
New Opportunities

Data derived from customer interviews

Getting ready for the sale

Sellers paint an optimistic – but often undocumented – picture



Customer relationships are strong

Market share is expanding



Price levels are sustainable



Margins will improve going forward



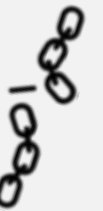
Full pipeline of validated innovations



No viable competitive threats



No foreseeable market disruptions



Prospective buyers then begin their investigation



Preempt the process



Customer due diligence done well

Best practices for a pre-sale customer survey

Position as a customer satisfaction study

Interview all -- or a majority -- of top accounts

Sponsored by the seller

Engaging phone conversations, not a static web survey

Quantitative scoring and qualitative insights

No mention of a possible sale

The European standard



Minimizes disruption



Levels the playing field





**Confirms key QofE
assumptions**

**Identifies future earnings
potential**

Controls the message





Good results can enhance the valuation.

Average results can allow the seller to explain performance and introduce believable action plan.



Designing a study that will satisfy the needs of prospective buyers



Timing: 60 to 120 days prior to kicking off the sales process

Who to interview?



Plan for the right number of interviews

1

Apply the 80/20 rule

Focus on customers that generate a majority of revenue – the ones that are critical to retain post-close

2

Determine how many contacts per customer

At top customers, consider multiple interviews to secure a more holistic sense of the relationship

3

Interview New Accounts

Gather feedback from accounts known to have future upside potential

4

Interview Special Situation Accounts

Speak with accounts known to have interest in new products or technologies

What to ask?



Fact-based, objective conversations

- Assess customer loyalty (NPS)
- Understand strengths and weaknesses
- Competitive benchmarking
- Growth outlook for the customer
- Innovation: likely adoption, market trends

Measure customer loyalty

The Net Promoter Score®

*A reliable predictor of
a business's growth outlook*



Satisfaction → Loyalty → Improved market share

NPS explained

How likely are you to recommend Company X to a colleague in the industry?

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
- Likely to recommend to others

Passives

- Somewhat satisfied but not necessarily loyal
- Will shop around
- More price sensitive

Detractors

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

NPS is linked to valuation

> 35 NPS

Gain Share ↑



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

15 to 35 NPS

Maintain Share ↔

< 15 NPS

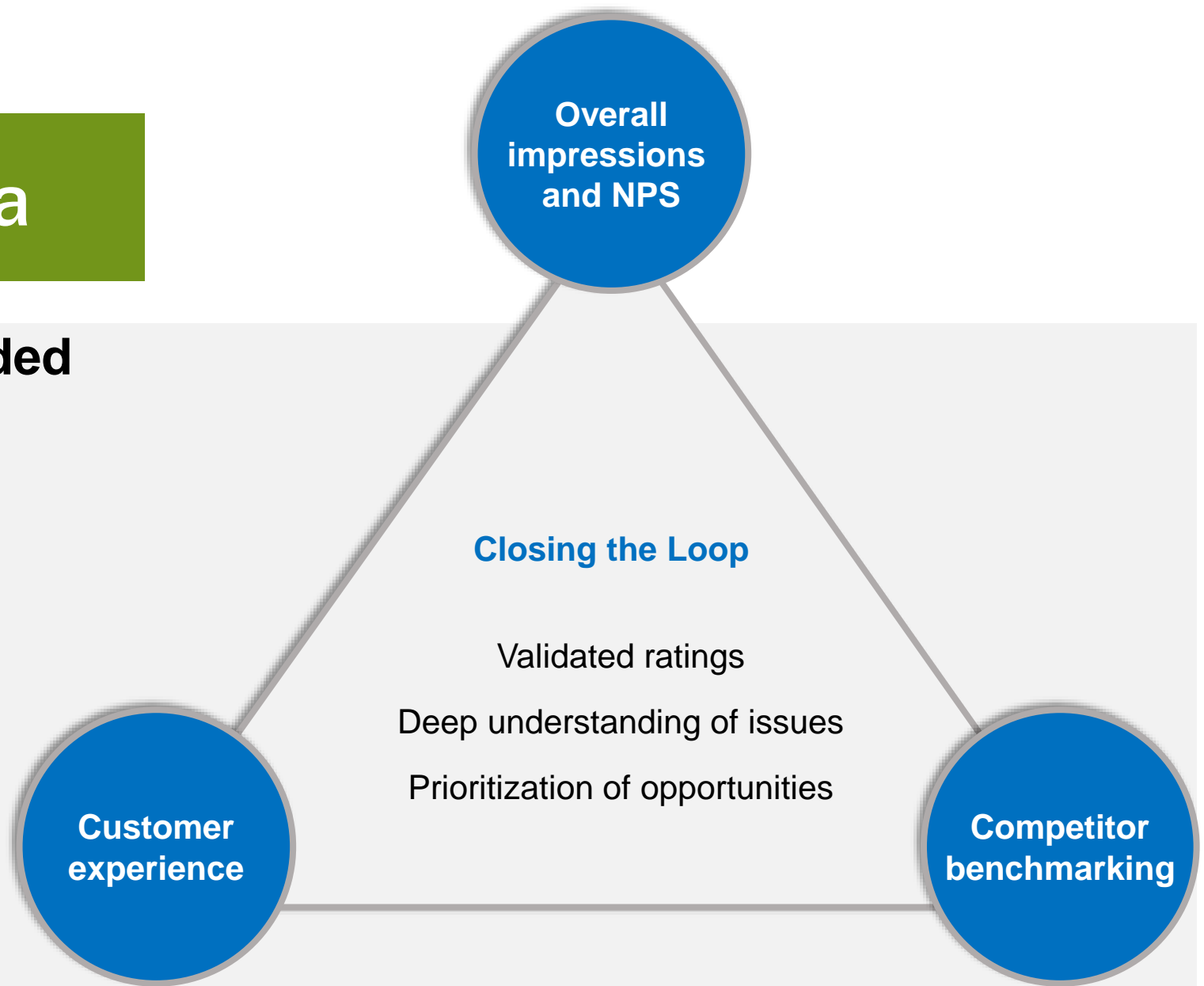
Lose Share ↓



A **high NPS company** is more capable of sustaining a price premium.

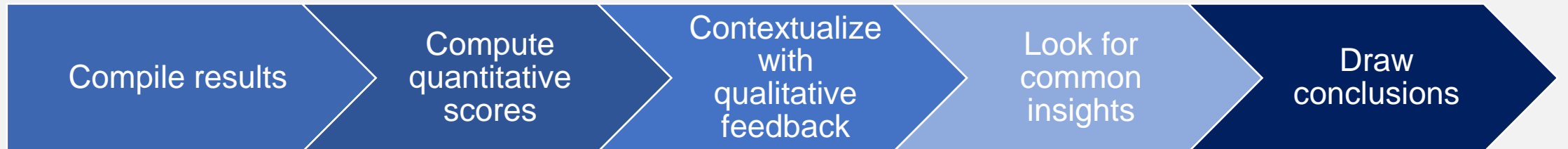
NPS is not a panacea

More questions are needed



Thoughtful analysis

Effective and objective distillation of the results



Benefits the portfolio

Proactive insights to develop a playbook for accelerating growth

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 & Innovation Roadmap

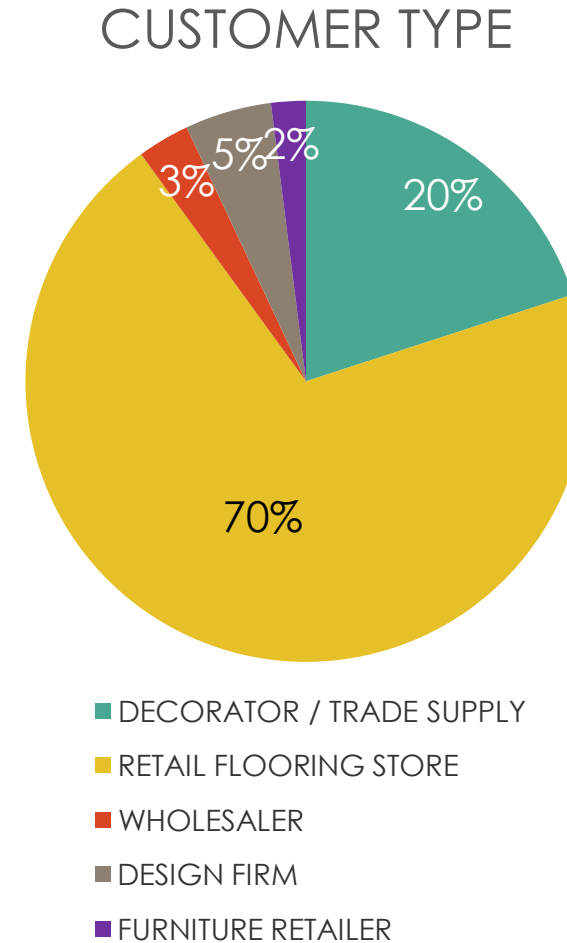


2016 Voice of the Customer Initiative
Assessing Customer Loyalty,
Competitive Position, and
Opportunities for Future Growth
Carpet Inc.



VOC Project Scope

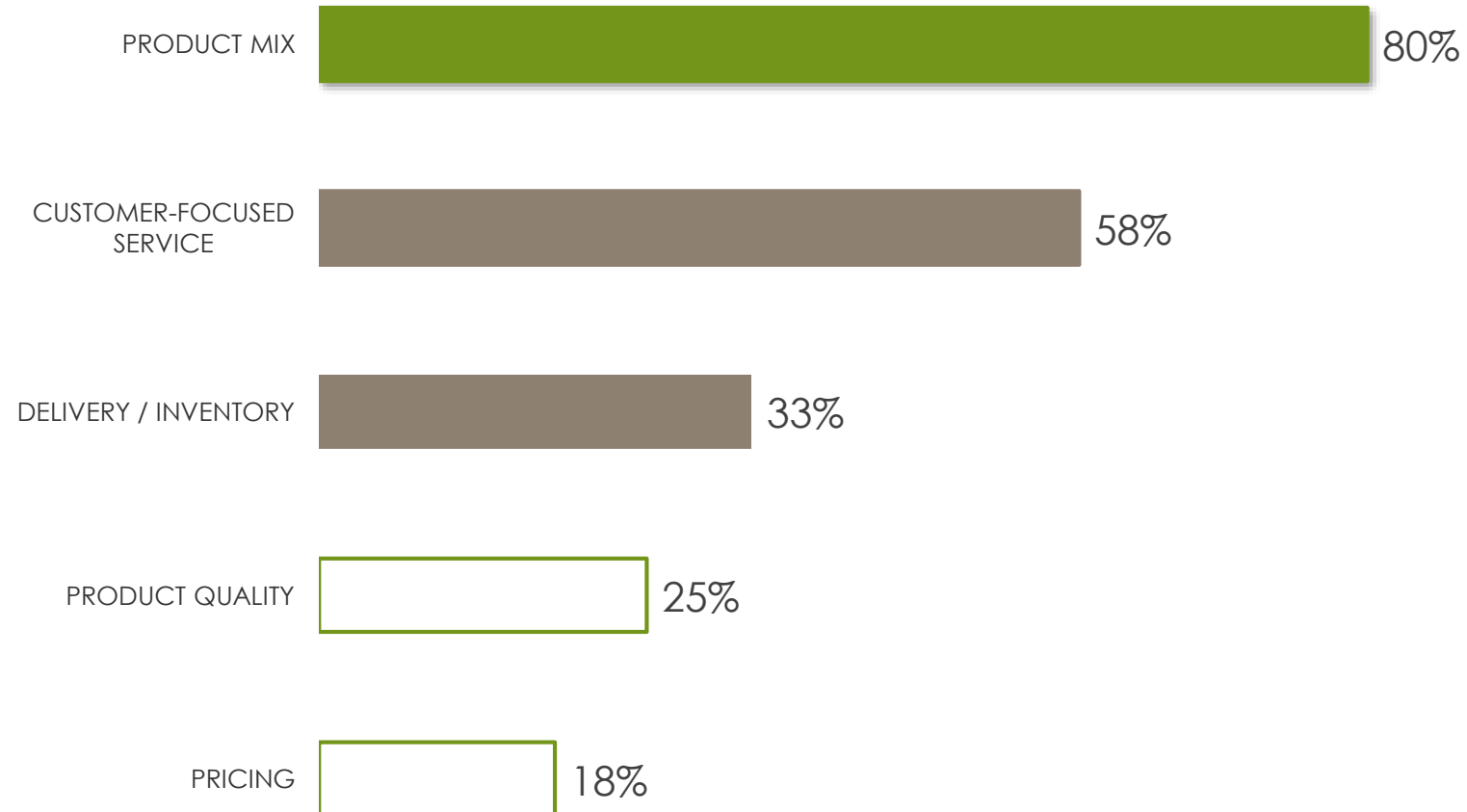
- Project commissioned in January 2016
- Top customers were selected for the VOC. All customers were active Carpet Inc accounts
 - › Respondents were from a variety of client types: decorator, retailer, wholesaler, etc.
- 61 respondents were interviewed during 1Q 2016
 - › Interviews lasted 45 minutes on average
 - › Carpet Inc was identified as the sponsor. No incentives were used
- Study findings have been analyzed in aggregate and by account type where appropriate



Top Strengths for Carpet Inc

Q. Top of mind, name the top two to three strengths for Carpet Inc.

60 Respondents



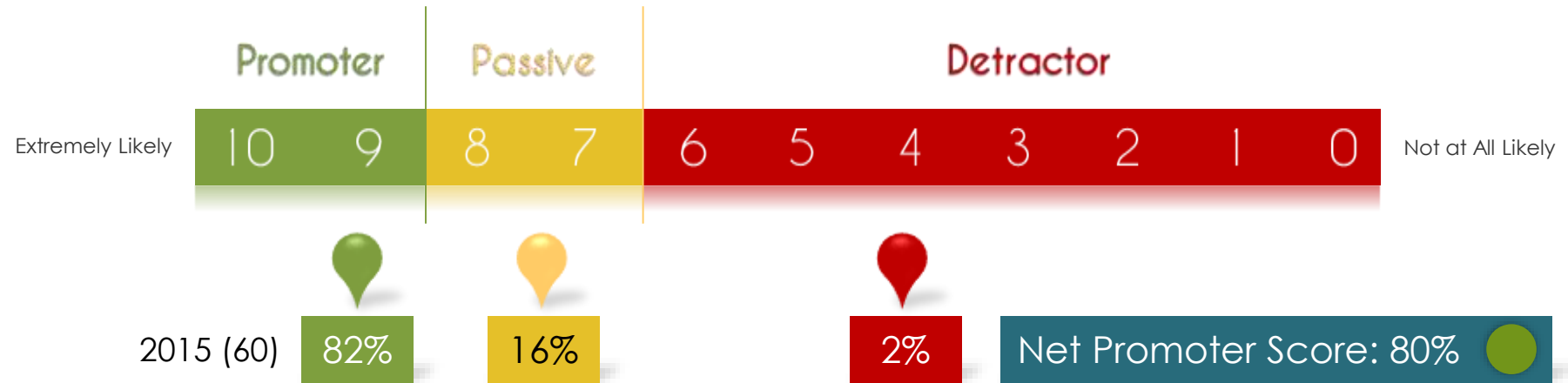
Product variety and customer service are highly praised. Carpet Inc's ability to maintain inventory is also valued.

TOP STRENGTH | PRODUCT OFFERING

- › *“Their patterns and styles represent their biggest strength. **Their products have a unique look:** they’re not ‘me-too’ products.” (Alexanian Flooring – Andrew Alexanian)*
- › *“Their patterned carpets are very strong—**very good designs. That’s why we sell as much as we do.** It’s a really good selection.” (Kiser’s Floor Covering – Mike Kiser)*
- › *“Their product offering, styling, and colors are **better than ever.** They are really on a **strong upswing.**” (Ruggs Benedict – Roger Benedict)*
- › *“**Their patterns, colors, and designs are cutting edge.** They have a **great diversity** in their line, and now they have some more affordable things.” (Venetian Blind and Floor Cover – Gary Touchton)*
- › *“**They stand out for beautiful, design-driven product.** They have a **huge selection** in various styles and price points. They can hit different customers.” (Elte Carpets – Meryl Gardner)*
- › *“The new styles have added to what they already had in the way of traditional looks. They have a **good variety of colors.** Between Antrim and Royal Dutch and other lines, **they offer a lot of options.** They have a **good sense for fashion.**” (Abbey Carpet & Floor – Bill Fowler)*

Carpet Inc's Net Promoter Score®

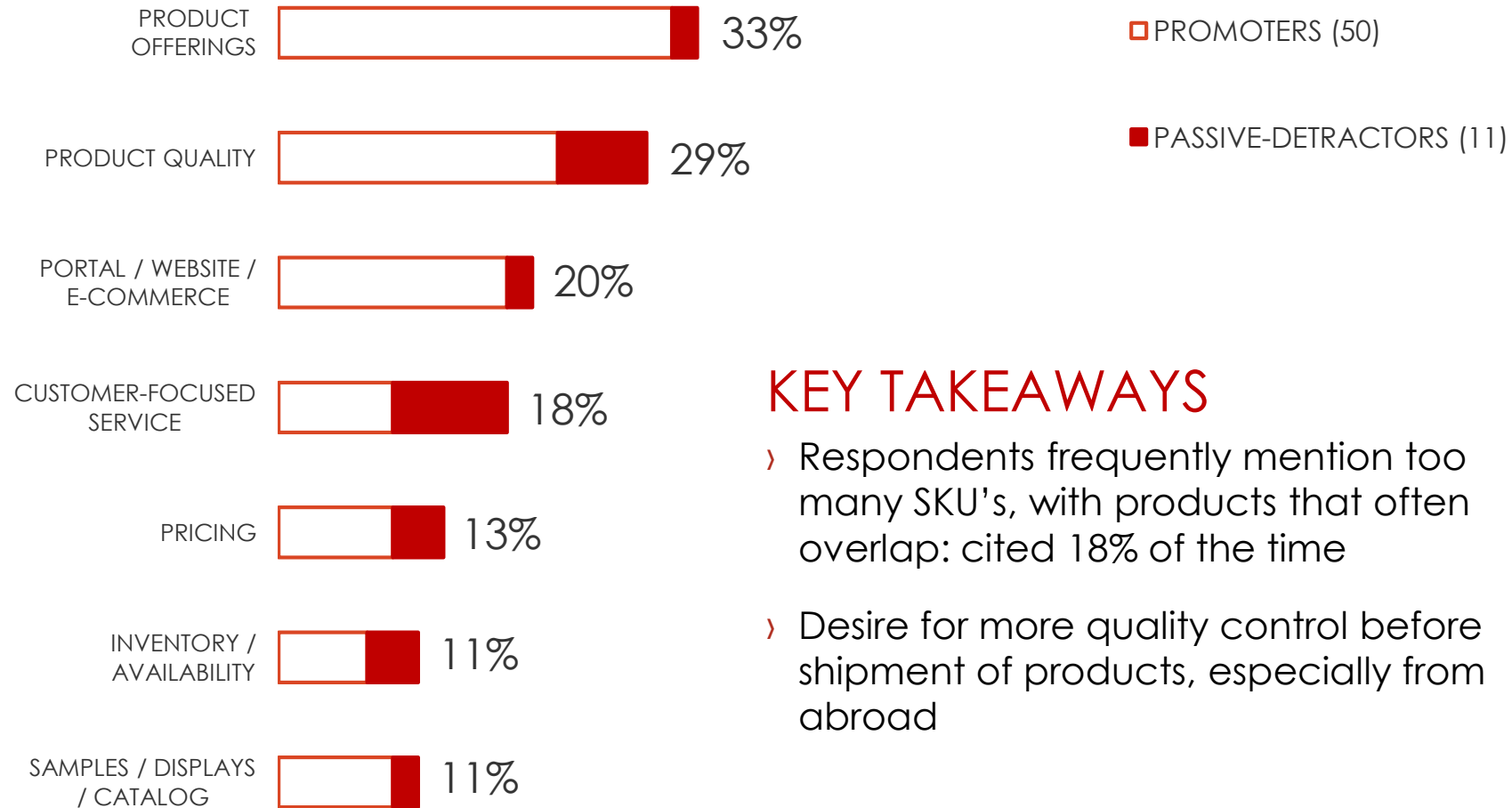
Q. How likely is it that you would recommend Carpet Inc to a business contact or colleague?



A best-in-class NPS! Likely the highest in the industry.

Top Improvements for Carpet Inc

Q. Top of mind, name the top two to three improvements for Carpet Inc.



KEY TAKEAWAYS

- › Respondents frequently mention too many SKU's, with products that often overlap: cited 18% of the time
- › Desire for more quality control before shipment of products, especially from abroad

#1 ISSUE | PRODUCT OFFERINGS

COLOR CHOICES

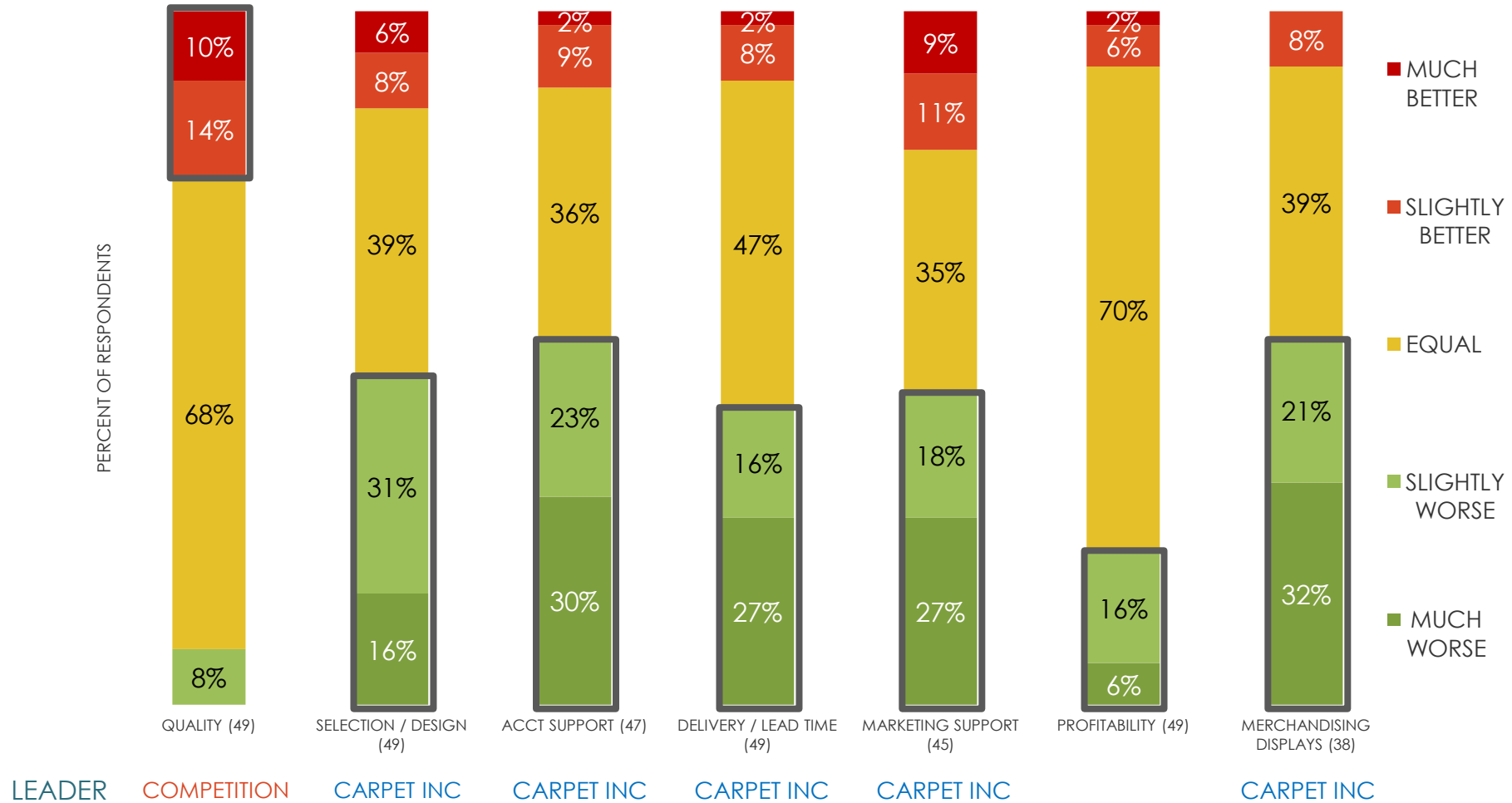
- △ “They could be better with colors: **updated colors, with more vibrancy.**” (Independent One Floor Covering – Cathy Buchanan)
- ▼ “They’ve been featuring **a lot of neutral and natural colors:** sisal types of carpeting. This color is **not popular.**” (Abbey Carpet & Floor – Bill Fowler)
- △ “The **colors on the running line products need updating.** Aylin is very transitional-looking, but the colors are red, black, gold, and beige. **Grays are still definitely popular, and Carpet Inc doesn’t have much.** Blue is trending. **Antrim needs to add color. Their colors are very flat now, washed out.**” (Russell Martin and Son Carpet – Kate Martin Moeller)

TOO MANY LINES

- △ “**Their line is almost too big.** It’s hard to choose what to show when there are so many samples.” (Alan Pierce Production – Jill Pierce)
- ▼ “They just have **so much product.** They introduced a whole new line of nylon products, but **where am I going to put them?**” (Myers Carpet – Chris Fonville)
- ▼ “I think they are **out of control with respect to new introductions.** This year they probably introduced over a hundred new products, and **there is redundancy between several of those products.** They didn’t need to bring them all out.” (L & L Flooring – Joel Schrier)

Comparing Competition to Carpet Inc

Q. How does the competition compare to Carpet Inc?



Carpet Inc scored VERY well—often favored over the competition. The only area lagging is product quality.



NEW GROWTH OPPORTUNITIES

PRE-MADE RUGS, FABRICATED RUGS, LIGHT
COMMERCIAL, PATTERNED NYLON



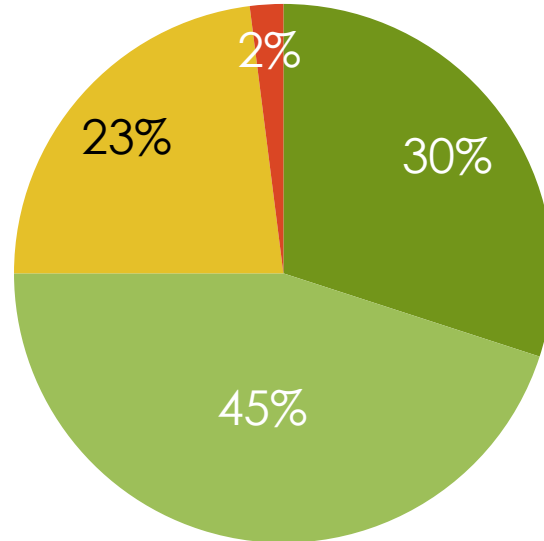
DECORATIVE PATTERNED NYLON

Growth Outlook for Patterned Nylon



Q. Is decorative pattern nylon a growing category for you?

47 Respondents



■ HIGH GROWTH

■ MODERATE GROWTH

■ PRETTY STABLE

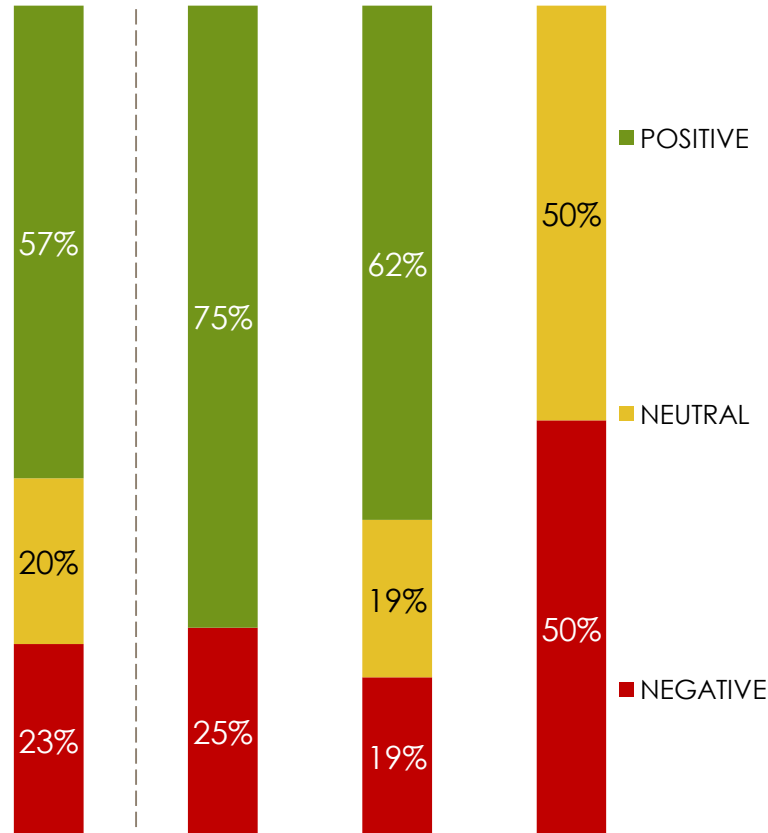
■ DECLINING

- › ***“We have good growth.”*** (Kiser’s Floor Covering – Mike Kiser)
- › ***“The growth is gangbusters.”*** (The Rug Merchant – Hillary Repa)
- › ***“There’s a lot of business in patterned nylon.”*** (Abbey Carpet & Floor – Bill Fowler)
- › ***“This has always been a huge category for any carpet seller.”*** (Myers Carpet – Chris Fonville)
- › ***“It’s not increasing, but it’s stable and maybe even shrinking.”*** (David Truett Enterprises – Jody Schaeffer)

Market Impressions of Carpet Inc



Q. Carpet Inc is looking to expand in this category. They have recently introduced several new nylon products. Do you have any initial perceptions of their offerings?



- › ***“I love it. I think it’s great.”*** (Floor Covering Associates – Justine Domke)
- › ***“I like their colors and patterns.”*** (Bradford Design – Shawna Melton)
- › ***“I liked all of them. There were simple repeating patterns in the current neutral, natural colors. They were not garish. They were subtle, earthy, and simple.”*** (Ruggs Benedict – Roger Benedict)
- › ***“It’s going to be a tough road to drive down because there is so much established manufacturing out there that offers a lot of it.”*** (Myers Carpet – Chris Fonville)

TOTAL (35) DECORATOR / TRADE (4)* RETAIL (27) OTHER (4)*



*USE CAUTION IN INTERPRETATION DUE TO SMALL SAMPLE SIZE

The majority of respondents are happy with Carpet Inc’s offerings.

MARKET ADVICE



PATTERNS & COLORS

- › *“They just need to **be creative with pattern. Don’t give me another lattice.**”* (Tapid Décor – Jacquelin Cox)
- › *“If you want to expand in nylon, **you need to offer more colors.**”* (Benson Floors – Charles Friel)
- › *“Keep coming out with more colors and patterns. **It would be good to offer more color groups outside of neutral tones.**”* (Canterbury – Joseph Melton)
- › *“**Keep the colors trendy, the patterns modern,** and the price points acceptable.”* (Gill Carpet / Southampton – Veronica Masi)
- › *“They should **keep expanding their patterns and colors.**”* (Creative Flooring Resources – Virginia Doyle)
- › *“**Carpet Inc offers odd colors in nylon. They’re too light. Tufftex offers better colors for this market.**”* (Benson Floors – Charles Friel)
- › *“**Some designs have too large a pattern. These oversize patterns are not good on stairs.**”* (Cove Discount Carpet – Donna Dwyre)

MARKET ADVICE CONTINUED



CONSTRUCTION

- › **“They need some cut texture, which would also break up the plasticky look, more of a tip shear.”** (Russell Martin and Son Carpet – Kate Martin Moeller)
- › **“Mohawk and Shaw are bringing pile heights down and the cost down, so that’s what Carpet Inc would be competing with.”** (Halls – Keith Dunn)
- › **“I’ve been seeing a lot of looped construction. It would be nice to see cut pile construction, because people have pets and they hook their claws into the loops.”** (Floor Covering Associates – Justine Domke)
- › **“One of the things they came out with is a loop product, and that is not practical in any household with a pet.”** (Russell Martin and Son Carpet – Kate Martin Moeller)
- › **“Some of their newer nylons seem very flat. Their loops are shorter. They look inexpensive. They don’t look high quality.”** (Beatrice and Martin – Doug Martin)
- › **“They should look at how Hagaman does things, how they do loops and cut piles, different patterns.”** (Carpet One by Henry – Henry Scott)



CONCLUSIONS / RECOMMENDATIONS

“THE BIG FIVE” IMPROVEMENT AREAS CITED BY CUSTOMERS

1. **PRODUCT OFFERING:** More color / bolder patterns is a common request from many respondents. While no suggestion is universal across all geographies, several encourage Carpet Inc to keep innovating with new styles and looks. It’s the make or break driving the buying decision.
2. **PRODUCT QUALITY:** Nearly 30% complain about Carpet Inc’s product quality, citing issues ranging from lack of inspections before release to issues with select materials (viscose and polypropylene). Carpet Inc’s quality is the only area rated lower than the competition.
3. **PORTAL:** As expected, feedback on the current portal is quite poor. The good news is that improvements are already underway. Ensure that development areas align with customers’ comments and suggestions.
4. **PATTERNED NYLON:** Leading growth opportunity cited by customers. Carpet Inc appears on the right track with the recent introduction—maintain the focus and make additional efforts to address customer ideas and suggestions.
5. **FABRICATED RUGS:** Growth exists if Carpet Inc can address key shortcomings. Add more options on finishing, make it easy to order, turn orders around faster (a week to 10 days), and consider the pricing strategy. If these issues can be addressed, a double or even triple increase in business is possible.

Questions?





“Don’t forget this obvious truth: There is just no way to grow profitably without winning the loyalty of your customers.”

Fred Reichheld | Creator of the Net Promoter Score®



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