

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



70% to 90% of
deals
fail to live up
to expectations
But why?

Harvard Business Review, June 2016



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



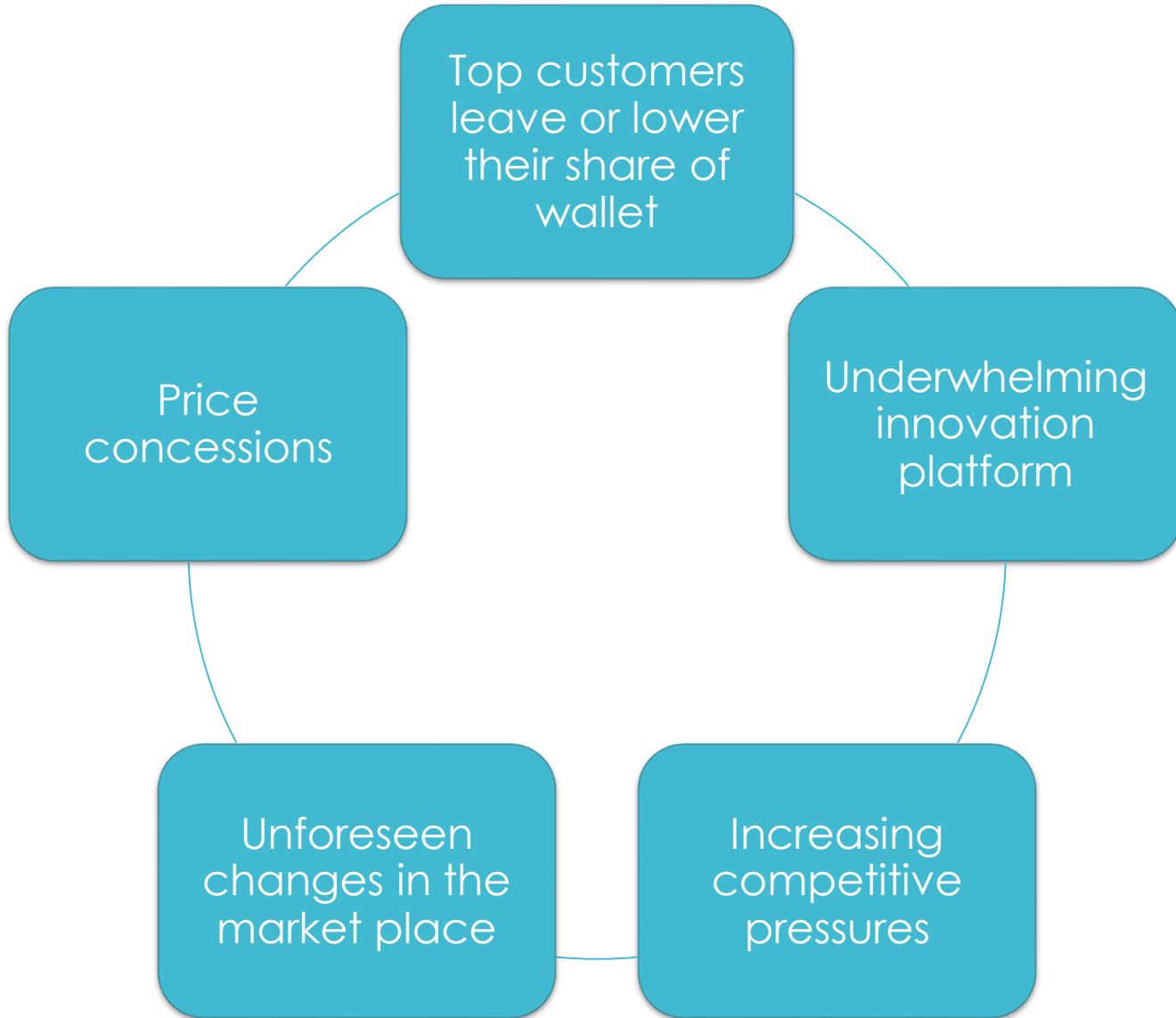
- Great customer relationships
- Expanding market share
- Stable, secure pricing
- Improving margins
- New products that customers love
- Competitive but controllable landscape
- Positive growth outlook for the category

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
falls short of
expectations**

Revenue growth is the primary driver of value creation.


VALUE CREATION OVER THE HOLDING PERIOD

Revenue Growth
60%

Cost Reduction
20%

Other
20%



An iceberg floating in the ocean. The tip of the iceberg is visible above the water surface, while the much larger, submerged part is visible below. The sky is blue with light clouds, and the water is a deep blue. The iceberg is white and jagged.

HOW CAN YOU INCREASE THE ODDS OF GROWING REVENUE POST- CLOSE?

- 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

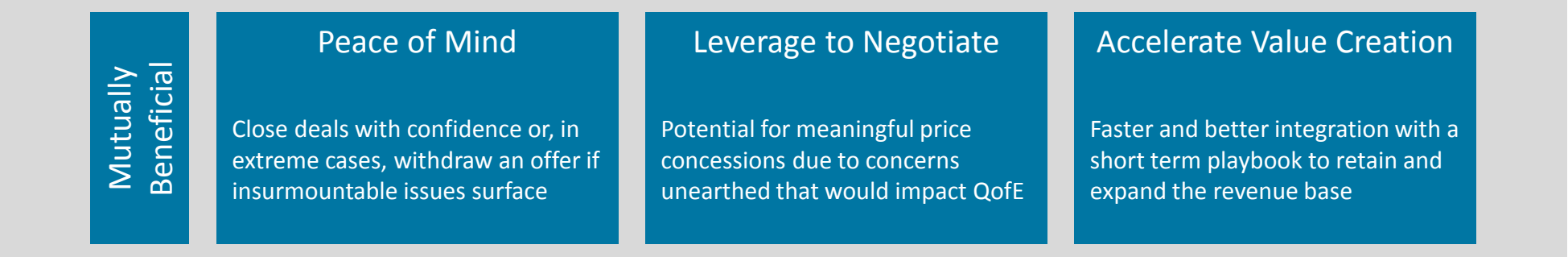
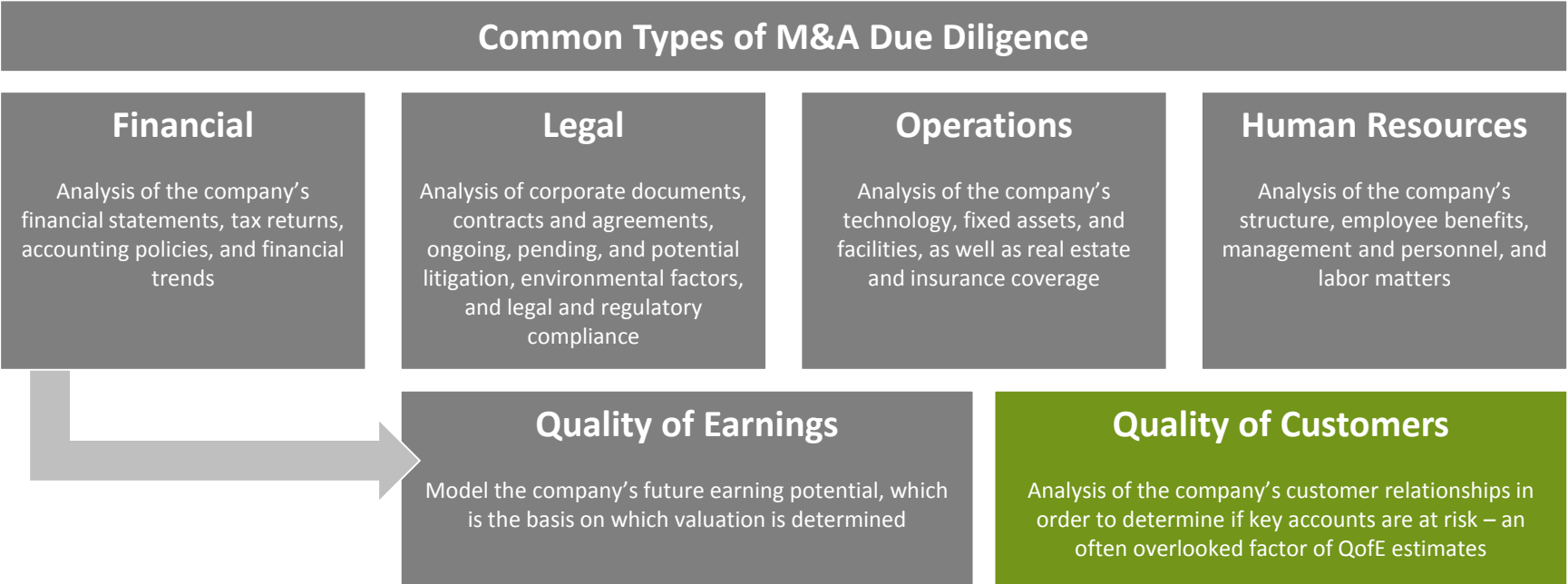


There has to
be a better
way.

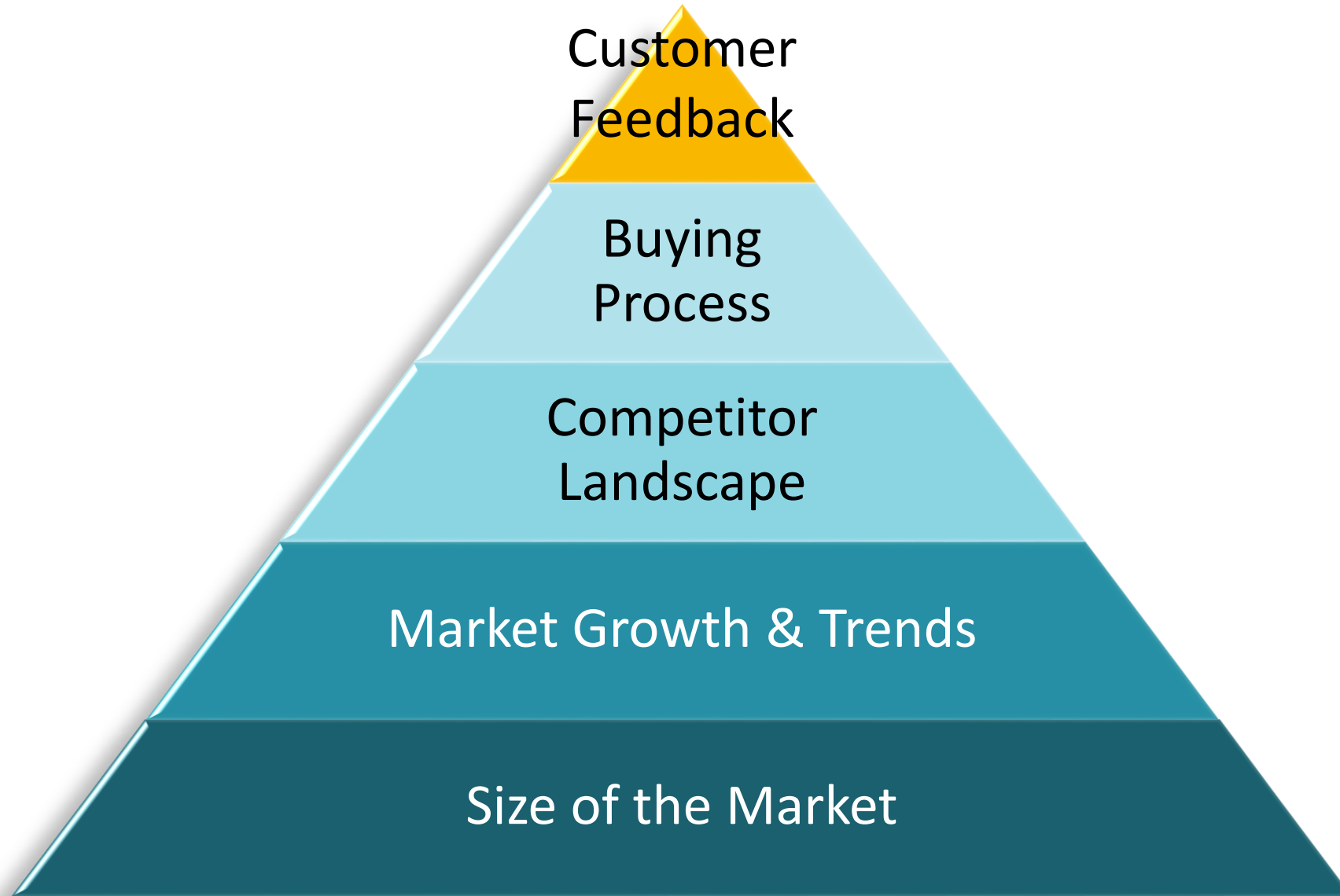


Quality of Customers[®] (QofC[®]) applies
the **Voice of the Customer (VOC)**
methodology to the world of customer
due diligence.

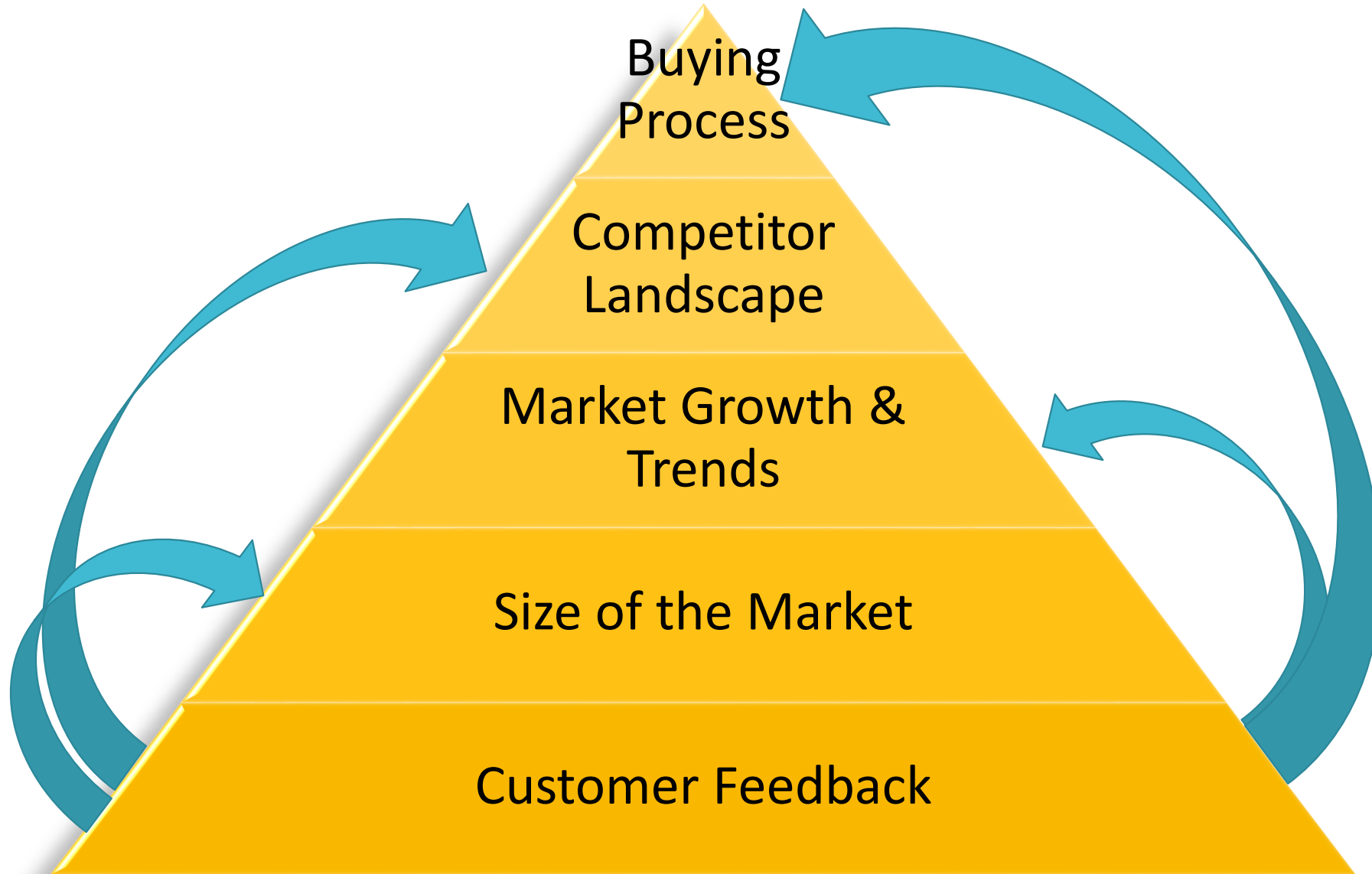
QofC[®] is another tool in the due diligence toolbox



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



...to this.



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

Pre-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

Post-Close

Customer due diligence best practices

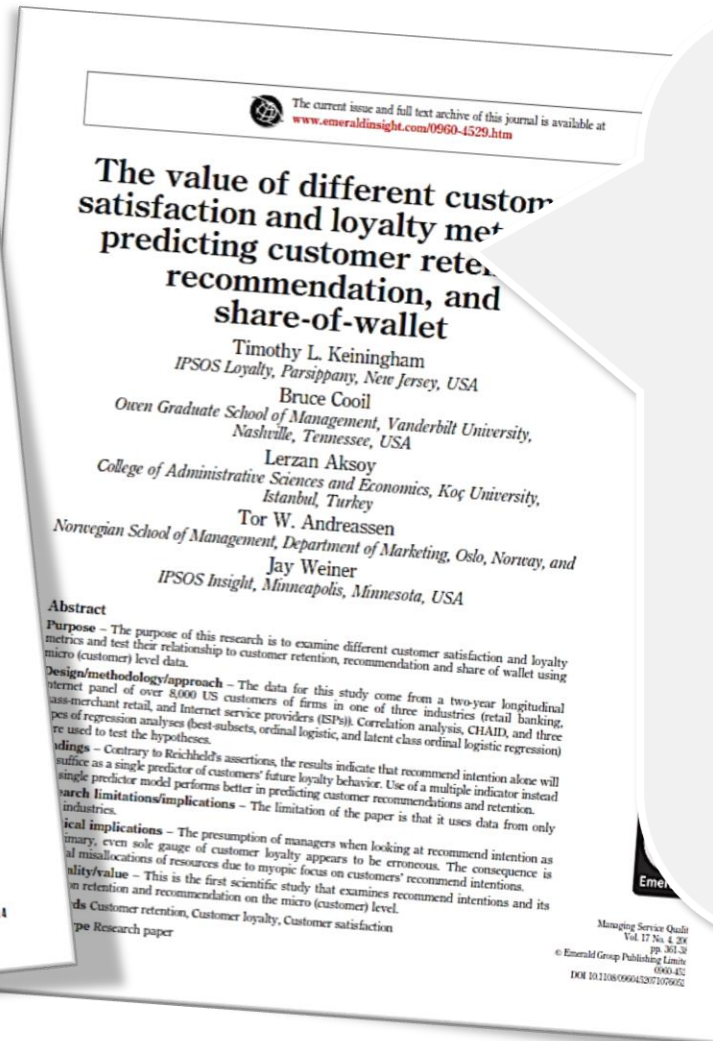
- Presented as a “customer satisfaction survey”
- Sponsored by target company
- No mention of a deal or pending transaction
- Focus on top accounts
- Aggressive timeline
- Insightful set of questions
- Ladder findings → insights → recommendations

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



The Net Promoter Score[®] is
**A RELIABLE
PREDICTOR**
of a business's
growth outlook.

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 |

$$\text{Net Promoter Score} = \% \text{ Promoters} - \% \text{ Detractors}$$

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



Gain Share ↑

Maintain Share ↔

Lose Share ↓



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

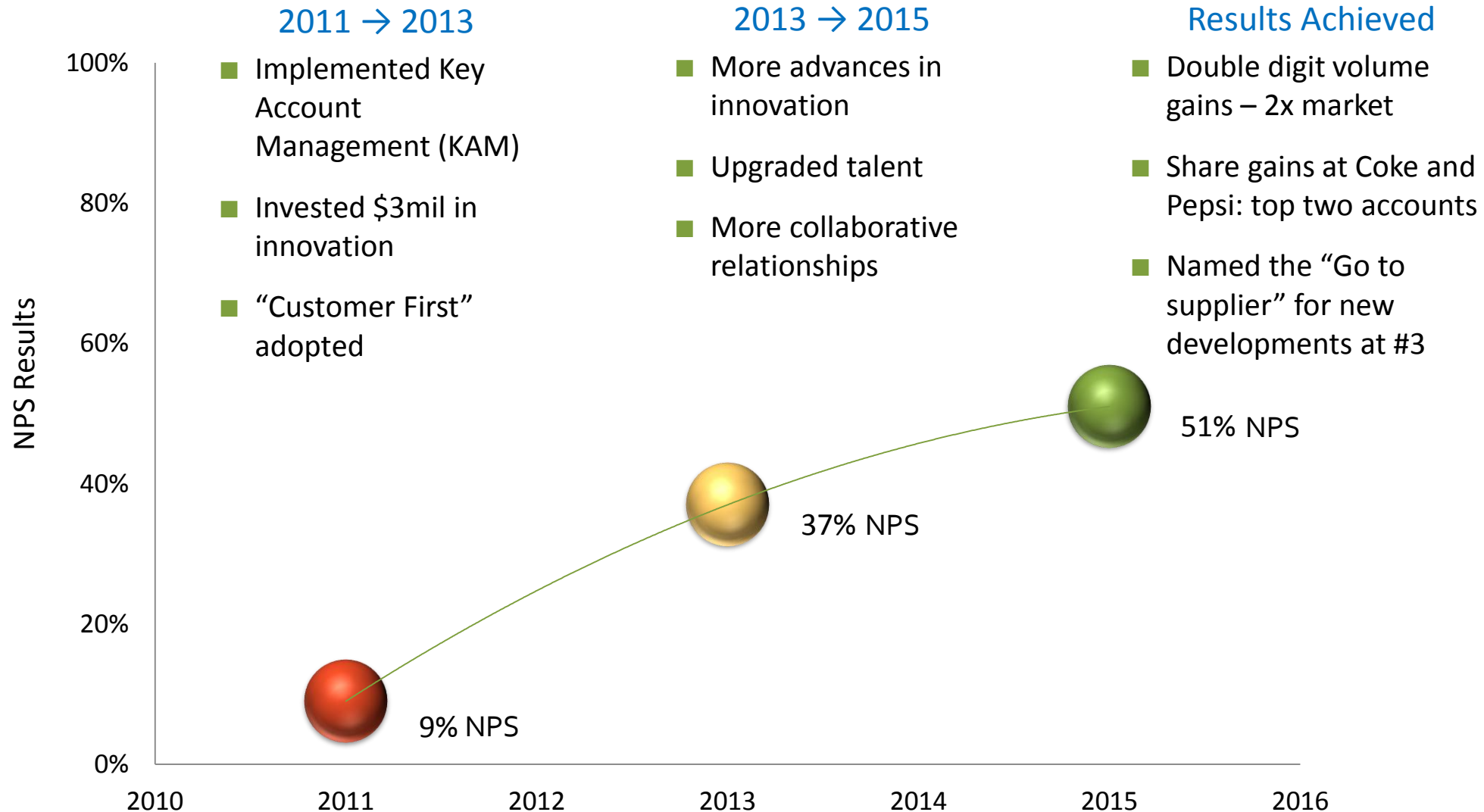


A high NPS company is often the premium priced player because customers are buying more than just a product

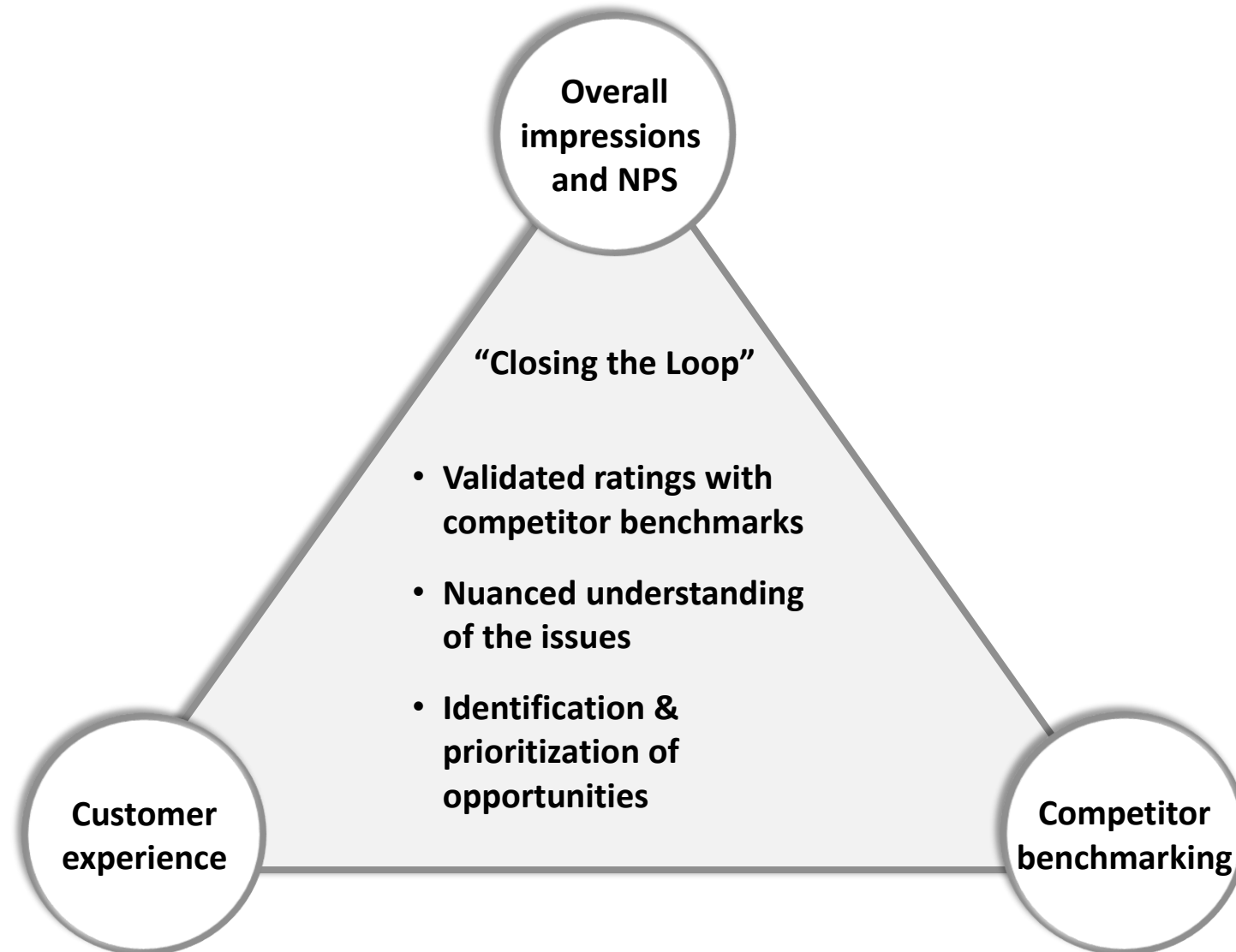


Customers who score a high NPS are less costly to maintain and less likely to leave. Detractors are 2x as likely to leave


NPS® EXAMPE: PET Bottle Producer



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



CUSTOMER DILIGENCE CASE STUDIES

- 
- An iceberg floating in the ocean. The tip of the iceberg is visible above the water surface, while the much larger, submerged part is visible below. The sky is blue with light clouds, and the water is a deep blue. The iceberg is white and jagged.
- Retain and expand the customer base
 - Raise prices
 - Innovate

CASE STUDY

Raising 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?

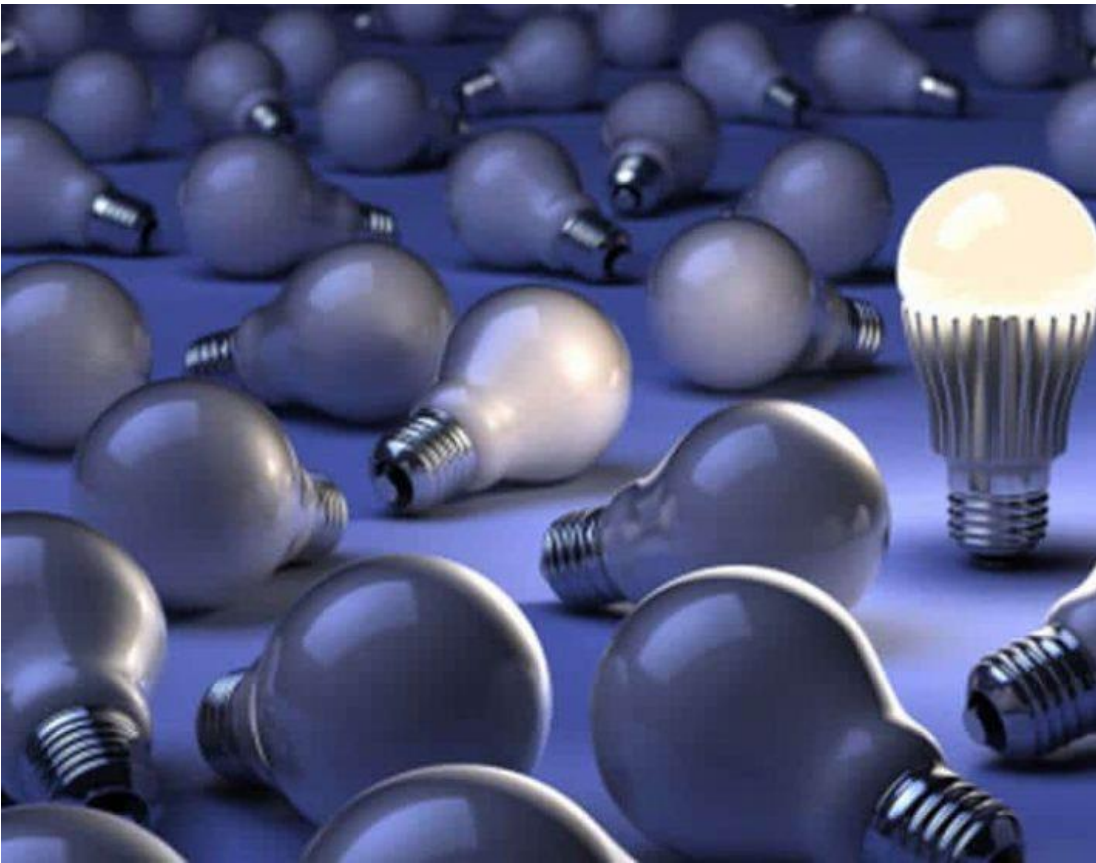
- Does customer favor competition due to lower pricing?
- Does respondent specify the % premium charged?
- Is it a repetitive theme across the market?

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:

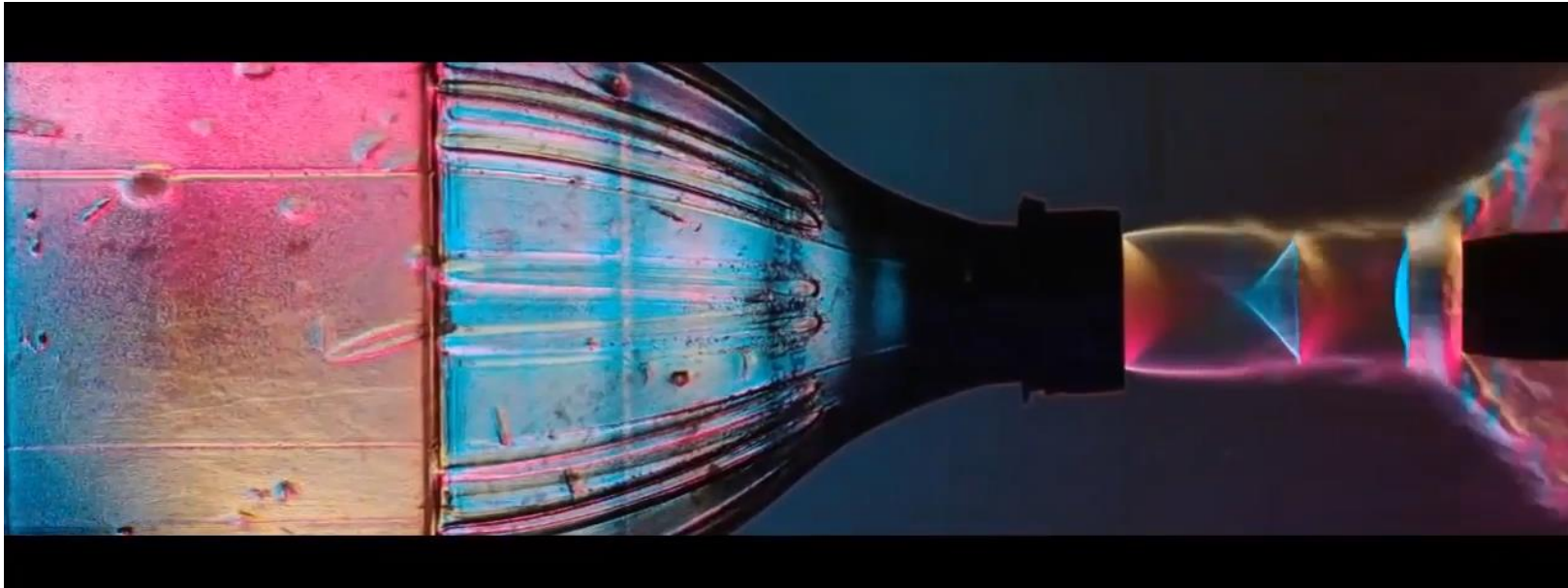
GROWTH
THROUGH
INNOVATION

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

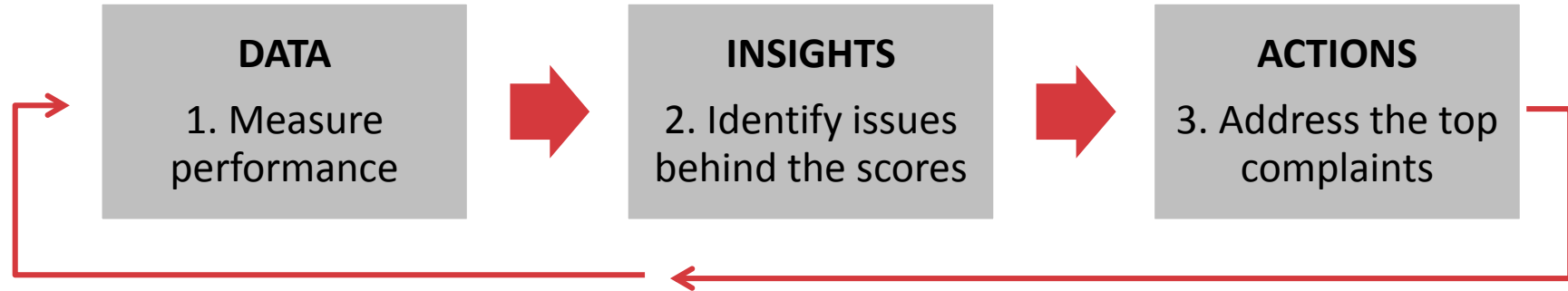
TOP LINE VALUE CREATION RECAP

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

PROCESS



RESULTS

Satisfaction levels will rise and NPS[®] will improve

Revenue growth and market share gains will follow
Reevaluate every 12 to 24 months

Value Creation in the Words of our Clients

| | |
|--|---|
| <p>Assess stability of customer relationships</p> | <p>“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.”</p> |
| <p>Turnkey solution</p> | <p>“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.”</p> |
| <p>In-depth analysis</p> | <p>“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.”</p> |
| <p>Playbook to kickstart value creation</p> | <p>“We are definitely taking all their recommendations for follow-up steps including the four or five improvement efforts.”</p> |



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.”



Rob Ospalik
Partner, Co-Head of Global Operations
Baird Capital



Thanks for your time.

Questions?



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