



Strategex

Customer Due Diligence

CHECKLIST

Ultimately, the purpose of conducting customer diligence is to validate the investment thesis. What assumptions, from a customer perspective, are critical to validate in order to ensure the success of the deal?

A well-designed customer diligence engagement offers the opportunity to validate whatever these assumptions may be, but based on our experience working with private equity and strategic buyers, here are the ten objectives we are asked to investigate most often.

- Mitigate the risk of customer concentration
- Validate the growth outlook, both for the category and for the target
- Optimize the target's channel strategy
- Improve win-loss ratios and reduce customer churn
- Strengthen the target's competitive position
- Uncover opportunities to improve the customer experience
- Build a compelling innovation roadmap
- Develop a value creation playbook
- Determine the need for an active operating partner
- Evaluate the cultural fit and, if an add-on, its ability to integrate with the platform



Mitigate the risk of customer concentration

- Are top revenue generators loyal, and do they expect to increase, maintain, or decrease their spend with the target?
- Are any top accounts at risk? If so, what can be done to retain them post-close?

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, both for the category and for the target

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

BEST PRACTICE

Set baseline expectations using market research, and validate at both the target company and account levels via customer interviews.



Optimize the target's channel strategy

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

BEST PRACTICE

Use market research 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

- When customers are evaluating potential 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?
- What are the triggers for customer churn? How can they be prevented going forward? How can the target effectively 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

- From which other suppliers are customers sourcing similar products or services?
- 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 market research 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

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

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

- Are customers satisfied with the breadth and depth of offerings? Are competitors offering something the target is not?
- 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 market research 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 underserved needs they may have.



Develop a value creation playbook

- What can the target do to organically grow share of wallet? How can the target most effectively acquire new customers? Is there an opportunity to increase prices?
- How can the target operate more efficiently to improve margins? 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”.

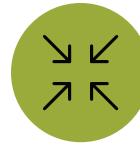


Determine the need for an active operating partner

- Are customers satisfied with the level of engagement they have with the target company's management? Do they feel valued as a customer? Has the target reached partner status, or are they still considered a vendor?
- Does the company have a loyal customer base with minimal risk of churn and a strong win-loss ratio? Are customers satisfied with the customer experience, and is there a healthy innovation pipeline and value creation strategy?

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 the cultural fit and, if an add-on, its ability to integrate with the platform

- How do customers characterize their impressions toward the target? What is the persona of the target?
- Do customers respect their primary contacts? The management team? Do they 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.



Strategex

**Strategex Helps Clients Achieve
Aggressive, Profitable, &
Sustainable Growth**

20 South Clark St., Suite 2400

Chicago, Illinois 60603

(312) 551-0505

strategex.com