

## ***“HOW COULD WE HAVE BEEN A BETTER CLIENT ON THIS ENGAGEMENT?”***

***(THE OTHER “ULTIMATE QUESTION”)***

You may be familiar with Fred Reicheld's 2006 book, The Ultimate Question: Driving Good Profits and True Growth. It alerted many of us to the value of one survey metric, The Net Promoter Score. It is calculated based on responses to the question: *“How likely is it that you would recommend our company/product/service to a friend or colleague?”*

Business due diligence firms use that question in surveys of acquisition target companies' customers. And some service providers use that question in surveys of their own clients – about themselves. We certainly do.

But after more than two decades as a research-based consultant, I had been asked a question that essentially turned the client/service provider relationship on its head. After a recent project, the client wanted

to know how they had performed on the team with us. I was at a loss for words. I said something about continuing to push, poke, prod and challenge us at every step as the data comes in. And I talked about how our most difficult clients always make us better. But after that conversation, I decided to give the question some more thought. I wanted to follow-up – for two reasons: 1.) I had never

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really considered that question before and it deserved a better answer. 2.) The very notion of asking the question demonstrated that this client was thinking of our relationship exactly as we want clients to think of it – as collaborating partners, striving together for the same objective. If I could not describe in detail what it means to collaborate effectively, then shame on me!

Try as we may to avoid it, projects can occasionally go awry. The service providers are typically held responsible, of course. Perhaps the research was not deep enough or the provider failed to develop conversations with the ideal stakeholders in the market. Maybe the written report was unclear or the reasoning in our analysis was specious.

But this client was asking how to reduce or remove the likelihood of problems arising during the project that he could actually influence or control. Or, more aptly, how to help improve the outcome of the engagement.

I came up with a list of ten ways that clients have, over the years, helped their causes.

### 1. Clearly state your hypotheses and assumptions that must be tested in the study

We always ask clients to articulate for us, right up front, what attracted them to the deal and to describe their concerns about the transaction. And then we ask clients to focus in on the external dynamics (the market, customers, competitors, suppliers, etc.). But perhaps we all give this discussion short shrift. Maybe we should be more specific. “As you think about your period of ownership, what assumptions are you making (about the company’s growth rate, ability to introduce new products, or ability to win over a new customer type) that we can actually test during our research?” If you are making certain assumptions about customers, prospects, competitors or other market participants and we are not explicitly testing these assumptions, then shame on all of us!

### 2. Explain the knock-out factors in detail

“We are doing this deal assuming that X is not and never will be a threat. If X is legitimately taking share and could continue to do so, we will need to walk away immediately.” That statement is very different to the ears of a research-based consulting team than “Is X a threat?” The importance, impact, implications of X simply do not come through in the second quote. By sharing your internal thought process, and what would cause you to walk away (or at least think seriously about walking away), you elevate the team from mere researchers to thinkers. Thinkers are able to poke, prod, challenge their contacts on the fly, ask the next logical questions, and most importantly, ask “Why” and “Why not?”

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But there is another way to think about this same issue, but from the opposite perspective. We become sensitized to think for our clients about risk, to anticipate concerns about risk, to be careful about

characterizing risk – is it a “concern” or a “bad sign” or “a red flag?”

Yet, some clients actually re-calibrate our sensitivity to risk. They may explain, right up front, that they have a high degree of comfort with adversity in our findings. And they explain why by describing what their investment thesis is built upon. They encourage us to share our concerns, but to work together to understand these concerns and calibrate them in the context of this deal's assumptions.

### 3. Share!

Some clients like to wait and see what their consulting partners come back with after the research. They do not want to bias them by providing internal assumptions. They do not want to set themselves up to have their own assumptions spit back at them.

This is a paranoid and counterproductive approach. Sharing every scap of internal data and every internally-held belief will only serve to elevate your research partners to a higher level of understanding right out of the gate. As a result, they will finish the project that much further along in the research and analysis project (timelines are often quite constrained). By providing ammunition, ideas, hypotheses to bounce off of contacts, you are helping the cause, not hurting it.

Share everything you have – and share it at the outset, at the start of the research project.

### 4. Define what a “successful” project would look and feel like at the end of the assignment

Imagine the project is complete, the deliverable has hit your inbox and you are about to open it for your first read. What would you want to see? What would you not want to see? What type of analysis would you expect to be there? This can be difficult, of course, because so much of the direction of a solid, research-based consulting study hinges on what data emerges. And then we all must decide how to react to the (sometimes surprising) picture that emerges (drill deeper to confirm, ask additional questions, change research contacts, ignore the new finding, etc.). Nevertheless, stating something as simple as the following is quite helpful: “We would expect you to provide a comparison of the attractiveness of competitive value offering A vs. B to help us all understand which option may be more of a growth vehicle.” Such a comment would steer not necessarily the research, but certainly the analysis and the write-up of the deliverable in an actionable and meaningful way.

## 5. Get everyone on board at the outset – to include potential critics and naysayers (but appoint one champion, and only one).

Why do home improvement contractors often insist on meeting with both Husband and Wife simultaneously before submitting a proposal? They know, all too well, that they have multiple client stakeholders – each with their own sets of needs and interests. We consultants could learn from them. But diligence timelines are tight, there are a lot of moving pieces, and we tend to accommodate. But perhaps we are doing everyone a disservice.

When a colleague joins the process mid-stream, they may re-direct the process (best case) or express their disappointment that we are heading down the wrong track (worst case). Both parties -- consultants and clients – suffer. Each should have one primary spokesperson who can speak for the entire group. In other words, if an important team member misses a kickoff call or weekly review, that individual's absence will not derail the process. His teammates can speak on his behalf – and fill him in on developments.

On the contrary, backpedaling to manage concerns, changing the direction of the research, becoming increasingly focused on

conflict avoidance with the client – these are all undesired consequences resulting from an absentee team member becoming surprised. While often unavoidable, clients should work with their service providers to avoid needless inefficiencies, anxieties and re-directions that result from absentee team members becoming alarmed. It is in everyone's best interests!

## 6. Facilitate, and tee-up, the meeting with management – early

During a due diligence exercise, it is important for the professional service provider performing the diligence to gain access to management. Unfortunately, customer checks and the general market studies are put on the back burner until, well, until they need to be on the front burner! And one reason for procrastination concerns management's reluctance (understandably) to share customer data.

But any delay in gaining access to the customer contact information has a direct, and corollary, impact on the timeline. In other words, for every day a conference call with management is delayed, there is a real potential the project will be delayed. If that call does not go swimmingly, management may hem and haw and complain for a few more days before providing contact information.

However, some clients have become practiced at stating to the sellers, regardless of situation, industry, interpersonal dynamics, etc., “We will be conducting a market study as part of our diligence. One element of the market study involves calls to customers and prospects. We do this to test assumptions about future growth potential. The firm we are working with would like to explain their process and bounce some questions off of you in advance of receiving your customer lists and getting started. Feel free to come prepared with a list of questions for them.” Presenting it in this matter-of-fact way, in which you place the burden on the service provider, not yourselves, to explain the process, and its benefits, has proven effective – and efficient.

### **7. Focus the research effort on the topics of greatest importance – early.**

Prioritizing the research, and ensuring the most critical unknowns are covered early, will go a long way toward ensuring the project’s success. By the end of the project, if there are delays, distractions or re-directions, the most critical objectives have already been covered.

### **8. Trust, but verify...**

Research-based consultants know, all too well, that no one can predict what the market data will reveal. Your researchers start with a blank piece of paper and then gather lots of information. These researchers count on your active participation every step of the way. This includes challenging them when preliminary findings do not make sense, highlighting areas of particular interest, and most of all, remaining open-minded and ready to embrace the facts as they fall. You are gaining access to the market’s testimony through a liaison (a research-based consulting firm) who is revealing the thinking and mindsets of numerous industry stakeholders.

Pause to reflect, during and after conference call reviews, on the implications of what is being conveyed to you – and if the results are truly unexpected, then ask for more; push back. Some of the researchers’ findings may be unexpected. Challenge the team to prove themselves right, with overwhelming evidence. (And if they do provide substantial evidence to prove you wrong, don’t shoot the messenger!)

There are several ways to challenge the researchers: Here are some suggestions for you:

- How often have you heard that?
- What types of customers (or competitors, etc.) said that? What should we take away from the different perspectives?

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- Maybe we should also ask it in a slightly different way. For example, phrase the question as follows...
- Maybe we should gain an additional perspective from contacts on X side of the market...
- The next time you speak with someone who agrees with this new concern, ask them to ask the next layer of logical questions.

Pushing back in that way, with concrete suggestions of next steps and how to handle the disconnect, can be helpful. Keep in mind, thinking through the issue in that way is not necessarily your job. It is your service provider's job. They should be creative in thinking about how to weigh in definitively on one side of the issue or the other. But if they cannot, the above list might spark useful discussion.

## 9. Think about the service provider's analysis of raw data in the context of what management has told you – and what their strategies are moving forward...

Good consultants will always strive to offer more than just data in their deliverables. They should be looking for ideas and options for management to grow more rapidly: implications of the data, analysis, options and opportunities for growth – even recommendations. Yet, in many cases, research-based consultants have little more than a CIM and a management presentation to rely on in assessing the seller's current strategy. By all means, if management's strategy is already moving the Company in a direction that the advisers are suggesting, bring it up. Or, better still, if the advisers are suggesting a very different set of improvements, re-directions or changes than management sees, offer up an opportunity for

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the consultants to speak with management again – prior to submitting a report which could raise doubts among co-investors.

## 10. Ask the consulting firm to confirm or refute your own internal analysis.

If your key takeaways are different from what the consultants are seeing, be sure to discuss the reasons for the disconnect. Analysis typically happens after the research is complete, and appropriately so. But smart, driven, busy professionals often conduct their analysis in real-time – as the data comes in. The best clients are good at maintaining a picture in their mind of the evolving analysis – and accepting that the picture is fluid. As more evidence comes in, the picture is likely to change.

But not all of us are as practiced at maintaining an image of reality which we accept as potentially flawed. We make assumptions that all future evidence will support the analytical exercise that we just went through.

If the subsequent data refutes the insights that have already come in, there is a potential for a rude awakening (especially for clients that have not been in regular, ongoing dialog with their service providers). Here is how to avoid those dreaded surprises.

- Remain aware, in near real time, of evidence from the field and where the preponderance of the researchers' evidence is at that time.

- Share your internal thinking and analysis of this data with the service provider. “This is what we are thinking it means. What do you think?”
- Ask the service provider for their analysis of this data, and rationale.

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Think of this exercise as forcing “course corrections” to occur several times throughout the process of the research study. This level of interaction, sharing of perspectives on key takeaways, is the best possible way to prevent rude awakenings at the end of the study. Some clients are reluctant to share their thinking because they do not want to bias or influence the research team. If this is the case, you are working with the wrong service provider. After all, this is a collaborative, iterative exercise among talented, intelligent professionals – each bringing unique perspectives.

## Conclusion

In your interactions with any service providers, there are several important success factors:

- Set clear expectations up front.

- Communicate regularly (and effectively) about your interpretations of the data.
- Ask for elaboration and explanation on consultant analysis and takeaways.
- Provide timely feedback.

But research-based consultants work with qualitative and often intangible findings. They must interpret data in ways that are often quite subjective. The lack of definitive black-and-white truths, and the absence of “correct” implications, can make the entire process tenuous. It makes sense to manage business due diligence in a more collaborative, interactive fashion than other aspects of diligence might be carried out.

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