THE MARKET "REFRESH" CYCLE

During diligence, you probably uncovered a few *external* areas for improvement. Maybe a customer is unhappy with its performance in a key purchase decision driver (delivery time, for example). Or perhaps in business/market diligence, you discovered a regulatory or technology shift that is helping to drive more customers to a segment of the market in which your Company does not compete. Maybe you learned about the emergence of an upstart competitor that is taking share with an intriguing business model. None of these concerns revealed during diligence would warrant walking away from the deal, but they certainly suggest keeping a mindful eye on these risks to sense if they are increasing in impact.

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Here's what you should do a few weeks after closing.

A good diligence study serves as far more than a check-the-box exercise. In addition to confirming or refuting your investment hypotheses, a core purpose of market/business diligence is to tee-up ideas, options even recommendations for growth discussions, post-close. What better setting to discuss these recommendations than at the strategic planning meeting? And who better to facilitate that meeting than the consultants that just studied all of the external dynamics impacting the Company's performance?

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One element of the strategic planning meeting that might otherwise get missed is the laundry list of weaknesses, concerns, risk factors or unmet customer needs. In other words, choosing the most sensible path to growth depends on an understanding of the barriers and hurdles which may impact the Company. The strategic planning meeting should include discussion of the risk factors that surfaced during diligence. (e.g.,

how are we going to address our poor "Delivery Times" ratings from customers?)

Consider this, six months after closing.

With only six months for management to bring about change and improvement, it is likely too early to see those results in the financial statements. But should you sit idly by, hoping that they are making the changes necessary to positively impact returns? Should you wait patiently while they try to fix the problem areas that diligence revealed? Six months is the perfect time period to gather the data necessary to indicate if we are on the right path, or if the timing is right to course correct. Again, using the example of poor score on "Delivery Time," six months is the right time period to reassess. Using exactly the same research methodology, with the same set of customers, we might find that the Company received a 4.2 on a 5-point scale today, demonstrating significant improvement over the fairly mediocre score of 3.2 that they received during diligence. But what if it is only a 2.9 today?

…In addition to covering which path to growth makes the most sense, the strategic planning process should foster a plan to address the risk factors that surfaced during diligence.

The Six-Month Refresh is also a great time to check on the speed of change in the market. Suppose the diligence work revealed five significant trends, dynamics, opportunities which are driving market growth overall. Focusing on one or more of these drivers could be advantageous. But each one is not impacting the Company equally. Some of the opportunities are more significant than others. Some are more relevant to management because of the Company's product line, channels, business model, customer base or competencies. And some of these growth drivers are gaining traction more rapidly than others. For all of these reasons, it is important to update management's understanding of market opportunities, since yesterday's low-hanging fruit might today be spoiled, sour, already picked, or simply out of reach.

What to consider at the One-Year mark.

Every year, a basic Market Refresh should be conducted to assess market shifts in terms of opportunities and threats -- and their implications. Suppose the Company was gaining share at the time of diligence,

and at the one-year market, its rate of growth is consistently impressive. Sounds great, right? But what if we learn the growth rate of the market overall has increased. Why are we suddenly losing share?

Market segmentation changes over time, as well. Perhaps Segment D has always been our focal area, and we know that for performance, technology and regulatory reasons, some customers are migrating to Segment E. What if, in the year since closing, Segment D has declined significantly while Segment E has grown dramatically? If our core market segment is not slowly ceasing to exist, but rather, is in rapid decline, we may have a problem. Better to discover that now.

Moreover, the emerging, nascent upstart competitor identified during diligence was not a threat. It was too small and the barriers to entry too high for them to make inroads. However, at the one-year point, we learn that it has doubled in size and established a significant distributor network. While it has yet to steal one of our customers, we know it is targeting larger players – just like the Company.

Finally, customer ratings, loyalty levels, unmet needs and general wants and wishes change over time. It is best to be more aware than competitors of these changing customer interests – and then to be able to act on them.

A good topic to cover one-half to three-quarters of the way through your hold period.

With ample time to make changes, improvements and to craft a well-conceived growth strategy, a study roughly three years after closing can be impactful and valuable. Thinking about the assignment through the lens of a potential buyer will help shape the study to uncover any concerns, risk factors, red flags that might spook a buyer – or cause them to ask for a reduction in price. In addition, thinking about the assignment from the buyer's standpoint also provides the blank slate necessary to identify new growth opportunities – with fresh eyes open to ideas, options and alternatives that management could seize.

Ideally, these opportunities, changes, and new risk factors are discussed in a strategic planning session that is focused on the final year or two of the hold period. What heavy

lifting should take place? What improvements can be made? Which path to even more rapid growth is most sensible? Again, the research-based consulting firm with timely market insights is better suited to run the planning process than a random facilitator.

Knowing that management is "on it" – pursuing all of the best opportunities uncovered during their own diligence, will cause buyers to step back, impressed that management has their act together. We have witnessed it happen.

Conclusion

Today's private equity investors do not kick their feet up on the desk after closing and wait for multiple expansion to occur. But most are unwilling to play Big Brother and dictate strategy and tactics to management. Active support and guidance is what we strive for. And research to support this guidance is often critical.

Since middle market management teams are often inexperienced with research or biased against consultants – or both (!), it may require some education and introductions from the Board for management to understand the potential impact of actionable research. It need not be exhaustive, expensive or time-consuming. Limited-scope market insights can be tremendously impactful, value creating, risk mitigating and can have a tremendous ROI.

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