

Management Consulting



CLIENT
DUE DILIGENCE

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Presented to:

Client

MARKET DUE DILIGENCE AND VOICE OF THE CUSTOMER ANALYSIS

Executive Overview

EXECUTIVE OVERVIEW

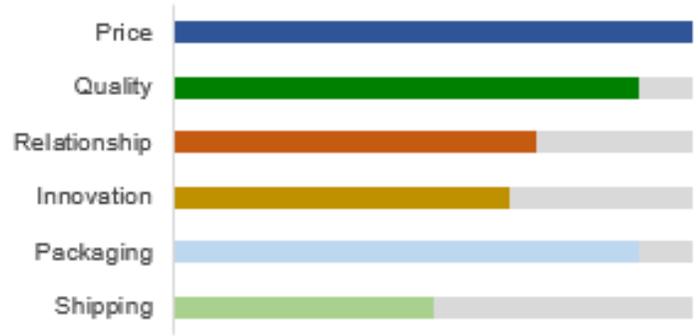
Client, a leading private equity firm worked with Bainbridge on the acquisition of Acquisition Target. Client sought to collaborate with Bainbridge in order to better understand the North American product market and the factors driving consumer demand. Bainbridge utilized its proprietary primary research methodology to provide Client with insight into customer preferences and competitive market forces within the industry. Bainbridge examined the market and delivered analysis on the competitive landscape, customer preferences, and potential growth opportunities therein.

Based on due diligence conducted by Bainbridge, Acquisition Target has been perceived in the market as one of, if not the, leading temporary product companies. Bainbridge has identified a few key themes and important points in the market as it relates to Acquisition Target and they are as follows: Price, Quality, Relationship, Innovation, Packaging and Shipping. It will be key to Acquisition Target's market retention and growth to maintain a comparable price point to its competitors while innovating on packaging and displays. The deep relationships built with customers will continue to help Acquisition Target outperform competitors who tend to be transaction oriented.

KEY FINDINGS

- Assuming reasonable product quality, price is the major deciding factor between substitutes in the industry
- Willingness to create relationships with clients and being less “transactional” has elevated Acquisition Target’s market positioning
- Packaging and in-store display adaptations may increase sales

BUYER MOTIVATIONS



CHALLENGES



OPPORTUNITIES





Price – Many customers are highly concerned with price on products due to significant margin pressure and expensive storage of these products. While stores hope to be able to upsell a consumer to a higher ticketed item, many times the customer is looking for the cheapest product solution and is not well informed. This does open the possibility of Acquisition Target being replaced by a lower priced option for some customers in the future.

Price Influence



Low

High

“The biggest challenge is pricing and there are guys out there at a lower price and that will be addressed for next season. That’s the nature of any import category dealing with factories overseas.” - Vice President, Customer A

“We advertise high value at lower price point items, though when they get to the store they might buy up into the higher dollar Acquisition Target items. So they’re actually driving up the total dollar of the basket.”

– Manager, Customer C

“While I think features matter to a consumer I don’t think they are willing to sacrifice the price when they walk into another store and see a product for maybe \$15 cheaper that doesn’t have all the bells and whistles features but really they just think, I just need a canopy.” – Vice President, Customer A

“Price would be the deciding factor absolutely. It’s the biggest driver. Unless another guy comes in and is offering guaranteed sales or special terms to help stores get in and out of product. Having the domestic arm helped secure the business for this year with Acquisition Target because there is another guy that can come significantly underneath where Acquisition Target is currently at.” – Vice President, Customer A



Quality – All contacts interviewed had positive views on Acquisition Target’s quality and the availability of service should any defects arise. This has helped to solidify Acquisition Target’s positive reputation in the industry, especially considering there are cheaper options available.

Quality Influence



Low

High

"I think they are second to none in certain parts of their business. The quality has always been no complaints." – Director, Customer D

"You can tell the team members want to sell products where they don't have problems. That has never been an issue with Acquisition Target. I've never had any of them talk about problems with quality or dexterity-never had that." –Director, Customer B



Relationship

– Acquisition Target's ability to be adaptable on price points with some customers has been very well received and greatly improves the client relationships. This has led to an opinion of Acquisition Target by customers as being less transactional and more relationship focused. Acquisition Target's willingness to share customer data has been greatly appreciated by customers and further proves this strategic partner relationship Acquisition Target has cultivated. Many customers perceive Acquisition Target as an easy vendor to deal with who solves issues in a timely manner.

Relationship Influence



"Acquisition Target was able to work with us, to give us the price that we needed to be competitive with the other players out there in that category, with players I mean big boxes for the products." – Manager, Customer E

"There's nobody doing it better. Most everything else in this space is a transactional import and the only reason that you would go there, from my perspective, is if you're trying to do a price point and we haven't had that issue." – Vice President, Customer C

"First and foremost is the dependable supplier, quality, and the other item that I've heard a lot and we're having discussions even now are some of the innovation that they've brought to the business. When you bring the dependability, the quality, and the innovation you really have the secrets to success- and it's no secret its really just good business. It seems like they've had that here with us for a very long time."

– Vice President, Customer C



Innovation – The majority of contacts reached throughout the due diligence were looking to a future relationship with Acquisition Target and hoping that while this is a fairly basic industry, Acquisition Target will continue to innovate and offer new, potentially exclusive products to help with sales. However the price point does need to remain comparable to substitute products in the end, as there is a concern that the consumer simply sees many of the shelter products in the market as equal with different price points. Contacts also want to have Acquisition Target be proactive about reaching out with new ideas for them.

Innovation Influence



"We're creative thinking with different products, different price points, different things that might shake up the category, you know they've been somewhat good with that but, most of the ideas come from me or asking for things instead of someone actually saying, let's do this...." – Manager, Customer E

"Continue to innovate, continue to show new products, be aware of industry trends that are happening and come to us with new ideas."
– Director, Customer D

"Yeah you're having some good years now but are you putting the money into the R&D of the product. From what I have seen, this is something Acquisition Target has done well. They have been able to give us exclusives, innovative ideas, innovative products. I see no reason why that would change, and I hear nothing about it changing. So, I think there's been a pretty good history there." – Vice President, Customer A



Packaging – Due to the large physical size of these products, adaptability of packaging and finding new ways to display the product in stores is a potential way for Acquisition Target to further surpass its competition with in-store sales. In-store displays of these products are key to driving foot traffic or sales within large retailers, consequently making them a critical factor for buyers.

Packaging Influence



"The packaging is fine, the problem is the size of the box, and it is because of the way it is built, it is going to be in a box that size, but it makes it very difficult to display that box on the sales floor." – Manager, Customer E

"We talked a lot about brown cardboard box versus having some colored imagery. Connecting what customers sees online to the picture that they see in the packaging." – Director, Customer D

"I think Acquisition Target does do a good job with their packaging, on the product side. I think, we struggle with how do we get them into the stores and make it easier for the stores to execute them." – Vice President, Customer A

“Probably the most significant opportunity that I see right now, and I haven’t seen improvement yet, particularly the larger stuff, on how it is delivered to our stores. Meaning the packaging is not where either company wants it. It’s not like Acquisition Target is happy with it either. But when it goes through our DCs and arrives and has a nice look and feel to the customer, it’s a tough thing to get it where we want it.” – Vice President, Customer C



Shipping – Having flexible shipping options allows the smaller stores to carry Acquisition Target’s products. It also allows stores to better compete against online retail who may be offering free shipping or more options regarding color price point etc...without having to handle the physical shelf space which is a hassle in this product line.

Shipping Influence



“We see value in partners that are able to do drop ship and offer a wider range. Digital presence is an opportunity to understand what the customer is looking for. You can test features and price points and if it makes sense in our stores we can have that conversation.”

– Manager, Customer D

“Amazon found a way to do it. They offer free shipping and with the shipping you just can’t make any money, you just can’t make any money against somebody like that.” – Director, Customer B

FUTURE OPPORTUNITIES

Future opportunities for Acquisition Target have much to do with continued relationship building and positioning the company properly to be able to handle the addition of increasing lower priced substitute products from overseas. In store displays and packaging innovations are two other ways for Acquisition Target to cement its position as a preferred vendor in the shelter market.

“ We don’t want stores to just keep them in a box and display them. So, we have to make sure if they do keep them in the box it is what we want them to be. The only negative is that on the packaging it does have all four colors and we only stock one of them so I have had complaints in the past about it but I don’t want to pay for my own packaging so that’s what some people few and far between are complaining about.” – Vice President, Customer A

“We pushed on them is, how do we take the storage building display that’s out in the parking lot and get it into the product bay. I’m not looking for an entire storage building, but how do we look at sizing, how do we look at telling these stores the ‘why Acquisition Target’ story inside.” – Director, Customer C