

Customer & Market Due Diligence Of Plumbing And Drain Cleaning Services Company: Establishing Target's Brand Reputation And Growth Opportunities

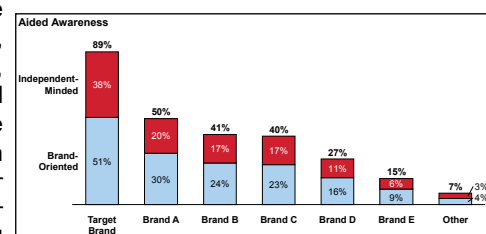
The Challenge: Our client, a middle-market PE firm, was in exclusive negotiations to acquire the largest regional franchisee of a leading plumbing and drain cleaning services company, serving territories accounting for ~10% of U.S. population. While the target's brand was the oldest and most-recognized, our client was concerned about the brand's current reputation among consumers and the target's ability to retain its leading position in the residential business. Beyond serving consumers, the target also had built an overweight presence in the commercial segment and believed that this segment offered significant growth opportunities. Additionally, the target was pursuing expansion opportunities to provide water damage restoration services as allowed by a recent change in the franchise agreement. Our PE client asked Gotham to conduct a 4-week customer & market due diligence to: (1) validate the defensibility of the target's residential business; (2) establish the growth opportunity in the commercial business; and (3) validate the opportunity to expand into the water damage restoration market.

Fact-Based Consumer & Commercial Services Market Assessment: To ensure fact-based robustness given the diversity of the target's business, Gotham took a multi-pronged market assessment approach:

- **Sales Profile:** We analyzed several years of the target's sales invoices (250,000+ invoices), and developed a detailed profile of the company's revenue, key metrics, and trends by customer type, end-market, branch, service line, etc. to establish a solid understanding of its customer base. To compensate for no granularity in the service type classification, Gotham used creative analytical approaches to reclassify services and isolate individual services within complex and inconsistent job-level invoices.
- **Consumer Surveys:** We undertook an extensive consumer panel survey – >1,600 consumer panel members, comprising buyers of plumbing or drain cleaning services in the target's territories in the past 3 years and over 500 of the target's current customers – to understand the consumer buying behavior, confirm the target's reputation and competitive positioning, and test potential growth opportunities.
- **Commercial Customer Survey/Interviews:** Gotham surveyed 150 and interviewed 40 commercial customers across 11 end-markets to understand commercial customers' buying processes for plumbing and drain cleaning services and establish market and competitive dynamics in the commercial segment, which target's management was counting on for growth.
- **Competitive Landscape:** Gotham established the competitive landscape in each of the target's territories by segmenting the market into large national players, regional players, and local independent plumbers and mapping their exact locations within geographies served by the target, helping clarify the fragmentation of the plumbing and drain cleaning services market.

Target Is Well-Positioned To Defend Its Leadership Position In The Residential Segment

To generate reliable insights into consumers' perceptions of the target's brand, we dissected and analyzed the consumer panel and customer survey data by age, age of home, timing of most recent purchase, purchase frequency, income, gender, length of relationship with plumbers, attitudes towards brands, etc. We established that the target's brand surpasses all other brands in awareness/recall and the target's high Net Promoter Score® of +21 also points to highly positive perception of the target's brand in the market. In fact, almost one-quarter of the consumer panel had unaided recall of the target's brand as the top brand, almost 5x greater than its closest competitor and far above any other national brands and regional players. From our analysis of consumer attitudes and behaviors, we identified 2 distinct consumer cohorts – brand-oriented and independent-minded. Brand-oriented consumers, comprising well over one-half of the consumer base, tend to be younger and more affluent and the target was their top preference (perceived as the better skilled and more convenient service provider than others). Independent-minded consumers favor local plumbers but still regard target's brand highest among branded players and preferred to use the branded players in emergency situations due to better availability of service technicians.



Target Can Drive Growth In The Commercial Segment By Accelerating Formalization Trend

Gotham established that the commercial plumbing market's procurement conventions have been relatively informal due to the infrequent and emergency nature of the need. In this segment, independent plumbers are prevalent as the relationships are typically initiated by outreach/search by maintenance staff vs. by sales efforts of plumbing companies or formal procurement processes. However, we found that the buying processes were starting to be more formalized, driven by a cost reduction mindset, increased ability to plan spend, and ensuring better service across multiple locations. This trend was putting independent plumbers at a growing disadvantage. Gotham concluded that the target is poised to take advantage of this trend due to several factors: (1) target's investments in its salesforce and its proven ability to win accounts at large customers with formal buying processes; (2) target's reasonably sized base of large customers, repeat customers and a strong likelihood of ongoing relationships; and (3) target's unparalleled more favorable brand awareness and customer satisfaction ratings.

Service Line Expansion Into Water Damage Restoration Services Offers Additional Growth Potential

Gotham established that about 1/3rd of consumers and 2/3rd of commercial customers have experienced the need for water damage restoration with a majority using a water damage restoration company to repair the damage. While some customers believed that water damage restoration services require different vendors than plumbing and drain cleaning services providers, the majority of consumers and a large portion of commercial customers would consider the target for the water damage restoration services.

The Outcome: Gotham's data-driven approach allowed our client to gain confidence in defensibility of the target's market position and viability of its growth plan. Armed with our fact-based conclusions, the deal team was able to allay the investment committee's concerns and successfully close the transaction.