

## Customer & Market Due Diligence Of OPE Parts Supplier: Establishing Complex Market Dynamics And Target's Competitive Positioning

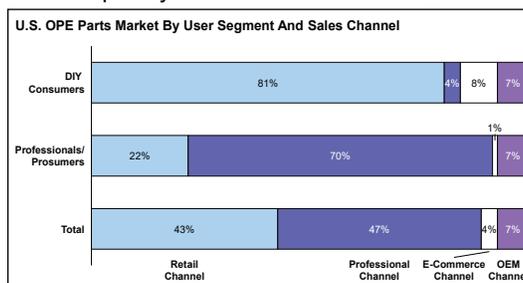
**The Challenge:** Our client, a leading provider of outdoor power equipment (OPE) parts to professional users, was pursuing an add-on acquisition of an OPE parts manufacturer with a strong presence at leading home improvement, farm supply, and mass merchant retailers. The target, a recent entry into the market, had been capturing share over the past few years by displacing the market's dominant leader, and the client wanted to understand the drivers behind and sustainability of the target's growth. In addition, the client wished to determine the target's growth opportunities within the professional channel and any potential cross-selling opportunities within the retail channel. Accordingly, Gotham conducted customer & market due diligence of the target to: (1) establish market dynamics and outlook for the OPE parts market; (2) establish the target's reputation/competitive positioning with OEMs and retailers; and (3) understand the target's growth opportunities in the retail, professional, and E-Commerce channels.

**Fact-based OPE Market and Competitive Dynamics Assessment:** To provide our client with actionable clarity and insight in this complex, multi-channel industry, Gotham undertook a comprehensive, multi-pronged effort:

- Conducted 7 "warm introduction" and 41 anonymous interviews with the buyers in OEM, retail, and professional channels to establish: customer OPE and parts portfolio, purchasing behavior, and vendor selection criteria; target's reputation, competitive positioning, and growth opportunities in each channel; key market trends; and COVID impact on OPE parts sales
- Conducted 2,075 online consumer panel surveys to gain insight into OPE user demographics, usage patterns, buying behaviors/preferences, brand recognition, and shifts during the COVID pandemic
- Built market sizing model to determine size and growth of target's OPE parts market by channel, user segment, and part type:
  - Segmented and profiled OPE parts market by sales channel and sub-channel, including major players in each and their OPE and parts offerings
  - Established benchmarks on parts sales-per-location based on of target's sales to customers, target wallet share, interviews with customers, and other primary research
  - Determined COVID impact and market growth outlook by leveraging information from various sources, including industry associations, customer interviews, consumer surveys, and SEC filings of major OPE manufacturers and retailers.

### DIY Consumers Accounting for 1/3 of the Market and Professionals/Prosumers Accounting for the Rest

Gotham's consumer panel surveys determined that 60% of consumers use OPE infrequently and exhibit classic DIY Consumer purchasing preferences, while the remainder exhibit usage patterns and buying behaviors more similar to Professionals, thus are classified as Prosumers. The DIY Consumer segment has been growing due to broader availability of battery-operated tools, increased ease of use, and a general DIY trend. These consumers primarily shop in the retail channel (e.g., Home Improvement Stores, Mass Merchants, Farm Supply Stores, Hardware Stores). Professionals/Prosumers tend to shop within the professional channel (e.g., independent dealers serving professional landscapers, building/industrial supply dealers, equipment rental companies) although some Professionals/Prosumers also purchase OPE parts from the retail channel.



### Target Has Established a Strong and Growing Presence in the DIY Consumer Segment with Minimal Risk of Displacement

Gotham established that although the target is a relatively new entrant to a market dominated by a legacy player (almost 75 years of history) with excellent brand recognition among both consumers and professionals, the target provides a "value for money" option (manufactured in China) suitable for the needs of the DIY Consumer segment. As the legacy player was unwilling to make changes to reflect the needs of the DIY Consumer, preferring to protect its premium brand positioning with its core professional user base, this opened the door for the target and allowed it to establish a strong position within the DIY Consumer segment, displacing the legacy player at DIY Consumer-oriented OEMs and at major retailers as the opening price point, often private label. Gotham established that the target is now well-entrenched within its customer base due to its superior customer service, responsiveness to customer needs, and continuous product improvements and has a minimal risk of displacement by the legacy player.

### Further Opportunity to Increase Target's Penetration in the Fragmented Retail and Professional Channels

While the target has established a strong position with large retailers, the market comprises thousands of independent dealers in the hardware, farm supply, and OPE dealership sub-channels, where the target currently has a limited presence. Gotham established that the target can penetrate these sub-channels by establishing relationships with the major distributors that serve these independent dealers, one of which was owned by our client. In conjunction with the management team of the client-owned distributor, Gotham developed a potential market entry strategy for the target. However, to carve out a lasting presence in the professional channel, the target must also close a quality perception gap and has the opportunity to do so by building a premium brand positioning around its new product which utilizes a more expensive material. We also established that the target has an opportunity to grow in the E-Commerce channel by making the consumers' parts shopping experience less confusing.

**The Outcome:** We provided our client with a fact-based, clear picture of: the OEM, retail, and professional channel landscape; addressable market size by channel and customer segment; key market drivers and trends; and growth opportunities. Our in-depth assessment established the target's strong customer relationships and solid positioning in a complex market with multiple, intersecting channels and user segments. With the clarity and insights we provided, the client became comfortable with the target's market position and growth opportunity and successfully closed the add-on acquisition.