
Case Study 4

Due Diligence - Finding a Partner for a New Product Launch

What our client needed

Our client was an overseas niche software company with a product they wanted to supply to the UK market. Initial market research had suggested that their product was more sophisticated than current UK products. They had also identified a number of software companies within the UK who had a knowledge of the particular niche market, but whose products were ageing. The plan was to offer one of these companies a license for our client's software, enabling them to offer a better product, and giving our client an easy entry into the UK market. (The company did not have the resources to enter the UK on their own – but needed a UK based marketing partner). In the process, they had contacted and met up with the UK software companies – explaining their interest, and selected three companies as the most likely partners. Of these, one, a small privately held company, was the preferred candidate, as it claimed to have an exact match to the niche market our client was looking to serve. The other companies were much larger, with readily available information. However there was a worry that the niche market our client was interested in was not a priority for these companies.

We were asked to evaluate the main candidate for partnership, with respect to their reputation, capabilities, background, customer service and general attitude to the market. We were also given material by our client on the company, and on some of the other companies considered.

What we did

The first stage was to do a thorough literature search. The company was small, and although we uncovered some articles, most information was not particularly relevant to our objectives.

Next, we approached the company, asking for product brochures. These were promised – but never arrived. We followed this up, and the person we spoke to said he was surprised, as they had been sent. We then asked if there was a software user group, or any reference sites we could speak to regarding the software. We were told that there was no user group – and that we would need to speak to the managing director regarding reference sites. Unfortunately, he was away but we were told he would call us back.

We received no call back – and no material came through the post.

At the same time, we obtained financial details for the company from Dun & Bradstreet, along with director details. Our client had told us the name of the directors they had met. We were also told that the company was closely linked to another company – and so we also obtained D&B information for this company.

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The company reports showed that the target company's financial condition was deteriorating – with increasing creditor levels and decreasing debtor levels. (The reports did not include a full profit and loss statement, as the company was below the relevant threshold, and not required to submit this to Companies House – the UK company registration office. However this gave us an upper limit to the company's turnover and net worth).

Of interest, however were some of the other items on the report. A UK investment company had received options in the target company, but these had not been exercised. This suggested that the investor might have decided that the investment was unwise. We could not confirm or deny this possibility. Another warning sign was that the target company had been sued by a supplier a few years previously. We interviewed the suing company – and although things had been sorted out, there was still a warning.

The managing director was listed as a director of several different companies – but not the company that we had been told was linked. Many of these were in a different area to the company's main business, suggesting that the MD had a variety of interests – in different places.

One of the names we had been told by our client was a director was not on the list of directors on the D&B report for the Target Company. However somebody with the same surname was a director of the associated company – and we surmised that this was his wife. We phoned this company up, asking to speak to the named director – and were told he was at the target company site. We asked if he was actually a director of that company, and were told that he was not yet, but soon would be. And that the director of the associated company was his wife – the two companies worked together for software development. (So, our client had been told a lie during the initial company meetings!)

We had still received no contact from the company – and realised that we would need to speak to customers to get their feedback. We found that the industry has a number of industry associations – and we obtained a copy of the main industry association membership list. There is also an association for software suppliers to the industry – and we contacted the chairman of this organisation. He gave us the names of the user groups for the other software companies considered – but did not know of any user group for our target's software. However he did suggest a few companies who may use their software. Together with the list of industry members, we contacted almost 50 potential end-users. We found a number of actual customers, and ex-customers or prospects who had selected another supplier. Of the customers, the majority were extremely negative – with complaints including atrocious customer service and software that was not updated. A major complaint was that the company never responded to queries or returned calls (which matched our own experience). One respondent was so pleased to be given a chance to offload his feelings that he spent over 30 minutes giving a litany of woe about the company.

In the meantime, we continued to try and contact the Target Company directly – and it soon became clear that the only person who had the authority to speak to any outside contact was the MD himself. He was rarely in the office. Other people promised to pass messages on – but we never received a call back. After almost two weeks of trying, we did reach the MD. We told him that we were doing some research on companies in the industry – and that those customers we had spoken to had supplied negative information. We said that we would like to be able to give a balanced report – and asked if he could let us have the names of reference sites to speak to. As before, promises were made – but we never received any information from the company.

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The combination of all the evidence we had collected made our recommendation very easy: to select one of the other companies as a partner. We stressed that if they were to select the target company as a partner they would need to build in safeguards into the agreement to guarantee customer service and contact levels. They would also need to address cultural issues within the company so that the “control culture” was changed, enabling other staff to send out brochures and help people who call for support or information.

How was the information used?

Our client realised that dealing with their first choice was a risky option - that could have damaged their own product's reputation irretrievably. The possibility of installing their own people into the company was briefly considered - but rejected because the costs would be high and there was no certainty that such people would have been able to change the company to become more open and customer focused.

Instead our client went with their second choice company - and successfully launched their product in the UK market.

Lessons to be learned

- 1) When collecting information, numerous different sources are often required. Clues can come from small pieces of evidence – in this case, for example:
 - ❖ financial analysis, showed a deteriorating financial picture (supported by the failed investment and the debt judgement);
 - ❖ common names suggested a husband / wife link – and helped show company links and expose a misleading statement that the target company said to our client;
 - ❖ industry associations membership lists can be used to identify customers who can be interviewed to gain valuable insight into company processes, attitudes and service.
- 2) Although counter-intelligence processes are required to prevent information falling into the wrong hands, it is easy to become obsessive and to prevent any information leaving the company without authorisation. This is also undesirable, as it can limit marketing success. It also suggests a control culture with little information flow – crucial for effective intelligence.

For more information on this case, or on any aspect of Competitive Intelligence, contact us on +44 20 8954 9121) or by e-mail to research@marketing-intelligence.co.uk (for research services) / training@marketing-intelligence.co.uk (training services). We can research your competitors and competitor activity for you, or train you so that you can carry out competitive intelligence research yourself.