

## ENGAGED CUSTOMERS

### The key to your company's future!

*David Butler, FRSA, CEO TripleIC Limited*

*The author is former chairman of Butler Cox plc, a former director of Istel Ltd and a former member of the investment committee of the United Bank of Kuwait.*

Look, we have come through. It's been a tough year, 2009, so how are you and your business shaping up for 2010? Where will you place the emphasis so that you will not only pull through but thrive and build value?

As the world emerges (we believe and hope) from the shadow of recession, and as the prospects for economic growth begin to look more solid and less illusory, so the stock markets of the world and investment advisors (including private equity firms) prepare for a fresh wave of activity. The ratings score-keeper Standards & Poors has identified a raft of companies that may seek stock market quotations in 2010. The high street buzz in the UK is that such candidates might include Alliance Boots, Tommy Hilfiger and Merlin Entertainment, which runs an astonishing range of day-out sites such as Alton Towers, Legoland, the London Eye and Madame Tussaud. The IPO market ground to a halt when the economies of the world fell into recession and left investors holding the parcel when the music stopped. Now it may be about to move.

A new wave of transactions sounds like good news. But there's a catch. In the last few years before the recession began, investors were accused of saddling their investee companies with horrendous debt, sacrificing jobs and extracting dividends as if there was no tomorrow – which often turned out to be the case. This time, in the immortal words of Pete Townshend, we won't get fooled again. This time the proceeds of flotation won't be allowed to fall neatly into the trouser pockets of the advisers, but will have to be used to stabilize the investee company and reduce debts built up all too easily in the era of hot money.

There's another sobering consideration too. Some time in the next two or three years, loans arranged during the golden days of 2006 and 2007 will reach their term. Don't expect these loans to be renewed on the same favourable terms. Bankers will be a good deal more demanding and steely-eyed this time round, mainly because their own prospects for job security and prosperity won't stand another round of bad news.

#### **Improving Due Diligence**

This leads me to a question that has baffled me for some time. I acted for several years on the investment committee of a major Arab bank. Our range of investments was huge, from small seed sums to much larger development inputs. I was struck at that time by how cautious rich Arab investors were. They were seriously rich, and planned to stay that way. The investments we recommended had to be pretty secure. We made a proper job of due diligence.

Yet I concluded that the process of due diligence as currently practiced is fatally flawed. The investor and the investor's advisers spend endless hours going over the report and accounts, looking for weaknesses such as contingent liabilities. Yet they spend very little time looking at the future.

- What if the customers of the investee firm are only weakly engaged with it? What if they are ready to switch to competitors at a moment's notice?
- What if a substantial number of the investee company's customers go AWOL before the investment bears fruit?

Customer churn is, after all, recognized as the number one 21st century devourer of profit and share value.

Concentrating on past performance alone is like steering a boat by examining the wake. Why ask investors to stump up cash without offering some comfort about the durability of the customer base?

### **Customer Engagement is key**

Here is the punch line. The process of due diligence, from the investors' point of view, should be looking forwards. Hence it should focus serious attention on the issue of Customer Engagement, which determines future profits. Customer satisfaction measures are now proven to be too weak an indicator.

But there's always been a problem. Customer Engagement is not easy to measure. A study by the Economist Intelligence Unit for CEOs showed that almost half the respondents believed that the main problem with Customer Engagement was the difficulty of measurement. So much so that many of them didn't even try!

The rewards from successful Customer Engagement measurement are huge, if the measuring mechanisms are precise and subtle enough. Remedies can be identified and applied if weaknesses are found. In the harsher economic climate we face, the stability of the customer base must be regarded as a sine qua non for investors and their advisers.

No Customer Engagement, no investment: simple as that.

David Butler, CEO TripleIC

[david.butler@tripleic.com](mailto:david.butler@tripleic.com)

