



Customer Interviews: An Essential Step in Assessing Fast-Growing High Technology Companies

Over time, I had to interview the customers of many fast-growing high tech companies in the context of financial due diligence reviews. I got to appreciate the usefulness of this process to really understand the prospects of a company, especially in emerging business-to-business markets. The managers of these companies were often engineers or scientists that did not always listen well to their customers. Customer interviews in the context of a due diligence may then point to a hidden gem or uncover a fundamental weakness.

- Benoît Marcoux, CBMI

As a venture capital partner investing in high technology, a senior manager of an acquiring company, or an M&A specialist, your assessment criteria may have changed significantly over the last 24 months. Then, a good idea or a promising technology allowed an entrepreneur to command astronomical valuations. In current market conditions, you probably require that companies quickly grow a strong revenues base and reach healthy profitability, if not already there. What better way to assess this than speaking to the company's customers? It is then possible to gauge customer satisfaction and to assess the company's business practices. These interviews also shed new light on the company's sales forecast and help identify key areas of improvement.

In this article, I would like to share my experience and to offer some suggestions to help you get the most of customer interviews. I do not simply want to provide you with a checklist of questions. There is a certain art in contacting people, putting them at ease, getting them to speak, using active listening techniques, and having a structured analysis of the results.

Setting Objectives

The first step of a successful customer interview program is to decide on what need to be accomplished. Customer interviews may cover many topics:

- Relationships between the customer and the company.
- How the customer identified and selected the company and the product.
- Competition.
- Responsiveness of the company's staff facing the customer.
- Strengths and weaknesses of the product or the service.
- Enhancements to the product or the service.
- Reliability and availability of the product or the service.
- Current and forecast sales volume with the company.
- Pricing level and structure of the price list.

Depending on the needs of the company or the investor's concerns, the interviews may focus on some specific points. For example, it may be required to assess whether the features of a new high tech product are well received, which also requires that the interviewer has some technical knowledge.

Selecting Interviewees

The company normally provides a list of contacts. This list must include the name of the company, the name and title of the contact person, a telephone number and an email address. Obviously, the company will tend to give the names of "friendly" customers. A good question to ask is how many

customers have been excluded from the list and why. It could be necessary to examine service or returned merchandise records and to ask to contact some problem customers or even former customers. In order to avoid excessive screening by the company and accounting for unavailability of some customers, it is required to ask for a contact list twice as long as the expected number interviews. It may also be that the number of possible interviews is limited merely by the number of customers. This is especially common for companies using an indirect distribution channel or for early stage companies. Even interviewing just a handful of customers can bring interesting information, but a greater number is required for a large product portfolio or if the distribution channel is complex and in many countries.

Another essential step is to get information on the customers being contacted. This information is obtained from internal sources and external sources, such as the customer's Internet site. In a due diligence, it is common to verify material transaction records or contracts. If the interview program aims at validating these documents, it is necessary to have them in hand during the interviews.

Many high technology companies accelerate market entry through an indirect sale channel of distributors and OEM agreements. For example, in a recent case, the channel is comprised of national distributors, local dealers, customer companies and end users. Interviewing representatives at each layer of the distribution channel leads better data than only interviewing one set of intermediaries. Similarly, it is ideal to contact people from various business functions (operations, marketing, upper management, etc.).

When approached professionally, people are genuinely interested in helping a supplier. However, many interviews fail because of customer time constraints and last minute emergency. Also, pay attention to the order of the interviews. Some customers will be recognized as more important and should be interviewed at the end in order to first practice with other customers. Similarly, in the case of a distribution channel, it is preferable to start with the end users in order to validate the selection of the distributors.

Logistics

High tech companies are often exporting a large share of their products. Interviews must then be done by telephone to minimize costs. Although convenient and inexpensive, telephones raise communication barriers that must be minimized. For international interviews, language can also become an issue.

The telephone is a somewhat impersonal communication system, and the use of videoconferencing is too complex. Even for a phone interview, it is preferable to make an appointment. Appointments are especially important if interviews have to be at unusual hours because the customer is overseas. To make the communication more personal, I take advantage of the email confirming the call to send a picture of myself. It is a simple gesture, but a good way to begin breaking the ice.

It is important not to be disturbed during the interview. Also, recording calls frees the interviewer of the burden of taking detailed notes and allows for a faster pace. Nevertheless, keep a pencil in hand to scribble notes to remember to raise some points later during the interview. Finally, a headset frees the hands and permits more natural and relaxed posture and voice.

Interview Guide

We are talking here about general guidelines, and not a rigid script. To get the most from an interview and to keep its natural character, it is necessary to deviate from the expected course and to take advantage of twists and turns of the discussion. The interviewee must not feel interrogated, but in confidence to talk about points that could be sensitive.

Some base rules in preparing an interview guide include:

- Agreeing with the interviewee on objectives and duration at the start of the interview.
- Establishing an atmosphere of trust by offering anonymity.
- Starting with mundane topics (ex.: confirming the contact's title) and progressing toward more sensitive issues (ex.: prices).
- Going from general to specific topics.
- At the end, asking for global assessments of the company and its products.

The Interview

Active listening is a good way to get someone to speak more and to insure that what has been said is well understood. Using open questions (ex.: "How would you qualify the technical knowledge of the customer support staff?") is preferable to closed questions that are answered by yes or no (ex.: "Is the customer support staff qualified?").

Lighten the atmosphere by offering tidbits of information, for example by sharing experiences or by giving information previously obtained ("While speaking to end users, I noticed that..."). This transforms the call from a one-way questioning session into a two-way discussion. Obviously, an interviewer with some knowledge of the industry can better get into bilateral exchanges, especially for high tech products.

It is important to keep a polite and respectful tone. Appreciate the fact that the interviewed people do so without pay while being very busy. Thanking people with a small gift after the interview is a mark of appreciation and can help strengthen the future relations with a customer, but first make sure not to breach company policies.

Analysis

The interview logbook that I use regroups in a table the highlights of the interviews. The table, which spreads over several pages, presents the salient pieces of information gleaned of the interviews organized in columns according to the structure of the original interview guide. At a glance, it is then possible to do cross references on the main topics. The interview logbook is a convenient analysis tool that supports results presentation while permitting to drill down quickly in specific points and to compare what customers have said. For example, it becomes easy to see if end-user perceptions are the same as those of distributors. It is just as revealing to make comparisons between what people from different functional groups have said.

The analysis can point at possible corrective actions and opportunities. It also supports revised sales forecast. A customer's technical staff does not see the same benefits that the end-users? There could be an opportunity to communicate better features and functions. Are the dealers waiting for the next version of the product to heavily promote of it? It could be worth

to pay close attention to the product development schedule. Do distributors, fearing technical problems, only want to introduce a new product gradually? Maybe the sales forecast should be pushed back one quarter. Obviously, an investor may judge the situation too uncertain and decide against proceeding.

Improving the Interview Process

Making good interviews is an art that takes some practice. To take advantage of the experience, stop a moment, think about what could have been done better, and update the interview guides. The interview skills will also improve over time.

Outsourcing

To this point, one can appreciate why interviews are often outsourced to a third party. Some customers could be unwilling to speak directly to a supplier's investor. Besides, experience shows that close to half of people interviewed ask for some anonymity – they are more willing to speak to a seemingly neutral party. Furthermore, a report prepared by an external firm will have greater weight when presented to other investors involved in a transaction.

Schedule

For a typical half-hour phone interview, an experienced person will have to prepare by making an appointment and reading information. One or two hours are required to write down notes and fill in the interview logbook. You should plan for at least 3 hours of sustained work for each interview.

To this, add the preliminary work for selecting interviewees and adapting the interview guide. This can evidently take longer if the interviewer cannot rely on prior work. Analysis and presentation of the results can be formatted in a slide show or a formal report. Analysis and presentation can also be integrated to a global due diligence report. Regardless of the format, count on a minimum of one day of preparation and 2 or 3 days of analysis and writing for a 10-interview program. For a complete and professional result by an experienced interviewer, budget about 8 days of sustained work for a 10-interview program. The work will have to take place over 2 or 3 weeks assuming normal delays for reaching interviewees.



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