Why Wire Harness Companies Fail

As featured in the
January/February 2013 issue

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WIRING HARNESS NEWS®
Voice of the industry
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By Loren M. Smith

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Wire harness companies, like any business, can fail for many reasons. However, with several decades in wire harness manufacturing, I've observed specific failure patterns, which seem to repeat themselves in our industry. This article will attempt to describe these common failure modes.

First off, failure doesn't always have to mean bankruptcy. A wire harness company can go into a slow painful decline leading to lower revenue with only marginal profitability, which in turn result in an unhappy day-to-day struggle for the owner; which can in turn results in a forced sale to a stronger competitor if only to ensure survival. I have observed and even experienced some of the root causes that can thrust a harness company into the abyss.

On occasion, a downward spiral can be reversed by quickly correcting a basic root cause of failure. Unfortunately, this seems to be rare. The three touchstones most likely to trip up a harness business are; growth; organization, and culture. Examples of all three follow.

Rapid growth can certainly kill a Wire Harness company. This is a common failure issue because it's hard for most CEO's to say no. It's always tempting to take on new business. Turning down business goes against the temperaments of most CEO's, who instinctively know tuning down new business opportunities can send a negative signal to customers. A proactive approach to several management control issues can help a wire harness company to effectively manage growth, as well as avoid the negative repercussions which unmanaged growth can cause.

Unless a harness company has a system in place that can view backlog (unfilled orders) by labor hours per operation (i.e. cutting, terminating, and assembly), process bottlenecks can be created overnight and lead to delinquency. Delinquency (missing delivery dates), if not corrected quickly, will spin a company out of control. Knowing when and how to upgrade a production control system to provide this visibility is the key to eliminating this "failure by growth" risk factor.

Given the labor- intensive nature of the wire harness business, CEO's absolutely must know the rate at which workers can be added with a training program in place to facilitate growth. I've seen (and experienced) situations where bringing on too many inexperienced people too quickly created serious negative labor variances. It's essential to understand the maximum number of new hires that can be added within a given time frame in order to avoid this pitfall.

Another growth pitfall to avoid is the inventory investment, which can stretch a harness company's cash flow to the breaking point. The only way to avoid surprises in a growth cycle is to have a real time system to forecast cash receipts and disbursements, and to use this math before committing to new business. These issues might seem pretty basic, but it's a fact that many wire harness companies grow beyond the ability of their management control systems to "see" (or predict) the "real time" effect of growth on their business and cause a calamitous result.

A wire harness company's management team is the single biggest factor that contributes to success. Conversely, not understanding how and when this team might need to change can be the root cause of failure. The management team that brings a wire harness company from start up to $3M may not be the same team that can run a $15M wire harness company. Wire harness company owners are usually very loyal men and women. When this loyalty keeps team members in positions that are beyond their capability, the result can be a company that goes into a stall, or even fails. I'm not suggesting that when a company outgrows a manager, the manager should be fired, but artful management should find another role for team members whose jobs no longer fit.

When it becomes necessary to go outside your company to recruit management talent, where do you go? Unfortunately, I can't tell you how many times I've sat with the owner of a wire harness company and heard about the highly credentialed corporate manager recruited to run his company who didn't work out. This, then, is a common reason why wire harness company's fail; either keeping employees in positions long after the scope of the position has grown beyond their capability, or, when it becomes necessary to recruit talent, calling on large corporate experience which rarely translates to the trenches of a small or medium size wire harness company. There is no magic solution here; getting the right team in place at any point in time is a bit of an art. If you can develop talent internally so that you never have to go outside, that's clearly the best approach. When it is necessary to go outside, the risk and failure rate is quite high. The fact that this is so difficult is why it shows up so frequently as the root cause of a failure.

This takes me to the next root cause of failure; company culture. As an up close observer I have absolutely no doubt that a culture of arrogance, in particular, can kill any company. When I first got into the wire harness business, I made the trip to a customer, a heavy equipment manufacturer, to hear about the terminal/connector supplier this customer had decided to use on all of their future designs. I sat in a conference room with at least 12 harness suppliers. I was by far the smallest company in the room, with a minuscule share of this off highway equipment manufacturers harness volume. The largest harness company in attendance was at the time a leader in the overall wire harness business with approximately $80M revenue, a dozen plants, in house wire manufacturing capability, and their own connector and terminal designs. They were the leading supplier to the off highway equipment, and truck markets. Their behavior at this meeting was both rude and arrogant. After this meeting we all saw many other examples that this company possessed a culture of arrogance. Because my own focus was off highway heavy equipment, this company was by far my biggest competitor. I am very proud that my own company was able to earn eventual leadership in the off highway heavy equipment market, and I will forever be grateful to the great employees who helped me build my company with constant focus on cost, quality, and service. However I also realize we were helped by the arrogance of our largest competitor. Later, the owners of this competitor were forced to sell to a bargain hunter and ceased to exist. This company had everything going for it. They were many times larger than any of their direct competitors, a single advantage which should have led to only continued growth and industry leadership, but sadly for their employees their know it all culture killed the business.

My second example is a wire harness company that was acquired by a private equity firm. Private equity firms buy companies solely to create value with growth. The private equity management teams were highly educated finance guys, and the wire harness management team they acquired was a homegrown one. Despite the fact that the private equity firm lacked any knowledge of the wire harness industry, they were convinced they had all the answers and refused to listen to the experienced management team. Growth vanished as a possibility along with a chunk of earnings.

These two examples show that culture and attitude are not just buzzwords. Best selling management "how to" books make the case for what for most wire harness entrepreneurs who've endured market up's and downs intuitively understand; always put the customer first and respect your employees. It's just common sense, but in my experience, lose sight of these two, and you'll lose your business

Finally, the root cause of a catastrophic failure can simply be cost accounting. When quoting a new part number, the material and labor required to produce a wire harness is always an estimate. Once a wire harness goes into production, it's possible that the actual labor and material required to produce the harness is more than the quoted numbers. Wire harness companies that cannot compare actual to quoted costs by part number risk serious profitability issues.

While the wire harness process is well known, and the hours by operation should be in line with a quote, the possibility exists that for many reasons actual labor over time vs. quoted labor, will be two different numbers. Material costs are also well known, but over time a quoted number and actual cost can differ substantially. It's never easy to go back to a customer and ask for a higher price, but there are times when this option is much better that shipping dollar bills with each wire harness. I've observed many situations where the root cause of marginal profitability or even loosing money is the absence of an adequate cost control system. The fix here is ongoing proactive upgrading of cost control systems so that the end result is real time knowledge of wire harness cost of goods sold, by part number, compared to the original quote.

In my next article "From Start Up To $23M, Surviving My Own Mistakes Was My Greatest Achievement", I will describe how over a 20-year period in the wire harness business I hit a number of "land mines" that should have killed my business; learning the hard way. I hope sharing this narrative will help some of you navigate the treacherous wire harness minefields.

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