# Wire Harness Business & Strategy

## Obstacles to the Sale

by:
Loren M. Smith, CEO
Blue Valley Capital LLC
211 South Ninth
Marysville, KS 66508, USA
lms@blvcapital.com
www.bluevalleycapital.com
www.linkedin.com/in/lorensmith

As a follow-up to my last column, which provided an overview of the sale process by discussing harness company valuation and a seven-step sale formula, this column will focus on factors that can scuttle the deal and what life might look like after the sale.

### Obstacles to the Sale

I'm often asked what is the most common deal-killer. My response is that although there is no single culprit most often responsible for thwarting the process of selling a company, an underlying phenomenon to be wary of is deal fatigue. Think about it. Selling a business is always rigorous. From the point that a letter of intent (LOI) is signed until money changes hands at the closing, the buyer and seller have to surmount numerous hurdles together. They need to reach agreement on a multitude of issues, and all that hurdle-jumping creates fatigue.

Moreover, for the buyer there is another fatigue component: risk reduction. Worrying about whether a deal is just as it appears and taking pains to minimize the possibility of negative surprises post-closing can sap one's energy.

So what is the most effective antidote against deal fatigue? Trust. Whether we are the buyer or seller, the more we can build trust throughout the sales process, the better we can keep deal fatigue in check and increase the chances of clearing those looming hurdles. Here then, are the most common potential road blocks a seller or buyer needs to anticipate. Any of the following, combined with sagging energy and impatience, can sink a deal.

***Reps and warranties.*** An asset or stock purchase agreement is usually a requirement of a sale. So to satisfy the agreement, the seller is expected to warrant (or guarantee) a variety of items while the buyer is typically seeking a level of certainty that exceeds the tolerance of the seller. Likely results are push-back, creating tension.

***Holdback.*** Deals customarily call for the seller to set aside a portion of the purchase price in escrow for a specified period to provide a ready pool of dollars in case the buyer deserves to be compensated for post-closing discoveries. Disagreement on the holdback is a common challenge.

***Employment agreement.*** The seller is often required to remain involved with the business past the closing. All aspects of this agreement—such as compensation, role in the business and number of hours per week—are negotiable, but the most common sticking point is the length of time of overlap, especially when the seller is a seeking a path to retirement. Differences on this key point can sour a deal.

***Seller note.*** It's quite normal for a business to be sold with a portion of the sale price to be paid over time based on the amount, term, interest rate and other conditions as negotiated in a seller note. All these variables and can break a deal.

***Customer confirmation.*** Buyers usually want to have some interaction with a company's customers pre-closing to help ensure that relationships will continue. The nature and timing of these interactions are always subject to negotiation—often complicated by confidentiality concerns—which can create potential breakdowns in the sale process.

***Working capital adjustment.*** Working capital—the difference between current assets and current liabilities—moves up or down between the date the LOI is signed and the date of closing. The degree of allowable change and the mechanics of adjusting for this change are always negotiable. Moreover, the mechanics can be hard for the seller to grasp, particularly the customary need to write a post-closing check in the event of a negative adjustment.

***Third parties.*** Lawyers may get a bum rap here because of the cliché that lawyers are deal-killers. In reality, any third party to the deal who does not have the expertise to play a helpful role in the transaction can gum up the works, and that might be an accountant, financial adviser, relative or on occasion, a lawyer.

In the M&A world, it is often said that, "there are no easy deals." In my experience, this is often true, but I have also found that when the buyer and seller are truly committed to building trust and consummating a deal, the deal gets done—especially when at least one of the parties is intent on building trust.

### Life After the Sale

A question I frequently get from potential sellers is what they can expect after the sale. Obviously, I can't

give them a one-size-fits-all answer, so I generally start to counsel them by asking, “Is your primary motive for selling liquidity or retirement?”

When liquidity is the goal, owners usually stay involved in the business. When it is retirement, owners typically remain on the scene just a short period.

To point out how different a seller’s experience can be, here are three quick examples from deals in which I was involved.

***Retirement.***

“Alfred,” at 74, decided to sell the harness business he had started 40 years ago. He had been considering selling for several years, and he now felt that his age made retirement necessary. Because Alfred hired an intermediary to manage the process for him, he found himself in the fortunate position of having several worthwhile buyers with little difference among them in price and terms. So Alfred based his decision mainly on his—and his adviser’s —assessment of which prospective acquirer would most likely treat his employees and customers with the same respect he always had.

It has now been five years since Alfred sold his company. After a six-month transition, he moved to a warm climate and is happily retired. All of his principal employees are still with the company, and he has been pleased to see the new owners take his company to a next level of growth.

***Continued involvement 1.***

“Tom,” a 45-year-old founder, sold because he wanted capital to expand the business he had created and he wanted liquidity. He did not like the feeling of having all of his net worth tied up in his business. In addition, he had discovered he loved selling and customer interaction, but that many of the duties associated with being a CEO were not to his liking. As a result, when Tom sold his business to a competitor, he remained with the company, but in a sales capacity.

In the years since his sale, Tom has been very happy calling on old and new customers. He does not miss the CEO role at all—a position now filled by a well-suited individual the buyer moved into that slot. Tom feels fulfilled focusing on sales, and he has been able to help expand the company he founded.

***Continued involvement 2.***

Now it’s my turn. When I sold my company to a private equity firm, I kept a minority share and stayed involved for the five years we owned the company together. Going from sole shareholder to minority shareholder was a real adjustment, but the change had its pluses. Most important was stress reduction, especially whenever our company hit an inevitable rough patch. Having extracted most of my company’s value with the sale, I found sleepless nights to be a thing of the past.

Another adjustment was preparing for and participating in quarterly board meetings, now that I was part of a new corporate structure. After 20 years of not needing to report results against a plan, this was new for me, but it was much more engaging than it was burdensome.

Overall, I was very fortunate. The private equity partner kept my management team in place and did not attempt to play a day-to-day role in the company.

Another major change for me was growing by acquiring other wire harness companies, a strategy our private equity partner wanted us to pursue. They provided us with the capital to make a number of acquisitions, enabling us to drive our revenue from US$23 million to US$85 million. All of our acquisitions were deals I brought to the table, but without that capital infusion, they would never have been possible.

I found the acquisition activity extremely rewarding—so much so that I have continued to this day to do M&A work. Over the years I have been party to a great many transactions.

Although I can’t say that all sellers wind up completely pleased, here I have presented three successful outcomes in which sellers identified why and how they wanted to give up ownership and pursued those priorities. Approaching the sale process in that thoughtful way certainly helps ensure a satisfying result.

*www.bluevalleycapital.com* **WHCC**


**Author & Company Profile...**

**Loren M Smith** is CEO and sole shareholder of **Blue Valley Capital LLC**, a position he has held since 2001. From 1976 to 2001, he was CEO and majority shareholder of **MWC**, a manufacturer of electrical wire harness assemblies. During that period, by acquiring and integrating a number of mid-market wire harness manufacturers, MWC became the world’s leading supplier of electrical wire harness assemblies serving the construction equipment industry. Loren eventually sold MWC to a private equity group.

As CEO of MWC and Blue Valley Capital, Loren has spearheaded the sale and purchase of dozens of mid-market (US$2M-US$200M) manufacturing companies.

Early in his career, he was with **Texas Instruments (TI)**, rising to general manager of TI’s connector division. Smith earned a BS degree from **Miami University** in Oxford, OH, USA, and an MBA from **Northeastern University** in Boston, MA, USA.

**www.bluevalleycapital.com**