20 Years in the Wire Harness Business

Successfully Surviving My Own Mistakes Was My Greatest Achievement

As featured in the
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By Loren M. Smith

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Because business success is almost always equated with financial gains, I have had what would be considered a successful career in wire harness manufacture. My own measure of success is slightly different, however. In twenty years of taking a harness business from under $1 million in volume to $85 million in volume at final sale, I view my greatest success to be surviving my own mistakes.

Mistakes are always dumb in hindsight. Ask any NFL quarterbacks how he feels about that last pass interception. Since none of us ever see a mistake coming, it's the timing of the mistake that can cost you the ballgame in business.

The stories I'll be sharing about my own mistakes are the ones which, coupled with timing, can kill any business the way they nearly did mine.

1. Emotional Agendas

When I made my way from the executive suite of a large multi-national corporation on the East Coast to a tiny wire harness company in the middle of a cornfield in Iowa, it was a very emotional decision.

My wife and I wanted to bring up our children in the Midwest and felt they were at the perfect age to make the move. I had no capital, so the sweat equity price tag was perfect. We jumped from Boston to rural Iowa in under thirty days with three pre-teenagers, buying the only house in a town for sale.

My overwhelming passion to own my own business had driven me to make a basic mistake. Within three days of starting work, I learned the book inventory I was buying with my sweat equity purchase did not exist.

By failing to do an independent inventory prior to purchase, I had contracted to buy a business with a negative net worth as well as cash flow problems. The only real assets in the business I was to own were customers who loved the quality of the product and the quality of the workforce who produced it.

Based solely on those two facts, my wife and I gave ourselves two years to turn the numbers around and refinance for growth. It would be my first experience in relying solely on my gut instinct that the basics of a business were solid enough to warrant my total commitment. It was a valuable lesson in self-confidence, which would see me through my subsequent mistakes as well. In my opinion, any entrepreneur's gut instinct is his best friend.

2. Workforce Loyalty and Respect

I would like to think that the next mistake I made was not really my fault, but it clearly was my own doing which triggered a UAW union drive which could have buried my little business early on. The business had grown rapidly after that first nosedive, and customer satisfaction was high.

We were adding line workers and shifts under the close supervision of employees who had been with me from day one. Hiring, firing, and promotions were handled in a largely collaborative, informal style. I prided myself on a management style without memos and an always-open door. And then I violated my own rule of loyalty and respect up and down the chain of command.

I frequently left the office to drive ten miles down the road for lunch. The older couple who owned the cafe asked if I could find a place for their 17 year old grandson who was getting into trouble out in California after his dad walked out on him and their daughter, the boy's mother.

I quickly acquiesced and put him on the night shift with a start date, informing the shift supervisor after the fact. She wasn't thrilled, but needed people so went along. Within a week of his start date, I was hearing nothing but complaints from all sides; he showed up late, left early, and flatly refused to do his own rework when he screwed up. My people were mad at him and mad at me for the hire

He had received his third formal warning and was on his way out when I got the call at home from my night supervisor.

Turns out dad was a union organizer and the kid was passing out cards with promises for signatures. I was pretty upset. I believed that without direct communication with the workforce and the resultant customer-driven culture, my labor-intensive business could not survive, let alone prosper.

I quickly consulted one of the most famous labor lawyers in the country who came in to advise me on what to do. In the end, I wrote him an enormous check but rather than follow his direction I did what my people in leadership on the factory floor had been urging all along. Once again I put my trust in my gut, did what my people and I agreed was the right thing, and avoided a killer hurdle in the road.

3. Always Promote the Home Team First

This mistake is almost a variation on #2. As my business continued to grow, I saw the need to beef up my management team so that I could be less hands-on. I brought in a quick succession of highly degreed and experienced mid-level managers and left them to it. Like most entrepreneurs, I have a real distaste for meetings. They had a whole lot of meetings I missed for about a year.

It was just enough time to really wreck the bottom line. My non-degreed homegrown talent had been muttering for a while, and the year-end inventory showed the extent of the damage. Had I promoted first from within and added outside talent singly on a strictly as-needed basis with my close supervision, the loss would have been avoided. Bringing in any outsider is always higher risk than bringing along the talent you know.

The root cause of my misstep was the fact that I had stepped away from the day-to-day management, and turned my company over to a new team far too quickly. My new controller had instituted accounting changes which masked what was really happening and I was too removed to see it. I had to fire my controller and all the corporate guys, and gave an entry level accountant who seemed to me to be loaded with common sense and smarts the chance to run the day to day as my GM while I focused solely on the customers.

We turned the company around in a matter of months. Even as we were digging out of the disaster we kept gaining market share and growing.

4. No One Shares Your Agenda

Never assume your customers, your suppliers, or your banker share your goals for your business. They may use the words to make you think you are working toward the same end, but the truth is they all have their own agendas, not yours.

For several years, I kept a cartoon in my office which showed an entrepreneur going up a mountain with his banker on his back. The banker is smiling; the entrepreneur is sweating. The cartoon reads: "it's hard enough to get to the top without carrying a banker on your back."

All through my growing pains with the business, I had enjoyed a good relationship with the large Eastern bank which financed my expansions and contractions. Interest rates were astronomically high the entire time, and I never missed a payment. I didn't like it, but that was the deal. So imagine my surprise when I got a call from my friendly banker on a Good Friday holiday.

"The bank has been sold and the acquiring bank has decided to de-acquisition your loan; your company does not fit their lending criteria. You'll have ten days to replace your financing." Several covenant violations gave him the legal standing to "call" my loan. His bank could liquidate my company if I did not comply with his request. During this period of bank consolidation this was not unusual.

Five working days in the middle of nowhere to persuade a banker you've yet to meet to loan millions on a business with a complex mix of current financing that has just been yanked after a long relationship. Anyone who has ever had a home loan knows loan committees usually only meet once a week. It literally would not be possible in this time frame.

But then I got lucky. A friend who owned a small farm bank down the road offered to tide me over until I could replace financing with a large commercial bank. I took down my cartoon. A really good banker will throw you a rope when you need it. The lesson here? Always have a Plan B in the drawer.

5.Uncontrolled Growth Can Kill

The next lesson I learned (perhaps re learned) the hard way was that prior to taking on new business be sure to understand exactly how the new business will effect each component of your manufacturing process. Understanding how many new hires and what their learning curve will be to handle the new work is key in harness manufacturing. Re- learning this basic fundamental was very costly for me.

As our large construction equipment customers grew into their supplier reduction programs, they moved ever more aggressively to reduce the number of their wire harness suppliers, and dramatically drove up our rate of growth. Our lack of adequate understanding of the rate at which we could successfully add folks in the plant, along with the fact we had no tracking and forecasting system for work flow began to tell. Labor efficiencies plummeted and deliveries fell behind, creating serious delinquencies. This happened very quickly.

One morning in January, I pulled into the parking lot next to my controller. The temperature was below zero and the wind was blowing, He got out of his pickup and said, "Loren, I closed the books last night and we had a horrendous loss last month. Something is really wrong."

The magnitude our loss and delivery delinquency made past missteps look like a cakewalk. It was clear we had to take immediate aggressive action to stop the losses and get current, or we'd be dead. Over the course of a weekend I decided what we had to do. My back of the envelope analysis told me we could handle this growth rate with our core customers, but only if we eliminated most of our other customers. This had to happen immediately. We couldn't sustain a loss of this magnitude for another month. Continued delivery delinquency would not be tolerated by our customers.

In the space of the next few days, I had conversations with all the customers we could no longer support. These were some of the most difficult conversations I have ever had. When a company places their confidence in you and you have to tell them they have to move their business, it's a tough conversation. I knew I had no choice. In most cases, I was able to refer them to a competitor who was glad to have the business. I still count that week as the most difficult of my entire career.

By taking this drastic action we were able to stop the losses, but it took time to get current. We committed to a delivery plan, part number by part number, for our remaining customers. We never missed a commitment. To this day I am grateful to my customers and my employees for getting the business through that terrible time. Once again, I had learned a tough lesson. Strong growth, particularly in the wire harness business where a trained work force is your largest single component for success, must be meticulously planned or it will put you under faster that anything.

By limiting our focus on our core customers, we were able to reduce our growth trajectory to a manageable level, and most importantly we were able to keep out-performing our competitors to gain share with these customers.

As customers constantly reduced their harness suppliers based on strict performance criteria, we consistently earned their number one ranking, despite the challenges of my missteps. We had survived our own growth successfully.

Today when you say your company is "market -oriented" or "customer- driven" it sounds like an overworked buzzword. Seminars, books, and consulting practices teaching how to create a customer driven culture or a passion for the customer are now commonplace. But like weight loss, if it were easy, there would be no market for those who supposedly provide answers.

That said, if I had to name one thing that enabled me to survive my missteps and to earn a market leadership position, it was our customer driven culture. In an era when price was constantly the prime market mover, we successfully coupled it with quality and service.

As management, we made sure we were constantly communicating to every employee with frequent plant meetings and a newsletter. I always tried to make sure everyone understood we all worked directly for the customer.

In my view as a former owner of a wire harness manufacturer with now additionally over a decade of experience consulting primarily with M&A in our industry, the basic elements for success in this challenging manufacturing business have not changed significantly.

Let's face it; a wire harness will always be a relatively small part of the end product from the buyer's viewpoint. What we, as manufacturers know, is that without our high quality product that expensive piece of equipment does not work. Yes, we are in a labor-intensive business so margin pressure from customers will always be constant. As long as we never compromise quality and, clearly value the people who produce that high quality, we'll all survive our own mistakes.

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