*Reprint*

# "Definition of a 'Bad' Buyer"

As featured in the
May/June 2016 issue

Serving the Electric Wire and Cable Processor
WIRING HARNESS NEWS®
Voice of the industry
P.O. Box 527 • RICHMOND, ILLINOIS 60071

# "Definition of a 'Bad' Buyer"

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**By Loren Smith**

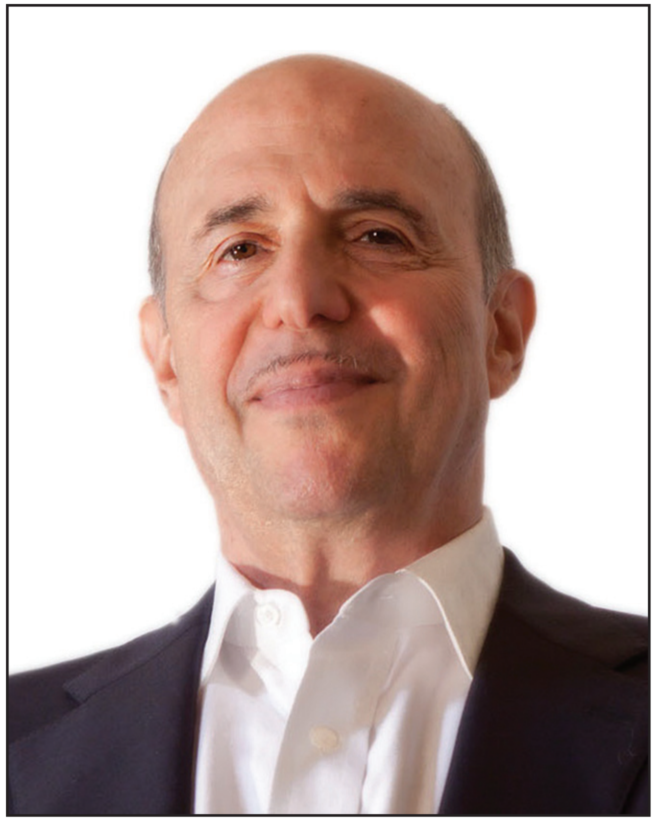
Unfortunately, bad buyers do exist. But if we recognize the warning signs early on that we're dealing with a potential buyer we should avoid, we can save ourselves a lot of grief. That's why I am sharing one of the most unpleasant experiences of my career––with a buyer we'll call ABC Co.

Quite a few years ago, I was involved in selling a very successful medium-size wire harness company, and my initial steps yielded a number of highly qualified buyers expressing a strong interest.

The next phase of the acquisition process is negotiating and signing a letter of intent (LOI). The LOI is essentially an offer to acquire a business entity subject to confirming that the basic facts presented about the company are true, thereby safeguarding against any surprises. In the LOI the potential buyer also specifies the price and terms of the purchase. What ABC put on the table beat out all other prospective buyers by a wide margin.

The due diligence process followed. Normally, the only reason this phase would yield a discovery justifying a modification of the price would be if a material fact such as a lawsuit or environmental violation were uncovered that was not apparent when the LOI was signed, but halfway through due diligence it started to become clear that ABC was a bad buyer. They spun a non-issue to make it seem a material discovery and then insisted on a price adjustment if they were to continue with the diligence process.

The seller now had a choice of accepting the price adjustment or going back to the marketplace and losing time. Reluctantly, the seller agreed to the price adjustment.



**Loren M. Smith, CEO**
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After the transaction closed, the buyer sent a letter to the seller indicating that they had made a post-transaction discovery they felt was material and unless the seller provided the buyer with a stated dollar amount they would take the issue to court. They claimed they had not been informed that a major customer was pushing for a price reduction.

The claim was ludicrous because price pressure was a fact of life for the seller with nearly all of its customers, and it was an industry-wide phenomenon, deeply ingrained in the fabric of the industry. Believing the claim was a sham, therefore, the seller did not provide the buyer with the payment, but as a result wound up in court.

After the expenditure of significant legal funds, the seller was strongly advised by counsel to settle the case. Although there seemed to be clear evidence that the buyer's contrived issue had no merit, the unpredictability of a trial presented an unreasonable risk. This, of course, is why so many lawsuits are settled, and why this seller very unhappily complied.

In the end, with the due diligence price adjustment and the expense of settling the lawsuit, the seller received only what the other buyers had put on the table at the outset of the process.

Whether ABC Co. had plotted from the start to get two price reductions post-LOI, I will never know. A sizable firm with very deep pockets, ABC did nothing illegal, but they did grossly violate business ethics. They were a bad buyer.

*Postscript*

In the years since this troubling experience, I have developed a thorough vetting process that has enabled me to weed out buyers like ABC Co.

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