

*Reprint*

# Growth Strategies for Harness Companies

As featured in the  
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Frequently people ask me what is the best way for a harness manufacturer to grow. My initial response is asking, “Are you sure growth would be good for you?” While conventional wisdom says if you’re not growing you are going backwards--and that you increase your risk if you’re not growing--it’s simply not true that growth is good for everyone.

The controls, the management structure, and the management staffing of a \$20M harness manufacturer are very different from what is required to run a \$5M or \$10M harness company. Unless a CEO is prepared to make the structural changes necessary to effectively manage a much larger company, growth can undo years of success. In fact, a key reason the harness industry is fragmented, consisting of hundreds of small companies, is that many owners recognize this reality and have been reluctant to create the risk associated with growth.

As long as you are exceeding your customers’ expectations regarding quality, delivery, and price, the market niche you serve might not be conducive to growth as a means of reducing risk. I have seen many small harness manufacturers who serve a regional niche and whose revenue has been flat, but healthy, for years. These businesses have generated an exceptional living for their owners while simultaneously building strong value.

But, of course, pursuit of a growth path can be prudent for a number of reasons, such as the following:

- To provide more opportunity for family or for management
- To reduce customer concentration
- To increase the company’s value for a planned sale

Internal growth can be achieved by increasing share in the markets you currently serve or expanding the number of markets your serve. Unless your competition stumbles, however, internal growth can be difficult. Perusing new markets, can be even more challenging than expanding your share in markets you currently serve because many harness users have limited their supply base and will not even return a phone call to prospective new suppliers

External growth: Harness manufacturers who have pursued growth through an acquisition strategy have met mixed results. The main challenge is that owners have to reach a “tipping point” before they are prepared to sell their business. Owners reaching retirement age with no succession plan can make good potential acquisitions, but often even these folks will not position themselves for a sale, and they might not return phone calls from suitors they don’t know. When a harness company looking to expand through acquisition uses an intermediary with ample industry knowledge and visibility, the probability of success finding willing sellers can be substantially increased.

Here is an example of a harness company that successfully executed an acquisition growth strategy:

The company was owned by an entrepreneur who wanted to sell his business but felt he needed to grow to several times his \$20M annual revenue to yield a price that would give him a comfortable retirement. When he decided to embark on an acquisition growth strategy, he partnered with an investment group that provided the capital and expertise to enable him to make acquisitions that otherwise would have been beyond his reach.

Because the owner knew and respected his competition, he was able to approach target acquisitions with fair valuations and the opportunity to participate in the value creation that his growth would yield. Over the next few years he made several acquisitions that grew his revenue four-fold to \$80M while maintaining his EBITDA percent. When he sold his company he exceeded his price goal and was able to retire comfortably.

This example shows how an entrepreneur was able to achieve growth through a well-planned acquisition strategy, realizing a result he could not have attained by pursuing internal growth, in a time frame acceptable to his personal goal.

In the absence of a major market shift or a competitor’s misstep, internal growth always takes longer. When contemplating growth the entrepreneur always needs to first access his or her personal goals. Even more than most business decisions, growth is an issue where timing is everything.

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