

# Wire Harness Business & Strategy

## Trust: The Oil of the Deal Process

It's often been noted that clichés become clichés because most carry so much truth. A great example is the cliché that trust is the oil that takes the friction out of the deal process. Absolutely! Just think of all the points in a deal when confidence in the other party is crucial.

The process begins by throwing out a large net to corral potential buyers. If we're successful in attracting a good number of prospects, how do we whittle them down to a select few? Certain data are relevant, granted, but our instincts about which buyers we'd be comfortable dealing with cannot be ignored.

If this seems too "gut level," consider the argument put forth by celebrated author **Malcolm Gladwell** in his bestseller, *Blink*. Gladwell shows that many judgments we make in a matter of seconds are hardly rash because they are actually based on years of experience and observation—our internal database. His book persuasively makes the case that these reactions are often more reliable than the results of extensive analysis.

So in the opening stage of the deal process, the trust factor wields a dual edge. On the one hand, we benefit by trusting our instincts about which potential buyers appeal to us. And by what measure are we making that assessment? To a significant degree, it is which buyers we feel we can trust to deal with us honestly and fairly.

Trust then looms large again when a prospective buyer—especially one already operating in the wire harness industry—asks us for information about our customers. Hmm. Can we trust this suitor? If our judgment is saying yes, we should say yes. How else can we make substantial progress with the buyer? Prospective buyers can't possibly make an intelligent decision about acquiring our company without evaluating the scope and depth of our customer relationships—as well as our company's potential.

And for a dose of courage about sharing confidential information, we can draw on trust in another way. If we are faring well in a competitive environment, we must be providing products that are right and on time. And we must be pretty good at maintaining rewarding customer relationships. So why worry about disclosing who our customers are? We need to trust our ability to build a loyal customer base.

If these initial steps, enhanced by ample trust, mate-

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rialize in identifying a desirable buyer, we can move to the concluding stages—where trust continues to minimize friction. In signing the letter of intent, the buyer is trusting the seller to close off the competitive process, and the seller is trusting that all of the items in the letter of intent will hold up during the due diligence process. The trust factor here is key because between this point and the closing, various positive and negative developments can occur. The seller must trust that the buyer will not interpret or twist normal business occurrences in a manner that could lead the buyer to try to change the terms of the deal.

Trust even extends into the post-closing phase. Sellers need to believe they can trust the buyer to treat employees and customers as they would—a factor that for most sellers is as important as price. After all, there really is no viable legal mechanism to provide assurance on this score, so trusting the buyer's integrity is vital.

Once we contemplate how crucial trust is in every stage of the sale process, we realize that it doesn't just prevent friction. It is a mandatory component.

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**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.  
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