

# Wire Harness Business & Strategy

## “How to Get a Deal Done

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annual meeting presentation by Loren M Smith

Over several decades of putting deals together to sell wire harness companies, I have identified four primary factors I believe to be crucial to getting a deal done. But before I share these views, I guess I should try to establish some credibility with you. In brief, here are my qualifications.

Early in my career, my work was not as an entrepreneur or dealmaker. I had a secure, rewarding position in the corporate world, but a few people who knew me were well aware that I had an itch to be my own boss. And then on a fateful day, one of those individuals—a former colleague at a major high-tech firm—called me about an opportunity.

“Smitty, I know about a company,” he said. “It’s in the middle of nowhere, but I think if you’re willing to go there, you can make a deal to buy it.”

The company was in the wire harness business, serving the agricultural equipment industry. Its annual revenue was less than US\$1 million, and it was losing money. And I should add that I had recently remarried, I had a new blended family, and we lived nowhere near Iowa, where the company was located. So of course, I jumped at the chance!

Now, that might sound illogical, but I had held a lifelong desire to run my own company, and the timing seemed perfect. Our new family would embark on an adventure, and I would finally have the opportunity to see if I could turn around the fortunes of an underperforming business. When I exited the **Monona Wire Corporation** 25 years later, our firm was generating over US\$85 million in annual revenue, and we were the leading harness supplier to the construction equipment industry. I had been quite fortunate.

After a brief retirement, I started **Blue Valley Capital**, a mergers and acquisitions firm specializing in serving the wire harness industry. My immersion in deal-making in recent years—and the companies I acquired while operating my own harness company—are what inform my belief that to be viable a potential deal requires four essentials:

**First: An educated seller:** Because most sellers have spent the better part of their lives building their company and dealing with day-to-day challenges, their grasp of their company’s value is often off the mark. The marketplace determines the value of a company, and unless a seller understands what that marketplace value range is—and accepts that the market might provide him or her with only the middle or even low end of that range—a deal is unlikely. And incidentally, a corollary to this reality is the need for a seller to recognize that the sale process a firm like ours conducts will reveal true market value.

**Second: A motivated buyer:** Strong motivation consists of many factors beyond just wanting to buy a harness company. After a letter of intent (LOI) is signed, nothing stays the same over the period of due diligence. For example, if conditions affecting the business over this period are negative, a buyer might want to walk away from the deal, or

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lower the price.

But a truly motivated buyer will stay in the game even in the face of these real-life setbacks, which I have dealt with: a seller who announced he’s moving to another city and will work only part-time for the new owner, sellers whose volume dropped in half and a seller whose Mexico subsidiary failed to pay its taxes. These events and others would have scared away many buyers, but in all these instances the deal closed without any modification of the LOI.

And what makes buyers motivated? Among the many strong motivations I have seen are buyers who want to reduce their customer concentration, buyers who want to exponentially grow and have the financial wherewithal and expertise to do so by acquisition, and a foreign buyer who had a financial need to grow his USA asset base.

**Third: A sales document that compellingly cites company history and growth opportunity:** This is the kind of value-add a firm like ours provides. It’s necessary to identify how it might be possible for a new owner to grow the business. The two testaments to an effective selling document are 1) after review, prospective buyers have few or no clarifying questions, and 2) prospective buyers say, “If I can confirm that all this is true, I’m interested.”

**Fourth: Effective communication:** Have you heard this ironic quote? “The single biggest problem with communication is the illusion that it’s taking place.” Though that may sound like a punch line, the quote warns us that often we think plenty of communication is occurring, but are people really hearing each other? Are they taking steps to accommodate the other party?

To surmount the many challenges that can doom a deal, all parties to a transaction need to be on the same page at the same time. That requires a serious time commitment, identification with the other side, patience and other building blocks of trust. Erosion of trust can be quite difficult to fix.

In summary, if a seller is educated and committed, if a buyer has strong motivation, if an effective selling document is created and if communication is effective, chances are excellent that a deal will get done. [www.bluevalleycapital.com](http://www.bluevalleycapital.com)

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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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