Wire Harness Business & Strategy

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Perception vs. Reality: An Avoidable Obstacle in Consummating a Deal

A gap between perception and reality—on the seller's side or the buyer's side—is often the biggest barrier to getting a deal done. If the owner of a wire harness company or the prospective buyer has not been exposed to the basic steps in a transaction, misperceptions can loom large in undermining an otherwise straightforward process. Here are just two examples of potential stumbling blocks.

Snag #1:

It is common practice at closing for a percent of the purchase price to be held back in an escrow account for a specified period. This is a form of insurance protecting the buyer in the unlikely event that something as important as an undisclosed liability or lawsuit is discovered post-closing. Even with discoveries such as these, the escrow agent has a fiduciary responsibility not to release the held funds until both the buyer and seller agree.

In my years of experience, the funds in escrow have always been released to the seller with interest after the holding period, but that does not minimize the importance of this practice.

To a seller with no familiarity with this procedure, holding funds in escrow might be seen as a reduction of the purchase price, giving the buyer the right to request release of the funds. If this is the perception, it is easy to see how the seller would push back hard against this standard procedure and jeopardize the deal.

Snag #2:

Another example is the common practice for a buyer to visit one or more of the selling company's largest customers when a deal is close to being completed. Not only is this important fact-finding for the buyer, but the visit also benefits the customer. Customers appreciate knowing in advance their harness supplier is being sold, and quite often the acquiring company brings something to the acquired company that has value for the customer.

For example, the acquiring company could bring added financial strength or more technological capability, and when this is explained, along with the fact that the seller's key management team will remain in place, visits tend to be quite positive.

But if an uninitiated seller frets that the buyer might learn something during the visit that dampens enthusiasm about the acquisition—or that the visit might spook the customer and cause the customer to start casting about for a new supplier—it is easy to see how the seller might resist the visit.

Wire harness company owners, highly invested in effectively running their business, are not necessarily conversant with many of the elements of getting a deal done.

And that is precisely why I take the time on the front end of a deal process to explain matters such as those presented above.

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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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