

Reprint

Handshake or Contract?

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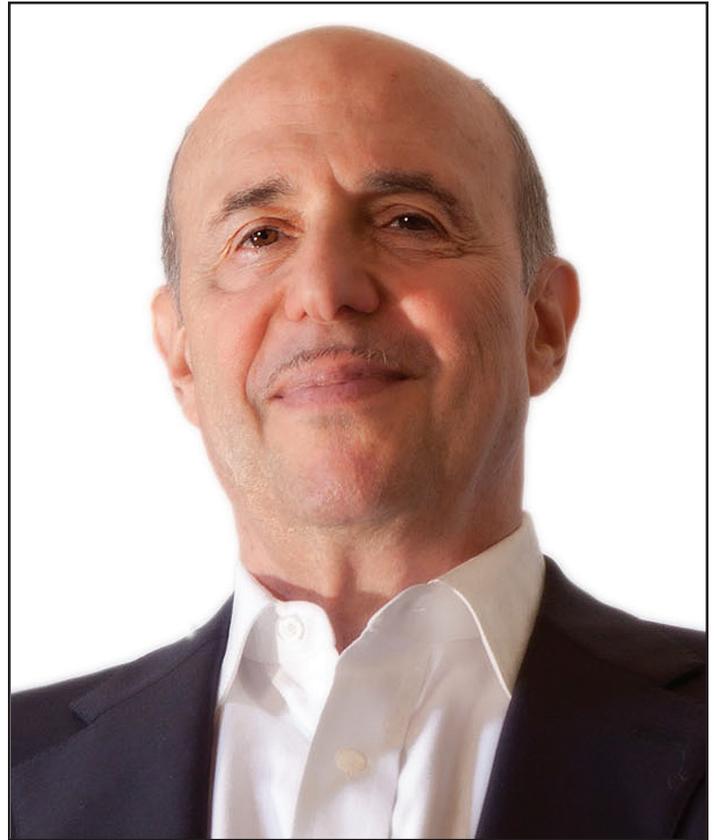


Handshake or Contract?

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By Loren Smith



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It's no surprise that I've been asked many times whether some business agreements can be sealed by shaking hands, rather than going to the trouble and expense of putting the deal terms in writing. After all, the idealistic, friendly side of our natures draws us toward informality. But, sadly, I advise against the appeal of demonstrating an unnecessary level of trust--and I have the personal anecdote to reinforce my point.

The story pertains to an inflection point in my career. I had long yearned to run my own company, and suddenly an opportunity presented itself. Two gentlemen in NE Iowa were interested in my acquiring their small wire harness company (Monona Wire Corporation) and paying them off over the next few of years while I turned around the firm's sagging performance.

This seemed like destiny. Here I was on the East Coast, newly married with custody of two sons, and a chance to demonstrate my turnaround skills and soon become the owner of a troubled wire harness company. Moving from one of the country's population centers to a town of 1,000 residents seemed an ideal plan for my new blended family. Swept away by excitement and optimism--and the sellers' confidence in me and their sense of urgency--I affirmed the agreement on a handshake.

Once installed as CEO, I discovered that the company's problems were more severe than I had perceived from afar. The firm's employees, suppliers, and customers were all unhappy. And most distressing, the company had no cash. With a damaged bank relationship, owners who were unable to provide any financing and no capital from me, keeping the company alive and developing a turnaround plan was a 24/7 job. Nevertheless, believing that I could turn straw into gold, I aimed to formalize the handshake agreement I had made with

the company's owners to acquire total ownership.

Meanwhile, one of the partners asked me to entertain a friend of his who owned a company in Chicago, although I was unclear about the purpose of the meeting. Once the individual arrived with his team, however, I realized that despite my handshake agreement the two owners had invited the individual to look at the possibility of acquiring their company. When I confronted the owners and expressed that this was in violation of my agreement, they responded that they had a strong preference for an all-cash deal vs. getting paid over time.

The owners were not bad guys. But feeling the vise of deep financial trouble, they had been willing to put their welfare ahead of their handshake with me. In the end, however, I did not find myself out in the cold. Although the suitor was just as keenly interested in the small harness company after his visit, He backed off pursuing a sale. Good thing, because otherwise, I'd have become an unhappy employee of people I had had no intention of working for or a jobless would-be owner.

Fortunately, this chapter had a happy ending; I was able to formalize my handshake deal to buy the company, and, 23

years later, when I exited the business our revenue was \$85 Million and we were the leading supplier to the Construction Equipment Industry.

My cautionary tale demonstrates how attitudes about an oral agreement can change and how even good guys can disappoint us.

Today, as an adviser to many sellers and buyers, I am a huge fan of contracts and other formal agreements. They may not create chumminess, but they do provide outstanding security for everyone involved.

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