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PARTNERSHIP

Ensure Success With Due Diligence, Planning


Linda Swerling

While many factors influence a business owner's desire to partner with another person or company — need to grow, feeling of isolation, desire to enter new markets — the success of any business partnership depends on due diligence and planning before the partnership agreement and then flawless execution of the plan after the announcement.

Due diligence includes deciding if the partnership is the right choice, looking at what could go wrong, understanding what roles each partner takes, structuring the agreement and planning the operating methodology.

Assessing Reasons to Partner

Some business owners might cite the need for collegiality, the desire to share one's success, and even loneliness as justification to seek a partner. In truth, these are symptoms — not the basis for moving to a partnership. The following are some situations that indicate you might want to explore partnership.

• You are no longer able to offer sufficient support for all departments and divisions.

• Your senior level staff is good, but no one has an owner mentality.

• Your business continues to grow and you cannot handle it alone.

• The business has achieved as much as it can under your leadership and would benefit from adding a partner to leverage expansion.

A potential partner should bring either a complementary customer base to increase sales or a product or service that will allow diversification of the revenue stream from your current customer base. Some partnerships become quasi mergers or acquisitions, so decide if you can accept that should it happen.

As an owner or chief executive, you have the final say in most areas of the business. You will no longer be making decisions on your own because you have another person or entity that shares in the impact and effect of those decisions. You both will have made a commitment to share in assets and liabilities.

Think about how having a partner will affect your personal life as well.

• What income do you require from the business?

• How much time do you want to spend at the business — and on your personal life?

• What are your family's expectations about your business and its contributions to their lives?

Finding the Red Flags

From the joining of two small consulting firms to the merger of multi-billion dollar enterprises, success remains elusive. Rarely does a partnership work well across an entire organization. This is where the true due diligence begins.

In the early stages of discussion, euphoria can overcome practicality. Yet, this is exactly the time to have serious discussions about how the new partnership will deal with crisis and success. What happens to the partnership if:

• Negative cash flow becomes an issue? Will there be reserves — or the need to access personal cash, loans, lines of credit? (Remember that many bank loans, lines of credit and leases require a personal guarantee.)

• The business grows quickly, feels out of control and too demanding and one of the partners wants to leave?

• An unexpected event necessitates that a partner leaves?

• The partners do not get along?

• An employee who has become a partner doesn't make the shift to the owner mentality?

• Ethical or moral conflicts emerge?

• The revenue stream cannot support the new partnership?

The discussions around these issues should give you a solid basis to make a decision. As important, you will get clues as to how you will interact should the partnership become reality. Take heed — and pay attention to your intuition. Better to unearth problems now than try to fix them later.

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Deciding Partner Roles

Defining the roles each partner plays in relation to one another and the management of the business, as well as to employees, vendors and financial advisors, is key to the success of any partnership.

Discuss the impact on all different constituents: customers, financial institutions, suppliers and, most important, employees. Employees need to understand the chain of command. Some partnerships divide the company into two teams, with each group operating under different partners. Another model is to have all employees interact with the partners.

You and your prospective partner can do the following exercise.

- Partner A and Partner B each list, independently of one another, preferred responsibilities.
- Identify what is sole control, where there's overlap, and what's missing in running the organization.
- Work through the responsibilities so all of the operational areas of the business are covered.
- Note: Become wary if the lists overlap too much — it may mean that you and your prospective partner are too much alike. You face situations in the business that you would want to have contrasting styles and skills so that you can trade off between you.

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Structuring the Agreement

While your attorney will help with the details of the agreement, be sure you understand the ramifications of the business structure you choose because it impacts how you can get money out of the business other than salary.

Insist that you have an exit strategy built into the agreement itself. The exit strategy should outline what to do if the business becomes wildly successful, or fails, or the partners are not getting along and want to restructure. Brainstorm circumstances that might affect the partnership.

In addition, include how you will transfer control to new owners — whether next generation, other stakeholders, or both. Create a succession plan as you create the new entity.

Planning the Operating Methodology

Choosing an operating methodology, setting up the new company and informing internal and external relationships should fall easily out of the exercise on roles and responsibilities.

Complete an organization chart for the new entity. Revisit the business plan, reestablish goals. Confirm assumptions on how to achieve goals, what the cash flow will be, and how to determine profitability.

Your first, most important constituents are your employees. Explain to them the whys and the hows. Develop a presentation that will work for your other constituents: bankers, vendors, your community. Discuss how the business will become stronger, what the workflow will be, and the strengths and expertise of the new partners.

If the partners' expertise focuses on external aspects of the business such as raising capital, business development or CRM, think about naming a managing partner to oversee the staff and day-to-day operations.

Taking the time and effort to explore the synergies as well as the pitfalls of partnership can result in an organization that is rewarding on many different levels.

Linda A. Swerling is the principal of Level II Solutions, a Brookline-based consulting firm that specializes in operations and financial management and offers part-time COO services to startups and growth-oriented companies.