

PARTNERSHIP

It's All About Proper Planning, Execution

No matter why a business owner seeks a partnership with another person or company, success comes to those who take the time to explore possibilities, create a strategy and then flawlessly execute that plan as the partnership evolves.

Proper planning includes determining why the partnership is right for the individuals and the company, exploring what could go wrong (and right, too!), clarifying what roles each partner takes, crafting the agreement and planning the operating methodology.

The Right Choice? Often business owners use symptoms to justify the move to a partnership. Needing someone to share successes, reduce loneliness or offer collegiality may not translate to a good business partnership.

On the other hand, legitimate business needs might include:

- Inability to give departments and divisions the attention they require,
- Senior staff who do not have the capacity nor the desire to move to the ownership level,
- Growth such that you cannot sustain it without help,
- The business has reached a high point under your leadership and you need a partner to leverage expansion.

By adding a complementary customer base for increased sales or a product or service that creates a new revenue stream, a new partnership has the potential for greater business growth.

Be warned, however, that what seems to be a partnership discussion may morph into a quasi-merger or acquisition. Consider how you would feel if that turns out to be the case.

Another important change will be in



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major decision making – no longer will you have the final say. Whatever your role in the new entity, you will have to make joint decisions and share in their impact and effect. In a partnership, the key players share in assets and liabilities.

It's not just about business, either. Think about how a new partnership might affect your personal life.

- Determine what income you need.
- Estimate the amount of time you are willing to spend at work – and then what's left for your personal time.
- Ask your family what their expectations are about your business and how it impacts their lives.

The Signs of Failure. 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.

Success can create as many problems as failure. Take a step back from the initial enthusiasm and excitement of something new to discuss what to do in the following cases.

- Negative cash flow becomes an issue. How will you create reserves? Will any of the partners have to access personal cash, loans, lines of credit? What will you do if the bank requires a personal guarantee for bank loans, lines of credit or leases?
- The business becomes too demanding or grows too quickly or feels out of control – and a partner wants to leave.
- Some unknown personal crisis or event requires a partner to leave.
- The partners do not get along – or, worse, ethical or moral conflicts emerge.
- The revenue stream cannot support the new partnership.
- An employee who becomes a partner is not effective and becomes a detriment.

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 a reality. Take heed – and pay attention to your intuition. Better to unearth problems now than try to fix them later.

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

Change is difficult for employees, so ensure that they understand the management structure and who has responsibility

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ty for the various areas of the business. Then clearly define the entity to customers, financial institutions and suppliers.

To better align everyone's roles, try this exercise.

- Partner A and Partner B each list preferred responsibilities independent of one another.

- Identify where there is sole control, overlap and what's missing in running the organization.

- Use the lists to create responsibilities for all of the operational areas of the business.

- Note: Lists that overlap too much should raise a red flag. Styles and skills that are too similar may dilute the effectiveness of the new partnership.

The Agreement. The business structure you choose affects how you can get money out of the business other than salary. Discuss with your attorney and accountant how best to optimize the

agreement for financial flexibility.

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, if it fails or if the partners are not getting along and want to restructure. Brainstorm circumstances that might affect the partnership.

Consider how you will transfer control to new owners. Create a succession plan as you create the new entity – for the next generation, other stakeholders, or both.

Operating Methodology. If you did the early exercise on roles and responsibilities, setting up an operating methodology is the next logical step. Plan for organizing the company and informing internal and external relationships.

Develop a new organization chart. Create a new business plan with new goals. Discuss how the new company will achieve these goals, chart cash flow

and set a profitability model. It may be that the new organization will require a managing partner to oversee staff and day-to-day operations.

Your first, most important constituents are your employees. Explain to them the whys and the hows. Then move on to your clients, bankers, vendors and community. Develop a presentation that addresses how the business will improve, operate and leverage the strengths and expertise of the new partners.

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

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