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Perfect Partners

It takes careful planning to create the kind of good partnerships that make for great business

By Reed Richardson

This business needs both of us.” That’s what Bob Sole, co-owner of Express Blinds and Victorville, California, was thinking nearly 14 years ago when his pregnant wife Trish’s part-business suddenly took off. Originally started as a way for her to stay home and earn extra for their children, Trish’s side business had suddenly started expanding rapidly. “It just got to Bob recalls, “and by the sixth month it was bringing in more than \$20,000 a month.”



This rapid growth had quickly overwhelmed her. “As sales started pouring in, it became difficult to handle it all,” she explains. Bob decided to put his 10 years of experience for a major blinds manufacturer to start a new business. “I went to work for

But to really transform the business into a full-time effort required a true team effort. An ambitious goal of funding their start-up into debt, they each squeezed every penny out of their personal and combined resources. Bob liquidated his prized baseball card collection to raise money. “I even sold off some of our most valuable items to raise money.” As for the operation, they decided to divide and conquer. Trish handled the finances and occasionally handled

delivering company brochures door-to-door (pushing her infant son in a stroller), while Bob built a network of industry contacts to market and sell their products.

Since then, Express Blinds has been converted into a C-corporation (Bob and Trish are the owners). The business has doubled in staff size several times, and, last year, brought in nearly \$2 million in annual sales. It’s a thriving business. And although Bob and Trish—now ages 47 and 43, respectively—no longer bring their business home with them at night, they admit there have been times where the owners of a small business has taken its toll. Still, they both agree that becoming partners was “the best decision we ever made.”



Two Heads Might Actually Be Better Than One

At first glance, the headstrong, go-your-own-way spirit that infuses most entrepreneurs might make them naturally predisposed against the idea of building successful business partnerships. It has been Allen and Gates or Daimler and Benz or Henry, Mayer, and Emanuel—the brothers who started the business world's most well known success stories of the past two centuries started when individuals joined together to form a company. Today, that cooperative fire burns brighter than five million small business partnerships in various forms, involving well over 20 million individuals who make up a significant chunk of the U.S. economy.

"The enthusiasm for partnering is rooted in a down-to-earth fact: You're much more likely to succeed with a partner than without one," writes David Gage in his 2004 book, *The Partnership Challenge*. "Those who have succeeded by pooling their strengths far outnumber those romantic figures, the lone entrepreneurs who have triumphed over all the odds."

As an example, Gage cites a study conducted several years ago by the Center for the Study of Entrepreneurship at Marquette University that examined the growth of more than 1,700 small companies. It discovered that companies founded by multiple owners made up an overwhelming majority of the fastest growing companies in the study whereas sole proprietorships comprised nearly half of the slowest growing businesses. "Opportunities open up when people combine forces," Gage says. "If you pit three co-owners against a solo entrepreneur, the three co-owners will think and out-strategize the single owner in most cases."

Partnerships, when they work well, can also offer advantages far beyond just that of raising each partner's workload, however. Bringing in a partner can add valuable new skill sets to a business and is a quick way to jumpstart moribund growth or venture into a new market. As the Baby Boom generation retires over the next 25 years, small business owners are increasingly expected to bring their personal exit strategy as well as a way to ensure that their companies survive for another generation. Finally, partnerships can help a small business owner hedge risk—both financially and emotionally—by shielding their personal assets from liability and giving them a sense of shared purpose and direction.

Play to Your Strengths, Know Your Weaknesses

"I'm not a businessperson, I just happened to own a small business with someone," says 31-year-old Manhattanite Cindy Greene, coowner of the chic young fashion label and limited liability company. "I'm more interested in creating and designing, so, psychologically, I needed the support of someone who was more business-minded."

That someone else is 35-year-old Johnson Hartig, Greene's other co-founder and business partner. Hartig, a former actor who lives and works in Los Angeles, had been running his own small clothing line for a couple of years when Greene sent him a silkscreened T-shirt as a gift in late 2001. After he hand-tailored it, he wore it out to a party and the buzz that it created convinced him that there was a lucrative market waiting to be explored.

"It all happened organically," Hartig recalls of the partnership's beginning. "I called Cindy up afterwards and asked her 'Can you teach me how to do the printing?' Instead, she said, 'No, but I'll do it with you.'" Hartig agreed and when their first batch of hand-made shirts sold out of L.A. fashion boutique Fred Segal in 45 minutes, they knew they had a hit.

Right away, though, they had to start making as many business decisions as they did fashion choices. Some have paid off, like their unorthodox decision to stay geographically separated—he in L.A., she in N.Y.—which has enabled Libertine to better market to retailers in the two most important U.S. fashion markets. Others, however, have not worked so well. "Initially, we didn't spell out exactly what our roles in the business itself would be," acknowledges Hartig. "We consulted a lawyer but, still, we

found some kinks had to be ironed out.” Greene remembers that this became evident when, after several months, neither one of them had yet to go to the bank to set up an account for the business. “Checks were just sitting around on desks, sometimes for months,” she says. “That’s when we realized that neither one of us wanted to be involved in the day-to-day running of the business. Instead we wanted to delegate this task to someone we could trust.”

Rob Cummings, a partnership advisor from Orange County, Calif., says this is a common problem facing many of his small business clients. “It’s like two salesmen becoming partners, but there’s no one to bake the muffins. There’s a key piece missing,” he says. The reasons behind this oversight can be varied, he explains, but most of the time he finds it’s because prospective partners never take the time to thoroughly look at every aspect of the business as well as their personalities prior to starting the business. “It’s like falling in love,” he says. “The partners get caught up with the business idea and they don’t ask enough questions before getting married. Then, when they inevitably have problems, they don’t really know how to talk about them and they keep going on and on.”

Hartig and Greene were eventually able to solve their operational problems a little over a year ago thanks, in part, to a fortuitous decision that they made when starting out. Because Libertine had formed as a LLC, they were able to hire an outside business management firm part-time to run their company’s office functions, without having to give up any kind of ownership stake. This strategy has allowed them to focus on their strengths—designing, marketing, and selling their clothes—rather than getting bogged down in other details. As a result, their sales have taken off and their vintage design sold in two dozen stores around the world. “Thanks to our new business manager, we’ve got an insurance program, health benefits for our four employees, and we even pay quarterly tax,” says Hartig. “Everything now runs remarkably smoothly.”



Husband, Wife, Partner
Trish and Bob Sole became partners after Trish’s int business grew too quick handle on her own..

Look Before You Leap

Libertine’s experience illustrates the importance of addressing early on the very basic questions a partnership should take. Daniel Sitarz, an attorney and small business self-help writer from says that this key decision has wide-ranging implications on any partnership’s long-term success.

Which structure is right for you?

General Partnership One of the simplest and most common ways for small business owners to raise additional capital or someone with sought-after complementary skills is in the form of general partnerships. In these types of partnerships, stakes are evenly divided among each partner, unless otherwise specified in a partnership agreement. All gains and losses in a general partnership are routed directly through to the individual partners’ personal tax returns and the business is taxed as a separate entity, although it must still file a return detailing the revenues and losses of the partners (Form 1065). And because payroll isn’t required for general partners, if a partnership is owned entirely by partners and has no employees, the paperwork requirements can be much simpler than those of a corporation.

However, general partnerships have some distinct disadvantages. The most important involves the risk exposure to the partners, who are jointly and individually liable for judgments against the company, which means the partners’ personal assets (home, car, etc.) could be vulnerable to creditors. Also, many state laws mandate that if any one partner leaves or dies, the partnership is immediately dissolved, which can make succession difficult and legally tenuous.

Limited Partnership Similar in nature to general partnerships, limited liability partnerships simply allow some of the partners to decrease their overall risk in exchange for giving up some of the day-to-day management of the company (there must still be at least one general partner, however). Limited partners retain the same profit-taking benefits that general partners receive—they file these gains (and losses) on their personal tax returns but they also enjoy legal protections that prevent them from losing any more than their investment stake in the company. But because partnership agreements are much more complex than general partnerships, they often do and require substantially more legal advice to set up.

Limited Liability Company (LLC) Started nearly 30 years ago as a hybrid between traditional partnerships, LLCs have proven to be an increasingly popular strategy for owners. LLCs allow multiple owners of a company to directly share in profits as they would in a proprietorship or general partnership while shielding their various personal assets from the debts incurred by the business, protections normally found only in a fully incorporated company. An LLC's simple Operating Agreement, which is filed with the state business authority, establishes the rules for governing the company as well as the rights and responsibilities of each "member." As part of an LLC, members have the flexibility to choose whether to pass their share of company profits to their personal tax returns or to have the business taxed as a separate entity. There are a few caveats to be aware of though—LLCs cannot, by law, exist for more than 30 years and they require unanimous approval by all other members before one member can sell or transfer their interest in the company.

S-Corporation Similar to traditional C-Corporations in every way except for a few differences, S-Corporations have become quite popular among many small business owners. This is because S-Corporations offer the same tax advantages of sole proprietorships or partnerships—profits and losses are passed through to the shareholders' individual tax returns—as well as offering the protections inherent to a corporation.

The downside of S-Corporations includes increased administrative costs, a much more complex set of rules and by-laws to follow regarding corporate governance, and closer scrutiny by the IRS. Additionally, federal regulations require that all S-Corporation shareholder-employees are paid pre-tax wages (subject to Medicare, FICA, and any applicable state income taxes), before any profit can be made. In addition, about a half dozen states, despite the federal exemption, still impose income taxes on S-Corporations. —R.R.

partnerships, limited liability partnerships, and corporations—the three most common small business partnership structures. "Each structure has various advantages and disadvantages (see sidebar), he explains, but what works for one person may not work for another. "Whichever structure is chosen will have an effect on how easy it is to obtain financing, how taxes are paid, how accounting records are kept, whether personal assets are at risk in the event of control the owner has over the business, and many other aspects of the business," Sitarz advises potential partners to seek legal advice and thoroughly weigh the benefits and drawbacks of each structure before finalizing any deal.

Even if the proposed venture will be a straightforward 50/50 general partnership between two partners, a "back-of-an-apkin" written agreement is legally sufficient, it's still wise to speak with a lawyer before signing. "Sole proprietors stand to lose a great deal if they don't understand the ramifications of a new partnership," he cautions.

The process of making this one critical decision also pays much larger dividends in the long run. "Partners should ask the other necessary operational and financial 'What if?' questions," Sitarz advises. "What if one partner leaves, how and when any profits will be paid out, what steps will be taken if the partners come to a disagreement, and how the stakes in the company will be divided in the first place." Even if the partners are two people or a married couple like the Soles, not thinking through this last question might result in missed golden business opportunities. For instance, when the Soles incorporated their decorating business, they gave a 51 percent stake rather than an equal share. This meant Express Blinds now qualifies as a minority-owned company and could enjoy easier access to many small business loans and grants.

Still, partnership advisor Cummings says that discussing the business's future is only half the battle. "Partners should discuss the nuts and bolts parts of their business prior to signing an agreement. They should share the goals and expectations about their personal lives with each other," Cummings says. "If you don't discuss weekends, vacation time, leaving early to pick up the kids from school, these things can turn sour later if they were never addressed," he says. And just like with a marriage, Cummings says that if a partnership sours because of personal issues, emotions can get very raw.

ease into something he calls “restment” rather than retirement. “I’ll probably stay involved u allow me to dial work down to three to four days a week,” he says. And already, he says the plan is paying dividends. “I don’t wake up in the middle of the night anymore, sweating abou and staff,” he says. “I now have a community of people to help me with that. It’s very nice.”

Conclusion: Five Points to Ponder on Partnerships

1. Find the yin to your yang—partner with someone who complements your skills rather tha
2. Talk all about the 9 to 5 AND the 5 to 9—make sure you know your partners’ personal gc own.
3. Consult the experts—seek legal and tax advice beforehand to ensure your new partnersl right foot.
4. Test drive before you buy—try a trial period to see how the partnership withstands day-to decisions.
5. Think about the end at the beginning— discuss and build into the partnership retirement, succession plans.

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