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## Do I want (need) a partner?

Starting a new business is a daunting undertaking. Combining that with starting a new relationship makes it even more complicated. Nevertheless, there may be very good reasons for joining with someone else in a partnership when starting or acquiring a business. Not the least of these are combining different but essential skills, and/or increasing the capital available for the business.

In the interests of full disclosure, I confess I had a partner for 18 years in a successful franchised auto service business. The partnership came to an end only when we fully retired from the business and disposed of all its assets. We were friends before we became partners and we remain good friends to this day.

That experience, however, leads to some key considerations when deciding whether to enter a partnership and in choosing the partner.

- **Friendship** – the existence of a personal relationship pre-dating the partnership can help to get it off to a solid start; however, good friendships have been destroyed by the failure to pay attention to other important considerations in any partnership.
- **Clearly defined objectives** – From the outset the partners need to be certain they share the same personal and financial goals, and have comparable expectations for what the partnership will accomplish.
- **Clearly defined roles** – The most successful partnerships are those in which each partner has a clearly defined role and responsibilities, and they supplement and enhance each other, but do not overlap. In other words, don't get in one another's way, respect the skills and abilities of each other, and do your own job, not your partner's. My partner had more than 30 years in the automobile business – he knew what it took to run our auto service business. I possessed major legal and financial management skills. He “ran the shops” while I “ran the money”.
- **Shared financial obligations and rewards** – be clear with one another from the outset about the individual financial obligations of each partner, and how the rewards (i.e., the profit) from the partnership will be shared. In our case, my partner gave up a salaried position with another company to become the on-site general manager of our business, while I continued with my occupation in another state. My partner was paid a salary by the business (we agreed upon the amount); I was not, although the business reimbursed me for my out-of-pocket expenses incurred in providing assistance to the business and travel to the company's headquarters.

We each put the same amount of money into the business as equity. In addition, I loaned a significant amount of money to the business, receiving not only a note to evidence the indebtedness, but regular payments of interest on the note. Yes, my loan was subordinated to the bank, but was to be paid before any equity was returned to either of us.

- **Major decisions must be shared** – Partners need to agree on all major decisions affecting the business, particularly those involving large investments of capital, changes to strategy, hiring of managerial personnel, etc. We always worked together developing plans for expansion and the investment involved; hiring of additional management personnel was done only after consultation and agreement; strategy and tactics with respect to relations with our franchisor were always discussed and agreed.
- **Unhappiness or irritations should be discussed early** - Any relationship between two people is bound to produce areas of friction, irritation and sometimes anger. The sooner they are brought out in the open and discussed the less likely they will lead to a major “blow up”. More often than not, they are caused by miscommunication or misunderstanding. Deal with them promptly; do not let them fester.
- **Provide an “escape hatch”** – every good partnership agreement contains a “buy/sell” provision. This constitutes an “escape hatch” should the partnership not work out or the circumstances of one of the partners change so that he or she needs to withdraw from the business. A competent and experienced attorney can draft one to include in the partnership agreement. Just knowing it is there often helps avoid the breakup of a partnership. In our 18 years there was only one occasion when we had a very serious, major disagreement about the business. When we each looked at the consequences of not reaching an agreement we found we could compromise.
- **A written partnership agreement is essential** - Every partnership should be based upon a well written partnership agreement, prepared by an attorney with experience in this field. We seldom looked at the partnership agreement, although we both knew what it contained. But the knowledge it was there, that it provided an important framework for our relationship, helped us through all the “rough spots”. It will be worth every dollar you spend to have it prepared.

In counseling SCORE clients I often tell them a partnership is like a marriage, only it’s more serious, because it is about money not sex. Having a good partner can be a terrific advantage for a business. But assuring the partnership works takes as much energy, effort, and positive feelings for one another as it does to make a marriage work.

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