Title:
The 10 Most Deadly Mistakes Business Partners Make -- And How to Avoid Them

Word Count:
1637

Summary:
Entering into a partnership can be a great way to boost your business, but it can also end up costing you more than you bargained for. Following these ten tips can help you make a partnership work for you and your business as well as avoid some of the nasty legal and financial pitfalls that can occur in case things don’t work out.

Keywords:
Entrepreneur,partnership

Article Body:

One of the best ways an entrepreneur can find the investment money he or she needs to grow their business is by finding a strategic or joint venture partner. In a good partnership, each partner will bring expertise or assets that the other party is missing, but that are necessary for the business to be successful; for instance: CASH!

If done correctly, a partnership can be great a way to grow your company without implementing difficult and time-consuming changes to your business. A partnership can help you increase your market share, gain a new competitive advantage, and help you to respond and adapt more quickly to change in the marketplace.

But, business partnerships can be tough, and getting out of a bad one can be worse than an ugly divorce.

In my practice, entrepreneurs often come to me when it’s too late. In a typical scenario, communications have broken down between the partners, they have been kicked out of their business, money has been stolen, and everyone is about to sue everyone else.

Let me put this into tangible terms for you. What I have found is that when I help my clients outline their relationship with their partners in writing before they get started, it will cost them between $1,500 and $7,500 for a simple partnership. When clients do not do this up-front work and hire my firm to sue their partner (or defend a lawsuit) when things go bad, it can cost up to 10 TIMES that amount in litigation!

What I have found is that when future business partners hash out the terms of their relationship before they get started, they have longer and more successful partnerships, and they save a considerable amount of money on legal fees. To help future business partners get the conversation started, I have created a Business Partners Questionnaire that helps future partners begin to outline their relationship in writing. To get your FREE copy, email me at sfurnari@furnarilevine.com.

Here are a few other suggestions to help keep you and your partners out of court!

1. Go Back to the Basics

Before you even start hunting for a potential partner or decide that a partnership is definitely the way to go, take a look at your business plan. Decide whether such a move is in line with you business goals. What are your organizational goals? Would a partnership help you achieve these goals? Is it consistent with the objectives of your company? A partnership is not a magic bandage that will solve your company’s problems. If you feel that your decision to partner is a defensive move, it maybe an indication of a core problem that should be fixed within your company, not externally. Similarly, don’t rush into partnership because you rely on one to start your business.

2. The Deadly E’s: Ego & Emotion

The deadly E’s can trap you in a potentially awkward situation with your partner. Surrounded by a myriad of official documents and important decisions to be made, your ego can cause you to make claims and opinions that can come back to bite you later on. For example, by distinguishing yourself as the company’s official decision maker, you become responsible for your partner’s decisions too. Just as dangerous are your emotions, which can lead you to form unrealistic expectations or impromptu promises or commitments.

3. Don’t Ignore Possible Opportunities/Stay Flexible

Cash-strapped entrepreneurs have a tendency to stop their search for a partner once they find the first person who demonstrates an ability to write a check. Remain uncommitted until you sign an agreement with your potential partner.

Actively cultivating your alternatives can give you a better perspective on the partnership process and allow you to ask yourself, “is this partnership truly the best option?” Keeping your options open can help you compare the relative advantages and disadvantages of each alternative, including that of a partnership. Not only does this prevent you from devoting excess time, money and effort on the sub-prime partner candidate, but you get the assurance that whatever decision you made was the best one.

Also, consider possible opportunity costs. Along with the benefits of a partnership, you also assume liabilities, like your partner’s competitors. Will this fact conflict with potential opportunities in the future?

4. Form an Exit Strategy Before You Get Started

Be realistic. Conflict is inevitable and you never know how severe it may get. Although it seems cynical, you should think of how you’ll exit from the partnership…before you get started. Consider it staying prepared for your next opportunity. While you and your partners are still on good terms, it’s crucial to determine how to allocate your business’ assets in case you and your partner decide not to work together anymore. You should also agree about what to do with the business or assets in case of an untimely termination, such as a partner’s death. Having an exit strategy will help you maintain your autonomy – your fate and that of your business remains in your hands, not your partner’s.

5. Map Out Your Mutual Expectations In Writing

Before you get started, and possibly before you meet with your lawyer, prepare a plain English roadmap of the relationship between you and your partner. Some major advantages are: it allows you to draft the partnership agreement with your lawyer before presenting it to your partner’s lawyer; its flexible structure enables you to experiment with different relationship configurations to see which one you’re most satisfied with; you’ll have a clearer idea of what you want from the partnership; and most importantly, you can clearly distinguish business issues from legal issues, and use lawyers only to discuss the latter which will save you money on legal fees.

This brings us to the next point.

6. Get Legal Advice Early

Get legal advice from the beginning. Let your lawyer know what your goals are and he or she will let you know what you need to do to get there. A lawyer can also assess how realistic or beneficial your aspirations are. They can help you strategize your negotiations and plan what to ask for and when. Also note that the attorney representing the other side is the one you should look out for. You and your future partner should discuss the business side of your relationship first and, if possible, only introduce lawyers later.

7. Don’t Do Everything Yourself

A good leader knows when to delegate responsibilities. Don’t try to do everything yourself. Assuming you’ve already taken the steps to carefully choose reliable consultants and employees, communicate with those working for you. Lawyers, accountants and managers can provide an objective, specialized perspective and a more realistic tone to what might be an overly optimistic plan. Having technical and expert advisers on hand can also help you understand financial and operational implications pertinent to both parties.

8. Haste Makes (Costly) Waste

It’s true, time is money. But ignoring details and attempting shortcuts will likely cause delays or worse, bad decisions when forming a partnership. Remember, if your partnership blows up, it will cost you far more time, money and heartache than if you do things right from the beginning.

9. Don’t Overlook Details

As an entrepreneur, you already have a knack for seeing the big picture. It’s the details, however, that will add value to your vision in the long run. Covering the following bases will help buffer you against uncontrollable changes in the market, operating costs, and even sentiments between you and your partner. Before you get started: establish the objectives and expectations of each partner; determine each partner’s contribution in terms of funds, skill and time; assess how much revenue will be allocated relative to the amount and type of work done; assign the roles and related tasks of each partner; for example, decide who will manage the partnership, who will get training and hire employees, etc.; form evaluation objectives and plan ways to monitor and assess performance; and determine a procedure to resolve problems when things break down; for example, mediation or arbitration.

10. Trust Your Gut

My present partner excluded, I have been guilty of some bad decisions about business partners. I was involved in a partnership where I owned and managed an investment property in a ski resort with two other people. My partners were social acquaintances whose company I enjoyed very much in that type of setting.

However, throw money, emotions, power, and economic risk in the mix, and things quickly got tense.

The first indication that the business partnership might not be a good one was in the very beginning. We were sitting in a quaint Vermont restaurant and one of the partners threw a temper tantrum about making an offer on a property we were considering. What was a very logical and arithmetic decision for me, was a very emotional one for this person. After the outburst, I had a bad feeling about the interpersonal dynamics of the partnership. I decided to go ahead anyway because the economic prospects were outstanding.

Sure enough, in less than a year we were not on speaking terms. Luckily, before we got started, I insisted on an iron-clad partnership agreement that had a mechanism in it for me to get out. I ended up making money on the investment, but not enough to pay for a year’s worth of arguments, stress and distraction from my law practice. I didn’t trust my gut and it cost me in the long-run.

A business partnership is truly a marriage. As all marriages go, when things are good, they’re great, and when they’re not, look out! If you get a bad feeling about your future partner, trust you instincts, they are usually correct.