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A man with short, light-colored hair, wearing a blue and white checkered button-down shirt, is smiling broadly. He is splashing in water, with white foam around his chest. The background is a light, textured grey.

Episode 54

Business Partner - Should I Take One On?

Full Episode Transcription

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Good day, today and welcome to The Business Made Easy podcast, where we make business easy. Jason Skinner, host here for another week of the podcast that is all design to put more money in your bank account and give you a better life as a result as well. Whatever you're up to, thank you for joining me on today's show. Glad you're here with us. If you're new to the show be sure to go hit that subscribe button if you haven't done so already. That will just make sure you get each week's episode as we bring them at- and we bring them out each Friday.

If you're out working out in the gym. I hope it's going well for you, and your health as well. I've been so thinking about health a bit lately it's one of those things comes into my mind. I've got actually get back exercising up. I've been a bit slacking at that part. But if you're out there exercising now, good on you, keep going and I hope you're working out well. If you're driving to work, I hope you're going to have a good day. Whatever is your up to, I hope you're enjoying it

So, we've got a great episode today and absolutely excites me bringing you this episode because it's one that comes up for me. When I'm advising clients a lot and it's the area of whether or not to take on a business partner or what point in your business cycle do you take on a business partner, should you take on a business partner and we're going to get soon talk about all that today. The gratification of doing so, you may not want to after I explain the hints out of it but anyway we're going to cover off on roulette today.

But before I do, if you haven't already joined our Facebook group, please make sure to go to businessmadeeasypodcast.com/community and we've got a great group of people over there all talking things, business and ideas around business

and sharing wins and tips and tricks, and things. So, yeah check that out at businessmadeeasy podcast.com/community. I'm over there answering questions as well, so feel free to hit me up there.

Alright, let's get into today's episode and we are talking about partnership or whether or not it's a good idea to take on a business partner and when you wouldn't- when you probably wouldn't and then I'm going to talk about, once we get over the ins and outs of it all and the potential traps, I'm going to give you some solutions that can help you run a better partnership if you were out already in a partnership or you are going to get what you decide it is for you.

But when we're talking about a partnership in business, what are we actually talking about? And to me, whenever I say, thinking of a partnership in business, I always think of a marriage and to me, it's no different to a marriage. You're committing to someone for the long hold. Communication is paramount. And respect is paramount and understanding. And you've got to be where, and if you look at the true definition of a what are- sort of the legal definition of what a partnership is, it's running a business with a mutual goal of profit with somebody else.

It's two- two people a- independent people legal into this running business with a common view of making a profit and that becomes pretty important because when you dig deeper into that, so the definition you're going to sort of think, "Woah, we're not all the same."

So, Partner A might have a totally different expectation to profit to Partner B and then it starts to get more and more complicated for this. So, it really is a marriage and you need to go into it with that word common - a mutual, are really

important words you need to have clear expectations of what each partner is seeking from the partnership if you're going into partnership together.

And I say it all the time when people come into the practice and they're good friends for, you know 30 years. They've been mates since school or whatever it is. They come in and they're going to start a business together because they've always gone as friends and mates so they get in business together. And there's one important ingredient that always throws that idea of there else and that's money. As soon as you introduce money into the equation, then all manner of hiccups can occur. So, it's hard to say that partnership is a bad thing but we just need to understand clearly what are these that we are signing out for or going into a partnership for.

Now, the reason why people take on a partner, now this is going to sound crazy but I have- I see this all too common and it normally happens when you've had somebody start off as a sole trader, so this is- which is how you normally start a business about startups. Other than buying that, you might start off as a small sole trader and the business grows and grows and you get some staff and you find yourself the business sign that normally funds themselves on their own.

They're pretty well, giving directions to staff, the staff don't like the boss, the boss is feeling isolated and that- you know, it doesn't like the staff and this can occur. And then all of the sudden, it gets lonely at the top. If you heard that saying, it gets slow at the top. Well, you know that's how it can feel in business on your own sometimes because you've got customers, you know complaints, or actually, you've got responsibilities, they have a bank some cash flowing, all that responsibility.

And you know, then you get a staff that don't really understand what you're going through either so it's a big job being in business on your own. And what actually happens is people sort of prop up their not so much, their ego but it is a bit but it's- it's their confidence and prop themselves up.

We'll get the idea to have a business partner because all of a sudden, I think. If I had someone else to share this burden, if I had someone else to share all these strain and stress that I'm under in my business, then I wouldn't be so lonely and I would actually have somebody there that would understand exactly what I'm going through as well.

I've got to say to you that it can be the total wrong idea of why you want to go into partnership together because what you're doing at that point, yes you're transferring half the stress and strain but you're bringing in somebody else in the business, another decision-maker into the business. And then all of a sudden, there are decisions you used to make this on your own and they're not yours anymore you got to now share that and I guess take on other opinions as well, and other expectations and other goals and like you thought- it's like having two businesses and then one- one business all of a sudden.

So this is sort of the dilemma that you can face when you're taking on a partnership- partner. So I always say to people that if the primary purpose of taking on a partner is to just is- to prop yourself up like that is to- to take on like I've said, to take a companion to help you share the stress and strain. It's probably not a great idea because, to me, it's not right the reasons to do so, you want to go to part- If you're going to go into partnership, you would go into partnership for reasons that are going compliment the business, not you.

Compliment the business. So, is there a particular skill set that a particular partner can come in and bring to the business to help it expand to a bigger entity and actually compliment the business not prop you up. And that's I guess the critical point that you want to understand out of this episode about whether or not a partner is right.

Ask yourself that question. Generally, is this person going to help in terms of growing the business? Etc. Other reasons you might bring in a partner, to expand the business and increase the capital of the business you might want to, you know by them buying into the business that raises up. Brings in some more capital that can help expand the business, you might be able to you know, buy other business as a result of having the two or more partners in the business as well.

There's another good reason to do it but, just make sure that if you're going to go into a partnership with somebody, it's for the right reasons and not the confidence booster that you're taking on a partner because they really can be prone with danger. The other reason to talk or think about with the partnership, let's just say you do decide to take on a business partner and nobody- a very few people do this but you should do it, is to make sure that you document the terms of that partnership agreement properly from the outset.

And what I see most common happen in practice is people come in to- not coming and see me and say "Oh look, Joe and I want to start an exquisite partnership and yeah, we're going to partners- partnership together and that's it."

And what I say at that point is well have you sat down and worked out sort of how the terms of that partnership you're going to work, yeah, you know what are the ins and outs of a partnership. "Oh, look, it will be all right we're just going to work it out, as we get along" is usually the response. We both come from the same background, we've been mates since we went to school or you know, they're a next neighbour for 20 years, and honestly, they have always worked out all nice.

In all sort of these every excuse under the sun, why this is going to be that "shoot the lights out" partnership that nobody else has ever had, so we don't need to do any of that because we'll be fine cause we've talk about everything else openly and honestly, you know prior to going into the partnership. Now, If that stays the case, that's fantastic. But, what I see, 99.9% of the time, is absolute- the absolute opposite because as I said before, one important ingredient that gets involve that's money and all of a sudden, people's negotiations skills, etc, change traumatically.

You know it's just- I didn't know what it is- it just seems to just bring out the worse in people when you introduce money into the mix, because invariably, what happens is, you haven't had clear terms set. So you haven't sat down and run out, that partnership agreement is really important because it sets all the clear expectations of both parties and it's cheaper and easy to sit down and do that with the outset that any of these getting to us for years into a partnership and then work out that.

It's never going to work and you've got different expectations about each other and what to expect to the each other. So, I really really can't stress enough the importance of setting down and writing out a partnership agreement if you are

going to go into a partnership together because that document alone spills out how the partnership is going to be formed and it spills at how the partnership is going to be pulled apart at the end it.

If there aren't any issues, it spills that how the partnership going to ran as well. So, yeah really really important document that you do that. The other thing around that partnership agreement, I would have in that is what we call a buy-sell arrangement. So in the event- cause this is something that people overlooked too if I'm going to partnership together, another reason why the documents are so important.

Let's just say Mary and Joe are in partnership together and Joe passes away all of a sudden. He has a freak accident and passes away. Now, just partnership interest is actually going to transfer to his estate so you know, you really want to make sure that this clear terms about, you know, who's going to own- own what because you could, like Mary could end up in partnership with Joe's spouse and they happen to knock it on as well as Joe and Mary used to get on.

So, you want to have some form of buy-sell agreement in the event that one party passes away or can no longer run the partnership then basically this is some sort of mechanism in there that will allow the other partner to buy, buy the interest out there's no conflict there and no issue there. Because the last thing you want a successful business taking along partnerships going well all these years and then bang, you're now going to have a different business partner with different objectives and yeah, it gets really really messy without the paperwork or documentation.

So, I really stress that enough. Kind of really stress it enough, I should say. Now, once you get your agreement and things like that in place. You want to make sure that there's clear expectation from the partners as to - what's expected and how it's going to run.

I'll take a quick story, I had a couple of ladies coming in and out, they've been friends for years and years. And that way, they were going to buy a dress shop together. There was a dress shop for sale in a local town at that time and these guys are going to- come in and buy this. "We're going to a partnership together." And I said, "look, you really need to ahm- go into this with your eyes open, make sure you do a partnership agreement etc, etc." "No, no, it's fine. We ain't got time for all that, the business is on the market and we're going to buy it and we've been friends for years so we're all right."

It didn't even last twelve months and next thing now was in or- I could never get them into my office together because they weren't talking anymore. So we had to try and settle this partnership and wind it all up, and that's amicable as possible. So that yeah, each party could move on with their lives and this happens time and time again, and I say it all the time. So, make sure that paperwork or documentation is in place and make sure every party signs up on that.

The other area that you need to be careful of when you're going to partnership together is that you want to make sure of a couple of things. Firstly, that both parties are, I guess financially secure enough to back the partnership because partners are generally severely jointly and severely liable usually, so It just depends on your jurisdiction but I'm certain, I'm not giving an illegal opinion here but generally- generally speaking. You know another partner can be

responsible for the debts of a- of the other partner if the whole business needs to be round up, and one partner has got money and the other hasn't you could be the one faulting the bill from the whole partnership.

So again, it's good to get that legal opinion and get that legal documentation out right from the start and make sure it's all very clear. The other thing to be careful of when you go into a partnership together, that you are keeping everything even and in proportion to each partner's interest. So if it's a 50/50 partnership, so both parties are putting the same amounts of money into the business both have a joint sort of interest of 50/50 interest. Then if one partner takes withdrawing out of the business, you know let's say they take a thousand dollars out of the business, the other partner takes a thousand as well.

So it's always kept even and always in line with each other. There's never a point when a partner has taken more cash than the other because I've seen many businesses before where one partner wasn't taking the withdrawing so they didn't need the money. The other one was taking the money and then when everything fell apart, the other partner that left his money in the business cause he didn't need it, didn't get it because the business just went barely off and couldn't pay the money.

So, there was no cash there for that guy. Meanwhile, the other partner he's been having a great, great all time. So always try and keep your money 50/50 at all times. So, that's the real golden rule, is to just keep everything fair. If it's 25/75, then keep it 25/75. Don't be tempted to go all and don't worry about this week, you just take that all where I've seen people do that and it's really, really dangerous. And it could cost a lot of money by doing that as well.

So, I guess, just a recap where we are at the moment should I take on a partner.

Firstly, make sure it's for the right reasons and that partner is- is going to bring something to the business and going to help both of the business. You might have a long-term employee that's been in the business in a long since they want to help grow it and you know it's- they really invested in the business so that could be a reason why you might want to do that.

And then they're going to bring something to the security of the business and make it better. Make sure that you do the proper agreements and going through it with your eyes wide open and you're all clear and on the same path as to what is expected of each other.

The terms of the partnership, get it documented, make sure there's a clear understanding and documented understanding of how the partnership is to be formed, how it's to operate and then how is to exit it, you know, exit- what sort of exit strategy do you have from the partner. What if one partner wants to retire before the other, I've seen in businesses before where one partner might be quite old and you know, in their 60's ready to retire and they bring in a junior partner like a younger partner, what is the exit strategy what happens at that point. Cause the junior guy might be able to buy out the other guy.

Say you're forced into a position where you want to end up with a partnership you didn't want. So you know, get really clear about that. I can't stress that enough and I'm sure, I've made that clear for you. Then get clear and keep your withdrawing and you keep your money and that sort of thing even knows the sign in proportions to your partnership interest at all time. So that's another- another very important area to do. Also, any leave or working out all that sort of thing try to keep that as even and in proportion as well.

So if you do decide to go into a partnership, what generally happens and what I see in practice a lot is that there's number of area or delegation, so because in both part cause you know the two parties are both partners then what they tend to do is just do their thing and get on with it. You know they just keep running their business with each doing whatever it is they want to do.

There's no common management structure. So that can get confusing. It can get confusing for your staff because partner A might go and tell, you know back to Mary and Joe before he passed away. Joe might go and tell one of the staff, "Hey, can you do this for me? Can you do that?" and then Mary comes along and says, "What are you doing that for? Why don't you go and do this?" And so you can get this push-pull going on between partners within a business. And it's very much like a marriage you know if you think of the staff like the children of the parents, I don't know how many you've got kids that- you know to use one- one parent against the others.

If mom says "No" then we're going to ask dad, cause dad always says "Yes". Say you can get that sort of thing going on. You might get staff that ask for and you leave but then the other partner needed the staff to be at work on duty that day. You can get at least sort of conflicts going on and it really makes a mess of the business culture as well. So the way I prefer to set partner is-- I really try and encourage people to set their partnership up this way is to think of it like this, think of the partners as separate to the business. They're just the shareholder of the business.

Okay? So the owners, if you like. The partners are outside the management day to day, management, they are just the ownership committee if you like it, they're the shareholders. But then, the shareholders they're putting their money into

the partnership so they expect to return on that money. So the model I try to adapt there is that the shareholders, between the two of them or how many partners there are, elect a CEO role. They elect somebody to be the CEO of the partner- of the business and that CEO is responsible to the partners for maximizing their returns on their investments. And so as the CEO, that is the head of on showing terms of responsibility, for making sure the staffing is right, making sure that everything is running smoothly, customers are happy, business is growing, etc.

And then what you have is a partnership meeting once every preferably once- the more often, the better. Like in terms of- if you know, weekly if you got the time that's great but, at least not less than once a month. The partners get together with the financials that are being prepared and the CEO which will be one of the partners gives a report to the other partners as to where everything is and they discuss matters at hand on an agenda. And ran up like you would run a company because there's a clear line of management and a clear line of I guess decision making.

So the staff have clarity, supplies even have clarity, even the other partner has clarity. But that doesn't mean that the other partner that's not the CEO can't make any decisions but they're not going to go around on a day to day basis contradicting what the CEO does. They'll put it on the agenda for the meeting if they want something, in particular, to be done or think the business should go a particular direction, they discuss it at a set partnership meeting.

That's so, so important because it creates this beautiful line of clarity around the decision making and everyone is understanding. And at that meeting your going to discuss things like how the budget is going, how things are tracking, the CEO

is going to give a report on any potential issues and risk that are coming out and they can make a decision together at that point in time but they're not fighting against each other on a day to day basis on the factory floor so to speak.

They're leaving it out of the actual business and doing it in a constructive management so the way is that. That's my formula for sort of running effective partnerships. I think they really run really well, I've got particularly also when you've got more than two partners in some partnership in an amount of 5 or 6 people. So you elect that- the partners, I'll elect the most appropriate person to be the CEO and that person will be the CEO for the partnership.

They might be entitled to-- because of that extra work they're entitled to a salary or some form of remuneration for that additional work because it is an extra responsibility that they need to be taking on and accounting for. But that's okay. That's all fact into the costing and the budget of the business and I'm sure you agree to it if you're taking on that extra role and responsibility, then the other partners don't have to do that. They don't have that headache. So ahm- that works really well too.

You can also-- that CEO role could be rotational on sending them before where basically you know partners will, partner A will, Mary might be the CEO for a period of two or three years and then they might swap it out later. You just need to be a little bit careful with that, that you don't get too much variation in your vision and direction.

You want to make sure that everyone's pretty well on the same page but certainly sharing the load can work. And another model that I have seen quite well to is if you want to have the CEO role but, the CEO, let's say will look-- you

know Joe- you know Mary marked as a CEO, she might say that " Look Joe. Joe, I want you to be the head of marketing and you look after the marketing role of the business." because that's what's Joe's strength.

So, you know Mary might appoint that position but it's like employing somebody to do it. It's not just because you're a partner, you know, you get to point your finger in every part. I guess this is what the point is you want to make sure that people are really just I guess, in the areas that they need to be in and giving the skills in the areas. I mean, there are situations you can have its way solid partners, you know sometimes you get partners that just want to invest their money in the business but don't want to have any management role at all.

So, that can be a good situation too but you just need to be careful. That they want to leave their money in the business for the long-term and don't want to come to-- like come along one day and just take your money and they'll take the money and they'll say, "I don't want to do this anymore." so again, it comes down to the documentation and then making sure that's right.

So here's my thing on partnerships. I hope you find that helpful so just a recap and something to think about, if you are wanting to take on a business partner, make sure it's done for the right reasons. So make sure it's to compliment the business and to grow the business and bring skill sets to the business and sort of protect the business with those skill set. Make sure it's not for emotional reasons and emotional peer support because that's just going to end in disaster. You'll end up with the worse situation actually if you just do it anyway.

Documentation, make sure you keep your documentation up to date and make sure your documentation protects each of the partners and protects the

partnership. So you want to make sure it's clear about the rules and the guidelines etc.

And how that partnership is to operate. Make sure you keep your money in order to keep the money in proportion to the partnership interest so you know, if you're taking a thousand dollar, you each take a thousand dollars. And then make sure you have a good corporate sort of model around your partnership well, have a decision-making model that has a clear line of decision-making, well-thought out and clear so staff knows, suppliers, everybody knows, the decision making process of the business and it's very transparent and there's no sort of confusion.

So with that in mind then you'll certainly have the tools there to have certainly a better running partnership. So to say when you have your dispute some- you know, look at every marriage. Marriages have ups and downs, then let's say you're in that for the long hold together and communication, respect and every all that is so very important. So, for it to be successful and it's the same with a business partnership. You need to respect your partners and communicate and listen with them as well

There you go, that's all I have time for this week. I hope you found that episode valuable. If you got any questions around partnership or the model that I spoke about, feel free to drop a line at Jason@businessmadeeasy podcast.com or go to the website businessmadeeasy podcast.com, hit that red record button and ask your question. I'm more than happy to help you out with whatever question you've got in your business as well. All right! Until next week, here's to your success and I hope you have a powerful awesome week. Take it out, Mia.

Thank you for Tuning In

We hope you enjoyed this episode.

If you have any feedback or questions about the content in this episode please don't hesitate to drop me a line at jason@businessmadeeasypodcast.com I would love to hear from you.

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Thank you again,
I appreciate you!

*Regards
Jason*