FROM: WAYNE J. UNZE (797-1100)

RE: PARTNERSHIPS TAKE PLANNING – LIKE A MARRIAGE

Business Partnerships, one of the most common forms of business ownership, are often the most misunderstood.

At least once a week, I have occasion to interview potential business partners seeking their piece of the entrepreneurial pie, or on the other side of the coin, two partners at l loggerheads and priming their dueling pistols.

Some of the most common characteristics of partnerships include: same gender, shared monetary goals but difference levels of equity involvement, no previous business experience and little knowledge of how to make the partnership work.

With proper planning and commitment, partnerships can be successful. On the other hand, without a strong foundation, they can become your worse nightmare. Consider the following true case study:

Joan and Nancy (aliases) decided to form a partnership to purchase a store in one of Albuquerque's trendier strip centers. Joan was putting up ninety percent of the money and Nancy was providing two years of retail experience. In preparing their business plan and partnership agreement, they consulted both an attorney and accountant. They should have considered adding a marriage counselor.

Their agreement was carefully crafted and covered the "Dismal D's" (Divorce, Dissolution, Disability and Death), along with a myriad of other potentially problematic issues. Unfortunately, it did not cover such mundane problems as work scheduling, nepotism and benefits.

After only three months in business, Joan's husband started to complain about her weekend shifts and asked her to arrange for Nancy to cover for her so they could spend more time aboard their boat at Elephant Butte lake.

Wanting to accommodate her partner, Nancy (a single parent) agreed to an elongated work schedule, but as a trade-off, she insisted on putting her teenage daughter, Heather, on the payroll part-time.

Two months later, when Nancy's COBRA health plan expired with her former employer and she asked that the business pay for her new policy. Joan, who was covered under her husband's health plan, was reluctant to place this added financial burden on the store, and balked.

Nancy, knowing one partner can legally bind the other to a contract, enrolled in a HMO. Soon after, Heather was caught by Joan with her hand in the till, and her embarrassed mother had no choice but to fire her. Subsequently, after several heated arguments, both ladies showed up at my office and asked me to sell their business before their friendship was permanently destroyed. Unfortunately, because the business was so new (and not yet profitable), there was little to sell other than the inventory and some used fixtures.

So what went wrong with the partnership?

Joan and Nancy failed to spend sufficient time discussing the minor issues of a good working relationship. Partnerships are attractive because they offer shared risk and work, but like most marriages, they require careful and deliberate attention to details.

Would-be partners should seriously address such concerns as: disposition of any profits or losses requiring capital infusions; fringe benefits; roles to be assumed and hours to be worked by each partner; hiring and firing practices; vacations; and when to expand, downsize or sell.

But even the best-planned relationships sometimes don't work out. In those cases, it is a good idea to have in place an exit mechanism to dissolve the partnership, either through a buy-sell agreement between the partners, a sale to a third party, or worst case, a liquidation of the assets.

After all, there are more than 19,000 businesses in the Albuquerque metro area, but you only have a finite number of close friends.