

4 Questions You Should Ask Before Taking on a Business Partner



BY FRANK WILLIAMSON

It's been said that the closest thing to being a king in the United States is owning your own business.

You can decide everything you want about your work environment. Though many entrepreneurs might not admit it, there is a certain emotional charge from being the boss.

Depending on what you envision for your business's future, there may be limits on what you can achieve as a lone entrepreneur, which is why many business owners start to consider taking on a partner. As a business advisor, I provide feedback and assistance to entrepreneurs facing this question.

In my business, the word "partner" often refers to an equity investor, who provides capital in exchange for sharing in future profits. A partner might benefit a business in other ways, bringing previous experience in the industry, connections or even personality.

Two people can achieve more together than alone — if the partnership works. If not, both people will get less done, maybe leading to the failure of the business. A partnership is not something to take lightly.

For business owners wrestling with this decision, it's worth taking some time to ponder a few questions:

1. Would new capital alone solve your business's problems?

Small businesses need money to grow. Sometimes they need money to get through a rough patch. But if you find your business in a tenuous cash position, you don't have to sell a stake of your company. You can sell assets to raise money. You can go to a bank for a loan. And you can look for ways to cut back on costs.

My firm recently worked with a small company that needed capital, but wasn't able to raise it quickly. In the end, the solution wasn't to raise more money; it was to spend less.

They made the decision of cutting expenses by half, which meant that they had to let some people go. They also became more efficient about taxes and accelerated payments from clients. Their newfound financial health allows them to decide the timing and pace of future growth.

2. Do you feel paralyzed by your responsibilities?

Even if they start with a clear vision, business owners can reach the limit of their capabilities. Joining forces with an experienced partner can help you picture what good looks like at the next level.

It must be stated, though, that investment banking firms also can bring this advice to the
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table. Because of their experience working in similar situations, they understand what successful decision-making looks like in a healthy business.

3. Do you know how to unwind the partnership if it stops working?

Before taking such a major step, you should think through a plan for unwinding a partnership should the situation go wrong.

What happens in case of death or divorce? What if one partner wants to sell his or her stake to the other? Although most companies commonly do this through governance documents, these are still good practical questions to revisit from time to time.

4. Will you be unhappy sharing control?

This question requires a business owner to have some self-awareness about their personality. If you like to be in charge, you're going to have to think hard about how you'll react to giving up some control.

It's a very different experience to go from being a company's sole owner to just one of the owners,

where each person has a say. When you have business partners, you're not just accountable to yourself anymore.

You'll also reap a smaller percentage of the financial rewards when your business succeeds. If things don't go well for your company, you may experience pressure from your partner to have a greater say in decision-making. And you may not always share the same vision for the company you founded.

Some business owners may end up deciding that they'll be better off on their own. But others may see the benefits of joining forces with a second person or a group of investors. Each business owner's considerations are different, which is why many seek the assistance of an investment banking firm to choose the right option for their individual business.

About Frank Williamson

Frank Williamson is the founder of Oaklyn Consulting (oaklynconsulting.com). To learn more about Oaklyn's consulting services for investor groups and private businesses, call 888-983-1617.