

## GROWING YOUR BUSINESS

# Partnerships need work

Experts compare small business ventures to a good — or bad — marriage

BY LOU HIRSH  
THE DESERT SUN

In business, as in life, going solo can be the lowest fuss, least expensive way to operate. Sole proprietors have complete control of decision-making within the law. And best of all, they get all the income.

But experts say there are times when entering into partnerships makes sense, particularly when it comes to growing the business. However, business teamings come with a host of pitfalls along with the benefits.

"It's like a marriage in so many ways," said Dorothy Willetts, who has partnered with Leayne Johnson for nearly three years in Willetts Design and Associates, an Indio interior design firm. "Sometimes you're going to be discussing things like money even more than you would in a marriage."

The partners knew they were a good business match. Previously, the two worked together for about five years at another local design firm. But when starting their own company, Willetts said she and Johnson decided to head off future disputes by putting everything about the partnership in writing.

That included the kinds of customers they wanted to target, how they would market the business, what assets each brought to the table and how they would divide up those assets when it came time to end the partnership.

The rewards have been tangible. Their company has branched out to serve clients not only throughout the Coachella Valley, but also in the Seattle area, where Johnson has a home.

According to Brad Mix, a consultant with the Coachella Valley Small Business Development Center in Palm Springs, Willetts and Johnson made all the right moves in forming their partnership, starting with their written up-front agreement.

That step is crucial to averting a host of challenges that still plague many small businesses



RAMON MENA OWENS, THE DESERT SUN

Dorothy Willetts, president of Willetts Design and Associates, at a home where she designed the interior and arranged furnishings at the Toscana Country Club in Indian Wells.

including differences over financial and time investments, what partners expect to get from the business, and basic core values and life priorities.

"If there's not an understanding form the start, you could have a situation where one partner only wants to put in a few hours a day and play golf the rest of the time," Mix said.

Just as marriages go bad, business partnerships can also turn sour. Avoiding clashes may require the expertise of an attorney or certified public accountant

who can craft a document with terms agreeable to all partners.

"People assume that because they're friends and they've known each other for a long time, it's going to work out as a business partnership," Mix said. "But a lot of times it doesn't."

To avoid problems down the road, he said, prospective business partners must have the same goals and expectations for the business. But they need not be mirror images of one another.

"The ideal partnership is one where your partner has strengths

## Partnership pros and cons

Here are some pluses and minuses of partnering up, according to the U.S. Small Business Administration ([www.sba.gov](http://www.sba.gov)):

### Advantages

- Partnerships are relatively easy to establish, but time should be invested in developing a written partnership agreement.
- With more than one owner, the ability to raise funds could possibly increase.
- Profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

### Disadvantages

- Partners are jointly and individually liable for the actions of other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

that can compensate for your weaknesses," Mix said. "Some people love sales but hate doing paperwork. Some people have good accounting skills, but couldn't sell somebody a winning lottery ticket the day after the drawing."

An example of the complementary theory can be found at Adagio Galleries in Palm Springs, co-owned since 2003 by Sonny Ruggiero and Mark Prather.

Ruggiero said he had known Prather for several years before they formally went into business. "We knew all of each other's good points and bad points."

Their business is fueled by a combination of the partners' strengths. Ruggiero, for instance, was able to make use of his previous operational expertise running various clothing and travel businesses.

"Mark has a wide expertise on art — people really like him and appreciate his knowledge," he said of his business partner. "I'm more the financial person."

Ruggiero notes that a business

partnership is not something he would recommend for everyone. Not all business operators could accommodate major differences with their partners — especially for the dozens of hours a week that the two likely will be working with one another, particularly during the crucial start-up phase.

"It's so much like a marriage," said Ruggiero, echoing Willetts' sentiment. "You've really got to know the other person really well."

## Disagreements, dissolutions, death

Bracing for the worst, those who do go into partnerships must spell out in writing details like what happens to the business should one partner die or become incapacitated and unable to continue in the business.

Mix noted that different industries have standard formulas that are used to calculate the worth not only of tangible assets but also intangible assets — such as a partner's customer list, special

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### Partners

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expertise or other non-monetary assets that made the business click.

In the view of Deborah Cohen, a counselor with the Coachella Valley chapter of the nonprofit Service Corps of Retired Executives, (SCORE), there are three most valuable players in the formation of a company, outside the partners themselves. They are a CPA, a bookkeeper and an attorney especially in cases where none of the partners has legal or accounting expertise.

Cohen said a prime issue to put in writing is the exact role of the various partners. But even in cases where one party is identified as the sole managing partner — primarily responsible for day-to-day operations — there needs to be a stated plan for oversight and accountability for that partner.

"You want to make sure you spend some time in the business — see how the books are being kept, how the place is being run."

If for no other reason, a written partnership plan is crucial for dealing with the conflicts and strategizing that ultimately can arise in any business owned by more than one person.

As a founder and president of 1st Community Insurance Services in Palm Springs, Ernie Santora has experienced the good and bad aspects of being in business partnership.

#### Partners fuel expansions

The bad came when he and other partners had to force out a previous partner with whom they had a falling out. The dispute was ultimately settled by what was in the written partnership agreement.

The good came in the expansion

#### Types of partnerships

**Business operators should consult an attorney when forming partnerships. These are the general distinctions.**

■ **General partnership:** Partners divide responsibility for management and liability, as well as shares of profit or loss, according to an internal agreement. Partners assume equal shares unless a written agreement states otherwise.

■ **Limited partnership and partnership with limited liability:** "Limited" means that most of the partners have limited liability (to the extent of their investment) and limited input regarding management decisions. This generally encourages investing in short-term projects or in capital assets. (This form of ownership is not often used for operating retail or service businesses.)

■ **Joint venture:** Acts like a general partnership, but is clearly for a limited time period or a single project. If joint venture partners repeat the activity, they will be recognized as an ongoing partnership and must file as such. They will also have to distribute accumulated partnership assets when the partnership is dissolved.

**Source: U.S. Small Business Administration ([www.sba.gov](http://www.sba.gov))**

sion of the business. The company recently added a fifth partner, an insurance agent based in Long Beach, so that it could open a new office in that city.

"We now have someone who knows the Long Beach area," said Santora. "If you want to expand, by taking on a partner it's less than the cost of setting up and running a whole new office in another city on your own."

The insurance firm now handles about \$6 million in business annually and has 11 employees, Santora said.

Steve Rich, a business counselor in SCORE's Palm Springs office, said business owners should also consider incorporating as a way to protect personal assets should the business encounter problems. But they should consult an attorney or CPA and be clear on the tax and legal implications.

#### The ruling partner

Ideally, Rich said the best way for an entrepreneur to get started is with his own resources, supplemented with a bank or SBA loan if needed. Otherwise, partners may need to agree that even if there is an equal financial input, the one with more expertise and experience should be the one to run day-to-day operations — in other words, one would be a "silent partner."

"Sometimes it's best to have just one be the decision maker," Rich said.

One more word of caution from Mix: When it comes to partnerships, the more isn't always the merrier.

"People need to avoid partnerships with three owners because two of the owners can gang up on the third owner, and the third owner can get stuck as the odd man out."

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