# SelfInformed

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*NASE Member*
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# 10 Questions to Ask
## Before Taking on a Business Partner

BY SALLIE HYMAN

**Many solo entrepreneurs** feel they need a partner to get their business started or to take it to the next level. But taking on a partner is a serious commitment and should be done for the right reasons and under the right circumstances. Before jumping in, consider the pros and cons to partnerships.

According to Scott Shane, professor of entrepreneurial studies at Case Western Reserve University, somewhere between 50 and 60 percent of start-ups are founded by just one person.

Most entrepreneurs prefer to work alone. However, Shane shows evidence that most entrepreneurs make the wrong decisions – decisions that make their businesses less likely to succeed. Shane says that in the case of business partners, evidence shows that businesses founded by teams of entrepreneurs are more likely to succeed than those founded by a single entrepreneur. Working with a business partner can give an entrepreneur a competitive advantage that many others don't have.

But this doesn't mean that every business owner should run out to find a partner. Before you place that "partner wanted" ad, ask yourself the following:

### 1. Do I really need a business partner?

Whether you are in the start-up planning process or an established business, before you even start looking for a partner, ask yourself why you are thinking of taking on a partner (or partners). NASE member Al Rickard of Association Vision in Chantilly, Virginia, says, "Having a partner makes the most sense if that person can bring in new clients and significantly grow the business."

Bringing partners aboard should be done only if it is crucial to the success of the business, such as financial resources, connections, or vital skills that you do not possess. Rickard adds, "If they can't offer that, you may be able to gain the extra help or expertise you need by contracting with someone or hiring an employee." That way you can get what you need done without giving someone a stake in your company.

Reasons that do not justify taking on a partner include: Being lonely and wanting company, wanting to lighten your workload, and wanting to network. You can generally accomplish these without taking on a partner.

### 2. What do I need from a business partner?

NASE Consultant Gene Fairbrother of MBA Consulting, Inc., in Dallas, Texas, cautions, "Don't partner with someone just like you!"

While people get into partnerships for many reasons, one of the biggest benefits of a partnership is to have people who balance out each person's strengths and weaknesses. "If you hate dealing with numbers, a partner who is good at the financial end of business is an asset. Ditto when it comes to sales and marketing," Fairbrother adds.

## 3. How do I know if I can work with a business partner?

Communication is important at every stage of a partnership, and especially so at the outset. A common mistake business partners make is jumping into business before really getting to know each other. You must be able to connect to feel comfortable expressing your opinions, ideas and expectations. It is also important that all you know about all aspects of a potential partner's life, including health and personal issues. Nothing should be considered off limits.

If you haven't worked together previously, test the partnership out by tackling a small project together that showcases each other's skills and requires cooperation. This is also a way to learn about each other's personality and core values. "Dating" a potential business partner first can prevent heartache later. Starting a business involves a lot of commitment, and making those commitments with someone who turns out not to be what you expected can be disastrous.

## 4. Is there anything in your potential partner's personal or financial life that might affect your business?

Be sure to ask the hard questions about what is going on in your potential partner's personal life such as a divorce, caring for elderly parents, or other personal health issues that might distract them from the business. If they are not honest about these issues now and they flare up and take them away from the business for an extended time, it can spell disaster for you.

What do you know about their credit and financial history? Again, these may be tough questions to ask, but it is really important to know what their current financial commitments are, as these can influence the decisions they make. How they have handled finances in the past will also be an indicator of what to expect in the future. When times were tough did they forego their own paycheck to pay others? Are they honest in paying payroll taxes? This all relates to financial soundness and how they view money.

## 5. Do you share the same commitment to the business?

If you don't share the same commitment then don't bother partnering. If a partner doesn't share your enthusiasm for the business it will show to the world and project a negative image, which can be very damaging.

NASE member Sydni Craig-Hart of Smart Simple Marketing, Emeryville, CA, is partners with her husband Wil Hart. She says, "Before you get into business, you need to know what you and your partner's personal goals and commitment to the business are. If they don't align, then the partnership will not mesh."

## 6. How much time should partners devote to the business?

Not all partners need to put in equal number of hours, but it is important to know what the level of involvement is up front and to set up the partnership agreement around these varying levels of time commitment. Your partner should also know what your time commitment will be. That way no one can accuse the other of not putting in their fair share of time.

## 7. What is the potential partner's standing in the community?

It's a small world these days, so find out what other people know or think about your potential partner. You wouldn't hire an employee without checking references, but many people fail to check on a potential partner. Speak with former employees or business partners. Check with the Better Business Bureau or local Chamber of Commerce to see if there were any complaints or accolades regarding this person. Word of mouth is very powerful, so you want to make sure that a partner has a good reputation in the business world as well as in your local area.

# Finding a Partner through Social Media and the Web

Traditionally most entrepreneurs find a partner through school connections/contacts, business colleagues, or face-to-face networking. But in today's digital world, the web is the new hotspot to find business partners.

Many entrepreneurs are turning to sites such as **LinkedIn**, **Facebook**, **and Twitter** to make contacts and find potential business partners. These sites allow you to learn a bit more personal information about a person that helps you connect on a deeper level (or let you see if their partying lifestyle might be too much to handle in a partner).

New websites are popping up to help match potential business partners, much like an internet dating site.

**CoFoundersLab** is a matchmaking app that connects entrepreneurs who are interested in starting new ventures. CoFoundersLab has created the largest online community of entrepreneurs looking for partners with Meetups in 15 startup friendly cities. After submitting a member profile, matches are considered according to complementary skills, compatible personalities, equivalent goals and harmonious values.

**Companypartners.com** and **Businesspartners.com** are two other sites that help bring business owners, investors, potential partners, and angel investors together.

## 8. Should I partner with family or friends?

Many times entrepreneurs turn to close friends and family as potential partners. These people are known commodities and already know you better than anyone else. Some business owners want to keep the business in the family.

A partnership with family or close friends should be approached just as any other partnership. Craig-Hart says she and her husband Wil Hart started out doing it all wrong. “We didn’t establish our roles in the company at first,” she says. “It eventually led to Wil returning to corporate life.”

You still need to ask all of the hard questions and expect honest answers. More important in these situations is to carefully delineate the business relationship from the personal relationship and to make it clear that how you interact in each will be different.

Clear guidelines might also need to be set in the case of spouses working together, such as not discussing business at home after a certain time. Eventually Craig-Hart and her husband had the hard talk and figured out what they needed to do to make their partnership work. Says Craig-Hart, “We worked through the logistics and figured out how each one of us works. We chose roles based on our strengths and weaknesses and looked for ways to complement each other.”

## 9. What questions does a potential partner have for you?

Just as in an employment interview, you want this to be a give-and-take conversation. If they don’t have any questions about the business or you, they are demonstrating a serious lack of interest. They should want to know everything about you that you want to know about them. A lack of interest at the start may translate into loss of commitment or even wanting to get out of the partnership.

## 10. Are they willing to put everything in writing?

The days of handshake agreements are gone. Everything about the partnership should be very explicitly defined down to the last detail. “When NASE business consultants get calls from partners with problems, it is almost always a case of there not being a written partnership agreement in place, including a buy-sell agreement,” says Fairbrother. “Boilerplate agreements are easy to find online (sample agreement) and if you don’t have one and run into difficulties, attorneys will be happy to take all the money you have to throw at them.”

# Business Partnership Structures

The structure of your business and partnership is separate from your partnership agreement. Setting up the legal structure of a business is very important, since it will determine what tax structure it will operate under. There are four basic legal structures and three basic tax structures. It is important to choose the correct structure for your partnership.

Gene Fairbrother, NASE business consultant, outlines the following setups:

**The Sole Proprietorship** is the most common and the simplest structure, set up for a single owner. However, it can be dangerous, as the owner may be held personally liable for all activities of the business regardless of who is at fault and puts their personal assets on the line if the business has any financial or legal problems. It is mentioned for completeness sake, but is not for partnerships.

**The General Partnership** is similar to the sole proprietorship except that there is more than one person who owns a part of the business and shares in the profits. As in the sole proprietorship, individuals may be personally liable for financial and legal obligations of the business even if it was the fault of someone else, including one of the other partners.

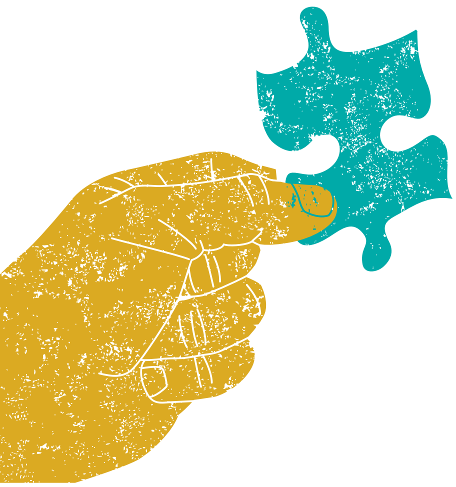
**The Corporation** establishes a legal entity separate from the owners of the business and theoretically will protect an individual’s personal assets. As the corporation acts as a legal entity, its employees are not necessarily liable for the financial or legal well being of the business. However, there is often a misunderstanding concerning personal liability and a corporation may not protect an individual from their own personal acts in the business.

**The Limited Liability Company** is a legal entity similar to a corporation that separates business liability from personal liability. However, an LLC is not an IRS tax entity and the LLC elects the type of tax entity rules they want to be taxed under; sole proprietorship, partnership or corporation.

Choosing the best legal and tax structure for a business is an important issue and should not be taken lightly. Understanding your legal and tax liabilities is critical to the success of your business and most small business owners are well advised to get good financial and legal guidance before making their decision regarding the legal structure.

Fairbrother adds that the partnership should never be a 50-50 venture. “There needs to be a tie breaker in a partnership,” he explains. “If you are 50-50 partners and there is a disagreement as to the direction of the business, the business suffers.

“Usually one person is the strongest talent or brings the most to the table in a business. That person should own at least 51 percent of the business. If the 49 percent partner is afraid that the other person might take advantage of their position, you’re probably not getting into a good relationship to start with.”



As for the actual agreement, it should address three crucial areas: compensation, exit clauses, and roles and responsibilities. Include who owns what percentage of the business, who is investing what, where the money is coming from, and how and when partners will be paid.

The agreement should also cover how you plan to exit the business. Include clauses that spell out cases in which one partner is obliged to buy out the other’s interest, such as when one wants to quit the business. For example, an agreement can state that the other partner must buy him or her out for a pre-negotiated percentage of the value of the business.

If neither partner wants to continue the business, partners can liquidate and divide all assets. It’s also a good idea to settle on in advance how to assess the total value of the business upon dissolution. The agreement should specify who appraises the business and the methodology to use.

The Small Business Administration website has some good information on some of the business and tax elements that should be considered in the agreement.

Other useful terms to delineate are how communications will be handled, especially if partners are not located in the same town (or even the same country). Set times when daily communications can be made and also how often meetings should take place to reevaluate goals.

Partnerships are right for many businesses as long as you partner for the right reasons and with the right person. Finding a business partner should be approached with the same amount of time and effort that you put into developing your business. Don’t be afraid to ask the difficult questions and develop a comprehensive partnership agreement.

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**Sallie Hyman** writes on small business issues and owns and operates her own small business in Purcellville, Virginia.


# Ask The Experts

**Q: *Is there a way to request an extension for Federal Unemployment Tax Act (FUTA) and State Unemployment Tax Act (SUTA) taxes as well as quarterly payroll taxes?***

A: Unfortunately, there is no formal extension or payment plan related to the payment of FUTA and SUTA taxes. However, the Internal Revenue Service (IRS) will certainly work with you if there are taxes that are unpaid. Unfortunately, the IRS is somewhat less patient with payroll taxes since a majority of those amounts represent amounts that are withheld from employee paychecks. Be open and up front with the IRS about any payment issues that you might be having. Make sure that all payroll tax returns and other reporting requirements are timely and up to date. The IRS will not discuss this with you in much detail until all the forms are filed.

*Keith Hall, NASE Health Insurance Expert* ■

## GET MORE ANSWERS

The NASE's small-business experts are here to help you understand the ins and outs of operating a successful small business. Access to these professionals is free with your NASE Membership!

Just go online to the NASE Business Learning Center where you can ask the experts questions about:

- Taxes
- Financial issues
- Accounting rules
- Marketing
- Employee relations
- And much more

The experts are available 24/7 and ready to help!

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- Get help accessing Health Coverage that protects **you, your family & your business.**
- Request a Health Quote *today.*

# Member Spotlight

## Accounting for Fun and Profit

*Stephanie Gibney has been a NASE member since 2013. In 2009, she founded Accounting 4 DC, an accounting firm in Washington, DC that she says "provides high-quality, hands-on custom outsourced accounting solutions, allowing clients to focus on what's important…running the day-to-day business."*

### What inspired you to enter the field you are in?

Luck. The first job I had was advertised as a receptionist position but was actually for a bookkeeper. The company was using an outsourced bookkeeping firm and wanted to start doing it themselves. They had purchased an accounting software package but had no idea how to set it up. After a year I switched my major from psychology to accounting and never looked back.

### When and why did you start your business?

In 2009 I was laid off from a small accounting firm in the Washington, DC area that focused on nonprofit organizations. I went to work for a large national corporation but missed the interaction with local people and thought tax work was something I could do on the side. We quickly became the most reviewed and highest-rated accounting firm in the Washington, DC metropolitan area on Yelp and I realized that rather than trying to cap the growth of the company it was time for me to do this full time. It also allowed me to work with a variety of companies in a variety of industries as a part-time controller. I love helping business owners set up sound accounting policies and plan on how to grow their businesses.

### How do you market your business?

We have a strict policy of not paying for any advertising. We still see 90 percent of new clients come from referral sites like Yelp and LinkedIn. Nothing beats a satisfied client referral. I also do speaking engagements and networking events as a way of meeting new people and business owners.

### Your website notes that your company is "catering to many of DC's most influential residents." How did you make the connections to get these high-level clients?

Having the office located on Capitol Hill and the up-and-coming Atlas District helped. We also attend events and conferences for CEOs and industry leaders that we aim to serve. High-level clients are no different than any other client; if you do a great job they are happy to refer you.

PHOTO CREDIT (COVER AND ABOVE): CHUCK FAZIO

# Member Spotlight

### What challenges have you faced in your business? How have you overcome them?

The biggest challenge we faced in our business is finding local college student interns who plan on staying in the area after they graduate. The majority of our interns are not from the Washington, DC area and have no plans on residing here once they graduate. Many are foreign students who are only here for a semester or two. We would love for our interns to transition to employees whenever possible. For 2014 I plan to focus on speaking with high school seniors and college freshman on why accounting should be high on their list of possible careers.

### What's the best thing about being self-employed?

Being able to work with people I enjoy working with, be it interns, employees, or clients. Sometimes working relationships are not a good fit for whatever reason. I like being able to make the decision that if it's not a great fit and starts to feel like "work" then I can pull the plug. I enjoy what I do and I want everyone I interact with to walk away feeling great about the experience.

### I see that Nino is your official office greeter and morale booster. How did he get started in your company and how did he develop his fondness for bow ties?

When the company first started I ran it out of my house so all the legacy clients knew Nino as did the employees. I always thought if I had my own company I would love to bring my dog to work, so I did. Nino loves meeting new people so it made sense.

Nino is a bit of a ham. He loves getting dressed up, whether it's sweaters, coats, or bow ties. He and I like to match our outfits. He started wearing bow ties because it is a signal for him that he's going to work rather than just going out for a walk. I put on his bow tie and as we leave I say "go to work" and he knows where to go.

## Learn More in the NASE Small Business Locator

Learn more about Stephanie Gibney and Accounting4DC in the NASE Small Business Locator directory, where the company is listed in under Professional Services: Accounting. You can add your own company to the NASE Small Business Locator in up to three categories at no charge – it is a free benefit to NASE members.

### What's the best compliment you've ever received from a client?

I love when clients say I've made accounting or tax easier for them to understand. Or that I'm different then what they thought accountants are like. Many people have a misconception that accountants are stuffy boring people who are going to explain things to them in a way that is unrelatable.

### Which NASE member benefit is most important to you?

Initially I thought it would be the discounts, because everyone loves discounts, and as a small business we need all the help we can get to reduce costs. It turns out that I actually like the *"Self Informed"* magazine the best. It is a great resource to stay up-to-date on hot topics that impact small businesses like mine. ■

## GET PUBLICITY FOR YOUR BUSINESS!

Your business could be featured in the *SelfInformed* Member Spotlight or another NASE publication. Let us know you'd like to be featured and tell us more about your business on our Publicity Form.

# New Leader Announced for the Small Business Administration

**By Katie Vlietstra**

Our community will need a strong and vocal advocate inside the Administration to ensure we have the tools and resources to be competitive not only locally, but also globally.

Nearly one year after Karen Mills announced her resignation as head of the Small Business Administration (SBA), President Obama announced the nomination of Maria Contreras-Sweet to lead the organization, pending Senate confirmation.

Contreras-Sweet, herself previously a small business owner, comes to the position with significant private and public sector experience that will no doubt be important as she works to move quickly on key areas of concerns for the small business community, including the continued implementation and impact of the Affordable Care Act on small businesses, access to capital, and continued regulatory burdens faced by all small businesses.

The NASE is optimistic that with the announcement of Contreras-Sweet to lead SBA, President Obama and his Administration will focus on fostering and encouraging the entrepreneurial spirit of this country, including the 23 million self-employed who are working tirelessly each an everyday to achieve the American Dream.

The year ahead is full of critical challenges that the NASE is eager to work to address with the leadership of the SBA, ranging from the implementation of the new health care law to tax filing changes to the continued inequity in the tax code faced by the self-employed. Our community will need a strong and vocal advocate inside the Administration to ensure we have the tools and resources to be competitive not only locally, but also globally.

The nomination of Contreras-Sweet is accepted to move quickly though the United States Senate. ■

**Katie Vlietstra** is the the NASE Vice President for Government Relations and Public Affairs; You can contact her at kvlietstra@nase.org.