

Tuesday, June 20

## **Shop Talk 3: All About Business Partnerships with Justin Carroll, partner, Hamagami/Carroll, Inc.**

Moderator: Terry Lee Stone

Location: Hamagami/Carroll, Santa Monica

### **“[A partnership] is like marriage, in that like marriage they ought to make it as hard to get into as they make it to get out of.”**

– John Burton from “Persuading” Newsletter article “Good and Bad Reasons for Having a Partner”

#### **Overview**

- A partnership is a marriage. How many successful creative business partnerships do you know? Marriages?
- As Cameron Foote says in *The Creative Business Guide to Running a Design Business*, “[design businesses] are almost always started by individuals who are designers first, business people second.”
- A sound partnership can only be built on a foundation of sound business practice – you need a business plan
- Advantages of a partnership (when it’s good)
  - shared management and financial responsibility
  - expanding the firm’s capabilities
  - complementary skills
  - client perceptions
  - allows for greater growth
  - long-term tax considerations
- Disadvantages of a partnership (when it’s bad)
  - increased emotional stress
  - long term negative financial obligations
  - negative effect of business reputation
- Hamagami/Carroll experience
  - A lot the wrong reasons, but some of the right ones, learned by doing and painful experience
  - trial period, slow rollout
  - consultants, extensive reading and research, lots of talking and experimentation

### **“Partnership is equal parts people sense and business sense.”**

– John Burton from “Persuading” Newsletter article “Good and Bad Reasons for Having a Partner”

#### **Foundation**

- Good and bad reasons for having a partner
  - Bad reason #1: You like them
  - Bad reason #2: Employee retention or reward

- Bad reason #3: Post traumatic stress disorder
- Bad reason #4: Entrepreneurial loneliness
- Bad reason #5: The big fix
- Bad Reason #6: Mimicking large agencies
- Bad reason #7: Cloning yourself
- Bad reason #8: Financial need
- Good reason #1: Improve the business without any other alternative
- Good reason #2: Exit strategy
- Business plan
- Getting support services in place
  - accountants/bookkeepers
  - attorneys
  - banking
  - insurance
  - consultants

**“...a working partnership is like a mitosis – dividing and expanding simultaneously.”**

– John Burton from “Persuading” Newsletter article “Good and Bad Reasons for Having a Partner”

**Structure**

- Types of partnership structures. Each has its own positives and negatives. Develop a relationship with an attorney and accountant to help decide what’s best for your business. (All technical information here is taken from *The Creative Business Guide to Running a Design Business*). It’s a great bible for anyone starting a design business – get it.
  - General partnership – any time two people conduct business under a common identity, they are in a “general partnership,” and subject to its liabilities and responsibilities. Represents many liability issues common to sole proprietorships.
  - Joint ventures – independent individuals or companies working together, maintaining separate, distinct identities. Avoids certain risks of a partnership, while providing expense-sharing and income-generating benefits.
  - Limited Liability Partnerships (LLPs) – a fairly recent option for a general partnership for sole proprietors and existing partnerships who wish to share ownership. Offers specific tax advantages and limited liability to all but the general partner.
  - Corporations – the traditional form for organizing a design business. Provides a company with a legal identity and obligations independent of its owners. Each owner receives shares in the organization proportionate to his or her investment
    - . Subchapter S corporations – the form preferred by most smaller companies, with specific tax advantages.
    - . Subchapter C corporations – especially preferred by growing companies because it offers additional tax advantages, as well as ways to build financial equity within the corporation. Also no limit to the number of shareholders, whereas S corps are limited to 35.
  - Limited Liability Companies (LLCs) – increasingly popular because it offers many advantages of the S corp with fewer setup and ongoing costs

- General partnership checklist (see attached)
- Ownership (or partnership) agreement – to head off future problems, a detailed, written agreement is imperative. This document can define responsibilities, compensation structure, funding, distribution of profits, non-compete agreements, etc. It can also contain the “Buy/Sell Agreement,” which defines the terms for the dissolution of the business and/or termination or voluntary exit of a partner/shareholder.

These can be complex legal documents and need to be written with the help of a competent attorney. But even with professional help critical factors can be missed – consultant David Baker calls these the “5 Ds”: death, disability, dismissal (involuntary), departure (voluntary), and divorce (or separation, even if the two parties are life partners and not married).

**“...when partners begin to question whether the other is ‘carrying his weight,’ it’s all but over”.**

– David Baker from “Persuading” Newsletter article “Good and Bad Reasons for Having a Partner”

**Practice**

- Partnership survey – owners of 7 well-known, successful California design partnerships were surveyed to gain perspectives on best practices in managing a partnership.
  - Longevity: average years in business – 14
  - Structure: most are corporations or LLCs
  - Roles: all divide their partners’ primary responsibilities between complementary roles (e.g. creative / financial & management, creative / new business); most also share at least some creative responsibilities
  - Previous management / ownership experience: partners in only two had substantial, previous management experience; only one had previous ownership
  - Established process for dealing with conflict: none had defined process, but most had regular partner’s meetings to discuss issues – all stressed the importance of constant, absolutely truthful communication – one hired a “marriage counselor” when conflict came to an impasse
  - Written partnership agreement: all but one
  - Used creative business consultant: all but one
  - Compensation structure: all but two split equally among partners
  - Smartest thing they’ve done regarding partnership: “partner’s retreats,” “AIGA Harvard Business School,” several said “made commitment and stuck to it”
  - Biggest mistake regarding partnership: two said “not building a solid business plan,” “forgetting that it’s constant work,” “not understanding that the nature of a design business runs contrary to the nature of business,” “not being more knowledgeable about the financial end of business”
  - What’s the one thing you wish someone had shared with you: “AIGA Harvard Business School,” “professional service businesses are extremely sensitive to economic swings,” “over time, like all relationships, the needs and qualities of partners almost inevitably diverge, “write a business plan”

Other thoughts:

- Weekly/monthly partnership meetings to discuss issues
- Continuous open dialogue among partners
- Present unified front to employees

- Learn from successes and failures
- The “Shark Metaphor”– keep moving forward or die – never close the door to new ideas and learning – business groups, AIGA
- Potential landmines:
  - Lack of respect among partners
  - Spouses
  - Partners' personal issues
  - Partners' personal ethics

### **Conclusions**

- Spend the time to set it up right – create a sound business foundation
- Start with adequate financing
- Pick the right partner, for the right reason
- Try to cover all contingencies, both successes and disasters
- Keep organization transparent among partners
- Have regular short- and long-term “State of the Business” reviews to address the firm’s continuing evolution
- Consider working with an outside consultant
- Immerse yourself in “the business of business”

### **Resources**

Creative business consultants/resources:

Shel Perkins & Associates – Management advisor to creative services firms

<http://www.shelperkins.com/pages/897282/index.htm> – (great resource, part of AIGA national organization)

Recourses – David Baker – <http://www.recourses.com/welcome.html> – newsletter “Persuading” (great resource)

Creative Business newsletter – <http://www.creativebusiness.com/> (another great and comprehensive newsletter)

Design Management Institute – <http://www.dmi.org/dmi/html/index.htm> (astute organization for in-depth information on serious design business management)

Association of Professional Design Firms – <http://www.apdf.org/Public/index.asp>

General small business resources:

United States Small Business Administration (excellent information on the details and tax implications of all business structures) – <http://www.sba.gov/> & [http://www.sba.gov/starting\\_business/legal/forms.html](http://www.sba.gov/starting_business/legal/forms.html)

The CPA Journal online – (great details on buy/sell agreements, although specifically for NY state) – <http://www.nysscpa.org/cpajournal/2004/604/essentials/p36.htm>

Yahoo Business online – good buy/sell info – [http://smallbusiness.yahoo.com/r-article-a-2681-m-2-sc-53-buysell\\_agreement\\_faq-i](http://smallbusiness.yahoo.com/r-article-a-2681-m-2-sc-53-buysell_agreement_faq-i)

Allbusiness.com – purchase inexpensive business form templates –  
<http://www.allbusiness.com/forms/incorporation/261.html>  
[http://www.allbusiness.com/forms/Forms\\_Index.asp](http://www.allbusiness.com/forms/Forms_Index.asp)

Publications:

AIGA Design Business Newsletter – [www.aiga.org/designbusiness](http://www.aiga.org/designbusiness)

*The Creative Business Guide to Running a Design Business* – Cameron Foote (this is the bible for running a design firm)

*E Myth* – Michael Gerber (three of the 7 successful design firm owner respondents mentioned this book by name)

*Good to Great* – Jim Collins

*Fast Company* Magazine

*Step Inside Design* Magazine

*How* Magazine

Note: much of the technical information here was drawn from Foote's *The Creative Business Guide to Running a Design Business* and Recourses' *Persuading* Newsletter. Thanks to David Baker for allowing us to reprint his articles for the Shop Talk participants.

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