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Business Partnering and Protection—Manhattan Style

by George Ross

Because of the economic climate today many people invest their money intelligently, and it should be no surprise that New Yorkers are always looking for the next great investment. Unfortunately, a lot of the typical ways to invest your money just aren't as appropriate as they should be.

Take the stock market, for example. It's not as traditional as it used to be. There is much less of a connection between a company's true value and its stock price. Too often one does not really reflect the other. This is partly because highly automated and rapid trading systems create distortions in the market so that it doesn't respond appropriately to what's going on in a particular segment of the economy or a particular company. That makes it difficult for anyone to have confidence in the market as a whole or any individual stock whose ups and downs are computer driven. As a result, stock market volume has dropped off greatly as investor confidence in its rationality has dropped.

Many New York investors still invest in syndicates, which are really entitles that pool money from investors and invests that capital in one or more enterprises, venture situations, or real estate property or properties. Although investing in syndicates can be rewarding monetarily, the total lack of control of the individual investor is a major consideration. A better plan for most people would be to blend investor cash and business experience on a more individual level; mini-syndicates or even partnerships are excellent ways to leverage your money, your business connections, experience and expertise.

This is especially true today, with so many negative factors apparent in the economy; the partnerships I'm discussing provide tremendous opportunity. Every smart Manhattan investor will tell you, they're always looking for a good investment. Anyone who knows me will remember, I always say that there's always opportunity somewhere. In New York, and elsewhere, those who have money want to invest it wisely.

The capital equation

People with excess cash are always looking for the best way to control their money and achieve the best return for the risk taken. While there are many people today who have less money than they had previously, they still have useful knowledge and experience that people with capital to invest will want to partner with.

Why?

Because partnering is an excellent way to achieve results faster with less expenditure of their time.

Here's a truism about people who have amassed a significant amount of investment capital: At some point, their time becomes much more valuable to them than any single business enterprise. Of course they want to make money, but there are only so many hours in a day. If they want to be more successful, they must figure out a way not to be bothered with the daily tasks, long hours, and headaches that are involved with running a business. Many think that they must do things themselves to achieve a desired result, but hope to bring more capital to the table, then spending more time. The smart ones delegate! Their time is better spent seeking out other avenues for the investment of capital.

The “capital equation”, is the balance of *who* brings *what* to the table in a business relationship. One or more partners may bring the capital, others may bring business savvy, another might bring marketing or industry connections to the table and another may bring sweat equity in the form of hands-on managerial experience. There can be unlimited combination of the importance of any group of people, but you have to fill in all the necessary blanks to achieve success.

The capital equation, if carefully utilized, often leads to success. If you are not the money partner, then your desire is one of getting the most “bang for your buck”. That will affect what kind of business agreement you are willing to be a part of, your role in the enterprise, and how you are compensated. Therefore, let’s talk about some of the crucial points in how you structure a partnership or business entity from either side of the capital equation.

The golden rule

If you are a capital partner in the partnership or entity, then you want to be the one who makes the rules as to how your money is utilized. Without you nothing goes forward. You supply the “gold” and he who has the gold usually makes the rules.

If you are a capital investor, you will have your pick of many, varied business opportunities, as well as a surplus of potential business partners to choose from. This is an advantage in the sense that you can be selective in who you work with. However, it also means that you will have to interview and get to know many potential candidates before you turn over your money.

We will discuss where and how to find the best candidates later on in this discussion. In the meantime, let’s assume that you have located what you think is a promising opportunity with qualified people. What then?

You should carefully examine the important facets of your potential partners, including personality, professional experience, competence, and background. You should learn who they’ve worked with in the past, when they’ve been successful, when they haven’t, and why. How do they relate to people? Are they effective personalities? Should you expect to find a partner who has known only success in their professional life?

I think not.

Otherwise, they would be the one bringing the money to the table and not needing so much of yours. Every successful business person has been in situations that have turned out poorly. It’s not critical that you find someone without some record of failure in their background; it depends on the reason why, and the nature of the failure. Was it caused by outside economic or market forces, mismanagement, or was it due to personal irresponsibility? Questioning their references will be helpful in this area, as will background checking services that are available. Are they hungry to succeed? Do they have a sense of purpose and drive in them? Those qualities you can evaluate only by getting to know them.

But let’s assume you’ve found several candidates who have passed those tests. What now?

The next step is to determine how well you can work with this person. First of all, is there a basis for a relationship? By that I mean is there a personal connection? Do you relate with this person on an individual level? Are they someone who you can see yourself interacting with on a long term basis? Is their body language that of an open person, or are they defensive and tense? Can they accept your input, and be comfortable with you having some substantial influence over the development of the business? These are important and somewhat subjective issues, but important nonetheless.

Although you may be the capital investor, you still want to be careful as to how and when you throw your weight around. Money gives some people the illusion that they need to be in total control. If that’s what you think then why hire qualified people to do what they’re capable to doing? If your goal is to establish fruitful, long-lasting business partnerships that run as smoothly as possible, then treating other people – especially those with whom you wish to work with – as unimportant cogs in your venture is a recipe for headache and failure. You not only build resentment within your organization, but you minimize the creative efforts and long term profitability of the enterprise.

Why?

It's simple human nature. When people do not think they are truly respected they eventually will go elsewhere where they will be appreciated. They will jump at the chance to improve their lives by using their association with you and your venture as a springboard. So, you've not only lost a productive partner but have also established a lousy reputation as a boss. Only mediocrity wants to remain with an organization that does not reward creativity.

Sure, talented people will stay on a short term basis. They'll use you for a while to get the experience and the connections, but then they will move on. Your business partnerships become revolving doors, with partners constantly changing. Ultimately, you waste a great deal of time and energy accomplishing very little.

So, even if you are the principal financial partner, it is in your interest to focus on the most important aspects of the deal, such as how to maximize the business opportunity. Of course, the division of percentages and priorities of profits, as well as certain rights that may relate to critical business decisions, are important, as well as defining the process by which decisions are made. But it is critical for you to develop the human side of the equation first, before you ever commit a dime to the enterprise. The human element is something to be considered in addition to the due diligence you perform on the business opportunity itself.

On the other hand, if you are not the one providing the capital, then it becomes even more important to negotiate to protect your interests in a business relationship. Otherwise, investors supplying the money will just roll over you when the time and rewards are right.

How do you do that?

Very carefully, but with respect and adjusting to realistic requirements.

Usually there is a power differential in the participants in the business partnership that needs to be acknowledged and addressed. It depends upon appealing to the particular traits of the individuals; every situation is different. How do you best accomplish this? Be ready to provide a detailed understanding of the valuable skills, connections, and experience you bring to the enterprise. This is extremely important because the value you add will be your best weapon to negotiate your position in profit sharing, business decisions and authority, and participation in the decision making process. If at all possible, you want to establish your role as a "key player" in the enterprise, which will increase your value and allow you to leverage that position into having as much influence and percentage of the enterprise to which you feel you are entitled to.

Since the capital equation may be "against you" so to speak, another way of positioning yourself in the enterprise is to structure performance and profit thresholds that trigger periodic increases in your percentages, bonuses, and decision-making power. Know what is merely average in performance, and know what would be exceptional, and how to differentiate between the two. Evaluate your abilities and short-comings. How are you going to make the business perform in a superior manner? Be certain that you communicate these things clearly, and convey enthusiasm and confidence when explaining positions and beliefs. Your first test is to convince your investment partner that you're the right person to fulfill the key role.

These are general strategies and tactics that are designed to channel your thinking into how you can maximize your position within a business partnership or enterprise without damaging the initial relationship by being over-demanding. Each specific situation will have its own unique solutions.

Important Tip #1: Whenever you are discussing the business relationship, always bring a legal pad and write down the points of agreement and disagreement so that you can refer back to your notes as the terms of your business relationship are being reflected in legal documents.

Qualified legal advice is critical

This should be obvious, but I'll say it anyway: Qualified legal advice is critical. Whatever business agreement or partnership arrangement is eventually reached, it needs to be drafted and reviewed by each side's attorneys before anything happens. This isn't – or shouldn't be – an indication of mistrust, but rather, the culmination of sound business practice. It also conveys to your partners that you are a serious and seasoned professional with a capable team behind you. If there is a dispute, you can simply refer others to your notes that you took in the course of various meetings.

Important Tip #2: There is a huge difference between practicing say, real estate law and the actual business of real estate, or business law and the actual running of a business. Why is this important? Because legal documents states in legal terms points of agreement or procedures that are crafted by lawyers. Rarely do they address or recognize the human relationship elements that are really the fundamental part of any business partnership.

I am not saying that business should be done on a handshake – although it still is done with people who have known and worked with each other over the years. What I am saying, however, is that there are many other sides to the business relationship above and beyond the legal documents.

The best legal document is one that after execution is put in a drawer and never utilized.

Why do I say this?

Mud Puddles...

Many people go into the corporate world to make as much money and gain as much stature as they can as quickly as they can. There is very little wrong with that concept.

However, it often comes as a complete surprise that as they climb the corporate ladder, they find the money is better; but as they become wealthy and build a reputation, the personal attacks become vicious, and the potential for unwarranted lawsuits becomes a real threat. It is often the case that the higher up you go, your status and reputation become less secure and you have a lot further to fall.

Should you strive to climb the corporate ladder? Of course, but beware of the numerous pitfalls.

Never forget: "The higher up the ladder of success and notoriety you go, the more of your ass is exposed."

George Ross

A well-drawn legal agreement is necessary, but should not govern the relationship. You and your partner(s) should be capable of setting disputes amicably without seeking to enforce some legal language which was drafted at some other time under different circumstances.

In my vast experience, I have never really put faith in the enforcement of a legal document as a feasible solution. The best document can always be challenged in court usually by a judge that was never familiar with your business, and litigation will only fuel further mistrust and suspicion. *Common sense and good negotiation will ultimately solve the problems.*

It is much better if in any partnership one side can always go to the other side or the other person and know that they are going to get some kind of sympathetic response because they have trust in the other. If you focus on the business aspects of the partnership rather than the legal language of some legal document transaction, over the long run you will be much better off.

The divorce provision

Having said all of this, it is also realistic to face the fact that someday, the partnership or business relationship will end. It always will. Nobody lives forever, and things happen in life that alters one's paths; that's just life. Bearing that in mind, every agreement should have a divorce provision where any of the partners can get out if they want to get out, on a reasonable basis. This must be included in the original documents which are drawn when the relationship is upbeat. No one should enter into a partnership or venture where there is no fair way out. No one should be stuck in a situation that they cannot tolerate for any one of many reasons, such as lack of trust, poor performance, incompatibility, etc.

So, what should an appropriate divorce provision look like?

The answer to that question in this forum is necessarily broad. But essentially, the divorce provision should include whatever is necessary to protect the interests of any outgoing party and those remaining including protecting everyone's interests in a fair manner. It should also provide a way to value each partner's share or contribution to the enterprise. For example, if anyone wants out of the partnership, the divorce provision will have to specify the procedure for separation, what the outgoing partner gets and when and how it is received, and the responsibilities of the outgoing party to the partnership. In other words, there needs to be a plan that all agree on whey they first start out together so that when and if that day does come, there are definite steps that everyone knows needs to be taken and will be taken. This protects the partnership's interests and that of all of the individual partners. It allows everyone to plan their exit when necessary and know what they need to do in order to fulfill their obligations to the partnership and also take care of the needs of the outgoing partner.

Can there be problems with a divorce provision? Of course; life is complicated and times change. There are always unforeseen problems that will crop up at some point or another but if the original concept was fair it can be adapted to any situation.

Sometimes an actual divorce or death occurs, and a portion of the partner's interest in the firm transfers to the spouse. In such a case the interest of the deceased or divorced partner should go to a passive party with no right of participation in decision making.

Assigned tasks, duties, and compensation

That brings me to another very important point in the discussion; and that is the issue of timing.

When is the best time to make an agreement?

The absolute key to any partnership or syndication is to address all the issues, tasks, duties, contributions, deal portions, and performance clauses in the agreement *before there is any money on the table or partial performance.*

This is the key to a solid partnership. I will say it again: All areas of the partnership need to be addressed and agreed upon before anything happens. Each partner's duties and responsibilities need to be explicitly *discussed, defined and valued.*

That is another key part of the agreement. Everyone must agree who does what and the extent of their compensation. Your outlook on this will partially depend upon which side of the capital equation you are on. But, if you are the cash partner, then you should consider an accrued guaranteed return on a priority basis, but only out of cash flow or sale proceeds, because it's your money that fueled the venture. In exchange for that, you should have very little control of the day to day operations which should be another partner's area of expertise. If you are on the expertise side of the capital equation, and you make the company worth X amount of dollars at some designated point in the future, then you should get agreed upon compensation for meeting that threshold and contributing to the bottom line. So there are different roles, with different levels of compensation and differing values to the company. All of these issues need to be spelled out and agreed to before there is anything to share.

Performance clauses

Regardless of which side of the capital equation you are on, performance clauses are appropriate to include in the agreement. They provide tangible benchmarks by which to measure success or failure, not only for the business, but for all participants. That way, everyone knows what is expected of all involved, when, how, and how often. Performance clauses may include anything from making capital infusions to purely administrative functions. Don't get involved in minutia, stick to major topics. There is something else to consider when drafting the performance clauses for each partner. There should be some recourse for the other partner(s) should one partner fail to live up to his part of the agreement. If a partner fails to perform for whatever reason, there needs to be a specific procedure to address that situation.

If there are repeated breaches of the obligation to honor a performance clause this should be grounds for expulsion from the partnership with a predetermined buy out arrangement that involves some penalty to the delinquent party. This is not a part of any "divorce" provision. The other partners need to have the right to kick you or anyone else out of the partnership if they're not adequately performing. That's only just and appropriate. All of these particular issues need to be resolved up front. Not because there's lack of trust or a weak relationship, but because every partner's interest should be adequately protected. Hurricane warnings should be out if someone refuses to adequately and fairly address such issues. At that point, it may be wiser to pull back or pull out.

Unanimity, majority, and integrity

Remember that I mentioned that the best legal document is the one you sign, throw in a drawer and never look at again? The business plan and the legal document that defines the parameters and specific roles and contributions of each partner will never fully protect you from something going wrong, whether it is accidental or malfeasance on the part of somebody. The timing and extent of any catastrophe is unknown at the beginning of the venture. That is why *the relationship is the real key to a successful business partnership.*

There is a tendency to over-think, over react, and over-write a legal document, and to overlook the fact the reasonable people can solve any problem when it arises. Litigation is never an appropriate solution. Judges are not businessmen and their decisions rarely satisfy either party.

How do you avoid major disagreements? That's easy. From start to finish do what you would think is fair if you were on the other side.

Sometimes an independent outside expert analyzes and comes up with a resolution on each other's contributions, skills, or whatever else is in question.

When it comes to decision making, never, ever require or agree to unanimity except in critical situations. A simple majority is all that should be necessary to move forward on a decision but weighting votes of participants is appropriate, depending upon the issue at hand. Major money decisions and budgets should require the capital partner's approval. Operational decisions should be made by the parties responsible for operations. Some will say that unanimity is important because it avoids conflict; but I think that it actually *creates* conflict because everyone has a different viewpoint depending on their function. Unanimity can virtually bring the company to a standstill because no decisions get made because of differing viewpoints and personalities. If there is an even number of partners, with a 50/50 split on a decision, then hopefully the decision is made according to majority share of the company, which is really how it ought to be made anyway. Every smart majority holder should listen to the partners with the expertise involving any business related issues.

Having said that, there is a different scenario, which is important – if one of the partners is really the key man in the company (and you will know if there is) then his/her decisions regarding specific issues under his jurisdiction ought to go unchallenged except under the most unusual of circumstances. Otherwise, that key man will effectively cease being a key man and resentment will build up which hinders effective growth.

Ultimately, there has to be a level of trust and a known level of integrity and competence among all partners in order for any real relationship to be strong enough to sustain the trials and tribulations that will inevitably occur.

Who *not* to partner with

So, now we are at the point of asking, "Who should you partner with?" It might be easier to begin with who *not* to partner with. I know this will ruffle some feathers for some people, but, if at all possible, avoid doing business with friends and family.

Why do I advise this?

This particular advice comes from long experience, which includes not only mine, but that of many others I know. I understand the argument for including friends and family is that you know them and you trust them. Ask yourself what specifically are they bringing to the enterprise? Is there a specific skill, expertise, experience or connections that they possesses that no one else does? Or, is the family member or friend putting up the money? Either way, I would recommend against it. How can you fire a friend or relative without creating a severe breach in the relationship? You can't terminate or criticize them without bad blood. You can't complain too much if they're not doing their job very well, or if they're making yours more difficult. Believe me, I know that it happens all the time, but family members can become estranged and friendships can be broken by the strains of business, and to me, it's just never been worth it.

Use a neutral accountant

The family or friend issue brings up another related point: Never have an in-house accountant do your books. Use an independent CPA. This is very important because you should always know where the business stands. You need an outside, independent authority who has nothing to gain by slanting the numbers.

This should be obvious, but too often, one of the partners is a CPA or a friend or family member handles the books. That often leads to people not wanting to show what the numbers really are because it will embarrass them or their sponsor, and show failure. Also, people don't like to admit that they have failed to do what they promised to do, so they figure ways to make it look better. But by "making it look better" they make things worse, because the numbers are misleading, and you really don't know where the enterprise stands. This can also be a horrendous side effect of hiring friends or family who may work cheaper but cost more in the long run.

But if you're not partnering with your family and friends, who should you be partnering with? And how do you find them?

Find the right partner(s)

People ask me how you find the right business partners if not through family and friends. My answer is to *network*. Go to conferences and seminars where both investors and those looking for investors, gather. These conferences and seminars are everywhere. There is also availability of the same via the internet.

Important tip to those looking to partner with investors: have everything prepared for a thorough review. That means documentation on the business proposal, but even more important, comport yourself in a serious and honest manner. Know your area(s) of expertise, have it documented in all aspects possible, and then present yourself in a straight forward manner. Avoid overly hyping yourself or your project, but don't underplay it either. Make sure you have done your homework. Show the potential investor that you know what you're talking about and that you have done your due diligence.

It is extremely important to be truthful to others and insist they do likewise. Why do I say it's so important? Because if you're looking for an investor, that investor will find out what you have or have not accomplished in the past. Believe me; if the investor is serious, they will complete a background check on you and verify what you have said. They will know the good, the bad, and the ugly. That is why I recommend that if you get into a serious conversation with a potential investor, and he/she asks you about your past achievements and/or failures, that you be honest about them. People often fail but if you have more successes than failures you're a candidate for partnership.

The same personal thresholds hold true for both sides of the capital equation. If you are not comfortable with the honesty or personality of a potential investor, even if he/she is *gung ho* on your concept, this should make you pause. As I said before, the golden rule applies: he who has the gold makes the rules. It's typical for those with the money to try to make a deal with a needy partner with expertise or a great business idea, and then later on wipe them out of the deal when it's convenient to do so.

Therefore, the trust and personal comfort must apply on all sides. When you are at the point where all parties want to make a deal, form a partnership or other business entity, that is where frank and honest discussions need to take place.

Form an LLC

If you are ready to move forward with your partner(s) you need to form your business entity. There are several different forms of business entities to choose from, and I won't go into them here. However, I will say that in most cases, the Limited Liability Corporation makes the most sense from an operational standpoint, a tax standpoint, and of course, from a liability standpoint. The LLC is easy to set up, straightforward in its structure, and recognized as a very effective and useful business structure. If there is resistance to this from your partner(s), ask them why, note their specific reasons, and then consult your own business counsel. There may be legitimate reasons, and if so, then that's fine, as long as your interests are not seriously jeopardized by a different structure. However, it is my opinion that in the vast majority of cases, an LLC is the best way to go.

Conclusion

Hopefully you should be able to see that even though there are some difficult situations in certain parts of the economy, such negativism opens up opportunity for the shrewd investors. There is always opportunity somewhere. Because most people have a tendency to be overly cautious today, there is tremendous opportunity for capital investors and savvy, capable people with business expertise to combine their attributes for larger-than-average returns in many depressed areas.

It is a known fact that many successful businesses are started in down economies. Why?

The answer is simple. Economic distortions and financial mistakes that occur are usually overlooked and ignored by the complacency of old line managers, but are often fatal to businesses when the economy is in recession. Failure to provide an intelligent "Plan B" when things go south causes may businesses to fail. Shortsightedness provides the opportunity for more intelligent risk takers to replace them. This is an opportunity in spades, and it's there for the taking if you have the courage to do so.

The Gorrie Details

by James R. Gorrie

The China Paradox

As the global economy continues its rocky ride and the US economy struggles to create jobs, America's relationship with China is becoming a much more paradoxical one.

The Chinese need the American market for its goods as much now as it ever has; especially in light of the economic slowdown in Europe and the already low—and falling—demand in the Chinese domestic market. (Five years ago, China's domestic consumption was 50% of its economy; today it is, at most, 40%.) But, China's position as the largest foreign holder of US debt and major trading partner makes it a key player in financing the American economy.

A Symbiotic Relationship

Clearly, both American and Chinese economies have a symbiotic relationship with the other. The paradox is that the closer the two become economically, the more damaging each is to the other's economy and national stability.

In the case of the US, although China's reserves help keep the US financially afloat, China's influence upon the US manufacturing base has been corrosive. In fact, those areas in the US exposed to competition from China have a 30% lower manufacturing base than those that don't.

Also, the persistent and high level of unemployment in the US is creating strains on US social safety nets and growing levels of political dissatisfaction and instability within American society.

This trend will only worsen as more jobs are moved overseas to China and high unemployment remains in the US.

But with regard to China, the more the US deficit spends, the greater the reality becomes that the US *will never be able to repay China all that it has borrowed*.

Furthermore, China's emerging middle class has adopted views similar to those of their Western counterparts. Wealthy young Chinese, particularly in the coastal cities, are quickly forsaking "traditional Chinese values and customs" and hierarchical authority and social mores for more liberal, individualistic lifestyle options.

These trends also include growing dissatisfaction with the limited political and personal expressions that traditional Chinese culture, and the Chinese political system, allow. The huge popularity of internet dating, reality TV dating shows, and the acceptance of not marrying at all threaten the established social, political, and economic order of China.

Tough Choices

Both countries now face tough choices. For example,with 9.1% unemployment in the US, every job is important. And recently, there arose the opportunity *to provide 16,000 new jobs to Americans*, worth an estimated $8.7 billion to the US economy.

Wouldn't it make sense to jump at that opportunity? Especially when it also means that not only would a US manufacturing plant remain open,but that a US ally would be strengthened? Would it not seem wise to pursue that opportunity?

The opportunity in question was an $8.7 billion F-16 fighter jet upgrade deal with Taiwan, a strategic American ally. The deal was put together by Democratic Senator Robert Menendez of New

Jersey and Republican Senator John Cornyn of Texas, and represents bipartisan cooperation in Congress to actually create jobs—16,000 of them—in America, today.

The Obama Administration however, decided to not pursue those jobs and cancelled the deal.

Why?

Because those jobs were tied to selling updated fighter aircraft to Taiwan, and such a sale would have, according to Bloomberg, “needlessly provoked China.” Presumably, the Administration’s decision was because China is a vital trade partner.

Instead of the sale, the Obama Administration decided that it would “upgrade” Taiwan’s aging, Vietnam War era fighter planes; this decision sends the message to American workers—and American allies—that not “offending China” is more important than either of them.

Some in Congress, however, disagree. Some also can see the very real fact that China has absolutely nowhere else to go; the US debt market is the only market that is large enough and liquid enough to handle China’s excess cash reserves, and conclude that they need us as much—or more—than we need them.

Or do they?

Trade War

Is China worried about offending the US? Well… no. At least, they don’t seem worried about it.

It has not only stolen whole factories of US firms once they relocate to China, and stolen investors’ money in fake companies listed on US stock exchanges, but has also stated openly that “the Chinese market is for Chinese firms.”

And, in 20l0, after a round of arms sales to Taiwan, China temporarily severed military ties with the US. And, with a tariff bill aimed at China now in Congress, it has warned that its passage would “result in a trade war.”

This may be more complex than it looks, because much of the tariffs would hit “”offshore production” of US firms, like Apple or Dell.

So, how should we read these developments?

Like so much in life, context is crucial. From China’s point of view, the US is weakened economically, and is therefore, able to be influenced. But China has to decide how far it will push the US… Will it really engage in a trade war?

At the same time, the US must decide how much it will be pushed. Because by keeping its market off limits to American firms, and keeping its currency artificially low, China has cost the US 2.5 million jobs in the past 10 years.

Some say that a trade war already exists…at least from China’s perspective.

This is probably true.

Free trade is certainly not in their play book. And eventually, the costs of economic engagement will outweigh the benefits.

In fact, we are seeing the beginning of that, now. Both nations are causing fundamental disruptions in the other; but neither can, for the moment, make do without the other.

In the West, we call this interdependence. But the Chinese have a more ancient term:

Yin…and *yang.*

And those are…*The Gorrie Details.*

Member Mailbag

Questions for Empire Report? Submit them here: http://www.theempirereport.com/questions/

Q: *George, I have re-started a business within the last year. The business came to me in that I took it over from a family member. Money is starting to come in fits and starts. I need to know what my profit margin is, what it should be, and how I calculate it relative to my own contribution of time, talent, and effort.*

A: Before I answer your question I must tell you that you've already made a number of mistakes:

1) You restarted a business previously run by a family member. Doing business with family members is generally not a good idea. They will hide any shortcomings to avoid embarrassment.

2) From your question it is obvious that a complete financial analysis was not made by an accountant or other qualified <u>independent party</u> (let's call him "the Expert" before you decided to get involved. The Expert would have prepared a "*pro forma*" statement indicating: a) the fixed and variable costs of running the business and b) anticipated cash flow and c) expected profit or loss over a period of time.

When you start a business, you should expect that it will lose money at first. That likelihood should be built into the *pro forma* so at least you will know where you are relative to where you expect to be and c) how much capital is needed and when it is needed.

Now for the good news...

It is not too late to do a pro forma and you have the added advantage of building in the information you have learned since you took over. You still need the Expert but the added facts will help. The Expert can tell you what the existing gross income is, what the existing expenses are, and what the existing profit margin or loss is.

This information is vital to the creation of a game plan that works. But, one thing to consider that many do not is to factor you in the costs.

How do you do that?

You calculate what it would cost to replace you. Figure salary, education, experience, ability and market rate for all the things you do. Those costs are part of the costs to run your business. If you don't calculate yourself in the equation, then you're only misleading yourself and will be saddled with phony numbers.

As far as profit margin is concerned, it depends on the nature of the business and what you decide will make it a business you want to spend time and money developing. You should know what prices the competition charges.

Is there some exclusivity you have to command a higher price? See what the Expert comes up with and you can make intelligent decisions.

Q: George, this may sound like a basic question, but I'm a small business owner and I work about 75 hours a week. I have five employees, but I do all the marketing, put out most of the fires, and run the business generation myself. I'm making money, but I'm also wondering if I'm being as productive as I might be if I had just a bit more time to focus on getting new business, so I'm thinking of hiring a personal assistant. It's an expense that would, on the face of it, obviously cut into my profit margin. What do you think?

A: There are several elements to your question and they're all important:

Number one; "Putting out fires," as you say involves solving issues with existing customers, that is very important and worth your time. You want to hold onto the customers you have and build a reputation that will get you more of them...

But secondly, new business generation is also important, otherwise you don't grow.

If there are internal fires within the organization you should delegate the problem solving to others in your organization. The fact that you are working 75 hours a week is indicative of being too busy to do anything really effectively. Learn how to delegate things that really shouldn't require your time and effort. I'm sure you think you can do it better and faster but doing it yourself is counter-productive.

Your question tells me a couple of other things as well.

One, your business can be run better. If you're constantly putting out fires, then there are one or more problems in your business model—or employees—that need to be addressed. Every business needs organization, and the organization needs to be systemized so that it runs like a machine.

Number two; your problem is not a dollar problem as much as it is a people problem. I don't mean you need to fire anyone, but that your people and your business need to be organized to allocate responsibilities to the right person or persons.

To help you get to where you need to go, you need to have your existing staff handle existing customers, and you handle new business. Right now you're doing both, as well as many other tasks that diffuse your efforts and effectiveness.

I would say that hiring a personal assistant is a smart move, but make sure that that person understands what you want from them, how you want things done, and when.

In other words, give yourself–and your assistant–a system to follow. With the input from your assistant you can rework the systems in your business, identify the source of ongoing problems, and remedy them. You will see your service improve, your new business increase, and a more efficient and effective use of your time and the time of all your employees. —*GR*

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