Bill Good®

MARKETING

Partnerships

Contents

Author's Note

Some people hate to say, "I told you so." I've never had that problem.

In April 1989, I wrote:

"As we move into the 1990s, I firmly believe that small advisor organizations operating within the framework of larger companies will become the wave of the future. I believe that the $250,000 producer operating with one-eighth of an assistant will survive as an entry-level position only. People will come into the industry and when they have proven they can sell and deal with clients, they'll have two choices: Develop their own organization or develop a partnership complete with support staff."

In re-reading these articles, I was pleasantly surprised to see that this collection of articles on partnerships required very little updating. Sure, I made a few terminology changes but none of substance. I did add an article: Partnerships 2008.

In all modesty, I identified most of the issues facing partnerships today … some of which I had nailed nearly 20 years ago.

In reviewing the landscape, I was also fascinated to note that the software innovations we made in 1989 have never successfully been copied.

Consider this challenge:

You want to send a "Get well" letter. And sometimes you want to send it with just one signature.

> *Dear Bob:*
> *I hope you feel better.*
> *Best regards,*
> *Buford*

But what if you and your partner Betty both want to send a letter?

> *Dear Bob:*
> *I hope you feel …* that doesn't work does it?
> It needs to say, *"We hope you feel better."*

And that's exactly what we programmed "The Partnership Version" to do—switch. Our Partnership Version will switch from the singular version of a letter to the plural, whenever Gorilla detects that there are two signatories in the message.

Now add this:

With a click of a button, you can add a digitized signature … or two, and if two, of course it will send the plural version of the letter.

No one else came close.

I hope these articles help strengthen your partnership. And if you really want to grow it, call 800-678-1480, press “0” and ask for our Lead Development group. We will tell you all about the Partnership Version of the Bill Good Marketing System®.

Partnerships 2008

Many moons ago, I believed everything I had been told about partnerships.

I believed they were even less stable than marriages; that 90 percent of them broke up, and since 1 + 1 = 2, why bother?

But after observing successful partnerships, often decades old, I changed my tune.

Well-structured partnerships work. In fact, I would forecast that long after the solo practitioner in financial planning has slipped into the wisps of memory (along with solo practitioners in medicine) financial services partnerships, supported by a team of support professionals, will thrive.

Benefits to Advisors and Clients

Granted, I certainly have witnessed some spectacular and bitter breakups. But overall, a well-structured partnership has at least the survival potential of a marriage—and where they do make it, offers benefits to clients and advisors alike.

Since I've now closely observed several hundred partnerships, I'm probably (in all modesty) the most qualified person you know to lay down the rules for successful partnerships. So let's start with …

The First and Most Important Rule

There must be an economic or family reason for the partnership. By "economic reason," I really mean a division of labor. And that means some degree of difference in the partners' product specializations, selling techniques or prospecting skills.

The "family" reason is normally the desire of an established FA to pass on an intact business to another family member—generally a son or daughter.

Other reasons undoubtedly exist for forming partnerships. These may include: taking vacations, providing continuous coverage for clients, companionship, and the belief that 1 + 1 = 3.

Where economic or family reasons exist, and where one or more of these motivations are extremely strong, and where a solid foundation of trust exists, the partnership may make it.

Understand that it's the economic or family reason that seems to provide the force that binds the organization together. After all, two 35-year-old advisors who do the same kind of business, in the same market, *do not have an economic reason for forming a partnership.* If they do form a partnership, it will probably not, in my experience, survive.

Nevertheless, here are some models of successful partnerships I've observed that were formed for "economic" reasons:

1) **Prospector-Developer**

In this model, one partner concentrates on bringing in new clients; the second partner concentrates on developing the clients.

2) **Conservative-Speculative**

Here one partner focuses on more conservative investments, and the other works the more speculative side of the street. An obvious variation of this is that one handles fixed income, the other, equities, or one might do investments and the other insurance.

3) **Senior-Junior**

Family partnerships are usually this model, although I have seen many senior producers team up with an energetic, newer producer. The split here is usually uneven, in favor of the senior producer, but the understanding is that as the senior producer fades away, the business will go to the younger partner. This is the best model for senior baby-boomer producers to gently fade to black, while ensuring that a clientele developed over a working lifetime are properly cared for.

4) **Planner-Trader**

One partner takes the conceptual, logical, planned approach while the other deals with that portion of client assets involving trades.

A good economic reason *alone* won't guarantee survival. You also need:

Complete Trust

I recently spoke with an advisor who was considering a partnership with another advisor in his office. There was definitely an economic reason for it. They were different ages, and had different skills; they seemed to complement one another.

I asked, "What about the trust factor? Could you trust this person enough to go away for a month and completely enjoy a vacation?" There was a pause, and then, "I think so."

I advised against proceeding with the partnership until the question of trust had been resolved.

Once you've established both the economic reason and the trust factor, you can now proceed to resolve …

The Key Issues

1) **Fairness**

A few years ago, I mediated a partnership breakup. Here's what happened:

A crack-prospector teamed up with another advisor who seemed to have good client-development skills.

The prospector's plan was: "I'll go out into the forest and hunt new business; you keep the camp going."

In a fairly short period of time, it became apparent that there was a marked difference between the two parties' work ethics. New clients weren't getting called and developed—so that was the end of that partnership.

But I'm also familiar with another partnership where one partner works much harder than the other, but the second partner works longer.

So lack of equal work is not necessarily a make/break point for partnership success. In the first case, this difference led to an unfair situation; but in the second case, one member's increased hours made the situation fair.

2) The Split

Surviving partnerships seem to split everything 50-50. This doesn't mean that the split needs to start out 50-50. But it needs to trend toward that goal.

It obviously wouldn't make sense for a senior producer with $100 million in assets to take in a junior partner with $20 million and immediately start with a 50-50 split.

Let's say the partnership production is $1 million; in the last 12 months the senior partner produced $750,000; the junior partner, $250,000. At the beginning of the partnership, they would split at 75 percent for the senior partner and 25 percent for the junior. But at $1.25 million, the split might be 65-35.

After all, the senior partner is making more money than s/he alone was producing at $750,000, and probably working less. And the junior partner's income is certainly up.

At $l.5 million, the split might be 60-40.

At $2 million, it might go to 50-50.

3) The Breakup

I've spoken with dozens of prospective partners, and I've been very careful to give each of them a very important piece of advice: While the blush is still on the rose, sit down on a Saturday or Sunday afternoon; with spouses, away from the office—and decide what would happen if the partnership were to break up. Take notes, and then give these to a lawyer to craft into a binding agreement.

Here are some of the key questions to answer:

a) How are accounts that are pooled in the beginning to be divided? What if one of you contributed the account in the beginning, but the other was the primary advisor afterward?

b) What about accounts brought in by the partnership? Are they to be divided equally, by assets, by revenue, or by some other formula?

c) What happens if one of the partners becomes sick or disabled and can't work for a period? What if it's a permanent disability? Is there a buy-out clause, or does the business just go to the remaining partner? What about the death of a partner? Does the surviving spouse have any rights?

d) How are disputes to be resolved? If you haven't worked out an answer to this question, a disagreement can paralyze you both. A suggestion: Agree on a third person whose vote will break a tie. Then you can get on with the show.

e) Suppose one of you wants to change firms and the other doesn't.

Settle these issues before they become conflicts. Then your partnership has a much better chance of survival.

What Tends Not to Work

A "yours, mine, and ours" arrangement on clients is not stable. In this arrangement, I have my accounts, you have yours, and we have ours. "Our accounts" tend to become orphans because *today* it is always more profitable for me to work on mine. So *ours* get neglected.

Trial partnerships, as with trial marriages, more often than not don't work. There is a commitment required. Jump in, make the commitment, and tie the knot in a binding agreement. You're more likely to survive as a unit.

Of this I'm sure: Partnerships, when they work, are …

Great for Clients

With a partnership, clients have instant access to a second opinion, instant access to additional expertise, and perhaps most importantly, they should always have access to one of the partners.

If you're out of the office, your partner should be there.

With the added expertise and accessibility, you'll be better able to compete no matter what these turbulent markets can bring to bear.

Partnerships 2000

From *Research* Magazine

As we move into the ’00s (well, I can’t think of what else to call the decade. You can’t call it the “Hundreds”; what comes after the Nineties?), I don’t think there’s any question in any serious thinker’s mind that the industry will be dominated by teams.

There is too much to know for one person to do it all. You do need to take a vacation from time to time. It would be nice to do that without having your cell phone surgically implanted in your ear.

One of the forms of organization that I think will grow into greater prominence in the coming years is a partnership. The benefits of a partnership are many. And properly structured, they have as good or better chance of surviving as a marriage—which means 50% or better. Not bad odds.

Why Partnerships Fail

Over the years, we have worked with several hundred partnerships. To my knowledge, my company is the only one that ever created software capabilities that truly address the needs of a partnership. So we’ve seen a lot of them.

Most of them have survived quite well, but a few haven’t. Here are some of the reasons.

1) Equality

Now that sounds odd. Why should equality cause a partnership to fail? Answer: when two people doing the same kind of business and with more or less the same skills get together, there is no economic reason for that unit to exist. There is simply 1 + 1 = 2. In a while, one or the other will out-produce and the other will get a little bit jealous, and since there is no *reason for being*, it will either fade away or blow up—but most likely just fade.

What’s necessary for a partnership to survive is a division of labor. Two people can’t do exactly the same thing.

2) Inequity

This is probably more common. My first recognition of this was a woman I met ten years ago, who was a very hot new-account opener. She teamed up with another fellow in the office who was supposed to develop the clients she brought in. She worked hard.

He didn't. After seeing her new clients stack up like buffalo after a hunt, she turned her firepower on him.

I have also seen inequity overcome in some interesting fashions. I knew of one long-standing partnership (which finally dissolved only when one of them went into management) where one of the partners worked harder but shorter hours and the other, who couldn't match the pace, worked longer. It worked like a charm.

3) Greed

Not too long ago, I saw a partnership ready to change firms. One of them hung back and negotiated a separate deal with the manager. As they were apparently heading out the door, the partner who was staying said, "Oh, by the way . . ." The ultimate protection against that, of course, is "know your customer" and have a great contract.

With all of these things in mind, how do you protect yourself and make a partnership work?

Making Partnerships Work

My first recommendation is: listen very carefully to those murmurings called "second thoughts."

Unless you are wholeheartedly committed and believe absolutely that it's the right thing for you, your partner, your business, and your family; don't do it. Remember, a partnership affects not only you and your prospective partner. It ripples out through your client base to your families, to your company, and even to your community.

That said, now take the next step, which is to have a series of discussions in which you address the tough parts of a relationship. It's nice to sit down and say "We're going to become partners and live happily ever after." But what seems most important in making it work is that the partnership is based upon locked-down agreements, which ultimately confront some of the worst things that can happen. Among the things that you need to consider are:

- **Exit strategy**

  What happens if one of you dies? Does the surviving spouse retain an interest in the business? What happens if one of you gets sick?

  I knew of a partnership some years ago where one of the partners came down with an illness that sidelined him for the better part of a year. Because of the strength of the bond between the two, the partnership went on. Interestingly, the second partner immediately doubled his production.

The exit strategy should be in writing. It should also answer such questions as: Do we divide the client base in terms of clients? Assets? What if we disagree? And also address the issue; assuming you work for a firm as opposed to being independent, what happens if one of you wants to go and the other wants to stay?

- **Duties**

Here is where you really have to pay attention to your respective strengths. I know of a rock-solid three-way partnership made up of a super salesman, a great organizer and thinker, and a hard-charging cold caller. I've known them for years, and have watched a multi-million dollar business develop. Who knows how high is up? The three of them couldn't be more different and, from everything I've been able to observe, couldn't work better as a team.

I know of another partnership where one person only sells and the other runs the machine that keeps the salesman booked morning until night.

- **Expenses**

How are they going to be handled? And what about the profits? With one or two exceptions, the long-lived partnerships are trended toward or have arrived at equal shares. The exceptions are the senior/junior partnerships where one day, when the senior retires, the junior gets it all, most likely according to some buy-out formula.

A partnership where everybody has their hands in the pot generally just creates a mess.

I have negotiated several partnership agreements personally, and have been party to countless others. What seems to work best is a course of action we could call "successive approximation." Do up a written draft covering the points I have outlined here and others important to you. Let it set for a few days. Now get back together. Add to it. Negotiate all of the unthinkable things while the blush is on the rose. When you finally have an agreement that seems good to everyone, send it to a lawyer and have the lawyer check it and make certain that it complies with the laws of your state.

I'm certainly not recommending, and don't think it necessary, that you have an attorney representing you and one representing your partner. That just enriches the lawyers. But to seek advice from someone who may have been party to many contracts over the years makes a lot of sense. The better job you do negotiating the agreement, the less likely it is to fly apart.

KEEPING IT FRESH

From *Research*, July 1994

When the Shine Fades, Re-Create Your Career

Remember getting a new toy of some kind as a child? In the early phases of your passion for the toy, you just couldn't wait until school was out to play with it. You slept with it. You hid it in your book bag, just to be near it. But over time—hours, or weeks, or months—the toy's magic drained away. Perhaps the toy even became an object of contempt.

Now with that state of mind, imagine having to play with that toy. That's ***burnout.***

Sometimes people burn out while failing at something. Easy to understand. In fact, you see it all the time with newer, younger FAs who burst out of the gates, pick a bad campaign, and sag on down the scale.

That kind of burnout doesn't take too long. It's usually over in months.

However, I want to talk about the burnout of FAs who've done what they're doing so long and so well that it no longer offers a challenge. This is ***success burnout.***

As a child, you had some simple choices: If you didn't want to play with a toy, you could put it on the shelf, or you could give or throw it away. An adult who is burned out with doing the same old thing really has the same choices: Play with it or throw it away. Perhaps the difference is only one of size and complexity.

It's easy for a child to abandon a toy. But with a career, it's best to think it out very carefully. Of course, you don't throw away a business worth a few hundred thousand dollars or more. Instead, you re-create it.

- **Case History #1: The Retail Master**

Not too long ago, I was talking to a good friend. With a decade in the business, his production is $750,000, and he manages assets of approximately $80 million. Although my friend purported to be burnt out, when he started telling me about the handful of big accounts he'd developed through some very innovative marketing, the change in his tone was remarkable. He was fascinated—anything but burned out.

He'd already started to create a new business from within his old one, but didn't realize it. When I pointed that out, he knew I was right. Now, all he needs is to get someone else to handle his retail business while he pursues the new business. The trick is all in the transition.

- **Case History #2: The Seminar Master**

The star of my second case history has actually re-created his business twice, and is in the process of doing it a third time. From 1980 until 1985, he built one of the most successful seminar businesses in the industry. He gave over a thousand seminars all over the country.

One morning in 1986, he woke up in a hotel room with no idea where he was. Once he figured out where he was, he knew something else as well: It was time for a change. In two years, he built a new business from the old one. In the new business, instead of traveling, people came to him.

That was seven years ago. He's now recreating his business a second time. I know this story well because it's mine.

A Firm No

Sorry, changing firms is not a solution. You'll take all your baggage with you, and after the flurry of change is over, you'll be sitting in the same place as before.

Re-creation Strategies

There are lots of ways to create a new business from out of the old one. No matter what direction you choose, however, there are two essential strategies:

1) Never, ever give up a client. As a matter of fact, don't even think it.

2) Build a team to keep the old business going as you step away to create the new one. This is critical to client retention.

With these two points in mind, here are some ideas if you need to re-create your business.

Form a Partnership

The more I see of partnerships, the better I like them. Especially if you're thinking about the big transition (retiring or cutting back), this is the only way to do it.

If you want to develop a new kind of business, bring in someone to handle the old business. If you want to make a transition to investment management consulting, get a partner to focus on the existing retail business while you develop the managed accounts, and so on.

Develop a Specialty

One of the most effective ways to compete in the latter half of the 1990s will be superior know-how. Some big guys with hefty marketing muscle have grabbed for the generic business. The remaining big business is specialized. Look around.

Find a Spark

If you've gotten to the point where you're sick of your toys, maybe it's time for a new one. If you're ready to re-create your business, do it. Kill the burnout before the burnout kills your spirit. Make it gradual—keep your current business while you're repositioning yourself. Put together a team to help you. And do it now.

The Partnership Agreement

From *Research*, March 1994

Putting It Together the Write Way

Partnership is a hot topic—we received hundreds and hundreds of requests for my booklet on partnerships, and lots of probing, incisive letters on the same subject.

Remember: No one today earns high six or seven figures or stays there without a team. It's my guess that we'll see several forms of that team:

1. **A single FA with support staff.**

   That support staff will consist of a sales assistant, a service assistant, and a computer operator.

2. **A partnership with two or more partners and the same support staff.**

3. **A specialist group practice.**

   This will involve multiple partners each specializing in a given area.

   I'm familiar with one group with as many as nine partners. I believe as we progress into the 1990s, this will be the answer to the "financial supermarket" concept of the 1980s. The supermarket concept was right in principle, but didn't take into account that FAs just can't know everything. And they're certainly not willing to pass off clients to other FAs unless a well-defined split arrangement is worked out. Many of these specialized group practices will undoubtedly evolve from smaller successful partnerships.

Along with those generalities, here are my thoughts on the most important partnership survival element …

The Partnership Agreement

First of all, let me say a few words on behalf of the agreement itself. The best prevention for an ugly divorce is a good solid agreement, preferably in writing.

While the blush is still on the rose, you and your partner need to address and resolve the sticky issues. If your manager is supportive, by all means include him or her in the discussions. Here are some of the points you need to address about *surviving* partnerships:

- **They start at or trend toward 50-50.**

  There are some exceptions to this, but in all such exceptional cases I've seen, one partner brought a tremendous amount to the table and the other partner brought considerably less. In these cases, partnership is really the wrong description. What you actually have is a single-FA organization with the junior member entitled to a portion of the profits.

Please try to avoid offbeat split arrangements. One very senior FA I counseled brought on a junior partner. The junior partner was to receive 80 percent of the production from accounts he brought into the partnership, 20 percent from big accounts reserved from the senior producer, and 60 percent from some other set of accounts. Talk about a mess!

My recommendation: Figure out how much the junior partner might be expected to make and start the split arrangement there. Let's say it's an 80-20 arrangement and the combined production is $1.5 million. At $2 million, the production could shift to 70-30. At $2.5 million, it goes to 65-35. At $3 million, 60-40. At $3.5 million it goes to 55-45, and at $4 million, or whatever, it becomes 50-50.

At each step of the way, the senior partner is making more money but getting a smaller percentage of the pie. And as the partnership production triples, the junior partner gradually becomes a full and equal partner.

- **The partners have worked out their positions on how any breakup would occur.**

This may seem odd, but it's true. The time to talk about the break up is long before any thought of breaking up.

The easy part is dividing the accounts that each of you brings to the partnership: Each takes the ones he or she brought in. But when the remaining partnership accounts need to be divided, it gets tougher. Do you partition the accounts on the basis of quantity, assets, or revenue?

My recommendation: First, divide those accounts that have done business with you in the past year on the basis of revenue. Then, take accounts that haven't produced in the past year and split them on the basis of assets.

By working out in detail how the breakup will occur, you're less likely to break up. It is a strange concept, but a true one. For good measure, throw in a clause stating that if the partnership does break up and one person goes to another firm, neither partner will prospect the other's clients. (Jam some teeth into this clause!)

- **Partners have equivalent work ethics.**

The main exception to this is a senior-junior partnership where the senior partner may be interested in working less. It's sort of a "your brawn, my brains" deal—which can be very successful.

- **Partners must agree on hours, vacations, etc.**

I've seen quite a few partnerships blow up over perceived inequity.

I recall one partnership where a hot-shot account opener went into business with a broker who was supposed to be the "skinner.'' The account opener went out and brought in tons of new accounts, but they kept stacking up on her partner's doorstep and weren't getting serviced. Very shortly, the hunter dusted the skinner, and that was the end of that.

Here are some other details I recommend:

- **You'll need a mediation clause.**

The biggest problem with a partnership is that it is a two-headed organization. As such, it may become paralyzed and unable to act: I say yes, and you say no. And there it sticks.

So, you need a tie-breaker. Your best bet is a supportive manager or some trusted third party. In the event of a disagreement that doesn't resolve quickly, take it to your tie-breaker, and both agree to abide by his or her decision.

- **Have an arbitration clause in case the partnership does break up.**
- **Partnership expenses**

  Who pays for what?

- **One last item: You'd better discuss what will happen if one of you becomes disabled and unable to work.**

How long will the working partner support the disabled partner?

The Low-Down on Breakups

From *Research*, November 1993

Knowing Why Some Partnerships Fail Can Help Yours Succeed

In early 1987, I took my first serious look at broker partnerships because I got a call from two advisors interested in my marketing system. As a partnership, they had some unique needs.

At the time, we were programmed to support only a single user. However, these chaps were insistent. In order to make the sale, we created the first (and, to date, only) computer system designed to support partners.

Prior to this contact, I had, of course, heard about partnerships. Based on hearsay, I was convinced that a partnership was less likely than a marriage to survive its first year; and furthermore, that no thinking financial professional would plunge into one. The problem with hearsay, of course, is that you don't always hear both sides. You hear when something is going poorly, not when something is going well.

But over the past six years, I have seen both sides of the partnership issue, and my views on it have totally reversed. As FAs form the teams necessary to survive, I believe partnerships will be one of the more stable and enduring organizational forms in the future. In fact, I believe partnerships are far more likely to survive than a solo operator who has little or no help.

Since 1987, we have computerized hundreds of partnerships. Without doing a formal census of our partnership systems, I will tell you that 90 percent or more are still functioning. It's through continual contact with this vital group, as well as many other advisors, that I'm able to pass on to you some wisdom on the subject.

- **Partnership Breakup: A Case Study**

If you know why partnerships break up, you can take steps to safeguard a current partnership or prevent trouble in contemplated partnerships.

Let me start with a letter I received from a member of a former partnership. It has been revised for this article.

Dear Bill:

I recently ended a five-year partner relationship and thought I would share some of my experiences—especially as they relate to the dissolution.

My partner and I mutually agreed to join forces about five years ago. After working together in the same office for three years, we decided that a partnership could be beneficial.

At the time, I had been in the business about six months longer than he and was grossing about 20 percent more. At first, we combined only new accounts and kept our original books separate. Not long into it, we decided to combine everything, including several managed accounts grossing about $50,000. Over the years, we rarely questioned who was doing the most gross because we realized that the efforts of one complemented the other.

Although we never had prescribed separate duties, we eventually developed into a fairly traditional "hunter/skinner" profile: I handled the marketing while my partner took care of the day-to-day work, servicing, and account development.

To a larger extent, I was out joining service clubs, corporate groups, networking groups, etc., while he stayed in the office answering the phones. In December 1992, after several previous gripe sessions, my partner decided it was time to separate.

Since that time, I have evaluated our partnership and came up with several problematic areas for us that other partnerships may find useful to avoid.

We discussed numerous times having a budget for things like advertising expenses, cold callers, and the like, but we never formally implemented it. Over the years, I was more eager to spend money on the partnership for advertising, computer systems, etc., than my partner.

Probably the most important pitfall that we encountered involves the dissolution. Although the partnership was 50/50, it has been nearly impossible to divide the assets and accounts in that manner. As the "skinner," many clients tended to gravitate more toward my partner and developed a much stronger relationship—and in some cases an exclusive relationship—with him. It has been a long and arduous task assigning accounts where this preference exists. I have even lost accounts since the split, after the clients were informed that I would now be handling their account.

I see this as a major problem for the hunter/skinner situation. It is crucial that the "hunter" maintain adequate personal contact with all accounts. Sending newsletters, monthly ideas, etc., with both partners' names is just not enough.

An Unhappy Ex-Partner

After receiving this letter, I called the ex-partner advisor and asked his permission to use it in my column. During the conversation, he gave me some additional points of view, which he has allowed me to reproduce.

Ex-Partner: Not only do you have to have complementary work ethics, but I think it's helpful to have different areas of expertise.

It's really important that the partners agree how they are going to spend money. I know some partnerships that actually put together a budget to open up an account. That may not be necessary, but I think it's important to come to some sort of an agreement, or at least at the beginning of the year to have a ballpark figure of how much to spend and what to spend it on.

Bill: Do you think if you had some of those agreements in place at the beginning, the partnership might have survived?

Ex-Partner: I don't think so. The breakdown in the partnership came from a couple of sources. He started to feel like he was doing more work than I was. It wasn't a 50/50 split in the gross. I agree that if I'm out there prospecting, there's no way I'm going to do half of the gross.

We had talked about that early on. When we had first started, I threw all that managed money into the partnership because I realized that the partnership would allow me to go out there and do things that I normally couldn't do just by myself. So, in giving up a little gross, I didn't worry who was doing more gross month-in and month-out.

We sat down and figured out the gross figures over six months, and it really wasn't all that far apart. Maybe it was 55/45 at first. But as time went on, he felt he was doing a lot more work without getting compensated. At one point, I suggested that we change the split to 55/45 and adjust it every six months.

Lessons Learned

OK. So let me take this case, combine it with the results of a lot of other observations, and tell you the major reasons why partnerships break up.

1) Actual or perceived inequality.

This is by far the biggest cause. One person is (or believes s/he is) carrying the heavier load. In my estimation, this partnership would not have lasted as long as it did if this were the major cause. It was dragged down by an accumulation of other causes.

2) No way to resolve disputes.

To survive the long pull, a partnership must be, or trend toward, 50-50. I say this because I have observed just one case of a longstanding partnership (18 years) where this was not the case.

But if a partnership truly is 50-50, it has the potential to lock up over disagreements, and if disputes cannot be resolved quickly, the focus of the team will turn inward rather than outward. My recommendation is that the partnership agreement include someone else as a tie-breaker: a manager, trusted mutual friend, someone.

3) No agreed-upon method of doing business.

I'm sure this is the reason, in combination with "no way to resolve disputes," that led to a great deal of strife in our case-study partnership, which is why it never came close to the million dollars it was capable of.

4) Personal incompatibility.

This runs all through the letter. My guess is that these two never had the kind of easy camaraderie that seems necessary for an enjoyable partnership. Sooner or later, if it's not mutually fun, it will get pulled down by this alone!

1) No agreed-upon way to dissolve the partnership.

This past weekend, I talked to a pair of FAs who are in a partnership but want to formalize it. I stressed that they must look at the downside and decide now how to break it up, while the blush is still on the rose.

2) No written agreement.

If these two had sat down to negotiate a written agreement, they might have decided not to do the partnership in the first place. Anyone in, or considering a partnership should sit down and write up your agreements. Address the points included here. When you've had your meeting of the minds, deliver your notes to an attorney and say, "Check it over and make sure we didn't leave anything out."

Case Study: A Successful Partnership

From Registered Representative, May 1989

Last month, I promised you a column about a successful partnership. Well, I've got two successful partnerships for you. From everything I can tell, they're not only successful as business partnerships, but they're successful as relationships all around.

This month, we'll look at a long-running partnership. Next month, we'll take a look at one of more recent vintage.

Regular readers will recall that for the past couple of years, I have been a strong advocate of advisors becoming organized. By organized, I don't mean just having a list of things to do and doing it. I mean "having an organization."

I really solidified this conclusion after October 19 as I studied the aftermath of that day we'll all remember.

One point that stands out in my mind is the problem that the customers of discount advisors and no load funds had in getting through. Thus "client accessibility to advisor" will become a primary competitive advantage in the 1990s. But to be accessible, you either have to commit to **never** leave the office (which means **never** take a vacation) or you have to get **organized,** which can take several forms:

- **Advisor-Registered Assistant**
- **Advisor-Junior Advisor**
- **Partnership**

Like good marriages, good partnerships may appear to be made in heaven. But the reality is, they're made by hardworking, well-meaning people who also like each other and get along.

So let's meet Ken and Patty.

First the Relationship

Ken and Patty have been together a total of 18 years. Patty first worked for Ken as his assistant, and they became partners almost seven years ago.

They both feel that one of the things that makes it work is that they had a working relationship before forming a partnership and they knew what to expect. They became a partnership when it became apparent that Ken's business was growing out of control, and Patty had been in the same position so long that it was just time for her to take on more responsibility. So she started with the smaller accounts.

They've evolved today to the point where she handles the longer-term money, such as the single-premium deferred annuities, and Ken handles the shorter-term money, such as the stocks and bonds. Patty will also handle, pretty much exclusively, some of the female clients. However, Ken was very careful to point out that if an annuity situation comes up on a call, he will handle it right on the spot.

Here are some points that Ken and Patty both feel are important to the longevity and success of the partnership.

- **This partnership has a leader.**

  Ken is the leader of this partnership. Patty put it this way: "I don't think you can have two forceful, dominant people in a partnership."

- **They work in very close proximity.**

Ken, Patty, and their assistant all work in the same office. There are no dividers. Patty says, "We just tune into each other quite well."

- **They have a service assistant.**

For the most part, Ken and Patty do not handle service problems, although they point out, "Of course, if it's a major one, we'll get involved." Initially, Patty had to overcome a tendency to do everything, but Ken said that her time was too valuable to also be doing service, and with the exception of some minor complaints, they've delegated service problems to their assistant.

- **They've agreed on the priorities.**

According to Ken, "All three of us have a tendency to know what the priorities are and not to spend time on something unproductive."

- **They have a normal schedule.**

They work a reasonably normal schedule, from 8:30 to 5:00. Says Ken, "We don't waste a lot of time, but we don't spend a lot of evenings working either."

Also, they do not schedule regular meetings because they iron things out as they come up.

- **They're still prospecting.**

They use a mix of social prospecting—mainly golf—and seminars. In their market, they've found the most effective way to get people out to seminars is by offering a free lunch. Sometimes they advertise. Sometimes they send out hand-addressed invitations.

- **Like most advisors in partnership, they do not have a written agreement.**

Ken did say, "If I were to do it over, I would have a written agreement. Of course there was no way to know at the beginning it would turn out to be as successful as it was."

Advice to Future Partners

I asked Ken and Patty what advice they had for advisors considering a partnership, and Ken was very explicit. He said, "One of the things you can't do is form a partnership so that someone else will do the dirty work you don't want to do."

To their advice, I would add, "Get a written agreement." The written agreement is for two reasons: If the partnership breaks up, you can end it in a civilized manner. More important, a written agreement helps to keep a partnership from breaking up. Failure to have a written agreement may well be the reason that more partnerships aren't formed and that of those formed, more don't last.

Partnership Survey

From *Registered Rep.*, April 1989

If you'd told me before October 19, 1987, that I would have been an advocate of partnerships, I would have said, "Come on! In today's environment, partnerships have a worse chance of making it than marriages. It's hard enough for a couple to stay together; why do it at work too?"

But lately I have been observing partnerships very carefully, and I now believe that they will have growing importance for survival in the 1990s. They've got one thing that a single advisor doesn't have: Coverage.

The biggest complaint investors had immediately following October 19 was that they were unable to get through to their discount advisor or their no-load mutual fund. As you look ahead to your survival strategy for the '90s, the question of availability is one of the key items you must consider. Being in a partnership can provide a major competitive advantage against discount advisors and no-load mutual funds. If one partner is out of the office, the other must be in the office. And there are other advantages as well.

Partnership Survey

In a column last year, I announced that I would be doing a study of partnerships and requested partners to send me their business card so I could send them a survey. All told, I received 38 completed surveys, and while 38 respondents is not a very big sample, it does provide some interesting information about partnerships. However, the big information will come a year from now when I re-survey my original sample to determine how many partnerships survived.

After looking over the responses, I broke down the replies into two almost equal categories. My first category was 20 partnerships doing less than $400,000 gross for 1988. Obviously, the second category was partnerships doing more than $400,000. There were 18 of those.

I also asked the partners to identify what type their partnership was. I listed the following choices:

- **Hunter/Caretaker**

  One specializes in opening accounts, the other in servicing them.
- **Senior/Junior**

  An experienced advisor has taken a less-experienced advisor under his or her wing.
- **Conservative/Speculative**

  One specializes in conservative investments, the other in more speculative investments.
- **Family Partnership**

  A father-daughter combination, two brothers, etc.
- **No division of labor**

  Both advisors do the same kind of business.

- **Other**

When I then looked at my responses, I found a very interesting pattern. Of those partnerships that produced less than $400,000, 45% chose "No division of labor."

Based on what I know of economics and organization, there must be a division of labor to get ahead. The only justification for a partnership is the kind of specialization that operates on the equation of 1 + 1 = 3. What I don't know yet is if any partnerships have really benefited from this profit equation. In other words, did the partnerships now doing more than $400,000 form when the advisors were producing less than that in total, or were they partnerships of already very successful advisors? I'll have that one nailed down for you by my next column.

Written Agreements

Of those partnerships producing less than $400,000, only 30% had a written agreement. And only 17% of those doing more than $400,000 had one. The partnership agreements that I saw copies of were essentially what you put together on the back of a napkin—not well thought out agreements that anticipated difficulties and attempted to arrive at solutions in advance.

It would appear to me that the better the partnership agreement, the better the partners' chances of survival. However, I could be entirely wrong on this. Like marriages made in heaven, partnerships made on the back of a napkin may well have greater survival potential than those with carefully worked out written agreements.

More Information

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