Title:
"The Cons of a 50/50 Equity Business Partnership."

Word Count:
389

Summary:
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Keywords:
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Article Body:
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Once the business gets going no doubt economic and industry variables change which affect the business. Each partner's perception of the direction the business should go changes as well. There are constant decisions with regards to the mixture of product and service offerings … the decision to get into another line of business or get out of one. Should the focus be on a higher volume, lower profit margin business model or vice versa? What about a shift to a more capital intensive model. If the business becomes a success, many times potential investors creep in, whether an angel investor or venture capitalist. Both partners need to agree on the investment proposal.

What if one of the partners acquires an asset for the business whether it's land, a building, a small data center, a thousand servers, or to complicate things further contributes an intellectual asset of some sort. When the company is going to be sold, what is the value of the partner's contributed asset? Who is supposed to value it? This can become an insurmountable hurdle. Most buyers know not to value any one piece near what it's worth by itself.

When it's time to sell the company, the financial situation of each partner has no doubt changed since the company was founded. The consideration for the company could be all cash, all stock or a combination of cash and stock. The tax implications of each of the three scenarios are different for each partner. I have seen the process of divesting a company go up in smoke too many times because the partners didn't agree on the proposed deal. They spent years growing the business then totally disagree about when to sell, who to sell to, and/or how much to sell it for.

Business is about return on equity, not "all for one and one for all". My suggestion … one ship, one captain.