Meet the partner
Paul Downs

What if you were working yourself to the bone in your growing business, while coping at home with a house full of little kids, and you were offered a big pile of money and expert management help in return for a 50 percent stake? Would you do it?

When this happened to me, I got lots of warnings to avoid a partner as if it were the plague. To summarize: It's like a marriage with someone you hardly know, and when it goes bad, it goes really, really bad. All of this has turned out to be true. But would I do it again? Absolutely. The partnership allowed my furniture-making business to break through to "another level." If not for one stroke of very bad luck, it might also have succeeded financially.

When all of this happened, in 2002, my business had six employees and was grossing about $600,000 a year. Sales growth had been steady for the previous 10 years. We specialized in dining tables and chairs, and had lots of nice designs. I had an ongoing print ad campaign and had just created our first Web site. My biggest problem: I couldn't do any more to build the business. As I suggested in my previous Staying Alive post, I was caught in the web of day-to-day operations. I didn't have the time, the money, or the know-how to get a bigger shop, to introduce meaningful data gathering, to make sense of my finances, or to learn to manage successfully. I desperately needed the expertise and the capital that the partnership would provide.

And I was lonely. With Web 2.0 several years off, it was still hard to connect with peer groups. Making friends is not one of my strengths, and since I was self-taught as a craftsman and as a businessman, I didn't have any mentors. There are books about business, but there are no books about my business. I never had a chance to just talk to anyone about how things were going and what to do next.

The partner had a successful track record with several manufacturing companies. He's also a quality guy, and we get along on a personal level very well. As a bonus, his wife was an experienced accountant, and they had worked together in all of his previous companies. He's the big idea man; she paid careful attention to the nuts-and-bolts operations. So I did the deal.

Positive developments came quickly. First we moved into a larger shop, and then we started hiring to deal with our rising sales. The partner's wife moved into my office and started working with my hand-written ledgers. She set up a real accounting system in QuickBooks. And then, three weeks after starting work, she died of a heart attack, at age 54.

I'm going to skip how this affected my partner personally. As for the business, things continued pretty much as planned. He spent a lot of time teaching me management and leadership skills. He financed bigger and better machines for our growing work force. Unfortunately, and this turned out to be incredibly important, neither of us had accounting expertise. We had everything required to reach the next level except someone who knew how to make sense of the numbers. Undiagnosed heart disease had removed a critical team player so early in the partnership that I never even realized what we were missing.

Meanwhile, it was my job to manage cash flow: to set prices, make sales, collect from clients, and pay bills. And I did a terrible job. Prices were set by seeing what my competitors charged for similar goods and then discounting them by 10 percent. We had no budgets and a rudimentary system for figuring out how much cash we had or needed. I would let the bills pile up and pay the ones at the bottom of the stack when I felt we had enough money in the bank. Payroll was an absolute priority, but everything else was chaos. My partner never pushed me

to do anything differently, and I assumed that, if he didn't say anything, it must be O.K. He had plenty of advice on other subjects. I'm sure that his wife would have set me straight, but she was gone.

From 2003 to 2008, the company lost substantial amounts of money, even though sales were still rising — our Web site was driving sales of a new product segment: large conference tables. The partner and I would regularly put in more capital to cover our cash shortfalls. He believed that if we could get sales up to $2 million a year, the losses would turn to profits. To that end, he pushed a strategy of rapid growth. On the theory that you shouldn't sell it if you can't make it, we increased production capacity ahead of sales and we started hiring people as fast as we could find them.

My inept pricing led us to believe that our dining sets would never be profitable, so we decided to focus on the conference tables. We hired a salesman to go after the New York corporate market, where the average sale is much larger than those we had been making.

In 2007, we reached the magic number of $2 million in sales. We had upgraded our production technology so that we could do the most sophisticated work. We had a working enterprise software system that helped us manage the increased business, although it lacked a financial component. We had 21 production workers. We were selling very expensive custom conference tables to New York banks and insurance companies. We had accomplished a lot, but we were still bleeding money. And then, in the spring of 2008, our sales disappeared.

Next: The Wipe-Out.

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