

## J. Michael Locke

### Musings

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#### #18: Picking Your Partners April 9, 2020

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We all know the importance of picking your life partner. While not quite as important, you need to also be very careful about picking your “business partners.”

In other musings, I have written about the importance of your team – folks that work with you in the same organization. By “business partners,” I am describing those in your ecosystem that aren’t employees.

One group is your service providers – ex. lawyers, bankers, auditors, brokers. Don’t view these as transactional relationships where you put out RFPs and seek the lowest cost. The services provided might seem comparable but the people doing the work are not. Just like you focus on finding top talent to work in your organization, you want to find top talent within a service provider organization and then stick with those individuals (sometimes they change firms!) Often, like in law firms, these talented individuals are growing their own teams and the “family connection” can have multiple generations.

Part of the art form is mutual respect and investing in the relationships. They are partners NOT vendors. Bring them in and give them company updates. Ask them for suggestions when you are looking for talent. See if you can help them build their organizations. Of course their fees/prices need to be competitive, but in times like these, you want to be in the foxhole with people you have known for years and can trust.

It is always good to have a lending relationship. While I have written about the dangers of debt (leverage), it is a good practice to have a little on the balance sheet to have a relationship. This might even mean you have negative interest arbitrage as you pay interest on a loan more than the interest the cash generates (which you probably have right at the same bank). View this as a necessary investment so when you need the bank, they are there.

One particular area to highlight is insurance brokers. This is a rapidly changing area and you need a good partner. Historically, fees were paid out of the “sell side” (the provider paid the broker). This creates loyalty questions as they represent you but get paid by the other side. Don’t accept that model. Pay your brokers from the “buy side” so you have their loyalty. This also creates greater transparency on fees (the same thing on real estate brokerage – beware of “soft costs.”) Pay a flat fee rather than a percentage of your expense.

Ideally, you will have members of your team who might then become partners. No one better to trust with your business and provide good service than someone who “grew up with you.”

Many of my “partners” – lawyers (Stan, Jeff, Lindsay), tax accountants (Vince), bankers (Bob), financial advisors (Andy) – receive these musings. To them, I say thanks for your help.

Be safe. I think we are starting to come out the other side of the health crisis. Now, the economic crisis hits. Make sure you are tipping extra.

jml