

Ask SCORE

A friend and I are considering becoming partners in purchasing an existing, somewhat successful hobby shop. I've known him a long time, but we've never been in business together. What is your opinion of partnerships?

The partnership has been the foundation for millions of successful small businesses. Unfortunately, it has also been the source for innumerable disputes, arguments, irreparable relationships and lawsuits, all of which exacted economic and personal costs on the people involved.

Many of these problems can be avoided if partners invest some time at the outset to discuss and agree upon their respective responsibilities and obligations to the business. Those decisions should be documented in a legally binding partnership agreement.

Though not required by law, a partnership agreement can help eliminate uncertainties and assumptions that can and have doomed otherwise mutually productive business relationships. While the partners can make their agreement as general or specific as they feel is necessary, here are six key issues every agreement should address:

- **Percentage of Ownership.** This isn't always about cash. Some partners invest with little intent to play a major role in the business. Other times, partners bring specific skills, contacts, equipment, ideas or other resources without which there would be no business.
- **Allocation of Profits/Losses.** Will they be divided according to ownership interest? And will some partners be permitted to take draws—an “off-the top” cut of profits?
- **Binding Power.** Because any partner can legally bind the partnership to a contract or other liability, the agreement should specify what is needed to bind the partnership to an obligation. Also consider if that power should be limited by person or area of responsibility.
- **Making Decisions.** Two or more heads may be better than one, but who has oversight over what function, and who has the last word?
- **Death/Departure of a Partner.** A buy/sell agreement establishes a method by which the partnership interest can be valued, and the interest purchased by either the partnership or individual partners.
- **Dispute Resolution.** A mediation clause will provide a procedure to prevent a conflict of any size from paralyzing the company.

Because of their inherent complexity, partnership agreements should be drawn up with the assistance of an attorney. You can start putting some of the pieces in place by consulting SCORE's website, score.org, which contains checklists, templates and other tools for crafting comprehensive partnership and LLC agreements. You may not be able to address every eventuality up front, but the extra investment in your agreement will help minimize uncertainty, allowing you and your partners to focus on growing a successful small business.

This column is brought to you by the Merrimack Valley Chapter of SCORE, with nearly 70 current and former business executives available to provide free, confidential, one-on-one business mentoring and training workshops for area businesses. Call 603-666-7561 or visit merrimackvalley.score.org for information on mentoring, upcoming workshops and volunteer opportunities. SCORE is a national, non-profit organization and a resource partner of the U. S. Small Business Administration.