



## The Importance of an Agreement by Scott D. Abel

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Starting your own business with family or friends can be one of the most challenging and rewarding things you may ever do. The excitement of planning the business, its location, and how you are going to spend all of the profits can be overwhelming.

In all of that planning, you should not lose sight of the importance of having a formal legal agreement between yourself and your family or friends.

You are probably wondering why would you need an agreement if you are going into business with your brother, or your best friend. What could possibly go wrong? From experience, I would advise anyone starting a new business to have a formal legal agreement in place, so that in the event things do not go as planned, your best friend can remain your best friend.

At the beginning of a business enterprise everyone is on the same page. The business has just started, and the excitement of opening day overshadows all

other considerations. But you should be considering what would happen if the business does not do as well as planned. What happens if more money is required for the business? Who has to contribute, and in what amounts?

Perhaps an agreement is necessary just to confirm the nature and extent of the business. While the vision of the business may be shared, the details may differ between two people.

What if one of you passes away during the operation of the business? Do you now have to go into business with your sister-in-law or brother-in-law, who you cannot even have a conversation with, let alone be in partnership with?

What happens if one of you wants to quit the business, but the other one does not? How do you decide how you are going to get paid, and how much? What if you think the business is worth much more than your best friend?

The examples and situations of

friction between business partners are numerous. Having an agreement from the outset of the business relationship can help to minimize that friction. When you are running the business, you are not running it with your brother or best friend, but with a business partner – so treat that person as such, and expect to be treated as such.

An agreement can specify what is to happen in the event any one of the above examples were to happen, or hundreds of other examples not mentioned. The agreement can clearly set out the rights and obligations of each of you, so that the risk of disagreement is minimized.

You entered the business as friends, and you want to leave the business as friends – an agreement can help ensure that happens.