

Top 10 Mistakes When Forming Partnerships

Partnerships can provide a means by which partners can pool the best skills or resources to create a sound business. Mistakes can be made, however, in both general and limited partnerships that can limit the progress and potential growth of the business. Here are 10 of the most common mistakes.

1. **Not having a signed partnership agreement.** Any type of partnership should have all of the details spelled out and signed by all of the parties. Far too many friends and even family members have made the mistake of not putting everything in writing and ended up with strained relationships.
2. **Not having an attorney assist with drawing up the agreement.** There are many details in a partnership agreement and a qualified attorney will know what needs to be included. Make sure to find an attorney with whom you feel both comfortable and confident.
3. **Not including a way out.** In partnership agreements, you need to define an exit strategy that allows either party to walk away or buy each other out, without destroying the business.
4. **Not using your individual strengths.** Partners frequently neglect to determine their strengths and weaknesses at the onset. One of the advantages of a partnership is to use the skills and strengths of the individual partners.
5. **Not forming a limited partnership.** While some businesses function successfully as general partnerships, the advantage of a limited partnership is that the limited partner is not liable for the actions of the general partner. This is advantageous if you are backing a business financially or cannot put in the same time and hands-on commitment.
6. **Not considering the liability issues.** General partnerships have the problem of imposing liability for the debts and obligations of the business on the general partnerships. Consider setting up the business as an LLC, an S corporation, or a limited partnership (where the general partner itself is an LLC or corporation).
7. **Rushing.** Too many partnerships are put together in the enthusiasm of the moment without a thoughtful business plan. An understanding should be clear as to the time commitment of each partner. It is imperative to stop and review the positives and negatives before rushing into such a commitment.
8. **Not adhering to state requirements and regulations.** Partnerships can require substantial paperwork as dictated by state law. Make sure to be diligent and complete, and review all forms as necessary.
9. **Choosing the wrong partner.** Often, individuals find that they have partnered with someone who has a different set of goals or a very different manner of conducting business. Make sure you consider your potential partner's manner of doing business, personality, and business goals prior to starting a partnership.

10. **Not adequately capitalizing the partnership.** The lack of adequate capital for the projected operations of the business is a major mistake made by many partnerships. Prepare projected cash flow and income statements to determine what capital you should start with.

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