Essential Contracts for Every Small and Growing Business

Take two individuals—both filled with enthusiasm and brains—talking intensely about starting a business in their town. They continue discussing until one of them leaves. The fruit of their conversation was a product distinct from other enterprises already established in the area. But the catch? No one agreed to anything, and there was no written contract. Later on, one of them sells the idea to a company and gains profit from it. The other, well, did not get anything. It would be right to say that the outcome would have been a little bit different if both had come to some agreement. In business, contracts and agreements play a huge role in keeping track of the transactions going on in the company. With that said, this article thoroughly breaks down the essential contracts that growing businesses should acquire to strengthen their internal and external structure.

Business Contracts

Besides being a binding agreement between parties, contracts protect the interests of everyone involved in the arrangement. Depending on the content and details on the contract, the two groups or more teams get their fair share of compensation from the agreement—whether tangible or intangible by nature. If one of the parties feels that the benefit is insufficient, negotiation can happen under the provision of the other people. Starting the list is the business contract. The document has four common examples, each one different from the other, but similar in terms of its hold on the parties involved in the agreement.

Partnership Agreement

As a contract for two or more businesses, a partnership agreement establishes the obligations, boundaries, and benefits of each member. Every company included the arrangement has an equal liability for the result of the products created and distributed by the enterprise. Thus, debts are part of that responsibility. Moreover, the agreement also discusses the contributions that individual partners have to provide for the end-product. This agreement, revised to the preference of the parties involved, is a mutual relationship between business partners for a beneficial outcome.

Indemnity Agreement

Businesses offering services to other people usually utilize indemnity agreements as a way to protect the company from liabilities but only to some extent. The contract states that the other party will not hold the company responsible for damages or losses when accidents happen. Therefore, the person who agrees to the contract cannot file lawsuits in case of mishaps. An example would be adventure parks and rental car companies. Some adventure parks showcase different extreme sports activities that can be dangerous for visitors. On the other hand, rental companies want to avoid liabilities when the driver of the rental car had an accident.

Non-disclosure Agreement

Every company has trade secrets and essential details of the processes of the business that should shy away from the limelight. In efforts to avoid the revelation of critical company details, the business partners, contractors, and employees sign the non-disclosure agreement (NDA). With this contract, anyone who shares confidential information about the business will face legal charges. The company can also chase down the violator of the agreement. Some companies reach an arbitration to lessen penalties, while other firms go directly to court.

Property and Equipment Lease

Companies have various options when it comes to places where they do their business. Firms rent the location, while others build skyscrapers for their company. When companies opt to rent properties and pieces of equipment from other sources, they have to acquire the property and equipment lease contract. Using this material, both parties understand the nature of the transaction, including the terms and conditions. For renting an office space, the responsibility of maintenance falls under the tenants. The payment processes for these leases depend on the agreement between the owner and renter.

Service Contracts

Various companies deliver different kinds of services to consumers. Some sell goods to clients, and others provide professional services. For businesses that offer assistance to other firms or non-commercial clients, having contracts is crucial. The service contract contains details about the work hours, payments, responsibilities, and restrictions of the hired workers. The transaction can either be a one-time job or a recurring assignment for the service company. At times, additional fees are possible when the work goes beyond the usual specifications. Accounting services, home cleaning services, computer support services, and building maintenance services are popular in the industry today.

Sales Contracts

Sales contracts are especially useful for businesses that engage in selling goods to other companies. The contract specifies the number of products, warranties, purchase prices, terms of the agreement, and the conditions between the two firms. Particularly, the deal focuses on large shipments or movements of materials rather than fewer pieces of goods. Supermarkets and convenience stores do not use sales contracts when interacting with usual customers. Instead, they have contracts with large or small suppliers who deliver the goods to their respective establishments. Do note that some sales contracts are created for fixed sales between distributors and purchasers.

Distribution Agreement

Although similar in some features, specifically on the purchasing aspect of the contract, distribution agreement concentrates on supplying the materials to distributors. The supplier of the goods has the opportunity of marketing the stuff instead of selling them to the other party. The distributor—the company that receives the products—is responsible for marketing the goods. Distribution agreements can either be exclusive or non-exclusive, depending on the deal between the companies. An excellent example of this setting would be electronic gadgets. Huge enterprises like Samsung and Apple have their own stores, but they still distribute their items to other retail shops. The smaller outlets also promote the devices. A bill of sale is usually present when the transfer of the goods happens.

Memorandum of Understanding

When two or more companies converge together for a project, they have to use a memorandum of understanding. This agreement indicates that the parties come to some deal on the actions and activities that they will join together. Although not legally binding, it expresses the commitment of the parties in the project or goal. It simply means that the people involved in the plan are willing to move forward. For instance, if non-government agencies have programs to finish in the following months, they can agree on the outline of the responsibilities and objectives of the project.

Employment Contracts

Another essential contract that businesses need to possess is employment contracts. This document is a legal contract between employer and employee, which states the obligations of the two parties. The employer provides compensation and salary for the work rendered by the employee. Employment agreements are crucial for businesses because it benefits not only the company owner but also the workers. The officers cannot fire employees without viable reasons, and workers cannot leave the work responsibility as quickly as walking out of the building. Moreover, the contract makes sure that the work is done on legal grounds. Here are the four kinds of employment contracts used by companies.

At-Will Employment Contracts

The professional document is the most common kind of employment contract used by the majority of companies in the United States. When the basis of the employment is at-will, the employee can turn in his or her resignation anytime. Employers, on the other hand, can also fire the employee at any time, for any causes other than illegal reasons. Some illegal grounds for dismissing employees are discrimination—racial, gender, age, ethnicity, disability, and marital status—and retaliation. In some cases, those who got fired due to discriminatory reasons can seek help from lawyers for damages and back pay.

Written Employment Contracts

Unlike the previous arrangement, this contract has more details and specific obligations. The written agreement usually lasts for a definite time frame, some a few years, and others for only months. Later on, the employer can decide whether to retain the employee or fully terminate the contract. An illustration would be the recruitment of a high-level executive in a company. At times, they get hired for specific purposes, and when the task is complete, they are relieved from the responsibility. If the employee did not violate any conditions in the contract, they could not be terminated.

Oral Employment Contracts

While the two contracts include written agreements, oral employment contracts have no written evidence of the recruitment. The situation is rampant with over-the-phone interviews where the interviewer immediately offers the job position without meeting the applicant in person. Although the company can still provide contracts, some would just allow the individual to work in the company. Another instance would be on-the-spot hiring, especially for businesses that lack workers. This kind of contract is not suitable for the reputation of the company.

Implied Employment Contracts

Although there are no contracts and formal documentation, implied employment contracts are legally binding. The actions of the employer affect the situation of the employee, especially when there are no written agreements. When the officers suggest that the employee start working in the office, then it is implied employment. If there are complications with the work, the employer and employee can go to court to sort the arrangement.

Confidentiality Agreements

This section takes a closer look at confidentiality agreements and why it matters to businesses. A non-disclosure agreement (NDA) is an example of a confidentiality contract as it binds parties from divulging crucial details about the company. The legal purpose of confidentiality agreements centers on the foundation of the business and the possibility of it breaking down if trade secrets are revealed to competitors. So, here are the two types of confidentiality clauses that companies need to know and understand.

One-way Confidentiality Agreement

Also known as a unilateral agreement, this document is popular among businesses. In its basic form, the company uses this contract whenever there are new hires in the enterprise. The agreement states that the people in the firm should refrain from sharing company information with their friends, colleagues, or any other entity. If the employee breaks the agreement, he or she could face legal challenges.

Mutual Confidentiality Agreement

When two companies come together for a project or a business venture, the mutual confidentiality agreement becomes a useful ally for both parties. To avoid disputes on possible revelations of shared trade secrets, both companies should sign the contract. The HR department creates the document that both parties will sign to ensure the safety of their business information.

Loan Agreements

Sometimes, growing businesses need capital to continue pending plans and projects. When funds are close to running dry, companies lean on loans as their source of money. If this situation happens, banks or lenders have loan agreements with the enterprises. Most loan agreements have specifications, especially since it's about money. Besides restrictions and percentage of interests, lenders also have other conditions for the borrower. This portion discusses the four common types of loan agreements in the industry.

Long-term Loans

For companies looking into expanding the business or acquiring other smaller firms, long-term loans are the usual documents used by the lenders. The payment methods for this loan type can either be monthly or quarterly, depending on the interest rates given by the bank or lending firm. At best, emerging companies must choose banks with great offers in their loaning system.

Short-term Loans

Enterprises can have seasonal projects and programs, which have a specific timeframe and budgets. If the company has an eye-catching concept great enough to gather revenues, they can opt to go with short-term loans, especially when funds are low. Short-term loans have a due date and agreed on interest rates. This loan agreement is essential for businesses that need more resources for their current funds.

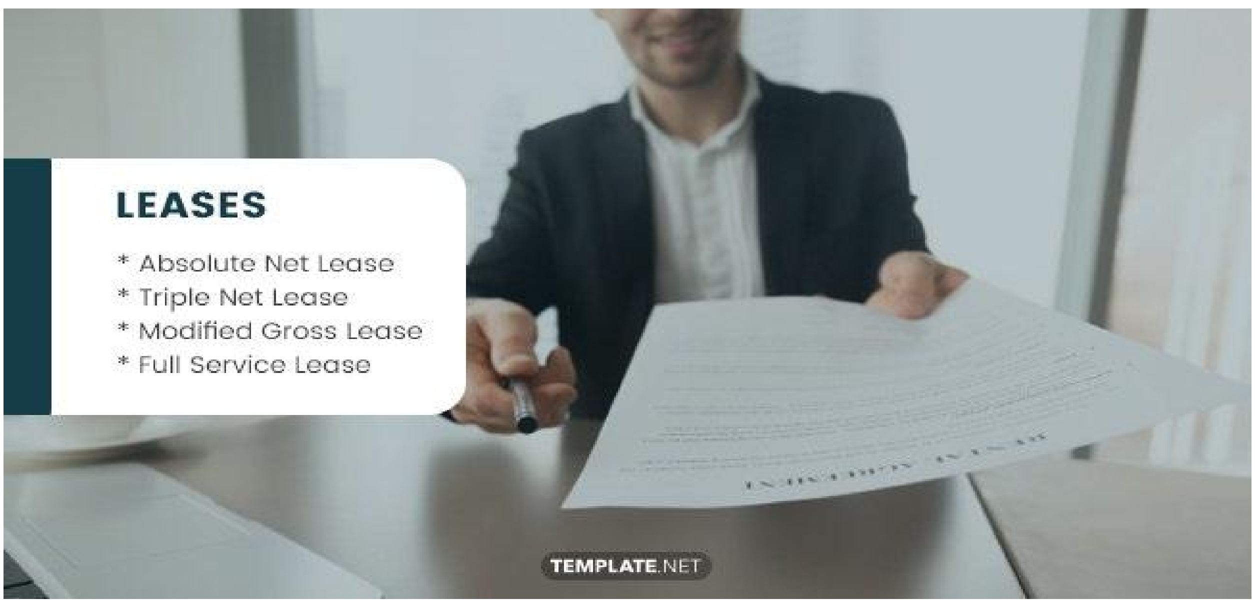
Lines of Credit

Instead of having a limited source of funding, some companies choose a loan system similar to using credit cards. In this situation, the business has access to unlimited resources. However, the interest of this loan arrangement is higher than usual. Most accredited lenders select enterprises that can go with this approach in funding. Moreover, the requirements and application for this loan agreement are extensive.

Alternative Financing

Alternative financing, the last kind of loan agreement, makes use of "non-bank" deals. That means that the company acquires its loans from different sources other than banks and accredited lenders. Some examples would be loans from colleagues or peers, crowdfunding from friends and partners, mortgages, and cash advances. Although it can bring in funding, it has higher interest rates.

Leases



Although leases got mentioned in the first part of the article, this section gives an overview of the type of leases in the business and how it becomes useful to the company. A lease is a written agreement containing details about obligations and payment methods between the owner and tenant or renter. The lessor—owner of the property—and the lessee—borrower or tenant of the place—agree on arrangements to keep the area in shape. If a breach of contract happens, especially on the part of the lessee, there could be legal problems and penalties. Here are the four types of leases that businesses should know.

Absolute Net Lease

For this lease, all expenses starting from the maintenance of the area, insurance, structural changes and renovations, and taxes fall in the hands of the tenant. In this sense, the tenant is in charge of everything, and the owner of the building accepts the rental fees given by the lessor. Large corporations usually utilize this type of lease for their business proceedings.

Triple Net Lease

When a company chooses this type of lease, there are additional charges carried in its usual rental payments. The landlord can pass on the extra expenses (maintenance, insurance, and taxes) to the lessor. If it is a single-tenant, the lessor can make changes in the interior of the location. However, when it is a multi-tenant space, the building owner will not approve modifications in the area. Some businesses opt for this setup.

Modified Gross Lease

Contrary to the previous lease type, the modified gross lease divides the responsibilities between the landlord and tenant. The owner pays the insurance, building maintenance, and real property taxes. On the other hand, the tenant takes care of the unit, keeping it clean and fresh. Do note that the rent of the space is higher than the net lease system because of the structure.

Full Service Lease

The tenants have no responsibility for paying other costs and, instead, only pay the rent. In this setting, the rental fees are higher than usual since it all falls on the building owner. If the lessor cannot pay on time, a promissory note would suffice as an agreement between the tenant and landlord. Although, again, this depends on the contract of both parties.

Licensing Contract

Several companies in the industry do more than just manufacture, distribute, or sell goods to consumers. In other cases, they invent devices and tools to help the processes of the business. If that opportunity happens, getting licensing contracts is the next step. This agreement allows the inventors or creators of the product or instrument to gain profit from other firms that will use the material. The license contract, with specifications and restrictions, allows the other company to use the invention to some extent. The inventors have reproduction rights and can cease control of unauthorized replications of the product. This document protects the interest of the business and uses another way to monetize the excellent craftsmanship of the enterprise.

Every business arrangement needs proof. Without a credible source or material, the deal would not look professional and authentic. As entrepreneurs, there is always the need to be consistent and reliable in the eyes of investors, constituents, colleagues, and audiences. An efficient way of showing dependability is by providing evidence of the agreements and deals to the right people—and not just anyone, the right one!

The management is responsible for the creation, amendment, and distribution of the various contracts needed by the firm. And all these items listed here are some of the documents required to ensure efficiency in the business process. If lacking, it causes legal troubles and extra work for everyone in the business. With that, expanding and startup companies should take the extra mile and know the essential tools that help in the growth of the enterprise. But it does not stop there. The company has to learn the ropes, personalize and recreate the materials, and use it for business. Contracts may be small in size, but its weight is significant for the enterprise.