

Master Service Agreement 101: what is an MSA and why you need one

A Master Service Agreement (MSA) is a contract between two parties that have an ongoing project or business relationship that offers a flexible system for completing a project over time, accounting for the decisions that will be made along the way. It is one of the most typical contractual agreements, when one company needs to work on a project (or several projects) with another company.

In this article, we gathered every piece of information you need to tailor a perfect MSA document, and use it to solidify your business partnerships.

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Building an ongoing relationship

Strong business is built on strong relationships. Having long-time dedicated partners, someone we can rely on, is what helps companies grow and scale. And yet the business world rules dictate that to stay transparent and build

trust, even the most dedicated partnerships need contracts signed between them.

Today **contract lifecycle management governs 80%** of any relationship. And while contracts cover one-time actions between parties, the question remains—how to outline an ongoing relationship without the need for long negotiations on every matter in future?

*MSA can be considered a foundation for contract management
between two parties*

The answer is simple – every lasting business relationship needs to be governed by a Master Service Agreement. When signing parties know that their business partnership is going to last, an MSA can help outline the general clauses and make negotiating on future agreements faster. Simply said, MSA agreement is one of the basic documents that outlines an ongoing relationship, cementing the agreement between two companies for services.

What is a Master Service Agreement? How does an MSA Work?

A Master Service Agreement or MSA contract is an agreement between a service provider and its customer. Master Service Agreements can vary depending on the customer type, nature of the services provided, industry involved, and other variables.

Basically, an MSA agreement is a contract between two or more parties that signifies the terms and conditions that will govern all current and future

course of activities and responsibilities. By employing an MSA businesses can ensure the speed of ratification of future agreements. MSAs create a **quality framework for contracts** that acts as a foundation for all future business activity.

Types of agreements MSAs can govern

An MSA master service agreement typically outlines the nature of the services to be provided, and their types. If signing parties have multiple contractual obligations, the MSA contract clarifies each, and shows what the agreement covers.

There are several types of agreements that the Master Service Agreement can govern, and here are some of them:

- Property ownership
- Royalties related to inventions or discoveries
- Releasing new information while maintaining confidentiality agreements
- Indemnification in the event of a third-party suit
- Allocation of attorney fees, alternative dispute resolutions
- Work schedules that depend on local job conditions
- Purchase orders and pricing variations that are based on economic factors (cost of living, etc.)

We suggest you make sure that all the work that can be potentially done is described in the agreement and negotiate for all your company's services, not just those apparently needed at signing.

Why is MSA important? Which purpose does it serve?

Businesses use MSAs for two main reasons:

- To provide indemnification
- To allocate risks

Indemnification means that one company, or a party, agrees to safeguard another party against certain existing losses, or any losses in the future. The indemnifying party is the party that agrees to reimburse any damages it or any other party has caused or may end up causing at some point in the future. They involve their lawyers and take care of legal fees associated with the act of litigation.

Risk allocation is a practice of using complex strategies in order to identify potential risks and have a strategy of mitigating them. Before signing the MSA, all parties should have a clear understanding regarding the MSAs interaction with other types of contracts, and particularly the insurance contracts.

In addition to that, each party has to understand exactly the impact that the law can have on certain MSA contract provisions, especially the ones that describe the risks and responsibilities related to the workplace mentioned in the contract, and make sure to **track all contractual obligations**.

By laying legal groundwork for the future of a relationship, MSAs allow each party involved to move speedily and respond to the changing climate in the business environment.

Today, managing contracts and tracking obligations is a lot easier. With AXDRAFT document automation software, for example, you will always get notified when your action is required, or if a deadline has been missed. This is one of the aspects that can help you evaluate your **contract management software**.

MSA agreement creates a solid negotiation framework and reference point. This means that there is now no need to work out a new contract for every action between the parties. The main functions of an MSAs work are simple:

- Outline governing terms & conditions
- Allow for additional adjustments

Benefits of an MSA agreement

An MSA streamlines contract negotiation, and makes it more simple and straightforward. If the companies establish the deal's terms at the outset, both parties create a business relationship without refining their rights, responsibilities and expectations. When their business relationship has a foundation like an MSA, parties can shift their focus from the basics and dive into their contract's specifics without being distracted by the foundational agreement.

What is an MSA in business? It highlights the potential areas of conflict and concern. This is how MSA lets the parties make plans for the future and adapt to business landscape changes. MSAs also eliminate the pressure of a deadline and give parties time to respond and adjust.

Master Service Agreement is best for long-term relationships that have to grow and evolve securely, and with enough space. MSA affords flexibility that allows both parties to keep their core relationship even as the environment changes while also saving them time and money.

With an MSA, and armed with the power of **document automation**, it will be easier to establish work processes with less routine, and reduce **legal burnout** by having more time to focus on something other than constant document drafting.

Which businesses need an MSA?

An MSA is a master agreement for the provision of services to a customer. Here is a list of potential scenarios, in which an MSA contract is in order:

Utility companies always sign MSA contracts with their clients. In exchange for constant supply of electricity and water, their client pays bills issued to them on a monthly basis. The supplier is responsible for the quality of product supplied, like the cleanliness of water, or the stability of electric currents. Supplier needs to maintain the piping and wiring in condition that adheres to the government standards.

IT companies can sign MSA for development services. It will outline the structure of a project scope for every project in future. The dev team will then allocate the necessary developers for a project, at a discussed rate. Deliverables, further support of the project, rates for additional works—all of these can be put together into the master service agreement. If anything is amiss that was specified in the agreement, the developer needs to finish the job at their own expense.

Many **small businesses** favor contract templates when they need to make a quick switch from one contract to the other. It can be due to a partnership opportunity that suddenly occurs, or if a potential customer wants a service that is not standard, right away. With an MSA, you don't have to deal with any problems coming from ill-constructed contracts. This means that MSAs help companies decrease their chance of litigation and avoid any contractual disputes.

A manufacturing company can use a master service agreement to ensure that their supply line does not work for nothing by determining the minimum that their clients acquire periodically. At the same time, the manufacturer's client is protected by an MSA, because the manufacturer has guaranteed to produce the necessary amount of products, reserved for this client only, at a specified price. The responsibilities on product delivery and storage are also stated in the MSA.

Delivery firms use MSAs with couriers to ensure the regular safety and timely delivery of goods assigned to the courier. They oblige to deliver goods for the client, in the entrusted state, during a period of time, and at a specified cost. An important clause to consider here is the ownership of delivery transport, risks connected with its condition, and responsibilities on the maintenance of the transport, and well as the security of the transferred goods.

In certain technology transactions, the parties have a separate technology license agreement that covers the **licensing of technology**, and then a Master Service Agreement to address any related services. If there are related agreements to your MSA, you must ensure that your legal structure works together in its entirety and that all contractual remedies are in

alignment. When multiple agreements are in place, this often becomes a significant area of negotiation.

While this is not the complete list of every type of business that may need an MSA to govern its operations, let's move on to see what clauses fall under MSA to have a better understanding of the situations when it may be needed.

What falls under the MSA?

MSA aims at making the contract process faster, and making future agreements simpler. Here are the basic statements of what it should cover:

- **Confidentiality.** Like signing an [NDA agreement](#), make sure that any information is protected.
- **Delivery requirements.** You have to agree on when and by what means the service will be delivered.
- **Dispute resolution.** If there is a conflict, what are the means of resolving it.
- **Geographic locations.** Where the businesses are located, and where will the services be provided.
- **Intellectual property rights.** Who owns the results of the services provided.
- **Limitations of liability.** Where do the responsibilities end.
- **Payment terms.** How much, when, and by what means will the payment commence.
- **Venue of law.** In case of dispute, which court will be responsible for resolving it.

- **Warranties.** The parties agree on the scope and coverage of warranty.
- **Work standards.** What each party regards as acceptable work.

A well-drafted MSA is a guidepost for managers on both sides of the agreement who operate within a complex project that involves multiple stages performed by multiple levels of management and labor.

Building a tailored MSA: what should be included?

When building an MSA agreement, the following 4 factors need to be counted in:

- Every responsible issue either party might face
- What both companies will do together
- What the other company must do
- What your company must do.

The two companies in the agreement must always plan for potential pitfalls.

Here is what can be discussed and included in the MSA contract:

- Delivery and installation.
- Background checks.
- Project management.
- Expected charges.
- Terms of payment.
- Insurance.
- Escrow.
- Security.
- Government requirements.

- Liabilities.
- Taxes and tax responsibilities.
- Third-party coverage and concerns.
- Out clauses and causes for agreement termination.

Having the details listed will help you and your counterpart honor your sides of the MSA. It is important to decide on potential issues in advance, since the business world has many possible problems.

Most common MSA risks and disputes

Even though an MSA works to lessen legal concerns during negotiations, issues occur. Here are the most common MSA disputes:

- Employee injury or death
- Property damage
- Failure to communicate
- Failure to meet deadlines
- Failure to pay as agreed
- Performance or service issues
- Product defects
- Unauthorized charges

Once both parties sign the MSA, you have an effective contract. A well-drafted MSA can anticipate these disputes and offer a way of resolving them, thus saving both parties a considerable amount of time and money. The above mentioned points can provide a solid framework to consider for master service agreement example, and offer solid clauses to include in future contracts.

When your business combines using an MSA with using **document management software** for contract processes, you get seamless negotiations, fast contract drafting, an overview of all important moments, and you get notified every time your attention is required with one or the other clause. Wouldn't that give you more time to do more business?

Conclusion

We get that this could be a lot to process 😊 So if you only have so much time to dedicate to the reading, here's a blitz FAQ with all the key takeaways from our blog.

What is a Master Service Agreement used for?

An MSA contract is used to outline and govern all activities and responsibilities between two or more parties. It is needed to provide indemnification and allocate risks that may occur in a business relationship.

What is the difference between MSA and SOW?

MSA outlines a relationship between parties, while SOW describes in detail the terms & conditions of project delivery. SOW is not a separate document, but often goes alongside with the MSA.

Who needs a Master Service Agreement?

Any company that plans to provide long-term or short-term services to a customer needs to sign an MSA. It is a solid foundation for any kind of business relationships, and makes signing future contracts faster and easier.

What comes first, SOW or MSA?

Statement of Work can be a good foundation for a Master Service Agreement, as it outlines the details of the service that will be provided. But

only start drafting SOW after you decided upon the general guidelines of your relationship, which fall under the MSA.

What should be included in a service agreement?

It is important to include 4 things: what you will do, what the other party will do, what you will do together, and every issue that you may encounter in a business relationship. Make sure to not only outline the responsibilities, but also note the risks and dispute resolutions.

How long do master service agreements last?

MSA is valid until the Expiry Date, unless you include an option to extend the duration of the contract. Usually, a contract lasts for 1 year and automatically renews itself, unless decided otherwise by the parties. But it is up to you to determine the Initial Period and Extension Options.

Overall, a Master Service Agreement contract is a critical tool to achieve your business objectives, no matter if you are a client or a service provider. With a good business lawyer, and a document automation software in place, you can optimize your contracting processes and set your company en route to success.

For a business lawyer, it's like being an astronaut responsible for the success of the space mission, and ensuring that all the necessary training has been completed, all the tools are in check, and you have energy and determination to make it successful.

If you consider putting together a master service agreement template, it will save your company countless hours of time, dollars from your budget, and will boost your business strategy by eliminating any contract-related delays for future agreements.

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