ATDC Startup Best Practice

Using Advisors

Why to use advisors

- Gain credibility
- Complement skills of management team
- Connect to capital, customers, other resources
- Lend advice on their area of expertise including such things as legal, finance, sales and marketing or industry knowledge
- Willingness to make key introductions, providing positive reference of you to their contact
- General feedback on business plan, investor pitch or strategic business decisions

Finding advisors

- Must have a compelling pitch/presentation – people will only want to help if they are excited about you and your opportunity
- Build board slowly, identify most important need and fill it first
- Target/meet with potential advisor, ask them for suggestions/referrals (they may volunteer)
- Use good networking practices -- respect their time, no pressure
- Build a good working relationship with them before asking them to be on your board
- Make sure they are strong champions for your company and not just interested in the title or the compensation

Profile of advisor

- Dream big – you will be surprised at who will want to help -- think beyond people you know, particularly for credibility.
- Seek industry expertise, people with good contacts
- Mentor/operational experience -- an entrepreneur who is one level ahead of you in growing a business (they will still remember the challenges and realities at your stage of development)

Using a Board of Advisors

- Make efficient use of their time and be explicit as to commitment required
- Set proper expectations with your advisors about how much of their time you anticipate using. Usually this is 2-4 hours per month of meetings, reading, and mindshare.
- Let them know how you will want them to help (make phone calls, review material, etc.)
- Don't feel obliged to have frequent regular advisory board meetings. Usually an advisory board is comprised of people with many different talents, therefore getting them all together in a room at one time is not productive.
- Often, the best way to use an advisory board is to call/meet them as needed for a particular issue you are facing. Therefore, choose advisory board members that are accessible and make themselves available to you.
- Be sure you can get their individual feedback quickly (call, meet for coffee, lunch, etc.)
- Keep them informed through regular communication (ie. monthly email update, phone call, one-on-one meeting) – advisors can't help you if they don't know what's going on
- If you do not follow their advice, let them know why/how you made your decision
- Be careful how you use a board of advisors. Make sure they are not formally making strategic decisions, reviewing financials or acting in any governance capacity. This will have them behaving like a Board of Directors and that could cause some legal issues.

Compensation

- If compensation is important to the advisor, you have the wrong person. Eventually you will set up a compensation plan, but initially you should delay the compensation discussion to make sure they are attracted to your business and not their compensation package.
- If they want to be compensated in cash, that is a red flag. That person is usually more of a paid consultant than an advisor and should be evaluated as such.
- After seeing value in advisor and when about to consider compensating advisor, set term of one year (may be extended) and tie the compensation to one year of service. This makes it easy to end the relationship after one year if it isn't beneficial.
- Compensation for advisory boards is usually in the form of stock options. Don't base the compensation on a % of the company. Work to the correct allocation by determining the approximate value of the options and find a number that equals ~$2,000 - $5,000 per year. This usually works out to be ¼ - ½ %.