

# **Startup Advising: Best Practices**

## **eGuide**

[www.tencapital.group](http://www.tencapital.group)

[info@tencapital.group](mailto:info@tencapital.group)

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# Chapter 1

## Becoming a Startup Advisor

### Types of Advisors

There are several types of startup advisors. Some of the most common include:

- **The Brand Name:** This type of advisor offers their name to your company. This can be helpful to attract investors, employees, and customers. They typically bring some value in the form of advice, but it's primarily their name.
- **The Domain Expert:** This type of advisor knows the industry well, both in technology and business. They can be helpful if you are moving into a new domain or the industry is changing rapidly.
- **The Networker:** The networker knows everyone in the industry or region. Those with a Rolodex and the ability to make connections can be very helpful, especially in fundraising and growing sales.
- **The Business Modeler:** This type of advisor may come from other industries, but they know business models and can bring new monetization tools to your business.
- **The Confidant:** The confidant can coach on the emotional side of running a startup. Startups have highs and lows that take the founder through the full range of emotions. This advisor can help the founder navigate through the ups and downs.

Consider which role you best fill, and market to your appropriate niche.

# Advisor Roles

In addition to there being many types of advisors, advisors also take many roles in their work with startups. For examples, some advisors' role is simply to fill gaps in the early stage of the startup.

Advisors can be signed on as formal advisors, or some may provide support as informal advisors. In this scenario, there's no set goals, meetings, or formal advisor agreement. This is the most common way startups work with advisors.

Some advisors take the role of a mentor in providing guidance. These mentors tend to focus their efforts on the founder. Some advisors take the role of consultant in performing very specific tasks for the company while others take on general responsibilities.

Others may take on the role of a board of directors. This can be helpful in early-stage companies that are not yet ready to form a board. Advisors here can provide oversight to the company and help the founder keep the broader picture in mind. Regardless of the role you choose to fill, as an advisor you will aim to bring experience, contacts, and networking to the startups you work with.

## Characteristics of a Good Advisor

The following are characteristics of a good advisor and great goals to aim for as you develop yourself professionally:

- The advisor has first-hand experience in the industry, running a business, closing sales, and more.
- They listen and can relate startups' problems to actionable solutions.
- They have been through the same challenges and experiences as the startup is going through.
- They ask meaningful questions and probe to get to the bottom of things.
- They understand the startup and can motivate them.
- They have opinions and share them even if those opinions are not popular.

- They devote their time to the advisory work.
- They are effective communicators. They are articulate and can persuade.
- They can help set goals with actionable steps.
- They bring a network of investors, other advisors, and collaborators.
- They respect the opinions of others.
- They have passion for their work.

## How to Be a Good Advisor

In choosing a startup to advise, it's important to find the right fit. Here are some key points to make sure you are a good advisor to the startup you are aiming to collaborate with:

- Spend time with the startup to really understand if you can add value and if they are ready for an advisor.
- Make sure you communicate well with each other and ensure the personal style fits.
- Spend as much time on selecting a startup as you would an investment.
- If they have other advisors, check with them about their experience.
- Find out where they need the help the most.
- Ask what's slowing them down and where they avoid engaging. That's an indication they need help.
- Avoid the day-to-day minutiae and focus on strategic objectives.
- For the day-to-day work, make introductions to people who can solve those issues.
- Make clear you will play the role of devil's advocate and that you will ask a lot of difficult questions as part of your job.
- Spend the majority of your time with the startup listening and only talk when you have something important to say.

- Get to know the founder and others in the startup outside of work.
- Come to an agreement about the time commitment for your work with the startup.
- Give the founder the hard answers as in the end, they will appreciate that more than the kudos. If the founder seems to be scattered, help them focus on a few key priorities.
- If it turns out not to be a good fit, then help the founder close it out.

## Finding a Startup to Advise

Here are some key points to consider when finding a startup to advise:

- Choose startups that you can help.
- Make clear the work you plan to do such as introductions, networking, advising on the domain, or just sharing business experience.
- Define the duration of the advisor work- one to two years is a common timeframe.
- Determine the frequency and type of meetings, for example by phone, in person, or in a group meeting.
- Set aside time to do the work.
- Negotiate compensation based on the work to be done. Compensation consists of a half percent to one percent of equity vested over time.
- Be prepared to sign a non-disclosure and non-compete agreement.
- Have informal reviews with the company throughout the process to make sure you are meeting expectations.
- Add your name to the team as an advisor to help with fundraising activities.
- Join sales meetings where you can add value.

Keep in mind, advising can be rewarding but it always comes at a cost: time and effort.

# What Startups Avoid in Advisors

Startups are watching for red flags and warning signs when evaluating advisors. Being aware of these warning signs can help you avoid them as a potential advisor. Startups may feel they are talking to the wrong advisor if:

- Their primary business-building experience came two tech generations ago.
- They have business experience, but only in one area such as sales or marketing.
- They can relate their experience but have difficulty understanding your situation.
- They have a strong ego and center most of the discussion around themselves.
- They seem to be busy with other projects and take some time to get back to you.
- They treat the advisory work as a joyless task.
- They don't want to write down anything but rather just chat across the coffee table.
- They can't make the company meetings, so they have little knowledge of the rest of the team and company dynamics.
- They don't follow through on their action items and it takes several reminders to get something done.
- They often confirm what you already know and don't add much value.
- Their experience and contribution overlap with other advisors.

If you feel as if you check any of these boxes, consider how you can develop personally and professionally to improve upon these items. This may involve taking a continuing education course or a time-management workshop for example.

# Chapter 2

## Startup Advisors: Logistics

### Purpose of an Advisory Board

An advisory board is a group of three to five people who provide advice on how to grow your startup. They bring experience, contacts, and domain expertise. Advisory boards help the company grow and succeed.

In recruiting for your advisory board, startups typically try to consider the following:

- Advisory board members should contribute a diversity of skills, networks, and experiences.
- The advisors should fill in the gaps of the startup team which is most often a skeletal group.
- The board members should raise the profile of the startup with their reputations. They can additionally give the startup branding to help position the company with clients.
- Advisory board members should make a strong face for the company. Startups can use these members' influence for recruiting the team, investors, and customers.
- Advisory boards are different from a board of directors in that they don't have any fiduciary roles and work informally with startups to grow the business.

### Papering an Advisory Agreement

To ensure an advisor engagement is successful, make sure you set up an advisor agreement. This is a contract between the advisor and the company and defines the work to be done. Here are some key points to consider:

- Make clear what the advisor will do, for example bring experience, contacts, and domain knowledge. Include the frequency of meetings and type of meetings to be held.



- You could add KPIs to the contract or leave it as a general description. Keep in mind that the more specific it is, the easier it will be to manage later. If there's a short duration for terminating the contract, then a general description may be sufficient.
- Define the equity compensation and vest it over time.
- Include clauses around confidentiality, intellectual property assignment, non-solicit, and non-compete. This ensures the advisor keeps the company information confidential. Any IP that comes up from the engagement stays with the company. The advisor can't recruit employees away and cannot later compete with the company.

## Requesting Payment

Later-stage company equity is worth a great deal more than an early-stage company. With this in mind, consider the following:

There are standard advisors who share their experience. For early-stage companies, consider requesting payment of 0.25% of equity vested over one year. For growth-stage companies, consider requesting 0.15% of equity vested over a year.

There are premium advisors who not only share their experience, but also make introductions to investors, customers, and partners. For early-stage companies, consider requesting 1% of equity vested over one year. For growth-stage companies, consider requesting 0.5% of equity vested over a year.

# Chapter 3

## Investing in an Advisor for Startups

### Do You Need an Advisor?

Advisors can be helpful to your startup. Here are some key points to consider when determining if you need one:

- If you haven't run a startup before you'll most likely need an advisor.

- If you plan to raise funding, you'll find advisors add gravitas to the team as well as potential contacts.
- If you have holes in your team, then advisors can help you close them.
- If you are in a domain you have not worked in before, then an advisor can be helpful.
- If the business technology has changed dramatically, then an advisor can be useful to guide in the implementation of the latest tech.
- If you find yourself asking anyone and everyone questions about your business decisions, then an advisor may be the answer.
- If you have a team that always agrees with you, then you may benefit from an advisor who will be more honest with you.
- If you need help for your own growth, then look for a mentor.

Remember that mentors are different from advisors. Mentors typically help the individual grow, while advisors help grow the business.

## How to Recruit an Advisor

Good advisors bring good value to your startup. Great advisors bring great value. This is why it is important to spend time identifying the right advisor for your startup.

In recruiting an advisor, pose specific questions and gauge the response. How does the advisor rank compared to feedback from other sources? The advisor you choose should provide the best or near best of responses. If they advise other startups, you can ask those startups about their experience.

## Finding the Right Advisor

Advisors can help startups achieve higher growth, avoid problems along the way, and give the founder confidence.

Here are some key points in choosing an advisor for your startup:

- Avoid the *dabbler*: These advisors want to dabble with startups but don't have any substantial experience to share.
- Avoid "Yes" men.: These advisors confirm everything you say because they don't want to go through the heavy lifting of explaining better ways of doing things.
- Avoid generalists: Generalists have general business experience but know very little about your specific industry or growth strategy.
- Look for advisors who know your industry and space very well.
- Look for advisors who are well connected.
- Look for advisors who challenge you and remind you of the goals you have set.
- You may want to recruit a group of advisors and have them meet both individually and as a group to discuss key issues.
- Remember the time commitment that comes with advisors and set aside time for it.

## How to Select an Advisor

Once you decide you need an advisor, you'll need to find and select one. Here are some key points to consider:

- Start with your network and expand out from there.
- Hold several conversations with the candidate advisor before deciding.
- If you need to raise awareness for your startup, consider a thought leader in the industry.
- Find a mutual connection who can make an introduction.
- Look for someone who compliments your skills.
- If the candidate does not come from a trusted source, consider running a background check.

- Focus on those who understand your strategic vision and at some level, support it.
- Discuss their time availability to see if they can commit to your company.
- See if they can take their experience and apply it to your business.
- Avoid the war stories advisor who tells about his experience but relates nothing to your company.
- Look for an advisor who has some empathy for your work.

## Does Your Advisor Have What It Takes?

In recruiting an advisor, check to see if they have what it takes to succeed:

- Have they been through the wringer? Those who have been tested, such as nearing bankruptcy or going bankrupt, will have a deeper understanding of the challenges in running a startup.
- Will their work with you put them in conflict with their current or past employer? Those who want to compete against their previous employer may not be the best to begin a collaboration with.
- Are they all show and tell but haven't built a company before? They may not have created a unicorn, but did they stand up a business and grow it? Ask for something that they put together.
- Are they invested in your business with their money in addition to their time? Where they put their money says a great deal about their interest.
- Will they learn something from the engagement just as you are learning from them? This will make the project that much more interesting to the prospective advisor.
- Can they relate to your situation directly? Those who can only rehash past experiences may not appreciate the differences between their past and your needs.



# TEN CAPITAL NETWORK

## About TEN Capital Network

TEN Capital is a Funding as a Service platform that facilitates investor introductions with documentation preparation, emailing campaigns, investor follow-ups, events, and other activities that help startups engage with investors for their capital raise.

In short, we provide the legwork, saving you time and money.

We have a dedicated, experienced team offering a variety of services to startups raising capital, companies looking to grow, and investors to help you get the most out of raising funding. Our Funding as a Service platform serves as a support system to you- it is not just software. You'll work with us via phone and email to connect with the TEN Network live rather than through an automated website.

Contact us today to speak to a representative about how TEN Capital can help you with your fundraise.

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