



Opinion:

Ultimate guide to start-up advisors: Are they worth your time and equity?

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Advisors can play a significant role in helping start-ups succeed, but it is not always clear what the role is that advisors play and whether start-ups really need them. This article aims to delve deeper into the dynamics of the start-up and advisory relationship and aims to answer three key questions: What are advisors' roles and responsibilities? How do they add value to start-ups? How are they compensated?

WHAT IS AN ADVISOR AND WHAT DO THEY DO?

In short, advisors advise the CEO and their team on matters they are experienced in. They are not employees of the company and hence rarely “produce” work but are engaged to tell you and your team how to get from where you are to where you want to be. They also provide access to their network and lend their credibility to your venture.

Most commonly, start-up advisors are ex-founders, investors, experienced industry leaders or subject matter experts with the right expertise, the reputation and/or the network that the company needs to succeed. Specialised technical/scientific advisors are often seen in industries that need deep technical and/or scientific knowledge to address their challenges.

“No start-up will manage to have all the skills needed in their company from the get-go.”

a few hours per month or quarter to your company. It is their job to tell you how to get the job done, not to do the job for you.

2. They provide valuable connections

Especially former CEOs, founders, and industry leaders will have extensive networks of contacts you could benefit from. These might be vetted suppliers, potential customers, quality talent or even investors interested in businesses like yours. Due to this they are often able to make introductions and get you in front of people that would otherwise not respond to your requests for facetime.

3. They are coaches and mentors

The highest decorated athletes have excellent coaches. The same is true for (future) titans of business. As a CEO you will have only a few people giving you candid feedback or have the experience in addressing your specific challenges.

HOW DO ADVISORS ADD VALUE TO YOUR START-UP?

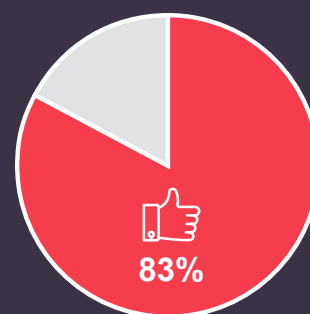
1. They provide skills you lack

No start-up will have all the skills needed in their company from the get-go. They often struggle to attract highly experienced talent and lack the financial reserves to provide remuneration at the applicable market rate. On the other hand, specialised skills are not permanently needed and do not justify bringing in other co-founders (e.g., fundraising experience).

Bringing in an advisor allows you to tap into someone else's 10,000 hours; help avoid costly mistakes, and often get practical “been there, done this” level of advice.

It is important to consider that advisors are neither employees nor consultants and only dedicate

According to a recent LinkedIn poll, **83%** of study participants believe that advisors/advisory boards **add value to their business.**



Source: https://www.linkedin.com/posts/siulrich_founders-start-up-executives-i-wonder-activity-7119863216616218624-S_zX

4. They help you with selecting key talent

This is especially relevant when your founding team lacks a critical skill set (e.g., no technical co-founder) and you would like to hire your first VP or CXO to cover that area. A strong advisor in that space can be an asset in your selection process.

While they might be able to provide you with names from their own “talent bench” some are also more than happy to interview your final top 2-3 candidates to give you an expert’s perspective.

might put someone on your cap table with little opportunity to add long-term value to your business.

Expect your advisory board composition to change over time. Even top-notch advisors might specialise in adding value to companies at a specific stage of their development. As your company outgrow their expertise they might become less and less relevant until it is time to bring in new expertise.

WHEN DO YOU ENLIST A START-UP ADVISOR?

The best time is naturally when you start building your team and have a clear understanding of the skills you lack or need to strengthen. A very common approach is to hire a more junior employee for a role while securing access to a senior advisor to cover the higher-level experience and strategic insights. With enough skin in the game, advisors may also be willing to help your staff grow into their roles.

Other requirements can also be the need to build partnerships, ramp-up sales or start another round of fundraising. For the latter, advisors not only provide access to their networks and advice but also their credibility, which sometimes is what you need to get to that first meeting with a potential investor.

Founders can bring high caliber talent into their start-ups as advisors with the intention to hire them into their executive team at a later stage. While this is not guaranteed to work out as intended, it is a valid strategy to get talent excited about your vision before you make them an offer.

Bringing in advisors to solve one very specific problem that is unlikely to reoccur, is not the best strategy. Especially when compensated with equity that

HOW TO FIND THE BEST ADVISORS FOR YOUR BUSINESS?

As you connect with potential advisors, avoid the temptation to focus only on high-profile names because you want to impress potential customers and investors. Unfortunately, those superstars are not only very busy and expect you to work around their schedules, but also require a significant premium in compensation. Less well-known experts often offer

the same if not better advice and are normally willing to stretch their agreed hourly budget if there is an urgent business need.

You should vet any advisor, like you would a potential consultant or hire. Meet them, ask them interview-style questions, do reference checks, and especially confirm that there is no conflict of interest.

A conflict of interest might arise if the advisor already works for, or is invested in, one of your competitors. A professional advisor should always declare such a potential conflict to all parties proactively, but it is always worth it to get confirmation.

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HOW DO YOU COMPENSATE A START-UP ADVISOR?

Start-up advisors do not work for free. While most will have one free session or make one introduction to demonstrate their capabilities, they will expect a return on the value provided after that.

IN PRINCIPLE THERE ARE 3 COMMON MODELS TO COMPENSATE YOUR ADVISORS:

1. Hourly rate or a meeting fee

Experienced advisors can charge from \$250 to \$1,500 per hour depending on their specialisation. This is in line with the rates of management consultants and legal professionals.

If the advisor that you'd like to engage with asks you to make an offer and is still employed elsewhere a good rule of thumb is to divide their monthly pay by 160 and double it to start negotiations without causing offence.

It is also common to reimburse advisors their expenses to attend any board or other face-to-face meeting and compensate them for any travel time.

2. A monthly/quarterly retainer

Advisors that are needed for more than 1-3 hours per quarter are often hired on a retainer basis. That normally works out in favour of the start-up. Like executives, most advisors don't mind doing a bit of extra work without asking for overtime pay. How you set the retainer should be driven by an honest estimate of how much time you need from your advisor and their hourly rate.

“It is fair to include certain key milestones that you'd like the advisor to achieve to reap their full reward.”

3. Equity stake

This is the most common model to compensate advisors, given that early-stage start-ups especially, will not be able or willing to pay their market rates. Advisors could get from 0.25% to up to 5% equity with most accepting 1.5 to 2.5%. While this is a very big range, it of course depends mainly on the stage of development of the start-up, the level of experience of the advisor and how much time you want the advisor to spend with you. As mentioned, advisors with “star potential” will command significant premiums that can go even beyond the mentioned ranges.

It is common to use the same vesting schedule applied to the founders for advisors as well. If founders have no vesting schedule, the recommendation is to still have advisor equity vest quarterly over a 2-year period. This ensures that advisors get compensated, but you can also cut your losses if an advisor stops adding value to the business prematurely.

4. Equity/Cash mix

Naturally, options 1-3 can be combined easily. Advisors taking a lower equity stake combined with a below-market meeting fee are common. We also often see advisors being compensated by the hour for any work that goes beyond the agreed monthly/quarterly amount of time in their advisory agreement.

It is fair to include certain key milestones that you'd like the advisor to achieve to reap their full reward. Expect advisors to bulk at milestones that rely on you implementing their advice successfully. Like employees, their KPIs should be largely within their area of influence (e.g. organising a certain number of meetings for an advisor helping with sales or having a certain number of review sessions with your technical team for a technical advisor).

WHAT SHOULD YOU COVER IN YOUR ADVISORY AGREEMENT?

As with your employees, co-founders and consultants, detailed, written agreements are necessary for your advisor. While you can ask your attorney to draft an agreement or Google to find a template, professional advisors often have their own templates as well that are applicable to the jurisdiction, they reside in. At minimum, your agreement should include:

- The responsibilities of the start-up advisor including common services that they will not perform (exclusions).
- Confidentiality and non-disclosure provisions for all your intellectual property and proprietary information.
- The compensation schedule and any milestones they or the company must achieve.
- The length of the agreement and a termination clause.

WHERE CAN YOU FIND QUALITY ADVISORS?

As with any quality talent, good advisors are not waiting in front of your office until you need them. They typically have day jobs already and are also not out there actively looking for new companies to advise. If you do not have people in your personal network yet that you'd like to get on board, you can use one of the methods listed:

1. Start-up & Pitch Events

Be it a demo day, meet-up or start-up focused webinars, you will find that many great advisors like to keep tabs on what happens in the entrepreneurial ecosystem around them. The same goes for industry events and groups.

You will optimise your chances by actively participating and presenting your company or product as this might attract advisors that will be interested in striking up a conversation with you.

2. LinkedIn

You will find that many experienced leaders mention their start-up advisor status in their profile (as does the author of this article). They are quickly

identifiable via a LinkedIn search, and you often find excellent talent outside your normal network.

3. Cold Emailing

This is applicable to LinkedIn or other social networks as well. As you would do when looking for new hires the best people are normally busy and not out there looking for you. If you pitch your opportunity well, they might very well get interested in talking to you.

4. Venture Studios, Incubators and Accelerators

All reputable accelerators will assign one, if not multiple advisors to the start-ups in their programs. So will many VCs and alternative investors. They take a fair share of your equity of course, and unless you want to do their programs in any case, it is most likely the most expensive way to acquire quality advisory services.

Three tips to recruit high-profile advisors

- 1 Send a personal message. Read their profile and tell them why you think you would make a great team.
- 2 Ask them directly if they would like to be your advisor, without engaging in casual conversation beforehand.
- 3 Consider offering something of value for their time. This could be assisting them with a specific skill you have or offering to donate to a charity they support.

The third tip is often the only way to engage “celebrity or busy advisors”.

Bonus Tip: Stay clear of mentorship platforms and “communities”. They are typically coaches with little real experience at best and a lot of sales people targeting founders at worst.

HOW TO MAXIMISE THE VALUE YOU GET FROM YOUR ADVISORS?

The most important component is that you think of your advisors in the same way as you would another team in your company. While it might be interesting to have multiple experts for important decisions, it is to your advantage to build a diverse group that can advise on several different topics.

Secondly, seek out individuals whom you respect and whose advice you're willing to act upon. The most ineffective advisor is one whose guidance you disregard. This also underscores the importance of their ability to communicate their perspective persuasively to you.

Thirdly, make sure you leverage them for their ability to give you unbiased strategic and directional advice. While many advisors will be excellent operators, the approach that they provide is often also obtainable from your staff or consultants that will cost you a lot less per hour.

Feel free to end a relationship that does not work prematurely. Be fair and respectful but cut your losses if you have too. As with any type of new appointment, it is inevitable that mistakes can be made.

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CONCLUSION

Quality advisors can be a powerful addition to any business. The main advantage you have as a start-up is speed and highly talented advisors allow you to buy their 10,000 hours with money or equity instead of your time.

If after reading this article you still struggle to find the right advisor for your start-up in the Life Sciences, MedTech or Digital Health space, do not hesitate to reach out and let us know which approaches you have tried already.

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