

# Build a Startup Team



# Build a Team: Topics

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- Co-founders
- Investors
- Building/Evolving a Team
- Cofounders & Cofounder compensation
- Employees
- Board of Advisors
- Board of Directors

# What are Cofounders?

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- No formal definition
- People who are in very early – probably compensated with stock

# One founder or multiple-which is better?

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It can work either way

- **Advantages of cofounders:**
  - Multiple perspectives
  - More help at a low cost
- **Advantages of just one founder**
  - Clear direction

# What do Investors Look for in a Team?

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- Complete team, or
- Recognition of gaps & a hiring plan
- A CEO who can recruit talent

# Building the Team

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- Choose cofounders carefully
- Right people in the right seats
- Beware of hiring friends
- Strategic/cultural alignment among team members
- Diversity-you don't want a team where everyone brings the same perspective, skills, etc.
- Actively manage corporate culture

# Team Evolution

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- Team today may be different from team tomorrow
- If you find the wrong person in a seat . . .
- Change sooner rather than later
  - Performance problems
  - Team fit problems

# Finding CoFounders

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- Networking
- Founder Labs
- Founder Dating



# Recruiting CoFounders

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- Your first sales challenge!
- You're selling a vision
  - Why is what you're doing important?
  - What value will be created?

# Stock Compensation

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- Founders stock
  - Common stock
  - Founders purchase their stock
  - Make sure it “vests”
  - Sign your 83(b) forms within 30 days
- How much stock?
  - It’s a negotiation!

# Stock Dilution with Investment

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- Founder 1: 60%
- Founder 2: 20%
- Founder 3: 20%

# Then you get an Investment

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- The company closes a \$200,000 investment
- With a \$800,000 pre-money valuation
- Investors want 20% allocated to option pool
- Post-money value is \$1M
- \$200,000 gives investors ownership of 20%

# Post Investment:

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- Investor own 20%
- Stock option plan owns 20%
- Founders own 60%
- Issue 666,667 more shares so the total is 1,666,667

# Investor Stock Dilution

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- Founder 1: 60%
- Founder 2: 20%
- Founder 3: 20%
- Investor: 20%
- Stock options: 20%
- Founders: 60%
  - Founder 1: 36%
  - Founder 2: 12%
  - Founder 3: 12%

# Founder Salaries

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- You close an angel round
- Are Angels OK with founder salaries?
- How much?

# Founder Salaries

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- *If you can go without salaries, great!*
  - *That stretches the investment dollars*
- But yes, salaries are expected
  - ...below market salaries
    - ...that approach market salaries as your business grows



# Employees

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- Get advice
  - HR process
  - How to (legally) hire
  - Understand employees vs contractors
- Compensation: salary + options

# Board of Advisors

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- Not legally required
- No fiduciary responsibility
- Compensation: stock options

# Board of Advisors: Why

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- Advice
- Perspective
- Introductions
- Accountability
- Help in areas the team is weak

# Board of Advisors

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- Set expectations
- Put it in writing
- Meet regularly

# Board of Directors

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- Legally required for corporations
- Initially it's the founder (or founders)
- But a good idea to add an independent director, for
  - Perspective/Advice/Connections/Accountability
- Investors typically want a seat on the Board

# Board of Directors

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- Fiduciary Responsibility
  - Duties owed the company
  - Proper purpose
  - Unfettered discretion
  - Conflict of duty and interest
  - “Care as an ordinary person might be expected to take on his or her own behalf”
- Directors and Officers insurance usually required

# Board of Directors: Role

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- Role defined in Bylaws
- Elected by shareholders
- Select, hire, review, and (when necessary) fire the CEO
- Establish broad policies and objectives
- Not to manage operations

# Board of Directors: Role

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- Approve annual budgets
- Account to the stakeholders for the organization's performance
- Set compensation of company management



# Board of Directors: How Many?

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- An odd number
- Three is a good place to start
  - Two founders, one independent
- Perhaps grow to 5 when you add investors
- And eventually more...

# Board of Directors: Committees

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- Audit
- Nominating
- Compensation
- Finance

# Board of Directors: Compensation

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- Out-of-pocket expense
- Independent director - stock options

# Typical Board Meeting

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- CEO distributes proposed agenda & materials for review
- At the meeting
- Call to order
- Review/approve Minutes of last meeting
- Discussion topics and/or resolutions
- Executive session (optional)
- Close the meeting

# Summary

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- Investors
- Building/Evolving a Team
- Cofounders & Cofounder compensation
- Employees
- Board of Advisors
- Board of Directors

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