

The Importance of Getting Advisors to Invest in Your Business

Outside consultants can show true conviction with their capital.

October 11, 2019 6 min read

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I was sitting outside at Samovar Tea Lounge in the heart of San Francisco's Yerba Buena Center. It was the middle of July, but the 55-degree temperatures and brisk coastal winds made it feel more like late November. "I thought this one advisor would be great with connections to multiple customers, but after signing the advisory agreement, I have not heard back from her in six months," said an entrepreneur I knew who was starting a company for remote product shipping in Europe.

"I've seen this before," I replied. "Did she invest capital in the company as well?"

"No," said my entrepreneur friend. "She said that she did not have available dry powder, but wanted to help out."

After much prodding by my friend over the ensuing weeks, nothing changed. Unfortunately, they wound up terminating the advisory agreement for non-performance and wasted six months of gestation time.

Advisors are undoubtedly critical for any startup to succeed, especially in the earliest stages where mentorship and coaching are as important, if not more so, than capital. They

provide a crucial knowledge base of skills, sector-specific expertise, connections and recruiting ability, and are often critical to closing key commercial transactions, important personnel or trajectory-changing publicity. Yet all too often, entrepreneurs complain about advisors who are non-responsive or too slow to provide help or feedback. Naturally, I have experienced this myself. In nearly all cases when I have confronted the advisor about their performance, they have been apologetic but eventually shifted back into old habits.

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The core root of this tendency is a misalignment of incentives. Although all advisors care about the companies they are engaged with, the question is how much? Advisors often have full-time jobs and other commitments that eat into their time and limit their contributions. This time-management challenge becomes especially acute when compounded by the extraordinary over-commitment of the founders and management team.

There needs to be an element that shifts the equation. The easiest way to do this is to mandate that all advisors be financial investors in the company as well. Even if just a small amount, this will ensure that important KPIs are met on time, provide proximate investment and recruiting value and even serve to filter out anyone who may just be looking to collect advisory shares.

Investment = Meeting KPIs

Coming out of an accelerator program a few years ago, I was shocked to see my friend's software platform acquiring enterprise-level customers like Salesforce and Nvidia with only five employees. How did he do this? He ensured that every advisor also invested capital into the business.

“Not all advisors can invest \$25,000 or \$50,000, so we lowered this amount, even to just \$3,000, and our results fundamentally changed,” said the founder. “They feel like real partners in the business and are motivated to help us hit our KPIs.”

For a startup, hitting KPIs, or Key Performance Indicators, is crucial to enabling the company to raise more capital or be profitable. Defined as the steps a company strategically lays out in order to hit a certain goal or performance framework, hitting KPIs is a team effort. In a startup, where resources are scarce, entrepreneurs often rely on advisors to help out and get them “over the finish line.”

But there’s a very important difference here. If a company cannot hit its KPIs, it can be fatal. And yet, advisors can just go back to their day job or pursue another opportunity. To even the playing field, have all advisors invest even a small token amount into the company. If the advisor cannot afford the minimum investment of \$25,000 or even \$10,000, allot them a smaller amount. Although it may seem trivial, the mental value to the advisor of having capital at stake cannot be underestimated.

Providing Better Investor and Recruiting Referral

One of the most important facets of raising capital is that investors like to join other investors who are “already in” with regards to a specific company. Not only does this lessen risk in their mind, but it creates mutual shared value and an opportunity to collaborate with like-minded people. When your advisors also invest, they become the most valuable referral network for other possible investors because now they’re “all in.”

This concept also extends to recruiting new employees. Often,

key new hires like sales leaders, developers, designers, product managers and other associates care about the conviction of those they trust when making a decision as to whether to join a company. The mere act of investment – and the communication of that decision to potential hires – sends a message of strong conviction rather than mere advisor-level commitment.

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Weeding Out Advisors “Along for the Ride”

Ensuring that advisors also invest will allow founders to filter out those who may provide less value or just be interested in extracting value while providing very little in return. Somewhat unwritten about, but still quite common, are business leaders, professionals and others who are interested in getting involved in the “hottest company.” Often, the long-term utility value of these advisors is minimal to low. Yet, they still vest stock ownership that could be allotted to those providing more value. By tying their engagement to an investment, smart entrepreneurs can filter out advisory candidates who have true conviction from those who are merely looking for a resume buffer.

Choose Advisors Wisely

In all early stage companies, advice and coaching are often as critical as capital. Advisors provide expertise, guidance and connections that can make or break a young company. Conversely, advisors may also underperform over the long term due to misaligned incentives. The best means to address this is to make all advisors investors as well. This ensures a better opportunity to meet KPIs, better investor- and employee-recruiting success, and it filters out advisors who

may lack true conviction.

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