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Should I give my mentor a stake in my start-up?

Someone who was previously offered valuable (but free) mentor advice is asking for a 10% equity stake in the business for his continued and increased involvement. Is it normal to get a mentor on board like this? Or should I stick to strictly free forms of advice?

I would firstly look at who this mentor is and their contribution to your business. If without your mentor's valuable advice the business wouldn't be where it is now, nor be able to continue and grow, then you should definitely consider offering them an equity share. Taking on a mentor is normally done in the following three ways:

1. Free general advice – this is normally spasmodic advice on certain issues.
2. A mentor or business coach charging you an hourly rate for their advice, normally meeting once a week to discuss all things business.
3. Equity share in the business – can be any amount depending on their involvement.

Free advice is not always free and is not always the best advice. If you were stick to free advice you would end up having 10 different people telling you 10 different ways to run your business. If you were to sit down and calculate an hourly rate of, say, \$220 per hour for the coaching or advice, then times that by 10 years to work out the cost of the coaching over that period of time, then factor in the growth and value that they have added to your business by way of their advice, that will be your real cost of the advice.

Now think about saving that cashflow and giving them an equity stake in your business. You would have to reasonably value your business and work backwards to come up with the equity share price.

This will be a small amount for a start-up, but try to project forward 10 years and do this based on you not taking on anymore advice to determine what you could do on your own versus an advisor.

I would also negotiate the share amount from 5% upwards, depending on their involvement within the business.

If this mentor is someone who has built a number of businesses, understands the business world and can take your business from a \$10 start-up to a multimillion dollar business, wouldn't it be worth giving them an equity share?

It will not only increase their interest in the future of your business, but it will also make them more determine to grow the business. Human nature is always looking for "What's in it for me?"

Find one mentor you can trust and who will take your business to the next level and give them a small share for their troubles.

Brad Callaghan, of [Callaghan Partners](#), has more than nine years' professional accountancy experience. He has worked in senior management roles within taxation and business services dealing with a number of clients from a range of business sectors. Ask Brad or any other StartupSmart Mentor a question [here](#).