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Sharing Upside, Avoiding Dilution

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Experienced executive Jeff Church warns young entrepreneurs to avoid unnecessary dilution when bringing team members in on new ventures. According to Church, there are ways to share upside without giving away too much.

Transcript

I also learned - you want to share the upside with people, but be really careful of the dilution.. It's really - I know two people that started businesses and ended up selling them each for over $100 million and they each ended up with only 5% of the company.. And you might say and you're right, 5% of $100 million is a lot of money and it is, but there is no reason that they shouldn't had 30% or 40% of those companies.. And what tends to happen is if I'm starting a company and I want to have Johnny come work with me because I know he has got some skill set, it's really easy to say, hey, Johnny, come work with me, I will give you 10% of the company.. And Johnny says, okay, I will come work with you, 10% of the company.. Well you kind of forget about that.. Well, Johnny doesn't forget about that, right? Whereas you could say to Johnny, hey, Johnny, come work with me, I'll let you to share in the upside with me, I will give you some options, it will be great, you know, we'll work at that way.. And Johnny will be thrilled generally, to come and work in that.. So be - I really strongly believe in sharing the upside with those that perform and people that are with you.. But I also don't believe in just giving it away and it's really easy particularly in start-ups to be very easy about giving it away..

I know people that have given it away actually and then those people didn't even stay with the company.. So they left, but they still were - they still were vested in the equity that they had...