

WHERE TO FIND INVESTORS

Strategies to Get the Money to Build Your Business

By [Kathleen Ryan O'Connor](#)

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I'm looking to bring in partners and investors. What percentage of the company is typically given away in such cases? – Victor, Las Vegas

A With professional investors, the percentage of equity you have to give up is generally a factor of your company's value and the amount of money they bring to the table, says Richard Honen, an Albany, N.Y. lawyer specializing in angel and venture capital. For example, if your start-up is valued at \$3 million and someone contributes \$1 million, that investor might expect around a third of the company. Fewer rules apply to friend-and-family investors, who probably care less about their exact share and more about your success, Honen says.

As for partners, these are usually experienced executives whom you can't afford to pay a market salary, so you offer a package that includes a stake in the company, be it stock or options. In general they should fill a critical need – say, a skill set you lack. That expertise and their roles in the firm should influence how much they get. Typically, Honen says, you might offer 2% to 5% for a top executive position like CEO or CFO but less than 1% to other high-level managers. Overall, owners of fledgling companies usually allocate between 10% and 15% of their shares to employee compensation plans.

Don't forget, you might need two or three rounds of funding, Honen says. After the first you want to retain at least 51% of the company, a majority vote; Honen says 67% is better, as many states require a two-thirds vote to sell the company. After the second there's no accepted metric; it depends on the exit strategy. If the plan is an IPO, even 5% is substantial.

Granted, those goals are not always realistic, says Sheldon Frankel, a business law professor at Seattle University School of Law. "If it's a single untried idea, the founder might have to give up control entirely to lure an investor," he says. If you can offer less risk and greater reward (for example, a more developed idea reinforced by a patent and interest from a buyer), you'll likely have better financing options and be able to keep more control. Otherwise, you might want to stick with friends and family as investors.