

Advisory Boards

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When a group of individual brains are coordinated and function in harmony, the increased energy created through that alliance becomes available to every individual brain in the group.

Napolean Hill: Think & Grow Rich (1960)

Well, we all need someone we can lean on

M. Jagger/K. Richards: Let it Bleed (1969)

An advisory board can play an important role in company as a complement to a management team. In contrast to a Board of Directors, the Advisory Board operates at the direction of management, and has no fiduciary or financial duties to the Company's shareholders. An Advisory Board can bring the following benefits to a business:

- Contacts
- Expertise
- Perspective
- Prestige
- Strategic Input

For a small or start-up business, these benefits are even more important. Even with a superior product or business model, having the right people on an Advisory Board can provide credibility that would take years for the business to build on its own. In addition, an Advisory Board can extend management's reach during times where management is overwhelmed with too many challenges or help maintain focus during times when management feels overwhelmed with too many opportunities.

An Advisory Board should be large enough to provide the outside advice that the management is seeking, but not so large as to take a disproportionate amount of management's time and attention. An ideal number is usually six or seven, but there are Advisory Boards as small as two members, and some as large as twenty or more. The make-up of an Advisory Board should be tailored to the specific needs of the business. Does the business need marketing help? Find an Advisory Board member who has marketing expertise. Will the business be seeking capital? Bring on an Advisory Board member who is familiar with that area. Other areas where the Advisory Board can add expertise including sales, corporate partnerships or joint ventures, technology, administration, industry trends, politics, and international matters.

Once the Advisory Board is assembled, what should it do? The Board should meet regularly, especially if the business is new and the Advisory Board will be involved in making fundamental decisions about the future direction of the company. Meetings should be at least quarterly, but during a period of time when key decisions are being made, can meet more often, possibly bi-monthly.

In order to provide direction to the Advisory Board, the CEO should set its agenda, but the Board should have access to the entire management team. In addition, if it helps the Advisory Board to be more effective, management should provide access for the Advisory Board to vendors or customers. The greater the Board's insight into the business, the more value it can provide.

The old adage of "you get what you pay for" applies to Advisory Boards. To ensure that the business has the attention of the Advisory Board members, give them an incentive. It is typical to compensate Advisory Board members with stock, but in some situations, cash might be appropriate. In addition, the term of an Advisory Board member should be based on the specific needs of the business. If the Advisory Board or a specific Advisor is brought on for a specific short-term project, a monthly term may be appropriate, with short-term compensation. For a longer term, a term of one year would be more appropriate. The term should be long enough for the Advisor to believe that the effort he or she puts into learning about the business will be worthwhile. However, the CEO needs to retain ultimate control over the Advisory Board and have the ability to replace unsatisfactory advisors or reshape the Advisory Board to take on new challenges.

Creating and maintaining an Advisory Board requires effort on the part of management. However, the Board can create value and help management deal with the challenges every small business faces. If you are serious about growing your business, creating an Advisory Board can be an important step.

Mazer Advisors provides expert financial and strategic consulting to companies in the consumer products sector. If you are interested in exploring your company's financial and strategic options, please give us a call.

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