Splitting Equity Among Founders

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One of the most uncomfortable discussions when you start your company is the topic of splitting equity. Early on, your startup was just an idea that you bounced around with some friends. Then, that idea grew on you, and you agreed to turn it into a startup. Friends became co-founders. Everyone is working happily toward shipping your first version. No paperwork in the way.

In your mind, you are the CEO. It was clearly your idea. Your friend may be a great coder, but you could have found any developer to implement your product. It's obvious to you that the startup is your baby, and you should own most of it, probably 80% or so. You feel generous that you are about to offer 20% equity for what is just a glorified coding job.

Except you haven't had "the talk" yet. You need to sit down with your co-founder(s) and discuss exactly how to split the pie. Beware. "The talk" has caused more startups to fail than you can imagine.

> *Maybe 50/50 Is Not Such a Great Idea.*

From your co-founder's perspective, he is implementing all of the product, making all the hard design decisions and figuring out all the details that will make the startup a success. All you really did was provide an initial idea — that he improved over many weeks of brainstorming.

How do you imagine he will appreciate your offer of 20% equity? Not so well.

Clearly, if you are too aggressive, you risk losing your co-founders. At the other end of the spectrum, I have met many founders who shy away from having that tough discussion. Instead, they take the easy road and say "we'll split everything equally, 50/50." That's a great way to avoid a painful discussion today, but it will set you up for a failure tomorrow. Most likely you and your co-founder are not the perfect pair, unlike Larry and Sergei. An equal split usually signals a weak CEO who can't make decisions. When the time comes for any kind of tough call, an equal split multiplies the chance of deadlock among founders. Paralysis is also a far too common startup-killer.

Another terrible way to go about splitting equity is to base it on how much cash each founder is bringing. It may sound rational to Wall Street to set a price per share and let the founders buy as many shares as they can. Except the resulting split has nothing to do with what matters – who is critical to the startup – and instead is linked to who happens to have more cash at their disposal.

Is there a better way? I think so.

I started advising startups in Silicon Valley about how to split equity when I launched the co-founder meetup in 2009. I had my own experiences through several startups. As a director of a French incubator, I advised many entrepreneurs on the topic as well.

Each time, I would sit with all the co-founders and start with my first question: "Who is the CEO?" And then I'd ask about everyone's role, how they saw each other's contributions and so on. The questioning would last for a good 30

minutes, after which I could suggest some reasonable ranges. That discussion was a great way to force issues that had been left unspoken for too long. In one case, everyone agreed at the end of the meeting that founder #4 should quit. Even that fourth founder!

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Eventually, I got tired of asking the same questions over and over again and I wrote a quick online calculator I called the Co-founder Equity Calculator. While not as precise as a real discussion, it has been used by thousands of startups. A great way to make use of the online calculator is as a discussion starter: tell each co-founder to fill out the questions, and share the percentages (but not the detailed answers). Compare and discuss why you think the numbers don't match.

To conclude, here are some quick tips:

- 10% is a minimum to be considered a co-founder. Below that, you are in the range of first employee and should include some salary.
- 4 is the maximum number of real co-founders you should have. If you think you need 6 co-founders, rethink everyone's role and simplify.
- Every co-founder, including you, should have vesting (typically over 4 years), which solves a lot of issues with future co-founder fights.

Alain is the founder of the Startup Conference and creator of the Co-founder Equity Calculator.

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