SCOT CHISHOLM

The Ideal Compensation Package for Any Founder

ON THE INSIDE

Eating ramen noodles as a founder isn't a badge of honor.

I sacrificed compensation for too long early in my entrepreneurial journey. Yes, there will be times when you need to fight and be scrappy, but being frugal shouldn't mean neglecting your basic needs.

On the other hand, you shouldn't be jumping on private jets to see your clients either...

Moderation is key. It's about finding a balance that aligns with your company's stage and your personal well-being.

If you get this balance right, it's a win-win for both the company and the founder. That's what we're going to explore in this guide.

Why You Need to Get Your Founder Compensation Package Right

First, health & wellness. Startup founders are like professional athletes. They need to be at the top of their game to succeed and can't do that if they're worrying about paying rent and eating like crap. A healthy and balanced leader at the helm is well-equipped to steer the ship forward.

Second, it signals that you respect yourself and recognize the value you bring as a leader. This earns you respect in return. As CEO, you have to set that standard.

Third, having the right founder compensation package from the start sets up your relationship with the Board for long-term success. It communicates mutual expectations, aligns incentives, and shows you're clear about what you want.

Not doing this at the beginning is like setting off on a harrowing journey without a map to guide you. You may get lucky, but odds are it'll come back to bite you.

But don't just take my word for it. Here's what the Harvard Business Review had to say about the importance of your comp package:

> Compensation policy is one of the most important factors in an organization's success. Not only does it shape how top executives behave, but it also helps determine what kinds of executives an organization attracts."

One Big Caveat For Founders

Several key factors influence the ideal numbers and specifics. Think of it like a formula, where the variables can be affected (up or down) by the following:

Bootstrapped vs. VC-funded: VC-backed companies tend to have more cash to put towards compensation packages. You usually try to keep cash burn as low as possible when you're bootstrapping.
Geographic market: Silicon Valley or New York salaries tend to exceed other areas. Make sure to adjust for your specific location.
How much equity you hold: If you have a lot of equity as a founder, that may call for lower cash comp. Not "ramen noodles low," but when comparing your comp to other CEOs, equity should be factored in to keep it apples to apples.

Remember, it's a formula with variables. Don't get wedded to the specific numbers. Instead, use this framework as a strong starting point for negotiations. But be ready to tweak your numbers up or down by 20-30% based on your unique situation.

5 Elements for the Ideal Founder Compensation Package

1. Base Salary

Your base salary is the stable foundation of your compensation – your bills today aren't paid by future compensation. Base salary should reflect the company's stage of growth. As the company grows, so does your base salary.

This model helps you conserve cash early on, which is the second most common reason for startup failure, affecting 29% of failed startups. But it also gives the founder (and the Board) visibility into how the base will grow over time—a mutually agreeable roadmap.

Revenue	Base Salary
<$1M	$100k
$1-5M	$125k
$5-10M	$150k
$10-50M	$175k
$50-100M	$200k

100% OF BASE

2. Variable Comp

Variable compensation is the first performance-driven part of your package. You should be able to 2x your base startup founder salary for hitting the company's top goals. Great incentives align great interests. Don't just meet expectations. Look to smash them.

Here's what to do:

- Create 3 (or less) key company goals
- Make each measurable (very important!)
- Get the Board's sign-off

Then hit the goals and earn your variable comp:

- Below 70% achieved → you don't earn anything
- 70-100% → earn 0-100% of variable
- Above 100% → earn above 100% of variable (at Board's discretion)

Make sure the goals are S.M.A.R.T. Specific, Measurable, Achievable, Relevant, and Time-Bound!

25-50% OF BASE

3. Stretch Goals

Stretch Goals are (3 or less) additional targets that go beyond the ordinary course of business and help the company make quantum leaps forward. They are typically forward-looking goals and/or Board priorities only the CEO can drive.

Examples include:

- Major franchise-enhancing partnerships
- Personally landing a major prospect
- Hitting an aggressive funding or valuation milestone

Stretch goals motivate the CEO to go above and beyond their regular duties. It incentivizes you to look for those level-changing opportunities.

$1K-$5K/MONTH

4. Self-Care Package

This piece is almost always overlooked, but it really shouldn't be.

According to Forbes, **72% of founders report that entrepreneurship has impacted their mental health**. Your physical and psychological well-being is critical for your success as a founder and the company's success.

It should go without saying that the Board should help you optimize your health and performance. Professional athletes have strength, nutrition, and recovery plans... Why shouldn't the founder & CEO?

Get the Board to fund:

- Nutritionist
- Personal trainer
- Stipend for health supplements and mental well-being support

And if your Board has never heard of a self-care package, have them call me. This should be a standard for all founder compensation. There is no bigger win-win.

5. Putting it All Together

With the right base salary, variable compensation, stretch compensation, and self-care, this structure sets you and your company up for a win-win. You should present this structure to your Board as early as possible. I'd be surprised if they didn't see it as a win-win.

If they don't, take it as a yellow flag and ask to review again at the turn of the year (when annual budgets are set).

If they still don't entertain it, take that as a red flag and reach out to me. I'll coach you through it.

What About Founder Stock?

Presumably, you already have a good amount of stock as a founder (and possibly CEO).

If you don't, for some reason, negotiate the equity separately based on your unique situation and the type of company you're building. The same principles apply: Tie additional equity grants to company performance and agree to a vesting schedule. This de-risks things for the company while setting you up to earn more if the company performs under your watch.

And what is the ideal time to negotiate more stock options? During a new fundraising round – but that's a lesson for another time.

Remember, your well-being and performance are crucial to the company's trajectory. A well-structured compensation package isn't just about your personal gain; it's about ensuring the leader is well-equipped to steer the ship forward.

Reading this is great, but now it's your turn to take action.

Circle Your Base Salary:

REVENUE	BASE		
<1M	$100k	$5-10M	$150k
$1-5M	$125k	$10-50M	$175k
		$50-100M	$200k

Determing Your Variable Compensation:

Key Company S.M.A.R.T. Goal (up to 3)	How Will It Be Measured?	Signed Off By The Board?
		☐
		☐
		☐

Define Stretch Goals: