The 9 Equity Models

Models 1-5

The first five models are "date before you get married" models– you have the chance to prove yourself and also determine if the company is a good fit before you partner in the business.

Model #1: Free Discovery Day

I have a friend who is a crazy good launch consultant– he knows how to launch new products and get them into the hands of customers. A few years ago, he found himself spending more than half of his time answering RFPs– when companies were launching, they would ask launch consultants to propose their strategies and then they would pick one. The problem with this is he spent a whole lot of time in discovery, and then wasn't always selected. I recommended that instead of doing RFPs, he start doing free discovery days.

With this model, you tell a client that you believe in yourself and your frameworks enough to spend a day identifying opportunities and issues and then suggesting future services. This puts you above the competition, as you show the company first-hand what to expect and provide value up front.

After the free discovery day, follow up with a flat fee or hourly fee consulting program to implement the plan you identified and then once you achieve results, you either ask for equity, or are offered partnership.

The downside to this model: You're spending a day and not getting paid. Additionally, clients can assume you already solved their problems in one day and not want to hire you for more.

The upside to this model: It's a very low bar to get someone to take advantage of this as it's a free consultation day.

Model #2: Paid Discovery Day

This is exactly the same as the free discovery day, only you charge a nominal flat fee to cover your costs.

The downside to this model: Clients can still assume you already solved their problems in one day and not want to hire you for more.

The upside to this model: It's fairly easy to get people to bite as it is a small fee, and you can often identify several solutions in that time period.

Model #3: Paid Half-Day Consult (My favorite model)

Instead of a discovery day where you are identifying problems and suggesting solutions, I do a paid half day consultation where I come in and help them solve a known issue. The premise is that they have some (smaller) things that they want to wave a magic wand to fix, and I can fix them in a half day. I have solutions that work and can be easily implemented.

I think the best way to do this is to do a 2 hour initial consult, then wait a week or two and do a follow-up, so a half-day consult is a bit of a misnomer, but spending four hours with a client is a great way to pique their interest and show them what you can do, while creating value.

The downside to this model: You have to do some initial work to identify their problems so that you are able to provide true value in the four hours you have.

The upside to this model: It's a great way to upsell equity as you can show results in just a half day, and clients start to imagine the possibilities if they had your ear for longer. It's been very effective for me to return to clients for a debrief of our half day and ask for equity at that point.

Model #4: Straight Hours to Equity

For this model, you set up a standard hourly retainer– an open-ended, dollars-for-hours contract and when you deliver the required hours or result and then you ask for (or are offered) equity.

The downside to this model: It can become a huge time suck to reach the desired hours, and sometimes those desired hours don't net the profits you hope for in equity.

The upside to this model: You do the work, you get the equity. It's a sure thing– if you're willing to put in the hours, you get the money.

Model #5: Results to Equity

This model is exactly like the hours to equity, only you have to deliver the results to get the equity. Once you have solved a known issue or created an action plan or achieved results (as opposed to working a block of hours), you get equity. This can be a good thing as you could potentially deliver the results in just a few short hours. The flip side is it could take you months or years to deliver results, creating a huge time suck.

The downside to this model: It could take hours and hours to reach the results– and you probably don't know the potential roadblocks and hurdles you will face before you start.

The upside to this model: If you know you can deliver value quickly, you have the potential to earn equity quickly.

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Models 6-9

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Model #6: Earn-In

In this model, you provide consultation in return for equity that vests when you meet pre-agreed upon milestones or results. You don't take any money up front, but get equity for delivering whatever the thing is that you're doing to deliver. Unlike the previous models, this one promises equity up front. If you get the results, you earn your equity.

The downside to this model: This is open-ended, unpaid consulting, so it's easy to get sucked in and dedicate hours and hours and find yourself unpaid if you face roadblocks to results. I don't recommend this if you don't have full confidence in the business and your potential to deliver results.

The upside to this model: You are guaranteed equity if you are able to deliver the results– no asking, no negotiating.

Model #7: Time-Based Equity (Another of my favorites)

In this model, you provide services for an agreed-upon hourly rate. Once you have completed a given block of hours, you get an equity kicker. It's pretty simple: You agree on the vesting time period and receive the agreed-upon equity.

The downside to this model: You can end up waiting a long time for equity. I would recommend doing a pro-rata portion of equity as time passes. For example, if the equity is 20%, and the time period is two years, then I would do 2.5% (⅛ of the total) each quarter so you don't wait so long to get paid.

The upside to this model: You are guaranteed equity after a certain amount of time– if you aren't fired and you do your time, you have equity.

Model #8: Triggered Pseudo Equity (Another one I often use)

In this model, you are paid for a flat-fee or hourly consultation fee, and additionally, you get pseudo equity after a time-based or result-based triggering event. Pseudo equity is not equity– but it's just as good. The idea of pseudo equity is a bit complicated– but it often takes the form of phantom stock, where you're treated as a shareholder but you're not, or something called a profits-only interest, where you participate in the profits without owning actual stock. Either way, you get paid equity-like compensation for your work.

The downside to this model: Pseudo equity can be really complicated if you don't understand it, and you will likely need to get legal advice to fully understand your options.

The upside to this model: Sometimes pseudo equity can be more lucrative than standard equity.

Model #9: Straight Equity

In this model, you sign a contract to provide services and you get an immediate grant of equity or stock or other form of equity instead of a paycheck. It's that simple.

The downside to this model: It's rare that a company is willing to give straight equity in exchange for services, especially if the company is established enough to have some real money behind them.

The upside to this model: You get your equity, right away.