

Forming A Business Advisory Board

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Owning a Business is a lot of things including rewarding, challenging, frustrating, and it also can be very lonely. The reward comes in the form of control of your life – to some extent anyway. The challenge is to operate a successful Business. The frustration often results from dealing with employees, customers, bankers, and vendors. “Alone” sometimes best describes how business owners feel as they have ultimate responsibility and no peers to discuss things with. Advisors can help in a lot of ways.

My Company’s business is advising business Owners that wish to sell their businesses, and advising buyers of businesses. We also provide Business Appraisals, Machinery & Equipment Appraisals, and Advisory Services in the areas of Business Planning and Financial matters. I often recommend that Business Owners form an Advisory Board.

Forming an Advisory Board – one or more individuals that learn about the Business, meet regularly, and advise the Business Owner – is one of the best ways for Business Owners to BETTER operate their business and feel less alone. Obvious questions include:

- How to form an Advisory Board?
- What should the Board do?
- How often should it meet?
- How should the Board be compensated?
- What should an Owner expect?

There are more questions but this is a start. Not in any particular order, some thoughts...

The Owner should first define why a Board of Advisors is being formed. Some reasons might be a) to provide expertise the Owner doesn’t possess, b) to help the Owner make good decisions, c) to keep the Owner from making bad decisions, and others depending on the particular circumstances of the Business and Owner. This is perhaps the most important part of the process – the Owner should write down “needs” and “expectations”. Then the formation of a Board starts – by finding Advisors that will fill the needs and meet the expectations.

Who should be on the Board? And who should not be on the Board? Second question first – often the first thoughts are “attorney and accountant”. For the most part I’d say “no” to attorneys and accountants. They are paid professionals that have particular expertise and may have points of view that encompass their role that are not in the best interests of the Business. One might think of a vendor or customer as an Advisor. Again, they have a relationship with the Business that influences their ability to independently advise and don’t belong on the Board. Plus, they very likely would learn things as Members of an Advisory Board that could influence their role as vendors or customers.

Who should be on the Board? There is no perfect answer. But there are some guidelines that have worked. First find someone that has had experience in the same business or industry. A manufacturing business could benefit from someone with manufacturing company experience. The same holds for distribution and retail businesses – find someone with distribution or retail business experience. A service business such as a bar/restaurant needs someone with bar/restaurant experience. Others can include owners of other businesses, persons with sales or operations experience, and someone

with financial expertise. The Advisory Board could be only one person, or it could have two, three, and more Members plus the Owner. Depending on how many will influence who the Members are.

Now that the Board has been selected, how often should it meet and what should it do? How often to meet is a function of the Business Owner and his/her needs. Monthly meetings for new Business Owners can be a comfort, while this is probably too often for others. Quarterly meetings plus getting together for particular needs including major decisions is probably more appropriate for most Business Owners. What should the Board do? Always have an Agenda. Always have one Board Member take notes, summarize them, and distribute them to the Board. The Agenda will list topics such as

- A. Approve the Minutes of the prior Meeting
- B. Review Financial Statements and compare with Budgets
- C. Discuss Capital Expenditure Needs
- D. Discuss Opportunities
- E. Discuss Issues and Problems
- F. Discuss Financing/Banking Issues
- G. Set Next Meeting

Should Board Members be compensated and if so, how much? First of all, I believe anyone that performs a service should be compensated. Don't panic - small business Advisory Board Members aren't paid tens of thousands of dollars per year that public companies pay Board Members. So how much? Small companies have financial restrictions of course. A flat fee per meeting is a good way to start. What can the Business afford? Figure it out and do something. Some Board Members might tell you they don't want to be paid - my suggestion is to tell them you want their expertise, advice, and attention, and expect to pay for it. Value provided for value paid. Many smaller and mid-size companies routinely pay a thousand dollars for meetings. The amount is less important than the message that the Business Owner is serious about wanting advice and is willing to pay for it.

Finally, what should the Business Owner expect from Board Members? Time first of all - it's a commitment to be an advisor. Attention - the Owner should provide in advance materials to be reviewed at the meetings and the Advisor should review them and be prepared to ask questions and provide input. Independence - the Advisor should give honest, straightforward advice without regard to hurting feelings or getting fired as an Advisor. The Business Owner cannot shift responsibility to the Advisory Board; rather he/she should listen to all the advice, discuss and analyze options, make decisions, and accept the results. But if the Business Owner NEVER does what the Advisory Board recommends and doesn't listen to concerns, the Board will be ineffective and Board Members will be disenchanted and ultimately leave.

An Advisory Board can provide insight, expertise, and guidance to a Business Owner. It is an excellent use of time and money for Business Owners. Most importantly, it is one way for Business Owners to "be less lonely" in their endeavor to better manage their business.