Is it Time for You to Earn or to Learn?

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I often have career discussions with entrepreneurs whether they should join company "X" or not. My reply is usually, "is it time for you to earn or to learn?"

If you're thinking about joining a startup that has already raised $5 million (not as a senior executive) the chances of you making your retirement money on that company is EXTREMELY small. That's Ok. Not every job you have is supposed to be your big break. It's OK for that to be your job to "**Learn**".

It's clear to me that many people confuse learn with earn. I will do a simple calculation for them that goes like this:

(a) OK, you would own 0.25% of the stock.

(b) They raised $5 million in their B round. Let's assume that the company raised it at a normal VC valuation, which means it gave up 33% of the company and thus $5 million / 33% = $15 million post-money valuation.

(c) If you never raise another round of venture capital (a big if) and if your company is sold for the normal venture exit ($50 million on average) then what is your stake?

(d) Your stake is 0.25% x $50 million = $125,000.

Yup. Simple math would have solved that but people rarely do the calculations or think about it.

And let's say that it took 4 years to exit - that's $31,250/year. Now… These are stock options and not restricted stock so you'll likely be taxed at a short-term capital gains rate (see comments section for why). In California that averages around 42.5% so in my state after tax you'd make an extra $18,000/year and that's in a positive scenario! BTW, this ignores liquidation preferences which actually mean you'll earn less.

So let's go CRAZY! You get 1%, you sell for $150 million and it's in 3 years (e.g. you won the lottery). That's an after-tax gain of $287,500 / year for 2 years. Not bad. Doh! Wait a second. Stock vests for 4 years. You didn't get acceleration on a change of control? Sorry bud. We'll have to either cut your earnings in half to $143,750 or you'll have to complete 2-years at BigCo that bought you making the money spread out over 4 years so it's $143,750 / year for 4 years.

I'm not trying to depress you. I'm just trying to be realistic. If you want to "**Earn**" (and by earn I mean the chance to buy your house outright or greater) - you have to start a company or join as a senior executive.

Or you have to hit the lottery and be an early middle management player at Google, Facebook, MySpace or Twitter. Let's be honest - how many of those are created per year in the entire country? 1? 2 max?

I spoke with an investor recently who told me that 1,500 deals get funded/ year in the US, 80 (**5.3%**) eventually sell for $50 million and only 8 (**0.5%**) eventually sell for $150 million or more. [this article was written in 2009]

Join a company with realistic expectations of what you want to get out of it. My advice is often, "make sure that what you get out of working at this company is one or several of the following:

- a great network of talented executives and VCs,
- more responsibility than your last job,
- specific industry or technical skills that will help you in what you do next,
- a chance to partner with companies that will increase your industry relationships, etc."
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>>>> **Learn** now to **Earn** later."

Working in a startup can be an enormously rewarding experience. But you need to match your…

Talents
Age
Skills
Ambition and
Economic situation

… with your current reality.

At a minimum be realistic about the outcomes. And make sure you ask yourself the question, "am I here to earn or to learn?"