Slicing Pie

Mike Moyer

Lake
Shark

Retrofitting

Many founders discover the Slicing Pie model *after* they have already succumbed to a dreaded fixed split. This guide outlines the process for *retrofitting* the Slicing Pie model using the **Retrofitting/Forecast Tool** spreadsheet that you can **download here**. Some ideas for doing this retrofit is covered in the Slicing Pie book so if you're not familiar with the model, this may not make perfect sense.

The first step is to get everyone on board with the Slicing Pie model. Instructions on how to do this are included in Chapter 8 of Slicing Pie.

The next step is to go back in time and remember everything that everyone did since you started the company. This is harder than it sounds, but as long as you get in the ballpark you're probably going to be okay. Use the Slicing Pie

Retrofit/Forecast Tool to record your recreation of the past.

Forecasting

The tool can also be used to forecast the split after a certain period of time. To forecast you will record your guesses about the future rather than your recollection of the past.

Don't rely too much on a forecast as it's much harder to predict the future than it is to remember the past. However, people may want to know how their participation can translate into equity so this exercise can be comforting. Keep in mind, however, that things rarely go as planned.

The Spreadsheet

Unlike the **Grunt Fund tracking tool**, the retrofit/forecast tool takes a single snapshot in time. The results of this exercise should be the starting point for the tracking spreadsheets or online Pie Slicer software available at SlicingPie.com.

In the tracking tool each person, or Grunt, has their own worksheet. In the retrofit tool there is only one worksheet and each person gets one column.

Editing

The spreadsheet has a mix of user-entered fields and calculated fields. Enter data where indicated by a box. Don't monkey with the formulas.

Grunt Fund Settings

At the top of the spreadsheet is a settings box that are pre-entered to reflect the rules in the Slicing Pie book and I don't recommend changing them. However, I made them editable for those who like to court danger as tweaking these settings will inevitably make the model less fair!

Grunt Fund Settings				
Cash Multiplier	Non-Cash Multiplier	Sales Commission	Investor Finder Fee	Hours in a Year
4	2	10%	5.00%	2000

There is only one Investor Finder's Fee level which is set to the recommended rate for raises under $1,000,000. I did this to simplify the spreadsheet reasoning that companies who have raised more than $1,000,000 may not need the Slicing Pie model. Details on finder's fees are covered in Slicing Pie.

Date Settings

Set the date of the retrofit in the Date of Retrofit/Forecast box. In the case of a Forecast, you would want to set a future date.

Date of Retrofit/ Forecast
24-Jun-15

Date Work Began in Earnest is the first date the individual began working on the project with the intent of becoming part of the team. In some cases, casual contributors may not have made any real commitment to the project and may not be included.

Contributions

Calculations for contributions are made according to the rules in the Slicing Pie book. If you are familiar with the model the entries should be fairly straightforward.

Remember that Slicing Pie allocates equity based on the relative amount of risk taken by each person. The amount of risk taken is equal to whatever a person would have been paid by someone else for the same contribution. Slicing Pie also applies risk multiplier that rewards individuals for taking the risk.

Slices

Version 2.3 or earlier of Slicing Pie uses the term "Theoretical Value." I now prefer using the term "Slices" instead. A slice is the fair market rate times the multiplier. So, a dollar spent on the company would contribute *four* slices to the pie. Which is the same thing as assigning a theoretical value of $4.00. I think the term slices is easier to understand and helps to underscore the notion that theoretical value is not the same thing as actual value.

The spreadsheet calculates slices. A slices = one unit of currency in whatever currency you are using.

Fair Market Salary

In many cases, founders who have entered into a fixed-split model have *not* discussed salary at all. Knowing a person's salary, even if you don't pay her, is important because it allows you to measure what she is putting at risk.

The fair market salary is the salary the employee would be paid by an established company, for *similar* work. You may remember this explanation from Slicing Pie.

The fair market salary is the agreed-upon salary for the position that *will be paid* as soon as the company is *able* to pay. In other words, negotiate this as if you are going to pay it, because someday you will (hopefully).

The number will fall in the intersection of the company's willingness to pay and the employee's willingness to accept the pay.

A startup (you) may not need a full-time senior-level VP of marketing who can get $300,000 a year on the open market. You may want a more junior-level marketing guy with half the salary. A $300,000-a-year marketing VP may not want a startup job with a fair market salary of $150,000 per year unless he believes the value of the company will grow quickly in which case the pay cut might be worth it.

Make sure the salaries you pay reflect the reality of the job you are hiring for. Startup managers usually don't manage huge teams of people, administer large budgets or manage large operations. Similarly avoid the temptation to pay "start-up rates" which are lower than fair market rate. Set the salary at what the job is worth.

The spreadsheet will determine an hourly rate based on the number of hours in the settings area. The default is 2,000. Some countries have different hours in a working week.

Average Hours per Week Worked

It's difficult to determine *exactly* how many hours a person worked unless they kept good records. Estimate the hours worked on a regular basis. Keep in mind that if you claim you worked huge hours (60+) before the retrofit and don't continue to work that much after the retrofit, your teammates may think you are untrustworthy. Similarly, if you log lots of hours, but *don't* show corresponding productivity you may damage your credibility. I recommend you err on the side of underestimating, rather than over estimating.

Going forward you and your team will track your time contributions in as much detail as you feel comfortable. (Time logs are great analytical tools to have on hand, by the way.)

Cash

Minor working capital is money deposited into a corporate checking account for the purposes of paying bills.

Expenses are business-related costs incurred by an individual. Personal living expenses do not count.

Only include money that was spent on business expenses. The Slicing Pie model accounts for cash consumed, not cash invested.

Equipment and Supplies

Equipment and supplies bought for the company are treated as cash. Use the price paid, or estimate the price if receipts aren't available. (In the future, keep receipts!) Be careful not to double-count items that may have been included in entries for cash.

For items less than a year old, the purchase price is treated as a non-cash contribution because it was not a current expense incurred on behalf of the company.

For items older than a year use the resale value. Check EBay to help estimate value.

Facilities

Enter the fair rent for the space used per the Slicing Pie book.

Intellectual Property

There are two sections for Intellectual Property. Both should be used in situations where the intellectual property was developed *prior* to the person starting or joining the company. Intellectual property developed while on the job is simply part of the job and would not necessarily receive special treatment.

In some cases, the company may want to use the time & expenses related to the development of the intellectual property. This would be common for a solo founder who creates the IP *before* the company starts.

In other cases, the company may want to use a royalty model. This would be common for a company

that *acquires* IP after the company has started. There is a field for an advance. In the licensing world, advances are common. This gives the inventor a stake in the company even if the company fails to move on the idea. Without an advance, companies would have an incentive to license technology without any intent to commercialize it simply to keep it off the market. That wouldn't be fair. Advances are standard practice, but the amount of the advance is deducted from future royalties.

Commissions & Investor Relations

A person's relationships translate into value if they generate revenue or investment. Enter the amount generated. The rate is set for all participants in the settings area. Usually, commissions apply only to commissioned sales people because they would have a lower base salary.

Forgone

In some cases, the spreadsheet will calculate a "Forgone" sum. This is simply reiterating that payments may not have been paid. I don't want to imply that anyone is necessarily owed a sum.

You don't need to "net-out" entries in the spreadsheet. You just need to enter what was contributed. As you will see below, the tool will adjust the amounts in the event that payments were made to individuals.

Adjustments

Lower on the spreadsheet there is a space for cash payments made to individuals. It does not matter what the payment was for, necessarily. It only matters that it was made.

Payments from the company to an individual will lower the risk taken by the individual.

Payments will be treated as the repayment of cash first, because with the default multiple (4) cash translates into more slices than non-cash. In the Slicing Pie model cash is more "expensive" in terms of slices, than non-cash.

After cash payments are deducted from cash contributions the remainder will apply to non-cash contributions.

Overcompensation

Sometimes, after adjusting the contributions with cash payments, a person has a *zero* balance. This means they have not risked anything and, therefore, would not have slices.

In the event the balance is negative, you are dealing with someone who has been *over*compensated and no slices will be allocated. The model will not allocate negative slices. Be careful not to overpay people in the future!

Bonus Slices

In some cases it may be appropriate to provide a spot bonus in slices to a deserving team member in the case of exceptional work or contribution that

wouldn't otherwise warrant an increase in fair market salary.

Interpreting the Retrofit

After all the contributions have been accounted for, you can compare the Slicing Pie allocation to the fixed split allocation. They will probably not match. The degree to which they don't match may cause some discomfort among the team members.

For instance, the Slicing Pie model might allocate a much lower share to a person who had a large share under the fixed model. He may be upset. Hopefully, he will see that he had an unfair allocation and will realize that the new allocation better reflects his contribution relative to the other members of the team. He can take comfort in knowing that he is being fair and the team will get along better using the new model.

In some cases the individual will hem and haw and not budge. This means he does not fully understand the Slicing Pie model and its ability to be fair.

Or, if he *does* understand the model, it means that he is the kind of person who is quite willing to benefit at the expense of others. The world is full of people like this and I'm sorry you have one on your team. This may doom your company. If this happens to you, let me know and I'll try to walk you through a strategy.

Moving Forward

Once you and your team agree to the retrofit, you can simply transfer the results to the Grunt Fund tracking spreadsheet.

If you are using the online Pie Slicer Software simply enter each Grunts adjusted cash and non-cash contribution using the "Other" contribution type from the dropdown menu:

Mike Moyer

Slices: 280,000
Well: 0%
Well Balance: 0USD
Pie: 77.78%

Add Contribution ▼

Add Contribution
Time
Expenses
Supplies
Equipment
Sales
Royalty
Facilities
Other

You will have to enter each amount separately being careful to select the appropriate "Cash" or "Non-Cash" radio button:

Summary

The retrofitting exercise should be a frank and open discussion about the contributions each person has made. It should not be confrontational, but it may make Grunts uncomfortable. However, it's not nearly as uncomfortable as sitting in a courtroom suing your former friends and colleagues over an equity disagreement. This happens all the time, but not to you!