If they had to do it again, they would not use the model again since the company took shares in the start-up for services that had to be completely redone. He would have preferred to raise more funds to pay for the services they needed.

Pros and cons

For companies using the method

As mentioned in the initial methodology, the aim of this work was to know the limits of this method as well as its advantages and disadvantages according to the experience of some start-ups, as well as the way in which this method of financing can help to build a company. This work will thus help new entrepreneurs to find a financing solution when they may not have the financial means to start their business.

Positive	Negative
Faster growth	Investor without cash inflow
Advice from an additional shareholder who is an expert in his field	Dependency on the company
(Ideally) Committed partner	
Rapid increase in turnover	

As we have seen in the various testimonies, one of the significant advantages of the method is the speed of action for a start-up. When raising funds, a start-up will tend to take much longer to recruit technical profiles to form its team. Whereas, when a start-up uses *Services for Equity*, upon agreement with the company providing the service, teams are quickly trained and deadlines are, in principle, shorter. This method of operation will allow the start-up to grow more quickly and will enable it to achieve, in principle, its objectives.

Since the service provider also becomes a partner, it is in his interest, in theory, to provide a service that makes it possible to generate revenue more quickly. The start-up therefore should be taking less risk than using a company that it would pay in cash.

Nevertheless, as seen in practice, a company providing the service may tend to put other projects ahead of the one in which it owns shares.

In addition, *Services for Equity* will tend to create a certain dependence of the start-up on the team providing the services. Since services are provided at lower costs for the start-up, it will tend to delay the formation of its own team.

One of the major problems of this relationship is that it is difficult to assess the value that the services will have on the life of the start-up. It is complicated to know whether the delivery will be effective or efficient (effectiveness and price).

For companies providing the service

The objective of this part of the work will be to answer the following question: "Is *Services for Equity* a 'payment' method that can be beneficial in the long term for a company that agrees to be paid by shares rather than money? ».

Positive	Negative
Faster return Less risk than a cash contribution	Lack of security Mistrust of other shareholders Difficulty of assessing the profitability of the operation Need for sufficient financial resources to finance the services

A significant advantage for companies providing the service is that these services will allow start-ups to grow much faster than if they were granted money by a Business Angel (this money will have to be invested first, recruitment takes time, etc.). In most cases, a *Services for Equity* investment makes it possible to make a start-up more quickly profitable than a traditional Venture investment. As a result, a company that holds shares will be granted a financial return more quickly from a start-up that has become profitable thanks to its services rather than the contribution of a traditional Business Angel.

However, compared to a traditional service sale, the company will not receive cash directly.

On the one hand, this investment in kind carries less risk than an investment in cash, although the supplier is likely to lose the service contribution he has made and the financing of his teams and his cost structure to produce the service. However, like any investment, there is no real security for the success of the start-up.

Make It had made a quick calculation to determine whether the contribution in kind was more beneficial than a cash contribution and concluded that the contribution in kind was bigger than the cash contribution for an equal return.

The value of services therefore has every interest in being properly valued over the long term in relation to the value of the company using them.

Another disadvantage is the relationship that the supplier will have with other shareholders. An investor injecting cash will end up with one or more shareholders who have not taken out any cash and have, nevertheless, a certain number of percent. The shareholder service provider will often have to justify his shares.

Recommendations of the experts

- *The Services for Equity* relationship has often been compared to a marriage. It is therefore necessary to choose your partner wisely since the investor is also a supplier. It is necessary to get along well and lay the groundwork from the beginning of the relationship. The person using the *Services for Equity* is advised to handle his supplier well and to be attentive to the quality of the work delivered.
- Most of stakeholders advise not to have blind trust and to compare costs in shares and money.
- On both sides, it is beneficial to *benchmark* the market in order to understand whether the relationship is beneficial - and, if so, when.
- Olivier De Wasseige even advises to have the quality and value of the services validated by a third party; this third party could even arbitrate the relationship.
- Like any relationship, it is important to lock it in a framework so that, if it does not go well, both sides can exit it without too many problems. A specification is obviously necessary to ensure that the services offered are properly monitored, although this should not be too strict if the company is a young start-up. It has been proven that start-ups tend to pivot. If the specifications prove to be too strict, the product or services delivered may not correspond to market demand.
- Companies that already have experience in *equity* advise setting a minimum and maximum number of hours of service.
- The shareholders' agreement must foresee a way out of the relationship if it deteriorates.

- In addition, it would certainly be wise to inform other shareholders who have made a cash contribution about the nature of the relationships and the contribution of the shareholders who provide a service.
- Some of the interviewed companies prefer semi-equity. They claimed that this solution entails less risk for the company providing the service and, at the same time, provides several services to the company using it. Offering money will tend to boost benefits.
- As a start-up, when looking for partners for a *Services for Equity* model, prefer companies with experience with this model.

Conclusion

In conclusion, the *Services for Equity* financing method will tend to attract young companies and entrepreneurs with little initial funding. It is an opportunity to accelerate the start of a start-up's life. This method of financing also allows the company providing the service to incur less risk than if it were to invest cash in the start-up; although time, team funding and the cost structure for creating the service are not to be disregarded. In the case that everything goes well, the company providing the service will tend to generate returns more quickly than if it had invested money.

It is also important to value the services at the beginning of the relationship since they can be compared to a contribution from a Business Angel who would have put money as the start-up develops and generates income at the end of the year.

In any case, both parties should be vigilant from the beginning of the *Services for Equity* relationship. The foundations will have to be laid to ensure the proper functioning and understanding of both parties so that this relationship is beneficial to both businesses. Due to the interventions, the conclusion that *Equity* creates a lot of uncertainty and friction between the two parties is obvious.

As Guy-Louis de le Vingne pointed out, a contribution in service can be compared to a Business Angel, the only difference being that the counterpart, which allows the start-up to grow, is not money, but services. This is often where conflicts arise: a relationship that is, by definition, ephemeral and especially important at the beginning, through the very principle of the model intended to last until the shares are resold or the company is liquidated. Hence the importance, according to Olivier de Wasseige, of a clear roadmap with clearly identifiable deliverables that will define when the role of the service company ends. These specifications will make it possible to predict where possible conflicts could arise.

The Services for Equity method therefore remains an interesting model but requires a lot of pondering and a powerful legal convention to avoid future conflicts. For start-ups that have, on the other hand, enough financial resources not to let partners enter their shareholding, who will remain ephemeral by their role, should rather move towards more traditional, stable and long-term forms of partnership.

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Find out more

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