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How to play the stock option game in Silicon Valley

Unlike in Europe, stock options play a central role in most employees' compensation package in Silicon Valley. European companies planning on having operations in Silicon Valley need to understand how to deal with stock options to be successful.

With many employees staying less than a year with one company, retaining employees in Silicon Valley has become a real challenge. What can you do to keep them motivated and loyal to your company? Employee development and retention has become one of the most critical strategic factors shaping a company's success in the high tech and Internet space.

Not only have product life cycles shortened, but company life cycles have shriveled to couple of years and sometimes only months. VCs are taking companies public or selling them off much sooner now than just a few years ago. Employees of successful start-ups are becoming millionaires almost overnight due to their stock options.

Generous stock options have become the tool for cementing employee loyalty, while at same time encouraging job seekers to make job decisions more like an investor than an employee. The more savvy hires demand to know intimate details of a company's financial health, technology, management and competitive situation. And once joined employees will leave if they lose confidence in the management, technology or competitive advantage, in order to cut their losses.

Needless to say, working for a start-up is hardly an embrace of poverty.

Compensation survey of executives in information technology companies 1998

Executive title	Total compensation	% Stock owned	Experience at position (years)	Number of respondents
CEO	\$212,390	11.2	14.6	123
VP Sales	\$190,604	1.9	14.8	95
CTO	\$151,071	6.9	15.0	64
VP Business Development	\$151,160	3.6	10.6	40
VP Marketing	\$151,417	2.9	11.5	83
VP Engineering	\$154,662	2.9	14.5	104
VP Finance	\$151,061	1.5	11.1	71

Source: Benchmark Capital and other leading venture capital firms, <http://www.benchmark.com>

For the ambitious, mid-level managers the number of stock options as a percentage of the company is crucial, as well as the ability to play a significant role and move up the ranks. The younger the company, the larger the piece of equity. For instance, a 6-month-old firm with 10 employees offered a 32 year-old marketing executive 0.5% equity, or 50,000 of the company's roughly 10 million shares and a salary of \$90,000 with \$10,000 incentive bonus. The same executive received an offer from a 18-month-old company with 30 employees, giving him 0.24% of the company, or 32,500 of its 13 million shares, and a salary of \$100,000 and a \$15,000 bonus. The general rule of thumb is that for every year more that the company exists, the percentage of the company offered is cut in half.

Create a unique work environment

While stock options are very important, there are also other, creative benefits companies can offer to get good people and keep them. Besides providing employees training and development opportunities, in-house seminars aimed at fostering personal growth and enhancing on-the-job relationships, and 401 (k) plans, firms can entice new hires with additional add-ons as: pool table at work, gym access, flexible work hours, tele-commuting, etc. Furthermore, frequent and supportive communication and visits to the European head office and a sincere willingness by the European management to understand local needs help to cement employee loyalty.

Internet recruitment sites

At times you may not have the budget to pay the executive search firms the 20-30% commissions they usually pocket. An alternative is using Internet recruitment sites. They generally offer various services, including resume database search, job postings on various sites, virtual job fairs, and mini-company web sites to manage recruitment process. Some of the more interesting recruitment web sites are:

- America's Job Bank: <http://www.americasjobbank.com>, 1,5 million registered job seekers, free, supported by US Department of Labor
- Monsterboard: <http://www.monsterboard.com>, 1 million resumes, national coverage, full range of services
- Careerpath: <http://www.careerpath.com>, 1 million resumes, national coverage, powered by 90 leading US newspapers
- Hotjobs: <http://www.hotjobs.com>, 800,000 resumes, 30% Bay Area focus, IT-focus
- Incpad: <http://www.vjf.com>, 200,000 resumes, Bay Area focus, all positions in high-tech, part of Westech Career Expo

Essential to an effective candidate search is having a clear job definition and requirements. This will also expedite the matching of job and candidate profiles in the online databases.

New office and web address

Thanks to our growing customers and expanding business, we have moved. Our new address is: GB Communications Inc., 236 North Santa Cruz Ave, Suite 100, Los Gatos, California 95030, tel: 408/317-1743, fax: 408/317-1744. Responding to customer recommendations we have changed our web site to www.gbcommunications.com, to make it easier to remember.