

With the help of business brokerage companies, being a boss is no longer a dream. It could now be stress-free to start a business, especially for first-time entrepreneurs.

Some set up a business to try their luck as an entrepreneur: those approaching middle age who want an alternative to retirement or young people eager to find their first pot of gold. Others see owning a business as an investment option.

Whatever the reasons, a long checklist awaits any owner-to-be who is starting from scratch: from choosing sites and purchasing equipment to applying for licenses. Business brokerage companies offer an easier solution by helping clients to takeover already up-and-running businesses. These can be anything from restaurants and beauty salons to pet shops and tutorial centres.

“(Just taking over the business from them) got rid of most of my worries,” says Tony Chong Hoi-yuen, owner of the Taiwanese-Japanese restaurant The Ice House. Chong bought the restaurant in Western district in October last year, from the Hong Kong Business Intermediary (HKBI), a business brokerage company.

Chong paid roughly HK\$500,000, which included a one-off payment of HK\$398,000 for the takeover. He says this price was lower than the cost of



Tony Chong Hoi-yuen learnt how to run his new business from the previous owner.

starting from scratch, which would have been around HK\$600,000 to HK\$700,000.

Chong was spared the expense and trouble of purchasing equipment and fixtures as these were included in the takeover package.

“You have to pay for everything in the shop: the chairs, the tables and so on. Fridges are the most expensive. One fridge costs you more than HK\$100,000. What I save from taking over a

business are these expenditures,” the 23-year-old says.

The buyers of the businesses also get training from the former owners. Sellers are required by the brokerage companies to teach buyers how to operate the business, which usually takes two weeks. “After the two-week training, I took over the business from the previous owner. He stayed at the shop to help us for a week. So the transition period lasted for three weeks,” Chong says. During that time, Chong learnt the recipes and how to cook them.

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“Most of the time, buyers have no experience at all. So we require the seller to provide training to the buyer,” said Edwin Lee, founder and director of HKBI.

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Apart from making sure new entrepreneurs acquire the basic skills to run their new businesses, business brokerage companies also provide after-sale services.

HKBI offers two years after-sale service in their takeover packages. They can also help clients with marketing, such as referring them to relevant companies if they need to create a new image, logo or brochures for their businesses. “Whether or not they adopt our suggestions is up to them,” Lee says.

The cost of these services is covered by the 10 per cent of the takeover price

paid to HKBI by the buyer when a transaction is completed. Lee refuses to disclose the fee they charge sellers, calling it a business secret. However, he explains that they look at the competitiveness of the business, the size of the transaction and how profitable it is to determine the fee.

Buyers are also paying for the business’s goodwill. A good reputation implies an established customer base that a brand new business rarely has when it has just opened.

“At the beginning (of starting a business), everything is zero, including the number of customers. It’s very hard to find customers when you have none. But now I have customers. It’s easy to jump ‘from one to two,’” says Brian Ng Pak-yan, who bought Ease House Cafe in Mong Kok from HKBI.

The 21-year-old bought the café with his girlfriend. After running the business for almost two years, Ng has almost made back his initial outlay of HK\$500,000. That outlay included HK\$398,000 for the takeover and another HK\$100,000 for decorations, equipment and sundry expenses. Although they incurred losses in the first



Ease House Cafe in Mong Kok is already breaking even after Brian Ng Pak-yan took it over almost two years ago.

three months of the business, the café is now breaking even.

As the quality of a business is an important consideration for buyers, finding suitable businesses to sell is a key part of the business brokerage’s job. Unlike potential business buyers, who are plentiful, the supply of businesses is limited.

“It’s always difficult to find the sellers,” Lee says. HKBI sends researchers out into the streets to copy businesses’ addresses for direct mailings asking if they are interested in selling.

After finding potential sellers, brokers have to screen them to find suitable ones. For a larger picture, they look at their assets and profits. They compare them to similar businesses in



Stress-free

by Crystal Chui

STARTUP

the market and assess the prices they are being offered.

Lee says professional brokers have a checklist of at least 20 items which they must take into account. These include expenses, such as gas and electricity bills and wages, and client and supply lists, and the business accounts and sales records.

On the other side, to attract buyers, companies hold seminars and advertise on the radio and television. Lee says word of mouth is very important. Bossible Hong Kong, a business consultancy firm, says recommendations by their current clients make up a considerable proportion of their new business. They also make use of the internet. Clients can find the company online after searching for related keywords and can browse the postings of different businesses on sale.

While buying a business is now a shortcut to becoming a boss, selling a business is also a way to earn money. Business brokerage services are a means to bring the two parties together and to facilitate transactions. However, with the two parties' interests in conflict, brokers have to deal with the issue of trust.

“The role we play is being a friend of buyers and sellers.”

“There are trust issues involved since a lot of buyers do not trust sellers. They lie about business' prospect. They hide the problems as well,” Lee says. According to Lee, there are steps to follow for handling a transaction to enhance the level of trust on both sides. “Through this process, the buyers will have more confidence in taking over the business, more faith in believing what the sellers are saying.”

First, the business brokerage company screens the businesses presented by sellers and a valuation committee will estimate the value of the business before it is officially placed on the market.

Then, brokers talk to potential buyers and perform site checks with them. Once they decide to buy the business, brokers arrange for the buyers and sellers to meet. If both parties agree, they will sign contracts and proceed to the handover process.

As the interests of both sellers and buyers are at stake, a professional business broker should provide a balanced and safe platform for buyers and sellers to make their own decisions. “The role we play is being a friend of buyers and sellers,” says Harry Chow Hin, marketing director of Bossible Hong Kong.

To handle all the aspects of a transaction, a business brokerage company needs more than just brokers. A group of accountants, solicitors and financial consultants are hired to do analytical work such as valuations of the businesses.

Though companies can count on experts to deal with the numbers, they have to rely on brokers' integrity when making deals with clients.



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Professional ethics are more important than academic qualifications. Whatever the advice they offer to their clients, the

negotiated price may change, and so will the commission brokers get. Commission for a transaction can range from HK\$10,000 to around HK\$100,000, which must be shared among the company's departments. Therefore as middlemen, brokers have to be ethical and impartial.

“Brokers have nothing to lose, they just work in exchange for a commission. But sellers and buyers are financially at risk,” says Chow.

“Willingness to learn is something we give great consideration to.”

Moral issues are therefore discussed during recruitment interviews and candidates are asked to consider situations from the clients' perspective through case analyses to make them understand the clients' situation. “We hope our colleagues will work according to their conscience”, he adds.

Since business brokerage involves more than ethics, specific skills are also called for. Companies look for presentation skills, an understanding of society and the market in general.

However most of those who join the field have no knowledge of business brokerage or business management. Therefore, senior brokers are assigned to the new brokers to provide them with on-the-job training. There is also in-house training on basic legal and real estate knowledge.

With so much to take in and get up to speed with, initiative and enthusiasm are highly valued in business brokerage. “Willingness to learn is something we give great consideration to. You may deal with a restaurant in the morning, then a laundry shop in the afternoon. At night, you may sell an advertising agency. If you are not willing to learn, you will find it tough going,” adds Chow. 