

Keys to calculating start-up success

McKinsey Hong Kong's managing partner, with three Harvard degrees, says learning a trade's nitty-gritty, having enough capital for two years, and avoiding large fixed costs are crucial for novice entrepreneurs

Enoch Yiu
Nov 26, 2011

Setting up your own firm with a lover may sound like a romantic idea, but management specialists warn against taking on a business partner with whom you have such an emotional attachment.

Besides choosing the wrong partners, other common mistakes made by novice bosses include renting an office too early and hiring too many full-time staff. Management consultants McKinsey & Company said such missteps helped explain why almost 70 per cent of fledgling firms in the city do not last three years.

Joe Ngai, 36, managing partner of McKinsey's Hong Kong office, gives management advice to firms and helps young entrepreneurs set up their own businesses. He has led McKinsey's collaboration with the Hong Kong Federation of Youth Groups in founding and developing Youth Business Hong Kong, a programme to fund young entrepreneurs. Ngai also co-authored the Chinese-language book *I Want to be Boss - a Guidebook for Young Entrepreneurs to Set Up Their Own Businesses*.

Born and raised in Hong Kong, Ngai completed his undergraduate degree in economics from Harvard University, and later a law degree from Harvard Law School and a Master in Business Administration from Harvard Business School.

He shared with the ***South China Morning Post*** to discuss what makes a business succeed or fail in Hong Kong and what the city's newly minted entrepreneurs ought to know.

As you have written a guidebook for young entrepreneurs, what talents do they need to set up their own businesses?

The most common age for people to set up a business is in their 40s. Few do it in their 20s or 30s. But, in fact, the personalities rather than the ages are

more important in determining who can be successful entrepreneurs. They need to be outgoing as they must cold-call potential clients to sell products. They must accept that they may face a lot of rejection.

Many people choose to set up business from their point of view as consumers. They set up a cake shop because they like sweets, or they set up a fashion shop because they like to buy good clothes. That is not good enough. If they want to set up a successful business, they need to know the detailed operations of the industry, including how to source good products and the trick to making profits. They also need the professional financial knowledge to manage the cash flow and they need to make sure they can pay their bills and staff on time.

Should young people start as employees first or could they start their business straight out of school?

Being an employee is one way to learn an industry. We have seen young people choose to work at dried seafood shops to prepare themselves for setting up their own shop. But there are other ways to learn the industry before setting up a business, such as visiting other shops or talking to experts in the industry.

How much money should they have on hand at the start?

They need to prepare for an amount that could support them for one or two years after setting up their business. New bosses should bear in mind that they need to make a profit and they should carefully plan their cash flow, their expenses and customer flows.

What common mistakes do people make in setting up a business in Hong Kong?

The biggest mistakes made by many new entrepreneurs are that they tend to rent a shop or office from day one, which, in fact, increases their

fixed costs. Some people like the feeling of having their own offices or shops, but unless they are doing retail business, many businesses can be operated from home. That is the best option for new bosses as they can save a lot of rental expense.

Hiring a big team is not a wise idea. Again, no matter whether you get any business or not, you need to pay salaries, pensions and other benefits to your staff. It is better to hire part-time workers or contract staff to help you out initially and hire full-time staff only when the business has become stable.

Who are the best and the worst partners to have in a new business?

Lovers should never be your partners to set up a business. As a lover, the relationship may not be stable emotionally and then you enter into setting up a new business that is not stable - that doubles up the uncertainty. For lovers who do businesses together, that could turn a business crisis into an emotional crisis, or vice versa.

If the business is good and the love affair turns sour, the pair may be forced to stay to work together to maintain the business, or they have to painfully discuss how to split up the business. Setting up a new business is not easy and lovers may have conflicts all the time, which may also add to the chances that they split up.

Even for a married couple, setting up a business together may add to the chances that they will quarrel, and that may add to the chances of a divorce. The best partners are those who can complement each other's shortcomings. For example, if one has a good knowledge of financial and internal management, and the other is good at going out and selling the products - that would be a good combination.

What are some of the best and worst examples you have come across in new Hong Kong businesses?

A 27-year-old set up a business to import small decorations for cars from Japan and he got a good supplier. But he made all the mistakes I mentioned

earlier. He set up an office in Mong Kok, and hired a secretary. He did not pay attention to cash flow issues, but ordered a large amount of inventory to get a discount. He was also not brave enough to cold-call clients. The slow sales, high office rent, and salary payments led to a financial disaster, and he has not returned calls to his suppliers and could not pay his bills. He owed a lot of debt and could not be reached by anyone a year after the business was set up.

That is a sad story. However, I have seen many successful wedding planning services and photography firms. The set-up costs are not high and the demand is big. What is more is that the providers can have a lot of creativity, such as providing a video for the newlyweds to show at their wedding banquets. They get new client referrals from friends or other guests who attend the weddings.

Do you plan to set up your own business one day?

I set up two technology firms when I was still at university. One was an online auction firm, which was later sold. Some others and I also had an IT design company that had to be downsized after the dotcom-bubble burst. After discussion with my partners, they thought I could more easily find a job elsewhere, so I joined an investment bank and then later joined McKinsey.

What makes you cry or lose sleep?

I never lose sleep or want to cry over business affairs.

I find that jobs are easier than teaching my two sons, aged eight and six. How to teach them well are my biggest challenges, as it is very difficult to get it right.

enoch.yiu@scmp.com