



## *The Deal Room Podcast*

# Episode 233 - Inside Australian business broking - The evolution of business broking in and across Australia Part 1

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## Transcript

**Joanna:**

Hello everyone it is Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now, this week we have another exciting two-part series for you. We are speaking with Max Kurz and Mike Smith, two gentlemen who could be dubbed the founding fathers of the Australian Institute of Business Brokers otherwise known as the AIBB. Now in this episode, part one, we reflect on the fascinating changes Max and Mike have seen in the business broking industry and its processes from the time they first stepped into the industry to the present day, we drill into how the AIBB has formed the significance of education and training for the evolution of business broking and changes to the remuneration model over time.

**Joanna:**

So without further ado, here's our discussion with Max and Mike. A huge welcome to you Max and Mike to The Deal Room podcast. Can I just say it is an absolute pleasure to have the two

**Mike:**

Wow. Okay. Thanks for having us.

**Joanna:**

Love it. Love it. Why don't we just start with a very quick background? Maybe if I move to each of you, and you give me a really quick background, tell us when you got started in business broking. And why? What launched you there? Maybe, Mike, we can kick off with you?

**Mike:**

Well, I was thinking about getting involved in real estate and I didn't like the idea of seven days a week. And then I discovered the idea of selling businesses and I thought, That sounds like a whole lot more fun. And quite frankly, at that stage, the business brokerage industry had a bad reputation. And I thought good, that's fine. That's got to be an opportunity for someone who doesn't, right? And they were the main motivators, actually, I want to get out of the corporate lifestyle I was in and which involve too much overseas travel and everything else. So this appealed to me that it proved to be a challenge. The first few years were much more difficult than I thought. But as time has gone along, the industry has had its ups and downs. But it certainly is an interesting business to be in because every business that you're involved in is different.

**Joanna:**

I love it. And so what year was that? What year was that, that you started?

**Mike:**

1981, I think.

**Joanna:**

1981 Okay, so that was so that's you almost turned 40 years in the industry. That is amazing. Absolutely amazing. And Max, maybe tell us, what year did you start? And how did you get started?

**Max:**

Well, I'll try to encapsulate it very, very briefly. Virtually, I started off in 1960. As a real estate agent. Four years later, I completed my degree at the University of Sydney University, in conjunction with the REI extension board, to become a property valuer. And from there on, I became a property developer. So I had three strings to my bow, estate agent, which I didn't like I didn't like real estate, property valuations and virtual property development. And all that came to conclusion in 1981. Interestingly enough, the same year as Mike, when I built a shopping centre up in Port Stephens called the Bay Village, I had to develop three businesses within that complex I did a lot of research and started three businesses, I own the 14 shops there. And as a result of that, I liked it. I like the whole challenge of building a business. And I thought, goodness, I wonder how this would go as kin to real estate. And I became a business agent, knowing nothing about the industry, but as Mike said, it was not a good look, in terms of professionalism to be in. It wasn't even a professional at that stage. Consequently, I think that was an opportunity for me as it was for Mike.

**Joanna:**

I love it. Gosh, I just can't even believe it. This is just such great. There are so many questions that I have. I don't even know where to start. And, you know, I'll start with the comment that you both made, that the industry was very Are you different back when you started? And why don't we start there? Then what was the industry like? Why was it different? And how, I guess just in a snapshot, what are the biggest changes you think, have had been had in the industry over time?

**Max:**

Can I answer that one? There was a documented, there was a very small number of business agents, and business agents weren't even on the radar. That wouldn't even be known. I mean, one of the biggest difficulties if you had if you went to a client for the first time A, to basically convince somebody to about the value of your services. But the first hurdle was to explain to anybody, business owners, stakeholders, lawyers, and accountants, what a business agent was. Nobody's ever heard of a business agent.

**Joanna:**

How did they sell businesses then if they hadn't heard of business?

**Max:**

With difficulty? A lot of the businesses were in the SME market, particularly in the food industry, and the buy-yourself-a-job type businesses. I mean, you could virtually see the number of business agents on two hands, you only had to read the Sydney Morning Herald businesses for sale columns to see who was active in the marketplace.

**Joanna:**

Wow. Fascinating. But obviously, they were businesses then. And businesses need to be sold. So was it just that everyone did it themselves?

**Max:**

Yes. I think we were doing badly, unfortunately. Yeah, I don't think there was any framework or, education or understanding. I mean, business transactions, as we all know, today are complex. It's a minefield, You've got to know how to navigate it. Yeah. And you've got to be able to do it. Well, I always think you've got to be a Master to be in this business. I mean, you've got to be part of the way up product out and part psychiatrists part, this part, this part, everything else.

**Joanna:**

I love that! That is so true. Yeah.

**Max:**

It really is true. It's probably true for other professions, but particularly as a business agent, that recognition wasn't known. I mean, it was cheek-by-jowl at that time. And it probably was one of the motivating factors that really encouraged us to think about the formation of AIBB, and how that as a vehicle can basically provide the infrastructure, the resources, and the framework in order to basically drive the progression of business transactions.

**Joanna:**

And so I guess with that, you know, I, that just begs the question of how was it that you started AIBB? So So you, you were the founders of AIBB, were you? Is that right?

**Max:**

It was very interesting. We attended a meeting in the REI ordered from you in the city. And at the conclusion of that meeting, we found ourselves on the pavement outside the building, and it was Bob reading something, Mike Smith and myself. And we were looking at each other wondering what the hell was going on. I mean, we were a part of an organization, who virtually understandably, and we acknowledge the fact that the prime objective was real estate, and the needs of the services provided by real estate agents, Business Brokers, business agents, just people who fit into the picture. So consequently, I think it was at that point, that was the deciding moment, where we decided no, we need to do something and get our own organization. So it was a long hard slog from 1986 To 1989. When we finally launched, AIBB, there was a lot of work to be done. And it was done by ultimately the end of Bob dropping out of the picture. And the drivers behind that were Scott, Mike Smith and myself.

**Joanna:**

Fascinating. There must have been a huge, huge amount of work. What drove you, Mike, with, you know, being part of this initial group to start up AIBB?

**Mike:**

I think for us, all of us really, I think it was quite clear that we had to have an independent industry body. The REI was busy looking after the real estate people and doing probably a very good job. But we were the poor orphan of the group that had strata title managers and valuers and stock and station agents and business brokers and Business Brokers were probably the smallest group. And we were the poor orphan. And so we weren't really taken seriously. And there were a number of significant issues that came up, where we felt that we were not. Well, we thought we were hard done by frankly. And so we all decided that this has got to stop, we need an independent body to look after the group. And we thought, Well, surely we can, we can do good things for the industry. We really believe that. And I think the proof of the pudding is in the meeting. And so I think over time, that is absolutely proved to be correct. We wouldn't wish to go back. And I think what the AIBB has done, myself and Max sort of got involved in the early days, not as much as these days. But what the AIBB has done over the period has been nothing short of fabulous. And I think we'll continue to go on to bigger, brighter and better things.

**Joanna:**

Absolutely. Absolutely. I'm just amazed. And I guess everything, every organization association must have started with a few people but it's just amazing to hear this evolution, because, you know, I'm a huge believer in education, for people within the industry, you know, that's why I've got hundreds of podcasts and a book because I believe so strongly in it. But it's people, like the two of you who've started organizations that actually I think, you know, you should just, I hope you feel incredibly proud of the movement that you've started because it's such an important thing. And I guess there's still, there's still, it's interesting, I've found an interesting in evolving space, even over the last decade, but you just must have seen so so many changes. So we talked about the industry back when you both started being very embryonic, you know, they're really not being an industry at all. So, how did it evolve? What are some of the, I guess trends that you've seen come in over time, other than, of course, just a lot more, you know, people who are acting as Business Brokers more of an understanding of the role of business brokers in selling a business? I guess that bit sounds obvious from your story, but what are the trends? What things have you seen change over time?

**Max:**

I think the underlying foundation for the success of business broking today. And particularly as a result of ARB has no doubt been education and training. It was just non-existent. Even as a new fledgling of business agent, where are you going to go to get information on the sale of businesses, it just wasn't any. So there was a tremendous amount of emphasis on education and training. There, we had to make ourselves known to the Department of Fair Trading. We had a partnership with the TAFE college, there were so many other regulatory bodies and frameworks of education and training that had to be set up in order to provide a foundation which people can start from. So I think that was the big change. So when people became more educated, and then, of course, what's happened, a lot of brokers now have understood the process of transaction of business, from the very time that you meet a client, from the very time that you do an appraisal or evaluation from the time that you originally list your business for sale, the due diligence process, the negotiating process, the conveyancing process, the final transaction process, there are so many parts to the process, which was broken up and conveyed in such a way that people became more knowledgeable about that particular process.

**Joanna:**

And how, you know, there are a few things that occurred to me that I'm particularly interested in because I'm just fascinated with how these things may have changed. So I'm going to start with the remuneration model. So you know, there's a strong focus these days with Business Brokers being paid on success and you know, being paid a commission and proportion of the sale value. And also, I'm seeing brokers move in to, particularly in any sort of larger transactions retainer models these days where they're paid retainers along the way for work that they do, you know, as they work through the sale process because we all know it's a very long process

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that you poor brokers have to work through. How's that remuneration model changed over time? What was it when you started? Or did you have to make it up at the time? Was there nothing set in place? And you had to come up with a way to make this work?

**Mike:**

Well, I think it's one of those things that evolved, frankly, I think as, as we got more professional, we saw the need to charge appropriate seats, the work that we did, whether it was a retainer, or whether it was committed on settlement, whatever. And as time went along, we found that it was more and more important to charge an appropriate fee. And the fees were rising, because, frankly, business sales were getting more complicated, far more complicated. And over decades, we've had a succession of governments say that, Oh, you know, we're going to come to power, the federal government will come to power, we'll do this, we'll do that. And we'll cut the red tape for small business, we'll make a lot of small business so much better because there'll be a whole lot less red tape, which was absolute rubbish. Because over the next five years, the amount of red tape went up. And if you look at the standard contract, you will see that over the years, that's gained pages and pages because they keep bringing new legislation in that needs to be mentioned, in the standard contract. So they revise the contract again, add an extra page to the back and put in 14 more clauses and so forth. And so we found ourselves in a position where what we were doing was infinitely more complicated than what it was 10 years earlier. And in fact, even now, I think it's it's much more complicated than 10 years ago. And I predict that in the future, it will be much more complicated to do so there was a need to charge a fair, reasonable fee for what we were doing. And it sort of evolved, you know, I don't think it's anything more than that. Yes, the fee structure is becoming more sophisticated. We do get some people now talking about retainers, and so forth, and in larger upfront fees and this sort of thing. But it's but the industry is fundamentally the same in that regard. 95% of people are working on the basis of there might be some minor fee to list the business for sale. And then there's a success fee at the other end. And that would be 99% of the sales, I'm sure. Right. And so that will continue.

**Joanna:**

I'm not quite sure that I altogether agree but I do agree with one part of what you said, Mike, I think look, yes, we were it was performance-based. We all started out. That the fee revenue relation was all performance-based. But over time, particularly through the education process with AIBB, business agents, and people learned about Title money, the value of money, and virtually, I remember what I referred to as compartmentalizing the process. So in the beginning, you undertook an evaluation and appraisal. Now, I think there's a lot, particularly a lot of the people that I've mentored or all that have attended my appraisal workshops, we talked about the fee for service in terms of an appraisal. So we've got the fee structure based on performance fee, but also a fee for service built into the performance structure. So you can get an appraisal fee, you could get fees paid for marketing, which is when we when I started, Mike didn't exist. Nobody cared about all the costs. I mean, advertising cost a whole lot. Now, a client virtually has a vested interest in the sale of their business. So they pay all the marketing service appraisal fees, there's a marketing fee, I charge a fee for the basic preparation of information memorandums. And then there's a performance fee. And in some cases, it has become a little bit more sophisticated, even in the SME market, where we're talking about top retainer and the balance paid on a performance fee. Now, we've started all that, in the 1990s. Because of what was evolving also people will learn the difference, the distinction between a walk-out sale, as opposed to an earn-out as opposed to a buyout. So there are all different schemes that are arrangements that we entered into in transacting businesses. And they've become more complex, even in the small to medium enterprises, businesses that fall into the million to \$5 million bracket, where owners are not necessarily retiring at the conclusion of the sales, there's an ongoing involvement by the outgoing owner. And I won't go into the complexities of that, but there are complexities. So that is where the fee structure started to change. And I think a lot of people are becoming a lot more educated about that part of the process.

**Joanna:**

Absolutely fascinating. One of the things that you mentioned, just then Max was something about multiples. And it led me to wonder, how was valuation changed? Had has, you know,

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have the multiples changed as valuation? You know, has always been a reflection of, you know, a multiple apart applied to the profit in the business or has that as well changed?

**Max:**

Yes, that's changed dramatically. A lot of people virtually, I remember, back in the early 80s, people used to ring me up and say, immediately, I've got a business that says, chicken shop, what's the multiple? Well, you know, give me a break. I mean, it's something that expects it to come off the tip of your tongue, you know, if you know, immediately a chicken shop is two and a half times, and usually, the agency is one and a half times a coffee shop is Sunday. Now, it doesn't work that way at all. So the multiples, the method by which you determine value, by way of a multiple of earnings hasn't necessarily changed. It's the mechanism within understanding how that is applied. The methodology that's challenged, that's become a lot better understood. I think even by lawyers and accountants sending their clients, I think that's become a little bit more. More informed.

**Joanna:**

And what about the players in the industry? So you know, when was that business broking licensing came in? Do you recall?

**Mike:**

I don't recall, it's been there for a long, long, long time. Way before I was involved. Max, you have any idea when it came in?

**Max:**

Well, licensing has always been there for New South Wales here. But it goes back a long way, wouldn't it? Yeah, licenses have always been there. 2003 was the introduction of the CPD. I remember that clearly because you and I were teaching at TAFE at that particular time. And so we were doing continual professional development work. And that was a requirement by the Department of Fair Trading. And so you had to AIBB had to become able to provide that teaching facility.

**Joanna:**

So it was always there from the beginning and always connected to the property, which I think you know, this real estate connection is such a, I think it's a fascinating, unusual.

**Max:**

Look, it's gonna open up a whole Pandora's box. I mean, that's really another conversation. It is really a problem. We've been labelled under the Property Act, in terms of being licensed under you know, so yeah,

**Joanna:**

I recall, when I first started working in the industry, I just thought it was incredulous that it was so bizarre, very, very, very bizarre. And, you know, I understand the connection of small businesses too often selling property, but you know, the number of businesses that, sorry, that, who owned the property that their business runs out of, and so they sell it as well, you know, I don't know if that's where the connection stemmed from, but, you know, I would say in 80 to 90% of the transactions were involved in there's absolutely no property element whatsoever. And it's such a complex, there's so much complexity, you know, as you rightfully say, you know, in relation to employees and you know, all sorts of things that we need to think about structure within a business sale environment that it just seems so incredibly disconnected from the sale of property, but anyway, that's my perspective. Glad to hear the perspective of others as well.

**Max:**

Remember that the business agents industry is a very small component compared to real estate, for example, draw a comparison community is very, very small. We still got to this extent, the areas, in which small businesses are being sold, either by accountants, by business agents or by others. We don't have a full comprehension of that. We already know now more statistically, exactly. The level of the geographics, and the demographics of business agents

**Joanna:**

Well, that actually was going to be my next question. I'm glad you mentioned that you know, the change if there has been over time, in who has been involved in business sales, I recall a point where, you know, there are a lot of accountants who seem to be getting involved in business sale activity. And, you know, I mean, I feel, you know, that certainly changed over time. What do you feel? Have you seen it? What are the changes over time? What's been your anecdotal experience?

**Max:**

Mike, do you want to go on that one?

**Mike:**

Oh, okay. No, I don't I don't know that. I mean, a lot of accountants look at business hours and think this is an easy way to make dollars. You know, I know about businesses, I've got a lot of clients, a lot of contacts. So I should be able to sell businesses and they give it a flag, and then they find out, it's really not all beer and skittles, and get out. They're always going to be there. In my opinion, accountants play around the edges of business sales. I can't say that we've seen any great change in that over time. I mean, 20 30 40 years ago, there were Business Brokers playing around the edge, and there still are today. They're a nuisance. Frankly, I think that about, I've always said this, probably 95% of accountants, business owners, business buyers, and even lawyers to be frank with you don't really understand business sales.

It's a very complex matter. Unless you're involved in a full-time for several years, you can't be expected to understand what it's all about. If you've owned, you know, four or five businesses, and you've sold them privately, then I think that would probably give you a pretty good head start, and you probably do know what it's all about. But that is absolutely rare. Absolutely rare. And I think it's the same with accountants, I see all so I mean, I'm, I might seem like a winner. But I see all sorts of things sort of going on. I think I said at the conference just recently that we've just recently seen a report from a client of ours, went to his accountant and said, Listen, I'm confused about what my business is worth, can you value it for me? The accountant said, No, don't do that kind of work. He was smart. I'll refer you to a consultant person who does a lot of that sort of work. And they will do a proper job, right? Oh, great. Okay, well, you got \$13,000 later, and this person got a report back, that was absolutely a waste of time.

It showed that the business was worth twice what it was worth, we have to have some spirited discussions with the owner, who later on said, yeah I didn't really believe that report anyway. So I think what you're saying makes more sense to me than what my consultant did, and what my consultant has said. So I'll go with you, we listed it and I think we sold it within 5% of the price that we told them was worth right? It was simply a case where someone wasn't expressing an opinion. And frankly, they didn't really know what they were talking about. Now that that will go on, I think forever. And it is a distraction to us. And it is a bit of a nuisance, but I think it's going to continue. So all we can do is try and educate people through the AIBB training, upgrade our standards all the way along and hope that over time, that sort of phases out.

**Joanna:**

Well, that's it for part one of our two-part series. We hope you're now primed for your next deal with these pointers and have enjoyed these fascinating insights. Now if you'd like more information about this topic, then head over to our website at [thedealroompodcast.com](http://thedealroompodcast.com) where you'll be able to download a transcript of this episode as well as access contact details and any other additional information referred to in today's podcast. Now if you'd like to get in contact with our guests today and the services they offer, you can go ahead and check out our show notes for a link right through to them and their details, you can also book indirectly with our Legal Eagles at Aspect Legal. If you'd like to soundboard your next steps, discuss a legal question or find out more about how we can assist whether that's with buying or selling a business or perhaps somewhere in between.

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