

Valuing Goodwill

Valuing goodwill is always a bone of contention; there are many theories on how it should be done and there is usually a difference in opinion between buyer and seller.

If you are the selling your business you will need to be realistic and take a very objective view when placing a value on the goodwill of your business.

Your business has probably been your life for the time that you have owned it and it is extremely difficult to put aside your personal feelings when valuing your business. The chances are that you will unconsciously factor in how difficult it was for you in the beginning and how many sacrifices you have made to get the business where it is today. What you will need to remember is how the buyer is going to evaluate your business.

Although buyers may appreciate the efforts that have gone into building up your business getting them to pay top dollar for that effort is not so easy. Most buyers will take a much narrower and more objective view of how much they believe the goodwill to be worth.

For most buyers they will be more concerned with the return on investment over a fixed period of time with an acceptable margin of risk. Buyers will argue that the efforts made by you were a necessary part of starting the business and that they do not attract any premium value.

Relations that you have formed with your community, suppliers, and customers all contribute to the value of your goodwill. The relationships with your customers are probably one of the most important aspects, and some businesses are sold on the strength of this alone. Having an accurate database of your customers and also the ability to show sales trends will be a definite advantage.

In summary, goodwill is worth only what someone else is prepared to pay for it. When estimating the value of goodwill on your own business be realistic and aim to generate lots of buyer interest. One thing is for sure, if you overprice your business it will stay on the market for a long time!