Field-proven results in business sales and acquisitions

Who Exactly Owns Personal Goodwill and Why Does it Matter?

Personal goodwill can have a profound impact on both small and medium-sized businesses. In fact, it can even impact the sales of larger companies. Ultimately, understanding how personal goodwill is cultivated is of great value for any company. During the process of building a business, a founder builds one or more of the following: a positive personal reputation, a personal relationship with key players such as large customers and suppliers and the founder's reputation associated with the creation of products, inventions, designs and more.

What Creates Personal Goodwill?

Personal goodwill can be established in many ways, for example, professionals such as doctors, dentists and lawyers can all build personal goodwill with their clients, especially over extended periods of time. One of the most interesting aspects of building personal goodwill is that it is essentially non-transferable, as it is invariably attached to and associated with, a particular key figure, such as the founder of a company. Simply stated, personal goodwill can be a powerful force, but it does have one substantial drawback. This is as the saying goes, "the goodwill goes home at night."

How Does It Impact Buying or Selling a Business?

Buying a business where personal goodwill has been a cornerstone of a business's success and growth presents some obvious risks. Likewise, it can be difficult to sell a business where personal goodwill plays a key role in the business, as a buyer must take this important factor into consideration. Certain businesses such as medical, accounting or legal practices, for example, depend heavily on existing clients. If those clients don't like the new owner, they simply may go elsewhere.

Now, with all of this stated, it is, of course, possible to sell a business built partially or mostly around personal goodwill. Oftentimes, buyers will want some protection in the event that the business faces serious problems if the seller departs.

Solutions that Work for Both Parties

One approach is to require the seller to stay with the business and remain a key public face for a period of time. An effective transition period can be pivotal for businesses built around personal goodwill. A second approach is to have some form of "earn-out." In this model, at the end of the year lost business is factored in, and a percentage is then subtracted from monies owed to the seller. Another option is that the funds from the down payment are placed in escrow and adjustments are made to those funds. It is important to note that the courts have decided that a business does not own the goodwill, the owner of the business does.

No doubt, businesses in which personal goodwill plays a major role, present their own unique challenge. Working with an experienced professional, such as an M&A Advisor, is an exceptional way to proceed in buying or selling this type of business.

www.OilGasAdvisor.com *844 749-6016* *info@OilGasAdvisor.com*

Offices serving the oil and gas business across North America

DFW
Don Hankins
DHankins@OilGasAdvisor.com
(817) 615-8393

Tulsa
John Johnson
JJohnson@OilGasAdvisor.com
(918) 749-6016

Tyler
Keith Chapman
KChapman@OilGasAdvisor.com
(903) 245-9233

Williamsport
Gary Papay
GPapay@OilGasAdvisor.com
(570) 584-6488