



What is Goodwill?

Goodwill is an area of confusion for business buyers and sellers.

Some believe that goodwill value is something that grows as their business gets older. “Our business name is 20 years old so it must be worth a lot.” Some believe that goodwill increases as the business gets larger. In general neither of these factors creates goodwill by themselves. Goodwill is a function of business profits. The more profits, the more goodwill. No profits, no goodwill.

An example from the recent headlines is Linens and Things. At its peak Linens had over \$2.6 Billion of sales and \$86 million of profits. They had over 12,000 employees and over 580 stores. Think of the infrastructure, systems, and people they had in place. Think of their name recognition, website hits, and advertising budget.

In 2006 this company was purchased for \$1.3 Billion in a leveraged buy-out. Unfortunately the cash flow did not begin to support the purchase price and the buyers were not successful increasing profitability. Linens and Things was one of the first casualties of the current recession.

As part of its bankruptcy Linens’ goodwill in the form of its name, web URL, and trademarks, sold for One Million Dollars. Using that sale as a baseline for goodwill without profitability means that a company with Ten Million Dollars in revenues but no profits would have goodwill of \$3,846.00. So much for goodwill without profits.

Making profits keeps you in business in difficult years and creates long term value when you want to sell your business.

[For more information register and receive our FREE white paper, "What's Your Number? The Business Owner's Guide to Succession Planning at \[www.harvestbusiness.com\]\(http://www.harvestbusiness.com\).](#)

Harvest Business Advisors - What We Do:

Harvest Creates Opportunity and Builds Value. Let us do it with you. Understanding without implementation is of little value. Begin by calling us today for a free confidential consultation.

Author: Gregory Caruso, Esquire, CPA, CVA, Principal www.harvestbusiness.com

Greg has spent the last 12 years advising owners in business succession matters in hundreds of situations. He can help you solve difficult and even sometimes even seemingly unsolvable situations.

Gregory Caruso
Attorney, CPA, CVA
Harvest Business Advisors
410-507-5441
gcaruso@harvestbusiness.com