



MEASURING AND GROWING YOUR BUSINESS' GOODWILL

What is goodwill?

Goodwill is an intangible asset that arises when a buyer acquires an existing business, but pays more than the fair market value of the net assets (total assets - total liabilities). The goodwill amounts to the excess of the "purchase consideration" (the money paid to purchase the asset or business) over the total value of the assets and liabilities. Goodwill will show up as an intangible asset on the balance sheet, since it can neither be seen nor touched.

Goodwill only arises when a business is sold as a whole. Taking your equipment to the auction, for example, will not generate any goodwill for the owner. The blood sweat and tears you have in your business may not always result in goodwill.

VALUING GOODWILL

Business goodwill can be measured three different ways: The cost approach,

the market value approach and the income approach.

Cost Approach

Using the cost approach method you would calculate the opportunity cost of lost income should you need to start the business from day one again and rebuild it to its current status. The present value of these lost incomes would be the goodwill associated with the business.

Market Approach

The market approach uses the sale price that has been agreed upon and subtracts the value of all tangible assets to determine the goodwill. Any excess over the asset value is goodwill.

Income Approach

The income approach is the most commonly used approach in determining the goodwill value of a business. In this

approach, the discounted cash flows method is the optimal method of determining the overall value of a business. Once a total business value has been determined, using the discounted cash flows method, the fair market value of all assets is subtracted to determine the residual goodwill.

HOW TO GROW THE GOODWILL IN YOUR BUSINESS

The methods of growing the goodwill in your business are numerous, however they all drive the same end result. Simply put, increase your annual income and the goodwill associated with your business will grow. The following are a few of the areas to focus on when growing your business.

Efficiency

By improving your efficiency, you can improve your income.



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As a business owner ask yourself the following questions: Do your crews work well together? Do they mesh smoothly? Or are they blaming each other for lackluster performance? For example, are your truck drivers blaming the loading crews for the number of loads they can haul in the day or do they praise the loader operators for their speedy turnaround time? The more integrated and cooperative team you field, the higher your efficiency will be.

Next, ask yourself how old your equipment is and check what state it is in. How many hours a month do you have that equipment sitting idle and getting repaired? Are the repairs required because of use or abuse? Do you have the right operators for the right pieces of equipment? A major repair can eat up your bottom line pretty quickly.

Production

By maximizing your production, you can maximize your earnings.

Are you setting production goals on a monthly basis at a minimum? Are your crews aware of these goals? Are you tracking your results and following up on discrepancies in a timely fashion? Are you and your people accountable for these goals? How often do you celebrate successes?

Communication

One of the most important factors of running your business like a business is communication. You will see benefits in all aspects of your business by setting an environment of open communication.

When considering what communication practices to use as a business owner, ask yourself the following: Do your staff feel able to initiate conversations with you? How often do staff members bring new ideas to you? Are you open to these suggestions? How easy are you to get a hold of when not on site? And finally, how often do the staff meet as a group and discuss the goals of the business?

Technology

A question every business owner should ask is, are there any technologies that can improve my business and do I need them? Will the improvement outweigh the investment? Are my competitors investing in the technology? If you answer yes to any of these questions, you need to act.

There is no easy way of simply unlocking the goodwill in your business. However, by working on the other aspects of your business to make it as efficient and profitable as possible, you should be able to grow goodwill in your business. 🌲

Chris Duncan, CPA, CA is a Forestry Services Business Advisor for MNP LLP.

Tel: 250.748.3761

Email: chris.duncan@mnp.ca

The TLA Perspective on Goodwill

The apparent lack of goodwill in today's logging contractor's business is a core element of the TLA's concerns for contractor sustainability. When contractors can't exit their business and capture their years of invested sweat equity, what really is the economic incentive to go into logging? Six contractors this year reduced capacity or entered into CCAA protection. How many times over the last few years have you heard that today's contractors aren't willing to pass their business onto the next generation as a result of the high risks, low rates of returns and endless frustration? A characteristic of a strong supply chain is one that is capable of having contractors that can sell their business for more than just the market value of their iron. The crux of the problem is that with no goodwill left in the logging business, will there be a next generation of logging contractors to fill the gap? And again, there is no wonder why investment and innovation are low. As we said before: This not a contractor problem, this is an industry problem.

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Stephen Ross
sross@millerthomson.com
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