

How to Distinguish Personal Goodwill from Enterprise Goodwill

Questions for assessing the owner personal goodwill.

Please answer these questions as of the valuation date.

1. How old are you? Do you have any health concerns?
2. How involved are you in day-to-day operations of your business?
3. What is your involvement in the industry?
4. Do you (your company) have any contracts with your customers that bring in revenues? What are their expiration dates? How involved were you in retaining these contracts?
5. What percentage of the revenues is attributable to your efforts?
6. How are new clients made and/or found? What is your involvement with that?
7. How many hours a week do you work for your business?
8. What is your compensation? How does that compare to industry standards?
9. Discuss staff in regards to loyalty (turnover rate), productivity, and any other issues that may be important.
10. What are the reasons why clients are attracted and retained by the Company?
11. Is business typically acquired through professional referrals?
12. Would the Company's profits decline considerably if you were not there? By how much?
13. Do you have a strong and ongoing rapport with customers? Does anybody else have that?
14. Are revenues related to the close personal relationships that you have developed and maintained for a long time?
15. Is the majority of the Company's book of business brought in and retained by you?
16. Are you known in your industry? Are you known for developing proprietary processes to serve that market?
17. How many years of exposure and experience in this industry do you have?
18. Do you maintain strong relationships with the Company's customers and with suppliers?
19. Add any other evidence/anecdotes that support the fact that if you were to leave, a great portion of the profits of the Company would be lost?
20. How loyal are the employees to you. If you left and started a new business, how many employees would go with you?

Instructions:

The actual percentage is presented only for comparison purposes and does not carry forward to any other sheet. The computed percentage is based on your selection of alternatives and the resulting percentage for the respective alternative. Your selection of alternatives is presented to the right.

You must select a percentage for personal goodwill in the yellow shaded space below. Selected enterprise goodwill is the reciprocal and is computed based on your entry for personal goodwill.

If you select a percentage different than the computed percentage, you should be prepared to explain the reason. For example, a variance might occur at the extremes. Based on the MUM analysis, you may have decided that personal goodwill is zero. By forcing a selection of 0%, MUM will compute the goodwill allocation based on a zero/100% allocation.

	Actual %	Computed	Selected
Personal Goodwill Percentage	62%	70%	62%
Enterprise Goodwill Percentage	38%	30%	38%
Total Goodwill Percentage	100%	100%	100%

MUM Input Sheet for Alternatives

Step Two

Establish Alternatives

Instructions:

Select the range of percentages you want to use as well as the resulting allocation percentage for each alternative. The range of percentages and the resulting percentage may all be modified. However, the ranges and the results must increase in value as the number of the alternative increases.

You may have any number of alternatives up to ten. The original setting is for five alternatives. You may change the values in the Active Table manually or by cutting and pasting from the Five, Seven, or Ten Alternate examples to the Active Table.

MUM only uses the Active Table. The Option Tables are presented only for illustration of other alternate choices and for your convenience to cut and paste.

Modifying to more than ten alternatives is only possible by turning off the protection and making modifications to multiple sheets. This should only be attempted by very experienced spreadsheet users.

Active Table			
Alternative	From	To	Outcome
1	0%	20%	10%
2	20%	40%	30%
3	40%	60%	50%
4	60%	80%	70%
5	80%	100%	90%
6			
7			
8			
9			
10			

Five Alternate Option			
	From	To	Outcome
1	0%	20%	10%
2	20%	40%	30%
3	40%	60%	50%
4	60%	80%	70%
5	80%	100%	90%

Seven Alternate Option			
	From	To	Outcome
1	0%	10%	5%
2	10%	20%	15%
3	20%	40%	30%
4	40%	60%	50%
5	60%	80%	70%
6	80%	90%	85%
7	90%	100%	95%

Ten Alternate Option			
	From	To	Outcome
1	0%	10%	5%
2	10%	20%	15%
3	20%	30%	25%
4	30%	40%	35%
5	40%	50%	45%
6	50%	60%	55%
7	60%	70%	65%
8	70%	80%	75%
9	80%	90%	85%
10	90%	100%	95%

Enterprise Goodwill Attributes (EGA) Attribute Assessment and Outcomes					
	Enterprise Goodwill Attributes (EGA)	Importance Utility	Existence Utility	Multiplicative Utility	Percent
Business	Business Reputation	3	2	6	6.12%
	Business Staff	3	1	3	3.06%
	Business Name	1	2	2	2.04%
	Business Location	3	4	12	12.24%
	Number of Business Locations	3	2	6	6.12%
	Marketing and Branding	5	4	20	20.41%
	Systems and Organization	5	4	20	20.41%
Industry	In-bound Referrals	3	3	9	9.18%
	Repeating Revenue Stream	5	4	20	20.41%
	Copyrights, Patents, Etc...	1	0	0	0.00%
	Total Utilities	32	26		
	Total Multiplicative EGA Utility			98	38%
	Total Multiplicative Utility (TMU)			258	100%
	Number of Enterprise Attributes	10			

MUM Existence Utility Weights	
	Weight
Weak Presence	0
Below Average	1
Moderate Presence	2
Above Average	3
Strong Presence	4

MUM Importance Utility Weights	
	Weight
Least Important	1
Moderately Important	3
Most Important	5

MUM Input Sheet for Utility of Importance

Step Three

Establish Weight of Utilities

Instructions:

Establish the weights of the Importance Utility and input them into the yellow spaces below. You may select any weight that you believe is appropriate. The default weights are 1, 3, and 5.

A separate chart is in the report section for printing and linking to the Word MUM Template. If you select a weight greater than 6, you will need to unprotect the chart sheet in the report section and modify the scale accordingly.

Importance Utility (IU)	Weight
Least Important	1
Moderately Important	3
Most Important	5

MUM Input Sheet for Utility of Existence

Step Three

Establish Weight of Utilities

Instructions:

Establish weights of the Existence Utility and input them into the yellow spaces below. You may select any weight that you believe is appropriate. The default weights are 0, 1, 2, 3, and 4.

A separate chart is in the report section for printing and linking to the Word MUM Template. If you select a weight greater than 6, you will need to unprotect the chart sheet in the report section and modify the scale accordingly.

Existence Utility (EU)	Weight
Weak Presence	0
Below Average	1
Moderate Presence	2
Above Average	3
Strong Presence	4

MUM Input Sheet for Personal Goodwill Attributes

Step Four

Selecting and Setting Utility Weights (PGA)

Instructions:

Select the attributes for personal goodwill, then select the utility from the drop down list for each utility: Importance and Existence. The attributes in light blue are the default attributes. However, you may change them without removing the sheet protection. You may select additional attributes in each of the three categories: Personal, Business, and Industry. MUM suggests that the number of enterprise and personal attributes be of an equal number.

After selecting your attributes, determine the appropriate weights for both the Importance Utility and the Existence Utility based on your selections in Step Three. Your weight choices are replicated to the right.

Note: If an attribute is selected, there must be an entry in all three columns. If you leave an attribute line blank, there must be no entry in the remaining two columns.

		Importance Utility (IU)	Existence Utility (EU)
Personal	Ability, Skills, and Judgment	Most Important	Strong Presence
	Work Habits	Most Important	Strong Presence
	Age and Health	Moderately Important	Above Average
Number of Personal Attributes		3	
Business	Personal Reputation	Most Important	Strong Presence
	Personal Staff	Moderately Important	Above Average
	Personalized Name	Least Important	Moderate Presence
	Marketing and Branding	Most Important	Strong Presence
Number of Business Attributes		4	
Industry	In-bound Personal Referrals	Most Important	Strong Presence
	Closeness of Contact	Most Important	Strong Presence
	Important Personal Nature	Most Important	Strong Presence
Number of Industry Attributes		3	
Total Enterprise Goodwill Attributes		10	

MUM Input Sheet of Enterprise Goodwill Attributes Step Four

Selecting and Setting Utility Weights (EGA)

Instructions:

Select the attributes for enterprise goodwill, then select the utility from the drop down menu for each utility: Importance and Existence. The attributes in light blue are the default attributes. However, you may change them without removing the sheet protection. You may select additional attributes in either of the two categories: Business and Industry. MUM suggests that the number of enterprise and personal attributes be of an equal number.

After selecting your attributes, determine the appropriate weights for both the Importance Utility and the Existence Utility based on your selections in Step Three. Your weight choices are replicated to the right.

Note: If an attribute is selected there must be an entry in all three columns. If you leave an attribute line blank, there must be no entry in the remaining two columns.

		Importance Utility (IU)	Existence Utility (EU)
Business Attributes			
Business	Business Reputation	<i>Moderately Important</i>	<i>Moderate Presence</i>
	Business Staff	<i>Moderately Important</i>	<i>Below Average</i>
	Business Name	<i>Least Important</i>	<i>Moderate Presence</i>
	Business Location	<i>Moderately Important</i>	<i>Strong Presence</i>
	Number of Business Locations	<i>Moderately Important</i>	<i>Moderate Presence</i>
	Marketing and Branding	<i>Most Important</i>	<i>Strong Presence</i>
	Systems and Organization	<i>Most Important</i>	<i>Strong Presence</i>
Number of Business Attributes		7	
Industry Attributes			
Industry	In-bound Referrals	<i>Moderately Important</i>	<i>Above Average</i>
	Repeating Revenue Stream	<i>Most Important</i>	<i>Strong Presence</i>
	Copyrights, Patents, Etc...	<i>Least Important</i>	<i>Weak Presence</i>
Number of Industry Attributes		3	
Total Enterprise Goodwill Attribute		10	

MUM Input Sheet for Fitting Alternative Step Five

Fit Results to Alternatives Selected

Instructions:

There is only one input for this sheet. After reviewing and analyzing the sheet, enter your selection for the personal goodwill percentage. See instructions below.

If the IU or EU columns report "ERROR" you have entered an attribute, but failed to give it an Importance Utility or Existence Utility. Review "3 INPUT IU" or "3 REPORT EU" tabs as appropriate.

		Importance Utility (IU)	Existence Utility (EU)	Multiplicative Utility (MU)	Percent
Personal	Personal Goodwill Attributes (PGA)				
	Ability, Skills, and Judgment	5	4	20	12.50%
	Work Habits	5	4	20	12.50%
	Age and Health	3	3	9	5.63%
Business	Personal Reputation	5	4	20	12.50%
	Personal Staff	3	3	9	5.63%
	Personalized Name	1	2	2	1.25%
	Marketing and Branding	5	4	20	12.50%
Industry	In-bound Personal Referrals	5	4	20	12.50%
	Closeness of Contact	5	4	20	12.50%
	Important Personal Nature	5	4	20	12.50%
	Total Utilities	42	36		
	Total Multiplicative (PGA) Utility			160	62%
	Number of Enterprise Attributes	10			

Note: The percentages for all three tables below come from the same source, the Active Table in the "2 INPUT Alternative" tab. Select the table below (Five, Seven, or Ten) based on your choice of the number of alternatives. If you chose seven alternatives, then table seven will report the correct seven ranges; however, table five below will report the first five of the seven percentages; table ten will report all of the seven percentages, but the last three ranges will be blank. Therefore, choose the table that corresponds to your selection of the number of alternatives and ignore the other two tables.

Five Alternative Ranges			
	From	To	Outcome
1	0%	20%	10%
2	20%	40%	30%
3	40%	60%	50%
4	60%	80%	70%
5	80%	100%	90%

Seven Alternative Ranges			
	From	To	Outcome
1	0%	20%	10%
2	20%	40%	30%
3	40%	60%	50%
4	60%	80%	70%
5	80%	100%	90%
6			
7			

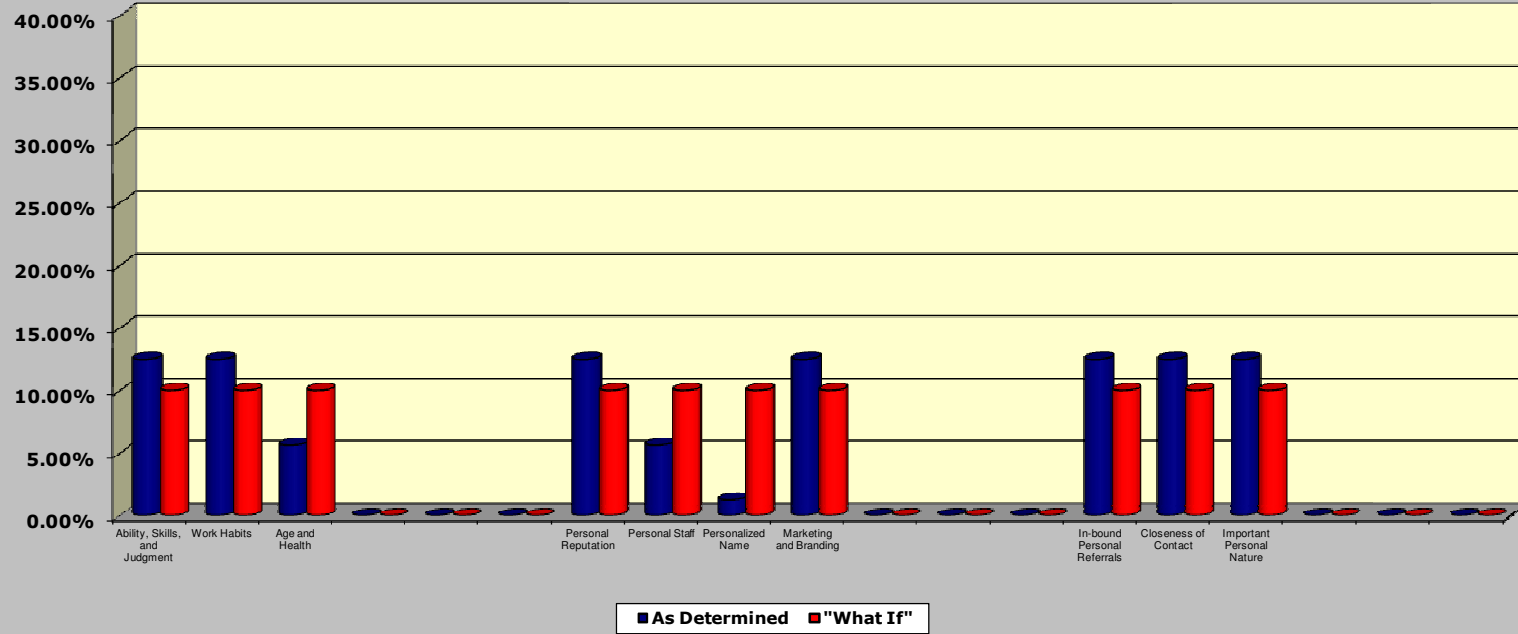
Ten Alternative Ranges			
	From	To	Outcome
1	0%	20%	10%
2	20%	40%	30%
3	40%	60%	50%
4	60%	80%	70%
5	80%	100%	90%
6			
7			
8			
9			
10			

Enterprise Goodwill Attributes (EGA)		Importance Utility (IU)		Existence Utility (EU)	
		As Determined	"What if"	As Determined	"What If"
Business	Business Reputation	Moderately Important	<i>Most Important</i>	Moderate Presence	<i>Strong Presence</i>
	Business Staff	Moderately Important	<i>Most Important</i>	Below Average	<i>Strong Presence</i>
	Business Name	Least Important	<i>Most Important</i>	Moderate Presence	<i>Strong Presence</i>
	Business Location	Moderately Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Number of Business Locations	Moderately Important	<i>Most Important</i>	Moderate Presence	<i>Strong Presence</i>
	Marketing and Branding	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Systems and Organization	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
Industry	In-bound Referrals	Moderately Important	<i>Most Important</i>	Above Average	<i>Strong Presence</i>
	Repeating Revenue Stream	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Copyrights, Patents, Etc...	Least Important	<i>Most Important</i>	Weak Presence	<i>Strong Presence</i>

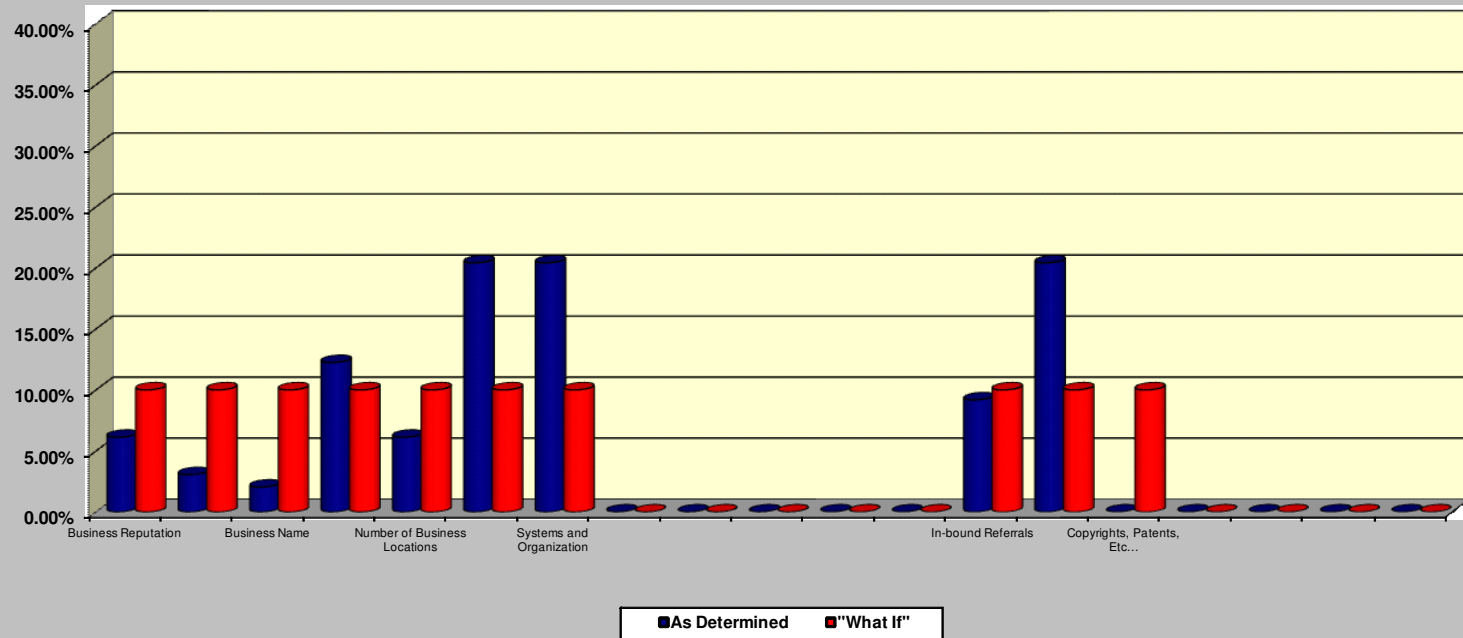
Enterprise Goodwill Attributes (EGA)		Multiplicative Utility (MU)		Percent	
		As Computed	"What If"	As Computed	"What If"
Business	Business Reputation	6	20	6.12%	10.00%
	Business Staff	3	20	3.06%	10.00%
	Business Name	2	20	2.04%	10.00%
	Business Location	12	20	12.24%	10.00%
	Number of Business Locations	6	20	6.12%	10.00%
	Marketing and Branding	20	20	20.41%	10.00%
	Systems and Organization	20	20	20.41%	10.00%
Industry	In-bound Referrals	9	20	9.18%	10.00%
	Repeating Revenue Stream	20	20	20.41%	10.00%
	Copyrights, Patents, Etc...	0	20	0.00%	10.00%
		<u>98</u>	<u>200</u>	<u>38%</u>	<u>50%</u>
		<u>258</u>	<u>400</u>	<u>100%</u>	<u>100%</u>

Personal Goodwill Attributes (PGA)		Importance Utility (IU)		Existence Utility (EU)	
		As Determined	"What If"	As Determined	"What If"
Personal	Ability, Skills, and Judgment	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Work Habits	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Age and Health	Moderately Important	<i>Most Important</i>	Above Average	<i>Strong Presence</i>
Business	Personal Reputation	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Personal Staff	Moderately Important	<i>Most Important</i>	Above Average	<i>Strong Presence</i>
	Personalized Name	Least Important	<i>Most Important</i>	Moderate Presence	<i>Strong Presence</i>
	Marketing and Branding	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
Industry	In-bound Personal Referrals	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Closeness of Contact	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>
	Important Personal Nature	Most Important	<i>Most Important</i>	Strong Presence	<i>Strong Presence</i>

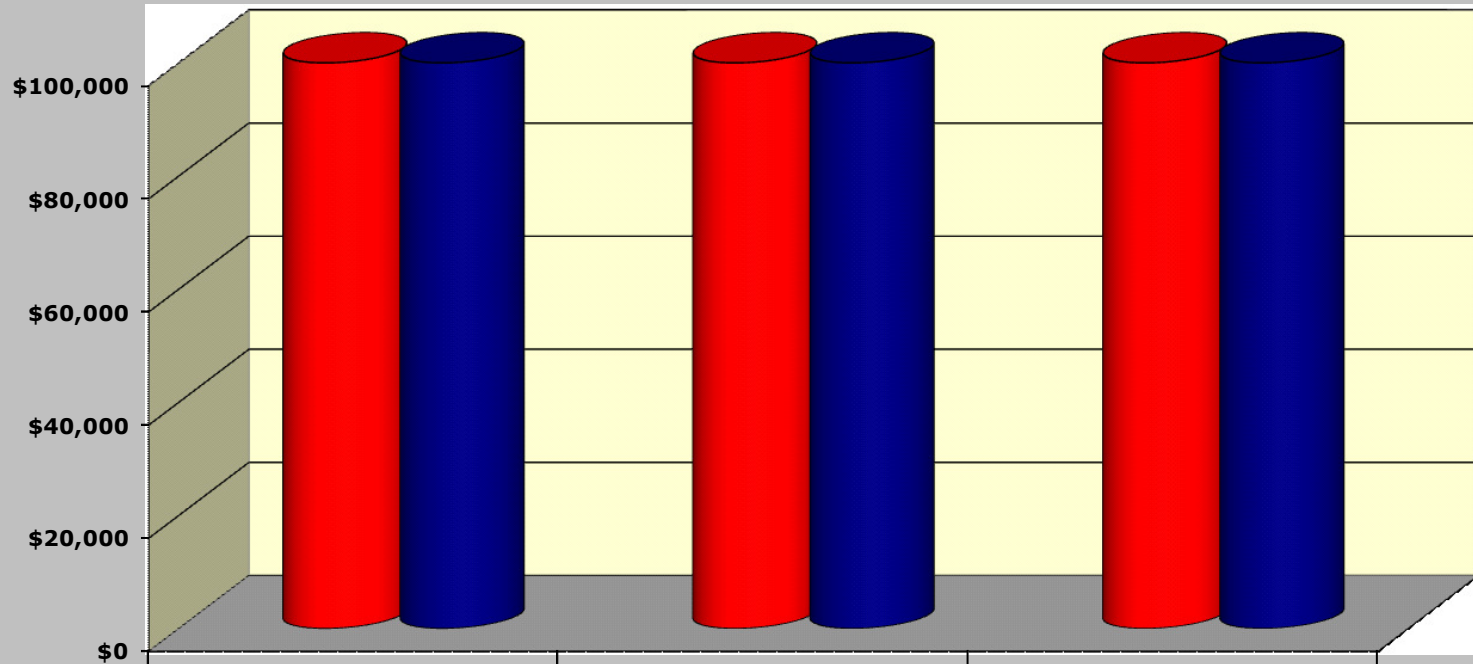
Personal Goodwill Attributes



Enterprise Goodwill Attributes

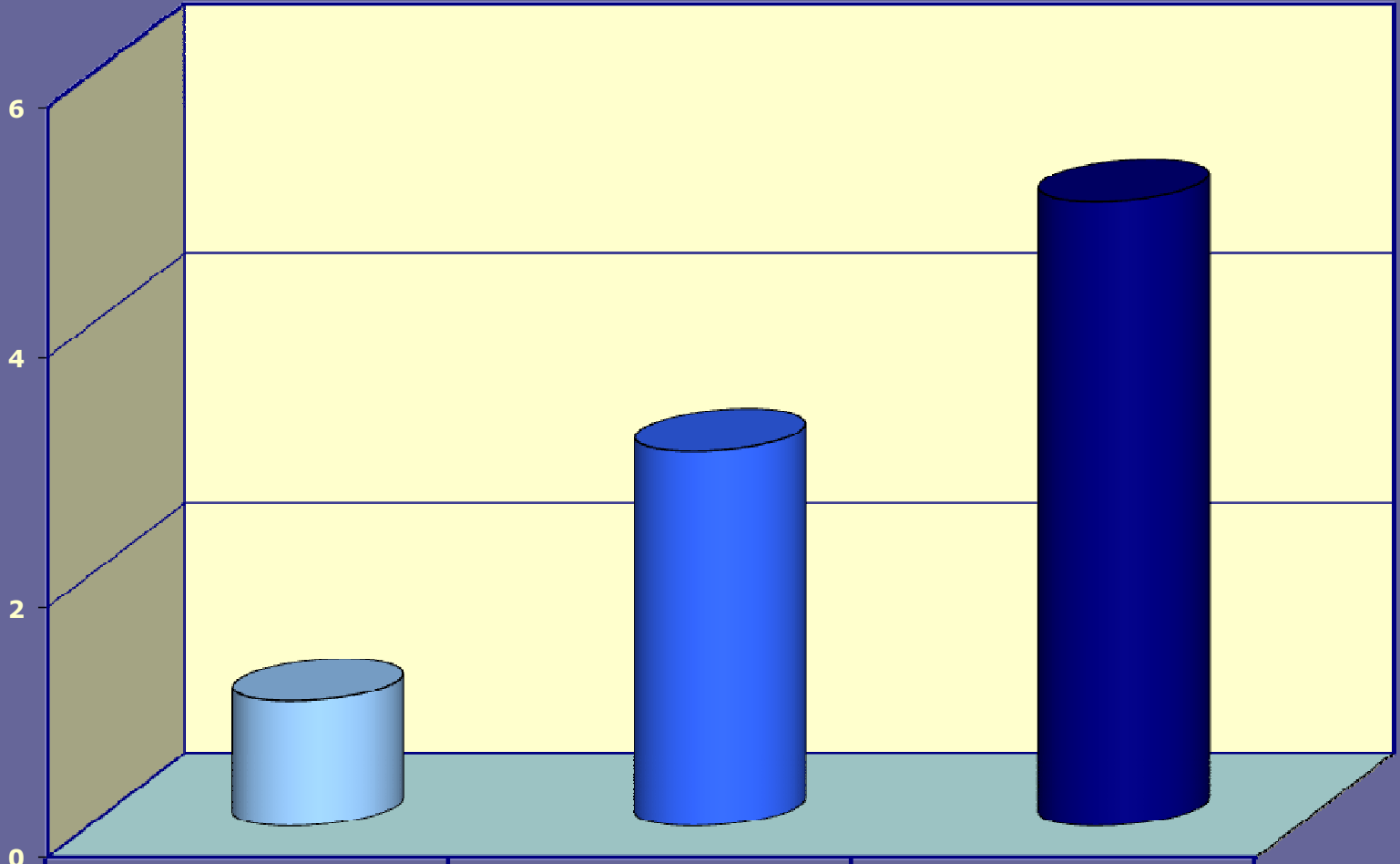


Sensitivity Analysis



	Computed	Selected	"What If"
Enterprise Goodwill	\$121,508	\$153,910	\$202,513
Personal Goodwill	\$283,518	\$251,116	\$202,513

Utility of Importance



	Least Important	Moderately Important	Most Important
Weight	1	3	5

Utility of Existence

