

Venn Diagrams – Sorting It All Out

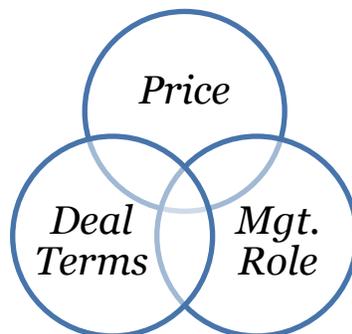
By Kenneth B. Collins

One of the most valuable and least-recognized tools we use in nearly every waking moment, the Venn diagram enables us to visualize logical relationships that drive critical analysis and the endless compromises that guide our daily lives.

In the Venn diagram, circles are used to visually and logically sort topics into groups to illustrate their relationships to each other. For example, one circle may contain things that are mammals. A second circle may contain things that have wings. The outer portions of the circles describe how the two subjects are different, while the area of overlap illustrates how the subjects are alike, that is, the mammals that actually have wings.

Venn diagrams can be as simple as two circles or as complex as a number of circles to illustrate a range of variables such as family, career, health, friends, and home, where the area of overlap or balance might best describe one's lifestyle. Changes in one area have implications in others – changes that can often be resolved by trade-off.

So, too, if you're thinking of buying a business, or selling your own, a number of factors come into play during negotiations and must be considered carefully when trying to find the best balance or overall option. Following is a simple Venn diagram to illustrate this point, using just three circles to show where they overlap – if indeed they do – which could represent the best solution.



Price is usually where it all begins, but it's not the only thing. Seller won't take less than, say, \$10 million for his business, and the buyer won't pay more than \$8 million. No amount of negotiation seems to bridge the gap, but consider that the price might also be in the form of stock or a seller's note, or an IOU – and it might be paid all at once or in stages as part of an earnout.

If the parties really are at an impasse over price, then they should look to adjoining circles such as **Deal Terms** for ways to resolve the price issue. It may be as simple as changing the structure of the transaction from an asset purchase to stock – with after-tax implications for both sides. Or it may mean employing an earnout so that the seller has an opportunity to realize his price expectations, albeit based on the future performance of his business.

But earnouts have implications too – not only on the price and deal terms, but in the case of small to moderate-sized businesses where the owner is also the chief operating officer, he may have to re-evaluate his future **Management Role**. Was it, for example, merely one of transition and integrating the business into a larger entity – suggesting plenty of time for golf? Or is he now willing to take an active ongoing role in driving the business to higher growth and profits – under a new boss – as part of a larger and hopefully well-funded owner.

It's a balancing act – weighing all of the options in all of the circles and trying to find the best balance – while the party on the other side is going through the same analysis trying to find a workable solution that meets his needs and yours.

Whether you like to draw overlapping circles or, as I do, prefer to work from adjoining lists, the Venn diagram concept is a helpful tool – constantly reminding us that as long as there are options there can be tradeoffs in our quest to find solutions that can be acceptable to all sides.

Ken Collins is a Managing Director with Protegrity Advisors, LLC, an M&A Advisory firm based in Ronkonkoma, NY. He may be reached at (631) 285-3174 or via email – KCollins@ProtegrityAdvisors.com.