



Jim's Profit Accelerator 137 Where Will Your Profit Come From?

This is a trick question. Most folks will answer by looking at monthly financials, maybe this year's and last year's. More sophisticated folks will look, perhaps, at the trend of the past three years. The problem is that some things change, and it's hard to know when and how much. By now you're nodding your head, right?

SPEED BUMP: Which things besides sales will change from last year to next year?

We comfort ourselves thinking that there are some things we're pretty sure of, and the other things we'll figure out as we go along. If that's how you roll, you're off to a good start. But here's the place where it's easy to fall short: We think that because we know parts of the future with 90 percent certainty, we can know the other parts pretty accurately. The problem with the part that you don't know is not that you don't know it; it's that you think you should act as though you do.

Here's Warren Buffet partner Charlie Munger on the topic: "People are trying to be smart—all I am trying to do is not to be idiotic, but it's harder than most people think."*

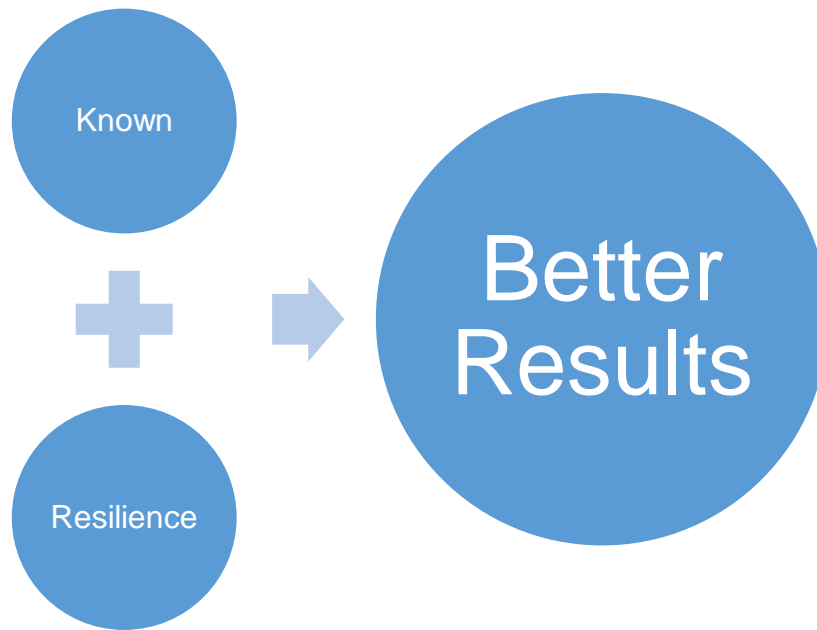
So how does the non-idiotic leader deal with the part that's not known? There are three ways:

- 1. Decide on how the future will be**, and plan accordingly. That means invest in product, training, people, equipment, and so forth as though you were certain of what's coming.
- 2. Split your forecast into two parts:** known and not known. Forecast complete profit and loss statements, at least through variable profit, for each one.

- **For the known forecast, manage to it.**
- **For the unknown forecast:**
 - Build two scenarios for the unknown forecast: conservative and aggressive; blue and green; low and high; merger and not merger; and so forth.
 - Manage to each of the pair, as well as you can.
 - Spot the common factors, and simplify to the really unknowns.
 - For the really unknowns, shift from peeking into the darkness to building resilience. Limit the resilience to the narrow part that's not known, otherwise you'll drown in what if's.

3. Be generally resilient, with an organization that shortens planning horizons and speeds decisions as needed.

SPEED BUMP: Focused resilience can lead your team to powerful performance.



A client company is owned by a private equity group and has an exit target that includes a general date (three to five years) as well as target financials. The task is to build both business competence and profitability toward the targets. One executive asked, “Should we invest in an initiative that offers strong payback, but not until well after the target sell date?” The unknowns are many:

- When will the actual sale take place?
- How will this initiative figure into the valuation?
- How much will this initiative dilute performance before the target date?
- And so on, and so forth

The answer is to treat the initiative as a known unknown: plan and execute it well, being careful not to diminish other parts of the business in the process. Even if just well begun, its current performance and future promise will add to customer satisfaction and business value.

ACCELERANT: What unknowns need to be resilience-managed this year?

For more information on how you can accelerate revenues and profits in your business, please call or email me.

*Farnam Street Blog, Shane Parrish, 2/26/17

For more information, visit www.grewco.com.

Jim Grew, the Business Defogger and Accelerator, helps leaders discover hidden opportunities within their businesses and exploit them for dramatic results. Jim has led 9 businesses, worked in 31 companies at C-level, and is an expert in strategy and executive leadership. He presents regularly to industry groups, mentors business leaders, and shares insights in his Executive Letter (above). Jim holds BA and MBA degrees from Stanford University. In his new book, *The Other Side of Succession*, he shares how to plan for the future by growing your business now.

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