Jim's Profit Accelerator 43:
A Stealth Road to Doing Business Faster™

Most privately held businesses measure themselves the wrong way. They track either sales and profit or net worth. They compound the mistake by operating to minimize taxes. These approaches divert the business from its most powerful potential: to provide these things in dramatic and powerful ways:

- A rewarding lifestyle for owners and investors.
- Enriching and satisfying careers for employees.
- An enduring brand or legacy for founders.
- Reliable service to customers.

Here's the crux of the problem: The profit/net worth focus sees the business as a machine to be optimized rather than an organism that can thrive by incorporating outside reality into its growth calculus. Properly harnessed, outside reality enables successful investment, modifies risk to tolerable levels, and provides paths to growth that might otherwise be missed.

The alternative: Measure success by valuation. Valuation is not for selling a business, though it can be a vital part of that exercise. Valuation is a broad, healthy way to track business success, including realistic appraisal of the investment that can become rocket fuel for growth.

SPEED BUMP: Investment in business is fuel for growth and survival.

Business investment takes many forms:

- Hiring leaders
- Applying performance management systems
- Training workers
- Acquairing process equipment
- Upgrading IT software/hardware
- Investing in process improvement

SPEED BUMP: Track profit when earnings are slim. Track valuation when profit starts to grow.

If profit is slim, focus first on developing it, but look hard for the investment that will kick-start profit growth. It may come from cutting and eliminating waste, but that's a short road. Also look for the first opportunity to invest in growth, and go for it.

Growth may be found by doing business faster. Look, for example, at total days to cash: a measure of time from when an order is written to when payment is received. Even better, start the tracking when an order is “possible.” The payoff comes in looking along the entire process for a spot where time can be removed. Removing time means cash sooner, which means more cash available.

Here’s why valuation helps you to Do Business Faster™. If you measure investment payback on profit, you may pass up a high-value investment because the profit impact seems slim. When you measure return by impact on valuation, the picture is different. For example, consider the impact of a proposed investment after two years:

Investment	$25,000
Annual Profit before investment	$100,000
Annual Profit after investment	$ 150,000
Profit return on investment	2 to 1
Valuation at 4 multiple* before investment	$400,000
Valuation at 4 multiple after investment	$600,000
Valuation return on investment	8 to 1

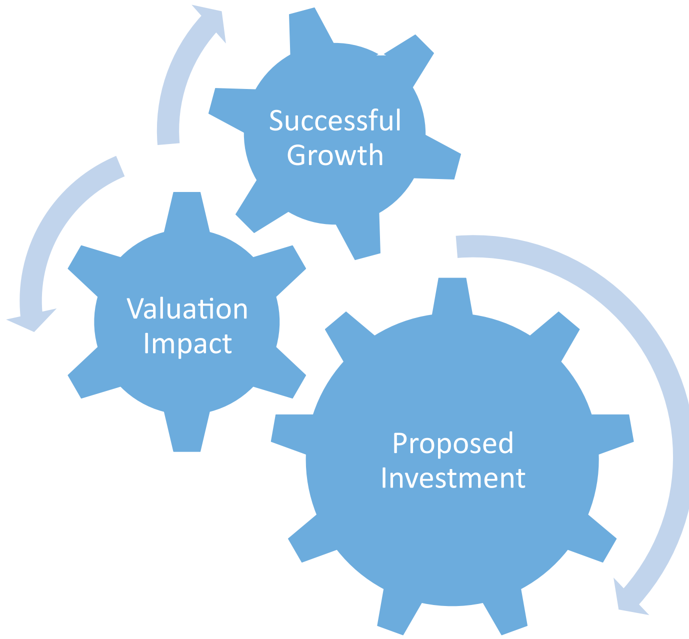
Explanation: It’s not just messing with numbers. Valuation is a measure of the strength of a business as a “going concern,” as an entity in the world. It’s the complete measure of business effectiveness, and as such is the correct measure to evaluate potential investment.

In the example above, a 2 to 1 investment might have been ignored, and the funds might have been spent on activity that doesn’t accelerate business strength. When viewed at 8 to 1, the investment is likely to be embraced, boosting performance.

**Don’t worry too much about your exact multiple. For investment purposes “4” will suffice. If you want a more accurate measure, consult a mergers & acquisitions professional who works in your industry with firms your size. And, of course, scale the example to fit your business.*

SPEED BUMP: Valuation helps avoid missing investments that will yield a high impact.

At a trash-hauling firm where I worked, net worth rose 20 percent because of investment in specialized management skills. That led to an eventual sale at a far higher valuation than the owner imagined.



ACCELERANT: What investment have you been putting off, because the return looks too small?

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

For more information, visit www.grewco.com.
Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: http://bizbursts.com/. He holds BA and MBA degrees from Stanford University.