



DO BUSINESS FASTER™

Jim's Profit Accelerator 265 Protect the Downside First

Stephen Schwarzman, co-founder of remarkably successful Blackstone Capital, reflects that he needs to see that all significant downside risks are mitigated before he will invest. His firm now has \$545 billion under management, making it the largest alternative investment firm in the world.

SPEED BUMP: The downside is the first element to be mitigated in a major decision.

This idea seems harmlessly uncommon. Reflection suggests that it likely is the reverse of most business decisions. The usual practice is to float an idea and defend it until it is implemented. The idea is that an attractive enough upside will encompass the downside and offer a sounder path to investment.

Schwarzman suggests that “financial people are good talkers,” as are many folks who become excited about an appealing idea. Let’s bring this idea into your organization. Here’s a familiar process: A path to improvement is proposed.

Its results and benefits are described by quoting other authorities or folks who have tried a similar path with success. Its obvious weakness is briefly considered, but the prospect of the significant success that the idea promises becomes an offset to the risk. The questions about evidence tend to focus on upside questions such as these:

- What will it cost?
- How long will it take?
- What kind of training or investment will be needed?
- What leadership and management data and actions will ensure its success?
- What is a reasonable estimate of results after year one and year two?

There is nothing wrong with this approach, as it frames the dimensions of the initiative and helps leaders understand what success might require. Deeper planning often follows, as a necessary preparation before launch.

The New England Patriots final game of this season provides insight. The question of Brady’s capacity was asked passively (will this be his last season?). There was no downside analysis, at least not in public: *What if Brady falls short in the game? What does it mean that his best receivers are all gone? Is our backup quarterback up to winning the game?*

This example shines a light on planning from the upside perspective. Upside thinking was about protecting Brady, adjusting strategy, and so forth. There was no serious effort to find and recruit a quarterback who could step in and win. Downside thinking would peg the probabilities that Brady might fall short and take action to mitigate that risk.

SPEED BUMP: Downside thinking requires plans and actions to mitigate risk.

Pro-forma downside discussion can review potential problems, but it's usually an intellectual exercise without much power. The power would be to dig hard at a most likely bad outcome, its probability and its mitigation. Mitigation means take away the power to damage the initiative. If the downside review doesn't remove the power to damage, it's a weak discussion that delivers little.

ACCELERANT: Which of your major decisions justifies vigorous downside evaluation?

Quotations and ideas are from the book What it Takes by Stephen Schwarzman © 2019 Stephen Schwarzman, New York: Simon & Schuster.

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A note on **SPEED BUMPS:** Use them to click quickly with an idea that can immediately be implemented in your life as a business leader. Think: "How can I use this today?" or "Who can use this?"

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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