



Jim's Profit Accelerator 36: Varoom or Oregon Pause?

The "Oregon Pause" is a condescending remark made by out-of-state folks who fancy themselves experts because of prior accomplishment. What they observe here in Oregon is common in many venerable firms: caution about taking major risks, whatever the possible benefit. These critics ignore a critical factor: most privately held businesses here are led by folks who have their own money at stake versus leaders from larger states who use OPM (other people's money).

Depending on your point of view, the "Oregon Pause" is either prudence or missed opportunity. Today we face a rare chance that has room for both prudence and opportunity: the best guess is that we're in year four of a ten-year economic recovery. Here's what that means:

- The next six years will provide one of the best opportunities in the past fifty years.
- The confluence of positive economic activity cuts risk dramatically.
- If you wait, you glide into the next recession, in about seven years.

Support for economic growth is shifting from government (interest rates will rise) to a stronger economy, marked by these changes:

- Increasing use of credit by business and households = spending.
- Stronger household confidence marked by rising wages, falling unemployment, low inflation, more job security (faster job growth and fewer layoffs), and low current consumer debt.
- Increased capital spending by business. Historically as capacity utilization approaches 80 percent, capital spending spikes. Capacity utilization is now 79.6 percent and rising.

SPEED BUMP: This six-year runway will likely be the best chance for growing your business and your personal wealth in this lifetime.

What will speed you down the runway?

- Change your focus to valuation, not revenue or profit growth.
- Move from harvesting profit to investing in sharply higher valuation.
- Create company-wide enthusiasm for the thrill of building meaning.

Change Your Focus to Valuation

Valuation is what your business is worth, whether you sell it or keep it. It's calculated by this formula: EBITDA x Market Risk Multiple.

EBITDA is earnings before interest, tax, depreciation and amortization. Your accountant can show you how to pull the factors from your P&L and balance sheet, or call me.

Market Risk Multiple estimates the future earnings potential of your business. It ranges from two to ten. To estimate valuation, use a multiple of four to six.

Application: If you can increase profit (actually EBITDA) about 25 percent in three years, the valuation increase ranges from \$1 million to \$3 million. Using a conservative multiplier of four, here's the math:

- Three-year EBITA growth: \$300,000 Valuation Growth: \$1.2 million
- Three-year EBITA growth: \$500,000 Valuation Growth: \$2 million

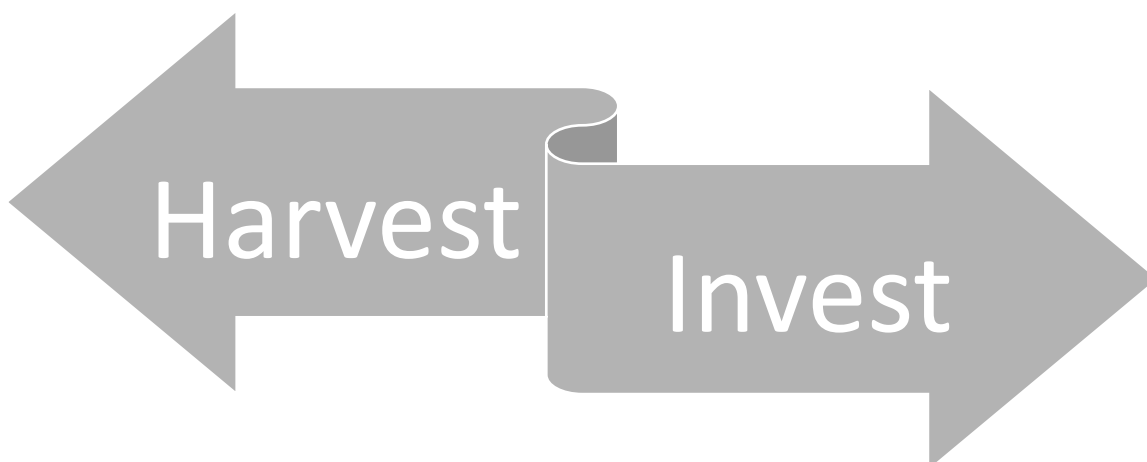
The valuation growth is real money, with benefits like these:

- If the business sells, it's extra money for the owners.
- If the owners keep the business:
 - There is greater company resilience to weather tough times.
 - Growth capital is cheaper and easier to obtain.
 - Better tools and toys are available to employees.
 - Top talent will be easier to retain or to attract.
 - Owner-managers can become owner-investors.
 - Most employees who want personal growth have that opportunity.

Move from Harvesting Profit to Investing in Sharply Higher Valuation

A common legacy of the 2010 recession is to keep doing what worked. That's harvesting profit, and it has already served its purpose. Instead, raise your head to look two years into the future, and ask these questions to change the trajectory of your company:

- How do I want my business to look in 24 months?
- What one accomplishment will boost our valuation dramatically?
- Who can help us accelerate it?



SPEED BUMP: Trajectory change is done by people, not analysis.

One of my clients struggled with a production manager who couldn't keep up with both growth and moving to a new building. On-time shipments dropped from 92 percent to 72 percent—a catastrophic cash bleed for a parts maker whose customers relied on timely delivery to ship their parts. The question wasn't whether to move out the production manager, it was where to find a competent replacement quickly enough. When we dug into organization reality with five old hands, they quickly found the formula for success: Move the swing shift manager to production manager, with a public agreement from the five that they would help him be successful. On-time delivery, cash, and profit returned to normal levels in under three months.

Create Enthusiasm for the Thrill of Building Meaning

A growing organization can become a place of deep meaning for most employees. It's most powerful when it's beyond the product, looking also at personal growth, relationships, the thrill of achievement, and personal recognition.

Strangely, good metrics can supply a foundation for all four, if their application moves past calculation to encouraging change. The processes of change in a carefully paced, supportive environment can work like this:

- *Personal growth:* What can I do differently?
- *Relationships:* Look at what we accomplished!
- *Achievement:* We made progress toward our goal.
- *Recognition:* Thank you for stepping up. You kicked us forward!

ACCELERANT: Where will you multiply your valuation growth this week?

Call 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.

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