

Jim's Profit Accelerator 30: Operate for Profit, Invest for Value

For most firms, growth includes risk and investment, and you may not be ready for growth when it comes for you.

A company where I worked moved to a larger facility, increased orders, and struggled with both supply chain and on-time delivery. The result was both falling profit and falling customer regard, a double whammy that gave the owner headaches. His organization had been fine, but it wasn't up to the demands of its future—which had suddenly burst upon it.

Yes, eventually we caught the business up to its market demand by restructuring management and replacing two key people: both highly risky moves. But it worked, and the business continues to deliver record results today. It took the owner two years to step into the hurricane and do what was needed—and he needed outside perspective to see the winning path.

Any genuinely successful business has weathered tough times. The lesson frequently is to hold on, take fewer risks, and produce operating earnings with known processes and customers. This strategy is enormously risky, in spite of its comfortable feel. Growth demands risk and investment of several types:

1. **Capital Risk.** This is often easiest to manage, because of limited capital and common tools to forecast returns. In spite of delays, solid results can frequently be delivered.
2. **Diversion of Internal Resources.** These can be so hard to measure that internal bleeding occurs without close observation. That bleeding includes sloppy work, late projects, slipping morale, and gradual erosion of the will to go for it. Problems like these are usually discovered too late to prevent declining profit and customer service, forcing repair instead of redirection.
3. **Diversion of Leadership Focus.** This is more insidious, because most leaders cut their teeth on “can do” and are weak at turning down promising ideas. Since there are always more good ideas than time to pursue them, top leadership must relentlessly pare down initiatives to a remarkable few: three or four at most. The paring must be done by the top leader, who has the last vote on priorities. Without that, slipping results and morale are inevitable.
4. **Calendar Disruptions.** These are surprises named “We didn't expect that to be so bad.” Hindsight usually shows that these issues were known and either ignored or minimized, with the thought that we can outrun these problems and make this thing work. The fine line between Macho and Mistake requires outside eyes to see clearly in time. Here is where hands-on is essential, but it takes years of experience to do well.

The solution is to **operate for profit, but invest for value.** That means that the incremental improvements that are the life of a successful firm must be encouraged, measured, recognized, and stimulated. These improvements maintain the competitive edge and profit that the business requires. Even as you carry out these

adjustments, understand that such small steps are not enough for long-term success. Comfortable will never be good enough.

Entropy, the tendency toward slowing and against change, constantly drags every organization down unless there are big steps taken against it. Those steps are as tough as hauling the big flagstones that make a dramatic wall or patio. Little stones won't do. If an owner makes these dramatic investments to step up the value of the firm, not just its earnings, the returns suddenly justify the pain, uncertainty, and risk.

Here's the Value Equation: **EBITDA x multiplier = value of the business**. That value is useful for more than selling the business. It enables the strategic actions that build further strength, higher cash flow, better customer service, and enhanced dividends for ownership.

Are you incrementally dissolving or are you leveraging the Value Equation to take your business where your vision lives?

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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