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The Virtuous Circle of Improving Cash Flow

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If cash is king, then cash flow is the kingmaker.

Cash flow can have a multiplier effect in terms of achieving your planning goals for a successful future. Often, increasing cash flow requires strong performances from key employees. Let's look at how properly motivating your key employees could cause a cascading effect that creates a virtuous circle of increasing cash flow.

Mary, Mary, not so contrary

For years, Mary Kowolski's custom garden-growing-formula business had been on an upward trajectory. But recently, she noticed that cash flow had plateaued, right as she began thinking about planning for her retirement. She wasn't sure why.

During her annual year-end meeting with her advisor team, she brought up her concerns. Her advisors noticed that she hadn't created an incentive plan for her top producer, Margo. She paid Margo well, but her advisors believed that with a motivating incentive plan, Margo could help Mary's company start growing its cash flow again.

They helped Mary create a written, realistic incentive plan for Margo focused on improving cash flow. Mary presented Margo with a cash flow increase goal of $300,000 in the next year. If Margo could achieve that goal, she would receive a $100,000 bonus, part of which would be paid immediately, and the balance would become vested over the following five years. The plan anticipated that this pattern would repeat in subsequent years with goals for each year set in advance.

Over the next year, Margo managed to grow the company's cash flow by $300,000. Her hard work qualified her for her bonus and was more than enough for her to comfortably reject job offers from other companies. She was ready to meet her targets for the next year.

Mary saw two direct effects of Margo's hard work. This first was more money in her pocket. Mary took

$50,000 from the increased cash flow and used it to supplement her personal investments.

The second was that Mary had more money to invest back into the business. She took the remaining $150,000 and invested it into the company's R&D. The investment provided better testing equipment, which allowed her team of scientists to further optimize Mary's original formula.

The new formula was twice as effective at growing certain crops that tended to struggle in Mary's muggy climate. It also piqued the interest of several regional growers, which expanded Mary's client base, bringing in more regular business even during the off season.

Over the next five years, Mary and her advisors created a similar incentive plan for Margo each year, with higher cash flow goals leading to higher bonuses and vested benefits.

As her company's success compounded, Mary continued splitting the additional cash flow between investing in her business' management teams and R&D, and her personal financial strategies. This allowed her to hire strong operations managers, giving her more time to find and capitalize on her competitive advantages in her market.

As she approached the fifth year of her cash flow improvement strategy, she realized three things.

1. *Her business' value had increased by a multiple of the new, increased, repeated cash flow.*
2. *Mary hadn't given up anything in order to pay Margo's bonuses – Margo put in the effort and created the cash flow that then, in part, returned to her as incentive plan rewards.*
3. *Increased cash flow had allowed the company to invest in things that would, in turn, allow them to further increase cash flow.*

Cash flow increases can compound

Even modest increases in cash flow can have far-reaching effects. Whether you use those increases to improve business processes, hire more high-quality managers, or invest in your personal goals for the future, creating an executable strategy that builds cash flow is crucial to your success.

In Mary's case, increasing cash flow started with having a proper incentive plan for her top-performing key employee. With proper implementation, that incentive plan spurred other noticeable changes.

Her key employee achieved ambitious goals and received an appropriate reward for it, keeping her onboard long term. That allowed Mary to take the remaining money and invest it in other important areas. This multiplier effect continued thanks to prudent planning and processes, positioning Mary to leave her business on her terms.

We strive to help business owners identify and prioritize their objectives with respect to their business, their employees, and their family. If you are ready to talk about your goals for the future and get insights into how you might achieve those goals, we'd be happy to sit down and talk with you. Please feel free to contact us at your convenience.

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