## CORPORATE LIFE CYCLE

### The Corporate Life Cycle

**Companies are like living organisms: They get born, grow, mature and eventually die. This is referred to as the Corporate Life Cycle.**

Companies can become old, sometimes even reach an age of several hundred years. Most firms, however, already vanish in their very early stages, often in their first or second year. If longevity of a company were defined as a success factor, then it is interesting to observe that a firm´s (old) age is neither linked to a specific product or market or a certain technology. Actually, the prime success factor for aging is a firm´s ability to re-invent itself as well as remain flexible and open towards trends and shifts and adapt accordingly. Achieving an old age is in essence all about a firm´s culture (and neither about funding nor finance).

The early stages of a company are linked to numerous risk factors, questions and unknowns: Will the product work? Will there be a market for the product? What will be the size of the market? Will the management be able to swiftly implement the intended strategy? How fast will competition respond? Will funding be avail? – Even if most of the challenges are successfully addressed, revenues in this stage will be small. The firm is expected to report losses and will burn a substantial amount of cash.

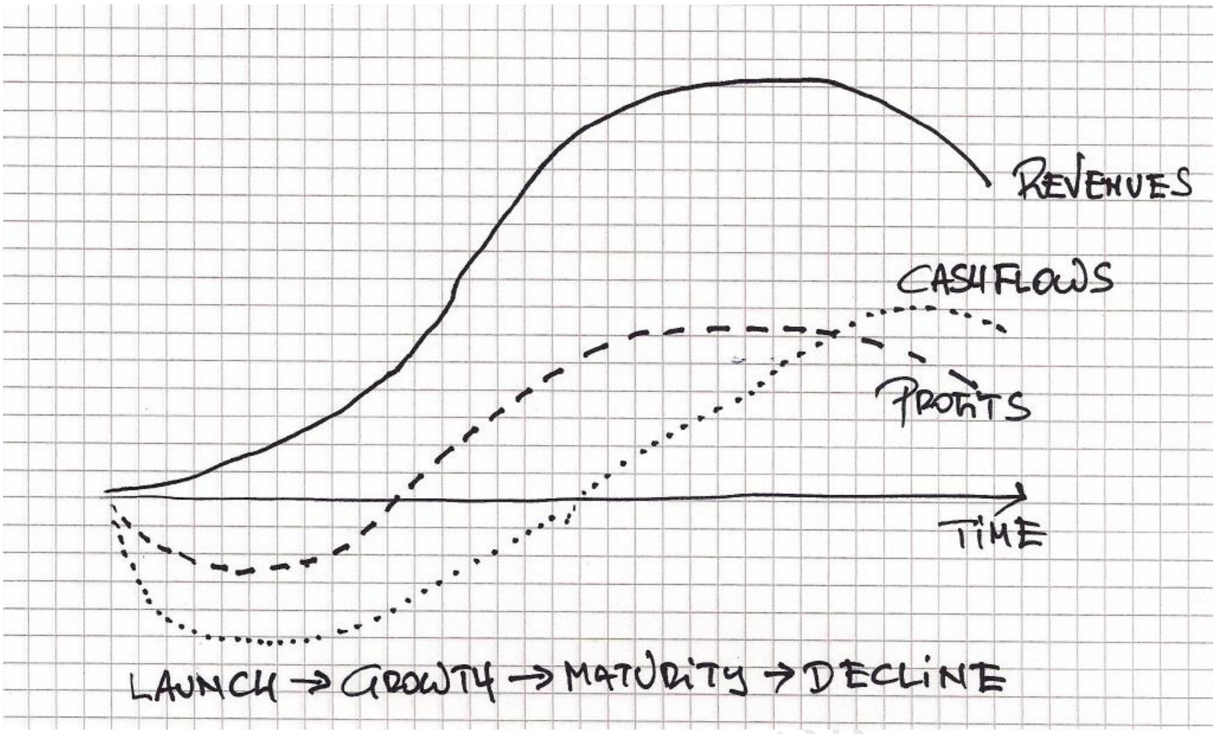
Also in the growth stage - at least at the begin of it - a firm will most likely still require a substantial amount of cash which will be spent on capital expenditure, but also on the expansion of working capital: Both, receivables and inventory are expected to grow, as well as liquidity requirements. However, revenues will grow fast and net income turn positive during this phase. Eventually, also cash flow is expected to break even, probably rather at the later stages of the growth phase.

As the market matures, sales momentum decelerates. Along with this development, profit margins decline, whilst cash flow remains consistent and stable on a relatively high level. By now, major capital spending is largely done with cash generation likely exceeding net profit.

In this stage many businesses aim for extending their respective Corporate Life Cycle by seeking for new growth opportunities. Various strategies may be pursued in this regards, such as reinventing itself or investing in new technologies or expanding into new - often emerging - markets. Frequently, such initiatives do, though, go wrong, especially when firms venture into areas without proper preparation.

In the later, final stages of the Corporate Life Cycle, revenue, profit, and cash flow – with some delay - all tend to decline. By times, a late-stage consolidation strategy can add value, though.

Funding availability and strategies as well as optimal capital structures look markedly different for each stage in the Corporate Life Cycle.


REVENUES
CASHFLOWS
PROFITS
TIME
LAUNCH → GROWTH → MATURITY → DECLINE