Corporate Life Cycle - Concept

Companies resemble living organisms: They are born, then grow, mature and eventually decline, phases referred to as corporate life cycle.

Companies can grow old, become up to several hundreds of years. The vast majority of firms, however, vanishes early, often in their respective first or second year. If a company´s longevity were defined a core success factor, then case studies support the hypothesis that achieving this seems neither be linked to a specific product, market or technology. Instead, successful aging is centered around a firm´s ability to constantly reinvent itself as well as remain flexible, open towards trends and shifts and adapt accordingly. Achieving an old age is in essence all about a firm´s culture, certainly neither about finance nor funding.

A company´s early stages in life are inherently linked to numerous risk factors and unknowns: Will the product work? Will there be a market for the product? What will be the size of the market? How fast will it grow and mature? Will management succeed in implementing the intended strategy? How fast will competition respond? Will funding be avail? – Even if most of the challenges are successfully dealt with in these early stages, revenues will be – at best - small. The firm is expected to report losses and burn cash for the foreseeable future.

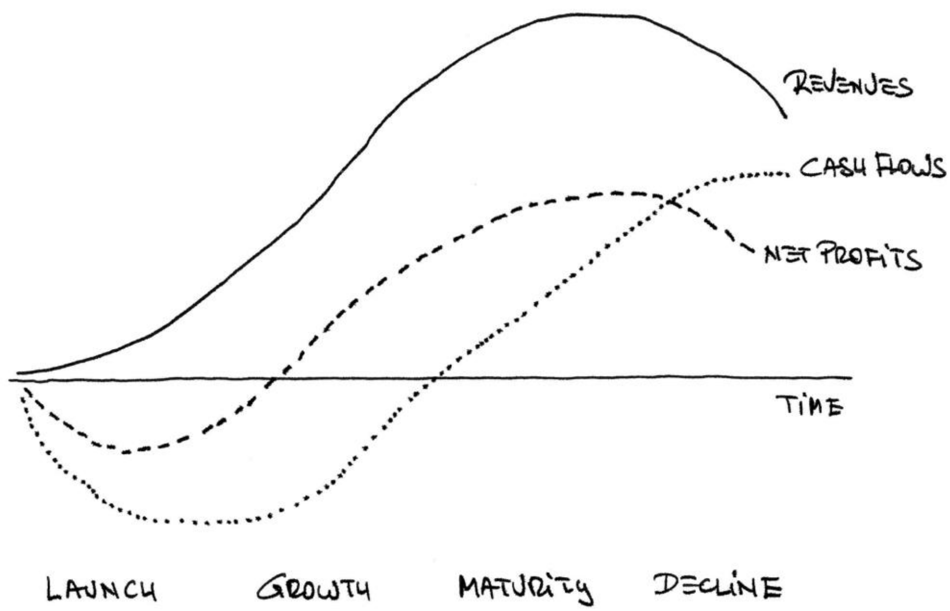
Also in the growth stage - at least whilst phasing into it - a firm will most likely still require a significant amount of cash to be spent on capital expenditure, but also on the expansion of working capital: Both, receivables and inventory are expected to grow, hand-in-hand with liquidity requirements. However, in midst of the growth phase revenues will probably accelerate fast and net income eventually turn positive. Also cash flow is expected to break even, later than net income, though, probably rather in the advanced stages of the growth phase.

With the market a firm operates in maturing, at some point sales momentum will decelerate. Along with this dynamics, profit margins start to decline, whilst cash flow tends to remain stable on relatively high levels. By now, major capital spending is typically covered by cash generated, latter perhaps even exceeding net profit.

In this stage, many businesses aim for extending their respective corporate life and seek new growth opportunities. Various strategies may be pursued now, such as reinventing oneself, investing in new technologies or expanding into new, sometimes even emerging markets. Frequently, though, such initiatives fail, especially when firms venture into areas without proper preparation or knowledge.

In the later, final stages of a firm´s life cycle, revenues, profit, and with some delay also cash flow tend to decline. In this phase, a late-stage consolidation strategy can still add value, though.

As a company walks through its life cycle, available investor pools and funding sources as well as ease to access them differs in each stage. With a firm´s business risk declining in later life, the range of available investment tools and instruments widens as a company can afford assuming an ever higher financial risk, whilst optimizing its capital structure.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