Corporate Life Cycle - Concept

Companies resemble living organisms: After their creation they grow, mature, and eventually decline, phases referred to as corporate life cycle.

Companies can grow old, even several hundreds of years. The vast majority of firms vanishes early, though, often in their first or second year. If a company´s longevity were defined as a core success factor, then case studies support the hypothesis that achieving this seems neither linked to a specific product, market or technology. Instead, successful corporate 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 not about finance or 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 the size of the market be? How fast will that grow and eventually mature? Will management succeed in implementing the intended strategy? How swiftly and forcefully will the competition respond? Will funding be avail? – Even if most of these and other challenges are successfully dealt with in a startup´s early stages, revenues will – at best – be small. Almost certainly the firm will report losses and burn cash for the foreseeable future.

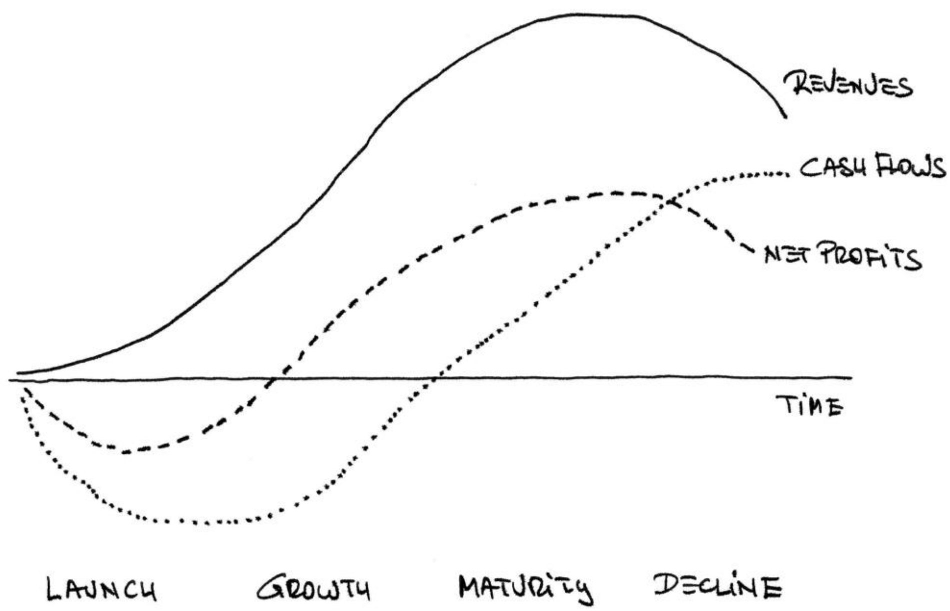
Reaching growth stage, a firm´s spending on capital expenditure, but also on the expansion of working capital will be steep: Both, receivables and inventory are expected to grow, hand-in-hand with liquidity requirements. However, some time in midst of the growth phase revenues will likely accelerate and net income break even, then turn positive. With some delay also cash flow is expected to break even, rather in the advanced stages of the growth phase.

With markets maturing, at some point a firm´s sales momentum will decelerate. Along with slowing dynamics, profit margins will start to decline, whilst cash flow tending to remain stable, though, on relatively higher levels. By now, major capital spending can be covered by cash generated, with latter perhaps even exceeding net profit.

In this stage, many businesses aim for extending their respective corporate life by seeking new growth opportunities. Alternative strategies may be pursued to achieve this, 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 flows 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 differ in each stage. With a firm´s business risk having declined in later life, the range of available investment tools and instruments widens as a company can afford assuming an ever higher financial risk, helping to optimize its capital structure.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