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THE BUSINESS LIFE CYCLE: **AVOIDING DECLINE**

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There has been much written and discussed regarding the concept of the life cycle of a business. There are different models and phases; however, in general, the concept holds that a business progresses through various phases from inception to dissolution. This progression is impacted by external forces such as product or service market characteristics, the economy, competition, governmental actions, weather and potentially many other factors. The progression is also influenced by internal factors such as management practices, strength and vision of the leadership, the company culture, quality, innovation, financial discipline and others.

The purpose of this article is to provide an understanding of the basic characteristics of the business life cycle phases, the factors that have an impact on longevity and survival, and most importantly, how some organizations are able to survive in the mature phase for extended periods of time or continue to re-enter into one or several new growth/re-growth phases and avoid decline.

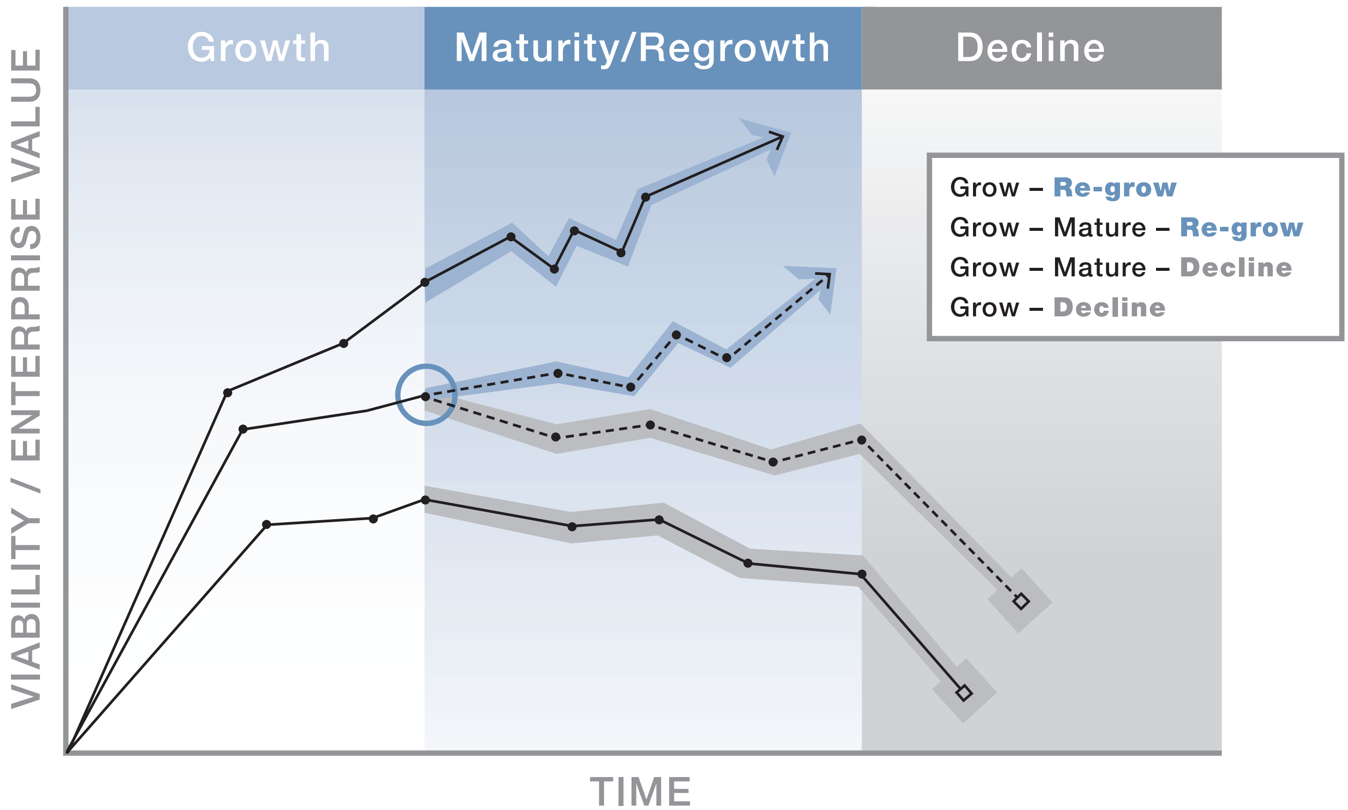
The areas of discussion are:

- Three Basic Business Life Cycle Phases
- Mature Businesses in Markets Requiring Little Change
- Mature Businesses in Markets Requiring Change
- Characteristics of Businesses that Change and Survive

THREE BASIC BUSINESS LIFE CYCLE PHASES

In general, a company's life cycle (or a product line within a company with several products) is comprised of an initial **growth phase**, a **maturity phase** and a **decline phase**.

BUSINESS LIFE CYCLE PHASES AND PATHS



The **growth phase** begins with the original business concept or idea, the formation of the company, the development of a business plan and operating methods/ processes, obtaining initial funding and other activities. The company begins operations, establishes and expands its customer base, demonstrates an ability to meet customer needs and generate cash. As the company continues through the growth phase, operating processes are refined, the customer base is expanded, new markets are explored, working capital needs grow and systems are established to ensure customer satisfaction and improved operating performance. This is an exciting and sometimes chaotic time to be involved with a company and provides challenging opportunities. At some point the company will saturate its market potential with its existing products, new competitors may enter the market place or the demand for the products or services may level off. It is at this time that the company begins to mature.

During the **mature phase**, continued growth is no longer achievable at previous rates, pricing may become more competitive, lower cost providers can impact industry margins, existing opportunities may become fully exploited and new opportunities for existing products or services may be limited. As described in more detail below, businesses (or product lines) that mature can remain in the mature phase for quite some time, can quickly enter the decline phase or reinvent themselves and re-enter the growth phase. Important strategic decisions are required by mature companies to capitalize on re-growth opportunities if available or to maximize value while remaining mature and ultimately entering the decline phase.

If margins or volumes begin, and continue to erode, the company will enter the **decline phase**. The organization may be competing for a piece of a smaller pie or losing market share in a stable market. The company is unable to reinvent itself and define new markets, brands, products or services and is dependent upon existing ones. Cost reductions and operating improvements cannot overcome declining margins; cash flow is reduced and then turns negative. The value of the enterprise begins to decline and, depending on actions taken, may end up in liquidation and dissolution, the end of the business life cycle.

A company approaching the mature phase may consciously, or unconsciously, not attempt to re-enter the growth phase. When a company goes in this direction, it is important to understand how this will affect the viability and enterprise value of the entity and the changes needed to maximize both. As described above, simply transitioning from growth to maturity without addressing the changes needed will hasten the decline, shorten its viability and destroy enterprise value of the business.

When a company addresses the necessary changes and continues to successfully operate as a mature business, an on-going assessment needs to be made regarding how long to continue operating and at what point (if any) the business should be sold or liquidated. When and what decision is made in this regard can have a significant impact on the value realized during the decline phase and should be managed proactively.

Companies can progress through these phases in months, years, decades or even longer time periods. Companies that become mature or begin to decline can enter into a new growth (re-growth) phase. Some companies that are mature can prosper and survive for very long periods.

How is it that some companies or organizations are able to survive in the mature phase for extended periods of time or continue to re-enter into one or several new growth/re-growth phases and continue to survive?

MATURE BUSINESSES IN MARKETS REQUIRING LITTLE CHANGE

Businesses operating in markets that require little change, if managed properly, may survive for an extended period as a mature company. Characteristics and examples of markets that have not required significant changes include:

- High brand value, low price sensitivity, low technology change
    - Familiar household items such as: Tide, Kleenex, Clorox
- Low/lower cost producer, high price sensitivity
    - Items such as: office supplies, gasoline, food

The focus of these companies will remain on maintaining brand image and competitive costing. These companies could be considered in a “maintenance mode” i.e., protect what you have and look for what limited opportunities there may be for improvement.

The structures, systems and processes, personnel and costs required for a growth company are quite different than for a mature entity. Changes need to be made to all these factors as the growth phase is ending for a company to succeed in the mature phase. These organizations should be simplified, lean, require few layers of management, and have proven and established processes, systems and metrics to ensure that current capability is maintained or improved with a focus on quality and cost.

Too often, existing structures, practices, personnel and related costs remain in place from the growth phase into the maturity phase. If not corrected this could lead to an accelerated decline.

Even well managed mature companies will eventually enter the decline phase due to[1]:

- Introduction of a new technology significantly improving existing product performance or cost
- Existing product or service obsolescence
- Growth/emergence of a lower cost producer
- Strengthening of competitive brands
- New governmental regulations and other external factors

MATURE BUSINESSES IN MARKETS REQUIRING CHANGE

If businesses are operating in changing markets they may not survive long as a mature company. Companies approaching maturity in a changing market must have the ability to change and re-grow. This could include the entire business or re-growing segments or products within the business. Characteristics and examples of markets that have required significant change include:

- New growth or innovative markets, high design/fashion or brand identity, medium-price sensitivity
    - Electronics (games, cell phones, cameras, computers)
    - Clothing/fashion accessories
    - Restaurants/resorts
- High technology
    - Segments in automotive, aircraft manufacturing
    - Defense hardware and software
    - Alternative energy products and services
    - Drugs and medical equipment

The focus of these companies will be on innovation and technology development, improved branding, improvements to product or service performance and lower cost manufacturing of maturing products. To prevent decline, organizations operating in changing markets need to have different structures, processes and systems, metrics, culture and leadership.

CHARACTERISTICS OF BUSINESSES THAT CHANGE AND SURVIVE

There are several attributes that successful companies in a changing market typically possess. Below is a matrix detailing some of the attributes supportive of an organization's ability to change and re-grow in a changing market place and those attributes that are unsupportive of change[2].

GROWTH - RE-GROWTH	MATURE - DECLINE
• Organizational alignment/leadership (leadership's adherence to values and has demonstrated accomplishments[3])	• Organizational misalignment / ineffective leadership
• Management keeps apprised of changing external factors such as government actions and market conditions and risks are addressed and managed	• External factors are viewed as uncontrollable
• Effective use of resources, aggressive cost, and conservative financial management	• Waste and cost reduction are not emphasized or measured, losses are not aggressively addressed and cash flow is not maximized, over-leveraged conditions may exist
• Work force decisions guided by core values and encouraged at all levels	• Decisions guided by excessive rules, authority, approvals established by management
• Metrics, understood and accepted by the organization, measure performance of processes, guide decision making and lead to improvements	• Subjective information used for performance assessment of processes and decision making. Information is disputed, subjective discussions, politics, individual agendas drive decision making
• Mistakes are used for learning with focus on fixing the process	• Mistakes are punished/focus on individual blame
• People are rewarded, recognized, promoted based on metrics and core values	• People are rewarded, recognized, promoted based on subjective criteria, relationships, historical factors, results independent of core values and metrics
• Organization striving to increase resources, capability and service customer needs and expanding markets	• Organization focused on maintaining revenue, controlling/reducing costs, preserving status quo
• Organization works as a team, respect and support others. Individuals are recognized, respected and effectively utilized on teams for their strengths and accomplishments. Title and position are less relevant	• Individuals protecting turf/status quo, others in the organization viewed as competition or threats, back stabbing, politics exist. Formal structure predominates
• Risk taking and innovation/creativity are valued	• Conformity and lack of mistakes are valued

A company's ability to change, re-invent itself and re-grow is dependent on the effectiveness of the leadership in adopting sound values, strategies and creating an aligned, empowered organization. Learning, innovation and risk taking are valued, encouraged and rewarded.

SUMMARY AND CONCLUSIONS

A company approaching the mature phase is at a critical juncture. Is the organization capable of re-growth and effecting competitive change through one of the following?

- Development of a better or less costly product/service thus increasing market share
- Enhancement of product brands thus expanding its market share
- Development of new products/services thus expanding its market
- Growth through product diversification thus expanding its markets

Competitive change can be initiated internally with existing or new resources or through the effective acquisition of other entities or technology. An organization's ability to re-grow and compete is dependent upon its willingness and ability to change in one or more of the above directions. This requires an organization that values and utilizes the experience and expertise of its human resources and where innovation and input from all levels of the organization are encouraged, recognized and rewarded.

Competitive change requires knowledgeable and experienced leadership to make the right changes. Also, financial resources are necessary to fund the investment in change. If a company has not been financially conservative (excessive leverage, inability to generate and preserve cash, inefficient use of resources, etc.), sufficient resources, along with the potential lack of support from creditors and shareholders to commit resources, can significantly constrain an organization's ability and freedom to change.

Understanding how certain companies are able to enter into new re-growth phases and continue to survive can provide valuable insight into how other companies can avoid decline.

If you would like to discuss the impact of the business life cycle on an organization you are involved with please contact Scott Smith at HYDRA Professionals.

Notes:

[1] For additional examples and details regarding companies that have been able or unable to re-grow, please visit the HYDRA Professionals website at www.HYDRApros.com

[2] Input and review by Harris L. MacNeill President, MacNeill Engineering Worldwide / Champ Spikes

[3] John Roulet, "Obliterating Two Popular and Destructive Leadership Myths", May 28, 2010, The Business Edge, Michigan Association of CPA's

ABOUT HYDRA PROFESSIONALS

HYDRA is a premier business advisory firm to companies in transition across multiple industry sectors. HYDRA's Certified Turnaround Professionals have helped more than 100 companies stabilize their operations, fortify their balance sheets and work out long-term solutions with their customers and creditors. HYDRA specializes in identifying significant opportunities to improve businesses and developing and implementing solutions to achieve positive results. HYDRA is based in Farmington Hills, Michigan. **www.hydrapros.com**

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