

The 9 Stages of a Business

by Mike Pendrith

All companies go through various stages in their business “lives”. This article identifies and discusses the characteristics of each of those stages.

The Concept Stage

At this point, there is no business. The future owner simply has an idea about starting a business.

Some would argue that this is not really a stage at all. I disagree. This is a defining moment in the life of the business.

The future owner may have a vision of what his / her business will be. He / she may not. Either way, what they do know is that they are determined to start a business.

In order to proceed, he or she must gather information and refine his / her ideas.

Research and Planning Stage

In this stage, there is still no business.

However, the future business owner has researched possible names for the company; decided on a legal structure (see the article entitled “Structuring Your New Business”); gathered information about the industry, the competition and the target market (customers); investigated the cost of the necessary equipment, leasehold improvements, office furnishings and inventory; and located a possible facility to lease.

The next step is to develop a Business Plan, especially if the business owner wants to secure funding and / or to lease a facility (see “How to Write an Effective Business Plan”).

During this stage, the future owner should be utilizing professional assistance – business advisor, accountant, lawyer, etc.

For some, this stage lasts for several months as they seek out all of the requisite information. For others it will be just a few weeks. They are “on a mission” and have no time to lose.

The Business Launch

By now, all of the necessary preparation has been completed.

The name of the business has been registered; the company has been incorporated (optional); the Business Plan has been written; funding has been secured (if necessary); facilities have been leased; leasehold improvements have been completed; equipment has been purchased or leased; suppliers have been identified; opening inventory is on site; employees have been hired and trained; marketing plans have been developed and are about to be implemented.

The business owner is ready to open the doors. This is now a business.

The Young Business

This early stage of the business usually lasts for 2 – 3 years. During this phase, most businesses are still striving to find their niche or position in the market.

If a business is going to fail, it will most likely fail during this period. According to Dun & Bradstreet and INC. magazine, 50% of new businesses fail within the first two years of operation and 75% fail within the first three years.

One of the key challenges facing any owner during this stage is effective cash management. If you run out of cash and cannot secure additional funding, you are out of business. It is that simple.

Most new business owners will encounter many issues that they did not anticipate when planning the business. The most frequent are financial, marketing, customer and employee challenges.

The Growth or Expanding Business Stage

The business has now survived its first 3 – 4 years. It has attracted a loyal base of customers. Its marketing programs are yielding positive results. It has found its place in the market.

During this stage, the business owner should be focused on growth – ways of attracting new customers in order to increase revenues and to enhance operating profits.

New employees may have to be hired to facilitate the business' growth.

The Established Business

At this stage, the business has been in operation for more than five years and is a thriving, vibrant company. The business owner will be starting to put in place formalized systems, processes, policies and procedures.

The key challenge for the business is continued growth and improvements in overall operational effectiveness.

Growth could come through new product developments or product line expansion / diversification, broadening the channels of distribution and / or geographical expansion.

Operational effectiveness could occur through continuous improvement programs, manufacturing quality programs, employee training, the implementation of new technology and the development of organizational policies and procedures.

The Mature Business Stage

By now, the business has been operating for many years. For the most part things are running smoothly.

Sales growth is steady. Profits are respectable. Line and staff functions exist within the organizational structure. Each functional area has a department head. Formal human resources policies are in place. A corporate culture has emerged.

The company has earned a reputation as one of the leaders in its industry.

Strategic plans and operating plans have been developed. Corporate performance is based on adherence to the annual operating plan.

The business is still externally focused on ways to achieve continued growth and internally, focused on continuous operational improvement programs and cost reduction opportunities.

The Sunset Business

Changes in technology, the economy or in customer preferences can affect one's business. These changes could result in a decline in sales, an erosion of profits and perhaps even a negative cash flow.

Should this happen, if a company does not find ways to "reinvent" itself, it may find that it is quickly going out of business.

I have worked with two companies that were both in "sunset industries" due to changes in technology. One was a manufacturer of computer printer ribbons for dot matrix printers. This was a very good industry until the introduction of laser and ink jet printers. When people stopped buying dot matrix printers, the demand for printer ribbons declined dramatically.

The other organization was a company that printed cheques. Due to electronic payments, the usage of cheques had started to decline significantly.

Both companies were able to reinvent themselves by introducing new products and expanding into new markets.

A recent example of a company that reinvented itself is Apple Computer Inc. For many years Apple was strictly a manufacturer of computers and ancillary computer products. While the computer industry is not in decline, Apple had experienced some

very lean times. Just a few short years ago, Apple introduced the iPod and as they say, the rest is history. Today Apple's sales and profits are at record levels.

The Exit Stage

The final stage of any business is its exit or demise. This can occur in a few ways.

The business could be sold and incorporated into another company. The acquiring company may decide not to use the name of the former business. While the company's products or services continue on, the company name does not. This happened recently in the computer industry when Hewlett Packard acquired Compaq Computers. The brand name Compaq still exists but the company does not.

Or, the business could be merged with another company and a new name for the merged entity is created.

The business could get into financial difficulties and have to declare bankruptcy.

Finally, the other possibility is that the business owner decides to retire. The owner cannot find anyone interested in purchasing the business, so he / she simply shuts down the business and closes the doors.

Summary

Not all businesses will progress through each of these stages. Some businesses are created just to be "flipped". In other words, the business owner starts the business with the specific intention of selling it within the first couple of years.

Some companies avoid the sunset stage by constantly repositioning their business. By developing or acquiring new products and entering new markets, a company can stimulate growth and revitalize the organization.

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