



November/December 2009

The Lifecycle of a Business

Are Businesses Really Humans in Disguise?

Dan Maloney CPA CFP CM&AA

The Doctor Is In

Business growth concerns can be compared to the stages of growth human beings experience as they mature. Both businesses and people are born, go through growth stages, reach maturity, can get ill and decline. A company, however, has the ability to continually regenerate its growth spurts if some basic concepts, combined with elbow grease, are applied to its vital processes, products and procedures. Just as humans should visit their physicians for guidance on maintaining or regaining their physical and mental health, businesses should revisit the historical reasons for their success by dusting off their strategic plans.

Startups Are Just Like Kids

Businesses are to startups as humans are to infancy. Both need guidance, constant attention and nurturing. Both learn how to cope with their new worlds by experimentation. Babies are watched over and fed nutrients by their parents; startup businesses are watched over and fed cash by their founders. Although babies receive constant care, often the food necessary to keep startups in business can get scarce. They run out of food, i.e., cash, and thereby lose all energy. Half of small businesses fail within their first two years of existence, and lack of cash flow is often the culprit.

Teenagers Can Be Difficult

As a business evolves into its adolescent years, it demands more time and money. Parents of teenagers can understand this similarity. In the home front, allowances get raised and cars become a must. In the business world, employees demand more money and benefits. Both the teenagers and employees need education and training. The need for mutual trust and respect grows while management gets stretched thin. Many businesses have difficulty getting past this stage. The entrepreneur is often wearing several hats of technician, salesman, manager and planner. At this adolescent stage, the entrepreneur must learn to delegate effectively and hire personnel to manage the different functions.

Need Gas Money?

In the late adolescent period, the need to learn budgeting principles arises. Just as kids begin to leave home, lose their allowance and learn to manage their own resources, businesses must begin to generate cash without additional owner investments. Career options are explored by adolescents, and processes are examined by businesses. Documentation is a key to success. Many businesses don't

survive this phase because entrepreneurs want maximum flexibility and are often averse to documenting processes and procedures.

This is a critical time for a business, because as it grows, it needs structure to survive. This can present a Catch 22, since the entrepreneur's preference for the lack of any rigid structure is often the primary reason for launching the business. At this stage, entrepreneurs who are averse to structure may seek to sell their business. This can present another Catch 22. Without structure, the businesses may not be sellable. If not sellable, it will wind down, get ill and possibly die.

Fat is Bad. Lean is Good.

In the adult phase, business growth slows as markets mature and competition increases. Just as human metabolism slows and muscles get soft, businesses also must refocus on getting lean. Starting the exercise activity can be strenuous and stressful. This is belt tightening time. Both humans and businesses should manage backwards from the future. They should envision what they want to look like in five years and see what needs to happen to get there. If the business cannot manage for future growth, it will become ill.

Entrepreneurs should look at the business from four perspectives: shareholder, customer, internal/operational and learning needs. Look at communication mechanisms, the alignment of processes, learning skills, and work flow dynamics within the business processes. The entrepreneur must transform from being the teenage technician, to hands-on adult manager, to senior citizen strategic planner. Throughout the transformation and regeneration process, the small business mimics big business. The questions and issues it faces are very similar to those of large companies. Answers may differ, but the regeneration process is very similar.

Nothing is Static Forever

Businesses are like people. They are born, age, go through phases, get sick, get healed and if not healed, they die. Throughout the business's life span, the entrepreneur must be constantly aware of the changes, growth spurts and health issues. Just as humans get annual checkups to maintain their physical health, a business needs an annual physical, i.e., a review of its strategic plan, mission, vision, values and critical success factors. See the doctor.

Daniel J. Maloney CPA CFP CM&AA is the founder and principal of Certified Acquisition Associates LLC, a business intermediary and consulting firm specializing in business planning and brokerage for sales, mergers & acquisitions. If you have questions about preparing your business for sale, send a note to questions@certifiedacquisitions.com