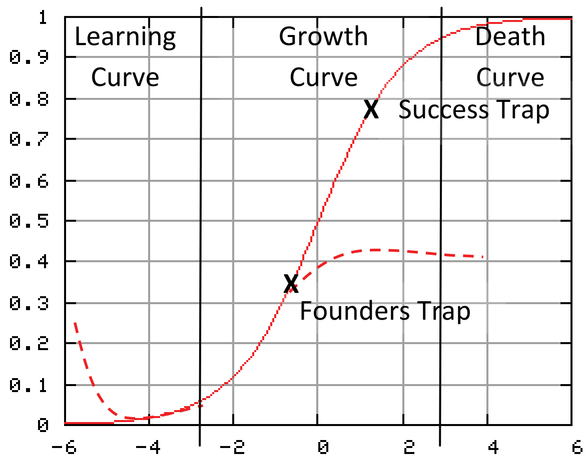
Management Style and Business Lifecycles

The Sigmoid Curve is a very good model for understanding business lifecycles. Greiner called it the “organization lifecycle model” and Charles Handy popularized it in his book “Where are you on the Sigmoid Curve”. It is also discussed in detail in Brian Tracy’s “TurboCoach”. It’s important for every entrepreneur to understand the phases of a business lifecycle and the changes in management style that are required to work through them.



The Sigmoid Curve: Imagine an “S” leaning a little left to right (/). This is fundamentally the Sigmoid Curve. If you want a more accurate depiction just Google “sigmoid curve” and you will get more than enough examples. The first downward thrust on the left is the Learning Phase of the curve. As the “S” starts to climb toward the right it depicts the Growth Phase and the final downward curve is the Decline Phase. We’ll discuss each phase in order.

Learning Phase, more resources in time and money are expended than is gathered. Critical mass has not been met; the company is typically running cash flow negative. As some point it bottoms out. The company achieves a cash flow neutral position and is positioned for growth. Somewhere close to the foot of the curve is the **Start-up Trap**. This is a position that the entrepreneur is tempted to bail just before the company starts moving up. The **Learning Phase** requires the Entrepreneur to spend a great deal of time as a **Technician**. Resources are at a premium and the owner must wear many hats. Survival is a day to day concern.

The **Growth Phase** is the exciting phase of business. The money starts coming in. As the Entrepreneur balances cash requirements and growth needs, cash can become a constraint. The smart owner leverages the market to overcome these issues. Growth continues to accelerate. In the Growth Phase there are two traps. The first is the **Founders Trap**. This is the point where the company’s requirements outstrip the entrepreneur’s ability to control. If the entrepreneur cannot or chooses not to leverage decision making and responsibility, the company hits a natural ceiling in terms of size. It then becomes the task of management to manage more of the bottom line and not as much the top line. The company can still be extremely successful, but won’t continue to grow in size over and above natural growth. As the business transitions through the **growth phase**, the Entrepreneur must change with it. The

Entrepreneur must now start to become more of a **Manager** as the span of control widens. The inability to make this transition is the major cause of the Founders Trap.

The next trap during the Growth Phase is the **Success Trap**. This is where the company is meeting or exceeding expectations over time and all is well. Every business has a natural life span. In the current environment of accelerated change, that life span is typically between 3 and 4 years. If the company does not re-invent itself during this time then it will slowly die. Many successful companies miss this. They ride a good thing too long. By the time historic information starts to trend downward it's too late. The company may survive, but it will be painful. This is the point in which a new life cycle must start. If the company does not enter a new Learning Phase when revenues from the Cash Cow can sustain it, then hard times or even insolvency may lurk in its future. Likewise if the Entrepreneur spends too much time as a Technician or Manager during the Growth Phase then they will fall into the **Success Trap**. The Entrepreneur must take the time to be the Entrepreneur, looking toward the future, the next BHAG, to make it through this transition.

The final phase is the **Decline Phase**. All good things come to an end. If done properly this is the exciting beginning of a new era for the company. If not done properly it is the sad end to a great opportunity. All products and service will eventually lose their market value, the business ecosystem changes. Darwin's Theory of Evolution applies to business as well. Businesses need to evolve or die. If the entrepreneur stays in the technician or managers role and does not recognize the potential of moving in to the Decline Phase during the Success Phase a death spiral can be formed from which the company cannot recover.

Being aware of where your company is on the Sigmoid Curve and the management style requirements in that phase will help you not only survive, but thrive.