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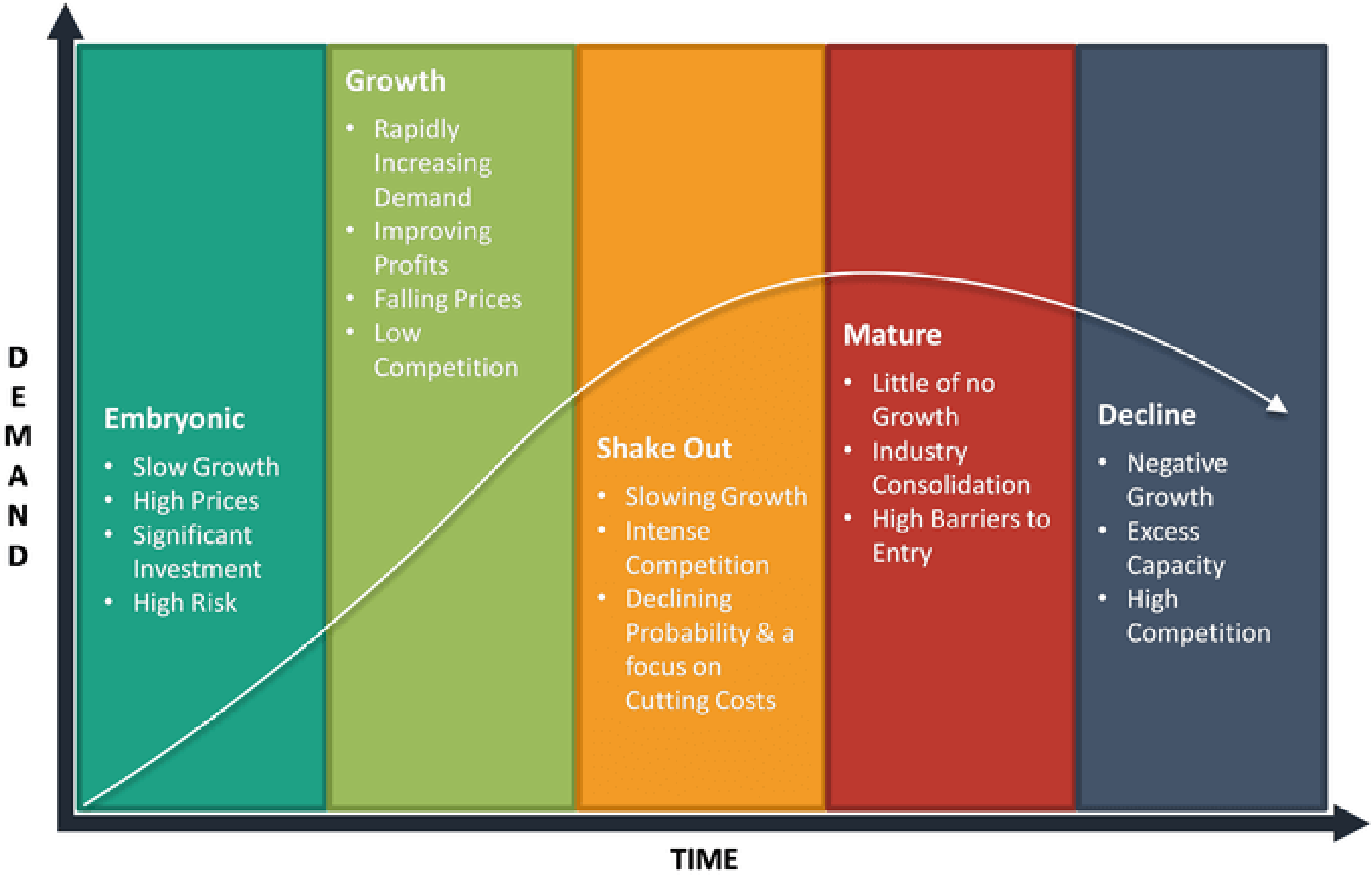
5 STAGES OF BUSINESS LIFE CYCLE

Industry Life-Cycle Model



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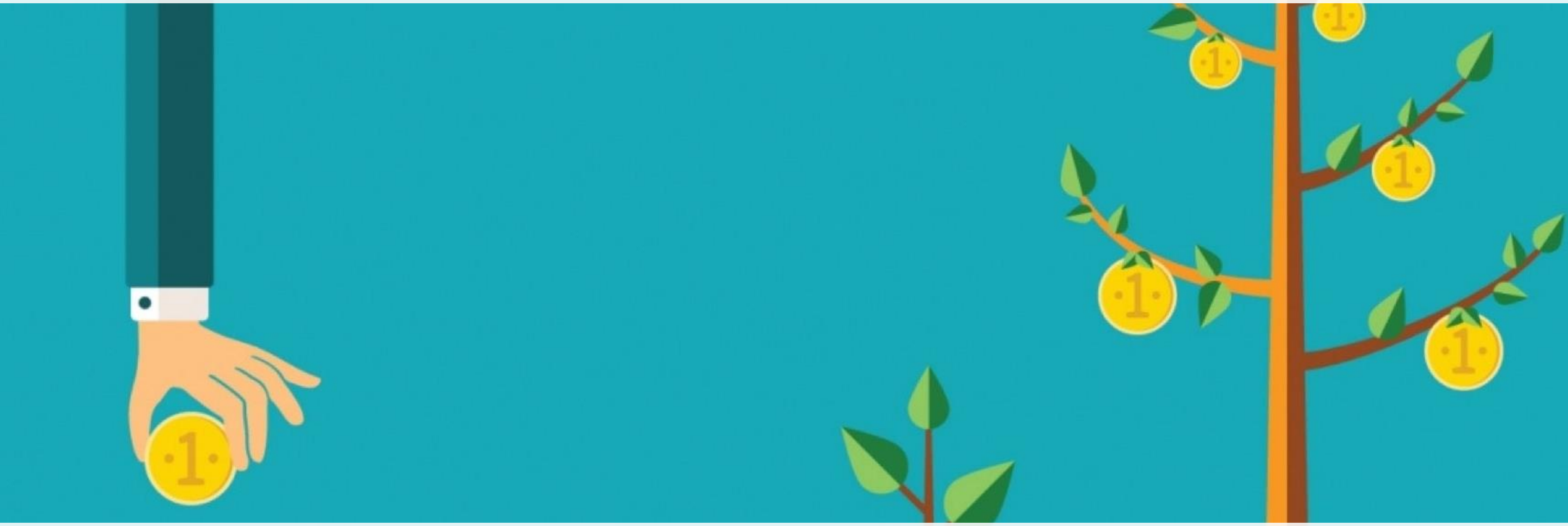
Stage 1 : Embryonic



- At this stage, company begins its operations as a business and usually by launching new products or services. During this stage, sales are low but slowly (and hopefully steadily) increasing.
- Businesses focus on marketing to their target consumer segments by advertising their comparative advantages and value propositions.
- However, as revenue is low and initial startup costs are high, businesses are prone to incur losses in this stage.
- In fact, the cash flow during the this stage is also negative but dips even lower than the profit. This is due to the capitalization of initial startup costs that may not be reflected in the business' profit but that are certainly reflected in its cash flow.

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Stage 2 : Growth

- In the growth stage, companies experience rapid sales growth.
- As sales increase rapidly, businesses start seeing profit once they pass the break-even point.
- However, as the profit cycle still lags behind the sales cycle, the profit level is not as high as sales.
- Finally, the cash flow during the growth phase becomes positive, representing an excess cash inflow.

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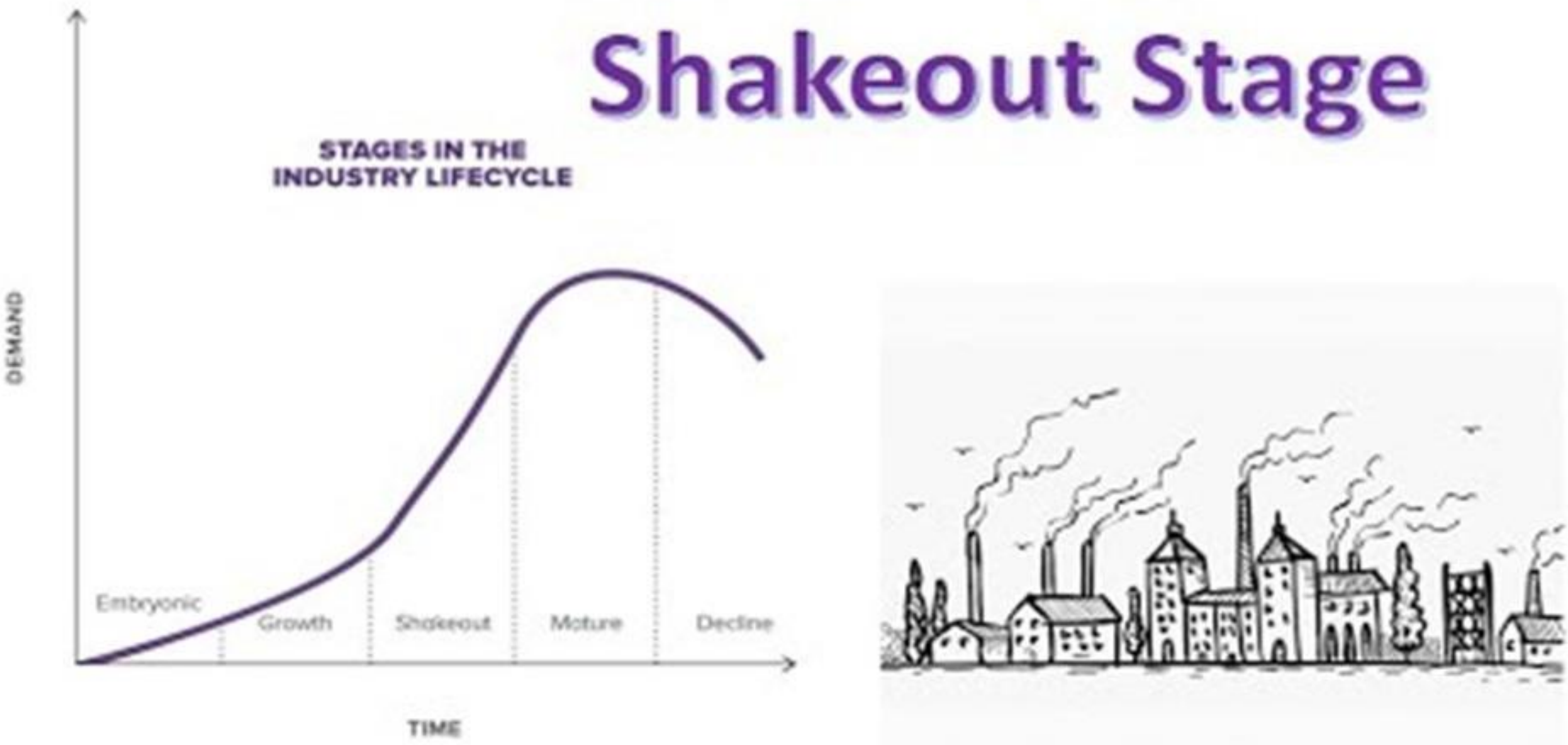
Stage 3 : Shake-out



- During the shake-out stage, sales continue to increase, but at a slower rate, usually due to either approaching market saturation or the entry of new competitors in the market.
- Sales peak during this stage.
- Although sales continue to increase, profit starts to decrease in the shake-out stage.
- This growth in sales and decline in profit represents a significant increase in costs. Lastly, cash flow increases and exceeds profit.

Stage 4 : Maturity

- When the business matures, sales begin to decrease slowly. Profit margins get thinner, while cash flow stays relatively stagnant.
- As firms approach maturity, major capital spending is largely behind the business, and therefore cash generation is higher than the profit on the income statement.
- However, it’s important to note that many businesses extend their business life cycle during this phase by reinventing themselves and investing in new technologies and emerging markets.
- This allows companies to reposition themselves in their dynamic industries and refresh their growth in the marketplace.

Stage 5 : Decline

- In the final stage of the business life cycle, sales, profit, and cash flow all decline.
- During this stage, companies accept their failure to extend their business life cycle by adapting to the changing business environment.
- Firms lose their competitive advantage and finally exit the market.

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■ Kuala Lumpur (HQ) 吉隆坡

Tel : 03 - 7981 1799
Fax : 03 - 7980 4796
Email : kuala-lumpur@ecovis.com.my

■ Johor Office 柔佛

Tel : 07 - 562 9000
Fax : 07 - 562 9090
Email : johor@ecovis.com.my

■ Penang Office 槟城

Tel : 04-226 7210
Fax : 04-226 2212
Email : penang@ecovis.com.my

■ Sabah Office 沙巴

Tel : 088 - 231 790
Fax : 088 - 266 842
Email : sabah@ecovis.com.my