



# **BUSINESS LIFECYCLE:** **Survival of the fittest**

A Sage CRM White Paper





# CONTENTS

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- 2 Business lifecycle: Survival of the fittest
- 3 The business lifecycle
- 4 Start-up
- 7 Growth
- 10 Maturity
- 12 Decline
- 13 Exit
- 15 Conclusion



# BUSINESS LIFECYCLE: SURVIVAL OF THE FITTEST

Organisations, like most living things, change, adapt and evolve over time. No matter what their size or industry type, businesses experience similar traits such as start-up, growth, maturity and eventual decline. At every point in the business lifecycle, the requirements of survival change. To adapt, we use information and experience to help us make decisions. But what works for a start-up is often inappropriate for a mature business. However, the business lifecycle can vary depending on each company and so having the tools in place to cope with these changes is vital.

This may sound obvious but in our experience of working with thousands of Irish small to medium sized businesses (SMBs) and large organisations, many of them fail to adapt to changing requirements. And the reason? Many are so focused on the day-to-day operational challenges that they do not look at the market and customer trends and patterns, and how to change their businesses to better meet customer demands.

SMBs must look at the business lifecycle, plot their relative position and then evaluate whether they have the tools to track and analyse customer and market dynamics to make more informed business decisions. Consequently, customer relationship management (CRM), which helps manage, track, monitor and analyse customer trends for improved sales and marketing and business management, is now an essential piece of the jigsaw for SMBs to not only survive, but also succeed. Indeed, like Charles Darwin's theory of natural selection, business is about the 'survival of the fittest', and in today's highly competitive, global economy, we believe that CRM enables organisations to become more competitive.

We will outline some of the common challenges faced by organisations at the different points of the lifecycle and highlight ways that CRM can help business owners overcome them and help grow their business.

# THE BUSINESS LIFECYCLE

Moving through the business lifecycle is not an easy process. Indeed, the reason why many companies fail to evolve is because they are unable to adapt to the new demands that the business experiences. Only by understanding the nuances of customers and the market will organisations be successful.

We see the lifecycle in four distinct parts – start-up, growth, maturity and decline. The business and customer requirements at each point change and so it is paramount that companies use the appropriate resources, skills and tools to maximise the available opportunities. As a business moves from, for example, start-up to growth, its demands shift and so principles and approaches required also change. By using CRM it can keep abreast of these shifts and continue on an upward path.

However, it is important to realise that the business lifecycle is not linear as companies can move between and back and forth through the stages at different times and speeds. A company may go through all the stages linearly, while another may go from start-up to acquisition and miss the growth or maturity stages. On the other hand a company may be a mature business but the introduction of a new product line or marketing campaign supported by analysis of customer data via a CRM system reignites revenues so that it once again becomes a growth business.

One other consideration is the common misconception of owners of flat revenue companies is that they can not seem to grow unless they hire new sales people or introduce a new product. However, deploying a cost-effective CRM solution can help generate new revenue streams that were once only seen as possible via a new sales person or new product – both expensive options. As such, there is no 'one size fits all' when it comes to the business lifecycle but the challenges remain similar at every stage and using tools such as CRM help companies to manage there way through and around the business lifecycle with confidence.

# START-UP

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A start-up begins its life with a business plan. Well, this is the theory. In fact, many organisations do not even get this far before the day to day running of the business takes over. Those that do develop a business plan, then proceed to put it into the drawer or filing cabinet and never see it again. Both counts are poor business practice. In a recent global survey by Sage, 44% of Irish respondents said that they would like more time to create or update plans, while worryingly a further 30% said they were too busy to properly plan their business. This highlights that only 26% have time to plan their business strategy.

“ 74% of Irish businesses do not have the time to plan their business strategy. ”

A business plan is a vital document and it is not a one-off document either. A business plan should be reviewed and analysed on a constant basis, especially during start-up phase. This will help the organisation maintain focus but also question assumptions and adapt the business to meet the realities of the market and customers.

Additionally, within the start-up phase, some of the main areas of focus centre around obtaining customers and delivering the product or service contracted for. Some of the key questions facing a business in start-up are:

- Can we get enough customers and deliver our products and provide services well enough to become a viable business?
- Can we expand from that one key customer or pilot production process to a much broader sales base?
- Can we, at a minimum, generate enough cash flow to stay in business and to finance growth?

Only by understanding customers fully – the buying patterns, quality of the relationships and opportunities for future sales – will start-ups be able to review their business plans, ensure they stay on track to meet their objectives and have the customer information at their disposal to capitalise on their business idea. This is where CRM can help - in providing the customer intelligence. Using CRM systems, SMBs can analyse customer relationships and buying trends and then take the best course of action in terms of next steps, whether that is continuing as before, refocusing efforts on a specific product or vertical market, considering a new marketing campaign to generate further sales, or looking at ways to increase profitability at sale.

Sales and marketing at the start-up stage are focused on generating awareness and motivating the customer to try a new product or service; typical customer strategies for these companies include:

- Free or no-risk trials
- Liberal return policies and warranties
- Attractive credit terms
- Service or product bundling
- Free training or strong educational programs
- Advertising or targeted marketing to generate awareness
- Sales and price promotions



These strategies can be risky and expensive. Done correctly, the start-up ensures that it becomes an early market leader; incorrectly, and it joins the number of companies that fail within the first year. As such, start-ups must develop customer management programmes and systems that enable them to measure and monitor the effectiveness of customer acquisition campaigns and sales and service promotions. However, at this stage, it is unlikely that the business has a mature and a dedicated IT function. These companies should begin adopting and supporting customer best practices with low cost and easy to implement CRM or customer management solutions. Without a technical competency or an existing IT infrastructure, the start-up should consider the software-as-a-service (SaaS) delivery model for its CRM solution. Moreover, since the organisation is going through a rapid period of change, customisation or even deep configuration of the solution should be avoided.

Thus, a start-up with limited resources can make quick and informed decisions based on real data – not simply gut instinct – and move the business forward. Furthermore, they can adapt the business plan in line with this information. By regularly reviewing the performance of the business using tools like CRM against the plans and targets that have been set, organisations are more likely to meet objectives. What is more, it can also flag where and why the business maybe going astray, so that corrections can be made quickly to prevent lost revenue or even worse, business failure.

# START-UP

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Start-ups should make it a key priority to regularly check where the business is by reviewing financial and customer data. Looking at the plan against the information in IT systems such as CRM, owners and managers can get a complete perspective of the business and marketplace from customers, as well as partners such as accountants and peers at industry events. Doing quarterly reviews will help start-ups keep on top of company performance, customer trends and profitability, while an in depth annual review can take a more strategic look at customer segmentation, market patterns and focus areas for the following year.

In the Sage survey, 53% of Irish respondents either did not have a plan or said they would like to have a plan to move their business to the next growth stage. It is paramount that start-ups take time to conduct this analysis so that they can take a step back and look at the business and where to go next. If not, many start-ups will continue down a path with no idea of where it leads. Some start-ups will be lucky but undertaking reviews could be the difference between surviving and succeeding or being part of an undesirable statistic.

“ 53% of Irish businesses have no plans to move their business to the next stage of growth. ”

One final consideration of using CRM at a start-up stage is the challenge that many entrepreneurs face in that they often have to juggle many roles. This means that their job is chaotic and as a result steps are missed in the sales process. This makes SMBs look and appear small (and possibly less professional) to customers, while in fact good customer data provides the opportunity to make them look bigger and more professional. For example, in the desire for sales and revenue, the owner of a stationery company rings its biggest customer and finds out to their embarrassment that this valued customer had placed a large order only two months previously. If the stationery company had a CRM system, this information would have been available to the owner prior to calling the customer and the sub-standard customer service avoided.

Best practice would see a company, whether a start-up or a mature business, enter the CRM system before any call is made to the customer. With information at their finger tips, sales personnel can pitch products or services appropriately or simply ring to make sure the customer is happy. It is this level of knowledge and best practice approach that is vital as companies grow and expand.

# GROWTH

Once a business has become established and it enters a growth stage, the customer strategies shift from new customer acquisition to “selective” demand generation. An increasingly competitive environment requires that growth organisations gain a deeper understanding of target customers’ needs and desires, typically resulting in product/service-offering stratification. That is, with a clear understanding of the market drivers and increased competition, the growth company will begin to target its product and service offerings to specific market opportunities. As the product and service offering grows, systems and programs need to support increasingly sophisticated customer processes and a deeper specialisation of the sales and marketing functions. At this point, the growth organisation should use CRM systems to begin to differentiate the customer experience from competitors, focusing on a number of specific areas:

- Deeper marketing insight into past purchasing behaviour and segmentation to aid in cross-selling and up-selling campaigns
- Management of multiple and tiered marketing campaigns
- Development of customer satisfaction and loyalty programs
- Sales opportunity management and sales pipeline forecasting
- Implementation of sales methodologies and repeatable processes
- Implementation of service and support functionality

Another challenge that companies experience when they begin to grow is that owner/managers are often taken away from customers to do more operational elements of running the business. To reduce the impact this may have on customer relationships – because the customer no longer deals with the owner or manager – then the ideal scenario is to have a CRM system that has captured all previous customer information so that any new person joining the company can immediately understand the customer’s background history, purchasing trends and potential future opportunities. This means less disruption to the business and continued high level of customer service. In essence, an owner will increasingly need to manage the process of delegation of responsibilities to others so as to improve the managerial effectiveness of a fast growing and increasingly complex operation.

# GROWTH

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Indeed, as a company grows in revenues and customers it will naturally increase its employee base to support it. When a company is hiring rapidly, it needs a way to get employees up to speed quickly and easily on customers. CRM can play a pivotal role. However, during periods of significant recruitment there is also an increased likelihood of fast employee turnover (variety of factors could include not identifying the right calibre or employees who find the fast pace too much pressure) and so companies can lose track of what customers are purchasing. However, by having a centralised CRM system, companies can track customers so that new employees can be trained up quickly or in the eventuality of staff turnover, customer service is not diminished from 'dropping the balls'.

“ Only 13% of Irish businesses use CRM to help advise on the strategy of the business, global average is 35%. ”

A further benefit of CRM for a growth company is as a tool for improved forecasting. Many SMBs will argue that they have a financial package or spreadsheet that gives the numbers. To some extent this is fine but we would urge SMBs to look at integrating a CRM system into the forecasting process as well, otherwise forecasting becomes like driving a car whilst only keeping your eyes on the rear view mirror. In fact, only 13% of Irish respondents in the Sage survey use CRM to help advise on the strategy of the business, compared to a global average of 35%. Companies are missing an obvious opportunity to drive their businesses forward and should not just use financial systems and spreadsheets, but also integrate CRM.

Using CRM gives a much fuller perspective of where opportunities and revenues will come in the next month or quarter helping to align and focus sales resources more effectively. This is even more important if the company has expanded into different regions or countries, and visibility of the business is no longer as easy as it was as a start-up. Whilst some other technology solutions benefit from locally tailored systems such as accounting systems, having a centralised CRM system across markets provides managers with a complete view of where revenues will come from, where resources should be allocated, and which customers may need to be visited by managers in order to close deals.

Indeed, the Sage survey revealed that 69% of Irish respondents operate or plan to operate in more than one country. 82% of Irish businesses said that CRM adds competitive advantage when working across international markets, while other key benefits that centralised CRM offered were cited as increased operational efficiency, revenue and profitability opportunities. However, despite recognising the benefits only 36% had or were implementing a CRM system versus a global average of 57%.

Simply seeing a number in a spreadsheet is one thing, but seeing information about where revenues are expected, profitability of customers, customer forecasts, and up sell opportunities means that organisations can maintain a laser focus on the customer. This is the case even though the business will be growing rapidly and people will be pulled in many directions all the time.

Business growth should not mean customers do not get 100% attention and the best possible customer service. Companies that can maintain great customer service and rapid growth are setting themselves up for long term success. CRM is an enabler for better business management in that it helps organisations manage existing customers better, improves forecasting, offers an element of predictability when everything else is chaotic, supports new employees and reduces the impact from staff turnover, manages diversification and/or internationalisation of the organisation, and lastly, helps establish best practice customer and business processes for the future.



# MATURITY

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All businesses reach a point where revenues slow down from treble/double digit growth. 57% of Irish respondents to the Sage survey said that they were a mature business with 63% of all respondents claiming they had declining, flat or single digit revenue. As revenue reduces to single digit growth, organisations again must adapt their companies to meet the tougher business environment. Indeed, the heady days of major growth rarely allow owners/managers a moment to consider what might happen when this was no longer the case and how revenue and growth would be maintained – albeit slower. This is where the understanding and appreciation of the value that CRM can bring to the business is important. CRM can bring positives to growth businesses as already outlined, but it has just as much, if not more importance when a business is in the mature stage of its life.

Where the business may have had first mover advantage or a new, compelling product that propelled its revenue and growth, now there is competition. In addition, other external factors become challenges such as new regulations or changing economic conditions that require careful management. It is at this stage, similar to humans entering middle-age, where companies turn to past experience and knowledge to ensure continued growth and success.

The bigger picture must be kept at the forefront of the organisation. Indeed, a clear vision and strategy are paramount so that every person in the company knows the direction to take. Giving every employee the power to make better decisions and to be more efficient and productive is key to executing on the strategy. By using CRM, mature businesses can provide relevant information to employees that enable them to focus attention and resources where there is the best chance of success. With single digit growth, and more than likely investors or owners focused on growth and profitability, then CRM plays a vital role.

The greatest concerns facing a company at this stage are, first, to consolidate and control the financial gains brought on by growth in the previous stage and, second, to retain the advantages of being small by being more flexible in response than a large organisation and keeping an entrepreneurial spirit. The company must expand the management force fast enough to eliminate the inefficiencies that growth can produce and professionalise the company by use of tools that can automate key business processes – and do this without stifling its entrepreneurial qualities.

The company may look to reduce costs by minimising the complexity of product design or outsourcing some of the production or service processes. It may also seek to drive costs and inefficiencies out of the sales and marketing processes to reduce the cost of sale. For a maturing business, customer systems and programmes are used to drive costs out of the business and to improve the quality of service offering. The systems and programs should be designed to support:

- Referral and loyalty based marketing programs
- Tracking and analyse service information to understand extended or innovative product usage patterns
- Multi-regional implementation to support service outsourcing or geographic expansion
- The lowering of the cost of service through customer self-service
- The design and development of customer centric processes
- Implementation of sales and marketing best practices

Companies in the mature stage of the business lifecycle need to make decisions like this all the time to drive costs out of the business, improve profitability but also to maintain customers. Indeed, resting on one's laurels is one of the perennial problems a maturing business experiences but this is the time when competition and the marketplace are relentless and there really is no time to rest. Using CRM, companies can and must do more sophisticated and targeted marketing than a start-up or even growth business. It can segment its customers into even more discreet brackets and target them with specific messages and offers. Furthermore, it can see which products or services certain customers have been buying and put more attention onto specific products or services, decide to pull a product if it is not selling and therefore reduce costs, or invest or acquire a new product to refresh its sales pipeline. Indeed, a mature business does not mean it needs to decline or seek an exit strategy and using CRM gives a mature business the opportunity to reignite the growth engine and move itself back into growth mode.

# DECLINE

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Once the business has entered decline, it should be focused on diversifying or harvesting of the customer base to maximise cash flow that can be used to fund new product or service offerings. At the same time, it should be using CRM with strong analytical capabilities to identify remaining niche opportunities. Using CRM provides these companies with a lifeline back to profitability and growth. If not, then it paves the way for a more profitable exit because a centralised CRM system is a tangible business asset.



# EXIT

However, a business exit, which could be a trade sale, IPO, management buy-out (MBO) or family succession, is often the last thing that a business leader usually wants to plan for. Most start-ups begin with a grand vision and forget about how it may end.

Irish businesses are leading the way when thinking about their exit strategies, with 54% of those respondents who stated they had a stake in their business actually had an exit strategy in place. This was the highest of all countries surveyed and above the overall average of 35%.

When establishing a business it is essential to consider the exit strategy as it should dictate and mould the way the business is managed. If the business is already in the start-up, growth or maturity stage, then taking a step back and

“ 73% of respondents with an exit strategy believe that CRM would help maintain good customer relationships at the time of an exit. ”

considering the exit is an action that should take place sooner rather than later. Indeed, it will probably influence your business decisions over the coming years. A well thought out exit strategy can help business leaders maximise the value from the business, successfully market your business to potential suitors and ensure that there is little disruption to the business and customer.

Using CRM helps on all these fronts. In fact, 73% of respondents that had an exit strategy believe that CRM would help maintain good customer relationships at the time of an exit. This is vital when seeking to secure the best value for the business as it gives family members, investors or acquirers confidence in their investment.

Having a clear exit strategy at the start will provide obvious advantages whether the business is at a start-up, growth or maturity stage of its lifecycle. Today, most Irish organisations will seek an MBO, IPO or VC Funding (53%) selling to a third party (27%) or family succession (20%) as the core exit strategy according to those with an exit strategy surveyed by Sage. Carefully planning the exit will help to dictate and mould the business from its inception towards that chosen option and maximising the value from it. It will also help groom a successor whether that is within the business or a family member in good time so as to be less disruptive, and lastly, it allows for an exit at the chosen time, when the business is doing well and conditions are advantageous.

# EXIT

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The role of CRM in an exit strategy cannot be ignored. Knowing your exit at the outset – whether that is floatation, trade sale or venture capital (VC) investment – will help guide the use of CRM to ensure that the price is maximised. As discussed, CRM can help improve marketing, customer service, segmentation, and productivity, which are all critical to securing the best price. Yet, something that is often forgotten in an exit strategy is the value of customer data. Indeed, 94% of Irish businesses with an exit strategy believe that CRM is a tangible business asset when seeking to exit. This was the highest globally with the average at 70%.

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Customer data can and is a tangible asset but is all too often overlooked by organisations in their exit strategies. Many companies enter exit negotiations with a price in mind and have to bargain hard to achieve it or more often than not take less. What would happen if you entered the room with a potential buyer, a VC, or bankers looking at an IPO, and advised them that you had every record of every customer interaction since the business started or over the last few years? The price of that data would be significant to the valuation because whether being acquired, invested in or seeking an IPO, the ability to drive further growth from the business would be tangible. In an exit strategy, CRM is a tangible asset that can add value to the business. In fact, we know of many VCs that make it a requirement of their due diligence to analyse the CRM systems of potential companies because it will indicate the quality of relationships and the growth potential of the company.

In today's market, if you want to maximise the return from the business be it a trade sale, VC, management buy-out (MBO) or IPO, then CRM puts most, if not all, the aces in your hand. The company has put customers at the heart of its business, used it to get the organisation into a strong and profitable position and when the time is ready it will pay dividends in an exit.

# CONCLUSION

The business lifecycle is different for every organisation because it is not a linear process. However, the business challenges at each point remain similar. Managing a business through these stages is fun but challenging. Meeting these demands and overcoming them is rewarding, so that one day you can sit back and look at what has been achieved. Business leaders have understood, learnt, adapted and evolved to the changes required, resulting in, firstly, survival and then success. CRM plays a key role throughout an organisation's existence. From start-up to exit, CRM should be weaved into the very existence of the company. So that before every customer engagement, the system is reviewed for the latest information; for mapping and adapting the business plan in line with the market opportunities; or simply to maximise the value of the business on exit.

Understanding customer needs and adapting to the changing requirements, learning from past experiences, and analysing customer information to make better decisions is the difference between success and failure. To survive, you have to be fit; to succeed, you have to be the fittest.

## CUSTOMER STRATEGIES FOR EACH BUSINESS STAGE

Business Stage	Customer strategies
Start-up	<ul style="list-style-type: none"> <li>• New customer acquisition</li> </ul>
Growth	<ul style="list-style-type: none"> <li>• Begin to build customer satisfaction programs to encourage repeat purchases</li> <li>• Product stratification and competitive positioning</li> <li>• Refinement of pricing strategies</li> <li>• Improve/strengthen distribution and sales channels</li> <li>• Sales/Marketing specialisation</li> <li>• Reduce the ease/attractiveness of switching to a competitor</li> </ul>
Maturity and decline	<ul style="list-style-type: none"> <li>• Brand, referral and loyalty marketing becomes more important</li> <li>• Find new or extended uses for the product</li> <li>• Geographic or market expansion</li> <li>• Reduce the cost of sale and increase per-customer profitability</li> <li>• Focus on operational aspects to become cost, price, quality or service leader</li> <li>• Customer maintenance and replacement purchases</li> <li>• Cross-selling product line extensions to focus on narrowing niche markets</li> <li>• Customer maintenance or "harvest" to maximise short-term cash flow</li> <li>• Divestiture</li> </ul>
Exit	<ul style="list-style-type: none"> <li>• Use CRM to ensure smooth transition</li> <li>• Use customer data as a tangible asset during negotiation</li> <li>• Reduces risk of losing customers and opportunities</li> </ul>

## BUSINESS LIFECYCLE: SURVIVAL OF THE FITTEST A SAGE CRM WHITE PAPER

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