The Six Stages of a Startup’s Life Cycle

What you need to know to be prepared.

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THE POPULAR NOTION of tech startups has two stages: a great idea and a spectacular payoff. In reality, tech startups have a lot of work to do between those points.

For most startups that reach maturity, there are six distinct stages, each with specific needs in terms of growing internal competencies, building an adviser team and creating a scalable infrastructure to support growth and get to the finish line — whether that’s running as a profitable standalone business, going public or being acquired.

1. Idea Generation
   This is an exciting time, when the idea first takes concrete form and the groundwork is laid for making it a reality. From a business perspective, the needs of the company are fairly simple because there’s no revenue and little to no outside investment. The roles of the founding members are determined, and basic legal structure and tax planning and compliance are put in practice. A corporate attorney, tax adviser and a bookkeeper are likely to be the main experts required. However, it’s never too early to begin seeking the advisers you’ll need later.

2. Vetting
   Here, the idea begins to take shape: The company hires developers and raises early money and starts protecting intellectual property (IP). That means burning cash that’s in short supply. So, managing cash burn is critical, as is planning for the future of the company, including compensation planning and documenting capitalization tables. An outsourced CFO is a great choice for most companies at this phase to supplement the attorney, tax adviser and bookkeeper. A specialized IP attorney will also be needed in many cases.

3. Customer Engagement
   If you’ve gotten this far, congratulations! Many, besides you, believe in your company. Early angels may want a board seat and can be helpful in hitting milestones. Early customers have entered the picture. Generating initial revenue will make sales tax and B&O tax a consideration. As the team grows, leasing space may require a real estate broker, and the company will need good benefits and insurance to compete for talent. The business strategy takes shape and more funding may be needed, often requiring a valuation expert.

4. Scaling
   As the product gains traction, the company grows rapidly. It is now out of startup mode and is well on its way to becoming a “real” business. The customer base expands significantly, requiring additional customer relationship management (CRM) tools. Larger venture capital investors enter the picture and join the board. This is a good time to transition from an outsourced CFO or controller to full-time staff. The company’s accounting needs become more technical, requiring a more advanced adviser — especially when selling across state or international boundaries. Banks and VCs often request external audits, expanding your accounting firm relationship.

5. Profitable Growth
   At this point, the company has all the same concerns as larger businesses, including development of internal controls, managing acquisitions and competing for talent. It may need to deploy enterprise accounting software, reconsider its compensation plans and most likely hire full-time tax professionals.

6. Maturity/Exit
   If all goes as planned, the company is positioned for an exit that will deliver the big payoff everyone has desired. General counsel and a commercial bank will likely be involved in this process, and the executives of the company will need personal tax consulting to maximize their gains from the sale.

Are you prepared?
   By considering these phases from the beginning and throughout the growth process, companies can gradually build a strong foundation for success instead of wasting time and energy playing catch-up just as the business gains traction. It’s important to have an expansive vision of where you’re headed — and it’s just as important to know how you plan to get there.