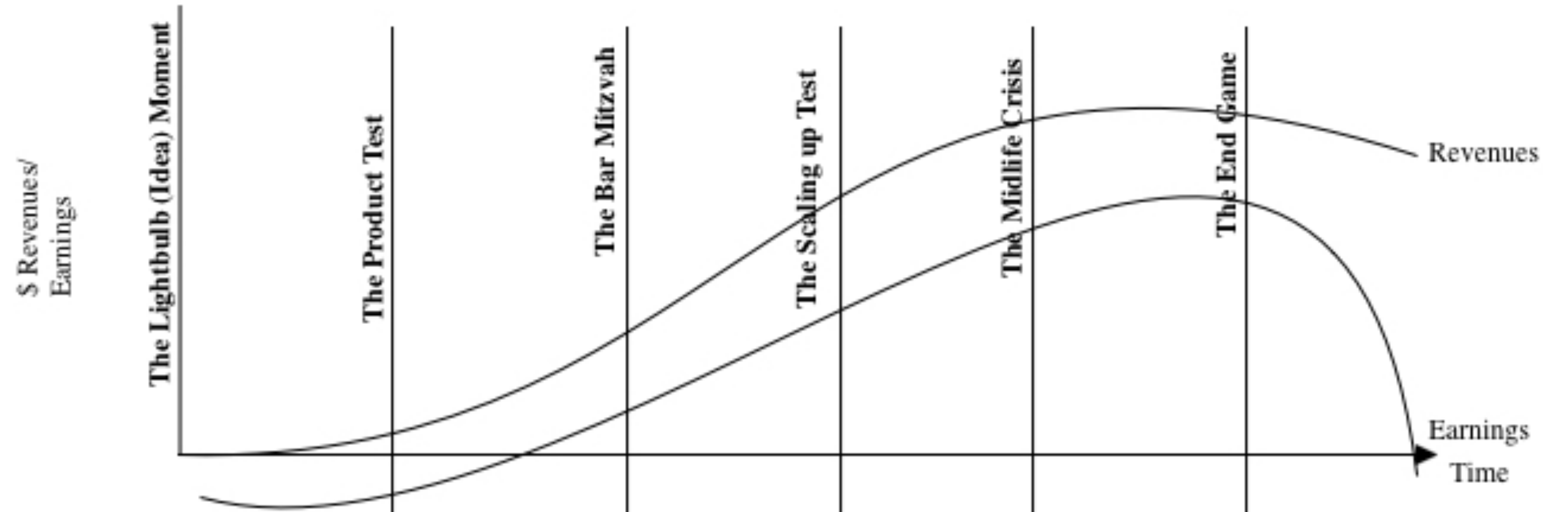
AGING IN DOG YEARS: THE SHORT & GLORIOUS LIVES OF TECH COMPANIES

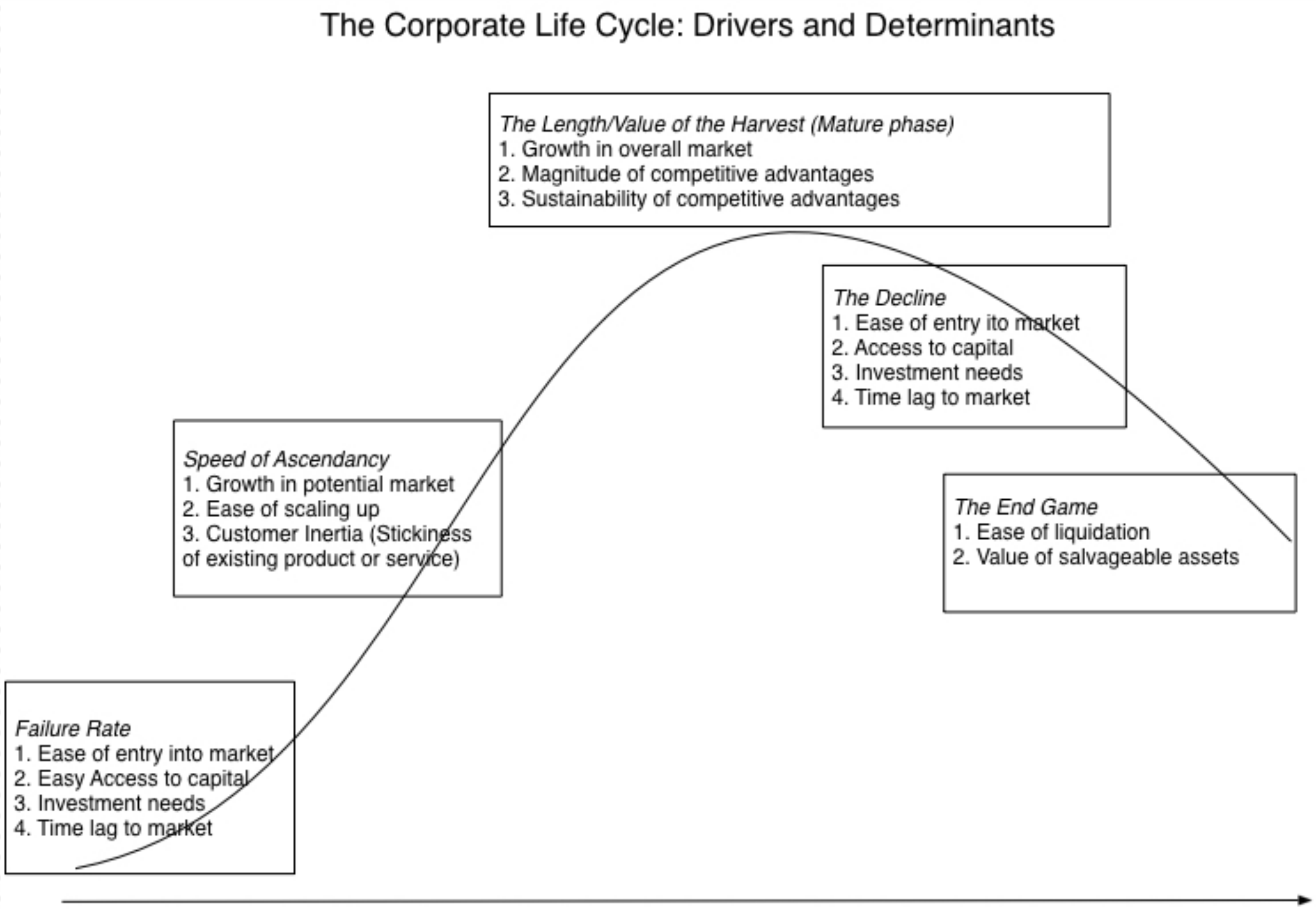
Young is old..

The Corporate Life Cycle



Growth stage	Stage 1 Start-up	Stage 2 Young Growth	Stage 3: High Growth	Stage 4 Mature Growth	Stage 5 Mature Stable	Stage 6 Decline
Description	Have an idea for a business that meets an unmet need in the market.	Create a business model that converts ideas into potential revenues & earnings	Build the business, converting potential into revenues.	Grow your business, shifting from losses to profits	Defend your business from new competitors & find new markets	Scale down your business as market shrinks.

The Determinants of Life Cycle



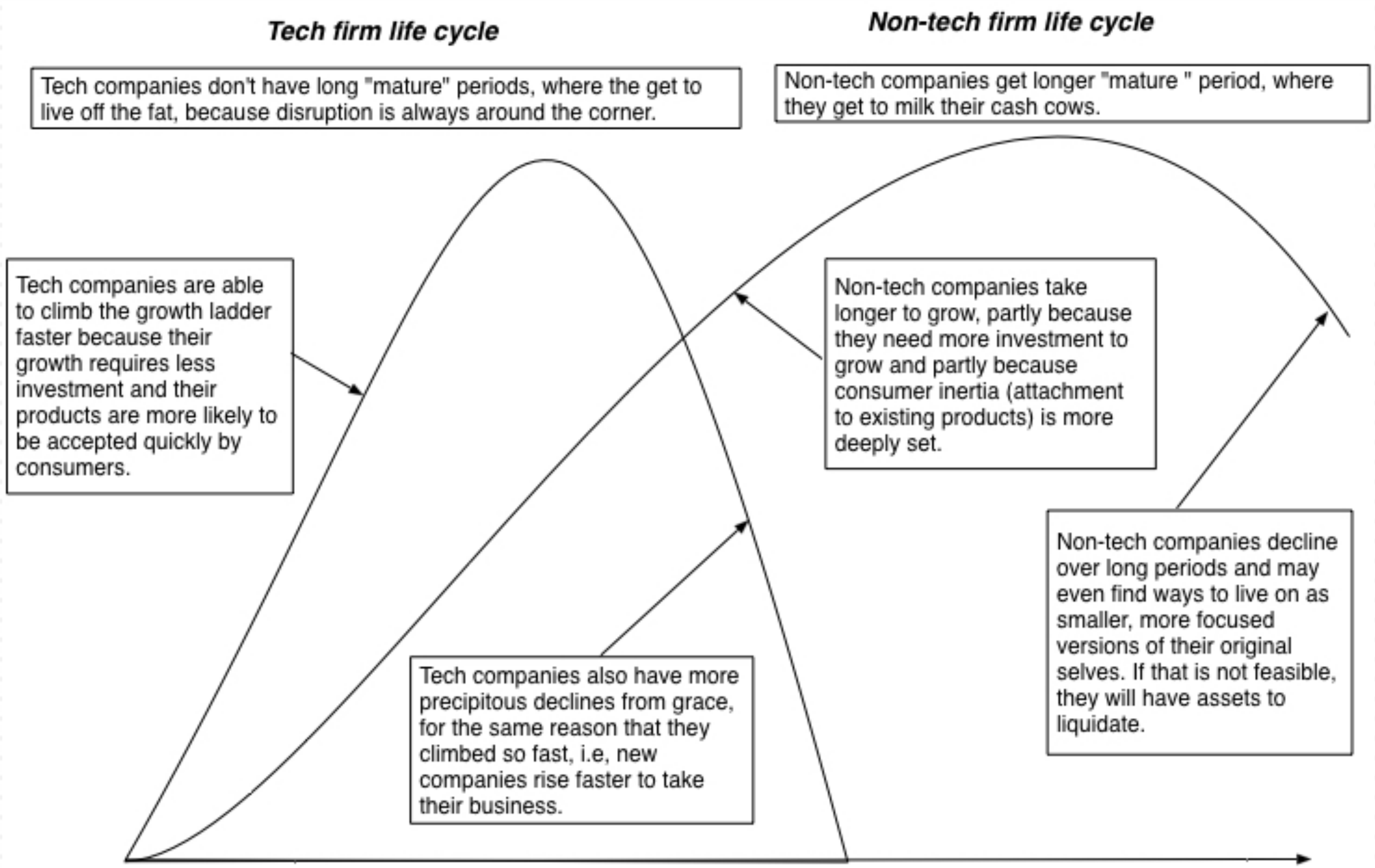
Tech versus Non-tech companies

- Drawing the line between tech and non tech companies is getting more and more difficult. The solution may be to think of technology on a continuum.
- There are two reasons the classifications matter:
  - Equity research analysts and portfolio managers still work in sector silos, with tunnel vision of anything that happens outside these silos. Where a company like Amazon is placed can make a difference in how it is analyzed.
  - Pricing is often done relative to the sector that investors decide to put a company into.

The defining characteristics of the tech business..

1. <u>Scaling up is easy</u>: Tech companies often operate in businesses where entry is not restricted, the up front investment is minimal and scaling up in easy.
2. <u>Holding on is tough</u>: Once tech companies reach the mature phase, they don't get to have long harvest periods. Their competitive advantages are fleeting and quickly deplete.
3. <u>Decline is rapid</u>: The same forces that allow technology companies to grow, i.e., unrestricted entry, ease of scaling up and customer switching, also make them vulnerable to new entrants seeking to take their business away from them.
4. <u>And there is little left in the end game</u>: Unlike other businesses, which accumulate physical assets as they grow and thus have a liquidation potential, with technology companies, there is little of substance to fall back, once earnings power is exhausted.

Tech versus Non-tech life cycles



Evidence

- First, there is evidence that the small tech firms (that survive the first tests) are able to scale up faster in terms of revenue growth (at least) than small non-tech firms.
- The second is that these tech firms, once established, have a more difficult time maintaining growth.
- The third is that decline, once it starts at tech firms, is more difficult to reverse and quicker to accelerate.

A New Disruption Definition

- Disruption is the new buzz word in business and it is used often as a "weapon of mass distraction", designed to to cut off debate or not talk specifics.
- One way to think of disruption, especially when it is tech-based, is that by introducing a low entry cost, easily scalable model into a existing non-tech business, you are altering the rules of the game.
- Unused to moving at the speed required in a tech life cycle, the mature companies in the old business model wait too long and act too slowly. By the time they recognize the threat, it is too late.
- As a note of the caution to the tech upstarts, the downside of the tech model is that their day in the sun will also be short unless they can change the rules of the game.