



**Johnson & Sheldon, PLLC**  
Certified Public Accountants



# **Financial Blind Spots at Each Stage of The business Lifecycle**





**Most business owners have a decent sense of where they are in the life of their business—whether they’re just getting started, in a growth phase, or running a well-established operation. What tends to get overlooked are the financial blind spots that show up at each stage. Not the obvious challenges like paying bills or chasing growth—but the quieter issues that can slowly erode cash flow, tax efficiency, or long-term viability.**

Let’s walk through the five stages of the business lifecycle—plus the financial risks that tend to fly under the radar at each one.

## **Startup stage: burn rate and entity structure**

At the startup stage, most of the focus is on product development, early sales, and staying afloat. But two financial issues often get sidelined early on: burn rate and entity structure.

Burn rate is a big one. On paper, the budget might show a clean runway—steady revenue growth, manageable expenses—but cash flow rarely follows that tidy pattern. In practice, sales take longer to close, early customers pay late, and fixed costs—like rent and payroll—don’t wait. You might technically be “on budget,” but if cash doesn’t land before bills are due, you’ve got a problem. Often, founders don’t realize it until they’re dipping into personal funds or credit cards just to make payroll.

To spot this early, watch for timing gaps. If receivables are climbing, but your bank balance isn’t, or you’re tight by month-end even with solid revenue, that’s a red flag. Same if you’re delaying vendor payments or key hires just to preserve cash. A short-term cash flow forecast—ideally a rolling 13-week model—gives you a clearer view of pinch points before they hit. If problems show up, talk to your CPA about working capital strategies, emergency reserves, or even bridge financing.



The second blind spot is entity structure. A lot of businesses pick their legal structure quickly and don't revisit it until they've already created a tax liability they could've avoided. The difference between operating as an LLC or electing S-corp status, for instance, can have a real impact on self-employment taxes once revenue picks up. These aren't set-it-and-forget-it decisions—review them regularly with your CPA to make sure your structure still fits your business.

## Growth stage: systems lag behind revenue

Growth is a good problem to have—but it's still a problem if your systems don't evolve with it. One of the most common issues is that financial oversight doesn't scale with the business. The same person who handled invoicing, bill payments, and reports in the early days is still doing it all—except now there are five times the transactions. That's when errors start slipping in—duplicate payments, missed invoices, or worse, fraud that goes undetected for months.

You'll usually see the signs: the books take longer to close, reports get messy, you're constantly fixing mistakes, or you've lost visibility into margins by product or service. That's the cue to start tightening your systems. Even small changes—separating duties, adding review steps, or moving from spreadsheets to proper accounting software—make a difference. If you're growing quickly but not ready for a full finance team, consider bringing in a part-time controller or fractional CFO.

Another risk at this stage is revenue concentration. A business can be growing fast and still be too reliant on one client or product. That feels fine when things are going well—but if that one client pulls back, you're suddenly exposed.

If more than 40–50% of your income is tied to a single source, that's a vulnerability worth addressing. Diversify intentionally—whether through new client acquisition, expanding offerings, or adjusting pricing tiers. The goal isn't just growth—it's resilient growth.



## Established stage: mistaking stability for efficiency

When a business hits a stable, established rhythm, it's easy to feel like the hard part is over. And to some extent, it is—you've got dependable income, a solid team, and systems that work. But this stage has its own kind of danger: the slow drift into financial inefficiency.

Overhead tends to build quietly over time. You might add a software subscription here, a staff role there. Maybe you're paying for tools or services you barely use anymore. No one line item looks outrageous, but collectively, your operating expenses start to eat into your margin. Owners often don't notice because the business still turns a profit—but that profit could be shrinking without anyone realizing it.

Watch for declining margins year over year, even if revenue is steady. If net income isn't tracking with top-line growth, or if you're relying more on credit lines than you used to, that's a signal that inefficiencies may be hiding in plain sight.

Build regular review cycles into your operations. Quarterly financial reviews shouldn't just compare budget to actuals—they should dig into trends, ratios, and cost categories. Look at trailing 12-month metrics, not just this month vs. last. This is also the stage to revisit your tax strategy and evaluate whether your current approach is still the most tax-efficient structure for your income, compensation, or retirement planning needs.

## Expansion stage: stretching resources too thin

Expansion can take many forms, such as a second location, a new product line, or an acquisition. While the opportunity might be exciting, it can also stretch your resources too thin. That doesn't just mean overextending your capital - it could be your staff, your systems, or your attention span.



One of the most common pitfalls in this stage is overcommitting resources before the initiative is fully tested or proven. Businesses often redirect a significant amount of capital into expansion efforts with the assumption that it'll pay off quickly. But if that growth takes longer than expected - or doesn't deliver the returns you projected - you've now tied up working capital that used to support your core operations.

Expansion can also pull your team in too many directions. Maybe your top people are suddenly juggling new responsibilities, supporting unfamiliar products, or managing operations outside their expertise. As a result, your core business - the part that's been profitable all along - starts to suffer from lack of focus.

You can often spot this early when operations start feeling strained. Deadlines slip, service quality dips, or staff morale starts to wear thin. Financially, you might notice cash getting tighter or the new segment barely breaking even, despite all the energy being poured into it.

The key is to plan deliberately, not just optimistically. Pressure-test your projections and build out best and worst-case scenarios before you commit. What happens if the new initiative underperforms for 6 months or longer? What's your breakeven point? And take a hard look at resource allocation. Do you have enough bandwidth to support both the old and the new? If not, consider scaling in phases or outsourcing strategically to protect your existing operations while pursuing growth.

## Exit stage: delaying transition planning

This final stage often presents the biggest opportunity to preserve or lose long-term value. Too many business owners wait until they're ready to exit before thinking seriously about succession planning—and by then, their options are limited.

There's a tendency to assume the business will just "be ready" to sell when you are. But if there's no plan in place—no internal leadership pipeline, no buyer identified, no tax strategy mapped out—you'll either leave money on the table or scramble to close a deal that doesn't meet your expectations.



If you've been at the helm for years and no one else can step in without major disruption, that's a risk. If you haven't had a business valuation in the past few years, you may be out of touch with what the market would actually pay.

The solution is to start early. Work with your CPA and legal team to build a transition plan. That includes valuation, tax planning, estate considerations, and identifying a successor. And don't overlook the personal side of this process. Exit planning isn't just financial—it's emotional, too. The more time you give yourself, the smoother it will be.

## Final thoughts

Every stage of the business lifecycle comes with its own financial blind spots. The key is staying proactive—not reactive. That doesn't mean micromanaging every spreadsheet, but it does mean asking the right questions before problems show up on your balance sheet.



# Next Step

A good advisory relationship is less about crunching numbers and more about asking the right questions before it's too late to adjust course. For more personalized guidance, please contact our office.



## About Johnson & Sheldon, PLLC

Johnson & Sheldon, PLLC is professional corporation that has established itself as one of the leading, aggressive accounting and consulting firms in the Panhandle Region of Texas. Our clients have been relying on the experience and guidance of our partners, Terry Sheldon , Richard Blankenship and Jeff Joyce for over 30 years. Located in Amarillo, Johnson & Sheldon's client base consists of small to medium size mostly privately-owned business and organizations. J&S is a member of the RSM US Alliance, the nation's fastest growing association of independent accounting firms. Through our affiliation with this network, Johnson & Sheldon, PLLC can offer the pooled expertise and resources of the RSM US Alliance, as well as other network members.



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