

Navigating a Crisis

Lesson 6-2: Protection of Assets – Cash

Discussion Guide – Confidentiality Reminder

One Word Check-in

Update – Personal, Business, Leadership

“Is there anyone here who, planning to build a new house, doesn’t first sit down and figure the cost so you’ll know if you can complete it? If you only get the foundation laid and then run out of money, you’re going to look pretty foolish. Everyone passing by will poke fun at you: ‘He started something he couldn’t finish.’” Luke 14:28-30 (MSG)

When a crisis hits, revenue decreases while expenses continue. Obviously, this creates a drain on cash and cash is king. If a company runs out of cash, it must borrow additional funds, sell assets, issue additional stock or go bankrupt. It is imperative that company leadership make wise decisions, because if the company cannot go forward, every job is lost (which impacts everyone’s family).

Companies that survive a crisis have prepared by protecting their cash; often, with at least six months saved to continue business operations. When the COVID-19 pandemic hit, corporate giants and small businesses across the U.S. began to fold like dominos. Approximately 200,000 businesses failed in the first year of the pandemic, according to the Federal Reserve as published by Reuters.¹

Conservative financial management is necessary over the long term to manage the financial strain of a crisis, which is coming (see previous lesson). Building a strong balance sheet over a long period of time takes discipline but is highly rewarding when the crisis occurs. Many companies that distribute most of their profits will struggle to survive. Berkshire Hathaway, led by Warren Buffett, is a company that keeps significant cash on hand to take advantage of opportunities others cannot afford to make when a crisis hits.

Strategies for protecting a company’s cash:

- Cut unnecessary expenses and overhead – become frugal
- Eliminate capital expenditures that can be deferred
- Negotiate delayed payments on accounts payable
- Negotiate rent reduction
- Company leadership must take a salary reduction before compensation cuts to staff
- Discuss liquidity needs with your bank
- Timely collecting of accounts receivable
- Eliminate unprofitable business lines

Two of the biggest mistakes that companies make are: 1) waiting too long to implement cash saving strategies and 2) defaulting to staff layoffs. Company leadership must be cautious in implementing layoffs because staff are the primary communicators to customers and are essential resources in moving the company forward when the crisis is over.

Shared Experiences:

- Can someone share a financial crisis it has faced in the past? What was the cause of the crisis?
- Can someone share how well their company survived a crisis, either related to the pandemic or something else? What did you learn from this?
- Who has had to layoff someone or was laid off due to a financial crisis? What can you share about the feelings you experienced?
- How did Tylenol’s preservation of cash impact the company’s future during its \$100 million crisis discussed in Lesson 6-1?
- What does Luke 14:28-30 teach us about making commitments and the ability to follow-through?

Bottom line: When a crisis hits, the only way a company will be able to uphold commitments to staff and customers is through a commitment to conservative financial management. If a company fails to protect their cash, then, like the parable in Luke 14 illustrates, the company will run out of money and “you’re going to look pretty foolish.”

One Word Check-out

Dig Deeper

Want to learn more?

- ¹Article: [Pandemic destroyed fewer U.S. businesses than feared, Fed study shows](#) published by Reuters
- Article: [Seven Steps to Help Resolve a Business Crisis](#) published by NevadaSmallBusiness.com
- Video: [Warren Buffett Predicts A Horrible Economic Crisis Where EVERYTHING WILL COLLAPSE](#), recorded November 2, 2022 and published by FREEINVESTING
- Video: [Crisis Management Principles](#) developed by Skillssoft YouTube
- Article: [Steps your company can take to be recession-ready](#) published by JPMorgan Chase

JCPenney (JCP) is an example of a company that ran out of money.

As one of the most successful retail stores in the U.S. for 98 years, JCP's business story is a testament that past success does not guarantee future success. In their May 2020 bankruptcy filing, JCP used the term "financial restructuring" rather than bankruptcy, but make no mistake, it was bankruptcy. JCP blamed their bankruptcy on the "pandemic," but the truth is that JCP had been on a steady decline since 2006. There was misstep after misstep. By the time JCP filed for bankruptcy, sales revenue decreased 50% from \$20 billion in 2006 to \$10 billion in 2020.

One of the most significant and irreversible missteps were the actions taken by Ron Johnson who was hired as CEO in November 2011. As you may recall from Lesson 8-4, Ron Johnson created the concept of the Apple store, arguably the most iconic and successful retail store concept in the last 20 years. While one might think (and obviously the JCP board thought) that Johnson's magic could do wonders for the stale JCP store concepts, nothing could be further from reality. Johnson was fired 15 months later. According to a Business Insider article, "He radically altered the business and alienated its customers. Johnson changed the logo, marketing strategy, pricing model and brand selection. Most damagingly, he eliminated coupons and discounts" (Biron, 2020). Biron continues in the Business Insider article stating that Johnson did not do market research or prototype the new concept, and his ego got in the way of good business practices. JCP's decline over a 15-year period resulted in the ultimate embarrassment of declaring bankruptcy. While JCP stated the pandemic as the cause of the bankruptcy, the reality was that JCP failed in its attempt to find a successful business model to compete in the new world of e-commerce.

For more information, visit the below resources:

- Article: [The 118-year rise and fall of JCPenney, one of America's largest department stores](#) (Business Insider, 2020)
- News: [JCP company webpage](#)
- Video: [Retail giant JCPenney files for bankruptcy](#) (CBS Philly, 2020)