Navigating a Crisis

Lesson 9-2: Protection of Assets – Cash

Discussion Guide

"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 (Message)

When a crisis hits, credit freezes and cash is the currency of survival. Companies that emerge from 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. In the first six months of 2020, about 3,600 companies have filed for Chapter 11 bankruptcy (up 26% from 2019) as they ran out of cash (WSJ Article July 2, 2020).

Preservation of cash is not just for the investor, it's for all stakeholders. Perhaps most importantly, the staff and their families depend on the company surviving. The staff has trusted the company and invested a lot of sweat equity.

Conservative financial management is necessary over the long term to manage the financial strain of a crisis. This includes building a strong balance sheet over a long period of time. A history of strong financial management is also important if the company were to ever seek a loan from a bank.

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 laying off staff. Company leadership must be cautious in executing layoffs, because staff are the primary communicators to customers and are the resource to moving the company forward when the crisis is over.

Discussion

- What effective and ineffective strategies have you seen companies implement to preserve cash?
- How might a strong balance sheet give more margin to survive a crisis?
- How would you rate the importance of cash versus the other two assets of employees and customers?
- What does filing for bankruptcy say about the leadership of a company?
- How did Tylenol's preservation of cash impact the company's future during its $100 million crisis discussed in Lesson 9-1?
- What does Luke 14:28 teach us about making commitments and the ability to follow-through?

Bottom Line: Every company has made commitments: both to customers to serve them and to staff to employ them. When a crisis hits, the only way a company will be able to uphold these commitments is through 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."

Dig Deeper

J. C. Penny (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 is bankruptcy. JCP blamed their bankruptcy on the "pandemic," but the truth is that JCP has been on a steady decline since 2006. There has been misstep after misstep. By the time JCP filed for bankruptcy, sales revenue decreased 50 percent 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 states the pandemic is the cause of the bankruptcy, the reality is 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)