W.t. grant case

Business

September 9, 2010 case 3. 3 W. T. Grant During the mid 1960s Grant was determined to modify its strategy and align itself in a different section of the market.

One aspect of this strategy was to rapidly expand into suburban shopping centers and on the other hand, Grant also wanted to modify its product line (product mix). This rapid expansion required Grant to increase their physical store space to accommodate new items in their existing stores, in addition to an overall change in product mix (including larger items such as furniture and appliances).

Not only did they have to increase their existing store space, they also needed to sequester new properties (which they did via long-term lease agreements) in suburban areas in order serve a different breed (type) of customer (of the upscale variety). The narrative explains that between 1963 and 1973 Grant opened 612 new stores (with the bulk of them [369] being established between 1969 and 1973) and also expanded 91 others. This required a substantial outlay of capital and much of this capital came in the form of debt equity (a mix between long term and short term orrowing).

Normally when a firm settles on and chooses to embark on an expansion strategy, they are required to spend large sums of money but these initial outflows are (in theory) supposed to result in an overall increase (whether in the form of increased sales, or possibly in the long term decrease/elimination of certain variable expenses)in cash flow in the long run, but unfortunately in the case of Grant, their firm failed to in meet expectations and their cash

flow from operations began to ecline beginning in 1969 (and from that point on they never had another year of positive cash flows from operations).

W. T. Grant’s average present value for lease commitments between 1966 and 1975 totaled about $559 million, further illustrating how heavily invested in store space (in terms of long term fixed costs) this expansion caused them to become. Additionally, $200 million in debentures were issued in 1971 and 1973. Another problem Grant experienced dealt with their increases in inventory to fuel their expansion. The company’s increase in inventory (illustrated on the statement of cash flows) rose after 1970 and culminated by a drastic increase in 1973.

This increase in inventory (especially in 1973) appears to be heavily financed by short-term and long-term borrowing rather than the typical accounts payable. This is a bit unusual and in 1973 (when they acquired the greatest amount of debt equity, their accounts payable decreased. Their sales were not sufficient to offset the large outflows of inventory related costs. Furthermore, Grant’s decentralization was lso a cause of their financial woes because rather than corporately controlling credit extension and credit terms, they allowed each store manager to set their own policies (and manipulate them as they desired).

This disastrous policy imploded in 1975 when the company had to make a $155. 7 million provision for bad debt expense.

So not only did the company have substantial debt and bad debt to equity ratios, they were forced to write off about 8. 8% of their total sales from 1975. I would have become skeptical of Grant’s ability to continue as a

viable going concern around 1973. aised inventory levels, I would have been lead to believe that the company feared its ability to increase short and eventually long term sales.

More specifically, in 1973 Grand also acquired over $1 52 million in short term loans while still managing to lose $18 million (net change) in cash.

If this type of activity wasn't enough to raise eyebrows, Grant also laid off a substantial amount of employees and closed 126 stores (while also divesting product lines). Finally after Grant defaulted on $75 million in interest payments I would have been assured that Grant was a going concern.