

WHY BANKRUPTCY?

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If you live in the United States there is a good chance you are familiar with Target, the second largest retailer in the U.S. On January 15th, after attempting to expand its operations in Canada, Target's Canadian division filed for bankruptcy protection in Canada. Thousands of suppliers were left with inventory, purchase orders, unpaid invoices, and other debt stemming from the market giant's insolvency.

Bankruptcy is a business strategy to navigate the cyclical nature of business. The reason large companies incorporate independently when expanding across borders, is the ability to manage the operations as their own entity. Target Canada is just one example of a common occurrence, and the reason behind most bankruptcies might surprise you.

One of the biggest myths of bankruptcy pertains to the "why". Many believe the cause of a bankruptcy filing relates to a lack of working capital. While lack of working capital can push companies into bankruptcy, it is actually further down the list of causes than one would think.

Below is a list of the most common causes for bankruptcy filings across a variety of industries – none of which have to do with lack of working capital:

- For small to medium size businesses, divorce of the business owner is the most common reason for filing for bankruptcy protection. The second most common reason is the attempt to pass the business from one generation to the next.
- Incurrence of FDA fines is the most common cause of a bankruptcy filing for food manufacturers and processors.
- The two largest bankruptcy filings in history (WorldCom and Enron) stemmed from fraud.
- The largest privately held company to file for bankruptcy (Semgroup, the 10th largest company in the world) did so because of margin calls.
- The most common reason for a large retail chain to file for bankruptcy is from improper management of the company at the executive level.
- The largest chemical manufacturer in Maryland, W.R. Grace, has been in bankruptcy for over 10 years and has filed and refiled due to asbestos-related lawsuits.

Many believe a company is not going anywhere because they have been around for years. Despite the hardship resulting from a bankruptcy, it is a "tool" for a reason. It gives companies the ability to remain in existence and navigate troubled times. As famously quoted in *The Godfather*: "it's not personal, it's business." Have you heard of these companies?

