CALIFORNIA FASHION ASSOCIATION

The California Fashion Association (CFA) is focused on building a knowledge base to identify and meet the needs of the various constituents of the industry.

October 2021

AS SEEN IN: California Apparel News

Excerpted from: INDUSTRY FOCUS: FINANCE

September 30, 2021

"Investments apparel companies should be making to fortify their businesses and ensure success for 2022"

As 2021 winds down, the apparel segment has been enjoying an uptick in business from different corners of the industry. With consumers shopping and willing to spend, retailers are enjoying the benefits of the apparel investments their customers are making as they return to offices, college campuses, in-school classes and semi-normal life.

While challenges such as supply-chain and shipping delays and staffing shortages remain, and continue to impact the apparel business, there are methods fashion-industry professionals can follow to overcome these roadblocks.

California Apparel News asked finance-industry experts: ***"As we head into the holiday season, what types of investments should apparel companies be making to fortify their businesses and ensure success for 2022?"***

Darrin Beer

Western Regional Manager

CIT Commercial Services

Several of our apparel clients are benefiting from an increase in sales during 2021, due in part to a recent shift in consumer spending from services to goods including clothing. In addition, government fiscal policies, including stimulus payments and child tax credits, have improved the discretionary spending power of consumers.

Some headwinds facing the 2021 holiday season and beyond include the continued bottleneck of shipping containers and goods at the ports. Additionally, labor shortages in the apparel sector and other industries will make it challenging to support higher sales driven by strong retail and consumer demand.

Investments in recruitment and retention will likely be necessary to retain a consistent workforce. Also, some apparel companies will use the current environment to concentrate on reducing inventory levels, thus reducing their warehouse footprint. Some apparel companies may want to explore local production in order to improve turnaround time.

In addition, we're seeing some companies seek financing to expand their product lines. Still others see the current climate as an opportunity to acquire other businesses or invest in upgraded enterprise resource planning systems to support overall operations and online fulfillment strategies. Finally, a number of businesses are investing to build their social-media presence or expand their social-advertising strategy.

Sydnee Breuer

Executive Vice President, Western Region Manager
Rosenthal & Rosenthal

Apparel companies will face much uncertainty in the coming year, and supply-chain issues, the backlog of containers at the ports and increased transportation costs are only the tip of the iceberg. To position themselves for success, apparel brands need to be aware of and prepared to deal with these challenges as best they can. No company wants to face a last-minute surprise that their goods won't be delivered on time.

Communication is key, both up the supply chain with the factories and down the supply chain to customers. Brands would be prudent to make smart investments now in technology that helps shore up the supply chain so companies can stay on top of their orders, no matter where in the world their product is.

Investing in a strong inventory-management system is also key. This allows management to keep track of both in-transit inventory and warehouse inventory and also helps to identify and track open-order and slow-moving inventories. To stay competitive in this environment, it's critical for apparel companies to have the proper amount and mix of inventory.

As online shopping continues to increase in popularity, additional investment may be needed in e-commerce capabilities and social-media platforms. Brands' direct-to-consumer online channels need to be fresh, user-friendly and state-of-the-art to attract and retain more shoppers in ways that increase their purchases. As always, quality product at value pricing needs to be available for the consumer to purchase whenever and wherever the consumer is.

Gino Clark

Executive Vice President and Managing Director of Originations
White Oak Commercial Finance, LLC

We at White Oak Commercial Finance believe there are many investments that apparel companies can begin this year to bolster future returns. These commitments will require capital, time and energy to properly integrate within a business's operating model. So, there's no better time to start than now.

First, we're confident that companies with an online offering to its customers will be in a strong position this holiday season and beyond. While there is some debate about how COVID-related safety concerns will affec in-store foot traffic over the coming months, we believe that pent-up demand, historically high levels of savings and rising wages will result in a robust holiday season for most retailers and especially for those who have invested in e-commerce.

Furthermore, we believe there is still a lot of room for companies to benefit from the rising tide of innovative technologies associated with e-commerce. For example, buy-now-pay-later apps such as Affirm, Afterpay and Klarna represent a fast-growing payments subsector that provides shoppers with a quick and easy-to-use alternative to credit cards. Disruptive technologies such as these are becoming universal across digital retail channels and can effectively increase consumer purchasing power and facilitate larger transactions.

Businesses should also invest in infrastructure. This can be done by beefing up internal systems to optimize inventory controls and reporting to help plan and forecast sales following an exceptional 2021. Companies should also stay a step ahead by scheduling their purchases and production earlier to account for supply-chain constraints. We advise allowing for at least eight to 10 weeks for delivery.

Third, we recommend that apparel businesses develop a comprehensive financial plan for 2022. Companies should establish a flexible credit line or financing arrangement with their lender, one that can provide enough leeway for them to manage through unforeseen challenges and be ready for opportunities arising in today's fast-changing marketplace.

Richard Kwon

Executive Vice President and Portfolio Manager
Finance One, Inc.

2021 holiday retail sales are estimated to increase by at least 7 percent compared to the same period last year. While the forecasts present much-needed optimism toward future economic activity in the United States, the surge in COVID-19 cases caused by the highly contagious Delta variant is continuing to disrupt the global supply chain. The overwhelming increase in freight costs as well as material and labor shortages are adding stress to a manufacturer's balance sheet. With government stimulus no longer entering the marketplace, discontinued bonus unemployment benefits, and widespread inventory shortages due to production and delivery delays, the pandemic-induced uncertainties will remain as we enter 2022.

During these uncertain times, an apparel company should consider investing their resources to minimize the negative impacts the pandemic has in areas of sourcing, logistics and sales. For companies that had all of their eggs in one basket, this increased their risk of failure when the COVID-19 pandemic hit. However, certain apparel companies were able to take advantage of the spike in demand for apparel as soon as COVID-19 restrictions were lifted last year by having access to diversified sourcing, capable logistics providers and well-informed sales teams.

While China and Vietnam are key countries for outsourcing production of apparel, many companies that also had nearshoring alternatives in Latin America have benefited when China and Vietnam were under COVID-19 lockdowns. Apparel companies should constantly invest in sourcing new suppliers across different countries. Once in-person attendance becomes available, international-sourcing trade shows such as Sourcing at MAGIC in Las Vegas, Texworld in New York and Apparel Textile Sourcing in Miami would be a good place to start.

Companies should also invest in choosing capable third-party logistics companies that have advantages through robust online, digital capabilities and accurate traceability of cargo at any given time. Many 3PL companies, who provide outsourcing of warehousing, pick and pack, order fulfillment, shipping and delivery, and freight forwarding, are now adding 4PL enhancements such as consulting, data and analytics, service coordination, transition planning, sourcing, inventory planning, asset management, and overall logistical strategy, which can reduce or eliminate the need for in-house staff for logistics planning.

Lastly, companies should invest in relationships with service vendors such as factors who can provide value-added information that will lead to an increase in sales while reducing customer-default risks. The pandemic caused many bricks-and-mortar retailers to fail; however, many that survived have since recovered and even thrived in this challenging environment. Service vendors can provide unofficial insights as to which companies in the industry are performing well and, therefore, warrant a serious consideration as a sales target.

David M. Reza

Senior Vice President, Western Region
Milberg Factors, Inc.

As has been highlighted frequently in the pages of California Apparel News and other industry media, ensuring ongoing viability let alone success in the apparel industry requires continuous refinement of infrastructure, product, marketing, distribution and sourcing. Whether it is management's focus or actual investment of capital, companies need to:

• Ensure that they have a safe, healthy, and socially fair environment for employees, customers, suppliers and stakeholders. This includes compelling regulatory compliance in all jurisdictions where the company operates.

• Continually evolve and upgrade digital capabilities. Consumers want a multi-channel buying experience that is seamless and consistent across all sales and marketing media. Apparel importers and manufacturers should be sure that they are up to date on how their retail customers are evolving their digital footprint in response to consumer behavior. In addition, as the pandemic has so forcefully demonstrated, apparel companies need to continually improve their own websites, customer analytics and online experience.

• Sourcing, logistics and production delays are currently the biggest challenges in, not just the apparel industry, but across all consumer products and manufacturing sectors. Every company is dealing with skyrocketing freight costs, container shortages, delivery pushbacks and more. Ongoing shortages of vaccines and emerging COVID variants are causing manufacturing slowdowns and port closures in Asia. These problems will not abate anytime soon.

This is the time to study and retain expertise to analyze sourcing, production, and inbound shipping methods and routes used in your supply or production chain. Identify alternative production sources or regions with favorable health and political risks. At the same time, you may find ways to take costs out of the process.

Kevin M. Sullivan

Executive Vice President, Wells Fargo Commercial Services
Wells Fargo

With 2022 just around the corner, most of our clients remain focused on issues of supply chain management. The companies who have been best able to navigate through the current logistics issues have a diversity within their vendor bases that enables them to shift production in a way that allows them to achieve relatively timely deliveries of product, despite the continued port issues on both sides of the supply chain. Negotiating appropriate terms with vendors has also been a sizable advantage as those buying on LDP or DDP terms haven't had to bear the costs of the increases in freight charges.

Diversifying customer bases also remains a high priority as it helps to shield apparel companies from the inherent risk of a major customer who represents a significant concentration running into credit issues. On this front, it makes more sense now than ever for companies to utilize the services of a factor to make sure that major credit exposures are insured. While many retailers have weathered the COVID situation reasonably well, some remain relatively challenged. It's important to be able to pivot to customers who will remain long-term players and with whom apparel companies can continue to grow their businesses.