

Euler Hermes provides the German textile industry with customized coverage for seasonal goods, new customers and warehousing

HAMBURG - 20 AUGUST 2015 – The world's leading trade credit insurer Euler Hermes will offer textile companies coverage in Germany against payment defaults through a program specifically designed to meet the industry's needs. This "Textile" industry policy includes numerous features never offered before in the market. For starters, the new policy takes into account the textile industry's seasonal peaks through automatic increases in the insurance coverage. It enables companies to insure the significantly higher receivables that occasionally arise through seasonal goods from the various lines. With extended payment deadlines, the policy also provides an optimal solution for lengthy production and transportation cycles that often accompany overseas production. Manufacturing risks and initial deliveries to new customers are also covered.

Initial deliveries to new customers have been a major risk for suppliers, until now – coverage under the Textile policy

"Each year, prior to the start of the season, numerous new small boutiques and stores pop up in urban areas and tourist regions," says Jonas Müller, head of Product Development at Euler Hermes Germany. "The risk borne by suppliers in connection with initial deliveries is nevertheless distinctly higher than for transactions with long-term business partners, given the non-existent track record and scant payment information available. Previously, that was a problem for many suppliers. In order for textile companies and merchants to tap this growth potential on a risk-free basis, we developed this new feature for our Textile policy. Other new features that enhance commercial protections in the industry include the policy's first-ever automatic cushioning of seasonal peaks and the recognition of lengthy transit times, e.g. by sea from low-cost countries for apparel production."

Another feature: follow-on coverage, manufacturing and customer risk also covered

The "Textile" policy also factors in the industry's typical long-term supply agreements. It therefore includes follow-on coverage, such that the supplier is covered for supply commitments within this time period if the customer's creditworthiness should deteriorate significantly. For many companies, pre-production is also a major financial risk. Euler Hermes therefore provides comprehensive insurance protection in this area. If the customer is not able to pay for the goods at the time of delivery, the costs of the materials and manufacturing are still covered. The same applies for the so-called customer risk for deliveries or production with third-party companies.

Risk transfer from merchants to suppliers during warehousing – coverage through the new policy

In the textile industry, goods are increasingly warehoused in close proximity to customers. Suppliers often offer consignment warehousing, i.e. warehouses located very near to their customers. They warehouse the goods there, but an invoice is generated only when the customer actually removes the goods from the warehouse. This means that merchants with the corresponding market power transfer the risk to their suppliers. In some cases, inventory discrepancies occur at these warehouses, for example in cases involving unauthorized removals. By providing embezzlement coverage, the new Euler Hermes Textile policy protects against unauthorized removals from consignment warehouses.

Rapid response times thanks to automatic verification

Rapid decision-making and response times are another requirement in the textile industry:

"When a company is about to close on a contract, the business owner needs to know as soon as possible whether the deliveries will also be insured in order to lock in the contract promptly without taking on significant risk," said Müller.

Industry trends: low margins, low to medium returns, tight liquidity

For 2015, Euler Hermes is forecasting stagnating sales for the overall textile industry in Germany along with continued strong competitive pressure. The low profit margins also mean that projected returns and liquidity will be relatively low, while payment defaults will often be high.



Industry trends are nevertheless marked by contrasts. While manufacturers of technical fabrics have specialized to a significant extent and operate in a relatively high-price niche segment, apparel manufacturers in Germany are barely profitable due to high labor costs. For years, they had to shift their production abroad to Asian countries such as China or Bangladesh, or increasingly to Eastern Europe. The fast fashion trend forces manufacturers to bring an ever-increasing number of lines to the market each year. It requires faster delivery times, which is more achievable through production facilities located in Eastern Europe as opposed to Asia.

Retail: only multi-channel is successful, 40% of all apparel is purchased online

The retail textile industry must contend with significant pricing pressure, driven mainly by clothing discounters, as well as weather-related volatility and, most importantly, the need to have a comprehensive multi-channel strategy, which requires substantial investments. Online sales continue to grow at a disproportionately high rate. They already account for approximately 40% of all apparel purchases in Germany, a figure that continues to grow, especially in the niche segments.

Sweaters, books and kettles – all easily comparable and not requiring much in the way of customer guidance

“Sweaters, books, mobile phones and kettles have one thing in common: all of these products are easy to compare and do not require much in the way of customer guidance,” said Margrit Leidenroth, the head of the credit review division with focus on the textile industry. “Online sales of electronics, books and textiles are therefore already very high, whereas furniture, do-it-yourself products and food are still sold overwhelmingly in retail stores. Another interesting fact is that 42% of all men prefer to shop online, compared with 39% of all women. The retail store shopping experience therefore appears to be a bit more important for women. But retail merchants definitely need a strong online presence as well, since without it they cannot take part in the growth of this segment. Many consumers do online research before visiting a store. The lack of a clear and comprehensive online presence can adversely affect retail stores.”

The complete report on the textile industry is available at:

<http://www.eulerhermes.de/mediacenter/Lists/mediacenter-documents/euler-hermes-branchenbericht-textilindustrie-deutschland.pdf>

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The 1,500 employees of Euler Hermes Germany are based at its headquarters in Hamburg and in other offices. More information: www.eulerhermes.de



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