

## **Euler Hermes market analysis: consumption stable, but segments of German textile industry hanging by a thread**

- Payment default risk high, further insolvencies expected despite stable consumption
- Average sector credit ratings are down, but some companies well positioned for future challenges
- Low sales and margins, price pressure and competition from online trade
- Textile production: trends uneven, niche segments thriving, “fast fashion” a big challenge

**HAMBURG - 15 SEPTEMBER 2016** – Risks in the German textile industry remain high, especially in the textile retail trade, according to the latest market analysis of Euler Hermes, the worldwide leader in trade credit insurance. Structural change is in full swing and competition from online trade is steadily increasing - both create a growing need for investment.

Stagnating sales, low margins, and persistently strong competitive pressure make life increasingly difficult for many companies, despite the sector's relatively stable levels of consumption. Nonetheless, payment terms can be very long. Some players have little financial leeway for necessary structural change investments, while others are well positioned – creating future winners and losers .

### **Hanging by a thread: Insolvencies set to continue in the textile sector**

"Some textile retailers are hanging by a thread, as recent events have shown," said Ron van het Hof, CEO of Euler Hermes Germany, Austria and Switzerland. "Due to low margins, earnings forecasts and liquidity cover are relatively low for some companies, and in some cases payment default risk is high. Since the year began, we've seen insolvencies among well-known names, as well as many smaller companies going bankrupt. Overall average credit ratings in the sector are falling. And we believe that more textile companies will experience problems in the future."

### **Price pressure and weather-related volatility cause problems; and multi-channel is a must**

The textile retail trade is contending with high price pressure -- driven mainly by clothing discounters - weather-related volatility and the need for comprehensive and costly multi-channel strategies. Online trade is increasingly important and posting strong levels of growth. In Germany, around 40% of all clothing products are now purchased online - a rising trend, especially in niche segments.

### **The branch store concept is largely obsolete; customers shopping more online**

"Books, cell phones, kettles and sweaters continue to share a common feature: they are easily comparable products that require little customer guidance," explained Van het Hof. "The percentage of online sales is therefore already very high for books, electronic goods, and also textiles, while DIY products, food and furnitures are still mostly purchased in retail stores. The 'right' multi-channel strategy remains essential for all retailers. The concept of operating exclusively through retail branch stores is now largely obsolete. Unless these are combined with online sales, retailers stand very little chance. This is also relevant for small regional retailers operating only a few small stores."

Before a purchase, today's customers often search online for information on materials, offers, and products, to decide whether it is worth making a trip to the store. Conversely, very price-conscious customers are buying online if a lower price is available after checking sizes, style and price in the store

### **Wild cards secure higher margin through channel restructuring**

"Online shopping is no magic bullet however, because companies must budget for high investment and potentially very long start-up phases," said Van het Hof. "Traders with low margins must also be able to finance these applications. Ultimately, it comes down to margins and financial resources. Those with greater margins and more financial leeway are automatically far out in front when it comes to structural change. These industry wild cards are in a good starting position."

### **Textile production: uneven trends, “fast fashion” continues to challenge the supply chain**

Trends in the textile industry are uneven, and not only for retailers. While manufacturers of technical textiles are highly specialized and operate in a relatively high-priced niche segment, high wage costs in prevent clothing manufacturers in Germany from being competitive. For years they have been forced to



outsource their production, to Asian countries such as China and Bangladesh and, recently, increasingly to Eastern Europe as well.

"Fast fashion forces manufacturers to market more collections each year," explained Van het Hof. "This requires shorter lead times, which are easier to achieve from East European factories than from Asia. The supply chain changes meant that manufactures need to adjust accordingly."

### **Playing it safe: Dedicated textile sector policies with high risk add-ons**

Due to the industry's high risks and often special requirements, Euler Hermes Germany offers credit insurance tailored to the textile sector. Features include a new automatic 50% increase in insurance cover for seasonal peaks caused by overruns or long payment terms of up to 180 days. New customers are insurable for up to €10,000 for initial deliveries, covering manufacturing and buyer risk for up to six months as well warehouse removals.

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