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Three Financing Must-Dos to Navigate Supply-Chain Disruptions

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As global supply-chain disruptions continue to impact the bottom line of businesses across the U.S., the need for apparel companies to be creative, resourceful, and nimble carries unprecedented weight. The industry needs to be diligent in maintaining its customer base and business partnerships while sustaining longer payment terms, a shortage of available materials, and higher costs.

COVID-19 industry impacts

Today's supply-chain struggles were exacerbated last spring when the pandemic caused a precipitous drop in manufacturing orders that quickly rebounded in response to strong consumer demand, which continues to this day.

Shortly thereafter, the law of supply and demand took center stage as manufacturers repurposed their operations for highly profitable PPE. When raw and finished materials became scarce and coupled with the global incoordination of shipping containers and backlogs at U.S. ports, a perfect storm occurred. But what today's crisis has most glaringly exposed is our over-reliance on sourcing from a single country, namely China.

Financing best practices

While the thought of making material changes to your business during a time of volatility may seem daunting, we believe these three financing must-dos will help you to navigate—and evolve with—what looks to be the new normal in disrupted supply chains:

1. Diversify your suppliers.
2. Maintain a strong balance sheet.
3. Arrange flexible financing that can adjust to meet your company's short- and long-term goals.

Diversify Your Suppliers

We suggest not having concentrations of over 30 percent in any single supplier. Furthermore, we recommend not limiting sourcing to any single country. This variation will help to reduce the impact of future disruptions. Many businesses have already begun expanding their networks by manufacturer and region to include Southeast-Asian countries such as Vietnam, Bangladesh, and Thailand, as well as the Americas, including Brazil, Peru, Guatemala, and Mexico. It is important to note that changing suppliers and countries can be a long process that requires significant up-front efforts and costs to generate future returns, including in-person visits to those manufacturers to establish relationships critical to your success.

Maintain a Strong Balance Sheet

This allows you the flexibility to control your own destiny. Ample working capital enables you to overcome almost any obstacle and take advantage of opportunities. This can be achieved by strictly monitoring your asset performance and maintaining a solid capitalization structure. Staying fully apprised of your liquidity, accounts receivable, and inventories will help you make well-informed decisions on funding your operations and investing in growth.

Arrange Flexible Financing With Your Lender

Market disturbances are as certain to happen as they are unpredictable, and knowing that you have access to fast and reliable capital is essential to making confident business decisions. Use your lender as a sounding board for important initiatives you are considering, especially one who takes the time to understand your business model and industry and explore the suitable financing options for your situation. For example, if you communicate that you are diversifying your supplier network, a credible and established lender will be able to provide functional guidance based on its industry expertise and trends it sees with like borrowers. In the end, your lender should view your success as its own, so engage with your lender as you would a trusted business partner.

As a lender with extensive apparel-industry experience, we have confidence in the future of the industry based on the accomplishments of the dedicated and resilient entrepreneurs with whom we partner. We hope this short-but-important list of financing must-dos will serve your company well and act as a cornerstone for long-term success. ●

Gino N. Clark, managing director of White Oak Commercial Finance, oversees originations, underwriting and servicing for White Oak Commercial Finance on the West Coast. He has worked in the commercial financing industry since 1993 and is active in professional trade groups including the International Factoring Association, the California Fashion Association and The Professional Club. He earned his MBA from Pepperdine University and his bachelors in Business Finance from California State University, Long Beach.