WHITE PAPER

How Today's Top Apparel Brands Succeed with Trade Credit

WHAT'S INSIDE

- Hear apparel industry leaders weigh in on how they use credit to solve their top retail challenges and grow
- Learn new fintech solutions are helping reduce risk in a competitive apparel landscape

Table of contents

Introduction 3

Part 1 : How Successful Apparel Brands Use Strategic Trade Credit 4

1. Making bigger sales and get wider distubution to grow your brand 5

2. Earn more orders—and re-orders 7

3. Building strong relationships 9

4. Meet or beat your competition. 11

Part 2: How Fintech is Helping Brands Improve Bottom Lines. 13

The trouble with factoring 14

New fintech solutions have arrived 14

How do fintech credit solutions help brands sell more? 15

Slow underwriting can kill deals 16

Faster payments save you money 18

Conclusion 19

About Fundbox. 20

Introduction

The apparel and lifestyle industries are fast-paced and never boring, in part because there's so much variation within them. Dig deep into how apparel brands operate today, and you'll find that even among successful brands of similar sizes, there's a great deal of variety in how trade credit programs work, and how business is done.

As a professional working in apparel sales and credit, you have to create new relationships and find new channels to distribute your brand. Often, that means juggling multiple systems and communication channels as you network, nurture, and assess new connections, process vendor applications, onboard new retailers, and get paid. It also requires you to make decisions about who to trust.

Every new relationship brings with it the potential for a successful and lucrative long-term relationship and many sales to come...or the potential for lost time and lost revenue if you trust the wrong buyer, or if you don't have efficient systems in place.

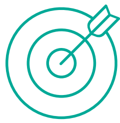
With that in mind, we sat down with the Directors of Sales and Credit at several successful apparel and lifestyle brands to learn what makes their organizations run smoothly.

IN THIS WHITEPAPER, YOU'LL LEARN:

How today's apparel leaders run successful credit programs and keep their retailers ordering more

The strategic benefits of trade credit for apparel brands working with retailers around the country

How new fintech solutions are helping brands improve their bottom lines and eliminate trade credit inefficiencies



How Successful Apparel Brands Use Strategic Trade Credit

Offering trade credit or net payment terms to your buyers carries significant benefits for all involved.

How should apparel and lifestyle accessories brands work with retailers and run their trade credit programs for maximum revenue and operational success?

We spoke to real leaders in sales and credit operations in apparel and accessories to find out the most important factors contributing to the success of their brands.

Here are the top takeaways and four of the most important benefits of flexible credit that apply to most apparel and accessories brands.

4 KEY BENEFITS OF OFFERING FLEXIBLE CREDIT FOR APPAREL BRANDS:

1. Make bigger sales and wider distribution to grow your brand
2. Earn more orders from your retailers
3. Build stronger relationships with retail partners
4. Meet or beat the competition

1. Make bigger sales and get wider distribution to grow your brand

By taking on some risk and offering credit terms to retailers, brands offering trade credit can typically count on more sales than if they offered only immediate payment terms.

This manifests in two ways: brands can sell to a wider variety of retailers, and they can also count on larger individual orders. Offering flexibility around payment and longer net terms allows more retailers to purchase your inventory and make bigger orders since they have longer to pay.

TRADE CREDIT:

A trade credit agreement is an agreement in business to business (B2B) transactions where the seller or vendor allows the buyer to receive services or products up front and pay for them later. In many business cases, sellers will allow buyers 30, 60, or 90 days to pay their invoices. This is also known as "net terms." In the apparel industry, terms may stretch to 120 days or longer.

Offering trade credit is a common practice among B2B sellers and often facilitates business growth by giving buyers to exercise more buying power and shorten time between orders. Unfortunately for sellers, it is also common for buyers to take even longer than their allowed term to pay their invoices. Many sellers deal with this by charging interest fees for late payments, and giving discounts as rewards for early payments.

With trade credit, you can expand your brand in more locations, faster than you would if you required cash payment up front.

One result of this is that you can expand your brand in more locations faster than you would if you required cash payment up front. Oftentimes, retailers simply cannot afford to do business with your brand without that extra time to pay.

Shawna Arneson, Director of Credit at KEEN Footwear, is emphatic about the importance of offering the right amount of credit to retailers and the flexibility they need. KEEN is an environmentally conscious hiking, footwear, and lifestyle brand, with products in over 3,000 retail stores nationwide. Having worked in the outdoor apparel and lifestyle industry for several years, Arneson shared some overall observations about the importance of offering the right credit.

"Broadly speaking, the apparel industry offers some really generous terms, something upwards of 120 or even 150 days, because of the length of that

sell-through period for apparel takes a while. When I was working with a fly fishing company, we had apparel in one of our brands and we offered really extended terms because retailers would need to have that time to sell through it. [That company] tightened terms at times when they needed to increase the working capital and the cash flow, and customers would really get upset. It damaged relationships."

One of the reasons the stakes are so high is that timing is so crucial in apparel. Tightening terms had a large ripple effect on retailers, says Arneson: "Retailers did their forecasting and planning around having certain extended terms. To have those terms go away meant their forecasting and planning work went sideways."

Typically, that could mean losing months of advance planning, which in turn could mean significant harm to the retailer's bottom line. Those instances have the potential to permanently damage relationships between a brand and its retailers.

According to Arneson, there's no question in her mind that offering credit is important for her brand's success.

It just makes good sense to extend credit where you can. I believe that where you can take the risk is where you're going to grow your brand.

—Shawna Arneson, Director of Credit at KEEN Footwear

"It just makes good sense to extend credit where you can," she says. "It's true that whenever you extend credit, you take on risk. The fact is, you can't have

growth without risk, says Arneson. “There’s a couple of different schools of thought but I’ve been working in credit in the outdoor industry—in challenged retail—for a long time, and I believe that where you can take the risk is where you’re going to grow your brand.”

Specifically, she says, that growth means more sales.

“The majority of the time,” she says, “you will see an increase in sales if you are generous in your credit extension because [retailers] will order more from you if they have the open credit lines.”

2. Earn more orders—and re-orders

When your products are selling like crazy and a store needs more inventory to keep up with demand, it can be beneficial for you to have an existing trade credit agreement in place. That way, you can offer periodic or immediate inventory replenishment without waiting for payment or allowing paperwork to get in the way of sending more product. The presence of more credit in place can also have a positive psychological effect on retailers because they know they have the flexibility to keep up with customer demand.

Offering credit can have a direct impact on replenishment orders.

Arneson notes that, in her experience, offering credit can have a direct impact on replenishment orders.

"If you have restricted credit or you force retailers to pre-pay for orders," she says, "you're not going to see increases in orders or re-order activity because retailers are not going to be buying from you. ...With that credit, they can re-order items for their customers when they don't have a particular size in the store."

Grant Mahan also attests to the importance of offering net terms to retailers as a way of encouraging more orders. Mahan runs a robust wholesale business as the Head of Sales Operations at Sunski, a lifestyle brand selling high-quality polarized sunglasses. In his role, he focuses on sales, revenue strategy, and new business development.

The majority of our retailers—80 percent—get net-30 terms. The idea is that they earn the money from the product as they're selling it.

—Grant Mahan, Head of Sales Operations at Sunski

"We're a small team, but we do a lot of revenue," says Mahan. "When I started here over three years ago, there were four of us. Now we're 12 people. We've grown a very strong, healthy business. People are always blown away by the reach that we have with the small number of employees."

The brand's reach is impressive: Sunski sells eyewear to over 250 retailers around the country, from large national chains like Hollister & Co., REI, and Nordstrom, to regional chains, to smaller, independent shops. Offering credit has been a key part of Sunski's success in nurturing ongoing retail relationships. Mahan's team is responsible for onboarding new retailers, servicing current retailers, and working with sales representatives.

"The majority of our retailers—80 percent—get net-30 terms," says Mahan. "The idea is that they earn the money from the product as they're selling it."

More available credit in place is great for successful retailers who want to make sure they keep the goods flowing, and great for brands looking to improve efficiency and reduce lag time in their replenishment schedules.

3. Build stronger relationships

Retailers have a ton of operational expenses and overhead, not to mention marketing and advertising to finance, and investment or expansion decisions to make. Giving them extra time to pay allows them more breathing room and more freedom to put their cash to work on what will help them grow their business and reach more consumers.

Having a personal bond with retailers allows Newton's team to help with more personalized communication and flexible credit plans, something all retailers appreciate.

More breathing room in the form of generous trade credit terms is something your retailers always appreciates. Customers may respond by feeling loyalty to your brand and may be more likely to continue a long-term relationship with you.

Darin Newton, Director of Credit at VF Corporation's Outdoor division (the parent of well-known global brands such as the North Face, Vans, Timberland, and JanSport, to name a few), notes that building those personal relationships is a crucial part of his role and his brand's success.

"Once you've gotten to know a customer and even met them face to face," he explains, "they relax a little bit more and will share more about their business, more about their struggles, more about how you can help them. Once you've forged that bond, you can pick up the phone and you're more than just a voice. That right there is invaluable."

Having a personal bond with retailers allows Newton's team to help with more personalized communication and flexible credit plans, something all retailers appreciate.

We're here to help our customers. I say to retailers: Tell me what's going on. Tell me how I can help you. Let's come up with a plan to help you succeed.

—Darin Newton, Director of Credit at VF Corporation's Outdoor division

"The biggest challenge of my job is communication," says Newton. "We're here to help our customers. I say to retailers: 'Tell me what's going on. Tell me how I can help you. Let's you and I come up with a plan to help you succeed.'"

For apparel brands, building solid relationships and offering flexible credit are crucial components of those plans, and they go hand in hand.

4. Meet or beat your competition

There's no way around it: retail is a tough business. Brands must constantly innovate and retailers must work harder than ever to compete. Given this challenging environment, strong credit partnerships between brands and retailers can make a difference.

"I think the retail business is harder every year, especially with the way customers shop online now using Amazon," says Mahan. "It's harder for smaller businesses to do really well."

Keri Wilson, founder and Chief Creative Officer for Goldsheep Clothing, a Southern-California activewear brand focused on unique leggings and womenswear, says the biggest challenge she sees in the industry can be summed up in one word: competition.

"There's so much competition," she says, "especially for products like ours. The good thing is, no matter how many new brands pop up, we do such a different type, a different look for leggings, that we still do well. But there are really so many competitors out there."

When you're competing for shelf space with similar brands, your ability to offer flexible credit might make a big difference when it comes to certain retailers' ability or desire to transact with you. If brands in your space are offering net-30 terms, retailers will expect the same from you.

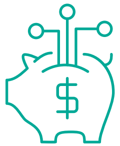
Of course, if your brand is large enough you'll be able to dictate terms to some extent, within the norms of your niche. However, your terms may mean that some smaller retailers simply can't work with you if your terms are too stringent.

Arneson observes that more flexible credit is directly tied to more frequent orders from retailers and that those orders can often be the result of a choice the retailer must make between her brand and the competition.

When you're competing for shelf space with similar brands, your ability to offer flexible credit might make a big difference when it comes to certain retailers' ability or desire to transact with you.

She explains, "Let's say [a competing brand] only extends $2,500 to a retailer, while my company extends $7,500 to that same retailer. They're probably going to promote our products and sell more of our products in their store because they can buy when they need to."

To get an edge on your competition, you can also offer slightly better terms, and include discounts for early payment to entice more retailers and start new relationships off right.



How Fintech is Helping Brands Improve Bottom Lines

When you offer trade credit, no matter what you're selling, the impact is similar. Trade credit means you're extending trust to your buyer and letting them have their order now, and pay for it later. As a result, you're accepting higher risk and delayed sales revenues. In other words, your apparel brand is acting like a bank, extending loans.

Depending on your margins and liquidity, this may not have much impact on how you operate your business. If, however, you struggle at all with cash flow, you may want to proceed very carefully with respect to how much trade credit you offer, and how you schedule your own payments.

The trouble with factoring

If you've dealt with cash flow challenges in the past, you may have considered or tried invoice factoring. In the apparel industry, factoring is common practice for many retailers and brands.

If you haven't tried this, here's a quick overview of how it works:
Typically, when brands attempt to sell their open invoices to a factor, the factor reviews all of the invoices and accepts the ones sent to retailers they've approved. This review process can take anywhere from 2-10 days. After completing a review, the factor then advances the brand somewhere between 70-90 percent of their total invoice value. The brand pays a percentage interest to the factor based on the term length of the invoices. The factor takes over collections from retailers, and attempts to collect on the invoice. If the factor is unable to collect on the full invoice amount, they typically absorb any losses.

Many apparel brands have used invoice factoring as a way of unlocking funds that are trapped in accounts receivables. While factoring is a relatively reliable way of accessing funds, it can be slow and expensive.

FACTORING:

Factoring (also known as "accounts receivable factoring") is a transaction where a company sells its open invoices to a third party (known as a "factor") in exchange for a fraction of the total invoice amount.

Many apparel brands have used invoice factoring as a way of unlocking funds that are trapped in accounts receivables. While factoring is a relatively reliable way of accessing funds, it can be slow and expensive. Depending on the retailers you work with, factoring may not be an option, since some of the most popular factors won't work with smaller retailers.

New fintech solutions have arrived

One way to avoid this issue is to use a service like Fundbox Pay, a useful tool for brands working with smaller retailers who need flexible credit.

Brands offering Fundbox Pay as an option for their retailers can get paid right away when they issue an invoice while allowing approved customers to take advantage of the net-60 payment terms they need.

The service is free for buyers for the first 60 days, while brands pay a 2.9% interchange fee in order to get their funds right away. Fundbox Pay also offers retailers extended financing options up to an entire year if they need it, at their discretion, for a flat weekly fee.

Services like this are becoming increasingly popular with brands looking to eliminate payment delays and mitigate risk. In a business plagued with the risk of losses due to defaults, brands have a healthy incentive to innovate and take advantage of new solutions for risk reduction.

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How do fintech credit solutions help brands sell more?

The two key ways that fintech credit solutions help brands sell more are:

1. They can speed up credit approvals, and
2. They can reduce the time it takes brands to get paid.

Let's say you're headed to a trade show with the goal of signing up more retailers and getting your jackets, leggings, or sunglasses in new stores and in front of more shoppers.

Let's also say that the show is a huge success and you've got retailers lining up to order. What if some of those retailers are small shops and you've never worked with them or even heard of them before? Or they've just opened up shop in the past year and have a thin credit history or lack trade credit references?

FINTECH:

Fintech, short for financial technology, is an umbrella term that refers to innovations in the financial industry. Broadly, this includes any software or technology that supports or enables transactions, payments, credit, or other financial services. Fintech companies develop and leverage emerging technologies (such as artificial intelligence, machine learning, or cloud computing) to disrupt and improve aspects of financial services with the goal of creating better experiences for consumers or businesses.

In the apparel industry, fintech companies like Fundbox Pay are helping brands mitigate financial risk by offering a platform for buyers to transact and get net-60 payment terms for free, while the brands get paid right away with a 2.9% interchange fee.

No matter what, in this situation, you face risks. If you rely on traditional credit reference checks, it can take hours or days to approve new buyers. If a new retailer is ready to buy now, that waiting period can be a dealbreaker.

Slow underwriting can kill deals

Mike Bluestone, Co-Founder at JORD, Inc., explains that, in his experience in retail business development, every moment counts when it comes to closing a deal with a new retailer.

I feel as though I can lose a new wholesale account once they go through the application process if there is a delay between when they apply [for credit] and when they get approved.

—Mike Bluestone, Co-Founder at JORD, Inc.

"I feel like I can lose [retailers] once they go through the application process if there is a delay between when they apply [for credit] and when they get approved," he says. "This could be a first time purchase for this customer, they're ready to buy right then, but the 1-5 day delays can result in the deal deflating. The buzz and the excitement can start to fizzle because of the delay. Once approved, it takes repeated attempts to get the new customer to approve the transaction."

According to Bluestone, even a delay of a few hours or days "throws a wrench in some deals."

Luckily for brands like Bluestone's, innovations in cloud computing and machine learning have allowed fintech firms to drastically cut the time it takes to facilitate credit decisions. Over the past several years, the prevalence of big data analytics and machine learning has risen, combined with a rapidly growing amount of business information available on the cloud. Concurrently, the speed at which we can analyse that data has accelerated with improvements in computing power.

Fintech firms can now enable underwriting based on multiple business data sources such as transactions in business bank accounts and online accounting software.

What this all means, is that fintech financiers have a new ability to base credit decisions on a much more holistic picture of business health. For example, fintech firms can now enable underwriting based on multiple business data sources such as transactions in business bank accounts and online accounting software.

Faster underwriting speed means fewer lost or stalled deals.

This in turn allows more brands and retailers to access the right credit at the right time than ever before. Faster underwriting speed means fewer lost or stalled deals.

Faster payments save you money

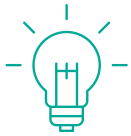
If you bypass the traditional credit approval process and require payment up front or a credit card on file, this can force you to turn down orders from buyers who can't or won't comply, resulting in lost opportunities to sell and reach new markets. All of this ultimately costs you money.

On the other hand, if you make the mistake of producing goods for a retailer that defaults, you'll be left holding product and potentially forced to warehouse or discount it, which could cost even more.

Even if the situation is less dire and your retailers simply pay a month or two late, the administrative costs of servicing those relationships and tracking down late payments can truly add up.

If tracking down payments drags on long enough, you may miss a critical seasonal window, forcing even more discounting and resulting in lost revenues.

With a B2B credit solution like Fundbox Pay, you can transact with confidence, knowing you'll be paid right away, while your smaller retailers enjoys true net-60 terms, personalized service, and the level of treatment you want to extend to all of your valuable customers.



Conclusion

Retail is a challenging arena. Apparel and lifestyle are more challenging still. To create valuable, sought-after brands that last, brand leaders must nurture close partnerships with retailers and work together to ensure their financial success.

Today, leaders working in apparel and lifestyle sales and credit know that ecommerce has permanently and seismically shifted the industry. By building lasting relationships and offering the right credit at the right time, the most forward-thinking modern brands are partnering with their retailers to drive more revenue, increase repeat orders, and get their products in front of more customers, on- and offline.

ABOUT FUNDBOX

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Our mission at Fundbox is to help democratize access to business credit. We use technology, data science, and common sense to connect small businesses with previously unattainable financial options. With simple registration and fast underwriting, Fundbox Pay allows B2Bs to offer net-60 terms to buyers while getting paid at the moment of sale. We help businesses across the U.S. gain more control over their finances so they can succeed and grow.

To learn more about Fundbox, visit fundbox.com.

CREDITS

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