

Supplier crisis shows why retailer bankruptcy laws need reform



RMG NOTES
MOSTAFIZ UDDIN

RUNNING a business is a hard slog. It involves long hours, lots of stress, lots of responsibility and rarely a time to switch off and relax. I am not complaining—that is the life I have chosen, and I feel blessed I have been given the privilege to run my own company.

It seems, however, that we are not playing on an even playing field in the global apparel industry. Allow me to explain. Much of the stress I suffer is because I have responsibilities, and I take them very seriously. I have staff to pay and I feel a great responsibility for them. I also have suppliers to pay and I feel a huge burden and debt and gratitude towards them. These are my

for bankruptcy court protection. Another US apparel retailer JC Penney could file for bankruptcy, according to media reports. What does this mean? Essentially, they are losing money—their outgoings are greater than their income. There is no shame in that, and I have sympathy for such companies. It is what happens next that is the issue.

If the above was my company, if I was losing money, I would do one of two things. I would seek to cut my costs; and I would seek to increase my revenues. And if I could not achieve one or either of those things, I might have to accept that I wasn't a very good businessperson—and close my operations.

Yet failure does not seem to be an option for many western retailers and department stores. In recent years we have seen the likes of Sears Corp, Debenhams, Peacocks and Forever 21 in administration or undergoing



PHOTO: ANGELA WEISS/AFP

between genuine entrepreneurialism and risk taking and rank opportunism or people "playing the system".

As I said earlier, being in business is very risky as a supplier. But the directors of many of these retailers seem to be playing by a different set of rules. It is a case of heads you win, tails... you also win. Failure never happens because even if the business is failing, they simply wipe the slate clean and start again. This is a parallel world which few—if any—of my fellow suppliers would understand.

Is there a solution? Laws in the west will not change on these issues—that much has become clear in recent years. Therefore, the answer lies with us as suppliers. We cannot keep giving credit to what I will term "zombie" companies—retailers that have been in administration or through a restructuring. Tighten their payment terms or make them pay half up front, half later. If we give them credit there is a very good chance we may not see it again, so just don't take the risk.

All of us collectively as suppliers need to think about these issues, now and beyond Covid-19. It's all well and good getting business and orders in, but these orders are useless if we don't end up getting paid for them and they potentially take our business down.

This is the playing field we are in these days—a field where different rules apply and where, for many of our customers, failure is never allowed to happen. We have to behave accordingly and take strong steps to protect our livelihoods in future.

I appreciate that we have to create a climate where businesspeople are prepared to take risk. But there is a huge difference between genuine entrepreneurialism and risk taking and rank opportunism or people "playing the system".

worries—being fair, and ethical. Not all businesses operate by this rulebook. In fact, many of the brands and retailers that operate in the global apparel space seem to have completely torn it up. In the past few years, we have seen several major apparel retailers go bust. The US apparel brand J.Crew Group Inc. filed a voluntary petition

restructuring. Why? Because they were not making money. They restructure and in that process a lot of their debts with suppliers—yes, that's people like me—are written off. Then they return and the whole process starts again. Several questions arise from this. Firstly, if these businesses were failing

the first-time round, why are they starting again? Does that failure not send a message to those involved? Why are these businesses being purchased again? Is it because there is a genuine market need for them? Or is it because those private equity businesses involved—and it is nearly always private equity—see a chance to make a fast buck?

In the UK they have a thing called a pre-pack administration. Several retailers have been through pre-pack administrations and my own research on this shows that the companies which arise out of them—the reborn companies which come out of administration—have a very poor track

record. Peacocks has been in administration before and is likely to enter it again. Peacocks owes my own business a six-figure sum. Will I ever see this money? It is highly unlikely. How many suppliers—creditors—will Peacocks take down with it? If Debenhams goes into administration, how many creditors will fall with it? And what about Forever 21 and JC Penney? There has to be a better way than this. I understand the issue of bankruptcy and I appreciate that we have to create a climate where businesspeople are prepared to take risk. But there is a huge difference

Mostafiz Uddin is the Managing Director of Denim Expert Limited. He is also the Founder and CEO of Bangladesh Denim Expo and Bangladesh Apparel Exchange (BAE). Email: mostafiz@denimexpert.com

The hypes and the hopes

The global fallout of Covid-19

ATIQRU RAHMAN

THE damage inflicted by Covid-19 globally is not just the growing toll of infections and deaths, the overstressed healthcare workers and the sector. It is much more (economic, social, psychological and political), and it is not only about now, but also about the future.

There were early warnings of its massive impact on the global economy. Nouriel Roubini, Professor of Economics at New York University and one-time adviser to President Clinton, wrote in March 2020: "With the Covid-19 pandemic... the best one can hope for is a recession deeper than that following the 2008 financial crisis", and Adam Tooze, a history Professor at Columbia University wrote: "if the last global economic crisis (2008-2010) was a financial heart attack, this one (Covid-19) might be a full-body seizure."

Three months on, in June 2020, both the World Bank and the IMF warned that the global economy is shrinking faster than they predicted in March; it is going through the deepest recession since WWII, shrinking by 5.2 percent. And is resulting in dramatic rise in world poverty and inequality, hurting the poorer countries of the world most. No country is expected to be spared. These world bodies, however, kept the hope alive of a strong come back in 2021, if prudent policies were taken.

China's nearly 40 years of uninterrupted growth has been broken by a steep decline in its growth rate by 6.8 percent in Q1 of 2020; the UK's GDP growth declined by a record of 20.4 percent in Q2 of 2020 Japan by 4.2 percent and the OECD countries by 7.5 percent in 2020. USA experienced the worst Q2 (of 2020) since 1947



A homeless man sleeps on the pavement of Paris on the 31st day of a lockdown in France aimed at curbing the spread of the Covid-19 pandemic. PHOTO: AFP

with a 32.9 percent decline in GDP. Its exports declined by 64.1 percent and imports by 53.4 percent. More than half of home tenants could not pay their rent; restaurant and bars were hit with more than 50 percent reduction in customers and revenue intakes. Already plummeting global trade (3 percent decline in 2019), is expected to decline by a whopping 13-20 percent in 2020 (WTO).

ILO estimates global job loss at about 400 million. Youths, who constitute nearly 75 percent of workers in the informal sector, are the major casualties. And among them, young women, and youths not in education, employment and training (NEET) are expected to be most adversely affected. The poor are expected to suffer the most. The situation can be extremely vulnerable in Sub-Saharan Africa, the Arab states and in South Asia. The ILO

Director General warned that there was "no simple or quick recovery". Surprisingly, the stimulus measures to overcome these worsening conditions seem to have widened the divide between the rich and the poor countries. ILO noted that some USD 13 trillion dollars worldwide have been spent supporting workers and industry since the pandemic began, "but this has been highly concentrated; 88 percent of that total has been spent

by advanced countries on themselves... this is equivalent of about 5 percent of their GDP; the equivalent figure for developing and emerging economies is only 2.2 percent, for the less developed countries, it's even less."

These trends are being accentuated by the woes in the financial sector, which is showing a disconnect from the real economy. This is negatively impacting the risk taking appetite

of investors (IMF). Insolvencies and bankruptcies are making high levels of debt unmanageable by some borrowers, thus testing the resilience of bankers. Some emerging frontier markets are facing refinancing risks, and their market access are drying up.

Financing risks can be a real problem for aspiring developing countries (like Bangladesh), and emerging market economies. These countries, which were gathering steam to move forward faster, were pushed back. Big projects taken up have been stopped in the middle, leading to uncertainties about their financing and completion on time.

These impacts aside, the developing countries dependent on remittance incomes, thin lines of exports focused on certain products, are facing declines in their exports and foreign exchange earnings. Those with healthy foreign exchange reserves can do better. But many do not hold much cash reserves. They may face increasing difficulties in getting access to their funds held in the Federal Reserve Bank, if China, holding trillions of dollar at the Fed, also queue up for withdrawal.

Beyond these economic strains, closure of education institutions, restrictions of mobility, mass sports, and entertainment, are having significant impact on the mental health of both youths and adults.

A survey in China found that a quarter of 7,143 youths (in Changzi Medical College) suffered from mild to severe form of Generalised Anxiety Disorder; these findings were corroborated by findings in India and the UK of panic, anxiety, obsessive behaviour, hoarding, paranoia, and depression, and post-traumatic stress disorder (PTSD) among the youth. Outbursts of racism, stigmatisation, and xenophobia against particular

communities are being widely reported in other studies.

The political fallout of Covid-19 can be interesting. Dani Rodrik, professor of Political Economy at Harvard University writes: "No one should expect the pandemic to alter—much less reverse—tendencies that were evident before the crisis. Neoliberalism will continue its slow death, populist autocrats will become even more authoritarian, and the left will continue to struggle to devise a programme that appeals to a majority of voters". But be it the confirmation of the demise of neoliberalism or scripting authoritarian rules in some countries to overcome the Covid-19 crisis, it is quite possible that there will be changes in global alliances and political landscape.

The political alliances of the resource poor countries of the world are shaped up by their need to access resources. The debunked policy of USA, which was putting itself first, reflects its unwillingness to play the leading role in the world. China is emerging as a major player in global development assistance with clever manoeuvring and its "One Belt One Road" initiative. These trends, accentuated by the Covid-19 situation are likely to shape the new global alliances. The conflicts of interests in the South China Sea, in Kashmir, in the Middle East (among many others), are likely to be cast in new formats in the coming years.

Developing countries scared of getting de-linked from global supply chains have to act fast, and mend their economies and alliances. But they will have to look inwards to redefine, mend and develop new supply chains.

Dr Atiqur Rahman is an economist, ex-adjunct professor at the John Cabot University, Rome, and ex-Lead Strategist of IFAD, Rome, Italy.

QUOTABLE Quote

YASSER ARAFAT
(1929-2004)
Palestinian leader.

I come bearing an olive branch in one hand, and the freedom fighter's gun in the other. Do not let the olive branch fall from my hand.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Boatyard
- 6 Blue hue
- 11 Not oblivious
- 12 Salary extra
- 13 Kick back
- 14 Aconcagua's setting
- 15 Compare
- 17 Bro's kin
- 19 Catch sight of
- 20 Cry loudly
- 23 Come-back
- 25 Roof overhang
- 26 Retail store
- 28 Irritated state
- 29 Looks of scorn
- 30 Slangy agreement
- 31 Grumpy friend
- 32 Pig's place
- 33 Polo need

DOWN

- 1 Butter unit
- 2 Reverent wonder
- 3 Receipt
- 4 Land along the
- 5 Connections
- 6 Ease up
- 7 Map region
- 8 German conjunction
- 9 Wish undone
- 10 Snaky letter
- 16 Room freshener
- 35 Sapporo setting
- 38 Brighten
- 41 Wise saying
- 42 Bold poker bet
- 43 Writer
- 44 Au naturel
- 17 Fresh
- 18 Plain silly
- 20 Pitch
- 21 Plain to see
- 22 Seam-stress
- 24 Dripping
- 25 Seine summer
- 27 Filthy
- 31 Hamlet extras
- 33 Christmas travelers
- 34 First name in jazz
- 35 Boxing poke
- 36 Fuss
- 37 Links number
- 39 Suit
- 40 Goal

WRITE FOR US. SEND US YOUR OPINION PIECES TO dsopinion@gmail.com.

YESTERDAY'S ANSWERS

S	M	A	S	H	L	E	C	H		
L	A	D	D	L	E	C	O	B	R	A
A	L	D	E	N	A	B	O	U	T	
L	A	R	D	B	L	O	N	D	E	
O	R	E	S	O	S	Y	E	S		
M	I	S	S	T	A	T	E			
A	S	I	A	A	W	E	S			
B	A	S	T	A	T	E	M	A	P	
A	S	T	U	T	E	B	E	D	S	
S	O	U	S	A	M	E	R	I	T	
I	N	D	E	X	A	L	O	N	E	
N	E	S			R	A	R	E	R	

BEETLE BAILEY BY MORT WALKER

THE DINOSAURS WERE THE LARGEST CREATURES EVER TO WALK THE EARTH

ARE YOU SURE ABOUT THAT?

BABY BLUES BY KIRKMAN & SCOTT

OKAY, I CALLED THE A/C REPAIRMAN. FINALLY!

BUT THEY'RE SUPER-BUSY SO IT WILL BE A COUPLE OF DAYS.

AAAUGH!

DID YOU OFFER HIM A BRIBE?

OR AT LEAST THREATEN HIM A LITTLE?

ARE WE RAISING KIDS OR MOBSTERS?