

Apparel suppliers must do due diligence on ailing brands



RMG NOTES

MOSTAFIZ UDDIN

As we all know, the past 12 months have seen many apparel retailers go bust, leaving a trail of financial destruction in their wake. Often, their creditors are owed millions, and by far the most significant creditors in most cases reside in the ready-made garment sector.

This is a serious global issue which we, as suppliers, need to address as a matter of urgency.

My question is, are suppliers learning from the mistakes of the past? The reason I ask is that, in many cases, retailers which have gone bust were in fact an accident waiting to happen. In some cases, this is the second or even third time this has happened. With this in mind, witnessing suppliers queuing up to do business with the newly created company can often feel like a slow-motion car crash. Likewise, watching suppliers gladly leaving themselves open to debt worth hundreds of thousands of dollars owed by struggling retailers, can feel like an accident waiting to happen.

The underlying issue I am driving at

I think certainly, in some instances, this is the case. What do I mean by due diligence? I mean knowing your customer and understanding their financial situation. To put this in simple terms, you would not lend money to a friend if you knew that friend had serious financial problems, which meant he or she was unlikely to ever be able to pay you back. And yet as suppliers, we regularly extend credit to customers that many in the industry know to be lame ducks. It's a strange, unfathomable state of affairs.

Due diligence comes in many shapes and forms. There are degrees of due diligence and an element of common sense is required when deciding who to do business with. If you were about to acquire a business, for example, you would want a full top to bottom financial/accounting appraisal of the company and would likely bring in a third party to carry this out.

When choosing who to do business with, the due diligence process is less onerous, but can certainly make a difference.

Step one, I would suggest, is to develop a broad picture of the company you are looking to work with—especially how big the company is, and what is its market cap (if this is publicly listed).

Larger companies, as a rule, tend to

two years and you should gain a general picture of the direction things are going in. Major downward fluctuations are a serious red flag.

If you wanted to go a little deeper, you could review profit margins to see if they are generally rising, falling, or remaining the same. It is possible to find specific information regarding profit margins by going directly to

find your company not getting paid.

Also look at the amount of long-term debt held by the company. A lot of debt is not necessarily a major red flag—this really depends more on the company's business model than anything, but it is another metric which enables one to build a larger picture.

What else to examine? In the case of some ailing retailers, it has become

a common approach to appraising brands? Such an approach could potentially be coordinated by an industry trade body, to ensure a consistent approach (and this would save time for individual factories carrying out their own due diligence; a possibility to consider).

However, I am reluctant to be too critical of my fellow suppliers here. I



PHOTO: STAR/FILE

Another thing to consider is, could groups of suppliers—say from one country—get together to develop a common approach to appraising brands? Such an approach could potentially be coordinated by an industry trade body, to ensure a consistent approach.

here is one of due diligence. Are we as suppliers doing enough research on our potential customers? Could some of the situations we have seen of late, when suppliers have been left out of pocket to the tune of hundreds of thousands of dollars, have been avoided with better due diligence?

have more stable revenue streams and less volatility. The smaller one goes, the more fluctuations one is likely to see in terms of revenues and earnings.

Relating to this is the broad issue of financials. Look at metrics such as revenues, profits and margin trends. Look at net income trends for the past

the company's website and searching their investor relations section for their quarterly and annual financial statements. Suppliers need to use this information to their advantage.

Going a step further, it might be worth comparing a company's margins with those of two or three competitors. This benchmarking process is important to get a better feel about how stable a business is.

I don't want to get too bogged down in balance sheets and accounting issues here. If one is looking to work with a business partner, however, a cursory examination of their accounts is helpful. Review their consolidated balance sheet to see the overall level of assets and liabilities, paying special attention to cash levels—this is the ability to pay short-term liabilities and could impact whether you are likely to

common knowledge that they have struggled to get insurance, which tells you all you need to know.

Another key thing is to keep a close eye on the international press, as well as social media sites such as LinkedIn. Information about a company that may be struggling often works its way onto social media quicker than it does in mainstream media, so it is worth keeping one's ear close to the ground.

Talk, also, to business colleagues and associates. Have they done business with the client you are looking at working with? What were their experiences and what were the clients like as payers? What were their payment terms, did they pay on time and did they ever default on payments?

Another thing to consider is, could groups of suppliers—say from one country—get together to develop

understand how difficult things have been these past 12 months and my guess is that a lot of suppliers have accepted orders like those mentioned above just to keep their factory operational and not have equipment lying idle; it is desperation in other words.

Looking ahead, however, surely there is a need for a collective change of mindset among suppliers. One where we attempt to put the shoe on the other foot. We are used to being assessed by brands to see whether we are deemed worthy of their orders. Perhaps it is time for us to ask some questions of them too: do we really need them as a customer or is working with them likely to lead to financial heartache?

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Mostafiz Uddin is the Managing Director of Denim Expert Limited. He is also the Founder and CEO of Bangladesh Apparel Exchange (BAE).

Time to find better alternatives to tobacco farming

ARAF MOMEN AKA

Tobacco farming was introduced to Bangladesh in the mid-1960s in the Teesta silt of the Rangpur region, where tobacco was cultivated on soil meant for growing food crops. After the Liberation War in 1971, the cultivation of tobacco crops expanded into many more regions of Bangladesh, such as the Chittagong Hill Tracts (CHT) and Kushtia.

According to a survey by the Global Adult Tobacco Survey (GATS) of Bangladesh in 2009, conducted under the World Health Organization (WHO) and Ministry of Health and Family Welfare in Bangladesh, about 35 percent of Bangladeshi adults use tobacco products and/or combustible smokeless products. In meeting this significant demand, Bangladesh has also turned out to be the 12th largest tobacco producing country in the world, according to an article under the International Journal of Environmental Research and Public Health (IJERPH) published in December 2020.

With that in mind, tobacco farming has seen widespread growth in the percentage of land used to grow tobacco crops. The International Organization of Scientific Research (IOSR) Journal of Environmental Science, Toxicology and Food Technology found in 2015 that tobacco farming occurred in more than 120 million acres of arable soil in Bangladesh in the years 2010-11, up from 76 million acres dated a decade before these statistics were found.

Does this expansion in the cultivation of tobacco not come at a price? Does farming tobacco have positive impacts on our farmers? And what effects does tobacco have on our country's environment?

The Occupation Safety and Health Administration (OSHA) emphasises that handling tobacco leads to nicotine exposure, and thus nicotine poisoning for the handlers of tobacco, a condition known as the Green Tobacco Sickness (GTS) that is commonly found in tobacco farmers and handlers, along with skin diseases



Fajlul Kader of Ghorkona used to grow tobacco years ago. Now he has returned to producing potatoes on his land.

PHOTO: STAR

caused by the pesticides used.

To illustrate the losses faced by farmers in monetary terms, the IJERPH report further states that current tobacco farmers, former tobacco farmers, and non-tobacco farmers incur Tk 2,338.42, Tk 3,151.57 and Tk 2,105.45 respectively in total direct and indirect costs related to health every month; whereas the monthly average incomes of farming households stand at Tk 19,700, Tk 19,589 and Tk 20,562 a month, respectively.

Input costs are also significantly higher for tobacco farmers than farmers who do not cultivate tobacco. The IJERPH report states that the total input costs of current tobacco farmers per yield stands at Tk 47,176 on average, while former tobacco farmers and non-tobacco farmers have input costs of Tk 18,685 and Tk 26,956, respectively. Cultivating tobacco takes a lot of manpower as well. Labour costs per yield for current tobacco farmers stand at Tk 1,36,012 on average, while labour costs for former tobacco farmers and non-tobacco farmers stand at Tk 47,319 BDT and Tk 65,930 per yield, respectively.

As for the environmental effects, there are several WHO reports that point out that tobacco growing uses pesticides, fertilisers, and growth regulators. A huge volume of these chemicals is used in the cultivation of tobacco crops, and this badly damages waterbodies and drinking water sources. A report in *The Daily Star* from February 16, 2021 focused on how

three villages in the Manikchhari upazilla of Khagrachhari gave up tobacco farming with the help of the NGO Integrated Development Foundation (IDF) in order to prevent toxic residue from pesticides used in tobacco farming being washed downstream into the Halda river, polluting the river and significantly harming the brood fish and their egg yields. In fact, it had gotten so bad that no eggs at all were laid by fish in the Halda river in 2016.

Tobacco cultivation also poses other dangers to the environment. Deforestation is one such hazard, where forestland is cleared to make way for farmland, which can cause loss of biodiversity and soil erosion. Tobacco farming also increases carbon dioxide emissions, along with the biggest damage being dealt to the soil fertility as the tobacco crops "deplete soil nutrients by taking up more nitrogen, phosphorus and potassium" than any other major food crops do, according to a WHO report from October 2015.

Yet, farmers tend to choose farming tobacco crops over food crops like paddy or vegetables like eggplants because, according to the British Medical Journal (BMJ), farmers get free tobacco seeds, loans for pesticides and fertilisers, technical support, and guaranteed market facilities where they are promised an even stream of revenue.

However, most farmers are unaware of the fact that, in the long term, it is less profitable to cultivate tobacco plants than it is to grow

food crops, with the IJERPH report stating that current tobacco farmers gain about 22 percent profit per acre of land on average while former tobacco farmers and non-tobacco farmers gain 152 percent and 117 percent per acre of land on average, respectively.

In addition to making a better profit from cultivating food crops like paddy and maize, the fertility of farmlands is much easier to preserve because certain crop types can be cycled every year to replenish nutrients back into the farmland soil. Food crops also require much less use of pesticides and chemicals like growth hormones, which means the level of chemicals running off into water sources is significantly lower.

Cultivating food crops, moreover, can help boost the agriculture sector. More food crop cultivation means a greater supply of food for a country that has a population of more than 16 crore people, according to World Bank records in 2018. This creates more value, contributes significantly to the economy's GDP and minimises our need to import food crops.

As a matter of fact, there have been cases where it was possible to convince farmers to switch from farming tobacco crops, as proven by IDF in Manikchhari, as mentioned in the DS news report. All it needed for IDF to change the mindset of an entire village was to raise awareness of the perils of tobacco cultivation to themselves and the environment around them, propose alternative job opportunities for farmers to the relevant authorities, and provide support to the farmers with grants and other necessities.

Shifting farmers away from tobacco farming should not be too difficult for the government either. By educating farmers on the harmful effects of tobacco cultivation and ensuring farmers have steadier and less risky returns on investment through grants and proper buffer stock allocations of agricultural products, we can significantly increase farmers' trust in cultivation of food crops.

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Araf Momen Aka is an intern at the Editorial department of *The Daily Star*.

Government of the People's Republic of Bangladesh

College Education Development Project (CEDP)
Kishoreganj Govt. Mohila College, Kishoreganj
Alormela, Kishoreganj Sadar, Kishoreganj

Invitation for Tenders

1	Ministry/Division	Ministry of Education.
2	Agency	University Grants Commission/National University.
3	Procuring entity name	Principal, Kishoreganj Govt. Mohila College, Kishoreganj.
4	Procuring entity code	N/A.
5	Procuring entity district	Kishoreganj
6	Invitation for	Procurement of Furniture & Fixtures for Classroom, Digital Lab, Central Library & Seminar Library.
7	Invitation Ref. No.	CEDP/KGMC/OTM-1
8	Date	22-02-2021

KEY INFORMATION		
9	Procurement method	Open Tendering Method (National).

FUNDING INFORMATION		
10	Budget and source of funds	Development Budget (Government & IDA Credit).
11	Development partners	International Development Association (IDA), World Bank.

PARTICULAR INFORMATION		
12	Project code	224017200
13	Project name	College Education Development Project (CEDP).
14	Tender package No.	G-6.
15	Tender package name	Procurement of Furniture & Fixtures for Classroom, Digital Lab, Central Library & Seminar Library.
16	Tender publication date	23-02-2021
17	Tender last selling date	13-03-2021 at 04:00pm.
18	Tender closing date and time	14-03-2021 at 02:00pm.
19	Tender opening date and time	14-03-2021 at 02:30pm.
20	Name & address of the office	Kishoreganj Govt. Mohila College, Kishoreganj Alormela, Kishoreganj.
	Selling tender document	
	Receiving tender document	
	Opening tender document	
21	Place/date/time of pre-tender meeting (optional)	Will not be held.

INFORMATION FOR TENDERER

21	Eligibility of tenderer	1. The tenderer shall have a minimum of 03 years overall experience in the supply of furniture and fixtures. 2. The minimum specific experience as supplier in supply of furniture and fixtures of at least 01 single contract successfully completed within the last 03 years, each with a value of at least Tk 14.00 lac. 3. The minimum amount of liquid assets i.e. working capital or credit line(s) of the tenderer shall be Tk 14.00 lac. 4. Other criteria mentioned in tender document.			
23	Brief description of goods or works	Book Shelf, Computer Table, Computer Chair, Wooden Half Secretariat Table, Office Steel Almira, Lecture Table, Executive Chair.			
24	Brief description of related services	Related service shall be in accordance with Section 4: Particular Conditions of Contract, Section 6: Schedule of Requirements and Section 7: Technical specification of the tender document			
25	Tender document price	Tk 1,000.00			
26	Package No.	Identification of lot	Location	Tender security amount (Tk)	Completion time in weeks
	G-6	Procurement of Furniture & Fixtures for Classroom, Digital Lab, Central Library & Seminar Library	Kishoreganj Govt. Mohila College, Alormela, Kishoreganj Sadar, Kishoreganj	40,000.00	8 weeks
27	Name of official inviting tender	Professor Md. Habibur Rahman.			
28	Designation of official inviting tender	Principal, Kishoreganj Govt. Mohila College, Kishoreganj.			
29	Address of official inviting tender	Kishoreganj Govt. Mohila College, Alormela, Kishoreganj Sadar, Kishoreganj.			
30	Contact details of official inviting tender	Tel: 0349-61691. E-mail: principal_kgmc@yahoo.com			
31	The procuring entity reserves the right to accept or reject all tenders without assigning any reason whatsoever.				

Professor Md. Habibur Rahman
Principal
Kishoreganj Govt. Mohila College, Kishoreganj

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