



# Scaling Responsible Purchasing Practices through Effective Supply Chain Partnerships

This note has been prepared by amfori, Better Buying Institute, Fair Wear Foundation, Ethical Trading Initiative and The Partnership for Sustainable Textiles and does not necessarily reflect the views of the OECD.

## Objectives of the session

- Identify the roadblocks that prevent strong buyer-supplier partnerships based on Responsible Purchasing Practices, and the opportunities to be unlocked by creating mutually beneficial partnerships.
- Discuss lessons learnt from supplier-buyer relationships during COVID-19 pandemic, with regards to responsible purchasing practices, and how we can use this learning to create a better future after the COVID-19 crisis.
- Promote a shared understanding between different types of buyers, suppliers and other stakeholders engaged in developing partnerships that are aligned with responsible purchasing practices, and identify ways that different stakeholders can work together to eliminate the roadblocks.

## Background

### What is the context?

Unplanned disruptions such as those caused by the COVID-19 pandemic tend to cause extreme reactions from buyers attempting to minimise their exposure to short term financial risk, reactions that often do not consider the ripple effect on suppliers and workers and other adverse impacts. The garment and footwear industry has been one of the hardest hit industries, with the combination of plummeting retail sales, cancellation of orders and payments and the impact of government lockdown measures.

According to a recent ILO report<sup>1</sup>, textile exports from Asia, which has 75% of textile workers worldwide, to the major buying regions in the EU, the USA and Japan fell by up to 70%. The report states that the average worker lost out on at least two to four weeks of work with only three in five workers being called back to the factory. Furthermore In Bangladesh, the median income of textile workers almost halved between April and May, from the equivalent of US \$113 to just \$65 (€95 to just €54) per month, as buyers cancelled and held up orders, as well as deferred and reduced payments.

The OECD Garment and Footwear Guidance recognises that the purchasing practices of retailers, brands and their buying intermediaries contribute to harmful impacts in some cases. This is most notably the case when orders are changed, cancelled, placed late, rushed (particularly during peak times or holidays) or when lead times are set shorter than feasible. Late or delayed payment for products may also contribute to suppliers delaying payment of wages to their workers. The crisis has magnified the extent of poor purchasing practices and revealed how impactful they can be, resulting in severe harm for various actors across the supply chain, particularly the most vulnerable. Workers in the garment industry across the globe have borne the brunt of the crisis.

While the abovementioned challenges facing workers in the garment industry predate the COVID-19 crisis, at this crucial juncture the crisis has sharpened the need to address these issues. We also know that they will require management beyond this current context.

### What are the various perspectives?

To a certain extent the COVID-19 crisis has contributed to increased awareness and understanding between a range of actors on the far reaching impact of lack of responsible business behaviours.

There is growing consensus amongst different stakeholders on the problem of lack of trust in relations and an uneven distribution of risks for different parties in supply chains. Joint actions such as the *Global Call to Action in the Garment Industry* involving hundreds of stakeholders from business, government and civil society and other Multi-Stakeholder Initiatives, demonstrate the willingness between different stakeholders to come together to find solutions.

However, given the variety of actors and interests across the supply chain, there are very different approaches on how to solve the issue, and on the priorities to focus on to build mutually beneficial and sustainable business relationships.

### What progress has been made?

While the link between purchasing practices of buyers and wages and working conditions in the supply chain has been well demonstrated, the widespread documentation of poor purchasing practices this year in relation to COVID-19 disruptions (e.g., mass order cancellations, unilateral decisions to extend payment terms and/or delay shipment of finished goods), has shown there is a lot of work to be done to make responsible purchasing practices a norm, and build the necessary oversight.

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<sup>1</sup>ILO, Better Work, ILR School, (2020), "*The supply chain ripple effect: How COVID-19 is affecting garment workers and factories in Asia and the Pacific*", Research Brief, ILO Brief [https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms\\_758626.pdf](https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms_758626.pdf)

Businesses that have proactively engaged with collaborative initiatives with a focus on purchasing practices, have improved their practices<sup>2</sup> using data to pinpoint poor practices and learn from their suppliers' suggestions for improvement.

There is also increased understanding among stakeholders about the importance of more sophisticated topics such as costing for human rights compliance, including tools and approaches for higher wages (such as ringfencing of labour costs).

Globally, there is a growing recognition that purchasing practices are a key contributing factor to enabling workers rights in supply chains. A number of organisations have led the way in establishing tools to obtain data from suppliers on how brands' practices impact their social and environmental performance, for example via supplier surveys or self-assessments within brands. However, there are still challenges to increase uptake and ensure monitoring and oversight. Increasingly distinct aspects of purchasing relations, e.g. responsible disengagement, are taken up by brands. But there still is a long way to go before buying relations are conducted on an equal footing.

### What are the remaining challenges/gaps?

COVID-19 has magnified the weaknesses of the current nature of buyer-supplier partnerships.

When the crisis started, a high number of businesses did not take into account the ripple effects their decisions would have on working conditions across their supply chain. One key challenge the industry faces is the lack of established models for more equitable business relationships including fair terms of agreement and responsible purchasing practices. Such structured collaboration and communication can prevent unilateral decision-making and mitigate supply chain disruptions leading to a fairer distribution of risks across it.

Responsible business conduct (RBC) is still not integrated across departments within companies. In most companies, buying teams and (social) responsibility teams are not aligned (negotiating lower prices vs. isolated living wage projects). Communication and alignment between units is necessary. The OECD Garment and Footwear Guidance encourages enterprises to establish alignment across teams and business units, particularly when the incentives of one business unit does not align with the RBC policy. This will help ensure that information related to due diligence is provided to relevant decision makers and is adequate and appropriate. Buyers, product developers and designers have limited awareness and ownership of how their choices affect working conditions.

We have not yet reached a level playing field. Given widespread poor purchasing practices across the industry, a business implementing responsible purchasing practices might place themselves at a competitive disadvantage. Currently, business models fundamentally do not support fair price negotiations and increased costs are borne further upstream in the supply chain. Perceptions that consumers expect low retail prices further contributes to product prices being driven down year after year despite growing supply chain costs.

Brands are only now engaging to put management systems in place for RBC. For example, key performance indicators (KPIs) that measure responsible purchasing are the exception and not the rule within companies. Incentives for buyers are still not aligned with overarching RBC commitments and dialogue with suppliers is not yet a standard procedure.

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<sup>2</sup> Duncanson, Kelly, Dickson, Marsha A., & Bhatt, Dipti (2020). *Better Buying Index Report 2020: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains*, <https://betterbuying.org/wp-content/uploads/2020/10/2020-Better-Buying-Index-Report.pdf>

## Discussion questions

- What have we learned over the last year about buyer-supplier relationships that could be used to improve purchasing practices?
- How have supply chain partners' expectations of each other changed through this experience?
- How would you define an effective partnership in terms of buyer-suppliers purchasing practices?
- What roadblocks have you encountered in buyer-supplier relationships and what can we do to overcome this now for long-term change?
- What is the role of trade unions and other actors in supporting responsible purchasing practices?

Panelists will discuss changes needed at brand/retailer level, emerging tools such as supplier feedback and buyer codes as well as what external conditions are needed at industry-level.

## For more information

- Better Buying™, 2020 Better Buying™ Index Report, (October 29, 2020):<https://betterbuying.org/wp-content/uploads/2020/10/2020-Better-Buying-Index-Report.pdf> In this report we highlight how brands and retailers are using supplier feedback to make improvements to their practices, demonstrating how critical it is to have two-way dialogue and clear data about buyers' purchasing practices
- Fairwear, COVID-19 – Loss of Jobs and Wages <https://www.fairwear.org/covid-19-dossier/loss-of-jobs-and-wages> Guidance and information related to the loss of jobs and wages as a result of the COVID-19 pandemic including Fair Wear's Labour Minute Costing Calculators, which have been adapted to take into account the impact of COVID-19.
- ETI, The Joint Ethical Trading Initiatives', Guide to buying responsibly, (September 2017 <https://www.ethicaltrade.org/resources/guide-to-buying-responsibly> Guidance for companies on purchasing practices, drawing on the findings of a collaborative supplier survey run in partnership between the joint ethical trading initiatives and the ILO, with support from SEDEX. The guide includes best practice examples and outlines the five key business practices that influence wages and working conditions.
- PST, Purchasing Practices in the spotlight – Joint Results of 2019/2020 Self-Assessment of AGT and PST companies, June 2020 <https://www.textilbuendnis.com/en/ppsa-report/> This joint report of the Dutch Agreement on Sustainable Garments and Textile (AGT) and the German Partnership for Sustainable Textiles (PST) shows the aggregate results of the Purchasing Practices Self-Assessment (PPSA) of 42 AGT and PST companies. This assessment took place prior to the COVID-19 pandemic. Nonetheless it gives interesting insight into where brands stand on purchasing practices and provides a good basis for discussion and reflection as to where improvements are needed.  
(Pre-Covid)
- amfori, *Responsible Purchasing practices in times of Covid* (April 2019) <https://www.amfori.org/responsible-purchasing> Provides advice to amfori member businesses on the need practice Due Diligence in their purchasing practices even in

challenging Covid times. It stresses on the importance on the partnerships required to make this happen.

## **About the partners**

### **About amfori**

amfori is the leading global business association for open and sustainable trade. Currently, amfori has over 2,400 members sourcing from all over the world. Among them are European and international retailers, importers, brands and national associations. Our mission is to enable each of our members to enhance human prosperity, use natural resources responsibly and drive open trade globally.

### **About Better Buying Institute**

Better Buying Institute is a non-profit organization that conducts scientific research and education examining the way business between buyers and their suppliers is carried out on a day-to-day basis. Better Buying's transparency promotes improved purchasing practices, stronger supply chain partnerships, and mutually beneficial sustainability outcomes.

### **About Fair Wear Foundation**

Fair Wear Foundation is a multi-stakeholder initiative working to improve conditions in garment factories; for example, by providing practical tools like costing calculators. Fair Wear publicly assesses the progress of its 140+ member brands, including on responsible purchasing, every year.

### **About Ethical Trading Initiative (ETI)**

The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our vision is a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.

### **About the Partnership for Sustainable Textiles**

The Partnership for Sustainable Textiles is a multi-stakeholder initiative bringing together members from the industry (companies and associations), non-governmental organisations (NGOs), trade unions, standards organisations, and the German Federal Government. The Partnership strives to improve conditions in global textile supply networks — from the production of raw materials to the disposal of textiles.