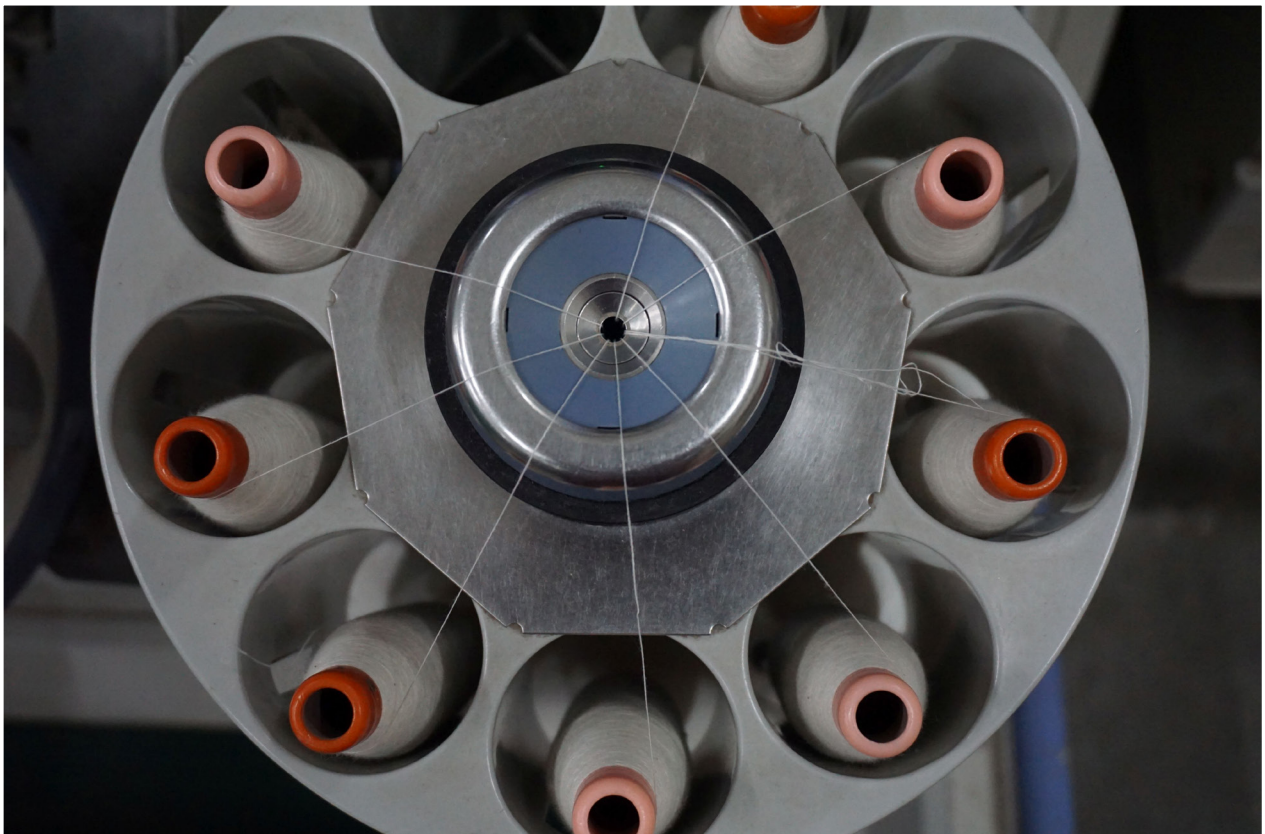


Insights from buyer & supplier feedback

AGT and PST joint report on data from purchasing practices surveys in 2021



Insights from buyer & supplier feedback: AGT and PST joint report on data from purchasing practices surveys in 2021

Summary

In this short joint report, we want to share with you key takeaways and learnings from purchasing practices assessments. We, the Dutch Agreement for Sustainable Garments and Textiles (AGT) and the German Partnership for Sustainable Textiles (PST), have been on a joint quest towards the improvement of purchasing practices and wages. Over the last years, we have provided and contributed to workshops, tools, supply chain projects and company assessments with attention to wages and purchasing practices for the AGT and PST member brands/signatories. A key element of this quest has been a critical look at current purchasing practices and push towards improved practices. To help companies to take next steps, we have worked closely with the ACT initiative on living wages and their purchasing practices work. Forty-eight member brands/signatories have gathered insights from 954 buyers and 445 suppliers via purchasing practices assessments developed by ACT.

This has led to a large dataset, which we think is useful not only for those companies that participated and wanting to improve their own purchasing practices together with their suppliers, CSO's and their MSI's, but also for the industry at large. We want to provide companies, CSO's and multi-stakeholder initiatives with insight into the results of this large dataset, so that they can also commit to it. Throughout the report, we will highlight areas with opportunity for improvement and share some of the lessons learned. With the greatest potential for improvement, we could identify the following areas

1. Responsible exit strategies
2. Cost breakdowns
3. Scorecards
4. Incentive schemes and training & awareness.

That is not all, the data shows a huge opportunity to train and further align brands' internal teams on the purchasing practices policies.

“Purchasing practices encompass strategic planning, sourcing, development, purchasing and the underlying behaviours, values and principles which impact workers.” (ACT definition of purchasing practices)

Background

Strategic cooperation between the AGT and PST

The Dutch Agreement for Sustainable Garments and Textiles (AGT) and the German Partnership for Sustainable Textiles have strategically been cooperating since its beginning and have made this official in 2018. Both initiatives have joined forces to increase leverage to change the industry.

Purchasing practices has been one key focus area as well as to promote the payment of **living wages** along the garment and textile supply chain.

Purchasing practices as enabler for better working conditions

Purchasing practices are crucial to guarantee decent working conditions and living wages. The COVID-19 pandemic has underscored how international brands and retailers' purchasing practices may contribute to harmful impacts in the supply chain. Practices such as aggressive price negotiation, inaccurate forecasting, late orders, short lead times, last minute changes and late order payments put suppliers under intense pressure and are amongst the most important factors that lead to poor working conditions and low pay for workers. On the other hand, responsible purchasing practices can increase stability leading to productivity gains, sustainable growth and building strong relationships. It can also improve suppliers' ability to meet the brands' sustainability and ethical requirements and help create an environment that enables improvement in working conditions and wages. Responsible purchasing practices can contribute to better wages. They, for example, ensure that workers can get paid on time, have stable employment and reduce the need for excessive overtime. Purchasing practices can have a negative effect on working conditions but can also definitely be an enabler for better working conditions.

Our collaboration with ACT on responsible purchasing practices

In order to contribute to these improved purchasing practices and better working conditions within the industry, the AGT and PST started a cooperation with the ACT initiative in 2019. Based on a tool developed by ACT, the AGT and PST member brands/signatories performed self-assessments (PPSA) and asked their factories to assess them and share their perspective on the topic (PPA). The ability to compare the results of both have been very valuable.

Purchasing Practices (Self) Assessment

This purchasing practices tool is an extensive questionnaire that consists of 87 questions around purchasing practices divided in 16 sections. Through this assessment, fashion brands and retailers can assess the weaknesses and strengths of their purchasing practices. On the one hand, by asking brand employees from buyers, to designers and from finance to management, to assess their companies' purchasing practices. As the analysis involves different departments, the tool enables internal cross-departmental information sharing on purchasing practices. On the other hand, by asking signatories/members' suppliers to evaluate the purchasing practices of their buyers. The PPA survey is an opportunity for suppliers to anonymously and in full confidence provide feedback on the purchasing practices they experience by buying brands.

Based on the assessment, the tool offers useful reporting features and insights such as:

- An overview of the company performance;
- Comparison between the answers of brand employees and suppliers;
- The possibility of benchmarking with other companies;
- Results by organisation unit and comparison of different departments.

Number of respondents

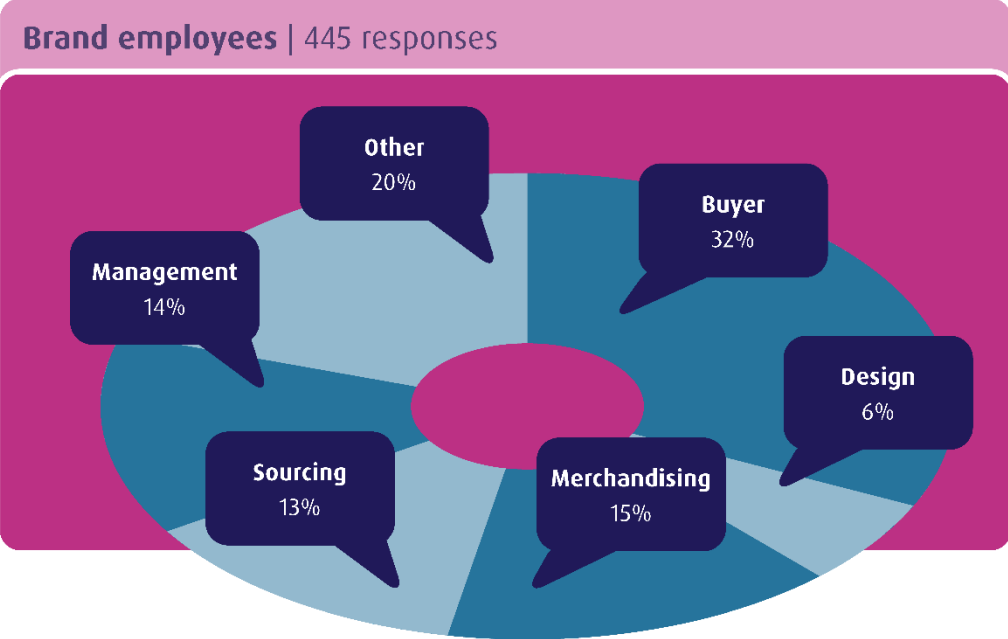
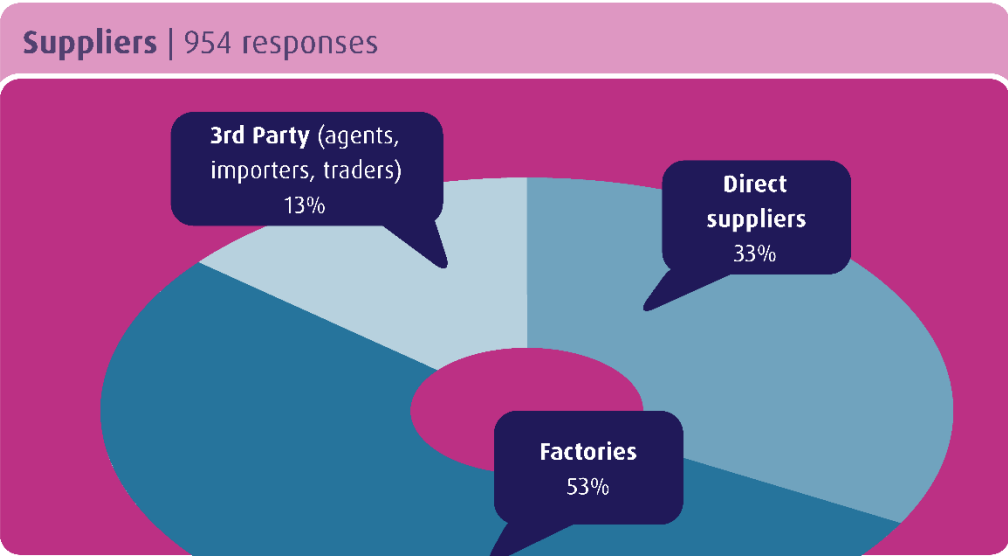
In 2019, forty-two AGT and PST companies completed the self-assessment. Exactly 859 brand employees assessed their companies' purchasing practices of which the results were published in a [joint report](#). What was missing in this assessment was the crucial voice and feedback of supply chain partners. Importers, agents, suppliers and production locations. In 2021, we were able to provide both the PPSA and PPA. From February 22nd until April 9th '21, forty-eight AGT and PST brands participated; through 445 of their brand employees and 954 suppliers that gave their valuable input.

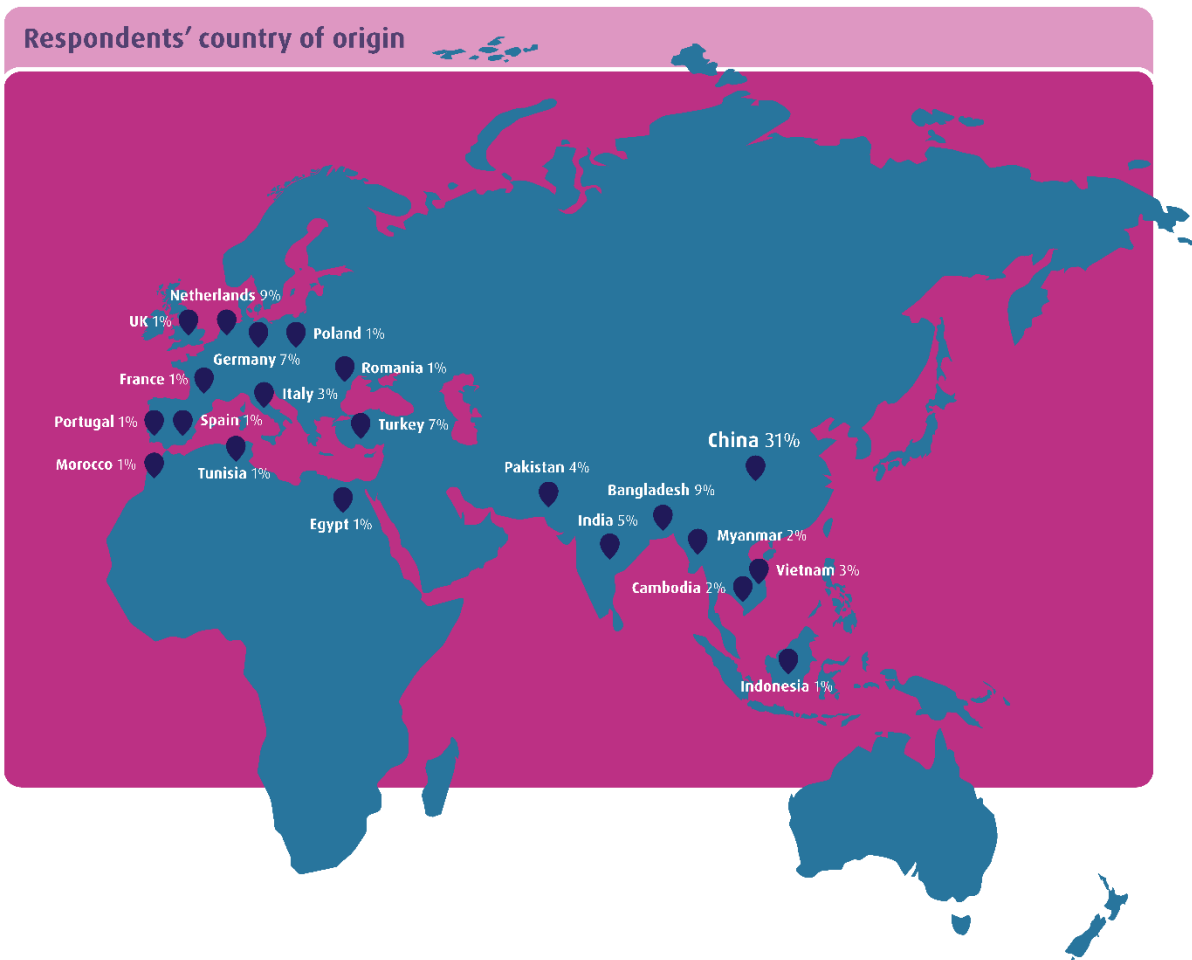
Let us have a closer look at the data!

Key Numbers

48

Brands





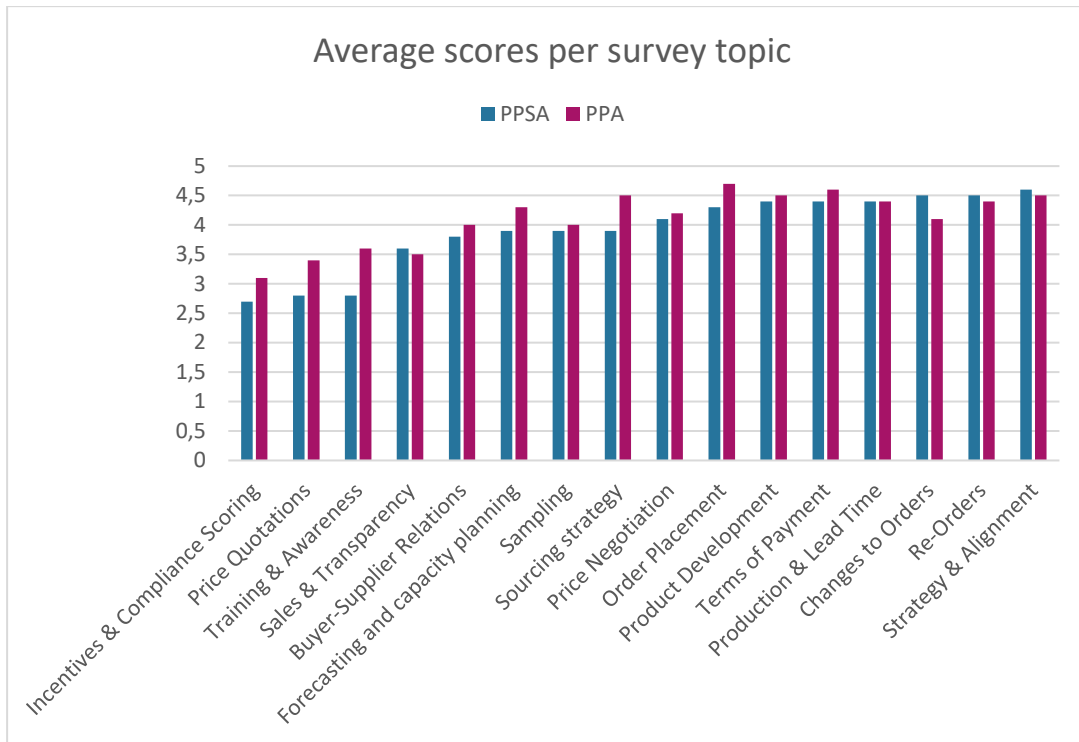
Findings from the data

Scores & method

In the surveys, all 16 purchasing practices sections featured statements of practices. Respondents assessed if, in their opinion, the company they work for (as employee or supplier) follows these practices. For items with a “policy character”, the respondents were asked whether a certain practice was: (4) well established and effective, (3) in place but needs improvement, (2) planned but not yet in place or (1) not existing. Questions about the occurrence of actual conduct during purchasing interactions were answered with: (5) always, (4) usually, (3) as often as not, (2) rarely or (1) never. In addition, participants could indicate in case they did not know about a certain practice or occurrence of actual conduct (do not know).

For the analyses, we looked at different aspects of the data. We focused on four criteria:

- 1) Questions where the range of min max was from 1 to 5;
- 2) The lowest and highest average scores;
- 3) Questions where the difference between how brands and suppliers ranked themselves was big;
- 4) The ‘don’t know’ answer.



This graph shows the different purchasing practices sections and the average scores per each of them. The answers from the brands' survey (PPSA) are displayed in blue; the responses from the suppliers' survey (PPA) are shown in orange. The graph shows which sections received lower scores, such as *Incentives & Compliance scoring*, and which topics were rated higher, such as *Strategy & Alignment*. By looking at the deviation of the two survey results in each section, the areas in which the perceptions by brands and suppliers differ and on which topics both parties align could be identified.

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Positive findings

An overall topic with a high average score and a similar perception between suppliers and brand employees is *Strategy & Alignment*. For example, the question '*your company (a brand) seeks to build a long-lasting relationship with a supplier*' was one of the highest results in both surveys on this topic. A highlight of the section on *Terms of Payment* is that both brands and suppliers mostly agreed to the fact that the amount paid to suppliers is in line with agreed payment terms.

Suppliers rated the section *Order placement* with the highest average score (4,7) indicating that they mostly agree on relevant practices being in place. Specifically, production and lead-time are very often confirmed before order placement. Both supplier and brand employees share this view. Similarly, the topic *Re-orders* received identical high average scores from both suppliers and brand employees.

Opportunities for improvement

Incentives & Compliance scoring

For both suppliers and brand respondents the topic of *Incentives and Compliance Scoring* was the one with the lowest average score. Scorecards and incentive schemes are not sufficiently in place to evaluate and reward suppliers meeting and exceeding brands' requirements and standards. Suppliers are often not evaluated and rewarded based on a compliance scoring. This element can play a significant role in truly integrating purchasing practices in daily operations.

Price Quotations

Similarly, the section Price Quotations happens to be among the worst performing areas for both suppliers and brands. Both brands' employees involved in price negotiations with suppliers and suppliers are not provided with sufficient training on cost breakdowns. On either what it means or how to correctly incorporate all direct and indirect labour costs into price quotations. In addition, before an order is confirmed by the brands, suppliers are often not asked to submit a detailed cost breakdown that itemizes direct and indirect cost.

The results of this topic indicate a clear area of opportunity to train both brand employees and suppliers on the aforementioned items. The introduction of costing models would be a long-term measure to implement which at the same time could pave the way towards decent and fair living wages for workers. This step may present several challenges for both suppliers and brand employees. However, it is one of the most promising steps towards fair and transparent living wages.

Responsible exit strategies

Responsible exit strategies are not always consequently known and or applied in the context of brands' purchasing practices. The section *Sourcing Strategy* as a whole received rather high scores by the suppliers. And although the brand respondents overall gave this section an average of 'Usually', the specific question regarding if 'an exit strategy is jointly agreed with the suppliers before business with a supplier ceases' showed over 32% of 'don't know' responses. Furthermore, an alarming 61% of the PPSA-responses for the item 'a due diligence process is in the place to ensure all workers whose employment will be terminated as consequence of a brand's exit receive wages and legally entitled severance payments' was categorized as 'don't know'. Additionally, in the *Training and Awareness* section of the PPSA, the brand respondents gave the item regarding training on a brand's exit strategy the lowest average score of the whole survey indicating strategy is 'in place but needs improvements'.

The message on this topic is quite clear. There is need for improvement when it comes to responsible exit strategies. Brand employees are seemingly uncertain of its existence within the company and thus, of its communication with their suppliers. Briefly, there seems to be a lack of awareness, information and understanding for the purposes and goals of such a responsible exit strategy and the consequences that it could bear on workers and a fair and decent remuneration.

Training & Awareness

Both survey results (slightly more on the brand side) show a need for training, awareness and corporate culture (high number of "don't know" and "in place but needs improvement"). From supplier's perspective, there is a special need for improvement concerning training in cost breakdown as well as manufacturing and production lead-times. Suppliers furthermore indicate a lack of training for fair

terms of payment and capacity planning. In contrast, the results of the brand survey show a lack of all kinds of training (high number of “No”).

Looking at the use of the answer option ‘*don’t know*’, this has often been chosen within the PPSA. The highest percentage of ‘*don’t know*’ answers within both PPSA and PPA where in the (three) areas *Incentives & Compliance Scoring, Terms of Payment and Buyer-Supplier relations* (specifically the subtopic of ‘*Responsible exit*’). In the section *Terms of Payment*, the PPSA shows especially a high number of ‘*don’t know*’ answers on the monitoring of root causes of penalty payments. In general, the use of ‘*don’t know*’ answers show that there is a huge opportunity to train and further align internal teams on the purchasing practices policies as well as to strengthen communications with suppliers and where needed, collaboratively design new policies.

Contribution to closing the Living Wage Gap (according to suppliers)

At the end of the PPA survey, suppliers were asked to indicate which aspects of purchasing practices they considered more important in creating the conditions required to implement living wages. The question allowed selecting as many of the 16 aspects as were seen relevant. These three sections were considered by suppliers as the most important aspects in order to pay workers a living wage:

- 1) *Price Negotiation* (61%)
- 2) *Price Quotations* (53%)
- 3) *Order placement* (51%)

Conventional purchasing practices often include aggressive price negotiations and quotations as well as late orders, last minute changes or late order payments. These practices put suppliers under intense pressure and most of the time directly lead to poor working conditions and low pay for workers. Therefore, purchasing practices play an integral role in the quest to reaching living wages.

Looking at the survey section *Price Negotiations*, this section centers on the way price quotations are negotiated – if negotiations are done in a fair and transparent manner and if wage increases and production costs are reflected. Implementing living wages requires all parties involved in the negotiations to have an equal understanding of the costs of the product. When labour costs are enclosed in price calculations as corresponding to cut-make-trim (CMT) costs, living wages may be guaranteed in price negotiations.

Final remarks & recommendations

In this short joint report, we have shared the key takeaways and learnings from purchasing practices surveys conducted by forty-eight AGT and PST member brands/signatories. Most importantly, we have to recognize that purchasing practices are crucial to guaranteeing decent working conditions and living wages. Responsible purchasing practices are an enabler for better working conditions. The PPA and PPSA data of the member brands/signatories that participated, give valuable insights into both positive and challenging topics and the work that has to be done. Therefore, we want to wrap up this summary report with some final remarks and recommendations from this process.

Involvement of cross-departmental brand employees

Having implemented both the PPA and PPSA, we see the advantage of having integrated the feedback of brand employees. Responsible purchasing practices are not carried solely by a great CSR department, but rather they encompass the efforts of a well-aligned and company-wide strategy pioneering towards change. Asking brand employees from a wide range of departments to participate in the PPSA can in itself help to increase awareness on the topic of responsible purchasing practices as shared responsibility. It enables brand employees to contribute to sustainable practices in their daily work.

Supplier feedback is crucial

On the implementation of the PPA, we can only reiterate that the feedback from suppliers is crucial to improving responsible purchasing practices. Specially, in order to achieve a fuller picture of the 'company's way of working'. Moreover, the integration of their suppliers' perspective can help brands make better and smarter investments that tackle barriers straight to the source.

Track progress on purchasing practices

We recommend all brands to ask their suppliers for feedback on their purchasing practices, e.g. on an annual basis. By making this a structural process, companies can monitor progress over time and evaluate, for example, if new policies or given trainings are effective. We have seen with the participating companies that the ability to compare PPSA results from 2019 to 2021 has been of great value.

Learn from each other

The resulted data from the PPSA shows that some of the gaps are not laying necessarily and/or entirely on the supplier side, but within the brands. The opportunity to learn and implement capacity building internally has been signaled. Furthermore, different departments can also share their good practices and struggles and learn from each other.

Top management commitment

Having identified the quick wins, the data also identify practices that need management commitment. Many buying decisions come down to management commitment and their understanding of the (potential) impact on working conditions. We see that the PPA and PPSA data also help to have fact-based conversations about the purchasing practices in the company. The involvement of management is crucial in taking next steps. Especially on the alignment of internal cross-departmental KPIs. For example, KPI's that buyers have should align with the responsible purchasing policy. In addition, when it comes to training, management is in the lead position to make resources available for capacity building.

Our purpose was to share insights from this dataset, which are useful for the industry at large. This summary should not signal an all-encompassing tool, solution, or complete picture. It should rather serve as a step towards better understanding the gaps and bridges, which already exist in the industry. The knowledge is there, the tools and guidance are available. Let us work together to make responsible purchasing practices the status quo. We need everyone on board to boost responsible purchasing practices and take stronger steps towards fair and decent wages industry-wide.

Colophon

This is a publication of the Partnership for Sustainable Textiles and the Dutch Agreement on Sustainable Garments and Textile. Both organizations signed a collaboration agreement in 2018. They aim to support companies in implementing due diligence by harmonizing sustainability requirements, to work on joint projects to improve working conditions in high-risk production countries and to facilitate knowledge sharing between both initiatives.

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